

India-EU FTA: A structural tailwind

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India and the EU have finally entered into a free trade agreement (FTA), which was being negotiated for more than a decade. The FTA, after it becomes operational, will eliminate import tariffs to zero on Indian textiles and apparel products. This provides critical relief to Indian textile exporters that currently face 10-12% duties in the EU, placing them at a significant disadvantage compared with Bangladesh, Turkey, Vietnam, and Pakistan that enjoy zero-tariff access.

Recently, the EU also suspended GSP benefits for 87% of Indian exports, including textiles, effective 1 January 2026 for a three-year period, imposing full MFN duties of 12% (versus 9.6% under GSP), which will nullify if the FTA becomes operational earlier. The FTA is expected to become operational in about a year following legal review. The EU imported ~USD 99bn of apparel, bedsheet and towels in CY24, with India contributing USD 5bn (~5.2% market share). This highlights a significant untapped opportunity, as countries with zero-duty access collectively command ~43% of the EU textile and apparel imports.

India losing EU textile market share to zero-duty competitors: India has experienced consistent market share losses in major EU textile import categories over 2018-24 to competitors that enjoy duty-free imports. Bangladesh emerged as the primary beneficiary in apparel, while Pakistan captured gains in home textiles products. The EU recently suspended GSP benefits for India, Indonesia, and Kenya for a three-year period (2026-28), representing a complete withdrawal of tariff concessions following the EU's periodic reductions in these benefits.

In the EU apparel market (estimated at ~USD 96bn in 2024), India's share declined 92bps to 4.9% from 5.8% in 2018, with Bangladesh expanding its share to 21.4% from 19.4% over the same period. China retained dominance at 28.1% despite ceding 374bps. The trend is more pronounced in home textiles, where Pakistan has systematically displaced Indian exporters. In the EU towel market (~USD 4.1bn), India's share contracted 204bps to 6.7% between 2018 and 2024, while Pakistan's surged 244bps to 13.2% from 10.8% in the same period. China maintained leadership at 43.8%, down 256bps from 46.4% in 2018. The bedsheet segment (~USD 1.6bn) witnessed the steepest drop, where India lost 321bps to settle at 6.1%, as Pakistan aggressively captured share to command 62.9% versus 51.1% in 2018, an expansion of 1180bps that underscores the latter's dominance in EU home textile sourcing. In a level-playing field market such as the USA, India dominates in the bedsheet and towel categories, with market share of 55% and 45%, respectively, signifying the opportunity that can be grabbed in the EU.

Tariff elimination levels the playing field: The India-EU FTA provides a structural tailwind for the Indian textile sector. The FTA directly addresses India's competitive disadvantage by eliminating the 10-12% tariff gap that has enabled Bangladesh and Pakistan to gain share at India's expense. This tariff elimination is expected to drive export volume expansion and unlock economies of scale, while providing strategic diversification against ongoing US tariff uncertainty. Near-term beneficiaries, once the FTA materializes, will be exporters with established EU relationships. **S.P. Apparels and KPR Mill**, deriving ~23-25% of revenues from the EU, **are clear winners** in the apparel space given their high regional exposure. **Welspun Living and Indo Count**, with EU contributions of ~12% and 7% respectively, **can leverage existing long-standing partnerships** to rapidly scale volumes without incremental capacity investments. **Arvind**, with EU revenue share of 5.7% in FY25, **presents a unique opportunity** in an industry with capacity constraints. The company's 37% underutilized apparel capacity in FY25 plus an additional 7% commissioned in Q2FY26 creates significant bandwidth to absorb incremental EU orders.

Top sectoral picks are Arvind and KPR Mill: The India-EU FTA is likely to act as a strong catalyst for Indian textile exporters, as the removal of import duties improves price competitiveness and drives volume growth. We opine that the garment exporters would get into expansion mode going forward with import duties in the EU and UK markets (FTA – Unlocking India's textile edge in the UK) being favorable for India. **We are positive on KPR Mill and Arvind** given the opportunity size. For KPR Mill, we have a TP of INR 1,086 based on 22x FY28E EV/EBITDA. For Arvind, we have an SoTP-TP of INR 538, based on 10x FY28E EV/EBITDA for the textiles segment and 15x FY28E EV/EBITDA for AMD.

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Exhibit 1: India-EU FTA – Company-specific implications

Company	Comment
KPR Mill	Leveraging strong garmenting base, strong relationship with EU-based customers and vertically integrated model to gain market share in the EU. The company will need to expand capacity as it is operating at almost full utilization.
Arvind	Diversified fabric and garment portfolio; opportunity to expand in the EU market with available capacities.
Welspun India	Home textile leader with existing EU exposure; likely to gain market share in towel and bed linen market in the EU.
Indo Count	Leverage existing capacities and relationship with EU-based customers to gain market share
Vardhman Textiles	Strong in yarns and fabrics; potential to gain from increasing demand from apparel and home textiles products from India to the EU
Pearl Global	Garment exporter with existing relationship with EU-based customers for Bangladesh facilities, opportunity to ramp up existing Indian capacity for the EU markets
S.P Apparels	Strong garmenting base for kids and infants, to gain market share in the EU market by leveraging existing customer relationships

Source: Elara Securities Research

Exhibit 2: India's low market share provides huge opportunity to gain market share in EU imports

EU imports	EU imports (USD mn)			Market share (%)		
	Apparel	Bedsheets	Towels	Apparel	Bedsheets	Towels
2024						
China	26,037	84	1,788	28.1	5.2	43.8
Bangladesh	19,785	127	87	21.4	7.9	2.1
Türkiye	10,078	188	394	10.9	11.7	9.6
India	4,525	98	272	4.9	6.1	6.7
Viet Nam	4,310	1	209	4.7	0.1	5.1
Pakistan	3,802	1,008	539	4.1	62.9	13.2
World	92,570	1,603	4,082	100	100	100

Source: Elara Securities Research

Exhibit 3: Positioning of Indian textile players in the EU market

Company	EU: Revenue share (%)	Export contribution (%)
Welspun Living	12.0	81.0
Indo Count	7.0	97.0
KPR Mills	23.0	40.0
SP Apparels	25.0	84.0
Pearl Global	16.0	100.0
Gokaldas Exports	9.0	81.0
Arvind	5.7	41.0

Source: Elara Securities Research

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