ICICI Lombard
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CORPORATE INDIA RISK INDEX

2022

Intelligence partner FROST & SULLIVAN

SECTOR REPORT 2022
REALTY & INFRASTRUCTURE


RISK

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Preface

Corporate India Risk Index is primarily an academic exercise to understand the level of risk that companies are facing and also assist in developing a successful risk aversion plan, CIRI is a first-of-its-kind risk measurement tool to gauge the level of a company’s risk exposure and preparedness.

This Corporate risk comprises of various aspects of the business–spanning customer, competition, regulatory environment, business operations, technology finances, environmental factors etc. The impact of unprecedented events is significantly higher now.

This Index is a comprehensive framework that draws upon global risk management best practices and comprises of 32 risk elements across 6 broad dimensions. The Risk Index is based on the principles of Lean and Six Sigma that qualify business processes by measuring effectiveness and efficiency.

ICICI Lombard's Corporate India Risk Index provides a crucial tool for assessing and addressing risks, fostering resilience and adaptability in the ever-evolving global landscape. In the current climate of increasing macroeconomic uncertainties, it is essential for corporates to prioritize robust risk management. We believe that a proactive approach to risk management not only fortifies individual businesses but also contributes significantly to India's overall economic growth and stability.

Executive Summary

India has set its goal to become a 5 trillion economy by 2025 and be a developed economy by 2047. Infrastructure development will be of utmost critical to achieving this ambitious target. The infrastructure industry consists primarily of roads, telecommunications, railways, water supply and sanitation, ports, airports, warehousing facilities, and oil and gas pipelines. To attract FDI and boost India's manufacturing output, the Government of India is heavily investing in Infrastructural projects. This was conspicuous in the country's capex outlay which stood at Rs 10 Trillion and witnessed a steep increase of 33%

The growing Indian GDP is supplemented by rapid urbanization, an increase in disposable income, migration from rural areas, and a shift from the agrarian economy, resulted in significant growth in the real estate sector.

Macroeconomic factors such as inflation, environmental laws, and slow administration threaten the industry. But then, recent policies such as the National Infrastructure Pipeline (NIP) and National Logistics Policy (NLP) show the GoI's positive outlook and provide confidence in the Indian economy.

Introduction

ICICI Lombard Corporate India Risk Index is a one of its kind, unified, credible, standardized corporate Risk Index that spans over the country level, the industry level, and the company level. The index has a comprehensive sector coverage.

Aerospace and Defense, Agriculture and Food Processing, Automotive and Ancillary, BFSI, Biotech & Life sciences, Chemicals and Petrochemicals, Education Skill Development, Energy, FMCG, Healthcare Delivery, Infra and Realty, IT/ITES, Manufacturing, Media and Gaming, Metals and Mining, New Age & Startup, Pharmaceuticals, Telecom and Communication Technology, Tourism and Hospitality, Transportation and Logistics.

The impact is identified across key business risk (internal and external) under the following 'Strategic Risk Areas', The ICICI Lombard Corporate India Risk Index Framework comprises of 32 risk elements across 6 broad dimensions.

Market and Economic Risk

Corporate Risks arising due to market and economy related factors, such as internal or external political uncertainty, global slowdown, taxation-regulatory changes etc. Market and economy related risks are also identified as 'Systematic Risks', we have further classified the risks into below mentioned categories.

- **Inflation:** Inflation is the general increase in prices within the economy. The rising prices for businesses could result in bigger production spending and a fall in profitability. The companies should be attentive, acute, and responsive to changes in inflation to efficiently manage the prices of final products.

- **Taxation:** In a large democracy like India, complexity of multiple taxes (multiple taxes like GST, custom duties, central excise duty, etc.) is a major concern. The changing legislations, increased scrutiny by tax authorities and increasing public attention are together resulting in tax risks for organizations. anage their tax affairs efficiently to minimize tax

- **Regulatory Risks:** Regulatory risk is the risk of changes in regulations and laws that might affect an industry or businesses. The regulatory changes can pertain to tariffs and trade policies, business laws pertaining to employment, minimum wage laws, financial regulation, Foreign Direct Investment etc.

- **Foreign Exchange Risk:** The exchange rate plays an important role for firms who export goods and import raw materials. The fluctuations in foreign exchange will have great impacts on the prices of traded goods. For example, if the currency depreciates (devaluation), the exporting firms will benefit. However, the firms importing raw materials will face higher costs on imports. The firms need to hedge their exposure to foreign exchange risks to insulate themselves from the impact from forex changes.

- **Geo-political Tension:** Geopolitical risk means the political and economic risks that are a potential threat to the financial and operational stability of companies.

- **Competitive risk:** Competitive risk is the risk associated with the fact that there are multiple companies competing in the market, each seeking to obtain the highest position and consumer ratings, to gain maximum benefits for themselves. The companies devise different strategies to garner a higher market share and acquire customers from competitors. Any failure in managing the competitive stand could lead to losses in business, thereby making marketing and competition a major risk in market.

Technology Risk

Technology risks are also identified as information technology related risks which may arise due to failure of any installed hardware or software system, spam, viruses or any malicious attack. Also delay/over/under adoption of trending disruptive technologies can lead to technology related risks. We have classified the risks in below mentioned categories.

- **Innovation Risk / Obsolete Technology:** 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.

- **Intellectual Property risk:** Dependence on trade secrets and unpatented proprietary know-how.

- **Disruptive Technologies:** These will fundamentally alter the financial prospects of the industry.

Data Compromise: Hardware failure refers to malfunctions within the electronic circuits or electromechanical components (disks, tapes) of a computer system; Software failure refers to an operating system crash. Such failures lead to stoppage of entire computer or operating systems creating substantial losses to business.

Operational and Physical Risk

Risk of losses caused due to faulty or failed processes, systems or human resource related inefficiencies are classified as operational and physical risks. We have classified Operational & Physical risks in below mentioned categories.

- **Critical Infrastructure Failure / Machine Breakdown:** Industries with a heavy dependence on machinery consider any rise in machinery breakdowns a hindrance to their businesses operations. An untimely equipment breakdown can bring businesses to a standstill or be the root cause for fires and explosions. Mostly, human errors and deferred maintenances are the major reasons for such breakdowns. The companies should actively invest in timely maintenance of all machineries.

- **Business Continuity / Sustainability:** Non adoption of Business Continuity/ Sustainability Plans and Lack of Internal Control tools would result in: Failure of businesses, Brand Equity / Loss of reputation, Financial Loss, Business model Failure, Ineffective engagement/communication with stakeholders, Losses in productivity, Lack of opportunity monitoring.

- **Supply chain risk:** Raw Material unavailability and Heavy Dependence on Global Supply Chains / Supplier concentration risk. Unavailability of raw materials owing to disruption in the supply chain or heavy dependency on one source (company/country) which is unable to supply owing to some geo-political tensions, fires, or any other incidents. Transportation is one of the key activities for companies making it an important risk to mitigate. The loss of goods in transit and spillage is one of the major concerns as it accounts for a sizeable loss of revenue to companies.

- **Commodity Price Risk - Volatility in prices of raw materials:** The fluctuations in raw material prices creating a margin pressure / top-line pressure in the scenario of rising input costs.

- **Portfolio Risk:** Loss of key customers, Customer concentration - Key customers accounting for a larger share of revenue, Over-dependence on suppliers, Business Model Risk: Transformative changes in business model, Tail Risks: Ability to overcome or manage extreme worst-case scenarios.

- **Environmental Hazard Risk:** Any environmental hazard having the potential to affect the surrounding environment.

- **Workplace Accident:** Fire and Explosion Hazards, Containment Incidents, Workplace Injuries

- **Human Resource: Key person risk:** This risk occurs when a business or business unit becomes heavily reliant on a key individual. Talent acquisition and retention - The companies require a highly skilled labor force for R&D as well as continuous production. Accessing skilled resources and expertise on an on-going basis is one of the major challenges; moreover, retention of trained staff is imperative. Labor shortages, Union Strikes & Industrial Actions, Employee health, safety, and security (SHE/Sustainability risk).

- **Financial Risk:** Financial Reporting Risk: Material misstatement of Financial Statements, whether due to fraud or error. Interest rates and equity prices: 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. Liquidity Risk (Credit Risk / Receivables).

- **Breaches of law (local/ international):** Voluntary/ involuntary breaches of law can lead to costly lawsuits.

Crime & Security Risk

Cybersecurity risks relate to the loss of confidentiality, integrity, or availability of information, data, or information (or control) systems and reflect the potential adverse impacts to organizational operations. These attacks can cause major financial losses, reputational harm, and a loss of client trust. Regarding cybersecurity, the BFSI industry in India has several difficulties, including difficult-to-secure legacy systems, a shortage of qualified cybersecurity personnel, and the requirement for ongoing system and network monitoring. There is a significant investment in cybersecurity tools like network monitoring, endpoint security, access control, and threat intelligence. Many organizations are also implementing cutting-edge technology like artificial intelligence and machine learning to strengthen their security posture. Around 7.4% of the attacks in the Asian region were targeted at India in 2022.

We have classified Crime & Security risks in below mentioned categories.

- **Cyber Crimes:** Data Theft, Spam, scams and phishing, Hacking, Malwares and Viruses, Piracy, Fraud, Corruption, Malicious attacks

- **Counterfeiting:** Counterfeiting of goods/services leads to loss of revenues, profits and ultimately affects the brand equity

- Threat to Women Security

- **Terrorism:** Un-lawful use of violence and intimidation, especially against civilians, in the pursuit of political aims.

Natural Hazard Risk

A natural hazard is the threat of an event that will likely have a negative impact. A natural disaster is the negative impact following an actual occurrence of natural hazard if it significantly harms a community. Due to India's geographical structure, it is one of the most disaster-prone countries in the world. Natural hazards like floods, earthquakes, landslides, and cyclones are common risks faced by India. The situation has worsened due to rise in GHG emissions, loss of biodiversity, deforestation, and degradation of environment. From Surat Gas leak to landslides in the north and cyclones in Bay of Bengal, the year 2022 was no exception. Such natural disasters hamper the day-to-day operations of corporates, and it is important for them to understand that such risks cannot go unheeded. Over the years, Indian corporates have learnt to mitigate such risks by diversifying their supply chains, having multiple logistics partners, diversified geographical presence and multiple vendors.

- **Pandemic and other global epidemic diseases:** Risk to business owing to disruptions caused by COVID-19 pandemic and similar another global epidemic.

Strategic risk

- Strategic risk is the risk that failed business decisions may pose to a company. Strategic risk is often a major factor in determining a company's worth, particularly observable if the company experiences a sharp decline in a short period of time. Several factors, such as unethical or unlawful activities, poor customer service, product recalls, data breaches, or unfavorable media coverage, can lead to strategic risk. An organization's reputation can be severely harmed by a single negative incident, such as a high-profile data breach or fraud scandal, resulting in a loss of clients, income, and market share.

- **Resource scarcity / Misutilization / Overall Utilization:** Difficulties in acquisition of land, water, fuel, or other resources for operations of business.

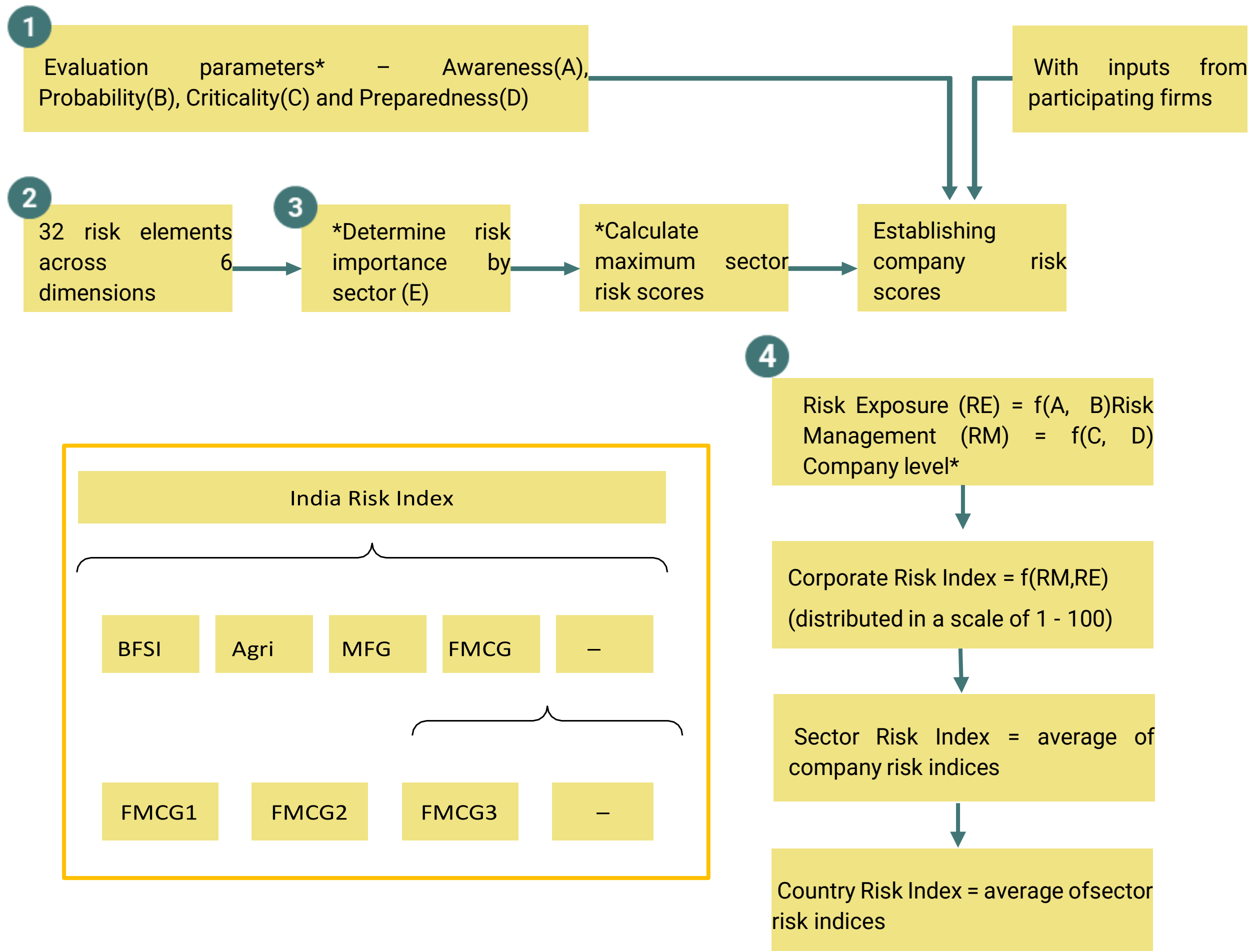
- **Public Sentiment:** Current events playing out in the public scene can change the public sentiment.

- **Delay in execution of projects:** Delays in execution of projects can surge in the capex.

- **Increased number of recalls and quality audits:** Impacts both the brand equity and increased operational expenses.

- Failed / Hostile Mergers & Acquisitions: High dependence on inorganic growth.

Bottom-Up Risk Assessment Approach



1. **Evaluation Parameters*:** The index maps the risks faced by any enterprise basis of Awareness, Probability, Criticality and Preparedness against the defined Risk elements. The evaluation Parametersare defined as: Awareness - Level of awareness of potential risk affecting the firm. - Likelihood of riskto affect the business goals of the firm adversely. Criticality - Level of impact of the identified risk on the success of business goals. Preparedness - Risk handling practices/ mechanisms already in place tohandle the risk.

2. **Determining Risk Importance*:** Importance/Impact of individual risk element is established against individual sector based on the published corporate risk reports, in depth sector understanding by F&Steam and SMEs.

3. **Calculating Maximum Sector Risk Score**: Weighted Sum of all risk elements based on their importanceto the respective sector.

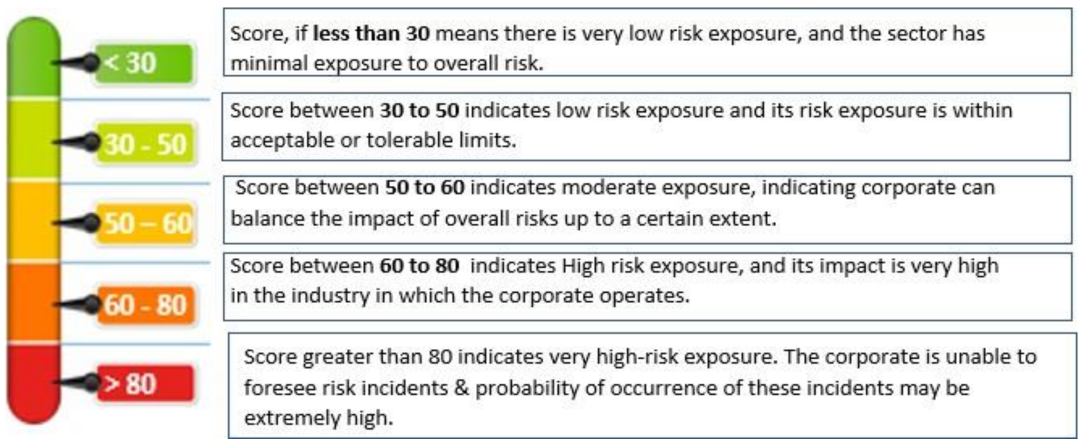
4. **Company Level*:** All the Risk Index scores for companies in a sector are averaged to represent the sector; and sectors average to India. Risk Exposure is defined as the function of corporate's Risk Awareness and Probability of risk occurrence. Risk Management is defined as the function of an enterprise risk preparedness and criticality risk impact assessment.

Defining the Risk Scale

We have selected 20 sectors to understand the current stand of our country today in terms of risk. Risk for various sectors is measured on the risk exposure scale and risk management scale.

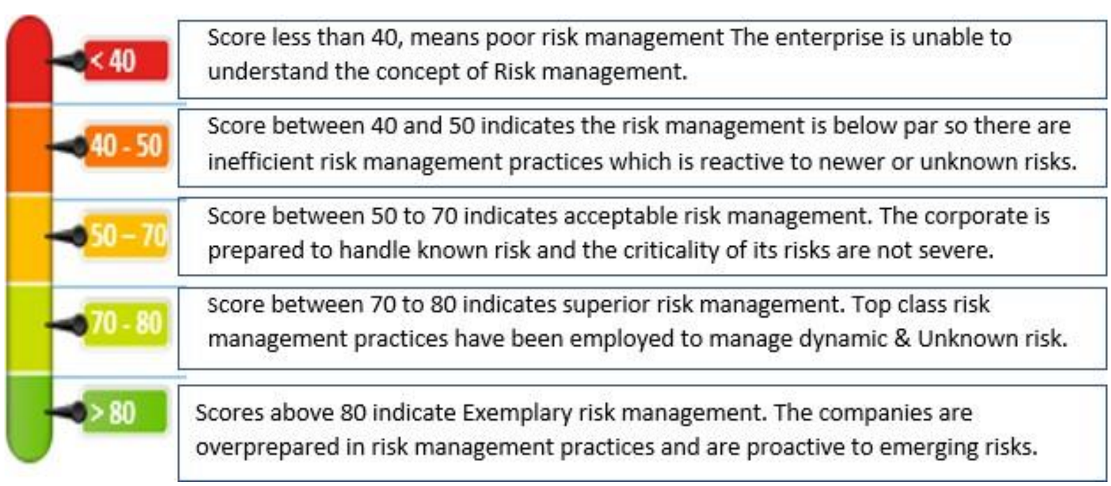
A. ICICI Lombard Corporate Risk Exposure – Scale

Risk Exposure: The impact of any internal, external or strategic occurrence on the financial performance of an organization is defined as the corporate risk exposure. Risk has traditionally been seen as something to be avoided – with the belief that if behavior is risky, it's not something a business should pursue. But the very nature of business is to take risks to attain growth. Risk can be a creator of value and can play a unique role in driving business performance. Let's look at the risk exposure scale.



B. ICICI Lombard Corporate Risk Management – Scale

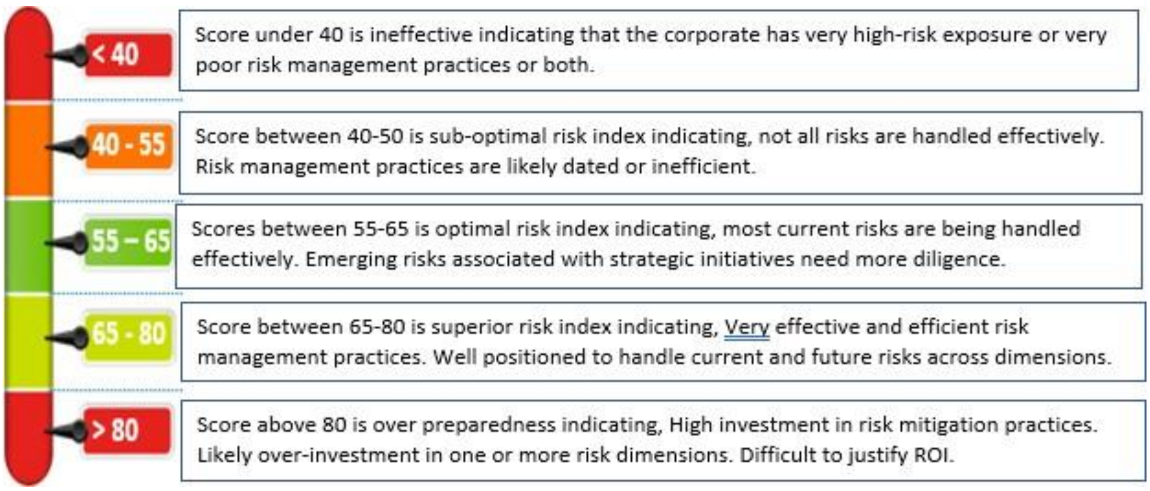
Risk Management: Identification, Evaluation and Prioritization of corporate risks followed by well-coordinated steps to minimize the occurrence of uncertainties in the foreseeable future is defined as the Corporate Risk Management. The risk management scale works in the opposite to that of the risk exposure scale. Let's look at the risk management scale.



C. ICICI Lombard Corporate Risk Index – Scale

Risk Index: Risk Index is a measurement tool to gauge the level of Risk Exposure against Risk Preparedness. The score intends to give companies/Sector/Country access to an extensive and quantifiable metrics of risk management.

Let's look at the risk Index scale.



India - Emerging Superpower with Optimized Corporate Risk Handling

Manufacturing sector contribution to India's GDP in 2022 stands at 17% and is expected to grow to 25% by 2025, the expected growth is attributed to various favorable schemes initiated by Government of India like 'Make in India', 'Digital India', Improved Road Infrastructure, implementation of modern technologies of manufacturing resulting in optimized and effective production, Also the pandemic has made business realize that they cannot just rely on a single manufacturing hub; hence notion of "China+1" is making the world realize the significance of India. China is in a trade war with the USA, which is positively shaping the role India will play in the global arena.

The below chart showcases the gradual increase in India's manufacturing exports.

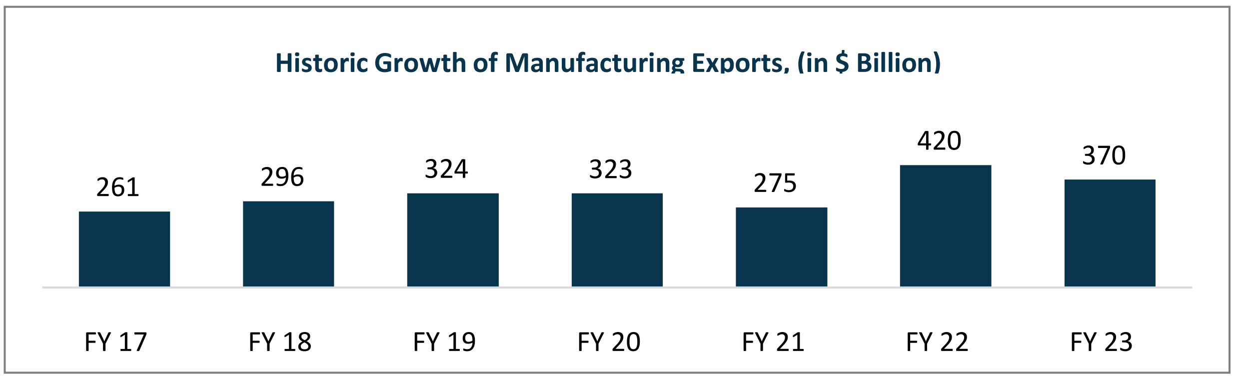


Figure 1: India's Growth of manufacturing exports. (Source: Redseer)

Indian manufacturing sector is also focusing on electronics manufacturing like mobile phones, industrial electronics consumer electronics, etc. due to government initiatives the production has doubled since 2015.

Aerospace and defense sector in India have evolved significantly, Govt. of India have identified A&D as area of focus due to the belligerent neighborhood, steps like Make in India(Atmanirbhar Bharat) is helping the overall defense sector, however India still remains the largest importer of arms and ammunition, favorable policies and ease in regulations is helping the drone industry in India and many new start-ups and big players are entering in this space.

Urbanization is another phenomenon evolving in India and it is estimated that by 2030 more than 400 million people will be living in cities, due to this megatrend huge push towards realty and infra sector is observed which is also the growth of ancillary industries like metals, cement, water availability, sanitation, mobility etc., the government along with the private sector is working on multiple initiatives to manage the huge inflow.

India has observed a steady adoption towards EVs in recent years, though India adoption still remains very low in comparison to Europe, Canada, China, however all big auto players are coming with new lines of EVs, and significant strategic investment have been made. The adoption is primarily due to lower running costs, lower maintenance, zero tailpipe emissions, tax and financial benefits by the government, convenience of charging.

BFSI sector in India is showcasing a significant robustness in the time of global crisis, there is a growing demand for financial services as there is a gradual rise in income across income brackets, with a rapid increase in mobile penetration and internet availability more than 2100 fintech companies have emerged in India, the traditional banks are also adopting the digital technologies at a required pace, investment on making the systems secured from cyber threats is utmost priority. Policy support by the government in the union budget 2021-22 is taking up shape and is helping the BFSI sector in 2022 and coming years, like government approval of 100% FDI for insurance intermediaries have increased the FDI limit to 74% from 49%.

Healthcare sector is also continuously growing healthcare has become the one of the India's largest employers, employing around 4.7 million people, though in 2021-22 India only spends 2.1% of its GDP in healthcare, in the union budget 2022-23, US$ 11.28 billion was allocated to the Ministry of Health and Family Welfare (MoHFW). there is still huge room for improvement in the overall healthcare system in India. Efforts towards having well trained medical professionals in India is top priority. There were exemplary development in the vaccine manufacturing by India, Bharat Biotech Covaxin and Oxford AstraZeneca's Covishield manufactured by SII, helped India get a protection shield against Covid. There is a plan by the government of India to infuse US $ 6 billion to boost the healthcare infrastructure in India.

The IT/ITes sector is a key engine for fueling India's economic growth and contributing to 7.5% of India's GDP in 2021-22, the Big four IT firms in India have recruited over 1 million employees, As the world is moving towards era of digital economy Indian IT-sector will be contributing significantly towards this journey, the rollout of 5G communication technologies and adoption of new age technologies across industries; like AI, Robotics, Internet of Things will further increase the size of Indian IT sector.

Indian enterprises are also concerned about the risks emerging out of the growing economy and the globalization India is heading towards, its observed that Indian enterprises are taking significant steps towards risk management and keeping budget allocated to implement best in class risk mitigation practices.

India Showcasing an Optimized Risk Handling

Figure 2: Corporate India Risk Index 2022

Corporate Risk Index Score of 63 implies that Indian enterprises are handling the risk in an optimal way but still there is scope of improvement to get into superior risk handling territory, Indian enterprises have a well-defined risk management practice in place for inherent risks, however risk management can be improved further as a potential buffer against potential risk events arising from market & economy, operational and technology related Risk events, openness towards adoption of technology and having a well-defined risk management team was observed across enterprises in India.

Sectorial categorization across above stated five categories, it was found that risk management is getting a paramount importance in the growth strategy of every organization and all the organization fell either into 'Superior Risk Management' or 'Optimal Risk Management' category.

From a risk exposure front the intensity of impact due to market and economy related risks increased due to the heightened inflation, global recession, and geopolitical tensions though from a regulation point the sector specific policies by the government helped the industries. Some of the inherent risks exposure due to the operational aspect did not see a significant change as compared to previous year, however companies are adopting diversification, technologically enabling the supply chain, and creating better hedging against financial related risks, whose results will be seen in coming years.

Below is a broader categorization of sectors in terms of risk index:

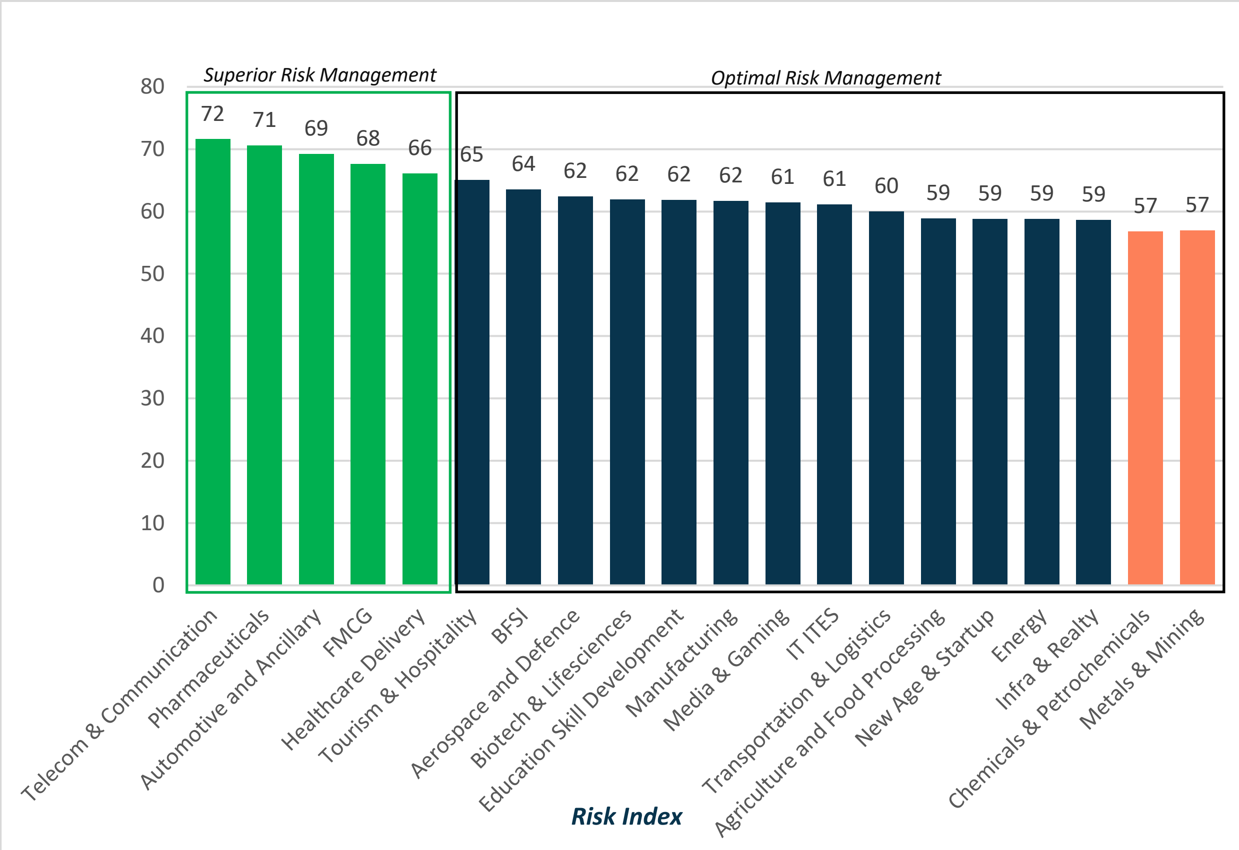


Figure 3: Corporate India Risk Index 2022 Sector Score

Superior Risk Index

Superior risk handling was found in five industrial sectors: Telecom & Communication, Pharmaceuticals, Automotive & Ancillary, FMCG, Healthcare Delivery.

Optimal Risk Index

Optimal risk handling was found in 15 industrial sectors: Tourism & Hospitality, BFSI, Aerospace & Defence, Biotech & Lifesciences, Education Skill Development, Manufacturing, Media and Gaming, IT & ITES, Transportation & Logistics, Agriculture and Food Processing, New Age & Startup, Energy, Infrastructure & Realty, Chemicals & Petrochemicals, Metals & Mining.

Realty & Infrastructure Sector Insights 2022

India's realty and infrastructure industry is a critical contributor to the country's economic growth, with a total market size estimated at USD 1 Trillion in 2021. The sector has grown significantly over the past decade, driven by rapid urbanization, rising disposable incomes, and favorable government policies. One of the industries with the highest international recognition is real estate. Housing, retail, hospitality, and commercial are its four subsectors. The expansion of the business environment and the demand for office space, as well as for housing in urban and semi-urban areas, are excellent complements to the growth of this sector. In terms of the direct, indirect, and induced effects on all areas of the economy, the construction industry comes in third among the 14 key industries. In India, the real estate sector is the second-highest employment creator, behind the agriculture sector. Also, greater non-resident Indian (NRI) investment is anticipated in this industry over the long and short terms. NRIs are predicted to prefer Bengaluru above other cities for their real estate investments, which will be followed by Ahmedabad, Pune, Chennai, Goa, Delhi, and Dehradun.

The residential real estate market is the largest sub-sector, accounting for around 85% of the entire real estate sector, with an estimated market size of USD 700 billion in 2021. The demand for residential. The commercial and retail real estate segments are also expanding rapidly, with a market size of USD 80 billion in 2021, driven by increased foreign investment and the growth of the e-commerce sector. The private investment stood at $3.3 Billion from January to September 2021. It will make for 13% of the nation's GDP by 2025. Rising household income, the emergence of nuclear families, and growing urbanization are projected to continue to be the fundamental forces behind the expansion in all areas of real estate, including residential, commercial, and resort. In one year, the top 7 cities in India's real estate market saw land deals totaling more than 1,700 acres. US$10.3 billion in foreign investments were made in the commercial real estate sector between 2017 and 21. Developers anticipate a sharp increase in demand for office space in SEZs starting in February 2022, following the replacement of the current SEZs statute.

With the increased demand for both business and residential spaces, the Indian real estate sector has recently experienced rapid growth. Increasing investor interest in securing favourable prices in the midst of the pandemic is likely to propel institutional investments in the Indian real estate sector to reach Rs. 36,500 crore (US$ 5 billion) in 2021, according to Colliers India, a property consultant. In the first half of 2021, private equity investments in Indian real estate reached US$ 2.9 billion, a double increase from the first half of 2020, according to a recent research by Colliers India.

The infrastructure sector, including transportation, energy, water, and waste management, is also a key focus for the Indian government, with a total investment of USD 1.4 trillion planned for the next five years. The government's focus on innovative city development has also created opportunities for private investors in the real estate and infrastructure sectors.Infrastructure development is essential if India is to achieve its goal of having a $5 trillion economy by 2025. In order to boost the growth of the infrastructure industry, the government has introduced the National Infrastructure Pipeline (NIP), along with other programmes like "Made in India" and the production-linked incentives (PLI) programme. Historically, more than 80% of the country's infrastructure spending has gone into funding for transportation, energy, and water& irrigation.

India aims to invest US$ 1.4 trillion on infrastructure through 'National Infrastructure Pipeline' in the next five years. Infrastructure-related operations made about 13% of the US$81.72 billion in total FDI inflows in FY21. To realize the goal of housing for everybody by 2022, India will need to build 43,000 homes per day till that time. The Pradhan Mantri Awas Yojna scheme has sanctioned 122.69 lakh homes, grounded 103.01 lakh homes, and completed 62.21 lakh homes as of August 22, 2022. (PMAY-Urban). Within the next ten years, hundreds of new cities must be created. The demand for urban freight is expected to rise by 140% during the following ten years. India's growing e-commerce supply chains spend 50% of their entire logistics budget on final-mile freight transit in their cities. By 2022, India is anticipated to overtake China as the third-largest building market in the world. By 2025, the Indian logistics market is anticipated to reach US$ 320 billion. Spending on water supply, transportation, and urban infrastructure is expected to drive the overall infrastructure investment to expand at a CAGR of 11.4% between FY21 and FY26. In the 10th five-year plan, infrastructure investment made up about 5% of GDP, compared to 9% in the 11th five-year plan.

Despite the industry's growth potential, some challenges, including inadequate infrastructure, lengthy approval processes, and regulatory hurdles, continue to impede the sector's growth. However, with the government's continued focus on infrastructure development with a budget allocation of $130 Billion and favorable policies such as the National Infrastructure Pipeline (NIP) and PM GatiShakti, the realty and infrastructure industry is poised to increase significantly in the coming years. As of 2020, 217 projects totaling Rs. 1.10 lakh crore (US$ 15.09 billion) were completed.

Overall, the realty and infrastructure industry is critical to India's economic development, providing employment opportunities (currently 53.7 Million employed), driving innovation and technology adoption, and contributing to the country's overall growth. And It is plausible to assume that India's infrastructure has a promising future because the country is poised to fully capitalize on the opportunity for the expansion of the infrastructure sector.

Realty & Infrastructure Sector Risk Index 2022 Vs 2021

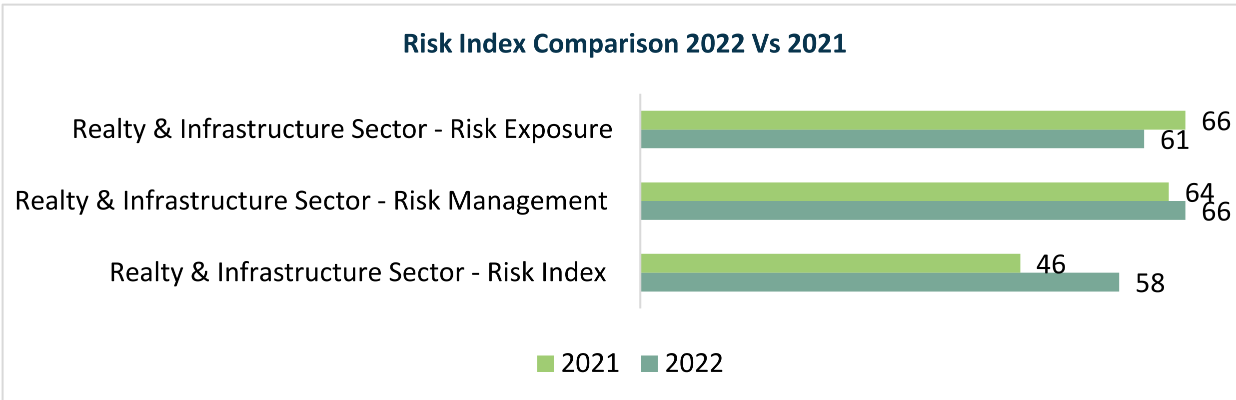


Figure 4: Detailed Comparative Analysis 2021 Vs. 2022

Realty & Infrastructure Sector Risk Index 2022 Vs 2021

India Risk Index (Optimal Risk Handling): The overall Risk Index for Aerospace & Defence sector increased from 52 to 63 in 2022, this was driven by significant changes in geopolitical inclinations and the Russia Ukraine war, crime and security risk and technology risk.

There was no significant change in the market and economy risk, operational and physical risk and other risks. This was due to the rising inflation primarily led by the increase in fuel prices and the change in regulations due to the launch of the policies and programmes introduced by the government. Operation risk reduced only slightly due to the continued shortage of infrastructure facilities and high risk of accidents while operation of necessary machine.

Realty & Infrastructure sector Risk Management 2022 Vs 2021

The sector risk management has slightly improved from 64 to 66 in 2022 with easing infrastructure project plan by GOI with the timely allocation of permission and land acquisition along with financial offering in term of loans and credit.

In addition, the adoption of the latest technology and machines in infrastructure and real state sector has made it possible for companies to timely complete projects with the help of economic stability in India.

Realty & Infrastructure Sector Risk Exposure 2022 Vs 2021

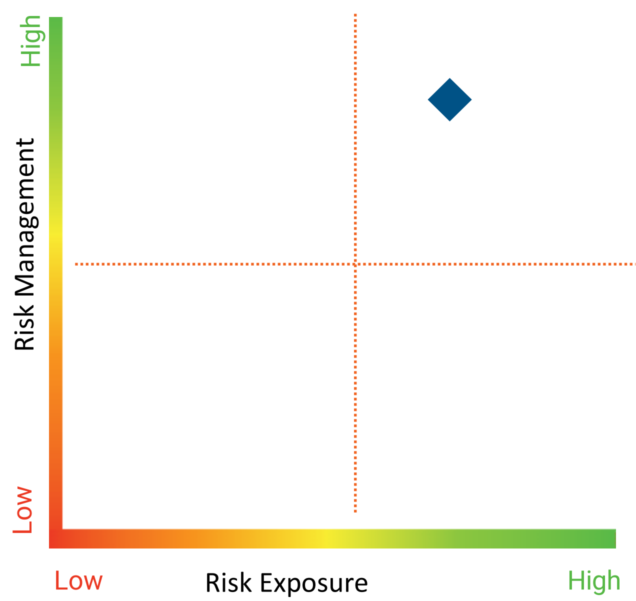
The sector risk exposure has reduced from 66 to 61 in 2022 which can be attributed to the increase in cost of construction materials and input materials which will be translated to property prices and rental prices. The shortage of skilled, blue-collared workers and prominent land acquisition issues also prevail. The sector is yet to face the effect of the cooldown of US recession however the sector has shown resilience in the past year.

Key Highlights

Risk Dimension Analysis: Market and Economy

Risk Exposure Score: 68

Risk Management Score: 68



Inflation

- Inflation had a significant impact on the real-estate and infrastructure of the country as it can lead to an increase in the cost of construction materials, including cement, steel, and other raw materials.
- According to a report by ANAROCK Property Consultants, the average property prices in the top seven cities of India increased by 4% in the first half of 2021, compared to 2020.
- Also according to a report by JLL India, foreign investment in Indian real estate declined by 15% in 2020 due to the impact of the COVID-19 pandemic.

Taxation

- The Goods and Services Tax (GST) has replaced multiple indirect taxes on real estate.
- Under GST, the tax rate on under-construction properties was reduced from 12% to 5% in 2019.
- Also According to a report by Knight Frank India, the residential sales in top eight cities in India grew by 29% YoY in Q2 2021, which is attributed to reduced GST rates.
- Foreign investment in Indian real estate reached USD 6.3 billion in 2019, with REITs accounting for USD 1.4 billion of the total.
- According to a report by ANAROCK Property Consultants, affordable housing sales increased by 10% in 2020, primarily due to tax incentives and reduced GST rates.

Regulatory Risks

- According to a report by Crisil, 33% of infrastructure projects in India have faced delays due to land acquisition issues.
- Environmental regulations are another regulatory risk in India's realty and infrastructure industry. Projects must comply with environmental regulations, including obtaining clearance from the Ministry of Environment, Forests and Climate Change.
- According to a report by Knight Frank India, environmental clearances have delayed 17% of infrastructure projects in India.
- Building codes and regulations must be followed, which can lead to additional costs and delays in project completion. According to a report by the World Bank, obtaining building permits in India takes an average of 95 days.

Foreign Exchange Rates

- Depreciating rupees increase the woes of this sector as most of the trade of this sector's services are in dollar denominated currency.
- Services include payments paid abroad for aviation turbine fuel (ATF), landing impacts, parking and accommodation costs, maintenance, repair & overhaul (MRO) services, and the acquisition of replacement parts and other necessary things. The cost of having a sizable portion of their fleets maintained at international MRO centres like Singapore, Hong Kong, Malaysia, Indonesia, and Australia is what is anticipated to have the most impact on Indian airlines in this situation.
- Due to currency exchange rate uncertainty coupled with ever-rising fuel prices, airlines struggle to pay lease rentals and maintenance reserves to overseas lessors as all such payments are made in USD. Servicing international loans becomes an issue for companies with the currency depreciation.

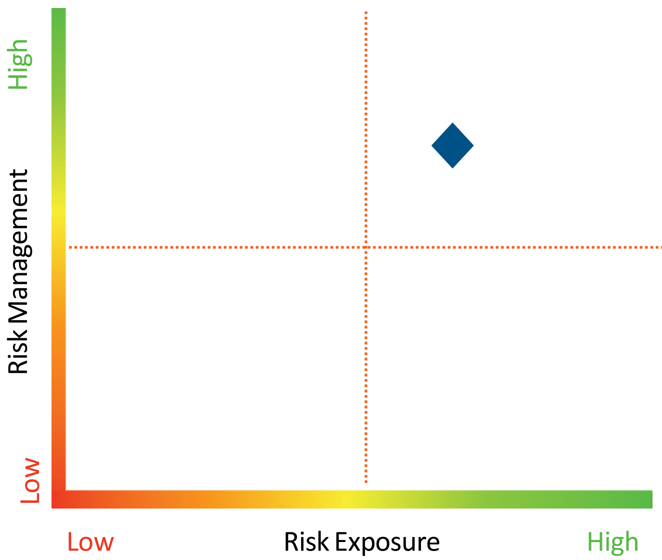
Competitive Risk

- The highly competitive nature of the industry can also lead to pricing pressure.
- Developers may need to reduce prices to remain competitive, impacting their profit margins. According to a report by ANAROCK Property Consultants, the average property prices in the top seven cities in India remained stable in 2020, with a marginal decrease of 1% YoY.

Risk Dimension Analysis: Technology

Risk Exposure Score: 50

Risk Management Score: 52



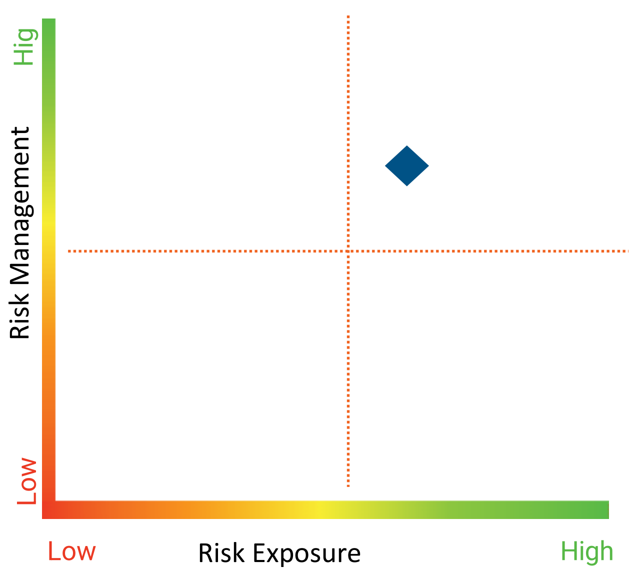
Disruptive Technology

- As per the article published by 99acres it has stated that use of technology has grown over the past few years right from the use of drones to cloud-based software solution for monitoring and tracking.
- With the increasing use of technologies it also raises the concerns for the protection of data stored by the company about information of its customer but as per the data of report submitted by MeitY in year 2023, it has stated that over the last 5 years there have been 47 accidents of data leak and 142 cases of data breaches have been reported in India.

Risk Dimension Analysis: Operational and Physical

Risk Exposure Score: 69

Risk Management Score: 69



Critical Infrastructure Failure / Machine Breakdown

- Impact on Project Delays: Supply chain disruptions can cause project delays, impacting the completion timelines and resulting in additional costs. For example, a shortage of construction materials or equipment can lead to delays in project execution.

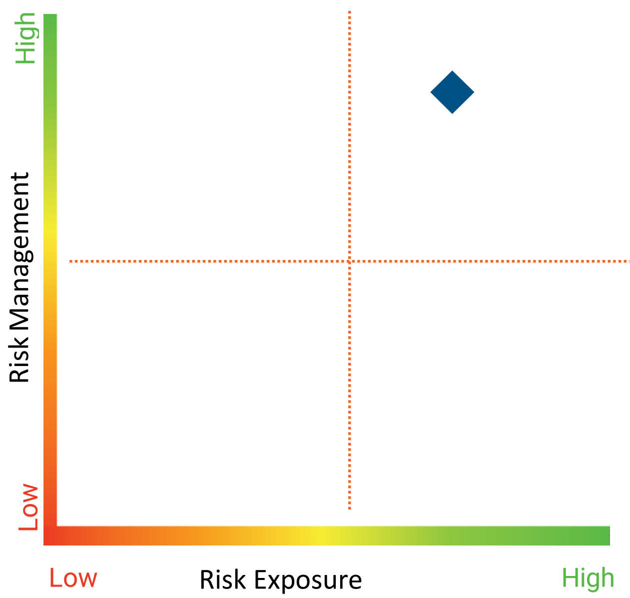
- Terrorist attacks cause extensive damage to properties, resulting in huge financial losses to the real estate industry. According to the Global Terrorism Index 2020, India was ranked as the eighth most affected country by terrorism, with 277 deaths and 439 incidents reported in 2019.

- Impact on Relationships: Supply chain disruptions can also impact the relationships between industry players and their suppliers, leading to potential disputes and reputational damage.

Risk Dimension Analysis: Crime and Security

Risk Exposure Score: 52

Risk Management Score: 53



Cyber-crimes

- Unitech Scam: Unitech, a real estate company, was accused of cheating homebuyers and defaulting on its loans. The company was also accused of violating the Foreign Exchange Management Act (FEMA) by taking funds from overseas investors without permission from the Reserve Bank of India (RBI).

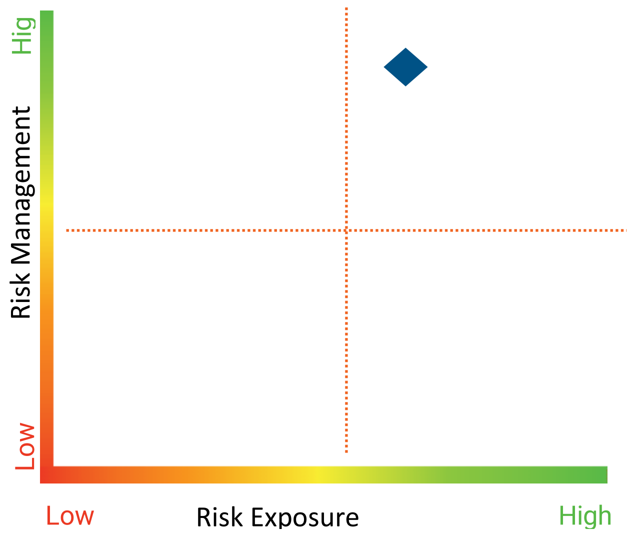
- IL&FS Scam: Infrastructure Leasing & Financial Services (IL&FS), a major infrastructure development and finance company, was involved in a scam where it concealed its financial troubles and continued to borrow money from investors. The company eventually defaulted on its loans, leading to a financial crisis in the infrastructure industry

- Fugitive Economic Offenders: Several real estate developers, including Vijay Mallya, Nirav Modi, and Mehul Choksi, have been accused of financial crimes and are considered fugitive economic offenders. They are accused of violating several laws, including money laundering, fraud, and embezzlement.

Risk Dimension Analysis: Natural Hazard and Event

Risk Exposure Score: 61

Risk Management Score: 60



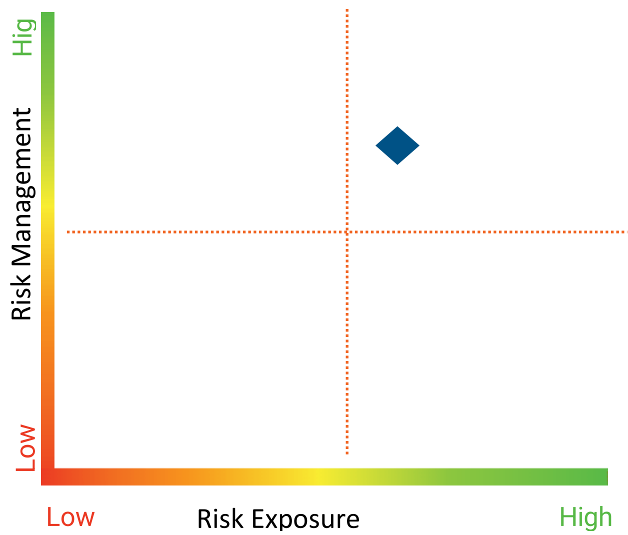
Natural Hazards:

- Critical infrastructure failures can lead to safety and security concerns, impacting the people and assets in the affected area.
- In March 2019, a pedestrian bridge near the Chhatrapati Shivaji Maharaj Terminus in Mumbai collapsed, resulting in six deaths and several injuries. In June 2014, a building under construction in Chennai collapsed, killing 61 people and injuring several others. The incident highlighted the lack of proper safety measures and building codes in the industry.

Risk Dimension Analysis: Strategic Risk

Risk Exposure Score: 66

Risk Management Score: 66



Increased number of recalls and quality audits:

- According to a study by real estate consultancy Anarock, up to 500,000 homes worth Rs 4.48 lakh crore are stuck across seven micro markets in the nation.
- The National Capital Region (NCR) and Mumbai Metropolitan Region (MMR) together make for 77 percent of such projects. Pune and Kolkata each had 9% of their initiatives fall behind schedule.
- The remaining 9 percent was divided equally among Bengaluru, Madras, and Hyderabad, three southern metropolises. Nearly 240,610 units in NCR are stuck or postponed, costing more than Rs 1.81 lakh crore. MMR follows with 128,870 units valued at approximately Rs 1.84 lakh crore. 26,030 units in Bengaluru, valued over Rs 28,072 crore, are behind schedule.

ICICI LOMBARD: Key Solution Offerings

Property

a. Businesses are always prone to risks and fire eruption and fire insurance provides a comprehensive protection against damages caused due to fire explosion and other risks. Besides fire related perils, it also protect damages caused due to any natural calamity, bursting of water tanks, theft etc. The built in covers include alterations or extensions, stocks on floater basis, temporary removal of stock, cover for specific contents, start-up expenses, professional fees, costs for removal of debris etc

b. Solutions

  i. Property Loss Prevention exercise - We have developed the methodology of Property Value Added Services for corporate customers which focuses on technical engagement with detail risk visit, followed by benchmarking of the risk (Industry Risk Profiling).

  ii. Fire Hydrant IoT - Fire hydrant online monitoring devices use IoT to monitor fire hydrants and assure their availability in emergencies. We've helped multiple corporate customers maintain and monitor this important fire safety component in real time.

Marine

a. We offer specially curated plans for covering the risk of theft, malicious damage, shortage, and non-delivery of goods, damages during loading and unloading, and mishandling of goods/cargo

b. Marine Cargo insurance primarily covers loss during transit caused due to fire, explosion, hijacks, accidents, collisions, and overturning

c. Solutions

  i. GPS Device Tracking: With the help of our advance GPS devices we can have bird eye view on the consignment and vehicle from anywhere in the world. OurSAAS allows us to track and get the visibility of the vehicle on the basis of our requirements which is fully customizable

Liability

a. Comprehensive general liability:

- **i.** This policy is important for every small and medium sized businesses to protect the insured entity against claims arising out of legal liability where they are heldresponsible for third party bodily injury or property damage due to insured's business, premises or products. It should be taken by every new business as it covers all risk a business may face.

b. Cyber - With cyber risk steadily increasing, security/ data breaches affect millions of records a year. Cyber Risk insurance coverage is designed to help an organization mitigate its risk exposure by offsetting costs involved with recovery after a cyber-related security breach or similar event.

c. Solutions

- **i. Simulated phishing tests** - Simulated real looking phishing tests and record employee behavior to phishing attacks along with training collateral in form of co-brandable posters, infographics and videos

- **ii. Cyber maturity assessments** - Assess the security posture of your organization and identify the potential risks with our assessment based on ISO 27001 Control measures for Information security

- **iii. D&O** - The need of Directors & Officers Insurance is more than ever before. Any breachor non-performance in the duties can result in claims against directors, officers and employees by reason of wrongful act and need to incur various expenses like defense costs, damages or compensation and other incidental costs. This can affect company's growth and performance.

Group Health

a. Employees are the backbone of an organization and the most valued asset. OurGroup health insurance product is designed to offer health coverage to suit employees of all business types ranging from small & medium enterprises to large organizations.

b. **Solutions:**

  i. **IL Take Care -** AI enabled mobile app for employees

  ii. **Health assistance services -** Health Assistance is a dedicated medical care service that assists you in all your health related queries for identifying specialist/hospital/fixing an appointment with doctors/nutritionist /facilitating2nd opinion

  iii. **Tele Consultation –** Hello Doctor

  iv. The insured is eligible to avail unlimited General Physician consultations for routine health issues over the phone by aqualified doctor

  v. **Diagnostics & pharmacy services** – Book a lab test or home delivery of medicines

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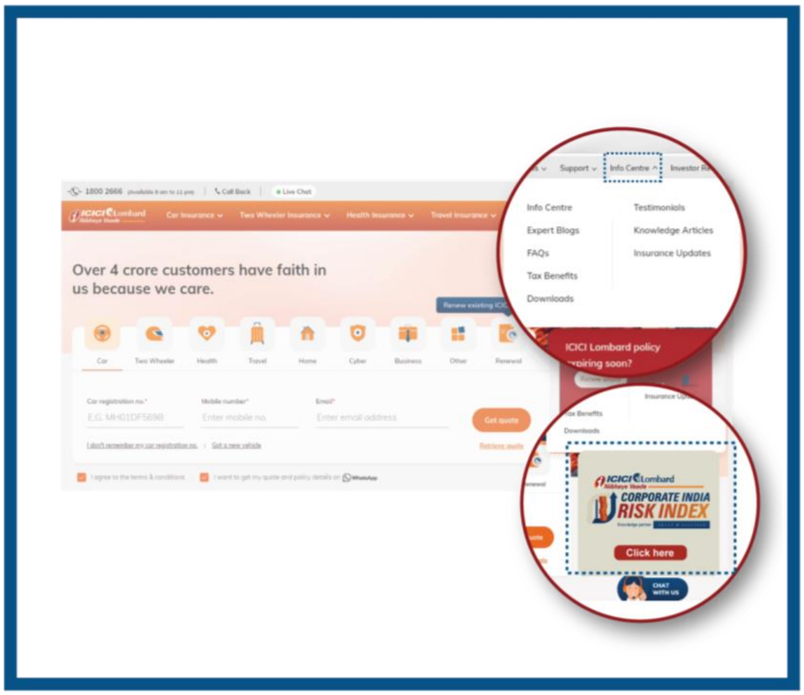

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