

About 20 mid-cap IT cos willing to sell out

<http://www.thehindubusinessline.com/2009/02/22/stories/2009022251160100.htm>

Mumbai, Feb.21 Fifteen to 20 mid-sized IT companies that generate revenues of \$100 - \$150 million are willing to sell out as the financial crisis has made it tough for them to stay afloat.

And this space is seeing a lot of demand from overseas IT majors (those who do not have a well-developed India strategy) as Indian promoters seem to have become more realistic when it comes to valuations, said merchant bankers and private equity players.

The business models of several IT companies, especially the ones exclusively servicing the US financial services industry, have become redundant due to the global financial crisis, said Mr Rajesh Subramaniam, Managing Director of private equity firm Walden International India. If one were to look at companies in the \$100-200 million range, there would easily be more than 20 IT firms that would be interested in selling out, added Mr Subramaniam.

Pricing pressure

Mid-tier IT companies have very little scope to offer price cuts or discounts to customers, according to Mr Ranu Vohra, Managing Director and CEO of investment banking company, Avendus Capital. While companies with revenue upwards of \$500 million can manage price cuts with a manageable dent in margins, the same becomes extremely difficult for smaller companies, feel analysts.

“Till last year, many of these players intended to cross the \$500 million revenue threshold in two to three years’ time. Given the current downturn, it looks very difficult,” said Mr Manohar Atreya, Head-Technology banking of Ozone Capital Advisors.

Valuations have been the reason why many prospective deals involving multi-national IT players did not go through in the last three years. However, that seems to have changed: “We have seen valuations dropping by 30-40 per cent compared to last year,” said Mr Atreya.

Hence, several merchant bankers have been pursuing more inbound acquisition opportunities in the past few months than they did last year. Says Mr Vohra of Avendus: “Of the IT/ITES deals that we are advising on, 60 per cent are inbound transactions. In the first half of last year, a majority deals that we were advising on were outbound ones.”