

5. INFORMATION AND COMMUNICATION TECHNOLOGY

5.1 Information Technology

Mergers and Acquisitions (M&As) in the IT and BPO Sector[@]

Despite a general slowdown in M&A activity across the world, the M&As in the IT and ITeS sector have continued in 2009 at full strength as the deep contraction in the global economy provided an opportunity to the IT and BPO sector to consolidate by acquiring companies across the globe. At the same time, world-over the IT companies are using the M&A route for transforming towards one integrated play as the lines between hardware, solutions and software solutions are blurring. We had made an attempt to trace the M&A deals in the IT & BPO sector from various media sources, which have been announced in the month of September and October 2009, and are presented in Table Nos. 5.1 and 5.2.

Global Mega Deals

Recently, Dell Inc has struck a deal to acquire technology services provider Perot Systems Inc in a cash transaction valued at \$3.9 billion, as the world's No 2 maker of personal computer looks to take on rivals Hewlett Packard (HP) and IBM in the lucrative software solutions and services domain. The deal has been in the works from 2007. The move will help Dell diversify from its core hardware business, which has become a commodity business with lower margins. The acquisition will give Dell more headroom to compete with the likes of IBM, Accenture, HP and Indian IT and ITeS services providers, such as TCS, Infosys and Wipro. Post acquisition Dell's revenues will be around \$7.7 billion, about 25% higher than the top Indian services firm TCS.

Table 5.1: Company-wise Revenues and Total Employees

Company Name	Revenues (US\$ billion)	Total No of Employees	Number of Employees in India
DELL	5.1	65,200 @	12,000
Perot Systems	2.8	24,000	8,000
Combined Services Company	7.7	89,200	20,000

@ - Approximately

Source: The Economic Times, September 21, 2009.

[@] In the Section XI on 'Corporate Sector', a review of M&As in all sectors has been done.

Perot is a specialist services provider, founded by Ross Perot who contested US presidential polls in 1992 and 1996, provides IT services and business solutions to customers in healthcare, government and banking space. Interestingly, EDS, which HP acquired last year, was also founded by Ross Perot. He founded EDS in 1962 and sold it to General Motors in 1984. Four years later, he founded Perot Systems in 1988.

Perot has about 8,000 staff in India, its largest outside the US. The deal will give Dell, a foothold in the healthcare IT market in India as well. Recently, Perot Systems Inc has signed a 10-year deal, valued at around Rs 90 crore, with Max Healthcare to provide IT outsourcing and electronic health records service. In the longer run the Indian IT players, which are now competing to the likes of IBM and HP will have to contend with one more competitor which offers integrated hardware and software solutions.

In another mega deal Xerox Corp is acquiring Affiliated Computer Services Inc (ACS) for \$6.4 billion, its biggest purchase, signaling a shift to computer services, as sales of its traditional printing equipment decline. Interestingly, Xerox is moving away from a pure play photocopier and document management provider to a more holistic IT services provider to compete more effectively in an enterprise services space currently dominated by IBM's Global Services Division. Terming the transaction as a 'game-changer for Xerox', the company's Chief Executive Officer said that by combining its strengths in document technology with ACS's expertise in managing and automating work processes, they would be creating a new class of solution provider. The transaction will help Xerox triple sales from services to about \$10 billion. The total price of the cash-and-stock deal is about 34% more than Dallas-based ACS' closing price on September 25.

Xerox Corp has been in India for over 25 years and is a well-established brand. Thus, it will be a good opportunity for the company to combine the ACS offering and provide more value-added services to its customers. ACS employs about 74,000 persons globally, and India is among its largest centres outside the US.

Company Name	Revenues (US\$ billion)	Total Employees (Nos)
Xerox Corp	3.7	55,000 @
ACS Inc	1.7	74,000
Post acquisition	7.7	129,000
@ - Approximately		
Source: Financial Express, September 29, 2009.		

The two mega deals will further intensify competition to the Indian IT companies as with the emergence of new behemoths like Dell and Xerox, Indian software vendors like TCS, Infosys and Wipro, among others, can expect some more competition both on global and domestic accounts.

Other Deals

Last month Essar Group company Aegis BPO had acquired 80% stake in Sri Lankan outsourcing company Ismart Timex for an undisclosed amount. The acquisition has been done through Essar Services Holdings, the holding company of Aegis. This is Aegis' 14th acquisition. Ismart Timex is one of the largest BPO service providers in Sri Lanka. Ismart provides back office and contact centre requirements in Sri Lanka with services in areas, including human resource profiling, training and quality assurance among others.

L&T Infotech, is in advanced talks to acquire a majority shareholding in the country's sixth-largest software firm, Patni Computer Services. L&T has already completed due diligence and contours of the deal are being worked out. The development comes after all three Patni brothers – finally decided to sell. They together hold around 48.30% stake. Another trigger for a sale at this time is that General Atlantic also wants to exit from the company. The PE firm has around 18% stake and had invested \$100 million in Patni in September 2002.

Technology management services company Glodyne Technoserve will merge Pune-based project management software services firm Compulink Services with it. The merger is expected to help Glodyne to leverage on Compulink's strong intellectual property rights and client relationship.

The Nasdaq-listed information technology firm Cognizant is set to acquire UBS India Service Centre (UBSISC), a captive (off-shoring centre) of the world's leading financial firm, UBS, for \$75 million (around Rs 350 crore). Cognizant, as a part of the deal, has also entered into a five-year services agreement with UBS. The company expects to receive an aggregate \$442 million (around Rs 2,000 crore) of revenues under the services agreement over the tenure of the deal. Around 2000 UBS employees will be transferred to Cognizant. The acquisition will deepen Cognizant's financial services domain in knowledge and enhance its capabilities to

provide integrated services across consulting and technology. Last month, the company has announced the acquisition of Pepperweed Advisors, the IT consulting services division of US-based Pepperweed Consulting, for an undisclosed sum.

In a similar deal, TCS had acquired the back office unit of Citigroup for \$505 million while Wipro had followed it in December last year with the acquisition of a second captive of Citigroup for \$127 million. Citigroup had signed contracts with both TCS and Wipro, agreeing to outsource work worth \$2.5 billion over 9.5 years and \$500 million over six years, respectively.

More recently, leading applications services, remote infrastructure services, BPO and KPO services providers, Mphasis Ltd., a subsidiary of EDS, has bought out the captive unit of AIG that was providing back office services to the insurance major out of Chennai and Kolkata.

The Cognizant UBS deal points to the fact that the days for large MNC captives are numbered. Captives are generally said to be 10-20% more expensive in service offerings apart from being quite away from the core-competencies of the conglomerates. Moreover, many MNC's that set up captives have realised that it is hard to manage sub-scale operations particularly in the backdrop of the slowdown and have been looking for opportunities to bail out. While, it would be easier for them to outsource the work, many are opting for the sell-out route keeping in view the headcount.

Contracts

The Indian IT and ITeS companies are witnessing a slow rebound in deal flow. Over the last couple of months, both local and global technology majors have announced multi-year, multi-million dollar outsourcing deals. Some of the major deals are listed in Table No. 5.3.

Table 5.3: Major Deals announced in October 2009

Tech Mahindra had bagged a Rs 2,000 crore deal for end-to-end outsourcing of IT applications and infrastructure from Etisalat DB Telecom, a joint-venture between the UAE-based Etisalat and the Dynamix Balwas group. The JV earlier known as Swan Telecom is rolling out cellular services across 15 circles in India.

Recently, the US-based conglomerate General Electric (GE) has extended its multi-million dollar contract with Mahindra Satyam for three years starting January 1, 2010, giving a boost to the IT firm, which has started winning new outsourcing deals.

Table 5.3: Major Deals announced in October 2009

TCS had signed a two-year multi-million dollar deal with Singapore-based People's Association for application management services.

IBM had bagged a deal from Datacom Solutions, the telecommunications arm of the Rs 24,000 crore Videocon Industries group. As per the agreement, IBM will provide a high-performance IT infrastructure and a range of business solutions to support Datacon's commercial launch this year and complete pan India coverage over the next two years.

Source: Various Media Sources

Other Highlights

IBM, the multi-national computer technology and IT consulting corporation, has decided to move out of few selected cities and focus on Tier-II and Tier-III cities for its expansion. The company has announced its first-ever business partnership with two companies in Uttar Pradesh, which will focus on offering a complete set of solutions to clients, including hardware, software, infrastructure services and consulting services. The two business partners CSPL Computers, Lucknow and Aryan Computers, Kanpur will be among the first channel partners in the country to sell IBM's infrastructure services to clients and focus on green IT, security, business continuity, improved collaboration and communication.

5.2 Telecommunications

M&As in the Telecom Sector

In the telecom sector the service providers have been actively investing in mobile infrastructure solutions as the global mobile data traffic is expected to more than double every year by 2013. In October, Cisco Systems, the leading network and telecom equipments maker announced the acquisition of Starent Networks (SN) for \$2.9 billion. The acquisition is expected to close during the first half of calendar year 2010. The deal represents about a 20% premium over Starent's closing price on October 9. SN is a provider of IP based mobile infrastructure solutions and is involved in wireless networking. With this acquisition Cisco Systems is hopeful to see good revenues through high speed wireless services as the company is betting that consumers will continue to download ever larger amounts of data onto smart phones and laptops via wireless networks.

Barely a week after talks with South Africa's MTN failed, the country's largest telecom operator Bharti Airtel is planning to acquire Luxemborg-based telecom firm Millicom's operations in Sri Lanka. Bharti Airtel, which itself has mobile services running in Sri Lanka, is believed to be keen on acquiring 100% stake of Millicom's operations in the island nation.

In a bid to maximize revenues amid increasing competition in the domestic market, the public sector telecom company, Bharat Sanchar Nigam Ltd (BSNL) has expressed interest in running the networks and operations of ETC on revenue sharing basis after the Ethiopian government invited 'request for special interest' to boost the IT and telecom services in the sub-Saharan country.

A consortium comprising India's telecom PSUs, BSNL and MTNL, among others, has started negotiations for acquiring control of Kuwait's biggest phone company, Zain Telecom, which has a presence in 24 countries.

The world's largest communications firm, the \$124 billion AT&T, is poised to re-enter the booming Indian telecom market, nearly five years after it left the country, exiting the three-way venture it had with the Tata and AV Birla groups. Apart from AT&T, other two global majors who are expected to enter the Indian market through the 3G broadband wireless access route are Australia's Telstra, which had exited from its 49% stake in Modi Telstra in 2009 and the South Korea's \$12 billion SK Telecom.

Telecom Subscribers Growth

Unlike IT industry, telecom sector does not seem to have impacted by the global meltdown because of its domestic demand concentration. The latest report published by the Telecom Regulatory Authority of India (TRAI) reveals that by the end of September 2009, the country's gross subscriber base reaches 509 million. The crossing of 500 million base is another significant landmark after the country achieved the target of 250 million telephone subscribers in December 2007.

Predominantly, over the last three years, the telecom sector has grown remarkably in the range of 29% – 47%. Growth in mobile phones was the principal driver for telecom growth in the country as it has been in other parts of the world. As demand boosters, progressive regulatory regime, network expansion by operators, reduction in tariffs and cost of handsets, which

essentially make the service affordable for the common users, have supplemented the growth of the mobile segment.

Table 5.4: Growth of the Telecom Sector in India (in millions)				
Year (End-March)	Mobile	Fixed	Total	Additions (During Calendar Year)
2003-04	35.61	40.92	76.53	
2004-05	56.95	41.42	98.37	21.84 (28.5)
2005-06	98.78	41.54	140.32	41.95 (42.6)
2006-07	165.11	40.75	205.86	65.54 (46.7)
2007-08	261.09	39.42	300.51	94.65 (46.0)
2008-09	391.76	37.96	429.72	129.21 (43.0)
September 2009	471.73	37.31	509.04	-

Figures in brackets are percentage changes over the previous year.
Source: TRAI, (www.trai.gov.in).

In recent years, however, smaller towns have fuelled further growth in mobile telephony. In the last four and half years period i.e. between March 2005 and

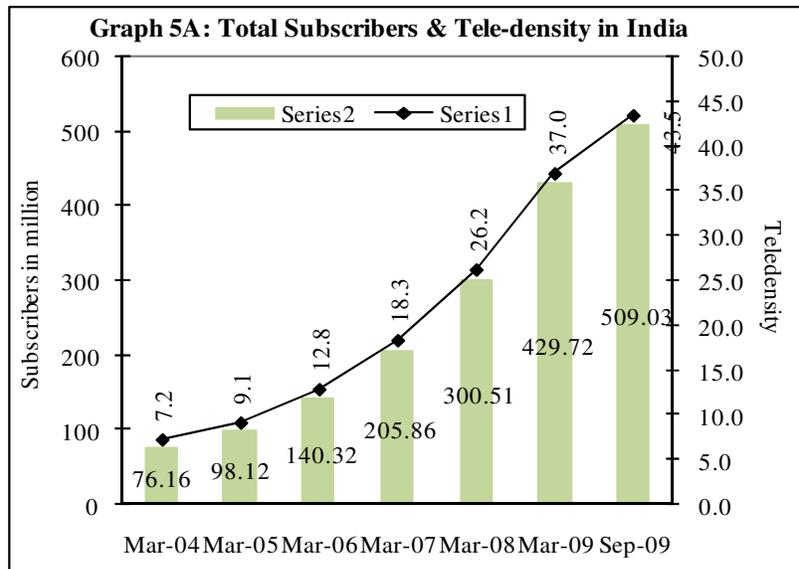
September 2009, the country has added around 414.78 million new wireless subscribers to reach a total of 471.73 million; however, the fixed line

subscriptions have declined by 4.11 million, down to 37.31 million over the same period, partly reflecting the substitution effect.

Tele-density

India's tele-density (the number of telephone subscribers per 100 people) grew initially slowly from 7.2 in March 2004 to 12.8 in March 2006, but thereafter galloped to a level of 43.50 in September 2009 (Chart 5A).

Notwithstanding such remarkable achievement, it is



necessary to note that India still lags far behind countries like Brazil and China, where the tele-density is over 50. However, India's tele-density is much higher compared to the neighboring countries like Pakistan, Bangladesh and Nepal.

5.3 Summing Up

The M&As in the IT and ITeS sector have continued in 2009 at full strength as the deep contraction in the global economy provides an opportunity to the IT and BPO sector to consolidate by acquiring companies across the globe. More importantly, world-over the IT companies are using the M&A route for transforming towards one integrated play as the lines between hardware, solutions and software solutions are blurring.

While in the telecom sector the service providers have been actively investing in mobile infrastructure solutions as the global mobile data traffic is expected to more than double every year.