Going Global

The Indian Multinational

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A quick scan of images reflecting the emerging Indian multinational in recent media pans across a confident Kumar Mangalam Birla at a crowded press conference hours after the $6 billion successful Novelis acquisition; a smiling Ratan Tata alighting after an F-16 sortie on the outskirts of Bangalore days after clinching the $11 billion Corus deal; and Suzlon’s Tulsi Tanti, boarding his private jet to head for Frankfurt to acquire REpower Systems AG of Germany with an all cash deal of $1.3 billion. The boardroom buzz is evident: as the world of investors explores India, let us explore the world.

It may not be time yet for the world Indian brands to have instant recall in the streets of Paris, Johannesburg or Melbourne. To many in the United States and Europe, names like Tata, Reliance, Ranbaxy and Mahindra may not ring a bell. But that is not the barometer yet.

The growth of the Indian multinational is becoming a subject of discussion in corporate boardrooms in the US and Europe. The academia and analysts too are taking notice. The Indian growth story is a Harvard Business School study.

Leveraging the nation’s comparative advantage of knowledge, Indian companies have grown through acquisitions, built best-in-class competency and become large-scale players. The Tata, Infosys and Reliance success stories are known. A little less known are facts such
as Bharat Forge is the world’s second-largest forging company, Ranbaxy is among the world’s top 10 generic pharmaceutical players and Jain Irrigation, which hardly figures in headlines, will soon be the world’s number one irrigation equipment company because of a spate of acquisitions in the US and Europe.

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The cornerstone of a recently released Boston Consulting Group (BCG) study - sifted through more than 3,000 companies with an annual $1 billion turnover for 2004-6 - confirms that the next wave of international corporate success will come from a host of Indian companies with low-cost, high-quality products and services. This competitive edge will help them win major acquisitions in global markets and emerge as important customers, business partners, and competitors to the world’s largest companies. BCG calls these companies RDE 100 (Rapidly Developing Economies) that accounted for $715 billion in revenues in 2006 - one-third from domestic sales - and grew at nearly 30 per cent since 2003.

Not surprisingly, India has 21 such companies like Tata Consultancy, Infosys, Wipro, Suzlon, Ranbaxy, Hindalco, Reliance, Bharat Forge and Mahindra & Mahindra. China has 43, including Lenovo that acquired IBM’s notebook PC business and China National Offshore Oil Corporation (CNOOC), which failed in its bid to acquire California-based Unocal. And, with a few other Asian companies, form nearly 70 per cent of the list of Indian companies has spanned a large number of countries across continents, finding their way into both developed and developing markets, including the US, Europe, Africa, China and other Asian countries, and the CIS countries.

An interesting development is the emergence of China as a major investment destination for Indian companies. Indian investments in China have risen significantly in recent years.

Think big, act big is the mantra as a host of ambitious Indian conglomerates aim to gatecrash into the Fortune 500 list. Hindalco will enter the list three years ahead of target while Reliance wants to be among the top ten very soon. And no one is daydreaming. India is actually providing an invaluable springboard for companies to go global.

Indian companies are high on organic growth and going global also because home markets do not have the scale or the resources to allow them to deliver the levels of shareholder value and competitive advantage they want to achieve. The Indian MNC has one big advantage. It is the cost edge and it is the key driving factor that helps produce the right products for the times and ensures value for dollar for the global consumer.

Incidentally, the acceleration in investment activity abroad is the culmination of a long-term trend towards the creation of the ‘Indian MNC’, a trend that has gathered momentum over the last few years.

The government, particularly the Reserve Bank of India (RBI), has played an accommodative role in this strategy of ‘internationalisation’ of the Indian corporate sector. As foreign exchange reserves have grown, the RBI has progressively relaxed the controls on outbound investments, making it easier for Indian companies to acquire or invest abroad. A slew of amendments to the RBI guidelines has effectively raised permissible investment limits and streamlined processes.

The rules of the game are changing, and changing very fast. It’s almost like Kerry Packer’s night cricket, which had few believers at first but later became the mantra for global cricket. Indian companies are ready to play in the night and make 2007 the year of mega deals and global brands.