

Annexure to the Directors' Report

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

BUSINESS AND INDUSTRY OVERVIEW

CRISIL is a globally diversified analytical company providing ratings, research and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations. CRISIL's majority shareholder, Standard and Poor's, is the world's foremost provider of independent credit ratings. Standard & Poor's is a part of The Mc Graw-Hill Companies.

The business environment remained steady for Ratings during 2010. Growth for CRISIL's Ratings business was driven by overall improvement in investor sentiment, leading to improvement in the bond and commercial paper market. The Bank Loan Ratings (BLR) and Small and Medium Enterprise Ratings (SME) segments maintained consistent growth. Increasing interest rates towards the end of the year could impact fresh bond and commercial paper issuance in the near term, while momentum in BLR and SME ratings is expected to continue. The Global Analytical Centre (GAC) operations are expected to maintain growth momentum, in line with recovery in the global credit markets.

CRISIL's Global Research and Analytics business performed well in 2010, with business volumes growing considerably. Irevna continued to maintain leadership in equity, fixed income, derivative, quantitative and actuarial services. During 2010 Irevna's research centers based in Poland and Argentina saw good growth, with several new roles being added. Irevna's investment in new products and the new international research centre in China will support the division's growth in the future. CRISIL's India research business benefited from an improvement in the domestic business environment.

CRISIL's Infrastructure Advisory business has two main segments—energy and urban development. While the energy segment benefited from investments and policy initiatives, the urban development segment witnessed a slowdown in the second half of 2010. The outlook for 2011 continues to be positive for the energy sector; improvement is also expected in the urban development segment as the government initiates steps to arrest the slowdown in this segment.

The outlook for CRISIL Risk Solutions (CRS) is positive as banks and financial institutions continue to invest in Risk Management Systems. CRS is also looking at expanding its business, particularly in the ASEAN market.

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, and for the estimates and judgments used therein.

A. Financial Condition

1) Fixed Assets

At the end of the year, the company's investments in fixed assets were as follows:

Details	Dec. 31, 2010 (Rupees Lakh)	Dec. 31, 2009 (Rupees Lakh)	Growth (%)
Gross Block	17738.69	10,990.08	61%
Less : Accumulated Depreciation	7753.99	6,045.55	28%
Net Block	9,984.70	4,944.53	102%
Add : Capital Work in Progress	8.3	6,366.83	-100%
Net Fixed Assets	9,993.00	11,311.36	-12%
Depreciation as a % of Total Income	3%	3%	
Accumulated Depreciation as % of Gross Block	44%	55%	

During the year, the company's investment in fixed assets and capital work in progress was Rs. 930.92 lakh, whereas sale of assets realised Rs.3,189.67 lakh. The assets acquired included equipment, computers, and leasehold improvements to support expansion of business and to provide for replacement of existing assets. The assets sold were mainly office properties, computers and furniture. Depreciation as a percentage of total income remained constant at 3% and accumulated depreciation as a percentage of the gross block was 44% as against 55% in the previous year. The company expects to fund its investments in fixed assets and infrastructure from its internal accruals and liquid assets. It may, however, borrow to fund capital expenditure, if considered necessary.

2) Investments and Treasury

The company's treasury as on December 31, 2010, was Rs.13,119.02 lakh, as against Rs. 23,415.88 lakh in the previous year. The details of the investments are as under:

Category	2010 (Rupees Lakh)	%	2009 (Rupees Lakh)	%
Cash and Bank Balance	3,359.75	26%	7,235.83	31%
Fixed Deposit	8,759.27	67%	6,180.44	26%
Money Market Mutual funds	-	0%	9999.61	43%
Fixed Maturity Plans	1,000.00	7%	-	0%
TOTAL	13,119.02	100%	23,415.88	100%

The Company's treasury position as of December 31, 2010, is lower than that of the previous year, mainly on account of payouts for a one-time special dividend, the buyback programme and the Pipal acquisition. Cash and cash equivalents constituted 34% of total assets as on December 31, 2010, as against 57% in the previous year.

3) Current Assets, Loans and Advances

Sundry debtors were Rs. 10,024.50 lakh as on December 31, 2010, as against Rs. 7,328.64 lakh as on December 31, 2009. The debtors constituted 19% of the total operating revenue, (representing an outstanding of 69 days of operating revenue) as against 17% (representing an outstanding of 61 days of operating revenue) during the previous year. The increase in debtors outstanding has been mainly on account of an increase in receivables in the research business.

The break-up of debtors relating to segments is given below:

Segment	As on Dec 31,2010		As on Dec 31,2009		
	(Rupees Lakh)	%	(Rupees Lakh)	%	%Change
Rating Services	3,601.10	36%	3,491.70	48%	3%
Research Services	6,423.41	64%	3,836.94	52%	67%
TOTAL	10,024.50	100%	7,328.64	100%	37%

The company believes 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, sundry deposits, and loan to subsidiary. 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.

4) Current Liabilities & Provisions:

Sundry creditors include amounts payable to vendors for supply of goods and services, provision for bonus payable to staff and commissions payable to directors.

Advances received from clients include fees received for which services have not yet been rendered, and unearned revenue at year-end, which pertains to services to be rendered in the next financial year, for which the 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 Accounting Standards 15 notified by Companies Accounting Standards Rules, 2006. The valuation is made as per the Projected Unit Credit Method, taking into account qualifying salary projected upto the assumed date of cessation of employment for whatever reason.

The proposed dividend represents the dividend recommended to the shareholders by the Board of Directors, which will 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 Particulars	12 Months Ended		12 Months Ended		Growth
	Dec-10	%	Dec-09	%	
Income from Operations	52,871.21	88%	44,162.34	95%	20%
Other Income	7,362.23	12%	2,283.02	5%	222%
Total Income	60,233.44	100%	46,445.36	100%	30%
Expenses					
Personnel Expenses	19,890.45	33%	15,953.90	34%	25%
Establishment Expenses	6,123.91	10%	4,741.51	10%	29%
Other Expenses	7,026.42	12%	5,327.86	11%	32%
Depreciation	2,020.85	3%	1,387.93	3%	46%
Operating Expenses	35,061.63	58%	27,411.20	59%	28%
Profit before Tax	25,171.81	42%	19,034.16	41%	32%
Provision for Taxation	5,321.90	9%	4,000.44	9%	33%
Profit after Tax & before prior period items	19,849.91	33%	15,033.72	32%	32%
Prior period expense, net of tax	274.45	0%	-	0%	0%
Profit after Tax	19,575.46	32%	15,033.72	32%	32%

During the year, total income grew by 30% and operating expenses by 28% over the previous year. The growth in operating income was on account of growth in both the rating and research segments, while the increase in operating expenses was mainly on account of depreciation and costs of moving to the new office premises. Other income growth was mainly on account of one time sale of investment and property. The net profit after tax, excluding prior period items, grew by 31 %, despite a challenging business environment.

Operating Revenue

(Rupees Lakh)

Segment	12 Months Ended		12 Months Ended		Growth %
	Dec-10	%	Dec-09	%	
Rating Services	28,408.77	54%	23,890.16	54%	19%
Research Services	24,462.44	46%	20,272.18	46%	21%
Income from Operations	52,871.21	100%	44,162.34	100%	20%

During the year, rating income grew by 19%, mainly driven by growth in BLR and SME ratings, whereas research income recorded a growth of 21% mainly on account of strong growth in Irevna and CRISIL Research.

The composition and growth of expenses during the year was as follows:

(Rupees Lakh)

Particulars	12 Months Ended		12 Months Ended		Growth %
	Dec-10	%	Dec-09	%	
Personnel Expenses	19,890.45	38%	15,953.90	36%	25%
Establishment Expenses	6,123.91	12%	4,741.51	11%	29%
Other Expenses	7,026.42	13%	5,327.86	12%	32%
Depreciation	2,020.85	4%	1,387.93	3%	46%
Total Expenses	35,061.63	66%	27,411.20	62%	28%
Income from Operations	52,871.21	100%	44,162.34	100%	24%

During the year, personnel expenses increased by 25% due to increase in salaries and addition of 442 employees. Establishment expenses were higher due to operationalisation of new offices during the year. The revenue and profit per employee were Rs. 24.93 lakhs (+2.5 %) and Rs 9.25 Lakhs (+11.8 %) respectively. The company will continue with its initiatives to improve its revenue and profit per employee through business process re-engineering and effective use of technology. 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 past five years have been as under:

Year ended	Dec-10	Dec-09	Dec-08	Dec-07	Dec-06
Average number of Employees	2,121	1,817	1,627	1,168	680
Operating Revenue per employee (Rupees Lakh)	24.93	24.31	23.25	21.87	21.73
Net Profit per Employee (Rupees Lakh)	9.25	8.28	8.44	6.05	5.50

Interest

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

C. Risk Management

CRISIL manages risks in its business operations as follows:

1) Business Risks

To mitigate the risk of high dependence on any one business for revenues, the company has adopted a strategy of launching new products/services, globalizing its operations, and diversifying into different business segments. The strategy has yielded good results and the company therefore, now has a 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 has also actively sought to diversify its client base and industry segments.

The company strives to add value to its clients by providing services of a superior quality, and maintaining a robust franchise with investors and end-users, to mitigate the risk arising from price competition. Repeat business from large clients, nevertheless, continues to contribute significantly to the company's revenues. During the year, we launched a new product, CRISIL Real Estate Star Rating (CREST) and added multiple service offerings in Irevna. CRISIL Ratings' Centre 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 employees. To address this risk, the company continues to provide its staff with 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 minimized through automation of processes, 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 on the increase. In 2010, the company initiated a hedge programme to mitigate foreign exchange risk. The hedge programme covers a significant portion of projected future revenues over a 12 month period and is restricted to plain-vanilla forward contracts. Appropriate internal controls are in place for the hedging programme.

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 issues relating to compliance with law, and to preempt violations of the same. The compliance officer reports at every board meeting on the company's initiatives to comply with the laws of various jurisdictions. The company also seeks independent legal advice wherever necessary.

4) Technology-Related Risks

The company uses information technology extensively for its businesses. 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 conducted regularly to ensure that the policies and processes are satisfactory, and in line with internationally-accepted best practices. The company's business processes are automated through customised business

applications that capture and maintain information regarding business processes, thus protecting its knowledge base. The company also possesses intellectual property rights for customised business applications. The technology used by the company at all locations provides for redundancy, and for 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 continuously abreast of technology changes, and suitably undertakes projects for technology upgradation to keep the technology infrastructure current, and to provide for redundancy

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**

The company derives a significant portion of its revenues from Rating services, which depend on several factors, including regulatory policy. The Reserve Bank of India has mandated the use 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 businesses, the company continues to pursue its strategy of diversification, and globalising its operations. It also seeks to build a strong franchise with investors by holding investor meets and seminars for improving transparency around ratings and 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 such as plans, expects, will, anticipates, intends. All such statements address the expectations from, and projections for, 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 assumptions and expectation of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. The company's actual results, performance, or achievements may, therefore, differ materially from those projected in these 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.