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Indian firms' foreign purchases

Gone shopping

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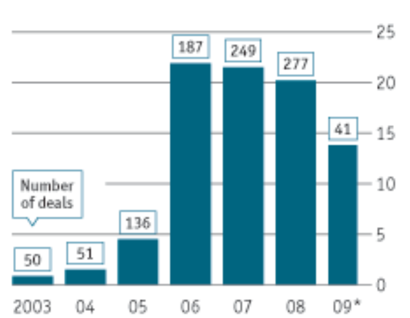
As Indian companies juggle their pricey foreign acquisitions, the country's largest telephone company embarks on the biggest shopping expedition of them all

INDIANS are fond of shopping abroad, a habit left over from the era of import substitution, when they had to put up with shoddy homespun goods in the name of national self-sufficiency. This taste for overseas purchases is shared by Indian companies. Between 2000 and 2008 they announced over 1,000 international mergers or acquisitions, worth over $72 billion, according to Dealogic, a research firm. Most of those deals have been sealed since 2006 (see chart).

On May 25th Bharti Airtel, the country's biggest mobile-network operator, announced that it was exploring a deal that would surpass the $12 billion Tata Steel paid for Corus, an Anglo-Dutch steelmaker, in 2007: a tie-up with MTN, a South African mobile giant, which rebuffed a previous approach last year. The deal, if it ever happens, would create one of the world's biggest mobile operators, with 200m fixed and mobile subscribers across 21 countries.

Corporate India's shopping spree gained momentum after 2002, when the rapid growth of the Indian economy began to bolster companies' balance-sheets. India's regulators also relaxed their grip, steadily raising the limits on investments abroad. Outward investment, they once believed, deprived India of scarce capital that would be better invested at home. But this fear of capital flight slowly gave way to pride in India's national champions. In February 2004, they even allowed firms to finance their foreign acquisitions by borrowing abroad.

Tiger on the prowl
Indian outbound mergers and acquisitions, $bn



Source: Dealogic
*Year to date

And borrow they did. Indian companies took on a mountain of debt, largely because it was there. Tata Steel borrowed heavily to buy Corus in 2007. Hindalco, India's biggest aluminium company, borrowed $3 billion to buy Novelis, a Canadian manufacturer of aluminium products. Suzlon, which makes wind turbines, sold convertible bonds to finance its acquisition of Germany's REpower.

But whereas Indian tourists have an eye for a bargain, several of corporate India's acquisitions now seem ill-advised. The purchase of Jaguar Land Rover (JLR) in 2008, for example, saddled Tata Motors with a prestigious brand, prodigious losses and a $3 billion loan, the last $1 billion of which it managed to refinance on May 27th, days before it fell due. It has had to call on the help of the Tata Group's holding company, which underwrote its faltering rights issue last year, and the indulgence of India's biggest state bank, which guaranteed an $840m bond it floated in May. In a recent interview, Ratan Tata, the group's chairman, admitted that the company bought JLR at an "inopportune time".

So were these acquisitions fundamentally sound decisions cursed by poor timing? Or were they bad decisions flattered by easy money? Some suspect that the country's corporate titans felt compelled to outdo one another. But Alan Rosling, who sat on the board of the Tata Group's holding company during its rapid overseas expansion, makes the opposite case: the Tatas' foreign acquisitions were not daring, they were in part defensive.

In the 1990s Mr Tata inherited a group that sprawled across many industries, but remained largely cooped up in a single country. As India opened its economic borders, the group would have to contend with foreign competitors at home, whether or not it ventured overseas. There was nothing prudent about remaining subscale in a newly open market, prey to foreign multinationals.

Gautam Thapar, chief executive of the Avantha group, which includes Crompton Greaves, an engineering firm, cites a similar motivation for some of the company's overseas acquisitions. It retains over a quarter of the Indian market for power transformers, which it defends against global rivals such as ABB. To hold on to that share in the long run, Mr Thapar argues, it has to compete on the basis of the technology it offers as well as the price it charges.

The pursuit of technology is a powerful motive for foreign acquisitions. Before Tata Steel's purchase of Corus, the Indian steelmaker did not hold a single American patent. The takeover bought it over 80, as well as almost 1,000 research staff.

Sometimes new markets and new technologies go hand in hand. In India, Mr Thapar points out, the traditional buyers of transformers are state electricity boards, interested mostly in cost. The spur for innovation comes from more sophisticated foreign customers, who are "willing to sit down and discuss ideas". One of his acquisitions, for example, makes slim transformers which tuck inside the shaft of wind turbines, saving space in crowded European countries.

Western acquisitions often have a crude motivation: to combine revenues without combining costs. Savings must be identified in advance to justify the deal to shareholders, and realised quickly afterwards. The result is a disruptive yoking together of two organisations, shaking up management and laying off staff, which as often as not fails to achieve its aims.

Because Indian companies are often seeking know-how and technology, they treat their new acquisitions with greater respect and forbearance, argues Nirmalya Kumar in the *Harvard Business Review*. They are careful not to break what they have just bought, as Mr Rosling puts it.

Hindalco, Mr Kumar points out, was happy to leave Novelis's senior managers in place. For six months it supplemented them with only two of its own. In 2000, when yet another part of the Tata empire, Tata Tea, bought Tetley, a British rival, it also retained its managers, anxious to preserve their knowledge of local markets.

This forbearance can go too far. In the bad old days of import substitution, Indians coveted any tat from "foreign", just because its origins lay elsewhere. India's corporate shoppers, too, may sometimes show their foreign purchases too much respect. Corus's managers were surprised at Tata Steel's reluctance to reallocate responsibilities and run the two firms as one.

The opposite problem—an excess of patriotism, not xenophilia—may scupper Bharti's deal with MTN. Both India and South Africa take pride in their new multinational champions. Their talks fell through last year when MTN's board argued that it should buy Bharti, not the other way around—a reversal which Sunil Mittal of Bharti condemned as an affront to the "pride of India". But not everyone's pride can be satisfied.