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KPIT

KPIT INFOSYSTEMS LTD.

Tenth Annual Report 2000-2001

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Board & Management

Board Members

S. B. (Ravi) Pandit	Chairman
Ajay S. Bhagwat	Director
Anand Khandekar	Director
Dr. Naushad Forbes	Director
Shailesh V. Haribhakti	Director
Sudheer Tilloo	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 S. Bhagwat	Member

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Management Team

Marketing

Sachin Tikekar	Chief Operating Officer – KPIT US
Myles O'Connor	Director of Projects & Services – KPIT UK
Pankaj Sathe	Head – Business Development – 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
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

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KPIT INFOSYSTEMS LIMITED

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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.	Corporate Governance	9
6.	Directors' Report	13
7.	Auditor's Report	17
8.	Balance Sheet	19
9.	Profit & Loss Account	20
10.	Schedules forming part of Balance Sheet (I to IX)	21
11.	Schedules forming part of Profit & Loss Account (X to XIII)	26
12.	Notes to Accounts (XIV)	28
13.	Cash Flow Statement	33
14.	Auditor's Certificate on Cash Flow Statement	34
15.	Shareholders' Information	34
16.	Human Resources Accounting	36
17.	Section 212 Statement	37
18.	KPIT Infosystems Limited. UK	1-9
19.	KPIT Infosystems Inc. USA	1-5
20.	KPIT Systems L. L. C.	1-5

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KPIT INFOSYSTEMS LIMITED

Financial Performance At A Glance

Particulars	2000-2001 (9 Months) USD Million	2000-2001 (9 Months) Rs. Million	1999-2000 USD Million	1999-2000 Rs. Million	1998-1999 USD Million	1998-1999 Rs. Million
Statement of Profit & Loss Account						
Sales & Income	8.62	392.11	7.45	321.74	5.75	250.62
Total Expenses	7.39	336.08	7.00	302.34	4.67	203.71
Profit before Interest & Depreciation	1.23	56.03	0.45	19.40	1.08	46.91
Interest & Financial Charges	0.27	12.40	0.24	10.38	0.07	2.98
Depreciation	0.21	9.40	0.28	11.92	0.24	10.29
Profit / (Loss) before Tax	0.75	34.23	(0.07)	(2.90)	0.77	33.64
Provision for Tax	—	0.03	0.01	0.53	—	—
Prior Year Taxes	—	—	0.12	5.12	—	—
Profit / (Loss) after Tax	0.75	34.20	(0.20)	(8.55)	0.77	33.64
Expenses relating to earlier year	0.00	0.10	—	—	—	—
Profit Available for Appropriation	**0.75**	**34.10**	**(0.20)**	**(8.55)**	**0.77**	**33.64**
Appropriations						
Dividend	0.09	3.87	—	—	0.14	6.28
Corporate Dividend Tax	0.01	0.39	—	—	0.02	0.69
Transfer to General Reserve	—	—	—	—	0.04	1.72
Balance carried to Balance Sheet	0.65	29.84	(0.20)	(8.55)	0.57	24.95
Sources & Application of Funds						
Sources of Funds						
Share Capital	1.11	51.64	1.16	51.64	1.18	51.60
Reserves & Surplus	3.91	181.56	3.41	151.71	3.67	159.96
Shareholders' Funds	5.02	233.20	4.57	203.35	4.85	211.56
Secured Loans	1.33	61.69	0.89	39.90	0.86	37.55
Total	**6.35**	**294.89**	**5.46**	**243.25**	**5.71**	**249.11**
Application of Funds						
Net Fixed Assets	1.68	77.90	1.85	82.35	1.96	85.51
Investments	1.73	80.37	0.68	30.38	0.46	20.17
Net Current Assets	2.94	136.62	2.93	130.52	3.29	143.43
Total	**6.35**	**294.89**	**5.46**	**243.25**	**5.71**	**249.11**

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Chairman's Letter

Dear Fellow Shareholders,

I am glad to present to you the Annual Report of your Company for the year ended 31st March, 2001 which was a nine-month year.

In my last letter to you for the year 1999-2000, I had explained why we had a bad year and I had also expressed confidence that the next year would be a good year.

I am glad to inform you that the year 2000 2001 was indeed a turnaround year. During the nine months ended 31st March 2001, we achieved gross revenues of Rs.392 million against revenues of Rs.321 million for the earlier year. This represents a growth of 62% on an annualized basis as against the industry growth of 55%. The net profit for the year was Rs.34.20 million as opposed to the loss of Rs.8.55 million in the earlier year.



During the year, the subsidiary performance also improved reflecting an increase in the level of operation of subsidiaries. Although the subsidiaries have not yet reached breakeven level of operations, during the year, on a consolidated basis, the Company made a profit of Rs.15.5 million.

The improvement in the performance during the year was a result of many factors. During this year, we achieved a better spread in our customer mix. We also spread our operations more evenly across various geographies. We added new customers. We improved our delivery performance. We also improved our focus on key industries and technologies. Our productivity went up. We were able to control our cost. All these actions helped us to achieve better performance.

Over the last six months, the IT industry has changed substantially. The US economy, which has been the driving force behind the Indian software industry, has seen a marked slowdown. The US capital markets have lost their vigor and the capital investments in technology sectors have significantly come down. This has further reduced the revenues of the IT industry. Being highly dependent on the US market, the Indian IT services industry had to bear the impact of this slowdown. The revenue as well as the profitability of the industry has suffered. The Indian stock market as a whole and the technology sector in particular has suffered even more. The scam in the Indian stock market has further hurt the market sentiments. All this has given rise to questions relating to the future of the Indian IT industry.

The questions that are asked are what is going to be the future of the global IT industry? And what is going to happen to the Indian IT industry? I would like to address these questions and a very natural third question about what is going to happen to KPIT.

The Global IT industry

The pace of technology growth has quickened in the recent past. Technology is impacting our daily lives, as it has never done before. There is no sign of that pace slowing down. I believe that five technology trends will pervade the globe and each one of them presents a significant opportunity for the IT industry.

1. Intelligent environment - While machines are intimately connected with all facets of our lives, the machines that we use today are largely "dumb". They cannot interact with each other and they can hardly take any decisions on their own even on the basis of predetermined rules, e.g. our car cannot see an impending vehicle and slow down. It cannot see the traffic light and stop, nor can it see a low-speed zone and automatically slowdown. In the next decade, many of the machines that are around us will become "intelligent". Our car, refrigerator, airconditioners, washing machines, televisions, microwave ovens, home etc. would soon have computers inside them which will help them not only to communicate with each other, but also take some predefined actions on the basis of automated sensors. Each of these

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equipments would have chips and the chips will have embedded software. Embedded software will create significant demand for the IT industry.

2. Intelligence enterprise - Information Systems already in use have given business enterprises access to huge amounts of data on their products, customers, employees, visitors to their website etc. This wealth of data needs to be analyzed, digested and acted upon. All this calls for use of Business Intelligence solutions. These solutions help companies understand their data better. Such solutions are critical for companies in their increasingly competitive environment. The need and the scope for Business Intelligence software is set to explode in the years to come.

3. Ubiquitous internet - While the dotcom wave has subsided, the use of internet in businesses and at homes has grown very rapidly. Businesses are using internet within their organisation as well as across the value chain of suppliers and customers to increase value, reduce costs and save time. Domestic consumers are using internet for written communications, internet telephony, entertainment, commerce as well as e-governance. This has fuelled the demand for internet related software. Internet software would continue to present a major opportunity in the decades to come.

4. Information anytime anywhere - Convergence of computers and communications is providing extraordinary mobility to people. One can be anywhere in the world and still be connected with each other as well as with the internet. The penetration of mobile technologies is increasing globally. Mobile telephone will generate many mobile commercial applications. This provides opportunities for the IT industry.

5. Bio informatics - Decoding of genes in plants as well as animals and human beings has unlocked vast amounts of valuable information. Much needs to be done to make sense out of this wealth of data. Data can be used for genetic engineering of plants, animals and human beings. Data can be used not only to come out with more resistant and more productive crops but also to understand human illnesses and design of proper drugs. We have barely begun this journey.

All these trends spell growth opportunities for IT services. If one looks at these global trends, there can be no doubt in one's mind that the current slowdown in global IT spend is indeed temporary.

The Indian IT industry

Unlike many other industries, the Indian IT industry is global by nature. It deals with information, which can be easily transferred through wires. Geographic separation is not a great disadvantage. The cost of transport is minimal. The time taken for transport is almost zero. The opportunities are therefore global. The Indian industry has earned name for itself for its quality, timeliness and cost. According to IDC, the Indian industry today provides 80% of the global outsourced offshore services. The Indian industry has been globally competitive and therefore it is most likely that the Indian industry will flourish in the years to come. The Indian IT industry will grow as the global demand for IT services grows.

I would now like to turn to the question of how do we see the future of KPIT.

We at KPIT are defining our actions on the basis of our long-term vision and short-term requirements. Let me share with you the actions that we have taken and the actions that we have planned. We believe that although there are many opportunities in all the areas, we obviously cannot build strengths in all the areas. We therefore need to focus on a given skill set. Over the last six months, we have spent efforts internally to identify our focus areas and to align our efforts with these areas. The focus areas also reflect the experience and client set that we now have. We are particularly focussing on the areas of Embedded software, datawarehouse / datamining and application integration and maintenance. These areas cover m-commerce, e-commerce and control automation. Aligned with the application focus is the focus on industry domain. We have been largely working with the banking and finance companies, hi-tech manufacturing companies, consumer product companies and software product companies. We have aligned our people from marketing, operations and technology development in order to focus on these opportunities. We are taking care to derisk our operations by spreading across geographies and across individual clients. We are also focussing on customer

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penetration through better performance on quality and delivery as well as through concerted and planned customer interaction. Finally we are also taking care to make sure that we have a lean cost structure.

The results of the first quarter of the year 2001-2002 have shown a marginal growth in revenues (Rs.112.00 million) and net profits (Rs.3.97 million) as compared with the same quarter last year(revenues Rs.84.01 million and net profits Rs.3.85 million) However, there is infact a decline from the previous quarter when we did Rs.143.03 million in revenues and Rs.8.92 million in profits. The reduction in revenues is largely on account of reduction in onsite services, which have had a direct bearing of the overall IT spent. We see many of our customers shifting from the onsite model to offshore model. This is good for us as well as the customer although in the short term this adversely affects us due to reduction in gross revenues. We expect that by the end of the first quarter of 2002, we will be back on the growth path.

Warm regards,

S.B.(Ravi) Pandit

Chairman

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Managing Director's Letter



Dear Shareholder,

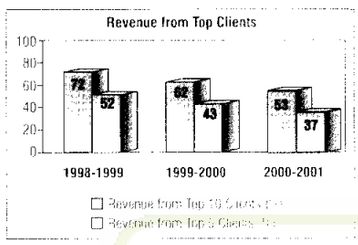
I am happy to report your Company's performance for the year 2000 - 2001. This year was indeed a turnaround year. The Company returned to profitability and reported a growth rate of 62% on an annualised basis in gross revenues. During the year, the Company continued to lay emphasis on the following key areas

- Strengthening the customer base and increasing its ability to penetrate deeper within existing key customers.
- Improving operational and organisational efficiencies.
- Building a stronger and more versatile work force.
- Working out a competitive strategy in the current challenging economic conditions.

I give below the details of the steps we have taken along with the results that bear out the fruits of our efforts.

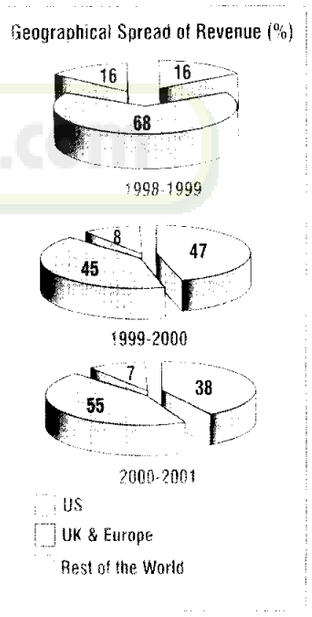
Customer and Market Profile

Your Company has reclassified its customers according to their potential to do repeat business with the Company. During the year, we focussed on acquiring and developing customers that have the potential to provide continued revenues upwards of USD 500,000 annually. Such customers contributed 67% of revenue in the financial period 2000-01, which is up from 49% in 1999-2000. The number of such customers also increased from 15 in 1999-2000 to 24 in 2000-01. The improved quality of the customer base is also reflected in the fact that such customers comprise 13 slots in the Company's top 15 customers by revenue in 2000-01, up from 8 in 1999-2000.



The wider key customer base has also helped your Company to de-risk its portfolio of revenues. Your Company has continued to reduce its dependence on a few customers. Revenue from the Company's top 5 and top 10 customers has come down to 37% and 53% respectively in 2000-01 from 43% and 62% in 1999-2000 (see chart). The Company's largest customer continues to contribute less than 15% of revenue.

The slowdown in the US has definitely affected our business projections. Your Company has maintained a geographically diverse portfolio of clients and revenues. As can be seen from the charts alongside, more than half the revenues have consistently come from outside the USA.



The Company has maintained the industry profile of its revenues. Your Company has decided to focus on developing competencies for the three verticals of Financial Services, IT and Software companies, and Manufacturing including Hi-tech Manufacturing, which it has experience of servicing over the last few years.

KPIT carries out an annual Customer Satisfaction Survey. This year has shown a marked improvement in the satisfaction levels of its customers, especially in the areas related to the companies' capability to deliver solutions globally on time. This confidence in your Company by its customers has led to better penetration levels by KPIT within existing customers. Repeat revenues in 2000-01 from key customers increased by 93% on an annualised basis over the levels in 1999-2000.

Operational and Organisational Efficiencies

KPIT has been an ISO 9000 certified company since 1997. In September 2000, KPIT successfully underwent a re-certification audit by KPMG-QR. The process-based approach to software development has become institutionalised in KPIT.

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In August 2001, the Company also undertook an assessment under the Capability Maturity Model of the Software Engineering Institute at Carnegie Mellon University, USA - SEI CMM. I am proud to announce to you that your Company was assessed to be operating at Level 4. This places your Company among the select ranks of less than 100 companies worldwide that are considered high maturity organisations. This should add an edge to the Company's competitiveness in the marketplace, especially in the USA, giving your Company better access to large clients. But, above all, managing and improving these processes will contribute immensely to organisational efficiencies and delivery performance.

Over the past two years, KPIT has steadily increased its revenues per employee. Annual gross revenues per employee have gone up from Rs. 9.6 lakhs in 1998-99 to Rs. 15.2 lakhs in 2000-01 on an annualised basis. This 60% improvement could be attributed to multiple factors, prime amongst which are better utilisation levels as well as increased employee productivity.

On the Expenses side also, your company has been successful in improving efficiencies. We have achieved better management of Accounts Receivables, which were brought down to an equivalent of 86 days of sales by March 2001, whereas they stood at a steep 131 days in June 2000. Software development related expenses were also brought down from 61% of gross sales in 1999-2000 to 54% of gross sales in 2000-01.

I do acknowledge that your Company is still not as profitable as some other companies in the industry. This is the result of high marketing and infrastructure costs. Such costs will need to be apportioned over a much larger revenue base before the Company achieves higher profitability. Of course we are making every effort to increase the profitability margins every year.

Employees

Your Company continues to lay stress on the improvement of its employee base. The Company's productivity has seen a dramatic increase in the past two years. This has been achieved through an improved experience profile as well as better utilisation levels. The average experience of the Company's software development staff has risen from 4.52 years in 1999-2000 to 5.15 years in 2000-01. KPIT has managed its utilisation levels well through a combination of multi-skilling, re-skilling and selective recruitment. The average experience of a new recruit into KPIT has risen steadily from 3.31 years in 1998-99 to 3.94 years in 2000-01.

Understanding the intrinsic employee need for growth, KPIT has devised a system of employee vocations. Each employee will belong to a vocation and will contribute to the development of the vocation. Each vocation is headed by a vocation Head, who is responsible for coordinating the building of competencies within the vocation according to a vocation development plan. We believe that the development of competencies within the vocations will sharpen the competitive edge of the Company as well as provide a viable career and growth option for each of our individual employees.

Employee well-being and satisfaction is a key contributor to retaining competitiveness in a people-intensive industry. KPIT has set up a separate Employee Care function with a dedicated Employee Care Executive and a nominated Employee Care Council. These functions act as two-way communication media between the management and employees as well as a self-implementation mechanism for solving issues related to employee care and satisfaction.

Business Strategy

The marketplace is becoming more challenging and competitive. The Company has demonstrated its ability to penetrate deeper into its existing customers by providing continued value and satisfaction. This will continue to be an important component of the Company's strategy and will provide a bulk of the growth in the coming year.

Your Company has been working on a knowledge-based approach to acquiring, retaining and growing within customers. Based on an internal exercise spanning three months, the Company has defined key technologies and competencies that will be developed as key differentiators. These will become the engines of future growth for the Company. The competencies identified are

- Data Warehousing and Business Intelligence
- Embedded and Real-Time Systems
- Application Integration

I can assure you that all the KPites are well geared to manage this business transition.

Kishor Patil
Managing Director

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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, 51, 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, 39, 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 18 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 issues like planning and executing business, reviewing and guiding the country offices, delivery units and support functions and ensuring efficient and effective functioning of the organisation as a whole.

Director Technology

Mr. Shrikrishna Patwardhan, 40, is an M-Tech from IIT Mumbai having 15 years of experience in system analysis and design as well as software development. He started 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 I.T. Services Group.

Directors

Mr. Ajay Bhagwat, 38, is a B.Tech (Electrical) from IIT Mumbai and an MS in Electrical and Computer Engineering from the University of Lowa, USA. He has worked in the Process Automation Industry in the US and has over 13 years of experience in the microprocessor based hardware and software solutions. Mr. Bhagwat is the member of the share transfer committee of the Company.

Mr. Anand Khandekar, 61, is 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 Mahratta Chamber of Commerce and Industries during 1996-99. Mr. Khandekar is the member of the compensation committee of the Company.

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