ANALYSIS ON FOREIGN EXCHANGE RISK MANAGEMENT WITH REFERENCE TO RELIGARE ENTERPRISES LIMITED

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ABSTRACT

A foreign exchange risk management is a set of procedures that allows a company to achieve its goals in terms of managing currency risk. It is based on the business specifics of the company, including its pricing parameters, the location of its competitors, the weight of FX in the business. A foreign exchange risk management also takes into account the company's sources of information, IT systems, degree of cash flow visibility, and key decision makers (their risk tolerance, their familiarity with different risk management styles. More than four years on from the 2008 financial crisis, the global macroeconomic situation remains extremely uncertain. The US economy is achieving slow growth, but wages and unemployment remain problematic. In Europe, other than in Germany and the Netherlands, the debt crisis appears almost unsolvable. Post-bailout Greece still owes more than 170% of gross domestic product (GDP) despite debt forgiveness; Spain's unemployment rate is over 25%, with its banking system nearly insolvent and so far refusing help. The results from the analysis concluded that the implicit dollar method will significantly preserve the dollar profitability exporters. The employees and managers of exporting firms will be paid implicitly in dollars. The cost to the company will be in dollars. But the pay-out will be in rupees and at the prevailing exchange rates. To overcome these problems exporters should make good governance by making available superior human, social and business infrastructure even if the tax rates are high. Good governance lowers the costs of operations and lowers the aggregate costs of doing business.

Keywords: Risk management, foreign exchange, GDP, Currency, Cash flow.

I. Introduction

International Monetary System

The international monetary system consists of institutions and the financial architecture through which cross-border payments are made. Payments are made on the basis of exchange rate, which expresses the value of one currency in terms of another. Countries have different exchange rate systems and country chooses the foreign currency against which its currency is expressed.

Foreign Exchange Market

The foreign exchange market is the market where the currency of one country is exchanged for that of another country and where the rate of exchange is determined the genesis of foreign exchange market can be traced to the need for foreign currencies arising from:

1. International trade
2. Foreign investment
3. Lending to and borrowing from foreigners

Exchange Rate Determination

Currently, major economic powers in the world (USA, UK, European Union, and Japan) have exchange rates that are fixed by market forces, i.e., the demand and supply of foreign exchange in the foreign exchange market. Theoretically, the value of a country's currency in terms of the currency of another currency (or the exchange rate) is a function of demand and supply. The demand for foreign exchange arises because of imports, FDI outflows and portfolio investments overseas. The supply of foreign exchange arises from exports, FDI inflows and overseas portfolio investment inflows.

The global financial crisis and the on-going health and geo-political issues across the world are causing a lot of tension in the world trade. At this point in time analysing the foreign exchange fluctuations from the perspective of risk and return are of immense importance and are going to lead the world towards a more sustainable and susceptible free trade among different nations.

II. Review of literature:

Prakash Basanna (2019) Foreign exchange risk management (FERM) entails utilizing both external and internal methods like forwards, options, futures, plus swaps which are labeled as currency derivatives. The firms with greater development opportunities and tighter monetary constraints tend to be more willing to utilize currency derivatives. The Forex market offers different derivative instruments to hedge against currency exposures including currency forwards, futures, options, & swaps.

Dr. Rajesh Kumar (2014) with the globalization of Indian economic climate the swap as well as investments have raised along with other nations. All such developments mix to give an increase to cross-currency money flows. The company businesses in India came across currency risk exposure as well as demand for use of modern hedging strategies has arisen for guarding themselves against attendant risks. It's in this particular context that an evaluation of the perceptions as well as issues of the textile exporters within Ludhiana, in relation to derivatives and of the initiatives of theirs in tuning the organizational set up to get as well as follow the requisite abilities in risk management, assumes significance. In this particular research it's discovered the textile exporters within Ludhiana are utilizing hedging resources to conquer the danger of loss as a result of change in international exchange & they're pleased with what they're doing & favour making use of the same to reduce the foreign exchange risk of theirs.

Dr. S. Nagaraju (2018) A Multinational business with high currency danger is apt to experience fiscal difficulties which are likely to experience a disrupting on the working edge of the company. A disrupted economic state is apt to lead to the issue of negative bonuses and also weakens the commitment of different stake holders. Overseas exchange coverage as well as chance is idea that is important in the study of global finance. It's the awareness of the house currency importance of asset, debts, or maybe operating incomes to unexpected modifications in the exchange rates. Exposure is present whether the house currency values on an average in a specific fashion. Additionally, it exists where many currencies are involved. Foreign exchange danger is definitely the variance of the house currency worth of products arising on account of unexpected modifications in the exchange rates. The derivative instruments including forwards, futures & choices are used-to hedge against the international exchange danger of the Multinational corporations. The initial derivatives contract of International Finance is the' Forward exchange contract'. Forward Foreign exchange is a popular and traditional threat management tool to get protection against adverse exchange fee moves.

Bulawayo (2016) One of the primary key challenges for hospitality and tourism in the Sub Sahara Africa (SSA) region is currency behaviours as well as Exchange rate routine options. If a business engages in global business international currency danger management becomes an important element of doing business and the tourist industry of Zimbabwe wasn't spared on this problem. The goal of the analysis would be to look at the international exchange (forex) Exposure Management Practices by Zimbabwe's tourism as well as hospitality businesses. The study was done by way of a survey on twenty-eight operators in Zimbabwe.

Taufil Mohammad (2017) Exposure to international exchange fee danger is now a progressively vital issue to investors as well as monetary supervisors the same with the globalization of marketplaces, moreover especially in the wake of the happenings which came about in the Asian monetary markets. The effect of international exchange fee exposure on the valuation of the firm continues to be the topic of empirical literature for many years. In the latest times some empirical literature has additionally emerged. This particular analysis evaluation the reports that check out the contact with currency risk of various economies. Both developing as well as developed economies has been governed by this particular study.

A. Marshall (2018) The objective of this particular paper is usually to concurrently survey the foreign exchange danger methods of big UK, Asia and USA Pacific multinational businesses (MNCs). It examined if international exchange risk management methods differ worldwide, which includes initially a big test Asia Pacific MNCs. From 179 (thirty %) functional reactions it's proven that you will find statistically significant local disparities in the value as well as goals of international exchange risk management, the focus on translation and financial exposures, the internal/external methods employed in managing international exchange danger and also the policies in coping with financial exposures.

B. Chandrasekhar Krishnamurti (2013) **T**he reason for this particular analysis is examining the international exchange fee exposure of household companies in the United Arab Emirates (The ramifications and use) of that coverage for the market value of those companies, since the outcome of competition as being a determinant of exchange rate exposure. The justification for this particular research is the fact that the UAE has an open economy with a very high per capita income along with a large yearly industry surplus. Additionally, the World Economic Forum issued the Global Competitiveness report of it’s for the entire year 2010 2011 in that the UAE was the one Arab nation which was in the best club of nations which have found an increment in promoting improved and new ways for creating the economies of theirs. Nevertheless, due to the indirect dynamics of international exchange fee exposure for domestic or local companies, the supervisors of these companies are reluctant to participate in hedging

C. ANGELA NANJALA MUMOKI (2009) Considering the banking market will be the backbone of the Kenyan economy, which it's a crucial car which links the Kenyan economic climate to the majority of the planet, that comes with it many consequences especially so the international exchange danger, adoption of proper risk management tactics as well as methods is therefore an important component of an effective banking system in Kenya. A lot of the standard tools used-to hedge currency danger, like futures, swaps as well as choices contracts, are possibly unavailable in emerging markets or even, where available, are traded in ineffective markets and illiquid, making the assortment of things out there very limited.

D.Chris Becker (2006) The Australian economic system has tested resilient to sizable exchange fee fluctuations over the post float time. In part this could be linked to economic institutions as well as non-financial firms learning to adjust to swings in the Australian dollar. This has integrated the increased utilization of fiscal derivative contracts to hedge the foreign exchange exposures of theirs.
Aline Mulle (2005) We find proof that is strong in favour of the presence of economies of scale within hedging which European firms do hedging applications in reaction to tax convexity. Our outcomes often help economic distress motives to hedge, though no proof is in favour of company expenses connected motives

III. Need for the study:

- Identifying the factors that cause difficulties in dealing with foreign exchange risk to comment on the fluctuations caused in USD/INR during the study period.
- Analysing the relationships between the extent in the use of the various foreign exchange risk management techniques thus making foreign exchange risk management easier for both institutional and individual investors.
- Gaining knowledge about foreign exchange risk management and its impact factors would enable us in understanding the market better.
- Foreign exchange risk is a major risk to consider for exporters/importers and businesses that trade in international markets.

IV. Scope of the study:

- To study the Foreign exchange risk Management the data is confined to five years (i.e.) 2017-2022.

- Location of the study is confined to Religare Securities Ltd (RSL)-Hyderabad division.
- The analysis tools include, Standard deviation, rate of return, average.
- To sample data Comparison between the high currency rate fluctuation of USD and EURO from 2017-2022.

V. Objectives of the study:

➢ To discuss the process of foreign exchange rate determination and factors affecting the currency exchange rates.

➢ To analyse the exchange rates between US dollar and Indian rupee for the period 2017-22.

➢ To find out reasons for fluctuations in exchange rates of US dollar and Indian rupee for the period 2017-22.

VI. Research methodology:

Data Sources: The requisite data for the study was collected through secondary sources and the sources include,

- Company Website
- Published works of company
- Trading websites.

Duration of the study: The study is conducted for a period 2019-2022

Sample Size: The sample included in the study is USD/INR.

Data Analysis tools: The tools used to analyse the data include,

- Standard deviation.
- Return percentages.
- Graphs

VII. Limitations of the study:

- The major limitation of the research was that the response rate was too small for any significant statistical inference to be derived from the result.
- Due to the financial constraints and the time available for this study, a second mail out was not carried out to lift the response rate.
- For these reasons, an in-depth analysis could not be done as expected. Therefore, the study only focused on the foreign exchange risk management practices in the manufacturing firms.
- The study is confined to analyse the relationship between the firm specific and the risk management practice specific variables.

VIII. Empirical Results:

This section is dedicated to present the results of Data analysis for the study duration,

Date	Price	Open	Return	Average	D	D*D
Jan-17	68.07	68.08	-1.84	0.4	-2.24	5.017
Feb-17	66.94	67.79	-0.56	0.4	-0.96	0.92
Mar-17	65.08	67	0.94	0.4	0.54	0.29
Apr-17	64.53	64.96	0.33	0.4	-0.07	0.004
May-17	64.73	64.42	1.99	0.4	1.59	2.52
Jun-17	64.82	64.69	-0.20	0.4	-0.6	0.36
Jul-17	64.41	64.82	0.60	0.4	0.2	0.04
Aug-17	64.08	64.37	3.78	0.4	3.38	11.4
Sep-17	65.51	64.15	-1.33	0.4	-1.73	2.99
Oct-17	64.99	65.78	-0.15	0.4	-0.55	0.30
Nov-17	64.65	65	1.60	0.4	1.2	1.44
Dec-17	64.06	64.72	-0.38	0.4	-0.78	0.60
						25.935

Table No: 1.1 USD/INR from 1st JANUARY-17to 31st DECEMBER-17

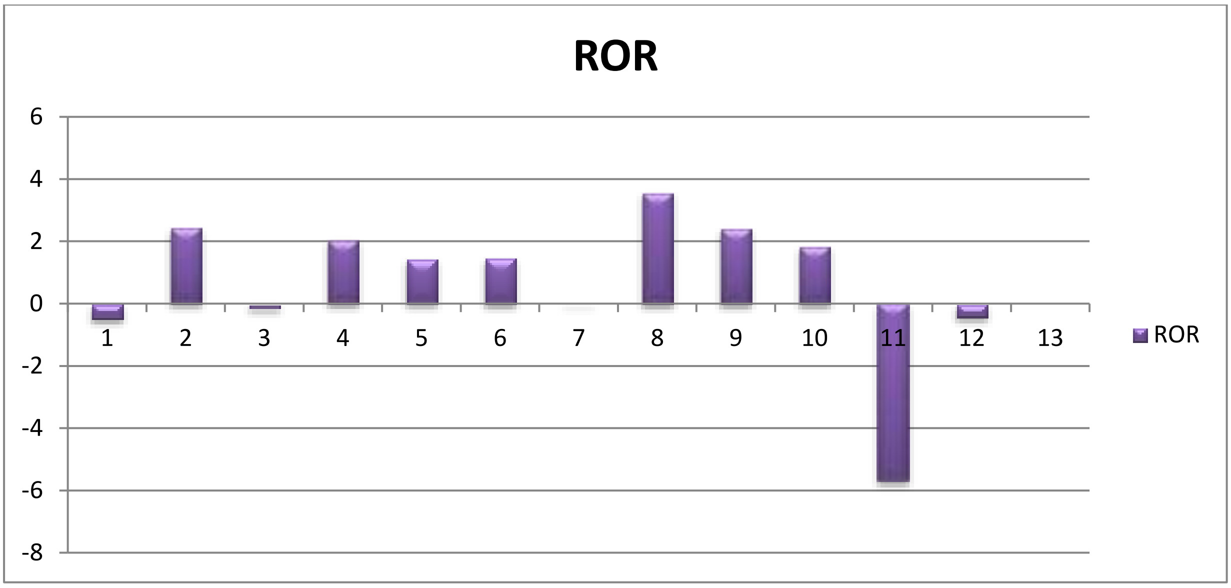
Source: Author's Compilation

Rate of Return (ROR) $= \frac{close-open}{open} \times 100$; **Jan-17** $\frac{62.02-63.18}{63.18} \times 100 = -1.84$

AVAREGE $= \frac{total\ no\ of\ items}{no\ of\ items}$; **Average** $= \frac{4.8}{12} = 0.4$

$$\sigma = \sqrt{\sum \frac{d^2}{n-1}}$$

S. D=√25.935/11= 1.53



Graph No: 1.1.a USD/INR from 1st JANUARY-17to 31st DECEMBER-17

Source: Author's Compilation

The change of USD dollar for a period from 1st January 2017 to 31st December 2017. In the month of August the risk and return peaked up to **112775109.3** and in the month of January the risk and return tailed down to **-53661816.65.** The change of USD dollar for a period from 1st January 2018 to 31st December 2018. In the month of November the risk and return peaked up to **265986394.4** and in the month of March the risk and return tailed down to **-180845240.2.** The change of USD dollar for a period from1st January 2019 to 31st December 2019. In the month of September the risk and return peaked up to **102085701.3** and in the month of October the risk and return tailed down to **-124015555.** The change of USD dollar for a period from 1st January 2020 to 31st December 2020. In the month of August the risk and return peaked up to **315399448.3** and in the month of December the risk and return tailed down to **-25313726.07.** The change of USD dollar for a period from 1st January 2021 to 31st December 2021.

In the month of September the risk and return peaked up to **328928389** and the month of December the risk and return tailed down to **-23434834.34.** The change of EURO for a period from 1st January 2017 to 31st December 2017. In the month of August the risk and return peaked up to **543530195.2** and in the month of January the risk and return tailed down to **-789870947.5.** The high currency rate fluctuations between USD Dollar and EURO from 2017- 2021. In the year 2015, EURO rates were high compared to USD in other years. The low currency rate fluctuations between USD Dollar and EURO from 2017- 2021. In the year 2015, EURO rates were low compared to USD in other years.

IX. Findings, Suggestions and Conclusion

Findings

1. USD dollar for a period from 1st January 2018 to 31st December 2018. In the month of July the risk and return peaked up to **26767177.53** and in the month of January the risk and return tailed down to **-53661816.65**

2. USD dollar for a period from 1st January 2019 to 31st December 2019. In the month of August the risk and return peaked up to **36987582.24** and in the month of September the risk and return tailed down to **-58610020.43**

3. USD dollar for a period from 1st January 2020 to 31st December 2020. In the month of June the risk and return peaked up to **9408661.964** and in the month of February the risk and return tailed down to **-10106791.36**

4. USD dollar for a period from 1st January 2021to 31st December 2021. In the month of September the risk and return peaked up to **56775531.03** and in the month of January the risk and return tailed down to **-16530025.73**

5. EURO for a period from 1st January 2018 to 31st December 2018. In the month of August the risk and return peaked up to **543530195.2** and in the month of January the risk and return tailed down to **-789870947.5**

6. EURO for a period from 1st January 2019to 31st December 2019. In the month of June the risk and return peaked up to **9372833.622** and in the month of December the risk and return tailed down to **-835108141.99**

Suggestions

- Indian companies with sizeable US Dollar denominated exposures are extremely vulnerable to sudden drastic moves in the USD-INR rate.
- They can, to an extent, insulate themselves from such shocks by undertaking hedges in currencies other than Rupee-Dollar.
- For instance, a Dollar payable can be hedged by selling a currency (say Sterling Pound) in order to buy Dollars, instead of selling the Rupee.
- The choice of currency would, of course, depend on the trend and forecast for the currency(s) at that point of time.
- It is easier and safer to generate profits from a Cross-Currency Forward Contract and an Rs 1 Lac profit thereon is equivalent to saving 10 paise depreciation in the Rupee (on USD 1 million).

Conclusion

Despite market expansion the profit generation is still a question mark, so companies have to search for areas of next generation like value added services, software enhancement and development other than just services to survive in the market. In the present day economies are globalized and the stabilities of them are really at stake, the only rescue for the software companies is to improve their responsiveness to the changing scenarios. Indian companies have to develop their services to the bench mark level of global standards so that they can be accepted all over the world. The troubles of many exporters are not a result of the volatility of the rupee but the unfavourably high-cost structure.

Exporters are viable only when foreign exchange earnings get converted into more and more rupees. To improve rupee viability and preserve profits, exporters need to be efficient and productive and bring down aggregate rupee cost. Poor viability will not be resolved by hedging. Considering an inefficient exporter, it requires a breakeven exchange rate of Rs.69 dollar to show profit. In case of forward contract. The forward contract locks in the exporter conversion of dollar revenues to rupee revenues at Rs.71, the market forward price per dollar. The market will surely not buy the exporters dollars at Rs.71 will be wholly ineffective exporters will be in serious trouble despite the perfect hedge. The problem of viability will be solved only when the exporters breakeven moves down to Rs.71 per dollar. By contrast, an inefficient exporter that is viable at Rs.71 per dollar can take advantage of the hedge.

The results from the analysis concluded that the implicit dollar method will significantly preserve the dollar profitability exporters. The employees and managers of exporting firms will be paid implicitly in dollars. The cost to the company will be in dollars. But the pay-out will be in rupees and at the prevailing exchange rates. To overcome these problems exporters should make good governance by making available superior human, social and business infrastructure even if the tax rates are high. Good governance lowers the costs of operations and lowers the aggregate costs of doing business.

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