

The US-India Trade "Reset" – A Crescent MFD Perspective

The trade friction that defined much of 2025 has finally thawed. On February 2, 2026, President Trump and Prime Minister Modi announced a landmark interim trade deal. For India, it is a relief from the punitive 50% tariffs that threatened its export-led growth. For the US, it is a strategic win, securing a massive market for energy and tech while decoupling India from Russian oil dependencies.

The Mechanics: What Changed?

- **US Tariff Rollback:** Tariffs on Indian goods (textiles, leather, chemicals) have been slashed from 50% to 18%. Once the interim deal is finalized, key sectors like pharmaceuticals and gems may see duties drop to zero.
- **India's Zero-Tariff Commitment:** India has agreed to eliminate or significantly reduce tariffs on US industrial goods and agricultural products (almonds, walnuts, wine, and spirits).
- **The \$500 Billion Pledge:** India has committed to purchasing \$500 billion in US goods over the next five years, focusing on energy (crude, LNG), aircraft, and high-end technology like GPUs.

Impact on the Economies

➤ The Positive Factors

For India:

- **Competitive Edge:** An 18% tariff (down from 50%) gives Indian exporters a decisive cost advantage over rivals like Vietnam or Bangladesh in the US market.
- **Tech Infusion:** Easier access to US-made GPUs and data center equipment will accelerate India's ambition to become an AI and Digital Hub.

For the US:

- **Market Access:** American farmers and manufacturers gain unfettered access to the world's most populous middle class.
- **Supply Chain Resilience:** Deepens the "Friend-shoring" strategy, reducing US reliance on adversarial supply chains.

➤ The Negative Impacting Factors

For India:

- **Trade Deficit Concerns:** The \$100 billion annual import commitment could widen India's trade deficit in the short term.
- **Domestic Competition:** Zero tariffs on US industrial goods may pressure smaller Indian manufacturers (MSMEs) who lack the scale of American giants.

For the US:

- Energy Complexity: Forcing India away from discounted Russian oil toward more expensive US or Venezuelan crude could indirectly influence global energy price volatility.

Short-Term vs. Long-Term Outlook

Impact on India	Impact on USA
Relief rally in equities; Rupee stabilization; Surge in textile and auto-component exports.	Increased export orders for Boeing (aircrafts) and energy firms; immediate geopolitical win.
Integration into Global Value Chains (GVC); higher FDI inflows; potential "Dutch Disease" risk if imports outweigh export growth.	Sustainable, high-volume market for tech and agris; long-term strategic partnership in the Indo-Pacific.

Investor's Corner: What You Need to Understand

Investors should view this deal not as a single event, but as a structural shift in risk.

- Sector Selection is Key: * Winners: Auto ancillaries, textiles, and specialty chemicals will see immediate margin expansion.
- Strategic Growth: Look at Indian IT and Data Center firms that will benefit from the influx of US technology.
- The "Energy Pivot": India's shift from Russian to US energy sources will impact the cost structures of energy-intensive industries. Monitor the USD/INR exchange rate closely, as India's \$500 billion commitment will require significant dollar liquidity.
- Policy Certainty: The biggest "dividend" of this deal is the removal of the geopolitical overhang. Investors can now price in long-term capital expenditure (Capex) without the fear of sudden tariff hikes.

Sectoral Analysis: Who Gains from the 18% Tariff Cap?

The reduction from a punitive 50% to a stable 18% reciprocal tariff creates an immediate margin expansion for Indian exporters. Historically, India faced a "double tax"—a base reciprocal tariff plus a 25% surcharge linked to Russian oil purchases. With both effectively consolidated into a single 18% rate, several sectors move from "striving" to "thriving."

1. Auto Ancillaries & Engineering
 - The Impact: India secured a Preferential Tariff-Rate Quota for auto parts. Companies with high US revenue exposure (25–40%) are the primary beneficiaries.
 - Key Stocks to Watch: * Sona BLW Precision: ~40% US exposure.
 - Bharat Forge & Ramkrishna Forgings: Significant suppliers to US commercial vehicle and industrial markets.

- Investor Take: Lower landed costs in the US make these firms more competitive against Mexican and Chinese suppliers.
- 2. Textiles, Apparel, and Leather
 - The Impact: Often called the "Labor-Intensive Win," this sector saw orders stall in 2025 due to high duties. The 18% cap is now lower than the tariffs faced by competitors like Vietnam and Bangladesh.
 - Key Stocks to Watch: * Gokaldas Exports & KPR Mill: Major apparel exporters.
 - Indo Count & Welspun Living: Dominant players in the US home textile (bedding/towels) market.
 - Investor Take: Expect a "re-stocking" surge in H2 2026 as US retailers move volumes back to Indian hubs like Tirupur and Surat.
- 3. The "Zero-Duty" Champions
 - The interim deal outlines a path to 0% tariffs for specific high-value sectors once implementation milestones are met:
 - Generic Pharmaceuticals: US remains the largest market for Indian generics (40% share). Zero-duty access will bolster margins for giants like Sun Pharma and Dr. Reddy's.
 - Gems & Jewellery: A massive win for the Surat diamond clusters. Reducing duties on polished diamonds restores India's edge over the UAE and Belgium.

⚡ The Energy Pivot: Moving from Russia to the US

The most complex part of the deal is India's commitment to halt Russian oil purchases and shift toward US Energy (\$500B over 5 years).

➤ The Strategic Shift

- The Russian Factor: In 2025, India's reliance on discounted Russian Urals (reaching 1.2M barrels/day) was the "niggle" that triggered US sanctions. Under this deal, Indian refiners (IOC, BPCL) are winding down Russian contracts.
- The US/Venezuela Alternative: To fill the gap, India will increase imports of US crude and LNG. Experts suggest Venezuelan crude may also be permitted as a cheaper, heavy-crude alternative that suits Indian refinery configurations.

➤ Economic & Market Implications

- Input Costs: While Russian oil was "cheap," the 25% penal tariff on all other exports made it an expensive trade-off for the broader economy. Removing the penalty offsets the slightly higher cost of US crude.
- Energy-Intensive Industries: Sectors like Chemicals (PCBL, Organic Chemicals) and Fertilizers will face a new cost-basis. However, the deal includes increased imports of US Coking Coal, which is a lifeline for Indian Steel manufacturers.

Investor Strategy: Navigating the "New Normal"

Factor	Strategic Action for Investors
Currency (INR)	Expect Rupee strength as FII (Foreign Institutional Investor) outflows reverse, but monitor the demand for Dollars needed for the \$500B purchase commitment.
Tech/AI Play	Watch for Indian Data Centre Firms. The deal eases the import of high-end US GPUs, accelerating India's AI infrastructure build-out.
Risk Hedge	Stay cautious on MSMEs that compete directly with US agricultural imports (eg: tree nuts, spirits), as India has lowered its own barriers here.