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Weak rupee, high oil price pinching? Here is how to take cover in stocks

BY RAHUL OBEROI, ETMARKETS.COM | UPDATED: SEP 10, 2018, 12.51 PM IST

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A crumbling **rupee** must be pinching your pocket, with petrol and diesel prices continuing their upward journey following a surge in crude **oil** prices.

The local currency scaled a fresh record low 72.67 against the dollar in afternoon trade on Monday. Equity benchmark Sensex plunged over 400 points, or 1.09 per cent, to 37,970.

Petrol prices have already crossed the Rs 80 a litre mark in Delhi and Rs 88 a litre in Mumbai, while diesel traded at nearly Rs 73 in Delhi and above Rs 77 in Mumbai.

Opposition Congress and the Left Front separately called **Bharat bandh** to protest against the soaring fuel prices and a weak rupee on Monday, disrupting normal life in some parts of the country.

On the industry front, rising prices of crude and its derivatives are expected to raise raw material cost across industries, which may impact their bottom lines going forward.

Some of the key sectors impacted negatively by a falling rupee include oil marketing companies and aviation players. Paint and packaging players are bearing an indirect impact of rising crude oil prices.



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Till now, the overall impact of a falling rupee on the benchmark equity indices has been limited. While the rupee has depreciated nearly 13 per cent on a year-to-date basis, the 30-share BSE Sensex has rallied some 13.5 per cent. The trend seen in August-September is even more interesting, as the rupee depreciated 4.8 per cent while Sensex rose 2.3 per cent.

However, there are sectors as well as select companies that are being impacted negatively by the depreciating rupee. At the same time, there are those which are likely to benefit from the same. Analysts said this correlation needs to be viewed more at a granular level than macro level.

"Our advice to investors, specifically for retail investors, is to adopt a staggered approach (over next 12 months) for investing. By following a staggered approach, you participate in the ongoing rally while providing an averaging opportunity in case of any significant unforeseen correction," said Ankur Maheshwari, CEO, Equirus Wealth management.

Given the sharp rupee depreciation, this may be an opportune time for non-resident Indians (NRIs) to remit money to India. For resident Indians, planning overseas education for their children may evaluate investing in offshore products.

"Offshore products help investors enhance portfolio diversification through exposure to global markets and in different currencies as part of overall asset allocation. Investors can avail of RBI's liberalised remittance norms (\$2,50,000 per year) for investing in offshore products," Maheshwari said.

The benchmark 10-year bond yield is hovering around 8.11 per cent, highest since November 2014. Lakshmi Iyer, Chief Investment Officer of Debt and Head of Products, Kotak Mutual Fund in a recent interaction with ETNow said when yields are at elevated levels, strategies like fixed maturity plans do exceedingly well, because investors get the opportunity to lock into these funds for a longer duration. "You are mitigating interest rate risk there," she said.

A depreciating currency will impact the economy adversely, as India imports around 83 per cent of its crude oil requirement. A surge in the oil import bill can widen fiscal and current account deficits.

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Equity investors should keep an eye on the export-oriented companies. Indiabulls Ventures in a report said the IT sector will be the primary beneficiary of a depreciating rupee. Also, most of the IT companies today trade at reasonable valuations. The brokerage is bullish on TCS, [Infosys](#), Zensar Technologies and FirstSource Solutions.

Indiabulls Ventures said the pharma sector tends to benefit from a depreciating rupee, as the companies mainly export medicines to international markets. The overhang of USFDA vigil on the pharma companies also seems to be easing and there has been a healthy correction in this space over the past many quarters.

Indiabulls Ventures feels pharma stocks are trading at attractive valuations, and they should benefit from a depreciating rupee. "We are bullish on stocks like Cipla, Glenmark Pharma and Dr Reddy's," the brokerage said.

There are many companies that predominantly earn in dollar terms, although the sector might not focus purely on exports. Many textile companies sell their products directly to the US and North America and thus companies like Welspun India, Trident and Indo Count Industries can potentially benefit from a weak rupee, said Indiabulls Ventures.

Upstream companies tend to sell crude to the oil marketing companies like HPCL, BPCL and IOC in dollar terms. As crude trades above \$75 a barrel, companies like ONGC, [Oil India](#) and [Reliance Industries](#) should benefit from a depreciating rupee and rising crude prices, Indiabulls Ventures said.

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