TEACHING CASE LETS AND CASE-STUDY

Case Developer	**:**	**Dr. Heena Joshi**
Designation	**:**	**Associate Professor**
E-Mail	**:**	**heenakssbm@gmail.com**

Case Title	**:**	**Wheels Pvt. Ltd**
Case Subject	**:**	**International Finance**
Accession Number	**:**	**22**

Wheels Pvt. Ltd

Wheels Pvt. Ltd., a renowned roller blades manufacturer based in the United States, has been actively exporting to and importing from India. The company has chosen India as an export destination for its flagship product, "SpeedRunners," due to the country's promising economic growth and the lack of significant competition from both Indian and U.S. roller blade manufacturers in the market.

Under an existing agreement, Wheels sells 200,000 pairs of SpeedRunners annually to Entertainment Enterprises Pvt. Ltd., a prominent Indian retailer. The agreement entails a fixed, rupee-denominated price and is set to last for three years. Approximately 15 percent of Wheels's revenue is generated from its operations in India.

Wheels has also decided to import certain rubber and plastic components necessary for manufacturing SpeedRunners due to cost and quality considerations. The economic downturn in India has enabled Wheels to import these components from Rubber Works Pvt. Ltd. at relatively lower costs. However, Wheels has not entered into a long-term agreement for importing these components and instead pays prevailing market prices in rupees at the time of purchase. Currently, Wheels incurs about 6 percent of its cost of goods sold in India.

Though Wheels has no immediate plans for expansion in India, it remains open to the possibility of establishing a subsidiary in the future. Moreover, even if Wheels does not set up a subsidiary in India, it intends to continue exporting to and importing from the country for several years. Considering these factors, Wheels's management is closely monitoring recent economic developments in India and neighbouring countries, as they may impact both current performance and future plans.

Den, the CFO of Wheels Pvt. Ltd., is particularly concerned about the level of inflation in India. The export agreement with Entertainment Enterprises, while ensuring a minimum level of revenue in India annually, restricts Wheels from adjusting prices in response to inflation levels in the country. In hindsight, Den wonders whether Wheels should have entered into the export agreement at all. During the agreement's inception, India was experiencing rapid economic growth, resulting in high inflation and interest rates. Naturally, Wheels would have preferred an agreement where the price per pair of Speed Runners could be adjusted to account for Indian inflation levels. However, to capitalize on growth opportunities in India, Wheels accepted the fixed-price arrangement insisted upon by Entertainment Enterprises. Presently, with the Indian rupee floating freely, Den is curious about how high levels of Indian inflation might influence the rupee-dollar exchange rate and consequently affect Wheels's revenue generated in India.

Den is also worried about Wheels's cost of goods sold incurred in India. Since there's no fixed-price agreement, and the components are invoiced in Indian rupees, Wheels is susceptible to price increases in rubber and plastic. Den is pondering over how potential inflation might impact the rupee-dollar exchange rate and the cost of goods sold incurred in India now that the rupee is freely floating. Concerned about future economic conditions in India and their impact on Wheels, Den feels the need for assistance. He vaguely recalls.

Discussion Questions

1. Analyse how the fixed-price export agreement between Wheels Pvt. Ltd. and Entertainment Enterprises Pvt. Ltd. aligns with or deviates from the principles of PPP theory.
2. Evaluate how the high levels of inflation in India, as mentioned in the case, might impact the rupee-dollar exchange rate and the revenue generated by Wheels Pvt. Ltd. based on PPP theory.
3. How can Wheels Pvt. Ltd. gain insight into whether Purchasing Power Parity (PPP) holds for India, considering its export operations and the fixed-price export agreement with Entertainment Enterprises Pvt. Ltd.?
4. How do you reconcile the high level of interest rates in India with the expected change of the Rs-dollar exchange rate according to PPP?