

# IT services firms on acquisition drive to bridge digital gaps

AYAN PRAMANIK

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Indian IT services firms are likely to invest aggressively in acquiring smaller firms in 2017 to enhance digital technology capabilities, say experts. A large chunk of these acquisitions by companies such as Wipro, Cognizant, Tata Consultancy Services and Infosys will be driven by the need for transformation as digital technology firms, they add. While these companies have seen a significant growth in demand for the digital, legacy service business continue to generate 80 per cent of their revenues.

The sector witnessed big acquisitions by Wipro, Cognizant, Infosys, and Accenture as they wanted to increase the share of digital technology business in 2016. While Wipro alone invested nearly \$1 billion to acquire two firms, Infosys and Wipro allocated dedicated venture funds worth \$500 million and \$100 million, respectively, for smaller firms and start-ups. Others have made signifi-

cant investments in start-ups and to acquire small companies with expertise in digital technology.

Globally, till June 2016, around \$260 billion of technology merger and acquisition (M&A) deals were announced, according to Dealogic data. The crucial deals among them were Microsoft's proposed \$26.2-billion acquisition of LinkedIn, NTT Data acquiring Dell Services for \$3.1 billion or Symantec Corp's \$4.65 billion agreement to buy Blue Coat Systems.

"We expect there will be increased industry consolidation with the larger firms buying the smaller firms. We saw examples of this in 2016. One of the factors that will accelerate acquisitions in 2017 is the need for the Indian firms to transform into digital companies," said Peter Bendor-Samuel, chief executive of global technology researcher Everest Group.

Research reports have shown that all the industry growth came from the new 'digital' segment, but the legacy business makes up almost 80 per cent of revenues.