ICICI Lombard
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CORPORATE INDIA RISK INDEX

Intelligence partner FROST & SULLIVAN

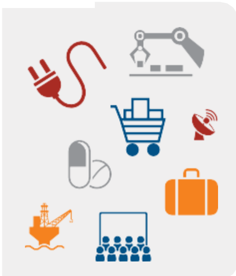
Sector: FMCG

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
- BFSI
- Healthcare
- Pharmaceuticals & Biotech
- Energy
- Automotive & ancillary
- Hospitality/Tourism
- Manufacturing
- FMCG/Retail
- Infrastructure & Realty
- Metals & Mining
- Transportation & Logistics
- Media & Telecommunications
- Chemicals & Petrochemicals
- 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:

Market and Economy
- Inflation
- Taxation
- Regulatory Risks
- Foreign Exchange Risk
- Geo-political Risks
- Competitive Risk

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

Crime and Security
- Cybercrimes
- Counterfeiting
- Harassment/Bribing
- Executive threat/ Impresonation
- Physical violence/ abuse

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

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

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

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

Evaluation parameters – Awareness(A), Probability(B), Criticality(C) and Preparedness(D)

32 risk elements across 6 dimensions

Determine risk importance by sector

Calculate maximum sector risk scores

Establish company risk scores

Discussions with Risk Officers of participating firms

Risk Exposure (RE) = f(A,B)
Risk Management (RM) = f(C,D)
Company level*

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

(distributed in a scale of 1 - 100)

Sector Risk Index = average of company risk indices

Country Risk Index = average of sector risk indices

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 geo-political 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

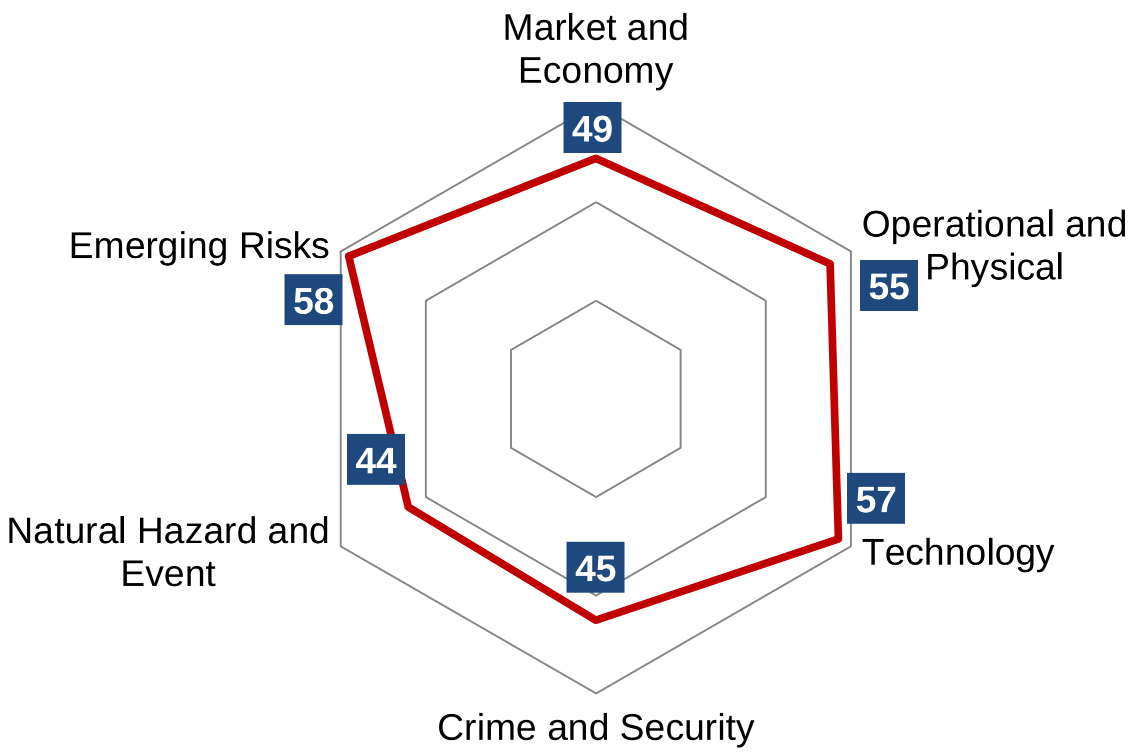
Sectors	Risk Exposure	Risk Management	Risk Index
Automotive	72	72	59
Chemicals	68	66	55
Pharma	69	65	52
New-Age	65	61	51
Energy	69	66	52
Manufacturing	65	64	57
Metals and Mining	54	54	60
Realty and Infra	63	62	57
Hospitality	68	64	50
FMCG	72	69	54
Logistics	71	65	47
Healthcare	55	59	70
IT-ITES	57	58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

FMCG Sector Risk Profile

Risk Exposure Score: 72
Risk Management Score: 69

Risk Index
54

Sector Risk Index - Six Risk Dimensions

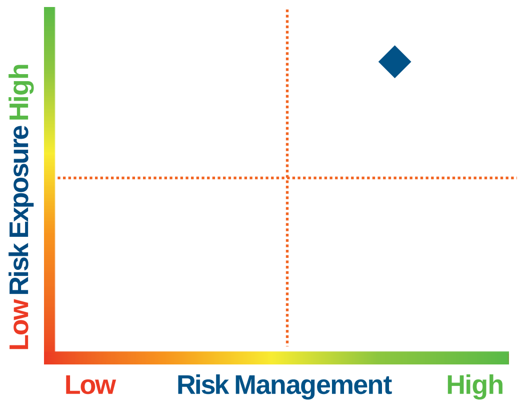


The Indian FMCG sector's Risk Exposure score is 72.0 mainly due to its high exposure to Operational risk and Market & Economic conditions. This sector is also subject to diverse business risks, Competitive intensity, irregularity of monsoons, fast changing consumer tastes and preferences as well as the unpredictability in commodity prices.

The overall Risk Management score is 69.0 this indicates the need for companies to improve their Operational Risk Management practices especially Sharp increases in input prices (for key raw and packing materials) and Tight control of indirect costs.

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 72.0
Risk Management Score: 68.0



Profitability and Cash Flow are mainly driven by the brand strength and market share as these are the key factors for revenue generation

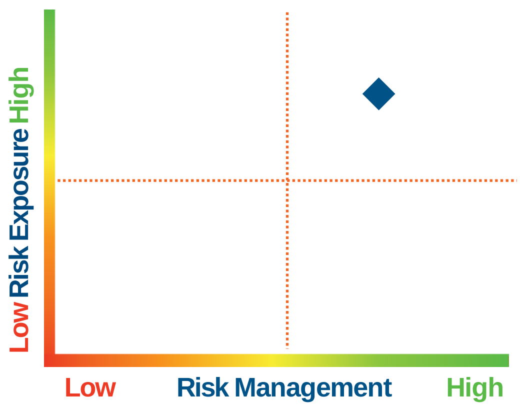
- Growth in the FMCG sector is highly dependent on innovative product development and marketing
- The commodity prices forms an important component and in an increasing prices scenario, profits and cash flow in the sector is seen by derivatives where the risk is hedged
- Expensive & premium products face pricing and demand related pressure during the economic instability. Also the risk associated with the price of commodities affects the pricing of the products and compels companies to increase price

Recommendation:

Specific steps to reduce the gap between demand and supply by expanding the customer base, improvement in its product profile, delivery mechanisms, technical inputs and advice on various aspects of debottlenecking procedures, enhancement of capacity utilization.

Risk Dimension Analysis: Technology

Risk Exposure Score: 68.0
Risk Management Score: 67.0



Digitization and Technology Power the FMCG Sector's Future Growth in India

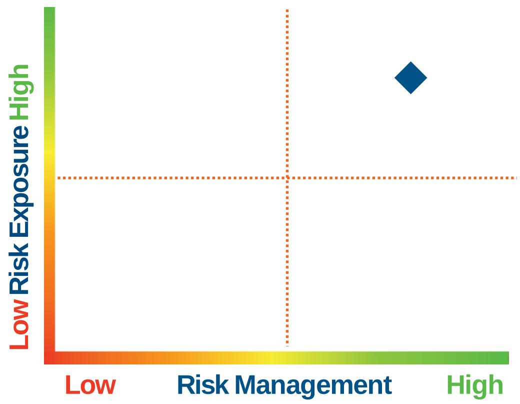
- One important factor that will continue to propel the FMCG sector to higher growth paths in the near future is the increasing use of digital technology
- Greater use of digital marketing to increasing customization for e-commerce, an increasing number of players in the sector are today actively embracing digital technology to drive the next phase of growth amid hectic competition. The ability to digitize fast will also be a significant differentiator between organizations as they transform themselves to suit the changing needs of time

Recommendation:

The companies could introduce various digital technologies (AI, IoT, ML, etc.) for new use cases as well as to add value to the business. The companies 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: 73.0
Risk Management Score: 71.0



Strong and intensive distribution network in India with deep penetration in rural markets also which gives cost advantage

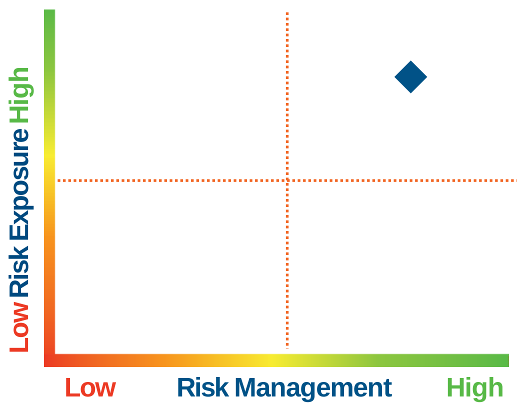
- Transformation of traditional supply chains. changes are required to secure speed to market and to reduce the risk of delays
- Regionalization of supply and demand, with FMCG companies shifting their sourcing areas to markets where products are manufactured and sold.
- Flexible solutions needed for the changing transportation and FMCG logistics needs

Recommendation:

The companies/hotels could issue a Blanket Policy to cover multiple facets of business risks. They need to de-risk by diverting their focus on multiproduct, multi-geography, multi-customer and multi-industry.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 71.0
Risk Management Score: 65.0



Cyber risk and counterfeits a major risk

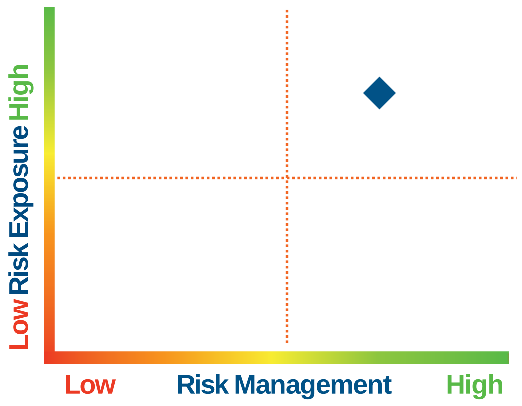
- Cyber Security is strategic business risk especially for retailers who handle confidential customer data, reputations, brands, trust and sales are all potentially at peril
- Counterfeit sales were a problem long before digital marketplaces emerged. Now, online sales of fake merchandise have become a growing problem for retailers

Recommendation:

The companies could implement a consistent Cyber Risk Management Programme; that involves periodic testing and improvement of controls through simulation.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 66.0
Risk Management Score: 60.0



Natural hazards pose limited risks to the chemical industry

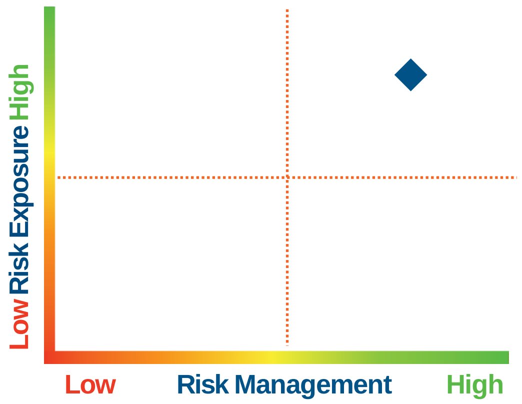
- Most of the companies have in place BCP (Business Continuity Planning) process to prevent and to recover from any future potential threat or disaster to ensure smooth functioning of the business
- The potential impact of natural disasters on manufacturing operations would be limited
- Small sized companies having weak infrastructure could have some level of impact. There is a need to refurbish weak infrastructure

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: Emerging Risk

Risk Exposure Score: 73.0
Risk Management Score: 72.0



Damage to Brand and Reputation

- A brand's reputation is one of its' most valuable assets especially due to exposure to social media network. A tarnished reputation could result in financial growth and revenue of the business. Losing customer trust and their business has huge implications to businesses
- Companies need systems and processes in place that ensures all products undergo stringent quality checks in line with zero defect mindset
- Executives will need to rethink their vendor and inventory management strategies as it pertains to overall supply chain distribution

Recommendation:

Companies could have an Insurance policy to cover losses to its business on an account of loss of its key customers or contract termination. They could also evaluate each deal and enter clauses beneficial to the company in case of termination

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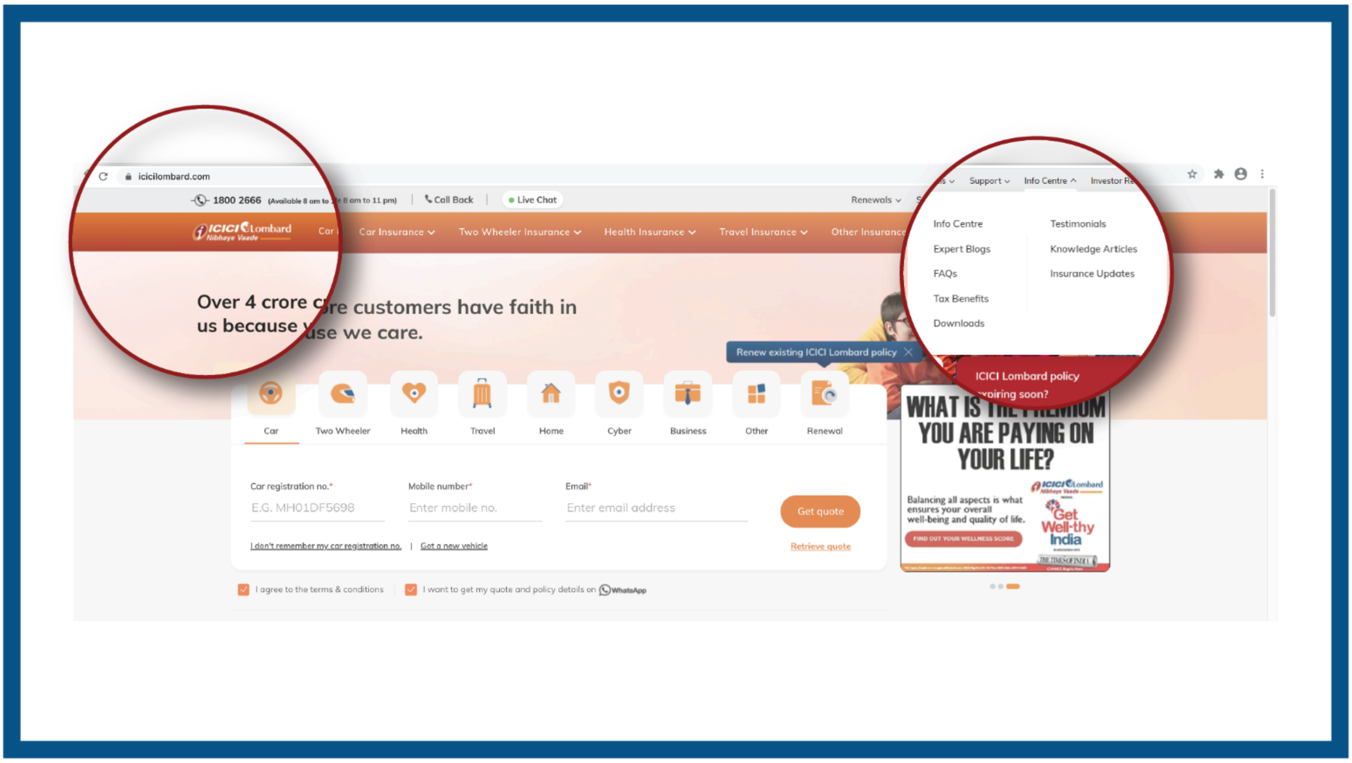
Now accessible at

Dedicated Micro-site



Please send a mail to riskindex@icicilombard.com to know more about ICICI Lombard Corporate India Risk Index

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