3i Infotech

Innovation • Insight • Integrity

Annual Report 2011-12

Empowering Business Transformation

3i Infotech®
Innovation • Insight • Integrity

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Company Details

Board of Directors

Mr. Hoshang N. Sinor, Chairman
Dr. Ashok Jhunjhunwala, Director
Mr. Ashok Shah, Director
Dr. Bruce Kogut, Director
Mr. Dileep C. Choksi, Director
Ms. Vishakha Mulye, Director
Mr. N.S. Venkatesh, Nominee Director – IDBI Bank Ltd.
Mr. V. Srinivasan, Managing Director & Global CEO
Mr. Amar Chintopanth, Deputy Managing Director & Chief Financial Officer

Principal Bankers :

ICICI Bank Ltd.
IDBI Bank Ltd.
Standard Chartered Bank

Auditors :

Lodha & Co.
R.G.N. Price & Co.

Legal Advisors :

Amarchand & Mangaldas & Suresh A. Shroff & Co.

Executive Management

V. Srinivasan, Managing Director and Global CEO

Amar Chintopanth, Deputy Managing Director & Chief Financial Officer

Padmanabhan Iyer, President - Finance

Pankaj Chawla, President – India, Middle East, APAC & Africa

Kumar Ganesan, President – North America & Western Europe and Global Head - IT Services

Shivanand R. Shettigar, Company Secretary and Head - Legal and Compliance

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 39145700
Fax: +91 22 39145520

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 67928098

Financials

Directors' Report

For the Financial Year 2011-12

Dear Shareholders,

Your Directors present the Nineteenth Annual Report of the Company with the Audited Statement of Accounts for the year ended March 31, 2012.

OVERVIEW

a) Financial Highlights:

The year 2011-12 was a challenging year for the Company. While the year started on an optimistic note and even the financial results and operations were growing in line with the projections, the situation started turning adverse by the end of second quarter and in the later half of this financial year and the Company reported a net loss for the year ended March 31, 2012.The downturn was attributable to various internal and external factors, which are discussed in detail in the Management Discussion and Analysis which forms part of this Report. The Financial Highlights for the year ended March 31, 2012 have been stated hereunder.

The global economic downturn resulted in the slowdown of business activities. The tight monetary environment made banks adopt a cautious approach while lending. Further, CRISIL downgraded its ratings on Company's bank facilities and commercial papers to 'CRISIL D/CRISIL D' from 'CRISIL A-/Stable/CRISIL A1'. As a consequence, the Company could not get re-financing facilities from the banks which resulted in severe liquidity crunch for the Company.

During the year, the revenue of the Company declined compared to previous year as the Company had to divest one of its business units in the USA consisting of Regulus group and J&B Software Inc, which were facing continuous decline in revenue. This was divested and the proceeds were used towards reduction of debt to the extent of about ₹580 crores. In India, HCCA Business Services Private Limited, a pay roll processing entity was also divested as part of the strategy to hive off non-core business. Further, due to non-availability of working capital funding from the banks, the Company also exited some of the working capital intensive and low margin businesses. All these factors have resulted in significant reduction in revenue and operations resulting in a loss during the year.

The brief financial highlights of the Company are as under. Though the previous year's figures are given against the current year's figures as a matter of record, you may note that the financials are not comparable with previous year, in view of the reasons mentioned above.

b) Financials of the Company on Consolidated basis:

₹ in crores

Particulars	**Year ended March 31, 2012**	Year ended March 31, 2011
Total Income	**1730.59**	2587.48
Profit/(Loss) from ordinary activities after finance costs but before exceptional items	**(72.54)**	261.21
Exceptional Items	**(181.42)**	-
Profit / (Loss) from ordinary activities before tax	**(253.96)**	261.21

₹ in crores

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Tax Expense	**80.77**	7.64
Profit/(Loss) from ordinary activities after tax	**(334.73)**	253.57
Impact of discontinuing operations	**(22.67)**	-
Minority Interest	**(2.63)**	(1.06)
Profit/(Loss) after tax, minority interest and discontinuing operations	**(360.03)**	252.51
Earnings Per Share (Basic in Rupees) (Before Exceptional items and discontinuing operations)	**(8.51)**	12.81
Earnings Per Share (Basic in Rupees) (After Exceptional items and discontinuing operations)	**(19.14)**	12.81

The Members may note that the auditors, without qualifying the audit report, have brought to the attention of the Members certain matters which are re-produced below ad verbatim.

1. Note no. 2.26(D) regarding the financial statements of the Group having been prepared on a going concern basis, the appropriateness of which, interalia, is dependent on successful implementation of the scheme approved by the Corporate Debt Restructuring Cell as also that in the opinion of the management, no impairment is considered necessary.
2. Note no. 2.26(D) regarding exceptional write off/reversal of Unbilled Revenue of ₹137.62 crores and ₹2.91 crores in diminution in value of long term investment and both disclosed as exceptional items.
3. Note no. 2.26(D) regarding carrying amount of ₹27.23 crores for Payment Solution Software Product to be adapted for application in different geographies which in the opinion of the management will be localized in due course of time and commercially exploited thereafter.
4. Note no. 2.30(a) certain long overdue/slow-moving Trade Receivables/Unbilled Revenue aggregating to ₹225.98 crores in respect of which the management is confident of realising the same with concerted efforts in due course of time.
5. Attention is also invited to note no. 2.4.4 in financial statements in respect of Net Deferred Tax Assets recognized in the earlier years of ₹103.82 crores being carried forward in the Balance Sheet and expected to reverse in foreseeable future, on the basis of order book on hand and the Restructuring Scheme approved by the CDR Cell. *However, we are unable to express an opinion as to when and to what extent the aforesaid net deferred tax asset would reverse in the near future.*

The Members are requested to refer the relevant notes referred in the above observations which are self explanatory and reflect Board's/Management's response on these matters.

c) Financials of the Company on Standalone basis:

₹ in crores

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Total Income	**540.62**	578.62
Profit/(Loss) from ordinary activities after finance costs but before exceptional items	**(165.25)**	108.15
Exceptional Expenditure/Items	**(87.22)**	-
Profit/(Loss) from ordinary activities before tax	**(252.47)**	108.15
Tax Expense	**59.26**	(11.24)

₹ in crores

Particulars	**Year ended March 31, 2012**	Year ended March 31, 2011
Profit/(Loss) from ordinary activities after tax	**(311.73)**	119.39
Impact of discontinuing operations	**(14.42)**	-
Profit/(Loss) after tax and discontinuing operations	**(326.15)**	119.39
Earnings Per Share (Basic in Rupees) (Before Exceptional items and discontinuing operations)	**(12.08)**	5.85
Earnings Per Share (Basic in Rupees) (After Exceptional items and discontinuing operations)	**(17.37)**	5.85

The Members may note that the auditors, without qualifying the audit report, have brought to the attention of the Members certain matters. The observations from the Audit Report (on standalone financials) are re-produced below ad verbatim.

1. Note no. 2.21(D) regarding the financial statements of the Company having been prepared on a going concern basis, the appropriateness of which is interalia dependent on successful implementation of the scheme approved by the Corporate Debt Restructuring Cell as also that in the opinion of the management, no impairment provision is considered necessary.

2. Note no. 2.21(D) regarding Exceptional write off of Trade Receivables and reversal of unbilled revenues of ₹75.40 crores and disclosed as exceptional items.

3. Note no. 2.21(D) regarding carrying amount of ₹27.23 crores for Payment Solution Software Product to be adapted for application in different geographies which in the opinion of the management will be localized in due course of time and commercially exploited thereafter.

4. Attention is also invited to note no. 2.8.2 in respect of Net Deferred Tax Assets recognized in the earlier years of ₹103.66 crores being carried forward in the Balance Sheet and expected to reverse in foreseeable future, on the basis of order book on hand and the Restructuring Scheme approved by the CDR Cell. *However, we are unable to express an opinion as to when and to what extent the aforesaid net deferred tax asset would reverse in the near future*

The Members are requested to refer the relevant notes referred in the above observations which are self explanatory and reflect Board's/Management's response on these matters.

d) Corporate Debt Restructuring:

During the year, especially by the end of second quarter of the year, due to global economic slowdown when the business environment was gloomy, the bankers were also adopting conservative approach for funding the re-financings. As a result of this, the Company started facing liquidity crunch and it was not able to fulfill some of its repayment obligations. In order to overcome debt repayment obligations, your Company made a reference to the Corporate Debt Restructuring (CDR) cell on December 28, 2011 for restructuring of the debts of the Company through CDR Mechanism envisaged under the Reserve Bank of India (RBI) guidelines dated August 23, 2001 and subsequent amendments thereto. The final restructuring package was approved by CDR empowered group on March 16, 2012. The Master Restructuring Agreement has also been signed with the lenders participating in the CDR package ("CDR Lenders") on March 30, 2012. Some of the salient features of the CDR package are as follows:

- Restructuring of certain debt facilities availed by the Company and business operations of the Company;
- Conversion of 15% of the secured loans and 20% of the unsecured loans into equity;
- Conversion of interest on Term Loan and Working Capital Facilities for first 18 months (i. e from the cut-off date from October 1, 2011 to March 31, 2013) into equity;
- Availing additional debt upto ₹58.37 crores from some of the CDR lenders for certain immediate requirements of the Company;

- Restructuring of short-term loans into long term loans by reset of maturity dates of loans and reset of interest payment dates;
- Restructuring of the outstanding preference shares issued by the Company by conversion into equity shares and/or rollover of the existing preference shares and
- Creation of security over certain assets of the Company and some of its onshore and offshore subsidiaries and enter into certain documents in favour of a security trustee/agent, as may be necessary for the benefit of the CDR lenders in order to secure the obligations of the Company under the CDR Package.

e) **Restructuring of FCCBs:**

During the year, the Company was also facing the challenge of redemption of outstanding Foreign Currency Convertible Bonds (FCCBs). The Directors are happy to inform you that through sustained efforts, the Company was able to restructure its debts and FCCBs and bring in stability to the Company.

There were two series of outstanding FCCBs worth Euro 20 Million (Euro Bonds) and USD 66.367 Million (USD Bonds) which were due in April 2012 and July 2012 respectively. 100% of the Euro Bonds and 96.33% of the USD Bonds were restructured, for their face value plus redemption premium, by issuing new US$ 125,356,000 5% Convertible Bonds due 2017 in exchange thereof. Further, the tenure of the remaining 3.67% of the USD bonds was extended till 2017 with a coupon of 4.75% p.a. payable semi anually.

The details such as the total bonds issued, bonds converted, number of shares allotted, number of bonds repurchased and expected number of shares to be allotted with respect to outstanding FCCBs have been given in detail in Corporate Governance Report at para No. VI(o).

TRANSFER FROM RESERVES

Your Company proposes to transfer ₹37 crores from the general reserve to the Profit and Loss Account. No amount is proposed to carried in General Reserve to the Balance Sheet this year.

DIVIDEND

In view of the financial loss reported during this year, your Directors regret to state their inability to recommend any dividend for the year ended March 31, 2012.

Further, during the year, due to inadequacy of profits, the interim dividend given to the preference shareholders for the period April to July 2012 was reversed and called back by the Board. Further, the Board decided not to declare any dividend to its preference shareholders for the remaining part of the year.

TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND

During the year, unclaimed dividend of ₹221/- was transferred to the Investor Education and Protection Fund (IEPF), as required by the Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001. The Company has also transferred to IEPF an amount of ₹321,900/- which was appearing as refund of application money received at the time of Initial Public Offering of the Company in April 2005.

BUSINESS

Your Company is a global Information Technology company committed to empowering Business Transformation.

Your Company has a comprehensive set of IP based software solutions (20+), coupled with a wide range of IT Services to address the dynamic requirements of a variety of industry verticals including Insurance, Banking, Capital Markets, Asset & Wealth Management (BFSI) etc. The Company also provides solutions for other verticals such as Government, Manufacturing, Retail, Distribution, Telecom and Healthcare.

The contribution to the revenue for the year from IT Solutions was 95% and that of Transaction Services was 5%.

Your Company has a large customer base across the globe and about 71 of them are Fortune 500 customers. The Company has physical presence in 14 countries and 5 geographies, viz. South Asia, Asia Pacific, Middle East and North Africa, Western Europe and North America. Your Company has marketing network around the world, including North America, Western Europe, Middle East and Africa and Asia Pacific.

The business of your Company is majorly divided into Emerging Market and Developed Market. The share of the Emerging Market to total revenue of the Company is 60%, while that of Developed Market is 40%.

For detailed operations and business performance and analysis, kindly refer the Management Discussion & Analysis which forms a part of this Report.

AWARDS & ACCOLADES

During the year, the Company has received the following recognitions:

- Retained its 4th position in the lending category of the IBS Sales League table published by IBS Intelligence, UK for the fourth consecutive year (2008-2011);
- Ranked 46th (6th among all Indian IT companies) in the year 2011 in the Fintech 100 list of Financial Services & Technology providers, published by American Banker;
- Locuz Enterprise Solutions Limited, a subsidiary of the Company, won the CRN Xcellence Award 2011;
- Winner of the Systems in the City Award for Best Marketing Material for the 2nd consecutive year, London;
- Award for the Best Takaful Technology Company for the 4th consecutive year at the 5th International Takaful Summit 2011;
- Certified by Wordblu as one of the “Most Democratic Workplaces” for the 2nd consecutive year, 2010 and 2011 and
- Won Technology Vendor of the year Award at the Middle East Insurance Awards.

SUBSIDIARY COMPANIES

As of the date of this Report, the Company has 29 subsidiaries located in 5 geographies.

a) **Mergers and Amalgamations:**

During the year, Fineng Solutions Private Limited and J&B Software India Private Limited, two of the Indian subsidiaries of the Company were merged with the Company. Further, aok in-house Factoring Services Private Limited and aok in-house BPO Services Limited were merged with 3i Infotech BPO Limited, a wholly owned subsidiary of the Company.

b) **Divestment:**

In keeping with the strategy of the Company to concentrate on its niche area, during the current year, the Company divested its entire stake in Regulus Group and J&B Software Inc. to an affiliate of Cerberus Capital Management, L.P, a private investment firm. The proceeds of such divestment were used towards reduction of debt to the extent of about ₹580 crores. As a result of this divestment, Regulus Group LLC, Regulus Integrated Solutions LLC, Regulus West LLC, Regulus Tristate LLC, Regulus America LLC, Regulus Holdings Inc., Regulus Group II LLC and J&B Software Inc. have ceased to be the subsidiaries of your Company. 3i Infotech (Canada) Inc. (formerly known as J&B Software (Canada) Inc., renamed with effect from June 16, 2011), a step down subsidiary of the Company, was dissolved with effect from November 3, 2011.

During the year, the entire stake in HCCA Business Services Private Limited was divested to Hinduja Global Solutions Limited.

As a result of the aforesaid steps of mergers, amalgamations and divestment taken by the Company, the number of subsidiaries were reduced to 29 as on the date of this report from 43 at the beginning of the year.

c) **Investments:**

During the year, the Company has not raised its stake, on its own or through its subsidiaries, in any of the subsidiary companies.

d) **Accounts of the Subsidiaries:**

As per Section 212 of the Companies Act, 1956, your Company is required to attach the Directors’ Report, Balance Sheet and Profit and Loss Account of the subsidiaries to its Balance Sheet. As per circular no. 5/12/2007-CL-III dated February 8, 2011 issued by Government of India, a general exemption under Section 212 (8) of the Companies Act, 1956 has been granted. As per this Circular, a company need not make an application to the Central Government for