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India's new all-stars

How India's companies are going global via M&A

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Batting for India

Indian companies are going global. Here we focus on the reasons why and look at three acquisitive companies that epitomise the trend

BY *Sameera Anand*

Can India create a G.E. a Microsoft or a Toyota?" was the question asked by CLSA in a recent research report. The broker went on to answer: "Even five years ago the answer would have been an emphatic 'no'. The answer today is more likely to be 'possibly'." That's because India inc is going global – marrying strong organic growth with major international acquisitions.

According to India Advisory Partners, Indian buyers participated in 100 cross-border M&A transactions in 2005 – in deals worth a combined $2.17 billion.

This represented an increase of 49% year-on-year and was triple the number of deals in 2002.

What is even more noteworthy is that the value of deals closed in 2005 was more than 10 times larger than those closed in 2002 – which points to the fact that Indian companies are now willing to pursue larger deals.

The country's major business houses – the Tatas, the Birlas, and the Ambanis of Reliance – have, not surprisingly, led the charge. For example, Tata Tea's acquisition of the Tetley brand in March 2000 received a great deal of press with Tata Tea spending £360 million – and becoming the second largest player in the global branded tea market. Even six years ago the idea of an Indian company doing such a large cross-border deal was by no means an easy sell and many predicted the deal was too large to digest. However, the doubters were subsequently silenced when the company more than doubled its profits and used the brand to increase its presence in a number of overseas markets.

And there is nothing like a success story to encourage others. But what sparked the trend? Why are Indian companies buying targets overseas in ever-increasing numbers?

The more recent burst of activity can be partly attributed to government policy. In the 2004 budget, India's finance ministry permitted companies with proven track records to make acquisitions in non-related areas. The ceiling on external borrowing was also relaxed, making it easier (and cheaper) for Indian companies to fund foreign acquisitions. This was a big change – the earlier regime had strict limits on acquisition financing that deterred many would-be buyers.

But the relaxation in the regulatory framework only provides half the answer. The other half is cultural and historical. In

OVERSEAS ACQUISITIONS BY INDIAN COMPANIES

		2002	2003	2004	2005
Number of overseas acquisitions		28	49	60	100
Value of overseas acquisitions	Indian rupees billion	9.4	80.4	76.5	106.7
	US dollars million	209	1,789	1,700	2,370

Source: India Advisory Partners

the 45 years after the country's independence, India's private sector was strangled by a licensing system that dictated what businesses could and couldn't do. Married to this, Indian companies had to deal with a very high cost of capital. Their balance sheets were funded through high interest rate debt. Indeed, only 10 years ago the cost of long term debt for an Indian company was 16-18%.

India's private sector had to cope with high costs, and erratic power supply. Roads, rail and port facilities were (and are) inadequate, making the movement of goods and services another huge cost.

Kunal Kashyap, chairman and managing director of Allegro Capital Advisors comments, "Despite a new six-lane Mumbai-Pune highway, Pune-based companies often face delays due to traffic. Imagine the situation elsewhere in the country where highways are single file."

India's private sector companies had to deal with this and still offer competitively priced end products. Obviously, most of the survivors (and many failed) were a classic Darwinian example of 'the fittest'. They were lean users of capital – expert in sweating capital goods – and highly efficient in their production techniques.

"What is enabling this process of globalisation," says Citigroup's head of fixed income capital markets in India, Rajeev

Ready to buy: K Anji Reddy

Manesh Khanna, managing director at Enam Financial comments, "India's competitive advantage lies in a combination of the intellect and the quest for knowledge of its people. Anything you give an Indian he will try to reverse engineer at the lowest cost. Combine this with the enhanced focus on quality and design of the last few years and the rationalisation of earlier artificially high input costs and its no wonder India is breeding a new generation of cross-border acquirers."

traditionally associated with cross-border M&A. In each case, they all have the avowed goal of attaining global leadership in their industry.

The first company is Bharat Forge, which provides critical forgings to the automobile sector (among others), and whose customers are highly sensitive to delivery schedules, quality and technology. India was a latecomer to the car industry – which is not a great surprise when you consider that one third of Indian households do not own any form of private transportation and another 40% own just a bicycle. Yet, Babasaheb Kalyani, chairman and managing director of Bharat Forge still foresaw the potential for India to emerge as a global manufacturer and supplier of forgings.

Then there is Dr Reddy's, a company which operates in the pharmaceuticals sector – an area where Indian companies were labelled till recently as copycats. But WTO entry meant a new patent regime and Dr Reddy's was quick to beef up its R&D capabilities and establish a presence in the US, the most demanding pharmaceutical market in the world.

Finally, Suzlon Energy chose to foray into an industry which few would associate with India: the wind power business. This is an industry where highly specialised research is required and is mostly undertaken in Europe.

In 10 years time, Indian companies will have grown to rival their competitors in Europe and North America" Dominic Hollamby of NM Rothschild

Ahuja, "is that Indian managements have honed their competitive skills in tough times and have also acquired diverse experiences to work in different cultures. And what is speeding up this process is that capital has become cheaper and access easier."

"India's entrepreneurial DNA was hostage to too many controls and shackled until the early 1990s, but is gradually being freed," agrees the CLSA research report cited earlier. "Indian entrepreneurs today have access to abundant capital, they are confident in competing in the global market place and are looking to buy and build businesses outside India's borders."

Meanwhile the rest of the world is sitting up and taking notice. Within a decade India will have the world's largest working age population – with more than 50% of its population under the age of 25. And as one Indian industrialist once put it: "What oil is to Saudi Arabia, human talent is to India".

WIDESPREAD ASSAULT

But it is not just the traditional big business houses and the information technology firms that are buying abroad. As evidence of this trend, the following pages examine three companies whose global forays have emerged from sectors in India that are not

Each of these companies is less then half a century old. And each has grown to become a global player. So how did each evolve?

HUMBLE BEGINNINGS

Bharat Forge was founded in 1961 and Babasaheb Kalyani is the son of original founder Neelkanth Kalyani. He joined a small family business selling engine and chassis parts in 1972.

Dr. Reddy's was founded by the son of a turmeric farmer, Dr K Anji Reddy. He was a scientist and was the first graduate in his family. He founded Dr Reddy's in 1984 after resigning from the government-owned firm,

"An Indian company will do a $1 billion acquisition before the end of next year" Enam Financial's Munesh Khanna

Indian Drugs and Pharmaceuticals – having seen the immense potential India's pharmaceuticals sector.

The chairman and managing director of Suzlon Energy, Tulsi Tanti, saw first-hand the opportunities offered by wind power. This happened in 1993-94 while he was trying to install a wind turbine for his power-starved textile unit. He came to the realisation that wind power's lack of penetration was largely because of poor marketing, not lack of potential, and he went on to set up Suzlon Energy.

THINKING GLOBAL EARLY

The three entrepreneurs all shared the same vision: to cater to the world, and focus on exports. For example, until 1972 Bharat Forge had derived all its revenues locally; it then supplied its maiden export order to Greece. It would be another two decades before Bharat Forge would make a major breakthrough in exports to Japan, the UK and the US. But exporting made Kalyani sensitive to how important it was to move up the value chain rather than just supplying raw forgings. He rationalised the company's product range as a result.

Dr Reddy's started testing the water for exports as far back as 1990. Commenting on its growth from inception to now, Vishar Vasudevan, the chief financial officer, president and head of European operations notes: "Earlier, Dr Reddy's sold only active pharmaceutical ingredients ("APIs") and intermediate products to various manufacturers in developed countries. Then a need arose to access these markets directly to have an interface with the customer. In the US we invested in building the pipeline and front end organically. In Europe, where we were a little behind, we took the inorganic route."

Tanti's revenue model was based on India's own demand-supply imbalance yet he was clear that he did not want to be the local arm of a global company. He therefore took the gamble of sourcing technology from a small German company called Sudwind. The company went bankrupt shortly afterewards but the technology worked. Suzlon Energy then invested in R&D facilities in Holland for the development of wind turbine blades and in Germany for the manufacturing process. And in an interesting example of pragmatism, Tanti has not shifted Suzlon Energy's R&D centres to India because he feels the requisite expertise is currently not available in the country.

WALK FIRST THEN RUN

All three entrepreneurs realised the need to take some calculated risks – and that meant international acquisitions. Yet each of the companies took baby steps first, and used this experience to gain the confidence to think bigger.

Kalyani started thinking global in 2000 – after a decade of successfully exporting. The timing matched a downturn in basic manufacturing in some Western countries. Traditional manufacturing locations in the UK and Germany were no longer competitive and could not supply forgings at prices the car manufacturers demanded. Bharat Forge structured an innovative deal. It acquired part of the order book of UK-based Dana Spicer. This provided an opportunity to build relationships with leading forgings customers worldwide. Bharat Forge took over Dana Spicer's supplier responsibilities and began sourcing from India.

During the 1990s Dr Reddy's achieved a number of firsts in the pharmaceutical industry. And in 2001 it charted virgin territory by becoming the first Asia-Pacific (ex-Japan) pharmaceutical company to list on the NYSE, and the first Indian pharmaceutical company to obtain marketing rights for a generic drug in the US. In 2002 Dr Reddy's launched its first cross-border M&A. It spent $12 million on BMS Laboratories and Meridian Healthcare in the UK. In November 2005 Dr Reddy's then acquired a Roche business, including a state-of-the-art manufacturing facility, in Mexico for $59 million.

Suzlon meanwhile realised the massive potential for wind power and equally the importance of the right technology. When the world's second largest manufacturer of wind turbine blades, Aerpac of Germany went into bankruptcy proceedings in 2001 Suzlon Energy was one of two acquirers of its assets and technology. Tanti also realised the need to bring in external capital and

FORGING AHEAD : TIMELINE OF BHARAT FORGE'S ACQUISITIONS

- **NOVEMBER, 2003** Buys Carl Dan Peddinghaus GmbH, one of the largest German forging companies with plants in Ennepetal and Daun
- **JUNE, 2004** Buys Michigan-based Federal Forge creating manufacturing presence in the US
- **DECEMBER, 2004** Buys CDP Aluminiumtechnik GmbH providing entry into high end aluminium forged components segment
- **SEPTEMBER, 2005** Buys steel forging business Imatra Kilsta, AB, Sweden along with its wholly owned subsidiary Scottish Stampings, Scotland
- **DECEMBER, 2005** acquired 52% stake in FAW Forging to create joint venture company in China

raised private equity finance in 2004. The investors are Citicorp International Finance, ChrysCapital, the Government of Singapore Investment Corporation and T Rowe Price. Tanti says that private equity has supported the company in "its exponential growth in the last two years".

GOING FOR GOLD

Each of the companies was primed to expand abroad, and start thinking bigger – and in a happy coincidence this was just at the time (2003) when India's government made cross-border M&A easier to finance.

Hence when one of the largest forging companies in Germany – Carl Dan Peddinghaus (CDP) – went on the block, Bharat Forge was quick to snap it up. CDP was a leading player in Europe in the passenger car forgings business and provided an entry into some of Europe's top automakers. The subsequent acquisition of CDP Aluminiumtechnik – a large player in the European aluminium forged components business – was a first foray into this product for Bharat Forge. Analysts viewed the diversification favourably, reckoning it would enhance the product range and strengthen the company's position in the chassis component business.

You might say that Dr Reddys was a beneficiary of Europe's (quite recent) private equity revolution. After all, private equity funds have no prejudices towards a buyer's nationality so long as they bid enough. In 2005, private equity firm 3i put its 80% stake in Betapharm on the block – 3i had bought it just a year earlier. Betapharm is the fourth largest generic drugs player in Germany – with a market share of 3.5% and a portfolio of 145 products. In 2005 it registered sales of €186 million ($213 million). Dr. Reddy's successfully bid €480 million ($575 million) and beat off stiff competition from the likes of France's Sanofi-Aventis to win.

Suzlon was about to think big too. By the end of 2004 Suzlon Energy was the largest wind turbine supplier in Asia and the sixth largest in the world. In March Tanti further consolidated his company's position through the acquisition of Hansen Transmissions, a wind turbine gearbox manufacturer with two manufacturing facilities in Belgium. Suzlon also faced competition for Hansen – at least five others were interested. But Suzlon's ability to act quickly was one of the factors which worked in its favour. It spent €465 million ($565 million) in an all-cash transaction to acquire 100% of Hansen from another private equity fund, Allianz Capital Partners.

Hansen had a turnover of €213 million in 2005. Hansen's gearbox technology and manufacturing base fills a gap in Suzlon's own capabilities. "We believe that there is significant scope for further improving the technology and reliability of wind turbine technology," says Tanti. "Our acquisition of Hansen is another step in this direction." Suzlon Energy is also exploring the potential to use Hansen as a base to penetrate China and use India as a sourcing base to improve margins.

Suzlon's plans for dominating the world's wind power industry are still a work in progress. Given the 30-50 metre size of wind-turbine blades they are expensive to transport and hence do not lend themselves well to export. Suzlon now plans to set up a plant in the US to cater to demand from the world's biggest energy consumer.

"We think like Reliance, work like the Tatas, and strive to create value, like Infosys" Suzlon's Tulsi Tanti

THINK BIG, ACT FAST

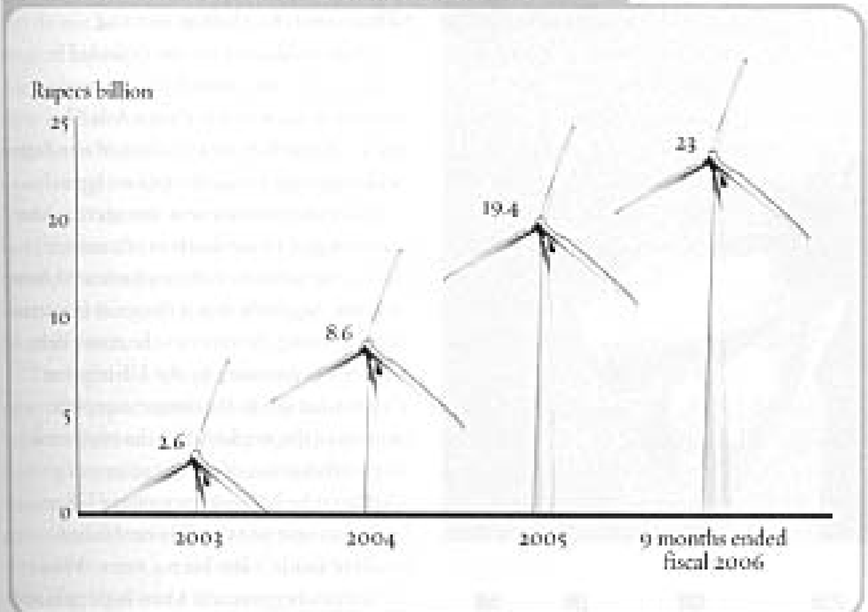
"If you want to play the game on a global scale you have to create a level playing field," Reddy's Vasudevan reckons. "That way you can look the competition in the eye." Citigroup underwrote and provided a significant portion of the total financing required to consummate Reddy's acquisition of Betapharm. It was the Indian pharmaceutical sector's largest cross-border deal. Citi's Ahuja says the bank was "confident in the ability of Dr Reddy's to successfully integrate Betapharm into its global expansion plans". Indeed, one month after the acquisition the management team of Betapharm, led by chief executive Wolfgang Niedermaier was in Hyderabad for meetings with its new owners. ABN AMRO wrote in a recent research report that Betapharm's manufacturing was likely to be moved to India, with immediate cost benefits.

This was tranformational M&A, consummmated in a single transaction. Bharat Forge, on the other hand, has become the world's second-largest forging company – and has done so through a spate of deals. Between 2004-05 it absorbed four acquisitions, and one joint venture, creating manufacturing footholds across Europe, the US and China (see timeline).

Kalyani's name has become so associated with cross-border acquisitions that it was even speculated that Bharat Forge might bid for bankrupt US automotive parts maker, Delphi. Recently the company even issued a denial that it was taking over the world's largest forging company, its competitor ThyssenKrupp.

And Tanti? He says he has always been ambitious for his company: "At Suzlon we think like Reliance, work like the Tatas and strive to create value, like Infosys." It's a good formula and an interesting one for Harvard

SUZLON ENERGY - SALES SOAR



Business School to ponder: the examples of best business practice he quotes are all Indian. The quote demonstrates a seismic shift for India inc: its role models are no longer just from the US.

In the Forbes 2005 ranking of the world's 40 richest Indians, Tanti is one of three new entrants in the top 10, occupying eighth position. The rise of the man and his company has been nothing short of meteoric. And visionary. In 2005 India committed to increase renewable energy's share of its power from 5% to 20-25%. That suggests his company will see a lot of growth in its home market as well as abroad. And this is true of Bharat Forge and Dr Reddy's as well. India's passenger car industry is finally poised for take off. Meanwhile the country's growing middle class is increasing its consumption of medicines. So each of these entrepreneurs is well positioned to benefit from a booming domestic market, rising sales and a requisite ability to fund ever bigger acquisitions abroad.

But Bharat Forge, Dr Reddy's and Suzlon Energy are only three representatives of a new breed of Indian acquirers – from a host of industries. Ranbaxy Laboratories, Matrix Laboratories, Videocon, VSNL, Tata Chemicals, Tata Steel, Wipro, Satyam Computers, Godrej Consumer Products and Apeejay Surendra Group all struck deals recently.

In 2006 thus far 21 transactions have already been announced with an estimated value of $1.86 billion. And Indian companies are geographically-agnostic – they have been acquirers in the traditional markets of the US and Western Europe but have also bought in places like Poland, China, Mexico, Thailand, Australia, Nigeria, South Africa and Tunisia.

Kunal Kashyap, the chairman and managing director of Allegro Capital Advisors is bullish on the future.

"We have a healthy pipeline of cross-border M&A deals where the acquirer is a local Indian firm," he says. "Some will be successful, some will not be. What is important is that Indian companies are no longer constrained by their geographical boundaries. I anticipate by the end of this decade we could see annual deal value of $25 billion – that is, up tenfold from 2005. Certainly, the next few years we will see more Indian acquirers buying high value, keenly-contested assets."

Dominic Hollamby who is global head of pharmaceutical and health products with NM Rothschild says, "In 10 years time, I predict that Indian companies will have grown to rival their competitors in the major European and North American markets. The rivalry with Chinese companies will see each country prosper in those industries where national champions develop into global players."

He adds: "The size of the home market gives Indian companies a firm base to become global players using M&A wisely to speed the pace of growth into new markets."

Munesh Khanna managing director of Enam Financial focuses instead on the individual value of deals. "The sweet spot for deals has moved fairly quickly from the $150-200 million range – which was the norm only a couple of years ago – to $500-600 million today. I believe this is going to move very quickly to $1 billion. An Indian company will do a $1 billion acquisition before the end of next year."

And what advice can be gleaned from the successful examples profiled in this article? Vasudevan, the CFO of Dr Reddys has this to say: "It is important to have self confidence. Never look at yourself as just an Indian player, and never let others see you as just an Indian player. The moment you start thinking as an Indian company, you will go on the defensive. And that is a very big problem."

He continues: "You have to project yourself as a global player; you have to show that you are as equipped as any other global player. Indian companies have a lot to offer. Once we realise our potential, we will definitely be successful." ■

"By the end of this decade we could see the deal value of India's cross-border M&A hit $25 billion annually" **Kunal Kashyap of Allegro Capital Advisors**