



Kale Consultants Limited



Empowering Travel & Transportation Industries



2003-2004

www.reportjunction.com

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Board of Directors

Narendra Kale	Chairman
Vipul Jain	Managing Director
K.K. Nohria	Director
Prabhakar Deodhar	Director
Pravin Gandhi	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
 Kolhapur Urban Co-op. Bank Ltd.
 Rupee Co-op. Bank Ltd.
 Barclays Bank Plc.

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Registrar and Share Transfer Agent

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Letter to Shareholders



Vipul Jain
MD & Group CEO

"Strategy is about making choices, trade-offs; it's about deliberately choosing to be different."

Michael Porter

Dear Members,

Welcome to a re-invented, fitter, more focused Kale Consultants. Last year we completed a strategic transformation and restructuring process that was three years in the making. The results have already started manifesting themselves and in the years to come, will not only lead to robust growth but also better return on equity and return on capital employed.

In the last three years the IT industry has gone through sweeping changes. The trends of indiscriminate IT spending, dot-com hype, and adoption of standard ERP solutions came to an end in the year 2000. Today, customers focus very strongly on ROI – Return On Investments. They have consolidated their IT suppliers, in an effort to reduce costs and simplify vendor management. Fortune 500 customers are more ready to set up captive units – both in Software services and BPO. Customers demand not just cost savings but "value addition" to their business.

These changes in global demand and customer behaviour have posed special challenges to medium sized companies. How does one create a differentiated service offering to rise above the clutter of IT vendors? How does one build competitive advantage against the large software service companies having the benefits of size and scale? And how does one create a sustainable business when all global players are aggressively setting up captive units to offer the "India Advantage" to their customers. Indeed, "Adapt or Perish" has become the marketplace reality.

Given this scenario and the steady growth of Kale's Airline Division, your Company embarked upon a process of complete reinvention: Spanning strategy, business lines, products, brand, people competencies and culture. If you think back of the Kale of three years ago, many of you would have had trouble pinning down exactly what kind of company we were. We had presence in a large number of areas from Airlines to Banking, from software products to generic software services. While most of these businesses were doing reasonably well, but very few offered Kale a strategic competitive advantage in the global market.



Letter to Shareholders

Hence, three years back, we took stock of the situation, understood where we were, and charted out a strategy for the future and the actions & trade offs that this strategy required. In essence the strategy was to take our Airline business and build that into a globally competitive business with fundamentals to provide sustainable, profitable growth. And at an appropriate time, divest all non-core activities to enable single minded focus on the Airline and Travel vertical.

The past year has seen a number of steps that brings the three year strategic plan to closure. Thus, we can share with you the rationale for the restructuring that have given Kale a new identity.

Banking software:

Kale's main strength in the banking software sector was in terms of Total Branch Automation. With clients increasingly preferring Core Banking Solutions, a market that had many players, your company was fast losing out on its competitive advantage.

The management hence decided to transfer the banking software business including Intellectual Property Rights (IPR), support and marketing rights, clients as well as employees to Onward Technologies Limited.

Software business from Citibank/OrbiTech:

Kale had a software services business with Citibank. Citibank spun their IT Division out into a new company and subsequently merged this company with Polaris. Kale management felt that in terms of positioning it did not make sense to be a sub-contractor to another Indian IT Company. Hence, it was decided to transfer this business to Polaris Software Limited.

Generic Software Services Division:

While the management believed that the generic Software Services Division had growth potential, it was felt that it was taking valuable management time and bandwidth. It was hence decided to spin this off to a subsidiary of the company, Synetairos Technologies Limited, which is being managed independently.

Airline products and services:

The focused and planned efforts over the last three years yielded positive results for the Airline Division in terms of world class products, marquee customers and strong brand recognition. The Kale Airline Division grew at a CAGR of 32% between years 99-00 and 03-04, providing validation to our value proposition.

Kale's solution areas address very major areas of IT and operational spending and thus offer large opportunities for sustainable and profitable growth. We provide solutions that deliver

Letter to Shareholders

clear, measurable benefits and return on investment for the global customers. The company thus feels very confident that there are adequate market penetration and service expansion opportunities to substantially meet the growth aspirations over the next 3-4 years.

It should not come as a surprise then that your company has decided to focus all its energies in the airline and related travel sectors.

Managed Process Services (MPS):

Customers are increasingly looking at outsourcing non-strategic activities to specialized vendors who can provide the service with better quality and at lower costs. Kale has leveraged its products and domain knowledge to offer a boutique of Managed Process Services to the Airline Industry. Starting from one customer in 2001, MPS revenues have grown at 72% CAGR over the last 3 years.

The value proposition to customers is compelling – Kale's MPS services allow customers to focus on their core business and leave the task of processing to Kale. The unit processing costs are substantially lowered. The cost structure changes from 'fixed' to a variable per transaction type charge. And lastly, but not least, the quality of the service is better and clearly defined in an SLA.

Kale's MPS portfolio extends the value addition from software to the entire business process. Since MPS service contracts are usually long term contracts, MPS also provides large revenue streams with long term visibility. This in turn reduces "lumpiness" of earnings and provides ability to grow scale and size – answers to typical challenges faced by product companies.

Travel

Travel and airline industries are complementary in terms of industry structures and practices. For long term growth of the company, Kale decided to enter the travel business. To accelerate business entry, Kale explored the inorganic route.

Your management chose six criteria when looking around for a strategic partner in the travel business, in order to ensure a perfect synergy. First, the company to be acquired should not be too big, in order to keep the cost of acquisition in check. Second, the company should have its own IPR in the form of state-of-art products and solutions. Third, it should have top-of-the-line customer base in the travel segment. Fourth, the company should have a skilled and dedicated team that puts customer satisfaction in the forefront. Fifth, its management should share the same kind of vision that your management does and last, the corporate culture of the company should be such that it can be easily integrated into Kale.

One company met all these criteria — Cognosys. Headquartered in New Delhi, Cognosys provides a range of end-to-end applications and travel technology solutions. The Cognosys



Letter to Shareholders

team is an excellent blend of IT experience and domain knowledge: experts from the travel industry work. They fill a very vital need for customized solutions leveraging components and frameworks specific to the travel industry.

The merger is aimed at harnessing individual competencies to create a bigger platform for the combined customer community of both Cognosys and Kale. Customers of both entities will see an enrichment of travel domain knowledge, a scaled-up delivery capability and a larger infrastructure for offshore project execution. Also, while Kale's Airline customers will get the benefit of e-Travel expertise, Travel customers will get the advantage of Kale's mid office accounting, decision-support and BPO capabilities.

Kale – Going forward.

With the restructuring completed, Kale is a vertically integrated software solution and outsourced-service provider to the travel and transportation industry. We straddle the entire value chain – from software products and frameworks to custom development methodologies to entire business processes on an outsourced basis. We believe that we offer to the airline and travel industry a range of unique capabilities and solutions to help our customers overcome their business challenges.

Kale's BPO business, which branded as Managed Process Services (MPS), is a natural corollary to its software solutions offerings to the Airline and Travel industries. It leverages our domain expertise and customer base – using our proprietary products to provide outsourced services, quite an innovation for the industry.

The integration of Cognosys' travel solutions business with Kale is nearing completion. As the two operations are integrated, synergies would be realized such as access to new products, new markets and new customers. I am confident that the company's global marketing team will make the best possible use of these opportunities to generate growth.

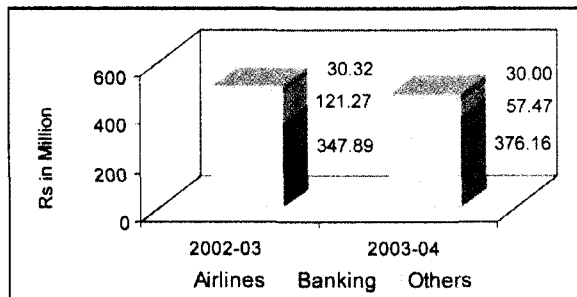
The next three year strategic plan (FY 05-07) will focus on leveraging the foundation created for accelerated growth – both top line and bottom line. Our goals are to achieve better than industry growth rates and enhance our profitability to bring it in line with industry leaders.

To paraphrase a term used by most of our clients: "Fasten your seat belts, Ladies and Gentlemen, and be ready for take-off."

Vipul Jain
Managing Director & Group CEO

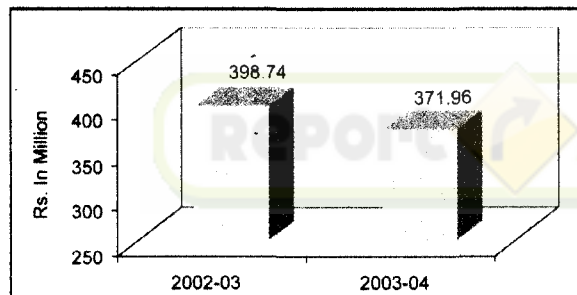
Financial Highlights

Segmentwise Revenue



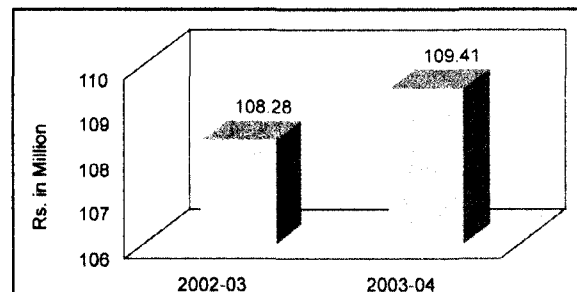
Total Revenues decreased by 7.18% while Kale Airlines Division (KAD) Revenue increased by 8.13%

Operating Expenses



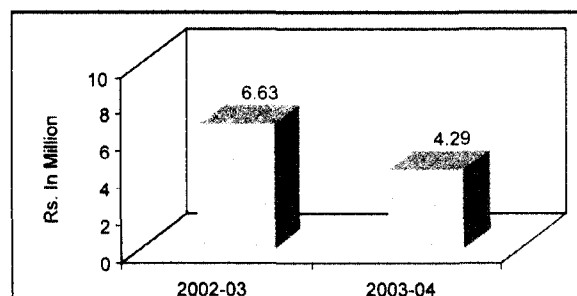
... Operating Expenses reduced by 6.72%

Operating Profit



... Operating Profit increased by 1.05%

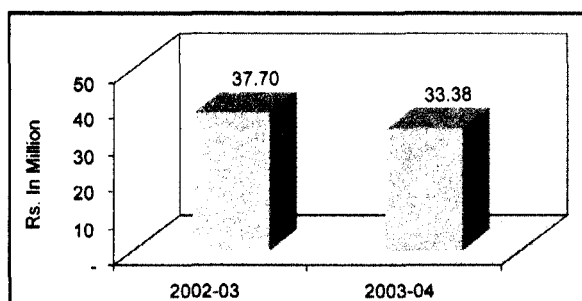
Interest & Finance Cost



..... restructuring of debt reduced Finance Cost by 35.29%

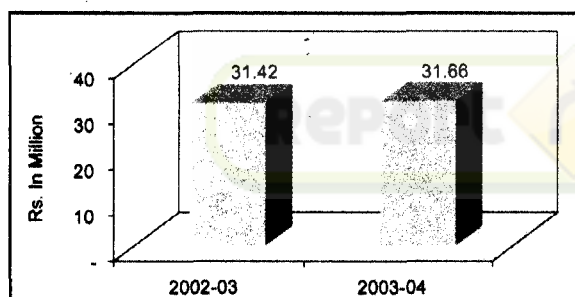
Financial Highlights

Depreciation Cost



..... Depreciation Cost reduced by 11.45%

Profit After Tax



..... net result is Profit After Tax increased by 0.76%

Performance Indicators

Rs. in Million

Sr.No.	Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
1	Total Revenue	304.35	350.82	504.59	507.01	481.37
2	Operating Revenue	237.19	345.99	495.31	499.48	463.63
3	PBDIT	91.63	(16.94)	94.59	108.27	109.41
4	PBT	65.76	(66.39)	20.27	31.92	31.67
5	PAT	65.64	(67.31)	20.26	31.42	31.66
6	Net Fixed Assets	162.80	358.15	380.98	394.10	350.20
7	Borrowings	2.77	81.24	86.56	97.82	150.56
8	Equity Capital	114.98	114.99	114.99	115.00	116.00
9	Net Worth	574.73	500.15	518.50	541.17	555.46
10	Capital Employed	577.50	581.39	605.06	638.99	706.02
11	Dividend	16.64	0	0	0	0
	Dividend (%)	20%	0%	0%	0%	0%
12	EPS-Diluted (Rs)	5.71	(5.85)	1.76	2.73	2.75

Directors' Report

To,
The Members,

Your Directors present the Eighteenth Report on the Business & Operations of your Company for the year ended March 31, 2004.

Financial Results

Rs. in Million

Particulars	2003 - 2004	2002 - 2003
Total Revenue		
- Domestic	67.46	118.18
- Export	396.16	381.30
- Other Income	17.75	7.53
Total	481.37	507.01
Total Expenditure	371.96	398.74
Operating Profit	109.41	108.27
Interest	4.29	6.63
Depreciation	33.38	37.70
Amortisation of Product Cost	40.07	32.02
Profit Before Tax	31.67	31.92
Provision for Tax	0.01	0.50
Profit After Tax	31.66	31.42
Add/(Less) : Prior Period Items	0.20	0.51
Profit brought forward from earlier year	50.27	18.34
Profit available for appropriation	82.13	50.27
Appropriations :		
- Transferred to/(from) General Reserves	—	—
- Balance Transferred to Balance Sheet	82.13	50.27

Overview

During the year under review, your Company undertook a strategic restructuring of its operations. Your Company decided to focus more sharply on the Airlines and Travel vertical and with this aim in view disengaged from its other businesses. This involved transfer of the software services business with Citibank / Orbitech to Polaris Software Labs Limited, sale of the Banking Products division to Onward Technologies Limited, sale of Healthcare software - WINCARE™ and the formation of a subsidiary company viz. Synetairos Technologies Limited to carry on the contracting and generic software services business. In addition to these steps, your Company acquired Cognosys Software Private Limited, a travel technology company, to facilitate its foray into the Travel and Transport vertical, an area synergistic with the Airlines vertical. With this restructuring, your Company has become a pure play in the Airlines and Travel industry.

Operations

During the year under review, the total revenues stood at Rs.481.37 million against Rs.507.01 million in the previous year. While revenues were lower by Rs 25.64 million, the total expenditure was reduced by Rs. 26.78 million, to Rs. 371.96 million compared to Rs. 398.74 million in the previous year. This was due to cost rationalisation measures and restructuring of the business operations undertaken by the Company during the year. The reduction in the total revenue was offset by the reduction in operational costs and finance charges and, as a result, profitability for the year under review was similar to that of the previous year. The profit after tax for the year was Rs.31.66 million compared to Rs.31.42 million reported during the previous year. The reduction in the revenues has been largely due to the sale of the Banking Products division, as also the Company's disengagement from its various other businesses described above. However, in the Airlines vertical, the revenues have increased. Operational expenses have correspondingly come down.