

## Customer Success

Our Philosophy for Creating  
Stakeholder Value



**R Systems International Limited**  
Annual Report 2007



# Contents

Chairman's Message.....	04
Financial Highlights.....	06
Philosophy for Creating Stakeholder Value.....	08
Corporate Information.....	17
Directors' Report.....	18
Corporate Governance Report.....	34
Management's Discussion and Analysis.....	49
Risk Management Report.....	63
Standalone Financial Statement in accordance with Indian GAAP.....	69
Consolidated Financial Statement in accordance with Indian GAAP.....	108
Notice of the Fourteenth Annual General Meeting.....	141

## Safe Harbor:

Certain Statements in this report concerning our future growth prospects are forward-looking statements, which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding the success of our investments, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT and consulting services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, industry segment concentration, our ability to manage our international marketing and sales operations, reduced demand for technology and consulting services in our key focus areas, disruptions in telecommunication networks or system failures, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts and product warranty, the success of the companies in which the Company has made strategic investments, withdrawal of governmental fiscal incentives, political instability and regional conflicts, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The Company may, from time to time, make additional written and oral forward-looking statements and does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.



## Opportunities...

Global telecom networking that provides data and voice communication at economical prices has made the world flat. This along with Internet and software applications which are robust, scalable and secure have enabled businesses to tap a huge pool of global talent that until 20 years ago was not available. The world called this “Offshore Outsourcing.” The evolution in Offshore Outsourcing has been more dramatic than the genesis. Offshore outsourcing started with mundane work and tasks, however the speed of change is tremendous, and what was seemingly impossible earlier is now possible. A few years ago software products were primarily developed in the western world. Now, specialized companies such as R Systems, have made offshore product development and support a possibility with a huge value proposition of lowering costs and reducing the cycle time for development. According to NASSCOM-Mckinsey Report of 2005 just the outsourced product engineering market that was estimated at over US\$ 27 billion in 2006 is projected to double in next 4 to 5 years. R Systems, as one of the leaders in outsourced product development and support, is well positioned to take advantage of opportunities in this market space.

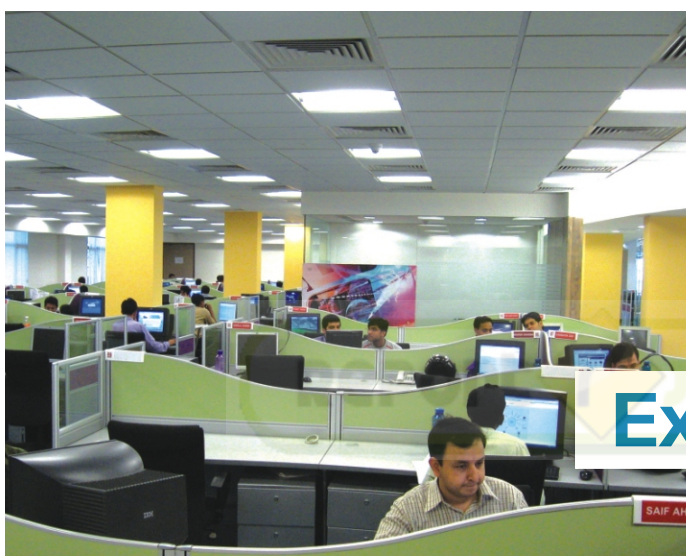


## Our Strategy...

We are benefiting from the choices we made several years ago for focusing on certain niche areas and developing deep competency in them. Our chosen areas of expertise are Offshore Product Development and Support - what we call as **UPM Services** - Consumer Finance and Supply Chain Execution. Further, by relentlessly focusing on the customer needs and success and catering to entire customer needs in our chosen areas of competency, we have created a unique model of operating as an extended enterprise for our customers. Our relationships are deep and strategic that foster innovation, and provide an exciting environment for our employees to be enthusiastic and create opportunities for growth.

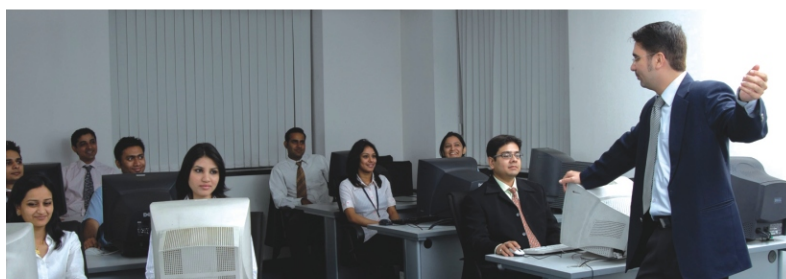






## Execution...

Our operating excellence is delivered by our people. They are amongst the best in the industry and they make the difference. Our ability to synthesize processes, technology, and people efforts proficiently enables us to deliver operating excellence on a consistent and predictable basis to all stakeholders. Our framework helps us to mitigate risks and deal with challenges to outperform. R Systems operating excellence in 2007 is underscored by our high repeat business and ability to enhance margins and earnings when US\$ depreciated by approx 9%.





## Chairman's Message

Dear Fellow Stakeholders,

I'm pleased to report to all stakeholders that our second year as a listed public company was great - a year in which we added several exciting new customers to our roster, and earned record revenues, profits, cash-flows and earnings per share. These superb achievements are a result of the collective hard work and commitment of all R System employees who are amongst the brightest in the industry. It is also the result of our relentless focus on understanding our customers' needs and delivering predictable tangible value and performance to them.

### Our Performance:

We earned record consolidated revenues of Rs. 247 crores - a growth of 21% in INR and 33% in US\$ terms, grew our profits 142% to Rs. 18.9 crores and earnings per share 126% to Rs. 13.97 per share. These impressive financial results were achieved against the background of a sharp and unexpected decline in the value of US\$ by 8.7% in 2007 which muted our revenues and margins. We strengthened our balance sheet through performance with shareholders funds of Rs. 142.5 crores or Rs.105.54 per share, cash and bank balances of Rs. 51.2 crores or Rs. 37.71 per share.

Our impressive operating performance this year and the strong financial position is also the result of our sound strategy. Our strategy is based on focusing in certain market segments, developing strong competencies in our chosen areas, creating global delivery model, working as an extended enterprises for our customers, providing an exciting environment for our employees and taking carefully measured risks for growth with a conservative financial strategy.

### Our Business:

R Systems is very uniquely positioned in the IT Services and Business Process Outsourcing industry ("BPO"). Our strategy is **iPLM** - Product Life Cycle Management - which comprises of software engineering and business process services for the high tech sector and R Systems products offerings in Retail Finance and Supply Chain.

Our primary offering, the **iPLM** Services, is designed to cater to the high technology sector. This ranges from strategic new software development to services such as product testing, maintenance, technical support and customer care. These services are delivered seamlessly through our global delivery platform using R Systems proprietary **iSuite** framework, and designed to give significant value to our customers. In the software product market the old paradigm of undertaking development and support in-house at any cost is giving away to relying on external partners, optimizing costs and focusing on customer relationships. This change is similar to the transformation in the hardware industry, which resulted in hardware companies focusing on brand, concept and customer relationships and outsourcing manufacturing to third party contract manufacturers and business processes to service providers. We are benefiting from a similar transformation in the software industry which is still in its early lifecycle.

At R Systems we have developed the proficiency to synthesize right skills in different locations, technology, and processes to deliver services in a seamless fashion to the technology sector, and protect our client's intellectual properties. Our end goal in serving the customers is old fashioned - to deliver performance and value for customer's success.

R Systems collective experience in **CPLM** is impressive: 20+ million people hours working with over 150 products and 50+ referable clients. Our global platform for technical support and customer care is matchless with 18 languages that can serve customers in all major continents. Taking all these together gives us tremendous competitive advantage in our market place, and gives us the ability to focus on our customer's success.

In our products and components group our competency is in consumer finance and managing the supply chain between manufacturers and their trading partners on the supply as well as the demand side. Our solutions and offerings in these areas are robust and scalable and enable our customers to reliably execute millions of transactions per month. The strength of our solutions is underscored by the selection of R Systems products in consumer finance by three well known global finance companies over several global bidders in 2007. On the Supply Chain side, we are pioneers in delivering Supply Chain Software as a Service (SAAS), a business concept that is now evolving rapidly all over the world. This has been recently underscored by the fact that we have been selected by a global consumer electronics company as their sole vendor for their Electronic Procurement and Vendor Managed Inventory solutions.

### **Our Culture and Leadership:**

One of the biggest challenges in service industry is how to deliver performance when there are thousands of touch points with our customers. What makes R Systems different is our culture of empowerment, allowing employees to make decisions at all levels, analyze their own performance, trusting that individuals are best positioned to make their own decisions and our values of integrity. This system, along with our strategy of working as an extended enterprise for our customers, creates real leaders at all levels.

.Our customers and shareholders benefit from this system that unleashes our collective best effort, passion, imagination and matchless commitment.

However the above system by its very nature involves a certain degree of risk. We mitigate these risks by our rigorous processes and training for the sake of all our stakeholders. We continue to invest in and harness the best of breed quality models, proprietary frameworks, tools, practices and security standards to ensure that our clients' interests are protected and well served. Our quality models and security practices are amongst the best in the industry.

### **Looking Ahead:**

The year 2007 was challenging because the US\$ sank precipitously and it had the terrible potency to consume our earnings. We successfully dealt with it because of the resilience of our business, and we have entered 2008 with a strong momentum. However the question remains - whether we can sustain it because of the much feared recession in the US and the weaknesses in the global financial services industry. While this is a legitimate question, the true answer is that it is difficult to predict the impact. However, what I can confidently state is that we are well positioned to outperform in our chosen market segments for the following reasons:

- We undertake and manage critical processes for our clients at competitive prices and the value of our services is enhanced by our proprietary frameworks and methodologies;
- Looking ahead Our geographic concentration of revenues will be pretty broad - US: 60%, Europe: 25%, South-East Asian Countries: 7%, India: 4% and others: 4%;
- Our managers and employees are amongst the best in the industry;
- Most of our top ten customers are leaders in their space and they contribute almost 50% of our revenues;
- Our telephony infrastructure, delivery processes and product solutions are robust and scalable;
- R Systems balance sheet is strong with net shareholder funds of Rs. 142 crores (\$36 million) and cash and bank balances of Rs. 51 crores (\$13 million).

As we enter the new era of a flattening world I am extremely thankful to all our stakeholders who have enabled R Systems to be successful. I'm grateful to all our supporters in our journey - our customers, shareholders, bankers, the stock exchanges, Securities and Exchange Board of India, market makers, the software technology parks of India and various government organizations.

To my colleagues worldwide at R Systems, I am very proud of you and thankful. Our success has given us the confidence to dream bigger. Let us take our phenomenal enterprise to new glorious heights by competing with our past.

Sincerely,

Satinder Singh Rekhi  
(Chairman and Managing Director)



# Financial Highlights

(On the basis of Consolidated Financial Statements)

(Rs.In lacs)

Particulars	2007	2006	2005	2004	2003
Operating Revenue	24,706	20,395	15,779	13,235	12,247
Other Income	571	402	43	40	23
Exceptional Income	145	-	-	-	-
Total Income	25,421	20,797	15,822	13,274	12,269
EBITDA	2,895	2,179	2,002	657	314
EBT	2,310	1,391	1,442	69	(337)
EAT	1,897	782	1,248	23	(367)
Share Capital	1,351	1,351	514	514	514
Reserve and Surplus	12,906	11,473	5,602	4,586	4,699
Secured Loans	63	243	1,013	1,259	597
Fixed Assets (net)	6,104	5,549	2,821	2,821	2,109
Investments	120	135	16	16	17
Current Assets (net)	8,446	7,783	4,087	3,433	3,295

## KEY RATIOS

(On the basis of Consolidated Financial Statements)

Particulars	2007	2006	2005	2004	2003
Debt -equity ratio	0.01	0.04	0.17	0.29	0.11
Days Sales Outstanding	78	82	88	82	83
Current ratio	2.93	2.72	2.79	2.71	2.69
Cash and bank balances/ Total assets (%)	26.88%	29.54%	12.23%	11.26%	15.73%
Cash and bank balances/ Total income (%)	20.15%	25.57%	7.29%	7.28%	9.89%
EBITDA / Total income (%)	11.39%	10.48%	12.66%	4.95%	2.56%
EBT / Total income (%)	9.09%	6.69%	9.11%	0.52%	(2.75%)
EAT / Total income (%)	7.46%	3.76%	7.89%	0.17%	(2.99%)
Return on Avg. Equity (%)	14.01%	8.26%	22.22%	0.45%	(6.09%)
Return on Avg. Capital Employed (%)	16.95%	14.03%	21.98%	2.67%	(5.14%)
Earning Per Share (Rs.)					
- Basic	13.97	6.17	11.65	0.21	(3.39)
- Diluted	13.78	6.17	11.65	0.21	(3.39)
Dividend Per Share (Rs.)	1.80	1.20	-	-	-
Book Value Per Share (Rs.)	105.54	94.93	59.66	49.64	50.32

\* Figures for the year 2003 to 2005 have been reworked or reclassified to give effect to consolidation of five equity shares of Rs. 2 each into one equity share of Rs.10 each and then issue of 1:1 bonus share for each share held in 2006.

### Note

EBITDA - Earnings before interest, tax, depreciation, amortisation, exceptional item and prior period expenses.

EBT- Earnings Before Tax

EAT - Earnings After Tax

EBIT- Earnings before interest and tax

Debt Equity ratio = Long Term Debt/ Equity

Days Sales Outstanding =Average Trade Receivables/ Net Credit Sales\*360

Current Ratio = Current Assets/ Current Liabilities

Return on Avg. Equity (%) = Net Profit after tax / Average Equity

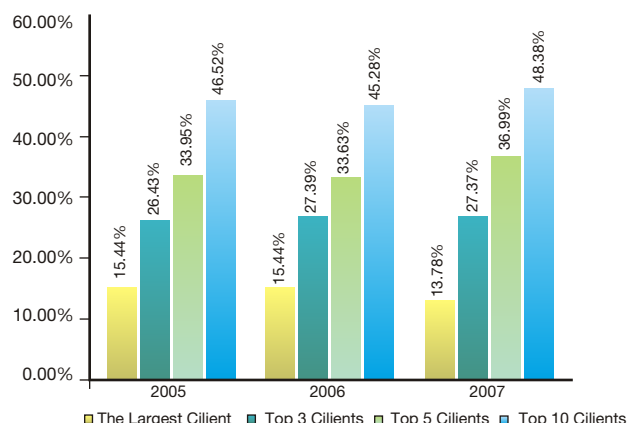
Return on Avg. Capital Employed (%) = EBIT / Average Capital Employed



## Client Concentration

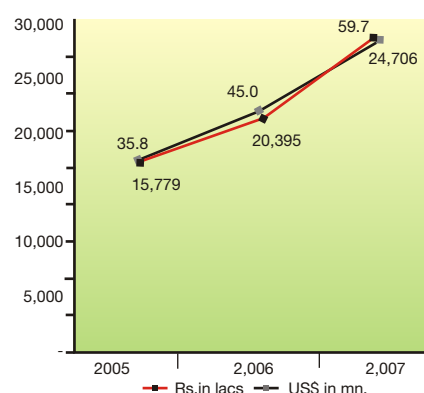
R Systems top ten clients include customers who are global leaders in their space. The contribution from the largest client, top three, top five and top ten customers is given below. The total contribution from the top ten customers increased from Rs 9,236 lacs or 45.28% of total revenues in 2006 to Rs.11,952 lacs or 48.38% of total revenues in 2007

(On the basis of consolidated revenues)



## Growth in Consolidated Operating Revenue

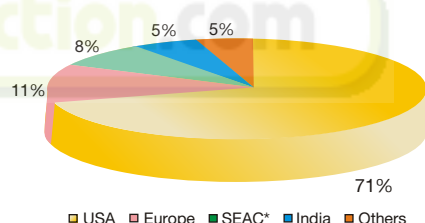
During the year 2007, operating revenue grew 21.14% to Rs 24,706 lacs as compared to Rs 20,395 lacs in 2006 and 32.70% from US\$45.00 million in 2006 to US\$ 59.74 million in 2007 in terms of US\$. The growth rate when translated to INR was lower on account of the sharp appreciation of the INR against the USD. The CAGR for last three years was 25%.



## Revenue Split Geography

R Systems earns revenue from various geographic territories, mainly the United States of America, Europe, South-East Asian countries ("SEAC"), India and others countries. Revenues from USA decreased from 73.22% during the year 2006 to 70.53% in 2007 mainly due to increase in revenues from Europe.

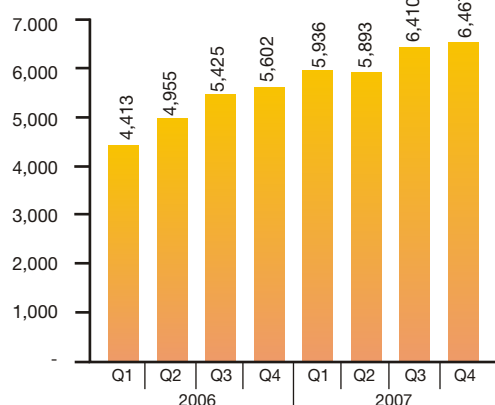
## Consolidated Revenue by Geography 2007



\*SEAC means South East Asian Countries

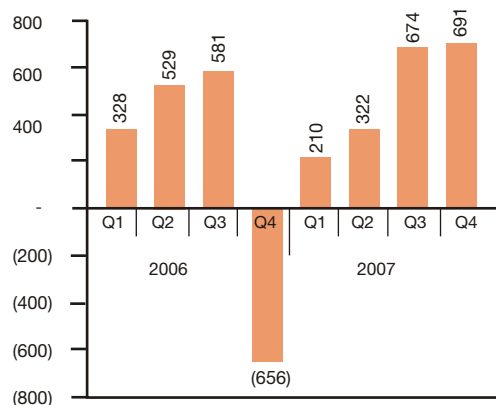
## Q-Q Growth in Consolidated Operating Revenue

(Rs.in lacs)



## Q-Q Growth in Consolidated Profits/(Loss) After Taxes

(Rs.in lacs)



Q4-2006 earnings were impacted by non-recurring and one time items.



## Delivering Value Through Customer Success

Report

R Systems International Limited founded in 1993, is one of the leading provider of outsourced product development and customer support services. We help companies accelerate the speed to market for their products and services with a high degree of time and cost predictability by using our proprietary pSuite execution framework. Clients can choose services specific to their needs from R Systems iPLM suite of services. We help companies build scalable, configurable and secure products and applications; and help our clients to support their customers for products and services using our global delivery model. R Systems rapidly growing customer list includes a variety of Fortune 1000, government and mid-sized organizations across a wide range of industry verticals including Banking and Finance, High Technology and Independent Software Vendors, Government, Health Care, Manufacturing and Logistic Industries. R Systems maintains eight development and service centres and using our global delivery model we serve customers in the US, Europe, South America, the Far East, the Middle East and Africa.

