

ICRA Limited

Directors' Report

To,
The Members,
ICRA Limited

Your Directors have the pleasure in presenting the 29th Annual Report of your Company along with the Audited Financial Statements for the year ended March 31, 2020.

Financial Performance

During its 29th year of operations, your Company has earned a net profit of Rs. 64.98 crore as against Rs. 95.97 crore during the previous year. Your Company's basic earnings per share for the year ended March 31, 2020 was Rs. 67.55, as against Rs. 98.36 in the previous year. The financial results of your Company (standalone and consolidated) for the year ended March 31, 2020 are presented in the following tables.

Standalone		
Particulars	2018-19 (Rs. crore)	2019-20 (Rs. crore)
Revenue from operations	230.14	207.78
Other income	44.53	40.58
Total income	274.67	248.36
Total expenses	143.60	156.31
Profit before tax	131.07	92.05
Total tax expense	35.10	27.07
Profit for the year	95.97	64.98
Total other comprehensive income, net of tax	(0.23)	(0.54)
Total comprehensive income for the year	95.74	64.44

Figures are extracted from the audited standalone financial statements as per Indian Accounting Standards (Ind AS).
1 crore = 10 million

Consolidated		
Particulars	2018-19 (Rs. crore)	2019-20 (Rs. crore)
Revenue from operations	328.06	321.09
Other income	44.80	47.97
Total income	372.86	369.06
Total expenses	220.82	237.58
Profit before tax	152.04	131.48
Total tax expense	46.09	34.24
Profit for the year	105.95	97.24
Total other comprehensive income, net of tax	(0.38)	(0.63)
Total comprehensive income for the year	105.57	96.61

Figures are extracted from the audited consolidated financial statements as per Indian Accounting Standards (Ind AS).
1 crore = 10 million



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Review of Operations

Rating Services

Market and Business Overview

The credit rating business faced headwinds in FY2020 in terms of decelerating economic growth, limited credit demand and continued risk aversion towards the non-banking financial companies (NBFCs) and housing finance companies (HFCs) segment. GDP growth is estimated to have declined considerably during FY2020, despite a pick-up in the expansion of Government spending, with private sector investment activity remaining sluggish.

The bond issuances are estimated to have decreased by 4% during FY2020 largely because of reduced issuances by NBFCs/HFCs (which comprise nearly 55-60% of the debt issuances) even as issuances by corporate sector entities grew and the issuances from banks remained flat. The growth in issuance from the corporate sector remained supported by issuances of the Government of India (GoI)-serviced bonds and the GoI-guaranteed bonds by various public sector undertakings (PSUs). Within the NBFCs/HFCs, increased risk aversion of investors and deteriorating credit quality in the sector remained key factors for degrowth even as the issuances from Public Sector NBFCs remained strong. Of the overall bond issuances, as per ICRA's estimates, the PSUs accounted for 56% of the issuances in FY2020 compared to 34% in FY2019. The outstanding stock of commercial paper declined by 29% as the borrowers continued to correct their asset-liability mismatches and the investors were more discerning and restricted their preference to stronger issuers with better risk management practices.

Bank credit growth recorded a multi-year low during FY2020, which was mainly driven by the slowing economy and a higher risk aversion, despite high banking system liquidity for most part of the year. The bond issuances from banks and financial institutions remained flat as the Basel II debt capital instruments got phased out and refinancing volumes of financial institutions remained steady.

Economic growth recorded a deceleration in FY2020, reflecting the slowdown in the industrial and the service sectors. While Government spending stood out as the main driver of growth, domestic consumption demand was modest, driven by the subdued trend in the rural sector. The credit squeeze witnessed by the NBFCs had an adverse impact on consumption as well as supply of credit to micro-small and medium enterprises. Moreover, non-Government investment activity remained muted, with modest capacity utilisation levels. In Q4 FY2020, the emergence of the coronavirus, which led to the lockdown, depressed economic growth. This has led to a sharp decline in business and consumer confidence and heightened global as well as domestic risk aversion.

Despite the economic headwinds that adversely impacted the debt and bank loan volumes, your Company added a good number of large clients, including some marquee names, to its portfolio even as the total number of rated entities reduced as your Company has been less aggressive in the smaller loan segment. While these new mandates did mitigate the impact of the reduction in business from existing customers, particularly in the NBFCs and the HFCs segment, this importantly underscores your Company's positioning as a credible rating agency by the market participants.

While bank credit growth is expected to remain muted in FY2021, the debt capital markets activity will be driven by factors like economic outlook, risk aversion, interest rate trajectory and the demand for corporate bonds, amid a significantly higher supply of Government bonds. The current risk aversion amongst market participants amidst the economic slowdown will continue to influence the investment decision only towards better-rated or stronger entities, despite the regulatory thrust to deepen the bond markets.

Corporate Sector

The bank credit to the corporate sector registered a decline in FY2020, driven by sustained risk aversion, slowing consumption and lack of any meaningful pick-up in investment activity. Borrowings through the bond route were also impacted by increased risk aversion and unfavourable yields for credits that were either lower rated or lacked the support of strong groups.

Corporates faced elevated pressures in FY2020 against the backdrop of a slowing economy caused by sluggish consumption and investment demand as well as escalating trade tensions. The pressures were further intensified by heightened funding

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challenges due to increasing vulnerabilities of the financial sector, specifically NBFCs, in terms of deteriorating asset quality and concerns around liquidity and asset-liability mismatches. Accompanying the concerns around slowing economic growth and simmering global trade tensions, was scepticism, relating to the corporate governance practices followed by some of the borrowers. These factors, along with increased cost and reduced availability of funding, contributed to weaker credit profiles and slower growth.

While the economy was showing signs of bottoming out in the latter half of the year, the onset of the Covid-19 pandemic, which is unprecedented, both in the nature of its impact and the time period for which the consequences will be felt, has plunged the economy into extreme uncertainty. The lockdown announced by the Government, with only a gradual opening up of certain activities, is expected to have a severe impact on the economy. The size of the GDP shrinkage would be contingent on the extent to which a graded resumption in activities is permitted, the magnitude of Government spending to cushion the blow from the lockdown and the fact that whether a second wave of infections prompts further lockdowns later in the year. At present, we forecast the Indian GDP to shrink by 5% in FY2021.

The impact of Covid-19 is likely to affect India Inc. on various levels, due to domestic demand slowdown, global economic slowdown and lockouts, impact on the commodities, foreign exchange rate fluctuations and supply chain disruptions. While the Reserve Bank of India (RBI) has announced measures to ease the liquidity flows, most corporates, except the highly rated ones and the PSUs, are likely to witness ongoing funding challenges. Also, liquidity pressures are expected to intensify on account of delayed payments and the inability to liquidate inventory.

Consequently, the outlook on the rating business would depend, not only on the likely duration for which the economy is locked down but also on the measures the Government takes to support the economy and consequently the length and pace of recovery. In the event that the pace of recovery is slow, credit shocks and default rates above those experienced in recent cycles cannot be ruled out.

Financial Sector

The risk aversion towards NBFCs and HFCs extended into FY2020 as well, following defaults by a few. The investors remained cautious and preferred to invest primarily in debt issued by the NBFCs/HFCs that either belonged to the public sector or were backed by strong promoter groups. Accordingly, such NBFCs/HFCs continued to receive funding from debt capital markets, that too at competitive rates, while others had to rely primarily on bank funding besides portfolio sell-downs to raise resources. Overall, the assets under management of the NBFCs and the HFCs grew much slower in FY2020 consequent to the funding constraints. The bond as well as CP issuances by NBFCs and HFCs were lower during the year due to reduced risk appetite from investors coupled with the regulatory changes on investment norms for liquid mutual funds.

Going forward, the NBFCs and the HFCs would continue to raise funds to keep adequate liquidity buffer anticipating risks because of the pandemic-related issues, and also, to refinance existing debt or explore opportunistic growth avenues. The bond issuances for FY2021 should get some fillip with the Targeted Long-term Repo Operations (TLTRO) from the RBI as the banks must invest the funds mobilised in the debt capital market instruments. Till now, the beneficiaries are the issuers with either high rating or strong sponsors. Given the requirements of the NBFCs and the HFCs, they are expected to continue to account for a large proportion of the debt capital market issuance.

The public sector banks (PSBs) were expected to pursue better credit growth during FY2020 after recapitalisation, however, announcement of a merger among the few PSBs, slowing economic growth and increased risk aversion resulted in a muted credit growth. The private banks also remained cautious on lending amid slowing growth and emerging concerns on asset quality in the micro, small and medium enterprises (MSME) and retail segments. Despite slower credit growth during FY2020, the bond issuances of banks remained stable, driven by phasing out of Basel II debt capital instruments and increased refinancing demand from financial institutions like NABARD, SIDBI and NHB.

With expectations of muted bank credit growth of 6-7% for FY2021, the bond issuances from the banks are expected to remain muted, however, the refinancing demand is expected to drive steady bond issuances by financial institutions.



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Rating downgrades of some large issuers during FY2020 and increasing concerns on the credit quality of some issuers impacted the flows in various debt mutual fund schemes. Further, the regulatory changes on investment limits and marking to market of underlying investments adversely impacted flows into the debt schemes. As a result, assets under management (AUM) for debt schemes remained flat with a YoY growth of less than ~1% during FY2020. Your Company continues to enhance its presence in the Mutual Fund scheme ratings with additions of more schemes from the existing and new fund houses.

Structured Finance

The securitisation market remained buoyant during FY2020 with volumes reaching about Rs. 2 lakh crore for the fiscal as the NBFCs and the HFCs continued to rely heavily on securitisation for raising funds, and managing liquidity and the ALM mismatch. The year saw the emergence of more participants as newer originators and investors entered the market. The securitisation volumes would have been higher but for the emergence of the Covid-19 pandemic and the resulting disruptions caused in March 2020.

The securitisation market was further supported by the introduction of the partial credit guarantee (PCG) scheme by the Government of India (GoI) for PSBs in August 2019 for purchasing high-rated pooled assets from financially sound NBFCs and HFCs to infuse additional liquidity in the system. The scheme was initially offered for a six-month period, which has been extended to June 2020. In addition, the relaxation of the minimum holding period (MHP) criteria for long-tenure loans introduced by the RBI in FY2019 was extended for another six-month period beginning from January 2020, which also benefits the HFCs in the securitisation market.

In FY2020, your Company continued to maintain its position as a leading credit rating agency (CRA) in the structured finance segment. It witnessed a healthy increase in the number of fresh transactions rated / loss estimation reports prepared during the year. The number of originators that mandated your Company for a rating assignment or a loss estimation report increased in the year vis-à-vis the previous year, thus deepening your Company's presence in the market. Your Company remained a thought leader in the sector with thematic notes on the securitisation market and credit quality trends across asset classes.

The securitisation market is expected to witness a drop in volumes in FY2021 due to the nationwide lockdown following the pandemic that has resulted in moratoriums on loans being extended to retail borrowers and investors becoming cautious on certain asset classes. The muted growth in the books of the NBFCs and the HFCs would reduce the eligible assets available for sale which would also dampen the securitisation market. Volumes could again pick up from H2 of the fiscal as the NBFCs and HFCs would continue to depend on securitisation of their pooled loans to meet their funding requirements once disbursements start to pick up. Banks' appetite would be driven by the extent of the priority sector loan (PSL) shortfalls in the banking system. The increase in the purchase of non-PSL pooled loans is a healthy trend that is expected to continue and support issuance volumes. However, any significant traction in the priority sector loan certificates (PSLCs) market or widespread adoption of the loan co-origination framework by banks for sourcing PSL assets could restrict issuance volumes in the medium to long term.

Industry Research

The research initiative of your Company has received a good response and has been appreciated by various stakeholders in the marketplace. During the year 2019-20, lower research spends by the financial sector affected demand for ICRA's subscription-based products. Despite the challenging environment, the good quality of reports published has also helped in making further inroads across market segments and your Company has added many prominent entities as subscribers in the last year. Your Company continues to actively engage with the investor community by regularly holding interactive sessions on macro economy, industries and rating round-ups through its webinar series, thereby building a strong market franchise.

ICRA research has an ongoing coverage on 60+ industries and several sub-segments within the corporate sector and multiple sub-segments under the financial services and structured finance sectors.

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Franchise Development

Your Company continues to strengthen its franchise through periodic conferences, seminars, webinars and media activities aimed at promoting its visibility and brand strength. The credit-themed outreach programmes that were offered frequently through the year were very well received by the market participants – particularly, the series of webinars covering the Covid-19 related credit stress was appreciated for the coverage on various sectors.

Your Company continues to be at the forefront, in terms of share of voice, in the electronic and print media, through regular releases expressing our opinion on contemporary issues with credit significance.

Your Company continues to be a preferred partner to CNBC-TV18 in powering the Financial Advisor Awards. These awards have a strong franchise in the financial advisory and distribution community and are a matter of considerable pride for the winners.

Change in Nature of Business

During 2019-20, there was no change in the nature of business of your Company. Pursuant to the SEBI (Credit Rating Agencies) (Amendment) Regulations, 2018 along with its subsequent amendment(s) and clarifications issued by SEBI from time to time in this matter, a credit rating agency shall not carry out gradings and other related non-rating activities with effect from May 30, 2020. Accordingly, from this date, your Company does not accept any new business under these activities.

Subsidiary Companies (including step-down subsidiaries)

At the beginning of the year 2019-20, your Company had six subsidiaries, including one step-down subsidiary.

The Board of Directors of your Company had approved the merger of two of its wholly-owned subsidiaries - ICRA Management Consulting Services Limited, involved in consulting services, with and into ICRA Online Limited, involved in outsourcing and information services, subject to requisite approvals. Pursuant to the aforesaid approval, an amalgamation scheme had been filed for approval of the merger with the Hon'ble National Company Law Tribunals in Delhi and Kolkata.

During the year under review, the National Company Law Tribunal, New Delhi, and the National Company Law Tribunal, Kolkata, have sanctioned the scheme of amalgamation filed by ICRA Management Consulting Services Limited and ICRA Online Limited, respectively. Post the merger, the members of ICRA Online Limited approved the change in Company's name to 'ICRA Analytics Limited.'

Apart from the above, there has been no material change in the nature of the business of the subsidiaries.

As of March 31, 2020, your Company had the following subsidiaries, including the step-down subsidiary:

S. No.	Name of Subsidiary Companies	Category	Country of Incorporation
1.	ICRA Analytics Limited [§]	Subsidiary	India
2.	Pragati Development Consulting Services Limited	Step-down subsidiary	India
3.	PT. ICRA Indonesia*	Subsidiary	Indonesia
4.	ICRA Lanka Limited	Subsidiary	Sri Lanka
5.	ICRA Nepal Limited	Subsidiary	Nepal

[§]Formerly known as ICRA Online Limited

*Liquidation initiated by the Company



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Highlights of performance of subsidiary companies and their contribution to the overall performance of the Company during the year 2019-20 are provided in the Management Discussion and Analysis Report.

The consolidated financial statements of Group ICRA, consisting of ICRA Limited, its subsidiaries, including step-down subsidiary, for the year 2019-20, which form a part of the Annual Report, are attached. The Auditors' Report on the consolidated financial statements is also attached. In compliance with the relevant provisions of the Companies Act, 2013, a statement containing the brief financial details in Form AOC-1 as per Rule 5 of the Companies (Accounts) Rules, 2014, of the said subsidiaries, is annexed to the consolidated financial statements, prepared in accordance with the prescribed Accounting Standards.

As required under the provisions of Section 136 (1) of the Companies Act, 2013, the financial statements, including consolidated financial statements and other documents required to be attached thereto, have been uploaded on the Company's website, www.icra.in. Further, your Company has also uploaded on its website the audited financial statements of each subsidiary company.

Branches of the Company

Your Company operates its business from its offices in New Delhi, Gurugram, Mumbai, Kolkata, Chennai, Ahmedabad, Bengaluru, Hyderabad, and Pune.

Board Meetings Held During the Year

During the year, 12 meetings of the Board of Directors were held. The details of the meetings are furnished in the Corporate Governance Report attached as *Annexure-III* to this Report. The Company has complied with secretarial standards issued by the Institute of Company Secretaries of India on Board meetings and Annual General Meetings.

Human Resource Development & Training

Human resources continued to provide a variety of training & development opportunities in the year under review with an aim to build employee capacity to meet strategic needs and align with the Company's strategic plan and overall mission.

A fundamental belief of our management philosophy is to invest in our employees and enable them to develop new skills and capabilities which benefit them as well as the Company. A variety of training and development programmes were provided in areas of functional and behavioural skills, team building and development on women leadership with emphasis placed on improving skill, competency and knowledge. To ensure managerial effectiveness, we launched MILES – A managerial Interpersonal effectiveness programme. It provides an opportunity to employees to understand themselves better, leading to self-awareness and thereby an improvement of their people management styles.

New hires go through a systematic on-boarding programme, designed to equip them adequately with the right skills and competencies to achieve their best potential. Apart from this, all employees including the new hires, are trained online on the Code of Business Conduct, Conflict of Interest, Anti-Bribery & Corruption, Prevention of Sexual Harassment at Workplace & Information Security.

ICRA continues to focus on building a strong talent pipeline across levels through regular in-house functional trainings, Blue Sky sessions, Intuition online learning platform, and external programmes. Developing and strengthening capabilities of all employees has remained an ongoing priority. Deserving employees, who demonstrate high performance and potential, are awarded challenging assignments and higher responsibilities. They are provided adequate training and coaching to prepare them towards the same.

The Company's talent management strategy is focused on building leaders of tomorrow. We invest through world class leadership development programmes to build the talent bank in the organisation. The Company has a robust talent review programme and ensures a succession plan towards critical positions, annually.

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There is a harmonious relationship between the employees and the management of your Company. The consultative and participative management style of your Company has facilitated the achievement of its corporate goals. The employee morale has been high, resulting in a positive contribution to your Company's progress.

Employees Stock Option Scheme (ESOS)

The members of your Company in the Annual General Meeting held on August 9, 2018, by passing a special resolution adopted a new scheme called the Employees Stock Option Scheme 2018 (**'ESOS 2018'**), under which an aggregate of 31,950 stock options were proposed to be granted. Permanent employees (excluding promoters and Independent Directors) of your Company and its subsidiaries are eligible to participate in the ESOS 2018. An estimated 31,950 stock options (shares of which are with the ICRA Employees Welfare Trust) may be granted under the ESOS 2018.

The disclosures in terms of Regulation 14 of the SEBI (Share-based Employee Benefits) Regulations, 2014 read with Circular No CIR/CFD/POLICY CELL/2/2015, dated June 16, 2015, issued by SEBI, are available on the Company's website; the web-link for the same is:

[https://www.icra.in/InvestorRelation/ShowCorpGovernanceReport/?Id=27&Title=Corporate%20Governance&Report=Disclosure%20by%20Board%20of%20Directors%20\(ESOP\)_2018_March.pdf](https://www.icra.in/InvestorRelation/ShowCorpGovernanceReport/?Id=27&Title=Corporate%20Governance&Report=Disclosure%20by%20Board%20of%20Directors%20(ESOP)_2018_March.pdf)

Particulars of Employees

The disclosure under the provisions of Section 197(12) of the Companies Act, 2013, regarding the ratio of the remuneration of each Director to the median employee's remuneration and such other details as specified in Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is annexed to the Directors' Report (*Annexure I*). A statement showing the names of the top ten employees in terms of remuneration drawn and other particulars of the employees drawing remuneration in excess of the limits set out in Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as well as the names and other particulars of every employee covered under the rule, are available at the registered office of the Company, and any member interested in obtaining such information may write to the Company Secretary and the same will be furnished without any fee.

With regard to the provisions of Section 136(1) of the Companies Act, 2013, the Directors' Report, excluding the information provided in compliance with Rule 5(2) and 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is being sent to the members of the Company.

Extract of the Annual Return

An extract of the Annual Return in Form No. MGT 9, as per Section 92(3) and Rule 12 of the Companies (Management and Administration) Rules, 2014, is annexed with this report (*Annexure II*).

Corporate Governance

The report of the Board of Directors of your Company on Corporate Governance is presented as a separate section (*Annexure III*) titled Corporate Governance Report, which forms a part of the Annual Report.

The composition of the Board, the Audit Committee, the Nomination and Remuneration Committee, the Stakeholders Relationship Committee, the Corporate Social Responsibility Committee and other committees of the Board, the number of meetings of the Board and committees of the Board, and other matters are presented in the Corporate Governance Report.

The certificate of the Statutory Auditors of your Company regarding compliance with the Corporate Governance requirements as stipulated in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') is annexed to the Directors' Report.



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Your Company has obtained a certificate from a practicing company secretary that none of the Directors on the Board of your Company have been debarred or disqualified from being appointed or continuing as directors of companies by the SEBI / Ministry of Corporate Affairs or any such statutory authority.

Management Discussion & Analysis

The Management Discussion and Analysis is annexed to the Annual Report (*Annexure IV*).

Insider Trading Regulations

Based on the requirements under the SEBI (Prohibition of Insider Trading) Regulations, 2015, as amended from time to time, the Code of Conduct for prevention of insider trading is in force in your Company. The Board of Directors of the Company has adopted the Code of Practises and Procedures for Fair Disclosure of Unpublished Price Sensitive Information, the policy for determination of legitimate purposes, and policy for enquiry in case of the leak of unpublished price sensitive information in compliance with the said regulations and the same have been uploaded on the Company website.

Material Changes and Commitments

No material changes and commitments that would affect the financial position of the Company have occurred between the end of the financial year to which the attached financial statements relate and the date of this report. Further, as per the disclosure required under Section 134 of the Companies Act, 2013 read with Rule 8(5) of Companies (Accounts) Rules, 2014, no significant and material orders have been passed by the regulators or courts or tribunals impacting the going concern status and the Company's operations in future.

Share Capital

As on March 31, 2020, the Company's issued, subscribed and paid-up equity share capital, stood at Rs. 9,65,12,310 (Nine Crore Sixty-Five Lakh Twelve Thousand Three Hundred and Ten Only) divided into 96,51,231 equity shares of Rs. 10/- each.

Conservation of Energy, Technology Absorption, and Foreign Exchange Earnings and Expenditure

As your Company is not involved in any manufacturing activity, the particulars relating to conservation of energy and technology absorption, as mentioned in the Companies (Accounts) Rules, 2014, are not applicable to it. However, emphasis is placed on the employing techniques that result in the conservation of energy. Details on the foreign exchange earnings and expenditure of your Company appear in the notes to the financial statements.

Update Regarding Certain Ongoing Matters

First, in respect of an adjudication proceeding ('Adjudication Proceeding') initiated by the Securities and Exchange Board of India (SEBI) in relation to the credit ratings assigned to one of the Company's customers and the customer's subsidiaries, SEBI issued an order imposing a penalty of Rs. 25 lakh under Section 15HB of the SEBI Act, 1992 on the Company. Further, SEBI issued a Show Cause Notice ('SCN') for enhancement of the penalty amount. The Company has filed an appeal challenging the adjudication order before the Securities Appellate Tribunal (the 'SAT') and deposited the penalty amount of Rs. 25 lakh without prejudice to such appeal. The said appeal is pending before the SAT. The Company has made adequate provision in this regard. The Company has also been cooperating with Government agencies and responding to their queries in relation to this matter.

Second, the Board of Directors ('Board') had appointed external experts to examine and report on anonymous representations making certain allegations against two former officials which were forwarded to the Company by SEBI ('Representations'). During the examination of the aforesaid Representations, certain counter allegations were made by one of the two former officials, for which the Board appointed a second set of external experts, to examine such allegations.

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The external experts examining the Representations have concluded their examination and the findings indicate that the conduct of the aforesaid officials was not in conformity with certain applicable regulations and Company policies relating to credit rating activities. The aforesaid officials are no longer in the employment of the Company.

The external experts have expressed that no evidence was found suggesting ex-facie that the ratings examined as part of the examination were inflated (i.e. were unsupported by ratings analysis). Further, as per external experts, this is subject to the limitation that the determination of whether or not any ratings are supported by ratings analysis is a qualitative technical matter that was beyond the scope of the examination, as the examination was not aimed at reviewing the appropriateness of rating opinions on merits.

The findings of the second set of external experts do not indicate any material deficiencies with applicable regulations and Company policies.

The findings of the external experts have been presented to the Board members. The Board is in the process of taking appropriate steps in the best interest of the Company and its various stakeholders with regard to the outcome of the examination.

Third, the Company directly received another anonymous representation during the year ended March 31, 2020 against certain of its existing officials and the examination thereof is in progress.

Fourth, the Company had received a letter from SEBI seeking comments on observations made in the interim report dated July 15, 2019 prepared by Grant Thornton India LLP, which was commissioned by the IL&FS Group. The Company had submitted its responses to SEBI on such observations dated August 14, 2019. There has been no further development in this matter.

While the Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of the uncertainties arising from the above matters is currently unascertainable. However, based on the legal opinions given by reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company.

Directors and Key Managerial Personnel

During 2019-20, Mr. David Brent Platt was appointed as Additional Director effective from April 30, 2019. The Members of the Company at the Annual General Meeting held on September 28, 2019 approved the appointment of Mr. David Brent Platt as Non-Executive Non-Independent Director of the Company, effective from September 28, 2019.

The members of the Company also approved the following re-appointments in the Annual General Meeting held on September 28, 2019 by passing special resolutions:

- i. Mr. Arun Duggal as an Independent Director for a second term of five years, effective from November 11, 2019;
- ii. Ms. Ranjana Agarwal as an Independent Director for a second term of five years, effective from November 11, 2019;
- iii. Ms. Radhika Vijay Haribhakti as an Independent Director for a second term of five years, effective from December 4, 2019.

During the year under review, Mr. Navneet Agarwal, Non-Executive, Non-Independent Director of your Company, resigned from the Board of your Company, inclusive of membership in any and all committees of the Board. The resignation of Mr. Navneet Agarwal was effective from October 25, 2019. The Board places on record its appreciation for his valuable contribution and guidance.

The Board of Directors of your Company appointed Mr. Michael Foley as an Additional Director of your Company under the category of Non-Executive Non-Independent. Mr. Foley's appointment is effective from October 25, 2019. The Nomination and Remuneration Committee and the Board of your Company recommend appointment of Mr. Foley under the category of Non-Executive Non-Independent Director, liable to retire by rotation.



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Further, the Board of Directors of your Company appointed Mr. Amit Kumar Gupta as an Additional Director, Whole-time Director of your Company. Mr. Gupta's appointment is effective from February 7, 2020. The Nomination and Remuneration Committee and the Board of your Company recommend the appointment of Mr. Gupta as a Whole-time Director.

Both the appointments made during the year are subject to approval by the Members of the Company at the forthcoming Annual General Meeting. The resolutions seeking Mr. Foley's and Mr. Gupta's appointment as Directors have been included in the Agenda of the Annual General Meeting.

Pursuant to the provisions of Section 152 of the Companies Act, 2013, and the Articles of Association of your Company, Mr. Thomas John Keller Jr. is due to retire by rotation, and being eligible, has offered himself for reappointment.

Proposals for the above appointments/re-appointment forms a part of the Agenda for the forthcoming Annual General Meeting and the resolutions are recommended for your approval. The profiles of Mr. Foley, Mr. Gupta and Mr. Keller are presented in the Notice of the 29th Annual General Meeting, as required under the Companies Act, 2013, and the Listing Regulations.

On July 1, 2019, the Board of Directors of your Company passed a resolution to place Mr. Naresh Takkar, erstwhile Managing Director and Group CEO, on administrative leave, with immediate effect until further notice. Thereafter, the Board of Directors in its meeting held on August 29, 2019, after due consideration and taking into account the best interests of the Company and its various stakeholders, decided to terminate the employment of Mr. Naresh Takkar as Managing Director and Group CEO of ICRA, effective immediately.

Pursuant to the disclosures made by the Company to the stock exchanges on August 29, 2019 in this regard, the Company received a special notice dated August 29, 2019, in accordance with Section 115 and other applicable provisions of the Companies Act, 2013 and the Rules framed thereunder from its shareholder, Moody's Singapore Pte Ltd, identified as a promoter of the Company under the stock exchange disclosures ('Promoter Shareholder' and such notice, the 'Special Notice'). As on the date of this Notice, the Promoter Shareholder was holding, 1,949,722 equity shares of the Company representing 20.20% of the voting capital of the Company. The Promoter Shareholder had, pursuant to the Special Notice and in recognition of the legal rights vested in it as a shareholder of the Company, requested to include an additional agenda at the general meeting of the Members of the Company for removal of Mr. Naresh Takkar as Director of the Company.

The Promoter Shareholder noted in the Special Notice that Mr. Naresh Takkar was appointed on the Board of the Company in line with his significant role in the management of the ICRA group on account of his position as the Managing Director & CEO of the Company as well as the Group CEO of the ICRA Group. Accordingly, given the termination of his employment by the Board in its meeting dated August 29, 2019, the Promoter Shareholder, had, by way of the Special Notice, proposed the removal of Mr. Naresh Takkar from the office of Director of the Company, since he no longer had any existing relationship with the Company.

Thereafter, the Members of the Company at the Annual General Meeting held on September 28, 2019 approved the proposal for removal of Mr. Naresh Takkar as Director of the Company, by passing an ordinary resolution.

During the year under review, the Board of Directors of your Company had appointed Group Chief Financial Officer (Group CFO), Mr. Vipul Agarwal, as Interim Chief Operating Officer of the Company, effective from July 1, 2019. Mr. Agarwal assumed responsibility for the day-to-day operations of your Company, during Mr. Takkar's period of leave and post his removal, and reports to the Board of Directors. Mr. Agarwal continues to hold his position as the Group CFO.

The Board of Directors of the Company in its meeting held on July 28, 2020 appointed Mr. N. Sivaraman as Managing Director & CEO of the Company and CEO of ICRA Group ("Managing Director & Group CEO") for a period of 3 years, effective from August 10, 2020, under the provisions of Sections 196, 197, 198 and 203 read with Schedule V of the Companies Act, 2013 and the rules made there under, as approved by the Nomination and Remuneration Committee of the Company, subject to approval of the members of the Company.

ICRA Limited

Directors' Report

The resolution seeking Mr. N. Sivaraman's appointment has been included in the Agenda of the 29th Annual General Meeting. The profile of Mr. N. Sivaraman is presented in the Notice of the 29th Annual General Meeting, as required under the Companies Act, 2013, and the Listing Regulations.

Except Ms. Ranjana Agarwal who is serving as an Independent Director on the Board of ICRA Analytics Limited, an unlisted material subsidiary of the Company, and who receives remuneration by way of commission, no other Directors are in receipt of any remuneration or commission from any of the subsidiaries of the Company.

Independent Directors' Declaration

Pursuant to the provisions of Section 149(7) of the Companies Act, 2013 read with Schedule IV of Companies Act, 2013, the independent directors have submitted declarations that each of them meets the criteria of independence as provided in Section 149(6) of the Companies Act, 2013 along with rules made thereunder and Regulation 16(1)(b) of the Listing Regulations. There has been no change in the circumstances affecting their status as independent directors of the Company. The following Non-Executive Directors of the Company are independent in terms of Section 149(6) of the Companies Act, 2013, and the Listing Regulations:

1. Mr. Arun Duggal
2. Ms. Ranjana Agarwal
3. Ms. Radhika Vijay Haribhakti

Directors' Responsibility Statement

As required under the provisions contained in Section 134 of the Companies Act, 2013, your Directors hereby confirm that:

- (i) in the preparation of the Annual Accounts for the year ended March 31, 2020, the applicable accounting standards have been followed and there are no material departures from the same;
- (ii) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that year;
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Companies Act, 2013, to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;
- (iv) the Directors had prepared the Annual Accounts on a going concern basis;
- (v) except for the matters referenced in the adverse opinion, made by the Statutory Auditors of the Company, on the Internal Financial Controls over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013, the Directors had laid down the internal financial controls, followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- (vi) the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Policy on Directors' Appointment

The Nomination and Remuneration Committee works with the Board to determine the appropriate characteristics, skill and experience that are required of the members of the Board. The members of the Board should possess the expertise, skills and experience needed to manage and guide the Company in the right direction and to create value for all stakeholders. The members of the Board will need to consist of eminent persons of proven competency and integrity with an established track



Directors' Report

record. Besides having financial literacy, experience, leadership qualities and the ability to think strategically, the members are required to have a significant degree of commitment to the Company and should devote adequate time in preparing for the Board meeting and attending the same. The members of the Board of Directors are required to possess the education, expertise, skills and experience in various sectors and industries needed to manage and guide the Company. The members are also required to look at strategic planning and policy formulations.

The members of the Board should not be related to any executive or independent director of the Company or any of its subsidiaries. They are not expected to hold any executive or independent positions in any entity that is in direct competition with the Company. Board members are expected to attend and participate in the meetings of the Board and its Committees, as relevant. They are also expected to ensure that their other commitments do not interfere with the responsibilities they have by virtue of being a member of the Board of the Company. While reappointing Directors on the Board and Committees of the Board, the contribution and attendance record of the concerned Director shall be considered in respect of such reappointment. Each Independent Director shall hold office as a member of the Board for a maximum term as per the provisions of the Companies Act, 2013 and the rules made thereunder, in this regard from time to time, and in accordance with the provisions of the Listing Regulations. The appointment of the Directors shall be formalised through a letter of appointment.

The Executive Directors, with the prior approval of the Board, may serve on the Board of any other entity if there is no conflict of interest with the Company's business.

Board and Directors' Performance Evaluation

The Board of Directors of the Company, based on the recommendations of the Nomination and Remuneration Committee, has formulated a Board and Directors' Performance Evaluation Policy, thereby setting out the performance evaluation criteria for the Board and its Committees and each Directors' performance, including the Chairman of the Company.

Your Company's Board had undertaken a formal performance evaluation in a comprehensive and structured manner as a part of the strengthening exercise. Based on the recommendations of the Nomination and Remuneration Committee, the Board has adopted a process of receiving anonymous feedback and discussing the same at the meeting to ensure the Directors' collective participation and meaningful discussion over the performance of the Board, its Committees, individual Directors and Chairperson of the Board.

Your Company's Board believes that trust in the evaluation process and its confidentiality is critical for the success of the evaluation exercise, therefore, the Board encourages fair and transparent evaluations and maintains anonymity of those providing the feedback.

During the evaluation process, various suggestions were made by individual Board members to further enhance the effectiveness of your Company's Board. The results of the feedback were discussed with the Board and its respective committee members. Individual feedback was shared by the Chairman with each Board member separately.

The Board of Directors of the Company believes that the effectiveness of its governance framework can continue to be improved through periodic evaluation of the functioning of the Board as a whole, its committees and individual directors' performance evaluation.

The Board of Directors acknowledges that Independent Directors on the Board have integrity and possess expertise and experience, including proficiency.

Auditors

M/s. B S R & Co. LLP, Chartered Accountants, were appointed as Statutory Auditors of your Company, at the 28th Annual General Meeting to hold office until the conclusion of the 33rd Annual General Meeting. As per the explanatory statement circulated to the members along with the notice of the Annual General Meeting, the annual fee for the financial year ending March 31, 2020 was proposed at 47,00,000 (Rupees Forty-Seven Lakh only), plus out of pocket expenses and taxes at the applicable rates, for the purpose of the statutory audit of the Company.

ICRA Limited

Directors' Report

It was mentioned in the notice of the Annual General Meeting, that the Board of Directors and the Audit Committee shall be given the power to alter and vary the terms and conditions arising out of increase in scope of work, amendment in Auditing Standards or regulations and such other requirements resulting in change in scope of work. Any such change in the terms and conditions of appointment and remuneration of Statutory Auditors would be intimated in the Directors' Report of the Company in the relevant year. The Board of Directors, based on the claim received from Statutory Auditors regarding incremental efforts incurred by them on the ongoing regulatory matters, approved additional fee of Rs. 2.02 crore.

Comments on Auditors' Report

The Statutory Auditors have, in their report to the Members of the Company on the standalone and consolidated financial statements of the Company, made the following qualifications:

Extract of Qualification of Audit Reports (standalone and consolidated):

The Company is in the process of addressing certain ongoing matters.

First, in respect of an adjudication proceeding ('Adjudication Proceeding') initiated by the Securities and Exchange Board of India ('SEBI') in relation to the credit ratings assigned to one of the Company's customers and the customer's subsidiaries, SEBI issued an order imposing a penalty of INR 25 lakh under section 15HB of the SEBI Act, 1992 on the Company. Further, SEBI issued a Show Cause Notice ('SCN') for enhancement of the penalty amount. The Company has filed an appeal challenging the adjudication order before the Securities Appellate Tribunal (the 'SAT') and deposited the penalty amount of INR 25 lakh without prejudice to such appeal. The said appeal is pending before the SAT. The Company has also been cooperating with the Government agencies and responding to their queries in relation to this matter.

Second, the Board of Directors ('Board') had appointed external experts to examine and report on anonymous representations making certain allegations against two former officials, which were forwarded to the Company by SEBI ('Representations'). During the examination of the aforesaid Representations, certain counter allegations were made by one of the two former officials, for which the Board appointed a second set of external experts to examine such allegations.

Based on our sighting and briefing of the findings of the external experts, the findings indicate that the conduct of the aforesaid officials was not in conformity with certain applicable regulations and Company policies relating to credit rating activities. The aforesaid officials are no longer in the employment of the Company. The external experts have expressed that no evidence was found suggesting ex-facie that the ratings examined as part of the examination were inflated (i.e. were unsupported by ratings analysis). Further, as per external experts, this is subject to the limitation that the determination of whether or not any ratings are supported by ratings analysis, is a qualitative technical matter that was beyond the scope of the examination as the examination was not aimed at reviewing the appropriateness of rating opinions on merits.

Based on our sighting and briefing of the findings of the second set of external experts, the findings do not indicate any material deficiencies with applicable regulations and Company policies.

The findings of the external experts have been presented to the Board members. As informed to us, the Board is in the process of taking steps with regard to the outcome of the examinations.

Third, the Company directly received another anonymous representation during the year ended March 31, 2020 against certain of its existing officials and the examination thereof is in progress.

Fourth, the Company had received a letter from SEBI seeking comments on observations made in the interim report dated July 15, 2019 prepared by Grant Thornton India LLP, which was commissioned by the IL&FS Group. As informed to us, the Company had submitted its responses to SEBI on such observations dated August 14, 2019 and there has been no further development in this matter.



Directors' Report

While the Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of uncertainties arising from SEBI's powers against non-compliances of aforesaid regulatory framework and other matters stated above are currently unascertainable. Consequently, we are unable to estimate the impact, if any, that may result from a conclusion of these matters or any related inquiry, on the Standalone/Consolidated Financial Statements for the year ended March 31, 2020.

Director's response to comments of the statutory auditors in the Audit Report:

In this regard we wish to submit that based on the legal opinions given by reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company. The Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of the uncertainties arising from the above matters is currently unascertainable. For further details, please refer to the disclosures pertaining to certain ongoing matters, as provided under '*Update regarding certain ongoing matters*' of this Report of the Board of Directors, which are self-explanatory, therefore, no additional comments are required.

Extract of report on the Internal Financial Controls:

Because of the effects/possible effects of the material weaknesses described below on the achievement of the objectives of the control criteria, the Company has not maintained adequate internal financial controls with reference to Standalone/Consolidated Financial Statements and such internal financial controls over financial reporting were not operating effectively as at 31 March 2020, based on the internal financial controls with reference to Standalone/Consolidated Financial Statements criteria established by the Company considering the essential components of such internal controls stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the "Guidance Note").

We have considered the material weaknesses identified and reported below in determining the nature, timing, and extent of audit tests applied in our audit of the Standalone/Consolidated Financial Statements of the Company for the year ended March 31, 2020 and the material weaknesses have affected our opinion on the said Standalone/Consolidated Financial Statements and we have issued a qualified opinion on the said Standalone/Consolidated Financial Statements.

As explained inter-alia in the "Basis for Qualified Opinion" section of our Audit Report on the Standalone/Consolidated Financial Statements for the year ended March 31, 2020, pursuant to examinations by the external experts appointed by the Board of Directors of the Company of anonymous representations received by the Company, non-compliances of certain applicable regulations and Company policies relating to credit rating activities, including override of certain internal controls by senior management officials, have been identified, which indicates that the control environment was ineffective as at March 31, 2020. This could potentially result in legal/ penal implications for the Company. The Company is in the process of undertaking remedial steps over a defined period of time towards strengthening its control environment. Pending the outcome of the aforesaid non-compliances and conclusion of certain other ongoing matters, the completeness of identification of control deficiencies cannot be ascertained.

Director's response to comments of the Statutory Auditors on the internal financial controls in the Audit Report:

In this regard we wish to submit that based on the legal opinions given by reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company. The Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of the uncertainties arising from the above matters is currently unascertainable. For further details, please refer to the disclosures pertaining to certain ongoing matters, as provided under '*Update regarding certain ongoing matters*' of this Report of the Board of Directors, which are self-explanatory, therefore, no additional comments are required.

The Statutory Auditors have not reported any incident of fraud to the Audit Committee of the Company in the year under review. In their report, the Statutory Auditors have stated as follows:

ICRA Limited**Directors' Report**

According to the information and explanations given to us, no material fraud by the Company or on the Company by its officers or employees has been noticed or reported during the year. However, attention is invited to "Basis for Qualified Opinion" section of our Audit Report on the Standalone Financial Statements for the year ended 31 March 2020, which deals with certain ongoing matters. The consequences (if any) which may arise in the future upon conclusion of such ongoing matters have not been considered for reporting under this clause.

Extracts of the statement on impact of audit qualifications (standalone and consolidated) are as under:

I. Statement on Impact of Audit Qualifications for the financial year ended March 31, 2020 on the Annual Audited Financial Results - (Standalone)

[See Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]

(Rupees in lakh, except per share data)

Sl. No.	Particulars	Audited Figures (as reported before adjusting for qualifications)	Adjusted Figures (audited figures after adjusting for qualifications)
1.	Turnover / Total income	24,835.66	24,835.66
2.	Total Expenditure	15,630.46	15,630.46
3.	Net Profit/(Loss)&	6,497.98	6,497.98
4.	Earnings Per Share*	67.55	67.55
5.	Total Assets	68,389.31	68,389.31
6.	Total Liabilities	10,136.27	10,136.27
7.	Net Worth	58,253.04	58,253.04
8.	Any other financial item(s) (as felt appropriate by the management)	Not applicable	Not applicable

[&] PAT before comprehensive gain/(loss)

* Earnings Per Share (Rs.) (Basic)

II. Audit Qualification (each audit qualification separately):

1 Report on the Audit of the Standalone Financial Results

Attention is drawn to note 7 of the Standalone Annual Financial Results, wherein it is explained that the Company is in the process of addressing certain ongoing matters.

First, in respect of an adjudication proceeding ('Adjudication Proceeding') initiated by the Securities and Exchange Board of India ('SEBI') in relation to the credit ratings assigned to one of the Company's customers and the customer's subsidiaries, SEBI issued an order imposing a penalty of INR 25 lakh under section 15HB of the SEBI Act, 1992 on the Company. Further, SEBI issued a Show Cause Notice ('SCN') for enhancement of penalty amount. The Company has filed an appeal challenging the adjudication order before the Securities Appellate Tribunal (the 'SAT') and deposited the penalty amount of INR 25 lakh without prejudice to such appeal. The said appeal is pending before the SAT. The Company has also been cooperating with government agencies and responding to their queries in relation to this matter.

Second, the Board of Directors ('Board') had appointed external experts to examine and report on anonymous representations making certain allegations against two former officials, which were forwarded to the Company by SEBI ('Representations'). During the examination of the aforesaid Representations, certain counter allegations were made by one of the two former officials, for which the Board appointed a second set of external experts to examine such allegations.



Directors' Report

	<p>Based on our sighting and briefing of the findings of the external experts, the findings indicate that the conduct of the aforesaid officials was not in conformity with certain applicable regulations and Company policies relating to credit rating activities. The aforesaid officials are no longer in the employment of the Company. The external experts have expressed that no evidence was found suggesting ex-facie that the ratings examined as part of the examination were inflated (i.e. were unsupported by ratings analysis). Further, as per external experts, this is subject to the limitation that the determination of whether or not any ratings are supported by ratings analysis, is a qualitative technical matter that was beyond the scope of the examination as the examination was not aimed at reviewing the appropriateness of rating opinions on merits.</p> <p>Based on our sighting and briefing of the findings of the second set of external experts, the findings do not indicate any material deficiencies with applicable regulations and Company policies.</p> <p>The findings of the external experts have been presented to the Board members. As informed to us, the Board is in the process of taking steps with regard to the outcome of the examinations.</p> <p>Third, the Company directly received another anonymous representation during the year ended March 31, 2020 against certain of its existing officials and the examination thereof is in progress.</p> <p>Fourth, the Company had received a letter from SEBI seeking comments on observations made in the interim report dated July 15, 2019 prepared by Grant Thornton India LLP, which was commissioned by the IL&FS group. As informed to us, the Company had submitted its responses to SEBI on such observations dated August 14, 2019 and there has been no further development in this matter.</p> <p>While the Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of uncertainties arising from SEBI's powers against non-compliances of aforesaid regulatory framework and other matters stated above are currently unascertainable. Consequently, we are unable to estimate the impact, if any, that may result from a conclusion of these matters or any related inquiry, on the Standalone Annual Financial Results for the year ended March 31, 2020.</p>	
A	<p>Type of Audit Qualification:</p> <p>Qualified Opinion / Disclaimer of Opinion / Adverse Opinion</p>	Qualified Opinion
B	<p>Frequency of qualification:</p> <p>Whether appeared first time / repetitive / since how long continuing</p>	First time
C	<p>For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views:</p>	Not applicable
D	<p>For Audit Qualification(s) where the impact is not quantified by the auditor:</p>	
	<p>(i) Management's estimation on the impact of audit qualification:</p>	Not applicable
	<p>(ii) If management is unable to estimate the impact, reasons for the same:</p>	While the Company has made a provision for penalty on a best estimate basis with regards to the Adjudication Proceeding, the impact of uncertainties arising from the above matters is currently unascertainable. However, based on the legal opinions given by the reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company.

ICRA Limited

Directors' Report

	Auditors' Comments on (i) or (ii) above:	While the Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of uncertainties arising from SEBI's powers against non-compliances of aforesaid regulatory framework and other matters stated above are currently unascertainable. Consequently, we are unable to estimate the impact, if any, that may result from a conclusion of these matters or any related inquiry, on the Standalone Annual Financial Results for the year ended 31 March 2020.
2	<p>Report on the Internal Financial Controls with reference to the aforesaid Standalone Financial Statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013</p> <p>Because of the effects/possible effects of the material weaknesses described below on the achievement of the objectives of the control criteria, the Company has not maintained adequate internal financial controls with reference to Standalone Financial Statements and such internal financial controls over financial reporting were not operating effectively as at 31 March 2020, based on the internal financial controls with reference to Standalone Financial Statements criteria established by the Company considering the essential components of such internal controls stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the 'Guidance Note').</p> <p>We have considered the material weaknesses identified and reported below in determining the nature, timing, and extent of audit tests applied in our audit of the Standalone Financial Statements of the Company for the year ended March 31, 2020 and the material weaknesses have affected our opinion on the said Standalone Financial Statements and we have issued a qualified opinion on the said Standalone Financial Statements.</p> <p>As explained inter-alia in the 'Basis for Qualified Opinion' section of our Audit Report on the Standalone Financial Statements for the year ended 31 March 2020, pursuant to examinations by the external experts appointed by the Board of Directors of the Company of anonymous representations received by the Company, non-compliances of certain applicable regulations and Company policies relating to credit rating activities, including override of certain internal controls by senior management officials, have been identified, which indicates that the control environment was ineffective as on March 31, 2020. This could potentially result in legal/ penal implications for the Company. The Company is in the process of undertaking remedial steps over a defined period of time towards strengthening its control environment. Pending the outcome of aforesaid non-compliances and conclusion of certain other ongoing matters, the completeness of identification of control deficiencies cannot be ascertained.</p> <p>A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.</p>	
A	<p>Type of Audit Qualification:</p> <p>Qualified Opinion / Disclaimer of Opinion / Adverse Opinion</p>	Adverse Opinion
B	<p>Frequency of qualification:</p> <p>Whether appeared first time / repetitive / since how long continuing</p>	First time
C	<p>For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views:</p>	Not applicable



Directors' Report

D	For Audit Qualification(s) where the impact is not quantified by the auditor:	
	(i) Management's estimation on the impact of audit qualification:	Not applicable
	(ii) If management is unable to estimate the impact, reasons for the same:	While the Company has made a provision for penalty on a best estimate basis with regards to the Adjudication Proceeding, the impact of uncertainties arising from the above matters is currently unascertainable. However, based on the legal opinions given by the reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company.
	Auditors' Comments on (i) or (ii) above:	Pending the outcome of aforesaid non-compliances and conclusion of certain other ongoing matter, the completeness of identification of control deficiencies cannot be ascertained.

I. Statement on Impact of Audit Qualifications for the financial year ended March 31, 2020 on the Annual Audited Financial Results - (Consolidated)

[See Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]

(Rupees in lakh, except per share data)

Sl. No.	Particulars	Audited Figures (as reported before adjusting for qualifications)	Adjusted Figures (audited figures after adjusting for qualifications)
1.	Turnover / Total income	36,905.59	36,905.59
2.	Total Expenditure	23,758.00	23,758.00
3.	Net Profit/(Loss) ^{&}	9,723.77	9,723.77
4.	Earnings Per Share*	99.98	99.98
5.	Total Assets	84,552.83	84,552.83
6.	Total Liabilities	14,132.78	14,132.78
7.	Net Worth	70,420.05	70,420.05
8.	Any other financial item(s) (as felt appropriate by the management)	Not applicable	Not applicable

[&] PAT before comprehensive gain/(loss)

* Earnings Per Share (Rs.) (Basic)

ICRA Limited

Directors' Report

II. Audit Qualification (each audit qualification separately):

1	Report on the Audit of the Consolidated Financial Results
	<p>Attention is drawn to note 6 of the Consolidated Annual Financial Results, wherein it is explained that the Company is in the process of addressing certain ongoing matters.</p> <p>First, in respect of an adjudication proceeding ("Adjudication Proceeding") initiated by the Securities and Exchange Board of India ("SEBI") in relation to the credit ratings assigned to one of the Company's customers and the customer's subsidiaries, SEBI issued an order imposing a penalty of INR 25 lakh under section 15HB of the SEBI Act, 1992 on the Company. Further, SEBI issued a Show Cause Notice ("SCN") for enhancement of penalty amount. The Company has filed an appeal challenging the adjudication order before the Securities Appellate Tribunal (the "SAT") and deposited the penalty amount of INR 25 lakh without prejudice to such appeal. The said appeal is pending before the SAT. The Company has also been cooperating with government agencies and responding to their queries in relation to this matter.</p> <p>Second, the Board of Directors ("Board") had appointed external experts to examine and report on anonymous representations making certain allegations against two former officials, which were forwarded to the Company by SEBI ("Representations"). During the examination of the aforesaid Representations, certain counter allegations were made by one of the two former officials, for which the Board appointed a second set of external experts to examine such allegations.</p> <p>Based on our sighting and briefing of the findings of the external experts, the findings indicate that the conduct of the aforesaid officials was not in conformity with certain applicable regulations and Company policies relating to credit rating activities. The aforesaid officials are no longer in the employment of the Company. The external experts have expressed that no evidence was found suggesting ex-facie that the ratings examined as part of the examination were inflated (i.e. were unsupported by ratings analysis). Further, as per external experts, this is subject to the limitation that the determination of whether or not any ratings are supported by ratings analysis, is a qualitative technical matter that was beyond the scope of the examination as the examination was not aimed at reviewing the appropriateness of rating opinions on merits.</p> <p>Based on our sighting and briefing of the findings of the second set of external experts, the findings do not indicate any material deficiencies with applicable regulations and Company policies.</p> <p>The findings of the external experts have been presented to the Board members. As informed to us, the Board is in the process of taking steps with regard to the outcome of the examinations.</p> <p>Third, the Company directly received another anonymous representation during the year ended 31 March 2020 against certain of its existing officials and the examination thereof is in progress.</p> <p>Fourth, the Company had received a letter from SEBI seeking comments on observations made in the interim report dated July 15, 2019 prepared by Grant Thornton India LLP, which was commissioned by the IL&FS group. As informed to us, the Company had submitted its responses to SEBI on such observations dated 14 August 2019 and there has been no further development in this matter.</p> <p>While the Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of uncertainties arising from SEBI's powers against non-compliances of aforesaid regulatory framework and other matters stated above are currently unascertainable. Consequently, we are unable to estimate the impact, if any, that may result from a conclusion of these matters or any related inquiry, on the Consolidated Annual Financial Results for the year ended 31 March 2020.</p>



Directors' Report

A	Type of Audit Qualification: Qualified Opinion / Disclaimer of Opinion / Adverse Opinion	Qualified Opinion
B	Frequency of qualification: Whether appeared first time / repetitive / since how long continuing	First time
C	For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views:	Not applicable
D	For Audit Qualification(s) where the impact is not quantified by the auditor:	
	(i) Management's estimation on the impact of audit qualification:	Not applicable
	(ii) If management is unable to estimate the impact, reasons for the same:	While the Company has made a provision for penalty on a best estimate basis with regards to the Adjudication Proceeding, the impact of uncertainties arising from the above matters is currently unascertainable. However, based on the legal opinions given by the reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company.
	Auditors' Comments on (i) or (ii) above:	While the Company has made a provision for penalty on a best estimate basis with regard to the Adjudication Proceeding, the impact of uncertainties arising from SEBI's powers against non-compliances of aforesaid regulatory framework and other matters stated above are currently unascertainable. Consequently, we are unable to estimate the impact, if any, that may result from a conclusion of these matters or any related inquiry, on the Consolidated Annual Financial Results for the year ended 31 March 2020.
2	Report on the Internal Financial Controls with reference to the aforesaid Consolidated Financial Statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013	
	Because of the effects/possible effects of the material weaknesses described below on the achievement of the objectives of the control criteria, the Company has not maintained adequate internal financial controls with reference to Consolidated Financial Statements and such internal financial controls over financial reporting were not operating effectively as at 31 March 2020, based on the internal financial controls with reference to Consolidated Financial Statements criteria established by the Company considering the essential components of such internal controls stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (the "Guidance Note").	

ICRA Limited

Directors' Report

	<p>We have considered the material weaknesses identified and reported below in determining the nature, timing, and extent of audit tests applied in our audit of the Consolidated Financial Statements of the Company for the year ended 31 March 2020 and the material weaknesses have affected our opinion on the said Consolidated Financial Statements and we have issued a qualified opinion on the said Consolidated Financial Statements.</p> <p>As explained inter-alia in the "Basis for Qualified Opinion" section of our Audit Report on the Consolidated Financial Statements for the year ended 31 March 2020, pursuant to examinations by the external experts appointed by the Board of Directors of the Company of anonymous representations received by the Company, non-compliances of certain applicable regulations and Company policies relating to credit rating activities, including override of certain internal controls by senior management officials, have been identified, which indicates that the control environment was ineffective as at 31 March 2020. This could potentially result in legal/ penal implications for the Company. The Company is in the process of undertaking remedial steps over a defined period of time towards strengthening its control environment. Pending the outcome of aforesaid non-compliances and conclusion of certain other ongoing matters, the completeness of identification of control deficiencies cannot be ascertained.</p>	
A	<p>Type of Audit Qualification:</p> <p>Qualified Opinion / Disclaimer of Opinion / Adverse Opinion</p>	Adverse Opinion
B	<p>Frequency of qualification:</p> <p>Whether appeared first time / repetitive / since how long continuing</p>	First time
C	<p>For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views:</p>	Not applicable
D	<p>For Audit Qualification(s) where the impact is not quantified by the auditor:</p>	
	<p>(i) Management's estimation on the impact of audit qualification:</p>	Not applicable
	<p>(ii) If management is unable to estimate the impact, reasons for the same:</p>	While the Company has made a provision for penalty on a best estimate basis with regards to the Adjudication Proceeding, the impact of uncertainties arising from the above matters is currently unascertainable. However, based on the legal opinions given by the reputed external counsels, the Company does not foresee an action from the regulator(s) that could adversely affect the functioning of the Company.
	<p>Auditors' Comments on (i) or (ii) above:</p>	Pending the outcome of aforesaid non-compliances and conclusion of certain other ongoing matter, the completeness of identification of control deficiencies cannot be ascertained.



Directors' Report

Secretarial Audit

The Board of Directors of the Company has appointed M/s. Chandrasekaran Associates Company Secretaries, as the Secretarial Auditor of the Company for the financial year 2019-20 in terms of Section 204 of the Companies Act, 2013 and Regulation 24A of the Listing Regulations. The Secretarial Audit Report for financial year 2019-20 has been annexed to this Report (Annexure V). The Secretarial Audit Report does not contain any qualifications, reservations or adverse remarks. However, the Secretarial Auditor in its report has highlighted as under:

During the period under review, the Company has substantially complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above except mentioned below:

The settlement application filed before the Securities and Exchange Board of India ('SEBI') by the Company on February 15, 2019 against the show cause notice dated December 17, 2018 received from SEBI regarding adjudication proceeding under Rule 4 of SEBI (Procedure for holding inquiry and imposing penalties by adjudicating officer) Rules, 1995 in relation to credit ratings assigned to one of its customers and the customer's subsidiary (the 'Initial SCN'), was rejected by the SEBI vide its letter dated June 28, 2019, thereafter SEBI concluded its adjudication proceedings, and vide its adjudication order dated December 26, 2019, imposed a penalty of INR 25 lakh on the Company under Section 15HB of SEBI Act, 1992 in respect of the Initial SCN. Further, SEBI issued a show cause notice ('Subsequent SCN') dated January 28, 2020 under Section 15-1 (3) of SEBI Act, 1992, for enhancement of the said penalty amount in respect of the Initial SCN.

The Management of the Company advised that the Company filed an appeal challenging the said adjudication order (the 'Impugned Order') before the Securities Appellate Tribunal ('SAT') and deposited the penalty amount of INR 25 lakh as imposed vide the Impugned Order without prejudice to such appeal, and the said appeal application was pending on March 31, 2020.

As per the requirement of the Listing Regulations, material subsidiary has appointed a secretarial auditor, who has undertaken secretarial audit of the material subsidiary for the financial year ended March 31, 2020.

Transfer to Reserves

Your Company proposes not to transfer any amount to the General Reserve.

Dividend

The Board of Directors recommends for approval of the Members at the forthcoming Annual General Meeting, payment of dividend of Rs. 27 per equity share for the financial year ended March 31, 2020. If the members approve the dividend at the forthcoming Annual General Meeting, the dividend shall be paid to: (i) all those members whose names appear in the Register of Members as on September 17, 2020; and (ii) all those members whose names appear on that date as beneficial owners as furnished by the National Securities Depository Limited and Central Depository Services (India) Limited.

Dividend Distribution Policy

Your Company has formulated a Dividend Distribution Policy ('the Policy') pursuant to Regulation 43A of the Listing Regulations. The objective of the Policy is to maintain stability in the dividend payout of the Company, subject to the applicable laws, and to ensure a regular dividend income for the members and long-term capital appreciation for all stakeholders of the Company.

Your Company would ensure to strike the right balance between the quantum of dividend paid and the amount of profits retained in the business for various purposes. The Board of Directors refers to this Policy while declaring/recommending dividends on behalf of the Company. Through this Policy, the Company would try to maintain a consistent approach to dividend pay-out plans, subject to the applicable laws. The Policy has been annexed to this report (Annexure VI) and also uploaded on the Company's website - www.icra.in.

Transfer to Investor Education and Protection Fund

The Company sends reminder letters to all members whose dividends are unclaimed to ensure that they receive their rightful dues. Your Company has also uploaded on its website, www.icra.in, information regarding unpaid/unclaimed dividend amounts lying with your Company.

ICRA Limited

Directors' Report

During 2019-20, the unclaimed dividend amount of Rs. 138,780 towards the unpaid dividend account of the Company for the financial year 2011-12 was transferred to the Investor Education and Protection Fund. The said amount had remained unclaimed for seven years, despite reminder letters having been sent to each of the members concerned.

Pursuant to Section 124(6) of the Companies Act, 2013 read with the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 and its amendments, all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more, shall be transferred by the Company in the demat account of Investor Education and Protection Fund (IEPF) Authority ('the Authority') within a period of thirty days of such shares becoming due to be transferred to the IEPF, as per the procedure mentioned in the said Rules. Accordingly, your Company has transferred 132 equity shares to the demat account of the Authority in accordance with the provisions of the Companies Act, 2013 and rules made thereunder. All benefits accruing on such shares viz. bonus shares, split, consolidation, fraction shares etc., except any right issue, shall also be credited to such a demat account.

Members may note that unclaimed dividend and shares transferred to the demat account of the Authority can be claimed back by them from the Authority by following the procedure mentioned in the said Rules.

Risk Management Policy

Your Company has formulated a risk management policy. This policy is a formal acknowledgement of the commitment of your Company to risk management. The aim of the policy is not to have the risk eliminated completely from the Company's activities, but rather to ensure that every effort is made by the Company to manage risks appropriately to maximise potential opportunities and minimise the adverse effects of risk. The Board and the Risk Management Committee monitor and review the risk management plan.

Internal Control System and their Adequacy

Your Company has an internal control system, commensurate with its size, nature of its business and complexities of its operations. The Board of Directors of your Company has adopted policies and procedures for ensuring the orderly and efficient conduct of your Company's business. The Board of Directors of your Company has laid down Internal Financial Controls to provide reasonable assurance with regard to recording and providing reliable financial and operational information, adherence to the Company's policies, safeguarding of assets and prevention and detection of frauds and errors, the accuracy and completeness of accounting records and timely preparation of reliable information. The Board and the Audit Committee regularly evaluate internal financial controls.

Statutory Auditors have, in their report to the Members of the Company on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013, made an "Adverse Opinion". The Directors' response to the comments of the auditors is given in the section 'Comments on Auditors' Report'.

Corporate Social Responsibility

Your Company has constituted a Corporate Social Responsibility (CSR) Committee in accordance with Section 135 of the Companies Act, 2013. The CSR policy has been devised on the basis of the recommendations made by the CSR Committee. The composition of the CSR Committee, the CSR policy of the Company, details about the development and implementation of the policy and initiatives taken by the Company during the year as required under the Companies (Corporate Social Responsibility Policy) Rules, 2014, have been annexed to this report (*Annexure VII*).

Business Responsibility Report

Your Company, in accordance with the provisions of Regulation 34(2)(f) of the Listing Regulations has prepared a Business Responsibility Report for the year 2019-20. The Business Responsibility Report describes the initiatives taken by the Company from the environmental, social and governance perspective. The Business Responsibility Report has been annexed to this report (*Annexure VIII*) and forms a part of the Director's Report.



Directors' Report

Particulars of Contracts or Arrangements with Related Parties

Your Company has entered into contracts or arrangements with its related parties. The related-party transactions are disclosed in the financial statements for the year ended March 31, 2020. There have been no material-related party transactions as per Section 188(1) of the Companies Act, 2013 and as per Regulation 23 of the Listing Regulations. The required disclosures of information in Form AOC-2 in terms of Section 188 of the Companies Act, 2013 read with Rule 8(2) of the Companies (Accounts) Rules, 2014, are annexed to this report (Annexure IX).

Policy on Prohibition, Prevention and Redressal of Sexual Harassment

Your Company has formulated a Policy on Prohibition, Prevention and Redressal of Sexual Harassment of Women at Workplace in accordance with The Sexual Harassment of Women at Workplace (Prohibition, Prevention and Redressal) Act, 2013. The Company has constituted an Internal Committee for prevention and redressal of sexual harassment at the workplace separately for all the branches. The Company has received one complaint during the financial year ended March 31, 2020. The said complaint was not pursued further by the Internal Committee constituted under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, in the absence of critical information required under the Company's policy on prevention of sexual harassment. The said complaint was treated as resolved. The disclosures in relation to the Sexual Harassment of Women at Workplace (Prohibition, Prevention and Redressal) Act, 2013 have also been made in the Corporate Governance Report.

Deposits

The Company has not accepted any public deposits and as such, no amount on account of principal or interest on public deposits was outstanding as on the date of the balance sheet.

Maintenance of Cost Records

The Company is not required to maintain cost records as per sub-section (1) of Section 148 of the Companies Act, 2013.

Particulars of Loans, Guarantees and Investments

The particulars of loans, guarantees and investments are disclosed in the financial statements for the year ended March 31, 2020.

Vigil Mechanism/Whistle-Blower Policy

Your Company has established a vigil mechanism in compliance with the provisions of Section 177 (9) of the Companies Act, 2013, and Regulation 22 of the Listing Regulations. Your Company has adopted a Whistle-Blower Policy to report unethical/illegal/improper behaviour. Your Company has made employees aware of the whistle-blower policy to enable them to report instances of leak of unpublished price sensitive information.

The said whistle-blower policy also provides for adequate safeguards against victimisation of persons who use such vigil mechanism and makes provision for direct access to the chairperson of the Audit Committee in exceptional cases. Further, no stakeholders have been denied access to the Audit Committee.

Composition of the Audit Committee

Your Company has constituted an Audit Committee, the composition of which has been provided in the Corporate Governance Report. During the financial year 2019-20, the Board accepted all the recommendations of the Audit Committee.

Litigations

There are certain pending cases against your Company and /or in which your Company has been made a party. However, these cases are sub judice in court.

Besides this, the Company has filed an appeal before the Hon'ble Securities Appellate Tribunal (the 'SAT'), challenging the adjudication order (the 'Impugned Order') and deposited the penalty amount of INR 25 lakh as imposed vide the Impugned Order without prejudice to such appeal.

ICRA Limited

Directors' Report

COVID-19

The lockdown imposed by the Central and most state governments to contain the spread of Covid-19 has led to a steep decline in activity levels in the economy across sectors – manufacturing as well as service – that is expected to result in a sharp contraction in the GDP of about 5%, as per ICRA's estimates, in FY 2021. Fresh issuances from corporates, including finance companies, has been restricted to few entities – those backed by strong promoters and PSUs - which has impacted the fresh ratings business. This impact, however, has been mitigated to some extent by the spurt in rating opportunities due to issuances that got funded by the Reserve Bank of India's (RBI) Targeted Long-Term Repo Operations (TLTRO), which was a key step towards providing liquidity to corporates, and the refinancing opportunities that arose because of easing in monetary policy leading to fall in yields. The funding by corporates has largely been done to shore up their liquidity buffers and a pick-up in private sector investment cycle looks distant.

Rating opportunities in the near term are going to depend, inter alia, on the revival in economic activity, trajectory of interest rates and Government spending to revive manpower intensive sectors that in turn would spur consumption. Investment by private sector companies would additionally depend on access to funding, as lenders as well as investors have turned risk averse.

In terms of operations, ICRA is well geared to serve our clients and market participants without any disruption in our service levels.

Your Company has considered internal and external information and has performed an analysis based on current estimates on your Company's capital and financial resources, profitability, liquidity position, assets, internal financial reporting and control, and demand for Company's services. Your Company is of the view that based on its present assessment this situation does not materially impact your Company's capital and financial resources. However, the actual impact of Covid-19 may differ from that estimated due to unforeseen circumstances and your Company will continue to closely monitor any material changes to future economic conditions.

As on date of this Report, there has been no impact on the business due to non-fulfilment of any obligations by any party to existing contracts/agreements, except a few cases which are sub judice.

Your Company extended remote work for all employees across all locations. Your Company has demonstrated its ability to provide seamless delivery of high-quality and timely services to its clients even during the lockdown and with the employees working remotely.

Your Company is monitoring developments across the country and taking all appropriate steps to make the employees' remote work experience as successful and seamless as possible. The Company is also monitoring the health of all employees to be assured of their well-being.

Your Company has made a contribution of Rs. 1 crore to the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund), to help combat the Covid-19 outbreak in India and support those most affected.

Acknowledgements

Your Directors acknowledge the cooperation and assistance received from various institutions, Government agencies, members and professionals from different disciplines.

Your Directors also wish to place on record their appreciation of the contribution made by the members of the staff of your Company.

For and on behalf of the Board of Directors of **ICRA Limited**

Place: Kasauli
Date: July 28, 2020

(Arun Duggal)
Chairman
(DIN: 00024262)