

IT mid-market M&A space may see activity soon

<http://www.thehindubusinessline.com/2009/05/25/stories/2009052550500200.htm>

Bangalore, May 24, 2009: Deal makers see a spurt in the IT sector mid-tier M&A (mergers and acquisitions) over the next two to three quarters tracking an anticipated recovery in the global economy.

The prevailing economic crisis, which impacted valuations significantly, has put a curb on M&A over the past two quarters as companies restrained from selling a business anticipating better pricing, while the primary focus for most has been on maintaining revenue and profitability in a declining environment.

“In the last 9 months, there has been almost a complete freeze owing to global issues and sentiment. We are beginning to see sentiment improving,” said Mr Sanjeev Gandhi, Director in Grant Thornton India, M&A Technology, Media and Telecoms Team. The company is seeing an increase in levels of enquiries from potential acquirers especially for cross-border opportunities, he added.

Valuations

Over the next few quarters vendors are going to realise the valuations may not go back to previous highs. “Once this adjustment takes place, the market re-aligns and there is a meeting of minds on valuation expectations between buyers and sellers, we expect M&A activity to pick up again,” Mr Gandhi said. Liquidity should also start coming back into the market, which will give an impetus to deal activity, he added.

The US is in distress mode while India is in survival mode and the opportunity to acquire in the US, mainly for customers and customer-related skills cannot be let go, said Mr Manohar Atreya, Head of Technology Investment Banking, o3 Capital.

“This year and next year may be a fantastic time to acquire. There are smaller IT companies in distress in the US. They are losing business to Indian players,” Mr Atreya said. “We see a good amount of mid-market activity. We see good interest and progress on several transactions. The mid-market activity will continue,” he added.

Recovery process

Mr Atreya said M&A will happen since people have started to believe in recovery. Throughout the recovery process, one would see good amount of activity. The interest is there, cash is there, and the environment is also conducive. Deal sizes could be from \$15-20 million up to \$300 million. While many assets are available in this range there are not many assets in the \$500 million plus range.

It is unlikely one would see the return of the mega-deals at least in the medium term, as many companies have previously suffered from ‘acquisition indigestion’, said Mr Gandhi. There is increasing interest in the traditional overseas markets such as the UK and US and also across Europe especially in larger markets such as France and Germany.

In the domestic market in India, Grant Thornton expects consolidation in certain sectors such as the BPO/KPO, where larger suppliers look to scale up and fill spare capacity. It also sees increased M&A activity in India in spin-offs of Captive BPO operations by global corporates.