

'Overseas, cos look to use IT to build efficiencies in a slowdown'

Interview of the Week

Surjeet Singh

Patni features among the early entrants in the IT sector in India. Over the years, it has built expertise in its area of operations. From being a GE- and US-focussed player, to a true global player of scale, Patni has been spreading its wings steadily. The newly appointed CFO, Surjeet Singh, spoke with Akash Joshi of The Financial Express on the company's plans. Excerpts:

Your margins have showed an improvement in the quarter that went by. What would you attribute this to?

Actually what you see this quarter is a result of hard work that was initiated several quarters ago. There were several initiatives that were undertaken, the results of which are being observed now. One of the key strategic moves was verticalisation of the businesses. This gained focus and expertise to the company. For a long time, we have always been reporting strong revenue growth. It has been consistent. We therefore needed to focus on impacting the other key drivers of profit margins. Prime among them were the employee utilisation and general and administration (G&A) expenses.

Our utilisation is now around 72.8%, this is much better than the high sixties level we had earlier on. A lot of this can be attributed to the rationalisation of the organisational pyramid within Patni. Also, on the G&A expenses side, we have been able to manage a good show. We will strive to take them to the 10% level.

Our endeavour will also be to see that there is sustainable improvement in the cost of business that is done at Patni. So in many ways, the improvement in the margins was in line with our expectations. And we will keep focussing on this in future as well.

GE remains an important client to Patni, do you see the share of GE revenue coming down?

Yes, GE remains a strong client with Patni, contributing around 14% to the revenues. The share of GE has gone down over the years; this is because the share of other businesses has increased. The GE business grows at a steady rate and there are other contributors to the revenue stream now. And this is a conscious move.

Now GE is looking at other vendors in India. How does this impact Patni? What are your reactions?

There is nothing to be concerned about as GE always had a multi vendor strategy. They will therefore keep looking at other vendors, too. As regards our relationship with GE, we



have a very strong bond. Over the years, they have seen us excel on the quality metrics in our service. Our MSA contract renewal depicts this.

Tell us more about the verticalisation that you have been talking about?

At the moment some of our key verticals are financial services, insurance, manufacturing, communication and media (this covers telecom) and new growth areas like retail. Lastly, there is the technology vertical that looks at product engineering and research and development. We have gone deep in these verticals to create domain advantages. So a client in each of these verticals has a choice in domain-based value in the services we offer. Our team members consistently look at increasing expertise in these verticals and also in horizontal areas like enterprise solutions. Also, it allows us to create a natural hedge in the business and exceed expectations.

In fact, Patni's quality performance always reflects in the many industry surveys done on the quality of service we have to offer. The evidence for this is the ABN Amro global contract that Patni won.

The insurance sector revenue growth seems to be flattening. Since it contributes around 20% of the revenues, would you be concerned about this?

Overall, the insurance sector has grown at around 6% for us in the previous quarter. We are now looking at the geographical diversifications to expand this business.

There are talks of a US slowdown round the corner, if not this quarter, then the next. How will this impact Patni?

I don't think it will impact players like us. Since IT spending for most of our clients is operational in nature, it is embedded in their plans already. There is no pull-back on that one. In fact, overseas companies look to use the IT platform to build efficiencies in a slowdown. It will be organisations that focus on things like high end consulting that might take a hit.

Recently the company had to shell out around \$20 million in a tax review in the US. Will this impact the profits for the year?

The company was involved in a long audit with the Internal Revenue Service (IRS) of the USA and there

were differences in the manner in which corporation tax, employee taxes, transfer pricing and other issues were computed and we have settled the matter. This amount was partly restated in the previous accounts and partly absorbed, and this is clearly stated in our books. There is no ongoing impact on tax rates in future.

What about salary hikes? Do you see the margins taking a hit as the industry expects a hike again? What would your stand be in the matter?

Patni will rely industry benchmarks, which expects around 15% rise in the off-shore businesses. However, we are working to ensure that the impact of this is mitigated through rationalisation and flattening of the organisational pyramid. We will do this by focusing on recruiting freshers and this would be around 70% in this category.

What verticals do you foresee in the coming years and what are your growth plans?

Actually, growth is all around us. Differentiated growth will come from product engineering. We also believe that the retail sector has exciting potential. Obviously, the communication and media vertical will keep growing at a rapid pace for some more years to come.

On the growth front, we will definitely look at inorganic growth and we are continuously looking to build value through our acquisitions. Patni had three global acquisitions so far, Reference in the financial services sector, Cymbal in the telecom space and Zaiq in the engineering and testing area. All these three have blended well with Patni and we work strongly towards building true synergies. We don't believe in acquisition for acquisition sake.

We are looking at the UK and European markets and will look at players in the pharma and health care verticals. This is a vertical we would like to add to our portfolio. Besides, we will also be looking at the retail sector as well. We have a war-chest of around \$270 million in cash, which will be carefully used to fund acquisitions.

It will be organisations that focus on things like high end consulting that might take a hit