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Cover Story

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Going Global

Increasing number of mid-size system integrators are readying plans to venture into the international arena.

By Dhaval Valia

Over the past half-decade, India Inc has seen an unprecedented growth. With the national GDP growing at 8-9 percent, the country has emerged as the second fastest growing economy in the world. Brimming with new confidence, India Inc has witnessed an exceptional drive towards globalization, with a slew of big-ticket global acquisitions made by Indian companies across a myriad of sectors and geographies. In 2006 alone, Indian companies finalized a whopping 782 M&A and private equity deals. The total value of the M&A deals undertaken by India Inc. globally was approximately \$35 billion for the period 2004-07, led by Tata's acquisition of Corus Steel and Jaguar Land Rover; Birla's takeover of Novelis, VSNL's acquisition of Teleglobe and so forth.

At the same time, private equity investments by Indian companies in international companies also witnessed a scorching growth. PE investments increased from \$1.1 billion from 60 deals in 2004 to \$7.9 billion from 302 deals in 2006. The Indian multinational has indeed arrived and seems ready to rev up its globalization drive.

The rising global aspirations of India Inc. has had a definite positive rub-off on Indian IT channels. A few leading tier-2 system integrators are readying aggressive plans for expansion in international markets. The front-runner in this pack is Allied Digital. Having picked up 80 percent stake in a US-based \$30 million system integrator and IM service provider, EnPointe Global Services for an equity valuation of \$30 million, the company is looking at more such acquisitions that are a strategic fit to its business strategy of off-shoring remote infrastructure managed services around the globe.

Allied, with its NOC in Mumbai, will offshore RIM services to EnPointe customers. With contracted revenues of \$40 million and gross margins of 35 percent, EGS will add a substantial chunk to Allied revenues and profitability in the current fiscal. Allied posted a turnover of Rs 302 crore in FY08.



“The acquisition is revenue and earnings accretive and is expected to strengthen the opportunity pipeline for us in the US market for our remote managed services (RMS). EGS will also serve as a platform for several other inorganic growth initiatives across the globe,” says Nitin Shah, MD, Allied Digital.

Another company with burgeoning global aspirations is Omnitech Infosolutions. After a small acquisition of a US-based software testing services firm, EdVenture Systems Inc, in 2006, Omnitech is eyeing bigger international acquisitions and plans to initiate a fund-raising exercise for the same. “The fund-raising is essentially to provide us the leeway to fund two big acquisitions in the US. We plan to acquire companies that can provide strong customer base for cross-selling our services in US and which also brings to our fold their key management people who can help us grow,” says Atul Hemani, CEO, Omnitech Infosolutions. According to Hemani, the company has set a target of \$20-22 million for the two acquisitions.

Omnitech plans to open a technology center in Pune for an investment of Rs 45 crore. This center will house a NOC and a software testing facility that will service international markets. Omnitech is so bullish about the global opportunities for infrastructure management services that by 2010 it expects revenues from IMS and allied services to contribute 70 percent to its company’s targeted topline, with 40 percent coming from international business. The company recorded a turnover of Rs 131 crore in FY08.

RIMS of global opportunity

Allied and Omnitech, both being listed companies have chosen inorganic strategies to establish their global footprint, but its peers are preferring organic strategies, by building their international presence, brick-by-brick. Most of these companies are looking at exploring the RIM services opportunity for their international foray.

Progressive Infotech has earmarked an investment of \$1 million over the next year to build its services business internationally. “We expect to build our international RIM services business in excess of \$5 million in the next 2 years. We have set up a subsidiary in UAE to address the Middle-east and North Africa region. Developing other markets would help us de-risk our revenue spread, besides augmenting as well as improving resource utilization in the domestic markets,” says Prateek Garg, CEO, Progressive Infotech.

Precision Infomatic, with its managed services subsidiary, Precision Techserve, too is betting big on providing RIM services in the US market. “We are currently running several pilots in the US and are expecting to sign up a few customers over the next few months. We expect international revenues to contribute at least 10 percent to our total revenues within the next couple of years,” says T G Ramesh, Director, Precision Infomatic.

Apart from the US, the company is also looking to roll out its RIM services in the Far-east and Middle-east, piggy-backing on its promoter group’s strong presence in these regions. One may recall that, in 2007, Precision was acquired by Info-Drive Software India, the IT venture of the Dubai-based \$5 billion ETA Group. “Being part of such a large group, having diversified business interests, gives us the infrastructure base to operate in international markets without having to think about the costs. Info-Drive, our holding company, has also acquired a few systems integrators and IM services companies in US and eastern Europe recently, which will provide us access to these markets. Info-Drive will insource all the managed services to Precision back in India,” explains Ramesh.

Subcontracting services

Softcell Technologies is banking on sub-contract work to gain a foothold in the international market. Recently, the company signed a two-year sub-contract agreement with an Indian telecom major having

a strong global presence to provide remote network and security services to the telco's client. For this the company has set up a 18-seat network service center in Mumbai with an investment of Rs 5 crore. The contract guarantees an annual revenue stream of Rs 10 crore over two years. "The Indian telecom company is one of our major customers for IT solutions and having seen our capabilities they have sub-contracted us to provide remote managed services for their global clients. We will be servicing their customers across 60 countries," informs D Venkatesh, Director, Softcell Technologies.

According to Venkatesh, the contract allows Softcell to learn the tricks of the off-shore RIM business without the fear of failing. "Its an IRU agreement, which means that under no circumstance either of the parties can exit the contract. While Rs 10 crore is the amount guaranteed by the deal over two years, we see this deal contributing Rs 16 crore by end of the agreement which will help us not only to breakeven on our capex as well as opex, but also help post healthy profits. The margins are good, in excess of 20 percent," he informs.

Choice Solutions is another Indian company that is providing RIM services in the US through a sub-contract arrangement with a US company, Agilent Networks. "We have a unique off-shoring model in partnership with Agilent, where the NOC is owned by them in the US, but our engineers monitor and manage their RIM customers through a console in Hyderabad. The lower manpower cost in India provides Agilent a cost advantage of almost 30 percent," says Choice Solutions' Director, Ravi Devulapalli who is based in the US and manages the partnership. Choice is presently managing Agilent's 10 US customers through this innovative arrangement and over the next two years, Devulapalli expects to make \$4 million from such outsourcing of off-shored RIM services.

Betting on Products

But while most companies are betting on the RIM services, there are a courageous few who have taken the product route to make a mark in the international arena. Team Computers, for instance, has been operating a subsidiary in the US for the past three years selling its business intelligence reporting and analytics tools and has witnessed positive traction for its international business. Over the past year, the company has acquired 12 clients for its business intelligence solutions and services.

"Ours has been largely a product-led strategy. We have developed our own business intelligence reporting and analytics tool around popular BI platforms. If you ask me, we still haven't cracked the market yet but are confident of doing it as the customer response to our recent deployments has been very positive. So far we have deployed our BI solutions for 12 companies—11 in the US and 1 in Europe—mostly in the 'money collection' segment," says Ranjan Chopra, CEO, Team Computers. Last year, Team made roughly \$1 million from international operations but expects a five-fold increase in revenues within the next two years. "We have recently signed up with a Canadian company having a strong presence in the 'collection' segment. We are also targeting small insurance companies with our BI reporting suite, although this might take a backseat due to the recent financial crises in the US. We are close to rolling out a specialized ERP for the ocean transportation industry and plan to take this product to

global shipping hubs like Amsterdam, Geneva, and Greece. For this, we are in the process of acquiring a minority stake in a company that has a large global customer base in the shipping sector," informs Chopra.

Team's slow-and-steady product approach probably has its basis in the company's past failure to sell RIM services in the international market. "Three years back we had set up a NOC to offshore RIM services to US companies, but that didn't work. Hence, this time around, we are taking a slightly circumspect approach. We call it the guerilla way—keeping the operating costs low and involve in more below-the-belt and targeted marketing activities—to develop the markets. This has allowed us to break-even faster and also post profits," opines Chopra.

Another company that has also taken a slow but steady start with a product-led approach is Lauren Software. Sushant Panda, Director, Lauren, elaborates on his company's international plans, "We have

a two-pronged strategy. One is product-led, where we intend to take our ERP and workflow management software to international markets through local partner collaboration; and the second strategy is to leverage on our relations with Indian subsidiaries of MNCs to explore and tap opportunity within their other international subsidiaries.”

So far, it's the second strategy that has worked for Lauren. The company has developed and deployed customized software solutions across international subsidiaries of a few of its leading Indian MNC clients which include Colgate Palmolive, DHL, Pfizer and Prudential. “For all these clients, we had developed customized applications for their Indian operations. For instance, in case of DHL India, we developed a unique sales force automation and retail operations software, which was so well appreciated that its subsidiaries in South Africa, Greece, Russia and Malaysia hired us to deploy a similar customized solution for them as well. Similarly, for Colgate Palmolive India, we developed a distribution management software, which was chosen to be deployed across entire Asia Pacific last year. Not only have we developed and deployed these solutions but are also providing application maintenance services. We expect this business to grow substantially over the next two years. With India's dominance in the global marketplace growing, several multinationals are emulating business practices that work here, to other parts of the emerging world,” informs Panda.

Panda's next big job is to take its portfolio of home-grown software products, that include ERP, HR management package and workflow management solutions, to international markets. Lauren has partnered with Innova Technology Bridge to sell its software products in Germany and also tied up with UK's Trade & Investments organization to find collaboration partners for selling its products in UK. “Innova is a private company that specializes in helping forge collaborations between small international IT companies and small local German IT companies. They are actively helping us match-make with German companies to sell our products through local partners. The UK trade forum too has helped us generate such collaboration leads which we are closely evaluating. Last month a delegation of small UK-based solution providers was here and this has helped us understand local dynamics and opportunities,” elaborates Panda.

With the help of IBM, Panda has also put together an aggressive marketing plan to take its Lotus Domino-based workflow solution international. “They are introducing us to many of their partners around the world who may see great value in selling our solutions,” adds Panda. Lauren expects its international business to contribute at least 10 percent of its revenues within the next two years.

The future

Its clear that Indian channel companies have aggressive global aspirations and are determined to make it big in the international market. However, its just the beginning and their success will eventually depend on how well they can market themselves and build industry-best solutions and delivery capabilities.