

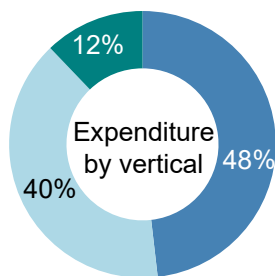
FORTNIGHTLY NEWSLETTER – 29 FEB 2024

RESILIENCE AND GROWTH: THE TRAJECTORY OF ENGINEERING R&D FIRMS

\$45bn | 2023 Indian ER&D market size

20.9% | CAGR (2023 – 2030)

\$170bn | 2030E Indian ER&D market size



■ Mnfg ■ Hi-tech ■ Services

Overview:

- Engineering Research & Development (ER&D) firms are specialized entities that focus on the innovation and development of new products, technologies, and services.
- These firms play a pivotal role in driving the technological advancements that shape various industries, including automotive, aerospace, healthcare, and telecommunications.
- In India, the ER&D sector has seen significant growth and has become a hub for global companies seeking to leverage the country's vast pool of engineering talent and cost-effective services.
- Indian ER&D firms are not only supporting global enterprises but are also increasingly involved in end-to-end product development and innovation.

Creation of value through innovation:

- A significant shift towards Digital Engineering (DE) is evident, with DE spending growing at a rate of 20% Y-o-Y. This reflects the industry's evolving priorities, focusing on harnessing digital tools and technologies to streamline engineering processes.
- ER&D services are in demand due to rising expenditures on the Internet of Things (IoT) and the need for customized products.
- Indian ER&D Global Capability Centers (GCCs) are driving innovation across various sectors, particularly in the automotive industry with advancements in technologies like Advanced Driver Assistance Systems (ADAS) and infotainment systems. The demand for professionals skilled in data analytics, AI / ML, and cloud computing is rising, highlighting the need for a thriving IT ecosystem and a vast pool of highly skilled engineers to meet the demands and drive innovation.

- Key considerations for setting up a GCCs in India includes talent availability to build scalable engineering teams, presence of a mature technology ecosystem, ease of doing business, and the ability to build teams at affordable costs. More than 85% of the top fifty ER&D firms have set up their GCCs in India.
- Indian IT companies are increasingly focusing on ER&D services, recognizing the growing demand for high-end engineering and potential for innovation. This shift is driven by the need to re-engineer products to make them suitable for contemporary markets and to scale up to global standards. Mid-cap IT companies are benefitting from this rise in demand for ER&D.
- There seems to be a pick in ER&D acquisitions by Indian IT players. Infosys acquired InSemi, a semiconductor design and embedded services provider for \$33mn. Xoriant, a Chrysalis Capital backed firm, bought MapleLabs, a specialized product engineering firm serving Fortune 500 clients in the hi-tech industry. HCLTech acquired ASAP Group, a German-based automotive engineering services provider for \$279mn. Capgemini acquired HDL Design House, a provider of silicon design and verification services in Europe to boost its semiconductor capabilities.

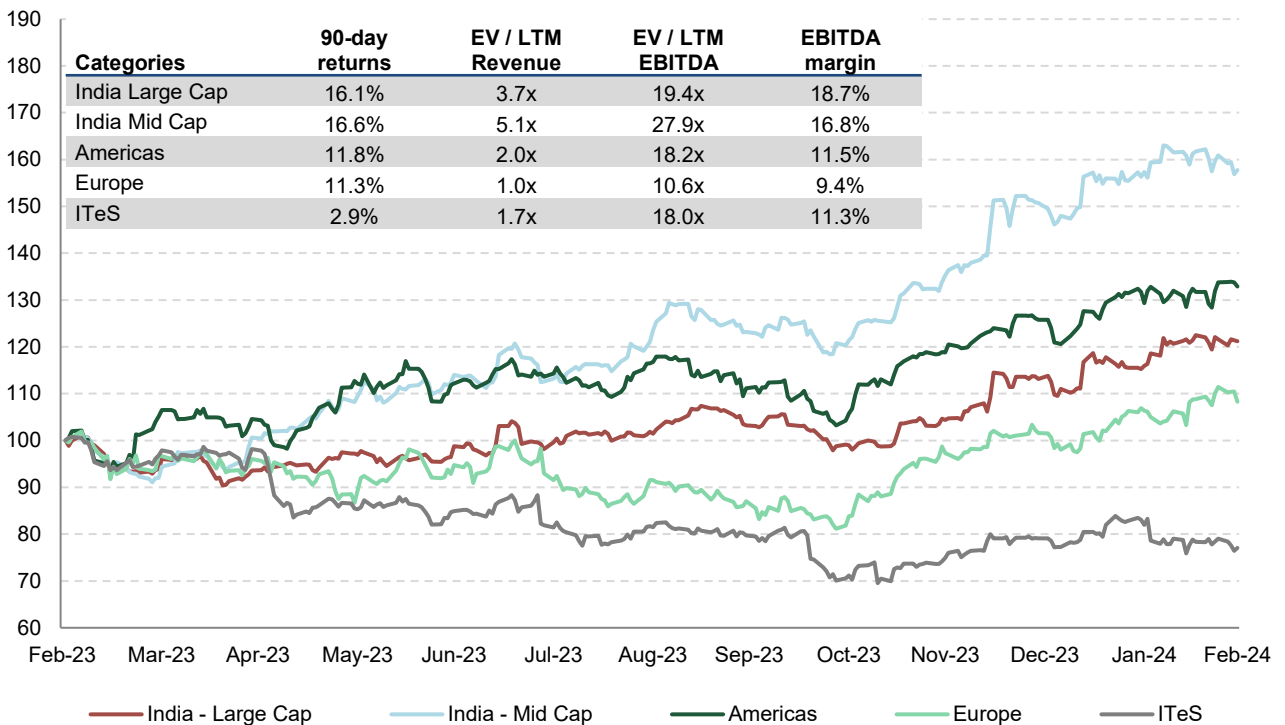
Key players

- In India, the ER&D landscape is dominated by both global players that have set up GCCs and homegrown service providers. Indian IT giants such as TCS, Infosys, and Wipro have been expanding their ER&D services to cater to global demand.
- The ER&D sector in India is also witnessing the rise of startups that are making a mark with innovative solutions and products. The government's push towards digital transformation and the establishment of smart cities has further opened opportunities for these players.

Market performance

MARKET METRICS (AS OF 29 FEB 2024)

Indexed to 100



HIGHLIGHTS:




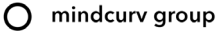












- Over the past 15 days, the valuation of Indian large cap players marginally increased by 0.3%, while that of Indian mid cap players slightly decreased by 0.7%.
- Due to ongoing economic slowdown, Indian IT sector is expected to grow at 3.8% to reach \$253.9bn in FY24, which is less than half of the growth rate of 8.4% in FY23. The industry will be adding an incremental \$9.3bn in revenue across IT services, business process management, hardware, software products and engineering services. It will also create 60,000 new jobs in FY24, compared to 270k jobs created in FY23.
- Muted revenue growth in Q4 CY23 has prompted large banks to slow down their IT expenditures. Technology spending in banks fell to 5.7% in Q4 CY23, from 6.4% in Q3 CY23. For CY24, until banks increase their significantly, revenue growth expectations from BFSI will remain low.
- Valuation of **Thoughtworks** dropped by ~25.2% over the last two weeks as the company generated \$252m in revenue in Q4 CY23, a drop of 18.8% Y-o-Y. The decline was mainly due the result of specific supply constraints to meet client demand in addition to continued cautious client behavior. In Aug 2023, the company had announced a restructuring initiative in which it planned to cut costs by laying off 5% - 6% of its workforce. In Feb 2024, the company disclosed that the initiative was substantially completed during Q4 CY23.
- Endava's** valuation decreased by ~44% over the last two weeks. The company reported 10.6% Y-o-Y fall in revenue for Q2 FY24. In Feb 2024, the company acquired GalaxE, a US-based IT and business solutions provider for \$405m, to expand its footprint in the North American healthcare market along with expansion of delivery operations in India.
- Valuation of **Unisys Corporation** fell by ~31.6% over the past two weeks as the company's earnings missed expectations for Q4 CY23. Revenue growth for Q4 CY23 remained flat and while revenue for CY23 grew 1.8% Y-o-Y, as the company expanded its offerings. The rise in net loss occurred due to the inclusion of a non-cash pension settlement loss from the purchase of an annuity contract to a reduce pension liabilities.
- Perficient's** valuation decreased by 6.8%. The company reported a 5% Y-o-Y drop in Q4 FY23 revenue to \$221m. It also announced that Jeffrey Davis has stepped down as the executive chairman but will retain his role as the non-executive chairman of the board. The company estimates revenue between \$212 - \$218m in Q1 FY24.

Recent Transactions (1/2)

KEY DEALS

- **Endava acquires GalaxE Solutions:** Endava acquired GalaxE Solutions, an IT and business solutions provider for \$405m. This acquisition will allow Endava to significantly expand its footprint in North America along with gaining access to US healthcare market, as 70% of GalaxE's revenue comes from US healthcare clients. Endava will also establish its delivery operations in India.
- **Accenture Song acquires Mindcurv Group:** Accenture Song acquired Mindcurv Group, a cloud-native digital experience and data analytics firm specializing in composable software, digital engineering and commerce services. Mindcurv is the latest in a series of acquisitions that Accenture Song has made to enhance customer offerings for clients, including Work & Co, Rabbit's Tale, ConcentricLife, Fiftyfive5 and The Stable.
- **Xoriant acquires Maple Labs:** Xoriant acquired Maple Labs, a platform engineering firm with focus on hybrid cloud infrastructure and cloud native engineering. This strategic acquisition will augment Xoriant's core strengths in the areas of platform engineering, and add to its capabilities in product ideation, design and development and maintenance of complex, cloud native applications.

LATEST DEALS

Date	Buyer	Target	Transaction details	Target expertise
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – \$405m ▪ EV / Sales – NA 	Somerset, NJ-based IT and business solutions provider.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Germany-based cloud-native digital experience and data analytics company.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	San Francisco, CA-based digital twin professional services arm of Unity.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Sunnyvale, CA-based platform engineering firm.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – \$450k ▪ EV / Sales – 0.1x 	UAE-based software consultancy services provider.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Wayzata, MN-based telecom agency services of CA Communications.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Elk Grove Village, IL-based cloud-native software development firm.
Feb-24			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Germany-based employee enablement platform.

Continued on the next page

Recent Transactions (2/2)

Date	Buyer	Target	Transaction details	Target expertise
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Albuquerque, NM-based IT consulting and technical services firm.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	UK-based climate tech firm.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Minneapolis, MA-based life sciences and healthcare strategy consulting firm.
Feb-24			<ul style="list-style-type: none"> Deal size – \$208m EV / Sales – 0.9x 	France-based digital transformation firm.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Clearwater, FL-based IT security services firm.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Australia-based developers of business process management software.
Feb-24			<ul style="list-style-type: none"> Deal size – \$10m EV / Sales – 2.3x 	Edison, NJ-based software development firm.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	New York, NY-based talent management and recruitment platform.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Switzerland-based time management and access control software provider.
Feb-24			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Germany-based ML and big data software provider.
Feb-24			<ul style="list-style-type: none"> Deal size – \$10m EV / Sales – 1.6x 	India-based provider of end-to-end custom software platform.
Feb-24			<ul style="list-style-type: none"> Deal size – \$543 EV / Sales – NA 	UK-based governance, risk and compliance software and services unit of Marlowe Plc.

Appendix - Market Multiples

Company	Market data					LTM Performance					Growth CAGR 3 years	Valuation multiples		
	Price \$	52 week High	Low	Market cap \$m	EV \$m	Revenue \$m	EBITDA \$m	Net income \$m	EBITDA margin	EV / Sales		EV / EBITDA	P/E	
India - Large Cap														
Tata Consultancy Services Limited	49.4	49.9	37.6	178,736	174,554	28,691	7,361	5,390	25.7%	9.3%	6.1x	23.7x	33.2x	
Infosys Limited	20.2	20.8	14.9	83,584	82,082	18,552	4,250	2,952	22.9%	12.2%	4.4x	19.3x	28.3x	
HCL Technologies Limited	20.1	20.3	12.6	54,353	52,226	13,075	2,699	1,897	20.6%	9.3%	4.0x	19.4x	28.7x	
Cognizant Technology Solutions Corporation	79.0	79.8	57.1	39,339	38,043	19,353	3,417	2,126	17.7%	5.1%	2.0x	11.1x	18.5x	
Wipro Limited	6.3	6.5	4.3	32,681	30,228	10,901	1,985	1,356	18.2%	9.0%	2.8x	15.2x	24.1x	
LTIMindtree Limited	63.9	76.3	50.6	18,935	18,065	4,243	747	552	17.6%	36.8%	4.3x	24.2x	34.3x	
Tech Mahindra Limited	15.4	16.9	12.2	13,559	13,190	6,348	657	338	10.4%	7.2%	2.1x	20.1x	40.1x	
Mphasis Limited	31.6	33.7	20.3	5,960	5,820	1,589	262	188	16.5%	6.7%	3.7x	22.2x	31.7x	
Average										18.7%	9.3%	3.7x	19.4x	29.8x
India - Mid Cap														
Persistent Systems Limited	104.2	106.8	51.3	7,647	7,570	1,140	187	124	16.4%	27.6%	6.6x	40.4x	NM	
L&T Technology Services Limited	64.0	67.6	40.3	6,765	6,579	1,043	207	151	19.8%	11.1%	6.3x	31.8x	44.7x	
Coforge Limited	79.2	81.3	43.7	4,886	5,003	1,080	145	84	13.4%	20.5%	4.6x	34.5x	NM	
Sonata Software Limited	9.8	10.4	4.4	2,714	2,711	1,001	80	37	7.9%	21.5%	2.7x	34.1x	NM	
Cyient Limited	24.4	28.7	11.3	2,708	2,727	846	142	79	16.8%	14.5%	3.2x	19.2x	34.3x	
Birlasoft Limited	9.4	10.3	3.1	2,581	2,423	618	90	67	14.6%	8.9%	3.9x	26.9x	38.7x	
Perficient, Inc.	64.9	96.3	51.5	2,268	2,559	907	162	99	17.8%	14.0%	2.8x	15.8x	22.9x	
Happiest Minds Technologies Limited	10.2	12.3	9.3	1,518	1,445	190	37	28	19.2%	23.5%	7.6x	39.5x	NM	
Zensar Technologies Limited	6.6	7.5	3.2	1,499	1,359	587	99	73	16.9%	NA	2.3x	13.7x	20.4x	
Latent View Analytics Limited	6.1	6.5	3.8	1,266	1,159	74	15	18	20.4%	NA	15.7x	NM	NM	
Mastek Limited	35.2	37.6	18.1	1,091	1,123	359	61	34	17.0%	18.5%	3.1x	18.5x	32.3x	
R Systems International Limited	5.6	6.9	2.9	665	680	202	30	17	15.0%	18.8%	3.4x	22.4x	39.5x	
Aceclya Solutions India Limited	22.1	24.8	13.0	330	317	59	21	16	34.5%	12.2%	5.3x	15.5x	21.0x	
Saksoft Limited	3.3	4.7	1.7	329	314	90	16	12	17.4%	19.9%	3.5x	20.1x	27.9x	
Sasken Technologies Limited	19.8	21.7	9.5	298	288	48	5	9	10.4%	(7.7%)	6.0x	57.5x	31.6x	
InfoBeans Technologies Limited	4.9	6.2	4.8	119	108	44	5	2	12.1%	21.3%	2.5x	20.4x	NM	
Average										16.9%	20.3%	5.0x	27.4x	31.3x
Americas														
Accenture plc	374.8	378.0	246.2	234,984	231,727	64,588	11,304	6,880	17.5%	13.0%	3.6x	20.5x	34.2x	
CGI Inc.	114.8	116.1	89.1	26,427	27,800	10,941	1,920	1,241	17.5%	4.8%	2.5x	14.5x	21.3x	
EPAM Systems, Inc.	304.4	312.0	203.3	17,603	15,678	4,691	675	417	14.4%	20.8%	3.3x	23.2x	42.2x	
Globant S.A.	223.2	249.7	137.1	9,616	9,626	2,096	313	159	14.9%	37.1%	4.6x	30.8x	NM	
DXC Technology Company	21.9	28.9	19.1	3,998	7,944	13,872	465	(465)	3.4%	(8.6%)	0.6x	17.1x	NM	
Grid Dynamics Holdings, Inc.	13.5	14.2	8.1	1,025	779	313	8	(2)	2.5%	41.1%	2.5x	NM	NM	
Thoughtworks Holding, Inc.	3.1	8.2	3.1	1,007	1,245	1,127	34	(69)	3.0%	11.9%	1.1x	36.7x	NM	
The Hackett Group, Inc.	24.7	25.1	17.4	673	687	291	59	34	20.3%	7.4%	2.4x	11.6x	19.7x	
Sonda S.A.	0.4	0.5	0.4	358	633	1,483	118	44	7.9%	10.5%	0.4x	5.4x	8.2x	
Unisys Corporation	5.2	8.1	2.6	355	530	2,015	(258)	(430.7)	NM	(0.2%)	0.3x	NM	NM	
Positivo Tecnologia S.A.	1.6	2.0	1.2	225	412	715	97	38	13.5%	29.2%	0.6x	4.2x	5.9x	
Average										11.5%	8.3%	2.0x	18.2x	21.9x
Europe														
Capgemini SE	242.9	244.4	163.4	41,521	46,639	24,894	3,051	1,838	12.3%	8.7%	1.9x	15.3x	22.6x	
Sopra Steria Group SA	256.0	256.6	168.6	5,164	6,730	6,417	618	203	9.6%	7.2%	1.0x	10.9x	25.4x	
Alten S.A.	146.7	173.8	114.9	5,066	5,114	4,497	407	258	9.1%	16.4%	1.1x	12.6x	19.7x	
Indra Sistemas, S.A.	19.1	19.1	11.9	3,328	3,597	4,857	420	227	8.7%	8.5%	0.7x	8.6x	14.6x	
TietoEVRY Oyj	23.3	33.2	20.5	2,759	3,760	3,152	360	190	11.4%	(2.6%)	1.2x	10.4x	14.5x	
Endava plc	37.2	80.7	37.2	2,165	1,988	975	132	87	13.6%	23.1%	2.0x	15.0x	25.0x	
Cancom SE	29.5	36.9	22.9	1,054	1,045	1,517	56	30	3.7%	0.5%	0.7x	18.7x	34.9x	
Aubay Société Anonyme	44.5	53.2	32.1	580	513	579	53	39	9.2%	6.6%	0.9x	9.7x	15.1x	
Capita plc	0.3	0.5	0.2	432	1,189	3,585	342	(227)	9.5%	(6.2%)	0.3x	3.5x	NM	
Knowit AB (publ)	14.9	23.3	10.8	409	504	707	67	24	9.5%	19.8%	0.7x	7.5x	17.2x	
Atos SE	2.5	16.3	2.3	276	3,934	12,365	853	(1,211)	6.9%	(1.4%)	0.3x	4.6x	NM	
Average										9.4%	5.0%	1.0x	10.6x	21.0x
ITeS														
Gespact Limited	34.0	47.8	31.6	6,145	7,060	4,477	726	631	16.2%	6.5%	1.6x	9.7x	9.7x	
ExService Holdings, Inc.	31.1	35.7	25.2	5,159	5,139	1,631	280	185	17.1%	19.4%	3.2x	18.4x	28.0x	
WNS (Holdings) Limited	57.7	93.2	53.2	2,701	2,816	1,301	207	164	15.9%	12.4%	2.2x	13.6x	16.5x	
Firstsource Solutions Limited	2.5	2.6	1.3	1,708	1,862	748	84	63	11.2%	5.2%	2.5x	22.3x	27.2x	
TTEC Holdings, Inc.	17.5	41.0	15.3	828	1,806	2,463	241	8	9.8%	8.1%	0.7x	7.5x	NM	
Conduent Incorporated	3.4	4.0	2.5	722	1,863	3,722	235	(296)	6.3%	(3.7%)	0.5x	7.9x	NM	
Hinduja Global Solutions Limited	11.0	16.6	10.9	514	636	551	14	8	2.5%	(8.9%)	1.2x	46.7x	NM	
Average										11.3%	3.6%	1.7x	18.0x	20.3x

Contact us

ABOUT US

Founded in 1987, The Chesapeake Group is an independent financial advisory company with over 35 years of history in helping clients – from venture stage to large corporations – achieve their corporate development goals. We are focused on the Technology and Software services sector with significant experience in cross – border transactions. Since our inception, we have advised numerous companies on mergers and acquisitions, capital raising, recapitalization, and strategic alliances. Headquartered in New York, with an additional office in Bangalore. Team of 10 professionals with an average experience of more than 25 years.

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