

NATURAL HEDGE

BPOs look at domestic market to drive growth, tackle Re risk

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BANGALORE

Indian back-office firms such as Firstsource Solutions Ltd, HTMT Global Solutions Ltd and Mphasis Ltd are looking at the domestic market to expand and use this as a hedge against a further appreciation of the rupee (and depreciation of the dollar) and the growing credit crisis in the US.

The BPO arms of Infosys Technologies Ltd and Wipro Ltd, India's second and third largest software exporters, are also looking for domestic business opportunities. "The main reason why we got into (domestic market) is because it acts as a hedge to our global business," says Alok Mishra, chief financial officer of Mphasis, a Bangalore-based IT services and BPO company, owned by Electronic Data Systems.

Mphasis earned revenues of Rs80 crore from the domestic market for the year to March, servicing telecom clients such as Bharti Airtel Ltd, Idea Cellular Ltd and India's largest public sector bank, State Bank of India. This was 4.5% of its total revenue of Rs1760 crore. It expects revenues from the domestic market to cross Rs100 crore in the current fiscal.

Demand for back-office services, including sales of

Indian software and BPO firms traditionally leveraged the offshore advantage in terms of cost

credit cards, managing service centres and call centres, and processing payrolls is on the rise as companies in sectors such as telecom, banking services, aviation and hospitality try to cut costs, improve efficiencies, and offer better customer service by outsourcing such functions.

"There's lot of momentum," said Sanjeev Sinha, head of domestic business at Firstsource Solutions which derived 13% of its revenues of Rs296 crore for the three months to September from local customers such as Vodafone Essar Ltd. Nearly a quarter of the 16,000 employees of Firstsource work for Vodafone, formerly Hutchison Essar Ltd.

An analyst at Everest Group, an IT and business process outsourcing research firm, said

the growth of the Indian market addresses risks related to currency volatility.

"While the international opportunity is still big, India has emerged as a good option not only from the market perspective but also as a good training ground for international business," said Vikas Jain, engagement director at Everest Group. India's software lobby group Nasscom has commissioned Everest to study opportunities in the domestic BPO sector. The study will be released by March.

Indian software and back office companies have traditionally leveraged the offshore advantage in terms of cost.

"As the dollar gets weaker against rupee, the domestic market has become the natural hedge to cover the risks," said Sandeep Agarwal, executive vice-president, Intelenet Global. Intelenet earns 20% of its revenue from subsidiary Sparsh BPO Services Ltd, which is focused on the domestic BPO market. The trend is significant in the back-office business where the on-site (at the client's location) component of contracts is non-existent. The costs of such firms are almost entirely in rupees (compared with software services firms whose costs are in a mix of rupees and dollars), and their revenues are usually



Growing bigger: Workers at Convergys, a global leader in customer billing and human resource, in Gurgaon. The domestic market for back-office services was worth about Rs4,700 crore in the year to March.

in dollars and as the local currency becomes stronger, the profitability of these firms drops. Since the beginning of the year, the dollar has declined around 12% against the rupee.

The domestic market for back-office services was worth around Rs4700 crore in the year to March. Analysts say it will grow faster this year. That growth is already evident in the performance of some companies.

HTMT Global, which operates a delivery centre in Durgapur and caters to customers in West Bengal, Bihar and Orissa, has seen its revenues grow to Rs62 crore from almost nothing in the domestic market in two years. "It is a wrong perception that margins (in domestic market) are low,"

said Partha Sarkar, chief executive officer of HTMT.

He did not disclose the operating margins of HTMT's local business. The company expects its revenues from India to rise to Rs100 crore in the year to March. Almost one third of its 12,000-strong workforce services Bharti Airtel.

Infosys has set up a separate unit to tap business opportunities in the Indian market, including the BPO sector. "We are trying to figure out what should be our focus area as the current market is heavily tilted towards call centre operations, which is not of a major interest to us," said Amitabh Chaudhry, chief executive officer of Infosys, BPO arm.

Wipro is already working with two domestic customers but as part of larger deals that

its other units have won locally. "There is no money (in) doing bits and pieces," said T.K. Kurien, president of Wipro BPO, adding, "we are looking at (offering) end-to-end capabilities." However, companies such as WNS Holdings Ltd prefer to focus on markets such as the US and Europe, though they do keep a watch on the developments in the local markets.

"We are curious about it. But it is not our focus area at present," said Neeraj Bhargava, chief executive officer of WNS Holdings Ltd, the first major Indian BPO company to lower its guidance because of the subprime crisis in the US. In October, it revised upwards revenue guidance to \$295 million for the year.

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