

# **ANNUAL REPORT**

## **2 0 1 1 - 2 0 1 2**

**Cranes Software International Limited**

Enterprise Analytics and Engineering Simulation Software & Solutions





<b>Board of Directors</b>	Mr. Asif Khader	- Co-founder & Managing Director
	Mr. Mukkaram Jan	- Co-founder & Director
	Mr. Mueed Khader	- Director
	Mr. Richard Gall	- Director
	Dr. Peter Ryser	- Director
<b>Company Secretary</b>	P. Phaneendra	
<b>Bankers</b>	Bank of India	
	The Jammu & Kashmir Bank Ltd.	
	State Bank of Travancore	
	IDBI Bank Ltd.	
	State Bank of India	
	Canara Bank	
	Allahabad Bank	
<b>Auditors</b>	State Bank of Mysore	
	S. Janardhan & Associates	
	Chartered Accountants	
	Apt. Nos. 104 & 203, Embassy Centre No. 11, Crescent road, Bangalore - 560 001.	
<b>Registered Office</b>	Cranes Software International Ltd.	
	# 2, Tavarekere, Bannerghatta Road,	
	BTM Layout, 1st Stage, 1st Phase,	
	Bangalore - 560 029	
<b>Registrars</b>	Integrated Enterprises India Pvt. Ltd.	
	# 39, Ramana Residency,	
	4th Cross, Sampige Road,	
	Malleswaram, Bangalore - 560 003	
<b>Website</b>	www.cranessoftware.com	



# CRANES SOFTWARE INTERNATIONAL LIMITED

## FINANCIAL STATEMENTS 2011 - 2012

## REPORT OF THE BOARD OF DIRECTORS

To,  
The Members of  
**Cranes Software International Limited,**

Your Directors have pleasure in presenting to you the Twenty-Seventh Annual Report together with the audited accounts on the business and operations of the Company for the year ended March 31, 2012 by itself and its subsidiaries, viz.

1. Systat Software Inc., USA
2. Cranes Software Inc., USA.
3. Engineering Technology Associates Inc., USA (WOS of Cranes Software Inc., USA) Engineering Technology Associates (Shanghai) Inc.,
4. Dunn Solutions Group Inc., USA (WOS of Cranes Software Inc., USA)
5. Systat Software GmbH, Germany
6. Cubeware GmbH (WOS of Systat Software GmbH), including its WOS in Austria and Switzerland
7. Cranes Software International Pte. Ltd., Singapore
8. Tilak Autotech Pvt. Ltd., India
9. Proland Software Pvt. Ltd., India
10. Caravel Info Systems Pvt. Ltd., India
11. Esquebe Communication Solutions Pvt. Ltd., India
12. Systat Software Asia Pacific Ltd., India
13. Analytix Systems Pvt. Ltd., India
14. DSG Pvt Ltd, India (Subsidiary of Dunn Solution Group Inc, USA)

The Audited Accounts for the same period, of the above Subsidiary Companies have also been incorporated as per relevant regulations in the Consolidated Financial Statements, also being presented.

### Financial Performance

(Rs. in Million)

Particulars	2011-12	2010-11	2011-12	2010-11
			Consolidated	
Sales and Operating Revenues	343.24	280.10	2800.91	2432.95
Profit / (Loss) before tax	(874.31)	(1312.73)	(1249.28)	(1427.40)
Taxes	(610.93)	(59.00)	647.99	(88.44)
Profit / (Loss) after tax	(263.38)	(1253.73)	(601.28)	(1338.96)

### Business

During the year, your Company, on a standalone basis, achieved a Sales and Operating Revenue of Rs.343.24 million, down from Rs.280.10 million. The after tax position was a loss of Rs.263.38 million, on Standalone basis.

On a consolidated basis, during the year, your Company together with its above named subsidiaries, achieved a Sales and Operating Revenue of Rs.2800.91 million, again up from Rs. 2432.95 million of the previous year.

### Operations

The last fiscal year has been, perhaps, the most challenging from an operations and business perspective. Given that this Company had been fairly effected by the historic global economic unrest While the management anticipated most operational challenges and clearly outlined initiatives to negotiate the same. In the past year, our endeavor has also been to improve operating efficiencies, cost control management and continue to optimize head count. This apart the Company has also focused on launching new product solutions and better its existing product range by releasing new version upgrades. This has helped strengthen our position in the high growth avenues of engineering simulation and scientific analytics.



In the year gone by, the Company has increased its focus on business consolidation improving market impact through our overseas subsidiaries. This initiative has helped us find new grounds in the US markets in the BI segment where the Company has recently opened direct offices of Cubeware. Cranes' ETA, engineering solutions subsidiary has expanded its base in China and helped increase the revenue from this region.

In the effort to improve our balance sheet position and bring the our debts to controllable levels the Company is currently working on restructuring its debts and other liabilities apart from finding ways to bring improve business opportunities and expand service offerings. This has been detailed out in the annexed management, discussion and analysis section of this report.

### Appropriation

In the absence of distributable profits in the year, the Directors have not recommended dividend for the year 2011-12, in order to conserve cash.

### Subsidiary Companies / Joint Ventures

In terms of Sec 212(1) of the Companies Act, 1956, the Directors' Reports, Profit and Loss Accounts and Balance Sheets of each of the Subsidiary Companies referred to above, are incorporated as per relevant regulations in the Consolidated Financial Statements, also being presented .

In accordance with the Accounting Standard AS-21 on consolidated financial statements, your Directors have pleasure in attaching the Consolidated Financial Statements which form a part of the Annual Report and Accounts.

This along with the Company's results, we believe, present a full view of the state of affairs of the Company.

### Remarks of Auditors

In the course of audit of the Accounts, the Statutory auditors have raised comments, observations and qualifications. Their comments in respect of the Company's assumption of "Going Concern" along with the responses of the Board to each are given below :

Auditors Opinion	Management Response
<b>1. A winding up petition has been filed by the Trustees of Foreign Currency Convertible Bond holders against the company u/s 434 of the Companies Act,1956 before the Hon'ble High Court of Karnataka for non-payment of principal (due for redemption in March 2011) and the accrued interest thereon.</b>	The Company is in active discussion with the set of bondholder who have filed a petition u/s 434 for winding up of the company. The Company hopes to arrive at an amicable settlement during this current year. Apart from this the Company has also arrived at settlement with a number of bondholders individually who do not form a part of the set that had filed a petition for the winding up of the Company
<b>2. Cases are filed u/s.138 of the Negotiable Instruments Act by various Banks against the company. These Banks have applied to the Debt Recovery Tribunal / Hon'ble Courts, etc for recovery of dues and provisions of SARFAESI have also been invoked against the company. These cases are in various stages of disposal before the respective Hon'ble Courts.</b>	The Company has arrived at settlements with most of the lenders and is in negotiation with other banks for arriving at a settlement.
<b>3. Several Creditors and ex-employees have initiated legal action against the company for recovery of dues to them. These cases are in various stages of disposal before the respective Hon'ble Courts.</b>	The Company has settled substantial number of cases. As for the remaining the Company is under active discussion with each such entity /ex - employee and in most cases a settlement structure is in advanced stage of negotiations.

<p><b>4. In our opinion the securities provided to Banks are not adequate to cover the amounts outstanding to them as on the date of Balance Sheet.</b></p>	<p>The Company is under active discussion with all secured and unsecured lenders for the purposes of restructuring/ closure of debts. During the year under review the Company closed its liabilities with three such banks / lenders and has finalized debt closure agreements with an additional two nationalized banks. Hence the Tangible security and the assets are considered adequate to cover the settled outstanding amounts</p>
<p><b>5. There are several overdue Trade Receivables and Advances recoverable from parties for an inordinate period and however, the company has classified such amounts as 'Good'. However, no evidence has been given to us to consider those amounts as recoverable as on the date of Balance Sheet. In this connection, a sum of Rs. 6,500 lakhs has been provided in the books of account as provision for bad and doubtful debts against Trade Receivable, which in our opinion is inadequate and further provision to the extent of Rs. 25,774.50 lakhs on account of Trade Receivables and a sum of Rs. 23,843.37 lakhs on account of advances have not been made in the accounts.</b></p>	<p>This book debt has been accumulated on account of global turmoil during the period under recession. The Company has during the course of the financial year made provision for a portion of debts and is awaiting approvals from various government agencies for closure. Additionally, steps to recover the remaining dues continue to be under progress and it is believed will yield results in due course.</p>
<p><b>6. Attention of the members is invited to note 3.11 of the Notes regarding recognition of deferred tax credit on account of unabsorbed losses and allowances aggregating to Rs. 11,953.94 lakhs (year ended March 31, 2011 Rs. 5437.60 lakhs) (Total amount recognized for the year ended March 31, 2012 amounts to Rs. 6516.34 lakhs). This does not satisfy the virtual certainty test for recognition of deferred tax credit as laid down in Accounting Standard 22</b></p>	<p>With the Company progressing in its businesses and its ability for sustenance it leaves no doubt that the Company will have future taxable income to take advantage of the deferred tax asset. Hence this is recognized.</p>
<p><b>7. Reference is drawn to note no. 3.34 of the notes regarding the amounts classified under "Fixed Assets" including "Intangible Assets Under Development" amounting to Rs. 41,147.71 lakhs. No evidence has been produced before us for testing its impairment and in the absence of the same, we are unable to express any opinion on the impairment to such asset. In our opinion, such test of impairment as on the date of Balance Sheet is mandatory, especially in view of the higher degree of the obsolescence of software which is stated to be under various stages of development, though no further developments have been carried out during the recent years.</b></p> <p><b>In the light of the above, the appropriateness of the 'Going Concern' concept based on</b></p>	<p>It is believed that there is no impairment in value and the realizable value is at least equal to the carrying value; any diminution on account of the global economic conditions are not of permanent nature.No further monies are invested for intangible assets under development as the company is undergoing a severe liquidity crunch. Management is confident of completing the development of these products once the financial position improves and is confident that these products after development will substantially contribute to its revenues</p> <p>The Company, has institutionalized several measures to secure and improve its business potential as may</p>



which the accounts have been prepared is interalia dependent on the Company's ability to infuse requisite funds for meeting its obligations, rescheduling of debt and resuming normal operations.	be seen from the Management Discussion and Analysis annexed to this report. Hence, it is believed that the concept of 'Going Concern' continues to prevail.
<b>8. Further to the above, we would like to draw the attention of the members to the following</b> <b>i) Note no. 3.27 regarding default of payments to various statutory authorities;</b> <b>ii) Note no. 3.45 regarding default in payment of dividend</b>	i) The Company is in the process of discharging these liabilities and is hopeful of clearing the entire dues by the current year end. ii) This was carried forward as a matter of good order when some of the lenders who had initiated legal action included this in their petition. Now with this lenders getting settled / restructured the Company is confident that the dividend would be paid out.
<b>9. On the basis of written representations, as on 31st March 2012 and taken on record by the Board of Directors, we report that all of the Directors have been disqualified as on 31st March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956</b>	The proviso of clause ( g ) of sub - section ( 1 ) of Section 274 is stated to be attracted only in the context of Note no 3.45 regarding default in payment of dividend, already dealt with in our response vide para 8 ( ii ) above.

### Deposits

Your Company has not accepted deposits from the public during the current year.

### Directorate

"The Managing Director Mr. Asif Khader seeks re-appointment for a further term of three years. This will be subject to the approval of Central Government. Two whole-time directors are not seeking renewal of their contracts. However, they will continue to remain in the Board. Your board is aware of unpaid dividend declared, for fiscal year ended March, 2009, because of acute financial difficulties and because of certain restrictive covenants, imposed by lending banks and financial institutions and the consequent dis-qualification of directors. The Board is confident of clearing the outstanding dividend, as early as possible and once has dividend has been paid, the default would cease and the Company will file an application with the Central Government, requesting for removal of disqualification, under the provisions of section 271(1)(g), of the Companies Act, 1956."

### Conservation of Energy

Even though the operations of your Company are not energy-intensive, adequate measures have been taken to reduce energy consumption by using efficient equipments. Since it is a software products Company, primarily dealing with scientific and engineering software products and product related projects, energy cost forms a very small part of total cost and its impact on total cost is not material.

### Research & Development Activities

The Management of your Company is committed to building a strong R&D culture from day one and has set clear R&D goals. In order to achieve these goals, the Company has focused on furthering the efficacies of R&D activities as well as building synergies among multiple-impact technologies.. The statement giving information as required under Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988 is enclosed to this report.

### Foreign Exchange Earnings and Outgo

Foreign exchange earned (FOB) during 2011-12 is Rs. 98.40 million and foreign exchange outgo is Rs. 172.99 million during the year.

**Employees**

Information as per Sec217(2a) of the Companies Act, 1956 read with the Companies (Particulars of employee) Rules, 1975 and forming part of the Directors Report for the year ended March 31, 2012 is not applicable due to the fact that none of the present employees are getting salary above 5 lakhs.

**Directors' Responsibility Statement**

Pursuant to Section 217(2AA) of the Companies Act 1956, the Directors hereby confirm that they have:

- i. Followed the applicable accounting standards in the preparation of the annual accounts;
- ii. Selected such accounting policies and applied them consistently and made judgments and estimates that were 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 profits of the Company for the year under review;
- iii. 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 detecting fraud and other irregularities;
- iv. Prepared the accounts for the financial year on a 'going concern' basis.

**Corporate Governance**

A detailed report on Corporate Governance & Management Discussion and Analysis are attached.

The Board members and the Senior Management Personnel have affirmed compliance with the Code of Conduct. Declaration of Confirmation by the Managing Director to this effect is annexed hereto.

**Auditors**

The auditors of the Company, Messrs. S. Janardhan & Associates, Chartered Accountants, retire at the ensuing Annual General Meeting and are eligible for reappointment. The declaration under Section 224(1)(B) of the Companies Act 1956 has been received from them.

**Acknowledgement**

Your Directors wish to place on record their sincere appreciation for the assistance and co-operation received from Banks, Financial Institutions, Government, Customers, Suppliers, Business Partners and Shareholders for the year under review.

Your Directors also wish to place on record their appreciation for the Contribution made by employees at all levels of the Company, whose committed efforts are a reflection of our results and look forward to their continued support.

**for and on behalf of the Board**

Bengaluru  
August 31, 2012

**Asif Khader**  
Managing Director

**Mueed Khader**  
Director



**Form - B.**

Information as per section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended March 31, 2012.

**Research & Development Activities and Technology Absorption:**

During the year under review, your Company has been through a challenging phase when it comes to the research and development. In the technology space, every global meltdown since world war II has, if anything, only increased the demands on innovation and technical solutions. The current financial crisis is no exception. There is increased demand on analytical tools all over the world, in almost every sphere of human activity, for better assessment of risks, early detection of signatures of impending disasters, pattern recognition, scenario planning and incredible amounts of simulations. With three broad divisions of Cranes - Analytics, Engineering, and Technology - your Company has positioned itself really well to meet the increased demands from society in these difficult times and, in this process, deliver value for your investments as well.

You are aware that your Company has grown through a series of acquisitions. All our acquisitions have been, of course, in the chosen areas of our core business. These acquisitions have thus resulted in accumulation of quite a few technologies. Our fervent desire is to integrate these technologies and leverage cross fertilization. In the software technology space, this is typically a non trivial task as the basic architectures are many times incompatible. Bringing them on common architectural platforms requires quite a bit of R & D.

The goal of Cranes' R&D initiatives is not about conjuring up pictures of the future, though that is part of what is done, but is more about systematic and continuous surveillance of future markets, identification of the discontinuities that are bound to crop up and the resultant technological requirements, and creation of technological models that we must come up with to cater to requirements across the globe. In turn, we are creating new business avenues to explore opportunities for products, systems and services for as diverse an industry spectrum as possible for your Company.

Latest developments are towards providing support for National Programme on Micro and Smart Systems (NPMAS), the Computational Nanoengineering (CoNe) group at the Indian Institute of Science, currently developing a Microsystems module that is integrated with NISA, a commercial finite element analysis software. NISA is owned and managed by Cranes Software International Limited (CSIL). The first version of NISA-Microsystems is now available for testing by selected government and academic organizations. The premise for developing the Microsystems module is the concept of hybrid finite elements in which both displacements and stresses are interpolated in the analysis of elastically deforming bodies. The CoNe group has also developed coupled simulations (thermoelastic, electrostatic/elastostatic/ dynamic, modal analysis, piezoresistive). The integration of these into NISA is currently in progress.

**for and on behalf of the Board**

Bengaluru  
August 31, 2012

**Asif Khader**  
Managing Director

**Mueed Khader**  
Director



**DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT WITH THE COMPANY'S CODE OF CONDUCT.**

This is to confirm that the Company has adopted a Code of Conduct for its employees and all Board Members and Senior Management.

I confirm that the Company has in respect of the financial year ended March 31, 2012, received from the Senior Management Team of the Company and the Members of the Board a declaration of compliance with the Code of Conduct as applicable to them.

For the purpose of this declaration, Senior Management Personnel means the employees in Executive Vice President Cadre as on March 31, 2012.

For Cranes Software International Ltd.,

Bengaluru  
August 31, 2012

**Asif Khader**  
Managing Director