Is rupee rise a theme to play in stocks? Hedge your bets right

BY AMIT MUDGILL, ETMARKETS.COM | UPDATED: JUL 10, 2020, 10.25 AM IST

NEW DELHI: The recent appreciation in the rupee has a few sure beneficiaries on Dalal Street, especially the ones that rely on imported components and companies that have overseas debt. Analysts, however, feel one must do due diligence while identifying such stocks, as gains from currency appreciation is difficult to gauge and several variables are at play.

Data showed there are many companies with high annual dollar outflows such as Adani Enterprises, Amara Raja Batteries, JSW Steel and Bosch. A 5 per cent appreciation in the rupee can impact their bottom lines by up to Rs 1,020 crore, which is 13-32 per cent of their aggregate profits.

Others such as Havells, Voltas, Motherson Sumi, Nestle India and Maruti Suzuki can gain to the extent of 5-10 per cent of their profits, if the rupee were to rise 5 per cent from current levels, ICICI Securities said in a note.

Analysts said there is a risk-on sentiment globally, which has strengthened many emerging market currencies against the dollar, including the rupee. The domestic unit had fallen to an all-time low of 76.88 against the dollar in April but has risen since to trade at 74.70 against the greenback.

The rupee is expected to strengthen further, possibly to around 73 level. This can aid importers and ease the interest burden on companies with foreign borrowings.

ICICI Securities likes companies such as Voltas and Havells India and has advised investors to buy Voltas in the Rs 560-575 price range for a target of Rs 675 in three months. For Havells, it has a three-month target of Rs 690.

"After the recent breakdown in dollar-rupee rate, the domestic should pick up from current level. Even the current move of appreciation can extend towards 73," the brokerage said.

Other analysts, however, feel one must also look at other factors at play.

In case of overseas borrowings, hedging policies could be such that there may be no material gains from this rupee appreciation, they said. Only those companies could benefit, which import components to sell products in the domestic market, analysts said.

For example, the pharma sector generates most of its API requirements from overseas, but it also is a big exporter.

Rusmik Oza of Kotak Securities said the impact of rupee appreciation would be negative for auto exporters such as Bajaj Auto, but positive for Maruti, which import components and pay royalties. Oza said a rising rupee would be a positive for agro-chemical companies serving the domestic market, but is largely negative for export-led textiles and IT firms. Pharma, he said, has a neutral hedge due to both imports and exports and, hence, the impact will be neutral. "Expect a neutral impact on the construction sector," he said.

"My biggest fear is the fall in top line growth," said G Chokkalingam of Equinomics Research and Advisory, who said the Covid-19 related demand disruption is deflationary in nature.

Chokkalingam said after the 2008 Global Financial Crisis, nearly all companies adopted hedging policies and, hence, gains from the rupee appreciation may not be material.

As of December 2019, the outstanding ECBs totalled $223.8 billion. Overall in FY20, registrations by various entities for borrowing via the ECB route were highest ever in last five years, CARE Ratings said. For the year, total ECB registrations aggregated $52.9 billion – a growth of 26.3 per cent YoY.

PSU companies like ONGC, NTPC, PFC, IOC, Powergrid and many metal companies who have borrowed heavily in foreign currencies will be the key beneficiaries of rupee appreciation, said Devarsh Vakil- Deputy Head of Research at HDFC Securities, who added that "If rupee were to appreciate substantially these companies tend to save on their forex outgo."

"Being a net importer, appreciating rupee benefits Indian economy. A stronger rupee helps in bringing down the imported inflation. High interest rates and rupee appreciation will give a boost to returns that foreign investors can earn from fixed income instruments and that will attract even more investments. Many sectors like software, automobile and ancillaries, pharmaceuticals and textiles will be affected as a significant portion of their revenues is dollar-denominated," Vakil said.