HOV Services Limited

23rd Annual Report 2010-11

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Corporate Information

Registered & Head Office	3rd Floor, Sharda Arcade, Pune Satara Road, Bibwewadi, Pune-411 037 Tel: (91 20) - 24231623; Fax : (91 20) - 24221470
Registrar & Share Transfer Agent	Karvy Computershare Pvt Ltd., 17-24, Vittal Rao Nagar, Madhapur, Hyderabad–500 081 Tel: (91 40)-44655000; 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
Investor Relations & Media Contact	Mr. Shekhar Singh Batham shekhar.batham@hovservices.com investor.relations@hovservices.com
Company Secretary & Compliance Officer	Mr. Bhuvanesh Sharma investor.relations@hovservices.com

The Board of Directors

Mr. Parvinder S Chadha	**Chairman & Executive Director**
Mr. Surinder Rametra	**Executive Director**
Mr. Sunil Rajadhyaksha	**Executive Director**
Mr. B R Gupta	**Director**
Mr. Harish Bhasin	**Director**
Mr. Prakash Shukla	**Director**

The Executive Management

Mr. Suresh Yannamani	**President**
Mr. James Reynolds	**Chief Financial Officer & CAO, Global**
Mr. Kenneth Shaw	**Executive Vice President HR, Global**

Dear Members:

By the time this Annual Report reaches you, we would have already announced some very exciting news. We have merged our indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. ("SOURCECORP"), a portfolio company of Apollo Management V, L.P.

SOURCECORP is a Texas, US based BPO services and specialty consulting services company. Shareholders of HOV Services and SOURCECORP will each control 50% of the combined entity now called SOURCEHOV, Inc., a Delaware corporation. This merger brings together two highly recognized companies and creates one of the largest global business process outsourcing and professional consulting services entities in the world. The management team of SOURCEHOV has over 25 years of expertise in the Industry, with a proven track record of seamlessly integrating core M&A components and continuously innovating new technologies, expanding end-to-end service offerings and always creating additional value for its customers.

With the combination of these two great companies, we now have strength and resources of 14,000+ associates and the potential to achieve a truly great future. This will not be easy and we will face challenges as we start this new chapter in HOVS' history, but we are confident that our expanded SOURCEHOV team can overcome obstacles and seize opportunities of all kinds. SOURCEHOV dedicated resources commit to work hard together and aim to excel beyond the paces of our competitors, carving out a significant role for SOURCEHOV in the global market and are excited to be a part of the team making history. We are very proud of our team and share their excitement and commitment to a very bright future.

On behalf of the shareholders and the Board of HOVS, I would like to thank each and every employee and member of HOVS (now part of SOURCEHOV), the SOURCECORP members and our partners at Apollo for making this combination a reality.

Furthermore, we were honored by the Maharashtra Government with an award for "Maharashtra Information Technology Support Services- BPO / KPO award 2010". We were nominated by Global Services 100 survey 2010 amongst the Top BPO provider in three categories namely, "Industry Specific BPO Vendors", "Top BPO Vendors" and "Top FAO Vendor" list; and NASSCOM, in its Annual BPO Survey 2010, ranked us on the list of "Top 15 BPO Exporters" list. Each one of these awards is a testimony of your Company's robust business model and delivery excellence.

We believe that 2010-11 was the pivoting point for the industry in many ways. From 10,000 ft, the industry has witnessed the mutual benefit of outsourcing from all involved - contrary to what analysts had initially warned. Indian companies have notably invested in the US, while US companies have increased the sale of US products to India, in effect creating jobs that many had feared were lost to outsourcing. Secondly, the maturity of the domestic market, product ecosystem of start-ups, growth in core markets and recognition that global sourcing is not just about cost savings (but fundamentally transforming each customer's business model) are significant trends that will reshape the industry in this decade.

In closing, I would like to thank you in addition to each and every one of our HOV family members for your continued and unwavering support. Our future is bright and each new step beholds challenges unforeseen, but, that being said, we are committed and steadfast.

I look forward sharing our victories - small and large - with you.

Best Regards and thank you again,

Parvinder S Chadha

Chairman & Executive Director

Directors' Report

Your Directors are pleased to present the Company's Twenty- Third Annual Report on the Business and Operations of HOV Services Limited (the "Company" or "HOVS") together with the Audited Statement of Accounts for the year end March 31, 2011.

HOVS is one of the largest end-to-end BPO Company, providing healthcare, finance and accounting, e-content management, document lifecycle, presentment, HR assist, and strategic consulting services across key verticals such as BFSI, Healthcare, Government, Telco, Publishing, Retail, Commercial and Industrial Manufacturing industries.

FINANICAL RESULTS AND OPERATIONS:

In the financial year 2010-11, your Company has recorded consolidated revenue of Rs. **7092.53** million and **profit** after tax was Rs. **537.30** million. The brief financial highlights with comparison of previous year are as below:

Particulars	For the year end March 31, Rs. In Million			
	Consolidated		Standalone	
	2011	**2010**	**2011**	**2010**
INCOME				
Income from Operation	7,092.53	8,483.93	247.40	74.91
Other Income	15.65	14.74	2.28	2.82
	7,108.18	**8,498.67**	**249.68**	**77.73**
EXPENDITURE				
Staff Cost	3.607.22	4,474.60	56.31	32.05
General and Administrative Expenses	2,374.87	4,133.09*	22.57	7.61
	5,982.09	**8,607.69**	**78.88**	**39.66**
Profit / (Loss) before Interest, Depreciation and Tax	**1,126.09**	**(109.02)**	**170.80**	**38.07**
Less: Interest	292.75	336.25	-	-
Less: Depreciation	291.64	252.17	3.72	3.51
Profit / (Loss) before Tax	**541.70**	**(697.44)**	**167.08**	**34.56**
Less: Provisions for taxes				
Current Tax	3.88	48.78	0.38	6.35
Deferred Tax	0.52	15.10	0.52	(1.02)
Profit / (Loss) after Tax	**537.30**	**(761.32)**	**166.18**	**29.23**
Less: Minority Interest	-	(2.92)	-	-
Profit / (Loss) after Tax & Minority Interest	**537.30**	**(758.40)**	**166.18**	**29.23**

*Includes Exceptional items of Rs. 1327.64 Million.

1. RESULTS OF OPERATIONS:

Consolidated Financial Performance for the Fiscal Year (FY) ended March 31, 2011

FY 2010-11 was the pivoting point for the industry – the current US Economy and Federal & State Budgets being at impasse caused drop in Revenues and EBIDTA, but the management is confident that their actions being taken will result in solid growth in the coming years.

The performance of the year ended March 31, 2011 highlighted as follows:

- Consolidated total Income for the current FY decreased 16.40% to Rs. 7,092.54 million from Rs 8,483.94 million for the corresponding last fiscal year 2009-10
- EBIDTA decreased by 7.8% for the FY to Rs. 1,110.4 million from Rs. 1,203.9 million over the corresponding last fiscal year 2009-10
- Net Profit was Rs. 537.3 million versus a Net Loss of Rs. 758.4 million reported in the prior year.
- The basic and diluted Earnings per share (EPS) were Rs 23.40 for the Year ended March 31, 2011.

Standalone Financial Performance for the Year ended March 31, 2011

- Total Income for the current FY increased 230.26% to Rs. 247.40 million from Rs 74.91 million for the corresponding last fiscal year 2009-10
- EBIDTA increased by 379.15% for the FY to Rs 168.47 million from Rs 35.17 million over the corresponding last fiscal year 2009-10
- Net Profit was Rs. 166.13 million versus a Net Profit of Rs. 29.24 million reported in the prior year
- The basic and diluted Earnings per share (EPS) are Rs 13.30 for the Year ended March 31, 2011.

2. SIGNIFICANT DEVELOPMENTS:

(a) Key Highlights during the year were:

- Added new business with over US $12.0 million in total contract value in the fourth quarter FY 2010-11.
- Top 100 clients represent over 78% of total revenues with the largest customer representing only 19% of total revenues.
- Company maintained strong liquidity position with –
  a. DSO (Debt Sale Outstanding) of 56 days
  b. Debt to Equity Ratio of 1.39
  c. Net Bank Debt of US$ 113.6 million at March 31, 2011 as against US$ 102.8 million at March 31, 2010.

(b) Key Accomplishment and Noteworthy Items:

- International Association of Outsourcing Professionals (IAOP) ranked us:
  a. Best 20 Leaders by Industry Focus: Health Care;
  b. Best 10 Companies by Service Offered: Document Management;
  c. Best 10 Leaders by Service Offered: Financial Management;
  d. Best 20 Leaders by Region Served: India;
  e. Best 20 Leaders by Region Served: Canada;
- Global Presence and experienced team with over 8,357 associates, strategically located across the globe: India 5,851, North America 1,440, China 655 and Mexico 411

- HOVS is also nominated with the following recognition / awards during the year 2010-2011:
  1) Nasscom Annual Survey 2010 has ranked HOV Services amongst the "Top 15 BPO Exporters 2009- 10" in India.
  2) 2010 Global Services 100 (GS 100) Survey has awarded HOV Services as a Top BPO provider in three categories namely, "Industry Specific BPO Vendors", "Top BPO Vendors" and "Top FAO Vendors" list.
  3) Government of Maharashtra has honoured HOV Services with "Maharashtra Information Technology Support Services- BPO /KPO award 2010".

(c) Appropriations:

(i) Dividend:

Your Board of Directors at the meeting held on May 27, 2011 recommended a final dividend of Rs. 2 per fully paid up equity share of Rs. 10/- each for the financial year 2010-11.

Earlier, during the year under review, your Board had declared an interim dividend of Rs. 2/- per equity share of Rs. 10/- each of the Company for every quarter as detailed below;

Quarter ended FY 2010-11	Interim dividend declared	Record date	Payment Date
Q1	1st	August 21, 2010	August 27, 2010
Q2	2nd	November 3, 2010	November 18, 2010
Q3	3rd	February 2, 2011	February 21, 2011

For the financial year 2010-11 the Company does not have any unpaid dividend meant to be transferred to the Investor Education Protection Fund under Section 205C of the Companies Act, 1956.

(ii) Transfer to Reserve: Your Company proposes to transfer Rs 16,617,943/- to the general reserve.

3. Re structuring of subsidiary companies

During the year under review your Board of Directors has consented the steps taken by HOV Services LLC for restructure of its subsidiary companies in order to maximize business operations efficiencies. The details of restructuring steps taken are as herein below:

i) The Board of Directors in its meeting held on February 27, 2011 accorded consent to incorporate a HOV SPV LLC in Delaware under the laws of Unites States of America as a wholly owned subsidiary of the Company.

And, HOV SPV LLC in turn incorporated HOVS Corp., a Nevada corporation under the laws of Unites States of America as a step down subsidiary of the Company.

Subsequently, the HOV SPV LLC name was changed to HOVS LLC on March 17, 2011;

ii) Thereafter, the Board of Directors of the Company in its meeting held on March 9, 2011 approved the merger of HOV Services LLC with HOVS Corp (a Nevada corporation and wholly owned subsidiary of HOVS LLC, a Delaware company as discussed in paragraph (i) above). As a result of the merger HOV Services LLC continued as the surviving entity and as a wholly-owned subsidiary of HOVS LLC.

4. Joint Venture ("JV")

On March 12, 2011 the Board of Directors of HOVS accorded consent for the merger of its indirect subsidiary of the company HOV Services LLC incorporated under the laws of Delaware, ("HOV Services") with SOURCECORP, Inc., a portfolio company of Apollo Management V, L.P. incorporated under the laws of Delaware ("SOURCECORP"), a Texas-based BPO services and specialty consulting Services Company (the "Transaction").

Shareholders of HOV Services and SOURCECORP will each control 50% of the combined entity, i.e. SOURCEHOV, Inc., ("SOURCEHOV"), a Delaware corporation. The merger brings together two highly recognized companies and created one of the largest global business process outsourcing and professional consulting services entities in the world. The management team of SOURCEHOV has over 25 years of expertise in the Industry, with a proven track record of seamlessly integrating core M&A components and continuously innovating new technologies to create end-to-end services and new value for its customers.

The new company SOURCEHOV, with approximately $480 million in revenue, is one of the largest pure play BPO and specialty consulting companies in the industry, serving customers in more than half of the Fortune 100® with deep domain expertise, including document centric applications, in Healthcare Payer and Provider, Finance and Banking, Public Sector, Publishing, Legal, Insurance, Manufacturing and Commercial industries, including specialized consulting services for construction management, tax benefits, legal claims settlements and economic consultancy. With this combination, the Company's global workforce is now more than 14,200 employees operating from approximately 80 delivery centers in 6 countries viz U.S., Mexico, Canada, India, China and Philippines.

As of April 29, 2011, the HOV Services completed previously announced merger of its indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. The new name of the combined company is SourceHOV Inc., reflecting the union of our two companies and our expanded capabilities.

Subsequent to aforesaid merger the Company's head office is relocated to 3rd Floor, Sharda Arcade, Pune Satara Road, Bibwewadi, Pune-411 037.

5. Class A preferred Units by HOV Services LLC

Effective April 29, 2011, by virtue of the closure of the merger of its indirect subsidiary HOV Services LLC ("HOV Services") with SOURCECORP, Inc. ("SOURCECORP"), the 10,467,532 Class A preferred Units issued by HOV Services LLC and outstanding as of March 31, 2011, have ceased to exist. Therefore, effective May 2, 2011 the fully diluted outstanding share capital of the Company on consolidated basis comprised of 12, 491, 022 equity shares of Rs 10/- each only.

6. ADR/GDR

In the earlier proposed 15,000,000 of ADR/GDR issue by the Company, none of the underlying equity shares are issued.

7. Employee Stock Option Plan (ESOP)

a) The Company instituted **"HOVS Stock Option Plan 2007"** and **"HOVS Stock Option Plan 2008"** for its employees and for employees of its subsidiary companies as detailed below:

Plan	Shareholder's Approval Date	No. of Options for employees of the Company	No. of Options for employees of subsidiary companies	Total
"HOVS Stock Option Plan 2007"	July 21, 2007	400,000	700,000	1,100,000
"HOVS Stock Option Plan 2008"	September 30, 2008	0	750,000	750,000

Options were issued to employees at an exercise price not less than closing price of the stock exchange where there is highest trading volume, prior to the date of meeting of the Compensation & Remuneration Committee in which options were granted. The options will vest in a phased manner within five years as 10% in each first to four years and balance 60% at the end of fifth year.

No options have been granted under **Plan 2008.**

i) The details of options granted and lapsed under **Plan 2007** are as below:

	Plan 2007		
	Employees of the Company	**Employees of the subsidiary Companies**	**Total**
Approved Options	**400,000**	**700,000**	**1,100,000**
Grant in 2007	141,500	526,000	667,500
Grant in 2008	28,150	217,900	246,050
Total Grant	**169,650**	**743,900**	**913,550**
Options Lapsed as of April 1, 2011	**155,150**	**217,900**	**373,050**
Options in force	**14,500**	**526,000**	**540,500**
Balance options available	**385,500**	**174,000**	**559,500**

ii) Information of grant made to directors and employees:

Options granted date	**Directors (A)**	**Other than Directors (B)**	**Total (A+B)**
July 21,2007	7,500	640,000	647,500
25-Oct-07	0	20,000	20,000
30-Jul-08	7,500	183,550	191,050
8-Oct-08	0	55,000	55,000
Total number of Options Granted	**15,000**	**898,550**	**913,550**
Options lapsed as of April 1, 2011	**10000**	**363,050**	**373,050**
Options outstanding	**5,000**	**535,500**	**540,500**