

'Acquisitions will help us add domain capabilities'

Traditionally 'conservative' in terms of acquiring companies, EXL Service is now acquiring smaller players and adding more domain expertise to its offerings. While its peers were busy acquiring companies in the last five years, the 12-year old company watched cautiously and grew organically. Chief executive and president ROHIT KAPOOR, in an interview with Piyali Mandal and Bibhu Ranjan Mishra, explains why the company is now scouting for targets. Edited excerpts:

Q&A

ROHIT KAPOOR

CEO & president,
EXL Service

We had seen a lot of mergers and acquisitions (M&As) in the business process outsourcing (BPO) space in the last 10 years. Why did EXL not aggressively pursue M&As?

We have been fairly cautious in terms of M&As. Our first M&A was in 2006 and after that, we didn't see any acquisition for several years. The reason was we wanted to integrate, we wanted to learn how to acquire assets and how to combine them and see how it played out. It actually takes three-four years after an acquisition to fig-

ure whether or not it is really working. Once we had that experience, we restarted inorganic pursuits two years ago, and we would step up the pace further.

What is the trigger for the move? Are you planning to expand your geographical footprint?

We have now discovered our ability to identify targets, negotiate contacts and integrate them have become very well-established. We think we are good in acquisitions and use our capital intelligently. The acquisitions that we are looking at are purely for adding domain knowledge and capability. That is the most important factor for us, since I believe that is the reason clients choose a service provider. They may offer us entry into new geographies, but that's not the primary focus.

Are you in talks with possible targets?

We are talking to six-seven prospective

companies. These are small-sized acquisitions in the range of \$25-30 million. We are not looking at large acquisitions, since we saw a big acquisition recently (May). We think we should not be over-stretching ourselves, from a management bandwidth point. Each acquisition takes a lot of time for integration. So, it would be a distraction for us to go for very large-sized acquisition at this stage.

What domain knowledge and capability do you plan to add through the acquisitions?

We would continue to look at ways to diversify to various industry verticals. The vertical that looks the most attractive at this moment is the healthcare industry. We already cater to five verticals—insurance, banking, travel, transportation and utilities. Insurance is the biggest, contributing 54 per cent to our revenues. We also cater to finance and accounting as a horizontal, and this is key focus area for us.

Currently, what is the size of your war chest?

We have close to about \$80 million in cash, and a bank credit line of \$50 million from

two major US banks.

Where do you see your revenues?

Our next milestone would be to touch one billion dollar in revenues. We will close the current financial year with revenues of over \$350 million, which could grow by another \$100 million and touch \$450 million next year. So, by 2015, we will be a billion-dollar company.

There were reports of your institutional shareholders planning to exit the company.

Private equity firm Oak Hill Capital Partners was the only one who had invested in us for over nine years. They are very happy with the way the business has progressed. They don't have any time pressure, which is why they need to exit. Right now, they plan to continue investing.

How would the current economic uncertainty affect the BPO industry?

The uncertainty may not be that bad for the BPO industry, compared to other industries. In our industry, global economic uncertainties may act as a catalyst, since this would make the companies consider how they can reduce costs.

