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Asia Weekly: Spending spree for corporate India

By KRISHNA KUMAR VR in New Delhi

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From conglomerates to small firms, businesses have been growing through global acquisitions

Acquiring assets overseas was unknown terrain for Indian corporate firms just a few decades ago. But now they are flocking to foreign pastures, as data released by the Reserve Bank of India shows.

With 375 deals (both large and small), overseas direct investments by Indian companies stood at $1.21 billion in October 2013, with similar figures for September and August. With $3.24 billion, July saw a increase of almost 90 percent from the $1.71 billion investment the previous month.

From a modest 37 deals in 2001 and 40 in 2002, the number of outbound deals in mergers and acquisitions (M&A) has increased sharply over the years, facilitated by the relaxation of regulations on overseas capital movements as well as a more supportive political and economic environment, including deeper currency reserves, and easier access to debt financing, both at home and from international banks.

With the increasing encouragement of the Indian government, now corporate firms in the country are considered as strategic players in the global investment landscape. This was confirmed by the World Investment Report 2013 from the United Nations Conference on Trade and Development, which placed India among the top 25 countries in terms of magnitude of foreign direct investment outflows.

According to a report by global consultancy EY, formerly known as Ernst & Young, India and China will be among the top five destinations for M&A activities across diverse sectors over the coming year.

In India, major overseas moves began in the middle of 1990s, when the economy went on an accelerated growth trajectory.

"With a strong investor support and capital, in the beginning mainly IT companies started acquiring assets and businesses overseas," says Kaushik Dutta, director of the Thought Arbitrage Research Institute (TARI) in New Delhi — a not-for-profit think tank in corporate governance, sustainability and public policies affecting businesses.

"Then, since 2000, traditional manufacturing companies slowly stepped into the M&A market which saw some of the largest acquisitions by Indian companies abroad."

One of the first major overseas purchases of assets by an Indian company was the acquisition of popular British brand Tetley by Tata Global Beverages in 2000 for $407 million. Then the firm acquired more companies in the United States, South Africa and east Europe, making it world's second largest branded tea maker.

Global consolidation

"We are a global company, so acquisitions are not done for the sake of it, acquisitions are strategic moves for global consolidation," says Debasis Ray, the head of group corporate affairs and media at Tata Sons, the holding company of the Tata family of companies. "Global acquisitions bring value to shareholders, clients and customers."

Another branch of Tata has been making headlines with its overseas investments. Tata Motors in 2003 acquired Daewoo, a commercial vehicle company from South Korea. In another move in 2005, it bought one of the largest manufacturers of bus and coach cabins in Europe, Hispano Motors Carrocera.

In June 2008, Tata Motors surprised the market by acquiring the prestigious Jaguar Land Rover businesses from the Ford Motor Company for a net consideration of $2.3 billion in an all-cash transaction.

And the spending sprees were not limited to the tea and auto sections of the company. The UK-based Brunner Mond chemicals company and US-based General Chemical Industrial Products were bought by Tata Chemicals.

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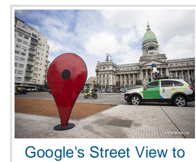

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In 2007, Tata Steel acquired Corus, a company five times bigger, for $12.1 billion, putting India on top of the global M&A map.

Tata is far from the only business to be looking overseas. The Aditya Birla Group, the third largest Indian private sector company, today operates in 36 countries and derives 50 percent of its revenue flow from its overseas operations.

The company first jumped on the big ticket overseas acquisition bandwagon in 2007 when its flagship company, Hindalco Industries, bought Novelis, a Canadian aluminum company, for around $6 billion. This acquisition made Hindalco the world's leading producer of aluminum rolled products.

Then the group went on to buy Columbian Chemicals, Swedish refinery Domsjö Fabriker, the Mt Gordon and Nifty copper mines in Australia, and the American Terrace Bay pulp mill — with a total cost of $1.3 billion.

"Our global acquisitions are dictated by our business ambitions," Kumar Mangalam Birla, chairman of the Aditya Birla Group, tells China Daily Asia Weekly. "We have made 26 acquisitions globally and in India, which have helped us leapfrog growth. The rationale for acquiring assets globally has been the sourcing of raw materials, investing in downstream operations and access to innovative technologies."

He explains that each acquisition has been a valuable learning experience for the company.

"The process of integrating the acquired units with the rest of the organization has taught us a lot. M&As are not about stronger balance sheets or enhanced market shares, rather, they are about the coming together of people, their hearts, minds, cultures and values."

India's state-run firms have not been immune, and the Oil and Natural Gas Corporation bought the UK firm Imperial Energy for $2.1 billion in 2009.

As for the IT domain, there have been a few cases that hit the headlines, like the Bombay Stock Exchange-listed software testing firm Cigniti Technologies' recent acquisition of Texas-based Gallop Solutions in a cash-and-stock transaction valued at $15 million.

Unchanged working culture

"The friendly tax provisions and business friendly regime in India are definitely inspiring even not-so-large business enterprises to go in for overseas acquisitions," says Subhash Lakhotia, a tax and investment consultant. "I do not see many changes in the working culture of the business enterprise after mergers and acquisitions taking place."

In the telecom arena, New Delhi-headquartered Bharti Airtel, one of the largest providers of mobile fixed telephony in India, started its overseas blitz in 2010 by striking a deal to buy Zain's mobile operations in 15 African countries for around $10 billion from the Kuwaiti firm.

Next, the Indian telecom major bought Warid Telecom in Uganda for an undisclosed sum. Meanwhile, Bharti Airtel is set to acquire a 100 percent stake in the US firm Qualcomm's 4G venture by the end of the next year.

Another IT outfit, Tech Mahindra, made its third acquisition this year when it bought the Swedish firm Type Approval Lab for an undisclosed amount. The move helped Tech Mahindra establish its first European test laboratory with a multi-million dollar infrastructure.

Apart from large conglomerates such as the Tata group, the Aditya Birla group and others, not-so-big companies are also fueling the Indian wave of M&A deals overseas.

In August 2013, VLCC, a slimming and beauty chain, acquired a majority controlling stake in Singapore-based Global Vantage Innovative Group (GVig). Late last year, VLCC also acquired the Malaysian slimming and personal care services chain Wyann International.

"Acquisition allows us to leverage GVig's strong brand equity, wellness products and solutions to establish a stronger footprint in important markets in Southeast Asia," says Mukesh Luthra, group chairman of VLCC. "With GVig Singapore and the Wyann Malaysia acquisition last year, we are in a stronger position to offer the best solutions and services to customers in the entire region."

If everything goes well, the major overseas deal of the current financial year will be Apollo Tyres' acquisition of the Ohio-based Cooper Tire & Rubber Company. Apollo, which earns two-thirds of its revenues from India, expects the deal to boost its exposure in the US and China as Cooper has two manufacturing plants in China.

"Together, we will have a significant presence in the United States, Europe and China," says Neeraj Kanwar, vice chairman and managing director of the Indian tire company. "Both Apollo and Cooper have built strong reputations on the strengths of their people, and this transaction will maintain the networks and workforces in their respective regions."

As the global growth momentum and M&A focuses are shifting to Asia, the list of Indian corporate firms going for overseas assets shopping will continue to grow quite enormously in the future. However, TARI's Dutta suggests that companies should not act too hastily in their zeal for buying foreign companies.

"Indian owners, like in most other Asian countries, should take a long-term view on the overseas acquisition and stay invested in it for a longer period of time," he says. "This is critical for long-term success."

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