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Serco Acquires Blackstone Pie in Intelenet

Blackstone's First Sellout in India

Other Top PE Exits in India

YEAR	INVESTOR	INVESTED IN	EXIT VALUE ($ M)
Dec '10	Actis-Sequoia	Paras Pharma	726
Nov '10	ChrysCapital	Infosys Tech	400
Aug '10	Sequoia	SKS Microfinance	354
Feb '10	Siva Ventures	Amby Valley	323
Jun '10	SAIF & Others	Intelligroup	199
Jan '11	General Atlantic	Patni Computers	160

Shareholding Pattern*

*Approximate %

Blackstone	Intelenet	Barclays	HDFC
66.25%	16.25%	12.75%	4.50%

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In one of the largest private equity exits and biggest back-office deals in the country, UK-based Serco Group has bought out private equity firm Blackstone and other shareholders in Intelenet Global Services in an all-cash deal valued up to £385 million or Rs 2,861 crore.

The acquisition gives Blackstone approximately £254 million and 3x-4x return on its original investment, and the Intelenet management team led by CEO Susir Kumar, around £55 million for its 16% stake in the BPO provider.

Serco, which operates business services in the UK and other countries, gets a presence in back-office services and a sizeable offshore footprint in India by acquiring Intelenet, the second-largest BPO employer and one of the top 10 BPO providers based out of India.

ET was the first to report that Serco was in talks with Blackstone to acquire Intelenet in its May 9 edition. Intelenet is one of Blackstone's early investments in India and among its more profitable ones. This is the PE's firm's first exit from its investments in the country, which include Gokaldas Exports, Nagarjuna Construction and Moser Baer Energy. The transaction is structured as an upfront payment of £335 million, and the remaining £50 million to be paid as earn-outs over a period of two years up to December 2013. The earn-outs are related to committed business from Blackstone's portfolio of companies and from Barclays Bank, which contribute close to 45%-50% of Intelenet's revenues.

Stake buy worth Rs 2,861 crore gives Blackstone four-fold returns on its original investment

For Serco, which is listed on the London Stock Exchange and part of the FTSE-100, this is the largest acquisition to date. "The acquisition is in line with our strategy, which is focused on organic growth, supplemented by strategic acquisitions for new markets, particularly which enhance our growth and margins," said Tom Riall, who will take over as executive chairman, Intelenet Global Services and Serco Global BPO. The existing management led by Susir Kumar will continue to be at the helm of Intelenet. "Serco has given us the independence to run the business but deputed a senior person to help us integrate and grow," said Susir Kumar. Serco spoke to Intelenet's top 20 customers before deciding to continue with the same management team, Riall said.

Three Investor Changes So Far ▶▶ 7

Three Investor Changes So Far

►► From Page 1

Kumar and his team were instrumental in getting Blackstone as an in-vestor in 2007 in one of the rare management-led buyouts in India. "So far, we've had three investor changes. Now there will be no more investors changes," added Kumar. Intelenet started as an equal joint venture between Tata Consultancy Services (TCS) and HDFC. The sec-ond ownership change happened when TCS exited and Intelenet be-came a 50:50 joint venture between Barclays and HDFC. In 2007, Barclays and HDFC exited through the management-led buyout, and Blackstone came in as an investor.

Blackstone currently holds 66% in Intelenet after the BPO firm re-cently broadbased its investor base by bringing back HDFC and Bar-clays Bank as shareholders. UK's Barclays currently holds a 12.75% stake in Intelenet and HDFC a little below 5%. The management holds about 16% stake after HDFC and Barclays re-invested.

Blackstone India originally invested $200 million for an 80% stake in Intelenet and Blackstone India's senior managing director and chairman, Akhil Gupta, termed the returns from its investment in the BPO provider as 'very satisfying'. "Since the time we invested, valuation multiples for the BPO industry have actually compressed. Despite that, we were able to get a good return because of the value we were able to create in Intelenet," said Gupta.

Blackstone, the world's largest PE firm, was able to add value by helping Intelenet do acquisitions that helped it diversify into providing services for the heath-care and travel industries. It also introduced some of its global portfolio firms to Intelenet, which now contribute to Intelenet's revenue. Six of Blackstone's global portfolio firms contrib-ute about a quarter of Intelenet's revenues, Gupta said.

For the year ended March 2011, Intelenet had revenues of around £170 million and an adjusted operating profit (operating profit or EBIT before amortisation) of £19 million.