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The Financial Express, February 16, 2012

Hindustan Times, 15th February 2012

Mphasis targets banking buyouts

■ Eyes small, mid-size capital mkt firms

Kirtika Suneja
Mumbai, Feb 15

Hewlett-Packard (HP)-owned information technology-business process outsourcing (IT-BPO) company Mphasis is looking at acquisitions in the banking and capital markets sectors in the range of \$100-300 million. Sitting on a \$375-million cashpile, the company is also scouting for inorganic growth in the emerging technologies space – in payments and platforms that can be enabled to offer services.

"We are looking for small and mid-sized companies in our two focus areas of banking and capital markets along with insurance. The small buys could be less than \$100 million, while the mid-sized buys less than \$300 million," said Mphasis CEO Ganesh Ayyar, without naming the geographies where the acquisitions could take place.

The mid-tier IT firm had acquired Wyde Corporation, a US-based insurance software services provider in an all cash deal in 2011. It was the company's second acquisition in the insurance industry vertical, after AIGSS (AIG Software Systems), the AIG captive centre in India in 2009.

Mphasis is halfway through its transformation after HP acquired it, and besides inorganic growth, it is also considering a buyback that maybe announced in March, when the company announces its first quarter results.

The company had earlier stated that because it has made two acquisitions in insurance, the focus would now be on banking and capital market, and also on certain emerging technologies. The two segments were created as part of its



MPHISIS IS HALFWAY THROUGH ITS TRANSFORMATION AFTER HP ACQUIRED IT. BESIDES INORGANIC GROWTH, IT IS ALSO CONSIDERING A BUYBACK THAT MAYBE ANNOUNCED IN MARCH

new organisational structure in 2010. While banking and capital markets is a 1,310-crore vertical for Mphasis, insurance is a ₹507-crore sector.

At present, HP as a partner contributes 52% to Mphasis's revenues, down from 62% last year, while as a customer, the share is stable at 10%. Mphasis's direct non-HP revenues have increased to 38% in 2011 from 28% in 2010.

"We are looking at a combination of applications and BPO for services to grow organically and hence will hire on demand and not to increase capacity," Ayyar added. BPO is 16% of the company's business and in 2011, the company's revenue stood at ₹5,098 crore.



■ Ayyar: bright plans

MPHISIS TO REDUCE HIRING, EYES MORE ACQUISITIONS

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MUMBAI: India's seventh largest information technology (IT) company, Mphasis, will reduce its intake of fresh hires this year, faced with uncertain global economic conditions, its CEO Ganesh Ayyar told HT.

"Hiring is down from last year, we hired something like 1,700 last year, but it'll be lesser this year," said Ayyar. "The economic uncertainty outside requires us to carefully analyse our plans."

He added the company was also changing its hiring policy, focusing on replacements and meeting demand rather than building capacity, which was the norm till now. "I will not be hiring to build capacity, I will be hiring to demand, on a need basis."

Mphasis, which reported a 25% decline in its net profit at ₹822 crore, for the year ended October 31, 2011, down from ₹1,091 crore a year earlier, is scouting for more acquisitions.

Last year, it completed its third acquisition with Wyde Corporation. The company's cash kitty, which has increased to \$375 million (₹1,900 crore) from \$12 million (₹60 crore) three years back, and adding ₹70 crore every month, gives Ayyar a comfortable leverage to scout for buy-out opportunities.

"I am focused on acquisitions as it should accelerate the pace of hyper specialisation and strategic transformation, secondly, it has to make sense in terms of good use of cash," he said adding the size of the potential acquisition could be upto \$150 million (₹750 crore), and could include debt, if required.

[Nasscom India Leadership Forum 2012: Biz visibility a concern in FY 13, say mid-tier CEOs](#)

Nasscom summits typically begin with a dose of chest thumping - this year's India Leadership Forum had its fair share:

"In FY 12, the combined IT-BPO sector would cross \$100 billion in revenues."

"We are now in 70 countries with 560 delivery centres."

"Our contribution to India's GDP has grown to 7.5 per cent from 6.4 per cent in FY 08."

"There is no visible competition for us (incorrect, at least in BPO where Philippines has stolen India's thunder)."

While there is merit in many of the facts, investors and analysts appear keen to know about the future, particularly the state of the industry in 2012. While the sector's mid and long-term drivers are in place, there are too many headwinds to ignore this year.

While Nasscom projects 200,000 hires for FY 13, most of the number, it is safe to assume, would be gobbled up by the large tier firms who can trade higher volumes for lower price. How do mid-tier firms see the business climate and the demand environment?

Captains of smaller IT firms BT spoke to said that they have no visibility into what their customers would do beyond two quarters. The macros, particularly the Euro crisis, have made clients cautious - they are hoarding cash even when their business is not sluggish.

Krishnakumar Natarajan, CEO and MD of MindTree and a speaker at this year's Nasscom Leadership Forum in Mumbai said that he is not seeing too much optimism in the marketplace. There is more caution than two-three months back and decisions on spending were being delayed. "Deals are taking longer to close and there is more scrutiny of deals. Customers may not have a visibility of more than six months into their business which is affecting our ability to plan," he noted.

The axe, as of now, appears to be falling on discretionary projects. Service lines such as package implementation are headed for a nose dive. Global chief information officers (CIO), however, are not cutting back on what they call "lights on" work - things like maintenance services that is required to keep their huge data centres running.

"One would be lucky to see lower single digit growth in budgets in the US, where 60% of India's business comes from. The discretionary budgets in Europe could be slashed 10 to 25 per cent," Ganesh Ayyar, CEO of MphasiS said.

Customers, nevertheless, were willing to engage in a new way, he added. "IT firms who are able to offer solutions that help in acquiring or retaining their client's customers or solutions that can lower the cost of doing business are finding traction. Here, they are willing to try out innovative models," he said.

BFSI is one area where customers are looking for innovative solutions. Banks have to spend on regulatory processes and if Indian IT providers can help them variablize costs, more business could be in the offing.

Arvind Thakur, CEO of NIIT Technologies expects investments in business platforms that make companies more competitive or platforms that enable transformation to pick up. "If you look at the macro indicators, they are all sluggish. However, there are some signs of improvement now. In the US, there is a jobs recovery," Thakur says, sounding a bit hopeful of the future.

[M&A activity & fund-raising: Buzzwords at NASSCOM summit](#)

M&A activity seems to be the buzz word at the NASSCOM summit. Hexaware spoke exclusively to CNBC-TV18's Krithika Saxena on its sale plans.

Companies at the NASSCOM summit largely were largely talking about the conservative outlook going forward, but one important thing that M&A and fund raising action seems to be heating up in the sector.

Hexaware's perspective stake sale has been in the works since quite a sometime. Reportedly, they have been looking at selling stake and now, Hexaware chief has confirmed it to CNBC-TV18. "General Atlantic has 15% stake in Hexaware, and I would say that if they choose to exit, a very likely candidate could be another PE fund and we would enable a smooth takeover but first, they have to inform us," told Atul Nishar, chairman, Hexaware.

The company also confirmed that there were a couple of global IT players that were eyeing Hexaware from time to time. However, they didn't really confirm whether or not the promoters were confirming to selling stake or not, but yes, there are players on the hunt. If their valuation is attractive, GA definitely could sell stake and we could see a prospective sale from a global IT player. Of course, we can't jump the gun, so let us wait and keep a watch in this space.

Besides that, Mphasis for one is looking at a perspective buyback. They have around USD 370 million in their books right now and will be deciding on a buyback by March. WNS also told CNBC-TV18 that they have already raised around USD 60 million from Warburg Pincus that brought down stake from around 49% to 29%. Prospectively, Warburg Pincus could dilute further.

NDTV Profit (Prime Time)

File: [NDTV Profit Business Prime Time 14 Feb 2012 02min 16sec Mr. Ganesh Ayyar - CEO, MphasiS 20.19pm.mpg](#), 22.72 Mbytes

CNBC (India Business Hour)

File: [CNBC IBH 14 Feb 2012 05min 20sec Mr. Ganesh Ayyar - CEO, MphasiS 21.05pm.mpg](#), 53.38 MBytes