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INDIAN OUTWARD FOREIGN DIRECT INVESTMENT INTO EUROPE

Abstract: The paper discusses Europe's significance as a localization for Indian direct investments. The special attention is paid to the period after 2000 because then an explosion of direct investment from India into Europe was observed. The vast majority of FDI projects are concentrated in the EU 15. Especially dynamic growth has occurred in case of Indian FDI into the UK, mainly because of large Indian M&A purchases undertaken there. Besides the UK, the main host countries for Indian FDI are Germany, France, Italy, the Netherlands, Norway, Spain, Ireland and Russia. Indian multinationals are engaged in Europe in various sectors with a strong presence of companies from IT services, automobile, life sciences (mainly pharmaceuticals and biotechnology) and metals industry.

Key words: India, multinationals, mergers and acquisitions (M&A), foreign direct investment (FDI), Europe.

1. Introduction

Expansion of Indian firm abroad is not a new phenomenon. They have been investing on foreign markets for many years. However, for a long period firms from emerging markets have stayed in the background of dynamic expansion of multinationals from developed countries. The increasing competitiveness on domestic market, relaxation of FDI policy after 2000 in combination with an ambitious to expand globally caused a rapid growth of outward FDI from India. Its outward FDI stock has grown from USD 706 million in 1998 to 61,765 million in 2008 with an OFDI flows average annual increase of 62%. In that period most of all Indian firms intensified their interest to mature markets, especially the USA and the Western Europe, but still were active in emerging markets. The main motivations to invest in developed countries have been access to foreign technologies and other strategic assets like brand names. Therefore a vast majority of Indian FDI into this region have been done through mergers and acquisitions (M&As).

2. Role of Europe as a destination for Indian FDI

According to the geographical distribution of Indian OFDI presented below, there are not many European countries at the forefront of the list of Indian FDI-recipients

(Table 1). The real picture of Indian FDI flow directions, however, looks much different, mainly because of a high share of offshore financial centres in Indian FDI flows. In fact, locations like Mauritius, Cyprus, Bermuda, Channel Islands or British Virgin Islands, which account for about half of Indian OFDI, are used by Indian multinationals, due to their favourable tax regulations, as a channel to reach other foreign markets.[1] Additionally, between Indian and European data a huge difference in reporting Indian FDI flows exists, to a large extent because of not including reinvested earning like a component of FDI by Reserve Bank of India. However,

Table 1. Top 20 recipients of Indian OFDI in 1996-2008

Rank	Country	OFDI value (million INR)	Share in total OFDI from India (%)
1	Singapore	414 610.17	16.9
2	USA	322 786.51	13.1
3	Netherlands	296 867.78	12.1
4	Channel Islands	245 066.64	10.0
5	Mauritius	175 132.52	7.1
6	United Kingdom	143 055.04	5.8
7	Russia	122 381.55	5.0
8	Cyprus	88 791.58	3.6
9	British Virgin Islands	60 751.75	2.5
10	Sudan	54 528.93	2.2
11	UAE	53 846.09	2.2
12	China	37 185.79	1.5
13	Hong Kong	33 589.08	1.4
14	Egypt	32 293.95	1.3
15	Switzerland	29 629.31	1.2
16	Australia	29 466.85	1.2
17	Bermuda	27 752.45	1.1
18	Brazil	21 946.94	0.9
19	Denmark	21 176.42	0.9
20	Canada	21 131.46	0.9

Source: S. Bera, S. Gupta, *South-South FDI vs North-South FDI: A Comparative Analysis in the Context of India*, Working Paper No. 238, ICRIER, July 2009.

[1] See S. Gopalan, R.S. Rajan, *India's Foreign Direct Investment Flows: Trying to Make Sense of the Numbers*, Institute of South Asian Studies, July 2009.

it is easy to notice that after 2000 there was an explosion of direct investment from India into Europe, mainly to the European Union. According to Eurostat data the FDI stock from India into the EU reached almost EUR 7 billion at the end of 2008.

Because of these statistics constraints it seems to be better operating on FDI projects and M&A data as well. According to Accenture statistics on Indian cross-border M&As, Europe is one of the most important destinations of Indian OFDI accounted for about 30% M&As deals (Figure 1) and almost half value of Indian overseas acquisitions in 2007 (USD 35.8 billion). The main host countries for Indian firms to invest are UK, Germany, France, Italy, Netherlands, Norway, Spain, Ireland and Russia.

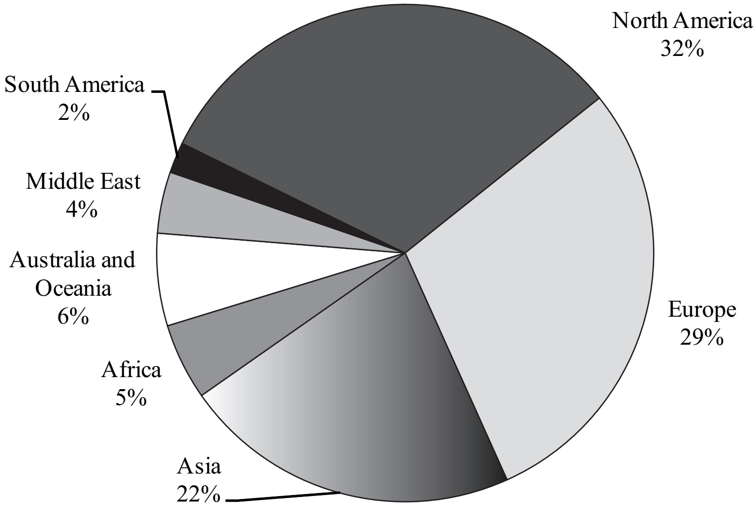

Figure 1. Geographic distribution of Indian cross-border M&As by number of deals (1995 to August 2006)

Source: Accenture analysis of Thomson Financial data, *India Goes Global: How Cross-borders Acquisitions Are Powering Growth*, Accenture, 2006.

In recent years a vast part of large Indian M&A purchases abroad have been placed in Europe. The most spectacular one has been a merger of the two steel giants – the largest European steel producer (Arcelor) and the global larger producer of steel in terms of volume (Mittal Steel) – Table 2. The deal resulted in the creation of the world's largest steel company with revenue of USD 105 billion in 2007, its steel production accounting for about 10% of the global output and employment about 320 thousand people in 60 countries (including Poland).

However, not all M&As deals in Europe, even those undertaken by large and well known Indian corporations, ended in success. For example, the two purchases made by the Tata Group, that is purchase of two British companies – Jaguar Land Rover and Corus Group – did not meet the expectations of Indian giant. It is noted that making their transaction at the time of prosperity in the global market Tata has paid too high price for the acquired firms. A similar problem concerns German generic drug manufacturer Betapharm acquired by Dr. Reddy's Labs in 2006. Firstly, it is considered that a price paid by the Indian pharmaceutical giant has been significantly higher than the actual market value of the Betapharm. Secondly, Betapharm's high profit margins declined significantly after the acquisition, mainly due to introduction of the new German pharmaceutical law reducing drugs' reference prices and changing conditions of rebate contracts. As a result of dynamic changes on the German pharmaceutical market Betapharm's market value decreased over 50% in three years.[2]

Table 2. Major Indian M&A purchases in Europe, 2005-2008

Year	Indian firm	Target firm	Target country	Industry	Value (USD million)
2006	Mittal Steel	Arcelor SA	Luxemburg	metals & mining	47 400
2007	Tata Steel Ltd.	Corus Group	UK	metals & mining	12 695
2008	Tata Motor	Jaguar Cars	UK	automotive	2 300
2007	United Spirits Ltd.	Whyte&Mackay Ltd.	UK	food & beverages	1 176
2007	Aban Offshore Ltd.	Sinvest ASA	Norway	financial	658
2006	Dr. Reddy's Labs	Betapharm	Germany	pharmaceuticals	597
2006	Suzlon Energy	Hansen Group	Belgium	power & energy	565
2006	Kraft Foods Ltd.	United Biscuits	UK	food & beverages	522
2006	Ranbaxy Pharmaceuticals Ltd.	Terapia SA	Romania	pharmaceuticals	324
2005	Ispat Industries Ltd.	Finmetal Holdings	Bulgaria	metals & mining	300
2005	Videocon Industries Ltd.	Thomson SA	France	electronics	290
2005	Matrix Laboratories	Docpharma NV	Belgium	pharmaceuticals	235
2006	Sasken Communic. Tech. Ltd.	Bornia Hightec	Finland	IT services	210

Source: combined data from Capital IQ, Thomson One Banker, Table 7 in: P. Athukorala, Outward foreign direct investment from India, *Asian Development Review* 2009, Vol. 26, No. 1 and other data published in articles.

[2] S. Sivakumar, Betapharm blues for Dr Reddy's, *The Hindu Business Line* 2009, July 19.

Additionally, in result of deterioration in global economic situation in 2008, Indian corporations carrying out their activities in Europe began to draw back from investment there. For example, one of Indian corporations from the food branch, Sakthi Sugars Ltd., as a result of aggravation of the economic situation in Europe and a drastic drop of orders, filed for bankruptcy of their companies in Germany (Sakthi Germany GmbH) and Sweden (Sakthi Sweden AB). In turn, the fuel concern Reliance Industries Ltd., in order to overcome difficulties related to the industrial slowdown in Europe, particularly in the automotive and textile branches, for which it is an important supplier, initiated bankruptcy proceedings of its subsidiary in Germany (Trevira GmbH).

Table 3. FDI in the EU15 from BRICs by number of projects

Source country	2003	2004	2005	2006	2007	2008	2009	**Total**
India	24	33	40	48	36	64	9	**254**
China	12	22	37	22	57	55	3	**208**
Russia	8	17	18	15	18	17	2	**95**
Brazil	5	9	5	7	5	14	3	**48**
Total	**49**	**81**	**100**	**92**	**116**	**150**	**17**	**605**

Source: G. Hunya, R. Stollinger, *Foreign Direct Investment Flows between the UE and the BRICs*, WIIW, December 2009.

India ranks high on the list of the top generators of FDI projects in Europe (14th place in 2007), outstripping other BRIC countries. The lion's share of FDI project has been carried out in the EU countries, especially in the EU-15. In 1997-2007 in the UK 56% of Indian investment projects in Europe have been located. The second important location was Germany (18%) and the following France (6%).[3] According to WIIW research, during 2003-2009 Indian firms established 254 projects in EU 15, which accounted for 42% of total FDI from BRIC group to the UE 15 at that period (Table 3).[4]

3. The major Indian multinationals in Europe

In terms of foreign value assets up to 2006 two Indian companies stand out from Indian multinationals – ONGC as a leader, and Tata Group as a runner-up. In 2006 they held abroad USD 4.7 billion and 4.2 billion, respectively. The rest of Indian multinationals had under USD 2 billion in foreign assets, therefore they still lagged

[3] *European Investment Monitor*, Ernst&Young, 2008.

[4] G. Hunya, R. Stollinger, *Foreign Direct Investment Flows between the UE and the BRICs*, WIIW, December 2009.

Table 4. Indian multinationals in Europe by multinationality index and number of foreign affiliates in 2006

Rank by multinationality index*	Name	Industry	No. of foreign affiliates	No. of foreign affiliates in Europe
1	Ranbaxy Pharmaceuticals Ltd.	pharmaceuticals	47	20
2	Videocon Industries Ltd.	conglomerate	16	4
3	HCL Technologies Ltd.	IT services	31	9
4	Hexaware Technologies Ltd.	IT services	10	4
5	Dr. Reddy’s Laboratories Ltd.	pharmaceuticals	27	14
6	Patni Computer Systems Ltd.	IT services	5	3
7	Bharat Forge Ltd.	automotive components	10	7
8	Wipro Technologies	IT services	14	6
9	Tata Group of companies	conglomerate	157	57
10	Sun Pharmaceuticals Industries Ltd.	pharmaceuticals	11	3
11	Birlasoft (India) Ltd.	IT services	8	3
12	iGate Global Solutions Ltd.	IT services	7	2
13	NIIT Ltd.	IT services	9	1
14	ONGC Ltd.	oil & gas operations	4	1
16	Hindalco Industries Ltd.	aluminium manufacturer	5	0
17	Biocon Ltd.	pharmaceuticals	1	0
18	Infosys Technologies Ltd.	IT services	4	1
19	Suzlon Energy Ltd.	power & energy	14	9
20	Raymond Ltd.	fabric manufacturer	6	4
21	Larsen & Toubro Ltd.	engineering & construction	17	1
21	Piramal Healthcare Ltd.	pharmaceuticals	4	1
22	Mahindra & Mahindra Ltd.	automobile manufacturer	26	10
23	Max India Ltd.	conglomerate	5	3
24	Reliance Industries Ltd.	oil & gas operations	3	2

*The multinationality index is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

Source *The Growth Story of Indian Multinationals*, The Indian School of Business (ISB) and the Vale Columbia Center on Sustainable International Investment (VCC), April 2009.

behind their foreign counterparts. Nonetheless a value of their foreign assets as well as sales and employment in their affiliates abroad has been rapidly growing recently. The share of foreign assets in total assets of 24 selected Indian multinational enterprises (MNEs) has increased from 9% in 2004 to 21% in 2006.[5]

In 2006 the most Indian foreign affiliates were concentrated in Europe (165 out of 441). One-third of them belong to Tata Group which comprises Tata Steel, Tata Chemical, Tata Consultancy Services, Tata Industries, Tata Communications among others. In the European market strongly presented are also pharmaceutical and automobile companies (Table 4).

4. Indian FDI in selected European economies

4.1. United Kingdom

For many years the United Kingdom has remained the most attractive location for Indian investors. The main advantages to invest in this market are not only its size and maturity, but also benefits related to the access to advanced technologies, specialist knowledge, management skills and strategic assets like brands. These factors play a particularly important role in case of mergers and acquisitions deals. In addition, the Indian investors' choice of the United Kingdom as the target place for FDI in Europe seems to be natural for cultural and historical ties between these two countries and language proximity. In 2003-2007, the capital from India was the second, in turn, source of FDI in London, with the 16% share in FDI inflows from all countries.[6]

According to UK Trade & Investment Department, during 2008/09 India replaced Japan as the largest Asian supplier of FDI projects in UK. In comparison with 2007/08 India climbed five places and became the second generator of FDI projects in UK and the second employer as well. Indian investments were there largely related to IT sector, life sciences and advanced engineering. For example Biocon, one of the Indian companies developing biopharmaceuticals for diabetes, cancer and inflammatory diseases, established its European headquarters in the UK, while Plumina producing eco-lighting, *inter alia* the only "green" street lights that can tolerate outside temperatures of around 50 degrees Celsius, moved its HQ to the UK from South Korea.[7] In addition, a large part of Indian investment in the UK service sector has gone into film, entertainment and broadcasting segment, which is, to a great extent, an answer to the demand for such services of a significant group of Indian residents in the United Kingdom and other European states.[8]

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[5] *The Growth Story of Indian Multinationals*, The Indian School of Business (ISB) and the Vale Columbia Center on Sustainable International Investment (VCC), April 2009.

[6] J.P. Pradhan, *Indian Direct Investment in Developed Region*, material from the conference "Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies", 9-10 October 2008, Copenhagen Business School.

[7] UK inward investment 2008/2009, *UK Trade & Investment*, June 2009.

[8] J.P. Pradhan, *Indian Direct Investment in Developed Region*.

4.2. Germany

According to Hamburg University of Technology (TUHH) estimation, in 2008, Indian firms invested about USD 1.8 billion in Germany and carried out 16 acquisitions in comparison with 7 in 2007. Between 2000 and 2008 Indian MNEs were involved in 54 mergers and acquisitions (M&A) deals in Germany to become the largest source of FDI from emerging countries. Although brownfield investments are more common mode of FDI, the amount of Indian greenfield investments in Germany is also still increasing. During 2000-2007 they invested USD 138 million in FDI projects in Germany, mostly in manufacturing sector.[9] It is estimated that in the beginning of 2010 over 200 Indian companies were active in Germany. The 167 German subsidiaries of Indian MNEs provided employment to approximately 20,000 people per annum. The biggest Indian employer in 2008 was Hindalco (aluminium and copper producer) which acquired Novelis Deutschland GmbH in 2007.

The important factor attracting Indian FDI to Germany is its high level of research and development spending, technologically advanced production and highly-skilled workforce. Therefore over half of Indian firms are from information and technology sector and the crucial part from pharmaceuticals and biotechnology sector (12%). A significant number of Indian companies in the German market come from automobile sector (11%). The presence of research institutes and universities is the most important criterion for Indian automobile companies operating in Germany, whereas for IT companies the crucial incentives are the customer proximity and presence of industry cluster as well.[10]

The survey conducted by TUHH showed that main problems faced by Indian firm in Germany are the following: difference in work culture, high operational cost, getting work permit and visa, finding qualified personnel, expatriates' social integration in Germany, language problems.

4.3. Poland

The share of Poland as a recipient of FDI from the India, like from other BRIC countries, was minute. Indian investments are usually made by way of acquisition of Polish firms or the existing branches or subsidiaries of foreign companies. Up to now the biggest Indian purchase in Poland was acquisition by Mittal Steel 60% shares of Polish Steelworks (Polskie Huty Stali) for PLN 6 billion in 2003. Together with Polish company Indian steel producer purchased over PLN 3 billion debt. Additionally Mittal has committed to invest PLN 2.4 billion in modernization of Polish steelworks and to maintain employment for a period of five years. Nowadays

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[9] C. Herstatt, R. Tiwari, *The Emergence of Indian Multinationals: An Empirical Study of Motives, Status-quo and Trends of Indian Investments in Germany*, Hamburg University of Technology, March 2009.

[10] *Ibidem*.

ArcelorMittal Poland is the largest steel producer in Poland and one of the largest Polish exporters. Its steel production capacities reach 8 million tons of crude steel and about 6.5 million tons of rolled products per year. The company was employing in 2008 above 10 thousand people. The other important Indian purchase in Poland was acquisition of Vitax and Flosana trademarks by Tata Tea (through Tetley Group) in 2007. In 2008, one of India's pharmaceutical tycoons (Glenmark Pharmaceuticals) purchased seven pharmaceutical branches from the Icelandic manufacturer Actavis (subsidiary in Poland – Bielenda). In turn, German Henkel, with a plant in Racibórz, was taken over by the Indian manufacturer of soap, VVF Company.

4.4. South-East Europe and CIS

The Indian interest in SEE and CIS countries is quite modest, although the expansion of outward Indian investors into this region started quite a long time ago. In 1979 one of Indian companies (Usha Martin Limited) established a joint-venture company in Bosnia and Herzegovina for manufacturing steel rope with USD 2.4 million. After almost 30 years, in 2007, in 14 countries of this region 112 Indian parent companies were active, which invested about USD 1.4 billion. Russia was the most attractive location for them with 60 Indian firms operating in 2007. In terms of investment value Russia accounted for 80% share of total Indian FDI into region, mainly because of the Sakhalin project. Besides of offshore oilfield project the other significant industries were pharmaceuticals and food & beverages. The second important receiver (recipient) of Indian FDI in this region was Kazakhstan with investments concentrated in a few sectors, *inter alia* engineering & construction, chemicals and pharmaceuticals.[11]

5. Conclusions and prospects

OFDI by Indian MNEs in Europe have been aimed at accessing well developed markets, management know-how, new technology, innovative products and brand names. They are operating in each part of Europe; however, the vast majority of FDI projects are concentrated in the EU 15 members. For many years the main host country for Indian OFDI has remained the United Kingdom, because of lack of language barriers, historical linkages and numerous Indian Diaspora, besides clearly economic reasons. Indian multinationals are engaged in various sectors with a strong presence of companies from IT services, automobile, pharmaceutical and metals industry.

According to Dealogic Report the number of new emerging multinationals in 15 emerging markets increased from 352 in 2005 to 613 in 2008. India as well as China

[11] J.P. Pradhan, *Indian Direct Investment in Developing Countries: Emerging Trends and Development Impacts*, Institute for Studies in Industrial Development (ISID), June 2008.

produced the most new multinationals – 111 each. It is also projected that India will replace China as the largest source of new multinationals in the emerging world from 2018 onwards. Further expansion of Indian companies in European markets is also expected owing to decisions made by India and the European Union on 25 May 2010 to fast track the talks to conclude Free Trade Agreement between the EU and India within a next few months.

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INDYJSKIE INWESTYCJE BEZPOŚREDNIE W EUROPIE

Streszczenie: Kluczową kwestią poruszoną w artykule jest znaczenie Europy jako miejsca docelowego indyjskich inwestycji bezpośrednich. Szczególną uwagę zwraca się na okres ostatnich kilku lat, w którym nastąpiła swoista eksplozja indyjskich BIZ w Europie. Zdecydowana większość projektów inwestycyjnych realizowana jest w państwach UE-15. Szczególnie dynamiczny wzrost indyjskich BIZ nastąpił w Wielkiej Brytanii, głównie za sprawą zrealizowanych tam fuzji i przejęć o dużej wartości. Oprócz Wielkiej Brytanii krajami goszczącymi indyjskie BIZ są m.in.: Niemcy, Francja, Włochy, Holandia, Norwegia, Hiszpania, Irlandia, Rosja. Indyjskie przedsiębiorstwa transnarodowe prowadzą działalność w Europie i obecne są w wielu różnych branżach, w tym najczęściej w sektorze usług IT, przemyśle samochodowym, farmaceutycznym i biotechnologicznym oraz metalowym.