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MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
EXAMINATION: MAY/JUNE - 2026
SEMESTER - III

Sub.: Risk Management (MFM306/MBA24-FM305)

Date : 02/06/2026

Total Marks : 60

Time: 10.00am to 12.30pm

- Instructions:** 1) All questions are compulsory.
 2) Figures to the right indicate full marks.

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- Q. 1. Write Short notes on (Any Three) (15)**
1. Operational Risk and its Sources
 2. Systematic and Unsystematic Risk
 3. Role of Risk Appetite in Corporate Governance
 4. Liquidity Risk Management
 5. Risk Identification Techniques
- Q. 2. Answer in detail (Any One) (10)**
1. Explain how effective risk management enhances long-term business sustainability.
 2. Discuss the relationship between risk and return and its implications for investment decisions.
- Q. 3. Answer in detail (Any One) (10)**
1. Describe the significance of stress testing in financial institutions.
 2. How do predictive analytics and big data assist in modern risk forecasting?
- Q. 4. Answer in detail (Any One) (10)**
1. Explain the importance of internal controls in minimizing operational and financial risks.
 2. Discuss the role of enterprise risk management (ERM) in strengthening organizational performance.
- Q. 5. (15)**
- Vardhan Auto Components Ltd. is a well-established Indian manufacturing company specializing in the production and supply of high-quality automobile spare parts to global automotive markets. Over the years, the company has built strong trade relationships with international buyers, particularly in the United Kingdom, which accounts for nearly 75% of its total export revenue. In addition to exporting finished products, the company also relies heavily on importing critical machinery components and advanced equipment from Japan to maintain product quality and production efficiency.
- However, the past year has been marked by significant instability in global financial markets, leading to sharp volatility in foreign exchange rates. The British Pound depreciated by 4% against the Indian Rupee, resulting in lower export realizations for Vardhan Auto Components when revenues earned in GBP were converted into INR. This directly impacted the company's top line and reduced its operating margins. Simultaneously, the Japanese Yen appreciated by 6% against the Indian Rupee, substantially increasing the cost of importing essential machinery parts. Since these imports are crucial for maintaining uninterrupted production, the company had limited flexibility in sourcing cheaper alternatives, further intensifying the financial pressure. As a result, the combined impact of unfavorable currency movements led to a decline of ₹40 lakhs in the company's annual profits.
- In addition to currency risk, Vardhan also faced a rise in credit risk due to delayed payments from overseas buyers. Extended credit periods and inconsistent settlement behavior disrupted the company's cash flows and created working capital constraints.

This increased the risk of bad debts and further affected operational efficiency, forcing the company to depend more on short-term borrowing to meet its daily expenses and obligations.

To mitigate these growing risks, the finance department proposed a comprehensive risk management strategy. One of the key measures suggested was hedging foreign currency exposure using forward contracts. By locking in a predetermined exchange rate for future export receipts and import payments, the company can protect itself against adverse currency fluctuations and stabilize its cash flows.

Another proposed measure involved purchasing credit insurance for overseas clients. This insurance would provide financial protection in case of non-payment or default by foreign buyers, thereby reducing the risk of financial losses and improving the company's confidence in extending trade credit.

Furthermore, the company plans to diversify its export markets beyond the United Kingdom in order to reduce country-specific risk. By entering new markets in Europe, Southeast Asia, and the Middle East, Vardhan aims to spread its risk exposure and lessen dependency on a single economy susceptible to political and economic fluctuations.

The management of Vardhan Auto Components Ltd. now faces the strategic challenge of selecting the most effective mix of these risk management tools. The decision must balance the costs of hedging and insurance with the benefits of financial stability, profitability, and long-term sustainability. A structured and proactive approach will enable the company to safeguard its financial health while maintaining its competitive position in the global automobile component industry.

Questions :

1. Define the various risks faced by Vardhan Auto Components Ltd. in this scenario.
2. Analyze how exchange rate movements have impacted the company's financial performance.
3. Suggest and justify the most suitable risk management strategy mix for the company
