

## Rupee Likely to Stabilize at 52-54 to Dollar This Year

The rupee is expected to settle in the range of Rs 52-54 to the greenback by the end of this fiscal according to a report from credit rating agency Care. This could be a positive for export-oriented industries such as IT, textiles, pharmaceuticals and gems and jewellery.

On the other hand, industries based on metals, minerals and chemicals are expected to be under some pressure and the extent of hedging will determine final net loss on account of rupee depreciation said a Care report titled rupee depreciation industry impact.

Jamal Mecklai, CEO, Mecklai Financial said, "The important thing is that in the last few days, the Euro has got much weaker overseas but the rupee has remained at the same level. Perhaps, RBI has been supporting the rupee as a result it has recovered some of the excess losses it suffered last year. Given the way markets are, my range for the rupee would be Rs 47-57 a dollar in the next 12 months."

The rupee has between August—December 2011, depreciated by 21 per cent. "This depreciation has caused much concern among industry groups as imports have become expensive, amplifying costs of production and ultimately profitability. Given that India is a net importer with a sizable trade deficit, the net impact has to, a priori, be negative," said the report.

The agency studied 1,590 listed companies from 19 industries having forex expenditure above Rs 10 crore (\$2 million). The total forex earnings of these companies accounts for 60 per cent of India's exports of goods and services in FY11. The study showed that the highest net gainers in forex earnings were IT, followed by textiles, two wheelers and commercial vehicles.

"With a depreciating rupee, the value of exports would naturally increase. Hence export-oriented industries would post gains in forex earnings. Netting forex earnings for forex expenditure – IT and Textiles emerge as clear gainers against a depreciating rupee," said the Care Ratings report.

Net forex outgo for chemicals was \$79.47 billion, petroleum products was \$74.44 billion, ferrous metals with \$10.41 billion, on the other IT had net forex earnings of \$14.48 billion while textiles is a net earner of \$3.07 billion.

Though forex expenditure is substantial for the IT sector, these are offset by higher forex earnings, yielding an overall positive net forex earnings position.

IT companies were amongst the biggest gainers during the third quarter of this financial year when rupee went over Rs 50 a dollar. The same is expected to continue provided it stabilises at the present value of around Rs 52. While firms with dollar exposure stand to gain, the ones with rupee and pound exposure would lose in Q3, said the report.

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# Mecklai Financial

WHERE RISK MEETS ITS MATCH

Shashi Bhusan, senior research analyst – institutional equities at Prabhudas Lilladher said, “We expect Indian IT companies to gain about 300 basis points (gross margins) in the present quarter. However, higher hedge book positions of TCS (\$2.6 billion) and Wipro (\$1.7 billion) would be a drag at the bottom-line. Moreover, stretched margin levers of Wipro and TCS will result in margin erosion in constant currency terms.”

“We expect Infosys and HCL Tech to deliver stronger results, as these two are better placed in terms of operating leverages. Currency depreciation is going to result in operating margin tailwinds but cross-currency movement could be a spoilsport for revenue growth in dollar terms. Cross-currency exposure would differentiate dollar performance for the companies. We see Wipro and TCS (with higher domestic operations) as the worst affected due to high rupee and British pound exposure,” added Bhusan.

“For us, every movement of rupee-dollar rate by 1 per cent will have an impact on the operating margins by some 40 basis points,” said a senior Infosys official refusing to be identified ahead of its Q3 results.

S Abhaya Kumar, MD, Shasun Pharmaceuticals said, “Rupee devaluation has been and will be beneficial for Shasun as more than 80 per cent of our products are exported to overseas markets. The imports too are low at 20 per cent. Foreign currency loans too account for only a small percentage of our debts.”

The gems and jewellery sector where prices of gold and other metals, have witnessed steep rise is bracing for a hit to its profitability.

Rajiv Jain, chairman, GJEPC said, “As far as gem and jewellery exports are concerned we import and re-export and earn on the value addition. As we are net exporters, rupee depreciation will only benefit the exporters. However, it would not be good for the domestic market, which consumes imported gold and diamonds. However, if rupee remains stable even at those levels, people would resume consumption.”

(With inputs from Kumar Shankar Roy from New Delhi, Sangeetha G and Shyamala Seetharaman from Chennai)

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