



**TWENTIETH ANNUAL REPORT  
FINANCIAL YEAR 2007 - 08**

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## **CORPORATE INFORMATION**

### **The Board of Directors**

Mr. Surinder Rametra	<i>Chairman and Executive Director</i>
Mr. Parvinder S Chadha	<i>Executive Director</i>
Mr. Sunil Rajadhyaksha	<i>Executive Director</i>
Mr. Ajay Madan	<i>Director</i>
Mr. B R Gupta	<i>Director</i>
Mr. Rajeev Gupta	<i>Director</i>

### **Executive Management Team**

Mr. Suresh Yannamani	<i>President</i>
Mr. James Reynolds	<i>Chief Financial Officer &amp; Chief Accounting Officer</i>

### **Company Secretary & Compliance Officer**

Mr. Bhuvanesh Sharma  
E-mail: [investor.relations@hovservices.com](mailto:investor.relations@hovservices.com)

### **Registered Office**

HOV Services Limited  
3rd Floor, Sharda Arcade,  
Pune Satara Road, Bibwewadi,  
Pune 411-037  
Tel: (91 20) 2423 1623  
Fax: (91 20) 2422 1460  
E-mail: [investor.relations@hovservices.com](mailto:investor.relations@hovservices.com)

### **Head Office**

Dowlath Towers,  
10th Floor,  
59, Taylors Road,  
Kilpauk, Chennai-600 010  
Ph: +91 44 42203000  
Fax: +91 44 4285 8528

### **Registrar & Share Transfer Agent**

Karvy Computershare Pvt. Ltd.  
17-24, Vittal Rao Nagar,  
Madhapur, Hyderabad-500081  
Tel: (91 40) 23420815  
Fax: (91 40) 23420814

### **Auditors**

Lodha & Co.  
Chartered Accountants  
6 Karim Chambers  
40 Ambalal Doshi Marg  
Mumbai 400 023  
Maharashtra, India  
Tel: (91 22) 2265 1140  
Fax: (91 22) 2269 1414

## DIRECTORS' REPORT

The Shareholders,

Your Directors' are pleased to present their Twentieth Annual Report on the Business and Operations of the Company together with Audited Statement of Accounts for the year ended March 31, 2008.

### 1. FINANCIAL RESULTS AND OPERATIONS:

The particulars of the Company and its Subsidiaries Consolidated financials statements are as below:

Particulars	For the year ended March 31, Rs. In Million			
	Consolidated		Standalone	
	2008	2007	2008	2007
<b>INCOME</b>				
Income from Operations	8,335.11	2,489.96	62.28	69.83
Other Income	744.87	13.33	0.29	6.06
	<b>9,079.98</b>	<b>2,503.29</b>	<b>62.57</b>	<b>75.89</b>
<b>EXPENDITURE</b>				
Staff Cost	4,036.07	1,073.51	24.31	19.34
General and Administrative Expenses	3,513.47	1,054.24	25.68	25.57
	<b>7,549.54</b>	<b>2,127.75</b>	<b>49.99</b>	<b>44.91</b>
<b>Profit/(Loss) before Interest, Depreciation and Tax</b>	<b>1,530.44</b>	<b>375.54</b>	<b>12.58</b>	<b>30.98</b>
Less: Interest	509.26	70.47	0.13	0.80
Less: Depreciation	169.78	47.23	1.65	1.07
<b>Profit/(Loss) before Tax</b>	<b>851.40</b>	<b>257.84</b>	<b>10.80</b>	<b>29.11</b>
Tax pertaining to earlier years	(0.08)	(0.04)	-	(0.04)
Less: Provisions for taxes				
Current Tax	27.77	36.19	1.20	0.77
Deferred Tax	0.14	0.95	0.01	0.11
Fringe Benefit Tax	1.56	0.95	0.30	0.32
<b>Profit/(Loss) after Tax</b>	<b>822.01</b>	<b>219.79</b>	<b>9.29</b>	<b>27.95</b>
Less: Minority Interest	277.59	12.49	-	-
<b>Profit/(Loss) after Tax After Minority Interest</b>	<b>544.42</b>	<b>207.30</b>	<b>9.29</b>	<b>27.95</b>

### 2. RESULTS OF OPERATIONS

#### Performance on consolidated basis:

The Revenue increased to Rs. 9,080 million from Rs. 2,503 million, an increase of 263%. Profit before taxes increased to Rs. 851 million from Rs 258 million, an increase of 230% and profit after taxes increased to Rs. 544 million from Rs 207 million or an increase of 163%.

### 3. Dividend:

Your Company intends to conserve available resources to invest in the growth of the business and pursue strategic growth opportunities. Accordingly your Directors do not recommend any dividend for the year.

#### 4. Significant Developments:

The Company has achieved 15th Rank on the International Association of Outsourcing Professionals' (IAOP) Global Outsourcing 100 list for 2008. This is the third consecutive ranking within the top 25, and moves HOV Services up nine positions from last year's ranking. Your Company is again honored by IAOP's recognition as a worldwide leader in the outsourcing industry.

##### Highlights of Business Performance:

- Added \$35.7 million in customer contracts in the 4th Fiscal Quarter; and \$113.5 million over the last fiscal year.
- Pace of Revenue Growth is expected to continue - in part due to success of end-to-end solution sales strategy and in part due to success of cross sell and up-sell program across our top 350 customer.
- Expanded its global delivery capability by opening operations in Xian, China and 3 new facilities in Indian B cities.
- Average deal size increased during the 4th Fiscal quarter to \$1.8 million from \$0.6 million in the 1st quarter with many deals in the pipeline that are larger than average for the 4th Fiscal quarter.

##### Key Accomplishments and Noteworthy Items:

- Ranked 15th on the International Association of Outsourcing Professionals' (IAOP) Global Outsourcing 100 list for 2008.
- Continue Technology Deployment and derive substantial savings from integration and rationalization of global operations in the FY 2009 and beyond.
- The impact of the Rupee was accretive to the Company to the tune of Rs. 309.9 million in FY 2008. This is due to the global footprint of the Company deriving 98% of its revenues in North America with cost spread globally between US, Canada, India, China and Mexico. The Company has USD denominated borrowings from US institutions which contributed substantially to the income due to foreign exchange gains.
- Diversified Client Base - Top 100 clients represent over 73% of total revenues.

##### Material Transaction Proposal

Your Company received an offer in June 2008 of approximately \$202 million to purchase from an investor group consisting of some of our Promoters:

- (i) 100% of ownership interest of HOV Services, LLC and its subsidiaries ("LLC");
- (ii) 100% of ownership interest of HOV Services (Beijing) Ltd.; and
- (iii) Any operating assets used by the companies in (i) and (ii) wherever located.

The transaction is subject to many conditions and purchase consideration is subject to adjustments based on debt, exchange rate between Rupee and US dollar including material adverse changes to the business and prospects of the Company. The Company has not entered into any agreement pending satisfactory resolution of certain items described below and as such the offer can be withdrawn prior to receiving the advise and satisfactory resolution. Our advisors also may recommend certain changes which the potential buyer may not accept or the Company may decide not to proceed due to variety of reasons. These and other factors including macro economic climate has led to uncertainty in regards to satisfactory completion of the transaction.

The Board of Director's in their meeting held on August 26, 2008 considered the various steps involved to position the Company for taking advantage of various opportunities. And after deliberations approved the transfer of shares of LLC, a wholly owned subsidiary to HOVS Holdings Ltd., domiciled in Hong Kong, also a wholly owned subsidiary of the Company. These transfers are subject to obtaining required regulatory and other approvals including Reserve Bank of India prior to effectuating any step.

Our, independent directors of the Board believe the Material Transaction is potentially in the best interest of the shareholders. However, the Board is not in position to recommend the transaction at this time till it has received advice and clearance from the legal advisor to the Company; investment banker retained to provide valuation advice and tax advisors for determining the overall impact to all stakeholders in regards to the proceeds received and distribution.

The transaction is subject to prior approval from exchanges and regulatory bodies and the minority shareholders of the Company in an Extra Ordinary General Meeting properly convened. Also, the Promoters and members of the promoter group will abstain from voting their shares in the Company for the Material Transaction Proposal.

#### Issue of ADR/GDR

The Shareholders in their Annual General meeting held on July 21, 2007 approved the issue of up to 1,50,00,000 number of Global Depository Receipts (GDRs), American Depository Receipts (ADRs), Foreign Currency Convertible Bonds (FCCBs), and / or Equity Shares through Depository Receipt Mechanism (hereinafter referred to as (“DR”) per SEBI guidelines and subject to all rules and regulations. The Company also received In-Principal approval from Bombay Stock Exchange Limited vide its letter dated November 29, 2007 and from National Stock Exchange Limited vide its letter dated November 29, 2007 for issue and allotment of equity shares not exceeding 1,50,00,000 to be allotted towards the proposed DRs.

The Company has not issued any equity shares post approval.

### **5. Conservation of Energy, Technology Absorption, and Foreign Exchange**

Particulars furnished pursuant to Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1998:

**Conservation of Energy:** The operation of Company is not energy intensive. The Company conducted energy audit in some of the units and has started implementing the recommendations in a phased manner. This has resulted in reduction of energy consumption by around 15%.

**Research and Development:** The Company has not undertaken any R&D activity in any specific area during the year under review, and hence no cost has been incurred towards the same. The Company believes technology deployment is strategic to its growth and has invested heavily in automation, capture, presentation and analytics and has invested heavily in it. The Company has development teams in US and India implementing its vision.

**Technology Absorption, Adaptation and Innovation:** The Company has been concentrating on providing end to end BPO services to Clients conforming to international standards including ISO, HIPAA and SAS70. The Company has adopted Six Sigma practices and LEAN techniques in a majority of its centers and processes; a significant number of our team member have gone through Six Sigma training as well and have also secured the coveted black belt. The Company is constantly pursuing and adopting modern technologies and standards to grow its competitive advantages, to better serve its clients, retain employees and improve productivity and performance.

**Foreign Exchange Earnings and Outgo:** Almost the entire earnings of the Company are from the export of services since the Company has no domestic business. The foreign exchange earnings and outgo is contained in the Notes to the Accounts of the Annual Report.

### **6. Particulars of Employees**

The Company has no employee drawing remuneration in excess of limits specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended.

### **7. Human Resources**

The relationship of your Company with its employees remained cordial throughout the year.

### **8. Directors Responsibility Statement**

As stipulated in Section 217(2AA) of Companies Act, 1956, your Directors subscribe to the “Directors Responsibility Statement” and confirm as under:

- a) that in preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures; and
- b) that the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are 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 profit and loss account of the Company for that the period; and
- c) that the directors have taken proper and sufficient care of the 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; and
- d) that the directors have prepared the annual accounts on a going concern basis.

## 9. Fixed Deposit

The Company has not accepted any deposits from the public within the meaning of Section 58A of the Companies Act, 1956, during the year under review.

## 10. Corporate Governance

A separate section on Corporate Governance forming part of the Directors' Report and the Certificate from the Company's Auditors confirming compliance of Corporate Governance norms as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges is included as a separate section in this Annual Report.

## 11. Management Discussion and Analysis

Management Discussion and Analysis Report for the year under review, as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges is presented as a separate section forming a part of this report.

## 12. Auditors

The Statutory Auditors M/s Lodha & Co, Chartered Accountants, Mumbai, hold office till the conclusion of ensuing Annual General Meeting and have expressed their willingness and being eligible to continue, if re-appointed. You are requested to consider their re-appointment.

## 13. Directors

There is no change in the Board of Directors during the year under review. Mr. B R Gupta, Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers his candidature for re-appointment.

## 14. Particulars Required Under Section 212 of the Companies Act, 1956

As per Section 212 of the Companies Act, 1956, the Company is required to attach the director's report, balance sheet, and profit and loss account of the subsidiary companies. The application was made to the Central Government of India for an exemption from such attachment as the Company presents the audited consolidated financial statement in the Annual Report. We believe that the consolidated accounts present a full and fair picture of the state of affairs and the financial conditions. The Government of India has granted exemption to the Company from complying with section 212 for all the subsidiary companies vide its letter dated May 19, 2008 and July 18, 2008. Pursuant to the conditions of Government of India approval the statement thereto is annexed to the Annual Report.

Accordingly, the Annual Report does not contain the financial statement of the subsidiary companies. We will make available the audited annual accounts and related information of subsidiary companies, where applicable, upon request by any of our investors. These documents will also be available for inspection during business hours at our registered office in Pune, India.

## 15. Employee Stock Option Plan

The Company has instituted "HOVS Stock Option Plan 2007" for its employees and for employee's of its subsidiary companies. The details of options granted under the plan are given in the table.

Particular		Plan 2007
a.	Options Granted:	6,67,500
b.	The Pricing formula:	Closing price of the stock exchange where there is highest trading volume, prior to the date of the meeting of the Compensation & Remuneration Committee in which options are granted.
c.	Options Vested:	Nil
d.	Options Exercised:	Nil
e.	Total number of shares arising as a result of exercise of options:	6,67,500
f.	Options lapsed:	57,000
g.	Variation of terms of option:	NA
h.	Money realized by exercise of options:	NA

i.	Total number of options in force:	6,10,500
j.	Details of Options granted to:	
	i. Senior Management:	6,10,500
	ii. Employee's receiving 5% or more of the total number of options granted during the year:	Nil
	iii. Employee's granted 1% or more of the issued capital:	Nil
k.	Diluted EPS after giving effect to issuance of shares on exercise calculated in accordance with AS 20.	NA

## 16. Acknowledgement

The Board wishes to convey their appreciation to our employees, shareholders, customers, suppliers and bankers for the continued support given by them to the Company during the year.

**For and on behalf of the Board of Directors**

Place: Mumbai  
 Date: June 5, 2008

Surinder Rametra  
 Chairman





## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **INDUSTRY OVERVIEW**

#### **Industry**

HOV Services Ltd. (“HOVS”) strives to continually stay at the forefront of the marketplace and is positioned to leverage its global end-to-end capabilities in the Business Process Outsourcing (“BPO”) including Knowledge Process Outsourcing (“KPO”). We define BPO and KPO as:

BPO is generally the outsourcing of non-core business processes, generally offshore with the primary goal to save money.

Whereas in KPO, companies are outsourcing more core business processes where highly educated professionals perform the KPO tasks, based on a “right-shore” approach. With KPO, the primary goal is to gain access to scarce knowledge experts and provide a return on investment (“ROI”) rather than focusing primarily on cost savings.

#### **Understanding the BPO Market**

The BPO market is and has been in a steady state of growth for the past five to ten years. According to market analysis firm, Gartner, the global outsourcing market was approximately \$119 billion in 2000. Gartner is estimating the market to grow to approximately \$310 billion by the end of 2008. North American represents about 59% of the total market (approximately \$182.9 billion), Europe 27% and Asia-Pacific (primarily India) contributes the majority of the remaining portion.

#### **Understanding the KPO Market**

KPO projects require a higher level of control, confidentiality and enhanced risk management. Laxity in any of these parameters will not only jeopardize the KPO services being provided, but may also affect the entire business conducted by the client. Therefore, it is imperative that companies work with a KPO partner that has proven experience in the areas they are seeking to outsource. A reliable KPO partner must understand your industry, your challenges and your needs in order to be able to truly become an extension of your organization.

Evalueserve (EVS), a provider of offshore research and analytics services, predicts that low-end outsourcing services will grow globally from USD 7.7 billion in FY 2003 to USD 39.8 billion in FY 2010, which implies a Cumulative Annual Growth Rate (CAGR) of 26 percent. In contrast, the revenue from the global KPO market was USD 1.2 billion in FY 2003 and this is expected to grow to USD 17 billion by FY 2010, which implies a CAGR of 46 percent.

With such a steady growth rate in each of these industries, HOVS is positioned for tremendous growth as well. We operate in the largest BPO and KPO markets, according to Gartner’s statistics, and continue to climb in our global ranking. In fact, HOV Services was just listed as #15 on the International Association of Outsourcing Professionals 2008 Global Outsourcing 100 List, climbing up from #24 in 2007. We were also placed on the following unranked sub category lists:

- Best 10 Leaders with Employee Presence in India
- Best 10 Companies by Industry Focus: Healthcare
- Best 20 Companies by Industry Focus: Financial Services
- Best 20 Companies by Industry Focus: Telecommunications
- Best 20 Companies by Services Offered: Document Management

#### **HOV Services Summary**

HOVS to Exceed Expectations® for every one of our customers. As a leader in Global Business Process Outsourcing, we develop fully integrated solutions that combine best-of-breed technology, leading-edge infrastructure and domain expertise to give our customers the most streamlined process available. Our end-to-end solutions for healthcare, banking, publishing and our e-content management coupled with workflow based large volume transaction processing services set standards for the industry. HOVS applies LEAN Six Sigma techniques to improve quality, reduce cost and improve cycle time of our customer’s business processes.

For our customers, HOVS creates value by providing quality products and services that are delivered reliably and cost effectively to enhance their abilities to operate business. We aspire to “Exceed Expectations” through our end-to-end solutions, superior customer service and competitive desire to be the best BPO and KPO provider to our customers and their industry.

For our employees, we create value by running an ethical business that offers equal opportunity, career advancement and rewards for competence, performance and dedication to our customers, shareholders and business philosophy. We aspire to “Exceed Expectations” by being the employer of choice in the locations we work, and by attracting and keeping high caliber individuals who work as a team to create value.

For our shareholders, we create value by providing leadership, executing strategy based on analysis to deliver profits worthy of investment. We aspire to of being a leader in the BPO/KPO industry whose value is recognized by the profits we generate, the expertise of our employee and of our competitive accomplishments for customers we serve.

#### The Future and Vision of HOV Services

With the continued growth in the BPO and KPO industries, it is our goal to leverage our extensive industry expertise and excellent client base to continually grow our position in these markets. HOVS has uses an end-to-end, fully integrated solution strategy in BPO/ KPO market that blends a concentrated focus on key vertical and horizontal with technologically enabled service offerings. This solution suite is accented by the company’s firm commitment to Exceed Expectations® for our customers throughout the business process thereby improving their performance and helping them reach their strategic business goals.

HOVS customers include over 50% of FORTUNE 100® companies across key verticals such as financial services, telecommunications, healthcare, insurance, construction, publishing, retail, manufacturing and government. Our customers are serviced from more than 50 locations across North America, India, China and Mexico by our dedicated base of more than 12,506 associates (as of March 31, 2008), strategically located across the globe.

#### Comprehensive Service Offerings

HOVS offers a comprehensive suite of service offering’s and a few of them are discussed in brief below:

##### **Accounts Payable (A/P) Services**

HOVS transforms manual and paper intensive accounts payable functions into an automated outsourced process. Our AP solution consists of an integrated suite of services that streamline, automate and web-enable accounts payable functions.

Resulting, in per invoice processing costs and cycle times reduction while, increasing visibility and control of the entire business process. This is accomplished without the headache and expense of acquiring, deploying and managing additional technology and resources. By tailoring a solution to address individual customer business need and integrating with all leading ERP and enterprise-wide financial systems, the HOVS accounts payable solution delivers a unique set of benefits in the AP automation market.

##### **Account Receivable Management (ARM) Services**

HOVS provide an end-to-end solution assuming all, or part of the AR functions from invoice generation, lockbox/remittance processing, cash application/ reconciliation, notice presentment, first party collections, delinquency management and bad debt purchase.

HOVS can consolidate the printing, mailing and electronic delivery of Accounts Receivable documents. Our experience in invoice design, formatting, composition and printing provides mass customization of the invoice document. Invoices are custom formatted, according to pre-defined business rules, resulting in a document unique to each customer. An exact copy of each invoice is stored in document DNA directly from the print composition process. Invoices are available for retrieval by the Accounts Receivable department before the customer receives the invoice in the mail.

##### **Early and Late Stage Debt Collection**

Accounts receivable activity is often defined by the age of the receivable assigned for collection. Typically, early stage collection references debt placed for treatment 90 days or less from the point of delinquency. Conversely, the term late stage refers to older accounts or those previously placed with one or more collection agencies or attorneys.

HOVS provides effective collection solutions that yield high recoveries despite the age of the account or who may have previously worked it. Our Cure and Pre-collect program focus on newly delinquent debt. Our late stage services work effectively on older accounts, including secondary, tertiary and purchased debt assignments.

By outsourcing collection processes to HOVS, we can assist our customers organization appropriately staff for fluctuating volumes and significantly reduce cost using our distributed workforce and Global Service centers in the U.S., Mexico, China and India.