ANNUAL REPORT
2003-2004

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KPIT Cummins
Infosystems Limited

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Our Vision is to build a global IT consulting organisation of first choice

Our mission is to become a USD100 Million company with a profitability in the top 20 percentile by 2006-7. To achieve this mission, we will-

Become the vendor of first choice for at least 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

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The customer and us

Our customers operate in an environment of continuous change. The markets in which they operate are very dynamic and competitive. Information Technology, which is a key element in the success of our clients, is in a state of perpetual flux.

Under these conditions of continuous change, our customers need a companion who can bring in an element of continuity.

We aim to be that element of continuity.

Our goal is to be a partner to our customers. A partner who is knowledgeable and reliable, a partner who is committed and responsive, a partner on whom they can rely.

Our Vision and Mission are grounded in this philosophy of creating partnerships. Our business strategy and organizational structure are designed to build this relationship. Our service offerings are aimed at nurturing this relationship. We take strategic initiatives that are designed to strengthen our client relationships as well as service offerings. We promote employee practices that are designed to provide continuity for our customers.

Our customer relationships are our most valued asset.

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Financial Highlights

Particulars	Financial performance at a glance				Consolidated results			
	2003-2004		2002-2003		2003-2004		2002-2003	
	USD Million	Rs. Million	USD Million	Rs. Million	USD Million	Rs. Million	USD Million	Rs. Million
Statement of Profit & Loss Account								
Sales & Income	27.18	1,245.11	15.16	727.27	27.72	1,269.98	15.96	765.64
Total Expenses	23.35	1,069.70	12.91	619.38	23.45	1,074.32	13.86	664.71
Profit before Interest & Depreciation	**3.83**	**175.42**	**2.25**	**107.89**	**4.27**	**195.66**	**2.10**	**100.93**
Interest & Financial Charges	0.33	15.02	0.38	18.38	0.36	16.32	0.43	20.52
Depreciation	0.62	28.19	0.31	14.73	0.63	28.91	0.34	16.17
Profit / (Loss) before Tax	**2.89**	**132.20**	**1.56**	**74.79**	**3.28**	**150.42**	**1.34**	**64.23**
Provision for Tax (incl. Deferred tax)	0.14	6.19	0.12	5.71	0.14	6.19	0.12	5.71
Profit / (Loss) after Tax	**2.75**	**126.01**	**1.44**	**69.08**	**3.15**	**144.23**	**1.22**	**58.52**
Prior Year Expenses	-	0	0.02	1.13	-	-	0.02	1.13
Profit Available for Appropriation	**2.75**	**126.01**	**1.42**	**67.94**	**3.15**	**144.23**	**1.20**	**57.39**
Appropriations								
Dividend	0.26	11.74	0.21	10.27	0.26	11.74	0.21	10.27
Corporate Dividend Tax	0.03	1.50	0.03	1.32	0.03	1.50	0.03	1.32
Transfer to General Reserve	0.21	9.50	0.11	5.10	0.21	9.50	0.11	5.10
Balance carried to Balance Sheet	2.25	103.26	1.07	51.25	2.65	121.49	0.85	40.71
Sources & Application of Funds								
Sources of Funds								
Share Capital	1.70	78.01	1.63	78.01	1.70	78.01	1.63	78.01
Reserves & Surplus	8.72	399.43	6.11	293.16	6.53	299.07	3.63	174.03
Shareholders' Funds	**10.42**	**477.43**	**7.74**	**371.17**	**8.23**	**377.08**	**5.26**	**252.04**
Secured Loans	5.81	266.08	1.55	74.21	5.81	266.08	1.55	74.21
Deferred Tax Liability	0.14	6.51	-	-	0.14	6.51	-	-
Total	**16.37**	**750.02**	**9.29**	**445.38**	**14.18**	**649.67**	**6.80**	**326.25**
Application of Funds								
Net Fixed Assets	3.00	137.36	2.07	99.15	3.04	139.37	2.12	101.77
Capital Work in Progress	0.59	26.92			0.59	26.92	-	-
Investments	2.88	131.71	2.74	131.26	0.00	0.11	0.00	0.11
Net Current Assets	9.91	454.02	4.48	214.97	10.55	483.27	4.68	224.37
Total	**16.37**	**750.02**	**9.29**	**445.38**	**14.18**	**649.67**	**6.80**	**326.25**

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Board and Management

S. B. (Ravi) Pandit
Chairman and Group CEO

Ajay Bhagwat
Director

Anand Khandekar
Director

Dr. Naushad Forbes
Director

Sudheer Tilloo
Director

Nasser Munjee
Director

Anant Talaulicar
Additional Director

Steven Spaulding
Director

Gail Farnsley
Director

Shrikrishna Patwardhan
Director (Technology)

Kishor Patil
CEO & Managing Director

Bhushan Gokhale
Company Secretary

Auditors
Delotte Haskins & Sells
Charted Accountant
No.5 ,The Landmark
42 Aundh Road
Khadki, Pune 411003, India

Bankers
HDFC Bank
State Bank of India
Export Import Bank of India

Board Committees
Remuneration / Compensation Committee

Sudheer Tilloo
Committee Chairman

Anand Khandekar
Member

Anant Talaulicar
Member

S.B. (Ravi) Pandit
Member

Audit Committee

Dr. Naushad Forbes
Committee Chairman

Nasser Munjee
Member

Sudheer Tilloo
Member

Gail Farnsley /
Anant Talaulicar
Member

Shareholders' / Investors' Grievance Committee

Ajay Bhagwat
Committee Chairman

Kishor Patil
Member

Dr. Naushad Forbes
Member

Share Transfer Committee

S. B. (Ravi) Pandit
Committee Chairman

Kishor Patil
Member

Shrikrishna Patwardhan
Member

Management Team

Anand Kumar
Head - R & D

Anil Kulkarni
Vice President &
Head - Operation

Anil Patwardhan
General Manager
Finance

Anup Sable
Head - Automotive

Ganesh Sanker
General Manager
Organisation Development

Hemant Gandhi
Executive Vice President
Business Development

Myles O'Connor
Account Director
Cummins Inc.

Nitin Tarte
President
Panex Consulting Inc

Pankaj Sathe
Director
Projects & Services KPIT UK

Prabhakar Bendre
Head - Manufacturing

Prabodh Teredesai
Head - New Geographies

Pravin Acharya
Head - VLSI

Rohini Barve
Senior Manager
Quality Management

Sachin Tikekar
Chief Operating Officer
KPIT US

Satish Ranade
Head - BFSI

Shrikant Kulkarni
Vice President
Corporate Services

Vikas Pradhan
Head - Corporate Marketing

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responsible
trustworthy

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Letter from Chairman and Group CEO

Dear Fellow Shareholders,

I would like to congratulate you for an excellent year 2003-04, which was a year of progress on many dimensions.

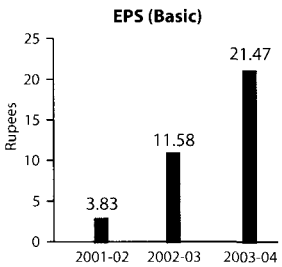
We increased our revenues from Rs.762.6 Million (USD 15.9 Million) in the year 2002-03 to Rs.1270 Million (USD 27.72 Million) on a consolidated basis in the year 2003-04 (growth of 67%). Our profit increased from Rs.57.4 Million (USD 1.2 Million) to Rs.144.2 Million (USD 3.15 Million), showing 151% growth.

We were ranked 6th by Dataquest magazine amongst the fastest growing software companies in India. We sharpened our focus on key verticals and key clients. We enhanced our geographies. We increased our offerings and practices. We significantly enhanced our footprint in Embedded Technologies. We enhanced our processes and got SEI CMM Level 5 certification. We added 450 employees since the beginning of last year till today: almost all of them were recruitments at middle or senior levels. We started construction of our new facility at Hinjewadi.

Our investor relation activity picked up. Many research analysts now track our stock. More than 15 funds have invested in our company and institutional investment has grown over 0.5% last year to 17% as of now. Our return on net worth increased from 15.46% to 30.20%, placing us amongst the top 10 percentile of listed software services companies.

Our share prices reflected all these happenings.

All in all, it was a satisfying year.



How do we look at the year ahead and the years to come?

I would like to share with you my thoughts in this regard. In particular, let me speak about the current industry trends, our opportunities and challenges and actions that we are planning for the years to come.

Globally, the demand for IT services has begun to pick up. The growth in the US economy, the turn-around in the Japanese economy and the consequent beneficial impact on the rest of the world economy augurs well for the IT sector. We do see general increase in demand. The IT budgets, so far held back, are being released. Demand for new technologies and new applications is also evident. The acceptance of internet and e-commerce has grown much beyond the earlier so-called "wild" forecasts. The benefits of IT-led productivity are being felt by all. The usage of embedded software is growing in many application areas. The new requirements for better corporate governance and stringent security considerations are creating a demand for IT solutions. There is higher investment in Business Intelligence software. All these trends spell growth for IT services. Research reports from various consulting and market research agencies also predict sustained growth.

So certainly there are many opportunities.

But there are also many challenges. The media reports talk about growing resentment against offshoring. The unfavourable trend in the rupee-dollar parity points towards reduction in profitability or pressure on business opportunities. There is also a potential threat from emerging service providers from Eastern Europe, Russia and the Far East. And finally, there is a

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dynamic
daring
steady

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threat that customers may choose to work only with large vendors and consequently mid-sized companies like ours might get squeezed out. These are some of the challenges that we face.

I believe that growth through inorganic means would be an important part of our strategy.

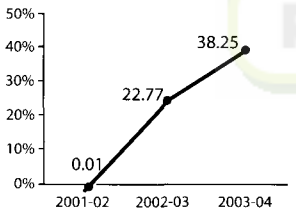
How do we want to address these challenges?

We believe that in the short term, the media backlash will subside as developed economies gather steam. We believe, however, that in the long run, we need to become global companies with delivery centers in many countries, rather than be Indian companies with local offices in other countries. We need to integrate within every market in which we operate. Surely, this will put pressure on our cost structure but we need to enhance our productivity in such a way that our customer value proposition is attractive irrespective of where the delivery is made from.

The unfavourable movements in rupee-dollar parity as well as the threats from emerging countries in Europe and the Far East are the challenges which can only be addressed through high productivity. We are increasing our productivity through sharp focus on our verticals and on our key clients. We are also increasing our productivity by investment in technologies and through knowledge management.

We are addressing the threats of vendor consolidation by increasing our customer interface and by adding practice areas which are relevant to our customers. We are also rapidly expanding in order to achieve the necessary size. We are actively pursuing organic as well as inorganic growth. As you know, twice during the last two years, we have executed strategic transactions. Both these transactions have proved beneficial to us. We have now built a framework for selecting an appropriate partner and we have also built a framework for integrating the operations post-merger.

Return on Shareholders' Funds (Consolidated)



I believe that growth through inorganic means would be an important part of our strategy. I would like to share with you our thought-process in this regard.

Our core business strategy is to focus. We focus on two verticals. We focus on our customers. We build special offerings/practices, which help us address the full spectrum of needs of our verticals and our customers. Our strategy for inorganic growth is aligned with the strategy of focus. Every strategic initiative that we have taken is in the context of this strategic focus. We define this as "Strategic Fit". Secondly, all the acquisitions that we undertake are essentially in the nature of "Mergers". We don't acquire companies, we get partners. Every strategic transaction is intended to add to our offerings and our team. This necessarily means that the people who join us through such acquisitions have to be culturally aligned with us. Both of us need to be convinced that we "want" to work together for many years to come. We, therefore, look for "a cultural fit". Finally, we look for "a financial fit". We use our own guidelines regarding Return on Investment that we need. The purpose of our acquisition is never to just add to our top line but to ensure that there is a sound financial justification for the merger. We invest time in the pre-acquisition phase and we invest even greater time in the post-acquisition phase. We believe that the real test of the acquisition lies in making sure that the two companies post-merger create more value then the total of the values created by the two companies individually before the merger. This, to a large extent, depends on the successful integration. We invest time in this.

Our vision is to build a global IT consulting organization, which will be the first choice of its customers, employees and shareholders. We believe that we are putting in place a good business model, a good set of values and an excellent team.

We look forward to sharing a bright future with you.

Warm Regards,

Ravi Pandit
Chairman & Group CEO

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