



## Sector: Automotive & Ancillary



## ICICI Lombard Corporate India Risk Index - Introduction

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

## ICICI Lombard Corporate India Risk Index - Sector List

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



## ICICI Lombard Corporate India Risk Index - Risk Framework

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

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

**Market and Economy**


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

**Technology**


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

**Crime and Security**


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

**Operational and Physical**


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

**Natural Hazard and Event**

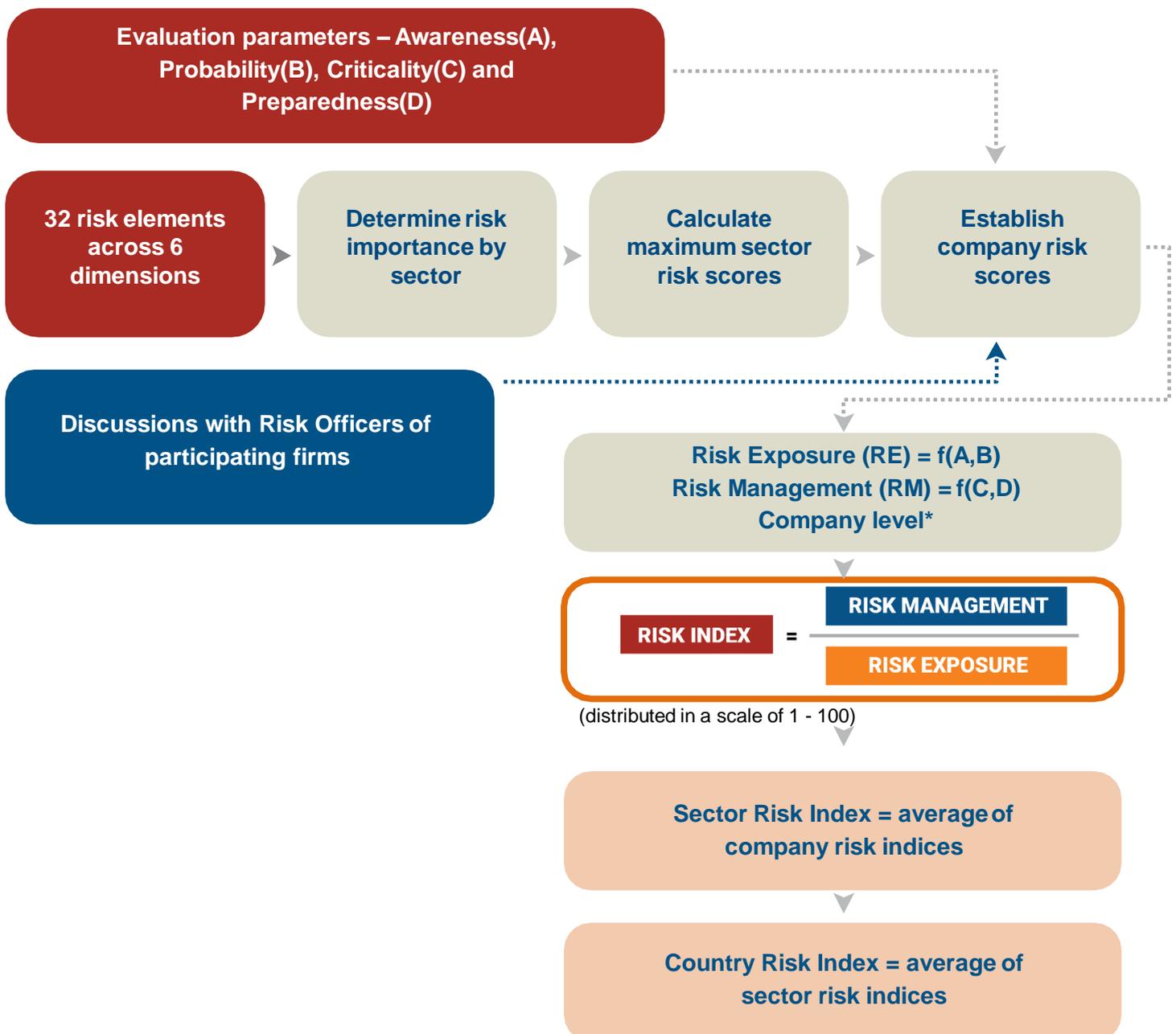

- Resources scarcity and/or misutilization
- Public sentiment
- Failed/Hostile M&A

**Emerging**


## ICICI Lombard Corporate India Risk Index - Methodology

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

## ICICI Lombard Corporate India Risk Index - Approach



## ICICI Lombard Corporate Risk Index – Formulation

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

Measured across 4 parameters spanning exposure and management



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

## ICICI Lombard Corporate Risk Index – Scale

Score	< 30	30 - 50	50 – 60	60 - 80	> 80
	Ineffective	Sub-optimal	Optimal	Superior	Over-prepared
Category	The corporate has very high exposure or very poor risk management practices or both	Not all risks are handled effectively. Risk management practices are likely dated or inefficient.	Most current risks are being handled effectively. Emerging risks associated with strategic initiatives need more diligence.	Very effective and efficient risk management practices. Well positioned to handle current and future risks across dimensions.	High investment in risk mitigation practices. Likely over-investment in one or more risk dimensions. Difficult to justify ROI

## Corporate India Risk Profile

**Risk Exposure Score: 66**

**Risk Management Score: 64**

**Risk Index  
57**

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

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

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

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

## Corporate India Risk Index at Glance

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

## Automotive & Ancillary Sector Risk Profile

**Risk Exposure Score: 72**  
**Risk Management Score: 72**

**Risk Index**  
**60**

### Sector Risk Index - Six Risk Dimensions



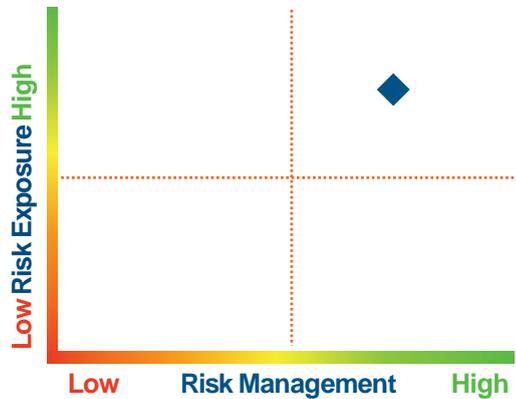
The Indian Automotive & Ancillary sector’s Risk Exposure score is 72 mainly due to its high exposure to Operational risk and Market & Economic conditions. Companies in the sector also face threat from technological obsolescence.

The overall Risk Management score is 72; this indicates the need for companies to improve their Risk Management practices especially the risks associated with threat of counterfeit product and cheaper & lower quality products available in the market.

Companies in the sector are set to face challenges from the increasing adoption of electric vehicles and promotion of e-mobility by governments

## Risk Dimension Analysis: Market and Economy

**Risk Exposure Score: 73.4**  
**Risk Management Score: 70.0**



**Challenging macro and regulatory environment further compounded by coronavirus**

- With the pandemic induced lockdowns and restrictions in the initial months, many companies operations were affected.
- The sector, which was already weakened before the pandemic received a jolt and the pandemic lowered the demand further
- Gradual opening of the economy has brought demand back and companies will have to assess utilization to ascertain operations
- Formulation and adaptation of proper mitigation strategy to cater to regulatory changes needed handle regulatory risks

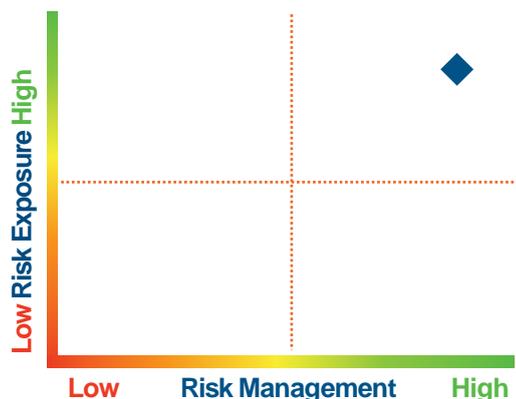


### Recommendation:

Sales Demand forecasts should be done from the perspective of the most likely Product segments that will gain traction in the market . Diversification across vehicle segment types, ensuring increased focus on vehicle segments with increasing demand are need of the hour

## Risk Dimension Analysis: Technology

**Risk Exposure Score: 75.9**  
**Risk Management Score: 79.0**



**Keeping up with evolving technologies and changing customer demands in the Industry**

- New age companies promoting ride hailing have disrupted the business model and use of auto sharing services have increased, which may result in lowering of ownership of vehicles
- Electric vehicles and their promotion by governments to counter the pollution menace have gained prominence
- Autonomous cars and connected cars have been touted as the future and promises a tough competition for traditional players in the sector

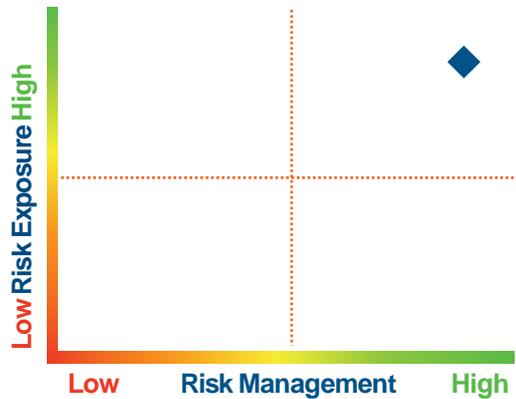


### Recommendation:

Investing in emerging technology and growing demand segments like Electrification of Vehicles, can ensure that a company's products remains relevant in the future marketplace. Building future preparedness for regulation such as BS-VI, through R&D practices on efficient technologies

## Risk Dimension Analysis: Operational and Physical

**Risk Exposure Score: 77.5**  
**Risk Management Score: 78.0**



**Supply chain management becomes key for companies to manage operations**

- Companies face myriad of risks from the disruptions facing the supply chain
- The increase in prices of raw materials that the companies and their suppliers use in manufacturing their products may lead to higher costs of production for components
- This puts the profitability of the companies at stake as they may not be able to pass on the rising costs entirely to the customers
- Although manpower exists in abundance, lack of high-skilled workforce may be a deterrence

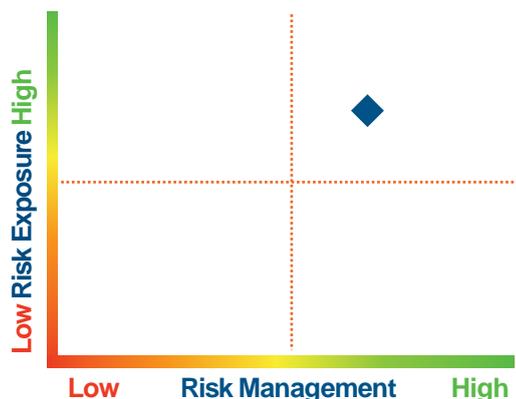


### Recommendation:

Companies could look at managing supply chain in order to have a diverse supplier base and reduce the risks associated with disruptions. Ensuring a robust pricing strategy and maintaining high quality to strengthen customer relationships will be key

## Risk Dimension Analysis: Crime and Security

**Risk Exposure Score: 70.6**  
**Risk Management Score: 66.2**



**Counterfeiting is a major deterrent in the sector**

- Despite the high quality difference between original OEM spare parts and counterfeit parts, the customer preferences towards low cost parts been something of a worry for the companies
- This has acted as a major loss of revenue for market players in the industry.
- Stricter government measures are required to counteract this trend.

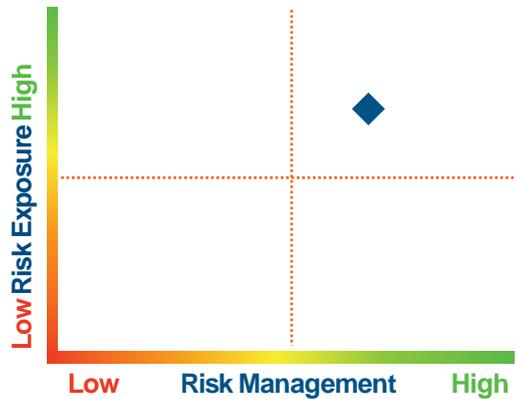


### Recommendation:

Awareness campaigns to promote products among customer and tie-ups with dealers and sellers could be key to counter these threats. Companies could work together with governments and regulators to counter these threats

## Risk Dimension Analysis: Natural Hazard and Event

**Risk Exposure Score: 64.8**  
**Risk Management Score: 64.2**



**Risk from pandemics and natural hazards on the lower side**

- The companies in the sector are subject to various risks associated with conducting business worldwide. These risks include natural calamities; political and economic instability; fuel shortages, interruption in social infrastructure.
- Disruptions due to natural hazards along the supply chain could result in prolonged delays to business which may affect the financial conditions of the companies
- Customers moving towards green technologies may cause disruptions and require intervention from many companies

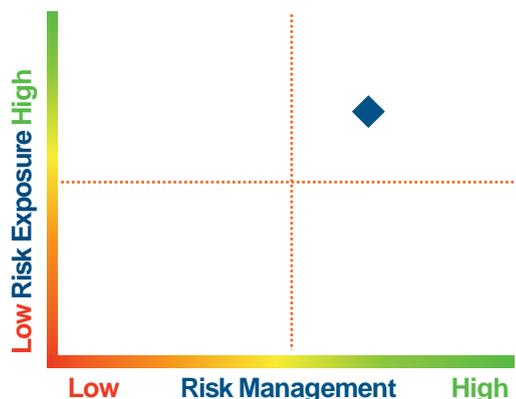


### Recommendation:

Companies could look at implementation of **business interruption insurance** to cover for claims or damages in event of such extreme outcomes

## Risk Dimension Analysis: Emerging Risk

**Risk Exposure Score: 64.8**  
**Risk Management Score: 65.7**



**Strategy related risks and acquisitions could be key**

- Companies are looking to expand their domain capabilities, project management expertise, acquire new technologies and operational areas
- Risk of 3<sup>rd</sup> party service providers going out of business / facing problems need to be taken into consideration
- Government initiatives to increase the promote automobile manufacturing and adoption of electric technologies and clean emissions require structural reforms



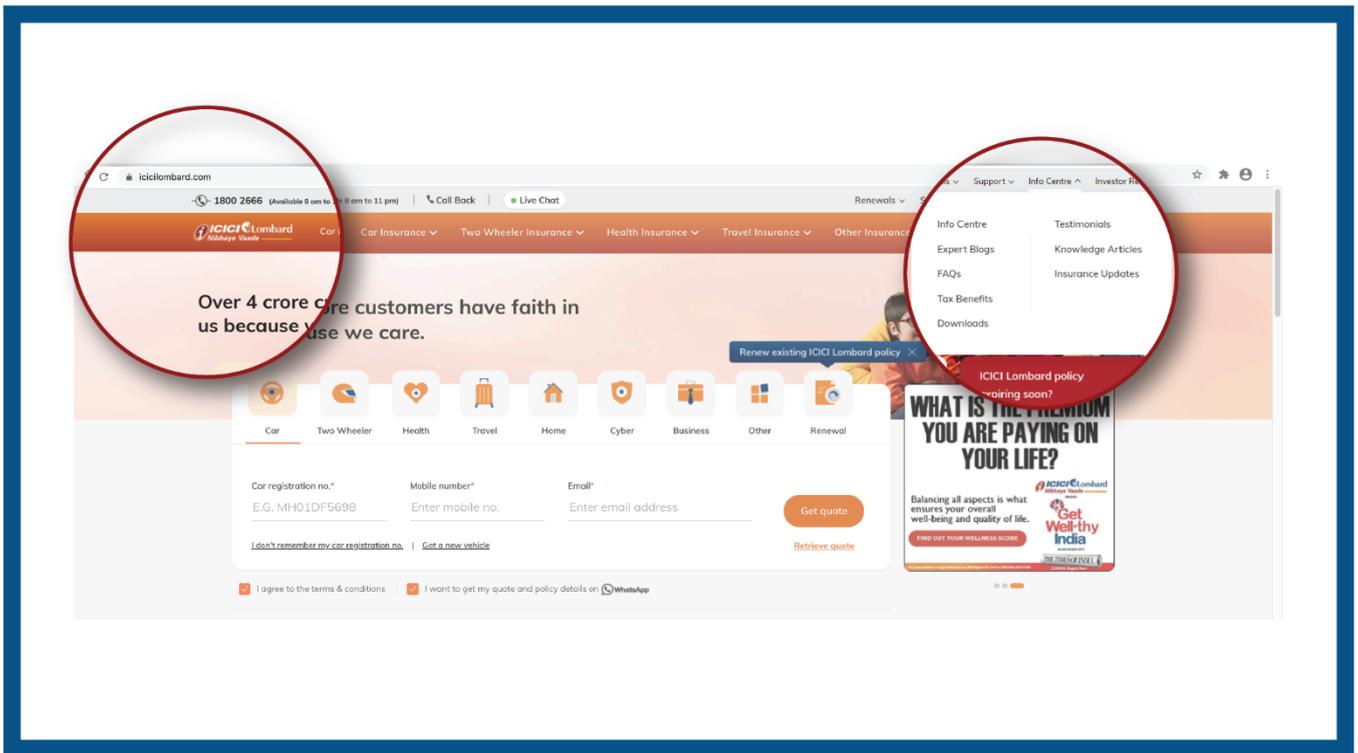
### Recommendation:

Companies could look at collaborating with consulting companies to deliver the roll-out of new age solutions and drive growth in connection with emerging trends in the sector. Expansion into new geographies can also be handled with knowledge partners



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