

**RISK MANAGEMENT:**

Value earned hard, can easily be lost without proper risk management practices in place. At VTTL, we are in process of establishing framework for identifying and managing risk, at strategic, operational and tactical level. Our risk management practices will be designed to be responsive to the ever changing Industry dynamics.



Figure 1: Risk Management Framework

**Indian Agri Industry current Performance**

The Indian Agri industry has witnessed slowdown in 2014-2015 due to erratic monsoon and change/delay in Government policy on subsidy. Slowdown is expected to continue for good part of this financial year 2015-16.

Overall, Indian Agri Industry has had negative growth of 12 % in 2014-15 in which sub 30 HP Tractor had negative growth of 13 % and power tillers has had a negative growth of 16 %.

**Alignment of VTTL with the Industry:**

Due to circumstances prevailing in the Agri Industry; VTTL’s income from operation has fallen by 12% in the year 2014-15 and stable raw material price and better realization on product price have enabled the Company to minimize the reduction in bottom line.

**Indian Agri Industry Long Term Potential:**

Over the last decade CAGR is 8 % . . The penetration level of Tractors is less than 1 per village in the country. The compact Tractor constitutes 7 to 8 % of the over-all market size and with increased awareness and acceptance the share of this segment is expected to grow. Further the compact Tractor industry has shown good growth over the last five years and with increased application development and awareness it is expected to become a sizable part of the Tractor Industry .

Power Tiller market is expected to stabilize with Government planning direct transfer of subsidy to farmer in the near future. Paddy Transplanter will also grow with increased sophistication and acceptance coming in.

With shortage of labor and increasing acceptance of new agricultural practices there will be increasing demand for farm mechanization in the near future

**De-risking Strategy:**

Against the above backdrop, VTTL’s de-risking strategy is developed to address both short term and long term components of the risk profile.

Risk Category	Risk Description	Mitigation
Industry Risk	Concentration on Agri Business <u>Specific Risks are:</u> - Industry Downturn in Agri Industry will adversely affect business - Strong competition and ability to market models faster. High focus on specific Segment <u>Specific Risks are:</u> - Business will be adversely affected when Agri segment experiences sluggish growth - Highly dependent on subsidy and Govt. policy on Agriculture development.	<ul style="list-style-type: none"> <li>▪ Tapping of wider segments in products and geographies including its aftermarket foot print in the core business</li> <li>▪ Keep the completion at bay by releasing new models ahead of competition in the future. 5 year strategic business plan to be formulated.</li> <li>▪ Explore &amp; grow businesses in the Engines, Attachments and other Agricultural Machinery, while remaining focused on core business</li> <li>▪ Diversification in non-agri segment</li> </ul>

<p><b>Raw Material Risk</b></p> <p>a. Volatility in Raw material, commodity and fuel prices.</p> <p>b. Single source</p>	<p>a. Volatility in prices of raw materials and commodities may impact our profit.</p> <p>b. Single source purchasing increases the bargaining power of the supplier</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> <li>- Business disruption</li> <li>- Continuous price escalation by the supplier</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vendor rationalization &amp; Commodity based approach in sourcing, leading to focused negotiation to manage prices of raw materials etc.</li> <li>▪ Sourcing options to develop alternate sources for all critical single source purchases.</li> <li>▪ VA/VE efforts by Engineering resulting in material cost reduction through better designs</li> </ul>
<p><b>Quality &amp; Integrity of the Product</b></p>	<p>Poor quality or integrity of our products may result in reputation and brand damage, resulting in lower volumes and financial claims</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> <li>- Poor quality of the products</li> <li>- Increase in Cost of Quality leads to bottom-line erosion</li> <li>- Loss of customers &amp; Lost opportunities in new programs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Effective process control</li> <li>▪ Supplier cluster programs to improve quality of incoming parts</li> <li>▪ Warranty procedure &amp; performance sign off with Suppliers.</li> </ul>
<p><b>Volatility in Currency Exchange Rate</b></p>	<p>Currency exchange gain or loss will impact the bottom line.</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> <li>- Increase material cost in case of weakening rupee</li> <li>- Lower revenue realization in case of strengthening rupee against USD</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hedging imports through forward contracts</li> <li>▪ PCFC<sup>1</sup> to protect exports against currency fluctuation</li> <li>▪ Restructuring of credit options for both imports &amp; exports</li> </ul>
<p><b>Demand Risk</b></p>	<p>Inaccuracy in Sales forecasting leads to poor delivery performance thereby leading to loss of customers</p> <p><u>Specific Risks are</u></p> <ul style="list-style-type: none"> <li>- Excess Inventory</li> <li>- Lower vendor ratings (Mysore plant)</li> <li>- Premium freight</li> <li>- Customer Loss</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of IcSoft for big dealers.</li> <li>▪ Effective Implementation of demand management in by S&amp;OP.</li> <li>▪ Measurement of forecast accuracy to smoothen out demand variation</li> <li>▪ Enhance Vendor Managed Inventory</li> </ul>
<p><b>Information Security</b></p>	<p>Loss of business data, proprietary &amp; confidential information and disruption of processes due to unavailability of robust IT systems, thereby causing financial damage.</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> <li>- Failure of IT systems thereby business continuity</li> <li>- Susceptibility to Cyber crime</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of measures to secure confidentiality and integrity of data</li> <li>▪ Ensuring data redundancy by storage in data replication center</li> <li>▪ Far site data recovery center, (proposed)</li> <li>▪ Robust firewall mechanisms, thereby preventing cyber crimes</li> </ul>
<p><b>Technology Risk</b></p>	<p>Technological Obsolescence with the changes in technological trends in the Industry</p> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> <li>- Loss of Business opportunity, and market share</li> </ul> <p>Risks arising through technology partnership</p> <ul style="list-style-type: none"> <li>- by disclosure of technology to competition &amp; being a competitor themselves</li> <li>- Inability to provide effective technical solutions</li> </ul> <p><u>Specific risks are:</u></p> <ul style="list-style-type: none"> <li>- Threat of competition from technology partner &amp; competitors</li> <li>- Ineffective utilization of Intellectual Infrastructure bandwidth</li> </ul>	<ul style="list-style-type: none"> <li>▪ Formulation of technology road map in line with the Industry trends aligning with the 5 year strategic plan.</li> <li>▪ Collaborate with leading technology partners to shorten the development cycle stay in sync with the market</li> <li>▪ Assessment of the capability of technical partner through a formal diligence process</li> <li>▪ Formal engagement model with exclusivity and non-compete provisions in the agreement</li> </ul>
<p><b>People &amp; Organization</b></p>	<p>Failure to attract with the right skills and talent to seize opportunities, achieve challenging returns and fulfill the strategy</p> <p><u>Specific Risks are:</u></p> <ul style="list-style-type: none"> <li>- Delay in Strategy &amp; project execution &amp; Growth plans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Alignment of company performance and employee performance incentives through the effective compensation &amp; benefit structure</li> <li>▪ Develop a talent pipeline through an annual talent review process and talent development</li> <li>▪ Values culture reinforced through induction, mandatory training, performance management, and employee interaction programs.</li> </ul>
<p><b>Product Liability</b></p>	<p><u>Specific risks are:</u></p> <p>Product Liability Product Guarantee Financial Loss Product recall</p>	<ul style="list-style-type: none"> <li>▪ The product liability with recall insurance policy is in process of finalization.</li> </ul>

<sup>1</sup> Packing Credit in Foreign Currency