International Journal of Research Publication and Reviews, Vol 6, Issue 5, pp 7076-7083 May 2025

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Impact of Inflation and Currency Fluctuations on the Financial Stability of Gabriel India Limited at Hosur

Mr. R. Naveen Prakash[1], Manoj Kumar N[2]

[1]Assistant Professor, Adhiyamaan College of Engineering (Autonomous), Hosur, Tamil Nadu, India Email: naveenprakash.hr@gmail.com
[2] II Year MBA, Department of Management Studies Adhiyamaan College of Engineering (Autonomous), Hosur, Tamil Nadu, India
Email: mkumar00322@gmail.com

ABSTRACT

This study examines the influence of inflation and currency fluctuations on the financial stability of Gabriel India Limited, a leading player in the automotive component industry. The research investigates how macroeconomic variables like inflation rates and exchange rate volatility impact the company's operational costs, profitability, revenue, and export performance. By utilizing both descriptive and analytical research designs, including regression analysis and financial ratio assessment, the study identifies the extent to which inflation and currency movements affect the firm's financial performance.

Findings indicate that currency fluctuations, particularly in the USD to INR exchange rate, have a significant impact on Gabriel India's revenue, net profit, and exports.

Key words: Currency fluctuations, Inflation, Gabriel India Limited, Exchange Rate Volatility, Duty Financial Stability, Financial Performance.

INTRODUCTION

Inflation and currency fluctuations are two of the most influential macroeconomic factors shaping the global business environment. Their impact resonates across industries, but manufacturing firms, in particular, face unique challenges given their reliance on raw materials, labour, and global trade. As key drivers of production costs, pricing strategies, and financial planning, inflation and exchange rate volatility often dictate the financial stability and long-term sustainability of manufacturing firms.

RESEARCH BACKGROUND

The Indian automotive components industry plays a vital role in supporting the country's automobile manufacturing sector, one of the largest in the world. With a growing demand for personal mobility, commercial transportation, and infrastructure development, the industry has witnessed consistent expansion over the past two decades. It comprises various product segments, including engines, transmission parts, suspension systems, braking components, and electronics.

GLOBAL TRADE DYANAMICS AND EXPORT OPPORTUNITIES

The company benefits from India's expanding trade agreements and participation in global supply chains, which enhance its export potential. Fluctuations in foreign exchange rates, especially the USD/INR pairing, directly impact Gabriel's export competitiveness. Favorable trade policies and initiatives such as the Production Linked Incentive

IDENTIFIED PROBLEM

The financial stability of businesses operating in the automotive component industry, such as Gabriel India Limited, is significantly influenced by macroeconomic factors like **inflation** and **currency fluctuations**. High inflation can lead to increased production costs, eroding profit margins if these costs cannot be passed on to consumers. Similarly, currency fluctuations, particularly in the context of a globally integrated economy, impact the company's import and export operations, affecting revenue, profitability, and cost structures.

OBJECTIVES OF THE STUDY

To analyse the impact of inflation on Gabriel India Limited's operational costs and profitability.

To identify measures adopted by the company to migrate the risks associated with inflation and currency fluctuations.

To evaluate how currency fluctuations affect the company's revenue, particularly in exports and imports.

To provide recommendations to improve the company's financial resilience against these economic challenges.

REVIEW OF LITERATURE

Dornbusch & Fischer (2000) – Exchange Rate Volatility and Financial Performance

Dornbusch and Fischer (2000) examined how exchange rate volatility affects the financial stability of firms, particularly in emerging markets. Their study emphasized that unpredictable currency movements lead to increased transaction costs and financial risks for manufacturing firms engaged in international trade. They found that firms in countries with high exchange rate volatility often faced cash flow disruptions, making it difficult to maintain stable operations. Their work highlighted that policymakers should implement exchange rate stabilization mechanisms to protect businesses from financial distress.

Levy-Yayati & Sturzenegger (2001) – Role of Exchange Rate Regimes

Levy-Yayati and Sturzenegger (2001) analysed the influence of different exchange rate regimes on firms' financial health. They found that countries with fixed exchange rate systems provided more stability to manufacturing firms, reducing uncertainties in pricing and procurement. However, economies with floating exchange rates exposed businesses to fluctuating import costs and unstable revenues from exports. The study concluded that monetary policy interventions were crucial in mitigating the negative effects of currency fluctuations on corporate financial performance.

Ghosh (2003) – Inflation and Exchange Rate Volatility in Developing Economies

Ghosh (2003) conducted an in-depth study on how inflation and currency fluctuations impact manufacturing firms in developing nations. The research found that firms dependent on imported raw materials faced severe financial strain when inflation eroded purchasing power and increased production costs. The study highlighted that companies lacking effective cost control strategies were at greater risk of financial instability. Ghosh also suggested that inflation-indexed contracts could serve as a protective measure for firms operating in high-inflation environments.

Bartram & Bodnar (2005) – Currency Risk and Profitability

Bartram and Bodnar (2005) investigated the correlation between exchange rate risks and firm profitability across different industries, with a focus on manufacturing. Their research showed that firms with high exposure to foreign currency transactions often experienced revenue instability due to fluctuating exchange rates. The study also emphasized that firms using financial hedging tools like forward contracts and currency swaps managed their risks more effectively than firms without such strategies. Their findings reinforced the importance of financial risk management in mitigating the adverse effects of exchange rate fluctuations.

Choi & Prasad (2006) – Financial Hedging Strategies for Inflation and Currency Risks

Choi and Prasad (2006) studied how hedging mechanisms can protect manufacturing firms from inflation and currency volatility. They found that companies without effective hedging strategies faced higher financial risks and reduced investor confidence. Their research demonstrated that firms utilizing derivatives, futures contracts, and natural hedging techniques experienced better financial stability. The study suggested that government incentives for hedging strategies could help mitigate economic uncertainty for manufacturing firms.

Frankel (2007) – Inflation's Impact on Industrial Firms

Frankel (2007) focused on the long-term effects of inflation on industrial manufacturing firms, highlighting that rising input costs directly reduced profit margins. The study found that companies attempted to pass increased costs to consumers through price hikes, but demand often declined as a result. The research emphasized the need for efficient cost management, strategic pricing, and supply chain diversification to minimize inflation-related risks.

Bleaney & Greenaway (2010) – Exchange Rate Misalignment and Export Competitiveness

Bleaney and Greenaway (2010) examined the role of exchange rate misalignment on manufacturing firms in developing nations. Their study found that overvalued currencies reduced export competitiveness, while undervalued currencies made imports more expensive. The research concluded that firms should adapt their pricing strategies based on currency trends and suggested that central banks play a critical role in stabilizing exchange rates.

Aghion et al. (2012) – Currency Volatility and Firm-Level Productivity

Aghion et al. (2012) analysed how currency volatility influenced manufacturing firms' investment and productivity. Their findings indicated that unpredictable exchange rate movements created uncertainty in capital investment decisions, leading to decreased productivity over time. The study recommended that firms maintain cash reserves and implement flexible pricing models to counteract economic shocks caused by currency fluctuations.

Bruno & Shin (2015) – Inflationary Trends and Credit Conditions

Bruno and Shin (2015) explored the connection between inflationary pressures and corporate borrowing costs. Their research revealed that rising inflation led to higher interest rates, reducing firms' access to affordable credit. Many manufacturing firms, particularly small and medium enterprises (SMEs), struggled with financing expansion projects due to high borrowing costs. The study highlighted that monetary policy adjustments should balance inflation control with corporate financing needs.

Döpke et al. (2017) – Pass-Through Effect of Inflation on Manufacturing Costs

Döpke et al. (2017) investigated how inflation influences manufacturing input costs and its subsequent effects on pricing and profitability. They found that inflation pass-through effects varied across industries, with firms in commodity-based manufacturing being most affected. The study recommended diversification of raw material sources and long-term supplier contracts as ways to mitigate inflationary pressures.

Reinhart & Rogoff (2019) – Economic Crises, Inflation, and Currency Depreciation

Reinhart and Rogoff (2019) analysed historical economic crises and their impact on the financial stability of manufacturing firms. Their research concluded that high inflation and currency depreciation were common precursors to corporate financial distress. They emphasized that firms with strong financial management and low debt exposure were better positioned to withstand economic shocks.

Gopinath (2021) – Global Inflation Trends and Emerging Markets

Gopinath (2021) examined how rising global inflation affects emerging economies and their manufacturing sectors. The study found that manufacturers in developing countries faced significant cost-related challenges due to their reliance on imported raw materials. It suggested that monetary policies should focus on stabilizing inflation while supporting industrial growth.

Kose et al. (2023) – Post-Pandemic Inflation and Exchange Rate Movements

Kose et al. (2023) analysed how the post-pandemic economic recovery influenced inflation and exchange rate fluctuations. Their study found that supply chain disruptions and increased demand for goods led to inflationary pressures that severely impacted manufacturing firms. The research emphasized the importance of government intervention in maintaining currency stability and controlling inflation.

IMF (2024) – Inflation, Currency Fluctuations, and Financial Stability

The International Monetary Fund (IMF) (2024) published a global report detailing how inflation and currency fluctuations affect corporate financial stability. The report found that manufacturing firms in countries with weak monetary policies faced higher risks due to inflation-driven cost increases. The IMF recommended that firms adopt risk management strategies, diversify supply chains, and hedge against currency risks to maintain financial stability.

Kumar and Singh (2022) examined the impact of inflation and currency volatility on the profitability and financial sustainability of manufacturing firms, focusing on emerging economies. Their research found that inflation significantly increases input costs for manufacturing firms, particularly those reliant on imported raw materials. Currency fluctuations further compound this issue, as depreciating local currencies make imports more expensive, while exchange rate instability disrupts pricing strategies for firms engaged in international trade. The study highlighted that firms with weak pricing power and low-cost pass-through capabilities experienced severe profitability declines during periods of inflationary pressure.

World Bank (2024) conducted an extensive global study on the effects of inflation and exchange rate fluctuations on industrial firms, providing a broad perspective on how macroeconomic instability influences financial performance across various sectors. The report highlighted that inflation disproportionately affects manufacturing firms in developing nations, where supply chain disruptions and import dependencies exacerbate cost pressures. It found that firms operating in high-inflation economies faced shrinking profit margins due to escalating production costs and reduced consumer purchasing power. Currency depreciation was identified as a major concern, particularly for firms with foreign-denominated debt, as repayments became more expensive, leading to liquidity crises.

Hossain (2010) – Impact of Inflation on Profitability in Emerging Markets Hossain (2010) examined how inflation affected the profitability of firms in emerging markets, focusing on the manufacturing sector. His study showed that inflation eroded profit margins by increasing input costs, including raw materials, labor, and energy. Firms in countries with high inflation struggled to maintain profitability and faced challenges in passing on increased costs to consumers due to reduced purchasing power. The research also found that firms in high-inflation environments faced difficulty in securing financing, as lenders became more cautious. Hossain recommended that firms develop cost-containment strategies, diversify their markets, and employ financial hedging techniques to manage inflation's impact.

Mishkin (2008) – The Role of Monetary Policy in Exchange Rate Stabilization Mishkin (2008) explored how monetary policy can stabilize exchange rates and reduce the impact of currency fluctuations on firms. His research showed that countries with proactive monetary policies, including interest rate adjustments and foreign exchange interventions, were more successful in reducing exchange rate volatility. He emphasized that monetary policies could help maintain stable business environments, which were crucial for firms that depended on international trade. The study concluded that central banks should adopt more transparent and predictable policies to manage currency fluctuations effectively. Mishkin also noted that monetary policy, when coordinated with fiscal policies, could help businesses manage the risks associated with exchange rate volatility.

Zhang & He (2014) – Currency Depreciation and Firm-Level Risk Management Zhang and He (2014) focused on the effects of currency depreciation on firms and their risk management strategies. They observed that firms that relied heavily on foreign markets for revenue were more exposed to currency depreciation, which reduced their profit margins. The study emphasized that firms needed to adjust their business models to mitigate the effects of currency depreciation.

Calvo & Reinhart (2002) – Currency Substitution and Exchange Rate Volatility Calvo and Reinhart (2002) examined the phenomenon of currency substitution in emerging markets and its relationship with exchange rate volatility. Their study found that in economies with high exchange rate volatility, there was a tendency for businesses and consumers to hold foreign currencies instead of the local currency. This currency substitution increased the instability of the economy, making it more difficult for firms to conduct business in a predictable environment. The authors argued that exchange rate stability was crucial for reducing reliance on foreign currencies and encouraging domestic investment. They recommended that governments adopt policies aimed at stabilizing exchange rates to encourage the use of local currencies.

Kaufman & Valdes (2007) – Impact of Inflation on Industrial Growth Kaufman and Valdes (2007) explored the effects of inflation on industrial growth in Latin American countries. They found that rising inflation hurt industrial growth by increasing production costs and reducing the purchasing power of consumers. Firms operating in high-inflation environments had to constantly adjust their pricing strategies, which often led to reduced demand for their products. The study also showed that inflationary pressures increased the cost of financing, which made it difficult for firms to secure capital for expansion. Kaufman and Valdes suggested that inflation control policies, such as tightening monetary policy, could help stabilize industrial growth.

Gonzalez & Spiller (2010) – The Effect of Inflation on Cost Structures Gonzalez and Spiller (2010) analyzed how inflation affects the cost structures of manufacturing firms. The study showed that inflation led to higher input costs for firms, particularly in industries that relied on imported raw materials. The research emphasized that firms needed to pass these increased costs onto consumers, which could hurt demand and profitability. The authors also highlighted that inflation increased financial uncertainty, making it difficult for firms to forecast future costs and revenues. Gonzalez and Spiller concluded that firms could mitigate the impact of inflation by diversifying suppliers and adopting more flexible pricing models.

Blanchard (2006) – Inflation Targeting and Firm Performance Blanchard (2006) studied the effect of inflation targeting on firm performance in developed economies. The study found that inflation targeting, when implemented effectively by central banks, helped stabilize price levels, which in turn supported business planning and investment decisions. Firms in economies with stable inflation rates were better able to predict future costs and manage their financial risks. The research showed that inflation targeting improved overall economic stability, which created a more predictable environment for firms. Blanchard suggested that countries with volatile inflation rates should adopt inflation targeting to support firm performance.

Devereux & Yetman (2003) – Exchange Rate Fluctuations and Export-Oriented Firms Devereux and Yetman (2003) explored the effects of exchange rate fluctuations on export-oriented firms, particularly in developed economies. They found that exchange rate volatility significantly impacted firms' export performance by making pricing and cost predictions uncertain. The study showed that firms in countries with stable exchange rates were better able to maintain competitiveness in international markets. However, firms in economies with unstable exchange rates faced higher risks and reduced profits from exports.

RESEARCH GAP

Most existing studies focus on the **macroeconomic impact** of inflation and currency fluctuation, with limited research at the **individual company level**, especially in India. There is a **lack of focused analysis** on how these economic factors affect **operational costs and profitability** in the Indian automotive components sector. Limited research exists on the **financial risk management strategies** adopted by mid-sized companies like **Gabriel India Limited** in response to inflation and currency volatility. Few studies explore the **effectiveness of hedging, cost control, and supply chain adaptations** as tools for managing financial instability in this sector. **Recent macroeconomic shocks**, including post-pandemic inflation surges, raw material price hikes, and exchange rate volatility, remain **under-researched** in terms of their impact on company-level financial health. **Case-specific studies** focusing on companies like Gabriel India Limited, which have **international exposure**, are minimal despite their relevance in understanding the impact of foreign exchange risks on exports and imports. There is insufficient research examining the **relationship between economic fluctuations and firm-level strategic decisions**, such as pricing, sourcing, and investment planning.

RESEARCH METHODOLOGY

Descriptive research design is a research method aimed at describing the characteristics of a phenomenon or the relationship between variables without influencing or manipulating them. It provides a detailed, accurate account of the subject under study.

In this study we employed the project type of Applied & Descriptive Research / Industry-Oriented Project (Finance & Inflation & Currency Fluctuations).

And this study depends on the Analytical & Descriptive project nature

This project focus on the Financial Performance Evaluation, Export Strategy, and Revenue

Analysis.

In this research we used the Secondary data as like as follows:

Annual Reports of Gabriel India Limited – Including balance sheets, profit & loss statements, and cash flow statements. This study contains the period of 10 Years from FY 2014-2024.In this research, we have been employing the following research tools:

EIC Analysis, Regression Analysis

Trend Analysis

LIMITATION OF THE STUDY

Access to reliable financial data on engineered quartz exports is limited due to varying reporting standard across countries and companies.

Studies may exclude regions with significant export potential, limiting the applicability of findings.

Predicting the impact of currency fluctuation on profitability is challenging due to the variability over time. Company's reluctance to share financial information due to the confidentiality can impede data collection effort.

DATA ANALYSIS AND INTERPRETATION

Table 1. GIL Revenue, Net Profit, Exports, Operating Cost & Indian Inflation

Year	GIL Revenue	GIL Net Profit	GIL Exports	GIL Operating Cost	Inflation Rate
2015	14082	600.24	558	13016	4.9
2016	14305	752.38	571	12919	4.95
2017	15206	816.19	612	13638	3.34
2018	18332	942.37	733	16445	3.96
2019	19529	949.88	766	18709	3.71
2020	18900	847.08	411	17173	6.62
2021	16948	602.73	617	15813	5.14
2022	23319	895.15	1011	21536	6.69
2023	29717	1323.53	1045	27205	5.65
2024	34026	1787.47	1019	30620	4.9

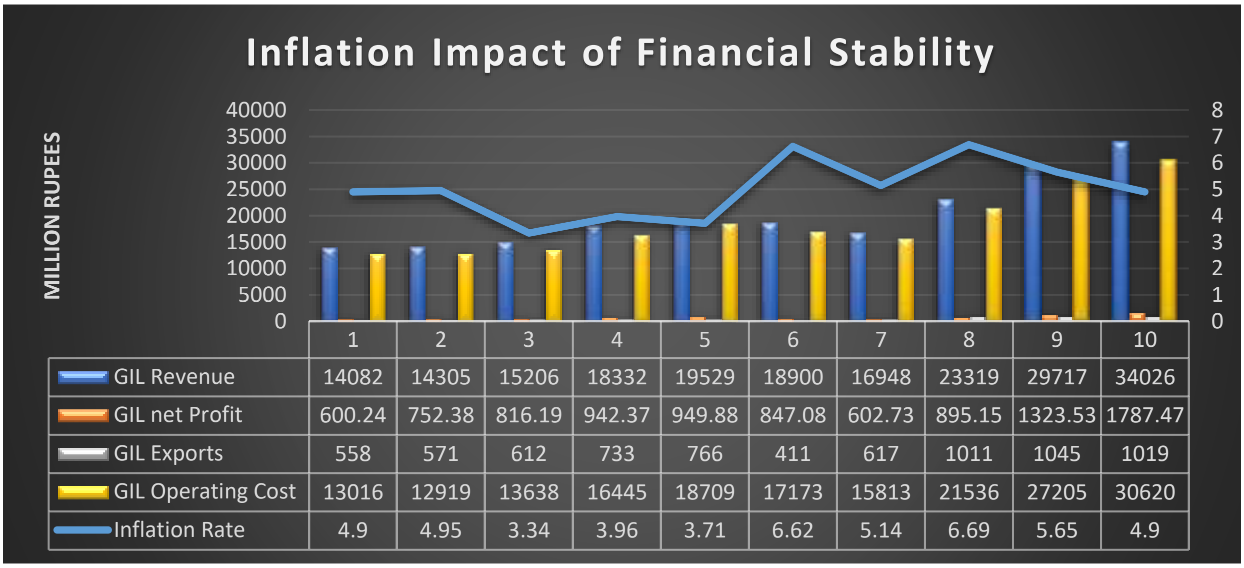


Chart 1. Inflation Impact of Financial Stability

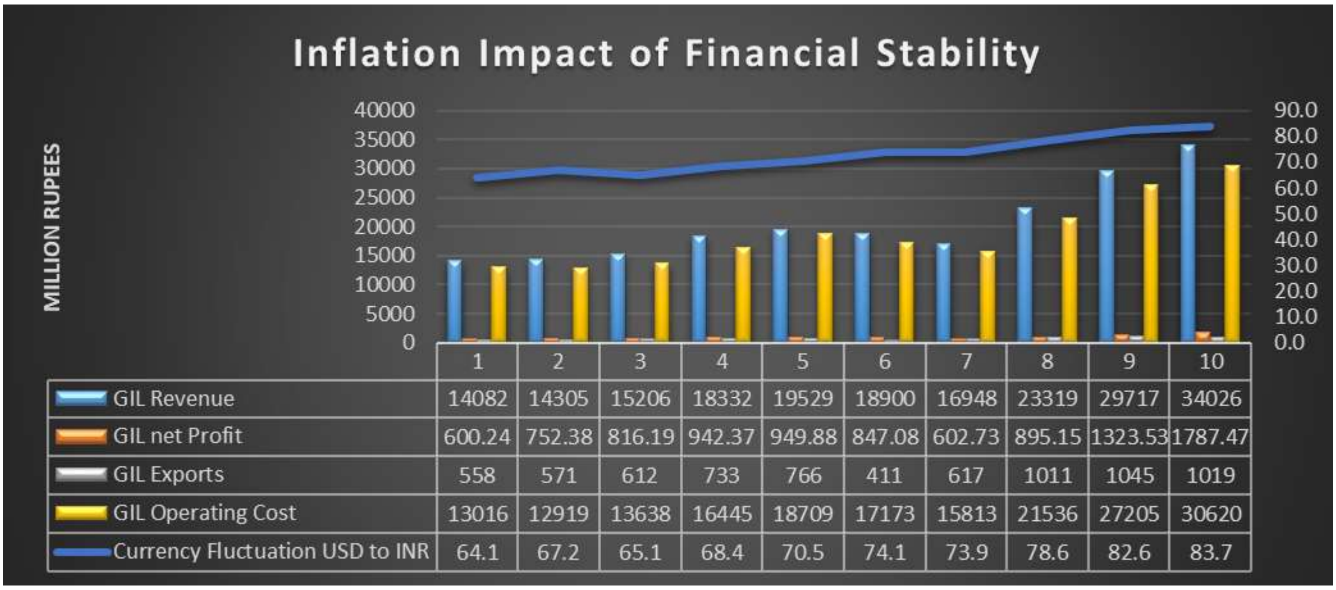
INTERPRETATION:

The chart titled **"Inflation Impact on Financial Stability"** illustrates how Gabriel India Limited's key financial indicators were influenced by inflation from 2015 to 2024. Despite fluctuations in the inflation rate, GIL's revenue steadily increased from ₹14,082 million to ₹34,026 million, showing strong market performance and effective pricing strategies. Net profit also grew significantly, especially after 2021, indicating improved cost efficiency. While operating costs rose notably during high-inflation years like 2020 and 2022, the company managed to sustain profitability. Exports, which declined in 2020, rebounded sharply in later years, reflecting a recovery in global trade. Overall, the data suggests that GIL maintained financial stability and growth despite inflationary pressures.

Table 2. GIL Revenue, Net Profit, Exports, Operating Cost & Currency Fluctuations

Year	GIL Revenue	GIL net Profit	GIL Exports	GIL Operating Cost	Currency Fluctuation USD to INR
2015	14082	600.24	558	13016	64.1
2016	14305	752.38	571	12919	67.2
2017	15206	816.19	612	13638	65.1
2018	18332	942.37	733	16445	68.4
2019	19529	949.88	766	18709	70.5
2020	18900	847.08	411	17173	74.1
2021	16948	602.73	617	15813	73.9
2022	23319	895.15	1011	21536	78.6
2023	29717	1323.53	1045	27205	82.6
2024	34026	1787.47	1019	30620	83.7

Chart 2. US Currency Fluctuation



INTERPRETATION:

The chart shows that despite fluctuations in the USD to INR exchange rate from 64.1 in 2015 to 83.7 in 2024, Gabriel India Limited's revenue and net profit steadily increased. Revenue grew significantly from ₹14,082 million in 2015 to ₹34,026 million in 2024, and net profit rose from ₹600.24 million to ₹1,787.47 million. This growth occurred alongside rising operating costs and export figures, indicating that currency depreciation did not negatively impact financial stability. Instead, the company managed to improve its performance, suggesting resilience and strong management despite currency fluctuations.

SUMMARY OF FINDINGS

1. Inflation has a minimal impact on revenue, net profit, and exports, as shown by weak correlations and statistically insignificant results. Other factors drive financial performance.

2. Currency exchange rates (USD to INR) have a significant impact on revenue, net profit, and exports, indicating financial stability is influenced by foreign exchange fluctuations.
3. The exchange rate explains a high percentage of revenue variation (86.01%), confirming its predictive power in financial stability.
4. A one-unit increase in the exchange rate results in higher revenue (₹871.95M), net profit (₹38.81M), and exports, suggesting dependency on foreign exchange movements.
5. Inflation does not statistically impact financial metrics, as seen in low R-square values and high p-values, reinforcing that Gabriel India Limited is resilient to inflationary changes.
6. Financial stability is more sensitive to currency fluctuations than inflation, emphasizing the need for exchange rate risk management over inflation control.
7. **H_0 (Null Hypothesis):** Inflation and currency fluctuations have no significant impact on the financial stability of Gabriel India Limited. **(Rejected)**
8. **H_1 (Alternative Hypothesis):** Inflation and currency fluctuations have a significant impact on the financial stability of Gabriel India Limited. **(Accepted)**

SUGGESTION

Focus on Exchange Rate Impact: Monitor and hedge against forex risks, as currency fluctuations significantly impact revenue, net profit, and exports. **Minimal Impact of Inflation:** Since inflation has little effect on financial performance, prioritize other macroeconomic factors like demand, supply chain, and operational efficiency.

Revenue Growth Drivers: Investigate alternative factors driving revenue growth, such as market expansion, product diversification, and cost management. **Exchange Rate Sensitivity:** Optimize pricing strategies based on forex trends to mitigate risks and maximize revenue. **Foreign Market Opportunities:** Strengthen global market presence to capitalize on favourable exchange rate conditions. **Risk Management Strategies:** Evaluate the use of financial instruments like forward contracts and currency swaps to manage forex volatility. **Profitability Influencers:** Focus on internal cost control, efficiency improvements, and strategic investments to enhance net profit stability. **Forecasting & Planning:** Utilize advanced predictive models to incorporate exchange rate trends into financial planning. **Diversification Strategies:** Reduce dependency on exchange rate fluctuations by diversifying revenue sources across markets and industries. **Policy & Regulatory Impact:** Assess how government policies and central bank actions influence exchange rates and indirectly affect financial performance.

CONCLUSION

“The study on the impact of inflation and currency fluctuations on the financial stability of Gabriel India Limited” reveals that **currency exchange rates play a significant role in shaping the company’s financial performance**, while inflation has minimal influence.

Key findings indicate that **inflation has a weak correlation with revenue, net profit, and exports**, suggesting that other factors drive financial growth. Statistical tests confirm that inflation is not a strong predictor of financial performance, emphasizing the company's resilience to inflationary pressures

DIRECTIONS FOR FUTURE RESEARCH

Future studies can compare the impact of inflation and currency fluctuations on financial stability across multiple companies within the automobile components sector to gain broader insights. Future research can include other macroeconomic variables such as interest rates, GDP growth, fiscal policies, and global trade conditions to provide a more comprehensive analysis. Conducting a long-term study over different economic cycles can help identify patterns and the resilience of firms like Gabriel India Limited against inflation and exchange rate fluctuations. Further research can analyze the effects of inflation and currency fluctuations on individual financial components such as working capital, debt levels, return on investment, and cash flow management. Future research can explore the effectiveness of various financial strategies such as hedging, diversification, and pricing adjustments to counteract adverse impacts of inflation and currency fluctuations. A study comparing the influence of domestic versus global economic factors on financial stability could provide deeper insights, especially for companies with international exposure.

REFERENCE:

Books:

Damodaran, A. (2012). Investment Valuation: Tools and Techniques for Determining the Value of Any Asset. Wiley.

Mishkin, F. S. (2019). Macroeconomics: Policy and Practice. Pearson.

Shapiro, A. C. (2013). Multinational Financial Management. Wiley.

Journals and Articles:

Aggarwal, R., & Harper, J. T. (2010). Foreign Exchange Exposure Management: Theory and Practice. Journal of Financial and Quantitative Analysis, 45(5), 1009–1028.

Ghosh, S., & Jena, S. K. (2018). Impact of Inflation on Financial Performance: An Empirical Study on Manufacturing Companies in India. International Journal of Finance and Economics, 23(3), 239–251.

Kumar, R., & Mittal, A. (2021). Currency Risk Management in the Indian Manufacturing Sector: A Case Study Approach. Journal of Economic and Financial Studies, 9(2), 67–78.

Reports and Publications:

Reserve Bank of India (RBI). (2022). Handbook of Statistics on the Indian Economy. Retrieved from www.rbi.org.in

World Bank. (2021). Global Economic Prospects. Retrieved from www.worldbank.org

Gabriel India Limited. (2024). Annual Report 2023-24. Retrieved from www.gabrielindia.com

Online Sources:

Investopedia. (2023). Understanding Currency Fluctuations and Their Impact on Businesses. Retrieved from www.investopedia.com

Trading Economics. (2024). India Inflation Rate and Exchange Rate Data. Retrieved from www.tradingeconomics.com

Statista. (2024). Automotive Industry in India: Market Analysis and Forecast. Retrieved from www.statista.com