Transform and consolidate

PHOTOS: SANJAY BORADE

Dhuru at Aftek is concentrating on the inorganic route to grow the business

In the first week of March 2007, the Bavaria born Gerhard Schempp, CEO of ESG Electroniksystem-und Logistik GmbH and Wolfgang Sczygiol, a senior manager of the company, were on their first visit to India evaluating Aftek's facilities in the three cities – Mumbai, Pune and Bangalore. This is pursuant to a strategic co-operation agreement signed with Aftek a few months ago.

"This helped us in jointly undertaking projects for some of our automotive clients like Volkswagen and BMW. We have now decided to strengthen this relationship, in order to look at broader set of opportunities," explains Schempp, who announced the German company's intention to form a joint venture (JV) with Aftek to exploit opportunities in Europe and India, but is awaiting various clearances before inking the dotted line.

Based out of Munich the €198 million ESG provides consulting, system development, logistics, training and IT services for a range of industries from aviation, naval systems, military logistics, IT and communication, automotive and industrial goods. Its investors include European Aeronautic Defence and Space Company, Thales Group and Rohde & Schwarz Group.

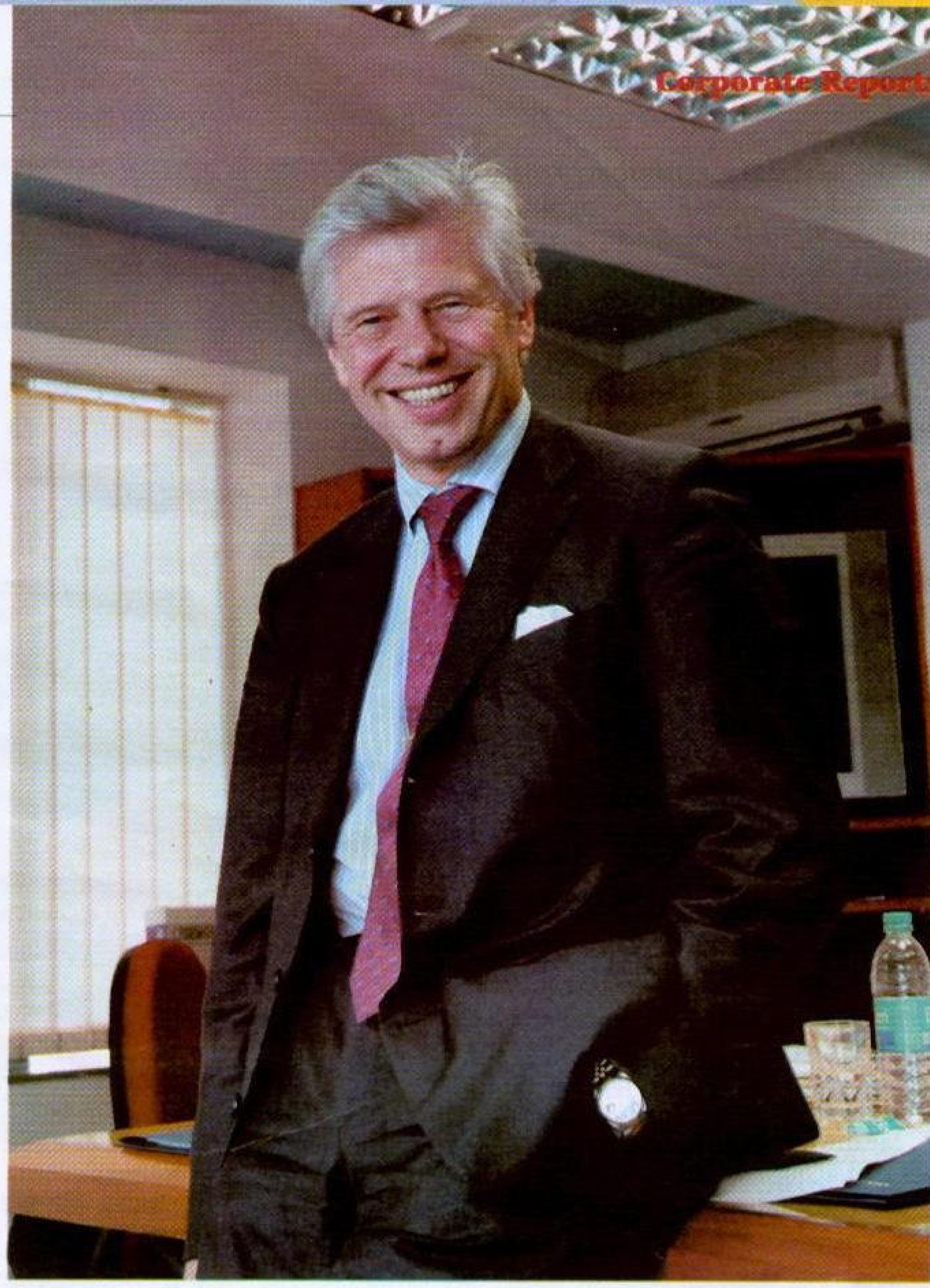
While details of the JV, including ownership pattern and equity structure, etc, are being worked out, according to the co-operation agreement – the umbrella under which the partnership will work – the JV will look at three different market opportunities. "First, is the possibility of offshoring work to India for ESG's clients in the automotive sector. Second, in helping Aftek spread its presence across Europe, using ESG's reach, market penetration and relationships. Thirdly, the JV will look at marketing ESG's expertise in the defence, aerospace, public sector and logistics segments to clients in India," says Ranjit Dhuru, CMD, Aftek which already has a presence in Europe through Arexera Information Technologies, a Germany-based 100 per cent subsidiary.

"The strengthening of the relationship with ESG will help us deliver quality software services to its list of marquee clients," adds Dhuru who like in most of the other Aftek JVs would prefer to first start with an alliance, work as sub-contractors and then depending on some pre-defined milestones enter into a JV.

"It is a unique business model that goes beyond just the traditional offshoring model. The partnership with Aftek will give the first mover advantage and allow us to extend our competitive advantage to provide software solutions and services in a globalised world. It will also allow us to market our cutting edge software products to the Indian defence and aerospace industry which is being rapidly modernised," adds Schempp.

Taking off from Schempp, Sczygiol observes that India is spending over $10 billion in inducting new aircraft, helicopters and other air defence systems. "Given our long experience of working at the frontiers of aerospace and air defence industry coupled with Aftek's local expertise and implementation skills, I think we are ideally suited to exploit this opportunity," says Sczygiol.

Promoted by Ranjit Dhuru and Pramod Broota, the two-decade-old Mumbai-based Aftek has transformed itself and lived by its charters of providing AFfordable TEKnology products, solutions and services. Starting off as a hardware company in 1986, it now has a firm-footing into the embedded technologies, enterprise and wireless applications and enterprise business applications space. "It has been swift in responding to the software revolution and has been able to change its course midstream. By the turn of the century it has found a focus in enterprise business management," observes a CEO of a mid-sized software company, who feels that the basic business approach of Dhuru and Broota has been solely responsible for Aftek to be able to keep its head above the water.



Schempp intends to sign a JV with Aftek

Prudent investments

So what is Aftek's secret to success in becoming a profitable company with a topline of over Rs200 crore? "Prudent investments", says Dhuru. Over the year, Aftek invested into mature business where it took only a small minority stake (*see organisational structure*), to begin with and kept options for full acquisitions, should the business propositions show sustained growth. "While this may have increased acquisition cost marginally, Aftek's risk has been reduced phenomenally. These are financially independent outfits," says Dhuru pointing to the company's agility in getting out of businesses in areas that did not take off. For instance, in June 2003 Aftek had invested close to £2.5 million for a 49 per cent stake in 3G Tel of UK which then Dhuru and team had identified 3G (third generation telecommunications) mobile communications and GIS (geographical information systems) as potential high-growth areas for Aftek.

Both had failed to get off the ground. "The failure of 3G was due to unexpectedly slow adoption of technology while the reason for GIS's failure was on account of very slow and long sales cycles," admits Dhuru to some of the investments going sour. But keeping it off the Aftek books has paid rich dividends.

Today, Dhuru and team swear by this policy of taking over companies where they sense new opportunities. These are independently run – financial and management with own business plans. They are made viable to grow to scale, and as these companies reach critical mass, the ownership is integrated with the parent Aftek to realise the full value.

Termed as a 'maturity ring' model, Aftek works like a techno-venture capitalist, a strategy that is seeing Aftek move places, since 2003. The first such investment to drive growth was made by Aftek (*Business India, 21 July-3 August 2003*), when it raised $15 million through a GDR issue. Then, it initially acquired a strategic stake of 49 per cent in the Munich-based Arexera Technologies GmbH in 2003 with a right to acquire the remaining 51 per cent stake based on the achievement of certain predetermined milestones over the next three-four years.

At that time, Broota had described the investment in Arexera as " a move in the right direction towards giving shape to our objective of emerging in the knowledge management space.

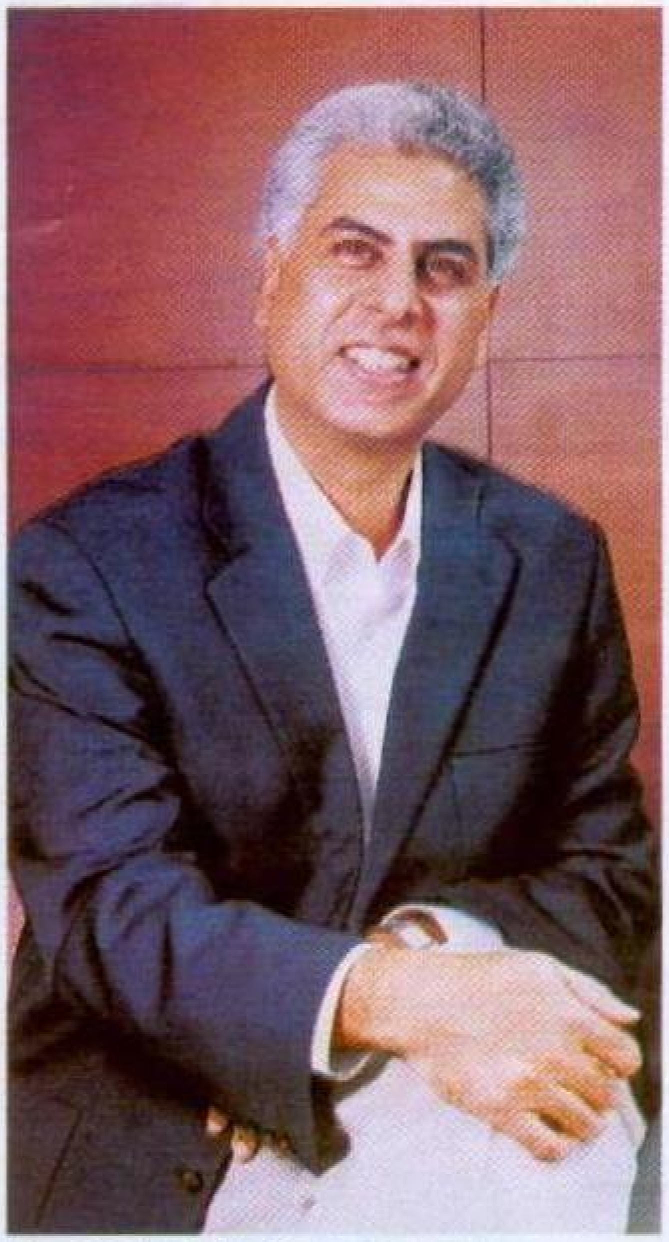
Besides facilitating expansion of markets in Europe for Aftek's products business, the acquisition would also help in bagging sizeable service contracts from Arexera's big ticket clients."

In Arexera, besides acquiring critical and patentable intellectual property rights (IPRS)) in the knowledge management space, Aftek got clients like Siemens, BMW, Axel Springer Publishing (Germany's largest publishing group), KPMG, to name a few.

As Arexera and Aftek continued to work together, in 2005, the former was integrated into Aftek as a 100 per cent subsidiary. With its early integration, Arexera offers a suite of products for unstructured data management. These products can be deployed, both, for enterprise and Internet search. The products, from intranet, Internet and file-system crawlers, to language detector, to automated documents classifier, summariser and keyword extractor and finally indexer and search engine support hundreds of different formats of textual, audio and video information. Arexera uses a patent-pending, Interest Driven Internet Search (IDIS) technology, for implementing very focused and effective vertical search.

Meanwhile, Arexera and its employees had acquired 56 per cent stake in the German Internet search company, Seekport Internet Technologies GmbH in 2004. Its service is available in German, French, English (UK), Spanish as well as Italian languages. Seekport provides search technology to Internet advertising agencies like Espotting on a B2B basis or to retail users on its portal, www.seekport.de, on a B2C basis. "Seekport's backfill and search speeds have compared favourably with those of Google and Yahoo and has an even better search quality," claims Mahesh Vaidya, CTO of Aftek. Talking about Sawafi, a joint-venture between Seekport and MITSCO Group, a Saudi Arabian partner, formed to launch an Arabic search engine for the Middle East.

Prior to acquiring Arexera, Aftek had ventured abroad by establishing a 100 per cent owned US subsidiary, Aftek Infosys (USA) Inc based in California in 2000. Subsequently, the company was renamed to Opdex Inc in 2003, to emphasise its focus on delivering solutions in the energy management space. Situated in the heart of the Silicon Valley, Opdex is located close to the north-American market. Armed with Aftek's offshore software development capabilities, Opdex is in a position to identify, define, engineer, deliver and support enterprise management solutions for that market. "Looking at the pressing need of the hour, Opdex would soon focus on products and solutions for the energy management sector," reasons Dhuru.



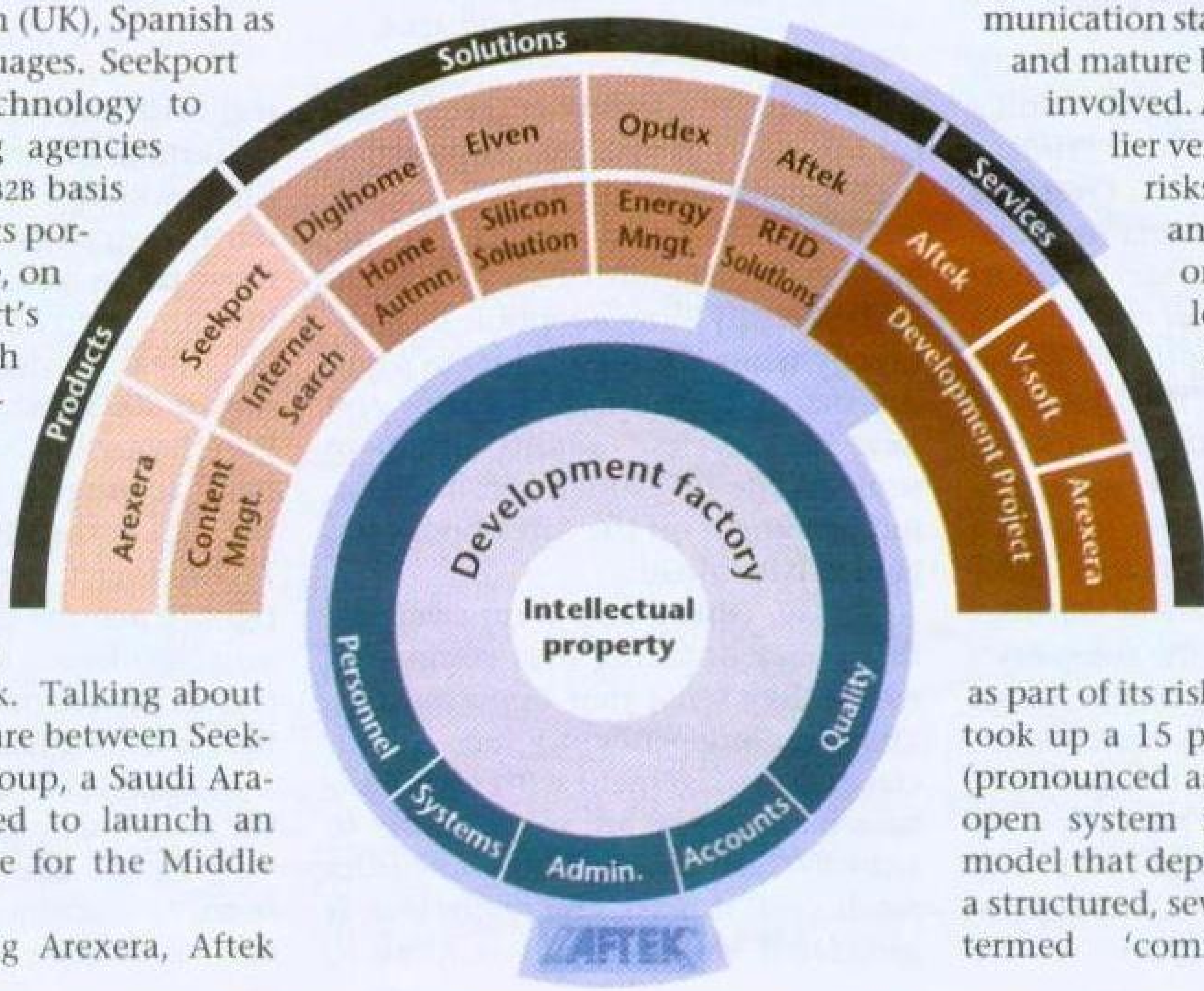
Broota: basic business approach

Inorganic ring

In 2004, Aftek made an investment in V-Soft, located in the Silicon Valley, in which it holds nearly 17 per cent. This has enhanced Aftek's footprint in the software professional services arena in the US. As a channel partner, V-Soft handles the marketing and sales of Aftek's professional services in the North American market, now sits on the inorganic ring of Aftek's invested companies with a possibility of full integration in due course.

As it happens, in order to complete the depth of its expertise and core competency in the field of communication, Aftek was constantly looking at an entry into the very large scale integration (VLSI) and the application specific integrated chips (ASIC) space, which is all about designing the chips and features as the bottom layer of the communication stack. "Since this is an old and mature business, there are risks involved. And just like all our earlier ventures, to minimise the risks, instead of starting another venture entirely on our own we were looking for some acquisitions," says Dhuru.

So, in early 2006, Aftek acquired the 100 per cent Indian operations of AMCC INC, a NASDAQ listed supplier of network processors, besides as part of its risk mitigation strategy, it took up a 15 per cent stake in Elven (pronounced as L-1) which is in the open system interconnection (OSI) model that depicts communication as a structured, seven-layer stack – hence termed 'communication stack'...



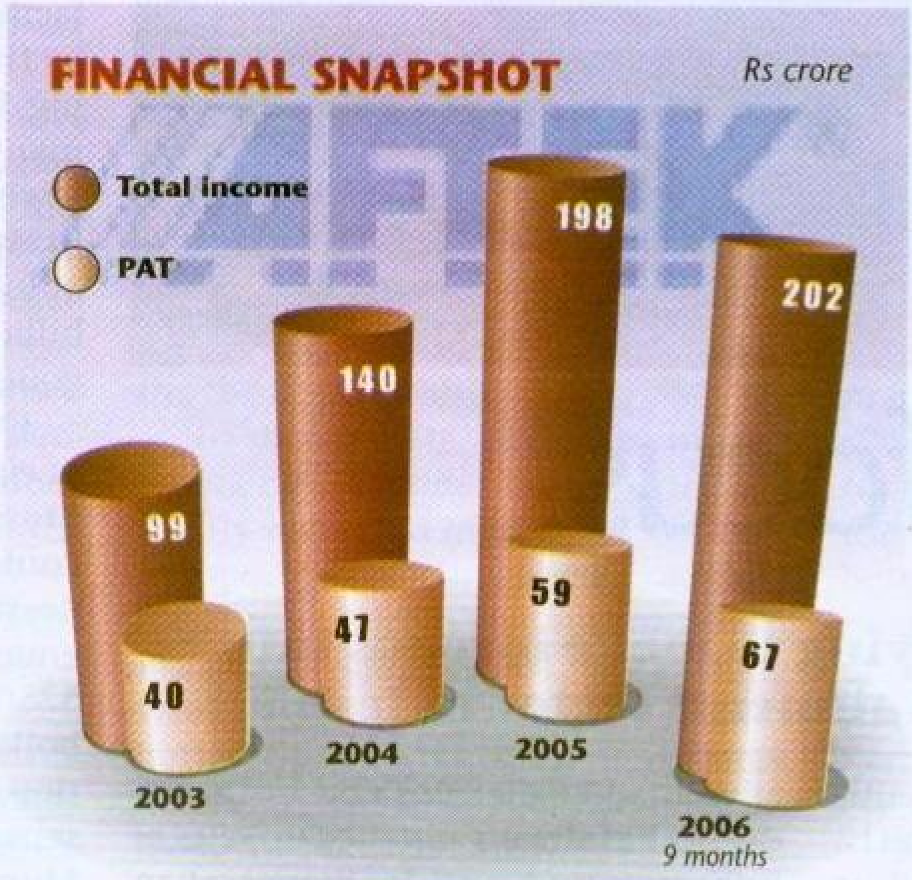
Recently, Elven also acquired C2Silicon, a privately-owned company out of Bangalore in the same space. "Soon Elven will be fully integrated into Aftek. As the desired results post acquisition has already started flowing in – financially and geographically. We have started a valuation exercise to make it a 100 per cent subsidiary. Elven provides a solid foundation at the bottom stack and is expected to fuel Aftek's growth," says Dhuru, who through Aftek has also taken a 25 per cent stake in the Pune-based Digihome Solutions Pvt Ltd (DSPL) and has been nurturing the company.

DSPL provides a digital home gateway solution addressing six different needs of any modern home viz. security, safety, automation, entertainment, information and communication. Security is provided by means of smart-card, bio-metrics or PIN-based access to individual apartments. Safety is provided by means of surveillance cameras situated at home and public places. Automation control is provided for electronic appliances, lights, fans, heaters, air-conditioners, etc. Entertainment provides downloading of movies and music from media servers and wireless transmission to video and audio systems. Surfing for information is possible with wireless Internet access. Communication enables local and long-distance calls using Internet with VOIP technology. "Built on US standard, all the features can be monitored and controlled remotely from an individual's cell phones or standard Internet browsers," explains Chandrashekhar Raje, director, DSPL. In essence, Digihome helps make all house-chorus an automated process on the click of a button.

Currently, in India, big builders and construction houses are already making a run for this magical technology, for obvious reasons – as a USP. So far, three players in India have gone high tech. The three buildings: Godrej House at Mahalaxmi in Mumbai (under construction) is one of the first takers of Digihome in the city, apart from housing societies in Pune and Bangalore.

Clientele list

With core competency in communications, Aftek is now into networking, telecommunications, semiconductors and automobile verticals offering custom application development, product engineering and soft testing services. Today its market spreads in Germany, France, the UK, Australia, Spain and Japan with customised solution in their respective languages. Aftek's clientele ranges from BMW to Volkswagen to ESG and GM.



All this, through a meticulously worked out two tier model – organic and inorganic, during the past four years the company's topline has logged a compounded annual growth rate (CAGR) of 40 per cent from Rs99 crore (2003-03) to Rs202 crore for the year ended March 2006. In terms of profits, for the same period, the net profit has shown a CAGR of 30 per cent from Rs40 crore to Rs67 crore. Now, for the nine months ended December 2006, the company has already surpassed the last full year's numbers with the top and bottomline at Rs237 crore and Rs84 crore respectively.

"At the core of Aftek's business model are IPS which have been developed or acquired and enhanced. Hence it is more profitable than its peers – Sanken, Wipro and TCS," says an IT analyst tracking the sector.

In today's date, Aftek is one of the very few companies to have 60 live IPS in action. "Leveraging on these technological IPS and its success ratio, Aftek manages to service clients and provide solutions at a lighting speed. In the last three months, we have already filed for five patents and by December 2007, there are another 15 in the pipeline that will go for filing," explains Vaidya, who sits in Pune at Aftek's development factory. "Jadugar – one of the IPS created by Aftek, true to its name can operate and communicate between various protocol interfaces, without disconnecting. Be it GPRS, GSM, Bluetooth and Voice-over IP. Companies like G-Tech, BMW also utilise Jadugar," sums up Dhuru, who through a mature family of subsidiaries each focusing on a niche in enterprise business management hopes to acquire businesses that complement or add value to Aftek's existing activity.

Nonetheless, all of this is not getting reflected on the bourse with the company's share price hovering around Rs70 (face value: Rs2). Of late, many investment analysts have started eyeing the company and have also been making round to Aftek's Pune and Bangalore premises but they have yet to take a view. They appear to be positive but still cautious. "On the product side, Aftek has done well. But these need to be made commercially viable. The company has the right size to fuel its strategy," says an analyst from a foreign bank whose personal opinion is that, "at the current level, the down side is protected."

Lastly, Dhuru has to remember that inorganic growth comes with several challenges ranging from operations to finance to strategy and thus has more risks. Here, he feels that the depth of knowledge he has gained over the years would stand him in good stead to keep transforming and consolidating Aftek.

♦ LANCELOT JOSEPH

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NEW DRIVE

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Mahindra & Mahindra has just flagged off a passenger car. Does the Logan mean the conglomerate is taking a new road?