INDIA INC. CAPTURES THE WORLD

by

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An Indian Multinational Corporation. Really?

Ask the proponents of liberalization and globalization, and they could go on for hours to tell you how excessively high levels of protection since independence have dented the Indian economy by giving rise to gross inefficiencies and an extremely low level of productivity. The system of Industrial Licensing, restricted imports and a virtual ban on the entry of foreign capital, during the first few decades in the life of free India, had collectively ushered in an era of a highly insulated industry, with extremely cushy profit margins in spite of high-cost production, and no incentive whatsoever for cost cutting and efficiency improvement. Moreover, post-1991, the relaxation on import restrictions and significant dismantling of barriers to the entry of foreign capital endangered the then uncompetitive Indian industry, with the threat of a complete wash-out looming large in certain sectors. In a variety of areas, domestic market share was speedily snatched away from Indian producers by their foreign counterparts with low costs, high quality goods and deep pockets.

Against this background, one would consider it an achievement enough for an Indian firm to be locally competitive, let alone capturing the world market. And to talk about an Indian MNC? Oh, come on!

The Real Picture Today

Indian companies, today, are increasingly making their presence felt on the world map. The M&A service of the Centre for Monitoring Indian Economy reports that Indian companies have acquired over 40 foreign firms during April-October 2003. This year, Indian companies' acquisition is likely to cross the $1 billion (Rs 4,500 crore) mark!

Even if it arouses a humble bit of astonishment, don't bother. The situation today, with quite a few Indian companies going global, wasn't a much anticipated or predicted one, and is more in the nature of a surprise. We now hear of Indian corporations not only doing exceedingly well in the domestic territory, but also taking over firms overseas in multi-million dollar deals—and making a success of it. The heroic takeover of Tetley by Tata Tea may well have been an initial milestone of India Inc.'s global ambitions, but it was nothing more than a humble beginning. The A V Birla group was another trendsetter.

Conditioned to hide at home behind high tariff walls and xenophobic foreign investment rules, expanding into international markets earlier meant exporting a bit or at best, setting up a small few-men marketing office in NY or London. However, being pinned down by huge MNCs in their own home, Indian firms are now bursting out. With their home turf under continuing threat from international giants, they have sensibly decided to take the battle deep into the enemy camp. As a result, nearly a decade after the first flush of liberalisation raised fears that Indian companies would be wiped out by global competition, something most unusual has happened. A batch of domestic companies has planted the Indian flag abroad. Finally, the Indian multinational is here.

Let us look at most recent examples. Asian Paints, late last year, acquired Berger International, expanding Asian Paints' footprint across the globe to as many as 22

countries. ICICI Bank, too, is evolving a new business model for select international markets. Meanwhile, the Pune-based Bharat Forge and the Chennai-based Sundram Fasteners are leading a pack of Indian companies to crack open the Chinese market. There are, of course, several more such examples of home-grown firms that are quickly discovering their place in the international arena, TCS and Infosys being the forerunners when it comes to the India's celebrated IT sector.

So, What's Behind this Change?

In the words of Tata Sons Executive Director R. Gopalakrishnan, "Indian industry is finally coming out of an extended adolescence where firms are being forced to earn their living on their own."

Productivity have become the buzzword in corporate circles. Indian companies are finally learning to walk by themselves, after a seemingly interminable era of state protection. According to a recent study by the Tata group in-house Department of Economics and Statistics, total factor productivity (TFP) both at an aggregate industry level as well as the firm level has seen a significant improvement from 10 years before reforms to the current period. In fact, the top 50 private manufacturing companies show productivity growth close to 3.6%. And after the Green and White Revolution, this is perhaps the first time when industrial growth has been driven by productivity growth. Tata Motors is a classic point in case. Till about 4 years ago, capacity expansion was a linear process. Every year, until the first real slowdown hit the auto industry, the company added to its capacity and fulfilled new demand. It was then that the company implemented strong measures, pulling out Rs 900 crore through cost reduction over a span of three years, and correcting the gross inefficiencies that had been thriving in the system.

Also, alongside these productivity gains, financial reforms and a strong rupee have played and important role to set the wheel in motion for global takeovers. Indian companies have finally realized the advantages of having large operations scattered along the geography of the world.

Going Global: The Phases

Indian capital has moved across the border in three distinct phases, explained below.

In the first phase, which was whipped up by the insane restrictions on domestic expansion imposed by the licence raj, only a few companies went abroad. While hotel companies were one example, the biggest move into other countries was made by the Aditya Vikram Birla group, which set up manufacturing bases across south-east Asia. Less visionary industrialists, meanwhile, dealt with the licence raj by parking their money in Swiss banks.

The second wave was first pushed along by the initial moves towards liberalization in the mid-1980s, and then by the real thing in 1991. But it was tentative, a testing of the waters. The move abroad was largely restricted to international marketing offices and trading subsidiaries as companies woke up to the need to export. However, there were a

few noble exceptions of manufacturing plants being set up abroad, Ranbaxy being a prominent figure. Today, Ranbaxy has a large global presence.

What we are now witnessing is the third wave. Companies are concentrating largely on expanding capacity abroad, either through greenfield ventures or through takeovers. Besides the sheer increase in the level of activity and the amount of money involved, this third wave is different from the other two in one important way. Most earlier forays abroad were driven by sector-specific issues. For example, pharmaceutical and agrochemical companies made foreign acquisitions to get registrations or approvals by the Federal Drug Authority in quick time. Or textile companies went to Mauritius or Africa to take advantage of textile export quotas. However, companies are now making acquisitions to gain market access, increase market share and achieve critical mass. The driver is strategy.

The Procedure

There are three ways an Indian company can set up operations or acquire a company abroad:

1. The Reserve Bank of India (RBI) has opened a window (since 1995) to automatically clear small proposals of up to $15 million.

2. Deals involving larger amounts of money are required to be cleared by the Finance Ministry on a case-by-case basis.

3. Companies which have raised money in the global depository receipts (GDR) or American depository receipt to (ADR) market are allowed to keep half the collections abroad to fund subsidiaries.

Gains from Mergers, Acquisitions and Take-overs

Some of the most important reasons why Indian corporations have forayed into global workspace are enlisted and explained below:

1. **Market Access**: the biggest advantage in setting up a company (or acquiring one) abroad is that Indian companies can get direct access to a foreign market. Exports after all have their limitations. There is a new realization that exports can never really integrate markets, on-ground presence being necessary to understand consumer behaviour. Hence, there is nothing to beat domestic presence; "The world is our market" being the new corporate mantra.

2. **Large Size of Operations**: The only easy way Indian companies can acquire a global size is by hitting the acquisition trail. And a global scale becomes increasingly important in today's era of fierce competition, since it brings with it economies of scale and huge cost advantages.
3. **Technological Advancement:** Indian R&D is still seen as a laggard, when viewed in conjunction with the technological innovations and scientific breakthroughs of the west. Inarguably, one of the best ways of obtaining new

technology is to buy out firms abroad who specialize in the required technology. For example, when the Videocon group acquired an Italy-based air compressors company, it automatically procured the technology to produce non-CFC refrigerators.

A Final Word

At the end of the day, one has to acknowledge the fact that Indian companies are certainly on the right track towards establishing themselves globally. They are focusing on productivity and profitability, and working on a long-term strategy. Not only does this herald a new beginning for the Indian corporate sector but on a more emotional note it can be said that the latent potential of the country is at last being realized. Also, with a bulging forex reserve, the government no longer has big qualms about taking hard currency out of the country.

However, current moves towards globalization are opposed by some quarters and it is argued that the tremendous growth opportunities available in the domestic market are more than enough to satiate Indian companies.

Even if such logic is brushed aside, there is an important issue that must not be overlooked in this scramble to globalize. Indian companies should realize that acquisitions and mergers become fruitful only when managed with care. The toughest battle is the post-acquisition game plan, and that is where we must not fail. It is extremely important to assimilate people who come with new assets. Only then are mergers successful.

Asian Paints, for instance, did not have a ready pipeline of talent which had the experience of having worked in international markets. So when it acquired a large organization like Berger, it faced serious challenges in not only integrating culturally-diverse workforces, but also managing complex supply chains and brand portfolios.

Therefore, we can conclude by saying that although the Indian MNCs’ shopping spree is good for the Indian basket, resources directed towards this process should be judiciously used. Or else, the great Indian dream might translate into a nightmare in waiting.

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