

A STUDY ANALYZING THE EFFICIENCY OF THE GLOBAL FOREIGN EXCHANGE MARKET: FACTORS INFLUENCING EXCHANGE RATE FLUCTUATIONS WITH REFERENCE TO HDFC

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ABSTRACT

The activities of Full Fledged Money Changers in the Indian foreign exchange market are the primary subject of this research. The research is based on data collected from Weizmann Forex Ltd Limited, a top money changer in India serving clients all over the world via its extensive network of 78 locations. Several of Weizman Forex's (FFMC) offerings were the primary focus of the research. Foreign exchange trading (including buying and selling in bulk as well as retail buying and selling), traveler's checks, and world money cards for the most common international currencies are all part of the processes covered. The project's other objectives include researching franchisee and agent management, daily operations money management, and bank settlements. Additional procedures that were examined were remittance inversion to Western Union, telephonic transfer (T.T.) service provision, customer acquisition, reporting activities, and documentation of different transaction requirements by FFMCs. Research on the variables impacting the foreign exchange market and its players is also within the purview of this research. The analysis utilises major currencies. As part of the project, you'll need to handle everyday transactions such as bulk purchases, retail purchases, bulk sales, currency tallying, and settlements using a software package.

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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 contract 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, ramificataion 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 counties, 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 counties 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.

IV. CONCLUSIONS

1. The research shows how the company's net income changes as a result of changes in the exchange rate.
2. We may show how the company's costs and revenues have changed from the research.
3. Third, if the exchange rates fluctuate, the company's income and expenses will shift, which is a major takeaway.
4. Insights into the effects of exchange rate fluctuation on business profitability are provided by this research.
5. Therefore, this research is useful for determining how to respond when fluctuations in exchange rates impact profits.

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