

SHARPENING Focus

BLUE STAR INFOTECH LIMITED
ANNUAL REPORT 2013-14



Across the pages...

Corporate Overview

Letter from the Chairman and Managing Director	02
Key Performance Indicators	05
Financial Highlights	06
2013-2014 at a Glance	08
Blue Star Infotech in the News	09
About the Company	10
Corporate Information	12
Global Presence	13
Board of Directors	14

Management Discussion and Analysis

Reports

Directors' Report	26
Corporate Governance Report	34

Financial Statements

STANDALONE

Independent Auditors' Report	57
Balance Sheet	62
Statement of Profit and Loss	63
Cash Flow Statement	64
Notes Annexed to and Forming Part of the Financial Statements	66

CONSOLIDATED

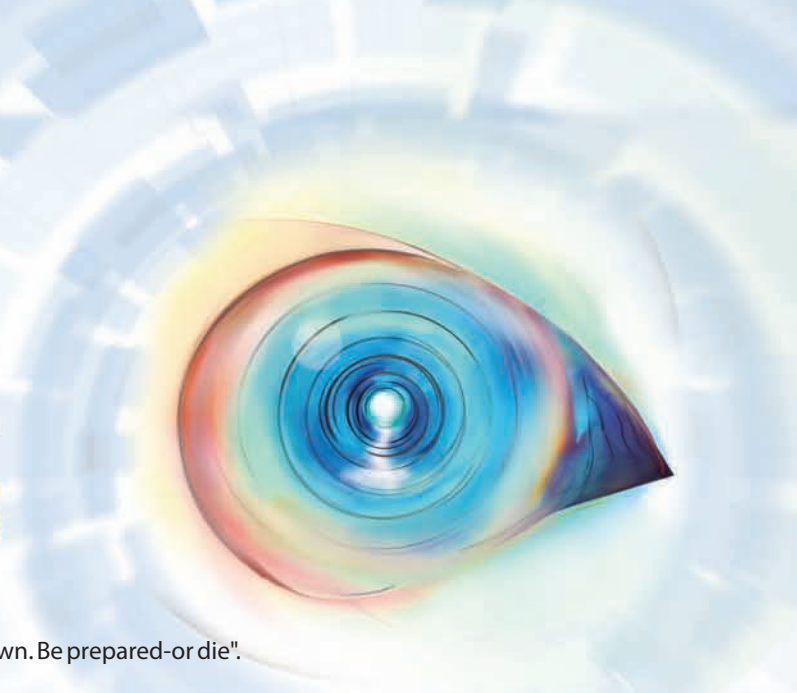
Independent Auditors' Report	87
Balance Sheet	88
Statement of Profit and Loss	89
Cash Flow Statement	90
Notes Annexed to and Forming Part of the Consolidated Financial Statements	92
Statement u/s 212	113

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. Note: Blue Star Infotech Ltd. is referred to as "Blue Star Infotech" or "BSIL" in this report.

SHARPENING Focus



"Within a few years, the Internet will turn business upside down. Be prepared-or die".
Matthew Symonds, Editor, The Economist. 1999

15 years hence, most of us have indeed experienced the profound impact that internet has had on the growth of various industries and geographies. Today, a new set of disruptive technologies, which broadly includes SMAC (Social, Mobility, Analytics and Cloud) stack have once again brought to fore a combination that can very quickly alter the rules of the game.

With espousal of SMAC stack, the role of technology has fast evolved from an optimization and agility enabler to empowering businesses. It empowers enterprises to take real time complex decisions, allows them to escape heavy front loaded investments by converting their capital expenditure into a demand based scalable operating expenditure, significantly reduces the response time by enabling anytime-anywhere access and creates new touch points that facilitate deeper penetration and stronger connect with their target audience. Not surprising, organizations globally are fast embracing the multitude of benefits offered by these transformational technologies.

At Blue Star Infotech, alongside with these groundbreaking events, we initiated extensive organization wide changes to stay relevant. These included induction of a new leadership team, redesigning of strategic roadmap and re-accentuating of focus areas. Together with the newness came fresh perspective and learning that invigorated our existing services, solutions and teams.

The focus areas identified included: building capabilities around SMAC stack, deepening client relationship and developing solutions that can directly or indirectly have a positive impact on our revenues. The theme of this annual report 'Sharpening Focus' highlights our firm and growing commitment to develop industry leading capabilities in each of these areas.

During the year, we took several organic and inorganic measures to further strengthen our SMAC based capabilities. Through our strategic investment in Activecubes Solutions India Pvt. Ltd, a global provider of business intelligence and analytics solutions, our SMAC capabilities got a considerable uplift. We also entered into an agreement with several industry leading global product companies that would symbiotically benefit us in the near future.

To enhance our service quality and to deepen our relationship with clients we have created many new client facing senior positions and also opened new onshore centres. Through our state-of-the-art delivery centres in US and Singapore we provide ready support to address client's time pressing needs. Most of our new leadership team today sits much closer to clients and interacts with them more frequently.

We have also been smartly leveraging our solutions to showcase our technical and domain capabilities across various global forums and conferences. This has helped us to garner interest and get into a meaningful discussion with the interested companies. Our modern prototypes, which many times have strong resemblance with client's desired product, make them feel comfortable in terms of our ability to deliver the world-class product and also give us a significant head-start.

Our early feelers of the investments made have been very positive. A few of the discussions that were initiated at the time of showcasing our solutions have either already resulted in new project wins or are in the advanced stages of discussion. The year saw another across the board and improvement in our client satisfaction index. All these indicators motivate us to maintain eagle-eye focus to continually enhance our capabilities and service levels to a new echelon.

Letter from the Chairman and Managing Director

Dear Shareholders,

I am pleased to report that in fiscal 2014, Blue Star Infotech again delivered profitable growth, despite a challenging market and subdued economy. We achieved three-digit EPS growth, witnessed three-fold rise in net profit and significantly improved our export revenue, reflecting a focused execution of our growth strategy.

HERE ARE SOME HIGHLIGHTS OF OUR PERFORMANCE



- We recorded consolidated revenue of ₹ 271.02 crore for the year ending March 31, 2014, our highest ever, showing a 44% increase over revenue in the previous year
- Exports revenue increased to ₹ 231.95 crore, recording a growth of 56%
- Consolidated net profit for the year stood at ₹ 14.87 crore, an increase of 198% over the previous year
- For the quarter ended March 31, 2014, we reported consolidated income of ₹ 78.80 crore, reflecting a 15% jump over the same quarter last year
- For the fourth quarter, we recorded a net profit of ₹ 4.22 crore, compared to ₹ 3.52 crore in the corresponding period last year
- Our strong performance in fiscal 2014 reflected that we surpassed the industry growth of 9.7%



Sunil Bhatia

Chief Executive Officer and Managing Director

Suneel M Advani

Chairman and Managing Director

In fiscal 2014, we continued to benefit from our focus to transforming and adapting to the fast-evolving market environment and helping our clients address the challenges presented by globalization and technology innovation. To achieve this, we merged our strong capabilities across digital with a view to provide highly differentiated solutions.

During the year, we focused on further differentiating Blue Star Infotech in the marketplace and improving our competitiveness by delivering greater value to our clients. We strengthened our Outsourced Product Development (OPD+) and BI/Analytics offerings, which contributed 55% and 14% respectively to our revenue during the year. Specifically, we added 47 new clients to our list of esteemed customers and currently have 144 active clients. This upbeat progress was largely on account of encouraging developments in the USA economy and balanced recovery in Eurozone.

Given our continued commitment to our clients, I am pleased to say that besides acquiring new contracts, we were able to grow some of our existing strategic accounts to expand our annuity business. We now have 7 accounts with over USD 1 million each in revenue, including two accounts with annual returns of over USD 5 million each.

EVOLVING IT LANDSCAPE AND OUR FOCUS



The rapid integration of global economies has transformed the technology landscape in recent years, and with it, raised new opportunities for growth. Emerging trends such as the Internet of Things, In-Memory Computing, Big Data, and Machine Learning etc. are also gaining business relevance along with prevailing technologies like Cloud, Analytics, Mobile and Social Collaboration that are transforming industries while heralding new ways to do business.

To prepare ourselves for this change, we consolidated our offerings and integrated our Application Development and Product Engineering practices as OPD+ (Outsourced Product Development). OPD+ provides us unique advantage of cross-leveraging our experience of handling 800 major IT projects and 1,850 product releases for our technology customers worldwide, to unleash the power of digital. We believe this robust capability along with our acquisition of Activecubes Solutions India Pvt. Ltd last year will create a powerful competitive advantage for Blue Star Infotech.

We also continue to invest in building solutions and frameworks to amplify our Micro Vertical focus, which remains an important differentiator in the marketplace and a means for our competitiveness. During fiscal 2014, we added several new solutions to our offerings like Mobile Vacation Planner, Smart Retreat, and Smart Travel etc. to help our clients excel in their performance. We believe this comprehensive offering of more than 100 solution assets – combined with our efforts to monetizing these IP based solutions with our powerful Digital Transformation offerings will create an overriding competitive gain for Blue Star Infotech.

FUELING BUSINESS GROWTH



Our encouraging performance last year was the result of efficient execution and the strategic realigning of our business over the past few years. As a consequence, in fiscal 2014, our Strategic Accounts business doubled yet again, and our BI/Analytics business grew by 172% and Travel & Hospitality went up by 53%. Region wise, our business in North America surged 51.2% and in Asia-Pacific it increased by 69.6%. Employee utilization remained steady at around 78% all through the year.

In fiscal 2014, we again benefited from our focus on developing and sustaining strong client relationships. Our ability to help our clients' most challenging issues and deliver business value has helped us nurture lasting relationships with many leading companies, including some Fortune Global 500 firms. Besides, we won several multi-million dollar deals by beating stiff competition from some large industry players.

Whether it was winning a deal from a Fortune 500 technology company for a device testing project; a contract from a top ranking Fortune 100 listed company to provide core software services, or a prestigious deal from a global commodities trading and logistics company for ERP solutions, we remain focused on delivering higher value to our clients and helping them stay relevant.



CUSTOMERS AT THE CORE

Blue Star Infotech continues to strengthen its position by investing in rapidly-growing areas to stay relevant. We are setting up a Customer Advisory Board (CAB) that will identify and help build solutions to serve our clients' long-term needs. In this regard, we will forge new partnerships that will also open new markets for us.

Making deeper inroads into our existing markets remains an important part of our growth strategy as we continue to address USA, Europe, Asia Pacific and India markets. We have onshore delivery centers in USA Midwest region and in Singapore, while we are relocating our senior management closer to our clients. We also took steps to reconstruct our leadership team and deployed an able and versatile professional group from Activecubes.

We have received several prestigious awards and accolades for our achievements during the year. These include being recognized yet again as a 'Global Services 100 Provider' in a survey by Global Services in alliance with Neo Group, a global advisory firm. One of our leading partners, QlikView, awarded us with a 'Special Recognition' honor in its Annual Global Partner Summit for winning the largest QlikView implementation deal, globally.



HUMAN RESOURCE – OUR VALUABLE ASSETS AND CSR

Our people are at the heart of our business and a valuable asset. It has always been the focus of the Company to encourage innovative and realistic ideas. We are deeply committed to our employees' ongoing development and nurture in them a positive attitude and a thinking mind.

We are also focused on serving our communities in which we operate, as part of our corporate social (CSR) responsibility. We continue working through our non-government organization (NGO) DESIRE Society, to provide healthcare and support services through a project, Sahaya, in Medak district, Andhra Pradesh, India.



IN CONCLUSION

The next year holds enormous promise for Blue Star Infotech, most importantly for what it offers for the industry at large. According to Nasscom, the leading trade association of Indian Information Technology and Business Process Outsourcing industry, during fiscal 2014, the Indian IT industry grew by 9.7% to USD 118 billion and is estimated to grow in excess of 13% in dollar terms during fiscal 2015. At 14.3%, IT services is expected to be the fastest growing segment in fiscal 2014, generating exports of USD 52 billion driven by a combination of solutions around disruptive technologies such as SMAC, Business Intelligence (BI) and embedded systems.

Your Company is strongly positioned to deliver the benefits of information technology in an increasingly challenging macro-economic environment. The transformational steps we have taken to become more relevant to our customers have facilitated us to grow faster than the market. Without question, Blue Star Infotech stands out as a distinctive player and will keep generating value for our clients, our employees and the society at large.

In closing, I would like to thank all of our people for their continued commitment and dedication to serving our customers. We would also like to thank our customers, shareholders, partners and supporters for their unwavering trust in the Company. By working together, we will build a stronger, profitable and sustainable business.

We look forward to your continued support.

Sincerely,

Suneel M Advani
Chairman and Managing Director

Sunil Bhatia
Chief Executive Officer and Managing Director

Place: Mumbai
Date: 6 June, 2014

Key Performance Indicators (Consolidated)

STATEMENT OF INCOME



Total Income (₹ Crores)

FY13	195.16	41.7%
FY14	276.57	GROWTH

Operating Profit (₹ Crores)

FY13	10.26	149.9%
FY14	25.64	GROWTH

Profit After Tax (₹ Crores)

FY13	4.99	198.0%
FY14	14.87	GROWTH

RETURN TO SHAREHOLDERS



Earnings Per Share (₹)

FY13	4.80	198.3%
FY14	14.32	GROWTH

Dividend Per Share (₹)

FY13	2	100.0%
FY14	4	GROWTH

KEY RATIOS



EBIDTA Margin

FY13	5.3%	175.5bps
FY14	9.3%	INCREASE

Return On Shareholders' Funds

FY13	5.6%	264.3bps
FY14	14.8%	INCREASE



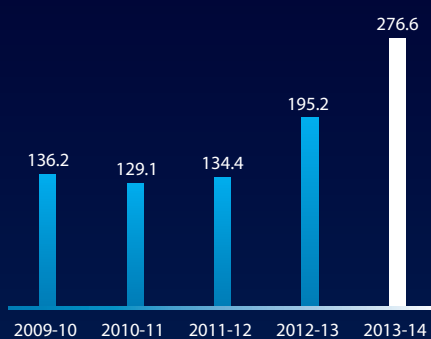
Ten Year Financials (Consolidated)

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

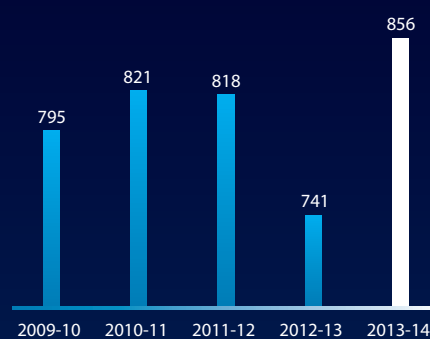
	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
OPERATING RESULTS										
Total Income	276.57	195.16	134.43	129.12	136.17	156.74	145.69	120.83	93.35	106.97
Export Sales	231.95	150.40	89.93	90.55	105.61	130.40	113.03	96.57	73.65	91.37
Operating Profit (PBITD)	25.64	10.26	9.81	15.35	17.35	19.12	7.57	13.41	8.44	15.20
Profits after Tax	14.87	4.99	3.57	8.40	13.78	15.55	4.91	9.07	4.16	9.46
Dividend (incl. tax)	4.86	2.43	2.41	3.49	5.85	5.85	2.93	4.62	2.28	5.70
Retained Profit	10.01	2.56	1.16	4.91	7.93	9.70	1.98	4.45	1.88	3.76
FINANCIAL POSITION										
Paid-Up Capital	10.39	10.39	10.39	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Reserves	90.25	78.85	71.87	74.45	69.72	57.32	50.29	48.31	43.87	41.98
Shareholders' Funds	100.64	89.24	82.26	84.45	79.72	67.32	60.29	58.31	53.87	51.98
Short-term Investments (Liquid)	-	1.13	5.55	17.22	27.51	11.64	-	-	2.51	10.75
Cash and Cash Equivalents	21.01	28.67	22.81	10.65	10.13	11.07	16.40	7.36	4.80	5.00
Market Capitalisation	121.82	58.73	74.98	100.85	112.90	47.95	60.65	93.65	107.00	132.83
OTHER INFORMATION										
Number of Shareholders	13,121	13,439	14,153	14,470	15,213	15,281	15,557	16,379	17,655	18,025
Number of Employees	856	741	818	821	795	858	901	828	583	589
Office Space (Sq. Ft.)	64,000	64,000	55,000	55,000	65,000	65,000	65,000	65,000	65,000	95,000
PERFORMANCE INDICATORS										
Earnings per Share (in ₹)	14.32	4.80	3.49	8.40	13.78	15.55	4.91	9.06	4.16	9.46
Dividend per Share (in ₹)	4.00	2.00	2.00	3.00	5.00	5.00	2.50	4.00	2.00	5.00
Book Value per Share	96.91	85.93	79.21	84.45	79.72	67.32	60.29	58.31	53.87	51.98
Return on Shareholders' Funds	14.78%	5.59%	4.34%	9.94%	17.29%	23.11%	8.14%	15.55%	7.73%	18.19%
Return on Average Capital Employed	15.66%	5.82%	4.28%	10.23%	18.74%	24.39%	8.28%	16.17%	7.87%	18.88%



Total Income (₹ Crores)



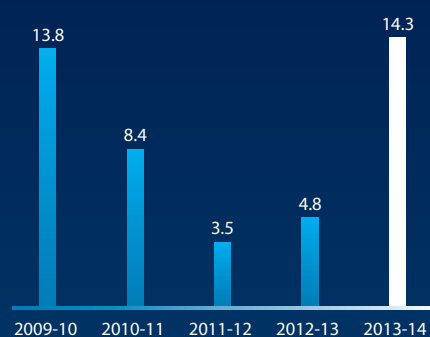
No. of Employees



Operating Profit (₹ Crores)



Earnings Per Share (in ₹)

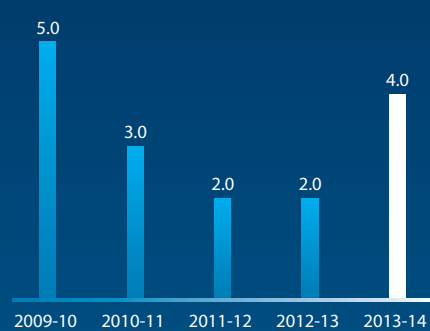


No. of Clients



■ No. of Clients (>1 Million) ■ No. of Clients (>5 Million)

Dividend Per Share (in ₹)



2013-2014 at a glance

GLOBAL FOOTPRINTS



- Expanded its global presence by opening offices in Malaysia and Canada

STRENGTHENING OF LEADERSHIP TEAM



- Appointed Nishith Mathur as the Chief Operating Officer of the Company (in effect from April 28, 2014)
- Appointed Rohit Sinha as Head of Sales for outside Americas (Rest of world)

INVESTMENTS AND ACQUISITIONS



- Made a strategic alliance and investment in the equity of Activecubes Solutions India Pvt. Ltd., operating in the Business Intelligence and Analytics Space
- Acquired the minority stake in Blue7 Solutions LLC (a JV between Blue Star Infotech America Inc. and Trisept Technology LLC, Inc) in Milwaukee, WI, USA, which is now a fully owned subsidiary of Blue Star Infotech America Inc.

DELIVERY EXCELLENCE



- Successfully facilitated implementation and roll out of Microsoft Dynamics ERP for a leading digital media technology company in 10 Asian countries besides US and UK

STRATEGIC WINS



- Won a multi-million dollar deal from a large commodities trading and logistics company with turnover of more than 100 billion USD
- Won a SAP ERP support contract from a large Oil and Gas Corporation in Malaysia
- Won a deal to provide core software services to one of the world's largest financial corporation that ranks in Fortune 500
- Won a significant deal to provide mission-critical platform for future business requirement to one of the leading relocation companies in the Indian subcontinent, the Middle East and Asia
- Won a multi-million dollar deal from a prominent telecom player for providing services in the Business Intelligence and Analytics space
- Won a device testing deal from a multi-billion \$ Fortune 500 company

AWARDS AND ACCOLADES



- Company's wholly owned subsidiary, Blue Star Infotech (America) Inc. received "Special Recognition For The Year" award by QlikTech at Qonnections 2014, their annual Global Partner Summit
- Certified by DSI® for Enterprise Mobility Implementation Services