A STUDY ON FOREIGN EXCHANGE RISK MANAGEMENT WITH REGARDS TO SUNSHARE INVESTMENTS PVT LTD

Submitted in partial fulfillment of the requirements for the award of Degree in

MASTER OF BUSINESS ADMINISTRATION

By

RUDALF. M. SHALBIN

Register No.41410257

DEPARTMENT OF BUSINESS ADMINISTRATION

SCHOOL OF MANAGEMENT STUDIES

SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited with Grade "A" by NAAC I 12B Status by UGC I Approved by AICTE

JEPPIAAR NAGAR, RAJIV GANDHI SALAI, CHENNAI - 600 119

MAY 2023

SCHOOL OF MANAGEMENT STUDIES

BONAFIDE CERTIFICATE

This is to certify that this Project Report is the bonafide work of **Mr. RUDALF. M. SHALBIN 41410257** who carried out the project entitled **"A STUDY ON FOREIGN EXCHANGE RISK MANAGEMENT WITH REGARDS TO SUNSHARE INVESTMENTS PVT LTD."** under my supervision from January 2023 to March 2023.

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Submitted for Viva voce Examination held on__06.05.2023_____

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DECLARATION

I **RUDALF. M. SHALBIN (41410257)** hereby declare that the Project Report entitled **"A STUDY ON FOREIGN EXCHANGE RISK MANAGEMENT WITH REGARDS TO SUNSHARE INVESTMENTS PVT LTD."** done by me under the guidance of **Dr. SHEEBA T** is submitted in partial fulfillment of the requirements for the award of Master of Business Administration degree.

DATE:06.05.2023

PLACE: CHENNAI **RUDALF. M. SHALBIN**

11/01/2023

TO WHOMSOEVER IT MAY CONCERN

Sub: Confirmation of MBA Final year project

We wish to confirm that **Mr. RUDALF.M.SHALBIN (Reg. No: 41410257)**,who is pursuing final year MBA in Sathyabama Institute Of Science And Technology, Chennai, has been offered to do the Finance project in our concern from 11/01/2023 TO 10/04/2023.

We wish the student to complete the final year project successfully.

For Sunshare Investments Pvt. Ltd

Prakash.V

HR Manager

SUNSHARE INVESTMENTS PVT. LTD. CHENNAI 600 089

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RUDALF. M. SHALBIN

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ABSTRACT

Foreign currency exchange risk is the additional riskiness or variance of a firm's cash flows that may be attributed to currency fluctuations. Normally, foreign currency risk exists in three forms; translation, transaction and economic exposures. Foreign currency risk management involves taking decisions which aim at minimizing or eliminating the negative effects of currency fluctuations on balance sheet and income statement values, a firm's receipts and payments arising out of current transactions, and on long term future cash flows of a firm.

Sunshare Investments Pvt Ltd came into existence at the very start of Commodity Exchanges in India. With nationwide presence, it enables the retail & corporate investors to diversify their portfolio and enjoy the benefits of commodity trading in MCX, NCDEX, and NSEL. Our highly appreciated research team guides the investors to make wise investment decisions for Bullion, Base-Metals, Energy and agro-commodity. This project provides a number of recommendations and best practices to help them develop a plan to manage the foreign exchange risk the company faces.

The major objective of this study is to assess the foreign risk management with regard to Sunshare Investments Pvt Ltd in Chennai. Convenience sampling method has used in the research work. Multiple choice questions have been chosen to collect the responses from 123 respondents. The data collected has been analyzed through various statistical tools like Karl Pearson's Correlation, Chi- square test and One-way Anova test. Numerous new findings has been derived from this research has helped to provide few suggestions to improve the foreign exchange risk management at Sunshare Investments Pvt Ltd in Chennai.

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CHAPTER 1

1.1 INTRODUCTION

Since mid-1970's fixed foreign currency exchange regimes have been disbanded in many countries. Countries with diverse economic and financial structures have adopted market - determined foreign exchange rate systems. In an environment of floating foreign exchange rates, unimpeded capital flow is envisaged. During the era of fixed foreign exchange regimes, firms faced little exchange risk as exchange rates were determined by some central authority and moved within very narrow bands. Liberalized currency markets have changed that; firms now are exposed to exchange risks arising from exchange rate fluctuations. At time it has seemed too much business that they have been helpless in the fight to control the associated risks, which arise when exporting, profitability, competitiveness and the ability to service debt can all be impacted by foreign exchange volatility when paying or receiving foreign currency. All business trading overseas will have some exposure to exchange rate movements either directly or indirectly. Whilst exposure to exchange rate movements may be an inevitable part of everyday activity, the risk arising from such exposure can be controlled. While the currency volatility can't be controlled, you can take steps to protect the business throughout the year.

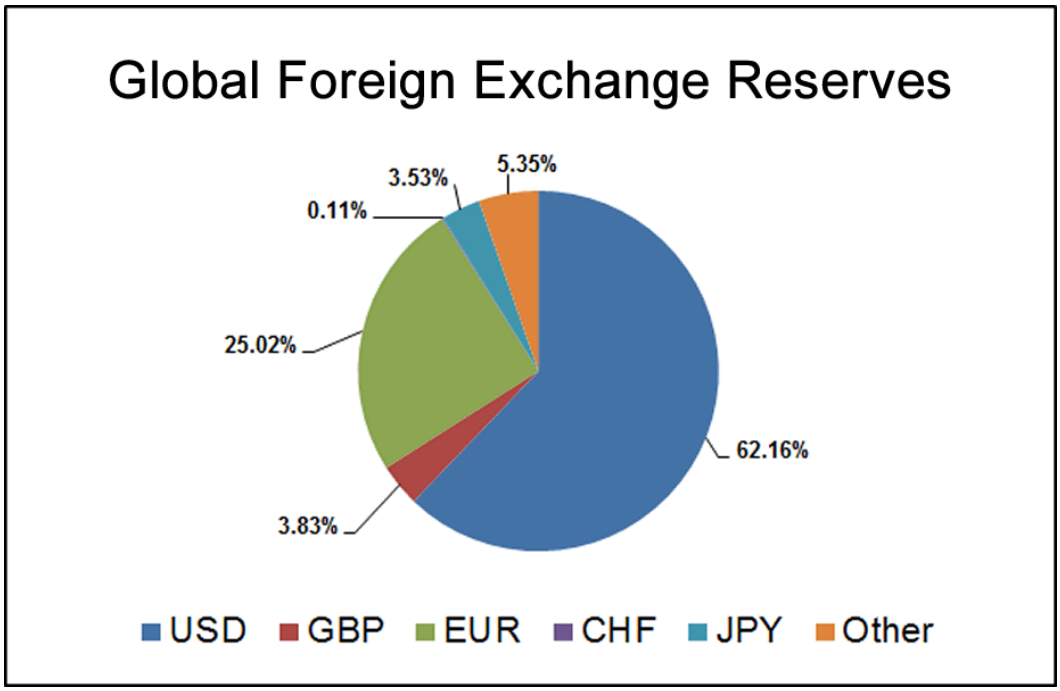
Foreign exchange risk management

Foreign currency exchange risk is the additional riskiness or variance of a firm's cash flows that may be attributed to currency fluctuations (Giddy, 1977, Brigham and Ehrhardt, 2005). Normally, foreign currency risk exists in three forms: translation, transaction and economic exposures.

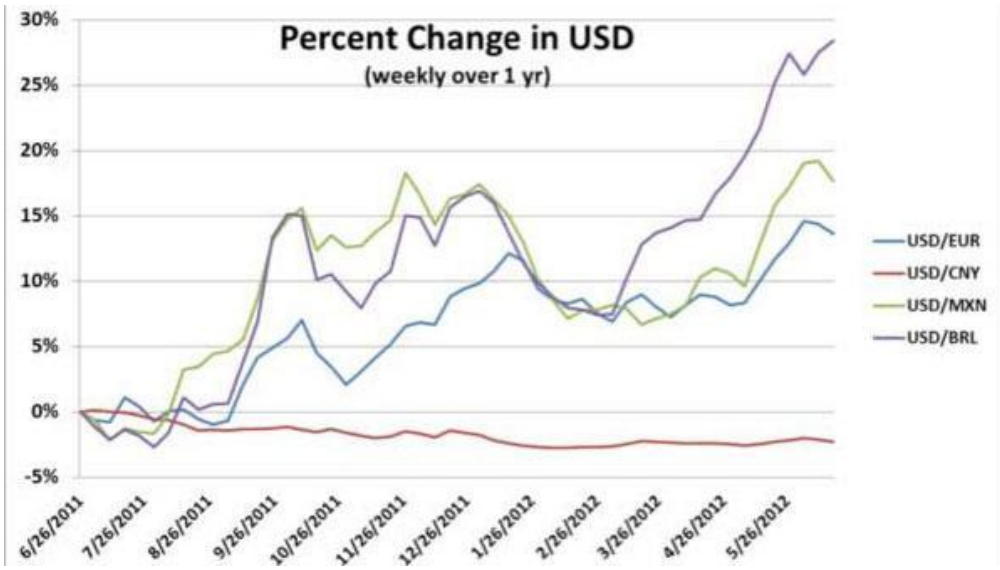
Foreign currency risk management involves taking decisions which aim at minimizing or eliminating the negative effects of currency fluctuations on balance sheet and income statement values, a firm's receipts and payments arising out of current transactions, and on long term future cash flows of a firm.

Herewith are some data collected with respect to Foreign Exchange.

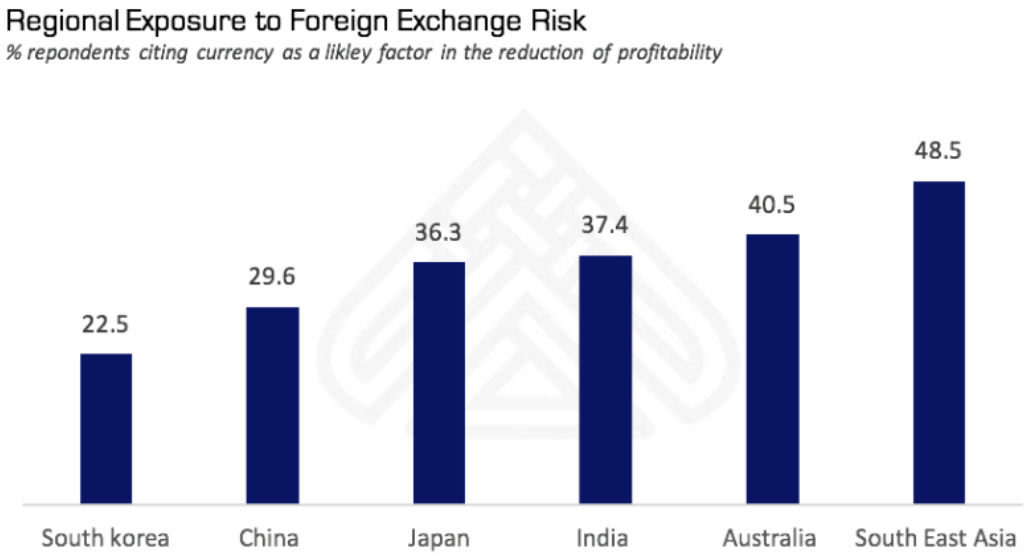
- The below picture gives an idea of the foreign exchange reserves used worldwide.



- The below picture shows the effect of USD on currencies.



- The below picture shows the effect of Foreign Exchange regional wise



Early research in this area focused on determining if the **companies' value is influenced by foreign exchange rate fluctuations**. Being one of the first, Jorion (1990) examined the relationship between stock returns and exchange rates, by performing an empirical analysis among US multinational companies. He presented evidence showing that the relationship between stock returns (value) and exchange rates differs systematically across multinational companies. The degree of foreign exchange rate exposure on firm value was found to be positively related to the percentage of foreign involvement. More specifically; the empirical evidence suggests that **exchange rate fluctuations do affect firm value**. Research by Bodnar & Gentry (1993) and Choi & Prasad (1995) also supports this.

In a study conducted by Shin and Soenen (1998), they investigated whether **US multinational corporations are exposed to foreign exchange risk or not. They also investigated whether there is difference in the foreign exchange rate exposure for large and small firms, and if industry characteristics are a significant determinant**. According to their results, there is empirical evidence that the value of US multinational firms is significantly correlated with contemporaneous changes in the value of the US dollar. The foreign exchange exposure was stable over the sample period from 1983 to 1994. Another interesting finding is the fact that small firms especially have a positive significant foreign

exchange rate exposure. This is supportive of the view that hedging is more common in large firms, despite the good availability of hedging instruments. They also found that the foreign exchange rate exposure is largely attributable to a few industries (e.g. electrical equipment and primary metal).

Some research has also been executed to find out if the **firms are aware of their currency risk**. In a study published in the Journal of Empirical Finance by Loderer and Pichler (2000), they explored the currency risk management practices among Swiss industrial companies by distributing a survey. The purpose of their study was to examine whether industrial firms quantify their risk profile and to what extent they hedge against currency fluctuations. Their main conclusion is that the companies have very little active evaluation of the foreign exchange rate exposure. Generally, they find that the firms fail to properly understand why currency risk reduces firm value and some even manage risk even when it is unnecessary.

Adler and Dumas (1985) demonstrate **how to measure the economic exposure of firms‟ market prices to exchange-rate changes**. They argue that the exposure may be captured by the regression coefficient when an asset's price is regressed on exchange rates. Also, Jorion (1990) and Allayannis and Ofek (1998) estimate the exchange-rate exposure from a regression model that includes market returns and exchange-rate returns to explain the variability of firms‟ stock returns. Existing literatures mostly use similar methodology to measure firms‟ exchange-rate exposures (e.g., Bodnar and Gentry (1993), He and Ng (1998), Bodnar, Dumas and Marston (2002), Kolari, Moorman and Sorescu (2008), and Aggarwal and Harper (2010)). We also use the method suggested by Allayannis and Ofek (1998) along with the Fama-MacBeth regression to measure firms‟ stock return sensitivity to exchange-rate return.

Allayannis, Brown, and Klapper (2003) examine a **firm's choice between local and foreign currency debt using a data set of East Asian firms surrounding 1998 financial crisis**. They find that the interest rate differentials between local currency and foreign currency are important determinants for debt use.

Exchange rate risk management is an integral part in every firm's decisions about foreign

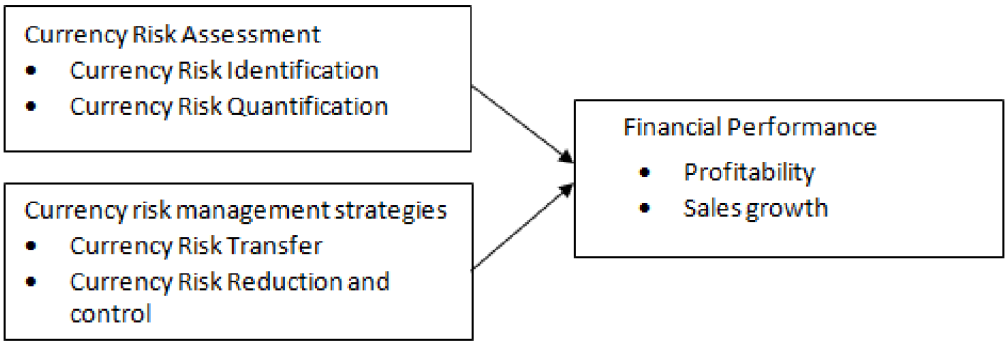
currency exposure (Allayannis, Ihrig, and Weston, 2001). Currency risk hedging strategies entail eliminating or reducing this risk, and require understanding of both the ways that the exchange rate risk could affect the operations of economic agents and techniques to deal with

the consequent risk implications (Barton, Shenkir, and Walker, 2002). The need for currency risk management started to arise after the break down of the Bretton Woods system and the end of the U.S. dollar peg to gold.

"Exchange rate exposure puzzle" (Bartram and Bodnar, 2007). Their paper is the first to examine the relationship between exchange rate and stock return fluctuations. For the period around the breakdown of the Bretton Woods regime in 1973, they find a significant positive relationship between exchange rate variability and stock return volatility as well as market risk for U.S. multinational firms. This result is also documented for the Asian financial crisis. since 1997 by Chen and So (2002). Verschoor and Muller (2007) confirm the evidence for this event. However, they extend the methodology by directly controlling movements in exchange rates following the "traditional approach" proposed by Jorion (1990, 1991). In a follow-up study, the authors more comprehensively confirm the main theoretical concept on which this type of study is based by considering several major financial crises in the last decade (Muller and Verschoor, 2009). Bartram and Karolyi (2006) focus on the impact of the introduction of the Euro for a large international sample of non-financial firms.

Foreign Exchange Risk Management (FERM) and Financial Performance

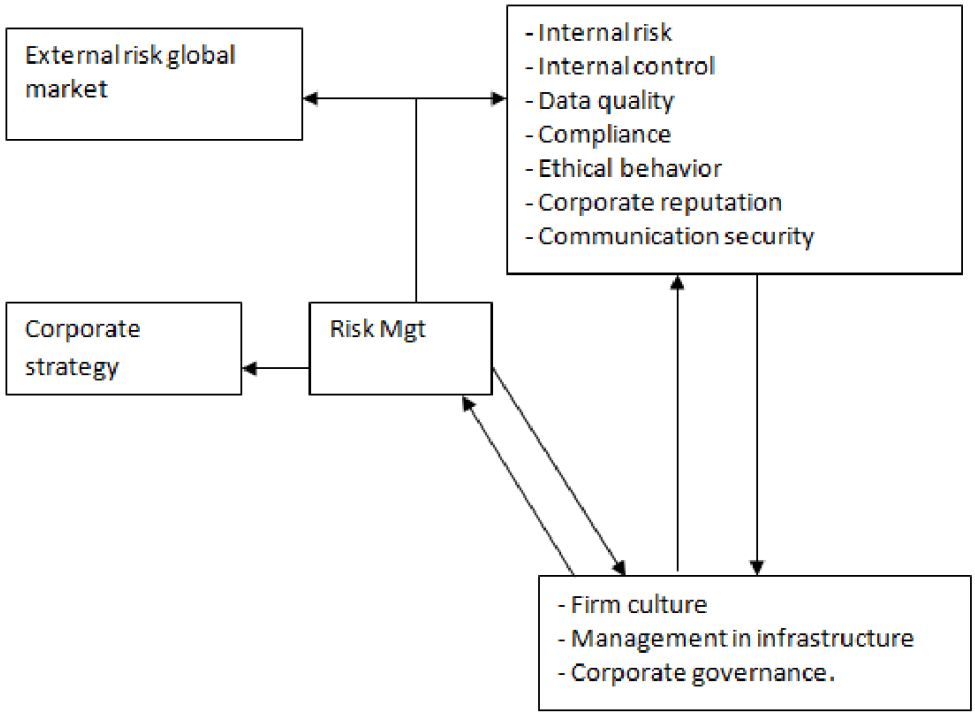
Firms should identify and quantify their exposure to currency risk, which is a basis for a suitable currency risk management strategy (Shapiro, 2003). According to Brain (2000) there is a variety of currency risk management strategies namely currency risk transfer, currency risk reduction and control or currency risk retention. The financial performance of export ventures can be examined based on profitability and sales growth (Lages&Mantgomery, 2004, Eatwell, 1971). Allayannis (2001), revealed a relationship between FERM and financial performance by noting that exporting firms that carry out Foreign Exchange Risk management have been attaining higher returns than other firms.



Risk Management

According to international standards organization (ISO) 31000 risks is defined as the uncertainty on objectives whether positive or negative. Risk management is considered as the identification, assessment and prioritization of risks followed by a coordinated and economical application of resources to minimize monitor and control the probability and impact of unfortunate events.

Risk Management Model



According to John Alzak (2007) risk management is the identifying of risks, assessing the impact on the business of a security incident that occurs and making the right financial decision about how to deal with the result of the assessment. Risk management is an ongoing process which involves several stages.

1.2. COMPANY PROFILE

Sun share investments are one of growing financial institutions, offering complete financial solutions that encompass every sphere of life. From stock broking to mutual funds, to life insurance, to investment banking, the group caters to the financial needs of individuals and corporates. The group has employs around 50 employees across its various businesses, servicing around 340 customer accounts through a distribution network of 2 branches. Their 5 years of existence offering investment products across asset classes with varying risk

parameters that cater to needs of various customer segments, have enabled us to garner trust of over 340 investors.

SUNSHARE is committed to provide its customer with best innovative stock trading system at the affordable price, they believe in quality service, accuracy of their software for their Successful trading in the present competitive market.

They strongly believe in applying Knowledge of technical analysis with use of technology. Drives them to unlimited success 90% of the traders strongly follow their instincts and lose their harden money giving their Money to someone.

Tracking your Portfolio: -

Just investing money is not enough, you have to monitor your portfolio to ensure you money works as hard as you to build a robust financial portfolio. You can use our portfolio tracker to monitor your entire financial portfolio, which encompasses various asset classes. You can also make a watchlist of stocks and enrol for SMS alerts, which will help you track the markets closer to make a timely investment decision.

Transparency: -

We empower you to take the right decisions and handle your own portfolio. Backed by our trusted pedigree, it is our constant endeavour to provide services in a transparent manner. We believe in offering high quality investment services in a cost-effective manner to achieve your financial goals.

VISION:

Their vision is to be a responsible player in the Indian mutual fund space. The company strive hard to deliver consistent performance over the benchmark across all their products, thereby creating customer satisfaction.

CODE OF CONDUCT

- Will act fairly with all stakeholders.
- Comply with all applicable laws, rules and regulations.

- Act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated.
- Not use company's property, or position for personal gain.
- Disclose potential conflicts of interest that they may have regarding any matters that may come before the board and abstain from discussion and voting on any matter in which the director has or may have a conflict of interest.
- Respect the confidentiality of information relating to the affairs of the company acquired in the course of their service as directors, senior management personnel except when authorized or legally required to disclose such information.
- Not use confidential information acquired in the course of their service as directors, senior management personnel for their personal advantage or in their role as directors or any other role in any other company outside the group.
- Help create and maintain a culture of high ethical standards and commitment to compliance.

VIOLATIONS OF THE CODE

The Company will take appropriate action against any Director or Senior Management Personnel whose actions are found to violate the Code or any other policy of the Company. Where the Company has suffered a loss, it may pursue its remedies against the individuals or entities responsible. Where laws have been violated, the Company will cooperate fully with the appropriate authorities.

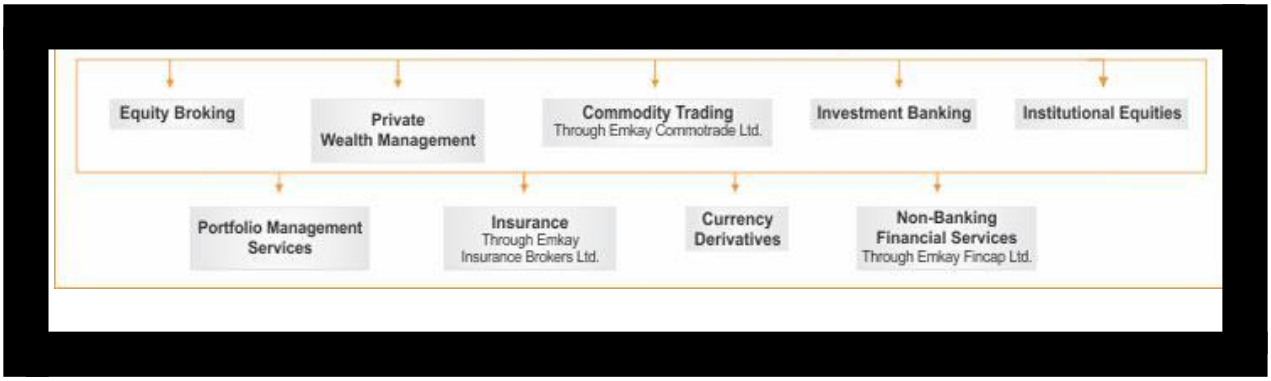
CORPORATE PHILOSOPHY:

We have always believed that your success is our success. It's the only truth of every business. And we have built our foundation around this philosophy. Every endeavor at SUNSHARE is to ensure success - success of its clients, employees, partners, investors and of society at large. And we have been doing this since 2008

We consider ourselves as a Services & Solutions company and not a financial product disseminator. We understand that needs differ, and hence, no one size fits all. Our ultimate

aim is to delight the people, whose lives we touch and every fraction of our existence works towards achieving this, every single second.

CORPORATE STRUTURE



PRODUCTS AND SERVICES:

1. **Online share trading**
2. **Real Estate Advisor**
3. **Asset Management**
4. **Insurance**
5. **Wealth Management**
6. **Investment Banking**
7. **National Products Distribution**

PRODUCTS:

ONLINE SHARE TRADING:

The online trading website provides the customers a seamless internet trading experience through its various useful features such as streaming stock quotes, online payment gateways, portfolio tracker, extensive research reports, online IPO, live market news & real time market statistics. The customers can find all their relevant account and trading details online and make a more informed decision for profitable trading.

Tips to Investors

Picking Stocks

Picking stocks is all about finding opportunities. This is where most inexperienced traders fail because they go and look for stocks of well-known companies that they think they should trade. The reality is that big name stocks like Apple or Google or IBM offer very little opportunity to the individual trader (although it could under certain circumstances). A good opportunity is a stock that has big potential for growth. Often these are companies in whole new industries – companies that you've never even heard of before.

Knowing When To Buy

Once you've found a good stock pick, you need to know when to enter the trade. It's simple: you need to buy the share at the lowest possible price to maximize your profit. If you enter the trade too soon you might pay too much. If you enter the trade too late it might be too expensive. Great traders are very skilled at reading stock signals and evaluating when to buy a stock.

Knowing When to Sell

Knowing when to sell is probably the most important part of being successful at trading shares online. If you sell too soon you will miss out on potential profits. If you sell too late you might lose money. One of the biggest mistakes I see novice traders make is that they hold on to a stock "hoping" that it will go back up so they can recoup their losses. Not only does this lock up your trading capital but it is sure to give you some sleepless nights. With the advent of so-called "artificial intelligence" trading software, this process has been automated to a large extent. To make informed decisions on whether a stock is a good opportunity and deciding when to buy and when to sell requires a lot of research and interpreting a lot of graphs and data.

Artificial intelligence software like Stock Assault can interpret a lot of data for you and make a much more informed decision that you will ever be able to make through "manual" work. Off course you cannot afford to hand over your money to a trading robot, but it sure does give you a big helping hand in making good trading decisions.

MUTUAL FUND:

Investment in mutual funds offers the following advantages: -

- Diversification of portfolio: Since mutual funds invest in a bouquet of instruments, they offer an effective means of diversification for the investor.
- Professional management: Mutual funds are an excellent means of investment for people who do not have the time or the expertise to study the markets in depth before making investment decisions. The funds are generally managed by well-qualified fund managers, and it is always prudent to check the fund manager's background before investing in a fund.
- Low cost: A mutual fund unit is much less expensive than the individual stocks in which the fund has invested. Thus, with a given amount of money, an investor can buy more number of units of mutual funds than individual stocks.
- Tax Benefits: Investment in mutual funds offers several tax benefits. For example, dividends received through mutual funds are exempt from tax, while investment in certain types of mutual funds is deductible from the taxable income to reduce the tax liability. Thus, mutual funds can be used as effective tools fortax planning.

COMMODITY

SUNSHARE Commotrade equips you with reliable research, based on a technical and fundamental study of all major commodities. It also continuously works towards recommending various trading strategies which you can use to enhance your commodities trading experience.

When you choose to trade through SUNSHARE Commotrade, you not only receive personalized service but enjoy the benefit of a delivery mechanism made easy! SUNSHARE Commotrade is your veritable guide and gateway into the world of commodities trading.

Commodities' trading offers the following benefits: -

- **Diversification of portfolio:** Commodity trading offers a means for diversification of portfolio for the investors, by offering exposure to an asset class different from stock markets instruments such as equities, mutual funds and bonds.
- **Predictability:** Commodities pricing is largely based on the demand and supply fundamentals for the commodity, and hence, becomes relatively easier to predict.

- **Leverage:** Trading in commodities futures involves use of leverage through margin which is maintained with the broker. Hence, large transactions can be executed with lesser amount of cash in hand.
- **Liquidity:** Futures contracts in commonly traded commodities such as gold, silver, crude oil and grains offer a high level of liquidity in the market.

DERIVATIVES:

Derivatives have traditionally been used by businesses to hedge against different types of risks and have been in existence for decades. With well-planned strategies based on a thorough study of the markets, individual investors and traders can earn handsome returns through derivatives trading.

Investment in derivatives has the following advantages: -

- **Hedging against risk:** Derivatives are used for hedging against risk in price fluctuations of the underlying asset. Since the buy (or sell) price at delivery is specified in advance, the buyer/seller can protect his investment from deviation in price trend.
- **Lower costs:** The investor needs to pay only for the contract, which is usually much less than the price of the underlying asset, thus offering a benefit of lower costs.
- **Leverage:** Trading in derivatives involves use of leverage through margin that is maintained with the broker. Hence, less cash is required to be paid at the time of trade.

SERVICES:

FINANCIAL PLANNING:

Financial Planning is the process of planning a person's investments and assets to enable the person to attain his or her financial goals, keeping in mind the risk profile of the person.

WEALTH MANAGEMENT

SUNSHARE helps you to systematically plan and execute financial strategies based on an in-depth understanding of your needs, your appetite for risk and the products that are available in the market.

We follow a three-step process for managing your wealth.

Step 1 - Understanding your needs and goals

Different individuals have diverse needs and goals in life. The practice of wealth management tries to ensure that your finances support these goals at every stage of your life. So, our first step to developing your customized investment portfolio is analyzing your needs and goals.

Step 2 - Executing investments

While channeling your finances towards achieving your goals, we take into account aspects like your cash flow requirements and your risk appetite. A right balance is struck between investing in liquid assets and in medium- and long-term investments. We suggest investment across various asset classes such as stocks (equities), mutual funds, debt assets etc. in varying proportions, depending on your profile. This helps in optimizing returns and ensuring risk mitigation through a diversified portfolio.

Step 3 - Reviewing portfolio at regular intervals

With constant changes in the business and economic environment it is important to review the portfolio from time to time and make necessary alterations whenever necessary. This helps in aligning the portfolio to the investment objective.

INVESTMENT BANKING:

SUNSHARE focuses on middle market entrepreneurs and provides them with a complete range of solutions from strategic advisory services to capital raising, to assist them in implementing their growth plans. We aim to spend adequate time with the entrepreneurs and

their team to understand their motivations, businesses and strategy. SUNSHARE believes in a strong, relationship driven, long term approach with all its clients, as corporates need time to execute their business plans and it is imperative that in turbulent times the banker becomes a trusted advisor and remains with them through the various phases of the business cycles and is able to advise them on the best strategies at each appropriate stage in their growth cycle.

To enable us to do this, we have put together an experienced team of professionals who come with very strong relationships across the regulatory and investor space and also have a deep understanding of the issues facing the mid market corporates in these times, as they aim to become the large caps of tomorrow. We have strong relationships across the spectrum of investors ranging from marquee private equity funds, mutual funds, overseas institutional investors, hedge funds, very high net worth investors as well as bankers.

INSURANCE:

Services And Value Proposition

Being an insurance broker, we cater to all the insurance needs of our clients and provide technical expertise and value enhancement to our clients. Our list of services includes:

- Life and non-life insurance:
- Risk management:
- Claim settlement:
- Policy reviewing:

1.2 INDUSTRY PROFILE

The integration of the domestic economy through the twin channels of trade and capital flows has accelerated in the past two decades which in turn led to the Indian economy growing from Rs 32 trillion (US$ 500 billion) in 2004 to about Rs 129.57 trillion (US$ 2.01 trillion) by 2015. Simultaneously, the per capita income also nearly trebled during these 11 years. India's trade and external sector had a significant impact on the GDP growth as well as expansion in per capita income.

Recently, India overtook Italy, Germany and Bangladesh to emerge as the world's second largest textile exporter, as per the data released by Apparel Export Promotion Council (AEPC). According to The Cotton Textiles Export Promotion Council (Texprocil), India's textile and clothing exports stood at US$ 41.4 billion in 2015 as compared to US$ 39.3 billion in 2014, growing by 5.34 per cent over the previous year.

According to Ms Nirmala Sitharaman, Minister of State (Independent Charge), Ministry of Commerce and Industry, the Government of India is keen to grow exports and provide more jobs for the young, talented, well-educated and even semi-skilled and unskilled workforce of India.

Capital Inflows

According to data released by the Reserve Bank of India (RBI), India's foreign exchange reserves were US$ 354.40 billion in the week up to March 11, 2016, an increase of US$ 2.54 billion over the past week.

Foreign Direct Investments (FDI)

During April 2000–December2015, India received total foreign investment (including equity inflows, re-invested earnings and other capital) worth US$ 408.68 billion. The country was one of the top destinations for FDI inflows from Asian countries, with Mauritius contributing 33.7 per cent, Singapore 15.53 per cent and the UK contributing 8.17 per cent of the total foreign inflows.

Foreign Institutional Investors (FIIs)

FIIs net investments in Indian equities and debt touched record high in last financial year (2014-15), on the back of factors such as expectations of recovering economy, falling interest rates and improving earnings outlook. FIIs invested net US$ 43.5 billion in FY 2014-15 which was their highest investment in any fiscal year so far. Of the total investment, US$ 26.3 billion was invested in debt while the rest US$ 17.2 billion was invested in equities.

External Sector

India has expressed interest in signing a preferential trade agreement with Iran once international sanctions on the Persian Gulf nation are lifted which would make it India's first trade agreement with a country in West Asia.

The Government of India plans to build five new railway links with Nepal, which will boost India's economic links with its neighbouring country and promote growth, employment and prosperity in the region.

The Union Cabinet has approved a proposal to provide US$ 150 million credit from Export Import Bank of India (EXIM Bank) for the development of Chabahar Port in Iran.

India and China plan to undertake a joint study on the impact of regional trade agreements, to be conducted by India's NITI Aayog and China's Development Research Centre (DRC).

India and South Africa are considering prospect of setting up a joint venture (JV) for mining and owning coal blocks in South Africa.

India and the United Arab Emirates (UAE) will set up a joint working group to forge stronger linkages in the hydrocarbon, chemicals and fertiliser sectors.

India is looking to develop the Chabahar port project in Iran by signing an international transit corridor agreement with Iran and Afghanistan.

India and Belarus set a trade target of US$ 1 billion by 2018 during the Seventh Session of the India-Belarus Intergovernmental Commission on Trade, Economic, Scientific, Technological and Cultural Cooperation.

Arab-India Economic Forum (AIEF), to be held in November 2015, would help open up new opportunities for trade and commerce between India and the Middle East.

The US has restored its program for concessional duty treatment to Indian products, called 'Generalised System of Preferences', till 2017.

India and Japan are expected to sign a pact of cooperation in the field of intellectual property. The pact will aim to enhance efforts to support innovation in both the countries and will be renewed automatically every four years.

According to Mr Andrew Robb, Australia's Trade and Investment Minister, Australia's top trade priority is to conclude the Comprehensive Economic Cooperation Agreement (CECA) with India by 2015 which has major focus on services and investment.

At the fourth session of the bilateral Joint commission on Economic cooperation held in Warsaw, India and Poland have set an ambitious target to increase bilateral trade from US$ 2.3 billion in 2014 to US$ 5 billion by 2018. India was praised by several members of the

World Trade Organisation (WTO) for following liberal and open macroeconomic policies while increasing its global presence at the same time.

During the visit of Mr Vladimir Putin, President of Russia, to India, the two countries signed several agreements, in areas spanning civil nuclear cooperation, defense and energy.

Foreign Trade Policy

All export and import-related activities are governed by the Foreign Trade Policy (FTP), which is aimed at enhancing the country's exports and use trade expansion as an effective instrument of economic growth and employment generation.

The Department of Commerce has announced increased support for export of various products and included some additional items under the Merchandise Exports from India Scheme (MEIS) in order to help exporters to overcome the challenges faced by them.

The Central Board of Excise and Customs (CBEC) has developed an 'integrated declaration' process leading to the creation of a single window which will provide the importers and exporters a single point interface for customs clearance of import and export goods.

As part of the FTP strategy of market expansion, India has signed a Comprehensive Economic Partnership Agreement with South Korea which will provide enhanced market access to Indian exports. These trade agreements are in line with India's Look East Policy. To upgrade export sector infrastructure, 'Towns of Export Excellence' and units located therein will be granted additional focused support and incentives.

The Reserve Bank of India (RBI) has simplified the rules for credit to exporters, through which they can now get long-term advance from banks for up to 10 years to service their contracts. This measure will help exporters get into long-term contracts while aiding the overall export performance.

The Government of India is expected to announce an interest subsidy scheme for exporters in order to boost exports and explore new markets.

Road Ahead

India is presently known as one of the most important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths have attributed to its standing as one of the most sought after destinations for foreign investments in the world. Also, technological and infrastructural developments being carried out throughout the country augur well for the trade and economic sector in the years to come.

Boosted by the forthcoming FTP, India's exports are expected to cross the US$ 350 billion mark in the year 2015 and reach US$ 750 billion by 2018-2019 according to Federation of India Export Organisation (FIEO). Also, with the Government of India striking important deals with the governments of Japan, Australia and China, the external sector is increasing its contribution to the economic development of the country and growth in the global markets. Moreover, by implementing the FTP 2014-19, by 2020, India's share in world trade is expected to double from the present level of three per cent.

1.3 NEED FOR THE STUDY

Sunshare Investments Pvt Ltd, Chennai is a trading company and a provider of foreign exchange payment services to small-sized businesses and private clients. Share Trading companies came into existence at the very start of Commodity Exchanges in India. With nationwide presence, it enables the retail & corporate investors to diversify their portfolio and enjoy the benefits of commodity trading in MCX, NCDEX, and NSEL. Our highly appreciated research team guides the investors to make wise investment decisions for Bullion, Base-Metals, Energy and agro-commodity. This project provides a number of recommendations and best practices to help them develop a plan to manage the foreign exchange risk the company faces.

1.4 SCOPE OF THE STUDY

- The scope of this study is to find the best risk management techniques for Sunshare Investments Pvt Ltd
- This scope covers the importers and exporters, who are all having foreign currencies.
- This is done through the use of a survey(questionnaire) sent out to a sample consisting of their clients.
- This study helps to identify the best techniques in order reduce the foreign exchange risk. The suggestions given by the customers (respondents) as well as the recommendations given by the researcher could help the company to improve their services.

1.5 OBJECTIVES

PRIMARY OBJECTIVES:

- To assess and mitigate Foreign Exchange Risk Management and to minimize potential currency losses – with respect to Sunshare Investments Pvt Ltd in Chennai.

SECONDARY OBJECTIVES:

- To identify the exposure of the clients in foreign currency.
- To make an assessment of the level and variability of risks with respect to foreign exchange.
- To identify the best technique to reduce the foreign exchange risk.
- To determine the various factors leading to selection of a technique.

1.6 LIMITATIONS OF THE STUDY:

- More time is required for collecting data from respondent because interviews were held at the convenience of the informants.
- Accuracy of the data is subjected to the respondent's statements and views. However, an attempt is planned to get as much genuine information as possible.
- The non-availability of some respondents could have had its effect on the accuracy of the data gathered.
- Even though the respondents were available they were not at all willing to respond.
- Unawareness of the respondents created errors, which is the major limitation.
- If risks are improperly assessed and prioritized, time can be wasted in dealing with risk of losses that are not likely to occur. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably. Unlikely events do occur, but if the risk is unlikely enough to occur, it may be better to simply retain the risk, and deal with the result if the loss does in fact occur.
- Prioritizing too highly the Risk management processes itself could potentially keep an organization from ever completing a project or even getting started. This is especially true if other work is suspended until the risk management process is considered complete.

CHAPTER 2

REVIEW OF LITERATURE

Yazid and Muda (2006) examines the extent of foreign exchange risk management among Malaysian multinationals and investigates the purpose of managing foreign exchange risks, the types of risks managed and the extent of management control and documentation of the foreign exchange risk management. The study which was based on response from 54 MNCs, indicate that Malaysian multinationals are involved in foreign exchange risk management primarily because they sought to minimize the losses on operational cash flows which are affected by currency volatility. Another finding of the study is that the 25 majority of multinationals centralized their risk management activities and at the same time imposed greater control by frequent reporting on derivative activities.

Davies, Eckberg and Marshall (2006) examines foreign exchange hedging by Norwegian exporting firms to provide empirical evidence on the determinants of the hedging decision. The paper contributes to prior studies by, first, focusing on exporters to ensure that the companies in the sample have foreign exchange exposure, thereby allowing a more rigorous test of the theoretical determinants of hedging, and, secondly, in contrast to most previous studies that have focused on foreign exchange external hedging instruments, the use of both internal and external instruments is examined. The firm size, extent of internationalization and liquidity--are found to be related to the decision to hedge foreign exchange risk. Unlike empirical studies for other countries the evidence for Norwegian firms does not support the hypothesis that the avoidance of financial distress and the need to resort to external capital markets is a significant determinant of the hedging decision.

Salifu, Osei and Adjasi (2007) examined the foreign exchange exposure of listed companies on the Ghana Stock Exchange over the period January 1999 to December 2004. The study was based on the secondary data of 20 listed companies. The study found that, all the major currencies of international transaction of the country are sources of foreign exchange risk to listed firms on the GSE. The US dollar turned out to be the most dominant source of exchange rate risk at both the firm and sector levels. Most firms had negative exposure coefficients and this suggests that, the majority of the listed firms could 26 experience an

adverse valuation effect when the local currency (cedi) depreciates substantially against other foreign currencies and benefit when the cedi strengthens in value relative to these currencies. About 55 per cent of firms in the sample have a statistically significant exposure to the US dollar while 35 per cent are statistically exposed to the UK pound sterling. Sector specific exposure results show that the manufacturing and retail sectors are significantly exposed to the US dollar exchange rate risk. The financial sector did not show any risk exposure to any of the international currencies.

Faseruk and Mishra (2008) examine the impact of US dollar exchange rate risk on the value of Canadian non-financial firms. The sample includes all nonfinancial Canadian firms with sales over $100 million. The study segregates firms into hedging and non-hedging groups and applies statistical techniques to test if hedging enhances value. A total of 194 firms were selected for the study which was carried on the basis of secondary data in the form of annual reports. The paper has two major contributions. First, this is the first study that examines the US dollar risk management by Canadian firms. Second, it documents that it is important to hedge US dollar risk for the firms that have US exports. Firms are 27 better off by implementing both operational and financial hedging of US dollar risk. As expected, Canadian firms that have higher levels of US sales tend to use derivatives more often and tend to have higher levels of US$ exposure. However, firms with both US sales and US assets tend not to use financial hedging as often. The US assets provide some sort of natural operational hedging for US sales of Canadian firms.

Yazid, Hussain and Razai (2008) reports that majority of Malaysian manufacturers (55%) are not involved in management of foreign exchange exposure. The study shows that considerable number of manufacturers totaling to 46% are not involved in managing currency exposure due to insignificant exposure. On analysis of annual reports of the respondents, it was found that total of 20% of manufacturers who were not involved in hedging the risk by using derivative products used natural hedge by borrowing in foreign currency. This study which was based on annual reports of the companies shows that manufacturers with large asset base and more employees are more likely to involve in currency exposure management. Majority of respondents who are managing the currency exposure are making use of Forward contract as it is simple and easy to understand. They use foreign currency derivatives only for hedging purpose.

Al-Momani and Gharaibeh (2009) studied the foreign exchange risk management practices of Jordanian firms. The results of the study indicate that the use of foreign exchange risk management techniques such as financial derivatives is not a common practice by Jordanian firms. The most common methods used by Jordanian firms to manage foreign exchange risks are matching, netting, using local currency, and price policy. In addition, this study 28 concludes that there are no relationships between firm size and legal structure and the management practices toward transaction exposure. Gonzalez, Bua, Lopez and Santomil (2010) analyzes the factors that determine the use of foreign currency debt to manage currency exposure for a sample of 96 Spanish non-financial companies. Study found that on one hand the decision to hedge with foreign debt is positively related to the level of foreign currency exposure, size. On the other hand, the extent of hedging is related positively to the foreign currency exposure, size, managerial risk aversion and negatively to the costs of financial distress.

Aabo, Hog and Kuhn (2010) applies an integrated foreign exchange risk management approach with a particular focus on the role of import in mediumsized manufacturing firms in Denmark Study found that a strong, negative relation between import and the use of foreign exchange derivatives on the aggregate level. Their findings are consistent with the notion that firms use import to match the foreign exchange exposure created by foreign sales activities.

Kang and Lee (2011) conducted an empirical analysis of the exchange rate exposure of 392 Korean firms by employing not only changes in the exchange rate but also the standard deviation of exchange rate. The empirical results in the case of using the standard deviation of exchange rates suggest that: the number of firms showing significant exchange rate exposure has been relatively increasing; exchange rate exposure is more likely for export-oriented manufacturing industries than for nonmanufacturing industries; and large firms using hedging methods are likely to show a low degree of exchange rate exposure

Yadav and Jain (2004) studied the risk management practices relating to international operations of public sector companies in India. The study included political risk, interest rate risk and exchange risk. With reference to exchange risk, study found that significant transaction that causes exchange risk is import activity. Majority of public sector companies were not found to use forward to cover foreign exchange risk.

FICCI (2004) conducted a survey during last quarter of 2004 to analyse the 'Impact of rupee appreciation on Indian exporters'. The survey which was conducted in the light of appreciation of Indian rupee against USD reveals that than 73 percent of the respondents feel that rupee appreciation is a very serious problem. Survey indicated that 73% respondents use USD exclusively for conducting exports and exporters who use more than one foreign currency, the dollar on average accounts for nearly 75% of the total billing portfolio. Majority of the respondents felt that appreciation is putting pressure on revenue and in turn on margins, with 86% complaining on the same. In the survey 89 percent exporters prefer Euro as transaction currency over USD, but they felt that Indian exporters are not in a strong position in this regard and may find it difficult to move towards another currency.

FICCI (June 2007) to analyses the impact of rupee appreciation and hardening of interest rates on Indian manufacturing sector. Among various sectors impacted by rupee appreciation, readymade garments sector seems to be worst hit. Minimum fall in the level of exports is reported to be 20 percent and maximum is in the range of 40 to 50 percent. Rupee appreciation has made garment exporters uncompetitive to the tune of 8 percent to 15 percent in terms of price in the international market. Buyers are increasingly moving towards neighboring countries like Bangladesh, Pakistan etc. This will have negative impact on the investments in future. Similarly textile sector has also seen a fall. It was 25 to 40 percent for many textile exporters in the month of April & May 2007. Export realizations are down by 6 to 6.5 percent in some cases. In terms of price, exports are uncompetitive now to the extent of 8 to 10 percent and exports of cotton yarn adversely affected as buyer are increasingly sourcing from Pakistan.

ASSOCHAM (2007) conducted a survey of 400 large, medium and small exporters on the adequacy of the Rs.1400 crore export package announced by government to the rupee appreciation-hit exporters. An overwhelming majority of 80 percent complained that a 10 percent rise in rupee has rendered the exports proceeds uncompetitive. About 68 percent expressed anguish citing that delay in implementing service tax exemption as declared by government was adding to their woes while about 90 percent unanimously held that government response in identifying and promoting potential export markets for them was almost `negligible'. 80 percent of the exporters surveyed felt that the margins of SMEs had been wiped out on account of appreciation; government should facilitate invoicing in rupees rather than US dollars and other currencies, the relief package will not give much benefit to

sustain export growth. Respondents took part in the survey felt that the countries like Thailand,

FICCI (May 2007) Survey on exports conducted during April May 2007 reveals that while the adverse movement in the country's exchange rate is affecting a significantly high 75 percent of the participating companies, just about 30 percent of the participating companies have put in place or have resorted to a mechanism that provides cover for currency exposure. Further, 82 percent of the companies reported that in their agreements with their clients they do not have a clause that allows revision of rates in case of a sizable adverse movement in the exchange rate. Exporters are also on the lookout for clients and markets where Euro could be replaced as a medium of exchange for US$. Many exporters are also trying for a complete shift in the medium of exchange from US dollar to Euro in their existing contracts. Several companies have already started engaging their international clients and are negotiating an upward revision in the prices for their products – a task, which they say, is extremely difficult.

An E&Y (2007) survey on corporate treasury reports that foreign exchange risk management practices among the corporate are short-sighted with hedging horizon generally being less than three years. The findings further reveal that corporate hedging exercises were largely within a 12-month band with 33 percent resorting to 'opportunistic' hedging. While forwards and currency swaps are still the most commonly used instruments, as many as 44 percent of the corporates have growing exposures to exotic structures. The independent survey, covering 34 large companies across India, found that while around 85 percent of the respondents had a separate treasury operation, most said that their treasury division was nothing but a cost centre. The study, which covered companies in several industries, said that except for regulatory compulsion, the forex risk management practices of most Indian companies are still short-sighted.

A Mecklai and Business Standard (2007) survey says most Indian companies are still quite far from having good risk management processes. Some of this may have to do with the fact that it is only recently -- say, the last four or five years -- that the forex market has started throwing up surprises in terms of twoway movements. Again, it is only recently that many companies have come to realise that they are, indeed, on their own in the global market and need to create systems that will protect them when things get rough. Only 17 companies out

of 45 taken part in the survey identify exposures for risk management on the date of the contract; in all other cases, it is later - either on the date of invoice or on the date the exposure is reported to the treasury. This suggests that in the majority of companies, risk is identified very late in the game.

Jain (2007) in her study relating to Developing MIS For Foreign Exchange Exposure Management reports that almost 90% of the finance directors who opined that their company faces foreign exchange risk, had a risk exposure management system in place and 76.9% of all sample companies and 63.2% of Indian MNC's said that their company had an information system for management of foreign exchange risk exposure. On the state of information system for management of foreign exchange risk exposure, 96.7% of respondents said that their information system was cost effective, 89.7% said that their information system was regularly reviewed to ensure its cost effectiveness and 93.1% of all respondents had a formal system for calculation of foreign exchange exposure. Respondent constituting 73.1% of total sample calculated transaction exposure only followed by 19.2% companies that calculate transaction and translation exposure. No company calculated economic exposure which only a very small percentage of companies (7.7%) calculated translation exposure only. Finally the study which has a sample size of 47 found 33 that company size has a hearing on the type of exposure formally calculated by the information system i.e. the two are not independent.

Anand and Kaushik (2008) examine what motivates the management to use foreign currency derivatives in corporate India; they compare the significant differences, if any, in the motivation of the firms which either use foreign currency derivatives or have a documented foreign exchange risk management policy in place, with those which do not. They also examine the motivation behind the use of foreign currency derivatives in a factor-analytic framework. Most of the respondent firms (70.4 percent) have documented foreign exchange risk management plan/policy/programme. Transaction exposure as a foreign currency risk is more critical to the firms (74.5 percent) followed by translation exposure (58.3 percent manifested a moderate degree of risk) and economic exposure (54.3 percent manifested a low degree of risk). To reduce the volatility in profit after tax, cash flows and the cost of capital and thus increase the value of the firm on the one side and to reduce the risks faced by the management on the other are among the major reasons which motivate the firms to use foreign currency derivatives in India. Firms with a high debt ratio are more likely to use foreign currency derivatives. The major objective of using derivatives is hedging the risk

(96.1 percent ranked it as the number one objective), arbitrage (55.3 ranked it as number two objective) and price discovery (36.4 percent assigned it rank two and 33.3 percent assigned it rank three). Speculative objective is the least preferred option (62.1 percent assigned rank four).

Dash and Madhava (2008) analyses the impact of INR/USD exchange rate fluctuation on the Indian IT sector The analysis is performed on a random sample of fifty major IT companies. This survey was conducted in the light of drastic appreciation of INR against USD during last part of 2007. The results of the study showed that foreign exchange exposure was especially alarming for a small fraction of small-cap IT companies. The mid-cap and large-cap IT companies had relatively low/moderate exposure levels. The majority of large-cap companies 34 had already hedged their foreign exchange risk, and were not significantly affected by their respective foreign exchange exposures.

Sivakumar and Sarkar (2008) attempt to evaluate the various alternatives available to the Indian corporates for hedging currency exposure. The study was based on 2006-07 annual report of 8 listed companies. By studying the use of hedging instruments by Indian firms from different sectors, the paper concludes that most Indian firms use forwards and options to hedge their foreign currency exposure. This implies that these firms chose short-term measures to hedge as opposed to foreign debt. This preference is possibly a consequence of their costs being in rupees, the absence of a Rupee futures exchange in India and curbs on foreign debt. It also follows that most of these firms behave like net exporters and are adversely affected by appreciation of the local currency.

Jain, Yadav, and Rastogi (2009) examines and compares the policies of foreign exchange risk and interest rate risk management followed by public Sector, private sector business houses and foreign controlled firms in India. The study reveals that Indian firms are aware of their foreign exchange and Interest rate risk. However, all the risks are not managed and the type of ownership control significantly influences the usage of the techniques to manage exchange rate risk and interest rate risk. 'Exposures are not large enough' is the most widespread and prominent reason for not managing risks. Ownership has been observed to be a significant determinant of firms' strategy towards risk management.

FICCI (2010) survey on exports states that the Indian exporters are still apprehensive of the appreciating rupee and the aggressive Chinese moves to push exports. Exporters have also

indicated in the Survey that the stimulus measures provided them with reasonable cushion and support to compete with the exporters from other countries.

Milan (1996) provides empirical evidence on the determinants of corporate hedging decisions. In his paper he examines the evidence in the light of mandated financial reporting requirements in general and constraints placed on anticipatory hedging in particular. Data on hedging is obtained from the 1992 annual reports for a sample of 3022 US firms. Out of 771 firms classified as hedgers, 543 firms disclose information in their annual reports on their hedging activities; the remaining 228 firms report use of derivates but no information on hedging activities is provided. Study finds robust evidence that larger firms are more likely to hedge.

Grant and Marshall (1997) conducted a survey of large UK companies to ascertain their usage of derivatives. They examined the extent of derivatives usage, the reasons behind their usage, the perceived risk associated with derivatives, the control mechanism to monitor the derivatives used and the reporting practices which governed the usage of derivatives. The results of the survey indicated widespread usage of derivatives like swaps, forwards and options. The primary reason for their use was to manage interest rate and currency risks. There was a rather limited but growing use of derivatives to manage commodity and equity risks. Treasurers of the sampling firms reported that they were somewhat cautious about more exotic types of derivatives, primarily because of concern over the illiquidity of the underlying market for these derivatives. Interestingly, they revealed that they viewed control and the nature of their counterparty as the main risk in using derivatives. Finally, the use of derivatives was accompanied by significant control mechanism within the 16 companies and treasurers were using sophisticated methods to quantify their exposure to derivatives before they were reported at board level.

Berkman, Bradbury and Magan (1997) presents the result of survey of derivatives use by 79 New Zealand firms and compare the use of derivatives between non-financial firms in New Zealand and the United States. Although New Zealand is a small open economy with an under-developed financial market compared to US, across all firm sizes, relatively more NZ firms use derivatives. This greater use of derivatives despite higher transaction costs reflects the relatively high exposure of NZ firms. The study finds that 68.6% derivative users felt that

USD was the main currency to which the firm was exposed and 29% felt it was Australian Dollar. 62% of respondents mentioned reducing the fluctuations in earnings is the major objective behind the usage of derivatives. Study also find that NZ firms report more frequently on their derivative positions to their boards of directors than US firms.

Makar and Huffman (1997) examined how foreign exchange derivatives (FXDs) were used by 64 U.S. multinationals facing potentially significant economic exposure, to manage currency risk. The results indicated that FXD use was positively associated with foreign currency exposure. Moreover, there was evidence that these results were not sensitive to industry membership or other differences across firms and reporting years.

Bodnar, Martson and Hayt's (1998) conducted a Wharton survey of financial risk management by 399 US non-financial firms. The results show that foreign currency derivatives are the most commonly used class of derivatives with 83 percent of derivatives-using firms utilizing them. They asked firms to indicate their percentage of total revenues and costs in foreign currency. A reasonable percentage of firms reported neither foreign currency revenue nor foreign currency costs. On the other hand, 40 percent of the firms reported foreign 17 currency revenues of 20 percent or more of total revenues, while 36 percent of the firms reported foreign currency expenses of 20 percent or more of total expenses. So, many firms in the survey had significant foreign currency exposure. The survey showed that the most frequently cited motivation for transacting in foreign currency derivatives markets was for hedging near-term, directly observable exposures. The most hedged exposures were onbalance-sheet commitments (89 percent hedged frequently or sometimes), transactions anticipated within one year (85 percent hedged frequently or sometimes), and foreign repatriations (78 percent hedged frequently or sometimes). Partial hedging appeared to be a normal practice of these firms. Results reveal that the majority of firms hedge less than 25 percent of their perceived exposure. This suggests that reducing the exposure is preferred over eliminating them. Study reveals that options are less frequently used than forwards. Furthermore they find that options are mainly used in long-term exposures. Firms avoid using options either because of the cost they incur in order to get the options or because they find another instrument that is better suited for the given exposure.

Howton and Perfect (1998) examined use of derivatives in samples of 451 Fortune 500 / S&P 500 (FSP) firms and 461 randomly selected firms operating in USA. The study was based

purely on the secondary data available in the company's annual report. They found that over 61 percent of the FSP firms and 36 percent of the random firms used derivatives. In the two samples, forwards and futures were the most-often used currency contracts. The results are consistent with the argument that fewer firms in the random sample are using currency derivatives as compared to FSP firms and for those random sample firms, the main consideration is exposure to currency movements. For the FSP sample derivatives use is directly related to financial distress and external financing costs, tax considerations, and currency-risk exposure, and inversely related to hedging substitutes. The results for the random sample differed considerably from previous studies. Derivatives use in the random sample is unrelated to most of the proxies for the theoretical hedging determinants.

Marshall (1999) conducted a simultaneously survey of the foreign exchange risk management practices of large UK, USA and Asia Pacific multinational companies (MNCs). He investigated whether foreign exchange risk management practices vary internationally. From 179 (30%) usable responses it is shown that there are statistically significant regional differences in the importance and objectives of foreign exchange risk management, the emphasis on translation and economic exposures, the internal/external techniques used in managing foreign exchange risk and the policies in dealing with economic exposures. In general, UK and USA MNCs have similar policies, with a few notable exceptions; however, Asia Pacific MNCs display significant differences. To control for regional variations in the characteristics of respondents the results are also compared by size, percentage of overseas business and industry sector. It was found that either the size of the respondent or the industry sector could also explain the emphasis on translation and economic exposure and use of external hedging instruments.

Kedia and Mozumdar (1999) examine the role of foreign currency denominated debt in firms' risk management activities. In a sample of large US firms, they found a strong relationship between the aggregate foreign exchange exposure and foreign currency denominated debt. This relationship between exposure and foreign currency denominated debt also holds at the individual currency level. Firms' choice of denominating debt in Australian Dollar, Canadian Dollar, French Franc, German Mark, Italian Lira and British Pound is related to their exposure in these currencies. However, firms' choice of denominating debt in Swiss Franc and Japanese Yen is influenced not by exposure in these currencies, but by the high liquidity offered by the debt markets in these currencies. The evidence also suggests that creditors'

rights and information asymmetries influence the choice of the currency of debt. However, the authors find no evidence in favour of tax arbitrage-induced currency preferences in the denomination of debt.

Lodder and Pichler (2000) conducted a survey of risk management practices of Swiss Industrial corporations. Study analysed whether Swiss firms are conscious of their currency exposure. They found that less than 40 percent of the firms are able to quantify their risk. They are able to come out with two major reasons to explain why firms do not measure their foreign currency exposure - it is difficult to measure the risk and firms believe their exposure is small. Study reveals that guaranteeing cash flows, reducing financing cost, simplifying planning, preventing losses and reducing taxes are the main reasons for managing currency risk. They found that most often transaction exposure is hedged by Swiss companies. Translation and economic exposures appear to be less important from their perspective. It is observed that firms often manage economic exposure by lending and borrowing in foreign currencies. They cite the following reason for not hedging economic exposure: firms are unable to anticipate the size and the currency of future cash flows with confidence; the firms already hedge transaction exposure and hence believe that in the long term currency fluctuations offset each other. Surprisingly, the cost of hedging economic exposure is not regarded as an obstacle.

Glaum (2000) conducted a survey of foreign exchange risk management by 74 large German non-financial corporations. The study concludes that the majority of the firms are concerned about managing their transaction exposure. Most firms adopted a selective hedging strategy based on exchange rate forecasts. Only a small minority of firms did not hedge foreign exchange risk at all, and only few companies hedge their transaction exposure completely. Looking in more detail at the management of the firms' exposure to the US-dollar, the survey found that only 16% of the firms were fully edged. The majority of firms had realized hedge ratios between 50 and 99%. There were numerous German non financial firms which were concerned about managing their accounting exposure and some firms are actively managing it. This is in contrast to the exposure concept supported by academic literature which holds that economic exposure is of little importance in practice. The most interesting finding from an academic point of view, however, is the widespread use of exchange rate forecasts and of

20 exchange risk management strategies based on forecasts (selective hedging). By adopting such strategies, the managers indicate that they do not believe that the foreign exchange markets are information efficient and they are able to beat the market with their own forecasts.

Baba and Fukao (2000) explore a new aspect of currency exposure of Japanese firms with overseas operations. For the purpose of the study authors chose the firms classified in electric and precision machinery listed on the Tokyo Stock Exchange. This was because they are generally highly dependent on international operations such as exports, imports of primary materials, and overseas production. The number of the sample firms turned out to be 84, of which 74 firms belong to the electric machinery industry and the remaining 10 firms belong to the precision machinery industry. Empirical results show that in response to JPY's depreciation (appreciation), the values of the firms that are dependent on overseas production declined (rose) after controlling for the effects via the dependency on exports and imported primary materials. The result is consistent with the prediction of the static version of currency risk exposure model.

Christie and Marshall (2001) explore the impact of the introduction of Euro on foreign exchange risk management of UK's multinational companies. The study was based on primary and secondary data of 49 large UK Multinational companies. The study has shown that Euro will undoubtedly affects the foreign exchange risk management in many UK MNCs, despite the U K governments' decision not participate in EMU. The survey reveals that 55 percent of respondents believe that Euro has decreased their exposure to foreign exchange risk. Theoretically, it could be expected that the reduction in the currency risk results in reduced hedging, but survey indicates that majority of respondent's hedging remains unchanged. Only 39 percent of the respondents replied that they would alter their foreign exchange risk management policy and hedge less 21 as a result of the Euro. It was found that the methods of internal and external hedging unchanged by Euro.

Carter, Pantzalis and Simkins (2001) investigates the impact of firm wide risk management practices on the currency exposure of 208 U.S. multinational corporations (MNC) based on various source of secondary data over the period 1994 to 1998. Firm wide risk management is referred to as the coordinated use of both financial hedges, such as currency derivatives, and operational hedges, described by the structure of a firm's MNC foreign subsidiary network.

Study found that the use of currency derivatives, particularly forward contracts, is associated with reduced levels of foreign-exchange exposure. To conclude, the survey results strongly support the view that MNCs hedging in a coordinated manner can significantly reduce exposure to currency risk. These results strongly suggest that operational and financial hedges are complementary risk management strategies.

Popov and Stutzmann (2003) investigate how two Swiss companies, Kudulski and Logitech manage their foreign exchange risk. They find that transaction exposure is the most managed foreign exchange exposure, but translation and economic exposures are not well identified and managed mainly because firms believe it is unnecessary or too complex. Study also reports that whenever possible netting is used by both the companies as it has no cost. Forward is the main external hedging instrument, as options are expensive tool to manage foreign exchange risk, both Kudulski and Logitech use it rarely. Finally, firms hedge their exposure but never fully due to the high cost of hedging.

Jonuska and Samenaite (2003) based on the response of 18 companies, studies the state of currency exposure management in Lithuanian companies. The study focuses on the characteristics of currency exposure management in exporting companies and the problem encountered while using currency derivatives. Most of the companies in Lithuanian are aware of the currency exposure they face especially after pegging their home currency Litas to Euro. Most of the companies try to manage currency exposure by employing internal 22 methods of hedging. Study show that currency derivatives are not popular with Lithuanian companies. The hindrance in usage of derivatives is the relatively high cost, lack of managers' knowledge, mistrust in bank and complicated accounting procedure. Those respondent companies who use derivatives, mostly dependent on forward contract. Majority of derivative user felt that they are not willing to pay option premium, since they consider this derivative to be more complex to apply in risk management. Dairy, oil and chemical industries are among the most highly exposed to US dollar fluctuations, yet the specifics of those industries and financial markets make hedging non-beneficial. Survey results reveal that the cost of hedging indeed exceeds the benefit.

Alkeback, Pramborg and Hagelin (2003) analyse Swedish non-financial firms' use of derivatives in 2003 and compare the results with results from an earlier study which investigated Swedish firms in 1996. The results show, among other things, that: 59 percent of the Swedish firms used derivatives in 2003 compared to 52 percent in 1996; the use of derivatives for hedging the balance sheet among Swedish firms in 2003 is higher than that for other countries but lower than that for Swedish firms in 1996 suggesting that Swedish firms conform to international practice; and the issue of greatest concern to Swedish firms in 1996, viz., lack of knowledge about derivatives within the firm, no longer exists in 2003.

Pramborg (2004) compares the hedging practices of Swedish and Korean nonfinancial firms. Analysis is based upon the response from 163 companies which includes 60 from Korea and 103 from Sweden. The findings suggest similarities between firms in the two countries, with notable exceptions. The aim of hedging activity differed between the countries, Korean firms being more likely to focus on minimizing fluctuations of cash flows, while Swedish firms favored minimizing fluctuations of earnings or protecting the appearance of the balance sheet. The proportion of firms that used derivatives was significantly lower in the Korean than in the Swedish sample. This could not be captured by firm characteristics such as foreign exchange exposure, size, liquidity, or leverage. This may be due 23 to the higher fixed costs incurred by Korean firms initiating derivatives programs. These higher costs could result from the relative immaturity of Korean derivatives markets, and, perhaps more importantly, from Korean authorities' heavy regulation of OTC derivatives use. Korean firms relied to a larger extent on alternative hedging methods, suggesting that the decision to hedge was not country specific but rather driven by firm-specific variables, such as the level of foreign exchange exposure and firm size. It was further argued that Korean firms were less rigorous in monitoring their risk positions than Swedish firms. Finally, a large proportion of firms in both countries used a profit-based approach to evaluate the risk management function Hegelin and Pramborg (2005) investigate Swedish firms' use of financial hedges against foreign exchange exposure. Their survey data lets them distinguish between hedging translation exposure and transaction exposure. Survey responses indicate that over 50 percent of the sample firms employ financial hedges and that transaction exposure is more frequently hedged than translation exposure. The likelihood of using financial hedges increases with firm size and exposure. Importantly, the existence of loan covenants accounts for translation

exposure hedging, suggesting that firms hedge translation exposure to avoid violating loan covenants.

Schena (2005) explores the sensitivity of firm-level Chinese stock returns to changes in a trade-weighted index of the RMB, as well as against the currencies of China's major trading partners, over the five-year period from 1999 to 2003. In assessing the exposure and management of foreign exchange risk by Chineselisted companies, the analysis suggests that despite the currency peg, internationally oriented Chinese firms have experienced significant foreign exchange exposure. Study finds that approximately 34% of sample displays a significant exposure to changes in the value of one or more of the currencies of China's major trading partners against which the RMB is not pegged.

Chan-Lau (2005) assesses foreign exchange exposure in the corporate sector in Chile and opines that foreign exchange exposure in Chile is lower than other countries in the region and similar to that observed in small industrialized countries. The most exposed sector is the financial sector. However, this is not a major source of systemic risk since a recent assessment of financial sector in Chile suggests that banks can withstand severe exchange and interest rate shocks successfully. Managing currency exchange risk has been facilitated by a well-functioning forward market in Chile.

Abor (2005) reports on the foreign exchange risk management practices among Ghanaian firms involved in international trade. The results indicate that close to one-half of the firms do not have any well-functioning risk-management system. The study found that among Ghanaian firms foreign exchange risk is mainly managed by adjusting prices to reflect changes in import prices resulting from currency fluctuation and also by buying and saving foreign currency in advance. The main problems the firms face are the frequent appreciation of foreign currencies against the local currency and the difficulty in retaining local customers because of the high cost of imported inputs, which tend to affect the prices of the final products sold locally. The results also show that Ghana's firms involved in international trade exhibit a low level use of hedging techniques.

CHAPTER 3

RESEARCH METHODOLOGY

The Research design used in the study is descriptive research design

3.1 RESEARCH DESIGN

Descriptive research design is also called explanatory design. This is the one that simply describes something such as demographic characteristics. The descriptive study is typically concerned with determining frequency with which something occurs or how two variables vary together.

3.2 SAMPLE SIZE

It refers to the number of elements of the population to sample. The sample size chosen for the survey is 123.

3.3 DATA SOURCES

After identifying and defining the research problem and determining specific information required to solve the problem, the researcher`s task is to look the type and sources of data which may yield the desired results. Data sources are of two types through which data is collected.

Data sources may be classified as

1. Primary data
2. Secondary data

PRIMARY DATA

Primary data is the original data collected by the researcher firsthand. It is collected for the first time through field survey. These are those that are gathered specifically for the problem at hand. The various sources for collecting primary data are questionnaires, observation, interview etc. The primary source used for the study is questionnaire.

3.4 SAMPLING

Collecting data about each and every unit of the population is called census method. The approach, where only a few units of population under study are considered for analysis is called sampling method. There are two main categories under which various sampling method can be put.

The two categories are

1. Probability sampling
2. Non-probability sampling

The sampling method adopted for the study is convenience sampling under non-probability sampling.

3.5 CONVENIENCE SAMPLING:

In this method, the sample units are chosen primarily on the basis of the convenience to the investigator. The units selected may be each person who comes across the investigator.

3.6 SAMPLE FRAME:

A Sample frame may be defined as the listing of the general components of the individual units that comprise the defined population.

3.7 SAMPLE DESIGN

Sample design is the theoretical basis and the practice means by generalizing from characteristics of relatively few of the comprising population. It is the method by which the sample is chosen.

3.8ANALYTICAL TOOLS

ANALYSIS USING KARL PEARSON'S CORRELATION:

Correlation analysis is the statistical tool used to measure the degree to which two variables are linearly related to each other. Correlation measures the degree of association between two variables. The Pearson product-moment correlation coefficient is a measure of the strength and direction of association that exists between two variables measured on at least an interval scale. It is denoted by the symbol r.

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

CHI- SQUARE TEST I – (Ψ^2)

A chi-squared test, also referred to as chi-square test or χ2 test, is any statistical hypothesis test in which the sampling distribution of the test statistic is a chi-squared distribution when the null hypothesis is true, or any in which this is asymptotically true, meaning that the sampling distribution (if the null hypothesis is true) can be made to approximate a chi-squared distribution as closely as desired by making the sample size large enough.

The χ2 test was first used by Karl Pearson in the year 1980. The quantity χ2 describes the magnitude of the discrepancy between theory and observation.
It is calculated using:

$$\chi^2 = \Sigma \left[\left(O_i - E_i \right)^2 / E_i \right]$$ **with (n - 1) degrees of freedom.**

Where, O_i refers to the observed frequency & E_i to the expected frequencies.

χ^2 was used as a test of independence and goodness of fit.

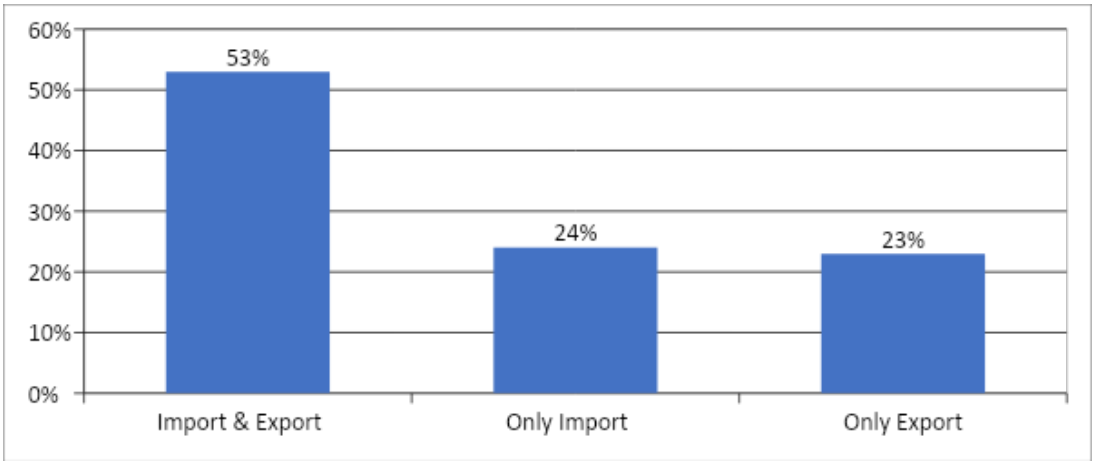
CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

Particulars	No. of Respondents	% of Respondents
Import & Export	65	53%
Only Import	30	24%
Only Export	28	23%
Total	**123**	**100%**

TABLE 1: SOURCE OF FOREIGN CURRENCY

CHART 1



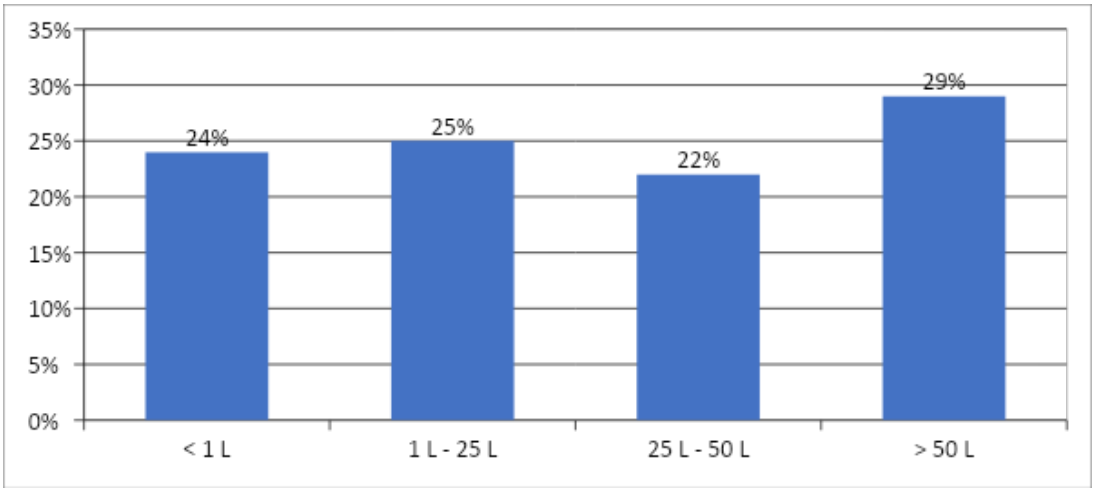
INFERENCE:

53% of the respondents prefer Import & Export as a source of foreign currency and 24% of the respondents prefer only Import as a source of foreign currency. Therefore most of the respondents prefer Import & Export as a source of foreign currency.

TABLE 2: EXPOSURE OF FOREIGN CURRENCY PER ANNUM

Particulars	No. of Respondents	% of Respondents
< 1 L	30	24%
1 L - 25 L	31	25%
25 L - 50 L	27	22%
> 50 L	35	29%
Total	**123**	**100%**

CHART 2



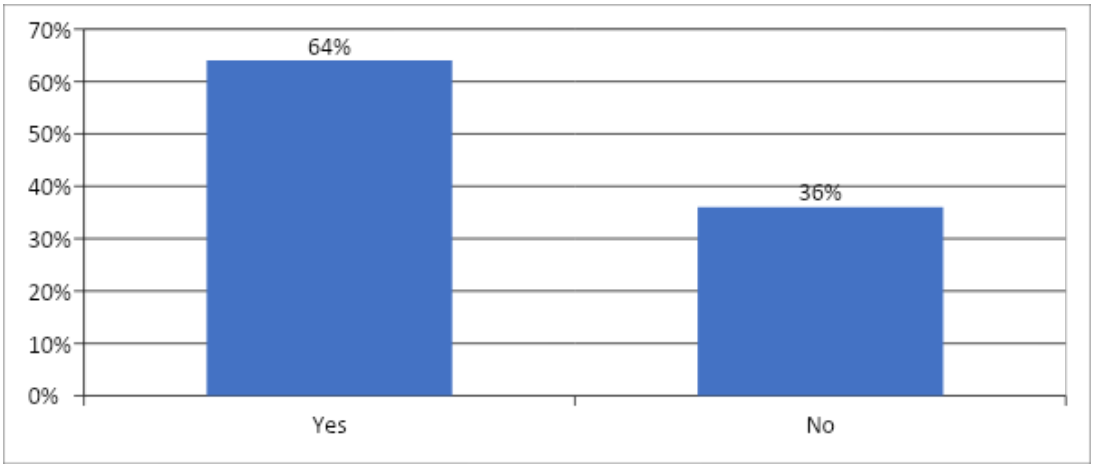
INFERENCE:

29% of the respondents say per annum > 50 L is the exposure of foreign currency, 25% say per annum 1 L - 25 L is the exposure of foreign currency.Therefore most of the respondents say per annum > 50 L is the exposure of foreign currency.

TABLE 3: RISK IN FOREIGN CURRENCY

Particulars	No. of Respondents	% of Respondents
Yes	79	64%
No	44	36%
Total	**123**	**100%**

CHART 3



INFERENCE:

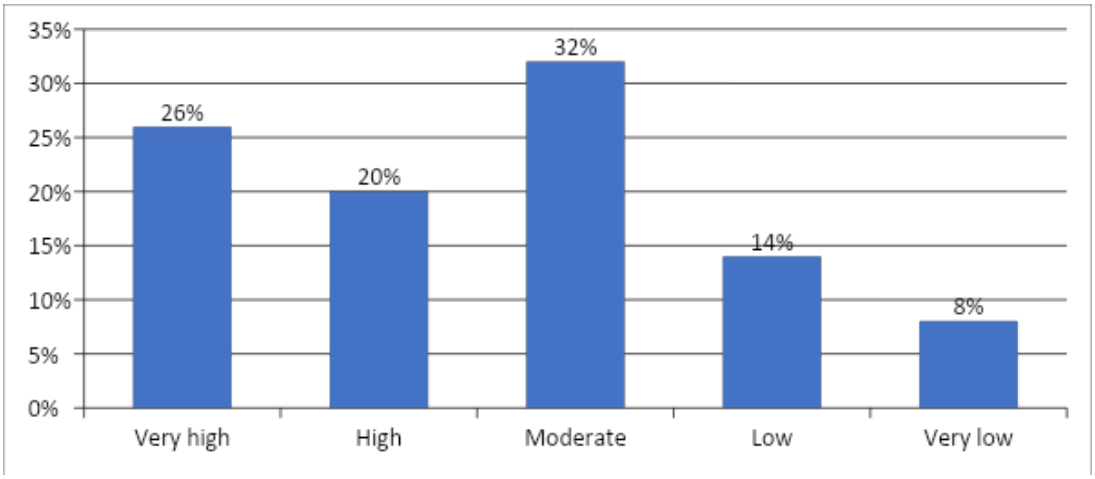
64% of the respondents say that there is a risk in foreign currency, 36% of the respondents say there is no risk in foreign currency. Therefore most of the respondents say that there is a risk in foreign currency.

TABLE 4: IF YES LEVEL OF PERCEPTION OF RISK

Particulars	No. of Respondents	% of Respondents
Very high	32	26%
High	24	20%

Moderate	39	32%
Low	18	14%
Very low	10	8%
Total	**123**	**100%**

CHART 4



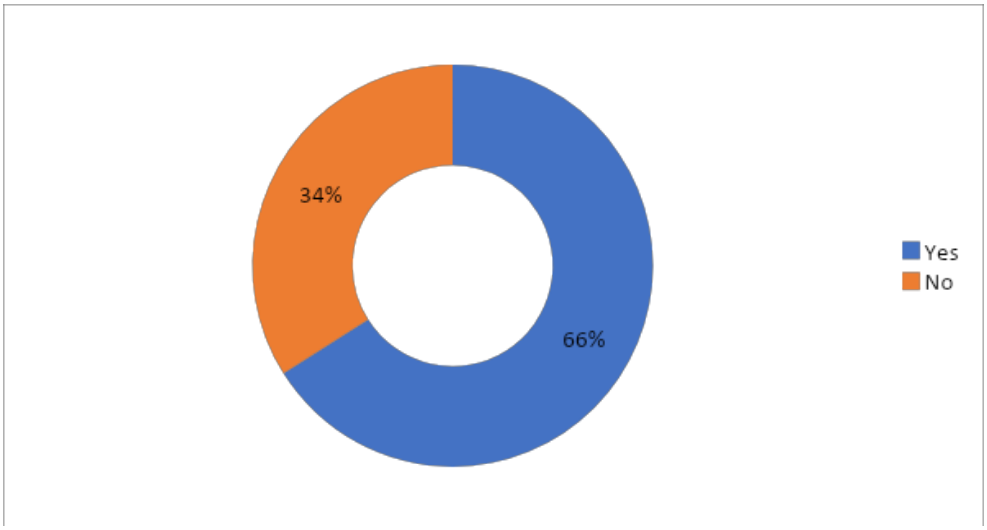
INFERENCE:

32% of the respondents say perception of risk is moderate in level, 26% of the respondents say perception of risk is Very high in level. Therefore most of the respondents say perception of risk is moderate in level.

TABLE 5: LOSS ON FOREIGN CURRENCY EXCHANGE

Particulars	**No. of Respondents**	**% of Respondents**
Yes	81	66%
No	42	34%
Total	**123**	**100%**

CHART 5



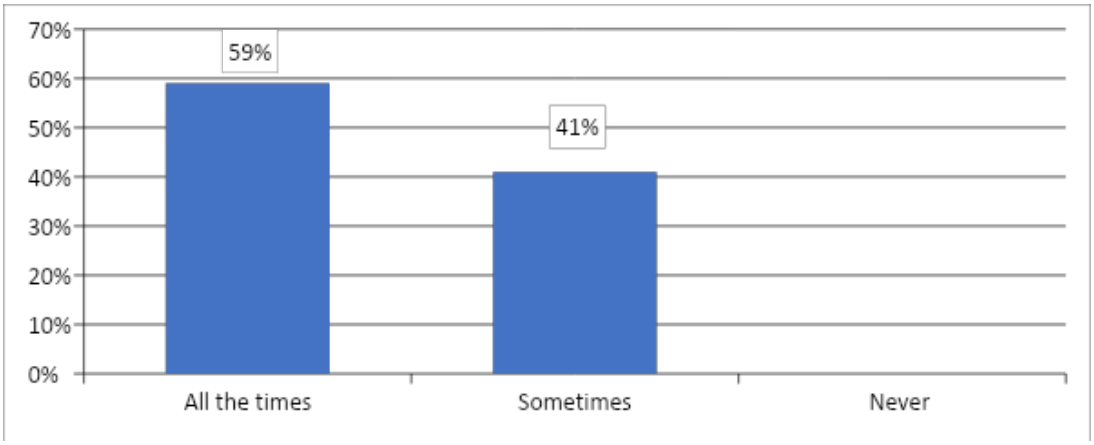
INFERENCE:

66% of the respondents say loss on foreign currency exchange, 34% of the respondents didn't say loss on foreign currency exchange. Therefore most of the respondents say loss on foreign currency exchange.

TABLE 6: HOW OFTEN FIRM MANAGE TRANSACTION EXPOSURE

Particulars	No. of Respondents	% of Respondents
All the times	73	59%
Sometimes	50	41%
Never	0	0
Total	**123**	**100%**

CHART 6



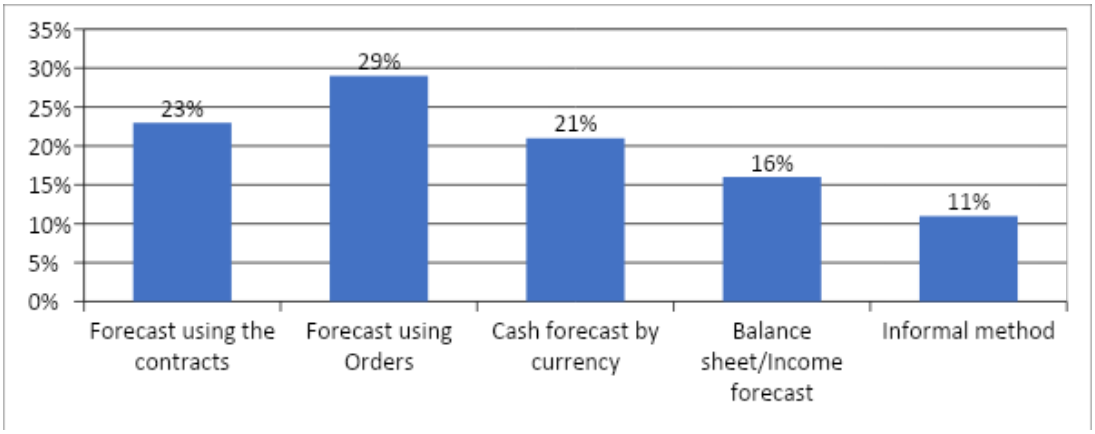
INFERENCE:

59% of the respondents say that all the time the firm manages transaction exposure and 41% of the respondents say that sometime the firm manages transaction exposure. Therefore most of the respondents say that all the time the firm manages transaction exposure.

TABLE 7: METHODS USE TO FORECAST FIRM'S LIKELY FUTURE FOREIGN EXCHANGE EXPOSURES

Particulars	No. of Respondents	% of Respondents
Forecast using the contracts	28	23%
Forecast using Orders	35	29%
Cash forecast by currency	26	21%
Balance sheet/Income forecast	20	16%
Informal method	14	11%
Total	**123**	**100%**

CHART 7



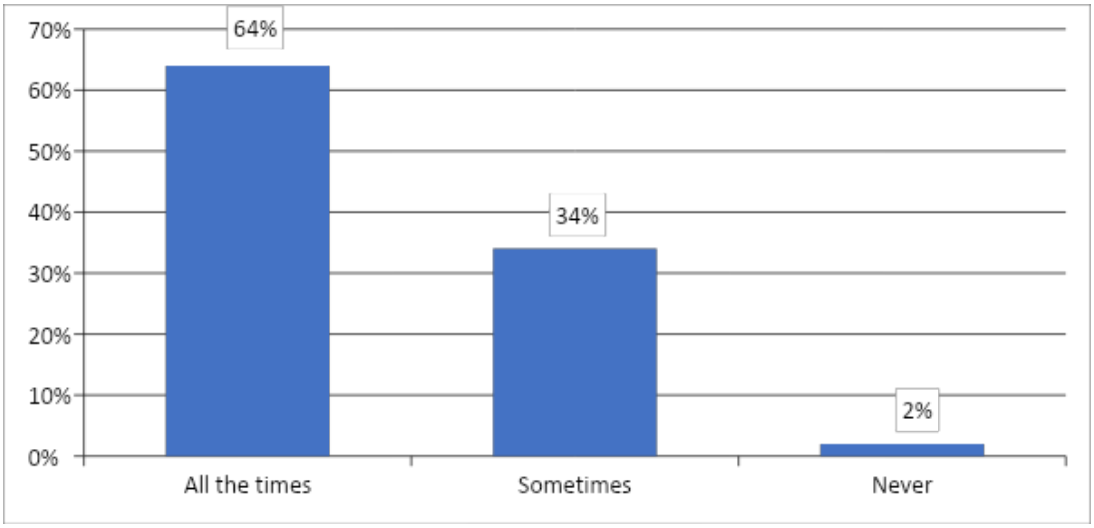
INFERENCE:

29% of the respondents say forecast using orders method which is firm's likely future foreign exchange exposures, 23% of the respondents say Forecast using the contracts method which is firm's likely future foreign exchange exposures. Therefore most of the respondents say forecast using orders method which is firm's likely future foreign exchange exposures.

TABLE 8: HOW OFTEN FIRM MANAGE ECONOMIC EXPOSURE

Particulars	No. of Respondents	% of Respondents
All the times	79	64%
Sometimes	41	34%
Never	3	2%
Total	**123**	**100%**

CHART 8



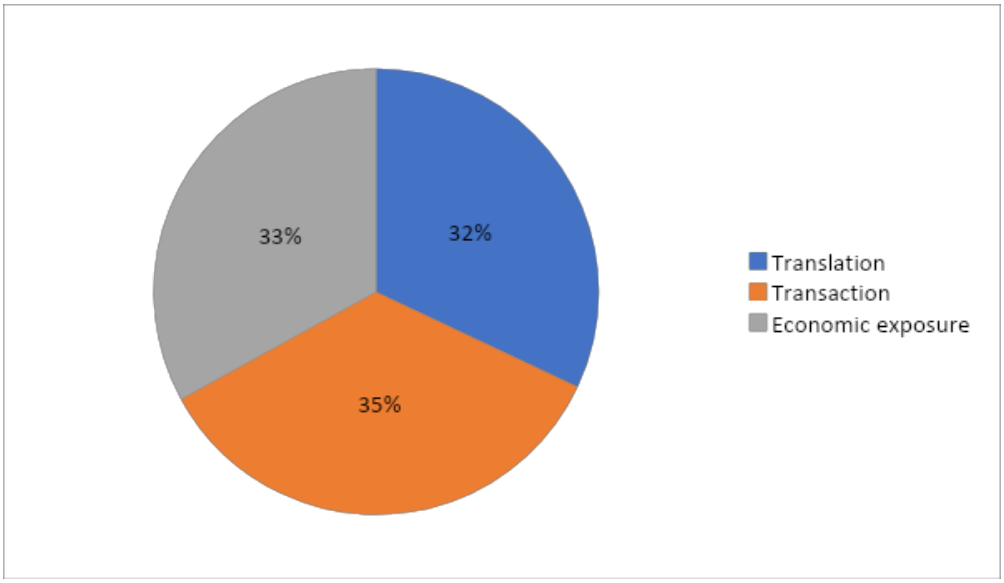
INFERENCE:

64% of the respondents say that the firm manages the economic exposure all the time, 34% of the respondents say that the firm manages the economic exposure only on sometimes. Therefore most of the respondents say that the firm manages the economic exposure all the time.

TABLE 9: THE MAJOR TYPES OF EXPOSURE IDENTIFIED BY FIRM

Particulars	No. of Respondents	% of Respondents
Translation	39	32%
Transaction	43	35%
Economic exposure	41	33%
Total	**123**	**100%**

CHART 9



INFERENCE:

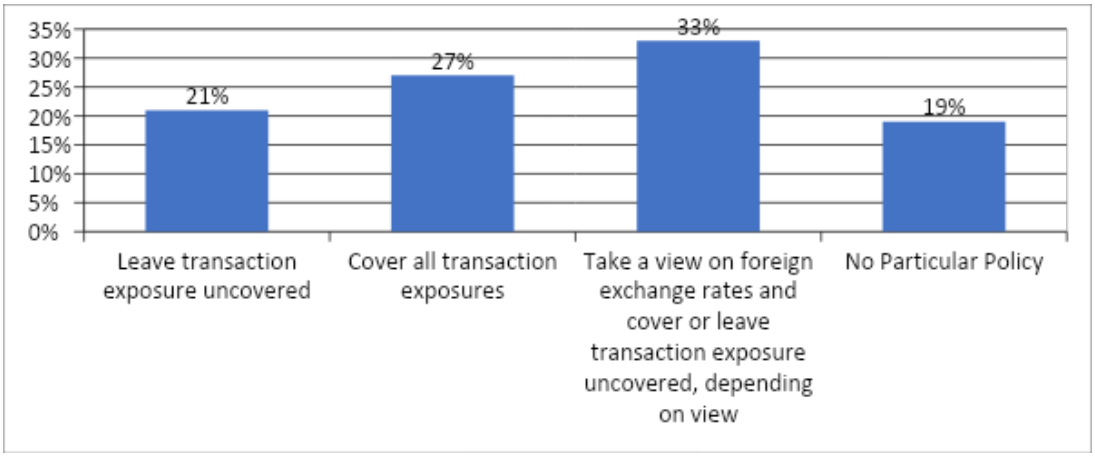
35% of the respondents mentioned that transaction is the major exposure identified by firm, 33% of the respondents mentioned that translation is the major exposure identified by firm. Therefore most of the respondents mentioned that transaction is the major exposure identified by firm.

Particulars	No. of Respondents	% of Respondents
Leave transaction exposure uncovered	26	21%
Cover all transaction exposures	33	27%
Take a view on foreign exchange rates and cover or leave transaction	41	33%

exposure uncovered, depending on view		
No Particular Policy	23	19%
Total	**123**	**100%**

TABLE 10 FIRM'S POLICY ON TRANSACTION EXPOSURE

CHART 10



INFERENCE:

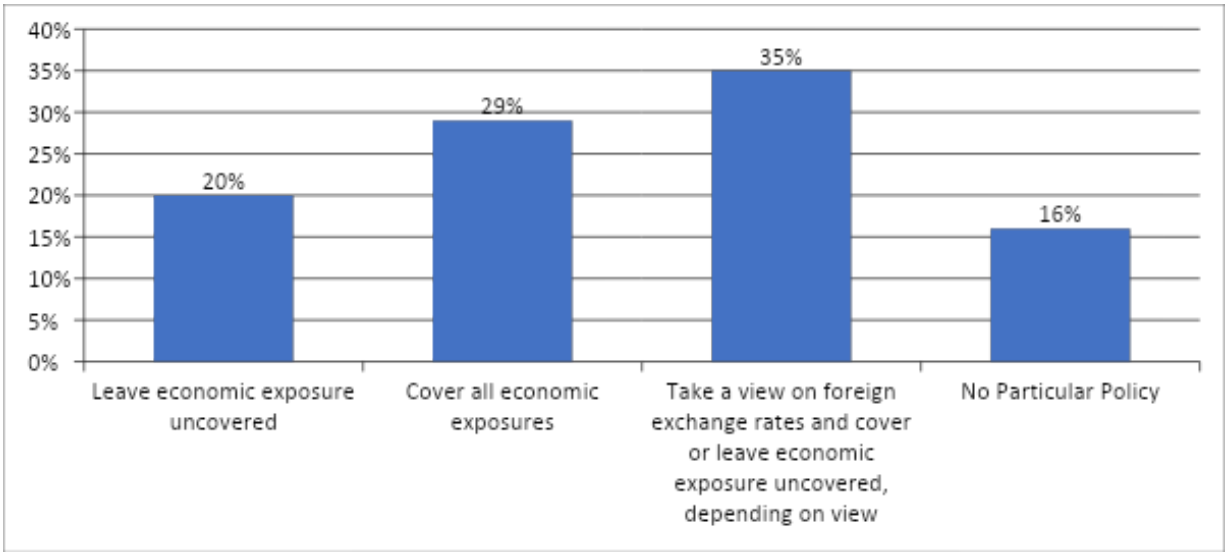
33% of the respondents say that firm's policy on transaction exposure is done by taking a view on foreign exchange rates and cover or leave transaction exposure uncovered, depending on view, 27% of the respondents mention that firm's policy on transaction exposure is done by covering all transaction exposures.Therefore most of the respondents say that firm's policy on transaction exposure is done by taking a view on foreign exchange rates and cover or leave transaction exposure uncovered, depending on view.

Particulars	No. of Respondents	% of Respondents
Leave economic exposure uncovered	25	20%
Cover all economic exposures	35	29%

Take a view on foreign exchange rates and cover or leave economic exposure uncovered, depending on view	43	35%
No Particular Policy	20	16%
Total	**123**	**100%**

TABLE 11: FIRM'S POLICY ON ECONOMIC EXPOSURE

CHART 11



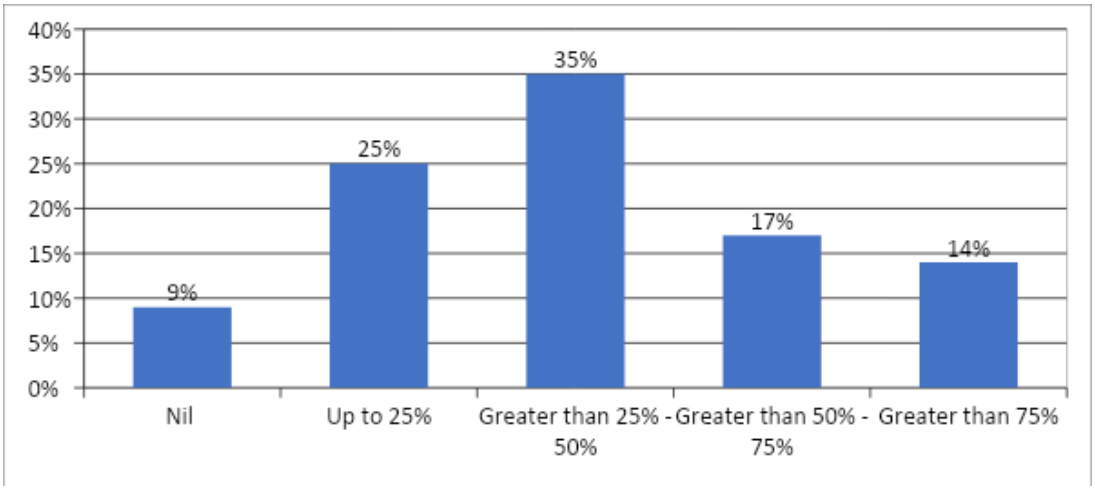
INFERENCE:

35% of the respondents say that the firm's policy on economic exposure is done by taking a view on foreign exchange rates and cover or leave economic exposure uncovered, depending on view, 29% of the respondents say that the firm's policy on economic exposure is done by covering all economic exposures. Therefore, most of the respondents say that the firm's policy on economic exposure is done by taking a view on foreign exchange rates and cover or leave economic exposure uncovered, depending on view.

TABLE 12: LEVEL OF PERCENTAGE THE FIRM'S TRANSACTION EXPOSURE IS COVERED

Particulars	No. of Respondents	% of Respondents
Nil	11	9%
Up to 25%	31	25%
Greater than 25% - 50%	43	35%
Greater than 50% - 75%	21	17%
Greater than 75%	17	14%
Total	**123**	**100%**

CHART 12



INFERENCE:

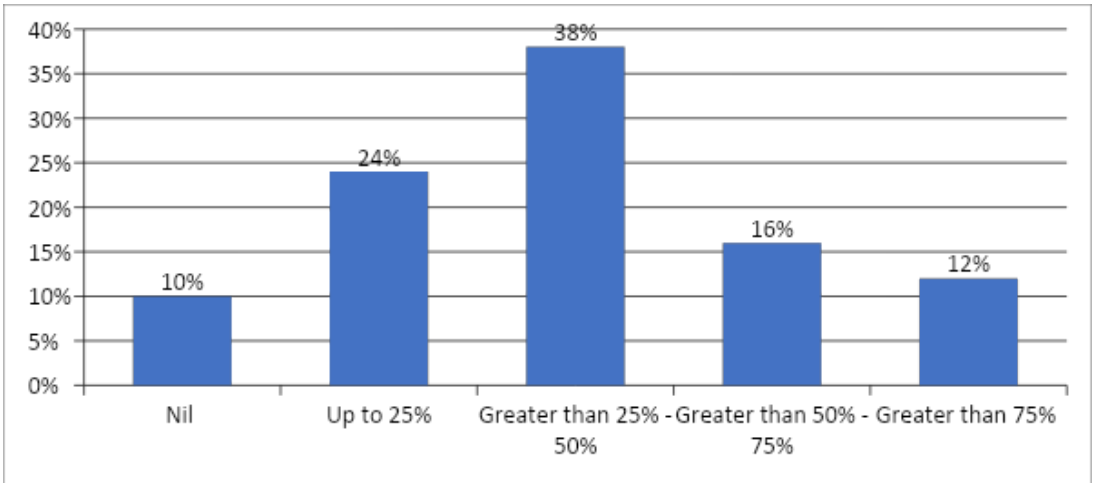
35% of the respondents say that greater than 25% - 50% is the level of percentage of the firm transaction exposure is covered, 25% of the respondents say that up to 25% is the level of percentage of the firm transaction exposure is covered. Therefore most of the respondents say that greater than 25% - 50% is the level of percentage of the firm transaction exposure is covered.

Particulars	No. of Respondents	% of Respondents

Nil	12	10%
Up to 25%	30	24%
Greater than 25% - 50%	47	38%
Greater than 50% - 75%	19	16%
Greater than 75%	15	12%
Total	**123**	**100%**

TABLE 13: LEVEL OF FIRM'S ECONOMIC EXPOSURE IS COVERED

CHART 13



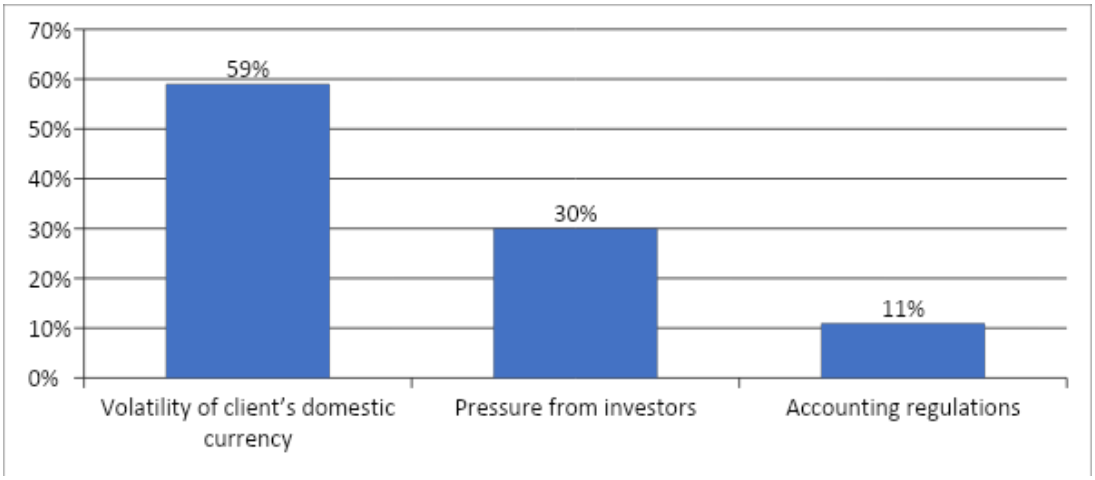
INFERENCE:

38% of the respondents say that greater than 25% - 50% is the level of percentage the firm economic exposure is covered, 24% of the respondents say that up to 25% is the level of percentage the firm economic exposure is covered. Therefore most of the respondents say that greater than 25% - 50% is the level of percentage the firm economic exposure is covered.

TABLE 14: FACTORS TYPICALLY DRIVING FIRM'S FOREIGN EXCHANGE EXPOSURE MANAGEMENT

Particulars	No. of Respondents	% of Respondents
Volatility of client's domestic currency	73	59%
Pressure from investors	37	30%
Accounting regulations	13	11%
Total	**123**	**100%**

CHART 14



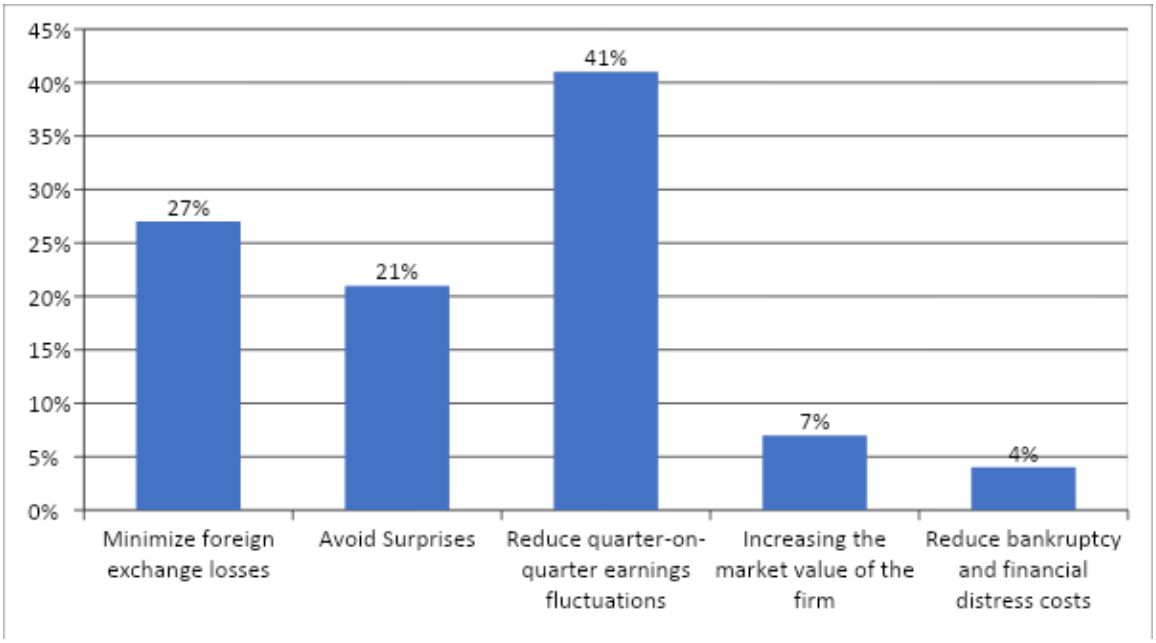
INFERENCE:

59% of the respondents prefer Volatility of client's domestic currency factor which is driving firm's foreign exchange exposure management, 30% of the respondents prefer Pressure from investors factor which is driving firm's foreign exchange exposure management. Therefore most of the respondents prefer Volatility of client's domestic currency factor which is driving firm's foreign exchange exposure management.

Particulars	No. of Respondents	% of Respondents
Minimize foreign exchange losses	33	27%
Avoid Surprises	25	21%
Reduce quarter-on-quarter earnings fluctuations	51	41%
Increasing the market value of the firm	9	7%
Reduce bankruptcy and financial distress costs	5	4%
Total	**123**	**100%**

TABLE 15: THE MAJOR OBJECTIVE OF FIRM'S FOREIGN EXCHANGE EXPOSURE MANAGEMENT

CHART 15



INFERENCE:

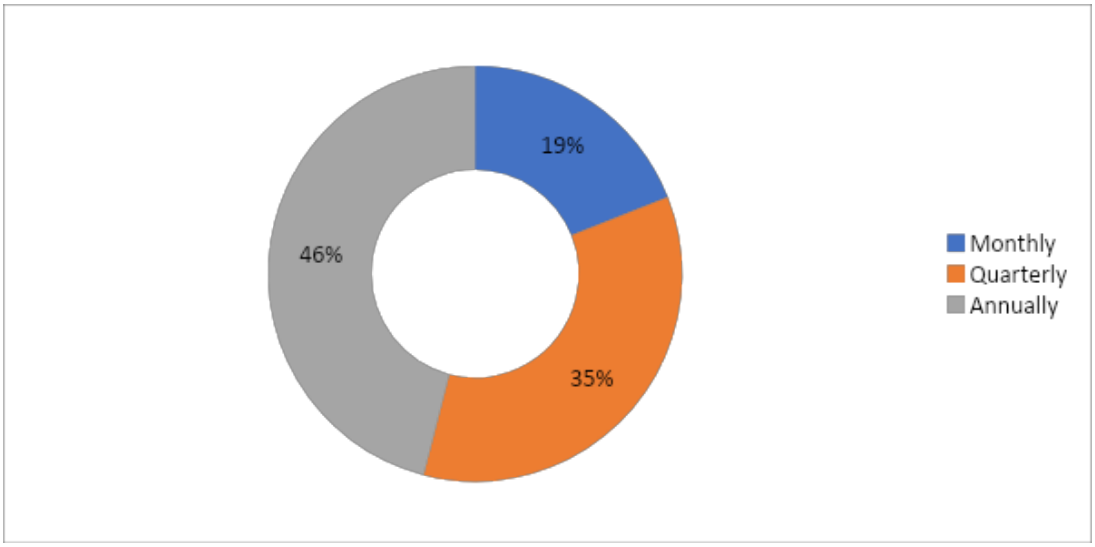
41% of the respondents said that objective of firm's foreign exchange exposure management prefer Reduce quarter-on-quarter earnings fluctuations, 27% of the respondents said that objective of firm's foreign exchange exposure management prefer Minimize foreign

exchange losses.Therefore most of the respondents said that objective of firm's foreign exchange exposure management prefer Reduce quarter-on-quarter earnings fluctuations.

TABLE 16: FREQUENTLY REVISE FIRM'S FOREIGN EXCHANGE RISK MANAGEMENT POLICY

Particulars	No. of Respondents	% of Respondents
Monthly	23	19%
Quarterly	43	35%
Annually	57	46%
Total	**123**	**100%**

CHART 16



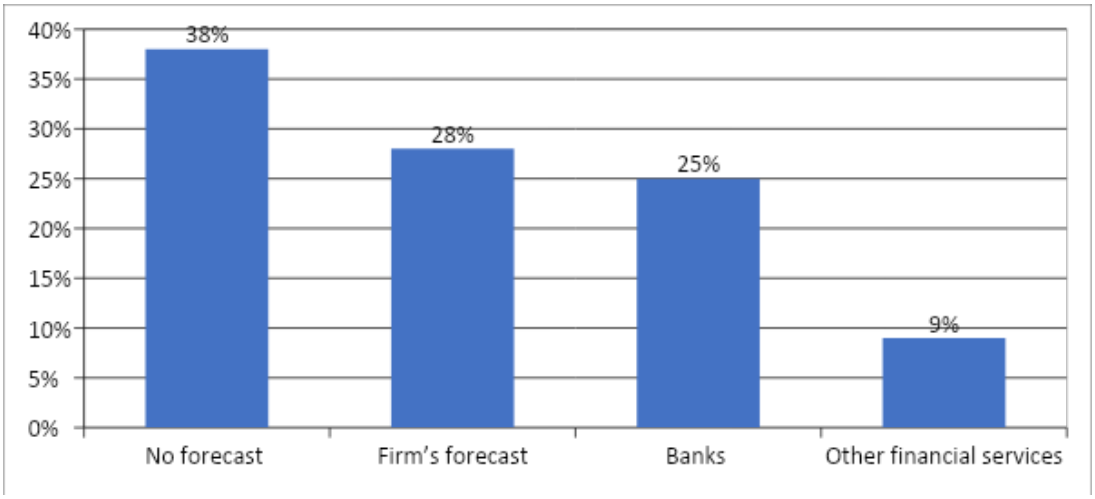
INFERENCE:

46% of the respondents say firm's foreign exchange risk management policy will be revising annually, 35% of the respondents say firm's foreign exchange risk management policy will be revising quarterly. Therefore most of the respondents say firm's foreign exchange risk management policy will be revising annually.

TABLE 17: THE PRIMARY SOURCE OF FIRM'S FOREIGN EXCHANGE RATE FORECAST

Particulars	No. of Respondents	% of Respondents
No forecast	47	38%
Firm's forecast	35	28%
Banks	30	25%
Other financial services	11	9%
Total	**123**	**100%**

CHART 17



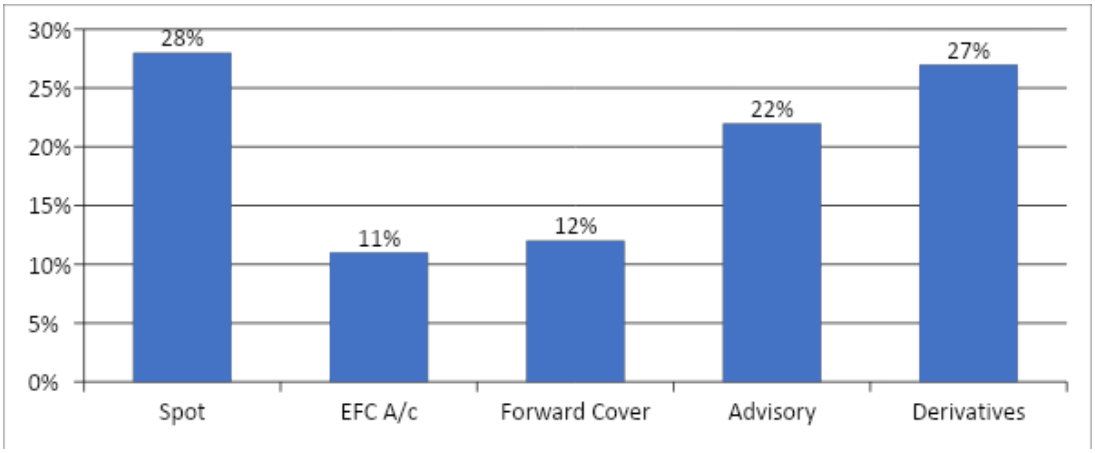
INFERENCE:

38% of the respondents prefer no forecast primary source of firm's foreign exchange rate, 28% of the respondents prefer firm's forecast primary source of firm's foreign exchange rate. Therefore most of the respondents prefer no forecast primary source of firm's foreign exchange rate.

TABLE 18: MANAGE THE RISK IN FOREIGN CURRENCY EXCHANGE

Particular	No. of Respondents	% of Respondents
Spot	35	28%
EFC A/c	13	11%
Forward Cover	15	12%
Advisory	27	22%
Derivatives	33	27%
Total	**123**	**100%**

CHART 18



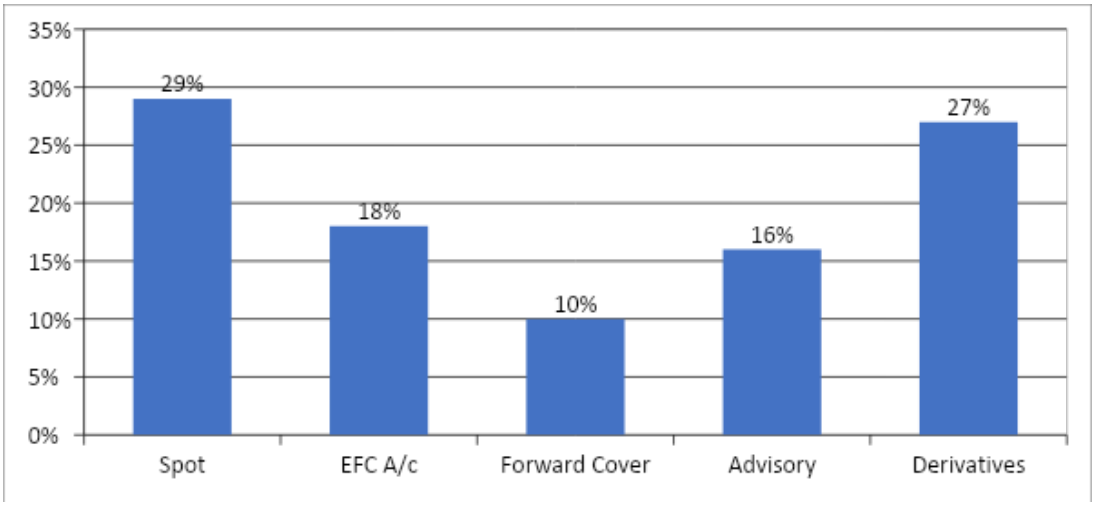
INFERENCE:

28% of the respondents say manage the risk in foreign currency exchange with the help of Spot, 25% of the respondents say manage the risk in foreign currency exchange with the help of Derivatives. Therefore most of the respondents say manage the risk in foreign currency exchange with the help of Spot.

TABLE 19: MENTION IN PERCENTAGE (%) OF USAGE OF TECHNIQUES

Particulars	No. of Respondents	% of Respondents
Spot	36	29%
EFC A/c	22	18%
Forward Cover	12	10%
Advisory	20	16%
Derivatives	33	27%
Total	**123**	**100%**

CHART 19



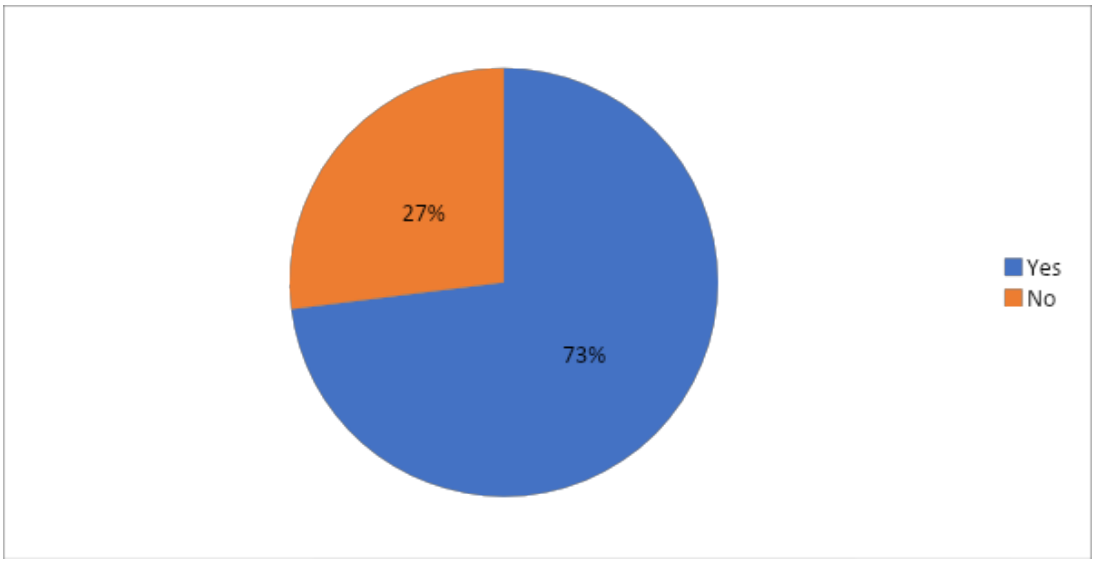
INFERENCE:

29% of the respondents say spot is the usage of technique which is mention in percentage, 27% of the respondents say derivatives is the usage of technique which is mention in percentage. Therefore most of the respondents say spot is the usage of technique which is mention in percentage.

TABLE 20: AWARE OF DERIVATIVES

Particulars	No. of Respondents	% of Respondents
Yes	90	73%
No	33	27%
Total	**123**	**100%**

CHART 22



INFERENCE:

73% of the respondents are aware about derivatives, 27% of the respondents doesn't aware about derivatives. Therefore most of the respondents are aware about derivatives.

STATISTICAL TOOLS AND ANALYSIS

CHI- SQUARE TEST I – (ψ^2)

Chi-square is the sum of the squared difference observed (o) and the expected (e) data (or the deviation, d), divided by the expected data in all possible categories.

Null hypothesis (Ho):

There is no relationship between the source of foreign currency and primary source of your firm's foreign exchange rate forecast.

Alternate hypothesis (H1):

There is relationship between the source of foreign currency and primary source of your firm's foreign exchange rate forecast.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
source of foreign currency * primary source of your firm's foreign exchange rate forecast	123	100.0%	0	0.0%	123	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	131.046[a]	6	.000
Likelihood Ratio	160.906	6	.000
Linear-by-Linear Association	94.458	1	.000
N of Valid Cases	123		

a. 2 cells (16.7%) have expected count less than 5. The minimum expected count is 2.50.

INFERENCE:

Since the calculated value is greater than the tabulated value, we accept the alternate hypothesis and hence there is a relationship between the source of foreign currency and primary source of your firm's foreign exchange rate forecast.

ANALYSIS USING KARL PEARSON'S CORRELATION

Correlation analysis is the statistical tool used to measure the degree to which two variables are linearly related to each other. Correlation measures the degree of association between two variables.

Null hypothesis (H0):

There is positive relationship between level of percentage the firm's transaction exposure is covered and level of firm's economic exposure is covered.

Alternate hypothesis (H1):

There is negative relationship between level of percentage the firm's transaction exposure is covered and level of firm's economic exposure is covered.

Correlations

		level of percentage the firm's transaction exposure is covered	level of firm's economic exposure is covered
level of percentage the firm's transaction exposure is covered	Pearson Correlation	1	.980**
	Sig. (2-tailed)		.000
	N	123	123
level of firm's economic exposure is covered	Pearson Correlation	.980**	1
	Sig. (2-tailed)	.000	
	N	123	123

**. Correlation is significant at the 0.01 level (2-tailed).

INFERENCE:

Since r is positive, there is positive relationship between level of percentage the firm's transaction exposure is covered and level of firm's economic exposure is covered.

CHAPTER 5

5.1 FINDINGS:

- Most of the respondents prefer Import & Export as a source of foreign currency.
- Most of the respondents say per annum > 50 L is the exposure of foreign currency.
- Most of the respondents say that there is a risk in foreign currency.
- Most of the respondents say perception of risk is moderate in level.

- Most of the respondents say loss on foreign currency exchange.
- Most of the respondents say that all the time the firm manages transaction exposure.
- Most of the respondents say forecast using orders method which is firm's likely future foreign exchange exposures.
- Most of the respondents say that the firm manages the economic exposure all the time.
- Most of the respondents mentioned that transaction is the major exposure identified by firm.
- Most of the respondents say that firm's policy on transaction exposure is done by taking a view on foreign exchange rates and cover or leave transaction exposure uncovered, depending on view.
- Most of the respondents say that the firm's policy on economic exposure is done by taking a view on foreign exchange rates and cover or leave economic exposure uncovered, depending on view.
- Most of the respondents say that greater than 25% - 50% is the level of percentage of the firm transaction exposure is covered.
- Most of the respondents say that greater than 25% - 50% is the level of percentage the firm economic exposure is covered.
- Most of the respondents prefer Volatility of client's domestic currency factor which is driving firm's foreign exchange exposure management.
- Most of the respondents said that objective of firm's foreign exchange exposure management prefer Reduce quarter-on-quarter earnings fluctuations.
- Most of the respondents say firm's foreign exchange risk management policy will be revising annually.
- Most of the respondents prefer no forecast primary source of firm's foreign exchange rate.
- Since the calculated value is greater than the tabulated value, we accept the alternate hypothesis and hence there is a relationship between the source of foreign currency and primary source of your firm's foreign exchange rate forecast.
- Since r is positive, there is positive relationship between level of percentage the firm's transaction exposure is covered and level of firm's economic exposure is covered.

5.2 SUGGESTIONS

- Management of Sunshare Investments Pvt Ltd can use Spot technique to manage the risk in currency exchange as it is most preferred by the customers.
- Frequent training programmes can be conducted to the foreign exchange trade customers to create awareness about the current trends and the prediction for the future in the Forex. This will help them to reduce the Forex risk and have more transactions.
- Develop a foreign exchange policy and review it regularly. It is important that your policy complies with and works towards overall strategy and objectives. Once agreed, a policy should be reviewed regularly and be flexible enough to reflect the constantly changing nature of the markets.
- Take information from a variety of sources. As experienced market traders they will use their expertise to ensure your company receives the best information and guidance on the markets.
- Planning is the first step to managing your Forex risk. Agreeing on a budgeted exchange rate for the year will guide your transactions. Your budgeted rate should take into account the volume and timing of your expected transactions as well as a realistic assumption of current and future rates. An Forex specialist can help to define this rate by analyzing past trends.
- With your policy in place it is time to review the Forex tools that you can use to manage your exposure. Spot and Forward contracts and market orders can work individually or together to form a tailored foreign exchange strategy. Depending on your budgeted rate, your requirements and timing, your Forex Dealer will be able to suggest a strategy to suit your business.

5.3 CONCLUSION

Many firms are exposed to foreign exchange risk - i.e. their wealth is affected by movements in exchange rates - and will seek to manage their risk exposure. Exchange rate risk or foreign exchange (forex) risk is an unavoidable risk of foreign investing, but one that can be mitigated considerably through the use of hedging techniques. In order to totally eliminate forex risk, the obvious choice is to avoid investing in overseas assets altogether. But this may not be the best alternative from the viewpoint of portfolio diversification, since

numerous studies have shown that foreign investing improves portfolio return while reducing risk.

This study has been undertaken to assess the foreign exchange risk management with reference to Sunshare Investments Pvt Ltd, Chennai. Numerous new findings has been derived from this research by collecting the responses to various questions from the customers. Few valuable suggestions like use Spot technique to manage the risk in currency exchange, Frequent training programmes, Develop a foreign exchange policy and review it regularly etc have helped to provided to improve the foreign exchange risk management at Sunshare Investments Pvt Ltd, Chennai.

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ANNEXURE - QUESTIONNAIRE

1. Name: …….

2) Age:

a) 18 to 21 b) 22 to 30 c) 31 to 45 d) 46 to 56

3) Gender

a) Male b) Female c) Not prefer to say

4. What is your source of foreign currency?

Import & Export	[ ]
Only Import	[ ]
Only Export	[ ]
Others……(Specify)	[ ]

5. What will be your exposure of your foreign currency per annum?

< 1 L	[ ]
1 L - 25 L	[ ]
25 L - 50 L	[ ]
> 50 L	[ ]

6. Do you think there is any risk in foreign currency?

Yes	[ ]
No	[ ]

7. If yes, what will be your level of perception of risk?

Very high	[ ]
High	[ ]
Moderate	[ ]
Low	[ ]
Very low	[ ]

8. Had you ever incurred any loss on foreign currency exchange?

Yes	[ ]
No	[ ]

9. How often does your firm manage transaction exposure?

All the times	[ ]

Sometimes [ ]

Never [ ]

10. Which of the following methods do you use to forecast your firm's likely future foreign exchange exposures?

Forecast using the contracts [ ]

Forecast using Orders [ ]

Cash forecast by currency [ ]

Balance sheet/Income forecast [ ]

Informal method [ ]

11. How often does your firm manage economic exposure?

All the times [ ]

Sometimes [ ]

Never [ ]

12. What are the major types of exposure identified by your firm?

Translation [ ]

Transaction [ ]

Economic exposure [ ]

13. Which of the following statements best represents your firm's policy on transaction exposure?

Leave transaction exposure uncovered [ ]

Cover all transaction exposures [ ]

Take a view on foreign exchange rates and cover or leave transaction exposure uncovered, depending on view [ ]

No Particular Policy [ ]

14. Which of the following statements best represents your firm's policy on economic exposure?

Leave economic exposure uncovered [ ]

Cover all economic exposures [ ]

Take a view on foreign exchange rates and cover or leave economic

exposure uncovered, depending on view [ ]

No Particular Policy [ ]

15. What percentage of your firm's transaction exposure is usually covered?

Nil [ ]

Up to 25% [ ]

Greater than 25% - 50% [ ]

Greater than 50% - 75% [ ]

Greater than 75% [ ]

16. What percentage of your firm's economic exposure is covered?

Nil [ ]

Up to 25% [ ]

Greater than 25% - 50% [ ]

Greater than 50% - 75% [ ]

Greater than 75% [ ]

17. Identify factors typically driving your firm's Foreign Exchange Exposure Management?

Volatility of client's domestic currency [ ]

Pressure from investors [ ]

Accounting regulations [ ]

18. What is the major objective of your firm's Foreign Exchange Exposure Management?

Minimize foreign exchange losses [ ]

Avoid Surprises [ ]

Reduce quarter-on-quarter earnings fluctuations [ ]

Increasing the market value of the firm [ ]

Reduce bankruptcy and financial distress costs [ ]

19. How frequently do you revise your firm's foreign exchange risk management policy?

Monthly [ ]

Quarterly [ ]

Annually [ ]

20. What is the primary source of your firm's foreign exchange rate forecast?

No forecast	[ ]
Firm's forecast	[ ]
Banks	[ ]
Other financial services	[ ]

21. How do you manage the risk in foreign currency exchange?

Spot	[ ]
EFC A/c	[ ]
Forward Cover	[ ]
Advisory	[ ]
Derivatives	[ ]

22. Are you aware of Derivatives (optional)?

Yes	[ ]
No	[ ]

23. If yes, how it is when compare to other techniques?

Excellent	[ ]
Very Good	[ ]
Good	[ ]
Fair	[ ]
Poor	[ ]