Annexure to the Directors' Report

Management Discussion and Analysis Report

CRISIL Ratings

Corporate bond issuances remained subdued in fiscal 2021 amid an uncertain interest rate environment and investor risk aversion. Bond issuers preferred external commercial borrowings (ECB) and shorter-tenure instruments during the year. However, in second half of 2021, activity in the lending markets saw an uptick in line with economic recovery, albeit the bank credit growth in MSMEs and retail borrowers' segments significantly outpaced the corporate segment.

Going forward, the infrastructure push and gradual revival of the capex cycle is expected to lead to higher bond issuances and rise in wholesale credit growth.

Both the bond ratings and Bank Loan Ratings (BLR) segments are expected to gradually benefit from these trends. The BLR market will continue to see the impact of a few large banks having an increased minimum exposure threshold for seeking BLRs.

Securitisation volume was subdued in the first half. However, there has been strong pick-up in economic activity after the second wave subsided, leading to improved collections across asset classes. Lenders and investors are seen returning to the market gradually; an increase in securitisation transactions is expected in the coming year.

New client acquisitions and healthy traction in new products maintained CRISIL Ratings' market leading position in 2021. Over 1000 new BLRs were assigned in the year. Ratings have been assigned to more than 35,000 large and mid-size corporates till date. Further, we on-boarded 150+ new large corporate clients. Despite intense competition and decline in number of new companies seeking new BLRs, we were able to increase our market share in the BLR space.

Further, during the year, CRISIL GAC enhanced its support to S&P Global Ratings on surveillance and ESG activities and led efforts for digitisation, simplification and standardisation of content in data and analytical domains. GAC continued to partner in market outreach efforts and content creation for publications.

CRISIL Research

India Research

India Research business saw marked recovery in 2021 despite the second wave of Covid-19 infections. A pick-up in economic activity, improving business sentiment and buoyant capital markets drove demand for our key products and services, helping us deliver strong revenue and profitability.

With corporates starting to refocus on growth opportunities and significant capital raising, our Customised Research business benefited significantly, driving a strong mandates flow and acquiring new clients.

We maintained a dominant position in the Funds and Fixed Income Research business. We held our position as the largest provider of fixed income indices in India and launched nine indices in 2021, taking the total to 107. CRISIL AIF Benchmarks continue to witness good traction.

The Industry Research vertical's new sectoral reports, which provide more granular research, insights and databases, saw excellent traction among corporate clients.

Quantix, our strategic initiative in the data and analytics space, improved its value proposition by enhancing data coverage and strengthening analytical tools.

CRISIL ESG Gauge, launched in June, has received very positive response from key stakeholders. Our ESG Compendium also bagged two coveted marketing awards in September.

We continued to focus on virtual training during the year as physical classroom training was largely on hold amid emergence of new Covid-19 variants. We launched CRISIL Wealth Manager Certification in association with NISM, which saw good retail participation and emerging interest from corporate clients.

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

Global Research & Risk Solutions (GR&RS)

Market-led factors, along with regulatory push, are driving the transformation agenda across financial institutions. With increased competition from fintech firms, banks are looking at digitalising parts of the credit risk workflow to optimise compliance costs. They are also setting up data architecture to seamlessly access data to improve day-to-day monitoring, portfolio analytics, regulatory reporting, and the implementation of their digitalisation agenda.

Banks, lenders and asset managers (AMs) continue to boost investments in digitalising, transforming and automating their operations, technology and infrastructure as they look to scale up and generate efficiencies in the long term.

Regulators, too, are increasingly monitoring and reviewing the risk management practices of financial institutions and prodding them to strengthen their current practices. Banks are increasingly investing in accelerating their regulatory compliance programmes, especially across Fundamental Review of Trading Book (FRTB), switching to alternative reference rates, repairing internal models, and stress testing, with the inclusion of climate risk and large-scale black-swan events such as Covid-19 into the scenarios.

Global Benchmarking Analytics

In sync with our expansion initiatives, we have broadened our capabilities and reach to serve a more regional client base across the globe. With a focus on strengthening the relationship management function and deepening analytical expertise, the business services 300+ clients across the financial services space.

The design of the foundational components of our future digital platform has been completed, and core capabilities are now being implemented. The focus is on data governance, security and standardisation to provide a solid base to improve scalability and robustness across all data and analytics processes – leading to enhanced client value and experience.

Global Benchmarking Analytics retained the coveted SSAE16 SOC2 Type II certification, which is a testimony of the stringent controls and measures deployed for data and IP protection.

CRISIL Infrastructure Advisory

The business continued its engagement with clients globally and worked with various stakeholders, conducted webinars and knowledge-sharing sessions, and closed several mandates through successful virtual delivery of milestones, in the midst of the second wave.

Despite the challenge of the pandemic, CRISIL Infrastructure Advisory booked several large-value assignments, further strengthening the order book.

The business was associated with central and state governments in the areas of policy advocacy, transaction advisory leading to private sector investments and programme management of large government schemes .

On the international front, we partnered with multilateral agencies in developing frameworks and capacity-building initiatives in international geographies, especially in south-east Asia and east Africa.

CRISIL Business Intelligence & Risk Solutions (BIRS)

The banking environment witnessed increasing focus on digitisation and automation of credit processing, given the regulatory focus on automation of asset classification and provisioning, apart from the continued traction on credit monitoring. Our risk and business intelligence solutions — ICON, Early Warning Solution (EWS), Regulatory and Portfolio evaluation/monitoring — are aligned to address these requirements.

We continue to expand our suite of offerings with innovative business analytics and digital enablement solutions in the Middle East.

Our ICON platform with the new-age RAM, which comes with modular and configurable features, was implemented successfully with banks during the year. We continue to expand and invest in our technology capabilities on our Fulkrum platform (analytics platform) and suite of risk products.

We continue to expand our product suite and modules on both ICON and Fulkrum.

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 results attributable to Greenwich Associates include the 12-month financials of Greenwich Associates LLC (acquired on February 26, 2020). Ten-month financials were considered for the same period last year.

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 fiscal.

   During the year, the Group capitalised Rs 80.17 crore to its gross block and deducted Rs 16.13 crore from the gross block on disposal of various assets. Capitalised assets include office equipment, computers, software, 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 accrual and liquid assets.

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

(Rupees in crore)

Details	As on December 31, 2021	2020
Carrying value		
Property, plant, equipment, and intangible assets	776.94	796.26
Less accumulated depreciation	488.79	409.60
Net block	288.15	386.66
Depreciation as a % of total income	4%	6%
Accumulated depreciation as % of gross block	63%	51%

2. Goodwill on consolidation

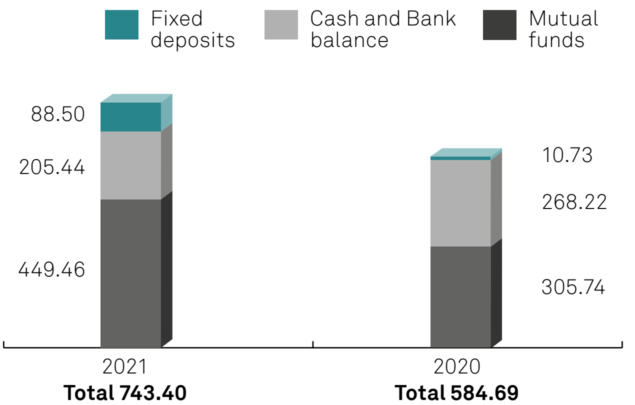
Goodwill on consolidation represents excess of purchase consideration over the net asset value of acquired subsidiaries on the date of such acquisition. Goodwill is tested for impairment annually or more frequently, if there are indications of impairment.

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.

Treasury

(Rupees in crore)



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 743.40 crore as on December 31, 2021, as against Rs 584.69 crore in the previous year. Increase in treasury is in line with strong business performance.

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

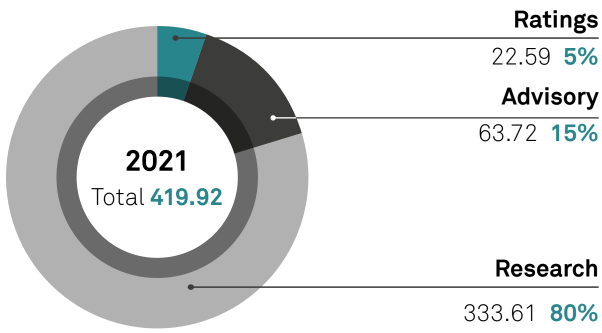
Loans comprise security deposits and loans to staff. Loans were Rs 37.04 crore as on December 31, 2021, as against Rs 45.76 crore in the previous year.

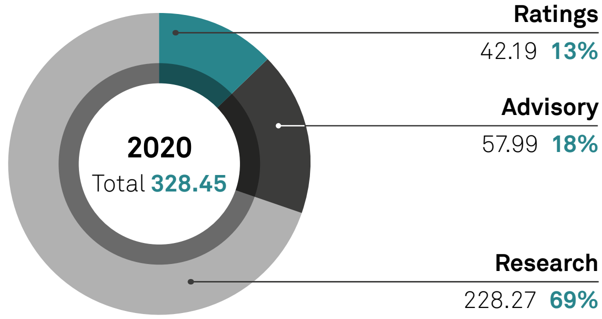
C. Trade receivables

Trade receivables at gross levels were Rs 419.92 crore as on December 31, 2021, compared with Rs 328.45 crore in the previous year. Trade receivables constituted 18% of operating revenue compared with 17% of operating revenue during the previous 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 21.38 crore as on December 31, 2021, as against Rs 21.09 crore in the previous year. Provision for bad debt as a percentage of revenue for the year ended December 31, 2021, 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 157.23 crore for the year ended December 31, 2021, compared with Rs 102.84 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, business combination, provision for bad debt, and deferred initial rating fees. The Group's net deferred tax assets totaled Rs 59.21 crore as on December 31, 2021, as against Rs 64.06 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 115.70 crore as on December 31, 2021, compared with Rs 79.69 crore in the previous year.

4. **Other assets**

Other assets mainly comprise advances to vendors, accrued revenue, prepaid expenses, and tax credit receivable. Other assets amounted to Rs. 130.65 crore for the year ended December 31, 2021, compared with Rs. 72.97 crore in the previous year

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 275,156 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 72,593,290 to 72,868,446 equity shares of Rs 1 each.

6. **Other equity**

Other equity was Rs 1,571.33 crore as on December 31, 2021, as against Rs 1,304.55 crore in the corresponding period of the previous year. Other equity comprises reserves and surplus, and other comprehensive income (OCI).

7. **Financial liabilities**

A. **Trade payables**
Trade payables as on December 31, 2021, were Rs 133.70 crore as against Rs 105.36 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 392.46 crore as on December 31, 2021, as against Rs 430.02 crore in the previous year.

8. **Provisions and other liabilities**

A. **Provision for employee benefits**
The overall liability was Rs 102.67 crore as on December 31, 2021, compared with Rs 105.27 crore in the previous year.

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 291.34 crore against Rs 237.99 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,			
	2021	% of revenue	2020	% of revenue
Income from operations	2,300.69	97	1,981.83	96
Other income	77.02	3	83.15	4
Total income	**2,377.71**	**100**	**2,064.98**	**100**
Expenses				
Personnel expenses	1,286.91	54	1,068.44	52
Finance cost	8.93	1	14.39	1
Depreciation	105.98	4	121.11	6
Other expenses	403.27	17	402.75	20
Total expenses	**1,805.09**	**76**	**1,606.69**	**78**
Profit before exceptional item and tax	**572.62**	**24**	**458.29**	**22**
Exceptional item	45.82	2	-	-
Profit before tax	**618.44**	**26**	**458.29**	**22**

CRISIL Ratings maintained its market leading position in 2021, driven by improved activity in lending markets in line with economic activity. Companies increasingly sought to refinance debt and strengthened their liquidity positions. The business added new clients and focused on high-growth segments. 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.

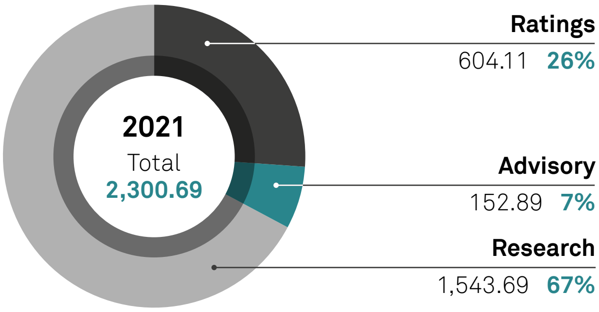
The Global Analytical Centre (GAC) enhanced its support to S&P Global Ratings on surveillance and ESG activities, and digitisation, simplification and standardisation of content in the data and analytical domains.

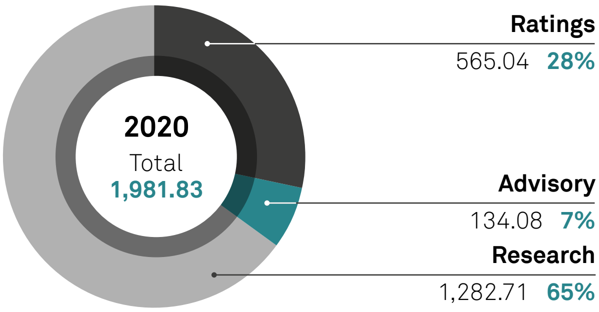
In the Research segment, GR&RS saw traction in regulatory reporting, product control, automation, transformation, and Non-Financial Risk. The fundamental research offerings witnessed increasing traction in ESG and buy-side research.

Buoyancy in the domestic capital market and pick-up in economic activity continue to steer the need for research and analytics. In the India Research business, growth was driven by continued demand for data, capital market-related insights and new products launched in funds and fixed-income. The business also launched Environmental, Social, Governance (ESG) scores for 225 Indian corporates across 18 sectors, which was well received by the market.

Segmental revenue analysis

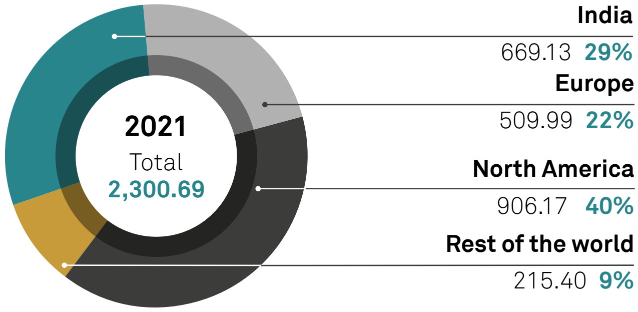
(Rupees in crore)

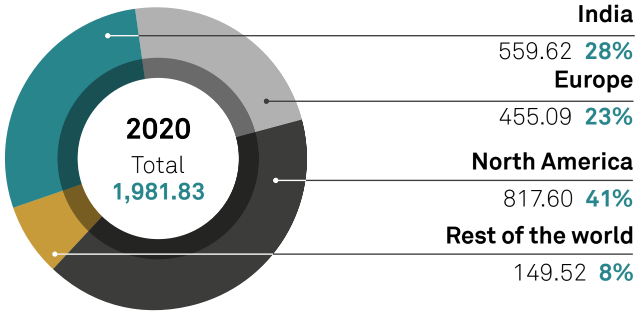




Segmental revenue by geography

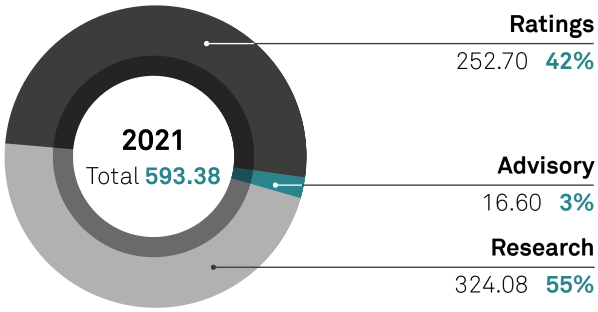
(Rupees in crore)

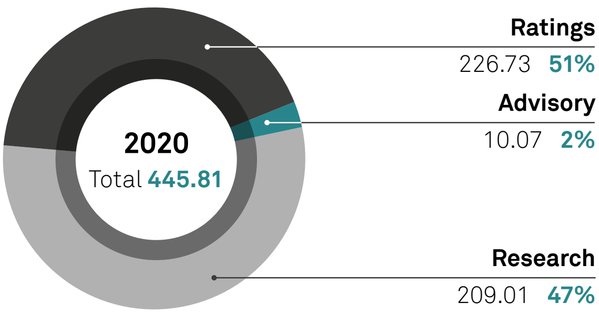




Segmental profits

(Rupees in crore)





Global Benchmarking Analytics revenue grew on continuing demand for benchmarking analytics from its core client segments. In commercial banking, with clients focusing on revenue expansion, opportunities increased.

Despite the overall slowdown, the Advisory business booked several large-value assignments, further strengthening the order book. CRISIL Business Intelligence & Risk Solutions (BIRS) business leveraged its strong domain and domain-led technology offerings in the risk and analytics space to support the evolving credit, risk and regulatory needs of the banking and financial sector.

Other income (net)

Other income was Rs 77.02 crore as on December 31, 2021, compared with Rs 83.15 crore in the previous year.

Expense analysis

Total expenses in the year amounted to Rs 1,805.09 crore as against Rs 1,606.69 crore in the previous year. The composition of expenses is given below:

(Rupees in crore)

Particulars	Year ended December 31, 2021	2020
Personnel expenses	1,286.91	1,068.44
Finance costs	8.93	14.39
Depreciation	105.98	121.11
Other expenses	403.27	402.75
Total expenses	**1,805.09**	**1,606.69**

Personal expenses were mainly driven by merit increase and increase in headcount for billable roles.

Key ratios

Metrix	2021	2020	2019	2018	2017
Personnel expenses/revenue	54%	52%	49%	49%	50%
Operating and other expenses/revenue	76%	78%	73%	73%	74%
Operating profit (PBIDT)/revenue	29%	29%	29%	30%	29%
Depreciation and amortisation/revenue	4%	6%	2%	2%	3%
Tax/revenue	6%	5%	8%	7%	8%
Operating profit margin	27%	26%	26%	27%	27%
Net profit margin	20%	17%	19%	20%	18%
Operating revenue per employee (Rs. lakh)	60.28	54.54	46.86	45.52	42.21
Operating expense per employee (Rs. lakh)	44.28	40.49	34.52	33.25	30.62
Operating profit per employee (Rs. lakh)*	16.00	14.05	12.34	12.27	11.59
Debtor turnover ratio (in times)	6	7	6	6	7
Current ratio (in times)	2	2	2	2	2
Return on net worth	32%	29%	30%	33%	30%

*Excludes exceptional items

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

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 62.04 crore to its gross block and deducted Rs 14.05 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 4% 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, and intangible assets were Rs 142.90 crore as against Rs 145.93 crore in the previous year.

2. Financial assets

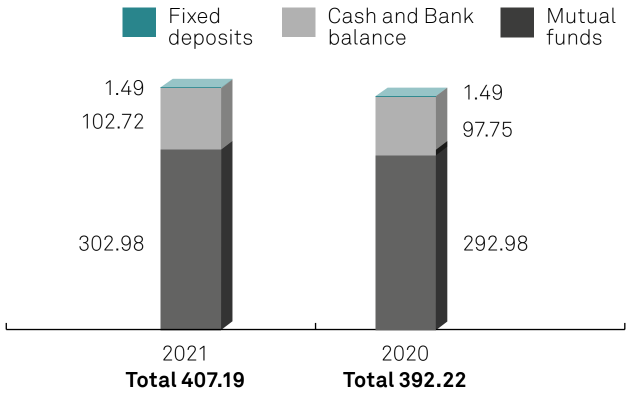
A. **Investments and treasury:** The Company's investments and treasury comprise non-current equity investments, current investments, cash and bank balances, and fixed deposits.

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, 2021, the cost of investment in subsidiaries stood at Rs 208.93 crore.

Treasury (Rupees in 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 407.19 crore as on December 31, 2021, as against Rs 392.22 crore in the previous year.

Cash and cash equivalents constituted 25% of the treasury as on December 31, 2021, as against 25% in the previous year.

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, 2021, the outstanding amount totaled Rs 32.39 crore compared with Rs 90.02 crore in the previous year.

C. **Trade receivables**

Trade receivables at gross levels were 164.18 crore as on December 31, 2021, compared with Rs 122.13 crore in the previous year. Trade receivables as a percentage of operating revenue was 16% compared with 14% in the 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 4.49 crore as on December 31, 2021, as against Rs 4.90 crore in the previous year. Provision for bad debt as a percentage of revenue for the year ended December 31, 2021, was less than 1%.

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, 2021, amounted to Rs 68.06 crore compared with Rs 104.48 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 30.53 crore as on December 31, 2021, as against Rs 24.33 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 71.64 crore as on December 31, 2021, compared with Rs 41.45 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 275,156 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 72,593,290 equity shares of Re 1 each to 72,868,446 equity shares of Re 1 each.

6. **Other equity**

Other equity comprises reserves, surplus and OCI. It was Rs 964.12 crore as on December 31, 2021, as against Rs 688.06 crore in the corresponding previous period.

7. **Financial liabilities**

A. **Trade payables**

Trade payables amounted to Rs 88.55 crore as on December 31, 2021, as against Rs 54.95 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 188.55 crore as on December 31, 2021, as against Rs 459.29 crore in the preceding year.

8. **Provisions**

Provisions comprise provisions for employee benefits. The overall liability was Rs 73.69 crore as on December 31, 2021, as against Rs 72.45 crore at the end of the previous year.

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, 2021	% of revenue	2020	% of revenue
Income from operations	1,052.91	76	888.78	90
Other income	332.28	24	103.95	10
Total income	**1,385.19**	**100**	**992.73**	**100**
Expenses				
Personnel expenses	490.85	35	436.34	44
Finance cost	5.67	0	6.94	1
Depreciation	52.89	4	65.68	7
Other expenses	329.63	24	265.44	26
Operating expenses	**879.04**	**63**	**774.40**	**78**
Profit before exceptional item and tax	**506.15**	**37**	**218.33**	**22**
Exceptional item	45.82	3	-	-
Profit before tax	**551.97**	**40**	**218.33**	**22**
Tax expense	74.95	6	51.61	5
Profit after tax	**477.02**	**34**	**166.72**	**17**

Revenue analysis

Other income (net)

Other income during the year increased to Rs 332.28 crore from Rs 103.95 crore in the previous year. This was mainly due to dividend on investments.

Expense analysis

The total expenses for the year ended December 31, 2021 amounted to Rs 879.04 crore as against Rs 774.40 crore during the corresponding previous year.

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 the Audit Committee and Board of Directors. CRISIL has a Risk Management policy in place that outlines the key accountabilities and responsibilities for managing risks.

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 key 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 strategies are highlighted below.

1. Business risks

Covid-19 pandemic continued to impact the operating environment and businesses in 2021. However, by the end of 2021, increasing coverage of vaccines and decreasing number of daily cases reported, injected confidence in economic recovery. As a result, the impact of pandemic is also expected to reduce in coming quarters. However, chances of further waves and mutations cannot be ruled out. Threats from new variants, restrictions on travel, potential lockdowns and spread of pandemic are being monitored closely. 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 ratings subsidiary. CRISIL Ratings' 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 revenues 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, 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, sought segregation of legal entity for regulated and non-regulated businesses, introduced and standardized 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, etc. 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 transferred its ratings business to wholly-owned subsidiary CRISIL Ratings Limited, effective December 31, 2020. The segregation has no impact on the company's consolidated business profile 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

Amidst 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. Dedicated vaccination drives were carried out across major cities where company has offices. The Company also extended support on emergency healthcare resources for all employees and their immediate family members. The Company has made arrangements for Covid-19 dedicated helplines to employees and also professional and confidential counselling 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 initiated 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. CRISIL also introduced multiple employee benefits such as financial assistance and additional leaves to help employees impacted with Covid-19.

Overall, the employee attrition increased in 2021 and the risk was elevated due to challenges in hiring due to broader shortage of talent in the market. CRISIL continues to accord top priority to manage employee attrition by formulating talent retention and recognition programmes, and by offering a competitive salary and growth path for key talent.

5. Legal and statutory risks

CRISIL is subject to various international, national and regional laws including but not limited to products, trademarks, copyright, competition, data protection and privacy, environment, corporate governance, listing and disclosure, employment and labour, and taxation. Failure to comply with laws and regulations could expose CRISIL and/ or its employees to civil and/ or criminal actions leading to damages, fines and/ or criminal sanctions with possible consequences for our corporate reputation. Changes in 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.

All legal and regulatory risks that could trigger eventual exposure are monitored regularly by the legal and compliance functions, which further seek to mitigate such 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. Information and Cyber Risks

Inadvertent sharing of client confidential data or CRISIL proprietary information by staff is an important risk. Further, the incidents of cyber-attack globally continue to rise, especially in the current remote working environment. In addition to impact on business operations, a data breach could result in reputational damage, legal claims, and financial liabilities. In order to mitigate against such risks, the Company has a dedicated Chief Information Security Officer (CISO) to drive the information and cyber security agenda. CISO and the Information Security team acts as a second line of defence in strengthening the information and cyber security posture by defining appropriate perimeter security controls, detecting and evaluating areas of vulnerabilities, and implementing data leak prevention (DLP) tools. The Company continues to evaluate and invest in additional mitigation plans through automated prevention and detection tools and infrastructure for enhanced monitoring. In addition, enhanced level of awareness of vigilance against pertinent themes of information and cyber security was imparted to all employees by way of digital learning courses, awareness videos, external speaker sessions, emailers, case studies and quizzes.

Audits are conducted regularly to identify areas of vulnerability and to identify actions that mitigates the operational risks. ISO certification of key processes is conducted to ensure compliance with policies related to IT and management system.

7. **Business Continuity Risks**

CRISIL operates and caters to clients from multiple geographies. Any disruption in operations on account of BCP expansion incident may result in negative reputation impact and exposure of breach in client contracts. A review of Business Impact Analysis (BIA) and Functional Recovery Plan (FRP) is performed for all critical processes on an annual basis.

Focused planning enabled smooth transition to 'Work from home', before mandatory lockdowns which ensured all CRISIL employees to work remotely from the safety of their homes, while continuing to provide uninterrupted services to our customers across all business units and geographies. During the pandemic, Company ensured ongoing asset delivery to new joiners and address any malfunctioning or breakdown in assets at employee's homes. 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. CRISIL is gradually moving towards returning to office in 2022 after taking into consideration all the precautions for safety and social distancing at office locations. Company continues to monitor threats and potential incidents impacting business continuity.