

**TAKING STOCK** IT, pharma & upstream oil firm stocks and gold will be worst hit due to the surge

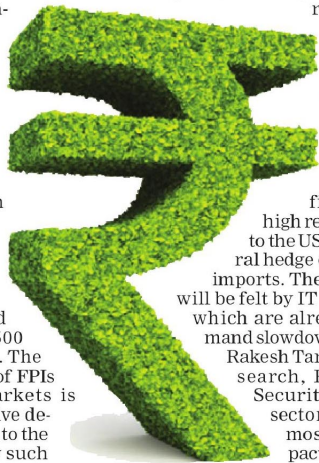
# Is a Rising Rupee Good for Your Investments?

Sanket Dhanorkar

After a long time, the Indian rupee is exhibiting dogged strength against the US dollar. Since the beginning of 2017, the domestic currency has appreciated more than 5% against the greenback, from 67.95 on December 30, 2016 to ₹64.42 on April 18, 2017. It has also outperformed most of the emerging market currencies since the start of this year. **What is driving the resilience in the rupee, will it sustain for longer and how does it impact your investments? Can this be used an opportunity to invest in certain instruments?**

## RUPEE RESURGENCE MAY PERSIST

The main reason for the appreciation of the rupee is the rise in foreign investor flows. After investing over ₹56,000 crore in March, foreign portfolio investors (FPI) have invested more than ₹16,500 crore by mid-April. The continued interest of FPIs in the Indian markets is much due to positive developments related to the domestic economy such as the expected roll-out of the Goods and Services Tax, a benign inflation environment and a



shift in the central bank's monetary policy stance from accommodative to neutral.

Global uncertainties have weighed on the dollar too. The greenback's recent weakness has been precipitated by comments from Donald Trump, who suggested that the dollar was getting too strong, thereby sparking a selloff in the currency. Besides, the latest US economic data was not especially healthy, pegging back the dollar. With the NDA government at the Centre also indicating that it wants to move away from targeting the rupee as an anchor for exports, the strength in the local currency could persist for some time.

## IMPACT ON STOCKS

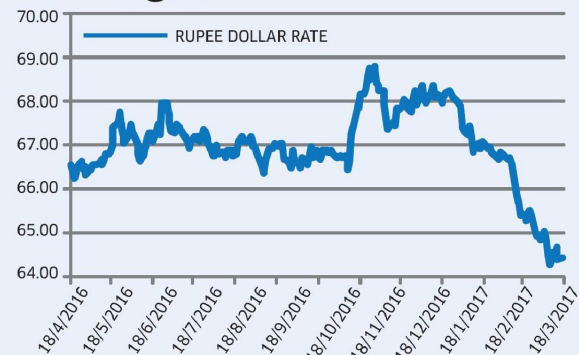
The rupee's appreciation will sting the earnings of firms that have high revenue exposure to the US without a natural hedge of raw material imports. The largest impact will be felt by IT services firms, which are already facing demand slowdown.

Rakesh Tarway, head of research, Reliance Securities, says: "The sector which will be most adversely impacted will be IT because of loss in operating margins and delay in passing of cost to clients."

Pharma firms will also feel the pinch due to their high exposure to the US and European markets. Nandan Chakraborty, MD - institutional equity research at Axis Capital, says stocks like Divi's Labs, Sun Pharma, Lupin, Cadila and Aurobindo will take a hit on higher revenue contribution from US and Europe. But Cipla and Ipca Labs will fare better as they have higher earnings dependence on emerging markets, have a higher proportion of foreign imports and sovereign currency denominated debt.

Upstream oil companies such as

## The Tango...



The rupee has gained more than 5% against the dollar in 2017  
Compiled by ETIG Database

## ...and the Segments that Could Take a Hit on Rising Rupee

Category	Return (%)	
	3 month	1 year
S&P BSE Oil & Gas	15.84	52.49
Gold funds	0.18	-0.08
Nifty Pharma Index	0.07	-6.96
International funds	-1.52	7.72
Nifty IT Index	-1.68	-11.45

Data as on 17 Apr, 2017

Source: Value Research

ONGC and Oil India will be negatively impacted as their crude and natural gas realisations are dollar denominated. Every ₹1/\$ appreciation impacts earnings per share (EPS) of upstream oil firms by 3-5%.

Similarly, OMCs will take a hit as their refinery business gross profits (30% of Ebitda) are denominated in US dollar while local fuel prices are reset on fortnightly/monthly basis in line with exchange rates. Savings from lower interest costs on dollar loans will not offset reduction in gross refining profits, says Chakraborty.

## IMPACT ON GOLD, GLOBAL FUNDS

For investors in gold and in interna-

tional funds, the appreciation in the rupee will hurt. Investors in the yellow metal were hit first by the drop in international price of gold. The subsequent rally has not translated into a significant spike in domestic gold price with the rising rupee pushing back returns.

Global equity funds are in the same boat. The Motilal Oswal Most Shares Nasdaq100 ETF clocked 15.9% while Principal Global Opportunities gained 11.7% over the last one year. They would have done much better if not for the eroding effect of the rising rupee on the dollar denominated returns. Any further rise in the local currency will further dent the return profile.

## IT BIGGEST LOSER

The sector which will be most adversely impacted will be IT because of loss in operating margins and delay in passing of cost to clients

**Rakesh Tarway,**  
Head of Research, Reliance Securities