Business Standard
25 December 2007

intelenet
IMPACT your world

Call forward

Six months after its MBO, Intelenet is changing its growth strategy

By Leslie D'Monte


Managers as stakeholders: CEO Susir Kumar (fourth from right) who led Intelenet's management buyout, with other senior executives

In June, when Intelenet Global Services was acquired by the Blackstone Group for around $200 million, the move generated huge speculation over the long-term prospects of this Mumbai-based business process outsourcing (BPO) firm.

There was certainly enough scope for speculation. For one, the deal involved the exit of two high-profile stakeholders — HDFC and Barclays. The banking, finance, and insurance services (BFSI) vertical then accounted for almost 60 per cent of Intelenet's revenues, and Barclays was a major customer, accounting for almost 25 per cent of its revenues. Would Barclays, which was planning to set up its own captive BPO in India, continue to give business?

Besides, the Intelenet acquisition was a management buyout (MBO) — Blackstone owns 80 per cent of the company, while the current management team accounts for the rest. This is only the second in the BPO sector following the 2002 buyout of the Delhi-based EXL Service Holdings, funded by Oak Hill Capital Partners. In an MBO, the investor backs the purchase of a company by the existing management. Much of the success of an MBO depends on the strategic investor and the capabilities of the existing senior management to evolve into the role of an employer.

Six months down the line, Blackstone's move appears to be proving right. Intelenet Chief Executive Officer Susir Kumar, who led the MBO deal, expects to end this financial year with a turnover of around Rs 950 crore (current turnover is around Rs 400 crore). A significant part of the projected revenue will be the result of a change in strategy — focusing on travel as a key growth area and reducing the dependence on the BFSI segment.

As a first step towards growing its global delivery footprint, Intelenet recently shelled out $75 million on two acquisitions in the travel space. Earlier this month, it bought out the Mauritius-based company (name not disclosed) that owns global BPO firm Upstream, and Travelport ISO, the India-based captive operation of the Travelport group. Upstream employs over 1,200 people across three on-shore delivery centres in the US, two near-shore delivery centres in Latin America and an offshore delivery centre in Mauritius. Travelport offers voice, BPO and finance, and accounting services to global travel bands and employs 1,100 people across two locations in India. With these additions, travel's share of revenue is expected to increase substantially, from 4 per cent at present to 25 per cent by end FY08.

> **Intelenet is expecting to more than double its current turnover by the end of this financial year. It is focusing on travel as a growth area and reducing the dependence on the BFSI segment**

Equally importantly, the deals also help Intelenet reduce its dependence on the BFSI segment (which now accounts for 40 per cent of its revenues) and Barclays, which remains its largest customer. Besides, the Barclays connection was hampering the Indian company from establishing a nearshore presence in the US, since it preferred to work with partners in that country. Now, Intelenet will be able to expand its delivery footprint from only offshore centres to an on-shore and near-shore capability, based out of the US and Latin America. Recently, the company also set up a greenfield delivery centre in the Philippines. It also has plans to add new geographies like Mauritius and build upon multiple language capability portfolios with Spanish and French.

Company executives believe there is another plus to the HDFC and Barclays exit — the presence of two big banks created a conflict of interest when Intelenet prospected for other BFSI clients. "They were great promoters and we are grateful for their unstinted support, especially in the formative years. But banks are conservative in their approach and have to deal with several regulations. There was only so much they could do," explains Kumar.

"Everything is working well for Intelenet. It has a strong management team, is striking good alliances, and acquiring companies that should give its global footprint a boost. Moreover, it has a very good private equity partner to back its plans," notes Pradeep Udhas, global partner in charge, sourcing advisory, KPMG. The Blackstone connection is helping in subtle ways. Typically, after an MBO, it takes at least five to six years before the firm is back in the black. Blackstone has underwritten Intelenet's growth for the next five years by giving it sufficient time and resources (evident from the acquisitions) to build the business. It is also playing a mentor's role — the Blackstone management has been introducing the Intelenet senior management directly to all the CEOs of its portfolio companies. Blackstone has investments in over 100 companies, which are spread over different geographies, and whose combined revenues exceed $124 billion. "This helps us pitch directly for solutions," explains Kumar.

Besides, Blackstone has four board seats in the BPO, one of which is occupied by James Quella, senior managing director and senior operating partner in the corporate private equity group. Kumar points out that Quella is responsible for reducing costs of the portfolio companies. One way of reducing costs is through outsourcing, which implies more business for Intelenet.

Cost cutting is likely to be top-of-mind for most American companies in any case, as a fallout of the subprime crisis and the slowdown in the economy there. Given that the US is the largest market for the BPO industry, if Intelenet manages to capture even a fraction of this new business for its nearshore and offshore operations, it will be a huge boost to the bottomline.

To ensure that, Intelenet is also strengthening its domestic business, since it also provides a natural hedge against the rising rupee. It has around 60 domestic clients, spread across the BFSI, telecom and manufacturing sectors, besides business from call centres. It has 19 delivery centres in India and multi-language capabilities. "We expect this business to grow at 40 per cent year on year," Kumar adds.