



# co-innovation for green growth

ANNUAL REPORT  
2009-2010

## Board of Directors

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

**Amit Kalyani**  
Director

**Anant Talaulicar**  
Director

**Bruce Carver**  
Director

**Deepak Malik**  
Director

**Elizabeth Carey**  
Director

**K.V. Krishnamurthy**  
Director  
(Resigned with effect from January 18, 2010)

**Lila Poonawalla**  
Director

**Dr. R.A. Mashelkar**  
Director

**Dr. Srikant Datar**  
Director

**Sudheer Tilloo**  
Director

**Floyd Rutan**  
Alternate Director

**Mark Gerstle**  
Alternate Director

**Dwayne Allen**  
Alternate Director

**Kishor Patil**  
CEO & Managing Director

**Girish Wardadkar**  
President and Executive Director

**Anil Khatri**  
Company Secretary

### Auditors

**Deloitte Haskins & Sells**  
Chartered Accountants  
706, "B" wing, 7th Floor,  
ICC Trade Tower,  
International Convention Centre,  
Senapati Bapat Road, Pune - 411016

### Legal Advisors

**AZB & Partners**  
Advocates & Solicitors  
Express Towers - 23rd floor  
Nariman Point  
Mumbai - 400 021

### Financial Institutions

- State Bank of India
- International Finance Corporation
- HDFC Bank Ltd.
- The Hong Kong and Shanghai Banking Corporation Ltd.
- Citibank N.A.
- BNP Paribas
- Standard Chartered
- Axis Bank Ltd.

## Contents

Letter from the Chairman and the Managing Director.....	01
Letter from the President and Executive Director.....	03
Financial Highlights.....	05
Management discussion and Analysis.....	07
Enterprise Risk Management Report .....	12
Community Initiatives .....	13
Directors' Report.....	16
Report on Corporate Governance .....	23
Additional Shareholder information.....	33
Standalone Financial Statements.....	39
Consolidated Financial Statements .....	69
Consolidated Financial Statements of Subsidiaries .....	97
Notice .....	98

# From the Chairman and the Managing Director

My Dear Fellow Shareholders,

Last year was an unusual and abnormal year for the global economy and all businesses by any gauge. In the following letter, we would like to look into our performance for the last year and the opportunities and challenges for the year ahead of us.

We started the year with a lot of uncertainty prevailing in the overall global business atmosphere. Our customers were not able to have any visibility beyond a quarter. In the past, we have talked business prospects on a long term basis with our customers. Towards the end of FY09 and majority of FY10, we were unable to converse beyond a quarter even with our long standing customers. The customers themselves were not in a position to discuss business opportunities as they themselves were uncertain about their future revenues.

In the overall economic slump, manufacturing vertical which constitutes close to 90% of our total revenues was the worst hit and globally large manufacturing corporations were facing gross under-utilization of their production capacities. The Automotive Industry also went through its worst phase with production facilities being shut down and inventories piling up significantly. In 2007 close to 80 million new automobiles were sold worldwide and the same number in 2009 was about 60 million — a whopping fall of 25%. Cummins, which is our largest customer and also a strategic partner/investor was no exception to this economic occurrence. Cummins cut down its IT budget significantly and thus it had a subdued effect on our revenues.

The last quarter of the calendar year 2009 brought some respite to the overall negative business climate, with banking sector leading the recovery followed by a mix bag of manufacturing revival. The recent developments in Europe have put in a question mark to a steady recovery in the economic scenario. Still we believe that the first quarter of 2010 has shown positive signs indicating a cautious recovery.

While the world was reeling under such trying economic circumstances last year, we were clear on our objectives of 1) Quality and Productivity, 2) Technology and Practices 3) Profitability and Liquidity and 4) Growth.

As the year has panned out, we have been fairly successful in achieving our stated objectives. With clear focus on Quality and Productivity we have increased the asset repository size and asset reuse percentage, enhanced the utilization of productivity tools, improved CSAT coverage and rating, reduced rework efforts and improved percentage of 'zero defect deliveries' to the customers.

We have been strengthening our technology and practices with concentrated efforts on innovation directed towards creation of IPs and filing of patents. Till date we have 24 patents filed in our name (10 of which were filed in April 2010), with majority of them in the areas of automotive electronics. This helps our positioning as a niche player and domain expert in this area. Even with a pressure on growth and thus profits, we continued to invest in R & D. The total R & D related spend was 1.5% of our revenues in FY10.

This year our Net Profits after Tax grew by 30% over the last year, in spite of a decline in the revenue number year on year. We were able to control our costs across the organization but were diligent enough not to cut budgets in the R & D and people training areas. We were able to have a healthy cash balance as at the year end with Cash reserves close to Rs. 1,800 Million after routine Capital Expenditure of around

Rs. 300 Million and payments for acquiring Sparta and the balance holding in KPIT France, KPIT Germany and SolvCentral.

Growth was one area where we would have liked to perform much better. This was the first year in the last 10 years where we saw a dip in revenues year on year. Having said that, we were at least successful in arresting the revenue downfall by coming up with innovative solutions for our customers, reducing customer costs by shifting work offshore and bringing in more predictability to the customer spend by executing projects in a fixed price mode. Our share of offshore revenues for the year stood at close to 60%, up from 55% last year and revenue from fixed price contracts increased from 18% last year to 30% this year. Thus, if we consider the volumes (billed FTEs), there was no de-growth in FY10 as compared to FY09, due to the movement of work from Onsite to Offshore.

During the year, we completed the merger of Sparta Consulting Inc., a US based SAP consulting company. This strengthens our SAP practice and gives us a strong front end team in the US Market. We are sure that the synergies from this merger will take us a long way in creating a niche and leadership position for ourselves in SAP.

During the year, we also added Defense and Energy and Utilities to our verticals of spotlight, to have a cushion for our exposure to the manufacturing vertical. Sparta Consulting already derives about 50% of its revenues from Energy and Utilities vertical which gives us a strong head start in this vertical. We see good potential for growth in this vertical. For the Defense sector, our offerings would be an extension of our embedded and engineering solutions and we have been able to bag a couple of orders already in this area.

With such a difficult year behind us, we now are poised for a good growth year. We expect the Top line to grow by about 25% in USD terms in FY11 over FY10, well above the NASSCOM average industry growth projection of 13% - 15% this year. This growth will be led by Automotive Electronics, SAP and Emerging Markets coupled with the new areas of Energy & Utilities and Defense.

However, some key decisions and actions will result in a lower profit growth as compared to the revenue growth. We have given salary increments across the board for offshore employees with effect from April 01, 2010 which are at par with the industry averages. The rupee, in the near future depicts a trend of strengthening against the Dollar and Euro and GBP cross rates are also on a path of adverse movement during the year. We will also continue to invest in the right areas viz. R & D, sales & marketing and people training, to fuel our future growth. We believe that these investments are an absolute must, if we want to keep on growing well over the industry average, in the next couple of years. We will end up forgoing some profits of the current year but will be poised for a much better growth in the coming years. Hence, we believe that the profit growth will be at a minimum of 5% in FY11, though it will be our endeavour to improve the profit growth beyond 5%. Most of the industry, we believe, will show a lower profit growth as compared to the revenue growth, this year.

Our priorities for FY11 would be as follows:

**People** — We want to focus on improvement of the competency of our people. This would be through trainings, certifications, Leadership



**Development and Budding Leaders Program.** Last year, we started doing some work in this area. This year we shall build on it. We shall spend extra efforts on our team members who show greater energy and competency and we shall help them grow faster and take bigger challenges. The recent organizational changes that we have carried out are tailored to build leadership at second and third levels in the Company. We would urge every team member to keep the hunger and curiosity for knowledge and growth always ignited.

**Innovation** — In the new global scenario, only the innovative companies will prosper. We have been working on new product creations for the past one year. These innovations are a must due to changing economic conditions and environmental challenges posed by energy challenges. We have seen excellent work done by some members of our team. This year, we will step-up our efforts in this area. We will institutionalize all aspects of innovative solutions. We want innovations to happen across KPIT and not just in a few pockets. We are very encouraged by the innovations in productivity, IPs and value -adds, that your company has done in the recent past and we are sure that we will be able to build on them in the next couple of years.

**Profitable Growth** — Getting back into growth will call for additional investments in sales and marketing and will also call for significant focus on creation of new products and solutions. We believe we will be able to make the growth happen by virtue of our growth in the emerging markets, by virtue of growth in the US anchored by our acquisitions and on account of more products and services that we now have to offer. It is important for us to focus on “Profitable Growth” and not just “Growth”. We shall necessarily build on our IPs for non-linear growth. We shall also build on the productivity improvements that we have invested in over the last year. We shall explore innovative pricing models so that “Time and Material” pricing will constitute a comparatively smaller part of our income. We have to actively think how we can create value for our customer and how we can get paid for it, not on the basis of our costs, but on the basis of the value that we create. In order that we have a good understanding of the value that we create, we must look at what is valuable to the “end consumer”, who could be our customer’s customer.

All the above would mean a new mindset across the organization from all the colleagues of KPIT. We would also expect support and encouragement, as always, from all our investors and stakeholders.

Beyond the growth of our Company and our people, we believe, we satisfy a global need of ensuring “Green and Inclusive” Growth. Last

few years have brought out that we as a humanity face challenges on 2 issues - How do we ensure that all of us have inclusive growth and how can it be green. Our internal operations are sensitive to the need of such growth.

**“Green and Inclusive” Growth for us is directed towards three major areas:**

**Customers’ Products** — Manufacturers’ interest in green products is growing, given increased awareness about population growth, global warming and scarcity of natural resources. Our work in the areas of Hybrid Cars, Electric Cars, reducing Emissions from engines, Clusters, infotainment, lower power chips, PDM and alternate fuel vehicles, to name a few are all directed towards green end products for the customer.

**Customer Operations** — The manufacturing and business operations of the customers need to be fine tuned so that they have a minimal impact on the environment. Our work in the areas of Supply Chain Management, Enterprise Resource Planning, Product Life Cycle Management, Business Process Management, Business Intelligence and Manufacturing Execution Systems, to name a few, is towards ensuring that the customer operations are environment sensitive and friendly.

**Our Own Operations** — Even though (being in IT domain), our services have little negative environmental impact, KPIT has always proactively ensured that we protect and improve the environment in which we work. We have designed and implemented policies which are aimed at Optimum utilization and conservation of resources like energy and power, water, paper and other consumables, regular tree plantation, effective waste management and recycling, optimizing employee transport and reduction in environment hazardous materials like plastic among others. These policies seek active participation from every department and employee of the Company.

This is a very fulfilling journey and we are glad that we are on it together.

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,

The macroeconomic factors which created a negative impact on the business during FY 2009-10 have already been well addressed in the Chairman and Managing Director's letter. We would therefore try to look at the priorities which were set by the Company for the year gone by and how we have performed on those parameters.

For FY2010, we had broadly set the following priorities:

1. **QUALITY & PRODUCTIVITY** - Continue to invest in improving customer satisfaction, zero-defect and on time delivery. Focus on delivering Value to customers.
2. **TECHNOLOGY and PRACTICES** - building specific practices and offerings mapped on to specific customers and geographies.
3. **LIQUIDITY & PROFITABILITY** - Liquidity by managing cash, focusing on receivables and capital expenditure and Profitability by improving productivity - focus on reuse of assets, rework reduction and deployment of tools, improving engineers' utilization and ensuring appropriate people pyramid.
4. **GROWTH** - continue to focus on identified list of customers including must win list, India strategy implementation.

## Quality & Productivity

In the last year, we have put tremendous emphasis on quality management, productivity improvement and customer interface processes enhancements. Asset based development to implement re-usage strategy was initiated at large scale. We standardized tools for project management and software life cycle activities. We leveraged significantly upon open source tools to bring in efficient cost management. For quick and high quality knowledge transfer we established "Induction Portal".

As a result of all these initiatives we were able to expand our CSAT coverage and the average rating also improved significantly from 3.85 to 4.19 on a scale of 5. These measures have also paid well in terms of maintaining the profitability margins despite of declining revenues. We maintained our EBITDA margins at 20%+ level throughout the year. Our offshore revenues have improved from 55% in FY09 to 59.79% in FY10. These productivity improvement initiatives taken during the last few years along with the expertise and confidence that we have gained from our customers helped us in increasing the share of 'Fixed Price' revenues to 30%+ from 18% in FY09. We directed all our efforts towards "delivery excellence" and "delivering value" to our customers. During the last year we were certified for ISO 9000, CMMi Level 3 and Auto Spice Level 5.

## Technology & Practices

Established in 2007, Center for Research in Engineering Sciences and Technology (CREST) has been our core R&D center and has been contributing significantly in bringing the differentiating factor in the Company's offerings.

As a result of the R&D initiatives, we have filed for another 16 patents during FY10, which takes the total number of patents filed till end of April 2010 to 24. The patents filed during the year are in the areas of hybrid automotive technology, safety features of the car and semiconductor offerings related to high speed transmitters. We would be continuing our work in this direction with a more focused approach as we aim to increase the share of IP led revenues in our total revenues.

We have been working on various technologies like image processing, driver safety assistance systems and high performance computing. These efforts have now started paying off well in terms of achieving specific R&D projects from our clients in these respective areas. This year, we have started working in the cloud computing area, our work in parallel computing has resulted in reducing the execution time for automotive crash simulation. Hybrid technology is another area of interest for research where we are working on the unique design, development and successful implementation of hybrid technology in a vehicle.

To increase our focus on practices and help the practices to grow and be best in Class, we have organized ourselves towards the end of the year which is detailed in the ensuing paras.

We have developed **CLICKSERVICESMILE.com**, an internet-based information system, in association with DSK Toyota that will make car ownership easier for Indian consumers. This development is significant for the Company as it is its first consumer-based product. Our industry-based approach and new vertical focus strategy have led to a consumer-based product as a means to tap into domestic demand for automotive embedded software.

**R&D Recognition:** Here are a few examples of papers our engineers presented on various forums:

- **"A comprehensive sensor system framework for vehicle safety"** was accepted at ICVES 2009.
- **"Hardware/Software Tradeoffs in Automotive Sensor Data Processing"** was accepted for presentation at the IP-Embedded Systems Conference held in Grenoble, France in December 2009.
- Our articles **"Concurrent Debuggers"**; **"Programming Tools for Multicore Processors"**; **"Functional Programming Paradigm and Concurrency"** were published on an online technical site, TechOnline.

## Liquidity & Profitability

Sensing the economic turmoil, we started directing our actions towards improving our liquidity right from the start of the year. Our cash balance as on March 31, 2010 stood at Rs. 1,799.27 million as compared to Rs. 1,671.17 million as on March 31, 2009. Our focus on DSO reduction has led to improvement in the receivable levels from 69 days to 66 days. Capital expenditure during the year was Rs.296.8 million against Rs.298.07 million in FY09. Control on capital expenditure was a result of our approach of ensuring optimal utilization of not only our people but all assets - IT and physical infrastructure related.

Our profits for the year increased to Rs. 857.31 million from Rs. 658.52 million last year, a growth of 30.19%. With our actions directed towards productivity improvement as stated earlier and the change in revenue mix helped by better average rupee realization as compared to last year, we were able to post this quantum jump in profits year on year, despite the fall in revenues.

## Growth

Year 2009-10 put pressure on our customers to improve their cost effectiveness. Customers became more demanding. Value delivery was critical. Your Company focused on ensuring our customers wins.

During the year, we were successful in engaging with customers in China for engineering projects in automotive and semiconductor applications. The Company will invest in this important market. Besides growth opportunities for the Company, this market provides us opportunity to work on challenging engineering problems.

India has also been another growth region for us in FY10. Our India business has grown by 50% during this year and we expect the growth rate to continue. In India, we have seen business growth coming from our SAP practice, but during the year, we have entered into engagements with large auto players of the country. The government has also been very supportive in terms of its mandate and policies for driving the economic growth and thus we can expect good business coming from this market in the future.

Korea, Australia and South Africa are some other markets among the emerging nations which are showing strong growth traction and thus we are very positive on our emerging market growth strategy.

We added a new customer segment - 'Defense' and 'Public Sector Units' (PSU). In the defense sector, our offering would be end-to-end design, engineering and IT services as an extended part of our embedded software work. In PSU, we would be primarily offering our Business IT services package. We believe these two sectors will further help us in strengthening our presence in Indian market.

With the acquisition of Sparta Consulting Inc., we have added 'Energy and Utilities' as a vertical to our business. Together we will seek more opportunities for growth in this vertical and we also aim to further expand our offerings scope in this domain.



In preparation for the growth, we have also begun investments in Practices, Subject Matter Experts and front end sales. We will further step up our investments in technical talent to get ready for the "New Normal" business environment. Project Management rigor, solutioning for customers through Subject Matters Experts and Practice & Business Managers would be critical to our success in the future.

#### Partnership & Association:

- We became a Product Partner of the Mathworks Connections Program **which** will help us to align our AUTOSAR based products with the industry's leading technical computing software.
- We are now an affiliate member of Center for Automotive Research (CAR), a well known automotive research organization based in Michigan, USA. This association will enable access to the ongoing industry initiatives and practices and thus strengthen our industry ties.
- In collaboration with a leading global semiconductor company from Japan, we have developed a new AUTOSAR 3.0 compatible software solution for various hardware platforms, which enables easy design of application software without the need for new developments.

Our active client base has grown from 128 in FY09 to 141 in FY10. We have added two new customers in the star customer category which increased to 28. Cummins continues to be our top client with a revenue share of 30.18%. Non Cummins star customers constituted 44.52% of our revenues.

Thus we believe we have been able to achieve good results last year, focusing on the above mentioned priorities.

#### People Development

Our People are our strength. At KPIT we strive to create vibrant and empowering environment that stimulates improved performance. We have designed various programs and certifications where we are ensuring overall development of our people to move quickly to the next level of growth and thus creating a leadership pipeline to lead the performance driven culture across the organization.

As a part of our employee connect, some key initiatives taken during the year:

##### 1. Pulse 2009

We rolled out an organization wide employee satisfaction survey and the results were shared with all colleagues along with the action plan to address the key areas of concern.

##### 2. Employee Connect

We launched a communication framework for strengthening connect of managers with their team members through one on one and group meetings. We have also sharpened focus of Leadership connect with all colleagues wherein we organized various events which covered all our employees based across the globe.

##### 3. Campus Initiatives

We have started hiring from colleges where we see strengths in our domain specific areas like Mechanical Design, MECHATRONICS, Automobile Engineering Software IT like IT and Computer Science Engineering Graduates, Embedded technologies, etc.

We have signed an MoU with Vishwakarma Institute of Technology and another MoU with Sinhgad Group of Engineering Colleges, Pune to promote academic excellence and faculty empowerment through research and mentoring initiatives.

A KPIT Center of Excellence has been established at MKSS Cummins College of Engineering for Women, Pune where the sole objective is to encourage R & D orientation amongst students & faculty. We have stepped up our engagement with Business schools to add to the leadership pipeline.

#### Budding Technologist program

We have started this program during the year, where we will sponsor projects in colleges like Cummins College of Engineering, Sinhgad College of Engineering and Pune Institute of Computer Technology.

This program is aimed at spotting talent at an early stage and nurture a culture of innovation.

#### 4. Training Initiatives

We have identified key roles within the organization i.e., Project managers, Technical leads and sales team and designed various training programs like PROMS and 'Tech-lead' certification. These programs are focused on developing their individual competencies and professional growth. Role based competency development and certification has been introduced to ensure people development for the right roles and to improve productivity and customer satisfaction.

#### 5. Community Initiatives

Under our Non Profit Connect initiative, we partnered with an NGO called Janawani and developed an online "GIS Based Accident Reporting System" to help the Traffic Police department. We have been working with Seva Sahayog NGO for the last 4 years on their various initiatives like School kit donation drive, organizing Seva fair which demonstrates products prepared by the women Self help groups. "Sponsor a child from Northeast India" is another unique initiative wherein we support children coming from the economically weaker sections of the society.

#### Infrastructure

During the year, we have consolidated three of our Bangalore Offices to Shailendra Techno Park at Whitefield which is a 65,000 sq. ft. office space. Our other facility in Bangalore is Adarsh Tech Park, Special Economy Zone (SEZ) which has 25,000 sq. ft., area. This facility will give us long term benefits on tax and duty exemptions. Our ultimate goal is to consolidate entire Bangalore operations to Adarsh Tech Park, SEZ by the end of 2011.

#### Going Forward

We are gearing up to respond to the changing customer preferences. We have got the IT and the BPO teams integrated to enable customer solutioning for IT and also to process their operational transactions. This combined IT & BPO service offering will help our customers to focus on their core activity, while we can take care of the business processing end-to-end. In few select customers engineering solutions would also form part of this integrated approach.

In order to deliver higher value to customers we have restructured our sales and delivery organization to be 'practice based'. The practice teams would focus on specific domain thus build expertise and be able to talk the customer's language. Practice teams would build domain and industry specific offerings and get geared to deliver to the customers more efficiently. Practice team would focus on demand generation, selling and also delivering. This integrated approach would make us more competitive. Customer led & Practice base organization would prepare us to achieve our business objectives.

#### Priorities for FY11 are based upon following themes:

1. People - Development of people by - right skilling, leadership development and acquiring right DNA.
2. Innovation - Foster a culture of innovation - Practice based to bring about best in class solutions, non linear revenues through IP based offerings and more emphasis on building IPs and filing patents.
3. Profitable Growth - Growth with focus on emerging markets, Oracle and SAP practices and Automotive vertical assisted by Energy and Utilities and Defense. Profitability with Productivity Improvement, DSO reduction, increasing Fixed price revenues, begin non-linear revenues through asset based development and IPs.

With encouragement from our customers and markets, Practice based go-to-market strategy, trained, certified and competent engineers and building a culture of Innovation, we are confident of bringing back growth and improving profitability.

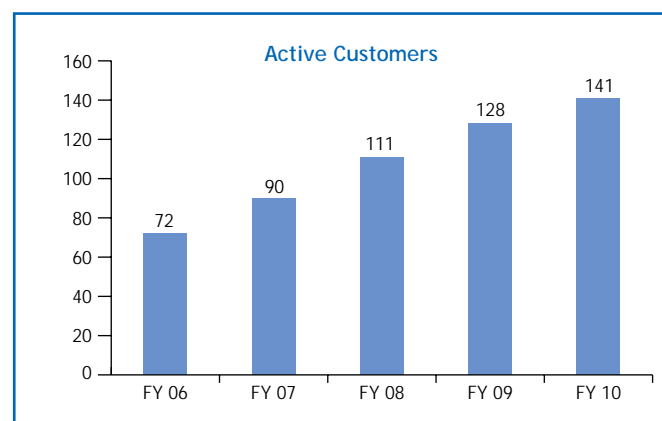
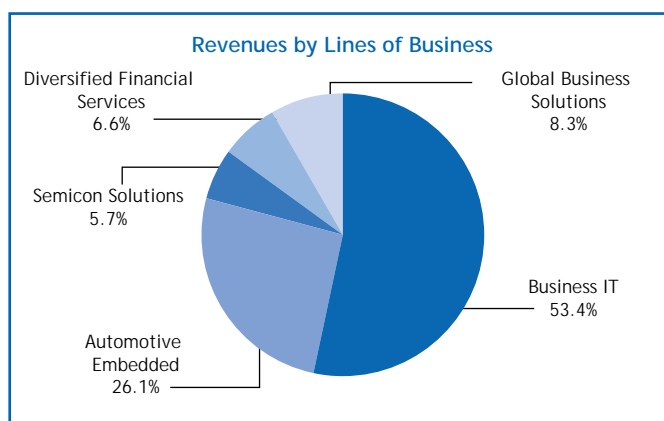
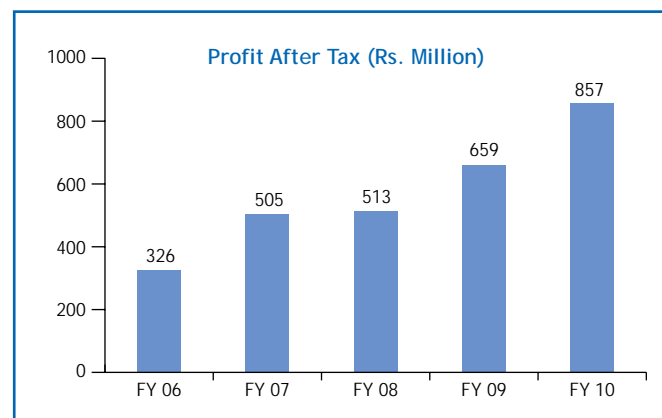
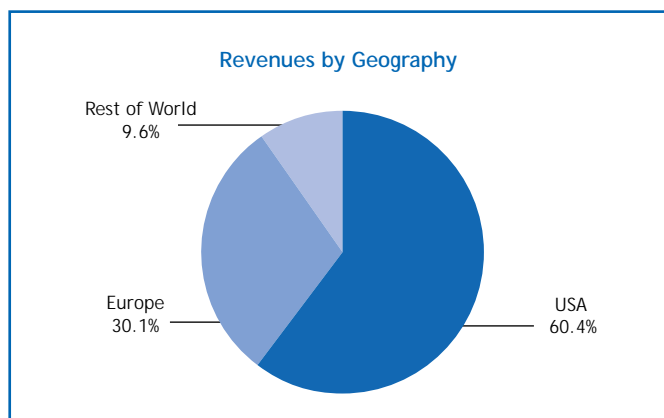
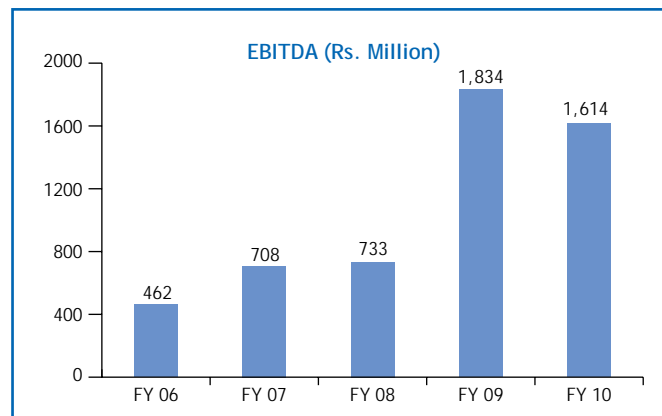
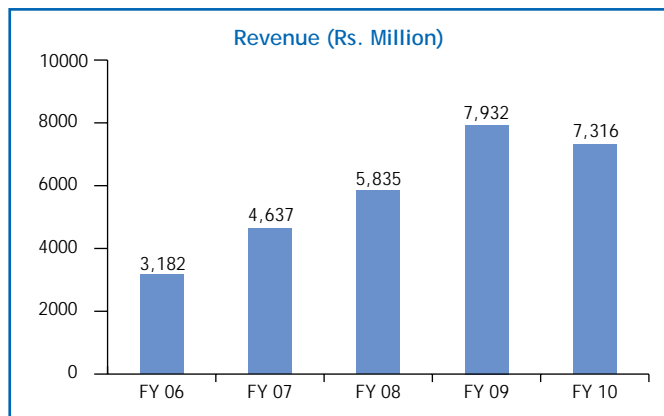
Warm Regards,  
Sincerely yours,

**Girish Wardadkar**  
President & Executive Director

# Financial highlights

Rs. Million

	FY10	FY09	FY08	FY07	FY06
<b>CONSOLIDATED INCOME STATEMENT</b>					
Sales (USD Million)	153.76	174.10	145.24	102.52	72.93
Sales	7,316.41	7,931.55	5,834.53	4,637.02	3,182.15
Gross Profit	3,225.91	3,464.35	2,104.27	1,753.34	1,121.02
EBITDA	1,614.43	1,833.55	732.97	707.81	461.90
Interest	27.41	45.47	75.47	44.64	19.18
Depreciation/ Amortization	308.04	436.46	254.68	121.21	84.20
Other Income	(252.53)	(573.79)	198.82	12.90	0.13
Profit Before Tax	1,026.45	777.83	601.64	554.86	358.65
Profit After Tax	857.31	658.52	512.82	504.76	325.64
<b>CONSOLIDATED BALANCE SHEET</b>					
Share Capital	157.05	156.09	155.77	149.55	72.80
Reserves & Surplus	3,697.28	1,474.50	2,482.19	1,840.81	1,344.57
Total Shareholders Funds	3,871.01	1,630.59	2,637.96	1,990.36	1,417.37
Loans	1,107.74	1,184.76	864.86	1,222.96	874.51
Minority Interest	-	3.16	5.15	4.51	4.39
Deferred Tax Liability	51.15	59.61	42.09	10.22	7.75
<b>Total Sources of Funds</b>	<b>5,029.90</b>	<b>2,878.12</b>	<b>3,550.06</b>	<b>3,228.05</b>	<b>2,304.02</b>
Fixed Assets	2,471.54	1,795.02	1,680.45	1,772.05	953.38
Investments	746.98	0.31	1.09	48.81	0.11
Accounts Receivables	1,387.68	1,775.61	1432.2	1,101.72	867.74
Cash and Bank Balances	1,052.29	1,671.17	739.79	625.35	411.35
Loans & Advances	677.03	449.30	529.55	345.13	442.22
less: current liabilities & provisions	1,305.62	2,813.29	833.06	665.12	370.95
Miscellaneous	-	-	0.04	0.11	0.17
<b>Total Application of Funds</b>	<b>5,029.90</b>	<b>2,878.12</b>	<b>3,550.06</b>	<b>3,228.05</b>	<b>2,304.02</b>
<b>Key Ratios</b>					
Revenue growth	(7.76%)	35.94%	25.82%	45.72%	26.05%
EBITDA Growth	(11.95%)	150.15%	3.55%	53.24%	38.97%
PAT Growth	30.19%	28.41%	1.60%	55.00%	14.68%
Gross Profit Margin	44.09%	43.68%	36.07%	37.81%	35.23%
EBITDA Margin	22.07%	23.12%	12.56%	15.26%	14.52%
PAT Margin	11.72%	8.30%	8.79%	10.89%	10.23%
SG&A to Revenue	22.03%	20.56%	23.50%	22.55%	20.71%
ROE	31.17%	30.85%	22.16%	29.62%	26.28%
Return on Capital	21.68%	20.49%	15.13%	18.25%	17.41%
Debt to Equity	0.42	0.48	0.45	0.62	0.50
Cash/ Total Assets	20.92%	58.06%	20.84%	19.37%	17.85%
Earnings per Share (Rs.)	10.97	8.44	6.84	6.83	4.54





# Management Discussion and Analysis

## Industry Development:

The fiscal year 2009-10 can be described as a year of economic turbulence. The mortgage and fiscal crisis took on the global economy, followed by unemployment, declining GDP and weakened demand environment. IT industry was also affected adversely by this turmoil. The technology related spending was reduced drastically. There was not much uptick in the demand scenario and pricing pressures were felt across the industry with clients emphasizing on contract renegotiation. Some customers went bankrupt, while others were delaying the payments and deals.

With the rapidly changing macro-economic scenario, customer demands and expectations have also changed. Customers are maintaining a cautious approach while spending money on their IT requirements. They are also looking for optimum utilization of that money by deriving maximum value in the products and solutions offered. This has emphasized the need for transformation in business models and service delivery, while bringing in more flexibility. The industry is looking to diversify beyond its key offerings and markets, defining new business and pricing models, transforming the delivery process through technology innovation and thus ensuring cost efficiency.

## Structural changes:

- **Changing Customer Demand** — Customer requirements are changing as they expect IT to play a key role in increasing their enterprise value. This doesn't focus on simple cost cutting measures but transformation needs to be done in business processes, workforce practices, operation logistics, sales and marketing methodology and information use.
- **Emergence of new models** — Companies understand the significance of IT to the economic performance which extends beyond managing expenditures. Emergence of SaaS and cloud computing, shared services, and more selective outsourcing are some new priorities to address constrained IT budgets.
- **New markets** — The traditional markets of US and Europe have always been the core growth markets for the IT industry. In verticals, BFSI has been the dominant industry vertical for majority of the IT companies till now. The revival in the overall IT spend was driven by recovery in North America and BFSI, while the emerging markets like APAC and emerging verticals like retail/healthcare and Energy & Utilities have further contributed to the uptick.
- **Varied offerings** — Indian IT service offerings have grown from application development and maintenance, to end-to-end solutioning, with testing services, engineering and R & D services, infrastructure services, consulting and system integration. These are the new service areas for increased IT spending.
- **Innovation** — IT industry has been developing its capabilities to bring in transformation in the business processes through increased R & D spend. Now the IT companies are more focused on IP creation, development of new technologies including process and business model innovation and increased domain expertise. There has been a 29 times increase in patents over FY2005-FY2008, and average R & D spend of 1 per cent of revenues. (Source: NASSCOM SR 2010)
- **Green growth** — There is an emerging green revolution where the industry looks forward to develop a business model that is not only competitive but sustainable with minimum ecological footprint.

The industry is estimated to aggregate revenues of USD 73.1 Billion in FY2010, with the IT software and services industry accounting for

USD 63.7 Billion of revenues. Export revenues are estimated to gross USD 50.1 Billion in FY2010, growing by 5.4 per cent over FY2009, and contributing 69 per cent of the total IT-BPO revenues. Software and services exports (including BPO) are expected to account for over 99 per cent of total exports, employing around 1.8 million employees. The engineering design and products development segments that involve IP driven service capabilities command an exports revenue share of 20 per cent, generating revenues of USD 10 Billion in FY2010, growing by 4.2 per cent.

The demand scenario has improved in the last two quarters of FY 2009-10 with improving deal flow, volume growth, stable pricing and faster decision making cycle. These improving economic conditions indicate towards return of customer confidence and growth revival. IT services is expected to grow by 2.4 per cent in 2010, and 4.2 per cent in 2011 as companies coming out of recession are now looking at IT for achieving the competitive edge. (Source: NASSCOM SR 2010)

## Company's Focus and Strategy:

### Challenges:

The industries to which we offer our services and solutions have been badly hit by this downturn. Manufacturing industry has been the worst impacted with manufacturers reducing their capacity utilization, cutting down on the overall IT spends and halting the discretionary IT projects. The automotive industry faced the heat with declining car sales. Weak or negative GDP growth and the financial crisis created pressure on the automakers credit profile. The global semiconductor industry saw revenues declining by 10.5% in 2009 to USD 228.4 Billion. This was the first time when the semiconductor industry saw two consecutive years of revenue decline. There is a new challenge as manufacturers need to save costs to protect their financial results, while they also need innovative products and solutions to retain the existing and acquire the new customers.

### Opportunities:

The economic challenges have provided an impetus to create new growth opportunities. As companies have been fighting the economic turmoil, they never lost sight of their client demands. A "new normal" business environment has been established in the industry, where companies with customer focus, innovative offerings and with a competitive cost base will only survive.

Manufacturing companies are looking at IT to bring in flexible and cost effective manufacturing and thus increase the value for its customers. There is a demand growth for more customer facing applications like SCM, CRM and BI applications. Cloud computing is another area which may drive the IT need of manufacturing industry during the year mainly due to its manageable IT infrastructure and cost effectiveness. The mid-market segment remains a major growth avenue for enterprise application software. Green IT is the new development in this industry with corporations focusing on saving power and energy and working on sustainable models which are environment friendly.

## Worldwide End-User Spending on IT

(USD Billion)

Particulars	2007	2008	2009	2010
Total Market	3,181	3,372	3,198	3,304
Annual Growth (%)	-	6.0	(5.2)	3.3

(Source: Gartner September 2009) (Gartner Perspective IT spending 2010)



## Worldwide Enterprise Spending

(USD Billion)

Particulars	2007	2008	2009	2010
Total Market	209	225	221	231
Annual Growth (%)	—	7.9	(2.1)	4.8

(Source: Gartner September 2009) (Gartner Perspective IT spending 2010)

## Worldwide End-User Spending on IT Services

(USD Billion)

Particulars	2007	2008	2009	2010
Total Market	747	809	781	816
Annual Growth (%)	—	8.3	(3.5)	4.5

(Source: Gartner September 2009) (Gartner Perspective IT spending 2010)

Although companies are looking at improving internal IT processes and reducing costs, they continue to invest in innovation. Some businesses still have the resources to invest in IT to retain customers and gain competitive advantage as they realized that a downturn can be a perfect time to undertake projects that impact future growth.

The current economic crisis has accelerated deep structural changes in the automotive industry setting the stage for sustainable growth. Car makers are now looking at technologies to make the cars greener, safer, informative and intelligent to give a comfortable experience to the drivers. Emerging markets are expected to drive the growth for the automotive industry while accounting for almost 70% of the anticipated growth in 2010. There is an increased shift towards Electric Vehicles and this presents automakers, battery manufacturers and suppliers with the momentous opportunity to redefine the ownership experience for consumers. Not only will this industry shift, create new prospects for incumbent players through new products, business models and mobility solutions, but it will also enable participation from the utility and renewable energy sectors. This shift is not only due to the technological advancements, but also highly supported by the government initiatives. For example, the Advanced Technology Vehicles Manufacturing Loan Program will provide OEMs, battery and electric motor suppliers with USD 25 Billion in loans to accelerate the progress of bringing alternative, low emission vehicles to the market.

This transition is posing demand growth for semiconductor companies, who are catering to the automotive segment worldwide as there is an increase in the embedded software and electronics work for automobiles. Component makers could address the demand for next generation technology parts relating to turbocharged IC engines, safety, light weighting, interiors, emission reduction etc, which will also lead to a demand uptick for the chip makers.

India's IT industry has always been a major hub for companies looking to offshore their IT operations. Cost labour arbitrage, infrastructure development, innovative technology, supportive regulatory policies and an overall positive business environment have been the key factors as India's value proposition.

### Our Focus

Due to the economic downturn, we got a major beating, as we were primarily focused on the manufacturing industry. To diversify our base, we added two new customer segments to our portfolio — Energy & Utilities, and Defense & PSUs, which are closely aligned with our manufacturing domain.

Significant investments are happening in the areas of Energy & Utilities and we can very well integrate and utilize our business IT

and embedded software capabilities in this vertical. Smart grids and energy supplies are viewed as national and strategic issues in many countries and thus IT spending is a necessity. In a recent publication by the IDC energy insights, investments in Information, Communication and Technology (ICT) spending by utilities in North America will increase by an average of 4% in 2010 as the industry recovers from the recession and benefits from the infusion of federal funds through the American Recovery and Reinvestment Act (ARRA). These factors, along with cost recovery, indicate the industry will be investing significantly in new technology to enable the intelligent grid in 2010 and beyond. Our presence in Energy & Utilities is further strengthened through the Sparta acquisition. Sparta has a significant presence in this vertical.

In defense, we would provide end-to-end product design, engineering and IT services. This would be an extension of our embedded software work, where we would be like a one stop partner for building and implementing hi-tech and mission critical systems from design to development through system integration, maintenance and support.

Automotive continues to be the primary growth driver for the Company with new opportunities coming in the areas like hybrid vehicles, small cars, power train, driver assistance safety system focusing on installing more safety features in the automobile, in-vehicle networking architecture and infotainment, among others. India is fast emerging as the global hub for smaller cars. More and more electronics and embedded software work is required for all the above mentioned technological developments and we are well geared to take significant advantage of the shifting phenomenon. With a significant portion of our revenues being invested in developing more IP led offerings, we have been able to demonstrate to the customers our domain expertise and leadership which appreciably improves our competitive position. We have filed for 16 patents during the year majority of which are related to automotive.

OEMs are shifting their production and R & D units to India and China, which apart from giving a cost advantage, also helps in better understanding of the emerging demand centers. This would enable them to manufacture low cost cars for the domestic markets and also source design, engineering and components for global use. OEMs would be looking for more and more local suppliers (both hardware and software) where local suppliers show the maturity to service the OEM requirements. KPIT Cummins is an established player in this area and thus would be one of the first preferred partners of choice.

We see growth coming in our manufacturing IT business mainly in SAP, Oracle and Business Intelligence. The emerging geographies would lead the growth in these areas. Together with Sparta we can focus and grow our SAP practice in APAC and Europe, besides US. Energy & Utilities and public sector units will also drive the growth for this line of business along with our core manufacturing industry segments.

For the first time, it has happened that an economic crisis has contributed to the development of emerging markets more compared to the developed nations. As a result, there is a widening growth gap between the emerging markets and the traditional mature markets like US and Europe. We also believe that emerging markets would be at the forefront of the overall growth with traction across regions like India, China, Japan, Korea, Australia and South Africa.

### Source:

<http://www.idg.com/www/pr.nsf/0/60D005096FCF19528525771A004D9C84>

Roland Berger report on "Automotive Insights"

Gartner Perspective IT spending 2010

<http://www.gartner.com/it/page.jsp?id=1331214>

### The path ahead:

Though it would be early to say that the economy has fully recovered, the above shifts in the macro economic factors indicate towards a