

18th ANNUAL REPORT 2008-09

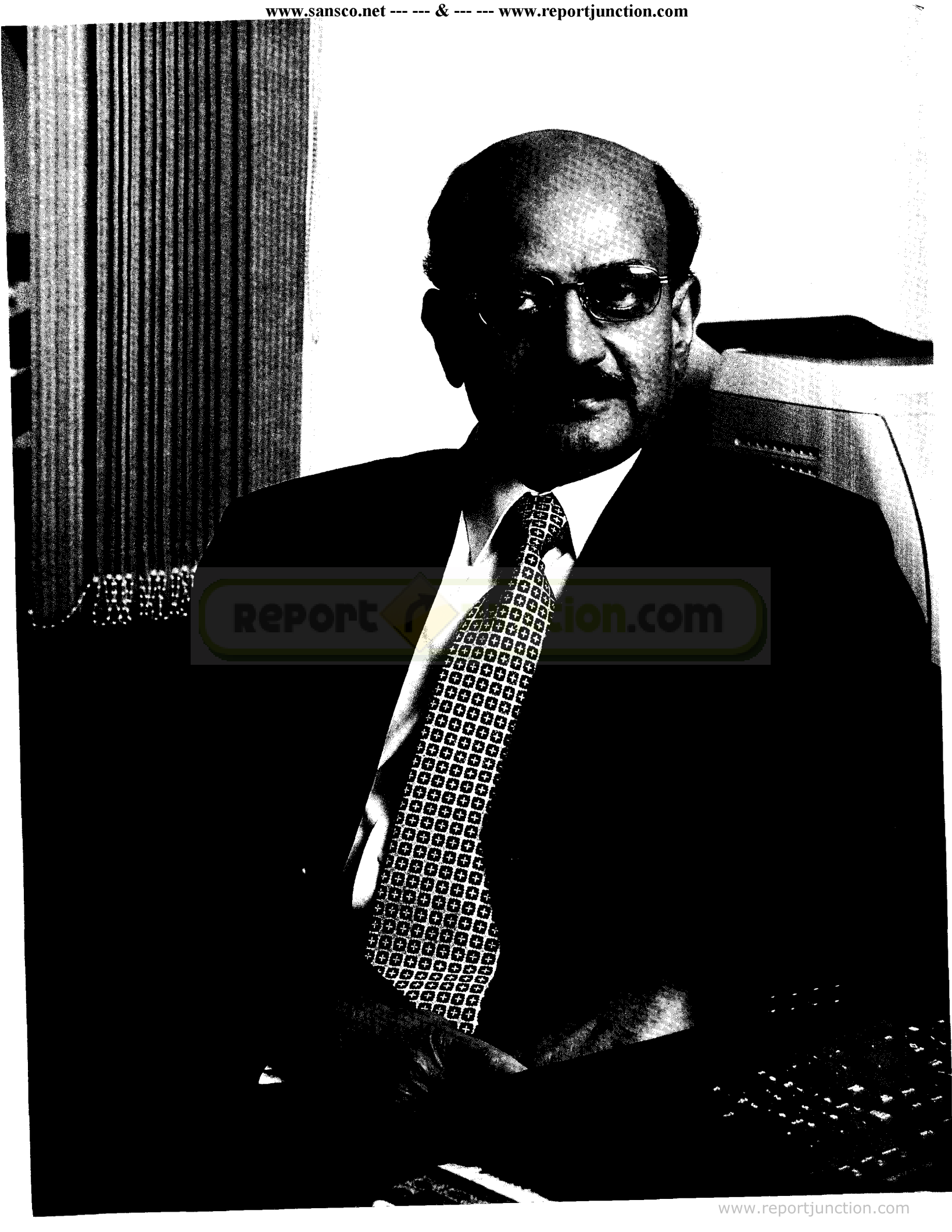


SURPASSING EXPECTATIONS. SALUTING TEAM SPIRIT.



In business, as in sport and life, the significance of planning cannot be overlooked. The only ones who survive life's worst storms are those who are best prepared and equipped to do so. Just like a rower, who spends a lifetime training to overcome one hair-raising manoeuvre in the rapids.

Last year, the industry was rocked by what was spoken of as the worst ever slowdown in the last 50 years. Yet, Infotech did more than just survive. It reported an impressive growth. It was not without an accurate foresight and precise planning, and most importantly, the resilience shown by every associate in Infotech, to weather the economic storm. As a tribute to every member of the Infotech family, we salute man's spirit of resilience – his ability to overcome the most severe of challenges and emerge victorious.



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Chairman's message

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Dear Shareholders,

I am delighted to share with you some of my reflections on the performance of your Company during the financial year 2008-09. I am certain that the way forward is scripted on the successes achieved this year.

2008-09 turned out to be a year of great challenges for every industry in every country around the world. The recession in the U.S., the exchange rate volatility across currencies and a credit crunch impacted industry sentiment and performance of the IT industry in India. Unperturbed by the turmoil in the environment, your Company, Infotech Enterprises Limited (IEL), moved forward to scale greater heights. We posted revenues of USD 193.4 million (Rs. 8897.5 million) for the year 2008-09, growing at an impressive 32% over the previous year. This is a commendable achievement.

Our strong business model, our deep engagement with customers, robust systems and processes, exceeding customer expectations by creating value and a strategic business mix offered us the resilience required to withstand the rough weather and grow. We achieved a PAT of over Rs. 924.8 million, maintaining an operating margin of over 20% and generating cash of Rs. 1548 million. This is after providing for mark to market losses on all outstanding foreign exchange forward contracts to the extent of Rs. 514.80 million, as provided for by AS 11.

All wholly-owned subsidiaries of IEL have achieved significant revenues and profits. Commendably, Infotech Enterprises America Inc. (IEAI), USA achieved a growth in revenue of 51.1% over last year. Infotech Enterprises GmbH, Germany revenues grew by 21.6% over the previous year, while Infotech Enterprises Europe Limited registered a growth of 20.2%.

While many in the industry were merely trying to sustain, your Company built for the future through acquisition and investments. We acquired a San Jose based ASIC design company, Time to Market Inc. (TTM), to enhance our presence and competitiveness in the Hitech industry. Significant among our investments is the establishment of a subsidiary in Japan, Infotech Enterprises Japan KK. This will enable the Company foray into new geographies in the East Asian Market. Continuing our thrust on the creation of infrastructure, this year we completed two more towers at our Manikonda facility, and also completed our own facility at Noida. With this, we operate out of our own world-class facilities in Hyderabad, Bangalore and Noida (our major development centres). Looking forward, I am confident that the investments that we made during the year and the effort

that we put in, will ensure a strong and robust organization to tide over these challenging times.

Expansion of Service Offerings

Our new service offerings from the Engineering, Manufacturing & Industrial Products (EMI) and Utilities, Telecom & Government (UTG) verticals enabled us to move up the value chain and offer innovative solutions to our customers.

We continued to add high value and differentiated services in the EMI vertical. FY 2008-09 saw us undertaking high-end services such as end-to-end design and validation of turbine blades, complex digital mock-ups and compact boiler stress simulations. We also forayed into electrical system design offering services such as electrical design for oil rigs and wiring harness for aircraft. Infotech also continued to build on its strengths in life cycle management services, and now offers Asset Management services to railways, Aircraft Qualification support to aerospace OEMs and Maintenance, Repair and Overhaul (MRO) support to aircraft.

The UTG vertical launched a number of new service offerings during the last financial year for the Utilities, Telecom, Government and the Commercial Geospatial industries. These new services included customization and implementation services in the area of DMS (Distribution Management System), Compliance Solutions, Systems Integration Services and Field Data Capture services, to address the needs of utilities globally.

For the Telecom segment we launched dedicated Telecom Engineering Services, involving Network Planning and Design on various advanced architectures like FTTx (Fibre To

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The Home / Building) and NGN (Next Generation Networks). We also re-branded our existing telecom service offerings around OSS (Operations Support Systems) on the standard eTOM (enhanced Telecom Operations Map) model as Network Inventory Management, Consulting & Implementation, and Operations Support services for telecom operators globally.

We also consolidated our offerings to the Oil & Gas segment by building expertise around Petro Physical Data Services and Downstream / Upstream Data Accumulation activities. 3D city modeling and texturing was another new service that was introduced to address the needs of urban planners and other infrastructure industries.

Strategic Advances

The acquisition of TTM enables Infotech to establish a strong presence in Hitech design services (Semiconductor, Consumer, Computing, Telecom, Medical and Industrial Automation). TTM is focused on the niche area of back-end physical design within ASIC design for several semiconductor manufacturers. The ASIC design strengths of TTM complement the existing strengths of IEL in FPGA & board design and embedded software development. The combined entity has the capability to provide end-to-end design services to semiconductor, telecom & computing industries. The global delivery organization and processes of IEL are a compelling value proposition for TTM's customers to extend the scale and scope of their relationships. To leverage the strengths offered by this acquisition and derive economies of scale, the companies' operations are being integrated.

With the acquisition of TTM, we created the Hitech industry vertical as it is reported to be the fastest growing opportunity

in Engineering Services according to the NASSCOM BAH report on Design Engineering Services. Hitech is also estimated to have the largest engineering spend and is the most open to global engineering processes. The potential in the Hitech industry for off-shoring is estimated to be in excess of USD 15 Billion by 2020.

We also acquired a 10% stake in Tele Atlas Kalyani (India) Limited (TAKI). This adds to our core competence in map data products and is a strategic investment for the Company. Further, it creates greater synergy with our largest GIS customer, Tele Atlas.

Business Development

EMI vertical continues to be the growth engine for the Company with a significant growth of 39.5% in Rupee terms over the last year. This year, two large EMI customers of ours – Pratt & Whitney and Bombardier Transportation – renewed their association. This is a clear testimony to our in-depth domain expertise and lasting partnerships. We also signed long-term contracts with some of the biggest names in the aerospace industry. Offset contracts coming our way are a positive indication for a promising future.

UTG vertical grew by 19.5% in Rupee terms over the last fiscal. We entrenched our position in the Telecom Industry vertical by signing an MoU with Volker Wessels Telecom, a leading Dutch telecommunications engineering and technology company to provide a new service offering to the telecommunications industry worldwide.

We added 84 new customers during the last year across all verticals.

Creating Infrastructure for the future – Tier I and Tier II towns

Two years ago, we were the first among Indian IT companies to set up a facility at Kakinada. As on date, we have the largest number of associates working among other IT companies in any Tier II town in Andhra Pradesh. As a Tier II town, Kakinada offers us all the advantages to improve our efficiencies and enables us to realize better margins compared to the top 10 cities in the country. Kakinada has a good technical talent pool with a host of Engineering and Polytechnic colleges in and around a 40km radius. Besides, the attrition levels are comparatively low in Kakinada. In future, we would like to move into more Tier I and Tier II towns and replicate our success there too. We have been allotted five acres of land at the SEZ in Kakinada. We plan to construct our own facility there and move into the facility in the next eighteen months. Your Company's commitment to the development of Tier II cities not only strengthens our business, but also contributes in a small way to building an inclusive society.

We completed the second tower and the central block at our Manikonda facility. Our Noida facility was formally inaugurated last September, and we shifted from the existing leased facility to our own facility. Our facility at Visakhapatnam in an SEZ (Special Economic Zone) spread over five acres would be ready this year, having an office infrastructure that can accommodate over 500 seats initially, and scale up to 1200 seats to meet future requirements.

Focus on Quality

We received the 'Performance Excellence Award' from the prestigious IMC Ramakrishna Bajaj National Quality Award (RBNQA). We are pleased to inform the successful

completion of the ISO 27001:2005 certification audit for the Kakinada location. Our teams had demonstrated high levels of Information Security Management System and Controls.

Human Resource Initiatives

We continue to lay emphasis on the importance of industry-academia interface. We have to keep adding to our existing base of skill sets and acquire new ones as determined by the demands of the global markets we serve.

Early last year, we signed a Memorandum of Understanding (MoU) with the Andhra Polytechnic College (APC), Kakinada. The MoU, under the aegis of an understanding between CII and the Department of Technical Education, Government of Andhra Pradesh, envisages offering education and training to students from various fields of Technical Education in Kakinada. IEL and APC have agreed to work together for imparting training to students in the field of Electrical, Electronics, Automobile, Mechanical and Civil Engineering, and provide better employment opportunities for the students. This MoU will give us access to a pool of resources in the form of qualified people ready for deployment in the delivery of relevant services to customers. This MoU is in line with our corporate strategy of creating an employable talent pool to meet our manpower needs. We had earlier signed MoUs with MLRIT and CIPET in Andhra Pradesh.

Challenges

The continuing recession in the largest economies of the world and the volatility in the currency markets continue to pose challenges to the Indian IT Industry and your Company. However, we have put several strategies in place to ensure

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that we will continue the growth momentum in the coming years. We have also put in place several initiatives to obtain greater cost efficiency, such as cost control, reduced attrition and wage moderation. We have also put several measures in place to improve productivity and reduce system inefficiencies. We are focusing on utilization of men, material and money. We also have several strategies for sustaining our revenue growth. We increased our customer engagements. A substantial amount of time of our Sales & Marketing, Account Management, Delivery Management and Executive Level team is now being spent in engaging the customers. We have created an environment to foster "Innovation" through process, culture and people. We have initiatives aiming at effective communication of our vision in engaging our associates and rewarding innovative ideas through "Cynosure". We are also providing greater penetration into the markets by providing service offerings which make our customers realize higher value for the same money spent. With these initiatives, we hope that the growth momentum for the Company will continue as in the past.

Future

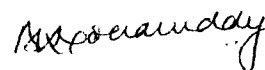
We plan on adding more new services and provide complete engineering solutions like Product Life Cycle Management to our Aerospace and other large Engineering customers. Depending upon the prevailing economic environment, the dynamism in various industries trying to adjust to the new economic order – like small cars, we will be on the lookout for business arrangements with complementary skills in both Engineering Services and the GIS space.

The outlook for the Indian IT industry indicates that Energy Efficiency, Climate Change, Health Care and Mobile Applications are the verticals for future growth and the BRIC (Brazil, Russia, India and China) countries are the geographies which will be worth \$800 Billion by 2020. Infotech has geared itself up to take advantage of this opportunity by focusing intensely on India and the ASEAN markets. In addition, our new service offerings in the areas of growth, will enable Infotech to handle the future challenges with ease.

This year, we saw tremendous amount of team effort to surpass the market expectations, in spite of economic challenges. We salute our associates for their team effort in creating value for our customers. Team effort was reflected in working within the groups, with our customers, with our suppliers and with every stakeholder. I believe that we will continue to work as teams to ensure greater value to the shareholders of the Company.

Our passion gets recharged to explore new horizons and achieve growth year after year with the trust placed in us by you, the shareholders of the Company. I thank the board of directors for their support and guidance for the growth of our business year after year. I also thank all other stakeholders for our success.

Warm Regards,



B.V.R. Mohan Reddy
Chairman & Managing Director

