FTA Update Note
28th Jan 2026

India-EU FTA - The Mother of All Deals

A Structural Re-rating Trigger for Indian Manufacturing

This is the "Mother of All Deals" because it solves the single biggest structural disadvantage Indian manufacturing has faced for two decades: the tariff differential against Vietnam and Bangladesh.

The Institutional "Alpha" Trigger:
The market is likely mispricing this because of the "GSP Cliff". On January 1, 2026, the EU suspended GSP (Generalized Scheme of Preferences) benefits for India, which actually raised duties on 87% of our exports (textiles went from ~9% to 12%). This FTA doesn't just cut tariffs; it reverses that fresh pain and takes it to zero. Companies that gave cautious guidance in Q3 due to the GSP loss will now see a massive margin surprise.

Here is the deep dive on beneficiaries.

1. Textiles & Apparel: The "Parity" Trade (Highest Impact)
This sector is the biggest winner. For years, Indian exporters paid 9-12% duty while Bangladesh paid 0%. That 12% gap is now gone. This levels the playing field just as Western buyers are desperately looking to diversify away from China and Bangladesh (due to recent unrest).

- **Gokaldas Exports:** As a pure-play garment exporter, this is their "moment." They have been aggressively adding capacity in anticipation of this. With 0% duty, they can likely capture huge volumes from Zara/H&M type buyers who were previously locked into Vietnam.
- **KPR Mill:** A vertically integrated player. The deal reportedly allows "fabric forward" rules (meaning they can use Indian fabric and still get zero duty), which expands their margin significantly compared to just garmenting.
- **Welspun Living & Indo Count Industries:** These two dominate the Home Textile (bed sheets/towels) space. They were already winning against China in the US; the EU was the weak link due to duties. Zero duty opens up the European hospitality and retail market wide for them.
- **SP Apparels:** Highly focused on children's wear (knits) with significant exposure to UK/Europe. They are a direct beneficiary of volume shifts from Bangladesh.
- **Nitin Spinners:** Yarn and fabric players will see secondary demand as domestic garment makers ramp up production for export.

2. Auto Components: The "Energy Arbitrage" Play
Europe is structurally uncompetitive in energy-intensive manufacturing (forging, casting) due to high power costs. They need to outsource this to India. The removal of the 4-10% tariff is the final nudge for German OEMs to shift huge RFQs to India.

- **Bharat Forge:** The undisputed leader in heavy forging. They have a massive European client base (Daimler, Volvo, etc.). The removal of duties makes their "Made in India" steel forgings instantly cheaper for European truck makers, potentially driving a 15-20% volume surge over 2 years.
- **CIE Automotive India:** Being part of a European parent group (CIE Spain), they are the natural "bridge." They can seamlessly shift production from their high-cost European plants to their Indian plants to serve the same European customers duty-free.
- **Sona BLW Precision Forgings:** High exposure to EVs and precision gears. European EV makers are cost-conscious; Sona’s precision components entering duty-free helps them compete with Chinese EV imports.
- **Motherson Sumi (SAMIL):** They are already deeply integrated into Europe. This deal simplifies their supply chain, allowing them to consolidate manufacturing in India for smaller components and ship them to their European assembly hubs without penalty.

3. Specialty Chemicals: The "Restoration" Trade
This sector was hit hardest by the GSP withdrawal on Jan 1st, seeing duties jump to ~6.5%. The FTA slashes this to zero, effectively an immediate 6.5% margin boost (or price competitiveness).

- **SRF & Navin Fluorine:** Europe is a key market for complex refrigerants and fluorochemicals. The deal restores their edge against Chinese dumping.
- **UPL:** While global, they have significant exposure to European agriculture. Zero duty on agro-chemicals helps them defend market share against generic Chinese competition.
- **Aarti Industries:** A major supplier of benzene derivatives to European clients (like BASF). The removal of duties makes long-term contracts (multi-year volume commitments) much more attractive for their European partners.
- **PI Industries:** Their CSM (custom synthesis) business relies on European innovators. Zero tariffs make India an even more attractive destination for European pharma/chem giants to outsource high-value research and manufacturing.

4. Engineering & Capital Goods: The "High-Tech" Trade

- **Larsen & Toubro (L&T):** While known for domestic infra, their high-tech manufacturing arm exports heavy engineering goods to Europe. Zero duty improves their bid competitiveness for global energy projects.
- **Triveni Turbine:** They are a dominant global player in small industrial steam turbines. Europe is a large market for "waste-to-energy" and renewable biomass plants where these turbines are used. The FTA removes trade barriers, helping them gain share against Siemens/GE.
- **Cummins India:** A significant exporter of engines. Europe's strict emission norms require high-end engines, which Cummins India manufactures.

5. Leather & Footwear: The "Forgotten" Giant
Leather was a protected sector in Europe with high duties. India has the raw material (buffalo hide) advantage but lost out on tariffs.

- **Metro Brands:** While largely retail, they have been looking at export opportunities.
- **Bata India:** As part of a global MNC, Bata Europe could look to source significantly more from Bata India (which has lower costs) now that the duty barrier is gone.
- **Superhouse & Mirza International:** These are the traditional leather exporters who were crushed by Bangladesh's duty-free status. They are potential turnaround candidates as the playing field levels.

6. Marine Products & Seafood: The "Vietnam Reversal" Trade
This is a massive potential turnaround story. The European Union is one of the largest consumers of shrimp and value-added seafood, but India has historically struggled here due to high tariffs (ranging from 7% to 18%) and stringent non-tariff barriers (antibiotic checks), while Vietnam (via its own EVFTA) enjoyed zero duty.

The Change: Elimination of tariffs on frozen shrimp and value-added marine products.

- **Avanti Feeds & Apex Frozen Foods:** Both have significant processing capacities but have been forced to rely heavily on the US market. The EU opening up reduces their single-country risk (US anti-dumping laws) and allows them to utilize their "Ready-to-Cook" capacities for European retail chains.
- **Coastal Corp:** A smaller, niche player highly focused on value-added shrimp exports. They have likely been priced out of Europe by Vietnamese competitors; this deal restores their pricing power.

7. Ceramics & Tiles: The "Morbi" Substitution Effect

This is an energy-arbitrage play similar to Auto Forging. Europe (specifically Italy and Spain) was the global hub for high-end tiles, but the structural rise in European natural gas prices has made their production unviable. They need to import.

The Change: Removal of duties (currently ~6-8%) on Indian ceramic tiles and sanitaryware.

- **Kajaria Ceramics & Somany Ceramics:** While largely domestic stories, they have been aggressively growing their exports to fill the void left by shutting European kilns. A 0% duty regime allows them to target the "replacement market" in European homes with premium, large-slab tiles that offer better margins than the Indian domestic market.
- **Asian Granito:** High export focus. This allows the Morbi cluster to effectively become the backend manufacturing hub for European tile brands.

8. Processed Coffee & Agri-Commodities: The "Value-Add" Play

Europe is the coffee capital of the world (in terms of consumption per capita), but they grow none of it. They import raw beans and process them. The FTA encourages "Value Added" imports from India.

The Change: Reduction of duties on Instant Coffee (Soluble Coffee), which were protecting European roasters.

- **CCL Products (Continental Coffee):** This is arguably the biggest structural winner in the beverage space. They are one of the world's largest private-label coffee manufacturers. They already supply to European supermarkets. Removal of the tariff barrier (which was significant for freeze-dried coffee) directly boosts their bottom line or allows them to undercut Brazilian competitors.
- **Tata Consumer Products:** Their plantation division (Tata Coffee merged entity) benefits from better realizations on Indian Robusta beans, which are highly prized in Italian espresso blends.

9. Steel Pipes & Tubes: The "Niche Engineering" Segment

While generic steel faces the "Carbon Border Adjustment Mechanism" (CBAM) hurdle, specialized steel products used in energy and boilers are critical for Europe.

The Change: Zero duty on seamless pipes and welded tubes.

- **Maharashtra Seamless & Ratnamani Metals:** They make high-grade pipes used in power plants and oil & gas. Europe's transition to LNG terminals and hydrogen infrastructure requires these specific pipes. Sourcing them from India (duty-free) is significantly cheaper than sourcing from Germany or Japan.
- **APL Apollo:** While largely domestic structural steel, they have a "world" portfolio targeting export markets. This opens up the European construction market for their structural steel tubes (used in airports/warehouses).

10. Green Energy & Power Transmission: The "Future-Proof" Trade

The EU has the aggressive "Green Deal" but lacks the land and solar radiation to produce all the green energy it needs. The FTA likely creates a "Green Corridor."

The Change: Integration of carbon credit markets and zero duty on green ammonia/hydrogen equipment.

- **Inox Wind / Suzlon Energy:** Europe wants to diversify its wind supply chain away from China. While vestas/Siemens dominate, component sourcing from India (blades, towers) becomes frictionless.
- **KEC International & Kalpataru Projects:** These are EPC giants with strong footprints in manufacturing transmission towers. As Europe upgrades its grid to handle renewables, the demand for transmission towers is skyrocketing. Indian towers entering duty-free gives them a distinct advantage over Turkish or Chinese suppliers.

11. Footwear (Non-Leather): The "China+1" Essential
While Leather is premium, the volume game is in sports shoes and synthetics.

The Change: Duty reduction on synthetic footwear.

Mirza International & Red Tape: Red Tape has been aggressively expanding its brand. Access to Europe allows them to push their "fast fashion" footwear model into a market that is looking for alternatives to expensive Western brands.

Risk Note: The "Carbon Tax" (CBAM) Nuance

For the Metals and Cement sectors (Tata Steel, JSW Steel), the "Mother of All Deals" comes with an asterisk called CBAM (Carbon Border Adjustment Mechanism). Even if the import duty is zero, European buyers may have to pay a "Carbon Tax" if Indian steel is dirtier than European steel.

The Investor Angle: Watch for the FTA text regarding "Carbon Credit Recognition." If the EU agrees to recognize Indian Carbon Credit certificates as equivalent to European ones, then companies like Tata Steel become massive winners. If not, the benefit for commodity steel is capped.

Here is the sector-wise deep dive for the combined India-EU + India-UK trade bloc.

1. Textiles & Apparels: The "High Street" Re-rating

The UK is the single most critical market for Indian garment exporters outside the US. The "India-UK" leg of the deal is actually more valuable for volume players because UK retailers (Primark, Tesco, Next) have been desperate to shift away from China but found Vietnam too expensive and Bangladesh too risky.

- **PDS Ltd (The UK Giant):** This is arguably the biggest winner of the UK inclusion. A significant portion of their "European" revenue is actually UK-based design-to-delivery for high street brands. The double FTA cements their role as the primary funnel for Western fashion sourcing from India.

- **SP Apparels (The "Crocodile" & Kids Play):** They are the dominant supplier of children's wear to the UK (key client: Tesco/Asda). They also own the "Crocodile" brand rights. The UK FTA removing the ~10% duty is a massive margin expander for them, more so than for general players, because children's wear volumes are sticky.

- **Gokaldas Exports:** They have been aggressive in the UK. The deal opens up the "Outerwear" category (jackets/coats) where duties were high. This allows them to compete with premium Vietnamese suppliers.

- **KPR Mill:** While known for knits, the UK deal allows them to push "Fas-Fashion" basics to UK supermarkets. Their vertical integration (Cotton -> Garment) allows them to meet the strict "Rules of Origin" likely present in both deals.

- **Welspun Living (Home Textiles):** The UK is a massive market for Indian bed linen (Christy is a UK brand owned by Welspun). The FTA protects their dominance against potential Pakistani competition (which had GSP+ status).

2. Pharma: The "UK Generics" Specialists

The UK's health regulator (MHRA) is distinct from the EU. Some Indian companies have built their entire business model around the UK generics market.

- **Marksans Pharma (The "UK Proxy"):** This is the stock you cannot miss. The UK is their largest market (often contributing 40%+ of revenue). They are the dominant OTC (Over-the-Counter) player there. The FTA likely resolves non-tariff barriers and cements their pricing power against local competitors.

- **Strides Pharma Science:** They have a very strong UK footprint. The deal likely streamlines the regulatory approval pathway (mutual recognition of GMP standards), reducing their compliance costs and time-to-market for new launches.

- **Aurobindo Pharma:** They have a massive European presence (via acquisitions). The FTA helps their Indian manufacturing units ship high-volume generics to their UK/EU distribution hubs duty-free, improving the consolidated margin.

- **Jubilant Pharmova:** Their radiopharma and allergy business has strong links to the UK/EU healthcare systems.

3. Auto Components: The "JLR & German" Connection

The UK leg brings Jaguar Land Rover (JLR) into the fold.

- **Tata Motors:** This is the obvious beneficiary, but the nuance is "Reverse Logistics." An FTA allows Tata Motors to import high-tech components (batteries/sensors) from the UK/EU to India duty-free for their domestic EVs, while simultaneously exporting Indian steel/castings to JLR UK duty-free. It optimizes their entire trans-continental supply chain.

- **Motherson Sumi (SAMIL):** They supply nearly every car maker in the UK and EU. The FTA allows them to consolidate "labor-intensive" wiring harness production in India and ship it to assembly lines in Birmingham or Munich without a 5-10% cost penalty.

- **Varroc Engineering:** They have a strong lighting business. The UK/EU FTA opens up opportunities to supply LED lighting systems for premium European 2-wheelers and passenger cars from their low-cost Indian plants.

- **Rico Auto:** High exposure to UK/EU exports (Ford, JLR, BMW). They supply critical aluminum components. The removal of duties makes them a "savings center" for Western OEMs battling inflation.

4. Engineering & Capital Goods: The "Niche" Exporters

- **Elecon Engineering:** They manufacture industrial gears. Europe and UK are key markets for "replacement demand" in industrial machinery. Elecon’s gears are 30-40% cheaper than German equivalents; zero duty makes them irresistible.

- **AIA Engineering:** They make high-chrome grinding media for mining. While their mines are global, many headquarters and purchasing decisions happen in London (UK is a mining finance hub). The FTA smooths the trade flow.

- **Triveni Turbine:** The UK and EU are aggressively moving to "Waste-to-Energy" and Biomass power. Triveni is the global leader in sub-30MW steam turbines used exactly for this. The FTA removes the tariff barrier, allowing them to beat Siemens on its home turf.

5. IT & Services: The "Visa" Angle (UK Special)

Unlike the EU deal (which is mostly goods), the UK FTA likely has a strong "Services" component involving visa mobility for professionals.

- **Mastek:** A classic "UK Government" stock. A huge chunk of their revenue comes from UK public sector digital transformation. Any FTA clauses that ease data flow or professional movement between India and UK directly benefit Mastek’s operational efficiency.

- **Firstsource Solutions:** They have a massive "Mortgage BPO" business in the UK. The FTA signals long-term stability for outsourcing critical UK banking operations to India.

6. Alco-Bev: The "Scotch" Disruption

The UK FTA acts as a double-edged sword here because of Scotch Whisky.

- **United Spirits (Diageo India):** The Ultimate Winner. Diageo (UK parent) owns them. A reduction in Scotch duties allows USL to import premium brands (Johnnie Walker, Singleton) at much lower costs and flood the Indian market, driving their "Premiumization" story.

- **Radico Khaitan & Tilaknagar:** They face a threat. Their premium Indian whiskies will now compete directly with entry-level Scotches that become cheaper. However, they may pivot to become "Bottlers" for smaller UK brands entering India.

7. Footwear: The Leather Revival

The UK has a strong tradition of high-quality leather footwear (Clarks, etc.), much of which is outsourced.

- **Mirza International (Red Tape):** They have deep roots in the UK leather trade. The FTA allows them to supply "White Label" leather shoes to UK high-street brands duty-free, reviving their legacy export business.

- **Superhouse:** A Kanpur-based leather exporter with significant institutional safety footwear business in Europe/UK. Zero duty is a lifeline for them against Chinese synthetics.

8. The "Don't Miss" Niche Picks

- **Balkrishna Industries (BKT):** Agriculture is huge in France (EU) and the UK. BKT dominates the "Replacement Tire" market there. Zero duty helps them hold pricing against budget Chinese tires.

- **Polyplex Corporation:** They make packaging films. Europe/UK is a major market for packaged food. They have plants in Turkey (to bypass EU duties previously), but the FTA makes their Indian capacity viable for direct export.

- **Usha Martin:** One of the world's largest wire rope manufacturers. The UK and North Sea (EU) offshore wind energy sectors need massive amounts of specialty wire ropes. Usha Martin exports heavily to this region.

We believe in massive benefits on cards if we add UK to this EU FTA. So, UK-EU FTa.

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