Turning Tables

FROM BOYCOTTING FOREIGN GOODS TO BUYING FOREIGN COMPANIES

By C. N. (Madhu) Madhusudan

After sixty plus years of India's independence, the economy and Indian businesses are growing steadily at an incredible pace. Economic parameters are very strong and the outlook bullish. A country that was choked by the "License Raj" and a low priority market for US corporations has transformed into a major market opportunity. Indian companies are emerging in their own right as major players in the global economic scene. A significant indicator of this transformation is the aggressive cross border investments by Indian companies. From boycotting foreign goods during its freedom movement to buying foreign companies – India has truly transformed.

Then and Now

I came to the United States from India in 1991 to explore the US market opportunity for the NIIT group. The foreign exchange situation in India was dismal and the writing on the wall was, for companies like NIIT, "Export or Perish". Access to foreign exchange was highly regulated and limited. A shoe-string budget to operate overseas was a luxury.

In 1994, the Indian economy began to transform. Indian companies were able to retain more of the US earnings in the US and invest in organic growth. With success and confidence growing, we invested in new ventures and made a series of strategic acquisitions in the e-learning and software services space. The acquisitions of leading players like CognitiveArts and ElementK, and deep domain expertise providers like DEI and ROOM Solutions has not only accelerated NIIT's growth, but has significantly enhanced the value of its offerings to the customer base.

How dramatically has the picture changed since the parched early 1990s! Indian companies now enjoy the benefits of outstanding growth, high earnings, strong market capitalization and are heady with confidence and global ambition.

Indian companies that had depended purely on small organic initiatives for acquiring an US or European presence are flexing their muscles and emerging as global players. Their ambitions are fueled by their financial position, their confidence, their experience in these markets and the arbitrage of costs and market multiples.

Acquisitions – Essential Ingredient of a Growth Strategy

Open markets and global ambitions change the competitive scenario dramatically. Today, Indian companies face the onslaught of large global competitors in their local markets while taking them on in global markets. The time to gear up is short. Consolidation by competitors changes the fundamental economic model. Organic learning curves are expensive and slow making reliance on organic growth a weakness. A one track approach to growth increases vulnerability.

Acquisitions are an essential ingredient in executing a global growth strategy. Companies acquire to get instant access to markets, customers, brands, production and distribution networks, domain and local market knowledge, intellectual property and technology. In addition are benefits like top-line growth, new products and capabilities, leverage to address other markets, skilled resources and economies of scale.

Enablers

With Indian companies becoming larger and more profitable, they have strong balance sheets and access to significant capital both in local and global markets. The financial muscle combined with their experience in global markets, provides them with the confidence and risk taking ability for making acquisitions. The credibility of the Indian buyer has visibly brightened. A few years ago, typical questions I would get from sellers would be about funding ability, regulatory restrictions governing investments from India, and the uncertainty of post-acquisition integration. Today, the experience is vastly different. M&A advisors and sellers routinely seek out buyers from India who have the appetite, the ability and the experience of acquisitions.

A Plethora of Acquisitions

We have seen Indian companies use a variety of approaches as they execute their acquisition strategies. Some focus on small and strategic acquisitions, while others boldly go for large targets that can transform their businesses. The acquisitions cut across many industry segments. Indian acquisition volume is reported to have clocked a record high of over $48 billion in early 2010.

Some of the acquisitions by Indian companies in recent times include Tata Steel-Corus, Hindalco-Novelis, Videocon-Daewoo, Reliance-GAPCO, Tata Coffee-Eight O' Clock Coffee, Dr. Reddy's-Betapharm, Tata Motors-Ford's Jaguar and Land Rover brands, Godrej-Megasari Makmur Group (Indonesia), Bharti Airtel-Zain Africa, Fortis Healthcare-Parkway Holdings and Essar Group-Trinity Coal. The market is now abuzz with stories of integration, brand management, perceived and actual synergy, changing views on valuation and all the other joys and tribulations that follow such transactions.

Implications for US Companies

Clearly the giant Indian marketplace is awake, hungry and willing to buy. And, India is a very competitive outsourcing destination for both services and manufacturing. Some US and European companies are acquiring Indian companies to strengthen their India presence and leverage. Examples of this trend are IBM-Daksh, Oracle-i-flex, Holcim-Gujarat Ambuja Cements, EDS-MphasiS and Abbot-Piramal Healthcare Formulations business.

Indian companies are prowling across the world looking to expand and seeking to acquire. For US companies, the questions of yesterday were “What’s your India sourcing strategy?” or “What’s your India entry strategy?” The question of today is “Who’s your Indian acquirer?”

About the Author

C.N. (Madhu) Madhusudan is an accomplished executive with over 25 years experience in setting up, acquiring and managing businesses in Europe, India and the United States. His expertise areas include launching new businesses, turnaround management, outsourcing, strategic investments, and acquisitions. An accomplished deal maker, his core competencies include strategic analysis, business evaluation, cross border issues management, transaction management and complex negotiations.

He is the founder and CEO of VectorSpan Inc., an enterprise focused on enabling companies to plan their growth strategy, engineer inorganic growth and make integration and cross border transactions successful.

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