

Management's Discussion and Analysis of Financial Condition and Results of Operations

A. Industry structure, issues & developments

IT buyers are becoming more sophisticated and demanding, and their expectations and paradigm is shifting to a higher level. Indian IT service players are striving to guard their competitive positions and margins. Companies need to leverage more domain skills to establish differentiation in the market place and improve margins and productivity. Many IT service providers continued to extend their process and quality leadership, while at the same time building out their domain expertise via Mergers & Acquisitions.

Interestingly, buying decisions started to shift from technologists to business leaders. Technology vendors are grappling with changing market dynamics by protecting current offerings and market share. Indian technology services providers have broadened the current service offerings to include Product Engineering services, independent verification and validation, infrastructure management services, IT consulting and security services.

In spite of the wage inflation and other peripheral challenges, India continues to be the preferred destination for outsourcing. The country could sustain its unique value proposition covering abundant availability of talent, cost advantage, emphasis on quality and information security, proven legal systems to protect integrity of intellectual property, enabling business policy and regulatory environment ensure that India continues to be the preferred destination for outsourcing.

The fact that Indian IT companies cater to and compete with global players has led them adopting the highest quality standards. This high quality of services and products has been the driver and sustainer of growth which has helped move India out of the mediocrity. The world began to recognize that Indian products and services could also compete and win against global competitors on quality parameters. India is also emerging as a R&D hub for many of the high tech companies across the globe, further demonstrating that India now stands for quality.

As per a NASSCOM report, 30% of companies worldwide who have reached Level 5 of Capability Maturity Model Integration (CMMI) are Indian IT companies. Nearly 75% of Fortune 500 and 50% of Global 2000 corporations source their technology related services from India with an increasing number of MNCs outlining their investment plans for setting up R&D operations in India.

Corporate Governance

The Indian IT industry has been a front runner in practicing good corporate governance and their commitment to infuse it in their business activities have led to a creating

a positive pressure within the industry, as well as in other industries, with more and more companies adopting global standards in corporate governance practices.

B. Opportunities & Threats

Mindteck is continuously scanning the global market to spot growth opportunities. The company has a strong growth strategy in place, both through organic and inorganic ways. Mindteck is strategically well poised to accelerate growth and undertake several new initiatives to combat industry competitions. The company is developing new technology competencies, hiring subject matter experts, studying customers' business challenges, leveraging its global delivery model to support its large customers globally, tightening security mechanisms to protect customers' intellectual properties, and investing heavily to improve its infrastructure and quality standards.

The company's relationship management processes are founded on trust and strive to build long term partnerships with customers so that the cost and quality of its deliverables can be continuously improved. Mindteck boasts of a high average customer satisfaction rating of 9/10. The company's global delivery capabilities enable it to provide a number of options to its customers in terms of skills, price points, and time zones. Its industry expertise is built to deliver unique combinations of domain and technology knowledge components that can be combined flexibly and swiftly to produce solutions of value.

Threats

The success of an industry rests on the aggregate performance of the firms within it. And an individual company's performance is dictated by a diverse set of factors, ranging from firm-specific strategies and behaviors through to the broader competitive environment in which firms operate. It is in this area Mindteck anticipates competitions from the fellow companies in the industry.

Secondly, the IT Services market is increasingly growing competitive with a large number of existing offshore software service companies battling for a same pie of business. The trend seems consolidation. Large companies are trying to cease competitions by acquisitions.

C. Outlook

Strong growth trends are expected to continue in FY 08-09. While opportunities continue to exist and grow, the sluggish US economy and Re-\$ fluctuations witnessed in the recent few months may impact the financial performance of the Company to some extent. While hedging instruments will help in the short term, long term impact is definitely a cause for major concern.

According to a recent NASSCOM report, IT exports (including hardware exports) are expected to cross USD 40.80 billion in FY 08-09 as against USD 31.90 billion in FY 07, a growth of 28 per cent. Exports for Engineering Services and R&D, Software Products are likely to cross USD 6.30 billion in FY 08-09 from USD 4.90 billion in FY 07-08. While US & UK remained the largest export markets (accounting for about 61 per cent and 18 per cent respectively, in FY2007), the industry is steadily increasing its exposure to other geographies. Exports to Continental Europe in particular have witnessed notable gains, growing at a CAGR of more than 55 per cent over the period 2004-2007.

India has a large pool of trained technical people with English language skills. According to NASSCOM, India produces approximately 2.70 million college graduates annually, which includes approximately 440,000 engineering graduates. This is projected to increase to approximately 536,000 by fiscal 2008. NASSCOM and the Indian IT industry have taken steps, in conjunction with the Government, to strengthen education and training for the IT industry, such as signing of MOUs with University Grants Commission and All India Council for Technical Education.

D. Revenue Contribution from Geographic Segments

During the year under review the Company derived 86% of its revenue from the US. In order to reduce this dependence on the US market, the Company has been making efforts to expand its growth in Singapore, UK and Europe. Towards this end, the Company has set up operations in Netherlands, Germany and Switzerland in Europe through its subsidiary, Mindteck UK Ltd.

E. Risks

The Company has established a comprehensive Enterprise Risk Management Program, which aims at assessing and controlling risk through a clearly defined framework. This framework is largely based on the recommendations of the Committee of Sponsoring Organizations (COSO). The Company's Risk Management Program identifies and assesses risks at enterprise and functional levels and provides mitigation measures with adequate monitoring mechanisms.

The Company is faced with numerous external and internal risks in the pursuit of its business endeavors. Some of the important ones are as under:

a) Macro Economic Factors

The year under review has seen a slowdown in the US economy been dominated by inflationary pressures and hardening interest rates resulting in intense pressure on prices. To offset these pressures, the company has improvised on and expanded its service offerings to stay competitive

in the market place.

b) Exchange Rate Fluctuations

The Company's functional currency is the Indian Rupee. Substantially, all of the Company's revenues are generated in US Dollars while most of its expenses are incurred in Indian Rupees. The appreciation of the Rupee against the US Dollar adversely impacts the Company's profitability and operating results.

The Company seeks to meet expenses through receipts in the same currency. The Company also seeks to reduce the effect of exchange rate fluctuations on operating results by purchasing foreign exchange forward contracts to cover a portion of its outstanding receivables.

c) Increased Manpower Costs

The rapid growth of the software services industry in India and the increase in demand for a skilled talent pool maintains a constant pressure on manpower costs, which constitute a substantial component of the company's overall operating cost structure. Hence the company runs the risk of its margins being adversely affected by increased manpower costs, especially during inflationary times.

The Company seeks to mitigate this risk by ensuring a right mix of resources, providing younger people in the organization with opportunities to take up higher responsibilities with careful mentoring and increasingly building in a variable component in the compensation structures of its employees.

d) Concentration – Geographic and Technological

The Company's business today is predominantly derived from the US, chiefly from embedded systems offerings.

To mitigate this risk of geographical and technological concentration, the Company is constantly seeking to widen the range of its service offerings as well as to expand in newer geographies like Europe, A-Pac, etc. both through organic and inorganic growth.

e) Delivery

The Company's delivery involves risks of quality and time/cost overruns, to mitigate which the Company constantly develops and improves on its software engineering processes. Towards this end, the Company has adopted the Software Engineering Institute's Capability Maturity Model (SEI-CMM) and has been awarded CMM Level 5 certification. This model ensures that risks are identified and measures are taken to mitigate them at the project planning stage itself.

f) Human Resource Management

The Company is heavily dependent on its ability to attract and retain a resource pool of skilled software engineers in order to deliver on its commitments to its customers. In order to retain key employees, the Company invests in their training and other developmental programs, apart from running a stock option plan for wealth creation in the hands of its employees.

F Internal Control Systems

The Company has adequate internal control systems in place to ensure that its assets are safeguarded, that transactions are executed with prior and appropriate authorizations and they are properly and promptly recorded in the accounts and are adequate for the preparation of annual/quarterly financial statements.

Internal audits are performed periodically to ascertain the adequacy and effectiveness of internal control systems. The Audit Committee of the Board periodically reviews the report of the Company's internal auditors.

G Financial Condition

Share capital

The authorized share capital of the company has been raised to Rs. 330 million divided into 28 million equity shares of par value Rs. 10 each and 500,000 cumulative non-convertible redeemable preference shares of Rs. 100/- each from Rs. 200 million divided into 15 million equity shares of Rs. 10/- each and 500,000 cumulative non-convertible redeemable preference shares of Rs. 100/- each. As on March 31, 2008, the issued, subscribed and paid up capital of the Company stands at Rs 213.91 million.

During the year, the Company granted 246,900 options (Previous Period 179,900) to its employees under the Mindteck Employees Stock Option Scheme, 2005. As on March 31, 2008, 460,001 options (Previous Period 291,300) were outstanding and 96,934 options had vested out of the total 500,000 options created under the Scheme.

Reserves & Surplus

The Company has retained a balance of Rs. 40.48 million in the Profit and Loss Account, after declaring an equity dividend of 5% for FY 07-08. The total shareholder funds of the Company increased to Rs. 1075.14 million as of March 31, 2008 from Rs. 218.73 million as of the previous year end.

Secured Loans

The company has credit facilities with Axis Bank Ltd. Borrowings under these facilities are secured against the company's property at Kolkata and its book debts. During the year, the Company has fully repaid the term loan of

Rs. 20.00 million that it had availed from Axis Bank Ltd. to finance purchase of computer equipment. The borrowings as on March 31, 2008 stood at Rs. 58.79 million (Previous Period 67.34 million).

Fixed assets

During the year, the Company added Rs. 4.23 million (Previous Period Rs. 12.88 million) to its gross block of assets that included investments in computers and software of Rs. 2.61 million (Previous Period 11.73 million). The company also retired assets with a gross block of Rs. 6.06 million (Previous Period Rs 0.04 million).

Investments

As on March 31, 2008 the Company has four wholly owned operating subsidiaries - Mindteck USA Inc. and Infotech Consulting Inc., Mindteck Middle-East Ltd, Mindteck Software Malaysia Sdn Bhd and one dormant subsidiary, Mindteck BPO Services Pvt. Ltd. in India.

Effective 1st April 2008, consequent to the completion of the process of consolidation of all group companies under Mindteck India, the Company has also added Mindteck Singapore Pte. Ltd., Mindteck UK Ltd. and Primetech Solutions Inc. as its wholly owned operating subsidiaries and now has seven operating overseas subsidiaries in all.

Current Assets

Sundry debtors increased from Rs. 83.33 million as on March 31, 2007 to Rs. 141.25 million as on March 31, 2008. These debtors are considered good and realizable.

Cash and Bank Balances increased from Rs. 6.40 million to Rs.114.87 million. These balances include both rupee accounts and foreign currency accounts.

Advances are amounts paid in advance for value and services to be received in future. Advance income tax represents payments made towards current tax liability as well as refunds due for the previous years. Advances to staff are recoverable within a year.

Current liabilities and provisions

Current liabilities and provisions have increased from Rs. 37.77 million as on March 31, 2007 to Rs. 86.62 million as on March 31, 2008. Sundry creditors represent amounts payable to vendors for the supply of goods and services. Provision for taxation represents estimated income tax liabilities.

In compliance with the Accounting Standard 22 issued by the Institute of Chartered Accountants of India, the company has not recognized any deferred tax assets/liabilities. In fact the timing difference relating mainly to depreciation and unabsorbed losses results in a Net Deferred Asset and has not been recognized as a measure of prudence.

H Results of operations

Income

Income from operations for the year was Rs. 325.06 million against Rs. 235.73 million recorded in the previous year which represents a growth rate in income of 38 %.

The company's revenues are generated principally from offshore software development services. These services are delivered either on a fixed price basis or on a time and materials basis.

Expenditure

The manpower cost for the year was Rs. 179.36 million as against Rs. 136.89 million in the previous year. As a percentage of revenue, manpower costs have reduced to 55.18 % from 58.07% during the previous year. Manpower costs consist of salaries paid to employees in India and include overseas staff expenses. Consultancy charges represent the cost of sub-contractors used for software development activities.

The operational and administrative expense for the year was Rs 118.17 million, after excluding Rs. 2.01 million (appr) of non-operating rent, as compared to Rs. 77.95 million incurred in the previous year.

The finance expenses reduced from Rs. 8.14 million in the previous year to Rs. 6.88 million for the year ended March 31, 2008.

The company provided Rs.14.92 million for depreciation compared to Rs. 8.92 million that was provided in the previous year.

The company has made a provision for current tax of Rs. 34.01 million and fringe benefit tax of Rs. 1.31 million for the year ended March 31, 2008.

Other Income

Other income earned was Rs. 31.36 million against Rs. 19.85 million earned in the previous year. Other income includes interest received on deposits with banks and from subsidiary on overdue receivables, rental income received, exchange difference, reversal of excess provision of earlier years and other miscellaneous income.

Net Profit

Net profit for the year amounted to Rs. 28.94 million as against Rs. 22.65 million recorded in the previous year.

Liquidity

The liquidity of the company was comfortable throughout the year

I Human Resources

The endeavor of your Company's human resources function has been to align employees to the business goals and at the same time foster employees' interest.

Mindteck introduced a comprehensive Employee Group Health Insurance Program to all its employees in India. It also introduced a number of Certification and Professional Development Programs as part of its training initiatives. Mindteck plans to further strengthen its employee training initiatives in the coming year.

The total number of employees increased from 222 as on March 31, 2007 to 350 as on March 31, 2008. Mindteck has initiated several programs and schemes during this year to create a strong brand image. These programs and schemes are expected to help in attracting the best talents and grooming them within the company.

On behalf of the Board of Directors

Satish Menon
Chairman

Bangalore
June 28, 2008