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# US India Trade Deal

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## India-US Trade Agreement: Significant Relief

India and the United States have announced a long-anticipated bilateral trade agreement, marking a meaningful reset in trade relations and providing immediate relief to Indian exporters. Under the agreement, the United States has reduced reciprocal tariffs on Indian goods to **18%**, compared with the previously announced **25%** rate. In addition, the penal tariff of **25%** has been withdrawn. Consequently, the overall effective tariff burden has declined sharply from **50% to 18%**.

In exchange, India has agreed to reduce its tariffs and non-tariff barriers to zero, with detailed implementation (details awaited). India has also committed to halting imports of Russian crude oil, increasing energy purchases from the United States and Venezuela, and expanding imports of US goods across energy, technology, agriculture, and other sectors to over **USD 500 billion**. Given that India's current import levels are materially lower, this commitment is expected to be a long-term objective, with industry-specific details likely to emerge progressively as the agreement evolves.

The finalized India-US tariff rate of **18%** is lower than those agreed with several other Asian economies, including Bangladesh (20%), Sri Lanka (20%), Pakistan (19%), and Thailand (19%), placing India in a relatively favourable competitive position within global trade. Another important tariff development to watch in the near term is US-China tariff deal, given its significant role in global trade and its implications especially on India.

From an equity market perspective, clarity on the India-US trade agreement, alongside the recently concluded EU-India Free Trade Agreement, strengthens India's positioning in global trade. This is expected to support export growth, attract foreign portfolio inflows, and contribute to currency stability over the medium term. Furthermore, the impact of the revised tariff rate is likely to be partially offset by the **5.4% depreciation of the Indian rupee against the US dollar** over the past year since the initial 25% tariff announcement.

### Potential Beneficiaries

Key sectors expected to benefit include **textiles and apparel, gems and jewellery, engineering goods, chemicals, leather and footwear**. The agreement may also enhance earnings visibility for export-oriented agriculture and manufacturing segments, while supporting a near-term recovery in **IT services and pharmaceuticals**. However, tariffs imposed under **Section 232** on sectors such as automobiles, steel, and aluminum remain unchanged.

## **Export Competitiveness Strengthened**

Prior to the agreement, Indian exporters faced tariffs of up to 50%, which significantly undermined competitiveness in the US market, compressed margins, and heightened uncertainty across export-linked industries. The sharp reduction in tariffs is expected to materially improve landed-price competitiveness, enhance order visibility, and support margin recovery for companies with meaningful exposure to the US.

As trade economics improve, investor focus is likely to shift toward export-oriented sectors where earnings had been under pressure due to elevated duties. Improved pricing dynamics and demand visibility could translate into stronger profitability and an improved growth outlook across these segments

### **Sector-Wise Impact Assessment**

#### **Textiles and Garments**

The textiles and garments sector has a high dependence on the US market, particularly in home textiles, made-ups, and apparel. Lower tariffs improve India's landed-price competitiveness relative to exporters from Bangladesh, Vietnam, and China. This is expected to result in higher order inflows, improved capacity utilization, and margin expansion. Given the labor-intensive nature of the sector and its thin margins, even modest tariff reductions can materially influence sourcing decisions by US retailers.

#### **Auto Ancillaries**

Indian auto component manufacturers export forgings, castings, axles, tyres, and precision components to US OEMs and Tier-1 suppliers. Reduced tariffs enhance cost competitiveness versus suppliers from Mexico and China, potentially increasing sourcing from India. This could lead to higher export volumes, longer-term supply contracts, and improved operating leverage. However, companies with manufacturing facilities in the US may see limited incremental benefits, as they are already insulated from import duties.

#### **Pharmaceuticals**

The agreement is positive for the pharmaceutical sector, as the US remains the largest market for Indian generics and APIs. Lower duties improve price competitiveness relative to China and other suppliers, support margins in a highly price-sensitive market, and encourage increased sourcing from India amid ongoing supply-chain diversification.

#### **Chemicals**

Exporters of specialty chemicals, agrochemicals, and fluorochemicals with exposure to the US stand to benefit from improved trade economics and continued diversification away from China. Tariff relief can support better pricing, higher volumes, and stronger customer relationships, particularly for companies operating in niche, high-margin applications.

## **IT Services**

Although tariffs do not directly apply to services, the US is the largest revenue contributor for Indian IT services companies. Improved bilateral trade relations and a more favorable economic environment could indirectly support enterprise technology spending, potentially accelerating decision-making on digital transformation initiatives and supporting order inflows.

## **Seafood**

Seafood exports, particularly shrimp and processed marine products, are heavily dependent on US demand. Tariff rationalization is expected to improve realizations, reduce pricing pressure from Latin American competitors, and enhance demand visibility. Given the sector's thin margins and sensitivity to trade and currency movements, improved access to the US market could directly support earnings stability.

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