

# GOING GLOBAL INDIA INC. IN EUROPEAN UNION



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Published by



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# EXECUTIVE SUMMARY

## Introduction

The India-EU relationship had its origins in the early '60s. India was among the first developing countries to establish diplomatic ties with the formerly six-nation European Economic Community. A strong thrust for cooperation came

in December 1993 in the form of the Co-operation Agreement on Partnership and Development. In July 1996, the relationship was further strengthened by the EU-India Enhanced Partnership proposed by the European Commission. The first EU-India summit in June 2000 marked the evolution of this relationship, and the summit has been an annual feature since then.

## Evolution of Indo-EU Bilateral Relationship

1963	India established diplomatic relations with the European Economic Community (EEC).
1971	The EEC initiated general tariff preferences for 91 developing countries, including India.
1976	The EEC donated USD 7.5 million for drought relief in India.
1981	India and the EEC signed a five-year economic and commercial cooperation agreement.
1983	The EEC established a delegation in New Delhi, India.
1988	India held its first joint meeting with the European Commission.
1989	The EC-India cooperation and exchange programme (EICEP) was launched to facilitate the exchange of faculty members between the management schools of the two regions.
1991	The European Community Investment Partners (ECIP) scheme was launched to finance EU-India joint ventures among small- and medium-sized enterprises (SME).
1992	The EU contributed USD 190 million to the district primary education programme in India.
1993	A cooperation agreement on partnership and development was signed between the EU and India.
1996	The EU-India Enhanced Partnership agreement was signed.
1996	The EU provided a grant of USD 253 million for health and family welfare in India.
2000	The first EU-India summit was held. The EU-India civil aviation agreement was signed during the summit.
2001-2005	EU-India summits were held each year to strengthen the relationship.

Source: European Commission

In recent years, the EU has emerged as India's largest trading partner and the country's biggest foreign direct investor. The current bilateral relationship encompasses political cooperation, along with cooperation in trade and economy. The EU, as a group, is the biggest economic partner of India (the fourth-largest economy in the world). Trade between India and Europe has grown steadily over the last few years. In 2005, the UK, Belgium, Germany, Italy and France were India's five largest trading partners.

The figure below mentions, in chronological order, the key events that were the drivers in the evolution of the bilateral relationship between India and the European Union.

## Overview of the Study

This publication includes case study profiles of top Indian companies that have set up their operations in the EU. The study was a combination of primary and secondary research and involved experiences of 51 Indian companies in the EU. The following

### Break-up of Companies by Sector

Sector	No. of Companies Studied
IT/Software	21
Pharmaceuticals	9
Manufacturing	6
Automobiles/Ancillaries	4
Diversified	4
Banking and Financial Services	3
Chemicals	2
Aviation	1
Telecom	1

table provides the sector-wise break-up of the companies covered by the study:

## Structure of the Report

The report covers the following sections:

- **India and the EU – Economic and Commercial Relations:** This section provides a synopsis of the current economic and commercial relations between India and the EU. It also discusses the FDI inflows from the EU to India and the investments made by Indian firms in the EU.
- **Best Practices Followed by Indian Companies in the EU:** This section discusses the key practices that have been adopted by a majority of the Indian firms that have successfully ventured in the EU.
- **Future Plans of Indian Companies in the EU:** This section of the report touches upon the possible future plans of Indian companies in the EU.
- **Case Studies:** This section highlights 51 case studies of various Indian companies that have ventured in the EU.

## India and the EU – Economic and Commercial Relations

Over the years, economic and commercial relations between India and the EU have grown continuously. India-EU trade stood at nearly EUR 40 billion in 2005, increasing progressively from EUR 4.4 billion in 1980. The EU accounts for around a quarter of India's exports and imports. It is also the largest source of foreign direct investment (FDI) in India.

## Existing Areas of India-EU Economic Cooperation

The European Union is the world's largest economic bloc. Being the largest trading partner and the biggest foreign investor, EU holds strategic importance for India. Both the EU and India are evolving joint initiatives to promote cooperation in diverse areas such as civil aviation, maritime transport, science and technology, the space industry, information technology and telecommunications.

- **The EU-India Civil Aviation Project:** This project has been the largest EU-India joint economic cooperation project, with a total outlay of EUR 32 million. The project was aimed at strengthening civil air safety and encouraging cooperation between the EU and Indian civil aviation authorities and aerospace industries. It mainly involved training and knowledge transfer in the civil aviation field.
- **The EU-India Maritime Transport Project:** This project increased the efficiency of Indian ports, thereby improving trade and investment prospects. The project's scope included the introduction of Electronic Data Interchange (EDI) in Indian ports. Currently, JNPT (Mumbai), Chennai and Tuticorin ports in India are benefitting from this project.
- **Science and Technology Cooperation:** In November 2001, India and the EU signed the agreement on Science and Technology Cooperation. It not only permits Indian scientists to participate in EU research activities but also allows participation by European scientists in similar research programmes in India.
- **IT Cooperation:** Indian Information and Communication Technology (ICT) industries have attracted substantial EU investment due to their

high growth in recent years. India and the EU signed an IT vision statement in November 2001.

- **EU's Galileo Programme:** Galileo Programme is Europe's initiative towards developing a global navigation satellite system (GNSS) that would provide a highly accurate and guaranteed global positioning service under civilian control. The European Space Agency and the Indian Space Research Organisation (ISRO) are the partners in this programme.

## Bilateral Trade

### Imports from the EU by India

In 2005, India imported goods worth more than EUR 21 billion from the EU, making it India's largest trading partner. Currently, India accounts for nearly 2 per cent of the EU's total exports. The major imported goods include metal/metal products, gems and jewellery, engineering products and chemicals.

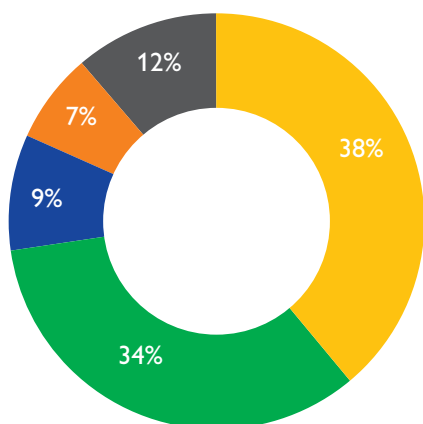
The following figure shows the imports of goods from the EU by India over the period 2001-2005.



Source: European Commission

The following figure analyses the percentage contribution of each commodity in the total imports by India from the EU in 2005:

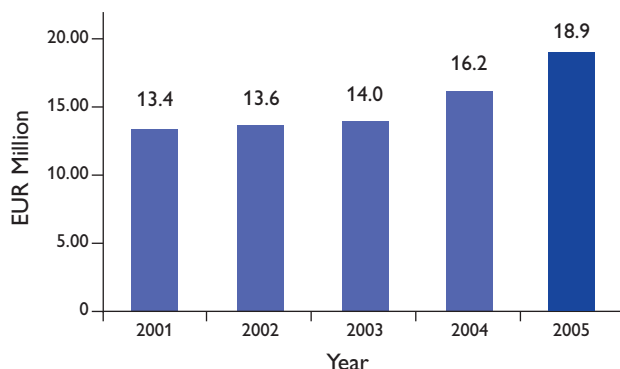
Commodity-wise Imports from EU by India: 2005



- Manufactured Goods Classified Chiefly by Material
- Machinery & Transport Equipment
- Chemicals and Related Products
- Miscellaneous Manufactured Articles
- Others

Source: European Commission

Exports of Goods by India to EU (EUR billion): 2001-2005



Source: European Commission

This figure analyses the percentage contribution of each commodity in the total exports by India to the EU in 2005.

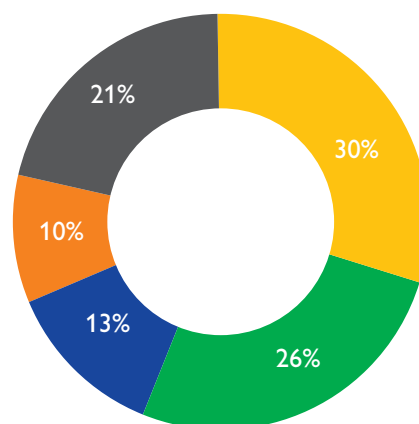
### Exports by India to the EU

The EU is India's largest export destination. It accounted for 22 per cent of India's total exports in 2005; India had a 1.6-per cent share in the EU's total imports. According to the Ministry of Commerce, Government of India, exports to the EU from April to August 2006 stood at nearly EUR 6.2 billion, which was 22.42 per cent of India's total exports in this period.

The major goods exported from India include textiles and clothing, engineering products, gems and jewellery, chemicals, metal and metal products, leather and leather products, agriculture and fisheries. India being a developing country, its exports to the EU stand to gain the benefit of reduced tariffs under the EU Generalised System of Preferences.

The figure shows the export of goods from India to the EU over the period 2001-2005:

Commodity-wise Exports by India to EU: 2005



- Miscellaneous Manufactured Articles
- Manufactured Goods Classified Chiefly by Material
- Machinery & Transport Equipment
- Chemicals and Related Products
- Others

Source: European Commission

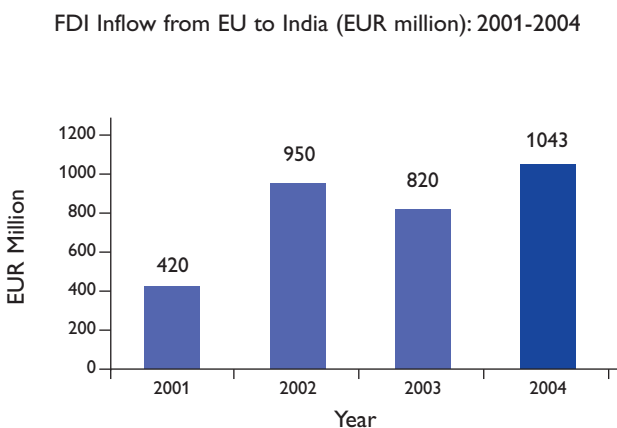
### Investments

#### EU's Investment in India

The Indian market holds strategic importance for EU companies; this is highlighted by the fact that approximately 50 per cent of the multinational companies present in India are EU companies. India

not only offers a large and growing domestic market, but also competitive advantages such as low-cost sourcing of products and services, abundant natural resources and a skilled labour pool.

The EU is the largest contributor of FDI in India. FDI approvals by the EU between 1991 and September 2004 constitute approximately 25.42 per cent of the total FDI approvals in India. The major investing countries from the EU were the UK, the Netherlands and Germany, followed by France, Italy and Belgium. The following figure depicts the FDI inflow from the EU to India over the period 2001-2004.



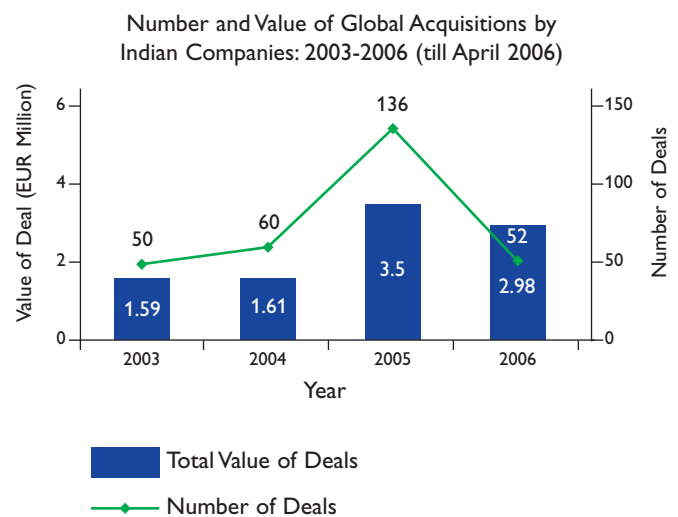
Source: Eurostat

### India's Investment in EU and Abroad

Indian firms began investing abroad since 1992, after the Indian government restructured its policy guidelines to promote investment opportunities in the country. The government wanted to provide domestic firms with access to foreign technologies and encourage them to foray into new overseas markets. This policy change proved to be a watershed in the history of Indian economy, and Indian business houses have been increasingly venturing abroad since then.

Most Indian companies have followed an inorganic route to expand their operations on foreign turf.

The figure below shows that the number and value of global acquisitions by Indian companies have grown steadily in the last few years. The average size of a global acquisition was nearly EUR 25.7 million in 2005; it surged to EUR 57.1 million for Jan-April 2006. These deals span diverse sectors, the major ones being engineering, ITES, media, pharmaceuticals and healthcare, and textiles. Europe accounts for approximately half of the total overseas mergers and acquisitions by Indian companies.



Source: Grant Thornton India

### Best Practices Followed by Indian Companies in the EU

Diverse strategies have been adopted by Indian companies for venturing in the EU. Though some companies such as Infosys and Genpact have preferred to grow organically in the EU, a majority of the firms have decided to opt for the inorganic route. Some of the best practices followed by Indian companies in the EU include:

- **Strategic Acquisitions** – India Inc., which has been scouting for global acquisitions, is now headed for Europe. Apart from several European private equity players that have put their holdings

## Indian Acquisitions in the EU

Acquirer	Target Company	Country Targeted	Deal Value (EUR Million)	Industry
Dr. Reddy's Labs	Betapharm	Germany	448	Pharmaceutical
Suzlon Energy	Hansen Group	Belgium	444	Wind Energy
Tata Tea	Tetley Tea	United Kingdom	373.4	Consumer Goods
Videocon	Thomson SA	France	228	Electronics
Matrix Laboratories	Docpharma NV	Belgium	184	Pharmaceutical
Tata Chemicals	Brunner Mond	United Kingdom	139	Chemicals
Subex Systems	Azure Solution	United Kingdom	110	Information Technology
Tata Consultancy Services	The life insurance and pensions BPO division of the Pearl Group	United Kingdom	53.5	ITES
Bharat Forge	Imatra Kilsta AB	Sweden	48	Chemicals
Wipro	Newlogic Technologies	Austria	44.3	Information Technology
United Phosphorus	Cequisa	Spain	11	Chemicals
Escorts	Farmtrac Tractors Europe SP	Poland	Est. <7.9	Automotive
Sona Koyo Steering	Fuji Autotech France SAS	France	4.9	Automotive
Raymond India	Regency Textiles Portuguesa	Portugal	2.4	Textiles
Sundaram Fastners	Precision forging unit of Dana Spicer Europe	United Kingdom	NA	Manufacturing
Bharat Forge	Carl Dan Peddinghaus GmbH	Germany	NA	Manufacturing
HCL Tech BPO Service	BT's Apollo Contact Centre in Belfast, Northern Ireland	United Kingdom	NA	BPO
Ceramed Engineers Pvt. Ltd.	Action Finishing Pvt. Ltd.	United Kingdom	NA	Manufacturing

Source: Business Line, [www.avesthagen.com](http://www.avesthagen.com), TATA, Blonnet

for sale, many old family-run manufacturing companies are also selling out their units. A majority of Indian firms have grabbed these opportunities to enter into the EU market. They have used the acquired companies as a platform

to establish a foothold in these markets by leveraging the already established market positions of these companies. Ranbaxy, for example, has made four acquisitions in Europe in the first eight months of 2006. Even companies

such as Infosys, which earlier chose the organic route, are now exploring acquisition opportunities. Several companies, such as Aftel Infosys, have been actively forming alliances with other companies to facilitate their entry into a segment or geography in the EU.

- **Establishing Synergies with Indian**

**Operations** – The Indian firms with operations in the EU have continually endeavoured to synergise their European operations with the domestic ones. This has helped them to leverage the low-cost advantage offered by India. For example, VIP Industries acquired Carlton in the UK in 2004. The established Carlton brand provided VIP an easy entry into the high-growth European market. VIP has manufacturing plants in India and China, and it sources its products from these low-cost destinations to deliver them to its export locations in Europe. Thus, the combination of Carlton's reputed brand and VIP's low manufacturing costs provided the latter with a competitive edge. The success of several Indian companies can be attributed to such synergies. Another company, Sundram Fasteners, carries out its back-end operations in India and caters to the European clients through its European subsidiaries. Amtek Auto outsources the production of small-batch components from its EU operations to its Indian locations for gaining cost benefits.

- **Recruitment of Local Talent** – Indian firms in the EU have been hiring local population for their European operations. These local employees understand the geography and provide services in collaboration with the company's core competence. In addition, they help the company in bridging the cultural gap between India and the country of operation in the EU. They form a highly educated and multi-lingual workforce for the company. Such a recruitment strategy by the companies also

earns them support from the local government, as it has a salutary effect on the problem of unemployment. HCL, for example, has made Northern Ireland its hub of operations in the EU. It figures among the top 10 private employers in Northern Ireland, and the local workforce hired by it has been instrumental in its profitability.

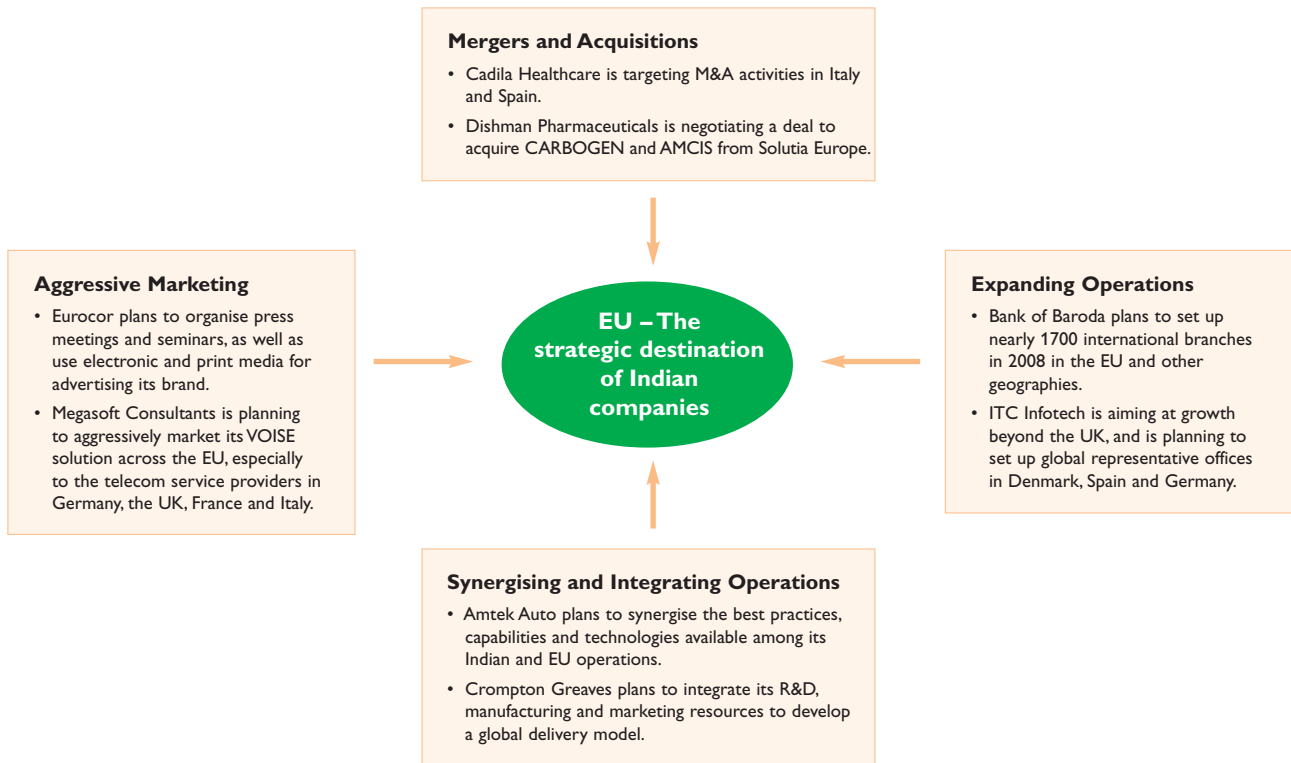
## Future Plans of Indian Companies in the EU

Indian companies have ambitious investment plans in the EU. Companies in the pharmaceutical, textile, BPO and many other segments are keen on expansion in Europe, which is the second-largest market after the US for India Inc. The coming years are expected to witness more acquisitions by these firms, for reasons such as strategic entry, or for adding a new product or a new business line. Considering the cultural and regulatory differences between India and the EU, Indian firms are keen on hiring the local skilled population for their EU operations.

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## Future Plans of Indian Companies in the EU





INDIA BRAND EQUITY FOUNDATION

The India Brand Equity Foundation is a public-private partnership between the Ministry of Commerce & Industry, Government of India and the Confederation of Indian Industry. The Foundation's primary objective is to build positive economic perceptions of India globally.

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