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ABSTRACT

The project entitled “**Analysis of the Forex market in Tirupur**” was undertaken to increase the market share for derivative products of ICICI in Tirupur.

ICICI bank is a leader in retail assets products. They are entering in to trade finance, export finance and corporate lending to SME (Small and Medium Enterprises). They wish to explore the market potential for derivative products in Tirupur.

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

1. Chi-square Test
2. Weighted average method

The exporters hedge their foreign exchange risks with the help of derivative products provided by banks. The various derivative products analyzed in the study are

- 1) Forward contract
- 2) Option contract
- 3) Future contract

The researcher has estimated the usage of derivative products by exporters and this will help ICICI bank in formulating the strategy for the introduction of Forex derivatives in Tirupur.

The population study of bankers is used to analyze the banks potential for export and import finance. The research includes finding the competitive advantage of different bankers in Tirupur. The researcher has identified the major problems faced by exporters, satisfaction level towards banking service and has suggested the ways to improve the share of derivative for ICICI in SME segment.

1. INTRODUCTION:

1.1 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.

Almost every household in the town undertakes some activity directly linked to the knitwear industry. The town's dusty and narrow bylines, like Surat, are lined with residence-factories (most houses have dedicated at least one room to these activities) spinning cotton into yarns, or knitting yarn into fabric, or simply separating and dividing the waste and scrap fabrics back into yarn for reprocessing.

A whole range of industrial units catering to ancillary functions such as manufacture of cartons, polythene bags, zips, buttons, tapes and other packing material has also spawned in a big way.

Yet, at first glance, nothing about Tirupur can make one believe that this town earns an annual \$800 million plus in foreign exchange. This is because the state government and local municipal authorities have been too slow to cope with this dynamic growth.

The variance between the town's infrastructure and the actual requirements has led to a sharp rise in the cost of almost every basic social input. The present export-driven prosperity is letting entrepreneurs meet these costs, but the paucity of adequate infrastructure could soon thwart its growth.

Knitwear industry has clearly identified the definition of fashion meaning thereby combination of many things put together and corresponds to feeling of something. Fashion is mainly dependable on industry and society in probationary manner. Creation of hi-style and value added knitted garments are instrumental in driving out the value- hidden stuff of the knitwear exporters with a motive that it reaches the intending on lookers who believe in right choice of selection.

Eveningwear is quite common and uniform all over the world; in spite of the fact remaining that India is popular for traditional wear. Knitwear has been successful in their attempts to cater to the world's demand of synthetic garments by adopting sophisticated sewing technique required by high value garments.

2. 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.

3. STATEMENT OF THE PROBLEM:

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.

This project “Analysis of the Forex market in Tirupur” was undertaken to solve the following problems

- To explore the market potential for derivative products.
- To improve the market share of ICICI Bank.
- To know the growth of business and need of derivatives.

4. OBJECTIVES OF THE STUDY:

- To analyze the total demand for Forex derivative products for the exporters in Tirupur.
- To do customer satisfaction survey regarding Forex services provided by all the banks in Tirupur.
- To analyze the usage of derivative product among exporters in Tirupur.

5. OPERATIONAL DEFINITIONS:

5.1 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.

5.2 Forward Contract:

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'.

5.3 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 gets 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.

5.4 Call Option:

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 gets 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.

5.5. Future:

This kind of trading signifies entering into contracts to buy or sell financial instruments or commodities, for forward delivery or settlements on standard terms on a predetermined 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 is settled on the basis of price difference.

5.6 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.

6. RESEARCH METHODOLOGY:

Research methodology is a way to systematically solve the research problem. It includes the overall research design, the sampling procedure, and data collection method and analysis procedure.

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.

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.

6.2 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.

6.3 Sample Size:

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

$$n = ((Z*S)/e)^2$$

n = Sample size
Z = Normal variant (1.96)
(Confidence level of 95%)
S = Standard deviation (0.05)
e = Tolerance error (0.01)

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

6.4 Scaling Technique:

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

6.5 Statistical Tools:

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

1. Percentage Analysis
2. Chi-square Test
3. Weighted average method

6.6 limitations:

- The area under study is restricted only to Tirupur city and its outskirts

- 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.
- If more exporters in the Tirupur city on were contacted, the information would have made this study more exhaustive but due to time limitations it was not possible.

7. ANALYSIS AND INTERPRETATION:

- The data have been represented graphically using “pie- charts”, “Column charts” and “Line charts” to facilitate clarity and ease of understanding.
- The inferences from the data are also listed below each table.

TABLE NO: 7.1

TYPE OF CONSTITUTION OF EXPORTERS

CONSTITUTION	RESPONDENTS	PERCENTAGE
Sole proprietor	35	35%
Partnership	56	56%
Pvt Ltd	8	8%
Public Ltd	1	1%
Total	100	100%

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.

TABLE NO: 7.2

EXPORTERS PRESENCE IN DOMESTIC MARKET

BUSINESS	RESPONDENTS	PERCENTAGE
Export	87	87%
Export & Domestic	13	13%
Total	100	100%

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.

TABLE NO: 7.3**DIFFERENT CURRENCIES USED IN EXPORTS**

EXPORT BUSINESS	RESPONDENTS	PERCENTAGE
USD	57	57%
EURO	36	36%
YEN	1	1%
OTHERS	6	6%
Total	100	100%

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.

TABLE NO: 7.4**USAGE OF DERIVATIVES BY EXPORTERS**

DERIVATIVE USED	RESPONDENT	PERCENTAGE
Forward	73	73%
Option	3	3%
Future	4	4%
Forward & Option	8	8%
NA	12	12%
Total	100	100%

Interpretation:

From 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.

TABLE NO: 7.5**SOURCE OF FOREX RATES**

SOURCE OF RATES	RESPONDENTS	PERCENTAGE
Foreign Agency	20	20%
Bank	80	80%
Total	100	100%

Interpretation:

From the study it is found that the majority (80%) of exporters gets the Forex rates from their banks and 20% of exporters use foreign agency for Forex rates.

TABLE NO: 7.6

**RELATIONSHIP BETWEEN YEARS OF EXPERIENCE AND SATISFACTION
WITH BANK SERVICE
CHI-SQUARE TABLE**

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

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		Degree of freedom = 4	
Chi-square (0.05,4) = 9.49			

Degrees of freedom = 4

Level of significance = 5%

Table value = 9.49

Calculated value = 0.41

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.

TABLE NO: 7.7

SATISFACTION WITH FOREX SERVICES OF BANKS

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

Weighted Average = $17+80+126+4+0$

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.

TABLE NO: 7.8

DERIVATIVE PRODUCTS PROVIDE BY THE BANKS

DERIVATIVES	RESPONDENTS	PERCENTAGE
Forward	15	75%
Forward, Option & Future	2	10%
No derivatives	3	15%
Total	20	100%

Interpretation:

From the study it is found that majority (75%) of banks are providing Forward contract to exporters, 10% of banks are providing Forward and Option contract and 15% of banks are not having any derivative products.

8. FINDINGS:

- 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 87% of respondents doing exclusively export business and 13% of respondents are doing both export and domestic business.
- The study found out 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
- The study found out 86% of exporters doing import business and 14% of exporters are not doing import business.
- 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 most of respondent who have participated in this research agree that banks provide them with good service with respect to Forex service.

9. SUGGESTIONS:

- 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.
- 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.

10. 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.
- Whereas no exporter 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.

11. REFERENCES:

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