

TATA
INFOTECH



Tata Infotech Limited
Annual Report
2001- 2002

EMPOWERING CUSTOMERS WORLDWIDE WITH INNOVATIVE IT SOLUTIONS

System Integration Services

During the year Tata Infotech developed and provided information technology solutions to a variety of clients.

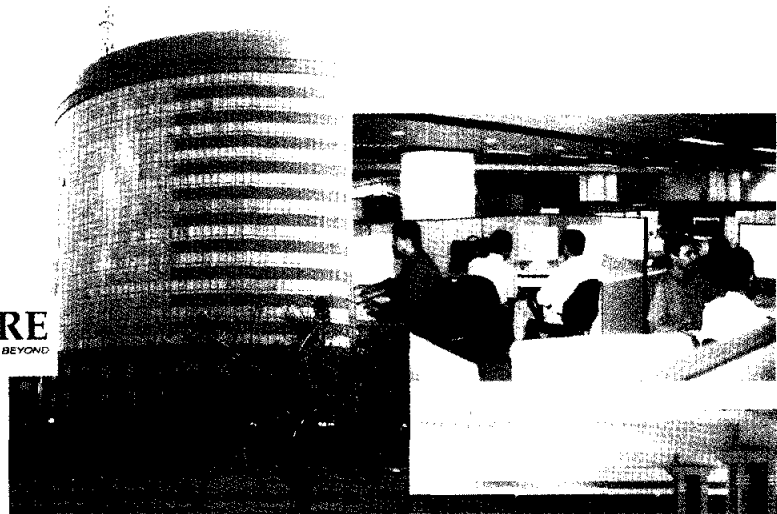


Overseas

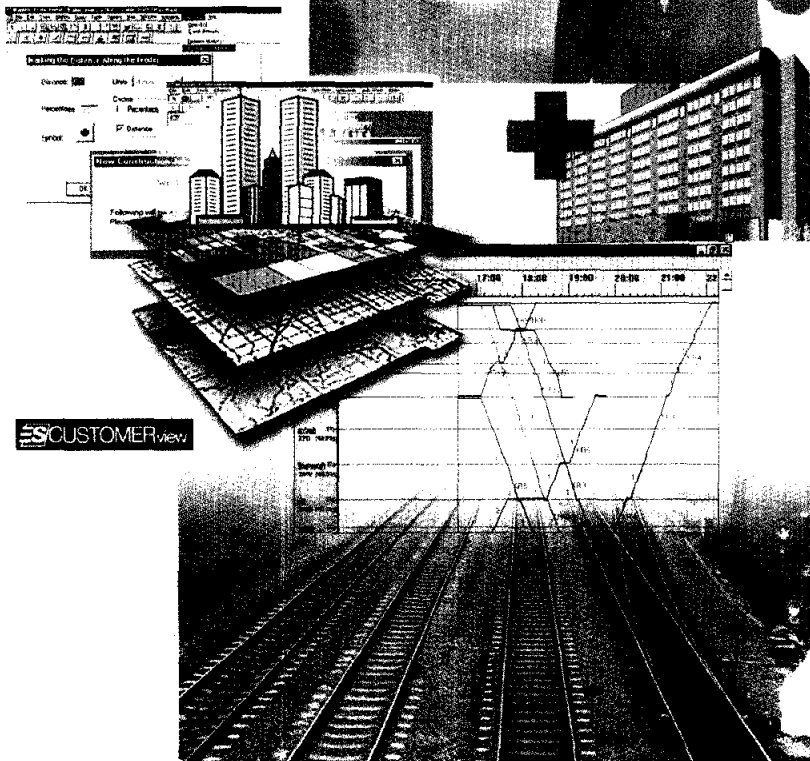
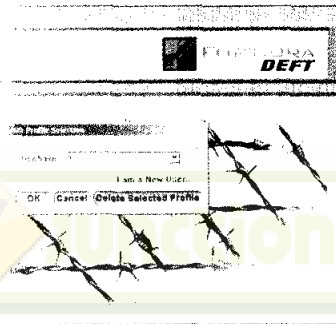
- Decision Support System and an E-merchandising solution for the largest grocery retail chain in the USA.
- Web based and an ERP solution for a company in France.
- Web based solution and regression testing for an insurance major in Columbus, Ohio, USA.
- Support for the clients in USA and UK of the world's leading portal.
- TaxMantra, our own solution, is being used for providing an integrated tax and license solution to a government body in the USA.
- Large onsite/offshore project - migrating the payroll system for a city in Michigan, USA.
- A budget information and a staff services utility system for a world economic body.
- Preferred outsourcing vendor for a large US-based Banking & Financial Services Company.
- Center of Excellence was established to provide services to the US health and insurance industry in accordance with the Health Insurance Portability & Accountability Act.
- Enhanced the ERP system of a fibreglass manufacturer in the Middle East.
- Customised an imaging product for a San Diego company.
- Web based application for a large bank for their international business.
- E-procurement - integrated web based solution for a US company.
- Compiler technology project for a Silicon Valley company.
- Baan implementation for a large government department in Botswana.
- Rated the Best IT Consultant in Asia Pacific by 'Global Finance' magazine.
- 'Star' award to 'SEEPZ center' for exports.

Domestic

- GIS based system for Municipal Corporations in Maharashtra.
- Business Intelligence Solution for the telecom industry.
- Wide area network for the governments Water Supply & Drainage Board in Karnataka.
- Systems maintenance and facilities management contract for an airline.
- Health care solution for a defence hospital in Mumbai.
- Installation of an automated train charting system for the railways.
- Implementation of a freight operating information system for the railways.



TAXMantra



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Board of Directors

F. K. Kavarana
(Chairman)

N. A. Palkhivala

F. C. Kohli

S. Gupta
(Resigned w.e.f.
19th March 2002)

J. K. Setna

S. Ramadorai

N. A. Soonawala
(Resigned w.e.f.
20th March 2002)

A. R. Gandhi
(Appointed w.e.f.
8th August 2001)

D. B. Engineer
(Appointed w.e.f.
21st March 2002)

Dr. N. Jain
(Managing Director
Resigned w.e.f.
19th July 2002)

Bankers

State Bank of India

Standard Chartered
Grindlays Bank Ltd.

Allahabad Bank

ABN Amro Bank N. V.

Auditors

G. N. Joshi Associates

S. R. Batliboi & Co.

Solicitors & Advocates

Mulla & Mulla and
Craigie Blunt & Caroe

Registered Office

Manish Commercial Centre
216-A, Dr. Annie Besant Road
Worli, Mumbai - 400 025.
Tel.: +91-22-493 3560.
Fax: +91-22-495 0318.
Website: www.tatainfotech.com

Company Secretary

M. M. Surti

Share Registrars

Tata Share Registry Ltd.
Army & Navy Building
148, Mahatma Gandhi Road
Fort, Mumbai - 400 001.
Tel: +91-22-287 3831.
Fax: +91-22-284 4160.
Website: www.tatashare.com

Fixed Deposit Managers

Tata Sons Limited
Ewart House, 3rd Floor
22, Homi Mody Street
Mumbai - 400 001.
Tel.: +91-22-204 9131.

Chairman's Statement

Dear Shareholder

In last year's Chairman's statement, I had struck a note of cautious optimism that our Company had commenced a turnaround in its profitability and that the worst was behind us. Regrettably that has not turned out to be the case, and the Company's performance has suffered a major setback in 2001 – 02.

The continuing economic downturn in the USA, combined with the international economic and political consequences of the tragic events of 11th September 2001 have significantly impacted the Company's ability to convert qualified prospects into new committed customers for our system integration services. While we have by and large overcome the perception issues of India's border tensions and local security, the sales cycle has lengthened significantly. We have also seen what McKinsey has called the 'Flight to Scale' — customers seeking fewer suppliers and only the larger ones. The combined effect of all this has been, that even with a reduced pool of consultants, the Company's resources were underutilized which significantly eroded our profitability.

The slowdown in the IT industry sent enrollments for IT courses crashing to new lows, and the Company's education services division suffered with the rest of the industry. The impact was cushioned partly by the change of its education delivery model and partly through greater sales of computer based training products to corporate clients. We believe that the courses and training provided by the Company have an important role to play in serving the interests of the IT industry and the nation. Tata Infotech intends to be a major and profitable participant in this segment.

The brightest performance, both in terms of revenue growth and profitability was in manufacturing services. The Company added to its customer base with its entry into Japan and Germany apart from its traditional US clients. The Company broadened its product and service offerings by adding design and engineering services in embedded technology. Overall, the Company has developed a strong and profitable position in contract electronic manufacturing services with specialised offerings. It intends to build on these in the current year and beyond.

The present sentiment in the Indian IT industry is that a revival in software services is on the horizon. The latest Nasscom-McKinsey Report has reaffirmed their earlier projections for the overall size of the industry at \$70 to \$80 billion by 2008; except that the rate of growth of the IT enables services (ITES) segment would be significantly higher. In fact while IT Services overall grew last year by 29%, ITES grew by a phenomenal 77%. ITES appears to be a sustainable high growth segment and in which existing clients are demanding that their suppliers should be active and long-term players. Your Company intends to be a serious participant in that space either on its own or through strategic alliances.

The Company's financial results for last year were not at all satisfactory, and we are presently evaluating every aspect of its business structure, strategy and processes to come up with the right answers to refocus and reposition the Company for profitable growth. The effects of these changes that are being undertaken are likely to be seen only in the second half of the current financial year. I had stated last year that "the survival and economic performance of each player in the industry will be determined by how it manages to adopt its business model and strategies to meet the challenges of a frequently changing business environment, marked by great volatility and unpredictability". I fear the prognosis for the world economic and business environment is not likely to change to faster growth in the near future. Our Company will need to be much more innovative, flexible and swift in implementing the necessary changes to deliver the performance and returns that you as shareholders rightly expect.

Farrokh K. Kavarana

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Directors' Report

TO
THE MEMBERS OF
TATA INFOTECH LIMITED

The Directors present their Twenty Fourth Annual Report together with the Audited Statement of Accounts for the year ended 31st March 2002.

1. Financial Results

	2001-2002	2000-2001
	Rs. Crores	Rs. Crores
Income	483.78	523.62
Profit before tax	12.06	34.14
Less: Provision for taxation(net)	(8.44)	7.60
Profit after tax	20.50	26.54
Add: Balance brought forward from previous year	21.32	26.93
Amount available for appropriations	41.82	53.47
Appropriations:		
General Reserve	20.00	20.00
Interim Dividend	7.35	—
Proposed Dividend	—	11.03
Tax on proposed Dividend	—	1.12
Total	27.35	32.15
Balance carried forward	14.47	21.32

The results for the year 2001-02 represent a major setback for the Company. On an 8% decline in revenue from Rs. 523.62 crores to Rs. 483.78 crores, profit before tax fell by 65% from Rs. 34.14 crores to Rs. 12.06 crores, and profit after tax fell by 23% from Rs. 26.54 crores to Rs. 20.50 crores.

2. Dividend

In view of the interim dividend of 40% i.e. Rs. 4/- per share, already paid, the Board has not recommended any final dividend (2000-01 : Rs. 6/- per share).

3. System Integration Services

Revenue from system integration services declined by 13% i.e. to Rs.403.12 crores from Rs.462.33 crores mainly on account of the economic downturn across the globe – especially in the USA, the Company's largest overseas market. Similarly aggressive competition and pressure on margins in the domestic market impacted the Company. Overall the business environment worsened in the second half of the year.

The business of system integration overseas services arises from two major sources: (a) Direct—where the end customer is Tata Infotech's customer. This business represents nearly 60% of the overseas business and it grew marginally by 2% in 2001-2002. (b) Channels — where Tata Infotech provides services to the end customer through its channel partners, such as Unisys, which represents 40% of the overseas business, declined significantly by 34% in 2001-2002.

The Company is continuing its efforts to grow its direct business through newer markets while seeking to contain the fall in its channel business.

The Company continued its marketing efforts to establish itself as an independent quality software vendor. During the period under review, it strengthened its marketing base in the USA, Europe, Botswana, South Africa and in the South East Asian countries.

The Company's customers were offered quality services through its state-of-the-art offshore centres in India, which are well equipped to take advantage of outsourcing, an area of high growth. IT enabled services are set to grow and the Company is evaluating an entry into this segment at an opportune moment.

Some examples of overseas projects undertaken during the year which made extensive use of the Company's skills are : *A high-end technology based system for a large magazine outlet in the U.S.A.; software development for leading banks in Singapore and Dubai; decision support system and development of an e-merchandising application for a large food distributor in the U.S.A.; a budget information system and a staff services utility system for a World economic body; integrated tax solution for processing taxes and licenses for a government body in Arizona; re-development of a Web-site for a leading consumer portal in the U.S.A.; support and maintenance of a portal of a leading pharmaceutical company in the U.K.*

Revenues from system integration domestic services declined by 6% in 2001-02, consequent upon the slow down in domestic IT spending. The Company's ability to successfully execute a variety of projects in different technological and business domains will help its operations to meet diverse requirements of its clients.

Some examples of domestic projects undertaken during the year which made extensive use of the Company's skills are : *Installation of EasyDeal a foreign exchange dealing software at five branches of a nationalized bank; voice and data, wide area network (WAN) connecting 14 district offices to their headquarters of a state water supply and drainage board in Karnataka; IT systems maintenance and facilities management services contract for a major airline; an e-governance networking project in West Bengal; networking of branches and divisional offices across the country of a life insurance major; IT consultancy services for a state road transport corporation; installation of a hi-tech automated train charting IT system for a Southern railway division; implementation of a freight operating information system for the railways; a comprehensive software system on health care has been developed for a defence hospital in Mumbai.*

4. Manufacturing Services

Total revenue from manufacturing services grew by 46% to Rs.40.64 crores from Rs.27.75 crores in the previous year. Export Revenue which represents 93% of this segment's total revenue, grew by 49% to Rs.37.68 crores from Rs.25.30 crores in the previous year.

This division provides value added *electro-mechanical contract manufacturing services* to its customers and has been manufacturing *document-processing systems* for Unisys for many years. It also started offering *critical board assemblies* and *electro-mechanical assemblies* for their other products.

Manufacturing services broadened its product & services offerings and customer base in 2001-02. It also offered design and engineering services in the area of embedded technology, where projects were undertaken for the manufacture of *controller boards* for a customer in the U.S.A.; *high speed optical interface board* for a Japanese customer; *linux based imaging peripheral server* for a company in Taiwan; *linux device drivers* for data acquisition cards for customers in Europe; *access/identification control system on windows platform* for a customer in Germany. Projects were also executed for the *automotive electronics segment* for a North American automobile company.

The collaboration with Wausau U.S.A. for manufacture of Automated Teller Machines (ATMs) did not make adequate progress and was subsequently terminated. The Company is now in discussions with a world leader in this field.

5. Education Services

Revenue from education services, despite a difficult market, grew by 23% to Rs.33.96 crores from Rs.27.57 crores in 2001-02 on account of introduction of the new individual and corporate courses.

The Company provides education services to serve the needs of students through a variety of centres :

- a) Premium Training Centres — where the Company provides the teaching faculty for ensuring a high level of customer satisfaction and quality of services.
- b) Authorised Training Centres — where the Company provides courseware, certification and training services for the instructors.
- c) Professional Learning Centres — where the Company offers high-end professional courses using both instructor led and computer based training methodologies.

To meet the IT industry's requirements for skilled professionals, the Company offers a variety of courses. The G-Tech programme for instance equips the students in a particular industry related software application. "Ambition" provides computer based training in a range of professional courses for upgrading skills in the latest technologies and industry segments.

During the period under review the Company launched a specialised programme called CReME (Customer Relations e Management Expert Programme). This course offers customised training solutions in the call centre business.

The Company also launched the Tata Infotech Certified Network Engineer (TINE) programme. TINE is a complete networking course designed to meet the growing requirement of networking professionals in the industry.

In addition to the above, the Company provides value added training in the area of quality assurance, ISO 9000, software testing, Six Sigma and project management to corporates.

The Company has been awarded a project for providing IT education to around 450 schools, colleges and institutions for the State of Haryana.

The Company operates from 300 centres in India and has signed up with 13 training centres overseas.

6. Quality & Technology initiatives

The Company continues to participate in the Tata Business Excellence Model (TBEM), which emphasizes quality, leadership, strategic planning, customer orientation and services, process orientation, human relations, shareholder value and commitment to community development.

The Company's Software Development Centres at SEEPZ and MIDC were assessed at SEI-CMM level 4.

The Company has developed a 'speech recognition software' which will facilitate web browsing in mobile devices and voice recognition products.

The Company has undertaken a 'Compiler Technology' project for a computer chip manufacturing company bringing forth the Company's experience and expertise in the language processing technology.

Our indigenous security products and solutions have been introduced in a few organisations.

The Company has set up a dedicated 'Software Testing Centre' in Chennai which undertakes systems testing and acceptance testing services for clients in India and abroad.

7. Subsidiary

A subsidiary was incorporated recently in Germany, which has yet to commence operations. This would facilitate servicing of the German IT market, which is expected to be the third largest IT market after U.S. and Japan.

Our R&D activity established in Canada in the potentially promising XML documentation field has been progressing well and is being carried out through Exegenix Canada Inc., which is expected to become a subsidiary of the Company in the near future.

8. Awards

The Company has received the following awards in 2001-2002:

- 'Star Award' for exports over Rs.100 crores from SEEPZ-SEZ.
- 'Best IT Consultant' in Asia/Pacific Region by Global Finance.
- MAIT (Manufacturers Association of Information Technology) Excellence Award for hardware exports for the year 2001-2002.

9. Corporate Governance

A separate section on Corporate Governance is included in the Annual Report and the certificate from the Company's auditors confirming compliance of conditions on Corporate Governance as stipulated in clause 49 of the Listing Agreement with The Stock Exchange, Mumbai, is annexed hereto.

10. Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the operating management confirm that:

- i. in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- ii. they have, in consultation with the Statutory Auditors, selected the accounting policies, and have 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. they have taken proper and sufficient care, to the best of their knowledge and ability, 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;
- iv. they have prepared the annual accounts on a going concern basis.

11. Public Responsibility & Corporate Citizenship

Through the Tata Council for Community Initiatives, the Company along with external agencies undertook social initiatives involving voluntary efforts from the Company's employees.

One such initiative was in the area of providing computer education to teachers of municipal schools who in turn would train their students. 180 teachers from 80 schools have been covered in Mumbai.

Another initiative focused on the development of underprivileged children by running a computer centre, designing their syllabus and counseling such children.

A workshop was organized to promote IT education and usage in the community where 850 students and 200 teachers participated. Another workshop for senior citizens was conducted to promote computer awareness and usage.

12. Directors

The Board of Directors have appointed the Chairman Mr. F. K. Kavarana as a Whole-time Director and designated him 'Executive Chairman' with effect from 3rd October 2001 for a period of three years. The Members' attention is drawn to Item No. 8 of the Notice convening the 24th Annual General Meeting.

Mr. A. R. Gandhi was appointed as a Director by the Board of Directors on 8th August 2001 in the casual vacancy caused by the resignation of Mr. N. N. Kampani. Mr. Gandhi is eligible for appointment. The members' attention is drawn to Item No. 4 of the notice convening the 24th Annual General Meeting.

Mr. F. C. Kohli retires by rotation and is eligible for reappointment.

Mr. D. B. Engineer was appointed as an Additional Director by the Board of Directors on 21st March 2002 and who holds office up to the date of the forthcoming Annual General Meeting and is eligible for appointment. The members' attention is drawn to item No. 5 of the Notice convening the 24th Annual General Meeting.

Mr. S. Gupta and Mr. N. A. Soonawala resigned as Directors of the Company on 19th March 2002 and 20th March 2002 respectively. The Directors place on record their sincere appreciation of the valuable services rendered by Mr. S. Gupta and Mr. N. A. Soonawala during their tenure as Directors of the Company.

13. Auditors

The Auditors M/s. G. N. Joshi Associates and M/s. S. R. Batliboi & Co. retire and are eligible for re-appointment. It is proposed to re-appoint the Auditors to hold office up to the conclusion of the Annual General Meeting for the year ending 31st March 2003.