

IT slowdown?

Cognizant bags \$100 mn US contract

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BANGALORE: Cognizant Technology Solutions, which competes with Indian offshore biggies such as TCS, Infosys and Wipro, continues to win new contracts from its existing customers, including Astrazeneca and Merck, even as the industry prepares to cope with lower information technology spend in top markets of the US and Europe.

According to sources, Cognizant has won a \$50-100 million contract from one of its existing customers last month, which is among the top five American pharma companies. "This initiative involves new Oracle Fusion work, both application development and maintenance, and is described as 'a big engagement', with an estimated 200-400 employees working on the project that will start billing the second week of December," said James Friedman, an analyst at Susquehanna International Group (SIG).

The company has also won \$100-million (total contract value) deals from Deutsche Telekom and Healthnet during the past few weeks.

During the past few quarters, Cognizant has won 5-6 deals every quarter, with each contributing up to \$50 million in annualised revenues. "In the past few months, Cognizant hired away a number of group managers from competitors. Some of the deal flow may be attributed to these new employees, many of whom brought clients with them," Mr. Friedman added in his report.

Cognizant, which serves leading drugmakers such as Astrazeneca, Merck and Pfizer, could not offer specific comments about whether the company has won any new contract with one of them. However, when contacted, an Astrazeneca spokesperson said the company has recently partnered with Cognizant.

"I can confirm that our recently announced contracts with Cognizant and Infosys did include application maintenance, but I couldn't respond regarding itemised applications," said Christopher Sampson, spokesperson for London-based Astrazeneca. At a time when other Indian rivals are seeking inorganic growth in Europe, Cognizant partnered with a local service provider, T-Systems, for addressing the lucrative German market.

"For a cost of only \$11m, Cognizant gained an offshore center with 1100 FTE focused on the German and European market," Peter Schumacher, president and chief executive of Value Leadership Group told ET in an email interview.

"Cognizant won the deal because they have the right approach for the European market. As a result the company is growing significantly faster in Europe than the top 5 Indian firms."

According to Gartner, none of the Indian offshore players are among the top 15 service providers in Germany in terms of market share. Cognizant partnered with T-Systems, which has a market share of 16%, ahead of rivals IBM and Accenture with 6% and 3% of the market respectively.

"Cognizant's industry leading revenue growth for the last five years—with a CAGR of 56.2 percent—and a revenue growth guidance of 32 percent in calendar 2008," said a Cognizant spokesperson.

Meanwhile, the company's six of the existing financial customer including Lehman, Wachovia, Bear Stearns, HBOS and IndyMac are currently merging, which might put company's revenues from the segment at risk. However, analysts such as Ashish R. Thadhani of US-based Gilford Securities say the company does not have high revenue exposure with such customers.

"Direct exposure to impacted Financial Services clients is limited to 5% of total revenue with work ongoing and not likely to end abruptly," Mr. Thadhani said in his November report.