

FORTNIGHTLY NEWSLETTER – 31 OCT 2023

GLOBAL CAPACITY CENTERS STAGE A COMEBACK

1.9m
GCCs employees (2023)

4.5m
Est. GCCs employees (2030)

\$46.0bn
GCC market in India (2023)

\$110.0bn
GCC market in India (2030E)

Overview:

- Rise of Global Capability Centers (GCCs) in India has been a significant trend in recent years. GCCs, also known as global in-house centers or captives, are offshore centers established by companies to provide various services such as IT services, research and development, and customer support to their parent organizations.
- While top IT companies are going slow on hiring, some of the large GCCs in India continue to scale. GCCs are setting up more units in India and looking to expand the existing ones.

Key highlights:

- As per NASSCOM, India currently has over 1,580 GCCs, with over 1.6m employees. By 2026-27, NASSCOM sees the number rising to over 2,000 GCC units, with 75-80 being set up every year on average. In contrast, domestic IT hiring has significantly slowed.
- As per Deloitte, GCCs initially dealt with transaction processing, and application maintenance, but the nature of work is changing. GCCs now work on the engineering and R&D side, as well as on technology, AI, ML and cloud.
- Apart from wages hike, GCCs also offer huge brand pull by allowing fresh hires to directly engage with top global brands.

- As per a report by Xpheno, 23% employees from the IT services sector have had one or more career movements over a 12-month period. 83% of the movements were towards other employers within the IT sector. Out of the remaining, 6% of the talent was absorbed by GCCs.
- Moreover, the offer acceptance ratio for IT services firms is 50% - 55%, but for GCCs and product firms, it is 65% - 70%. The joining ratio for IT services companies is just 45% - 50%, whereas for GCCs its higher at 70%. At IT firms, employees work on a project and move on to other projects. But at GCCs, employees are working on products for internal use, so they get to take full ownership of the projects from conception to execution.
- India holds about 25% of GCCs of global retail / CPG companies, employing over 50,000. About 63 retail and CPG companies including Walmart, Target, Tesco, Lowe's, Nestle and Pepsi have tech centers in India.

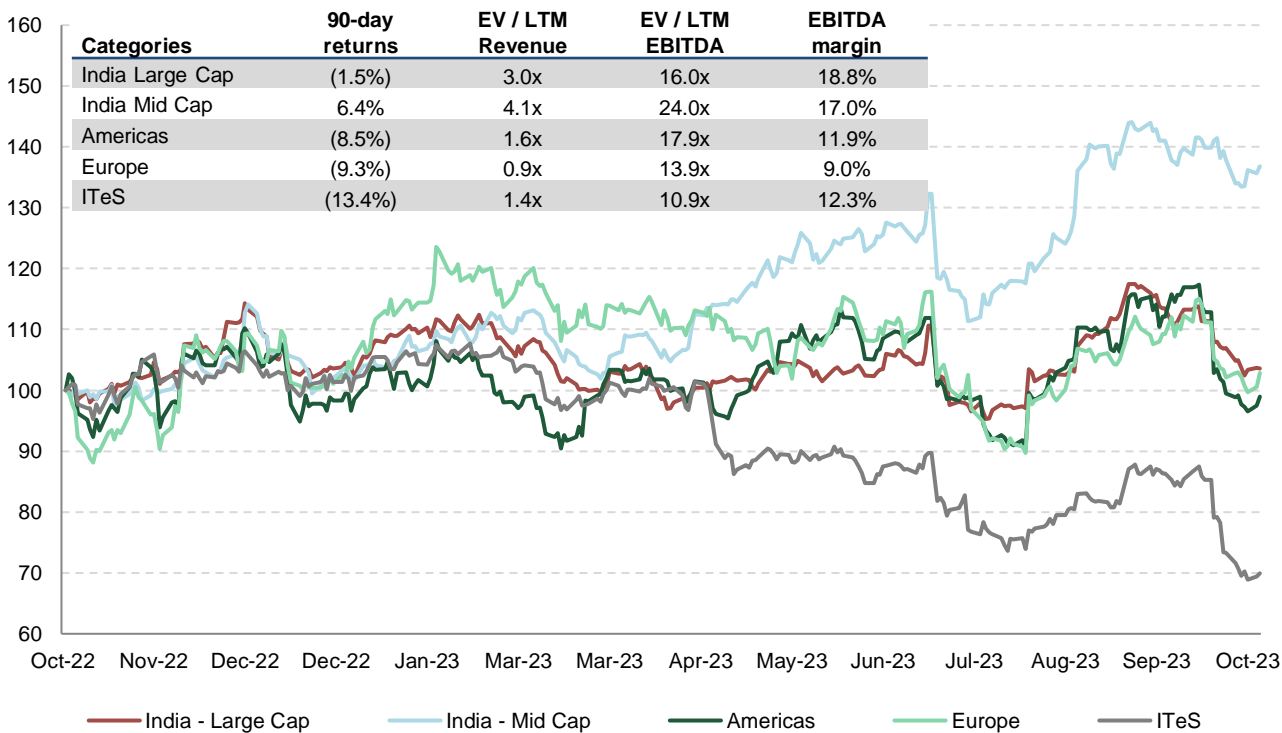
Key trends and outlook:

- As per NASSCOM, of the 18 new GCCs were established during the H1FY23, approximately 83% have all three functional areas of engineering R&D, IT and BPM. Around 55% of new GCCs have instituted or expanded in locations other than Bangalore. Tier 2 cities such as Vadodara, Nasik and Coimbatore saw the expansion of centers for established GCCs in verticals such as industrial, FMCG, retail, electrical and electronics and software and internet.
- NatWest Group GCC in India announced that it will add at least 3,000 professionals in AI, analytics and cloud in the next three years, taking the total headcount to more than 21,000. Deutsche India will add over 2,300 professionals in 2023 across cloud, AI and ML, taking its India headcount to 16,000.
- Citi announced that its Citi Solutions Centers will add at least 5,000 professionals in AI, mobile, analytics and RPA in the next two years in India, taking its total strength to 32,000. Lloyds Bank plans to set up Lloyds Technology Center in Hyderabad in cyber and data analytics. SAP Labs has started constructing a second office in Bangalore, which will create 15,000 jobs.
- As per EY, the top GCC trends for the year include establishment of Centers of Excellence (CoEs) in areas such as AI, cloud computing, engineering, data analytics and cybersecurity; transitioning from a 'cost center' to a 'profit center' with a focus on generating additional revenue streams; expansion of functions in areas such as legal, marketing and procurement with increased investments; and greater emphasis on Employee Value Proposition (EVP).

Market performance

MARKET METRICS (AS OF 31 OCT 2023)

Indexed to 100



HIGHLIGHTS:

















- Over the past 15 days, the valuation of Indian large cap players decreased by 4.0%, while that of Indian mid cap players decreased by 3.0%.
- Major Indian IT companies, including TCS, Infosys, HCL Tech, and Wipro, have reported subdued earnings for 2Q FY24 due to the impact of ongoing macroeconomic uncertainties, which have resulted in reduced discretionary spending in critical markets. The near-future prospects also seem unfavorable, as the US Federal Reserve is committed to reducing inflation to its 2% target by maintaining high interest rates, which could place additional pressure on the economy.
- Indian IT companies have witnessed their workforce shrink in H1 FY24. Top companies witnessed their workforce fall to 2.06 million at the end of September 2023 from 2.1 million employees at the beginning of FY24, resulting in a loss of 51,744 jobs.
- Valuation of **Tech Mahindra** decreased by 4.4% over the last two weeks as the company announced its 2QFY24 results. The company reported a 61% decline in net profits to \$59 million. CEO designate Mohit Joshi announced a restructuring plan that will come into effect on January 1st. The new reorganization will have a vertical-wise focus for delivery instead of their previously geography-focused structure. Some top leaders will be seen taking over new roles.
- Wipro's** valuation decreased 6.9% over the last two weeks as the company announced a marginal drop of 0.48% in 2QFY24 net profits while their revenue growth remained flat. The company's board approved the merger of five subsidiaries, namely WiproHR Services, Wipro Overseas IT Services, Wipro Technology Product Services, Wipro Trademarks, and Wipro VLSI Design Services, with Wipro Ltd.
- Atos's** valuation rose by 27.9% over the last two weeks. Former UniCredit CEO Jean Pierre Mustier has been appointed chair of the company. The company's sale of Tech Foundations to Daniel Ketinsky has raised national security concerns. Lawmakers from Les Republicans and Socialist parties have lodged amendments to France's 2024 budget bill for a temporary state takeover of Atos, citing a threat to France's sovereignty. It reported \$2.8 billion in revenue, down 3% Y-o-Y due to a 7.2% decline in Tech Foundations.
- Valuation of **Mphasis** fell by 10.0% over the last two weeks as the company reported a 6.5% decline in revenue and a 6.0% decline in net profits Y-o-Y. CEO Nitin Rakesh commented that the company is seeing signs of bottoming out and that they are focusing on establishing a path of AI acceleration.

Recent Transactions (1/2)

KEY DEALS

- **Vista Equity Partners acquires EngageSmart:** Vista Equity Partners has acquired EngageSmart, a provider of vertically tailored customer engagement software and integrated payments solutions for \$4bn. Upon completion, EngageSmart will become a privately held company and General Atlantic will retain minority ownership position, holding 35% of shares. The partnership with Vista and General Atlantic, will enable EngageSmart to invest in innovation and people to drive growth.
- **Perficient acquires SMEDIX:** Perficient has acquired SMEDIX, a healthcare software engineering firm. The acquisition will strengthen Perficient's healthcare industry software development capabilities and capacity and broaden Perficient's clinical diagnostic and medical device product offerings. It will allow the expansion of Perficient in Eastern Europe while adding an offshore software development location in Cluj-Napoca, Romania.
- **Apax Partners acquires Kin and Carta:** Apax Partners has acquired, Kin and Carta, a digital transformation firm, for \$296m. Kin and Carta will accelerate their growth plans and scale their business through add-on acquisitions of leading data and technology companies and enhancement of a strong portfolio of enterprise clients.

LATEST DEALS

Date	Buyer	Target	Transaction details	Target expertise
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	UK-based technology consultancy, specializing in cloud, data and cybersecurity.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Boston, MA-based provider of supply chain managed services.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Canada-based consulting and program management company.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Mexico-based provider of managed cybersecurity services.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – \$100m ▪ EV / Sales – NA 	San Mateo, CA-based real-time database replication platform.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	San Mateo, CA-based startup focused on enabling Python data science at scale/
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Japan-based engineering services company.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – \$400m ▪ EV / Sales – NA 	Israel-based provider of Data Security Posture Management (DSPM).

Continued on the next page

Recent Transactions (2/2)

LATEST DEALS (CONT'D)

Date	Buyer	Target	Transaction details	Target expertise
Oct-23	 Wellspring	 Sopheon	<ul style="list-style-type: none"> Deal size – \$130m EV / Sales – 2.8x 	UK-based InnovationOps software company.
Oct-23	 ATLASSIAN	 AirTrack	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Australia-based IT data quality management firm.
Oct-23	 BizzMine	 INCEPTION <small>SEC. CONTROL. IMPROVE.</small>	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Netherlands-based IT consulting and services company.
Oct-23	 Brandwidth	 WILLIAMS COMMERCE	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	UK-based ecommerce and marketplace agency.
Oct-23	 TENDO	 POINTONE	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	San Francisco, CA-based UX design consultancy.
Oct-23	 dyapps	 ALPIEK	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Netherlands-based developer of ERP platform.
Oct-23	 DATACORE	 WIN <small>WORKFLOW INTELLIGENCE NEXUS</small>	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Arcadia, CA-based designer and developer of software solutions.
Oct-23	 Projective GROUP	 GDFM.	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	UK-based consultancy specializing in risk advisory and regulatory compliance.
Oct-23	 VISTA EQUITY PARTNERS	 EngageSmart	<ul style="list-style-type: none"> Deal size – \$4.0bn EV / Sales – 9.7x 	Boston, MA-based provider of vertically tailored customer engagement software and integrated payments solutions.
Oct-23	 BIGRIO <small>EMPOWERING DATA</small>	 DAMO CONSULTING	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Oak Brook, IL-based digital transformation strategy for healthcare firm.
Oct-23	 PERFICIENT	 SMEDIX	<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	San Diego, CA-based healthcare software engineering firm.
Oct-23	 Apax PARTNERS	 KIN+ CARTA	<ul style="list-style-type: none"> Deal size – \$296m EV / Sales – 1.2x 	UK-based digital transformation firm.

Appendix - Market Multiples

Company	Market data					LTM Performance				Growth CAGR 3 years	Valuation multiples		P/E
	Price \$	52 week High	Low	Market cap \$m	EV \$m	Revenue \$m	EBITDA \$m	Net income \$m	EBITDA margin		EV / Sales	EV / EBITDA	
India - Large Cap													
Tata Consultancy Services Limited	40.5	43.7	37.6	148,009	142,425	28,461	7,268	5,375	25.5%	9.8%	5.0x	19.6x	27.5x
Infosys Limited	16.4	20.4	14.9	68,005	66,284	18,547	4,300	3,019	23.2%	12.9%	3.6x	15.4x	22.5x
HCL Technologies Limited	15.3	15.7	12.4	41,489	39,482	12,904	2,679	1,872	20.8%	9.1%	3.1x	14.7x	22.2x
Cognizant Technology Solutions Corporation	64.5	71.7	52.0	32,560	31,946	19,434	3,436	2,089	17.7%	5.1%	1.6x	9.3x	15.6x
Wipro Limited	4.6	5.3	4.3	23,916	22,023	11,045	2,035	1,401	18.4%	9.9%	2.0x	10.8x	17.1x
LTMIndtree Limited	60.8	66.8	50.6	17,977	17,238	4,203	709	533	16.9%	38.0%	4.1x	24.3x	33.7x
Tech Mahindra Limited	13.6	15.7	12.0	11,995	11,628	6,436	729	433	11.3%	7.9%	1.8x	16.0x	27.7x
Mphasis Limited	25.5	30.3	20.3	4,812	4,672	1,612	266	193	16.5%	8.2%	2.9x	17.6x	24.9x
Average									18.8%	9.8%	3.0x	16.0x	23.9x

India - Mid Cap													
L&T Technology Services Limited	50.3	57.5	39.9	5,315	5,130	1,013	203	147	20.1%	10.8%	5.1x	25.3x	36.2x
Persistent Systems Limited	74.0	74.0	44.6	5,426	5,389	1,102	183	118	16.6%	28.2%	4.9x	29.4x	45.9x
Coforge Limited	59.8	67.6	43.7	3,686	3,803	1,050	146	83	13.9%	20.7%	3.6x	26.1x	44.4x
Perficient, Inc.	58.2	96.3	51.5	2,023	2,365	918	170	102	18.5%	15.6%	2.6x	13.9x	19.8x
Cyient Limited	19.1	22.9	8.8	2,114	2,133	823	136	80	16.6%	13.2%	2.6x	15.7x	26.4x
Happiest Minds Technologies Limited	9.8	12.3	9.3	1,462	1,389	186	39	28	21.0%	23.9%	7.5x	35.6x	NM
Sonata Software Limited	13.8	14.2	6.2	1,921	1,919	975	80	57	8.2%	22.3%	2.0x	24.1x	33.6x
Latent View Analytics Limited	4.8	5.5	3.8	980	873	72	16	18	22.2%	NA	12.2x	55.0x	NM
Birlasoft Limited	6.6	6.7	3.1	1,811	1,652	604	65	46	10.8%	8.2%	2.7x	25.4x	39.8x
Zensar Technologies Limited	5.9	6.7	2.4	1,332	1,193	587	85	63	14.5%	2.5%	2.0x	14.0x	21.1x
Mastek Limited	26.6	29.8	18.1	813	845	344	58	32	16.9%	22.5%	2.5x	14.5x	25.0x
Accelya Solutions India Limited	16.5	21.0	13.0	246	235	58	20	15	34.4%	6.8%	4.1x	11.8x	16.3x
InfoBeans Technologies Limited	5.0	7.0	4.9	122	111	45	5	3	12.1%	21.3%	2.5x	20.5x	46.5x
R Systems International Limited	6.0	6.3	2.8	708	673	201	29	16	14.2%	0.0%	3.3x	23.5x	43.4x
Sasken Technologies Limited	13.8	17.2	9.5	208	198	51	8	11	15.6%	(5.8%)	3.9x	24.8x	18.8x
Average									17.0%	16.1%	4.1x	24.0x	32.1x

Americas													
Accenture plc	297.1	328.2	246.2	186,457	181,322	64,112	11,201	6,872	17.5%	13.1%	2.8x	16.2x	27.1x
CGI Inc.	96.4	107.5	77.9	22,253	23,911	10,600	1,869	1,193	17.6%	5.7%	2.3x	12.8x	18.7x
EPAM Systems, Inc.	217.6	379.3	203.3	12,611	10,944	4,765	654	475	13.7%	22.9%	2.3x	16.7x	26.6x
DXC Technology Company	20.2	29.7	19.1	4,138	8,373	14,039	482	(562)	3.4%	(9.4%)	0.6x	17.4x	NM
Globant S.A.	170.3	206.5	137.1	7,198	7,100	1,920	300	149	15.6%	38.0%	3.7x	23.6x	48.4x
Thoughtworks Holding, Inc.	3.4	11.4	3.3	1,077	1,331	1,185	72	(30)	6.0%	15.4%	1.1x	18.6x	NM
Grid Dynamics Holdings, Inc.	10.1	14.0	8.1	764	530	315	10	(11)	3.2%	40.7%	1.7x	53.2x	NM
Sonda S.A.	0.4	0.5	0.3	351	638	1,333	108	40.2	8.1%	9.0%	0.5x	5.9x	8.7x
The Hackett Group, Inc.	22.3	24.7	17.4	607	646	288	59	36	20.4%	6.3%	2.2x	11.0x	16.8x
Unisys Corporation	2.8	9.2	2.8	190	332	2,015	(36)	(257)	NM	0.3%	0.2x	NM	NM
Positivo Tecnologia S.A.	1.2	2.5	1.2	174	364	786	104	44	13.2%	33.4%	0.5x	3.5x	3.9x
Average									11.9%	8.2%	1.6x	17.9x	21.5x

Europe													
Capgemini SE	175.9	205.9	154.6	30,242	35,245	24,818	3,352	1,844	13.5%	14.5%	1.4x	10.5x	16.4x
Alten S.A.	117.6	173.8	109.7	4,031	3,934	4,372	423	469	9.7%	14.7%	0.9x	9.3x	8.6x
Sopra Steria Group SA	178.9	227.7	125.4	3,610	4,705	5,892	559	271	9.5%	6.0%	0.8x	8.4x	13.3x
TietoEVRY Oyj	20.9	33.2	20.5	2,474	3,489	3,036	375	203	12.4%	(0.5%)	1.1x	9.3x	12.2x
Atos SE	7.0	16.3	4.9	769	4,344	12,365	853	(1,211)	6.9%	(1.4%)	0.4x	5.1x	NM
Endava plc	50.2	94.0	45.5	2,896	2,775	1,010	181	120	17.9%	32.2%	2.7x	15.3x	24.2x
Indra Sistemas, S.A.	14.0	15.1	8.9	2,469	2,735	4,475	375	214	8.4%	7.3%	0.6x	7.3x	11.5x
Capita plc	0.2	0.5	0.2	343	1,069	3,780	21	(35)	0.6%	(8.1%)	0.3x	51.3x	NM
Cancom SE	24.8	37.0	22.9	930	1,002	1,471	50	28	3.4%	(1.0%)	0.7x	20.1x	33.7x
Know it AB (publ)	12.5	23.3	10.8	343	446	665	52	24	7.8%	21.0%	0.7x	8.6x	14.0x
Aubay Soci�t� Anonyme	33.4	56.9	32.1	443	377	579	53	39	9.2%	6.6%	0.7x	7.1x	11.5x
Average									9.0%	6.5%	0.9x	13.9x	16.2x

ITeS													
Genpact Limited	33.5	48.7	32.9	6,081	7,187	4,408	710	408	16.1%	6.5%	1.6x	10.1x	14.9x
ExService Holdings, Inc.	26.1	37.8	25.2	4,306	4,305	1,591	279	176	17.5%	18.1%	2.7x	15.4x	24.4x
WNS (Holdings) Limited	54.3	93.2	53.4	2,581	2,686	1,282	226	159	17.6%	11.8%	2.1x	11.9x	16.2x
TTEC Holdings, Inc.	20.6	53.6	20.3	976	1,922	2,484	288	64	11.6%	12.6%	0.8x	6.7x	15.1x
Conduent Incorporated	3.2	4.9	2.7	695	1,866	3,755	272	(635)	7.2%	(3.7%)	0.5x	6.9x	NM
Firstsource Solutions Limited	1.9	2.1	1.2	1,280	1,428	733	89	66	12.1%	7.2%	1.9x	16.1x	19.3x
Hinduja Global Solutions Limited	11.2	17.3	11.2	521	513	547	43	40	7.8%	(6.2%)	0.9x	12.1x	13.0x
Startek, Inc.	4.3	4.4	2.7	173	258	371	32	3	8.5%	(16.6%)	0.7x	8.1x	NM
Average									12.3%	3.4%	1.4x	10.9x	17.2x

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.

UNITED STATES

208 Hudson Street
Cornwall-on-Hudson, NY 12520
Tel: +1 845 534 0601

INDIA

761 Urban Vault, 1st Floor
19th Main Road | Sector – 2, HSR Layout
Bengaluru – 560102 | India



www.cginy.com



info@cginy.com