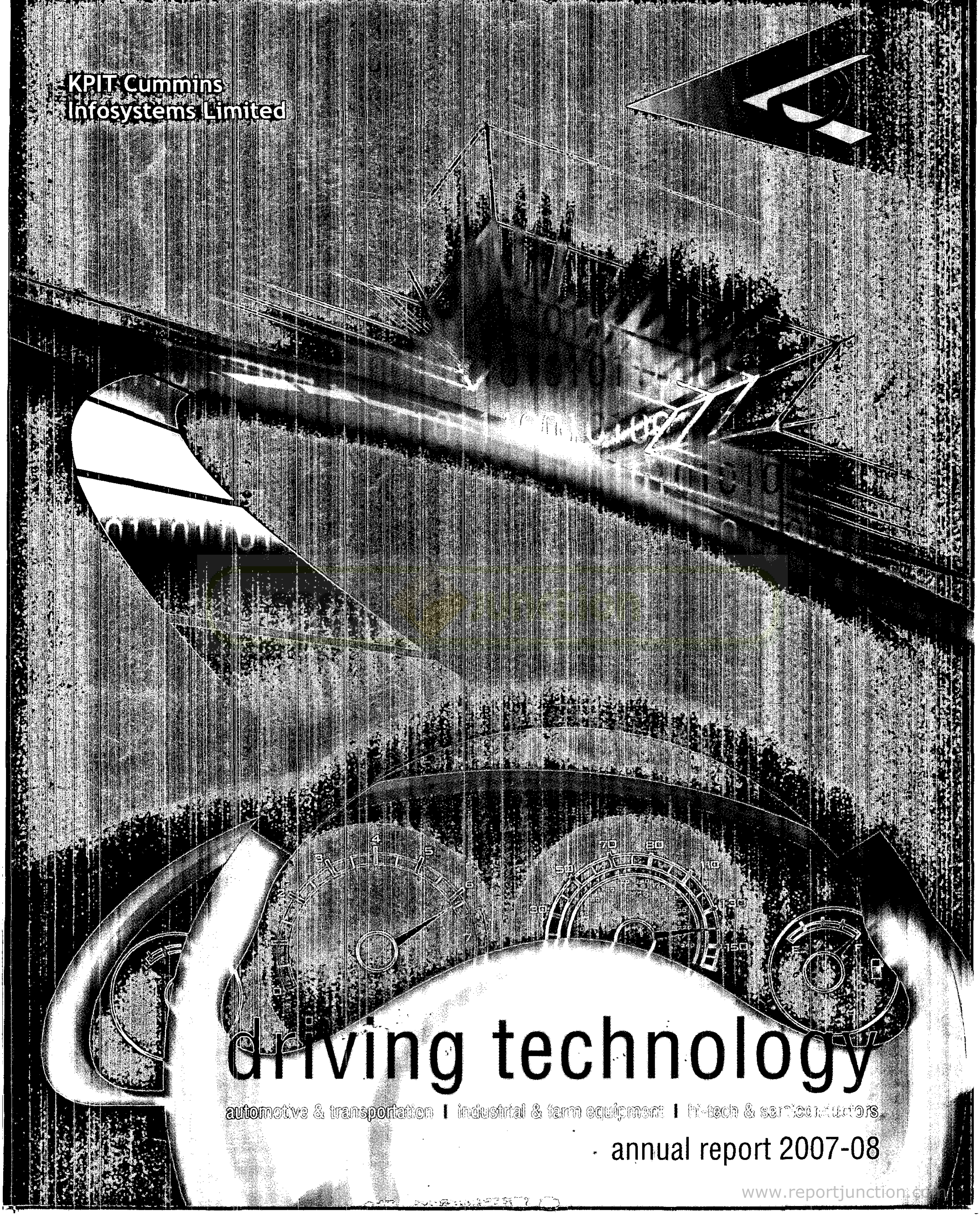
KPIT Cummins
Infosystems Limited



driving technology

automotive & transportation | industrial & farm equipment | hi-tech & semiconductors

annual report 2007-08

Vision

To be a global partner of first choice for our customers with leadership in select areas.

Board of Directors

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

Ajay Bhagwat
Director
(Resigned with effect from May 30, 2008)

Amit Kalyani
Director

Anant Talaulicar
Director

Deepak Malik
Director

Gail Farnsley
Director
(Resigned with effect from February 29, 2008)

K.V. Krishnamurthy
Director
(Appointed with effect from May 30, 2008)

Lila Poonawalla
Director
(Appointed with effect from May 30, 2008)

Dr. R.A. Mashelkar
Director
(Appointed with effect from May 30, 2008)

Dr. Srikant Datar
Director

Steve Spaulding
Director

Sudheer Tilloo
Director

Dr. Vijay Kelkar
Director
(Resigned with effect from December 31, 2007)

Floyd Rutan
Alternate Director
(Vacated with effect from February 29, 2008)

Mark Gerstle
Alternate Director
(Appointed with effect from October 17, 2007)

Ron Lannan
Alternate Director

Steven Chapman
Alternate Director
(Resigned with effect from October 17, 2007)

Shrikrishna Patwardhan
Director Technology
(Resigned with effect from May 30, 2008)

Girish Wardadkar
President and Executive Director

Kishor Patil
CEO and Managing Director

Auditors

Deloitte Haskins & Sells
Chartered Accountants
706, " B" wing, 7th Floor,
ICC Trade Tower,
International Convention Centre,
Senapati Bapat Road, Pune - 411 016

Financial Institutions

ABN Amro Bank N.V.
Citi Bank NA
HDFC Bank Ltd.
International Finance Corporation, Washington
State Bank of India
The Hong Kong and Shangai Banking Corp. Ltd.

Contents

From the Chairman and Managing Director

Dear Fellow Shareholders,

Last year was a challenging year. Indian Rupee appreciated by almost 11% to 12% against the USD. For a company such as ours which has over 95% of revenues in foreign currency and a significant portion of the costs in Indian Rupees, this has been a trying time. Despite the challenges, we were able to increase our revenues and profits. For the financial year 2007-08 (FY08), our total consolidated revenues in USD terms were $145.24 Million, a growth of 41.67% over the previous fiscal. In terms of Indian Rupees, our total consolidated revenues were Rs.6005.46 Million, a growth of 29.51% over the previous year. Our growth in revenues was one of the best in the industry. At the EBITDA (Earnings Before Interest Taxes Depreciation & Amortization) level too, our company showed a 30.39% growth - again one of the best in the industry. Our Net Profit for FY08, however, grew by a modest 1.6% to Rs.512.82 Million, primarily on account of our costs related to facilities which remained underutilized during the year.

We took the prevailing business environment as an opportunity to improve our long-term productivity and our positioning in our business verticals. We sharpened our focus on customers and aligned our front-end structure to our customer verticals. We redefined our account management plan process. We also renegotiated several of our customer contracts. We focused on upgrading our offerings for our customers and creating a differentiating factor in each of our Lines of Business (LOB). We invested time and money in training and development of our employees, in building technical skills and soft skills and in grooming people to take on positions of greater responsibility. We also took some specific measures to alleviate the impact of currency movement, such as bringing about change in our onsite-offshore composition, increasing the percentage of fresher in our new recruits and shortening the time to bill. We built a framework for operations control and made it robust.

IT industry in India is evolving into two main segments - scale players and niche players. Scale player offer a wide range of services to customers in a wide range of industries while the niche players either focus on one or two industries or one or two service areas. We are a niche player in the manufacturing vertical and within manufacturing our focus is on three cognate subverticals - (i) automotive and transportation, (ii) industrial and farm equipment, and (iii) high-tech and semiconductors. There is significant growth opportunity in these industries and there is room for a number of players. We are working towards becoming a full service provider to these industries and becoming a partner of first choice for customers in these industries. To be able to do this, we are developing unique skills and creating strategic value propositions relevant to these industries. We are also streamlining our marketing efforts for these industries. We believe these initiatives will bring about long-term sustainability and growth for our Company.

In the automotive industry, we already have a leadership position in some areas. In this industry, our position continued to grow from strength to strength during the year. Our customer base in this industry includes 13 automotive OEMs and 30 Tier I vendors to the automotive industry. We are also Premium Member and Member respectively at Autosar and Jaspar - two major industry platforms. We have been certified Automotive SPICE™ Maturity Level 5. Overall, from the perspective of quality of customers, affiliation with the relevant industry organizations, process certifications and also from technological development perspective, we are very well positioned vis-à-vis the competition. We are building on these strengths for the automotive industry and at the same time extending the same expertise to other cognate industries mentioned above.

During the year, our Company won several awards and recognitions. Our company won the Golden Peacock Award for Excellence in Corporate Governance, awarded by the World Council for Corporate Governance & Institute of Directors (UK & Delhi). Closer home, our Company was listed in the Top 25 Companies - the second time in a row - nominated for the ICSI National Award for Excellence in Corporate Governance 2007 conferred by The Institute of Company Secretaries of India. In August 2007 issue of Business Today, we were ranked among "India's most Investor Friendly Companies" in a survey conducted by Business Today. We ranked in the Top 10 amongst 20 companies across sectors and at the top amongst technology companies.

We had some changes in our Board of Directors during the year. Dr. Vijay Kelkar, Ms. Gail Farnsley, Mr. Floyd Rutan, Mr. Steven Chapman, Mr. Shrikrishna Patwardhan and Mr. Ajay Bhagwat resigned from the Board. On behalf of the Company and on our personal behalf, we would like to express our gratitude for their extremely valuable contribution to our Company. We also had some extremely eminent personalities such as Padmabhushan Dr. R. A. Mashelkar, Padmashree Ms. Lila Poonawala, Mr. K.V. Krishnamurthy and Mr. Mark Gerstle join our Board of Directors. We welcome Dr. Mashelkar, Ms. Poonawala, Mr. Krishnamurthy and Mr. Gerstle on our Board and with the invaluable experience and expertise of our renewed Board, we look forward to an exciting time ahead for our Company.

We have entered a new age and are seeing a new paradigm. We have new challenges, but we also have far more exciting new opportunities. We are ready for the future.

We look forward to your valued partnership and your continued trust in us.

Warm Regards,
Sincerely yours,

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

Kishor Patil
CEO and Managing Director

From the President and Executive Director

Dear Shareholders,

Fiscal year 2007-08 experienced changing business environment! Whether it was the US economy slow down, or currency fluctuation, or oil prices zoom, or increasing inflation, or the mortgage crisis - all of these have affected our customers business. Therefore their plans and expectations from IT service providers have also changed.

Despite these challenges I am happy to report that your Company has posted a healthy growth in revenues to Rs. 6005.46 Million and our net profit to Rs 512.82 Million. More importantly, we were able to maintain our gross margin and EBITDA margin. Our net profit margin however, suffered the impact of the adverse movement of currency, of underutilized facilities, and of non-cash expenses.

The changing business landscape provides us with the opportunity to revisit our strategies. We have therefore decided to focus on the following:

1. Reorganise our 'Go-To-Market' by 'Industry Segment' namely Transportation (Incl Automobile), Industrial and Farm equipment, High Tech including Semiconductor industries and Diversified Financial Services. We will focus on customers in these segments globally and serve the CIO for IT, CTO for engineering and CFO for the BPO/KPO needs.
2. Leadership will be the Mantra. We will build leadership in the Transportation segment, especially in electronics, embedded software and mechanical engineering services and products.
3. Practices and Center of Excellence in 'Oracle Apps & SAP', the two key global ERP systems.
4. Excel in Business Intelligence and Finance and Accounting as offerings to these segments, and
5. Align our business processes to deliver with efficiency and value add to customers by leveraging SIX SIGMA and making 'Quality & Productivity' as the distinguishing factor.

- **Customer-centricity**

  Our customer centric initiatives focused on expanding our customer base, broad basing our revenue stream, renegotiating old contracts on new and favourable terms, and expanding and strengthening our offerings.

  On an average we were able to get an increase of about 12% to 15% in our billing rates. The new rates, effective from this calendar year, will go a long way in helping us work towards our profitability. The new rates are also a reassurance of increasing relevance of our services to our customers and our expertise in the relevant domains.

  Our active customer base grew from 90 at the end of the previous year to 111 at the end of March'08. We have added customers in all our Lines of Businesses. At the end of the year, we had 25 Star customers, as compared to 17 at the end of previous year.

  Another significant aspect to report - During FY08, Cummins continued to be the largest customer accounting for 39% of revenues. Non-Cummins star customers, on the other hand, constituted 42% of revenues. In terms of growth too, while Cummins' revenues grew by 25% over the previous year, revenues from non-Cummins customers, grew faster, by 35% over the previous year. During FY08, our top 10 customers constituted 70% of the total revenues compared to 75% in the previous year. We believe that this is a healthy trend which will bring us revenues from a broader base of customers in future.

  We strengthened our finance and accounting BPO business and our relationship with our top customer by acquiring the F&A services from Cummins. We have already begun to migrate work from a few geographic areas to our Company, and our initial experience has been satisfactory. Once stabilized, we expect to extend this service to other customers too. Over a period of five years, we expect to generate a cumulative amount of US$ 80 Million in revenues.

- **Technology and Offerings:**

  Building on our capabilities in the automotive domain, we became the first and so far the only Indian company to be invited to become a member of JASPAR (Japan Automotive Software Platform & Architecture) consortium. We are already Premier Member of the Autosar. During the year, we also became the second company in the world to achieve the Automotive SPICE™ (Software Process Improvement and Capability Determination) Level 5 Certification - for our stringent quality systems and capability to develop critical automotive grade embedded software systems and components.

  CREST (Centre for Research in Engineering Science and Technology), which we set up in FY07, is our main vehicle for advancement in technology. We have made considerable progress on this front. The CREST team has not only developed our technology roadmap for the future, but also developed relationships with universities to execute specific projects with the help of post-graduate and PhD students to enhance our offerings and to know the current developments in various technologies. Monthly technical seminars organized by CREST are very widely attended. A quarterly technical journal titles "TechTalk@KPITCummins" was launched during the year.

  I am happy to report filing of three patents - first time for KPIT Cummins - through our CREST function during the year. This is our attempt towards using technology for innovation and for gaining leadership.

  We have also widened our offerings base. Some of the initiatives from CREST have led to new offerings. Moreover some of the traditional offerings are also creating new go-to-market strategy. For example, recently we partnered with SAP to develop joint go-to-market strategy for the automotive industry. We are engaged in implementation of some of the latest versions of the ERPs such as Oracle 11i, at some of our customers.

- **Employee-centricity**

  Our focus on training and development of our employees continues to deliver highly skilled, motivated and passionate teams to lead and support our future growth initiatives.

  We strengthened our middle management team by adding 55 people at the general management level. Our sales organization was also strengthened by adding 8 new people. Many of these people are experienced professionals who bring considerable amount of experience from some of the leading companies in the industry. Total employee strength increased by 1225 to reach 4481 at the end of the year. Towards maintaining our People Pyramid, 44% of the new recruits were trainees.

  We also renewed our focus on training and development of our employees. The new employees are taken through "Arambh" - an initiative which provides an orientation to KPIT Cummins, creates an awareness of the business, culture, values of KPIT Cummins. In addition, for the existing employees, regular training programs are conducted with the help of internal and external faculty. One such program called "Management Development Program (Grooming Excellence in Management)" has been for the middle management teams. There are other programs which provide soft skills training and customized trainings.

Learning Organization - a group which focuses on training and development needs of our employees ensures that skill development is a continuous process rather than a discrete project.

We also tied up with other agencies and educational institutions to create focused training programs. During the year, the Learning Organization, along with the CSI (Computer Society of India) conducted two training sessions. We also initiated a tie-up with BITS-Pilani to offer Masters in Microelectronics (VLSI). The first batch of 5 of our ATS-SSG employees have enrolled in the program for an off-campus, work-integrated learning program that will be conducted in Bangalore for two years.

- **Profitability**

In addition to the aforementioned initiatives, we have taken the following specific initiatives to improve profitability:

The Operations Controllers focus on profitability parameters such as utilization, people pyramid in project teams, rotation of engineers, resourcing and recruitment control, deployment of trainees etc. the monitoring rigor is brought about through Multilevel Reviews.

Specific attention is being paid to improvement of utilization. Substantial improvement in utilisation levels was achieved in FY08. We also made some attempt at bringing down the time-to-billability for our freshers. We still have to do some work in this area during the current year.

Another area of focus is management of invoices and receivables. On one hand we focused on timely completion of our invoicing activity, on the other hand, we tried to speed up our recovery of receivable amount through "cash calls". In this area too, we need to do some more work in the coming year.

In addition to the specific programs, we continued with our regular programs such as SIX SIGMA, ATLAS (an e-learning course for Project Managers) etc. All these initiatives will, of course, continue in the future too.

- **Infrastructure**

During the year, we added another facility in Bangalore to keep up with demand on space in line with our growth, it has a capacity of 365 people. This facility is a temporary arrangement until the new 200,000 sq.ft. SEZ facility in Bangalore is fully ready for occupation.

Work on Customer Focus Center - the third building in our Hinjawadi premises - has commenced. This is expected to be completed by end of this year.

The year ahead:

We will focus on 'Leadership' and 'Innovation'. For us Leadership is about bring in Thought leadership, associating with Industry leaders, gaining market share in customer engagements and not only work on the 'Cost reduction' side of the equation, but also the 'Revenue Enhancement' side of our customers. Innovation is about 'Doing right things the right way', focus on 'Value Delivered', leveraging technology and upskilling our people and bring 'Best Practices' to bear in each of our customer engagements.

Our priorities for FY09 are:

1. **Customer Satisfaction:** Zero defect delivery, On time delivery and at targeted costs.
2. **Growth:** Focus on the Industry segments namely, Transportation, Industrial and farm equipment, High-tech including Semiconductor industries and Diversified financial services.
3. **Productivity:** Leverage SIX SIGMA, become metrics oriented and align business processes to our strategy.
4. **Profitability:** Get better price realizations, higher utilization of engineering resources, lower support costs.

For the current year, FY09, we are focusing on making these initiatives more robust, so that we can meet our targeted revenue and profit growth figures. Despite the challenges, we feel confident that we will continue to grow our business and our leadership position in our chosen areas of focus.

Warm Regards,
Sincerely yours,

Girish Wardadkar
President & Executive Director

Management discussion and analysis

A. About the Indian IT Industry

a) Size

In FY08, Indian software industry is estimated to have generated US$ 52 Billion in revenue.

Global IT services' spending is likely to reach around US$ 893 Billion by 2010 (IT outsourcing - US$ 298 Billion, Business Process Outsourcing - US$ 212 Billion and In-house services - US$ 383 Billion) as estimated by Gartner. In house IT spending accounted for about 45% of this, with the outsourced component taking the larger/remaining share.

North America and Western Europe continue to dominate, with a 75% share of global IT services outlay. Asia Pacific to contribute almost 18% of the outlay (out of which Japan is at 12%).

In terms of industries, BFSI, manufacturing and telecoms, account for over 50% of global IT services spending. The government segment forms around 19% of global IT services spending. This is not an easily addressable market for Indian IT vendors given several regulatory and political issues.

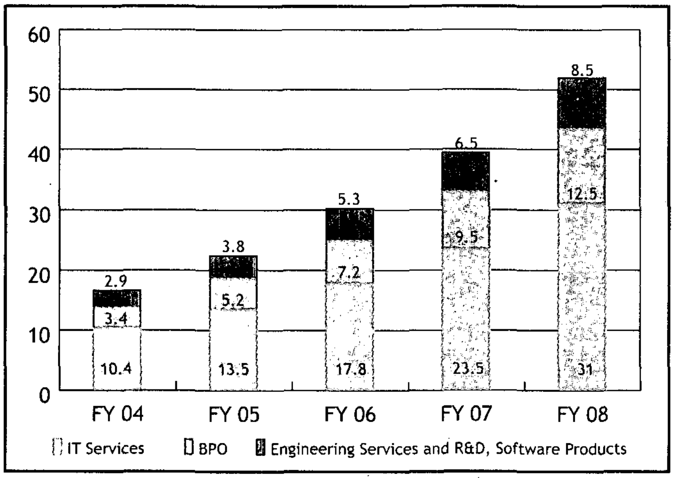
The total software and services exports by Indian vendors target for 2010 is US$ 72 Billion. The size and scope of the opportunity for Indian IT-BPO are significantly larger. Worldwide technology products and related services sector spends are estimated to have grown at 7.3% to nearly reach US$ 1.7 Trillion in 2007.

The Indian IT industry is going through a tough time since the start of 2007. Issues like violent fluctuation of US Dollar against Indian Rupee, slowing down of various economies, crisis in the financial services companies in the US needs to be addressed.

According to estimates of NASSCOM (National Association of Software and Service Companies), total revenues from software and services during FY08 were US$ 52.0 Billion, an increase of 31.64% over total revenues of US$ 39.5 Billion in FY07. IT services, which constitute nearly 59.6% of the software and services revenues recorded a growth of 31.9% over the previous year. Growth in the ITES-BPO segment is estimated to be higher at 31.6% over FY07. Nearly 87% of the revenues come from export of software and services.

The industry expects to generate export revenues of US$ 72 Billion by 2010. By 2010, the direct employment in the industry is expected to be over 2 Million people.

Size of the Industry:



In US$ Billion
Source: NASSCOM

b) Structure

The software and services industry is broadly classified into 3 segments in-terms of the services offered:

i. **IT services:** This segment constitutes approximately 60% of the software industry and has grown by 32% over the previous year. IT Services has shown highest growth rate among the three segments.

ii. **ITES-BPO services:** This segment constitutes 24% of the software industry and has recorded a 32% growth over the previous year. This segment is also one of the highest growth segment for the IT vendors.

iii. **Engineering Services and R&D, Software products:** This segment forms 16% of the software industry and has grown by 31% in FY08 over the previous year.

The industry can also be classified as follows:

1. Scale Players: Typically Tier I vendors who are over a US$ Billion of revenue; and
2. Niche Players: Those who are niche in their own verticals/services.

c) Major Trends:

Some major trends in the IT industry in the recent past have been the following:-

- **Larger deals becoming small thing:** Larger deals are becoming a trend in the IT Industry and driving up the average size of the contracts awarded to the Indian IT vendors.
- **New locations as delivery centers:** Increasing globalization of delivery models is becoming a trend in the industry. As global delivery matures, newer locations like Eastern Europe, China are emerging; however, given its large labour pool, India is expected to remain the undisputed leader.
- **Increasing prominence on integrated solutions:** Major suppliers are leveraging integrated, cross-functional offerings to captivate and expand their installed base-addressing customers' focus on having complete solutions rather than just improving individual functional capabilities.
- **Competitors pushing for more standardization:** Small and midsized suppliers are pressuring the largest software suite developers to further standardize to enable vendors to better meet customer demands.
- **Market segmentation:** The market is segmented between scale players and niche players. Many small scale players now see their main opportunity as niche players and are increasing their investment in innovation.
- **Industry consolidation:** Large application suppliers attempt to expand their customer base by acquiring focused software providers. The industry will therefore be under accelerating pressure to consolidate while keeping costs of innovation down.

d) Opportunities and Threats

NASSCOM estimates that the Indian IT industry will generate US$ 72 Billion in export revenue by the year 2010.

On an overall basis, IT spend has been growing. IT spending historically used to be predominantly US and Europe centric. Now other countries like Japan, and other geographies have started contributing to the growth. This is surely an opportunity for the Indian software vendors.

India continues to be a favourite destination for software IT outsourcing due to large pool of talent base at very low cost. India continues to have very strong high skilled labour which is critical for the industry. There is a large pool of highly skilled base available in Tier-II cities in India which has become a target for the IT companies to set up shop.

The Indian software industry has started facing competition from other markets such as Eastern Europe and other countries in the Asia Pacific region.

To maintain the success story of the Indian IT, it is imperative for the Indian IT industry to continue to invest in people, processes and also ensure that the cost is kept at the minimum level, which is becoming a concern for the Indian IT industry.

e) Critical success factors in the industry

The following are the critical success factors for our industry:

- **Partnering with Customers:** In the current environment when the customers have a wide range of vendors to choose from, partnership with customers is becoming increasingly important. Partnership with customers will lead to understanding the business of the customer and the value proposition which is suitable for the customer.
- **Development of Business Leadership:** While India continued to provide a large pool of talent, ability of companies to choose the right talent and to groom them to take on higher responsibilities is challenging. Companies investing in training and development of their employees are therefore creating sustainable competitive advantage for themselves.
- **Institutionalizing world-class practices:** To grow well above the industry growth rate, it is imperative that the industry adapt world-class practices. It also involves using processes to continuously improve the delivery process capabilities. Ultimately, these practices should lead to better cost, quality, speed and flexibility, productivity, innovation and risk management.

  KPIT Cummins Preparedness

  We couldn't agree more. At KPIT Cummins too, we have adopted a similar growth model. We have been able to adopt some of the best practices in the world. This has been possible with the help of some of the people at the second layer of management who come from global organizations and also through proactive participation with the industry and through continuous internal reviews. We have invested significantly, and we continue to invest, in leadership development. Our partnership with Cummins is a strong example of customer partnership. Our Star customer model has been built on the partnership model.

B. About KPIT Cummins Infosystems

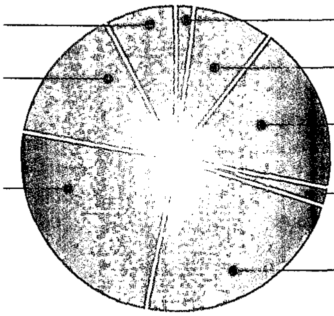
a) Overview of KPIT Cummins

KPIT Cummins Infosystems Limited, headquartered in Pune, India provides IT and IT enabled services to clients across the world. KPIT Cummins' services include development, maintenance and support of software applications; implementation of software packages; supply chain management solutions; development of PC-based tools; embedded software and networking solutions for automotive companies; development of business intelligence tools; chip design, verification and testing for semiconductor companies; ERP consulting; risk management and compliance services; transaction processing; technology based and knowledge based services. These services are delivered from KPIT Cummins' offshore delivery centres in Pune and Bangalore in India and from Wroclaw in Poland. Services are also delivered from onsite locations at the customers' premises across the world.

b) Our Shareholders

Our shareholders include strategic investors, portfolio investors and retail investors in addition to partners and promoters. Current shareholding structure has 24.62% shareholding by the original promoters, 14.76% by Cummins, about 7.32% by Lehman Bros, 2.00% by IFC, 1.89% by Cargill, 8.31% by Foreign Institutional Investors, 17.99% by Indian Financial Institutions and Mutual Funds, and the balance 23.11% by retail investors.

Shareholding pattern



We are proud of our shareholders and value their trust in us. To keep our shareholders updated about our performance of the Company we issue press releases and investor updates on our quarterly performance and on any material development in our Company. In addition, we follow a practice of having regular interaction with our investors, analysts and fund managers. We continue to review and enhance the level and quality of shareholder communication.

c) Goals

Our vision is to build an efficient, integrated and sustainable world by using of IT and therefore to become a global IT consulting Partner of FIRST CHOICE to our customers, with leadership in select areas.

We have set ourselves a mission - Mission 2010 - of achieving Revenues of US$ 250 Million by FY2010. Our goal is to create leadership position in our focus verticals - Automotive and Transportation, Industrial and Farm Equipment and Hitech and Semiconductors.

For the near term, i.e. for FY09, we are targeting revenue between US$ 185 Million and US$ 190 Million (Rs. 7400 Million and Rs. 7600 Million) and net profits between Rs. 650 Million and Rs. 670 Million. This target implies a revenue growth of 27% to 31% in US$ terms (23% to 26% in Rupee terms) and a profit growth of 27% to 31% in INR terms.

d) Our Strategy

We are focused on services to sharply defined industry segments. Our focused industry segments are;

1. Automotive & Transportation
2. Industrial & Farm Equipment, and
3. Hi-tech & Semiconductors

These account for almost 90% of our business. Our goal is to service clients around the globe who operate in these industry segments in relation to their Information Technology and Business Process needs.

e) **Our Customer Strategy - PYRAMID model**

Our customer strategy focuses on customer acquisition, retention and growth, thereby creating customer partnership. We have been following what we call the STAR customer model, which we have enhanced to a Customer PYRAMID model. While the STAR customer model focused on each individual customer, through the Customer PYRAMID model, we will be able to segment the customers on their revenue generating potential. We will focus on growing clients to the next higher level of the PYRAMID.

Our Customer PYRAMID model focuses on establishing initial business relationship with customers with revenues between US$ 1-10 billion at the bottom level of the PYRAMID. At the initial stage of engagement, the expected business volumes from the customer may be under US$ 1 million, but our preliminary research on the customer should demonstrate a greater potential. Depending on the potential of each relationship, a differentiated level of focus and correspondingly a suitable account management and delivery structure are set up to help grow the customer relationship. The objective is to grow the partnership to the next higher level in the PYRAMID. This approach balances our Focus strategy of working with a few customer partners with the need to have an increased customer base.

Under this model, we expect to have strong customer relationships with about 50 customers to be able to reach our next medium term goal. This model will help us work with our existing set of customers - Star customers as well as potential Star customers. This implies that on the one hand, we work with a slightly larger base of customers and therefore de-risk our growth from any changes in strategy by any individual customer, while continuing to focus on establishing a deeper relationship with the customers.

f) **Our Customers**

During FY08, we have added 21 new customers. At the end of FY08, we had 111 active customers including 25 Star customers and 23 customers with a revenue run rate of over US$ 1 million.

Our customers are primarily from Automotive, Industrial & Farm Equipment and Hi-tech segments.

g) **Our Marketing and Delivery Network**

Our marketing offices are spread throughout most of the relevant geographies. We currently have six offices in the USA - Iselin, New Jersey; Glen Allen, Virginia; Santa Clara, California; Columbus, Indiana; Detroit, Michigan; and Stafford, Texas. In Europe, we have created a stronger market presence through our offices in UK, France and Germany. Besides, we also have offices in Japan and in Singapore. We also have a presence in South Africa and Korea.

Our offshore delivery centres are located in Pune, Bangalore and Wroclaw (Poland). At Pune, our global head office, we have over 350,000 sq.ft. of office space in our campus with a capacity to house 4,000 people. At Bangalore, we have started a 365-people, state-of-the-art facility and we are awaiting completion of our bigger 200,000 sq.ft. facility in Bangalore. At Wroclaw, Poland, our new delivery centre, we can house about 100 people.

h) **Our Employees**

Our employees are our key strength and critical resource. At the end of FY08 we had an employee base of 4,481. We have added 1,225 employees during the year.

Most of our employees are engaged in software development and the rest are involved as marketing personnel, management and support staff. Our employees come from several different countries and bring various different skills to our Company. Our employees include engineers, computer science graduates, commerce graduates, chartered accountants, company secretaries, law graduates, MBAs, CFAs, CISA certified professionals etc. We hire fresh graduates and experienced professionals and we invest in the development of our employees.

With the interest of employees in mind, we have initiated several employee centric programmes which are discussed in more detail in the letter to our shareholders from our President and Executive Director.

i) **Our lines of business**

We are organized into six lines of business (LOB), each set up as an independent profit centre.

i. **Business IT:** One of our focus verticals constituting a major portion of our revenue at present, services under this LOB include IT strategy consulting, product life cycle management services, supply chain solutions, ERP implementation in addition to application development and maintenance services. This LOB continues to generate bulk of the revenues for our Company.

ii. **Auto electronics:** A part of our Advanced Technology Solutions (ATS) practice, this LOB is one of our key strengths and differentiator. Services in this LOB are mostly high-end specialized services for the automobile industry. Customers for this LOB include some of the top OEMs in the automobile industry and their Tier I and Tier II vendors which are also large corporations. We are Premium Members of the AUTOSAR, an alliance of OEM manufacturers and Tier I automotive suppliers to develop and establish a de-facto open industry standard for automotive E/E architecture. We are also a member of Jaspar. Recently we were certified Automotive SPICE™ level 5.

iii. **Semiconductor solutions group:** This group, also part of the Advanced Technology Solutions practice, is also one of the unique differentiators for us. Under this LOB we work with some of the top semiconductor companies of the world in their chip design, verification and testing.

iv. **Global Business Solutions (GBS):** This is the BPO arm of our Company, constituted as a wholly owned subsidiary. We look at GBS as one of the growth areas for the future, more so with the expected convergence of BPO and IT services in the industry. We offer (i) skills and rule based services e.g. transaction processing, finance and accounting, HR processing etc. (ii) technology based services e.g. technical help desk solutions, and (iii) knowledge based solutions such as Sarbanes Oxley solutions, data analytics etc.

v. **Diversified Financial Services:** Services under this LOB include application development and support solutions, migration solutions etc. We have some global banks and financial institutions as our customers.

We have developed a leadership position in electronics software and Semiconductor solutions for the automotive industry.

j) **Our Merger & Acquisition (M&A) Strategy**

Our growth strategy includes M&As. Our M&A initiatives are geared towards creating value for our shareholders. So far, we have successfully concluded 5 M&A transactions. Starting with Cummins Infotech in 2002, we acquired Panex Consulting in

2004. After that we acquired SolvCentral.com in FY06 followed by Pivolis and erstwhile CG-Smith Software at the beginning of FY07. We also set up a joint venture in Germany. All these M&As have been successfully integrated.

Our approach to M&As focuses on consolidating and expanding our domain expertise and strengthening our geographical presence in the relevant markets. Our process includes a thorough analysis and evaluation of our competitive positions and our offerings for our customers on the one hand, and on the other hand a detailed evaluation of potential target companies. We evaluate target companies on the basis of their 'strategic fit', 'cultural fit' and their 'financial fit' with our Company. In addition to a range of valuation parameters such as Net Present Value, Return on Investment, impact on EPS, etc. we try to see that the payback period of each transaction is less than 3 years. The underlying philosophy in our M&A transactions has been that of partnership.

Our post-merger integration process focuses on integrating the customers, the people and all the policies and procedures of both organizations. We have a 100-days post-merger integration framework, which involves people from both sides of the Company.

k) Our Competitors

We face competition in almost all our business areas. We consider competition as a healthy stimulant for streamlining our strategies and to be better in our niche areas. Our competitors include leading software service providers from India and abroad. We differentiate ourselves from our competitors primarily on the basis of leadership in certain niche areas - such as auto electronics software, and product engineering services. We also differentiate ourselves on the basis of our relative size, which allows us to provide executive mindshare and adequate attention to our customers, and on the basis of our proven ability in managing multi-Million dollar accounts.

C. Financial performance

Financial year for our Company is from April 1 to March 31 of the following calendar year. Financial Year 2008 (FY08) means Fiscal Year beginning April 1, 2007 and ending March 31, 2008. The discussions and analyses hereunder are based on our Company's consolidated financials for FY08.

a. Balance sheet

- **Share Capital**

Our Company's authorized share capital is Rs. 300 Million, divided into 150 Million shares of Rs. 2 each. As of March 31, 2008, our share capital was Rs. 155.76 Million, comprising 77,882,941 shares of Rs. 2 each.

Details	No. of Shares	Rs. in Million
Share Capital as on March 31, 2007	74,775,861	149.56
Shares issued to Cargill	1,471,498	2.94
Shares issued to Cummins Inc.	1,510,877	3.02
Shares issued under ESOPs	124,705	0.25
Share Capital as on March 31, 2008	**77,882,941**	**155.76**

- **Reserves and Surplus**

Our Company's reserves & surplus as on March 31, 2008 stood at Rs. 2,454.15 Million as against Rs. 1,815.27 Million in the previous year. The net increase of Rs. 638.88 Million is on account of the following:

a) Transfer of Rs. 519.41 Million to the Profit and Loss Account.

b) Rs. 98.88 Million to the General Reserve.

c) Rs. 10 Million to KPIT Cummins Infosystems Limited Community Foundation Reserve Account.

d) Rs. 2.2 Million towards Cumulative Translation Adjustment.

e) Rs. 10.7 Million to Securities premium account.

f) Rs. 16.38 Million to the Amalgamation Reserve.

g) Rs. 1.27 Million towards Capital Reserve.

h) Decrease in Hedging Reserve by Rs. 19.98 Million.

- **Secured Loans**

At the end of March 31, 2008, we had total secured loans of Rs. 857.79 Million against Rs. 1217.15 Million as on March 31, 2007. Secured loans include the following:-

A. **Term loans:** Total term loans stood at Rs. 587.00 Million as on March 31, 2008 as compared with Rs. 730.16 Million on March 31, 2007. Decrease of Rs. 143.17 Million is on account of the following:

i. Loans from banks: During the year, the Company made a net repayment of loans from banks to the tune of Rs. 83.70 million. This component of the term loans included loans availed from domestic banks for the purpose of financing the construction of SDC-I.

The term loans are secured by first charge by way of mortgage of certain movable and immovable fixed assets.

B. **Working capital loans:** Working capital loans decreased by Rs. 216.23 Million to Rs. 268.26 million. These loans are secured by the hypothecation of current assets of our Company.

- Unsecured Loans

Finance lease obligations, which are obligations towards lease rentals of vehicles, increased marginally during the year to Rs. 7.08 Million from Rs. 5.81 Million in the previous year.

- Minority interest

Minority interest as on March 31 2008 was Rs. 5.15 million.

- Fixed Assets

During the year ended March 31, 2008, our Company added tangible assets worth Rs. 71.73 million. Gross Block as on March 31, 2008 stood at Rs. 2102.29 Million compared with previous year Rs. 1969.85 million, while the net block was Rs. 1473.20 Million compared to Rs. 1590.77 Million as on March 31, 2007. Capital work in progress increased from Rs. 181.28 Million as on March 31, 2007 to Rs. 207.25 Million as on March 31, 2008.

During the year, our intangible assets increased by Rs. 60.70 million.

- Investments

As on March 31 2008, total investments were Rs. 1.09 Million as compared to Rs. 48.81 Million in the previous year. This increase is mainly on account of provision for decline in the value of investment in Findant Inc. and also withdrawal of mutual fund investments.

- Current Assets

Current assets of our Company include sundry debtors, cash and bank balance and loans and advances.

Sundry Debtors

The amount classified under sundry debtors is the amount receivable by our Company from our customers. Customers usually follow a billing cycle - invoices received by a certain date are cleared on a predetermined day of the month and those received after the dates are cleared in the next cycle. Considering the billing cycle, which is unique to each customer, it is considered normal for a company to have about 60 days outstanding. For any doubtful debt or a very old debt, companies make provisions.

Sundry Debtors increased from Rs. 1101.72 Million as on March 31, 2007 to Rs. 1432.20 Million as on March 31, 2008. In terms of days of sales, receivables have come down to 77 days as compared to 85 days as on March 31, 2007.

Cash and Bank Balance

Cash and Bank Balance stood at Rs. 739.79 Million as on March 31, 2008 compared to Rs. 625.35 Million as on March 31, 2007. About 94% of the total cash balance is kept under deposit accounts and current accounts with scheduled banks and another 6% under current accounts with non-scheduled banks. Of the total of 99% with banks, 46% is in deposit accounts while the balance 54% is maintained under current accounts.

- Loans and Advances

Amount classified under this are the loans and advances extended by our Company to others for various reasons. If there are doubts about the recovery of the advances or of the value to be received in lieu of the advances, provisions are created.

As on March 31, 2008 total loans and advances stood at Rs. 529.55 million, a decrease of Rs. 184.43 Million over the corresponding figure as on March 31, 2007. These loans and advances include advances made for travel and salaries for employees, other loans made in the regular course of business and advance tax paid. All loans and advances are considered good and accordingly no provision has been created.

- Current Liabilities and Provisions

Current liabilities and provisions include current liabilities of the Company assumed in the normal course of business and provisions required to be maintained for taxes and other benefits payable.

As on March 31, 2008 current liabilities and provisions stood at Rs. 833.06 Million as compared to Rs. 665.12 Million as on March 31, 2007. Sundry creditors constitute Rs. 397.16 million, of which Rs. 211.13 Million was towards accrued salaries and benefits and Rs. 186.03 Million towards goods and services received (which include professional fees, provision for expenses etc). Other liabilities constituted Rs. 126.73 million, unclaimed dividends Rs. 0.86 Million and interest accrued but not due constituted Rs. 0.97 million.

Provision for loss on account of mark to market on cash flow hedges aggregated to Rs. 19.98 million.

Provisions created for tax, for fringe benefit tax, for dividend and dividend tax and for other staff benefits aggregated Rs. 287.36 million.

b. Income statement

- Revenues and Classifications

Type of Projects

In our business, revenue generation process is broadly classified under Time & Material (T&M) and/or Turnkey/ Fixed Price basis. In T&M type of services, billing is done on the basis of time - number of hours spent by software professional for providing services. In a Turnkey or Fixed Price contract, billing is done based on achievement of predefined milestones for a particular project. Specification, deadlines, and total cost for such projects, are determined in advance.

During FY08 our Company derived 88% of its revenue from T&M projects and balance 12% from Fixed Price contracts. In FY07, the ratio was 91% T&M and 9% Fixed Price.

Onsite/Offshore

Revenues are also classified on the basis of the location from where services are provided. A company may provide software services through software professionals stationed at customers' sites. Revenues from such services are termed Onsite revenues. On the other hand, a company may provide services through software professionals stationed at Software Development Centres located away from the customers' site e.g. in India. Revenues from such services are termed Offshore revenues.

Billing rates for Onsite services are usually higher, as the software professional is based in the client's site, usually in countries such as USA, Europe etc. where the cost of living is higher. However, for the company too the cost of providing onsite services is higher. Hence, while the percentage of revenues coming from onsite revenues may be higher, margins on these projects is lower as compared to that on offshore projects. For offshore projects, employees are stationed in the home country and while the billing rates are considerably lower than onsite billing rates, on account of lower costs, margins are higher.

For FY08, our onsite/offshore revenue ratio was 47%:53%. This ratio has changed towards higher offshore component from 51%:49% in FY07. In every quarter of FY08, we have witnessed a gradual shift towards more offshore revenues.