



Report Junction.com
Eleventh
Annual Report
2001-2002

KPIT INFOSYSTEMS LIMITED

**K P I T**

KPIT INFOSYSTEMS LIMITED (Formerly Known As KPIT SYSTEMS LIMITED)

Board & Management

Board Members

S. B. (Ravi) Pandit	Chairman
Ajay B. Bhagwat	Director
Anand Khandekar	Director
Dr. Naushad Forbes	Director
Shailesh V. Haribhakti	Director
Sudheer Tilloo	Director
Achiezer Racov	Director
Nasser Munjee	Director
S. M. Patwardhan	Director (Technology)
Kishor P. Patil	Managing Director

Company Secretary

Bhushan Gokhale

Board Committees

Compensation Committee

Sudheer Tilloo	Committee Chairman
Anand Khandekar	Member
Shailesh V. Haribhakti	Member

Audit Committee

Shailesh V. Haribhakti	Committee Chairman
Dr. Naushad Forbes	Member
Sudheer Tilloo	Member

Shareholders' / Investors' Grievance Committee

Shailesh V. Haribhakti	Committee Chairman
S. B. (Ravi) Pandit	Member
Kishor P. Patil	Member

Share Transfer Committee

S. B. (Ravi) Pandit	Committee Chairman
Kishor P. Patil	Member
S. M. Patwardhan	Member
Ajay Bhagwat	Member

Management Team

Marketing

Sachin Tikekar	Chief Operating Officer - KPIT US
Myles O'Connor	Account Director- Cummins Inc.
Pankaj Sathé	Director of Projects & Services- KPIT UK
Pervez Daver	Senior Manager - Corporate Marketing
Ashish Ahuja	Marketing Manager - Middle East

Delivery System

Anil Kulkarni	Vice President & Head - Delivery Systems
Satish Ranade	Head - Delivery Unit - 1
Anuradha Kanitkar	Head - Delivery Unit - 2
Anand Kumar	Head - Delivery Unit - 3
Prabhakar Bendre	Head - Manufacturing Vertical
Anup Sable	Head - Competency Centre - 1
Prabodh Teredesai	Head - Competency Centre - 2
Rohini Barve	Senior Manager- Quality Management

Support

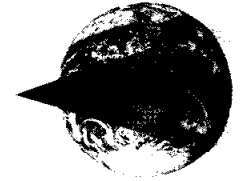
Anil Patwardhan	General Manager- Finance & Administration
Ganesh Sanker	General Manager- Organisation Development

Auditors

M/s. Sanjiv Katkar and Associates, Chartered Accountants,
" Raj Vihar", Plot No 38, Sahakarnagar No. 2, Pune - 411009

Bankers

ICICI Bank Ltd.
State Bank of India
Export Import Bank of India

**K P I T****Contents**

1.	Financial Performance at a Glance	1
2.	Chairman's Letter	2
3.	Managing Director's Letter	5
4.	Board Members' Profiles	7
5.	Directors' Report	9
6.	Auditor's Certificate on ESOP	13
7.	Corporate Governance	14
8.	Shareholders' Information	20
9.	Management Discussion and Analysis	24
10.	Auditor's Report	31
11.	Balance Sheet	33
12.	Profit & Loss Account	34
13.	Schedules forming part of Accounts (I to XIII)	35
14.	Notes to Accounts (XIV)	43
15.	Auditor's Certificate on Cash Flow Statement	48
16.	Cash Flow Statement	49
17.	Consolidated Financial Statements	50
18.	Section 212 Statement	60
19.	Subsidiaries Financial Statements	61

KPIT INFOSYSTEMS LIMITED**KPIT INFOSYSTEMS LIMITED (Formerly Known As KPIT SYSTEMS LIMITED)
Financial Performance At A Glance**

Particulars	2001-2002		2000-2001 (9 Months)		1999-2000	
	USD Million	Rs. Million	USD Million	Rs. Million	USD Million	Rs. Million
Statement of Profit & Loss Account						
Sales & Income	9.89	479.81	8.62	392.11	7.45	321.74
Total Expenses	8.87	429.96	7.39	336.08	7.00	302.34
Profit before Interest & Depreciation	1.02	49.85	1.23	56.03	0.45	19.40
Interest & Financial Charges	0.35	16.96	0.27	12.40	0.24	10.38
Depreciation	0.23	10.92	0.21	9.40	0.28	11.92
Profit / (Loss) before Tax	0.44	21.97	0.75	34.23	(0.07)	(2.90)
Provision for Tax	0.01	0.54	—	0.03	0.01	0.53
Prior Year Taxes	—	—	—	—	0.12	5.12
Profit / (Loss) after Tax	0.43	21.43	0.75	34.20	(0.20)	(8.55)
Prior Year Expenses	0.03	1.65	—	0.10	—	—
Profit Available for Appropriation	0.40	19.78	0.75	34.10	(0.20)	(8.55)
Appropriations						
Dividend	0.05	2.58	0.09	3.87	—	—
Corporate Dividend Tax	—	—	0.01	0.39	—	—
Transfer to General Reserve	—	—	—	—	—	—
Balance carried to Balance Sheet	0.35	17.20	0.65	29.84	(0.20)	(8.55)
Sources & Application of Funds						
Sources of Funds						
Share Capital	1.06	51.64	1.11	51.64	1.16	51.64
Reserves & Surplus	4.10	198.75	3.91	181.56	3.41	151.71
Shareholders' Funds	5.16	250.39	5.02	233.20	4.57	203.35
Secured Loans	1.66	80.18	1.33	61.69	0.89	39.90
Total	6.82	330.57	6.35	294.89	5.46	243.25
Application of Funds						
Net Fixed Assets	1.54	74.83	1.68	77.90	1.85	82.35
Investments	2.71	131.26	1.73	80.37	0.68	30.38
Net Current Assets	2.57	124.48	2.94	136.62	2.93	130.52
Total	6.82	330.57	6.35	294.89	5.46	243.25



KPIT INFOSYSTEMS LIMITED (Formerly Known As KPIT SYSTEMS LIMITED) Chairman's Letter

K P I T

Dear Fellow Shareholders,

Last year was a watershed year for the Information Technology Industry globally and, more particularly, for the industry in India.

Since the early part of 2001, the US economy, facing a slow down, was curtailing its budgets on Information Technology. The dot com boom led to the inevitable dot com burst. The Tele Communication Industry followed almost a similar cycle. Thus the major users of Information Technology services took a uniform beating. This resulted in the shrinkage in demand for Information Technology services globally and especially in the US. The



September 11th episode created its own ripples and made the US economy withdraw in a shell, causing a further contraction in the demand for Information Technology services. And just when, in the early part of 2002, the industry started to pick up speed, there was the attack on the Indian parliament and a significant rise in cross border tensions, giving rise to global advisory against travel to India.

This saga of events had a strong impact on the Information Technology Industry in India.

The industry, which was growing around 50% a year for the last so many years, stalled. Only the large players in the industry could show any growth. Almost all the others suffered a severe decline both in revenues and net income.

Obviously, the Indian IT services industry metamorphosed from the stage of wild expansion to maturity.

The industry is not going to be the same again.

Our Company's revenues grew from Rs. 392.11 Million to Rs. 479.81 Million (On annualized basis, we remained at the same level), whereas the profit reduced from Rs. 34.10 Million to 19.78 Million. The revenues from the UK subsidiary increased from GBP 2.77 Million to GBP 3.22 Million registering a growth in revenues of 16% over the previous year. The UK subsidiary, having been in operation for a longer period of time, is now close to break even. The US subsidiary closed the year with a revenue of US\$ 4.38 Million. The loss for the year has come down to US\$ 0.31 Million from US\$ 0.47 Million. The Middle East joint venture started operations and was at a break even level.

The changes that have happened in the last one year are creating the following distinct trends :-

1. Shift from on-site to off-shore

Information Technology is the key to the growth and efficiency of industries worldwide. The User Industry therefore is keen to find out how it can make its shrunken investment in Information Technology to deliver more. In effect, world demand is moving to a place where every dollar spent can deliver higher value.

India is now globally recognized as the world's offshore development centre. Good Indian companies have good systems. They can deliver quality at lower costs. So Indian companies, having sound offshore development capabilities, will see greater flow of work.

KPIT INFOSYSTEMS LIMITED

Earlier only large companies looked at the India option. Now even mid sized companies are coming to India.

2. Value addition in application-domain and technology-domain

Customers are looking for Indian companies who can provide superior services because of their knowledge of the industry as well as knowledge of the most appropriate technology. Obviously, very few companies can have across-the-board knowledge of various application domains as well as technology domains. In effect all except the very large companies will have to concentrate on a few industry domains as well as technology domains. This is bound to result in a set of more focussed players.

3. Size

Companies world-over are reducing the number of their vendors. They would like to have only a few vendors who bring in appropriate size for the nature of their requirements. Mid sized clients would like to work with mid sized vendors. Small sized vendors will obviously face difficulties leading to consolidation in the industry.

As a result of these three trends, the Indian IT industry will have to change from being

a fragmented industry focusing on on-site services, selling basic technology skills to a wide spectrum of companies, to

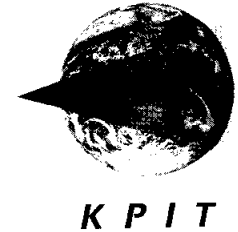
a reasonably consolidated industry having strength in off-shore development with a focus on some technology and industry segments.

In this sense, the Indian IT industry would not be the same again.

We have recognized the shape of things to come and we have worked over the past couple of years to make us ready for the future.

Following are some of the steps that we have taken.

1. **Offshore development capabilities** : We have strong offshore development capabilities. We have consistently delivered projects to our customers which meet their quality and time requirement. Maturity of our system is evidenced by the fact that we have been certified at CMM Level 4 of the SEI model. There are not more than 125 companies in the world which have such matured systems.
2. **Domain focus** : We are enhancing our focus on two industries, viz. Banking/Finance/Insurance and Manufacturing. As we see it, a very large part of our services will be delivered to companies in these industries as well as to software companies who service these industries. **As an important step towards building expertise in the field of manufacturing, we are proposing a merger of Cummins Information Technology Ltd. into KPIT.** Cummins is respected all over the world as a leader in manufacture of Engines. Merger with CIT will give us access to knowledge in manufacturing industry apart from a reputable, consistent and sizeable international client. **We believe this to be an important strategic step for us.**
3. **Size** : We will consciously look for growth through organic as well as inorganic means. As mentioned earlier, we have already taken the first step in this regard.



- 4. Technology focus :** We are building strengths in some key technology domains such as data warehousing/business intelligence, e- commerce, embedded software etc. We believe that these strengths help us in moving into a new client. Once a client gets to know us for one of our specialized offerings, we can always expand our service base within the client. The focus on a few technology domains gives our client unique value and gets us valuable access.

I would like to share with you our dream for KPIT.

Our vision is to build a global IT consulting organization, which will be the first choice of its customers, employees and share-holders.

Our mission is to become a USD 100 million company with a profitability in the top 20 percentile by 2006-07.

To achieve this mission , we will

- Become the vendor of first choice for atleast five of our top ten global customers and provide best value for money to all our customers.
- Become leaders in at least two focus areas and build capabilities and services to move up the value chain.
- Create the right conditions to allow us to collaborate.
- Create the right conditions, wherever we operate, to attract and retain professionals who are capable of supporting our vision and mission.
- Be known for social contributions to the communities we operate in.

The financial results of the first quarter of the year 2002-2003 have shown a growth in revenue (Rs. 122.88 Million) and net profit (Rs. 4.58 Million) as compared with the same quarter last year (revenue Rs. 112 Million and net profit Rs.3.97 Million). We expect that the performance of the rest of the current year will follow a similar trend.

There are many challenges for the years to come but there are even greater opportunities.

We believe we have built a strong foundation of satisfied customers, a good team and sound processes.

We are ready for the future.

Warm regards

S. B. (Ravi) Pandit
Chairman

KPIT INFOSYSTEMS LIMITED

KPIT INFOSYSTEMS LIMITED (Formerly Known As KPIT SYSTEMS LIMITED) Managing Director's Letter

Dear Shareholder,

Last year was one of the most challenging years for us. A general economic slowdown followed with several events dampening the overall sentiments led organizations globally to be over cautious on their IT spending. Clients are expecting rapid implementations and quick return on their Investments. Most of the organizations worldwide have :

- Cut their workforce
- Reduced their IT spend
- Focussed on applications with quick ROI
- Realigned Budgets in favour of Infrastructure / Security.

Customers and Market Profile

Your Company had predicted flat revenue growth for the current year. In order to cope with the challenging situation, your Company had to focus on improving the share of repeat business from its key customers. During the year, 83% of your Company's revenues were derived from repeat customers.

Apart from a challenging economic scenario, the competition has become intense. As your Company has focussed on very high quality of customers, the competition is from top large international and Indian companies. Actually the Company faces competition from top 10 Indian Companies in all its key accounts. There has been a general anxiety as to whether the Company can acquire new customers in the same class in the current circumstances.

I am proud to state here that your Company was indeed in a position to acquire as many as 6 such customers against such competition during the year. Four of these customers were from the Banking & Finance vertical. This should strengthen our presence in the same. Though we have begun working with most of these in the latter part of the financial year, we have completed pilot assignments with many of them and have begun to look at longer-term contracts.

In the past year the presence of Fortune 500 customers in the list of its largest customers continued to increase demonstrating the success of KPIT's strategy to improve the quality of its customer base.

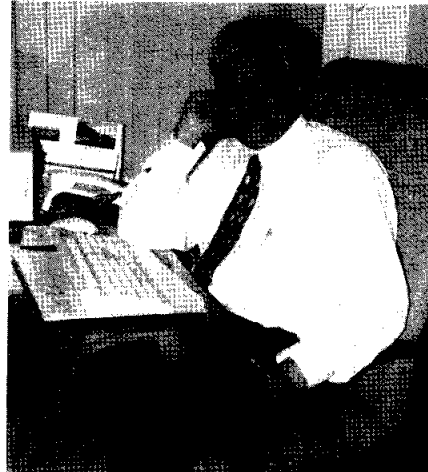
KPIT services its customers in the Finance & Banking and Manufacturing Verticals. Finance & Banking continues to provide 40% of your Company's revenues, while Manufacturing contributes over 16% of the revenues. In order to improve the competitiveness of the Company to acquire and service customers in the Finance & Manufacturing verticals, the Company has taken various technology initiatives relevant to these verticals.

The KPIT-CIT Merger

As an important step in the direction of strengthening KPIT's presence in the Manufacturing vertical, your Company has proposed a merger of Cummins Infotech Technology Ltd. (CIT) into KPIT Infosystems Ltd..

The Company has been working with CIT for over 6 months for getting more business from Cummins Inc. We have also successfully bid together for acquiring business in Enterprise Applications & Embedded Systems. Our complementary strengths and focus on the manufacturing vertical made us think of a closer relationship.

For KPIT, this brings a name and partnership with a Fortune 500 manufacturing Company and we believe this will help us leverage a significant size of business within the Cummins family and acquire proactively key, domain and technology strengths for the vertical. The merger also adds 65 consultants with experience in Manufacturing industry solutions and strengthens KPIT's expertise base including e-business and Lotus Notes within its ambit technologically.





With the merger, your Company will be also in a position to improve its presence in the North American Market. Currently your Company's geographic distribution of revenues is as provided in the figure alongside.

The Human Resource Organisation

In order to service our customers better we have strengthened our work force by adding more experienced and specialized professionals as customer facing staff. This has been done by adding many senior consultants and managers through lateral recruitment and restructuring the organisation to be role-based and aligned with key competencies critical to the vertical focus. The average experience of KPIT's consultants has risen to almost 6 years on April 01 2002 from 5.15 years previously.

Your Company has achieved greater efficiencies through better utilisation of its human resources. Utilisation levels had risen to 76% by April 01 2002 and have continued to rise since then. This rise was witnessed throughout the financial year 2001-02 when the average utilisation levels were around 64%.

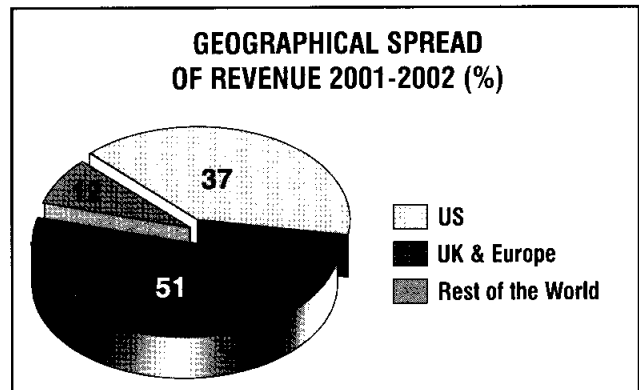
Offshore Delivery Capabilities

Over the years KPIT has been concentrating on building a stronger offshore base for service delivery. Our revenues from offshore services now contribute more than 26% of the total in 2001-02 as against 17% in 2000-01. This is largely due to your Company's capability in demonstrating better delivery processes. On an average around 90% of the projects executed offshore are on schedule at any given time. This offshore capability is also borne out by the fact that most customers have rated our Project Management processes very highly in recent Customer Satisfaction Surveys.

The KPIT-CIT merger will also improve your Company's scalability by adding a ready offshore development facility that can accommodate over 150 consultants.

The acquisition of quality clients, the merger, better aligned organisation structure and continued improvements in operational efficiencies have created significant opportunities for the Company to grow in its focus areas. The key to success will be developing technology, domain and end-to-end delivery capabilities to grow the accounts and tide over the current difficult time.

Your company is committed to building a responsive organisation structure to maximize the opportunities and converting our vision of building the IT Consulting Organization of First Choice into reality.



Sincerely yours,

Kishor Patil
Managing Director

KPIT INFOSYSTEMS LIMITED

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Board Members' Profiles

The Board of Directors of the Company consists of executive and non-executive members. The present Board consists of following members:

Chairman

Mr. S. B. (Ravi) Pandit, 52, is an MS from MIT, USA, where he specialised in finance and controls. He is a Fellow member of the Institute of Chartered Accountants of India and the member of the Institute of Cost and Works Accountants of India and has over 25 years of experience in the fields of IT, corporate strategy formulation and management consulting. He is a senior partner in the Kirtane and Pandit, Chartered Accountants and a Director on Board of several companies. Mr. Pandit is the member of the Shareholders' / Investors' Grievance Committee and the Share Transfer Committee of the Company.

Mr. Pandit manages the external interface of the Company, corporate strategy, brand creation, formulation of quarterly goals and performance assessment and matters relating to the Board.

Managing Director

Mr. Kishor Patil, 40, is a Fellow member of the Institute of Chartered Accountants of India and the Associate member of the Institute of Cost and Works Accountants of India. He has 19 years of experience in various areas like information systems and design, marketing, organisation & methods and systems. Mr. Patil is the member of the Shareholders' / Investors' Grievance Committee and the Share Transfer Committee of the Company.

He is in-charge of the overall management of the Company. He is specifically responsible for all day-to-day operational areas like planning and executing business, reviewing and guiding the country offices, customer delivery units and support functions and ensuring efficient and effective functioning of the organisation as a whole.

Director Technology

Mr. S. M. Patwardhan, 41, is an M-Tech from IIT Mumbai having 16 years of experience in system analysis and design as well as software development. He started his career with Tata Consultancy Services and has worked in the US and UK for more than two years on software development projects with Oracle Inc. and Informix Inc. Mr. Patwardhan is the member of the Share Transfer Committee. He heads the Technology and IT Services Group.

Directors

Mr. Ajay Bhagwat, 39, is a B-Tech (Electrical) from IIT Mumbai, and an MS in Electrical and Computer Engineering from the University of Iowa, USA. He has worked in the process automation industry in the US and has over 14 years of experience in the microprocessor based hardware and software solutions. Mr. Bhagwat is the member of the Share Transfer Committee of the Company. He advises the ASTRA group in the Company.

Mr. Anand Khandekar, 62, is an Engineering Graduate from Pune University and has completed postgraduate course with Royal Naval Engineering College, UK. He has served Indian Navy for 25 years. He has rich experience in the field of information technology having headed large domestic operations for international companies. He brings with him valuable inputs in terms of technology vision as well as experience of management of large software companies. He has more than 15 years of experience in the area of software development. He has worked as a Managing Director of Motorola India and Cirruslogic Software India. He was Chairman of the software sub-committee of the Maharashtra Chamber of Commerce and Industries during 1996-99. Mr. Khandekar is the member of the Compensation Committee of the Company.