

## Is Infosys bidding for UK-based Logica?

22 May 2010, 1705 hrs IST, N Shivapriya, ET Bureau

<http://economictimes.indiatimes.com/articleshow/5962788.cms>

MUMBAI: Infosys Technologies found itself in yet another speculated acquisition bid, after a British tabloid reported on Friday that the Indian outsourcing giant is preparing \$4 billion bid for acquiring UK-based Logica Plc.

Logica shares gained nearly 3.61% on rumours of potential acquisition bid by Infosys, even as industry experts and executives remained skeptical.

Most analysts reacted with sceptism to reports of Infosys acquiring Logica although they refused to rule it out. Experts such as Peter Schumacher of European strategy consulting firm, Value Leadership, were openly dismissive.

"My guess is that this is pure speculation and wishful thinking on part of tired Logica investors," said Peter Schumacher of European strategy consulting firm Value Leadership.

This not the first time rumours about Infosys making an acquisition have cropped up. About two years back, Infosys was rumoured to be acquiring Cap Gemini, which was denied by the French software services firm.

Logica, with its struggling performance, could possibly be an acquisition target for companies interested in expanding into UK, say analysts, but would the acquisition-shy Infosys, which zealously guards its profit margins go for Logica?

The reason could lie in Logica's strong UK government business, which constitutes nearly half its revenues and the current anti-offshoring climate. Logica could be the answer to Infosys' aspirations to grow revenues from the government sector, which is perceived as more recession-proof. Currently, Infosys has almost nil or negligible revenues from government.

Shares of Logica, listed on the London Stock Exchange (LSE), were trading at 124 pence, up nearly 4% on Friday afternoon.

There is also pressure on Infosys to make a strategic acquisition. "Over the next few years if Infosys maintains its current structure it may no longer be among the leading players. Others will surpass it and assume a more prominent leadership role," Peter Bendor-Samuel, founder and CEO, Everest Research Institute, told ET in a recent interview.

An analysis of the top four IT companies by the ET Intelligence group showed that companies that chose to grow inorganically among the top four IT firm (Infosys, TCS, Wipro and HCL) grew at a much faster rate in terms of revenues and operating profits.

Between FY07 and FY10, Wipro (IT) and HCL Technologies grew their sales by over 28% between FY07 and FY10 on the basis of compounded growth rates as compared to Infosys, which grew sales at 17%-18%. As TCS, Infosys and Wipro seek to raise their profile and compete better with bigger rivals, they are caught in a dilemma of whether to sacrifice profitability and gain market share by buying large firms that can boost the topline multi-fold.

"We evaluated a potential bid to acquire Logica around a year ago, but its size, share of the government business and high cost staff were among reasons for us to stay away," admitted a senior executive at a leading Indian tech firm, on condition of anonymity. "If at all Infosys is planning this acquisitions--it will be a paradigm shift for a company that has always been shy of any move that could potentially dilute its margins," he said.

Infosys' last attempt at a major acquisition was also that of a UK firm, Axon. However, it lost Axon to HCL Technologies, which put in a counter bid. All the companies in the top five IT exporters club, except Infosys, have done major acquisitions in the last few years --TCS acquired Citigroup Global Services, Wipro acquired Infocrossing, HCL Tech acquired Axon, and Tech Mahindra Satyam Computer Services.

Apart from Infosys, names of European IT players Cap Gemini and Atos have also cropped as potential buyers for Logica. Logica's revenues have been declining and although it has been able to improve its performance in the latest quarters, it does not expect to return to revenue growth in 2010. An Infosys spokesperson termed the reports as speculative and declined to comment. An e-mail sent to Logica did not receive a response.

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