Emerging global giants: foreign investment by Indian companies

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Abstract

The purpose of this paper is to illustrate the emergence of giant global organisations in India and how the forces of globalisation have changed the merger and acquisitions activities of Indian companies. We examine the changes in government policy, their impacts on FDI, and the most significant mergers and acquisitions by top companies. This leads to a consideration of the strategies and the identified new approach to mergers and acquisitions of these new global players. The approach of the Indian corporate for acquiring companies abroad is different from a traditional approach in which the main focus was cost reduction, operational synergies, and short term goals. More recent Indian acquisitions reflect a strategic and long term focus. Their aim is to obtain new technologies, brands, and consumers in foreign countries. There is little literature on the phenomenon of the emergence of giant corporate in India and areas for further research are identified.

Introduction

The purpose of this paper is to illustrate the emergence of giant Indian companies and how the forces of globalisation have changed the merger and acquisition (M&A) activities of Indian companies. The topic is of importance as the growth in economic globalization is associated with increasing levels of foreign direct investment (FDI), i.e., foreign ownership of productive assets, such as factories, mines and land. Historically, the largest flows of foreign investment occurred between the industrialized countries (North America, North West Europe and Japan), but increasingly there have been flows of FDI into less developed countries where labour costs are lower than in the developed countries.

There are debates in the literature about the benefits of FDIs for low-income countries. Two recent studies of India have argued that the capital intensive nature of the investments may have a negative impact on the employment and earnings of local labour (Sridhar, V., and Vijay Prashad. 2007; Chakraborty C., and Basu P, 2002). The Indian experience provides the case material for this current study.

The Indian experience is reflected in a new wave of internationalization from developing economies evidenced in terms of growing outflows of FDI, and a surge in their cross-border M&A activity. Flows of outward FDI from developing countries rose from about \$6 billion in 1989–1991 (about 2.7% of global outward flows) to \$253 billion for 2007 (nearly 13 percent of global outflows) (UNCTAD, 2008). This trend is significant particularly in case of the two emerging economies, India and China, which show a marked increase in the magnitude of flows and a qualitative transformation in their patterns of thinking about capital flows.

The evidence reveals the new trend in India where an increasing number of Indian companies are becoming global players, acquiring through M&A companies in countries such as the USA, UK and Japan. The *World Investment Report 2004* notes that India stood out among Asian developing countries not only because of recent significant increase in the ODI flows but also because of 'its potential to be a large outward investor' with annual outflows averaging US\$ 1 billion during 2001-03 (UNCTAD 2004: 27).

The following sections provide a review of relevant literature; explore the changes in Indian government policy and their impacts on FDI; and then examine the most significant mergers and acquisitions by top companies. This leads to a consideration of the strategies and the identified new approach to mergers and acquisitions of these new global players The implications and need for further research are considered in the concluding section.

Literature Review

The M&A literature relating to the underlying motivations for foreign investments is identified. These motivations may be helpful in understanding the Indian companies' M&As.

Firms often use acquisitions to reconfigure their mix of products and services and/or to expand their product offerings to boost growth (Capron *et al*., 1998; Krishnan *et al*., 2004). When two firms merge, they can combine and reconfigure their products to create a combination of product portfolios that neither firm could create alone (Karim and Mitchell, 2000).

According to Ownership, Location, and Internalization (OLI) theory, a prerequisite for a firm becoming international is the ownership of unique advantages (such as accumulated learning and managerial skills, technological effort, product differentiation, cost effectiveness of processes, firm size, export orientation, technological dependence and local ownership) that outweigh the disadvantages of being foreign in overseas markets. It is therefore necessary to identify the nature of ownership advantages over unique assets of Indian enterprises that may facilitate their outward expansion. It has been argued (see Lall 1986;) that the main source of advantage enjoyed by Indian enterprises is their ability to absorb, adapt and build upon the technologies imported from abroad rather than developing completely novel technologies. Indian enterprises have accumulated considerable learning and technological capability, managerial and technical expertise under the strategy of import substituting industrialization pursued during the first four decades of independence (Kumar 1996).

According to the resource-based view, post acquisition resource redeployment and the resulting product mix are important sources of value creation in acquisitions, and complementary differences in product strategies between merging firms can enhance the consolidated firm's chance of creating a product portfolio that may not be easily replicated by other firms (Barney, 1988; Helfat, 1997; Karim and Mitchell, 2000). The theory also views that, a firm's internationalisation strategy and performance depend on the existence of unique tangible and intangible resources in its home country which give it a competitive advantage compared to firms in the host country. Intangible resources such as management know-how, research and development (R&D) capability, brand names, and proprietary technologies are crucially important (Barney, 1991; Teece et al., 1997). Companies with strong competitive advantages often try to exploit their strength by creating a "clone" of the parent in the host country (Mathews, 2006). In this case, greenfield investment is the preferred mode of entry as it is the most effective way to transfer the investing company's advantages to overseas markets and to introduce the firm's best practices. Greenfield FDI is one particular form of a market penetration. Transnational Corporations (TNCs) consider this option when their firm specific advantages (FSAs) are strong enough to cover the additional transaction costs arising from the operation in the foreign market, and when location advantages are abroad. Nevertheless, the fact remains that the additional costs of the liability of foreignness (Zaheer, 1995) still have a negative impact on the performance of the Greenfield venture. Slangen and Hennart (2008) argue that Greenfields, unlike acquisitions, increase substantial external conformity costs (due to the need to adaptation to the local environment) because they suffer from both a liability of newness and a liability of foreignness. According to Pennings et al. (1994), Greenfield investments are more risky as compared to acquisitions, because as new projects they start at the beginning of the learning curve (the liability of newness argument).The situation might change for the better, if the TNCs, instead of practicing Greenfield FDI, acquire an existing local firm that is well-established in the market (e.g., Demirbag, Tatoglu, & Glaister, 2008). It may then try to combine the subsidiary's advantages with its own core abilities, thereby augmenting its overall FSA-system (Dunning, 2000). The new combined entity may then be able to use these synergies to better overcome the transaction cost barrier and to improve its position on the local market (e.g., Anand and Delios, 2002; Dunning, 2000). In the case of Greenfield FDI, the parent company is relying entirely on its own capabilities. As such, the typical Greenfield subsidiary is determined by the parent company's FSAs and its organizational routines (Barkema & Vermeulen, 1998; Hennart & Park, 1993).

In contrast, companies with weak competitive advantages must acquire new resources that they cannot generate themselves. Under these circumstances, a foreign acquisition is more effective as it allows the firm to extract such assets from the acquired company (Homburg and Bucerius, 2005). Cross-border acquisitions, by taking advantage of the FSAs of the local firm, might also be able to react more quickly to changing market conditions and to strategic moves of the competitors as the Greenfield venture could. At the time of market entry, in particular, Greenfield investments need more time for planning, construction and market positioning than takeovers. Consequently, they may lose precious time in relation to cross-border acquisitions before they can develop their operations (Anand & Delios, 2002; Carow, Heron, & Saxton, 2004; Hennart & Park, 1993; Larimo, 2003). Thus, foreign rivals opting for cross-border acquisition gain time to react and to challenge market entry of the competitors.

Latecomer firms do not possess many intangible strategic resources relative to their global rivals and therefore are eager to access superior resources and skills in order to compete successfully (Rui and Yip, 2008, p. 215). These companies want to combine their own advantages developed at home with other new assets available in foreign countries. Their own advantages lie mostly in small-scale and labour-intensive production as well as in the ability to adapt quickly to changes in products and production processes (Makino et al., 2002, p. 406). Since the required complementary inputs, such as more advanced products and technology, belong to the mature firms in the advanced countries, latecomer firms tend to prefer the developed economies as their asset-seeking location. These assets can only usually be accessed through a takeover of these firms (Dunning, 2001). In addition, through an acquisition a firm can gain access to intangible as well as tangible assets and thus is able to buy not only a single asset but also "an entire knowledge system under a unified control" (Rui and Yip, 2008, p. 216).

It has been argued that the outward investment activity prior to 1991 was of market seeking type (Greenfield Investment) where Indian enterprises established presence in developing countries on the basis of their intermediate technologies in relatively low technology industries such as light engineering (Lall 1983; Lall 1986; Kumar 1996). In the 1990s, however, outward investments have been undertaken by Indian enterprises to improve their global competitiveness with local presence in major markets, acquiring strategic assets, and strategic access to markets in emerging trading blocs in the context of increased emphasis on outward orientation as a part of reforms (see Kumar 1996, 1998). Therefore, it is clearly concentrated in the countries that are key destinations for Indian exports (viz. EU and the North America) and in the sectors of Indian strength.

The institution-based view of strategy research adopts the core proposition of institutional economics that "variation in national institutional environments enables and constrains different strategic choices such as product and geographic diversification" (Peng and Delios, 2006, p. 389). That companies' internationalisation strategies are also shaped by the home institutional environment has been shown by Buckley et al. (2007, p. 502) in their recent research on the determinants of Chinese Outward Foreign Direct Investment (OFDI). Institutional constraints in the emerging economies tend to be much stronger than those in the developed countries and include the substantial influence of the government on the companies' strategy decisions (Deng, 2008).

Active government involvement in business via ownership or through the regulatory framework is a rather common phenomenon in most of the latecomer and transition economies, especially in Asia (Peng, 2000, cited in Child and Rodrigues, 2005, p. 384). In contrast to the market-oriented model of the West, the emergence of Japan and South Korea was much more related to the intervention of the governments, which "orchestrated oligopolistic competition" among large-scale companies (Sutherland, 2003, p. 5). The development-state model of the newly industrialised economies (NIEs) in East

Asia incorporates developmentally oriented policies and applies an interventionist set of industrial policy instruments (Nee et al., 2007; Liu, 2005). The experience of the Asian latecomer firms shows that government support has been a decisive factor in these companies' successful internationalisation (Hoskisson et al., 2000, p. 257). Furthermore, the role of government in transition economies relates to the definition, diffusion, and enforcement of the norms and requirements of the companies' business conduct. The government can restrain or facilitate the internationalisation of firms through different policies.

Economic theory generally offers two competing thoughts about the efficacy of M&As as corporate restructuring strategies. First, the neoclassical theory or the value-maximising theory assumes M&As consequences as the motivation for M&As, and views corporate M&As as value-enhancing activities in which managers work to achieve shareholders' wealth maximisation goal of the firm (Franks and Hariss, 1989). Second, in contrast, is managerial theory or non-value maximising theory, which views mergers as the extension of managers' own potential interests, undertaken for the purpose of increasing their own wealth or prestige by managing a larger post-merger entity (Roll, 1986). The market for corporate control is best viewed as an arena in which managerial teams compete for the rights to manage resources (Jensen and Ruback, 1983).

The Table 1 presents the two approaches i.e., the traditional approach and latest approach of M&As in India. In the traditional approach the main focus was cost reduction, operational synergies and short term goals. The more recent Indian acquired companies reflect a strategic and long term focus. Their aim is to obtain new technologies, brands, and consumers in foreign countries. The acquirer is often a low cost commodity player, while the acquisition is a value added branded-products company. The acquirer's short-term objectives may be fuzzy, but their long-term visions for the acquisition is clear (Kumar, 2009). It is evident that the recent approach of the Indian corporates for acquiring companies abroad is different from a traditional approach.

Table 1: Two Approaches to M&A

	Traditional Approach	**Modern Approach**
Rationale	The aim of a takeover is usually to lower costs.	The aim is to obtain new technologies, brands, and consumers in foreign countries.
Synergy Levels	The acquirer and the acquisition usually have the same business model. Even when a company takes over a startup, the approach to market is the same.	The acquirer is often a low-cost commodity player, while the acquisition is a value-added branded-products company.
Investment Type	Greenfield or Joint Venture or M&A in Less Developed Countries	Brownfield Investments in Developed Countries
Integration Speed	The buyer makes several changes in the acquisition soon after the takeover. It slows the quest for synergies thereafter.	Integration is slow –moving at first. After a while, the buyer starts pulling the acquisition closer.
Organizational Fallout	High executive turnover and head-count reduction are likely at first. Culture clashes occur and productivity declines,	Little interference, executive turnover, or head-count reduction occurs right after the

	but things settle down over time.	acquisition. Although it's too soon to tell as of now, tensions could simmer over the long run and blow up.
Objective	The buyer has clear short term aims but may not have thought through long-term goals	The acquirer's short-term objectives may be fuzzy, but its long-term vision for the acquisition is clear.

Indian Background of Outward Foreign Direct Investment

The Indian policy regime, guided by national development priorities, allows Indian enterprises to invest abroad for attaining not only economies of scale but also to remain competitive vis-à-vis their counterparts in other nations. Three stages are readily identified in terms of OFDI policy.

The first phase (1974-1990) of Indian economic development under a restrictive policy regime (to invest abroad) aimed at boosting domestic investment, which enabled Indian enterprises to learn adaptive capabilities. The government of India has shown the need of outward foreign investment by Indian companies to ease foreign exchange constraint through exports of Indian capital goods, technology and consultancy services. The policy encouraged formation of joint ventures with the host economy enterprises and Indian enterprise equity participation should be made in terms of exporting indigenous plant and machinery and also technical know how from the existing Indian joint ventures. Keeping in view the scarcity of foreign exchange, the cash remittances of capital to overseas joint ventures were discouraged but provision was made to allow it in exceptional cases.

The *second phase* (1991 – 1999) of Indian economic development encourages Indian companies to invest abroad for reducing the shortage of strategic asset requirements for sustaining domestic development process. An automatic route for Indian investment abroad was adopted and overseas investments up to US $ 2 million were permitted. The restrictions on cash remittances and minority-ownership were removed. The limit on overseas investment through automatic route was increased to US $ 4 million in the year 1995. An important change with regard to the approval of proposals of overseas investment was shifted from the Ministry of Finance to the Reserve Bank of India (RBI). The RBI was vested with approval of amounts up to US $ 15 million and the approvals beyond US $ 15 million remained under the purview of the Ministry of Finance.

The *third and the recent phase* (2000-2008) of fast economic growth, Indian enterprises have been expanding both in the domestic and international markets while competing with the global brands and multinational enterprises. In the year 2000 and 2002, the upper limit for automatic overseas investment approval was raised to US$ 50 million and US$ 100 million respectively. The prior approval from RBI was dispensed with and firms were also allowed to obtain the remittances through any authorized foreign exchange dealer. In 2005, banks were permitted to lend money to Indian companies for acquisitions of equity in overseas joint ventures, wholly owned subsidiaries or other overseas companies as strategic investment. In the year 2007, the limit of overseas investment of Indian companies was increased to 300 per cent of net worth in the month of June 2007

and further raised to 400 per cent of the net worth of a company in the month of September 2007. The big boost of Indian outbound investment since the year 2000 can be partly explained by the policy changes affected by the government of India to encourage Indian companies during the period 2000 to 2008.
The result of these government policies has been to dramatically increase the amount of overseas investments by Indian companies.

Trend and Pattern of Indian Outward Foreign Direct Investment (OFDI)

There is a qualitative change in the pattern of international investment abroad for emerging multinational companies from the developing countries, which has drawn the attention of several scholars interested in understanding this phenomenon (Dunning et al.,1998; Gammeltoft, 2008; UNCTAD, 2006). The noteworthy feature of stock of both global and developing economies OFDI is that there is slow rise in the stock of OFDI between the period 2000 and 2007. The rise of stock of OFDI from developing countries increased more than two times faster than that of the global stock of OFDI. However, the rise of stock of OFDI from both the developing and global economies is nearly similar. Contrary to this, the stock of OFDI from India increased sixteen times during the 2000-07 period whereas it is just more than two and half times in the case of developing economies.

Table 2: Global Trend of OFDI, 1990-2007 (US $ Millions)

Year	World	Developing Economies	Developing Economies' share in World	India
1990	1785267 (9.1%)	144862 (4%)	8.11%	124 -----
2000	6148211 (18%)	861842 (12.90%)	14.02%	1859 (0.40%)
2007	15602339 (27.90)	2288073 (16.50%)	14.66%	29412 (2.60%)

Note: Figures in parentheses are percentage of GDP.
Source: UNCTAD (2008).

This dramatic rise in OFDI from India needs an explanation. It is pertinent to notice here that both outward and inward flows of investment in the Indian economy increased quite rapidly with some spurts in some of the years (Table 3). The average foreign direct investment inflows, during the 1995-2007 periods, are US $ 6,771.23 million. Except the years 1998, 1999 and 2003 where investment is below the earlier levels, the foreign direct investment inflows increase substantially during the period under consideration.

Table 3: India's Foreign Direct Investment Inflows and Outflows (US $ Millions)

Year	**Inward FDI**	**Outward FDI**
1995	2125	119
1996	2525	240
1997	3619	113
1998	2633	47
1999	2168	80
2000	3585	509
2001	5472	1397
2002	5627	1669
2003	4323	1879
2004	5771	2179
2005	7606	2978
2006	19622	12842
2007	22950	13649
Total	88026	37701

Source: UNCTAD (2008).

Table 3, reveals that the outward foreign direct investment is quite meager from 1995 to 1999 and it increases from US $ 119 million in 1995 to US $ 240 million in the year

1996. The OFDI from India starts declining after 1996 and is only US $ 47 million in 1998. It increases to US $ 80 million in the year 1999. During the whole period (1995-2007), the average increase in OFDI is US $ 2900.08 million. However, a consideration of the 2000-2007 period reveals that the average annual rise in the OFDI from India is US $ 4637.75 million. Comparative analysis of the flows of FDI and OFDI clearly brings out the fact that FDI inflows continuously remained higher than that of the OFDI flows. However, the gap between the FDI and OFDI flows, which were very wide before the year 2000, narrows substantially after the year 2001. The period 2001-2007 can be referred to as the advent of Indian companies in the developed countries and the expansion of Indian investment abroad. This spurt of outflows of investment abroad has been taken with surprise. Thus, the scrutiny of such new trends is essentially being done from the point of view of both theory and public policy in understanding the process of the emergence of Indian companies as global players (Aulakh, 2007; Ramamurti, 2008).

Top 25 Foreign Acquisitions by Indian Firms 2000-2007

A growing number of Indian enterprises are beginning to see outward investments as important aspects of their corporate strategy and are emerging as multinationals in their own right. Until recently, the incidence of Indian entrepreneurs acquiring foreign enterprises (in developed countries) was not so common. The situation has undergone a remarkable change in the last four years. The Indian corporates acquired a number of strategically significant companies like Corus, Novelis, and Betapharm etc. Table 4 presents the major cross border M&A transactions that have taken place in India. The striking feature of these M&A as observed in Table 4 is that the target companies are from developed countries.   It is further observed that a substantial portion of the total M&A activity in India was made during 2006. Another notable feature is that almost 99 per cent of acquisitions were made with cash payments.

Table 4 provides information on the top twenty five foreign acquisitions by Indian firms during the period 2000-07. Out of the top 25 foreign acquisitions by Indian firms, six foreign acquisitions belonged to the Tata group of companies and five belonged to the Indian public sector companies. Two of the foreign acquisitions of the Tata Group have been in the UK and USA; two were in East Asia (one each in Singapore and Thailand) whereas out of five foreign acquisitions of Indian public sector companies, four belonged to ONGC Videsh (Petroleum Sector) and one belonged to VSNL (Telecommunication sector). It is worthy of note that the ONGC Videsh targeted petroleum and the foreign acquisitions were in other than the developed countries. However, the VSNL Ltd targeting telecommunication involves foreign acquisition in the US.

The Table further reveals that out of the top 25 foreign acquisitions by Indian companies, sixteen were in the developed countries and the nine were spread over various other parts of the globe. The seven foreign acquisitions by Indian firms were in the area of resources such as petroleum, steel and aluminum. The sectoral distribution of the top 25 foreign acquisitions by Indian companies shows that the largest number of foreign acquisitions (five) belongs to the consumer goods sector, followed by steel and petroleum (four each), pharmaceutical and information technology (three each), telecommunication (two), and one foreign acquisition in the sectors such as aluminum, medical equipment, energy and paper. Furthermore, it also reveals the ownership (or effective control) pattern of these foreign acquisitions. It is important to notice that among the top 25 foreign acquisitions, 100 percent ownership were reported in twelve foreign acquisitions, followed by 97 percent to 50 percent in four foreign acquisitions, and one each foreign acquisition has ownership control of 30 percent and 25 per cent, which were the minority joint ventures. However, the rest of the seven foreign acquisitions have not reported equity participation ownership. From the above discussion, it can be concluded that the foreign acquisitions by the Indian companies were aiming to have a complete control over the ownership of the target companies.

Table 4: Top 25 Foreign Acquisitions by Indian Firms from 2000 to 2007

Year	Value (US $ million)	Rank	Indian Firm	Target Firm	Country	Industry	Ownership per cent
2007	12100	1	Tata Steel	Corus	UK	Steel	100
2007	6000	2	Hindalco	Novelis	USA	Aluminium	100
2006	1400	3	ONGC Videsh	Petrobas	Brazil	Petroleum	
2002	766.1	4	ONGC Videsh	Greater Nile Oil Project	Sudan	Petroleum	25
2006	677	5	Tata Tea & Tata Sons	Glaceau	USA	Health Drinks	30
2004	600	6	ONGC Videsh	Greater Plutonio Project	Angola	Petroleum	50
2004	600	7	Opto Circuits India Ltd	Eurocor Gmb H	Germany	Medical Equipment	
2006	570.3	8	Dr. Reddy’s	Betapharm Arzneimittel GmbH	Germany	Pharmaceuticals and Healthcare	100
2006	565	9	Suzlon Energy	Hansen Transmissions	Belgium	Energy	100
2006	522	10	Kraft Foods Ltd	United Biscuits	UK	Food & Beverages	
2000	431.2	11	Tata Tea	Tetly Group	UK	Food & Beverages	100
2006	324	12	Ranbaxy Laboratories Ltd	Terapia SA	Romania	Pharmaceuticals and Healthcare	97
2000	323	13	ONGC Videsh	Sakhalin-I PSA Project	Russia	Petroleum	100
2005	300	14	Ispat Industries Ltd	Finmetal Holdings	Bulgaria	Steel	
2005	289.2	15	Videacon International	Thomson SA (CRT business)	Europe, china	Consumer Goods	100
2004	283.7	16	Tata Steel	Nat Steel Asia Pte	Singapore	Steel	100
2005	254.3	17	VSNL Ltd	Teleglobe International Holdings Ltd	USA	Telecom	100

2005	234.7	18	Mtrix Laboratories	Docpharma NV	Belgium	Pharmaceuticals and Healthcare	95.5
2006	220	19	Tata Coffee	Eight o' Clock Coffee Co.	USA	Food & Beverages	100
2006	210	20	Susken Communication Tech Ltd	Bornia Hightec	Finland	Information Technology	
2006	209	21	Ballarpur Industries Ltd	Sabah Forest Industries	Malaysia	Pulp and Paper	77.8
2003	191.2	22	Reliance Infocomm	Flag Telecom	USA	Telecom	100
2006	185	23	Seagate Tech Ltd	Evault Inc.	USA	Information	
2001	184.6	24	Citrix Software India Pvt Ltd	Sequoa Software	USA	Information Technology	
2005	175	25	Tata Steel Lts	Millenium Steel Plc	Thailand	Steel	100

Source: Nayyar (2008).

An emerging giant – Tata Group

The Tata group is a prime example of the internationalization trend. Table 5 shows Tata Company's internationalization through acquisitions. It reveals that in recent years, the bulk of the group's overseas investments are in advanced economies. Of the 29 destinations of foreign investment reported in Table 5, only six were in developing economies. The US and UK were the targets in 16 cases. These investments have spanned a wide range of industries, from hotels, tea, chemicals and metals to consulting, auto components, and automobiles. As Goldstein (2008) notes, based on the nature of the business, these investments have been aimed at accomplishing i) access to new markets (BPO, steel, cars, trucks); ii) integrating value chain (steel); iii) brand control (tea, cars); and iv) technology acquisition (steel, cars, trucks). Another difference from the past is that overseas investments are largely taking the form of acquisitions (Table 5); joint ventures were the preferred mode in the 1970s and 1980s. Such acquisitions have certain advantages. For example, the companies acquired are generally leading firms in their industries. As a result, the acquirer inherits the company's strategic assets (managerial, technological, and marketing resources), without having to build them from scratch as would be the case when setting up overseas operations through Greenfield investment. Increasingly, acquiring strategic assets has become a motivation for Oversees Foreign Direct Investments from emerging economies (Dunning et al., 2007). Such acquisitions have their challenges, however, such as integrating the acquisitions with the existing structure of the group and managing operations in diverse locations.

The Tata Group is seen to have expanded through many strategic moves into chemicals, pharmaceuticals, transport and hospitality. Space precludes a discussion of all these expansions through global acquisitions. They illustrate the emergence of just one of India's new global players.

Table 5: Tata Group's Internationalization through Acquisitions

Tata company	Acquired company	Location	Stake acquired	Value	Date
Indian Hotels	Starwood Group (W Hotel) ,	Sydney, Australia	100	USD 29 million	December 2005
	The Pierre	New York, USA	Lease of property	USD 9 million	July 2005
	Ritz-Carlton	Boston, USA	100	USD 170 million	January 2007
	The Campton Place	San Francisco, USA	100	USD 58 million	April, 2007
	Orient-Express Hotels	USA	**10**	USD 211 million	September 2007
Tata autocomp systems	Wundsch Weidinger	Germany	NA	USD 9 million	September 2005
Tata Chemicals	Brunner Mond	U.K	63.5	USD 111million	December 2005
Tata Coffee	Eight'O Clock Coff Company	USA	100	USD 220 million	June 2006
Tata consulting services	Comicrom Pearl Group	Chile UK	100 75	USD 23 mi USD96 mil	November2005 October2005
Tata industries	Indigene Pharmaceuticals	USA	26< >30	Not disclosed	July 2005
Tata interactive	Tertia Edusoft Gmbh Tertia Edusoft AG	Germany Switzerland	90 90.38	Not disclosed	January 2006
Tata Metalics	Usha Ispat,Redi Unit	India	100	USD 25 million	January 2006
Tata motors	Hispano Carrocera	Spain	100	USD16 million	February 2005

Findings and Discussion

Tata Steel Acquires Corus: On January 31, 2007, Tata Steel Ltd, one of the leading producers in India acquired the Anglo-Dutch steel producer Corus Group Plc for £13.70 billion. The acquisition was the biggest overseas acquisition by an Indian company. Tata Steel emerged as the fifth largest steel producer in the world after the acquisition. The acquisition gave Tata Steel access to Corus strong distribution network in Europe. Tata Steel outbid the Brazilian Steelmaker Companhia Sidururgica Nacional's (CSN).

Tata Steel's share price fell after the acquisition. The market thus took a short-term view of the economic consequences, understandable given the circumstances. Tata had had to raise its original bid price from 455 pence per share to 608 pence in order to beat off Brazilian and Russian counter-bidders. Moreover, market conditions were poor with the global economic downturn. It was reported that 40% of Corus's 20 million tonnes capacity was idle in the first six months of 2007 (BusinessLine, Business Daily, Hindhu Publishing Groupp, Wednesday 13 May, 2009). According to this source:

> "*Agency reports quoting the Daily Mail newspaper from London suggested that the job losses in the Corus plant would be closer to 10,000*."

This is an affirmation of an argument by Sridhar and Prashad (2007) and Chakraborty and Basu (2002) that direct foreign investment may have a negative effect on employment and earnings of local labour. In this case, the challenge and uncertainties affected Tata's share price and earnings. It is clear that short-term gains were not the reason for the acquisition.

Tata's view, unlike that of the market, was long term. The view was that in the long term there would be a shortage of steel supply to meet global demand. Tata could then take advantage of the opportunities available. Its acquisition aimed to have access to raw materials, and to end user markets, so that when an upturn in economic conditions finally eventuated, it could benefit from increased efficiency, available capacity, and technologically advanced products based on the acquired company's (Corus's) research and development. As the Chairman of Tata Steel, Mr Ratan Tata, said at the company's 2009 Annual General meeting in response to criticism of the timing of the Corus acquisition:

"*You cannot gauge the life of a corporate in one or two years. I hope we are able to look back over time and say that we took the right decision*"

(Business Line, Business Daily, Hindu Publishing Group. 28 August, 2009, ePaper)

Underpinning such confidence in the face of short-term difficulties must have been the strong financial base of the giant company. However, such a large acquisition did impact on Tata Steel's debt position which climbed to $11 billion by year end 2009. Supported by its parent company, Tata Sons, the aim was to "continue its objective of de-leveraging its European operations" (Business Line, Business daily, Hindhu Publishing , 13 May, 2009, ePaper). The company repaid £200 million of non-recourse debt as part of its deleveraging strategy. Tata Steel was reported to have a 'significant liquidity buffer" (ibid) and attempted to reduce its debt levels and maintain debt package covenants relating to ratios of debt to operating earnings and interest cover.

Tata Steel acquisiton of Anglo-Dutch steelmaker Corus does make strategic sense. The move is in line with its de-integration model that involves making primary metal in markets close to raw materials and establishing finishing (value-adding) facilities in the end-user markets. The synergies expected of this acquisition would be in the areas of procurement of materials, shared services and operational efficiencies. Further, this deal links lowest cost producers of steel, raw materials and growth makers (Tata) to high margin markets and high technology in the west (Corus). The cost advantage of operating from India can be leveraged from in western markets and differentiation based on better technology from Corus can work in the Asian Markets. (Source: Business Line, Business Daily from The Hindu Group of publications, Friday, February 02, 2007 and Wednesday, May 13, 2009 ePaper).

In February 2006, ***Dr. Reddy's Laboratories Limited (DRL),*** a leading Indian pharmaceutical company, acquired the fourth largest generic pharmaceutical company in Germany, ***Betapharm*** Arzneimittel GmbH (betapharm) from the 3i Group PLC (3i) for US$570 million (€480 million). Founded in 1993, Betapharm is Germany's 4th largest generic company while Germany is Europe's biggest drug market and the 2nd biggest in the world after US. Betapharm's 145 products account for 3.5% of the German drug market.

The acquisition was hailed as the biggest overseas acquisition made by an Indian pharmaceutical company. The synergies from the acquisition were expected to benefit both DRL and betapharm. Commenting, Satish Reddy, Chief Operating Officer, Dr. Reddy's Laboratories, said,

"*We have successfully completed the acquisition of betapharm. The strategic investment in Betapharm is a step forward towards realizing Dr. Reddy's strategic intention of building a global generics business with strategic presence in all key markets*."

The acquisition scored high on synergies. Betapharm's front-end German presence complemented DRL's domestic manufacturing advantage as well as its pipeline of generic and innovative products. For DRL, it meant ready access to the German generics business - the second-largest generic market in the world after the US - where it was almost non-existent. Added to that, the deal was also a good diversifier as DRL's US generics business then was under pressure. By the acquisition of Betapharm, DRL was able to expand its presence in the European market.

Following the announcement, DRL scrip recorded its biggest gain since February 2004, rising 9.4% to close at Rs 1,281.95 on the BSE. Domestic archrival, Ranbaxy Laboratories which was beaten by DRL to buy Betapharm, saw its shares fall 3.3% on the BSE to Rs 431.85. Betapharm's enterprise value of €480 million, three times the company's €164 million turnover in 2005, has surprised analysts because it would mean that the payback from the purchase would take longer.

"*The deal comes as a surprise owing to the high valuation*," said Mahesh Sawant of Frost & Sullivan. "*But the fact that it will add close to $200 million to DRL's business is attractive. The valuation depends on brand value and positioning*," he added.

"*With the new patent regime posing fresh challenges for generic companies in the domestic market, an overseas buy will give DRL a strong product portfolio and* *marketing infrastructure in Europe. It is a very thoughtful move,*" says a Mumbai-based analyst.

However, speaking to FE, DRL's vice chairman & CEO GV Prasad said, *"We strongly believe that this strategic investment will generate substantial opportunities for long-term value creation for both the companies."* (The Financial Express, Friday, February 17, 2006).

Some analysts, however, opined that DRL had paid too much for the acquisition of Betapharm. There were also doubts if DRL could get enough leverage from the acquisition as Betapharm was reportedly emerging from a lean period. They felt that if the deal did not produce results, it would significantly impact DRL's financial performance.

While at the time of the acquisition Betapharm was highly profitable and enjoyed double-digit operating profit margins its revenues since have come under significant pressure. What was earlier a high-margin branded generics market turned into a low-margin volume play, driven by the introduction of Government reforms. Within months of acquisition, the Economic Optimisation of Pharmaceutical Care Act was introduced, reducing drug reference prices. Another law introduced in April 2007, further lowered the realisations by empowering insurance companies to enter into contracts with suppliers of generics. It also incentivised doctors and pharmacists to prescribe generic drugs covered by such rebate contracts.

In between, supply chain issues with Betapharm's contract manufacturer Salutas also played havoc. While that has now been addressed byshifting manufacturing to India and, separately, by also securing 33 contracts with German health insurer, AOK, the changed market dynamics forced the company to mark down the value of Betapharm. It took an asset impairment charge of over €270 million over the last three years. Betapharm's value in DRL books stands at about €210 million (in FY09) as against the €480 million it paid to acquire it. No wonder that despite growing its revenues at a CAGR of about 10 per cent since 2007, Betapharm continues to be a drag on DRL's margins and profitability (Source: Business Line, Business Daily from The Hindu Group of publications, Sunday, July 19, 2008, ePaper).

The keystone for acquisition is DRL's vast experience in envisioning the long term strategies and strong track record of DRL profile. Dr. Reddy's Laboratories is India's leading pharmaceutical company with presence in over 100 countries. Dr Reddy's manufactures a range of products such as Active Pharmaceutical Ingredients, Generic & Branded Finished Dosages, Speciality Pharmaceuticals, and Biopharmaceuticals.

Dr. Reddy's Laboratories was founded in 1984 by Dr Anji Reddy. In 1986, Dr. Reddy's went public and entered international markets with exports of Methyldopa. In 1987, Dr. Reddy's obtained its first USFDA approval for Ibuprofen API and started its formulations operations. In 1988, Dr. Reddy's acquired Benzex Laboratories Pvt. Limited to expand its Bulk Actives business. In 1990, Dr. Reddy's, entered a new territory when it, for the first time in India, exported Norfloxacin and Ciprofloxacin to Europe and Far East. In 1993, Dr. Reddy's Research Foundation was established and the company started its drug discovery programme. In 1994, Dr. Reddy launched a GDR issue of US$ 48 million. In 1995, the company set up a joint venture in Russia. In 1997, Dr. Reddy's became the first Indian pharmaceutical company to out-license an original molecule when it licensed anti-diabetic molecule, DRF 2593 (Balaglitazone), to Novo Nordisk. In 1998, Dr. Reddy's licensed anti-diabetic molecule, DRF 2725 (Ragaglitazar), to Novo Nordisk. In 1999, the company acquired American Remedies Limited, a pharmaceutical company based in India. In the year 2000, became the first Asia Pacific pharmaceutical company, outside Japan, to be listed on the New York Stock Exchange. In 2001, Dr. Reddy's Laboratories became India's third largest pharmaceutical company with the merger of Cheminor Drugs Limited, a group company. In 2002, Dr. Reddy's made its first overseas acquisition - BMS Laboratories Limited and Meridian Healthcare in UK. In 2003, Dr. Reddy's launched Ibuprofen, first generic product to be marketed under the "Dr. Reddy's" label in the US. In 2006, Dr. Reddy's achieved revenue of US$ 1 Billion. In the same year, Dr. Reddy's acquired Betapharm- the fourth-largest generics company in Germany. Today, Dr. Reddy's Laboratories is leading pharmaceutical company in India in terms of turnover and profitability.

Netherlands AE **–** ***Rotor Holding BV*** a subsidiary of Pune-based (India) **Suzlon Energy,** the world’s sixth largest wind turbine maker acquired Belgium’s Hansen Transmissions International NV for € 465 million ($ 565 million) in cash. Hansen is the world’s second largest manufacturer of wind turbine gearboxes with capacity to produce 3,600 MW of gearboxes every year. Hansen is adding another 700 MW capacity at its two plants in Belgium. Mr.Tulsi R Tanti, Chairman & Managing Director, Suzlon Energy, said,

“The acquisition of Hansen gives us technological leadership and will make Suzlon the leading integrated wind turbine manufacturer in the world. Although the company will run as the independent business unit, the acquisition of Hansen will allow us to integrate gearbak technology into the total turbine solution enabling a more reliable and a more competitive product in the market place. We find Hansen’s technology, products and production facilities to be of the highest quality. The company has an excellent management team and over a period of time we will work with them in developing supply chain synergies, expanding capacity in new emerging markets in Asia. Hansen’s strong presence in the industrial gearbox is also an important dimension of the business and we see a good opportunity to strengthen it further”.

Describing the acquisition as a significant milestone, Mr. Girish R Tanti Director International Business Development and HR, Suzlon Energy, said,

“*Hansen is an efficiently run business, the quality of team and man power has been most impressive. Hansen has a healthy order book position for the next two years and we expect the business to be managed in the same manner as the management has very ably done over the last couple of years.”*

Mr.Aditya Sanghi, Country head investment banking, YES Bank said, “ *with this acquisition Suzlon has truly emerged as a global player with significant market presence,* *manufacturing base and R&D centers across the North America, Europe, India, China, South Korea and Australia. With a presence across the entire turbine technology chain, we see Suzlon becoming further cost competitive and providing efficient and robust wind energy solutions to its customers." (Reported by Suzlon and news sources and company websites:* www.suzlon.com *and www.hansentransmissions.com).*

Table 6: Motives behind the Mergers & Acquisitions

When the two firms are combined they tend to generate greater revenues than the sum of their individual capabilities. The following table analyses the motives and outcomes of the three Indian cases of Mergers & Acquisitions.

Acquirer Firm	**Target Firm**	**Motive**	**Outcome**
Tata Steel	**Corus**	The synergies expected of this acquisition would be in the areas of procurement of materials, shared services and operational efficiencies. Further, this deal links lowest cost producers of steel, raw materials and growth makers (Tata) to high margin markets and high technology in the west (corus). The cost advantage of operating from India can be leveraged from in western markets and differentiation based on better technology from corus can work in the Asian Markets.	Technology transfer and increased operating revenues
Suzlon Energy	**Belgium's Hansen Transmissions**	The acquisition of Hansen will allow acquirer to integrate gearbak technology into the total turbine solution enabling a more reliable and a more competitive product in the market place, emerge as a global player with significant market presence, manufacturing base and R&D centers across the North America, Europe, India, China, South Korea and Australia.	Technology transfer and enhanced sales revenue
Dr. Reddy's Laboratories Limited (DRL)	**Betpharm**	The acquisition will give DRL access to the German generic drugs market and marketing infrastructure in Europe	Marketing gains, Enhanced Sales and Value creation.

Conclusion and Further Research

It is evident from the above findings and discussion that the landscape of Indian international investment pattern is changing. The Brown field investment mode is on the run replacing the Greenfield and Joint venture modes of investments, which is in line with the model presented in table 1 showing the two approaches to M&A. The growing momentum of the Brown field investment by Indian firms' indicates that as a stand alone firms' their firm specific advantages (FSAs) are not strong enough to cover the additional transaction costs arising from the liability of foreignness and the liability of newness. So, instead of practicing Greenfield FDI, they are acquiring a well established existing firm. This is in line with the theory reviewed above.

The Indian government approach towards OFDI underwent drastic changes. The transformation from the restrictive policy regime in the first phase to the liberalised policy regime in the third phase is noteworthy. The result of these government policies can be seen from the spurt in the amount of overseas investments by Indian companies. In other words, the policy changes adopted during the third phase triggered a sharp increase in M&As.

Alongside the changes in the Indian OFDI regulations, the focus of the Indian firms also changed. A growing number of Indian enterprises are beginning to see outward investments as important aspects of their corporate strategy and are emerging as multinationals. The traditional approach of the Indian firms until 1999 was confined to market seeking in the less developed countries and lowering the costs of their operations. But from 2000 onwards their strategy changed. They are keener on becoming the global players by establishing their presence in the developed countries markets. The approach adopted by them to penetrate into the global markets is through the M&As. Infact, the background profile in terms of the managerial experience, financial strengths, healthy establishments with strong performance and clearly spelt out long term vision of the Indian companies are supporting them in attaining their goals. The ideal example is Tata, an emerging giant and a big conglomerate.

It is implicit from the three cases discussed above that they are keen in expanding their marketing networks, obtaining the advantages of technology transfers and brands through the acquisitions. The Indian companies' are low cost commodity players where as the target companies are value-added branded-products companies. The long term vision of the Indian corporate is quite evident from the motives behind the M&As.

More research is required to fully comprehend the emerging Indian global players. There are issues of corporate governance, managerial motivations, financing regimes. These are outside the scope of the present paper.

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