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**THE IMPACT OF EXCHANGE RATE FLUCTUATIONS OVER THE PROFIT
MARGIN OF TOP TEX INTERNATIONAL GARMENTS, TIRUPUR**

A PROJECT REPORT

P-3197

Submitted by

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In partial fulfilment of the requirements
for the award of the degree

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KCT Business School

Department of Management Studies

Kumaraguru College of Technology

(An autonomous institution affiliated to Anna University, Coimbatore)

Coimbatore – 641 006

CERTIFICATE



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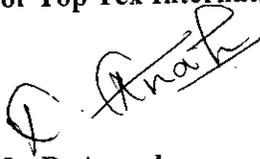
June 12, 2010

TO WHOMSOEVER IT MAY CONCERN

This is to certify that Ms.PRATHIBHA.K (Regn. No – 0820400033) MBA student of KCT Business School, Kumaraguru College of Technology, Coimbatore had undergone project entitled “**THE IMPACT OF EXCHANGE RATE FLUCTUATION OVER THE PROFIT MARGIN OF TOP TEX INTERNATIONAL GARMENTS, TIRUPUR**” during the period **March 10th 2010 to June 10th 2010**.

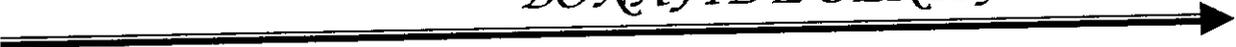
During the tenure, her performance was good.

For Top Tex International Garments



Mr. D. Anand
Manager

BONAFIDE CERTIFICATE





**DEPARTMENT OF MANAGEMENT STUDIES
KUMARA GURU COLLEGE OF TECHNOLOGY (AUTONOMOUS)
COIMBATORE**

BONAFIDE CERTIFICATE

Certified that this project titled “THE IMPACT OF EXCHANGE RATE FLUCTUATIONS OVER THE PROFIT MARGIN OF TOP TEX INTERNATIONAL GARMENTS, TIRUPUR” is the bonafide work of Ms. K. PRATHIBHA(082040033) who carried out this project under my supervision. Certified further, that to the best of my knowledge the work reported here in does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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Prof.Dr.S.V.Devanathan
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Evaluated and viva-voce conducted on

Examiner I

Examiner II

DECLARATION



DECLARATION

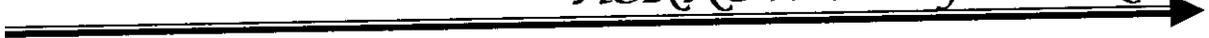
I hereby declare that the dissertation entitled “**THE IMPACT OF EXCHANGE RATE FLUCTUATIONS OVER THE PROFIT MARGIN OF TOP TEX INTERNATIONAL GARMENTS, TIRUPUR**” submitted for the Master of Business Administration degree is my original work and the dissertation has not formed the basis for the reward of any Degree, Associate ship, Fellowship or any other similar titles.

K. Prathibha
Signature of the candidate

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0820400033

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CONTENTS



TABLE OF CONTENTS

CHAPTER	DESCRIPTION	PAGE NO
	Title page	
	Bonafide Certificate	I
	Declaration	II
	Acknowledgement	III
	Table of Contents	IV
	List of tables	VI
	List of Charts	VII
	Executive Summary	VIII
1	Introduction	1
	1.1 Background of the study	1
	1.2 Review of literature	11
	1.3 Objectives of the study	16
	1.4 Statement of the problem	16
	1.5 Scope of the study	16
	1.6 Methodology	17
	1.6.1.Type of the study	17
	1.6.2 Data collection	17
	1.6.3. Period of the study	17
	1.6.4. Tools for the study	17
	1.7 Limitations of the study	17
2	Organization Profile	18
	2.1 History of the organization	18
	2.2 Organization structure	21

	2.3 Product profile and market potential	22
	2.4 Competitive strength of the company	22
	2.5 Future plans	22
3	Micro Macro Analysis	23
4	Analysis and Interpretation	29
	4.1. Comparative Analysis	29
	4.2. Standard Deviation	35
	4.3 Trend Analysis	42
5	Conclusions	52
	5.1. Results and Discussions	52
	5.2. Considered Recommendations	53
	5.3. Conclusion	54
	Bibliography	55

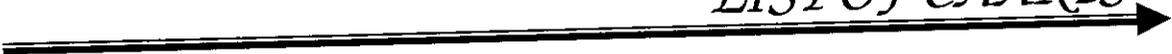
LIST OF TABLES



LIST OF TABLES

TABLE NO	NAME OF THE TABLE	PAGE NO
3.1	Table Showing The GDP Growth And CPI	24
4.1	The table showing the profit variation among the USD and EURO yearly	29
4.2	Table showing the profit variation among the USD and EURO currency quarterly	31
4.3	Table showing the month wise analysis of deviation	34
4.4	Table showing the month wise analysis of deviation of USD	36
4.5	Table showing the month wise analysis of deviation of EURO	38
4.6	Table showing the quarterly analysis of deviation for USD and EURO	40
4.7	Table showing the trend analysis for USD	42
4.8	Table showing the trend analysis for EURO	44
4.9	Table showing the difference in forward and contract rate annual cash inflow per ton	46
4.10	Table showing the difference in forward and contract rate quarterly cash inflow per ton	48

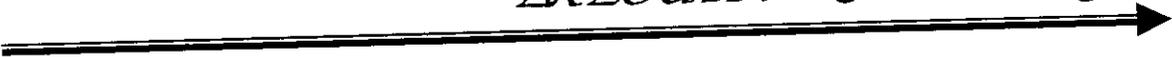
LIST OF CHARTS



LIST OF CHARTS

Table no	Name of the table	Page no
3.1	Chart showing growth of exports	25
4.1	Chart showing the profit variation among the USD and EURO yearly	29
4.2	Chart showing the profit variation among the USD and EURO quarterly for the year 2007-2008	32
4.3	Chart showing the profit variation among the USD and EURO quarterly for the year 2008-2009	32
4.4	Chart showing the profit variation among the USD and EURO quarterly for the year 2009-2010	33
4.5	Chart showing the trend analysis of USD	42
4.6	Chart showing the trend analysis of EURO	44
4.7	Chart showing the difference in forward and contract rate annual cash inflow per ton	47
4.8	Chart showing the difference in forward and contract rate quarterly cash inflow per ton	49

EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

Textile Industry in India is the second largest employment generator after agriculture. It holds significant status in India as it provides one of the most fundamental necessities of the people. Textile industry was one of the earliest industries to come into existence in India and it accounts for more than 30% of the total exports. The US dollar fluctuation affects the exporters to a greater extent. The fluctuation will cause a major risk for the exporters in all sectors especially for the garments. The appreciation of the Indian rupee is also one of the causes for this diminishing trend. So this will cause the fluctuation in the value of the money on the export from the receipt of the orders till the claim of profit. The study will help to know how far the decline in the dollar rate had an influence over the profit margin of the organization for a period of 3 years is compared. The study has been done to know the impact of exchange rate fluctuations over the profit margin of Top Tex International Garments, Tirupur. The study has also been done to identify the stability among USD and Euro currency to be adopted by the organization for future transactions. Finally to identify the ways and means, the company can reduce the risk pertained to foreign exchange. It is found that the products quoted in the USD are more profitable than quoting the products in EURO. It is found that the USD is more stable than the EURO as it had shown less deviation than that the EURO during the 3 year period. It was found that there exists a fluctuating trend during all the three years. The company has to adopt forward contract in the future years, since the company can earn more profit in the forward contract.

CHAPTER – 1 INTRODUCTION



CHAPTER – I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The sharp rise of the Indian rupee against US dollar and some other major international currencies during the past 5 years has inevitably brought about stronger reactions from the market analysts, exporters and others. Since the exporters has directly affected, the export council has highlighted the global competitiveness.

Exchange rate is a key determinant in international finance and turning of world into a global village has just made this variable all the more important. Forex markets have undergone many changes from setting up of Bretton Woods System in 1944 according to which each country had to fix its currency exchange rate plus or minus 1 percent to its abandonment in 1984 due to increased Balance of Trade deficit of U.S. Then it has witnessed East Asian crisis of 1997 when majority of the currencies of East Asian countries depreciated.

About four years ago, the payment was been approximately Rs 48 for getting one USD. But now it is moving in a band of Rs 40.40 to Rs 41 per USD which means there has been an appreciation of about 15% in the value of INR over the years.

During the year 2004, the exchange value for a USD touched a high of Rs.46.46 and a low of Rs.43.39. In all there was an appreciation of 4.40% during the year. In the year 2005, it touched a high of Rs.46.63 and a low of Rs.43.33 and in all there was a depreciation of 3.34%. In the year 2006, it touched a high of Rs.46.95 and a low of Rs.44.07 and in all there was an appreciation of Rs 1.83%.

During the year (2007), a new chapter was written in the history of Indian Forex markets. INR has shown considerable appreciation during the first half of the year. The year opened with a value of Rs 44.20. It showed a minor depreciation of 0.9% in the first two weeks. It got stabilized after this and moved within a range of Rs 44 – 44.25 till February end. Again it depreciated by 1% in the first week of March and closed at Rs.44.56 on 6th March.

But since then USD has appreciated considerably. The rate went to Rs 40.6 at the end of June. During the period between March and June there was an appreciation of about 9% in the value of INR. The appreciation is mainly on account of huge capital inflows and due to other steps taken by the Government to control the inflation.

There has been constant fluctuation in the exchange rate of US Dollar (USD) versus the Indian Rupee (INR) in the last few months. From the year high of Rs. 51.88/\$ in April '09 it has declined to Rs. 46.99/\$ in the first week of November '09.

First of all, RBI increased the **Cash Reserve Ratio** by 50 BPS in order to reduce the disbursement of loans by banks and thereby reducing the money supply. Moreover it also refrained from buying dollars from the market which led to decrease in demand of the dollar. It also issued **Market Stabilization Bonds** in order to remove liquidity from the market.

Secondly, there has been a massive capital inflow in the form of **ECBs, FIIs and FDI** this year. ECBs in the first six months were 5.5 billion USD which is almost the double of what was borrowed in the whole of 2006. Similarly in case of FIIs, they have already invested USD 8.45 billion in first six months this year as compared to USD 7.99 billion last year. FDI in India has also increased many folds. In the first four months itself, there has been an investment of USD 8007 million and if we look at the same period of four months last year it was just USD 2500 million recording an increase of over 200%.

Indian economy is going through a series of changes and it is showing its effects on the Indian industry. There is high volatility in the value of INR/USD. The recent appreciation in the value of INR has swept away huge chunk of profits of the companies which export from India which mainly comprised of Textile sector, IT Sector, ITES, Gems and Jewelers etc.

The exchange rate expresses the **national currency's quotation** in respect to **foreign ones**. It is the rate at which one currency is sold to buy another. In finance, the **exchange rates** (is also known as the **foreign-exchange rate, forex rate or FX rate or currency exchange rate**) between two currencies specifies how much one currency is worth in terms of the other. Thus, the exchange rate is a **conversion factor**, a multiplier or a ratio, depending on the direction of conversion.

1.1.1 Foreign exchange rates

Foreign exchange market is also known as "Forex" or "FX". It is a market to trade currencies. A **foreign exchange (FX) rate** or international exchange rate is the price of one country's money (currency) in terms of another's. Exchange rates are determined by the supply of and the demand for currencies, many of which are traded on foreign exchange markets. Such trading is fundamental to the modern market-based global economy, as it enables a rapid and relatively fair exchange of goods or services across national borders.

1.1.2 EXCHANGE RATE MECHANISMS

Nations have used three main mechanisms to establish exchange rates for their currencies:

- The gold standard, in which a currency is denominated in a unit of gold;
- Pegged rates, under which governments denominate their currencies in units of a strong global currency -often the U.S. dollar; and
- Free-floating rates, which are set by free (or relatively free) market forces.

1.1.3 MARKET INFLUENCES

Foreign Exchange being a commodity like any other commodities the exchange rates tend to fluctuate from time to time. There are various factors that cause the fluctuation in the rates of exchange. These factors can be divided into several following groups. These groups can affect the exchange rates on a short term as well as long-term basis.

Several factors influence exchange rates, including:

- Relative rates of **inflation**.
- Comparative **interest rates**.
- Growth of domestic money supply.
- Size and trend of balance of payments.
- Economic growth, as measured by **gross domestic product** and other indicators.
- Dependence on outside energy sources.
- Central bank intervention.
- Government policy and political stability.

1.1.4 Types of exchange rate

- Nominal
- Real
- Bilateral
- Multilateral

Nominal exchange rates are established on currency financial markets called "**forex** markets", which are similar to stock exchange markets. Rates are usually established in continuous quotation, with newspaper reporting daily quotation (as average or finishing quotation in the trade day on a specific market). Central bank may also fix the nominal exchange rate.

Real exchange rates are **nominal rate corrected** somehow by **inflation** measures. For instance, if a country A has an inflation rate of 10%, country B an inflation of 5%, and no changes in the nominal exchange rate took place, then country A has now a currency whose real value is $10\% - 5\% = 5\%$ higher than before. In fact, higher prices mean an appreciation of the real exchange rate, other things equal.

Bilateral exchange rates clearly relate to two countries' currencies. They are usually the results of **matching** of demand and supply on **financial markets** or in **banking** transaction. Here, the central bank acts usually as one of the sides of the relationship.

Multilateral exchange rates are computed in order to judge the general dynamics of a country's currency toward the rest of the world. One takes a **basket of different currencies**, select a (more or less) meaningful set of relative **weights**, then computes the "**effective**" exchange rate of that country's currency.

1.1.5 Exchange rate regimes

The **exchange rate regime** is the way a country manages its currency in respect to foreign currencies and the foreign exchange market. It is closely related to monetary policy and the two are generally dependent on many of the same factors.

The basic types are a floating exchange rate, where the market dictates the movements of the exchange rate, a pegged float, where the central bank keeps the rate from deviating too far from a target band or value, and the fixed exchange rate, which ties the currency to another currency, mostly more widespread currencies such as the U.S. dollar or the euro.

When the exchange rate can **freely move**, assuming any value that private demand and supply jointly establish, "**freely floating** exchange rate" will be the name of currency institutional regime. Equivalently, it is called "**flexible**" exchange rate as well.

1.1.6 Determinants of the nominal exchange

Fixed exchange rates are **chosen by central banks** and they may turn out to be **more or less accepted** by financial markets.

Changes in floating rates or pressures on fixed rates will derive, as for **other financial assets**, from three broad categories of determinants:

- i. Variables on the "real" side of the economy;
- ii. **Monetary and financial** variables determined in cross-linked markets;
- iii. **Past and expected values of the same financial market** with its **autonomous dynamics**.

Real variables

1. **Exports, imports** and their difference (the **trade balance**) influence the demand of currency aimed at real transactions. A rising trade surplus will increase the demand for country's currency by foreigners, so that there should be a pressure for appreciation. A trade deficit should weaken the currency, were exports and imports largely determined by price competitiveness and were the exchange rate very reacting to trade unbalances, then any deficit would imply depreciation, followed by booming exports and falling imports. Thus, the initial deficit would be quickly reversed. **Net trade balance would almost always be zero.**
2. An even more radical form of real determination of exchange rate is offered by the "**one price law**", according to which any good has the same price worldwide, after taken into account nominal exchange rates.

1.1.6 Business cycle behaviour

Too many elements are at work for the exchange rate to exhibit clearly-defined business cycle behaviour. To the extent that the exchange rate is determined by the trade balance, the exchange rate is **counter-cyclical** as the latter. At **peaks**, the trade deficit would depress the exchange rate, forcing it to **depreciate**. In this scenario, recovery and boom are accompanied by rising interest rates and exchange rates. At **peaks**, it shows very **strong** currency. Together with domestic demand pressures, this would be the source of a high trade deficit. If autonomous dynamics in the forex market are the main determinants of the exchange rate, then **intense micro-fluctuations and long term tides would ride the exchange rate**, possibly with central bank significant interventions.

1.1.7 Indian foreign exchange rate system

India FX rate system was on the fixed rate model till the 90s, when it was switched to floating rate model. Fixed FX rate is the rate fixed by the central bank against major world currencies like US dollar, Euro, GBP, etc. Like 1USD = Rs. 40. Floating FX rate is the rate determined by market forces based on demand and supply of a currency. If supply exceeds demand of a currency its value decreases, as is happening in the case of the US dollar against the rupee, since there is huge inflow of foreign capital into India in US dollar.

The US dollar slowdown

When it comes to the US being a consumer, it has one of the largest appetites in the world. To keep up its demand for consumption, its imports are huge when compared to exports. This created pressure since there were more payments in dollars than receipt of any other currency, which made the supply of the dollar greater for imports payment and less receipt of foreign currency from exports.

This resulted in the depreciation of the dollar's value, which again caused more outflow of dollar for import payments. This created a state of inflation and made consumables costlier to US. To control inflation US resorted to increase in interest rates to cool down pressure on demand side of consumption. This factor along with recession in all other sectors, particularly real estate, is causing the mighty US dollar to shake.

Impact of dollar fluctuations on the Indian economy

Until the 70s and 80s India aimed at to be self-reliant by concentrating more on imports and allowing very little exports to cover import costs. However, this could not last long because the oil price rise in the 1970s and 80s created a big gap in India's balance of payment. Balance of payment (BOP) of any country is the balance resulting from the flow of payments/receipts between an individual country and all other countries as a result of import/exports happening between individual countries, in this case India and rest of the world. This gap widened during Iraq's attempt to take over Kuwait. Thereafter, exports also contributed to FX reserve along with Foreign Direct Investment into the Indian economy and reduced the BOP gap.

Indian rupee appreciation against dollar impacted heavily to the following:

1. Exporters
2. Importers
3. Foreign investors

1.1.8 Spot Rate and Forward Rate

The **spot exchange rate** refers to the current exchange rate. The **forward exchange rate** refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date.

Exchange rate

- Fixed
- Floating
- Foreign
- Futures

A **fixed exchange rate**, sometimes called a **pegged exchange rate**, is a type of exchange rate regime wherein a currency's value is matched to the value of another single currency or to a basket of other currencies, or to another measure of value, such as gold.

A fixed exchange rate is usually used to stabilize the value of a currency, against the currency it is pegged to. This makes trade and investments between the two countries easier and more predictable, and is especially useful for small economies where external trade forms a large part of their GDP. It can also be used as a means to control inflation. However, as the reference value rises and falls, so does the currency pegged to it.

In addition, according to the **MUNDALL-FLEMING MODEL**, with perfect capital mobility, a fixed exchange rate prevents a government from using domestic monetary policy in order to achieve macroeconomic stability. There are no major economic players that use a fixed exchange rate (except the countries using the Euro).

A **floating exchange rate** or fluctuating exchange rate is a type of exchange rate regime wherein a currency's value is allowed to fluctuate according to the foreign exchange market. A currency that uses a floating exchange rate is known as a floating currency. It is not possible for a developing country to maintain the stability in the rate of exchange for its currency in the exchange market.

The debate of making a choice between fixed and floating exchange rate regimes is set forth by the **MUNDELL-FLEMING MODEL**, which argues that an economy cannot simultaneously maintain a fixed exchange rate, free capital movement, and an independent monetary policy. It can choose any two for control, and leave third to the market forces.

The **foreign exchange market (forex, FX, or currency market)** is a worldwide decentralized over-the-counter financial market for the trading of currencies. The primary purpose of the foreign exchange market is to assist international trade and investment, by allowing businesses to convert one currency to another currency.

It also supports speculation, and facilitates the carry trade, in which investors borrow low-yielding currencies and lend (invest in) high-yielding currencies, and which (it has been claimed) may lead to loss of competitiveness in some countries.

A **futures exchange or derivatives exchange** is a central financial exchange where people can trade standardized futures contracts; that is, a contract to buy specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future.

Textile Industry in India is the second largest employment generator after agriculture. It holds significant status in India as it provides one of the most fundamental necessities of the people. Textile industry was one of the earliest industries to come into existence in India and it accounts for more than 30% of the total exports. India has large impacts on employment opportunities, especially for women, the development of small and medium-sized enterprises (SMEs) and spillovers into the informal sector (UNCTAD).



1.2 REVIEW OF LITERATURE

Yu Hsing¹ This study has examined fluctuations in the real exchange rate for Slovakia based on an extended Mundell–Fleming model. Country risk, Government deficit spending, and the stock index are considered to estimate their potential impacts on the equilibrium real exchange rate. The GARCH process is employed in empirical work. The results show that the real exchange rate has a positive relation with the deficit spending/GDP ratio and the stock index and a negative relation with real variable, the world interest rate, country risk, and the expected inflation rate. Three seasonal dummy variables are significant. Therefore, the extended Mundell–Fleming model yields the expected outcomes that expansionary monetary policy would cause real depreciation, that expansionary fiscal policy would result in real appreciation, and that a higher country risk would lead to real depreciation.

THE FOREIGN EXCHANGE RISK EXPOSURE OF TEXTILE AND GARMENT INDUSTRY: BASED ON THE LISTED CORPORATIONS' DATA IN CHINA. ⁽²⁾

Yaqiong Pan and **Guohua He**² has examined the foreign exchange risk exposure of listed corporations on the Shanghai and Shenzhen Stock Exchange from textile and garment industry over the period 25 July 2005 to 25 July 2008. The findings are showed as follows: (1) Chinese textile and garment industry is significantly exposed to foreign exchange risk. About 26 per cent of firms in the sample have statistically significant exposures to the US dollar and European dollar whilst 44 per cent and 57 per cent are statistically exposed to the Hong Kong dollar and Japanese Yen respectively. (2) The appreciation of RMB-USD and RMB-JPY adversely affect firm returns, while firms are benefited from the appreciation of RMB-EUR and RMB-HKD. (3)The US dollar is the most dominant source of exchange risk among the major currencies, Hong Kong dollar, European dollar and Japanese Yen affect firm returns in turn.

¹ Yu Hsing "ANALYSIS OF EXCHANGE RATE FLUCTUATIONS FOR SLOVAKIA", journal of financial management and research, vol. 21 no.3 pp238-247 on September 2007.

² Yaqiong Pan and Guohua He. "The Foreign Exchange Risk Exposure Of Textile And Garment Industry: Based On The Listed Corporations' Data In China". Journal of international economics, vol.15 no.9 pp126-134 on July 2008

Nabil Maghrebi³ in this paper examines asymmetries in the dynamic relationship between foreign exchange fluctuations and stock market volatility in Pacific basin countries. Volatility in foreign exchange and equity markets tends to increase during financial crises. The methodology is based on a dynamic covariance modeling that accounts for leverage effects and the asymmetric impact of currency fluctuations. There is evidence that appreciations are more conducive to lower volatility in currency markets than depreciations of equal magnitude. The results also suggest that bad news about equity accompanied with currency depreciations, is likely to generate higher volatility in currency markets and have the potential of affecting the significance of leverage effects in stock markets. This has important implications for policymakers in so far that their decision-making process is not affected solely by the timing and informational content of economic reports but by market perceptions of their asymmetric impact as well.

AMALIA MORALES-ZUMAQUERO⁴ in this paper analyses the sources of real exchange rate fluctuations for a set of advanced economies and Central and Eastern transition economies using the variance decomposition and the impulse-response analysis. To that end, they first estimate structural (identified) vector auto regression (SVAR) models, and decompose real and nominal exchange rate movements into those caused by real and nominal shocks. They then complete the previous step with an impulse-response analysis. There is evidence of instability in the variance decomposition of the real exchange rates for advanced economies across samples, with a growing importance of nominal shocks. Nominal shocks are also important in some transition economies.

³ Nabil Maghrebi "Are there asymmetries in the relationship between exchange rate fluctuations and stock market volatility in Pacific basin countries?" *Journal of International Trade* vol.31 no.2 pp321-330(Jan 2008).

⁴ **AMALIA MORALES-ZUMAQUERO**" EXPLAINING REAL EXCHANGE RATE FLUCTUATIONS". *Journal of Applied Economics*. Vol IX, No. 2 (Nov 2006), 345-360

Yu Hsing⁵ has examined short-term exchange rate fluctuations for Estonia based on an extended open economy model and the interest parity condition. The real variables, a higher foreign interest rate, a higher expected inflation rate, a lower expected nominal exchange rate, and a higher relative price are expected to cause the nominal exchange rate to depreciate. Increased government deficit spending would not lead to the appreciation of the nominal exchange rate. Except for the relative price with the largest elasticity in absolute value, the nominal exchange rate is more sensitive to the expected nominal exchange rate than real variables and the US T-Bond rate. It suggests that expectations about future exchange rates play a significant role in determining exchange rate movements.

JAMES WALKER⁶ This paper examined the pricing policy of foreign car manufacturers in the UK market to reveal the degree of pass-through of exchange-rate fluctuations on profit margins over an extensive time horizon where the market witnessed substantive structural change. Rather than examining the relationship between prices and exchange rates, they derive profit margins directly using discrete choice modeling and then examine the effect of changes in the bilateral rate of exchange rates on profit margins. The results reveal that the estimated values of the exchange rate coefficients implied that pricing to market behavior of German manufacturers was more pronounced than other European countries and Japan and Korea. The direction of the mark-up adjustments reveals that exporters try to stabilize local currency prices; this is particularly the case during periods of pound appreciation. The results also reveal that local producers are sensitive to exchange rate fluctuations; in particular, non- Japanese UK car models increase their profit margins more during pound depreciation periods than during pound appreciation periods.

⁵ Yu Hsing "Analysis Of Exchange Rate Fluctuations In Estonia: Test Of The Interest Parity Condition And The Open Economy Model", USA E-mail: yhsing@selu.edu Journal of global economy , vol.12 on 2009

⁶ University of Valencia **JAMES WALKER**" The Impact Of Exchange Rate Fluctuations On Profit Margins: The Uk Car Market, 1971-2002 FRANCISCO REQUENA-SILVENTE" Journal of Applied Economics. Vol X, No. 1 (May 2007), 213-235.

Magda Kandil⁷ The analysis has focused on asymmetry in the effects of unanticipated exchange rate fluctuations. Towards this investigation, the paper draws on the implications of a theoretical rational expectation model that decomposes movements in the exchange rate into anticipated and unanticipated components. Unanticipated currency fluctuations determine aggregate demand through exports, imports, and the demand for domestic currency, and determine aggregate supply through the cost of imported intermediate goods.

A positive shock to the exchange rate, an unanticipated depreciation of the domestic currency, increases net exports and money demand and decreases the output supplied. Similarly, a negative shock to the exchange rate, an unanticipated appreciation of the domestic currency, decreases net exports and money demand and increases the output supplied. Based on the strength of each channel, the combined effects of demand and supply channels may establish asymmetry in the face of positive and negative shocks to the exchange rate.

Giovannini, Alberto⁸ in his paper presents a partial equilibrium model of the determination of domestic and export prices by a monopolistic competitive firm. The model stresses the role of exchange rate uncertainty and expectations. The most important result of the analysis is that the stochastic properties of deviations from the 'law of one price' are crucially affected by the currency of denomination of export prices. Using data on domestic and dollar export prices of Japanese goods, the author has found that deviations from the 'law of one price' are due to exchange rate surprises, but also to price staggering and ex ante price discrimination.

⁷Magda Kandil* International Monetary Fund, Washington, DC, USA, "The Asymmetric Effects Of Exchange Rate Fluctuations On Output And Prices: Evidence From Developing Countries " The Journal of International Trade & Economic Development Vol. 17, No. 2, June 2008, 257–296..

⁸ Giovannini, Alberto "The exchange rates and traded goods prices". Journal of international economics on february 2010.

Magda Kandil⁹ The analysis of this paper has focused on the effects of exchange rate fluctuations on components of aggregate demand in a sample of industrial and developing countries. Recent waves of currency crises have brought to the forefront the discussion about the appropriate exchange rate system and the effects of currency fluctuations on the macro-economy. The evidence across industrial countries indicates that unanticipated currency appreciation may increase consumption of tradables or decrease consumption of non-tradables. Similarly, currency depreciation may decrease consumption of tradables or increase consumption of non-tradables across industrial countries. This is in contrast to the evidence across developing countries that indicate clearly the positive dependency of consumption on exchange rate shocks. Consistent with a high share of imports in total consumption, currency depreciation is observed to decrease consumption in a number of developing countries

Ida Wolden Bache, Kjersti Naessy, and Tommy Sveen¹⁰ In this research they decompose the movements in the real exchange rate into three terms: movements in the relative price of traded goods at-the-dock, movements in the relative price of non-traded to traded goods and movements in the wedge between retail prices of traded goods and the prices of traded goods at-the-dock across countries. Using data on four US bilateral real exchange rates and that the relative wedge term accounts for 30 to 70 percent of US real exchange rate fluctuations. This finding suggests that modeling the relationship between traded goods prices at-the-dock and retail prices of traded goods is key to understanding real exchange rate fluctuations and to building realistic macro models.

⁹ Magda Kandil Western Hemisphere Department, International Monetary Fund, 700 nineteenth Street, Washington, DC 20431, USA. E-mail: mkandil@imf.org 2008 "Exchange Rate Fluctuations And The Macro-Economy: Channels Of Interaction In Developing And Developed Countries" Eastern Economic Journal, 2008, 34, (190–212) r.

¹⁰ Ida Wolden Bache, Kjersti Næssy, and Tommy Sveen Monetary Policy Department, Norges Bank 29 January 2009. "Revisiting the Importance Of Non-Tradable Goods.Prices In Cyclical Real Exchange Rate Fuctuations" journal of revenue and pricing management, 2009, 8, 313–322. doi:10.1057/rpm.2009.16; published online 15 May 2009

1.3 OBJECTIVES OF THE STUDY

Primary Objective

To study the impact of exchange rate fluctuations over the profit margin of Top Tex International Garments, Tirupur.

Secondary Objective

- To identify the stability among USD and Euro currency to be adopted by the organization for future transactions.
- To study the ways and means, the company can reduce the risk pertained to foreign exchange.

1.4 STATEMENT OF THE PROBLEM

The US dollar fluctuation affects the exporters to a greater extent. The fluctuation will cause a major risk for the exporters in all sectors especially for the garments. The appreciation of the Indian rupee is also one of the causes for this diminishing trend. So this will cause the fluctuation in the value of the money on the export from the receipt of the orders till the claim of profit. The study will help to know how far the decline in the dollar rate had an influence over the profit margin of the organization for a period of 3 years is compared.

1.5 SCOPE OF THE STUDY

- The study helps to know the influence of exchange rate fluctuation in respect to the profit margin of the organization.
- The study also identifies the stability of the currency which can be adopted by the organization.
- The study helps to identify the remedies to overcome the situation through some controllable variables.

1.6 METHODOLOGY

1.6.1. TYPE OF THE STUDY

As the study analyses the impact of exchange rate fluctuations over the organization profit. The study is **Analytical** method.

1.6.2. DATA COLLECTION

The secondary data which is collected from the organization (Top Tex International Garments, Tirupur) is been used.

1.6.3. PERIOD OF THE STUDY

The period of the study is for the financial year 2007-2010.

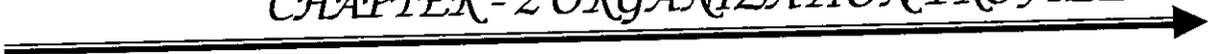
1.6.4. TOOLS FOR THE STUDY

- ✓ Comparative analysis
- ✓ Standard Deviation
- ✓ Trend analysis

1.7 LIMITATIONS OF THE STUDY

- The financial analysis is based on the details provided by the concern. Thus the reliability of the analysis is dependent on the date provided by the concern.
- The study on the financial analysis is confined to only three years, i.e., from 2007 – 2010 due to the constraints in the collection of data.

CHAPTER - 2 ORGANIZATION PROFILE



CHAPTER II

ORGANIZATION PROFILE

2.1. History of the organization

Top Tex International is a blooming enterprise in the knitwear Industry, situated at Tirupur the knitwear capital of India which is easily accessible by road, rail and air. Top Tex International was started in 1985 by Mr.S.Venkat and Mr.M.Saravana kumar with a rich experience in the knitwear industry. It has capacity to produce 5000 Garments per day.

Satisfaction of customer both in terms of Product Quality and Timely Delivery in Reasonable Price is their basic motto. The products are produced in highly sophisticated imported machineries, with skilled laborers and carefully supervised by technically qualified team of persons.

They are a proactive customer-oriented garment company and their business vision is to achieve profitability through productivity, with a clear focus on this end-objective, they ceaselessly strive towards competitiveness. To be a proactive organization that sets high standards through timely delivery of high quality garments through continuous modernization and innovation.

Production Capacity

2,00,000 Basic Styles/Month

Yarn

They source yarn from their own concern and also from outside sources for all required counts including colour mélange yarn organic yarn from Government certified sources and special yarns.

Knitting

The knitting factory operates with a fleet of imported Unitex Brand Circular Knitting Machines. The combined output of the factory in a single day on a single shift basis is 5000 Kgs of Greige Fabric.

The following are the machines installed at the Knitting factory

- **Double Jersey – Rib Machines – 5 Nos**
- **Double Jersey – Interlock Machines – 8 Nos**
- **Single Jersey Machines – 17 Nos**

Dyeing

They have their own unit for dyeing for all fabric nature which is equipped with 9 soft flow machines with capacity ranging from 25 kgs to 1250 kgs which can produce average of 4-5 tons per day.

Garment Production

The garment factory is involved with the Understanding of Buyer requirements / Specifications and fulfillment of the same. The Garment Factory interacts with the Buyer, Buyer's Agents, Inspection Agents and Forwarding Agents and a range of contractors.

The Garment factory operates with the following Machines.

- Band knife cutting machine – 1 No
- Straight knife cutting machine – 1 No
- Multi Thread Over Lock sewing Machines – 20 Nos
- Multi Thread Flat Lock Sewing Machines – 11 Nos
- Single Needle Lock Stitch Machines – 30 Nos

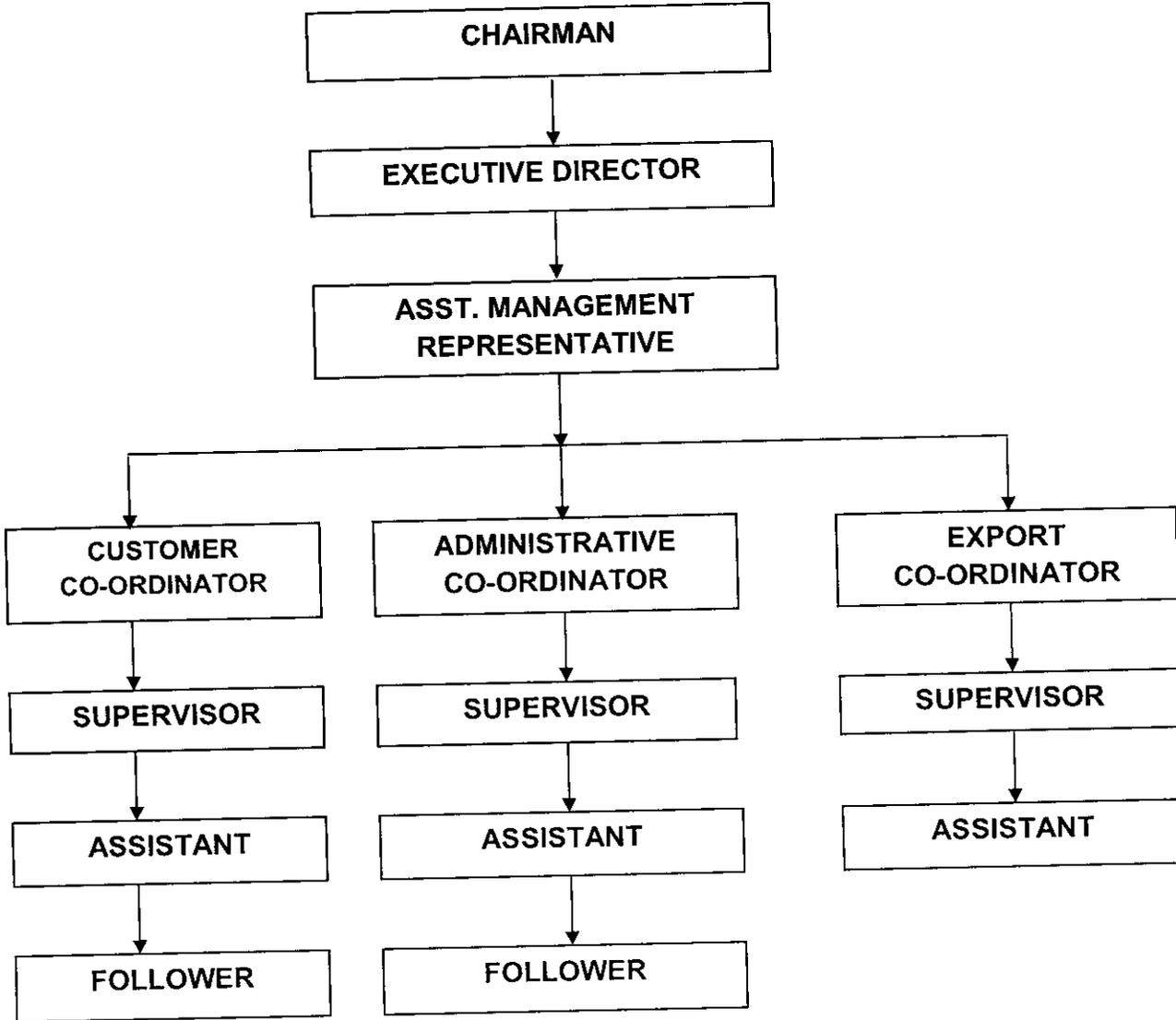
Printing Unit

The printing factory is equipped with the latest in Automatic fabric printing Machines of Herberger GmbH, Germany. The production set up of the printing factory allows for any type of printing (Non PVC prints, Plastisol Prints, Reactive Prints, Flock Prints Discharge etc..) to be carried out with ease. The printing factory has a capacity of 10,000 Pieces per impression day.

Embroidery Unit

The embroidery Factory is equipped with **4 Nos** of Multihead, Multi Thread Tajima make Machines from Japan. These machines can also be used with sequin attachment. The factory has a output of 2000 Pieces per day on a single shift basis when the number of stitches in the design does not exceed 10,000 stitches.

2.2. ORGANIZATION STRUCTURE



2.3. Product profile and market potential

T-Shirt, Polo Shirts, Nightwear's, Pajama set, Sweat Shirt, Pullovers, Boxer shorts & Briefs etc.. for Adults & Children's in all types of design fabrics like Polar Fleece, Fleece, Terry, Jacquard, Honeycomb, Aertex, Waffles, Interlock, Jersey etc... in fabric compositions 100% cotton, Polyester, Viscose, Cotton/Viscose, Poly/Cotton, Single / Double Mercerizing etc...

2.4. Competitive strength of the company

- The own dying unit.
- The sales channels of the company.
- The quality of the products.

2.5. Future plans

The present capacity of the mill is 12,865 spindles and further it is thought of increasing to 25000 spindles.

CHAPTER – 3 MACRO – MICRO ANALYSIS 

CHAPTER III

MICRO MACRO ANALYSIS

The global economy seems to be recovering after the recent economic shock. The Indian economy, however, was hit in the latter part of the global recession and the real economic growth witnessed a sharp fall, followed by lower exports, lower capital outflow and corporate restructuring. It is expected that the global economies will continue to sustain in the short-term, as the effect of stimulus programs is yet to bear fruit and tax cuts are working their way through the system in 2010. Due to the strong position of liquidity in the market, large corporations now have access to capital in the corporate credit markets.

The growth in the economy has been continuously supported by the efforts from the Government of India. Progressive Indian Governments have shown commitment to sustain the growth momentum by introducing regulations that will enhance the growth of industries such as Technical Textiles in India.

The Ministry of Textiles has laid out a detailed 'Four Mini Missions' as a part of National Technology Mission on Technical Textiles. The Scheme plans to set up 4 Centers of Excellence (COE) for technical textiles. These are Meditech, Geotech, Agritech and Buildtech. The 11th Five year plan lays out various growth paths that will directly or indirectly enhance the growth of consumption of the Technical Textiles in India.

According to the Ministry of Industry and Trade, the costs of raw materials have witnessed a steep rise in 2010. Owing to increasing global demands, cotton price has increased by 25 percent; cost of plastic has risen by 43.7 percent, fibre price has surged by 34 percent and cost of wood is up by 30 percent. However, the manufacturers said that, their cost has surged by merely 5-10 percent.

According to the ECTT (Expert Committee on Technical Textile) report, "The Indian Market of the Technical Textiles" in 2008 was roughly US\$ 8.3 billion i.e. Rs 37,000 crores and is expected to reach a value of about US\$ 12.4 billion i.e. Rs 55,000 Crores by 2010-11.

India's Economic Outlook Projection

TABLE NO 3.1

TABLE SHOWING THE GDP GROWTH AND CPI

YEAR	2007	2008	2009	2010
GDP Growth	9.40%	7.30%	5.40%	7.20%
CPI	6.40%	9.30%	5.50%	4.90%

Source : Ministry Of Commerce And Industry

Indian Economy 2010

In order to sustain economic growth during the time of the worst recession, government authorities in India have announced the stimulus packages to prop up economic growth. To finance the stimulus packages, the Indian government has raised over \$100 billion over the last four quarters in a way to finance the stimulus package. The country's public debt, according to the RBI, has surged to over 50% of the total GDP and the RBI has started printing new currency notes.

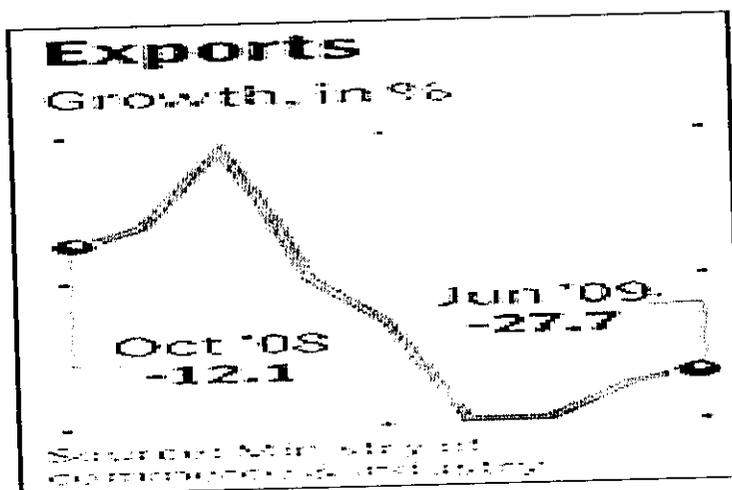
There are lots of developments taking place even now. Forex markets are still volatile. The economy is growing at a strong rate of about 9%. The capital inflows are pouring in. Recently issue of Sub-Prime Crisis in US has also emerged which has affected the flow of funds.

The implementation of full Capital Account Convertibility in India has to be enrolled. Export revenues from the sector are expected to grow from \$8 billion in 2006 to \$46 billion in 2010. India's foreign exchange reserves are over US\$ 102 billion and exceed the forex reserves of USA, France, Russia and Germany. This has strengthened the Rupee and boosted investor confidence greatly. A strong BOP position in recent years has resulted in a steady accumulation of foreign exchange reserves. The level of foreign exchange reserves crossed the US \$100 billion mark on 2003 and was \$142.13 billion on 2005 and on 2009 \$167 billion.

Reserve money growth had doubled to 18.3% in 2003-04 from 9.2 in 2002-03, driven entirely by the increase in the net foreign exchange assets of the RBI. Reserve money growth declined to 6.4% in the year to January 28, 2005. During the financial year 2004-05, broad money stock (M3) (up to December 10, 2004) increased by 7.4 per cent (exclusive of conversion of non-banking entity into banking entity, 7.3 per cent). Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century.

CHART 3.1

CHART SHOWING GROWTH OF EXPORTS



During the year 2008, the series shows modest rupee depreciation back to 0.58. After that, there has been no significant movement to the recent values of 0.6. That is the recent rupee-dollar fluctuations are entirely about fluctuations of the dollar, Expressed against the floating exchange rates of the world, the rupee has not sharply depreciated.

This perspective has two implications. First, the focus on excessively on the rupee-dollar rates, a wrong perception of what is going on in the currency market is seen. The people who ask RBI to stabilize the rupee dollar rate seem to assume that the dollar is some stable store of value. It is not. It fluctuates substantially. When the dollar depreciated (i.e. when the USM declined), it has been tried to mechanically hang on to a fixed rupee-dollar rate. As a consequence, it is artificially inducing rupee depreciation when this made no sense for India.

Similarly, when the dollar gains strength (i.e. when the USM has gone up), if it is tried to mechanically hang on to some value for the rupee-dollar rate (e.g. thinking that depreciation beyond Rs.50/dollar is somehow bad), it would artificially induce a rupee appreciation mirroring the dollar appreciation, which makes no sense for India.

The dollar is just one more floating exchange rate, which fluctuates based on market conditions. RBI should do monetary policy based on the needs of the Indian economy, and avoid the distortions that come from trying to manage the rupee-dollar rates. The private sector should use the currency futures market to manage fluctuations of the rupee-dollar rates.

The second point is about the reserves. When there is a decline in reserves (measured in dollars) it is tend to assume that this was because RBI was selling dollars. But a good part of the story lies in fluctuations of the dollar. RBI holds other currencies in the reserves portfolio, such as the Euro, the Yen, the Pound, etc. The currency composition of the reserves portfolio is unfortunately not disclosed by RBI.

Indian trade was impacted by the global recession of 2007-2009. Indian exports fell from \$200.9 billion in 2008 to \$165 billion in 2009. India ranked 22nd in the world in the terms of export volume. Being a country with a huge workforce, India has seen its trade being boosted by the production of precious stones and metals.

The various other export commodities that India exports are:

Petroleum products

- Machinery
- Iron and steel
- Chemicals
- Vehicles
- Apparel

Indian trade has undergone massive restructuring following the 1991 liberalization policies. Ever since, India's exports have experienced a growth rate of 18.11%. The big surprise has been the import sector that has experienced a growth rate of 34.30%.

Technical textiles include medical textiles, construction textiles, packaging textiles, industrial textiles, geotextiles, packaging textile, Oeko textiles, agro textiles, clothing textiles (shoe laces) baby diapers, footwear and home textiles such as carpets and upholstery are all areas of growth.

Opportunities

The opportunities in the Technical textile sectors are enormous.

- **Geotech:** The Government of India (GOI) has laid out a plan for the development of roads and railways in near future.
- **Meditech:** Hospital beds are expected to increase by about 10-12% and medical tourism to grow by 20-25% over the next couple of years.

- **Mobiltech:** Due to increased production of automobiles in India, the consumption of technical textiles is bound to increase.
- **Builtech:** The consumption in the Builtech sector is reinforced by the infrastructural development.
- **Packtech:** With the ban on polymeric carry bags in cities such as Chandigarh, the consumption of spunbond nonwoven carry bags will witness increase and is major growth driver for Packtech sector.
- **Sportech:** With the apparel brands offering special fabrics for sportswear, the Sportech sector is bound to increase.
- **Indutech:** The industrial development and need of filters in home influences growth of the Indutech sector.
- **Clothech and Hometech:** Hometech and Clothech sector is witnessing growth because of more buying at the retail end. India has an advantage of large and educated middle class consumers, which are expected to increase from 300 million to 520 million in the next 5 years.
- **Agrotech:** Farmers, nurseries and institutions have started looking forward to these products.

Technical Textiles have a huge potential in India. This potential has to be realized by Indian and foreign investors by making suitable investments in this high profit, high potential and high demand sector. India has to take its due position in the Global Technical Textiles market by becoming a net exporter in the coming years.

CHAPTER – 4 DATA ANALYSIS & INTERPRETATION



CHAPTER IV

DATA ANALYSIS AND INTERPRETATION

TABLE 4.1

TABLE SHOWING THE PROFIT VARIATION AMONG THE USD AND EURO YEARLY

VALUES IN Rs.

YEAR	USD	EURO	DIFFERENCE
2008	5,83,764.49	3,63,274.65	2,20,489.84
2009	5,36,619.60	3,74,156.49	1,62,463.11
2010	7,30,724.18	4,40,669.94	2,90,054.25

Source: secondary data

CHART 4.1

CHART SHOWING THE PROFIT VARIATION AMONG THE USD AND EURO YEARLY



Interpretation

The above table shows the difference in profit margin expressed in USD & EURO as against the rupee for the 3 year period. The table also shows the difference in the profit value between the USD & EURO which is as follows: **2008 - 2, 20,489.84; 2009 – 1,62,463.11; & 2010 - 2,90,054.25**. While comparing the 3 years, the difference is higher in the year 2010. From the analysis, it is found that the products quoted in the USD are more profitable than the EURO.

Inference

Thus, from the analysis, it is found that the products quoted in the USD are more profitable than the Euro.

TABLE 4.2

**TABLE SHOWING THE PROFIT VARIATION AMONG THE USD AND EURO
CURRENCY QUARTERLY**

Year	Quarter	USD	EURO	Difference
2007-2008	1	1,41,279.10	87089.99	54189.10
	2	162322.11	100599.91	61722.20
	3	128600.65	79787.61	48813.04
	4	151562.63	95797.14	55765.50
2008-2009	1	158888.90	101115.67	57773.23
	2	150872.97	100461.43	50411.54
	3	103838.52	78844.54	24993.98
	4	123019.21	93734.85	29284.36
2009-2010	1	205900.71	128261.58	77639.13
	2	161539.79	94642.67	66897.12
	3	173762.16	130787.86	42974.30
	4	189521.52	118045.91	71475.61

Source: secondary data

Interpretation

The above table shows the difference in profit margin expressed in USD & EURO as against the rupee for 3 year period expressed in quarterly basis. The quarterly analysis shows that the profits in USD terms are much higher than the EURO for all the four quarters during the 3 year period. Comparing the first quarter the profits were higher during the 2009-10 and the profit was 205900.71, the profits of the second quarter were higher in the year 2007-08 and the profit was 162322.11, the third quarter profit being higher in the year 2009-10 the profit being 173762.16 and the fourth profit being higher in the year 2009-10 the profit was 189521.52 respectively.

The last column shows the difference in the profit quoted in USD and Euro. The difference in the profits when quoted in USD and EURO are all high during the year 2009-10 to the extent of 77639.13 in the first quarter, 68897.12 in the second quarter, 71475.61 in the fourth quarter, whereas the difference in profits for the third quarter could be seen in the year 2007-08 to the extent of 48813.04.

CHART4.2

**CHART SHOWING THE PROFIT VARIATION AMONG THE USD AND EURO
QUARTERLY FOR THE YEAR 2007-2008**

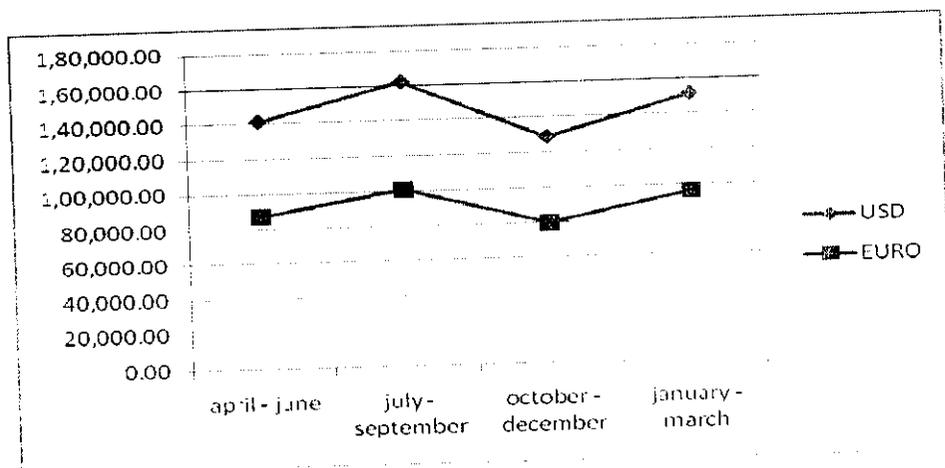


CHART4.3

**CHART SHOWING THE PROFIT VARIATION AMONG THE USD AND EURO
QUARTERLY FOR THE YEAR 2008-2009**

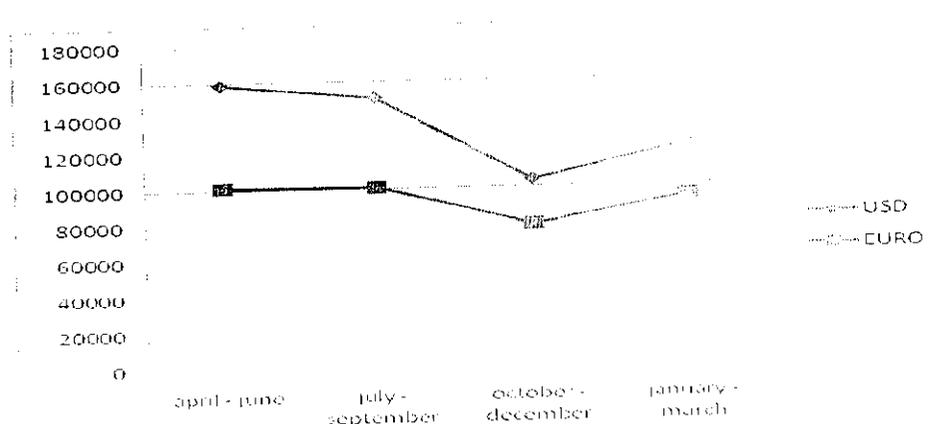
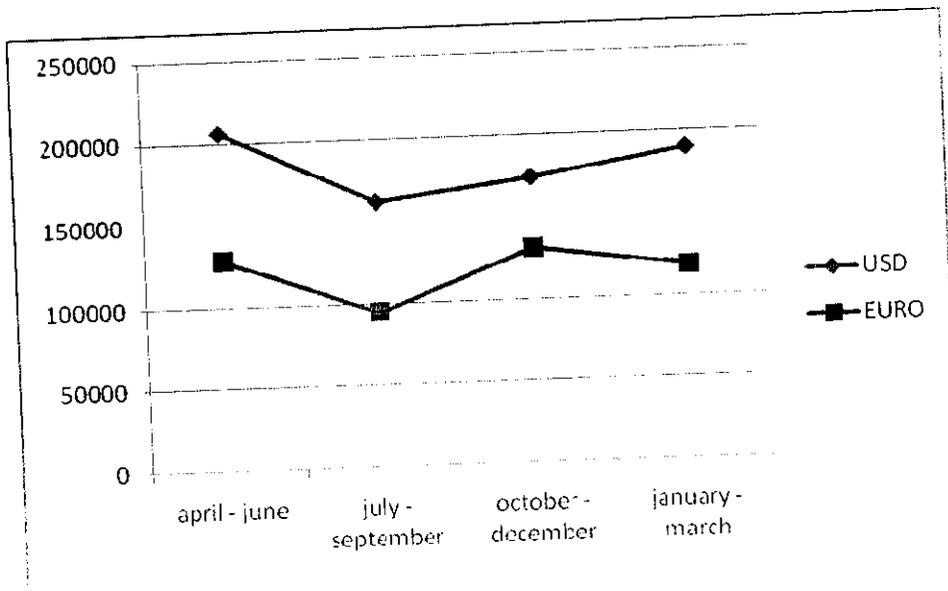


CHART4.4

CHART SHOWING THE PROFIT VARIATION AMONG THE USD AND EURO
QUARTERLY FOR THE YEAR 2009-2010



Inference

Thus from the above analysis it is known that the profitability is high when quoted in USD terms than the EURO. The results of the quarterly analysis reveal that the company's profitability has been increasing in the 3 year period and the profit variation had been high during the year 2009-10 except for the third quarter.

TABLE 4.3

TABLE SHOWING THE MONTH WISE ANALYSIS OF DEVIATION

YEAR/MONTH	2007-2008		2008-2009		2009-2010	
	USD	EURO	USD	EURO	USD	EURO
APRIL	0.78	1.05	0.18	0.18	0.65	0.92
MAY	0.14	0.42	0.22	0.05	0.14	0.42
JUNE	0.11	0.58	0.10	0.42	0.11	0.58
JULY	0.06	0.61	0.19	0.39	0.06	0.61
AUGUST	0.45	0.47	0.07	0.39	0.45	0.47
SEPTEMBER	0.46	0.27	0.09	0.47	0.46	0.27
OCTOBER	0.25	0.16	0.07	0.47	0.25	0.16
NOVEMBER	0.01	0.07	0.07	0.23	0.01	0.07
DECEMBER	0.11	0.48	0.53	0.13	0.11	0.48
JANUARY	0.67	0.15	0.04	0.29	0.07	0.15
FEBRUARY	0.24	0.21	0.70	0.06	0.24	0.21
MARCH	0.31	1.38	0.25	0.38	0.31	0.38

Source: RBI

Interpretation

The above table shows the month wise analysis of the deviation in the USD and EURO for the 3 year period. Comparing the USD and EURO, it is revealed that the deviation is more in EURO for all the months except for month of January and February in all the 3 years as the deviation is more in the USD. In the year 2008-09, for the month of April the USD and EURO currency have shown same levels of deviation.

Inference

Thus it is found from the above analysis that USD is more stable than the EURO as it had shown less deviation than the EURO during the 3 year period.

TABLE 4.4

TABLE SHOWING THE MONTH WISE ANALYSIS OF DEVIATION FOR USD

YEAR / MONTH	2007-2008	2008-2009	2009-2010
APRIL	0.78	0.14	0.11
MAY	0.06	0.45	0.46
JUNE	0.25	0.01	0.11
JULY	0.67	0.24	0.31
AUGUST	0.18	0.22	0.10
SEPTEMBER	0.19	0.07	0.09
OCTOBER	0.07	0.07	0.53
NOVEMBER	0.04	0.70	0.25
DECEMBER	0.65	0.14	0.11
JANUARY	0.06	0.45	0.46
FEBRUARY	0.25	0.01	0.11
MARCH	0.07	0.24	0.31

Source: RBI

Interpretation

The above table shows the month wise analysis of the deviation in the USD. The highest level of deviation in USD for the year 2007 is observed during the month of April and the deviation had been 0.78, for the year 2008 the deviation had been highest during the month of November to the extent of 0.70, during the year 2009 in the month of October to the extent of 0.53 and during the year of 2010, the deviation had been highest in the month of January to the extent of 0.46.

The highest of the deviation for the entire 3 year period is observed during the month of April, 2007 and the deviation is 0.78. The lowest of the deviation during the 3 year period is observed during the month of June, 2008 to the extent of 0.01. The deviation in the month of March 2010 had been 0.31.

Inference

Thus, from the above analysis it is found the USD deviation is more in the year 2008-2008 during the three year period.

TABLE 4.5

TABLE SHOWING THE MONTH WISE ANALYSIS OF DEVIATION FOR EURO

YEAR / MONTH	2007-2008	2008-2009	2009-2010
APRIL	1.05	0.42	0.58
MAY	0.61	0.47	0.27
JUNE	0.16	0.07	0.48
JULY	0.15	0.21	1.38
AUGUST	0.18	0.05	0.42
SEPTEMBER	0.39	0.39	0.47
OCTOBER	0.47	0.23	0.13
NOVEMBER	0.29	0.06	0.38
DECEMBER	0.92	0.42	0.58
JANUARY	0.61	0.47	0.27
FEBRUARY	0.16	0.07	0.48
MARCH	0.15	0.21	0.38

Source: RBI

Interpretation

The above table shows the month wise analysis of the deviation in the EURO. The highest level of deviation in EURO for the year 2007 is observed during the month of December and the deviation had been 0.92, for the year 2008 the deviation had been highest during the month of January to the extent of 0.61, during the year 2009 in the month of July to the extent of 1.38 and during the year of 2010, the deviation had been highest in the month of February to the extent of 0.48.

Inference

Thus from the above table it is found that the highest level of the deviation for the entire 3 year period is observed during the month of July, 2009 and the deviation is 1.38. The lowest of the deviation during the 3 year period is observed during the month of November, 2008 to the extent of 0.06. The deviation in the month of March 2010 had been 0.38.

TABLE 4.6

TABLE SHOWING THE QUARTERLY ANALYSIS OF DEVIATION FOR USD AND EURO

Year/ quarter	April – June		July – Sep		Oct – Dec		Jan – Mar	
	Q1		Q2		Q3		Q4	
	USD	Euro	USD	Euro	USD	Euro	USD	Euro
2007-2008	0.93	1.68	0.41	0.56	0.16	0.66	0.56	0.87
2008-2009	0.20	1.41	0.16	0.46	0.39	0.34	0.92	0.29
2009-2010	0.93	1.65	0.41	0.56	0.16	0.66	0.56	0.87

Source: RBI

Interpretation

The above table shows the quarterly analysis of the deviation in the USD and EURO for the 3 year period. Comparing the USD and EURO, it is revealed that the deviation is more in EURO for all the quarters except in the third and the fourth quarter during the year 2008-09, as the deviation of the USD is more than the EURO. During the year 2007-08, the highest of the deviation (0.93) in USD is observed in the first quarter and the highest deviation (1.68) of the EURO is observed in the first quarter. During the year 2008-09, the highest of the deviation (0.92) in USD is observed in the fourth quarter and the highest deviation (1.41) of the EURO is observed in the first quarter. During the year 2009-10, the highest of the deviation (0.93) in USD is observed in the first quarter and the deviation (1.65) of the EURO is observed in the first quarter. The majority of the highest levels of deviation of USD and EURO are all observed in the first quarter of the 3 year period.

Inference

Thus from the above table it is found that the highest level of deviations occurs in the first quarter when compared to all the other quarters of the three year period.

TABLE 4.7

TABLE SHOWING THE TREND ANALYSIS FOR USD

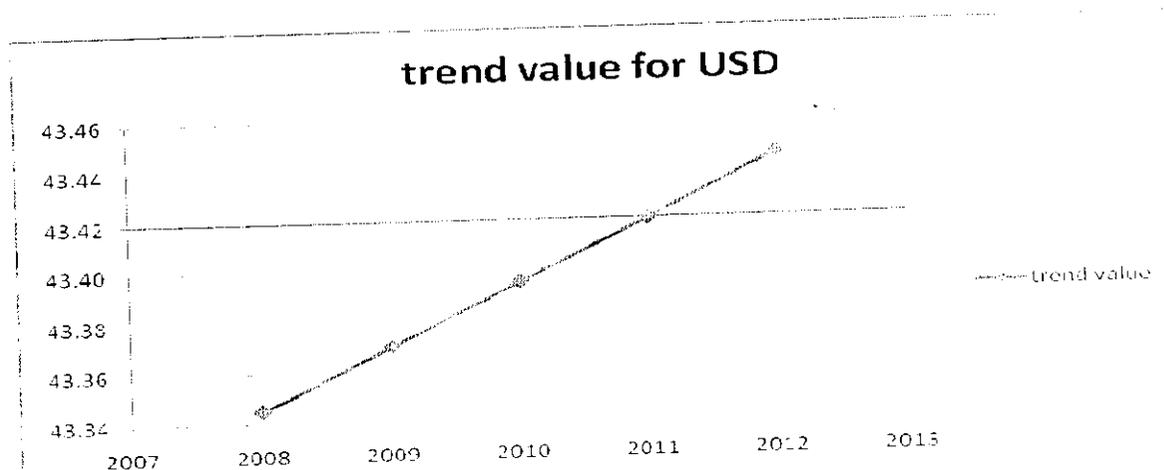
YEAR	TREND VALUE
2007-2008	43.35
2008-2009	43.37
2009-2010	43.40
2010-2011	43.42
2011-2012	43.45

Interpretation

The above table shows the increase in trend from the year 2007 till 2012. It is a very good sign for the company. The company can expect an increase in cash inflow for further years too.

EXHIBIT 4.5

EXHIBIT SHOWING THE TREND ANALYSIS FOR USD



Inference

Thus from the above table it shows an increasing trend and also the future projection of the rate of the USD. The values have shown an increasing trend which is a good sign for the company.

TABLE 4.8

TABLE SHOWING THE TREND ANALYSIS FOR EURO

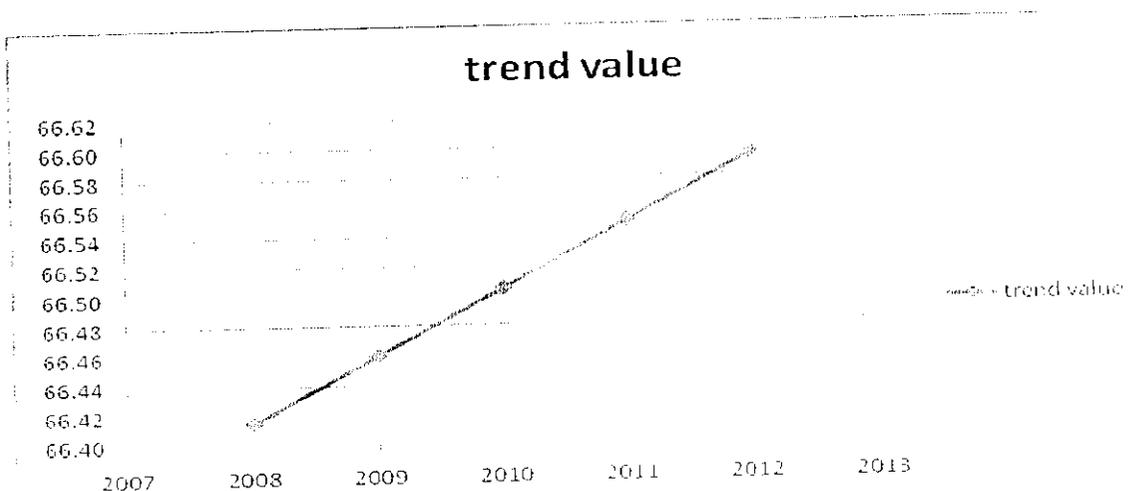
YEAR	TREND VALUE
2007-2008	66.42
2008-2009	66.46
2009-2010	66.51
2010-2011	66.55
2011-2012	66.60

Interpretation

The above table shows the increase in trend from the year 2007 till 2012. It is a very good sign for the company. The company can get an increase in cash inflow for further years too but the level of inflow will be less than what it can get while getting from USD.

EXHIBIT 4.6

EXHIBIT SHOWING THE TREND ANALYSIS FOR EURO



Inference

Thus it shows an increasing trend and also the future projection of the rate of the EURO. The company can get an increase in cash inflow but the level of inflow will be less than what it can get while getting from USD.

TABLE 4.9

**TABLE SHOWING THE DIFFERENCE IN FORWARD AND CONTRACT RATE
ANNUAL CASH INFLOW PER TON**

Values in \$

YEAR/RATES	FORWARD	CONTRACT	DIFFERENCE
2007-2008	68,71,939.26	38,65,639.48	30,06,299.78
2008-2009	44,96,058.00	30,82,855.00	14,13,203.00
2009-2010	71,24,209.00	42,71,111.53	28,53,097.83

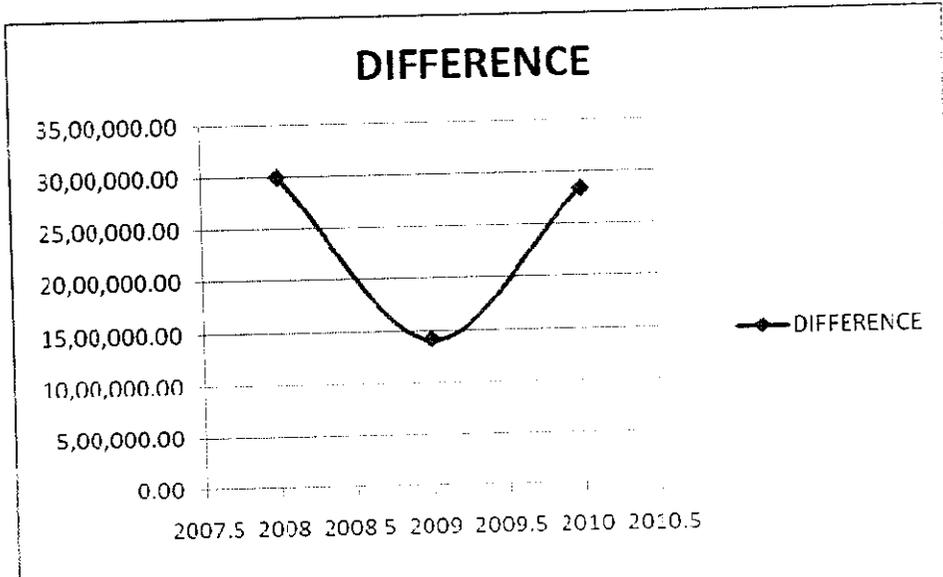
Source: market.ft.in

Interpretation

The analysis shows that there is more inflow in forward rate when compared with the spot rate. In the year 2007-2008 there had been an inflow of \$30 lakhs while a dip in 2008-2009 due to recession and an increase in 2009-2010.

EXHIBIT 4.7

EXHIBIT SHOWING THE DIFFERENCE IN FORWARD AND CONTRACT RATE ANNUAL CASH INFLOW PER TON



Inference

Thus from the above table it is inferred that the cash inflow obtained from the forward rate is more than the contract rate when compared annually.

TABLE4.10

**TABLE SHOWING THE DIFFERENCE IN FORWARD AND CONTRACT RATE
QUARTERLY CASH INFLOW PER TONN**

Value in \$

Year/Quarter	April – June Q1	July – Sep Q2	Oct – Dec Q3	Jan – Mar Q4
2007-2008	4,87,347.86	4,95,856.26	6,99,301.50	1,31,874.68
2008-2009	4,95,236.80	3,69,486.50	2,62,559.40	2,85,919.90
2009-2010	7,46,037.56	5,56,074.06	7,51,376.98	1,15,681.25

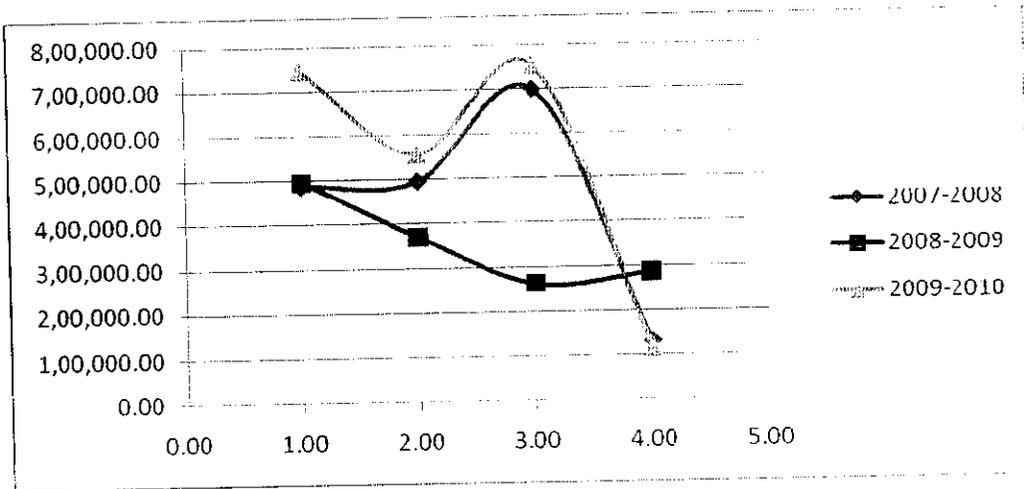
Source: market.ft.in

Interpretation

The above table shows that in the year 2007-2008, the first three quarters shows an increasing trend and a huge dip in last quarter, while in the year 2008-2009 the chart shows a decreasing trend in first three quarters and a slight increase in the last quarter. In the year 2009-2010 the chart shows a fluctuating trend in which there had been a dip in the second quarter, a rise in the third quarter and again a huge dip in the fourth quarter. A quarterly analysis shows that, there is an increasing trend in the first quarter where as all the other quarters show a fluctuating trend.

EXHIBIT 4.8

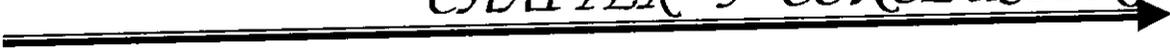
EXHIBIT SHOWING THE DIFFERENCE IN FORWARD AND CONTRACT RATE QUARTERLY CASH INFLOW PER TONN



Inference

Thus from the above table it is inferred that a quarterly analysis shows an increasing trend in the first quarter where as all the other quarters show a fluctuating trend.

CHAPTER - 5 CONCLUSION



CONCLUSIONS

5.1 RESULTS AND DISCUSSIONS

5.1.1 FINDINGS

- It is found that the products quoted in the USD are more profitable than quoting the products in EURO.
- The results of the quarterly analysis reveal that the company's profitability has been increasing in the 3 year period and the profit variation had been high during the year 2009-10 except for the third quarter.
- It is found that the USD is more stable than the EURO as it had shown less deviation than that the EURO during the 3 year period.
- It is found that the highest level of the deviation for the entire 3 year period is observed during the month of July, 2009 and the deviation is 1.38. The lowest of the deviation during the 3 year period is observed during the month of November, 2008 to the extent of 0.06. The deviation in the month of March 2010 had been 0.38.
- It is found the USD deviation is more in the year 2008-2008 during the three year period.
- It is found that the highest level of deviations occurs in the first quarter when compared to all the other quarters of the three year period.
- It USD is in an increasing trend and which is a good sign for the company.
- It is found that the cash inflow obtained from the forward rate is more than the contract rate when compared annually.
- It is found that a quarterly analysis shows an increasing trend in the first quarter where as all the other quarters show a fluctuating trend.

5.2 CONSIDERED RECOMMENDATIONS

5.2.1 SUGGESSTIONS

- The company can enter into forward contract so that it can earn more profit than what they earn through the contract.
- The company can continue to quote their products in USD since the stability is more in this currency when compared to the EURO. Also the income earned while quoting the products in USD is more when compared with the EURO.

5.3 CONCLUSION

The drastic appreciation in the value of the Indian rupee and the volatility when compared to the USD and the EURO has a very tough environment to the garment industry. The US dollar fluctuation affects the exporters to a greater extent. The fluctuation will cause a major risk for the exporters in all sectors especially for the garments. The appreciation of the Indian rupee is also one of the causes for this diminishing trend. So this will cause the fluctuation in the value of the money on the export from the receipt of the orders till the claim of profit. The study will help to know how far the decline in the dollar rate had an influence over the profit margin of the organization for a period of 3 years is compared.

It is found that the products quoted in the USD are more profitable than quoting the products in EURO. It is found that the USD is more stable than the EURO as it had shown less deviation than that the EURO during the 3 year period. It was found that there exists a fluctuating trend during all the three years. The company has to adopt forward contract in the future years, since the company can earn more profit in the forward contract.

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