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# **Annual Report**

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## **2002 - 2003**

**IDEASPACE SOLUTIONS LIMITED**

Regd. Office : Skip House, 25/1, Museum Road, Bangalore 560 025

Website : [www.ideasp.com](http://www.ideasp.com)

**BOARD OF DIRECTORS**

Shri. G. Mallikarjuna Rao – Chairman

Shri. G. Kiran Kumar – Vice Chairman & Managing Director

Shri. A. P. Rao

Shri. Pawan Jhunjhunwala

Shri. Shantanu Ghosh

**REGISTERED OFFICE**

Skip House,  
25/1, Museum Road,  
Bangalore 560 025

**CORPORATE OFFICE**

# 93/A, 4th 'B' Corss, 5th Block,  
Industrial Area, Koramangala,  
Bangalore - 560 095

**AUDITORS**

Price Waterhouse  
Chartered Accountants  
6-3-550, II Floor, L.B.Bhavan,  
Somajiguda, Hyderabad – 500 082.

**COMPANY SECRETARY**

Mohesh Kumar Agrawal

**BANKERS**

ING Vysya Bank Limited  
HDFC Bank Limited  
Citibank

**SHARE TRANSFER AGENTS**

Karvy Consultants Limited  
No.51/2 T K N Complex,  
Vanivilas Road,  
Basavanagudi,  
Bangalore – 560 004.

**NOTICE**

NOTICE is hereby given that the Tenth Annual General Meeting of the Members of Ideaspac Solutions Limited, will be held on Tuesday, 30th September 2003 at 11-00 AM at 93/A, 4<sup>th</sup> B Cross, 5<sup>th</sup> Block Industrial Area, Koramangala, Bangalore-560 095, Karnataka to transact the following business:

1. To receive, consider and adopt the audited Balance Sheet as at 31<sup>st</sup> March 2003, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors' thereon;
2. To appoint a Director in place of Mr. G.Mallikarjuna Rao, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Pawan Jhunjhunwala, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors and authorize the Board to fix their remuneration. In this connection, to consider and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT the retiring Auditors Messers Price Waterhouse, Chartered Accountants, Hyderabad, be and are hereby appointed as the Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the Next Annual General Meeting at remuneration and reimbursement of out of pocket expenses as may be approved by the Board of Directors of the Company."

**NOTES:**

1. A Member entitled to attend and vote at the General Meeting may appoint a proxy, who need not be a Member to attend and vote on a poll, on his behalf. Such proxies to be effective should be duly stamped, completed and signed and should be deposited at the Registered Office of the Company not less than Forty Eight hours before the time for holding the aforesaid Meeting.

Under the Companies Act, 1956, voting is by show of hands unless a poll is demanded by the member or members present in persons, or proxy holding at least one-tenth of the total shares entitled to vote on the resolution or by those holding paid up capital of at least Rs.50,000. A proxy may not vote except in a poll.

2. The Register of Members and the Share Transfer Books of the Company will remain closed from 23.09.2003 to 30.09.2003(both days inclusive)
3. Members (those holding shares in the physical form only) are requested to inform, change of address, if any, immediately to the Share Transfer Agent M/s Karvy Consultants Limited, No.51/2 T K N Complex, Vanivilas Road, Basavanagudi, Bangalore - 560 004.
4. Members desirous of obtaining any information concerning the Accounts and Operations of the Company are requested to send their queries atleast seven days before the date of the Meeting to the Company, so that the desired information may be made available at the Meeting.
5. For the convenience of the Members, an Attendance Slip is annexed to the Proxy Form. Members are requested to affix their signature at the place provided and fill up the particulars and hand over the attendance slip at the place of Meeting.

By Order of the Board  
**For IDEASPACE SOLUTIONS LIMITED**

**Mohesh Kumar Agrawal**  
 Manager Finance and Company Secretary

Bangalore  
 August 30,2003

**DIRECTORS' REPORT****DEAR MEMBERS,**

The Board of Directors of your Company are pleased to present their report for the Financial Year 2002-03.

**FINANCIAL HIGHLIGHTS**

	<b>2003</b> <b>(Rs./ Lacs)</b>	<b>2002</b> <b>(Rs./ Lacs)</b>
<b>Total Income</b>	<b>1252.90</b>	<b>1065.89</b>
Operating Expenditure	<b>1559.37</b>	<b>806.18</b>
Operating Profit/(Loss) (PBIDT)	<b>(306.47)</b>	<b>259.71</b>
Finance Charges	<b>39.39</b>	<b>33.52</b>
Profit/(Loss) before Depreciation & Write Off	<b>(345.86)</b>	<b>226.19</b>
Depreciation	<b>47.79</b>	<b>38.07</b>
Extraordinary Items		
- Provision for diminution in Investment in subsidiary	<b>38.41</b>	<b>20.57</b>
Profit/(Loss) before Tax	<b>(432.06)</b>	<b>167.55</b>
Tax		
- Current	<b>—</b>	<b>6.50</b>
-Deferred Assets/(Liability)	<b>136.47</b>	<b>(22.72)</b>
- Income Tax of earlier years	<b>—</b>	<b>12.01</b>
Profit/(Loss) after Tax	<b>(295.59)</b>	<b>126.32</b>
Balance brought forward	<b>152.60</b>	<b>59.81</b>
Goodwill on Amalgamation	<b>—</b>	<b>(18.30)</b>
Miscellaneous expenditure	<b>—</b>	<b>(15.23)</b>
Balance carried forward	<b>142.99</b>	<b>152.60</b>

The financial results for the year 2002-03 above include the financial results of M/s. Ideaspace Financial Technologies Private Limited for the year 1<sup>st</sup> April 2002 to 31<sup>st</sup> March 2003, where as in the previous year figure includes from the period of January 2002 to 31<sup>st</sup> March 2002 consequent to amalgamation of Ideaspace Financial Technologies Pvt. Ltd. with the Company as of 1<sup>st</sup> January 2002.

**OPERATIONS**

During the year, revenues from Software Development and Services at Rs. 1,234.13 lakhs increased by nearly 19.02 % over the previous year. Loss after tax 295.59 lakhs dropped due to shift in effort from Software Development to IT Professional Services.

**FIXED DEPOSITS**

Your Company has not accepted any deposit during the year.

**DIVIDEND**

The Board of Directors of the Company has decided not to recommend any dividend due to the current year loss.

**OVERSEAS BRANCH**

Due to slow down in the US economy aftermath of September, 11 your Board of Directors decided to close the operation of US Branch.

**SUBSIDIARY**

Due to drop in gross margins, lower revenues and pressure on the bill rates, the operations of the subsidiary were not encouraging hence your Board of Directors decided to wind up the UK subsidiary.

**BUSINESS**

Due to less in margins, lower revenues and pressure on the billing, the Board of Directors decided to dispose or sale of the whole, or substantially the whole, of the undertaking of the Company. The same requires to be approved by Members in their meeting to be held after 35days notice and through postal ballot. Hence the item is proposed to be submitted for considering the Members in Extra Ordinary General Meeting for which Notice is issued separately.

**DIRECTORS**

In terms of the Companies Act, 1956 and the Articles of Association of the Company, Shri G.Mallikarjuna Rao and Shri Pawan Jhunjhunwala, Directors retired by rotation. Being eligible, offer themselves for reappointment.

**AUDITORS**

The Auditors M/s Price Waterhouse, Chartered Accountants, Hyderabad, holds office till the conclusion of this Annual General Meeting and being eligible, offer themselves for reappointment.

**AUDIT COMMITTEE**

Audit Committee was constituted, consisting of only Independent Directors as sub-committee to the Board.

- a) Mr. A P Rao – Chairman
- b) Mr. Mukul Agrawal
- c) Mr. Pawan Jhunjhunwala.

During the year under review, the Audit Committee met 3 times on April 30, October 27, 2002 and February 17, 2003 and Mr.A.P.Rao and Mr.Pawan Jhunjhunwala attended all the meetings and Mr.Mukul Agrawal took leave of absence in one meeting due to preoccupations. Company Secretary is the Secretary of Audit Committee.

**DIRECTORS RESPONSIBILITY STATEMENT**

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, the Directors hereby confirm that:

1. in the preparation of the annual accounts for the financial year ended 31<sup>st</sup> March, 2003, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
2. the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were 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 of the company for the year ended 31<sup>st</sup> March, 2003;
3. the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. the Directors have prepared the accounts for the financial year ended 31<sup>st</sup> March 2003 on a going concern basis.

**PARTICULARS OF EMPLOYEES**

Particulars of employees as required to be disclosed under section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975, forms part of this report. However, in pursuance of section 219(1)(b)(iv) of the Companies Act, 1956, this report is being sent to all the shareholders of the Company excluding the aforesaid information and the said particulars are made available at the corporate office of the Company. Members interested in obtaining such particulars may write to the Company Secretary at the corporate office of the Company.

**PARTICULARS IN RESPECT OF  
 CONSERVATION OF ENERGY, TECHNOLOGY  
 ABSORPTION AND FOREIGN EXCHANGE  
 EARNINGS AND OUTGO.**

The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 requires disclosure of particulars relating to Conservation of Energy in Form A and Technology Absorption in Form B prescribed by the said Rules. Since the Company is providing services and does not manufacture any item, the disclosure requirements are not applicable to it.

The details of Foreign Exchange earnings and outgo during the year under review are as under:

Earnings	- Rs. 114.37 Lakhs
Outgo	- Rs. 136.23 Lakhs

**ACKNOWLEDGEMENT**

Your Directors wish to place on record their appreciation for the continued support and trust received and reposed by the Shareholders, Banks, Depositories, Stock Exchanges and STPI. They also place on record their appreciation of the contribution of the Employees.

By Order of the Board  
 G.Mallikarjuna Rao  
 Chairman

Bangalore  
 August 30, 2003

**MANAGEMENT DISCUSSION AND ANALYSIS**
**1.Review of Operating Performance**

Financial Results for the year ended March 31, 2003

Rs '000s

Particulars	FY 02-03	FY 01-02	Growth %
Operating Revenues	123,413	103,695	19.02%
Direct Cost	114,768	55,508	106.75%
Gross Profit	8,645	48,187	(82.05)%
Operating Expenditure	30,724	25,751	19.31%
Operating Profit/(Loss)	(22,079)	22,436	(198.40)%
Other Income	1,877	2,894	35.14%
Interest	3,794	2,712	39.89%
Depreciation	4,779	3,807	25.53%
Provision for Diminution in the value of Investment	3,841	2,057	47.83%
Other Expenses	10,590	-	100.00%
Profit/(Loss) before Tax	(43,206)	16,754	(357.88)%
Current & Deferred Tax	13,648	4,123	231.02%
Profit after Tax	(29,558)	12,631	(334.01)%
Equity Share Capital	59,589	37,688	58.11%
EPS (Rs.)	(4.96)	2.12	(33.96)%

Operating revenues for FY 02-03 increased by 19.02% during the year.

The FY 02-03 revenues should also be seen in light of the fact that there has been major shift in effort from Software Development to IT Professional Services. On account of this change, the operating expenditure has been increased by 106.75% compared to the FY 01-02.

Operating expenses were at the same level (approximately) as a percentage of revenue compared to FY 01-02, operating margins decline in consonance with gross margins.

**Industry Structure & developments and outlook**

The Information Technology (IT) industry in general has been sluggish in the year 2003, largely due to

adverse market contains post 9/11 events in the USA.

Your Company shall henceforth focus its effort on providing information technology services to the financial service industry in India with primary focus on banking and insurance sectors. The banking industry in India is making huge investments in information technology with a view to offer to their customers banking facilities the way they are provided in the developed countries. With its pool of skilled and experienced employees, your Company is confident of meeting the information technology demands of the Indian banking and insurance sectors.

### Strength

Organizations are constantly faced with the challenges of globalization and ever-growing customer expectations. We provide solutions for a dynamic environment where business and technology strategies converge. Ideaspace has in-depth knowledge of various technology areas coupled with over 1500 man-years of Domain experience. This enables us to provide end-to-end specialized solutions.

We combine best technology and subject matter expertise to offer the full spectrum of solutions and services in the Banking, Financial Services and Insurance sector. More than 50% of our people bring in Domain knowledge with sound technical skills that help understand the client's immediate business needs and anticipate future needs as well. Ideaspace is 195 people strong and has acquired 1500 Man-years of domain expertise and 2000 Man-years of technology expertise through a dedicated and customer-oriented approach. Ideaspace has a successful track record of having identified, customized and implemented a Core Banking Solution for a long-standing multi-service, multi-location bank in India, within a record time of 18 months. Our emphasis on Quality is manifested by the ISO 9001:2000 certification. Our team is committed to the concept of continual improvement through quality initiatives.

### Segment-wise performance

The segment performance of the Company has been given separately in the Notes to Accounts.

### Internal Control System and Adequacy

The Company has an effective internal control system in place and this is periodically reviewed for effectiveness. The company also appointed internal auditor and submitting their report to the Audit committee. The findings of the internal auditor are reviewed with internal audit committee at regular intervals and key observations are discussed for implementation/correction.

### Human Resources

As part of the resource creation strategy, your company continued to drive the initiatives on sharp sizing through divestiture or outsourcing of such

of the organization is directly linked to the talent that is also to attract, retain and engage.

Your company stays committed to operational excellence programmes. During the year, the company has provided various training programmes to the employees in respective fields.

Total headcount of the company as on March 31, 2003 is 195.

### Balance Sheet

#### Sources of Funds

##### Equity Funds

Share capital of the Company went up by Rs.21,901 thousand consequent to the merger of Ideaspace Financial Technologies Private Limited with the Company.

##### Loan Funds

The amount under loan funds represents balance amount payable on IDBI Term Loan and assets purchased on hire purchase option. During the month June'03, the company has repaid the Term Loan with IDBI.

##### Fixed Assets

Gross block has decreased by Rs.16, 120 thousand. Additions primarily include Rs.1, 211 thousand spent on purchase of computers as per the requirements.

Deletions from the gross block of fixed assets comprise mainly of Rs.12, 985 thousand on account of written-off of Software.

##### Investments

Decrease in investments is mainly on account of the provision for subsidiary Losses.

##### Cash and bank balances

Cash and bank balances represents fund maintained at branch office and head office in various currencies.

##### Loans and advances

Loans and advances have increased by Rs.2,802 thousand

##### Deferred Tax Assets/Liability

The deferred tax assets were created Rs.13, 648 thousand.



## Certification

### 1. Quality

#### About the CMM Level4 achievement

Ideaspac Solutions Ltd., one of the leader in BFSI industry, announced that it has been assessed at 'Managed' Level 4 in the Capability Maturity Model (CMM) of the Software Engineering Institute (SEI). This assessment for the Capability Maturity Model was carried out by KPMG at Ideaspac India-based development center in Bangalore.

The CMM is widely regarded as the best means to measure the quality and maturity of an organization's software development and maintenance processes. The Level 4 CMM assessment signifies that Ideaspac has a well-defined, measured process for developing and maintaining software solutions that is integrated into its management processes.

#### About the Software Engineering Institute

The Software Engineering Institute (SEI) is a federally funded research and development center established in 1984 by the US Department of Defense with a broad charter to address the transition of software engineering technology. The SEI is an integral component of Carnegie Mellon University and is sponsored by the Office of the Under Secretary of Defense for Acquisition and Technology (OUSD [A&T]).

#### About the Capability Maturity Model

The Software Capability Maturity Model® (SW-CMM®) is a model for judging the maturity of the software processes of an organization and for identifying the key practices that are required to increase the maturity of these processes.

CMM is registered in the US Patent and Trademark Office.

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## Report on Corporate Governance

The Securities and Exchange Board of India has introduced a Code of Corporate Governance (Code) by way of amendment to the listing agreement with Stock Exchanges. The Company complied with mandatory requirements of the Code.

### 1. Company's Philosophy

Corporate Governance assumes a great deal of importance in the business life of Ideaspace. The driving forces of Corporate Governance at Ideaspace are its core values, which are belief in people, entrepreneurship, customer orientation and pursuit of excellence. The Company's goal is to find creative and productive ways of delighting investors, customers and associates, while fulfilling the role of responsible corporate representative committed to best practices.

### 2. Board of Directors

#### Composition and Category of Directors

Name	Category	Executive / Non-Executive	Designation	Meetings held during the year	Meetings attended	Memberships in Boards of other companies	Member/ Chairman in Board Committee	Attendance of each Director at last AGM
G.Mallikarjuna Rao	Promoter	Non-Executive	Chairman	7	5	8	2	Absent
G.Kiran Kumar	Promoter	Executive	Vice Chairman and Managing Director	7	6	7	-	Absent
C Prasanna	Independent	Non-Executive	Director	7	2	4	-	Absent
A.P.Rao	Independent	Non-Executive	Director	7	6	-	4	Present
Mukul Agarwal	Independent	Non-Executive	Director	7	-	-	-	Absent
Pawan Jhunjhunwala	Independent	Non-Executive	Director	7	1	1	-	Present
Shantanu Ghosh	Independent	Non-Executive	Nominee Director	-	-	-	-	Absent

Mr. Mukul Agrawal and Mr. C. Prasanna have resigned from the Board on 17.02.2003. Mr. Shantanu Ghosh has been appointed as a Nominee Director of ING Vysya Bank Limited on 17<sup>th</sup> February 2003.

Mr. Kiran Kumar G was appointed as a Managing Director during the Year for the period of three years with effect from June 2002 to June 2005 for a remuneration of one lac per month.

#### Meetings of the Board of Directors

During the year 2002-03, the Board of Directors met seven times on the following dates:

April 30, June 11, July 30, October 28, November 28, 2002 and January 30 and February 17, 2003.

A) Mr. Kiran Kumar Grandhi is the Vice-Chairman and Managing Director of Ideaspace Solutions Ltd. Mr. Kiran Kumar has extensive experience in project finance for large Infrastructure projects. He has been instrumental in the debt and equity tie-up for power projects and raising resources for the group. With his initiative, GMR Group has diversified into Information Technology Business, which has been growing steadily, despite the recent slowdown in the industry

B) Mr. Shantanu Ghosh is the Nominee Director of ING Vysya Bank Limited in the Board.