Decoding the India–US Trade Deal and Its Stock Market Impact

by Pranab Mohanty | February 25, 2026 | 6:00 pm

Synopsis:

On February 2, 2026, the “Great Reset” was done, slashing US tariffs from 50% to a historic 18%, resulting in a ₹13 trillion rally in Pharma and Textiles. As physical goods flood the US market at record-low costs, the Indian IT sector is reeling from a 20% monthly crash triggered by an AI-led existential threat. This article explores the dual reality of the booming Made in India sectors vs. a structural valuation crisis in software services. We dive into the winners, the losers, and the strategic gamble that is currently shaping the Indian stock market.

India–US Trade Deal: Who Wins, Who Gains?

US President Donald Trump has reduced tariffs on Indian goods from 50% down to 18%. Previously, India faced a 25% reciprocal tariff plus a 25% penalty for buying Russian oil. Since India agreed to stop buying Russian oil, that penalty was removed, leaving a base tariff of 18%, thereby giving India a competitive advantage in global economy.

This development is crucial for India, as the U.S. remains its largest export destination, accounting for nearly 18–20% of its total goods exports ($86.5 billion in FY25, or roughly 2.2% of GDP). India consistently maintains a healthy trade surplus of over $41 billion with the U.S. To put this into perspective, the trade deal offers significant relief from the 25% reciprocal tariffs previously imposed by Washington, which had threatened this vital economic lifeline.

In terms of competitiveness at 18%, India is now in a "sweet spot" compared to peers like Vietnam, Bangladesh, and China. The Indian Prime Minister, Narendra Modi,has also committed to "BUY AMERICAN" at a much higher level, in addition to over half a trillion dollars of U.S. energy resources, technology goods, agricultural commodities, coal, and various other products. India has committed to removing or substantially lowering tariffs on U.S. industrial goods along with a broad set of agricultural products. President Trump specifically emphasized that India has committed to cutting its tariffs to zero for many US exports to achieve "reciprocal" trade.

Trade Deal Impact: Who Accelerated, Who Slowed

The following sectors are expected to see a surge in profitability due to lower entry costs into the US market and improved price competitiveness against Asian peers like Vietnam and China.

Textiles & Apparel: The U.S. remains India's biggest textile export destination, absorbing close to 29% of the country's outbound shipments. Even so, this exposure is relatively modest when viewed against the scale of India's broader textile industry, which is estimated at around USD 179 billion and largely driven by domestic demand. Another supportive development comes from the India–European Union trade agreement, under which the EU plans to progressively lower tariffs on 99.5% of Indian imports over a seven-year period. Duty reductions to zero across categories such as marine products, leather and textiles, chemicals, rubber, base metals, and gems and jewellery are expected to gradually strengthen export prospects and provide a steady long-term tailwind for the sector.

Some of the key beneficiary stocks include:

1. PDS Limited: 50% US exposure. 3-year sales CAGR: 18%, Profit CAGR: 57%
2. Gokaldas Exports: 67% US exposure. 3-year sales CAGR: 29%, Profit CAGR: 6%

And other stocks like Indo count industries, kitex, Welspun India.

Chemical Industries: India is the third-largest largest chemical producer in Asia. The U.S. accounts for 13% of India's chemical exports last year, in 2024 the trade value was US$2.56 Billion just on organic chemicals. The U.S. has been historically key chemical export destination.

Some of the key beneficiary stocks include:

1. PI Industries: 21% US exposure. 3-year sales CAGR: 15%, Profit CAGR: 25%
2. Aether Industries: 15% US exposure. 3-year sales CAGR: 12%, Profit CAGR: 15%

Other notable companies include Fine Organic Industries, Gujarat Fluorochemicals, and Clean Science & Technology.

Auto Ancillaries: The imposition of 50 percent tariffs by the US weighed on Indian auto ancillary companies by sharply raising the cost of exports and disrupting demand from North American OEMs and Tier-1 suppliers. While companies vary in their exposure to the U.S. market, higher tariffs have reduced pricing power, slowed order conversions, and placed pressure on margins, especially for firms without manufacturing bases in North America.

But now because of lower tariffs has improve India's competitiveness versus East Asian suppliers, especially in contract renewals and incremental orders. Export volumes may not rise right away, but companies are likely to benefit from greater pricing freedom and improved bargaining power when negotiating longer-term supply contracts.

Some of the key beneficiary stocks include:

1. Sona BLW: ~40% US exposure. Sales and profit growth at 19% CAGR
2. Ramkrishna Forgings: 27% US exposure. 3-year sales CAGR: 20%, Profit CAGR:27%

And other stocks like Bharat Forge, Samvardhana Motherson, Balkrishna Tyres.

Consumer Companies & Food: The Federation noted that India's rice shipments to the United States continued to grow despite duties being significantly increased from 10% to 50%. According to REF, this trend clearly highlights that Indian rice remains essential for buyers and consumers in the US market and 48% of India's shrimp exports are purchased by the U.S..

Overall rice exports in 2025 rose 19.4% year-on-year to 21.55 million tonnes, with non-basmati shipments climbing 25% to 15.15 million tonnes and basmati exports increasing 8% to reach a record 6.4 million tonnes.

Some of the key beneficiary stocks include:

1.LT Foods: 39% revenue from the US. 3-year sales CAGR: 17%, Profit CAGR: 27%

2.Tata Consumer Products: 12% international exposure

3.KRBL (India Gate Basmati): 10% US exposure

Other Major Beneficiaries:

1.Solar Sector: Waaree Energies is a major winner as 59% of its order book comes from the US.

2.Gems & Jewellery: With the U.S. contributing roughly 25% of India's exports in this segment, the sector is expected to gain from the recent tariff reduction.

The Laggards (Technology & IT):

The Indian IT sector today feels caught between two powerful currents optimism around the 2026 U.S. trade deal and growing anxiety over the pace of AI adoption. While the deal may ease geopolitical and business uncertainty, it does little to shield IT service providers from the structural shift underway in global technology spending. A key concern among investors is that cost savings for U.S. clients could be redirected toward automation and AI-led productivity tools rather than hiring more Indian software engineers. Not all IT companies are alike those that deliver real results, not just hours of work, will do better in the AI era.

TCS : The company's scale and deep integration into mission-critical systems, particularly in banking and financial services, provide a meaningful cushion. Its expanding AI-led revenue streams and hybrid "human + AI" delivery approach position it to adapt rather than be displaced.

HCLTech: The company's focus on engineering and R&D work including areas like semiconductor design and medical technology places it in specialized segments where deep expertise and customization still make full automation challenging.

The Road to $500 Billion: Decoding the "Interim" Blueprint

While most headlines highlight the 18% tariff, the bigger story sits in the details of this calibrated reset. Rather than a final outcome, the deal looks more like a stepping stone setting the stage for how India–US trade could evolve from here. Now what matters beneath the surface and what it could mean going forward.

The “Bridge” Deal: Why It Isn’t an FTA (Yet):

This deal is only a temporary step, not a Full Free Trade Agreement. It acts as an early phase, with a broader trade pact expected later in 2026 to cover more complex issues. For now, the goal is simple reduce tensions and bring tariffs down to manageable levels.

The "Reciprocal" Catch:

The reciprocal element of the deal highlights that the benefits are not one-sided. Along with the U.S. reducing tariffs to 18%, India has agreed to gradually open its market to selected American industrial, technology, and energy imports while easing restrictions on products such as ICT equipment and medical devices. Announced under Donald Trump and Narendra Modi, this February 2026 trade reset serves as a transitional arrangement rather than a final agreement. It offers an immediate lift to India’s export-oriented sectors, but also ties both countries to a conditional framework where tariff benefits could be reversed if commitments are not maintained, keeping the path open for a broader and more comprehensive trade pact ahead.