

GROWING BUSINESS

Cash-swap acquisitions become popular in early-stage ventures

Such deals will increase in the coming days, particularly among privately held firms, predict analysts

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Last month, Chandigarh-based telecom voice services company **Altruist Technologies Pvt. Ltd** acquired Mumbai-based mobile value-added services, or VAS, provider **Mobile2Win India Pvt. Ltd** in a deal that involved trading equity in the respective companies rather than cash payout.

Altruist, which started in 2004, was the younger of the two companies and ran entirely on its revenues, while Mobile2Win had raised venture funding of at least \$15 million (Rs77.7 crore) from multiple venture investors over the years. "Altruist has been running on internal accruals, so we don't have the cash to buy (such) deals," says Dheeraj Aggarwal, co-founder, Altruist Technologies, which acquired a 90% stake in Mobile2Win in exchange for an undisclosed equity in its company.

A share-swap deal, as such cashless acquisitions are known, made it possible for Altruist, primarily a voice services provider, to acquire a company working on SMS and data applications for mobile, thus expanding its integrated offering to telecom operators.

In a similar arrangement, French business networking site **Viadeo SA** recently acquired Indian social network **ApnaCircle Infotech Pvt. Ltd**. In a cash-starved market, venture capitalists and analysts predict



Minimizing risk: (left) Yogesh Bansal, CEO, ApnaCircle.com, and Sandeep Singhal, managing director, Nexus India Capital.



such deals will increase in the coming days, particularly among privately-held companies.

"Although overall deal flow is lesser, we are seeing a high proportion of such deals," says Harish H.V., partner, national management, **Grant Thornton India**. "Given the liquidity issues in the market, it is less risky, because you are telling all shareholders to share the risk."

So far, share swaps have been more common in consolidation moves among large companies. It was used to achieve the merger between **Kingfisher Airlines Ltd** and **Air Deccan** in the aviation sector.

More recently, Mukesh Ambani-controlled **Reliance Industries Ltd**, or RIL, absorbed group company **Reliance Petroleum Ltd** through such an arrangement.

Early-stage ventures, however, have begun to use the instrument in the current economic downturn as a way of growing the business while minimizing the impact of lower market valuations.

"The multiples keep chang-

ing as the market slides, so there is no real benchmark for valuations. This way, none of us is going away from the upside, but no one has cashed out either," explains Aggarwal. In such cases, the swap ratio is arrived at based less on market valuations and more on weightages given to revenue, profitability and growth.

For such an arrangement to work, venture firms say it is imperative for the two parties to have complementary capabilities that can grow the business. "The alliance should either bring down costs or expand front-end reach with customers and not just to make the company look bigger in the market," says Kanwaljit Singh, managing director, **Helion Venture Partners**.

Viadeo's acquisition of ApnaCircle meant access to a global audience and a cash infusion of \$1.5 million for the latter. "Viadeo gets an entry into India and our shareholders get decent value with stock in a profit-making company," says Yogesh Bansal, CEO, ApnaCircle.com, which is backed by Sabeer Bhatia and **Bennett,**

Coleman and Co. Ltd.

In the case of the Altruist-Mobile2Win deal, the combined entity offers a larger range of services to the operator than each individually could.

"Mobile2Win had relationships with carriers and media houses, but its product was limited by one channel and we realized that pure data-based VAS will not work in this market," says Sandeep Singhal, managing director, **Nexus India Capital**, which had backed the company along with investors such as **Norwest Venture Partners**, **Softbank China Holdings Ltd** and **Silicon Valley Bank Partners**.

For venture capitalists backing the acquired companies, a share-swap deal has mixed implications. The flip side is that the investors do not get an immediate exit, since they do not sell their stake for cash returns, but instead get fresh equity in the acquirer depending on the swap ratio.

The upside is they stand a chance for an exit in a larger company under better market conditions. A share-swap also holds the interest of shareholders of the acquired firms longer in the combined entity.

Says Rajiv Hiranandani, co-founder, Mobile2Win: "In a cash deal, people look to exit out but this way, the team and investors want to stay and build the business."

In the coming days, if the government's plan to ease the approvals required for share-swaps between Indian and international companies comes through, it could lead to more such deals.

"Cross-border swapping is a very complex issue, and any moves to simplify it will definitely help," says Grant Thornton India's Harish.