



EXPORT PROMOTION COUNCIL FOR HANDICRAFTS

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SEMINAR ON AWARENESS OF FOREIGN CURRENCY HEDGING AND CREDIT GUARANTEE WAS ORGANIZED ON 23RD NOVEMBER'2011 AT RAJIV GANDHI BHAWAN, NEW DELHI

New Delhi – November 23, 2013 -- The Export Promotion Council for Handicrafts (EPCH) organized an awareness Seminar on Foreign Currency Hedging and Credit Guarantee at Rajiv Gandhi Bhawan, New Delhi on November 23, 2013. The following key officials were present during above seminar:-

Mr. R. K. Malhotra, Chairman-India Exposition Mart Ltd., & Former Chairman-EPCH, Mr. Prince Malik, Member-COA, Mr. Rajesh Jain, Member-COA, Mr. R. K. Verma, Director-EPCH, Ms. Tapsi De, Regional Manager (NR) of ECGC, Mr. Kushal Aggarwal, Standard Chartered Bank, Ms. Swarupa, Mr. Dhiraj Chanda of Standard Chartered Bank, Mr. Vijay Kaushik, Manager, M/s Ticker Plant, were present during above seminar alongwith over 50 participants.

The objective of the seminar was to encourage exporters to safeguard their business interest, enhance the profitability of the shipped consignment and cover the risk through hedging which may arise due to foreign currency fluctuation. Currency hedging is an act of entering into a financial contract in order to protect against unexpected, expected or anticipated changes in currency exchange rates to eliminate risks they encounter when conducting business internationally. Hedging can be likened to an insurance policy that limits the impact of foreign exchange risk.

Ms. Tapsi De, Regional Manager (NR), Export Credit Guarantee Corporation (ECGC) made a detailed presentation and apprised Indian exporters on managing their credit risks by providing timely information on worthiness of the buyers, bankers and the countries. She informed the house, how ECGC protects the exporters against unforeseen losses, which may arise due to failure of the buyer, bank or problems faced by the country of the buyer by providing cost effective credit insurance covers in the form of Policy and Investment Insurance Services comparable to similar covers available to exporters in other countries.

Mr. Kushal Agarwal of Standard Chartered bank made a detailed presentation on market risk, tools for covering risk and the market dynamics.

Mr. Vijay Kaushik, Manager, M/s Ticker Plant gave a very informative presentation on foreign currency hedging and explained to the participants about the various tools and mechanism like historical charts which they may be used to minimize currency risk.

Ms. Swarupa, representative of Standard Chartered Bank has given a brief introduction of priority banking for the handicrafts exporters.

After detailed deliberations, the following major questions were asked from the dias:-

QUESTION-ANSWER SESSION:

Q1. What is the time frame for issuance of policy cover from ECGC?

Ans: The policy is issued to the exporters after they apply for it. The limit is then communicated to the exporter after assessing the credit worthiness of the concerned buyer.

Q2. Does the policy depend on contract between the buyer and exporter?

Ans: Generally, the policy is not dependant on the contract between the buyer and exporter. However, the limit of coverage allotted by ECGC in the policy is subject to the buyer's credibility.

Q3. Is there any booklet containing detail of all ECGC policies available for the exporters and their terms and conditions?

Ans: All the policies and the terms and conditions under them are available on the website of ECGC. (www.ecgc.in).

Q4. Since Handicraft business is a low turnover business and the exporters are not sure about the receipt of payment from their buyers, is there any way or tool that helps the exporters to decide about the time of hedging?

Ans: It is very much understood that if the payment of a consignment is not fixed, it becomes quite tough to find exactly that when it should be hedged. However, if an exporter is pragmatic in his approach he may find the average sum of payment that he receives in his account on monthly basis and thus hedge it on monthly basis. He may adopt the method of constant and regular hedging in order to avoid currency fluctuation risks.

Q5. Suppose the exporter gets an order from a buyer and after taking the policy from ECGC of worth Rs. 5 Crores, the exporter immediately starts manufacturing the product. In the meanwhile, the exporter receives information from the ECGC that the buyer's limit for coverage is Rs. 50 Lakhs only. In such cases, how can ECGC's policy be helpful for the exporters as a considerable time has been spent by ECGC on approving the buyer's limit to the applicant?

In certain cases, it has also been observed that even after the coverage has been granted by ECGC and while the production is being undertaken by the exporter an email is received from ECGC stating that the buyer has gone insolvent and his coverage has been withdrawn.

Ans: Since the policies covered by ECGC are post shipment policies, all the risks are not covered. The limit of a buyer is set after proper assessment through various reports, detailed information about the buyer, payment track record with other exporters. The limit may be increased in due course of time based on the frequency of business with the exporters.

Q6. Since the scenario of export methodology has changed a lot with respect to earlier times, the business these days are generally generated through the buying agents. The exporters get the business and they are even not sometimes aware of all the relevant information about the buyer. The C&F are also appointed by the buyers. In such cases, how ECGC guarantees the exporters about the payment receivable by the exporter?

Ans: Although the scenario has changed, the exporters need to be vigilant doing business with buyers through buying agents. The documentation and payment terms need to be finalised after all scrutiny and important check points.

Q7. Generally Handicraft business being a small business in terms of turnover, there is no specific policy from ECGC that covers such exporters. How to find a way that such exporters may also be the beneficiary to the policies from ECGC?

Ans: There is a policy namely, 'Small Exporter's Policy' which is basically the Standard Policy, incorporating certain improvements in terms of cover, in order to encourage small exporters to obtain and operate the policy. It is issued to exporters whose anticipated export turnover for the period of one year does not exceed Rs.50 lacs.

Q8. As per the method explained by Mr. Kaushik for the perfect time to hedge the currency at perfect rate, there are a lot of charts, graphs that need to be studied and observed cautiously. This makes the method quite complicated. Is there any fixed number of such charts/graphs that implicate about the repetition of a scenario?

Ans: The entire process of understanding the pattern is based upon the observation. There is always a chance of uncertainty. However, it is always better to take some precautions rather than going unprepared/unaware. There is no specific number of charts through which we can predict the market performance.

