ICICI Lombard
Nibhaye Vaade

CORPORATE INDIA RISK INDEX

2022

Intelligence partner FROST & SULLIVAN

SECTOR REPORT 2022

NEW AGE


RISK

Table of Contents

Preface....................2

Executive Summary....................3

1. Introduction....................4
2. Bottom-Up Risk Assessment Approach....................9
3. Defining the Risk Scale....................10
4. India - Emerging Superpower with Optimized Corporate Risk Handling....................12
5. India Showcasing an Optimized Risk Handling....................14
6. New Age Sector Insights 2022....................16
7. New Age Sector Risk Index 2022 Vs 2021....................18
8. Key Highlights....................19
9. ICICI LOMBARD: Key Solution Offerings....................28

Bibliography....................31

Table of Figures

Figure 1: India's Growth of manufacturing exports. (Source: Redseer)....................12

Figure 2: Corporate India Risk Index 2022....................14

Figure 3: Corporate India Risk Index 2022 Sector Score....................15

Figure 4: Detailed Comparative Analysis 2021 Vs. 2022....................18

Preface

Corporate India Risk Index is primarily an academic exercise to understand the level of risk that companies are facing and also assist in developing a successful risk aversion plan, CIRI is a first-of-its-kind risk measurement tool to gauge the level of a company's risk exposure and preparedness.

This Corporate risk comprises of various aspects of the business–spanning customer, competition, regulatory environment, business operations, technology finances, environmental factors etc. The impact of unprecedented events is significantly higher now.

This Index is a comprehensive framework that draws upon global risk management best practices and comprises of 32 risk elements across 6 broad dimensions. The Risk Index is based on the principles of Lean and Six Sigma that qualify business processes by measuring effectiveness and efficiency.

ICICI Lombard's Corporate India Risk Index provides a crucial tool for assessing and addressing risks, fostering resilience and adaptability in the ever-evolving global landscape. In the current climate of increasing macroeconomic uncertainties, it is essential for corporates to prioritize robust risk management. We believe that a proactive approach to risk management not only fortifies individual businesses but also contributes significantly to India's overall economic growth and stability.

Executive Summary

The Indian startup sector and new-age companies had a downtrend in 2022 as compared to 2021. Employee layoffs, investors delaying capital infusion decisions, lower spending by startups in marketing, and some startups getting valued lower than their previous funding rounds were some of the hindrances in the growth trajectory of such companies. Businesses faced inflationary pressure in the last few quarters with soaring food, energy and commodity costs. Geopolitical factors such as Russia’s war on Ukraine have created instability and uncertainty that are impacting large parts of the world. These prevailing macroeconomic and geopolitical conditions have caused a market slowdown and economic volatility. Recessionary trends have been forecasted for 2023, further dwindling investors' interest in the new companies. The cost of capital has been rising taking into account the various risk factors, leading to a funding slowdown. Despite the disruptions caused, the sector holds enormous potential for showing resilience towards the risks due to high government support, taxation benefits, and the favourable landscape for technological development.

Introduction

ICICI Lombard Corporate India Risk Index is a one of its kind, unified, credible, standardized corporate Risk Index that spans over the country level, the industry level, and the company level. The index has a comprehensive sector coverage.

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

The impact is identified across key business risk (internal and external) under the following 'Strategic Risk Areas', The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions.

Market and Economic Risk

Corporate Risks arising due to market and economy related factors, such as internal or external political uncertainty, global slowdown, taxation-regulatory changes etc. Market and economy related risks are also identified as 'Systematic Risks', we have further classified the risks into below mentioned categories.

- **Inflation:** Inflation is the general increase in prices within the economy. The rising prices for businesses could result in bigger production spending and a fall in profitability. The companies should be attentive, acute, and responsive to changes in inflation to efficiently manage the prices of final products.

- **Taxation:** In a large democracy like India, complexity of multiple taxes (multiple taxes like GST, custom duties, central excise duty, etc.) is a major concern. The changing legislations, increased scrutiny by tax authorities and increasing public attention are together resulting in tax risks for organizations. There is, thus an increasing urgency for firms to manage their tax affairs efficiently to minimize tax risks.

Regulatory Risks: Regulatory risk is the risk of changes in regulations and laws that might affect an industry or businesses. The regulatory changes can pertain to tariffs and trade policies, business laws pertaining to employment, minimum wage laws, financial regulation, Foreign Direct Investment etc.

- **Foreign Exchange Risk:** The exchange rate plays an important role for firms who export goods and import raw materials. The fluctuations in foreign exchange will have great impacts on the prices of traded goods. For example, if the currency depreciates (devaluation), the exporting firms will benefit. However, the firms importing raw materials will face higher costs on imports. The firms need to hedge their exposure to foreign exchange risks to insulate themselves from the impact from forex changes.

- **Geo-political Tension:** Geopolitical risk means the political and economic risks that are a potential threat to the financial and operational stability of companies.

- **Competitive risk:** Competitive risk is the risk associated with the fact that there are multiple companies competing in the market, each seeking to obtain the highest position and consumer ratings, to gain maximum benefits for themselves. The companies devise different strategies to garner a higher market share and acquire customers from competitors. Any failure in managing the competitive stand could lead to losses in business, thereby making marketing and competition a major risk in market.

Technology Risk

Technology risks are also identified as information technology related risks which may arise due to failure of any installed hardware or software system, spam, viruses or any malicious attack. Also delay/over/under adoption of trending disruptive technologies can lead to technology related risks. We have classified the risks in below mentioned categories.

- **Innovation Risk / Obsolete Technology:** Innovation is the key to success in all the industries. Risk of redundancy and losing out to competition on account of poor R&D is a major concern.

- **Intellectual Property risk:** Dependence on trade secrets and unpatented proprietary know-how.

- **Disruptive Technologies:** These will fundamentally alter the financial prospects of the industry.

Data Compromise: Hardware failure refers to malfunctions within the electronic circuits or electromechanical components (disks, tapes) of a computer system; Software failure refers to an operating system crash. Such failures lead to stoppage of entire computer or operating systems creating substantial losses to business.

Operational and Physical Risk

Risk of losses caused due to faulty or failed processes, systems or human resource related inefficiencies are classified as operational and physical risks. We have classified Operational & Physical risks in below mentioned categories.

- **Critical Infrastructure Failure / Machine Breakdown:** Industries with a heavy dependence on machinery consider any rise in machinery breakdowns a hindrance to their businesses operations. An untimely equipment breakdown can bring businesses to a standstill or be the root cause for fires and explosions. Mostly, human errors and deferred maintenances are the major reasons for such breakdowns. The companies should actively invest in timely maintenance of all machineries.

- **Business Continuity / Sustainability:** Non adoption of Business Continuity/ Sustainability Plans and Lack of Internal Control tools would result in: Failure of businesses, Brand Equity / Loss of reputation, Financial Loss, Business model Failure, Ineffective engagement/communication with stakeholders, Losses in productivity, Lack of opportunity monitoring.

- **Supply chain risk:** Raw Material unavailability and Heavy Dependence on Global Supply Chains / Supplier concentration risk. Unavailability of raw materials owing to disruption in the supply chain or heavy dependency on one source (company/country) which is unable to supply owing to some geo-political tensions, fires, or any other incidents. Transportation is one of the key activities for companies making it an important risk to mitigate. The loss of goods in transit and spillage is one of the major concerns as it accounts for a sizeable loss of revenue to companies.

- **Commodity Price Risk - Volatility in prices of raw materials:** The fluctuations in raw material prices creating a margin pressure / top-line pressure in the scenario of rising input costs.

- **Portfolio Risk:** Loss of key customers, Customer concentration - Key customers accounting for a larger share of revenue, Over-dependence on suppliers, Business Model Risk: Transformative changes in business model, Tail Risks: Ability to overcome or manage extreme worst-case scenarios.

- **Environmental Hazard Risk:** Any environmental hazard having the potential to affect the surrounding environment.

- **Workplace Accident:** Fire and Explosion Hazards, Containment Incidents, Workplace Injuries

- **Human Resource: Key person risk:** This risk occurs when a business or business unit becomes heavily reliant on a key individual. Talent acquisition and retention - The companies require a highly skilled labor force for R&D as well as continuous production. Accessing skilled resources and expertise on an on-going basis is one of the major challenges; moreover, retention of trained staff is imperative. Labor shortages, Union Strikes & Industrial Actions, Employee health, safety, and security (SHE/Sustainability risk).

- **Financial Risk:** Financial Reporting Risk: Material misstatement of Financial Statements, whether due to fraud or error. Interest rates and equity prices: Interest rate risk arising out of working capital borrowings at variable rates. Equity price fluctuations affect the Company's income or the value of its holdings of financial instruments. Liquidity Risk (Credit Risk / Receivables).

- **Breaches of law (local/ international):** Voluntary/ involuntary breaches of law can lead to costly lawsuits.

Crime & Security Risk

Cybersecurity risks relate to the loss of confidentiality, integrity, or availability of information, data, or information (or control) systems and reflect the potential adverse impacts to organizational operations. These attacks can cause major financial losses, reputational harm, and a loss of client trust. Regarding cybersecurity, the BFSI industry in India has several difficulties, including difficult-to-secure legacy systems, a shortage of qualified cybersecurity personnel, and the requirement for ongoing system and network monitoring. There is a significant investment in cybersecurity tools like network monitoring, endpoint security, access control, and threat intelligence. Many organizations are also implementing cutting-edge technology like artificial intelligence and machine learning to strengthen their security posture. Around 7.4% of the attacks in the Asian region were targeted at India in 2022.

We have classified Crime & Security risks in below mentioned categories.

- **Cyber Crimes:** Data Theft, Spam, scams and phishing, Hacking, Malwares and Viruses, Piracy, Fraud, Corruption, Malicious attacks

- **Counterfeiting:** Counterfeiting of goods/services leads to loss of revenues, profits and ultimately affects the brand equity

- Threat to Women Security

- **Terrorism:** Un-lawful use of violence and intimidation, especially against civilians, in the pursuit of political aims.

Natural Hazard Risk

A natural hazard is the threat of an event that will likely have a negative impact. A natural disaster is the negative impact following an actual occurrence of natural hazard if it significantly harms a community. Due to India's geographical structure, it is one of the most disaster-prone countries in the world. Natural hazards like floods, earthquakes, landslides, and cyclones are common risks faced by India. The situation has worsened due to rise in GHG emissions, loss of biodiversity, deforestation, and degradation of environment. From Surat Gas leak to landslides in the north and cyclones in Bay of Bengal, the year 2022 was no exception. Such natural disasters hamper the day-to-day operations of corporates, and it is important for them to understand that such risks cannot go unheeded. Over the years, Indian corporates have learnt to mitigate such risks by diversifying their supply chains, having multiple logistics partners, diversified geographical presence and multiple vendors.

- **Pandemic and other global epidemic diseases:** Risk to business owing to disruptions caused by COVID-19 pandemic and similar another global epidemic.

Strategic risk

- Strategic risk is the risk that failed business decisions may pose to a company. Strategic risk is often a major factor in determining a company's worth, particularly observable if the company experiences a sharp decline in a short period of time. Several factors, such as unethical or unlawful activities, poor customer service, product recalls, data breaches, or unfavorable media coverage, can lead to strategic risk. An organization's reputation can be severely harmed by a single negative incident, such as a high-profile data breach or fraud scandal, resulting in a loss of clients, income, and market share.

- **Resource scarcity / Misutilization / Overall Utilization:** Difficulties in acquisition of land, water, fuel, or other resources for operations of business.

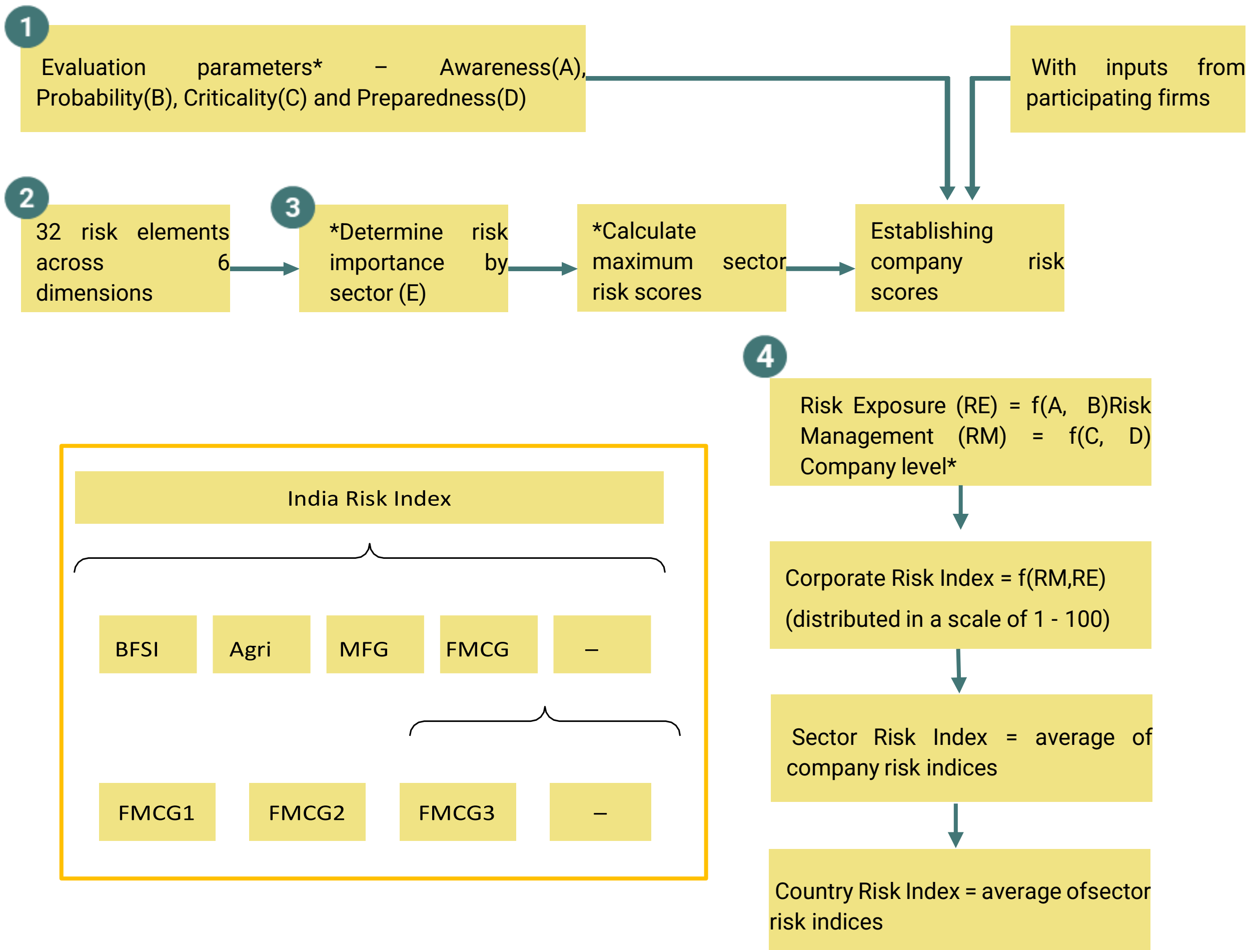
- **Public Sentiment:** Current events playing out in the public scene can change the public sentiment.

- **Delay in execution of projects:** Delays in execution of projects can surge in the capex.

- **Increased number of recalls and quality audits:** Impacts both the brand equity and increased operational expenses.

- Failed / Hostile Mergers & Acquisitions: High dependence on inorganic growth.

Bottom-Up Risk Assessment Approach



1. **Evaluation Parameters*:** The index maps the risks faced by any enterprise basis of Awareness, Probability, Criticality and Preparedness against the defined Risk elements. The evaluation Parametersare defined as: Awareness - Level of awareness of potential risk affecting the firm. - Likelihood of riskto affect the business goals of the firm adversely. Criticality - Level of impact of the identified risk on the success of business goals. Preparedness - Risk handling practices/ mechanisms already in place tohandle the risk.

2. **Determining Risk Importance*:** Importance/Impact of individual risk element is established against individual sector based on the published corporate risk reports, in depth sector understanding by F&Steam and SMEs.

3. **Calculating Maximum Sector Risk Score**: Weighted Sum of all risk elements based on their importanceto the respective sector.

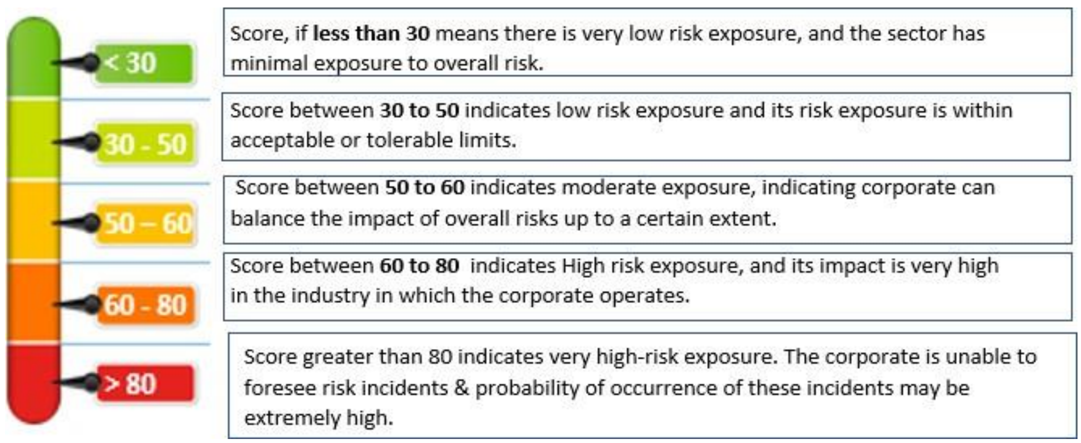
4. **Company Level*:** All the Risk Index scores for companies in a sector are averaged to represent the sector; and sectors average to India. Risk Exposure is defined as the function of corporate's Risk Awareness and Probability of risk occurrence. Risk Management is defined as the function of an enterprise risk preparedness and criticality risk impact assessment.

Defining the Risk Scale

We have selected 20 sectors to understand the current stand of our country today in terms of risk. Risk for various sectors is measured on the risk exposure scale and risk management scale.

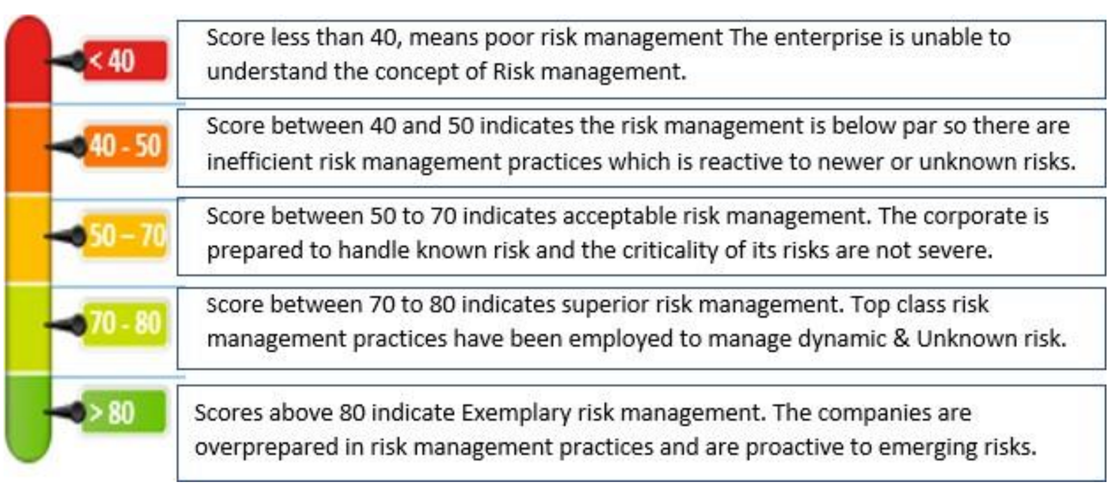
A. ICICI Lombard Corporate Risk Exposure – Scale

Risk Exposure: The impact of any internal, external or strategic occurrence on the financial performance of an organization is defined as the corporate risk exposure. Risk has traditionally been seen as something to be avoided – with the belief that if behavior is risky, it's not something a business should pursue. But the very nature of business is to take risks to attain growth. Risk can be a creator of value and can play a unique role in driving business performance. Let's look at the risk exposure scale.



B. ICICI Lombard Corporate Risk Management – Scale

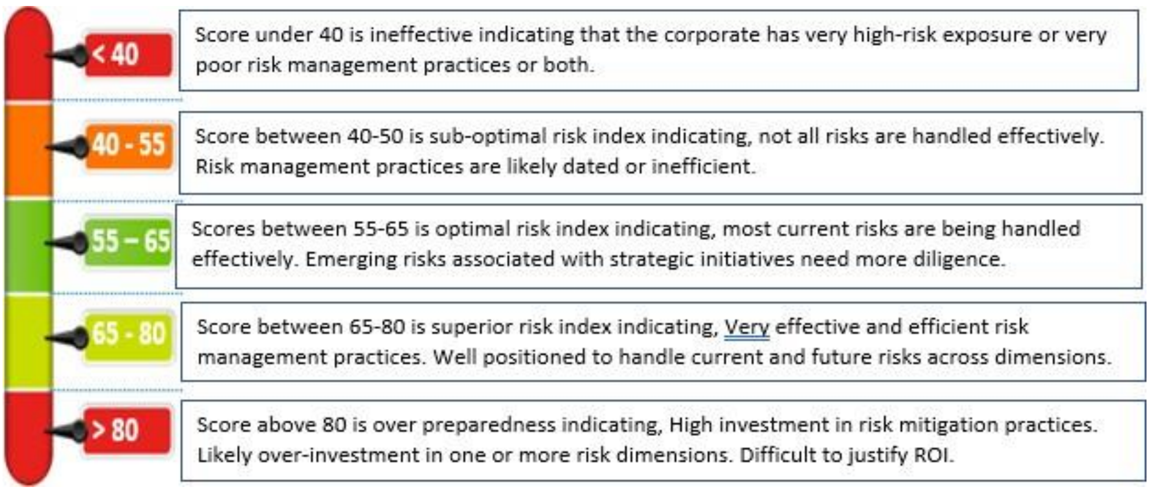
Risk Management: Identification, Evaluation and Prioritization of corporate risks followed by well-coordinated steps to minimize the occurrence of uncertainties in the foreseeable future is defined as the Corporate Risk Management. The risk management scale works in the opposite to that of the risk exposure scale. Let's look at the risk management scale.



C. ICICI Lombard Corporate Risk Index – Scale

Risk Index: Risk Index is a measurement tool to gauge the level of Risk Exposure against Risk Preparedness. The score intends to give companies/Sector/Country access to an extensive and quantifiable metrics of risk management.

Let's look at the risk Index scale.



India - Emerging Superpower with Optimized Corporate Risk Handling

Manufacturing sector contribution to India's GDP in 2022 stands at 17% and is expected to grow to 25% by 2025, the expected growth is attributed to various favorable schemes initiated by Government of India like 'Make in India', 'Digital India', Improved Road Infrastructure, implementation of modern technologies of manufacturing resulting in optimized and effective production, Also the pandemic has made business realize that they cannot just rely on a single manufacturing hub; hence notion of "China+1" is making the world realize the significance of India. China is in a trade war with the USA, which is positively shaping the role India will play in the global arena.

The below chart showcases the gradual increase in India's manufacturing exports.

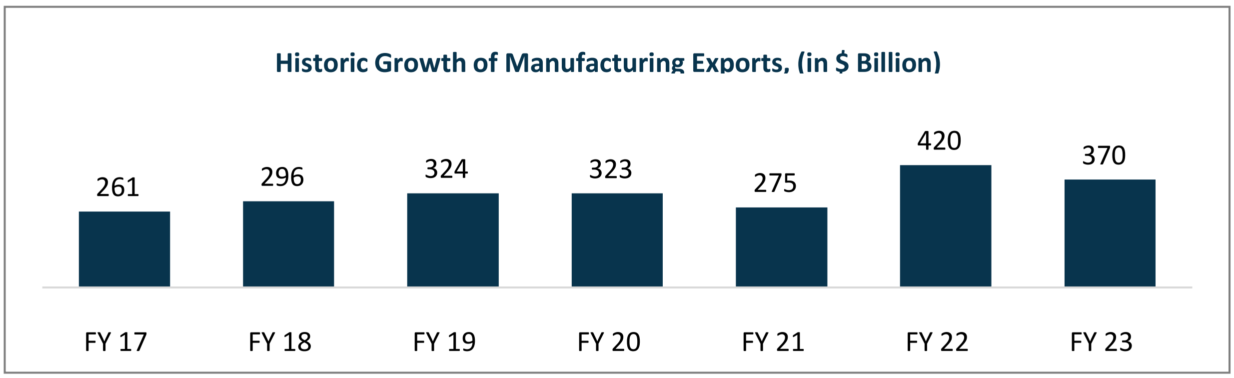


Figure 1: India's Growth of manufacturing exports. (Source: Redseer)

Indian manufacturing sector is also focusing on electronics manufacturing like mobile phones, industrial electronics consumer electronics, etc. due to government initiatives the production has doubled since 2015.

Aerospace and defense sector in India have evolved significantly, Govt. of India have identified A&D as area of focus due to the belligerent neighborhood, steps like Make in India(Atmanirbhar Bharat) is helping the overall defense sector, however India still remains the largest importer of arms and ammunition, favorable policies and ease in regulations is helping the drone industry in India and many new start-ups and big players are entering in this space.

Urbanization is another phenomenon evolving in India and it is estimated that by 2030 more than 400 million people will be living in cities, due to this megatrend huge push towards realty and infra sector is observed which is also the growth of ancillary industries like metals, cement, water availability, sanitation, mobility etc., the government along with the private sector is working on multiple initiatives to manage the huge inflow.

India has observed a steady adoption towards EVs in recent years, though India adoption still remains very low in comparison to Europe, Canada, China, however all big auto players are coming with new lines of EVs, and significant strategic investment have been made. The adoption is primarily due to lower running costs, lower maintenance, zero tailpipe emissions, tax and financial benefits by the government, convenience of charging.

BFSI sector in India is showcasing a significant robustness in the time of global crisis, there is a growing demand for financial services as there is a gradual rise in income across income brackets, with a rapid increase in mobile penetration and internet availability more than 2100 fintech companies have emerged in India, the traditional banks are also adopting the digital technologies at a required pace, investment on making the systems secured from cyber threats is utmost priority. Policy support by the government in the union budget 2021-22 is taking up shape and is helping the BFSI sector in 2022 and coming years, like government approval of 100% FDI for insurance intermediaries have increased the FDI limit to 74% from 49%.

Healthcare sector is also continuously growing healthcare has become the one of the India's largest employers, employing around 4.7 million people, though in 2021-22 India only spends 2.1% of its GDP in healthcare, in the union budget 2022-23, US$ 11.28 billion was allocated to the Ministry of Health and Family Welfare (MoHFW). there is still huge room for improvement in the overall healthcare system in India. Efforts towards having well trained medical professionals in India is top priority. There were exemplary development in the vaccine manufacturing by India, Bharat Biotech Covaxin and Oxford AstraZeneca's Covishield manufactured by SII, helped India get a protection shield against Covid. There is a plan by the government of India to infuse US $ 6 billion to boost the healthcare infrastructure in India.

The IT/ITes sector is a key engine for fueling India's economic growth and contributing to 7.5% of India's GDP in 2021-22, the Big four IT firms in India have recruited over 1 million employees, As the world is moving towards era of digital economy Indian IT-sector will be contributing significantly towards this journey, the rollout of 5G communication technologies and adoption of new age technologies across industries; like AI, Robotics, Internet of Things will further increase the size of Indian IT sector.

Indian enterprises are also concerned about the risks emerging out of the growing economy and the globalization India is heading towards, its observed that Indian enterprises are taking significant steps towards risk management and keeping budget allocated to implement best in class risk mitigation practices.

India Showcasing an Optimized Risk Handling

Figure 2: Corporate India Risk Index 2022

Corporate Risk Index Score of 63 implies that Indian enterprises are handling the risk in an optimal way but still there is scope of improvement to get into superior risk handling territory, Indian enterprises have a well-defined risk management practice in place for inherent risks, however risk management can be improved further as a potential buffer against potential risk events arising from market & economy, operational and technology related Risk events, openness towards adoption of technology and having a well-defined risk management team was observed across enterprises in India.

Sectorial categorization across above stated five categories, it was found that risk management is getting a paramount importance in the growth strategy of every organization and all the organization fell either into 'Superior Risk Management' or 'Optimal Risk Management' category.

From a risk exposure front the intensity of impact due to market and economy related risks increased due to the heightened inflation, global recession, and geopolitical tensions though from a regulation point the sector specific policies by the government helped the industries. Some of the inherent risks exposure due to the operational aspect did not see a significant change as compared to previous year, however companies are adopting diversification, technologically enabling the supply chain, and creating better hedging against financial related risks, whose results will be seen in coming years.

Below is a broader categorization of sectors in terms of risk index:

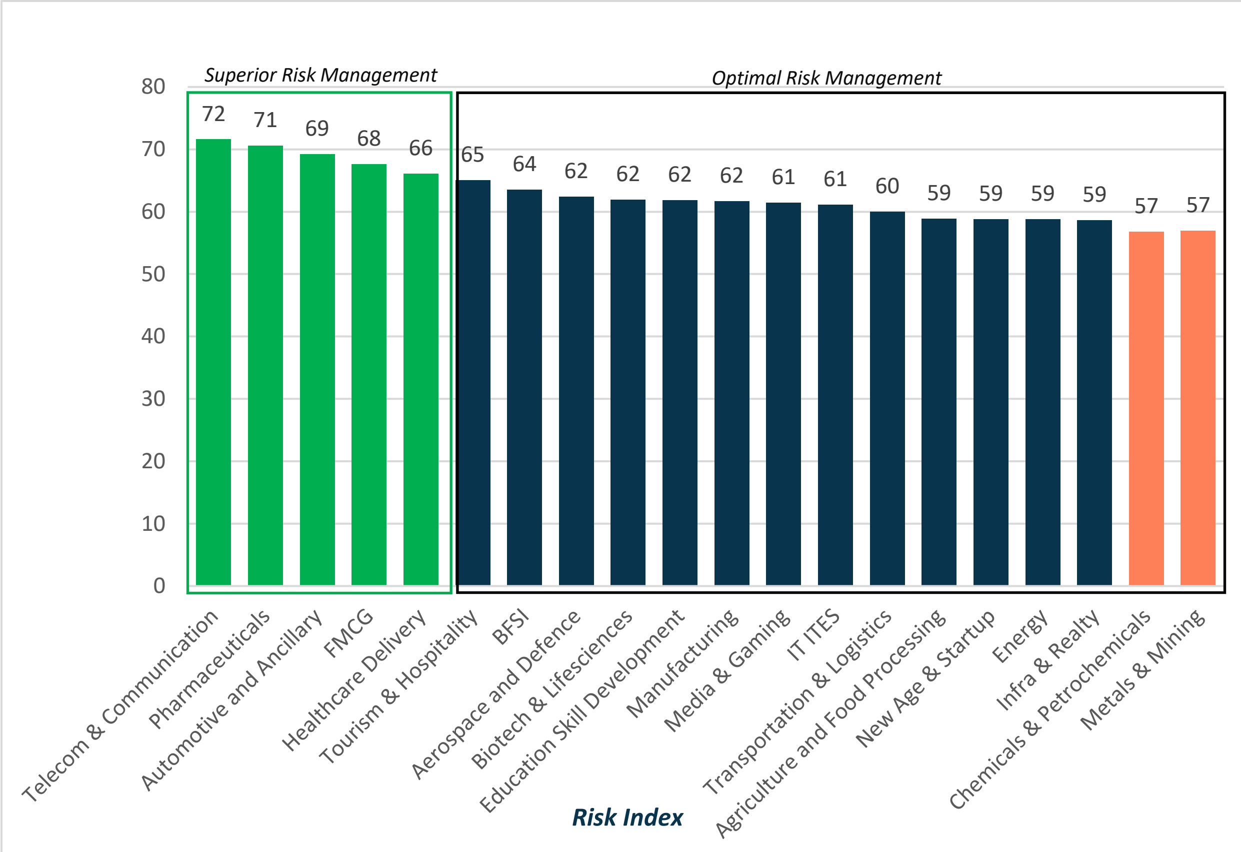


Figure 3: Corporate India Risk Index 2022 Sector Score

Superior Risk Index

Superior risk handling was found in five industrial sectors: Telecom & Communication, Pharmaceuticals, Automotive & Ancillary, FMCG, Healthcare Delivery.

Optimal Risk Index

Optimal risk handling was found in 15 industrial sectors: Tourism & Hospitality, BFSI, Aerospace & Defence, Biotech & Lifesciences, Education Skill Development, Manufacturing, Media and Gaming, IT & ITES, Transportation & Logistics, Agriculture and Food Processing, New Age & Startup, Energy, Infrastructure & Realty, Chemicals & Petrochemicals, Metals & Mining.

New Age Sector Insights 2022

India has the 3rd largest startup ecosystem in the world and is expected to witness a consistent annual growth of 12-15%. With a home to more than 50,000 startups, a large chunk of these businesses are in the e-commerce, fintech, SaaS, or edtech space. Total number of unicorns as of 31 December 2022 reached about 106. About 0.234 million employment was produced by new-age businesses in 2022, up from 0.19 million in 2021.

SaaS, e-commerce, and D2C have been the best performing sectors in terms of funding raised, number of Mergers and Acquisition transactions, and attaining unicorn status during CY22. Bengaluru, NCR, and Mumbai account for nearly 82% of total Indian start-ups as of December 2022. 28% of the start-ups in the top three cities have raised in excess of USD 20 million. 246 M&A deals involving start-ups were executed in CY22. Of these, nearly 200 were domestic transactions and the rest were cross-border transactions.

The sector has grown tremendously with support available in terms of number of ideas, companies, incubators, accelerators, and VCs. There has been a 15X increase in the total funding of startups, a 9X increase in the number of investors and a 7X increase in the number of incubators in the period between 2015-2022. VC funds amounting to USD 590 billion in dry powder was available for start-ups – an indicator of strong investment cycles ahead. India's rapid GDP growth, demographic composition, increasing digital penetration, and a friendly regulatory environment bestows unlimited opportunities for new-age companies and startups. The Indian startup economy crossed a major milestone after it added the 100th Indian startup to the unicorn club in 2022.

India is in a unique position wherein both Government and private investors want Indian entrepreneurs and startups to succeed and make their presence felt across the world. In this endeavour, the Government of India and the Ministry of Micro, Small, and Medium Enterprises have launched several unique Government schemes and programs designed to empower startups such as I-MADE programme, Start-up Innovation Week, MUDRA Bank's scheme (Pradhan Mantri Mudra Yojana), Credit Linked Capital Subsidy for Technology Upgradation and Credit Linked Capital Subsidy for Technology Upgradation. A number of regulatory changes to enhance ease of doing business, ease of raising capital, and reducing compliance burden have also been undertaken. Despite the funding slowdown, venture capital, private equity, and debt firms continued to make fund announcements. As per Fintrackr's data, more than 100 India focused investment firms announced their new fundraising in 2022. It was a significant increase from 75 such funds in 2021.

Startup community was going gung ho over Web3 and crypto in the initial phase of 2022. However, the excitement did not continue as they failed to raise capitals as expected. Also, many crypto and web3 startups shifted their base to Dubai and other countries over the course of time due to regulatory hurdles in India. Meanwhile, the central government also indicated that the RBI would like to ban private cryptocurrencies in India and it would wait for the global regulatory environment of crypto to evolve further before proceeding with newer regulations.

Ever-elusive funding, revenue generation struggles, lack of access to supportive infrastructure, and tax structures are the top-most challenges faced by Indian startups. The year 2022 witnessed massive tech stocks collapsing, war, funding winter, skyrocketing inflation, rising interest rates, and burgeoning fear of recession, thus giving major setbacks to the industry.

New age companies and startups saw mass layoffs, mostly during the second half of the year. Data compiled by Fintrackr shows that more than 20,000 employees were laid off in 2022. This includes full time employees and contract employees at companies such as Ola, and Blinkit. While most of the startups fired employees due to funding crunch, market conditions, cost cutting measures and a way to increase their runway, a clutch of them also cited those layoffs as part of their performance appraisal process. Byju's group including WhiteHat Jr and Toppr, Unacademy, Vedantu, and Frontrow saw mass firings while around half a dozen startups such as Lido, Udayy, Crejo.fun, and Qin1 shut their operations permanently.

Even as 2022 included what many have called a funding winter for startups, it still ended on an optimistic note as Indian tech companies managed to raise over $25 billion in 12 months. While this was a significant drop from the blockbuster funding of $38 billion in 2021 when the ecosystem broke all records in terms of fundraising and minting unicorns, it's still more than two times the $11.3 billion funding during 2020. The decline in the number of start-ups raising funds was lower, at nearly 8% (1,106 start-ups raised capital in CY21 versus 1,021 in CY22). The impact of funding winter can be traced through the decline in ESOP buybacks by startups across stages in the latter half of 2022. As per data compiled by Fintrackr, around 25 startups announced ESOP buybacks worth $200 million during the last year, a fall from $440 million worth ESOP buybacks in 2021. Consequently, the average deal ticket size reduced from USD 32 million in CY21 to USD 23 million in CY22.

2022 has been a tough year for this sector in specific. From the slow and ongoing burn across crypto, to the travails of the edtech category and the disasters that have been many of the 'star' startup IPOs. On the other hand, some of the most hard hit firms have also been around long enough to know how to survive the toughest of times. As a result, the overall risk index has increased slightly when compared to 2021 – showing a higher risk exposure for the sector.

New Age Sector Risk Index 2022 Vs 2021

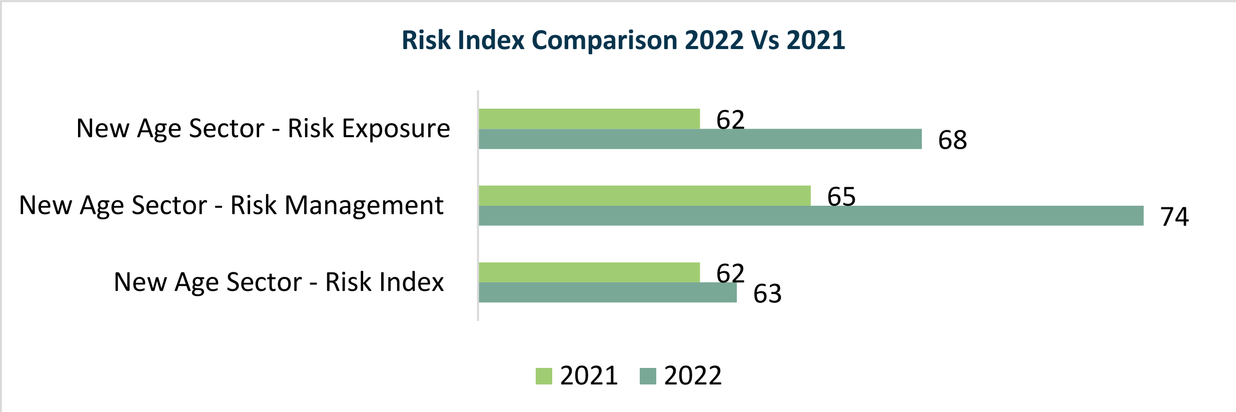


Figure 4: Detailed Comparative Analysis 2021 Vs. 2022

New Age Sector Risk Index 2022 Vs 2021

Sector Risk Index (Superior Risk Handling): The overall Risk Index for telecom and communication improved to 72 from 68 in 2022, this was driven by significant improvement in natural hazard and event risk, crime and security risk and technology risk. The most significant reduction in risk happened due to the reduction in natural hazard risk as 2022 saw the revitalization of business operation in all the businesses as the economy began recovering from the effects of COVID-19.

The financial and human resource risk for the sector increased considerably due to the deepening funding winter in 2022 reducing the number of unicorns in the country as well as the massive layoffs across industries especially the tech companies. There was no significant change in the operational and physical risk and other risks. Operation risk reduced only slightly due to the continued shortage of infrastructure facilities and high risk of worker accidents.

New Age Sector Risk Management 2022 Vs 2021

There was slight improvement in the Risk Management by the new age sector to 69 in 2022 from 63 in 2021 reflecting a shift towards superior risk management. Starting a new business is inherently risky and with new-age businesses facing a churn for money right now, the founders had to fight hard for survival.

New Age Sector Risk Exposure 2022 Vs 2021

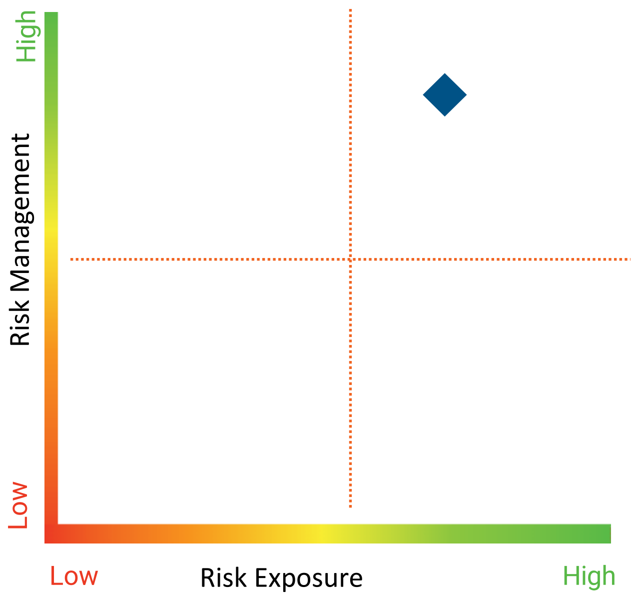
New Age companies and startups risk exposure went up from 61 in 2021 to 71 in 2022 due to funding winter, rising interest rates leading to financing problems, global slowdown in GDP growth resulting in reduced industrial activities, all-time low rupee valuation and high CPI inflation. New-Age Startups showed the highest increase in the risk exposure as compared to most of the sectors, the major increase is accounted due to the uncertainity of product demand and customer preferences about the new company and geo-political tensions arising due to the Russia-Ukraine tensions.

Key Highlights

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 64

Risk Management Score: 69



Inflation

- For the majority of 2022, the rupee has been depreciating to an all-time low against the U.S. dollar, the wholesale price index has been hovering at more than 10%, and retail inflation has been above 6%, the upper limit set by the RBI.
- To curb these inflationary numbers, the central bank has aggressively tightened its monetary policy, raising borrowing costs by 225 basis points this year, thus raising financing costs for the new businesses.
- This made business investment and activity costlier and triggered a collapse in demand for the products and services offered by many startups, with consumers cutting back on spending.
- India's benchmark stock indices-BSE Sensex and NSE Nifty50-have only managed to climb 5% this year, so raising money via an initial public offering is also not viable for most startups.
- To mitigate the impact, startups need to build the core product, achieve metrics that will make the company lucrative. As filters and thresholds for funds have become more stringent, Indian startups must extend their runway by focusing on unit economics, the profitability first.

Taxation

- According to the Union Budget, the government would also provide the benefit of carry-forward of losses on change of shareholding of start-ups from seven years of incorporation to 10 years.
- The government has extended the tax benefits it offers to new startups in the first three year of their incorporation.

- Additionally, sugar cooperatives can claim payments prior to 2016-17 made to sugarcane farmers as expenditure and new cooperatives that commence manufacturing activity till March 2024 would also attract a lower tax rate of 15%.
- Startups are eligible for 100% exemption of tax excluding the Minimum Alternate Tax (MAT) which will follow the 18.5% of the profit as stated in the books, on earnings for the first three years.
- The extension of angel tax provisions to foreign investors in India could impact the popular deal structures and valuation approached of Indian startups.
- Companies in the industry will need to monitor these developments and adjust their business strategies accordingly.
- Boost given to startups in the Artificial Intelligence, space sectors, amongst others, will create the necessary platform to nurture the skills of the future and cater to diverse industry applications.
- Companies in the industry will need to develop robust policies around spectrum allocation and pricing to accelerate 5G roll out in the country.

Regulatory Risks

- The government of India has introduced policies that aim to ease the business environment for startups. However, the present regulatory framework in which startups operate is widely seen as difficult, inefficient and unpredictable.
- The World Bank Ease of Doing Business index ranks India 77th of 190 countries; the country is 137th of 190 countries in the World Bank Starting a Business Ranking index.
- Startups in India often feel encumbered by bureaucratic processes, which appear to lack underlying standards. They have insufficient possibilities to find information, and there is little planning security about how long processes can take.
- Other challenges concern the legal incorporation and registration as a startup as well as the closing of a business.
- The need for a single-window clearance mechanism, followed by clarity around overseas listing regulations and parity in Long Term Capital Gains (LTCG) tax treatment and rates pose serious regulatory roadblocks for the sector.
- Companies in the startup space will need to closely monitor regulatory developments and adjust their business strategies accordingly to mitigate potential risks. (Sources: Fox Mandal, Economic Times, Lexology)

Foreign Exchange Rates

- The new age businesses and startups are facing foreign exchange risks in 2022 due to volatility in currency exchange rates caused by COVID-19 and geopolitical tensions.
- Startups which have raised funds in foreign currencies will be hit by the depreciation in rupee and will need to hedge currency volatility risks, like software exporters.
- The rupee depreciation also hits valuations of Indian startups, dislodging some of them from the elite unicorn club.
- The reduction of custom duties in Budget 2022 is expected to make Indian manufacturing more competitive and reduce the industry's dependence on imports. (source: Business Today).

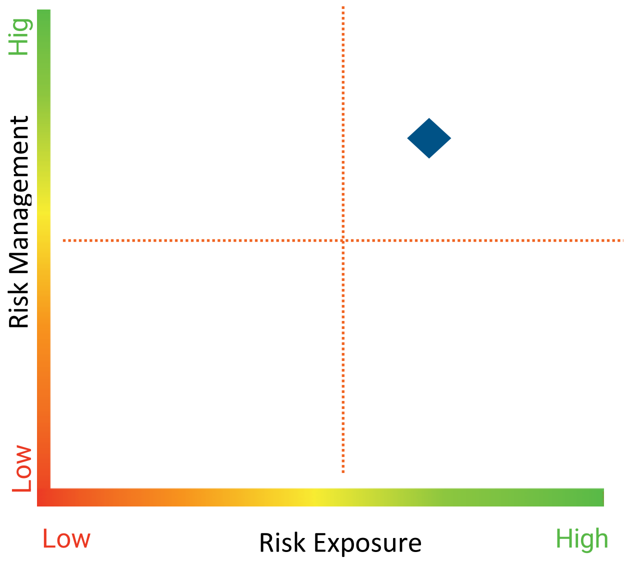
Competitive Risk

- Competition risk is one of the biggest market risks that startups face. If there is too much competition in the market, it can be difficult for startups to distinguish themselves and stand out from the crowd.
- The cut-throat competition and uninterrupted inflow of investments fuel the talent war across the industries.
- The possible coming together of online retailers Amazon and Flipkart in 2023 is likely to face close scrutiny on competition issues as the combined entity will be a dominant player in the fast-growing Indian e-commerce market.
- According to CB Insights, competition is the fourth most common reason for the failure of a startup. Competition was the main cause of failure for 19 out of 101 analyzed startups in their dataset.
- The competitive threat of financial technology companies to big banks diminished over the past year as rising interest rates constricted funding, a new report from Moody's Investor Service found.

Risk Dimension Analysis: Technology

Risk Exposure Score: 67

Risk Management Score: 66



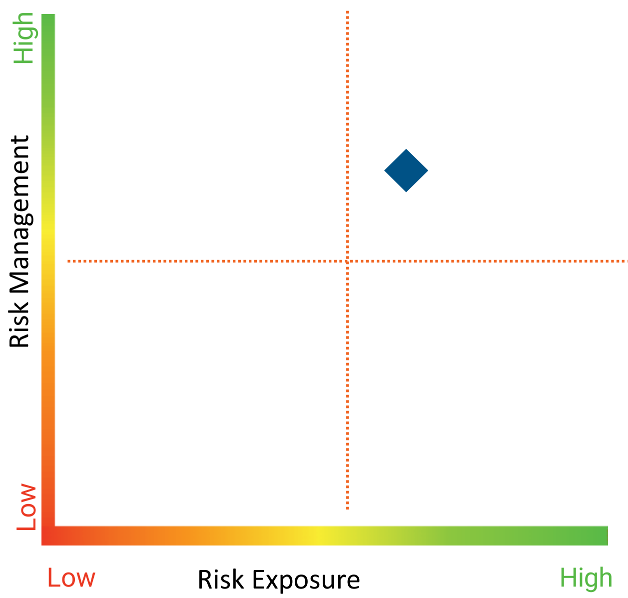
Disruptive Technology

- In an increasingly uncertain and fast-moving business environment, large companies face pressures to innovate ever more rapidly.
- This approach of not upgrading technology might appear to save costs, but it causes more damage in the long run.
- Transitioning to new technology incurs unavoidable costs such as set-up and installation costs, bringing in foreign trainers to train the workforce, and the time it takes to learn and integrate the process into actual productivity.
- It is important for companies to consider the overall impact of incurring expenses such as technological upgrades.
- There is a huge need for innovative solutions, particularly those that alleviate poverty and benefit a large number of people. Given the scale of India and its resource constraints, low-cost, high-impact solutions are required. Technology startups play a crucial role in accomplishing this, because of their potential for scalability and exponential growth.
- India added over 1,300 tech startups in the 2022 calendar year, taking the total tally of tech startups to 25,000-27,000, says a new report by Nasscom and Zinnov. This shows the immense potential that startups and new-age businesses hold by deploying advanced technologies.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 63

Risk Management Score: 62



Sustainability/ Business Continuity

- Across all sectors, organizations are grappling with rapid transformation. On top of that, there are enormous global shifts and challenges to contend with, such as climate change, and shifting political and economic power. This make it difficult for the new age companies to survive.
- Every organization must seek to eliminate or reduce the environmental costs of doing business. Decarbonizing the supply chain is a sensible place to start, but forward-thinking businesses need to look beyond the supply chain to improve sustainability across all business operations.
- India has set a target of reducing greenhouse gas emissions intensity by 33-35% by 2030 compared to 2005 levels, and the startup sector can play a crucial role in achieving this goal by bringing innovative solutions to fight climate change. (Source: The Tech Panda)

Portfolio Risk

- The startup sector is subject to market risks and are suitable for investors with high-risk appetites.
- The past one year has been a roller-coaster for new-age internet-based companies that listed amid much fanfare-from attracting massive interest during their IPOs (initial public offerings) to their stock prices plunging sharply from their peaks.
- Key factors that could perhaps explain this fall are the global tech meltdown, blue-sky valuations, Indian markets being unfamiliar with such hyper growth 'loss reporting' businesses, and company specific and technical issues.
- The year 2022 had a slew of bad news as well whether it is the Adani thing, or the global FIIs turning a bit risk- averse and also the fact that a lot of money is moving out of India and into other Asian markets including China.
- The new-age platform businesses could turn out to be dark horses in 2023. These stocks have corrected significantly since their IPOs, while their fundamentals have improved quarter after quarter.
- These businesses are taking the necessary pivots towards profitability thus increasing the possibility of an earnings surprise and outperformance with respect to the market.

Human Resource Risk

- For many job-seekers, joining a startup as an employee is not an attractive career option, due to the inherent risk that the startup might fail. Instead, the majority prefer to work for large corporations, which promise more stable jobs.
- Startups can rarely compete with the reputation and compensation structures which large companies can offer.
- Many of those who start working for startups, switch to established companies after a few years. Job changes in the opposite direction occur less likely, because many get used to the benefits of a corporate job.
- Startups see a gap between the knowledge taught to students in colleges and the knowledge needed for the jobs, especially in sectors in which technologies change at a fast pace.
- Talent acquisition in India would be more difficult by 2023 because of the increased need for talented workers across a variety of industries.

Financial Risk

- When it comes to financial risks, startups face a unique set of challenges. They often have limited resources and must make decisions that will impact their long-term success. While there are many risks that startups face, not having enough capital is one of the most significant.
- When it comes to pricing their products and services, many startups face a common challenge: they're not sure what pricing strategy to use. There are a few different approaches they can take, but each has its own risks and potential rewards.
- Problem of poor cash management because the business is growing faster than the founders anticipated and they're not bringing in enough revenue to cover their expenses.
- The study notes that 47% of startup failures in 2022 were due to a lack of financing, nearly double the percentage that failed for the same reason in 2021, based on CB Insight's data.

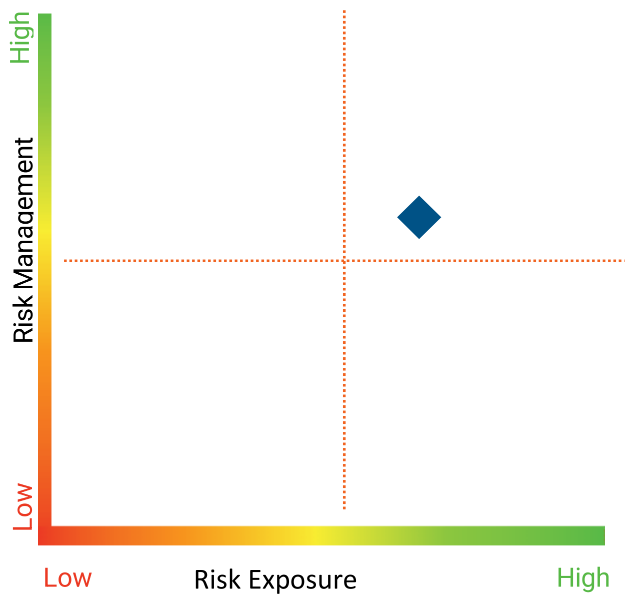
Breaches of Law

- World Health Organization has also prohibited the sale and marketing of infant formula like Nestle faced a lot of criticism worldwide for being accused of violating ethical marketing codes and manipulating customers with misleading nutritional claims about its baby milk formulas by comparing it with mother's milk.
- Recently Tanishq faced a lot of criticism for violation of ethical marketing norms for hurting the religious sentiments of the people.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 75

Risk Management Score: 73



Cyber Crimes

- It is expected that cyber criminals will become even more advanced in 2023 when it comes to penetrating supply chains for the purpose of stealing from or harming businesses.
- Startups are particularly vulnerable to cybercrime due to their limited resources and the lack of experience in managing cybersecurity risks.
- Phishing Attacks: Phishing attacks are a common tactic used by cybercriminals to trick users into revealing sensitive information such as passwords or credit card details. Startups may be targeted with phishing attacks because their
- employees may not be aware of the risks or may not have received sufficient training to detect and avoid them.
- Ransomware Attacks: Ransomware is a type of malware that encrypts the victim's files and demands a ransom in exchange for the decryption key. Startups may be targeted with ransomware attacks because they may not have adequate backup systems in place to restore their data if it is encrypted
- DDoS Attacks: Distributed denial of service (DDoS) attacks are a type of cyber attack that floods a website or server with traffic, causing it to become unavailable. Startups may be targeted with DDoS attacks because they may not have the resources to defend against them or the expertise to mitigate their effects.

Terrorism

- Cyber Terrorism: Cyber terrorism refers to the use of technology to launch attacks against computer systems, networks, and critical infrastructure. Startups may be targeted with cyber terrorism attacks because they may not have robust cybersecurity measures in place, making them vulnerable to cyber attacks.

- Physical Attacks: Startups may be targeted with physical attacks, including bombings, shootings, and vehicle ramming attacks, if they operate in regions with a high risk of terrorism or if their business activities are perceived as a threat by extremist groups.

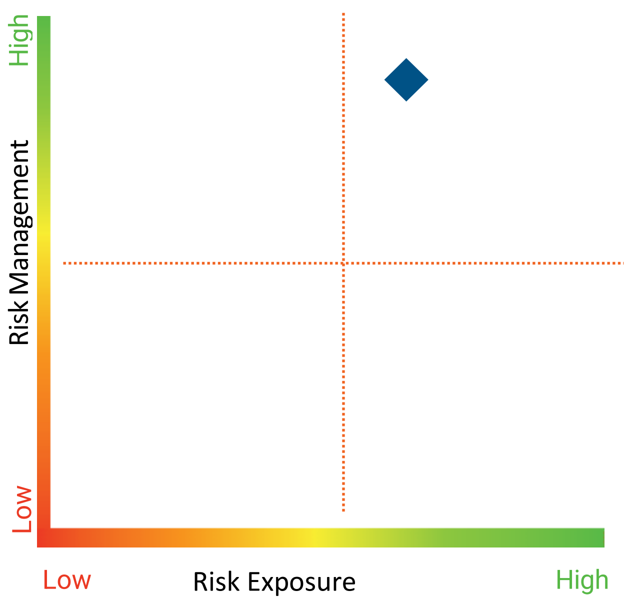
- Business Disruption: Terrorism attacks can disrupt business operations, causing financial losses and reputational damage to startups. This disruption can be caused by physical attacks or by the fear and uncertainty caused by terrorism threats.

- Supply Chain Disruption: Terrorism threats and attacks can disrupt the supply chain of startups, leading to delays in delivery of goods and services and causing financial losses.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 53

Risk Management Score: 57



Natural Hazards:

- Extreme Weather Events: Extreme weather events such as hurricanes, tornadoes, floods, and wildfires cause significant damage to startups, including property damage, power outages, and supply chain disruptions. Startups should have a disaster recovery plan in place to minimize the impact of these events.

- Earthquakes: Startups located in regions with high seismic activity face the risk of earthquakes, which cause structural damage to buildings and disrupt business operations. Startups should ensure that their buildings and equipment are earthquake-resistant and have a backup plan in case of disruptions.

- Pandemics: The COVID-19 pandemic has highlighted the risks of pandemics to businesses. Startups should have a pandemic response plan in place, including measures such as remote work and social distancing, to protect their employees and maintain business continuity.

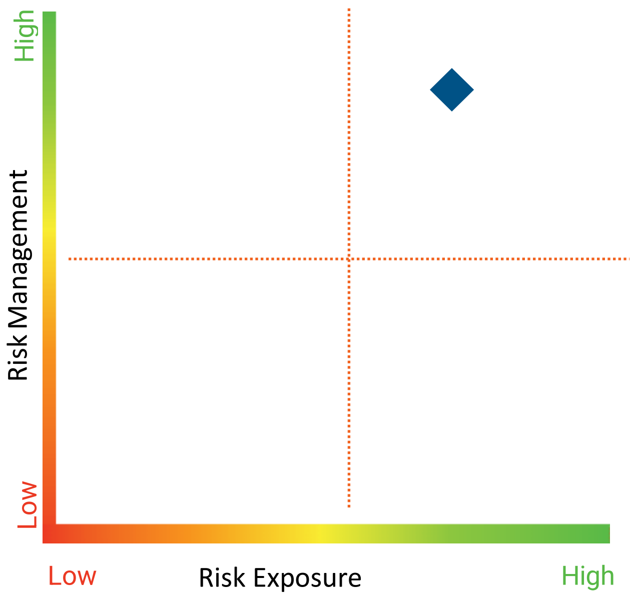
- Cybersecurity Risks: Natural disasters can increase the risk of cyber attacks as hackers take advantage of disrupted systems and increased vulnerability. Startups should ensure that their cybersecurity measures are up-to-date and have a backup plan in case of cyber attacks.

- Power Outages: Power outages can disrupt business operations and cause data loss. Startups should have backup power sources and data backup systems in place to ensure business continuity during power outages.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 64

Risk Management Score: 68



Government Support

- The federal as well as some state governments increasingly recognise startups as important engines for economic growth.
- The Modi government has taken a lot of steps to support new-age businesses. Measures include a fund of INR 100 billion, financial support for incubators, establishment of tinkering labs, tax benefits, and a simplified recognition process for the setting-up of businesses, among others.
- Allocation of Rs. 283.5 crore for the Startup India Seed Fund Scheme, Rs. 1,000 crore for the Fund of Funds for Startups, facilitation of the creation of a fund for AgriTech startups through NABARD, promotion of new-age companies by facilitating drone-as-a-service, and an expert committee to monitor the mobilisation of funds to startups through venture capitalists and private equity have supported the sector in 2022.

Funding

- Startup funding in India is impacted by three factors-level of economic activities, excess returns in the country's equity market over the global benchmark and fluctuations in the exchange rate, according to The Reserve Bank of India's bulletin.
- Early-stage deals accounted for 60-62 per cent of the total funding in 2021 and 2022 in volume terms and average ticket size per deal was $4 million per deal.
- As regards the city-wise startup funding, Bengaluru, NCR and Mumbai accounted for nearly 82 per cent of total Indian startups as of December 2022. As many as 28 per cent of startups in the top three cities have raised in excess of USD 20 million.
- Soaring interest rates to fight inflation lead to a winter funding season for new age companies. As opposed to $4.6 billion worth of funding received in January 2022, Indian startups seem to be facing an early winter, with only $885 million in funding received in August 2022. (Source: Tracxn)
- This sharp decline in funding has naturally hurt many startups, precipitating significant scale-downs and mass layoffs on account of organisational restructuring.

ICICI LOMBARD: Key Solution Offerings

Property

a. Businesses are always prone to risks and fire eruption and fire insurance provides a comprehensive protection against damages caused due to fire explosion and other risks. Besides fire related perils, it also protect damages caused due to any natural calamity, bursting of water tanks, theft etc. The built in covers include alterations or extensions, stocks on floater basis, temporary removal of stock, cover for specific contents, start-up expenses, professional fees, costs for removal of debris etc

b. Solutions

i. Property Loss Prevention exercise - We have developed the methodology of Property Value Added Services for corporate customers which focuses on technical engagement with detail risk visit, followed by benchmarking of the risk (Industry Risk Profiling).

ii. Fire Hydrant IoT - Fire hydrant online monitoring devices use IoT to monitor fire hydrants and assure their availability in emergencies. We've helped multiple corporate customers maintain and monitor this important fire safety component in real time.

Marine

a. We offer specially curated plans for covering the risk of theft, malicious damage, shortage, and non-delivery of goods, damages during loading and unloading, and mishandling of goods/cargo

b. Marine Cargo insurance primarily covers loss during transit caused due to fire, explosion, hijacks, accidents, collisions, and overturning

c. Solutions

i. GPS Device Tracking: With the help of our advance GPS devices we can have bird eye view on the consignment and vehicle from anywhere in the world. OurSAAS allows us to track and get the visibility of the vehicle on the basis of our requirements which is fully customizable

Liability

a. Comprehensive general liability:

i. This policy is important for every small and medium sized businesses to protect the insured entity against claims arising out of legal liability where they are heldresponsible for third party bodily injury or property damage due to insured's business, premises or products. It should be taken by every new business as it covers all risk a business may face.

b. Cyber - With cyber risk steadily increasing, security/ data breaches affect millions of records a year. Cyber Risk insurance coverage is designed to help an organization mitigate its risk exposure by offsetting costs involved with recovery after a cyber-related security breach or similar event.

c. Solutions

i. Simulated phishing tests - Simulated real looking phishing tests andrecord employee behavior to phishing attacks along with training collateral in form of co-brandable posters, infographics and videos

ii. Cyber maturity assessments - Assess the security posture of your organization and identify the potential risks with our assessment based on ISO 27001 Control measures for Information security

iii. D&O - The need of Directors & Officers Insurance is more than ever before. Any breachor non-performance in the duties can result in claims against directors, officers and employees by reason of wrongful act and need to incur various expenses like defense costs, damages or compensation and other incidental costs. This can affect company's growth and performance.

Group Health

a. Employees are the backbone of an organization and the most valued asset. OurGroup health insurance product is designed to offer health coverage to suit employees of all business types ranging from small & medium enterprises to large organizations.

b. **Solutions:**

- **i.** **IL Take Care -** AI enabled mobile app for employees
- **ii.** **Health assistance services -** Health Assistance is a dedicated medical care service that assists you in all your health related queries for identifying specialist/hospital/fixing an appointment with doctors/nutritionist /facilitating2nd opinion
- **iii.** **Tele Consultation –** Hello Doctor
- **iv.** The insured is eligible to avail unlimited General Physician consultations for routine health issues over the phone by aqualified doctor
- **v.** **Diagnostics & pharmacy services** – Book a lab test or home delivery of medicines

Bibliography

https://www.forbes.com/sites/krnkashyap/2022/12/16/how-indias-startups-are-adapting-as-the-global-recession-reaches-its-shores/?sh=555330ed4caf

https://www.livemint.com/opinion/online-views/indias-startup-ecosystem-should-adapt-to-tight-money-conditions-11663520006918.html

https://www.livemint.com/

https://www.forbesindia.com/article/2022-yearend-special/2022-was-the-year-of-the-funding-winter-for-startups-what-will-2023-bring/82085/1

https://www.zeebiz.com/startups/news-budget-2023-anaysis-startups-income-tax-new-law-domestic-foreign-investors-startups-latest-update-220592

https://economictimes.indiatimes.com/tech/startups/budget-2022-23-startup-founders-investors-to-benefit-from-15-cap-on-tax-surcharge/articleshow/89271377.cms

https://www.livemint.com/news/india/income-tax-benefits-to-startups-budget-2023-announcements-11675242071010.html

https://vakilsearch.com/blog/tax-benefits-for-startups-in-india/

https://timesofindia.indiatimes.com/business/india-business/angel-tax-returns-to-haunt-indias-startups/articleshow/97578455.cms

The Future of Fintechs: Risk and Regulatory Compliance | Deloitte US

https://inc42.com/features/how-rupee-depreciation-against-dollar-will-impact-startup-funding-valuations/

https://www.orfonline.org/research/the-indian-startup-ecosystem-drivers-challenges-and-pillars-of-support-55387/

https://www.financialexpress.com/budget/budget-2023-expectations-strengthening-the-startup-ecosystem-2966445/

Flipkart-Amazon Deal: Any Flipkart-Amazon deal to face intense CCI scrutiny (indiatimes.com)

paytm share price: New age cos learnt profitability key to market success the hard way: Siddharth Khemka - The Economic Times (indiatimes.com)

Why It's OK To Find Competitors With Your Startup Idea (forbes.com)

The 8 Biggest Business Trends In 2022 (forbes.com)

https://economictimes.indiatimes.com/markets/expert-view/etmarkets-smart-talk-new-age-platform-businesses-could-turn-out-to-be-dark-horses-in-2023-jaspreet-singh-arora/articleshow/96809127.cms

https://www.livemint.com/money/personal-finance/correction-in-new-age-tech-stocks-a-possible-investment-opportunity-11673368333560.html

https://fastercapital.com/content/The-Top-Financial-Risks-Startups-Face.html

https://www.cnbc.com/2023/01/20/top-reasons-why-startups-failed-in-2022-study.html

https://www.livemint.com/companies/start-ups/startups-end-a-bruising-2022-stare-down-another-challenging-year-11672583366216.html

https://www.khuranaandkhurana.com/2021/02/17/legal-and-ethical-issues-faced-by-the-start-ups-in-india/

https://www.forbes.com/sites/allbusiness/2020/02/01/legal-mistakes-made-by-startups/?sh=8cecf6b22a6b

https://entrackr.com/2023/01/indian-startups-raised-over-25-bn-in-2022-entrackr-report/#:~:text=This%20includes%20%2421%20billion%20from,the%20early%20stage%2C%20remained%20undisclosed.&text=The%20overall%20funding%20declined%20by,2022%20when%20compared%20to%202021

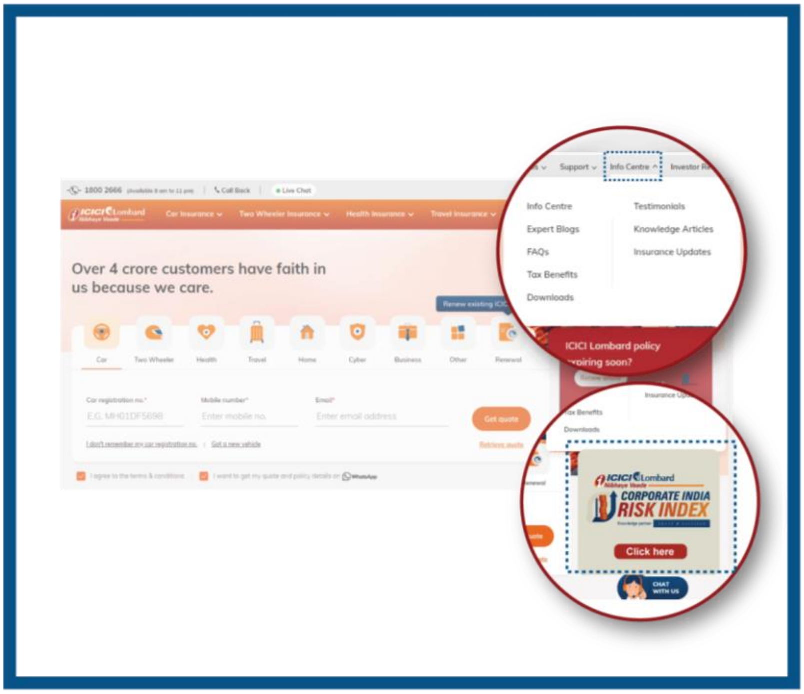
Disclaimer:

Notes:

Intelligence partner FROST & SULLIVAN

Now accessible at

www.icicilombard.com/corporate-india-risk-index



Please send a mail to ciri@icicilombard.com to get your customized ICICI Lombard Corporate India Risk Index Report

ICICI Lombard
Nibhaye Vaade

CORPORATE INDIA
RISK INDEX

Intelligence partner FROST & SULLIVAN