CORPORATE INDIA RISK INDEX

Intelligence partner FROST & SULLIVAN

Sector: Automotive & Ancillary

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 & Comm Tech*
- 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/ Impresonation
- 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)

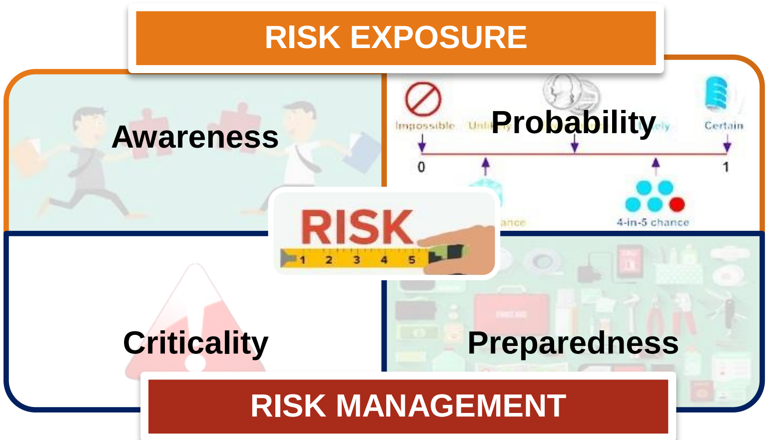
Strategic Risks
- Resources scarcity and/or misutilization
- Public sentiment
- Failed/Hostile M&A

ICICI Lombard Corporate India Risk Index – Approach

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

The 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.



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

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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.

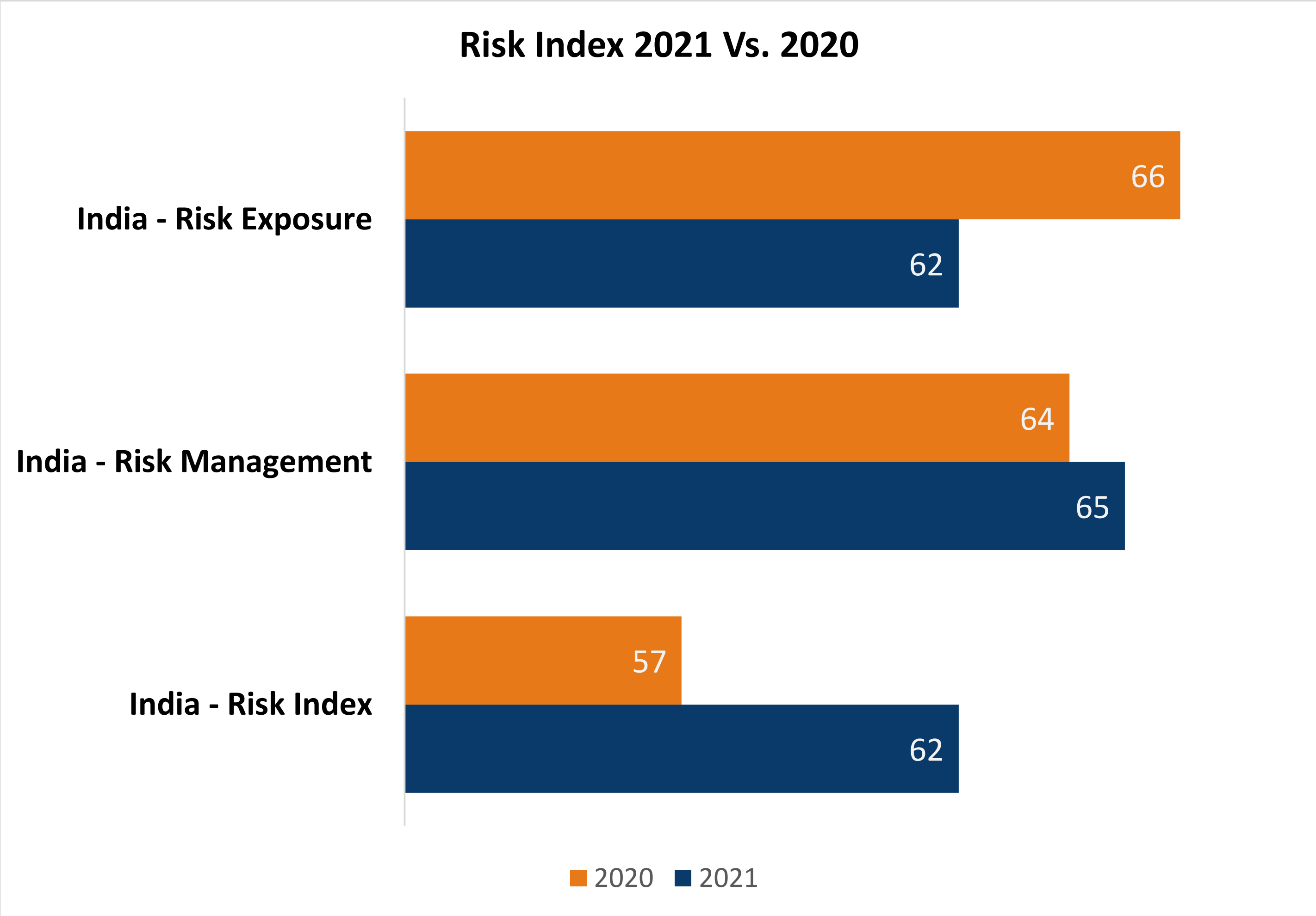
ICICI Lombard Corporate Risk Management – Scale

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

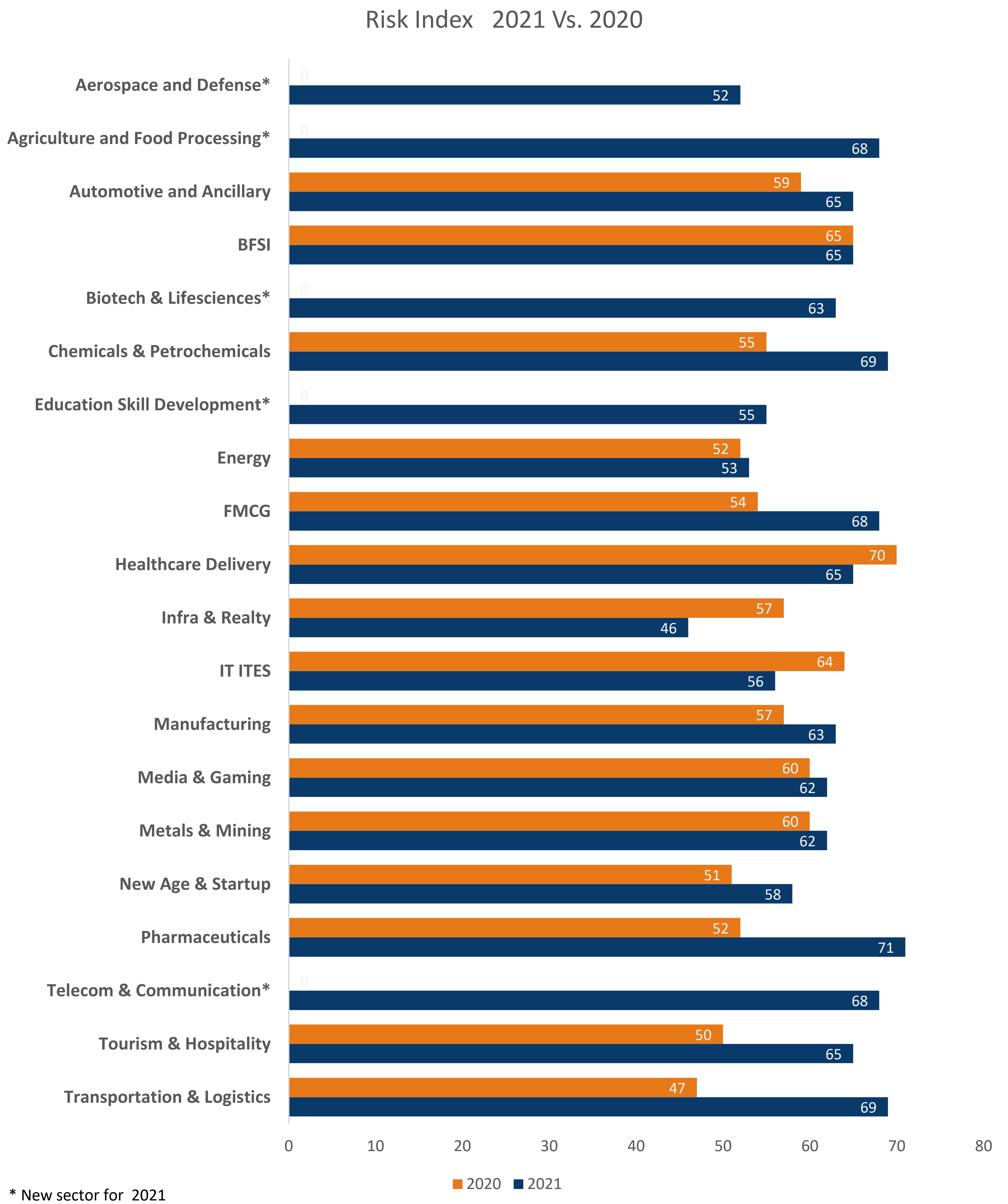
ICICI Lombard Corporate India Risk Index



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 202-2021 , 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

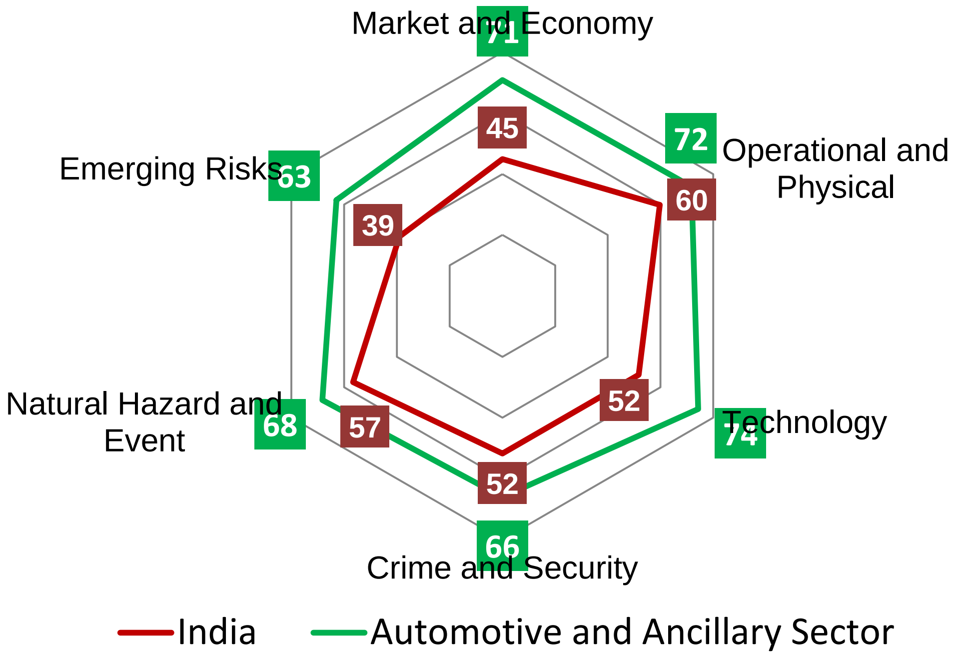
Observations:

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	2021 Risk Exposure	2021 Risk Management	2021 Risk Index	2020 Risk Index
India	62	65	62	57
Automotive and Ancillary	69	73	65	59

India Risk Index Vs. Automotive & Ancillary Sector Risk Index



The Indian Automotive & Ancillary sector's Risk Exposure score is 69 mainly due to its

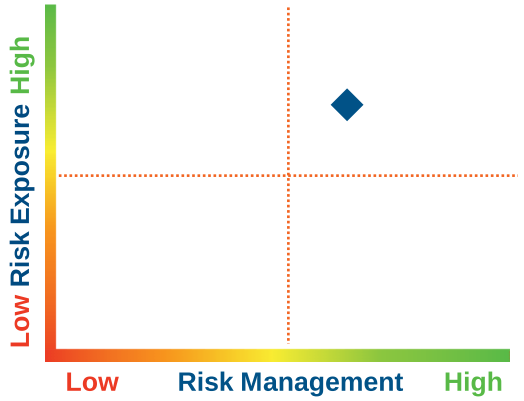
- Exposure to Market & Economic conditions, Natural hazard and events and Crime and Security. In FY 2021, the steep increase in commodity prices severely impacted the operating margins of Indian automakers.
- Several cost-cutting programmes, such as localization of direct and indirect imports, value engineering and analysis, logistics cost optimization, and others, were carried out by market players during the year, partially offsetting this COVID Impact.

The overall Risk Management score is 73 this indicates good risk management compared to India overall risk management. However, certain factors affecting the market are:

- Global events such as the shortage of semiconductors, the US polar vortex and other uncertainties posed significant challenges. However, the dynamic and evolving nature of these disruptions, the Indian auto companies were still able to manage and maintain an un-interrupted supply chain to ensure production continuity
- Furthermore, counterfeiting and substitute low quality parts have poses a threat to the OEM spares in the aftermarket, Hence, auto companies must adopt better anti-counterfeiting practices to overcome this risk

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 71
Risk Management Score: 73



Challenging macro and regulatory environment

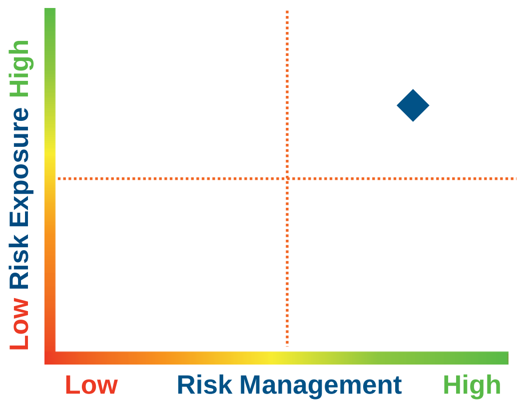
- In FY 2021, the steep increase in commodity prices severely impacted the operating margins of Indian automakers
- Several cost-cutting programmes, such as localization of direct and indirect imports, value engineering and analysis, yield improvement, logistics cost optimization, and others, were carried out by key market players during the year, partially offsetting this COVID Impact.
- To address regulatory changes and manage regulatory risks, Indian automakers will need to develop and adopt a comprehensive mitigation strategy.

Recommendation:

To respond to regulatory changes and manage regulatory risks, automakers will need to develop and adopt an fitting mitigation strategy. Forecasting sales demand should be done on basis of the most potential product segments to gain market traction. Diversification throughout the vehicle portfolio, coupled with sectorial focus with rising demand, are urgently required.

Risk Dimension Analysis: Technology

Risk Exposure Score: 74
Risk Management Score: 80



Integrating latest technologies to meet dynamic industry needs

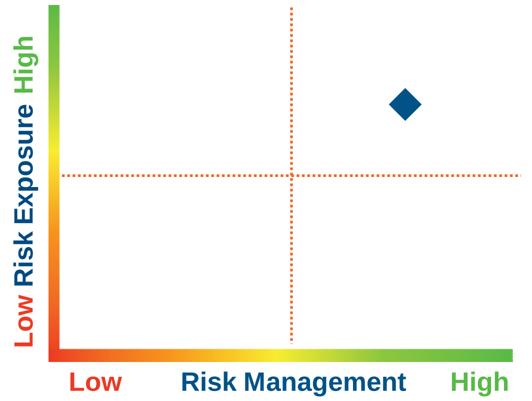
- Indian auto company's plans to improve their vehicle indigenous design and development capability with the support of international JVs and pursue wide range of powertrain options, including Flex engines and EVs
- Electric vehicles and connected automobiles have been prompted as the way of the future, and they are expected to put conventional businesses in the auto industry to the test.

Recommendation:

Investing in developing technology and expanding demand areas such as electric vehicles, smart vehicles, and safe automobiles can help a company's products stay relevant in the future marketplace. R&D techniques on efficient technologies will support companies to prepare for future stringent emission regulations.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 72
Risk Management Score: 78



Enormous challenge in maintaining a continuous supply of components

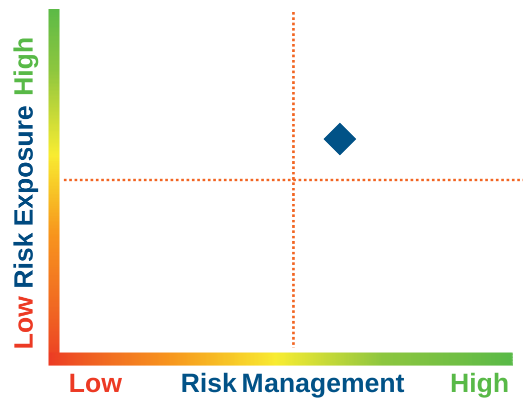
- To overcome aftermath of post lockdown production restart auto companies collaborated with its supplier partners and jointly created a detailed manual and monitored it.
- Global events such as the shortage of semiconductors, the US polar vortex and other such uncertainties posed significant challenges. However, the dynamic and evolving nature of these disruptions, the Indian auto companies were still manages to maintain an un-interrupted supply chain to ensure production continuity.
- Indian auto company's strong focus on localisation of components is also a part of its risk mitigation strategy

Recommendation:

Companies may want to consider supply chain management in order to have a broad supplier base and limit the risks of disruptions. Risk management will be aided by strengthening their global supply chain systems, as will ensuring a solid pricing strategy and maintaining excellent quality to improve client relationships.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 66
Risk Management Score: 67



Counterfeiting is a major deterrent in the sector

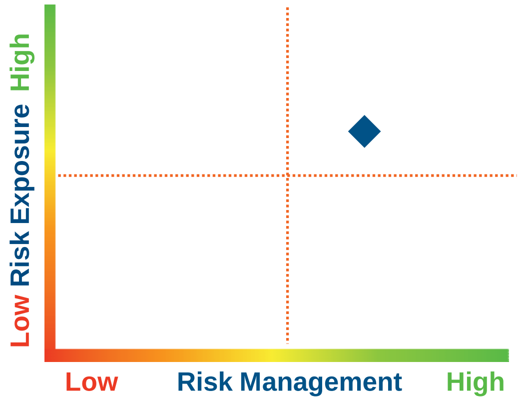
- Counterfeiting and substitute low quality parts have poses a threat to the OEM spares in the aftermarket, Hence, auto companies must adopt better anti-counterfeiting practices to overcome this risk
- To threat of cyber security auto companies has made conscious and concerted efforts to counter the threat of cyber security to its business and increasingly digitalise its business processes across the value chain
- Counterfeiting has acted as a major loss of revenue for market players in the industry

Recommendation:

Awareness campaigns to promote products among customer and tie-ups with dealers and sellers could be key to counter these threats. Companies should focus on working in close partnerships with governments and regulatory authorities to plug gaps related to counterfeiting and cyber threats. Internal policies should be continuously optimized to identify and mitigate risks.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 61
Risk Management Score: 71



Operations susceptible to natural hazards

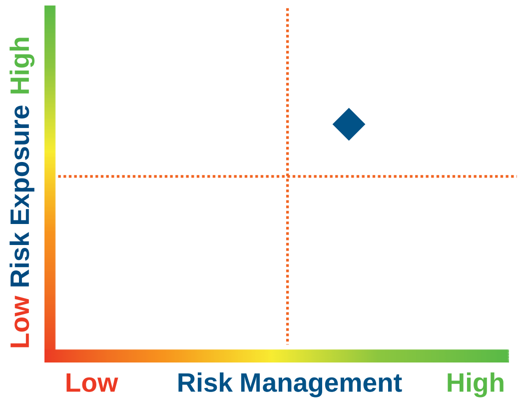
- The COVID-19 epidemic had a significant influence on the auto sector and the economy as a whole. As a result of the country's lockdown, the auto players had to lower its manufacturing
- The companies in the sector are subject to various risks associated with conducting business worldwide including natural calamities; political and economic instability; fuel shortages, interruption in social infrastructure.
- Natural hazards including the COVID-19 pandemic has resulted in delays and operational issues in automotive manufacturing sector
- Customers moving towards green technologies may cause disruptions and require intervention from many companies

Recommendation:

To mitigate the impact of pandemics such as COVID, auto companies must be updated to assess the likelihood of other natural disasters. Companies could look at implementation of business interruption insurance to cover for claims or damages in event of such extreme outcomes

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 63
Risk Management Score: 68



Innovative business models and operational techniques key to growth momentum

- Companies are looking to expand their domain capabilities, and acquire new technologies by investing, strategic acquisitions & partnerships to stay ahead of the curve.
- To address potential strategic risks, auto companies have developed robust efficient risk management techniques such as periodic sensitivity analysis, phased investment planning, and so on.
- Government initiatives to increase the promote auto electronics manufacturing and adoption of green fuel vehicles and clean emissions require structural reforms

Recommendation:

Companies could research innovative business models and operational techniques of foreign counterparts to deliver the new age solutions and drive growth in connection with emerging trends in the Indian auto sector.

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Nibhaye Vaade

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