

## MANAGEMENT DISCUSSION AND ANALYSIS

### a. Industry Structure and developments

Changing economic and business conditions, rapid technological innovation, proliferation of the internet, and globalization are creating an increasingly competitive market environment that is driving corporations to transform the manner in which they operate.

Customers are increasingly demanding improved products and services with accelerated delivery times and at lower prices. To adequately address these needs, corporations are focusing on their core competencies and using outsourced technology service providers to help improve productivity, develop new products, conduct research and development activities, reduce business risk, and manage operations more effectively.

The role of technology has evolved from supporting corporations to transforming them. The ability to design, develop, implement, and maintain advanced technology platforms and solutions to address business and customer needs has become a competitive advantage and a priority for corporations worldwide. Concurrently, the prevalence of multiple technology platforms and a greater emphasis on network security and redundancy have increased the complexity and cost of information technology (IT) systems, and have resulted in greater technology-related risks. The need for more dynamic technology solutions and the increased complexity, cost and risk associated with these technology platforms have created a growing need for specialists with experience in leveraging technology to help drive business strategy.

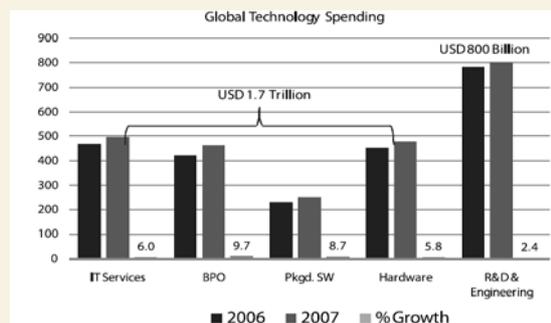
There is an increasing need for highly skilled technology professionals in the markets in which we operate. At the same time, corporations are reluctant to expand their internal IT departments and increase costs. These factors have increased corporations' reliance on their outsourced technology service providers and are expected to continue to drive future growth for such services. Although there has been a slight slowdown in the purchase of IT services during 2008 due to the slowdown of the global economy, there continues to be significant growth in the purchase of IT services. According to a leading analyst firm, IT services and outsourcing purchases during 2008 will grow at 9% as compared to 12% during 2007.



Source : Ministry of Information Technology ([www.mit.gov.in](http://www.mit.gov.in))

## Industry Overview

Estimated global technology spend for 2007 (7.3% growth over previous year) was USD 1.7 trillion. Of this, USD 1.2 trillion (71% of spend) was Information Technology - Business Process Outsourcing (IT-BPO). In addition to the technology spend, Research and Development (R&D) and Engineering spend was estimated for 2007 at USD 800 billion.



Source: IDC, NASSCOM in "Strategic Review 2008"

India continues to be the off-shoring destination of choice for the Global Organisations and the Indian IT Services players are growing at 3 to 4 times the rate of their global IT Services counterparts.

### b. Opportunities and Threats / Risks and Concerns / Outlook

FCS recognizes the need to accelerate our ability to connect more deeply with our customers to enable true transformation. One way of achieving these objectives is through inorganic growth intervention. To better accommodate our clients' needs for knowledge process outsourcing, we also intend to acquire specific market research processes and customer analytics operations, including its intellectual property.

The domestic IT market too is coming into its own and witnessing a high degree of merger and acquisitions activity, involving some of the key players in the market. Increasing IT usage and adoption within the country is enhancing competitiveness of the Indian economy and the user community. Indian businesses, that are using IT, as an enabler, are becoming increasingly competitive in the global arena.

It is reassuring to note the enhanced business potential for integrated business solutions in the global market place and we are hopeful that the growth momentum experienced in Previous Years would continued.

The demand environment will continue to remain buoyant in the coming fiscals due to increased IT spend by organizations as well as greater acceptance of the global delivery model. To address the available opportunities, we are strengthening our business solutions capability by hiring best-in-class associates from across the world, and are making a focused attempt at enhancing our competence in new service areas that would be the drivers of growth going forward.

The next phase of evolution of the Indian IT-ITES industries will be led by innovation, which will pervade almost all aspects of these segments. Companies will focus on innovation to create significant differentiators in the global markets. The Indian IT-ITES sectors will build an ecosystem for innovation in order to sustain its leadership in these domains as well as stave off competition from emerging, alternate offshore outsourcing destinations. The latest NASSCOM-McKinsey Study 2005 indicates that India has the potential to accelerate export growth and achieve an additional US\$ 15-20 billion in revenues by 2010, provided it places its chips on innovation.

The 2005 Appropriations Bill further precludes foreign companies from obtaining L-1 visas for employees with specialized knowledge: (1) if such employees will be stationed primarily at the worksite of another company in the U.S. and the employee will not be controlled and supervised by his employer, or (2) if the placement is essentially an arrangement to provide labour for hire rather than in connection with the employee's specialized knowledge. The U.S. Citizenship and Immigration Services or CIS has also issued new guidelines to more closely verify the qualifying criteria to restrict the liberal usage of L-1 visas. Immigration laws in the United States may also require us to meet certain levels of compensation and to comply with other legal requirements including labour certifications as a condition to obtaining or maintaining work visas for our associates working on H1B in the United States. The CIS announced on April 8, 2008 that it had received sufficient applications to fill up all 65,000 H-1B visas that are available for the calendar year 2009.

Indian Rupee has depreciated by 2.20% (approx.) against US dollar during fiscal 2007. The exchange rate between the rupee and the US dollar has changed substantially in recent years and may fluctuate in the future. FCS has secured its clauses which deals in forex fluctuation clauses in order to offset any fluctuation below Rs 40 level.

The software segment will continue to show robust growth. There are lots of opportunities in the Market to be tapped by the domestic IT Companies. The general trend globally that interest towards off shoring IT services is on an upswing, among all global customers, which is a positive sign for the IT industry. More technology, R & D and testing outsourcing has come to India & will continue to be on the rise in the coming quarters.

The priorities of the industry are changing, concentrating more on re-organization of operations, development of new markets and marketing techniques, giving the organization's vision a global outlook and retaining and building upon customer relationships. The company's business focus is primarily upon the US market. Our service philosophy is based on customized services, which are solely dependent on individual customer requirement, with the use of latest technology. Your Company's business model focuses on entering into strategic relationship with its customers and meeting their business needs by offering value added services through its vast area of operations, expertise, and experience.

We believe our competitive strengths include innovation and leadership, Proven Delivery Model, comprehensive and sophisticated end-to-end solutions, commitment to superior quality and process execution, long-standing client relationships, status as an employer of choice and ability to scale.

We operate in a highly competitive and rapidly changing market, and compete with big consulting firms, divisions of large multinational technology firms, IT outsourcing firms, offshore technology services firms, software firms etc.

We believe that the principal competitive factors in our business include the ability to effectively integrate onsite and offshore execution capabilities to deliver seamless, scalable, cost-effective services; increase scale and breadth of service offerings to provide one-stop solutions, provide industry expertise to clients' business solutions, attract and retain high quality technology professionals; and maintain financial strength to make strategic investments in human resources and physical infrastructure through business cycles.

We believe we compete favorably with respect to these factors.

#### *Internal Control Systems and their Adequacy*

The philosophy we have with regard to internal control systems and their adequacy has been formulation of effective systems and their strict implementation to ensure that assets and interests of the Company are safeguarded; checks and balances are in place to determine the accuracy and reliability of accounting data.

The internal audit, an independent appraisal function to examine and evaluate the adequacy and effectiveness of the internal control system, appraises periodically about activities and audit findings to the Audit Committee.

Internal audit ensures that systems are designed and implemented with adequate internal controls commensurate with the size and operations; transactions are executed and assets are safeguarded and deployed in accordance with the policies; existence of adequacy of internal controls in all existing policies and procedures.

The Audit Committee was constituted as a sub-committee to the Board of Directors and it consists solely of independent directors. The meetings of the committee are held periodically to review and recommend, inter alia, the quarterly, half yearly, nine months and annual financial statements. The committee also holds discussions with statutory auditors, internal auditors and the Management on matters pertaining to internal controls, auditing and financial reporting.

Additionally, under revised corporate governance standards adopted by The Stock Exchange, Mumbai, or the BSE, and The National Stock Exchange of India Limited, or the NSE, which we collectively refer to as the Indian Stock Exchanges.

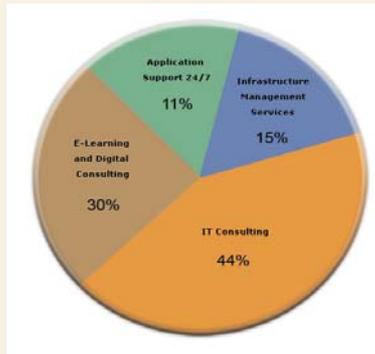
M/s. SPMG & Company, Chartered Accountants, Delhi have been re-appointed as statutory auditors to audit financial statements and conduct such tests and related procedures as they deem necessary in accordance with generally accepted auditing principles. The reports of the statutory auditors based upon their audit of the financial statements, are contained elsewhere in the Annual Report.

#### **c. Segment-wise / Product-wise Performance**

The company started its operations in full throttle in 1997 with IT consultation, and since then, grew to provide an entire portfolio of IT services for its clientele many of which are from Fortune 500 Manufacturing Companies also some from fortune 100 Office Automation Companies.

FCS's 'Center of Excellence' provides end-to-end services beginning with identification of areas of development and upgradation, development of applications, planning of transition and maintenance and a 24/7 helpdesk for smooth functioning.

The percentage wise revenue contribution of each segment is as follows:



*IT Consulting Services:*

Many organizations today implement packaged solutions or custom-developed applications without consideration for how they will maintain and enhance the application after launch. Maintenance of applications spread across multiple platforms from legacy to client server systems to more recent multitier or browser-based designs has always been a challenge to enterprises. FCS IT consulting division provides Application Maintenance. The Company provides ongoing functional and application support for a customer's application maintenance needs. FCS team, work for stabilizing, optimizing and extending client's application so that its functionality continues to meet the client's growing and changing needs. In partnership with companies such as IBM, Oracle, and Microsoft, we are now in a position to service clients all Application needs from license acquisition to System Integration and Deployment. We are now a mature player in Global Delivery Model and are executing multi-lingual and multi-zone orders for our clients.

*E-learning and Digital Consulting :*

US corporations look at E-learning or web / CD based training programs as one of the ways to achieve organizational growth and improved business performance. E-learning helps employees, vendors, and dealers of a company to better their performance and deal with fast-changing environments. E-learning makes training highly efficient, by making it available anytime, anywhere and reduces total cost of training. E-learning is used to train employees, customers and service technicians on product knowledge, concepts, strategies, risk and finance, compliance and technology.

*Application Support 24 / 7:*

The company provides toll free voice, e-mail, and chat support 24/7 where clients' employees can call to report any problem with the applications that they use to do their day-to-day work. Some of these business applications are mission critical and need to be supported on a set service level agreement.

#### *Infrastructure Management Services:*

Our clients now also depend on us to manage their servers - based either on client sites, or at Data Centers or in our premises. Our engineers remotely or onsite manage all Hardware, Network, LAN/WAN, Data and Voice networks that a client needs to run its applications. Our skills in Document Management Systems, Data Backup and Recovery, Virus Protection, SPAM Control, Hacking protection, and Business Continuity will some of the key reasons for clients to outsource their infrastructure management to us apart from their desire to have us as their one stop shop.

Software is delivered to clients in different paradigms. The two most used models are Fixed Price Fixed Time Frame model and Time and Material model. In Fixed Price fixed time frame model, a client pays fixed cost for a software project delivery within agreed timetable. Any projects where specifications are fixed and would not change substantially over a period of time fall under this model. The Company delivers technology solutions to help client achieve business results. The Company first analyzes clients' requirements, develop the scope and finally propose a fixed-price solution. Thereafter professional implementation plan is agreed upon. On the other hand, if projects are loosely defined and are done in an adhoc manner or involve client's managers to manage day-to-day work, they are done in Time and Material model. In this, the company provides resources to do a project and they in turn are client managed. More than 70% of the Company's revenue is charged on Time & Material Model as in most of the cases the scope of the work could not be defined and thus the time frame cannot be derived.

The geographical segment wise revenue in % is as follows:

<b>Year</b>	<b>India</b>	<b>USA</b>	<b>Total</b>
2007-08	4.12%	95.88%	100%
2006-07	3.80%	96.20%	100%

#### **d. Internal control systems and their adequacy**

The Company has an effective system of accounting and administrative controls which ensures that all assets are safeguarded and protected against loss against unauthorized use or disposition. The Company has a well-defined organization structure with clear functional authority limits for approval of all transactions.

The Company has a strong reporting system, which evaluates and forewarns the management on issue related to compliance. The company has appointed to M/s KRA & Co., Chartered Accountants, H 109, 1st floor, Garg Tower, Netaji Subhas Place, Pitampura, New Delhi -110 034 as their Internal Auditor. The performance of the Company is regularly viewed by the Board of Directors to ensure that it is in keeping with the overall corporate policy and in line with pre-set objectives.

The Company updates its internal control systems from time to time, enabling it to monitor employee adherence to internal procedures and external regulatory guidelines.