



Annual Report 2004

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Sagarsoft™
(INDIA) LIMITED

Board of Directors

Mr. S.Sreekanth Reddy	Chairman and Managing Director
Mr. Bruce Elliott	Director
Mr. Satish C.R. Kalva	Director
Mr. S.Krishna Reddy	Director
Mr. M.Jagadeesh	Director

Auditors

C.Ramachandram & Co.,
Chartered Accountants
3-5-45/6/2, Edenbagh
Ramakote, Hyderabad - 500 001

Bankers

State Bank of Hyderabad
Punjagutta Branch, Hyderabad
HDFC Bank
Lakdikapool Branch, Hyderabad

Registered Office

Plot No.31B, F1
Road No.5
Jubilee Hills, Hyderabad -500 033

Registrars and Share transfer agents

M/s.Karvy Computershare Pvt.Ltd.
"Karvy House", 46, Avenue 4
Street No.1, Banjara Hills,
Hyderabad - 500 034



Sagarsoft (India) Limited
Regd. Office: Plot No.31 B, Flat No.F1, Road No.5,
Jubilee Hills, Hyderabad - 500 033

NOTICE is hereby given that the Eighth Annual General Meeting of the Members of the Company will be held at Hotel Golkonda, Masab Tank, Hyderabad - 500 028, on Thursday, the 30th September, 2004 at 4.00 p.m. to transact the following business:

1. To receive, consider and adopt the audited Accounts of the Company for the year ended 31st March, 2004 together with the reports thereon of the Directors and Auditors.
2. To appoint a Director in the place of Shri M.Jagadeesh, who retires by rotation at the Annual General Meeting and is eligible for reappointment;
3. To appoint a Director in the place of Shri S.Krishna Reddy, who retires by rotation at the Annual General Meeting and is eligible for reappointment;
4. To appoint Auditors and fix their remuneration.
5. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as Special Resolution:

RESOLVED THAT consent be and is hereby accorded under Section 269 of the Companies Act, 1956 to the re-appointment of Shri S.Sreekanth Reddy as Managing Director of the Company for a period of 5 years with effect from 1st October, 2003 without any remuneration.

Note:

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, in the event of a poll, to vote on his / her behalf at the meeting. The proxy to be so appointed need not be a member of the Company. However, proxies, in order to be effective, must be lodged with the Company at its Registered Office not less than 48 hours before the commencement of the Meeting.

The Share Transfer Books of the Company would remain closed during the period from 24th September, 2004 to 30th September, 2004 (both days inclusive).

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 on the special business to be transacted is given in the annexure, which may be treated as forming part of this notice.

Members are requested to notify any change in their addresses to the Company's Registrars and Share Transfer Agents.

By Order of the Board

Hyderabad
30th July, 2004

S.Sreekanth Reddy
Chairman and Managing Director

**Annexure to and forming part of the Notice convening the
8th Annual General Meeting of the Company**

Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956

On Item No.5

The Board at its meeting held on 29th September, 2003 re-appointed Shri S.Sreekanth Reddy as Managing Director for a period of 5 years with effect from 01.10.2003. No remuneration is proposed for the said appointment. Approval of the shareholders under Section 269 of the Companies Act, 1956 is being sought for the above appointment.

As the resolution relates to the re-appointment of Shri S.Sreekanth Reddy, to that extent and to the extent of the shares held by him, he may be deemed to be interested in the resolution.

By Order of the Board

Hyderabad
30th July, 2004

S.Sreekanth Reddy
Chairman and Managing Director

DIRECTORS' REPORT

Dear Members

Your Directors hereby present their Eighth Annual Report together with the audited accounts of the Company for the year ended 31st March, 2004.

FINANCIAL PERFORMANCE

The Financial results of your Company are summarized below:

Sl. No.	PARTICULARS	YEAR ENDED	
		31.03.2004 Rs.	31.03.2003 Rs.
1	Income from Operations	2014921	2230682
	Other Income	-	839173
	Total Income	2014921	3069855
	Total Expenditure	7671827	18067025
3	Profit/(Loss) before Depreciation and Interest and Tax	(5656906)	(14997169)
	Depreciation	8159330	8159330
	Interest	346563	608549
	Profit/(Loss) before Tax	(14162799)	(23765048)
	Tax	-	-
	Profit/(Loss) after tax	(14162799)	(23765048)
	Add: Deferred Tax Asset for the current year	2851534	26268617
	Balance proposed to be carried to Balance Sheet	(11311265)	2503569

PERFORMANCE OF THE COMPANY

With the steep fall in the total income, the performance of your Company suffered a serious set back during the year under review. The problems faced by your company together with opportunities available to it are discussed in detail in the Management's Discussion and Analysis Report given in the annexure.

DIVIDEND

In view of the disappointing performance of your Company during the year under review, your Directors are unable to recommend any dividend for the year ended 31st March, 2004.

SHARE CAPITAL

There was no change in the Share Capital of your Company during the year under review.

PARTICULARS OF EMPLOYEES UNDER SEC.217 (2A) OF THE COMPANIES ACT, 1956

There were no employees covered under the Section 217 (2A) of the Companies Act, 1956 read with The Companies (Particulars of Employees) Rules, 1975.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The required particulars have been provided in the Annexure, which forms part of this Report.

INDUSTRIAL RELATIONS

Industrial relations continued to be satisfactory during the year under review.

DIRECTORS

Pursuant to Section 256 of the Companies Act, 1956 Shri M.Jagadeesh and Shri S.Krishna Reddy will be retiring by rotation at the Annual General Meeting and are eligible for re-appointment.

AUDITORS AND THE AUDIT COMMITTEE

The Auditors of your Company namely, M/s. C.Ramachandram & Co., Chartered Accountants, will be retiring at the ensuing Annual General Meeting. Being eligible, they have conveyed their consent for re-appointment, and furnished their certificate under Section 224 of the Companies Act, 1956 to the effect that their re-appointment, if made, would be in accordance with the limits specified in the said Section. The Audit Committee of the Board, which met on three occasions during the year under review, consists of the following directors:

Shri S.Krishna Reddy	-	Chairman
Shri M. Jagadeesh	-	Member
Shri Bruce Elliott	-	Member

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a Report on the 'Corporate Governance' has been given in the annexure, which may be treated as forming part of this Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 and subject to disclosures in the Annual Accounts, the Board of Directors of your Company hereby confirm:

- that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- that the directors had selected such accounting policies and applied them consistently and made judgment and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that the directors had prepared the annual accounts on a going concern basis.

ACKNOWLEDGMENTS

Your Directors wish to place on record their appreciation of the valuable guidance and co-operation extended by its bankers, RBI and other State and Central Government authorities. Your Directors also wish to place on record their appreciation of the confidence reposed by you in the management, which would motivate us towards better performance despite adverse factors presently faced by the industry.

For and on behalf of the Board of Directors

Place : Hyderabad
Date : 30th July, 2004

S.Sreekanth Reddy
Chairman and Managing Director

ANNEXTURE 1 TO THE DIRECTORS REPORT

Form B

[Pursuant to Rule 2 of the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1998]

*Form for disclosure of particulars with respect to technology absorption

A	Research and Development	:	None
B	Technology Absorption, Adoption and Innovation	:	Nil
C	Foreign Exchange Earnings and Outgo		
	Foreign Exchange Earned	:	Rs.24867766
	Foreign Exchange Outgo	:	Nil

Details of the Directors seeking re-appointment at the forthcoming Annual General Meeting

(in pursuance of Clause 49 of the Listing Agreement)

Name of the Director	PROFILE
Mr.M.Jagadeesh (Date of Birth: 26.7.1971)	Appointed by the Board as Director on 13.6.02. Mr.Jagadeesh, is a graduate engineer with MBA has 9 years of experience in IT Industry. He is also a Director in World Wide Web Institute India Pvt.Ltd.
Mr.S.Krishna Reddy (Date of Birth: 12.5.1973)	Appointed by the Board as Director on 11.4.02. Mr.Krishna Reddy, is a post graduate in commerce with good experience in financial and administrative matters. He is not holding any other directorships. He is the Chairman of the Audit Committee of the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

IT Industry Review

The Indian software and services market continued to build momentum, as an economic upturn began sweeping the global geographies. The sector, which had managed to sustain growth during the challenging 2000-02 period, built up steam once again, reverting gradually to its performance levels prior to the global economic recession.

Business intelligence majors such as IDC state that the Global IT services market will grow at a CAGR of 5.4 percent over the next five years. Some of the other developments defining this segment include the following:

- a high growth IT outsourcing industry which will maintain a momentum of five percent in 2003-04. Application outsourcing will remain the focus within this segment.
- a return to moderate growth of the custom applications development segment, which was the worst hit by the offshoring phenomenon.
- a mild recovery by the US IT services market which is expected to achieve growth of around two percent during 2003-04 and around six percent by 2005.
- The rise of offshoring as a mainstream strategy based on overall savings of 30-60 percent for outsourcing companies. According to Morgan Stanley, the percentage of CIOs outsourcing software applications offshore is likely to triple to 28 percent from 8 percent in 2003. IDC expects offshore volumes to double to US\$16 billion in 2004 and jump to US\$ 40 billion by 2007.

According to leading global business intelligence analysts, the offshore outsourcing market, still in a nascent stage, is expected to witness substantial growth over the next few years.

- Forrester Research estimates that only 3-4 percent of the Fortune 500 companies offshore more than 10 percent of their IT services spending. Considering the mammoth IT budgets of these companies, there is a vast untapped potential that the segment offers Indian software and services vendors.
- It is expected that over the next few years, Indian software and services companies will adopt a global delivery model based on four components: onshore (same country as client); on-site (at the client site), nearshore (country near to client country) and offshore (based in India).

Sagarsoft's Business Strategy

Expecting the current interest in Offshoring to increase, Sagarsoft's business strategy is emphasizing the following:

- Concentrate on providing Custom Software development , Quality Assurance & Staff Augmentation Services
- Consolidate the services Sagarsoft performs off-shore
- Pursue, acquire, develop and nurture strategic long term relationships
- Pursue additional strategic acquisitions and relationships

Business Overview

Sagarsoft would like to consolidate its position as a global software company with Indian capabilities, offering a broad range of IT services, including application development, Quality Assurance solutions to a host of clients across industry verticals.

Revenue Analysis by Segments

S.No.	Description	2003-04	2002-03
1	Software Development / Testing	2014921	2230682
2	Other Income	-	839173
	Total	2014921	3069855

Due to consolidation of services being provided, the operations at Sagarsoft were confined to Software testing and custom software development and limited to one single country.

Human Resources and Employees - HR Policy

Sagarsoft has changed its recruitment policy and has started using contract employees to provide its services as it provides more flexibility in servicing short term contracts. Sagarsoft provides its employees

- the opportunity to work with leading-edge technologies;
- attractive compensation plans that align employee's interests and goals with its own;
- a stimulating, flexible and entrepreneurial work environment