

Dip in valuation prompts IT firms to bet on buyouts

Tech firms with niche capabilities are on the radar of IT biggies

DEBASIS MOHAPATRA
Bengaluru, 7 April

With valuations coming to a realistic level because of the coronavirus disease (Covid-19), many IT services firms with sound balance sheets have started exploring the possibility of acquiring companies operating in niche areas. According to sources in the know, strategy teams of many IT firms have sounded out investment bankers and analysts about opportunities that could be the right fit before conducting any formal due diligence.

Analysts are saying that with enough cash reserves at hand, most IT firms are better placed to overcome the Covid-19 crisis. However, as revenue growth is likely to take a hit, a good acquisition could offset some losses in top line. "Global flight of capital to safety in a strengthening dollar environment would generally make investment in IT, KPO (knowledge process outsourcing) and BPM (business process management) firms an even more attractive proposition," wrote Amit Singh, executive director (Enterprise Technology & Services) of Aventus Capital, in a recent note to investors.

According to investment banking firm, mergers and acquisitions (M&A) activity in the sector was trending down in March because of the unexpected disruption. While deals announced in the space stood at 226 in January, the number fell to 191 in



TECHNOLOGY SERVICES DEALS CLOSED IN MARCH 2020

Company	Acquisition
Accenture	ESR Labs
	Context Information Security
Infosys	Simplus
Cognizant	Lev
Capgemini	WhiteSky Labs
Starhub	Strateg

* Source: Aventus Capital

February and 89 in March, the note said.

However, deals in technology services space were not impacted as much as the overall technology segment. M&As in the segment stood at 14 in January, rising to 28 in February, and was 17 in March.

"While the current unprecedented situation has shaken investor confidence, we expect technology outsourcing industry to

be a net-gainer in the medium to long term," Aventus Capital said. No wonder, companies such as Accenture, Infosys, Capgemini, Cognizant have closed acquisitions in March, despite the crisis.

In the past few years, most top and mid-tier IT services firms, including Infosys, Wipro, HCL Tech, and Tech Mahindra, have completed many acquisitions to build capabilities apart from supplementing revenue growth. "When the industry is likely to see a revenue growth in the range of -5 to +5 [per cent] in 2020, a good acquisition can in many ways offset losses from core business. At a time, when valuations are attractive, many IT firms have started exploring this option," said Pareekh Jain, an IT outsourcing advisor & founder of Pareekh Consulting. While large-cap IT stocks have fallen by 27 per cent in March from their five-year high globally, market cap of mid-cap IT firms have dipped by 48 per cent.

51 IT catches Covid bug: Sector's outlook takes a hit

E-com firms ask govt to provide curfew passes valid for 6 months

PEERZADA ABRAR
Bengaluru, 7 April

E-commerce companies such as Amazon, Flipkart, Bigbasket as well as Grofers and the seller communities are in talks with the government for curfew passes valid for four-six months. They have also sought an approval to put IT products required by consumers in the essential items' list, according to sources.

The time period of 4-6 months would give enough visibility and time for the sellers to keep stock ready, as these firms and sellers were of the view that the curfew passes provided to them would expire once the lockdown is lifted (after April 14). The companies have asked for digital curfew passes as they feel fresh lockdowns are possible after April 14.

"All these passes and approvals that they are giving are valid until April 14. So, if the lockdown is extended by two more weeks, then again you have to run to collect the passes," said an executive at an e-commerce company.

"We don't know if it is staggered unlocking or it is going to be a continued



E-tailers have asked for digital curfew passes as they feel fresh lockdowns are possible

lockdown until June-July to flatten the pandemic curve."

As many delivery personnel have gone back to their hometowns, e-commerce firms are struggling to get enough of inter-district curfew passes. Instead of going from one district to another, the retailers have also asked the government to enable each state to provide the passes. "If my delivery associate is getting a pass for South Delhi, he can't do delivery in North

Delhi," said a person.

"If the fulfilment centre is located in North Delhi, the associate could be living in South Delhi. Then he has to go all the way from his home to the fulfilment centre to pick up the stuff for delivery. Many delivery associates have been stopped by the police, saying that they don't have valid passes."

According to industry insiders, more than groceries, the biggest challenge for consumers is to get various important electronic items such as phones, computers and other accessories. This is because an increasing most people are working from home. According to community platform LocalCircles, most corporates have asked their employees to work from home.

As many people were unprepared for such a long lockdown, they are running out of items like printer cartridge and many don't have a laptop, hence, unable to work from home. Also, with online tutorials starting, parents are struggling to find computers for their children. Most of these items have still not been considered essential.

Uttam Galva defaults on ₹664-cr loan

ArcelorMittal, SBI among steel firm's creditors

DEV CHATTERJEE
Mumbai, 7 April

The coronavirus (Covid-19) pandemic and the resultant shutdown have started impacting companies with Uttam Galva Steels (UGSL) defaulting on ₹664-crore loan. Apart from state-owned banks, ArcelorMittal is one of the top creditors of the company.

UGSL, which shut its plants and operations after the lockdown was announced last month, said it has an outstanding of ₹1,008 crore to its creditors. A company source said the default is "technical in nature" and blamed the ongoing lockdown for it. Operations had to be shut after it was unable to procure raw materials from suppliers due to the lockdown, said company sources.

State Bank of India, Oriental Bank of Commerce, Indian Overseas Bank and Vijaya Bank also have exposure to the company. A large part of Uttam Galva's loans was taken over by ArcelorMittal from public sector banks after it made the bid for Essar Steel in 2018 and later won



LOCKDOWN BLUES

■ Uttam Galva owes ₹1,008 cr to its creditors as on March 2020	■ Cash flows disrupted due to lockdown, economic slowdown	■ ArcelorMittal had taken over Uttam Galva Steel's loans to bid for Essar Steel	■ Lenders staring at huge losses in case operations do not improve
--	---	---	--

it after a long-drawn legal battle.

The loans were taken over by ArcelorMittal India Private Limited (AMIPL), which had paid off ₹4,922 crore to the secured financial lenders of UGSL to clear the overdue principal amount as on September 30, 2018, and interest due as on October 17, 2018.

Later, the overdue principal paid was assigned to AMIPL and the remaining outstanding loan (till completion of its tenure) continued with existing public

sector banks as 'surviving debt'.

Similarly, external commercial borrowing (ECB) loan facilities were partly assigned to Citi Bank, London branch, and \$136 million was paid by ArcelorMittal, Luxembourg.

The ownership of Uttam Galva stayed with the Miglani family, which had acquired ArcelorMittal's 29 per cent stake in Uttam Galva for ₹1 on February 7, 2018 – just before ArcelorMittal had made the bid for Essar Steel.

But the Supreme Court later asked ArcelorMittal to clear the dues of UGSL if it wanted to become eligible to bid for Essar Steel. Despite the takeover of loans, UGSL's financial performance did not improve due to the economic slowdown and it consistently reported lower revenue and higher losses. For the quarter ended December 2019, it reported revenues of ₹147 crore and loss of ₹273 crore. In fiscal year 2019, its revenues were ₹556 crore with a massive loss of ₹2,126 crore.

Thanks to ArcelorMittal's payment, the State Bank of India (SBI), which had filed an insolvency petition against UGSL, had withdrawn the petition on November 1, 2018 – giving it a new lease of life.

In its annual report for fiscal year 2019, UGSL warned that cash flows from its existing operations are not sufficient to cover the fixed overheads let alone the principal and interest obligations.

"However, to ensure that the outstanding debt does not become a non-performing asset, the company has consistently cleared dues before 90 days of the due date from funds borrowed from ArcelorMittal India Private Limited by way of inter-corporate deposits (ICDs)," it had said.

Wipro to announce Q4, FY20 results on April 15

IT major Wipro on Tuesday said it will announce its fourth quarter and FY20 results on April 15.

There are speculations that announcement of corporate earnings for March quarter could be delayed given the ongoing lockdown amid Covid-19 outbreak.

"...meeting of the Board of Directors will be held on April 15, 2020, inter alia, to consider and approve the condensed audited standalone and con-

solidated financial results of the Company under IndAS for the quarter and year ended March 31, 2020," Wipro said in a regulatory filing.

It added that the Board will also look at recommendation of final dividend, if any, for the financial year ended March 31, 2020 at the meeting.

The results will be announced after stock market trading hours in India, Wipro said. PTI

Debt-laden DHFL says won't pay lenders, bondholders

Dewan Housing Finance Corporation (DHFL) on Tuesday said it will not make any interest or principal payment to lenders as well as bond holders as the company is under resolution process.

The Corporate Insolvency Resolution Process (CIRP) was initiated against the debt-ridden company as per the provisions of the Insolvency and Bankruptcy Code, 2016 with effect from December 3, 2019. PTI

DHFL said all the rated debt papers of the company are carrying default grade ratings and disclosures on the same have been made to the exchanges.

The creditors of the company were duly informed about commencement of the CIRP and were requested to submit their claims to the company in the prescribed manner as per the provisions of the Code. PTI

Tata Trusts, private firm join hands to roll out testing kits

PAVAN LALL
Mumbai, 7 April

Molbio Diagnostics, a diagnostics company, has partnered Tata Trusts to roll out Covid-testing kits across the country.

Molbio, founded in 2000, largely focuses on testing for diseases including tuberculosis and malaria. It can now diagnose a positive result for the coronavirus strain within an hour for ₹1,350, said Chandrashekhhar Nair, chief technical officer of the firm.

The test — called the Truenat Beta CoV test — effectively enables same-day testing, reporting, and patient isolation initiation (if required). Officials say this is one of the few ICMR-approved tests to have been validated in a short period of time.

Its battery-operated kits are the size of a telephone and can be taken out into the field to test as many as 15 individuals a day. They range between ₹6.5 lakh and ₹12 lakh, and have received both government and ICMR approval.

They will be utilised in locations in Uttar Pradesh to start with, said Nair.

The firm has registered orders for 1,500 testing kits, which will be deployed soon. While the number of Covid-caused deaths and active cases has been rising sharply, India's apex health research body had earlier issued an advisory directing containment centres to conduct rapid antibody tests

to detect the infection.

These tests use a blood sample and punch out results in minutes, but are not as stringent as other technologies.

Nair says his kit uses polymerase chain reaction (PCR) technology, which uses a swab from the throat to diagnose diseases — a more accurate method when it comes to diagnosis.

"Rapid antibody tests can be used for speed but can't detect all cases," he said.

"People could be carriers despite not showing any symptom, and therefore be contagious. This means testing has to become universal in India for the disease to be truly contained." Molbio, which has been funded by founders and private investors, has raised ₹400 crore to date, with ₹240 crore coming from Motilal Oswal in recent weeks.

Madhav Joshi, CEO of the India Health Fund (IHF), said the initiative focuses primarily on getting innovative projects and services to market in this field. The IHF is a grant-making initiative that has received over \$10 million from Tata Trusts for supporting programs around infectious diseases.

The health ministry has said clusters of Covid-19 have appeared in Kerala, Maharashtra, Rajasthan, Uttar Pradesh, Delhi, Punjab, Karnataka, Telangana, and Ladakh. More than 200 districts have now reported Covid-19 cases, and the risk of further spread remains very high, it said.