ICICI Lombard
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CORPORATE INDIA RISK INDEX 2021

Intelligence partner FROST & SULLIVAN

Sector: Manufacturing
Company: Manufacturing Sector Report

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

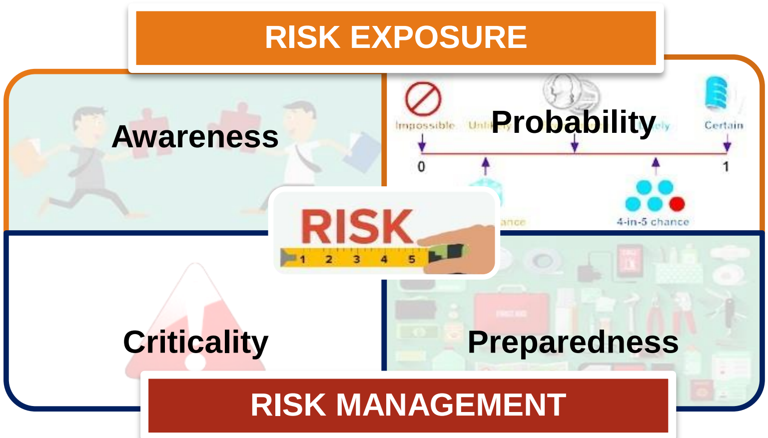
Operational and Physical
- Accidents/Fire Safety
- Strikes/Closure/Unrest
- Supply Chain Risk
- Environmental Risk
- Terrorism and Insurgency
- Equipment Malfunction

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

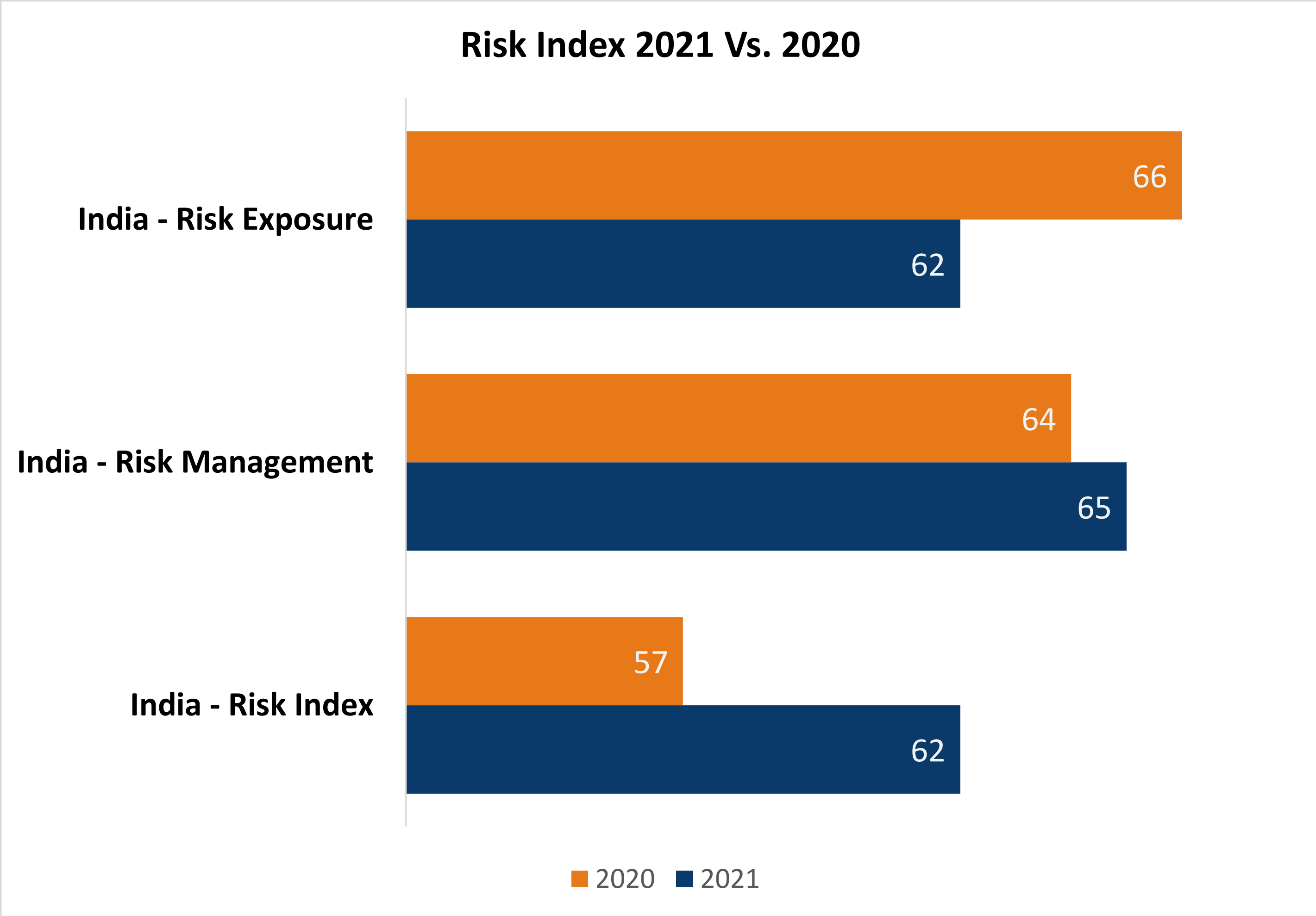
ICICI Lombard Corporate Risk Management – Scale

Score	< 40	40 - 50	50 – 70	70 - 80	> 80
Category	**Poor Risk Management** Unable to understand the concept of Risk management and reactive to overall risks that affect it.	**Below Par Risk Management** Use of inefficient or legacy risk management practices which is reactive to newer or unknown risks.	**Acceptable Risk Management** The corporate is prepared to handle known risks and the criticality of its risks are not severe.	**Superior Risk Management** Top class risk management practices with its ability to manage dynamic risks as well as unknown risks.	**Exemplary Risk Management** 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** The corporate has very high exposure or very poor risk management practices or both	**Sub-optimal** Not all risks are handled effectively. Risk management practices are likely dated or inefficient.	**Optimal** Most current risks are being handled effectively. Emerging risks associated with strategic initiatives need more diligence.	**Superior** Very effective and efficient risk management practices. Well positioned to handle current and future risks across dimensions.	**Over-prepared** High investment in risk mitigation practices. Likely over-investment in one or more risk dimensions. Difficult to justify ROI

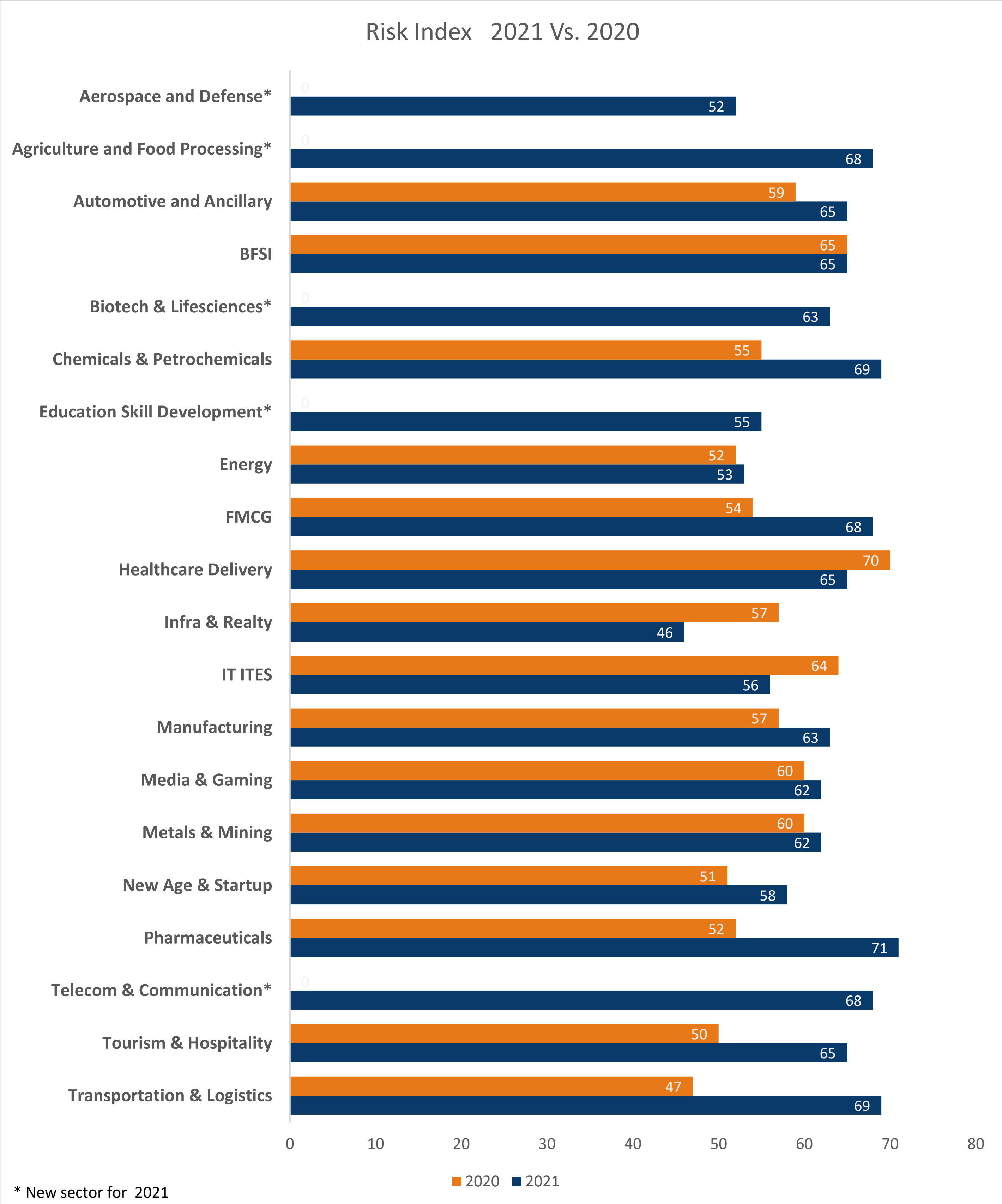
ICICI Lombard Corporate India Risk Index



India Risk Index(Optimal Risk Handling)

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

ICICI Lombard Corporate India Risk Index – Sector Comparison



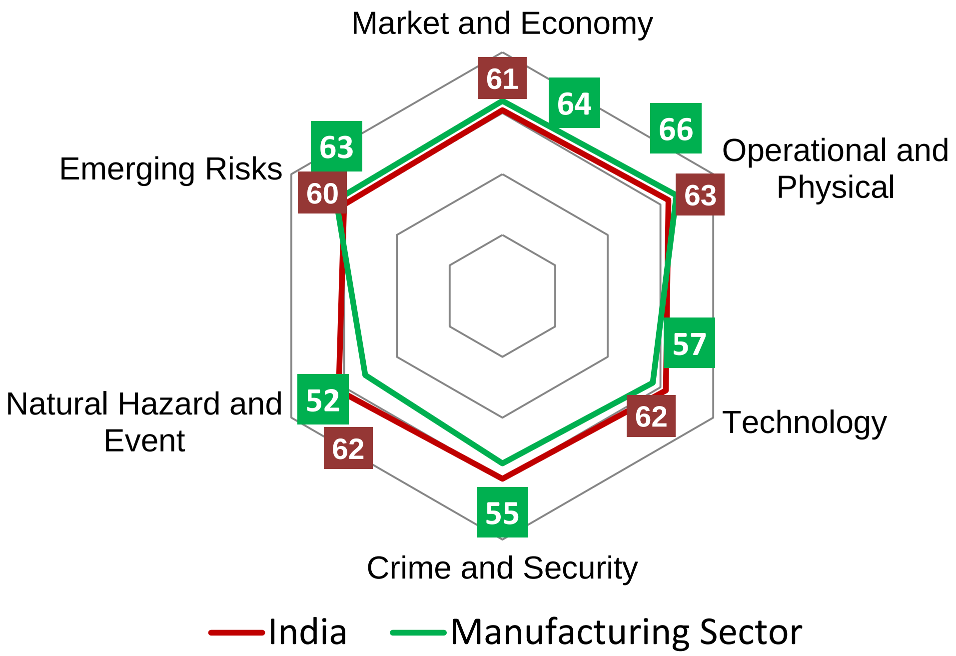
Observations:

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

India Risk Profile Vs. Sector Risk Profile

Risk Profile	2021 Risk Exposure	2021 Risk Management	2021 Risk Index	2020 Risk Index
India	62	65	62	57
Manufacturing	72	76	63	57

India Risk Index Vs. Manufacturing Sector Risk Index



The Manufacturing Sector has obtained a Risk Index Score of 63, while India's Risk Index Score is 62, showing a higher Risk Management Score than the national average.

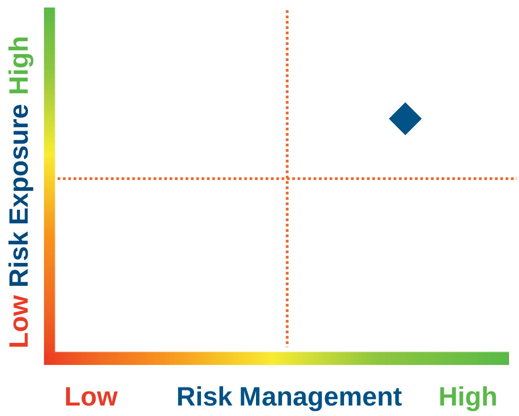
The Manufacturing sector has grown over the last decade due to the rise of disruptive technologies in different industries within manufacturing, as well as an increase in competition. The sector has seen steady growth, and the leaders are poised to invest in innovative technology and practices to enhance productivity. The sector felt the negative effects of COVID-19, but is gaining traction again due to a large shift towards urbanization in India.

- Innovation and environmental consciousness have been some of the top strengths of the manufacturing sector in 2021. Innovative technology and practices are being used from the manufacturing process of cement, to the distribution of luxury clothing in India. Companies are also strengthening their environmental policies in preparation for current and anticipated regulatory risks.
- As the market is developing into a more customer-centric one, the manufacturing sector in large has taken steps towards mitigating portfolio risks by seeking customer insights. The sector also has began introducing AI and MS to its processes, which should be scaled and maintained.
- The significant rise of e-commerce as a consequence of COVID-19 has affected all sectors, including manufacturing. As customers seek more online engagement, the sector has to take steps towards building a comprehensive online platform for e-commerce sales.

Risk Dimension Analysis: Market and Economy

Risk Exposure: 73

Risk Management : 72



Competitive marketplace

- The sector is subject to risk from environment taxations and climate change mitigation regulations which might require re-structuring of the sectorial operational processes
- FOREX is expected to impact the procurement of raw materials for the sector along with the export value of the products
- Innovation should be prioritized to expand the and retain the customer base

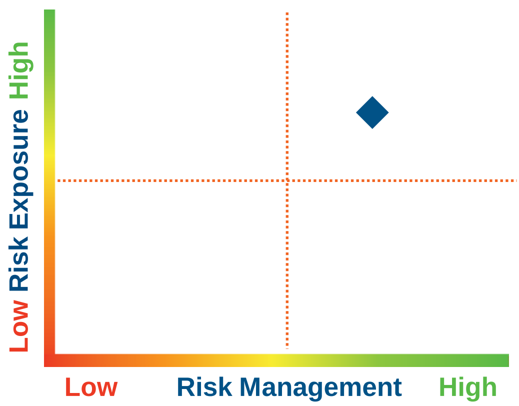
Recommendation:

While risk management is a priority, the manufacturing should use new approaches to boost its e-commerce presence in light of COVID-19's repercussions. The sector will need to adapt as new players and an increasing number of multinational clothing companies enter the market.

Risk Dimension Analysis: Technology

Risk Exposure: 62

Risk Management: 58



Technology an enabler

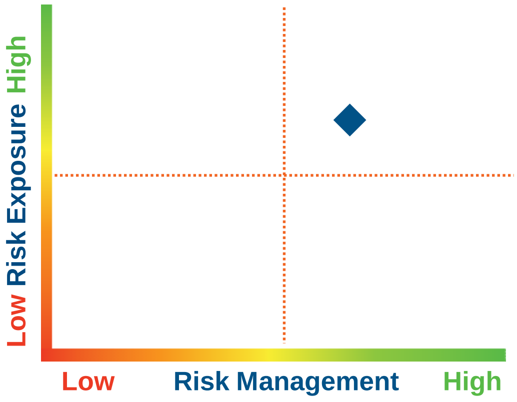
- The sectorial players prioritize investment in research and development in technological advancement for resource efficient product development, material development, and process improvement
- With expansion of e-commerce as a major revenue generator, technological risk management should be prioritized
- Periodic patent and license analysis is required to reduce intellectual property risk

Recommendation:

To obtain a better understanding of consumer behavior and to reach a wider audience, the sector as a whole should expand its e-commerce presence. Prioritizing technology risk management is recommended for an expanding e-commerce endeavor.

Risk Dimension Analysis: Operational and Physical

Risk Exposure: 69
Risk Management : 69



Adequate portfolio risk mitigation

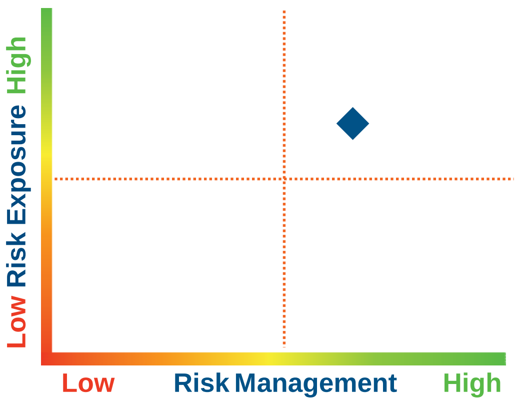
- Portfolio risk is a common occurrence in this industry, which relies significantly on imported goods for a large portion of its revenue.
- Financial risk (interest rate, equity prices, liquidity risk, etc.) has been mitigated in general with stringent safeguards and a risk management plan in place.
- Especially for market leaders, regulatory non-compliance is a significant concern.
- Portfolio diversification is an initiative pushed significantly in all sub sectors on manufacturing

Recommendation:

As disposable income rises in India, so does the penetration and demand for quality and budget products/services. There are a lot of untapped customers who can be exposed to certain services and products at a reasonable price. In order to keep ahead of the competition, some organizations are investing in customer-centric service and technical advances.

Risk Dimension Analysis: Crime and Security

Risk Exposure: 58
Risk Management: 59



Strong crime and security risk management plan

- The sector's e-commerce business is significantly reliant on its systems, apps, and software processes running in a safe and efficient manner at all times.
- Any data leakage, shutdowns, or illegal disclosures, for example, could result in a reduction in client reach and convenience.
- Counterfeit products are common in the sector, and novel solutions are needed to reduce the danger.

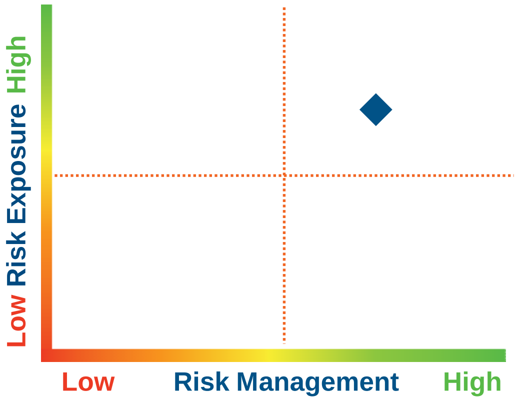
Recommendation:

Attractive products and services targeted at the customer base most vulnerable to counterfeit goods, a strong cyber security plan, and a sustained push to establish a dominant presence in the e-commerce industry are all on the table.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure: 70

Risk Management: 66



Pandemic disruption but new opportunities

- Since the outbreak of the COVID-19 pandemic, e-commerce sales have increased significantly, particularly in the field of luxury items from clients.
- As a result, the company has been able to broaden its e-commerce portfolio and provide customers with more options.
- Equipment failure, severe weather, and other natural or man-made disasters, such as power outages, fires, explosions, terrorism, cyber-based attacks, conflicts or unrest, epidemics or pandemics (such as the current global COVID-19 pandemic), labor disputes, acts of God, or other causes, can all disrupt manufacturing plant operations, capacity, and supply chain..

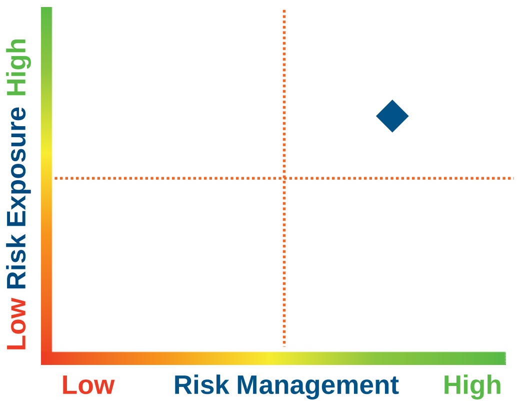
Recommendation:

To react for the shift in consumer buying behavior, corporations should increase their partnerships with e-commerce platforms, which will also stay up with customer fads and trends based on user insights monitoring.

Risk Dimension Analysis: Strategic Risk

Risk Exposure: 70

Risk Management: 74



Strategy and user base risk

- As companies' user bases grow and Internet penetration rises, the companies confront strategic risks.
- As companies increase their e-commerce base, they will need to invest in breakthrough technology and make strategic acquisitions.
- Delays in project completion could make it difficult to meet rising client demand.

Recommendation:

The sector as a whole could consider expanding into areas where Internet access is increasing and brand consumption is low. This provides organizations with the option to broaden their geographical exposure.

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