

FOREIGN EXCHANGE AND ITS RISK MANAGEMENT IN EDLOGIX SOFTWARE SOLUTIONS PRIVATE LIMITED

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DOI: <https://www.doi.org/10.58257/IJPREMS35027>

ABSTRACT

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise. Dividend for shareholders- Dividend and the rate of it has to be decided. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

Keywords: Foreign Exchange, Proposed Tools.

1. INTRODUCTION

The foreign exchange market (forex, FX, or currency market) is a global, worldwide-decentralized financial market for trading currencies. Financial centers around the world function as anchors of trading between a wide range of different types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market determines the relative values of different currencies.

The foreign exchange market assists international trade and investment by enabling currency conversion. For example, it permits a business in the United States to import goods from the European Union member states especially Eurozone members and pay Euros, even though its income is in United States dollars. It also supports direct speculation in the value of currencies, and the carry trade, speculation on the change in interest rates in two currencies.

In a typical foreign exchange transaction, a party purchases a quantity of one currency by paying a quantity of another currency. The modern foreign exchange market began forming during the 1970s after three decades of government restrictions on foreign exchange transactions (the Bretton Woods system of monetary management established the rules for commercial and financial relations among the world's major industrial states after World War II), when countries gradually switched to floating exchange rates from the previous exchange rate regime, which remained fixed as per the Bretton Woods system.

Foreign Exchange risk comes about as a disparity between the assets held by a bank and the loans that fund its balance sheet. An unexpected depreciation of the local currency against the USD can dramatically increase the cost of servicing debt relative to revenues. It can also negatively affect the creditworthiness of the bank (hence the ability to raise new funds) and even generate a negative net income, with serious consequences for the long-term financial stability of the bank (Moles, 2002). Banks are particularly vulnerable to foreign exchange rate risk, since they operate in developing countries where the risk of currency depreciation is high.

2. REVIEW OF LITERATURE

ARTICLE: 1

Title: A RESEARCH STUDY ON FOREIGN EXCHANGE AND ITS RISK MANAGEMENT

Author DR. S. NAGARAJU

Source: International Journal of Management, Technology And Engineering

Abstract:

A Multinational company with high currency risk is likely to face financial difficulties which tend to have a disrupting on the operating side of the business. A disrupted financial condition is likely to Result in the problem of adverse incentives and weakens the commitment of various stake holders. Foreign exchange exposure and risk are important concept in the study of international finance. It is the sensitivity of the home currency value of asset, liabilities, or operating incomes to unanticipated changes in the exchange rates. Exposure exists if the home currency values on an average in a particular manner. It also exists where numerous currencies are involved. Foreign exchange risk is the variance of the home currency value of items arising on account of unanticipated changes in the exchange rates. The derivative instruments like forwards, futures and options are used to hedge against the foreign exchange risk of the

Multinational companies. The original derivatives contract of International Finance is the 'Forward exchange contract'. Forward Foreign exchange is a traditional and popular risk management tool to obtain protection against adverse exchange rate movements. The exchange rate is 'locked in' for a specific date in future, which enables the person involved in the contract to plan for and budget the business expenses with more certainty. Forward exchange market, has since the 1960s, played the role of linking international interest rates. Today, however, Forward contract have to share other instruments and markets for arbitrage and for hedging. These newer derivative instruments include Futures, Options and Swaps.

ARTICLE: 2

Title: FOREIGN EXCHANGE^ RISK MANAGEMENT PRACTICES AND USE OF PRODUCTS

Author: ANTHONY DUROJAIYE MAYUNGBE

Source: International Journal of Business and Tehnopreneurship

Abstract:

The 1980s had been a period of high volatility in the financial markets and especially the foreign exchange markets which had led to wide fluctuations in financial prices. Furthermore the internationalisation of business and financial markets coupled with floating exchange rates and deregulation in world markets has resulted in an increase in the level of exposure to financial risks by firms. Companies conducting business in more than one currency may be exposed to foreign exchange risk. This exposure to foreign exchange risk might cause fluctuations in the company's earnings and make it less competitive. In response to this volatility in financial markets, a wide range of financial products have been developed by financial institutions to cope with the increased level of risk. As a result of concern with greater volatility, companies have placed more emphasis on foreign exchange risk management.

ARTICLE: 3

Title: FOREIGN EXCHANGE^ RISK MANAGEMENT

Author: Darke and Klar (

Source: Abeokuta Ogun State Nigeria

Abstract:

Abuaf (1988) described risk as the dispersion of possible values, favourable or not, around those values that are expected. Darke and Klar (1991) defined exposure as a quantified measure of risk outstanding at a particular time. They argued that the outcome of the movement in the exchange rate is normally unknown and creates uncertainty. This uncertainty will lead to a risky situation if the movement is unfavourable to the firm. Darke and Klar also defined risk as a situation in which the final outcome is unknown and is therefore uncertain. Furthermore that uncertainty provides opportunities for undesired or unpleasant outcomes such as injury or loss.

SEARCH GAP:

This study certainly the exchange rate is 'locked in' for a specific date in future, which enables the person involved in the contract to plan for and budget the business expenses with more certainty

OBJECTIVES:

- To study and understand the foreign exchange.
- To study and analyze the revenues of the company when the exchange rates fluctuate.
- To analyze income statement and find out the revenues when the dollars are converted into Indian rupees.
- To study the different types of foreign exchange exposure including risk and risk management techniques which the company is used to minimize the risk.
- To present the findings and conclusions of the company in respect of foreign exchange risk management.

3. RESEARCH METHODOLOGY

Need For the Study

Foreign exchange transactions take place whenever a country imports goods and services, people of a country undertake visits to other countries, citizens of a country remit money abroad for whatever purpose, business units set up foreign subsidiaries and so on. In all these cases the nation concerned buys relevant and required foreign exchange, in exchange of its currency, or draws from foreign exchange reserves built. On the other hand, when a country exports goods and services to another country, when people of other countries visit the country, when citizens of the country settled abroad remit money homewards, when foreign citizens, firms and institutions invest in the country and when the country or its business community raises funds from abroad, the country's currency is bought by others, giving foreign exchange, in exchange..

Scope Of the Study:

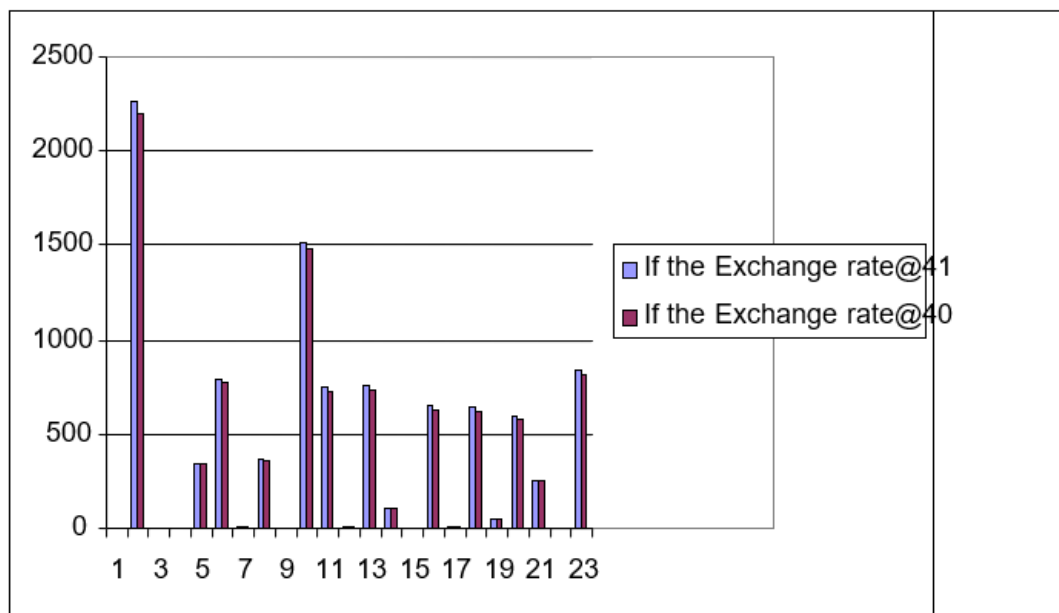
Let us say that the businessman who operates in more than one country needs to understand not only the mechanism of the foreign exchange system, but also why changes in monetary values occur and how to cope with them.

Foreign exchange is the monetary mechanism by which transactions in two or more currencies are affected.

In the beginning, trade took place on a barter basis. That had an obvious disadvantage: each of the parties in a transaction had to have something the other wanted. The basis of the alternative, a monetary exchange system, is a material that has an intrinsic value that is relatively stable and so is wanted by both parties in a transaction. Therefore the need of foreign exchange has been a raised.

4. DATA ANALYSIS & INTERPRETATION

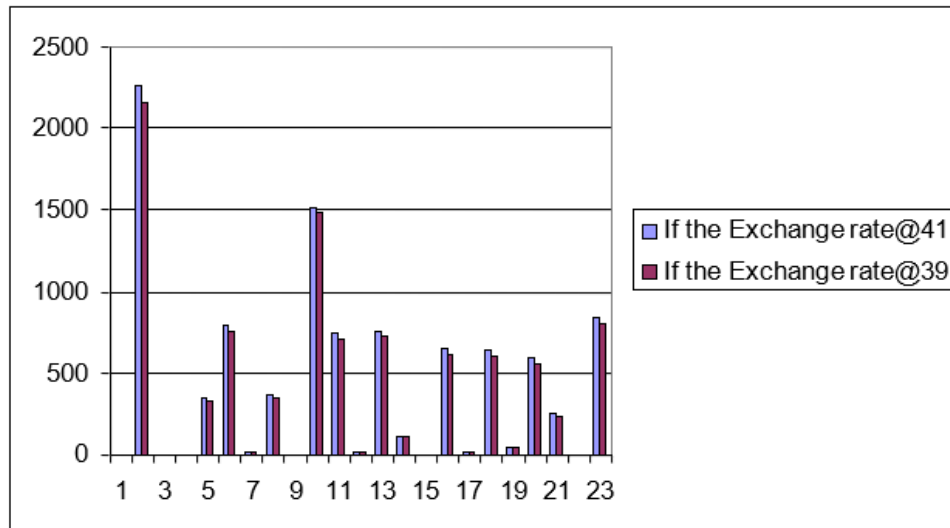
DATA ANALYSIS				
Table:1 CURRENCY EXCHANGE BETWEEN TWO RATES				
PROFIT&LOSS A/C FOR THE YEAR ENDED JUNE 2022				
Particulars	(Rs.in crores)	Income and Expenses@ 60% from foreign (In dollars)		
		Average Exchange rate @Rs.41	If the Exchange rate@41	If the Exchange rate@40
INCOME				
Net operating Income	3768.62	2261.17	2261.17	2206.02
EXPENSES				
Material consumption	0	0.00	0.00	0.00
Manufacturing expenses	577.24	346.34	346.34	337.89
Personal expenses	1322.59	793.55	793.55	774.20
Selling Expenses	17.82	10.69	10.69	10.43
Administrative Expenses	913.89	365.55	365.55	356.63
Capitalized Expenses	0	0.00	0.00	0.00
Cost of Sales	2831.54	1516.14	1516.14	1479.16
Reported PBDIT	937.08	745.03	745.03	726.86
Other recurring income	16.07		9.64	9.40
Adjusted PBDIT	953.15		754.67	736.26
Depreciation	178.21		106.93	104.31
Other write offs	0		0.00	0.00
Adjusted PBIT	774.94		647.75	631.95
Financial expenses	20.6		12.36	12.06
Adjusted PBT	754.34		635.39	619.89
Tax Charges	75.87		45.52	44.41
Adjusted PAT	678.47		589.87	584.26
Non recurring-items	423.35		254.01	247.81
Other non cash Adjustments	0		0.00	0.00
Reported PAT	1101.82		843.88	823.30



INTERPRETATION: This graph showing total revenues are alteration together, total revenues are decreased Rs.2261.17 crores to 2206.02, and gross profit also decreased Rs.745.03 to 726.86.simultaneously all these values are changing the net income. If the Exchange rate had fixed @ Rs.41, the revenues would have been same.

DATA ANALYSIS:				
Table:2 CURRENCY EXCHANGE BETWEEN TWO RATES				
PROFIT&LOSS A/C FOR THE YEAR ENDED JUNE 2022				
Particulars	(Rs.in crores)	Income and Expenses@ 60% from foreign (In dollars)		
		Average Exchange rate @Rs.41	If the Exchange rate@41	If the Exchange rate@39
INCOME				
Net operating Income	3768.62	2261.17	2261.17	2150.87
EXPENSES				
Material consumption	0	0.00	0.00	0.00
Manufacturing expenses	577.24	346.34	346.34	329.45
Personal expenses	1322.59	793.55	793.55	754.84
Selling Expenses	17.82	10.69	10.69	10.17
Administrative Expenses	913.89	365.55	365.55	347.72
Capitalized Expenses	0	0.00	0.00	0.00
Cost of Sales	2831.54	1516.14	1516.14	1484.99
Reported PBDIT	937.08	745.03	745.03	708.69
Other recurring income	16.07		9.64	9.17
Adjusted PBDIT	953.15		754.67	717.86
Depreciation	178.21		106.93	101.71
Other write offs	0		0.00	0.00
Adjusted PBIT	774.94		647.75	616.15
Financial expenses	20.6		12.36	11.76
Adjusted PBT	754.34		635.39	604.40

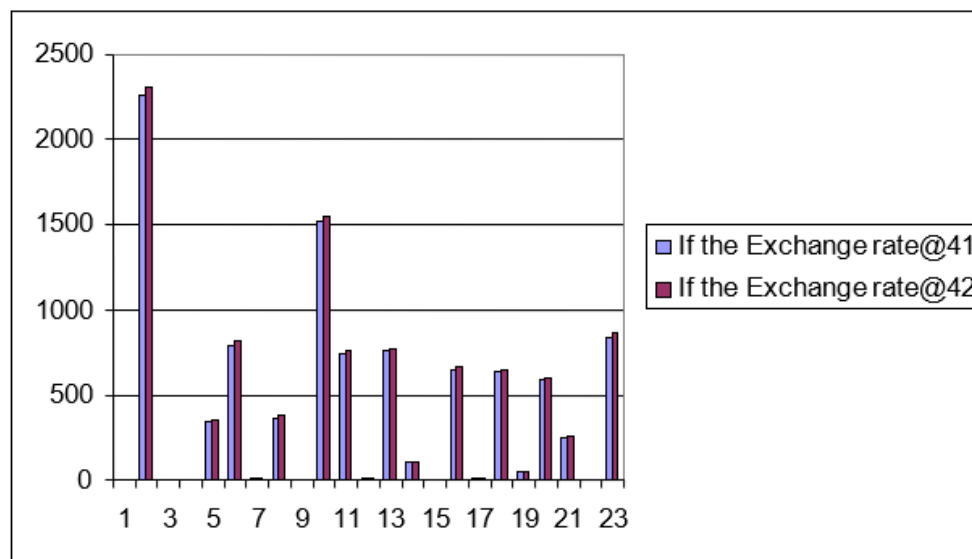
Tax Charges	75.87		45.52	43.30
Adjusted PAT	678.47		589.87	561.10
Non recurring-items	423.35		254.01	241.62
Other non cash Adjustments	0		0.00	0.00
Reported PAT	1101.82		843.88	802.72



INTERPRETATION: This graph showing total revenues are alteration together, total revenues are decreased Rs.2261.17 to 2150.87, and gross profit also decreased Rs.745.03 to 708.69.simultaneously all these values are changing the net income. If the Exchange rate had fixed @ Rs.41, the revenues would have been same.

DATA ANALYSIS:				
Table:3 CURRENCY EXCHANGE BETWEEN TWO RATES				
PROFIT&LOSS A/C FOR THE YEAR ENDED JUNE 2022				
Particulars	(Rs.in crores)	Income and Expenses@ 60% from foreign (In dollars)		
		Average Exchange rate @Rs.41	If the Exchange rate@41	If the Exchange rate@42
INCOME				
Net operating Income	3768.62	2261.17	2261.17	2316.32
EXPENSES				
Material consumption	0	0.00	0.00	0.00
Manufacturing expenses	577.24	346.34	346.34	354.79
Personal expenses	1322.59	793.55	793.55	812.90
Selling Expenses	17.82	10.69	10.69	10.95
Administrative Expenses	913.89	365.55	365.55	374.47
Capitalized Expenses	0	0.00	0.00	0.00
Cost of Sales	2831.54	1516.14	1516.14	1553.12
Reported PBDIT	937.08	745.03	745.03	763.20
Other recurring income	16.07		9.64	9.88
Adjusted PBDIT	953.15		754.67	773.08
Depreciation	178.21		106.93	109.54

Other write offs	0		0.00	0.00
Adjusted PBIT	774.94		647.75	663.55
Financial expenses	20.6		12.36	12.66
Adjusted PBT	754.34		635.39	650.89
Tax Charges	75.87		45.52	46.63
Adjusted PAT	678.47		589.87	24774.71
Non recurring-items	423.35		254.01	260.21
Other non cash Adjustments	0		0.00	0.00
Reported PAT	1101.82		843.88	864.46



INTERPRETATION: This graph showing total revenues are alteration together, total revenues are increased Rs.2261.17 crores to 2316.3, and gross profit also decreased Rs.745.03 to 763.20.simultaneously all these values are changing the net income. If the Exchange rate had fixed @ Rs.41, the revenues would have been same.

5. CONCLUSION

The implicit dollar method will significantly preserve the dollar profitability exporters. The employees and managers of exporting firms will be paid implicitly in dollars. The cost to the company will be in dollars. But the payout will be in rupees and at the prevailing exchange rates. If the dollar weakens, the dollar costs of employees and managers will be paid out in rupees at say, RS.39, if the dollar strengthens the cost of employees and managers will be paid out in rupees at say, Rs.43.

To overcome these problems exporters should make good governance by making available superior human, social and business infrastructure even if the tax rates are high. Good governance lowers the costs of operations and lowers the aggregate costs of doing business

6. REFERENCES

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