Robotics automation firms' valuations may taper off

DEBASIS MOHAPATRA
Bengaluru, 30 November

Robotics process automation (RPA) firms may not be able to hold on to their high valuations for long as several factors are likely to take a toll on their growth.

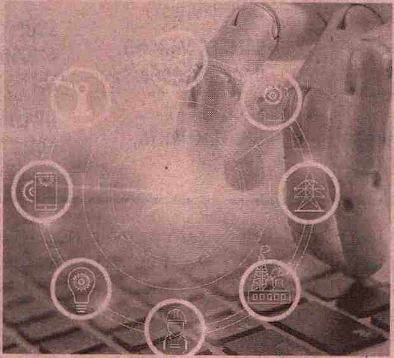
For instance, intense competition from global tech giants like Microsoft and IBM apart from IT services firms is likely to change the RPA landscape. This, in turn, will lead to dilution in valuation.

"Early technologies go through a hype cycle when valuations usually go overboard (like in the case of RPA firms). This is nothing but the process of evolution for any new technology," said Sanchit Vir Gogia, founder and chief executive officer (CEO), Greyhound Research.

"When RPA vendors are going to clients, the pain points and limitations of the business are also coming to the surface," Gogia added.

Last week, Automation Anywhere (AA), an RPA and chatbot company founded by four Indian entrepreneurs, saw a near three-fold rise in its valuation in a year after its recent round of funding.

The San Jose (US)-headquartered firm raised $290 million in series B round from Salesforce Ventures, SoftBank and Goldman Sachs at a valuation of $6.8 billion. Even though the privately-held firm didn't



disclose its revenue numbers, a June report by research firm Gartner pegged its 2018 revenues around $109 million.

Similarly, AA's close rival UiPath recorded revenues of $115 million in 2018. The RPA firm's valuation stood around $7 billion in April this year when it raised $568 million in series-D round of funding.

According to industry watchers, traditional product companies are valued at 10 times their revenues. So, 60-70 times valuation over the revenue looks a little stretched.

"Enterprise software product firms are generally valued at 10 times their revenues. But due to the hype around RPAs, valuations are higher compared to traditional product firms," said Pareekh Jain, outsourcing advisor and founder of Pareekh Consulting.

He said the challenge for RPA firms is that they are providing assisted automation which need manual intervention. "So, the investors are concerned if these solutions will function without any human intervention, just like enterprise software," Jain added. Apart from these factors, even global technology majors like Microsoft and IBM are looking at this space quite aggressively. Earlier this month, Microsoft had announced it would rebrand its 'Microsoft Flow' as 'Power Automate' by adding more features to fit into the RPA segment.

Even IT services firms have aggressive plans in the RPA segment as part of their service offerings. For instance, Infosys is providing RPA services through its automation platform 'AssistEdge' as well as artificial intelligence (AI) and machine learning platform called 'NIA'.

Wipro has artificial intelligence and automation platform 'Holmes' under which it automates complex operations.

"The AI and automation space is growing at 60-70 per cent CAGR (compound annual growth rate). So, this is a very interesting and hot space as of now with a lot of demand. We are seeing good progress in terms of our pipeline as well as growth," said Atul Soneja, global head of Edge Products and Infosys NIA.