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Annual Report

08-09





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Company Details

Board of Directors:

Mr. Hoshang N. Sinor, Chairman

Dr. Ashok Jhunhunwala, Director

Dr. Bruce Kogut, Director

Mr. Dileep C. Choksi, Director

Mr. Mahadevan Chandrasekaran, Director

Mr. Samir Kumar Mitter, Director

Mr. S. Santhanakrishnan, Director

Mr. Suresh Kumar, Director

Ms. Vishakha Mulye, Director

Mr. V. Srinivasan, Managing Director & Chief Executive Officer

Mr. Amar Chintopanth, Executive Director & Chief Financial Officer

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

Principal Bankers:

ICICI Bank

IDBI Bank

Standard Chartered Bank

Auditors:

Lodha & Company

R.G.N. Price & Co.

Corporate Office:

3i Infotech Limited

Akruti Centre Point, 6th Floor,
MIDC Central Road,
Next to Marol Telephone Exchange,
Andheri (E), Mumbai - 400 093,
INDIA

Tel: +91 22 39145538

Fax: +91 22 39145520



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., Head - GDC - Banking & Investment Management

Chris Potts, President & CEO - Western Europe

David Wang, CEO - Elegon Infotech Ltd. (A Joint Venture Company with Yucheng Technologies Ltd., China)

Debneel Mukherjee, President & CEO - Asia Pacific

Jayaraman Jagannadhan, Head - GDC - Insurance & ERP

Jyotin Mehta, Head - Enterprise Risk Management & Internal Audit

Kathleen Hamburger, President & CEO - North America

Manoj Mandavgane, Managing Director & CEO, 3i Infotech Consultancy Services Ltd.

M.B. Battliwala, Head - Marketing & Public Relations

Padmanabhan Iyer, Head - Technology Services & COO - Elegon Infotech Ltd.

Pankaj Chawla, President & CEO - Middle East, Africa, Russia and CIS

Ravi Jagannathan, Managing Director & CEO - 3i Infotech Consumer Services Ltd.

Shivanand Shettigar, Company Secretary & Head - Legal & Compliance

Sripat Pandey, Head - Mergers & Acquisitions

Suheim Sheikh, Head - Capital Markets

Registered Office:

3i Infotech Limited

Tower # 5, 3rd to 6th Floors,
International Infotech Park,
Vashi, Navi Mumbai - 400 703,
INDIA

Tel: +91 22 67928000

Fax: +91 22 67928095

Chairman's Message



Report



Junction

Dear Members,

It gives me great pleasure to welcome you to the 16th Annual General Meeting of your Company. It is with satisfaction that I report to you that your Company has registered all-round growth, as detailed in this Annual Report, against a backdrop of a very challenging external environment. This performance has been achieved due to the synergistic operations of the parent Company and its subsidiaries. A noteworthy factor has been the strong organic and inorganic growth vectors which have combined seamlessly to deliver good performance during the year, and also augur well for the future of your Company.

Your Company has been built on a firm foundation of offering a wide variety of products and services encompassing software products, IT services and transaction services. Over the years, as you are aware, your Company has grown both in India and abroad, organically and through judicious acquisitions, to emerge as one of the top technology companies, both in overall



terms and also in some of its individual areas of operation. Maintaining this comprehensive growth trajectory has been possible due to the main capital that your Company enjoys – its Human Capital. I would therefore like to delve on this aspect to a greater extent, as I believe it is the fountainhead through which all value creation for our shareholders and other stakeholders emanates.

Your Company strongly believes that all functions are Value Functions, though the classic definition may term them as front-end and back-end functions. This philosophy has been translated into action by the management team of your Company in an exemplary fashion. With your permission, I would venture to call it “People First”, in recognition of the fact that it is talented people who, when supported by an enabling and empowering environment, consistently deliver high performance.

As a knowledge intensive organisation, your Company can only be as good as its employees. We therefore take utmost care to attract, recruit, train and retain the best professionals in the industry, around the globe. Depth in technical capabilities and the potential to learn and upgrade to higher roles, enhancing managerial skills, strategic thinking, leadership skills and strong delivery capabilities, are the qualities that we look for and groom our people in, as they progress from junior levels, through middle management positions, to senior levels. Talent nurturance and management through need based technical and soft skills training enables employees to effectively perform their current and future roles. Further, our diverse operations across various industry domains and geographic locations, both local and overseas, provide ample opportunities and also facilitate movement of employees.

Competitive and market driven compensation and timely recognition have ushered in a performance driven culture which rewards meritocracy. Our Performance Management System, which includes Key Performance Indicators (KPI), interventions in the form of competency modelling and 360 degree feedback, mentoring and counselling, is a key contributor to the growth of people within the Company. By creating a competitive environment, building and maintaining a performance culture, and ensuring it permeates the organisation, we

have been able to facilitate employee empowerment and the ability to spot leadership talent at all levels. I am indeed happy and proud to bring to your kind notice that many business ideas that have found fruition, have been the work of leaders from within the system.

We pride ourselves in being a confluence of cultures coming from ICICI, acquired companies and lateral recruitment. We have been hugely successful in creating oneness among the employees, by adopting and nurturing what is best suited to the interest of the Company. Simultaneously, great emphasis is placed on making sure that the many new entrants through acquisitions feel one with the Company's ethos and culture, even as they feel excited about being part of a bigger brand and an organisation with multiple growth opportunities globally. An important aspect of your Company's acquisition capability has been the retention of key personnel across levels. We have also benefited by the vast leadership capabilities that these entrepreneurs brought with them.

All these aspects, taken together, have made your Company a multinational, in the truest and best sense of the term. We row to the same beat, wherever we are in the 3i Infotech system. As we deepen our engagements across the globes, this trend will, I am sure, be reinforced to the best advantage of your Company.

I thank you for your support as we have grown internationally as a technology company, and look forward to it in the future too.

Hoshang N. Sinor

Managing Director & CEO's Message

Dear Members,

You may recall that your Company was transformed from being a pure back office entity of ICICI, to a full fledged technology company in September 1999. This being the 10th year of our operations as a technology company, I would like to take this opportunity to highlight some of the milestones we have crossed on our growth path:

- We entered the IT business in 1999 with one client, a revenue of Rs. 40 crores and 240 employees
- Around the year 2002, we positioned your Company as a solutions company rather than a pure services company. We aimed at achieving a 1:1 mix between software products and IT services
- We changed our name from ICICI Infotech to 3i Infotech in January 2005 and went in for an IPO in March 2005
- By March 2007, we achieved the 1:1 mix between products and services offered across five nodal geographies
- In the year 2007-08 we crossed the revenue mark of Rs. 1,000 crores, with a profit of Rs. 183 crores
- In the 10th year, we have crossed a revenue mark of Rs. 2,000 crores by clocking revenues of Rs. 2,305 crores
- What therefore started off as a one client, one country, one offering business, has grown into 1,500 clients, operations in over 50 countries, and three business segments with revenues exceeding Rs. 2,300 crores.

This could not have been achieved but for your support and guidance.

Highlights of the Operations

I am glad to share with you the highlights of your Company's consolidated operations for the year 2008-09.

Consolidated revenue at Rs. 2,304.70 crores, clocked a growth of 88.4% over the previous year. Profit after tax, before minority interest and extraordinary items, stands at



Rs. 266.42 crores, as compared to Rs. 183.19 crores for FY08, representing a growth of 45.5%.

We have witnessed growth across regions and offerings. Transaction Services emerged as a significant business segment in the current year. Our segment-wise revenue mix is now - Software Products 35%, IT Services 33% and Transaction Services 32%.

We launched the retail business in the form of kiosks (under the brand name of I-SERV) for bringing various services to common citizens in rural India. We also launched Taxsmile, an online tax filing portal, and e-Mudhra, an online service for enabling common citizens to use digital signatures. These initiatives are pioneering steps in India, aimed at transforming the way retail transactions are handled in the country.

Our Joint Venture in China, named Elegon Infotech Limited, commenced operations during the year.

We also retired approximately USD 30 million of Foreign Currency Convertible Bonds (FCCB) at a discount of close to 50%.



Economic Environment

The year saw a sudden change in the dynamics of global markets. All major markets reported a decline in GDP. Oil prices were extremely volatile, reaching a peak of USD 160 per barrel and declining to a low of USD 40 a barrel. Major currencies also experienced volatility. The Western markets reported record unemployment rates and stock markets recorded a major decline across the globe. Long standing financial institutions went into bankruptcy or near bankruptcy.

An assessment by a leading IT analyst firm indicated that worldwide government efforts to revive the economy were too late and Europe and the US would slip into recession. Although IT markets remained relatively stable, the above mentioned events are bound to have a negative impact in the coming quarters. Spreading global economic problems in 2009 would reduce IT market growth from 5.8% in 2008 to 2.3% in 2009. Developed economies, especially the US and Western Europe, which represent the vast majority of the global market, were to be the worst affected, but emerging regions would also not be immune.

Challenges thrown up

The changed environment has obviously thrown up certain challenges for the IT industry. The assumptions which led growth in the past are no longer valid. Many of the assumptions like growing consumer demand, unlimited availability of capital, stand challenged today. This has affected the demand behavior for IT to some extent.

We therefore need to face the challenges and grow.

How do we continue to grow, facing the challenges?

Considering the current environment, we have a two pronged strategy, i.e. plan for a modest growth in the short to medium term and have a clear path for aggressive growth in the long term. In addition, such challenging times also give opportunities to consolidate and bring in operational efficiencies. **We believe that growth is a must and consolidation the means.**

With respect to sales, our strategy, in addition to closing

sales with new customers, would be substantially to mine our large existing client base. We today have more than 1,500 clients and many of them very large organizations globally. With proper cross selling and up selling strategies, we intend to grow our revenues from our existing client base. This will ensure a growth in revenues at optimum cost.

On the cost and cash planning front, we have concrete plans for improving operational efficiencies throughout the Company, through process improvements to drive simplification, standardization and consistency across the organization.

On the risk side, this environment can throw up challenges like bankruptcies of major customers, inability of customers to remit money out of their countries, or customers losing access to funding. Since we have been managing a model which ensures low client concentration, we feel that instances related to bankruptcies of clients, if any, would not impact us in any significant way. With respect to funding, the existing cash flows along with certain minimum refinaneability are adequate to take care of the near to medium term growth needs.

Business Model

We continue with our de-risked business model spread across geographies and offerings. This will not only help us in withstanding any business pressures, but will also provide a foundation for future growth.

Our revenues are distributed among various geographies viz. North America 50%, South Asia 28%, MEARC 10%, Western Europe 7% and Asia Pacific 5%.

Our offering-wise revenues consist of IT Services 33%, Transaction Services 32%, Software products for Banking 12%, Capital Markets 11%, Insurance 9% and ERP 3%.

This spread of revenues across geographies and offerings and a large customer base has helped us in our growth path and will continue to be the catalyst for future growth.

Management and Governance

As always, we believe that a good organizational structure, manned by experienced and well qualified personnel, will go in establishing a high quality

organization.

Our organization continues to follow the following structure:

- Geographies
- Verticals
- Horizontals
- Corporate Support Functions

The geographies continue to be the business drivers with revenue and profit targets. They are headed by very senior personnel, who have long years of experience in managing businesses.

The various lines of businesses are the verticals, which have a Global Practice Head, who enables the geographies to grow these businesses. The horizontals are businesses that run across the verticals and have their own Global Practice Heads.

The corporate support functions are headed by the respective Group Heads.

We continue to have good governance practices through different levels of authorization and decision processes within the organization.

An important part of our governance process is the Enterprise Risk Management (ERM) process that has been put in place across the group. Major risks are identified and steps to manage/mitigate the same are put in place through processes like risk dashboard, escalations and authorizations.

Human Resources

An organization is only as good as its employees. We have put in place proactive Human Resource Management policies, which concentrate on various aspects of people management like talent acquisition, learning and development, employee care and employee compensation.

We continue to maintain an environment which looks at nurturing entrepreneurial skills within a set of corporate guidelines.

I am glad to say that this has resulted in a number of innovative business ideas coming up from our employees.



Social Responsibility

We believe that education at all levels in the country is the prerequisite for development. People in rural areas are deprived of opportunities in education, especially IT related.

In line with our objective of balancing commercial objectives with social responsibility, we have set up the 3i Infotech Foundation during the year.

The objective is to concentrate on rural education through the spread of IT related literacy. We continue to donate computers for such needs, participate with organizations spreading computer literacy in the rural areas, tying up with large educational organizations to take computer education to the rural areas through our reach.

Awards & Recognition

The Company continues to win awards across Geographies in recognition for its offerings, partnerships and innovations.

Acknowledgment to Stakeholders

I take this opportunity to thank all our shareholders, investors, employees, customers, partners and other stakeholders for their continued confidence and support to the organization over the years. I am sure that with their continued support and guidance, your Company will scale new heights in the coming years.

V. Srinivasan