Estimating Exchange Rate Exposure and its effect on Value of Top Indian IT Firms

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ABSTRACT

Exchange rate fluctuations play a vital role in determining the future cash flows, which ultimately affects the value of the firm. As many domestic businesses are trading their products and services it is important to determine the exchange rate exposure. This exposure arises due to such overseas transactions, so it is necessary to hedge against this foreign exchange risk using foreign currency derivatives.

In this paper five Indian IT majors have been considered for the study. For each of these companies their stock returns where first regressed with the returns of the stock exchange and then they were regressed with returns of United States Dollar (USD). There reason why only USD was considered, is that these companies derive most of their revenue from the United States of America.

The outcome of Asset pricing theory (APT) and Capital Asset pricing models (CAPM) are compared with the findings of Fundamental analysis. Which calculates the Equity Exposure of the company by using Operating Exposure and Debt of the company.

With this report reveals that when we compare Equity exposure with the intercepts we see that there is a substantial decreases in equity exposure. Which means that the hedging strategy of the companies is working well in favor of the shareholders. Another reason for the same could be constant depreciation in the value of rupee during the study period.