The Global Economic Crisis: Impact on Indian Outward Investment

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1. Introduction

The growth story of the emerging multinationals had attracted the world's attention just over a year ago. The emerging countries' outward foreign direct investment (OFDI) flows has risen much faster than global FDI flows underpinned by large scale acquisitions of emerging multinationals in the developed region. This has come to signify a new wave of internationalization taking place in the world economy with emerging multinationals posing critical challenges for the incumbent global firms.

Among emerging countries, India's OFDI continued to surge ahead accompanied by large scale overseas acquisitions by Indian multinationals. Its annual average growth of 98 per cent during 2004–07 had been unprecedented, much ahead of the OFDI growth from other emerging markets like China (74 per cent), Malaysia (70 per cent), Russia (53 per cent), and the Republic of Korea (51 per cent), although from a much lower base (Table-1). Indian FDI remain buoyant throughout 2000–07 mainly led by a combination of factors like increased liberalization and urgency to acquire additional firm-specific intangible assets, need to secure global sources of natural resources, rising exports, increased competitiveness, easier access to domestic and international finance (i.e. growing corporate bonds and equity markets), liberalization of OFDI policy, and favorable economic conditions in both the domestic and global economies.

Table-1 Outward FDI from Selected Emerging Economies, 2004−07

Economies	OFDI ($ million)				Percentage change
	2004	2005	2006	2007	(Annual average over 2004−2007)
Brazil	9807	2517	28202	7067	1176
India	2179	2978	12842	13649	98
China*	5498	12261	21160	22469	74
Malaysia	2061	2971	6041	10989	70
Russian Federation	13782	12767	23151	45652	53
Republic of Korea	4658	4298	8127	15276	51

Note: * excluding Hong Kong, Macao and Taiwan.
Source: Based on UNCTAD (2008) FDI Database.

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The global financial crisis that started in the late 2007, however, relegated the debate of emerging Indian multinationals considerably in 2008. The bursting of the asset bubble in the United States, collapse of western financial institutions and rising insolvency of the global corporate giants resulted in the sharpest contraction in global economic activity. The year 2008 saw global FDI inflows plummeting by 21 per cent (UNCTAD, 2009), and a slowdown in growth of global merchandise trade and GDP to just 2 per cent (down from 6% in 2007) and 1.7 per cent (down from 3.5 per cent in 2007) respectively (WTO, 2009). As per the World Bank, the global GDP and world trade in goods and services is expected to contract by 1.7 percent and 6.1 per cent, respectively, in 2009 (World Bank, 2009).

The current situation of global economic slowdown, uncertainty and the fragile financial systems are likely to affect Indian multinationals in a number of ways. Persistent fall in global demand and steep export declines are likely to hit hard these Indian firms and it is important to understand the ways they are being affected. How will emerging Indian multinational deal with the global crisis? Will they benefit from the global meltdown − for example, from cheaper asset prices − or become cautious and retreat? This article takes an exploratory look at these questions about Indian multinationals and provides some preliminary evidence.

2. Indian FDI Falls in 2008 and the First Half of 2009

The global economic crisis appears to have turned Indian firms watchful on their global expansion strategy. As a result the actual Indian FDI outflows, which rose to a historic level of $17.8 billion in 2007, fell by 6.3 per cent in 2008 to $16.7 billion (Table-2). This is its first absolute decline since 1999. The negative growth of Indian FDI is in line with the worldwide FDI decline but it contrasts with China's doubling of its OFDI in 2008[1]. The contraction in Indian FDI continues in 2009, falling by 14 per cent to $4.7 billion in the first quarter of the current year.

The differential OFDI performance between India and China should not be surprising once one take notes of the basic differences that characterize OFDI flows from these two emerging economies. Unlike state-driven Chinese FDI outflows, Indian FDI has been primarily led by private enterprises except a few public sector firms operating in the energy sector. Despite several Chinese sovereign wealth funds losing billions of dollars in the US and Europe during the financial crisis in 2008, the Chinese 'go global' policy successfully pushed up its FDI outflows, backed by the world's largest

[1] Davies, K. (2009) 'While global FDI falls, China's outward FDI doubles', *Columbia FDI Perspectives*, No. 5, May 26.

foreign exchange reserves of $1.95 trillion. On the contrary, Indian FDI flows, largely driven by market parameters and business opportunities, have been impacted adversely.

Table-2 Actual Indian FDI Outflows, 2008 and 2009

Year	Quarter	FDI in $ million			% change over previous year
		Equity	Loan	Total	
2008	January–March	3981	1422	5403	20.6
	April–June	1346	451	1797	-65.4
	July–September	2640	494	3134	5.4
	October–December	4254	1314	5569	-2.0
	All Quarters (January–December)	12926	3778	16704	-6.3
2009	January–March	4159	488	4647	-14.0

Sources: (i) *RBI Bulletin* (2009) 'Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries : 2008-09 (April-March)', July 10; (ii) *RBI Bulletin* (2009) 'Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2008-09 (April-December)', April 17; (iii) *RBI Bulletin* (2009) 'Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2008-09 (April-September)', January 14; (iv) *RBI Bulletin* (2008) 'Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries : 2008-09 (April-June)', October 13; (v) *RBI Bulletin* (2008) 'Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2007-08 (April-March)', July 14.

Note: (i) The equity data do not include that of individuals and banks; (ii) Quarterly figures may not add up to annual totals due to revision in data.

The trend in Indian overseas acquisitions during January–June 2009, as compared to the corresponding period in 2008, further indicates that Indian OFDI is likely to be under pressure in 2009. Between these two periods, the value of Indian overseas acquisitions fell by 64.7 per cent, from $8 billion to $2.8 billion and their number fell from 140 to 28 (Table-3). Clearly, continuously tumbling cross-border acquisitions of Indian firms are driving the significant decline of aggregate Indian FDI of the past one and a half years. After years of overseas expansions, the Indian firms are consolidating their foreign operations and preparing themselves for reduced business opportunities caused by financial and economic crisis in the global economy.

This 2008 and early 2009 plunge in Indian OFDI has been asymmetrical across sectors and host regions (Table-4, 5 and 6). Between 2007 and 2008, the acquisition led Indian FDI outflows in primary sector (9.5 per cent) and services (19 per cent) improved, while those in manufacturing sector (-78.9 per cent) declined. These figures suggest that Indian OFDI in primary and services sector has been more resilient during the crisis than the OFDI in manufacturing activities. As a result, the share of manufacturing in Indian OFDI flows has gone down from 83.5 per cent in 2007 to 48.7 per cent in 2008. The share of primary and services sectors in Indian brownfield FDI outflows rose over the last year to 19.6 per cent and 30.8 per cent, respectively.

Table-3 Overseas Acquisitions by Indian Firms, January–June 2009

Month	Value ($ million)			Number of deals		
	2008	2009	% change over previous year	2008	2009	% change over previous year
January	1304	29	-97.8	28	6	-78.6
February	602	132	-78.1	19	5	-73.7
March	3019	2316	-23.3	23	10	-56.5
April	746	40	-94.6	28	1	-96.4
May	569	54	-90.5	19	4	-78.9
June	1731	243	-86.0	23	2	-91.3
All above months	7971	2814	-64.7	140	28	-80.0

Source: Based on dataset constructed from different reports from newspapers, magazines and financial consulting firms like *Hindu Business Line*, *Economic Times*, *Financial Express*, *Business World*, Grant Thornton India, and ISI Emerging Market.

Within the primary sector, the oil and natural gas segment received increased Indian investment despite the economic slowdown and volatile oil prices. This is primarily because of the state-owned Indian company, Oil and Natural Gas Corporation, continuing its acquisition of overseas oil resources (e.g. the acquisition of Imperial Energy Corporation for $1.9 billion). The mineral resource seeking Indian investment appeared to have taken a beating due to slowdown in global commodity demand and falling mineral prices.

Undeterred by the weak growth prospects and turmoil in the global financial sector, several Indian service companies from information technologies (IT), media and financial services continued their acquisition activities in 2008 with positive OFDI growth. Indian service OFDI fell in just two services segments, namely hotels and telecommunication services.

The 2008 fall in Indian manufacturing OFDI is from a broad range of economic activities. The Indian companies from the metal sector significantly curtailed their acquisition activities in view of drastic fall in steel and iron ore prices in the international market and slowdown of demand from China and other emerging economies. Outward FDI from technology-intensive manufacturing activities such as pharmaceuticals, electrical and non-electrical machinery, and telecommunication equipment also declined in 2008.

By the first half of 2009, the negative impact of global slowdown has spread from manufacturing OFDI to service OFDI. The Indian brownfield FDI contracted for the entire range of services and manufacturing activities. However, the primary sector remained robust led by continuing increased OFDI flows from the oil segment and revival of it from the mining sector.

The current decline in Indian OFDI is widespread among recipients. Among host regions, the fall in Indian brownfield investment was the steepest in the developing region (-78.8%) in 2008, with Asian and Latin American developing economies reporting large diminution. African developing economies weathered the Indian FDI downturn by receiving 69% more of it in 2008 than in 2007. The decline in the developed world (-62%) was concentrated in North America (-75%) and Europe (53.8%), followed by developed Asia (-100%). The developed Oceania (i.e., Australia) resisted the Indian FDI decline with increased flows in 2008.

In early 2009, Indian FDI flows into the developing region recovered due to African sub-region sustaining its attractiveness in the oil and gas sector. Other developing sub-regions continued with sizeable decline in Indian FDI flows. The plunge in Indian brownfield investment also continued in the developed region but the fall was more concentrated in Europe. Interestingly, among the two main epicenters of the financial crisis, the U.S. and the U.K., which registered large scale decreased inflows of Indian FDI in 2008, the U.S. sprang a recovery in early 2009 whereas the UK continued to suffer from declining inflows.

Undertaken mostly by private enterprises, except for a few public sector firms in the energy sector,[2] Indian OFDI is driven fundamentally by global growth, competition and business opportunities. So it is not surprising that it shrank when market conditions turned adverse in 2008. A number of Indian companies such as Sakthi Sugars, Reliance Industries, Vardhman Polytex, Wockhardt and Suzlon Energy are reportedly wrapping up or disinvesting from some of their overseas subsidiaries because of the economic meltdown in 2009 (Table-7).

[2] For a list of large Indian MNEs, see *The Growth Story of Indian Multinationals*, press release, The Indian School of Business (ISB) and the Vale Columbia Center on Sustainable International Investment (VCC), 2009.

Table-4 Sectoral Composition of Indian Overseas Acquisitions in 2008 and Early 2009

Sector	Value ($ million)		% change over previous year	Value ($ million)		% change over previous year
	2007 (January−December)	2008 (January−December)		2008 (January−June)	2009 (January−June)	
Primary	2314 (6.5)	2533 (19.6)	9.5	411 (5.2)	2230 (79.2)	442.6
Agricultural & allied products	10 (0.0)	24 (0.2)	140.0	24 (0.3)		-100.0
Mining	1239 (3.5)	421 (3.2)	-66.0	277 (3.5)	1780 (63.3)	542.6
Oil & natural gas	1065 (3.0)	2088 (16.1)	96.1	110 (1.4)	450 (16.0)	309.1
Manufacturing	29919 (83.5)	6306 (48.7)	-78.9	5394 (67.7)	319 (11.3)	-94.1
Food & beverages	1269 (3.5)	56 (0.4)	-95.6	54 (0.7)		-100.0
Textiles & apparels	126 (0.4)	136 (1.0)	7.9	136 (1.7)	119 (4.2)	-12.5
Paper & paper products		9 (0.1)		9 (0.1)		-100.0
Gems & jewellery	43 (0.1)	40 (0.3)	-7.0	40 (0.5)		-100.0
Rubber & plastic products	65 (0.2)	124 (1.0)	90.8	68 (0.9)		-100.0
Non-metallic mineral products	37 (0.1)	9 (0.1)	-75.7	9 (0.1)		-100.0
Metal & fabricated metal products	22346 (62.4)	162 (1.3)	-99.3	162 (2.0)		-100.0
Machinery & equipment	1351 (3.8)	173 (1.3)	-87.2	152 (1.9)		-100.0
Electrical machinery & equipment	1560 (4.4)	827 (6.4)	-47.0	556 (7.0)	164 (5.8)	-70.5
Transport equipment	475 (1.3)	2758 (21.3)	480.6	2701 (33.9)	32 (1.1)	-98.8
Telecommunication Equipment	757 (2.1)		-100.0			
Chemicals	1117 (3.1)	1427 (11.0)	27.8	1087 (13.6)		-100.0
Pharmaceuticals	773 (2.2)	585 (4.5)	-24.3	420 (5.3)	4 (0.1)	-99.0

Services	3350 (9.4)	3989 (30.8)	19.1	2137 (26.8)	265 (9.4)	-87.6
Business advisory	9 (0.0)		-100.0			
Media & entertainment	81 (0.2)	148 (1.1)	82.7	144 (1.8)	25 (0.9)	-82.6
Hospitality & tourism	521 (1.5)	45 (0.3)	-91.4	45 (0.6)	13 (0.5)	-71.2
Banking & financial services	26 (0.1)	141 (1.1)	442.3	110 (1.4)		-100.0
Telecommunication services	330 (0.9)	84 (0.6)	-74.5	84 (1.1)	26 (0.9)	-69.0
IT & ITES	2383 (6.7)	2565 (19.8)	7.6	786 (9.9)	201 (7.1)	-74.4
Power generation & distribution		1006 (7.8)		968 (12.1)		-100.0
Others	244 (0.7)	126 (1.0)	-48.4	29 (0.4)		-100.0
Grand Total	35827 (100)	12954 (100)	-63.8	7971 (100)	2814 (100)	-64.7

Note: Percentage share is in parenthesis.
Source: Same as Table-3.

Table-5 Regional Direction of Indian Overseas Acquisitions in 2008 and Early 2009

Host Region	Value ($ million)		% change over previous year	Value ($ million)		% change over previous year
	2007 (January−December)	2008 (January−December)		2008 (January-June)	2009 (January-June)	
Developing economies	3234 (9.0)	685 (5.3)	-78.8	496 (6.2)	531 (18.9)	7.1
Africa	111 (0.3)	188 (1.5)	69.4	80 (1.0)	451 (16.0)	463.8
Latin America & Caribbean	232 (0.6)	68 (0.5)	-70.7	68 (0.9)		-100.0
Asia	2891 (8.1)	429 (3.3)	-85.2	348 (4.4)	80 (2.8)	-77.0
Transition economies	37 (0.1)	20 (0.2)	-45.9			
Europe	37 (0.1)	20 (0.2)	-45.9			
Developed economies	32556 (90.9)	12249 (94.6)	-62.4	7475 (93.8)	2283 (81.1)	-69.5
America	14372 (40.1)	3570 (27.6)	-75.2	2313 (29.0)	2046 (72.7)	-11.5
Asia	492 (1.4)		-100.0			
Europe	17579 (49.1)	8122 (62.7)	-53.8	4997 (62.7)	196 (7.0)	-96.1
Oceania	113 (0.3)	557 (4.3)	392.9	165 (2.1)	41 (1.5)	-75.2
Grand Total	35827 (100)	12954 (100)	-63.8	7971 (100.0)	2814 (100)	-64.7
Memorandum item						
Number of host countries	40	42		35	14	
Number of acquiring Indian companies	150	164		109	24	

Note: Percentage share is in parenthesis.
Source: Same as Table-3.

Table-6 Indian Overseas Acquisitions by Selected Host Countries in 2008 and Early 2009

Host Region	Value ($ million)		% change over previous year	Value ($ million)		% change over previous year
	2007 (January−December)	2008 (January−December)		2008 (January-June)	2009 (January-June)	
UK	15374	5384	-65.0	2681	32	-98.8
USA	12003	3165	-73.6	1932	2045.94	5.9
Canada	1805	405	-77.6	381		-100.0
Indonesia	1124	258	-77.0	258	80	-69.0
Norway	900	302	-66.4	300		-100.0
Singapore	818	39	-95.2	22		-100.0
South Korea	752		-100.0			
Germany	745	812	9.0	554	164	-70.4
Bermuda	564		-100.0			
Israel	489		-100.0			
Netherlands	355	954	168.7	954		-100.0
Brazil	224		-100.0			
Malaysia	133		-100.0			
Australia	113	557	392.9	165	41	-75.2
Mozambique	86	78	-9.3			
France	71	35	-50.7	2		-100.0
Italy	61	272	345.9	187		-100.0
Vietnam	44	2	-95.5			
Russia	37	20	-45.9			
Czech Republic	25	3	-88.0	3		-100.0

Source: Same as Table-3.

Table-7 Illustrative Cases of Overseas Disinvestment by Indian Firms, 2009

Indian company	Disinvestment detail
Suzlon Energy Ltd.	SEL sold 10% stake in Hansen Transmissions International on January 2, 2009 to raise Rs 600 crore (about $120 million). According to news reports, Suzlon has taken this step because of the tight liquidity situation and its obligation to buy the stake of the Portuguese company Martifer in REpower, Germany.
Sakthi Sugars Ltd.	Sakthi Germany GmbH and Sakthi Sweden AB have filed for bankruptcy and Arvika Gjuteri AB, Sweden, for financial reconstruction. According to a parent company source, these measures were taken on account of the economic meltdown in the US and Europe and the consequent drastic reduction in orders.
Reliance Industries Ltd.	RIL's German subsidiary, Trevira GmbH, has started insolvency proceedings. RIL took this step to overcome the impact of the industrial slowdown in Europe, particularly in the automotive and textile sectors, to which it is an important supplier.
Wockhardt Ltd	It has divested its German business Esparma to raise resources to meet the huge FCCB (foreign currency convertible bond) debt burden under the adverse market conditions and liquidity constraints. It is even reported to have put some of its other overseas assets such as Ireland's Pinewood and France's Negma on possible disinvestment route.
Vardhman Polytex Ltd.	VPL has decided to close down its Austrian subsidiary, FM Hammerle Nfg GmbH, as a part of business restructuring demanded by the current recession in Europe.

Source: (i) *Hindu Business Line* (2009) 'Suzlon Energy sells 10% stake in Hansen' January 3; (ii) *Financial Express* (2009) **'**Sakthi Sugars' European units file for bankruptcy'**,** Feb 06; (iii) *Economic Times* (2009) 'RIL's German textile arm files for bankruptcy', June 4; (iv) *Hindu Business Line* (2009) 'Wockhardt sells German biz Esparma', June 18; (V) *Hindu Business Line* (2009) 'Wockhardt may go in for restructure of biz, subsidiaries' April 01; (vi) BSE (2009) 'Corporate communication of Vardhman Polytex', June 23.

3. What led to the Indian FDI downturn?

An important factor in the decline of Indian OFDI has been the credit crunch in both Indian and overseas markets. The Indian banking sector, which suffered from its exposure to distressed global financial instruments and institutions, adopted a cautious lending policy in 2008[3] (Pradhan, 2009). This general slowdown in bank lending to the corporate sector led to several domestic and overseas projects being postponed.

In addition, the global financial crisis had a significantly negative impact on other financial sub-sectors like the Indian equity, money and foreign-exchange markets, which has, in turn, restricted Indian firms' access to cheap sources of finance and reduced their profitability. India's benchmark equity index, the Sensex, fell sharply by 48% in December 2008, from its highest ever level reached exactly a year back. Many Indian companies that had acquired overseas units in the recent past, such as Suzlon Energy, Tata Motors and Hindlaco, had to suspend their rights issues and faced difficulties in raising resources. The sudden depreciation of the Indian rupee against the US dollar

[3] *Hindu Business Line* (2007) 'Banks' loss due to sub-prime crisis put at $2 b', October 06.

in 2008 also led to heavy losses for many export-oriented Indian companies that had acquired long-term forex derivatives[4].

The overseas debt obligation of Indian companies also increased considerably in terms of domestic currency as a result of sharp currency depreciations and turbulence in equity markets during the crisis period. These Indian firms have raised overseas resources by issuance of foreign currency convertible bonds (FCCBs) to finance their global greenfield projects and acquisitions in the past. Currently, the conversion price of FCCBs at maturity is estimated to be many times greater than their current market prices due to fall in the stock values and many of the FCCBs of Indian firms will be maturing since October 2009. Indian firms such as Subex Azure, Aurbindo pharma, Hotel Leela, Bajaj Hindustan, Orchid Chemicals, Wockhardt, Firstsource and 3i Infotech were observed to have debt amount with interest greater than their market capitalization in the late 2008 and are under severe debt pressure[5]. No wonder companies like Wockhardt are forced to sell off their overseas subsidiaries in order to overcome the liquidity constraint. The collapse of stock prices of Indian companies has not only worsened their debt situation but also their leverage and faculty to carry on M&As.

Continued falls in export earnings, especially during October–December 2008, further aggravated the condition of export-dependent Indian firms in a large number of sectors, including software, gems and jewellery, leather, textiles, auto parts, pharmaceuticals and food processing. Since exporters are leading outward investors, lower export earnings had a significant impact on Indian OFDI in 2008. The sudden collapse of commodity prices like crude oil, natural gas and metals also moderated the outward expansion of natural-resource-seeking Indian firms. Finally, anecdotal reports suggest that Indian firms with overseas subsidiaries − Tata Motors, Bharat Forge, Havells India, Bajaj Auto, Tata Steel, Hindalco, JSW Steel Punj Lloyd, Tata Communications − have suffered severe consolidated losses in recent quarters on account of their overseas operations.[6]

Indian OFDI was also adversely affected by the global and domestic slowdown in overall growth. The advanced economies are predicted to see a sharp fall in their aggregate real GDP growth rate from 2.7 per cent in 2007 to 0.85 per cent in 2008 and -3.79 per cent in 2009, signifying further

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[4] *Business Standard* (2009) '46 companies suffer forex losses of Rs 1,365cr', May 08.
[5] *Business Standard* (2008) 'FCCB redemptions put India Inc in a Catch 22 situation', October 03.
[6] *Economic Times* (2009) 'Foreign acquisitions: No love across the border', April 20; *Hindu Business Line* (2009) 'Subsidiaries reduce profits for 2 out of 5 companies', July 06.

reduction in overseas demand. The real GDP growth within India fell from above 9 per cent during October–December 2007 to just 5 per cent in October–December 2008 (Table-8). This has led to an erosion of business confidence, slowing investment and reduced consumption, choking off both the domestic and overseas expansion of Indian firms.

Table-8 India's Real GDP Growth, 2005–09

(Percentage change over previous year)

Sector	2005–07*	2007–08				2008–09		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry & fishing	4.7	4.4	4.7	6	2.9	3	2.7	-2.2
Mining & quarrying	5.2	1.7	5.5	5.7	5.9	4.8	3.9	5.3
Manufacturing	10.5	10.9	9.2	9.6	5.8	5.6	5	-0.2
Electricity, gas & water supply	5.4	7.9	6.9	4.8	5.6	2.6	3.6	3.3
Construction	14.2	7.7	11.8	7.1	12.6	11.4	9.7	6.7
Trade, hotels, transport & communication	11.7	13.1	11	11.5	12.4	11.2	10.7	6.8
Financing, insurance, real estate & business services	12.6	12.6	12.4	11.9	10.5	9.3	9.2	9.5
Community, social & personal services	7.1	5.2	7.7	6.2	9.5	8.5	7.7	17.3
GDP Total	9.5	9.2	9.3	8.8	8.8	7.9	7.6	5.3

Note: *Quarterly average. Quarters Q1, Q2, Q3 and Q4 denote April-June, July-September, October-December and January-March, respectively.

Source: (i) Press Information Bureau (2009) 'Estimates of Gross Domestic Product for the Third Quarter (October-December) of 2008-09'**,** Government of India, 27 February; (ii) RBI Annual Report 2008, Reserve Bank of India, 29 August.

4. Crisis and Performance of Selected Indian Multinationals

Table-9 presents sales and profitability performance of 15 Indian multinationals from five economic sectors such as metal, oil & natural gas, information technologies (IT), chemicals and pharmaceuticals. There appear to be considerable inter-firm differences in the growth and profit margins among Indian parent companies standalone between the past boom period (2004−08) and current slowdown period (2008−09). While all Indian parent companies taken together demonstrated resilient and robust sales growth in the slowdown period (32.6 per cent) relative to the boom phase (27.2 per cent), there was a sharp decline in their profit growth from 31.7 per cent to just 8.8 per cent. With slowing profit rate, Indian parent companies found their sales growth has been at the expense of any rise in profit margins.

While a total of five Indian companies standalone (Hindalco, J S W Steel, ONGC, Wipro and Firstsource) reported decline in their sales and profit growth rates with deteriorating profit margins between the boom and slowdown period, another seven companies (Tata Steel, Tata Consultancy, Tata Chemicals, Nirma, Matrix Laboratories, Dr. Reddy's and Sun Pharmaceuticals) enjoyed improved sales revenue with slowing rate of profit growth and another two firms (United Phosphorus and Wockhardt) enhanced both their sales and profit growth rates. In a sense, Indian parent companies have succeeded in expanding their sales in the current slowdown period, sometime at a slower rate but are facing pressure on profitability fronts.

In view of the growing importance of international operation of Indian firms, standalone performance analysis (i.e. parent company excluding subsidiaries) will provide an incomplete picture of firms' overall performance. The listed 15 Indian parent companies in Table-9 together own 797 subsidiaries abroad and more than 42 per cent of their aggregate assets are located in foreign countries. So it is important to examine the way overseas subsidiaries are affecting the consolidated performance of Indian multinationals during the ongoing crisis period.

An examination of Table-9 reveals that sales of Indian multinational companies on standalone (i.e. only parent) and consolidated (i.e. parent and subsidiaries) basis have grown at the same pace during 2007−08 to 2008−09. However, there was an absolute decline in consolidated profit (-11.7 per cent) as against 8.8 per cent standalone profit growth of the sample Indian multinational companies. The sample Indian firms' standalone profit margin of 24.7 per cent nearly becomes half at the consolidated level (11.9 per cent) because of the slowdown in profitability performance of overseas subsidiaries under the global crisis. Of the total 15 Indian parent firms, eight companies (Tata Steel, Hindalco, JSW Steel, Firstsource, Tata Chemicals, Wockhardt, Matrix Laboratories, and Dr. Reddy's) reported absolute decline in their consolidated profit in 2008−09. Among the remaining seven firms with positive growth in consolidated profit, five companies (ONGC, Tata Consultancy, Mphasis, Wipro and Nirma) found that their consolidated profit have grown at similar or lower rate as their standalone profit.

Table-9 Performance of Selected Indian Multinationals in 2008−09

Company Name	% of assets held abroad	No. of foreign affiliates	Standalone						Consolidated		
			Boom Period (2003−04 to 2007−08)			Slowdown Period (2007−08 to 2008−09)			Slowdown Period (2007−08 to 2008−09)		
			Growth rate (%)		Profit Margin (%)	Growth rate (%)		Profit Margin (%)	Growth rate (%)		Profit Margin (%)
			Sales	Profit		Sales	Profit		Sales	Profit	
Metals & metal products											
Tata Steel Ltd.	78.8	364	21.2	37.0	31.9	41.1	18.3	30.1	28.0	-52.9	4.6
Hindalco Industries Ltd.	68.6	49	38.0	36.9	17.6	9.4	1.6	14.3	24.9	-123.4	-0.9
JSW Steel Ltd.	22.7	12	45.9	48.3	20.4	40.1	-68.8	4.8	46.2	-85.1	2.0
Petroleum products											
ONGC Ltd.	17.1	30	21.8	22.0	41.6	21.4	8.3	37.4	23.3	15.0	29.6
Information technology											
Tata Consultancy Services Ltd.	9.3	58	37.1	42.0	28.2	40.0	17.4	22.9	40.5	20.2	22.1
Mphasis Ltd.	64.4	12	77.6	43.6	17.2	77.6	121.0	16.5	59.2	114.0	14.8
Wipro Ltd.	4.5	72	40.5	40.2	22.5	37.2	16.9	16.9	46.3	39.3	17.7
Firstsource Solutions Ltd.	10.3	15	29.6	128.9	10.8	28.1	-67.8	2.4	53.9	-59.5	2.9
Chemicals											
Tata Chemicals Ltd.	30.4	7	16.4	43.3	17.9	135.6	-34.8	7.9	132.6	-10.8	7.5
Nirma Ltd.	22.2	7	10.5	-9.9	12.8	48.5	-40.3	3.9	94.8	4.5	4.7
United Phosphorus Ltd.	14.7	56	20.5	40.5	9.3	82.3	90.9	6.4	51.1	86.7	10.0
Drugs & pharmaceuticals											
Wockhardt Ltd.	50	39	15.5	23.4	26.0	39.0	91.3	30.4	54.8	-160.5	-7.0
Matrix Laboratories Ltd.	43.8	29	20.0	-93.1	9.6	75.4	-213.0	17.1	48.7	-134.3	5.3
Dr. Reddy's Laboratories Ltd.	16.6	31	29.1	194.9	16.1	41.4	42.8	17.4	58.0	-237.7	-9.5
Sun Pharmaceutical Inds. Ltd.	17.1	16	33.5	46.6	36.9	40.2	40.7	33.5	45.5	39.3	45.6
All Above Firms	42.6	797	27.2	31.7	24.6	32.6	8.8	24.7	32.1	-11.7	11.9

Note: (i) Sales and profit data for Wockhardt and Mphasis is for the year ending December 2008 and the period from 1 April 2008 to 30 September 2008 correspondingly; (iii) Data on foreign assets and number of overseas subsidiaries for all Indian companies, except Wockhardt, related to the financial year ending March, 2008 and Wockhardt, data is for year ending December 2008; (iv) Boom period data for Tata Consultancy and Firstsource is for 2005−2008 and 2006−2008 respectively.

Source: (i) Data on foreign assets and number of overseas subsidiaries is obtained from Pradhan (2008); (ii) 2009 data on sales and profit before tax were collected from individual company press releases; (iii) Boom period calculations are based on Prowess database; (iv) All the series were converted into US $ million before calculation.

There are also firm-specific differences in the disparity between consolidated and standalone profit level. In 2008−09 subsidiary operations completely wiped out standalone positive profits of Hindalco, Wockhardt and Dr. Reddy's and introduced losses into their consolidated balance sheets. The standalone profit of $669 million of Hindalco has turned out to be a consolidated loss of $150 million, Wockhardt's $114 million profit has transformed into $62 million loss on consolidation and Dr. Reddy's $181 million profit has become $163 million consolidated loss. JSW Steel and Matrix Laboratories found their standalone profit become half while moving to the consolidated accounting. On the contrary, a total of nine Indian firms (ONGC, Tata Consultancy, Mphasis, Wipro, Firstsource, Tata Chemicals, Nirma, United Phosphorus and Sun Pharmaceuticals) experienced higher consolidated profit size due to the operation of their foreign subsidiaries. However, the majority of Indian parent firms (i.e. 10 firms) observed that their consolidated profit margins were less than their standalone profit margins.

Overall this suggests that the Indian multinationals were able to continue their sales growth on standalone basis during the slowdown period but with reduced profit rates and margins. Subsidiaries' operation has led to continue global sales expansion of Indian multinationals at similar pace as standalone but significantly moderated profit margins and absolute decline in profit level for majority of firms.

5. Conclusion

The global economic crisis has led to a contraction of outward investment activities of Indian firms. The squeezing of liquidity from banking sectors and equity markets, wide volatility in exchange rate, deepening global recession and growing business uncertainty have accelerated slowdown in the Indian OFDI.

The experience of the sample Indian multinationals shows that their sales growth in the current year is accompanied by falling profit growth and reduced profit margin. In some cases, crisis-hit overseas subsidiaries replaced the standalone profit of the parent by consolidated loss. The squeeze on corporate profits will further make Indian multinationals cautious on their overseas expansion plan.

With the concerns of the global economic crisis still continuing it is difficult to guess when Indian firms will replicate their past OFDI performance. The revival of Indian OFDI is clearly depend on the revival of global and domestic growth, improvements in corporate profitability and the easing of financing from banks and the equity market. The first quarter of 2009 registered stronger GDP growth in India than expected, even though global growth went down. If domestic growth turns out not to be sustainable, however, OFDI may not recover soon.

In the current crisis period, there might be some positive surprises also as reflected by the recently announced overseas deals, such as the proposed merger of Bharti Airtel and South Africa's MTN for $23 billion and Sterlite Industries' $1.7 billion revised bid for US-based copper-mining firm Asarco. Moreover, there are some cash-rich Indian firms, including SMEs, that have not undertaken FDI in the past but are interested in internationalizing. These firms are expected to explore acquisitions, given the cheap valuations of foreign assets.

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