

Annual Report 2001-2002

2001-2002

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Foresight

Focus

Courage

Action

SUBSIDIARIES

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Fax : +91-22-2045973

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Fax : +1-732-5162111

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AIRLINE PROCESSING CENTRE

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REGIONAL OFFICES

Mumbai

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Tel : +91-22-2820010
Fax : +91-22-2045973

Kolhapur

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Report Junction

16th Annual Report

2001-2002



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>> The Spirit of Challenge

Contents

Board of Directors

Narendra H. Kale	Chairman
Vipul P. Jain	Managing Director
Kewal K. Nohria	Director
Prabhakar S. Deodhar	Director
Pandurang G. Kakodkar	Director
Sudhir H. Kale	Director

Auditor

M/s. D.G. Kurundwadkar
Chartered Accountant

Company Secretary

Kiran M. Chitale

Bankers

Citibank N.A.
IDBI Bank Ltd.
United Western Bank Ltd.
Export Import Bank of India
ICICI Bank Ltd.
State Bank of India
Bank of India
Kolhapur Urban Co-op. Bank Ltd.
Ruppee 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

Registrar and Share Transfer Agent

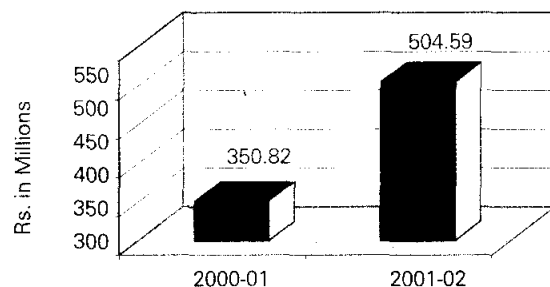
Karvy Consultants Ltd.,
(Unit : Kale Consultants Ltd.)
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad-500 034
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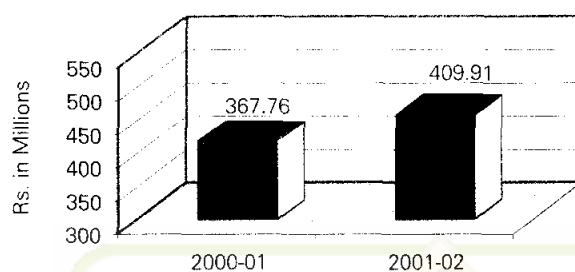
Financial Highlights

Total Revenue



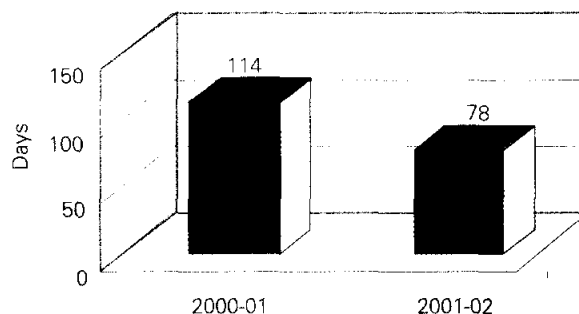
Total Revenues increased by 43.8%...

Operating Expenses



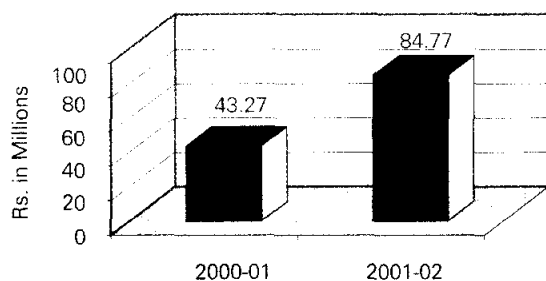
.....Operating Expenses increased at a lower rate of 11.5%.....

No. of Days Receivables



.....and accounts receivable were better managed.....

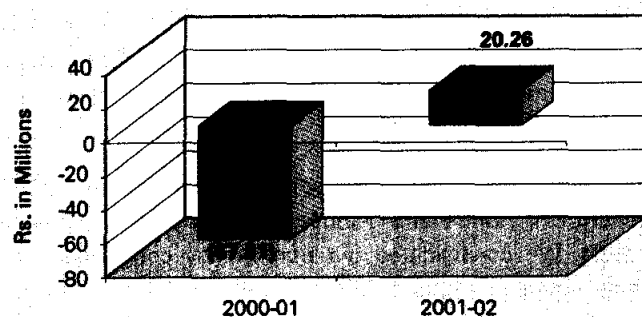
Cash from Operations



...leading to an increase in Cash generation from operations by 95.9%...

Financial Highlights

Profit After Tax



...ensuring that Kale's profitability was restored...

Performance Indicators

		Rs. in Million				
Sr. No.	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1	Total Revenue	128.62	219.39	304.35	350.82	504.59
2	Operating Revenue	124.91	213.86	237.19	345.99	495.31
3	PBIDT	38.81	69.71	91.63	(16.94)	94.68
4	PBT	24.33	52.33	65.76	(66.39)	20.27
5	PAT	24.26	52.24	65.64	(67.31)	20.26
6	Net Fixed Assets	56.96	118.52	162.80	358.15	380.98
7	Borrowings	21.86	28.42	2.77	81.24	86.56
8	Equity Capital	19.65	19.65	114.98	114.99	114.99
9	Net Worth	115.75	163.15	574.73	500.15	518.50
10	Capital Employed	138.18	191.57	577.50	581.39	605.06
11	Dividend	1.80	3.93	16.64	0.00	0.00
	Dividend (%)	12%	20%	20%	0%	0%
12	EPS-Diluted (Rs.)	16.19	26.59	5.71	(5.85)	1.76

MD Speak



Vipul Jain

What is your view of Kale's performance during the year?

The last year we have had two themes: Consolidation of our Product portfolio and Return to profitability. We have done well on both grounds. We have not only met and exceeded our Revenues and Profit guidance, but have also started to reap the benefits from the products and customers acquired in the previous year.

We have won new customers for the products acquired by us - CSP™, AMBER™, MERCURY™ and COPS™ - thus justifying the value inherent in these products. We consolidated our portfolio by completing new versions of our airline products, REVERA™ and FAREGAIN™. We have also brought Winbank@Enterprise™, our enterprise banking solution suite to market.

We have also commissioned and brought our Airline Processing Centre to Full Operation with Qatar Airways as a launch customer. The year saw us winning new orders worth close to \$14 million. The orders include the prestigious Seoul based Asiana Airlines for our Cargo suite, and additional customers for the Airline Processing Centre.

Kale Consultants received several significant accolades this year from various industry bodies, the award for REVERA™ as the 'Best Revenue Accounting Software to the Airline Industry' at the ATTIS Expo, the ComputerWorld laureate award and the CEO Cockpit development project from IATA. These are important indicators of the establishment and recognition of the Kale brand globally.

All in all, Kale has registered an impressive performance in a year of global economic turmoil that marked the biggest slump in the IT economy.

How well do you think is the Company strategically poised to face the challenges in what is becoming an increasingly challenging IT market?

The competitive edge can be achieved only from definitive domain competencies combined with Intellectual Property Rights and high end, value creating services.

We at Kale have an IPR-led approach to business. Our dedicated investments towards the creation and enhancement of 'best of breed' product solutions have just begun to pay off. Today we have a stable of internationally acclaimed product offerings within our chosen domains.

Our ownership of these proprietary solutions is a strategic strength that we are committed to leverage. We also have a reputed brand and an impeccable standing as a key vendor of choice amongst our client community.

As we stand today, our strengths as a Company well diversified into products and services, are pointers to a future full of promise. We have leveraged our key strengths in the products and services space,

MD Speak

synergised our client relationships and utilized our domain expertise and development acumen to extend the scope of our offerings to outsourced services namely— Airline Revenue Processing and Audit Services.

How different is Kale's BPO offering vis-à-vis others in the field? What are the growth opportunities that you see there?

Kale's initiative in the BPO space is a strategic extension of its expertise in the domain of Airline Revenue Accounting. The unique feature of the Airline Processing centre is that Kale uses its proprietary products and processes. These have been developed internally and are constantly upgraded due to Kale's expertise and deep understanding of the industry needs. Within the outsourcing space, Kale occupies the **highest niche** in the value chain as it has **complete system ownership**.

Our Revenue Accounting and Audit services have won four international airline customers within a year of its inception. Last year we streamlined our internal processes, made considerable gains in productivity and created an outsourcing model, which is stable and scalable. With the trend towards outsourcing of revenue accounting services gaining momentum in the airlines industry, we see ourselves poised for strong growth in this sphere.



Directors' Report

To,
The Members,

Your directors present the sixteenth report on the business and operations of the Company for the year ended March 31, 2002.

Last year we were in the midst of our orbital change - bringing new products and services to market, integrating the acquisition done by us in FY 01, change and strengthening market penetration capability. Thus for this year there were two goals: firstly to consolidate our market position and secondly a healthy growth of top line and return to profitability. We are glad to inform you that these goals have largely been met during the year.

We went about doing achieving these strategic imperatives by concentrating on core verticals; Airlines and Banking and new client acquisitions through a streamlined marketing setup.

Our strategies were put through the test of continued global economic slowdown that resulted in shrinkage in IT spending across the globe. These unfavourable circumstances were further accentuated by the September 11, 2001 attacks and the tensions in the Indian sub-continent. The Airline industry, from which the Company draws a major portion of its revenue was affected. In spite of these unforeseen circumstances, your Company performed satisfactorily and achieved a top-line growth of 43.8%.

With this year's performance Kale has moved towards establishing a firm position in the market, reinforced by the effective implementation of the growth strategy and the greater alignment to an IPR based, customer centric operating model.

Some of the significant developments during the year were:

Return to Profitability

Notwithstanding the difficult circumstances, the Company has made progress in improving its business. Revenues increased from Rs. 345.99 mn in FY01 to Rs. 495.31 mn this year, an increase of 43.2%. Due to operational efficiencies, operating expenses increased by 11.5% to Rs. 409.91 mn from Rs. 367.76 mn., transforming the previous year's Operating Loss of Rs. 16.94 mn to an Operating Profit of Rs. 94.68 mn in the current year. Despite the increase in Company's Interest, Depreciation and Amortisation Costs, the Company made a Profit Before Tax of Rs. 20.27 mn as against a Loss of Rs. 66.39 mn in the previous year. The Company has achieved this through very conscious and focused rationalization of costs as well as increased operational efficiencies. The Company's revenues also increased due to increased focus on existing customers as well as new customer acquisitions.

Product portfolio enhancements

The Company completed two major products REVERA™ and FAREGAIN™ for the airline industry this year. The Company also completed the implementation for both these products in live environments. It also brought the Winbank@Branch™ to market and successfully implemented it in three new customer sites. The enterprise Cargo Solution - CSP™ has seen major development efforts and Release 2 of the Product will be completed in the coming year.

Significant strides in the Airline Processing business

The Company set up its Airline Processing Centre during the year to provide Revenue Accounting and Revenue Recovery services to its customers. It commenced operations in April 2001 and stabilized operations rapidly to make a significant contribution to the Company's business. It has enabled the Company to broaden its horizons from being a vendor of IT products to that of being an integrated solutions provider in the Revenue Accounting area of the Airline business. This gives the Company a unique sustainable, competitive advantage and creates significant entry barriers for the competition. The Company is now favorably poised to grow this business rapidly in what is a much larger market size as compared to the market for Revenue Accounting software.

CEO Cockpit

The Company has entered into a development and commercialization agreement with the International Air Transport Association (IATA) to create a revolutionary new product the "CEO Cockpit". Targeted at Airline CEOs and the leadership

Directors' Report

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Team, this product addresses the need for a comprehensive and focused business intelligence system. CEO Cockpit will be based upon a rigorous economic model and cover the Key Performance Indicators (KPIs) in all areas of the airline- Revenues, Costs, Passenger and Cargo, Charter /Wet leases, Downturn flexibility, Quality, Profitability, HR, Finance etc. The product will provide a model to link these KPIs together and benchmark them with both peer group and industry leaders.

Industry Recognition

The Company has won significant industry recognition and global awards during the year. The Company won the prestigious ATTIS 2002 award for the "Best Revenue Accounting System to the Airline Industry".

The Company also won the ComputerWorld laureate recognition, a rare honour for an Indian software company. The Company now is recognized for both its technological excellence and innovative solutions in the market segments it addresses.

Financial Results

Particulars	Rs. in Million	
	2001-2002	2000-2001
Total Revenue		
- Domestic	118.14	66.51
- Overseas	377.17	279.47
Other Income	9.28	4.84
Total	504.59	350.82
Total Expenditure	409.91	367.76
Operating Profit/(Loss)	94.68	(16.94)
Interest	11.42	11.47
Depreciation	41.57	35.29
Amortisation of Product Cost	21.42	2.69
Profit/ (Loss) Before Tax	20.27	(66.39)
Provision for Tax	0.01	0.92
Profit/ (Loss) After Tax	20.26	(67.31)
Provisions for prior period	(1.92)	(2.22)
Profit brought forward from earlier year	---	42.62
Profit/ (Loss) available for appropriation	18.34	(26.91)
Appropriations :		
- Transferred to/(from) General Reserves	---	(26.91)
- Balance Transferred to Balance Sheet	18.34	---

Future Plans

The Company's vision is to be among the top three providers of choice in the businesses that it is in. The Company has made considerable progress towards this vision in the Airlines Segment, while in the Banking Segment, the Company continues to consolidate its current position, while looking for avenues for future growth.

Subsidiaries

During the year, the Company invested Rs. 25.02 mn in its wholly owned subsidiary Kale Softech Inc., USA and Rs. 2.26 mn in its wholly owned subsidiary Kale Consultants Australia Pty. Ltd. The Company's overseas arms, along with its branch office in London and the Malaysian joint venture, Antah Kale Sdn. Bhd. are fully functional and have started contributing towards the growth of the Company by functioning as marketing arms and rendering software services and front-end systems delivery functions for the organization.