



Sector: Manufacturing



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

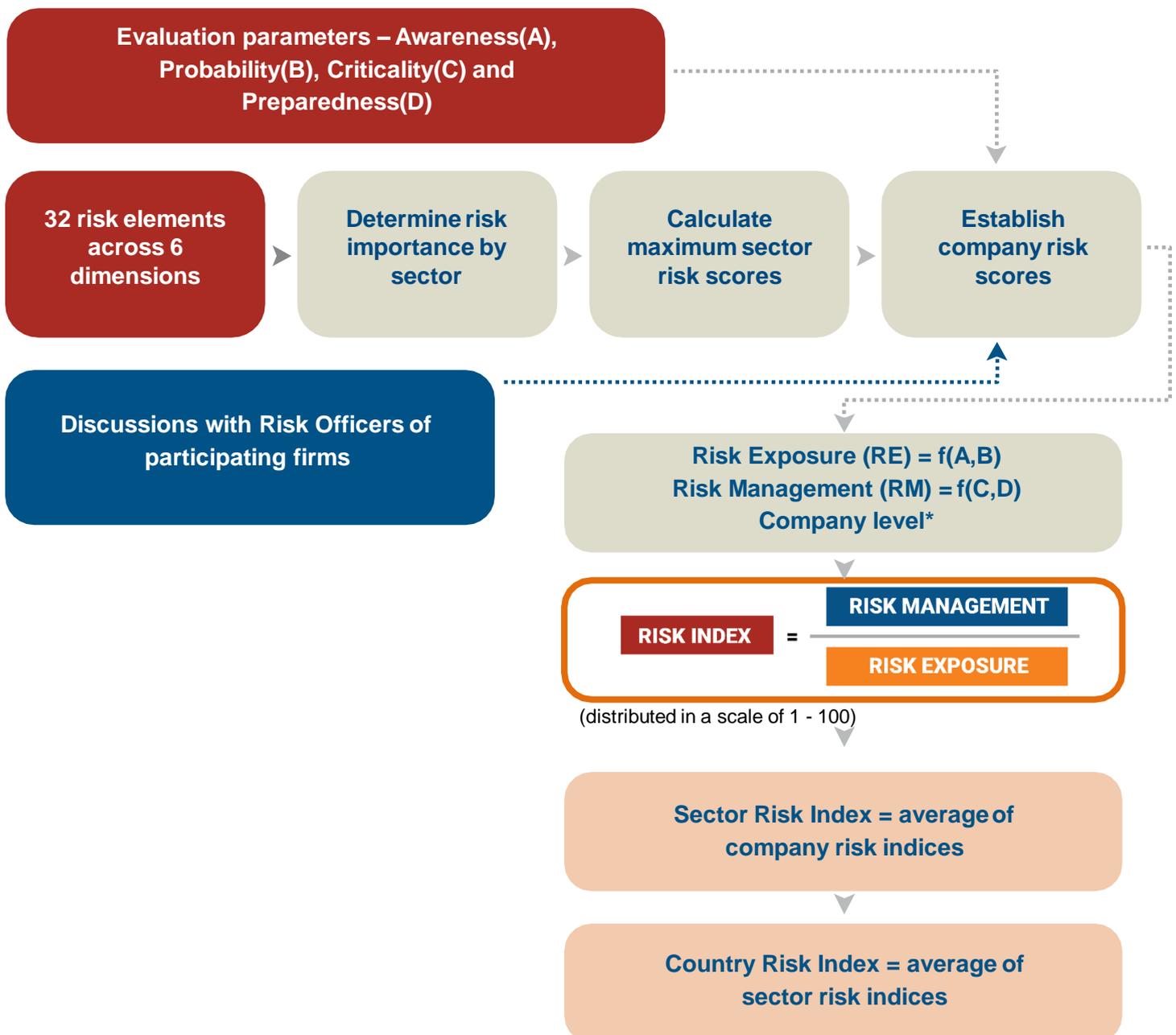
Emerging



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

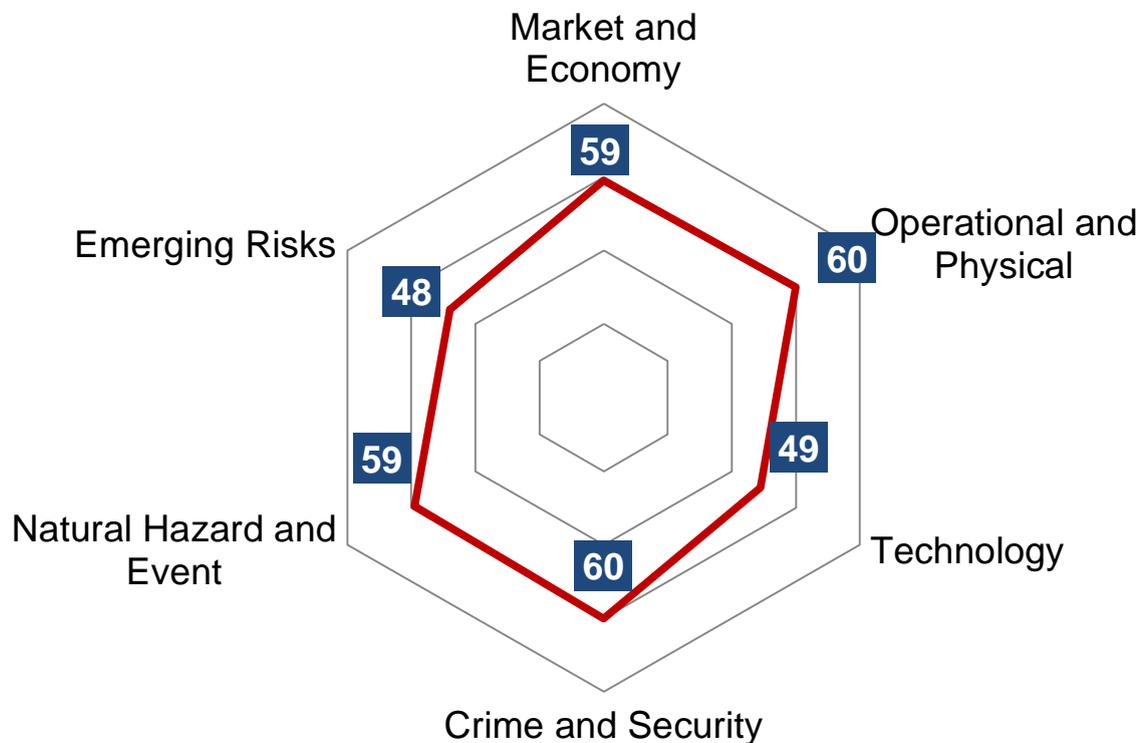
Sectors	Risk Exposure	Risk Management	Risk Index
Automotive	72	72	59
Chemicals	68	66	55
Pharma	69	65	52
New-Age	65	61	51
Energy	69	66	52
Manufacturing	65	64	57
Metals and Mining	54	54	60
Realty and Infra	63	62	57
Hospitality	68	64	50
FMCG	72	69	54
Logistics	71	65	47
Healthcare	55	59	70
IT-ITES	57	58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

Manufacturing Sector Risk Profile

Risk Exposure Score: 65
Risk Management Score: 64

Risk Index
57

Sector Risk Index - Six Risk Dimensions

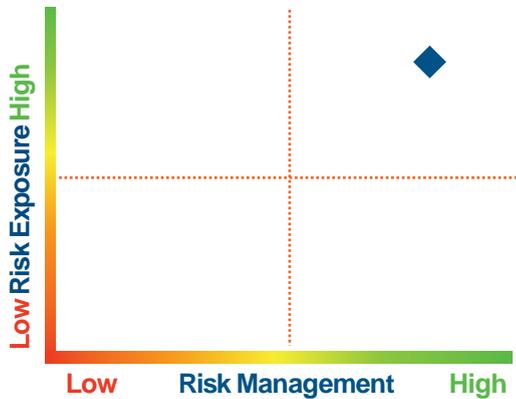


The Indian Manufacturing sector’s Risk Exposure score is 65 mainly due to its high exposure to Market & Economic conditions and Technology. While the Risk Exposure of most companies is majorly due the supply chain disruption and heavily dependent on sourcing of raw material.

The overall Risk Management score is 64 indicates there is a need to have a strategy of positioning the right products at the right points and delivering cost effective innovation.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 73.0
Risk Management Score: 72.6



Manufacturing sector is very much cost competitive market a global slowdown or continent-specific shocks such as unfavorable regulatory changes may disrupt these markets temporarily or for long durations

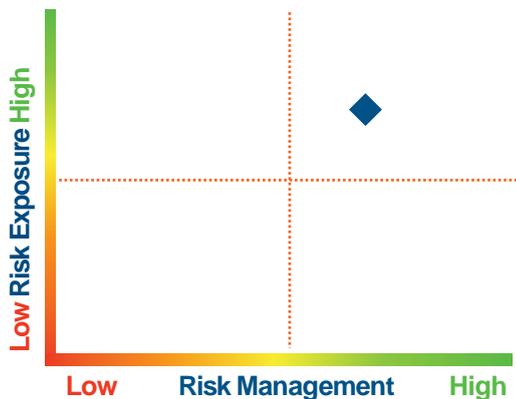
- The sector has adopted robust mechanisms and processes to identify and mitigate critical risks, to safeguard itself from the permanent capital loss and to maintain the long-term growth trajectory of the business performance
- With the slowdown in various manufacturing industries including automobile disrupt the entire ecosystem of manufacturing
- Few companies also exploring to diversify product portfolio or even tap new geography

Recommendation:

Manufacturing industry can focus more on the cost reduction and market penetration to be cost competitive and customer centric. Foreign exchange risk can be mitigated with proper policies in place along with regulatory and legal risk.

Risk Dimension Analysis: Technology

Risk Exposure Score: 61.6
Risk Management Score: 57.7



Manufacturing industry is rapidly adopting the technology enhancement by the Convergence of Operational technology (OT) with Information technology (IT)

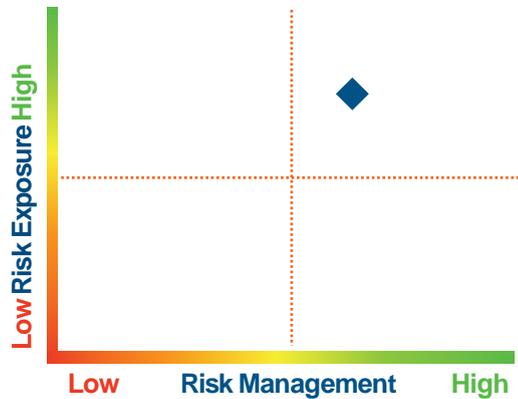
- Companies have sector-specific technical expertise supported by in-house experts and manufacturing facilities augmented by Internet of Things (IoT) and Industry 4.0 excellence standards
- The need of rapid innovation and technological advancements in R&D leading to new and more productive products
- Adaptation of Artificial intelligence, big data, augmented and virtual reality can be seen

Recommendation:

The technological advancement is always required, companies can build infrastructure for research & development and continue innovation to cater the need of the market and changing patterns for the customer with the effective utilization Industry 4.0

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 68.7
Risk Management Score: 57.7



Energy optimization, productivity improvement and strategic sourcing are the major focus areas

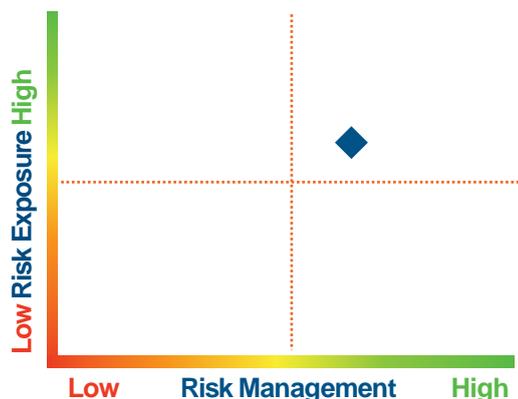
- With moderate risk, company is heavily dependent on machinery and any loss incurred in the machine uptime leads to devastating effect on the overall processes of the supply chain
- Focus on local sourcing and vendor development to mitigate the risk of supply chain disruption. this includes initial supplier survey, continuous risk assessments and audits
- Sustainable sourcing in another area which manufacturing companies are exploring
- The Company continuously invests in attraction, retention and development of talent on an ongoing basis.

Recommendation:

Manufacturing industry can have proper long term contracts to avoid issues related to the availability and pricing of raw materials along with sustainable and domestic sourcing, as raw material is one of the largest cost for them.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 58.5
Risk Management Score: 58.7



Data Security is of utmost important in manufacturing, as they create huge amount of company / industry specific data

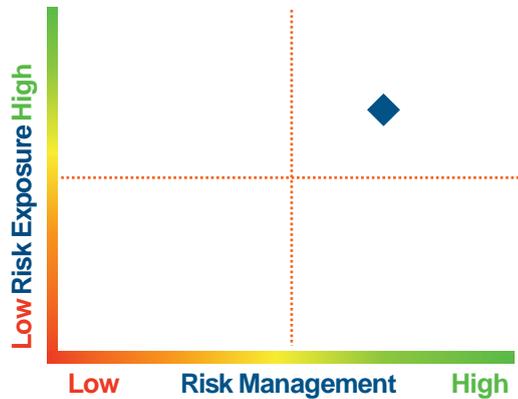
- Cyber attacks, fraud, data theft, strikes, corruption, etc. is there in the industry to some extent, policies to reduce it is also in place
- It is the continuous endeavor to create and provide an environment to all its employees that is free from discrimination and harassment
- Sector is committed to developing a culture where it is safe for all employees to raise concerns about any poor or unacceptable practice and any event of misconduct along with safe, secure and harassment free working

Recommendation:

Though having a strong cyber security, manufacturing sector can think of leveraging the opportunities of advance technology like Cloud computing and Big data for more safe and secure data storage and analysis.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 65.2
Risk Management Score: 65



Various companies in manufacturing are in the risk of natural hazards and pandemic like situation already had tremendous effect on the sector

- All resources (Raw material, waste, etc) used judiciously and companies can think of substituting them with eco-friendly alternatives
- Manufacturing sector have robust policies for sustainable environment to reduce the risk
- Companies are predominantly dependent on the natural resources as a main product, hence they can focus on reusing the materials and thereby safeguarding the environment and can focus on being carbon neutral

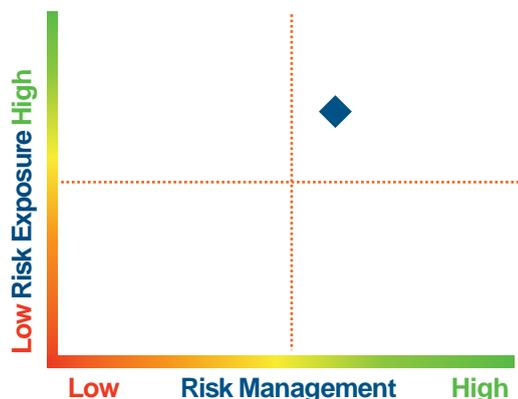


Recommendation:

Manufacturing sector could think of mitigating major risks related to climate change, social inclusion, depletion of non renewable resources, brand damage (including boycotts), pandemic situations, natural hazards, etc.

Risk Dimension Analysis: Emerging Risk

Risk Exposure Score: 55.6
Risk Management Score: 51.8



M&A is a growing trend across the manufacturing industry to garner a higher market share

- Mergers & Acquisitions have been playing a critical role in shaping the Indian manufacturing industry landscape in the past and are expected to continue doing so in the future
- Companies determine the amount of capital required on the basis of annual operating plans and long-term product and other strategic investment plans
- The mix of monetary and fiscal policies measures will help to provide aid to business which in turn will revive market gradually



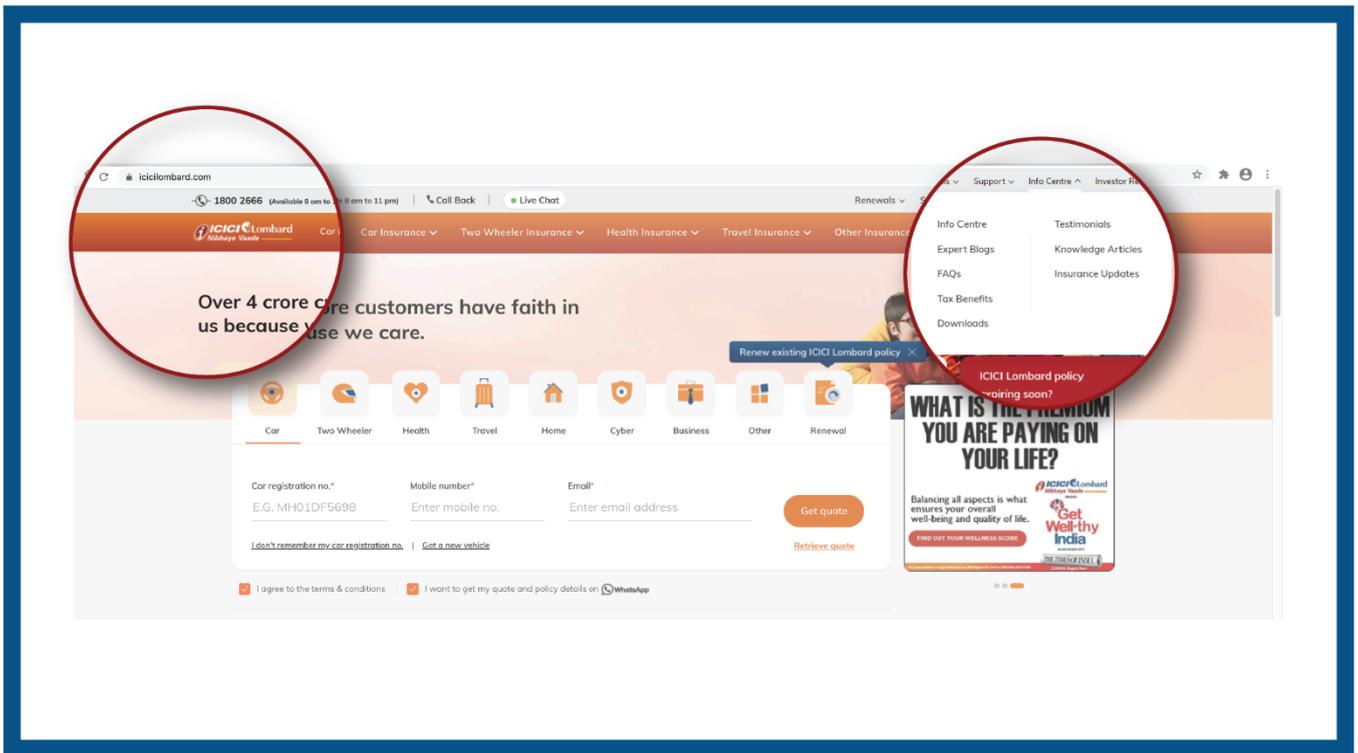
Recommendation:

The companies could evaluate the deal critically before entering into any JV or M&A. Specific short term and long term plans along with a strategic roadmap to achieve the desired goal to be focused upon. Manufacturing companies can de-risk its portfolio by diversifying in other sectors.



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