

**BANGLADESH CRISIS TO HAVE MODERATE
IMPACT ON INDIAN INDUSTRY**



AUGUST 2024

Overall hit on India's trade however, insignificant

The latest political crisis in Bangladesh is surely a matter of concern to India. India has a healthy trade surplus with Bangladesh (USD 9.3 bn in FY24) with significant exports of cotton yarn, agricultural items, engineering goods and chemicals. In the short term, exports to Bangladesh are likely to be adversely impacted which might have a moderate impact on India's merchandise exports. Imports are also likely to be disrupted in the near term, affecting the supply chain of some Indian companies in the textile sector. Bangladesh has also been a consumer market for some domestic FMCG manufacturers where one can expect some slowdown. Nevertheless, the overall impact on India's trade and economy is not likely to be significant since the trade with Bangladesh (merchandise exports and imports) comprise only 1.2% of India's aggregate trade volumes.

The impact of the ongoing political crisis and the deterioration in law and order is likely to have impact on the following industrial sectors:

Textile

- Bangladesh is a major market for Indian yarn, accounting for 25-30% of the total yarn exports. If the crisis persists for a longer period, such exports which stood at USD 1.3 bn in FY24, may be negatively impacted. This may translate to lower realizations and margins in the export markets. i
- On the other hand, the crisis presents opportunities for Indian fabric and garment manufacturers to increase their export market share. The textile industry has become a major sector of Bangladesh's economy, representing 80% of its exports and 15% of its GDP. The primary markets for Bangladesh textiles goods are the European Union, United States, Canada, Australia, and Japan. There can be a potential 15–20% decline in RMG exports for the next summer season (January–March 2025) due to recent disruptions and factory shutdowns. This can be both a short and a longer term opportunity for Indian garment exporters if the crisis doesn't dissipate in a short period of period.

Power

- Indian power companies involved in energy projects and supply agreements with Bangladesh might encounter operational challenges and payment delays as a result of the political unrest. Additionally, potential damage to power infrastructure from violence can lead to losses of the Indian companies operating in Bangladesh.
- Several Indian companies including PSUs are developing power projects in Bangladesh. These projects may witness delays and higher uncertainties in implementation.

Automobile

- Indian automobile manufacturers with operations or partnerships in Bangladesh may face interruptions in production and supply chains due to the current unrest. Sales in the Bangladeshi market could decline as economic instability reduces consumer spending and demand for vehicles, while exports to Bangladesh might experience delays.
- Several Indian automobile OEMs particularly in the 2W and CV (trucks and buses) segments have assembly units in Bangladesh. These units may face a disruption in operations and a slowdown in business volumes.

Agricultural Products

- Agricultural and allied items accounted for USD 2.4 bn of exports from India. Animal feed such as soyabean meal and wheat residue have a good export market in Bangladesh.
- India's exports of perishable goods, such as vegetables and fruits, are particularly vulnerable to border disruptions. Any delays in customs processing or transportation can result in spoilage and financial losses for exporters.

Pharma and Chemicals

- Chemicals, drugs and pharmaceuticals contribute USD 1.1 bn to India's exports. The ongoing political crisis in Bangladesh could disrupt supply chains for Indian pharmaceutical companies operating or sourcing in the country, leading to delays in production and distribution. Additionally, regulatory uncertainties arising from the formation of a new government might affect drug approvals and market access, potentially impacting business operations and market stability.
- Few India pharma companies have made investments in manufacturing units. Law and order issues may impact the operations and revenues of these units.

FMCG

Many Indian FMCG companies have exposure to the Bangladesh market. The sector may experience some challenges, such as disruptions in supply chains, changes in consumer demand, and potential increases in costs due to the crisis. However, the overall effect will vary based on each company's exposure, diversification, and ability to adapt to changing conditions.

Railways

Indian railway firms involved in projects/ collaborations in Bangladesh could face delays due to disruptions in construction and operational activities. Logistical issues related to the movement of goods and materials for railway projects might also arise, affecting project timelines.

Oil and Gas

Indian oil and gas companies including PSUs operating in or exporting to Bangladesh could face disruptions in their logistical operations due to ongoing crisis. Political instability might also lead to fluctuations in oil prices and affect trading conditions in the region.

Telecom

Indian telecom companies with investments and operations in Bangladesh may encounter disruptions in service and network maintenance as a result of the political crisis.

Miscellaneous

- Bangladesh may experience a severe shortage of foreign exchange, which hampers its ability to pay for imports. Indian exporters may face payment delays and challenges in receiving payments for their goods. This financial strain can further disrupt trade relationships and lead to a decline in exports.
- Political unrest often leads to heightened security measures at borders, which can slow down the movement of goods and increase trade costs. This can affect both imports from and exports to Bangladesh, potentially making Indian products less competitive.
- The crisis in Bangladesh may lead to rising inflation and reduced domestic demand, which may lower the overall consumption of both local and imported products. This economic downturn can further strain bilateral trade as demand for Indian exports declines.

Says **Suman Chowdhury, Chief Economist and Head-Research, Acuite Ratings & Research** "While Bangladesh is an important trade partner for India, the impact of the severe political crisis there will have a very limited impact on India's overall trade volumes. The exports to Bangladesh account for only 2.5% of India's total merchandise exports. However, specific industry segments where exports to that country constitute a large share such as cotton yarn, may witness a material impact in the near term; on the other hand, this can also be an opportunity for Indian RMG players who had lost export markets earlier to Bangladesh. Indian manufacturing and infrastructure companies having business or project operations or supply linkages therein are likely to witness some disruption and uncertainty in the near term. Importantly, the current scenario may lead to deferment or slowdown of fresh investments by Indian companies in the neighbouring country pending the establishment of a stable government. The proposed FTA with Bangladesh will also be put in the backburner under the current circumstances."

Table 1:

Exports Items (In USD Bn)			
Particulars	FY21-22	FY22-23	FY23-24
Total (All Commodities)	16.2	12.2	11.1
A) Petroleum Products	1.2	0.8	1.3
B) Agriculture and allied products	5.5	3.6	2.4
C) Chemical, drugs and pharmaceuticals	1.2	1.1	1.1
D) Engineering goods	2.8	2.4	2.0
E) Textiles (B)	3.5	1.9	2.2
i) Yarns, fabrics and made-up			
- Cotton Yarn	2.3	1.0	1.3
- Other Textile	1.1	0.9	0.9
Total: Major Sectors	14.3	9.8	8.9

Imports Items (In USD Bn)			
Particulars	FY21-22	FY22-23	FY23-24
Total (All Commodities)	2.0	2.0	1.8
Textiles (Non RMG)	0.3	0.3	0.3
Readymade Garment	0.5	0.8	0.6
Total: Major Sectors	0.8	1.1	0.9

Source: CMIE

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,900 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminenceonline.in

Analytical Contact:

Suman Chowdhury
Chief Economist & Head of Research
Ph: + 91-9930831560
suman.chowdhury@acuite.in

DISCLAIMER: This report is based on the data and information (data) obtained by Acuité from sources it considers reliable. Although reasonable care has been taken to verify the data, Acuité makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any Data relied upon. Acuité is not responsible for any errors or omissions or for the results obtained from the use of the report and especially states that it has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its reports. Any statement contained in this report should not be treated as a recommendation or endorsement or opinion or a substitute for reader's independent assessment