

Capital Agenda Insights



Indian corporates: the new global capital players

Boardroom issues

- ▶ Do you plan any capital injection in the future and are you considering new sources/markets?
- ▶ Do you have a division which could be a good fit for any of the growing Indian companies?
- ▶ Do you operate in a sector which is important for upcoming Indian companies?
- ▶ Are you looking at entering the Indian market – considering joint ventures or partnering?
- ▶ Are you concerned about cultural differences with any prospective Indian partner?

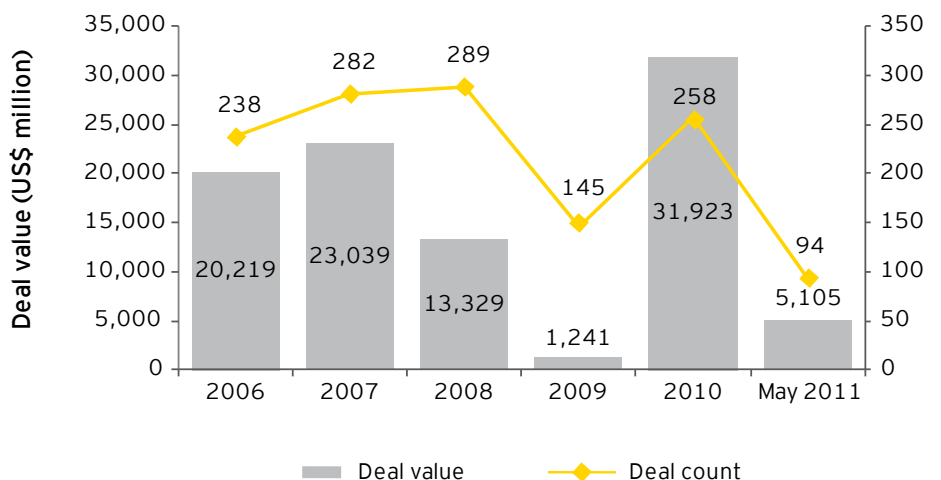
The last few years have seen sustained increase in India's economic growth accompanied by globalization of its corporate sector. This is the reason why, rather than an emerging market, India is now referred to as a "growth market."

As Indian companies focus on enhancing their international profiles and footprint, outbound deals have become an increasing priority. Through a string of high-profile outbound transactions in recent years, Indian companies have gained new prominence and credibility as global players. At the same time, ready access to capital has helped them take advantage of attractive valuations in international markets, making them formidable M&A competition for more established multinational companies.

India saw record amounts of outbound activity in 2010, with announced deal values of US\$32 billion, nearly 50% of total announced deal values for the year, and an all-time high. Outbound transactions made up 20% of the total number of announced deals in 2010, and there were six deals valued at over US\$1 billion each, including telecommunications company Bharti Airtel's US\$10.7 billion acquisition of Nigeria's Zain Africa BV and a consortium of oil and gas companies' US\$4.9 billion purchase of Venezuelan oil and gas stakes in the Carabobo region. This consortium included Indian state-owned Oil & Natural Gas Corp. Ltd., Indian Oil Corp. and Oil India Ltd., Spanish firm Repsol YPF SA and Malaysia's Petroliam Nasional Bhd.



India's outbound M&A activity



Source: Thomson OneBanker and Ernst & Young analysis

This trend is part of a broader boom in Indian corporate transactions that has also seen a spike in both inbound and domestic deals over the past few years. Indian growth companies are clearly looking to move into new geographies, and both potential competitors and targets need to understand their corporate strategies, how the aims of large and mid-cap companies differ, and how the mindset and deal appetite of the Indian buyers have changed.

A two-pronged approach

Indian companies have a distinctive set of strategic objectives and approaches for emerging and developed markets.

As products of a country that was recently itself an emerging market, Indian companies have a clear advantage when setting up operations in other developing economies. Compared with Western rivals, Indian companies have a clear affinity to emerging market environments and they understand how to employ the kinds of business models they have used at home in other developing countries. They know that their business plans can be replicated and executed successfully.

In more established markets, by contrast, Indian buyers have a more focused, twofold strategy for pursuing deals: a potential transaction will either allow them to adapt new technologies or help them establish a business reputation that will allow them to operate in other large developed markets.

While the US and UK remain the biggest target destinations for Indian companies in absolute terms, their share has declined over the years and there is an increasing inclination toward emerging markets.

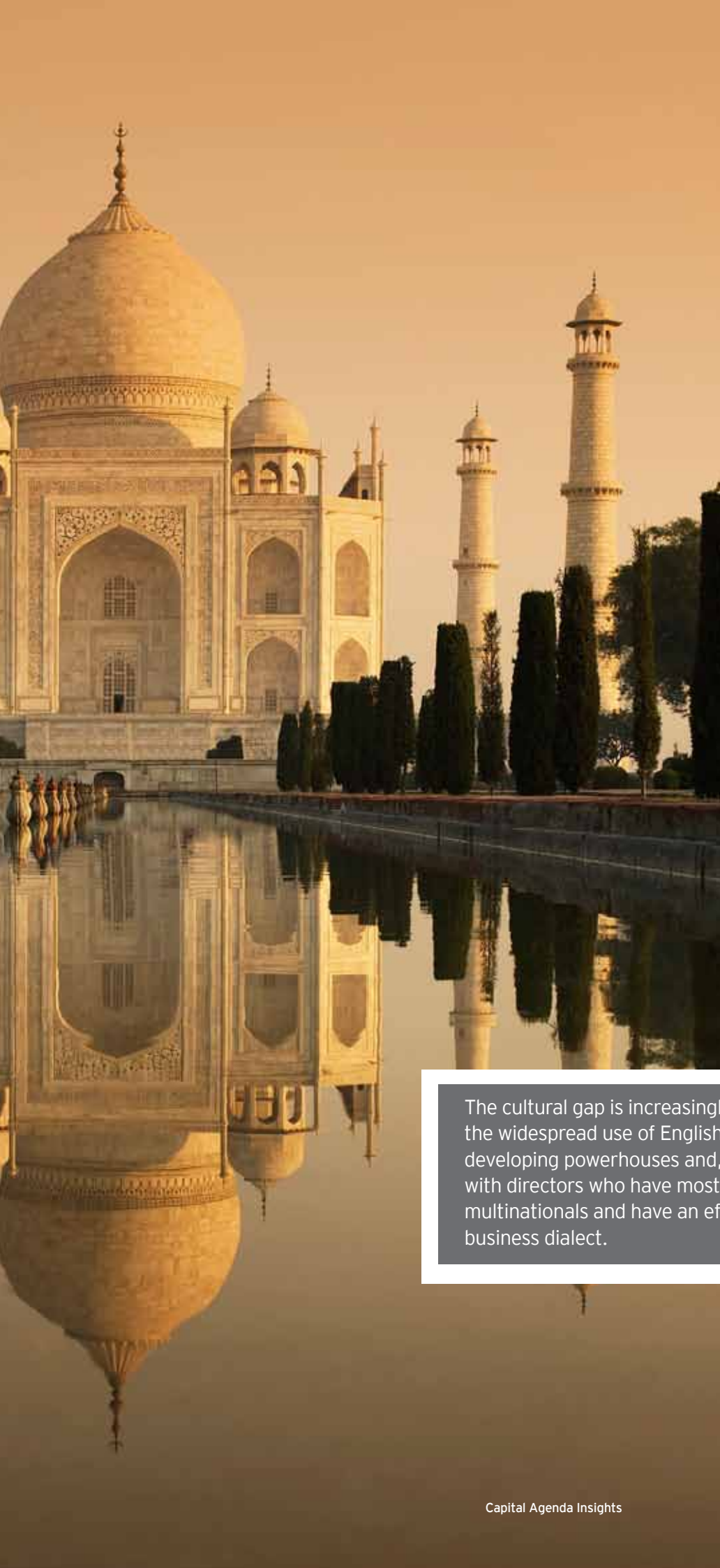
The leading two outbound acquisitions of 2010 were in Nigeria and Venezuela, respectively.

Natural resource sectors such as oil and gas and metals and mining remain the most active, and are likely to provide much of the catalyst for outbound activity in the near term; in September, the state-run Indian Oil Corporation said it had set aside US\$1 billion to acquire energy assets overseas. Meanwhile, technology, telecommunications and financial services companies and institutions are also increasingly looking at overseas deals.

Just as Indian companies have distinct M&A strategies for emerging and developed markets, their approaches to outbound transactions also differ depending on whether they are large-cap or mid-cap investors.

India's largest companies, the Tatas, Birlas, Reliance etc., are cash-rich, well-established and looking to do "trophy" deals; Tata Steel's US\$11.8 billion acquisition of UK mining group Corus in 2006 and AV Aluminium's US\$5.8 billion purchase of US metals company Novelis Inc., are two obvious examples. Mid-cap growth companies are generally more opportunistic in their approach and more likely to focus on those sectors that will give them a foothold in their target and adjoining markets. The financial services and technology sectors are two industries that have seen these types of transactions. Case in point is Religare Enterprises Limited, a growing financial services firm in India, which has done five acquisitions in the last one year in various markets of specialized asset management firms through deals ranging from US\$5 million to US\$200 million. Similarly, Essar Global, through its various subsidiaries, has acquired four mining companies in 2010, all in the range of US\$20 million-US\$600 million.





Less apprehension about Indian acquirors

For Western companies confronting an offer from an Indian buyer, several factors are helping to create a greater comfort level than would have been the case a decade earlier. Whereas a potential Indian buyer of a Western company might have been greeted with skepticism 7 to 10 years ago, these days the growth rates and the improved operations and operational efficiencies of Indian companies are already well known.

Worries about Indian companies' financial firepower have all but disappeared, particularly since Tata's Corus acquisition. Indeed, with the exception of companies in fellow BRIC markets China, Russia and Brazil, Indian companies, together with fellow BRIC companies, have now joined the established multinationals in having balance sheets that are robust enough to put in equity and raise the necessary leverage to fund deals. Consequently, targets with Indian bids on the table are taking them seriously.

The cultural gap is increasingly dissipating, helped both by the widespread use of English in India compared with its rival developing powerhouses and, more recently, by boards staffed with directors who have mostly operated globally or worked for multinationals and have an effortless command of international business dialect.


Finally, concerns about how Indian owners will handle newly acquired employees in the post-transaction period are also being put to rest, as Indian owners increasingly recognize the need to tread carefully with existing employees in order to avoid threatening a multi-billion dollar investment.

The number of Indian outbound deals is at an all-time high, and this trend is likely to gather pace as more Indian companies join the ranks of multinational participants in M&A markets. Indian companies' favorable financial positions and agility when operating in both emerging and developed markets are making them formidable competitors for the future.


Leading 10 outbound deals in India

Year	Announced deal value (US\$m)	Target	Target country	Target industry	Acquiror	Acquiror ultimate parent
2006	11,791	Corus Group PLC	United Kingdom	Metals and mining	Tata Steel UK Ltd.	Tata Steel Ltd.
2010	10,700	Zain Africa BV	Nigeria	Telecommunications	Bharti Airtel Ltd.	Bharti Airtel Ltd.
2007	5,789	Novelis Inc.	United States	Metals and mining	AV Aluminum Inc.	Hindalco Industries Ltd.
2010	4,848	Republic of Venezuela-Carabobo	Venezuela	Oil and Gas	Consortium of oil and gas companies	Consortium of oil and gas companies
2010	2,740	Linc Energy Ltd-Galilee Basin Coal Tenements	Australia	Metals and mining	Adani Mining Pty Ltd.	Adani Enterprises Ltd.
2007	2,656	Sabiha Gokcen International Airport	Turkey	Logistics	Investor Group	Investor Group
2008	2,608	Imperial Energy Corp PLC	United Kingdom	Oil and gas	Jarpeno Ltd.	Oil & Natural Gas Corp Ltd.
2008	2,300	Jaguar Cars Ltd.	United Kingdom	Automotives	Tata Motors Ltd.	Tata Motors Ltd.
2011	1,951	Abbot Point Coal Terminal	Australia	Ports and shipping	Mundra Port & Special Economic Zone Ltd.	Adani Enterprises Ltd.
2010	1,700	Atlas Energy Inc.-Marcellus	United States	Oil and Gas	Reliance Industries Ltd.	Reliance Industries Ltd.

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