



O p p o r t u n i t i e s U n l i m i t e d

Kale Consultants Limited

17th Annual Report 2002-2003



SUBSIDIARIES

Kale Software International Ltd.

3, Candy House, Mandlik Road,
Colaba, Mumbai - 400 039
Tel. : +91-22-22820010
Fax : +91-22-22045973

Kale Consultants NZ Ltd.

40, Redoubt Road, Manukau,
Auckland, New Zealand
Tel. : +64-9-3362683
Fax : +64-9-6251402

Kale Softech, Inc.

2, Lincoln Highway, Suite 400,
Edison, NJ 08820, USA
Tel. : +1-732-5162100
Fax : +1-732-5162111

Kale Consultants Australia Pty. Ltd.

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Dingley, Melbourne
VIC 3172 Australia,
Tel. : +61-3-95510188
Fax : +61-3-95510288

JOINT VENTURE COMPANY

Antah Kale Sdn. Bhd.

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Off Jalan Semantan,
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50490 Kuala Lumpur, Malaysia
Tel. : +603-27101133
Fax : +603-27101100

OVERSEAS BRANCH

London

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Hiple Street, Old Woking,
Surrey GU22 9LG
London, UK
Tel. : +44-1483-745310
Fax : +44-1483-745343

OFFICES

Chennai

Shakti Towers II, "J&K" II Floor
766, Anna Salai, Chennai - 600 002
Tel. : +91-44-28514237
Fax : +91-44-28515755

Mumbai

Plot No. 70, 'C' Cross Road, MIDC, Marol,
Andheri (E), Mumbai - 400 093
Tel. : +91-22-28259580
Fax : +91-22-28347769

Mumbai

Ground Floor, 'Haria Centre', 8 Subhash Road,
Vile Parle (E), Mumbai - 400 057
Tel. : +91-22-28316940
Fax : +91-22-28316936

Pune

Kale Enclave, 685/2B&2C, 1st Floor,
Sharada Arcade, Satara Road,
Pune - 411 037
Tel. : +91-20-4219321
Fax : +91-20-4219328

REGIONAL OFFICES

Mumbai

3, Candy House, Mandlik Road,
Colaba, Mumbai - 400 039
Tel. : +91-22-22820010
Fax : +91-22-22045973

Kolhapur

Kale Info House, Plot No. 49
Takala Road, 10th Lane, Rajarampur,
Kolhapur - 416 008
Tel. : +91-231-2522612
Fax : +91-231-2522857

Noida

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Noida - 201 301
Telefax : +91-120-2511242

Nagpur

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Gokul Peth, Nagpur - 440 010
Tel. : +91-712-2555328

Dhule

Kuber Apartment,
Ground Floor, Professor Colony,
Deopur, Dhule - 424 001
Tel. : +91-2562-226283

Contents

Board of Directors

Narendra Kale	Chairman
Vipul Jain	Managing Director
K.K. Nohria	Director
Prabhakar Deodhar	Director
Pandurang Kakodkar	Director

Auditor

M/s. D.G. Kurundwadkar	Chartered Accountant
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Company Secretary

Ninad Umranikar

Bankers

Citibank N.A.
ABN AMRO Bank N.V.
IDBI Bank Ltd.
United Western Bank Ltd.
ICICI Bank Ltd.
State Bank of India
Bank of India
Kolhapur Urban Co-op. Bank Ltd.
Rupee Co-op. Bank Ltd.
Barclays Bank Plc.

Registered Office

Kale Enclave,
685/2B & 2C, 1st Floor,
Sharada Arcade,
Satara Road,
Pune-411 037
Tel. : +91-20-4219321
Fax : +91-20-4219328
Website : www.kaleconsultants.com

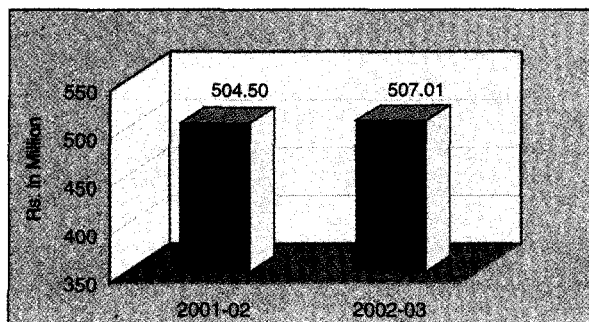
Registrar and Share Transfer Agent

Karvy Consultants Ltd.,
"Karvy House" 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad-500 034
Tel. : +91-40-23312454
Fax : +91-40-23311968

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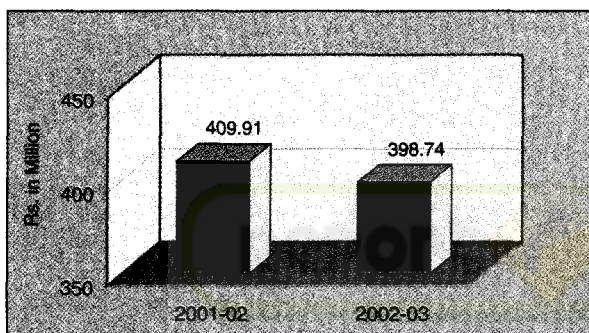
Financial Highlights

Total Revenue



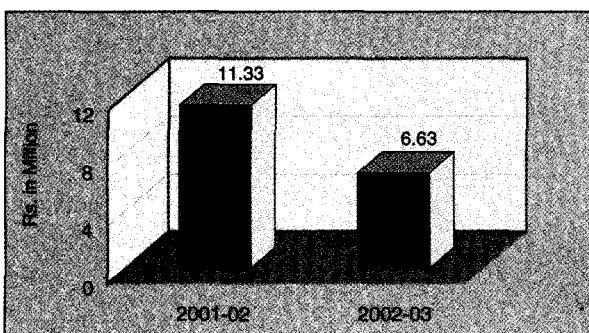
Total Revenues increased by 0.50%

Operating Expenses



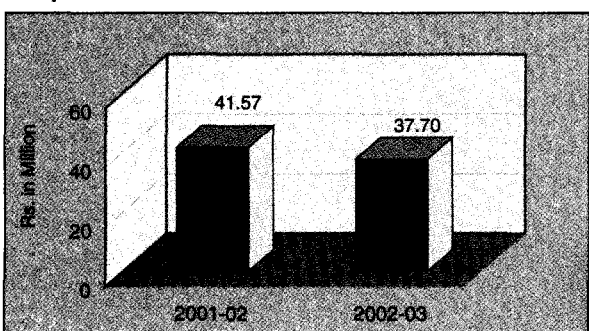
..... while Operating Expenses reduced by 2.72%

Interest & Finance Cost



..... restructuring of debt reduced Interest and Finance Cost by 41.48%

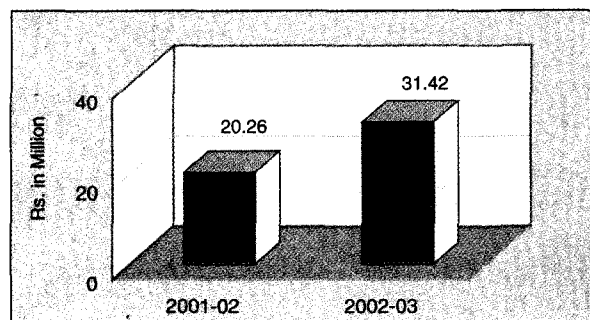
Depreciation Cost



..... Depreciation Cost reduced by 9.31%

Financial Highlights

Profit After Tax



..... resulting in a 55.08% increase in Profit After Tax.....

Performance Indicators

Rs. in Million

Sr. No.	Particulars	1998-99	1999-00	2000-01	2001-02	2002-03
1	Total Revenue	219.39	304.35	350.82	504.50	507.01
2	Operating Revenue	213.86	237.19	345.99	495.31	499.48
3	PBIDT	69.71	91.63	(16.94)	94.59	108.27
4	PBT	52.33	65.76	(66.39)	20.27	31.92
5	PAT	52.24	65.64	(67.31)	20.26	31.42
6	Net Fixed Assets	118.52	162.80	358.15	380.98	394.10
7	Borrowings	28.42	2.77	81.24	86.56	97.82
8	Equity Capital	19.65	114.98	114.99	114.99	115.00
9	Net Worth	163.15	574.73	500.15	518.50	541.17
10	Capital Employed	191.57	577.50	581.39	605.06	638.99
11	Dividend	3.93	16.64	0.00	0.00	0.00
	Dividend (%)	20%	20%	0%	0%	0%
12	EPS-Diluted (Rs.)	26.59	5.71	(5.85)	1.76	2.73

Directors' Report

To,
The Members,

Your Directors present the Seventeenth Report on the Business & Operations of the Company for the year ended March 31, 2003.

Financial Results

Rs. in Million

Particulars	2002 - 2003	2001 - 2002
Total Revenue		
- Domestic	118.18	118.14
- Export	381.30	377.17
- Other Income	7.53	9.19
Total	507.01	504.50
Total Expenditure	398.74	409.91
Operating Profit/(Loss)	108.27	94.59
Interest	6.63	11.33
Depreciation	37.70	41.57
Amortisation of Product Cost	32.02	21.42
Profit/ (Loss) Before Tax	31.92	20.27
Provision for Tax	0.50	0.01
Profit/ (Loss) After Tax	31.42	20.26
Add/(Less) : Excess / (Short) Provision written off (Net)	0.51	(1.92)
Profit brought forward from earlier year	18.34	—
Profit/ (Loss) available for appropriation	50.27	18.34
Appropriations :		
- Transferred to/(from) General Reserves	—	—
- Balance Transferred to Balance Sheet	50.27	18.34

Operations

The year under review was marked by continuing global recession which had an adverse impact on the IT industry in general and Airlines industry in particular. The situation at the end of the year was further aggravated by global events such as the war on Iraq and scare of SARS. Despite the sluggish market conditions and recessionary trends, your Company has sustained revenues, managed costs and hence improved profitability.

During the year under review, the total revenue stood at Rs.507.01 million against Rs.504.50 million in the previous year. The cost rationalization measures implemented by the Company have shown a positive impact on the expenditure which has reduced by Rs.11.17 million to Rs.398.74 million in the year under review as compared to Rs.409.91 million during the previous year. The reduction in expenditure coupled with the lower interest charges and depreciation has boosted the profit after tax for the year under review by 55.08% over the previous year. Your Company has registered a profit after tax of Rs.31.42 million during the year under review as against Rs.20.26 million for the previous year.

Managed Process Solutions

The Airline division continued to grow during the year and reported sales of Rs.348.19 million, a growth of 14% over the previous year. The Managed Process Solutions (MPS) business was the key contributor to this growth, showing an impressive growth of over 129% with sales of Rs.151.32 million as against Rs.66.14 million reported during the previous year.

The Company has expanded its service offering in the MPS business from Revenue Accounting to Audit Services. This is in sync with a strategy to build a portfolio of service offerings for the Airline industry. The Company began with offering end-to-end Revenue Accounting solutions, using its flagship product, REVERA™. Now, it has commenced offering Audit Services to its customers, using its product FAREGAIN™. This is a unique audit solution that identifies fare and tariff errors, providing airlines substantial potential for revenue recovery.

Directors' Report

While the MPS business has grown significantly on a YOY basis, the headcount has increased only by 58% from 92 to 145, which has led to improved margins. Kale's business model is not based on a per seat pricing, but on a per-transaction cost and thus the productivity benefits are to Kale's benefit.

Predictable Revenue Streams

Over the years, Kale has developed a business model, which provides stable revenue streams on one hand and growth on another. The stable recurring revenues from AMC and growing MPS business have reduced lumpiness of earnings significantly. The multi-year MPS contracts – Qatar Airways-4 years, Air Luxor-3 years and Canadian North-3 years, enhances the long-term visibility of revenues. The combined revenues from MPS and AMC accounted for 48.9% of operating revenue during the year as against 30.3% in the previous year. Thus more than Rs.250 million per annum of revenues are signed and assured business with a long term visibility. Total committed business is estimated at Rs.1,000 million over next 4 years.

IATA Neutral Prorate

During the year, the Company was selected by the International Air Transport Association (IATA) Neutral Prorate Action Working Group and recommended by the Revenue Accounting Panel as one of the two co-existing solution offerings to the industry for the Neutral Proration with the other being CIPS from ATPCO. This is a very important milestone in the history of Kale with significant implications for the future growth.

Customer Acquisitions

The key customer wins by Airline division during the year included a contract from Travel Cuts for its Passenger Revenue Accounting System, REVERA™, Contract for sale of cargo ground handling product, MERCURY™ to Kuala Lumpur Airport Services (KLAS) and one large airline in South East Asian region for revenue recovery services, which uses its revenue recovery product FAREGAIN™, among others. Travel Cuts is the first customer in the North American region to use the new generation product REVERA™ in a licensed mode.

The projects division bagged a prestigious client – SK C&C of South Korea, which is part of the SK Group, one of the largest conglomerates in South Korea. SK C&C is among the top system integration companies in Korea, and has decided to work with Kale as a development partner in India. The relationship is expected to grow significantly in the near future.

Outlook

The Company hopes to improve its profitability in the coming year on account of change in business mix, control on operating expenses and productivity gains through improved systems and processes. It will continue to invest into enrichment and enhancement of existing products while consolidating its position in the growing MPS business.

Subsidiaries

For the first time since inception, Kale Softech Inc., the wholly owned subsidiary in USA and Kale Consultants Australia Pty. Ltd., a wholly owned subsidiary in Australia have posted profitable results during the year under review. The Joint Venture Company in Malaysia, Antah Kale Sdn.Bhd. also showed significant improvement in the business while cutting down the losses substantially.

The positive trend shown by all the Subsidiaries/Joint Venture will continue in the future.

During the year, the Company invested Rs.1.48 million in its wholly owned subsidiary in Australia, Kale Consultants Australia Pty. Ltd.

During the year, Kale Software International Limited (KSIL), the wholly owned subsidiary in India, has made an application under Section 560 of the Companies Act, 1956 to the Registrar of Companies, Maharashtra (ROC) for striking off the name from the Register of companies maintained by the ROC. The application is under consideration in the office of the ROC. During the year under review, KSIL has not carried out any business.

The statement pursuant to Section 212 of the Companies Act, 1956 is annexed to this report.

Directors' Report

Directors

Mr. Narendra Kale

Mr. Narendra Kale - Chairman retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

Mr. Narendra Kale, 50, is M. Tech. in Computer Science from IIT, Kanpur and Advanced Management program from Harvard University, USA. He is one of the best known IT experts in the country. Over the years Mr. Kale grew to become a recognised expert in the sphere of IT and more particularly in bank automation, where he was a respected member of various committees at the industry level. Mr. Kale was a consultant to the Computerisation Committee of the Indian Banks Association. He was also a member of the Rangarajan Committee for computerisation of Banks. He has participated in several other Committees/Working Groups at the Reserve Bank of India and the Indian Banks Association.

Mr. Narendra Kale is a director in the following companies :

Public Limited Companies	Other Bodies Corporate
Kale Consultants Limited Kale Software International Limited	Kale Consultants NZ Limited Kale Softech, Inc. Kale Consultants Australia Pty. Limited Antah Kale Sdn. Bhd.

Managing Director

The term of Mr. Vipul Jain as Managing Director expires on 31st May, 2003. The Board of Directors, at its meeting held on 7th May, 2003, re-appointed Mr. Vipul Jain as Managing Director for a period of 5 years with effect from 1st June, 2003. The appointment is subject to the approval of the members in general meeting. Members are requested to approve the resolution for appointment of and remuneration payable to Mr. Vipul Jain as Managing Director.

Mr. Vipul Jain, 45, is a B.Tech. from IIT, Kanpur and a Post Graduate in Management from IIM, Ahmedabad. He was responsible for development and implementation of the country's first on-line Hotel Management System in 1982. In 1986, he, alongwith Mr. Narendra Kale, promoted Kale Consultants and took on marketing responsibility for the Company. He also led the Company's efforts in building the Hospital Management System, a pioneering effort that won him the Young Consultants Award from the Government of India. In 1992, he took on the responsibility of Managing Director. The setting up of the airlines line of business has been at his initiative and he has personally been responsible for the Company's success in marketing products in the fiercely competitive international market.

Mr. Vipul Jain is a director in the following companies :

Public Limited Companies	Private Limited Companies	Other Bodies Corporate
Kale Consultants Limited Kale Software International Limited	Virtual Wizards Private Limited Craftsbridge India Private Limited	Kale Consultants NZ Limited Kale Softech, Inc. Kale Consultants Australia Pty. Limited Antah Kale Sdn. Bhd.

Auditors

M/s. D. G. Kurundwadkar, Chartered Accountants, Auditors of the Company, retire at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

Directors' Responsibility Statement

Your Directors confirm that –

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period.

Directors' Report

- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- the directors had prepared the annual accounts on a going concern basis.

Human Resource

Your Company heavily draws on the dedicated and committed contribution of its sincere team of employees in pursuing growth with excellence in performance. To motivate the employees and to enable them to participate in the long term growth and financial success of your Company, an Employee Stock Option Plan (ESOP) has been introduced by your Company.

During the year, your Company implemented the Employee Stock Option Scheme, 2003. The approval of shareholders for grant of stock options was obtained at the Extra Ordinary General Meeting of the Company held on 6th February, 2003. Following are the details required to be given under the SEBI (Employee Stock Option Scheme and Stock Purchase Scheme) Guidelines, 1999:

a) Options granted	750,000 options were granted on 7 th February, 2003.
b) Pricing formula	Closing market price on the National Stock Exchange on the date of grant of options i.e. 7 th February, 2003 (Rs.36.20). The price is payable at the time of exercise of options.
c) Options vested	So far none of the options granted have vested.
d) Options exercised	Since none of the options have vested, the options have not been exercised.
e) The total number of shares arising as a result of exercise of options	If all the unexpired options granted so far are exercised, the exercise of options will give rise to 736,480 equity shares.
f) Options lapsed	13,520 options have lapsed on account of resignation of employees. As per the ESOP Scheme, these options shall be pooled back and may be granted at the discretion of the Remuneration and Compensation Committee to any Eligible Employee as defined in the ESOP Scheme.
g) Variation of terms of options	Till date there has been no variation of terms of options.
h) Money realised by exercise of options	So far there has been no realisation of money as the options have not been exercised.
i) Total number of options in force	The Company has obtained consent of the shareholders to grant 1,800,000 options. 750,000 options have so far been granted of which 13,520 options have lapsed on account of resignation of employees.
j) Employee-wise details of Options granted to <ul style="list-style-type: none"> i) Senior managerial personnel ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant 	<p>468,330 options have been granted to senior managerial personnel of the Company and its subsidiaries.</p> <p>Nil</p> <p>Till date none of the employee is granted any option, during any one year, equal to or exceeding 1% of the issued capital of the Company.</p>
k) Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33	Rs.2.73

Directors' Report

Corporate Governance

A report on Corporate Governance is set out separately, which forms part of this report.

Dividend

In view of your Company's continued efforts towards achieving future development, expansion initiatives and building reserves, your directors do not recommend any dividend this year.

Fixed Deposits

During the year your Company has not accepted fixed deposits from the public.

Particulars of Employees

As required under the provisions of section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the annexure, which forms part of this report.

Conservation Of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The particulars prescribed under clause (e) of subsection (1) of section 217 of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 are set out in the annexure which forms part of this report.

Acknowledgment

Your directors extend their gratitude to all investors, clients, vendors, banks, financial institutions, regulatory and governmental authorities and stock exchanges for their continued support during the year.

The directors place on record their appreciation of contribution made by the employees at all levels for their dedicated and committed efforts during the year.

For and on behalf of the Board of Directors

Place : Mumbai
Date : 7th May, 2003

Narendra Kale
Chairman

Vipul Jain
Managing Director

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