



IIMC CASE RESEARCH CENTRE (IIMCCRC)

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MANAGING PRICE RISK AT HINDALCO

Anil Mathew, the Chief Risk Officer (CRO) at Hindalco, was somewhat relieved. His company had witnessed huge financial problems in the past few years (**Exhibit 1**) due to stagnating revenues in Financial Year (FY) 2015 and FY2016¹ and dwindling profits between FY2013 and FY2016. The situation had somewhat improved during the last two financial years (FY2017 and FY2018), mainly due to better price realizations. However, a major concern for Mathew was earnings volatility and, as a risk officer, he had to ensure that Hindalco had an effective and robust risk management framework in place. The company had a moderately high debt as seen in **Exhibit 2** and, hence, if the business risks were not managed well, the company would continue to face earnings volatility. While it was carefully monitoring its leverage to reduce financial risks, higher volatility in operating margins would create a dent in the investors' perception about the company's financial resilience. As the CRO, Mathew was fully aware of Hindalco's acceptable level of risk and risk appetite. Following the improvement in the financial parameters in FY2017, the CRO wanted to evaluate the company's risk management framework. On a late evening in April 2018, Mathew met Vikram Sondhi, a General Manager of the Risk Management team, to discuss the risk management framework and explore ways to improve it. Mathew and Sondhi were primarily responsible for designing the company's financial risk management policy. Therefore, they had to ensure that Hindalco's risk management policy was dynamic enough to withstand an uncertain market environment while providing business stability.

¹FY2016 denotes financial year 2015-16. We follow a standard practice for mentioning any financial year.

Prof. Ashok Banerjee of the Indian Institute of Management Calcutta and Prof. Anirban Banerjee of Indian Institute of Management Kozhikode developed this case study as the basis for class discussion rather than to illustrate the effective or ineffective running of an organization.