Dialling Into India

Vodafone's Arun Sarin got into an expensive bidding war and emerged a winner. Now, he must get into a fiercely competitive market and prove that he can take Hutch-Essar from #4 to #1. By Krishna Gopalan

After much suspense, Shashi & Ravi Ruia made their plans clear to stay invested in Hutch with a long-term horizon

On the night of February 13, when Arun Sarin, the CEO of UK's Vodafone, landed in Delhi, the media went berserk. TV journalists turned delirious cheerleaders, mobbing the 52-year-old head of the world's largest mobile telecoms company as if it was the homecoming of a crusading hero. A few days earlier, when Vodafone's $18.8-billion deal to take over India's fourth-largest mobile telecoms firm, Hutchison Essar Limited (HEL) or Hutch, was first made public, the decibel-level in the Indian media had reached ear-splitting levels. Here was a British company that had just taken over what was, in a manner of speaking (after all, the 67 per cent of Hutch that Vodafone will buy belongs to a Hong Kong firm), an Indian telecoms firm and the Indian media were going ecstatic. Why?

Well, to begin with there is the Indian connection. Sarin, whose life story is now known to everyone who reads a paper or watches TV, was born in India and grew up here. So, even though he heads a British telco, his Indianness fuelled much of the media's breathlessness. Then, there was the enterprise value of the deal at $18.8 billion, which translates into Rs 82,870 crore. Vodafone's buy-out of the 67 per cent (52 per cent directly from Hutchison Telecom International Limited and economic interest underlying another 15 per cent held by the local partners) was worth $11.1 billion and it's not every day that India Inc. is rocked by deals of such magnitude. Add a third dimension to the Vodafone-Hutch story and it makes for a surefire potboiler: Sarin's Vodafone pipped several big badge-name bidders to the post, including Anil Ambani's Reliance Communications, the wealthy Hinduja family and even Hutch's own minority shareholders, the Ruias of the Essar Group.

Hello, India

Now, after the hoopla is over, let's see what Vodafone's big-ticket takeover means for everyone in the business. For Vodafone, whose biggest market is in Europe, the Hutch acquisition is a gate-pass to the fastest-growing mobile telecoms market in the world. Vodafone adds over 30 million subscribers annually in its existing markets; in India, around seven million additional subscribers sign up for mobile phones every month.

THE LURE OF HUTCH

THE UPSIDE

Vodafone gets access to the fastest growing mobile phone market in the world that is expected to touch 500 million subscribers by 2010.

Cellular penetration in rural India is below 2 per cent, but 67 per cent of India's population lives in rural India.

Hutchison-Essar is not just the #4 player, but also one of the better-run companies with higher average revenue per subscriber.

3G is set to take off in India, allowing data and video to ride on cellular networks. Vodafone already offers 3G elsewhere in the world.

India is key to Vodafone strengthening its presence in Asia, a region seen as the big telecom story.

THE DOWNSIDE

The cellular telephony market is extremely competitive, and India has one of the lowest ARPUs in the world. Besides, ARPU growth is slowing.

It has an uneasy equation with Essar, which is a one-third partner in Hutch-Essar. That could be a source of problem.

The Vodafone brand is relatively unknown in the Indian market. Building the brand will cost money and take time.

Telecom valuations are at a high and this could mean it is years before Vodafone recovers its multi-billion dollar investment.

Its big competitors are home-grown majors, who can manage the 'environment' better.

That is the essential lure of Hutch. It's not that Vodafone has not tried to get into the Indian market before. The company had a joint venture till 2003 with the RPG Group, operating mobile services in the Madhya Pradesh and Chennai cellular circles. But it sold out from that venture and it wasn't until the end of 2005 when it paid $1.5 billion to buy a 10 per cent stake in India's largest telecoms company, Bharti Airtel through a combination of direct and indirect holdings.

For Sarin, who has been steering Vodafone through a stormy patch-last year the telco posted a loss of £21.8 billion on revenues of £29.35 billion-a 10 per cent strategic stake in an Indian telco, albeit the largest in the country, was small beer. For Vodafone to get a piece of the high-growth action here he needed a bigger presence and Hutch is what gives him that. With 24.4 million subscribers, spread across 16 cellular circles, Hutch offers Vodafone more than just a toe-hold-it's a base that it can build on. The company had been on the lookout for that big-bang acquisition in India and Hutch offered an opportunity to do just that-an opportunity for which Vodafone was willing to pay a hefty price.

What Vodafone is Up Against

A bunch of fierce, home-grown competitors.

Vodafone enters India at the #4 position, but it had better not take the slot for granted. It has fierce, home-grown competitors such as Bharti Airtel, Reliance Communications, BSNL, Idea, Tata Teleservices, and Spice to contend with. The question is, how will competition react to Vodafone's entry? R-Comm, for example, was also in the race for Hutch-Essar in a bid to become the #1 player.

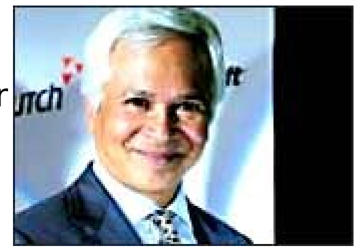
R-Comm, which offers cellular services both on the CDMA and GSM platforms, has announced plans of investing Rs 11,000 crore in 2007-08. It has a subscriber base of 28 million, and has grown the fastest since its services went commercial in the middle of 2003. At present, R-Comm's CDMA service in 21 circles accounts for the chunk of its total subscribers (31.89 million), but Chairman Anil Ambani is keen on building a pan-India presence as a GSM player.

Sunil Mittal's Bharti Airtel, with more than 33 million subscribers, is the largest player in the market today and is the only one that has a pan-India presence. With Vodafone diluting its investment in Bharti, Mittal with his other overseas investor, Singtel, is certain to move into top gear. The agreement between Bharti and Vodafone on infrastructure sharing and routing of traffic augurs well for Bharti. "The Vodafone agreement on long-distance services and leased lines should provide an upside to revenue and EBITDA of Bharti's long-distance business," says a report from Macquarie Securities. On the agreement with Vodafone for roaming (Vodafone will give 50 per cent of its global inbound roaming traffic to Bharti for three years) Macquarie points out that there will be an increase in inbound roamers in the future.

The smaller players such as Idea Cellular and Spice seem to be getting their act together as well. Idea, for instance, will be listed on the bourses shortly and, over time, intends to take the pan-India route. B.K. Modi's Spice, which is currently a two-circle operation (Karnataka and Punjab), is looking to go public and could list by May this year. "A player like Vodafone will take time to understand the Indian market. Besides, we (read: Indian consumers) do not really value foreign brands in India," says Modi. Well, Modi and the others will soon find out if that's really true.

At an enterprise value (EV) of $770 (Rs 33,880) per subscriber and an EV/EBITDA (earnings before interest, taxes, depreciation and amortisation) multiple of 16.4 for FY 08, this deal has certainly not come cheap for Vodafone. In comparison, Bharti's EV/subscriber is $690. In all likelihood, Vodafone will have to borrow $3.5 billion (Rs 15,400 crore) to finance the deal. And although the business opportunity is huge for Vodafone, some analysts have questioned the valuation. Yet, shortly after the deal was announced, Vodafone's share price rose by 1.35 per cent on February 12.

Competition Ahead



Asim Ghosh is likely to continue to head the management team in India

Besides forking out a pile, Vodafone will also will be up against serious competitors like Bharti, Reliance and BSNL, all of whom have huge subscriber bases in India and together account for 58 per cent of the 156 million Indian mobile phone subscribers. India could also pose other challenges for Vodafone. Indian operators like Bharti and Hutch earn big profits by squeezing costs although the average Indian phone call is the cheapest in the world at two cents per minute (or 88 paise). Analysts wonder whether Vodafone, whose overheads are huge, can offer low prices and yet make fat profits. Says Edelweiss Securities' Head of Research, Shriram Iyer: "Operators can lower their capital costs by sharing infrastructure. Speaking for India, there will be big subscriber growth over the next two years and it is important for operators to make entry points attractive for subscribers." In effect, the trick lies in lowering tariffs accompanied by a cost-control mechanism.

One way of doing business the Indian way would be for Vodafone to retain Hutch's Indian management team and indications are that Hutch's CEO Asim Ghosh will continue to head the business. Ghosh, incidentally, along with entrepreneur and original co-promoter Analjit Singh, holds just over 12 per cent in Hutch.

At a news conference in New Delhi on February 14, Sarin was unfazed by the competition that Vodafone will face in India, declaring: "We intend to be #1 and we will compete aggressively with them in the marketplace."

With the deal in the bag, Vodafone will now have to dilute its stake in Bharti Airtel because India's telecoms regulations do not allow it to hold shares in two telcos. The 5.6 per cent stake that the UK major holds in Bharti Airtel will be sold to the Indian promoters over time for $1.6 billion but because the balance 4.4 per cent is held in a holding company-Bharti Enterprises-there is no urgency to let go of that for the moment.

In the Indian telecoms market, nothing will change immediately. The number of operators remains the same; only the ownership of Hutch changes. The advantage for Vodafone is that it has bought a very well-run operation with a large presence in circles like Mumbai, Delhi and Gujarat, which count among the biggest revenue generating pockets of the Indian market. Says Manisha Girotra, Managing Director and Chairperson (India), UBS Securities, which advised Vodafone on the deal: "It

(Vodafone) brings to the table a strong financial backing and also technology that will help it get across to rural India."

BPL's Mumbai Circle

"A little wrinkle in the carpet," says Arun Sarin.

The Ruias of Essar may have decided to stay invested in Hutchison Essar, but they still have one issue to sort out with Hutchison Whampoa's Li Ka-shing: BPL Mobile. When the Ruias acquired BPL Communications from Rajeev Chandrasekhar in 2005, it brought along four cellular circles-Mumbai, Maharashtra, Tamil Nadu and Kerala. All the circles were merged with Hutchison Essar, except Mumbai. Why? Since Hutch-Essar was not able to get the go-ahead from the Government, Essar took Hutch-Essar to court. As things stand, the fight over the Mumbai circle has been referred to an arbitrator. Vodafone's Arun Sarin isn't losing sleep over it. When asked how he viewed the fight over the Mumbai circle, he said that, "I hope they are able to resolve it. Till then, it will be a little wrinkle in the carpet."

The worrying part for the Ruias is that the Mumbai circle is among the most lucrative in the country and uncertainty over its future will mean opportunity lost. Within Mumbai, BPL Mobile has a subscriber base of 1.06 million. But competition is intensifying. Already, BPL Mobile's growth is beginning to slow. Besides, the Aditya Birla Group-owned Idea Cellular is expected to launch its operations in Mumbai by the end of this year. Even smaller players such as Spice Telecom of B.K. Modi are looking to expand their operations and Mumbai is said to be on their radar. "The business needs to be looked at closely. BPL Mobile's valuation will only suffer if something is not done at the earliest," says a Mumbai-based investment banker.

Now that Hutchison Whampoa is exiting telecom in India, there may be chances of an out-of-court settlement with the Ruias. And if the arbitration goes Essar's way, then the Ruias may want to sell BPL Mobile to their new-found partner, Vodafone.

Hutch's healthy finances are another big gain for Vodafone. In 2006, Hutch earned a profit of more than Rs 1,000 crore on revenues of Rs 5,724 crore, making for an EBITDA margin of 32.7 per cent. Contrast that with Vodafone's revenues for 2006 at £29.35 billion and a loss of £21.8 billion.

Besides operating in the low-cost Indian market, Vodafone faces other imponderables. Like the Essar Group that owns 33 per cent of Hutch and was one of the rival bidders for Hutchison Telecom's stake that finally went to Vodafone. "It is our sincere hope that Essar will stay. But if they want to

BPL Mobile: Legal wrangle may hurt its valuation exit, we have told them that we will be willing to pay them what we paid Hutch. One does not want them to leave but at the end of the day, the choice is theirs," says Sarin. The Ruias of Essar, who have big plans for their other businesses like steel and refining, could do a lot with the more than $6 billion (Rs 26,400 crore) that could come their way should they decide to exit. But in a recent briefing to media, Ravi Ruia, Vice Chairman of the Essar Group, has said that his group does not intend to exit. "We are clear that Essar is a long-term player in the telecom industry and we have no plans to exit this company or business." Worryingly for Vodafone, it has been reported that Essar could take the legal recourse-because they felt they should have been consulted before Vodafone announced an infrastructure sharing and roaming agreement with Bharti Airtel.

Then, of course, there is the small matter of the Hutch brand and its iconic dog, a lovable pug, which it uses in its ad campaign. Many believe that eventually Vodafone would like to replace the Hutch brand with its own eponymous brand like it has done in countries like Czechoslovakia, Turkey and Romania, where it entered by taking over local companies. Says brand consultant Harish Bijoor: "Unlike fast-moving consumer goods, the process of changing a brand name in telecom is far easier since the involvement of the consumer with the service is much greater."

Having paid a bomb for Hutch, Vodafone would also be keen to see how soon it can recover its investments in India. Indians typically spend little on phones, with around 70 per cent of Indian mobile phone users preferring to opt for pre-paid services that are offered for small-ticket monthly outlays. The average revenue per user (ARPU) in India is just less than $100 a year-it is around $8 per month compared to around $10 per month in China, $59 in Switzerland and $63 in Japan. That could mean a long wait for Vodafone to recover the money it has spent on acquiring Hutch. But most Indian operators make up for low spends by playing the volume game, signing on huge numbers of new consumers every month. And, of course, by keeping costs down to a bare minimum.

Can Vodafone do that? "We are here for the very long term. The country has just 13 per cent mobile penetration, which will go up to 50, 60 or 70 per cent in the years to come," says Sarin.

CORPORATE

Satyam's Moment of Truth

It's still India's #4 IT company, but the gap between Satyam and the other Tier-I players such as TCS, Infosys and Wipro is growing. Why has Satyam lost pace and what is its founder-Chairman Ramalinga Raju doing to accelerate growth?
Venkatesha Babu

Speed needed: Satyam campus in Hyderabad

On January 19 this year, Hyderabad-based Satyam Computer Services announced its third quarter numbers. By most measures, the results were impressive. Its revenues had grown 31 per cent to Rs 1,661.1 crore compared to the same quarter in the previous year, and its net profit had jumped 25 per cent to Rs 337.2 crore. Yet, Dalal Street reacted by hammering the Satyam stock by 6 per cent on that day, wiping out nearly $500 million (Rs 2,250 crore) in market capitalisation.

What went wrong? While announcing the results, Satyam's founder-Chairman, Ramalinga Raju, said that the company was revising-downwards-its growth guidance for 2006-07: Instead of the initial projection of Rs 6,476 crore in revenues for the full year, Satyam would now be doing anything between Rs 6,434 crore and Rs 6,442 crore. Hardly a significant drop, but what miffed investors possibly is the fact that Satyam couldn't meet a target set by itself. They didn't care if the rupee was hardening (which was the actual reason for the minor revision).

Satyam vs Critics: The chinks in Satyam's armour and what it's doing to fix them.

What Critics Say

Net margins of Satyam are low compared to those of Tier-I peers. 20.3 per cent for Satyam versus, say, 27.5 per cent for Infosys*

Onsite-to-offshore ratio is skewed towards onsite, leading to lower margins

It's a late entrant to the BPO/ITeS segment

It's more of a price warrior in the market place

At $50-$55, Satyam's onsite man-hour billing rates are lower than Tier-I players' ($60-65)

Not perceived as a good paymaster in the industry, leading to higher attrition rates

Management talent is not deep enough

It has had too many spin-offs, joint ventures and subsidiaries

Satyam doesn't have significant presence in fast-growing verticals such as IMS & testing

Overly dependent on a few segments like manufacturing and package implementation

*Comparsion for the third quarter ending December 31, 2006

What Satyam Says

Margins have improved in the recent past and in the third quarter of current fiscal, they actually rose nearly 2 percentage points

Over the last three years, Satyam has improved the ratio and will continue to do so

BPO arm Nipuna set to grow 80 per cent this year

We do value-added services, including consulting

The new contracts and the existing ones being renewed are being billed at higher price

Compensation benefits and attrition rates are in line with industry standards; rated as a best employer

Have made several lateral hires at senior positions

Have integrated most of them into the parent (like Renaissance) or sold them (like Sify)

Couple of quarters not a trend. Have made investments. Bullish about growth prospects

Those are areas of strength, but have entered (over the last three years) new areas such as Healthcare & Pharma, Retail, Transportation & Logistics, which now fetch 15-20 per cent of revenues

That investors consider Satyam-the word means truth in Sanskrit-a relatively less dependable performer among the Tier-I it companies is evident from the lower price-to-earning multiple its stock commands. Compared to a multiple of 30.99 for Infosys and 33.19 for Wipro, Satyam gets just 26.8. Indeed, a Business Today analysis of industry numbers for the last five years reveals that Satyam has been the slowest-growing company in Tier-I. While Infosys has grown at a compounded annual growth rate (CAGR) of 38 per cent, TCS at 34 per cent and Wipro at 32 per cent, Satyam has managed just 28 per cent. Similarly, its bottom line has expanded at 19 per cent, compared to 32 per cent of Infosys (see Tier-I Laggard). If Satyam doesn't accelerate its pace, it runs the risk of losing its #4 position to Cognizant Technology Solutions by 2008, even if the latter merely maintains its topline five-year CAGR of 58 per cent.

"We Will Acquire, Not Be Acquired"

After delivering an upbeat message about industry prospects at Nasscom's recently concluded India Leadership Forum, Bhimavaram Ramalinga Raju Byrraju, 52, Founder-Chairman, Satyam Computers, sat down for a free-wheeling chat with BT's Venkatesha Babu in Mumbai. Excerpts:

Even, say, five years ago, Infosys was just a third bigger than Satyam Computer. But today, Infosys is more than double Satyam's size. Has Satyam lost its way a bit compared to the industry troika (TCS, Wipro & Infosys)?

No, I don't agree. Satyam has grown well in the recent past. We are the youngest of the Tier-I companies and we have done well to become the fourth-largest player in the market. But would we have liked to grow faster? Obviously, yes. I think we are well poised to accelerate our growth even further.

Despite being the fourth-largest player, Satyam seems unable to differentiate itself. For example, if Infosys is well known for its strength in the BFSI space, Wipro is known for outsourced R&D and telecom, while TCS is seen as a provider of end-to-end solutions. Where does Satyam position itself?

We have several unique strengths, not just as a services but as a solutions provider. Our strengths in the automotive sector are well known. We are the leading player in the enterprise applications (read: package implementation) space. We are extremely bullish about IMS (infrastrcture management services) and extended engineering services. We have had significant momentum in sectors like retail, healthcare and pharma, transportation and logistics. Our consulting practice is growing nicely. I think our customers understand the value we bring to the table.

You were the only Tier-I company that revised its revenue guidance (in rupees) for 2006-07 downwards. Markets responded by hammering your stock 6 per cent down in a single day, that too in a raging bull market.

Look at our third quarter numbers. We have had 31 per cent growth (compared to the same quarter of the previous year). Our margins (EBITDA) went up by more than 200 basis points. By all measures, we are doing well. The small revision in our guidance is due to rupee's appreciation. We think we have guided the investors well about current and future prospects of the company.

What are you doing to change the perception of Satyam as a price warrior? Your onsite-offshore mix is skewed towards onsite, leading to lower margins.

I completely disagree. (Slightly raises his voice), Satyam has not been a price warrior. I don't know whose perception you are talking about...

...Borne out by your margins and...

...We continue to grow our revenues and margins well. Our onsite-to-offshore mix is as per industry standards. We remain a preferred choice as employer as borne out by many surveys. (Editor's note: Satyam is one of BT-Mercer's Best Companies to work for in India.)

You were late in recognising the potential of the BPO sector. Will Satyam catch up this year?

This year, (Satyam's BPO arm) Nipuna will grow upwards of 80 per cent. So, we are already seeing significant growth. But if opportunities present (for acquisition) and if the fit is right, we will examine it. We are not ruling out anything.

Why are there persistent rumours about Satyam being a possible acquisition target for IBM?

I think we have clarified this enough number of times. (Sighs wearily) Let me repeat this: At no point of time have we had any talks with IBM or any other system integrator. I think certain vested interests might have (floated this rumour) for their own benefit. If at all we move (in that direction), we will acquire, not be acquired. Our goal is clear. To make Satyam the world's leading IT services and solutions provider.

Losing Pace

As recently as five years ago, Infosys was just a third bigger than Satyam. Today, or rather by March 31, 2007, it will be double Satyam's size. Neither Raju nor his top executives admit that there have been missteps, but the numbers speak for themselves. Why did Satyam slip where the other three Tier-I players continued to soar? One part of it has to do with Satyam's own DNA. TCS, India's oldest it services company, was launched and run by professionals, as was Infosys. Wipro is the only other large player that was family-owned and managed, except that Azim Premji managed to attract some top-notch professionals from the industry.

"All contracts, new as well as renewals, are being struck at rates comparable to those of other players in the industry"
Ram Mynampati/President **(Commercial & Healthcare business)**

Satyam, in contrast, was even more family-managed. Raju, his younger brother Rama Raju (who is the CEO) and cousin Srini Raju (he was the coo between 1992 and 2000) were the people who shaped the Satyam culture in its initial years. While the Rajus weren't techies (unlike the founders of Infosys), they were savvy entrepreneurs-the family had been in the textiles and construction businesses earlier-and imparted a risk-taking and entrepreneurial culture to the company. While that's good for any company to have, it led to Satyam chasing opportunities in a variety of areas. Satyam Renaissance was launched in 1995 to do consulting, followed by Vision Compass (a product development company), Satyam Ventures (an engineering services company), and Satyam Infoway (an internet company), among others. Most of these ventures have since been integrated with the parent company or sold off (like Satyam Infoway, now called Sify), but while they lasted, they took precious management time and energy away from Satyam Computer.

Therefore, while the it outsourcing market changed rapidly, and Indian vendors moved away from body-shopping to more value-added work, Satyam was relatively slow in making the transition. Even when Satyam won contracts going head to head with Indian or foreign competitors, it quoted lower rates to win. Says a senior manager with a competitor: "Infosys walked away from its GE relationship when the margins offered were unattractive, but even today, GE, which is known for squeezing its vendors, is the single-largest customer for Satyam. This speaks volumes about what Satyam is ready to accept."

Satyam: Will it Buy or Be Bought?

Industry experts say the former is more likely.

For the past one year, the IT industry has been agog with rumours of Satyam Computers being in play. While a friendly or hostile takeover can never be ruled out (after all, EDS did buy Mphasis), it's unlikely that Satyam would be acquired by a foreign major such as IBM (which has been the rumoured suitor)-and not just because Ramalinga Raju says so (see "We Will Acquire, Not Be Acquired"). For starters, its market cap of Rs 33,000 crore ($7.5 billion) means that there are few players who would have the ability to pull off such a large acquisition. Also, Raju's family owns only 8.3 per cent of Satyam. That means most of the shares will have to be mopped up from the open market at higher prices. Says a Senior Vice President at a competitor company: "IBM already has 53,000 employees in India. What do they get for $8 billion? Thirty-five thousand employees that they can hire on their own, given their superior brand equity. The other part is customers," says the executive, adding that "except for Satyam's package implementation, automotive and extended engineering services, other parts of the company are not that attractive. But Satyam is unlikely to break itself up into parts."

On the other hand, there are others who think Satyam is the most likely of all Tier-I players to go in for a big bang acquisition internationally to leapfrog or at least draw level with the top players. Says Alok Shende, Director (ICT Practice), Frost & Sullivan: "I think Satyam needs to be seen more as a predator rather than an acquisition target, as it seeks to scale up." Going by this and Raju's own statement, the Satyam sale story should perhaps be put on hold.

Ram Mynampati, President, (Commercial and Healthcare business), Satyam, bristles at the allegation. "Maybe this was true three or four years ago, but not now. All contracts, new as well as renewals, are being struck at rates comparable to those of other players in the industry." According to analysts, marginal differences still exist. Satyam's onsite billing is said to be in the $50-55 range, compared to $60 or more of most other Tier-I players. That's a double-whammy of sorts, since onsite engineers cost more too. And in Satyam's case, even today a little more than half of its revenues come from onsite billings. In a December 2006 report on pricing, CLSA India analysts, Bhavatosh Vajpayee and Aniruddha Dange, say that "Satyam's early ERP clients came in at rates that arguably did not include a premium for the skill-set (rates were similar to those of application development and maintenance), but established credibility over the last two-three years could help Satyam reap the benefits now." In the same report, the analysts point out that Satyam has a 10-13 per cent discount to Infosys on both offshore and onsite rates.

From Volume to Value

Mynampati points out that the skew towards onsite revenues is due to Satyam's strength in package implementation, which is primarily an onsite activity. As for improving billing rates, he says that there has been a conscious movement away from volume to value. There's something else that Satyam needs to fix. Traditionally, it has been heavily dependent on a few lines of business and even a few customers. Manufacturing and enterprise application have been its forte, and nearly a third of its revenues comes from its top 10 customers. "The problem with this approach is that it is focussed heavily on only one area and is light on several other verticals where its larger rivals have built a leadership presence," says Sanjeev Hota, it analyst, Emkay Share & Stock Brokers. He further points out that Satyam gets around 40-42 per cent of its topline from package implementation and maintenance services from customers such as sap, Oracle, and Microsoft. "This is one of the highest (figures) in the industry," says Hota. "In the case of TCS, Wipro and Infosy, the figure is between 15 and 25 per cent." (see Satyam vs Critics.)

"For the first time, we are getting invited to the global high table. We should get bigger deals"
Hetzel W. Folden, Senior VP **(Strategic Deals Group)**

Stepping On It

Satyam has also been seen as missing out on larger deals (upwards of $100 million). So, a little over a year ago, it brought on board Hetzel W. Folden as Senior Vice President (Strategic Deals Group). A veteran of CSC, Folden was given a clear mandate-bag deals that fetch $100 million in billings a year. That hasn't happened yet, but Folden says that nine deals in the $50-million category have been bagged in the last five quarters. "For the first time, we are getting invited to

"We did not go out and hire rainmakers to kick-start consulting. We have tried to be focussed on customer needs"
Shailesh Shah, Director & VP **(Corporate Strategy)**

the global high table. With customers unbundling multi-billion dollar deals into several smaller pieces meant for different vendors, we should get bigger deals," says Folden.

Once again, Satyam has been late to offer BPO work as part of its IT outsourcing capabilities. Ergo, Nipuna, its two-year-old BPO arm, will contribute just $36 million (Rs 158.4 crore) to Satyam's topline of $1.43 billion (Rs 6,292 crore). "This year (2006-07), we will grow north of 80 per cent, though, admittedly, on a small base," says Venkatesh Roddam, Head, Nipuna. "Also, we have changed the mix of voice-to-non-voice ratio, which is critical in the long run." But turning Nipuna into a growth engine for Satyam could take a long while. Simultaneously, Satyam is focussing on more value-added consulting work. In October 2005, it acquired Knowledge Dynamics, a Singapore-based business intelligence firm, for $3.3 million, and in May 2005, it purchased Citisoft, a London-based consulting company, for £20.5 million. "Unlike others, we did not go out and just hire rainmakers to kick-start consulting," says Shailesh Shah, Director & VP (Corporate Strategy), who is spearheading the consulting initiative. "Rather, we have tried to understand, advise, anticipate, and deliver customer needs." According to him, consulting (including that within verticals) fetches 14 per cent of Satyam's revenue.

The good thing for Satyam is that it is not too late yet. It is still the #4 player and has acknowledged strengths in areas such as package implementation, which, technology research firm AMR says, could be a $40-billion (Rs 1,76,000-crore) global business over the next 3-4 years. So, if it can convert its strengths into a market dominating leadership position with the ability to price by results (read: value) and not efforts (man-hour), it can move into a higher growth trajectory. The opportunity exists. Raju and his team need to cash in on it.