



Sector: Infrastructure and Realty



ICICI Lombard Corporate India Risk Index - Introduction

- ICICI Lombard Corporate India Risk Index is the first ever unified, credible, standardised corporate Risk Index that spans over the country level, the industry level and the company level
- This index maps the risk to a company on the basis of awareness, preparedness, probability and criticality across 15 sectors in India
- It will help the companies understand the level of risk that their business is facing and assist them in developing a successful risk aversion plan

ICICI Lombard Corporate India Risk Index - Sector List

- | | | |
|-----------------------------|---------------------------|------------------------------|
| • IT/ITeS | • Automotive & ancillary | • Metals & Mining |
| • BFSI | • Hospitality/Tourism | • Transportation & Logistics |
| • Healthcare | • Manufacturing | • Media & Telecommunications |
| • Pharmaceuticals & Biotech | • FMCG/Retail | • Chemicals & Petrochemicals |
| • Energy | • Infrastructure & Realty | • E-commerce/New-age |



ICICI Lombard Corporate India Risk Index - Risk Framework

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

- Inflation
- Taxation
- Regulatory Risks
- Foreign Exchange Risk
- Geo-political Risks
- Competitive Risk

Market and Economy

- Disruptive technology
- Intellectual property
- Data compromise
- Counterfeiting
- R&D / Innovation failure
- Infringement / violation

Technology

- Cybercrimes
- Counterfeiting
- Harassment/Bribing
- Executive threat/ Impersonation
- Physical violence/ abuse

Crime and Security

- Accidents/Fire Safety
- Strikes/Closure/Unrest
- Supply Chain Risk
- Environmental Risk
- Terrorism and Insurgency
- Equipment Malfunction

Operational and Physical

- Natural Hazards like flood, drought, famine, earthquake, landslide, etc.
- Pandemic (e.g. COVID)

Natural Hazard and Event

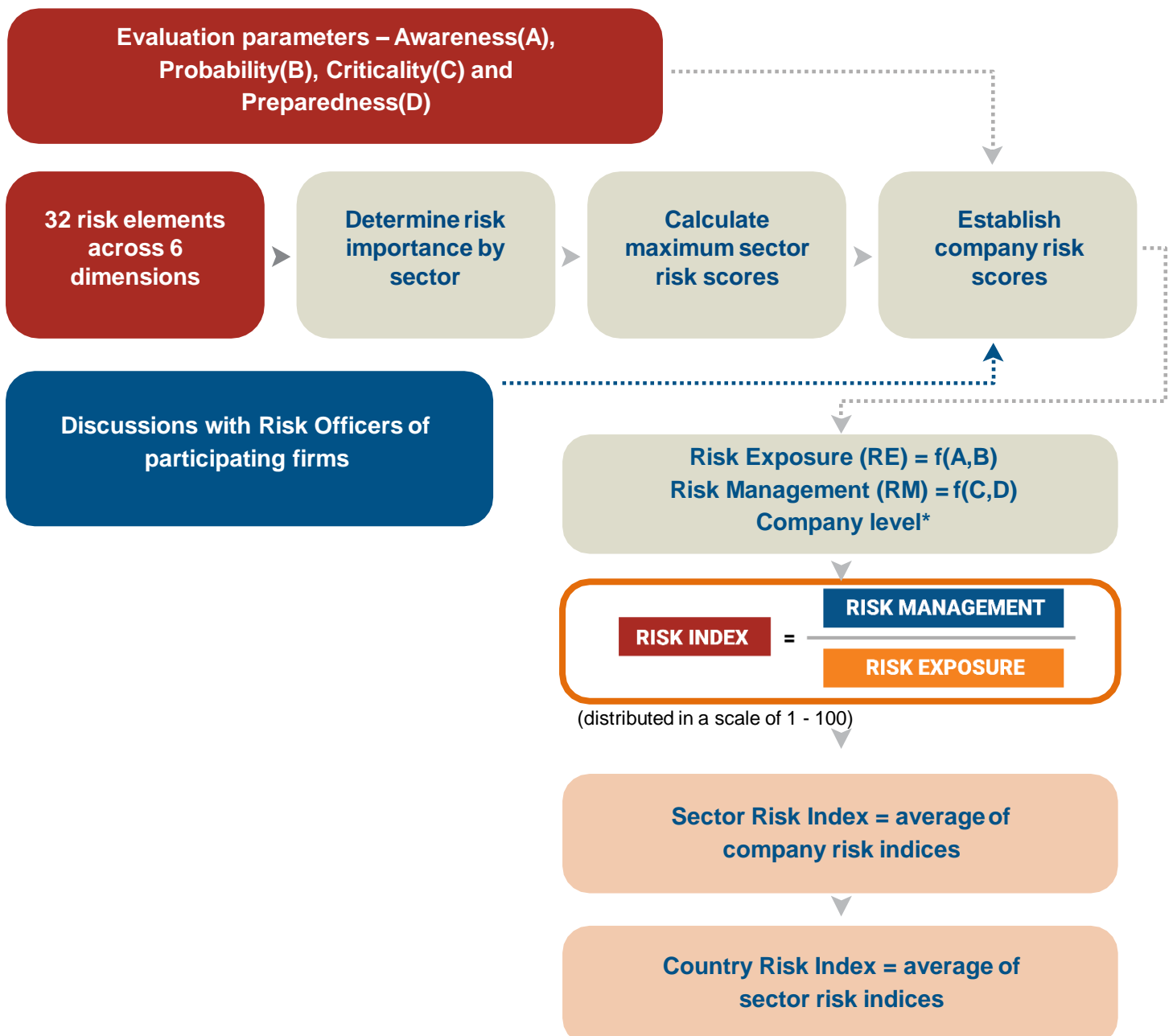
- Resources scarcity and/or misutilization
- Public sentiment
- Failed/Hostile M&A

Emerging

ICICI Lombard Corporate India Risk Index - Methodology

- **ICICI Lombard Corporate Risk Index** is based on the principles of Lean and Six Sigma that qualify business processes by measuring Effectiveness and Efficiency
- **Corporate Risk Index score** measures the risk mitigation practices undertaken by a company relative to its Risk Exposure
- **The Corporate Risk Index for 2020** is based on published business performance reports, assessments, and insightful discussions with key executives of **150 companies in India across the key 15 sectors**

ICICI Lombard Corporate India Risk Index - Approach



ICICI Lombard Corporate Risk Index – Formulation

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

Measured across 4 parameters spanning exposure and management



$$\text{RISK INDEX} = \frac{\text{RISK MANAGEMENT}}{\text{RISK EXPOSURE}}$$

ICICI Lombard Corporate Risk Index – Scale

Score	< 30	30 - 50	50 – 60	60 - 80	> 80
	Ineffective	Sub-optimal	Optimal	Superior	Over-prepared
Category	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

Corporate India Risk Profile

Risk Exposure Score: 66

Risk Management Score: 64

**Risk Index
57**

Corporate India's Risk Exposure and Risk Management scores are 66 and 64 respectively; this indicates the country's marginally inferior risk management abilities and mitigation strategies for risk aversion.

The Corporate India Risk Index for Market & Economic Risk is low owing to a high exposure to geopolitical tensions and competition faced from MNCs. Technological Risk is also a matter of concern as India predominantly uses outdated technologies which are less effective and reduce productivity and thereby profitability. Another area of concern is Crime and Security Risk due to the existence of corruption in the system along with poor government regulations.

Various sectors namely Automotive, Manufacturing, Metals & Mining, Healthcare, IT-ITES, BFSI, and Media & Telecommunication have risk indices above the country's risk index.

Sectors with risk indices lower than India's risk index are Chemicals, Hospitality, Pharmaceuticals, New Age, Energy, Realty & Infra., FMCG, and Logistics.

Corporate India Risk Index at Glance

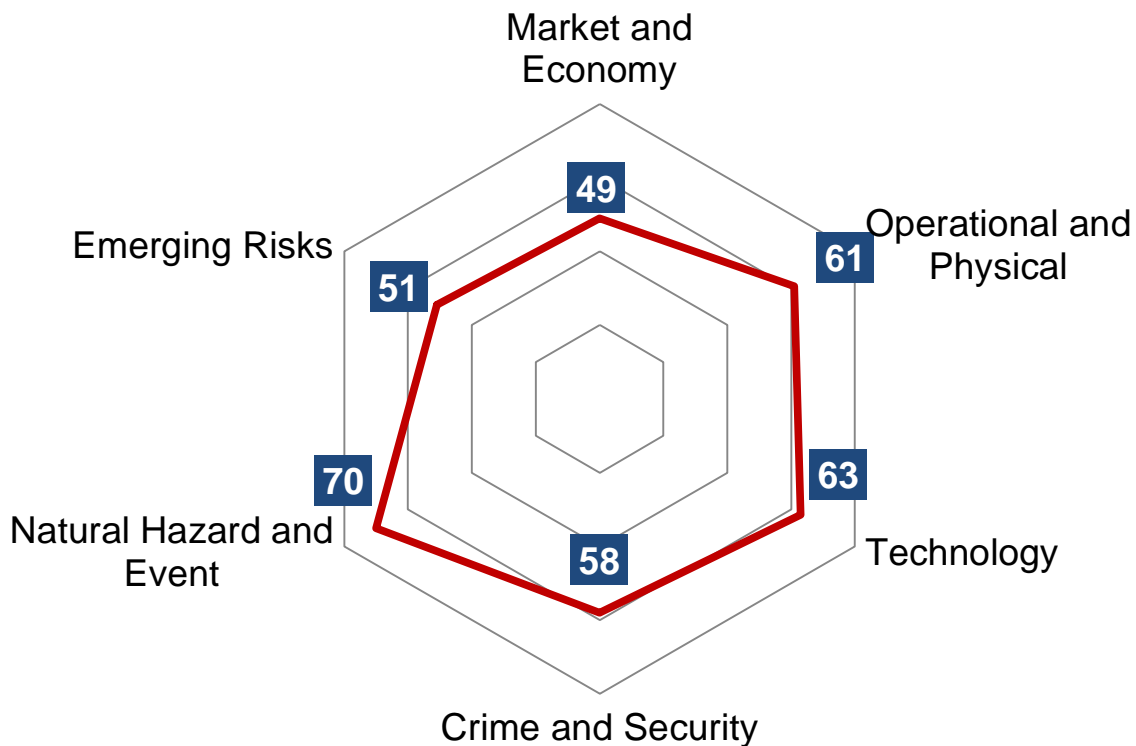
Sectors	Risk Exposure	Risk Management	Risk Index
Automotive	72	72	59
Chemicals	68	66	55
Pharma	69	65	52
New-Age	65	61	51
Energy	69	66	52
Manufacturing	65	64	57
Metals and Mining	54	54	60
Realty and Infra	63	62	57
Hospitality	68	64	50
FMCG	72	69	54
Logistics	71	65	47
Healthcare	55	59	70
IT-ITES	57	58	64
BFSI	73	76	65
Media-Telecommunication	64	64	60
Overall Score	66	64	57

Infrastructure and Realty Sector Risk Profile

Risk Exposure Score: 63
Risk Management Score: 62

Risk Index
57

Sector Risk Index - Six Risk Dimensions

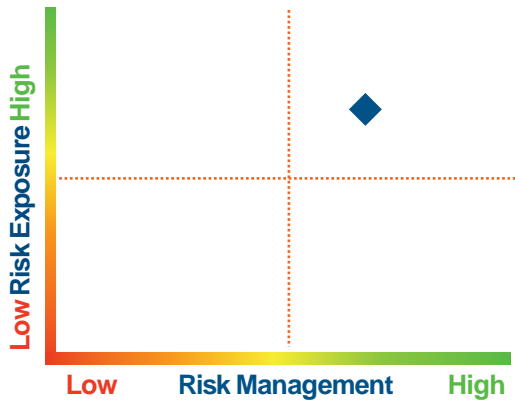


The Indian Infrastructure & Realty sector’s Risk Exposure score is 63 mainly due to its high exposure to Operational risk and Market & Economic conditions. While the Risk Exposure of most companies is majorly due to cyclical demand for real estate projects, financing constraints and lack of accurate data also affect performance.

The overall Risk Management score is 61 indicating the need for companies in the sector to improve their practices especially in the field of identifying and incorporating new technologies to streamline operational efficiency and deliver high-quality time-bound projects.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 69.5
Risk Management Score: 64.8



Geographical diversification of portfolio and brand name the key success factors

- Companies having projects across a mix of different verticals of real estate like residential, township and commercial developments seem to do well of in mitigating risks better than other counterparts
- Real estate and infrastructure projects had been hardly hit by the pandemic and exposed companies to problems in cash collections and refinancing problems
- Most of the companies in the sector are concentrated towards particular geographical area and slowdowns in environment could be problematic

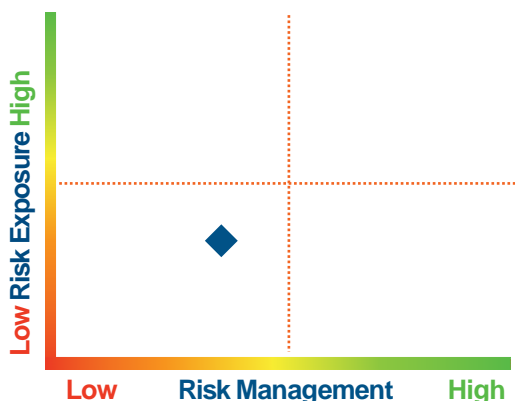


Recommendation:

Diversification across property types, subtypes and locations to dampen the cyclicity associated with concentration in single property type/location.

Risk Dimension Analysis: Technology

Risk Exposure Score: 37.4
Risk Management Score: 38.0



Technology could be the key catalyst for future growth

- Online strategy for sales was intensified during the lockdowns by many of the big players in the sector. This helped companies in getting some leads, but not all companies were able to pull this off well
- Use of green technology in project development has been a feature
- Adoption of digital technologies to streamline operations and improve productivity and efficiency is picking pace

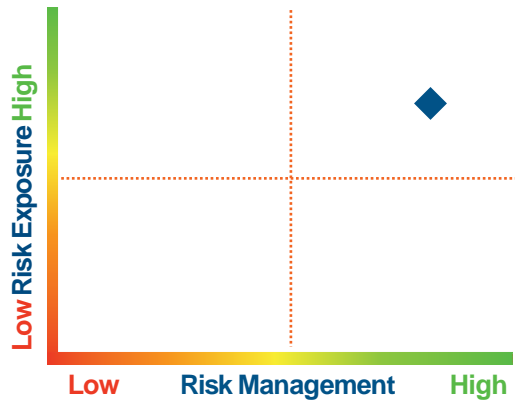


Recommendation:

Companies could look at investing more in research and development activities in emerging technologies fast-track the project development lifecycle and build towards a sustainable environment

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 70.2
Risk Management Score: 78.0



Business continuity planning key

- Business continuity planning and the design of processes allowing for remote execution could become the norm
- Many companies in the sector derive a significant proportion of their revenues from a limited number of customers
- Most of these contracts are of short term in nature and with heavy competition in the industry, earnings levels may fluctuate from period to period

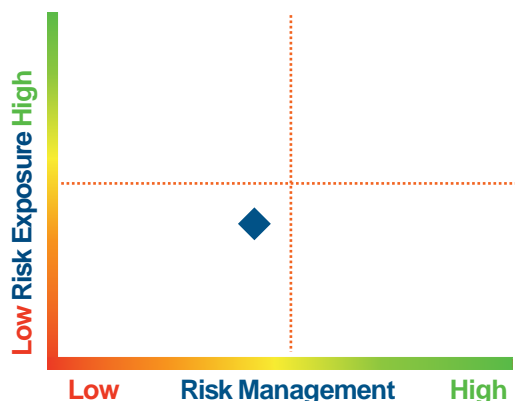


Recommendation:

Ensure that a strategic procurement and early commitment of key subcontractors is in place. Risk-based diligence vetting, monitoring and auditing of all contractual counterparties must be done periodically.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 41.8
Risk Management Score: 41.2



Corruption & frauds a major deterrent in the sector

- Despite the strict checks and balances, corruption and frauds remain a major menace in the industry
- Buyers and vendors must be thoroughly vetted to prevent illegal activities
- Regulations such as RERA and strengthening of policies at state level expected to increase compliance costs
- Awareness about sexual harassment policies has improved and women-friendly policies have been initiated

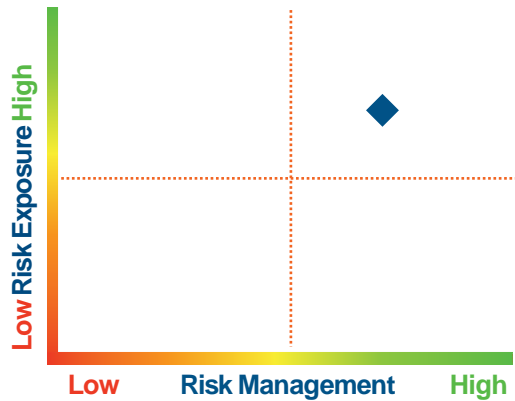


Recommendation:

Companies should focus on working in close partnerships with governments and regulatory authorities to understand the implication of policies and improve their processes and internal controls to plug gaps.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 59.0
Risk Management Score: 62.3



Operations susceptible to natural hazards

- There is always an uncertainty regarding natural hazards and pandemics and will be unprecedented like it was this year
- Real estate and infrastructure sector faces existential risk from natural hazards
- Companies have been increasingly investing in disaster resistant technologies to mitigate against the threats from such events

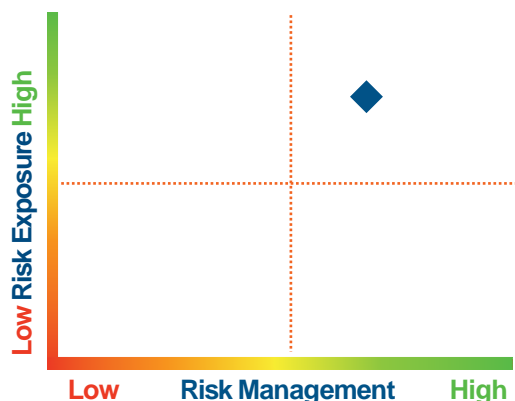


Recommendation:

To mitigate the impact of pandemics such as COVID, insurance policy must be updated to assess the likelihood of other rare disasters. Mapping of areas prone to disasters must be co-ordinated with state/central level disaster management teams to implement responses in the event of natural disasters

Risk Dimension Analysis: Emerging Risk

Risk Exposure Score: 64.2
Risk Management Score: 60.7



Third party service providers and vendor failures key risk factor

- Delays in approval/permits cause project overruns, resulting in financial losses
- Dependence on external suppliers for key materials has been a deterrent for some of the companies in the sector
- Infrastructure companies have been facing the cash crunches due to delayed collection of receivables from governments, thereby delaying the implementation and increasing the chances of litigation



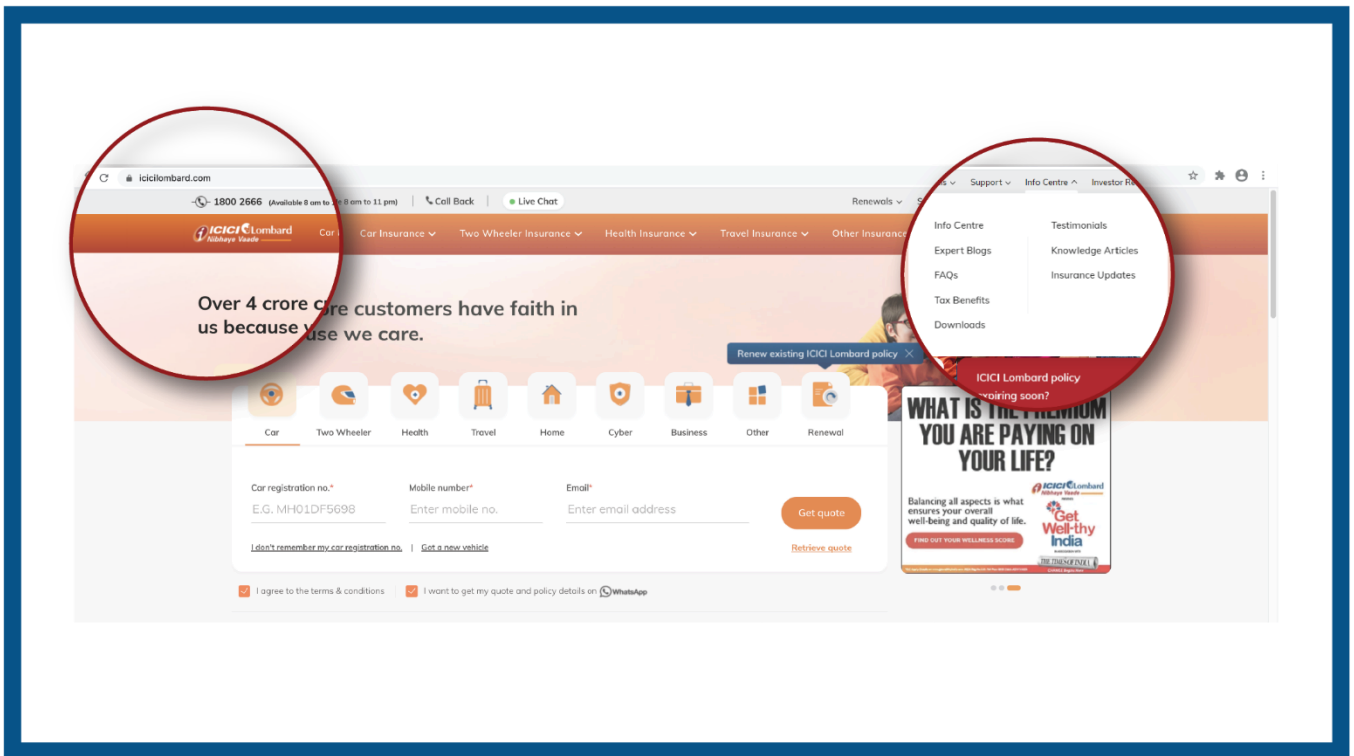
Recommendation:

Consolidation in the real estate and infrastructure could be the way forward with massive spending from government to boost real estate and infrastructure. Companies could look at outsourcing/ backward integration of some of their weak functions to maintain competitive advantage.



Now accessible at

Dedicated Micro-site



Please send a mail to riskindex@icicilombard.com to know more about ICICI Lombard Corporate India Risk Index



 **ICICI Lombard**
Nibhaye Vaade

 **CORPORATE INDIA
RISK INDEX**

Intelligence partner

 FROST & SULLIVAN