

Financial Performance

Introduction

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting and comply with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956, (the “Act”) to the extent applicable. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of income and expenses of the period, assets and liabilities, as of the date of the financial statements. These estimates are made on a prudent and reasonable basis, to reflect the true and fair view of the financial statements.

Income

Income from software development:

	Quarter Ended				<i>(Rs. in million)</i>	
	June 30, 2007	%	June 30, 2006	%	Growth % YoY	
Overseas	1,514	93.7	1,261	94.6	20.1%	
Domestic	101	6.3	72	5.4	40.3%	
Total	1,615	100	1,333	100	21.2%	

Our revenues for the quarter ending June 30, 2007 is Rs.1,615 million and has grown by 21.2% YoY in rupee terms. We have 175 active customers as at June 30, 2007 of which 38 are Fortune 500 accounts. Our million dollar client count is follows:

No of million dollar clients*	June 30, 2007	March 31, 2007
\$1 million clients	34	31
\$5 million clients	4	4
\$10 million clients	2	2

*Based on last 12 months revenues

We provide our software development services on time-and-material basis or fixed-price basis. Revenue from software development on time-and-material basis is recognized as the related services are rendered. Revenue from fixed price contracts is recognized using the proportionate completion method, which is determined by relating the actual person hours of work performed to date to the estimated total person hours for each contract. Our revenues by project type are as follows:

Project Type	Quarter ended	
	June 30, 2007	March 31, 2007
Fixed price	22.4%	25.3%
Time and Material	77.6%	74.7%
Total	100.00%	100.0%



We showcase the following service offerings to our customers:

Service offerings	Quarter Ended	
	June 30, 2007	March 31, 2007
Development	60.4%	61.0%
Maintenance	25.6%	25.5%
Consulting	4.8%	4.7%
Package Implementation	1.7%	2.3%
Independent Testing	3.5%	3.4%
Infrastructure Management and Tech Support	3.9%	1.9%
IP Licensing	0.1%	0.8%
Other Services	0.0%	0.4%
Total	100.0%	100.0%

We derive revenues from services provided both offshore and onsite. Offshore revenues consist of revenues from software services work conducted in our offshore facilities in India. Onsite revenues consist of revenues from software services work conducted at clients' premises or from our premises outside India. Services performed at a client site or our premises located outside India typically generate higher revenues per-capita at a lower gross margin than the same services performed at our facilities in India. The mix in this category is as follows:

Effort mix	Quarter Ended	
	June 30, 2007	March 31, 2007
Onsite	14.2%	14.2%
Offshore	85.8%	85.8%
Total	100.0%	100.0%
Revenue mix		
Onsite	29.0%	29.0%
Offshore	71.0%	71.0%
Total	100.0%	100.0%

We have classified our revenues into four geographic segments comprising the Americas, Europe, India and Rest of the World. The geographic break down of revenues contained in the following table is based on the location of the specific client entity for which the project has been executed, irrespective of the location where the invoice is rendered or whether the work for a specific client entity is performed onsite or from our offshore delivery centres in India.

(Rs in million)

	Quarter ended			
	Jun 30, 2007	%	Jun 30, 2006	%
America	1,129	69.9	835	62.6
Europe	268	16.6	314	23.6
India	69	4.3	78	5.8
Rest of World	149	9.2	106	8.0
Total	1,615	100	1,333	100



Faster ramp up by some of our new client wins in the US contributed to higher share of revenues from the US, this quarter.

Our operations predominantly relate to providing IT services in two primary business segments viz. IT Services and R&D Services. Revenues in these segments are as follows:

(Rs in million)

	June 30, 2007		Quarter Ended June 30, 2006		Growth %
		%		%	
IT Services	1,253	77.6	1,005	75.4	24.7
R&D Services	362	22.4	328	24.6	10.4
Total	1,615	100.0	1,333	100.0	

Under IT Services and R&D Services, we are organized by Industry Groups (Verticals). The revenue mix of these verticals in 2006-07 is as follows:

Revenue by Industry - ITS	Quarter Ended	
	June 30, 2007	March 31, 2007
Manufacturing	25.7%	26.2%
Banking & Financial	27.3%	24.6%
Travel & Transportation	17.0%	17.5%
Hitech	17.0%	16.0%
Others	13.0%	15.7%
Total	100.0%	100.0%

Revenue by Industry - RDS	Quarter Ended	
	June 30, 2007	March 31, 2007
Storage and Servers	44.9%	42.7%
Consumer Appliances	26.4%	24.8%
Communication Systems	10.6%	15.3%
Automotive & Industrial Systems	18.1%	17.2%
Total	100.0%	100.0%

We are continuing to see good growth across all our vertical markets.

Other income

Other income for the quarter ending June 30, 2007 is Rs.62.4 million and has increased by 167% YoY. This is because we had higher investments, being proceeds from the IPO. Other income primarily comprises of the following:

- Interest income on account of deposits with banks Rs 15.6 million
- Profit on sale of investments Rs 17.7 million
- Profit from sale of assets Rs.0.07 million
- Dividend from investments Rs 28 million
- Misc income Rs 1.0 million, of which the main component is rental income of Rs 0.6 million from sub-lease of office facilities and Rs0.4 million from Other interest received.



Expenditure**Software development expenses***(Rs in million)*

Quarter ended	Quarter ended				Growth % YoY
	Jun 30, 2007	%	Jun 30, 2006	%	
Revenues	1,615	100	1,333	100	21.2%
Salary and allowances and contribution to provident and other funds	817.9	50.6%	591.1	44.3%	38.4%
Staff welfare	9.1	0.6%	7.7	0.6%	18.2%
Travel and conveyance	108.7	6.7%	103.9	7.8%	4.6%
Communication expenses	10.0	0.6%	11.9	0.9%	-16.0%
Sub-contractor charges	16.7	1.1%	20.4	1.5%	-18.1%
Computer consumables and software purchases	38.6	2.4%	22.3	1.7%	73.1%
Rent	16.3	1.0%	28.8	2.2%	-43.4%
Post Contract support services	0.3	0.0%	1.9	0.1%	-84.2%
Total	1,017.6	63.0%	788	59.1%	29.1%

Software development expenses for the quarter ending June 30, 2007 is Rs.1,018 million and has increased by 29.1% YoY. Software development expenses amounting to Rs 818 million, mainly comprises of salary costs paid to people in India and overseas has increased by 38.4% YoY. The people costs have grown because our net additions in this quarter is 270 people and about 53% of our people got their salary revisions in this quarter. Travel and conveyance amounting to Rs 109 million, for the quarter ended June 30, 2007, mainly comprises overseas travel for software development and has increased by 4.6% YoY. Communication expenses mainly comprise connectivity charges to stay linked with clients. Subcontractor charges are services purchased from third party and used on our projects. Computer consumables and software purchases form an integral part of project requirements and includes packages and tools to enhance the quality of our services and for the quarter ending June 30, 2007 is Rs.39 million and has increased by 73.1% YoY. Post contract support services are provisions made for post completion warranty support.



Administrative and other expenses*(Rs in million)*

Quarter ended	Quarter ended		Quarter ended		Growth % YoY
	Jun 30, 2007	%	Jun 30, 2006	%	
Revenues	1,615	100	1,333	100	21.2%
Salary and allowances and contribution to Provident and other funds	152.5	9.4%	123.5	9.3%	23.5%
Travel and conveyance	27.9	1.7%	17.7	1.3%	57.6%
Power and Fuel	26.0	1.6%	17.1	1.3%	52.1%
Rent	3.6	0.2%	18.9	1.4%	-81.0%
Telephone	14.0	0.9%	9.9	0.7%	41.4%
Staff training	12.4	0.8%	5.9	0.4%	110.2%
Recruitment	16.2	1.0%	9.3	0.7%	74.2%
Marketing	14.2	0.9%	11.7	0.9%	21.4%
Legal and professional	31.4	1.9%	14.9	1.1%	110.7%
Others	43.5	2.7%	30.6	2.3%	42.2%
Total	341.7	21.1%	259.5	19.4%	31.7%

Administrative and other expense for the quarter ended June 30, 2007 is Rs.342 million and has increased by 31.7% YoY. We had 364 sales and support people as at June 30, 2007. We had savings in rental expenses because we purchased 2 of the buildings from which we operate in, in our Mysore Road campus.

Operating profits for the quarter ended June 30, 2007 is Rs.318 million, representing 19.7% of revenues as compared to 23.2% for the quarter ended June 30, 2006.

Interest

Interest cost for the quarter ended June 30, 2007 is Rs.9.4 million and represents interest on term loans (Rs 5.3 million) and Interest on short term credit / finance charges (Rs 4.1 million). Total interest increased by Rs 0.8 million YoY. A part of this increase was due to loans taken to finance the purchase of the 2 buildings, as explained above.

Depreciation

Depreciation is Rs.79 million for the quarter ended June 30, 2007 and has increased by Rs 32 million YoY. The increase in depreciation was due to our ownership of the 2 buildings as explained above, as well as routine capex investment.

Provision for tax and Deferred Tax

We pay income tax in countries where we provide software services. Our profits from export of software and related activities are fully deductible from taxable income. Our unit at Bangalore is registered as a 100% Export Oriented Unit, which is entitled to a tax holiday period of 10 years from the date of commencement of commercial operations under Section 10B of the Income Tax Act, 1961. Deferred tax assets of Rs 47.2 million recognized are on account of timing differences



in respect of fixed assets, which reverse after the tax holiday period. We have made a provision for Fringe Benefit Tax (FBT) under income taxes.

Net Profit

Net profit for the quarter ended June 30, 2007 is Rs.206 million and has decreased by 15% YoY and represented 12.3% of total income as compared to 17.9% for the quarter ended June 30, 2006. The main reason for the decline was the strong rupee appreciation witnessed in this quarter.

Share Capital

The outstanding equity shares as at June 30, 2007 is 37,752,577 of Rs.10 (same as at March 31, 2007). The total paid up share capital is Rs.378 million.

Reserves & Surplus

A. Securities Premium Account

The amount in Securities premium account is Rs.2,750 million as at June 30, 2007 (same as at March 31, 2007)

B. Stock Option outstanding Account

The total stock option outstanding as at June 30, 2007 is Rs.19 million as compared to Rs.13 million as at March 31, 2007 after deducting the deferred employees compensation expenses amounting to Rs.42 million as at 30 June 2007 (Rs 49 million as at March 31, 2007).

Secured Loans

The balance in this account as at June 30, 2007 is Rs.1,001 million as compared to Rs.264 million at March 31, 2007. The composition and movements are explained below:

- Term loan with HSBC having pari passu charge on fixed assets has increased to Rs.792 million as at June 30, 2007 from Rs.57 million as at March 31, 2007.
- Other loans comprising of Loan from HSBC and Oriental Bank of Commerce is secured by a pari passu charge on the book debts and other current assets. The balance is same at Rs.165 million as at June 30, 2007 and as at March 31, 2007.
- Outstanding financial lease obligation secured by hypothecation of assets taken on lease is Rs.44 million as at June 30, 2007 as compared to Rs.42 million at March 31, 2007.

Fixed Assets

The Gross Block of Fixed Assets as at June 30, 2007 has increased to Rs.2,334 million as compared to Rs.1,368 million as at March 31, 2007. The additions during the quarter to the Gross block are Rs.976 million & deletions during the quarter to the Gross Block are Rs.10 million.



Additions comprises of:

- Addition to building is the buildings at West Campus Phase 1 and Phase 2 amounting to Rs.543 million.
- Addition to leasehold land from Tanglin amounting to Rs.328 million.
- Other additions are Leasehold improvements (Rs.3.8 million), Computer systems and software (Rs 79 million), Furniture and Fixtures (Rs.4 million), Electrical installations (Rs.1.5 million), office equipment (Rs 8.7 million) and motor vehicles on lease (Rs.8 million)

The deletion represents sale of Computer systems (Rs.7 million) and foreclosure of Leased Motor Vehicles (Rs 3 million).

Capital work in progress has increased to Rs.145 million as at June 30, 2007 from Rs.132 million as at March 31, 2007.

The estimated amount of contracts remaining to be executed on capital account and not provided for as at June 30, 2007 is Rs.729 million as compared to Rs.695 million as at March 31, 2007.

Investments

Our investments have decreased to Rs.1,915.2 million as at June 30, 2007 from Rs.2,140.6 million as at March 31, 2007.

The investments comprises of:

- Investments in mutual funds (Non trade - quoted), is Rs.268 million as at June 30, 2007 as compared to Rs.397.4 million as at March 31, 2007. These are valued at lower of cost or market value
- Investments in mutual funds (Non trade – quoted), out of IPO issue proceeds, is Rs.1,647 million as at June 30, 2007 as compared to Rs.1,743 million as at March 31, 2007. These are valued at lower of cost or market value.
- Long Term investment in unquoted equity shares is Rs.1.5 million. However provision for diminution in the value of these shares have been made for Rs.1.4 million and the current book value is Rs.0.2 million

The funds realized from the redemption of investments were used to pay off some of the older debts and for capex expansion, specially the acquisition of the 2 buildings as explained before.

Deferred Tax Asset

We recognize the Deferred Tax assets in compliance with the Accounting Standard 22 issued by the Institute of Chartered Accountants of India. Deferred Tax assets are on account of timing differences in respect of depreciation on fixed assets. The same has been recognized amounting to Rs.47 million as at June 30, 2007.

Sundry Debtors

Gross Sundry Debtors is Rs.1,411 million as at June 30, 2007 as compared to Rs.1,288 million as at March 31, 2007.



The Days Sales Outstanding (DSO) as at June 30, 2007 is 75 Days as compared to 79 days as at March 31, 2007. The improvement in DSO has been possible due to focused effort on reviewing collections and old outstanding. We will continue the focus to improve this further.

The age profile of debtors is given below:

Period in Days	<i>Rs million</i>	
	June 30, 2007	%
0-30 Days	901	63.8
31-60 Days	53	3.8
61-90 Days	167	11.8
more than 90 Days	290	20.6
Total	1,411	100.0

Cash and Bank Balances

Cash and Bank balances have decreased to Rs.709 million at June 30, 2007 as compared to Rs.768 million at March 31, 2007. The composition and movements are explained below:

- Cash balance is at Rs.0.02 million at June 30, 2007 (same as at March 31, 2007).
- Balance with scheduled banks in India is Rs.610 million (Rs.428 million is out of IPO proceeds) as at June 30, 2007 as compared to Rs.704 million at March 31, 2007.
- Balance with non-scheduled banks has increased to Rs.99 million at June 30, 2007 as compared to Rs.64 million at March 31, 2007. These balances represent balances held in overseas bank current accounts for meeting the operational expenses in these branches.

Loans & Advances

Loans and advances have increased to Rs.828 million at June 30, 2007 as compared to Rs.830 million at March 31, 2007. The composition and movements are explained below:

- Advances are mainly toward amounts paid in advance for value and services to be received in future and amounting to Rs.547 million as at June 30, 2007 as compared to Rs.564 million as at March 31, 2007.
- Unbilled Revenue amounting to Rs.210 million as at June 30, 2007 as compared to Rs.199 million as at March 31, 2007. Unbilled revenue represents cost and earnings in excess of billings in fixed price projects.
- Advance tax and tax deducted at source, net of provision of taxes amounting to Rs. 71 million at June 30, 2007 as compared to 67 million at March 31, 2007.

Current Liabilities

The Current liabilities as at June 30, 2007 is Rs.632 million as compared to Rs.862 million as at March 31, 2007. The composition and movements are explained below:



- Advance from Customers (representing amounts received from customers for services which are yet to be provided) has increased to Rs.19 million at June 30, 2007 as compared to Rs.6.5 million at March 31, 2007.
- Interest accrued but not due has decreased to Rs.0.7 million at June 30, 2007 as compared to Rs.0.4 million at March 31, 2007. This represents interest on Term Loans and packing credit.
- Unearned revenue represents customer billing done in excess of cost and earnings on fixed price projects. The amount of unearned revenue as at June 30, 2007 is Rs.18 million as compared to Rs.27 million as at March 31, 2007.
- Sundry Creditors Expenses comprises of amounts payable to suppliers of Materials, Services, Employees (travel and other expenses), retention money and others. The amount outstanding as at June 30, 2007 is Rs.102 million as compared to Rs.237 million as at March 31, 2007.
- Sundry Creditors for Capital Goods representing amounts payable to Supplier of Capital Goods is Rs.22.5 million at June 30, 2007 as compared to Rs.7 million at March 31, 2007.
- Other liabilities mainly comprises of represents amounts payable towards Salary, bonus, sales incentive and other employee compensations, statutory payments and others. The amount outstanding at June 30, 2007 is Rs.463 million as compared to Rs.579 million as at March 31, 2007.
- Book overdraft amounting to Rs.7 million as at June 30, 2007, as compared to Rs.5 million at March 31, 2007.

Provisions

The Provisions at June 30, 2007 is Rs.200 million as compared to Rs.176 million as at March 31, 2007. The composition and movements are explained below:

- Dividend at Rs.1 per share has been proposed on 37,752,577 equity shares amounting to Rs.38 million.
- Provision for Gratuity made in compliance with the Accounting Standard 15 (revised) issued by the Institute of Chartered Accountants of India amounting to Rs.11 million as compared to Rs.4 million as at March 31, 2007.
- Provision for leave encashment is Rs.40.4 million at June 30, 2007 as compared to Rs.31.7 million at March 31, 2007.
- Post Contract support services provision at June 30, 2007 is Rs.21 million as compared to Rs.20.9 million as at March 31, 2007.
- Provision for volume discount is Rs 52 million at June 30, 2007 as compared to Rs. 54 million at March 31, 2007.
- Other Provisions at June 30, 2007 represents tax on dividend Rs.6.4 million (same as at March 31, 2007) and foreign taxes (Rs.31.2 Million). Foreign taxes as at March 31, 2007 were Rs.21 million.

