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Dharma deals

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When Bangalore-based **UB Group** signed a deal mid-May to acquire the Scottish distiller **Whyte & Mackay Ltd.** for £595 million ($1.2 billion), India's largest beer and spirits purveyor added more than just some great casks of whiskey to its shelves. The UB Group bought entry into the global marketplace. UB may claim a 50% share of the Indian beer market and the world's single largest selling brand of spirits, but it's been pretty much a nonentity overseas. Whyte & Mackay opens borders.

While the takeover of a venerable Scottish company by an upstart such as UB may have raised eyebrows among whiskey purists or European snobs, the fact that an Indian company has the acumen, interest and the financial wherewithal to pull off a billion-dollar deal isn't surprising. In the first half of this year alone, Indian companies spent $25.6 billion in overseas acquisitions, according to data compiled by London investment bank **India Advisory Partners Ltd.** Many of those companies are buying entry into new markets.

"Indian companies are all over the place," says Bobby Saigal, who heads the **Ardee Saigal Group**, a strategy advisory business based in Mumbai. "All these guys are trying to expand their companies internationally."

Corporate India is on the move. For many, that means cross-border deals. "Indian companies see a global play as an important part of their strategy," says Rajat Agarwal, a senior manager who heads the strategy practice in India for consultancy **Accenture**. "They want to move beyond their shores. Acquisitions become a natural way of doing it."

Studies reveal a phenomenal jump in the number of Indian-initiated transactions. According to India Advisory Partners' Indata database, this half-year's total acquisitions represent more than a 10-fold increase in dollar terms over the entire calendar year 2005 and more than 100 times the amount spent in 2002. Over the past 18 months, corporate India has emerged as one of the most acquisitive forces in the world today. (See chart)

"It has reached a level of activity that is close to M&A markets in Western Europe and the United States," says James Winterbotham, a London-based partner at India Advisory Partners. Winterbotham is a veteran in Indian M&A and a former **Lazard** board director.

Indian acquirers range far and wide. From basic manufacturers to state-of-the-art software houses, India Inc., as the local press has dubbed the movement, is flexing its muscles.

Deal size is rising and the pace is quickening. Just hours before the Whyte & Mackay announcement, **Hindalco Industries Ltd.**, the flagship company of the Birla family and one of India's biggest business groups, completed the $6.4 billion acquisition of Atlanta aluminum manufacturer Novelis Inc. A week later, Mumbai's **Sun Pharmaceutical Industries Ltd.** said it would buy Israel's **Taro Pharmaceutical Industries Ltd.** for $454 million. The next week, New Delhi-based **DS Construction Ltd.** and **Israel Corp. Ltd.**, a holding company based in Tel Aviv, announced they had won as a 50-50 joint venture a $542 million tender to buy the Latin American power assets of **Globeleq International Ltd.**, a Bermuda company focusing on emerging markets.

"An Indian and Israeli company getting together to buy the Latin American assets of a Bermuda company. We could not do a more global deal," says Ravi Singhania, managing partner of New Delhi-based law firm **Singhania & Partners**, which represented DS Construction in the transaction.

The signs of this newfound interest dot the Indian landscape. A business processing outsourcer in the

burgeoning city of Pune acquires a U.S. IT rival. A textile designer in then high-tech capital Bangalore first buys an Italian retail brand, then a U.S. textile distributor. A drug maker in the old industrial city of Ahmedabad acquires stakes in Japan, France and Brazil. A soapmaker in Mumbai buys a Canadian personal-care company, and then a Kansas manufacturing plant.

Overseas deals by Indian companies			
By deal value, 2002 - June 30, 2007			
Year	**Number of deals**	**Average size ($mill.)**	**Deal value ($mill.)**
2002	28	$7.5	$208.9
2003	49	36.5	1,786.7
2004	60	28.3	1,700.0
2005	100	23.6	2,357.8
2006	140	57.8	8,087.8
2007	90	284.4	25,591.6

Expect the momentum to continue, say those who track the country's M&A activity. "Every deal means more confidence for others," says Harish H.V., a Bangalore-based partner in corporate advisory services at **Grant Thornton India**.

There are many reasons for heightened dealmaking. They range from easy access to capital to a business and legal system that is both stable and conforming to international standards. Many Indian companies have experienced years of healthy growth and profitability and have balance sheets that easily allow expansion.

Another motivation is as much psychological as financial. Many Indian companies believe they need to play global catchup. Indian companies focused far longer on their local market than their Chinese counterparts. While China constructed its economy on exports, Indian businesses stayed home, profiting from protected domestic markets, while facing almost insurmountable bureaucratic roadblocks to any moves offshore. The government believed in an India First policy and tried its best to ban foreign currency outflow. It even taxed exports.

It wasn't until the 1990s that New Delhi initiated polices that would unshackle Indian companies. Even then, change came slowly. In 1999, the government enacted a rule that permitted foreign investment without prior approval, but with a ridiculously low $15 million ceiling. Only in 2004 did the government fully allow companies to invest overseas without permission.

New competition accompanied the opening of India's economy. That spurred Indian companies to not only improve often shoddy and outmoded products for the domestic market but to build financial muscle. A new generation of companies, owners and managers followed. "Indian companies became canny and efficient investors of capital," Winterbotham says.

Many flourished. Indian companies "are experiencing growth far beyond what even they forecast three or four years back," says C.V. Ramachandran, a managing director at advisory firm **AlixPartners LLC**.

At the same time that cash-rich Indian companies are on the hunt for overseas targets, there's been little impetus or desire for domestic M&A. In the period from 2003 until near the end of 2006, according to an analysis by Accenture, only about 25% of Indian acquisitions have been within India's borders.

Some of this has to do with valuations, some with a widespread perception that there's little gained from further consolidation of the local market. But a big factor is the ownership of the Indian companies themselves.

"A large proportion of [Indian] companies are owned by the promoter families," Agarwal says. "Getting quality assets and willing sellers in the Indian market is much more difficult."

A 2006 study by Grant Thornton revealed that of those Indian companies anticipating a deal within three

years, more than 90% believe the acquisition will be foreign, not domestic. "The valuation of Indian companies is very high," says H.V. "Multiples are lower abroad so the overall valuation [of the acquirer] actually improves."

For many other reasons, this overseas focus makes perfect sense. Cross-border acquisitions become a quick way to conquer new terrain, establish a regional beachhead and, perhaps most importantly, grab customers in markets that are mature and otherwise difficult to penetrate.

Country flow of M&A from India						
	2005		2006		2007 (as of 6/30)	
	$mill.	% share	$mill.	% share	$mill.	% share
Asia	$254	11%	$809	10%	$2,046	8%
Africa	81	3	340	4	294	1
Europe	1,164	49	4,252	53	16,105	63
U.K.	277	12	484	6	13,339	52
Germany	562	24	783	10	2,078	8
France	NA	0	165	2	267	1
Other	325	14	2,820	35	421	2
North America	183	8	134	2	2,202	9
South America	102	4	709	9	NA	0
Australia	52	2	14	0	3	0
USA	534	23	1,831	23	4,941	19
Total	2,370	100%	$8,088	100%	$26,836	100%
Source: India Advisory Partners Ltd.						

Take **Spentex Industries Ltd.**, India's largest yarn manufacturer and 32% owned by **Citibank**'s venture capital arm. The New Delhi textiles company has been on a tear for five years, first targeting domestic mergers, then setting its sights overseas. In 2006, Spentex agreed to pay the Uzbekistan government $81 million for the largest yarn manufacturing facilities in Central Asia, the state-owned Tashkent-To'yetpa Tekstil Ltd. The facilities were part of a bankrupt South Korean venture. As part of the deal, Spentex gets a 15% discount on raw cotton and facilities with even lower manufacturing costs than in India.

In late June, Spentex purchased Schoeller Litvinov k.s. for $25 million. Based in the Czech city of Litvinov, Schoeller Litvinov gives Spentex access to the European Union, a ready-made sales force in Germany and a state-of-the-art manufacturing plant. With this deal, Spentex hopes to gain "new markets, new customers and new products," says Mukund Choudhary, the company's managing director, in an e-mail exchange.

Choudhary says he's now looking at possible deals in Southeast Asia. Overseas acquisitions as part of a growth strategy "are quite important," he says. "We need to play on the strengths of lower manufacturing costs or higher market segment."

In textiles, Spentex isn't exceptional. (See chart) A number of companies have used similar strategies. Less than a week after the Schoeller Litvinov purchase, Bangalore-based textile manufacturer Himatsingka Seide Ltd. paid $53 million for an 80% stake in New York linen distribution company Divatex Home Fashions Inc. That followed the €24 million ($33 million) acquisition in February of a 70% stake in Italy's Giuseppe Bellora SpA.

The Divatex acquisition gives Himatsingka original equipment manufacturer access to big-box retailers in the U.S. such as Linens 'N Things Inc., while Bellora offers upscale branded linens and

plant that opened in April.

That kind of motivation is becoming commonplace. "Indian suppliers are hooking up with distributors," says James Abbott, a New York-based partner with Seward & Kissel LLP. Abbott represented Himatsingka on the acquisition.

So far, few purchases by Indian companies have centered on buying brands. That's because Indian companies first need to establish global distribution, says Agarwal. "Unless you have a basic backbone structure in place, you can't leverage it properly."

But brands acquisitions will come, Winterbotham believes. "It will be a great area for Indian M&A."

The virtues of targeting labels are twofold. Established brands in Europe, North America and East Asia help Indian suppliers penetrate markets. Meanwhile, as India's consumer class grows in size and sophistication, overseas brands can be recycled to India and pushed on the domestic market, especially as traditionally steep import duties are eased.

That's certainly the case with Scotch whisky, a popular spirit with many Indians but prohibitively expensive to buy in India. Vijay Mallya, UB's colorful chairman, said after the purchase that he would almost immediately begin importing Whyte & Mackay bulk stocks into India.

Then, in early July, the Indian government announced it would drop a staggeringly high duty on imported whiskey, a reduction of as much as 550%. While the EU had been pressing for the duty reduction and filed a case in the World Trade Organization, Mallya and his acquisition undoubtedly helped sway recalcitrant Indian bureaucrats.

Sector flow of M&A from India

Sector Summary	2003	2004	2005	2006	2007 (through 6/30)
Oil & gas	51%	36%	1%	22%	NA
Telecom	12	8	8	NA	0.02%
Information technology	9	18	15	13	3
Automotives	7	NA	1	4	0.1
Pharmaceuticals & healthcare	6	7	19	16	3
Auto components	6	NA	7	NA	2
Metals	4	20	10	NA	64
Chemicals	2	6	8	7	0.04
Consumer durables	NA	NA	12	4	NA
Power	NA	NA	NA	7	NA
Foods	NA	NA	7	3	4
Miscellaneous	3	5	12	24	21

Data excludes Mittal - Arcelor (not an Indian acquirer)
NA = Not Available

While market access may be the prime motivator for most acquirers, others are looking for new technology that can fit into product offerings. **Subex Azure Ltd.**, a Bangalore-based software company that specializes in mobile telecom, paid $164.5 million in cash in March to acquire Toronto-based Syndesis Ltd., which provides technology for mobile service activation. This marked the second big deal for the Indian company, which started as Subex Systems Ltd. In June 2006, it acquired for $140 million London-based Azure Solutions Ltd., which developed software for the billing side of mobile phones.

Then there's **Suzlon Energy Ltd.**, which in five years has come from nowhere to become one of the world's largest players in wind power technology and manufacturing. In March 2006, Suzlon paid €430 million for a

Dutch manufacturer of wind turbine gearboxes, Hansen Transmissions International NV. In May, Suzlon gained control of German wind turbine maker REpower Systems AG, a complex deal that ended a bidding war with rival French manufacturer **Areva SA**. Areva still holds about 30% of REpower shares but ceded voting rights in return for an option to sell its stake. The deal values REpower at €1.2 billion.

What's perhaps surprising to those outside India is how flush Indian companies are. Part of this is cash flow, because operations are profitable and balance sheets are strong. Part is rapidly growing access to capital.

Hundreds of Indian companies are publicly traded on various domestic exchanges and have been for decades. In the past half-decade or so, market caps of many companies have skyrocketed, while domestic debt loads have remained small.

Now, a growing number of Indian companies are looking abroad for both debt and equity.

Singhania cites the example of another client. **Unitech Ltd.** is one of India's largest real estate developers and one of at least seven Indian property companies to list on London's Alternative Investment Market in the past year. In December 2006, Unitech raised £360 million on AIM.

The Indian government loosened borrowing regulations as well. Since 2005, Indian companies can borrow offshore specifically for cross-border investments. Singapore, says Singhania, has emerged as a favored funding source.

Several Indian companies have raised money through convertible bonds for overseas expansion.

Suzlon, for example, raised $300 million for its Hansen acquisition this way.

In the last two years, according to Tarun Shah, who heads investment banking in India for New York-based investment bank boutique **Mehta Partners LLC**, 12 Indian pharmaceutical companies alone raised $1.3 billion in these bonds. "We're starting to see a number of financial institutions make a lot more cash available to Indian players to continue their growth," says Ramachandran. Indian companies now "have the money to go after" transactions.

Private equity has been flowing into India as well. While this money tends to focus on India-related investments, specifically minority stakes in Indian companies or real estate, there are signs private equity will partner in or backstop a few of the bigger acquisition plays.

One recent example: Indian consumer electronics company **Videocon Industries Ltd.** teamed up with **Ripplewood Holdings LLC** to make a bid for **Daewoo Electronics Co. Ltd.** The $750 million deal ultimately fell through in May, but the model is expected to become more commonplace in larger deals: Private equity's financial heft combines with operations acumen for forays overseas.

With all this activity, foreign and local investment bankers alike are scampering about, deal books in hand. More are arriving all the time. Two of India's largest business groups say they want to set up their own investment bank subsidiaries. The president of Japanese equities giant **Nomura Holdings Inc.** told reporters in Mumbai earlier this month his company wants to buy an existing Indian investment bank to gain a foothold.

"Every major [and] minor player is setting up or reopening shop in India," says H.V., whose accountancy firm also offers M&A advisory and due diligence services.

Adds Agarwal: "Increasingly, Indian companies are being invited, proactively, to the table" to look at deals. "That's a big change."

Another sign that Indian global dealmaking has come of age: Outbound M&A for the first half of this year exceeded domestic M&A for the first time ever. What's remarkable is how new to the game Indian companies actually are. Tata Group is India's biggest conglomerate, with $20 billion in annual sales and about 100

separate companies. It will celebrate its 140th anniversary next year. Tata's global aspirations can be traced to its chairman, Ratan Tata, who assumed the chairmanship of the group's holding company, **Tata Sons Ltd.**, in 1991.

"He wanted Tata to be world class; he didn't want to be just Indian class," says David Good, Tata Sons' chief representative in North America. "His instructions to all the different companies were that they had to consider a global strategy."

That took years. Not until 1999 did Tata make its first significant overseas investment, the £270 million purchase by Tata Tea of Britain's Tetley plc. That also marked the first major acquisition by an Indian company of an asset larger than its own.

The group has made up for lost time. Tata entities have acquired 11 companies, and equity stakes in 13 more. In the U.S., that includes luxury hotels in San Francisco and Boston, **Tyco International Ltd.**'s telecommunications cable company and Eight O'Clock Coffee Co. The group's most recent deal was the $1.1 billion purchase of a 30% stake by Tata Power in three coal-related companies in Indonesia, all owned by **PT Bumi Resources Tbk.**

Tata is in the mix to buy the U.S. beverage assets of **Cadbury Schweppes plc**, an Indian paper reported earlier this month. Tata wants Cadbury's Snapple line of juice drinks. According to The Economic Times, Tata would likely join forces with private equity concerns **Blackstone Group LP** and **Lion Capital** to bid on the entire U.S. beverage business, which Cadbury put on the block in March. Tata would then carve out Snapple, the newspaper speculated.

Last September, Tata Tea paid $677 million for a 30% stake in **Energy Brands Inc.**, the maker of Vitamin Water, and said it was interested in expanding its international beverage platform. However, in May, **Coca-Cola Co.** bought the entire energy-enhanced beverages company for $4.1 billion. This almost doubled Tata's investment, but left it out of the cold beverage market.

Early this year, another Tata Group company made history as well. Tata Steel Ltd. successfully bid £6.2 billion for Anglo-Dutch steel company **Corus Group plc**. This marked by far the largest Indian acquisition ever.

(Mittal Steel Co. was owned by Indian national Lakshmi Mittal, but was Rotterdam-based and London-managed when it offered $33 billion in July 2006 to buy Arcelor SA and become the world's largest steel company. The merged company, **Arcelor Mittal**, is based in Luxembourg.)

Tata's record may not stand for long. When British old-line chemicals and paints manufacturer **Imperial Chemical Industries plc** last month nixed a £7.2 billion takeover offer by Dutch rival Akzo Nobel NV, speculation heightened on which rivals would make a counterbids. Mumbai-based **Reliance Industries Ltd.** now tops the list, although it potentially faces heavyweight contenders such as **Dow Chemical Co., E.I. du Pont de Nemours and Co.** and **BASF AG**.

Reliance is typical of India's trajectory. With revenue of more than $25 billion and a market cap of 2.24 trillion rupees ($55 billion), Reliance is a domestic industrial powerhouse, with tentacles in petroleum, petrochemicals and plastics and a rising interest in retail and telecommunications.

It was only in 2004, however, that Reliance began acquiring companies overseas, and then rather modestly. Its first was the $211 million acquisition of the once-bankrupt, London-based optical-fiber network company Flag Telecom Group Ltd. That was followed shortly after by the €80 million purchase of a German polyester manufacturer, Trevira GmbH, from **Hoescht AG**. Last week, Reliance announced that it will acquire telecom services company **Yipes Holdings Inc.** of San Francisco for $300 million in cash.

For years, Indian acquirers had the reputation of bottom feeders, buying distressed assets for little money. In 2006, average acquisition size was about $58 million, according to **IAP**'s Indata. That leaped to almost $300 million for the first half of this year.

In part, that number is skewed by Corus. But deals are increasing in both size and complexity, reflecting growing confidence and experience, as well as access to ever-larger financial resources. "Indian companies were earlier tested by smaller acquisitions," says Shah. "They proved they could do it. They now have the confidence that they've done their homework."

Sun Pharmaceutical illustrates this pathway, he believes. A decade ago, the Mumbai-based company paid $7.5 million for a controlling stake in Detroit-based generics producer Caraco Pharmaceutical Laboratories Ltd. Even that small amount required Reserve Bank of India approval. In 2000, it paid $5.4 million for three brands being sold out of the bankruptcy of Women First HealthCare Inc. The recent Taro deal, by contrast, is more than $400 million.

Sun Pharmaceutical isn't alone. Historically, Indian pharmaceutical companies built strong generic drug capabilities. Industry leaders such as **Dr. Reddy's Laboratories Ltd.**, **Wockhardt Ltd.** and **Ranbaxy Pharmaceuticals Inc.** have moved aggressively overseas as well, acquiring foreign generic producers. Another Indian concern, **Torrent Pharmaceuticals Ltd.**, made an unsuccessful run at **Merck KGaA**'s generics business, which in May was sold for €4.9 billion to **Mylan Laboratories Inc.**

It's not manufacturing facilities or R&D that are the impetus for these takeovers, says Shah, but rather "front-end" operations, like marketing, distribution and sales. Almost half of Wockhardt's sales, for example, are now based in Europe, thanks to four European acquisitions, the most recent a $150 million purchase last October of Ireland's **Pinewood Laboratories Ltd.**

Auto suppliers may be an endangered breed in the U.S., but they're flourishing in India. That increasingly translates into overseas acquisitions. Take **Bharat Forge Ltd.**, now the world's second-largest forging company. In 2001, the company discovered that a small British forging company called Kirkstall, which made similar components, was up for sale.

Bharat Forge offered £3 million for the company's business book, while the Leeds facilities were sold to a real estate developer. Bharat Forge transferred the business to its factory in Pune. Since then, Bharat Forge has bought companies in Germany, the U.S. and Sweden, moving production back to India in each case.

Moving production to a lower-cost country is nothing new, but it's still a hallmark of many Indian deals, says Ramachandran. Bharat Forge is "symptomatic of the way you can rationalize products and facilities not only in India but around the world."

IT may stand as India's most globally minded group of companies. However, the largest IT companies have made acquisitions that have only marginally affected sales. That's understandable, says Ramachandran and others. These companies find little benefit in major acquisitions, citing everything from integration concerns to a continued emphasis on organic growth.

Tata Consultancy Services is the country's largest IT outsourcing company, with $4.3 billion in revenue for the fiscal year ended March 31. In October 2006, TCS, as it is known, paid Sfr100.5 million ($83.2 million) for a 75% stake in Swiss financial software services company Teknosoft, the largest of five acquisitions so far. "The acquisition is not just for acquisition's sake. You have to gain a new market, gain entry to new clients, enter a new sector," says Good. "TCS has been able to do that internally."

Tata's biggest outsourcing rivals have been even less active on the M&A front. **Infosys Technologies Ltd.** has made only one small acquisition, a $23 million purchase in 2003 of an Australian IT service provider. The other major player is **Wipro Ltd.**, which has spent less than $60 million for three acquisitions.

Instead, heavy-duty Indian acquirers tend to be more old-economy. This year, for example, Mumbai-based **Essar Global Ltd.**'s Essar Steel Holdings Ltd. subsidiary paid C$1.85 billion ($1.75 billion) for Ontario integrated steel producer Algoma Steel Inc., and next acquired the rights to build a $1.65 billion steel plant in Minnesota's Iron Range, then signaled its intention to do more by appointing an executive vice president for strategic planning and mergers and acquisitions.

e's some concern in India that as more and more companies do bigger and bigger deals, at least a few are bound to stumble. Already, everything from bidding wars to heightened ambition to an attitude of me-too has enhanced multiples of some acquisitions. The Corus deal has been cited as an example of overpaying.

But there's little belief that Indian companies will stop their overseas quest.

"Every time I see a bigger deal, a billion dollar-plus deal, I think, these guys can't possibly pull this off, but somehow they do," Agarwal says.

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ON THE SMALLER SIDE

HIMATSINGKA SEIDE LTD., a Bangalore, India, textile design company, said July 2 its Himatsingka America Inc. subsidiary purchased an 80% stake in New York's Divatex Home Fashions Inc. for $53 million. The enterprise value for the transaction was $75 million. Divatex ranked as one of the top three distributors of bed linen products in the U.S. Seward & Kissel LLP provided legal counsel to Himatsingka Seide. — Greg Johnson