



THE YASH BIRLA GROUP

2012-2013

26th Annual Report

Melstar Information Technologies Limited



MELSTAR

A Software Services Company

Business Philosophy

"To follow ethical and transparent business practices with all its customers, vendors and employees. Build long-term relationships based on mutual trust and benefits. Development of people and society in all countries where Melstar has its operations."



Vision

"Create a World class I.T. Organization in terms of technology and people; providing outsourcing services in developing and supporting e-commerce solutions, software applications and business consulting."

"Develop and deploy cutting-edge Products and Solutions catering to Financial Services and Technology Business."

SEI: CMM Level - III Assessed

ISO-9001 : 2008 Certified

**Registered and Corporate Office**

Melstar House, G-4, M.I.D.C. Cross Road 'A', Andheri (East), Mumbai - 400 093

Tel . +91(22) 4056 6464 Fax : +91(22) 2831 0520

Email : info@melstar.com, Visit us at : www.melstar.com

Corporate Identity Number (CIN): L99999MH1986PLC040604

BOARD OF DIRECTORS

- Mr. Yashovardhan Birla Chairman (Upto 07.11.2012)
- Mr. P V R Murthy Director
- Mr. Anoj Menon Independent Director (Upto 21.03.2013)
- Mr. Rajesh Shah Independent Director
- Mr. M. S. Adige Independent Director
- Mr. Richard D'Souza Managing Director (w.e.f. 23.05.2013)

Auditors

M/s. Kanu Doshi Associates

Chartered Accountants
Mumbai

Bankers

Bank of India
HDFC Bank Limited

Registrar & Share Transfer Agent

Link Intime India Private Limited
(Unit - Melstar Information Technologies Limited)
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West)
Mumbai - 400 078
Tel.: 2596 3838 / 25946970 Fax: 2594 6969
E-mail: rnt.helpdesk@linkintime.co.in

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

- Mr. Richard D'Souza

COMPANY SECRETARY

- Mrs. Dhara Mirani

BRANCH OFFICE LOCATIONS**Bangalore**

335, Connection Point,
Mezzanine Floor, Airport Exit Road,
Bangalore - 560 017
Tel.: +91 (80) 2522 5737

Chennai

Ramani Residency,
2nd Floor,
8, Maharaja Surya Rao Road,
Alwarpet, Chennai - 600 018
Tel.: +91 (44) 4211 0322 / 24
Telefax : +91 (44) 4211 0323

Hyderabad

Sravana Complex, 3rd Floor
Plot No. 8-2-269/19/S/2
Beside L.V. Prasad Eye Hospital Lane,
Road No. 2, Banjara Hills,
Hyderabad - 500 034
Tel.: +91 (40) 2355 1392
Telefax : +91 (40) 2355 1391

Pune

403, Picasso Plaza, 4th Floor,
NIBM Chowk, Kondhwa Main Road,
Pune - 411 048.
Tel. : +91 (20) 2683 6094
Fax : +91 (20) 2683 6392

Kolkata

301, Aahrini Action Area - 1,
New Town,
Kolkata - 700 156.
Tel. : 09903399853
Fax : (033) 40671033

Gurgaon

SCO 18-19, Sector 14,
Gurgaon - 122 001
Haryana
Tel.: +91 (0124) 4080 842 / 43 / 44
Telefax : +91 (0124) 4080 845

OVERSEAS SUBSIDIARY**Melstar Inc.**

33, Wood Avenue South,
Suite 600,
Iselin, New Jersey 08830
Tel. : 732-744-3399
Fax : 732-744-3400

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NOTICE

Notice is hereby given that the Twenty-Sixth Annual General Meeting of the members of Melstar Information Technologies Limited, will be held on **Friday the 20th September, 2013 at 3.00 p.m. at Hall of Harmony, Discovery of India Building, Nehru Centre, Dr. Annie Besant Road, Worli, Mumbai – 400 018 to transact the following business:-**

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2013 and the Profit and Loss Statements for the year ended on that date together with the Reports of Directors and the Auditors thereon.
2. To appoint a Director in the place of Mr. Rajesh Shah, who retires by rotation at this meeting and being eligible, offers himself for re-appointment.
3. To appoint M/s Kanu Doshi Associates, Chartered Accountant as Statutory Auditors of the Company to hold the office from the conclusion of this Meeting until the conclusion of next Annual General Meeting and to fix their remuneration.
4. To authorise the Board of Directors to appoint Branch Auditors, in consultation with the Statutory Auditors of the Company, for the existing overseas branch offices in the US and UK to act until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, to pass, with or without modification(s), the following resolutions:

5. As an Ordinary Resolution:

“RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof for the time being in force), Mr. Richard D'Souza, who was appointed as an Additional Director pursuant to the provisions of Section 260 of the Companies Act, 1956 be and is hereby appointed as Director of the Company under the provisions of the Articles of Association of the Company.”

6. As a Special Resolution:

“RESOLVED THAT as per the recommendation of the Remuneration Committee and pursuant to the provisions of Sections 198, 269, 309, 310, Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 and any statutory modifications or enactment thereof and all guidelines for managerial remuneration issued by the Central Government from time to time and subject to such other approvals as may be necessary, the consent of the Company be and is hereby accorded for the appointment of Mr. Richard D'Souza as Managing Director of the Company for a period of two years with effect from May 23, 2013 to May 22, 2015 on the remuneration and perquisites and terms and conditions as set out in the Agreement entered into between the Company and Mr. Richard D'Souza.

RESOLVED FURTHER THAT subject to the limits prescribed from time to time in Section II of Part II of Schedule XIII of the Companies Act, 1956 and the conditions prescribed therein, the remuneration payable as aforesaid shall be paid to Mr. Richard D'Souza as minimum remuneration, notwithstanding that in any financial year of the Company during the term of his office as such, the Company may have made no profits or inadequate profits.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to review, revise, increase or enhance the remuneration, perquisites and benefits to be paid or provided to Mr. Richard D'Souza (including the minimum remuneration) in accordance with the relevant provisions in the Companies Act, 1956 and/or the rules and regulations made thereunder and/ or relaxation or revision in the Guidelines for Managerial Remuneration as may be made and/ or announced by the Central Government from time to time.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to take such steps and to do all such acts, deeds, matters and things as may be necessary, expedient or desirable to give effect to the above resolution.”

Registered Office:

Melstar House
G-4, MIDC
Cross Road 'A',
Andheri (East),
Mumbai - 400 093.
Mumbai, 29th July, 2013

By Order of the Board of Directors
For **MELSTAR INFORMATION TECHNOLOGIES LIMITED**

Dhara Mirani
Company Secretary

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXIES IN ORDER TO BE EFFECTIVE MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to Special Business under Item No. 5 and 6 is annexed hereto.
3. The Register of Members and the Share Transfer Books of the Company will be closed from FRIDAY THE 13th September, 2013 to FRIDAY THE 20th September, 2013 (both days inclusive).
4. Members are requested to:
 - a) intimate any change in their addresses to the Company's Registrar and Share Transfer Agents, Link Intime India Private Limited, C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West), Mumbai – 400 078.
 - b) quote client ID and DP ID numbers in respect of shares held in dematerialised form and ledger folio number in respect of shares held in physical form in all the correspondence.
5. Members / Proxies are requested to bring Annual Report and attendance slip duly filled in.
6. Corporate members are requested to send a duly certified copy of the board resolution authorising their representative to attend and vote at the annual general meeting.
7. Pursuant to Clause 49 of the Listing Agreement the details of the Directors seeking appointment/ reappointment at the ensuing Annual general Meeting is provided in the Corporate Governance Report.
8. Members holding shares under multiple folios in the identical order of names are requested to consolidate their holdings into one folio.
9. Members desirous of getting any information about the accounts and operations of the company are requested to address their queries to the Secretary of the Company at least ten days in advance of the meeting so that the information required can be made readily available at the meeting to the extent possible.
10. The Annual Accounts of the Subsidiary Company and the related detailed information will be made available to shareholders of the holding Company seeking such information at any point of time. The Annual Accounts of the subsidiary company will also be kept for inspection by any shareholders at the registered office of the holding Company. The holding Company will furnish a hard copy of details of accounts of subsidiary to any shareholder on demand.
11. Ministry of Corporate Affairs, New Delhi ("MCA") has taken a "Green Initiative" in the Corporate Governance by permitting paperless compliances by companies vide its Circular No. 17/2011 dated April 21, 2011 and Circular No.18/2011 dated April 29, 2011 that the service of documents by a company can be made through electronic mode instead of sending the physical copy of the document(s) to its shareholders. With a view to support the green initiative of the MCA, Annual Reports for Financial Year 2013 of your Company has been sent via Electronic Mode (E-mail) to the Members whose E-mail ID was made available to us by the Company's Registrar and Share Transfer Agents. We are sure that the Members would also like to support the green initiative of the MCA. We request members to register / update their e-mail address with their Depository Participant or the Company's Registrar and Share Transfer Agents, in case they have not already registered / updated the same.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956:

Item Nos. 5 and 6

Mr. Richard D'Souza, aged 66 years is a B.Sc. (Honours), MBA (XLRI), A.M.I.I.I.E, A.C.M.A, A.C.S, and LL.B. He has around 43 years of experience in Industry including 7 years as an Independent Management Consultant and he has worked in both multinational corporations as well as Indian Companies.

His 43 years experience encompasses all facets of management i.e. Strategic Planning and Direction, Top Management Positions, Organization Analysis, Business Process Engineering, Marketing of IT Product and Services Distribution, Major Accounts Management, Brand Building and Brand Equity.

Mr. Richard D'Souza was appointed as Chief Executive Officer of the Company with effect from 1st April 2009. Additionally he was appointed as Manager of the Company for the period of 3 years from 05.05.2010 till 04.05.2013. The terms of his appointment as Manager expired on 04.05.2013. He is on the Board of Melstar Inc.

Board of Directors of the Company in their meeting held on 23rd May, 2013 appointed Mr. Richard D'Souza as an additional Director pursuant to the provisions of Section 260 of the Companies Act, 1956 and Article 139 of Articles of Association of the Company.



Being an Additional Director of the Company, he holds office up to the date of this Annual General Meeting. The Company has received a notice along with a deposit in terms of Section 257 of the Companies Act, 1956, from a member, proposing the candidature of Mr. Richard D'Souza for the office of Director of the Company.

Further, in the same Board Meeting held on 23rd May, 2013, and as per the recommendation of the remuneration Committee, Mr. Richard D'Souza was appointed as Managing Director of the Company, with immediate effect, for a period of two years, subject to the approval of shareholders. In terms of Article 158(2) of the Articles of Association, Mr. Richard D'Souza shall not be liable to retirement by rotation till he continues to hold such office. The terms and conditions of the appointment are as under:

Mr. Richard D'Souza : Managing Director

Period 2 (two) years i.e. 23.05.2013 to 22.05.2015

As Managing Director, Mr. Richard D'Souza shall be responsible for the company's business affair as entrusted to him subject to the direction, supervision and control of the Board of Directors.

I. Remuneration: Mr. Richard D'Souza shall be entitled to a salary, perquisites, allowances & benefits not exceeding Rs. 60 Lacs per annum.

Perquisite includes insurance, security charges, maintenance and repair of the house and the furniture, fixtures and furnishings therein, gas, electricity and water along with all amenities, facilities and utilities, Club Fees: Fees of Corporate/Health Clubs (not exceeding 2 clubs), Medical Reimbursement: Medical expenses incurred by the Managing Director for himself and his family shall be reimbursed by the Company, either directly or through Mediclaim Insurance, Leave Travel Assistance: The Managing Director shall be eligible for Leave Travel assistance for self and family once in a year in accordance with the rules of the Company.

Valuation of perquisites: Perquisites mentioned in above shall be evaluated in accordance with the Income Tax Rules, 1961 wherever applicable, and in other cases at the actual cost to the Company.

Minimum Remuneration: Notwithstanding anything herein contained, where in any financial year, during the currency of the tenure of Mr. Richard D'Souza, as Managing Director of the Company, if the Company has no profits or its profits are inadequate, the company will pay remuneration by way of salary and perquisites as specified above in excess of the ceiling prescribed under Schedule XIII of the Companies Act, 1956 or any other law or enactment for the time being or from time to time in force.

II. Conveyance: Free use of Company's car for the work of the Company along with driver, insurance, petrol, cost of repairs, overhauling, maintenance and garage rent.

Communication Facilities: The Company shall bear all expenses of the Communication facilities installed at the Managing Director's residence including but not limited to Telephones (landlines/mobiles), Faxes, Computers/Laptops, Internet Connection.

III. Leave: The Managing Director shall be eligible for leave as per Rules of the Company and encashment of leave at the end of tenure.

The Company's contribution to the Provident Fund, Superannuation Fund (or other benefit permissible in lieu thereof) or annuity fund will be as per the rules of the Company and the same will not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.

Gratuity payable in accordance with the gratuity Scheme of the Company provided that it does not exceed one half month's salary for each completed year of continuous service.

Note: For the purpose of perquisites stated above, family means the spouse, the dependent children and dependent parents of the appointee.

The perquisites indicated in **Category-III** shall not be included in computation of the ceiling on remuneration specified in **Category-I** of this section.

Disentitlements: The Managing Director shall not be entitled for sitting fees for attending meetings of the Board of Directors or Committee thereof.

The Managing Director shall not, as long as he continues to be Managing Director of the Company, be liable to retire by rotation.

Interest: Mr. Richard D'Souza is concerned and interested in the above matter. No other director of the Company is concerned or interested in the above matter.

The Board recommends the resolution as set out in Item No. 5 and 6 of the Notice for Members' approval.

Additional General Information

Additional Information as required in accordance with the provisions of Schedule XIII is given hereunder –

- a) Nature of industry – Software consultancy, development and related services
- b) Date of commercial production – The Company was incorporated on 12th August 1986 as a private company and is in operation since then. However, the present activities were commenced in the year 1997.

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- c) Financial performance of last 5 years based on given indicators - As per the audited financial results for the year ended 31-03-2013:

(Rs.)

	2012-13	2011-12	2010-11	2009-10	2008-09
Revenues	220,349,391	545,120,003	26,18,92,039	20,39,28,749	19,26,01,371
Net (Loss)/ Profit after Tax	(14,484,393)	14,617,030	14,626,249	(2,98,11,806)	(1,13,13,840)
Paid up Share capital	142,831,390	142,831,390	142,831,390	14,28,31,390	14,28,31,390
Net Worth	122,121,900	136,634,757	122,236,092	10,77,08,221	13,75,99,579

- d) Net foreign exchange earnings of the company during the past five years –

Year	Inflow Rs.	Outflow Rs.
2008-09	1,63,55,588	1,62,90,533
2009-10	1,34,43,383	1,58,08,226
2010-11	93,94,142	76,34,351
2011-12	1,13,06,940	98,93,848
2012-13	21,967,169	20,871,420

- e) Personal Information:

Mr. Richard D'Souza, aged 66 years is a B.Sc. (Honours), MBA (XLRI), A.M.I.I.E, A.C.M.A, A.C.S, and LL.B. He has over 43 years of experience in Corporate/Industry executive including 7 years as an Independent Management Consultant.

His 43 years experience encompasses all facets of management i.e. Strategic Planning and Direction, Top Management Positions, Organization Analysis, Business Process Engineering, Marketing of IT Product and Services Distribution, Major Accounts Management, Brand Building and Brand Equity.

- f) Job profile and suitability:

Mr. Richard D'Souza is responsible for the overall conduct and management of business and affairs of the Company. This includes development of domestic and international business providing strategic direction to business units of the Company. Review of software services being rendered and prevailing competition, enhancement of efficiencies and rationalization of the cost. This coupled with his strong resource management capability and knowledge of software industry makes him fully suitable for the position.

Considering his qualifications and expertise in overall management functions, he is competent to carry on the responsibilities presently entrusted to him by the Board of Directors.

- g) Past remuneration drawn by Mr. Richard D'Souza as Chief Executive Officer & Manager (01.04.2012 to 31.03.2013):

Particulars	Rupees
Basic Salary	33,00,000
Company's contribution to PF/FPF	396,000
Other perks	943,584
Total	46,39,584

- h) Remuneration Proposed – As indicated above I.

- (i) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person:

Taking into consideration the size of the Company, the profile of the appointee, the responsibility shouldered by him and the industry benchmarks, the proposed remuneration is reasonable and fairly competitive with the remuneration packages paid by other companies to similar senior level appointees.

The minimum remuneration proposed as above has been approved by the Remuneration Committee and Board of Directors in their meeting held on 23rd May, 2013.

- j) Reason for loss or inadequacy of profits / steps taken or proposed to be taken for improvement:

The main reasons are decrease in sales due to extreme competition, pressure on margins and non-renewal of some major contracts having good margin and ultimately drop in profits of the company.

The Company is focusing on its core competencies and using sometimes-outsourced technology service providers to help improve productivity, develop new products, reduce business risks and manage the operations more effectively.



k) Expected increase in revenues and profits in measurable terms:

In the competitive environment, it is difficult to estimate revenues /profits in measurable terms. However, the management has framed strategies and developed execution plans to improve profitability by checking the losses. Curtailing costs and other operational expenses, maximizing use of existing offshore infrastructure facilities, expansion of client base, etc will continue to receive aggressive attention and the management is confident of reasonable increase in revenues and profits during the coming years.

l) Disclosure on pecuniary relationships:

Mr. Richard D'Souza does not have any other pecuniary relationship with the Company and its managerial personnel, directly or indirectly.

m) In the event of loss or inadequate profits, Mr. Richard D'Souza shall be entitled to receive remuneration as indicated in the Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

n) The approval for his appointment as Managing Director is sought by way of a Special Resolution as required under Schedule XIII to the Act.

As per the general circular of Ministry of Corporate Affairs (MCA) dated 14.07.2011, no approval of Central Government is required for appointment of Mr. Richard D'Souza as Managing Director of the Company.

The terms of appointment of Mr. Richard D'Souza, as set forth in this notice, may be treated as the abstract under Section 302 of the Companies Act, 1956.

o) **Disclosure:**

- 1) Mr. Richard D'Souza does not hold any interest in the capital of the Company. Further Mr. Richard D'Souza does not have any other direct or indirect interest nor is he related to any other directors or promoters of the Company at any time during the last two years before or on the date of appointment.
- 2) Mr. Richard D'Souza is also Director in Melstar Inc.

**By Order of the Board
FOR MELSTAR INFORMATION TECHNOLOGIES LIMITED**

Place : Mumbai

Date : 29th July, 2013

**(DHARA MIRANI)
COMPANY SECRETARY**

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Twenty Sixth Annual Report together with the Audited Statement of Accounts of your Company for the year ended 31st March, 2013.

1. FINANCIAL RESULTS

(Rs. in Lakhs)

	2012-13	2011-12
Net Sales / Income From Operations	2,036	5,287
Other Operating Income	33	57
Operating Profit / (Loss) before interest and Depreciation (PBIDTA)	(123)	208
Finance costs	81	46
Depreciation	84	86
Operating Profit / (Loss) before tax	(288)	76
Other Income, net	135	107
Net Profit / (Loss) before tax and Exceptional Item	(153)	183
Exceptional Item	-	-
Net Profit / (Loss) before tax and after Exceptional Item	(153)	183
Provision for taxation	8	(37)
Net Profit / (Loss) after Tax	(145)	146
Deficit Brought Forward From Previous Year	(81)	(227)
Balance carried to Balance Sheet	(226)	(81)
Face value of Equity Shares (in Rupees)	10	10
EPS-Basic and Diluted (Before Exceptional Item) (in Rupees)	(1.01)	1.02
EPS-Basic and Diluted (After Exceptional Item) (in Rupees)	(1.01)	1.02
Book value per Share (in Rupees)	8.55	9.57

2. OPERATIONS

The total sales of the Company for the financial year ended on 31st March, 2013 were Rs. 2,036 Lakhs as against Rs. 5,287 Lakhs during the last financial year ended on 31st March, 2012. Similarly the net (Loss)/Profit before tax and Exceptional Item during the same periods were Rs. (153) Lakhs and Rs.183 Lakhs. This reduction in sales and net (Loss)/ Profit before tax and Exceptional Item is on account of no sale of software products due to thin margin, general slowdown in the economy, in-sourcing by existing clients, higher attrition rate and higher cost of hiring.

The Consolidated Group sales stood at Rs. 2,105 Lakhs against Rs. 5,353 Lakhs during the preceding year. The Consolidated Group net (Loss)/ Profit before tax and Exceptional Item during the year was Rs. (139) Lakhs as against Rs. 186 Lakhs in the previous year.

3. DIVIDEND

In view of the carried forward losses the Directors regret their inability to recommend any dividend to the Equity Shareholders of the Company for the year under review.

4. SUBSIDIARY COMPANY

As on 31st March, 2013, the Company has only one wholly-owned foreign subsidiary, viz. Melstar Inc., in U.S.A.

The operations of Melstar Inc. on standalone basis for the year under review are as under:

	2012-13		2011-12	
Particulars	Foreign currency	Indian Rs.	Foreign currency	Indian Rs.
Revenue	US\$ 131,320	Rs. 69 Lakhs	US\$ 137,136	Rs. 66 Lakhs
Profit After Tax	US\$ 29,816	Rs. 16 Lakhs	US\$ 8,598	Rs. 3 Lakhs

The profit during the current year was mainly on account of sundry balances written back of US\$ 29031 (equivalent to Rs. 16 Lakhs).

In view of the slowdown in the IT Industry of USA, no new projects were procured. However, the Company has delivered the existing projects successfully. The Company is looking for new projects with better margins during the current financial year.

5. FINANCIAL STATEMENTS OF SUBSIDIARY

In terms of General Circular issued by the Central Government under Section 212(8) of the Companies Act, 1956 vide Circular No. 5/12/2007-CL-III dated 08th February, 2011, it was decided to grant general exemption from attaching copies of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and the Report of the Auditors of the Subsidiary Companies to the Balance Sheet of the Company provided certain condition are fulfilled. However, as required under the aforesaid approval, a summarized statement of financial position of the subsidiary has been appended to the Annual Report elsewhere. In terms of Accounting Standard 21 issued by the Institute of Chartered Accountants of India, the Consolidated Financial Statements includes the financial information of the Subsidiary Company.

6. FUTURE PROSPECTS / OUTLOOK

Your Company is continuously working on strengthening the business. Your Company has been successfully executing major orders from prestigious customers and it has been enjoying the confidence of all customers across the country with repeat orders. Your Company has embarked on improving margins in all products by reducing the variable cost and rationalizing the fixed costs. The results of these initiatives are expected to yield in improving the overall profitability of the Company further during the current year.