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Industry

RISE MORE, SAYS INDIAN INDUSTRY ON YUAN

India Inc benefits, for now, from the Chinese currency's untethering, is the feeling

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The appreciation of the Chinese currency, the yuan or renminbi (RMB), augurs well for us and will not impact business with China in the near term, especially for companies in the chemical, pharmaceutical and power sectors, feel industry circles.

The yuan had appreciated by 1.3 per cent against the dollar in the past 12 months. Last week, the People's Bank of China set the daily fixing at 6.7625 to the dollar, the yuan's strongest central parity level since the PBC began publishing the daily fixing in 1994, according to agencies. China had committed to greater currency flexibility on June 19 and since then, the currency had appreciated 0.83 per cent.

Leading economists who participated in a recent survey by industry body Ficci on the yuan's appreciation had felt that over the next 12 months, it might appreciate by about five per cent.

Drug sector unfazed

Indian drugmakers, who import nearly 65 per cent of their raw materials (bulk drugs or active pharmaceutical ingredients) from China to make finished drug formulations, see minimal impact in the near future. The Pharmaceutical Export Promotion Council (Pharmexcil), says the currency appreciation alone cannot have a major impact on India's drug manufacturing.

"The Indian currency is prone to more fluctuations than the Chinese one. In that sense, we are prepared to face the effect of yuan appreciation. It can have only a minimal impact on Indian drug industry," said Smitesh C Shah, chairman of Pharmexcil.

The Indian domestic drug market has a size of ₹58,000 crore and another ₹42,000 crore worth of drugs are exported from India. Around 3,000-4,000 Chinese bulk drug makers and traders supply over 65 per cent of bulk actives required to make these drugs.

"Most of the contracts of drug companies are in dollars. The margin difference between prices of intermediaries and APIs imported from China and those manufactured in India is not very significant and will not have an impact on our drug industry," said Sujay Shetty, head of life sciences, PricewaterhouseCoopers.

The yuan's strengthening will make Chinese imports expensive and the Indian chemical industry will become more competitive, said Jai Hiremath, President of the Indian Chemical Council and vice chairman and managing director of Hikal Ltd.

"The Chinese currency is believed to be undervalued by around 20 per cent and at the moment, India is at a disadvantage," he noted.

In May, China was the largest source of imports for India, about ₹14,891 crore, constituting 12 per cent of our overall imports. As against this, export of goods from India to China during the same period was worth only ₹4,176 crore, according to the provisional data of the Directorate General of Commercial Intelligence and Statistics. The trade between the two countries is estimated to touch $60 billion (₹2.8 lakh crore) this year.

Power

India's power sector, which is planning to add close to 200,000 Mw by 2017, is also not worried about the yuan's appreciation. "Most of the existing contracts with Chinese power equipment companies are in dollars and they will not be impacted. If contracts are in RMB, it will be an issue, but any such fluctuations will impact only future contracts," said J Suresh Kumar, Chief Financial Officer of Lanco Infratech.

It is estimated that power equipment for about 50,000 Mw, or 33 per cent of installed power capacity in India, has been supplied by Chinese power producers. The Chinese companies are also expected to bag a good share of the orders to come.

Even with a proposed import duty and a higher yuan, imports of power equipment from China or other countries will continue, since India has to add 20,000 Mw every year. It will be difficult for domestic manufacturers to meet the domestic demand, said Suresh Kumar.

Ravi Uppal, managing director of L&T Power, recently told Business Standard the low value of the Chinese currency was a major reason for many Indian power producers to opt for cheap Chinese equipment.

The Ficci survey in August said appreciation of Chinese currency could help correct, at least partially, the growing trade deficit with China. Further, it will benefit manufacturing units in the heavy engineering and power segments to become more competitive vis-à-vis imports from China.

Further, an appreciating yuan will boost Indian investments in China and possibly open new markets for service sector exports. China's recent decision on yuan flexibility is a conscious effort to invigorate domestic demand or a move to douse trade tensions, said the survey.