

Indian Firms On M&A Run As 06 Buys More Than Double On Year

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NEW YORK -(Dow Jones)- Tata Steel Ltd. (500470.BY) recently roared louder than its competitor to win the bidding war for [Corus Group PLC](#) (CGA), but this Indian tiger was hardly alone.

Flush with capital, supported by plenty of global and domestic liquidity, and riding on a favorable wave for India in particular and emerging markets in general, Indian companies are roaming the globe, hungrily looking to expand their footprint beyond their sub-continent.

Tata's \$12.2 billion takeover of [Corus](#), the largest foreign acquisition ever by an Indian company, was announced in October and is part of a banner year: Indian companies acquired \$40.1 billion in 2006, up from \$16.6 billion in 2005, according to data provider Dealogic. The numbers include acquisitions of both domestic Indian and foreign companies.

The number of deals climbed to 669 from 469 in the same years. So far this year, Indian firms were part of 68 transactions valued in \$1.1 billion as acquirors and of 82 transactions valued in \$2 billion as targets.

"The Indian companies are actually being quite aggressive on acquiring companies overseas. They see that valuations overseas are significantly lower than what's available in India at the moment," said Punita Kumar-Sinha, chief investment officer at Blackstone Asia Advisors, LLC in Boston.

Capital is not an issue, with plenty of capital looking for returns, she added.

Indian companies, for the most part, were underleveraged. The recent spate of M&A activity in India is partly attributable to an easing from the country's central bank, the Reserve Bank of India, which in 2005 allowed domestic banks to lend money to Indian companies to fund overseas acquisitions.

Greater ease in raising debt "along with the maturing domestic capital market, has now enabled Indian majors to tread successfully on the M&A path," according to a recently published report by India's top private bank, [ICICI](#) (IBN).

In addition, Indian banks are becoming more willing to lend and more comfortable with the creditworthiness of the companies they are lending to, said Ravi Bhagavan, managing director at boutique investment banking firm Galileo Global Advisors in New York.

Indian companies are also striving to carve out a place for themselves overseas.

"That has become extremely important now that the Indian market has become so competitive," Bhagavan said.

Market participants expect an even greater number of overseas acquisitions by Indian companies.

Pharmaceuticals will continue to be "a fairly busy sector," as Indian makers of generic drugs face increasing competition and understand the need to grow their footprint in a global level, Bhagavan said.

That market has already seen consolidation, with [Dr. Reddy's Laboratories Ltd.](#) (RDY) announcing last February the acquisition of Germany's fourth-largest maker of generic drugs, Betapharma Arzneimittel GmbH.

Just last month, [Dr. Reddy's](#) main rival, Ranbaxy (500359.BY), said it continues to evaluate a potential bid to acquire the generics unit of [Merck KGaA](#) (MRK.XE) of Germany, which isn't related to the U.S. [Merck](#). That acquisition would vault Ranbaxy into the the top five generic-drug companies in the world by sales.

Tata Steel itself could make more headline news going for more acquisitions, this time in regions such as Latin America and Eastern Europe, Bhagavan said.

Blackstone's Kumar-Sinha saw potential in the oil and gas industry.

Indeed, another important reason Indian companies are treading down the M&A path is access to greater natural resources, [ICICI](#) said. "Energy majors like (state-run giant Oil & Natural Gas Corp.) are increasingly making forays in less explored markets in order to help alleviate the country's dependence on foreign suppliers," the bank said.

But a Tata Steel-style bidding war could give investors pause, at least in the short term, as it would raise concerns such as equity dilution and earnings pressure.

Indeed, when Tata emerged as the [Corus](#) winner, beating Brazilian steel maker [Companhia Siderurgica Nacional](#) (SID), or CSN, shares of the Brazilian company leaped forward while shares of the Indian company were penalized.

Tata's winning bid was 34% higher than its original bid, and investors became concerned about Tata being saddled with heavy debt to pay for Corus. Though the company is now squarely in the big leagues of global steel players.

Despite the concerns about taking on debt, equity dilution and pressure on earnings, overseas acquisitions by Indian companies boast positives such as raising their profiles internationally and potentially allowing them access to investors pools around the world. In addition, some of these companies could outsource jobs back to India, generating employment in their home country.

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