

**Sankhya Infotech Ltd.**

**Corporate office:**

2<sup>nd</sup> floor, Seven Hills Plaza,  
S.D.Road, SECUNDERABAD.AP.INDIA. 500 003.

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**7<sup>th</sup> Annual Report**  
**2003 - 2004**



**Respected Shareowners,**

**M/s. Sankhya Infotech Limited**

I deem it my privilege to communicate to all of you through this Annual Report.

During F.Y. 2003-04 there has been a remarkable improvement in the macro economic indicators. Definite signs of global economic revival did augur well for the Indian economy to embark on a higher growth path.

Indian IT Industry is among the top 10 industries in India. Software and Services exports continued to remain on top of the IT industry's revenue table. The Industry is witnessing a transition phase and evolving in terms of global delivery models, new service offerings, vertical focus and expansion in market reach.

Sankhya is amongst very few Indian IT companies that have established credentials of being a niche focus and a product delivery model company. The company is at the gateway to a huge opportunity of success. Repeat orders that the company has been able to get are a replete examples of this. The company's products and services are gaining excellent review and are steadily in demand.

During the year under review the income from the operations has gone up from Rs. 1100.72 lacs to Rs. 1240.64 lacs registering an increase of 12.71%. The net profit stands at Rs. 248.48 lacs as against 217.30 lacs in the previous year, an increase of 14.35%.

During the quarter ended 30<sup>th</sup> June, 2004, your company earned an income of Rs. 381.12 Lacs as against Rs. 115.48 Lacs for the corresponding period of the previous year, registering an increase of 230.03% and a net profit of Rs. 62.55 Lacs as against Rs. 29.73 Lacs registering an increase of Rs. 110.39%.

The year ahead of us promises of a greater prosperity and success as the current year is quite upbeat. Thank you all for being an associate of "Sankhya" and helping in reaching its greater heights.

Warm Regards

**N. Ramakrishna Rao**  
Chairman

**BOARD OF DIRECTORS**

**N.Ramakrishna Rao**  
Chairman

**N. Srinivas**  
Vice Chairman

**N. Sridhar**  
Managing Director

**Capt. J.R.D. Rao**  
Director

**J. Bhadra Kumar**  
Director

**REGISTERED OFFICE**

13/10, Surya Nagar  
Bhubaneswar – Orissa  
INDIA - 751003

**CORPORATE OFFICE**

1-1-39, 2nd Floor, Seven Hills Plaza,  
S.D. Road, Secunderabad, A.P. INDIA - 500 003.  
Phone # 91+ 40 + 27814217 / 55318866  
Fax # 91+ 40 + 27819191  
Email : info@sankhya.net  
url : www@sankhya.net

**DEPOSITORY REGISTRARS & SHARE TRANSFER AGENTS**

M/s. Aarthi Consultants (P) Limited  
1-1-285, Domalguda , Hyderabad [AP] – 500 029  
Phone # 91+ 040 + 27634445  
Fax # 91 + 040+ 27632184  
E-mail : aarcons@hd2.dot.net.in

**AUDITORS**

M/s. O.M. Kejriwal & Company  
Chartered Accountants  
**Bhubaneswar**

**BANKERS**

Andhra Bank  
R.P.Road  
Secunderabad 500 003

**LISTING**

The Bhubaneswar Stock Exchange Ltd  
The Hyderabad Stock Exchange Ltd

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**Annual General Meeting**

Thursday, the 23<sup>rd</sup> September 2004 at 10.00 am,  
At Hotel Shree Krishna, Station Square, Bhubaneswar

**NOTICE**

Notice is hereby given that the Seventh Annual General Meeting of the Company will be held on Thursday, the 23<sup>rd</sup> September 2004 at 10.00 a.m. at the Hotel Shree Krishna (Anarkali Building), Station Square, Bhubaneswar – 751 001, Orissa to transact the following ordinary business:

1. To receive, consider and adopt the Profit & Loss Account for the year ended on 31<sup>st</sup> March 2004 and Balance Sheet as on that date together with Schedules and Annexures thereto and the Report of Directors' and Auditors' thereon.
2. To appoint a Director in place of Capt. J.R.D. Rao who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint M/s. O.M. Kejriwal & Co., Chartered Accountants, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting and authorize the Board of Directors to fix their remuneration.

For and on behalf of Board of Directors

Place: Secunderabad  
Date : 30-06-2004

**N. Sridhar**  
Managing Director

**NOTES:**

1. A MEMBER WHO IS ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES, TO ATTEND AND VOTE INSTEAD OF HIMSELF, THE PROXY NEED NOT BE A MEMBER OF THE COMPANY
2. Proxies in order to be effective should be lodged not less than 48 hours before the commencement of the meeting.
3. The Register of Members and Share Transfer Books of the Company will be closed from 21<sup>st</sup> Sept 2004 (Tuesday) to 23<sup>rd</sup> Sept 2004 (Thursday) (Both days inclusive).
4. Members are requested to intimate immediately any change in their address to the Share Transfer Agents and in case their shares are held in dematerialized form, this information should be passed on to their respective Depository Participants.
5. **Brief Profile of Capt. J.R.D. Rao, Director who is seeking re-appointment:**

Capt. J.R.D. Rao is aged 64 years and a veteran pilot of repute and had a distinguished career in the Aviation industry. Capt. J.R.D. Rao has served Indian Airlines Limited with distinction and held various senior positions, culminating in his appointment as Deputy Managing Director of Indian Airlines and Managing Director of Alliance Air. His rich experience in the aviation industry has been helping the Company in strengthening its product portfolio and enhance its capabilities. Capt. Rao contributed immensely in the Board by providing direction and support to the Company.

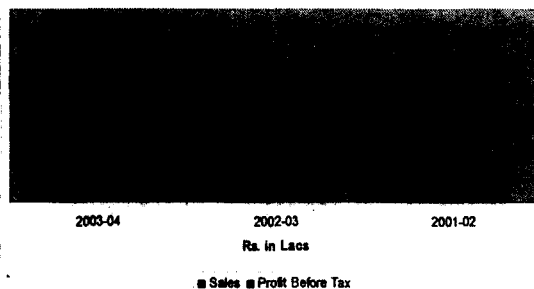
## DIRECTORS' REPORT

Dear Shareholders,  
Your Directors are happy to present this Annual Report along with the Financial Results for the year ended on 31<sup>st</sup> March 2004.

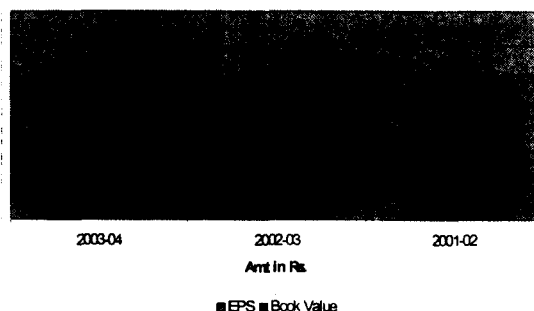
### 1. FINANCIAL RESULTS

	(Rs.in lakhs)	
For the year	2003-04	2002-03
Income from Operations	1240.64	1100.72
Other Income	2.55	0.13
<b>Total Income</b>	<b>243.19</b>	<b>1100.85</b>
Profit before Depreciation, Interest, Amortization and Tax	384.94	460.24
Depreciation	65.61	200.01
Interest	23.58	20.48
Miscellaneous Expenditure written off	26.83	13.41
Profit before tax	268.92	226.34
Provision for Taxation	20.44	9.03
<b>Profit after Tax</b>	<b>248.48</b>	<b>217.31</b>
<b>EPS</b>	<b>3.72</b>	<b>3.25</b>
<b>Book Value</b>	<b>27.41</b>	<b>23.75</b>

### Sales & Profitability



### EPS & Book Value



### 2. PERFORMANCE REVIEW

During the year under review the income from the operations has gone up to Rs. 1240.64 lacs from Rs. 1100.72 lacs registering an increase of 12.71%. The net profit stands at Rs. 248.48 lacs as against 217.30 lacs in the previous year, an increase of 14.35%.

### 3. CORPORATE GOVERNANCE

A report on Corporate Governance along with the certificate of auditors of your Company as required under clause 49 of the Listing Agreement is enclosed.

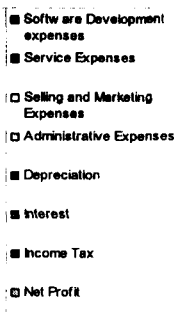
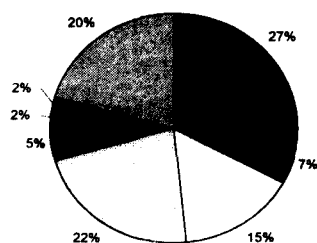
### 4. MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

This report includes MD&A so that duplication and overlap between Directors' Report and a separate MD&A is avoided.

#### 4.1 Industry Structure and developments

IT industry is becoming increasingly focused and domain knowledge is becoming a crucial differentiator. Traditionally Indian IT sector has been services focused, however this structure is gradually changing and the companies are moving up the value chain by providing high-end solutions including products and consulting services. Increased domain knowledge and focus to narrow yet specialized sector is seen as a definite way to improve both the top and bottom lines of the business. Lower Visa quotas, greater security concern, and above this is the increased pressure on the bottom line for US & European companies have

Distribution of Income 2003-04  
Sales and Other Income - Rs. 12,43,19,266



pushed the BPO (Business Process Outsourcing) in a big way. More companies from these countries are looking for reliable partners who have the domain knowledge for their IT needs.

Generally IT industry has been growing at an average of around 30% growth. At the same time certain domain specialization companies have been growing at a higher pace.

It is clear that Indian companies will play a dominant role in the development of IT. Global post-war political changes are likely to propel growth for all industries in general and it is likely to have a significant impact on the growth of the IT industry also.

#### 4.2 Opportunities and threats

Your Company has been focussing on three vertical segments and three horizontal technology paths. This focus has proved immensely successful for your Company. The Company's products have gained excellent market acceptability. The Company has conducted market study in two geographical regions US and Europe including UK and sees excellent opportunity to sell its products and services associated with them.

Increased pressure on bottom-line is stimulating growth in products that are developed around the Resource Optimization Technology. The Company with its products and services in this segment is having a huge opportunity for growth.

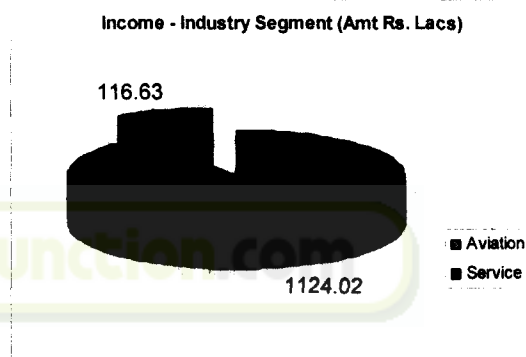
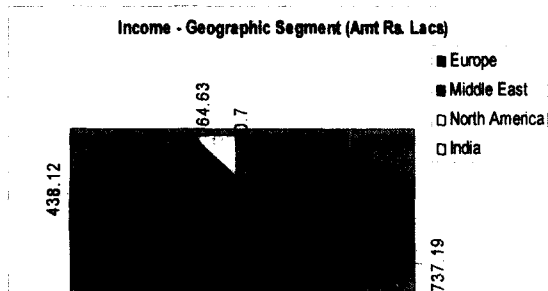
Training is being seen as a crucial component for growth of the industry, your Company's focus on Simulation & Training and as also as early mover advantage in this sector coupled with the domain knowledge is brining big opportunities for the Company.

Global security threat, the war on terror, possible outbreak of deadly viruses across many parts of the world, huge surge in the cost of oil, weak dollar, political uncertainty and lack of adequate & timely resources for the Company could be seen as significant threats that could upset your Company's growth plans.

#### 4.3 Segment wise or product -wise performance

Your Company has evenly spread its presence in both Europe & Middle East however; Europe continues to have an edge

with above 55% of business still flowing from this part of the globe. Your Company's focus in the transportation sector continues to be significant. Besides aviation the Company has made impressive forays into shipping and rail-road segments also. Your Company has gained business from 2 large and 5 medium size companies in this year.



#### 4.4 Outlook

In the previous year your Company has decided to define its long term strategy and to remain focused in specialized sectors defined both vertically and horizontally. This decision has proved successful & your Company has established an excellent name and reputation in the Industry as a Company that is known for its focus and is recognized for its domain knowledge. The Company has won a major contract from Emirates Airlines against 20 international companies. Based on the strength of its products and services, your Company is planning to strengthen its marketing and sales infrastructure, aggressively and spread its offering to wider markets. Your Company will further strive to increase its presence in the European and Middle East markets.

#### 4.5 Risks and Concerns

There is a need for increased Working capital funds for implementing the new contracts and to ramp up operations. Receipts from Customers have further improved the situation of cash flows. However, there is a gap between the resources available and resources needed for the execution of the projects. Concern on the rapid ramp up of marketing and sales activities of the Company could be jeopardized due to cash flow problems.

#### 4.6 Internal control systems and their adequacy

Your Company is an ISO: 9000 certified Company and has been able to maintain excellent quality standards for all its deliveries to the customers. Experience gathered from a broad spectrum of projects is significantly improving the quality of services being delivered by the Company. The Company is aiming to achieve SEI-CMM Level 5 certification in the year 2005.

Your Company has adequate checks and balances which are audited regularly to maintain and improve efficiency in development, timely delivery, meeting the needs of the customers, financial, administrative & security aspects.

#### 4.7 Discussion on financial performance with respect to operational performance

Your Company has received major order from M/s. Emirates Airlines and others, which has improved the order book. Customers have started releasing the blocked receivables which has affected the working capital. Your company will achieve higher growth rates and share its prosperity once the funds flow improves.

#### 4.8 Material developments in Human Resources / Industrial Relations front, including number of people employed.

The Company has reduced its strength of French Nationals in France due to increased costs and lower productivity. Consequently Mr. Jacques Andre DUPUY has resigned from the Company. A suitable replacement for him is being found.

#### 5. FIXED DEPOSITS

The Company has not accepted any Deposits from the public during the year pursuant to Section 58A of the Companies Act 1956.

#### 6. PERSONNEL

Your directors take this opportunity to thank all employees at all levels for their hard work, commitment and sincerity. None of the employees of the Company were in receipt of remunerations as required to be disclosed under Section 217(2A) of the Companies Act, 1956.

#### 7. DIRECTORS

Capt. J.R.D. Rao who is liable to retire by rotation and is being eligible, offers himself for re-appointment.

#### 8. CHANGE IN REGISTERED OFFICE

The Company's Registered Office is shifted to 13/10, Surya Nagar, Bhubaneswar for easy access and convenience, and the same is w.e.f., July 01, 2004.

The Company has obtained the approval of the Members through Postal Ballot for the purpose of shifting its Registered Office from Bhubaneswar, Orissa to Hyderabad, Andhra Pradesh. The Company is in the process of filing petition with the Company Law Board, Kolkatta for confirmation of the same.

#### 9. AUDITORS

M/s.O.M. Kejriwal & Co, Chartered Accountants, statutory auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if appointed. The Company has also received a certificate from them under Section 224 (1B) of the Companies Act, 1956.

#### 10. DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, your directors confirm

- i. That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- ii. That the Directors had selected such accounting policies and applied them consistently and made judgments 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 of the Company for that period.



- iii. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv. That the Directors had prepared the annual accounts on a going concern basis.

## 11. DIVIDEND

The Company's policy is based on the need to balance the twin objectives of appropriately rewarding the shareholders with dividend and of retaining capital to meet the Company's investment needs of both short term and long term. Due to paucity of short term funds being available the Directors have decided to retain the profits in order to conserve the resources and utilize for the operations of the Company.

## 12. CONSERVATION OF ENERGY & TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

### A. Conservation of Energy:

- a) Energy Conservation measures taken: Your Company's operations are software oriented and not energy intensive. Adequate measures have been taken to conserve energy wherever possible by using energy-efficient systems for lighting, air-conditioning, and other resources.
- b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy: NIL
- c) Impact of the measures (a) and (b) above for energy consumption and consequent impact on the cost of production of goods: As energy conservation is very meager and energy cost forms a small part of total costs, the impact of costs is not material.

### B. Technology Absorption: Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company

Your Company has made further progress in technology absorption and has improved the product quality of SILICON-LMS. Your Company has earned very good

reputation for the successful implementation of this product. Your Company is adding a new dimension to its R&D effort by putting together a small team to gather the functional improvements that the market needs in the products and also lay a road map for further improvement in product features and technology. Your Company has made good improvements in interoperability of its products.

2. Benefits derived as a result of the R & D

Your Company has launched as per plan the SILICON-LMS and was also able to launch the SILICON-QT products during the past one year. Your Company proposes to increase its contribution in the R&D effort this year to acquire further knowledge on the AQP for training and Simulation techniques.

3. i) Expenditure on R & D: Rs. 4.80 Lacs has been incurred during the year and the entire expenditure is revenue expenditure.

- ii) Foreign Exchange Earnings & Outgo:

Rs. In Lacs

Activity in foreign currency	Year ended	
Earnings	31-Mar-04	31-Mar-03
Income from software services	1007.79	428.38
Expenditure		
Travel Expenses	148.02	104.66
Professional charges	125.88	64.99
Other Expenditure	152.33	50.99
CIF Value of Imports	---	0.72
Software (ATMS)	298.18	---
<b>Net earnings</b>	<b>283.37</b>	<b>207.02</b>

## APPRECIATION

Your Directors place on record their appreciation of the continued assistance and co-operation extended by the shareholders, customers, bankers and the business associates.

For and on behalf of Board of Directors

Place : Secunderabad  
Date : 30-06-2004.

**N.Ramakrishna Rao**  
Chairman