



3i Infotech *"Connect"*

November 6, 2012

From MD and Global CEO

It is a real pleasure to write to you as the MD & Global CEO of 3i Infotech Ltd. I came into 3i Infotech after a long and eventful stint with the ICICI Group which also happens to be the largest customer and lender to 3i Infotech. They along with fourteen other banks also own significant percentage of the shares of the Company.

3i Infotech is an emerging technology company in the BFSI & ERP segment with a broad range of products and services designed to provide an end to end solution for real needs faced by our customers. We all recognize that the technology landscape is changing rapidly and we as a solutions provider will continue to change dramatically with the changing needs of our customers. We will continue to invest in innovation, leverage the strength of our core products, enhance our software services business, promote our process capabilities and integrate our offerings so as to have the capability to add value to our customers on an end to end basis.

On the financial front the organization declared the financial results for the quarter ending September 30, 2012 on November 2, 2012, the details of which are discussed in the following sections. Over the past nine months, the company has gone through a difficult patch in terms of cash flow and debt. The sale of Regulus – our transaction processing company in the US and the overall slowdown in some of our key markets impacted us both in terms of our revenues, operating costs and debt structure. We have since then resolved quite a few of our legacy issues and are firmly back on the path of recovery.

We were successful in completing a corporate debt restructuring (CDR) exercise of our Rupee debt which has resulted in ensuring continued financial stability of the Company. Our overseas debt by way of Foreign Currency Convertible Bonds (FCCBs) has been replaced with new ones on terms favorable to the Company. The conversion rate of the same into Equity has also been very encouraging.

The Company has also taken certain specific steps such as charging off to the current quarter's Profit & Loss Account, certain amounts pertaining to slow moving 'Unbilled Revenues & Trade Receivables' which have arisen largely due to the tight market conditions, withdrawal of projects & operations in certain troubled geographies and the companies own liquidity situation in the last one year. We are also embarking upon a comprehensive "Re-Organization Scheme" that will enable us

to right size the Company's balance sheet and to enhance shareholder value and improve the return on equity.

Our operations continue to be robust, and we believe that it will generate more than adequate revenues to meet the cash flows needs of the company in future. It is therefore business as usual at 3i Infotech, and we continue to focus on what we do best - provide the highest degree of service and quality to our discerning customers.

We acknowledge with gratitude the faith which you and our other valued customers have reposed in us. Your support has been invaluable to us as a company over the years. I would like to assure you that we are fully focused and on track in meeting our various client commitments; and I am confident that you will continue to receive the highest level of service and quality from our concerned teams.

In case if you need any further information or clarification, please feel free to write to me.

Regards,

Madhivanan Balakrishnan

MD & Global CEO

Financial Analysis

3i Infotech Ltd. has announced its consolidated results for the quarter ending September 30, 2012 (Q2-2012). The Company has reported Revenue of ₹3.32 billion with an EBIDTA of ₹403.2 million and a net loss (after Tax) of ₹1.91 billion.

The results for the quarter need to be viewed specifically with respect to the Company's Operations, Finance Charges & Depreciation and exceptional items during the quarter.

An analysis of the results for the quarter is as follows :

Description	Q2-2013
Revenue (operating income and other income)	₹3.32 billion
EBIDTA	₹403.2 million
Interest and Depreciation	₹1.39 billion
Exceptional items	₹228.0 million
Adjustment arising in lieu of proposed business restructuring	₹661.2 million
Tax	₹32.8 million
Net loss after tax	₹1.91 billion

Operating Results

The salient features of the financial results for Q2 2013 are as under –

- 26% increase in operating revenues –
 - ₹3.39 billion for Q2-2013 up from ₹2.70 billion in Q1-2013
- Increase of 6 times in EBIDTA -
 - ₹403.2 million for Q2-2013 up from ₹60.4 million in Q1-2013
- 38 New Clients added in Q2-2013

Global Operations & Account Management Focus

In terms of its Operating activities the strategy of diversification across Geographies from the Americas to the Far East,

continues to help the company in sustaining its core business despite the tough situation that it went through during FY-2012.

77 New clients acquired during H1-2013, confirms the tacit acceptance of the Company's stability and its capability to deliver solutions. The Company will continue working on increasing its diversification across Geographies using the current reference client base.

The Company's client mix is also well diversified with the Top 10 Clients distributed among all the Geographies of the Company. It is relevant to mention here that the Top 10 Clients contribute 43% of the Total Revenue, demonstrating the Company's competence to gain meaningful insight into the IT needs of customers and become Business Facilitators in the customer's growth plans. Currently, there is significant potential within the existing customer base to enhance Revenue through our wide offerings of Products & Services. The team is confident of achieving this through a focused Account Management strategy. The objective is to achieve a preferred vendor status with select high potential customers and increase our share of wallet, thereby enhancing revenues as well as margins.

Cost Optimization

The New Management of the Company observed considerable scope for cost reduction both in terms of optimisation of resources as well as synergising of operations. This has been set in motion and the results will continue to get reflected in the changing cost structure of the company.

A synergistic approach has been initiated in delivery of the Company's products and services, thereby expanding the capabilities of the Delivery Organisation. This has led to acceleration of deliveries across business lines and satisfactory closure of projects. Concurrently, better utilisation of resources has resulted in generation of spare capacity, which will facilitate optimum attention to more opportunities in future, giving the Company an edge in the market place.

Solutions Proposition

The rich IPRs owned by the Company in combination with its capabilities in the BPO division and its service capabilities give it an edge in terms of its ability to offer comprehensive solutions to customers' requirements, and empowering business transformation in the BFSI space. In fact, the vintage of the current products' customer base of the Company itself displays significant potential for upgrades which the company plans to put in place over the next two quarters. The Company aims to achieve 35 to 40% of its revenues from products sales. In addition, the large Product customer base of the Company is also a ready market available for it to penetrate with further offerings mainly in the IT services segment.

On the BPO front, the Company has initiated a mechanism for Platform based deliveries, to enhance its capabilities to offer similar services to multiple industries, at the same time building in control mechanisms to give comfort to customers on Data Security. The Company also has put in place plans to move up the value chain with a higher focus on Knowledge Process Outsourcing and Business Intelligence services to customers in the BFSI segment. The rich BFSI domain possessed by the Company, both in terms of Human Resources as well as IPRs, will only strengthen the Company's case in the "Go To Market" initiative.

Audit Observations

The Company is also pleased to report an important development with respect to its Audited Financial Results and the perception of its auditors. When the Company undertook the CDR activity in Dec 2011, the auditors had, as abundant caution, included a point in the Notes to Accounts, which they felt was necessary to explain why 3i Infotech had prepared its financial statements on a "Going Concern" basis. However, in the results for Q2-2013, the auditors have deemed fit to omit this point, thereby confirming their comfort in this respect of the Company's operations.

Interest and Depreciation

Interest:

The Company's current financial results reflect a sizeable interest cost – ₹633.6 million during Q2-2013. However, as per the terms of the CDR undertaken by the Company, the entire interest burden of the Company pertaining to the debt contracted earlier from CDR Bankers, will stand converted to Equity till March 2013. Consequently, interest is largely a non-cash charge for the Company. This will release much needed cash flows to the Company, on an on-going basis during this

financial year, for its operational activities, thereby facilitating better terms with its Business partners and Vendors.

Depreciation:

A significant portion of the Depreciation charge of ₹758.4 million is due to capitalisation of the Company's intangible assets during earlier years and is also a non-cash charge, having no impact on the operational capabilities of the Company.

Exceptional Items and business restructuring

The Company has charged off to the current quarter's profit & loss account, an amount of ₹228.0 million. This amount pertains to adverse impact of certain business decisions taken earlier and whose impact in the normal course would have been felt over the coming years. However, as a measure of prudence, the Company has deemed it fit to charge off this amount in this quarter's results. This is a positive measure as the Company's operations in forthcoming quarters would be insulated from this.

During Q2, the Company has capitalised costs incurred for development of software products during the period from FY 2006-07 to FY 2011-12. This has been done since a review of the performance of these software products shows economic benefits of an enduring nature having been derived, along with further potential for economic benefits. The amount so capitalised is ₹1.6 billion.

On the other hand, the Company has provided for in the results for Q2-2013, certain slow moving Trade Receivables as well as Unbilled Revenues amounting to ₹2.26 billion, which have arisen largely due to the tight market conditions, withdrawal of projects & Operations in certain troubled markets and the companies own liquidity situation in the last one year.

In view of the over capitalisation of the Company, to enhance shareholder value and improve the return on equity the Board of Directors of the Company at its meeting held on November 2, 2012 resolved in principle to approach the High Court of Mumbai with regard to a Re-Organisation Scheme which inter-alia includes Capital re-organisation under section 100 read with section 391 / 394 of the Companies Act, 1956 subject to necessary approvals of the shareholders, CDR cell, creditors and other agencies.

Summary

The Company's unique business model of a good spread between developed and emerging markets as well as a good spread between IT products and IT services continues to remain intact. All the customers of the Company have remained with and supported the Company during this phase of crisis. Employee attrition levels have come down significantly and several steps have and are being taken to ensure improving employee morale and productivity. The Company continues to invest on product R&D and, as mentioned above, is constantly reviewing the quality of its services delivery. Overall, the Company is well poised to fulfill its commitments to its CDR Bankers.

Profile of the management - <http://www.3i-infotech.com/content/about/profile.aspx>

For any clarification, please feel free to write to us: marketing@3i-infotech.com OR tina.dutta@3i-infotech.com