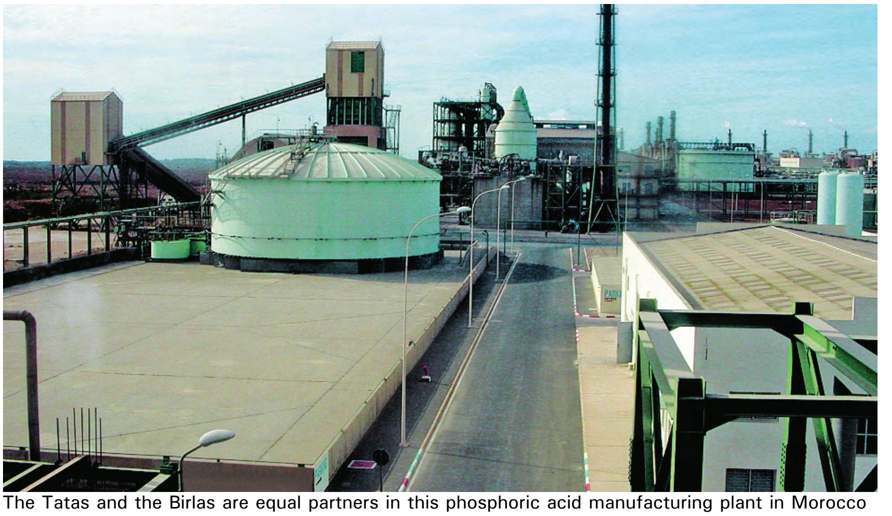
India Inc: Global Turnaround Specialists

Indian companies are not just acquiring companies globally, they are also successfully turning them around



The Tatas and the Birlas are equal partners in this phosphoric acid manufacturing plant in Morocco

In the short space of the last decade, India Inc conclusively proved its ability to tackle global competition head-on. Now, in the first decade of the 21st century, it is proving its mettle on the global stage by "exporting" its unique value-creating management expertise. And it is doing this not just by zealously acquiring companies overseas but by turning them around as well.

This is the real story behind the headlines. Of course, the trend of growing outward foreign direct investment (FDI) is striking. India's outward FDI has touched $19 billion this calendar year up from $9.6 billion in 2005. Since 2000, India Inc has made over 300 overseas acquisitions.

One can see a strong vote of confidence in Indian management, with companies like Tata Tea, Tata Motors, Bharat Forge, Wockhardt, Essel Propack, Continental Engines and a host of others, leveraging their recently-acquired ability to work in challenging business environments. The most stunning display of this trend has been Tata Steel's acquisition of Anglo-Dutch steel major, Corus. As per a recent study by Business Today, almost 40 per cent of the top 50 companies have made at least one overseas acquisition in the past three years. The industries range from IT to Pharma to Consumer Goods to Automobiles. Clearly, the appetite for newer geographies has increased and Indian companies are on a hunting spree!

Amongst the early birds in India Inc's "turnaround expert" story is Wockhardt, which acquired loss-making Wallis Laboratories of UK in 1998 for $8 million and successfully turned it around in a year's time.

At first, Wockhardt thought it best to leave operations of Wallis in the hands of the European CEO. But it soon realised that it would be more productive to synergise Wallis' operations with that of its own. The European CEO was replaced with an Indian and Wallis was integrated into the Indian company. Within six months, Wallis made a turn around!

This proved to be a lesson for the Indian pharma company and it used similar approaches while integrating CP Pharmaceuticals of the UK and Esparma GmbH of Germany — the two companies it acquired in July 2003 and May 2004, respectively — with its operations.

Similarly, when Tata Tea acquired loss-making Tetley of the UK in 2000, many thought it would prove to be an albatross for the Tatas. But the Tatas proved their detractors wrong and the company started showing signs of an early turnaround in 2001. Key to the turnaround was a debt restructuring exercise that reduced interest costs. Tata Tea injected £30 million into the Tetley group to replace the high-cost debt. The fact that Tetley's global retailing operations were complementary to Tata Tea's domestic business also helped.

After the acquisition of Tetley, the Tata group made several significant acquisitions, such as US telecom network operator Tyco Global, Daewoo Commercial Vehicles, and Boston's Ritz Carlton hotel.

Tata Motors acquisition of the commercial vehicles unit of the bankrupt Korean group Daewoo in March 2004 has not only provided the company with an enhanced product portfolio but also allowed it to make a mark in the international market. The company is now using Korea as a base for commercial vehicle exports to other Asian markets.

Rechristened Tata Daewoo Commercial Vehicle Ltd. (TDCV) — South Korea, the company is now growing at a healthy rate. In 2005-06, TDCV recorded a 32 per cent growth in turnover at $366 million against $277 million in the previous year. The company's net profit zoomed 163 per cent to $13.5 million.

Packaging major Essel Propack, which acquired units of UK's Arista Tubes and Telecon Packaging in August 2004 and April 2005 respectively, has turned around both these loss-making firms this year.

Essel Propack improved the operational efficiencies of these two packaging firms by improving their capacity utilisation. Both are now churning out profits for Essel Propack.

Some Indian companies have been remarkably quick in turning around operations of their acquired overseas firms. GHCL Ltd (formerly known as Gujarat Heavy Chemicals) acquired a controlling stake of 65 per cent in Romanian soda ash firm SC Bega Upsom at $19.50 million in December 2005. A month into the acquisition, GHCL managed to ramp up production in Bega Upsom by 34 per cent.

Acquisitions by Indian firms are often made with the intention of getting hold of order books. Shifting production to India brings about cost economies. For instance, Gurgaon-based auto component maker Continental Engines acquired loss-making European re-manufactured engines firm Vege Motors in June 2005 and turned it around within six months through better cost controls.

After the acquisition of ATK Vege Europe, Continental Engines had the call option of acquiring ATK Vege, the US operation arm of Vege Motors. It exercised that option in June this year. Continental Engines is restructuring the two Vege companies by shifting nearly 40 per cent of their operations to a new export-oriented unit at Bhiwadi near Delhi.

Acquisitions also give Indian firms access to developed markets. In fact, Bharat Forge has emerged as the world's second-largest forging company by way of M&As. It acquired Carl Dan Peddinghaus GmbH, one of the largest German forging companies, in late-2003, CDP Aluminiumtechnik of Germany in December 2004, Federal Forge of the US in June 2005 and Imatra Kilsta AB of Sweden along with its wholly-owned subsidiary Scottish Stampings, Scotland in September 2005.

And the forging major is reaping dividends as a result. The smart turnaround of its American operations, sustained performance by the Indian and German operations and significant improvement in its operations in Sweden and Scotland have resulted in a 56 per cent growth in revenues in the first quarter of 2006-07.

These turnaround stories are making a strong case for Indian companies. Those with quality management and strong earnings performance are finding it easier to raise money in international capital markets.

Till recently, most transactions by Indian firms were in the range of $25 million to $100 million. Today, Indian companies have achieved financial and integration maturity. They have gained credibility to attract more bank financing.

These trends clearly show that Indian companies are fast becoming globally competitive. With easy availability of funds and strong managerial skills, India Inc surely has many more LN Mittals in the making!

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The views expressed here are personal.

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