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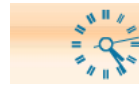
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Other IT firms to feel ripple effect

Bibhu Ranjan Mishra / Bangalore January 8, 2009, 0:47 IST

The Indian IT outsourcing industry, which is thriving on the goodwill and reputation it has built over a period of time among the global clients, is expected to bear the brunt of the Satyam episode in coming quarters. The industry, which is also passing through one of its lows in the wake of the ongoing global financial downturn, expects that clients will now be more cautious, despite Satyam's case being an isolated one.

"I think, the people who outsource works to us will ask more questions, and this is very natural. It will take due course to improve. However, Satyam does not represent the whole Indian IT industry, this is just one individual act. However, we need to talk to our clients and give them assurances," said T V Mohandas Pai, director of human resources, Infosys Technologies.

Suresh Senapati, CFO, Wipro, adds: "This has nothing to do with the industry and the nature of business. This is just an isolated case and can not be assumed as a trend in the Indian IT industry. However, this of course, will make the customers more suspicious and could have some impact because of this development."

Unlike other sectors, the Indian IT services sector is too much dependent on global customers since the domestic market is yet to come to a standard level. Most of the companies rely on the US for more than 60 per cent of their revenues, followed by Europe about 20 per cent. While outsourcing a contract to an Indian IT outsourcing company, the clients do a due diligence, which includes a thorough observation of the focus, intent and size of the company, and the projects they have already executed for other clients. Any suspicious activity on the part of a vendor is enough to instill a sense of fear since most of them work with the service providers on a long-term basis. Industry sources say that companies are making all-out efforts to keep their clients in good faith.

"The industry needs to bring back confidence among the clients, the ways of doing may differ from company to company. Each company need to figure out how they will handle such a situation," added Rostow Ravannan, CFO, MindTree.

Sources believe, while the affected company (Satyam) is expected to loose out many of its existing clients, this will have some ripples among the industry as a whole.

Research firm Forrester says close to 35-50 per cent of the clients are expected to walk away from Satyam. This, however, can have a positive impact on other Indian IT services companies, which can grab many of the clients apprehensive of financial fraud by the company.

"Such kind of development makes the affected company more vulnerable while at the same time it provides a lot of opportunities for the non-affected companies. This of course is an opportunity for us and we might see a lot of their (Satyam's) clients approaching us," said Senapati of Wipro.

The movement of clients from Satyam to other IT vendors is, however, not expected to be easy. Clients will start reviewing the exit clauses in their contracts with their Indian providers. They are also likely to conduct a more microscopic due-diligence for large deals thereby deferring the decision on upcoming vendor contracts.

"The industry speculation about Satyam's demise is likely to alarm clients and they will be looking at the first opportunity to exit from any business-critical engagements. Those with infrastructure, outsourced to Satyam, will be the first to make the transition to another provider," said Sabasachi Satpathy, co-founder of Mindplex Consulting, an outsourcing advisory firm.

THE RISE AND FALL OF RAJU

NAME: B Ramalinga Raju

BACKGROUND: Traditional agriculture business

ENTREPRENEURIAL DEBUT: Started Sri Satyam spinning and weaving mill in 1977

DIVERSIFICATION: Entered the real estate business by floating Satyam Constructions

IT FORAY: Founded Satyam Computer Services jointly with one of his brothers-in-law DVS Raju in 1987. The company went public in 1992 Internet services business: Started Satyam Infoway (Sify). Stepped down as chairman of Sify on December 10, 2002

LEADER MATERIAL: Elected Nasscom chairman in April 2006

AWARDS AND ACCOLADES: Received the lifetime achievement award from the Hyderabad Management Association in June 2005, a Doctorate from the Anna University, Chennai, on December 14, 2007, and Frost & Sullivan Excellence in Leadership award for 2008

CSR INITIATIVES: Set up Byrraju Foundation in July 2001 in memory of his father Byrraju

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Satyanarayana Raju. Launched Emergency Management and Research Institute (EMRI) in April 2005 and rolled out an emergency response service on August 15, 2005, with a vision to save one million lives a year nationally by 2010

JANUARY 7, 2009: Steps down as the chairman of Satyam

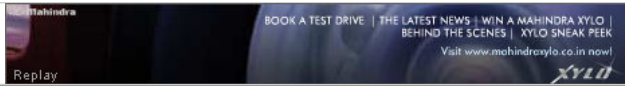
Sudin Apte of Forrester asserts that after this shocking disclosure, "around 30-50 per cent clients would review their deals with Satyam". These, he explains, are primarily the 100-odd ones that have deals of around \$1 million or lower.

Nasscom President Som Mittal said: "The IT-BPO industry has high sets of corporate governance and this is an isolated case of governance failure. The blame of such an isolated incident should not be put on the entire country or industry because such issues have taken place in Europe and more recently, in the US."

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