



DEALS

After a dull 2020, can 2021 be the year of M&As? Education, tech, fashion retail hold the answer.



Image credit: Muhabit ul haq

Synopsis

Compared to 2019, M&As fell by over 40% last year in value terms. The number of deals also decreased significantly. But there has been a strong rebound on Deal Street in the last two months. The key question is how 2021 will shape up in terms of nature, value, and type of deals.

During times of uncertainty and downturn, two kinds of deals make it to the dotted line. The distressed ones and the those that are transformational. The last crisis in 2009, which was largely financial in nature, saw a fair share of both. McKinsey, in an analysis published in 2009, reported 37 financial-restructuring deals valued at USD833 billion at that time. But staying with the financial sector, the year also saw transformational deals like BlackRock's acquisition of Barclays Global Investors.

The deal helped BlackRock expand from active fund management to passive fund management. Over a decade since, BlackRock is now the world's largest fund manager.

Cut to 2020, an annus horribilis. So, what kind of deals did India witness last year and what does 2021 have in store? ET Prime does a deep dive with data from Venture Intelligence.

What the numbers tell

In the strange year that 2020 was, overall mergers and acquisitions (M&As) by value (for the ones which announced deal size) fell by over 40%, compared with 2019, reveals data tracked by Venture Intelligence. The number of deals decreased significantly as well.



BY

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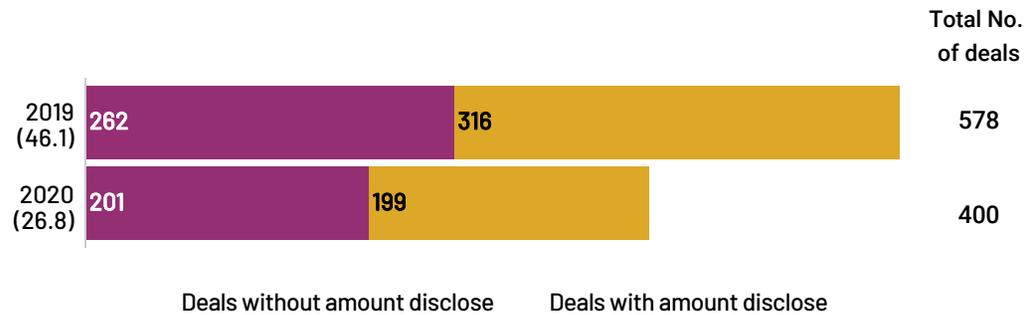
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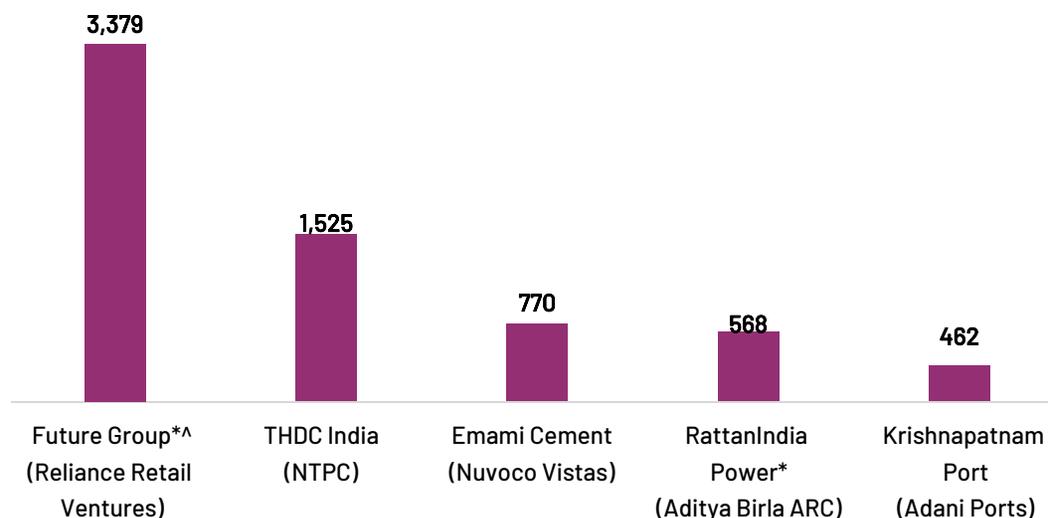
M&A deals in India (2019 - 2020)



Note: Inbound + outbound M&A deals

The decline was especially visible for domestic deals, which fell in value to USD13.3 billion for 100 announced deals, compared with USD30.2 billion for 190 announced deals in 2019. Inbound deals also saw a decline in value from USD12.9 billion in 2019 to USD7.6 billion in 2020.

Top domestic M&A deals (2020)



*Asset sale; ^Under litigation
Figures in brackets indicate acquirer
Source: *Venture Intelligence*

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With the largest domestic **M&A** of the year, the Reliance Retail Ventures deal with **Future Group**, still under litigation, the numbers look even more puny in terms of deal value. Is this unusual or is there some precedent to this drop?

Research by Boston Consulting Group (BCG) on downturn M&As published during the peak of the financial crisis in 2008 showed that such downturn deals could show “long-term returns in excess of 50% and, on average, create 14.5% more value for shareholders of the acquirer”. But a *Harvard Business Review* analysis in 2020 assessed that the recovery in terms of deal volumes took up to five years after the 2008 crisis, although deal multiples had a sharp and quick v-shaped recovery. As we step into 2021 — and hopefully find ways to emerge from the Covid-19-triggered broad-based downturn — the question we

will be tracking is which of the two deals, distressed or transformational, will emerge in India this time.

In 2020, beyond domestic deals, cross-border M&As saw strong interest. Within cross-border deals (top deals mentioned in the graphic below), outbound deals increased in value terms to USD5.9 billion during the year, compared with USD3 billion in 2019. While inbound deals dipped to USD7.6 billion from USD12.9 billion a year earlier, there were interesting bets made by private-equity (PE) firms such as Blackstone's USD1,000 million bet on Piramal Glass, the glass-packaging arm of the Piramal group, and **KKR**'s USD414 million stake buy in JB Chemicals.

Top cross-border M&A deals (2020)

Company	Acquirer	Amount (USD million)	Date	Deal type
Lummus Technology	Haldia Petrochemicals	2,725	Jun/2020	Outbound
Reliance Digital Fibre Infrastructure Trust	Public Investment Fund, ADIA	1,012	Oct/2020	Inbound
Piramal Glass	Blackstone	1,000	Dec/2020	Inbound
OneWeb	Bharti Enterprises	1,000	Jul/2020	Outbound
Metro AG*	Wipro	700	Dec/2020	Outbound

*Asset sale

Note: Cross-border M&A deals = Inbound + outbound M&A deals

Source: *Venture Intelligence*

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In terms of outbound deals, we have told you about the acquisition dreams of Indian technology firms, with possibilities of some of them following the **Accenture acquisition playbook**. The top outbound deals saw Wipro, Cognizant, and Infosys each making bets during 2020. Wipro signed a digital

and IT partnership with Metro AG, with 1,300 people from the German company expected to move to Wipro in a deal valued at USD700 million. Meanwhile, Cognizant entered into an agreement to acquire independent **Microsoft** public cloud-transformation specialist, New Signature, for USD305 million. The deal can scale Cognizant's cloud ambitions further.

In a USD250 million deal, Infosys acquired Simplus, its sales platinum partner in the US and Australia, to consolidate its position as a **Salesforce** enterprise cloud-solutions and services provider.

Haldia Petrochemicals (HPL) and Rhone Capital's (PE firm) deal with Lummus Technology, a master licensor of proprietary technologies in refining, petrochemicals, gas processing, and coal gasification sectors apart from being a supplier of various engineering services, equipment, catalysts, etc., was valued at USD2,725 million and is slated to help with HPL's upstream investments from oil to chemicals.

On the other hand, Bharti's OneWeb deal, wherein Bharti Global will invest USD500 million and provide commercial and operational leadership while Britain will invest a similar amount with a combined plan to boost broadband and other services, could be a moonshot for high-bandwidth and low-latency communication services.

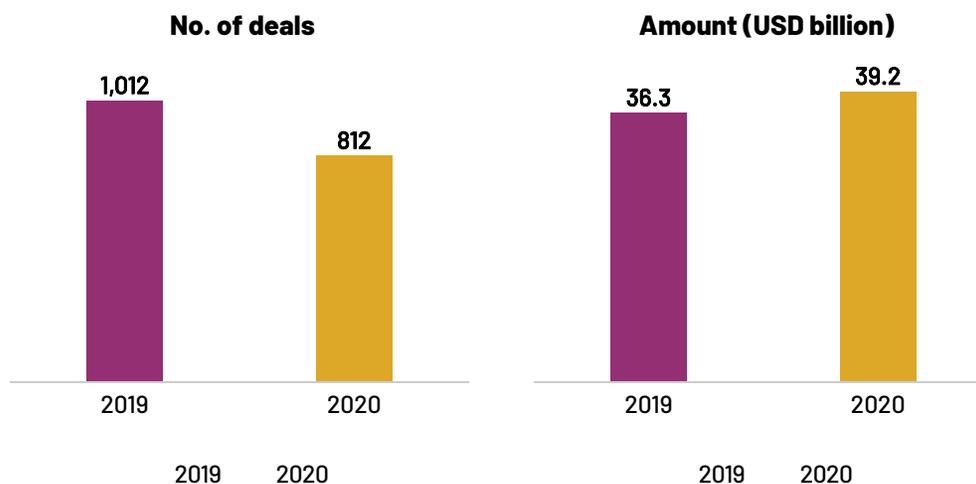
In terms of countries for inbound deals in 2020, the US topped the list with 30 deals, compared with 54 in 2019. Singapore, the UK, Japan, and Germany were the other top countries by acquirer domicile.

For Indian firms acquiring those outside India, the US again remained the top outbound M&A deal destination by target's domicile, followed by the UK, Australia, Germany, and Italy in 2020.

The PE-VC story

Year 2020 saw an increase in PE-VC (venture-capital) investments compared to 2019. Moving on to the largest of the PE and VC investments, Reliance was obviously the biggest gainer across multiple deals and sectors during 2020. Blackstone's PIRAMAL bet and Zomato's recent fundraise were other noteworthy investments in a year that saw multiple bets by VCs and PE firms in sectors ranging from ed-tech to entertainment and more. Telecom, IT/ITeS, retail, energy, and BFSI (banking, financial services, and insurance) were the top sectors for PE-VC investments in 2020, a flip from the previous year, when IT/ITES was the clear winner. However, the IT/ITES industry was the most active in terms of M&As in 2020 as well, with 141 deals worth USD3,600 million, followed by manufacturing, healthcare, energy, and BFSI.

PE-VC investments in India (2019 - 2020)

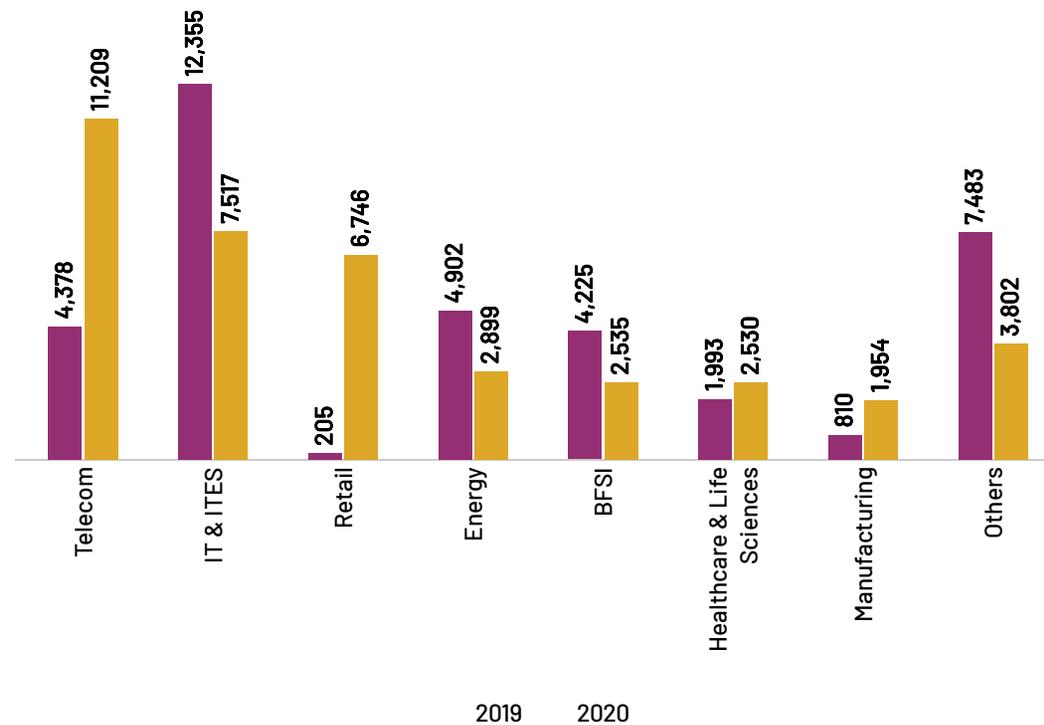


Note: Data sorted using 2020 No. of deals column

Top PE-VC investments in India (2020)

Company	Sector	Investors	Amount (USD million)	Date
Jio Platforms	Mobile Services	Public Investment Fund, Vista Equity Partners, Mubadala Investment, ADIA, Silver Lake, L Capital Asia, TPG Capital, Qualcomm Ventures, KKR, Intel Capital, General Atlantic	9,871	May-2020
Reliance Retail Ventures	Retail	Mubadala Investment, ADIA, TPG Capital, GIC, Silver Lake, KKR, General Atlantic, Public Investment Fund	6,444	Sep-2020
Reliance Digital Fibre Infrastructure Trust	Telecom Infrastructure (Fibre Optics)	Public Investment Fund, ADIA	1,012	Oct-2020
Piramal Glass	Packaging (Glass)	Blackstone	1,000	Dec-2020
Zomato	Food Ordering	Bow Wave Capital Management, Luxor Capital, Kora Management, Mirae Asset Global Investments, Baillie Gifford, Steadview Capital, Tiger Global, Temasek, Others	603	Aug-2020

PE-VC investments in India - by industry



Figures in USD million
Source: Venture Intelligence

2021: the year that will be

The key question is what the year ahead will look like in terms of nature, value, and type of deals. ET Prime reached out to M&A and legal experts to understand their views and expectations.

“We have seen a strong rebound on Deal Street in the last two months, backed by liquidity push and buoyant capital markets, especially in chemicals, pharma and healthcare, and building materials. The discussions which have started now will result in transactions in June to September in the next financial year,” says Mahesh Singhi, founder and managing director, Singhi Advisors, a global investment-banking firm.

On the other hand, Rakesh Gupta, managing partner, Loestro, an advisory-solutions and investment-banking firm says, “This year will be the year of M&As. Now that the situation are going back to normal, we are seeing possible M&As in sectors like fashion retail, smaller hotels, and technology.” However, he adds that a large part of the current funding is going to businesses that have already scaled up, for example Reliance and Byju’s. While there is availability of seed-stage capital, Gupta sees a capital crunch in the middle stage (read Series B and C levels), resulting in more deal opportunities.

One area Gupta focuses on is education, which he believes will see increasing consolidation this year, both in the ed-tech and offline segments, driven by higher needs for “phygital” models that comprise the best of offline and online teaching.

Aarushi Jain, legal counsel, TMT (technology, media, telecom) and education, at law firm Nishith Desai Associates, agrees. “Year 2020 was a good year for investments in education. M&A activity in the sector will continue to surge in 2021 as well. Ed-tech is booming, with great valuations. This is also inspiring new and small players to join the market. The funds raised are being put to use for expansion, marketing, and brand visibility, which is helping ed-tech.”

Tracxn tracked 20-plus M&A deals for education in 2020. The top-funded entities, including Unacademy and Byju’s, have already been acquiring firms. With deals such as the ones between NSE and TalentSprint, and upGrad and Rekrut, education has been seeing a mix of strategic and distressed plays. And

they go beyond ed-tech.

“Year 2020 saw schools being available for sale, prompting M&As in K-12. This trend could continue in 2021. Another key trend would be conscious focus on asset-light structures in K-12 and higher education. Educational institutes will prefer leased resources to keep investment costs low. There will also be continuing investment in technology to enable remote learning and accessibility,” Jain adds.

With 2021 starting off with news of a **USD1 billion deal between Byju’s and Akash Institute** in the works, the clarion call to mix offline and online education was never stronger than now.

(Graphics by Mohammad Arshad)