Outbound M&A remains healthy despite economic slowdown among Indian outsourcing firms

Merger and acquisition (M&A) activities remained healthy despite the global credit crunch and the economic slowdown. Most of the announced acquisitions were in the technology sector, indicating that many cash-rich companies used this opportunity to consolidate their positions in their key markets—US and Europe— when valuations were down. The technology sector led Indian acquisition activity with 23 announced outbound technology M&A deals in Q3 2008**.** While, given the macroeconomic backdrop, continued robust activity looked a little surprising; we believe the dampening effects of the slowdown were largely offset by attractive valuations of target companies.

Over the next few quarters, cash rich companies in the technology space are expected to opportunistically consolidate their positions in the global market.

Indian technology companies continued to score high on outbound investments in the third quarter of the year. The sector witnessed deals with a total value of USD 1.1bn in Q3 2008, compared with USD 1.2bn in Q3 2007. The sector accounted for approximately 27.6% of the total Indian deals, compared with approximately the same level as the corresponding period in 2007. Most of the deals in this sector were in the IT consulting & services sector. The largest deal in the sector was that of HCL Technologies acquiring Axon Group, a UK-based SAP consulting specialist. In what turned out to be a competitive bidding between Infosys Technologies and HCL Technologies, HCL emerged as the winner with an offer of USD 817mn, which was 8.0% higher than the USD 754mn offer made by its rival Infosys.

Unprecedented consolidation in banking and financial services created new opportunities for technology vendors and service providers. Many Indian firms are looking at M&A as a way to acquire the latest technology and to enter newer markets at reasonable rates.

Europe and the US continued to remain the most favorable geographies for Indian companies. Of the total outbound acquisitions announced in Q3 2008, approximately 36% of the target companies were based in Europe while approximately 33% were in the US. Given that US and Europe are the largest markets for most players, the geographical concentration is not surprising.

Several Indian companies, particularly in the technology sector, are now at a stage where they have a noticeable international presence and are cash-rich. In the past few quarters, these companies have made strategic acquisitions to consolidate their positions in their key markets. They also wish to become more innovative and work to improve business processes and not just serve as the information economy's version of manual labor.

Indian companies which have the necessarily balance sheet flexibility are likely to continue to be opportunistic and will engage in transactions that can diversify their revenue base and strengthen their product offerings. This will enable them to emerge stronger and play a bigger role in the global markets when the inevitable recovery begins.

Announced Outbound Transactions July-September, 2008
Technology Targets

30-Sep-08	SEEC Inc	Polaris Software Lab Ltd		(US)
26-Sep-08	Axon Group Plc	HCL Technologies	816.7	(Europe)
25-Sep-08	SZ Design s.r.l	Autoline Industries Ltd.		(Europe)
23-Sep-08	Brand Rex	Sterlite Technologies	55.0	(Europe)
08-Sep-08	Willow TV Inc	Reliance Big Entertainment Ltd		(US)
08-Sep-08	Time To Market Inc.	Infotech Enterprises Ltd.		(US)
07-Sep-08	Protege Software Services Inc	Cambridge Tech Ent Ltd		(US)
01-Sep-08	Cubeware GmbH	Cranes Software	25.0	(Europe)
28-Aug-08	Servista Ltd	Tech Mahindra Ltd		(Europe)
23-Aug-08	Perfectview Belgie	GlobalTech(I)Pvt Ltd	3.0	(Europe)
22-Aug-08	Xiptech Holdings Pte Ltd	Relic FiNAnce Ltd	0.7	(Asia)
18-Aug-08	True Games Interactive Ltd.	UTV Interactive		(US)
18-Aug-08	Babel Media Ltd	Quatrro BPO Solutions Pvt Ltd		(Europe)
04-Aug-08	PeopleSupport Inc	Aegis BPO Services Ltd	264.3	(US)
30-Jul-08	IQ Technologies LLC	Ontrack Systems Ltd		(US)
30-Jul-08	Undisclosed	GSS America Infotech Ltd		(US)
29-Jul-08	Ignition Entertainment Ltd	UTV Software Commun Ltd		(Europe)
28-Jul-08	Enterprise Consulting Services	Kaashyap Technologies Ltd	1.0	(US)
28-Jul-08	NexAge Technologies USA Inc	Kaashyap Technologies Ltd	3.0	(US)
13-Jul-08	Undisclosed	Zicom Electronic Security Sys	50.0	(Europe)
09-Jul-08	En Pointe Global Services LLC	Allied Digital Services Ltd	24.4	(US)
03-Jul-08	Pacific Data Centers, Inc.	Tricom India Ltd.	2.3	(US)
02-Jul-08	Gallagher Finl Sys Inc	Wipro Technologies		(US)

Source: Thomson, Annual Reports and Copal Partners