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# A Study on Foreign Exchange Risk Management with Regards to Sunshare Investments PVT Ltd

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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.

**KEYWORD** Foreign, Currency, exposure, exchange

## I. 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.

## II. RELATED WORK

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.



### III. METHODOLOGY

#### 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 first hand. 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 questionnaire, observation, interview etc. The primary source used for the study is questionnaire.

#### SECONDARY DATA

Secondary data is the information which is already available in published or unpublished form. When the needed information is collected from the census of population available in a library means then it is a secondary data. It is also used for collecting historical data. The various sources of secondary data are books, periodicals, journals, directories, magazines, statistical data sources etc. The secondary source used for this study is company profile, scope, need, review of literature.

#### 3.4 RESEARCH INSTRUMENTS

Research instrument are the instruments which is used for gathering or collecting information. The instruments used in the study are

1. Direct questions
2. Close end questions
3. Dichotomous questions
4. Multiple choice questions

#### DIRECT QUESTIONS

Direct questions are just what their names indicate. They explicitly ask for the desired data. However the directness of the question also relates to the way a response is interpreted.

#### CLOSE END QUESTIONS

Such questions are also called fixed alternative questions they refer to those questions in which the respondent is given a limited number of alternative response frame which he/she is to select one that most closely matches his/her opinion or attitude.

#### DICHOTOMOUS QUESTIONS

A dichotomous question refers to one which offers the respondent a choice between only two alternatives and reduces the issue to its simple terms. The fixed alternatives are of the type, yes/no, agree/disagree, true/false etc.

### MULTIPLE CHOICE QUESTIONS

A multiple choice question refers to one which provides several set alternatives for its answers. Thus, it is a middle ground between free answers and dichotomous question.

### 3.5 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.

### NON-PROBABILITY SAMPLING

In non-probability sampling, the chance of any particular unit in the population being selected is unknown, since randomness is not involved in the selection process. But this does not mean that the findings obtained from non-probability sampling are of questionable value. If properly conducted their findings can be accurate as those obtained from probability sampling. The three frequencies used non-probability designs are

1. Judgment sampling
2. Convenience sampling
3. Quota sampling

### 3.6 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.

### 3.7 SAMPLE FRAME:

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

### 3.8 SAMPLE DESIGN

Sample design is the theoretical basis and the practice means by generalizing from characteristics of relatively few of the comprising population.

## IV. EXPERIMENTAL RESULTS

- 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 prefer 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.
- Most of the respondents say manage the risk in foreign currency exchange with the help of Spot.
- A. Most of the respondents give very important to volume of currency in selecting a technique.
- B. Most of the respondents give very important to cost in selecting a technique.
- C. Most of the respondents give important to risk free in selecting a technique.
- D. Most of the respondents give very important to profit in selecting a technique.
- E. Most of the respondents give very important to number of transaction.
- Most of the respondents say spot is the usage of technique which is mention in percentage.

#### V. 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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