

HCL BPO eyeing new buys

Scouting For Firms With Revenues Up To \$250 Million In US, UK & Australia

ON LOOKOUT



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Deepshikha Monga
NEW DELHI

HCL BPO is looking for acquisitions of platform-based BPO firms in the US, UK and Australia with revenues of up to \$250 million, its chief executive said. "We want to de-link revenue growth from headcount growth. So, we want to acquire companies in English-speaking countries that derive revenues from output or outcome-based pricing and platform-led services," HCL BPO president and CEO N Ranjit said.

Last year, the BPO arm of HCL Technologies had acquired two firms —UK-based Liberata Financial Services (LFS) and US-based Control Point Solutions. The BPO firm aims to earn revenues of \$1

billion by 2010-11 and expects about 56% or \$560 million to come from acquired entities. HCL BPO had revenues of about \$223 million in the year-ended June 2008.

Confident of closing at least one buyout this year, Mr Ranjit said the company's strategy is to buy loss-making or marginally profitable entities at low prices and turning them around. So, while BPO firms typically go under the hammer at 1.5-2 times their revenues, Control Point, with revenues of \$27 million, was bought for \$20 million. HCL BPO paid \$2 million to acquire LFS' fixed assets and committed an investment of another \$24 million. The firm is confident of turning around both acquired companies by the end of calendar year 2009.

The two acquisitions impacted the margins of the BPO firm. In the quarter

ended Dec '08, its EBITDA margin went down to nearly 14% from 26% a year ago. "We completed the integration of Control Point and LFS in the Oct- Dec quarter. We are hopeful of achieving margins of over 25% by 2009-end," Mr Ranjit said. The BPO firm's revenues were also impacted due to the pound losing value against the dollar as about 72% of its revenues come from the UK.

The company, which only has one Indian client in a large auto maker, said it will not look at increasing its exposure to the domestic market at this stage. "Until Indian companies show willingness to pay more for value addition and information security, we will not look at the market," Mr Ranjit said.

deepshikha.monga@timesgroup.com