Intelligence at work

annual report 1999-2000

★ BLUE STAR

BLUE STAR INFOTECH LIMITED

File Name: Annual-Report
Job No: 27160
PC: Srikanth

● Registered Office

● Offices/Software development centres

■ Subsidiaries

▼ Client locations

Map locations: Helsinki, Edinburgh, London, Aylesbury, Nottingham, Zurich, Ferraina, San Jose, Los Angeles, Palo Alto, Mumbai, Bangalore, Tokyo

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BLUE STAR INFOTECH LIMITED

Board of Directors	Corporate Management	Bankers
Suneel M Advani Chairman	Parmod K Bhalla Managing Director	ABN-AMRO Bank
		Central Bank of India
Ashok M Advani Vice Chairman	Assar S Sambtani President	The Hongkong & Shanghai Banking Corporation Ltd
Parmod K Bhalla Managing Director	Bharat P Shah Vice President	**Auditors** Price Waterhouse, Mumbai
Prakash G Hebalkar Director	Hubert Coelho General Manager	
Suresh N Talwar Director	Sudhir Gera General Manager - Marketing	**Registrars & Share Transfer Agents**
Sanjay N Vaswani Director	Harish Govind General Manager - HR	Intime Spectrum Registry Pvt Ltd

260, Shanti Industrial Estate,
Sarojini Naidu Road,
Mulund (West)
Mumbai 400 080
Telephone : 91-22-5923837
Fax: 91-22-5672693

Registered Office
Kasturi Buildings,
Mohan T Advani Chowk,
Jamshedji Tata Road,
Mumbai 400 020
Telephone : 91-22-2020868
Fax : 91-22-2025813
www.bsil.com

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LETTER FROM THE CHAIRMAN

Dear Shareholder,

This is my first letter to you as Chairman of the Board of your brand new Company, Blue Star Infotech Limited (BSIL). This is also the very first Annual Report published by your Company. It has been a long, difficult and frustrating road that we have travelled in the spin-off of the International Software Division from the parent company - Blue Star Limited - into Blue Star Infotech Limited. The demerger finally took place on April 4, 2000, and BSIL is now poised to emerge, with its own identity, as a significant player in the global software industry.

BSIL is not a start-up

As you know, although BSIL is a new Company, it is not a start-up. It has outstanding credentials in creating software solutions for technology companies around the world for over

15 years. Apart from a strong, respected, supportive parent, BSIL has an outstanding Board of Directors, comprising highly qualified individuals, with vast experience in the knowledge industry. Powerful brand equity and worldwide business connections, along with a growing network of sales offices and business associates across the globe, have brought a number of customers to BSIL, over the last few years. These are clients who have then stayed with us for a number of years, after being impressed with the depth of talent of our people, our excellent infrastructure and our rigorous commitment to quality systems and on-time delivery. Furthermore, BSIL's balance sheet as on 30th June, 2000 is exceptional, with reserves and surplus of almost Rs 120 Million.

New Managing Director

With this kind of inheritance, all that remained for BSIL to acquire was a proven leader for the new millennium who would provide the passion, vision and strategic direction for growth.

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I take great pleasure in introducing to you our new Managing Director, Mr Parmod K Bhalla , an IT professional with over two decades of experience in the industry, spanning international marketing, operations management and strategic planning. Having been on board for three months, Mr Bhalla has drawn up aggressive growth plans to expand the Company's operations in Europe and the USA. He has recruited professionals with proven track records to strengthen the key functions of Recruitment, Sales & Marketing and Business Development.

Initiatives for accelerated growth

We are living in a business environment of rapid change and hyper competition, but also in a world that offers enormous opportunities, and rewards those organisations that take the initiative to capitalise on these. What initiatives are we at BSIL taking?

- To meet the growing demand for off-shore services, we continue to expand our development centre facilities. Simultaneously, we are ramping up our headcount. We intend to grow at a minimum rate of 30 software professionals per month.
- We have built and acquired competence in the new areas of e-business and mobile telephony, and have strengthened our capabilities in the area of embedded software. Much of this transition is owed to the technology evaluation and adaptation skills present in our new R&D Centre, which was established during the current year.
- We have obtained ISO 9001 quality certification for Mumbai operations, and are in the process of obtaining SEI CMM Certification as well. ISO 9001 certification for our Bangalore facility is expected within the next few months.
- Our marketing subsidiaries in the USA and UK have been beefed up, and a new branch has been opened in Helsinki, Finland.
- As travel and immigration rules around the world begin to favour the movement of IT professionals, we have renewed our attention to the on-site placement business.
- We have initiated steps to substantially broaden the ESOP by increasing the stock options from 3% to 8% of total equity.
- In the area of employee care, we have drawn up a plan to start construction on multi-faceted recreational centres for our employees in Mumbai and Bangalore.

This is why I write this letter to you with a sense of confidence. I believe that your Company with a strong management team in place, is well positioned and poised for growth. Our recruiters are busy, the sales and marketing organisation is the strongest it has ever been. Our project delivery skills are superb, and our technical capability has never been better. Most importantly, the people of BSIL are highly motivated and charged up at the thought of belonging to an independent corporate entity, not to mention the lucrative stock option plan under which each and every one of them is eligible to receive shares in, and thus become a part owner of their Company. The entire organisation is committed to the new direction for growth.

As we head into the new millennium, a sense of destiny pervades the Indian IT industry. Our resounding success has given the country a level of confidence it has never before possessed, that India is now poised on the edge of greatness. I am sure I speak for all of you when I say that we are proud to be part of the Indian IT industry.

Yours sincerely,

Suneel M Advani

September 29, 2000.

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This is BSIL today...

Blue Star Infotech Limited (BSIL) is a fast-growing global provider of software consultancy, design and development services, headquartered in Mumbai, India. BSIL operates four software development centres in Mumbai and one in Bangalore, in India. To better serve its large markets, the Company has operations in San Jose, London, and Helsinki (Finland). To cater to its emerging markets, BSIL works closely with Business Associates in Continental Europe, Japan and Malaysia. With state-of-the-art development centres and infrastructure, approximately 350 professionals, and a growing list of Fortune 500 and medium-sized hi-technology clients, BSIL is poised to play a major role in the global software industry.

The Company is part of the Blue Star group, a Rs 4,810 million ($105 million) group with interests in distribution of hi-technology professional electronics equipment, airconditioning and refrigeration products & systems and commercial equipment. Blue Star has business relationships and technology tie-ups with world renowned companies including Hewlett-Packard, USA; Hitachi Medical Corporation, Japan; Yokogawa, Japan; Scientific Atlanta, USA; York International, USA; Climatrol, Italy; Vestfrost, Denmark; Neles Jamesbury, USA; Zaxus (formerly Racal), UK; and Juniper Networks, USA; to name a few.

History of BSIL

The software services business of Blue Star commenced its operations in December 1983, as a division to support Hewlett-Packard's computer business in India. Based on its initial success, the division looked to attract other Fortune 500 clients. In 1990, the division acquired a marketing entity in Silicon Valley in the US, USIN International Inc, to sell its software services. This initiative led to the development of a number of long-term business relationships with North American customers. From inception, the division followed a strategy of focusing on off-shore software services. For this purpose, it set up Software Competency Centres in Mumbai and Bangalore, some of which were dedicated units for its larger clients. Having successfully executed this model for
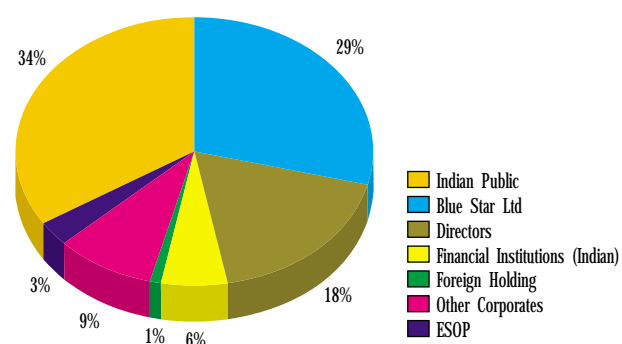
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Shareholding Pattern

Legend:
- Indian Public
- Blue Star Ltd
- Directors
- Financial Institutions (Indian)
- Foreign Holding
- Other Corporates
- ESOP

(Chart values: 34%, 29%, 18%, 6%, 1%, 9%, 3%)

US clients, the division initiated marketing efforts in the UK, Continental Europe and Japan. Throughout the nineties, the division leveraged Blue Star's relationships with its collaborators, business associates and joint venture partners to enter into extended software development partnerships.

Toward the end of the nineties, with the growing success of the Indian software industry, it started becoming increasingly challenging to retain talented consultants in a software division within a larger umbrella organization. Hence, Management decided that the best course of action was to spin-off the division into a separate company. This would permit the introduction of a lucrative Employee Stock Option Plan (ESOP), thus encouraging employees to make their future with the Company. From the stakeholder perspective, a spin-off would potentially give existing Blue Star shareholders a higher valuation, and would present the business as an attractive investment opportunity to new investors. Finally, from a business perspective, such a structure would provide the best tax treatment to the Company's income.

The spin-off did not bring any additional tax burden to the Company or the shareholders. Shareholders of Blue Star Ltd received one share of BSIL and three shares of Blue Star in place of every four shares of Blue Star held by them. Consequently, the share capital of Blue Star Ltd was reduced by 25 per cent. BSIL is currently listed on India's premiere bourse, the Bombay Stock Exchange. Showing their commitment to the future of the Company, Blue Star Ltd and BSIL Directors and employees together own 50% of the outstanding shares. This is balanced by the 34% holding by the public, which ensures healthy liquidity of the stock.

After shareholder approval and due legal process, Blue Star's International Software Division was spun-off in April 2000, and rechristened Blue Star Infotech Limited (BSIL), a Company now poised to play a major role in the global software industry.

Business Reach

Blue Star Infotech Limited (BSIL) is a global provider of software consultancy, design and development services. It currently caters to markets in the USA, UK, Continental Europe, Scandinavia and Japan.

BSIL is represented in the USA, by its wholly owned subsidiary in San Jose, California, USIN International Inc, which markets its services in the United States and Canada. In the UK, Blue Star Infotech (UK) Ltd, a subsidiary, has been formed to represent BSIL's interests in the region. The Company has recently set up a branch office in Helsinki, Finland to serve the growing demands of the Scandinavian telecommunications industry. BSIL meets the needs of the rapidly increasing customer base in Continental Europe, Japan and the Far East, by working closely with Business Associates who represent the Company's interests in these emerging markets.

Markets Served

Legend:
- USA
- UK, Continental Europe
- Japan
- India

(Chart values: 55%, 11%, 9%, 25%)
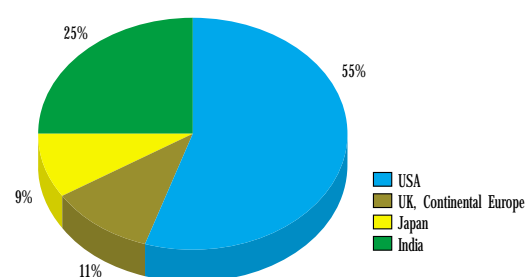
Note: The majority of India-based revenue comes from off-shore projects executed for a California-based hi-technology product company. Although the projects are executed for international sites, remuneration is received from the Customer's Indian operations. The remaining Indian revenue is generated by domestic ERP implementation work.

The management team at BSIL's subsidiary - USIN International Inc, San Jose

Software services are provided primarily from four development centres in Mumbai and one in Bangalore. In addition, over 60 consultants are currently executing projects at various client sites around the world.

BSIL's long-term, flexible and responsive approach coupled with mature and robust processes, ensures cost-effective project execution to international quality standards with rigorous attention to on-time completion. Its emphasis on quality has resulted in the award of the ISO 9001 Certification and the Company is in the process of receiving SEI-CMM accreditation.

Professional Services

BSIL offers its customers a diverse set of services that leverage contemporary and cutting-edge technologies. In its efforts to provide a full-service offering to its customers, the Company continues to expand its software capabilities. This, together with the rapid rate of technology obsolescence characteristic of the industry, also requires a constant evolution of services provided.

BSIL has a long history of working with hi-technology hardware & software companies. Leveraging this experience, the Company has established a full-fledged consulting practice to support hi-technology product companies and to act as a virtual extension to the client's design and development team. BSIL undertakes development, porting, testing and maintenance of embedded software solutions. The Company also works closely with independent software vendors to assist with co-development, re-architecture and end of life-cycle support of their marketed products.

Internet technologies have transformed traditional business models and processes. To serve this burgeoning market, BSIL has a growing team of experts, proficient in cutting-edge Internet technologies. The e-commerce team addresses both the web-enabling of existing applications as well as the design and execution of custom-built web-based business applications for emerging needs in the "e-nabled" business environment. The e-commerce team is fully geared to provide end-to-end solutions to all sizes of clients.

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Although conventional legacy applications will gradually migrate to web-based platforms, there is a large customer base that continues to rely on old architectures for mission-critical business processes. In addition to providing non-invasive web-enabling and migration services, BSIL continues to service legacy applications in terms of application development, enhancements, maintenance and support. Through its early involvement with Hewlett-Packard, the Company has built considerable expertise in maintenance and migration of applications on the HP Platform.

With its vast experience in various business processes, BSIL offers a complete range of Enterprise Application Integration (EAI) services like implementation of ERP applications, including managing and guiding the change process.

With the current world-wide shortage of knowledge workers, BSIL has renewed its focus on staffing and on-site consulting. In addition to providing consultants to customer development teams, BSIL undertakes project staffing and execution at the client site.

Delivery Models

The Company offers its clients a full range of software delivery models including On-site Consulting, Off-shore Competency Centres and Off-site Development.

In the On-site Consulting model, BSIL's consultants work at the client's premises, either as part of the client's development team or in project teams managed by BSIL. These consultants are selected and trained by BSIL to fulfill the client's business requirements.

An Off-shore Competency Centre is a dedicated software development team at BSIL that uses the technology, processes and methodologies required by the customer. The model requires the initial project definition and design to be done on-site followed by a seamless transfer of knowledge to BSIL's teams in India. In many cases, an Off-shore Competency Centre operates as a virtual extension of the client's development team and is ideal for reducing time-to-market.

The Company is in the process of setting up off-site Development Centres in the USA and UK to cater to the growing number of projects that require short turn-around cycles and close customer interaction. Although the project structure will be similar to an off-shore setup, the client benefits from the geographical proximity and similar time zone to BSIL's off-site centres in the markets it serves.

On-site/Off-shore Split
(in terms of man years of work)

- Off-shore
- On-site (Off-shore Related)
- On-site (Time & Materials)
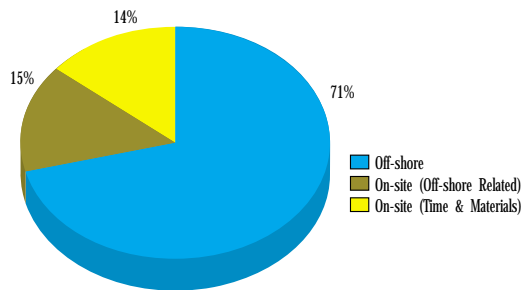
Note: Off-shore related on-site work includes the initial design and definition, some development, and implementation of the work being executed off-shore. The on-site team also acts as a liaison between the client and the off-shore team.

Although these models may seem strikingly different, the majority of our clients require a mix of all these delivery models at various stages of the development cycle.

Quality

BSIL is committed to satisfying the needs and expectations of its customers by consistently delivering cost-effective solutions and services that conform to specified requirements, on or ahead of schedule.

The Company uses a formal Quality Management System (QMS) and Customer Evaluation Feedback system of ISO 9001 and the ISO 9000-3 guidelines to measure customer satisfaction on four key issues, viz., quality of deliverables, timeliness, cost-effectiveness and commitment to customer satisfaction.

The Quality Team has documented all key processes through ISO 9000 certifications, and the recent successful surveillance audit for ISO 9001 by BVQI was a reassurance of the focus on quality. To further strengthen the quality of its processes, the Company is currently in the process of attaining SEI-CMM accreditation.

It is with this strong emphasis on quality in the foreground that BSIL has earned the overall rating of "Preferred Vendor" with all of its clients.

Research & Development

In order to keep as up-to-date as possible with the rapid technological change that characterizes the software industry, an R&D Centre has been set up in the Company's facilities during 1999-2000. The Centre focuses on technology absorption, adaptation and innovation and its dedicated group of R&D engineers constantly evaluates software-testing tools,

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