



## DFC Case Study: India IT Industry — Market Survey Turns Into Due Diligence

### Background and Key Issues

A large European IT firm was looking to expand into India for a number of reasons. As a large firm in a mature market, the company required short-term growth to impact year on year results. Longer term, it wanted to ensure it capitalized on the 8-9% GDP growth India had consistently been experiencing since 1991. Finally, it wanted to gain strategic access to the Indian labor pool to ensure access and understanding for future international expansion. As part of the market survey, the client wanted to better understand the macroeconomic and infrastructure implications for the IT industry, the top market players in the space, and most importantly the best-run private players who operated in this space as well.

### DFC Contribution

Dunia first performed a comprehensive detailing of the Indian IT market. It aggregated publicly available market reports, conference transcripts, and press reports to create a clear understanding of the publicly available “known universe.” Concurrently, using its network of local affiliates, it created an exhaustive database of over 500 public and private Indian IT firms and their financial and product fundamentals. Utilizing its Hindi, Marati, and Tamil speaker research partners, it surveyed over 20 leading Indian IT experts to identify the specific companies of note, as well as those sub industries currently experiencing the highest levels of growth and capital deployment to build out a greater understanding of the “insider’s universe.” It also created a decision matrix based upon both the financials captured in the database, and those qualitative factors identified by those Indian IT experts to winnow down a list of prospective acquisition targets to a top 10.

After consulting with its client, Dunia then performed pre-exclusivity due diligence on 3 of the firms — one public and 2 private/family owned enterprises. After engaging both local and international credit rating agencies, Dunia performed a comprehensive survey of company management, employees, former employees, suppliers, customers, and local government officials to create a comprehensive picture of each — to include financial, reputational, credit, and business perspectives; as well as a clear understanding from the owners if the company was open to outside investment. As such, Dunia was then able to provide weighted valuations for each.

### Results and Value Delivery

Dunia recommended that the client acquire 2 of the 3 firms, which it ultimately did. One company was not recommended because Dunia found through interviews with former employees that the technology underpinning the company’s newest product was much further from maturity than was generally understood. Dunia also discovered that one of the firms recommended for acquisition was in quiet talks with a holding company owned by the son of

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one of the board of directors, and managed to set up a meeting with its client and the holding company – halting the impending sale.

Finally, the outside valuations by Dunia allowed both the client and the targets to enter into negotiations with an understanding much closer to reality than would have been available otherwise; as a closely held family company the target firms had much higher initial perceptions of their intrinsic value than was supported by the facts. This saved our client several weeks of extended negotiation.