

Annexure to the Directors' Report

Management Discussion and Analysis Report

BUSINESS AND INDUSTRY OVERVIEW

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company. CRISIL's majority shareholder is Standard & Poor's, a subsidiary of The McGraw-Hill Companies. CRISIL aims to be the most preferred provider of independent, credible and reliable ratings, high-end investment research outsourcing services, research products and services and risk and infrastructure advisory solutions thereby, facilitating more informed decision-making by Indian and global entities in the Indian and other emerging markets that CRISIL seeks to expand into.

The already volatile and uncertain business environment is expected to remain challenging in 2009 with several companies initiating cost cutting measures and the investment environment turning bearish. With the announcement of the Government of India stimulus package, we expect a revival in the domestic bond market in 2009 for funding needs of corporates. While the structured finance market came to a virtual standstill in 2008, as interest rates soften, we expect to see a revival in asset-backed and collateralised debt in the second half of 2009. With the imminent deadline for Basel II in 2010, bank loan ratings will continue to see robust growth. While the current business environment is likely to impact CRISIL's research business, our focus on new products and new client acquisitions will help

offset the impact of the slowdown. In addition, the need for close monitoring of the risk profile of investments and portfolios by banks and financial institutions will result in a renewed interest in CRISIL's research and risk solutions businesses. While Irevna is expected to witness a slowdown in growth in 2009, over the medium to long term, the need for high-quality, cost-effective research will result in a strong demand for Irevna's offshoring services. Although the current environment has resulted in a deceleration in infrastructure projects, the necessity and urgency for improved infrastructure in emerging markets will drive future growth of the infrastructure advisory business. On an overall basis, despite the challenging environment, the diversity in revenue streams and geographies across which CRISIL operates, will stand it in good stead for good performance in 2009.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The accompanying financial statements have been prepared in accordance with the requirements of the Companies Act, 1956, and Generally Accepted Accounting Principles and accounting standards prevailing in India. CRISIL's management accepts responsibility for the integrity and objectivity of these financial statements as well as for the various estimates and judgments used therein.

A. FINANCIAL CONDITION

1) FIXED ASSETS

At the end of the year, the Company's investment in fixed assets was as under:

	Dec. 31, 2008 Amt. (Rs. Lakhs)	Dec. 31, 2007 Amt. (Rs. Lakhs)	Growth %
Gross Block	11,502.59	9,509.57	21%
Less : Accumulated Depreciation	6,037.55	5,254.44	15%
Net Block	5,465.04	4,255.13	28%
Add : Capital Work in Progress	403.72	803.85	
Net Fixed Assets	5,868.76	5,058.98	16%
Depreciation as a % of Total Income	2.93%	4.92%	
Accumulated Depreciation as % of Gross Block	52.49%	55.25%	

During the year, the Company purchased assets worth Rs. 2447.10 lakhs and sold assets worth Rs. 454.07 lakhs. The assets acquired were mainly equipments, computers and leasehold improvements to support expansion of business and to provide for replacement of existing assets. The assets sold were mainly computers and furniture which were replaced. The Capital work-in-progress at the end of the year represents advances paid to operationalise new offices. Depreciation as a percentage of revenue was lower at 2.93% as against 4.92% in the previous year and accumulated depreciation as a percentage of the gross block also reduced from 55.25% to 52.49%. The Company estimates that it will be able to fund its investments in fixed assets and infrastructure from its internal accruals and liquid assets. It may, however, take recourse to borrowings to fund such capital expenditure, if considered necessary.

2) INVESTMENTS

During the year, the Company made investment of Rs. 105.02 lakhs in its subsidiary CRISIL Irevna Argentina SA, its Latin America delivery centre for research services provided to overseas clients. The Company

The break-up of debtors relating to various services is as under:

	As on Dec 31, 2008		As on Dec 31, 2007		Change
	Rs. Lakhs	%	Rs. Lakhs	%	
Rating Services	2,382.23	29.66%	1,684.12	24.83%	41%
Research Services	5,649.49	70.34%	5,098.29	75.17%	11%
Total	8,031.72	100.00%	6,782.41	100.00%	18%

The company considers that the outstanding debtors are recoverable. The Company has adequate provision for bad debts.

Loans and advances comprise loans to staff, advances recoverable in cash or kind and sundry deposits. Advances recoverable in cash or kind or for value to be received are mainly towards amounts paid in advance for value and services to be received in future. Sundry deposits represent deposits for premises taken on lease, telephone, electricity and others.

also divested 90 per cent of the equity in its UK subsidiary, Gas Strategies Group Limited to the management team of the company following strategic review of the Infrastructure Advisory business and decision to focus on opportunities in India and other emerging markets aligned with the flow of investments in the infrastructure sector. A provision of Rs. 136.43 lakhs was made for diminution in the value of investment in Caribbean Information and Credit Rating Agency Limited. The Company's short-term surplus funds were invested in money market mutual funds, fixed maturity plans and fixed deposits with banks.

3) CURRENT ASSETS, LOANS AND ADVANCES

Cash and cash equivalents were 5.52% of total assets as at December 31, 2008, as against 6.19% as at December 31, 2007. Sundry debtors were Rs. 8031.72 lakhs as at December 31, 2008, as against Rs. 6782.41 lakhs as at December 31, 2007. Debtors, as a percentage of the total operating revenue, improved from 27% (representing an outstanding of 97 days of operating revenue) to 21% (representing an outstanding of 77 days of operating revenue) during the year, mainly on account of improved collection efforts.

4) CURRENT LIABILITIES & PROVISIONS

Sundry creditors include amounts payable to vendors for supply of goods and services, provision for bonus payable to the staff and commission payable to the Directors. Advances received from clients include fees received for which services have not yet been rendered and unearned revenue at the year-end, which pertain to services to be rendered in the next financial year for which related costs were not yet incurred.

Provision for leave encashment and gratuity represents the Company's liability for leave encashment and gratuity valued on an actuarial basis as per AS 15. The valuation is made as per Projected Unit Credit Method taking into account qualifying salary projected

upto the assumed date of cessation of employment by whatever reason. Proposed dividend represents the dividend recommended to the shareholders by the Board of Directors, which would be paid after the Annual General Meeting upon approval by the shareholders.

B. RESULTS OF OPERATIONS

The summary of the operating performance for the year is given below.

Results of Operations

Rs. Lakhs

Particulars	12 Months Ended		12 Months Ended		Growth %
	Dec-08	%	Dec-07	%	
Income from Operations	37,835.37	93.68%	25,532.28	94.26%	48%
Other Income	2,553.66	6.32%	1,555.73	5.74%	64%
Total Income	40,389.03	100.00%	27,088.01	100.00%	49%
Expenses					
Staff Expenses	13,268.23	32.85%	10,104.59	37.30%	31%
Establishment Expenses	4,228.36	10.47%	2,778.11	10.26%	52%
Other Expenses	4,195.73	10.39%	3,724.08	13.75%	13%
Depreciation	1,184.38	2.93%	1,333.87	4.92%	-11%
Operating Expenses	22,876.70	56.64%	17,940.65	66.23%	28%
Profit before Tax	17,512.33	43.36%	9,147.36	33.77%	91%
Provision for Taxation	3,774.52	9.35%	2,080.28	7.68%	81%
Profit after Tax	13,737.81	34.01%	7,067.08	26.09%	94%

During the year, operating income grew by 48% and operating expenses by 28% over the previous year. The net profit grew by 94% and profit margins also improved from 26% to 34%. The composition and growth of income from various businesses was as under:

Rs. Lakhs

Particulars	12 Months Ended		12 Months Ended		Growth %
	Dec-08	%	Dec-07	%	
Rating Services	18,877.53	49.89%	13,007.84	50.95%	45%
Advisory Services	-	0.00%	876.88	3.43%	-
Research Services	18,957.84	50.11%	11,647.56	45.62%	63%
Income from Operations	37,835.37	100.00%	25,532.28	100.00%	48%

During the year, rating income grew by 45% mainly driven by growth in bank loan and corporate ratings. As at December 31, 2008, CRISIL had bank loan ratings outstanding on 860 entities as compared to 15 entities as at December 31, 2007. The advisory business was transferred to the wholly-owned subsidiary of the Company, in the previous year. The research income grew by 63% on account of

growth in Irevna Research and CRISIL Research divisions and due to the fact that previous year numbers include Irevna Research income only for 9 months because of merger of Irevna Research Services Limited with the Company.

The composition and growth of expenses during the year is as under:

Rs. Lakhs

Particulars	12 Months Ended		12 Months Ended		Growth %
	Dec-08	%	Dec-07	%	
Staff Expenses	13,268.23	32.85%	10,104.59	37.30%	31%
Establishment Expenses	4,228.36	10.47%	2,778.11	10.26%	52%
Other Expenses	4,195.73	10.39%	3,724.08	13.75%	13%
Depreciation	1,184.38	2.93%	1,333.87	4.92%	-11%
Total Expenses	22,876.70	56.64%	17,940.65	66.23%	28%
Revenues	40,389.03	100.00%	27,088.01	100.00%	49%

During the year, staff expenses increased by 31% due to increase in salaries and net addition of 212 employees. Establishment expenses were higher due to operationalisation of new offices during the year. The revenue and profit per employee were higher at Rs. 23.31 lakhs and Rs. 7.93 lakhs respectively. The Company would continue its efforts to improve upon this through business process re-engineering

and effective use of technology. The key challenge for the Company is to retain and re-skill people in line with fast-changing organisational goals in the context of globalisation and competition. The Company constantly strives to make its salary structure competitive in the market to attract and retain talent. Revenues and profits per employee for the last five years are as under:

Year ended	Dec-08	Dec-07	Dec-06	Dec-05	Mar-05
				9 Months	
Number of Employees	1733	1521	814	546	389
Revenue per employee (Rs. Lakhs)	23.31	17.81	19.25	15.57	23.58
Net Profit per Employee (Rs. Lakhs)	7.93	4.65	4.59	3.21	5.70

INTEREST

The Company continued to be debt-free during the year and therefore, did not incur any interest expense.

C. RISK MANAGEMENT

CRISIL faces the following types of risks in its business operations:

1) BUSINESS RISKS

Over the years, to mitigate the risk arising out of high dependence on ratings business, the Company has adopted a strategy of launching new products/services, globalising its operations and diversifying into non-ratings businesses. The strategy has yielded good results and non-ratings businesses have been making steady

progress with the result that the Company currently has well diversified stream of revenues. To address the risk of dependence on a few large clients and a few sectors in the business segments, the Company actively attempts to diversify its client base and industry segments. The Company continuously strives to add value to its clients by providing superior quality service and maintaining strong franchise with investors and end-users of its services, to mitigate the risk arising from price competition. High repeat business from large clients, however, contributes significantly to the Company's revenues. CRISIL's Centres of Excellence and the product quality assurance wings assist in designing and refining methodologies and facilitate knowledge accumulation and dissemination. This is aimed at improving the predictive capability of CRISIL's ratings, opinions and advice to guard its credibility in the market place. Competition in the talent market challenges the Company's ability to retain and re-skill people in line with fast-changing and highly competitive business environment and globalisation. To address this risk, the Company continues its efforts to provide its staff regular training and challenging job opportunities within the group and to make its salary structure merit based and competitive in the market to attract and retain talent. The risk of disruption to its business operations is also minimised through business process re-engineering and effective use of technology. With increased proportion of revenues now being in foreign currencies, the risk of variation in the currency rates for exported services is now increasing. The Company proposes to address this through appropriate hedging mechanisms on need basis.

2) FINANCIAL RISKS

CRISIL has been a debt-free Company since its date of incorporation. The Company has followed the strategy of funding all its expansion, diversification and infrastructure-related expenditure through internal accruals.

3) LEGAL & STATUTORY RISKS

The Company has no material litigation in relation to contractual

obligations pending against it in any court in India or abroad. The Company Secretary functions as a Compliance Officer to advise the Company on compliance issues with various laws in the country and ensures that the Company does not violate the same. The Compliance Officer reports on the compliance or otherwise of the laws of various jurisdictions at every Board meeting. The Company also seeks independent legal advice wherever needed.

4) TECHNOLOGY-RELATED RISKS

The Company uses information technology extensively for its business. All technology services are provided through laid-down policies and processes. These processes allow information access to personnel within the company based on identified roles. A systems audit is carried out regularly to ensure that the policies and processes are satisfactory and in line with internationally-accepted practices. The Company's business processes are automated through a customised business application which captures and maintains information regarding business processes thus protecting its knowledge base. The technology used throughout the Company at all locations provides for redundancy. There is also a disaster recovery solution in place. The Company also possesses intellectual property rights for all the business critical software in use. The technology department keeps continuously abreast of the technology changes and suitably undertakes projects for technology upgradation to keep the technology infrastructure current.

5) AUDIT AND INTERNAL CONTROLS

CRISIL has well-established processes and clearly defined roles and responsibilities for people at various levels. This, coupled with adequate internal information systems embedded in business automation software, ensures proper information flow for the decision-making process. Adherence to these processes is ensured through frequent internal audits. The Executive Committee monitors business operations through regular reviews of performance vis-à-vis budgets. An extensive programme of internal audit conducted by an independent firm, reviews by the Audit Committee and requisite

guidelines and procedures augment the internal controls. The internal control system is designed to ensure that financial and other records are reliable for preparing financial statements and other information. These procedures ensure that all transactions are properly reported and classified in the financial records.

6) POLICY RISKS

Significant portion of the Company's revenues come from rating services, which depend on several factors including regulatory policy. The Reserve Bank of India has mandated the usage of ratings from approved rating agencies by Indian banks for calculating their capital requirements under the standardised approach for Basel II. At present, ratings are mandatory for all public offerings of debentures except where the conversion or redemption is within 18 months. Ratings are also mandatory for all commercial paper issuances. The present Government policy is directed towards meeting investment requirements through resource mobilisation from the capital markets. However, to mitigate the risk of dependence on mandated business, the Company has continued to pursue its strategy of diversification,

globalising its operations and building a strong franchise with investors by holding investor meets and seminars for improving transparency around ratings/rating methodologies and showcasing the utility and benefits of ratings.

The above discussion contains forward-looking statements, which may be identified by their use of words like plans, expects, will, anticipates, intends, all statements that address expectation and projection about the future including but not limited to statements about the Company's strategy for growth, product development, market development, market position, expenditure and financial results. These forward-looking statements are based on certain assumptions and expectation of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual result or performance or achievements could thus differ materially from those projected in any such forward-looking statements. The Company assumes no responsibility to publicly amend any forward-looking statements, on the basis of any subsequent developments, information or events.