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Blackstone puts Mphasis on IT automation

The \$825 million investment is the firm's largest in India



By Chris Nolter

🕒 Updated on September 09, 2016, 12:25 PM ET



With the \$825 million purchase of a majority stake in IT services and technology company **Mphasis Ltd.**, Blackstone Group (BX) is making its largest-ever investment in India.

Mphasis is a 26-year-old Bangalore company traded on the **National Stock Exchange** of India and the Bombay Stock Exchange that provides outsourcing, automation and other IT services for the banking, financial services and insurance industries. The company generates about \$1 billion in sales, and is

navigating a shift in the industry as large corporations look beyond overseas outsourcing to automation to reduce costs.

The imprimatur of Blackstone helps with customer pitches, Mphasis President of Digital and Strategic Customers Dinesh Venugopal said.

"From a customer's perspective it is good to see a financial services organization being the lead investor in our company," Venugopal said. "This is the granddaddy that we need when we talk to large financial services institutions."

Blackstone closed the purchase of the stake from Hewlett Packard Enterprise Inc. (HPE) on Sept. 1. The investment is already in the plus column. Blackstone agreed to buy the stake for INR 430, and shares of Mphasis traded at INR 531 on Friday. The stock has recently topped INR 570.

Hewlett Packard acquired the stake when it bought services company and Mphasis-backer EDS for \$13.9 billion in 2008.

Despite exiting the investment, Hewlett Packard will keep its business with Mphasis. Hewlett Packard and its clients account for 23% of Mphasis's revenues. In conjunction with the sale, the company agreed to a \$990 million contract over the next five years.

"We've always been an independent company," Venugopal said, adding that the sale of the ownership position won't require Blackstone to carve operations or assets out of Hewlett Packard Enterprise.

Mphasis will continue to have a business devoted to Hewlett Packard's sales channel. "The ownership has changed," Venugopal said. "The partnership remains."

Another division, which Venugopal heads, serves 100 or so non-HP customers. About 15 are strategic clients that Mphasis believes have a particularly deep fit with its services. Every year the company reexamines the list.

"Once they become a strategic customer, there is a set of investments that happen in people, in technology, in centers of excellence" that hone services for the client, Venugopal said. Staffers on strategic accounts go through special training. "If you are going to a large bank you need to know the bank's culture—who are they, what do they do," he said.

The investment from Blackstone comes as the outsourcing industry and its clients move towards artificial intelligence and other technologies that save clients money through automation, versus sending jobs overseas.

"In the next three to five years you'll see a significant drop in the kinds of jobs that are outsourced," Venugopal said, as large corporations will reduce the human element rather than move jobs to countries with lower costs. "They will get chopped because of automation and next generation technology," he said.

On one end of the spectrum, he said, are "small, repetitive tasks" like data entry. At the other end are more challenging processes that require intelligence, whether human or machine.

ut artificial intelligence and cognitive computing industry are expanding the range of tasks that companies can automate. Venugopal cites investigations into the propriety of transactions as an example.

"In anti-money laundering investigations a lot of times you have false positives," he said. "Because the trigger points are right it goes into a queue and somebody needs to investigate that."

The investigations require employees to gather data from multiple sources, a process that Mphasis's

NextAngles unit speeds up through automation.

"You can reduce the time by 65% to 75% of what it would have taken earlier," Venugopal said.

Everyday compliance is another target for automation.

Often, companies set up elaborate systems to meet requirements of new regulations. "You put a lot of people on it and build it but you can't have the same amount of people sustain because it's very expensive," he said. By automating some tasks, companies can limit the ongoing expense.

Mphasis has used acquisitions to tap new markets. The company bought Maitland, Fla., residential mortgage processing company **Digital Risk LLC** for \$175 million in 2012.

Acquisitions in markets that are facing disruption from new technologies can be risky, he said. "In newer areas the puck moves so fast you might acquire something in a specific area and realize that area is no longer relevant."

Venugopal meets with startups ever couple of weeks in Mphasis's Silicon Valley office. If the company's products jibe with Mphasis's operations, the company explores partnerships. "If it's of interest you build a solution with them. If one of those partnerships works they become an acquisition candidate," he said.

"That whole partner ecosystem in Silicon Valley becomes very important for us," he added. "It gives us a sense of how to navigate through the next generation of services without making some bets way up front."

As Mphasis continues to navigate the advances in technologies, corporations will ratchet up the pressure on outsourcing companies.

"They say you are taking out costs for us, great job," Venugopal said, "but we think you can take out more because we have seen that automation can reduce costs by as much as half."

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