



HOV SERVICES LIMITED

**26th ANNUAL REPORT
PERIOD 2013 - 2014**

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CORPORATE INFORMATION

| | |
|---|---|
| Registered Office & 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) -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 |
| VP-Corporate affairs & Company Secretary | Mr. Bhuvanesh Sharma investor.relations@hovsltd.com |
| Chief Financial Officer | Mr. Sriram Gopalan Iyengar |

THE BOARD OF DIRECTORS

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

THE EXECUTIVE MANAGEMENT

| | |
|----------------------------|---|
| Mr. James Reynolds | Chief Financial Officer, Global |
| Mr. Sriram Gopalan Iyengar | Chief Financial Officer |
| Bhuvanesh Sharma | VP-Corporate Affairs & Company Secretary |

Chairman Message:

Dear Member,

I, welcome you to the 26th Annual General Meeting of Your Company.

We have come a long way since the Sub-Prime crises in the US economy, which has been steadily growing. The recent Federal Reserve forecast for 2015 upgrading growth from 3.0% to 3.2% as compared to 2.30% for the year 2014 have been extremely favorable. The continued steady growth in US economy will pave way for more outsourcing opportunities to emerging markets like India & China; two of the world strongest emerging markets.



HOVS will be moving ahead in emerging opportunities both in global and domestic markets alike and continue to deliver services by combining domain expertise and technology. We believe by leveraging our domain experience and significant presence in the rapidly growing health care services, banking and transaction processing services will provide good opportunity to enhance our business spread. The Company believes that such operational structure is fundamental to our value proposition for our future success.

Further, we are very optimistic about our investment made during 2011 via the merger of our indirect subsidiary HOV Services LLC with SOURCE CORP., whereby, HOVS owns 26.2 % of the combined entity called SourceHOV, a provider of end-to-end business process outsourcing solutions with highly customized services as well as specialized knowledge based processing and consulting solutions.

HOV Environment Solutions Private Limited (HOVESPL) is another portfolio company of HOVS, aiming to design and develop advanced solutions for erosion control, environment conservation and infrastructure construction projects. Since 2011, HOVESPL has been executing its project of building artificial reef at Mirya beach, Ratnagiri and at Cochin. Further, HOVESPL has been exploring new projects including prevention of soil erosion on the sideways of the highways in Bangalore and Chandigarh.

On behalf of Company's Board of Directors, I would like to acknowledge and appreciate each and every one of our HOVS family member for their relentless efforts and support.

We look forward the continued support of our shareholders' in the Company. Together we can succeed!

Best Regards and thank you,

Sunil Rajadhyaksha

Chairman & Executive Director

Directors' Report

Your Directors are pleased to present the Company's Twenty- Sixth Annual Report on the Business and Operations of HOV Services Limited (the "Company" or "HOVS") together with the Audited Statement of Accounts for the fifteen months period ended March 31, 2014.

The financial year was changed from calendar year to fiscal year i.e. April to March from April 1, 2014. Accordingly, the current financial statements are prepared for 15 (Fifteen) months period from January 1, 2013 up to March 31, 2014 and therefore, are not comparable to the financial statements of previous year which comprises of the 12 (Twelve) months year ended on December 31, 2012.

FINANCIAL RESULTS AND OPERATIONS:

Rs. In Million

| Particulars | Consolidated | | Standalone | |
|---|---|---|---|---|
| | Fifteen months period ended on March 31, 2014 | Twelve months year ended on December 31, 2012 | Fifteen months period ended on March 31, 2014 | Twelve months year ended on December 31, 2012 |
| INCOME | | | | |
| Income from Operations | 173.26 | 140.20 | 159.24 | 113.60 |
| Other Income | 10.14 | 15.58 | 12.74 | 14.73 |
| | 183.40 | 155.78 | 171.98 | 128.33 |
| EXPENDITURE | | | | |
| Purchase for resale | - | 21.20 | - | - |
| Staff Cost | 128.50 | 96.59 | 122.17 | 87.61 |
| General and Administrative Expenses | 69.92 | 36.59 | 31.72 | 15.43 |
| | 198.42 | 154.38 | 153.89 | 103.04 |
| Profit / (Loss) before Interest, Depreciation and Tax | (15.02) | (1.40) | 18.09 | 25.29 |
| Less: Interest | 1.60 | - | - | - |
| Less: Depreciation | 9.74 | 4.99 | 4.03 | 3.42 |
| Profit / (Loss) before Tax | (26.36) | (3.59) | 14.06 | 21.87 |
| Tax pertaining to earlier years | 0.04 | 0.70 | 0.04 | 0.70 |
| Less: Provisions for taxes | | | | |
| Current Tax | 6.23 | 7.77 | 6.23 | 7.77 |
| Deferred Tax | (1.94) | (0.83) | (0.74) | (0.83) |
| Profit / (Loss) after Tax | (30.69) | (11.23) | 8.53 | 14.23 |
| Less: Minority Interest | (6.41) | (8.80) | - | - |
| Profit/(Loss) after minority interest | (24.28) | (2.43) | - | - |
| Add: Share of Profit/ (Loss) from an Associate | (464.50) | 51.23 | - | - |
| Profit / (Loss) after Tax & Share of Profit/(Loss) from an Associate | (488.78) | 48.80 | 8.53 | 14.23 |

1. RESULTS OF OPERATIONS:**Consolidated Financial Performance**

- Consolidated total Income for the current fifteen months period was Rs. 183.40 million.
- EBIDT for the current fifteen months period was Rs. (15.02) million.
- Net Profit / (Loss) was Rs. (488.78) million.
- The basic and diluted Earnings per share (EPS) for the fifteen months period is Rs. (39.13).

Standalone Financial Performance

- Total Income for the current fifteen months period was Rs. 171.98 million.
- EBIDT for the current fifteen months period was Rs. 18.09 million.
- Net Profit was Rs. 8.53 million.
- The basic and diluted Earnings per share (EPS) is Rs. 0.68 for the period under reporting.

2. Appropriations**(i) 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 period.

For the fifteen months period ended March 31, 2014 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:

No amount was transferred to Reserve during the financial period ended on March 31, 2014.

3. Subsidiary companies

The Company has the following subsidiary companies:

- HOVS LLC incorporated in Delaware under the laws of United States of America;
- HOV Environment LLC incorporated in Nevada State under the laws of United States of America;
- HOVS Holdings Limited incorporated under the Companies Ordinance of Hong Kong; and
- HOV Environment Solutions Private Limited incorporated in Maharashtra under Indian Company Laws.

4. Significant developments

- On March 19, 2013, Citi Venture Capital International ("CVC Private Equity") invested in the SourceHOV as a new equity partner wherein CVC Private Equity purchased all of the ownership interests of affiliates of Apollo Global Management, LLC ("Apollo") and certain minority holders' in SourceHOV. This new partnership positioned SourceHOV for accelerated growth through industry leading advisory formed by a tenured investment team with specialized technology and service industry experience. The HOVS owns an equity interest in SourceHOV.

- ii) On September 6, 2013 HOV Environment Solutions Private Limited ("HOV ESPL") was made subsidiary of HOV Environment LLC, a subsidiary company of HOVS LLC. HOV ESPL earlier was indirect subsidiary of HOV Services Limited through HOVS Holdings Limited a wholly owned subsidiary (WOS) of HOV Services Limited. The change was made in order to streamline & strengthen execution of operations and work related to environmental projects. Post the change HOV ESPL will continue to be an indirect subsidiary of the Company through HOVS LLC.

5. ADR/GDR

The shareholder's in their Annual General meeting dated July 21, 2007 granted approval for proposed 15,000,000 of ADR/GDR issue. However, so far none of the underlying equity shares were issued by the Company.

6. Share Capital of the Company

During the quarter ended March 31, 2014 pursuant to the options exercised, 8,500 equity shares were allotted. Consequently after the allotment, the paid up share capital of the Company has gone up from 12,491,022 equity shares of Rs. 10/- each aggregating to Rs. 124,910,220/- to 12,499,522 equity shares of Rs. 10/- each aggregating to Rs.124,995,220/-

Consequently the fully diluted outstanding share capital of the Company as at period ended March 31, 2014, on consolidated basis comprise of 12,499,522 equity shares of Rs. 10/- (Ten only) each.

7. Employee Stock Option Plan (ESOP)

Your 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 |

The information to be disclosed as per SEBI (Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, is annexed to this report.

8. 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: Your Company's operations involve low energy consumption. The Company strives to conserve energy on continuous basis.

Research and Development: The Company has not undertaken any R&D activity in any specific area during the period under review, and hence no cost has been incurred towards the same.

Technology Absorption, Adaptation and Innovation: The Company is constantly developing and adopting modern technologies and standards to grow its competitive advantage, to better serve its clients, retain employees and improve productivity and performance, however during the period no such activities been carried out.

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 Note number 20.10 of Notes to the Financial Statements of the Annual Report.

9. Particulars of Employees:

The Company has no employees 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.

10. Human Resources:

During the period the Company had maintained cordial relations with all its employees and has taken utmost care of its employees deployed. All employees are aligned under our value system which propagates and practices being open, transparent and honest, collaborative, honoring commitments and demanding excellence among them.

11. Directors Responsibility Statement:

Information as per Section 217(2AA) of the Companies Act, 1956 is annexed and forms part of the report.

12. 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 period under review.

13. Corporate Governance Report

The Company adheres to Corporate Governance guidelines to fulfill its responsibilities to all its stakeholders i.e. investors, customers, vendors, government, employees. Company believes that good corporate governance enhances accountability and increases shareholder value.

The Company complies with the corporate governance norms as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges and a report thereto is included in annexure to the Directors' report.

14. Management Discussion and Analysis

Management Discussion and Analysis Report for the period 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.

15. Statutory 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. Your directors recommend their re-appointment. A resolution proposing their appointment at remuneration to be fixed by the Board of Directors is submitted at the Annual General Meeting.

16. Directors

The Company had, pursuant to the provisions of clause 49 of the Listing Agreements entered into with Stock Exchanges, appointed Mr. B R Gupta, Mr. Harish Bhasin and Mr. Prakash Shukla as Independent Directors of the Company.

As per section 149(4) of the Companies Act, 2013 (Act), which came into effect from April 1, 2014, every listed public company is required to have at least one-third of the total number of directors as Independent Directors. In accordance with the provisions of section 149 of the Act, Mr. B R Gupta and Mr. Harish Bhasin, are being appointed as Independent Directors to hold office as per their tenure of appointment mentioned in the Notice of 26th Annual General Meeting (AGM) of the Company. Mr. Prakash Shukla intends not to seek for his appointment.

Mr. Surinder Rametra, Director, retires by rotation and being eligible has offered himself for re-appointment.

None of the Director was materially interested in any contracts or arrangements existing during or at the end of the financial period that was significant in relation to the business of the Company.

17. Subsidiary companies and consolidation of Accounts

As per Section 212 of the Companies Act, 1956, the Company is required to attach the directors' report, auditors' report, balance sheet, and statement of profit and loss, schedules to account and notes to the account of subsidiaries of your Company along with the balance sheet of your Company. However general exemption is granted in terms of General Circular No. 2/2011 and No. 5/12/2007-CI-III dated February 8, 2011, issued by the Ministry of Corporate Affairs under section 212(8) of the Companies Act, 1956 granting general exemption. Your Company is in compliance of the section read with the provisions of the circular and will not be attaching the accounts of the subsidiaries.

The audited annual accounts and related information of subsidiary companies, where applicable, will be kept in the registered office and will be available for inspection, upon request by any of shareholders of the holding and subsidiary companies. A statement showing details on the subsidiary companies as prescribed vide general circular is attached in separate section of this Annual Report.

18. Acknowledgement

Your Directors' place on record their appreciation for co-operation and support received from the Software Technology Parks of India, the Government of India, Government of Maharashtra, Reserve Bank of India, other governmental agencies and NASSCOM and the National Stock Exchange and the Bombay Stock Exchange and, bankers and shareholders during the year.

Your Directors express their sincere appreciation for the efforts made by employees at all levels for their hard work, co-operation and support extended to your Company during the year.

For and on behalf of the Board of Directors

Place: Mumbai
Date: May 21, 2014

Sunil Rajadhyaksha
Chairman & Executive Director

Annexure to the Directors' Report
Details of Employees Stock Options as on March 31, 2014.

- i) The details of options granted, lapsed and equity shares issued during the period under **Plan 2007** are as below:

| | Plan 2007 | | Total |
|--|--------------------------|---|------------------|
| | Employees of the Company | Employees of the erstwhile subsidiary Companies | |
| 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 |
| Grant in 2011 | 52,500 | 10,000 | 62,500 |
| Grant in 2013 | 115,000 | 0 | 115,000 |
| Total Grant | 337,150 | 753,900 | 1,091,050 |
| Options Lapsed as of March 31, 2014 | 155,650 | 703,400 | 859,050 |
| Equity shares issued and allotted | 8,500 | 0 | 8,500 |
| Options in force | 173,000 | 50,500 | 223,500 |
| Balance options available | 218,500 | 649,500 | 868,000* |

*Includes lapsed options eligible for further grants and granted.

- ii) The details of options vested from grants made in different periods under **Plan 2007**:

| Details of Options vested from: | Employees of the Company | Employees of the subsidiary | Total |
|---------------------------------|--------------------------|-----------------------------|---------------|
| Grant in 2007 | 4,500 | 40,500 | 45,000 |
| Grant in 2008 | 9,500 | - | 9,500 |
| Grant in 2011 | 10,500 | 2,000 | 12,500 |
| Grant in 2013 | 11,500 | - | 11,500 |
| Total options vested | 36,000 | 42,500 | 78,500 |

- iii) Information of grant made to directors and employees under **Plan 2007**:

| Options granted date | Directors (A) | Other than Directors (B) | Total (A+B) |
|--|------------------|-----------------------------|------------------|
| July 21, 2007 | 7,500 | 640,000 | 647,500 |
| October 25, 2007 | 0 | 20,000 | 20,000 |
| July 30, 2008 | 7,500 | 183,550 | 191,050 |
| October 8, 2008 | 0 | 55,000 | 55,000 |
| May 27, 2011 | 30,000 | 32,500 | 62,500 |
| February 27, 2013 | 75,000 | 40,000 | 115,000 |
| Total Granted | 120,000 | 971,050 | 1,091,050 |
| Options lapsed | 10250 | 848,800 | 859,050 |
| Equity shares Issued on exercise of options | 5000 | 3,500 | 8,500 |
| Options in force | 104,750 | 118,750 | 223,500 |