Indian investments in Germany: A comprehensive update of the FDI stock and trends

Indian firms have been investing regularly in Germany for well over a decade now. Lack of official yet comprehensive data made it, however, difficult to estimate the true extent of their engagement in the host economy. By utilizing the updated Bundesbank data on ultimate ownership of firms and the RBI's data on bilateral FDI outflows from India to Germany since July 2007, we are, for the first time, able to paint a picture of Indian FDI into Germany that is close enough to reality. This article provides an updated and comprehensive overview of Indian firms in Germany based on studies at Hamburg University of Technology (TUHH). In addition, it also throws light on select investment projects in the period of July 2017 to July 2018.

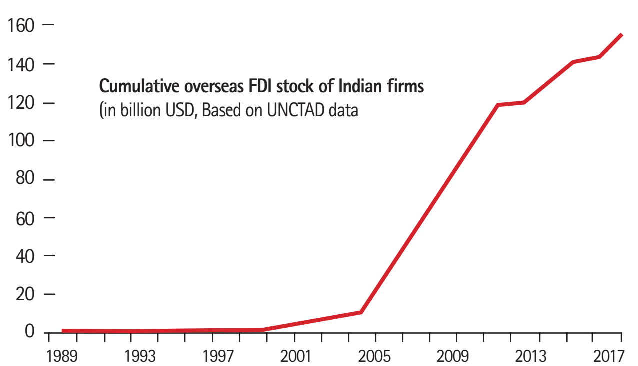
1. General trends in outward FDI from India

Foreign direct investments (FDI) have gained increasing importance in the post-liberalisation India. Inward FDI is seen as a useful means to create a base of capital and technology that can help the country to modernize its infrastructure, create jobs, and spruce-up competition resulting in better products and services for the consumer. Domestic firms as well as policy makers have increasingly also recognized the important role of outward FDI in the country's economic development in a globalized world. According to a policy statement by the Reserve Bank of India (RBI), overseas engagement of Indian firms provides "an effective medium of economic co-operation between India and other countries. Such overseas investments catalyze growth in our exports, transfer of technology and skill, sharing of results of R&D, access to wider global market, promotion of brand image, generation of employment and utilization of raw materials available in India and in the host country."[1]

Not surprisingly, India's cumulative stock of outward FDI has been growing consistently. According to a recent RBI report, "Indian companies continue to reach out to global markets and 2,443 companies reported overseas presence in March 2017 with robust growth in turnover".[2] As per RBI data, India's cumulative stock of outward FDI stood at USD 157.4 billion at the end of fiscal year (FY) 2017-18; which was around USD 9 billion higher than in the previous year.[3] The annual outflows grew stronger than in the previous fiscal year (USD 6 billion), regaining strength. As far as the calendar year 2017 is concerned, the United Nations' Conference on Trade and Development (UNCTAD) observed a roughly similar amount of FDI outflows from India. In its annual World Investment Report 2018, the UNCTAD estimated the overall stock of India's outward FDI to have stood at a little over USD 155 billion at year-end 2017. 20 years ago in 1997, this stock had not even reached the billion mark; languishing at USD 617 million, as Figure 1 based on UNCTAD data for calendar years between 1989 and 2017 shows.

As Figure 1 shows, the cumulative stock of outward FDI from India has really taken-off since the advent of the new millennium, growing exponentially after 2005. While outwards FDI was initially often involved well-established, large corporate houses, now even smaller and young firms venture out of the country.

Figure 1: **Cumulative FDI stock of Indian firms abroad, in billion USD.**



Under a census of foreign liabilities and assets of Indian companies by the RBI, 2,443 firms reported overseas FDI engagement for FY 2016-17. This amounted to 13.1% of all respondents of the survey. About 24% of these 2,443 firms engaged in both inward and outward FDI, while a vast majority (76%) only engaged in outward FDI without being a target of inward FDI themselves. Almost 78% of the 2,443 firms engaged in outward FDI were not listed on the stock market (family-owned).

2. Official RBI data on Indian FDI in Germany

For the purpose of a larger study, we analysed the official data on FDI outflows published by the RBI. This dataset contains all direct (bilateral) FDI transactions between India and a recipient country in the period between July 2007 and May 2018 and presents the most comprehensive picture on the breadth of Indian FDI. This dataset has two major limitations as it does not capture investments routed via third countries, e.g. via special purpose vehicles (SPVs) or through foreign affiliates of domestic firms, and it does not take into account eventual divestment decisions in the subsequent period. Nevertheless, the data is sufficient to reveal some very interesting and statistically significant patterns in Indian FDI to Germany. For characterization purposes, we generally present data only for full fiscal years. At first, the macro perspective is presented, before detailing the scenario specific to Germany.

2.1. Macro Perspective

In the timeframe of July 2007 to March 2018 the RBI registered a total of 50,186 FDI outflows worth USD 281.1 billion.[4] The largest recipient of India´s officially monitored FDI outflows were Singapore, Mauritius and the Netherlands (see Table 1). These were followed by the United States of America (USA), the United Arab Emirates (UAE), the United Kingdom (UK) and Switzerland. Germany, as per official data subject to above-mentioned limitations, is host to Indian FDI worth USD 1.1 billion and ranks 22nd, marginally behind Canada (21st) and closely followed by Denmark (23rd). The list is dominated by countries that often provide a launching pad for further investments in third countries.

Table 1 **Top destinations for outward FDI from India (July 2007 to March 2018)**

Rank	Country	Sum of FDI outflows (in billion USD)
1	Singapore	62.7
2	Mauritius	52.5
3	The Netherlands	43.6
4	USA	24.4
5	UAE	16.4
6	UK	12.8
7	Switzerland	10.4
:	:	:
21	Canada	1.13
22	Germany	1.08
23	Denmark	1.05
Total	--	281.1

[1] RBI Press Release, 2010-2011/1855, June 22, 2011, Mumbai.
[2] See, RBI (2018): Census on Foreign Liabilities and Assets of Indian Direct Investment Companies: 2016-17, Bulletin, Reserve Bank of India, LXXII (4): 113-128, Mumbai.
[3] See, "International Investment Position", Table 42, in: RBI Monthly Bulletin, July 2018, p. 33. Fiscal years in India usually run from April 1 of a given year to March 31 of the following year.
[4] FDI outflows, as opposed to the FDI stock, do not capture the eventual divestments in the course of time.

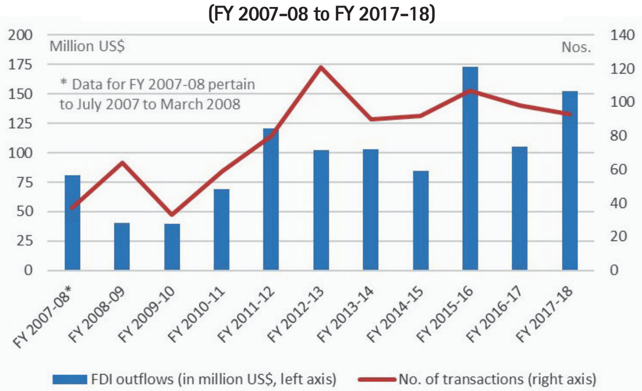
Nevertheless, Germany´s importance for Indian FDI also seems to be rising. In the fiscal years 2007-08 to 2014-15 Germany was on average ranked 22nd, but in the last three fiscal years (FY 2015-16 to 2017-18) Germany improved its rank to 14th on average. Interesting to note is that Germany recorded a growth of 44% on year-on-year (YOY) basis from FY 2017-17 to 2017-18, whereas the UK recorded a minus of 18%. This negative growth rate in FDI outflows to the UK could possibly be a consequence of the Brexit, as it takes away some incentive to route the FDI to the continental Europe via the UK. Germany and the Netherlands are the only two countries out of the top-5 European destinations that registered a positive growth on YOY basis in the last fiscal.

2.2. Specific Patterns of Indian FDI in Germany

The official data show outflows of Indian FDI towards Germany to the tune of USD 1,084.62 million between July 2007 and May 2018 (see Figure 2). There was a total number of 892 FDI transactions by investors. Several investment objects (firms) receive FDI in multiple transactions over the years. 36% of the FDI volume (USD 388.7 million) was in the form of equity investments and 39% (USD 424.6 million) was carried out in the form of guarantees issued. The rest was in the form of loans. The investments were made by 202 unique investors, of which 150 were corporate entities and 52 individual persons.

As Figure 2 shows, the number of transactions in a given fiscal year was on average less in the second half of the previous decade and peaked in FY 2012-13. Since then it has stabilized itself on a level of over 90 transactions every fiscal.

Figure 2: **Official FDI outflows from India to Germany (FY 2007-08 to FY 2017-18)**



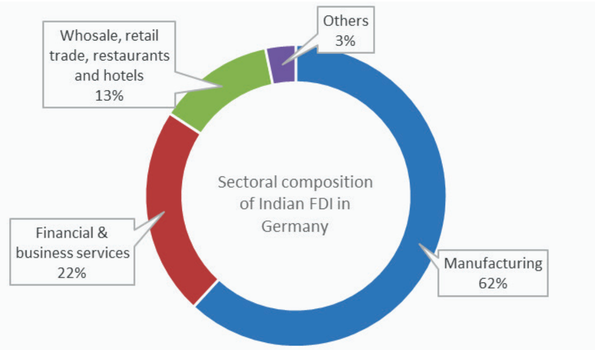
The data also reveal a stable pattern of Indian FDI to Germany that has consistently been above USD 100 million since FY 2011-12 with just a single exception and has peaked as high as USD 173 million in FY 2015-16. In 697 out of 892 instances of FDI outflows to Germany (78%), the investment was directed towards a wholly owned subsidiary (WOS). Table 2 shows the top-5 Indian investors in Germany as per official RBI data subject to the limitations pointed out earlier.

Table 2 **Top-5 Indian investors in Germany as per official RBI data (July 2007 – May 2018)**

No.	Investing company	FDI amount in USD million
1	Transasia Bio Medicals Ltd.	179.9
2	Bharat Forge Ltd.	103.9
3	Ashok Leyland Ltd.	97.1
4	Minda Corporation Ltd.	54.5
5	Sundaram Fastners Ltd.	54.2

The RBI data also provides some insights about the sectoral composition of the Indian investments in Germany. While generally Indian outwards FDI is dominated by the services sector, in case of Germany it is the host country's strength in manufacturing that seems to attract investors from India. 62% of the FDI outflows in terms of their financial value are targeted at manufacturing, predominantly in the automotive sector. This is followed by financial and business services (22%) and the wholesale, retail trade and hospitality sector (13%). All other sectors, combined, account for 3% of the FDI volume; see Figure 3.

Figure 3: Sectoral composition of Indian FDI in Germany



2.3. FDI Patterns during June 2017 to May 2018

In the last 12 months for which the RBI data was available at the time of writing this report, altogether 92 FDI transactions involving bilateral capital outflows worth USD 127.9 million from India to Germany were reported. Even though FDI outflows involved corporate entities in only 76 of the transaction, they accounted for 99.8% of the FDI volume. The rest (almost USD 300,000) came from 17 individual investors. The 5 largest investors were Transasia Bio Medicals Ltd. (USD 31.2 million), Larsen & Toubro Infotech Ltd. (USD 17.9 million), Abia Global Hospitality Investment Pvt. Ltd. (USD 15.5 million), Persistent Systems Pvt. Ltd. (USD 9.5 million), and NIIT Technologies Ltd. (USD 6.6 million). Also Cyient Limited, IBC Knowledge Park Pvt. Ltd., and Bharat Forge Ltd. belong to the group of top investors.

In terms of sectors, manufacturing continued to dominate outward FDI from India to Germany, accounting for 39% of the total outflows. However, its share in the reporting period was considerable down from the overall share of 62% (compare with Figure 3). In contrast, financial and business services could nearly double their share from overall 22% to 41%. The wholesale, retail trade and hospitality sector also doubled its share from 13% to 26%. For the first time the construction sector showed noticeable investments (USD 5.7 billion). This investment came from IBC Knowledge Park Pvt. Ltd., which set-up a wholly owned subsidiary named IBC Knowledge Park GmbH.

3. Official statistics of the Bundesbank

In the previous years, Dr. Tiwari has used this space to point out certain limitations of official statistics. Official figures of both, the RBI and the Bundesbank have seemed to grossly underrepresent the true level of investments and the actual control by majority shareholders in some German firms. The World Investment Report (WIR) 2016 had also suggested a mismatch in the investor nationality in terms of direct and ultimate ownership in case of about 39% of foreign affiliates in Germany as, on average, the investment crosses 2.5 countries before reaching Germany. In the meantime, the Bundesbank seems to have acted to close this statistical gap. Since 2017 its reports on Germany's inward FDI position provide two sets of data: one for the countries from where the bilateral capital investment actually flows ("direct ownership"), and the second for the nationality of the top-most parent concern ("ultimate ownership").[5]

3.1. Direct Ownership

According to the latest official statistics (April 2018) issued by Germany's central bank, the Bundesbank, the cumulated stock of Indian FDI ("liabilities") in Germany stood at EUR 553 million at year-end 2016, up from EUR 471 million in the previous

[5]As per Bundesbank report these are respectively categorized as "nach einzelnen Kapitalgeberländern" (direct ownership) and "nach einzelnen Sitzländern der Konzernspitzen" (ultimate ownership).

year. This set of the Bundesbank data corresponds to the RBI data except for the difference that the RBI data is about individual outflows and the Bundesbank data is about the FDI stock at year-end. According to official figures, there were 32 Indian firms active in Germany providing employment to around 3,000 people while generating annual revenues worth approximately EUR 900 million.

3.2. Ultimate Ownership

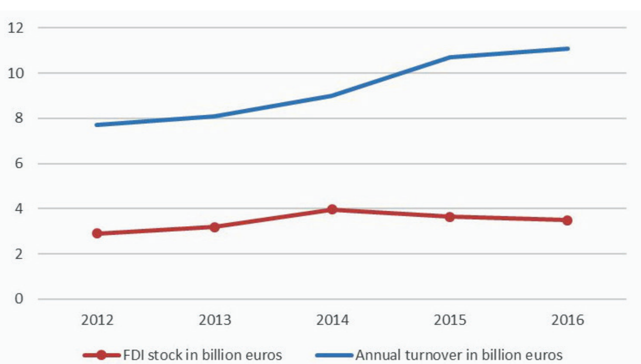
The data on the ultimate ownership seems to be much more realistic and largely corresponds to the reports published in the IGCC Annual Reports so far. The Bundesbank reported presence of 93 Indian-owned companies in Germany as of 2016. These firms employed around 20,000 people and generated annual revenues worth EUR 11.1 billion in Germany. The FDI stock was estimated to stand at EUR 3.5 billion Table 3.

Table 3 **Status of Indian FDI in Germany as per official Bundesbank data**

Key indicators	2016
No. of Indian MNCs in Germany	93
No. of employees of Indian MNCs in Germany	20,000
Estimated stock of Indian FDI in Germany	EUR 3.5 billion
Generated annual revenues	EUR 11.1 billion

Figure 4 shows the impressive growth Indian-owned firms have registered in Germany as per official Bundesbank data. The FDI stock grew from EUR 2.9 billion to EUR 3.5 billion in the 5 years between 2012 and 2016. The annual turnover generated by these firms grew from EUR 7.7 billion to EUR 11.1 billion (CAGR: 9.6%) in the same period, pointing to their increasing presence and success in Germany.

Figure 4: **Growth of Indian-owned firms in Germany (2012-2016)**



Also in terms of employment, the number of Indian-owned companies grew from 15,000 to 20,000.

Even though the modified reporting by the Bundesbank provides a much better and more comprehensive picture of outward FDI from India now, it is not ruled out that complicated concern structures in some cases still limit transparency and lead to underrepresentation of investments.

4. Employment provided by Indian firms in Germany

Table 4 shows some select Indian firms in terms of the number of employees. The compilation is based on the respective companies' last publically available official annual report or statements on their respective websites.

The Bharat Forge Group in Germany here refers to 3 independent (non-holding) companies owned by the Bharat Forge Group, i.e. Bharat Forge Aluminiumtechnik, Bharat Forge Daun, and CDP Bharat Forge. Many firms unfortunately choose to treat this information as confidential, so that eventual variations and/or exclusion of some large employers cannot be ruled out.

Table 4 **Select large Indian employers in Germany**

No.	German Firm	Indian Stakeholder	Employees
1	Tata Steel Germany[6]	Tata Steel	6,100
2	SMP Deutschland GmbH	Samvardhana Motherson Group	4,754
3	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2,127
4	H&D International Group	HCL Technologies Ltd.	1,400
5	Tata Consultancy Services Deutschland GmbH	Tata Consultancy Services	1,191
6	Bharat Forge Group	Bharat Forge Group	908
7	Mahindra Forgings Europe AG	Mahindra CIE Automotive Ltd.	876
8	SONA BLW Präzisionsschmiede GmbH	Sona Group	627
9	Minda KTSN Plastic Solutions GmbH	Ashok Minda Group	322
10	ALBONAIR GmbH	Ashok Leyland Ltd.	142

5. Select examples of investment activity, July 2017 – July 2018

In the following, we provide some information on select notable investment projects by Indian firms in the reporting period in Germany.

The biggest and most-important Indian investment in the reporting period was that of the merger of Tata Steel and Thyssenkrupp to create a 50:50 joint venture (JV). The new JV will potentially save up to EUR 500 million through synergies. The JV with official name of Thyssenkrupp Tata Steel B.V. will be based in The Netherlands and will be the second largest steel manufacturer in Europe after Arcelor Mittal, which incidentally also has a strong India connection.

In June 2018 HCL Technologies announced signing of a "definitive agreement to acquire" Wolfsburg-based Hönigsberg & Düvel Datentechnik GmbH that together with its affiliates forms the H&D International Group. A company press release dated 27th June describes H&D as "one of the largest IT service providers in the German automotive industry" with operations in over 20 locations around the world including the USA, the Czech Republic and Poland. H&D reportedly has extensive expertise in computer-aided technologies (CAx), engineering services and customer-specific product development and offers solutions in fields such as IT Infrastructure, application services particularly R&D, and Industry 4.0. Media reports suggest that H&D has around 1,400 employees and generated revenues worth EUR 74 million in 2017. HCL announced that H&D's existing delivery centre in Gifhorn (Germany) will become part of its global delivery chain and will focus on IT and engineering services both in Germany and globally. The company press release cited Ashish Gupta, Corporate Vice President at HCL Technologies as saying, "Germany is a critical market for HCL as we continue to expand our business in Europe. We feel the German market is at an inflection point and it is the right time for HCL to expand and make significant investments here. H&D has a long-standing track record of high-quality service delivery and we are confident this will play a significant role in our continued growth in Germany." Bernhard Hönigsberg, CEO of the H&D International Group, emphasised the complementary capabilities of the two firms and the potential for synergies.

Minda Industries Limited, part of the UNO MINDA Group, announced acquisition of 80% stake in Munich-based iSYS RTS GmbH, which is reported to be "a leading developer of embedded systems and software for global vehicle manufacturers" and, as per information on its website, employs 55 people. A company press release dated July 16, 2018 quoted N.K. Minda, Chairman of the UNO MINDA Group as saying that the acquisition will improve the company's footprints with customers in India and Europe and that it will help Minda "offer high-end cockpit electronics with premiumisation of vehicles". The investment amount was not disclosed.

[6]Official company data not available; source: https://www.wer-zu-wem.de/firma/corus.html, retrieved: Jul. 24, 2018.

Table 5	Select examples of Indian FDI inflows into Germany announced during July 2017 – July 2018			
No.	Indian MNE	German Investment Object	Estimated Investment Value	Comments about the investment
1	Tata Steel	Thyssenkrupp	undisclosed	Creation of a 50:50 joint venture
2	HCL Technologies Ltd.	Hönigsberg & Düvel Datentechnik GmbH (H&D)	USD 35 Million	Acquisition of a leading IT service provider in the German automotive industry
3	Minda Industries	iSYS RTS GmbH	undisclosed	Acquisition of a leading developer of embedded systems and software for global vehicle manufacturers
4	Sequent Scientific Ltd.	Bremer Pharma GmbH	undisclosed	Acquisition through wholly-owned subsidiary in Ireland
5	USV Pvt. Ltd.	Juta Pharma GmbH	USD 2.6 million	Juta Pharma holds about 50 marketing authorisations for generics drugs
6	HIL Limited (CK Birla Group)	Parador GmbH	undisclosed	Parador GmbH is in the business of laminate, parquet, floor coverings, etc.
7	Transasia Bio Medicals Ltd.	Erba Diagnostics (Mannheim) GmbH	USD 36.5 million	Ongoing FDI engagement
8	Tide Waters Oil Co. (India) Ltd.	Veedol Deutschland GmbH	USD 3.6 million	Ongoing FDI engagement
9	Larsen & Toubro Infotech Ltd.	Larsen & Toubro Infotech GmbH	USD 17.9 million	Ongoing FDI engagement
10	Royal Goan Beach Resorts Pvt. Ltd.	Kirchbichlweg 6-18 Betriebsgesellschaft mbH	USD 1.3 million	Further details not available

Table 5 shows select examples of investments observed in the reporting period.

These examples, and those in Table 5, demonstrate that Indian investments in Germany are diversify into very different sectors and are able to attract investors from diversified backgrounds.

6. Concluding summary

Indian investments in Germany and their operations in the host economy have greatly matured in the past decade. A stable level of investment flows from India to Germany has set in which cuts across firm size, industries and business processes. Indian companies are participating in Germany's proven prowess in manufacturing and, in turn, are contributing to secure Germany's competitiveness by engaging in technology development and reaching out to new markets. The services sector, too, is providing a good platform for the bilateral partnership. If the growth in annually generated revenues and the number of employees is an indicator, Indian firms are quite successful in Germany. Slowly, many firms are also engaging in research & development and innovation, as has been elaborated in the previous reports. There is, however, also scope for improvement and new ventures. So far, Indian firms are more active in the B2B segment, where they can operate without much public view. It is now time that more Indian firms venture also in the B2C segment with greater public and media attention. Margins are higher in this segment. Furthermore, this may help firms move up the ladder in the value chain enhancing their long-term competitiveness. A positive "brand India" with encouraging "country-of-origin" effects that can be created by this, will help the country and the Indian firms in the long run. To achieve this, firms will have to show greater courage and undergo some risks. The potential benefits, however, outweigh the risks and justify pilot projects. There are great opportunities that are opening up due to increasing demand for high-quality-yet-affordable products and services in Germany. The buzzword "frugal innovation" – understood as an enabler of "affordable excellence" and not as "Jugaad" – has reached European shores and German-speaking countries show an enormous potential for this, as several studies, including by the authors, reveal.

The budding opportunities can be illustrated with an example: a study conducted by Dr. Tiwari on behalf of the Indian Consulate General in Hamburg revealed high potential for Indian companies from the food processing sector provided they could address the trend of organic and vegan food in Germany with qualitative and affordable products fulfilling all safety and regulatory norms. Similarly, another study conducted with the support of the German Ministry of Education and Research (BMBF) showed that the German society is undergoing some significant changes. The number of the elderly people in the society is increasing and there is a growing concern for environmental sustainability. Many old and young citizens wish to have more moderate lifestyles ("voluntary simplicity"). In addition, there is a growing financial pressure on certain sections of the society. An increasing number of consumers feels overwhelmed by the hyper-complexity of products and services. Such customers would welcome innovative solutions that reduce avoidable complexity, are easier to use and can be repaired. India is widely considered a hotbed of, and a lead market for, frugal innovations. Indian firms would be, therefore, well advised to utilize the emergent opportunities in Germany and other industrialized nations by bringing in their experience of frugal solutions into these markets. Partnering with German companies could help them achieve the target of affordable excellence and open up new market space in B2C segment.

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