

2003-2004 | 17th Annual Report

Melstar Information Technologies Limited



Board of Directors

- ★ Mr. Suresh Bansal, Chairman
- ★ Mr. S. M. Arora, Managing Director
- ★ Mr. Sattar Shaikh, Executive Director
- ★ Mr. Bharat Ramani, Director
- ★ Mr. Anthony Gale, Director
- ★ Mr. M. R. Lal, Director
- ★ Mr. Darius Pandole, Director
- ★ Mr. Gautam Doshi, Director (upto 29.6.2004)
- ★ Mr. Mrugesh Shah, Director (w.e.f. 29.6.2004)

Company Secretary

Mr. Dinesh Kalani

Bankers

Citibank N.A.
ING Vysya Bank Limited

Auditors

Deloitte Haskins & Sells
Chartered Accountants

Internal Auditors

Gupta Maheshwari & Jain
Chartered Accountants

Legal Advisor

Mr. M.R. Lal, Advocate

Registrars & Share Transfer Agents

MCS Limited
Venktesh Bhavan, Road No. 11,
MIDC, Andheri East, Mumbai - 400 093.
Tel.: 28215235 Fax: 2835 0456

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VISION

Create a world class IT Organization in terms of Technology and People; providing outsourcing services in developing and supporting e-commerce solutions, software applications and Business Consulting.

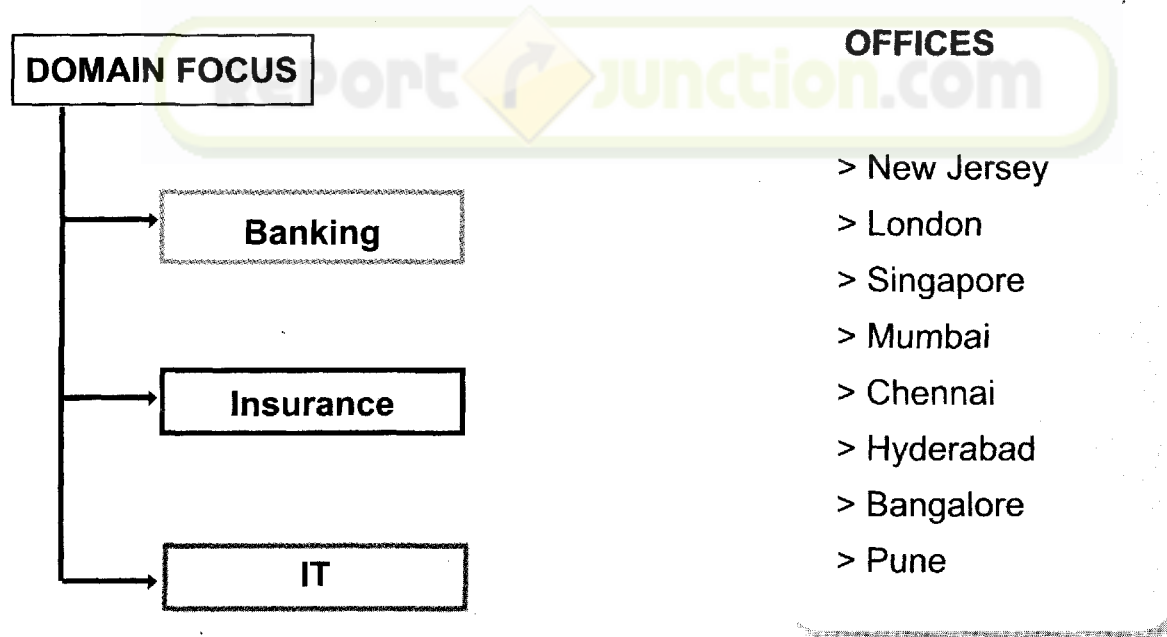


MISSION

To offer highest value proposition to Global Customers in the area of Application Management Services by providing them with a unique sustainable Cost Reduction Model on long term basis.

Overview

Corporate Office	:	Mumbai
Development Centres	:	Mumbai and Bangalore
Established	:	1986
Present Manpower	:	388





Notice

NOTICE is hereby given that the Seventeenth Annual General Meeting of the Members of Melstar Information Technologies Limited, will be held on Tuesday, the 28th day of September, 2004 at 10.30 a.m. at the AIPMA House, A-52, Road No.1, MIDC, Marol, Andheri (E), Mumbai – 400 093 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2004, the Profit & Loss Account for the year ended on that date and the Reports of Directors and Auditors thereon.
2. To appoint a Director in place of Mr.Suresh Bansal, who retires by rotation at this Meeting and, being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr.Bharat Ramani, who retires by rotation at this Meeting and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Mrugesh Shah, who was appointed in the casual vacancy created by the resignation of Mr.Gautam Doshi and retires by rotation at this Meeting and being eligible, offers himself for re-appointment.
5. To appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.
6. To authorise the Board of Directors to appoint Branch Auditors, Mumbai, in consultation with the Statutory Auditors of the Company, for the existing overseas branch offices in the US and UK to act until the conclusion of the next Annual General Meeting and to fix their remuneration.
3. The Register of Members of the Company shall remain closed from Wednesday, the 22nd September, 2004 to Tuesday, the 28th September 2004 (both days inclusive) for the purpose of the Annual General Meeting.
4. Consequent upon the introduction of Section 109A of the Companies Act, 1956, members are entitled to make nomination in respect of shares held by them, if not already done. Members desirous of making nominations are requested to send their requests in Form No.2B (which will be made available on request) to the Company's Registrars and Share Transfer Agents in case the shares are held in physical form and to the Depository Participants in case the shares are held in electronic form.
5. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their queries in writing to the Company Secretary at least seven days before the date of the meeting so that the information required may be made available at the meeting.
6. Members holding shares in physical form are requested to notify / send the following to the Company's Registrars and Share Transfer Agents to facilitate better service:
 - (i) any change in their addresses
 - (ii) shares held in multiple accounts in identical names or joint accounts in the same order of names for consolidation of such shareholdings into one account.
7. Pursuant to the provisions of Clause 49 of the Listing Agreement with the Stock Exchanges, particulars of the Directors seeking re-appointment are furnished hereunder:

Additional Information required under Clause 49 VI A of the Listing Agreement

Details of Directors seeking re-appointment

Item - 2

Mr.Suresh Bansal, aged 47, is a Commerce Graduate and has completed DBIM from Bombay University. He has over 23 years experience in export marketing of computers and software. He worked with ESSEN Computers Limited as General Manager (Exports) for over 9 years, before he ventured into IT business of his own along with other present promoters of the Company.

Mr.Bansal has been the Chairman of the Company since 1991 when the Company was acquired by the present promoters. He became an Executive Chairman w.e.f. 1.6.1996. Mr.Bansal relinquished the Executive position on 30.4.2001 consequent upon restructuring of the Board, but continues as a Non-Executive

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE IN HIS / HER STEAD AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. In order to be effective, the instrument appointing the proxy must be deposited at the registered office of the Company not later than 48 hours before the scheduled time of commencement of the meeting.
2. Members/Proxies are requested to bring to the Meeting the Attendance slip duly filled in along with their copies of the Annual Report.

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Director and Chairman. Effective from 1.5.2001, he took over as the Executive Chairman of Melstar Limited, the Company's wholly-owned Subsidiary in UK. Recently he has moved from UK to US as CEO of Melstar Inc, another subsidiary of the Company, to strengthen its operations as well as those of the Group. He is on the Board of the following companies:

1. Melstar Limited (Wholly-owned foreign subsidiary of MITL)
2. Linkhand Support Limited (- do -)
3. Melstar UK Limited (- do -)
4. Melstar Inc (- do -)
5. Melstar Singapore Pte Limited (- do -)
6. Melstar Deutschland GmbH (- do -)
7. Melstar Fashions Private Limited (Group Company)

Item - 3

Mr. Bharat Ramani, aged 42, is an Engineering Graduate from VJTI and has done Masters in Marketing Management from NMIMS. He has over 19 years of rich experience in the IT industry at executive and Board level positions.

Mr. Ramani is one of the Promoter Directors of the Company from November 1991. Effective from 1st September 2002, he is looking after the operations of Melstar Inc, a Wholly-owned subsidiary of the Company in the US as its President. He is on the

Board of the following companies:

1. Melstar Limited (Wholly-owned foreign subsidiary of MITL)
2. Melstar UK Limited (- do -)
3. Melstar Inc (- do -)
4. Melstar Deutschland GmbH (- do -)
5. Melstar Fashions Private Limited (Group Company)
6. Microedge Technologies Private Limited

Item - 4

Mr. Mrugesh Shah was appointed as a director w.e.f. 29.6.2004 in the casual vacancy created by the resignation of Mr. Gautam Doshi, which was accepted by the Board on 29.6.2004.

Mr. Shah, aged 43 years, is a Fellow Member of the Institute of Chartered Accountants of India and has over 20 years post-qualification experience. He is at present a partner of Mahajan & Aibara, a reputed firm of Chartered Accountants specializing in Management Consultancy Services in multiple disciplines, such as Management and System Audits, Financial Advisory Services, Recruitment and Placement of Senior Executives, Feasibility Studies and Surveys for Services Sectors, etc. He is also on the Board of Synapse Inc, USA and MNA Consultants Pvt. Ltd.

Registered Office:

G-4, Melstar House
MIDC, Cross Road "A",
Andheri East
Mumbai - 400 093.

Date: 30th July 2004

Place: Mumbai

By Order of the Board of Directors

Dinesh Kalani
Company Secretary

N.B.: Members may please note that the Company has received the approval of the Ministry of Company Affairs under Section 212(8) of the Companies Act, 1956 exempting it from the requirement of appending detailed financial statements of its subsidiaries as the Consolidated Statements already constitute a part of the Annual Report.



Directors' Report

The Directors have great pleasure in presenting the Seventeenth Annual Report and the Audited Statement of Accounts of the Company and of the Group for the year ended 31st March 2004.

1. FINANCIAL RESULTS

(Rupees in Lakhs)

	2003- 2004	2002 - 2003
Sales and other income	4205	4658
Operating Profit before depreciation, interest and taxes	649	924
Less : Depreciation	244	277
Less : Interest	55	117
Operating Profit before unusual items	350	530
Less : Provision for doubtful debts/ advances and write-offs of doubtful debts and advances	96	225
Less : Provision for diminution in value of investment	-	80
Profit before Taxation	254	225
Provision for taxation	0.39	78
Adjustments - previous year	-	-11
Provisions for earlier years	-0.45	-86
Profit after tax	254	206
Profit brought forward from earlier year	233	577
Transfer to Reserves	-	550
Balance carried to Balance sheet	487	233
EPS - Basic/Diluted (In Rs.)	1.78	1.44
Book value per Share (In Rs.)	30.02	28.38

2. OPERATIONS

Revenues

The total sales of the Company and of the Group for the year under report were as under:

(Rupees in Lakhs)

	2003/2004	2002/2003	2003/2004	2002/2003
	COMPANY	COMPANY	GROUP	GROUP
U.S	2500	3199	2847	3538
EUROPE	1191	849	2599	3834
SINGAPORE	NIL	NIL	42	84
INDIA	339	481	339	481
TOTAL	4030	4529	5827	7937

The overall revenues of the Company as well as the Group were lower at Rs.4,030 Lakhs and Rs.5,827 Lakhs respectively against Rs. 4,529 Lakhs and Rs.7,937 Lakhs during the preceding year. Exports constituted a substantial part of the overall revenues, as in the earlier years. The domestic revenues for the year dropped by 30% against a growth of 38% in the previous year.

As a planned and strategic move to reduce the burden of bank interest and prepay Term loans / bank facilities, the Company surrendered, during the year under report, two (2) leasehold units in SEZ to the authorities and sold the assets therein for a consideration. During the current financial year, the Company has

also entered into an agreement to sell the plot of land and building at Kalwa (which was acquired as a part of amalgamation in 1996), since these assets were not in use for a long period due to recession in industry and lack of adequate business orders, without affecting in anyway the existing business operations of the Company. These assets were lying unutilised for more than three years. The amount so received / to be received has been / will be strictly utilized for the purpose of part prepayment against Bank facilities so as to reduce the bank interest burden during the coming years. The Company has reduced the overall exposure to bank funds. This would yield savings in bank interest for the current level of operations without any adverse impact. By using the existing infrastructure elsewhere more effectively there is scope for improving the bottom line also. The Company has also acquired a partnership firm (which had presence in SEZ), so as to continue its presence in SEZ albeit on a smaller scale to enjoy the benefits currently available under the law.

The above recast envisages realigning and regrouping the Company's business activities aimed at achieving greater internal synergies and consolidation in various segments of the company's software business.

Profits

The net profits of the Company as an entity improved nearly 23% during the year, which stood at Rs.254 Lakhs for the year under report against Rs.206 Lakhs for the previous year. In spite of decrease in sales, the marginal increase in net profit of the Company for the year under report was the result of effective measures undertaken to improve the bottom-line of the Company. However, the performance of the subsidiaries in the UK, US and Singapore was much below expectations, resulting in a substantial loss of Rs.619 Lakhs against a profit of Rs.17 Lakhs in the preceding year. The subsidiaries in the UK, US and Singapore faced acute cash flow problems for most part of the year. High volatility in frequent exchange rate fluctuations also affected the Company's profits.

3. DIVIDEND

In view of overall losses suffered by the Group during the year, and the need of funds for working capital for future operations, the Directors regret their inability to recommend any dividend for the year under report.

4. JOINT VENTURES / SUBSIDIARIES

Pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, Consolidated financial statements presented by the Company include financial information of its subsidiaries. The Company has made an application to the Government of India seeking exemption under Section 212(8) of the Companies Act, 1956 from attaching the Balance Sheet, Profit and Loss Account and other documents of the subsidiary companies to the Balance Sheet of the Company. In case the exemption is granted by the Government of India, the aforesaid documents related to the subsidiaries of the Company will not be included in the Annual Report. The Company will make available these documents / details upon request by any member of the Company.

To meet the challenges in the short term and to sustain growth in the long term the Company has undertaken several initiatives in respect of the subsidiaries. It was also a year of consoli-

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dition for Melstar with regard to its subsidiaries in the US and Europe. The Board of Directors has decided to reduce the number of subsidiaries to two or three within the next two-three years.

During the year under report, the Company neither made any additional equity investments nor granted any loans to the subsidiaries.

Australia/Germany:

Melstar Technologies Australia Pty. Limited, a non-operative Joint Venture of the Company in Australia was de-registered by duly complying with local laws during the year, and investments (Rs.10.14 Lakhs) and working capital loans (Rs.46.21 Lakhs) granted to the said Joint Venture have been written off from the books of accounts of the Company with prior approval of the Reserve Bank of India.

The Company has also received the approval of Reserve Bank of India to wind up the Non-operative Company, Melstar Deutschland GmbH, a wholly-owned subsidiary in Germany and to write off the investments made in the said subsidiary. The process of winding up has commenced in Germany and it is learnt that as per the local laws it would entail around 18 months to complete. In the meantime, in terms of RBI approval, equity investment of (Rs. 11.09 lacs) made in the said subsidiary has been written off from the books of the Company.

US/UK/Singapore:

Global Systems Development Inc, a wholly owned subsidiary of the Company in the US, has been merged with Melstar Inc, another wholly-owned subsidiary of the Company, effective from 1st November 2003 as a strategic move as also to reduce costs after complying with Local laws and with the prior approval of the Reserve Bank of India.

The working of the subsidiaries in the UK, US and Singapore during the year under report was not encouraging for various reasons, viz. lack of availability of new business, increase in salaries and other expenses for the respective size of operations, lower billing rates, amortisation of product development cost, etc resulting in dismal performance with comparatively higher losses. Two of the subsidiaries did not do any business during the year. Overall cash flows remained under severe pressure.

The performance of the operative subsidiaries remained much below expectations.

In their periodical reviews of group activities, the Directors of the Company at its meetings had been analyzing and evaluating performance of each subsidiary and the steps deemed expedient to improve performance. One of the alternatives considered was to find solutions to cut / eliminate heavy staff and office overheads. Towards that end, after the close of the year under report, early in April 2004, a deal was struck for the transfer of part of the Product Solution Business of Melstar Limited to an outside party.

The deal envisages assignment of the product and part of the solutions business along with the IPRs and movable assets, etc for a consideration of GBP 2.04 Million (Rs. 1,619 lacs). An amount of GBP 500 K (Rs. 397 lacs) was received in cash and for the value of GBP 500 K shares of the acquirer (a listed company on the Swedish Stock Exchange) were received, which are subject to a lock in period of six months for disposal. The rest of the consideration shall be by way of additional shares after the management achieves an earn-out for the current year. The amount so received / receivable has been / will be used for repayment to the subsidiary company's bankers to limit the over-all exposure, interest cost and to improve the bottom line of the subsidiary's working with the part of the business retained by it. This move is expected to result in better financial performance of the subsidiary.

The above deal will also lead to better alignment and regrouping of the business activities of the Melstar Limited, UK and its wholly owned subsidiaries. It will also result in greater internal synergies and consolidation of various segments of the company's software business.

The other measures accepted by the Board, in principle, were the possible merger / sale / closure / consolidation, etc of other subsidiaries in UK to enable them to concentrate on core competencies to contain costs, part prepayment to banks, aggressive marketing efforts and selling services, etc. which are being evaluated with the objective of improving their bottom line as far as possible during the current year. Barring unforeseen circumstances, Management of the Company is looking forward to positive results.

The essential features of operations of some of the operative subsidiaries are given hereunder:

Particulars	Melstar Inc*		Melstar Limited**		Melstar Singapore	
	2003-04		2003-04		2003-04	
	Amt. in US\$	Amt. in INR	Amt. in GBP	Amt. in INR	Amt. in S\$	Amt. in INR
Revenues from operations	5,877,542	254,585,732	2,929,248	232,479,768	218,945	5,647,686
Net Loss	342,748	14,846,129	773,395	61,380,497	159,696	4,119,358
Equity Investment by MITL	1,148,500	49,747,278	958,992	76,110,400	1,700,000	43,851,500
Loans given by MITL	450,000	19,491,750	115,000	9,126,975	327,750	8,454,311
Bank Guarantees given by MITL	154,000	7,052,430	375,000	27,041,250	-	-

* Includes revenues, equity investment, loan, and Bank Guarantee given to Global Systems Development Inc before its merger with Melstar Inc effective from 1.11.2003.

** Includes figures of its subsidiaries



5. FUTURE PLANS

While overall global growth rate in Information Technology Sector has been flat for most part of the year under report, there is evidence of momentum picking up in the last quarter of the year under report, offering more opportunities both for off-shore and on-site assignments. The Company aspires to partake of this opportunity in a significant way as a matured player. Consolidation of activities and closure of some of the subsidiaries is expected to yield positive results in the near future with long term possibilities for growth.

In today's complex and increasingly competitive marketplace, relationships offer a significant hedge against volatile business conditions. One of the major steps initiated by the Company is strengthening of the function of relationship management with the existing and prospective clients. The Company expects a substantial increase of consultants at the dedicated development centres of the Company to provide timely and effective service to its major clients located in Bangalore and Chennai in India, besides increase in more domestic and off-shore projects through the marketing efforts of its own and its overseas branches as well as subsidiaries in the US, UK and Singapore.

To improve the overall bottom-line and profitability across the group companies, emphasis on curtailing costs and other operational expenses, maximizing use of existing offshore infrastructure facilities, reduction in bank facilities, expansion of client base, will receive aggressive attention and action.

6. DIRECTORS

Mr. Gautam Doshi opted out of the Board due to personal constraints and his resignation was accepted by the Board at its meeting held on 29.6.2004. The Board placed on record its appreciation for the valuable services rendered by him and support and guidance extended by him during his tenure as a Director of the Company. Mr. Mrugesh Shah, Fellow Chartered Accountant, was appointed as a Non-executive Independent Director in the casual vacancy created by the resignation of Mr. Doshi and retires at the ensuing Annual General Meeting by rotation.

Mr. S. Bansal, Mr. Bharat Ramani and Mr. Mrugesh Shah retire by rotation at the forthcoming Annual General Meeting and are eligible for re-appointment.

7. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- 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 true and fair view of the state of affairs of the company at the end of March 31, 2004 and of the profit for the year ended on that date;
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- the directors have prepared the annual accounts on a going concern basis.

8. PUBLIC DEPOSITS

The Company has not accepted any deposits from the Public or the Shareholders so far, as such no principal or interest is outstanding on these accounts.

9. EMPLOYEES

The overall strength of people resources engaged by the Company and its subsidiaries as on 31.3.2004 stood at 388.

a) Particulars of Employees

The particulars of employees as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given hereunder:

Sr. No.	Name	Designation	Remuneration Paid	Qualification	Exp. in Years	Date of Joining	Age	Name of the Previous Company & Designation
1	S.M. Arora	Managing Director	Rs. 28.55 Lacs	B.E., M.B.A.	47	24/01/91	69	Sujata Data Products Ltd. Managing Director
2	Sattar Shaikh	Executive Director	Rs. 27.78 Lacs	B.Com.	26	01/08/97	46	Melstar Industries Ltd. Director

Notes:

- Nature of Employment is Contractual.
- Remuneration includes Salary, Medical Reimbursement, Leave Travel Allowance, Contribution to Provident Fund, Reimbursement of Gas & Electricity and Perquisite Value of Car for Personal Use.
- Other Terms & Conditions are as applicable under the Rules of the Company.
- Mr. Arora and Mr. Shaikh together with their relatives, each holds more than 1% of the paid up capital of the Company.

17th Annual Report 2003-2004**b) Employees Stock Options Plan**

As of 31.3.2003, Melstar Employees Welfare Trust, constituted for the benefit of the Company's employees, held 46,960 shares of the Company and 500,000 Options convertible into equity shares for issue to the employees over a period of time. During the year under report, the Management did not allocate any shares to the Employees nor any Options under the Scheme. Consequently, as at 31.3.2004, the Trust held 46,960 shares and 500,000 convertible Options reserved for issue to the employees.

10. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is appended hereto as Annexure "A".

11. CORPORATE GOVERNANCE:

Pursuant to Clause 49 of the Listing Agreements with the Stock Exchanges, a Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of this Annual Report.

12. AUDITORS

M/s. Deloitte Haskins & Sells, Mumbai, Auditors of the Company, vacate office at the conclusion of the ensuing Annual General Meeting. They have confirmed their eligibility and willingness for reappointment. The Directors commend their reappointment by the Members at the forthcoming AGM.

13. ACKNOWLEDGEMENTS

The Board wishes to place on record its appreciation for the dedication and unstinting efforts with which all the employees have performed their duties and responsibilities during the year in a difficult and challenging environment.

The Directors thank the Customers, Vendors and other Business Associates for their continued support. The Directors also record their sincere appreciation of the continued support, assistance and co-operation extended by the various Regulatory and Government authorities, Stock Exchanges, Bankers and Shareholders of the Company.

For and on Behalf of the Board

Mumbai
Date: 29th June 2004

Suresh Bansal
Chairman

Annexure to Directors' Report**Annexure "A"****INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988****A. CONSERVATION OF ENERGY**

The Company's operations involve low energy consumption. Nevertheless energy conservation measures have been taken wherever feasible. Efforts to conserve and optimise the use of energy through improved operational methods and other means is a continuing feature.

B. DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT (R&D)

No technology has been imported. Indigenous Technology available as is used for product development/component

identifications or offering services is continuously being upgraded to improve overall performance.

C. FOREIGN EXCHANGE EARNINGS & OUTGO

Total Foreign Exchange Earnings during the year (including exports through third parties) amounted to Rs. 3,690 Lakhs.

Total Foreign Exchange outgo during the year amounted to Rs. 2,582 lakhs inclusive of expenses incurred on account of purchases of products and Services / foreign visits / expenses.

For and on Behalf of the Board

Date: 29th June 2004

Suresh Bansal
Chairman