

ICICI Lombard
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**CORPORATE INDIA
RISK INDEX**
2021

Intelligence partner

FROST & SULLIVAN



Sector: Transportation and Logistics

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.

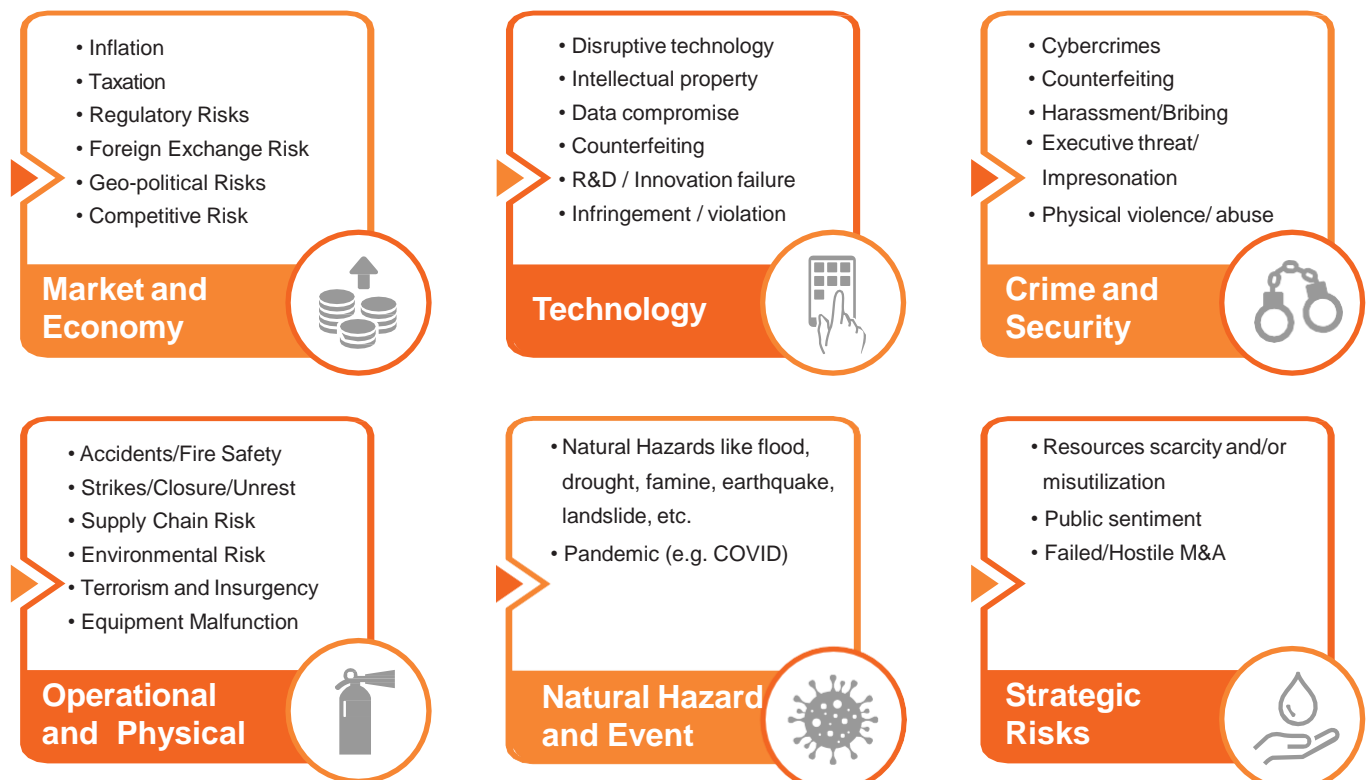
Comprehensive Sector Coverage

- 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

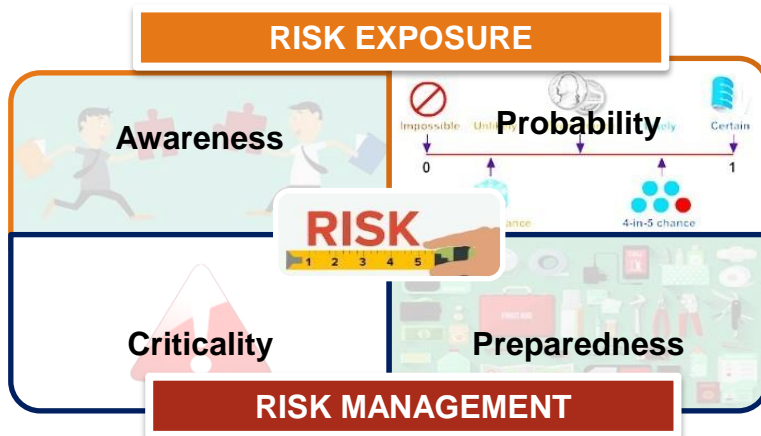
The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions:



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.

$$\begin{aligned} \text{Risk Exposure (RE)} &= f(\text{Awareness, Probability}) \\ \text{Risk Management (RM)} &= f(\text{Criticality, Preparedness}) \end{aligned}$$

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

$$\text{Sector Risk Index} = \text{average of company risk indices}$$

$$\text{Country Risk Index} = \text{average of sector risk indices}$$

ICICI Lombard Corporate India Risk Exposure – Scale

Score	< 40	40 - 50	50 – 60	60 - 80	> 80
Category	Very Low Risk Exposure	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.

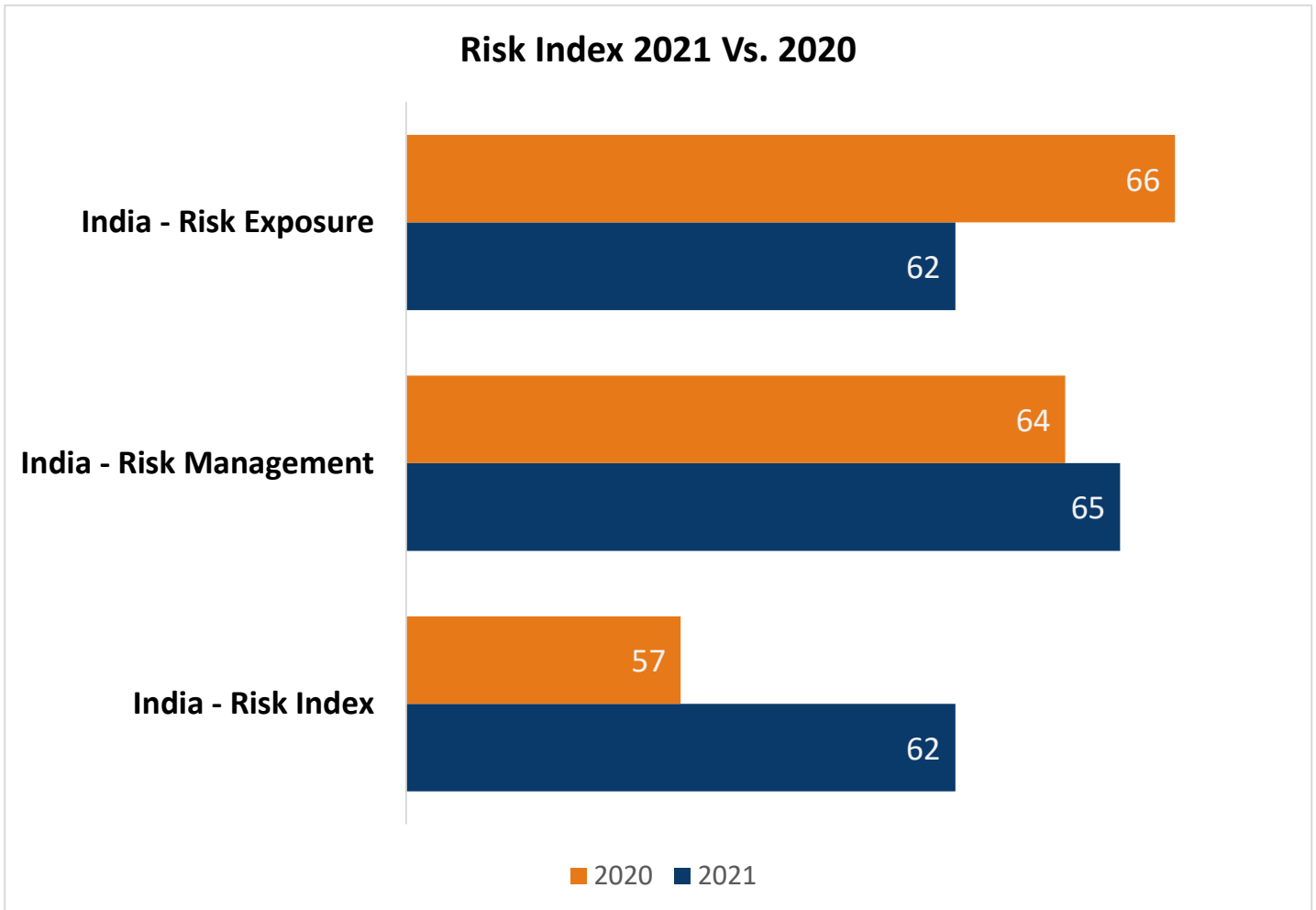
ICICI Lombard Corporate Risk Management – Scale

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

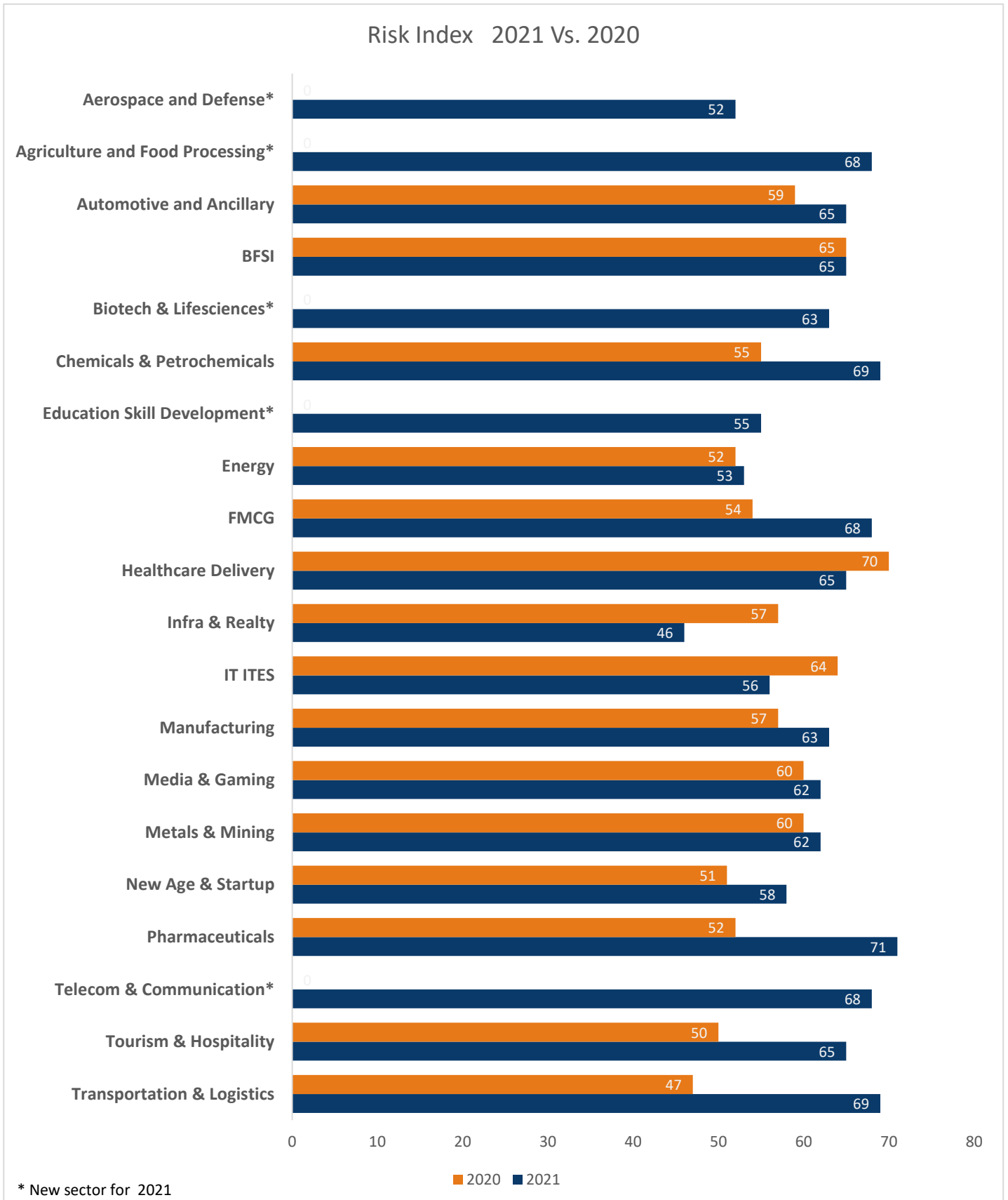
ICICI Lombard Corporate India Risk Index



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 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



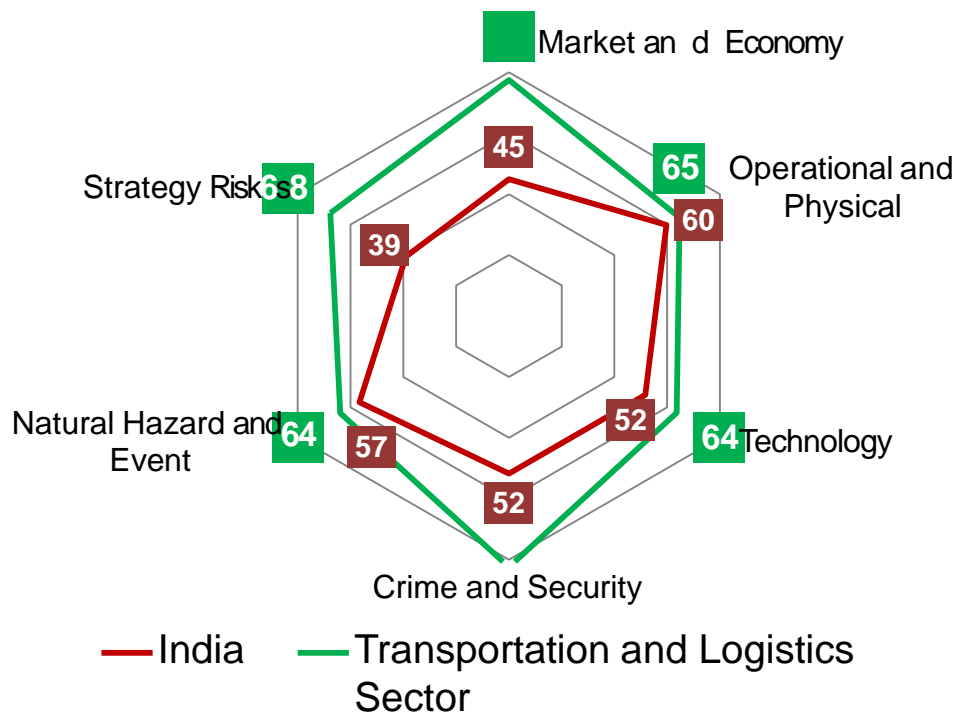
Observations:

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
Transportation and Logistics	55	60	69	47

India Risk Index Vs. Transportation and Logistics Sector Risk Index

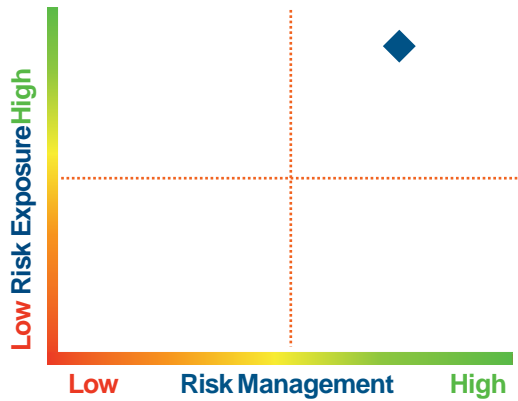


The Indian Logistics sector's Risk Exposure score is 55 mainly due to its high exposure to Operational risk and Market & Economic conditions. While the Risk Exposure of most companies is majorly due to external factors, like government regulations etc. the internal factors have limited impact on the business performance.

The overall Risk Management score is 60 this indicates the need for companies to improve their Operational Risk Management practices especially the risks associated with natural hazards, weather conditions and regulatory policies

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 58
Risk Management Score: 65



High competitive intensity and regulatory risks, leading to high market risk

- High competition between the players in a highly fragmented environment
- Risks arising out of latest rules given out by The Ministry of Road Transport & Highways in terms of restricted and dangerous good transport regulations, general regulations etc.
- Companies spread over a significant number of geographies dealing in different types of currencies and face the risk of financial losses due to unfavorable movements in currencies

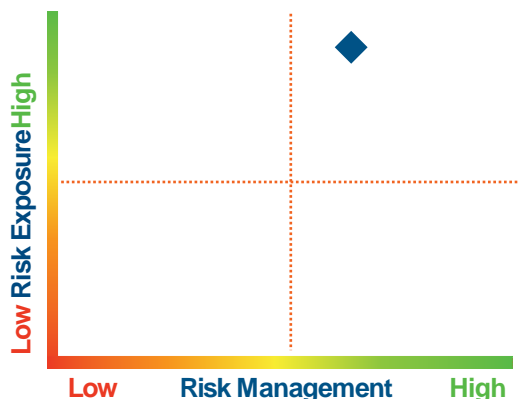


Recommendation:

In terms of sectoral exposure, companies should strategically diversify their business offerings in order to cater to diverse sectors. As a result of prudent risk management practices, company's revenue and profitability grow in secular manner are free from volatility

Risk Dimension Analysis: Technology

Risk Exposure Score: 58
Risk Management Score: 61



Changing business environment due to advancement in tech

- 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.
- Latest technology that are disrupting the landscape with IOT, Platooning etc. which pose a risk to the industry
- Hardware failure refers to malfunctions within the electronic circuits or electromechanical components (disks, tapes) of a computer system;. Such failures lead to stoppage of entire computer or operating systems creating substantial losses to business.

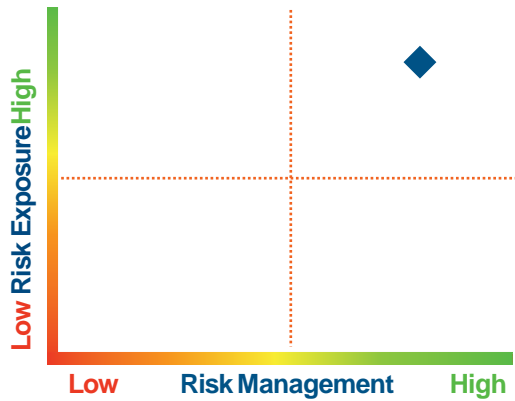


Recommendation:

Companies should adapt to advanced technologies in order to improve the overall efficiency and decrease the competitive risk in the industry. With advancements in IoT adoption, the penetration of artificial intelligence (AI) is expected to have significant impact on logistics operations in the long term with a shift from assisted to autonomous machine intelligence.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 60
Risk Management Score: 63



Niche product segment with high customer concentration would be a concern area

- Maintaining operational efficiency across verticals is a challenge in the logistics sector. Steady fluctuations in demand can interfere with functioning of business operations and disrupt growth.
- Many risks like goods in transit risk, threat of damage, pilferage / shrinkage or loss of cargo due to normal transit hazards and accidents or hijacking of trucks or force majeure are the prevalent issues

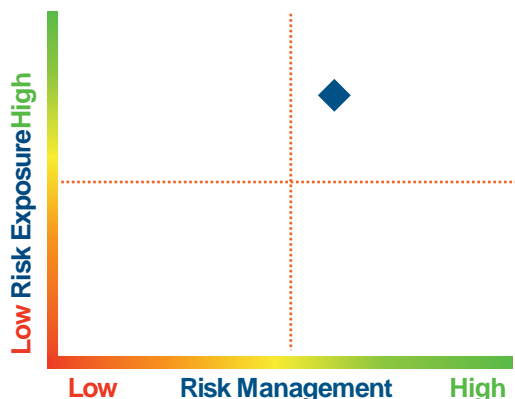


Recommendation:

If transport is carried out by the most economical means of transport available, but if the costs are high, the emphasis should be on reducing the costs by improving the system's performance and usage. Companies must focus on improving overall productivity in the provision of supply chain services

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 54
Risk Management Score: 62



Sector is vulnerable to a range of cyber risks including thefts, misuse of personal data

- Cyber attacks pose a threat. This is largely due to the technological advancements that link the internet of things (IoT) to supply chains and automation. The risk is spread across partners in the industry
- Most companies have strong Whistleblower Policies in place
- Non-compliance with legislation on bribery and corruption may lead to legal and reputational risks, extra costs, inefficiencies in the business and ultimately debarment from markets.

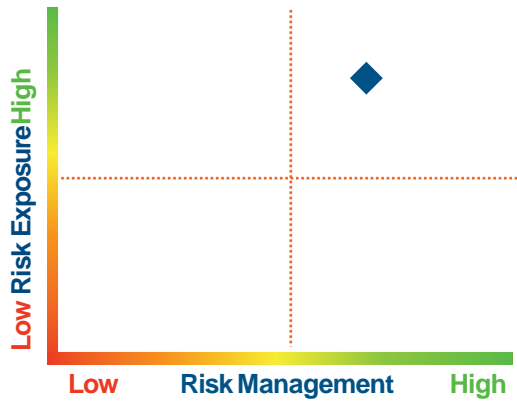


Recommendation:

The companies should maintain a detailed Quality Audit program to ensure Compliance and Safety Standards are of the highest order. They should also have CCTV surveillance in all sorting centers and main pickup and delivery locations.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 55
Risk Management Score: 58



Natural hazards pose extreme risks to the logistics industry

- Physical impact of extreme weather events may cause temporary disruption to the operations as well as may affect the value of assets. Depletion of natural resources might impact the cost of acquisition of resources such as water and energy
- Risk to business owing to disruptions caused by COVID-19 pandemic and similar other global epidemic diseases also poses a significant threat to logistics sector

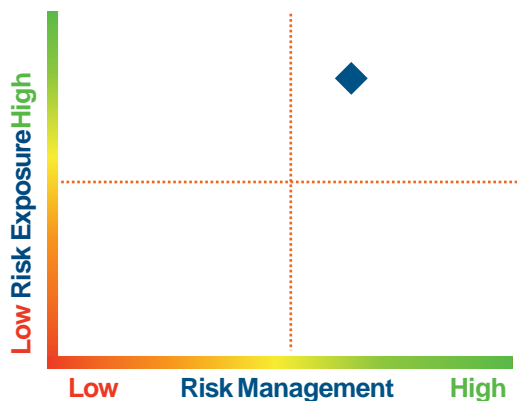


Recommendation:

The companies need to keep a track of mandatory constructions recommended by the government at their infrastructure facilities and deploy a disaster management team along with a disaster relief program.

Risk Dimension Analysis: Strategy Risk

Risk Exposure Score: 47
Risk Management Score: 50



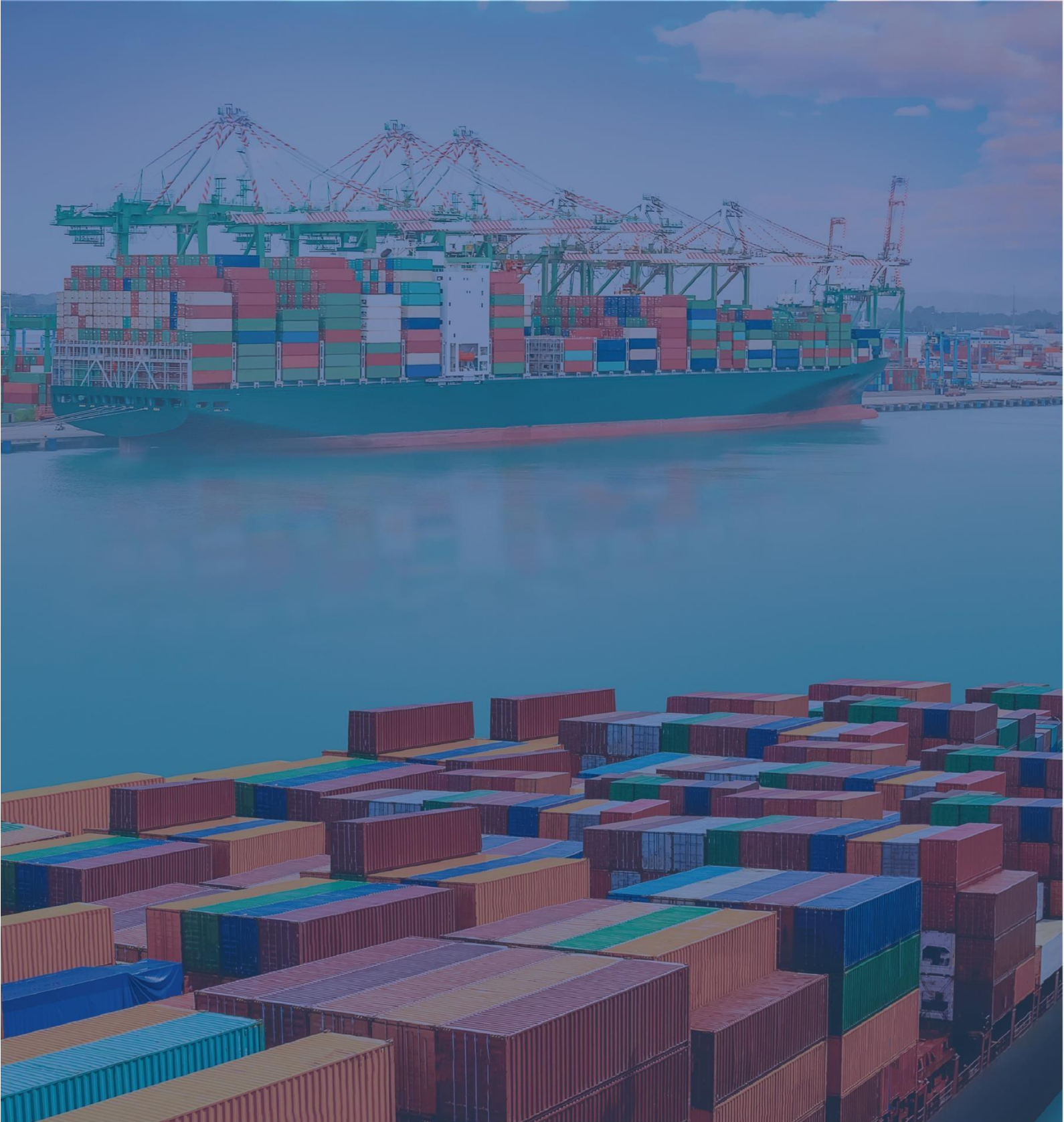
Labor shortage and financial risk posing the industry

- Driver shortages continue to plague the transportation industry. Shortages have come about due to an aging population, increased demand from e-commerce growth and challenges acquiring new recruits
- 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



Recommendation:

The companies should establish a chain of command that engages all functions and planning teams, and is directly responsible for creating a business continuity plan. This person or group can identify all possible disruptions to the company's operations, and determine how to quickly address these concerns



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