Overseas Mergers and Acquisitions by Indian Enterprises: Patterns and Motivations

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Abstract: This paper examines the patterns and motivations behind the overseas M&As by Indian enterprises. It is found that a large majority of overseas M&As originated within services sector led by software industry and in overwhelming cases were directed towards developed countries of the world economy. The main motivations of Indian firm's overseas acquisitions have been to access international market, firm-specific intangibles like technology and human skills, benefits from operational synergies, overcome constraints from limited home market growth, and survive in an increasingly competitive business environment. Further it has been found that overseas acquirers in the case of manufacturing sector tends to be large sized and research intensive, while they are older, large sized and export-oriented in the case of software sector.

Key Words: M&As.
JEL Classification:L13; L22.

1. Introduction

Similar to the global trends in international production, mergers and acquisitions (M&As) have emerged as an important process of business restructuring in Indian economy during 1990s. While the fact that M&As in India is largely driven by multinational enterprises is well recognized (Kumar 2000; Bhoi 2000), the less known fact is the growing intensity of Indian enterprises to acquire business enterprises overseas. Out of an estimated $11.2 billion value of cross-border M&As involving India as a seller as well as purchaser during 1992-2001, nearly 45 percent amounting to $5 billion has been accounted by cross-border acquisitions made by Indian enterprises. Indeed in the late 1990s the value of cross-border acquisitions by Indian firms had continuously accelerated from $11 million in 1998 to over $2 billion in 2001 (Table-1).

The fact that cross-border M&As which is predominantly an action-area for developed as well as newly industrialized countries enterprises, now increasingly being joined by firms from developing countries like India raises important issues worthy of investigation. First, does the motivation of M&As undertaken by these new actors from developing countries differs from that undertaken by firms from developed countries. Second, in which sector are these new actors active? Third, locationally where are they active-in the developing or developed parts of the world economy? Fourth, what are the important characteristics of these overseas acquirers, and how are these characteristics different from those firms which are not engaged in overseas acquisition? Fifth, how are the overseas acquirers integrating newly acquired business entity with themselves? Sixth, how are the policies of the home and host countries affecting cross-border acquisitions of these actors?

Clearly the phenomenon of cross-border M&As by developing country firms raises more questions empirically as well as theoretically than the present paper can answer. Although the paper has a relatively narrow focus on the experience of India it is still hoped that the research may provide useful insights into the nature and character of M&As done by developing country enterprises. As the cross-border M&As by Indian enterprises in large number is a recent phenomenon the study has to be based on data collected from variety of scattered sources like newspaper reports, financial magazine and company annual reports. Given that the dataset used in the study is incomplete and patchy the findings from the study should be treated as indicative.

The paper is structured as follows: Section 2 summarizes the patterns of overseas M&As made by Indian enterprises for the period 2000 to 2003. It also provides brief case-studies of ten largest Indian overseas M&As during the said period. Section 3 examines the motives of such overseas M&As. Section 4 presents results from quantitative analysis as to understand the factors that are specific to Indian firms undertaking overseas M&As vis-à-vis Indian firms not doing so. Section 5 concludes the paper.

Table-1 Cross- border M&A of India, 1992-2001

Year	Value of M&A (U.S. $ million)			
	As Purchaser	As Seller	Total	Purchases as a % of total
1992	3	35	38	6.93
1993	219	96	315	69.64
1994	109	385	494	22.09
1995	29	276	305	9.35
1996	80	206	286	27.93
1997	1287	1520	2807	45.86
1998	11	361	372	2.88
1999	126	1044	1170	10.77
2000	910	1219	2129	42.74
2001	2195	1037	3232	67.91
1992-2001	4969	6179	11148	44.57

Source: UNCTAD (2002)

2. Patterns of Overseas M&As by Indian Enterprises

As observed above the value of cross-border M&As done by Indian enterprises has grown substantially in relation to total M&As relating to India during 1990s. One important reason could have been the liberalization of policy regime with respect to outward foreign direct investment (O-FDI) in the 1990s (see Pradhan 2003 for more details). The O-FDI policy regime in India does not make any distinction with respect to the mode of overseas investment made namely green-field vs. brown-field. Prior to 1992 the O-FDI policy regime was highly restrictive and discouraged outward investment by Indian enterprises as the country itself was suffering from scarcity of capital resources for industrialization. The policy permitted outward investment in the form of joint ventures with minority Indian equity participation not exceeding 49 percent and further required that this minority equity participation should be made by the capitalization of the exports of indigenous plant, machinery, capital goods and know-how rather than cash remittances.

After pursuing a restrictive policy towards O-FDI over 1974-91, India has successively liberalized her policy regime beginning with the issue of the Modified Guidelines for Indian

Joint Ventures (IJVs) and Wholly Owned Subsidiaries Abroad (WOSs) in October 1992 and further modifications in May 1999, July 2002, and January 2004. These modified guidelines have provided for the automatic approval of O-FDI proposals and have successively enhanced its scope by increasing the cap on Indian equity participation. The amount of O-FDI proposal under the automatic route has been increased from $2 million in 1992 to $100 million in July 2002. In January 2004 the ceiling on O-FDI has been further relaxed and was allowed up to an un-specified amount only limited by the ceiling of 100 percent of the net-worth of investing Indian company[1]. This recent liberalization of O-FDI policy regime is further expected to lead to a rapid acceleration in the overseas M&As of the Indian enterprises.

2.1 Sectoral Composition of Indian Overseas M&As

The sectoral composition of overseas M&As by Indian firms reveals that services sectors mostly led by computer software accounted for the larger incidence of acquisitions made (Table-2). Of the total 119 M&A cases, the largest share 64 percent (76 in number) are in services sector, followed by industry (29 percent), with remaining 7.6 percent falling in primary sector comprising of mining, petroleum and gas. Although within industrial sector overseas M&As by Indian enterprises span a broad range of industries from low technology such as tea, textile, plastic products metal products and personal care to technology-intensive such as pharmaceuticals, chemicals, non-electrical machinery, and transport equipments, most actively targeted industries are pharmaceuticals with 12 M&As , paints and plastic products with 4 M&As each.

[1] Hindu (2004) ‘Indian companies can go global in farm sector: PM lifts ceiling on overseas investments’, 10 January.

The emergence of software in services sector and pharmaceuticals in industrial sector as the two leading sectors in overseas M&As clearly reflects the growing global competitiveness of Indian economy in these sectors. The software industry has been a major growth-contributing sector in Indian economy accounting about 55.15 percent of the electronics sector, 13 percent of the industrial sector, and 3.16 percent of GDP during the year 2000-01. The software sector has been leading the internationalization of the Indian economy by accounting for 17 percent of India's exports in 2001-02 and by establishing offices, merging and acquiring companies overseas, and listing on NASDAQ and NYSE. In pharmaceutical industry India is continually enjoying trade surpluses since mid-1980s and witnessed to the rise of many innovation driven Indian companies like Ranbaxy, Dr. Reddy's Laboratories, Lupin Laboratories, Panacea Biotech, and Aurobindo Pharma who can successfully compete in the global market place.

Table-2 Sector-wise overseas M&As by Indian companies, 2000-2003

Sector	M&As in Number					
	2000	2001	2002	2003	Total	
					2000-03	Percent
Primary		2	2	5	9	7.6
Mining, petroleum and gas		2	2	5	9	7.6
Industry	7	3	9	15	34	28.6
Chemicals				2	2	1.7
Fertilizer			1		1	0.8
Pharmaceuticals	1	1	6	4	12	10.1
Paints	1		2	1	4	3.4
Personal Care				1	1	0.8
Metal and metal products	1			2	3	2.5
Non-electrical Machinery				1	1	0.8
Transport equipment				3	3	2.5
Textiles		2			2	1.7
Plastic & products	3			1	4	3.4
Tea	1				1	0.8
Services	28	18	10	20	76	63.9
Banking services			1		1	0.8
Business advisory				1	1	0.8
Media	4	1			5	4.2
Telecommunications	1			1	2	1.7
Software	23	17	9	18	67	56.3
Total	35	23	21	40	119	100

Source: Author's calculation based on data collected from various financial and business newspapers

2.2 Regional Distribution of Indian Overseas M&As

Regionally the overseas M&As of Indian firms are directed towards developed countries in overwhelming number of cases. Nearly three-quarters of the total overseas M&As by Indian firms, 93 in numbers (78 percent of the total M&As), has been directed towards developed parts of the world economy like North America (46.2 percent), European Union (25.2 percent) and Australia (6.7) (Table-3). US remains the top-most targeted location in developed region which alone attracted 53 Indian overseas M&As followed by UK with 16 M&As. The number of M&As done by Indian companies in developing countries are only 20, mere 16.8 percent of the total number of overseas M&As. Within the developing region the overseas M&As activity of Indian firms are largely confined to Asia and Pacific which has attracted 12 Indian overseas M&As (10.1 percent of the total). While Africa turns out to be the second most attractive destination for Indian overseas M&As with 4.2 percent of the total, Latin America with 2.5 percent remains least attractive region.

The fact that large chunk of Indian overseas M&As have gone into developed countries is understandable as they offers large market for Indian software and pharmaceutical products. M&As may also be serving as quickest route for Indian firms to gain access to the developed country markets and strengthen market position as well as benefits from production and technological synergies with the proprietary assets of the acquired entity.

Table-3 Regional Composition of Overseas M&As by Indian Companies, 2000-03

Region/Country	M&As in Number					
	2000	2001	2002	2003	Total	
					2000-03	Percent
Developed countries	29	18	16	30	93	78.2
European Union	7	6	4	13	30	25.2
Belgium	1				1	0.8
France				3	3	2.5
Germany	1	2	1	3	7	5.9

Ireland			1		1	0.8
Netherlands				1	1	0.8
Portugal		1			1	0.8
United Kingdom	5	3	2	6	16	13.4
North America	19	11	11	14	55	46.2
Canada	1			1	2	1.7
United States	18	11	11	13	53	44.5
Other developed countries	3	1	1	3	8	6.7
Australia	3	1	1	3	8	6.7
Developing countries	3	2	6	9	20	16.8
Africa	2	0	2	1	5	4.2
Egypt			1		1	0.8
Sudan			1		1	0.8
Mauritius	1				1	0.8
South Africa	1				1	0.8
Zambia				1	1	0.8
Latin America and the Caribbean	0	0	3	0	3	2.5
Brazil			2		2	1.7
Mexico			1		1	0.8
Asia and the Pacific	1	2	1	8	12	10.1
China		1		3	4	3.4
China, Hong Kong SAR		1			1	0.8
Indonesia				1	1	0.8
Philippines				1	1	0.8
South Korea				1	1	0.8
Singapore	1		1	1	3	2.5
Fiji				1	1	0.8
Central and Eastern Europe	1	1			2	1.7
Romania	1				1	0.8
Russian Federation		1			1	0.8
Unknown	2	2			4	3.4
All Region	35	23	22	39	119	100

Source: Author's calculation based on data collected from various financial and business newspapers

2.3 Top Indian Overseas M&A Deals

Table-4 reports top-ten Indian Overseas M&A deals by the value of consideration. There are 74 M&A deals for which data on consideration involved are available. The top-ten deals aggregated to be $3.7 billion accounting for nearly 84 percent of total value of overseas M&As done by Indian enterprises. The bottom 10 deals valued to be meager amount of $12 million. Therefore the size distribution of overseas M&As by consideration imply that majority of deals involves smaller size of consideration.

The largest overseas M&A deal has been made by ONGC Videsh Ltd (OVL), the overseas subsidiary of the state-owned Oil and Natural Gas Corporation (ONGC). In 2001 ONGC has acquired 20 percent stake of Russian National Oil Company Rosneft in the oil and gas field of Sakhalin for the $1.7 billion[2]. In the Sakhalin project currently Rosneft holds 20 per cent stake, Japanese Sodeco and ExxonMobil of US have 30 per cent each. It is expected that oil production from the field would begin by 2005 and gas by 2006. As per the agreement ONGC will receive an equity oil of about 2-4 million tonnes per annum, besides 5-8 million cubic meters of gas per day. In 2002 ONCG has acquired 25 percent of stake in the Greater Nile oil project for about $720 million[3] which would ensure 3 million tonnes of oil annually. ONGC has also acquired oil equity in recent past in Iran (Farsi offshore), Myanmar (A1 block off Rakhine coast), and Vietnam (Nam con son basin)[4]. These deals for oil and gas equity are in fact part of the Indian government decision to ensure energy security for the country. The overseas oil reserves of ONGC is expected to fill the 5 million-tonne strategic crude reserves that India is building at three locations- two near Mangalore and another at Visakhapatnam[5].

The next big overseas M&A deal made is Tata Tea Ltd.'s acquisition of all the brands and worldwide business of Tetley Tea of the UK for a total consideration of $428 million (about £271 million) in February 2000[6]. Tetley Tea is a 160-year-old British company with over 1000 employees worldwide and six manufacturing sites, two in UK (Greenford Middlesex and Eaglescliffe), another two in USA (Marietta, Georgia and Williamsport, Pennsylvania) and one each in Australia (Melbourne) and India (Cochin). The business operation of Tetley covers 44

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[2] Indian Express (2001a) 'ONGC-Videsh allowed to invest in Russia', 7 January; Indian Express (2001b) 'ONGC seeks RBI nod for investments in Sakhalin', 29 March.
[3] Hindu Business Line (2002) 'ONGC Videsh in talks to acquire equity oil abroad', 20 November
[4] Business World (2004) 'On shaky ground: How safe are ONGC Videsh's oil reserves overseas?', 26 January.
[5] Business World (2004)'Oil strategy: Hiding oil in caverns', 19 January.
[6] Hindu Business Line (2001) 'Tata Tea, Tetley integration process to start next month', 11 January

countries and stands as the world's second largest tea brand after Lipton. Apart from providing access to global Tea market, this acquisition gives Tata Tea access to the brand, technology and expertise of Tetley in the area of tea bags. Another significant point about this acquisition is that major part of the cost of acquisition has been raised from abroad. The acquisition was financed by raising £75 million through GDRs, £20 million debt offerings by Rabo Bank, and by raising equity of £70 million from Tata Tea Ltd (£60 million) and Tata Tea Inc., USA (£10 million), a wholly owned subsidiary of Tata Tea Ltd.

Table-4 Top Ten Overseas M&A deals (In terms of consideration) Over 2000-2003

Year	Acquirer Company	Acquired Company	Country	Industry	Total Consideration ($ million)	Percent share
2001	ONGC	20 percent stake in Sakhalin Oil and gas field	Russia	Oil and gas field	1700	38.7
2002	ONGC	25 per cent stake in the Greater Nile Oil Project	Sudan	Oil field	720	16.4
2000	Tata Tea Ltd	Tetley	UK	Tea	428.1	9.8
2003	Reliance Infocomm	FLAG Telecom	UK	Telecommunication	207	4.7
2000	BFL Software	MphasiS Corp	USA	Software	200.8	4.6
2003	Tata Motors	A truck plant from Daewoo	South Korea	Transport equipment	118	2.7
2000	Silverline Technologies	SeraNova Inc	USA	Software	99	2.3
2003	Ranbaxy Laboratories Ltd	RPG Aventis SA	France	Pharmaceutical	86.1	2.0
2000	SSI Ltd	AlbionOrion Company, LLC	USA	Software	63.65	1.5
2003	Aditya Birla Group (Hindolaco Industries Ltd)	Nift Copper Mines owned by Straits Resources Ltd and 50 percent of stake in Maroochydore	Australia	Mining	46.5	1.1
Sum total of above top 10 deals					3669	83.6
Sum total of bottom 10 deals					12	0.3
All deals (74)					4388	100

Source: Author's calculation based on data collected from various financial and business newspapers

The acquisition of the global undersea telecommunication company, FLAG Telecom, by Reliance Infocomm for $207 million (about Rs.950 crore) in October 2003 is the fourth largest overseas M&A deals[7]. The London Stock Exchange and the NASDAQ listed company, FLAG, is a global wholesale network service provider to telecommunications carriers, ISPs, content providers and other broad-band operators. The acquisition provides Reliance access to over 50,000 kilometers of undersea fiber optic network, and two hubs in London and the middle-east.

The fifth largest overseas M&A deal has been struck by an Indian software company BFL Software in February 2000 to acquire US-based Mphasis Corp in an all-stock deal that is worth about Rs 864 crore (about $200.8 million)[8]. Mphasis primarily engaged in providing web-enabled solutions for both established companies and Internet start-ups and has around 250 employees worldwide, of whom 170 are based in India.

The recently concluded acquisition of Daewoo Commercial Vehicle Company Ltd. (DWCV) of Korea by TATA Motors Ltd in November 2003 stands as the sixth largest overseas deal. DWCV is now the second largest manufacturer of heavy commercial vehicles in Korea with a market share of 26 per cent[9]. The reported consideration for the deal is around $118 million[10]. This acquisition is likely to help Tata Motors' plan to grow fast in the southeast Asian market, including South Korea, Thailand and Malaysia, as well as in its efforts to make the `truck of the future' the prototype of which is likely to be ready by 2005-06[11].

By the size of the consideration paid, the seventh largest deal is the acquisition of NASDAQ-listed US company SeraNova Inc, an e-business consulting and integration service company by Silverline Technologies Ltd (SLT) in October 2000. This is an all-stock deal

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7 Economic Times (2003) 'Reliance snaps up FLAG in Rs 950 cr all-cash deal', 17 October.
8 Economic Times (2000) 'BFL Software Buys Mphasis in a Rs 864-Cr All Stock Deal, Gets Jerry Rao as Chief', 8 February.
9 Hindu (2003) 'Tata Motors to buy Daewoo's CV business', 23 October/
10 Hindu Business Line (2003) 'Tata Motors set to acquire Daewoo truck co for $118 m', 06 November.
11 Economic Times (2003) 'Tatas to bid for Korean Daewoo unit', 30 September.

approximately valued to be $99 million[12]. This acquisition not only strengthens SLT's e-business development capabilities but also enhances market presence in North America.

The next largest overseas M&A deal has been struck by Ranbaxy Laboratories Ltd. To acquire RPG Aventis SA, the France-based generic pharma company of Aventis in December 2003[13]. The value of the acquisition is reportedly to be about $86 million (roughly 70 million euro). RPG Aventis is the fifth largest player in the French generic market and has sales of 44 million euro in 2002. This acquisition ensures Ranbaxy's entry into France the 4th largest pharma market globally and also a wide-ranging pipeline of 52 molecules under RPG Aventis.

The ninth largest overseas M&A by Indian companies is the acquisition of US-based AlbionOrion Company LLC by SSI Ltd. in a $63.65 million (about 291 crore) deal in September 2000[14]. The acquired company has strong vertical domain expertise in telecommunications, health & human services and insurance and provides high end IT solutions in internet, supply chain management and customer resource management. This acquisition complements the SSI's business model technologies with strong domain skills in telecommunications, healthcare and insurance and also provides access to a strong blue chip clientele of Fortune 1000 companies including BellSouth, Commonwealth of Massachusetts, Atlantic Mutual, Liberty Mutual, Security First Network Bank, Bayer, 3M, American Express, ValueVision, Marriott and DaimlerChrysler.

The Aditya Birla Group company Hindalco Industries Ltd's acquisition of the Nift Copper Mines from Straits Resources Ltd in Australia for a total consideration of $46.5 million (about A$79.80 million) in January 2003 stood as the tenth largest overseas M&As made by

[12] Indian Express (2001) 'Silverline Tech shareholders clear SeraNova buyout', 22 February.
[13] Economic Times (2003**)** **'**Ranbaxy acquires Aventis arm', 13 December.
[14] Newsbytes News Network (2000) **'**India's SSI To Acquire US-Based AlbionOrion For $63Mil', 19 September.

Indian companies[15]. This acquisition elevated Aditya Birla Group to an integrated copper producer. The group is targeting to source up to 25 per cent of raw material from these captive copper mines and plans to step up Nifty's cathode production to 30,000 tonnes from the current capacity of 27,500 tonnes.

Lastly about the above 10 largest deals it should be noted that they are sectorally broad-based and have originated from wide range of sectors of Indian economy. Their coverage is from high-technology sectors such as pharmaceuticals, telecommunications and transport to low technology sector such as tea to natural resource based sectors such as oil, mining and gas to skill-based sector such as software industry.

3. Reasons for Overseas M&As

The general literature on M&As, heavily influenced by industrial organization theory, has tended to focus M&As as caused by a set of motivations of the firms ranging from consolidating market position and accessing intangible assets of acquiring firm and achieving operating synergies in that process to survive in the competitive environment and even to overcome market limitation through cross-border expansion. Accordingly five types of motivation have been examined for Indian overseas acquirers. The discussion has been based on the various news reports on overseas acquisition deals as well as published interviews of managers from different Indian companies that are active in overseas acquisitions. Once again it is emphasized that one should observe caution when passing through the discussion as it is based on patchy and incomplete information at hand.

[15] Hindu Business Line (2003) 'Hindalco to acquire Australia mine', 25 January.

3.1 Access to International Market

There is a good deal of evidence that overseas M&As of Indian companies in overwhelming cases have been primarily motivated to access the global market. In general, M&As as compared to green-field route gives acquiring companies direct access to an existing market in the form of customer base of the acquiring company. For NIIT Ltd. the acquisition of AD Solutions headquartered in Germany and subsidiaries in Switzerland and Austria in November 2002 is a key strategy to 'address the hitherto under-penetrated European market[16]'. In March 2002 the company had acquired a US-based IT services firm, Osprey Systems, with the primary reason to access the client base of around 30 companies including Coats American, Compass Group, Sulzer, Bruce Mills and Southern Pump[17]. The acquisition of another US-based customized knowledge solutions company, CognitiveArts, by NIIT in February 2003 has provided access to over 20 Fortune 500 companies in the US[18].

In September 2002 Asian Paints (India) Ltd. has acquired 50.1 percent stake in Berger International Ltd (BIL) incorporated in Singapore. According to the managing director of Asian Paints this acquisition 'offers access to the high growth emerging markets[19]'. The acquiring company has operations in 11 countries covering China, South-East Asia, the West Asia and the Caribbean Islands. The Vice President of Asian Paints points out that the primary objective of his company's overseas acquisitions is 'to hasten the company's strategy to go global'[20]. In March 2002 Dr Reddy Laboratories Ltd has made its first overseas acquisition by taking over UK-based pharma company BMS Laboratories and its subsidiary Meridian Health Care (UK) Ltd[21]. The

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[16] This view is expressed by NIIT Technologies director and president Arvind Thakur commenting on the acquisition. Financial Express (2002) 'NIIT acquires For $3 Million', 15 November.
[17] Financial Express (2002) 'NIIT Buys Osprey For $3 Million in All-cash Deal', 28 March
[18] Economic Times (2003) 'NIIT buys fin solutions co CognitiveArts', 13 February
[19] Financial Express (2002) 'Asian Paints Acquires 50% in Berger Intl', 06 September.
[20] Hindu Business Line (2002) 'Global operations to drive Asian Paints' sales', 20 February.
[21] Hindu Business Line (2002) 'Dr Reddy's to buy two UK-based cos', 13 March

Chief Executive Officer of the company expressed that this acquisition has ensured entry of Dr Reddy Laboratories into the UK generics market through the BMS group's established product basket and strong marketing network.

Similarly the acquisition of the treasury product division 'Trade IQ' of US-based IQ Financial Systems by the banking business unit of Infosys Technologies in June 2002[22]; of US-based e-services companies Challenger Systems Inc and Xmedia Inc by vMoksha Technologies in January 2002[23]; of China-based IT company Navion Software by Mphasis BFL in 2003[24]; of US-based Ivory Consulting by ICICI Infotech Services Limited in June 2000[25]; of US-based SuperSolutions Corp by I-flex Solutions in December 2003[26]; of global energy practice of American Management Systems by Wipro Ltd in November 2002[27] has enabled the acquiring companies to leverage on the existing customer base of the acquired company. The main motivation behind the move of Conveyors & Ropeways Services (CRS) to acquire 90 percent stake in the UK-based Breco Ropeways Ltd in November 2001 is to use the Breco brand to enter the Scottish market[28] and the European skiing and touring sectors and that of KPIT Cummins Infosystems to acquire Panex Consulting in August 2003 is to access its key clients[29].

3.2 Access to Firm-specific 'Created Assets'

Apart from accessing overseas market the motivation of cross-border acquisitions by Indian companies also include access to firm-specific intangibles like good will and brand-names, technology, marketing and distribution networks, business expertise through experienced

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[22] Hindu Business Line (2002) 'Infosys acquires unit of US co', 21 June
[23] Financial Express (2002) ''vMoksha acquires two US-based cos for $4.1 million', 17 January
[24] Express Computer (2003) 'M&A: What motivates Indian companies?', 07 April.
[25] Business Wire (2000) 'ICICI Infotech Acquires US$10 Million Ivory Consulting Group, USA', 23 June.
[26] in.news.yahoo.com (2003) 'India's I-flex to acquire US tech firm for $11.5 million, 16 December.
[27] Hindu (2002) 'Wipro to acquire AMS for $26 m', 13 November
[28] Economic Times (2001) 'Kolkata co buys out 90% of Breco Ropeways of UK', 13 November.
[29] Economic Times (2003) 'KPIT Cummins Infosystems acquires US co', 28 August.

manpower etc. To address the US corporate knowledge solutions market NIIT Ltd has acquired CognitiveArts with its brand, technology, content and a manpower team of about 50, of which 40 are technical people. The acquisition of other three companies such as AD Solutions, Osprey Systems and Data Executive International[30] by NIIT Ltd respectively added other manpower teams of about 75, 53 and 15 comprising of software, management and consulting professionals. Ranbaxy Laboratories Ltd. has got access to the state-of-the-art testing and quality assurance capabilities, and advanced research capabilities towards controlled substances when it has acquired the liquid manufacturing facility of the US-based Signature Pharmaceuticals in July 2002[31].

Dr Reddy's acquisition of the BMS group ensure an established product basket as well as marketing networks in the UK; Usha Beltron's acquisition of the wire rope business of the UK-based Brunton Shaw Ltd provide access to Brunton Shaw's strong brand image, technology and a distribution network in the UK[32]; Asian Paints Ltd.'s acquisition of Pacific Paints Co. give access to a broader product mix and brands[33]; BFL Software's acquisition of Mphasis has added about a manpower team of around 250 employees, of whom 170 are based in India and 80 abroad[34]; Tata Tea's acquisition of Tetley derive advantage of an international brand name, new products, packaging materials, quality improvement methods and technology; Tata Motors Ltd.'s acquisition of the Daewoo Korean truck plant helped in acquiring latter's design and engineering skills to tweak the assembly line to make "the truck of the future''[35]; Datamatics Technologies Ltd.'s acquisition of US-based Corpay Solutions added around 300 manpower and will help

[30] Hindu Business Line (2002) 'NIIT acquires US company', 05 September
[31] Financial Express (2002) 'Ranbaxy US Arm Acquires US Firm Production Unit', 25 July.
[32] Hindu Business Line (2000) 'Usha Beltron buy wire rope business of UK co', 23 September.
[33] Hindu Business Line (2000) 'Asian Paints acquires Australian firm', 10 November.
[34] Economic Times (2000) 'BFL Software Buys Mphasis in a Rs 864-Cr All Stock Deal, Gets Jerry Rao as Chief', 08 February.
[35] Economic Times (2003) 'Tatas to bid for Korean Daewoo unit', 30 September.

Datamatics gain expertise in the payroll and financial accounting business[36]; Aditya Birla group's acquisition of Azko Nobel's carbon disulphide (CS_2) Indonesian plant provide access to the environment-friendly methane gas technology[37]; and Infosys Technologies Ltd.'s acquisition of Australia-based Expert Information Services Pty Ltd. added about 330 manpower as well as ensured accessibility to domain expertise in the telecom vertical and project management[38].

3.3 Achievement of Economies of Operating Synergies

A few of the Indian companies also noted that their undertaking overseas M&As is motivated by an incentive to benefits from operational synergies with the acquired enterprises. The managing director of Usha Beltron Ltd commenting on the acquisition strategy of his company stated that it is 'to create synergy between the steel making capabilities of Usha Beltron with the manufacturing, marketing, distribution and service activity of the global players in the wire rope business'[39]. The acquisition of SCIB Chemical SAE Egypt has complemented the operation of Asian Paints[40]; of the UK-based CP Pharmaceutical fits well with the activities of Wockhardt[41]; of Germany-based advanced graphics software firm AGS provide synergy to Infotech's engineering software service offerings in the European markets[42]; of US-based AlbionOrion Company LLC has complemented the company's business model technologies with strong domain skills in telecommunications, healthcare and insurance; of U.S.-based Ivory Consulting Group has complemented ICICI Infotech's financial strength, domain expertise,

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[36] Economic Times (2003) 'Datamatics buys Corpay of US for $9 million', 16 October.
[37] Economic Times (2003) 'Aditya Birla group buys Azko Nobel's Indonesian Plant', 28 August.
[38] Financial Express (2003) ' Infy Goes Shopping, Acquires Australian Firm For $22.9 M', 19 December.
[39] Hindu Business Line (2000) 'Usha Beltron buy wire rope business of UK co', 23 September.
[40] Hindu Business Line (2002) 'Asian Paints to pick 60% stake in Egyptian firm', 28 August.
[41] Business Standard (2003) 'Wockhardt buys UK firm for Rs 82.5 crore', 09 July.
[42] Computers Today (2000) 'Silverline, Infotech Enterprises Acquire Overseas Firms', 16-30 November.

project management experience and world-class infrastructure; of UK-based EconoMatters is a good fit for the advisory business of Crisil Ltd[43].

3.4 Overcoming Constraints from Limited Home Market Growth

The overseas M&As by Indian companies may also have been caused by the limited size and growth of Indian market. This is particularly true for the computer software enterprises. India with a very low PC density (around 6 P.Cs per 1000 people) is offering a limited domestic market which account for a lower share of total software production at about 25 percent as compared to 75 percent accounted by external demand through export in 2000.Furhter, domestic demand is growing at a compound rate of 46 percent per annum, which is much lower in comparison to export growth rate of 62 percent during 1988-2000. This low domestic demand coupled with overseas growth opportunities may have led many Indian software companies to undertake M&As for overseas expansion.

3.5 Survival Motivation

Another likely reason behind the rising overseas M&As by Indian companies may have been the survival instinct in a firm in an increasingly liberalizing and globalizing Indian economy. The process of economic reforms that has been implemented throughout 1990s has increased competitive pressure on Indian companies through ensuring cheap imports and entry of large number of foreign players. Indian companies are now under pressure to cut costs, improve quality and technology, and diversify into foreign market. In this context overseas M&As provides Indian firms faster entry into international markets, and acquire new design, skills and new technologies.

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[43] Economic Times (2003) 'Crisil to acquire UK gas advisory in £1.5-m deal', 18 December.

4. What is Different About the Overseas Acquirer?

In this section we investigate which firm-specific characteristics discriminate between Indian enterprises who undertake overseas M&As and who do not. The set of firm-specific characteristics considered are: the age of the firm (AGE) measured in number of years, size of the firm measured by total sales in Rs. crore (SIZE), research intensity measured as R&D expenses as a percent of sales (RDINT), export intensity measured as total exports as a percent of sales (EXPOINT) and profitability measured as profit before tax as a percent of sales (PROFIT).

The analysis has been based on a sample of Indian manufacturing and software enterprises collected from the PROWESS database of the Centre for Monitoring Indian Economy (C.M.I.E.) for year 2000. This dataset then has been merged with the overseas M&As data collected by the authors from different newspaper reports and business magazines. A firm who has at least one overseas M&As over 2000-2003 has been classified as an acquirer, otherwise a non-acquirer. Finally the industry categories where not a single overseas M&As has been reported have been excluded from the dataset. The final dataset contains a total of 922 manufacturing firms of which 23 firms are overseas acquirers and a total of 211 software firms of which 28 are overseas acquirers. The empirical analysis has been conducted separately for the manufacturing firms and software firms given that the nature of production function differs greatly between these sectors. Further the analysis has been performed in two stages. In the first stage a univariate analysis has been implemented to ascertain on which firm-specific factors the acquirers and non-acquirers group differ significantly. As the univariate analysis ignores interaction among all the firm-specific factors the results based on it can only be treated as indicative. To overcome this limitation in the second stage a multivariate analysis has been applied to the data.

4.1 Univariate Non-parametric Analysis

Table-5 summarizes results obtained from univariate analysis based on the non-parametric Wilcoxon rank-sum (Mann-Whitney) test. The test examines the hypothesis that two independent samples of acquirers and non-acquirers (i.e., unmatched data) are from populations with the same distribution. Of the five firm-specific factors, four factors namely SIZE, RDINT, EXPOINT and PROFIT are statistically significant in the case of manufacturing enterprises. For all the statistically significant factors the probability of the acquirer group having higher level of these variable vis-à-vis the non-acquirer group is higher than 0.5. This indicates that in large number of cases acquirers are likely to be large-sized, higher R&D oriented, higher export oriented, and higher profitable firms than the non-acquirers.

Findings from the software industry are similar to the findings from the manufacturing sector in the case of three firm-specific factors such as SIZE, EXPOINT and PROFIT. However, the age of the firm, AGE, which was not significant in the case of manufacturing sector comes out to be statistically significant in the case of software. The variable RDINT which was significant in the case of manufacturing sector is turns out as statistically not significant.

The fact that acquirers are large sized than non-acquirers suggests Indian firms before engaged in overseas M&As have already grown large in the domestic market in which case overseas M&As provide alternative to their growth. As competition has increased in the domestic market on account of liberalization of import and foreign investment it is very difficult for these firms to expand solely based on domestic markets. Large size also indicates that they are reaping benefits of scale economies and foreign market can further provide opportunities to even grow larger.

The overseas acquirers also appear to be highly export oriented. As the export competitiveness is increasingly dependant upon improving after-sales services to global buyers, overseas presence through M&As may provide an easy route to Indian companies. The acquired foreign firms not only act as a channel for easy flows of market information including taste and preference of foreign consumers but also they, with their well-established marketing networks can ensure flexible, punctual and faster after-sales services to global buyers.

In Indian manufacturing the overseas acquirers are likely to have a higher R&D intensity than non-acquirers. This higher R&D intensity is a reason for Indian acquirers in many cases to have used M&As as a means of obtaining new technology from overseas. Higher R&D intensity implies lower technology gap between acquiring and acquired firms to permit effective absorption of technology obtained from the acquired firms. Unless the acquiring firms is able to de-codify, assimilate and integrate the technologies of the acquired firms with itself to further strengthen its overall technological advantage it make little sense for firms to use M&As as a way to bring in new technology. The R&D intensity is not significant in the case of software industry probably because in a skill-intensive service sector the role of formal in-house R&D activity is quite limited.

The higher profitability characteristic of overseas acquirers vis-à-vis non-acquirers is understandable in the sense that profitable firms are better placed as compared to non-profitable firms in terms of resources to meet the costs and risks involved in overseas acquisitions.

Table-5 Results from Wilcoxon Rank-Sum (Mann-Whitney) Test

Variable	Z-Statistics	Level of Statistical Significance (two-tailed test)|	P{(Acquirer) > (Non-Acquirer)}	Obs with Acquirer	Obs with Non-Acquirer
A. Sample Manufacturing Enterprises					
AGE	-0.251	-	0.515	23	899
SIZE	-7.296	1%	0.945	23	899
RDINT	-4.466	1%	0.712	23	899
EXPOINT	-3.992	1%	0.736	23	899
PROFIT	-5.285	1%	0.822	23	899
B. Sample Software Enterprises					
AGE	-5.800	1%	0.791	28	183
SIZE	-6.059	1%	0.856	28	183
RDINT	-1.239	-	0.534	28	183
EXPOINT	-4.986	1%	0.788	28	183
PROFIT	-2.144	5%	0.626	28	183

Note: P{(Acquirer) > (Non-Acquirer)} gives the probability that the variable for the acquirer-group is larger than the variable for the non-acquirer group.

4.2 Multivariate Analysis

To take account of the interaction between different firm-specific factors in distinguishing between acquirers and non-acquirers, which the univariate analysis fails to account for, the method of step-wise discriminant analysis has been adopted. The step-wise discriminant analysis, forward or backward, would result in an optimal set of firm-specific factors that contribute the most to the discrimination between acquirer and non-acquirer group. The final results obtained from the analysis for manufacturing and software firms have been presented in Table-6. The obtained discriminant function accounted for 100 percent of variance and the Chi-square test of Wilks'Lambda suggest that discriminant function as a whole is statistically highly significant. The mean value of the discriminant scores, group centroid, for acquirers is quite different from that for non-acquirers. The estimated discriminant functions for manufacturing and software firms appears to have good fits. For instance the function has correctly classified about 96 percent of overall original cases, about 34.8 percent of cases for acquirer group and about 97.6 percent of the cases for non-acquirer group (Table-7). Although the percent of correctly classified cases in the case of acquirer group appear to be modest in the case of manufacturing, it is quite high in the case of software sector at about 75 percent.

Table-6 Results from Discriminant Analysis

Variable	Standardized Canonical Discriminant Function Coefficients	
	A. Sample Manufacturing Enterprises	***B. Sample Software Enterprises***
AGE	a	.538
SIZE	.966	.479
RDINT	.274	a
EXPOINT	a	.413
PROFIT	a	a
Eigenvalue	0.149	0.313
% of Variance	100.0	100.0
Wilks'Lambda	0.761	.870
Chi-square	56.543	127.704
Degrees of Freedom	3	2
Sign Chi2	1%	1%
Functions at Group Centroids†		
Acquirer	2.411	1.424
Non-acquirer	6.169E-02	-.218

Note: a-denotes variables that are eliminated in the stepwise analysis based on the F-test of Wilk's lambda: (i) minimum partial F to enter is 3.84 and (ii) maximum partial F to remove is 2.71; † Unstandardized canonical discriminant functions evaluated at group means

The results show clearly that acquirers can be substantially differentiated from non-acquirers considering only two firm-specific characteristics namely SIZE and RDINT in the case of manufacturing firms. Other factors, EXPOINT and PROFIT which are significant in the univariate analysis are no longer important factors in the discriminant analysis. The simple correlation between the variables and the discriminant function reveals that the association is very large only in the case of SIZE and RDINT and very small for other factors[44]. Therefore it can be inferred that acquirers in Indian manufacturing are likely to be large sized and highly innovation-intensive enterprises.

[44] The absolute value of correlation is .962 for SIZE and .260 for RDINT. It is .072, .014, and .006 respectively for AGE, PROFIT and EXPOINT.

Table-7 Classification Results from Discriminant Analysis

A. Sample Manufacturing Enterprises				
Group	Predicted Group Membership			% of cases correctly classified
	Non-acquirer	Acquirer	Total	
Acquirer	15	8	23	34.8
Non-acquirer	877	22	899	97.6
Correctly classified	877	8	922	96
B. Sample Software Enterprises				
Group	Predicted Group Membership			% of cases correctly classified
	Non-acquirer	Acquirer	Total	
Acquirer	7	21	28	75
Non-acquirer	152	31	183	83.1
Correctly classified	152	21	211	82

In the case of software firms the discriminant analysis suggests that out of five firm characteristics only three factors namely AGE, SIZE and EXPOINT are the best predictors of firms' acquisition status. The other factor, PROFIT, which was significant in the univariate analysis, has been dropped as it was found to contribute least to the prediction of group membership. Therefore, acquirers in software industry tend to be relatively older, large sized and export-oriented vis-à-vis non-acquirers.

5. Conclusions

Since late 1990s the Indian firms are increasingly undertaking overseas M&As. In this paper we have looked into the patterns and motivations behind such overseas M&As by Indian firms. The study indicates that a large majority of overseas M&As originated within services sector led by software industry and in overwhelming cases were directed towards developed countries of the world economy. The industrial sector overseas M&As span a wide range of industries but concentrated more in pharmaceuticals, paints and plastic products. U.S.A. and U.K. are the two major hosts of Indian overseas M&As. The size distribution of overseas M&As revealed that a small number of M&A deals contributed largest chunk of total value of M&As.

The study also suggests that Indian firm's overseas acquisitions have been motivated by a wide number of reasons from the access to international market, to firm-specific intangibles like technology and human skills, to benefits from operational synergies, to overcome constraints from limited home market growth, and to survive in an increasingly competitive business environment.

The research further reveals that while firms engaged in overseas M&As tends to be large sized and research intensive in the case of manufacturing sector, they are older, large sized and export-oriented in the case of software sector vis-à-vis firms not undertaking overseas M&As.

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