

10th Annual Report 2003-2004



TERA SOFTWARE LIMITED

BOARD OF DIRECTORS:

1. Sri T. GOPI CHAND	MANAGING DIRECTOR
2. Sri V. V. PRASAD NIMMAGADDA	EXECUTIVE DIRECTOR
3. Smt. T. PAVANA DEVI	WHOLE TIME DIRECTOR
4. Sri D. SEETHARAMAIAH	DIRECTOR
5. Sri K. RAMA RAO	DIRECTOR
6. Sri T. BAPAAIAH CHOUDARY	DIRECTOR
7. Sri R. S. BAKKANNAVAR	DIRECTOR
8. Dr. T. HANUMAN CHOWDARY	DIRECTOR
9. Dr. T. V. LAKSHMI	DIRECTOR

REGISTERED OFFICE :

8-3-1113/2B, Kesava Nagar,
Srinagar Colony,
Hyderabad.-500 073.
Tel.Nos.91-40-23736833/23730553.
Fax:91-40-23743526.
E-Mail : hyd1_tspl@sancharnet.in
Internet: www.terasoftware.com

AUDITORS:

M/s. NARVEN ASSOCIATES
Chartered Accountants
313, Lingapur House,
Himayat Nagar,
Hyderabad - 500 029.

BANKERS:

BANK OF MAHARASTRA,
Basheerbagh,
Hyderabad - 500 029.

SYNDICATE BANK,
N.S.Road,
Hyderabad - 500 001.

TERA SOFTWARE LIMITED**NOTICE**

Notice is hereby given that the Tenth Annual General Meeting of the members of the company will be held at the Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033, on Monday, the 27th day of September, 2004 at 10.00 a.m. to transact the following business:

AS ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2004, Profit & Loss Account for the year ended on that date together with the Reports of the Directors' and Auditors' thereon.
2. To declare dividend on Equity shares.
3. To appoint a Director in place of Sri T. Bapaiah Choudary who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Smt. T. Pavana Devi, who retires by rotation and is eligible for re-appointment.
5. To appoint M/s. NARVEN ASSOCIATES, Chartered Accountants, the retiring auditors as Statutory Auditors of the Company, who shall hold office from the conclusion of this Annual General Meeting up to the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors

Sd/-

(T. Gopi Chand)
Managing Director

Date : 23.08.2004
Place : Hyderabad.

Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to vote at the meeting on his behalf and such proxy need not be a member of the company.
2. The instrument appointing proxy to be valid should be lodged at the Registered Office of the Company not less than forty-eight hours before the commencement of the meeting.
3. Members/Proxies should fill the attendance slip for attending the meeting.
4. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
5. The Company has already notified closure of Register of Members and the Share Transfer Books from Monday, 20th September 2004 to Monday, 27th September 2004 (both the days inclusive).
6. Shareholders are requested to bring their copy of Annual Report to the meeting.

Particulars of Directors eligible for re-election, pursuant to Clause 49 of the Listing Agreement:

Serial Number	1	2
Name of the Director	Sri T. Bapaiah Choudary	Smt. T. Pavana Devi
Age	46 Years	42 Years
Date of Appointment	29.9.2001	30.9.2000
Remuneration	Nil	Rs.3,09,360 per annum
No. of outside Directorships held	Nil	Nil
Chairman of the Committee of the Board of Directors of the Company	Shareholders' Grievance Committee	Nil
Member of the Committee of Board of Directors of the Company	Remuneration Committee	Nil
Chairman/member of the Committee of Directors of other Companies	Audit Committee	Nil

By Order of the Board of Directors

Sd/-

(T. Gopi Chand)
Managing Director

Date: 23.08.2004
Place: Hyderabad.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting the Tenth Annual Report of the company and the Audited Statements of Accounts for the year ended 31st March 2004.

a) Financial Results:**(Rs. in Lakhs)**

PARTICULARS	Year Ended 31.03.2004		Year Ended 31.03.2003	
Gross Income		1500.56		1319.20
Expenditure		919.36		1144.68
Profit before interest, deprecation & tax		581.20		174.52
Less: Interest (Financial Cost)		67.96		2.29
Profit before depreciation & tax		513.24		172.23
Less: Depreciation		251.59		76.19
Profit before tax		261.65		96.04
Less: Provision for tax				
: Current year	22.60		7.77	
: Earlier years	2.48		0.34	
: Deferred tax	75.19	100.27	28.79	36.90
Profit after tax		161.38		59.14
Surplus brought forward from the previous year		127.29		111.55
Profit available for distribution		288.67		170.69
Less:				
Proposed Dividend @ 10%	76.94		38.47	
Tax on distributable profits	9.86	86.80	4.93	43.40
Balance Carried to Balance Sheet		201.87		127.29

b) Performance:

The Company focused its attention on the e-governance projects and was successful in implementing the KAVERI Project during the year in the State of Karnataka. KAVERI project, under the Department of Registration, is aimed to return the registered documents within thirty minutes to the registeree. The KAVERI project touches the lives of 10 million citizens of the State in 175 sub registrars' offices and 23 district registrar offices in 23 districts. The Company procured the first e-governance project in the year 2002-03 that of the State Government of Andhra Pradesh to impart computer education in primary and secondary schools under the Department of Primary Education Programme and succeed by the KAVERI project. The contribution from the Projects Division helped the company to post a higher net profit. The turnover from the Integrated Division is under pressure because of severe competition and the dwindling margins. The current orders on hand as on 31.03.2004 is to the tune of Rs.50 Crore to be executed in the next four years. The company is contemplating to concentrate more on Projects Division in view of the potential capacity of the projects.

c) Dividend:

Your Directors are pleased to recommend a dividend of 10% absorbing a sum of Rs.86.80 Lakh including the tax on distributable profits.

d) Listing of Shares in Stock Exchanges:

Your Directors are happy to inform you that the trading permission from the Stock Exchange, Mumbai was received for the equity shares of the Company with effect from 19.4.2004. At present the Equity Shares of your company are listed on The Hyderabad Stock Exchange Limited and Bangalore Stock Exchange Limited. The listing fee was paid up to date.

e) Overseas Office:

During the year under review, the operations of the overseas branch resulted in a loss of Rs. 7.02 Lakh. However the branch is being continued to take the opportunity in participating in the international market.

f) Future Focus of the Company:

As the Central and State Governments' Institutions are implementing e-governance in most of their departments, the Company would focus more on the projects based on Build Own Operate and Transfer (BOOT). The Company quoted against the open tender of the State Government of Maharashtra for their MAHAVIKAS project and was lowest in the commercial bid. The project envisages an investment of Rs. 23 Crore and yields a return of Rs. 100 Crore over a period of five years. The activity on the project will commence immediately on receipt of order and will be operational before the end of the current financial year.

g) Fixed Deposits:

The Company has not accepted any fixed deposits to which the provisions of Section 58A of the Companies Act, 1956 are applicable during the year under review.

h) Directors:

At the ensuing Annual General Meeting Sri T.Bapaiah Choudary and Smt. T. Pavana Devi retire by rotation and are eligible for reappointment.

i) Auditors:

M/s. NARVEN ASSOCIATES, Chartered Accountants retire at the ensuing Annual General Meeting, and are eligible for reappointment. They have furnished the requisite certificate to the effect that their reappointment, if effected, would be in accordance with section 224(1B) of the Companies Act 1956.

j) Particulars of Employees:

There are no employees in the Company whose particulars are to be given pursuant to Section 217(2A) of the Companies Act, 1956.

k) Conservation of energy, technology absorption and foreign exchange earnings/out goings:

The particulars as required U/S 217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure) of particulars in the report of the Board of Directors Rules 1988 are:

1. **Conservation of energy:** The Company is not an energy intensive unit.
2. **Technology absorption, adaptation & innovation:** The Company has not imported any technology.
3. **Foreign Exchange Earnings and outgo:**

1. Earnings in Foreign Currency (FOB):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Software Development / Services	1,076,373	559,149
Sales Incentive	63,536	Nil
Total	1,139,909	559,149

2. Expenditure in Foreign Currency (CIF):

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Import of Raw Material	3,068,827	1,175,268
Traveling Expenses	99,007	356,106
Expenses incurred at Overseas branch	2,166,033	1,272,304
Total	5,333,867	2,803,678

l) Directors' Responsibility Statement

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- a. That in the preparation of the accounts for the financial year ended 31st March, 2004 the applicable accounting standards have been followed along with proper explanation relating to material departures;
- b. That the directors have selected such accounting policies and applied them consistently and made adjustments and estimates that were 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 the year under review;
- c. That the directors have taken proper and sufficient care 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;
- d. That the directors have prepared the accounts for the financial year ended 31st March, 2004 on a going concern basis.

m) Acknowledgment

Your directors thank the clients, vendors, investors and bankers for their continued support. Your directors place on record their appreciation of the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, cooperation and support, have enabled the company to achieve rapid growth.

Your directors thank the Government of India, Project Director of District Primary Education Program of the State Government of Andhra Pradesh, Inspector General of Registration of the State Government of Karnataka, Department of Electronics, Department of Space, Department of Information Technology, Software Technology Park and Other Government Agencies for their support during the year and look forward to their continued support.

For and on behalf of the Board of Directors

Date : 23.8.2004
Place : Hyderabad.

Sd/-
(T. Gopi Chand)
Managing Director

Sd/-
(N.V.V.Prasad)
Executive Director

REPORT ON THE CORPORATE GOVERNANCE

1. Company's philosophy on Code of Governance

The philosophy of the Company envisages the attainment of highest levels of transparency, accountability and equity in all facets of its operations in serving its stakeholders.

2. Board of Directors

Composition and category of Directors is as follows:

Category	Name of the Directors
Promoter/Executive Directors	Sri T. Gopi Chand Sri N.V.V. Prasad. Smt. T. Pavana Devi
Promoter Non-Executive Director	Sri T. Bapaiah Choudary
Non-Promoter Executive Director	Nil
Non-Executive and Independent Directors	Sri D. Seetharamaiah, Sri R.S. Bakkannavar, Dr.T. Hanuman Chowdary, Dr.T.V. Lakshmi and Sri K.Rama Rao.

Attendance of each Director at the Board meetings, last Annual General Meeting and Number of other Directorship and Chairman/Membership of Committee of each Director:

Name of the Director	Attendance Particulars			Committee memberships/ Chairmanships in our Company		Number of other directorships & Committee memberships	
	Board Meetings		Last	Member- ships	Chairman- ships	Director- ships	Member- ships
	Held	Present	AGM				
Sri T. Gopi Chand	6	6	Yes	2	Nil	Nil	Nil
Sri N.V.V. Prasad	6	6	Yes	2	Nil	Nil	Nil
Smt. T. Pavana Devi	6	6	Yes	Nil	Nil	Nil	Nil
Sri T. Bapaiah Choudary	6	6	Yes	2	1	Nil	Nil
Sri K. Rama Rao	6	3	No	2	Nil	1	Nil
Sri D. Seetharamaiah	6	6	Yes	2	1	5	5
Sri R.S. Bakkannavar	6	6	Yes	Nil	1	3	1
Dr.T. Hanuman Chowdary	6	5	Yes	Nil	Nil	2	2
Dr.T.V. Lakshmi	6	6	Yes	2	Nil	1	Nil

Number of Board Meetings held and the dates on which held

During the year six Board meetings were held on 17.4.2003, 30.7.2003, 29.8.2003, 27.9.2003, 28.10.2003, 28.1.2004.

The Board of Directors of the Company functioned through the following committees:

1. Audit Committee.
2. Shareholders' Grievance Committee.
3. Remuneration Committee.
4. Investment Committee.
5. Share Transfer Committee.

3. Audit Committee

The constitution of the audit committee of the Board of directors of the company is as indicated below:

- | | | |
|----|------------------------|----------|
| a. | Sri R.S.Bakkannavar | Chairman |
| b. | Sri T.Bapaiah Choudary | Member |
| c. | Sri D. Seetharamaiah | Member |

Role of the Audit Committee is as follows:

1. Oversight of the Company's financial reporting process and the disclosure of its financial information.
2. Recommending the appointment and removal of external auditors, fixation of audit fee and also approval for payment for any other services.
3. Reviewing with management the annual financial statements before submission to the board, focusing primarily on:
 - any changes in accounting policies and practices,
 - major accounting entries based on exercise of judgment by management,
 - qualifications in draft audit report,
 - significant adjustments arising out of audit,
 - the going concern assumption,
 - compliance with accounting standards,
 - any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large.
4. Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
5. Reviewing the adequacy of internal audit functions.
6. Discussion with internal auditors any significant findings and follow up thereon.
7. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
8. Discussion with external auditors before the audit commences, nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
9. Reviewing the Company's financial and risk management policies.
10. To look into the reasons for substantial defaults in the payment to the creditors.

During the year, the Committee met 5 times on 17.4.2003, 29.7.2003, 27.8.2003, 28.10.2003 and 27.1.2004. All the members were present at all the meetings except Sri T.B.Choudary who had not attended one meeting on 27.8.2003.

4. Shareholders' Grievance Committee:

The constitution of the shareholder grievance committee of the Board of Directors of the company is as indicated below:

- | | | |
|----|-------------------------|----------|
| a. | Sri T. Bapaiah Choudary | Chairman |
| b. | Dr. T.V. Lakshmi | Member |
| c. | Sri K. Rama Rao | Member |

The Committee, inter alia, approves issue of duplicate certificates and oversees and reviews all matters connected with the securities transfers. The Committee also looks into redressing of shareholders' complaints like transfer of shares, non-receipts of balance sheet. The Committee oversees the performance of the Registrar and Transfer Agents, and recommends measures for overall improvement in the quality of investor services. The Board of Directors has delegated the power of approving transfer of securities to the Share Transfer Committee.

During the year, the Committee has met 4 times on 30.6.2003, 30.9.2003, 31.12.2003 and 31.3.2004 respectively.

The total number of complaints received and replied to the satisfaction of shareholders during the year under review was 203. Outstanding complaints as on 31st March 2004 were nil.

5. Remuneration Committee:

The Remuneration Committee was constituted comprising of the following Non-Executive and Independent Directors of the Board:

- a. Sri D.Seetharamaiah -Chairman
- b. Sri K. Rama Rao -Member
- c. Sri T.B.Choudary -Member
- d. Dr.T.V.Lakshmi -Member from 30.7.2003

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Managing Director/Whole Time Director/Executive Director, based on performance and defined criteria.

The remuneration policy is directed towards rewarding performance, based on review of achievements on a periodical basis. The remuneration policy is in consonance with the existing Industry Practice.

During the year the Committee met once on 27.8.2003 and all the members were present at the meeting.

6. Investment Committee:

The Investment Committee was constituted comprising of 3 directors of the company as stated below:

- a. Sri T.Gopi Chand -Member
- b. Sri N.V.V.Prasad -Member
- c. Sri D.Seetharamaiah -Member

During the year, the Committee met once on 29.8.2003. All the members were present at the meeting.

7. Share Transfer Committee:

The Share Transfer Committee was constituted comprising of 2 directors and the Compliance Officer of the Company as indicated below:

- a. Sri T.Gopi Chand -Member
- b. Sri N.V.V.Prasad -Member
- c. Mr. O.Babu Reddy -Member

During the year 23 meetings were held and all the members were present at all the meetings.

Details of remuneration paid to all the Directors for the year:

The aggregate value of Salary, Perquisites and Other Allowances paid to Managing Director, Executive Director and Whole time Directors is as detailed below:

Particulars	CurrentYear (Rs.)	Previous Year (Rs.)
Managing Director (Sri T.Gopi Chand)	669,360	369,360
Executive Director (Sri N.V.V.Prasad)	549,360	309,360
Whole Time Director (Smt. T.Pavana Devi)	309,360	249,360
Total	1,528,080	928,080

The Company has paid the following sitting fee to the Directors of the Company during the year ended on 31st March 2004.

Particulars	Current Year (Rs.)	Previous Year (Rs.)
Sri D.Seetharamaiah	19,000	11,000
Sri R.S.Bakkannavar	17,000	11,000
Sri T.Bapaiah Choudary	17,000	7,500
Dr. T. Hanuman Chowdary	10,500	7,500
Dr. T.V.Lakshmi	14,000	6,000
Sri K.Rama Rao	8,500	4,500
Total	86,000	47,500

8. General Body Meetings

Location and time for last 3 Annual General Meetings were:

YEAR	AGM	LOCATION	DATE	TIME
2000-01	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	29th September, 2001	11.30 a.m.
2001-2002	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	30th September, 2002	10.00 a.m.
2002-2003	AGM	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad.	27th September, 2003	3.30 p.m.

One resolution was put through the postal ballot during 2003-2004.

9. Disclosures

a. Significant related party transactions:

During the year ended 31.3.2004, there were no materially significant related party transactions that may have potential conflict with the interests of the Company at large.

b. There are no non-compliances, penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority on any matter related to capital markets, during the year.

10. Means of Communication

The quarterly financial results were published in two widely circulated newspapers (Business Standard and Andhra Bhoomi) in English and vernacular newspapers.

The financial results are intimated to the Stock Exchanges on which the Company's Shares are listed as per the requirements of the listing agreement and also to the Stock Exchange, Mumbai where the equity shares of the Company are permitted to be traded with effect from 19.04.2004.

11. Management Discussion and Analysis

Forward-Looking Statements:

These statements are based on certain assumptions and expectations of future events. There is possibility of the company's actual results, performance or achievements, differing from those projected in any such forward-looking statements on the basis of subsequent unforeseen developments. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent developments, information or events.

Future Outlook:

As most of the State Governments and also the Central Government are implementing the e-governance projects, the future for the Company looks optimistic. The Company had quoted against various tenders floated by different State Governments and is confident of getting such orders against stiff competition based on the real experience it had.