

**भारतीय रिज़र्व बैंक****RESERVE BANK OF INDIA**वेबसाइट : [www.rbi.org.in/hindi](http://www.rbi.org.in/hindi)Website : [www.rbi.org.in](http://www.rbi.org.in)ई-मेल email: [helpdoc@rbi.org.in](mailto:helpdoc@rbi.org.in)

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

August 17, 2015

**RBI Working Paper Series No. 4:  
Is Exchange Rate the Dominant Factor  
Influencing Corporate Profitability in India?**

The Reserve Bank of India today placed on its website, a Working Paper\* titled "[Is Exchange Rate the dominant factor influencing Corporate Profitability in India?](#)" The paper is written jointly by Shaoni Nandi, Debasish Majumder and Anujit Mitra of the Department of Statistics and Information Management, Reserve Bank of India.

Indian corporate sector has witnessed a significant growth over last two decades and has become an integral as well as key strategic part of the economy. In this paper, corporate performance has been analysed to assess the significance of firm specific and macroeconomic factors on corporate profitability under two distinct regimes.

With the rapid development of the corporate sector since 2001, factors influencing profitability have altered. During 2002-2007, corporate profitability was mostly influenced by firm-specific indicators such as firm size, leverage, liquidity etc. However, since 2009, the domestic economy became more integrated with global economy and also more sensitive to external shocks. The importance of macroeconomic factors namely exchange rate, interest rate and the WPI inflation rate to determine corporate profitability has also amplified. Among the macroeconomic indicators, the importance of exchange rate of USD/INR has increased manifold in the recent times. When the rupee appreciates, corporate profitability is likely to get a short-term boost, though the long-term impact would depend on import and export elasticities. In the post crisis period, many large private non-financial corporates in India have also been behaving like financial intermediaries to take advantage of the easy liquidity abroad. This has amplified the impact of exchange rate volatility on their profitability. Thus, when forex market is under stress, it is observed that the exchange rate becomes the only critical factor to determine corporate profitability, dominating all other factors. In other words, in a scenario of persistent large depreciation of domestic currency, the performance of the corporate sector is expected to be impacted negatively, which may in turn affect the banking sector.

*\* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*

**Alpana Killawala**

Principal Chief General Manager