

## IT cos taking inorganic route to beat US blues

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MUMBAI: Indian IT companies are taking M&A route to beat the global economic slowdown following the US sub-prime crisis.

Growth in the industry has started slowing, and with pressure on pricing, margins have declined considerably. With uncertainty surrounding allocation of IT budgets by the global firms, particularly the BFSI industry in the US--the largest revenue generator-- Indian IT companies have suffered decline in their top-line.

"It is important to seriously consider inorganic growth opportunities to sustain momentum and to leverage on synergies to improve bottom line," said CG Srividya, Partner-Transaction Advisory Services, Grant Thornton.

"US economic woes are providing Indian companies with new takeover opportunities. The liquidity crunch in equities worldwide dragged these markets down nearly by 30-40 per cent. So, the valuations are looking attractive. Indian big-ticket IT companies are sitting on a good amount of accumulated cash which they might utilise to acquire the business having synergy," said an analyst with a local brokerage.

As on June 30, Tata Consultancy Services cash reserve is over Rs 4,400 crore, Infosys Technologies Rs 7,564 crore, Wipro Rs 1,540 crore, Satyam Computer Rs 4,817 crore and HCL Infosystems Rs 2,516 crore.

"Prior to the US sub-prime, followed by growing signs of global slowdown, Indian IT companies were concentrating on body shopping. Revenue per employee has come down significantly. Also, competition from China and other developing countries like Philippines is getting intense. Hence, to sustain and maintain the growth potential, Indian IT companies need to grow the inorganic way," said Milind Teredesai, consultant with a large IT company.

"Also, to get the know-how of advanced technologies and expand their bases, M&A is the best way these IT companies can use to bring back their golden days," added Teredesai.

Infosys, the country's second largest software exporter, on Monday announced plans to acquire UK-based Axon Group for 407.1 million pounds (Rs 3,310 crore) to enhance presence in consultancy capabilities.

Grant Thornton's Srividya said, "the IT industry has been aware of the acquisition opportunities since the time global markets started showing correction / slowdown. Prior to moving ahead to leverage this opportunity, IT companies had to rework their own business plan and strategy. The industry has been in the consolidation and evaluation mode since then. We expect several other deals to follow."

Citibank is said to be toying with the idea of selling their captive support centers in places like India to boost bottom-line. This can be a good time for some IT service players to enhance technology bandwidth by acquiring these centers.

Indian IT companies are also looking at exploring new geographies and are looking at

opportunities in South Africa, the Middle East, and Australia.

“Market is witnessing increased merger and acquisition activity, as providers are looking to build scale and acquire new capabilities rapidly, particularly to increase geographic reach and acquire key service segment capabilities,” said NASSCOM, India's IT industry association, in its 2008 report.