

MWS Tracker Spotlight: iGATE Corporation (Nasdaq: IGTE) acquires Patni Computer Systems Limited (BSE: 532517)

January 11, 2011

Financial Overview:

Transaction Value: \$1,220M	Enterprise Value: \$1,459.83M
Revenue (TTM): \$694.80M	EV / Revenue: 2.10x
EBITDA (TTM): \$147.20M	EV / EBITDA: 9.92x
Transaction Structure: Internal accruals, equity infusion and bank borrowing	

Deal Overview:

iGATE Corporation made an offer to acquire a majority stake in Patni Computer Systems Limited (BSE: 532517) on January 10, 2011. The company signed a definitive agreement with the three founders (Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni) and private equity group General Atlantic to acquire 45.6% and 17.4% stakes at a respective price of IRN 503.5 per share (equivalent to \$11.09 per share or approximately \$921 million). In addition, iGATE will make an offer to the public shareholders to purchase an additional 20.6% of Patni's shares for an estimated \$301 million. The total transaction is valued, including the open market purchase, at \$1.22 billion.

iGATE intends to finance the transactions through a combination of cash, equity financing, and money borrowings. The company will be borrowing \$700 million from the Royal Bank of Canada and Jefferies & Company. Viscario Limited, a company backed by Apax Partners, will make an investment of \$270 million into iGATE in order to facilitate the acquisition of a majority stake in Patni. The rest of the transaction will be funded through cash reserves from iGATE.

The transaction is subject to the Reserve Bank of India's approval and the approval of the anti-trust authorities in the United States. Patni Computer Systems Limited is headquartered in Mumbai, India and posted approximate revenues of \$694.8 million and \$147.2 million EBITDA for the last twelve month period ending September 30, 2010. iGATE's purchase price implies an Enterprise Value to Revenue of 2.10x and an Enterprise to EBITDA multiple of 9.92x.

The deal is expected to close by the end of the first quarter of 2011. Patni Computer Systems Limited was incorporated in 1978 and provides information technology services that include application development, application maintenance and support, packaged software implementation, product engineering services, quality assurance, business process outsourcing, and infrastructure management services. The company has offices in the United States, Europe, Japan, and India.

2.10x EV/Revenue represents a 16.4% discount to the EV/Revenue median multiple for similar large publicly traded IT Professional Services.

Offshore Outsourcing > \$500MM													
Ticker	Company	Current Price (\$)	Revenue (ltn, \$M)	Revenue Growth % (ltn)	GM% (ltn)	EBITDA % (ltn)	Debt/Assets %	Market Cap (\$M)	P/S	P/E	Enterprise Value (\$M) ¹	EV/LTM Revenue	EV/LTM EBITDA
BSE:532540	Tata Consultancy Services Limited	25.21	7,417.7	13.4	39.6	30.7	0.3	49,340.0	6.69	28.4	48,678.2	6.60	21.5
BSE:507685	Wipro Ltd.	10.54	6,394.2	9.6	31.7	21.8	16.0	25,715.1	4.05	23.3	24,752.4	3.89	17.7
BSE:500209	Infosys Technologies Limited	74.34	5,382.0	17.8	41.5	33.5	0.0	42,463.3	7.94	30.8	38,613.3	7.22	21.5
CTSH	Cognizant Technology Solutions Corp.	75.09	4,184.5	33.7	42.2	21.2	0.0	22,788.5	5.45	34.4	20,859.7	4.98	23.5
BSE:532281	HCL Technologies Ltd.	10.27	2,824.9	16.6	43.0	13.8	18.7	7,021.7	2.50	25.5	7,118.3	2.53	18.4
BSE:532755	Tech Mahindra Limited	15.63	1,119.2	13.5	35.2	21.7	23.8	1,966.3	1.77	11.1	2,245.3	2.02	9.3
BSE:526299	Mphasis Limited	14.81	1,133.6	18.1	30.5	25.1	1.2	3,109.9	2.80	13.0	2,759.6	2.48	9.9
SNSE:SONDA	Sonda S.A.	2.31	811.2	-2.7	22.9	16.1	16.9	1,781.4	2.25	23.2	1,792.7	2.27	14.2
BSE:532466	Oracle Financial Services Software Limited	49.50	639.5	-3.6	55.2	36.8	NM	4,152.4	6.53	22.4	3,665.4	5.77	15.7
KOSE:A022100	Posco ICT Company Ltd.	8.75	586.1	74.0	12.6	3.3	34.5	1,196.8	2.01	NM	1,361.3	2.28	62.5
BSE:532628	Si Infotech, Ltd.	1.30	556.5	2.7	34.0	19.3	55.3	248.5	0.45	3.9	710.8	1.29	6.6
BSE:500160	GTL Ltd.	9.19	586.6	26.3	23.8	15.5	56.2	892.1	1.53	20.4	1,231.3	2.11	13.9
Median				15.0	34.6	21.5	16.9	3631.1	2.65	23.2		2.51	16.7
High				74.0	55.2	36.8	56.2	49340.0	7.94	34.4		7.22	62.5
Low				-3.6	12.6	3.3	0.0	248.5	0.45	3.9		1.29	6.6

Note: Data courtesy of Capital IQ

MWS Intelligence:

The acquisition follows a trend of business consolidations occurring in India. The combined enterprises will generate approximately \$1 billion in revenue. The transaction is likely to be completed in the first half of 2011 and the combined entity is expected to become cash accretive by next year. This movement of attainment allows for companies to gain a broader and deeper presence in the Indian market, as well as looking to add revenue, clients and skilled employees. It will also become a formidable rival to other India-heritage players of similar scale such as Mahindra Satyam, Mphasis and Syntel, while competing with top IT firms Tata Consultancy Services (TCS), Infosys, Cognizant, HCL and Wipro.

The lower valuation may be caused by the uncertainty of the worldwide recovery and the lower confidence of India corporate governance as the result of the Satyam scandal. Thus, this creates many opportunities for companies to consolidate and grab businesses at great value.

In addition, iGATE is trading at nearly two times valuation of Patni on Enterprise Value to Total Revenue valuation and Enterprise Value to EBITDA. This strategic approach for a higher value company to acquire a lower value company is in hopes that the higher valuation company can help increase Patni's valuation from the acquisition. If successful, this will increase Patni's valuation and overall worth. Apax Partners is behind this valuation arbitrage.

For Patni Computer Systems Limited, the acquisition will allow for the company to expand on their international presence. It will also allow them to compete against major IT companies in India, hoping to gain more sales and clients through size.

About Martin Wolf Securities

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