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Homeward bound: BPOs take local call to boost business

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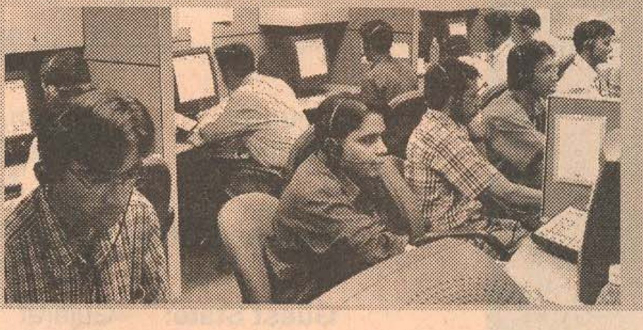
- Domestic BPO exhibited steady growth of 20% in FY07
- Annual revenue for 2008 is estimated to be $1.6bn
- Domestic BPOs leveraging tier II & III cities
- BFSI, Telecom, consumer goods and Airlines /Transport lead the outsourcing trend



In a bid to diversify their risk in the backdrop of a US slowdown and a fallout from the sub-prime crisis, which has affected the BFSI sector, Indian business process outsourcing (BPO) units have begun training their sights on the domestic market. The deal sizes for the BPO segment have increased to $5-50 million from just a few hundred thousand a year ago.

"The deal sizes are going up and are in the range of $5-50 million. For mature companies, the margins on the onsite business are anywhere between 14-18 per cent while offshoring gives them 8-15 per cent depending on the cost of operations," says Rajesh Jain, executive director, KPMG.

The opportunity is huge as figures show. A Valuenotes Database study indicates that the domestic business process outsourcing (BPO) will achieve revenues of Rs 22,800 crore from Rs 6,900 crore in the financial year 2008. IDC figures peg the domestic BPO market, which was $1.08 billion in 2007, to touch $6.66 billion (around Rs 31,000 crore) by 2012 by growing at a CAGR of 43 per cent.

The recent merger of domestic BPO business of Spice Televentures and Spanco Telesystems and Solutions to create a single large entity shows the growth potential of the market.

The JV (yet to be named) is targeting a revenue of Rs 500 crore by the year ending March 2010. It currently employs around 10,000 people and is expected to grow to around 15,000 employees by the financial year ending March 2009. The current utilised capacity is 4,000 seats which is expected to ramp up to 7,000 seats by the end of financial year 2009 and 15,000 by the end of financial year 2010.

Leading BPOs like Intelenet, Firstsource, HTMT, and Genpact are increasing their India business by eyeing greater revenue and opening more centres in the country. Firstsource had sometime back said that it was increasing its India revenue shares from 4 per cent to 10 per cent.

Genpact, the largest BPO player, a few quarters back spoke of its intention to cater to the local markets. Pramod Bhasin, president and CEO, Genpact had told Business Standard earlier that the company's organic growth plans entail expansion and rejuvenation of its global and India business plans. He also said that the company was keen on acquisitions in Indian metros.

Another case in point is Intelenet Global Services. Domestic market contributes 25 per cent to its revenues. The company further plans to increase its India presence by opening more facilities in the tier-II and tier-III cities, specially in Punjab where it already has a centre in Mohali.

Radhika Balasubramanian, COO, Intelenet said, "While margins are still better in the international market, the domestic market is growing fast. Domestic margins are between 8-10 per cent. We plan to increase our headcount for the local markets by entering into new cities." The company is looking to add more clients in the legal and retail space in new locations to have a pan-India presence.

Essar Group firm Aegis BPO, which opened a centre in Lucknow last week has set aside $100 million (Rs 480 crore) for business expansion in India and as the company follows a linear business model, it is also contemplating a headcount increase of 25-30 per cent.