



9th Annual Report 2005 - 2006

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Sankhya Infotech Ltd.

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FINANCIAL HIGHLIGHTS 2005-06

Rs.in Lacs

| <i>FINANCIAL HIGHLIGHTS</i> | 2005-06 | 2004-05 |
|--|----------|---------|
| Turnover | 1,535.34 | 1300.92 |
| Earnings before Depreciation, Interest and Tax | 356.41 | 318.76 |
| Depreciation | 34.63 | 44.24 |
| Interest | 45.99 | 78.37 |
| Provision for Tax | 5.38 | - |
| Profit after Tax | 270.40 | 196.15 |
| Equity Share capital | 850.00 | 667.83 |
| Reserves and surplus | 2,196.52 | 1379.61 |
| Net worth | 3,600.85 | 2661.86 |
| Gross Fixed Assets | 1,952.52 | 1497.12 |
| Net Fixed Assets | 1,218.37 | 797.60 |
| Total Assets | 3,600.85 | 2661.86 |
| <i>KEY INDICATORS</i> | | |
| Earnings per share Rs. | 3.90 | 2.94 |
| Cash Earnings per share Rs. | 4.39 | 3.60 |
| Turnover per share Rs. | 18.06 | 19.48 |
| Book Value per share Rs. | 35.84 | 30.66 |
| Debt: Equity Ratio | 0.65 | 0.92 |
| EBDIT / Gross Turnover % | 23.21% | 24.50% |
| Net Profit Margin % | 17.61% | 15.08% |
| RONW % | 7.51% | 7.37% |

**COMPANY INFORMATION :****BOARD OF DIRECTORS**

Mr. N. Ramakrishna Rao
Chairman

Mr. N. Srinivas
Vice Chairman

Mr. N. Sridhar
Managing Director &
Chief Executive Officer

Capt. J.R.D. Rao

Mr. J. Bhadra Kumar

Mr. N.R. Mohanty

Mr. M. Yugandhar
(Addl. Director from 28th January 2006)

AUDIT COMMITTEE

Mr. N. Ramakrishna Rao
Mr. J. Bhadra Kumar
Capt.J.R.D. Rao

SHAREHOLDERS'/**INVESTORS GRIEVANCE COMMITTEE**

Mr. N. Ramakrishna Rao
Capt.JRD.Rao
Mr. N.Srinivas

REMUNERATION COMMITTEE

Capt.J.R.D.Rao
Mr. J. Bhadra Kumar
Mr. N.R. Mohanty

REGISTERED OFFICE

2nd Floor, Seven Hills Plaza,
S.D.Road, SECUNDERABAD. AP, INDIA 500 003
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Fax: 91+40+27819191
Email: investors@sankhya.net
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REGISTRARS & TRANSFER AGENTS

M/s. Aarthi Consultants (P) Ltd.
1-1-285, Domalguda,
HYDERABAD – AP, INDIA
Tel : 91+40+27634445
Fax : 91+40+27632184
Email : aarcons@hd2.dot.net.in
<http://www.aarti.com>

BANKERS

State Bank of India
Commercial Branch
Begumpet
Secunderabad

AUDITORS

M/s. Satyanarayana & Co
Chartered Accountants
Hyderabad



NOTICE

Notice is hereby given that the Ninth Annual General Meeting of the Members of **SANKHYA INFOTECH LIMITED** will be held on **26th July 2006 at 03.00 p.m. at Hotel Taj Tristar, Secunderabad.** to transact the following business.

Ordinary Business

1. To receive, consider and adopt the Profit & Loss Account for the year ended on 31st March 2006 and Balance Sheet as on that date together with Schedules and Annexure thereto and the Report of Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. N. Ramakrishna Rao who retires by rotation and being eligible offers himself for re-appointment.
3. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution.

"RESOLVED that pursuant to section 225 and other applicable provisions, if any of the Companies Act, 1956 M/s. Satyanarayana & Co., Chartered Accountants be and is hereby appointed as Statutory Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as shall be fixed by the Board of Directors".

Special Business

4. To consider, and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr. Meka Yugandhar who was appointed as an additional director pursuant to Section 260 of the Companies Act, 1956 with effect from 28th January 2006 and who ceases the office at the commencement of this meeting and in respect of whom the Company received a notice proposing his candidature for the position of director, be and is hereby appointed as a director of the company whose office is liable to retire by rotation."

5. To consider, and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT subject to the provisions of the applicable laws, guidelines, rules and regulations including the Companies Act, 1956, the Securities

Contracts (Regulation) Act, 1956, Listing Agreement with the Stock Exchange, SEBI (Delisting of Securities) Guidelines 2003 and the rules framed there under in this regard and subject to such other approvals, permissions and sanctions as may be required from the Stock Exchange with which the equity shares of the Company are listed, the consent of the Members be and is hereby accorded to de-list equity shares of Company from the Bhubhaneshwar Stock Exchange.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to make such applications, and do all such things and acts for delisting the Company's Shares from the Bhubhaneshwar Stock Exchange."

For and on behalf of
Board of Directors

Sd/-
N. Sridhar
Managing Director & CEO

Place : Secunderabad
Date : 6th June 2006

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. Explanatory Statement stating all the material facts relating to the aforesaid special business contained in item # 4 & 5 pursuant to Section 173(2) of the Companies Act, 1956 is annexed herewith.
4. The Register of Members and Share Transfer Books of the Company will be closed from **July 10th 2006 to July 15th 2006** (both days inclusive).
5. 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 without any delay.
6. Brief particulars of directors recommended for appointment or seeking re-appointment is included in the Corporate Governance of this Report.

**EXPLANATORY STATEMENT**

Pursuant to Section 173(2) of the Companies Act, 1956

Item # 4

In order to be in line with good Corporate Governance Practice, Pursuant to clause 49 of the Listing Agreement and to broad base the Board with more number of Independent and Non-Executive Directors Board has inducted Mr. Meka Yugandhar, who is an independent and Non-Executive director with effect from 28th January 2006.

The Company has received a notice from the member under Section 257 of the Companies Act 1956 along with the necessary deposit proposing the candidature of above director. The Board recommends the resolution for the approval of the members.

None of the Directors except Mr. Meka Yugandhar is concerned / interested in the above resolution.

Brief profile

Mr. M. Yugandhar is a chartered Accountant having 29 years of post qualification experience. He is one of the promoter Directors of Karvy Group. The Karvy Group consists of widely diversified financial services with presence in most activities pertaining to finance like Investment Banking, Public Issue Management, Transfer Agency, Mutual Funds, Stock Broking, Depository Participant, Mobiliser of Funds for Corporates and Financial Institutions, etc.

He is member of CII (Confederation of Indian Industry), FAPCCI Federation of Andhra Pradesh Chambers of Commerce &

Industry), IACC (Indo American Chamber of Commerce) HMA (Hyderabad Management Association). Further he has held positions as Chairman, Hyderabad Branch of SIRC of Institute of Chartered Accountants of India. Member, Chandrasekharan Committee constituted by Securities and Exchange Board of India (SEBI).

Item # 5

Your Company's shares are at present listed at The Hyderabad Stock Exchange & The Bhubhaneshwar Stock Exchange. As there is no trading of the securities on the Bhubhaneshwar Stock Exchange since the past few years, it has been proposed by the Board to de-list the shares from the said Stock Exchange as this will help in reduction of costs in terms of listing fees and reduced compliances. However our company shares will continue to be listed at the Hyderabad Stock Exchange.

As per the Guidelines issued by the Securities and Exchange Board of India for delisting of shares from the Stock Exchanges, the prior approval of members by way of special resolution has to be obtained.

The Board recommends the resolution for approval.

None of the Directors are in any way concerned or interested in the resolution.

For and on behalf of
Board of Directors

Sd/-
N. Sridhar
Managing Director & CEO

Place : Secunderabad
Date : 6th June 2006

**DIRECTORS' REPORT****To the Members**

Your Directors have pleasure in presenting the 9th Annual Report of the Company together with the audited accounts for the year ended 31st March, 2006.

FINANCIAL HIGHLIGHTS

(Rs. in Lakhs)

| | 2005-06 | 2004-05 |
|--|---------|---------|
| Operational Income | 1521.53 | 1299.39 |
| Other Income | 13.81 | 1.53 |
| Total Income | 1535.34 | 1300.91 |
| Earnings before Depreciation, Interest & Tax | 356.41 | 318.76 |
| Depreciation | 34.63 | 44.24 |
| Interest | 46.00 | 78.36 |
| Profit Before Tax | 275.78 | 196.16 |
| Provision for Tax (including FBT) | 5.38 | 0.00 |
| Profit after Tax | 270.40 | 196.16 |

FINANCIAL AND OPERATIONAL PERFORMANCE

Sales for the year ended 31st March, 2006 were Rs.1535.34 lakhs (previous year Rs. 1300.91 Lakhs). Profit before depreciation, interest and tax at Rs.356.41 Lakhs during the year ended 31st March, 2006. The growth in terms of sales during the year under review over the previous year was 17%. The expenses have increased as the your company had to engaged specialist marketing & selling team for projects for achieving the highest quality levels.

DIVIDEND

The Company in order to conserve and deploy the funds for increasing the marketing activities and paucity of short term

funds have decided to retain the profits for the year ended 31st March, 2006.

INCREASE IN SHARE CAPITAL

In accordance with the resolutions passed by the shareholders at the Annual General Meeting held on 23rd December, 2005, the Board of Directors allotted 18,21,705 equity shares to the persons as specified on a preferential basis. On account of the said issue the Company's share capital base increased from Rs.667.83 lacs to Rs.850.00 lacs.

SUBSIDIARY COMPANY

Sankhya SARL is a wholly owned subsidiary of the Company established in France.

The statement pursuant to Section 212 of the Companies Act, 1956, containing details of the subsidiary Sankhya SARL is attached.

The consolidated Financial Statements of the Company and its subsidiary companies prepared in accordance with the Accounting Standard AS-21 on Consolidated Financial Statements, read with Accounting Standard AS-23 on Accounting for Investment in Associates, are appended to this report.

EMPLOYEE STOCK OPTION PLAN

Your Company implemented the Stock Option Plan under the name "Sankhya ESOP - 2005" with the objective of enhanced employee commitment.

The details of the Stock Options granted under the said Option Plan, including grants to senior management (comprises all independent Directors), are given below:

| | Description | Details |
|---|---|---|
| A | Total number of shares | 3,33,915 Equity Shares (one share represents one option) |
| B | Pricing formula | Rs. 10 (at par) |
| C | Options granted during the year | 50,000 |
| D | Options vested during the year | Nil |
| E | Options exercised during the year | Nil |
| F | Total number of shares arising as a result of exercise of options | Nil |
| G | Options lapsed during the year | Nil |
| H | Variation of terms of options | Not Applicable |
| I | Money realized by exercise of options during the year | Nil |
| J | Total Number of Options in force | 50,000 |
| K | Options granted to independent Director during the year | Nil |
| L | Employees who were granted options amounting to 5% or more of the options granted during the year. | Not Applicable |
| M | Employees who were granted options in any one year equal to or exceeding 1% of the issued capital of the Company at the time of grant | Not Applicable |



FIXED DEPOSITS

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

DIRECTORS

- ♦ Capt J. R. D. Rao who was liable to retire by rotation, at the ensuing Annual General Meeting had expressed his intention of not continuing as Director on the Board. Hence the Board of Directors has accepted his request and Capt. J.R.D. Rao shall retire as director from the date of the ensuing Annual General Meeting. The Board places on record its appreciation for his immense contribution in the growth of the Company during his tenure as Director.
- ♦ Mr. N. Ramakrishna Rao who is liable to retire by rotation and is being eligible, offers himself for reappointment.
- ♦ Mr. Meka Yugandhar has been appointed as an Independent Non Executive Director on 28th January 2006 and his appointment has to be approved by the members in the ensuing Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors confirm that

- ♦ In the preparation of annual accounts, the applicable accounting standards have been followed.
- ♦ Appropriate accounting policies have been selected and applied consistently and have 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 as at 31st March 2006, and of the profit of the Company for the period 1st April 2005 to 31st March 2006.
- ♦ Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- ♦ The annual accounts have been prepared on a going concern basis.

AUDITORS

M/s. Satyanarayana & Co., Chartered Accountants, retire at the ensuing Annual General meeting and their appointment comes into effect from the conclusion of the Annual General Meeting subject to the confirmation of the Members. The

Company has also received a certificate from them under Section 224 (1B) of the Companies Act, 1956 confirming their eligibility and willingness to accept office, if appointed.

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

♦ Conservation of Energy

- 1) Your company's operations are software oriented and not energy intensive. Adequate measures are taken to conserve energy wherever possible. No additional investments are made for reduction of consumption of energy.
- 2) The energy consumption is very meager and energy cost forms a small part of total costs, the impact of costs is not material.

♦ Technology absorption

- I. Research & Development: During the year R & D wing of the Company was engaged in supporting all the businesses through innovations and undertook multifold research activities and presented papers in International Seminars. Some of the developments have resulted in bringing efficiency in the products development cycle and efficiency of the productivity of the software that are under implementation.
- II. Benefits derived from the previous years Research and development have started showing its returns in faster implementation cycles and customer acceptance.

♦ Foreign exchange earnings and outgo

(Rs. Lacs)

| Activity in foreign currency | Year ended | |
|------------------------------|------------|-----------|
| | 31-Mar-06 | 31-Mar-05 |
| Foreign Exchange Inflow | 285.51 | 434.34 |
| Foreign Exchange Outflow | | |
| Travel Expenses | 2.20 | 47.36 |
| Professional charges | 0.81 | 65.68 |
| Other Expenditure | 17.41 | 60.77 |
| CIF Value of Imports | 0.00 | 7.75 |
| Net Forex Flow | 265.10 | 252.78 |

RELATED PARTY TRANSACTIONS

As a matter of policy, your Company carries out transactions with related parties on a healthy arm's length. A statement of these transactions is given in the Notes to Accounts in compliance of Accounting Standard AS - 18.

INDUSTRIAL RELATIONS

Your Company enjoys cordial employee relations, marked by empowerment and delegation. In view of this need, the Company approved an Employee Stock Option Plan and implemented the Sankhya ESOP-2005, framed and implemented in accordance with the SEBI (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Regulations 1999.

PARTICULARS OF EMPLOYEES

There are no employees who are in receipt of remuneration falling within the provisions of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

| Name | Qualification | Date of Joining | Designation | Previous Employer | Experience | Age | Remuneration |
|------------|---------------|-----------------|-------------------|---------------------------------|------------|-----|---------------|
| N.Srinivas | M.Com. | 21.07.1997 | Vice Chairman | Sankhya Management Services Ltd | 20 yrs | 46 | Rs.24.00 lacs |
| N.Sridhar | M.Sc. | 21.07.1997 | Managing Director | Sankhya Management Services Ltd | 20 yrs | 42 | Rs.24.00 lacs |

APPRECIATION

Your Directors record their thanks to the Company's employees at all levels for their dedication and commitment throughout the year. The Directors would also like to record their thanks to the Company's shareholders, bankers, financial institutions, Central and State government officials and all customers for their continued support and co-operation.

For and on behalf of the Board

Sd/-
N Ramakrishna Rao
Chairman

Place: Secunderabad

Date: 06th June, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The past one year has been of a great significance to Sankhya primarily driven by some of the strategic steps we have taken to foster rapid growth in our business. Sankhya's strategy to remain focused and serve knowledge market segments with specific products and services has begun to yield excellent results. Sankhya's investments in domain knowledge in the fields of transportation, defence, manufacturing and energy have been recognized by the industry. The growth in future is expected to be robust and rapid as products and services of Sankhya are fully stabilized and are implemented at various customer locations. Customer satisfaction has been achieved in many challenging industries such as defence and energy.

Review of the years' performance:

- ❖ We have focused on implementation of some of our products during this current year.
- ❖ We have won several repeat contracts from existing customers.
- ❖ SILICON™ suite of training and simulation products have now begun fully operational in Indian Navy, Emirates Airlines and would become an excellent examples for repeat business.
- ❖ The Income of the company has gone up by 18% during the year compared to previous year.
- ❖ The Expenses of the year have gone up by 14% compared to previous year.
- ❖ Profit before tax of the company has gone up by 41% and profit after tax is 38%. The reason for the same is introduction of Fringe Benefit tax by the Government of India newly and Income Tax on the domestic income of the Company. The company has not paid any tax during the year 2004-05 as there was no domestic income.

Future Development:

- ❖ The company for the first time in the past 6 years has raised its equity base that supports rapid implementation of its strategic plans.
- ❖ The company has inducted two new Board Members who have excellent industry experience and have been successful in transforming upcoming companies into industry leaders with their farsighted strategies and plans.
- ❖ The company has appointed several strategic solutions for rapidly increasing business in US, UK and in Europe.
- ❖ The company has appointed senior sales and marketing personnel with proven track record in similar industry.
- ❖ The combination of key members on the Board, strategic plans, proven products and an excellent sales team will propel the company to grow rapidly in the future.
- ❖ The demand for software in the areas of transportation, defence, energy and manufacturing is rapidly growing due to rapid growth in the industry and Sankhya is positioned to tap these opportunities.

Competition:

- ❖ The company is fully geared to face normal market competition both from domestic as well as international companies.
- ❖ In order to further establish key differentiators between the competitors and us, we have taken steps to engage industry leaders as Consultants to guide us to stay ahead of competition.
- ❖ Recent industry trade shows participation has demonstrated that Sankhya is ahead of its competitors in terms of features and product line.

Risks:

- ❖ Global economic situations and strength of US economy establish the key factors of risk that the company is likely to face.
- ❖ The company has spread its risks from aviation sector to other modes of transport, defence, etc. However, sectoral risk analysis shows that the major geopolitical situations could affect the prospects of the company.

Internal Controls:

- ❖ The company has put in place well documented policies, organization structure, predefined authority levels, adequate internal controls. IT infrastructure is secure and is of the state art.
- ❖ The internal audit system is empowered to examine the adequacy, relevance and effectiveness of control systems, compliances with policies, plans and statutory requirements. The Top management and the members of the Audit committee of the Board review the findings and recommendations of the internal audit panel.