

Business Standard

Yuan devaluation to hit companies with overseas loan exposure

Many Indian companies - which had taken loans from Chinese banks as import finance to buy power and telecom equipment from China - may face the heat

Dev Chatterjee | Mumbai August 15, 2015 Last Updated at 00:57 IST



With

A vendor holds Chinese Yuan notes at a market in Beijing

devaluation of the Chinese currency and the consequent fall in the rupee, many Indian companies with dollar debt exposure are a worried lot. Analysts say the cost of dollar loans for such companies, which do not have foreign exchange cover, will rise substantially and increase their repayments.

The depreciation in the yuan has led to a decline in all emerging market currencies and analysts and chief financial officers say they are waiting to see the extent of the yuan's fall, as well as when the currency will stabilise. This will be critical in evaluating the impact on the rupee and, therefore, on companies

with forex exposure.

On Friday, the rupee was trading at 64.96 a dollar; since January this year, it has lost three per cent.

“The rupee has fallen quite perceptibly in the past few sessions, ever since the yuan has fallen. Those with dollar exposures will be subject to high forex risks, unless they have taken cover. Unhedged positions will definitely impact their cost of servicing and profitability,” said D R Dogra, chief executive officer and managing director of CARE Ratings.

UNFAVOURABLE TRADE WINDS		
Dollar bonds		
Issuer	Issue date	Amount (\$ mn)
Reliance Industries	Jan 28 '15	1,000
Delhi International Airport	Feb 03 '15	289
Reliance Industries	Feb 10 '15	750
Export-Import Bank of India	Feb 12 '15	500
Export-Import Bank of India	Apr 01 '15	500
Reliance Communications	May 06 '15	300
Bharat Petroleum Corp	May 08 '15	500
Reliance Industries	Jun 05 '15	200
Bharti Airtel	Jun 10 '15	1,000
Adani ports & Sp zone	Jul 29 '15	650

Source: Bloomberg
Compiled by BS Research Bureau

“For those who have borrowed in yuan, we need to see how the bilateral exchange rate behaves. If the rupee depreciates more than the yuan, there will be no issue. However, a sharper fall in the yuan will once again pressurise borrowers.”

This year, a large number of Indian companies have raised billion-dollar loans. These include Reliance Industries, Bharti Airtel and Adani Ports (\$650 million). But while companies such as Reliance and Bharti Airtel, which earn from exports as well as from foreign subsidiaries, will not be hit by the falling rupee, mid-sized and smaller companies are likely to face difficulties in

repayments.

In July this year, ratings firm Ind-Ra cautioned that among the top 500 listed borrowers, 234 had a negative sensitivity to rupee depreciation. “If the rupee depreciates one per cent (against the dollar), it would shave off their earnings before interest, tax, depreciation and amortisation by 0.19 per cent. These foreign currency spender companies account for 45 per cent of the FY14 overall consolidated debt, as well as 37 per cent of the FY14 consolidated foreign currency debt.”

Senior officials of the ratings firm said in FY15, the situation might not have shown a meaningful improvement over FY14.

Many Indian companies that had taken loans from Chinese banks as import finance to buy power and telecom equipment from China might also face the heat.

Corporate leaders say with the yuan depreciating, capital account transactions will have a somewhat different impact. “We hardly do direct loan transactions with the yuan. Therefore, no benefit will accrue due to the yuan depreciation, as all capital account transactions are done through the dollar, for both China and India. And, since both the currencies have depreciated against the dollar, it's more of a neutralised scenario and there will be a marginal impact, if at all,” said Prabal Banerji, president (international finance), Bajaj group.

In a study, rating firm Ind Ra warned that among 500 top listed borrowers, 234 corporates had a negative sensitivity to rupee depreciation in FY14. “If rupee depreciates by 1% (against the US dollar), it would

shave off their absolute EBITDA by 0.19 per cent. However, this is lower than the 0.28% (median) observed across 237 corporates in FY13. These net foreign currency spenders account for 45% of the FY 14 total consolidated debt as well as 37% of FY14 consolidated foreign currency debt. The agency estimates that in FY15 the situation may not have shown a meaningful improvement over FY14,” said Ind Ra in a report in July.