CORPORATE INDIA RISK INDEX 2021

Intelligence partner FROST & SULLIVAN

Sector: Infra & Realty

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:

Market and Economy

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

Technology

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

Crime and Security

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

Operational and Physical

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

Natural Hazard and Event

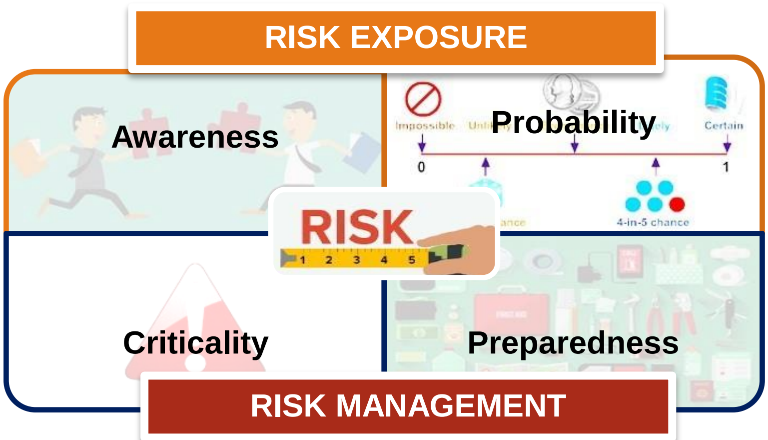
- Natural Hazards like flood, drought, famine, earthquake, landslide, etc.
- Pandemic (e.g. COVID)

Strategic Risks

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

ICICI Lombard Corporate India Risk Index – Approach

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



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

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.

Risk Exposure (RE) = *f*(Awareness, Probability)

Risk Management (RM) = *f*(Criticality, Preparedness)

COMPANY RISK INDEX = *f*(Risk Management, Risk Exposure)

Sector Risk Index = average of company risk indices

Country Risk Index = 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.

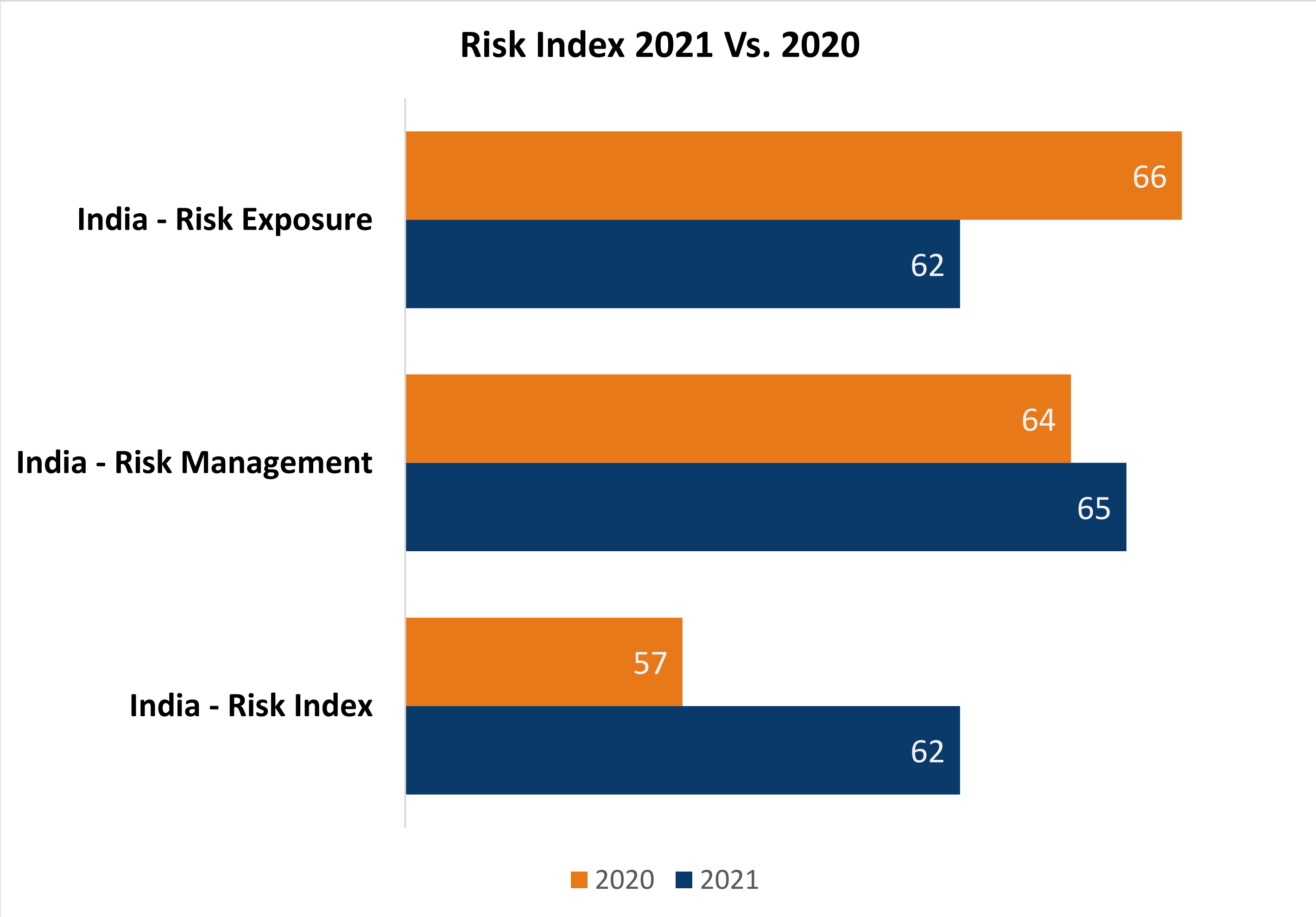
ICICI Lombard Corporate Risk Management – Scale

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

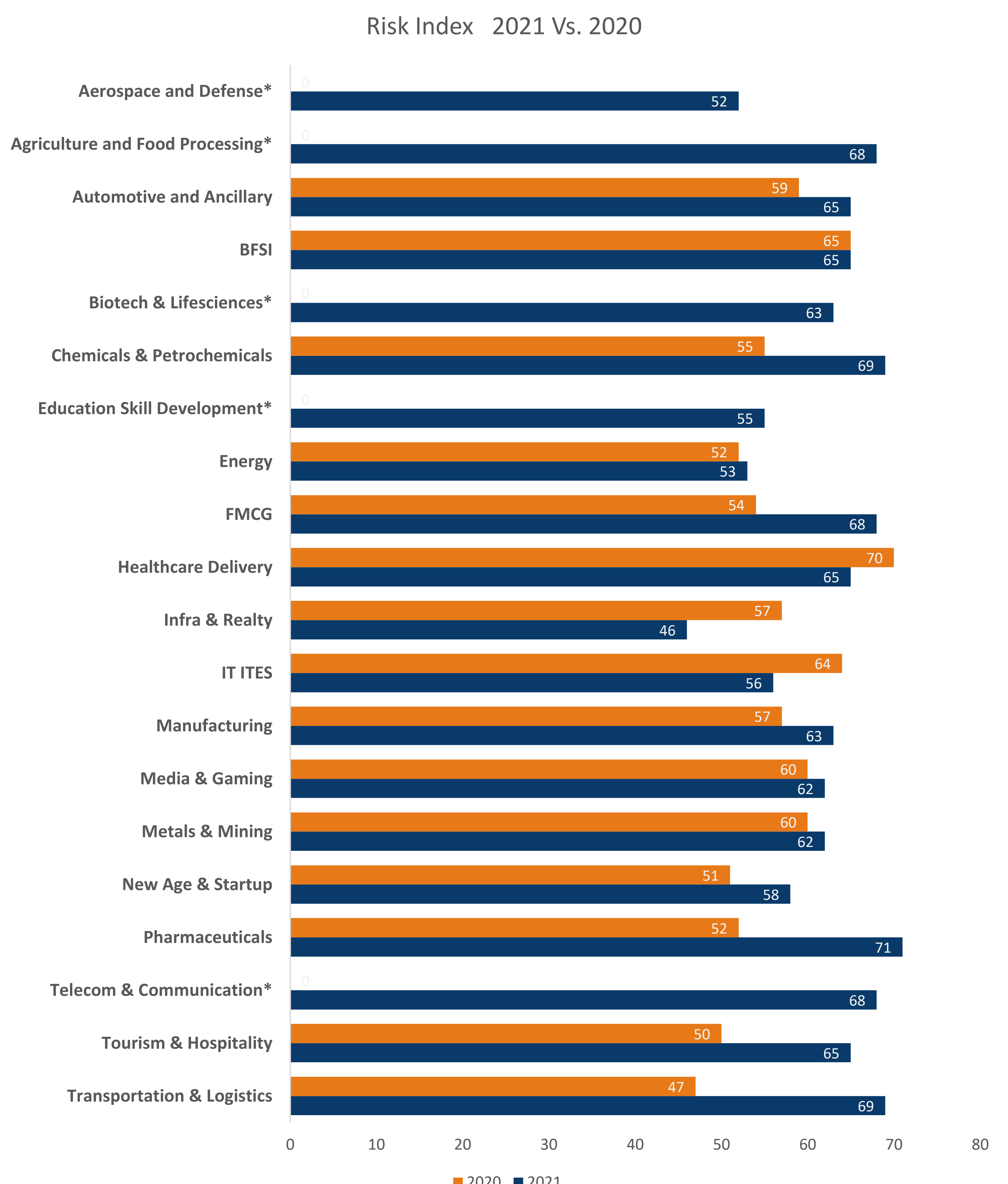
ICICI Lombard Corporate India Risk Index



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



* New sector for 2021

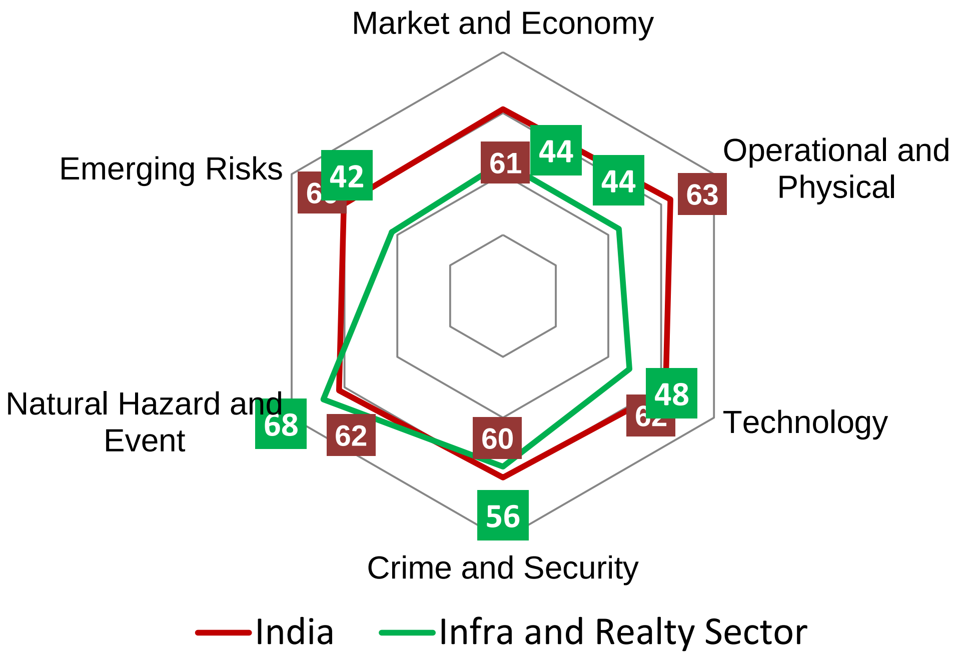
Observations:

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**
Infra and Realty	66	64	**46**	**57**

India Risk Index Vs. Infra and Realty Sector Risk Index



The Infra and Realty sector of India has Risk Exposure is 66, mainly due to the following:-

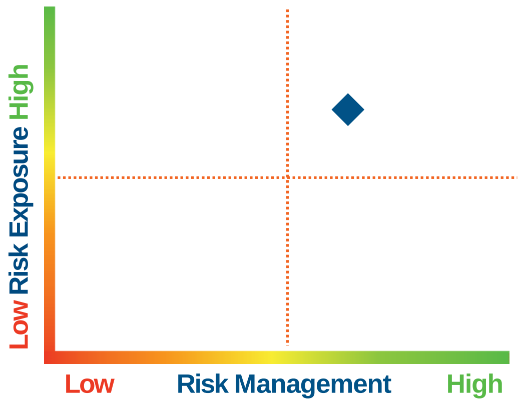
- High exposure to market & economy, operational and strategic risks.
- Entire phase in construction risk assessment starting from Planning, Construction, to Operation and Maintenance takes a lot of time and resources. Hence, they are susceptible to risks due to large construction activities, complicated processes, seasonal changes, financial investments, demolition of existing structures, procurement of utilities, land acquisition, etc.
- Identifying potential risk parameters and their influence can optimize the risk in project constructions & have a significant impact on the business performance.

So, the overall Risk Management score of 64,

- indicates the need to improve the sector's practices, particularly in the area of identifying and incorporating new technologies in order to streamline operational efficiency and deliver high-quality projects on time.
- Contractual Agreement defining all the obligations and requirements in the project, Feasibility studies by independent Engineers, Risks solutions from consultants, etc. for risk assessments are some of industrially accepted strategies & tools to mitigate risks.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 69
Risk Management Score: 66



Increased impetus to develop infrastructure & Govt. policies help the sector to bounce back

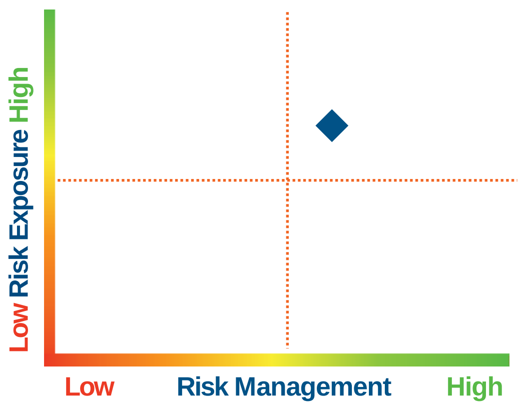
- Demand for residential properties has surged due to increased urbanization and rising household income.
- The SEBI lowered the minimum application value for Real Estate Investment Trusts from Rs. 50,000 to Rs. 10,000-15,000 to make the market more accessible to small and retail investors.
- Large-scale infrastructure improvements, low tax rates, latest trends, and government policy pushes all contributed to the country's next wave of real estate growth.

Recommendation:

National Infrastructure Pipeline – 2020-25, Union Budget – 2021-22 enhancing capex allocations, National Monetisation Pipeline – 2025, Atmanirbhar Bharat Abhiyaan Mission, provision of productivity linked incentives (PLI), and the flagship 100-trillion Gati Shakti Master plan can all be leveraged to create massive long-term growth opportunities.

Risk Dimension Analysis: Technology

Risk Exposure Score: 38
Risk Management Score: 37



Advanced tech is changing Indian real estate & Infrastructure sector amidst the pandemic

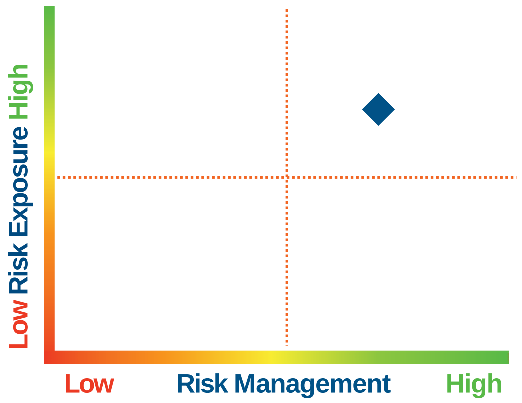
- Lack of business travel, conferencing, and an increasing reliance on digital interaction and video conferencing is causing real estate revenues to fall dramatically.
- With the rise of eCommerce, online shopping has the potential to put physical stores and malls out of business.
- Cloud computing is also receiving a lot of attention in order to improve the user experience of features like payment gateways, chatbots, and customized search..

Recommendation:

Companies can use cutting-edge digital transformation tools and advanced enterprise technologies such as the internet of things (IoT), ERP, robotic process automation (RPA), analytics for decision making, mobility solutions, and data science to reduce tenant churn, enable commercial lease negotiations, prompt asset valuation, and increase visibility and productivity.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 75
Risk Management Score: 72



Mitigating operational risks in the sector

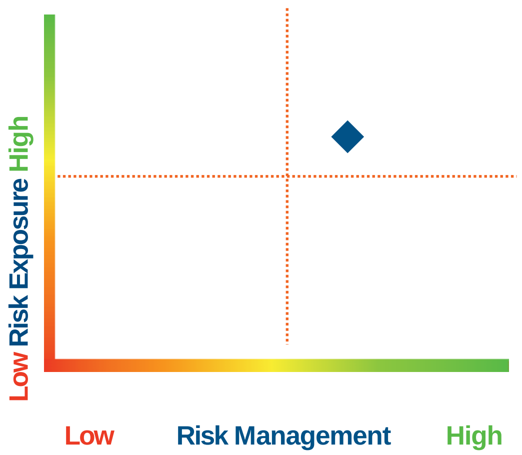
- On the back of propelling business environment, the real estate sector expanded its horizons from metropolises to explore the underlying opportunities in non-metros and emerging locations.
- The government's policy to increase private sector participation in the road sector has proven to be a boon for the infrastructure industry, as many private players are entering the industry via the public-private partnership (PPP) model.
- Many of the new infrastructure projects will include a green component in order to help the world combat climate change risks.

Recommendation:

Companies can provide flexible space solutions to meet less capital intensive & short-term space requirements, support a more mobile workforce, and expand into new markets, specially. Furthermore, companies can follow a plug-and-play business model to avoid infrastructure projects becoming stalled and later becoming non-performing assets.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 41
Risk Management Score: 42



India's critical infrastructure like gas and water vulnerable to cyber attacks

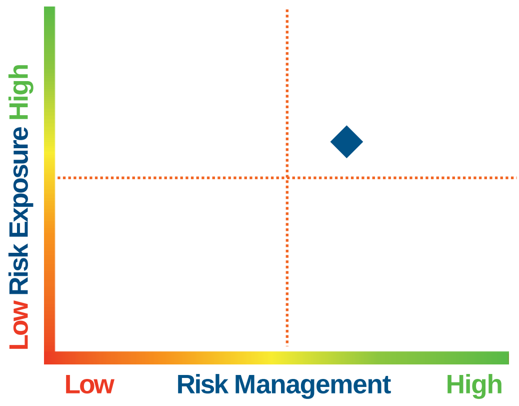
- With 13 critical installations using default credentials, India topped the list of 20 countries, making them extremely vulnerable.
- The most visible objective for cyberattacks on Infra and real estate companies has been the theft of PII and other sensitive information, as well as IP, such as strategic plans, engineering drawings, and tenant information.
- Hackers can attempt to take advantage of the interconnectedness of real estate owners' systems across the various property types and tenant IT systems through cyber intrusion.

Recommendation:

Companies must improve security by implementing a "defense-in-depth" strategy, which entails a series of mutually reinforcing security layers. They can also increase vigilance through effective early detection and signaling systems and try to improve cyber resilience through simulated testing and crisis management processes

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 65
Risk Management Score: 70



COVID-19 pandemic brought about unprecedented challenges for the sector

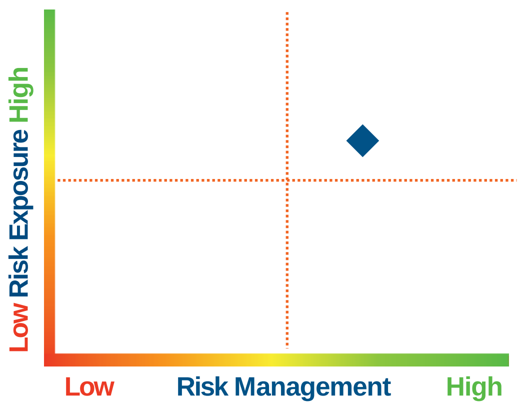
- Hybrid work models with an increased focus on sustainability, wellness, and user experience will define the post-COVID 'new normal' for offices.
- Vaccination drives boosted the construction activities and also addressed the issue of reverse migration as after vaccination, the labourers felt safe.
- Several developers took utmost care of their labourers with paramount responsibility by providing shelter and food, sponsoring their Antigen and RTPCR tests, along with other medication and healthcare costs.

Recommendation:

To mitigate the impact of pandemics such as COVID, insurance policy must be updated to assess the likelihood of other rare disasters. Firms should leverage pandemic-triggered consumer behavior changes to bounce back. Further, mapping of areas prone to disasters must be coordinated with state/central level disaster management teams to prepare a medical infrastructure proactively.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 69
Risk Management Score: 66



On the back of improved sentiments and consumer confidence, possibility of investors looking out for opportunistic deals.

- The pandemic-infused trends coupled with other favorable factors harnessed positive sentiments in tier 2 & 3 cities markets, besides, the state capital and metro cities.
- The emotional sentiment of homebuyers of owning a home in their hometown & intra-city movement of families into organized group housing complexes were big drivers of home sales in those cities.
- The skyrocketing number of well-known brands and conscious consumers are catapulting the demand for upscale shopping complexes & malls, entertainment hubs, and high-streets across the country.

Recommendation:

Companies can focus on omni-channel retailing which can help in optimizing inventory holding costs, operating costs and real estate costs, while increasing brand prominence and consumer base across the country.

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