

**ICICI Lombard**  
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**CORPORATE INDIA  
RISK INDEX**  
2021

Intelligence partner **FROST & SULLIVAN**



**Sector: Energy**

# 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 2<sup>nd</sup> 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.

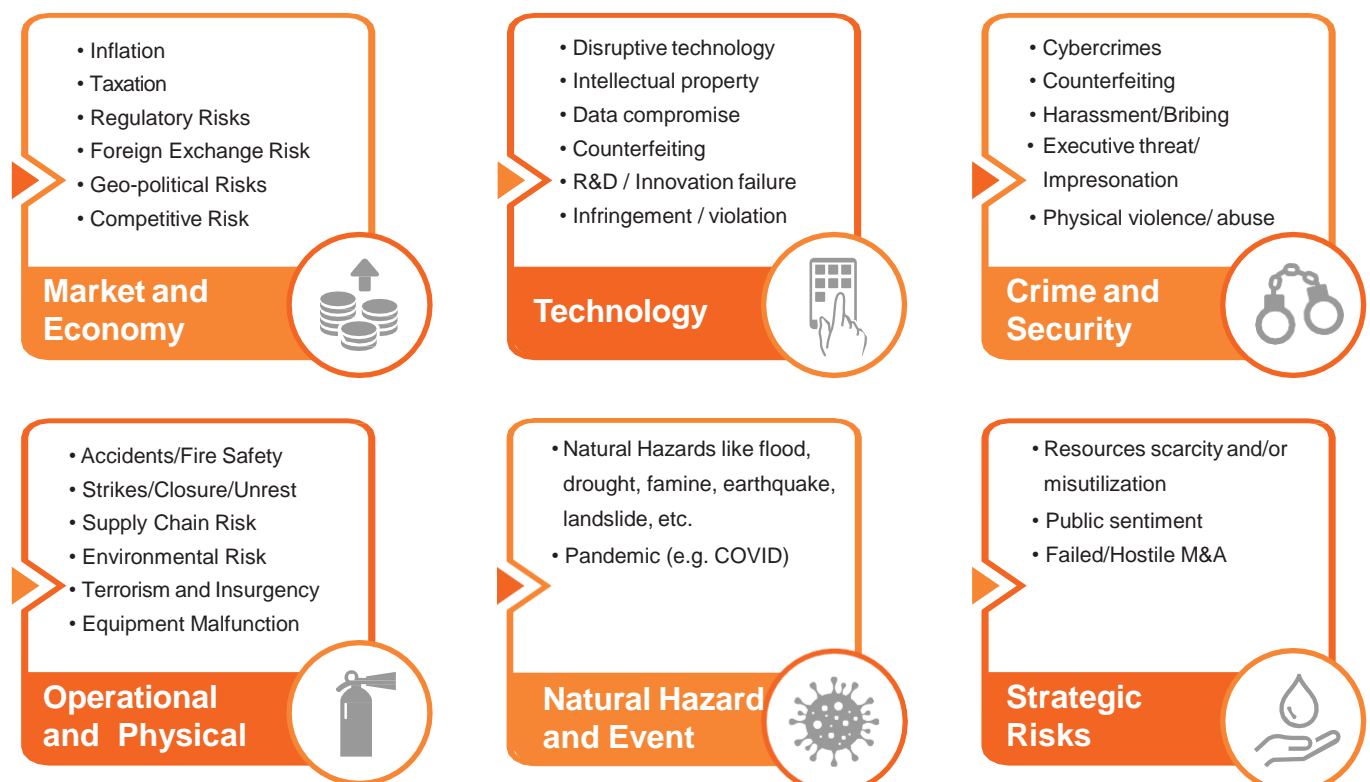
## Comprehensive Sector Coverage

- 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

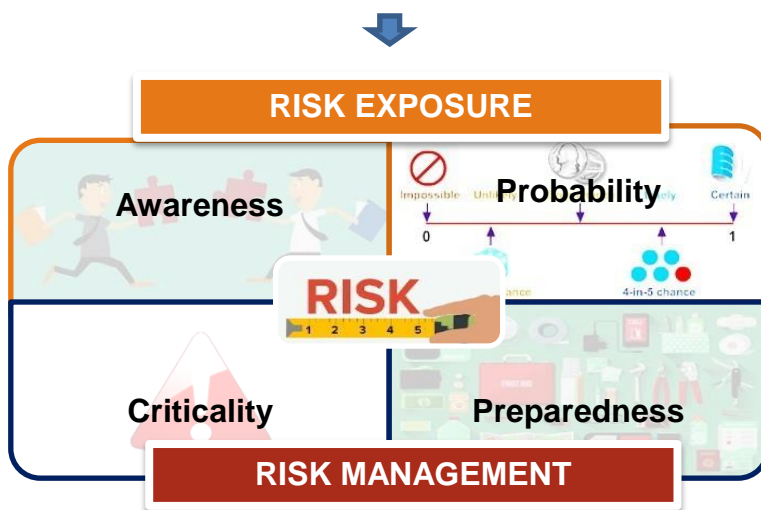
The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions:



# 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.

$$\text{Risk Exposure (RE)} = f(\text{Awareness, Probability})$$

$$\text{Risk Management (RM)} = f(\text{Criticality, Preparedness})$$

$$\text{COMPANY RISK INDEX} = f(\text{Risk Management, Risk Exposure})$$

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
<b>Category</b>	<b>Very Low Risk Exposure</b>	<b>Low Risk Exposure</b>	<b>Moderate Risk Exposure</b>	<b>High Risk Exposure</b>	<b>Very High Risk Exposure</b>
	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.

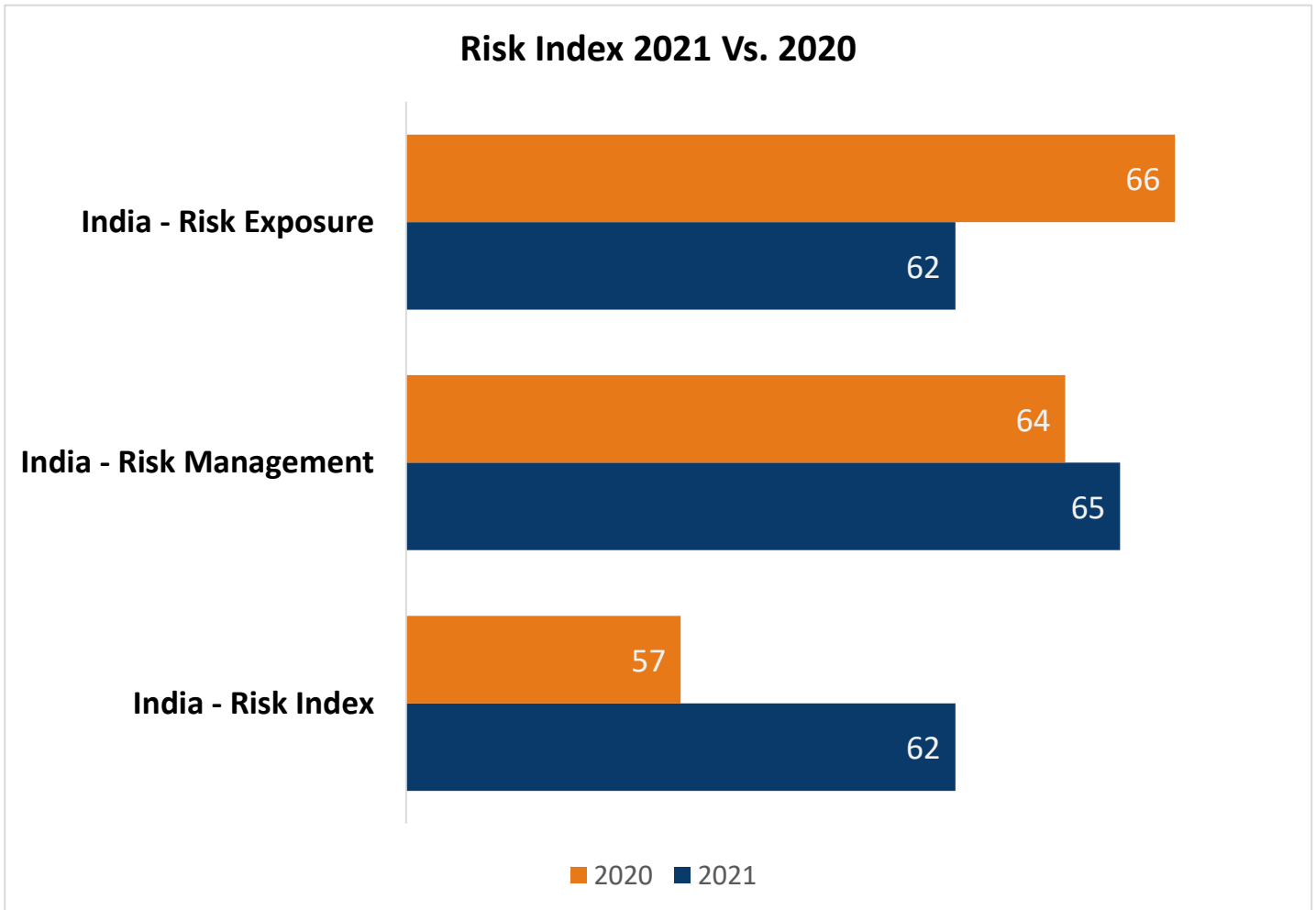
## ICICI Lombard Corporate Risk Management – Scale

Score	< 40	40 - 50	50 – 70	70 - 80	> 80
<b>Category</b>	<b>Poor Risk Management</b>	<b>Below Par Risk Management</b>	<b>Acceptable Risk Management</b>	<b>Superior Risk Management</b>	<b>Exemplary Risk Management</b>
	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
<b>Category</b>	<b>Ineffective</b>	<b>Sub-optimal</b>	<b>Optimal</b>	<b>Superior</b>	<b>Over-prepared</b>
	The corporate has very high exposure or very poor risk management practices or both	Not all risks are handled effectively. Risk management practices are likely dated or inefficient.	Most current risks are being handled effectively. Emerging risks associated with strategic initiatives need more diligence.	Very effective and efficient risk management practices. Well positioned to handle current and future risks across dimensions.	High investment in risk mitigation practices. Likely over-investment in one or more risk dimensions. Difficult to justify ROI

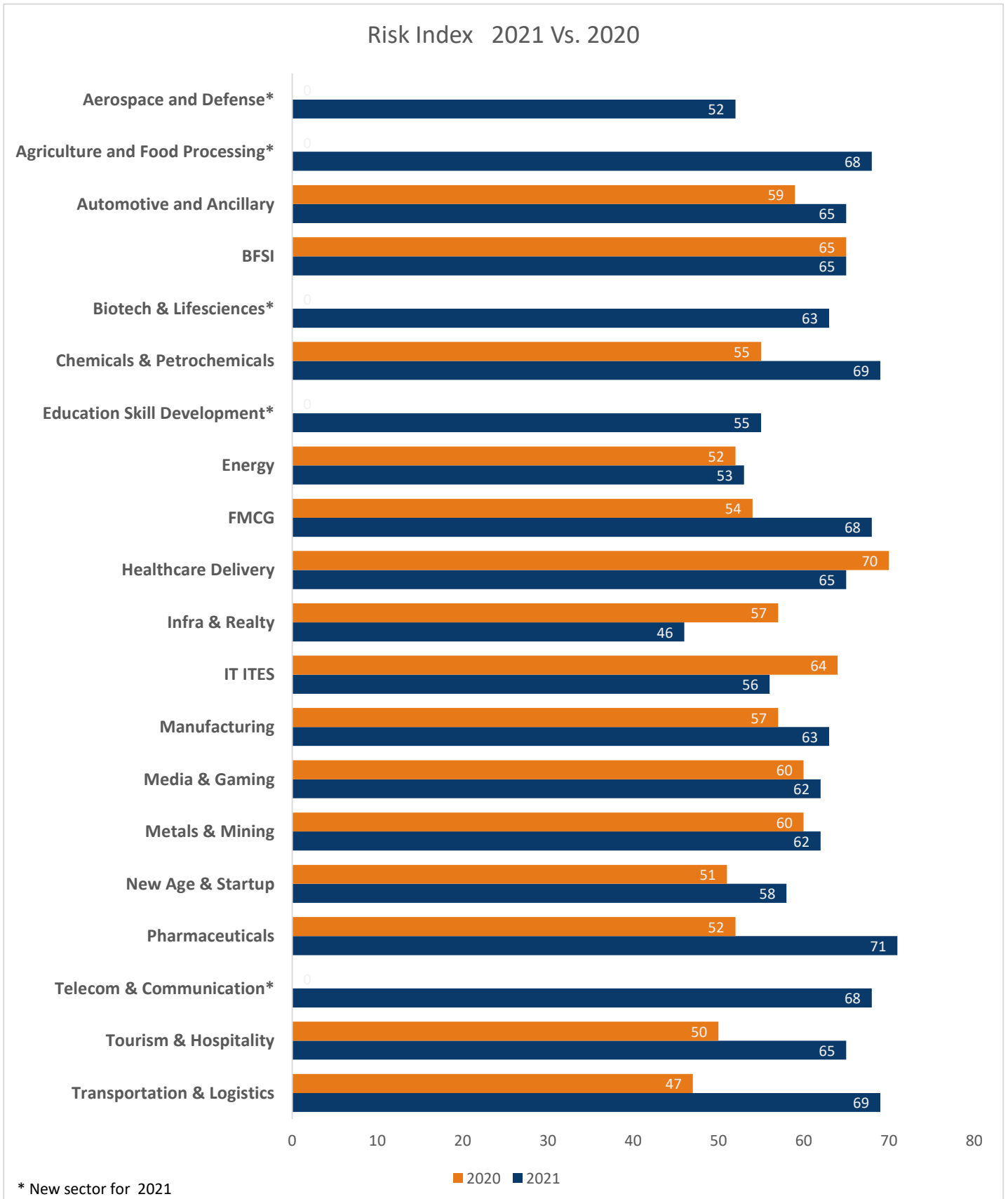
## ICICI Lombard Corporate India Risk Index



### India Risk Index(Optimal Risk Handling)

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

# ICICI Lombard Corporate India Risk Index – Sector Comparison



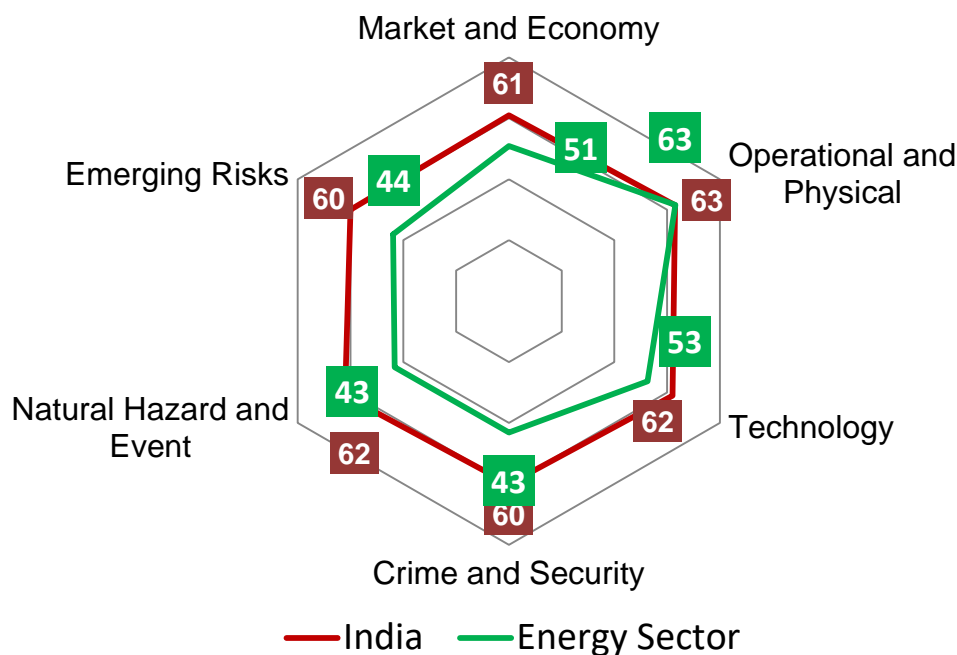
### Observations:

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
Energy	67	67	53	62

### India Risk Index Vs. Energy Sector Risk Index



**The Energy Sector has obtained a Risk Index Score of 53, while India's Risk Index Score is 62, showing a lower Risk Management Score than the national average.**

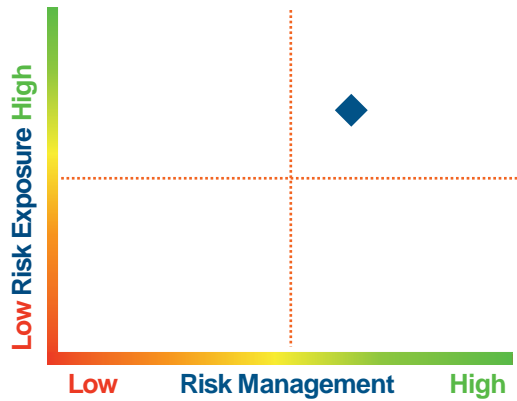
The Energy sector in India is one of the most diverse in the world. Power generation sources include coal, lignite, natural gas, oil, hydro, and nuclear power, as well as feasible non-conventional sources such as wind, solar, and agricultural and residential waste. Electricity demand in the country has risen significantly and is anticipated to rise much further in the coming years. To meet the country's growing need for power, a substantial increase in installed generating capacity is required.

- India's power sector is one of the most diversified in the world. Sources of power generation range from conventional sources such as coal, lignite, hydro and nuclear power to variable non-conventional such as wind, solar.
- The Government of India has identified power sector as a key sector of focus to promote sustained industrial growth
- Total FDI inflow in the power sector reached US\$15.36 billion between April 2000 to June 2021.

## Risk Dimension Analysis: Market and Economy

**Risk Exposure : 70**

**Risk Management : 69**



The sector is exposed to Exchange rate fluctuations and change in interest rate

- The Sectors's exposure to the risk of changes in market interest rates relates primarily to the company's long-term debt obligations with floating interest rates
- The Indian power sector is undergoing substantial upheaval, which has changed the industry's outlook.
- India's electricity demand is being driven by the country's continued economic expansion. The Indian government's emphasis on achieving "Power for All" has hastened capacity addition in the country. Simultaneously, the competition intensity on both the market and supply sides is increasing.



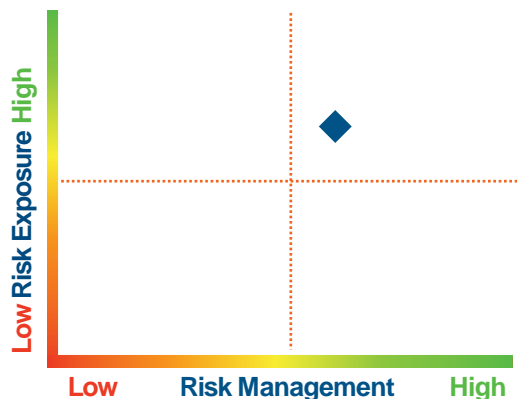
### Recommendation:

Companies in this industry can expand as electrification in the country increases, thanks to initiatives such as the Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY), the Ujwal DISCOM Assurance Yojana (UDAY), and the Integrated Power Development Scheme (IPDS).

## Risk Dimension Analysis: Technology

**Risk Exposure : 63**

**Risk Management : 63**



Leveraging R&D to help the company reduce its exposure to technological risks

- The adoption of super-critical technology for thermal power generation has led to a decrease in the company's specific coal consumption.
- With company's geographical diversification, integrated business model and the level of digitalization achieved, enabled company to guarantee the continuity of operating activities, during COVID



### Recommendation:

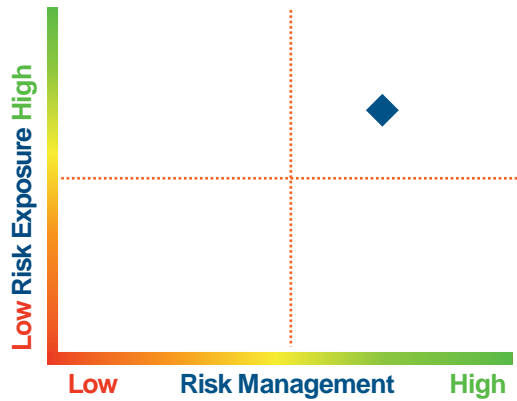
Companies can investigate hydropower. With a huge number of rivers and bodies of water, India has enormous hydroelectric potential. India's hydropower generating capacity was 46.51 GW as of October 2021. It is predicted that total installed capacity would increase by 6.82 GW by 2022.



## Risk Dimension Analysis: Operational and Physical

**Risk Exposure : 67**

**Risk Management : 71**



Operational and physical risk posed various risks to the energy sector any shock to a system always helps drive home some key points

- Although power generation has increased more than 100-fold since independence, consumption has increased even faster due to rising economic activity.
- India's energy companies have made considerable inroads into the global energy market. Reliance Industries Ltd. and Indian Oil Corp. Ltd. were ranked 19th and 25th, respectively, in the S&P Global Platts Top 250 Global Energy Rankings 2019.



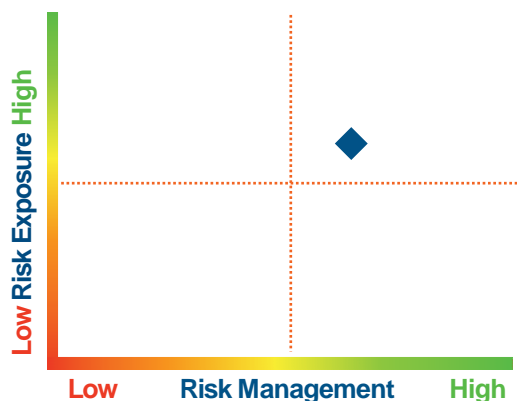
### Recommendation:

Captive coal fields are being developed by companies in order to eliminate price volatility and assure an uninterrupted supply of fuel in order to regulate generation costs. The majority of electricity firms are currently positioned near an energy source. This helps to reduce the cost of fuel transportation.

## Risk Dimension Analysis: Crime and Security

**Risk Exposure : 61**

**Risk Management : 59**



Empowerment of women employees and prevention of sexual harassment at workplace

- The smart grid initiative is being launched as a pilot with 14 DISCOMS. Smart metering for high-end electricity customers.
- During the year under review Of 2020/21, there were no complaints pertaining to sexual harassment against women.



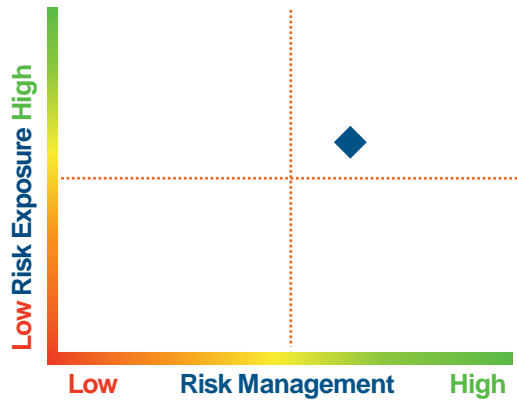
### Recommendation:

The company has adequate internal financial controls in place to provide reasonable assurance with regard to recording and providing reliable financial information.

## Risk Dimension Analysis: Natural Hazard and Event

**Risk Exposure : 62**

**Risk Management : 59**



**Natural hazards pose limited risks to the energy sector**

- Company regularly identifies and assesses environmental risk during all stages of its existing and planned projects. At the time of planning of new projects, environmental impacts are assessed through structured process and management plans are prepared.
- As stewards of the environment, company is working to conserve energy, reduce waste and build awareness of environmental issues.



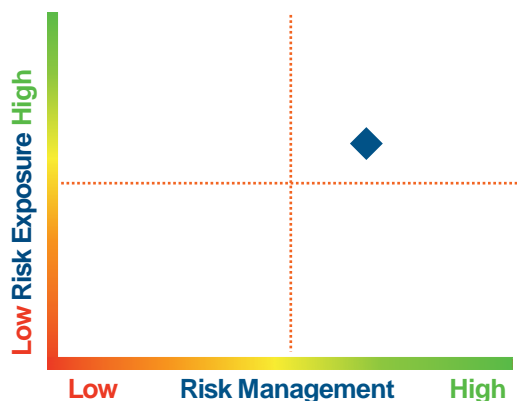
### **Recommendation:**

The company should expand its partnership with e-commerce platforms to adjust for the shift in consumer spending behavior, and which will also keep up with customer fads and trends based on monitoring of user insights.

## Risk Dimension Analysis: Strategic Risk

**Risk Exposure : 69**

**Risk Management : 66**



**Asset-light business model**

- Future investment will benefit from strong demand fundamentals, policy support and increasing Government focus on infrastructure.



### **Recommendation:**

The company should continue to focus on data automation, enable optimal usage of available resources, reduction of waste, and facilitate lean operation.



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