

August 5, 2025

Trade, Tariffs and Talks: T's still to be crossed !!

What's the Point?

- **Tariff Surprise:** US has raised tariffs on Indian goods to over 25%, with an additional undefined penalty linked to India's dealings with Russia.
- **Limited Market Impact:** Most listed Indian companies have a predominantly domestic revenue. India's key global sectors like Pharma and IT remain unaffected so far. Industries with large export contribution from US (Textiles, Gems & Jewellery) do not have significant listed presence, although with them being large employers, second-order impact on rest of the economy needs to be watched out for.
- **Watchful Optimism:** Tariffs may be part of US negotiating tactics, with talks expected to continue later this month. India can use this situation to double down on reforms and diversify its global trade partnerships.

The Tariff Curveball

Recently, US imposed 25% reciprocal tariff on imports from India, along with an additional undefined penalty tied to India's business dealings with Russia. Consequently, with effect from 7th August, 2025, the tariff rate is set to rise by at least 15% from the existing 10% which has been in place since April'25. While India was one of the first countries to start negotiating with US, trade talks with US seem to have hit a roadblock owing to India's reluctance to cede ground on Agriculture and Dairy leading to the current impasse.

India-US Trade in numbers^

2%	Contribution of goods exports to US in India's GDP	1%	India's goods trade surplus with the US (% of GDP)
US\$87 bn	India's exports to US in FY25,	US\$46 bn	India's Imports from US in FY25
20%	US share in India's total exports	6.3%	US share in India's total imports

How does India's revised tariff compare with other countries now?

Brazil - 50%, Canada - 35%, China - 30%, India - 25%+undefined penalty, Vietnam - 20%, Thailand - 19%, Indonesia - 19%, EU - 15%, Japan -15%, UK-10% (Note: Rates exclude product specific tariffs)

- While India's tariffs of 25%+ Penalty is higher than expected, its equally noteworthy that even for nations that have signed deals with the US (viz. EU, Japan, Indonesia, Vietnam) the tariffs will still be elevated (15-20% range) and in return, US has secured significant concessions from these countries.
- They key variable here though remains the additional penalty levied for India's business dealings with Russia. The penalty's level while not yet disclosed, could make a noteworthy difference to India's overall tariff.

Which sectors could be impacted?

- **Textiles:** The US is India's biggest textile export market, making up ~50% of India's Textile exports. India's export competitiveness boosted by China+1 and instability in Bangladesh could now be offset by the new US tariff. Further, countries like Vietnam with competitive cost of production have relatively favourable tariff (20%) too.
- **Gems and Jewellery:** With ~30% of its total exports going to US, steep tariff increase could impact this sector, more so in the unlisted space. As a large employer of labour, impact of tariff on this sector needs to be monitored.

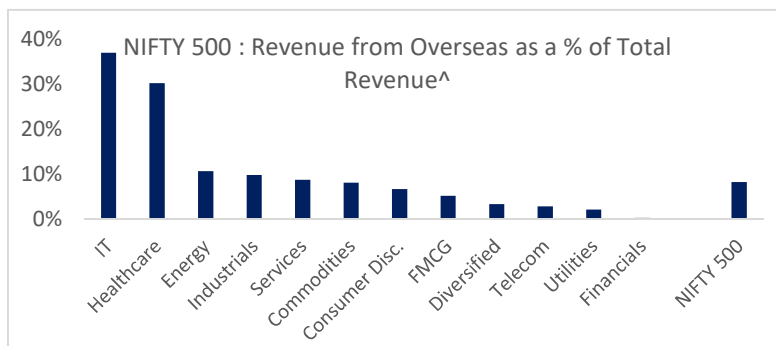
Relief for key sectors though!!

- **Pharma:** While US remains a key market, Pharmaceuticals remain exempt from its newly expanded tariff regime. Given their critical role in affordable healthcare (40% of US's generic drug demand), Indian drugmakers are likely to stay resilient, highlighting the sector's key role in India-US trade.

- **Auto components:** Auto components are already subject to 25% tariff since May'25 and is exempt from the country-specific reciprocal tariffs. Since the levy on auto parts is the same for all countries, there is no impact on competitiveness of products made in India.
- **IT Services:** India's largest services export category remains untouched as services have been out of purview.

No need to press the Panic Button

- India's economy is largely **domestic-driven** in nature and barely 10% of NIFTY 500 companies' revenue is driven by exports. Revenue from US is even lower.



- **Sectors most impacted by US tariffs** happen to be Gems & Jewellery, Leather and Textiles which **do not have large representation in the listed space**. Pharmaceuticals and Electronics remain in the exempted list.

- While US is a key export destination, India has a **wide array of key trading partners for most industries**. India could aim to strengthen ties with other economies through FTAs like the India-UK deal recently.
- India can use this crisis to **double down on Aatmanirbhar Bharat** and **Make in India**, cutting reliance on imports in key sectors. Reforms aimed at **boosting labour productivity** and **faster adoption of technology** could be imperative to make Indian manufacturing globally competitive and less vulnerable to such events.
- Going by recent developments, the latest round of reciprocal tariff may not be cast in stone. Deadlines have been extended multiple times earlier too. With **another round of discussion scheduled later in August**, the recent announcement could well be a bargaining tool for US. Further, **Inflationary impact of Tariffs on US economy cannot be undermined**. Something US policy makers would be mindful of.

Key Takeaway: While the US tariff hike presents a short-term hurdle for select export sectors, the broader impact on India's economy and equity market remains limited. India's domestic consumption-driven growth, resilient listed space, and diversified trade ties act as strong buffers. Considering India's undeniable importance as a large consumer market, there is a reasonable likelihood of a mutually beneficial deal culminating between India and US. For investors though, this is a reminder that diversification across sectors and asset classes is a key pillar of investing.

^Sources: Kotak Institutional Equities, CMIE, Ministry of Commerce and other publicly available information

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