

A STUDY ON FOREIGN EXCHANGE MARKET RISK MANAGEMENT

Dr. C Sudeep

Principal and Professor

M.C.Gupta College of Business
Management

sudeep.chinnabathini@gmail.com

Erukula Arun Teja

MBA

Student

M.C.Gupta College of Business
Management

ABSTRACT

*A foreign exchange market risk management strategy or program 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. Foreign exchange risk refers to the losses that an **international** financial transactions may incur due to currency fluctuations. Foreign exchange risk can also affect investors, who trade in international markets, and businesses engaged in the import/export of products or services to multiple countries Foreign exchange exposure and risk are important concept in the study of international finance. It is the sensitivity of home currency value of asset, liability or operating income unanticipated change in the exchange rate Exposure exists if the home currency value on an average in a particular **manner it also exists where** numerous currencies are involved.*

INTRODUCTION

Foreign exchange risk refers to the losses that an international financial transaction may incur due to currency fluctuations. Foreign exchange risk can also affect investors, who trade in international markets, and businesses engaged in the import/export of products or services to multiple countries. Foreign exchange market, has since the 1960's, played the role of linking international interest rates, Today however forward contract have to share other instruments and market for arbitrage and for hedging, These newer derivative instruments include future, options and swaps. Foreign Exchange Market, otherwise known as the Forex market or the currencies market, is a global marketplace where currencies are traded on an international level. It tends to determine the exchange rate of currencies via trade and speculation in currency pairs. It is the largest financial global market.

OBJECTIVES

1. Correcting Balance of Payments: Advertisement
2. To Protect Domestic Industries.
3. To Maintain an Overvalued Rate of Exchange
4. To Prevent Flight of Capital.
5. Policy of Differentiation
6. Other Objectives.

SCOPE OF THE STUDY

Managing foreign exchange risk has numerous benefits to many multinational companies: Decrease the effects of exchange rate movements on profit margins. Increase the predictability of future cash flows. Eliminate the need to precisely forecast the future direction of exchange rates. Foreign exchange risk can be managed by fixing forward contract when the

rate or when your invoice is received. They can also be managed by receiving payment in different currencies and hedging the exchange rate when your expecting some significant payments from overseas businesses

IMPORTANCE

The simplest risk management strategy for reducing risk is to make and receive payments only in your own currency . But in doing so, companies may risk paying higher prices if suppliers with different native currencies time their payments to take advantage of exchange rate fluctuations. You might also lose customers to competitors who offer more currency flexibility and your suppliers may be unwilling to accept payments in what is to them a foreign currency. So you may therefore find that competitive pressures force you to explore a risk management strategy that helps manage your foreign exchange risk more efficiently.

Foreign exchange is the trading of different national currencies or units of account. It is important because the exchange rate, the price of one currency in terms of another, helps to determine a nation's economic health and hence the well-being of all the people residing in it

Company - INDIA BULLS LTD

The Indiabulls Group is an Indian conglomerate headquartered in Gurgaon whose primary businesses are housing finance, consumer and finance and wealth management. The Group also has a presence in real estate , LED , construction equipment rentals, pharmaceuticals and lighting. Indiabulls Group started operations in 19999 as financial services company. In 2021, Grow acquired Indiabulls AMC, the mutual funds business of the group, for ₹175 crore. Equity share of the company is listed on the Bombay Stock Exchange and the National Stock Exchange. Its global depository receipts(GDRS) are listed on the Luxembourg Stock Exchange. Companies under the group of Indiabulls are given below

1. Indiabulls Housing Finance Ltd
2. Dhani Services Limited(formerly Indiabulls Ventures Ltd.)
3. Indiabulls Real estate Ltd
4. Soril Infra Resources Ltd.(d/b/a Indiabulls Store One)
5. Yaarii Digital Integrated Services Ltd.(formerly Indiabulls Integrated Services Ltd)

Research Methodology

Primary data

Primary data is a type of data that is collected by researchers directly from main sources through interviews ,surveys ,experiments .Primary data directly from main sources through interviews, surveys, experiments, etc. Primary data are usually collected from the source where data originally originates from and are regarded as the best kind of data in research.

Secondary Data

Secondary data is the data that has already been collected through primary sources made readily available for researchers to use for their own research.It is a type data that has already been collected in the past.

My data collection is based on Secondary data

Secondary Data

Collected from books regarding, journal, and management containing relevant information about FEMRM and Other main source were

1. Annual report of the INDIA BULL
2. Published report of the Housing finance
3. RBI guidelines for FEMRM
4. Tools used

LIMITATIONS OF THE STUDY:

1. This subject is based on past data of INDIABULLS LTD
2. The study is mainly based on secondary data
3. Detailed study of the topic was not possible due to limited size of the project.
4. There was a constraint with regard to time allocation for the research study i.e. for a period of 45 days

DATA ANALYSIS AND INTERPRETATION

Analysis of sales from various categories

The following table gives the volume of sales in various categories

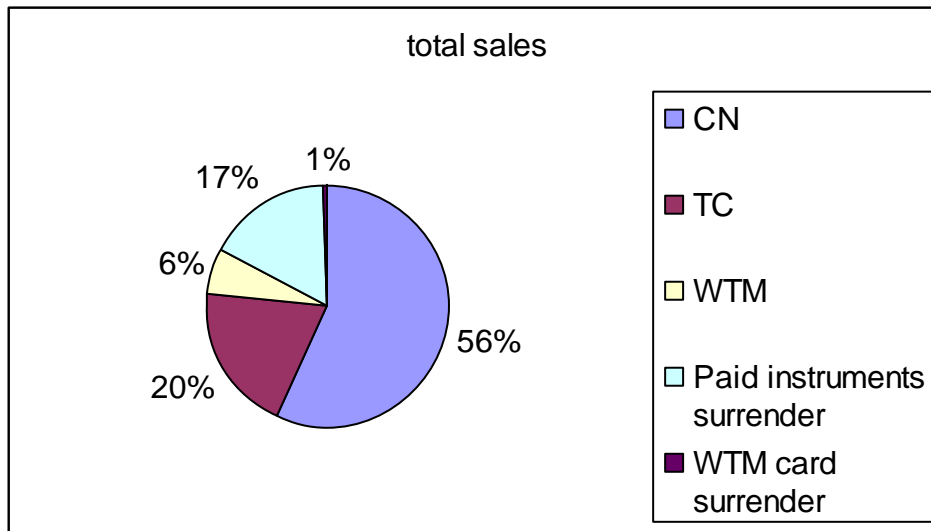
Table: 1

Month & Year	CN	TC	WTM	Paid instruments surrender	WTM card surrender	Total sales
July’17	12840996	8205922	2212740	7517 056	417 695	31291409
Aug’17	15031242	12287499	1919397	8627128	349270	37184526
Sep’17	27448696	6435857	1363836	4038517	44252	39331257
Oct’17	23505250	3812461	1587282	4435617	69718	33406327
Nov’17	20489436	5121442	2241552	3692590	75387	317 07407
Dec’17	12560925	4359398	2803317	4155462	68126	22947217
Total	121276525	39205579	12127123	32465358	1223438	195698023

Percentage of sales from various categories

	CN	TC	WTM	Paid Instruments surrender	WTM Card surrender

Sales	121276525	39205579	12127123	32465358	1223438
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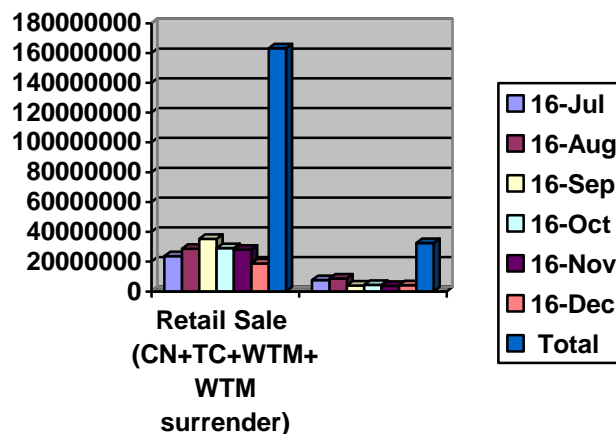
INTERPRETATION

The above graph shows that the sale of currency is maximum and it is 56% of the total sales. Second highest sales is from travelers cheques which accounts to 20% of the total sales. This is followed by paid instruments surrender, World travel money card and surrender of WTM cards.

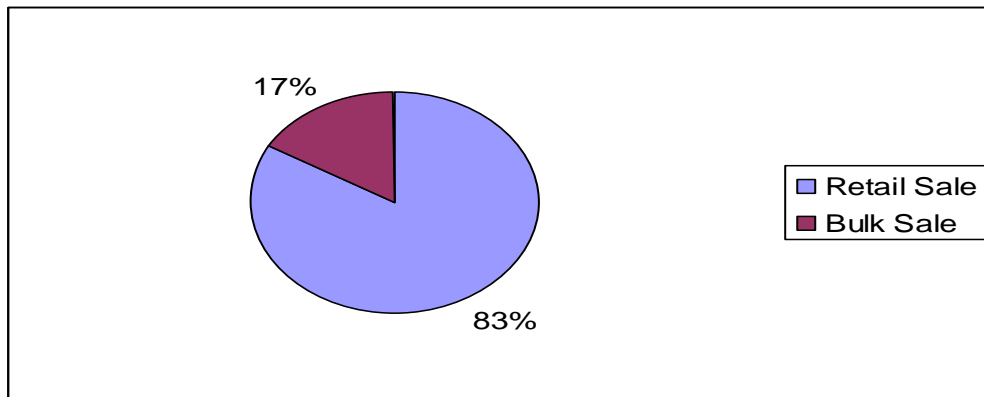
Distribution of sales between retail sale and bulk sale

Table: 2

Month & Year	Retail Sale(CN+TC+WTM+WTM surrender)	Bulk Sale
July'17	23675353	7517 056
Aug'17	28557412	8627128
Sep'17	35292641	4038517
6ct'17	28970712	4435617
6ov'17	27914817	3692590
Dec'17	18791755	4155462
Total	17 3202685	32465358



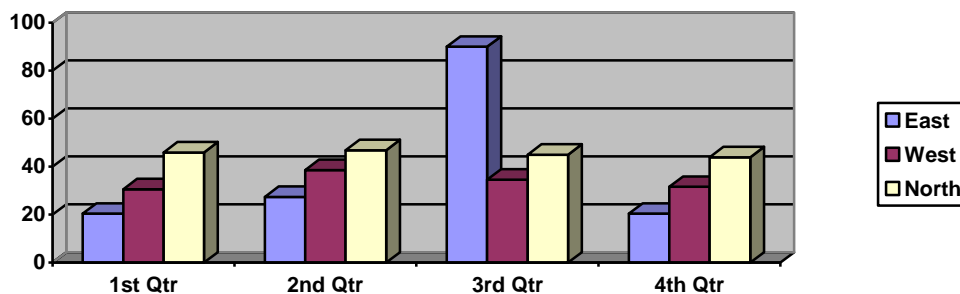
The above graph shows the distribution of sales among retail and bulk sale for a each month from July 2017 to Dec 2017



The above graph shows that the IIFL, Hyderabad doe maximum retail sale. The retail sale accounts for 83% of the total sale and bulk sale accounts for 17% of the total sale.

Sale of Traveler Cheques

Month & year	Total TC Sales
July'17	8205922
Aug'17	12287499
Sep'17	6435857
Oct'17	3812461
Nov'17	5121442
Dec'17	4359398
Total	39205579

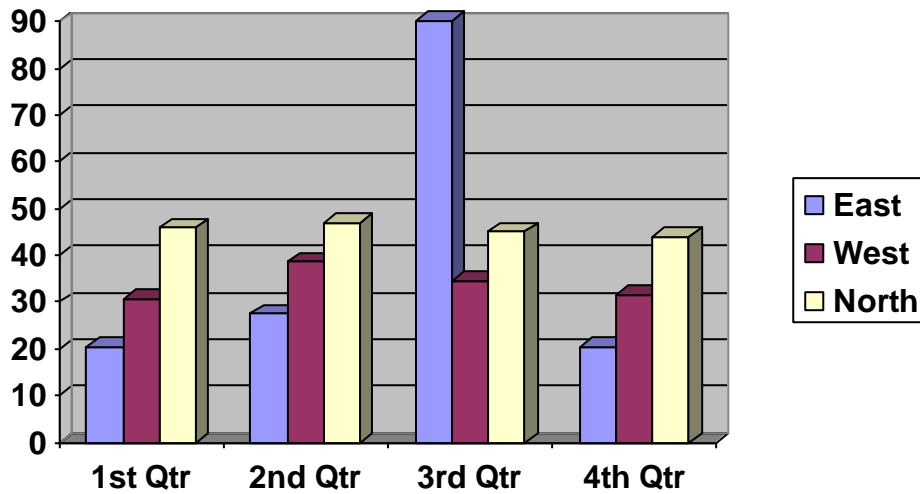


The above graph shows the sales (in INR) of Traveler Cheques made during a period of 6 months from July 2017 to Dec 2017 The graph shows that maximum Traveler Cheques were sold during the month of August 2017

Sale of Currency

Month & Year	Total CN Sales
July'17	12840996
Aug'17	15031242
Sep'17	27448696
Oct'17	23505250
Nov'17	20489436

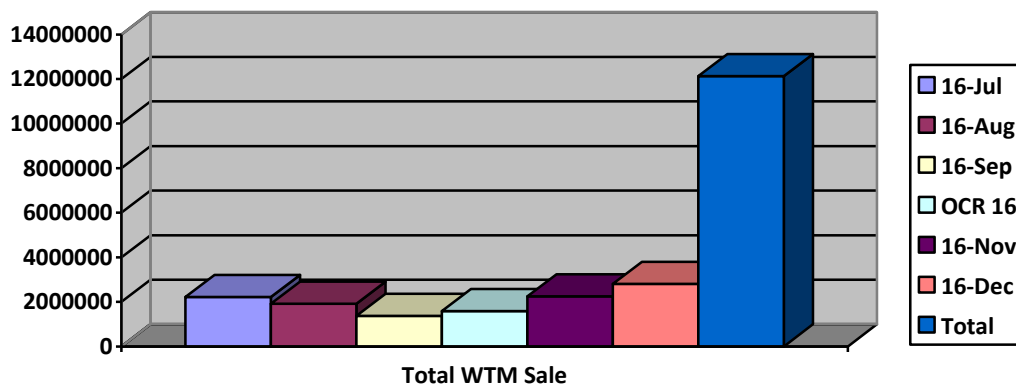
Dec’17	12560925
Total	121276525



The above graph shows the sales (in INR) of currency for the period of 6 months from July’17 to Dec’17 . The graph shows that maximum currency were sold during the period in Sep’17 .

Sale of WTM

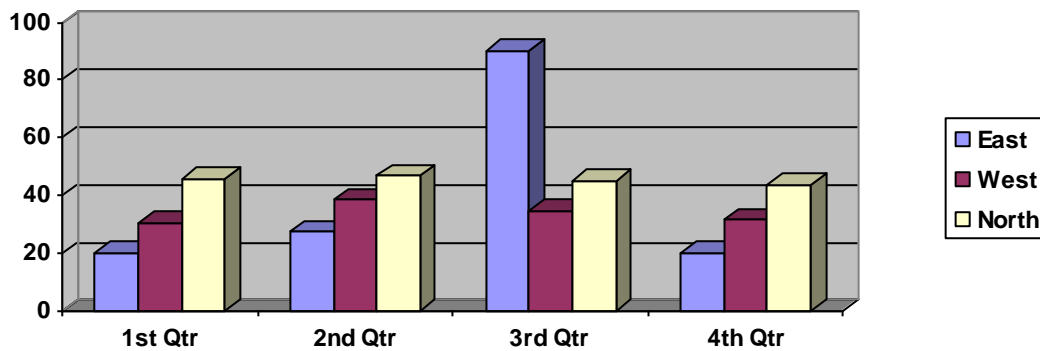
Month & Year	Total WTM Sale
July’17	2212740
Aug’17	1919397
Sep’17	1363836
Oct’17	1587282
Nov’17	2241552
Dec’17	2803317
Total	12127123



The above graph shows the sales (in INR) of World Travel Money made during a period of 6 months from July 2017 to Dec 2017 The graph shows that maximum Travel cards were sold during the month of Dec 2017

Branch wise sales under different categories

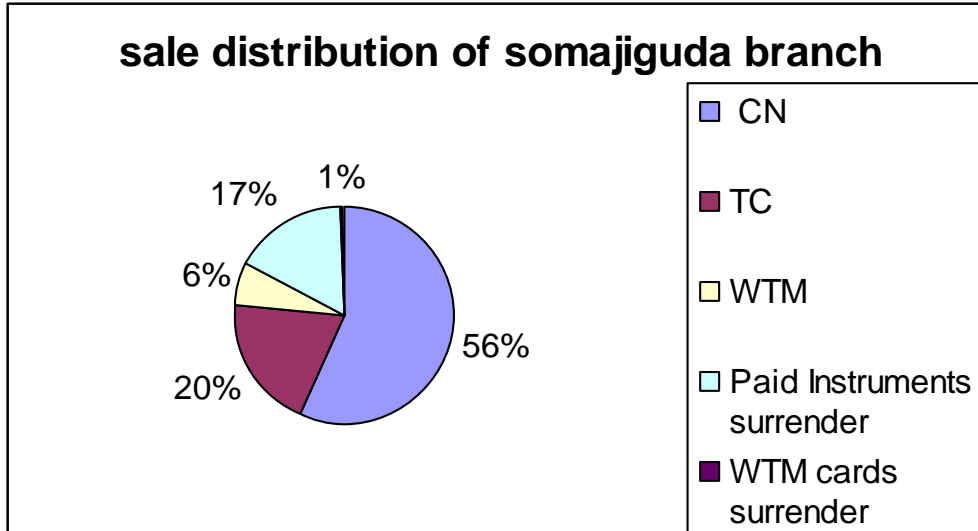
	Total	Sales	
Month & year	Somajiguda branch	Basherbagh branch	Hitech city branch
July ‘17	31291409	18740400	22815402
Aug ‘17	37184526	15125321	20482538
Sep ‘17	39331257	21814694	37292330
Oct ‘17	33406327	18272195	31254862
Nov ‘17	317 07407	12328813	30054962
Dec ‘17	22947217	14422059	28023518
Total	195698023	120663482	17 9923612



The above graph shows branch wise total sale for 3 branches in IIFL, Hyderabad, for a period of 6 months. From the graph we can infer that Somajiguda branch has done maximum sales though out the months of study.

Sales distribution of each branch

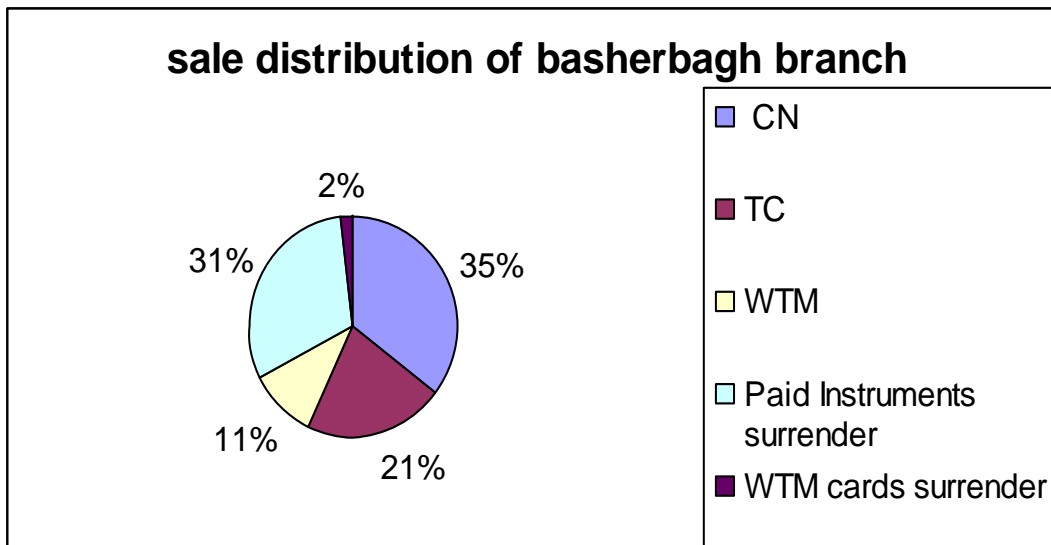
	CN	TC	WTM	Paid Instruments surrender	WTM cards surrender	Total
Total	121276525	39205579	12127123	32465358	1223438	195698023



The above graph shows the distribution of sales in Somajiguda branch. Maximum sales in this branch are from sale of currency followed by sales from Travelers cheque. Sale of currency accounts for 56% of the total sales made in this branch. This branch has significant amount of sales in each category.

Basherbagh branch

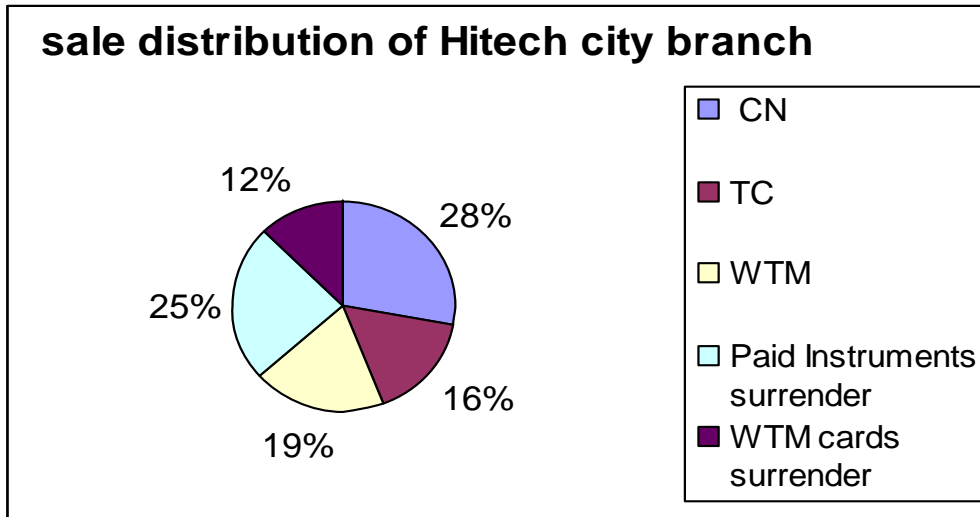
	CN	TC	WTM	Paid Instruments surrender	WTM cards surrender	Total
Total	35678325	21456354	12576354	30987562	1964887	120663482



The above graph shows the distribution of sales in Basherbagh branch. Maximum sales in this branch are from sale of currency followed by sales from surrender of paid instruments. Sale of currency accounts for 35% of the total sales made in this branch.

Hi-tech city branch

	CN	TC	WTM	Paid Instruments surrender	WTM cards surrender	Total
Total	47503886	27055212	32432296	41850566	21212656	179923612



The above graph shows the distribution of sales in Hitech city branch. Maximum sales in this branch are from sale of currency followed by surrender paid instruments. Sale of currency accounts for 28% of the total sales made in this branch. This branch has significant amount of sales in each category.

STOCK MARKET OBSERVATIONS

FROM 1/1/2017 TO 17/2/2017 (30 MARET DAYS)

BSE			NSE		
DATE	CLOSE	HIGH/LOW	DATE	CLOSE	HIGH/LOW
1/1/2017	9903	+ 183	1/1/2017	3033	+ 70
5/1/2017	12276	+ 317	5/1/2017	3121	+ 75
6/1/2017	12258	+ 60	6/1/2017	3122	- 09
7/1/2017	9586	- 838	7/1/2017	2920	- 192
9/1/2017	9406	- 180	9/1/2017	2873	- 47
12/1/2017	9121	- 296	12/1/2017	2733	- 120
13/1/2017	9071	+ 39	13/1/2017	2744	- 28
15/1/2017	9046	- 52	15/1/2017	2736	- 96
17 /1/2017	9324	+ 277	17 /1/2017	2828	+ 92
19/1/2017	9329	- 52	19/1/2017	2846	+ 18
20/1/2017	9120	- 229	20/1/2017	2796	- 50
21/1/2017	8779	- 321	21/1/2017	2706	- 90
22/1/2017	8814	+ 35	22/1/2017	2714	- 12
23/1/2017	8674	- 140	23/1/2017	2678	- 36

27/1/2017	9004	+ 330	27/1/2017	2771	+ 93
28/1/2017	9257	+ 253	28/1/2017	2849	+ 78
29/1/2017	9236	- 21	29/1/2017	2823	- 26
30/1/2017	9424	+ 313	30/1/2017	2874	+ 50
2/2/2017	9066	- 358	2/2/2017	2767	- 121
3/2/2017	9149	+ 83	3/2/2017	2783	+ 17
4/2/2017	9201	+ 53	4/2/2017	2803	+ 19
5/2/2017	9090	- 151	5/2/2017	2780	- 22
6/2/2017	9300	+ 212	6/2/2017	2843	+ 63
9/2/2017	9583	+ 283	9/2/2017	2919	+ 77
12/2/2017	9647	+ 64	12/2/2017	2935	+ 15
12/2/2017	9618	- 29	12/2/2017	2925	- 09
12/2/2017	9465	- 153	12/2/2017	2893	- 33
13/2/2017	9634	+ 17 9	13/2/2017	2948	+ 55
17 /2/2017	9305	- 332	17 /2/2017	2848	- 120
17/2/2017	9035	- 270	17/2/2017	2770	- 78

The above chart shows the closing of Bombay Stock Exchange (BSE) & National Stock Exchange (NSE) from 1st Jan to 17th Feb (30 Market Days) From the chart we can observe that when the market is high and low.

FOREX OBSERVATIONS

FROM 1/1/2017 TO 17/2/2017 (30 MARKET DAYS)

DATE	\$	HIGH/LOW	£	HIGH/LOW	€	HIGH/LOW
1/1/2017	48.70	+ 0.18	71.33	+ 1.29	68.04	- 0.32
5/1/2017	48.35	- 0.25	70.04	- 0.64	67.19	- 0.48
6/1/2017	48.69	+ 0.34	71.21	+ 1.17	66.09	- 1.12
7/12017	48.45	- 0.24	72.28	+ 1.07	65.55	- 0.54
9/1/2017	48.98	+ 0.18	74.37	+ 0.96	66.87	+ 0.45
12/1/2017	48.59	+ 0.27	73.34	- 0.68	65.07	- 1.12
13/1/2017	48.84	+ 0.25	72.12	- 1.22	65.07	-----
15/1/2017	49.14	+ 0.28	71.75	+ 0.67	64.73	- 0.12
17 /1/2017	48.86	- 0.28	72.26	+ 0.47	64.65	- 0.12
19/1/2017	48.60	- 0.20	72.32	- 0.51	64.93	+ 0.20
20/1/2017	49.00	+ 0.40	69.54	- 2.78	63.60	- 1.33
21/1/2017	49.29	+ 0.29	68.88	- 0.66	64.02	+ 0.42
22/1/2017	49.94	+ 0.65	68.27	- 0.61	63.81	- 0.79
23/1/2017	49.20	- 0.74	67.66	- 0.61	63.64	- 0.17
27/1/2017	48.92	- 0.33	68.80	+ 0.87	64.74	+ 0.80
28/1/2017	48.85	- 0.07	69.55	+ 0.75	64.72	- 0.02
29/1/2017	48.90	+ 0.05	69.15	- 0.40	64.12	- 0.64
30/1/2017	49.12	+ 0.20	69.86	+ 0.71	63.36	- 0.72
2/2/2017	49.05	+ 0.18	70.41	+ 0.35	62.35	- 0.64

3/2/2017	49.78	+ 0.63	69.51	- 0.90	62.92	+ 0.57
4/2/2017	48.70	- 0.12	70.03	+ 0.52	63.29	+ 0.37
5/2/2017	48.82	+ 0.12	70.58	+ 0.55	62.74	- 0.55
6/2/2017	48.75	- 0.07	71.26	+ 0.68	62.32	- 0.42
9/2/2017	48.60	- 1.04	71.66	+ 0.99	62.85	+ 0.33
12/2/2017	49.64	+ 1.04	70.67	- 0.99	62.52	- 0.33
12/2/2017	48.85	- 0.79	70.83	+ 0.17	62.91	+ 0.39
12/2/2017	48.75	- 0.12	70.01	- 0.82	62.93	+ 0.02
13/2/2017	48.76	+ 0.01	70.12	- 0.09	63.06	+ 0.13
17 /2/2017	48.70	- 0.06	69.26	- 0.84	62.14	- 0.92
17/2/2017	49.09	+ 0.39	69.81	+ 0.55	62.12	- 0.02

The above chart shows the closing of Dollar (\$), Pound (£), and Euro (€) from 1st Jan to 17th Feb (30 working days). From the chart we can observe that when the currency is high and low. From the above two charts we can know the correlation between Bombay Stock Exchange (BSE), National Stock exchange (NSE) with currency (i.e. dollar, pound, and Euro) From 1st Jan to 17th Feb.

Correlation between stock market and currency. There is a negative correlation between BSE and \$. That is when sensdex is increasing. Dollar is decreasing. There is a negative correlation between NSE and \$. That is when nifty is increasing dollar is decreasing. There is a positive correlation between BSE with £ (Pound) & € (Euro). That is when Sensex is increasing pound & euro also increasing. There is a positive correlation between NSE with £ (Pound) & € (Euro). That is when Nifty is increasing pound & euro also increasing.

Correlation between dollar (\$) and pound (£).

There is a negative correlation between dollar and pound. That is when dollar is increasing pound is decreasing.

Correlation between dollar (\$) and euro (€).

There is a negative correlation between dollar and euro. That is when dollar is increasing Euro is decreasing.

FINDINGS, SUGGESTIONS AND CONCLUSIONS

FINDINGS

- There is no fixed rate for any currency, all are floating in nature
- The competition in foreign exchange field is very high
- There is a great demand for few currencies because of very less exchange risk
- There is a huge competition in the market among money changers in terms of attracting customers by giving comparatively more premiums when selling to them and giving at comparatively lower rates when they are purchasing from them.

- IIFL MF, Hyderabad makes maximum sales in the category of currency followed by sale from Travelers cheque.
- 51% of total sale in IIFL MF, Hyderabad is from sale of currency. It is the maximum sale among various categories from which the company gets its sales
- IIFL MF, Hyderabad makes maximum i.e., 83% of retail sale
- Based on the analysis made for a period of 6 months i.e., from July 2017 to Dec 2017, maximum Traveler cheques were sold during the month of August 2017 and maximum currency was sold during the month of Sep 2017 and maximum travel cards were sold during the month of Dec 2017
- Somajiguda branch which gives maximum sales among all the branches of IIFL MF in Hyderabad makes sales in all categories with maximum sales generation through sale of currency.
- Basherbagh IIFL MF. In three Categories and makes maximum sales (35%) by selling currency.
- Hitech City branch of IIFL MF also makes sales in all categories with maximum sale from sale of travel cards.
- Better prices and credit period are two main factors that corporates look for while selecting a full fledged money changer.

SUGGESTIONS

- IIFL MF should create and maintain its brand image in the market so that it can attract more customers and enhance its revenues from this market.
- As the competition is intense, the company should increase its promotion by advertising more in the areas like Hitech city where there are many corporate prospects, big malls, multiplexes and areas near Airport where there are many individual prospects.
- Though the software used for entering and tracking daily transactions and generating basic reports satisfies the basic requirements, more sophisticated software which acts as Management Information System (MIS) and Decision Support System (DSS) could make the entire business more efficient.
- More systematic. Formal training and simple tests to executives would help in minimizing human errors.
- As Better prices and credit period are two main factors that corporate look for while selecting a full fledged money changer, to increase the number of corporate clients, IIFL MF could rework on increasing the credit limits if the corporate profile is credible or give better prices if certain volume is assured by the client.

CONCLUSION

We can conclude that the competition in foreign exchange field is very intense. The major players in this field are Corporates, Commercial Banks, Exchange Brokers, and Central Banks. FFMCs & Authorised dealers are one of the major players in Forex Market. They have to run their operations according to the rules and regulations stipulated by RBI. They have to send the stipulated reports to RBI every year. We can conclude that the forex market



and stock market are negatively correlated. Functions of Forex market: It is a market in which national currencies are bought and sold against one another.

1. Provision of credit.
2. Transactions in the interbank market.
3. Stabilizing exchange rates.
4. Transfer of purchasing power.

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