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# A STUDY ON FOREIGN EXCHANGE EXPOSURE AT WILSON POWER AND DISTRIBUTION TECHNOLOGIES PRIVATE Ltd., CHENNAI

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**ABSTRACT**

Foreign exchange rate and foreign exchange exposure have become crucial for multinational corporations (MNCs) and even smaller businesses involved in international trade in the increasingly globalized economic landscape. The international financial risk that businesses experience as a result of exchange rate variations affects the value of assets, liabilities, and cash flows. India's foreign exchange reserves are a topic of interest for economists and policymakers alike. With fluctuations and trends reflecting the nation's economic landscape, understanding the forex reserves of India is essential. The study aimed to analyse the foreign exchange reserves variations in India and to measure the foreign exchange exposure in the selected company Wilson Power And Distribution Technologies Private Ltd. The results reveals that foreign exchange reserves witnessing negative variations and it has been increasing. Further, foreign investments presents both upwards as well as downward differences. Foreign exchange exposure in the company exhibits, net positive impact on the profits of the company leaving more cash flows during the selected period.

**Key Words: Exposure, Hedging techniques, International Trade, GST surplus, GST zero rated supply, Foreign exchange reserves, Balance of payments.**

**1. Introduction:** The foreign exchange exposure means the sensitivity of changes in the real domestic currency value of assets, liabilities or operating incomes due to unanticipated change in exchange rates. It is known that each country has different type of currency based on their government regulations of their parent bank. The importance of Indian forex reserves cannot be overstated, as they play a vital role in maintaining the stability of the nation's currency and economy. Wondering how it works? This article should help. India's foreign exchange reserves have also witnessed significant dips during high volatility occurrences including during the recent Russia- Ukraine conflict. Rajesh Tiwari , Praveen Singh et.al., (2022), found that war has adversely impacted Indian Rupee exchange rate. The import dependency on crucial items of energy, food and defence equipment's had restricted country's capability to safeguard its currency and livelihood of citizens. India needs to tap the demographic advantage to strengthen its currency and self sufficiency of energy, ammunition, food security.

## 2. Review of literature

Miller – Modigliani (1950) impertinence Proportion an establishment's fiscal position strategies or inapplicable in perfect fiscal requests, because investors can make analogous fiscal opinions on their particular accounts in the same way that the firm fiscal directors do and at the same cost. The corner composition formed the base for collaboration under which hedging strategies are rail rank in the finance. In the fiscal programs of enterprises. Shapiro (1998) who argues that restatement threat is purely and counting miracle. thus, shouldn't be hedged. Since sale exposure has direct cash inflow and request value counteraccusations on an establishment, it should be laboriously managed. (Srinivas ulus, 1983). Besides the use of internal title styles similar as cash inflow network to manage sale exposure. Zorian (1990) showed that only 5 of enterprises having substantial inflated exposure severe exploration done bondar & Gebhardt, 1999Amihud, in 1994; Bartov, Gordon & Kauv, 1994) indicated that he wasn't significantly exposed to foreign exchange rate exposure. Froot et. All (1993) showed that chains enterprises don't have a general unified approach to manage their profitable exposure because measuring profitable exposure is delicate. He & NG (1998) Bondar & gentry (1993) Booth & Rotenberg (1990) set up that exchange rate movement has a significant positive impact on the firm value. The firm value will increase only when the import threat operation totally. Graham and Rogers (2002) on the impulses for enterprises to hedge, they set up that enterprises hedge to increase their capacity for debt and this increased debt capacity results in duty benefits comprising1.1 percent of the enterprises value. Bodnar- Marston (2002) model says that exchange rate volatility has a significant impact on foreign exchange exposure, piecemeal from establishment-specific factors similar as firm size and growth. On the other hand, states that foreign exchange exposure had significant impact on affair growth, earnings per share, and capital expenditures of the enterprises, maybe moderated by the nature of the exchange rate governance. Dhani, A (2003) Despite the large number of sophisticated fiscal request hedging instruments available to enterprises, measuring and managing profitable exposure, (Strategic exchange rate threat) has proven to be delicate because this exposure depends on an expansive number also the practice of hedging read operating cash overflows is veritably limited in bridling profitable exposure because only the nominal aspects of currency threat are taken into consideration. Marshall (1999) revealed that because of the complexity of managing profitable exposure in the fiscal requests, enterprises resort to using internal hedging ways similar as their prices, pricing strategies, while others don't manage it at all. Vij (2001) opined in the study that difference between sale exposure and profitable exposure is that, sale disturbs the present cash overflows while, profitable exposure is a long-term threat and hence need to study in detail.

On the whole, review of literature revels that there are many factors contribute for the volatility in foreign exchange rate and it has significant impact on the assets and liabilities and operational cash flows of firm. Further, measuring the sensitivity of forex risk seems to be dire need for the business dealing in cross-border transactions. Hence, to fill this gap, present study has been undertaken.

## Need of the study

Now a days, enterprises are open to be affected from macro-economic variables due to the rapid-fire globalization of business and foreign exchange rate is one of those variables. Unanticipated oscillations in foreign exchange rate may alter returns, operating cash overflows, fiscal opinions, investment, etc draws attention to study the degree of volatility in the value and financial position of the business. Thus, exposure to currency movements is an important threat for growing number of domestic and transnational enterprises and this indicates there's a need to study foreign exchange exposure.

## Objectives of the study

1. To study the foreign exchange reserves variations in India
2. To study the foreign exchange exposure of Wilson power and distribution technologies.

**3. Research Methodology:** Descriptive analysis has been used in the present study. Foreign exchange reserves in India is analysed through secondary data of RBI statistics and foreign exchange exposure of the selected company is measured based on the documents gathered from the company relating to day-wise data of every month foreign sales as well as imports occurred for the past 36 months i.e 3 years data from April-2021 to Dec-2023.

## 4. LIMITATIONS:

The study is conducted for the period of 45 days.

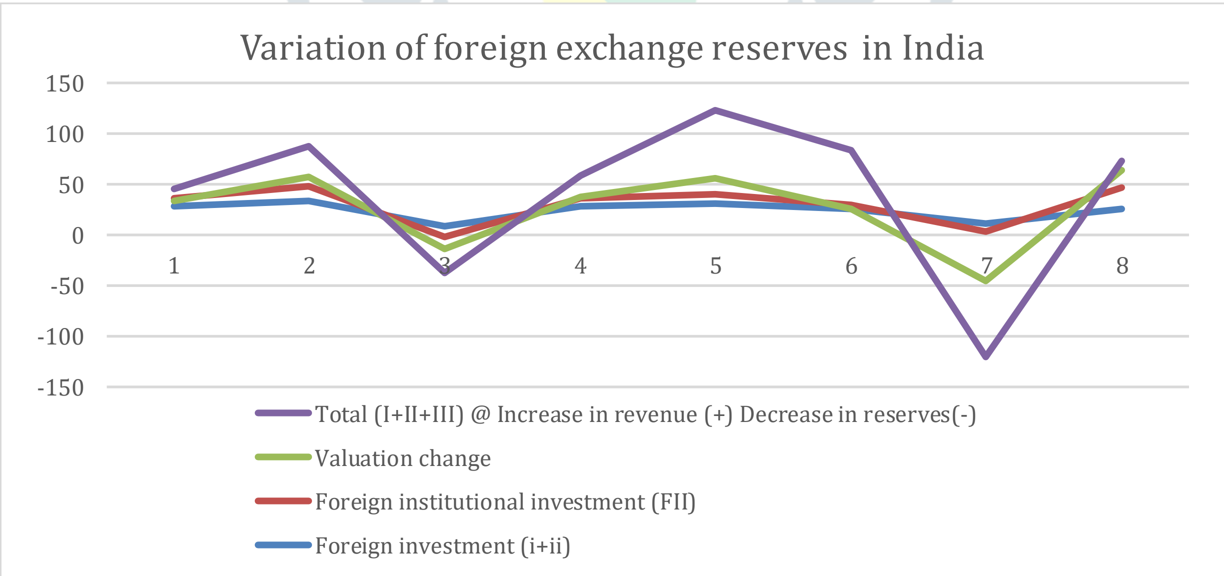
The study made only data for a period of 2 years 9 months i.e., April 2021 to Dec 2023.

**5. Analysis & Interpretation of Data:** Foreign exchange variation component wise in India and the net balance of payments have been analysed in table-1 and 2 as below:

**Table: 01 Component wise foreign exchange variation in India**

| Items | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|---|---|---|---|---|---|---|---|---|
| Current account balance | -22.2 | -15.3 | -48.7 | -57.3 | -24.7 | 23.9 | -38.8 | -67.1 |
| Capital account (net) (a to f) | 40.1 | 36.8 | 92.3 | 53.9 | 84.2 | 63.4 | 86.3 | 57.9 |
| a) Foreign investment (i+ii) | 31.9 | 43.2 | 52.4 | 30.1 | 44.4 | 80.1 | 21.8 | 22.8 |
| i) Foreign direct investment (FDI) | 36 | 35.6 | 30.3 | 30.7 | 43 | 44 | 38.6 | 28 |
| ii) Portfolio investment | -4.1 | 7.6 | 22.1 | -0.6 | 1.4 | 36.1 | -16.8 | -5.2 |
| of which | | | | | | | | |
| Foreign institutional investment (FII) | -4 | 7.8 | 22.2 | -2.2 | 0.6 | 38.7 | -14.1 | -4.8 |
| ADR/GDR | 0.4 | 0 | 0 | 1.8 | 0 | 0 | 0 | 0 |
| b) Banking capital | 10.6 | -16.6 | 16.2 | 7.4 | -5.3 | -21.1 | 6.7 | 21 |
| Of which: NRI Deposits | 16.1 | -12.4 | 9.7 | 10.4 | 8.6 | 7.4 | 3.2 | 9 |
| c) Short term credit | -1.6 | 6.5 | 13.9 | 2 | -1 | -4.1 | 20.1 | 6.5 |
| d) External assistance | 1.5 | 2 | 2.9 | 3.4 | 3.8 | 11.2 | 5.4 | 5.5 |
| e) External commercial borrowings | -4.5 | -6.1 | -0.2 | 10.4 | 23 | -0.1 | 8.1 | -3.8 |
| f) other items in capital account | 2.2 | 7.9 | 7 | 0.5 | 19.4 | -2.6 | 24.2 | 5.8 |
| Valuation change | 0.6 | -11.8 | 11 | -8.3 | 5.4 | 11.9 | -17.2 | -19.7 |
| Total (I+II+III) @ Increase in revenue (+) Decrease in reserves (-) | 18.5 | 9.8 | 54.6 | -11.7 | 64.9 | 99.2 | 30.3 | -28.9 |

**Graph:**01 Variation of foreign exchange reserves in India




**Source:** Compiled by author based on secondary data availed from RBI website

**Interpretation:** By the above graph it could see that the foreign investment is increasing from 2015 to 2023. Also reveals that the Foreign investment are in trend of both in increase and decrease i.e in 2021-2022, 21.8 US$ Billion which is lowest value from the above data and the highest value is in 2020-2021 with 80.1 US$ Billion and the last year that is from 2022-2023 is 22.8 , when compared to past year that is2021-2022 decreased in the value of 1 US$ Billion The Foreign Institutional Investment has increased and decreased same as like Foreign investment, In the year of 2015-2016 it is in -4 US$ Billion, In 2020-

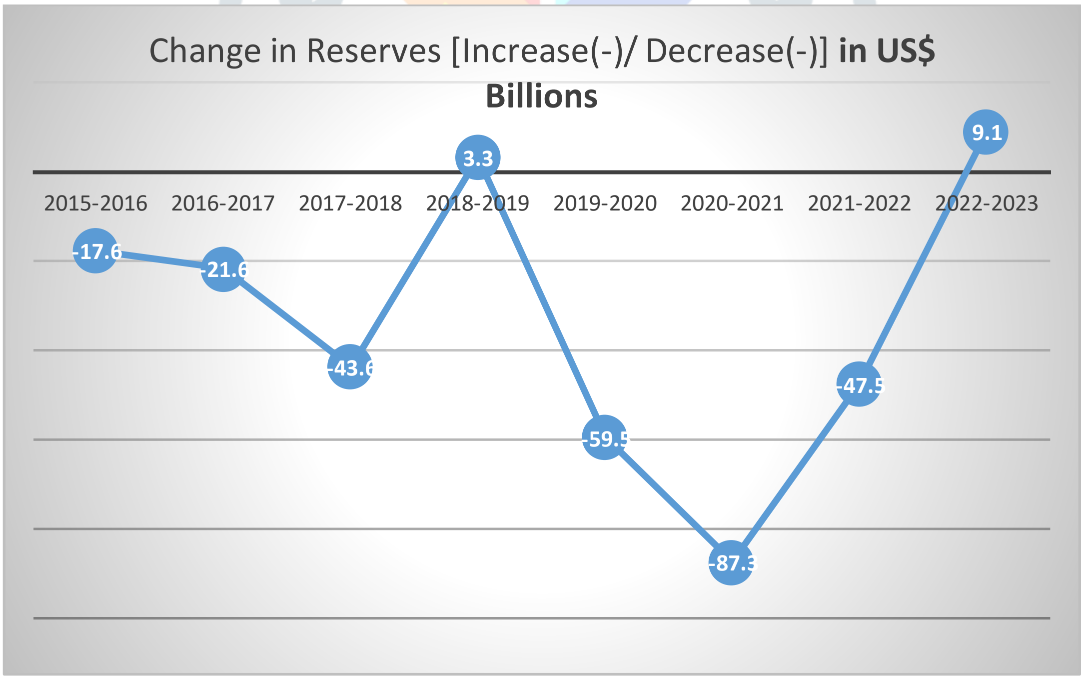
2021 it is 38.7 US$ Billion, In 2021-2022 it is decreased to -14.1 US$ Billion and In 2022-2023 it Little bit covered but it is still in negative side that the value is -4.8 US$ Billion, the value of Valuation change was very low in the last year that is 2022-2023 the value is -19.7 US$ Billion and the highest value of valuation change is 11.9 US$ Billion in the year of 2020-2021, however there is an increase in the total revenue that is in 2020-2021 99.2 US$ Billion, and the highest decrease in the reserves is -28.9 US$ Billion in the year of 2022-2023.

**Table: 02 Balance of payments**

| YEARS | NET BOP |
|---|---|
| 2015-2016 | -17.6 |
| 2016-2017 | -21.6 |
| 2017-2018 | -43.6 |
| 2018-2019 | 3.3 |
| 2019-2020 | -59.5 |
| 2020-2021 | -87.3 |
| 2021-2022 | -47.5 |
| 2022-2023 | 9.1 |

**Source: RBI.in**

**Graph: 02 Balance of payments**




**Source: C**ompiled by author based on secondary data availed from RBI website.

**Interpretation:** In 2016-17, there was an accretion of US$ 21.6 billion to the foreign exchange reserves as compared with US$ 17.9 billion in 2015-16, In 2017-18, there was an accretion of US$ 43.6 billion to the foreign exchange reserves, In 2018,19 here is an increase of reserves which moved from negative side to positive side that moved from -43.6 US$ billion to 3.3 US$ billion In 2019-20, there was an accretion of 59.5 US$ billion to foreign exchange reserves, In 2020-21 The reserves are very low compared to all years that are used in this study that is -87.3 US$ billion In 2021-22, there was an accretion of US$ 47.5

billion to foreign exchange reserves, In 2022-23, there was a depletion of US$ 9.1 billion of the foreign exchange reserves, However by the above graph here it could conclude that there is an increase movement from 2021-222 to 2022-23 to positive side because in 2021-222 it is- 47.5 5 US$ billion to 9.1 5 US$ billion by this there is an increase trend of foreign exchange reserves.

**Analysis of Exchange exposure based on semi-annual period:**

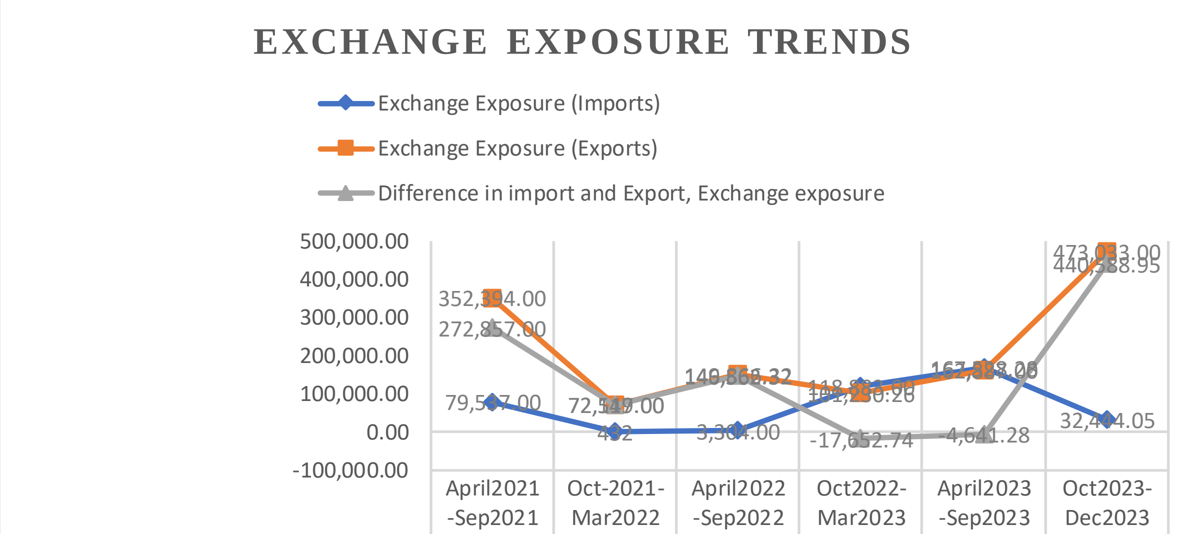
It is tried to measure and analyse the transaction exposure. All the export values of agreement date are compared with exports value received from the importer value expressed in home currency. The different between agreed value and received value is taken as exchange currency exposure. In the second stage, exchange exposure for every six months is summed up i.e. April to September and then Oct to March of every year. This methodology is followed for both export value and import values and the analysis and interpretations is presented in table-3 as below:

**Tabel: 03 Foreign Exchange exposure**

| **Duration** | **Exchange Exposure in Imports (in Rupees)** | **Exchange Exposure in Exports (in Rupees)** | **Exchange exposure trends** |
|---|---|---|---|
| April2021-Sep2021 | 79,537.00 | 3,52,394.00 | 2,72,857.00 |
| Oct-2021-Mar2022 | 432.00 | 72,549.00 | 72,117.00 |
| April2022-Sep2022 | 3,304.00 | 1,49,866.32 | 1,46,562.32 |
| Oct2022-Mar2023 | 1,18,883.00 | 1,01,230.26 | -17,652.74 |
| April2023-Sep2023 | 1,67,528.28 | 1,62,887.00 | -4,641.28 |
| Oct2023-Dec2023 | 32,444.05 | 4,73,033.00 | 4,40,588.95 |

**Source:** Compiled by author based on secondary data

**Graph: 03 Exchange exposure trends**




| | April2021 -Sep2021 | Oct-2021-Mar2022 | April2022 -Sep2022 | Oct2022-Mar2023 | April2023 -Sep2023 | Oct2023-Dec2023 |
|---|---|---|---|---|---|---|
| Exchange Exposure (Imports) | 79,537.00 | 432 | 3,304.00 | 118,883.00 | 167,528.28 | 32,444.05 |
| Exchange Exposure (Exports) | 352,394.00 | 72,549.00 | 149,866.32 | 101,230.26 | 162,887.00 | 473,033.00 |
| Difference in import and Export, Exchange exposure | 272,857.00 | 72,117.00 | 146,562.32 | -17,652.74 | -4,641.28 | 440,588.95 |

**Source:** Compiled by author based on secondary data

**Interpretation:** the data illustrates the exchange exposure associated with both imports and exports over different time periods. Exchange explorer for imports peaked in April. 2023 to September 23 and 1,67,528.28 while for exports, the highest exposure was observed in April. 2021 to September 2021 at 3:00 lakhs. 52,394.00 Notably, there is a significant disparity in exchange explorer between imports and exports in the highest difference absorbed in October. 2023 to December 2023 at 4 lakhs. 4 dozen 88.95. Nisha is a potential imbalance in currency risk management between import and export operations. Warranty attention to optimise risk mitigation strategies.

**Conclusion:**

Currency rate fluctuations has direct impact on the assets and liabilities of any economy or company. In the present analysis , the company it can be conclude foreign exchange reserves witnessing negative variations and it has been increasing. Further, foreign investments presents both upwards as well as downward differences. Foreign exchange exposure in the company exhibits, net positive impact on the profits of the company leaving more cash flows during the selected period.

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