



BLUE STAR INFOTECH LIMITED
ANNUAL REPORT 2010-2011



Engineering Business Outcomes



The cover graphic illustrates Blue Star Infotech's endeavor to find the appropriate technological solution to address the client's business problem. It emphasizes on the company's focus which is Engineering Business Outcomes. This single minded proposition will allow Blue Star Infotech to delight its clientele and help them realize their business goals.



Contents

Letter from the Chairman & Managing Director	02
Board of Directors	04
Five Year Financials (Consolidated)	06
Geographic Presence	08
Directors' Report	09
Corporate Governance	13
Management Discussion & Analysis	25

FINANCIAL STATEMENTS 2010-11

STANDALONE

Auditors' Report	34
Balance Sheet	38
Profit and Loss Account	39
Cash Flow Statement	40
Schedule and Notes to Accounts	41
Balance Sheet Abstract	56

CONSOLIDATED

Auditors' Report	57
Balance Sheet	58
Profit and Loss Account	59
Cash Flow Statement	60
Schedule and Notes to Accounts	61
Statement u/s 212	74

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 'anticipates', 'estimates', '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 plan and assumptions. The achievement of future results is subject to risk, 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.

BOARD OF DIRECTORS

Suneel M Advani

Chairman & Managing Director

Ashok M Advani

Vice Chairman

Sunil Bhatia*

Chief Executive Officer & Managing Director

Dr. Prakash G Hebalkar

Director

Suresh N Talwar

Director

Sanjay N Vaswani

Director

Naresh K Malhotra

Director

K P T Kutty*

Director

EXECUTIVE COMMITTEE

Suneel M Advani

Chairman & Managing Director

Ashok Advani

Vice Chairman

Sunil Bhatia

Chief Executive Officer & Managing Director

A T Vijayakumar

President & Chief Operating Officer

Suresh Iyer

Executive Vice President - Global Delivery & Marketing

Sanjeev Sethi

President - Blue Star Infotech America, Inc.

Satish Gaonkar

Vice President - Consulting Services

Gerard D'Mello

Vice President - Human Resources

*Appointed on 15th April, 2011 as Additional Director

COMPANY SECRETARY

V Sudarshan

BANKERS

Axis Bank Ltd.

BNP Paribas

Citibank N.A.

Corporation Bank

ICICI Bank Ltd.

The Hong Kong and Shanghai
Banking Corporation Ltd.

The Royal Bank of Scotland N.V.

AUDITORS

Walker, Chandiok & Co.

REGISTRAR & SHARE TRANSFER AGENTS

Link Intime India Pvt. Ltd.

C-13, Pannalal Silk Mills Compound,

LBS Marg, Bhandup (W),

Mumbai 400 078, India.

Tel : 91-22-25946970

Fax : 91-22-25946969

REGISTERED OFFICE & CORPORATE HEADQUARTERS

The Great Oasis,

8th Floor, Plot No. D -13

MIDC, Marol, Andheri (East)

Mumbai 400 093

Tel : 91-22-6695 6969

Fax : 91-22-6697 3866

DEVELOPMENT CENTRES

Unit 74, SDF III

Unit 150, SDF V

Unit 188, SDF VI

Seepz, Andheri (East),

Mumbai 400 096, India.

#7, 18th Main Road,

Koramangala Industrial Layout,

Bangalore 560 095, India.

The Great Oasis,

3rd & 8th Floor, Plot No. D -13

MIDC, Marol, Andheri (East)

Mumbai 400 093



Suneel M Advani

Chairman & Managing Director

Dear Shareholder,

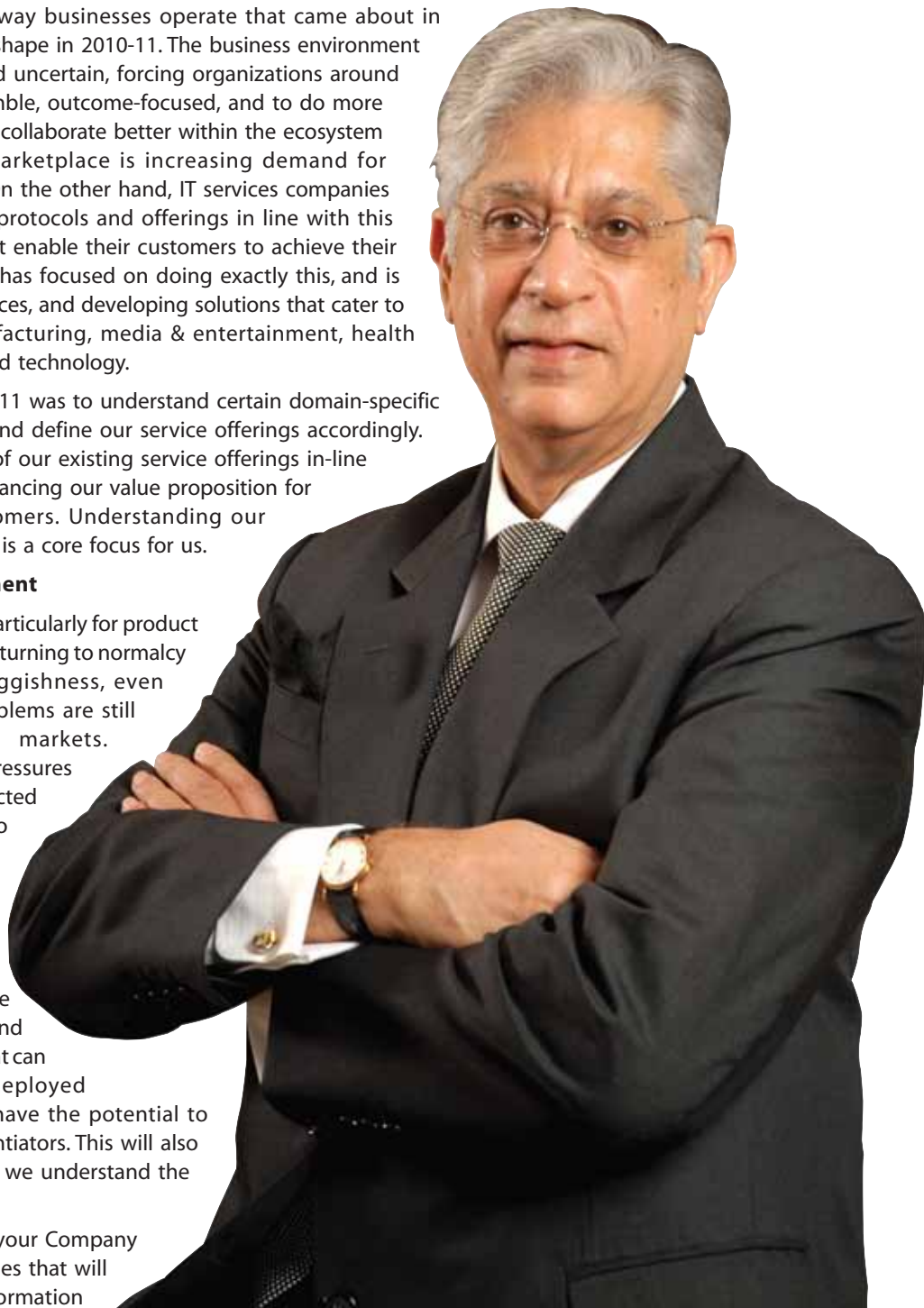
The fundamental shift in the way businesses operate that came about in 2008-09, has taken more solid shape in 2010-11. The business environment has become more complex and uncertain, forcing organizations around the world to become more nimble, outcome-focused, and to do more with less. The business need to collaborate better within the ecosystem and respond faster in the marketplace is increasing demand for transformational IT solutions. On the other hand, IT services companies need to align their operating protocols and offerings in line with this scenario, and offer services that enable their customers to achieve their business goals. Your Company has focused on doing exactly this, and is investing in the required resources, and developing solutions that cater to select verticals such as manufacturing, media & entertainment, health sciences, travel & hospitality, and technology.

Our objective in the year 2010-11 was to understand certain domain-specific business challenges in-depth and define our service offerings accordingly. We are also fine-tuning some of our existing service offerings in-line with this objective and are enhancing our value proposition for existing as well as new customers. Understanding our customer's business challenges is a core focus for us.

Dynamic Business Environment

The export demand for IT, and particularly for product engineering services, is slowly returning to normalcy after nearly two years of sluggishness, even though protectionism-led problems are still very strong in western markets. Furthermore, margin related pressures continue to exist and are expected to grow further, primarily due to commoditization of traditional service lines, increase in wages and the sunset of the STPI scheme. To counter this, we are adopting new engagement models that are based on business outcomes and are also developing solutions that can be rapidly customized and deployed for customers. Such services have the potential to become one of our key differentiators. This will also be a testimony to the fact that we understand the domains we operate in.

To become more competitive, your Company continues to invest in capabilities that will help us deliver business transformation



solutions in service-lines such as enterprise collaboration, cloud computing, software as a service, social business and mobility. These services will enable us to offer next generation solutions to clients in India and our core markets i.e. USA and the UK. We have also entered into strategic partnerships with other technology companies such as IBM and QlikTech to expand the breadth of our solution offerings in niche areas.

Business Overview

The aftereffects of the recession considerably elongated the customer acquisition cycle, especially in our core markets. This resulted in our overall revenue dropping by 5% to ₹ 129.16 Crores compared to ₹ 136.17 Crores during the previous year. We reported a lower profit after tax & exceptional item of ₹ 8.39 Crores last year as compared to ₹ 13.78 Crores in 2009-10. While our export business has been slow to pick up, our India business has been consistent over the years. Domestic revenue grew by 21% from ₹ 24.63 Crores in FY10 to ₹ 29.71 Crores in FY11. During the year, we also earned the distinction of crossing 200 customers in India. We have achieved this milestone within the first five years of entering the Indian market. It is a significant achievement, which showcases the trust Indian enterprises are placing in your Company.

On the project execution front, we are taking several steps to control costs and ensure optimum resource utilization. We continue to train our employees on technical and non-technical fronts, including next-generation technologies to ensure that we meet the highest delivery expectations of our global and Indian customers and improve productivity constantly. We recognize that the next phase of growth will demand subtle, yet critical, modifications to our front-end operations. We are working on adding a consulting layer to our customer-facing processes for increasing the depth of our existing relationships as well as to accelerate new client acquisition.

A major development is that we appointed Sunil Bhatia as CEO & Managing Director of Blue Star Infotech Ltd. on April 15th, 2011. Sunil will also be a Member of the Board of Directors of the Company. Sunil has over 22 years of experience in building and growing businesses with revenues exceeding USD 200 million, and has worked for leading companies such as Accenture, IBM, Satyam, and in multiple countries across Asia and in the US. He has deep exposure across industries such as Communications, High-Tech, Financial Services, Industrial, Retail and the Public sector.

His rich experience, combined with a proven track record with customers and a consultative approach, creates strong synergies with our strategic goals and current focus areas, and makes me believe that he will successfully lead the company through its next growth phase and the era of globalization we are now in.

In Conclusion

Although the global economy is recovering and discretionary IT and R&D spends are expected to grow in the near-term, we believe that the business environment in FY12 will be far more challenging for mid-sized IT service companies. However, we are confident that our verticalized approach to enable global enterprises derive measurable business outcomes will pay back rich dividends. We continue to put into place key elements which will enable us to capitalize when demand from our core markets returns during FY12. The expected demand uptake, coupled with our strategy to de-risk our business through effective foreign exchange management, better resource utilization and cost rationalization, makes us confident that your Company will be able to meet expectations of its customers, employees and shareholders.

We thank you for your continued support.

Sincerely,

Suneel M Advani

Chairman & Managing Director

Mumbai, June 20, 2011





Suneel M Advani,
Chairman & Managing Director

Suneel M Advani is a double graduate in Electrical Engineering and Economics from the Massachusetts Institute of Technology, USA. He also holds a degree in Law from Mumbai University. Mr. Advani joined Blue Star Limited in March 1969 as a Management Trainee. He held various responsible positions in Blue Star Limited before joining its Board in 1983 as Executive Director. He was elevated to the position of President and Vice Chairman of Blue Star Limited in 1984 and was re-designated as Vice Chairman & Managing Director in 2005.

Mr. Advani set up the Software Exports Division in Blue Star Limited in 1983 and oversaw its operations from inception. This Division was later spun off and incorporated as Blue Star Infotech Limited. He was appointed Chairman of the Company in 1998 and in June 2005 was appointed as its Chairman and Managing Director.

(Member of Shareholders' Grievance Committee)

Ashok M Advani,
Vice Chairman



Ashok M Advani 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 Mumbai University. He Joined Blue Star Limited in 1969 after working for three years in the USA. He held a variety of senior positions in manufacturing and finance in Blue Star Limited before becoming a Director in 1979. He was appointed President & Vice Chairman in 1981 and took over as Chairman & Chief Executive of Blue Star Limited in 1984. He was re-designated as Chairman & Managing Director in 2005 and Executive Chairman in 2009.

Mr. Advani was appointed as Vice Chairman of Blue Star Infotech Limited in 1998. He is also on the Board of Alfa Laval (India) Limited.

(Chairman of Shareholders' Grievance Committee)



Sunil Bhatia,
Chief Executive Officer & Managing Director

Sunil was appointed CEO and Managing Director of the Company in April, 2011. He has over 22 years of experience in building and growing businesses with revenues exceeding \$200m and leading large global teams. He has worked in leadership roles at leading companies such as IBM, Accenture and Satyam, and in multiple countries across Asia and in the US. He has deep exposure across industries such as Communication, High-Tech, Financial Services, Industrial, Retail and Public sector.

He served as a Partner at Accenture, California, USA, where he worked in the Communication and High Tech businesses. Prior to this, he was with IBM, Singapore for 7 years and responsible for building strategic and high-value relationships in Finance Sector and Services business. At Satyam, he led global strategic accounts and grew the business aggressively. Sunil also worked in India with Accenture Consulting in Strategic Services Practice where he advised numerous large Indian corporations on globalization, expansion and strategic reviews.

Sunil Bhatia is an MBA from Mumbai University. His professional qualifications include executive programs at Wharton & INSEAD. He is a charter member of TiE at Silicon Valley, USA.

Sanjay N Vaswani,
Director



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 and 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. He is also on the board of Brocade Communications Systems, Inc., USA.

Mr. Vaswani works and resides in the heart of Silicon Valley and is highly knowledgeable about the IT industry. He joined the Board of Blue Star Infotech Limited in 2000.





Dr. Prakash G Hebalkar,
Director

Dr. 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 Burroughs / 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 has been associated with several leading venture finance organizations and financial institutions and has served on the board of two Mahindra Group companies as an Independent Director.

Dr. Hebalkar joined the Board of Blue Star Infotech Limited in 2000.

(Member of Shareholders' Grievance Committee and Audit Committee)

Suresh N Talwar,
Director

Suresh N Talwar is a Commerce and Law graduate and a Solicitor and Partner of M/s Talwar, Thakore and Associates, Mumbai. Before setting up this firm in April, 2007, he was the Senior Partner of Crawford Bayley & Company.

He joined the board of Blue Star Limited in June 1986. Besides his vast legal experience, he is also on the board of several leading companies such as Merck, Cadbury India, Larsen & Toubro, Greaves Cotton, Sanvik Asia, Esab India and Biocon amongst others.

Mr. Talwar joined the Board of Blue Star Infotech Limited in 2000.

(Member of Audit Committee)



K P T Kutty,
Director

K P T Kutty, currently a practising Company Secretary, has over three decades experience in the profession. He joined Blue Star Limited in 1980 holding various positions in the Legal & Secretarial Department before taking over as the Company Secretary in 1994. Mr. Kutty has also worked with Forbes Forbes Campbell & Co. Limited and Reserve Bank of India prior to joining Blue Star Limited. He has earlier been a Director of Blue Star Infotech Limited from 8th May 1998 to 21st January 2000.

Naresh K Malhotra,
Director

Naresh K Malhotra is a Commerce graduate from St. Xavier's College, University of Kolkata and a Chartered Accountant. His functional expertise is in systems, corporate finance, mergers and acquisitions, marketing and facilitating start-ups. He started his career with Blue Star Limited in 1971 and thereafter worked overseas for 15 years with ICI, Unilever Group, Colgate Palmolive and Bukhatir Investments.

Mr. Malhotra was the President and a member of the Supervisory Board of the U B Group during 1986–1992. In 1993 Mr. Malhotra joined KPMG as one of their Founding Partners and was the Managing Director, Corporate Finance and practice leader of the Real Estate, Hospitality and Retail businesses. Former CEO of Amalgamated Bean Coffee Trading Company (Cafe Coffee Day), Mr. Malhotra is also on the board of Royal Orchid Hotels, Onmobile and several other companies. He is also an advisor to GIV Management Inc., a Washington-based venture capital company and currently an Operating Partner with Sequoia Capital India. Mr. Malhotra joined the Board of Blue Star Infotech Limited in 2003.

(Chairman of Audit Committee)



Five Year Financials (Consolidated)

(All figures in ₹ Crores except figures under Other Information and Performance Indicators)

	2010-11	2009-10	2008-09	2007-08	2006-07
OPERATING RESULTS					
Total Income	129.12	136.17	156.74	145.69	120.83
Exports Sales	90.55	105.61	130.40	113.03	96.57
Operating Profit (PBIDT)	15.35	17.35	19.12	7.57	13.41
Profit after Tax and Exceptional Item	8.40	13.78	15.55	4.91	9.07
Dividend (including tax)	3.49	5.85	5.85	2.93	4.62
Retained Profit	5.29	7.93	9.70	1.98	4.45
FINANCIAL POSITION					
Paid up Capital	10.00	10.00	10.00	10.00	10.00
Reserves	74.45	69.72	57.32	50.29	48.31
Shareholders' Funds	84.45	79.72	67.32	60.29	58.31
Cash & Cash Equivalents	10.65	10.13	11.07	16.40	7.36
Market Capitalisation	100.85	112.90	47.95	60.65	93.65
OTHER INFORMATION					
Number of Shareholders	14,470	15,213	15,281	15,557	16,379
Number of Employees	821	795	858	901	828
Office Space (sq. ft.)	55,000	65,000	65,000	65,000	65,000
PERFORMANCE INDICATORS					
Earnings Per Share ₹	8.40	13.78	15.55	4.91	9.06
Dividend Per Share ₹	3.00	5.00	5.00	2.50	4.00
Book Value per equity Share ₹	84.45	79.72	67.32	60.29	58.31
Return On Shareholders' Funds	9.94%	17.29%	23.11%	8.14%	15.55%
Return On Average Capital Employed	10.23%	18.74%	24.39%	8.28%	16.17%

