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UK's Serco Group acquires Intelenet for ₹2,864 crore

By **fe** **Bureaus**

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UK-BASED services and consulting firm Serco Group has acquired Intelenet Global Services, one of the largest unlisted back-office service providers in India for up to £385 million (around ₹2,863.6 crore or \$634.4 million). The company will become part of the worldwide BPO unit of Serco, which entered India in 2008 with the acquisition of Infovision.

Out of the £385 million, £50 million will be paid over two years based on the combined entity's performance. The deal involves a 100% buyout from promoters

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Blackstone Group, Barclays and HDFC, subject to regulatory approvals. Blackstone holds the highest stake in Intelenet at 66%.

The acquisition is in line with Serco's strategy to enter new BPO markets like Australia, West Asia and Europe. The acquisition will be fully funded from Serco's debt facilities.

The expected funding cost of the acquisition will be around 5%. Serco Group director Tom Riall will be executive chairman of the yet-to-be-named combined BPO entity, while Susir Kumar will be its chief executive officer.

Intelenet currently has \$65 million (₹292 crore) debt. Barclays and Avendus were

advisors to the deal.

"The acquisition of Intelenet supports our ambitions as a leading global service company," said Serco chief executive Chris Hyman. "The international BPO market is growing quickly as companies seek out new ways to improve their service and reduce costs. Intelenet's high-value capabilities and customer base,

together with its economies of scale, means we can access new markets and strengthen our existing propositions. I am particularly delighted that the Intelenet management team will join us to continue driving the business forward," he added.

■ **Continued on Page 2**

■ **Persistent buys Agilent's French software biz, Page 4**

UK's Serco Group buys...

The BPO industry in India has been going through consolidation in the last couple of years. Susir Kumar said: "Consolidation is going to happen for sure in the BPO industry. General mid-size BPO firms will face challenges going forward. It's difficult to sustain margins and growth right now." Analysts expect similar deals to happen in the near term. Said Shashi Bhushan, senior research analyst, Prabhudas Liladher: "The BPO segment started seeing good times in 2010 and is back on growth momentum. The market is very fragmented, so consolidation will take place. Plain-vanilla BPO players will have to merge into integrated IT services players to expand their footprint."

Before the Intelenet acquisition, Serco had 8,000 employees in India. Globally, together with Intelenet, Serco will now have 40,000 employees only in the BPO space, Kiall told FE. He said he expects the Indian BPO industry to grow at 30% per annum. It was earlier noted in the media that the Serco Group was aggressively in talks with Blackstone to acquire their stake in Intelenet. In 2007, at the peak of the BPO boom, Blackstone invested \$200 million in Intelenet in a management-led buyout. For the year to March 31, Intelenet's revenue was approximately 170 million pounds (around Rs 1,294.4 crore) and adjusted operating profit was 19 million pounds (Rs 141.3 crore). Intelenet has a total of 32,000 employees and includes top clients like Barclays, State Bank of India, Travelport, Apria Healthcare, BSNL and Aircel. The company is strongly placed in BFSI, telecom, healthcare sectors. Barclays' contribution to Intelenet's revenue is 20-25%. According to Everest Research Institute, the size of the addressable global BPO market is \$356-\$500 billion. Around \$200 billion of this is currently outsourced, with \$40 billion being provided internationally. This international BPO market is forecast to grow by

around 15% per annum. International BPO services in India represents around \$15 billion or 32% of the market.

Analysts and market watchers on Tuesday said that Serco's acquisition of Intelenet is a landmark deal in the BPO world and could potentially open up the gates to higher valuation for other firms on the block, most notably FirstSource.

"The deal is on the higher side compared to other deals in the BPO market in India. The TCS-Citigroup's BPO arm deal was valued at about six times the operating profit. The Intelenet deal implies we can hope for much better valuations for companies such as FirstSource now," Sanjeev Hota of Sharekhan said.

Intelenet had revenues of £170 million and operating profits of £19 million for the year ended March 2011. Therefore its valuation at £395 million is the highest ever in the BPO world at two times its revenues and 18% times its operating profits.

TCS had acquired Citigroup's captive BPO arm Citigroup Global Services for \$800 million in 2006, a deal that marked the largest buyout of a foreign captive BPO in India. Another industry watcher who did not want to be named said it was a "fantastic" deal for Intelenet and the company's management appears to have done a great job. "Blackstone may have been desperate for an exit while Serco may not have been in a hurry to buy a BPO firm. From that perspective, the deal is significant," he said. The changing valuation scenario, he added, could now make captive centres lock at investment. "Worldwide, 70% of the market is with captives. There is huge value to be unlocked there," he noted. An executive from a rival firm said that Serco has many multi-year contracts with elements of customer service. "Intelenet will be used to do lot of this internal work. Also, the firm wants to expand its BPO business internationally where Intelenet is the perfect fit," he noted.