



23RD ANNUAL REPORT 2008 - 09

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KALE CONSULTANTS LIMITED

**CORPORATE OFFICE &
DEVELOPMENT CENTRE**

Thane

1st Floor, Modi House, Naupada,
Eastern Express Highway,
Thane(W) - 400 602, India
Tel:+ 91-22-6780 8888
Fax:+ 91-22-6780 8899

DEVELOPMENT CENTRES

Pune

Kale Enclave, 685/2B & 2C,
1st Floor, Sharada Arcade,
Satara Road,
Pune 411 037, India
Tel:+ 91-20-6608 3777
Fax:+ 91-20-2423 1639

MPS

Mumbai

Akruti Trade Centre, Road No. 7,
MIDC, Andheri(E),
Mumbai 400 093, India.
Tel:+ 91-22-6769 3700
Fax:+ 91-22-6679 3717

Excom House
7 Saki Vihar Road,
Saki Naka, Andheri(E),
Mumbai 400 072, India
Tel:+ 91-22-2851 6970
Fax:+ 91-22-2851 6430

Pune

Kale Enclave, AG-4 and AG-5,
Ground Floor, Sharada Arcade,
Satara Road,
Pune 411 037, India
Tel:+ 91-20-6608 3777
Fax:+ 91-20-2423 1639

Goa

Vaze Heights, House # 741,
Opp. Clergy Home,
Alto Porvorim, Bardez,
Goa 403 501, India
Tel:+ 91-0832-651 1526

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INTERNATIONAL OFFICES

USA

33, Wood Ave Ste 403,
Iselin, NJ 08830

UK

100A High Street,
Hampton TW12 2ST,
United Kingdom.
Tel:+ 44 20 8783 2390/92
Fax:+ 44 20 8783 2391

23rd Annual Report 2008-09**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

Company Secretary

Ninad Umranikar

Bankers

State Bank of India
Axis Bank Ltd.
Citibank N.A.
HSBC Ltd.
ICICI Bank Ltd.

Registered Office

Kale Enclave, 685/2B & C,
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

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Letter to Shareholders

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Dear Shareholders,



It is my pleasure to share the importance of FY 09 and the landmarks that we have crossed this year. Your company has successfully crossed the 100th customer landmark. In addition, you will be glad to know that Kale has clocked over Rs. 1 billion in revenues and over Rs. 100 million in profits

during the year. These achievements have made FY09 a significant year for all of us at Kale.

The year has also seen significant milestones like the tie-up with international software major – Unisys, who have agreed to sell Kale's AMBER® along with their Logistics Management Solution for airlines. Strengthening our hold on the airline proration space, 18 airlines migrated over to Kale's APEX, as part of our agreement with ATPCO. Cathay Pacific Airways, world's third largest cargo carrier also chose AMBER – this is a huge endorsement for our cargo revenue accounting solution. Our subsidiary, Zero Octa has also added a lot of value to our existing operations in the space of revenue recovery and audit services – and we are pleased to inform that the integration of both organisations is going ahead smoothly.

Our foray into logistics is also steadily gaining steam. Today, we work with leading logistics companies across India and abroad, these include J.M. Baxi, AI-SATS, MIAL, HTL Logistics, Globalink etc. We are grateful for the warm acceptance that we have received from the logistics industry.

The Economic Environment and impact on Kale

The health of the airline, travel and logistics industries are strongly correlated to the overall economic environment and thus it is not surprising that the entire

sector is going through very difficult times. Overall passenger traffic is down by around 10% compared to a year ago and air cargo is down by close to 25%. The excess capacity has impacted yields and load factors adversely. There are very, very few airlines that continue to be profitable in such a challenging economic environment.

How does this impact Kale? The immediate impact is lower revenues from our existing customers because many of our contracts have a transaction (E.g. per passenger or per air waybill model) based pricing. Thus if there are fewer passengers flying compared to a year ago or less cargo being carried, we earn less on the same contracts. One of our value propositions is variable costs in lieu of fixed costs and this alignment with our customers means that we earn less when they earn less.

However we are also seeing greater traction for our solutions and increase in sales pipeline and sales. Because, by innovative revenue models which are "pay for use" we are reducing CAPEX, improving the business cases, sharing risks and aligning our success with those of our customers. In tough times, the need to transform business and innovate is even greater and we are helping our customers do that.

Thus the financial results are a mix of two impacts of economic slowdown – lower revenues due to drop in volumes and increased sales because of the innovative business models and alignment with our customers. In many ways this year has been a "stress test" for Kale and our value propositions and I am happy to state that we have done well in these trying circumstances.

Outlook for the future

We expect the economic environment to continue to be very challenging for quite some time. However, the worst seems to be over, though recovery and growth may be slow. As mentioned, we have been affected by the overall economic climate, but have grown last year and expect to continue to grow in the years to come.

This is a good time to look internally and find efficiencies and improve productivity. We have embarked upon a

23rd Annual Report 2008-09**Letter to Shareholders**

plan for industry leading operational excellence and this will result in better quality and productivity. We thus hope to sustain and possibly improve margins in the coming quarters and years.

This is also a good time to understand customer and industry needs better. During the year, we initiated an industry thought leadership summit for airline revenue accounting, called Stay Ahead. This initiative brought together over 40 senior executives who spent exclusive time with Kale experts in discussing the developments in the field. It was a great interaction and we plan to continue to use such forums to drive innovation and deliver even greater transformational value in our solutions.

The Indian market (and other emerging economies) are expected to grow faster than the more mature markets and economies. We commissioned a "Technology Survey for the Indian Logistics Industry" and the conclusions are that IT spends in the Indian logistics industry is expected to grow to approximately INR 10 billion from the existing INR 4 billion in the next 5 years. We plan to put increased focus and selective investments into solutions for markets like India and other emerging economies.

Thus we approach the future with confidence, but with increased thought and greater energy and focus on

fundamentals and core competencies. We are confident that this approach will continue to create shareholder value.

A Family for Every Child:

As part of our corporate social responsibility we support an NGO "Catalysts for Social Action" (CSA). CSA, which focuses on adoption, is also earning accolades. CSA recently won the "Best NGO in Western Region" award in the small category. Over the past few years, CSA has done a significant body of work and slowly but surely are making their presence felt. We feel proud that we are giving back to society in some meaningful way.

Finally, I would like to thank my colleagues who have worked exceptionally well as a team to deliver a good performance under challenging circumstances. Tough times do not last – tough people do! Thank you all for your support.

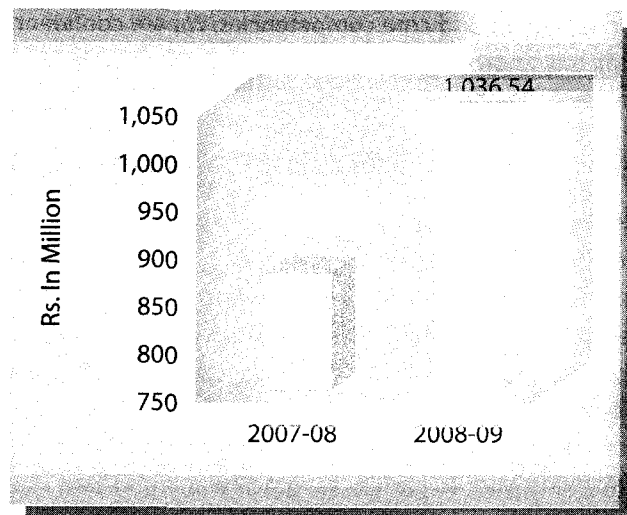
Thanks & regards,



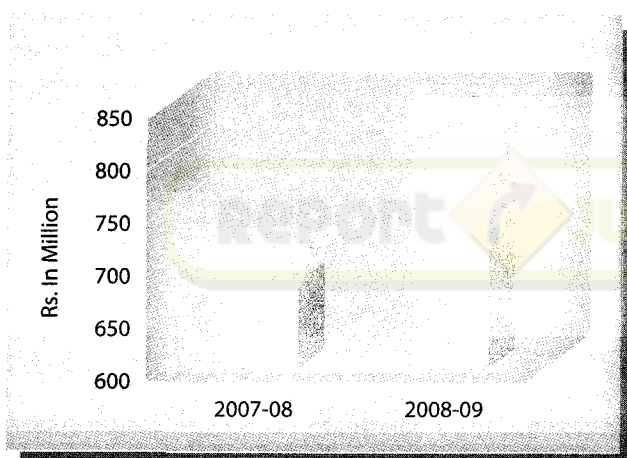
Vipul Jain
CEO & Managing Director

Financial Highlights

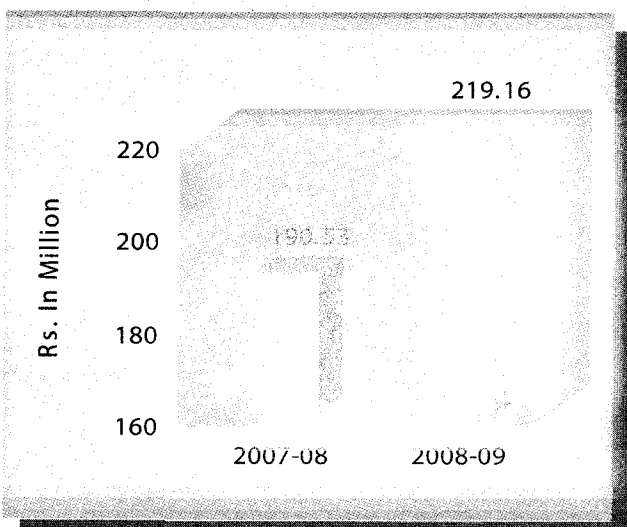
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Total Revenue
increased by 19%



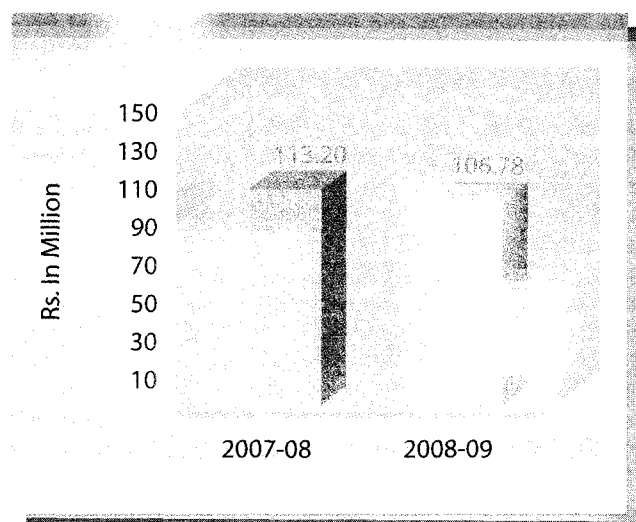
Operating Expenses
increased by 20%



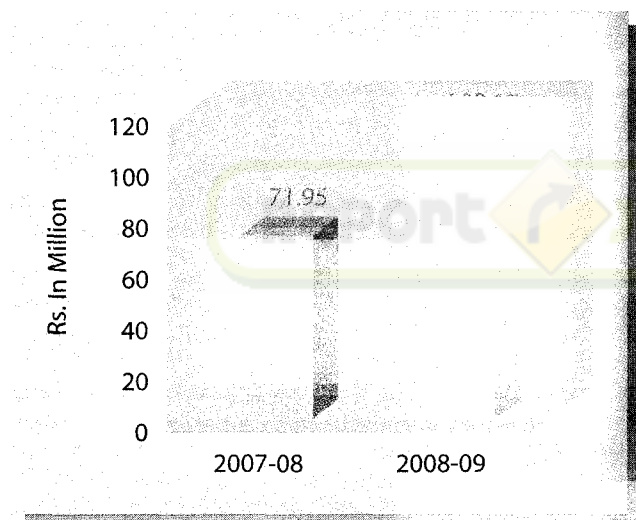
PBIDT
increased by 15%

Financial Highlights

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Depreciation & Amortisation Cost
decreased by 6%



Profit Before Tax and Exceptional Item
increased by 50%

Performance Indicators

Rs. In Million

Sr No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Total Revenue	505.99	637.19	808.28	872.38	1,036.54
2	Operating Revenue	492.92	625.84	795.06	861.86	1,026.22
3	PBIDT	119.86	178.41	206.42	190.53	219.16
4	Operating PBT	36.72	69.62	88.62	71.95	108.17
5	PAT	7.52	64.84	80.47	166.28	101.34
6	Net Fixed Assets	359.75	419.97	446.56	344.74	351.62
7	Borrowings	166.49	120.85	101.01	65.60	30.23
8	Equity Capital	116.83	128.46	132.21	133.51	133.62
9	Net Worth	540.41	629.29	696.23	849.93	933.59
10	Capital Employed	706.9	750.14	797.25	915.53	963.82
11	EPS-Diluted (Rs)	0.10	5.17	6.09	11.96	7.40

Directors' Report

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To,
The Members,

Your Directors are pleased to present the Twenty Third report on the business and operations of the Company for the year ended March 31, 2009.

Financial Results Rs. in Million

Particulars	2008-09	2007-08
Total Revenue		
- Domestic	319.97	264.15
- Overseas	706.25	597.72
- Other Income	10.32	10.51
Total	1036.54	872.38
Total Expenditure	817.38	681.85
PBIDT	219.16	190.53
Interest	4.21	5.38
Depreciation and Goodwill	42.74	52.81
Amortisation of Product Cost	64.04	60.39
Profit Before Tax and Exceptional Item	108.17	71.95
Exceptional Item	-	101.16
Profit Before Tax	108.17	173.11
Provision for Tax	0.03	8.03
Provision for Fringe Benefit Tax	4.15	3.78
Deferred Tax	2.65	(4.99)
Profit After Tax	101.34	166.28
Add/(Less) : Prior Period Items	(2.50)	(6.79)
Profit brought forward from earlier year	336.14	188.36
Profit available for appropriation	434.98	347.85
Appropriations:		
- Transferred to/(from) General Reserves	-	-
- Proposed Dividend	13.36	10.01
- Dividend Distribution Tax	2.27	1.70
- Balance Transferred to Balance Sheet	419.35	336.14

Dividend

Your Directors are pleased to recommend a dividend of Re. 1/- per equity share for the financial year ended March 31, 2009.

Operating Results and Business:

Despite the economic slowdown that has affected almost all the industries worldwide, the Company has been able to show robust growth in the financial year 2008-09. During the year under review, the total revenues of the Company grew by Rs. 164.16 million from Rs. 872.38 million to Rs. 1,036.54 million, an increase of 18.82% over the previous year. Thus, the Company crossed the landmark figure of Rs. 100 million in revenues during the year.

The Company's total expenditure for the year ended March 31, 2009 stood at Rs. 817.38 million compared to Rs. 681.85 million in the previous year, an increase of 19.88%.

The Profit Before Tax and Exceptional Items increased from Rs. 71.95 million in the previous year to Rs. 108.17 million, a steep growth of 50.34%.

Airlines Practice: Like any other industry the airlines sector is facing stringent pressures due to the worldwide economic downturn. With regards to technology, airlines which traditionally had the luxury to develop their own internal systems have now freezed most of their IT projects. At the same time, the pressure to increase efficiency and cut costs is a top priority. The logical solution for most customers is to approach solution providers (like Kale) with deep domain knowledge and ready-to-use solutions. This cuts down the time to implement and the solution has in-built industry best practices. Further, with hybrid solutions like platform-based BPO, SaaS deployment models, pay-per-transaction pricing the inherent value that clients receive is huge. The company has actually seen an increase in Sales and Sales Pipeline (requests for its solutions) over the past year.

At the same time, since the Company prices many of its solutions on a "pay for use" basis, the drop in passenger or cargo airway bills in some customers has meant that revenues from their contracts is less than previous years. This is part of the value proposition that the company provides to its customers.

The financial result is a mix of these two trends and represents a "stress test" of the business model and value propositions.

Logistics Practice: It is no secret that India has one of the most inefficient logistics infrastructures in the world today. This is a result of archaic rules, lack of uniform government policies, improper development of transport modes like roads, rail, inland waterways, complete lack of automation and hence redundant processes. This results in higher costs of transportation, inventory, administration and so on. The company had recently undertaken a "Technology survey for the Indian Logistics Industry" which reveals that this can definitely be reduced by attacking the inefficiencies through automation, enabling better planning and enhancing customer satisfaction through automation. If IT can help in reducing a small percentage of this "efficiency gap" (13% minus 5%) it will mean a huge amount released for the industry that is currently locked in inefficiencies.

Alliance with UNISYS: UNISYS Corporation, a worldwide information technology services & solutions company has entered into an agreement with the Company during the year. Under this agreement, UNISYS will offer AMBER® as a hosted service and as a licensed solution to further strengthen its Logistics Management System & related Hosting & Integration Services (HIS).

Customers:

During the year, the Company crossed the remarkable landmark of 100 customers. Kale employs over 1500 talented professionals who focus on delivering quality service to over 100 satisfied customers across 30 countries in 5 continents.

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The Company executed an agreement with Cathay Pacific Airways for providing cargo revenue accounting solution - AMBER®. AMBER® will help Cathay Pacific and its subsidiary Hong Kong Dragon Airlines to automate all cargo revenue accounting processes.

During the year, the Company entered into a multi year outsourcing agreement with Watania Airways, Kuwait's new full service luxury airline, for providing complete outsourced revenue accounting and passenger revenue accounting solution REVERA®.

J.M. Baxi & Co. one of India's leading maritime logistics providers, has chosen Kale's FMS i.e. Freight Management Solutions. J. M. Baxi found Kale's FMS as highest standards of providing integrated freight management systems. Deep domain knowledge, complete understanding of requirements and comfort level with Kale added value to their choice. The solution will encompass various functions of Freight Forwarding and third party logistics including sales and customer relationship management, trade documentation etc.

The Company has completed the migration of 18 ATPCO's CIPS customers to Kale's proprietary proration solution APEX®. Kale's APEX® and ATPCO's CIPS were the two industry standard proration solutions used in AIA's First & Final™ Interline Billing service. In 2007, ATPCO and Kale had agreed to jointly provide a single best-of-breed proration solution (Kale's APEX®) to the airline industry. The migration has cemented Kale's APEX® as the leading industry recognized proration solution in the world. APEX® is now used by the top carriers around the world such as American Airlines, US Airways, United Airlines, Air France-KLM, Continental Airlines, Delta Airlines, Northwest Airlines, Cathay Pacific and Iberia to name a few.

A leading US-based airline has selected Kale for outsourced interline payables processing service. Kale would be using its flagship products REVERA®, the new generation PRA system which includes APEX®, the Industry certified proration engine for this service. This will enable the airline to enjoy a high level of accuracy in proration and interline verification even for its non First & Final™ transactions.

A leading Middle-Eastern carrier has chosen Kale for outsourced revenue accounting processing services. The airline already uses Kale's Cargo Sales Audit service and the outsourcing contract further strengthens this existing relationship.

A Miami-based cargo airline, has selected Kale's CSP suite of enterprise-wide cargo solution. CSP® is a first of its kind - a new generation industry solution designed to address the end-to-end needs of cargo carriers, built on an architecture that is flexible, modern, and robust. The implementation will also include AMBER - the complete cargo revenue accounting solution, and MERCURY, the comprehensive ground handling solution.

Subsidiaries:

Kale Softech Inc., USA (KSI) has shown strong growth in revenues on account of the new customer acquisitions during the year with a few of them being firsts in their line of business.

The profitability of the subsidiary has also improved considerable as a result.

The strategic acquisition of Zero Octa during the last financial year has contributed significantly to the revenues and profits of the Company.

During the year, the Company disinvested its entire shareholding in Antah Kale Sdn. Bhd., its joint venture in Malaysia. Accordingly, Antah Kale Sdn. Bhd., has ceased to be a subsidiary of the Company.

Your Company has applied to the Central Government for grant of an exemption under Section 212(8) of the Companies Act, 1956, from attaching a copy of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and the Report of the Auditors of all the subsidiary companies. Subject to receipt of the approval, aforesaid documents are not being attached to the financial statements of your company. These documents can be requested by any member, investor of the Company. Further, in line with the Listing Agreement and in accordance with the Accounting Standard 21 (AS-21), Consolidated Financial Statements prepared by the Company include financial information of its subsidiaries.

Quality Initiatives:

In keeping with the focus of providing quality and secure solutions to our customers, the Company has taken another pioneering step in acquiring Payment Card Industry Data Security Standard (PCI DSS) Certification. PCI DSS is a world-wide benchmark mandated by the card schemes for the protection of cardholder identity and transaction information. Kale Consultants is among the first BPOs in India to initiate and achieve PCI DSS compliance for its credit card billing and NFP processing services.

Directors

Mr. K.K. Nohria - Director retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for reappointment.

Mr. Nohria is a fellow of the Institute of Electronic Engineers, UK, Fellow of Indian Society for Value Engineering and Life Fellow of All India Management Association. He graduated in Electrical Engineering and subsequently pursued his studies in Power Engineering and Management at Manchester Technical College, UK. Mr. Nohria has a total experience of more than 5 decades in the industry.

Mr. Nohria is a director on the board of various reputed companies in India. He is a member of ASSOCHAM. He is also a member of EU Chamber of Commerce in India.

Mr. Nohria is also actively associated with various educational institutions. He is also trustee of Patiala Technical Education Trust, Qimpro Foundation and July Foundation.

In recognition of his contribution to industry and profession, he has been honoured with various awards including Golden Key Award for Value Engineering, Qimpro Medal for commitment to quality.

Directors' Report

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Mr. Nohria is a director in the following companies:

Acquire Talent Services Limited	Igarshi Electric India Private Limited
Aventura Components Private Limited	Igarshi Motor Sales Private Limited
CG Actaris Electricity Management Private Limited	International Components India Limited
CG CoreEI Programmable Solutions Private Limited	Jollyboard Limited
CG -PPI Adhesive Products Limited	Kale Consultants Limited
Cologix Systems Limited	Maini Materials Movement Private Limited
CTR Manufacturing Industries Limited	Maini Precision Products Private Limited
EA Water Private Limited	Net Holding (Private) Limited
Fontus Water Limited	Power Energy Conservation (India) Private Limited
Grow Talent Company Limited	Pradeep Metals Limited
Igarashi Motors Limited	Tanclean Private Limited
Igarashi Technologies Private Limited	

Mr. Nohria holds 10,000 equity shares of the Company.

Auditors

M/s. D. G. Kurundwadkar, Chartered Accountant, Auditor of the Company, retires at the ensuing Annual General Meeting and being eligible, offers himself 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.
- 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

During the year under review, the Remuneration and Compensation Committee of the Board granted 398,930 options (previous year nil) under Kale Consultants Limited ESOP Scheme, 2003 and 60,000 options (previous year nil) under Kale Consultants Limited ESOP Scheme, 2006. Following are the details required to be given under the SEBI (Employee Stock Option Scheme and Stock Purchase Scheme) Guidelines, 1999:

Kale Consultants Limited ESOP Scheme, 2003

A total number of 1,223,271 options (Previous year 812,626 options) have lapsed till March 31, 2009 on account of resignation of employees from the Company and on account of not exercising the options within 2 years from the date of grant.

During the year 11,141 options were exercised (Previous year 130,393) giving rise to 11,141 fully paid up equity shares of Rs. 10/- each. All the 11,141 equity shares have been listed on the National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Pune Stock Exchange Limited.

Kale Consultants Limited ESOP Scheme, 2006

No option has lapsed till March 31, 2009. None of the employees have exercised any option during the year.

a) Options granted during the year	Under Kale Consultants Limited ESOP Scheme, 2003, a total number of 398,930 options were granted during the year. Under Kale Consultants Limited ESOP Scheme, 2006, a total number of 60,000 options were granted during the year.
b) Pricing formula	Under Kale Consultants Limited ESOP Scheme, 2003, stock options are granted at the closing market price on the National Stock Exchange on the date of grant of options. The price is payable at the time of exercise of options. Under Kale Consultants Limited ESOP Scheme, 2006, stock options are granted at the closing market price on the National Stock Exchange on the date of grant of options. The price is payable at the time of exercise of options.