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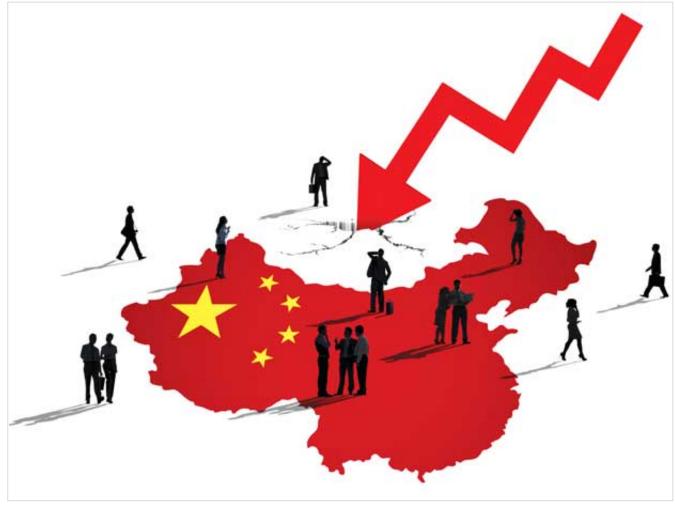
Why China slide is bad news for India Inc

Yuan depreciation will make imports in China more expensive, depressing demand, especially for commodities

Dev Chatterjee | Mumbai January 08, 2016 Last Updated at 00:40 IST

The fall in the Chinese currency's value against the dollar and stock market meltdown across the globe are making Indian companies worried - especially those with high dollar debt exposure, significant sales in China, or competing with Chinese products.

The Chinese currency has depreciated 5.8 per cent against the dollar since August 10. The two trading halts at the Chinese stock markets this month show that all is not well. On Thursday, a volatile Indian rupee closed at 66.93 to a dollar, down 4.6 per cent from August.



CHINA SNEEZES, WORLD CATCHES COLD

- Yuan depreciation will make imports in China more expensive, depressing demand, especially for commodities
- Indian firms which have large exposure either through subsidiaries or exports to China will see their revenues getting affected
- RBI may also need to let the rupee decline against the dollar
- This would put firms with exposure to external commercial borrowings in a spot

The yuan depreciation will make imports in China more expensive, depressing demand, especially for commodities. This will put further downward pressure on commodity prices. The fear of cheaper Chinese goods caused the metals pack to lose value. Tata Steel was down 6.85 per cent while Vedanta lost 8.7 per cent.

Analysts said Indian companies with large exposure either through subsidiaries or exports to China will see their revenues getting affected. For India to stay competitive in the export market, the Reserve Bank of India might also need to let the rupee decline against the dollar.

This would put companies with exposure to external commercial borrowing in a spot as they would have to shell out more for repayments.

Analysts said with improving trade relations between China and India, companies on both sides are seriously considering opportunities on the other side. "We can see companies in engineering, food processing, handicrafts etc being affected if they have substantial revenues flowing from here," said D R Dogra, chief executive officer (CEO) & managing director of Care Ratings.

It's not only companies with high dollar debt which are in trouble. Indian companies which generate significant sales in China are also facing the brunt. On Thursday, shares of Tata Motors fell by 6.2 per cent on concerns that weak economic growth in China could impact the sales of its Jaguar Land Rover unit in that country.

Hindalco's subsidiary Novelis also has significant sales volumes coming from China and its shares fell by 4.7 per cent on Thursday.

Analysts say if the Chinese economy slows down, it will have an impact on global corporations and overall global economic growth. In the domestic market, the Indian tyre and steel manufacturers will find the going tough as Chinese companies will be able to dump their cheaper products in India, warn CEOs.

Though Indian government has imposed an anti-dumping duty on steel, local steel manufacturers say it's not enough. They are asking for more such measures. "The duties imposed on several steel products to curb imports are being looked at as protection for the domestic steel industry. It is actually creating a level-playing field for local players and a lot more needs to be done to make it a fair level-playing field," said Ravi Uppal, CEO of Jindal Steel & Power.

Videocon, which manufactures glass shell in China and exports it to India, is going to be a gainer. Group chairman V N Dhoot said glass exports from its Chinese plant to India are growing and they are earning more with the Chinese currency fall. "For us, it is (Chinese currency fall) a good news as our China subsidiary is exporting and is now earning 6 per cent more," he said.

On the positive side, analysts do not expect the current rate of depreciation of the Chinese currency to persist. "Firstly, though our US rate forecast implies that the dollar interest rate support will increase (relative to euro and pound), the idea of a strong dollar has been one of the strongest consensus trades for at least two years, implying that a large amount of the adjustment has already happened," said a CLSA analyst.