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29,357 ▲ 31.0USD/INR
66.24 ▲ 0.02

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Feeling the heat! Rupee likely to depreciate 2-5% over the long term

By ECONOMICTIMES.COM | 19 Apr, 2016, 11.15AM IST

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The rupee is likely to depreciate around 2-5% CAGR over the long term, says Vikas Gupta,

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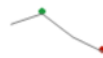
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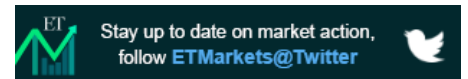
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CIO, ArthVeda Capital. In an interview with Kshitij Anand of ETMarkets.com, he said the trend would see fluctuations depending on the near-term outflow and inflow of FII capital.
Edited Excerpts:-



ETMarkets.com: What is your call on the rupee, which has appreciated against the US dollar in recent times? Also, how should investors play IT and pharma sectors where currency movement plays an important role?

Vikas Gupta: The rupee is likely to depreciate at around 2-5% CAGR over the long term. However, this trend will fluctuate depending on near-term outflow and inflow of capital. Currently, [IT stocks](#) are undervalued and, hence, even if the rupee is at fair value, one gets a good entry point. If the rupee depreciates against the dollar, there is a possibility of an extra boost to rupee earnings for the IT exporters even with stable dollar earnings.

Further, rupee depreciation makes Indian IT exporters more competitive and, hence, they can grow dollar revenues as well as earnings. Pharma is more likely to be overvalued at present, but can still benefit from rupee depreciation.

ETMarkets.com: Do you think RBI was right in slashing repo rate by 25 bps or should it have been 50 bps? How are you looking at banks as a theme after the RBI policy? Will the measure adopted by the central bank boost top line as well as a bottom line of banks?

Vikas Gupta: We think a 50 bps rate cut is what the market was expecting and would be happy with. However, the Reserve Bank of India (RBI) has to look at other issues besides [capital market](#) and economic growth in a balanced way and it might not have had room to go for a 50 bps rate cut.

It needs to worry about currency depreciation, capital outflow, forex reserves, [inflation](#) and optimal liquidity. We think banking as a sector is being evaluated on 'projected' NPAs in the worst case outcomes.

In general, one should wait out the actual play of NPA over next few quarters and the valuations at which the recapitalisation happens should be viewed carefully. In some exceptions, especially in private banks, one can see if the negative sentiment is justified or is overdone.

The rate cut could boost top line and bottom line in terms of the contribution from mark-to-market increase in valuations of long-term debt holdings. But there will be other pressures on top line and bottom line, which are likely to be of much higher impact but not closely related to RBI's rate cut.

ETMarkets.com: The stock market is a slave of earnings. Do you think March quarter earnings are something that can boost the market going forward? What is your house call and which all sectors you think will be able to outperform?

Vikas Gupta: If March quarter earnings come out better than expected, then that will definitely boost the market in the near term. It also signals that things are getting better faster and, hence, it would provide a slightly longer duration boost to the market.

Our sectoral overweights are in technology, cash-rich PSUs in basic materials, auto and auto ancillaries.

ETMarkets.com: What is your call on the market for the next 12 months? Some global brokerage firms have revised their targets downward, while some have targets below current levels? Any major trigger (global or domestic) which can fuel a rally or crash in the market?

Vikas Gupta: We do not agree with the expectations of market levels, which could be below the current level 12 months from now. While any level is possible, it is unlikely given the strong economic fundamentals and stable to growing sales and earnings expected from domestic firms.

A good economic performance or high revenue and earnings growth in Europe can boost the markets worldwide. An earnings surprise for India could also boost the markets significantly.

The downside risks are both political as well as economic for global markets and there could be some spillover effect on the Indian capital market in the immediate aftermath. However, India will recover faster than its global counterparts on the back of its stable domestic economy and improving quarterly earnings can catalyse this growth.

ETMarkets.com: What would be your top five stock picks that you think can become multi-baggers over the next 2-3 years?

Vikas Gupta: Coal India, Zensar, Tech Mahindra, Goodyear Tyres and Indraprastha Gas.

ETMarkets.com: There was a drop in average AUM of equity funds after 10 quarters owing to mark-to-market losses. The inflows into mutual funds seem to be slowing down. Is that something which should be taken as a warning sign because DIIs kept the momentum going when FIIs were selling?


Vikas Gupta: Given that the market is no longer moving upward, it is not surprising that inflows into mutual funds have slowed down. While there will be a near-term impact if the DIIs do not have enough new flows to keep buying when FIIs go into sell mode, the market movement over the longer duration would depend on fundamental performance and not on DII vs FII flows.


As soon as the fundamental performance of the market is strong, FII allocations to India are likely to increase, thus boosting the market and this upward trend is likely to attract flows from domestic investors into DIIs.


(Disclosures: The author owns several of the stocks mentioned here in his personal as well as client accounts. Any mention of stocks, sectors, securities or other assets mentioned in this interview are not recommendations to buy or sell or hold, nor can they be considered as advice.)


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