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The Board of Directors
Blue Star Limited
Kasturi Building, Jamshedji Tata Road,
Mumbai - 400 020,
India

The Board of Directors
Blue Star Infotech Limited
8th Floor, The Great Oasis,
Plot No D-13, MIDC, Andheri (East),
Mumbai – 400 093,
India

29 September 2015

<u>Sub: Recommendation of equity share exchange ratio for the proposed amalgamation of Blue Star Infotech Limited and Blue Star Infotech Business Intelligence and Analytics Private Limited with Blue Star Limited ("Proposed Amalgamation") jointly by B S R & Associates LLP ("B S R") and SSPA & Co. ("SSPA")</u>

Dear Sirs,

We refer to the engagement letter dated 30 June 2015 and addendum to the engagement letter dated 14 September 2015 with B S R wherein Blue Star Limited ("BSL") and Blue Star Infotech Limited ("BSIL") (collectively referred to as the "Clients", "Companies", or "You") have requested B S R to recommend an equity share exchange ratio in connection with the Proposed Amalgamation of BSIL and its wholly owned subsidiary Blue Star Infotech Business Intelligence & Analytics Private Limited ('BSIB') with BSL ("Proposed Amalgamation"); and the engagement letter dated 18 September 2015 with SSPA wherein BSL and BSIL have also requested SSPA to recommend an equity share exchange ratio for the Proposed Amalgamation of BSIL and BSIB with BSL (together referred to as "Specified Companies").

B S R and SSPA are collectively referred to as the "Valuers" or "we" or "us", and individually referred to as "Valuer" in this joint Valuation Report ("Valuation Report"). Further, BSIB, being a wholly-owned subsidiary of BSIL, would also be the beneficiary to this Joint Valuation Report.

SCOPE AND PURPOSE OF THE VALUATION REPORT

We understand that the Board of Directors of the Companies propose to amalgamate BSIL and BSIB with BSL. The Appointed Date for the Proposed Amalgamation is 1 April 2015. This is proposed to be achieved by way of a scheme of amalgamation under Section 391 – 394 of the Companies Act, 1956 and other applicable provisions of the Companies Act, 1956 and/ or the Companies Act, 2013. Under the Scheme of Proposed Amalgamation, as consideration for their equity shares in BSIL, the shareholders of BSIL will be issued equity shares of BSL. As given to understand by the Management, BSIL is contemplating to sell its entire IT Business and Analytics Business (together referred to as "Businesses") through a business transfer agreement for cash. Subject to satisfactory fulfillment and accomplishment of the transfer of Businesses, there will be an amalgamation of BSIL with BSL. Thereafter, BSIB will amalgamate with BSL, subject to satisfactory fulfillment and accomplishment of

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B S R & Associates LLP, 1st Floor, Lodha Excelus, Apollo Mills Compound, N.M. Joshi Marg, Mahalaxmi, Mumbai-400 011, India. Chartered Accountants amalgamation of BSIL with BSL. Further, with reference to the information and explanation provided by the Management, we understand that the Scheme is to be implemented in different parts; wherein one of the parts, which refers to the amalgamation of BSIL with BSL, as a result of which BSIB will become the wholly owned subsidiary of BSL, further in the other part of the said Scheme, the amalgamation of BSIB with BSL will be concluded and all the equity shares of BSIB held by BSL shall be cancelled and deemed to be cancelled without any further application, act or deed. Moreover, BSL shall not be required to issue / allot any shares to the members of BSIB and their will not be any change in the shareholding pattern of BSL. Hereafter, taking in to consideration the above mentioned facts, we are of the view that there is no obligation to carry out valuation of BSIB as there is an amalgamation of wholly owned subsidiary with its to be parent company, i.e. BSL.

B S R and SSPA have been requested by the Board of Directors of the Companies to submit a letter recommending an equity share exchange ratio, as at date of this report, in connection with the Transaction. This Valuation Report may be placed before the audit committee, as per SEBI Circular CIR/CFD/DIL/5/2013 dated 4 February 2013, as amended by CIR/ CFD/DIL/8/2013 dated 21 May 2013 and, to the extent mandatorily required under applicable laws of India, may be produced before judicial, regulatory or government authorities, in connection with the Transaction.

The Valuers have been appointed severally and not jointly and have worked independently in their analysis while arriving at a consensus on equity share exchange ratio, are issuing this Valuation Report.

BSIL informed us that they have appointed ICICI Securities Limited ("ISEC") to provide fairness opinion on the recommended equity share exchange ratio for the purpose of the aforesaid amalgamation. Similarly, BSL informed us that they have appointed Axis Capital Limited ("Axis") to provide fairness opinion on the recommended a equity share exchange ratio for the purpose of the aforesaid amalgamation.

We have carried out a relative valuation of the equity shares of BSL and BSIL with a view to arrive at the equity share exchange ratio of BSL and BSIL for the Proposed Amalgamation.

This Valuation Report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the Valuation Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

SOURCES OF INFORMATION

In connection with preparing this Valuation Report, we have received the following information from the management of the Companies ("Management"):

- Audited financial statements of the Companies for the historical period from their publicly available annual reports[1];
- Quarterly financial information as published by the Companies;
- Consolidated Management Business Plan for BSL;
- Standalone Management Business Plan for BSIL and its subsidiaries;

[1] For BSL, Audited Financial Accounts (Consoldiated) as on 31 March 2015 has been considered since the same was not available for 30 June 2015

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- Interviews and discussions with the Management to augment our knowledge of the operations of the Companies;
- Draft Composite Scheme of Amalgamation ("Scheme");
- Other information, explanations and representations that were required and provided by the Management
- For our analysis, we have relied on published and secondary sources of data, whether or not made available by the Clients. We have not independently verified the accuracy or timeliness of the same; and
- Such other analysis, review and enquires, as we considered necessary.

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The service does not represent accounting, assurance, accounting/ tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This Valuation Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; and (ii) the date of this Valuation Report. Further, based on the consolidated balance sheet of BSL as on 31 March 2015 and adjusted standalone provisional balance sheet as on 30 June 2015 post considering the aforesaid transfer of Businesses.

A valuation of this nature is necessarily based on (a) prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on and (b) the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this Valuation Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Valuation Report.

The recommendation(s) rendered in this Valuation Report only represent our recommendation(s) based upon information received by the Companies till 29 September 2015 and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). Further, the determination of equity share exchange ratio is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single equity share exchange ratio. While we have provided our recommendation of the equity share exchange ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the equity share exchange ratio of the equity shares of BSIL and BSL. You acknowledge and agree that you have the final responsibility for the determination of the equity share exchange ratio at which the Proposed Amalgamation shall take place and factors other than our Valuation Report will need to be taken into account in determining the equity share exchange ratio; these will include your own assessment of the Proposed Amalgamation and may include the input of other professional advisors.

In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data.

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In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and formed a substantial basis for this Valuation Report and (ii) the accuracy of information made available to us by the Companies. We have not carried out a due diligence or audit of the Companies for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided. We are not legal or regulatory advisors with respect to legal and regulatory matters for the Proposed Amalgamation. We do not express any form of assurance that the financial information or other information as prepared and provided by the Companies is accurate. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.

Our conclusions are based on these assumptions and information given by/ on behalf of the Companies. The Management of the Companies have indicated to us that it has understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and its impact on the Valuation Report. Also, we assume no responsibility for technical information (if any) furnished by the Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the Valuation Report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Companies, their directors, employees or agents. In no circumstances shall the liability of a Valuer, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this Valuation Report shall exceed the amount paid to such Valuer in respect of the fees charged by it for these services.

The Valuation Report assumes that the Specified Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Specified Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Valuation Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in Period Balance Sheet of the Specified Companies. Our conclusion of value assumes that the assets and liabilities of the Specified Companies, reflected in their respective latest balance sheets remain intact as of the Valuation Report date.

This Valuation Report does not address the relative merits of the Proposed Amalgamation as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

No investigation of the Companies' claim to title of assets has been made for the purpose of this Valuation Report and the Companies' claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

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The fee for the Engagement is not contingent upon the results of the Valuation Report.

We owe responsibility to only the Board of Directors of the Companies which have retained us, and nobody else. Each of us have been appointed severally and not jointly and we will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of the other. We do not accept any liability to any third party in relation to the issue of this Valuation Report. This Valuation Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose. It is understood that this analysis does not represent a fairness opinion.

This Valuation Report is subject to the laws of India.

Neither the Valuation Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement. Further, it cannot be used for purpose other than in connection with the Proposed Amalgamation, without out prior consent. In addition, this Valuation Report does not in any manner address the prices at which equity shares will trade following consummation of the Proposed Amalgamation and we express no opinion or recommendation as to how the shareholders of either Company should vote at any shareholders' meeting(s) to be held in connection with the Proposed Amalgamation.

BACKGROUND OF THE SPECIFIED COMPANIES

Blue Star Limited

BSL, a public limited company, is engaged in the central air-conditioning, commercial refrigeration, plumbing and firefighting services. The equity shares of BSL are listed on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE") and has its registered office at Kasturi Building, Jamshedji Tata Road, Mumbai - 400 020, India. It reported consolidated total revenue of INR 31,904.3 million with a net profit (after adjustment for minority interest) of INR 541.8 million for the year ended 31 March 2015.

The shareholding pattern of BSL as at 30 June 2015 is as follows:

Category	% shareholding
Promoters and Promoter Group	39.46
Institutions – FII	6.54
Institutions – DII	21.17
Non Institutions	32.83
Total	**100.0**

Source: BSE

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Blue Star Infotech Limited

BSIL is an information technology and software services company offering technology, consultancy and outsourcing services in India and internationally. The equity shares of BSIL are listed on BSE and NSE and has its registered office at 8th Floor, The Great Oasis, Plot No D-13, MIDC, Andheri (East),

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Mumbai – 400 093, India. It reported consolidated total revenue of INR 2,706.4 million with a net profit of INR 181.6 million for the year ended 31 March 2015.

The shareholding pattern of BSIL as at 30 June 2015 is as follows:

Category	**% shareholding**
Promoters and Promoter Group	51.78
Institutions – FII	-
Institutions – DII	2.21
Non Institutions	46.01
Total	**100.0**

Source: BSE

Blue Star Infotech Business Intelligence and Analytics Private Limited *(formerly known as Activecubes India Private Limited)*

BSIB, incorporated in 2006 in Bengaluru, India, is a wholly owned subsidiary of BSIL. It is a business intelligence and analytics services provider company with business in the US and India. Its services spans key areas such as sales, marketing, supply chain, operations, and risk management. The company provides its solutions to global clients across financial services, consumer packaged goods, retail, telecom, and health care.

APPROACH - BASIS OF AMALGAMATION

The Proposed Amalgamation contemplates the amalgamation of BSIL and BSIB with BSL pursuant to the Scheme.

Arriving at the equity share exchange ratio for the Proposed Amalgamation of BSIL with BSL, this would require determining the value of the equity shares of BSIL in terms of the value of the equity shares of BSL. These values are to be determined independently but on a relative basis, and without considering the Proposed Amalgamation.

There are several commonly used and accepted methods for determining the value of the equity shares of a company, which have been considered in the present case, to the extent relevant and applicable, including:

1. Comparable Companies' Multiples method
2. Market Price method
3. Discounted Cash Flows method
4. Net Asset Value method (NAV)

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It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions,

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the conditions and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for Proposed Amalgamation of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

Comparable Companies' Multiple (CCM) / Guideline Company method

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifest through stock market valuations of listed companies and the transaction valuation. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

Though we have analyised EV/Sales and EV/EBITDA of comparable companies of both BSL and BSIL for our valuation analysis, we have not assigned any weights to this method as BSL and BSIL are listed stocks, fairly traded with reasonable volumes.

Market Price Method

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in. Further, in the case of an amalgamation, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the shares of BSL and BSIL are listed on BSE and NSE and there are regular transactions in their equity shares with reasonable volumes. In the circumstances, the share price of BSL and of BSIL over an appropriate period has been considered for determining the value of BSL and BSIL under the market price methodology.

Discounted Cash Flows ("DCF") Method

Under the DCF method, the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

Appropriate discount rate to be applied to cash flows i.e. the cost of capital.

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This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and lenders), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To the values so obtained generally from DCF analysis, the amount of loans is adjusted to arrive at the total value available to the equity shareholders. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share.

For the purpose of DCF valuation, the free cash flow forecast of BSL is based on Management Business Plan as provided by the management of BSL. We have not used DCF method for BSIL because, as given to understand by the management of BSIL, BSIL is contemplating to sell its entire Businesses through a business transfer agreement for cash. Therefore, post this transaction, BSIL would be left only with cash, surplus asset and other non-operating excluded assets and liabilities not forming part of the aforesaid transaction. Hence, DCF method for BSIL has not been considered appropriate.

We must emphasize that realisations of free cash flow forecast will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material. While carrying out this engagement, we have relied extensively on historical information made available to us by the management of BSL and the Management Business Plan for future related information. We did not carry out any validation procedures or due diligence with respect to the information provided/ extracted or carry out any verification of the assets or comment on the achievability and reasonableness of the assumptions underlying the Management Business Plan, save for satisfying ourselves to the extent possible that they are consistent with other information provided to us in the course of this engagement.

To arrive at the total value available to the equity shareholders of BSL, value arrived above under DCF method is adjusted, as appropriate, for cash and cash equivalent, borrowings, cash receivable on exercise of outstanding employee stock options ("ESOPs"), surplus assets, contingent liabilities, value of investments, proposed dividend (including DDT) and other matters. The total value is then divided by fully diluted equity shares (considering ESOPs) to arrive at the value per equity share.

Net Asset Value (NAV) Method

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. A scheme of amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. In such a going concern scenario, the relative earning power is of importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability and hence, we have not considered this method for valuation for BSL.

As discussed in the DCF method above, BSIL would be left with cash, surplus asset and other non-operating excluded assets and liabilities not forming part of the aforesaid transaction, hence NAV method for BSIL will be considered as appropriate.

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BASIS OF AMALGAMATION

The basis of amalgamation of BSIL and BSIB into BSL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending an equity share exchange ratio of equity shares it is necessary to arrive at a single value for the equity shares of BSIL and of BSL. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

We have assigned appropriate weightages to the value per equity share of BSIL and BSL, arrived using the Market Price Method, DCF method and NAV method, to value the equity shares of BSL and BSIL.

The Valuers have been appointed severally and not jointly and have worked independently in their analysis and after arriving at a consensus on equity share exchange ratio, are issuing this Valuation Report.

In view of the above, and on consideration of the relevant factors and circumstances as discussed and outlined hereinabove, we recommend the equity share exchange ratio of equity shares for the amalgamation of BSIL into BSL at 7 (seven) equity shares of BSL of INR 2 each fully paid up for every 10 (ten) equity shares of BSIL of INR 10 each fully paid up.

Respectfully submitted.

For B S R & Associates LLP
Chartered Accountants
Firm Registration No: 116231W

Mahek Vikamsey
Partner
Membership No: 108235

Dated: 29 Septeber 2015

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For SSPA & Co.
Chartered Accountants
Firm Registration No: 128851W

S. A. Shah.

Sujal Shah
Partner
Membership No: 045816

Dated: 29 Septeber 2015

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