

Note from the MD's Desk

The performance this quarter has been satisfactory both in terms of revenue growth and margins but in my view there continues to be room for improvement.

Our consolidated revenues grew by 2.9% Q on Q in USD terms. The Company also recorded an increase in net profits to ₹ 212.74 million from the comparable figure (net of extraordinary items) of ₹ 200.91 million in Q2 FY12. However, it should be noted the Q2 figure includes an unrealized gain of approx. ₹ 1 /share in Q2 FY12 as against an unrealized gain and deferred tax asset of approx. ₹ 0.80 /share in Q3 FY12. The Q3 FY12 figure also includes fees to consultants of ₹ 21.60 million thus on a comparable basis after netting off the one time and unrealized gains, the Q2FY12 figure was ₹ 138.91 million and the Q3 FY12 figure was ₹ 184.64 million.

There has been a great deal of turbulence in the global economic situation during this quarter. Europe went through wild swings in mood, from despair to relief, and back to despair. The US saw a last minute resolution of some of their budgetary issues. In both cases, the 'fixes' appear temporary and could unravel in the coming weeks or months. Nevertheless, through all of this we continue to see demand for our services and offerings. This situation leads me to believe that there is an inherent shift taking place leading to the continued growth in the demand for engineering services.

This demand is driven by several factors, viz. market shift, demographics, technology and cost pressures. The market is becoming far more global, thus companies need to design and manufacture variants of each global design to suit local markets. Fewer people are taking to studying engineering in the West, and fewer people are willing to take up jobs in manufacturing. Many people from the fifties 'baby boom' are reaching retirement age and their knowledge cannot be replaced easily. Next generation technologies are allowing companies to both work with their suppliers in a collaborative manner and create designs digitally, thus increasing the demand for qualified staff to adopt and implement new technologies. Finally, cost pressures continue to increase as the world becomes even more competitive, so companies need to seek innovative solutions as the supply of trained manpower shrinks and the demand for engineering applications increase.

To meet this opportunity, we have gone back to basics to identify our strengths/weaknesses with a view to capitalizing on the former and augmenting the latter. We have identified the following as our key strengths:

- (i) Manufacturing engineering
- (ii) PLM capability
- (iii) Ability to create Intellectual Property

We now have to learn to (a) take these strengths which are located in pockets and make them available across all our major markets; (b) create solutions which meet our customers needs (as against discrete services) by combining various elements of our capabilities. This is a major activity. We have taken a first step by identifying 9

clear offerings, each with a relevant business model and engagement model. I believe these offerings will improve our ability to cross sell into the existing customer base, while also shortening the time to penetrate into new markets.

In closing, I re-iterate our guidance for FY12, viz. 22-25% growth in USD terms and an EPS greater than last years, both on a consolidated basis.

Regards,

A handwritten signature in black ink, appearing to read 'Manu Parpia', with a long horizontal stroke extending to the right.

Manu Parpia
Managing Director & CEO