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## In Conversation

# 'We now have firepower'

— Susir Kumar

Founder and CEO, Intelenet BPO

EARLY THIS WEEK, BLACKSTONE-BACKED BPO firm Intelenet Global Services was acquired by British support services provider Serco Group for \$634 million (£385 million). Apart from being New York-headquartered private equity (PE) firm Blackstone's first India exit, the deal marks one of the largest yet in the country's rapidly consolidating BPO sector. Serco becomes Mumbai-based Intelenet's third owner since inception, which started as a 50:50 joint venture between HDFC Bank and TCS in 2001. In 2007, Blackstone backed a management-led buyout to acquire majority control in the company. At the time of the Serco



deal, the PE firm owned 66 per cent, Barclays Bank and HDFC Bank had 12.75 per cent and 4.5 per cent, respectively, and management and employees owned 16 per cent. Susir Kumar, CEO of Intelenet, who steered the company through each ownership change, spoke to *BW's Snigdha Sen-gupta* about why Serco will be its last owner. Excerpts:

**Q: Why did you decide to take the M&A route instead of going public, as was planned earlier?**

**A:** We did think of an IPO. But we looked at some of our peers who had gone public and still had an overhang in terms of having one or two financial investors as large shareholders. It becomes a challenge for a large shareholder to dilute its stake post-listing. And this has a constant impact on the company's stock price.

What also happens is that the company starts to compromise on long-term investments in favour of the short-term need to protect the share price. The situation becomes more intense and troublesome as you get longer into the fund term, if it is a PE investor. For instance, Blackstone had invested in Intelenet from the Blackstone Capital Partners Fund V, which expires in 2016. So you know very well that in the next five years, there would be pressure.

**Q: When did the hunt for a buyer really begin?**

**A:** About 6-7 months ago, we sat down to figure out where we were in our journey to grow into a large company. Keeping in mind client expectations and competition, we knew that either we needed to become big or create some kind of unique capability to differentiate. On the client side, customers of BPO services now expect their suppliers to be a one-stop shop. So the BPO service provider has to provide consulting, business processes, technology and increasingly, front-office services as well.

**Q: What were your reasons to look for a buyer?**

**A:** The way that outsourcing contracts are structured has changed in the past three years, specifically after the global recession. Clients now expect the BPO service provider to buy out their facilities (shared services centers) or fund their losses for 12-18 months.

Typically, in the first few months of the term of an outsourcing contract, the client incurs a

negative impact on its bottom line. After the recession, clients started asking the service provider to bear that loss.

It would have been a struggle to address all these factors effectively at our current size (Intelenet's revenues as on March 2011 were reportedly around \$272 million. Serco's revenues are \$9 billion.)

**Q: When did you start talking to Serco? How is the deal being structured?**

**A:** Barclays and Aventus introduced us to Serco about four months ago. We were looking for a partner who could give us scale and access to front-end services. They did not have a sizeable BPO business yet (Serco acquired Gurgaon-based InfoVision in 2008, which will most likely be merged with Intelenet) and it seemed a perfect fit.

It is a £385-million (\$634.2-million) deal, of which £335 million will be paid on the closing of the deal. The remaining £50 million will be paid over a period of time, depending on certain expectations in terms of business commitments by Barclays and Blackstone. All shareholders, including the employees and management, are selling their stakes.

**Q: What kind of growth do you expect after the acquisition?**

**A:** Let us put it this way. If you look at the past, our typical annual contract size was \$30-50 million. Following the acquisition, we believe that we can go up to \$150-200 million in terms of annual contract size. Further, if we need to make investments, buy out a shared services centre, etc., we now have that firepower.

**Q: How long will the integration with Serco take?**

**A:** Well, there is no separate BPO business that we have to integrate, except for Serco BPO, which is in India and small enough to stitch in. We need to get some of the support functions integrated, such as finance and human resources. The go-to-market strategy, where we will have to leverage the existing sales force in Serco to sell our BPO capability, will need some integration, and there is a plan being put in place.

I do not think there will be a big challenge in any form because it is a different business line. However, we will have to find a way to understand and work together with the sales guys because there will be one transition team. We are giving ourselves about six months' time for this.

## Fast Facts

**Established**  
In 2001, as a 50:50 joint venture between HDFC Bank and TCS

**Headquarter**  
Mumbai

**Employees**  
31,000 across 34 global centres in India, the UK, the US, Central America, the Philippines, Mauritius and Poland

**Main business**  
Financial services BPO; services companies in the UK, the US, Australia and India

**Investors**  
Blackstone Group, Barclays Bank, HDFC Bank

**Revenues**  
\$272 million (unconfirmed)