

## Impact of Crude on Indian Equity Markets

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The shift in the asset class takes the liquidity out of the equity markets and increases the liquidity in the debt market.

Upstream companies which deal with petroleum products as its final output like ONGC & Reliance will tend to benefit out of the rising crude prices.

Downstream companies like HPCL, BPCL and IOC will tend to hurt from the rising crude prices.

Aviation companies, which have fuel expense as its major operating expense, will be negatively impacted out of rising crude prices.

Investors should look for bottom-top approach rather than top-bottom approach and should look for key ratios like ROE, ROCE, PE ratios.

Rising crude prices is one factor which is very closely watched by the market participants. India is the largest importer of petroleum products. As crude price inches north, it will raise the inflation pressure in the economy. Higher inflation rate is directly related to tightening monetary policy. Higher crude prices will have an adverse reaction on the rupee. All these factors will hamper our current account deficit which will drag the equity markets down.

### Rising Crude prices - really justified or is it psychological

The effect of rising crude prices on Indian equities is actually justified. As crude is one of the primary products of India's import, the current account deficit will tend to widen with the rising crude prices. World over rising crude prices will increase inflation and will force the countries central banks to adopt tightening monetary policy. World-over tightening of monetary policy will impact the global markets which will have a cascading impact on the Indian equity markets. As we are witnessing tightening monetary policy world-over, we are also witnessing a shift in the asset class. The shift in the asset class takes the liquidity out of the equity markets and increases the liquidity in the debt market. This will drag the equity markets down which are justified more than the psychological factor.

### Sectors and companies that would benefit from rising crude oil prices.

Upstream companies which deal with petroleum products as its final output like ONGC & Reliance will tend to benefit out of the rising crude prices. As India is a large importer of crude, rising crude prices will depreciate the Indian rupee as a result export oriented companies will also tend to benefit. As a result IT and Pharma sector will benefit from the weakening rupee.

### Sectors and companies that would be hurt by rising crude oil prices

Downstream companies like HPCL, BPCL and IOC will tend to hurt from the rising crude prices. Aviation companies which has fuel expense as its major operating expense will be negatively impacted out of rising crude prices. Rising crude prices tend to impact at the EBITDA level thereby shrinking profits of these companies.

### Small/Retail investor's strategy in a situation of rising crude prices

During the time of rising crude prices, small/retail investors can search for stocks which are not related to crude factor. Retail investors should look for bottom-top approach rather than top-bottom approach. Investors should go for companies like M&M, Glenmark Pharma, Marico, RBL Bank, DHFL, GNFC, Parag Milk which are not related to crude prices volatility and has good fundamentals like less PE, high ROE & ROCEs.

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