# Annexure IV

## Management Discussion and Analysis Report

**(Annexure to the Directors' Report)**

### A. Industry Structure and Developments

The conditions in the credit market continued to remain challenging in FY2020 because of a slowing economy and an increase in risk aversion among lenders and investors. There was a greater dependence on the banking system for funds as the debt capital markets were accessible to a few high-quality credits. The past year also witnessed a few large ticket resolutions of stressed assets for banks under the Insolvency and Bankruptcy Code (IBC) 2016, which led to some refinancing activities.

The challenges faced over the last few years are likely to intensify in the current year as well. It is expected that risk aversion will likely increase because of the large-scale deterioration in the credit quality, which is expected because of the Covid-19 related lockdown and consequent disruption in almost all economic activity. Also, bond markets, which were heavily skewed in favour of the PSUs and top-rated corporates will only see a continued skew to safer credits, specifically those backed by strong promoter because of the challenges faced by a few credit risk funds and a steep drop in Assets Under Management of such schemes consequent to Covid-related lockdown. As a result, a large section of the mid and small-sized corporates, non-banking finance companies (NBFCs) and micro finance institutions (MFIs) are likely to face severe challenges in terms of accessing funds, unless the Government steps in with some innovative measures. The Reserve Bank of India (RBI) has indeed already taken several measures to improve the liquidity in the system and make funding available to banks for on-lending to corporates and the NBFCs, however, most of this has so far been cornered only be the highly rated corporates as banks were diffident about lending to the rest.

The liquidity issues that the NBFC sector was confronted with led to continued high volumes in securitisation and direct assignment transactions, whereby the NBFCs sold their assets to banks through this route. Your Company continued to enhance its position in the structured finance rating segment by executing a record number of mandates in this segment. The activity in the structured finance market is likely to remain strong, barring the expected dip emerging from the spread of the Covid-19 pandemic, as securitisation and direct assignment will remain one of the preferred ways for the NBFCs and the housing finance companies (HFCs) to generate liquidity and meet their funding requirements.

Following the lockdown announced by the Government of India, there has been a sharp curtailment in discretionary activities, production shutdowns and job losses in sectors, especially affecting the contractual staff, and a loss of income for the daily wagers. We expect the different sectors to revive at a varied pace after the lockdown is lifted, and fear that social distancing may be warranted for an extended period, which could continue to constrain demand for discretionary services and goods. In addition, the size of the GDP shrinkage would be contingent on the magnitude by which the Government spending is stepped up to cushion the blow from the lockdown. With the fluidity of the situation preventing precise forecasts, we currently expect the Indian GDP to display growth in a band of +/-1% in FY2021, which would impact corporate growth and push the recovery in the investment cycle further away, thereby impacting the credit rating business.

Since late March 2020, the repo and the reverse repo rates have been reduced sharply. Moreover, with the average CPI inflation expected to decline in FY2021, we expect the policy rate to be pared further to arrest the downturn in economic activity. This may in turn transmit to lower deposit and lending rates by banks, given the considerable correction in the small savings interest rates and surplus banking system liquidity. This could also result in a modest pickup in credit demand, thereby benefitting ICRA's business prospects.

(An overview of the market for rating services, including discussions on the various segments that comprise this market, is presented in the section titled Review of Operations in the Directors' Report.)

## B. Opportunities and Threats

### Opportunities

Opportunities in the ratings business are a function of the interplay of several factors and developments, some of which arise from the initiatives taken by us as a rating agency and our strengths, while the others emanate from the environment we operate in. At this stage, it is very difficult to forecast the pace in pick-up of economic activities, though demand for bank credit is likely to be high, given the need to fund additional working capital as also the need to shore up liquidity as a fall-back measure. While bond market growth was expected to get a fillip, as both the Securities and Exchange Board of India (SEBI) and the RBI have brought in regulations that require large corporates to increase reliance on financing through debt capital market, the current risk aversion may continue to act as a deterrent in the short to medium term. It may be noted that the SEBI has made it mandatory for large corporates (defined as one with borrowings of more than Rs 100 crore) to raise not less than 25% of their incremental borrowings from the debt capital markets, provided they have a long-term rating of AA or above.

ICRA is well placed to benefit from each of the opportunities stated above as and when they arise, given its competitive strengths and strategic initiatives. We believe that our competitive strength primarily includes the rich database and research support that our products and services draw upon; our proven ability to make product and service innovations; the demonstrated track record of our ratings; our experienced and strong management team and pool of high-quality employee talent and our close association with the Moody's Group.

### Threats

The threats confronting our business have their foundation in such risks and concerns as are discussed in Section E of this report.

## C. Segment-wise or Product-wise Performance

Details on the performance of the Company's operating activities are presented in the section titled Review of Operations in the Directors' Report. Highlights of performance of subsidiaries and their contribution to the overall performance of the Company during 2019-20 are provided below.

### I. ICRA Analytics Limited

Pursuant to the amalgamation of ICRA Management Consulting Services Ltd, a fellow subsidiary with your company, the repertoire of offerings has increased, and in addition to the existing offerings of outsourcing and mutual fund content, your company also offers risk management solutions, fixed income content and consulting.

During the year under review, your Company registered a 15% growth in operating revenue to Rs. 107.95 crore (previous year Rs. 93.75 crore) and profit after tax (PAT) going up by 59% to Rs. 24.64 crore (previous year Rs. 15.49 crore). While driven primarily by growth in the segment of Outsourced Services, and other segments including Consulting demonstrated robust growth. Your Company continues to improve its product portfolio for a wider reach and engage in larger outreach activities in domestic and global markets.

With more than 20 years of experience in executing 10,000+ assignments, your company has acquired significant expertise across multiple domains, and serves Banks, NBFCs, Fund Managers, Intermediaries, Investors, Corporates, Energy & Renewables sector, Multi-Laterals, NGO and Government institutions. The domain expertise complemented with functional competence has helped your company design and implement products, services and solutions in Risk Management, IFRS & GAAP accounting, Bond Valuation, Tariff Assistance, Financial & Risk Advisory and Programme Management. Other than expanding reach to hitherto unserved client segments, your company added new offerings to its portfolio, like Expected Credit Loss tool for NBFCs and banks. Your company has successfully

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augmented its capability platform with new age technologies like analytics, automation and cloud, and these are being leveraged to launch contemporary cloud-hosted products with enhanced analytical proficiency for Banks, NBFCs, Fund Managers, Intermediaries and Investors.

The process and compliance orientation evinced through the extant ISO27001:2013 and ISO9001:2015 certifications for its key businesses enables your company to continue making improvements in productivity, operations and security posture. Basis the certification exercise carried out during the year, your Company has been certified as a Great Place to Work for the fiscal FY21. Sustained focus on upskilling and engaging with the talent pool of 600+ trained and qualified personnel continue to remain a key initiative for your Company, as it remains committed to adding value to its customers through innovation and efficiency.

ICRA Analytics offers its Programme Management services through its wholly owned subsidiary, **Pragati Development Consulting Services Limited.**

## II. ICRA Lanka Limited

ICRA Lanka Limited (ICRA Lanka) a wholly-owned subsidiary of the Company, offers a wide range of rating services in the Sri Lankan market. During the year under review, in spite of challenging market conditions, ICRA Lanka was able to record a 4.47% growth in its operating revenue, driven primarily by initial issue rating, which increased by 136.24%. The issuer rating income reduced by 20.36% when compared with the previous year. The surveillance income reduced by 0.05%. During the year under review, ICRA Lanka recorded a total revenue of Rs. 1.61 crore (previous year Rs. 1.54 crore).

## III. ICRA Nepal Limited

ICRA Nepal Limited (ICRA Nepal) a subsidiary of the Company, offers a wide range of rating services in the Nepalese market.

During the year under review, ICRA Nepal registered a ~77% growth in revenue from operations, driven primarily by the increase in borrower ratings in the market, which was introduced through the Monetary Policy in the previous fiscal year, issued by the Central Bank of Nepal (Nepal Rastra Bank). Business growth was also supported by an increase in the debt market and surveillance fees. However, a decline in the equity market was also observed, as the regulatory requirement of capital increment was met by most of the company during the previous year.

An overflow in the number of mandates received during the current year by ~2.45 times as compared to the previous year has helped the company record a growth in revenue from operations and profitability during the current year. This has also contributed towards revenue to be booked of fresh pending mandates equivalent to ~1.1 times of the current year revenue from fresh mandate and surge in surveillance revenue, which provides a medium-term visibility in growth. On the long-term outlook, Nepal Rastra Bank's initiative to introduce the practice of determining the risk weight of the loans based on ratings provided by Credit Rating Agency will have a positive impact in the long-term growth of the company through increase in borrower rating.

The growth, however, may be constrained by a slow/non-execution of pending mandate along with competitive pressure on fresh mandates inflow. As the rating culture in the current market is still at a nascent stage, more effort is required on information collection rather than analysis, which exposes the company to the risk of not completing the assignments within time. While the opportunities for the company are likely to remain healthy as the competition is limited to just one, the aggressive role played by competition on pricing along with the possibility of introduction of two new rating agencies in the local market, might create competitive pressure in pricing as well. The regulatory risk associated with the change in policy on regulating the pricing-related matter, might impact the revenue and profitability profile going forward.

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During the year under review, ICRA Nepal recorded a total revenue of Rs. 5.91 crore (previous year Rs. 3.24 crore). ICRA Nepal has declared a dividend and the amount towards dividend payable to the Company is Rs. 0.20 crore (previous year Rs. 0.13 crore).

(A brief financial detail in the Form AOC-1, as per Rule 5 of the Companies (Accounts) Rules, 2014, of the above mentioned subsidiary companies is annexed to the consolidated financial statements)

## D. Outlook

The long-term outlook for the ratings business remains positive, given the large funding requirements which would have to be raised through a combination of bank loans and bonds, though FY2021 is likely to be very challenging for the factors enumerated earlier. The regulatory nudge to have a certain part of the financing come through the bond route is also a positive though this move requires a significant improvement in the investor appetite. Your Company continues to take initiatives to retain its strong thought leadership and market position and is confident of meeting the challenges posed inevitably by the changing business requirements.

## E. Risks and Concerns

Your Company is involved primarily in the business of providing rating and related credit research services. Any economic slowdown in India may impact the volume of bank credit or debt securities issued in the domestic capital markets, and hence, have an adverse impact on your company's business and revenues.

Your Company's services are dependent on the condition of the financial markets in India. Any increase in interest rates and credit spreads, foreign exchange fluctuations, defaults by significant issuers/borrowers, and other market and economic factors, both domestic and global, may negatively impact the issuance of credit-sensitive products and other financial services. A sustained period of volatility or weakness or downturn in the financial markets domestically or internationally could have a materially adverse effect on our business and financial results.

Specifically, the bank loan rating business could get impacted if there is a credit slowdown or a change in ratings related regulation, resulting in transition to internal rating models for providing capital. The domestic debt capital market, on the other hand, is skewed towards higher-category credit-ratings. This may continue to constrain the volume of issuance in the Indian debt market, despite the regulatory allowance of partially credit-enhanced bonds. Currently, accessing overseas debt markets by certain Indian borrowers/issuers is regulated, and any change in the prevailing regulatory regime, liberalising access to the overseas markets for the raising of debt funds, may adversely impact the issuance of debt instruments in the domestic market.

Further, our market share or profitability may be affected by competition, which remains intense. In the event of our competitors coming up with newer products and services, using sophisticated technology for customer requirements and offering innovative solutions or more competitive prices to our clients are likely to adversely impact our market share, thus affecting our results of operations and financial condition.

Additionally, our business is largely dependent on the recognition of our brand and our reputation. In this regard, prominent investment-grade defaults or multi-notch downgrades could negatively affect our reputation and, our position as a quality credit rating agency. This, in turn, may adversely affect our business, operations, and financial condition.

Separately, please also refer to the sections on 'Update regarding certain ongoing matters' of the report of the Board of Directors, for further details in relation to certain ongoing matters, including in relation to the adjudication proceeding initiated by SEBI against the Company in respect of the credit ratings assigned to one of the Company's customers and the customer's subsidiaries.

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### Risk Mitigation

- To mitigate business risks arising from changes in economic and market conditions and in regulations that influence the volume of debt issuance, your Company constantly monitors developments on these fronts and adjusts its business strategies accordingly.
- Your Company evaluates itself periodically against its peers to mitigate competition-related risks. To prevent brand dilution, your Company remains focused on maintaining the robustness of its ratings and gradings while at the same time promoting brand ICRA through seminars, and conferences, apart from the publication of research reports.
- The Company keeps a close watch on key regulatory developments to anticipate changes and their potential impact on its business.
- The Company, both unilaterally and through its participation in industry forums, responds to consultation papers and discussions initiated by the regulators, the Government and other policymakers on any key regulatory changes that can have an impact on its business.

### (1) Liquidity Risk/Financial Risk

The extent of liquidity/financial risk is influenced by various factors such as maturity of liabilities and degree of reliance on secured sources of funding.

#### Risk mitigation

- The Company has remained debt free ever since it was incorporated and has always sought to finance all its expansion and diversification plans with internal accruals.
- A sound liquidity position makes it possible for the Company to discharge all its payables within the stipulated time.

### (2) Investment Risk

The Company has made, and may continue to make, investments in bonds, debentures, mutual funds, and other marketable securities, the returns on which would be impacted by changes in interest rates and volatility in the financial markets. Besides, the Company has made investments in subsidiaries, the return from which depends on their individual performance.

#### Risk Mitigation

- The Company has set up an investment committee, which periodically reviews the performance of its investment portfolio.
- The Company makes provisions for diminution in the carrying value of investments if the diminution in the fair market value of any long-term investment is considered permanent, and regularly evaluates changes in the financial markets.

### (3) Regulatory Non-Compliance Risk

Your Company complies with all the applicable laws, rules and regulations, and makes business decisions based on comprehensive advice provided both by its internal counsels and by acknowledged external counsels.

The regulatory non-compliance risk arises because of changes in corporate laws, the SEBI credit rating regulations, accounting standards, tax laws, and/or any other applicable rules and regulations as may be amended from time to time. Your Company being a credit rating agency is required to comply with a new and tighter set of rules that has been mandated by SEBI in June 2019, while executing rating assignments and while maintaining the ratings under continuous surveillance. Given the increasing regulatory oversight, the impact of slippages in compliance could be high.

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### Risk mitigation

- The Company has put in place a comprehensive compliance framework to manage compliance-related issues. Compliance officers track regulatory and statutory requirements and notify changes to stakeholders periodically. Detailed checklists are available with the compliance officers to ensure compliance with the applicable legal and regulatory requirements.
- Compliance officers keep themselves abreast of all amendments in the various applicable laws and regulations.
- The Company also makes provisions in the balance sheet when required and regularly evaluates the adequacy of such provisions for legal risks relating to past events.
- The Board of Directors is informed periodically about compliance with the various laws and rules in force.
- Regulatory and statutory audits are conducted to ensure compliance with the relevant provisions of the applicable laws and regulations.
- The Company obtains legal advisory services and seeks legal advice wherever necessary to avoid any non-compliance with the applicable laws, rules and regulations.

### (4) Operational Risk/Technology Related Risk

The Company has to rely on clients/third parties for the adequacy and accuracy of information (relating to such clients), which may not always be independently verifiable. While we do have a systematic feedback method of gathering this information, even so, we depend largely on clients and third-party sources to obtain information relating to them. We may also rely on representations as to the accuracy and adequacy of the information obtained. The quality of the ratings that we assign is inherently dependent upon the accuracy of the information presented to us. If inaccurate or misleading facts are presented to us we run the risk of our ratings not being able to reflect the actual credit risk.

The Company's ability to conduct business may be adversely impacted with the increase in cyber-crime. This may in turn lead to financial loss, disruption or damage to the reputation of an organisation due to some failure of its information technology systems. Lack of information security controls, both with respect to process and technology, may lead to breach of confidential data, data privacy and in turn cause loss in business.

With the complexity of our business increasing, sound information system controls are needed, and we have established these in our organisation.

### Risk Mitigation

- To mitigate such security risks, and thereby the losses arising due to such risks, the Company has established a formal Information security governance structure and strategy in place with defined roles and responsibilities for a consistent treatment and monitoring mechanism. The risk management approach has been followed to identify and address risk for people, processes and technology.
- To mitigate the risks, your Company has designed the Information Security Management System **(ISMS)** with various policies, procedures and guidelines in place to set the security controls for ICRA.
- The implementation is planned to mitigate all identified risks in a phase-wise manner to develop and implement stringent process and technological controls.
- Periodic and frequent IT advisory is being shared with ICRA employees related to spam, phishing attacks, ransomware and cyber security related areas.

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### (5) Policy Risk

Material changes in the regulations that govern us or our businesses could affect the results of our operations. Most of the Company's revenues come from rating services, which are influenced by regulatory requirements. If there are changes in the regulatory requirements of compulsory rating for certain instruments or for certain investors to invest in rated instruments, there may be a decrease in the demand for rating. This is also the case if there are such changes in regulations that negatively impact the level of issuance of debt instruments in the domestic market. This in turn may affect our business, revenues and financial condition.

### (6) Political Risk

Political instability could adversely affect the general economic conditions in India, which in turn could impact our financial results and prospects, as could adverse changes in specific laws and policies pertaining to banking and finance companies, foreign investment and other matters affecting investment in securities. Additionally, any adverse change in the economic liberalisation policies—a major factor encouraging private participation in infrastructure—could have a significant impact on infrastructure development, business and economic conditions in India, and this in turn may affect our financial results and prospects.

### (7) Attrition Risk

Our performance and success depend largely on our ability to nurture and retain the continued service of our skilled personnel. We face a continuing challenge of recruiting and retaining suitably skilled people, as we continue to grow. There is significant competition for management and other skilled persons in the financial services industry with our competitors and other financial services entities offering better compensation and incentives. If we are unable to attract talented persons, experience high attrition or are unable to motivate our existing employees, our business and operations are likely to get affected.

#### Risk Mitigation

We are committed to provide the best work environment and facilities to employees at all levels. We provide a culture that promotes transparency and flexibility and is fulfilling and purposeful. Our work environment has helped create an engaging workplace that enables individuals to realise their potential.

To promote a culture of ethics, trust, respect, openness & collaboration, periodic connect, including Townhalls, Ask Me Anything sessions, NOVA sessions etc with employees are conducted to address concerns in a systematic manner. ICRA implements a monthly engagement calendar to keep employees motivated and engaged. Some of the examples include Environment Month, Reader's Month, Independence Day, Diwali, Christmas, Bring Your Kids to Work etc. To revitalise the work environment, we actively promote a culture of celebration & success at work. We provide regular extended support with our employee-friendly policies like Work from Home, transport support guidelines, creche support for employees' children, advance Maternity Leave for our women colleagues and employee assistance programmes. We have a structured rewards and recognition programme called 'iStrive' on a half-yearly basis. The aim is to appreciate and thank all performance enthusiasts who continually strive to make a difference to the Company.

We reward people fairly, equitably and consistently in accordance with their value to the organisation. Our reward management strategy adopts a 'total reward' approach which emphasises the importance of considering all aspects of reward as a coherent whole, integrated with other Human Resource (HR) initiatives designed to achieve the motivation, commitment, engagement and development of employees. Deserving employees, who demonstrate high performance and potential, are eligible to participate in the long-term/deferred incentive plan focused on retaining critical talent in the company. We continually benchmark the compensation with the industry and the competition it offers.

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## F. Internal Control Systems and their Adequacy

The Management is responsible for establishing and maintaining controls and procedures for the Company, following the review by the Audit Committee and the Board of Directors. Accordingly, the Management has designed such controls and procedures, or caused such controls and procedures to be designed under its supervision, as to ensure that material information relating to your Company, including its subsidiaries, is made known to the Management by others within those entities. It has also designed such internal control over financial reporting or designed such internal control over financial reporting under its supervision, to provide reasonable assurance regarding the reliability of the financial statements.

Your Company's Statutory Auditors have audited the financial statements and have issued a report with adverse opinion on your Company's internal control over financial reporting, as defined in Section 143 of the Companies Act, 2013 (the **'Act'**). The said report is annexed to the independent auditor's report.

The disclosures pertaining to certain ongoing matters, as provided under 'Update regarding certain ongoing matters' of the Directors Report are self-explanatory, therefore, no additional comments are required.

(An overview of Internal Control Systems and their adequacy, is presented in the section titled Internal Control System and their Adequacy in the Directors' Report.)

## G. Discussion on Financial Performance with respect to Operational Performance

The key features of the Company's financial performance for the year ended March 31, 2020 are presented in the accompanying financial statements, which have been prepared in accordance with the Indian Accounting Standards (referred to as IndAS) as prescribed under Section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015 and other relevant provisions of the Act. The financial statements have been prepared on the historical cost basis and on an accrual basis, except for certain financial instruments, which are measured at fair value at the end of each reporting period. ICRA's Management accepts responsibility for the integrity and objectivity of these financial statements.

The financial information discussed in this section is derived from the Company's audited financial statements.

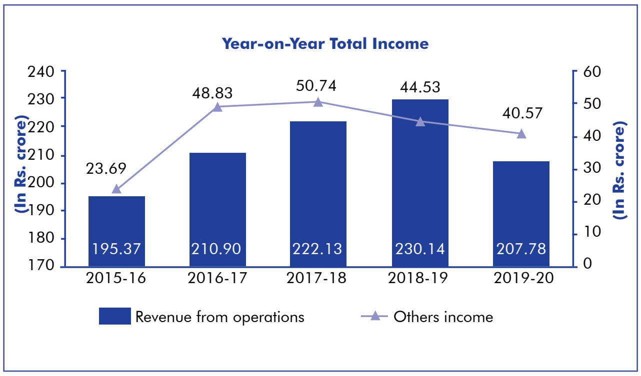
### I. Results of operation

The financial performance of the Company is summarised as under:

### (a) Incomes

*(in Rs. crore)*

| Particulars | 2018-19 | 2019-20 | Growth (%) |
|---|---|---|---|
| Revenue from operations | 230.14 | 207.78 | (-) 10 % |
| Other income | 44.53 | 40.58 | (-) 9 % |
| **Total Income** | **274.67** | **248.36** | **(-) 10 %** |




In terms of business segments, the subdued growth in operating revenue during 2019-20 was mainly due to slow growth in corporate, financial sectors and public finance related ratings. The non-bank loan ratings business grew very little during the period under review. Bank loan ratings accounted for 33% of the overall rating revenues for 2019-20 as compared to 32% for 2018-19. Other than rating of debt issuances and bank loans of existing issuers, the Company added new issuers and borrowers to its list of rating clients during the year under review.

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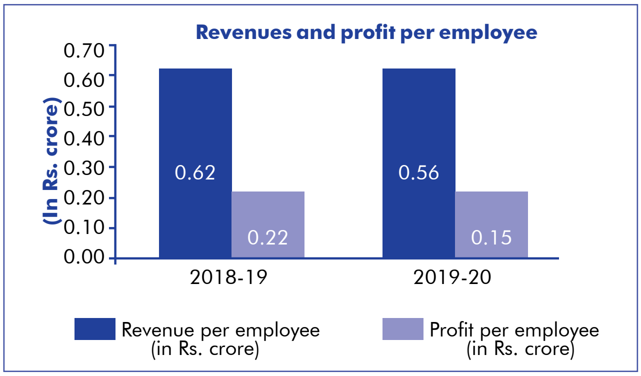
### Other income

Other income primarily consists of dividend received from subsidiary companies, interest income on fixed deposits and investments, gain on financial assets carried at fair value through profit or loss and rental income. The Company's other income in the year 2019-20 decreased by 9% from the year-ago, primarily driven by loss in the fair value of financial assets.

### Expenses

*(in Rs. crore)*

| Particulars | 2018-19 | 2019-20 | Growth (%) |
|---|---|---|---|
| Employee benefit expense | 107.43 | 105.11 | (-) 2 % |
| Finance costs | 0.03 | 1.66 | 4907 % |
| Depreciation and amortization | 2.43 | 5.38 | 121 % |
| Other expenses | 33.71 | 44.16 | 31 % |
| **Total expenses** | **143.60** | **156.31** | **9 %** |




**Employee benefits expenses** decreased 2% to Rs. 105.11 crore in 2019-20 from Rs.107.43 crore in 2018-19. The decrease in employee benefit expenses was primarily due to the true-up of variable pay provision for the full year, on account of lower profitability. Employee benefit expenses, as a percentage of revenue from operations, increased during the period under review as compared with the previous fiscal.

Your Company's revenues from operations and profit after tax per employee decreased during 2019-20 as compared to 2018-19.

**Depreciation and amortisation expenses** increased 121% during 2019-20 over the previous fiscal due to the impact of the Accounting Standard (IND AS- 116) related to accounting treatment of rent.

**Other expenses** increased by 31% during 2019-20 over the previous fiscal, mainly because of higher expenses towards legal and professional charges and additional audit fees on account of the incremental efforts incurred by auditors on the ongoing regulatory matters. The Company's contribution towards Corporate Social Responsibility (CSR) as prescribed under Section 135 of the Companies Act, 2013, for the financial year 2019-20 increased from Rs. 2.24 crore to Rs. 3.10 crore. The Company contributed Rs. 100.00 lakh to the Prime Minister's Citizen Assistance and Relief in Emergency Situations Funds (PM CARES Fund) which resulted in an excess of Rs. 71.26 lakh spent over the current year obligations, which will be offset with the next years' obligation. Other expenses as a percentage of total income increased during the period under review as compared with the previous fiscal.

**Total expenses** increased by 9% to Rs. 156.31 crore in 2019-20 from Rs. 143.60 crore in 2018-19.

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## II. Property, plant and equipment

Property, plant and equipment of the Company were as under:

***(in Rs. crore)***

| Particulars | As on March 31, 2019 | As on March 31, 2020 | Growth (%) |
|---|---|---|---|
| Buildings | 6.67 | 6.32 | (-) 5 % |
| Computers and data processing units | 0.81 | 0.63 | (-) 23 % |
| Furniture and fittings | 0.96 | 0.73 | (-) 24 % |
| Office equipment | 0.32 | 0.25 | (-) 21 % |
| Electrical installation and equipment | 0.38 | 0.30 | (-) 21 % |
| Vehicle | 0.30 | 0.13 | (-) 56 % |
| Leasehold improvements | 1.21 | 0.87 | (-) 28 % |
| Right-of-use assets – building | - | 19.56 | - |
| **Total** | **10.65** | **28.79** | **170 %** |

Your Company during 2019-20, added Rs. 2.30 crore to gross block, comprising Rs 0.64 crore in computers and data processing units, Rs. 0.03 crore in furniture and fittings, Rs. 0.11 crore in office equipment, Rs. 0.03 crore in electrical installation and equipment and Rs. 1.50 crore in Right-of-use-assets- building. Further, your Company has recognized a right of use asset amounting to Rs. 21.26 crore on account of the adoption of IndAS 116. During the period under review, your Company deducted Rs. 0.42 crore from the gross block on the disposal of various assets.

## III. Intangible assets

***(in Rs. crore)***

| Particulars | As on March 31, 2019 | As on March 31, 2020 | Growth (%) |
|---|---|---|---|
| Computer software | 0.03 | 0.03 | (-) 28 % |
| Intangible assets under development | 1.27 | 1.88 | 48 % |

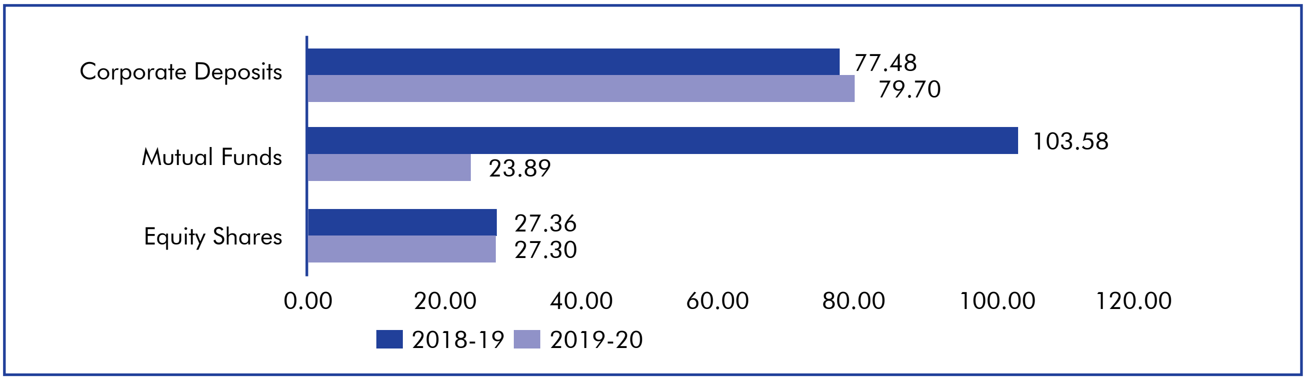
Your Company has Rs. 1.88 crore of intangible assets under development as at March 31, 2020.

## IV. Financial assets

Financial assets mainly consist of investments, loans, trade receivables, cash and cash equivalents and bank balances.

### (a) Investments (current and non-current)

**Investment Profile**



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*(in Rs. crore)*

| Particulars | As on March 31, 2019 | % of Total | As on March 31, 2020 | % of Total | Growth (%) |
|---|---|---|---|---|---|
| **Non-Current Investments:** | | | | | |
| **(A) Investments in Equity Instruments** | | | | | |
| In Equity Shares of Subsidiaries and Others | 42.33 | 20% | 42.27 | 32% | - |
| Less: Diminution due to change in carrying value of investments | (14.97) | (-)7% | (14.97) | (-)11% | - |
| **Sub Total (A)** | **27.36** | **13%** | **27.30** | **21%** | **-** |
| **(B) Investments in Mutual Funds** | | | | | |
| In Other Plans | 103.58 | 50% | 23.89 | 18% | (-) 77 % |
| **Sub Total (B)** | **103.58** | **50%** | **23.89** | **18%** | **(-) 77 %** |
| **(C) Total Non-Current Investments (A+B)** | 130.94 | 63% | 51.19 | 39% | (-) 61 % |
| Current Investments: | | | | | |
| **(D) Investment in Corporate Deposits** | 77.48 | 37% | 79.70 | 61% | 3 % |
| **(E) Total Current Investments (D)** | 77.48 | 37% | 79.70 | 61% | 3 % |
| **Total Investments (C+E)** | **208.42** | **100%** | **130.89** | **100%** | **(-) 37 %** |

The Company deploys its internal accruals and surplus funds primarily in mutual funds, fixed deposits and corporate deposits as per its investment policy approved by the Board of Directors. The Investment Committee decides from time to time the overall investment in each category, based on the market conditions. The Audit Committee reviews investments made by the Company along with applicable limits and current ratings of the instruments or/and counterparties. The decrease in total investment was mainly due to the deployment of internal accruals in fixed deposits.

### (b) Loans, trade receivables, cash & cash equivalents and bank balances and other financial assets

*(in Rs. crore)*

| Particulars | As on March 31, 2019 | As on March 31, 2020 | Growth (%) |
|---|---|---|---|
| **Non-current** | | | |
| **(a) Loans** | 3.70 | 3.79 | 2 % |
| **(b) Other financial assets** | 24.91 | 7.75 | (-) 69 % |
| **Current** | | | |
| **(c) Loans** | 0.29 | 0.22 | (-) 25 % |
| **(d) Trade receivables** | | | |
| Receivables | 23.83 | 37.06 | 56 % |
| Allowances for doubtful receivables | (4.40) | (3.66) | (-) 17 % |
| **Net trade receivables** | 19.43 | 33.39 | 72 % |
| Trade receivables as % of operating income | 8 % | 16 % | |
| **(e) Cash & cash equivalents and bank balances** | 338.94 | 435.24 | 28 % |
| **(f) Other financial assets** | 19.34 | 21.87 | 13 % |

**Non-current loans** include security deposits.

**Other non-current financial assets** consist of bank deposits with maturity for more than 12 months from the reporting date.

**Net trade receivables** were Rs. 33.39 crore as on March 31, 2020 as against Rs. 19.43 crore as on March 31, 2019. The increase in trade receivables was mainly due to slow recovery of debtors as compared to the previous year. Trade receivables as a percentage of operating income increased from 8% during 2018-19 to 16% during 2019-20.

**Cash & cash equivalents and bank balances** as on March 31, 2020 was Rs. 435.24 crore as against 338.94 crore as on March 31, 2019. The cash and cash equivalents consist of Rs. 1.46 crore in current accounts and Rs. 0.02 crore as cash on hand. The other bank balance consists of Rs. 433.47 crore in deposit accounts with original maturity for more than three months but less than 12 months from the reporting date, Rs. 0.12 crore in unpaid dividend account and Rs. 0.18 crore earmarked against bank guarantees.

## V. Equity

### (a) Equity share capital

Your Company has only one class of equity shares having a par value of Rs. 10 each. The capital structure of the Company is as follows:

***(in Rs. crore)***

| Particulars | As on March 31, 2019 | As on March 31, 2020 |
|---|---|---|
| **Authorised:** | | |
| **1,50,00,000 Equity Shares of Rs. 10 each** | 15.00 | 15.00 |
| **Issued, subscribed and fully paid up:** | | |
| **96,51,231 Equity Shares of Rs. 10 each (previous year 96,51,231 Equity Shares of Rs. 10 each)** | 9.65 | 9.65 |
| | **9.65** | **9.65** |

The issued subscribed and paid-up capital stood at Rs. 9.65 crore divided into 96,51,231 equity shares of Rs. 10 each.

### (b) Other equity

Other equity consists of capital reserve, capital redemption reserve, general reserve, other comprehensive income and retained earnings. Other equity of the Company stood at Rs. 572.88 crore as on March 31, 2020 as against Rs. 538.59 crore as on March 31, 2019.

## VI. Financial liabilities

***(in Rs. crore)***

| Particulars | As on March 31, 2019 | As on March 31, 2020 | Growth (%) |
|---|---|---|---|
| **Non-current** | | | |
| **(a) Other financial liabilities** | 1.49 | 15.89 | 968 % |
| **Current** | | | |
| **(a) Trade payables** | 4.77 | 9.39 | 97 % |
| **(b) Other financial liabilities** | 14.42 | 6.88 | (-) 52 % |

# Annexure IV

**Other financial liabilities-Non-current** increased from Rs. 1.49 crore as at March 31, 2019 to Rs. 15.89 crore as at March 31, 2020. The reason for increase is capitalisation of future lease payments on present value on account of adoption of Ind AS 116.

**Trade payables** were higher as on March 31, 2020 as compared to previous year due to higher provision of expenses relating to legal and professional and additional audit fees to auditors on account of the incremental efforts incurred by them on the ongoing regulatory matters, in the current financial year as compared to previous financial year.

**Other financial liabilities-Current** decreased 52% at the end of fiscal year 2019-20 mainly due to the following reasons:

(a) the net salary for the month of March and leaves encashment payments to employees were payable at the previous year end, whereas the same were paid before the year end in FY 2019-20; and

(b) decrease in incentive payable under long-term individual pay-out plan.

### VII. Other liabilities

***(in Rs. crore)***

| Particulars | As on March 31, 2019 | As on March 31, 2020 | Growth (%) |
|---|---|---|---|
| **Other non-current liabilities** | 0.00 | 0.00 | - |
| **Other current liabilities** | 54.63 | 51.13 | (-) 6 % |
| **Total other liabilities** | **54.63** | **51.13** | **(-) 6 %** |

Other non-current liabilities consist of deferred finance income and other current liabilities consisting of deferred finance income, unearned revenue, statutory dues payable and advances received from customers. Total other current liabilities decreased by 6% as on March 31, 2020 as against March 31, 2019 mainly due to lower unearned revenue.

### VIII. Key financial ratios

Key financial ratios are provided in the table below.

***(in Rs. crore)***

| Particulars | As on March 31, 2019 | As on March 31, 2020 |
|---|---|---|
| **Debtors turnover (no. of days)** | 32 | 58 |
| **Inventory turnover** | N.A. | N.A. |
| **Interest coverage ratio** | N.A. | N.A. |
| **Current ratio** | 4.82 | 6.89 |
| **Debt equity ratio** | N.A. | N.A. |
| **Operating profit margin (%)** | 37.6% | 24.8% |
| **Net profit margin (%)** | 34.9% | 26.2% |
| **Return on net worth (%)** | 17.5% | 11.2% |

*N.A.: Not applicable*

# Annexure IV

There is significant change, i.e. change of 25% or more, as compared to the immediately previous financial year, in key financial ratios. The increase in debtor's turnover (no. of days) was mainly due to stretch in non-banking financial companies' sector and increase in debtors and reduction in revenue on the other side.

The operating profit and net profit margins were adversely impacted due to muted growth in revenue and higher expenses. Decline in PAT has impacted significantly on return on net worth. The significant increase in current ratio was mainly due to higher balances with banks in deposits accounts with original maturity less than twelve months.

### H. Material Developments in Human Resources/Industrial Relations, including Number of People Employed

The Company, with total employee strength of 445 as of year-end 2019-20, continues to accord high priority to human resource development, with emphasis on improving skill, competence and knowledge through regular training and in-house/external professional development programmes. Besides, the Company has a consultative and participative management style, and is committed to providing the best possible work environment and facilities to employees at all levels. As a result, the relation between the employees and the Management of your Company has remained harmonious till date.

*On behalf of the Board of Directors*

**(Arun Duggal)**
*Chairman*
DIN: 00024262

Place: Kasauli
Date: July 28, 2020

***Forward-Looking Statements May Prove Inaccurate***

*This Annual Report contains certain forward-looking statements that may be identified by words, phrases, or expressions including, but not limited to, "expected", "will", "would", "continue", "intend to", "in future", or their variations. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed under "Risks and Concerns", which is a part of the "Management Discussion and Analysis Report". Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect Management's analysis only as of the date hereof. The Company assumes no obligation to publicly update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition.*