



Sector: Aerospace & Defence

ICICI Lombard Corporate India Risk Index

Introduction

- ICICI Lombard Corporate India Risk Index is a one of its kind, unified, credible, standardised corporate Risk Index that spans over the country level, the industry level and the company level
- This is the 2nd Iteration of the Corporate India Risk Index which was started in 2021. This index maps the risks to a company on the basis of awareness, preparedness, probability and criticality.
- The Corporate India Risk Index for 2021 is based on published business performance reports, assessments, insights & collaborative inputs from key executives/ officials of 220 companies in India across 20 key sectors. It will help the companies understand the level of risk exposure and current level of risk management.

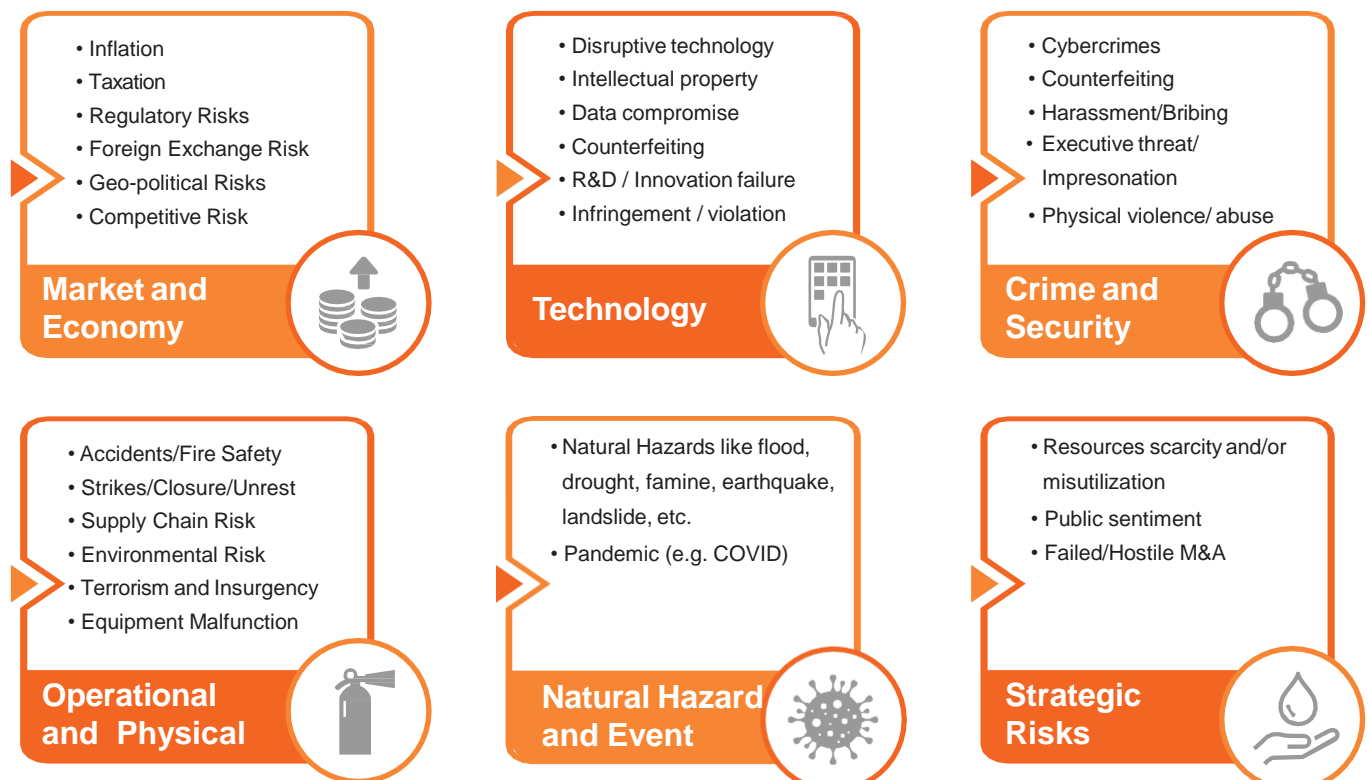
Comprehensive Sector Coverage

- Aerospace & Defense
- Agriculture & Food Processing*
- Automotive & Ancillary
- BFSI
- Biotech & Life sciences*
- Chemicals & Petrochemicals
- Education Skill Development*
- Energy
- FMCG
- Healthcare Delivery
- Infra & Realty
- IT/ITES
- Manufacturing
- Media & Gaming*
- Metals & Mining
- New Age & Startup
- Pharmaceuticals
- Telecom & Communication*
- Tourism & Hospitality
- Transportation & Logistics

* New Sectors for ICICI Lombard Corporate India Risk Index 2021

Risk Framework

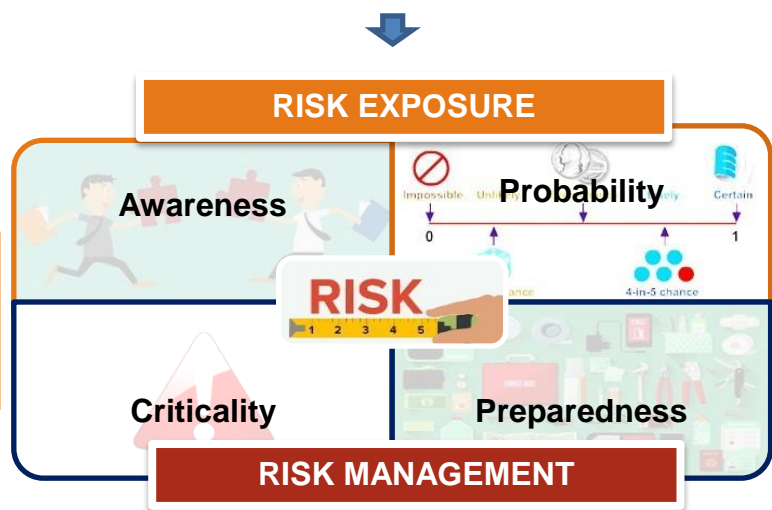
The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions:



ICICI Lombard Corporate India Risk Index – Approach



The Risk Framework comprises of 32 risk elements across 6 broad dimensions



The Corporate Risk Index for 2021 is based on published business performance reports, assessments, insights & collaborative inputs from key executives/officials of 220 companies in India across 20 key sectors.

The Risk Exposure and Risk Management is measured across 4 parameters.

$$\text{Risk Exposure (RE)} = f(\text{Awareness, Probability})$$

$$\text{Risk Management (RM)} = f(\text{Criticality, Preparedness})$$

$$\text{COMPANY RISK INDEX} = f(\text{Risk Management, Risk Exposure})$$

$$\text{Sector Risk Index} = \text{average of company risk indices}$$

$$\text{Country Risk Index} = \text{average of sector risk indices}$$

ICICI Lombard Corporate India Risk Exposure – Scale

Score	< 40	40 - 50	50 – 60	60 - 80	> 80
Category	Very Low Risk Exposure	Low Risk Exposure	Moderate Risk Exposure	High Risk Exposure	Very High Risk Exposure
	Has minimal exposure to overall risks and thus probability of a risk incident is very less.	Has low exposure to overall risks and its risk exposure is within acceptable tolerable limits.	The corporate is able to balance the impact of moderate exposure to overall risks up to a certain extent.	The risk exposure and its impact is very high in the industry in which the corporate operates.	Unable to foresee risk incidents, the probability of these incidents and quantified business loss may be extremely high.

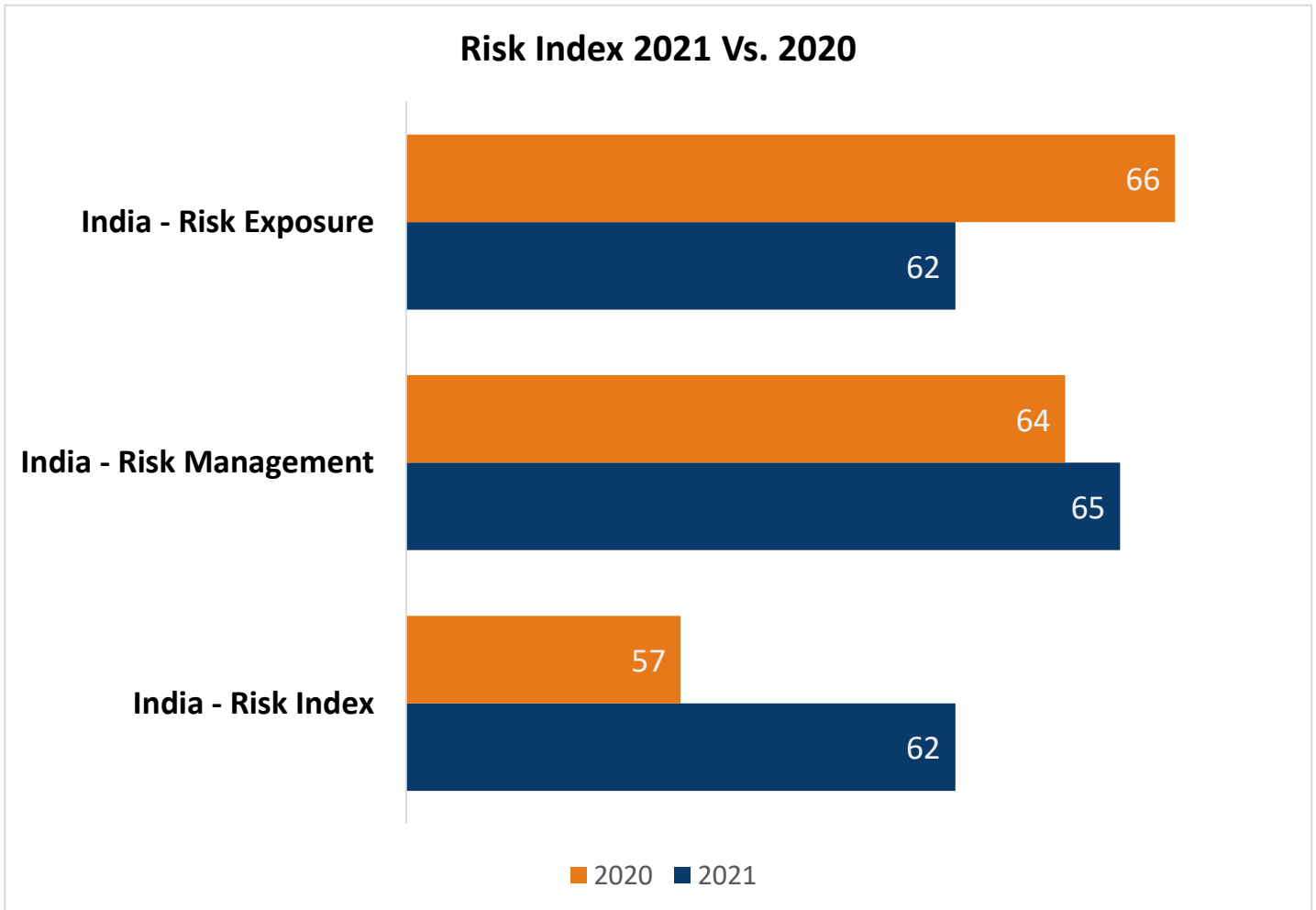
ICICI Lombard Corporate Risk Management – Scale

Score	< 40	40 - 50	50 – 70	70 - 80	> 80
Category	Poor Risk Management	Below Par Risk Management	Acceptable Risk Management	Superior Risk Management	Exemplary Risk Management
	Unable to understand the concept of Risk management and reactive to overall risks that affect it.	Use of inefficient or legacy risk management practices which is reactive to newer or unknown risks.	The corporate is prepared to handle known risks and the criticality of its risks are not severe.	Top class risk management practices with its ability to manage dynamic risks as well as unknown risks.	Over prepared in Risk management practices, proactive to emerging risks with high investment in risk mitigation practices

ICICI Lombard Corporate Risk Index – Scale

Score	< 40	40 - 55	55 – 65	65 - 75	> 75
Category	Ineffective	Sub-optimal	Optimal	Superior	Over-prepared
	The corporate has very high exposure or very poor risk management practices or both	Not all risks are handled effectively. Risk management practices are likely dated or inefficient.	Most current risks are being handled effectively. Emerging risks associated with strategic initiatives need more diligence.	Very effective and efficient risk management practices. Well positioned to handle current and future risks across dimensions.	High investment in risk mitigation practices. Likely over-investment in one or more risk dimensions. Difficult to justify ROI

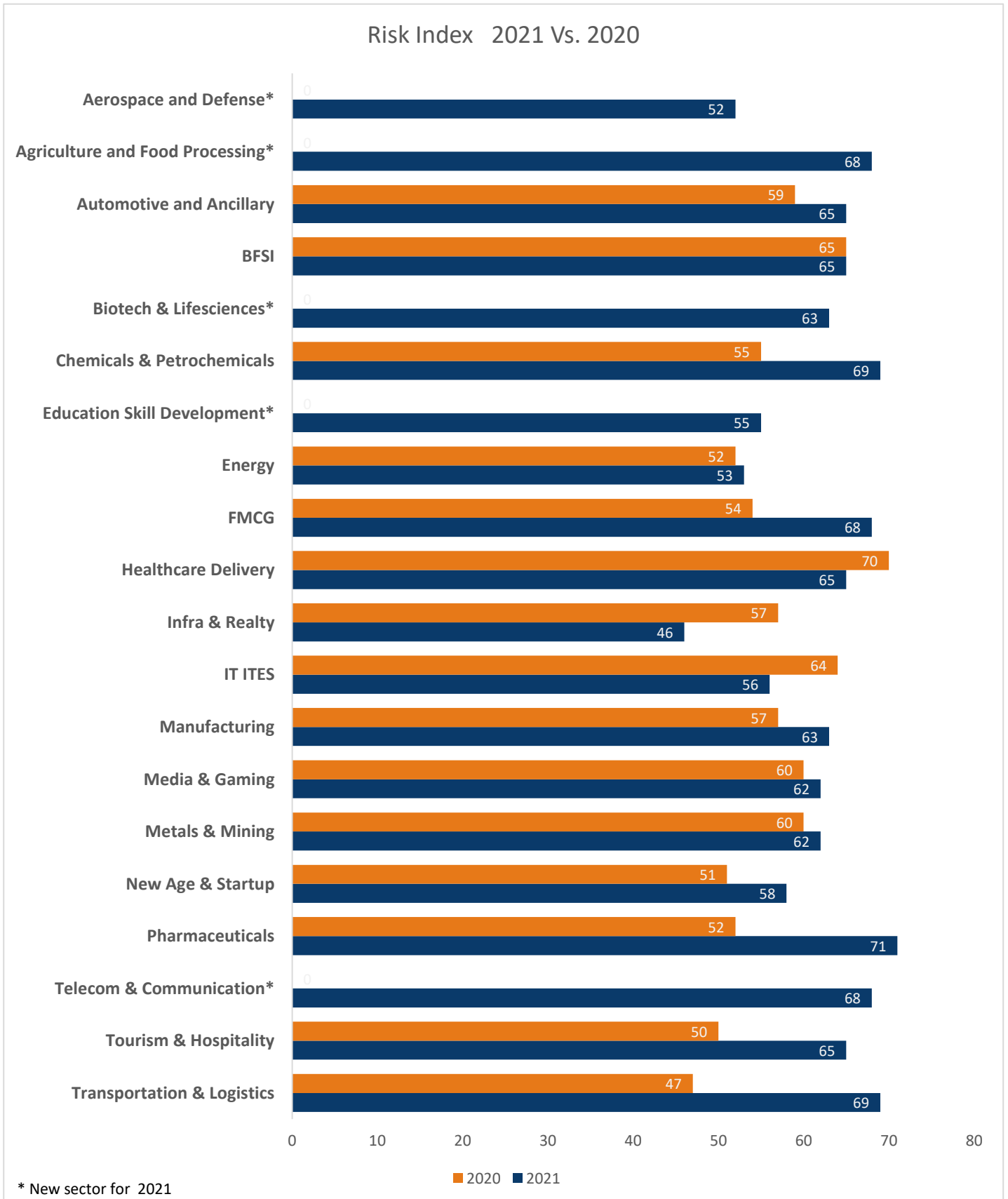
ICICI Lombard Corporate India Risk Index



India Risk Index(Optimal Risk Handling)

- As the pandemic and pandemic related constraints eased up, Sectors showed varied recovery as risk related to **Resource Scarcity, Delay in Execution of projects** due to pandemic and **Financial Risks** due to **tax relaxation** pacified
- The overall Risk Index for India improved from **57** to **62** in 2020-2021, however sectors like **Infra & Realty, Metals & Mining** and **New Age & Startup** the risk Index decreased which was primarily due to the increased **Strategic Related Risks, Crime & Security Risks, Financial Risks, Inflation** and **Technology Risks**
- Sectors like **Transportation & Logistics, BFSI, Chemicals & Petrochemicals** and **Tourism & Hospitality** showcased significant improvement in the Risk Index, because the risk exposure lessened across all the risk dimensions.
- It was also observed that the Risk Exposure came down for the **Large Businesses(67 vs. 64)**, **Medium Businesses(65 vs. 61)** and **Small businesses (64 vs. 63)** for 2020 vs. 2021.
- With the reduced impact of the pandemic and innovative initiatives by business leaders over the supply-chain, sectors like **Manufacturing, Automotive, FMCG** and **Chemicals & Petrochemicals** improved on the **Risk Index**.

ICICI Lombard Corporate India Risk Index – Sector Comparison



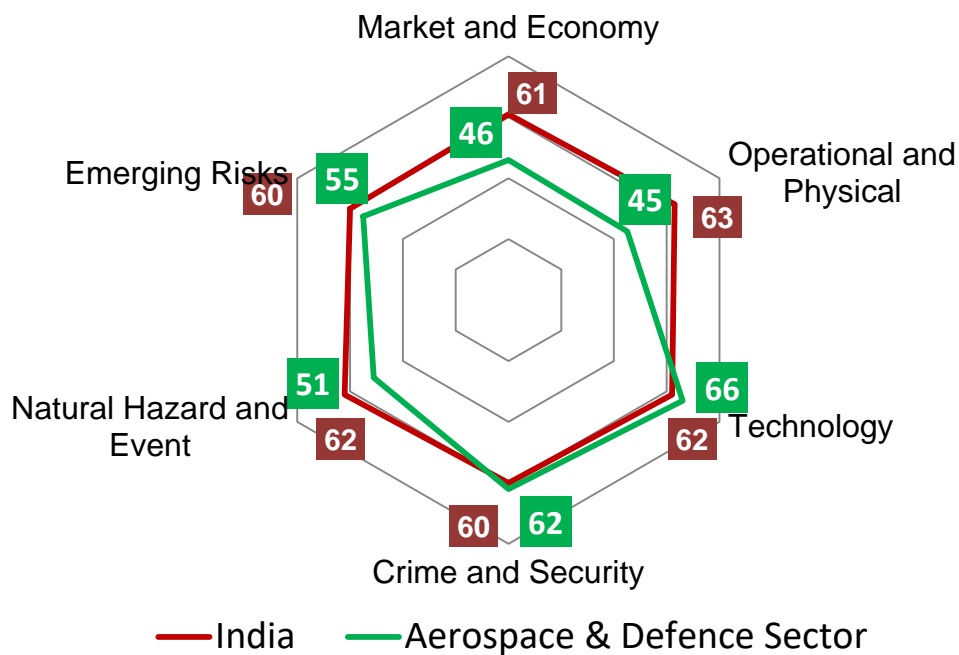
Observations:

Automotive & Ancillary, FMCG, Manufacturing and Pharmaceuticals sector have been managing their Risk in a defined, methodical and strategic manner, with continuous monitoring and containment of Risks. Transportation & Logistics, Metals & Mining, Healthcare Delivery and Biotech & Life Sciences sectors need to improve their Risk management capabilities in order to have an overall acceptable Risk measure.

India Risk Profile Vs. Sector Risk Profile

Risk Profile	2022 Risk Exposure	2022 Risk Management	2022 Risk Index	2021 Risk Index
India	62	65	62	57
Aerospace & Defence	64	64	52	NA

India Risk Index Vs. Aerospace & Defence Sector Risk Index



The Indian Aerospace and Defence sector's Risk Exposure score is 64 indicating an high risk exposure level mainly due to its exposure from Market & Economic conditions, Operational Risks and risk associated with Cyber Security.

The main elements attributing to the Risk Exposure score of most companies are majorly due to internal factors and the external factors associated with the industry.

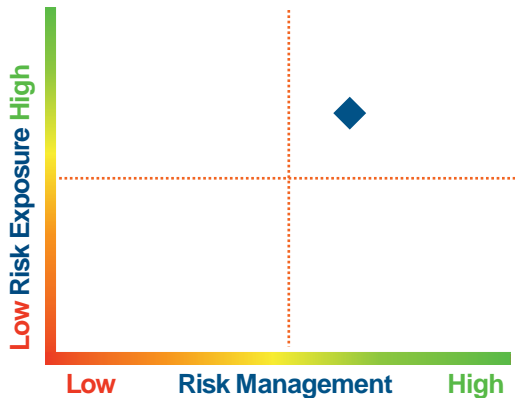
- Supply Chain and operational disruption caused by the pandemic has resulted in heavy loss in production and short term cash flow crunch.
- Dependence on a very limited client base and high dependency on government contracts exposes the companies to high level of risk exposure.

The overall Risk Management score is 64, indicating an acceptable Risk Management in this sector.

Companies still have to improve their risk management practices to mitigate risks associated with the factors such as disruption to the operations caused by Natural Hazards or any undesirable events, Risks posed by the evolving threats in the cyber security domain, Strategic Risk pertaining due to the current geo-political scenario and Lack of relevant talent pool for building a sustainable ecosystem.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 68
Risk Management Score: 67



Geo-Political Tensions accelerating the sectors growth

- India's Defence capital outlay for 2021-22 has increased by 18.75% to support Defence modernization efforts due to rising national security concerns.
- Regulatory framework regulating drones has been refined by the government to promote the technology.
- High Inflation rate increasing the cost of procuring key materials and components.

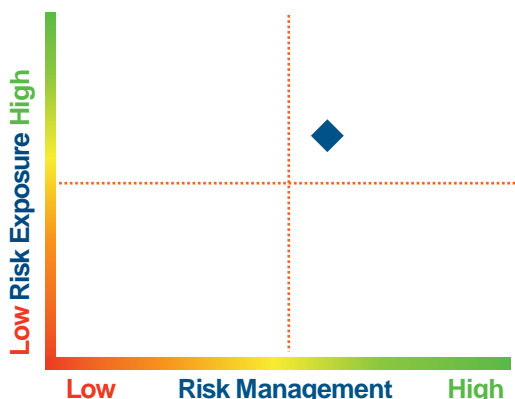


Recommendation:

India needs to focus on developing robust policy frameworks to promote domestic manufacturing and reduce external dependency.

Risk Dimension Analysis: Technology

Risk Exposure Score: 59
Risk Management Score: 63



Technology Investments

- Existing R&D ecosystem is not up to the mark and needs a lot of changes especially to be a dominative player in the industry.
- The FDI limit through the automatic route has been raised to 74% promoting attractiveness for foreign investors.
- Several partnership deals have been made with foreign players to produce locally and transfer technology.



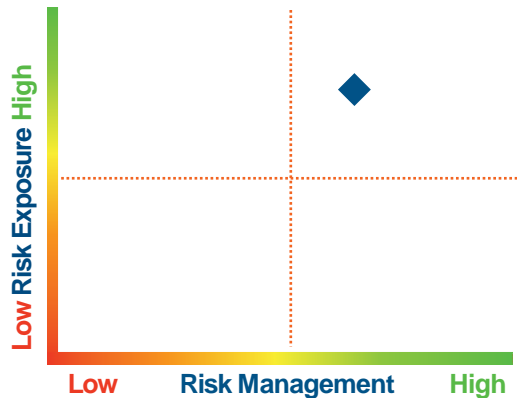
Recommendation:

It is important for the government to focus on developing an R&D ecosystem around Artificial Intelligence, Material Science and Electronics as its very crucial for developing a sustainable Aerospace and Defence industry.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 70

Risk Management Score: 68



Exposure to supply chain risk

- Covid-19 had caused supply chain issues as most of the components were imported from other countries.
- Price Volatility for raw material is very high which is very risky when combined with the high dependencies on other countries.
- Vendors prefer import of raw material rather than local sourcing due to convenient, lack of local material validation and attractive pricing for importing.



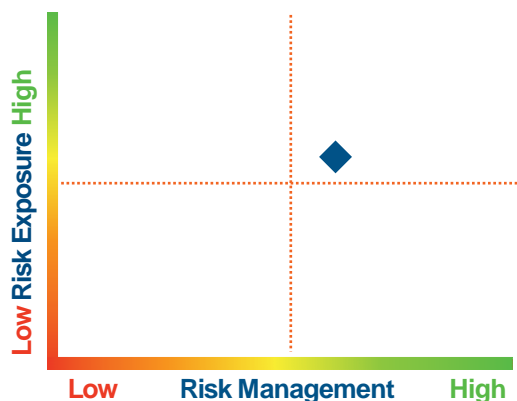
Recommendation:

India should promote local raw material production and validation by establishing COE to bolster a sustainable local supply chain.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 58

Risk Management Score: 61



Cybercrime is key concerns for the sector

- Its crucial to establish proven firewall mechanisms to prevent undesirable events as the whole sector is revolving over increased dependence on computing systems.
- Privacy concern over the operations of drone in residential area is very high and this could have a huge impact in the Indian market in terms of regulatory policy .

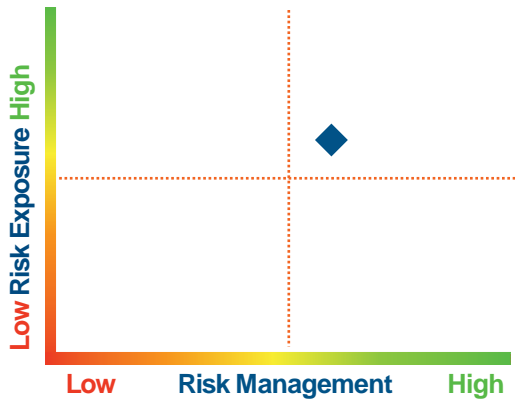


Recommendation:

Its important to develop strong data protection frameworks to establish trust with the client base as the cost of a data breach could be very high.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 58
Risk Management Score: 58



Natural hazards pose limited risks to the Aerospace and Defence industry

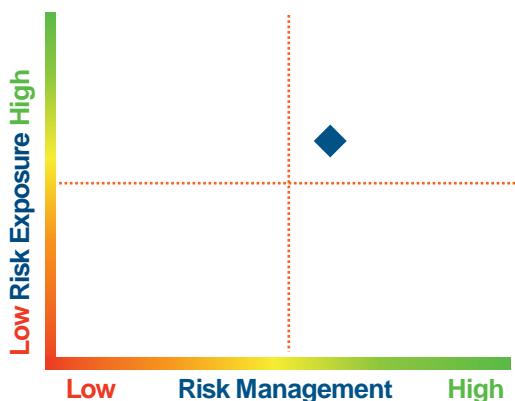
- Natural hazards could disrupt the supply chain of the industry leading to huge financial loss for the firms.
- Its important to improve the robustness of the supply chain to be immune to shocks caused by undesirable events.

Recommendation:

The company could mandate all of its units to undertake rigorous stress testing of probability of Natural hazards, Physical hazards, Bio-hazards, Electrical hazards and improve the resilience of the supply chain.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 58
Risk Management Score: 59



Operational efficiency has to be improve

- Resource misutilization and average quality control mechanisms could hike up the cost of the project.
- The capital expenditure involved in projects are very high hence any delay could pose significant financial risks.

Recommendation:

It is vital for companies to ensure the projects are completed in stipulated time and within stipulated costs to avoid risks pertaining to cost overruns and higher interest charges on project funding.



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