The Next Big Thingy

Engineering services outsourcing it is.

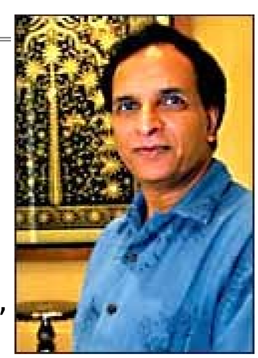
What do Boeing, Airbus, Alstom, General Motors, Ferrari, and United Utilities have in common? They all have been outsourcing their design and engineering requirements to India. The next big opportunity for India lies in engineering services outsourcing. According to a study by Booz Allen Hamilton for the National Association of Software Services & Companies (NASSCOM), global spend on engineering services is projected to spurt to $1.1 trillion (Rs 48,40,000 crore) by 2020, from $750 billion in 2004. India is well-positioned to increase its market share of engineering offshoring from 12 per cent to 30 per cent by 2020. The potential engineering market in India could exceed $60 billion (Rs 2,64,000 crore) by 2020, the study indicates.

That's one big reason the Bangalore-based QuEST is focussing sharply on this space. The company is looking at an opportunity of $7.5 billion (Rs 33,000 crore) worth of business to be generated in the aerospace segment, derived from the orders to be placed by the civil aviation sector, over the next five years. Aerospace services contribute 35 per cent to QuEST's revenues, the remaining coming from power generation, oil and gas, and transportation.

QuEST, which reported profits of $3.5 million (Rs 15.8 crore) on revenues of $28 million (Rs 126 crore) last year, has big plans for the engineering services outsourcing space. To start with, the company, which is a subsidiary of a us company called Quest Inc-in which private equity firm Carlyle Venture Fund holds a 24 per cent stake-is looking at raising $25-30 million through an initial public offering in the Alternative Investment Market (aim) of the London Stock Exchange, its founder and CEO Ajit Prabhu told BT. Japan's Nomura Securities has been appointed the investment banker to the issue. "Engineering services and manufacturing, especially in the aerospace segment, is a huge opportunity for us and we need the money to add to the infrastructure in India and make acquisitions," says Prabhu. The company requires $20 million (Rs 88 crore) to expand its existing centre in Bangalore, while it says it is close to making a $10-15 million (Rs 44-66 crore) acquisition in the US. The company is in the process of acquiring 300 acres of land in southern Indian town of Belgaum (Karnataka) to set up a special economic zone. It will set up a design ad manufacturing centre here at an investment of $25 million (Rs 110 crore). This unit is expected to commence operations in early 2008, says Prabhu.

-Anusha Subramanian

Build or Design?
Should SemIndia be making chips at all?



SemIndia's Agarwal: New design

How can a company expect to notch up revenues of Rs 100 crore even before it begins production of any kind? Simple, it acquires a firm with manufacturing facilities. Just 12 months ago, SemIndia announced its plans to make semiconductors out of India. However, the status of the $3-billion (Rs 13,200-crore) silicon wafer fabrication project is still linked to the government's announcement of a semiconductor policy. The promoters, though, weren't twiddling their thumbs. Last year, they acquired a major stake in Xalted Networks, a Bangalore-based fabless semiconductor company (such companies typically outsource fabrication work to specialised chip fabricators), for an estimated $8 million. And it's the revenues of this company with 100 engineers, which has since been rechristened SemIndia Systems, that are expected to tot up close to Rs 100 crore by the fiscal year-end.

And that is not all. "There could be more acquisitions," says Ajay M. Marathe, Chief Operating Officer, SemIndia USA Inc. Marathe was president of AMD India until he joined SemIndia last fortnight. Marathe is not alone. Joining the founding team led by us-based Vinod Agarwal, is now B.V. Naidu, who till recently was a director of Software Technology Parks of India (STPI) in Bangalore and Hyderabad. Naidu will head the FAB project.

SemIndia Systems designs and develops chips, and outsources the manufacturing to Flextronics (one of the investors in SemIndia), which in turn makes and ships them to customers; SemIndia gets the intellectual property rights, though. SemIndia is simultaneously working on having its $100 million or Rs 440 crore ATMP (assembly, test, marking and packaging) facility-put simply, it's a testing facility-up and running by the second quarter of 2008. But the big question is still on the chip manufacturing facility. While the quantum of incentives in the semiconductor policy will show the road ahead, nevertheless, at the moment, the jury is out on whether India needs to get into manufacturing at all.

"There is a pride thing about having the manufacturing," says Bryan Lewis, Research vp and Chief Analyst, Gartner. He feels the first step would be to do the homework well. "If we look at the worldwide demand, product requirements (domestically and worldwide) and at the customer base, I get a feeling it is emotion that is driving the (chip making) story and not the homework," adds Lewis. At the moment at least, he sees global capacity utilisation down to 80 per cent which means 20 per cent of capacity is just sitting there. Agrees Jodi Shelton, Executive Director of the us-based Fabless Semiconductor Association: "Access to advanced manufacturing is essential but does India need to provide that in order for its ecosystem to be complete? My answer is no.'' Her point is MNCs will always go to the leaders even if there is a foundry at their backdoor and becoming a global leader in manufacturing is a tough job. Both Lewis and Shelton, however, agree that it would make sense for companies in India to focus on building and leveraging their design skills. In terms of numbers, the message from a recent report called the India Semiconductor Association (ISA)-Ernst & Young Benchmark Study: India in the Global Semiconductor Design Ecosystem is clear: India is well-poised to play a leading role in the global semiconductor design ecosystem. Today, it has the second-largest pool of engineers (after us) employed in the semiconductor design sector, of around 75,000-just under 5 per cent of its engineering talent.

-E. Kumar Sharma

Radio Ga-Ga? Maybe

In a cluttered world, FM may be a breath of fresh air.

Radio City's Purohit: Catching up fast

Radio activation, promoting a brand through radio events, is the new name of the game in the radio industry. Radio City is the latest to join the bandwagon and add 'activation' to its range of brand value services after Red fm's 'Red Active' and Radio Mirchi's 'Mirchi Activation'. While Red and Mirchi 'activations' are in-house, Radio City has entered into an exclusive strategic alliance with the Delhi-based Vibgyor Brand Services for all non-traditional media advertising. Vibgyor will use Radio City for all radio promotions for its clients. "Our internal research and feedback from our listeners showed us that if we want to develop ourselves we have to make radio a part of the traditional media," says Apurva Purohit, CEO, Radio City. Activating helps not only in terms of revenues but also in terms of on-ground presence, visibility and an opportunity to reach out to the consumer. "We have realised that every client wants his brand to be felt, touched, sampled and seen in order to deliver immediate results and the nature of radio being 'immediacy', it fulfils the role perfectly," she adds. Adds Gautam Shahane, Head, Mirchi Activations: "Radio is local, retail, immediate and credible medium for brands. It allows access to multiple touch points through multiple creatives in a focussed area."

Abraham Thomas, COO, Red FM, explains: "Increasingly, clients want on-ground to be coupled with on-air promotions. Secondly, there is no one single-point professional agency that can execute from start to finish. Red Active is a single-point contact for the advertiser. We take over the entire process, right from the brief, to providing creative solutions to implementation to measuring response."

Thus, radio station officials claim "ownership" for the entire campaign and that is why they are attractive to advertisers. In fact, many of the companies do not pine that they do not see themselves just as a radio station but as a provider of 360 degree solutions to their clients. For instance, Mirchi Activations works with the tagline 'Not Just Radio'. To be sure, radio has its advantages. One of them is ad avoidance by listeners, which is virtually nil in radio in comparison with 68 per cent in newspaper and 44 per cent in TV. Advocates of radio also argue that it offers far tighter targeting, which means less wastage or spillover. Yet, radio, as a part of the media and entertainment industry, is still very small in India. The latest tam Adex data for the year ended 2006 shows that the radio industry garnered only 3 per cent of the total media ad market of Rs 16,300 crore-although this is a 58 per cent growth over the previous year.

-Anusha Subramanian

Knock on Sandalwood

It's early stage, and focussed on the internet, energy and tech.

To have 30 per cent of your fund dedicated to the internet sector might appear excessive, keeping in mind the low penetration levels in the country, but Silicon Valley entrepreneur Bob Kondamoori isn't bullish on online businesses just for the heck of it. "The retail sector is going to boom in India and there are two ways to get into it: Either put up a shop or go for the internet. After all, every cell phone is a fantastic broadband device," says Kondamoori, who co-founded Sandalwood Partners last October. Now Sandalwood has flagged off a $100 million (Rs 440 crore) early-stage venture capital fund focussed on cross-border investments into India and 'out of India' (that's Indian players investing abroad). Focussed on early-stage start-up companies, the rest of the fund is earmarked for energy (mainly renewable energy like wind, solar and biogas) and technology (like semiconductors and telecom-Sandalwood has invested $10 million in the SemIndia project, adding up to a 5 per cent stake in the company, the same as Flextronics). So, whilst the internet, energy and technology get 30 per cent each of the fund, the balance 10 per cent will be opportunity-led. The fund is aimed at entrepreneurs aspiring to become global market leaders by leveraging the India advantage.

With more than third of the world's population in India and China, Sandalwood Partners believes entrepreneurs from these two countries will craft disruptive business plans and models that will have a global impact for decades to come. Unsurprisingly, Sandalwood's two offices are located in Bangalore and Hong Kong.

-E. Kumar Sharma

From Russia With Love
India gets a titanium project; chance to clear rouble debt.

Russian President Putin (left) with Manmohan Singh: Trading times

Believe it or not, but a special economic zone (SEZ) project could help India clear some of its historical debt with Russia. The Indian government gets a chance to reimburse a $1-billion loan from Moscow by allowing its Russian counterpart to set up an SEZ for titanium and related industries in Orissa. During Russian President Vladimir Putin's recent visit to the country, the two nations hit upon the following formula: The technology for the $250 million (Rs 1,100 crore) titanium SEZ will come from Giredmet, the Russian state body responsible for equipment supply and construction; the latter will be authorised to pick up 30,000 tonnes of titanium dioxide, adjustable against India's outstanding debt. The aim of this transaction is clearly to keep the amount of actual cash transferred to a minimum while eating into the debt. This will also help the two time-tested allies increase the volume of bilateral trade to $10 billion (Rs 44,000 crore) a year by 2010, from the current level of $2 billion (Rs 8,800 crore).

The Centre will also finance the project as part-repayment of its debt to Russia. The proposed SEZ over 500 acres near Gopalpur will have a total titanium dioxide capacity of 40,000 tonne. Work for this SEZ will begin in mid-2007 and will be made fully operational by 2009. Rahul Saraf, whose company Saraf Agencies will develop the SEZ, as well as put up the anchor industry within the SEZ in a joint venture with the Russian government, says: "We got an in-principle approval in August 2006. So, I don't think our project will be affected by Union Cabinet's recent decision on SEZs. Otherwise, the Prime Minister would not have attended the agreement signing in presence of the Russian President." (In mid-January, a long-pending legislation on

SEZs got delayed with the Cabinet referring the matter to a group of ministers). Saraf adds that the process of land acquisition has already begun. Saraf Agencies will float a 50:50 JV with the Russian government to put up the anchor industry over 250 acres within the SEZ. The SEZ will be developed with a capital outlay of Rs 200 crore and the anchor industry will require an investment of Rs 1,300 crore.

Scientists call titanium the "metal of the future." Along Orissa's coastline resides a large source of ilmenite, equivalent to a sixth of the world's total ilmenite resources. Ironically, India has hardly been converting this ilmenite into titanium. In contrast, Russia has been a market leader in titanium sponge and pigment. Other than aircraft and aircraft spares manufacturing, titanium is also used in industries like power, chemicals, pharmaceuticals and jewellery. In developed countries, per capita consumption of titanium is 4-6 kg, while in India it's only 600 gm.

-Ritwik Mukherjee

IT's In The Picture

Media will attract $300 million of IT spending by 2010.

Technology and media (along with telecom) are often viewed as a single sector-remember TMT?-but as analysts will tell you, the media & entertainment (m&e) industry too needs its dose of technology. The sector, which is estimated to have almost doubled to Rs 36,000 crore between 2000 and 2005, is expected to attract it spending worth $300 million (Rs 1,320 crore) by 2010. That works out to a compounded annual growth rate of 32 per cent over the next four years. These numbers have been put by Delhi-based Springboard Research in a recent first-of-its-kind report titled India's Booming Media & Entertainment Industry: it Market Trend and Opportunities 2006-2010. The spends are likely to be driven by the need for Indian M&E firms to reach new markets and focus on systems that better manage and deliver their content. This is the first of its kind report on it spends by Indian M&E companies. "IT is viewed as a way to help M&E firms achieve these two business goals and deliver their content more efficiently within the Indian subcontinent," says Nilotpal Chakravarti, Market Analyst for Springboard Research.

Of the 80 media companies interviewed across media segments such as print, films, television, radio, online games and web portals, the majority of them spent more than $225,000 each on it in the past 24 months and 41 per cent of them spent more than $700,000 implementing it solutions during the same period. "Today, technology is used by all segments of the media and entertainment industry. But within the film sector it is increasing. Digital imaging is catching on in Indian film industry. Pre-visualisation happens at the scripting stage, like it happened in Dhoom-2. Cinema has become technology heavy," says Pankaj Kedia, Regional Manager (South East Asia and India), Autodesk Media & Entertainment. Autodesk's products cater to the film and advertising post-production studios, animation studios and design visualisation companies. Adds Amit Gupta, Director (Corporate Development) of Prime Focus, one of Mumbai's leading post-production studios: "Technology is key in our business."

Digitisation and streamlining content delivery and distribution are the other focus areas for the M&E companies. Last year, Subhash Chandra's Essel Group entered into a tie-up with Intel Corporation to provide digital content over its Viiv platform. Prior to that, Zee Telefilms tied up with IBM Global Services India to digitise 60,000 hours of television programming that it generates annually and 1,500 films from its library. "It's the end of TV as we know it. The next wave of TV will be known by the technology it is being delivered on," says Ashish Kaul, Vice President (Corporate Brand Development), Essel Group.

-Anusha Subramanian

One Resource to Another

Why are finance heads being shunted to human resources?

Ramping up retail: New finance route

Who's more important-the person handling a company's cash pile, or the one in-charge of the workforce? Till a few years ago, few would be asking this question-the CFO was king, and hr just another secondary function. Today, however, with a broad swathe of Indian industry witnessing a talent crunch, the hr head's role has never been more critical. So much so, CEOs are actually shunting their finance heads into the hr hot seat. Recently, T.V. Mohandas Pai vacated the CFO slot at Infosys after 12 years to move as Member of the Board- hr, E&R (education and research) & Administration. The reason given then by Narayana Murthy, Chief Mentor, Infosys, for the shuffle was: "As we continue to scale up, the major challenges for Infosys will be in the HRD and E&R areas. I am glad we have Mohan handling these critical functions." Last fortnight, another CFO moved out (after nine years of heading the finance department) to take up such a major challenge-Milind Sarwate, till recently CFO at Marico, now heads the hr function at the fast-moving consumer goods major. Vinod Kamath, who heads supply chain and it, will take over as CFO of Marico from April 2007. "I believe that Finance and hr have a meeting point in that they both are functions targeting effective use of resources-one financial and the other human. To that extent, my finance domain knowledge will contribute," says Sarwate. Adds Vardha Pendse, Director, Cerebus Consultants, an executive search and hr consultancy: "The hr function as a whole has found a new meaning today. From the earlier perspective of being looked upon as just for employee relations and personnel administration, hr is now expected to partner the business functions on various aspects such as sourcing of talent (drawing pre-hiring strategies), training, capability building within an organisation and implementation of performance management." Is your hr honcho listening?