



i-flex solutions ltd.

i - flex annual report 1999 - 2000

A watermark for Report Junction.com is overlaid on the text. It consists of the text 'Report Junction.com' in a light green font, with a yellow diamond containing a black arrow pointing upwards and to the right, positioned over the word 'Junction'.

Report Junction.com

Why i ?

Take a closer look at '*i*'. And you may find that it's more than just the ninth letter of the English alphabet.

'*i*' contains a certain individuality expressed in its form.

Written or spoken, '*i*' brings you closer to your real

self. There's a power in '*i*', which constantly seeks self-expression, braves change and faces all odds. Only to

emerge right on top, just like the dot which completes

the alphabet '*i*'.

'*i*' stands for the internet, where the possibilities are endless. And the first letter of our name, i-flex.

Contents

Management Discussion	6
The New Internet Economy	12
Performance Highlights 1999-00	13
Key Indicators 1999-00	14
<i>imagination</i>	18
<i>inspiration</i>	20
<i>ideas</i>	22
<i>intellect</i>	24
<i>innovation – Products</i>	28
<i>innovation – Services</i>	32
<i>impact</i>	36
Global Presence	38
Directors' Report	40
<i>Financials</i>	49



Report  Junction.com

Management Discussion

Focused on Customers' Needs

i-flex's mission is to enable financial institutions excel in an e-powered world, through effective use of information technology. Since inception, our Corporate Strategy, R&D and product development efforts, and planning endeavours have always been focused on understanding the challenges that our customers' face, and this helps us in creating solutions that arms them with competitive advantage and enables them to succeed in their business. Today, the global explosion of the Internet and e-commerce and the rapid emergence of a new internet economy are creating new opportunities as well as threats for financial institutions worldwide.



Our FLEXCUBE suite of products are unique, comprehensive and web-enabled. The FLEXCUBE Universal Banking Solution provides our customers with a potent automation platform that serves as a launch pad for quantum growth. The built-in flexibility enables banks and financial institutions to rapidly introduce new products in the market and this gives them the "time-to-market" advantage. The open and multi-tier architecture and the industry standard tools and interfaces allows them to integrate diverse technological channels and third party tools seamlessly, and the hardware-independent implementation on UNIX and NT operating systems lowers their unit operating costs significantly. The integrated application architecture also gives them enterprise-wide operating efficiency, risk management and decision support capabilities.

We continue to make significant investments in product development and enhancement. The year saw the release of the FLEXCUBE Derivatives Module, Mobile phone banking with SMS and WAP capability, as well as a wide range of ongoing product enhancements. We also launched two new products

during the year – FLEXCUBE @, our new standalone internet banking solution which will enable banks to offer a comprehensive range of financial services to their customers using a variety of delivery channels – telephone, PC, PDA, Web TV, etc.; and FLEXCUBE Information Center, our new Business Intelligence solution. The company's Software Engineering Knowledge Management solution – Promotr – also underwent significant enhancement, and saw immediate market success during the year.

In all we had 32 financial institutions sign-up as our customers during the year under review.

Our Services business continues to grow rapidly. During the year we reorganized the Services Division into several independent Strategic Business Units around emerging technologies to create multiple parallel engines of growth. We significantly enhanced our track record of providing leading-edge IT solutions to our customers, successfully completing several landmark projects in internet banking, e-commerce, m-commerce, e-brokerage and business intelligence. We also launched our new consulting division – i-flex

► Management Discussion

Consulting – which provides strategic IT and Business Consulting services to Financial Institutions.

The company also began the implementation of our new expansion strategy i.e. creation of joint ventures with strategic partners to address new business spaces that have strong synergy with the company's core business. Foremost among these was the signing of a Memorandum of Understanding with the National Stock Exchange in India to set up a joint venture which would provide on-line trading and transaction fulfillment capability to retail investors over the Internet.

Another important initiative with long-term strategic implications was the creation of a new business unit in the company to spearhead its entry into the Application Service Provider (ASP) arena. With the rapid proliferation of the internet and the advent of broadband technology, it is very likely that the "applications-on-tap" model of software deployment will compete with the traditional software licensing model in the near future; and it is very important therefore that we establish a strong presence in the ASP business. Our goal is to make FLEXCUBE the preferred platform for the processing of financial transactions, and our ASP strategy is geared towards this goal. The ASP business unit will

be involved in the creation of new joint ventures and strategic alliances to provide the power and flexibility of the FLEXCUBE suite of banking solutions to financial institutions on the ASP model. Several ASP partnerships are already in advanced stages of discussions.

Globally, the financial services industry is changing rapidly to keep pace with the evolving needs of its customers. The industry has always been an intensive user of Information Technology, and the recent technological changes have made IT central to the business strategy of financial institutions. i-flex solutions' chosen area of business, therefore, is one that provides great opportunities for growth. The future holds great promise for i-flex.

Revenues

During the financial year 1999-00 the Company posted yet another year of rapid growth in both revenues and profits. Revenues grew 43%, from Rs.1,444.31 million in 1998-99 to Rs.2,062.69 million in 1999-00. Gross Profits grew from Rs. 511.11 million in 1998-99 to Rs.721.00 million in 1999-00, reflecting a growth of 41%.



Financials at a Glance

Track Record – 5 years

(All figures in Rs. million. EPS & Book Value in Rs.)

	1995-96	1996-97	1997-98	1998-99	1999-00
Total Income	363.99	545.26	825.86	1,444.31	2,062.69
Total Expenses	270.88	343.95	513.19	933.20	1,341.69
PBT	93.11	201.31	312.67	511.11	721.00
Tax	9.00	7.80	4.75	6.77	28.27
PAT	84.11	193.51	307.92	504.33	692.73
EPS	10.11	23.26	37.01	60.62	83.27
Book Value	25.42	47.39	96.72	155.99	254.92
Fixed Assets (at cost)	163.19	186.78	237.90	312.45	477.90
EVA	39.63	122.47	173.87	264.03	328.33

Notes :

- 1) The company issued bonus shares in the ratio of 1:1 in 1999-2000 and allotted 173,000 shares to CITIL Employees Stock Option Trust.
- 2) All EPS values and Book Values are computed based on the current equity capital base of 8,319,100 shares

Debt/Equity	0.18	0.06	0.01	-	-
-------------	------	------	------	---	---

► Management Discussion

Other Income

Due to effective funds management, the Company recorded a 107% increase in interest received from Bank Deposits placed by the Company. Other Income also includes write back of Y2K provision of Rs.35.50 million made by the Company in the previous year 1998-99. Since no product of the Company faced any Y2K problems, as the provision is no longer required.

Expenses

The Company's expenses increased to Rs.1,341.69 million in the financial year 1999-00 from Rs.933.20 million in the financial year 1998-99. Major items of expense are application software, professional fees, employee costs and depreciation. The professional fees have increased by 40% due to incremental referral fees paid to distributors on sale of products as also the increase in the Company's fees to software outsourcing vendors in India.

Bulk procurement of application software during the year for new premises at Bangalore and Mumbai offices, and the upgradation of technology, led to an increase in the application software cost by 52%. As per the Company's policy, the entire cost of application software is written-off in the year of purchase. The employee costs appreciated due to rise in the employee strength (from 800 on April 1,

1999 to 1017 on March 31, 2000) and the increased remuneration. The depreciation recorded an increase of 51% due to expansion of Company offices at Bangalore and Mumbai, and the revision in the estimated useful life of the assets. The revision was made to reflect the realistic life of an asset and bring it at par with international accounting practices.

Provision for Taxation

Due to changes in the tax laws and decisions of the Supreme Court in other cases, the interest earned by the Company, inspite of enjoying a tax holiday under section 10A/B, has become taxable. The Provision for Taxation this year, therefore, is higher at 3.9% of the Profit Before Tax as against 1.32% last year. This covers the entire tax liability of the Company under the new situation.

Share Capital

The Company issued 1:1 bonus shares in October 1999 and also allotted 173,000 shares to the Company's Employee Stock Option Trust in December 1999 taking the paid-up Equity Share Capital of the Company to Rs.83 million.

Reserves and Surplus

As on March 2000, the Company's Reserves stood at Rs.2,037 million as against Rs.1,257 million in