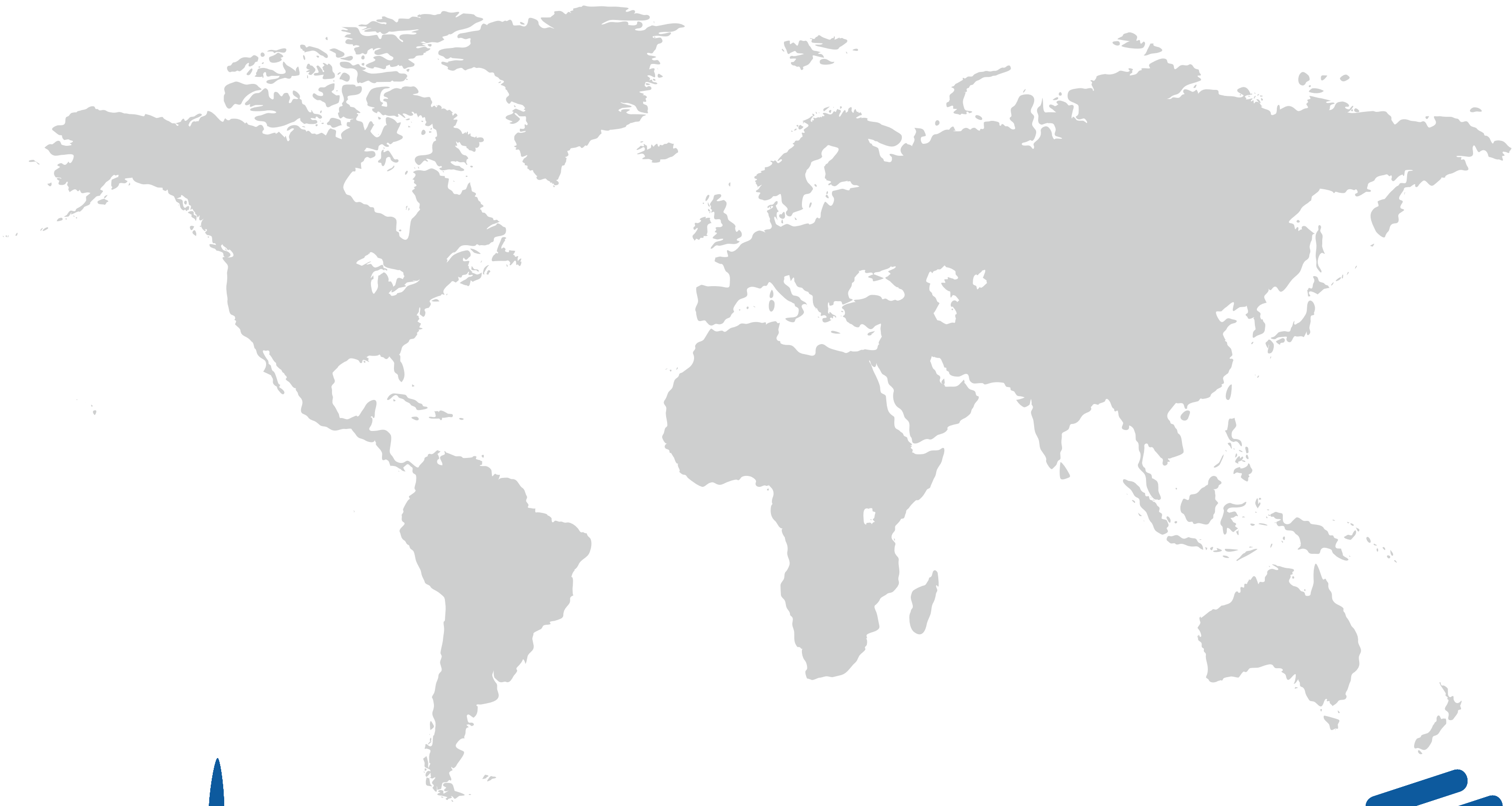
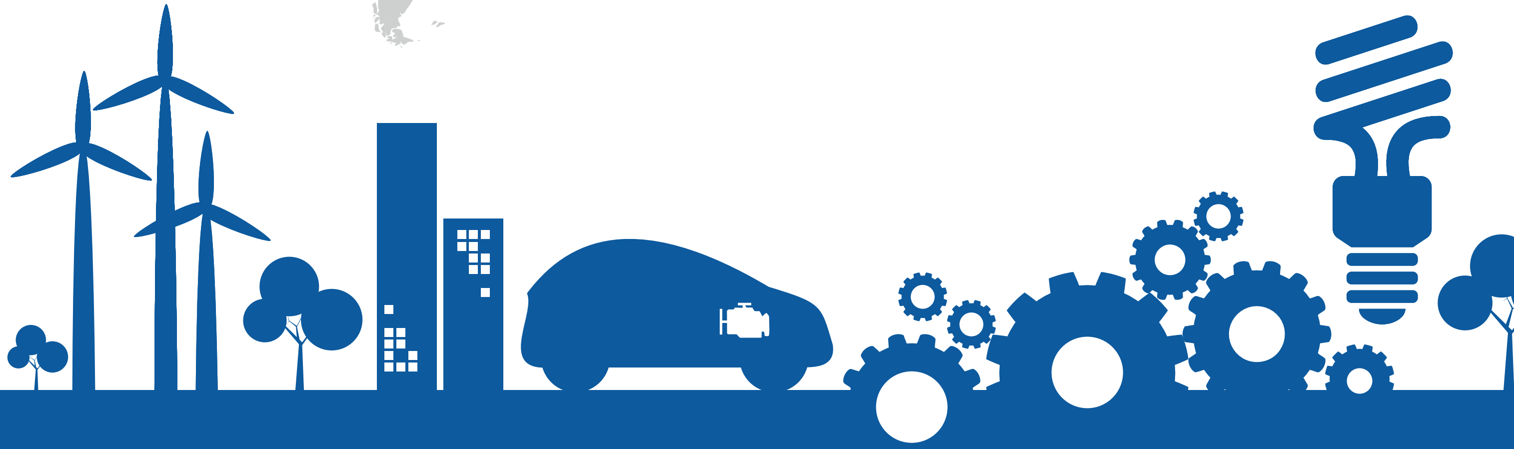
KPIT Cummins





# Transcending Geographies. Driving Innovation.

AUTOMOTIVE & TRANSPORTATION | MANUFACTURING | ENERGY & UTILITIES

## ANNUAL REPORT 2011-12

# Board Of Directors

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

**Kishor Patil**
CEO & Managing Director

**Sachin Tikekar,** Whole - time Director
*(With effect from October 20, 2011)*

**Prof. Alberto Sangiovanni Vincentelli,** Director
*(With effect from April 30, 2012)*

**Amit Kalyani,** Director

**Anant Talaulicar,** Director

**Bruce Carver,** Director

**Elizabeth Carey,** Director

**Lila Poonawalla,** Director

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

**Dr.Srikant Datar,** Director

**Sudheer Tilloo,** Director

**Cariappa Chenanda,** Alternate Director
*(With effect from April 30, 2012)*

**Dwayne Allen,** Alternate Director
*(Upto February 18, 2012)*

**Dinesh Castellino,** Alternate Director
*(Upto April 30, 2012)*

**Mark Gerstle,** Alternate Director

**Sandeep Phadnis,** 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
- HDFC Bank Ltd.
- The Hongkong and Shanghai Banking Corporation Ltd.
- Citibank N.A.
- Axis Bank Ltd.
- BNP Paribas
- Standard Chartered Bank
- ICICI Bank Ltd.
- DBS Bank Ltd.
- Kotak Mahindra Bank Ltd.

# Contents

# Letter from the Chairman and Group CEO

Dear Fellow KPites,

We closed yet another successful year for KPIT Cummins. Our performance was above our guidance. We were also recognized for the value that we added to our customers, partners as well as to the industries that we specialize in.

I am happy to bring to you glimpses of the year that we just closed and the drivers for our growth in the coming year.

**"The year that went by"**

Our Company registered industry-leading performance in FY2012, while doubling revenue within two years since FY2010.

In FY2012, our top line grew by 52% in rupee terms and the bottom line grew by 54%. In dollar terms, revenue grew by 43% out of which 37% was organic. This performance was better than the initial guidance that we had given in April 2011 which was USD 275 Million to USD 285 Million in revenues and ₹ 1,150 Million to ₹1,200 Million in profits. Our profitability has improved during the year as we started with 12.5% EBITDA margins while our exit rate for the year was 16% EBITDA. These margins include SYSTIME which is at a lower profitability than the Company average. Excluding SYSTIME our EBITDA margin exit rate was closer to 17%. The net profit also increased and our EPS grew by 47% while our Return on Equity improved from 19.1% to 22.09%.

During this year, we continued to focus on our core verticals, namely, Automotive, Transportation and Manufacturing which grew by 67% and Energy & Utilities which grew by 63%. Our aggregate growth was despite the fact that we sold off our non-core business of Diversified Financial Services and we also moved our semiconductor hardware business to another company in which we now hold a minority stake. The Company has always grown at a very high rate and we have been generating value for our shareholders with stock return CAGR of 29% since IPO while for last 10 years our stock return CAGR is 30%. During this year, we also issued bonus shares in the ratio of 1:1.

This year we have inducted Mr. Sachin Tikekar, Chief of People Operations and Executive Sponsor for Cummins engagement to our Board of Directors. Sachin is a founding member of KPIT Cummins and has played various leadership roles over the years. In the past, Sachin was Chief Operating Officer of our US operations, and was instrumental in building the Company's sales presence across US, Asia and Europe. We have also added Prof. Sangiovanni Vincentelli as an Independent Director to our Board. He is a professor with the University of California, Berkeley, Department of Electrical Engineering and Computer Sciences. He was a co-founder of Cadence and Synopsys, the two leading companies in the area of Electronic Design Automation. We are very excited to have Prof. Sangiovanni Vincentelli on our Board. This should significantly help us in bringing more innovative solutions to our customers.

Our focus on innovation and leadership in the areas that we work in fetched significant accolades and recognitions to the Company. Glimpses of the same are noted below:

The Company was awarded with the **2011 Wall Street Journal Innovation Award in the 'Transportation'** category. The award recognizes KPIT Cummins' commitment to advancing green and sustainable technology for automobiles. We won the **2012 SAP® North American Partner Impact Award for Momentum** and we have been recognized by SAP as fastest growing System Integrator in North America – **moved up from rank #49 in 2010 to #8 in 2011**. We achieved **Platinum Partner status in Oracle Partner Network** and this would help us to differentiate ourselves in the Oracle solutions and services offerings and also give access to large deals. The Company is officially listed as a **compliant product supplier in GENIVI's website** for the In-Vehicle Infotainment platform. We are the first Independent Software Vendor company to achieve this.

On the internal operations front the Company received several honors. Mr. Shrikant Kulkarni, CIO, KPIT Cummins **was selected amongst the top 50 most respected CIO's in India**. SAP honored KPIT Cummins with **SAP ACE Awards 2011 "BEST – RUN End to End Business Process"**. The Company won the **EMC Cloud Pioneer Award 2011**, for early adoption, coverage, size and maturity of cloud deployment at KPIT Cummins. Mr. Anil Patwardhan, VP and Head Corporate Finance & Governance, was awarded with **"Recognition of Excellence"** at CFO India's 2nd Annual CFO 100 Roll of Honor. He received the award for **"Winning edge – in Mergers & Acquisitions"**.

**"The year ahead"**

We are living in an uncertain world. While the US seems to have moved away from the precipice, Europe seems headed towards it, the social and political tensions created by the underlying economic factors seem to be taking a toll. The growth in China is slowing down and India is certainly faltering. In my opinion, the challenges in the developed world are largely driven by a wave of technological changes that seem to be sweeping through the world. This wave is upsetting the existing industrial structures across nations and thereby creating economic volatility leading to social tensions. The technological changes are driven by increasing energy prices, concern about climate change and are powered by significant disruptive technological advances in biology, nanotechnology and more than anything else, Information and Communication Technology (ICT).

ICT has significantly changed many industries in the last decade. Banking has changed enormously. Other digital-content industries are now driven largely by software companies – witness book-publishing being led by Amazon, telecom by Skype, Videoservices by Netflix and so on. While till recently the change was restricted to "bits and bytes industry", the change is now also happening in the "atoms" or physical-world industry.

The three core industries with which we are deeply concerned are in for a significant transformation.

I believe the automotive industry will change more in the next 30 years than it has changed in the last 100 years, when model T was introduced. Increasing amount of electronics in every sub-system in the car, increasing electrification, autonomous vehicles, active & vibrant infotainment, GPS, vehicle-to-vehicle connectivity and so on, are all changing the degree of information content in a car. Shared and multi-modal mobility will create an envelope of connectivity between the car and the rest of the environment - we have already started seeing new mobility business models like zip- car or car- to- go.

Similarly, when it comes to manufacturing, a new technology revolution is being brought in by 3D printing, collaborative manufacturing across the globe, rapid proto-typing as well as robotics, all of which can change the face of conventional manufacturing. This would mean a big change enabling mass customized manufacturing, distributed manufacturing as well as more energy-efficient and resource-efficient manufacturing. As you can see, these changes will be largely lead by the ICT.

The scenario with the Energy & Utility industry, which is our third focus vertical, is no different. By virtue of advanced sensor technologies and smart grid, it is undergoing major shifts. The implementation of ICT can bring about more efficient generation, distribution and consumption of energy.

We believe that all these changes would lead to a cleaner, greener and better world, while providing immense growth and leadership opportunities to flexible, ambitious and innovative software companies such as ours. Despite the gloom that seems to be pervading the world, we are not only very optimistic about the future, but we also believe that we can benefit from this future by staying focused on our mission of becoming the first choice for each of our stakeholders.

To deliver on our aspirations and stakeholders' expectations, our key thrust areas for the current year will be as follows:

1. **People –** Attraction, development, retention and growth of the right kind of people is one of our key focus areas. We have built and are implementing programs such as, PACE (fresher hiring program by mapping key colleges and universities to our focus practices), LEAP (leadership development program for middle management), ELEVATE (fast growth program for high potential and high performance candidates), SHINE (employee engagement and organizational connect program), PROMS (certification programs for regular upgradation of skilled professionals) and mentorship to support our people goals. You will read more about these initiatives in the letter by my colleague, Kishor Patil, MD & CEO.

2. **Innovation –** We have identified innovation as a strategic focus area that will provide us sustainable competitive advantage. Over the last two years, we have been investing in fostering innovation at KPIT Cummins and we will continue to do the same in the coming year. During FY2013, we will focus on monetization of patents that we have filed, further perpetuation of our initiatives to nurture innovative mindset among employees and towards the creation of a global innovation ecosystem which will transcend beyond the boundaries of the Company. We would focus on product initiatives, which will bring us non-linear growth and help us improve our profitability as we grow rapidly.

3. **Profitable Growth -** Apart from our focus on three core verticals and continued development in the three strategic business units (SBUs), we shall work on building newer propositions that can enhance value for our customers. We are working toward making "value-harvesting" a key tenet of our collaborative growth in future years. We will consciously create, quantify, measure and monitor value that we create for our customers and partake in it. We have formed a separate Business Transformation Unit which will enable us partner with customers in strategizing and executing transformational business programs by leveraging information technology.

4. **One KPIT Experience –** Over the years, we have grown at a fast clip. The growth has been driven by fast organic growth across SBUs as well as through mergers & acquisitions. As a result of these factors, our growth has been diverse and therefore it has become imperative for us that we make focused investments to create a single well-defined corporate persona manifested in the behavior across all KPIT Cummins units. This year we would focus on creating "One KPIT Experience" both for our customers as well as our employees. We will run a number of campaigns towards this corporate initiative. We will make our Global Account Management processes more cohesive and disciplined, thereby helping customers derive benefits of our combined expertise.

I believe these actions will bring value to our customers and employees and support faster growth of the Company.

On the back of our current business visibility and the initial results of our above mentioned initiatives, we have guided for a top line of USD 408 Million to USD 418 Million and bottom line of ₹1,670 Million to ₹1,740 Million, i.e. a total growth of 32% to 35% and organic growth of 22%. This is a bit aggressive considering general despondent mood across the globe, but with our focus and leadership in key areas, we are hopeful of reaching this goal.

At the same time, our vision for the Company is broader and bigger. We would like to reach a run rate of USD 500 Million by end of FY2013 and aim to reach the goal of USD1 Billion in revenue with 18% EBITDA Margin, by the end of 2017.

I believe the future holds immense opportunities for us and our team has the competence and ambition to convert these opportunities into prosperity for all of us.

Thank you for your continued support through the years.

Warm Regards,
Sincerely yours,

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

# From the CEO and Managing Director

Dear Stakeholders,

We are happy to report industry leading growth during last year led by greater differentiation, closer collaboration across the organization, sharper focus on pre-defined industry verticals and larger deals. Last year we have also made a strategic investment in SYSTIME which is the largest JD Edwards solutions and services provider to global corporations in the manufacturing and energy space. We have also added 14 new key customers during the year with total active customer base of 169 and we have 59 customers with revenue run rate of more than USD 1 Million as compared to 40 customers as on FY2011. Our average deal size has increased last year as we have won large deals in the range of USD 15 Million-USD 20 Million and this has been possible due to our focused industry approach. We have been able to expand operating margins across the business units. However our net cash generation has been lower with cash balance of ₹ 1,837.68 Million last year against ₹ 2,556.50 Million in FY2011 due to higher working capital needs on account of high growth and payments related to the earlier acquisitions.

**BUSINESS UPDATE**

**INTEGRATED ENTERPRISE SOLUTIONS (IES) SBU:**

In IES SBU, we offer transformational Enterprise consulting, ERP implementation and follow-on support and e-Biz offerings across our focused industry verticals i.e. Automotive & Transportation, Manufacturing and Energy & Utilities. IES SBU contributes 40% to the total revenue share and last year it has grown by 57%. We have consolidated SYSTIME financials for last quarter of the year. We have won new customer deals worth cumulative value of USD 60 Million+ during the year. Our SYSTIME investment has definitely helped us to expand and strengthen our Oracle services portfolio to include JD Edwards and achieve the platinum partnership of Oracle.

We are the third largest partner to Oracle in North America in Industrial Manufacturing and the eighth largest partner across industries. We have also achieved a very significant Oracle Partner Network milestone by successfully completing Oracle's five advanced specializations and 20 specializations.

In line with our strategy to focus on Automotive, Manufacturing and Energy & Utilities industries, we have, over the years, not invested adequately in Diversified Financial Services (DFS) business. In the interest of our customers and DFS employees, we have agreed to transfer the existing DFS customer contracts along with corresponding account management to Infrasoft Technologies. Majority of the customer accounts along with corresponding account management and delivery teams have already been transferred to Infrasoft and the consideration is based on milestones spread over a period of time.

The current EBITDA margin for IES SBU including SYSTIME stands at 15%. At the time of acquisition, SYSTIME's EBITDA margin was closer to mid-single digit however by leveraging the operational efficiency measures we have been able to improve the operating margins to 10% at the closing of last year. We believe along with the growth in business volume and other available levers such as utilization improvement and change in the business mix as SYSTIME has large onsite presence which can be moved offshore, we can further expand the margins this year and drive it more closer to the sustainable EBITDA margin at around 17%-18% over the next few years.

**AUTOMOTIVE & ENGINEERING (A&E) SBU:**

A&E SBU primarily offers embedded software and automotive electronics related practices which caters to the high-end specialized engineering requirements of the automotive Original Equipment Manufacturers (OEMs) and Tier I & II suppliers to these auto manufacturers. Our A&E SBU has grown by 50% as compared to FY2011 and its current share to the total revenue (including semiconductor business) is 29%. Last year we have won deals worth cumulative value of USD 50 Million+ and there had been good traction across all the practices like Powertrain, Infotainment, AUTOSAR, MEDS, Diagnostics and Telematics. As an extension of our relevant automotive related offerings, we are also working with the defense sector primarily with the R&D labs and we believe there is a strong growth potential in this segment with increasing requirement of advanced technologies.

We have achieved a significant development during the year as we became the first Indian company and the first Independent Software Vendor (ISV) globally to develop a GENIVI compliant In-Vehicle Infotainment (IVI) platform. This is a very key offering where we are working very closely with the OEMs as there is a growing need for GENIVI compliant IVI systems. With the convergence of consumer electronics and automotive products, it has become critical for automotive OEMs and Tier Is to accelerate innovation and integration of consumer technologies with the vehicles.

In our Semiconductor Solutions Group (SSG) SBU, we have decided to hive out the hardware design practice as a separate entity in partnership with Sankalp Semiconductor Pvt. Ltd. Sankalp is a key player for Analog Mixed Signal specializing in end-to-end solutions for IOs, analog and mixed signal chip design/layout. This will make it one of the largest practices in hardware design with best competence in Analog & Mixed Signal Design (AMS) area. Sankalp will provide the business leadership while it will leverage the stronger market presence of KPIT. However, the Software business of SSG will remain a part of our A&E SBU.

Another strategic update in A&E SBU was the acquisition of 20% strategic stake in GAIA Systems Solutions Inc. GAIA is a Japan based embedded software specialist company and this investment allows us to leverage the front end and direct access to Japanese OEMs and Tier I vendors as Japan is a key growth market for our automotive business.

In terms of profitability, our current EBITDA margin is around 20% for this business which is largely sustainable margin for this SBU. We have achieved this profitability after writing off R&D investment to the tune of approximately 2% of SBU's revenue which is a critical need to maintain our leadership and niche differentiation in the automotive domain.

**REVOLO update:**

During last year, as we have been running trials for quite few months on multiple cars of different models, we faced certain issues in the battery life cycle as we found it lower than what was warranted. To address this problem we started working with multiple manufacturers of lead acid and lithium ion batteries across India and abroad while internally we have also developed a battery testing equipment to optimize on battery usage and life. As a result of all these efforts we have been able to achieve the 2.5 years mark for useful life and performance of batteries.

As a next major milestone, we have started major trial project for conversion of 200 vehicles belonging to different fleet owners/ individuals into REVOLO fitted hybrid vehicles which would be running for a period of upto 6 months. We are also having positive discussions with OEMs/Tier Is. During last year we presented REVOLO at the Delhi Auto Expo 2012 and the response was overwhelming and very positive. Discussions with Government bodies related to approval for putting large number of vehicles on road and formation of rules and regulations for hybrid vehicles is progressing well.

**SAP SBU:**

FY2012 has been one of the strongest years for SAP SBU as we registered significant growth of 57% while its revenue contribution increased to 31%. In SAP we offer transformational Core ERP implementation and support along with Business Intelligence and with special emphasis on Energies and Utilities. We are a key player for SAP in Energy & Utilities verticals mainly in the North America market however last year we have seen good business coming from across industries for SAP offerings. We have won new business with cumulative value of USD 100 Million in this SBU during the year. Through our unique proposition we continue to deliver higher value for our customers' investments and SAP recognizes our efforts as we recently won the **2012 SAP® North American Partner Impact Award for Momentum** and were recognized as fastest growing System Integrator in North America – **moved up from rank #49 in 2010 to #8 in 2011.**

In terms of new deal wins, last year we closed three deals in SAP which are more than USD 20 Million in size and these are from across industries while for one of the customer we would actually work across our two other SBUs — IES and A&E. We have won more than 6 deals this year with individual size of more than USD 5 Million and we see a good pipeline in the Utilities space. Since last 1.5 years we have been investing in the Small & Medium Enterprises segment (SME) to develop the front-end and solution capabilities and last year we got two customer engagements in SME however we were not able to achieve the expected business goals last year. SME market space is growing and large ERP players are making IP and people investment to capture this growth opportunity and we also see potential to build our pipeline by leveraging our investments.

Along with growth, we have also been able to improve the profitability in SAP as our current EBITDA margins stood at close to double digit from the break-even level during start of the year. Due to the above mentioned investments in SME segment, front end and development of productized solutions there had been a strain on the SAP margins as these investments were written off but leveraging the high business growth and revenue flow from these investments through customer wins, we have been able to improve the profitability as we moved along the year. We expect the margins to improve to a sustainable level of 16% over the next few years.

**PEOPLE INITIATIVES:**

People Development was a key priority last year. We have aligned the individual performance of employees along with the strategic objectives of respective business units and with the organization's vision. The total employee net addition during the year was 1,405. We have been able to control the attrition challenge this year as attrition came down from last year's level of 30%+ to 20%. Since last two years we have increased the focus to add larger number of freshers. Our offshore utilization improved from 68.5% in FY11 to 72.6% in FY12 while onsite improved from 89.8% to 91.6%.

We have taken few key steps during last year to develop our people function and improve the capability and performance of our employees. Through SHINE initiative we are organizing various communication forums for our employees to ensure we Connect, Engage and Enable each one of us to relate not only to own roles but to a larger organizational landscape of Opportunities, Challenges and Achievements. This is a platform for the executive management team, function heads and practice/delivery heads to connect with one and all across the organization.

In view of our higher growth potential, we would like our people practices to attract best talent for specialized practices. With our academic program, PACE, we are developing a closer connect with selected colleges across India and globally for each of the practice areas. We work with the students and professors to design the curriculum and get involved with them through facilitation of different industry guest lectures, live project workshops and internships throughout the year. This year we have added Indian colleges like RVCE Bangalore, VIT Vellore, MIT Manipal to name a few while we are also working with international colleges like University Paul Sabatier (France), MIT & Purdue University (USA) and RWTH Aachen University (Germany) among others.

As part of our Learning organization, we have taken initiatives to introduce two new programs which would be focusing on the mentoring and development of high potential employees for the next level of growth. One such program is ELEVATE which focuses on the senior leadership team while LIFT is another initiative started for the entry level management. Through PROMS (Project Management School) we are enabling quicker growth path for people with high skill set and potential and last year we also expanded the training base by inclusion of Mumbai and Delhi based employees. We have partnered with SkillSoft, a leading SaaS provider of On demand e-learning solutions to provide learning opportunities for employees across the global offices.

**INNOVATION AT KPIT:**

Innovation in KPIT is being driven by three core areas — R&D for our customers; developing technologies based on R&D projects for key verticals and fostering the innovation culture to take benefit of new technology trends. We are working with customers on various projects to address issues which are major challenges in their relevant industries and we have come up with unique solutions to overcome such challenges and filing global patents. We are constantly exploring innovative ideas to develop technologies which can be then converted into patented solutions. Last year we have filed 7 patents taking the total number of patents to 38.

**GEOGRAPHY UPDATE:**

Last year we saw good growth across all the three geographies as US & Rest of World grew by 57% and 53% respectively while Europe grew by 34%. We have set up subsidiaries in Brazil and Netherlands to strengthen our operations in these respective regions as we believe these are the upcoming markets for IT outsourcing and we are making required investments for developing the front end and delivery capabilities. The current growth in Europe is mainly out of Germany & Scandinavian markets while UK and France are bit more flattish. Among Rest of World, India, Japan & Korea are doing well for us while in China we have started working with two Chinese OEMs. Japan market would get further boost through the new investment in GAIA systems as we would get a Japanese front end team.

**LEADERSHIP TEAM UPDATE:**

Mr. G.B. Prabhat has recently joined the Executive Management team as Principal-Business Transformation Unit. Mr. Prabhat is considered amongst the pioneers of off-shore consulting model, who went ahead to create the 'Second Generation Outsourcing' model.

Ms. Melissa Womack has been appointed as Global Head of Marketing. She is based in US and has 20 years of marketing leadership and corporate strategy experience in IT industry.

Ms. Sandria Miao has joined KPIT as COO — China Operations. Based in Shanghai, she would be leading the business development effort for SAP pursuits in China while also handling the entire operations of China business. She has worked for a long stint in US and China.

**INFRASTRUCTURE:**

In order to enhance collaboration between our global teams and customers, we have implemented MPLS connectivity and High definition Video conferencing using Tele-presence facility across our 13 international and 7 India offices. This will enable us to connect more effectively and cost efficiently with all employees and customers based across the globe. In Bangalore, we have consolidated our entire operations to Adarsh Tech Park SEZ with total area size of 1.2 lakh sq.ft.

During last year we became one of the first IT companies to set up private cloud infrastructure and revamped our critical network and security infrastructure. We have moved all corporate applications to private cloud bringing change in our infrastructure management to improve IT process and operational efficiency. On Private cloud, we have also migrated 800 users on Virtual desktop environment each having thin client. This has helped in improving operational efficiency, Information security, flexibility to work from anywhere and simplified compliance management.

**CORPORATE FUNCTION UPDATE:**

Within the organization, there is an increased focus on productivity improvement as we are analyzing measures to improve people productivity on a daily basis so as to generate better organizational level output. We invested into various automated tools and practices which are productivity management solutions designed to help organizations improve work output thereby increasing revenue, profitability and customer satisfaction through resource optimization.

**BUSINESS OUTLOOK:**

This year would be very important as we are creating a base towards our goal for USD 1 billion revenues by 2017 and we have identified the key steps which will help us to transform as a global organization.

- Focus would be the primary growth strategy as we want to establish domain expertise in Automotive & Transportation, Manufacturing and Energy & Utilities industry and develop offerings for customers across these industry segments and this would further help us to win large deals. To strengthen this focus we have been making investments in people and technology and we believe these investments would drive the growth.
- Last year we have won 3 large deals with size of USD 20 Million+ each which include PACCAR and two other deals in North America market. We would be working with PACCAR to set up its India Technical Centre in Pune.
- Customer mining would be very important as we are looking at building 50 accounts with USD 10 Million plus repeat revenues to create industry specific solutions and grow our global accounts significantly. This we can achieve through collaboration revenue, increasing annuity business and offering business transformation services.
- We want to build a One-KPIT experience for our customers which will be aligned to our philosophy of collaboratively growing business value for the customer. We would apply business transformation intent to as many engagements as possible, a consistent customer experience globally that spans across all of our capabilities & offerings and exploring innovative engagement models such as risk-reward based pricing.
- To maintain profitable growth we will work towards bringing changes in the business mix, increasing the offshore revenue component mainly in SAP and IES SBU by getting more support and maintenance business, driving EBITDA margins improvement at the SBU level through some of the above mentioned levers and the operational efficiency measures, leverage the employee pyramid base through freshers addition and increasing share of non-linear business.

We are excited about the future and the encouragement and enthusiasm that we see across the organization, we feel confident of our capabilities and our ability to grow in this challenging environment.

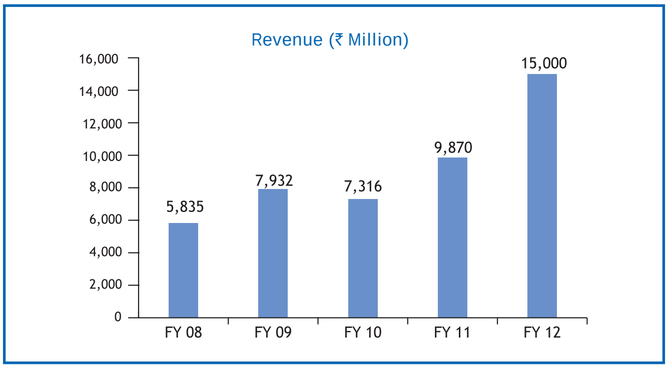
Warm Regards,
Sincerely Yours,

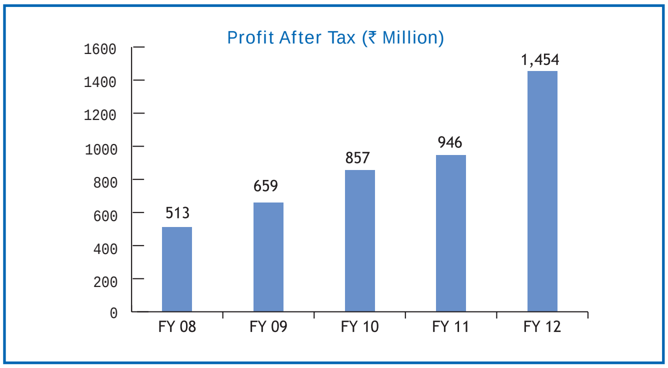
**Kishor Patil**
CEO & Managing Director

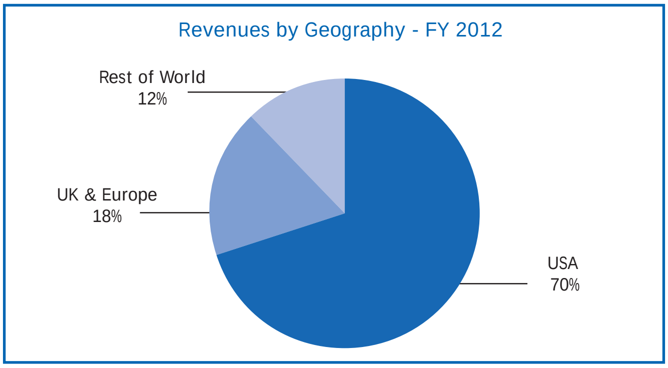
# Financial highlights

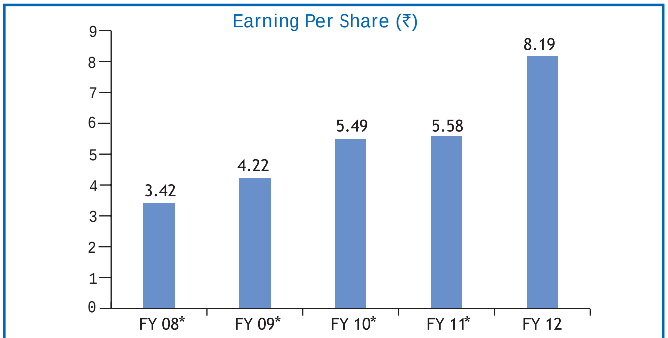
₹ Million

| | FY 2012 | FY 2011 |
|---|---|---|
| **CONSOLIDATED INCOME STATEMENT** | | |
| Sales (USD Million) | 309.28 | 216.17 |
| Sales | 15,000.12 | 9,870.48 |
| Gross Profit | 5,065.69 | 3,622.34 |
| EBITDA | 2,165.76 | 1,484.22 |
| Interest | 73.24 | 37.79 |
| Depreciation/ Amortization | 444.86 | 411.25 |
| Other Income | 138.24 | 67.40 |
| Profit Before Tax | 1,886.35 | 1,102.58 |
| Profit for the Period | 1,453.54 | 945.82 |
| **CONSOLIDATED BALANCE SHEET** | | |
| Share Capital | 355.89 | 175.73 |
| Application Money | 1.05 | 2.61 |
| Reserves & Surplus | 6,768.48 | 5,853.57 |
| Total Shareholder's Funds | 7,125.42 | 6,031.91 |
| Loans | 2,222.25 | 930.87 |
| Minority Interest | 326.01 | 8.73 |
| Other Non- Current Liabilities | 374.95 | 215.03 |
| Other Current Liabilities | 3,314.09 | 1,900.67 |
| **Total Equity & Liabilities** | **13,362.72** | **9,087.21** |
| Fixed Assets | 1,852.69 | 1,579.80 |
| Goodwill on Consolidation | 3,622.54 | 1,299.91 |
| Non- Current Investments | 217.46 | - |
| Trade Receivables | 4,380.24 | 2,288.48 |
| Cash and Cash Equivalents | 1,472.98 | 2,079.99 |
| Long Term Loans & Advances | 617.20 | 755.05 |
| Other Assets | 1,199.61 | 1,083.98 |
| **Total Assets** | **13,362.72** | **9,087.21** |
| **KEY RATIOS** | | |
| Revenue growth | 51.97% | 34.91% |
| EBITDA Growth | 45.92% | (8.07%) |
| Profit Growth | 53.68% | 10.32% |
| Gross Profit Margin | 33.77% | 36.70% |
| EBITDA Margin | 14.44% | 15.04% |
| PAT Margin | 9.69% | 9.58% |
| SG&A to Revenue | 19.33% | 21.66% |
| ROE | 22.09% | 19.10% |
| Return on Capital | 17.55% | 15.61% |
| Debt to Equity | 0.26 | 0.22 |
| Cash/ Total Assets | 11.02% | 22.89% |
| Earnings Per Share (₹) | 8.19 | 5.58 |

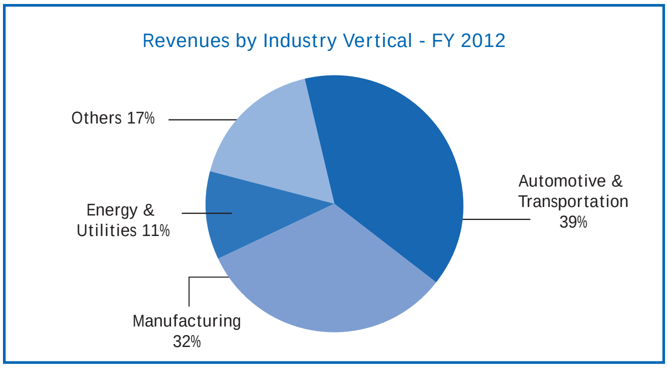


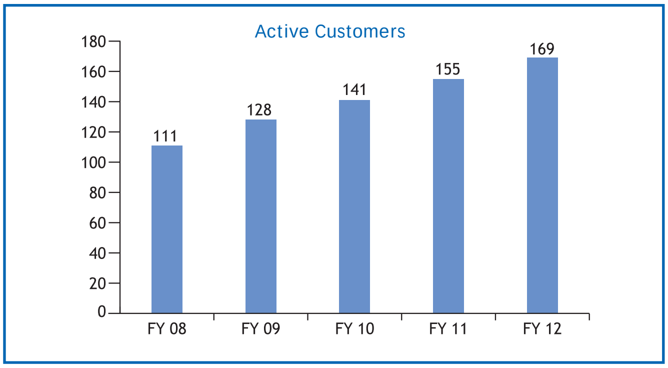



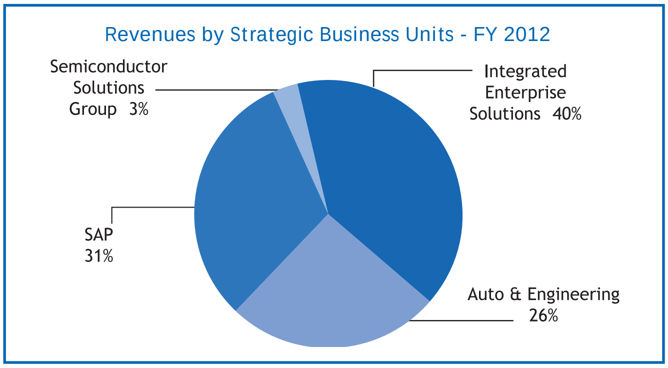



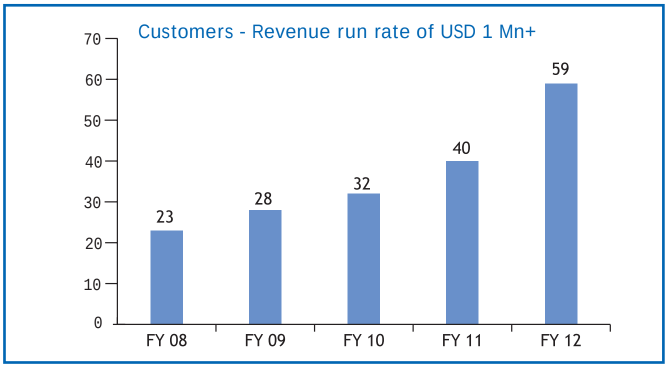




* Previous year's EPS figures have been adjusted for bonus issue.



# Management Discussion & Analysis

**Global Economic Scenario:**

While the year 2011 was the year of recovery post the economic slowdown, 2012 was a year of mixed emotions. The year started on an encouraging note, continuing on the positive vibes of 2011. As the year progressed, clouds of uncertainty started looming over certain sections of the economy with lead macro indicators pointing towards a possible slowdown in the US economy and clear problems surfacing in the Euro zone. Thus from the middle of the year, the overall economic climate changed from the confident opening to a more cautious one. This continued on the same note throughout the remainder of the year. The Indian IT industry though, was a mixed bag with two traditionally larger IT outsourcing verticals viz. Banking & Financial Services (BFS) and Telecom displaying similar slowdown trends. On the contrary, verticals like Manufacturing, Automotive and Healthcare actually depicted increased IT spending. As a result the large Indian IT players, where BFS forms a major part of their business, reflected the negative sentiments, whereas the mid-size players focusing on the Manufacturing, Automotive or the Healthcare verticals showed progressive numbers and buoyancy in growth. These players also portrayed confidence for 'above average' growth in the near future.

Overall, the economic challenges have led corporations to redraft their IT policies and the benefits to be derived from IT outsourcing. Customers no longer intended to have IT outsourcing just as a cost arbitrage and efficiency improvement tool, but demanded business transformation and innovation as the focal point of IT outsourcing. This led the customers to work with the IT vendors on differentiated services and new business models like partnerships, business outcomes based pricing, profit sharing, pay per use, dedicated centres of excellence, IP sharing and so on. The thrust on innovation and the customer acceptance and adaptability of the same started happening at a faster pace than earlier. Imperatively, IT vendors who can fast acclimate with this phenomenon will lead the growth in the coming years.

**Industry Growth Estimates:**

In calendar 2011, the worldwide spending for technology and services exceeded USD 1.7 Trillion, a growth of 5.4% over 2010. Software products, IT and BPO services continued to lead, accounting for over USD 1 Trillion – 63% of the total spend. Global sourcing grew by 12% over 2010, nearly twice the global technology spend growth.

The financial year 2012 is expected to be a landmark year for the Indian IT-BPO industry as the industry is expected to cross USD 100 Billion in aggregate revenues with the IT software and services revenue estimated at USD 88 Billion. Exports revenue is likely to reach USD 69 Billion, a growth of 16.3%. The ER&D, OSPD and software products segments are expected to generate exports of USD 13 Billion, a growth of nearly 14% over financial year 2011.

The IT exports are expected to grow 11%-14% in financial year 2013 while the domestic market is expected to grow faster at 13%-16%. New breakthrough technologies, innovation-centric approach, strengthening customer connect, deepening focus on new markets and adoption of new business models are some factors which will lead to this growth. Source: (NASSCOM SR 2012)

**Focus Industry Trends:**

During the year we have seen growth across all our verticals and that has been primarily driven by the focus investments in technology, innovation and vertical specific solution creation.

The automotive industry has been registering good growth post recovery and auto companies are deeply focusing on delivering profitable & sustainable growth, operational & financial flexibility, increased investments in new and futuristic technologies and capturing the market share in new high growth markets. The industry is going through a structural change due to issues like environmental challenges, growing urbanization and shifting consumer behaviour. There is a growing interest in alternative powertrain technologies like hybrid, electrification and alternate fuels. The transmission technology is being driven by the shift towards better fuel efficiency and stricter emission norms. New software design protocols and platform standardization initiatives are expected to grow as number of companies start adopting them. Cars are increasingly becoming a part of consumer's connected lifestyle and thus developing technologies & platforms for connected vehicles and new mobility service solutions is another key focus area of automotive innovation. Over the next few years, in-vehicle web connectivity would be a key criterion for vehicle purchases as consumers feel the need to extend their digital lifestyles into their vehicles and remain connected with other devices, businesses and outside world when they are on the move. Consumers in developed and developing economies have different mobility needs. Continued urbanization is likely to lead consumers in developed world to look for car availability and usage rather than car ownership, leading to newer business models like the Zip Car and Car To Go. While, developing economies' customers would want to buy more cars, demanding smaller but smarter cars. With increasing amount and complexity of software inside the cars, the need for architecture standardization and emergence of a Tier I Software vendor is gaining momentum. Besides green vehicles, governments are also promoting usage of safer vehicles with new technological developments like night vision and other advanced driver assistance safety systems. A new concept of 'driverless car' has been developed which can sense the environment and navigates on its own, thus addressing the rising safety concerns related to road accidents. Thus the Automotive Industry is witnessing a paradigm shift and will continue to do so in the coming years.

The global manufacturing environment is transforming as software and digitization will be running factories and manufacturing processes in the future. New concepts like 3D printing, collaborative manufacturing, increased use of robotics and social manufacturing through online communities, are revolutionizing this industry. Manufacturing makes up only about 11% of America's GDP, but it is responsible for 68% of domestic spending on research and development, indicating boosted spend on R&D and innovation by manufacturing firms. With the shift in demand markets, nature of products and complexity of supply chain systems, manufacturing companies are looking beyond the short term economic volatility and investing for the future. Manufacturing operations have to become more agile as processes across industries are fast replacing mechanical systems with more software controls. The investments made by manufacturers are to address key trends like data and analytical tools for better business performance assessment, collaboration & social networking software, enterprise applications to create connected environment and flexible business processes, social media and B2C applications to generate value propositions for end customers.

Globally E&U industry has been witnessing growth in the implementation of Information and Communication Technologies (ICT) as part of their modernization process, in both business and technology solutions and they will continue to make these investments in information, operational and consumer related technology solutions. In US, total ICT spending by utilities will reach USD 17 Billion in 2013 with CAGR of 9% over the five year period. Utilities are more focused on bringing in operational improvements and process efficiency, while addressing the impact of increasing compliance requirements. This trend is driven by a combination of internal needs arising from the increasing complexity of utilities business and also through the external opportunities created by technological innovation. E&U companies are therefore aligning their