CRISIL
An S&P Global Company

Annexure to the Directors' Report

Management Discussion and Analysis Report

CRISIL Business

CRISIL is a global, agile and innovative 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 deliver independent opinions, actionable insights, and efficient solutions to over 100,000 customers. CRISIL's businesses operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

CRISIL is 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.

CRISIL Ratings

India's economic and business environment remained subdued during 2016 due to weak investment climate and muted demand for working capital. GDP growth is estimated at 6.9% for 2016-17 compared with 7.1% for 2015-16.Credit growth of India's banking sector remained muted at 9.0% year-on-year as of December 2016.

Despite this weak domestic environment, CRISIL Ratings maintained market leadership in 2016, backed by strong performance of its bond and SME ratings businesses. CRISIL announced 2,741 new BLRs and 18,000 SME ratings during the year. In 2016, CRISIL's BLR business witnessed muted growth due to weak credit off take in the manufacturing sector and intensified competition.

GAC continued to work closely with S&P Global Ratings, growing in new areas of support such as risk management and regulatory support, including assistants on criteria validation, operational and documentation support for control functions, while increasing the level of integration with S&P Global Ratings teams globally. GAC also expanded support to previously under-served geographical segments including Latin America and Japan.

CRISIL Global Research & Analytics (CRISIL GR&A)

(Includes Financial Research, Risk and Analastics, Corporate Research and Coalition)

2016 was another year of subdued growth for the global economy. As a result, the size of the investment banking industry has reached its lowest level since the global financial crisis of 2008-09 with fixed-income revenue at the same level as in 2005. Banks are also transforming their front, middle and back-office activities to provide differentiated services, achieving cost efficiencies and increasing productivity. This is opening up a number of business opportunities for the Risk & Analytics business. Increasing regulatory changes continues to drive strong growth for CRISIL GR&A, especially in the Risk & Analytics vertical, and Coalition.

In Financial Research, we have added clients across new business segments on the buy side and in credit risk. The imminence of the Markets in Financial Instruments Directive II (MiFiD II) regulations, and increased cost pressure is stoking demand for our services on the buy side, especially from traditional managers and hedge funds. Our sell-side business witnessed demand from the Asia-Pacific region from existing clients. Our Credit Risk business gained from new opportunities related to risk management, deal screening and underwriting, and portfolio monitoring from global financial services clients.

The Risk & Analytics (R & A) business continued to witness strong demand in the areas of stress testing, model validation, regulatory change management, and financial crime and compliance analytics. We are also experiencing substantial interest for our services by banks and financial institutions to provide support for risk data aggregation, and for upgradation of risk systems and processes.

Coalition delivered strong results, driven by its core Competitor and Client Analytics, which continued to report solid growth. In 2016, 75% of Coalition's existing corporate and investment bank clients significantly increased their investment in our services. In addition, Coalition diversified its client base by establishing new relationships with regional and national players as well as buy-side firms.

CRISIL Research

Despite a sharp increase in banks' non-performing assets and resultant pressure on profitability, which impacted research expenditure, subscription rates remained healthy, indicating the criticality and value of our research products and services. We continued to be the largest provider of fixed-income indices in India and consolidated our position by launching seven new indices during the year. In the mutual fund research, we increased our presence with corporate treasuries and exempted provident fund trusts, helping them in portfolio performance review and risk monitoring. The Executive Training business saw robust growth over the previous year.

CRISIL Infrastructure Advisory and Risk Solution (CRIS)

CRISIL Risk and Infrastructure Solutions Limited, a wholly owned subsidiary of CRISIL Limited, houses CRISIL's infrastructure advisory and risk solutions businesses. It won some large and prestigious mandates in India and in the international markets, and built a healthy order book in infrastructure advisory. In CRISIL Risk Solutions, the year saw consolidation with continued investments in our products for building sustainable business and ensuring efficiencies in implementation. Process, people and products remain the key imperatives for the business.

Analysis of Consolidated Financial Condition and Result of Operations

The financial statements of the group and its subsidiaries have been combined on a line by line basis by adding together the book values of similar items of assets, liabilities, income and expenses, after duly eliminating intra-group balances and intra-group transactions, and the resulting gains/ losses as per Accounting Standard 21 - Consolidated Financial Statements have been notified under Section 133 of the Companies Act, 2013, read together with Paragraph 7 of the Companies (Accounts) Rules, 2014.

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year. The financial statements have been prepared under historical cost convention on an accrual basis. The management accepts responsibility for the integrity and objectivity of the financial statements, as well as for the various estimates and judgment used therein.

The consolidated financial condition and result of operations are more relevant for understanding the performance of CRISIL.

A. Financial Condition

1. Share Capital

The authorised capital of the company is Rs.10 crore, comprising 100,000,000 equity shares of Re.1 per share. During the year, the company issued and allotted 126,255 equity shares of the company to eligible employees on exercise of options granted under Employee Stock Option Scheme 2011, 2012 and 2014. Consequently, the issued, subscribed and paid-up capital of the company increased from 71,209,103 equity shares of Re.1 each to 71,335,358 equity shares of Re.1 each.

2. Reserves and Surplus

Reserves and surplus, as at December 31, 2016, stood at Rs. 938.22 crore as against Rs. 848.64 crore, marking a growth of 11% over the corresponding previous period. The growth in reserves was achieved through strong profitability despite a challenging business environment. The growth is after appropriation for dividend and dividend distribution tax of Rs. 231.74 crore.

3. Trade Payables

Trade payables as at December 31, 2016 were Rs.41.60 crore as against Rs. 35.43 crore in the previous year. This includes amounts payable to vendors for supply of goods and services.

4. Provisions

a. **Provision for employee benefits:** The overall liability was Rs. 67.40 crore as at December 31, 2016, compared with Rs. 56.94 crore in the previous year. Growth in the current year is in line with headcount and merit increase.

b. **Proposed dividend:** The proposed dividend represents the dividend recommended to shareholders by the Board of Directors, which will be paid after the annual general meeting, and upon approval by the shareholders.

5. Other Liabilities

Other liabilities mainly represent payables on account of withholding tax, service tax, other duties, unearned revenue, rent deferment, employee payables including bonus, salary, and incentives. Unearned revenue represents fee received in advance for which services have not been rendered. Other liabilities were Rs. 295.96 crore as against Rs. 291.12 crore in the previous year. Other liabilities were higher in the current year due to employee payable.

6. Goodwill on Consolidation

Goodwill on consolidation represents the excess of purchase consideration over 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. Goodwill on consolidation as at December 31, 2016, was Rs. 291.66 crore as against Rs. 315.03 crore in the previous year. Pursuant to the amalgamation of Pipal Research Analytics and Information Services India Private Limited, Mercator Info-Services India Private Limited and Coalition Development Systems (India) Private Limited with its holding company CRISIL Limited under 'pooling of interest' method, goodwill on consolidation relating to these subsidiaries has been adjusted.

7. Fixed Assets

Tangible assets

The Company's investments in tangible assets represent cost of buildings, leasehold improvements, computers, office equipment, furniture, fixtures and vehicles.

Intangible assets

The Company's intangible assets represent goodwill, customer relationship, brand, non compete and software. The Company's intangible assets are stated at cost of acquisition or construction less accumulated amortisation and impairment losses, if any. Intangible assets are amortised over their estimated useful economic life.

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

(Rs. in crore)

Details	As at December 31, 2016	As at December 31, 2015	Growth %
Gross block			
Tangible assets	240.69	234.67	3
Intangible assets	54.78	58.72	(7)
Less: Accumulated depreciation	217.02	195.86	11
Net Block	**78.45**	**97.53**	**(20)**
Add: Capital work in progress	4.21	2.61	61
Net Fixed Assets	**82.66**	**100.14**	**(17)**
Depreciation as a % of total income	3%	3%	
Accumulated depreciation as % of gross block	73%	67%	

During the year, the Company's investment in fixed assets was Rs. 23.33 crore, whereas sale of assets realised Rs. 2.03 crore. Fixed assets capitalised during the year includes office equipment, computers, software and leasehold improvements to support expansion of business and to provide for replacement of existing assets.

Depreciation as a percentage of total income remained constant at 3% for the current year as compared with previous year. The company expects to fund its investments in fixed assets and infrastructure from internal accrual and liquid assets. It may, however, borrow to fund capital expenditure, if considered necessary.

8. Investments and Treasury

The company's treasury as at December 31, 2016, was Rs. 600.59 crore as against Rs. 530.05 crore in the previous year. Cash and equivalents constituted 42% of total assets as at December 31, 2016, as against 40% in the previous year.

(Rs. in crore)

Category	As at December 31, 2016	%	As at December 31, 2015	%	Growth %
Cash and bank balance	157.20	26	109.88	21	43
Fixed deposit	19.45	3	42.44	8	(54)
Mutual funds	423.94	71	377.73	71	12
Total	**600.59**	**100**	**530.05**	**100**	**13**

Cash and bank balance includes balances in Indian and overseas bank accounts. Bank balance in overseas accounts are maintained to meet the expenditure of the overseas operations. The company's treasury policy calls for investing surplus in combination of fixed deposits with scheduled banks and debt mutual funds. The company's treasury position continues to be healthy and showed a growth of 13% as against 1% in the previous year.

The company continues to maintain adequate amount of liquidity / treasury to meet strategic and growth objectives. The company has ensured a balance between earning adequate returns on liquidity / treasury assets and the need to cover financial and business risks.

The company actively monitors its treasury portfolio and appropriate limits and controls are in place to ensure that investments are made as per policy.

9. Deferred Tax Assets

Deferred tax assets and liability primarily comprise deferred taxes on fixed assets, leave encashment, accrued compensation to employees, gratuity, provision for bad debt and deferred initial rating fees. The company's net deferred tax assets as at December 31, 2016 was Rs. 38.52 crore, compared with Rs. 36.26 crore in the previous year. Deferred tax assets are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

10. Loans and Advances

Loans and advances comprise loans to staff, advances recoverable in cash or kind, sundry deposits and advance taxes. 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, electricity and others. As at December 31, 2016, loans and advances were Rs. 107.84 crore compared with Rs. 89.04 crore in the previous year. Growth in loans and advances was mainly on account of an increase in prepaid expenses, advance taxes, and other advances during the year.

11. Other Assets

Other assets, excluding bank balances, as at December 31, 2016, were Rs. 98.36 crore compared with Rs. 58.11 crore in the previous year. Other current assets mainly comprise accrued revenue and mark-to-market on outstanding forward contracts.

12. Trade Receivables

Trade receivables at the gross level were Rs. 227.03 crore as at December 31, 2016, compared with Rs. 211.68 crore in the previous year. Trade receivables as a percentage of operating revenue remained constant at 15% [representing an outstanding of 54 days (P.Y. 56 days) of operating revenue] in the current year as compared with previous year.

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

(Rs. in crore)

Segment	As at December 31, 2016	%	As at December 31, 2015	%	Growth %
Rating	32.13	14	44.06	21	(27)
Research	175.89	78	145.01	68	21
Advisory	19.01	8	22.61	11	(16)
Total	**227.03**	**100**	**211.68**	**100**	**7**

The company believes that outstanding trade receivables are recoverable and it has adequate provision for doubtful debts. Provision for doubtful debt balance as at December 31, 2016 was Rs. 16.97 crore as against Rs. 16.10 crore in the previous year. Provision for bad debt as a percentage of revenue remained constant at 1% in the current year as compared with previous year.

B. Results of Operations

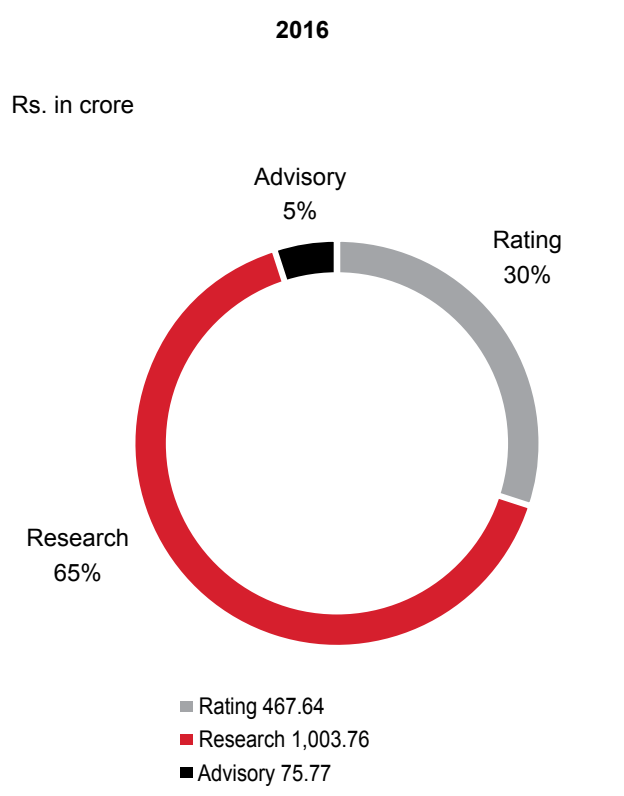
The summary of the operating performance for the year is given below:-

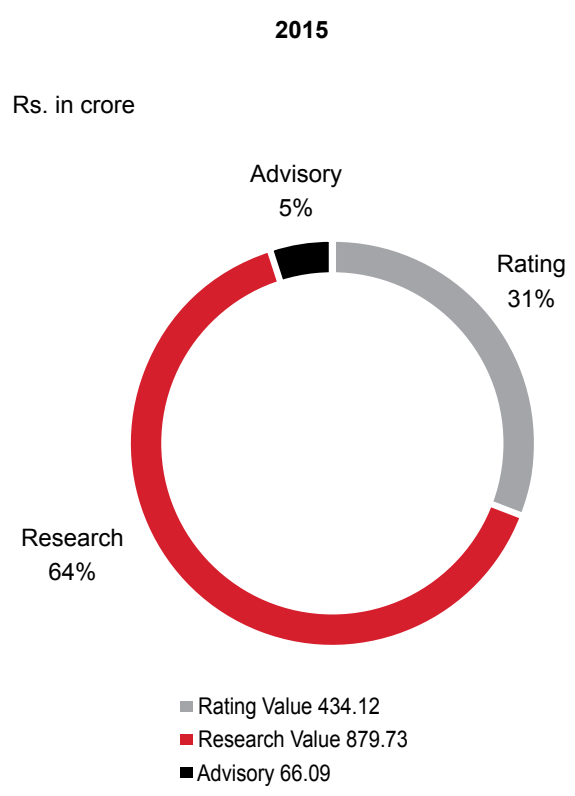
(Rs. in crore)

Particulars	Year ended December 31, 2016	% of revenue	Year ended December 31, 2015	% of revenue	Growth %
Income from operations	1,547.17	97	1,379.94	97	12
Other income	54.71	3	43.22	3	27
Total income	**1,601.88**	**100**	**1,423.16**	**100**	**13**
Expenses					
Personnel expenses	774.92	48	693.93	49	12
Establishment expenses	99.05	6	94.40	7	5
Other expenses	211.68	13	192.01	13	10
Depreciation	40.36	3	37.12	3	9
Total operating expenses	**1,126.01**	**70**	**1,017.46**	**72**	**11**
Profit before tax	**475.87**	**30**	**405.70**	**28**	**17**
Tax expense	149.53	10	120.55	8	24
Profit after tax	**326.34**	**20**	**285.15**	**20**	**14**
Dividend (including tax on dividend)	231.74	14	197.37	14	17

Income from operations increased by 12% in 2016 driven mainly by growth in the Research segment. Operating expenses grew 11% mainly on account of growth in personnel expenses.

Segmental Revenue Analysis





Segmental Results

(Rs. in crore)

Segmental details	Year ended December 31, 2016	Year ended December 31, 2015	Growth %
Revenues :			
Rating	467.64	434.12	8
Research	1,003.76	879.73	14
Advisory	75.77	66.09	15
Total	**1,547.17**	**1,379.94**	**12**
Segmental profit :			
Rating	148.09	147.06	1
Research	331.21	273.93	21
Advisory	1.42	2.31	(39)
Total	**480.72**	**423.30**	**14**

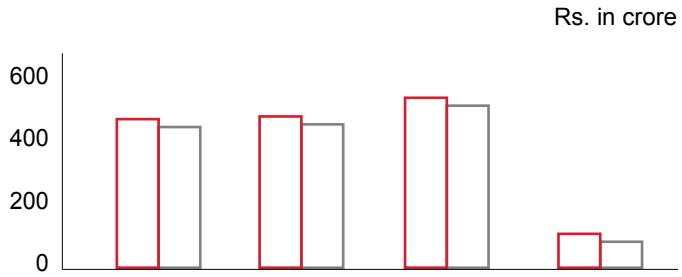
India's economic and business environment remained subdued during 2016 due to weak investment climate and muted demand for working capital. Credit growth of India's banking sector remained muted at 9% year-on-year as of December 2016. Despite this weak domestic environment, CRISIL Ratings maintained market leadership in 2016, backed by strong performance of its bond and SME ratings businesses. CRISIL announced 2,741 new BLRs and 18,000 SME ratings during the year. In 2016, CRISIL's BLR business witnessed muted growth due to weak credit off take in the manufacturing sector and intensified competition.

In the research segment, Risk & Analytics business continued to witness strong demand in the areas of stress testing, model validation, regulatory change management, and financial crime and compliance analytics. Coalition delivered strong results, driven by its core Competitor and Client Analytics, which continued to report solid growth. India Research maintained our dominant and premium position in the flagship Industry Research business.

Infrastructure Advisory won some large and prestigious mandates in India and in the international markets,and built a healthy order book. In CRISIL Risk Solutions, the year saw consolidation with continued investments in our products for building sustainable business and ensuring efficiencies in implementation

Margins in Ratings were impacted on account of economic and business environment, which remained subdued during 2016 due to weak investment climate and muted demand for working capital. The Research segment profitability recorded healthy growth driven by strong performance in Risk and Analytical and Coalition businesses. Margins of Advisory segment were lower on account of investments made in product enhancement and developments.

Revenue by Geography



	India	Europe	North America	Rest of the World
2016	462.37	463.67	508.45	112.68
2015	439.78	408.93	449.50	81.73

Of the total revenue for the year ended December 31, 2016, 70% were on account of exports and 30% from domestic services, which marks an increase of 15% in exports and 5% in domestic services.

Other Income (Net)

Other income grew 27% in 2016 to Rs. 54.71 crore from Rs. 43.22 crore in the previous year. Other income was higher on account of profit on sale of current investment in the current year.

Expense

Total expense for the year was Rs. 1,126.01 crore compared with Rs. 1,017.46 crore in the previous year. The composition and growth in expenses as a percentage to total operating expenses are given below:

(Rs. in crore)

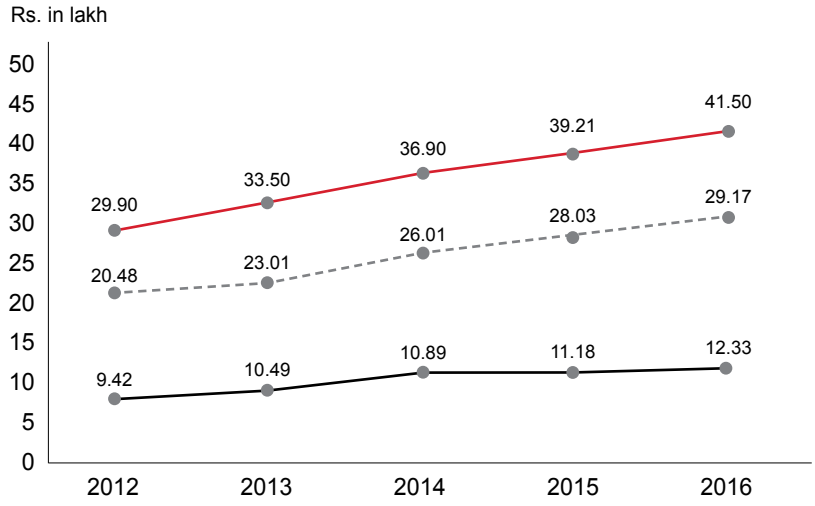
	Year ended December 31, 2016	%	Year ended December 31, 2015	%	Growth %
Personnel expenses	774.92	69	693.93	68	12
Establishment expenses	99.05	9	94.40	9	5
Other expenses	211.68	19	192.01	19	10
Depreciation	40.36	3	37.12	4	9
Total Operating expenses	**1,126.01**	**100**	**1,017.46**	**100**	**11**

Personnel expense grew by 12% on account of merit and headcount increase in the current year. Increase in other expenses was driven by higher professional fee, which is aligned to revenue growth and investments in product development.

Profit and Loss Ratios

Particulars	2016	2015	2014	2013	2012
Personnel expenses/Revenue (%)	48	49	46	45	44
Operating and other expenses/ Revenue (%)	70	71	71	69	69
Operating profit (PBIDT)/Revenue (%)	32	31	32	40	35
Depreciation and amortisation/Revenue (%)	3	3	3	3	3
Tax/ Revenue (%)	9	8	8	11	9
PAT/ Revenue (%)	**20**	**20**	**21**	**26**	**22**

Income and profit per employee for the past five years have been as under:



	2012	2013	2014	2015	2016
Total Income per employee	29.90	33.50	36.90	39.21	41.50
Total Expense per employee	20.48	23.01	26.01	28.03	29.17
Profit Before Tax per employee	9.42	10.49	10.89	11.18	12.33
Avg. Headcount (Nos.)	3,329	3,424	3,454	3,629	3,860

Total Income per employee recorded a healthy growth of 6% over the previous period. Profit per employee increased to Rs.12.33 lakh which was achieved through a combination of revenue growth and better productivity through automation and effective utilisation of resources.

Interest

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

Analysis of Standalone Financial Condition and Result of Operations of Crisil Limited

A. Financial condition

1. Share Capital

The authorised capital of the company is Rs.10 crore, comprising 100,000,000 equity shares of Re. 1 per share. During the year, the company issued and allotted 126,255 equity shares to eligible employees on exercise of options granted under Employee Stock Option Scheme 2011, 2012 and 2014. Consequently, the issued, subscribed and paid-up capital of the company increased from 71,209,103 equity shares of Re.1 each to 71,335,358 equity shares of Re.1 each.

2. Reserves and Surplus

Reserves and surplus, as at December 31, 2016, stood at Rs. 707.78 crore as against Rs. 668.02 crore in the previous period. The growth in reserves was 6% achieved through strong profitability, despite a challenging business environment. The growth in reserves is after appropriation for dividend and dividend distribution tax of Rs. 231.74 crore. During the year, CRISIL completed amalgamation of three wholly owned subsidiaries Pipal Research Analytics and Information Services India Private Limited, Mercator Info-Services India Private Limited and Coalition Development Systems (India) Private Limited (together transferor) with effect from April 1, 2016 ('appointed date') in terms of the scheme of amalgamation ('the scheme') approved vide order dated September 8, 2016, by the Hon'ble Bombay High Court adjusting Capital Reserve and General Reserve by Rs. 23.39 crore. Financial results of the Company for the year 2016 has been prepared after giving effect of these amalgamation.

3. Trade Payables

Trade payables as at December 31, 2016, were Rs. 32.48 crore as against Rs. 22.34 crore in the previous year. Trade payables include amount payable to vendors for supply of goods and services.

4. Provisions

a. **Provision for employee benefits.** The overall liability was Rs. 61.02 crore as at December 31, 2016, as against Rs. 46.99 crore in the previous year. Growth in the current year is in line with headcount and merit increase.

b. **Proposed dividend.** 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.

5. Other Liabilities

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

6. Fixed Assets

Tangible Assets

The Company's investments in tangible assets represent cost of buildings, leasehold improvements, computers, office equipment, furniture fixtures and vehicles.

Intangible Assets

The Company's intangible assets are stated at cost of acquisition less accumulated amortisation and impairment losses if any. Intangible assets are amortised over their estimated useful economic life.

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

(Rs. in crore)

Details	As at December 31, 2016	As at December 31, 2015
Gross block		
Tangible assets	222.51	192.74
Intangible assets	2.14	0.15
Less : Accumulated depreciation	163.84	133.74
Net Block	**60.81**	**59.15**
Add : Capital work in progress	1.91	0.13
Net Fixed Assets	**62.72**	**59.28**
Depreciation as a % of total income	2%	2%
Accumulated depreciation as % of gross block	73%	69%

During the year, the Company's investment in fixed assets was Rs. 20.52 crore, whereas sale of assets realised Rs. 1.87 crore. The assets acquired included equipment, computers, software and leasehold improvements to support expansion of business and to provide for replacement of existing assets. The assets sold were mainly computers and furniture.

Depreciation as a percentage of total income remained constant at 2% for the current year as compared with previous year. The Company expects to fund its investments in fixed assets and infrastructure from its internal accruals and liquid assets.

7. Investments and Treasury

(Rs. in crore)

Category	As at December 31, 2016	As at December 31, 2015	Growth %
Cash and bank balance	17.09	34.42	(50)
Fixed deposit	7.81	8.75	(11)
Mutual funds	417.60	357.56	17
Total	**442.50**	**400.73**	**10**

The Company's treasury as at December 31, 2016, was Rs. 442.50 crore as against Rs. 400.73 crore in the previous year. Cash and cash equivalents constituted 41% of total assets as against 40% in the previous year. Treasury position continues to be strong even after making payment of Divident & Divident Distribution tax of Rs. 240.17 crore in the current year.

The Company continues to maintain adequate amount of liquidity/treasury to meet strategic and growth objectives. The Company has ensured a balance between earning adequate returns on liquidity/treasury assets and the need to cover financial and business risks.

The Company actively monitors its treasury portfolio and appropriate limits and controls are in place to ensure that investments are made as per policy.

8. Investments in Subsidiaries

Investment in subsidiaries was Rs. 122.21 crore as at December 31, 2016, as against Rs. 145.76 crore in the previous year. Reduction in investment in subsidiaries is on account of amalgamation of three wholly owned Indian subsidiaries of the company – Pipal Research Analytics and Information Services India Private Limited, Mercator Info-Services India Private Limited and Coalition Development Systems (India) Private Limited with CRISIL Limited.

9. Deferred Tax Assets

Deferred tax assets and liability primarily comprise deferred taxes on fixed assets, leave encashment, accrued compensation to employees, gratuity, provision for bad debt and deferred initial rating fees. The Company's net deferred tax assets of Rs. 33.75 crore as at December 31, 2016 compared with Rs. 28.04 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.

10. Loans and Advances

Loans and advances comprise loans to staff, advances recoverable in cash or kind, sundry deposits and advance taxes. 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, electricity and others.

As at December 31, 2016, loans and advances was Rs. 173.73 crore as against Rs. 199.98 crore in the previous year.

11. Other Assets

Other assets, excluding bank balances, as at December 31, 2016 was Rs. 40.87 crore compared with Rs. 17.60 crore in the previous year. Other current assets mainly comprise accrued interest, accrued revenue and other advances.

12. Trade Receivables

Trade receivables at the gross level were Rs. 203.55 crore as at December 31, 2016, compared with Rs. 147.72 crore in the previous year. Trade receivables constituted 18% of operating revenue, [representing an outstanding of 66 days (P.Y. 56 days) of operating revenue] compared with 15% in the previous year.

The company believes that outstanding trade receivables are recoverable and it has adequate provision for bad debts. Provision for doubtful debt balance as of December 31, 2016 was Rs. 13.74 crore as against Rs. 12.59 crore in the previous year. Provision for bad debts as a percentage to revenue for the year ended December 31, 2016 was 1.22% as against 1.32% in the previous year.

B. Results of operations

The summary of standalone operating performance for the year is given below:

(Rs. in crore)

Particulars	Year ended December 31, 2016	% of revenue	Year ended December 31, 2015	% of revenue	Growth %
Income from operations	1,129.59	96	956.10	96	18
Other income	49.20	4	44.60	4	10
Total income	**1,178.79**	**100**	**1,000.70**	**100**	**18**
Expenses					
Personnel expenses	446.79	38	362.69	36	23
Establishment expenses	76.75	7	69.31	7	11
Other expenses	241.07	20	219.32	22	10
Depreciation	28.52	2	24.03	2	19
Operating expenses	**793.13**	**67**	**675.35**	**67**	**17**
Profit before tax	**385.66**	**33**	**325.35**	**33**	**19**
Tax expense	130.01	11	103.35	11	26
Profit after tax	**255.65**	**22**	**222.00**	**22**	**15**
Dividend (including tax on dividend)	231.74	20	197.37	20	17

Income from operations revenue grew 18% in 2016 and was driven by growth in the Research segment. Operating expenses grew 17% mainly on account of growth in personnel expenses due to merit and headcount growth and impact of amalgamation.

Revenue

CRISIL Ratings maintained its market leadership in 2016, backed by strong performance in its bond ratings and SME ratings businesses. The capital market witnessed increased activity in the third quarter of the year due to favourable liquidity and falling yields, which improved demand for bonds. CRISIL's consistent engagement with regulators and key decision-makers helped in the reinstatement of subsidy support by the Government of India under the NSIC – PCRS (Performance and Credit Rating Scheme).

The primary focus of CRISIL SME Ratings for 2016 was to ramp up business volumes by increasing capacity, thereby maximising subsidy share. CRISIL was able to achieve quick and timely ramp-up of manpower by June 2016. Research revenue growth was driven by CRISIL GR&A's R&A vertical on account of continued strong demand in the areas of stress testing, model validation, regulatory change management, and financial crime and compliance analytics.

The India Research business was impacted by a sharp increase the non-performing assets of banks and the resultant pressure on profitability, which impacted research expenditure. Subscription rates, however, remained healthy, indicating the criticality and value of our research products and services.

Other Income (Net)

Other income for the year was Rs. 49.20 crore from Rs. 44.60 crore previously, mainly on account of profit on sale of current investment.

Expense

The rise in other expenses is mainly on account of professional fee expenses that are linked to revenue growth and amalgamation.

C. Risk Management

The company has in place a robust risk management framework with overall governance and oversight from the Audit Committee and Board of Directors. Risk assessment is conducted periodically and company has a mechanism to identify, assess, mitigate and monitor various risks to key business objectives.

Risk assessment is a combination of bottom-up and top-down 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 quarterly basis.

Key business risks and mitigation strategy are highlighted below.

1. Business Risks

To mitigate the risk arising from high dependence on any one business for revenues, the company has adopted a strategy of diversifying in new products / services and into 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 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 slowdown in global economy and competitive pricing. Repeat business from large clients in the research segment, nevertheless, continues to contribute significantly to revenue.

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

2. Foreign Exchange Earning Risk

CRISIL's 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 hedging 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 foreign exchange. The hedging program 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 the hedging program.

3. Policy Risk

The company derives a significant portion of its revenue come from Ratings services, which depend on several factors, including regulatory policy. The Reserve Bank of India (RBI) has mandated that a new Internal Rating-Based (IRB) approach be adopted. The RBI has also specified that after implementation of the IRB framework by a bank, there should be a transition period of a minimum of two years during, which banks will have to calculate minimum capital requirement using the IRB approach as well as the standardised approach of Basel II. Most of the banks are in the process of building infrastructure to migrate to the IRB approach over the next 3-4 years.

To mitigate the risk of dependence on mandated businesses, the company continues to pursue its strategy of diversification (geographically as well as product wise). The company 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.

4. Human Resource Attrition Risk

CRISIL's key assets are its employees and in a highly competitive market, attrition continues to be one of the key challenge. CRISIL continues to accord top priority to managed employee attrition through talent retention program and offering competitive salary and growth path for talented individuals.

5. Legal and 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, compliance and legal functions advice the company on issues relating to compliance with law and to pre-empt violations. The Company Secretary submits

a quarterly report to the Board on the company's initiatives to comply with the laws of various jurisdictions. The company also seeks independent legal advice wherever necessary.

6. Technology-Related Risks

Information technology 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 ensure that implementation of policies and processes are satisfactory, and in line with internationally-accepted best practices; ISO certification of eight of our offices underscores our high compliance with policies related to Information Security and Management System.

The company'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 adequate database for our knowledge appropriately. 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 plans and have tested it with the help of the IT team. The technology department keeps abreast of changes, and suitably undertakes projects for technology upgradation to keep the infrastructure current, and to provide for redundancy. With increasing ubiquity of computing systems and networks, and rapid digitization of myriad interconnected services, cyber threats are becoming increasingly difficult to detect. One or more cyber threats might pose a risk to the measures that we take to anticipate, detect, avoid or mitigate such threats. The Company conducts external and internal penetration testing with industry – standard technologies and service partners to continuously assess its security posture and address identified vulnerabilities to strengthen its systems.

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 its internal financial controls system. Accordingly, key risks and controls across all businesses and functions are identified, and gaps are remediated, if any.