

FOREIGN EXCHANGE EXPOSURE MANAGEMENT IN RELIANCE INDUSTRIES LIMITED

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ABSTRACT

The economic liberalization of the early nineties, coupled with deregulation of exchange rates in 1993, facilitated the introduction of interest rate, and foreign exchange derivatives in India. Foreign exchange derivatives are used by firms to alleviate foreign exchange exposures. The foreign exchange exposures arising due to the uncertainty about exchange rates may have significant effects on the earnings of the firms. The use of derivatives is still highly regulated in India due to partial convertibility of rupee. Presently, forwards, swaps, futures and options in foreign exchange are available in India.

This paper attempts to study the strategic uses of foreign exchange derivatives by Reliance Industries Limited to manage its foreign exchange exposures. The motivation for this study came from first, the global financial crisis of 2008 which caused huge losses to companies owing to volatility in exchange rates of currencies and second, comparatively low and narrow use of foreign exchange derivatives by Indian corporate firms in India.

The literature on foreign exchange exposure management practices of the firms shows the reduction of foreign exchange exposure with the use of tools for managing the exposures. The paper finds that Reliance Industries Limited seems successful in managing foreign exchange exposure. The precise prediction of the foreign exchange rate plays a very significant role in successfully managing the foreign exchange exposure of a firm. It appears that the firm has been successful on this front, in addition to a suitable mix of derivative instruments in its foreign exposure management strategy.

KEYWORDS: *Foreign Exchange Exposure, Derivatives, Forwards, Futures, Options, Swaps*

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