Be Indian, buy foreign

Buoyed by a booming economy and driven by the need to gain a global foothold, Indian businesses are scurrying to acquire foreign firms. We track the trend, the players making the big moves and the industries attracting the serious money

Chitti Pantulu

The year 2005 was when India Inc set out with a shopping list on an acquisitions spree abroad. The year was marked by a high number of outbound cross-border deals, with 136 transactions totalling $4.3 billion, a number that is certain to climb this year.

According to global accounting firm Grant Thornton, during this period there have been more cross-border deals where Indian businesses acquired international companies than inbound deals, in value and volume terms. Europe accounted for 50 per cent of these acquisitions by Indian companies (in value terms), followed by North America at 24 per cent. Telecom, energy, information technology, pharmaceuticals, healthcare and biotech were the segments that accounted for most of the deals.

The good news is that this phenomenon is going to get better, with Indian companies upping their ambitions and searching more aggressively for companies abroad. "We are already seeing increased activity and Indian companies are scouting in strength for acquisitions," says Harish HV, who heads the mergers and acquisitions (M&A) function at management consultants Grant Thornton. "We expect the average deal size to be bigger this year."

A Citigroup projection puts global cross-border M&A volumes at $1 trillion over the next few years; the largest and fastest-growing subset here will be acquisitions by companies from emerging economies. Despite being a late starter, India could be pitching hard for a sizeable chunk of this. The country was not far behind China in outbound acquisitions in 2005 (according to PricewaterhouseCoopers, outbound investment from China totalled $6.9 billion in 2005).

In fact, India could catch up with the best much faster. As Tata Sons executive director Alan Rosling points out, Indian companies are being recognised on the global M&A stage, with the big action being concentrated in the information technology, pharmaceuticals, engineering and auto components sectors. He should know, considering that the Tata group was the most active Indian business house in making acquisitions abroad in 2005, with outbound cross-border deals of close to $1 billion.

The Tatas are not alone in upping the overseas acquisitions ante. A standout example is Indian drug companies seeking to expand their global footprint with European and US acquisitions, the latest being the bid by four Indian companies for Betapharm, Germany's fourth-largest pharmaceuticals company.

That these deal sizes have been small points is a pointer to the fact that Indian companies were still testing the waters and minimising risks through value buys. The Indian pharmaceuticals sector is a case in point. While companies have sought to go to Europe and Latin America in search of bigger capacities and access to product pipelines, they are ramping up marketing networks in the US by resorting to small acquisitions there.

"The main issue is first getting comfortable with running a business there and then ramping up subsequently," says Rajeev Nannapaneni, chief operating officer of NATCO Pharma, which recently acquired a drug store in the US and intends to follow it up with at least four more such buys later this year.

As Rosling points out, integration is vital here and this is a skill that has to be acquired through experience, something that took US companies 30-40 years to master. Since the Tetley acquisition way back in 2000, the Tatas have evolved their own way of handling such issues. "We have developed a unique methodology that is quite different from the Anglo-Saxon approach to acquisitions," Rosling explains. "It is done less aggressively and seeks to maintain the identity of the target company."

That's the kind of cultural twist to the acquisitions tale that could become an Indian hallmark.

High five of 2005

Videocon group
$280 million
Thomson's picture tube business
in China, Poland, Mexico and Italy

Matrix Laboratories
$255 million
Doo Pharma
in Belgium

Videsh Sanchar Nigam Limited
$172 million
Teleglobe Intenational Holdings
in the US

Apeejay Surrendra Group
$140 Million
Typhoo Tea
in the UK

Tata Steel
$130 Million
Milleneum Steel Co
in Thailand

Illustration: Malay Karmakar

Caution and focus will be the key

Shankar Sharma

In the mid-1990s, there seemed no immediate prospect of Indian companies emulating the Tiger economies of Asia to build multinationals. And it was not difficult to figure out why — a large local market was what kept Indian companies inward-looking.

Even companies in the US, except for a few in the technology sector, were plagued by this phenomenon till the 1980s, for similar reasons. The process of globalisation for the US began in right earnest in the early 1990s. Now India is treading the same path, stepping out of its comfort zone to enter new markets.

However, since domestic growth is still strong, why venture out at all? Again, the reasons are simple: the availability of risk capital from overseas investors and, having vied for around 10 years with multinationals on their home turf, Indian companies today feel they have the wherewithal to compete internationally; of course, one cannot discount the 'glory factor': calling a company a multinational has a good ring to it.

It is not going to be easy sailing, though. The two pre-requisites to becoming a multinational are capital and processes, just as organic and inorganic are the two routes to growth. As an Indian company, you can go abroad and set up a subsidiary or a division and build growth slowly. This needs less capital and, as a corollary, is less risky.

The inorganic route is riskier; it involves huge capital outlay, and there is the issue of cultural integration. To my mind, the latter remains the biggest stumbling block for Indian companies.

The most important aspect, however, is that of process. It is the focus on processes that makes for a successful multinational. For instance, a local company has more leeway in operating without stringent processes. But a multinational enterprise has to deal with international laws and have the ability to manage far-flung outposts.

It is still too early to tell whether Indian companies have the necessary processes and managerial bench strength to manage overseas acquisitions. Most Indian companies are still promoter-managed, with professional managers present more in name. The question is: can the promoter divide his or her time adequately between different geographical locations and cultures? Are Indians, by their very culture, a process-driven, disciplined race?

I am not so sure we are. And from this arises the greatest risk of the breakdown of processes. Don't be surprised if you see more than one overseas acquisition by Indian companies becoming blots on their balance sheets.

Having said that, I remain convinced that India will produce a number of multinationals, the coming equivalents of a Samsung, a Kia Motors or a Lenovo. This will mean that they have to be at the customer-end, and not just at the back-end. This will take a while, but it will happen. But for that to happen promoters will have to change the way they think; they will have to devise the processes and leave the execution to executives.

Lastly, a bit of transparency in their acquisitions would help. Most Indian companies refuse to divulge any financial details of their acquisitions. This raises suspicion that deals are not all kosher, and may be driven by considerations other than enhancing shareholder value.

The writer is chief global strategist with First Global, a leading multinational securities house

'I have learned to bargain harder'

Karan Paul, Apeejay Surrendra Group chairman, on how Indian companies are getting hot on foreign acquisitions

Aditi Seshadri

What was the boardroom thinking behind Apeejay's decision to foray into offshore acquisitions?

We've made one major acquisition, the Typhoo tea business in the UK. This was part of our process of achieving a higher level of growth across our divisions. In the tea business, we were looking at acquiring international plantations and a brand as well. We thought, why limit ourselves to Indian territory? We were ready to take a leap ahead.

What kind of challenges did Apeejay come across in the process of shopping for such opportunities?

It was very challenging and exciting. There was a lot to be learned. We had to deal with a different way of doing business, a different way of interacting with people. It was the same for them, to adjust to an Indian team. Even small things like how they prepare their accounts and deciphering intelligence reports were challenging.

Indian enterprises have of late been making a splash through acquisitions. Are global business perceptions about Indian companies changing?

Definitely. With Indian companies looking at acquisitions across the globe, especially North America and Western Europe, we've become big players in certain segments of the corporate landscape abroad. The market is aware that Indian companies are ready, and have the capital, to buy.

What factors have got Indian companies thinking about, and pulling off, such big deeds?

The high stock valuations and corporate valuations here have made acquisitions more expensive. And if you want to be the best in your business, you have to look at a global scene; it is part of globalisation. Domestic capital markets and international bankers are also now ready to back Indian corporates; though this is still not happening a lot, it will definitely grow.

What lessons have you learned while making this journey, from being an India-centred company to a global enterprise?

I've learned to bargain harder! This was a very important acquisition, and one of the largest out of India. Also, with the international exposure, you also compare how you are running things. There is really no quantifying the learning. As for the company, we tried to make this acquisition a platform to more opportunities.

Any other acquisitions on the anvil?

Yes, but I don't want to comment yet. Hopefully, things will work out.

What would you advise Indian companies that want to spread their wings similarly?

Get your numbers right and the right financial structure in place. Think big, think long-term and think of your business on an international scale.

What do you consider your biggest assets in this context?

Ambition and focus. We can take decisions fast, which helped in the Typhoo deal, which we closed in three months. It's ultimately about the drive and the desire to do it.

Staking claim

Just as Indian enterprises spread their wings and buy foreign firms, multinational corporations are coming into the country and taking control of local companies

- 2005 saw 467 mergers and acquisitions and private equity deals (both domestic and cross-border) compared with 360 in 2004; these were valued at $18.2 billion.
- The average deal size was close to $40 million; there were over 25 deals worth over $100 million and eight that were $500 million and above.
- 28 foreign companies were acquired by Indian corporates in 2002 (value: $209 million). The figure rose to 49 in 2003 ($1.8 billion), 60 in 2004 ($1.79 billion) and 100 in 2005 ($2.3 billion).
- The $15-billion Tata group made eight foreign acquisitions in 2005, with a total worth of $1 billion.
- Half of the overseas acquisitions by Indian companies have been outside the North American region, with Asia-Pacific accounting for as much as 25%.

Destination India

- JP Morgan Chase bought a 25% stake in Binani Cement for Rs150 crore.
- BBC Worldwide acquired a 20% stake in Radio Mid-Day West, a subsidiary of Mid-Day Multimedia.
- Financial Times of Britain picked up a stake in the Business Standard newspaper and Independent News and Media, again from Britain, bought a 26% of newspaper group Jagran Prakashan for £18.6 million.
- Turner International tied up with Global Broadcast News for a 24-hour English news channel, and Reuters entered into an agreement with Times Television for a news channel.
- Oracle signed an agreement to acquire Citigroup Venture Capital International's 41% equity in I-flex Solutions for $593 million