

Mazars speaks out on risk management in the automotive sector

Ahmedabad, Bangalore, Chandigarh, Chennai, Hyderabad, Kochi, Kolkatta, Lucknow, Mumbai & Pune
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Auto cos learn to handle risk tied to growth

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EXPANSION into newer geographies, exposure to multiple currencies and uncertain political climate have increased the risk factors for the Indian automobile companies. The newer risk factors become even more acute if growing competition and volatile raw material costs are added. The combination of such factors has led the country's top auto firms to set up separate verticals solely dedicated to risk management.

Companies such as Mahindra & Mahindra, Tata Motors, Hero Honda and Maruti Suzuki have sharply increased focus on risk management and are also considering having a designated executive or a chief risk officer (CRO) to oversee the various functional aspects and gauge the risk profile of the firm.

Even clause 49 of the listing agreement mandates every listed company to have a risk management framework in place, according to which companies are required to "lay down procedures to inform board members" about the risk profile of the company. However, the emerging risk management aims to go beyond the narrow definitions of risk by broad-basing its nature and scope.

So against the present practice where typically chief financial officers (CFO) double up as CROs, in the coming days most companies would have a distinct risk officer.

"The concept of enterprise risk management is becoming increasingly important and require a dedicated focus of a strong, full-time risk officer to champion risk management initiatives," said Monish Chattrath, partner (consulting & markets leader) at Mazars India. He said that traditionally companies did not put a lot of emphasis on risk management, but in the backdrop of increasing challenges, many OEMs or original equipment



SAFETY DRIVE

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manufacturers now prefer to have a dedicated team to look into risk management.

Adithya Bhat, managing director of consulting firm Protiviti, said that the sharper focus on enterprise risk management was mainly among the homegrown auto companies.

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"We are now getting more queries on risk management. Among the Indian companies, there is sharper focus now because awareness about such practices are going up," Bhat said. According to him, a CRO would be typically required to coordinate with the marketing and supply divisions and draw up a complete risk profile of the company. As followed in the West, a CRO reports directly to

the board. The most common risk factors that companies are forced to take cognizance of include over-dependence on a particular segment or customer for revenues, threat of natural calamities, attrition and unforeseen developments such as hike in interest rates. Charath said that in the recent past, companies were also re-drawing plans based on their risk parameters that included

increased competition from China, rising unionisation and even succession planning. Mahindra & Mahindra's president (finance, legal & financial services) and member of the board Uday Phadke said that the company has a robust risk management policy.

"At M&M, business managers are responsible for managing business risks and functional managers manage

function-specific risks. We regularly review our risk universe," he said. Similarly, Maruti Suzuki has increased its focus on risk management substantially, with the senior members of the top management also being a part of the executive risk management committee, thereby constantly gauging the risk profile of the company, which was not the case three years ago.

About Mazars

Mazars is an international, integrated and independent organisation, specialising in audit, accounting, tax and advisory services. Mazars can rely on the skills of 13,000 professionals in the 61 countries which make up its integrated partnership.

In India, Mazars is rated amongst the top accountancy and advisory firms nationally with over 550 professional staff in Bangalore, Gurgaon, Hyderabad, Mumbai, New Delhi and Pune and affiliate arrangements in most of the major towns and cities across the country.

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