

GOING GLOBAL

INDIA INC. IN UK



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FOREWORD

India's huge and increasingly prosperous middle class remains an attraction for UK investors, but now, in a remarkable reversal of that trend, Indian companies investing in the UK consider market potential in that country as the main attraction!

I am pleased that the India Brand Equity Foundation (IBEF) has carried out this first-of-a-kind concerted study of Indian companies going global in the context of a specific market. "Going Global: India Inc. in UK" reveals that second biggest reason for Indians investing in the UK is that it acts as base to invest in other European countries. This mindset represents the confident and aspiring new India.

Let me take this opportunity to invite UK's business community to re-look at India. India is perhaps the most diverse market in the world. In comparable terms, it would be considered alongside EU, Latin America, and ASEAN. A traditional worldview would seek to address the Indian market from a uni-dimensional lens. The visionary international organisation, however, would look at the multi-layered paradigm shifts taking place in the world's most diverse marketplace, that are giving rise to innumerable opportunities to go global via an India strategy.

I would like to think that India Inc. is best poised to leverage this advantage. The companies in this study are from that new breed, which sees a globalising India as a great launch platform for going global. UK businesses would do well to appreciate this aspect of approaching the Indian market, as a gateway to the world, and will certainly "profit from the experience"!

Kamal Nath

Minister of Commerce & Industry

Government of India

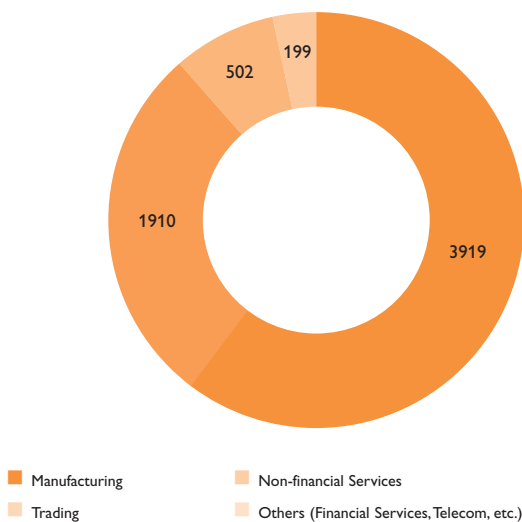
EXECUTIVE SUMMARY

India – Going Global

Indian firms began investing abroad in 1992 when policy guidelines were redefined to promote enhanced investment opportunities in the country. This was a result of policymakers' belief that an urgent need existed for Indian firms to access advanced foreign technologies and new overseas markets.

Since, there has been a significant change in the mindset of India Inc. as companies increasingly venture abroad.

India's Direct Overseas Investments (US\$ Million): 2001-2005 (cumulative)



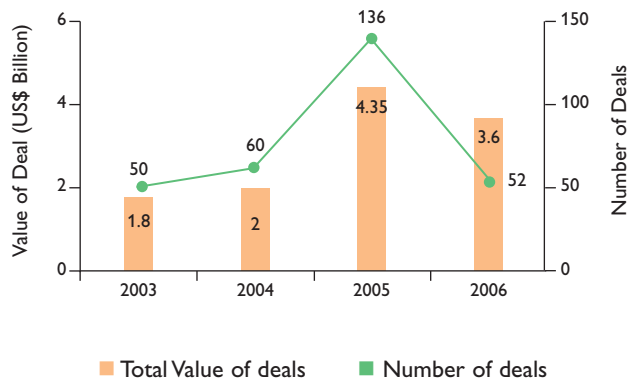
Source: Reserve Bank of India

Most Indian companies have followed an inorganic route to expand their overseas operations.

Indian companies are increasing their overseas investments to gain access to the US and EU markets. The targeted firms are being used as platforms to gain access into these foreign markets by leveraging the market positions already established by these firms on their respective domestic turfs. The value of overseas buyouts by Indian companies increased from US\$ 1.7 billion in 2004 to US\$ 4.5 billion in 2005. This represents an increase of 164 per cent.

While the average size of global acquisition in 2005 was US\$ 32 million, for Jan-April 2006, the figure stood at US\$ 69 million. The sectors that held sway in these deals include Engineering, IT-enabled services, Media, Pharmaceuticals & Healthcare and Textiles. The majority of overseas acquisitions by Indian companies are in Europe, which comprises nearly 50 per cent of total M&A activity.

Number and Value of global acquisition by Indian companies: 2003-2006 (Till April 2006)



Source: Grant Thornton of India

Factors Fuelling Acquisition by Indian Companies Abroad

Favourable Economic Conditions

- **Large foreign exchange reserve:** At present (June 2006), India has a foreign exchange reserve of US\$ 164.5 billion, as compared to less than US\$ 1 billion in 1991.
- **Liberal policies:** Many rules and regulations, which had a prohibitive effect on Indian companies going abroad, have been lifted since the economic liberalisation of the country. For example, Indian corporate and registered partnership firms are now allowed up to 100 per cent of their net worth investment in joint ventures and wholly owned subsidiaries overseas, without any separate monetary ceiling.

India Corporate Advantage

- **Understanding of global environment:** India

has vast experience in the service industry that requires companies to deal with diverse sets of clients, to be serviced across multiple locations. This has helped Indian companies to be global in terms of accessing capital, human resources and clients.

- **Consolidated domestic presence:** Indian companies have consolidated their presence on the domestic turf. After having explored options in the domestic market, they are focussing on foreign markets for new challenges and opportunities. Tata Steel, the Aditya Birla Group and ONGC *Videsh* are a few which are on the look out for global markets after gaining a strong foothold in the domestic industry.
- **Large free cash reserves:** As numerous Indian firms possess enormous volumes of free cash reserves, such companies are acquiring foreign targets.

Acquirer	Target Company	Country Targeted	Deal Value (US\$ Mn)	Industry
ONGC <i>Videsh</i>	Brazilian Oil Fields from Shell Corporation	Brazil	1,400	Oil and Gas
Dr. Reddy's Labs	Betapharm	Germany	570	Pharmaceutical
Suzlon Energy	Hansen Group	Belgium	565	Wind Energy
HPCL	Kenya Petroleum Refinery Ltd.	Kenya	500	Oil and Gas
Ranbaxy Labs	Terapia SA	Romania	324	Pharmaceutical
Videocon	Thomson SA	France	290	Electronics
Matrix Laboratories	Docpharma NV	Belgium	263	Pharmaceutical
VSNL	Teleglobe	Canada	240	Telecom
Tata Chemicals	Brunner Mond	United Kingdom	177	Chemicals
Subex Systems	Azure Solution	United Kingdom	140	Information Technology
Tata Steel	Millennium Steel	Thailand	130	Steel

Source: Business Line

All these factors have resulted in India increasing its presence worldwide.

Sectors Witnessing Acquisition Abroad

Pharmaceutical

Indian pharmaceutical companies are increasingly focussing on global acquisitions to enter new markets. This trend is fuelled by the need to explore newer markets and products for future growth in this industry. Further, acquisitions also act as mechanisms alleviate regulatory constraints in penetrating overseas markets. Therefore, Indian pharmaceutical companies are, adopting the strategy of acquiring existing generic drug marketing companies that hold valid drug licenses. For the period from April to July 2005, 13 per cent of the cross-border investments by Indian firms were in the pharmaceutical sector.

Auto Ancillary

Several international auto firms have realised the advantages of sourcing their components from India. India with its strong engineering skills represents a low-cost outsourcing destination for auto companies worldwide. Therefore, Indian auto ancillary companies are increasingly looking at foreign acquisitions to grow and sustain their market competitiveness. Acquiring overseas firms facilitate Indian companies by reducing delivery time. Further, as overseas auto ancillary firms are not registering adequate financial growth, they are available at relatively lower valuations.

Fast Moving Consumer Goods (FMCG)

Several Indian FMCG companies are planning overseas acquisitions, because such acquisitions allow domestic companies to gain an easy foothold in overseas markets. Further, the cost of brand building is lower as the consumer is already familiar with the brand. For the period April to July 2005, 8 per cent of the cross-border investments by Indian firms were in the FMCG sector.

Information Technology (IT)

Mergers and acquisition momentum is picking up in the Indian IT industry. More and more Indian companies are planning to acquire firms abroad. During the period from April to July 2005, 13 per cent of the cross-border investments by Indian firms were in the IT sector. Some of the reasons for this trend are as follows:

- Getting hold of a ready customer base
- Access to domain knowledge or intellectual property
- Entry into newer markets

India and Europe: Economic and Commercial Relations

India-Europe trade has grown impressively over the years. In 2005, the five largest European trading partners of India were UK, Belgium, Germany, Italy and France.

European Union (EU) is India's largest export destination. In 2005, India was the 11th largest exporter to the EU and accounted for over 1.6 per cent in the total EU imports. The major Indian exports to the EU are textiles and clothing, engineering products, gems and jewellery, chemicals, metal and metal products, leather and leather goods, agriculture and fisheries.

India was also the 11th largest importer and had a share of 2 per cent in the EU's global exports. The major Indian imports from the EU are in the sectors of metal/metal products, engineering products, gems and jewellery and chemicals.

UK - India: Economic and Commercial Relations

India and the UK are on the path to a healthy bilateral economic and commercial relationship, arising from a common democratic outlook in both the countries.

The liberalisation policy laid the foundation of economic co-operation between India and the UK. In 1993, with the joint-initiative of the then British and Indian Prime Ministers, the Indo-British Partnership Initiative was established. The main objective of the partnership was to strengthen economic ties and increase bilateral trade and investment between the two countries. The initiative laid particular emphasis on promoting small and medium enterprises (SMEs) in both the countries.

Since then, due to constant support from the two governments and the industry, the initiative has been transformed into a full-fledged partnership. It is currently known as the Indo-British Partnership (IBP). Some accomplishments of the IBP:

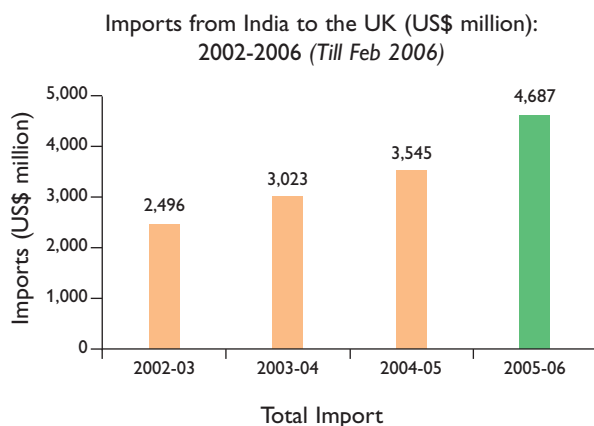
- Bilateral trade between India and the UK increased from US\$ 4.3 billion in 1993 to US\$ 11.6 billion in 2004, at a CAGR of 9.38 per cent. Making UK India's fourth-largest trading partner (accounting for 3.7 per cent of its total trade in 2004).
- There have been around 2000 joint ventures signed between the two countries since 1993.
- UK is one of the largest markets in the world for Indian IT services and occupies around 14 per cent of Information and Communication Technology (ICT) services exports.
- Some indicators of the strong India-UK relationship: The UK is the third-largest investor in India in terms of new investments since 1991.
- India is one of the biggest export markets for the UK among emerging economies.
- The number of Indian companies listed on the London Stock Exchange is more than that of NASDAQ and NYSE combined. Eight Indian companies are listed in NYSE and three in

NASDAQ whereas over 18 companies are listed in London Stock Exchange.

The latest step in reinforcing economic and trade ties between India and the UK has been the creation of the Joint Economic and Trade Committee (JETCO), which was set-up in January 2005.

Imports

Textiles and readymade garments, gems and jewellery, footwear, metal manufactures, organic chemicals, and vegetables and fruit are among the key goods imported by the UK from India. During 2004-05, imports from India to the UK amounted to US\$ 4,687 million.



Source: Ministry of Commerce, Government of India

Exports

Non-metallic minerals, gold, telecom equipment, transport equipment and industrial machinery



Source: Ministry of Commerce, Government of India

dominate exports from the UK to India. Exports from the UK to India amounted to US\$ 3,431 million during 2004-05.

Investments in the UK

UK is a strategic market for Indian companies. According to British High Commission India is the eighth-largest investor in the UK. This is further highlighted by the following facts:

- Investments by Indian companies in the UK increased by 30 per cent in the financial year 2004-05.
- India is the second-largest investor in the UK among Asian countries, in terms of the number of projects approved.
- According to a report published by UK Trade and Investment, Indian companies looking to start operations in Europe perceive UK as the foremost investment location. Around 40 per cent of the total Indian FDI is directed towards Europe and the UK bags a majority share (60 per cent) of the Indian FDI in Europe.

The increase in the number of Indian investment projects in the UK is a sign of the country being the most prominent European location for Indian investments. This is due to the fact that it has a globalised - high-technology, business-conducive,

open environment with special partnerships, to attract Indian companies. Most Indian companies venturing into the UK are going there through the inorganic expansion route.

Key Findings of the study

This study surveyed 15 organisations and profiles select Indian companies that have established operations in the UK. The study combines primary and secondary research.

Break-up of Companies Studied by Sector

Sector	No. of Companies
Information Technology	7
Industrials	4
Consumer Durables	1
Financial services	1
Pharmaceuticals	1
Fast Moving Consumer Goods	1

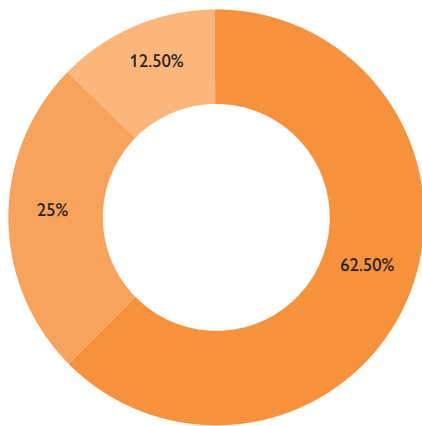
Key findings include:

- Indian companies invested in 36 new projects in 2004-05, compared to 28 in the previous year, and 21 in 2000-01.
- The ICT sector has the highest amount of investment (almost 50 per cent) from Indian companies in the UK.

Name of Company	Activity in the UK
HCL Technologies BPO Services	Acquired a 90 per cent stake in BT's Apollo contact centre in Belfast, Northern Ireland in 2001.
Ceramed Engineers Pvt. Ltd.	Acquired Acton Finishing Ltd. in the UK in 2003.
Tata Consultancy Services	Acquired the life insurance and pensions BPO division of the UK-based Pearl Group in 2005, resulting in the formation of a joint venture based in Peterborough.
Sundram Fasteners	Acquired the precision forging unit of Dana Spicer Europe, located in Cramlington, UK.

- Emerging sectors like Food & Beverages, Pharmaceuticals and Engineering, have also attracted investments of late.

According to data gathered during this study, most of the companies cited global expansion plans as the most important reason for their setting up operations in the UK. Companies also cited market potential as a key advantage that UK offers.



■ Market potential ■ Availability of Skilled Labour
■ Geographic Advantage
 (Base to access other European countries)

Source: IBEF Survey

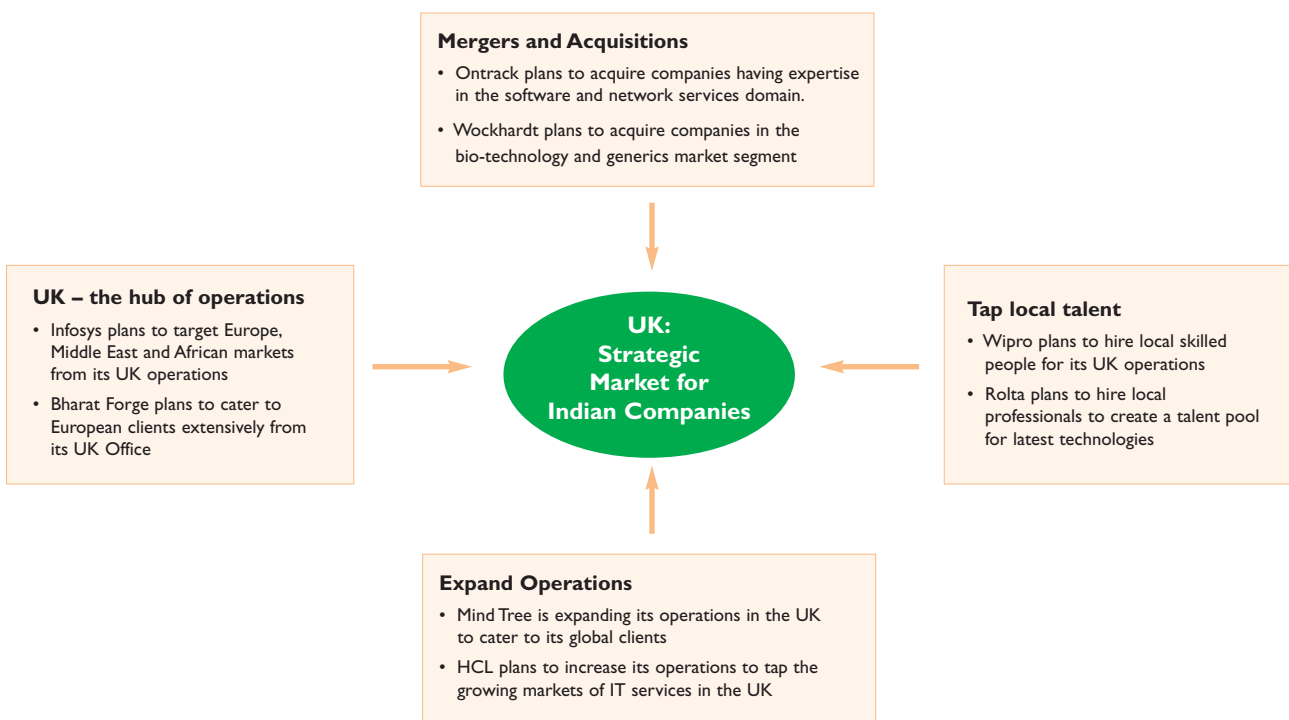
62 per cent of the companies surveyed, considered UK's market potential to be a major advantage. UK serving as a base to expand operations in Europe (25 per cent of the companies) was another major advantage that attracted Indian companies to set up operations in that country.

Future Plans of Indian Companies in the UK

Indian companies have ambitious plans in terms of investments in the UK. Backed by a buoyant economy, the companies are on a global expansion spree and UK provides a perfect platform for entry into European markets.

Indian companies are also planning to tap the local talent not only to better understand the local market, but also to get access to excellent human capital. M&A is expected to rise as Indian companies continue to increase their foothold in the global market.

Future Plans of Indian Companies in the UK



Future Co-operation between India and the UK

The success of the on-going partnership between India and the UK has resulted in further co-operation in various business sectors. According to this study, most Indian companies plan to increase investments in the UK. The main sectors identified for economic and technological co-operation include:

- **IT and Contact Centre Services:** The UK market for contact centre services is estimated at around US\$ 3.5 billion. Moreover, the country also provides a sizeable market for IT and IT-enabled services. There are already a significant number of Indian firms operating in the UK in this sector, and the number is expected to increase in the future.
- **Agriculture-related Products:** The Confederation of Indian Food Trade and Industry has recently signed an MoU with the British Agrifood Consortium of Hull and the Humber Chamber of Commerce, UK. This association, along with JETCO, will further the business interests of both the countries in the sector.
- **Oil, Gas and Coal:** An MoU has been signed between the Directorate General of Hydrocarbons of India and the Oil and Gas Directorate of DTI, UK, to ensure greater co-operation in upstream activities related to hydrocarbons. To enhance co-operation in the field of coal mining and clean coal technologies between India and the UK, there is a forum, known as the Indo-British Coal Forum.
- **Pharmaceuticals and Healthcare:** The UK pharmaceutical market is the fifth-largest in the world and its biotechnology sector is the largest in Europe. Moreover, apart from routine healthcare services, the country also has expertise in niche healthcare segments, such as diagnostics, bio-device interfaces, and informatics and laboratory technology. Therefore, the pharmaceuticals and healthcare sector presents one of the biggest business opportunities for Indian firms.

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