

# BPOs outperform IT firms

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The Business Process Outsourcing (BPO) companies in India appear to be handling the impact of the global economic crisis much better than IT firms.

The January-March 2009 quarterly figures tell the story. India's largest BPO, Genpact, posted a net income (profit) of \$30 million (Rs 147 crore) in the quarter — up 52 per cent year-on-year and 60 per cent sequentially (compared with the trailing quarter).

Genpact's President and CEO Pramod Bhasin attributed this to aggressive cost-reduction measures that contributed to a 3.75 per cent improvement in the adjusted income from operations margins.

"We anticipated some of the economic challenges last year. We expect many of these cost measures to be sustainable through 2009, enabling us to stay ahead of the game," Bhasin added.

EXL Service is another case in point. The company's accrued employee cost almost halved to \$7.3 million (around Rs 35 crore) in the quarter ended March 31 2008.

"We have reduced our general and administrative expenses, while continuing investments in sales and marketing to facilitate long-term growth," said EXL's President and CEO Rohit Kapoor.

IT firms, on the other hand, did not fare that well on the cost front. HCL Technologies' SG&A expenses for the quarter under consideration were Rs 450 crore — up from Rs 433 crore in the previous quarter. The IT major's EBITDA margins were also marginally down in the period.

The IT companies' performance has not matched up to that of BPOs because their clients have both non-discretionary and discretionary budgets. Of which, the latter has gone down because of the cut in IT budgets owing to the slowdown.

For example, for the first time, India's second-largest IT services provider witnessed its sequential dollar revenues fall 3.7 per cent. Moreover, while 30 new clients were added by

Infosys and its subsidiaries during the quarter, the total number of clients fell to 583 from 586 in the quarter ended September of FY09.

On the other hand, for firms like Genpact, around 85 per cent of the BPO work (accounting for 80 per cent of its revenue) is non-discretionary. For EXL, non-discretionary work accounts for around 85-87 per cent of the revenue.

"The BPO business, by nature, has more resilience com-

## WHAT'S WORKING FOR BPOS

- Less competition
- Major portion of the work is non-discretionary
- Hardly any bench strength so fewer underutilised resources
- But pricing pressures will tell on them

pared to the IT business. The nature of work with respect to the functions are close to the client and non-discretionary like customer services, payroll processes, finance and accounting and can't be done away with," said Vinu B Kartha, Partner at IT advisory firm Tholons.

Aegis BPO's Global CEO and MD, Aparup Sengupta, also added, "We have profitably grown by more than 35 per cent in the last quarter. BPOs are resilient, as most of the work is non-discretionary."

"Besides, there is a lot more competition in the IT space. The

IT industry is more mature than the BPOs and has many players and geographies to cater to. BPOs are still emerging and there are not many locations from where they operate," added Kartha.

Moreover, BPOs do not have the concept of a bench like the IT firms and therefore, there are fewer number of unutilised resources. The utilisation for BPOs is usually more than 85 per cent and the attrition, too, has come down in this quarter.

"We have 100 per cent utilisation and no bench and so, no non-productive resources," added Sengupta.

India's largest IT firm Tata Consultancy Services, which added 32,000 employees last financial year, including close to 25,000 freshers, says it is very important to ensure utilisation is at least at 74 per cent.

However, going ahead, the sailing might not be as smooth for the BPOs also. During recession, it is difficult to get new business and the existing clients also add to pricing pressures.

"More than 70 per cent of their (BPOs) revenues comes from existing clients and there is no growth coming from them. This is a cause of worry for them. Besides, there are limited new opportunities in the pipeline," said Sabyasachi Satpathy, director and co-founder, Mindplex Consulting.

Analysts say that in the long run, demand will not go up to the same level as before and to mitigate this, the BPOs will have to get more business from verticals like healthcare, media and entertainment, among others.