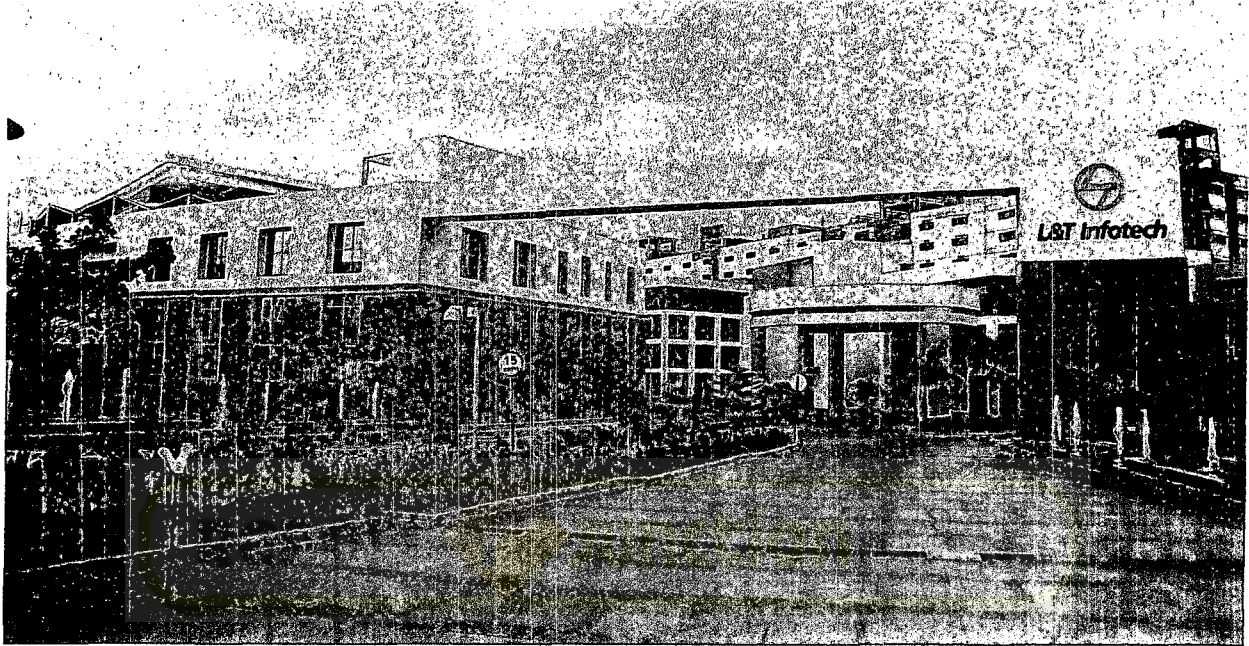
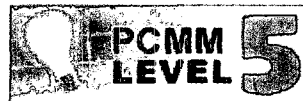


Larsen & Toubro Infotech Limited



Development Centre Whitefield, Bangalore



Annual Accounts for the year

ended 31st March, 2007

www.Lntinfotech.com

LARSEN & TOUBRO INFOTECH LIMITED

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

The Directors have pleasure in submitting the Tenth Annual Report and Accounts of Larsen & Toubro Infotech Limited for the year ended March 31, 2007.

FINANCIAL RESULTS

	Rs. Million	
	2006-07	2005-06
Total Income	12806.29	7980.77
Operating Profit (PBIDT)	2054.44	1126.07
Less : Interest	20.95	53.02
Less : Depreciation and amortization	328.35	274.37
Profit Before Tax (PBT)	1705.14	798.69
Less: Provision for Tax	193.82	96.87
(including Rs.375 lakhs for Fringe Benefit Tax)		
Profit After Tax (PAT)	1511.32	701.82
Add : Balance brought forward from previous year	547.53	316.75
Balance available for disposal which Directors appropriate	2058.85	1018.57
as follows :		
Dividend	150.05	150.00
Tax on Dividend	21.05	21.04
Transfer to General Reserve	600.00	300.00
Balance to be carried forward	1287.75	547.53

DIVIDEND

The Directors have paid Interim dividend of Rs. 5 per share on 32,250,000 Equity Shares of face value Rs. 5/- each on pro-rata basis. (Previous year Rs.5 per share on 30,000,000 Equity Shares of Rs. 5/- each).	150.05	150.00
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The Directors do not recommend any final dividend.

FINANCIAL PERFORMANCE

Total income from all sources was Rs. 12806.29 million (increase of 61% over previous year). Software exports amounted to Rs. 12393.49 million (increase of 63% over previous year).

Operating profit (PBIDT) was Rs. 2054.44 million (increase of 82% over previous year). Profit before tax was Rs. 1705.14 million (increase of 113% over previous year) and Profit after tax was Rs. 1511.32 million (increase of 115% over previous year). Earnings per share were Rs. 50.36 per equity share of Rs.5 each.

INCREASE IN SHARE CAPITAL

During the year, the authorised share capital of the Company was increased from Rs. 152,500,000/- to Rs. 163,750,000/-.

In March 2007, the Company allotted 2,250,000 partly paid-up Equity shares on rights basis to its holding Company, Larsen & Toubro Limited. Consequent to this allotment, the number of issued and subscribed equity shares of the Company has increased from 30,000,000 Equity shares to 32,250,000 Equity shares.

CAPITAL EXPENDITURE

As at March 31, 2007 the gross Fixed Assets stood at Rs. 2825.86 million out of which assets amounting to Rs. 558.62 million were added during the year.

YEAR IN RETROSPECT

The year 2006-07 continued to witness strong growth in offshore IT services space with India securing a leadership position as a preferred destination for offshore IT and BPO industries. The growth momentum is expected to continue and IT exports alone are expected to reach US\$ 35 billion by FY 2010. Application development and maintenance is expected to continue being the largest service line accounting for an estimated US\$ 14 billion in 2010. There is a significant room for growth for global offshore IT industry as only 10% of the US\$ 300 billion addressable market has been currently penetrated.

NASSCOM Strategy Review 2006 suggests that a large and growing pool of skilled professionals has been a key driver of the rapid growth in the Indian IT-ITES Sector.

ORGANISATION

The Company has registered significant growth during the year with total revenues growing by 61%. The Company continues to focus on the chosen verticals viz Banking, Financial Services and Insurance, Energy and Petrochemicals, Product Engineering Services (comprising of Communications and Embedded Software) and Manufacturing.

The Company's service offerings are in the areas of Application Maintenance and Development, Enterprise Resource Planning and specialised services like Data Warehousing and Business Intelligence, High-end KPO/BPO, Testing Services and Infrastructure Management Services.

ACQUISITION

During the year the Company acquired GDA Technologies Inc., USA (GDA) for USD 27 million. GDA is an electronic design services firm based in California with design centers in US and India. It offers end-to-end design solutions in semiconductor product development from IP licensing, logic design and physical implementation for advanced process technologies. As per the terms of the agreement, the Company has paid USD 12 million towards the acquisition of GDA alongwith its employees and the balance amount of USD 15 million is payable over a period of 3 years. GDA became wholly owned subsidiary of the Company w.e.f. March 15, 2007. This acquisition of GDA Technologies will help the Company deliver a broad set of chip design and product realization services to global customers, thereby complementing the Company's capabilities in the IT services space.

HUMAN RESOURCES

One of the key initiatives during the year was launching of common talent pool of resources aimed at optimizing the resource utilization while at the same time providing flexibility to the operating units to scale up quickly to meet the clients' requirements. The resourcing function has also been reorganized under operating units to ensure hiring of right skills, particularly for laterals.

The Company increased its employee strength to 7220 at the end of FY07 from 6371 at the end of FY06.

INFRASTRUCTURE

The new centres at Bangalore, Chennai and Mumbai which became operational in the first quarter of the year have enabled the Company to consolidate its presence at these locations and benefit from the economies of scale. The expansion of the campus at Mahape is at advanced stage of completion and will provide additional seats in the same campus to allow the Company to consolidate its presence at that location. The Company has thus adequate infrastructure to meet the requirements of the projected growth. The Company is now planning to build a state-of-the-art training facility. The Company has taken several initiatives to build the visibility of L&T Infotech brand and has been an active participant in industry seminars and conferences. It has also hired the services of a professional firm to help in the brand building initiative.

QUALITY INITIATIVES

During the year, the Company was assessed at SEI CMMI Level 5 certification. The Company has also been accredited with the PCMM Level 5 certification, which are the highest standards of process and quality leadership. The Company continues to adopt the select programmes of six-sigma implementation.

EMPLOYEE STOCK OPTION SCHEMES

(I) Employee Stock Ownership Scheme ('ESOS Plan')

The Company has instituted the Employee Stock Ownership Scheme (ESOS) in April 2001. The total options outstanding under various series of the scheme as on March 31, 2006 amount to 2,192,211.

During the year, 258,830 options were granted.

None of the options were exercised during the year.

(II) Employees Stock Ownership Scheme – 2006 U.S. Stock Option Sub-Plan ('Sub-Plan')

Pursuant to the approval of shareholders of the Company received at their Meeting held on December 7, 2006, the Company has adopted a U.S. Stock Option Sub-Plan during the year.

In terms of the approval received, the Company can issue stock options, not exceeding 457,249 equity shares of the Company. The Compensation committee has approved a grant of 160,000 options at an exercise price of USD 12 (equivalent to Rs. 530/-) per share.

DEPOSITS

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

SUBSIDIARY COMPANIES

Consequent upon their acquisition, GDA Technologies Inc, USA alongwith its Indian subsidiaries, viz... GDA Technologies Limited and GDA Systems Private Limited became the wholly-owned subsidiaries of the Company.

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.

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 March 31, 2007 and of the profit or loss of the Company for the year ended March 31, 2007.
- (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

The Board of Directors, at its meeting held on January 27, 2007, appointed Mr. Samir T. Desai as an Independent Additional Director of the Company. As per the provisions of the Companies Act, 1956, he holds office till the date of the ensuing Annual General Meeting of the Company. The Company has received a notice under Section 257 of the Companies Act, 1956, and accordingly the resolution proposing the appointment of Mr. Samir T. Desai shall be placed before the shareholders for their approval at the ensuing Annual General Meeting of the Company.

Mr. A. M. Naik retires by rotation from the Board of Directors and is eligible re-appointment.

AUDIT COMMITTEE

The Board of Directors has, at its meeting held on May 25, 2007, reconstituted the Audit Committee of the Company. The Audit Committee now comprises of Mr. Y. M. Deosthalee, Mr. R. N. Mukhija 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 ensuing 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.

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

V K MAGAPU

Director

Director/Manager

Place : Mumbai

Date : May 25, 2007

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, 2007.

A. Conservation of energy

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

B. Technology absorption

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

C. Foreign exchange earnings and outgo

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

2006-07 (Rs. Million)

- | | | |
|--|--------|-----------|
| (d) Total foreign exchange used and earned | Used | 6,278.89 |
| | Earned | 12,400.64 |

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 | Not Applicable |
| 3. Future plan of action | Not Applicable |
| 4. Expenditure on R & D | Not Applicable |
| <ul style="list-style-type: none"> 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 : | <p>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.</p> |
| 2. Benefits derived as a result of the above efforts : | <p>Repeat business, expansion into various new technology domains and productivity improvements through use of latest software tools.</p> |