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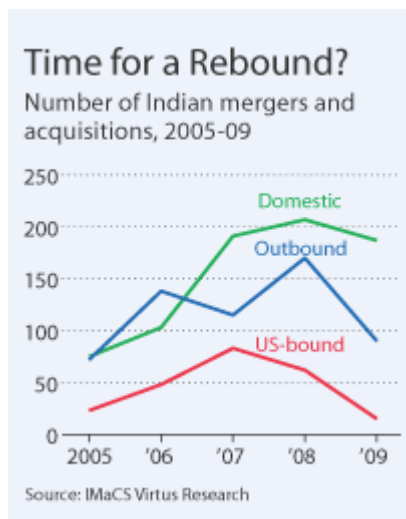
## What Indian Acquirers Want

*As the economy picks up, companies are starting to look for new M&A opportunities.*

By [ANIL KUMAR](#)

Indian outward investment has again been in the news lately, especially as Essar Group plans to buy U.S. coal producer Trinity Coal for \$600 million, giving the global steel maker direct access to a key raw material. Bharti Airtel, India's largest mobile-phone service provider, is pushing ahead with its purchase of the African operations of Kuwait's Zain, and Reliance Industries recently attempted to buy bankrupt European chemical maker LyondellBasell. Three starts to look like a trend: After a lull during the global financial crisis, Indian businesses are back in the mergers-and-acquisitions game. The form this M&A activity is taking says a lot about the direction in which India Inc. is headed.

Indian companies are increasingly looking to the developing world for investment targets as global economic power has shifted away from the United States and Europe. The number of U.S.-bound acquisitions from India in 2009 was 75% less than the previous year, with the total value at only \$300 million, according to a recent report by IMaCS Virtus Global Partners. Lack of funding amid the credit crunch in the West was a factor, but Indian companies are also adjusting to the new economic realities post recession.



One consequence is that Indian companies are more focused on the domestic market than they were before the crisis. With projections of GDP growth second only to those of China, local investments have potential for far higher returns compared to overseas investments. It helps that over the next five years, India plans to spend more than \$500 billion on energy and infrastructure projects and more than \$100 billion in the defense and aerospace sector.

Local companies often lack the expertise required to manage large-scale projects. So they're using M&A to acquire skills from abroad. When GMR Group, India's leading infrastructure company, in late 2008 acquired a 50% stake in Interger, a Netherlands-based power generation company, it gained access to Interger's experience in development, operation and management of infrastructure projects. GMR now has the ability to develop large-scale airports, power generation plants, highways and special economic zones-related infrastructure. Mahindra and Mahindra's acquisition last December of two Australian aerospace companies provides it with the capability to meet its goal of manufacturing more than 475 small aircraft in the next five years.

When Indian companies do venture into the West it will be in sectors such as textiles, information technology and pharmaceuticals where the domestic market is competitive and margins are thin. It helps that in the U.S. and Europe, valuations are lower and financial distress is rampant in these industries. More than half of the U.S.-bound acquisitions by Indian companies last year involved bankruptcies or financial distress.

This will be a special test of managerial acumen and so far results have been mixed. In 2006, GHCL acquired large U.S.-based home textile manufacturer Dan River for \$90 million with the aim of turning the ailing company around. After two years of restructuring that involved closure of all its manufacturing plants, the American company still was unable to survive competitive pressures and had to be liquidated.

Demand for natural resources is driving government-owned companies and large corporations to bid on assets in resource-rich regions such as Africa, Latin America and Indonesia. Coal India Limited is seeking to acquire mines in the U.S., Australia, South Africa and Indonesia and has launched a formal process to select from as many as 52 potential partners in these deals. ONGC Videsh along with Indian Oil Corp and Oil India has recently purchased a 40% stake in a Venezuelan oil field Carabobo-1 which has the potential to produce approximately 200,000 barrels of light crude oil per day.

Beyond the target areas and industries, the nature of the tie-ups is changing. Indian companies are seeking more collaborations than acquisitions. Instead of buying majority stakes, Indian companies are creating joint ventures, technical collaboration, distribution agreements and alliances with Western companies that have advanced capabilities and are seeking to diversify beyond their home base.

Bharat Forge, one of India's leading manufacturing companies, recently announced a joint venture with France's Alstom to manufacture power plant equipment in India. Partnerships like these are bound to increase where technical and management capabilities of a Western company complement an Indian company's experience navigating India's complex business environment. Such deals also

provide Western companies a manufacturing base for sale into emerging markets, the Middle East and Africa.

Meanwhile, Indian companies aren't just buying—they're also selling off non-core assets. Orchid Chemicals and Pharmaceuticals recently divested its non-core business in injectible drugs to U.S.-based Hospira for \$400 million. Other pharmaceutical companies have done the same. Ranbaxy Laboratories and Dabur Pharma sold majority stake in their pharmaceutical businesses to Japan's Daiichi Sankyo and Germany's Fresenius Kabi, respectively; Wockhardt is in the process of selling its nutrition business to Abbott Laboratories.

One striking aspect of Indian deal making is how it is adapting to the new economic realities post recession. Underlying the data and anecdotes is an emerging economy whose companies increasingly are taking their place as players in the global market. That's good for the companies, good for investors and good for India.

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