



Annual
Report
2000-2001

MISSION STATEMENT

To be the world's leading
software solutions
company by being a
virtual extension of our
customer's changing
enterprise architecture to
reduce the time-to-
market and cost of
ownership.



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REDEFINING THE IT OUTSOURCING PARADIGM

Mascot has set exacting standards for itself. The latest technology, the highest level of commitment, exceptional quality of service and the best value is what we offer our customers.

Thirty-one Fortune 500 corporations partner Mascot for their IT requirements. Companies such as GE, Cummins, Case New Holland, Dresdner Bank and Hewlett Packard stand testimony to Mascot's success in offshore outsourcing engagements.

Mascot's relationship with GE began in 1996 with one GE group company, GE Aircraft Engines. The relationship today extends to eleven group companies across North America, Europe and Asia. Mascot is a Global Preferred Vendor for GE, providing offshore services in the areas of data warehousing, e-commerce, and ERP to GE worldwide.

Mascot has set up a world class facility in Singapore, equipped with state-of-the-art hardware and software, to support Hewlett Packard's mission critical business applications. HP is a long-standing client of Mascot and this agreement reinforces the relationship between the two companies.

Mascot's business model is differentiated by SmartAPPSSM, a proprietary framework for distributed delivery that gives the customer visibility and control, through a powerful, web-enabled, real-time window to monitor project workflow. Mascot's management of distributed delivery ensures that best-of-breed solutions are delivered with a significantly reduced cost of ownership.

Besides, as a "multi-local", multinational, Mascot excels in business culture mapping and is well equipped to operate in non-English speaking companies.

The iGATE Advantage

A wave of technological innovation is changing the world. And through iGATE, Mascot is uniquely positioned at the forefront of the software services industry.

iGATE Capital Inc, Mascot's parent company, is a prolific Internet incubator that continually invests in leading-edge technology companies. iGATE Capital helps Mascot respond quickly to market changes by capitalising on new technology opportunities

Mascot benefits from iGATE Capital's global business model of sharing leads and solutions with the other group companies - each of which specialise in a niche technology area.

As part of the iGATE Capital network, Mascot enjoys the following benefits:

- Access to a global client network of more than 500 corporations
- Global recruitment engine
- Seasoned managerial expertise and strategic counsel
- Proven business processes and methodology

Highgate Ventures, promoted by iGATE, invests in Internet infrastructure, enterprise software and next-generation eServices companies, providing hands-on, strategic direction to help build valuable companies.

Created in January 2000, Highgate Ventures has made successful investments in companies such as SpeechWorks, Xpede, VCampus, Brainbench, OrderCare, Bluewater, Escend and Versata. And as part of the iGATE Network, Mascot has access to the next generation software of these companies supported by Highgate Ventures.

Knowledge - the Key Driver

We pride ourselves on being a knowledge organisation.

Knowledge management is an integral part of the work culture at Mascot.

Mascot has established formal systems for knowledge capture, storage and reuse.

Mascot's Knowledge Repository (KR), an electronic knowledge management system, is a corporate repository of business processes and technical information. It enables collection, storage and sharing of critical reusable knowledge and experiences amongst all employees. It offers a sophisticated and efficient search mechanism for

knowledge artifacts, which can be accessed by individuals or teams. This translates into significant time and cost benefits for our customers.

The Emerging Technologies Lab (ETL) supports Knowledge Management at Mascot. The ETL has been set up to help employees cope with the challenges posed by rapid technology change. By helping employees work smarter, Mascot ensures that they are:

- effective in solving complex problems
- capable of exploring new ways of working on issues that impact businesses of clients.

Through the significant investments that Mascot has made in technological infrastructure - comprising powerful servers and a complete range of software products - Mascotians build expertise on the latest tools, technologies and design concepts.

The lab has access to structured learning that includes content from iGMG apart from white papers, case studies, frameworks and examples developed by the Technology Group at Mascot, which helps build proofs-of-concept and provides technical guidance on design, performance and interoperability-related issues.

As part of its strategic initiative to exploit the power of the Web, Mascot is developing an Enterprise Information Portal (EIP) to optimise the information flow for decision and support systems across the organisation. Some of the key objectives in developing the portal are:

1. Zero latency with regards to information flow
2. Real time knowledge
3. Improved efficiency of processes
4. Empower decision making
5. Employee self service
6. End to end transparency with customers
7. Knowledge sharing within the organisation
8. Knowledge sharing with our customers
9. Improved quality of service

The Enterprise Information Portal (EIP) will serve as a gateway to all enterprise applications and information.

As a restructured organisation, Mascot has developed high quality software for its customers and this has helped strengthen partnerships with existing clients. Mascot's global initiatives include, building expertise in the financial services domain, leveraging existing customer relationships, globally, diversification of geographical revenue contribution and deepening of engagement levels in areas of proven competence.

MEMBERS OF THE BOARD

Sunil Wadhwani (Chairman)
N. Balasubramanian
Dipankar Basu
J. S. Pathak
Ashok Trivedi
Edward Yourdon
V. Chandrasekaran*- Managing Director

COMMITTEES OF THE BOARD

AUDIT COMMITTEE MEMBERS

N. Balasubramanian (Chairman)
Dipankar Basu
J. S. Pathak
Sunil Wadhwani

COMPENSATION COMMITTEE MEMBERS

Dipankar Basu (Chairman)
N. Balasubramanian
J. S. Pathak
Ashok Trivedi

SHAREHOLDERS GRIEVANCES COMMITTEE MEMBERS

J. S. Pathak (Chairman)
Ashok Trivedi
Sunil Wadhwani
V. Chandrasekaran*

SHARE TRANSFER COMMITTEE MEMBERS

Ashok Trivedi (Chairman)
V. Chandrasekaran*
K. S. Ananthanarayanan - Executive Member
Mukund Srinath - Executive Member

Chief Operating Officer
Chief Financial Officer
Corporate Legal Counsel &
Company Secretary

Shekar Sivasubramanian**
K. S. Ananthanarayanan
Mukund Srinath

* Upto 07.05.2001 ** From 07.05.2001 designated as 'Interim Head' of the Company

DIRECTORS' REPORT

To the Members

Your Directors are pleased to present their Report on the business and operations of your Company for the year ended March 31, 2001.

FINANCIAL RESULTS

(Rs. '000)

Year ended	2001	2000
Software Development and Services	3,403,147	715,378
Other Income	106,349	7,117
Total Income	3,509,496	722,495
Total Expenditure	2,866,069	568,670
Interest	17,385	22,622
Depreciation	91,777	66,404
Profit Before Taxation and Extraordinary Expense	534,265	64,799
Extraordinary Item - consideration for purchase of business contracts	91,637	-
Provision for Taxation	67,581	18,073
Profit after Taxation	375,047	46,726
Prior years Adjustment - net Profit available for appropriation	375,047	6,266
Proposed Dividend	16,217	-
Dividend Distribution Tax	1,654	-
Transfer to General Reserve	18,800	-
Balance brought forward from the Previous Year	38,684	83,418
Less: Capitalised for issue of Bonus Shares	-	51,000
Balance carried to Balance Sheet	377,060	38,684

RESULTS OF OPERATION

The income from Software Development Services increased from Rs. 715.38 million in the previous year to Rs. 3,403.15 million in the current year. The Operating Profit has increased to Rs. 643.43 million from Rs. 153.83 million in the previous year. The provision for Depreciation was higher at Rs. 91.78 million from Rs. 66.40 million in the previous year. Provision for Taxation was Rs. 67.58 million as compared to Rs. 18.07 million in the previous year. Profit after Taxation was Rs. 375.05 million as against Rs. 46.73 million in the previous year. This includes an amount of Rs. 91.64 million paid towards purchase of business contracts.

Previous year figures are not strictly comparable since your Company went through a major re-structuring exercise in the previous year.

DIVIDEND

Your Directors are pleased to recommend a maiden dividend of 15 per cent per equity share amounting to Rs. 1.65 million on the paid up share capital.

BUSINESS ACQUISITIONS

During the year, your Company entered into an agreement to purchase specific contracts with Emplifi Inc., a Pennsylvania Corporation for a consideration of Rs. 91.64 million which is expected to contribute substantial revenues and yield new business with good annuity prospects in the coming years. The contracts include many Fortune 500 Companies.

During the beginning of the first quarter of this financial year, your Company acquired 100 per cent equity in Mastech Malaysia Sdn Bhd (MMSB) for a consideration of US\$ 300,000. This acquisition entitles the Company to enjoy a tax holiday out of the income derived from the activities from MMSB in Malaysia. Among other benefits, your Company has also added good accounts by this acquisition.

CHANGES IN CAPITAL STRUCTURE

During the Financial Year, your Company went public with an IPO of 3 million of equity shares of Rs. 4/- each at a premium of Rs. 476/-, which included a book built portion of 22,50,000 equity shares. The IPO was well received despite the sluggish conditions prevalent then in the equity market. The Company further allotted during the year 27,635 shares of par value of Rs. 4/- each at a premium of Rs. 96/- on the exercise of stock options issued under the Company's Employees Stock Option Plan. Consequently the paid up capital now stands at Rs. 108.11 million.

Directors' Report

EMPLOYEES STOCK OPTION PLAN

Your Company issued 1,17,400 stock options to 75 employees during the Financial Year under the Company's Employees Stock Option Plan. The details of the options granted during the year are given below:

Description	Details
Active Options as on 01.04.2000	11,83,575
1. Options granted	1,17,400
2. The pricing formula	At the fair market value as on the date of the grant for options granted after June 6, 2000 and for options granted before the said date at a grant price of Rs.100/- per option.
3. Options vested	12,15,375
4. Options exercised	27,635
5. The total number of shares arising as a result of exercise of option	27,635
6. Options lapsed	1,37,265
7. Variation of terms of options	None
8. Money realised by exercise of options	Rs. 27,63,500
9. Total no. of options in force	13,14,375
10. Employee wise details of options granted to :	
a) senior managerial personnel	Ms. Sujata Rakhra : 10000 options
b) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during the year	None during the year
c) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of the grant	1. Mr. V. Chandrasekaran - 3,25,000 options @Rs.100/- per option granted on 27.01.2000 2. Mr. Shekar Sivasubramanian - 3,00,000 options @ Rs.100/- per option granted on 27.01.2000
11. Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard	Rs. 13.25

DISCLOSURE AS PER CLAUSE 43 OF THE LISTING AGREEMENTS WITH THE STOCK EXCHANGES

The profitability as projected in the Offer Document as compared to the actual is furnished below:

Particulars	Rs. in Million	
	Utilisation as at March 31, 2001	Projected Income
<i>Income</i>		
Software and related technical services	3,403.1	3,233.7
Other Income	106.3	14.0
Total Income	3,509.5	3,247.7
<i>Expenditure</i>		
Cost of Software Development	2,034.6	1,724.7
Sales and General Administration Expenses	831.5	721.4
Total Expenditure	2,866.1	2,446.1
<i>Profit before Interest, Depreciation and Tax</i>	643.4	801.6
Interest	17.4	22.2
Depreciation	91.8	138.5
Profit before Tax and Extraordinary Expense	534.3	640.9
Extraordinary item- Consideration for purchase of Business Contracts	91.6	-
Provision for Taxation	67.6	145.5
<i>Net Profit</i>	375.0	495.4

The net profit as at 31.03.2001 is lower than the projection in the IPO Offer Document as the projection did not include the extraordinary expense towards the business purchase as explained in detail in the paragraph on 'business acquisitions'.

The utilisation of the IPO proceeds as projected in the Offer Document as compared with the utilisation as on 31.03.2001 is furnished below.

Rs. in Million		
Particulars	Utilisation as at March 31, 2001	Projected as per Offer Document
Expansion and upgradation of existing Offshore Development Centers	325.8	325.8
Creation of new facilities and property acquisition for future development	219.8	565.0
Acquisition of capital equipment at International branches and capital equipment purchases	68.4	68.4
Issue Expenses	65.6	100.0
Repayment of Loan/Working Capital/ JVs etc.	100.0	380.8
Investments*	660.4	-

*Pending utilisation, surplus has been invested in mutual funds (debt schemes)

ORGANISATIONAL CHANGES

During the year, your Company re-organised its marketing channels and also strengthened its US marketing operations by increasing its senior management force to focus in and develop new markets in the US.

OVERSEAS BRANCHES

During the latter half of the year, your Company has initiated steps to open branch offices in Germany and Belgium and are soon expected to be operational. During the current year your Company is proposing to open more branches in the US which will help your Company to access new markets, broaden its client base and augment more business. Presently the Company has overseas branch offices in US, Netherlands, Sweden, UK, Japan and Singapore.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits and as such no amount of principal or interest was outstanding on the date of the Balance Sheet.

CORPORATE GOVERNANCE (for the year ended 31.03.2001)

Company's Philosophy: The Company is committed to a system of good corporate governance, as it firmly believes in and consistently practices good corporate governance by increasing transparency and accountability to its shareholders.

The Company's internal control structure ensures compliance with legal requirements, and the reliability of financial reporting. It makes management responsible for implementing and maintaining effective business controls, including internal financial controls, whose effectiveness is monitored by self-assessment and by audits performed by internal and external auditors. Good corporate governance encompasses practices and the procedures to be observed by the management interrelated with laws, regulations, procedures and disclosures to be followed at all times.

Mascot wishes to be a responsible partner in society, acting with integrity towards its shareholders, customers, employees, the government, its business partners and other stake holders.

BOARD OF DIRECTORS (upto 07.05.2001)

The Board consists of seven members comprising:

- One Executive Director (Managing Director)
- Six Non-Executive Directors including the Chairman

Category	Names of Directors	Number of Directors	Composition %
Promoter	Sunil Wadhvani (Chairman) Ashok Trivedi	2	28.57
Executive	V. Chandrasekaran (Managing Director)	1	14.29
Independent Non Executive	N. Balasubramanian Dipankar Basu J. S. Pathak Edward Yourdon	4	57.14
Total		7	100.00

The Board is primarily responsible for the overall stewardship of the Company's activities. Your Directors have diverse business experience and expertise including in the fields of Information Technology, Finance, Law etc.

NUMBER OF BOARD MEETINGS HELD AND THE DATES ON WHICH HELD:

Five Board meetings were held during April 2000 and March 2001, on 22.04.2000, 25.07.2000, 31.08.2000, 27.10.2000 and 25.01.2001.

Attendance of each Director at Board Meetings and the Annual General Meeting:

Director	No. of Board Meetings held	No. of Board Meetings attended in person	No. of Board Meetings participated through tele/video conference	Attendance at the AGM
Sunil Wadhvani	5	3	1	Yes
N. Balasubramanian	5	5	-	Yes
Dipankar Basu	5	3	1	No
Ashok Trivedi	5	2	1	No
J. S. Pathak	5	2	-	Yes
Edward Yourdon	5	2	-	No
V. Chandrasekaran	5	5	-	Yes

GENERAL MEETINGS OF THE MEMBERS:

The Company's shares were listed in June 2000 on the Bangalore, Mumbai and National Stock Exchanges.

The Last Annual General Meeting was held on 31.08.2000 at 3.00 p.m. at the Taj Residency, M. G. Road, Bangalore.

REMUNERATION PAID TO INDEPENDENT DIRECTORS:

Commission not to exceed 0.50 per cent of net profits of the Company, subject to a maximum of Rs. 2.4 million per annum, to be divided equally among all the four independent Directors, or in such manner, as may be decided by the Board.

Stock Options	2,000 each
Price	Rs. 100 per share
Grant Date	February 23, 2000
Vesting period	1-2 years

Directors' Report

None of the Non-Executive Independent Directors of the Company have any pecuniary relationships or transactions with the Company except for any professional services rendered by them.

DISCLOSURES

- Related party transactions: Mentioned elsewhere in this Annual Report under Notes to Accounts
- Non compliance with Stock Exchange/SEBI requirements - None

COMPLIANCES

The Company is well equipped with a professional and competent legal department, which ensures compliance with the legal requirements of the Company. The Secretarial and Legal Department is headed by the Corporate Legal Counsel and Company Secretary, who is responsible for compliance in respect of Company and other allied laws, SEBI, Stock Exchange rules and other regulations.

MEANS OF COMMUNICATION

Quarterly results are published in Economic Times / Udayavani and an investor update is mailed every quarter to the shareholders of the Company and also put up on its website www.mascotsystems.com, which, besides, also displays official news releases.

The presentations made to institutional investors or analysts has not been put up on the website and the Company will do so for its future presentations.

Your Company is committed to highest standards of corporate governance and wishes to be a responsible partner in society, acting with integrity towards its shareholders, customers, employees, business partners and society. The Reports of the Committees of the Board along with a compliance certificate from the Statutory Auditor of the Company are annexed.

RESPONSIBILITY STATEMENT

In pursuance of the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors' Responsibility Statement is annexed to the Report.

DIRECTORS

Mr. V.Chandrasekaran resigned as Director and Managing Director of the Company on 7th May, 2001 to pursue alternative professional and business interest. Your Directors place on record the invaluable services rendered by Mr.V.Chandrasekaran during his tenure as Managing Director of the Company. The Board has appointed Mr. Shekar Sivasubramanian - Chief Operating Officer as the 'Interim Head' of the Company.

Dr. N.Balasubramanian and Mr. Dipankar Basu, Directors retire by rotation, in terms of the provisions of the Companies Act, 1956 and the Articles of Association of

the Company, and being eligible, offer themselves for re-election.

AUDITORS

The Auditors, Messers. Chandabhoy and Jassoobhoy retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

In pursuance of the provisions of Section 217(1)(e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, the particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo are furnished below:

- Conservation of Energy: The operations of your Company are not energy intensive. Adequate measures have, however, been taken to reduce energy consumption by using energy efficient computer terminals. Air-conditioners are used only when required, thereby enhancing energy efficiency.
- Research and Development: Not applicable.
- Technology Absorption : Not applicable
- Foreign Exchange Earnings and outgo: The Company earned Rs. 597.92 million in Foreign Exchange from its Indian operations as against Rs. 271.33 million in the previous year. The Foreign Exchange outgo from India, including capital goods was Rs. 111.57 million as against Rs. 37.36 million in the previous year.

PARTICULARS OF EMPLOYEES

Information required to be furnished under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, is annexed to the Report.

ACKNOWLEDGMENTS

Your Directors thank the business associates/ customers, vendors and its Parent Corporation for their continued support of your company's growth. Your Directors place on record their appreciation of the significant contribution made by employees at all levels who have been instrumental in enabling your Company to make rapid progress during the year.

Your Directors also thank the Governments of India, Karnataka, Tamil Nadu and Maharashtra, various other Government Agencies, our bankers, capital market, media and our shareholders fraternity for their support during the year.

For and on behalf of the Board of Directors

Bangalore
7th May, 2001

Sunil Wadhvani
Chairman