About KSHITIJ

- We began in 1996
- Clients include forex professionals in large corporates, banks, financial institutions and individual traders from all over the world
- Over the years we have established a reputation for quality and straight dealing. You are assured of transparency and trust when you deal with us
- We are ranked among the top 5-10 Forex advisory websites worldwide
- We are winning more and more clients, many times from our competitors, for our Rupee forecasts

Testimonials

Mr Bhaskar Iyer
Bank of India, Mumbai
I eagerly wait to read your views these days. Your writing is of a very high quality.

Mr Arunangshu Paul
AIF Trust (India) Pvt Ltd, Mumbai
I believe that your report captures in essence the reason for the recent upmove in the USD/INR pair. A good analysis, I like it.

Mr RK Gurumurthy
Head Trading, ICICI Bank, Mumbai
Amazing call Sir

Mr Maulik R Shah
Royal Bank, Mumbai
I enjoy your views & reports.

Core Beliefs

- The Client should benefit
- We are in business for the long haul
- We have to deliver better and better value over time by benchmarking ourselves against the best.

Services we provide

- Currency Forecasts
- Hedging Strategies
- Derivatives Valuation
- Hedge Effectiveness Testing

Our clients... our world

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96 Garden Reach Road, Kolkata-700 022, INDIA
Phone: 00-91-33-24892018
info@kshitij.com • www.kshitij.com

Forex Hedging... the KSHITIJ way

WHERE
What is the market going?

WHAT
What to hedge?

WHICH
How to do the accounting?

HOW
How much to hedge?

FOR WHICH PERIOD TO HEDGE?

WHEN
How to measure performance?

WHERE TO HEDGE?

Benefits

- You can cut your lead time and get down to putting your FX Risk Management into shape right away instead of searching for a Policy and Method that works
- Works for both Exporters and Importers
- You profit when the market is in your favour and get protection when it is against you
- Works in all market conditions
- Is 65 - 75 compliant

Profitability

On an average, Exporters can realize 1% more than the market. Simultaneously Importers can pay 1% less than the market rates. Those who have both Export and Imports can earn an Export-Import Margin of upto 2%.

The KSHITIJ Hedging Method is the answer to all your Forex Hedging questions, listed on the left.

- A down to earth Policy for FX Risk Management.
- A complete Methodology to deal with the practical issues of Forex Risk Management.
- The result of 15 years of experience and R&D. It has a proven track record over the last 4 years in real market conditions.
6 Policy Questions you should ask yourself

Have we quantified our FX Risk Management Objectives for the year?
Suppose your objective is to “Avoid Losses.” You need to quantify: • How much loss do I face due to Forex volatility • How much is avoidable • How much is unavoidable • How does this impact overall company profitability?

You need to put numbers to the objectives, else you are unlikely to meet them. And, who said you cannot make forex profits?

The production and marketing guys have their budgets. Have we worked out a Hedging Cost Budget?
every activity requires some expenditure. Why not not Housing? Stop Losses on forward contracts that go wrong and Option premium on plain vanilla puts and calls would be paid for from the Hedging Cost Budget. It would make the life of the forex risk manager much easier and actually enable him to achieve the set objectives.

How do we measure FX Risk Management performance? Are we trying to beat the market, or better a Benchmark?
in the absence of quantification of objectives, it becomes difficult to assess the performance of the FX Risk Management function. And by default, and by application of accounting rules, the company ends up trying to beat the market. This happens despite knowing that it is impossible (and even unavilable) to try and beat the market on an ongoing basis.

Where does Risk lie in the past, present or future?
This is a rhetorical question. Risk lies neither in the past nor the present, but in the future. And we know that the future is likely to be different from the past and the present. So, it is the future that the FX Risk Management team should be concerned about. Why base your Benchmarks on the past or the present?

The market is ever changing. Is our benchmark fixed? Or Dynamic?
In anticipating the future, companies tend to make a “single number” forecast for the entire year ahead and take that to be the benchmark. But as the conditions, on which that forecast was made, change, there will be a need to revise the forecast. Does your policy allow for such change in forecasts and benchmarks?

Are we more concerned with the performance of our Hedges than of our Exposures? Why?
Most companies become very concerned when a Hedge (forward contract or option) goes out of money. In a case where the Exposure (the Export or Import itself) is not fully hedged (an optimal hedge ratio would be about 54%), there should actually be happiness if a Hedge goes out of money because when a Hedge goes out of money, the Exposure ends up making money!

3 Fundamental Reasons why you are not getting results

Absence of Benchmark
The unacknowledged but implicit objective of Forex risk management in many companies is to try and beat the market. There is a lot of pressure on the Forex desks to make profits. Do not go by what companies say in their annual reports. Ask the dealers and risk managers in the treasury departments of companies to verify this statement. This happens because most companies set no Benchmarks by which Forex risk management is to be guided. As a result, the market becomes the default benchmark and everybody tries to beat it. Hedging decisions are assessed on whether or not the hedge beats the market. A sure recipe for disaster!

Fixed Benchmark, if at all
Those companies that work with Benchmarks tend to have a Fixed Benchmark for the whole year. A particular USD/INR rate is decided upon during the annual budgeting exercise in February-March, and then hedges are taken accordingly. This is done because (a) a fixed benchmark lends itself easily to budgeting (b) the marketing and production departments in a company do not want to deal with a “non-domain” variable and (c) there is still an innate “wish” in the minds of most people that exchange rates should remain steady. Unfortunately, this approach is far removed from reality. When the accounting is done, the reality catches up.

No Hedging Budget
It is a rare company that sets aside a budget for hedging. Although every activity in business has a budget, a looming “non-domain” as the daily upslope of toilets, Forex hedging is assumed to be costless and hedging budgets are unheard of. Which is why we saw hardships of companies taking on 1:2 Put Risk Reversals in 2008 and 2008 to hedge their exports. Buying plain vanilla Puts cost money and no company had provided for that. So everybody went in for “zero cost options.” The result: losses that were several times higher than the option premium they would have paid on plain vanilla Puts!

Performance of the KSHITIJ Hedging Method, upto Jan-10

The KSHITIJ Hedging Method is India’s first complete, end-to-end method for managing Forex Risk on Exports and Imports, for which a patent application has been filed. It has worked in real market conditions – whether the Dollar has been ranged, falling or rising.

The KSHITIJ Hedging Method has provided protection to the Exporters in 2007-08 (Export Realisation 43.29 v/s Spot Rupee 40.12) and to the importer in 2008-09 (Import Payments 42.62 v/s Spot Rupee 46.06). Thus, both the Exporters and Importers have got protection when they needed it most. And, they have continued to make money in the other years as well. The results compare well with (a) Spot USD-INR (a proxy for “unhedged” strategy), with (b) the KSHITIJ Dynamic Benchmarks themselves and (c) with Forward Rates, which is a proxy for hedging with Forwards only (see table below).

Comparing Performance against...

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<th>Export Realisation</th>
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KSHITIJ Hedging Method since 2006
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WHICH

For which period to hedge?

HOW

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When to hedge?

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