

BPO earnings bare the strains beneath

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THE health of India's \$17-billion business process outsourcing (BPO) sector has deteriorated further. The ailing segment put out dismal financial results in the last quarter, with profits falling up to 50%. The turmoil in its largest markets, a rupee in free fall and poor hedging strategies are adding to woes, apart from a mounting foreign currency convertible bonds (FCCB)

crisis in some cases.

Grim numbers have just come in from the biggest BPO players. Firstsource Solutions reported a 39.7% year-on-year decline in prof-

it to ₹23.1 crore. Outsourcing major WNS also posted a 50% drop in profit to \$4.4 million. The Hinduja Group's outsourcing arm Hinduja Global Solutions has posted a flat growth in profit at ₹31.07 crore.

3i Infotech reported a consolidated net loss of ₹293.81 crore for the March quarter compared with a net profit of ₹63.11 crore in the same period a year ago. Its revenue decreased by 45.71% to ₹354 crore for the quarter from ₹652 crore in the year-ago period.

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CHAOS IN CLIENT
MARKETS, POOR
HEDGING, FCCB
OBLIGATIONS
AND A FALLING
RUPEE COMBINE
TO HAMMER THE
BPO INDUSTRY

age firm Sharekhan.

The effects of the currency situation on outsourcing firms was quantified last week by Firstsource Solutions when its management announced that for every Ru 1 fall against the dollar, the company's FCCB loan burden would shoot up by \$3 million. The company has outstanding convertible bonds of \$337 million.

"Firms like 3i Infotech and Firstsource, are reeling under huge debts and forex losses thanks to a volatile currency situation," says Jagannathan Thunagurtla, strategist and head of research, SMC Global Securities. Only a few firms like Genpact and EXL have managed to meet market expectations.

In the past two months, the rupee has fallen from Rs 50.70 to the dollar to a historic low of Rs 56.40, increasing the rupee repayment burden for firms that have issued dollar convertible bonds. Compared with the last quarter, the rupee has depreciated by over 10%, and experts say it may even breach the 58 mark in the near future. Firms with outstanding FCCBs will have to restate their loans at the increased rate at the end of the current quarter with higher provisions, which will impact their profit and loss statements.

The BPO sector's poor performance is reflected even in its manpower figures. As business processes move out - some due to near-shoring and some due to a failure to renew old businesses - the once-popular industry is witnessing a slowdown in hiring.

"The BPO industry today is no more a mass recruiter. Gone are the days when BPOs used to hire 3,000-4,000 people. There has been reduced tempo in fresh hiring. Companies are also not replacing and are cautious in adding people," says E Balaji, managing director and CEO of HR services firm Randstad India.

For Firstsource, as of March 2012, employee strength was down to 30,086 versus 30,121 in the December quarter. In the last quarter IT major Wipro's headcount reduced by 814 when its BPO unit restructured business on account of a process moving offshore. The said process had a total employee count of 2,200.

According to the Monster Employment Index released recently, the BPO/ITES (information technology-enabled services) sector was among the lowest growth industries, with the BPO/ITES index declining by 4% in April 2012 compared to last year. Low to mid-single-digit hikes and rollbacks of the lavish perks BPO employees

are used to have not improved the mood in the sector.

Says Ramesh Puri, managing director of HR firm Executive Access, "In its glory days, this sector was spoilt for choice. BPO employees are used to extra benefits, perks and foreign travels, which have drastically come down. Companies are now devising desperate measures to cut costs. It is going to be a challenging time for HR in the BPO industry."

Dip in...

Earlier this month, a panel, headed by Prime Minister's Economic Advisory Council chairman C Rangarajan, recommended exporting two million tonnes of wheat from the official reserve and offloading of another 13 million tonnes through ration shops and the open market at subsidised rates.

The total subsidy outgo on wheat is estimated at Rs 17,000 crore. An empowered group of ministers (EGoM), headed by finance minister Pranab Mukherjee, is expected to consider the proposal this week.

Global consumption of the grain is expected to fall just 1% to 681 million tonne and stocks at the end of 2012-13 will consequently dip 5.4% to 191 million tonnes, the IGC said.

However, providing a subsidy on wheat exports when the fiscal deficit is galloping and millions go to bed hungry every day will put the government in a tight spot over its efficiency in grain management. Although opposition parties had stalled Parliament proceedings last year over grain storage and wastage, the problem worsened into a crisis this year, forcing the government to consider subsidies to avoid an absolute disaster. Any trimming of the global wheat production forecast in such a juncture augurs well for India, albeit to a limited extent.

Although these forecasts are for the current fiscal, it makes sense for countries to stock grains early to guard against any possible spike later, said a senior government official, who didn't want to be named. "It (the downward revision) also impacts global perception about the trade and has potential to influence prices. If you want to buy the grain to meet your domestic demand, buy it now, or else you may have to buy it at higher prices later," he added.

"The share of global trade taken by Black Sea exporters may not be as high, with smaller crops seen restricting shipments by Russia and Ukraine. Export surpluses are expected to be smaller in the EU and Argentina, but in-

BPO...

Even Wipro, the \$7-billion IT biggie, has stated that overall business was dragged down by its BPO operations during the quarter. The Hewlett-Packard-owned Mphasis, which is yet to report results for the March quarter, had registered a 24.65% year-on-year drop in net profit in the previous quarter.

"BPO firms are still struggling for a transition. The voice-based BPO is history but now, it is a challenge to go from the transaction-based deals to platform-based of the US, and even Europe to an extent, are not in a position to push volumes to the necessary levels," says Sanjeev Hota, assistant vice-president, research (IT) at broker-