

# Impact of exchange rate on industry assignment

Business



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The rupee has, between August and December 2011, depreciated by 21%.

This depreciation has caused much concern among industry groups as imports have become expensive, thereby amplifying costs of production and operation, and ultimately profitability. Given that India is a net importer with a sizable trade deficit, the net impact has to, a priori, be negative. Objective The aim of this study is to identify vulnerabilities on fore exposures, on account of depreciation of the rupee against the dollar, across various industry segments based on a simulation analysis of FYI 1.

We began with a universe of 7, 691 listed companies to be used in this study. The sample contains 1590 listed companies (from this universe) that are characterized by fore expenditure of greater than RSI 10 score (US \$ 2 MN). The sample is representative of trends discussed here as fore earnings by these 1 590 companies accounts for 97% of total fore earnings by all 7, 691 companies. Total fore earnings of these 1 590 companies account for around 60% of Indian's exports of goods and services in FYI 1 . These companies have further been classified into 19 broad industry groups.

We use net foreign exchange earnings of these companies s a proxy for their fore exposure. Based on trends observed in FYI 1, we rank industries on their expected fore risk, in the absence of hedging. Results Of the 19 industries, 4 have been net gainers in fore earnings, the highest being recorded 6 sub-industries in the chemical industry and 1 sub-industry in non-metallic mineral industry have been identified Impact of exchange rate on Industry By Hinduism by IT, followed by textiles, two wheelers and commercial vehicles.

The remaining industries have registered net fore earnings outgo, the highest in chemical industries and lowest in passenger vehicles. Higher raw material import cost has been the prime contributing factor to this trend. These vulnerabilities remain in the absence of unhinged positions. Fore Earnings With a depreciating rupee, the value of exports would naturally increase. Hence export-oriented industries would post gains in fore earnings.

Of the 19 industries under consideration, export earnings contribute more than 99% to fore earnings in 8 industries. Table 1 lists the top 10 fore earning industries. Netting fore earnings for fore expenditure – IT and Textiles emerge as clear gainers against a depreciating rupee. Table 1: Top 10 Fore Earners (US \$ Mn) Industry/ sub-industry Chemicals Petroleum prod Non-metallic min. Ferrous metals Textiles Non-ferrous met. Mining Construction Non-elect. Mach.