# Annexure to the Directors' Report

## Management Discussion and Analysis Report

### CRISIL businesses

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers. Our businesses operate from India, Argentina, Australia, China, Hong Kong, Poland, Singapore, Switzerland, the United Arab Emirates (UAE), The United Kingdom (UK) and the United States of America (USA). We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

### Ratings

Corporate bond issuances were tepid in 2020 and declined by ~8%. Issuances were concentrated among large and highly rated issuers, especially those with strong parentage.

The Covid-19 pandemic and resultant lockdown had led to an unprecedented disruption in demand and supply and general business activity. Private sector capital expenditure and consequent demand for credit were muted and wholesale domestic bank credit growth was around 3% for 9 months ended December 31, 2020. Besides sluggish demand for wholesale bank credit, the BLR market was affected by the guidance from five large banks, increasing the minimum exposure threshold for rating requirement to Rs 30-50 crore from Rs. 5-10 crore.

Securitisation volume was highly muted from March, when the lockdown and moratorium were announced as a result of which collections from borrowers fell sharply. While there are signs of green shoots with pick-up in economic activity and improvement in collections across asset classes, lenders and investors are gradually returning to the market.

On the regulatory front, SEBI announced certain changes aimed to address the problem of issuer non-cooperation with CRAs, at the beginning of the year. CRAs are required to downgrade investment-grade INC ratings to non-investment grade after 6 months and to not assign any new ratings to issuers who are INC for more than 12 months with other CRAs.

Post March 2020, regulatory changes were aimed at providing regulatory forbearance to corporates affected by the pandemic and lockdown. SEBI granted temporary relaxations from default recognition and regulatory timelines for publication of rating rationale, among others.

Investors' preference for quality ratings and issuers' choice to work with us helped in new client acquisitions and maintaining CRISIL Ratings' market leadership in 2020. Over 1,200 new BLRs were assigned in the year. Further, we on-boarded over 140 new large corporate clients.

As a part of the Company's continuing improvement initiatives, we completed the development of a new technology-based workflow platform for the ratings' operations. We also launched a web portal and a mobile app, which were well received by issuers and investors.

On the innovation front, CRISIL Ratings continued to be the first port of call for innovative instruments even in the muted bond market. In 2020, CRISIL Ratings assigned a rating to the first dealer securitisation transaction in India and seven covered bond transactions.

Further, during the year, CRISIL GAC enhanced its support to S&P Global Ratings Services on surveillance activities, coverage of environmental, social and governance (ESG) diagnostics and evaluations, and led automation and process transformation initiatives in the data and analytical domains. GAC's partnership in content creation for publications grew substantially in light of the increased market outreach efforts during Covid-19.



### Research

#### Global Research and Analytics (GR&A)

The pandemic-induced weakness in the global economic environment stalled progress and decision-making at banks during the initial phase. However, regulatory-driven opportunities coupled with the business strategy of deep mining strategic accounts resulted in some large wins during the second half of the year. The GR&A business saw significant on-year growth in EBITA, largely driven by a strong performance in the risk space. The revenues from fundamental research weakened largely due to anticipated sell-side restructuring, offsetting gains from strategic project based engagements and data analytics. As for asset managers, enhanced monitoring of high-yield credits has become a priority. Demand for environmental, social and governance (ESG) data and analysis has risen sharply. Meanwhile, demand for niche research has increased as private equity firms try to deploy their dry powder. New hedge funds are also being launched to buy undervalued or distressed assets.

Risk and Analytics segment benefitted from key wins and renewals in model validation, LIBOR transition and stress testing. The business won a large IBOR stress-testing deal with a large US-based investment bank. The credit risk vertical gained from a significant win for bi-lateral credit assessment support for a bank based out of Europe. CRISIL has published several industry surveillance reports, enhanced covenant analysis and increased the frequency of credit risk assessments. The adoption of credit risk workflow automation such as updating the net asset values of funds has also grown significantly. Non-financial risk management remains a key focus area for our clients amid this pandemic. The clients' focus areas range from the maturity of their business resilience policies and controls to vendor management frameworks. They are also focussing on managing risks related to cyber security, financial crime, fraud, culture and conduct.

#### India Research

Covid-19 posed a major challenge for our India Research business this year with the pandemic restraining clients' discretionary expenditure and negatively impacting their decision making cycles and execution of existing mandates. However, with most client segments stressing on strategic review, we successfully rewired ourselves in keeping with our customers' requirements and came up with innovative products, ensuring business continuity.

We continued to maintain a dominant position in the Funds and Fixed Income Research business due to significant traction in valuations for PF, treasury portfolios and existing MLD issuances.

We continue to be one of the largest providers of fixed income indices in India and have launched two new indices in 2020, taking the total count to 98. One of the highlights this year was the launch of CRISIL AIF Benchmarks.

Our Industry Research business launched a high-frequency dashboard providing deep insights into markets, commodities and various sectors impacted by the pandemic.

Quantix, our comprehensive, differentiated, and client-centric data platform, improved its value proposition by enhancing both data coverage and strengthening the power of analytics on top of the largest company database in the country.

We launched micro-level assessments/dashboards for various segments such as PVs, LCVs, tractors, MSMEs, housing finance and personal loans, which have garnered interest among clients looking to recalibrate their business strategies, plans and policies.

We launched 50 unique virtual training titles this year which helped overcome the challenges traditional classroom trainings face. We also launched CRISIL Wealth Manager Certification that saw good participation from retail clients.

The C-CER and the CRISIL Research business continued to focus on franchise and thought-leadership activities by conducting distinctive research on contemporary issues.

Over and above all this, year 2020 was a milestone for our business in terms of client connects through knowledge sharing sessions, webinars and franchise. Our teams conducted over 300 knowledge sharing sessions since the countrywide lockdown in March, with over 5,000 client attendees across sectors. With continued focus on franchise initiatives, we released a number of high impact reports and press releases and thought leadership pieces. We released 15 thematic reports, 21 bylines and 16 client presentations on various sectoral and economic issues.

#### CRISIL Coalition

CRISIL Coalition continued initiatives to enhance market relevance and broaden the reach to include more regional players. In 2020, CRISIL Coalition added two new logos to its impressive list of global investment banks. New and more granular IP was developed to cater to new clients such as regional banks.

CRISIL Coalition reinforced its leadership with the top 15 banks by meeting most of the heads of corporate investment banks and all heads of GM/IB businesses in addition to presenting to 150+ executive committees at various banks. More than 55 publications globally carried our views and quoted us during the year. We were referenced by leading global banks in 110+ investor relations presentations.

The first stage of a multi-year roadmap to digitise CRISIL Coalition's core operational processes and offer deeper integration with banks' systems has been completed. The foundation work addresses data ingestion and data processing and will improve the speed to market of our Client Intelligence product, as well as provide a strong base to deliver enhanced customer value over 2021 and beyond. CRISIL Coalition retained the coveted SSAE16 SOC2 Type II certification, which is a testimony of the stringent controls and measures deployed for data and IP protection.

#### Greenwich Associates

In 2020, Greenwich Associates made aggressive changes to transform our operating model and position our business for revenue growth—including important steps leveraging the combined capabilities of the newly integrated Greenwich Associates/Coalition platform.

We enhanced the timeliness and quality of our core data by re-tooling our Voice of the Customer (VOC) programmes. We also made several changes to position the business for future growth. First, we increased our focus on high-growth opportunities by boosting resource commitments to VOC products identified as having the highest growth potential.

In addition to this, we continued to develop new and enhanced products.

### CRISIL Infrastructure Advisory

The business engaged with clients in not just India but also in the international market and worked with various stakeholders, conducted webinars, client interviews and also closed mandates through successful virtual delivery of milestones.

Despite the overall slowdown, Advisory business booked several new assignments especially post the first half, largely driven by international mandates, extension mandates from existing domestic clients and some specific opportunities around commercial coal mining. The business won a couple of large-value mandates including All-India study on sectoral demand of petrol and diesel for oil marketing companies; support for commercial coal block auctions; feasibility and operationalisation of gas exchange/platform; market assessment on key sectors for MSMEs for an international financial institution.

The business deepened its international presence by winning mandates in the emerging markets of Asia and Africa. The business will continue to focus on international opportunities and push for a larger share of business.

The business was able to model the impact of Covid-19 on few critical sectors by continuously interacting with key stakeholders. We also hosted a number of webinars on topical themes.

## CRISIL Business Intelligence & Risk Solutions (BIRS)

The CRISIL BIRS business leveraged its strong domain and cutting edge offerings in the risk and analytics space to support the evolving credit, risk and regulatory needs of the banking and financial sector.

During the year, the business faced pandemic-driven headwinds, However, despite cost and budget pressures on clients, there was a clear uptick from end of Q3 in terms of restarting past dialogues as well as fresh initiations

We continued to strengthen and consolidate our position as a leading internal credit rating platform provider, driven by enhanced RAM solution (ICON) – launched in late 2019. The new platform continues to find traction in the Indian financial sector

Our enhanced Early Warning Signals (EWS) solution – integrating external data to generate robust automated triggers and the regulatory solution practice (mainly ADF solution) witnessed good traction

We continue to increasingly invest in our proprietary big data, cloud-ready platform, Fulkrum, to provide business intelligence solutions and provide bespoke analytics in a more effective and efficient manner. This is important as the evolving landscape is pushing banks to accelerate their move to cloud-based solutions vis-à-vis traditional on-premise business applications.

## Analysis of consolidated financial performance and result of operations

Consolidated financial statements include financial statements of CRISIL Ltd combined with its wholly owned subsidiaries ('Group'). Subsidiaries are entities controlled by the Company.

Financial statements of the Group and its subsidiaries have been combined on a line by line basis by adding the book values of like items – assets, liabilities, income and expenses – after duly eliminating intra-group balances and transactions and the resulting gains/losses.

Consolidated financial statements have been prepared in accordance with Indian Accounting Standards (Ind AS) notified under the Companies (Indian Accounting Standards) Rules, 2015, read along with Section 133 of the Companies Act, 2013, (the 'Act') and other relevant provisions of the Act. Financial statements have been prepared under historical cost convention on an accrual basis except for certain financial instruments, which are measured at fair value at the end of each reporting period. Management accepts responsibility for the integrity and objectivity of financial statements as well as for various estimates and judgment used therein.

The Group completed the acquisition of 100% stake in Greenwich Associates LLC (USA) and its subsidiaries (GA), on February 26, 2020, at a total value of USD 40 million, which includes upfront and deferred consideration. GA is a leading provider of proprietary benchmarking data, analytics and qualitative, actionable insights that helps financial services firms worldwide measure and improve business performance. The acquisition will complement CRISIL's existing portfolio of products and expand offerings to new segments across financial services including commercial banks and asset and wealth managers. Therefore, the figures for the year ended December 31, 2020, are not comparable with the previous year's figures.

The consolidated financial performance and result of operations are relevant for understanding CRISIL's performance.

### A. Financial performance

**1. Property, plant, equipment and intangible assets**

The Group's investments in property, plant and equipment represent the cost of buildings, leasehold improvements, computers, office equipment, furniture, fixtures and vehicles. Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

The Group's intangible assets – software, customer relationship, technology, database, tradename, platform and Right of Use Assets – are stated at cost of acquisition or construction less accumulated amortisation and impairment losses, if any. The estimated useful lives of intangible assets and the amortisation period are reviewed at the end of each financial year.

The Group has adopted Ind AS 116 effective January 1, 2020, using the modified retrospective method and has applied the standard to its leases with the cumulative impact recognised on the date of initial application i.e. January 1, 2020. Accordingly, previous period information has not been restated. The lease expenses which were recognised as rent expense in previous periods is now recognised as depreciation expense for the right-of-use asset and finance cost for interest accrued on lease liability. The Group has elected not to recognise right-to-use assets and lease liabilities for short term leases (lease term of 12 months or less) and leases of low-value and has recognised the lease payments for such leases as an expense over the lease term.

During the year, the Group capitalised Rs. 168.09 crore to its gross block and deducted Rs. 4.84 crore from the gross block on disposal of various assets. Capitalised assets include office equipment, computers, software, intangible assets on acquisition and leasehold improvements to support business expansion and provide for replacement of the existing assets.

The Group expects to fund its investments in fixed assets and infrastructure from internal accruals and liquid assets.

At the end of the year, the Group's investments in property, plant, equipment, Right of Use asset and intangible assets were as follows:

(Rupees in crore)

| Details | As on December 31, 2020 | 2019 |
|---|---|---|
| Carrying value | | |
| Property, plant, equipment, Right of Use asset and intangible assets | 796.26 | 238.35 |
| Less accumulated depreciation | 409.60 | 178.08 |
| Net block | 386.66 | 60.27 |
| Depreciation as a % of total income | 6% | 2% |
| Accumulated depreciation as % of gross block | 51% | 75% |

The increase in net block and accumulated depreciation is largely on account of Right of Use asset pursuant to adoption of Ind AS 116.

**2. Goodwill on consolidation**

Goodwill on consolidation represents excess of purchase consideration over the net asset value of acquired subsidiaries on the date of such acquisition. Goodwill is tested for impairment annually or more frequently, if there are indications of impairment. The growth in goodwill is mainly on account of the goodwill attributed to acquisition of Greenwich Associates LLC.



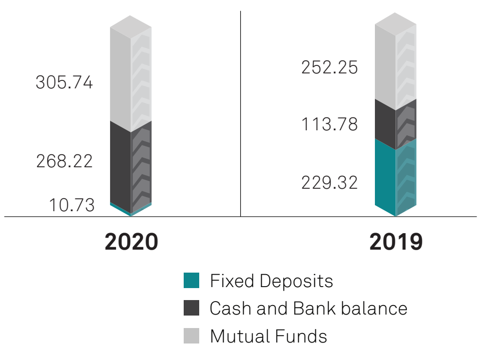
**3. Financial assets**

A. **Investments and treasury:** The Group's investments and treasury comprise non-current equity investments, current investments, cash and bank balances and fixed deposits.

a. ***Equity investments:*** All equity investments (quoted and unquoted) are measured at fair value through other comprehensive income (FVTOCI).

b. ***Current investments and treasury:*** The Group's investments in mutual funds are classified as fair value through profit or loss (FVTPL).The Group's treasury was Rs. 584.69 crore as on December 31, 2020, as against Rs. 595.35 crore in the previous year.

**Treasury**




(Rupees in crore)

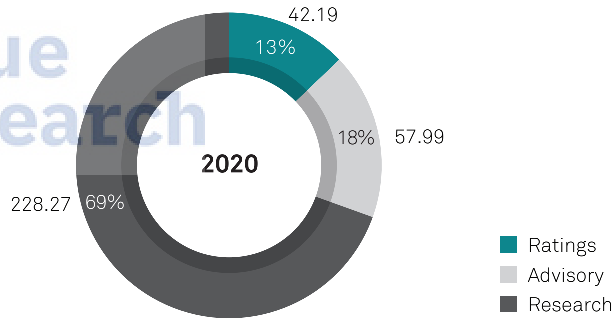
c. The Group maintains adequate amount of liquidity/ treasury to meet strategic and growth objectives. It has ensured a balance between earning adequate returns on liquidity/treasury assets and the need to cover financial and business risks. The Group's treasury policy calls for investing surplus in combination of fixed deposits with scheduled banks and debt mutual funds.

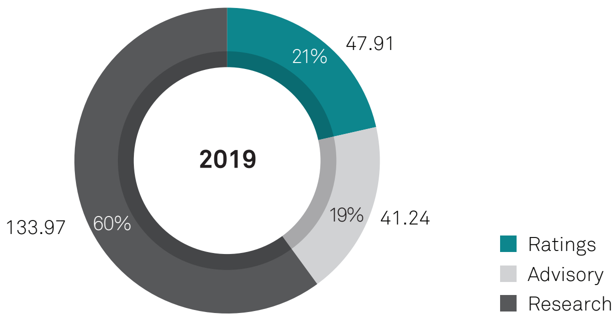
B. **Loans**

Loans comprise security deposits and loans to staff. Loans were Rs. 45.76 crore as on December 31, 2020, as against Rs. 41.43 crore in the previous year.

C. **Trade receivables**

Trade receivables at gross levels were Rs. 328.45 crore as on December 31, 2020, compared with Rs. 223.12 crore in the previous year. Trade receivables constituted 17% of operating revenue compared with 13% of operating revenue during the previous year. Overall Debtors were higher on account of consolidation of Greenwich from current year. The break-up of debtors relating to the segment is as below:




(Rupees in crore)

The Group believes that the outstanding trade receivables are recoverable and it has adequate provision for bad debt. Provision for doubtful debt balance was Rs. 21.09 crore as on December 31, 2020, as against Rs. 23.75 crore in the previous year. Provision for bad debt as a percentage of revenue for the year ended December 31, 2020, was 1% compared with 1% in the previous year.

### D. Other financial assets

Other financial assets comprise unbilled receivables, accrued interest and forward contract receivable. Other financial assets amounted to Rs. 102.57 crore for the year ended December 31, 2020, compared with Rs. 79.88 crore in the previous year.

### 4. Deferred tax assets and advance taxes

Deferred tax assets and liability primarily comprise deferred taxes on property, plant, equipment, leave encashment, accrued compensation to employees, gratuity, fair valuation of quoted/unquoted investments, business combination, provision for bad debt and deferred initial rating fees. The Group's net deferred tax assets totaled Rs. 64.06 crore as on December 31, 2020, as against Rs. 42.59 crore in the previous year. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

The net advance income tax asset was Rs. 79.69 crore as on December 31, 2020, compared with Rs. 73.96 crore in the previous year.

### 5. Other assets

Other assets mainly comprise advances to vendors, accrued revenue, prepaid expenses and tax credit receivable.



### 6. Equity share capital

The Company's authorised capital is Rs. 10 crore, comprising 100,000,000 equity shares of Re 1 per share. During the year, the company issued and allotted 288,964 equity shares to eligible employees on exercise of options granted under Employee Stock Option Scheme (ESOP) 2014. Consequently, the company issued, subscribed and paid-up capital increased from 72,304,326 to 72,593,290 equity shares of Rs. 1 each.

### 7. Other equity

Other equity was Rs. 1304.55 as on December 31, 2020, as against Rs. 1,164.69 crore in the corresponding period of the previous year. Other equity comprises reserves & surplus and other comprehensive income (OCI).

### 8. Financial liabilities

#### A. Trade payables

Trade payables as on December 31, 2020, were Rs. 105.26 crore as against Rs. 75.46 crore in the previous year. Trade payables include amount payable to vendors for the supply of goods and services.

#### B. Other financial liabilities

Other financial liabilities, which include dues to employees, unclaimed dividend and miscellaneous liabilities were Rs. 430.02 crore as on December 31, 2020, as against Rs. 168.17 crore in the previous year. The increase is mainly on account of lease liability pursuant to adoption of Ind AS 116 with effect from 1st January, 2020.

### 9. Provisions and other liabilities

#### A. Provision for employee benefits

The overall liability was Rs. 105.27 as on December 31, 2020, compared with Rs. 81.27 crore in the previous year. The increase is mainly due to merit increase and employee benefits.

#### B. Others

Other non-financial liabilities include unearned revenue and statutory liabilities. Unearned revenue represents fee received in advance for which services have not been rendered. Other liabilities were as Rs. 237.99 crore against Rs 173.99 crore in the previous year.

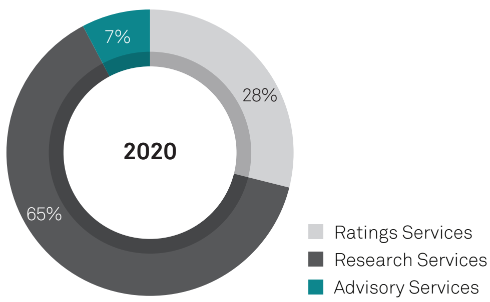
## B. Results of operations

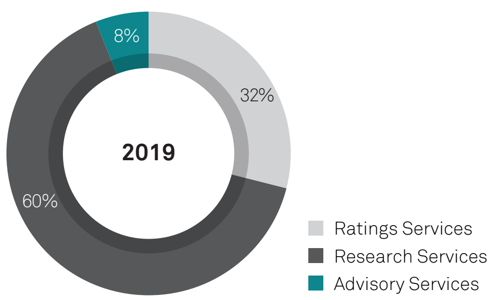
The summary of the operating performance is given below:

(Rupees in crore)

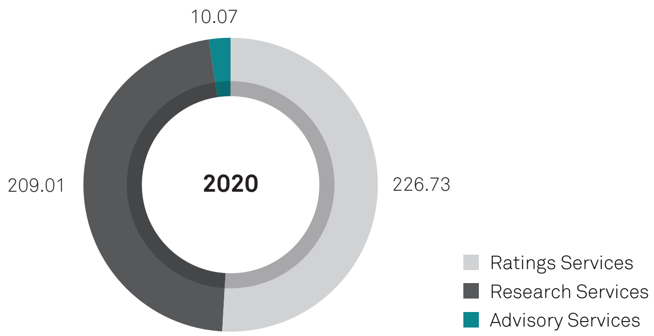
| Particulars | Year ended December 31, | | | |
|---|---|---|---|---|
| | **2020** | **% of revenue** | 2019 | % of revenue |
| Income from operations | 1,981.83 | 96 | 1,731.72 | 96 |
| Other income | 83.15 | 4 | 72.84 | 4 |
| **Total income** | **2,064.98** | **100** | **1,804.56** | **100** |
| **Expenses** | | | | |
| Personnel expenses | 1,068.44 | 52 | 877.56 | 49 |
| Finance costs | 14.39 | 1 | 0.23 | 0 |
| Depreciation | 121.11 | 6 | 36.86 | 2 |
| Other expenses | 402.75 | 20 | 398.32 | 22 |
| **Total expenses** | **1,606.69** | **78** | **1,312.97** | **73** |
| **Profit before tax** | **458.29** | **22** | **491.59** | **27** |
| Tax expenses | 103.56 | 5 | 147.64 | 8 |
| **Profit after tax** | **354.73** | **17** | **343.95** | **19** |

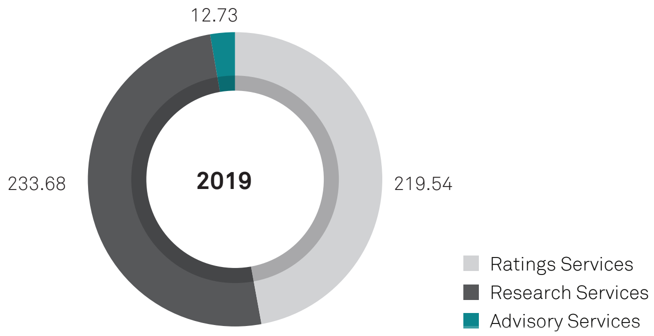
### Segmental revenue analysis



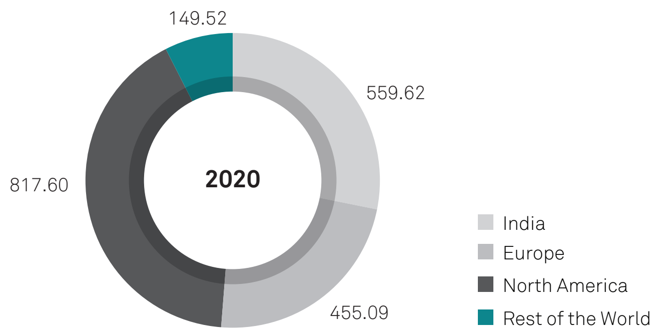
**Segmental profits**

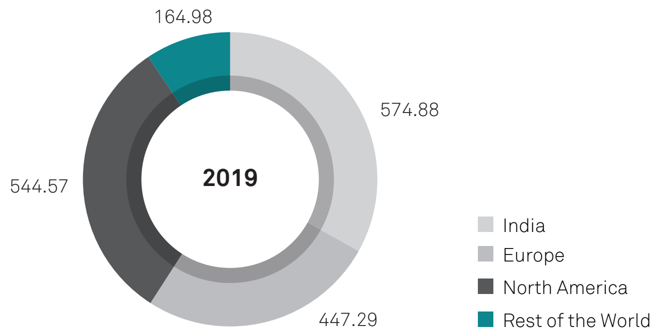



(Rupees in crore)

**Segmental revenue by Geography**




(Rupees in crore)

CRISIL Rating continued its growth trajectory. New client acquisitions and strong existing relationships strengthened CRISIL Ratings' market leadership in 2020. CRISIL assigned 1,209 new BLRs and 7,000 SME gradings and assessments during the year. With this, CRISIL has assigned ratings to more than 34,000 large and mid-sized corporates and assessed the performance of 150,000 SMEs till date.

That said, focus on high-growth segments and existing relationships increased our share in the bond market. We also on-boarded 140+ new large corporate clients.

In a challenging credit environment, we witnessed continuation of the phenomenon of flight to quality – issuers as well as investors/lenders continued to prefer working with quality-focused CRAs, especially CRISIL, over others.

Global Analytical Centre (GAC) enhanced its support to SPGRS on surveillance activities coverage of ESG diagnostics and evaluations and led automation and process transformation initiatives in the data and analytical domains.

In Research segment, The GR&A business closed big opportunities related to stress testing, model validation and a large IBOR transition deal and continued to tap into opportunities generated by regulatory guidelines around better credit risk management practices. Significant progress was made with the Low Default Portfolios (LDP) data pooling solution, strong data coverage across 60+ countries. We continued to maintain a dominant position in the Funds and Fixed Income Research business due to significant traction in valuations for PF, treasury portfolios and existing MLD issuances.

We continue to be one of the largest providers of fixed income indices in India and have launched two new indices in 2020, taking the total count to 98. One of the highlights this year was the launch of CRISIL AIF Benchmarks.

Quantix, our comprehensive, differentiated, and client-centric data platform in the Data & Analytics space, improved its value proposition by enhancing both data coverage and strengthening the power of analytics on top of the largest company database in the country.

CRISIL Coalition continued initiatives to enhance market relevance and broaden the reach to include more regional players. In 2020, CRISIL Coalition added two new logos to its impressive list of global investment banks. New and more granular IP was developed to cater to new clients such as regional banks.

On the operations side, our continued focus on automation and digitisation resulted in firm-wide FTE savings. The first stage of a multi-year roadmap to digitise CRISIL Coalition's core operational processes and offer deeper integration with banks' systems has been completed.

Greenwich Associates was acquired in Feb 2020 and the current year consolidated financials reflect 10 months of Greenwich business performance. In 2020, Greenwich made aggressive changes to transform its operating model and positioning of the business for revenue growth including important steps leveraging the combined capabilities of the newly integrated Greenwich Associates/Coalition platform. Greenwich faced Covid-19-related challenges that impacted the buying behaviour of Greenwich clients and our ability to access senior buyside executives for data collection.

Despite the overall slowdown, Advisory business booked several new assignments especially post the first half, largely driven by international mandates, extension mandates from existing domestic clients and some specific opportunities around commercial coal mining. The business won a couple of large-value mandates including All-India study on sectoral demand of petrol and diesel for oil marketing companies; support for commercial coal block auctions; feasibility and operationalisation of gas exchange/platform; market assessment on key sectors for MSMEs for International Finance Corporation; to name a few.

The CRISIL Business Intelligence & Risk Solutions (BIRS) business leveraged its strong domain and cutting edge offerings in the risk and analytics space to support the evolving credit, risk and regulatory needs of the banking and financial sector.

We continue to increasingly invest in our proprietary big data, cloud-ready platform, Fulkrum, to provide business intelligence solutions and provide bespoke analytics in a more effective and efficient manner.

### Other income (net)

Other income was Rs. 83.15 crore as on December 31, 2020, compared with Rs. 72.84 crore in the previous year.

### Expense analysis

Total expenses in the year Rs. 1,606.69 crore was as against Rs. 1,312.97 crore in the previous year. The composition of expenses is given below:

(Rupees in crore)

| **Particulars** | **Year ended December 31,** | |
|---|---|---|
| | **2020** | **2019** |
| Personnel expenses | 1,068.44 | 877.56 |
| Finance costs | 14.39 | 0.23 |
| Depreciation | 121.11 | 36.86 |
| Other expenses | 402.75 | 398.32 |
| **Total expenses** | **1,606.69** | **1,312.97** |

Total expenses for 2020 includes the expenses for Greenwich Associates LLC which was acquired in 2020. Excluding Greenwich , the overall costs grew by 1%.

### Key Ratios

| **Particulars** | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Personnel expenses/revenue (%) | 52 | 49 | 49 | 50 | 50 |
| Operating and other expenses/revenue (%) | 78 | 73 | 73 | 74 | 73 |
| Operating profit (PBIDT)/revenue (%) | 29 | 29 | 30 | 29 | 31 |
| Depreciation and amortisation/revenue (%) | 6 | 2 | 2 | 3 | 3 |
| Tax/revenue (%) | 5 | 8 | 7 | 8 | 9 |
| Operating profit margin(%) | 26 | 26 | 27 | 27 | 29 |
| Net profit margin(%) | 17 | 19 | 20 | 18 | 18 |
| Operating Revenue per employee (Rs. Lakhs) | 54.54 | 46.86 | 45.52 | 42.21 | 40.14 |
| Operating expense per employee (Rs. Lakhs) | 40.48 | 34.53 | 33.25 | 30.62 | 28.64 |
| Operating profit per employee (Rs. Lakhs) | 14.05 | 12.34 | 12.27 | 11.59 | 11.50 |
| Debtor turnover ratio | 7 | 6 | 6 | 7 | 7 |
| Current ratio | 2 | 2 | 2 | 2 | 2 |
| Return on networth (%) | 29 | 30 | 33 | 30 | 32 |

## Analysis of CRISIL's standalone financial performance and result of operations

Securities and Exchange Board of India (SEBI) notifications dated May 30, 2018 and Septe mber 19, 2018, under the SEBI (Credit Rating Agencies) Regulations, 1999, have mandated segregation of Ratings and Non-Ratings businesses of Credit Rating Agencies. Pursuant to and in order to comply with these notifications, CRISIL's Board of Directors approved transfer of the Ratings business to CRISIL Ratings Limited, (incorporated on June 3, 2019), a wholly owned subsidiary of the Company. This transfer has been undertaken through a 'Scheme of arrangement in terms of Section 230 to 232 of the Companies Act, 2013' ('Scheme') which has been approved by Stock Exchanges. The Scheme has been sanctioned by the National Company Law Tribunal (NCLT) with appointed date as January 1, 2020 and the certified copy of the Order dated June 8, 2020 has been received on July 7, 2020 which has been filed with Registrar of Companies on July 20, 2020. Further SEBI and Reserve Bank of India (RBI) has given necessary approval on December 4, 2020 and December 31, 2020, respectively, to CRISIL Ratings Limited to act as a Credit Rating Agency. On receipt of approval, the Scheme became effective on December 31, 2020 with the appointed date of January 1, 2020. The whole of the assets and liabilities of the transferred business became the assets and liabilities of the resulting company and were transferred at their book value as per the Order, as appearing in the books of the Company with effect from the appointed date. Therefore, the Balance Sheet figures for the year ended December 31, 2020, are not comparable with the previous year's figures.

**A. Financial performance**

**1. Property, plant, equipment and intangible assets**

The Company's investments in property, plant and equipment represent cost of buildings, leasehold improvements, computers, software, office equipment, furniture, fixtures and vehicles. Property, plant, equipment and intangible assets are measured at cost less accumulated depreciation and impairment losses, if any.

During the year, the Company capitalised Rs. 27.78 crore to its gross block and deducted Rs. 3.76 crore from the gross block on disposal of various assets. Property, plant and equipment capitalised during the year include office equipment, computers, software and leasehold improvements to support expansion of the business and provide for replacement of the existing assets.

Depreciation as a percentage of total income was 7% in the current year. The Company expects to fund its investments in fixed assets and infrastructure from internal accruals and liquid assets.

At the end of the year, the Company's investments in net property, plant, equipment, intangible assets and Right of use Assets were Rs. 145.93 as against Rs. 39.16 crore in the previous year. The increase is mainly due to Right of use asset pursuant to the adoption of Ind AS 116 relating to lease accounting.

**2. Financial assets**

***A. Investments and treasury:*** The Company's investments and treasury comprise non-current equity investments, current investments, cash and bank balances and fixed deposits.

*a. Equity investments*

All equity investments (quoted and unquoted, other than investment in subsidiaries) are measured at Fair Value Through OCI (FVTOCI).

Investments in subsidiaries are measured at cost. As on December 31, 2020, the cost of investment in subsidiaries stood at Rs. 208.93 crore.



*b. Current investments and treasury*

The Company's investments in mutual funds are classified as Fair Value Through Profit and Loss (FVTPL). The Company's treasury totaled Rs. 392.22 crore as on December 31, 2020, as against Rs. 324.95 crore in the previous year.

Cash and cash equivalents constituted 25% of the treasury as on December 31, 2020, as against 21% in the previous year. The treasury position is after considering dividend payouts of Rs. 232.03 crore.

(Rupees in crore)

| Category | As on December 31 | | | | Growth |
|---|---|---|---|---|---|
| | 2020 | % | 2019 | % | % |
| Cash and bank balance | 97.75 | 25 | 67.27 | 21 | 45 |
| Fixed deposit | 1.49 | 0 | 5.43 | 2 | (73) |
| Mutual funds | 292.98 | 75 | 252.25 | 77 | 16 |
| **Total** | **392.22** | **100** | **324.95** | **100** | |

The Company's treasury policy calls for investing surplus in a combination of fixed deposits with scheduled banks and debt mutual funds. The Company's treasury position is healthy.

***B. Loans***

Loans comprise security deposits and loans to subsidiaries and staff. As on December 31, 2020, the outstanding amount totaled Rs. 90.02 crore compared with Rs. 39.65 crore in the previous year

***C. Trade receivables***

Trade receivables at gross levels were 122.13 crore as on December 31, 2020, compared with Rs. 163.51 crore in the previous year. Trade receivables as a percentage of operating revenue was 13% compared to 18% in previous year.

The Company believes that the outstanding trade receivables are recoverable and it has adequate provision for bad debt. Provision for doubtful debt balance was Rs. 4.90 crore as on December 31, 2020, as against Rs. 10.08 crore in the previous year. Provision for bad debt as a percentage of revenue for the year ended December 31, 2020, was 1% which is in same lines as in the previous year.

*D. Other financial assets*

Other financial assets comprise advances recoverable in cash/kind, accrued revenue, accrued interest and forward contract receivable. Other financial assets for the year ended December 31, 2020, amounted to Rs. 104.48 crore compared with Rs. 37.21 crore in the previous year.

3. **Deferred tax assets and advance taxes**

Deferred tax assets and liability primarily comprise deferred taxes on property, plant, equipment, leave encashment, accrued compensation to employees, gratuity, fair valuation of quoted/unquoted investments, provision for bad debt and unearned revenue. The Company's net deferred tax assets were valued at Rs. 24.33 crore as on December 31, 2020, as against Rs. 28.36 crore in the previous year. Deferred tax assets are recognised only to the extent that there is reasonable certainty sufficient future taxable income will be available against which such deferred tax assets can be realised.

Advance income tax asset was Rs. 41.45 crore as on December 31, 2020, compared with Rs. 48.15 crore in the previous year.

4. **Other assets**

Other assets mainly comprise prepaid expenses, assets held for sale and tax credit receivable.

5. **Equity share capital**

The Company's authorised capital is Rs. 10 crore, comprising 100,000,000 equity shares of Re 1 per share. During the year, the Company issued and allotted 288,964 equity shares to eligible employees on exercise of options granted under ESOP 2014. Consequently, the issued, subscribed and paid-up capital of the Company increased from 72,304,326 equity shares of Re 1 each to 72,593,290 equity shares of Re 1 each.

6. **Other equity**

Other equity comprises reserves, surplus and OCI. It was Rs. 688.06 crore as on December 31, 2020, as against Rs. 751.52 crore in the corresponding previous period. This was after considering the final and interim dividend payouts amounting to Rs. 232.03 crore during the year ended December 31, 2020.

7. **Financial liabilities**

*A. Trade payables*

Trade payables amounted to Rs. 54.95 crore as on December 31, 2020, as against Rs. 67.58 crore in the previous year. Trade payables include amount payable to vendors for supply of goods and services.

*B. Other financial liabilities*

Other financial liabilities, which include unclaimed dividend, book overdraft, dues to employees and sundry deposit payable, were Rs. 459.29 as on December 31, 2020, as against Rs. 85.90 crore in the preceding year.

8. **Provisions**

Provisions comprise provisions for employee benefits. The overall liability was Rs. 72.45 crore as on December 31, 2020, as against Rs. 70.45 crore at the end of the previous year. Growth in the current year is in line with merit increase.

9. **Other liabilities**

Other liabilities mainly represent payables on account of withholding tax, Goods and Service tax, other duties and unearned revenue. Unearned revenue represents fee received in advance or advance billing for which services have not been rendered.

**B. Results of operations**

The summary of standalone operating performance is given below

(Rupees in crore)

| Particulars | Year ended December 31, 2020 | % of revenue | 2019 | % of revenue |
|---|---|---|---|---|
| Income from operations | 888.78 | 90 | 839.01 | 87 |
| Other income | 103.95 | 10 | 129.81 | 13 |
| **Total income** | **992.73** | **100** | **968.82** | **100** |
| **Expenses** | | | | |
| Personnel expenses | 436.34 | 44 | 428.29 | 44 |
| Finance cost | 6.94 | 1 | - | - |
| Depreciation | 65.68 | 7 | 23.96 | 2 |
| Other expenses | 265.44 | 27 | 319.39 | 33 |
| **Operating expenses** | **774.40** | **78** | **771.64** | **80** |
| **Profit before tax** | **218.33** | **22** | **197.18** | **20** |
| Tax expense | 51.61 | 5 | 61.67 | 6 |
| **Profit after tax** | **166.72** | **17** | **135.51** | **14** |

**Revenue analysis**

Other income (net)

Other income during the year was Rs 103.95 crore as compared with Rs. 129.81 crore in the previous year. This includes dividend on investments.

**Expense analysis**

The total expenses for the year ended December 31, 2020 was Rs. 774.40 as against Rs. 771.64 crore during the corresponding previous year.

**C. Risk management**

**Risk management**

The Company has a robust risk management framework in place with overall governance and oversight from the Risk Management Committee of the Board as well as oversight from the Audit Committee and Board of Directors. Risk Management policy of CRISIL outlines the key accountabilities and responsibilities of managing risks at CRISIL. CRISIL has a balanced approach to risk management by mitigating risks to an acceptable level within its tolerances and protecting CRISIL's reputation and brand while supporting the achievement of operational and strategic goals and objectives. Risk assessment is conducted periodically and the Company has a mechanism to identify, assess, mitigate and monitor various risks to key business objectives. The Internal Risk Management Committee, comprising senior members of the leadership team, provides governance and oversight on the process. The Company has a specialised role of 'Chief Risk Officer' to drive the risk management agenda.

Risk assessment is a combination of bottom-up and strategic view of key risks facing the business across all segments and functions. All the risks were reviewed and assigned probability of occurrence and potential impact (financial and non-financial) based on deliberations with business leaders and independent assessment. Mitigation plans are designed, implemented and monitored on a quarterly basis.

Key business risks and mitigation strategy are highlighted below.

1. **Business risks**

Current pandemic environment has impacted the overall business in 2020, which may extend for a part of 2021 as well, given the likelihood of weaker economic recovery due to the second wave in our key markets of US and EU. For the second half of 2021, promising vaccine trials and gradual easing off restrictions should inject confidence in the economic recovery. Timely steps and actions were initiated by the Company to ensure minimal disruption to operations and client delivery.

The Company strives to add value to its clients by providing services of a superior quality, introducing relevant tools, platforms and products and by maintaining a robust franchise with investors and end-users, to mitigate the risk arising from slowdown in global economy and competitive pricing.

To mitigate the risk arising from high dependence on any one business for revenues, the Company has adopted the strategy of diversifying into new products/services and different business segments. To address the risk of dependence on a few large clients and a few sectors in the business segments, the Company has also actively sought to diversify its client base and industry segments.

The Company carries reputation risk for services rendered, especially in the rating business. CRISIL's rating process is designed to ensure that all ratings are based on the highest standards of independence and analytical rigour.

2. **Foreign exchange earning risk**

CRISIL foreign currency revenue earnings are significant and any appreciation or depreciation in the rupee can have a significant impact on revenue and profitability. The Company has in place a well-defined foreign exchange management policy and process designed to minimise the impact of volatility in foreign exchange fluctuations on earnings. We evaluate exchange rate exposure arising from these transactions and enter into foreign exchange hedging contracts to mitigate the risks arising out of movement in the rupee. The foreign exchange management programme covers a large portion of projected future revenue over a 12-month period and is restricted to standard forward contracts and options.

Appropriate internal controls are in place for monitoring.

3. **Policy risk**

In the past two to three years, Securities and Exchange Board of India (SEBI), the regulator for credit rating agencies (CRAs) in India, has issued guidelines to mandate more disclosures by CRAs, ensure greater discipline in the rating processes, set enhanced norms for functioning of rating committees, underline the process to be adopted in the event of non-cooperation by issuers, introduced independent members in the Rating Committee for appeal cases, segregation of legal entity for regulated and non-regulated businesses, introduced and standardised probability of default (PD) benchmarks, added a new subscript to the ratings symbols for credit enhanced (CE) ratings, strengthened the Board composition of CRAs and introduced a new role of Chief Ratings Officer. SEBI has also raised the bar on the eligibility to set up a CRA and stipulate greater disclosure for issuers on their financial performance. Overall, the guidelines will improve transparency of the credit rating process and enhance standards of the CRA industry. The recent guidelines increase the operational intensity of the rating process. CRISIL continues to focus on leveraging technology to build appropriate controls and monitoring tools for safeguarding the rating process and facilitating necessary disclosures.

Pursuant to amendments to the Securities and Exchange Board of India (SEBI) Credit Ratings Agencies (CRA) Regulations, 1999, mandating segregation of the ratings and non-ratings businesses of credit rating agencies, CRISIL Ltd has completed the transfer of its ratings business to wholly-owned subsidiary CRISIL Ratings Limited. The segregation has no impact on the company's businesses and its stakeholders. The newly created CRISIL Ratings Limited has an independent Board of Directors comprising eminent and distinguished leaders with diverse expertise and experience.

The Research business of CRISIL Limited has also received a license as a Research Analyst, under the SEBI (Research Analyst) Regulations, 2014 for specified research products, following the segregation of the Ratings business to a subsidiary.

The policy announcements for development of the bond market have been supportive in recent years. The steps towards nudging large corporates to raise 25% of their funding needs from the bond market, persuading insurance and pension regulators to accord recognition to corporate bonds rated in 'A category', recently announced plan to allow netting off financial contracts for Credit Default Swaps (CDS) and implementation of insolvency and bankruptcy code (IBC), once fully implemented, will structurally enhance the bond market's role in India's financing landscape over time. As a part of its franchise strategy, CRISIL continues to highlight the critical role played by the bond market in the financial system, engage with the regulators and policy makers to facilitate development of the bond market, conduct regular events on the theme of bond markers and invest significant efforts towards innovations that have the potential to expand the role of the bond market.

4. **People risk**

Amid the pandemic employee health and well-being has been the primary focus for the Company. The Company has taken adequate measures and equipped the employees with resources to ensure health, safety and availability. The Company has made arrangements for a Covid-19 24/7 dedicated helpline for employees and also professional and confidential counselling and medical assistance (in partnership with a third party). Frequent updates, safety advisory, quarantine measures, general precautions including webinar sessions on tackling the pandemic situation were issued and presented to all employees. Strategy for return to office is also planned keeping in mind the health and safety of employees. Guidance on official travel restrictions were also issued. Adequate IT infrastructure arrangements were also made to ensure continued availability and minimum disruption to ongoing operations. Overall attrition for 2020 was under control, however CRISIL continues to accord top priority to managing employee attrition by formulating talent retention programme and offering a competitive salary and growth path for talented individuals.

5. **Legal and statutory risks**

CRISIL is subject to national and regional laws and regulations in such diverse areas as products, trademarks, copyright, competition, the environment, corporate governance, listing and disclosure, employment and taxes. Failure to comply with laws and regulations could expose CRISIL to civil and/or criminal actions leading to damages, fines and criminal sanctions against us and/or our employees with possible consequences for our corporate reputation. Changes to laws and regulations could have a material impact on the cost of doing business. CRISIL is committed to complying with the laws and regulations of the countries in which it operates. In specialist areas the relevant teams at global, regional or local levels are responsible for setting detailed standards and ensuring that all employees are aware of and comply with regulations and laws relevant to their roles. Our legal and regulatory specialists are heavily involved in monitoring and reviewing our practices to provide reasonable assurance that we remain aware of and in line with all relevant laws and legal obligations. Our tax principles provide overarching governance and our tax experts set out the controls established to assess and monitor tax risk for direct and indirect taxes. We monitor proposed changes in taxation legislation and ensure these are taken into account when we consider our future business plans.

Legal and compliance functions seek to mitigate legal risks with support from other departments. These functions aim to ensure that laws and regulations are observed, to react appropriately to all impending legislative changes or new court rulings, to attend to legal disputes and litigation and provide legally appropriate solutions for transactions and business processes.

6. **Technology-related risks**

Information technology (IT) is core to the operations of all CRISIL businesses. All technology services are governed through comprehensive policies and processes. These processes allow information access to personnel within the Company based on identified roles. Audits are conducted regularly to identify areas of vulnerability and to identify actions that mitigates the operational risks. ISO certification of key CRISIL offices is conducted to ensure compliance with policies related to IT and management system.

Inadvertent or deliberate sharing of client confidential data or CRISIL proprietary information by staff is an important risk. The Company has put in place a 'Data Leakage Prevention' process. The Information security team acts as a second line of defense in driving the agenda pertaining to information security trainings, implementing tools to strengthen information security posture and evaluate areas of vulnerabilities and improve the controls to prevent/detect/neutralise malicious network penetration (cyber attack). Incidents of cyber attacks globally as well as in India have increased. Various monitoring controls are in place to timely detect and respond to any targeted attacks. Enhanced level of awareness of vigilance against pertinent themes of cyber attacks was imparted to all employees by way of digital learning courses and awareness videos. The Company continues to evaluate and invest in additional mitigation plans through tools and infrastructure and enhanced monitoring. Highly responsive technology team and enablement efforts have ensured smooth transition to remote working.

CRISIL's business processes are automated through bespoke business applications that capture and maintain information regarding business processes, client agreements, reports generated and assignments delivered, thus creating an adequate database for our knowledge. The technology used by the Company at all locations provides for redundancy and disaster recovery. For critical business processes, the business teams have defined a business continuity plan and have tested it with the help of the IT team. The technology department keeps abreast of the changes and suitably undertakes projects for technology upgradation to keep the infrastructure current and to provide for redundancy.

7. **Internal audit and internal financial controls system**

The Audit Committee provides oversight of the Company's internal audit process. The Audit Committee reviews and concurs in the appointment, replacement, performance and compensation of the Company's internal auditor and approves internal audit's annual audit plan and budget. The Audit Committee also receives regular updates on the audit plan's status and results including reports issued by the internal auditor and the status of management's corrective actions.

Pursuant to the requirement of amendments in Companies Act 2013, the Company has institutionalised internal financial controls system. Accordingly, key risks and controls across all businesses and functions are identified and gaps, if any, are remediated.