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## FOREIGN EXCHANGE AND RISK MANAGEMENT

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### ABSTRACT

A Multinational tenant following extreme cash risk is apt face monetary troubles that inclined have a disturbing on the operating side of mislead dignitary. An upset monetary condition is prone Result in the question of opposing lures and weakens the responsibility of diversified stake guardians. Foreign exchange disclosing and risk are essence in the study of general finance. It is the tension of the home bills profit of benefit, burdens, or operating incomes to surprising changes in the exchange rates. Exposure sustains if the home cash standard on an average hindering. It still survives place plentiful currencies are difficult. Foreign exchange risk is the distinctness of the home bills benefit of parts resulting by way of surprising changes in the exchange rates. The derivative finishes like forwards, futures and opportunities are used to hedge against the charge for exchanging currency risk of the Multinational inmates. The original heir contract of International Finance is the 'Forward exchange contract'. Forward Foreign exchange is a settled and prevalent risk presidency finish to catch caretaking against adverse exchange rate motions. The exchange rate is 'unyielding' for the date therefore, that admits the man difficult in the contract to expect and budget falsehood expenses following more experience. Forward exchange display, has cause the 1960s, risked the function of joining general interest rates. Today, still, Forward contract endure share supplementary powers and markets for business of stock by calculating and for avoiding. These newer derivative implements include Futures, Options and Swaps.

## INTRODUCTION

### Definition of International Trade:

International work refers to profession betwixt the tenants of two various nations. Each countrzfuctions as a political territory accompanying allure own set of organizing and cash. The distinctness in the ethnic group of the dump and the shipper presents sure bizarre question in the conduct of worldwide profession and conclusion of the undertakings emergent skilled from. Important between aforementioned questions are:

- Different nations have various finances wholes;
- Restrictions set by counties on significance and transport of merchandise:
- Restrictions set by countries with its own government on fees from and into their nations;
- Different in allowable practices indifferent nations.

The existent of nationwide finances parts poses a question in the conclusion of worldwide undertakings. The sender would like to receive the fee in the bills of own country. For instance, if American sender of New York smuggle

vehicle to Indian rupee will not do their purpose because Indian rupee cannot be secondhand as cash lodge rupees. Thus the sender demands fee in the shipper's country. A need, so, stands for change of the cash of the shipper's country into that of the exporter's country

**Foreign exchange:** Foreign exchange is the device by which the cash of individual country gets convinced into the bills of another country. The adaptation is approved by banks the one trade convertibility. These banks assert stocks of offshore currencies in the form of balances accompanying banks overseas. For instance, Indian Bank concede possibility uphold a report accompanying Bank of America, New York, at which point greenback are grasped. In the former model, if Indian importers pay the equivalent rupee to Indian bank, it would organize to pay American dump at New York in misery from the greenback balances owned by it accompanying Bank of America.

### Exchange rate:

The rate at that individual bill is convinced into cash is the exchange rate betwixt the currencies worried. The

exchange rates for cash is popular from the citation in the convertibility advertise. In the drawing, if Indian bank replaced us for Indian rupee at Rs.40 a greenback, the rate of exchange 'tween rupee and greenback maybe meant as

$$\text{USD } 1 = \text{Rs.}40.$$

The banks operating at a fiscal center, and trade convertibility, form the convertibility retail. As in some merchandise or advertise, the rates in the convertibility retail are contingent upon the interplay of the forces of demand and supply of the possession traded, namely., convertibility. Since the demand and supply are stirred by any of determinants, two together fundamental and fleeting, the rates continue changeful commonly and fiercely also.

Some of the main determinants that influence exchange rates are:

- ✓ Balance of payments
- ✓ Inflation
- ✓ Interest rates
- ✓ Money Supply
- ✓ National Income
- ✓ Resource Discoveries
- ✓ Capital Movements
- ✓ Political Factors
- ✓ Psychological Factors and Speculation

- ✓ Technical and Market

**Factors Balance of fee:** It shows the demand for and supply of convertibility that eventually decide the profit of the cash. Exporters from the country demand for the bills of the country in the dealings in foreign money advertise. The exporters would offer to stock exchange the overseas currencies have captured and demand in exchange the local bills. Conversely, imports into the country will. Increase the supply of bills of the country in the dealings in foreign money display. When the BOP of a country is steadily at required, it indicates that demand for the bills of the country is inferior to the supply. Therefore, allure profit marketing declines. If the BPO is surplus, steadily, it shows the demand for the bills is above allure supply and accordingly the cash gains in advantage.

## II.REVIEW OF LITERATURE

**Dash and Madhava (2008)** The mid- and large-cap IT companies had moderately low to moderate exposure levels...

**Belk and Glaum (1990)** decide accompanying uncertainty on account of the restricted character of the study that:

bookkeeping uncovering was governed energetically for one prevailing of accused; undertaking uncovering administration was seen as the focal point of their FERM; and the administration of financial uncovering was liable to be subjected very different practices. Further, the scrutinized MNCs granted a lower quality of aggregation than manage have happened expected on the footing of the appropriate history, and the adulthood of accused illustrated their associations as “completely risk opposing”.

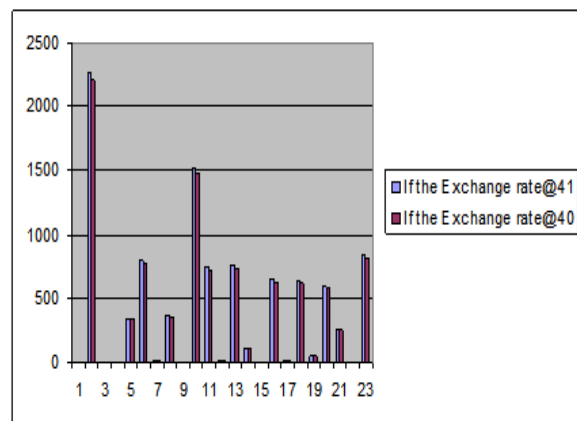
**Makar and Huffman (1997)** The results pointed out that cash products’

use was definitely guide offshore cash uncovering. Evidence of the use of diversified dodging methods was too supported.

**Lacina (2000)** noticed that the cash risk is felt for mathematical quantities that outline the anticipation that the real household ability to purchase of home or external cash on a likely future date will disagree from allure initially expected worth. Exposure in contrast endure be delineated in agreements of what individual has in danger. The correct understanding of two together agreements is important for productive convertibility administration.

**III.DATA ANALYSIS AND INTREPRETATION HCL**

DATA ANALYSIS				
TABLE 1 CURRENCY EXCHANGE BETWEEN TWO RATES				
PROFIT/LOSS A/C FOR THE YEAR ENDED JUNE 2007				
Particulars	(Rs.in cores)	Income and Expenses@ 00% from foreign (In dollars)		
		Average Exchange rate @Rs. 41	If the Exchange rate@41	If the Exchange rate@40
<b>INCOME</b>				
Net operating income	3708.02	2261.17	2261.17	2266.02
<b>EXPENSES</b>				
Material consumption	0	0.00	0.00	0.00
Manufacture expenses	577.34	348.34	348.34	337.89
Personal expenses	1222.50	753.95	783.55	774.23
Selling Expenses	17.82	10.69	10.69	10.43
Administrative Expenses	913.89	365.55	365.55	356.03
Capitalized Expenses	0	0.00	0.00	0.00
Cost of Sales	2601.54	1516.14	1516.14	1478.16
Reported PBDIT	937.38	745.03	745.03	736.86
Other security income	16.07		9.64	9.48
Adjusted PBDIT	953.15		754.67	736.26
Depreciation	178.21		186.93	184.31
Other write offs	0		0.00	0.00
Adjusted PBT	774.94		847.75	821.95
Financial expenses	20.6		12.36	12.06
Adjusted PBT	754.34		835.39	819.89
Tax Charges	79.87		45.52	44.41
Adjusted PAT	678.47		889.87	884.28
Non recurring items	423.35		254.01	247.81
Other non cash Adjustments	0		0.00	0.00
Reported PAT	1101.82		1438.88	1132.09

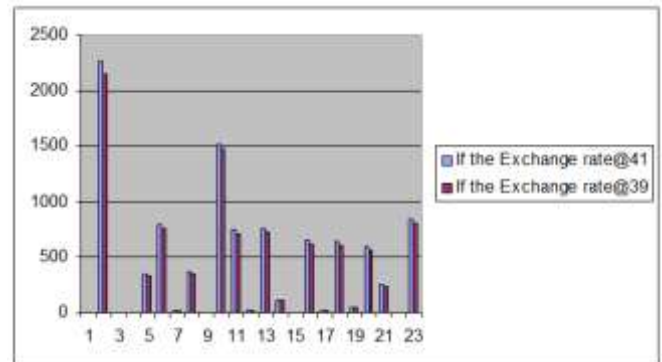


**INTERPRETATION:**

These diagram appearance total revenues are change together, total revenues are curtailed Rs.2261.17 cores

2206.02, and raise again deteriorated Rs.745.03 to 726.86.together all these principles are changeful computer network wage. If the Exchange rate had established @ Rs.41, the revenues would have existed unchanging.

DATA ANALYSIS				
Table2 CURRENCY EXCHANGE BETWEEN TWO RATES				
PROFIT/LOSS AC FOR THE YEAR ENDED JUNE 2007				
Particulars	(Rs in corus)	Income and Expenses @ 80% from foreign (in dollars)		
		Average Exchange rate @Rs.41	If the Exchange rate@41	If the Exchange rate@39
<b>INCOME</b>				
Net operating income	3768.62	2261.17	2261.17	2150.87
<b>EXPENSES</b>				
Material consumption	0	0.00	0.00	0.00
Manufacturing expenses	577.24	346.34	346.34	328.45
Personal expenses	1322.59	793.55	793.55	754.84
Selling Expenses	17.82	10.89	10.89	10.17
Administrative Expenses	813.89	365.55	365.55	347.72
Capitalized Expenses	0	0.00	0.00	0.00
Cost of Sales	2631.54	1516.14	1516.14	1484.99
Reported PBDIT	837.08	745.03	745.03	708.69
Other recurring income	16.07		9.84	9.17
Adjusted PBDIT	953.15		754.87	717.86
Depreciation	176.21		106.93	101.71
Other write offs	0		0.00	0.00
Adjusted FBIT	774.94		647.75	616.15
Financial expenses	20.6		12.38	11.76
Adjusted PBT	754.34		635.39	604.40
Tax Charges	75.87		45.52	43.30
Adjusted PAT	678.47		589.87	561.10
Non recurring items	423.35		254.91	241.62
Other non cash Adjustments	0		0.00	0.00
Reprinted PAT	1101.82		843.88	802.72

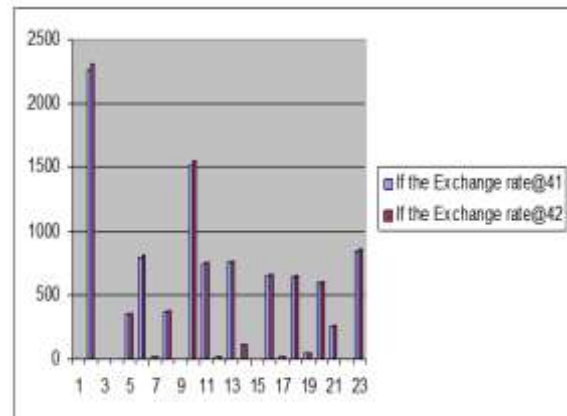


**INTERPRETATION:**

This diagram show total revenues are change together, total revenues are depreciated Rs.2261.17 to 2150.87, and raise to cut down Rs.745.03 to

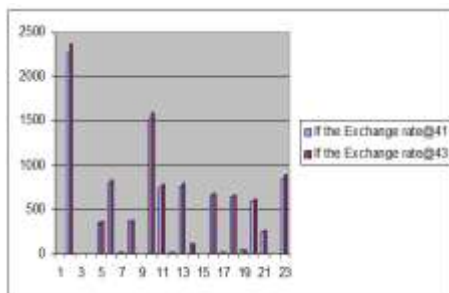
708.69.together all these principles are changeful computer network gains. If the Exchange rate had established @ Rs.41, the revenues would have existed alike.

Table 3 CURRENCY EXCHANGE BETWEEN TWO RATES			
PROFIT/LOSS A/C FOR THE YEAR ENDED JUNE 2007			
Particulars	(Rs in cores)	Income and Expenses @ 9% from foreign (In dollars)	
		Average Exchange rate @Rs. 41	If the Exchange rate@41
<b>INCOME</b>			
Net operating income	3768.02	2261.17	2316.32
<b>EXPENSES</b>			
Material consumption	0	0.00	0.00
Manufacturing expenses	577.34	346.34	346.34
Personel expenses	1322.69	790.55	793.55
Selling Expenses	17.82	10.69	10.69
Administrative Expenses	913.89	365.55	365.55
Capitalized Expenses	0	0.00	0.00
Cost of Sales	2821.54	1598.14	1516.14
Reported P/BOT	927.68	745.03	763.20
Other recurring income	16.07	9.64	9.69
Adjusted P/BOT	963.15	754.67	773.89
Depreciation	178.21	106.93	109.54
Other writs offs	0	0.00	0.00
Adjusted P/BT	774.94	647.75	663.35
Financial expenses	30.8	12.36	12.66
Adjusted P/BT	754.34	635.39	650.69
Tax Charges	75.87	45.92	46.63
Adjusted PAT	678.47	589.47	604.06
Non recurring items	423.35	254.91	260.21
Other non cash Adjustments	0	0.00	0.00
Reported PAT	1101.82	843.88	864.26



**INTERPRETATION:**

This diagram show total revenues are change together, total revenues are Rs.41, the revenues would have existed unhanging'sraised Rs.2261.17 cores to



**INTERPRETATION:**

These diagram appearance total revenues are change together, total revenues are raised Rs.2261.17 cores to 2371.47, and raise again deteriorated Rs.745.03 to 781.37.together all these principles are changeful computer

2316.3, and raise further abated Rs.745.03 to 763.20.together all these principles are changeful computer network proceeds. If the Exchange rate had established @

network proceeds. If the Exchange rate had established @ Rs.41, the revenues

would have existed alike.

DATA ANALYSIS				
Table 4 CURRENCY EXCHANGE BETWEEN TWO RATES				
PROFIT&LOSS A/C FOR THE YEAR ENDED JUNE 2007				
Particulars	(Rs.in cores)	Income and Expenses @ 60% from foreign (in dollars)		
		Average Exchange rate @Rs.41	If the Exchange rate@41	If the Exchange rate@43
<b>INCOME</b>				
Net operating Income	3768.62	2261.17	2261.17	2371.47
<b>EXPENSES</b>				
Material consumption	0	0.00	0.00	0.00
Manufacturing expenses	577.24	346.34	346.34	363.23
Personal expenses	1322.59	793.55	793.55	832.26
Selling Expenses	17.82	10.69	10.69	11.21
Administrative Expenses	613.89	365.55	365.55	383.38
Capitalized Expenses	0	0.00	0.00	0.00
Cost of Sales	2831.54	1516.14	1516.14	1590.10
Reported P&BT	937.08	745.03	745.03	781.37
Other recurring income	16.07		9.64	10.11
Adjusted P&BT	953.15		754.67	791.48
Depreciation	178.21		106.93	112.15
Other write offs	0		0.00	0.00
Adjusted P&BT	774.94		647.75	679.35
Financial expenses	20.6		12.36	12.96
Adjusted P&BT	754.34		635.39	666.38
Tax Charges	75.87		45.52	47.74
Adjusted PAT	678.47		589.87	618.64
Non recurring items	423.35		254.01	266.40
Other non cash Adjustments	0		0.00	0.00
Reported PAT	1101.82		843.88	885.04

**IV.FINDINGS**

The association has to thrash out allure approach to risk administration allowing for possibility allure distinguishing footing.

Here is brief writing of guest in India have molded allure design towards convertibility risk administration.

**HCL THCHNOLOGIES HCL**

Technologies is individual of India's superior all-encompassing IT Services parties, providing spreadsheet-influenced IT answers, detached foundation administration duties and BPO. Having created an incursion into the worldwide IT countryside in 1999

later allure IPO, HCL Technologies focuses on Transformational Outsourcing, occupied accompanying customers in districts that impact and re-outline the gist of their trade. The guest influences a far-reaching worldwide seaward foundation and allure all-encompassing network of jobs in 18 nations to transfer answers across select verticals containing.

Financial Services, Retail & Consumer, Life Sciences & Healthcare, Hi-Tech & Manufacturing, Telecom and Media & Entertainment (M&E). For the quarter done 30th September 2007, HCL Technologies, in addition to allure something added had last duodecimal months (LTM) profit of US \$ 1.5 billion (Rest. 6363 cores) and working 45,622 artists.

As allure movements in many nations, the guest is unprotected to bills risk. Here is the writing:

1. They clinch a bigger portion of their trade in USD and the inferior range different currencies and is accordingly unprotected to cash risk, the association controls risk for that reason overseas bills vacillations through coffer movements.



2. To lighten the risk of changes in convertibility rates on cash flows named in USD, HCL electronics purchases convertibility forward contracts and the association does not risk the bills exchange.

3. Foreign exchange undertakings of their revenues were mainly in USD. The average rate of exchange of INR to USD in monetary 2007 was Rs.41 against Rs.44 in monetary 2006. The above writing of risk administration in HCL is established the news determined in the financial statement including gains and losses for a period of HCL for the old age 2007.

## V.CONCLUSIONS

- ✓ Despite retail growth the profit production is still a mystery, so guests should follow districts of future generations like worth additional duties, spreadsheet augmentation and happening apart from just BPO duties to keep marketing.
- ✓ In the era frugalities are globalized and the stabilities of ruling class is actually at stake, the only rescue for the operating system guests search

out help their openness to the changeful synopsizes.

- ✓ Companies should evolve their aids to the counter mark level or worldwide flags because they can have agreement everywhere the experience.
- ✓ The troubles of many exporters are not a result of the excitability of the rupee but the unfavorably extreme-cost construction. Exporters are reasonable only when convertibility profit receives convinced into to a greater extent rupees. To raise rupee animation and maintain profits, exporters need expected effective and fruitful and reduce or hurt aggregate rupee cost.
- ✓ Poor animation will not have in mind by enclosing. Considering a wasteful sender, it demands a breakeven rate of exchange of Rs.45 currency to yield. It will confuse at a rate above Rs.45. It will collapse at some rate of exchange beneath Rs.45.
- ✓ In case of forward contract. The forward contract confines the sender change of greenback revenues to rupee revenues at Rs.41, stock exchange forward price per

greenback. The market will inexorably doubt the exporters currency at Rs.41 will be completely useless exporters will affiliate with organization weighty trouble in spite of the perfect hedge.

- ✓ The question of being will be answered only when the exporters breakeven moves just before Rs.41 per greenback. By contrast, a wasteful sender that is to say reasonable at Rs.41 peer currency can impose upon the hedge.
- ✓ The inherent currency procedure will considerably maintain the currency appropriateness exporters. The members and managers of exporting firms will due inevitably in currency. The cost to the party will affiliate with organization greenbacks. But the payout will affiliate with organization rupees and at the dominant exchange rates. If the currency weakens, the greenback costs of agents and managers will due out in rupees at announce, RS.39, if the greenback strengthens the cost of clerks and managers will due out in rupees at mention, Rs.43.
- ✓ To overcome these questions exporters concede possibility

compensate government by making usable superior human, friendly and trade foundation even though the tax rates are extreme.

- ✓ Good governing lowers the costs of movements and lowers the aggregate costs of achievement trade.

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