

Winner:

NASSCOM IT Innovation Award 2006

21st Annual Report 2006 - 07

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Kale Consultants Limited

**Board of Directors****Narendra Kale****Vipul Jain****K.K. Nohria****Prabhakar Deodhar****Pravin Gandhi****Chairman****Managing Director****Director****Director****Director****Auditor****M/s. D.G. Kurundwadkar****Chartered Accountant****Company Secretary****Ninad Umranikar****Bankers****State Bank of India****Citibank N.A.****ABN AMRO Bank N.V.****The Hongkong and Shanghai Banking Corporation Ltd.****ICICI Bank Ltd.****Barclays Bank Plc.****Registered Office****Kale Enclave, 685/2B & 2C,****1st Floor, Sharada Arcade,****Satara Road,****Pune – 411 037****Tel. No. +91 20 6608 3777****Fax No. +91 20 2423 1639****Website : www.kaleconsultants.com****Registrar and Share Transfer Agent****Karvy Computershare Pvt. Ltd.,****Plot No. 17 to 24,****Near Image Hospital,****Vittalrao Nagar, Madhapur,****Hyderabad 500 081.****Tel. : +91-40-2342 0815 / 2342 0817****Fax : +91-40-2342 0814****Contents****Letter to Shareholders ..... 2****Financial Highlights ..... 4****Directors' Report ..... 6****Management Discussion and Analysis ..... 22****Kale's Social Initiative ..... 35****Auditor's Report ..... 37****Financial Statements ..... 40****Consolidated Financial Statements ..... 57****Financial Statements of Subsidiaries ..... 70**▷ **Kale Softech, Inc.**▷ **Kale Consultants Australia Pty. Ltd.**▷ **Antah Kale Sdn. Bhd.**▷ **Kale Technologies Ltd.**▷ **Synetairios Technologies Ltd.****Shareholder Information ..... 123****AGM Notice ..... 127**

## Letter to Shareholders

*"Some men see things as they are and say why.  
I dream things that never were and say why not"*  
George Bernard Shaw

Dear Shareholders,

Kale Consultants was awarded the NASSCOM IT Innovation Award 2006. The award was presented by the Honorable Prime Minister of India, Dr. Manmohan Singh on 9th February 2007 at the NASSCOM IT Leadership Forum.

This is indeed a great achievement because the much coveted award receives hundreds of nominations and the selection process includes presentations to expert panels in open forums. NASSCOM, as we are all aware, represents over 3000 IT and ITeS companies and to be recognized by one's peers for something as intangible and yet value creating as "innovation" is a singular honor.

We won this award for Kale's innovation in creating a Platform Based BPO business model for the Airline and Travel industry. Let me explain what this means.

Traditionally the airline industry has always carried out a mission critical function like revenue accounting as an in-house process, using either application software that has been developed in-house or bought from a software product vendor. The customer thus had to worry not only about software implementation, training, maintenance and upgrades but also about hardware and system software procurement, installation, data center management, etc. Coming to the processing side, in the traditional model, the function is done in-house using airline staff. In a few instances where airlines have outsourced the business processes to lower costs, it has been simple work like data entry, imaging, error correction and reconciliation, because the function requires deep domain knowledge which a generic BPO vendor does not have.

This traditional model is expensive and very inflexible. Many airlines despite best efforts are not able to do this function in a "best practice" manner and thus suffer from revenue leakages, inaccurate accounting, delayed revenue declaration or inadequate MIS. As the needs of the industry have changed, customers find it a big challenge to keep pace and also control processing costs.

In this context, Kale innovated to offer a simple value proposition – give us the input data and we will give you the required output on an agreed quality and service level basis. Kale uses its application software, hardware, infrastructure, people, business processes, quality systems, management skills and ability to deliver the end product to the customer. Kale takes end-to-end responsibility for the entire business process and transforms the customer to its application platform and processes. As a result, the quality, productivity and service level improves. In addition, Kale charges the customer on a "pay for use" basis, i.e. per transaction, so that the customer is relieved of the need for capital investments and pays for the "output" rather than the effort.



Vipul Jain  
Managing Director



## Letter to Shareholders

Kale's offering is a disruptive innovation for the airline industry. It completely changes the traditional way of doing this function and offers a new business model that is better, faster and cheaper. As our model has evolved, we have added to our portfolio a range of products and services so that today our customers can choose from a "menu" of software or outsourced services and thus implement this concept in a modular manner.

Like any new innovation, this is slowly but surely being accepted by the industry – in 2001, we processed approximately 1.1 million passenger coupons last year we processed in excess of 15 million transactions. In the past one year, our revenue protection and recovery services would have saved our customers in excess of US\$ 10 million. We are partnering with IATA in an innovative way of doing airline interline billing services. We have steadily innovated with the vision of creating the world's best revenue management and accounting "utility".

Kale's portfolio of revenue accounting solutions provides clients the benefits of transformation as well as outsourcing of their processes in a simple compelling value proposition. It is a path-breaking innovation not only for the airline industry but also for the Indian IT and ITeS industry.

We have won the NASSCOM Award for the work done in the Revenue Accounting space, but the concept is applicable to many domains in the wider Travel and Transport industry. In the industry you hear many buzz words – "software as service", "utility computing", "platform based BPO", "transformational outsourcing", "Outsourcing 3.0" and what we are doing embodies these concepts. We are very excited by the enormous customer value that is created when technology is used to simplify and improve processes and combined with global outsourcing to reduce cost and implement quality systems. With our sharp industry focus, deep domain knowledge and solution mind set, we are uniquely positioned to deliver this value. We will continue our innovation journey with increased energy and vigor.

Innovation @ work at Kale – I would like all Kale stakeholders to take pride in what we have achieved because our achievements are a matter of pride for the entire Indian IT industry, not only Kale. I would also like to acknowledge the many unsung heroes at Kale – the thought leaders, the domain experts, the product teams, the software developers, the processing staff, the customer relationship and sales teams, the marketing folks, the technology and systems guys, the process and quality specialists, the HR, Finance and legal teams. This award belongs to Team Kale – because it is really a team effort. I would like to celebrate the passion that they bring to the job and their self-belief and conviction that have allowed us to accomplish what we have achieved so far.

And last but not the least, I would like to thank our shareholders. Your belief and trust in Kale inspires us towards excellence. Your support enables us to grow. On behalf of all of us at Kale – a big THANK YOU!

What can you expect from Kale in the future? Much more in terms of offerings and value propositions, more innovation, more disruption to legacy paradigms and technologies, and more transformative outsourcing solutions delivered with the same sincerity and passion that is the hallmark of Kale. And above all, with the values and integrity that define Kale and Kaleites.

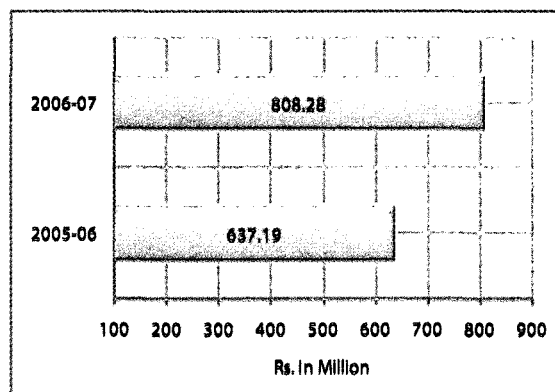


Vipul Jain  
Managing Director

Vipul Jain receiving the "NASSCOM IT Innovation Award 2006" from Honorable Prime Minister of India, Dr. Manmohan Singh at NASSCOM Leadership Forum held on 9th February 2007

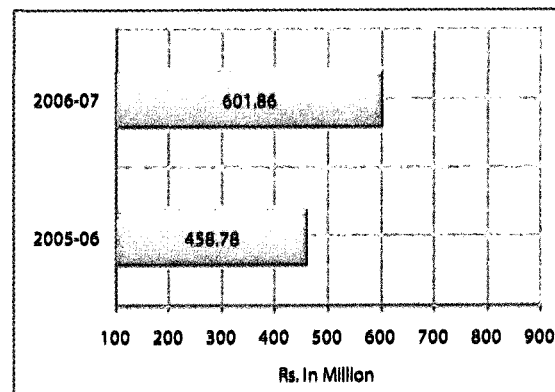


## Financial Highlights



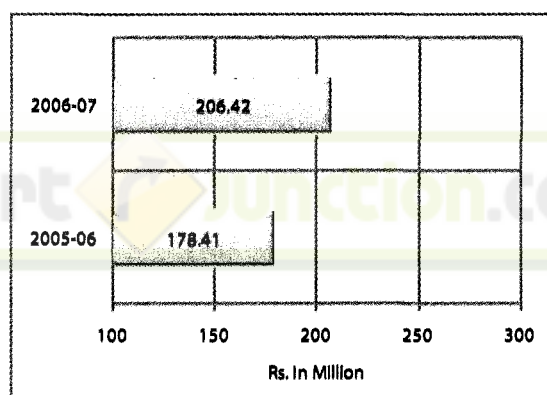
Total Revenue

Revenue increased by 27%



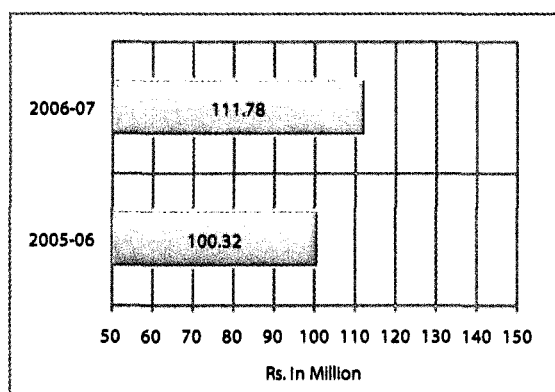
Operating Expenses

Operating Expenses increased by 31%



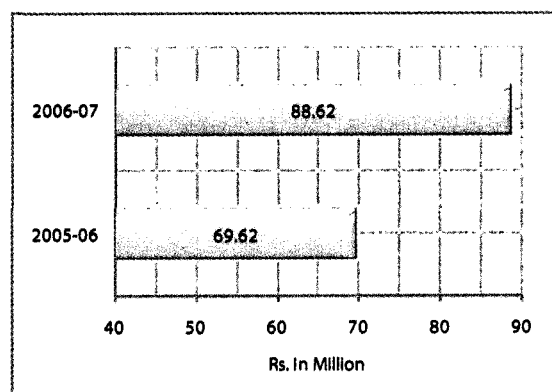
PBIDT

PBIDT increased by 16%



Depreciation and Amortisation

Depreciation and Amortisation Cost Increased by 11%



Operating PBT

Operating Profit Before Tax increased by 27%

## Financial Highlights

### Performance Indicators

Rs. in Million

Sr. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
1	Total Revenue	507.01	481.37	505.99	637.19	808.28
2	Operating Revenue	499.48	463.63	492.92	625.84	795.06
3	PBIDT	108.27	109.41	119.86	178.41	206.42
4	Operating PBT	31.92	31.67	36.72	69.62	88.62
5	PAT	31.42	31.66	7.52	64.84	80.47
6	Net Fixed Assets	394.10	350.20	359.75	419.97	446.56
7	Borrowings	97.82	150.56	166.49	120.85	101.01
8	Equity Capital	115.00	116.00	116.83	128.46	132.21
9	Net Worth	541.17	555.46	540.41	629.29	696.23
10	Capital Employed	638.99	706.02	706.90	750.14	797.25
11	EPS - Diluted (Rs.)	2.73	2.75	0.10	5.17	6.09

## Directors' Report

To,

The Members,

Your Directors present the Twenty First Report on the Business and Operations of your Company for the year ended March 31, 2007.

### FINANCIAL RESULTS

Rs. in Million

PARTICULARS	2006-07	2005-06
<b>Total Revenue</b>		
- Domestic	184.89	118.05
- Export	610.17	507.79
- Other Income	13.22	11.35
<b>Total</b>	<b>808.28</b>	<b>637.19</b>
<b>Total Expenditure</b>	<b>601.86</b>	<b>458.78</b>
<b>PBIDT</b>	<b>206.42</b>	<b>178.41</b>
Interest	6.03	8.47
Depreciation and Goodwill	55.24	44.11
Amortisation of Product Cost	56.53	56.21
<b>Profit Before Tax</b>	<b>88.62</b>	<b>69.62</b>
Provision for Tax	4.50	1.78
Provision for Fringe Benefit Tax	3.65	3.00
<b>Profit After Tax</b>	<b>80.47</b>	<b>64.84</b>
Add/(Less) : Prior Period Items	(0.34)	1.27
Profit brought forward from earlier years	129.58	83.39
<b>Profit available for appropriation</b>	<b>209.71</b>	<b>149.50</b>
<b>Appropriations:</b>		
- Transferred to/(from) General Reserves	2.01	1.62
- Proposed Dividend	16.52	16.06
- Dividend Distribution Tax	2.80	2.25
- Balance Transferred to Balance Sheet	188.38	129.57

### Dividend :

Your Directors are pleased to recommend a dividend of Rs. 1.25 per equity share for the financial year ended March 31, 2007.

### Overview:

Your Directors are pleased to inform you of your Company's continued growth and robust operational performance during the year under review.



## Directors' Report

The year has seen the Company take significant strides in its endeavor to become a leading service provider in the Travel & Transportation industry globally. The year saw your Company being awarded twenty new contracts coinciding with twenty years of providing innovative solutions. The year has seen significant client acquisitions in the fast growing Middle East and Asian markets, especially in the last quarter, successfully strengthening our base in the airlines industry and consolidating ourselves in the global cargo, logistics and travel industries.

Your Company received wide industry acclaim during the year. The NASSCOM Award for IT Innovation showcased our steadfast contribution as a thinking organization. This was a boost to our sustainable efforts at creating value for clients, employees and shareholders. During the year, your Company's strategic partnership with IATA (International Air Transport Association) was further strengthened with Kale being invited to be the nodal agency for the e-Freight initiative in India.

Kale's steady growth over the years signifies the growing confidence in our solutions and the continued scalability that we offer to clients world over. We have successfully expanded our offerings to provide 'total solutions' - encompassing cutting-edge IT solutions, industry recognized products, best-practice BPO along with unparalleled domain knowledge. Your Company's offerings are well poised to address the exacting needs of Airlines, Air Cargo, Logistics, Airports, Hospitality, Travel Agencies, Tour Operators, and other players in the eco system of the travel and transportation industry.

After achieving the objective of becoming one of the top service providers in the airlines industry, your Company has now outlined a strategy to become an omnibus solution provider to the travel and transportation industry globally. This initiative details the roadmap of your Company's plans to maximize the potential and widen the scope of its offerings to the travel and transportation industry.

Companies in the travel and transportation industry are continually looking at a one-stop-solutions-shop for all their requirements. Increasing competition and pressure to maintain cost efficiencies are driving companies to utilize the benefits of technology and outsourcing. Very few solution providers to this vertical offer a combination of unparalleled domain knowledge, "best of breed" technology and "global best practice" business processes outsourcing to deliver transformational value propositions. Your Company will leverage these strengths and offer customized solutions to emerge as a leading service provider in the travel & transportation industry.

Your Company's singular focus on the travel and transportation industry, deep domain knowledge, innovation and a solutions mind set continues to differentiate it amongst its competitors. As we launch our new strategy this year, your Company plans to accelerate growth both organic and inorganically in the coming years.

### Operations

During the year under review, your Company generated revenues of Rs. 808.28 million compared to Rs. 637.19 million in 2005-06, an increase of 26.85% over the previous year. Operating Revenues for the year 2006-07 grew from Rs. 625.84 million in 2005-06 to Rs. 795.06 million, a growth of 27.04%. Revenues from export of Software Products and Services increased by 20.16% to Rs. 610.17 million from Rs. 507.79 million in the previous year.

Operating expenditure for the year 2006-07 stood at Rs 601.86 million as against Rs. 458.78 million during the previous year, an increase of 31.19%. The operating profits stood at Rs. 206.42 million as against Rs. 178.41 million in the previous year, an increase of 15.70%. Profit after tax for the current year has increased to Rs. 80.47 million from Rs. 64.84 million in the previous year, an upsurge of 24.09%.

## Directors' Report

### Customer Acquisitions

The following table lists the new contracts signed by Kale in the year 2006-07:

<b>Solution</b>	<b>In-House Implementation</b>	<b>Hosted Solution</b>	<b>Kale-MPS® (BPO)</b>
APEX®	EVA Air	Sky Team Alliance	One of the largest Middle-Eastern Airline
REVERA®	Middle-East airline	Asian Airline	Daallo Airlines
CSP-AMBER®	Middle-East airline	SAS Cargo	Daallo Airlines
CSP®	TAP Portugal Middle-East airline	-	-
RRPS™	-	-	Yemenia Airways: Complete RRPS™ suite Large Gulf Region Airline: RRPS™ RBD/BIDT One of the largest Middle-Eastern Airline: Cargo Sales Audit
Projects	Global Life Insurance Company: Consultancy & Support Indian Airport: Infrastructure Consultancy	Asian Airline Custodian Website at International Airport Indian International Airport Custodian Website	
Logistics	Direct Logistics Apollo International		

*\* A few client names have been withheld due to contractual obligations*

### Managed Process Services (Kale MPS®)

Kale MPS® which includes End-to-End Revenue Accounting, Revenue Recovery and Protection Service (RRPS™) and Cargo Sales Audit, has shown increased growth potential during the year adding 6 new contracts including Daallo Airlines and Yemenia Airways. The total number of customers have increased to 18.

The revenues generated by Kale MPS® grew by 28.56% from Rs. 374.66 million during the previous year to Rs. 481.66 million.

### Logistics

The Transportation & Logistics industry is growing at a fast pace within India as well as internationally. Your Company's foray in this sector has been reinforced with two new contracts during the year. Our knowledge in this domain is generating a lot of interests from other companies in the industry.

### CSP®

This year as part of our marketing efforts for promoting your Company and CSP® within the air cargo fraternity, we sponsored the award for 'Best Cargo Airline to the Indian Sub-Continent' at the 'Cargo Airline of the Year' award ceremony organized by Air Cargo News.

### Subsidiaries

Kale Softech Inc., USA (KSI) has shown improved results this year. In line with Kale's growth strategy, KSI's focus is on the Travel and Transportation business. During this year, SkyTeam alliance has selected APEX™ for NFP - a huge achievement for Kale and a