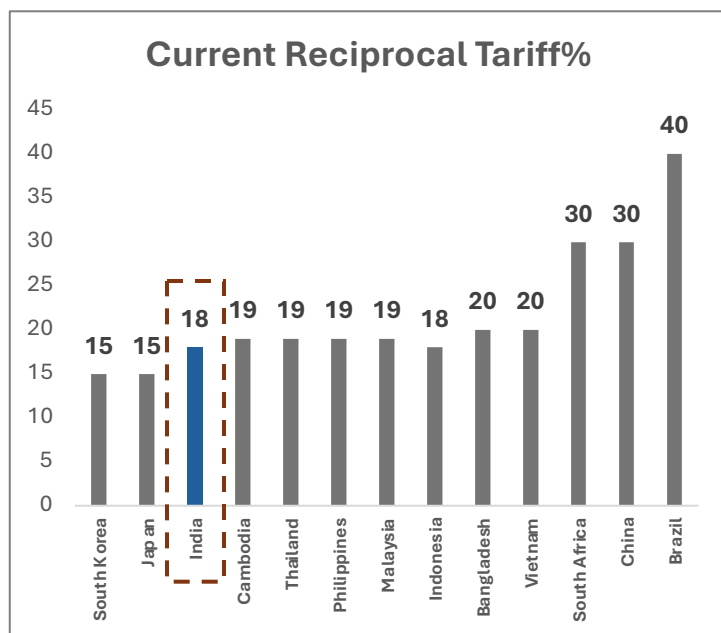


US-INDIA TRADE DEAL

A SENTIMENT BOOST

The US has reduced reciprocal tariffs on Indian exports to **18% from 25%** and removed the additional **25% penal tariff** imposed earlier due to India's Russian crude purchases. This places India at a **relative tariff advantage versus most Asian export peers** and removes a meaningful external headwind for trade, currency sentiment, and market flows .



Source: White House, Media reports, Kotak Institutional Equities || Data as on 2nd Feb 2026

Media reports suggest India will

- (i) reduce tariff and non-tariff barriers on US imports
- (ii) commit to incremental imports from the US, and
- (iii) stop buying Russian crude oil.

While operational details are pending, markets are likely to interpret the development as a **risk-reducing, sentiment-positive shift** rather than a macro inflection point .



EQUITY MARKETS: EXPORTERS GAIN VISIBILITY

The US is India's **largest export destination**, accounting for **~US\$87bn of exports in FY2025**, or **~20% of India's total exports**. Exposure is particularly high in sectors:

- **Textiles (US\$10.7bn; ~2.4% of India's total exports)**
- **Gems & jewellery (US\$11.0bn; ~2.5%)**
- **Marine products (US\$2.9bn; ~0.7%)**
- **Machinery (US\$6.7bn; ~1.5%)**
- **Electronics (US\$15.9bn; ~3.6%)**
- **Pharmaceuticals (US\$9.8bn; ~2.2%)**

IMPACT:

• Relief for Labor-Intensive Sectors

Tariffed exports to the US have shown **clear stress**, contracting by **8–9% YoY in FYTD26**, reflecting the impact of higher tariffs on labor-intensive categories such as textiles, gems & jewellery, leather, and marine products. The rollback of tariffs improves:

- **Order visibility and pricing power**
- Scope for **volume recovery** after tariff-driven weakness
- **Margin normalization**, as exporters no longer need to absorb tariff costs

• Structural Export Intact

Despite pressure on tariffed goods, **overall exports to the US remained resilient**, supported by **non-tariffed categories**, especially electronics. Electronics exports surged sharply, offsetting declines elsewhere and keeping aggregate exports positive.

This underlines that the deal **reinforces** India's export competitiveness in:

- Electronics manufacturing
- Pharmaceuticals and chemicals

• Limited Domestic Competition Risk

India's imports from US stood at **~US\$46bn in FY2025**, or **~6.3% of total imports**:

- **Energy (US\$14.3bn)**
- **Machinery (US\$4.4bn)**
- **Electronics (US\$3.4bn)**
- **Aircraft and transport equipment**

The removal of the tariff (likely except for agriculture and dairy) is unlikely to induce higher domestic competition, as most sectors of US dominance either do not have major Indian producers or tariff rates are relatively low, though some risks remain for auto parts, iron/steel, plastics and chemicals.

INDIA'S IMPORTS FROM US AS A PROPORTION OF INDIA'S IMPORTS

	Imports from US (US\$ mn)	Total imports (US\$ mn)	Share of imports from US (%)
Edible fruits and nuts, etc.	1,121	4,742	24
Chemical products (misc.)	1,198	8,016	15
Optical, medical, photographic, etc. instruments	2,032	13,895	15
Aircraft, spacecraft and parts	1,666	13,914	12
Plastics articles	1,531	22,119	6.9
Nuclear reactors, boilers, machinery and mechanical appliances	4,429	64,348	6.9
Mineral fuels, oils, waxes and bituminous substances	14,347	218,240	6.6
Gemstones, precious metals, etc.	5,314	89,026	6.0
Organic chemicals	1,372	26,591	5.2
Electrical machinery, telecom equipment, etc.	3,386	88,643	3.8

INDIA'S IMPORTS FROM US

	India's imports from US	Share in total exports (%)
Beverages, refreshments, and intoxicants	513	0.1
Cereals	3	0.0
Chemicals	3,052	0.4
Electronics	3,386	0.5
Energy	14,347	2.0
Fertilizers	29	0.0
Fruits and vegetables	1,235	0.2
Furniture	91	0.0
Gems and stones	5,465	0.8
Leather and footwear	197	0.0
Machinery	4,429	0.6
Meat, fish, eggs and dairy	57	0.0
Metals	2,801	0.4
Oils, fats and extracts	314	0.0
Pharmaceuticals	397	0.1
Plastic	1,531	0.2
Rubber	283	0.0
Textiles	459	0.1
Transport	3,346	0.5
Others	3,759	0.5
Total imports from US	45,695	6.3
Total imports of India	721,320	

India's imports from US at a 2-digit HS code, March fiscal year-ends, 2025 (US\$ mn)
For brevity multiple HS codes have been aggregated across categories. Source: Ministry of Commerce, Kotak Institutional Equities estimates



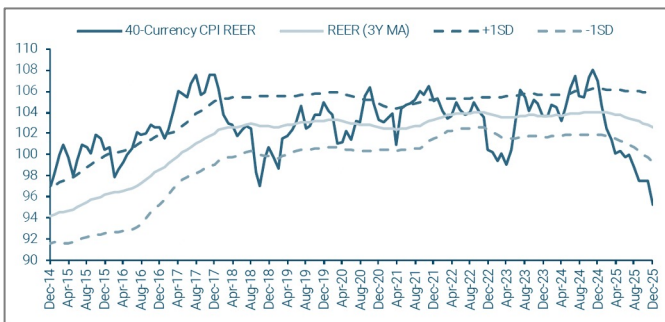
CURRENCY & FIXED INCOME: INR GETS BREATHING ROOM

The rupee has been **deeply undervalued on a REER basis**, even as India's macro fundamentals remain supportive. Tariff uncertainty and persistent equity outflows had weighed on the INR, which weakened during the negotiation phase.

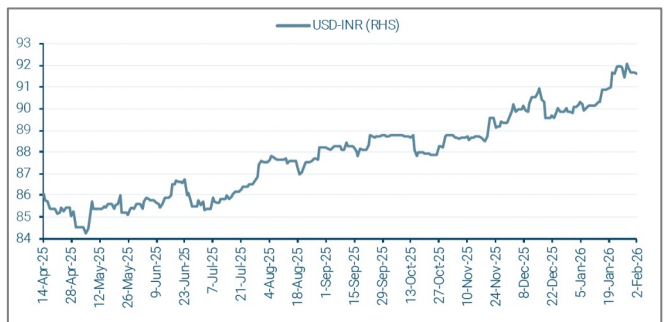
With the trade headwind easing, the following can be expected:

- **Improved sentiment and flow support**
- **A near-term appreciation bias for the INR**

REAL EFFECTIVE EXCHANGE RATE OF INDIAN CURRENCY (X)



TRENDS IN USD-INR



However, gains are likely to be **capped**, reflecting:

- RBI's opportunity to **rebuild FX reserves** and offset its large **net short forward position**
- Continued pressure from **elevated equity valuations** and uneven foreign equity flows

Accordingly, the rupee is expected to remain **range-bound**, with **USD-INR projected at 88–92.5 over the next few months**.

For fixed income markets, the impact is **second-order**, operating mainly through improved currency stability rather than changes to inflation, fiscal, or monetary policy assumptions.

Source: CEIC, Kotak Institutional Equities, Bloomberg || Data as on 2nd Feb 2026

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