

Corporates also to Blame for Fall in Rupee : Jamal Mecklai



The depreciation in rupee has left corporates with huge forex losses on their balance sheets. Stock markets are down. Foreign Institutional Investors have stayed away from the markets. However, the central bank has said it will intervene only in case of volatility. Here's the prescription from Jamal Mecklai, CEO, Mecklai Financials.

NDTV: Shouldn't the RBI take a more definitive stance on rupee?

Mecklai: The RBI's stance is that they would intervene to control volatility which is a reasonable stance. The question is volatility is very high and if they are planning to intervene when volatility is very high, they should be intervening.

I think a lot of people in the market are looking for some sort of intervention. In fact, the reason why the rupee has not fallen anymore today is that people are expecting some sort of intervention.

So, to my mind, RBI is doing the right thing. If they are able to, let us say for example, the market remains off-balance because they fear RBI intervention, that's good enough. But certainly if it doesn't, they should intervene. That's my view. I am not the governor.

NDTV: The RBI has done little to prevent further depreciation. Does it tell you, it is pretty comfortable with the fall so far?

Mecklai: It is not a matter of comfort. It is a difficult situation for everyone. The liquidity situation in the market is very tight. So, if they were to sell dollars that would pull rupees out of the system it would make liquidity tighter still. That means the RBI has to manage lots of different things. I am pretty sure they are not comfortable. They are not sitting there smoking a cigarette. But it is a difficult situation for everybody, you know. I think the real issues are actually structural issues. The market is too thin, it needs to be de-regulated, etc.

Right now, you are in a tight spot. Lots of corporates have lost lots of money. There is lot of red on the balance sheet. I think, we have to pray that the dollars stops strengthening abroad though that is not a certainty.

Why has the rupee fallen so sharply? Part of the reason is that dollar is strong overseas. The other part of the reason is that most people who were short dollars - people with imports - had not covered. I mean RBI can do nothing about that. If people are not prudent, it is not RBI's fault. The only thing worse than learning from experience is not learning from experience.

What needs to be done is companies in India need to focus on risk management. There are companies who have not shown huge forex losses so it is possible. More importantly, if more companies were doing it, the rupee would not have fallen this far, in my view.

NDTV: Weak capital flows or stubbornly high trade deficit - which is the dominating dynamic for the currency?

Mecklai: I mean you cannot control capital flow, right? They will come and they will go. Trade deficit, I mean these are facts of life. And the fact is whether rupee should be 45 or 50 or 55 nobody knows. But the fact is if people manage their risk right, there will not be this sort of trauma. I mean that's the real issue. The difficult is what you do now, it is already at Rs.51. Let us say you have imports that you have not covered, should you buy now? This is a very frightening decision, right? The rupee may turn it anytime. But if you don't buy now, you are sitting "nanga".

Now there is another thing that RBI should do and do that today. It is very difficult to buy options because they are very expensive. So you could buy a structural product which is less costly. But if you are an unlisted company with less than Rs. 200 crore of net worth you cannot do that which is foolishness.

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