

20TH ANNUAL REPORT 2010-11

**GEARED TO
TAKE ON THE FUTURE**



A close-up, low-angle shot of speed skaters' legs and skis on a frozen track. The skaters are wearing red and black racing suits. The ice surface is white with some red and blue markings. The background is a blurred blue sky.

**ACCELERATING
GROWTH**





We have witnessed significant growth in our organisation by offering world-class services to our global customers. While keeping our core business intact, we are now on an accelerated growth path with enhanced service offerings. With increased domain knowledge in managing large and complex projects, we are poised to deliver innovative solutions with better performance.



CHAIRMAN SPEAK

Dear Shareholders,

I am happy to share my thoughts with you on general business outlook, your company performance for Financial Year (FY) 2010-2011 and future directions.

General Overview of Industry

After sharp deceleration of growth in 2008 and the contraction in 2009, the global GDP increased by 3.9% in 2010 (according to World Bank reports). The growth has varied between developed nations and emerging economies – emerging economies doing much better. However, according to NASSCOM, the global technology spend grew by 4% and more importantly the global outsourcing spend outpaced the same with a 10% growth. The demand for IT services including Engineering Research & Development (ER&D) services continues to be robust globally. The continued momentum indicates a three times growth in the next ten years.

A recent McKinsey analysis on sources of growth indicates that the growth levers are: further expansion of core markets with new services and solutions, expanding/

Chairman Speak



strengthening new verticals in existing geographies, new customer segments in existing geographies and new geographies with tailored value proposition and business models.

The ER&D spend globally, grew from US\$ 980 Billion in 2008 to US\$ 1.1 Trillion in 2009. Booz & Co. estimate that the Global ER&D spend will grow further to US\$ 1.4 Trillion by 2020. The Indian ER&D Service Exports according to NASSCOM grew from US\$ 5.2 Billion in 2007 to US\$ 9.0 Billion by 2011 (estimate) registering an annual compounded growth rate of 15%. While Telecom, Semiconductor and Automotive dominated their services with a lion's share of 60%, Aerospace registered an impressive CAGR of 27% (between 2006 and 2010). India is emerging as a major hub for ER&D services for Global markets. Within services, embedded services (both hardware and software) contribute to 45% of revenues.

Delivering Global Engineering Solutions efficiently

Infotech started its GIS service offerings way back in 1992, with the ability to handle large and complex geospatial databases, bespoke software development, platform implementation and GIS consultancy. In 2004, the focus shifted to "customer centricity" and this division was named UTG to reflect Infotech's concentration on three key verticals - Utilities, Telecom and Government. Over the past six years, this focus enabled the business to achieve significant growth based on the company's ability to offer services beyond GIS and more leaning to engineering while still keeping the core intact. This focus is helping us deliver a broader set of service offerings including Telecom Engineering, OSS, Smart Grid and Meter Data Management services. Together with Infotech's core geospatial and IT competencies, these services come under the unified brand of Network Engineering. Gas and Electric utilities, and Wire Line and Wireless Telecommunication companies are the primary markets for these services.

The Content Engineering business builds on Infotech's success in the Government and Commercial markets. By leveraging many years of experience in managing large and complex geospatial databases, this business is poised for further growth by offering scale, process and quality excellence that will help to transform partial and/or inaccurate data, into value added content. Infotech has made considerable investments in its own IP to optimize this content transformation, and as part of Content Engineering strategy, Infotech is also strengthening its IT capability, specifically in the area of Enterprise Content Management. We will continue

to address geospatial "content" opportunities in the Government and Commercial markets. The Content Engineering business will also target select new verticals that offer significant Content Engineering opportunities. All existing customers are being managed by dedicated teams from either the Network Engineering or Content Engineering business unit.

The product engineering service got traction only in early 2000 and has since grown substantially and has overtaken our traditional GIS business. This vertical which was branded as ENGG, had sub-vertical focus into areas such as Aerospace, Rail Transportation, Off-road Heavy Vehicles, Hi-Tech, Consumer Electronics, etc. Over the last decade, we have systematically demonstrated our ability to deliver high quality services, on-time every time at compelling price-value proposition. With robust and scalable processes, we have gained the ability to develop capacity with right capability. This has helped us in demonstrating delivery of end-to-end solutions to customers, world over.

Now that both our businesses deliver high quality value added engineering solutions, the current rebranding underlines Infotech's focus on engineering as the basic differentiator and enhances Infotech's value to the customers and markets. This strategic approach simultaneously increases the size of the addressable market while accelerating the company's thrust into engineering related services. Infotech's new strategy is consistent with the wider rebranding and positioning of the whole organization and serves to reinforce Infotech Enterprises' position as a leading Global Engineering Services provider with a strong and sustainable presence in Product & Process Engineering and Network & Content Engineering markets, globally.

Summary of Financial Achievements

- Total Income for FY 10-11 crosses Rs. 1200 crores (including other income).
- Revenue for FY 10-11 crosses Rs. 1000 crores for the first time (at Rs. 1,188 crores), a major milestone in the history of the company.
- Revenue grew by 24.6% Y-o-Y in Rupee terms (Rs.1,188 Crores) and in dollar terms grew by 29.7% (US\$ 260.7 million)
- Operating margins were at 15.2% for FY 10-11.
- Profit after tax at Rs. 1,396.9 million for FY 10-11.
- Achieved in excess of US\$100 million revenue from Aerospace vertical

Chairman Speak



Business Strategies

Towards achieving its vision of 'Delivering innovative solutions together for a better future', and becoming a US\$ 1 Billion enterprise, Infotech has focused on the following strategic initiatives:

- Strengthening its domain expertise in new market segments within existing industry verticals
- Establishing a global network of engineering centers that offer its customers the right mix of proximity, skills and price
- Forging strategic, long-term relationships with specific named accounts

Quality and Innovation

In the formative years building Quality consciousness was a big challenge in our company. With relentless efforts from our teams, we have built capabilities to deliver the highest levels of quality. Our ability to get certified for several international quality standards is a small reflection as to how Quality as a movement has matured in this company. It has matured to such a level that we can proudly say that Quality is a part of our company DNA.

My next ambition in life is to make Innovation also a part of our company's DNA. Several initiatives are in place to encourage, recognize and celebrate innovation in the company. To progress this in a structured manner, we are now putting more specific focus with the help of an external consulting company to further encourage Innovation and bring a mindset change towards Innovation. We intend to strengthen the innovative culture in the company and hopefully make it a movement so that Innovation also becomes a part of our company DNA.

Levers for Improving Margins

We have had serious challenges with operating margins during FY 10-11. Our Operating margins went down from 21.5% to 15.2%.

Key reasons for the margin contraction were:

1. Salary increases for both offshore and onshore employees without equivalent rate increases from customers.
2. Hiring of far more laterals compared to freshers which again put burden on the cost of wages.

3. Acquisitions which operated at less than 10% margins took longer time to create offshore workload. The acquired entities' revenues exerted pressure on margins on consolidated revenues.
4. Initiatives taken on improving productivity are taking longer time though in focus and right course.
5. Step up in our overhead burden with not so corresponding increase in revenues as some of these were investments in organisation and initiatives whose results will fruitify in the coming year.

All the above have been identified and we feel confident of correcting the situation. Also, all the levers for growth are being systematically addressed.

Acquisitions

The Telecommunications Industry has always been an important market for Infotech and Telecom Network Design and Engineering has emerged as an excellent growth area for us. Infotech acquired Wellsco in an all-cash deal. Wellsco is a focused Engineering Services provider to the US telecommunications industry. Headquartered in Paragould, AR, Wellsco has over 180 employees located across 5 offices. It counts for some of the largest Telecom companies in the US as long term customers. With this acquisition, Infotech gains access to the deep domain skills and experience of the local Wellsco team, which combined with strong, long-term customer relationships and US delivery capability will serve to accelerate our growth. We have been very impressed with the management and technical teams at Wellsco, as well as with their vision towards attaining a leadership position. Combined with our mature processes and ability to scale customer relationships, we are confident that we will leverage this acquisition to create strong momentum and further enhance our leadership position in the Network Engineering Services market space.

SEZ Facilities

With the withdrawal of section 10A/10B benefits (under the Income Tax Act) to all IT services companies registered under STPI scheme, it has become imperative for us to scale our SEZ facilities. Our SEZ facilities in Kakinada and Visakhapatnam give us the additional advantage of lower operating costs, lower attrition without major challenges to resource availability.



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We commenced operations from the new SEZ facility in Visakhapatnam at Rushikonda IT Park. This is Infotech's first SEZ development centre. This facility is an extension of the company's strategic move to take advantage of the benefits of locating development centers in Tier 2 towns. Infotech currently operates out of five of their own Development Centers in India - Hyderabad (Madhapur and Manikonda), Bangalore, Noida, and Kakinada. This will be the sixth development center of Infotech, the first in SEZ and the second in a Tier 2 city.

Further, Infotech laid the foundation stone for its new facility at the IT SEZ, Sarpavaram, Kakinada, Andhra Pradesh. This facility is an extension of the company's business strategy to take advantage of SEZs and also foster inclusiveness by locating development centers in Tier 2 cities.

The new Kakinada SEZ facility will be Infotech's second SEZ and is being built on a 5 acre campus with 1000 seats and a built-up area of 1,00,000 sq.ft. Infotech proposes to build a high-tech facility of global standards with superior IT infrastructure, connectivity and with latest amenities. In addition, Infotech has embarked on the strategy of doing-up the SEZ facility it acquired in NOIDA SEZ in the middle of last year. It is estimated that with these facilities and few more initiatives, the company is targeting one-third of its business from SEZ in the coming years.

Corporate Social Responsibility

Infotech believes in giving back to society in some measure that is proportionate to its success in business. Our policy for Corporate Social Responsibility (CSR) is designed to balance the needs of all stakeholders. Infotech's CSR initiative goes well beyond charity and is based on the idea that a responsible company should take into account its impact on the society along with its obligations to stakeholders.

Infotech carries out a wide range of CSR activities through Infotech Enterprises Charitable Trust (IECT). Recently, our main activities have been focused on the improvement and expansion of primary education programs in India for underprivileged children. An IECT project - "Adopt A School" has included financial support, infrastructure improvements in schools and volunteer work by Infotech employees.

Awards and Recognition

Infotech has been recognized by The Boeing Company as Supplier of the Year in the "Non-Production" category. Infotech Enterprises was one of 16 companies honored by Boeing. This year's winners represent an elite group among more than 17,525 active Boeing suppliers in nearly 52 countries around the world. This selection was based on stringent performance criteria for quality, delivery performance, cost, environmental initiatives, customer service and technical expertise.

Over the past 6 years, Infotech Enterprises has supplied specialized engineering services and solutions to Boeing across commercial programs such as 747-8 (freighter and passenger), 787-9, 757 and 747 among others.

Other awards that recognize the excellence of our work include the PC Quest IT Award for the U-GIS project we implemented for Airtel and the Edison Award for our utility installation at North Delhi Power Ltd.

This year, we saw a tremendous amount of team effort to surpass the market expectations, in spite of economic challenges. On your behalf, I would like to place on record the contribution made by all of our associates and congratulate them for creating value for our customers which in turn has helped your Company grow even stronger. I believe that we will continue to work as a team 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 you for supporting us through this difficult year and standing by us. All of us greatly appreciate it and without your continued support, it would not have been possible for us to deliver results.

Warm regards,

B.V.R. Mohan Reddy

Chairman & Managing Director

The year at a glance 2010-11



THE YEAR AT A GLANCE – CONSOLIDATED

(In millions, except as otherwise stated)

| Particulars | March 31, 2011 | | March 31, 2010 | |
|---|----------------|--------|----------------|--------|
| | ₹ | US \$ | ₹ | US \$ |
| For the year | | | | |
| Operating Revenue | 11,880.14 | 260.70 | 9,531.21 | 201.04 |
| Total Income | 12,175.60 | 267.18 | 9,994.91 | 210.82 |
| Operating Profit (EBIDTA) | 1,803.56 | 39.58 | 2,083.09 | 43.94 |
| Net Profit after Tax (PAT) | 1,396.89 | 30.65 | 1,708.76 | 36.04 |
| EBIDTA as a percentage of Operating Revenue | 15.18% | 15.18% | 21.86% | 21.86% |
| PAT as percentage of Total Income | 11.47% | 11.47% | 17.10% | 17.10% |
| Basic Earnings per Share (₹) | 12.56 | 0.28 | 30.88 | 0.65 |
| Dividend per Share (₹) | 1.25 | 0.03 | 2.00 | 0.04 |
| Dividend Amount | 139.10 | 3.05 | 111.00 | 2.34 |
| Fixed Assets – Addition (Net) | 758.46 | 16.64 | 393.31 | 8.30 |
| At the end of the year | | | | |
| Total Assets | 12,680.78 | 278.27 | 11,270.10 | 237.72 |
| Fixed Assets – Net | 3,380.28 | 74.18 | 3,154.40 | 66.53 |
| Cash and Bank Balance | 3,502.41 | 76.86 | 2,337.23 | 49.30 |
| Working Capital | 5,990.76 | 131.46 | 3,901.09 | 82.28 |
| Total Debt | 5.50 | 0.12 | 43.99 | 0.93 |
| Net Worth | 10,293.12 | 225.87 | 9,063.45 | 191.17 |
| Equity | 556.38 | 12.21 | 277.50 | 5.85 |
| Market Capitalization | 17,983.12 | 394.63 | 20,471.00 | 431.79 |
| US\$ Exchange Rate (₹) | - | 45.57 | - | 47.41 |

Market Capitalisation is calculated by considering the share price at the National Stock Exchange on March 31 of the respective years on the share outstanding as that date.

* Figures are regrouped and reclassified wherever necessary.



Key performance highlights 2010-11



- Total income crossed ₹ 1,200 crores (including other income)
- Aerospace vertical achieved revenues of over US\$100 million
- Recognized by The Boeing Company as Supplier of the Year in the "Non-Production" category
- Established Integrated Global Aerospace Practice
- Pratt & Whitney, Canada, Center of Excellence, received supplier Gold recognition. With this, the entire UTC division at Infotech operates at ACE Gold level
- Our wholly-owned subsidiary, Infotech Enterprises America Inc., acquired Wellsco Inc.
- Infotech has been re-certified for ISO 9001 (8 locations) and for ISO 27001 (7 locations). Certified for IRIS, AS 9100CE, ISO 13485 : 2003
- Inaugurated new electronic Center of Excellence for Hamilton Sundstrand
- Opened a new Center of Excellence at Visakhapatnam SEZ
- Launched Global Data Synchronization initiative for India trade with SA2 Worldsynchron
- Registered three new trademarks viz., TruShift, TeeM NG and iGEMs
- Renewed contract with TomTom for a further period of three years
- Completed a 1:1 bonus issue of shares; dividend of 25% recommended by the Board of Directors (post bonus)



