

'Slowdown will last at least 3-4 quarters more'

BPO player Adventity is, however, unfazed and says it is on target to expand to 8,000 people..

D. Murali and N.S. Vageesh

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Despite the hit that it has taken in the mortgage space (with contribution from mortgage business coming down from 20 per cent to 12 per cent), the Mumbai-based BPO player Adventity is confident that the company is in line with its target of expanding to 8,000 people in the next 12-18 months, from the current 4,500.

Kumar Subramanian, CEO, Adventity, told eWorld in a recent interview that he expects the slowdown to last at least three to four quarters more and companies that do not have capital or staying power will probably sell out to larger players.

Investors in Adventity are committed to the company and intend to stay invested, he adds.

"With valuations having become more real, it is a good time for companies to look at acquisition opportunities" says Subramanian.

Excerpts from the interview:

The mortgage sector has been one of the worst hit in the US. What has been the impact on your company — revenues, headcount?

The sub-prime crisis in the US has had a big impact on the mortgage offshoring to India.

Large mortgage banks have shut shop and the existing lenders have tightened their credit norms, lending primarily to prime customers.

We have been one of the few companies from India that operated in the origination space, whereby we originate retail mortgage loans and deal with over 15 banks in the US.

Mortgage, which was a 20 per cent revenue contributor, has come down to being a 12 per cent revenue contributor. A part reason for this has been the drop in the origination volume in the US.

We had over 350 people working in this vertical last year, which is now down to over a 100 people.

Over the last one year, we have re-focused our origination team from the sub-prime space to originating prime loans in over 40 states.

We have also heard that mortgage origination has almost come to a standstill. What is your view on this?

It is a myth that origination has come to a standstill. Banks still originate loans in the prime space. We expect US mortgage origination to be still in the range of \$1.2-\$1.5 trillion.

Let us not forget that the largest mortgage market in the world is still the US.

I think the markets will recover, though it will take some time, at least two to three quarters after the presidential elections.

Given this scenario, are you looking at new verticals?

Our focus has shifted to different geographies rather than different verticals. Our prime business drivers are the knowledge service vertical consisting of research and analytics, banking operations vertical, and the airlines vertical.

We have been aggressively growing our Asian practice.

The revenue contribution from the US region, which was at 60 per cent last year, will come down to 40 per cent. We have established a new joint venture in Dubai with the Noor Investment Group (a Dubai Holdings company) and run the back office of Noor Islamic Bank, which is slated to become one of the world's largest Islamic banks.

We have got into Africa and the Asia-Pacific with some of our banking offerings.

What about the potential in the airlines space?

We see a huge opportunity in the airlines space. With the rise of oil prices, airlines are in cost-cutting mode. We have built several models that help airlines in revenue enhancement and cost savings.

Also, the bulk of our customers at this point are in Asia.

Compared to last year, our revenues in this vertical have grown by 100 per cent and we expect to sustain the same level of growth next year, given our current pipeline.

Have you seen a pull-back from any of your existing clients?

We have over 100 clients and have not seen any pull-back that can be called significant. We have had a couple of our hedge fund clients shut shop, which has had a negligible impact on our revenues as their deal sizes were very small.

You had announced doubling headcount to 8,000. Are you taking a re-look at this, especially given the slowdown?

We are still bullish about the ITES business and are in line to make our headcount 8,000 in the next 12-18 months. We are at this point around 4,500 people already. Our order pipeline looks healthy to achieve this number.

From a delivery point of view, are you looking at new (cheaper) destinations?

For the next six-twelve months, we do not intend to increase our delivery destinations, while we will definitely put up more centres in these locations.

We recently established a rural BPO in Krishnagiri district in Tamil Nadu and will expand our rural BPO centres across the country for our domestic business.

With margins under pressure and labour costs in India having gone up over the last two-three years, what initiatives have you taken to maintain margins?

With most of our customers in the transaction processing business such as airlines revenue accounting and banking operations, we operate on a transaction pricing model.

As a company, we seek to innovate on our delivery model and look at opportunities to cut costs, whereby the benefits pass to the company and the client.

Rural BPO is one such initiative. Building a consulting practice is another.

How long do you expect this slowdown to last? With external investors, there must also be pressure to grow.

I think the slowdown will last at least three to four quarters more. Companies that do not have capital or staying power will probably sell out to larger players.

With valuations having become more real, it is probably a good time for companies to look at acquisition opportunities.

The investors in Adventity are committed to the company and intend to stay invested and if need be, invest more to help grow the company.

What is the outlook for the industry?

The domestic BPO industry will boom with large outsourcing deals coming out of retail and telecom, traditional outsourcers such as the banking industry, and new industries such as media.

The medium-term and long-term outlook for the outsourcing industry looks really good and India will continue to be the prime destination for outsourcing.