Indian Firms in Germany: Recent Developments and the Road Ahead

Between August 2012 and July 2013 Indian firms continued to scale up their investments in Germany. We could observe some significant investment projects in the reporting period. Seeking access to technology and patent portfolios is increasingly driving Indian investments in Germany even as Indian firms try to augment their in-house R&D capabilities in order to compete on innovation. On the flip side, Indian firms often struggle to integrate themselves in the local eco-system and to fully benefit from the national, regional, and sectoral innovation systems in Germany.

Notwithstanding the economic slowdown in India and elsewhere, Indian corporate houses have continued to invest overseas, as the provisional data of Reserve Bank of India (RBI) shows. The stock of outward foreign direct investments (FDI) by Indian firms increased by $7.1 billion on year-to-year basis at the end of fiscal year 2012-13 to stand at $119.5 billion. Reports suggest that Germany continued to remain a destination of choice for many an Indian firm. Investment outflows are increasingly driven by technology considerations even as Indian firms strive to move up the value chain and seek access to cutting-edge technologies.

The official data of the Bundesbank, Germany's central bank, however, continue to show a growing-yet-low level of Indian investments in the country. According to the Bundesbank, there were only 25 Indian firms active in Germany with a cumulative stock of FDI to the tune of €354 million at year-end 2011. As mentioned in previous reports too, the official statistics are faced with a number of data-capturing challenges in a globalized world, such as determining the nationality of investing firms when investments are routed via daughter concerns located outside the home-base. As a result, they often fail to paint the true picture. In this article we attempt to provide the reader with information that can be somewhat more representative of the situation on the ground.

Germany in focus of Indian investors

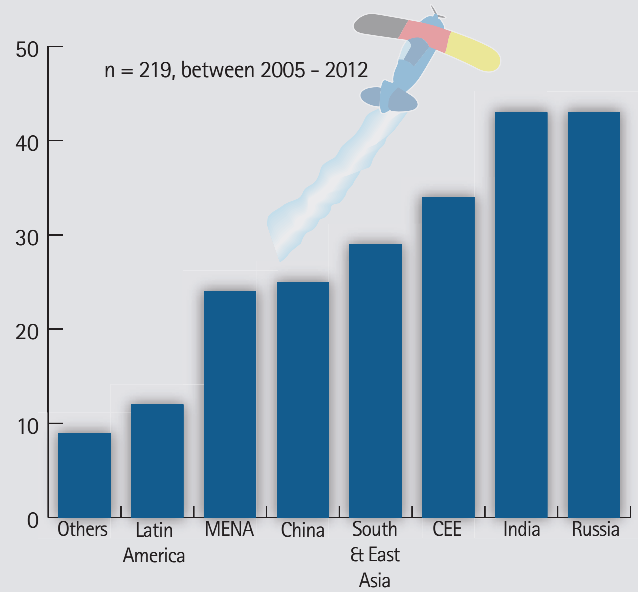
According to a report by consultancy firm KPMG, Germany continued to rank as the single largest acquisition target for Indian companies in the developed world, if we for once, leave aside the two special cases, i.e. the USA, the world's largest economy; and the UK, which apart from linguistic advantages enjoys historic linkages to India and is home to a large Indian diaspora. Between 2005 and 2012 KPMG observed, on the basis of market data, a total of 314 acquisitions involving an Indian acquirer and an acquisition object in a developed country other than the USA (233) and the UK (111). Fourteen percent of such transactions occurred in Germany. Especially within continental Europe, Germany, with 43 monitored acquisitions, was by far the single most attractive acquisition target, well ahead of countries like France (27), Italy (22), Spain (20), and the Netherlands (16)[1].

Indian firms amongst leading acquirers in Germany

In 2012, Indian corporate houses continued to display a clear preference for acquisition targets in the developed world. The number of acquisitions by Indian companies in developed countries in 2012, as per KPMG Monitor, stood at 55. In contrast, only 7 transactions involving Indian acquirers were observed in the developing nations. Between 2005 and 2012 a total of 211 acquisitions by Indian firms were reported from developing nations, whereas the total number of acquisitions by Indian firms in the developed nations in the same period stood at 658. Interestingly, Chinese companies in the same time frame made only 364 acquisitions in the developed world excluding Hong Kong.

Within Germany, India continues to retain its position as the top acquirer from an emerging country as measured by the number of acquisitions, even though this year it has to share the title with Russia. Figure 1 shows the importance of some developing countries and regions as source of acquisitions in Germany, based on the KPMG data. The list is dominated by three individual countries, Russia, India, and China, while Central and Eastern Europe (CEE), South & East Asia, and Middle East and North Africa (MENA) are important on an aggregate basis.

Figure 1: Acquisitions in Germany by companies from developing countries



Select examples of recent investment activity

Notable acquisitions by Indian firms in the reporting period include a major investment by Hyderabad-based Rain Commodities that acquired Germany's Rütgers Group, Europe's leading manufacturer of chemical raw materials made from coal tar. Even though officially headquartered in Belgium, Rütgers continues to have very major interests in Germany. The acquisition took place for a publically-stated amount of €702 million. After acquisition of REpower by Suzlon this is the largest Indian investment in Germany and surpasses in terms of volume that of Betapharm by Dr. Reddy's. According to Rütgers, "the combined company will have the critical mass

[1]Source for KPMG data in this report: "High Growth Markets International Acquisition Tracker", March 2013

to support a larger scale development effort which will help the aluminum industry meet current and future carbon related challenges."

Acquisitions by Kolkata-based PCM Group of the Railway equipment company Rail. One GmbH for about €36 million is also driven by similar considerations of gaining access to technological expertise. According to press reports, Rail.One is an internationally leading manufacturer of concrete railroad ties, railroad systems and railway track with more than 100 years of experience. This acquisition marks India's foray in the global railway infrastructure sector. A company press release citing Kamal Kumar Mittal, Chairman of PCM Group of Industries, said: "We are excited about this acquisition as it further strengthens our portfolio, expertise and network in Railway Infrastructure Worldwide."

Similarly, Amtek's acquisition of Neumayer included engineering and design as well as all patents among other things. Even though the deal amount was not disclosed, a report appearing in the Economic Times put the deal's value at around $500 million. The takeover would not only put Amtek in the league of the "$2 billion annual turnover" firms, advancing it among the global top-5 in its industry sector, but it also ensures Amtek "access to high-end technology processes, including Hatebur and warm and cold forging technology," as press reports have emphasized. This acquisition was channeled through Amtek Global Technologies Pte. Ltd, a wholly-owned subsidiary of Amtek based in Singapore. This example also illustrates the difficulty of official statistics in capturing the nationality of the acquirer as for official purposes the transaction would be treated as having emanated from Singapore. Table 1 provides some examples of acquisitions observed in the reporting period.

Table 1: Examples of Indian acquisitions in Germany during August 2012 – July 2013

No.	Indian MNE	German Object	Deal Amount	Comments
1	Amtek Auto	Neumayer Tekfor Holding	undisclosed	Neumayer has worldwide 1,600 employees
2	Geometric	3cap technologies GmbH	€11 million	3Cap employs over 110 people in Germany
3	PCM Group	Rail.One Gmbh	€36 million	Turnover of €141 million, and 801 employees (2010)
4	Rain Commodities	Rütgers	€702 million	Rütgers, a German firm, is officially headquartered in Belgium
5	RK Wind	Powerwind	undisclosed	Partial takeover (IP rights, capital assets, and a large part of inventories)

Apart from these acquisitions at least one greenfield investment project involving Gujarat Fluorochemicals Limited was also observed, which opened a branch office in Hamburg.

Based on these investment projects we update the key data on Indian FDI stock in Germany to the following (approximate figures):

Table 2: Developments in Indian FDI in Germany between Aug. 2012 and July 2013

Key indicators	Aug. 2012	July 2013
No. of Indian MNCs in Germany	143	149
No. of subsidiaries of Indian MNCs in Germany	204	218
No. of full time employees of Indian MNCs in Germany [2]	22,500	26,000
Estimated stock of Indian FDI in Germany	€4.7 billion	€5.5 billion

Table 3 shows top-5 Indian firms in terms of the number of employees. The compilation is based on the respective companies' last publically available official annual report. Many firms unfortunately choose to treat this information as "secret", so that eventual variations are not to be completely ruled out.

Table 3: Top-5 Indian employers in Germany

No.	German Firm	Indian Stakeholder	Employees
1	SMP Deutschland GmbH	Samvardhana Motherson Group	4,206
2	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2,201
3	SONA BLW Präzisionsschmiede GmbH	Sona Group	1,385
4	REpower Systems SE	Suzlon Energy Ltd	1,287
5	Corus Deutschland GmbH	Tata Steel	1,166

Increasing focus on R&D and innovation

The developments described so far are in line with the trends observed in the recent years. For example, in April 2012 India's pharmaceutical major Piramal acquired Bayer HealthCare's molecular-imaging pipeline for the purpose of innovative medical research. Since then it has been "continuing research and development work on the acquired PET radiopharmaceuticals in its labs in Berlin", as a company press release states.

Similar stories can be heard also from some other established players. Novelis Deutschland GmbH, a Hindalco Group company, has set up a Technology and Innovation Center in Göttingen. Expenditure on R&D in fiscal year ending on 31st March 2012 stood at €10.4 million. SMP Deutschland GmbH, part of the Samvardhana Motherson Group, reported spending €5.1 million on R&D efforts in fiscal 2011 that, as per its own statement, resulted in several innovative products.

Such efforts also pay off. For instance, Hindusthan National Glass' takeover of Agenda Glas for €10 million has apparently "paid off in the form of a 'significant increase in production efficiency' and a 20% year-on-year rise in sales", as GTAI's magazine Market Germany reported in its December 2012 issue.

The developments described above point to a possible ongoing shift in the nature of Indian investments in Germany. Whereas Indian FDI was earlier often motivated by the desire to seek customer proximity resulting in an unusually high representation of the information technology (IT) industry setting up on-site operations for outsourcing partners, we observe a growing and definitive role for technology-seeking by firms

[2] This figure does not include the approx. 3,600 employees of the Luxemburg-based Mittal Group.

from manufacturing sector that are not singularly directed at serving customers in Germany, but that, rather, are looking at seeking and serving (new) customers across the globe by upgrading their technological base. This shift potentially opens up a whole new arena for Indo-German collaboration.

Another aspect is that of innovations. As Indian firms move up the value chain they almost necessarily seek to gain long-term competitiveness which is not singularly based on low costs. They increasingly realize that to successfully compete against rivals from developed nations on the one hand, and against those from other emerging nations such as China on the other, they need to be innovative in order to better serve the needs of an aspiring middle class at home and abroad. This realization drives home the need for "frugal innovations" that meet the aspirations of consumers (in both B2B and B2C businesses) with "good enough" and affordable quality and an attractive brand value while minimizing the use of resources in the complete value chain. In a nutshell, it is important to offer an attractive value proposition that is based on a low *total cost of ownership* and not just on a low price-point.

To achieve this objective, firms often need to engage in "open global innovation" making use of third-party intellectual property worldwide in order to reduce technological and market uncertainty of their innovation projects. Investing in Germany can help achieve this goal. Moreover, the lessons learnt in the Indian "lead market" for frugal innovations combined with German technology can help improve market chances in some other industrialized countries, where the ongoing economic crisis, the increasing environmental concerns and the growing appeal of a puritan life style for some (disenchanted) consumers is pushing up the demand for "good enough", simple products that offer aesthetic designs and high technological standards for low costs of ownership.

Challenges and the road ahead

This is, however, easier said than done. Because even though the basic tenor of Indian investments in Germany continues to remain overwhelmingly positive, Indian companies do face certain challenges in a vastly different operational setting than back home. Work culture, the regulatory framework, and the socio-economic environment differ very significantly to India. Many Indian firms prefer to keep to themselves. One reason can of course be rooted in the linguistic challenges faced by expatriate managers. Another, and probably not any less important, reason lies in the sometimes seemingly excessive focus on short-term gains and profits.

Quite a substantial number of Indian firms choose to interact primarily with their (prospective) customers and suppliers that have an immediate bearing on their revenues. The larger social network does not seem to be of much direct relevance to many an expatriate manager. This way the firm ends up incurring significant opportunity costs by losing on contacts to other firms, associations, and university institutions; and sometimes losing goodwill of potential stakeholders in the process. Reports about a large Indian-owned firm in North Germany that continue to regularly appear in the local business press confirm that this firm, like some others, has failed to create a network of local stakeholders and well-wishers. Additionally, many firms continue to follow a very hierarchical system, where even minor decisions are outsourced to the headquarters back in India, which usually is ill-equipped in comprehending the socio-cultural aspects of business life in Germany. This author has witnessed a situation, where the country head of a large Indian multinational in Germany was not authorized to clear the payment of an invoice for a low four-digit amount. The bill had to be cleared by Mumbai, which caused the whole process to take about 3-4 months. Many Indian companies also ignore the role of an open public-relations policy, rather shrouding even such information in secrecy, which has no direct bearing on the competitive position of the firm, and information which in many instances is any way available in public domain. As a result, some Indian firms face problems recruiting and retaining high-potential employees, and getting access to new customers.
In my opinion, Indian firms would be well advised to interact more often and in a much more open way with their social environment in Germany and seek to create new stakeholders in the firm's well-being. Measures like sponsorships of local events, a greater engagement with academic institutions and industry associations, and a welcoming public relations policy are necessary components and worthy investments for long-term success in Germany. The "penny wise, pound foolish" approach is not a promising policy in the long run in the operational context of a developed country. Tapping into the Indo-German community of experts with their understanding of both cultures could be a beneficial and promising step. Expatriate managers and workers also need to undergo some trainings of cross-cultural management to better exploit the chances of their engagement in Germany.

Summarizing, we may say that the importance of a deeper Indo-German engagement is today in fact greater than ever before in the face of simply enormous market and technology opportunities in a world faced with economic slowdown across the globe. The relations in terms of Indian investments in Germany are undoubtedly on the right track but far from realizing their true potential. More firms in India need to be made aware of these opportunities; but also more Indian firms already operating in Germany ought to streamline and reconfigure their operations to realize the true potential of their undertakings.

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