

Infosys prefers small cos to bigger foreign buys

4 Jun 2010, 0127 hrs IST, Pankaj Mishra, ET Bureau

<http://economictimes.indiatimes.com/infotech/ites/Infosys-prefers-small-cos-to-bigger-foreign-buys/articleshow/6009319.cms>

BANGALORE: Infosys Technologies ruled out the acquisition of a large European outsourcing rival like Logica, and said the company would instead look for smaller, back office and consulting firms in Germany and France that are around 10% of the company's revenues or up to \$500 million in revenues.

"When we are forecasting 16-18% growth, why would I go and acquire a turnaround story?" asked Senapathy S Gopalakrishnan, chief executive officer and managing director of Infosys. "The reason why it's (rumours) coming too often is because these companies are not doing well," he added. Over the past few years, speculation about Infosys acquiring European service providers like Logica, Capgemini and even Atos Origin have gained momentum forcing Infosys executives to issue denials.

"Speculations are happening because compared to Indian companies, and even US companies, these firms are not doing well. So there is speculation about how long they can go before something happens, not a good position to be in," said Mr. Gopalakrishnan, who will complete three years as CEO this month.

Large European outsourcing firms like Capgemini, Atos Origin and Logica employ most of their staff in high cost locations across continental Europe and are finding it difficult to increase the proportion of engineers in offshore locations such as India. For them, to shift their delivery centres to offshore locations by trimming payroll in Europe is very difficult.

"If you want to let go people, especially in Europe, it costs huge amounts of money. For every individual, you will end up paying two-three times their annual salary as severance and that's a huge cost," said Mr. Gopalakrishnan. With over \$3 billion in cash, investors and industry analysts are hoping that Infosys would deploy some of it in making a big bang acquisition. In fact, in August 2008, Infosys did make an attempt to buy SAP service provider Axon, and withdrew its bid after domestic rival HCL Technologies offered to pay more.

"Axon is a good run company. We made an offer, but we said that we're valuing it appropriately and that's it. We said we're not getting into a bidding war after that," he said. "We want our prospective employees to feel that Infosys is a good home for them, and not the highest bidder." He added that Infosys would never get into a bidding war while pursuing an acquisition.

"Getting into a bidding war is not something you will probably see from Infosys," said Mr. Gopalakrishnan. "We have always stated that it's like a marriage, so both people must agree that the other person is the right partner. Now, in a bidding war, if one person is saying I don't care who acquires me and I will go for the highest bidder — that's not a good thing for marriage." However, other Indian rivals could be looking at acquiring smaller units of European service providers.

"There are discussions about how to take these companies forward, would they be acquired in total, or would they be broken. In some cases, Indian companies are also involved in looking at such things. As far as Infosys is concerned, and in the case of Logica, there is no discussion currently," he said. Indeed, sitting on piles of cash, India's

outsourcing giants, including Infosys, have just watched global rivals IBM and HP take the inorganic route without attempting even a single billion-dollar deal of their own. As TCS, Infosys and Wipro seek to raise their profile and compete better with bigger rivals, they are caught in a dilemma. Should they sacrifice profitability and gain market share by buying large firms or should they focus on protecting their margins?

On its part, Infosys does not view this as pursuing a 'risk averse' strategy. "In a people's business, the risk is huge. I can, maybe tie up top 10 or 20 people through some contracts or promised extra bonus, but the remaining people have freedom to leave. That is why the risk is very high in large services acquisition because there is a danger that no good people may be left behind and you are stuck, it's a terrible situation to be in," said the CEO.

Experts say Infosys' strategy to avoid large European buyouts makes sense. "Why would they acquire troubled companies all you would be getting is headaches and huge cultural disconnect," John McCarthy, principal analyst and vice-president at US-headquartered Forrester Research told ET in a recent interview.

"My guess is that this is pure speculation and wishful thinking on the part of tired Logica investors," said Peter Schumacher of Germany-based Value Leadership, a firm that advises companies on European markets. "Infosys should stay away and push forward its organic growth program aggressively. This programme should focus on hiring the best people from incumbents like Logica, Tieto, Capgemini, IBM, and Accenture," said Mr. Schumacher.

Meanwhile, Kris Gopalakrishnan does not rule out pursuing a large acquisition in the future, but maintains that it's not something his company would aggressively chase. "If tomorrow, some deal is in front of us and if it's a great offer we believe we can execute, we will look at it. As a CEO, as the board, of course we have to look at it, but the probability of going through that is very small," he said.

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