

RESEARCH
BOB Economics Research | Forex Cover

Forex risk of India Inc.

SUMMARY
India Economics: Forex Cover

The recent decline in the rupee has ignited concerns on the external sector stability of the economy. Apart from macro economy repercussions, a depreciating currency also impacts the profitability of companies which have high exposure in terms of foreign currency. In this study we have evaluated a sample of 2,171 companies and focused on those industries which are more vulnerable due to higher trade deficit value (Exports: FOB –Imports: CIF). Notably, our sample constitutes 20% of the exports in merchandise trade basket, while imports comprise 33% of total in FY21. Sectors such as crude oil, industrial gas and fuels, trading, consumer durables and telecom are the top 5 industries with highest deficit. Extrapolating the export-import growth for FY22 to the data, we find that for FY22 as well, the deficit as a proportion of net sales is likely to increase. For FY23, a volatile currency will provide further discomfort to these companies.

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Daily macro indicators

Indicator	21-Jun	22-Jun	Chg (%)
US 10Y yield (%)	3.27	3.16	(12bps)
India 10Y yield (%)	7.48	7.40	(9bps)
USD/INR	78.08	78.39	(0.4)
Brent Crude (US\$/bbl)	114.7	111.7	(2.5)
Dow	30,530	30,483	(0.2)
Hang Seng	21,560	21,008	(2.6)
Sensex	52,532	51,823	(1.4)
India FII (US\$ mn)	20-Jun	21-Jun	Chg (\$ mn)
FII-D	(55.0)	32.0	87.0
FII-E	43.8	(150.8)	(194.6)

Source: Bank of Baroda Economics Research

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FOREX COVER

23 June 2022

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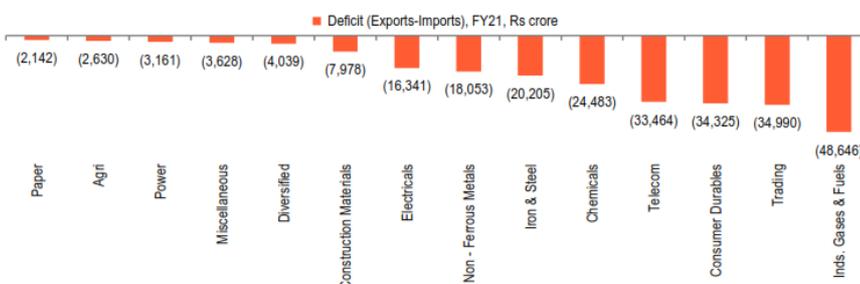
The recent decline in the rupee has ignited concerns on the external sector stability of the economy. Apart from macro economy repercussions, a depreciating currency also impacts the profitability of companies which have high exposure in terms of foreign currency. In this study we have evaluated a sample of 2,171 companies and focused on those industries which are more vulnerable due to higher trade deficit value (Exports: FOB –Imports: CIF). Notably, our sample constitutes 20% of the exports in merchandise trade basket, while imports comprise 33% of total in FY21. Sectors such as crude oil, industrial gas and fuels, trading, consumer durables and telecom are the top 5 industries with highest deficit. Extrapolating the export-import growth for FY22 to the data, we find that for FY22 as well, the deficit as a proportion of net sales is likely to increase. For FY23, a volatile currency will provide further discomfort to these companies.

Dipanwita Mazumdar
Economist

Against the backdrop of depreciating INR (5.2% in CYTD22) stemming from several factors such as hawkish US Fed leading to rising DXY (recently touched its high since CY02), overheating of economies leading to higher inflation, FPI outflow on account of slowdown concerns and rising international oil prices; it is important to examine the extent to which India Inc. is insulated in terms of their forex cover. We have analyzed data on exports and imports of 2,171 companies, to see which sectors are the most vulnerable ones to depreciating currency.

It needs to be pointed out here that companies or sectors that have high imports would have a natural hedge in exports where there would be automatic pass through of a weaker rupee. Therefore, the concept of trade deficit for sectors is relevant.

Crude oil, industrial gas and fuels, trading, consumer durables and telecom are the top 5 sectors with the highest deficit. Here the deficit is calculated as the difference between Exports: FOB value and Imports: CIF value of companies. In the Fig1. below we have excluded crude oil which contributes to the maximum deficit (Rs 3,92,427 crore).

Fig 1. Top sectors with high trade deficit:

Source: Ace equity, Bank of Baroda Research, Note: Crude oil is an outlier with a deficit of Rs 3,92,427 crore



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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