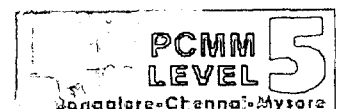
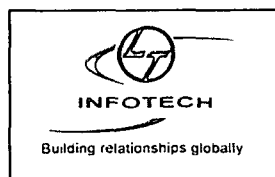


Larsen & Toubro Infotech Limited

Building Relationships Globally

Annual Accounts for the year
ended 31st March, 2005



LARSEN & TOUBRO INFOTECH LIMITED**DIRECTORS' REPORT**

The Directors have pleasure in submitting the Eighth Annual Report and Accounts of Larsen & Toubro Infotech Limited for the year ended March 31, 2005.

FINANCIAL RESULTS

	Rs. Million	
	2004-05	2003-04
Total Income	5637.74	3660.29
Operating Profit (PBIDT)	803.96	422.56
Less : Interest	34.23	30.99
Less : Depreciation and amortisation	252.81	227.86
Less : Amortisation of deferred revenue expenditure	11.13	40.59
Profit Before Tax (PBT)	505.79	123.12
Less : Provision for Current Tax	31.22	4.22
Add/ Less: (Writeback) / further provision for earlier years	14.52	-
Add/ Less: (Writeback) / further provision for Deferred Tax	1.04	(3.53)
Profit After Tax (PAT)	459.01	122.43
Add : Balance brought forward from previous year	292.15	169.72
Balance available for disposal which Directors appropriate as follows :	751.16	292.15
Dividends	225.00	-
Tax on Dividend	29.41	-
Transfer to General Reserve	180.00	-
Balance to be carried forward	316.75	292.15

DIVIDEND

The Directors have paid Interim dividend of Rs. 7.50 per share on 30,000,000 Equity Shares of Rs. 5/- each

225.00 -

The Directors do not recommend any final dividend.

: 2:

FINANCIAL PERFORMANCE

Total income from all sources was Rs. 5637.74 million (increase of 54% over previous year). Software exports amounted to Rs. 5374.80 million (increase of 61% over previous year).

Operating profit (PBIDT) was Rs. 803.96 million (increase of 90% over previous year). Profit before tax was Rs. 505.79 million (increase of 311% over previous year) and Profit after tax was Rs. 459.01 million (increase of 275% over previous year). Earnings per share were Rs. 15.30 per equity share of Rs.5 each.

YEAR IN RETROSPECT

The year 2004-05 witnessed an increase in the worldwide IT spending and further acceleration is expected in 2005. During the year, the Company has registered a significant growth in Exports Revenue (61%) and USA continues to be the leading destination contributing 63% to the total software exports. Offshoring has seen a rise with a shift from cost-only focus to a cost-and-quality or cost-and-business-impact focus. Companies are looking to outsource beyond non-core functions as part of a broader effort to improve profitability.

With increased competition, offshoring is becoming mainstream and getting commoditized with billing rates under constant pressure. Consolidation of small players and offshore presence of multinational or global service providers is further adding to the competition.

With the proven offshore outsourcing model and expectation of long term cost leveraging, US Companies continue large-scale outsourcing, despite local pressure to retain jobs. Servicing of engagements in the country of the client (especially USA) is becoming very restrictive and will be the major limiting factor in the growth of business.

ORGANISATION

During the past year, the Company acquired some key clients in ERP practices and Financial services and further consolidated its presence in the Manufacturing and Communications and Embedded Systems space.

The Company plans to leverage its parentage in the manufacturing IT space. During the coming year the thrust will be on presenting focussed solutions to the market in the manufacturing arena in areas like Product Life Cycle Management (PLM), Global Supply Chain Management (SCM), Multi-tier Decision Support Systems (DSS), fine tuned Customer Relationship Management (CRM) and Manufacturing Excellence System (MES).

The Company has been able to qualify as an approved vendor in certain strategic accounts and hopes to make some breakthrough in the coming year. The Company has mapped certain key accounts with growth potential and initiatives have been undertaken to provide value-added and end-to-end solutions to such clients.

: 3 :

QUALITY INITIATIVES

During the year, the Company received the IT Security Certification (BS7799 standard). The Company has also launched CMMi initiative, while continuing select programmes of six-sigma implementation..

CAPITAL EXPENDITURE

As at 31st March 2005 the gross Fixed Assets stood at Rs. 1753.17 million out of which assets amounting to Rs. 354.08 million were added during the year.

DEPOSITS

During the period under review, the Company has not accepted any deposits from the public.

SUBSIDIARY COMPANIES

As required under Section 212 of the Companies Act, 1956, the Audited Statement of Accounts, the Reports of the Board of Directors and Auditors of the subsidiary are annexed.

AUDITORS' REPORT

The Auditors' Report to the Shareholders does not contain any qualifications. The notes to the accounts referred to in the Auditors' Report are self-explanatory and therefore do not call for any further comments of Directors.

DISCLOSURE OF PARTICULARS

Information as per the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo is given in Annexure A forming part of this report.

PERSONNEL

The Board of Directors wishes to express its appreciation to all the employees of the Company for their outstanding contribution to the operations of the Company during the year.

The information required under Section 217 (2A) of the Companies, Act, 1956 & the rules made thereunder, are given in a separate annexure to this Report and forms part of the Report. The Report and the Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered office of the Company.

: 4 :

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) which was introduced by the Companies (Amendment) Act, 2000, your Directors confirm that :-

- (i) In the preparation of the annual accounts, the applicable accounting standards have been followed and there has been no material departure.
- (ii) The Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March, 2005 and of the profit or loss of the Company for the year ended 31st March, 2005.
- (iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) The Directors have prepared the annual accounts on a going concern basis.

DIRECTORS

Mr. J.P. Nayak resigned from the Board of Directors of the Company on 13th August, 2004. He was a Director since 22nd February, 2001. The Directors wish to place on record their appreciation of the invaluable services rendered by him as a Director of the Company.

In the Board Meeting of the Company held on 13th August, 2004, Mr. V.K. Magapu has been appointed as a Director in casual vacancy caused by resignation of Mr. J.P. Nayak.

Mr. R.N. Mukhija was appointed as an Additional Director of the Company on 13th August, 2004 and will hold office till the conclusion of the ensuing AGM.

Mr. Y.M. Deosthalee retires from the Board of Directors by rotation and is eligible for re-appointment.

AUDIT COMMITTEE

The Audit Committee comprises of Mr. Y.M. Deosthalee, Mr. A.M. Naik and Mr. V.K. Magapu, all non-wholetime directors of the Company with Mr. Y.M. Deosthalee as its Chairman. The role, terms of reference, the authority and power of the Audit Committee are in conformity with the requirements of the Companies Act, 1956.

AUDITORS

The Auditors, M/s. Sharp & Tannan, hold office until the conclusion of the ensuring Annual General Meeting and are recommended for re-appointment. Certificate from the auditors has been received to the effect that their re-appointment, if made, would be within the limits prescribed under section 224 (1B) of the Companies Act, 1956.



: 5 :

ACKNOWLEDGEMENTS

The Directors acknowledge the invaluable support extended to the Company by the Bankers, Vendors and Customers.

For and on behalf of the Board

Y M DEOSTHALEE
Director

V K MAGAPU
Director

Mumbai
29th April, 2005

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ANNEXURE - A

INFORMATION AS PER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS REPORT FOR THE YEAR ENDED 31ST MARCH, 2005.

A. Conservation of energy

- (a) Since the Company is engaged in software development, it is not a major consumer of energy.

B. Technology absorption

Details furnished in Form B.

- (b) Efforts made in technology absorption as per Form B of the Annexure

C. Foreign exchange earnings and outgo

The Company exports customised software and professional services mainly to North America, Western Europe, Japan, Korea and Singapore. The Company plans to conduct road shows in USA to promote offshore execution of software services from India. It also maintains constant contact with prospective customers for its offerings by way of participation in International Trade Fairs.

- (c) Activities relating to exports; initiatives taken to increase exports, development of new export markets for products and services; and export plans

2004-05 (Rs. Million)

(d) Total foreign exchange used and earned	Used	2645.40
	Earned	5378.45

FORM B

(Disclosure of particulars with respect to Technology Absorption)
Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company : Not Applicable
2. Benefits derived as a result of the above R & D
3. Future plan of action
4. Expenditure on R & D
 - a) Capital
 - b) Recurring
 - c) Total
 - d) Total R&D expenditure as a percentage of total Turnover

Technology absorption, adaptation and innovation

1. Efforts in brief made towards :
technology absorption, adaptation and innovation

The Company operates Centres of Excellence in respect of emerging and existing technologies which collate, disseminate and spread knowledge to all employees in the Company. Employees are trained using state of the art methodologies, which results in better productivity. The Company has created a software component library to ensure reusability of software and consistency in implementation. These find particular use in B2B marketplace implementations where adherence to standards and compatibility with different platforms is very important.
2. Benefits derived as a result of the :
above efforts

Repeat business, expansion into various new technology domains and productivity improvements through use of latest software tools.

Larsen & Toubro Infotech Limited

Management discussion and Analysis 2004-05

Financial Performance

- ❖ L&T Infotech has achieved turnover of Rs. 5637.74 million during the year 2004-05 compared to Rs. 3660.29 million achieved last year, registering an increase of 54%. (On consolidated basis, the turnover is Rs. 5790.52 million in 2004-05 compared to Rs.3778.27 million in 2003-04)
- ❖ Exports amounted to Rs. 5374.80 million as against Rs. 3339.06 million in 2003-04, an increase of 61%.
- ❖ Operating profit (PBIDT) is higher at Rs. 803.96 million as against Rs. 422.56 million in 2003-04, an increase of 90%.
- ❖ Profit after tax is Rs. 459.01 million as against Rs. 122.43 million in 2003-04, an increase of 275%.

Segments / Geographies serviced

USA continues to be the leading destination contributing 63% to the total software exports; Europe and Asia Pacific contribute 19% and 12% respectively.

57% of LTIL exports come out of onsite services and balance through offshore development centers.

Industry structure and developments

The year 2004-05 witnessed an increase in the worldwide IT spending and further acceleration is expected in 2005. Offshoring has seen a rise with a shift from cost-only focus to a cost-and-quality or cost-and-business-impact focus. Companies are looking to outsource beyond non-core functions as part of a broader effort to improve profitability.

With increased competition, offshoring is becoming mainstream and getting commoditized with billing rates under constant pressure. Consolidation of small players and offshore presence of multinational or global service providers is further adding to the competition.

With the proven offshore outsourcing model and expectation of long term cost leveraging, US Companies continue large-scale outsourcing, despite local pressure to retain jobs. Servicing of engagements in the country of the client (especially USA) is becoming very restrictive and will be the major limiting factor in the growth of business.

Organisation Outlook

During the past year the Company acquired some key clients in ERP practices and Financial services and further consolidated its presence in the Manufacturing and Communications and Embedded System space.

The Company plans to leverage its parentage in the manufacturing IT space. During the coming year the thrust will be on presenting focussed solutions to the market in the manufacturing arena in areas like Product Life Cycle Management (PLM), Global Supply Chain Management (SCM), Multi-tier Decision Support Systems (DSS), fine tuned Customer Relationship Management (CRM) and Manufacturing Excellence System (MES).