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Preface

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Preface

As late as 2001, Indian outward investment was less than US $1 billion. Instead, India, like all developing countries, was actively courting foreign investment into the country. By 2006, India had reached the tipping point. For the first time, Indian outward investment of US $10 billion had outstripped foreign investment into India. The spending spree continued unabated in 2007. Indian companies arranged or concluded US $21 billion in 40 foreign investment deals in January and February of 2007 alone. Moreover, Indian foreign investment in the financial year closing 31 March 2007 exceeded the cumulative total foreign investment by Indian companies in the 58 years between its independence in 1947 and 2005!

In this valuable volume, Suseela Yesudian has done a remarkable effort in pulling together the most interesting case studies that defined the foreign acquisition spree of Indian firms during this period. These case studies were written by academics in India as part of a case competition organized by the Aditya Birla India Centre at London Business School in 2008. This centre was funded by a generous grant by Kumar Mangalam Birla in the memory of his father, who was one of India's pioneering global businessmen. One of the mandates of the Aditya Birla India Centre is to encourage case studies that would be of interest to a global audience.

The authors of these case studies are to be commended for taking the initiative to write these successful vignettes. Research by business academics based in India is still at the nascent stages and therefore one is encouraged to see such a wide set of case studies. While compiling a volume of case studies may seem like a simple task, having witnessed the making of this volume, I know that it is not. To get disparate case studies written by different authors and to have a consistent feel and look requires a rewriting effort that may be more than simply producing them oneself. Suseela Yesudian has spent countless hours in managing the case competition, helping authors generate the case studies, and finally rewriting the case studies to make this a coherent volume valuable to students and observers of Indian business.

The theme of foreign acquisitions by Indian firms is personally most interesting to me as it formed a large basis of my book titled *India's Global Powerhouses: How they are Taking Over the World*, published by Harvard Business Press in 2009. Therein I argued that the quest by Indian companies to be globally competitive is the driving force behind this accelerating foreign outward investment. With the opening of the economy, and the easy entry of foreign players into the Indian market, domestic Indian companies realize that they must scale up to remain competitive. This is especially true for those companies which operate in what are global industries, like aluminum, automobiles and steel, for example, Hindalco, Tata Motors, or Tata Steel.

As one can see, these large deals are relatively recent. It was unimaginable even a decade ago that any Indian company could pull off a multibillion-dollar acquisition of a company in the developed world or buy a prestigious luxury brand such as Jaguar. How have Indian companies suddenly been able to pull off such large global deals?

The acquisitions reflect the rapid growth of the Indian economy since 1991. When combined with the restructuring efficiencies wrought by Indian companies over the past 15 years, this growth has resulted in average profit margins of around 10 per cent, more than twice the global average. Indian firms have been minting money. Growth and profits have left the Indian corporate balance sheets in robust health, with the consequent high-market capitalization. By one estimate, 60 per cent of India's 200 leading companies are looking to spend their newfound wealth on foreign acquisitions and investments. The result is that Indians have already emerged as second only to Americans as foreign employers of Britons!

Some of these purchases may have looked too expensive to onlookers. A potential acquisition target firm in the developed market, burdened with high operating costs and focused on a declining domestic market, may not seem attractive to a Western or Japanese suitor, but to an Indian company, the target can appear very different as it may have brands, customers, or technology that an aspiring Indian multinational covets. The current high operating costs of the target company do not deter Indian firms because their vision is different.

The Indian global powerhouses have been large domestic players in the Indian market for some time. However, until recently they never had the confidence or the ability to be on the world stage. Forged in India's harsh environment, these companies are now increasingly seeking to secure the best of both worlds – access to the lucrative high-margin markets of the developed world by owning companies in Europe and the US, while maintaining their low-cost bases in India. Today, the remarkable thing that strikes one about Indian companies is that they have massive aspirations to be global companies, and they are extraordinarily confident about acquiring foreign firms and integrating them with their companies in India. In their hurry to become global powerhouses, Indian companies often prefer the acquisition route, as the many prominent foreign acquisitions of recent times demonstrate. Some of the reasons for the spurt in foreign acquisitions, such as the desire to compete on the world stage and the need to grow beyond the scale possible in India, are solid. The favourable Indian economic environment, fat profits, higher valuations and weakening of government regulations on overseas acquisitions have all helped in successful takeovers.

The impetus for many of the acquisitions in 2006–7 was not that Indian companies were particularly globally dominant in their industry or were rich. Rather, one of the primary facilitators was the easy liquidity prevailing in the markets. Big deals based on easy liquidity, however, tend to load a company with debt or dilute shareholders' equity through the needed issuance of new stock. Both Tata Steel and Hindalco were put on a credit rating watch after they announced their foreign acquisitions. For both companies and for Suzlon, announcement of cross-border deals saw immediate drops in their stock price.

The academic research is pretty unambiguous on the success of mergers and acquisitions. Approximately half of all M&A deals fail, and the casualty rate increases with the size of the deal as well as for cross-border deals versus domestic deals. The foreign acquisitions experience of other Asian countries, like Japan and China, also indicates a high failure rate. Therefore, there is no reason to believe that India's success rate will be significantly different.

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