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Compucom Software Limited

7th Annual Report 2000-01



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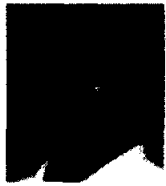
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Board of directors



Ajay Kumar
CEO-US Operations
Co-founder of Compucom in 1991 in USA



Surendra K Surana
Managing Director and
CEO India operations
Co-founder of Compucom
in 1991 in USA



Shubh Karan Surana
Director



John A. Giunta
Director
Executive vice president Marketing
and sales with Tekmark Global Solutions, LLC,
the strategic alliance partner of Compucom



Stephen C. Viehman
Director

Executive Management

Mr. Ajay Kumar
CEO - US Operations

Mr. Surendra K Surana
CEO - India Operations

Mr. Jyotin Pandya
Vice President

Mr. Prabhat Gupta
Company Secretary &
Finance Manager

Mr. G.K. Garg
General Manager
(Marketing & Admin.)

Mr. Nitin Kapoor
Operations Manager
(International Projects)

Auditors

S. Misra & Associates
5A, Tilak Marg, C-Scheme,
Jaipur 302005

Legal Advisor

Mr Amrit Surolia,
Advocate,
Rajasthan High Court

Bankers

The Vysya Bank Limited
HDFC Bank Limited
Bank of Baroda
IDBI Bank Limited

Registered office

5A, Tilak Marg, C-Scheme
Jaipur 302005



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Letter to shareholders

Dear shareholder,

I am delighted to report on Compucom's performance during FY 2001. The year clocked 80% increase in total income and 47% increase in profit from normal business activities. The year was full of achievements. The company added approximately 21000 sq ft of built-up space in India, strengthened ties with US strategic alliance partner by roping in their investment in the company, added a few new direct clients, set up a presence in Europe and bagged a prestigious large educational contract from Rajasthan government.

Currently IT industry worldwide and Indian in particular is passing through a turbulent phase. With sudden slowdown, the focus of CEOs has shifted from rapid growth to near term survival by keeping the operations at self – sustaining level. Astronomical growth rates in Indian IT industry and corresponding valuations have come down. And your company is no exception. The small companies but with diversified revenue streams will be able to weather the current economic slump.

Every cloud has a silver lining and it is same with this cloud of US slowdown shadowing Indian IT industry. As an immediate impact, the severely affected US companies are aggressively resorting to cost cutting measures by outsourcing more jobs to offshore entities. This process is bound to provide a steady stream of business to Indian IT companies, like Compucom, with proven track records in maintenance projects and strong ties in place with their strategic partners.

Medium to long term outlook for the IT industry looks certainly positive. Technology is the only link connecting past to present to future. We have in fact just entered the beginning phase of a technology revolution, which has started to shape our lives. It has to go a long way. Once the recession phase is over, Indian industry should emerge stronger, more competitive due to its inherent strengths.

Expanding into new markets while strengthening ties with customers in existing markets for increased repeat business and continuous improvement in quality was our strategy to face the recession. Compucom aggressively strived for the learning solutions business in domestic markets, set-up a network of authorized business associates, seized opportunities in government business, scaled down unproductive investments, established a presence in Europe and strengthened commitment via further equity stake from overseas strategic alliance partner. Such proactive move has paid off as evidenced by the financials, increase in orders intake and diversification in to other markets.

As the world is rapidly restructuring to adapt to the new economic, political and social realities, Compucom is determined to get its acts together to face the ever increasing competitive forces emerging out of change in the world economic order.

With warm regards,

Surendra K Surana
Managing Director

Jaipur, July 30, 2001



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Directors' report

To the members,

Your directors are pleased to present their report on business and operations of the company for year ended on March 31, 2001.

Financial results

	Rs. In lacs	
Year ended March 31	2001	2000
Total Income	2,707.14	1,500.44
Total expenses	1,918.06	992.88
Operating profit (PBDIT)	789.08	507.56
Interest	4.18	1.39
Depreciation	26.00	15.98
Profit before tax from ordinary activities	758.90	490.19
Provision for income-tax	63.18	16.89
Profit after tax from ordinary activities	695.72	473.30
Extra-ordinary income (net of tax)	—	29.19
Cumulative effect of change in Income Tax accounting policy	0.65	—
Net profit after tax	696.37	502.48
Appropriations		
Dividend - recommended	125.63	83.23
Dividend tax	12.81	8.32
Transfer to general reserve	300.00	200.00
Earning per share Basic & Diluted (in Rupees)		
- Income from ordinary activities	13.87	11.37
- Net profit	13.88	12.07

Results of operations

During the FY 2001, revenue grew by 80.42% from Rs. 1,500.44 lacs to Rs. 2,707.14 lacs. Operating profit grew by 55.47% from Rs. 507.56 lacs to Rs. 789.08 lacs. Profit after tax from ordinary activities grew by 47% from Rs. 473.30 lacs to Rs. 695.72 lacs. Per share income from ordinary business was Rs. 13.87 in FY 2001 in comparison with Rs. 11.37 in FY 2000.

Dividend

Your directors recommend a dividend of Rs. 2.50 per share for FY 2001 as compared to Rs. 2.00 pro-rata for FY 2000. Total dividend amount for current year is Rs. 125.63 lacs against Rs. 82.23 lacs for previous year. Dividend as % of profit from ordinary business is 18.06% in FY 2001 as compared to 16.56% in FY 2000. The dividend is tax free in hands of recipients. Company is paying income-tax on distribution of dividend. The tax incident on dividend distribution grew from Rs. 8.32 lacs to Rs. 12.81 lacs in FY 2001.

Increase in share capital

During 2000-2001 Board issued 25,000 equity shares, each of face value of Rs. 10/-, to Tekmark Global Solutions, LLC, USA strategic alliance partner at total consideration of Rs. 7,806,600. This issue was made under authority given by the special resolution passed by shareholders in extra-ordinary general meeting held on June 5, 2000.

Stock options

Under authority of the above said resolution of shareholders, Board issued 160,000 stock options to its business associates in USA and Germany. Each option entitles the holder to get one equity share of Rs. 10/- face value. Exercise price of 155,000 options is US \$ 2.45 each and 5,000 options is Euro 2.95 each. The options are exercisable latest by February 7, 2002. After this date, the unexercised portion of the options would lapse. Company received non-refundable application money of Rupees 5,071,575 on issue of the options. This application money can be adjusted pro-rata on exercise of options. No option has been exercised till date.

Business

There was all-round growth in business of the Company. Total income witnessed increase of 80% and profit from ordinary business 47%. Export of software services was up by 68%. Learning solutions business increased by whooping 458%. Salient features of operations during FY 2001 were:

- Commencement of full-scale operations from new software development lab at Jaipur.
The lab, which started functioning towards end of FY 2000, started full scale operations from June 2000. This facility has built up area of approximately 21000 sq ft. and is equipped with state of art telecommunication, computer equipment and software. It has 256 kbps leased line for bandwidth. The bandwidth is being expanded to 1MBPS in the current year. This facility provides a level playing field to Compucom to compete globally/domestically for projects.
- Strengthening ties with strategic alliance partner.
During FY 2001, the ties with Tekmark Global Solutions, LLC USA, the strategic alliance partner and largest customer of Compucom, were further strengthened with issue of 25,000 equity shares. About close of FY 2001, Compucom



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formed a joint venture with Tekmark in USA to handle solutions business of Tekmark. Compucum also signed an agreement with Tekmark for outsourcing India related software solutions business to Compucum exclusively.

- c. **Marketing exercise in USA.**
The company strengthened direct marketing efforts in USA by infusing US\$ 360 thousand in Compucum Global Solutions, Inc., the US subsidiary. The marketing efforts resulted in addition of four new direct clients. In FY 2001, the subsidiary accounted for revenue of Rs. 330.76 lacs to Compucum compared to Rs. 120.21 lacs in FY 2000.
- d. **CSL Global Solutions, GmbH, the subsidiary in Europe**
In backdrop of slowdown in IT spending in USA the strategy of exploring new markets for leveraging the skills built up on years gained emphasis in business plans of the company. In FY 2001 Compucum set-up a marketing subsidiary in Germany as joint venture with 90% ownership of Compucum and 10% of Mr. Peter Rack, the joint venture partner and Chief Executive officer of the subsidiary. It started functioning towards close of FY 2001.
- e. **Learning solutions segment**
Learning solutions business of the company recorded impressive growth of 458% during FY 2001. Compucum adopted the franchisee model for rapid growth in this business segment with focus on Rajasthan State. By end of May 2001, 93 business associates had been authorized for this business segment. As of March 31, 2001 this figure was 30. Presently Compucum's network of authorized business associates (ABA) spans whole of Rajasthan state. This will provide necessary infrastructure support to the company for executing statewide projects in cost effective manner. The webvarsity project for on line education is under advanced stage of development. Corporate Training courses are also being planned for which the CIITM (see below) will provide a launching platform.
- f. **Prestigious contract from Board of Secondary Education, Rajasthan (BSER)**
Leveraging on the network of ABA, the company secured a contract from BSER for providing computer education in secondary government schools in Rajasthan. The contract is for five years period. Execution of the contract begins from July 2001 session. Total revenue potentials of the contract are estimated above Rs. 45 crore. The second contract for computer education in Govt. schools at Chandigarh is recently concluded and is worth Rs. 10 crore for 5 years duration.
- g. **Software product ICARE**
The eCRM product ICARE was, with help of Tekmark, put to test in USA in the last quarter of FY 2001. To enhance its marketability, its user interface had to be improved considerably to accord international image / appeal. First field trial conducted by Tekmark shows very encouraging potentials for ICARE. Tekmark has itself agreed to use the product during the current year. Approximately Rs. 30 lacs revenue is expected during the current year from Tekmark alone. Later it will be offered to other potential customers.
- h. **Local Projects collaborations**
Compucum has signed MOU with Shyam Telelink Ltd, Jaipur to collaborate on Cyber Kiosks operation to be carried out from Compucum centers in Rajasthan State. The action plan to participate directly or indirectly in IT and E-Governance projects planned by State Government is being implemented with full steam.

Human resources management

Your company is in knowledge-based industry. Human resources are most critical factor in its business. A well-designed system of human resources management is in place to address the needs of recruitment, training and development, compensation. The Company's attrition rate is improving to normal per industry standards. Company's employee stock ownership plan has been fully subscribed to by all eligible employees at first vesting.

Compucum Institute of Information Technology and Management (CIITM)

For grooming future software engineers, Compucum is setting up the CIITM at EPIP, Jaipur very close to its new software development center. Compucum Foundation, the non-profit - welfare arm of Compucum group, was launched as a SPV to administer tax effectively the professional level education program. It is slated to be regional level institute par excellence with state of art campus style infrastructure and facilities. Accreditation from All India Council for Technical Education and Rajasthan University are secured to offer 'Master of Computer Applications (MCA)' course from current year session. The institute will cater to in house requirement of professionally trained human resources.

Quality

Software development and service activities of the Company are certified ISO 9001 compliant. To achieve process excellence, the quality management system (QMS) for any development activity at Compucum follows certain standard procedures and techniques that assure process quality, which ultimately leads to product quality and customer satisfaction. Adoption of the ISO quality system has enabled the company to identify risks at project plan stage itself, mature processes in software development business, enhance process quality and aligning them with customer/project requirements leading to better risk management and higher customer satisfaction. To ensure effectiveness of the quality system, bi-annual independent reviews are conducted.

Responsibility statement of Board of Directors

A statement of responsibility of Board of Directors for following accounting and financial reporting standards in preparation of financial statements is attached to this report. This statement is a statutory requirement under Section 217 (2AA) of Companies Act, 1956.

Fixed Deposits

Your company did not accept any fixed deposit falling within definition of Section 58A of Companies Act, 1956.

Directors

Pursuant to a across the board change in nomination policy at RIICO for representation on the Board of units under its assistance program, Mr. R.P. Udawat's nomination was withdrawn by RIICO effective from March 21, 2001. Board is



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pleased to place on record its sincere appreciation for his services / guidance during his tenure on the Board.

Mr. John A Giunta and Mr. Stephen Carl Viehman retire by rotation at the ensuing annual general meeting. Being eligible for re-appointment, they are willing to continue on the board.

Auditors

The auditors, S. Misra & Associates, Chartered Accountants, retire at the forthcoming annual general meeting and have confirmed their eligibility and willingness to accept office, if reappointed.

Conservation of energy, research and development, technology absorption, foreign exchange earnings and outgo

(Particulars prescribed under Section 217(1)(e) of Companies Act, 1956 read with rules made there under)

Operations of the company are not energy intensive. Electricity forms a very little part of total revenue of the company. However, management is cautious about energy wastage. Company has installed wherever possible, energy efficient lightings and equipment. Financial impact of these measures is immaterial.

The company is continuously improving its business process by research and developments for better quality and customer satisfaction. As the company is engaged in a business marked with rapid technology changes and obsolescence, it has plans and policies in place to ensure that all its hardware and software resources are periodically upgraded to incorporate the best available technologies. Company has well laid out training programs to upgrade skills of its employees in line with changing market conditions.

The details of foreign exchange earnings and outgo are given in notes on accounts.

Particulars of employees

Pursuant to Section 217 (2A) of the Companies Act, 1956 and Companies (Particulars of Employees) Rules 1975, it is reported that there was no employee drawing remuneration during the year at or above the rates mentioned therein.

Acknowledgement

Your directors sincerely appreciate the contributions made by all employees, associates and business partners without which the improvement in financial performance would not have been possible. Directors are thankful to all customers, vendors, investors, bankers and Rajasthan Government for their continued support and patronage to Compucom.

For and on behalf of the Board

Surendra K Surana
Managing Director

Jaipur, July 30, 2001

Responsibility statement of Board of Directors

Members,

Compucom Software Limited

The Board of Directors of Compucom Software Limited confirms that:

1. The board of directors of Compucom Software Limited accepts the responsibility for integrity and objectivity of financial statements presented in this Annual report.
2. The financial statements presented in this annual report are prepared in conformity with accounting standards issued by the Institute of Chartered Accountants of India and the requirements of Companies Act, 1956, to the extent applicable.
3. The statements are prepared on the basis of historical cost convention, accrual principle and going concern premise. There are no material departures from prescribed accounting standards in adoption of accounting standards.
4. The accounting policies used in preparation of the financial statements have been applied consistently except where the adoption of any alternative policy is found more appropriate for accurate reporting purpose. All material changes in policies and their impact on reported profit; assets and liabilities are disclosed in financial statements.
5. Estimates and judgments relating to financial statements have been made on prudent and reasonable basis, in order that financial statements reflect in a true and fair manner, the substance of transactions and reasonably present the company's state of affairs and profit of the year.
6. Directors have taken proper and sufficient care in maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. The internal control system is reviewed, evaluated and updated on an on-going basis. However, there are inherent limitations in any system of internal controls that should be recognized in weighing the assurances provided by the system.
7. S Misra & Associates, Chartered Accountants and independent auditors have audited the financial statements. Their report forms an integral part of the financial statements.

For and on behalf of the board of directors
Compucom Software Limited

Surendra K Surana
Managing Director

Jaipur, July 30, 2001



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Auditors' Report

To

The members

Compucom Software Limited

We have audited the attached Balance Sheet of Compucom Software Limited as at March 31, 2001, and Profit and Loss Account of the company for the year ended on that date and report that:

1. As required by Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in Para 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to paragraph (1) above, we report that:
 - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b. In our opinion, the Company has kept proper books of account as required by law, so far as it appears from our examination of such books.
 - c. The Balance sheet and Profit and Loss account dealt with by this report are in agreement with the books of accounts.
 - d. In our opinion, the Balance sheet and Profit and loss account dealt with by this report comply with the accounting standards referred to in sub-section 3C of Section 211 of the Companies Act, 1956 to the extent applicable.
 - e. On the basis of written representations received from the Directors of the Company as at March 31, 2001 and taken on record by the Board of Directors, we report that no director is disqualified from being appointed as director of the company under clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
 - f. In our opinion and to the best of our information and according to explanations given to us, the said accounts read with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:
 - i. In the case of Balance sheet, of the state of affairs of the Company, as at March 31, 2001;
 - ii. In the case of Profit and loss account, of the profit of the Company, for the year ended on that date.

FOR S.MISRA & ASSOCIATES
Chartered Accountants

SACHINDRA MISRA
Partner

Jaipur, July 30, 2001



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Annexure to the auditors' report

As mentioned in paragraph 1 of our audit report, we report that:

The matters contained in sub paragraph 4(C) and 4(D) of the Manufacturing and Other Companies (Auditors' Report) Order, 1988 are not applicable to the company.

Internal Controls

1. In our opinion and according to information and explanations given to us, the Company has an adequate internal control procedure commensurate with size of the company and nature of its business for purchase of computer hardware and software, consumables, plant & machinery, equipment and other assets. The activities of the Company do not involve the sale of goods.
2. In our opinion, and according to the information and explanations given to us, in respect of the service activities, the Company, commensurate with its size and nature of business has a reasonable system of:
 - Recording receipts, issue and consumption of materials and allocating materials consumed to each project;
 - Allocating man-hours utilized to each project; and
 - Authorization and control over the allocation of manpower cost to each project.
3. In our opinion and according to information and explanations given to us, the Company has in-house internal audit system, which is commensurate with its size and nature of its business.

Fixed assets

4. The Company has maintained proper records to show full particulars including quantitative details and situation of fixed assets. The management informs us that the fixed assets have been physically verified at the end of the year, which is considered to be a reasonable interval in relation to the size and nature of business. We have further been informed that no material discrepancies have been noticed on physical verification of the assets.
5. None of the fixed assets of the Company were revalued during the year.

Inventories

6. As the Company is not engaged in manufacturing of any tangible products paragraph 4(A)(iii) to 4(A)(vi), 4(A)(xii), 4(A)(xiv) and 4(A)(xvi) of the said order, in our opinion, are not applicable.

Loans and advances

7. The parties to whom loans or advances in the nature of loan were given by the company are regular in repaying the principal amounts as stipulated and interest where applicable.
8. The Company has not taken any loan, secured or unsecured, from companies, firms, or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 or from companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.
9. The Company has not granted any loans, secured or unsecured, to parties listed in the register maintained under section 301 of the Companies Act, 1956 or to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.

Transactions with parties under Section 301 of the Companies Act, 1956

10. In our opinion, and according to information and explanations given to us, the transactions of purchase and sale of goods; material and services with parties required to be listed in the register maintained under section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/-or more in respect of each party have been made at prices which are reasonable with regard to prevailing market prices or prices of similar transactions with other parties.

Fixed deposits

11. The Company has not accepted any deposit from the public and consequently the provisions of Section 58A of the Companies Act, 1956 and the rules framed there-under are not applicable.

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Staff welfare

12. In our opinion and according to information and explanations given to us, the Company is generally regular in depositing dues under Provident Fund and Employees State Insurance schemes.

Taxes

13. In our opinion and according to information and explanations given to us, no undisputed amounts payable in respect of income tax, wealth tax, customs duty and excise duty remained outstanding for six months or more at the end of the year.

Others

14. During the course of our audit in accordance with generally accepted auditing practices in India, we have not come across any personal expense, which was charged, to Profit and Loss account, nor have we been informed of such case by the management other than those payable under contractual obligations or normally accepted business practices.
15. In our opinion, the Company is not a Sick Industrial Undertaking within the meaning of Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985.

FOR S.MISRA & ASSOCIATES

Chartered Accountants

SACHINDRA MISRA

Partner

Jaipur, July 30, 2001

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