3i Infotech®

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Annual Report

07-08

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Company Details

Board of Directors:

Mr. Hoshang N. Sinor, Chairman

Dr. Ashok Jhunjhunwala, Director

Dr. Bruce Kogut, Director

Mr. S. Santhanakrishnan, Director

Mr. Samir Kumar Mitter, Director

Mr. Suresh Kumar, Director

Ms. Vishakha Mulye, Director

Mr. V. Srinivasan, Managing Director & CEO

Mr. Amar Chintopanth, Executive Director & CFO

Mr. Anirudh Prabhakaran, Executive Director & President - South Asia

Principal Bankers:

ICICI Bank

Development Credit Bank

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Auditors:

Lodha & Co., Chartered Accountants

Corporate Office:

3i Infotech Limited

Akruti Centre Point, 6th Floor,

MIDC Central Road,

Next to Marol Telephone Exchange,

Andheri (E), Mumbai – 400 093,

INDIA

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Executive Management:

V. Srinivasan, Managing Director & Chief Executive Officer
Amar Chintopanth, Executive Director & Chief Financial Officer
Anirudh Prabhakaran, Executive Director & President - South Asia

Babu Venkatesh, CEO - Professional Access (Subsidiary of 3i Infotech)
Chandrashekar M.S., Executive Vice President
Chris Potts, President & CEO - Western Europe
Debneel Mukherjee, President & CEO - Asia Pacific
Jayaraman Jagannadhan, Head - GDC - Insurance & ERP
Jyotin Mehta, Head - Enterprise Risk Management & Internal Audit
Manoj Mandavgane, Head - Global Resourcing & HR
M.B. Battliwala, Head - Marketing & Public Relations
Padmanabhan Iyer, Executive Vice President
Pankaj Chawla, Head - Middle East, Africa, Russia & CIS
Ravi Jagannathan, MD and CEO, Consumer Services Division
Robert Bartlet, CEO - J&B Software Inc. (Subsidiary of 3i Infotech)
Shivanand Shettigar, Company Secretary & Head - Legal & Compliance
Suheim Sheikh, Head - Capital Markets
Vivek Malhotra, Head - North America

Hari Padmanabhan, Chief Strategic Advisor

Registered Office:

3i Infotech Limited
Tower # 5, 3rd to 6th Floors,
International Infotech Park,
Vashi, Navi Mumbai – 400 703,
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Tel: +91 22 67928000
Fax: +91 22 67928095

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Chairman's Message

Dear Members,

It gives me great pleasure to share with you the progress that your Company has made in the last year with respect to the strategy and plans.

The strategy to position your Company as a solutions company rather than just a Products and Services Company has borne fruit, with your Company crossing the Rs. 10 billion revenue threshold to clock a revenue of Rs. 12.24 billion. While this growth has been aggressive, it has also been well balanced with a 1:1 ratio of products to services. A good balance in terms of revenues across geographies has also been maintained, leading to de-risked currency exposures. The Transaction Services and Managed Services business has enjoyed considerable growth, and this has contributed to your Company's efforts in providing end-to-end solutions.

The globalization of markets for goods and services is continuing at an unabated pace. World trade volumes continue to advance, registering a robust 8.7 percent gain in 2007. Despite the sudden and sharp drop in market valuations of U.S. mortgage-backed securities in mid-2007, the emerging and developing economies have so far been less affected by financial market turbulence and have continued to grow at a brisk pace, led by China and India. The continued robust demand across developing countries is likely to offset the easing import growth in the U.S. and other high-income economies.

Global purchases of IT goods and services are expected to grow by 6 percent in 2008-09, with Asia Pacific, Eastern Europe, Middle East & Africa slated to be the main drivers of growth. The demand for software products, specifically is expected to rise by 8 percent in 2008. Your Company is well positioned to take advantage of this opportunity, due to its broad portfolio of offerings. You will be happy to know that your Company has upwards of 600 clients who use your wide range of products and services, in more than 50 countries, spread over developed countries and emerging economies, thereby allowing your Company to enjoy the best of both worlds.

Your Company has had a stellar track record of winning coveted awards and recognition globally for its path breaking performance, and this year has no exception. These awards provide the Company with a strong validation of its contribution to industry, and encourage us to continually raise the bar and prove your Company over and over again as a company operating successfully in global markets.

In its ongoing quest for transparency and accountability, your Company continues to place a strong emphasis on corporate governance. This is partly reflected by the organisation structure, where the business is structured along the lines of geographies, verticals, horizontals, and support groups. Your Company has adopted and followed such practices, conventions and codes as would provide its financial stakeholders a high

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level of assurance on the quality of Corporate Governance. Your Company also places a strong emphasis on meritocracy and innovation, and has created a favourable work environment for its people – the biggest asset.

A small, yet significant step in the area of Corporate Social Responsibility (CSR) has been the setting up of a foundation, which is enabling hundreds of school children and physically challenged individuals in rural areas of the country to change their lives for the better. It will be the endeavour of this foundation to provide many more learning and work opportunities for the less privileged and help in reducing social and economic barriers.

I believe that the Company has the right mix of products and services that will enable it to take advantage of addressable opportunities available in global markets. Combined with the benefits of having an excellent management team, I have no doubt that your Company will grow from strength to strength. Having said that, we will continually look for opportunities to grow through relevant acquisitions – a strategy that has been of immense benefit to provide more comprehensive solutions to demanding customers, and has at the same time increased shareholder value.

I thank you for your support in the journey so far, and look forward to it in future.



Hoshang N. Sinor

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Managing Director & CEO's Message

Dear Members,

It gives me great pleasure in sharing with you the key highlights of your Company's consolidated operations for the year 2007 – 08 and the strategy and vision for the years ahead.

The year 2007-08 has seen the achievement of a major milestone in the growth path of your Company. The Company has crossed a revenue mark of Rs.1,000 crore (Rs.10,000 Million) by clocking revenues of Rs.1,224 crore (Rs.12,235.67 Million). Considering the fact that just three years ago when we concluded our Initial Public Offering our revenues were Rs.292 crore (Rs.2,920.34 Million), this milestone, achieved in a short period of time, not compromising on profits or quality of offerings is a significant achievement and is also a significant vindication of the success of our strategy.

It is pertinent to note that we had no significant impact due to the sub-prime crisis and currency fluctuations.

The net profit for the year was **Rs.183 crore (Rs. 1,831.98 Million)** which is an increase of 75.3% over the previous year.

The Company has achieved all-round growth, both in its offerings and across geographies during the year.

Total Income of the Company for FY 2007-08 increased to Rs.12,235.67 million from Rs.6,707.72 million in the previous year, at a growth rate of 82.4%, out of which organic growth was 37.9% and inorganic growth 44.5%.

With respect to the growth in the business segments, there was a good and sustained growth, both in products and services. In the Product segment, Banking products constituted 14%, Insurance 13%, Capital Markets 14% and ERP 8% of the total revenues respectively.

We continued to expand our services portfolio. Revenues from the Transaction Services (BPO) business grew to 12% in the current year, from 9% in the previous year. Application Development & Maintenance contributed approximately 25% and other services like Managed Services and the eGovernance practice contributed another 14% of the total revenues.

With respect to geographies, 34% of the Revenues were from South Asia, US was at 29%, Western Europe at 15%, "Middle East, Africa, Russia and CIS (MEARC)" at 14% and Asia Pacific at 8% of the total revenues .

Our products and services offerings were almost balanced at 1:1 as per our stated goal.

Our Differentiated Strategy

Having talked about the highlights of operations, I would like to delve upon our

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differentiated strategy, which has enabled creation of a well diversified global technology company. The key aspects of our strategy are :

- A diversified business model which concentrates on segments which are deeply scalable

- A diversified geography model so that we take advantage of the growth potential in the various geographies and at the same time de-risk the business with respect to exposures to a single geography

- Adequate importance to each geography by having COOs in each of the geographies, concentrating fully in growing the business in those geographies. This ensures that our geographical growth is not marred by a single global view we take of geographies, which has the danger of concentrating only on very large geographies to the neglect of smaller but faster growing geographies

- In the software product segment, we have a range of products catering to the BFSI segment, such that there is no over dependency on any single product, thereby evening out any lumpiness, which is typical of software product businesses globally

- Not look at BFSI in its narrow sense as only banking, but give equal importance to areas like insurance and financial services

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- In the services segment, concentrate on services which are not purely cost arbitrage businesses, but those which add value to the clients through our IP and improved processes

- Sourcing the competencies from places where such competencies can be created at optimal cost

- In addition to applying the global strategy to India, have a specific strategy to capture the phenomenal growth anticipated in India in the areas of Transaction Services (B2B and B2C), Managed IT Services and eGovernance

How has this strategy worked for us?

- It has clearly differentiated us from a pure play IT Services Company

- It has given us a good geography distribution of revenues, thereby ensuring we ride on different growth drivers of each of the geographies in which we operate and simultaneously de-risk our geography concentration

- It has given us a good spread of revenues across offerings

- It has given us over 600 clients across 50 countries around the world

- It has helped in de-risking forex exposures to a major extent as we enjoy a natural hedge with Revenues & Cost in diversified currencies

- It has significantly ensured that concentrating on any single client is minimal

Thus, our differentiated strategy has helped us create a global technology company with deep customer penetration across the world, with low levels of product concentration, geography concentration, customer concentration and currency concentration risks. It has also enabled establishment of a strong platform for sustained high growth in the coming years.

Management & Governance:

Any growth will be substantial and sustainable only if there is a proper organization structure, manned by a strong management team which has both the vision and the execution capability to take the Company on a sustained high growth path.

The first step the Company took in the past was to have a clear organization structure in place with authority and the resultant accountability clearly defined. The organization is structured on the following lines:

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- Geographies
- Verticals
- Horizontals
- Corporate Support Functions

Geographies are the business drivers and carry the Revenue and Profit targets. They are headed by very senior personnel who have long years of experience in managing businesses.

Verticals are the direct lines of businesses which go across geographies. Each vertical has a global head who enables geographies to grow these businesses. Verticals are again headed by senior personnel with multiple years of experience within the IT Industry and the respective domain areas.

Horizontals run across verticals and are again headed by very senior personnel.

The Geography, Vertical, Horizontal and Support heads constitute an Operating Board, which strategizes and ensures execution of the strategies.

Acquisitions:

Acquisitions have constituted a significant part of the Company's strategy. The drivers for acquisitions have been different at different points in time. These include acquiring product frameworks, entry into a new geography, acquiring delivery capability, increasing customer base, new offerings, market positioning, etc.

Our acquisitions have created deep synergies and have significantly strengthened organic growth. Out of the Compounded Annual Growth Rate of 61% over the last 4 years, 41% has been organic and 20% inorganic.

While we carry out acquisitions, our primary objective has always been to ensure that the acquisition, is accretive to the shareholders of the Company. The valuations at which we have carried out acquisitions have been very reasonable and almost all the acquisitions have been of profitable companies with surplus cash on their books.

We have put in place processes to take care of all aspects of an acquisition like pre - acquisition activities, the actual process of acquisition and post acquisition integration activities. This ensures that we address the acquisition matters with a small team of people who understand the process very well and are therefore able to close most of the issues in a smooth and efficient manner.

The Company will continue with its acquisitive strategy based on the strategic fit of businesses.

Funding Plans:

The Company continues to pursue the policy of having a judicious mix of debt and equity.

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