



GLOBAL INDICATORS		
	Close	Change
Dow (DIA)	8,843.81	+251.20
Nasdaq	2,647.40	+73.55
FTSE 100	4,864.96	+1.38
Nikkei 225	6,583.00	+46.76
Hong Kong	14,243.45	+274.75
Hong Kong	1,134.49	+21.43
Shanghai	2,147.71	+18.93

*Previous day's closing

Hindustan Times Business

SENSEX	NIFTY	GOLD/10g	SILVER/K	RUPEE/\$
↑ 176.71	↑ 67.48	↓ Rs 58	↑ Rs 450	↑ 1.81
9,964.25	2,573.00	Rs 11,900	Rs 17,000	47.65

MARKET WRAP: The Sensex ended a six-week losing streak, mainly due to some proactive measures from central banks across the globe.

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INSIDE: HT COMMERCIAL

Forex losses singe profits of small firms

Mahua Venkatesh
New Delhi, November 9

M.K. MITTAL (name changed), who runs a small software export business with a turnover of Rs 11 crore, is finding the going tough.

He has incurred huge losses in a crumbling foreign exchange derivatives market.

He is not alone. Industry analysts say the small and medium enterprises have incurred a total loss of about Rs 2,000 crore in the last few months due to the collapse of the forex derivatives market. Forex derivatives involve purchase or sale of complex financial instruments that have underlying currencies at a fixed rate with a premium linked to transactions future dates. This is usually done to protect exporters who pay premiums to avoid risky fluctuations.

The problem for small entrepreneurs began when the rupee first began to appreciate sharply for the whole of last

HOW FOREX DERIVATIVES WORK

- Derivatives are financial instruments whose value is derived from an underlying asset— such as commodities or even exchange rates.
- Buyers of derivatives pay a premium to reduce risks in markets prone to fluctuations.
- Derivatives often involve purchase or sale of complex financial instruments with underlying currency values linked to deals at a future date at premiums to current rates.
- Exporters usually buy derivatives to prevent losses from fluctuations, but can get drawn into speculation.
- In markets showing huge swings, they can bring windfall profits or big losses. Under prudent accounting practices, firms have to show the losses in their account books.

year and then started swinging the other way from around April this year. With exporters suffering severe earnings erosion as the rupee fell below Rs 40 to the US dollar, small businessmen began hedging against a further fall through derivative instruments.

"Indian private sector banks hard sold complicated derivative products to hedge risks and cut losses," said Mittal.

However, mounting losses in the forex derivatives market has hit export firms in an already challenging business environment.

Raja M Shanmugham, president, Forex Derivative Consumer Forum said that there must be a full probe into the matter.

A fresh lease of life, however, has come from the Reserve Bank of India. According to a circular issued recent-

ly, the losses incurred by SMEs on account of forex derivative contracts will not be the reason for classifying an account as Non-performing Account (NPA) even if payment becomes overdue over 90 days.

It has allowed banks to put the accumulated losses in a different account while directing them to continue lending to these small firms.

"It will bring a relief to hundreds of SMEs facing closure due to mounting losses under the forex contracts," said Anil Bhardwaj, secretary general, Federation of Indian Micro and Small & Medium Enterprises.

The outstanding notional principal amount of the total contracts/derivatives of all scheduled commercial banks, including foreign banks operating in India stood at Rs 1,43,22,964 crore at the end of March 2008, against Rs 73,50,235 crore a year ago, Rs 40,55,775 crore on March 2006 from Rs 26,86,443 crore a year ago.

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