

# Business India

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## Into the heat

**It's a balancing act between growing too fast and being kept out of global markets with a diminutive size. Blue Star Infotech has its task cut out**



Advani is on the lookout for acquisitions

PHOTOS: PALASHRANJAN BHARDWAJ

What does air-conditioning, high-end electronic equipment and software services have in common? The answer is not much, except when they come from the country's leading refrigeration company. Air-conditioning and refrigeration are really the public face of Blue Star, the Rs570-crore publicly listed company. But what is less well known is that this company was among the earliest in the country to sell high-end technology equipment and start software development. In 1954, it was the exclusive distributor for Honeywell, Perkin Elmer and Scientific Atlanta. But the biggest and most lucrative deal, which created the foundation for a huge business opportunity 30 years later, was signed with Hewlett Packard in 1970.

Comments Suneel Advani, vice-

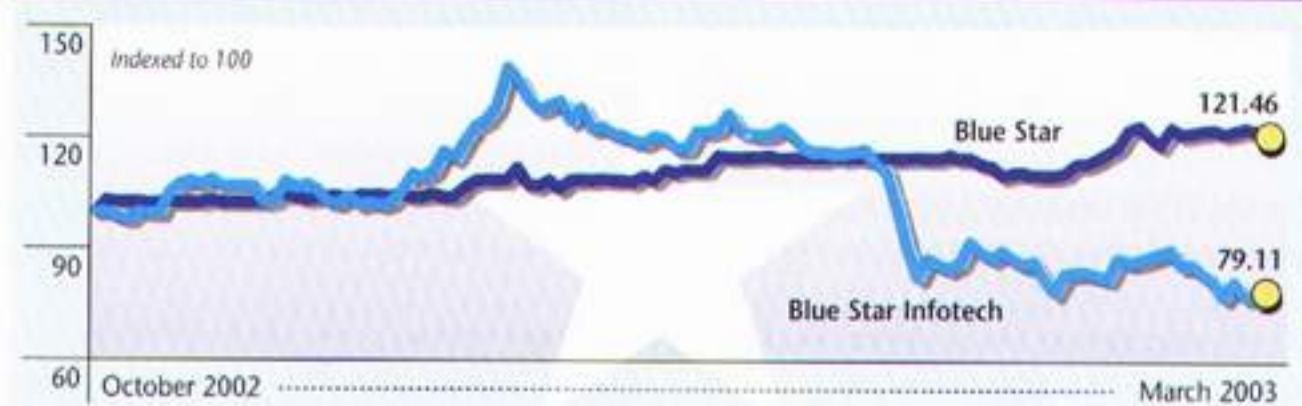
chairman and son of the promoter of the refrigeration company, on the initial reasons for dabbling in software development. "We knew the hardware side of it and software development was an extension of that competence." Another reason was the pride the family had in being known as 'good engineers', with the late Mohan T. Advani, his father, starting the company 50

years earlier. "We had a natural affinity for anything engineering, and software was also engineering. So we got into it." Suneel's brother Ashok is also on the board as chairman.

But all was not well in software services. Most projects resulted from relationships with customers of other divisions. There was no real independent marketing and little customer focus and accountability, which was to have consequences in the future. While it was subsequently elevated to a formal 'international software division' status, its revenue was only a small part of the total. With activities in low key, it could not attract top talent. On the plus side, the long-term focus in specialised software built a niche in the global market. System software development for the HP3000 server division was now being outsourced to Blue Star. The engagement with Hewlett Packard coupled with the software stockmarket boom of the 1990s, gave the management confidence to spin off the software division as a separate company. In August 2000, two years after the decision was taken, Blue Star Infotech was listed (see *Business India*, 6 January 2000).

While the company was being spun off, Advani experimented with people to run the show. But Blue Star Infotech's low profile, something that had affected its growth in the past, still lived on. "I hired one or two people to head the business but the results were not as good as they could be," he says. The lack of visibility meant that Advani was unable to find a "real professional" to head the business. That's when he got in head-hunter Egon Zehnder. His brief to them was simple. Sell the company, sell the job and pull out the right guy from the top-rung software companies. That's how they found Parmod

### STRONG BUY WITH HIGH RISK



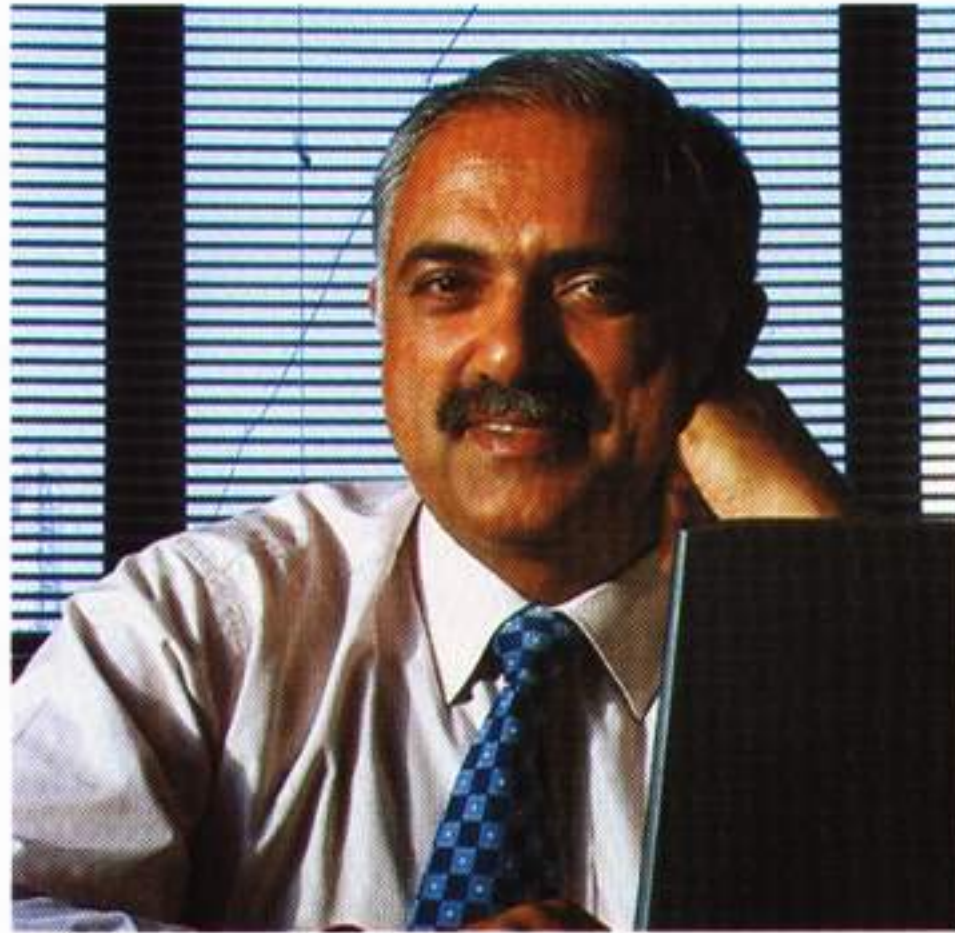
Bhalla of ex-HCL fame.

After coming on board Bhalla found he would have to contend with internal challenges before looking outward. His first task was to get employees to understand the transformation from a software development group to a professional services organisation. He explains, "When you are doing work for yourself or in-house customers you get away with a lot. In a services company you need to polish up whatever you do and there is a lot of extra work happening." Bhalla's initiative to bring in software processes was viewed as extra workload and met with open resistance. The entire sales team had to be rebuilt and a new delivery head brought in. An important factor for him through this early crisis was a free hand from the board members. "They were very supportive," he says.

### Down to business

This was probably the only internal challenge, but Bhalla continues to face a host of external ones. Working for 20 years under the parent company has meant discovering its strengths. "Even after so many years there was practically no mentionable projects top of mind." But they soon discovered this was a misnomer. As an example, Blue Star Infotech started working on Java projects for European company 3M in 1997, when Wipro and HCL had not even entered this area.

Since the year 2000, the revenue of the company has increased from Rs43 crore to Rs62 crore in 2002, with an average growth rate of 22 per cent. This is still well below the industry average for the same period, which was 54 per cent. The business has been segregated into five divisions. Their contribution to the revenue in the quarter ending December 2002, were business applications 40 per cent, global research 26 per cent, systems integration 15 per cent, banking and finance 10 per cent, an consulting 10 per cent. Looking at revenue by



*Facing up to biggies on the same turf is Bhalla's toughest challenge*

geography, the company appears to have a well-rounded distribution across the US, Europe, Asia-Pacific and the domestic market (see table).

Still in early stages of operations, the company has roughly 80 per cent of its human resources offshore and only 20 per cent onsite. It has been quickly ramping up with the number of employees increasing from 325 in 2000 to 564 in 2002, and expects to reach 1,000 by 2004. The employees are distributed across six development centres in Mumbai, Bangalore and Kuala Lumpur. It has also improved productivity per employee by increasing the utilisation rate of employees.

## Steady climb

With the current stock price hovering between Rs130 and Rs150, Devang Shah and Tejas Doshi of Sushil Finance Consultants recommend the stock as a "strong buy with high risk". The analyst firm describes high risk as associated with low predictability and high volatility. With EPS estimates of Rs18 in 2003 and Rs24 in 2004, and estimated P/E ratios of 10 and 8 in the same years, according to the November 2002 report, the current price is still at a discount. While the company has a guidance of 30 per cent growth in 2003, analysts are retaining their growth estimates of 36.5 per cent for the year ending

From 60 per cent in 2000, it has increased this to close to 80 per cent in 2002. Bhalla points out, "We have a zero bench policy." The company has ISO9001 and SEI CMM-I level 5 certification for its processes.

Blue Star Infotech is aiming at becoming a frontline player. But with a turnover of less than Rs100 crore, it's more of a third-rung, niche player. So how does Bhalla reconcile aspiration with reality? "You can still be both by being a significant player in one of the segments," he says. For Blue Star Infotech it is the vertical technology market that is its "stable wicket", where there are few competing players

and where it has a long base line of operations. While its core competence is in research services, in order to build mass the company has no choice but to focus on generic areas like business applications.

### Customer ahoy

The company is attempting to put its customer portfolio into an optimum state of balance. The Hewlett Packard account, a combination of services to HP Invent and Agilent – now owned by Philips, contributes between 30 and 35 per cent of the revenue. Top five customers contribute as much as 65 per cent and top 10 as much as

June 2003. Ganesh Duvvuri of B&K securities points out that according to the guidance the HP account is expected to grow by 50 per cent. That alone will push the revenue growth in 2003 by more than 40 per cent. Their forecast for the stock is also 'buy'. Analysts are upbeat about the stock for a number of reasons — the preferred vendor status given by HP to Blue Star Infotech, the HP3000 migration opportunity, the recently formed Malaysian joint venture, and possible future acquisitions. The current holding within available shares are: promoters 47 per cent, Indian public 37 per cent, private corporate 8 per cent, Indian FI's 8 per cent, others including foreign FI's 1 per cent. ♦

