

REPORT OF THE AUDIT COMMITTEE OF CRISIL LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN CRISIL LIMITED ('TRANSFEROR COMPANY') AND ITS WHOLLY OWNED SUBSIDIARY COMPANY (TO BE INCORPORATED) UNDER THE NAME AND STYLE OF CRISIL RATINGS LIMITED OR ANY OTHER NAME AS MAY BE APPROVED BY THE REGISTRAR OF COMPANIES ('TRANSFEREE COMPANY') AND THEIR RESPECTIVE SHAREHOLDERS ('THE SCHEME')

Background:

CRISIL Limited ("Company") is a public limited company incorporated under the provisions of Companies Act, 1956 and having its registered office at CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai, Maharashtra-400 076. The equity shares of the company are listed on the BSE Limited and the National Stock Exchange of India Limited (together the "Stock Exchanges"). The company is a leading service provider of ratings, data, research, analytics and solutions in India.

Vide Notifications dated May 30, 2018 and September 19, 2018, SEBI notified the SEBI (Credit Rating Agencies)(Amendment) Regulations, 2018 ("CRA Regulations 2018") to amend the SEBI (Credit Rating Agencies) Regulations, 1999. SEBI prescribed that a credit rating agency shall not carry out any activity other than ratings of securities offered by way of public or rights issue, rating of financial instruments under the respective guidelines of the financial sector regulators/ authorities as specified in Annexure A of the CRA Regulations 2018 and research activities, incidental to rating, such as research for economy, industries and companies. If any credit rating agency is providing any other service other than the aforesaid, such activity shall be segregated to a separate entity within a period of two years from the date of the said CRA Regulations 2018 i.e. by May 30, 2020.

The principal activities of CRISIL Limited comprise the following major business segments;

- Ratings - Providing ratings of financial instruments under the respective guidelines of the financial regulators and authorities, including ratings of securities, bank loans and other related services such as issuer ratings, expected loss ratings, loss given default assessments, credit assessments and covers any new permitted instruments, grading and assessments including those of small and medium enterprises, real estate projects and support for financial data and analysis services to S&P Global Ratings; and
- Research provides data, research and analytics across asset classes in India and globally, including deep coverage on macroeconomy, companies and sectors in India.

In order to comply with the above regulatory changes and to give effect to regulatory intent, it is proposed to segregate the Ratings business undertaking comprising the business of rating of financial instruments under the respective guidelines of the financial regulators and authorities, including ratings of debentures, bonds, commercial papers, issuer ratings, bank loan facilities, fixed deposits, certificate of deposits, preference shares, pass through certificates issued in securitization transactions and other financial instruments, credit quality rating of mutual funds, capital protection oriented fund rating, financial strength rating (insurance companies), Independent Credit Evaluation of residential

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plans for stressed assets, recovery risk ratings for security receipts (SRs), credit assessments in the nature of scenario based ratings, expected loss, loss estimates for securitized pools, loss given default and other products and rating services, including any new permitted instruments into a Wholly Owned Subsidiary (to be incorporated) of CRISIL. The said transfer would be undertaken through a scheme of arrangement in terms of Section 230 to 232 of the Companies Act, 2013 to be approved by the National Company Law Tribunal. The Scheme will be considered by the Board of Directors of CRISIL Limited at its Board Meeting to be held on April 17, 2019.

The Securities and Exchange Board of India vide its circular no. CFD/DIL3/CIR/2017/21. dated March 10, 2017 ("SEBI Circular") specifies that listed companies desirous of undertaking scheme of arrangement shall file the draft scheme with Stock Exchange(s) for obtaining Observation Letter or No-objection Letter. The said circular has, amongst other requirements, sought a report from the Audit Committee of the listed companies recommending the Scheme.

The Audit Committee of the Board at the Meeting held today i.e. April 16, 2019, has considered and reviewed the draft Scheme of Arrangement for slump sale of Ratings business undertaken by CRISIL Limited ('Transferor Company') to its Wholly Owned Subsidiary company (to be incorporated) under the name and style of CRISIL Ratings Limited or such other name as may be approved by the Registrar of Companies ('Transferee Company') and their respective shareholders ('the Scheme') under the provisions of Sections 230 to 232 of the Companies Act, 2013 and other relevant provisions of the Companies Act, 2013 read with rules made thereunder, pursuant to above SEBI Circular.

This report of the Audit Committee is made in order to comply with the requirement of the aforesaid SEBI Circular after considering the following necessary documents:

- 1) Draft Scheme of Arrangement between CRISIL Limited ('Transferor Company') and its Wholly Owned Subsidiary company (to be incorporated) under the name and style of CRISIL Ratings Limited or such other name as may be approved by the Registrar of Companies ('Transferee Company') and their respective shareholders ('the Scheme')
- 2) NAV Certificate dated April 15, 2019, issued by Drushti R Desai, Registered Valuer;
- 3) Draft certificate from the Statutory Auditors of the Company, M/s Walker Chandiook & Co. LLP, Chartered Accountants, regarding compliance of the Accounting Treatment.
- 4) Draft of the undertaking to be provided by the Company, pursuant to Paragraph I(A)(9)(c) of Annexure-I of the SEBI Circular dated March 10, 2017 in relation to non-applicability of paragraph I(A)(9)(a) and I(A)(9)(b) of Annexure-I of SEBI circular dated 10th March, 2017
- 5) Draft certificate by M/s Walker Chandiook & Co. LLP, Chartered Accountants, statutory auditor of the Company, in relation to non-applicability of paragraphs 9(a) and 9(b) of Annexure-I of SEBI circular dated 10th March, 2017

The Committee perused the provisions in the Scheme which, inter alia, contains the rationale

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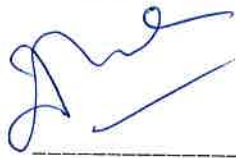
for the proposed Scheme of Arrangement. The Audit Committee noted that the Scheme was being implemented to fulfill Regulatory requirements vide SEBI CRA Regulations 2018. Under the Scheme all assets, liabilities, rights, obligations, contracts and employees pertaining to the Ratings business undertaking will be transferred as going concern to the Transferee Company. The consideration for such transfer shall be a lump sum consideration equal to the difference between the book value of assets and book value of liabilities (i.e. "Net Asset Value") of Ratings business undertaking as on the Appointed Date. The Transferee Company will discharge the consideration for the acquisition of Ratings business undertaking through normal banking channels. The consideration is appropriate considering that the Transferee will be a wholly - owned subsidiary of the company.

The transfer and vesting of the Ratings business undertaking into such Wholly Owned Subsidiary company (to be incorporated) will lead to fulfillment of the regulatory change and allow the Company to continue its business efficiently and be in agreement with law.

Recommendation of the Audit Committee:

After consideration of the rationale and purpose of the Scheme, the Audit Committee recommends the Scheme to the Board of Directors of the Company for favourable consideration.

For and on behalf of the Audit Committee



M. Damodaran

Chairman of Audit Committee

Date: 16 April 2019

Place: Mumbai



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