

INDIA

A SHAKEOUT LOOMS FOR INDIAN SOFTWARE SHOPS

As U.S. work falls off amid security fears, small fry are vulnerable

On Oct. 2, three weeks after the World Trade Center attacks, India's National Association of Software & Service Companies took out a full-page ad in *The New York Times*. The Nasscom ad mourned the loss of American lives and looked "forward to helping [American industry] continue to be competitive." A nice gesture, but one with a clear business purpose. These software companies have thrived writing cheap code in India for U.S. clients. Now they want to assure U.S. companies, which are suddenly jittery about their foreign exposure, that it still safe to contract work out to India.

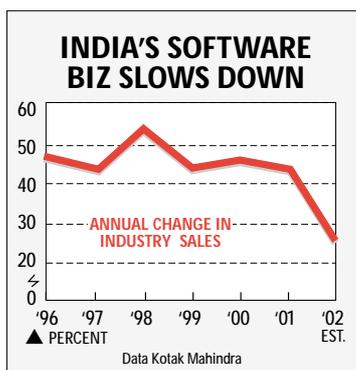
BLUE-CHIP CLIENTS.

The ad may have helped a little. "I think it took away the paranoia about outsourcing to foreigners," says Jerry Rao, chief executive of Mphasis, a Los Angeles- and Bangalore-based software maker. His clients did not desert him. In fact, the top tier of India's software companies – Tata Consultancy Services (TCS), Wipro and Infosys Technologies – all reported strong quarters ended on Sept. 30. "We even acquired new business from our American clients after September 11," says Arup Gupta, president of TCS America, which generates some 70% of its parent company's \$700 million in revenues from work with blue-chip clients such as General Electric Co. and J.P. Morgan Chase & Co. Gupta says TCS is on track to boost U.S. revenues 50% this year, even after September 11.

The top Indian software shops are probably pretty much shock-proof at this point. They have moved beyond writing simple code and snagged major assign-

ments that take years to complete, such as developing software for securities trading or maintaining call centers. Customers are unlikely to shut these assignments down even in times of

BANGALORE: *More value-added products and more local customers could help.*



and Hyderabad.

And yet Gupta thinks the Indian information-technology sector is in for a rough stretch. "It will take two years for our industry to recover," he says. And a swarm of smaller Indian companies and startups will not fare as well as the industry leaders. S. Srinivasan, co-head of investment-banking services for Kotak Mahindra in Bombay, which has many clients from the IT industry, figures revenues for all of India's software shops

will grow 25% next year. But the average growth rate for the \$8.5 billion industry was 50% just a year ago – a rate that only a top performer such as TCS or Wipro can hope to achieve now.

The U.S. expansion is what allowed small fry to get by. Thus, even a deceleration to 25% growth could trigger a shakeout. Marginal Indian players are especially exposed now that U.S. companies are reviewing their consultant contracts to focus on only the most essential

projects. Adding to the pressure is a glut of workers as Indian software engineers return home after being laid off by companies in the U.S.

The heavy lifting has to begin now, says Kiran Karnik, president of Nasscom. For starters, survival for many Indian companies depends on moving up the value chain in building products instead of treating the software code they write as a commodity, "like a sack of potatoes." And, adds Karnik, to supplement U.S. work, Indian companies must develop more local customers back home.

That's what TCS and Wipro are doing. About 10% of TCS' revenue, for example, now comes from massive contracts with

India's state-owned banks and local government such as Andhra Pradesh, which are computerizing decades of government records. **"It's wise to lock in big clients like the government because even if they don't pay much, they do have tax-payers money to invest,"** says **Jon Thorn of the India Capital Fund in Hong Kong.**

Of course, for some smaller companies, opportunities lurk even in the recession. Rajesh Hukku, president of I-Flex Solutions Ltd., a New Jersey- and Bombay-based company, expects sales of Flexcube, his popular banking back-office processing software, to increase as his U.S. clients in the banking industry obsess about wringing new savings from operations. But the days of easy growth are at an end. Now, Bangalore has to show its staying power.

By Manjeet Kripalani in Bombay.