



## **RUPEE APPRECIATION – BOON OR BANE?**

BY: ABHISHEK ARORA  
Abhishek\_indiabull@yahoo.co.in  
IBS HYDERABAD

Whenever currency of a country moves up, it's usually implicit that the economy of country is doing well. The rupee against dollar has appreciated from Rs 46 in July 06 levels to 40.50 levels in May 07, an increase of more than 10 % in last year.



The huge FII's inflows in the country because of booming financial market, RBI allowing ECB borrowings till 2.0 \$billion and FDI increase in various sectors led to over supply in Indian forex market .Also the crisis in US mortgage sector has raised concern over working of US economy, Mr. Ben Bernanke has raised concern of a slowdown the US which led to depreciating US dollar.

On the contrary Rupee has depreciated against Euro and GBP, so it won't be prudent to say that the rise in rupee is purely based on growth in economy; it is also because of short term recession in US.

Now we are a "Trillion dollar economy" surpassing Russia; we are world's 12<sup>th</sup> largest economy. The forex reserves of country are around \$ 200 billion (as on March 30<sup>th</sup>).

*Let's have a closer look on how the importers, exporters and FII's will get affected?*

### **IMPORTERS:-A BOON**

But all is not gloomy here as the "Rupee at nine year high" is a sigh of relief for importers in the country.

The oil marketing companies are already facing the volatility in crude prices resulting in under recoveries and so the appreciating rupee here comes to their rescue.

According to an IOC official -

"For every 1 Re appreciation the input cost of crude dips by 2%"

The rising rupee will help the government to curb inflation, as the input cost of crude and electronic items will be lowered which will help in fighting the ongoing inflation and hence the interest rates.

One of the biggest beneficiaries of rising rupee stands out the borrowers who have borrowed from international banks. The companies like Tata steel, Mcdowell to name a few for their take-over plans of Corus and Whyte & Mackay .As on Dec.2006 the country has an external debt of \$142.65 billion dollar so a 7% appreciation in dollar means the external debt is reduced to \$132.66 billion (assuming no more borrowings are taken and no repayments made). This is again positive for increasing Gross Deficit of the country.

### **EXPORTERS:- A BANE**

Given the fact that 76 % of Indian exports market is to the US .The exporters are already feeling the pinch of rising rupee .The IT companies have more than 60% of their revenues from US. It will affect the revenue realization of the IT companies

According to a Satyam official -

"One percent change in rupee will hit the operating margins of IT companies for FY 08 to 30-50 basis points"

Apart from IT companies our textile sector is also loosing apart .Last year we clocked a minor 5% growth in our exports to US; whereas China showed a substantial growth of 27% in exports to US .It was on the strength of appreciating

rupee that already ailing textile companies were wary of exporting, moreover high production cost due to high interest rate scenario the textile companies stand to loose.

Even the gold prices in country are at lower levels compared to world market which makes traders in gold feel the heat.

According to an industry analyst -

“Every 10 paise appreciation in rupee negates one dollar upward movement in international prices”

As a result gold slips in future market between Feb-Apr. 07

Besides the above Hotel companies (Taj Gvk, ITC hotels etc) are set to loose as their 50% of revenues are in dollar terms.

Having said this:-

Now the question arises,

Can Government help Ailing exporters?

The answer is “**YES**”

For that some steps (tentative) are to be taken:-

1. The government can reduce export duty for exporters.
2. The government can waive off the custom duty.

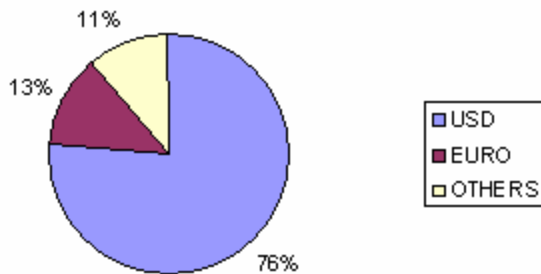
By doing this government can reduce the burden on exporters and also not getting affected by low excise duty as the importers who will get more profits will help the government with more taxes.

### **Exporters help themselves -**

The exporters should reduce there over-dependence on Dollar

In our country 76% of invoicing is done in dollars, the exporters can diversify it by changing their invoicing to more stable and balanced currencies like GBP

### Currency invoice distribution



### **FII's**

FII's the big guys who are pouring money into Indian financial markets are also loosing.

With reference to those investors who entered the Indian financial markets at a dollar rate of 44 are feeling the brunt of depreciating dollar.

For instance – take a case of FII who had invested in Indian assets. Assuming that he invested around \$1000 US at a rate of Rs 43.50, now after a year his assets have appreciated by 10% to 47850 Rs, but at the same time the dollar has depreciated to Rs 40.50; now the value of his assets would be 44850 instead of 47850; so the net gain to the investor is a humble **3.10 %** over a year.

So in this scenario

### **Can we expect more FII's to India?**

In my opinion, one can be very optimistic regarding the flows from foreign land to India because India is still an untapped market for many of the big investors and we account for only 1% of worlds inflow so keeping this fact in mind and also seeing the growth potential of the Indian economy, I personally think that foreign flows will keep coming to India despite the depreciation in rupee.

### **Conclusion-**

We have thus seen that appreciation of currency is good for the economic health of our state, though it carries with it certain demerits (mentioned above). But these demerits can be worked upon and transformed into a blessing for the economy.

## **References-**

1. [www.rbi.org.in](http://www.rbi.org.in)
2. [www.advfn.com](http://www.advfn.com)
3. [www.indiainfo.com](http://www.indiainfo.com)
4. [www.finance.yahoo.com](http://www.finance.yahoo.com)