

Digital Demand Drives 40% Surge in IT M&As

COUNTING IT Nasscom-EY report pegs the value of deals globally at \$297 billion in 2021, reflecting deals rise

Our Bureau

Pune: The growing demand for digitisation projects globally has resulted in a 40% increase in the number of mergers and acquisitions (M&As) for technology services companies in 2021, a new report by industry association Nasscom and audit and consultancy firm EY has said.

"The fundamental drivers are the surge in demand for digitisation and the need to fulfil this demand and the supply shortages," said Shivani Nagpaul, technology M&A leader at EY India.

The deal value globally stood at \$297 billion, or about ₹22 lakh crore, in 2021, significantly higher over the past year, the report said.

M&A activity in the industry gained momentum over the last 18 months and many deals were influenced by private equity firms in some manner, it said.

Companies are trying to gain both skill and fill capability shortages through acquisitions.

Instances like Infosys' acquisitions of Simplus and Blue Acord iCi, Cognizant's acquisition of Servian, and Tech Mahindra acquiring DigitalOnUs were all focused on gaining specific capabilities, the report said.

"Companies will have to determine

what makes strategic sense for them in the build versus buy approach," said Sangeeta Gupta, senior vice president at Nasscom.

Companies are also looking a way to gain entry into new markets and to gain nearshore delivery through acquisitions.

North America and Europe continue to be focus geographies with over 35% and 45% of all

M&A targets located there, respectively. There is also an increasing M&A activity in Latin American and Eastern European regions as companies are seeking nearshore delivery footprint to their key markets of the US and the UK.

Firms are also opting more for tuck-in acquisitions to augment capabilities and there are select scaled acquisitions enabling industry consolidation, especially in areas like product engineering and managed services.

Demand has been particularly high in emerging technologies in cloud (infrastructure and platform

as a service and managed services), digital engineering, implementation of enterprise SaaS products, cyber security, and data/analytics.

Private equity firms have influenced about 45% of all deal

activity as they look to build and operate their portfolio companies, resulting in a strategic approach to acquiring technology services providers, and increased competition within this space. There have been select large deals in this period, driven by the imperative to access differentiated capability to meet the growing demand for digital transformation initiatives, like Wipro acquiring Capco and the Hitachi-GlobalLogic deal, the Nasscom-EY report said.



Firms look for ways to gain entry into new markets and to gain from nearshore delivery via acquisitions

Deal Deluge

\$297 billion
GLOBAL DEAL
VALUE IN 2021

40% Rise in M&A
for tech services
firms in 2021

Industry's M&A activity gained momentum over the past 18 months

45% Deal activity influenced by private equity firms

Cos trying to gain skill and fill capability shortages through acquisitions

