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Cross-sectoral trends and outlook

Rupee depreciation – A Bird's-eye View

JULY 2022

Sliding INR, though better than EM peers; impacts each sector differently

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As global currencies tumble against the USD, INR stands out on its outperformance. Robust FDI inflows, coupled with RBI's counter measures, seem to be the primary contributors of this outperformance

However, there's a risk that this outperformance may not last long, if global macro conditions remain uncertain.

We analyse sectoral impact across scenarios of a stable to worst case for levels of INR

- Over the last decade, sharp rally in crude and other commodity prices has been one of the key contributors for INR weakness (against USD). India being a net importer of large commodities, INR weakness tends to aggravate. A similar situation is emerging currently, with the INR touching new lows in the past couple of weeks.

- However, USD has rather gained against almost all the currencies, with the dollar index at an all-time high. The INR has outperformed most of the developed and emerging market (EM) currencies, helped by robust FDI inflows and the RBI's recent counter measures such as facilitating forex trade settlements, increase in ECB limits, etc.

- The risk of the INR catching up with its peers' under-performance against the USD cannot be ruled out, considering the widening trade deficit and aggressive rate hikes by the US Federal Reserve. On the other hand, if the Government is able to control the damage through various measures, the INR may have a reverse movement. ICRA has analysed the impact of extreme volatility in the INR through various scenarios (the INR pegged at 85 being the worst case) for the sectors most impacted.

- Sectors such as IT services, metals, upstream oil, etc, are likely to be benefited the most from the INR weakness. However, there are other sectors like pharma, chemicals, airlines whose margins got affected due to higher input cost because of import dependency. Sectors like textiles and fertilisers remained unaffected different reasons like depreciation in other currencies and Government support

Rising import bills, FII outflows put pressure on INR

Exhibit: Imports in USD million

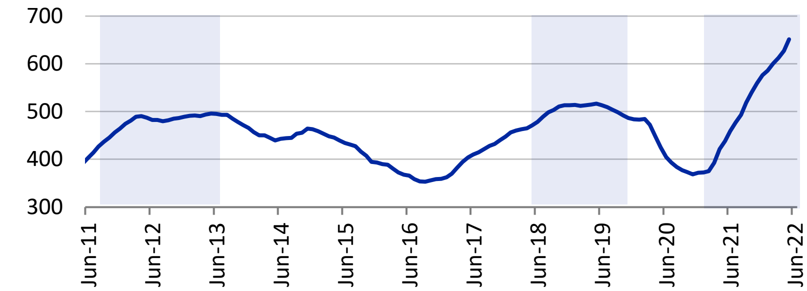


Exhibit: FII in USD billion

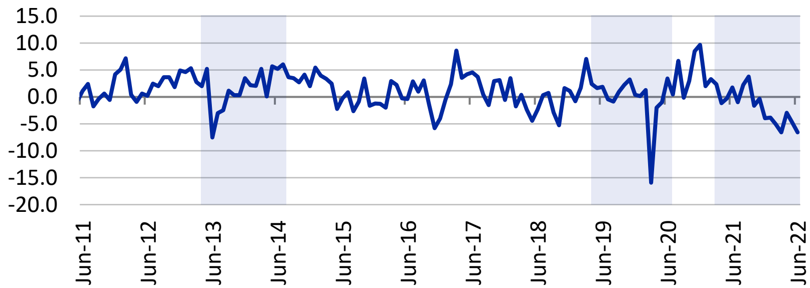
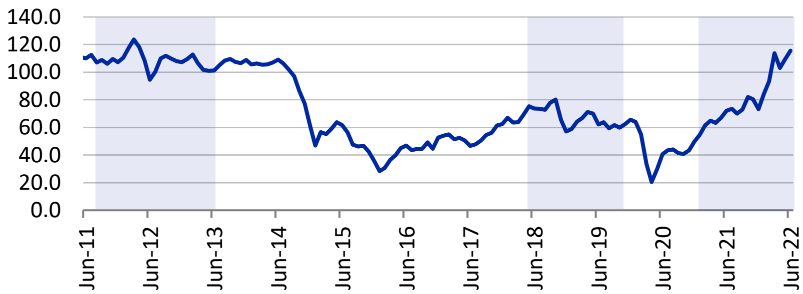


Exhibit: Crude oil prices in USD/Barrel

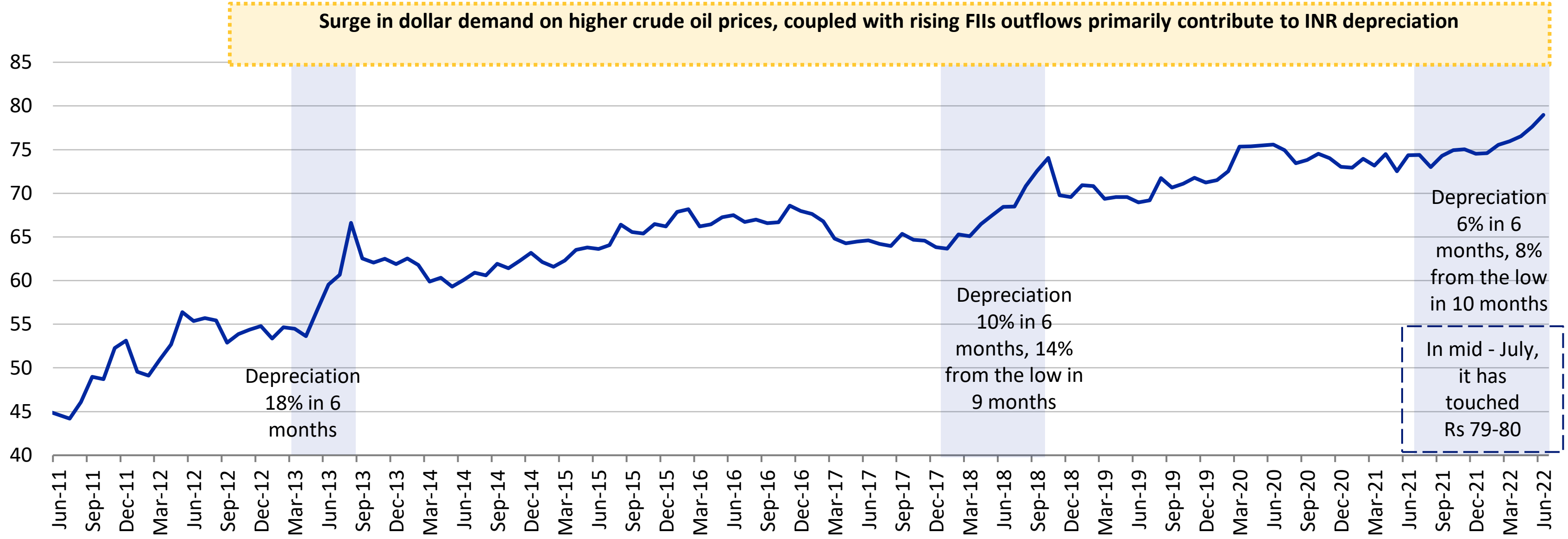


- In two instances over the past decade, higher crude oil prices have resulted in aggravating the INR's weakness against the USD, considering India's major dependence (~80%) on oil imports.
- The above, along with surge in other commodity prices, usually results in higher FII outflows, as demand for USD surges

Source: Bloomberg, NSDL, CSDL, RBI, ICRA Research

INR depreciation seems milder against historical trends

Exhibit: USD INR trend



- Depreciation in the INR has been relatively mild, at ~6% over the last 6 months, compared to trends seen at two instances over the last decade
- Rather this time the INR has been one of the best performing currencies among its global peers

Source: Bloomberg, ICRA Research

Analytical Contact Details

Rohit Ahuja	**Madhura Nejjur**
Head – Research and Outreach	*Assistant Vice-President*
Rohit.ahuja@icraindia.com	Madhura.nejjur@icraindia.com
+91 22 6114 3414	+91 22 6114 3417

Business Development/Media Contact Details

L. Shivakumar	**Jayanta Chatterjee**	**Naznin Prodhani**
Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!