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Cognizant Moves Up A Spot, Sees More Gains In Future

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Short-term goals are fine, but **Cognizant Technology Solutions** ([CTSH](#)) prefers to take the long view.

The Teaneck, N.J.-based company would rather give up higher margins to reinvest in things that will pay off down the road. That includes infrastructure, training, customer relations and geographic expansion.

Cognizant is one of five tier-one outsourcers of information technology services doing business predominantly in India. It has 77 strategic accounts, with 70% of its revenue coming from financial services and health care companies based mostly in the U.S.

"If you go through the (client list) it'll read like a very impressive blue-ribbon roster," said Ashish Thadhani, analyst with Gilford Securities.

Cognizant's operating margins are around 20%. Margins for most rivals in India range from 25% to 29%. Cognizant outpaces most of the field in sales and earnings growth.

The company overtook **Satyam Computer Services** ([SAY](#)) in revenue last quarter to become the fourth largest IT solutions exporter in India. Cognizant posted revenue of \$337 million for the quarter, which ended in June. That was up 59% from the year before.

Satyam's sales for the quarter gained 33% to \$331 million. Sales at **Infosys**, ([INFY](#)) the largest publicly traded, pure-play Indian outsourcers, rose 38% to \$657.3 million.

Besides Infosys, Cognizant trails **Wipro** ([WIT](#)) and privately held **Tata Consulting**, ([TTM](#)) the top player.

Cognizant's quarterly earnings rose 48% to 37 cents a share. First Call analysts expect annual profit to rise 38% this year and 34% in 2007.

"Cognizant should deliver industry-leading earnings growth," Thadhani said.

Beginning in January, it'll deliver that growth under a new chief executive. That's when Chief Operating Officer Francisco D'Souza, 37, will move up to the top spot. Current CEO Lakshmi Narayanan will become vice chairman.

"The succession plan is aimed at longer-term challenges, primarily in bridging the talent gap," Narayanan said. "One of the key challenges we anticipate in the long term is sufficiently qualified talent in the business."

Narayanan, who lives in India, plans to work with universities there to help train educators in new technologies.

"The curriculum at many universities has not changed in at least five or six years," Narayanan said. "The requirements for us keep changing. For example, we want more people with Unix open-source software training — a service-oriented architecture which is not taught in colleges in India yet."

Cognizant also plans to raise entry-level wages of college graduates it recruits from universities in India. The wages are expected to go up 20% next year.

"Wage inflation (in India) is certainly something to keep an eye on," Thadhani said.

Gravitational Shift

Future CEO D'Souza will be based in the U.S. so he'll be closer to top management of Cognizant's main customers.

"The center of gravity will shift just a little bit back to the U.S. (from India)," Thadhani said.

He says the succession plan also signals Cognizant's intent to remain in control of its future as an independent company.

Rumors had circulated that **IBM** (IBM) might be eyeing Cognizant. IBM plans to aggressively expand its consultancy services in India the next few years.

'Tipping Point'

Even as India continues to rule the outsourcing roost, Cognizant is looking to expand in China, where it has a small operation. China will "supplement" India, Narayanan says.

"The talent pool (in China) is large, and it has low-cost technical labor," he said. "Language is an issue, but not so big we can't (handle it)."

Cognizant's foothold in Europe seems to be getting stronger as well. Revenue from Europe accounts for 12.6% of the total and is growing faster than the overall company.

"Europe appears to have reached a tipping point in terms of embracing offshoring," Thadhani said. "It's a new leg of growth."

Though investments on the Continent are starting to bring in new business, most of the work in Europe still comes from the U.K.

