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Can rupee depreciating be a sign of worry for the Indian Markets?

The Macro Scenario

Tensions between the U.S. and Turkey have been escalating after the U.S. imposed sanctions against the Turkey. The move helped sink the Turkish lira even more, while the currency has tumbled approximate 70% during a series of questionable fiscal and monetary decisions by President Recep Tayyip Erdogan. The turkey Lira has dragged the emerging countries currency against the dollar which resulted in Indian INR depreciating to life time low.

Impact on Indian Equity Markets

The Indian equities will have a cascading impact on the broader indices if the tension escalates in Turkey but the macros of the Indian equities looks decent as a result this correction should be taken as a buying opportunity. The rupee depreciated 10% in a month on account of the lira. But for the first time in the history the Indian INR has depreciated to its life time lows and at the same time the Indian equity markets is trading at its life time highs. The depreciating currency will impact the Indian economy adversely as India is an importing country. The falling rupee will result in an increase in its oil imports as a result can widen our fiscal and current account deficit. The Q1FY19 earnings season has come to an end and we have witnessed good recovery in earnings across the board which infuses confidence in the micro economics of the country. The IIP data has also come to 4 months high for the month of July at 7% and CPI and WPI has also come lower at 5.09% and 4.17% respectively for the month of July which is lower than the street expectation.

Sectors to benefit out of weakening rupee

The rupee has depreciated to its all-time low and also breached Rs 70 to a dollar which can benefit various sectors. In an era of depreciating rupee, we can capitalise on the sectors which will benefit out of the rupee depreciation.

Turkish Lira slipped 70% in a year.

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IT Sector - Bullish on Stocks like TCS, Infosys, Zensar Tech and FSL.

Pharma Sector – Bullish on Stocks like Divis Lab, Glenmark Pharma and Aurobindo Pharma.

Textile Sector – Stocks like WELSPUN India, Trident and Indo Count will tend to benefit.

Oil & Gas – Stocks like ONGC, Oil India and Reliance will benefit out of the rising crude and depreciating rupee

1. **IT Sector** – Since most of the companies in this sector deals with export of IT services, IT sector will be the primary beneficiary of the depreciating rupee. Also most of the IT companies are trading at reasonable valuations; hence we are bullish on stocks like TCS, Infosys, Zensar Technologies and FSL.
2. **Pharma Sector** - Pharma sector also tends to benefit out of the depreciating rupee as it exports its medicines in the international markets. The overhang of USFDAs on the Pharma companies also looks to narrow down and with healthy correction in the sector from past many quarters, we feel pharma companies are trading at attractive valuations, hence Pharma stocks will benefit out of the depreciating rupee. Hence we are bullish on stocks like Cipla, Glenmark Pharma and Dr. Reddy.
3. There are many companies which predominantly earns in dollar terms although the sector might not focus purely on exports.
 - A. *Textile* - which sell the products in the international markets. Many textile companies sell their products directly to US and North America as a result we are bullish on the entire textile space due to falling rupee. Hence stocks like Welspun India, Trident and Indo Count Industries will tend to benefit on account of falling rupee.
 - B. *Oil & Gas* - As the upstream companies tend to sell crude to the OMCs like HPCL, BPCL and IOC in dollar terms and crude is also trading above 70\$ / barrel, hence companies like ONGC, Oil India and Reliance will tend to benefit out of the depreciating rupee and rising crude prices.

Consumption Sector- Vaibhav Global will benefit out of the falling rupee.

As rupee is trading at its life time highs, we believe the above mentioned companies will earn good topline as a result is likely to report good set of 2QFY19 numbers.

C. *Consumption* - Many companies in this space focus on domestic market but Vaibhav Global is an exception to the sector. It exports its goods in the international markets of the US and the UK. Hence we feel Vaibhav Global will benefit as it earns major of its revenues in foreign currency.

Outlook-

As the rupee continues to slide we feel one must capitalise on the above opportunities which will help gain good returns even when the broader indices are falling. As we see rupee is trading at its life time highs, we believe the above mentioned companies will earn good topline as a result is likely to report good set of 2QFY19 numbers.

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