



A STUDY ON FOREIGN EXCHANGE

¹DINESH, ²Dr.A.RUPA VENI

¹MBA Student, ²Associate Professor

DEPARTMENT OF MBA

MALLAREDDY UNIVERSITY, HYDERABAD

ABSTRACT

This study is focused mainly on the operations of Full Fledged Money Changers in Indian forex market. The study is done with reference to Weizmann Forex Ltd Limited, one of the leading money changers in India with national network of 78 branches catering to national and international customers. The study focused on various products and services offered by Weizman Forex (FFMC). The operations studied include foreign exchange trading - bulk purchases, bulk sales, retail purchases or encashment and retail sales of currencies, Travellers Cheques, World Money Cards of major international currencies. The project also aims at studying management of franchisees, agents, management of funds for daily operations, settlements with banks. The other operations studied include inverting remittance to Western Union, providing Telephonic Transfer (T.T) service, acquisition of new clients, documentation of various requisites of the transactions done by FFMCs, reporting activities. The scope of the study also encompasses study on forex market participants, factors affecting forex markets. Major currencies are taken for the study.

The project involved taking part in daily transactions of bulk purchases, bulk sales, retail purchases, retail sales, handling the transactions through software package, currency tallying and settlements at the end of the day.

I. INTRODUCTION

FOREIGN EXCHANGE

(FOREX)

FOREX-The abbreviation of Foreign Exchange

What is Foreign Exchange?

Foreign Exchange is the purchase or sale of one nation's currency in exchange for another nation's currency. Foreign Exchange makes possible international transactions such as imports and exports and the movement of capital between countries.

Foreign Exchange is the money in one country for money or credit or goods or services in another country. Foreign Exchange includes foreign currencies, foreign cheques and foreign drafts.



Foreign Exchange is the transaction of international monetary business, as between governments or businesses of different countries.

Foreign Exchange is the negotiable bills drawn in one country to be paid in another country.

Foreign Exchange is any currency other than the local currency which is used in settling international transactions.

Foreign Exchange is the system of trading in and converting the currency of one country into that of another country.

Foreign Exchange is the transfer of credits to a foreign country to settle debts or accounts between residents of the home country and those of the foreign country.

Definition of Foreign Exchange:

The foreign capital earned by a country's exports. Since the currency of many less developed countries is not accepted by international markets, it often becomes necessary to earn foreign exchange in order to buy imports.

-Geography Dictionary

Foreign exchange exposure and risk are important concepts in the study of international finance. It is the sensitivity of the home currency

value of assets, 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 contracts have to share other instruments and markets for arbitrage and for hedging. These newer derivative instruments include Futures, Options and Swaps.

Scope of the study:-



- To know what is foreign exchange and what are the various foreign exchange services.
- To know how the transactions related to foreign exchange volatility carried out.
- To have a brief knowledge about various foreign currencies and their exchange rates compare to other nations currencies.

NEED AND IMPORTANCE OF THE STUDY

The world nations are increasingly becoming more interrelated global trade, and global investment. These international result in cross country flow of world nations. Countries hold currencies of other countries and that a market, dealing of foreign exchange results.

Foreign exchange means reserves of foreign currencies. More aptly, foreign exchange refers to claim to foreign money balances. Foreign exchange gives resident of one country a financial claim on other country or countries. All deposits, credits and balances payable in foreign currency and any drafts, travelers' cheques, letters of credit and bills of exchange payable in foreign currency constitute foreign exchange. Foreign exchange market is the market where money denominated in one currency is bought and sold with money denominated in another currency. Transactions in currencies of countries,

parties to these transactions, rates at which one currency is exchanged for other or others, ramifications in these rates, derivatives to the currencies and dealing in them and related aspects constitute the foreign exchange (in short, forex) market.

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. Multinational firms operate in more than one country and their operations involve multiple foreign currencies. Their operations are influenced by politics and the laws of the countries where they operate. Thus, they face higher degree of risk as compared to domestic firms. A matter of great concern for the international firms is to analyze the implications of the changes in interest rates, inflation rates and exchange rates on their



decisions and minimize the foreign exchange risk. The importance of the study is to know the features of foreign exchange and the factors creating risk in foreign exchange transactions and the techniques used for managing that risk.

II. OBJECTIVES OF THE STUDY

- To study and understand the foreign exchange in HDFC Limited.
- 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

III. SOURCES OF DATA

Primary data:

The primary data information is gathered from HDFC Limited executives.

Secondary data:

The secondary data is collected from various financial books, magazines and Weizmann Forex Ltd as part of the training class undertaken for project.

LIMITATIONS

- The study is confined just to the foreign exchange risk but not the total risk.
- The analysis of this study is mainly done on the income statements.
- This study is limited for the year 2015-2016.
- It does not take into consideration all Indian companies foreign exchange risk.
- The hedging techniques are studied only which the company adopted to minimize foreign exchange risk.

ASSUMPTIONS

- The total revenues are assumed 20% as domestic & 80% as foreign revenues.(Euro,US dollar & Pound)
- The total expenses of the income statements are taken 75% as domestic and 25% as foreign expenses(Euro,US dollar & Pound)
- The exchange rate of Rupee,Dollar,Euro,and Pound is considered with sensitive values and it is volatile in nature
- To have a comparative study Rs.67.73 per dollar, 74.03 per pound and 97.73 per pound is



taken as base and compared the company's profitability when the exchange rates fluctuate.

- To analyze and to compare study INR (Indian Rupee) and \$(American dollar), Euro & GBP (Pound) is taken into consideration.

FINDINGS

1. There is not much change in percentage of operating profit, PBDIT, PBT & PAT.
2. As currency of other country is increased or decreased there exists volatility in net operating income.
3. As foreign exchange rate is sensitive phenomena that affect the profitability of the company, the company should make study of the impact of exchange rate volatility on its profitability in different foreign markets.
4. To have expanded knowledge on impact on company's profitability when foreign exchange rates changes, various statements like cash flow, funds flow, etc need to be checked.

SUGGESTIONS

Often, foreign ships travel through India and dock their vessels at various ports / harbors in the country. One of the major requirements during such temporary stays, is that of FCY Cash that has to be made available to the Captain of the Ship for covering Crew wages or for other expenses on board the ship.

These requirements are usually met through a facility called "Cash to Master". To collect this cash, the master of the ship has to approach the branch with his passport and a duly filled up application form. This product is available only in United States Dollars, Pounds Sterling and Euro Currencies.

Foreign exchange facilities can be availed by customers at any of our branches transacting in Foreign Exchange. You can buy FCY Cash, TC's and FCY DD's from any our branch and also encash your TC's and Cash at our branches.

Foreign Exchange can be availed against payments by Cash, Cheque or Pay Order/ Demand Draft. A maximum of Rs. 49,999/- (as per Indian Tax Laws revised 2014 also) will be accepted in cash and any amount above Rs. 49,999/-, against a Pay Order or Cheque after clearance of the same. You need to carry the required Documentary Proof for issuance of Foreign Exchange.

IV. CONCLUSIONS

1. This study reveals the net income of the company when exchange rate fluctuates.
2. From the study we can depict the changes in the expenses and revenues of the company.
3. One of the important conclusions is that the revenues and expenditure of the company will change as there is a change in the exchange rates.



4. This study helps to know how the volatility in exchange rate impact on company's profitability.

5. Hence this study helps to take necessary action when variance in exchange rate affects the profitability

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