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India Inc.'s New MNCs

International acquisitions may be the most visible element of the global gambit, but Corporate India is also resorting to joint ventures and greenfield forays to set up overseas outposts. The Indian MNC is in the works.

$186 billion.
1,878 deals.
And a global market share of 16.8 per cent.

Global designs: M&M (above) and Suzlon's overseas bases

It's unusual to start a voluminous, predominantly gung-ho series of features on India's MNCs in the making with a reality check. But that may be just what the doctor ordered in the midst of reams of hoopla generated in recent times about India Inc.'s burst of acquisitions on the international stage. According to data collated by the us-based information powerhouse Thomson Financial, us corporations have done 1,878 cross-border transactions so far in 2006, totally valued at $186 billion. India stands 23rd on that list in value terms, with a 0.7 per cent share. Elsewhere, India ranks 61st out of 62 countries on the globalisation index of A.T. Kearney, a global management consulting firm. Does that mean India Inc. is still a bashful pretender, unable to convincingly announce its arrival in the Global Village, a Tata-Corus here or a Videocon-Thomson there notwithstanding? Not quite. As you turn the page, you will see how Indian business is slowly but surely beginning to leave its indelible mark on foreign markets. New markets, resources and clients are being accessed, and people of varied ethnic hues are on the payrolls of Indian firms. Watch out, world: The Indian MNC is coming soon to a town near you.

Financial Buy Anytime, Anywhere

Overseas assets aren't coming cheap, but that's not deterring Indian companies from using acquisitions as a strategy to get a global footprint.

By Krishna Gopalan

Sometime in the mid to late 90s, British Steel mandated a well-known global investment bank with a specific brief to scout around for

Ready to roll: Tata Motor's Ratan Tata (centre) at a Daewoo plant in South Korea

opportunities in the Indian sub-continent. One proposal the bank apparently made to British Steel involved picking up a majority stake in the country's largest private sector steel maker, Tata Steel. The deal didn't materialise, and British Steel went on to merge with Koninklijke Hoogovens of the Netherlands in October 1999. Together they formed Corus-the same company that Tata Steel recently agreed to buy for $8 billion.

Call it irony or serendipity or just pure bravado, the Tata Steel-Corus transaction is best evidence of the hunger of Indian promoters to hog the global stage. It's also confirmation of how one acquisition can transform the acquirer from a distant also-ran into a global giant to reckon with. From the mid-50s in the global steel ranking, Tata Steel has pole-vaulted into the league of the top five steel producers worldwide. From a company with a topline of Rs 17,000 crore, the Tata Steel-Corus combine sails into the Rs 1 lakh crore ($22 billion) bracket (Corus showed sales of Rs 85,000 crore in 2005).

Tata-Corus isn't just a one-off example of an Indian business house thinking, and acting big. Videocon Industries' $731-million bid for Daewoo Electronics, Dr Reddy's acquisition of betapharm in Germany for $572 million, Ranbaxy's $324-million buyout of Terapia in Romania, and Suzlon Energy's $565-million purchase of Hansen Transmissions of Belgium are just some instances of Indian companies willing to shell out top dollar for instant access to foreign markets. The deal frenzy isn't restricted to a handful of sectors, nor is it the preserve of the elite of India Inc. A host of mid- and small-cap firms in industries ranging from textiles, consumer durables, fast moving consumer goods and telecom to energy, automobiles, auto components and information technology are participating in the rush to cut an outbound deal. The number of deals taking place is increasing, as is their value. In 2005, the total number of outbound deals was 136, generating a total deal value of $4.3 billion. Between January and October this year, the value of outbound deals was about three and a half times more at $15.72 billion and without question, will be significantly larger by the end of the year. "This is the result of confidence among Indian promoters which might not have been the case three years ago. The most important thing is that we have achieved competitiveness at the global level," points out Rajeev Gupta, Managing Director and Head of the India Buyout Team, Carlyle.

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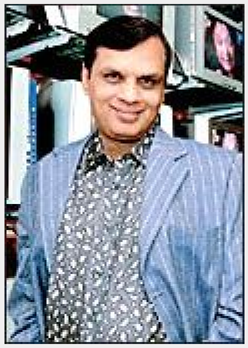
"The financing (of the Hansen transaction) was completed in less than 10 days and the clincher was that we moved faster than the competition"
Girish Tanti
Director/Suzlon



"The Thomson acquisition gave us access to a global market. Today, we are taken seriously and our brand name has become much stronger"
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Chairman/ Videocon Group

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B. Muthuraman
MD/Tata Steel

And what better way to prove that by having a go at international markets, developed and developing. Videocon Industries is an instance of a consumer durables company wanting to take its brand to foreign shores. The group bought Thomson's colour picture tube manufacturing facility and has now inked an understanding with Korea's Daewoo Electronics. "The Thomson acquisition gave us access to a global market. Today, Videocon is taken seriously and our brand name has become much stronger," says Venugopal Dhoot, Chairman, Videocon Group. Importantly, the global strategy doesn't begin and end with one or two acquisitions, but involves a host of them over the longer term. It is now gathered that Videocon has trained its sights on the Seoul-based LG.Philips LCD Co.

Also pursuing a string of acquisitions is Ranbaxy Laboratories which, in 2006 alone, made five purchases. An entry to high-growth geographies is one big reason for the buying binge. According to Ramesh Adige, Executive Director, Ranbaxy, the acquisition of a 96.7 per cent stake in Romania's Terapia opened up possibilities in the rapid-growth markets of Romania, central and western Europe. "The combination of Terapia with Ranbaxy's existing activities in Romania has created the largest generics company in the country. Physical proximity to the markets, high quality and efficient low-cost manufacture, state-of-the-art R&D and product registrations are the underlying reasons (for the acquisition)," he adds. Market access is clearly the mantra for many of the companies stepping out. Says B. Muthuraman, MD, Tata Steel: "Tata Steel will be in several geographies rather than the limited geographies that we have today. It will have access to technology, management expertise, R&D facilities, geographical reach and new markets," he says.

THE CASE FOR OUTBOUND DEALS

WHY THEY MAKE SENSE

» Access to global markets: Ranbaxy's buyout of Terapia has given the buyer a clear access to high-growth markets like Romania and Eastern Europe
» Synergy with the existing business of the buyer: Videocon's acquisition of Thomson gave it a strong presence in the colour picture tube market. That will be complemented by Daewoo's presence in areas like high-definition televisions and digital televisions
» Strengthening the buyer's presence: Tata Tea's buyout of Tetley gave it a foothold in the UK market. The deal with Glaceau will allow Tetley to enter the US market and give Glaceau a chance to tap the UK market
» Reduces levels of vulnerability: Tata Steel's buyout of Corus makes it a global top 5 player and reduces its risk to fluctuating prices, In fact, it could also control prices now
» Chance to create a global company: ONGC with acquisitions in oil fields in Brazil and Syria is now a serious contender in the global oil and gas space

WHAT COULD BE THE RISKS

» Takes time to understand global markets: Companies often have to rely on information from secondary sources which may not be necessarily authentic
» Regulations in global markets could be a dampener: Industries like pharma, healthcare and energy are often looked at very closely by the regulators
» Danger of making acquisitions when an industry is on an upswing: The buyer could take a long time to recover investments if the cycle turns
» Cultural integration issues: Factors like language and the seller's employees having new owners could be hurdles
» Economic downturn in the global market: This could play havoc with the buyer and will severely affect business prospects and forecasts

A few years ago, if there was one perceived stumbling block to global size deals, it was finance. Today, that's hardly an issue, what with private equity players and bankers falling over each other to bankroll acquisitions by Indian companies. What also helps is that many of the acquisitions begin paying back almost immediately. Adige of Ranbaxy says Terapia has been accretive from day one (the acquisition was funded from the proceeds of Ranbaxy's $440 million issue of foreign currency convertible bonds). In Dr Reddy's Labs case, betapharm contributed 12.77 per cent to the top line in the second quarter of 2007. What also helps are balance sheets that are capable of absorbing larger quantities of debt and proposed investments, courtesy healthy cash flows. "Indian companies are generally in very good financial health today. This coupled with an access to significant pools of capital is driving M&A appetite," says Pramit Jhaveri, Managing Director and Head of India Investment Banking, Citigroup.

Another big deal that sailed through on the financing front is the Suzlon-Hansen transaction for m431.43 million (Rs 2,459.15 crore). The acquisition was funded entirely by debt from ICICI Bank, the State Bank of India, Deutsche Bank and Barclays. "The financing process was completed in less than 10 days and in our case the clincher was that we moved faster than the competition," says Girish Tanti, Director, Suzlon. Bankers for their part aren't prone to financing deals blindly. "We look at benefits of synergy with respect to products, processes, manpower and commercial benefits. It is after assessing these that we look at costs and risks," says Jitender Balakrishnan, Deputy Managing Director, IDBI Bank.

> HOW THEY DID IT
> Sticking to the Knitting
> By buying quality but operationally-stressed assets on the cheap, Spentex Industries has become India's largest yarn maker.

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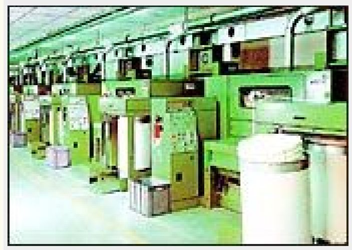
Spinning success: Via six acquisitions in three years



Here is one company that has emerged virtually from nowhere to become the largest yarn manufacturer in the country. Three years ago, its promoters weren't even in the textiles business, running a profitable trading house called CLC Global. Today, Spentex Industries has a total manufacturing capacity of nearly 570,000 spindles in India and Uzbekistan, edging out erstwhile leaders Mahavir Spinning (550,000 spindles). Nearly 85 per cent of that capacity, or 484,000 spindles, has been added via six acquisitions in the past three years. And roughly 40 per cent is accounted for by one overseas buyout, in Uzbekistan, of 220,000 spindles (plus 236 airjet looms). Mukund Choudhary, Managing Director, Spentex Industries, who is credited with much of this creation, shares his rationale for inorganic growth: "Nine out of 10 people who set up greenfield projects fail." More importantly, it's cost-effective too. For instance, Spentex bought the Uzbek facilities with an investment of just 40 per cent of what it would cost to build similar capacities.

Spentex is now looking for more acquisitions, primarily overseas, to grow even bigger. "Asset sizes are much smaller, while valuations are higher in India," says Choudhary. His aim is to push up capacity to between 700,000 and 1 million spindles over the next 12-18 months and turnover to Rs 1,800 crore by March 2008, which would mean a five-fold growth over last year's sales.

Spentex may be more keen on foreign assets today, but his first acquisitions were Indian. Choudhary's first deal-Cimmco Spinners, which is now Spentex's unit in Solapur in Maharashtra-was done over dinner in October 2003. Cimmco was making losses when it was bought from Xpro India, an S.K. Birla group company. "It was no gamble. I fear losing even Rs 10. So, buying Cimmco was a pure, logical business risk given the strength of our raw material procurement, our marketing, human and financial strengths." Cimmco pitched in with a modest profit of Rs 1.60 crore within six months of being acquired. In 2004, Choudhary acquired his Baramati unit (also in Maharashtra), which was known as Spentex Industries, and which is the name the company has hung on to.

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From the spate of deals concluded, it's clear that there's plenty of opportunity out there. And tracking them are not just eager investment bankers but company head honchos themselves. For instance, when Tata Tea zeroed in on bottled water marketer Glaceau in a landmark $677-million deal, the company's top brass glanced over a host of options. Says R.K. Krishna Kumar, Vice Chairman, Tata Tea: "We scanned the market and we looked through many companies. There were some fruit juice companies that were interesting, but not exciting enough. The fact that Glaceau is in a category that is changing the beverages market was exciting."

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Investment bankers, for their part, do their bit by constantly looking for opportunities. DSP Merrill Lynch, which represented Tata Motors in the buyout of Daewoo's truck manufacturing facility, has a standardised procedure for cross-border deals. "Typically, we take an industry and understand it in detail from where we identify specific opportunities for Indian players. Importantly, these opportunities have to be appropriate and must offer strategic fits for the Indian company. From this stage, we take the opportunity to the client, which facilitates a strategic discussion," says Munesh Khanna, MD and Head of Investment Banking, DSP Merrill Lynch.

One welcome upshot of the flurry of outbound M&A is that Indian managers have little choice but to consider the global big picture when making decisions. Consider for instance VSNL's $239-million buyout of Teleglobe, which gave the Tata company a foothold in the international voice market, estimated at about 220 billion minutes per annum. The Indian pie-incoming and outgoing-will be about 12 billion minutes by the end of the current year. But as N. Srinath, Executive Director, VSNL, says: "I do not think of what is happening to ILD (international long distance) traffic in India. I think of what is happening to the ILD traffic globally."