Merger and Acquisitions in India Economics of Overseas Deals by Indian Companies

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Merger and Acquisitions (M & A) have emerged as a process of 'restructuring and re-engineering' of the business activities throughout the world. Hence, in recent time, companies have started restructuring their operations around their core business activities through M & A. In India also, M & A have gained prominence recently, especially after adoption of policy of liberalisation from 1991.

Art Bert, (Managing Director; South Asia) and A.T. Kearney (Australia) listed the following points which they described as a formula for successful mergers:

— Create a sense of urgency
— Establish clear goal and manage expectations
— Select leadership quickly
— Ensure, open, frequent and timely communication
— Maintain explicit focus on customers
— Establish a strong integration structure
— Rigorously manage risks
— Pro-actively address cultural issues.

The aim of this paper is to study and analyse the recent trends of mergers and acquisitions among the Indian companies. As this trend is more visible and honoured especially after 2002, we have confined our study to recent years only, pinpointing the M & A in certain sectors as well as industries. It also aims at examining the recent trends of Indian companies acquiring companies abroad.

M & As through Deals

Deal activity in the first half of 2005 broke out of the flat trend seen from mid 2002. India recorded 277 deals valued at Rs. 261.5 billion

($ 6 billion) between January and June 2004. H 1-04 was a good period for corporate finance, and the total deal value was more than twice (235 per cent) that in the first half of 2004 (Rs. 111.2 billion, $ 2.5 billion) and well ahead of the full year total for 2004 (Rs. 234.1 billion $ 5.2 billion).

Average deal value was higher by 42 per cent at Rs. 944 million ($ 14.7 million) in 2004. Strategic investors dominated the deal, made up 88 per cent by the value of all deals and private equity deals, only 12 per cent, compared to 67 per cent and 33 per cent in the whole of 2004. However, private equity majors such as Black stone and Carlyle have established office in India and announced substantial investment plan.

New Trend: Block Deals

While issues of warrants and Foreign Currency Convertible Bonds (FCCBs) remain popular; as new trend has emerged—of block deals effected through the stock market (chart I) while block deals are not part of India—it is difficult to ignore 12 large block deals on India's two main stock exchanges—BSE and NSE—which totalled Rs. 68.5 billion ($ 1.6 billion million). In the largest of these deals, Warburg, Pincus, made a profitable exit by selling a 9.3 per cent stake in telecom major, Bharti Televentures, for Rs. 38 billion ($ 872.8 million) in two block deals to a consortium of investors including capital international, fidelity, the government of Singapore and others.

Sectors, Players, Key Deals

The finance sector replaced IT as the largest contributor to INDATA in H1-2005, with a total of 36 deals totalling Rs. 508 billion ($ 1.2 billion) made up by 20 per cent of total deal value. IT still remained the largest contributor in terms of number of deal with a total of 43 deals but made up only 5 per cent of the total deals value.

In contrast to previous year, deal activity in H 1 2005 was spread across a wide range of sectors, with telecom (16 per cent) foods and FMCG (13 per cent), cement and building materials (10 per cent), Metals (9 per cent) oil and gas (5 per cent) automotive (5 per cent) and pharma and health care (5 per cent) displaying healthy levels of activity.

Finance Sector

(36 deals totalling Rs. 50.8 billion, $ 1.2 billion)

The finance sector was the biggest contributor to INDATA in H 1 2005. While activity was spread across sub sectors, 50 per cent of the deal volume in the finance sector was contributed by Mr. Anil Ambani's acquisition (through holding company AAA Enterprises) of a 52.03 per cent stake in asset management company—Reliance Capital—for Rs. 25.6 billion ($ 587 million). The deal will be completed by way of preferential allotment of shares and a subsequent tender offer to existing share holders, as per takeover regulations in India. Reliance Capital manages the sixth largest mutual funds in India, and had assets under management worth Rs. 99.1 billion ($ 2.3 billion) at the end of June 2005.

This acquisition was announced almost immediately after the announcement of the resolution of Reliance group ownership dispute between the brothers Mukesh Ambani and Anil Ambani by way of a division of group companies. Reliance Capital is one of the former Reliance group companies that will now form part of the Anil Dhirubhai Ambani Group.

Another notable deal was the merger of the large government owned financial institution, Industrial Development Bank of India (IDBI), with its subsidiary, IDBI Bank, in a deal worth Rs. 7.6 billion ($ 174.6 million). This deal is part of IDBI's strategy of converting itself in to universal banking institution. Following the merger, the combined entity in known as IDBI and now undertakes activity ranging from project finance to retail banking and, shortly expects to enter in insurance as well.

A major last minute entry into INDATA was another large bank merger—that of Centurion Bank with Bank of Punjab. Centurion Bank is majority owned by Consortium led by Rana Talwar's Sabre Capital, while Bank of Punjab has been promoted by the Singh family following the Rs. 3.6 billion ($ 82.1 million) merger, the combined entity will be known as Centurion Bank of Punjab and will have a network of 235 branches across India.

Telecom Sector

(4 deals totalling Rs. 41.4 billion, $ 951 million)

The telecom sector also emerged as a major contributor to INDATA in H 1 2005, all through, with fewer deals.

The largest deal in INDATA in H 1 2005 related to the telecom business of the Hong Kong based Hutchison Telecommunications in India. Hutchison had so far operated in separate joint venture in the various telecom circles where it provided mobile telephone services in India. Hutchison's joint ventures partners—the Essar Group, the Kotak Mahindra Group and the Indusind Group sold their stakes in three Hutch mobile telecom services operating companies Hutchison Essar Telecom, Hutchison Telecom East and Fasul, for Rs. 30.1 billion ($ 691 million). This was effected by fresh issue of shares to these three groups in Hutchison Max Telecom from 26.96 per cent to 32.8 per cent for a total of Rs. 10.9 billion ($ 252 million). Bharti Telecom is the holding company in the telecom major Bharti Televentures and, hence, Singtel now effectively owns 15.22 per cent of Bharti Televentures.

The Rs. 17.5 billion ($ 390 million) acquisition of a 48 per cent stake in idea cellular, announced in 2004 by Singapore Technologies Telemedia and Telekom Malaysia, of which 33 per cent was via a preferential allotment, had to be called off as regulatory approvals were not being granted.

Food and FMCG Sector

(27 deals totalling Rs. 34.2 billion, $ 786 million)

The deal activity in the sector was dominated by the spirits sub sector, mainly due to exit sales by the Jumbo Group to the UB Group and SAB Miller, deals that the market has been expecting for the last 10 years.

Vijay Mallya's United Breweries Group (through Group entities Mc Dowell & Co. Phipson Distillery, United Spirits and United Breweries Holdings) acquired a controlling stake in the Jumbo Group's Shaw Wallace & Co. for a total deal value of Rs. 16.2 billion ($ 371.6 million). The deal includes an acquisition of a 50 per cent stake from the promoters (including a non-compete premium), a tender offer for an additional 25 per cent from other share holding, and the acquisition of two distribution subsidiaries.

The other Jumbo Group company to be sold was Shaw Wallace Breweries. SAB Miller increased its stake by 50 per cent points to 99 per cent in the company and, hence, had SAB Miller not undertaken this acquisition, Shaw Wallace Breweries would effectively have been a joint venture between two rivals UB and SAB Miller. Mcheod Russell India (Part of the BM Khaitan Group) acquired a 90 per cent stake in Williamson Tea Assam for Rs. 2.1

billion ($ 48.2 million). Of this, a 70 per cent stake came through the acquisition of holding Company Borelli Tea holdings from Williamson Tea of U.K, while the rest is to be acquired by tender offer to other share holders.

Cement Industry Deals

One of the major deals of H1 2005 was undertaken by the Swiss Cement Major Holdcim, which acquired a 67 per cent stake in Ambuja Cement India Limited (ACIL) for Rs. 27.3 billion ($ 634.9 million). Of this, a 40 per cent stake was acquired from AIG and the General Insurance Corporations of India for Rs. 9 billion ($ 208.5 million), while the rest was via preferential allotment for Rs. 18.4 billion ($ 426.5 million). The investment has been used to increase ACIL's stake in Cement Company ACC from 14.82 per cent to 34.71 per cent for Rs. 13.8 billion ($ 320.9 million), and Ambuja Cement Eastern from 94.08 per cent to 100 per cent for Rs. 797.6 million ($ 18.6 million) via tenders offer to the share holders of respective companies.

M & As through Private Equity

The first half of 2005 saw 81 private equity deals contributing Rs. 31.8 billion ($ 733.1 million) compared to 30 deals worth Rs. 24.5 billion ($544.4 million) in H 1 2004. While the overall deal value increased by healthy 30 per cent, the average deal size of Rs. 393.7 million ($ 9.1 million) was half that in H 1 2004 (Rs. 816.6 million, $ 18.1 million). The smaller deal values are mainly due to the absence of block buster deals like the $ 500 million acquisition at a 60 per cent stake in GE Capital Internationals Services (GECIS) by General Atlantic Partners and Oak Hill Capital partners.

A large number of PE deals in India continue to be PIPE (Private Investments in Public Equity) deals, suggesting that attractive investment opportunities are still available among listed Indian midcap companies (chart 2). The largest PE transactions in the first half was the purchase of a 4.74 per cent stake in automobile company Mahindra & Mahindra for Rs. 2.6 billion ($ 605 million) by Singapore's Temasek. India Development fund, HDFC and IL & FS together acquired an 18 per cent stake in Hotel Leelaventure. The holding company for all Leela group hotels in India, for Rs. 1.6 billion ($ 36.3 million) war-burg. Pihcus had one major investment this year. It acquired a 23 per cent stake in the Max Health Care Institute for Rs. 1.4 billion ($ 32.2 million).

In addition to obvious choices such as Pharmaceuticals, Textile, IT and auto components, private equity majors also ventured into other sectors. Standard Chartered Private Equity and Merlion India Fund acquired a 23 per cent stake for Rs. 1.1 billion ($ 25 million) in ABG Shipyard, Gany Wendt's GW Capital spent Rs. 1 billion ($ 23 million) to acquire a 75 per cent stake in Music Broadcast, which operates the Radio city Chain of FM radio stations.

Indian acquires asserted themselves in H 1-2005 and were responsible for 48 per cent of the total deal value (Table 1). In terms of number of deals, Indian acquires announced 166 out of a total of 277 deals (60 per cent).

Overseas Deals

While the IN DATA Survey is restricted to Corporate finance activity involving Indian targets, the volume of overseas acquisition by Indian companies can no longer be ignored. Indian companies confined to acquire abroad continued in H 1 2005. There were 43 overseas acquisition by Indian acquires in H 1 2005 compared to 60 per cent in the whole of 2004 (Table 2). The largest overseas deal was the Videocon Group's acquisition of Thomson's colour picture tube business in China, Poland, Mexico, and Italy for a total of Rs. $ 290 million. The deal was paid for by an issue of shares in two Videocon Companies—Videocon International (consumable durable) and Videocon Industries (oil and gas exploration).

The other large overseas deals was by Pharmaceuticals Matrix Laboratories, which acquired 100 per cent of Belgian Pharma Company, Doepharma for $ 263 million UBS acted as the advisor to Thomson and Matrix respectively. IT companies were active acquirers with 13 deals worth $ 89 million.

Today, India Inc. is flying high, not only over the Indian sky but all over the world. Many Indian firms have slowly and surely embarked on the global path and lead to the emergence of Indian multinational companies. With each passing day, Indian businesses are acquiring companies abroad, becoming world-popular suppliers and are recruiting staff cutting across nationalities. While an Asian Paint is painting the world red, Tata is rolling out Indicas from Birmingham to Sundram Fasteners nails home the fact that the Indian company is an entity to be reckoned with.

Some Instances

TATA Motors sells its passenger-car Indica in the UK through a marketing alliance Rover and has acquired a Daewoo Commercial Vehicles unit giving it access to markets in Korea and China.

Ranbaxy is the ninth largest generics company in the world. An impressive 76 per cent of its revenues come from overseas. Dr. Reddy's Laboratories became the first Asia Pacific pharmaceutical company outside Japan to list on the New York Stock Exchange in 2001.

Asian Paints is among the 10 largest decorative paint makers in the world and has manufacturing facilities across 24 countries.

Small auto components company Bharat Forge is now the world's second largest forgings maker. It became so after acquiring Carl Dan Peddinghaus, a German forgings company last year. Its workforce includes Japanese, German, American and Chinese people. It has 31 customers across the world and only 31 per cent of its turnover comes from India.

Essel Propack is the world's largest manufacturers of lamitubes-tubes used to package toothpaste. It has 17 plants spread across 11 countries and a turnover of Rs. 609.2 crore for the year ended December 2003. The company commands a staggering 30 per cent of the 12.8 billion units global tubes market.

About 80 per cent of revenues for Tata Consultancy Services comes from outside India. It raised Rs. 54.2 billion ($ 1.17 billion) in Asia's second biggest tech IPO this year and India's largest IPO ever.

Infosys has 25,634 employees including 600 from 33 nationalities other than Indian. It has 30 markets, 2 offices and 26 global software development centres in the US, Canada, Australia, the UK and Japan.

Sundram Fasteners is not merely a nuts and bolts company, it believes in thinking out of the box. Probably that is why it decided to acquire a plant in China. The plant in Jiaxin city in the Haiyan economic zone has ensured one fact: that its customers who were earlier buying Sundram products in Europe and the US, did not have to go far from home to access the product.

India Inc. on a Buying Spree

Company	*Acquisition*	*Price (in $ millions)*
Reliance Industries	Flag Telecom, Bermuda	212
	Trevira, Germany	95
Tata Motors	Daewoo, Korea	118
Infosys Technologies	Expert Information Services, Australia	3.1
Bharat Forge	Cari Dan Peddinghaus, Germany	NA
Ranbaxy	RPG (Aventis) Laboratories, France	NA
Wochkhardt	CP Pharmaceuticals, UK	18
Cadila Health	Alpharma SAS, France	5.7
Hindalco	Straits Ply, Australia	56.4
Wipro	Nerve Wirw Inc. US	18.5
Aditya Birla	Dashiqiao Chem, China	8.5
United Phosphorus	Orzalin Herbicide, US	21.3

Source: Wall Street Journal: IBEF Research

Global Acquisition by Tata

Date	*Company*	*Price*
February, 2000	Tetley, UK	$ 407 million
October, 2005	Good Earth Corp., US	Undisclosed
May, 2006	JEMCA, Czech Republic	Undisclosed
June, 2006	Eight O'Clock Co., US	$ 220 million
August, 2006	Energy Brand, US	$ 677 million

Source: Business World, September 4, 2006, p. 9.

Tata's recent acquisition in August, 2006 of Energy Brand (EBI), US has been an eye opener. Tata paid $ 677 million to buy EBI. It has been the highest payment made by an Indian company to acquire a foreign company, that too of US. Other acquisitions by Tatas may be seen from the above table.

Thus, we find that the M & As, which have been the result of liberalisation, have been growing in the country. It is becoming more and more pronounced due to competition from MMCs and also to have synergic strength to sustain and grow. It is quite heartening to note that several Indian companies themselves have become multinationals and have also started undertaking acquisition abroad.

Table 1

INTERNATIONAL ACQUIRERS

% of Deals by Value	1999	2000	2001	2002	2003	2004	H1 2005
By International Acquirers	52	50	41	38	50	73	52
By Indian Acquirers	48	50	59	62	50	27	48

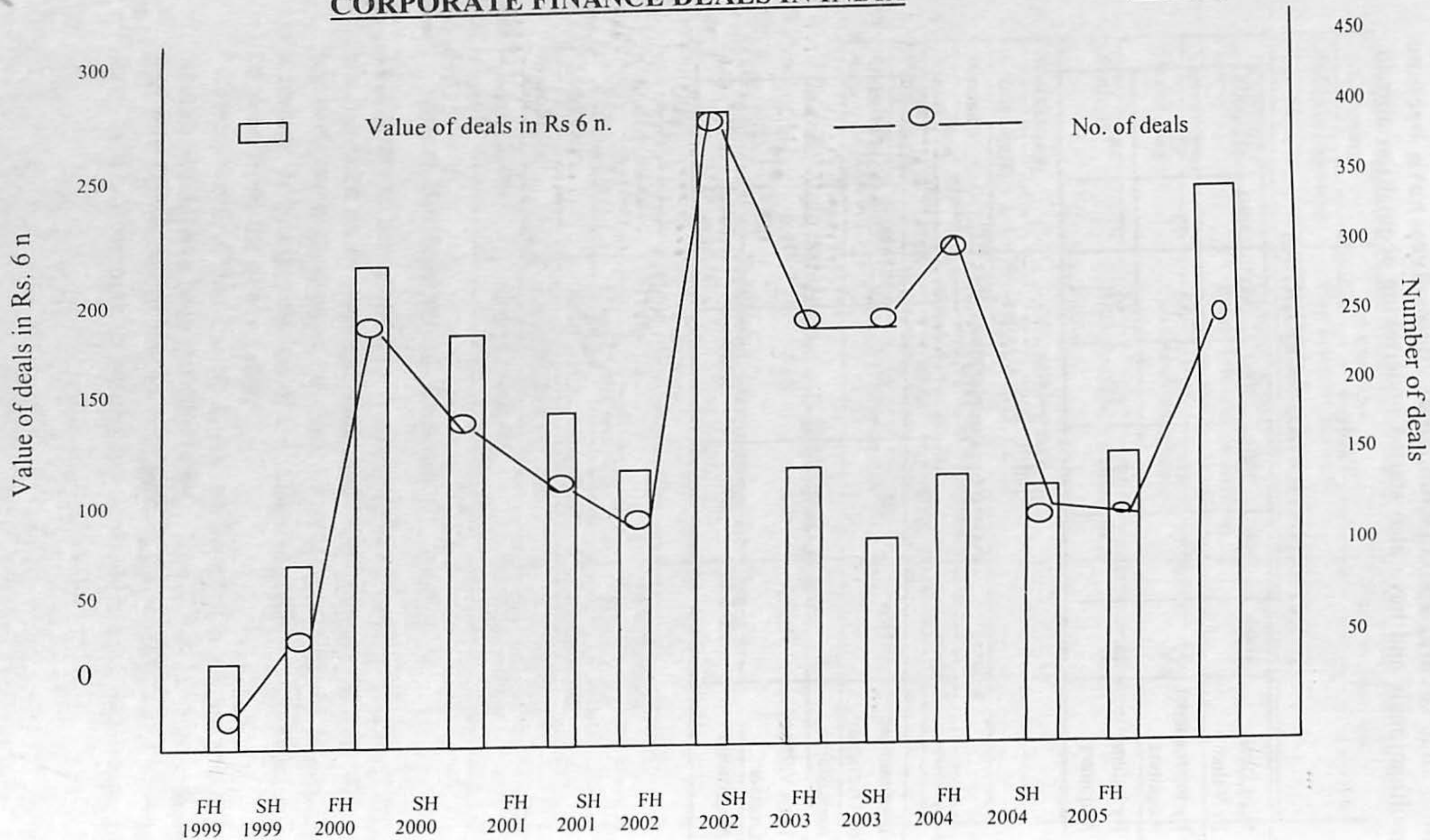
Table 2

OVERSEAS DEALS

		2002	2003	2004	H12005
Total number of Overseas Acquisitions	Nos	28	49	60	42
Total Value of Overseas	Rs. bn	9.4	80.4	76.5	41.2
Acquisition	US $ m	209	1,789	1,700	940

CORPORATE FINANCE DEALS IN INDIA

Chart 1



FH – First Half SH – Second

PRIVATE EQUITY DEALS IN INDIA

Chart 2.