



Sector: Hospitality

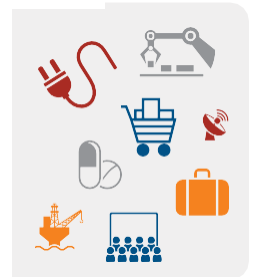


ICICI Lombard Corporate India Risk Index - Introduction

- 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

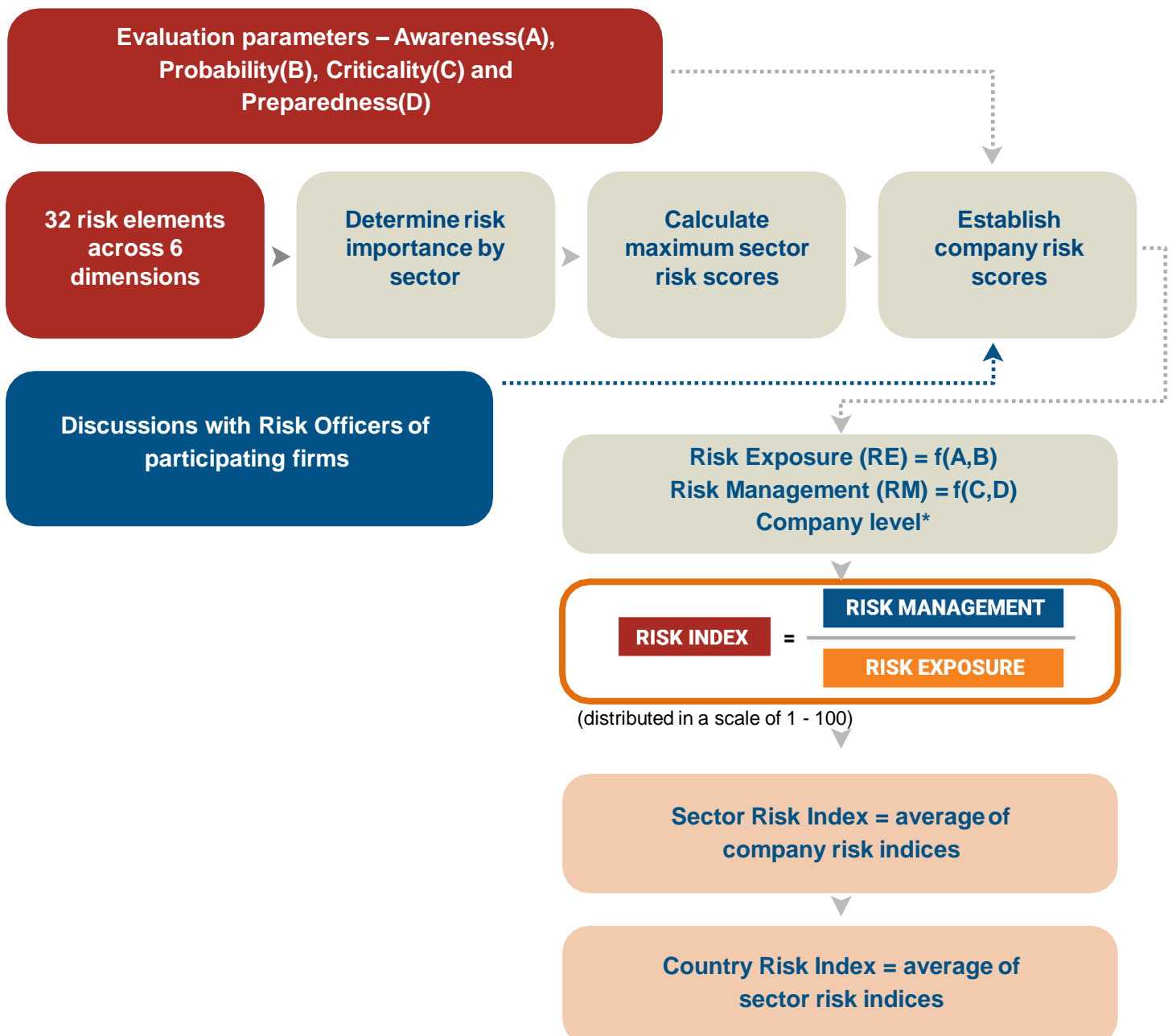
Emerging



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

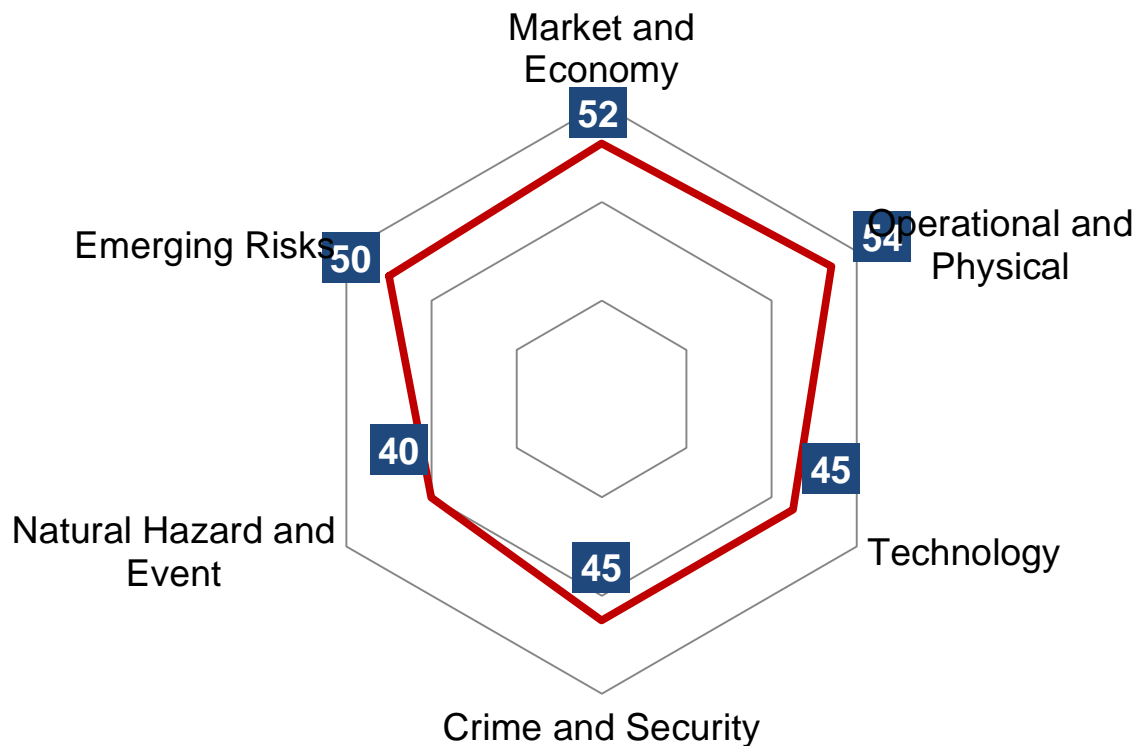
Sectors	Risk Exposure	Risk Management	Risk Index
Automotive	72	72	59
Chemicals	68	66	55
Pharma	69	65	52
New-Age	65	61	51
Energy	69	66	52
Manufacturing	65	64	57
Metals and Mining	54	54	60
Realty and Infra	63	62	57
Hospitality	68	64	50
FMCG	72	69	54
Logistics	71	65	47
Healthcare	55	59	70
IT-ITES	57	58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

Hospitality Sector Risk Profile

Risk Exposure Score: 68
Risk Management Score: 64

Risk Index
50

Sector Risk Index - Six Risk Dimensions

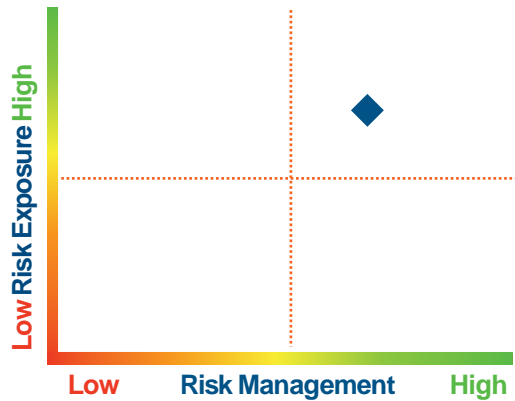


The Indian Hospitality sector’s Risk Exposure score is 68.0 mainly due to its high exposure to Operational risk and Market & Economic conditions. While the Risk Exposure of most companies is majorly due to internal factors, the external factors have a limited impact on the business performance.

The overall Risk Management score is 64.0 this indicates the need for companies to improve their Operational Risk Management practices Specific steps to reduce the gap between demand and supply by expanding the customer base, improvement in the product profile, delivery mechanisms, technical inputs.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 68.6
Risk Management Score: 65.4



Hospitality industry has higher risk exposure from Competitive position and Brand strength

- A highly cyclical and seasonal industry with strong linkages to the underlying and global economy, the hotel industry is prone to sharp upcycles and a deep downcycle
- Industry is capital intensity and has a huge fixed cost component resulting in significant volatility in margins and profitability during periods of strong inflationary pressure
- Competition risk is high in the industry driven by differentiating factors such as geographic and price-point diversification, operational track record, vintage of operational properties, etc.

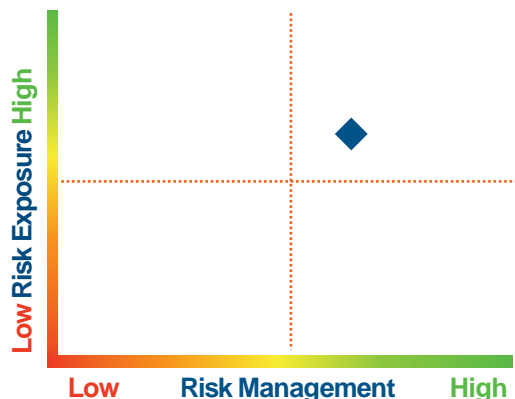


Recommendation:

With growing trend of Domestic travellers and need for differentiated offerings, hotels could invest in distribution channels, promotion campaigns and amenities targeted to reduce competition risk

Risk Dimension Analysis: Technology

Risk Exposure Score: 67.1
Risk Management Score: 61.2



Continually adapting technological development resulting in high exposure to technology risk

- The increasingly pervasive sharing economy presents opportunities and threats to the hospitality industry. To remain relevant in the midst of changing consumer preferences, many companies are adapting technologically advanced services such as app-driven delivery model. While this adoption of new technologies improves operational efficiency and customer experience, it may also exacerbate certain cyber risks, including Point-of-Sale (PoS) compromise, rewards point abuse, etc.
- To mitigate such malicious cyber attacks, companies have IT security posture in place

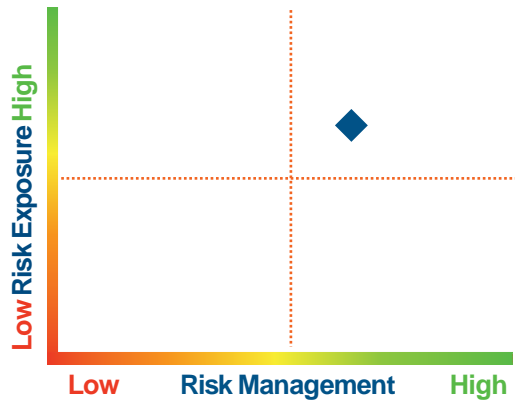


Recommendation:

The companies could introduce various digital technologies (AI, IoT, ML, etc.) and could adopt models of risk analytics or advanced analytics to identify trends and patterns based on risk data.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 67.9
Risk Management Score: 65.3



Company branding and customer experience have a direct impact on business & operational risk in the industry

- Hospitality companies rely on their brands to drive customers. There are cases where another company tries to infringe on their trademarks or try to tarnish hotel's brand. This increases companies operational and branding risk
- Customer expectations are ever evolving and they want trending properties for stay. This increases the portfolio risk of the company and it becomes important for hotels to invest in regular renovations/upgradations to keep the property in line with evolving customer expectations and competition

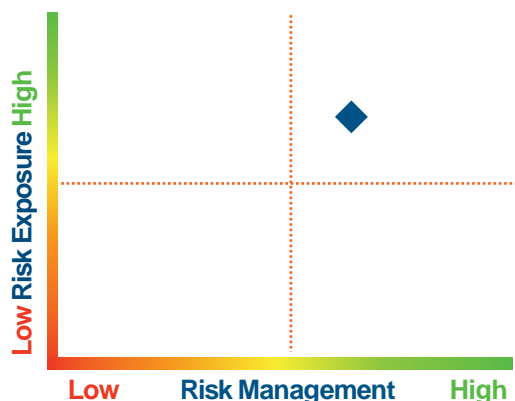


Recommendation:

The industry could reduce operational risk by developing operational synergies by thriving on a wider portfolio of hotels; strong loyalty programmes which draw demand and a wide distribution network that can positively impact industry

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 69.2
Risk Management Score: 63.2



Threat from terror attacks, unauthorized visitors and theft creating a major risk to the industry

- Hotel security involves the protection of guests, employees and the physical asset of the property from criminal activity, crisis and emergency situations
- The risk to the hotel industry is increasing as terror attacks are becoming more prevalent in recent years
- Apart from this there is growing risk of unauthorized visitors, theft, disorderly conduct of guest and visitors, and safety emergencies
- Cyber security is also a major concern

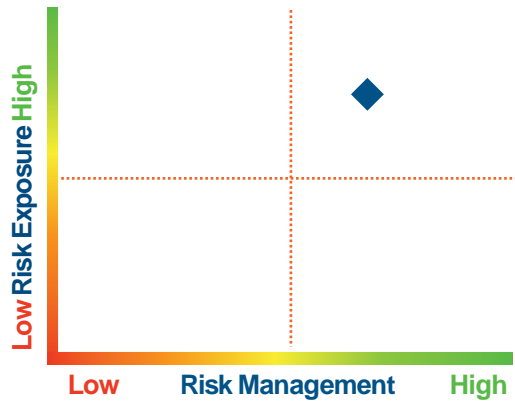


Recommendation:

The companies could implement a consistent Cyber Risk Management programme; that involves periodic testing and improvement of controls through simulation. Efficient and trained security force could be deployed with necessary evacuation plan for emergency exits

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 72.0
Risk Management Score: 63.6



Natural hazards pose high risks to the hospitality industry

- Hotels, like any other businesses in a given location, can be threatened by natural disasters, usually with significant and long-term consequences.
- The hotel industry is particularly vulnerable and exposed to the risk of property being physically damaged or completely destroyed
- Though hotels take basic precautionary measures, however overall they lack of preparedness and planning in having a comprehensive emergency management plans engaging different stakeholders in the sector for collaborative success

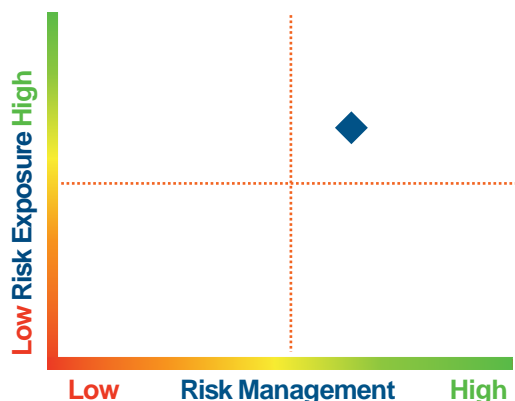


Recommendation:

Companies in the industry could develop a geographic and segment (business/leisure) spread in their portfolio to an extent that partially insulates the company from any city-specific natural hazard and event risks.

Risk Dimension Analysis: Emerging Risk

Risk Exposure Score: 64.6
Risk Management Score: 61.6



Guest lawsuits, consumer experience, long gestation period are some of the key emerging risk in the industry

- Lawsuits from people who are injured or diseased during their stay at hotel can result into serious lawsuits
- Damage to guestrooms can represent a big risk to the bottom line
- Property theft is a big issue at many hospitality companies
- Hospitality industry face risk pertaining to the varied company's plans on new projects, acquisitions, expansion, etc.



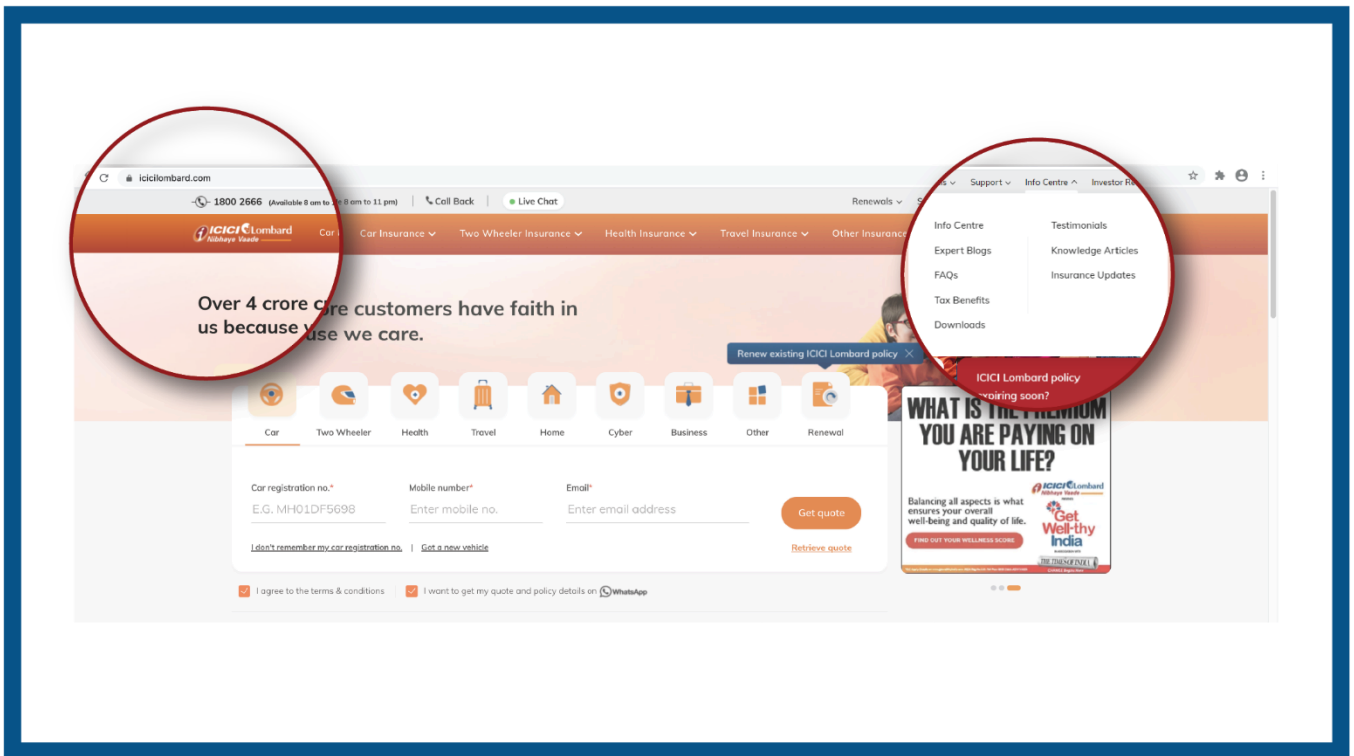
Recommendation:

Hotels could have internal controls in place to handle guest destruction and ensure travelers' safety during their stay. Small things, such as closer management of property and resources, can prevent incidents from happening in the first place.



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