Why govt deals are high-stakes game for IT firms

Even as government projects aren't lucrative from a revenue perspective, companies fight with each other to bag the contracts

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In late March, after its refurbished portal had received a flurry of complaints, Ministry of Corporate Affairs (MCA) Secretary Tapan Ray wrote a mail to Vishal Sikka, the CEO and MD of Infosys, the service provider for the project, to fix the snags.

Ray got a reply immediately, in which Sikka committed that Infosys would do everything possible to ensure that the technical glitches do not cause any inconvenience to the users. He also assured that he would get his best people to fix it.
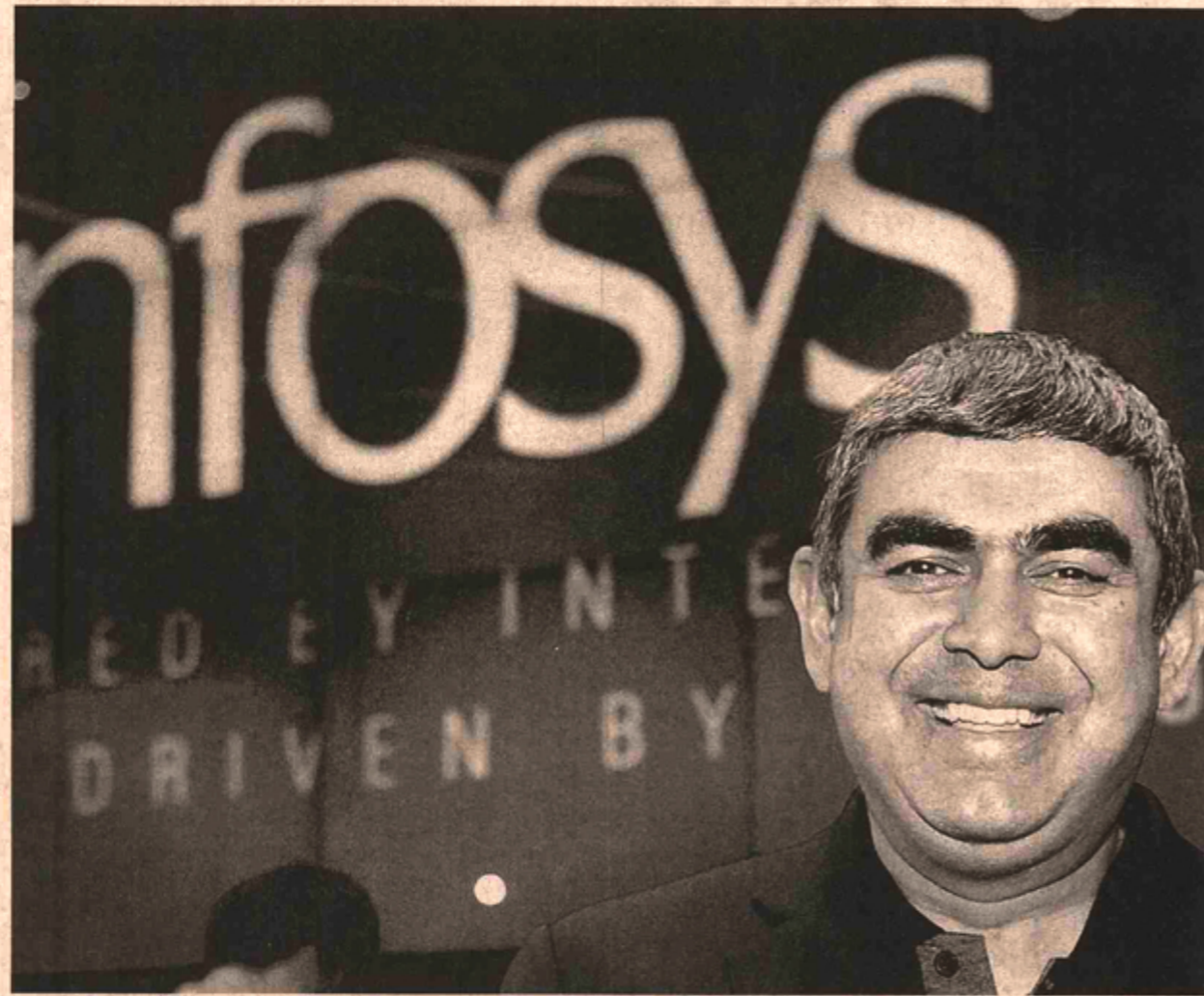
Though India is a small fraction (around 3 per cent) of Infosys' overall revenues, the quick action shows that the business is important for the company—important enough for the corner office to swing into action.

While both MCA as well as Infosys claim that the system has more or less returned to normalcy, the contract has brought to the fore many pressing issues that IT vendors usually face while serving the government.

None (or quite rarely) of the tech contracts from the government bodies is profitable. Most of the times, the project's scope and mandate are not well defined. Once signed, the project takes long to start. And during the course of the project, the service provider deals with a plethora of stakeholders at the ground level which often delays the process of knowledge and data transfer.

Besides, payments getting delayed are common. This sometimes aggravates the situation as the service provider, which often works as a system integrator, is required to pay up-front its vendors for hardware, software and other technology requirements.

"Another big issue with the Indian government clients is that building consensus among their various stakeholders is a bit challenging since they don't have processes, compared to multinational clients," says Sunil Padmanabh, independent advisor and thought leader, Digital Transformation and Enterprise Applications.

The love for govt contracts

Still, IT companies, large and small, fight bitterly to win government contracts, which are awarded to the lowest bidder, and are often decided by a wafer-thin margin.

That's perhaps because government contracts are considered a great branding tool for companies: they can take credit for playing a part in the digital transformation of India, impacting over a billion lives. It looks good on their CVs.

Take the case of Mindtree. In July 2010, the Bengaluru-based company won a contract from the Unique Identification Authority of India (UIDAI) to develop and maintain applications for the project. Even though it was quite small in size — worth just a few crores—, the company said it was more than just a contract for it.

"The UIDAI certainly has given us a lot of visibility. More than anything else, it has given tremendous confidence to the whole organisation," Krishnakumar Natarajan, executive chairman of Mindtree, had told *Business Standard* in an earlier interview. "We are of the firm belief now that even in large projects where we have the competency, we can compete against the best in the world and win it."

Another factor, industry experts believe, that makes IT companies go after government contracts is that no other country in the world except China (not a market for Indian companies) can give the scale which can test the robustness of any system. That's the reason why India of late is often becoming the testing ground for many global as well as domestic technology companies.

Fast catching up

In comparison to many other large Indian and global IT services companies, Infosys started focusing on the domestic market quite late: it set up a separate business unit for it only in 2008. Since then, the company has bagged many marquee deals in the country both in the government sector and the private sector, though the balance tilts towards the government. Currently, Tata Consultancy Services (TCS) and IBM have the largest share of the domestic IT market.

Infosys, however, is fast catching up. In the government space, the Bengaluru-based company has executed many projects including the contract to set up and manage the central processing centre of the Income Tax Department and a contract from India Post to enable it to offer banking services. Infosys has also bagged a five-year contract of around ₹1,380 crore to build and maintain the technology network for implementing the proposed goods and services tax in the country.

The MCA project came to Infosys in 2012 when the government decided to replace the original vendor, TCS. The five-year contract, worth around $50 million, required Infosys to fully automate all processes related to enforcement and compliance of the legal requirements under the Companies Act.

Infosys came in the line of fire after it came to light that the users were finding it difficult to do online registration or were facing inordinate delays. Infosys, however, said that the issue cropped up just immediately after the launch of the new portal for a few days and it has since then addressed it.

According to sources in the company, the problem happened primarily because of the lack of proper coordination between officials at various levels. "As is the case with most government contracts, whenever there is a change in the management, there is always resistance at the lower level, as happened in this case," say sources who do not want to be named.

In this case, the new system was meant to challenge the authority of the Registrars of Companies which had been enjoying unbridled power as the primary regulator for company-related matters.

"In my view, whether in the public sector or the private sector, if the customer application developed by one vendor is taken over completely and revamped by another vendor, some transition challenges can crop up. But to call it a failure is very harsh," says Neel Ratan, Regional Managing Partner (north & management consulting and government leader), Price Waterhouse.

Some experts, however, say that Infosys could have been more diligent on the execution side and the problems that surfaced could easily have been avoided by following some standard technicalities like performance testing or load testing.

Infosys Chief Executive and Managing Director Vishal Sikka. Infosys, the service provider for the Ministry of Corporate Affairs, recently drew flak for glitches on the ministry's new website

GOVT CONTRACTS: THE TWO SIDES

The upside	The downside
■ Gives a huge user base to vendors to test the ruggedness of their products and services	■ Government contracts aren't profitable
■ Provides an excellent branding exercise for technology companies through association with prestigious projects with a national resonance	■ Lead time to freeze contracts is longer; getting the projects off the ground is often delayed
■ These are fresh projects that require companies to build new IT platforms altogether. This means companies don't have to grapple with legacy systems	■ Requires vendors to work as system integrators, meaning they have to take end-to-end responsibility and invest up-front in procuring hardware and software from others
■ Given the government's focus on Digital India and Make in India, there is a lot of business to be had in the sector	■ Receivables for large Indian government clients never happen on time even if the delivery schedule is met
■ Even as these projects aren't lucrative from a revenue perspective, they can be used to engage the benched staff of IT companies and de-risk revenues	■ Competition between players is intense as contract have to be bid for
	■ Ambiguity on project definition, tendency to change project terms during the course of the project add to complexity

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> **KRISHNAKUMAR NATARAJAN,**
> Executive chairman, Mindtree