

Management Discussion and Analysis Report

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Management discussion and analysis

The management of IEC presents the analysis of the Company for the year 2007-08 and its outlook for the future. This outlook is based on assessment of the current business environment. It may vary due to future economic and other developments, both in India and abroad.

1.00 INDUSTRY STRUCTURE AND DEVELOPMENT

Education forms the backbone of a nation and is one of the most important key indicators of a country's growth and development. In fact, the rise of knowledge economy at a global level has once again reinforced education, in all its forms (elementary, secondary, higher, vocational, and adult), as the key economic and business driver.

In the past, government was the sole education provider as it was primarily considered a social service. However, with liberalisation and globalisation of economy, it has become evident in the last decade or so that government alone cannot bear the cost of the education sector. While the private sector has stepped in to fill the gap and has increasingly enhanced its profile in education over the last decade, its role is still not properly defined.

The education sector - once seen as the exclusive obligation of the government and NGOs - now presents opportunities for research and private investment.

When the Economy is growing at about 9%, the country has started experiencing a much larger gap between the demand for skilled labour and the supply of it. It was on an unprecedented scale. Initially, there were very few opportunities for skilled labour. But today the

opportunities are multiplying beyond limit. The role of agriculture in the national Economy in terms of its contribution to GDP is declining fast, being growing at 3.6 per cent and the contribution of the industry, particularly the services sector, is increasing, at a rate of 10.3%. Now, as the role of services sector is predominant, the question of shortage of skilled labour, therefore, arises. That is why with a sense of urgency, the government has initiated the national skill development mission, which the Prime Minister announced. The Planning Commission and the ministry of labour have been doing intensive exercise as to how this mission could be brought into existence and the skill deficit could be mitigated.

Till now the larger avenues for development of skills were made available by the government mainly through ITIs and ICTs. These ITIs and ICTs could not do what they were expected to do largely because interaction between the state sector and the private industrial houses were virtually minimal.

Despite all possible efforts and initiatives by the central government to promote spread of higher education in India, the percentage of its GDP pending on higher education in the last couple of years has remained stagnant at around 0.37% against 1.41%, 1.07% and 0.50% of US, UK and China respectively. (*Assocham*)

In the new mission, a prominent role is being assigned to the corporate sector precisely because the corporate houses, people in the services sector and industry have first-hand information as to where the jobs are likely to emerge and where there is a skill deficit.

The private sector will be involved in every stage of the mission, particularly, in designing the process and supplying the faculty.

It is proposed to set up 50 skill development centres in the country. The thrust will be both in the manufacturing and services sectors. Some of these centres will be owned and managed by the state with academic and intellectual inputs from the private sector. Second, the state and the private sector will co-own the centres but the larger say in the management like running and designing will be with the private sector. The third will be exclusively with the private sector. This three-tier model was never implemented in India

The private sector's involvement is important because resources of the state are limited and there are competing wants. The earlier initiatives for skill development failed to achieve much as the private sector had not come forward sufficiently to upgrade and enhance the skill component till they started to feel the scarcity.

The Union Government has formally come out in favour of greater foreign direct investment (FDI) in higher education, as can be seen in the Foreign Education Providers Regulation Bill. In fact there are fervor statements in favour of private participation in education. The National Knowledge Commission (NKC), in its recommendations, says that it is necessary to stimulate private investment and has recommended Commission has suggested an independent regulatory authority for the higher education sector.

2.00 OPPORTUNITIES LYING AHEAD AND OUR OUTLOOK

India is fast emerging as a Knowledge Economy. Its spectacular performance in the IT sector has helped the country's offshoring sector emerge as the world's largest and fastest growing. Knowledge has replaced capital as the most important determinant of development.

Shifting Determinants of Development

Manufacturing → Services
Capital Resources → Knowledge Resources

This shift from material to knowledge-based resources opens up vast opportunities for the developing countries to accelerate the pace of development. India's rate of economic growth can be substantially increased if the country becomes a superpower in knowledge and if the potentials of information and information technology are fully understood and exploited.

Growing at a 16% Cagr, we estimate opportunities in India's private-sector education market could reach US\$68-70bn by 2012. Of this, about 11% is the increase in volume and penetration of education and training offerings, while we have assumed 5% price inflation. By 2012, we expect K-12 to become a US\$29bn market (13-14% Cagr), tutoring US\$9bn (16% Cagr) and private professional colleges US\$12bn (17% Cagr). Preschools and vocational training would also achieve meaningful scale.

India's education space is evolving and new niches have emerged in the past few years. For example, vocational training, finishing schools, child-skill enhancement and e-learning are all recent phenomena. Market contours are very likely to change over the next five years - our analysis is by no means exhaustive. We see growth driven by the increasing propensity of the middleclass to spend on education and more aggressive initiatives by private entrepreneurs. The following assumptions are being made for 2012:

- Some 40% of urban children will be in some form of pre-schooling, up from 11.5% currently.
- It is expected a total of 90,000 private K-12 schools by 2012, up from about 75,000 currently.
- Tuition fees will trend upwards. In 2005, only 15,000 (private) schools in the private sector had fees of more than Rs1,250 a month. We expect 35,000 such schools by 2012, as fees rise in the Rs700-1,000pm segment.
- Demand for test preparation will likely continue at a 15% Cagr.
- It is expected that 800 more private engineering colleges to open by 2012, 60 medical colleges and 300 MBA colleges. However, recent government statements indicate 400+ new engineering college applications and 100+ approvals to date for the current fiscal year. There is upside risk to our assumptions given this trend of new applications.
- For tutoring, it is assumed that 25% of children in Grades 5-8 and 66% in Grades 9-12 will use some form of out-of-the-school tutoring by 2012, up from 15% and 40% respectively as of now.
- For vocational training, the annual growth of the recruiter businesses have been reduced to about 20% annually, though from a large base. In 2012, 1.2m youths are expected to be candidates for some form of skill/vocational training, from 0.5-0.6m currently.

Following factors has made this sector a lucrative one:-

- Various education markets with Multi crores dollars potential.
- Less number of players in the market.
- Unparalleled growth of economy leading to opening up of new foray of educational services.
- Increasing awareness of Indian population towards education
- Rise in Middle Class Standard of Living

Pre-Schooling

Preschool, kindergarten, and elementary school teachers play a vital role in the development of children. What children learn and experience during their early years can shape their views of themselves and the world and can affect their later success or failure in school, work, and their personal lives.

At present out of total urban target base of 19m children, 2-2.5% are enrolled. The market is extremely fragmented, with largest chain comprising just 550 schools, less than 4% of the total market potential for 15000 pre schools in India.

Outlook

IEC Group strives to capture this untapped potential of the Pre-school market.

The proposed IEC Preschools would endeavor to focus on all facets of child development including Linguistic, Physical, Cognitive, Socio-emotional and creative areas and thus providing every child a strong base to face the outer world .

Schooling (K12):

Sum of primary and secondary education i.e. from Kindergarten to Grade 12 is estimated to be at US \$ 20bn and thus considered to be as one of the largest segments of the total private education market. According to a market survey it is found that there is 14% growth in this segment and their would going be 90000 more K12 schools in 2012 as compared to 75000 in 2008.

Kindergarten to Grade 12(K12) is India's Core Education sector and failure of public education system to provide Higher Quality Education to together with hih propensity within India's middle class to spend on education, results in shortage of quality private schools relative to its demand.

Outlook

Moving by the objective, "No Child left Behind" IEC Software Ltd is now ready to bear the responsibility of providing quality education to every single child from Kindergarte to Post Graduation (K.G to P.G).

For this purpose, IEC has come out with a detailed analysis of potential available in K-12 industry. This analysis shows that, Indian K-12 Education industry has a huge market potential of US\$20bn as charted below:

Our plan of Action:

IEC endeavors to partner with Government in order to fill this gap and moving ahead to set up primary and senior secondary schools at the length and Breadth of India . In its attempt ,it honestly strives to provide education meeting with highest standards of quality, which aims at overall development of children and building their strong foundation to help them face challenges posed by the global competition.

At present IEC , has identified seven locations in Northern India to implant its dream of nurturing millions of children in their state of the art IEC International SCHOOLS, transcending all demographic

Boundaries across the globe. Some of the IEC INTERNATIONAL SCHOOLS are Owned, Built , operated by IEC Group and some are in Public Private Partnership with various State Governments.

Professional courses/Private Colleges

After K-12 segment , Private Engineering Colleges form the single biggest category in Indian Education. At present there are more than 1200 private Engineering Colleges, 300 Business schools and more than 140 Medical Colleges in India, representing a US \$ 7 bn market. And its is expected that by 2012 there would be more than 800 private engineering colleges , 60 medical colleges and 300 MBA colleges are expected.

There are more than 1,200 private engineering colleges, 300 business schools and more than 140 private medical colleges in India. These represent a US\$7bn market, with engineering taking the major share at US\$5.85bn (or 83% of the total). After K-12, private professional colleges form the single biggest category in Indian education. This industry has a growth potential of potential 16% five year CAGR.

Alongwith professional institutions, institutions providing vocational training are not far behind among various segments of education industry evolving in the present Indian scenario. Vocational training includes staff training for airlines, retail chains, hotels, financial services and basic skills such as English improvement. There is significant private sector involvement in this area, and we estimate the market to be worth nearly US\$1.4bn a year. In this industry, growth areas are staff training in financial services, training in retail, and improving English language skills.

IEC is also partnering various state Governments to establish, run, manage various Degree Colleges across the nation, under Public Private Partnership.

Recently IEC has got approval of running Institute of Hospitality Management at Sector 62 Greater Noida.

Also recently Vocational Education Foundation campus has been selected by IGNOU as one of its centre for imparting B.A International Hospitality Administration.

Distance Learning Programmes

Recent developments in Information Technology (IT) and the commercialization of the Internet have generated new opportunities for the delivery of education and allowed many highr-education institutions to bring their resources closer to a broad base of potential users. Distance learning programmes have shown tremendous growth during the last few decades due to its unique feature of being and usr's friendly system. It has three advantages increased access, better learning and inexpensive. Moreover innovation in ICT and the need for quality education have increased pressure on DLPs.

Distance learning Programmes helps in strengthening and diversifying Degrees, diplomas, and other certificate programmes and providing opportunities for higher education to a larger cross-section.

IEC trying to tie up with IGNOU for various Distance Learning Programmes.

Test preparation & Skill Development

Test preparation industry has grown out of few attractiveness of a selected few careers engineering, medicine, civil services and

business management. Nearly 400,000 students took the IIT-Joint Entrance Examination (for the four year engineering course offered by the Indian Institutes of Technology, IITs) last year, and another 230,000 took the IIM Common Admission Test for MBAs (two year MBA programme at the Indian Institutes of Management, IIMs). India's test preparation market, or test prep, is the most visible poster child of private participation in education. The attractiveness of a selected few careers – engineering, medicine, civil services and business management – has ensured disproportionate spending by India's middle class on test prep. We estimate this market to be worth more than US\$1.7bn, based on an approximate annual 2.1m students taking one of the professional entrance tests. About 1.6m of these, or 75%, pay for some form of test preparation.

The opportunities in the underlying Ventures:

- Engineering test preparation
- UPSC (Indian Civil Service) test preparation
- MBA test preparation
- Medical test preparation
- GRE/GMAT/SAT test preparation

IEC is exploring the organic as well as inorganic initiatives. In the process the Company is in the process of merging of VEF Information Systems Private Ltd with IEC, which is engaged in providing various, educational and support services to certain private educational institutes in North India. Also it is looking forward to the possible opportunities of opening up of its own centres and outside acquisitions.

Teacher training/ Faculty Development Institutes:

Teacher training is another developing segment in the Indian Education Industry. However, this segment is yet in an initial stage of development. The teacher training market, despite the obvious lack of trained teachers in India, is only about US\$15m annually. This is due to low spending propensity among school management. With the average private school teacher's base pay being Rs 10,000-12,000 per month, management are unwilling to pay more than Rs 1,000 for teacher training per head. In public schools, 97% of government budgetary outlay for education has been going into salaries, leaving little surplus for activities such as teacher training.

But, in pursuance of its mission to make provision for best quality education in India, IEC has planned to exploit this potential market of US\$ 15m as this industry still faces less competition as compared to other segments of education industry.

IEC has proposed to execute the concept of teacher training through establishment of Faculty development institutes. Faculty Development programmes introduces new faculty to the benefits and resources available. Faculty Development Bureau of AICTE geared to ensure the quality, relevance, excellence and equity in Technical education through the teachers of technical education. The objective envisaged are to support programmes aimed at promoting quality of Teachers; to promote programmes that facilitates career and faculty development ;to provide opportunities for the upgradation of knowledge and skills of teachers of technical education and working professionals; to encourage research and development.

IEC-FDI, at its various Faculty Development Programmes would not only cater to its own faculty of IEC International Schools and IEC Chain of Colleges but to other outside agencies not only from Education Industry but from other Industries.

Aim of IEC-FDI, would be to provide participants an opportunity to refresh their knowledge related to management education and pedagogy with the latest academic practices in the field and self development . With a large number of employment opportunities available now for students even as they are completing their studies, several finishing schools are required to meet their need.

Finishing schools have a scope of improving the number of people who are “employable”, of helping them find appropriate employment and also enabling them go up the career path easily.

Further, the Finishing schools provide technical training, which can be outside the regular syllabus, according to the needs of the industry. These schools help candidates meet the needs of the industry and the candidates are trained in a “near-industry environment

Apart from technical abilities, personality development, communication skills and career focus are the other areas covered in these schools

Target audiences are need to be trained to have a hassle-free ride up in their career ladder and the knowledge should come when they start their career and finishing schools provide these skills.

The academy-industry relations or partnership have yet to blossom in this country, the way they have in more developed economies.

Most of the larger IT companies have their own training centres to provide the basic hands-on skill in their domain to these raw recruits. But the smaller and medium scale companies have not been able to afford such a luxury. And it is perhaps they who need such finishing schools to get more readily employable candidates.

IEC Group is adding another feather in its cap by setting up of Finishing Schools to balance out the huge deficit in terms of industry demand. IEC is also tying up with various universities to create master trainers. It has already started its FDI at sector 62 Noida.

Public Private Partnerships

New initiatives are rising across the gamut of public/private partnerships (or PPP), with ICT (Information & Communications Technology) at schools an early success story. Policy planners are beginning to emphasise and we think this could create revenue-generating models for the private sector. We see numerous opportunities, including:

- Relocate or build new schools, colleges, universities or job centres and Provide facilities management for the new buildings/campuses. Projects might involve land swaps or enable the private sector provider to generate a third party revenue stream from the extant infrastructure.
- Build facilities for education institutions with the potential for third-party income generation, such as sports or academic/conference facilities.
- Refurbish existing assets and/or provide facilities management.
- Provide information systems that ensure the continued availability of hardware and software over a period of time, or allocate to the private sector some administrative functions. There may be opportunities for third-party income generation by selling excess capacity. Institutions have varying requirements and the private sector may be able to offer innovative solutions that offer quality services and value for money.

IEC is exploring opportunities with various state governments to open schools, colleges, ITs under Public Private Partnership.

Private-equity money flowing into education

There have been at least nine private-equity deals in education in the past 12 months, with total investment of more than US\$90m, compared with three deals in the whole of 2006 and investment of US\$17.5m. Capital market's involvement in education is to increase as opportunity and growth are better understood. Some consolidation is expected, with the emergence of organized chains or national-level players, in test preparation, tutoring, private professional colleges and K-12 school management.

Segment Wise Performance

Segments :

1. ICT (Information and Communication Technology) Solutions :

The business, called ICT (Information and Communication Technology), is tender based and functions under the build/own/operate/transfer (BOOT) model. During the period from 1995 to 2002, the Company had actively participated in the Tenders relating to ICT projects and had bagged some of the prestigious contracts by outbidding its competitors of that time NIIT, Aptech, STG, Educomp etc .

2. Development of Educational Infrastructure:

Since its commencement of business in 1995, IEC has undertaken the systematic development of educational infrastructure all over the country by setting up schools and colleges in collaboration with Education Societies/Trusts and on public Private partnerships with Government. Now, IEC is planning to expand its colleges and institutions in national as well as overseas market by setting up Schools/Institutions of higher learning in Overseas.

3. Consultancy :

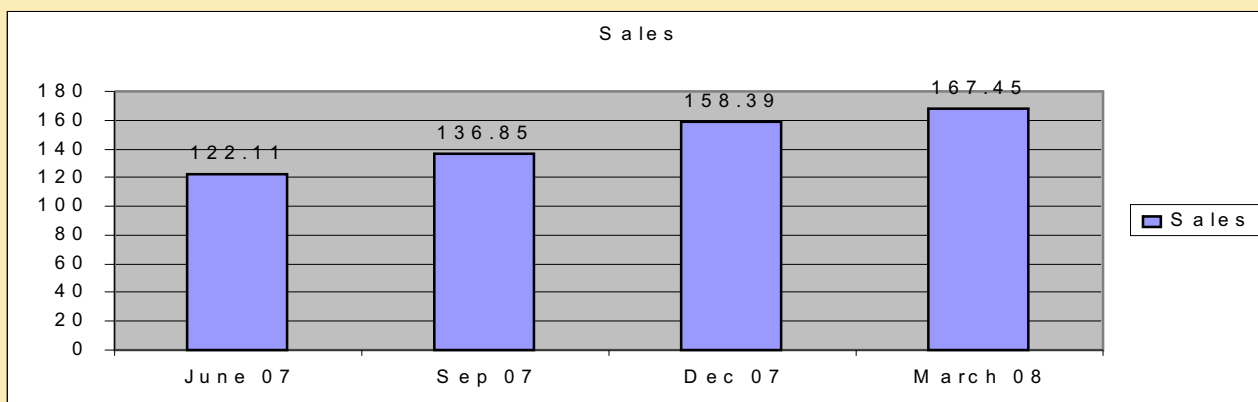
IEC as part of its business activities has been involved in providing IT consultancy to various government departments and business houses.

PERFORMANCE: Fiscal 2007 compared to Fiscal 2008 (Quarter wise)

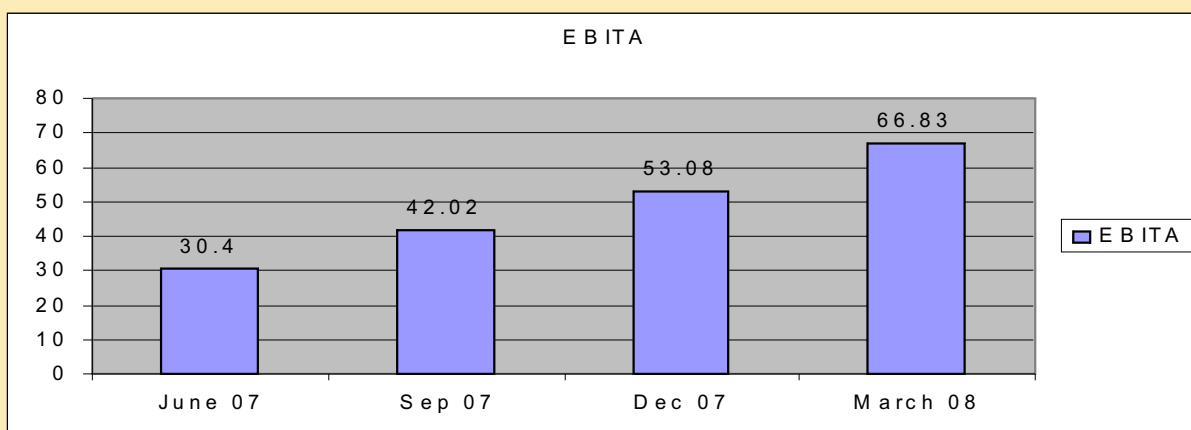
The company has performed consistently well during the period April 2007-March 2008. The Net sales/Income from Operations rose steadily from Rs.122.11 lacs in the first quarter to reach Rs.167.45 lacs in the fourth quarter ended March 2008.

The EBIDTA also improved from Rs.30.4 lacs in the first quarter to Rs.66.83 in the fourth quarter ended March 2008. The Profit After Tax improved substantially from Rs.8.14 lacs to Rs.50.9 lacs with EPS rising to Rs.0.73 per share from Rs.0.12 per share in the first quarter.

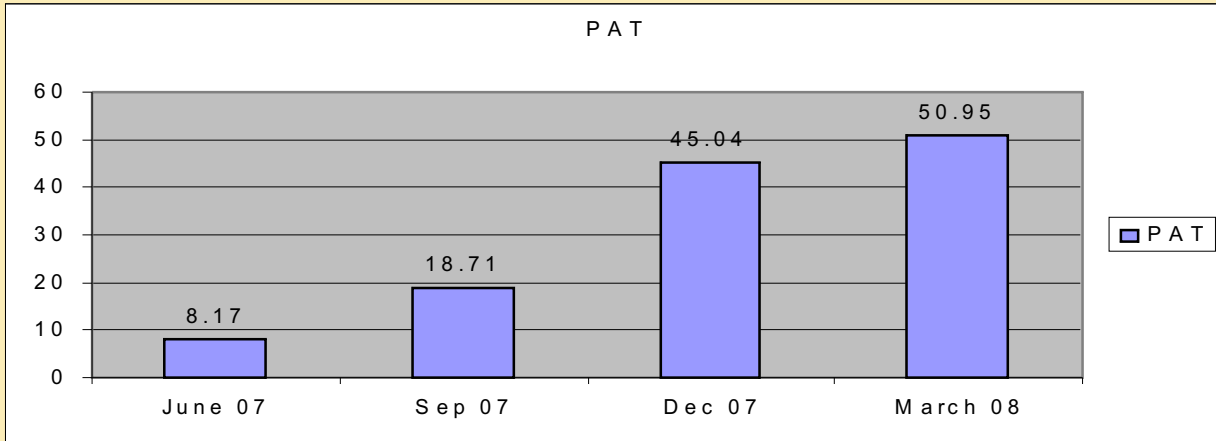
NET SALES/INCOME FROM OPERATIONS



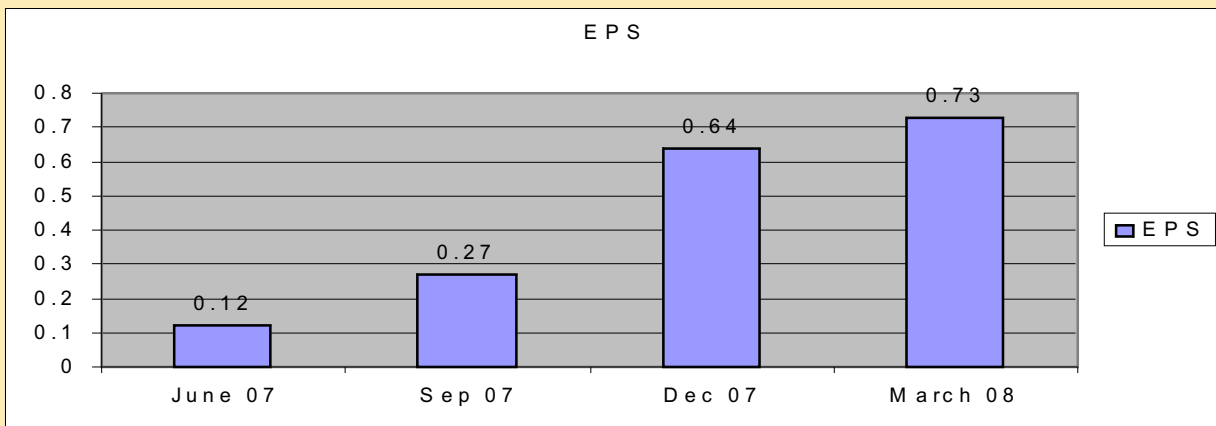
EBIDTA



PROFIT AFTER TAX



EARNING PER SHARE

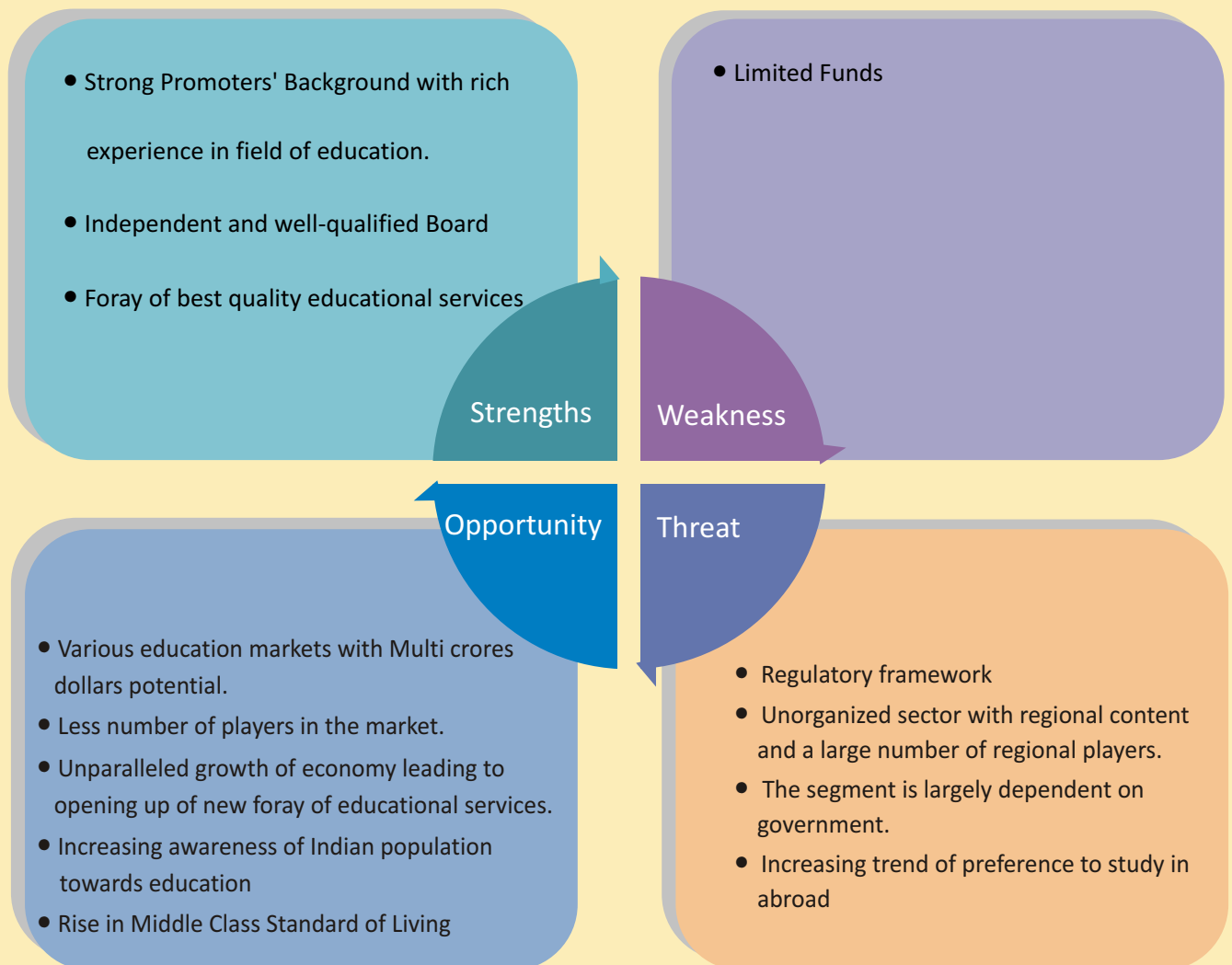


Concerns

Regulatory framework- India's education Sector is one of the last theaters for the liberalization debate. Planners and educationalists are confronted with the failure of public initiatives to achieve universal Coverage.

Change is coming, albeit slowly. There is greater private participation in the provision of higher education, which should spread through all levels of education. There is an urgent need for greater clarity of regulation, which would reduce the need for current complicated structures of ownership and encourage greater public-private participation in this vital sector.

SWOT ANALYSIS



Corporate Social Responsibility and IEC: Blending business with social commitment

VEF stands for service to the Nation and Humanity through Education

We believe that corporate social responsibility is an integral part of an organization's overall commitment to society. Through the years, our society-conscious activities have reflected the company's philosophy: giving back something to society of which we are a part.

IEC is committed to operating with a strong sense of integrity to protect and support its people, the environment and the communities that it works within. We are an enthusiastic supporter of community, voluntary and charitable endeavours which complement our business aims and those of our customers.

A Matter of great significance is that, whilst IEC takes pride to be amongst the top corporates in the country, naturally there comes a responsibility for a social cause. Hence, the offshoot of IEC- the Vocational Education foundation (VEF). The establishment of the IEC College of Engineering & Technology a couple of years back is one of the finest examples of VEF's philanthropic endeavours for that social cause and turning its dreams into a dynamic identity.

Human Resources -

Human Resources are highly valued asset at IEC Softwares Ltd. The Company seeks to attract, retain and nurture technical and managerial talent across its operations and continues to create, sustain the environment that brings out the best in our people with emphasis on learning, training and development and career progression. With its proposed expansion activities it will become imperative for the Company to include fresh talent in commensurate with its growth. Performance is recognized and rewarded through up gradation and job enrichment, performance incentives. There are 30 employees in the Company and on account of large scale expansion the employee strength would increase to 100 by the end of current financial year.

Internal Control Systems and Its Adequacy

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

Internal Control ensures that systems are designed and implemented in a manner commensurate with the size and operations; transactions are executed in accordance with the Company's policies and authorizations.

There are well-established procedures for Internal Controls for operations of the Company and its subsidiaries. The finance and internal audit functions are well equipped with professionally experienced qualified personnel and play important roles in implementing and monitoring the statutory and internal control environment. The Company has also constituted audit committee for guidance and proper control of the affairs of the Company.

The meetings of the Audit Committee are held periodically to review and recommend, inter alia, the quarterly, half yearly and annual financial statements of the Company. The committee also holds discussions with Company's statutory Auditors and the Management on matters pertaining to internal controls, auditing and financial reporting. The Committee reviews with the Statutory Auditors the scope and results of the audits.