



Forget subprime, Re still tops tech woes

From cost-cutting to higher-margin play, IT firms are doing all they can to stay unhurt

Rabin Ghosh & Praveena Sharma
Mumbai/Bangalore

White-hot competition doesn't bother Arun Jain at all. Nor does the gigantic subprime home loans implosion in the US - despite 90% of his company's revenues coming from the financial sector.

There are no orderbook-size issues either for the fifty-something

Survival code

Recognising forex risks, Wipro only gives dollar guidance, while HCL Tech and TCS don't give any guidance

Many are tinkering with their business plan and operational strategies

Hedging is the most common short-term tool

Long-term margin levers include a hike in billing and utilisation rates, movement up the value chain, and ruthless cost cutting

honcho of Polaris Software Labs. What gives him sleepless nights is something he can't do a fiddle about -

The 11% rise in the rupee this year has led to Polaris' operating margins shrinking by 120 basis

points sequentially to 11.9% for the quarter ending July 31.

"On a personal level, I am trying to find out what European companies are doing. They have seen a far steeper rise of the euro against the dollar. Perhaps, that would give us some cues," Jain says.

While the rupee had the steepest rise in the April-June quarter, rising 6.35%, it is already up by over 2% in the current quarter.

Depending upon factors like dollar exposure and onsite to offshore mix and utilisation rate, a one percentage point rise in dollar against the rupee shaves off 30-50 basis points in operating margins of IT companies. Hence margins are impacted by 3-5%.

Worry lines are present secularly across the brows of all software chiefs.

"It is a matter of concern," said N R K Raman, chief executive of i-flex solutions. "We are taking steps, including improving efficiency and productivity to counter the currency's rise."

Ask S Ramadorai what's the biggest threat to his business. "The rupee," says the managing director and chief executive officer of Tata Consultancy Services, India's largest information technology company, without losing a breath.

He says these are very, very challenging days.

"We have to restructure our business. We have to stress our intellectual property rights and try to monetise it in every manner," Ramadorai had told *DNA Money* recently.

Forget subprime, Re still tops tech woes

The average dollar rate for the quarter is Rs 40.60.

Infosys has assumed a conversion rate at Rs 40.58 and Satyam Computers at Rs 40.50. Recognising forex risks, Wipro only gives dollar guidance these days, while HCL Technologies and TCS don't give any guidance at all.

Many are tinkering with their business plan and operational strategies. While hedging is the most common short-term tool, long-term margin levers are hike in billing rates, increase in utilisation rate, moving up the value chain, and ruthless cost-cutting. "Spreading the geographical mix more towards Europe and emerging markets would be most best derisking strategy for software companies. Going for high-margin areas such as consulting and price hikes would also help. Also, right now, cutting cost mercilessly is not the solution as companies have already been doing that since March; it could be intensified further," Wipro's chief strategy officer Sudip Nandy says. Now, all costs are under scanner.

"A few months back we asked for participating in an inter-corporate contest. HR didn't approve, citing cost cutting measures. A year back, it wouldn't have raised much eyebrows. Offsites (euphemism for company sponsored outings) have also reduced," says a software professional working with a mid-

size software firm.

Nandi said companies need to focus on process-based outsourcing, rather than task-based outsourcing, since it offers higher margins.

Polaris is mulling long term—up to five years—hedging contracts. "We are moving to products (from services) which has better margins. We have operations in many countries and we are asking for local currency billing against a dollar-denominated billing earlier," J Srikanth, chief finance officer, Polaris, says.

"To counter a firmer rupee, HCL is targeting higher billing rates. We have got around 3-10% higher billing rates on new contracts. Also, HCL have forex reserves worth \$900 million, which will cover us for the next one year," says an HCL Technologies spokesperson. Some have tweaked working hours selectively to increase the billing hours. Utilisation rate would also be pushed up. While the companies are still not coming out in the open about any change in hiring plan, privately some have indicated that the net addition for the year could be lower than projected earlier.

According to Srikanth, "there could be a gear shift in respect of people plans".

The human resources manager of another IT company said while fresher hiring plan is unlikely to be changed, there could be a drop in the number of lateral recruits to contain wage bills.

For Wipro's Nandi, however, there is no change in recruitment plan for now — since demand remains robust.