

Annual Report 2002-03

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Think Beyond



BLUE STAR

INFOTECH LIMITED

Forward-looking statement

In our report we have disclosed forward-looking information so that investors can comprehend the company's prospects and make informed investment decisions. This annual report and other written and oral statements that we make periodically contain such forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried, wherever possible, to qualify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words and terms of similar substance in connection with any discussion of future operating or financial performance.

We do not guarantee that any forward-looking statement will be realised, although we believe we have been diligent and prudent in our plans and assumptions. The achievement of future results is subject to risks, uncertainties and validity of inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, our actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Corporate information

Board of Directors

Suneel M. Advani,
Chairman

Ashok M. Advani,
Vice Chairman

Parmod K. Bhalla,
Managing Director

Prakash G. Hebalkar,
Director

Suresh N. Talwar,
Director

Sanjay N. Vaswani,
Director

Naresh K. Malhotra,
Director

Management Council

Parmod K. Bhalla,
Managing Director

K. Raghunathan,
Vice President - Technology

Rajiv Mittal,
Vice President - Delivery Operations

Hemant Kamat,
Vice President and Chief Financial Officer

Harish Govind,
G.M. - Human Resources

Sudhir Gera,
G.M. - Marketing

Company Secretary

Sivaram Nair

Development Centres

- SEEPZ,
Andheri (East),
Mumbai - 400 096, India.
- 'Alpha', 2nd floor,
Hiranandani Gardens,
Powai, Mumbai - 400 076, India.
- # 7, 18th Main Road, 7th Block,
Koramangala, Bangalore - 560 095, India.
- Lot 271, Jalan Dua,
Off Jalan Chan Sow Lin 55200,
Kuala Lumpur, Malaysia

Bankers

ABN-AMRO Bank
Central Bank of India
The Hongkong & Shanghai Banking
Corporation Limited

Auditors

Deloitte Haskins & Sells

Registrar & Share Transfer Agents

Intime Spectrum Registry Ltd.,
C-13, Pannalal Silk Mills Compound,
L B S Marg, Bhandup (West),
Mumbai - 400 078, India.
Telephone 91-22-25923837
Fax 91-22-25652757

Registered Office & Corporate Head Quarters

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Prabhadevi, Mumbai - 400025, India.
Tel: 91-22-24901870
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Board of directors



(Standing from left to right) **Board of Directors**

Prakash G. Hebalkar Director, **Naresh K. Malhotra** Director, **Parmod K. Bhalla** Managing Director, **Suneel M. Advani** Chairman, **Ashok M. Advani** Vice Chairman, **Suresh N. Talwar** Director, **Sanjay N. Vaswani** Director.

Suneel M. Advani

Suneel M. Advani, Chairman, is a double graduate in Electrical Engineering and Economics from the Massachusetts Institute of Technology, USA. He joined Blue

Star Ltd. in March 1969 as a Management Trainee. From then on it has been a steady climb up the corporate ladder at Blue Star for Mr. Advani. He has held various responsible positions in the Blue Star Group before joining the Board

in 1983 as Executive Director. He was later elevated to the position of President and Vice Chairman of Blue Star in 1984. He was appointed as Director and Chairman of Blue Star Infotech Limited in August 1998.

Ashok M. Advani

Ashok M. Advani, Vice Chairman, is an MBA from the Harvard Graduate School of Business Administration, an Electrical engineer from the Massachusetts Institute of Technology, USA and B.Sc. Honours from Bombay University. He joined Blue Star Limited in 1969 after working for three years in the U.S. He held a variety of senior positions in manufacturing and finance in the Company before becoming a Director in 1979. He was appointed President & Vice Chairman in 1981 and took over as Chairman & Chief Executive in 1984. He was appointed as Director and Vice-Chairman of Blue Star Infotech Limited in July 1998.

Parmod K. Bhalla

Parmod K. Bhalla, Managing Director, is a post-graduate in Operational Research from the University of Delhi. A career spanning 24 years has given him extensive experience in international marketing, operations management and strategic planning. He spent his early years as an Operational Research Analyst with Indian Airlines and The National Dairy Development Board (NDDB). Subsequently, he worked with EDP Corporation and DCM Data Products as a Systems Engineering Specialist. From 1982 through 1999, he was with HCL Ltd. and its associate companies. Starting as an industry

specialist in Banking & Insurance, he moved on to their International Business Development operations as a Vice-President. Prior to joining Blue Star Infotech Limited, he was CEO of the Indian operations of AN-NET Infotech Ltd., a software services start-up, specialising in the e-Commerce space. He joined Blue Star Infotech Limited as Managing Director in June 2000.

Prakash G. Hebalkar

Prakash G. Hebalkar is a Doctor of Science in Computer Science and Economics from the Massachusetts Institute of Technology, USA. He has worked with IBM, USA and thereafter with Tata Unisys as Senior Vice-President. He was instrumental in forming and building up the joint venture of Tata and Unisys as a successful software and consultancy services activity. He is also associated with several leading venture finance organisations and financial institutions. He joined Blue Star Infotech Limited in January 2000.

Suresh N. Talwar

Suresh N. Talwar is a graduate in Commerce & Law and a Solicitor and Senior Partner of M/s. Crawford Bayley & Company, a leading solicitor's firm. He joined the Board of Blue Star Limited in June 1986 and continues to be a Director till date. Besides his vast legal experience, he is on the Board of

several leading companies. He joined Blue Star Infotech Limited in January 2000.

Sanjay N. Vaswani

Sanjay N. Vaswani holds an MBA from the Wharton School of Business and a BBA *summa cum laude* from the University of Texas at Austin. He has worked for Intel Corporation and as an associate in McKinsey & Company, Inc. in Los Angeles. In 1990, he set up his own consulting firm, which is a consultant and advisor to hi-tech companies in the USA. Sanjay works and resides in the heart of Silicon Valley and is highly knowledgeable about the IT industry. He joined Blue Star Infotech Limited in January 2000.

Naresh K. Malhotra

Naresh K. Malhotra is a Chartered Accountant. His functional expertise is in Systems, Corporate Finance, Mergers and Acquisitions. He started his career with Blue Star in 1971 and thereafter has worked in ICI, Unilever, Colgate Palmolive, Bukhatir Investments, UB Group and KPMG. He has been on the Boards of a number of companies, both in India and overseas. He is currently Advisor to GIV Inc., a Washington-based venture capital company and is Head of the Café Division of Amalgamated Bean Coffee Trading Co. Ltd. He joined Blue Star Infotech Limited in January 2003.



Chairman's message

to shareholders

"Despite a difficult business environment, we outperformed the industry and grew our topline and bottomline 26 percent"

Suneel M Advani



Although 2002–03 was one of the most challenging years for the IT services industry, I hope you will agree with me that the performance of Blue Star Infotech can be considered satisfactory.

Let me touch upon the key achievements for the year for the consolidated operation:

- Growth in both our topline and bottomline by 26 percent over the last year, outperforming the

18 percent growth of the IT services exports sector.

- Dividend increased from 60 percent last year to 75 percent, and EPS up to Rs.16.05 compared to Rs.12.73 in the previous year.
- Addition of 23 new customers
- Nearly 600 employees – an increase in our people base by 46 percent over the previous year.
- Assessed at SEI CMMI Level 5

quality level (against only ISO 9001 certified last year) – one of a select few such organisations worldwide.

- Expansion of offshore development facilities by 24,000 square feet.

As I sat down to write this message, I began by reviewing what I had said to you a year ago about the year 2001–02. I found that I had listed some very negative events that affected the IT services industry, and

when I add to those the problems faced by the industry in 2002–03, I cannot help but marvel at the resilience and robustness of the Indian IT industry which has weathered so many storms in the last 2 years, and yet emerged, not unscathed, yet stronger than before. No doubt, the industry as a whole saw the continuing decline in the extraordinary growth rates achieved in the previous seven or eight years, but your company, I am proud to report, continued to outperform the industry.

In the year 2001–02, the demise of the dotcom boom, the terrorist attacks on the World Trade Center on September 11, and the decline in the US economy were massive body blows. In the year 2002–03, the IT services industry came under new attack. While the US economy, our biggest market, did not respond to several efforts at resuscitation, global business confidence was severely affected by the long lead-up to the war in Iraq, as well as by the spread of the SARS virus. International travel, the lifeblood of the offshoring business ground to a halt. As the global economy went into a tailspin and business

organisations overseas began to lay off employees, several western countries set out to counter the terrorist threat and to protect local jobs by introducing visa restrictions for IT professionals. With the Indian economy being the only one other than China to show reasonable economic growth, the rupee began to appreciate against the declining dollar, reducing the competitiveness of our exports.

Indeed, these were serious problems, and it is against this background that the growth of 26 percent of Blue Star Infotech should be viewed. How did we accomplish this performance? The greatest amount of credit must go to the strengthening of the management team which matured into a group of balanced thinkers and doers with the self confidence not to panic in the face of adversity. Secondly, Blue Star Infotech finally acquired recognition as a seasoned, quality-driven, full-services, mid-sized alternative to the large IT services providers. As a result, our business in the US – a lot of it from the blighted Silicon Valley – grew 36 percent. The last 6 months has seen a resurgence in our new

customer acquisition in the US and UK. Thirdly, aggressive sales management ensured that our average billing rates held up, unlike many other IT services providers, and this is reflected in our net profit margin.

At Blue Star Infotech, which will be completing 20 years in business in December 2003, we have always played for the long term. We have created a management culture that thinks beyond this quarter and this year. We have invested prudently in people, infrastructure, quality and technology. We now have an organisation with solid fundamentals that has focused all along on offshoring as a competitive advantage for our customers. While the current business environment may make it difficult for the industry as a whole to repeat the growth rates experienced in earlier years, I believe Blue Star Infotech will continue to outperform the industry in the foreseeable future. I hope you share my confidence.

Sincerely,

Suneel M. Advani
Chairman

10 minutes with the MD

'We successfully customised our strategy to address different customers in 2002-03.'

Parmod Bhalla, Managing Director, reviews the Company's performance for 2002-03



The year 2002-03 has seen the emergence of a mature software services industry characterised by heightened competition, consolidation amongst players, and an intense pressure on prices and costs. Outsourcing to offshore vendors gained acceptance by more corporate and federal users and India continued to be the favourite destination. This acceptance was the key reason for increased competition (and price pressure

thereof) as increased number of software services providers offered offshore software services and pitched for any given engagement.

As vindicated by the quality of its profit and loss account in 2002-03, Blue Star Infotech adapted business strategies that were in consonance with the changing economic environment. At a time of this industry churn with not so optimistic macro-economic factors, Blue Star

Infotech strengthened both its topline and bottomline by 26 percent. In doing so, the company did not just protect its long-term balance sheet advantage but clearly strengthened it: a growing net worth coupled with the absence of debt.

The company fine-tuned its strategy to address different customers namely, technology companies and end user-driven companies, in different ways.

A Strong Niche Technology Focus

Blue Star Infotech continued to address the niche technology segment through the institutionalised competencies of its Global Research and Development (GRD) and Systems Integration Practice (SIP) lines of business. These groups, driven by a mature understanding of technology-driven product life cycles, empowered the Company to provide specialised services in the relatively under-crowded but sophisticated technology space.

The Company reinforced its position at the vantage point of cutting-edge technologies. It did not just provide services in this space, but took the initiative a decisive step further. It has commissioned new Centres of Technology Competence (COTC), which translated into a number of business-strengthening value propositions in a highly competitive marketplace.

For one, the COTCs empower the Company to deliver customised cutting-edge technology-driven solutions. They translate into a futuristic technology insight that enables the Company to strengthen the customer's business at each stage of the technology life cycle, resulting in a lower rollout cost and time-to-market. The Company is competently handling diverse technology spaces ranging from systems software to medical equipment to aircraft simulators. It is now enabled to migrate individual insights into an institutionalised excellence repository across individuals and levels.

Result: Blue Star Infotech has emerged as one of the leading global

service providers in this space.

Focused Solutions for Traditional Customers

Blue Star Infotech addressed diverse industry requirements through the Consulting Services Practice (CSP) and Business Applications Practice Lines of Business and the specific verticals such as Banking, Finance, Securities and Insurance. It uniquely positioned itself as a single window service provider for MME (Medium, and Medium Large Enterprises) segment by enhancing business value through a full services portfolio – ranging from Business Process consulting to Application Life Cycle Enablement services. This initiative added many MMEs to the Company's customer list that will ensure a steady stream of revenue in the long term.

The Consulting Services group was strengthened by the addition of a Global Consulting group offering services for Business-IT alignment, enterprise architecture design and application portfolio management. This breadth and depth helped the company identify and capture emerging opportunities effectively and efficiently. Besides, Blue Star Infotech captured and developed the intellectual property required in various vertical market segments that were addressed. This was done by Methodology Development groups and helped in differentiating our brand in a competitive marketplace. Blue Star Infotech's customers acknowledged the benefit of an attractive return on their IT spending due to the Company's matured range of services.

Best of Breed Focus

Blue Star Infotech's focus on being

the best of breed service provider has been strengthened through an array of initiatives launched during the year - many of which have been achieved. The Company:

- Invested in strengthening its quality processes and bringing them at par with the world's best by achieving SEI CMMI Level 5.
- Fuelled the growth of various strategic business units by giving them autonomous marketing and related support.
- Embarked on techno-business recruitments that catalysed the migration from technology solutions to business solutions.
- Proactively invested in senior technical and commercial executives in Europe and US to fuel future growth.

These initiatives were supported by India-based development centers that were rated at par with the best in the world.

All the above initiatives have meant that despite a challenging environment impacting business, Blue Star Infotech, through its unique positioning and clear value proposition, added a significant number of new customers, generated repeat business from existing customers, increased the deal sizes and structured the client and partner relationships for the long-term.

Blue Star Infotech expects to sustain and strengthen this strategic clarity across the foreseeable future, leading to value-enhancing growth – for customers, alliance partners, employees and shareholders.

Parmod Bhalla

Managing Director

Who we are

Blue Star Infotech is a rapidly
growing global provider of
software consultancy, design and
development services

