A STUDY ON CURRENCY HEDGING STRATEGIES IN EXPORT COMPANIES WITH REFERENCE TO KIREETI GROUP, HYDERABAD

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ABSTRACT

Currency fluctuations create significant financial risk for export-oriented companies because changes in exchange rates can affect export revenues, profitability, cash flows, pricing, and competitiveness. This study examines currency hedging strategies used by Kireeti Group, Hyderabad, to manage foreign exchange risk. It evaluates the use and effectiveness of forward contracts, options, futures, swaps, and other hedging approaches. The study also examines factors influencing hedging decisions, major challenges, and the contribution of treasury management to financial stability. Primary data were collected from 100 respondents through a structured questionnaire. The findings indicate that forward contracts are most preferred and existing hedging strategies are generally effective.

Keywords: Currency Hedging, Foreign Exchange Risk, Export Companies, Forward Contracts, Kireeti Group

1. INTRODUCTION

International trade has become an important component of economic development because businesses can expand their markets, reach international customers, increase exports, and generate foreign-exchange earnings. However, companies engaged in export activities are exposed to foreign exchange risk because their transactions involve currencies different from their domestic reporting currency. Changes in exchange rates between the transaction date and settlement date can influence export revenues, profit margins, cash flows, pricing decisions, and overall financial performance. Therefore, effective management of foreign exchange exposure has become an important responsibility of financial managers in export-oriented organizations. Currency hedging is a financial risk-management technique used to reduce the adverse effects of exchange-rate movements. Export companies can employ several hedging instruments, including forward contracts, futures, options, swaps, and natural hedging. Forward contracts allow exporters to determine an exchange rate for a future transaction and are particularly useful when future foreign-currency receipts are known. Futures provide standardized exchange-traded contracts, while options provide the right, but not the obligation, to buy or sell currency at a predetermined rate. Currency swaps can be used for longer-term foreign-currency exposures. Natural hedging involves matching foreign-currency inflows with foreign-currency outflows to reduce net exposure. Effective hedging can improve cash-flow predictability, protect profit margins, support financial planning, reduce earnings volatility, and strengthen competitiveness. However, hedging also involves costs, premiums, administrative requirements, margin requirements, and the need for specialized knowledge. Poorly designed hedging policies may create additional financial risks. Consequently, companies need appropriate policies, monitoring systems, treasury expertise, and regular assessment of foreign exchange exposures. Kireeti Group, Hyderabad, operates in export-oriented business activities and is consequently exposed to foreign exchange risk associated with foreign customers and international transactions. The study therefore examines the currency hedging strategies adopted by Kireeti Group, evaluates their effectiveness, identifies factors influencing hedging decisions, and considers their impact on financial performance and cash-flow management. It also examines the challenges associated with foreign exchange risk and recommends measures for strengthening currency risk management.

2. REVIEW OF LITERATURE

Sharma and Verma (2018) examined foreign exchange risk management among Indian exporters and found that forward contracts were widely preferred because of their simplicity and ability to reduce exchange-rate uncertainty. Kumar (2019) reported that currency volatility influences export pricing, operating margins, and international competitiveness and recommended systematic hedging practices. Patel and Reddy (2020) found that forward contracts, currency futures, and options can reduce foreign exchange exposure when supported by appropriate treasury management. Singh (2020) emphasized continuous monitoring of foreign exchange markets and timely execution of hedging contracts. Nair and Joseph (2021) identified effects of exchange-rate volatility on working capital, profit margins, and cash flows. Agarwal and Mehta (2022) found that natural hedging through matching foreign-currency inflows and outflows can reduce transaction costs. Rao and Desai (2023) emphasized financial analytics, real-time monitoring, artificial intelligence, and treasury technologies in improving hedging decisions. Joshi and Kapoor (2023) identified market volatility, transaction size, exchange-rate expectations, hedging costs, and organizational risk policies as important determinants of hedging choices. Prakash and Iyer (2024) associated structured hedging with stable profitability, improved liquidity, and reduced earnings volatility. Mishra and Gupta (2025) emphasized digital treasury systems, predictive analytics, AI, and automated risk management.

3. OBJECTIVES OF THE STUDY

1. **To study** the currency hedging strategies used by Kireeti Group, Hyderabad, to manage foreign exchange risk.
2. **To examine** the factors influencing currency hedging decisions in export business operations.
3. **To analyze** the effectiveness of different currency hedging strategies in protecting export revenues and profitability.
4. **To examine** the impact of currency hedging strategies on financial performance and cash-flow management.
5. **To suggest** appropriate measures for strengthening currency hedging strategies and foreign exchange risk management.

4. RESEARCH METHODOLOGY

The study follows a descriptive research design. Primary data were collected through a structured questionnaire from 100 respondents using convenience sampling. Respondents included finance executives, export managers, treasury personnel, accountants, bankers, academicians, and employees associated with foreign exchange activities. Secondary information was obtained from company records, RBI publications, FEMA guidelines, journals, books, and websites.

4.1. STATISTICAL TOOL

Percentage Analysis

Percentage analysis is selected as the most appropriate statistical tool because the study primarily examines respondents' awareness, preferred hedging instruments, perceived effectiveness, objectives, and challenges associated with currency hedging.

Formula:

Percentage = (Number of Respondents / Total Respondents) × 100

The study also uses **tabular presentation, bar diagrams, and pie charts** to present the survey findings.

For Indian exporters, foreign-exchange hedging is also subject to the applicable RBI framework. RBI guidance recognizes instruments such as forward contracts and certain options/swaps for eligible underlying exposures, subject to the relevant conditions.

5. DATA ANALYSIS AND INTERPRETATION

They are selected from the study because they directly address the objectives concerning the preferred hedging strategy, its effectiveness, and the major challenge faced in currency hedging. The survey contains **100 respondents**.

Table 5.1: Major Currency Hedging Technique Used

Currency Hedging Technique	Respondents	Percentage
Forward Contracts	38	38%
Options	22	22%
Futures	18	18%
Swaps	14	14%
Others	8	8%
Total	**100**	**100%**

Analysis: Forward contracts received the highest response, with **38 respondents (38%)**, followed by options at 22%.

Interpretation: The findings indicate that **forward contracts are the most preferred currency hedging instrument** among respondents. Their popularity can be associated with their ability to provide certainty regarding future exchange rates and reduce uncertainty concerning foreign-currency receipts.

Table 5.2: Effectiveness of Existing Hedging Strategy

Effectiveness	Respondents	Percentage
Highly Effective	22	22%
Effective	44	44%
Neutral	18	18%
Ineffective	10	10%
Highly Ineffective	6	6%
Total	**100**	**100%**

Analysis: The largest category consists of **44 respondents (44%)** who consider the existing hedging strategies effective.

Interpretation: The results indicate that respondents generally have a positive view of the existing currency hedging arrangements. In total, **66%** of respondents rated the strategies as either highly effective or effective, suggesting that the current measures are generally successful in managing foreign exchange risk.

Table 5.3: Major Challenge in Currency Hedging

Major Challenge	Respondents	Percentage
Exchange Rate Volatility	35	35%
Cost	22	22%
Complexity	18	18%
Knowledge Gap	15	15%
Others	10	10%
Total	**100**	**100%**

Analysis: Exchange-rate volatility represents the highest response, with **35 respondents (35%)**, followed by hedging cost at 22%.

Interpretation: The result demonstrates that **exchange-rate volatility is the most significant challenge** encountered in currency hedging. Continuous movements in exchange rates can affect export pricing, profitability, and international competitiveness, making regular monitoring and timely hedging important.

6. RESULTS

1. Currency hedging is considered an essential risk-management mechanism for protecting export companies against foreign exchange volatility.
2. **Forward contracts are the most preferred hedging instrument**, selected by 38% of respondents.
3. Options are the second-most preferred instrument, followed by futures and swaps.
4. **66% of respondents** consider the existing hedging strategies either effective or highly effective.
5. The primary purpose of currency hedging is to **reduce foreign exchange risk**, followed by protecting profits and stabilizing cash flows.
6. Exchange-rate volatility is identified as the **major challenge** in currency hedging, accounting for 35% of responses.
7. Respondents recognize that foreign exchange fluctuations can affect export profitability, pricing decisions, cash flows, and competitiveness.
8. Treasury management plays an important role in monitoring foreign currency exposure and making appropriate hedging decisions.
9. Effective hedging contributes to improved financial planning, reduced earnings volatility, and greater financial stability.
10. The study indicates that Kireeti Group has **generally effective foreign exchange risk-management practices**, while further improvements in technology, expertise, and market monitoring can strengthen its hedging framework.

7. SUGGESTIONS

1. Kireeti Group should maintain a **structured foreign exchange risk-management policy** covering hedging objectives, exposure limits, monitoring procedures, and internal controls.
2. Hedging policies should be reviewed regularly to respond to changes in global economic conditions and currency markets.
3. The company should strengthen its treasury function through **advanced treasury-management software, real-time exchange-rate monitoring, and financial analytics**.
4. Regular training should be provided to finance and treasury personnel regarding foreign exchange markets, derivatives, and risk-management practices.
5. The company should use a suitable combination of **forward contracts, options, futures, and natural hedging** depending on the nature of the underlying exposure.
6. Continuous market analysis should be conducted before entering into significant hedging contracts.

7. Kireeti Group should strengthen relationships with financial institutions to obtain timely market information and suitable hedging solutions.
8. The organization should maintain accurate documentation of foreign exchange exposures and hedging transactions.
9. Strict compliance with applicable foreign exchange regulations should be maintained.
10. Periodic evaluation of hedge performance should be undertaken to identify weaknesses and improve financial stability, export competitiveness, and long-term growth.

8. CONCLUSION

Currency hedging has become an important component of financial risk management for export-oriented companies because exchange-rate fluctuations can significantly influence export revenues, profitability, pricing decisions, cash flows, and financial stability. The present study of Kireeti Group, Hyderabad, demonstrates that appropriate hedging strategies can reduce uncertainty and provide greater predictability in international business operations. The findings indicate that forward contracts are the most preferred hedging instrument, while options, futures, swaps, and natural hedging can provide additional alternatives according to the nature of foreign exchange exposure. The survey further shows that existing hedging strategies are generally effective, with 66% of respondents describing them as either effective or highly effective. At the same time, exchange-rate volatility remains the most important challenge faced by export businesses. Effective treasury management, professional financial knowledge, continuous market monitoring, timely execution of hedging contracts, technological support, and regulatory compliance are therefore essential for successful foreign exchange risk management. Kireeti Group has established adequate foreign exchange risk-management practices that contribute to financial stability and operational efficiency. However, regular policy evaluation, improved treasury technology, employee training, diversified hedging approaches, and continuous market intelligence can further strengthen its currency risk-management framework. Overall, well-designed currency hedging strategies can reduce financial risk, support stable cash flows, protect profitability, improve investor confidence, and contribute to sustainable growth in international markets.

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