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Analysis of the Forex Market in Tirupur

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Abstract:

The research paper entitled “Analysis of the Forex Market in Tirupur” was undertaken to increase the market share for derivative products of ICICI in Tirupur. In this research paper descriptive research design is used. The sample size is 100 out of a population of 500 exporters. The study also covered the entire population of 40 banks who service the Forex requirement of exporters in Tirupur. The method of sampling adopted is the simple random probability sampling. The data collected in this research work is primary data. The data were collected through questionnaires. A structured questionnaire was framed for collecting the personal details and research details from the exporters and bankers.

Keywords: *Exporter satisfaction, Forex, Major forex handling banks, currency conversion*

1. Introduction

1.1. Derivatives

It is a contract whose value is derived from the value of another asset, which could be a share, a stock market index, an interest rate, an oil price or a currency. When price of this asset changes, the value of derivative also Changes.

1.2. Forward Contracts

Forward contract is a contract, which affords adequate protection to an exporter or an importer against exchange risk. Under these contracts, a banker and customer enter into an agreement to buy or sell a fixed amount of foreign currency on a future specified date at a pre-determined rate of exchange. Exporter, for instance sells foreign exchange of specified amount and currency at a specified future date which assures him definite payment and the banker agrees to buy the same amount and currency at a pre determined rate, which assures him definite availability of foreign exchange.

A forward contract, where the delivery of Forex should take place on a specified future date, says January 10, is known as 'Fixed Forward Contract'. On the other hand, where the customer can sell or buy Forex from the bank, on any day during a given period of time (say between January 05 to January 15), at a pre-determined rate, is called 'Option Forward Contract'.

The date of delivery under a forward contract is date of payment of rupees to the customer in case of a bill purchased or negotiated, date of payment of rupees to customer on realization for bills sent for collection and date of retirement in case of an import bill

1.3. Currency Options

An option is a contract between two parties whereby one party has the right to buy or sell a particular security at a predetermined price on or before (during) a predetermined period for a consideration. The party who get this right is called the option buyer while the other party is termed as the option writer. The price at which the deal takes place is called the strike price or exercise price and the consideration involved is the option premium. An option may be a call option or a put option.

1.4. Hedge

The purchase or sale of futures or options contract as a safeguard usually against an opposite position in the cash market

1.5. Future

This kind of trading signified entering into contracts to buy or sell financial instruments or commodities, for forward delivery or settlements on standard terms on a pre-determined future date at a pre-determined price. It provides for both payment and delivery at a later date, although neither payment nor delivery is compulsory and the transaction be settled on the basis of price difference.

1.6. SWAPs

It is a transaction where the bank purchases or sells the foreign currency simultaneously, for different maturities, say purchase of spot and sale of forward or vice-versa OR purchase of two month forward and sale of three month forward (which is called forward to forward swap). Compared to ordinary deals, in a swap deal, the difference between the buying and selling rates is ignored and buying and selling is done at the same rate.

1.7. Tirupur Export Market

Tirupur is an important trade center of India, which is famous for its knitted garments. Tirupur is a major source of Foreign Exchange for the country because of its exports.

Tirupur, in Tamil Nadu (located 55 km to the east of Coimbatore City) accounts for 90 % of India's cotton knitwear export, worth an estimated Rs 4,000 crores. But it is severely handicapped by poor infrastructure. Tirupur has a unique significant presence at the lower end of the international hosiery and knitwear market.

The exports from Tirupur are under threat due to the critical issues of environment pollution and child labor. The slow process of infrastructure development is also coming in the way of this town acquiring the image of a prestigious and mature international knitwear center.

Most Tirupur entrepreneurs are satisfied with catering to the lower end of the market on a contract-manufacturing basis. Tirupur is basically a traditional center for cotton ginning. Its export boom began in the late 1980s, and the entire populace now depends on its viability as an export center.

2. Need for the Study

- Market analysis is needed for the acquisition of market share.
- The growth of business is helpful to know the future need of the exporters.
- The usage of derivative products gives the information about the awareness of products.
- An effective knowledge about the market helps to increase the product share with minimum risk.
- Market analysis is needed for the present and future product development.

3. Problem Identification

ICICI is the leader in retail assets products. They are entering into Trade finance, Export finance and corporate lending in SME segment. They need to get more business. They want to explore market potential for Forex derivative products. Hence this study entitled "Analysis of the Forex market in Tirupur" has been undertaken.

4. Objective of the Study

To analyze the total demand for Forex derivative products for the exporters in Tirupur.

5. Limitations

- The area under study is restricted only to Tirupur city and its outskirts
- As the questionnaire was pertaining to the financial details of the exporters the turnovers, profit after tax and funding from banks are approximated
- The information provided by the respondents could also be biased or inaccurate. No independent verification of the data was possible.
- Some of the exporters declined to provide details. So the study is limited to those who agreed to provide data.
- While it was proposed to study 40 banks (entire population) only 20 banks responded to the questionnaire.
- If more exporters in the Tirupur city were contacted, the information would have made this study more exhaustive but due to time limitations it was not possible.

6. Research Methodology

6.1. Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner, which may result in an economy in procedure. It stands for planning for collection of relevant data and the techniques to be used in analysis, keeping in view the objectives of the research and availability of time.

6.2. Descriptive Research Design

Descriptive research includes survey and fact-finding enquires of different kinds. The major purpose of this research is description of affairs as it exists at present.

6.3. Sampling Technique

The method of sampling adopted is the simple random probability sampling. A list of exporters in Tirupur city was made and they were visited. Individual exporters were selected at random and were listed to gather the required information.

6.4. Sample Size

Tirupur Export Association has about 500 top exporters and, the sample size was found by using the formula

$$n = ((Z*S)/e)^2 \quad n = \text{Sample size}$$

$Z = \text{Normal variant (1.96)}$
(Confidence level of 95%)
 $S = \text{Standard deviation (0.05)}$
 $e = \text{Tolerance error (0.01)}$

and the sample size is 100 for exporters and also population (40 banks) study for bankers.

6.5. Data Collection Method

The data collected in this research work is primary data. The data were collected through questionnaires. A structured questionnaire was framed for collecting the personal details and research details from the exporters and bankers.

There are two types of questionnaires are used in this research work.

- Questionnaire to Exporters
- Questionnaire to Banks

6.6. Scaling Technique

The scaling technique used for this research is five-point scale

6.7. Statistical Tools

The following statistical tools are used for this research work to extract the information, final interpretation and suggestion for the report.

- Percentage Analysis
- Chi-square Test
- Weighted average method

7. Review of Literature

Derivatives are generally used to hedge risk, but can also be used for speculative purposes. For example, a European investor purchasing shares of an American company off an American exchange (using American dollars to do so) would be exposed to exchange-rate risk while holding that stock. To hedge this risk, the investor could purchase currency futures to lock in a specified exchange rate for the future stock sale and currency conversion back into euros.

The foreign exchange market is the largest and most liquid of the financial markets with an estimated \$1 trillion traded every day. Foreign exchange rates are amongst the most important economic indices in the international monetary markets. The forecasting of them poses many theoretical and experimental challenges. Given the abandonment of the fixed exchange rates, the implementation of the floating exchange rate system in the 1970s, and the recent GATT talks towards further liberalization of trade, understanding the relationship among major currency exchange rates is of utmost importance. Foreign exchange rates are affected by many highly correlated economic, political and even psychological factors. The interaction of these factors is in a very complex fashion. Therefore, to forecast the changes of foreign exchange rates is generally very difficult. Researchers and practitioners have been striving for an explanation of the movement of exchange rates. Thus, various kinds of forecasting methods have been developed by many researchers and experts. Technical and fundamental analyses are the basic and major forecasting methodologies which are in popular use in financial forecasting. Like many other economic time series Forex has its own trend, cycle, season, and irregularity. Thus to identify, model, Extrapolate and recombine these patterns and to give Forex forecasting is the major challenge

8. Analysis & Interpretation

Constitution	Respondents	Percentage
Sole proprietor	35	35%
Partnership	56	56%
Pvt Ltd	8	8%
Public Ltd	1	1%
Total	100	100%

Table 1: Type of Constitution of Exporters

Interpretation

From the study it is seen that 56% of the companies are partnership companies, 35% of companies are sole proprietorship companies, 8% of the companies are private Ltd companies and 1% of companies are Public Ltd companies.

Business	Respondents	Percentage
Export	87	87%
Export & Domestic	13	13%
Total	100	100%

Table 2: Export Presence In Domestic Market

Interpretation

From the study it is found that 87% of respondent doing exclusively export business and 13% of respondents are doing both export and domestic business

Countries Exported	Respondents	Percentage
1 Country	23	23%
2 Countries	50	50%
3 Countries	24	24%
More than 3 countries	3	3%
Total	100	100%

Table 3: Export Destinations

Interpretation

From the study it seen that majority (50%) of exporters, export their product to two countries, 24% of exporters, export to three countries, 23% of respondent export to one country and 3% of exporters export to more than three countries

Export Business	Respondents	Percentage
USD	57	57%
EURO	36	36%
YEN	1	1%
OTHERS	6	6%
Total	100	100%

Table 4: Different Currencies Used in Exports

Interpretation

From the study it is found that majority (57%) of business is done in USD, 36% of business is in EURO and 7% of business is in other currencies in Tirupur export market.

Derivative Used	Respondent	Percentage
Forward	73	73%
Option	3	3%
Future	4	4%
Forward & Option	8	8%
NA	12	12%
Total	100	100%

Table 5: Usage of Derivatives by Exporters

Interpretation

Form the study it is seen that majority of respondents (73%) are using forward contract, 3% of customers using Option, and 8% of exporters using both forward and option contracts.

Opinion	Frequency	Percentage
Very good	17	17%
Good	40	40%
Satisfied	42	42%
Poor	1	1%
Very poor	0	0%
Total	100	100%

1	2	3	4	5
17	40	42	1	0
17	80	126	4	0

Table 6: Satisfaction with Forex Services of Banks

$$\text{Weighted Average} = \frac{17+80+126+4+0}{100}$$

$$= 2.27$$

The above table shows that 17% of the respondent says that the services of the banks are very good. 40% of the respondent feels the banks provide good services to the customer regarding Forex. While 42% feels that the service is satisfaction. Therefore most respondent who have participated in this research agree that banks provide them with good service with respect to Forex.

Years/ Opinion	Good	Satisfactory	Poor	Total
1-3	45	36	1	82
4-7	10	5	0	15
8-10	2	1	0	3
Total	57	42	1	100

Table 7: Relationship Between Years of Experience And Satisfaction with Bank Service

- Null Hypothesis (H0)
 - There is no relationship between the years of experience with the present banks and satisfaction with Forex services provide by the bank.
- Alternate Hypothesis (H1)
 - There is a relationship between the years of experience with the present banks and satisfaction with Forex services provide by the bank

O _i	E _i	(O _i -E _i) ²	(O _i -E _i) ² /E _i
45	47	4	0.085106
36	34	4	0.117647
10	9	1	0.111111
9	10	1	0.1
Chi-square			0.413865
Alfa = 0.05		Degrees of freedom	4
Chi-square (0.05,4)		=	
=			

(Chi-square Table)

Degrees of freedom = 4
 Level of significance = 5%
 Table value = 9.49
 Calculated value = 0.41

9. Conclusion

Since the calculated value is less than the tabulated value, the null hypothesis is accepted. Thus there is no relationship between the experience in present banks and satisfaction

10. Findings

10.1. Findings with Regard to Exporters

- In Tirupur export market 56% of the companies are partnership companies, 35% of companies are sole proprietorship companies, 8% of the companies are private Ltd companies and 1% of companies are Public Ltd companies.
- The study found out Partnership firms is performed well and has high turnover form the beginning and sole proprietorship firms are in the next position.
- In Tirupur export market the turnover of the companies is growing steadily from 2011 to 2012. The exporters expect the growth trend to not continue during 2012-2013 also.
- The total turnover was decreased up to 28% during the year 2013-14 compared with the year 2012-13.
- The study found out 87% of respondents doing exclusively export business and 13% of respondents are doing both export and domestic business.

- The study found out 50% of exporters, export their product to two countries, 24% of exporters, export to three countries, 23% of respondent export to one country and 3% of exporters export to more than three countries

10.2. Findings with Regard to Banks

- The study found out 60% of banks is having one branch, 15% of banks are having two branches, 10% of banks are having three branches and 15% of banks are having more than three branches.
- In Tirupur the total export trade during 2013-14 is Rs 5192 Crs.(approx)
- In Tirupur export market 50% of banks are have 10-30 customers, 35% of banks are have 30-60 customers, 10% of banks are have 60-100 customers and 5% of banks are have more than 100 customers for Forex services.

10.3. Findings with regard to use of derivatives & Satisfaction with services provided by banks

- In Tirupur export market 73% of exporters are using forward contract, 3% of exporters using Option, and 8% of exporters using both forward and option contracts.
- The studies found out 62% of exporters are not using the TUF benefit and 38% of exporters are use TUF benefit in Tirupur export.
- In Tirupur export market 61% of exporters' perceived derivatives as risky and 39% of exporters' perceived derivatives as not risky.
- From the study found out 89% of the exporters is satisfied with the bank rates and 11% of exporters are not satisfied with bank rates.
- The most of respondent who have participated in this research agree that banks provide them with good service with respect to Forex service.
- From the study found out 84% of exporters utilizes export credit insurance and 16% of exporters are not using credit insurance.

11. Suggestion

11.1. For Exporters

- The profitability of exporters depends to a large extent on Forex rates. Because Forex rates are highly fluctuating, it is necessary that the exporters cover their risk with regard to changes in Forex rates.
- The general level of awareness about derivative and their utility is low. Here it is suggested that the exporters must use the expertise of their banks and use the Forex derivatives to minimize exchange rate risk.

11.2. For Banks

Where as no exporters was dissatisfied with the services of bankers, only 17% of exporters ranked the services as very good. Therefore, it is suggested that

- Bankers should meet & discuss with the exporters to identify areas for further improvement in services.
- This suggestion is necessary because of acute competition prevailing in the banking sector.

12. Conclusion

The foreign exchange market is the largest and most liquid of the financial markets. Foreign exchange rates are amongst the most important economic indices in the international monetary markets.

From the study, in Tirupur export market 57% of business is done in USD, 36% of business is in EURO and 7% of business is in other currencies. So the exporters hedge their foreign exchange risks with the help of derivative products provided by banks. The general level of awareness about derivative and their utility is low, since only 3% of exporters are using Option and 4% of exporters are using Future. Also 61% of exporters think that the use of derivatives is Risky.

Where as no exporters was dissatisfied with the services of bankers and only 17% of exporters ranked the services as very good. So the exporters must use the expertise of their banks and use the Forex derivatives to minimize exchange rate risk.

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