CHAPTER-6

FINDINGS, SUGGESTIONS & CONCLUSIONS
6.1 FINDINGS

Following are the major findings arrived at during the period of study:

1) In majority companies, Board/ Committee & CFO have the authority to manage financial risk. Few companies have multiple authorities for the same.

2) 13 out of 16 (81.25%) companies support their financial risk management policy by clearly allocating financial risk management responsibilities.

3) All the selected I.T. companies have a policy to support the development of financial risk management in the future.

4) While dealing with risk, preference is given to risk avoidance followed by Loss Control, Diversification & Risk Sharing by selected I.T. companies. Risk Retention is least preferred approach by companies.

5) All the 16 companies attempted to manage operational risk, 9 companies manage market risk, while credit/counterparty risk is managed by only 7 companies.

6) Actuarial model is the most preferred model for measuring credit risk. However, only few companies depend upon credit rating by agencies & custom framework developed within their companies for the same.
7) For measuring market risk, sensitivity analysis is the most preferred approach followed by scenario analysis & value at risk (VaR).

8) Qualitative approaches are most preferred approaches for measuring operational risk followed by actuarial approaches.

9) Majority of the selected I.T. companies use forwards contract for hedging overall financial risks followed by options contract. Futures contract & Swaps contract are not at all used for hedging.

10) Majority of the companies opined that financial risk management practices have positive impact on their net profit & overall value.

11) Companies that use Actuarial Model for credit risk measurement found positive impact on their net profit & overall value.

12) Companies that use Stress Testing, VaR, Gap Analysis & Rate-shift Scenarios to measure market risk give positive result in financial performance & overall value.

13) Use of Actuarial Approaches to measure operational risk fetches positive results in profitability & overall value.

14) There is no similarity in providing risk management information in the annual reports of selected I.T. companies. Though financial risk management is very vital for large cap I.T. companies, very few companies have provided risk management report separately in their annual reports while the remaining have given risk
management related information in Directors’ Report, Management Discussion & Analysis & Notes to Consolidated Financial Statements either individually or jointly.

15) During the study period, it is found that companies have contributed around 1 to 7 pages for risk management related information in annual reports. Polaris Financial Technology Ltd. has contributed 7 pages followed by Wipro Ltd. & Infotech Enterprises Ltd. with 6 pages each while majority of the companies (13 out of 20) have just devoted 1 to 3 pages only for the same.

16) Only half of the companies have disclosed risk management framework or structure in their annual reports.

17) Out of 20 selected Indian I.T. companies, only 6 (30%) companies have disclosed key roles & responsibilities level-wise with respect to risk management practices in the reports so prepared & Infosys Ltd. is the best company in disclosing the same.

18) All the selected companies have adequate internal control systems for effective management of risk.

19) All the selected companies have disclosed risk category-wise in their annual reports. KPIT Cummins Infosystems Ltd. is the best company in disclosing the same.

20) Disclosure of risk mitigation steps gives an idea about how companies reduce their risks. Out of 20 selected Indian I.T.
companies, only 16 companies have disclosed risk mitigation steps in their annual reports. TCS is the best company in disclosing the key risks, their impact & approach to mitigation of the same.

21) Only Wipro Ltd. is the company which is disclosing risk management vision & charter in its annual report.

22) Out of 20, only 4 (20%) companies managed to get A grade, 4 (20%) companies secured B grade while remaining i.e. 12 (60%) companies arrived at C grade so far as Financial Risk Management Reporting Practices in their Annual Reports are concerned.

21) Hypothesis testing indicates that -

a) There is no significant difference in the mean score of Disclosure Practices of Selected I.T. companies. It means that the disclosure practices of selected I.T. companies are quite similar.

b) There is no significant relation between Disclosure Score, Net Profit Ratio & Return on Capital Employed of Selected I.T. companies. It indicates that there is no relationship between disclosure & profitability of selected I.T. companies.
6.2 SUGGESTIONS

1) Companies should prepare a separate report of Risk Management to provide a better and clear idea to the users of the reports for better decision making.

2) Companies should increase the length of their risk management reporting by devoting more number of pages in annual report by providing risk management framework / structure, key roles & responsibilities level-wise, risks category-wise & risk mitigation steps, so that the readers can get adequate information with greater degree of ease.

3) In Companies Act, 2013, additional reporting requirements have been introduced for the directors in their report regarding the development and implementation of the risk management policy. Hence, it is suggested to implement the same in a proper way.

6.3 CONCLUSIONS

We can find variety in medium of financial risk management disclosure among selected I.T. Companies. Only few companies provide separate report on risk management in their annual reports. Number of pages devoted & content included also differ from company to company. All the companies have disclosed risk category-wise in their annual reports. Disclosure regarding existence & adequacy of internal control system is also made by all the companies in their annual reports. Moreover, risk mitigation steps are disclosed by majority of companies. Majority of the
companies have stated the methods that they use to measure different types of financial risks (i.e. market, credit & operational risks).

The companies that manage financial risk found positive impact on net profit & overall value of firm. Similarly, companies that use Actuarial Model for credit risk & Actuarial Approach for measuring operational risk found positive impact on net profit & overall value of firm. For market risk measurement, Stress Testing, VaR, Gap Analysis & Rate-shift Scenarios gives positive net profit & overall value of the firm.