

Riches in niches

Hexaware is a leader in the mid-sized IT space. It prefers to stay that way rather than try and be all things to all people



The Hexaware HQ at Mahape in Navi Mumbai

IN BUSINESS, as in life, you can be an 800-pound gorilla, stomping over everybody around you. Or you can forage in select areas, guarding your turf and knowing it better than anybody else. Like the human race which emerged from the caves even as the dinosaurs died out, the chances are that you will succeed.

Atul Nishar, founder and chairman of information technology (IT) software and services firm Hexaware Technologies Ltd, has no desire to be either a gorilla or a

dinosaur. He knows he is much smaller than the big boys of Indian IT. Hexaware clocked a turnover of \$153 million in 2005. This was much less than the leaders in the industry - TCS (\$2.89 billion), Wipro (\$2.4 billion) and Infosys (\$2.12 billion). Hexaware follows a calendar year, while the others have a 31 March year-ending.

"If you try to fight the larger companies head on, there is no way you will succeed," says Nishar. "We are concentrating on certain geographies (regions) and verti-

cals (industry sectors and areas of operation)." Hexaware has made inroads into Germany and, to a lesser extent, Japan. It has deep domain knowledge in BFSI (banking, financial services and insurance), transportation and airlines, and manufacturing. In technology, Hexaware specialises in business analytics, enterprise applications, application modernisation and management, human resources IT and independent testing.

That may seem quite a wide canvas



Chairman Atul Nishar is focussing on being best-of-breed

and, in terms of opportunity, it is. But it is narrow-focus enough to specialise. "We want to be best-of-breed in these areas," says Nishar. Adds US-based vice-chairman and CEO Rusi Brij: "We try to be amongst the top three wherever we are present."

Indeed, this is a trend amongst mid-sized IT companies in India. "There is a growing base of customers who do not want to work with the big players because they fear lack of adequate attention," says Sridhar Mitta, managing director of e4e. (The India-based e4e provides "next generation outsourcing services" - styled Services-on-Tap - for global customers.)

In Bangalore, the \$100 million Mindtree wants a similar, selective approach. "We need to pull away from the general pack of companies," says chairman and president Ashok Soota. Elaborates Subroto Bagchi, chief operating officer: "What customers are looking for is access, attention and agility. We believe that, if we can offer these, there is an interesting opportunity for us to be the face of the Indian mid-sized IT industry."

Indeed, the National Association of Software and Service Companies (NASSCOM), in its 2005 Strategic Review, has much to say about niche companies. According to the apex software association, the industry can be broadly classified as:

- The Tier I players - the top five firms, which account for 44 per cent of total software exports. They are today getting into new areas such as consulting

and packaged software.

- The Tier II players - the next lot of companies, loosely defined as having revenues of \$25 million to \$250 million, which account for about 16 per cent of exports.
- The MNCs that have set up captive units here - companies such as Accenture and IBM, which constitute 31 per cent of industry.
- The focussed players - small companies concentrating on one or two domains, which make up 3-4 per cent of industry.
- Small players - companies with revenues of less than \$25 million. They constitute 5-6 per cent of the market and need to graduate to the ranks of the focussed players.

According to NASSCOM, it's the bigger organisations abroad that have been outsourcing to Indian companies so far. Now smaller companies, with less in-house technology skills, will take the outsourcing route too. They will need much more hand-holding. Indian IT companies have to move into consulting mode. And, unless they already have that critical mass, they cannot afford to be all things to all people.

"Smaller companies will be more comfortable with us," says Hexaware's Chennai-based executive director P.K. Sridharan. "They are among the anonymous many. Would you rather be a company's third client or its 300th?"

NASSCOM president Kiran Karnik says that Hexaware, for one, has crossed the hump. "It has clearly transitioned from a

Top 20 IT Software & Service Exporters from India (2005-06)

1. Tata Consultancy Services Ltd.
2. Infosys Technologies Ltd.
3. Wipro Tehcnologies Ltd.
4. Satyam Computer Services Ltd.
5. HCL Technologies Ltd.
6. Patni Computer Systems Ltd.
7. i-flex Solutions Ltd.
8. Tech Mahindra Ltd.
9. Perot Systems TSI (I) Ltd.
10. L&T Infotech Ltd.
11. Polaris Software Lab Ltd.
12. Hexaware Technologies Ltd.
13. Mastek Ltd.
14. Mphasis BFL Ltd.
15. Siemens Information Systems Ltd.
16. Genpact.
17. i-Gate Global Solutions Ltd.
18. Flextronics Software Systems Ltd.
19. NIIT Technologies Ltd.
20. Covansys India Ltd.

Source: Nasscom

This list does not include companies whose corporate headquarters are located outside India, but who have an India-centric global delivery model and have not shared their India-centric revenue figures. Had they been ranked based on their India revenues, companies such as Cognizant, Accenture, IBM and HP would have been placed amongst the Top 10 of this list and companies such as Kanbay, Syntel and Intelligroup would have been amongst the Top 20.

me-too player in the applications development and maintenance space to a specialised niche player with a focus on service capability, vertical industry, and geography. It has set a benchmark for other Tier II players in the Indian IT industry."

At Hexaware, they take all this in their stride. "You can't rest on past laurels," says Brij. "This is a very aggressive industry. If you let down your guard, the competition will have you for lunch."

That could happen in more ways than one. First, though client relationships are a big thing in this industry, accounts do change hands. Global corporations like to hedge their bets. When they outsource their technology requirements, they rarely give it to just one company. So, if Hexaware takes its eye off the ball for even a short while, the job will move to a Nextaware. It hasn't happened yet. "We have never lost a client," says Nishar.

Secondly, any sense of slowing down can be enormously damaging within the company. This is an industry that has a very high attrition rate. People sign on to new jobs faster than you can say C+ +.

CEO Rusi Brij says that Hexaware always tries to be amongst the top three in whatever areas it operates in. That way lies success.

"We have to continuously provide challenges," says Sridharan. The company has, in fact, reduced its attrition rate from 17 per cent in the fourth quarter of 2005 to 16.5 per cent in the first quarter of 2006 and 14 per cent in the second quarter. Incidentally, the company added 1,084 employees in the first half of the year, taking its total headcount to 4,730.

That sort of whopping percentage growth is also reflected in the financial numbers. Turnover in 2005 was \$153 million, an increase of 24.3 per cent over 2004. Net profit was up 43.6 per cent to \$19.5 million.

Things have been even better in 2006. Turnover in the first quarter was up 23.5 per cent and net profit 45.4 per cent, compared to the corresponding period of 2005. The second quarter saw a further jump: the growth figures have been 44.1 per cent and 148.2 per cent respectively. Says Brij of the second quarter: "We added 15 new clients, five in the million dollar category. Our order book has exceeded \$50 million."

There are other exciting things happening at Hexaware. In June, the company tied up with Mu Sigma, a decision sciences outfit headquartered in Schaumburg, Illinois. Mu Sigma will support Hexaware's business intelligence and data warehousing practices. A month earlier, Hexaware had announced a strategic technology and marketing alliance with SAS, the world leader in business intelligence.

Next on the agenda is a takeover. Hexaware is looking at the US and the UK for an acquisition in the logistics software space. It could, however, be a company anywhere in Europe. "We are looking at companies in the \$10-15 million price



range," says Nishar.

If Hexaware is going full steam ahead today, it didn't seem like that a couple of years earlier. The company was thriving on business from PeopleSoft. The latter was a Pleasanton (California)-based company specialising in human resources management and customer relationships management. Hexaware was one of the top five vendors of PeopleSoft globally and the leading vendor from India.

Then came the takeover of PeopleSoft by the Redwood Shores (California)-based Oracle. Analysts predicted dire straits ahead. With Oracle running its own show in India, there were many who felt that Hexaware would be cut out of the action altogether. PeopleSoft contributed some one-third of Hexaware's revenues, so the damage to both topline and bottomline could have been huge.

In the end, it proved to be a mixed bag. The PeopleSoft India Services Centre, which had been set up and was being run by Hexaware, was transferred to Oracle in late 2005. Along with it went 700 employees and a bite of both revenues and income. "And some emotional attachment," says Nishar.

But it hasn't made any lasting difference. Turnover has zipped ahead even without the Services Centre. And in terms of vending for PeopleSoft, it's business as usual. In the meantime, Hexaware is developing its own expertise in the HR arena.

The stockmarkets have recognised that the transition has been smooth. They have

been further encouraged by the fact that General Atlantic, a leading global private equity firm, has picked up a 14.99 per cent stake in the company for \$67.6 million. Says Nishar: "General Atlantic's investment is a validation of Hexaware's focused growth strategy and future prospects."

But Nishar also adds that the company didn't really need the money; it has enough in its own coffers. What General Atlantic will bring to the table is its wide network. More clients will come Hexaware's way because of the affiliation. Earlier, PeopleSoft was Hexaware's "door opener" to several companies. Now General Atlantic could well fit that role.

What's next on the agenda? On the ground in India, there's a lot happening. A software development centre - the company's third - was inaugurated at Pune this year. A Hexaware campus with all the works - gymnasiums, swimming pools, babycare centres, malls -- is coming up in Chennai. Another software development centre is being planned in Eastern India. Outside the country, the next destinations are South America and China. And in terms of verticals, HR beckons.

Nishar is very clear that he does not want to be in the Top 5 or the Top 10 tomorrow. (Hexaware is nevertheless No 12 in the latest NASSCOM exporters' list.) But a decade down the line, one never knows. Every company begins in a niche. Time expands the niche into the whole world. There may yet be a hirsute gorilla hiding in Hexaware. 🍌