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Indian IT Companies Are Embracing Acquisitions To Boost Growth

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SINGAPORE (Standard & Poor's) Oct. 20, 2015--Indian information technology (IT) companies are likely to step up acquisitions to strengthen their competitive position and boost slowing growth. That's according to a report, titled "Moderating Growth And Rising Cash Put Acquisitions On Indian IT Companies' Radar," that Standard & Poor's Ratings Services published today.

The report identifies two key drivers for acquisition: moderating revenue growth; and access to new technology and new markets or business segments. It also notes that the high cash levels and low debt at Indian IT companies should help them to seek opportunities to acquire larger companies than they have in the past.

"We expect the larger Indian IT companies to maintain their financial discipline and conservative leverage despite possible acquisitions," said Standard & Poor's credit analyst Abhishek Dangra. "We also expect them to maintain their competitive edge on growth and margins over their global peers.

Standard & Poor's believes access to new technology, entry into new markets, and greater diversification through acquisitions can strengthen the business positions of Indian IT companies. However, their limited track record in making large acquisitions exposes them to risks in integrating employees and businesses.

Increasing competition, a slowing global economy, and the already large scale of top Indian IT companies will result in moderate organic growth, the report says.

"We expect revenue growth for Indian IT companies to remain at 8%-12% a year over the next one to two years," said Standard & Poor's credit analyst Ashutosh Sharma.

Shareholder distributions by larger Indian IT companies are likely to remain moderate compared with their global peers', in our view. However, payouts by Indian companies are likely to be higher than historical levels.

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