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OF OVERSEAS ACQUISITIONS BY
INDIAN MULTINATIONALS**

Jaya Prakash Pradhan

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CONTENTS

<i>Abstract</i>	1
1. Introduction	1
2. Theoretical Framework and Overseas Acquisitions	1
3. Trends and Patterns of Overseas Acquisitions	4
3.1. Sectoral Composition	5
3.1.1. Primary Sector	6
3.1.2. Manufacturing Sector	8
3.1.3. Services Sector	11
3.2. Geographical Composition	13
4. Motivations for Overseas Acquisitions	21
5. Locational Determinants of Overseas Acquisitions by Indian Multinationals	24
5.1. Analytical Framework and Hypotheses	24
5.2. Data Sources	26
5.3. Empirical Estimations and Results	26
6. Conclusion	29
Reference	30

List of Tables

<i>Table-1</i>	Overseas Acquisitions by Indian Multinationals	5
<i>Table-2</i>	Sectoral Composition of Overseas Acquisitions by Indian Multinationals, 2000–07	7
<i>Table-3</i>	Primary Sector Overseas Acquisitions, 2001–2007	7
<i>Table-4</i>	Manufacturing Sector Overseas Acquisitions, 2001–2007	9
<i>Table-5</i>	Services Sector Overseas Acquisitions, 2001–2007	12
<i>Table-6</i>	Regional Distribution of Indian Overseas Acquisitions, 2000–2007	14
<i>Table-7</i>	Regional Pattern of Sectoral Overseas Acquisitions, 2000–2007	15
<i>Table-8</i>	Country-wise Distribution of Developed Region Acquisitions by Indian Multinationals, 2000–2007	17

<i>Table-9</i>	Country-wise Distribution of Developing Region Acquisitions by Indian Multinationals, 2000–2007	19
<i>Table-10</i>	Selected Acquisition Deals for Examining Motivations	21
<i>Table-11</i>	ZIP and ZINB Estimation of Overseas Acquisitions by Indian Multinationals	28
<i>Table-A1</i>	Information on sector-wise top three overseas acquisitions by Indian Multinationals	32

List of Figures

<i>Figure-1</i>	Overseas Acquisitions by Indian Multinationals	5
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TRENDS AND PATTERNS OF OVERSEAS ACQUISITIONS BY INDIAN MULTINATIONALS

*Jaya Prakash Pradhan**

[Abstract: This study deals with the recent phenomena of rising overseas acquisitions undertaken by Indian multinationals. It studies the trends, patterns and locational determinants of Indian overseas acquisitions. Hitherto largely preoccupied with greenfield OFDI since the early 1960s, this study shows that Indian multinationals have increasingly started adopting acquisition as a global growth strategy to serve a variety of their firm-specific objectives like accessing new markets, foreign strategic assets, and trade-supporting infrastructure. As part of the locational analysis, a set of factors such as host country market, skill endowment and import intensity from India, came out to be important cross-country pull factors for Indian overseas acquisitions.]

1. Introduction

International involvement of Indian multinationals during the 1960s–1980s was usually represented by cross-border greenfield investments for setting up either joint ventures or subsidiaries in foreign countries (Pradhan, 2005, 2007; UNCTAD, 2007). However, since the late 1990s and particularly the early 2010s, Indian multinationals began to aggressively use overseas acquisition as a preferred expansion strategy into the world market. An increasing number of domestic firms across industrial sectors became multinationals by acquiring foreign companies, manufacturing facilities, brands and research laboratories. The progression of Indian multinationals from adoption of greenfield OFDI to brownfield OFDI testifies to the fact that their internationalization strategies have become more sophisticated and complex over time. This paper presents statistical facts about this interesting aspect of Indian multinationals with an analysis of their broad features, trends and patterns.

2. Theoretical Framework and Overseas Acquisitions

The economic theory that explains cross-border M&As by firms is essentially an eclectic framework. Its theoretical building blocks have been drawn from a wide range of

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thematic areas like industrial economics, theory of international business, finance, economics of location, etc. According to the industrial economics, firms compete among themselves to survive and grow in a relevant market. There are two ways in which a firm can grow and eliminate competition. One way is to enhance firm-specific competencies like developing new technologies, skill improvement, increasing managerial efficiency by business restructuring, improvement in human resource practices, enlarging the scale of production, creating brand loyalty via advertising, etc. These strategies help a firm to differentiate itself in the market and ensure successful growth with a higher market power. A firm, rather than attempting to grow on its' own, can acquire or merge with another firm to achieve an instant rise in its market position and to use the resources and expertise of the target firm.

Both these ways of firm's growth have their own costs and benefits. A firm's growth path along the natural process of improving its own competitive capabilities primarily involves a long-term horizon with expensive and risky competencies-building efforts. With opening up of national economies to ever-increasing foreign competition through inward FDI and imports, shorter product life cycles and numerous regulatory challenges, this natural process of the firm's growth may not be able to provide immediate solutions to firms facing imminent competitive pressures. In-organic growth path through acquisition can be crucial in this context as it leads to immediate expansion of the acquiring firm with access to new bundles of required firm-specific intangible and tangible assets.

In the above background, the increase in overseas acquisitions by Indian firms can be seen as their response to a globalized competition since 1990s. With liberalization and changes in trade, industry, foreign investment and technology policy regime, previously protected Indian companies are exposed to global competition at once. Indian firms increasingly realized that their existing technological and other capabilities accumulated with predominant dependence on protected home markets and under the import substitution policy regime of the past are clearly inadequate to cope with this new competition unleashed by a more liberalized business environment. They are forced to improve their competitive strength immediately and enlarge their position in the world markets. Indian companies realized that adopting a long-term competencies-building strategy with large investment in R&D, advertising, etc is relatively more risky and costly than pursuing the route of overseas acquisitions.

In the literature of international economics, an overseas acquisition by a national firm is treated as a choice of foreign market entry mode. When the investing firm already owns a substantial and powerful bundle of ownership advantages and its sole objective is to

exploit these advantages in foreign markets through production activities then the greenfield form of OFDI is a preferable strategy. However, when investing firms are motivated to augment their existing firm-specific advantages they adopt acquisition as an entry strategy to secure access to valuable strategic or knowledge-based foreign assets (Dunning, 1988; Cantwell, 1989). In this case the acquiring firm is inclined to create synergies in production, R&D, marketing, skills, etc. Cantwell and Janne (1999) argued that strategic asset seekers from developing countries representing lagging technical locations are required to catch up technologically whereas those from developed countries representing leading technical centers are for technological diversification. In the case of Japanese FDI into USA, it has been found that accessing US technologies has been a motivating factor at least in the case of R&D-intensive industries (Kogut and Chang, 1991; Blonigen, 1997; Chung and Alcácer, 2002). The strategic asset seeking theory of OFDI has a geographical dimension. For developing country firms, developed country represents centres of knowledge assets and hence their overseas acquisitions are largely directed at developed country markets.

Pradhan and Alakshendra (2006) argued that a firm's decision to use the specific form of OFDI is related to the level of firm-specific capabilities and different objectives. In the case of Indian pharmaceutical industry, they found that OFDI for exploiting ownership advantages is limited as Indian firms lacked broad-based product development capabilities. As these firms have strong advantages of cost-effective processes, they are predicted to maximize their long-term benefits by undertaking brownfield OFDI than greenfield OFDI. Brownfield OFDI that provides Indian pharmaceutical companies new products, technologies, skills, distribution and marketing networks, tends to improve their ability to create sustainable competitive advantages and also helps in encouraging their exports from India by providing trade-supporting infrastructure in overseas markets.

From a pure motivational approach, Pradhan and Abraham (2005) documented that Indian overseas acquisitions possessed three major objectives—access to international market, acquiring firm-specific created assets, and benefits from operating synergies with overseas targets. Therefore, overseas acquisitions by Indian multinationals have been directed with a set of multifaceted firm-specific objectives. This study also observed that Indian multinationals engaged in overseas acquisitions are large-sized and R&D-intensive than non-acquiring national firms in the manufacturing sector. In the case of software sector, acquiring Indian multinationals are relatively older, large-sized and export-oriented as compared to domestic software companies that are not engaged in overseas acquisitions. It appeared that large-sized Indian firms have already grown large in relation to the size of domestic market and further possibility of growth is limited. In this context, overseas acquisition to make an entry into foreign countries provides

additional markets with relatively less risk. Large size also represents large amount of resources and hence large-sized firms are better placed to undertake necessary business and financial transactions involved in overseas acquisitions. The role of R&D intensity as a discriminating factor for identifying an overseas acquirer is quite significant in the manufacturing industries. This corroborates that overseas acquiring Indian manufacturing firms are motivated to gain access to foreign knowledge since a critical level of in-house R&D capability is required to effectively absorb acquired foreign technologies. In the case of software sector, export intensity is an important characteristic, since on-shore presence is critical to ensure exports of software services and M&A provides an easy route to the same.

3. Trends and Patterns of Overseas Acquisitions

The number of overseas acquisitions by Indian multinationals seems to have grown rapidly in recent years. The number of overseas acquisition, after falling from 33 to 21 during 2000–2002, has been constantly rising since then. It has grown from 38 in 2003 to a high of 177 in 2006 (Table-1, Figure-1). Within just eight months of the current year, 2007, Indian multinationals have already made a whopping 123 acquisitions abroad. The value of outflows—that grossly underestimates the true value of overseas acquisitions by Indian multinationals because a large number of acquisition deals go without disclosing the financial consideration involved—has increased more than 50-folds from \$649 million in 2003 to \$32.9 billion in 2007. The period from 2000–2007 (up to August) saw Indian multinationals engaged in 594 overseas acquisitions with an underestimated value of \$51.2 billion. For the first time in 2006, the value of overseas acquisitions done by Indian multinationals exceeded foreign firms’ acquisitions made in India. Overseas acquisitions accounted for 64.7 per cent of total cross-border deals (i.e. outbound and inbound deals) in 2006, up from 45.4 per cent in 2005 (Grant Thornton India, Dealtracker Annual Issue 2006, Volume VI).

This rising overseas acquisitions by Indian firms seems to have been contributed by several macro and micro economic factors. India’s higher economic growth, rising foreign exchange reserve, continuing liberalization of OFDI policy regime, allowing domestic firms’ access to global financial markets, increasing bilateral trade and investment treaties with foreign countries all of these factors seems to have provided a positive atmosphere for the overseas acquisition activities of Indian firms. As argued earlier, the preference of Indian firms for overseas acquisitions seems to have grown due to heightened competition in the domestic markets. They increasingly realized that acquisitions are a less risky mode of entry into foreign markets and are means of accessing overseas competitive assets urgently required for meeting the competition. The rising corporate profits due to business restructuring and efficiency improvement and

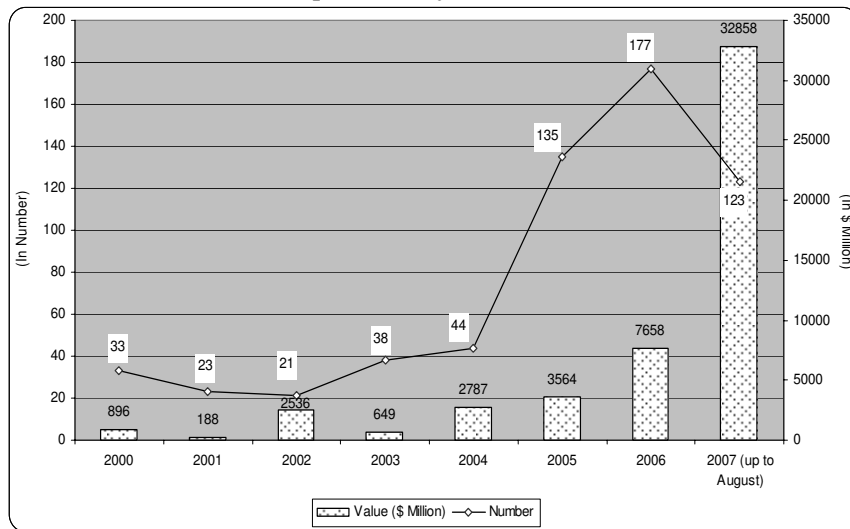
easier access to a booming domestic capital market ultimately motivated these firms to go for overseas acquisitions.

Table-1
Overseas Acquisitions by Indian Multinationals

Year	Overseas Acquisitions	
	Number	Value (\$ million)
2000	33	896
2001	23	188
2002	21	2536
2003	38	649
2004	44	2787
2005	135	3564
2006	177	7658
2007 (up to August)	123	32858
All Above Years	594	51136

Source: Own 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, etc.

Figure-1
Overseas Acquisitions by Indian Multinationals



3.1. Sectoral Composition

An important feature of overseas acquisitions by Indian multinationals is that such activities have been sectorally broad-based with the participation of Indian firms from all the three sectors of the home economy such as primary, manufacturing and services

sector. It is interesting to note that services Indian firms were the pioneers to use M&A as a means of global expansion and later they were joined by manufacturing Indian firms. The most export-oriented service sector of Indian economy, software sector, started adopting M&As in the early 1990s for building their onshore-offshore service delivery models. In the process, they created India's brand names among international venture capitalists, banks, financial advisors, etc. Their success had a strong positive spillover effect on Indian pharmaceutical companies. Indian drugs firms led the next round of M&A wave to strengthen their position in the regulated overseas markets like the US, Germany, UK, and largely focusing on generics. The successful adoption of M&As by software and pharmaceutical firms had all-round effects on Indian firms from other sectors like automotive, steel, etc. The good image of Indian software and pharmaceutical companies led many international investors to provide necessary finance to Indian companies acquiring overseas units. This fact about brownfield investment is in contrast with the greenfield investment by Indian multinationals where manufacturing firms are the pioneers and later followed by services firms in the 1990s.

Between 2001 and 2007, the number of overseas acquisitions by Indian multinationals nearly tripled in the case of service sector but has grown much faster by 5- and 22-times in the case of primary and manufacturing sectors respectively (Table-2). As a result of higher growth of acquisitions by manufacturing firms, the share of services sector in total overseas acquisitions decreased from about 82.6 per cent in 2001 to 39 per cent in 2007. The share of manufacturing sector in total number and value of overseas acquisitions has gone up to 54.5 and 91 per cent respectively in 2007 reflecting that manufacturing Indian firms who were latecomers to the arena of brownfield investment now have surpassed the first mover services Indian firms.

3.1.1. Primary Sector

Although the share of primary sector is relatively low as compared to other two economic sectors, it reflects a special characteristic about the rise of Indian multinationals. It shows that a number of natural resource seeking Indian multinationals have risen recently from oil, natural gas and mining—and aggressively looking at securing these exhaustible natural resources over the globe. Within the primary sector acquisitions, Indian multinationals from oil and natural gas dominate the most with about 62 per cent of total number and 93 per cent of the value (Table-3). Limited growth opportunity in the domestic crude oil and gas production, higher energy import dependence (imports meets more than 73 per cent of the home country's hydrocarbon requirements), and rapid increase in energy requirement following higher economic growth have worked as pushed factors for growth of oil and gas overseas acquisitions

Table-2
Sectoral Composition of Overseas Acquisitions by Indian Multinationals, 2000-07

Year	Acquisitions in Number/\$ million				Percentage share to total			
	Primary	Manufacturing	Services	Others	Total	Primary	Manufacturing	Services
(Acquisitions in Number)								
2000		7	26		33		21.2	78.8
2001	1	3	19		23	4.3	13.0	82.6
2002	3	8	10		21	14.3	38.1	47.6
2003	4	14	20		38	10.5	36.8	52.6
2004	5	19	20		44	11.4	43.2	45.5
2005	7	71	52	5	135	5.2	52.6	38.5
2006	9	93	72	3	177	5.1	52.5	40.7
2007	5	67	48	3	123	4.1	54.5	39.0
All Years	34	282	267	11	594	5.7	47.5	44.9
(Acquisitions in \$ Million)								
2000		446	450		896		49.8	50.2
2001	45	3	140		188	24.0	1.6	74.4
2002	2427	47	62		2536	95.7	1.9	2.4
2003	69	250	331		649	10.6	38.5	50.9
2004	1648	641	497		2787	59.1	23.0	17.8
2005	597	2184	732	51	3564	16.8	61.3	20.5
2006	1264	4774	1496	124	7658	16.5	62.3	19.5
2007	166	30024	2424	243	32858	0.5	91.4	7.4
All Years	6216	38371	6130	418	51136	12.2	75.0	12.0

Source: Same as Table-1.

Table-3
Primary Sector Overseas Acquisitions, 2001-2007

Year	In Number			In \$ Million		
	Mining	Oil & Natural Gas	Primary Sector	Mining	Oil & Natural Gas	Primary Sector
2001	1		1	45		45
2002		3	3		2427	2427
2003	3	1	4	69		69
2004	1	4	5	48	1600	1648
2005	4	3	7	66	531	597
2006	3	6	9	189	1075	1264
2007	1	4	5	37	129	166
All Years	13	21	34	455	5762	6216

Source: Same as Table-1.

from India. In addition to these factors, the increasing efforts of other countries like the USA, UK, China, etc., to control global oil sources also appear to have pushed many government-owned public sector companies like Oil and Natural Gas Corporation (ONGC), GAIL (India) Limited, Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL) to seek equity stakes in overseas oil exploration and production in several countries like Russia (offshore project at Sakhalin), Nigeria (AKPO Fields), Sudan (Greater Nile Oil Project), Iran (LNG block), Angola, Brazil, etc. This seems to be a strategic response of a growing developing country wanting to secure overseas energy portfolio for the future. After the oil and gas sector has been thrown upon to foreign and domestic private sector participation since July 1991, a number of privately owned Indian multinationals emerged along with existing public sector Indian multinationals. Reliance Industries, Aban Lloyd Chiles Offshore and Assam Company started adopting overseas acquisitions to access oil and gas resources.

Indian multinationals such as Gujarat NRE Coke, Hindalco Industries, Carborundum Universal, Ispat Industries and Sterlite Industries, dominates mining sector overseas acquisitions in copper, coal, and carbon from India. As compared to the oil and gas segment of primary sector, these mining Indian multinationals are all privately owned firms.

3.1.2. Manufacturing Sector

The industrial pattern of overseas acquisitions in manufacturing sector shows that Indian multinationals are active in a broader range of industrial activities, from low technology industries like food and textiles to high technology industries such as chemicals and pharmaceuticals. However, in terms of number of acquisitions during 2000–2007, there is a clear dominance of Indian multinationals from relatively more technology-intensive industries. Of the 282 overseas acquisitions, 87 deals were done by pharmaceutical firms (30.85 per cent); the second and third largest acquirers came from transport equipment (43 deals, 15 per cent) and chemicals (39 deals, 14 per cent) respectively (Table-4). These top three technology intensive industries together accounts for 60 per cent of total number of manufacturing acquisitions made by Indian multinationals.

As the overseas acquisitions done by manufacturing multinationals from India tend to concentrate in industries that are at the frontiers of technological developments in developed countries, this pattern is consistent with the strategic asset-seeking nature of Indian firms. It appears that Indian firms from knowledge-based industries are increasingly finding acquisition a better strategy to access ownership advantages created in developed countries to complement their own competitive asset bundles to compete in global markets. Take the case of Indian pharmaceutical firms that have emerged as the

largest overseas acquirers whose motivating factor can be seen in their nature of existing resources. These Indian firms have accumulated significant technological strength in developing new processes and drug delivery systems under a soft patent regime but continued with inadequate capability of product developments till recently. However, with the strengthening of global patent regime of late and the growing criticality of access to new products for the long-term viability of growth, these Indian firms have no choice but to aggressively acquire new products and R&D bases in developed countries. A brief investigation into the acquisition of Betapharm Arzneimittel GmbH, the fourth-largest generics company in Germany by Dr Reddy's Laboratories, Belgium-based Docpharma NV by Matrix Laboratories, and the generics business unit of RPG Aventis in France by Ranbaxy Laboratories illustrates this strategic use of acquisitions by Indian firms (Pradhan and Alakshendra, 2006).

Table-4
Manufacturing Sector Overseas Acquisitions, 2001-2007

<i>Sector</i>	2000	2001	2002	2003	2004	2005	2006	2007	<i>All Years</i>
<i>(Acquisitions in Number)</i>									
Manufacturing Total	7 (100)	3 (100)	8 (100)	14 (100)	19 (100)	71 (100)	93 (100)	67 (100)	282 (100)
Food & Beverages	1 (14.29)					3 (4.23)	7 (7.53)	3 (4.48)	14 (4.96)
Textiles & Apparels		2 (66.67)			1 (5.26)	2 (2.82)	10 (10.75)	4 (5.97)	19 (6.74)
Paper & Pulp						1 (1.41)	1 (1.08)		2 (0.71)
Plastic & products	3 (42.86)			1 (7.14)	2 (10.53)	1 (1.41)			7 (2.48)
Non-metallic mineral products							1 (1.08)	1 (1.49)	2 (0.71)
Metal and metal products	1 (14.29)				2 (10.53)	4 (5.63)		13 (19.40)	20 (7.09)
Fabricated Metal Products				2 (14.29)		1 (1.41)	1 (1.08)		4 (1.42)
Electrical Machinery and Equipment						4 (5.63)	2 (2.15)	7 (10.45)	13 (4.61)
Non-electrical Machinery and Equipment				1 (7.14)	1 (5.26)		9 (9.68)	5 (7.46)	16 (5.67)
Telecommunication Equipment						1 (1.41)	1 (1.08)	3 (4.48)	5 (1.77)
Transport equipment				2 (14.29)	4 (21.05)	15 (21.13)	13 (13.98)	9 (13.43)	43 (15.25)

contd...

<i>Sector</i>	2000	2001	2002	2003	2004	2005	2006	2007	All Years
Chemicals	1 (14.29)		2 (25)	4 (28.57)	1 (5.26)	9 (12.68)	17 (18.28)	5 (7.46)	39 (13.83)
Pharmaceuticals	1 (14.29)	1 (33.33)	5 (62.5)	4 (28.57)	7 (36.84)	27 (38.03)	28 (30.11)	14 (20.90)	87 (30.85)
Biotechnology			1 (12.5)		1 (5.26)	3 (4.23)	1 (1.08)	1 (1.49)	7 (2.48)
Gems & Jewellery							2 (2.15)	2 (2.99)	4 (1.42)
(Acquisitions in Value, \$ million)									
Manufacturing Total	446 (100)	3 (100)	47 (100)	250 (100)	641 (100)	2184 (100)	4774 (100)	30024 (100)	39071 (100)
Food & Beverages	428 (95.97)					170 (7.80)	918 (19.22)	1178 (3.92)	2817 (7.21)
Textiles & Apparels		3 (100)			3 (0.52)	21 (0.96)	313 (6.55)	28 (0.09)	476 (1.22)
Paper & Pulp						7 (0.32)	261 (5.47)		274 (0.7)
Plastic & products	16 (3.59)			10 (3.96)	96 (14.97)				144 (0.37)
Non-metallic mineral products							2 (0.04)		2 (0.01)
Metal and metal products	2 (0.40)				318 (49.57)	513 (23.48)		22296 (74.26)	23202 (59.38)
Fabricated Metal Products				35 (14.14)					50 (0.13)
Electrical Machinery and Equipment						75 (3.43)	7 (0.15)	2658 (8.85)	2744 (7.02)
Non-electrical Machinery and Equipment				12 (4.73)			648 (13.58)	1350 (4.50)	2029 (5.19)
Telecommunication Equipment						290 (13.28)	44 (0.91)	755 (2.51)	1102 (2.82)
Transport equipment				56 (22.43)	125 (19.49)	291 (13.32)	247 (5.17)	191 (0.64)	970 (2.48)
Chemicals	0.20 (0.04)		17 (35.49)	23 (9.10)	36 (5.57)	333 (15.24)	912 (19.09)	896 (2.98)	2301 (5.89)
Pharmaceuticals			12 (25.35)	114 (45.65)	63 (9.88)	470 (21.52)	1374 (28.78)	650 (2.16)	2814 (7.20)
Biotechnology			19 (39.16)			14 (0.64)	5 (0.10)		77 (0.20)
Gems & Jewellery							44 (0.93)	23 (0.08)	68 (0.17)

Note: Percentage shares in parenthesis.

Source: Same as Table-1

The sectoral picture of manufacturing overseas acquisitions changes when one considers the value of consideration involved. Capital-intensive industry such as metal and metal products emerged as the top acquirer with \$23 billion accounting for 60 per cent of value of acquisitions during 2000–2007. Tata Steel’s \$13.7 billion acquisition of Chorus, Hindalco’s \$6 billion acquisition of Novelis and Essar Steel’s 1.6 billion acquisition of Algoma Steel Inc, all in 2007 are the three largest overseas acquisitions by India’s natural resource-based multinationals. The immediate factor that led Indian steel companies to acquire overseas entity has been the trend of consolidation in the global steel industry set up with the acquisition of Arcelor by Mittal Steel in 2006¹. By the value of acquisition, steel industry is followed by electrical machinery, food and pharmaceutical sectors with each about 7 per cent share. As a large number of overseas deals don’t disclose the value of acquisitions, this highly concentrated nature of overseas acquisitions by Indian firms can be taken as indicative and imperfect in nature.

3.1.3. Services Sector

The services sector acquisitions from India have been largely led by Indian firms from the information technology (IT) and IT enabled services (ITES). They account for as high as 84 per cent of overseas acquisitions in number and 85 per cent in value during 2000–2007 (Table-5). The high rate of overseas acquisition activity of IT and ITES firms is being propelled by the need to have a local presence in the overseas markets for effective exports of software and related services. Acquisitions not only facilitate Indian companies to gain an existing market presence in their main markets but also helped them to secure skilled manpower, new areas and technologies. IT and ITES acquisitions has been growing complex with emergence of new areas of activities like healthcare, insurance, banking, mortgage, transportation and logistics, telecommunication, business service, education, anti-money laundering, fraud detection and other areas.

By number of acquisitions, media and entertainment segment emerged as the second important overseas acquirer in the services sector. They accounted for 5 per cent of total number of acquisitions made by services firms over 2000–2007 (Table-5). With development of satellite, digital, animation and information technologies and growing economic interdependence among various nations representing different cultures, the media and entertainment industry has generally become global in nature. Increasing Indian migrant population across the globe and rising outsourcing of media content based on animation have all been causing Indian firms to look for overseas presence to

¹ Personally I don’t consider Arcelor acquisition by Mittal company as an Indian acquisition and hence this deal is not a part of Indian brownfield overseas investment presented in the study.

Table-5
Services Sector Overseas Acquisitions, 2001–2007

<i>Year</i>	<i>Banking & Financial Services</i>	<i>Business Advisory</i>	<i>Hospitality and Tourism</i>	<i>Telecommunication Services</i>	<i>Media & Entertainment</i>	<i>IT & ITES</i>	<i>Services</i>
<i>(Acquisitions in Number)</i>							
2000					4 (15.4)	22 (84.6)	26 (100)
2001					1 (5.3)	18 (94.7)	19 (100)
2002	1 (10.0)					9 (90.0)	10 (100)
2003		1 (5.0)		1 (5.0)		18 (90.0)	20 (100)
2004		1 (5.0)		1 (5.0)		18 (90.0)	20 (100)
2005	4 (7.7)	1 (1.9)	3 (5.8)	2 (3.8)		42 (80.8)	52 (100)
2006	2 (2.8)		4 (5.6)	2 (2.8)	9 (12.5)	55 (76.4)	72 (100)
2007		2 (4.2)	1 (2.1)	3 (6.3)		42 (87.5)	48 (100)
All Years	7 (2.6)	5 (1.9)	8 (3.0)	9 (3.4)	14 (5.2)	224 (83.9)	267 (100)
<i>(Acquisitions in Value, \$ million)</i>							
2000					25 (5.56)	425 (94.44)	450 (100)
2001						140 (100.00)	140 (100)
2002	4 (6.34)					58 (93.66)	62 (100)
2003		3 (0.79)		207 (62.62)		121 (36.60)	331 (100)
2004				130 (26.14)		367 (73.80)	497 (100)
2005	17 (2.32)	5 (0.68)	85 (11.62)	239 (32.67)		386 (52.71)	732 (100)
2006			174 (11.66)	60 (4.01)	76 (5.06)	1186 (79.27)	1496 (100)
2007		9 (0.35)	60 (2.48)	303 (12.48)		2053 (84.69)	2424 (100)
All Years	21 (0.34)	16 (0.27)	319 (5.21)	939 (15.31)	101 (1.64)	4734 (77.23)	6130 (100)

Note: Percentage shares in parenthesis.

Source: Same as Table-1

cater to the targeted population segment there. Hospitality and telecommunication services are the next two important acquires with about 3 per cent share in total number of services overseas acquisitions.

In terms of value of acquisitions, telecommunication services are the second largest acquirer after IT and ITES. The acquisition of Yipes Holding Inc, USA by Reliance Communication in 2007, Teleglobe International Holdings by VSNL in 2005 and FLAG Telecom by Reliance Communication in 2003 are three landmark overseas deals conducted by these Indian multinationals. After the telecommunications sector of the economy was thrown open to the private player by ending government monopoly in 1991, a number of privately-owned players entered into the industry. With India's trade growing rapidly since the implementation of reforms, the importance of communication between Indian suppliers and overseas customers has been growing and developments taking place in digital and satellite technologies, all have contributed to the internationalization of Indian telecommunication players. In addition, India's signing of WTO's global telecommunication pact in 1997 and successively increasing FDI limits in the basic telecommunication services from 25 per cent to 49 per cent in 2001 and further to 74 per cent in 2007 under the automatic approval route have led to increased competitive pressures leading to the interest of Indian players to find markets for their services in other countries.

3.2. Geographical Composition

Overseas acquisitions by Indian multinationals in majority cases have been directed at the developed parts of the world economy. Developed countries as a group accounted for 76 per cent of the total number of acquisitions made by Indian firms during 2000–2007 (Table-6). Within developing region, North America and European Union respectively with 41 and 29 per cent shares are the most attractive locations for Indian firms' acquisition activities. Developing region and Central and Eastern Europe respectively account for just 20 per cent and 4 per cent share in the same period. Asia and the Pacific is the most active developing region for acquisition with more than 12 per cent share in total number of acquisitions. These broad regional trends also can be observed in terms of value of acquisitions, with 81 per cent, 14 per cent and 5 per cent shares respectively claimed by developed, developing and Central and Eastern Europe. As stated before, developed countries with their large markets and strong base of intangible assets seem to be more preferred destinations for Indian multinationals than their developing counterparts.

Table-6
Regional Distribution of Indian Overseas Acquisitions, 2000–2007

Year	World	Developed Region				Total	Developing Region			Total	Central and Eastern Europe
		European Union	Other Western Europe	North America	Other		Africa	Latin America with Caribbean	Asia with Pacific		
<i>(Acquisitions in Number)</i>											
2000	33	7		19	3	29	2		1	3	1
	(100)	(21.2)		(57.6)	(9.1)	(87.9)	(6.1)		(3.0)	(9.1)	(3.0)
2001	23	8		12	1	21			2	2	
	(100)	(34.8)		(52.2)	(4.3)	(91.3)			(8.7)	(8.7)	
2002	21	3		10	1	14	2	3	1	6	1
	(100)	(14.3)		(47.6)	(4.8)	(66.7)	(9.5)	(14.3)	(4.8)	(28.6)	(4.8)
2003	38	13		15	3	31			7	7	
	(100)	(34.2)		(39.5)	(7.9)	(81.6)			(18.4)	(18.4)	
2004	44	14		17	1	32	4	1	7	12	
	(100)	(31.8)		(38.6)	(2.3)	(72.7)	(9.1)	(2.3)	(15.9)	(27.3)	
2005	135	42	1	50	9	102	7	6	14	27	6
	(100)	(31.1)	(0.7)	(37.0)	(6.7)	(75.6)	(5.2)	(4.4)	(10.4)	(20.0)	(4.4)
2006	177	57	4	69	7	137	8	2	25	35	5
	(100)	(32.2)	(2.3)	(39.0)	(4.0)	(77.4)	(4.5)	(1.1)	(14.1)	(19.8)	(2.8)
2007	123	28	4	52	4	88	2	5	19	26	9
	(100)	(22.8)	(3.3)	(42.3)	(3.3)	(71.5)	(1.6)	(4.1)	(15.4)	(21.1)	(7.3)
All Years	594	172	9	244	29	454	25	17	76	118	22
	(100)	(29.0)	(1.5)	(41.1)	(4.9)	(76.4)	(4.2)	(2.9)	(12.8)	(19.9)	(3.7)
<i>(Acquisitions in \$ Million)</i>											
2000	896	437.30		437.2	0.196	874.7	11		5	16	5
	(100)	(48.82)		(48.8)	(0.02)	(97.7)	(1.23)		(0.56)	(1.79)	(0.56)
2001	188	11.00		109.75	45	165.75			22	22	
	(100)	(5.86)		(58.5)	(23.97)	(88.28)			(11.72)	(11.72)	
2002	2536	26.50		54.25	18.54	99.29	725		11.8	736.8	1700
	(100)	(1.04)		(2.14)	(0.73)	(3.92)	(28.6)		(0.47)	(29.1)	(67)
2003	649	427.60		124.38	83.3	635.28			13.93	13.93	
	(100)	(65.86)		(19.2)	(12.8)	(97.9)			(2.15)	(2.15)	
2004	2787	175.90		539.25	0	715.15	651.54	0.3	1420	2071.84	
	(100)	(6.31)		(19.4)	(0.00)	(25.7)	(23.4)	(0.01)	(51)	(74.3)	
2005	3564	1237.00		896.6	143.3	2276.9	555	99	305.45	959.45	328
	(100)	(34.7)		(25.2)	(4.02)	(63.88)	(15.6)	(2.78)	(8.57)	(26.9)	(9.2)
2006	7658	2530.77	600.8	2670.6	70.16	5872.33	429.54	180	813.35	1422.89	362.79
	(100)	(33.05)	(7.85)	(34.9)	(0.92)	(76.7)	(5.61)	(2.35)	(10.62)	(18.6)	(4.7)
2007	32858	17443.1	129.64	12714	475.5	30762.1		646.32	1378.36	2024.7	70.95
	(100)	(53.09)	(0.39)	(38.7)	(1.45)	(93.6)		(1.97)	(4.19)	(6.16)	(0.22)
All Years	51136	22289	730	17546	836	41401	2372	926	3970	7268	2467
	(100)	(43.6)	(1.4)	(34.3)	(1.6)	(81.0)	(4.6)	(1.8)	(7.8)	(14.2)	(4.8)

Note: Percentage shares in parenthesis.

Source: Same as Table-1

The geographical direction of overseas acquisitions by 23 individual sectors is presented in Table-7. It can be observed that as many as 13 sectors such as Mining, Non-metallic mineral products, Fabricated metal products, Electrical machinery, Non-electrical machinery, Transport equipment, Pharmaceuticals, Biotechnology, Gems & jewellery, Business advisory, Hospitality & tourism, Telecommunication services, and IT & ITES, are more oriented towards developed countries. The shares of developed region across these sectors vary from 75 per cent to 100 per cent. In another group of four sectors namely, Food & beverages, Textiles & apparels, Telecommunication equipment and Media & entertainment, developed region account for more than 60 per cent. Only in one sector such as Oil & natural gas that the share of developing countries exceeded that of developed countries. This reflects that overseas acquisition activities of Indian multinationals have been more developed region oriented in general and also from majority of individual economic sectors.

Table-7
Regional Pattern of Sectoral Overseas Acquisitions, 2000–2007

<i>Sector Name</i>	<i>Number of Acquisitions over 2000–2007</i>			
	<i>Developed Region</i>	<i>Developing Region</i>	<i>Central and Eastern Europe</i>	<i>World</i>
Oil & Natural Gas	8 (38.1)	12 (57.14)	1 (4.76)	21 (100)
Mining	10 (76.92)	2 (15.38)	1 (7.69)	13 (100)
Food & Beverages	9 (64.29)	3 (21.43)	2 (14.29)	14 (100)
Textiles & Apparels	12 (63.16)	5 (26.32)	2 (10.53)	19 (100)
Paper & Pulp	1 (50)	1 (50.00)		2 (100)
Plastic & products	4 (57.14)	2 (28.57)	1 (14.29)	7 (100)
Non-metallic mineral products	2 (100)			2 (100)
Metal and Metal products	10 (50)	9 (45.00)	1 (5.00)	20 (100)
Fabricated Metal Products	4 (100)			4 (100)
Electrical Machinery	10 (76.92)	2 (15.38)	1 (7.69)	13 (100)
Non-electrical Machinery	15 (93.75)	1 (6.25)		16 (100)
Telecommunication Equipment	3 (60.00)	2 (40.00)		5 (100)

contd...

Sector Name	Number of Acquisitions over 2000–2007			
	Developed Region	Developing Region	Central and Eastern Europe	World
Transport equipment	35 (81.40)	4 (9.30)	4 (9.30)	43 (100)
Chemicals	22 (56.41)	15 (38.46)	2 (5.13)	39 (100)
Pharmaceuticals	66 (75.86)	16 (18.39)	5 (5.75)	87 (100)
Biotechnology	7 (100)			7 (100)
Gems & Jewellery	4 (100)			4 (100)
Banking & Financial Services	3 (42.86)	3 (42.86)	1 (14.29)	7 (100)
Business Advisory	4 (80)	1 (20.00)		5 (100)
Hospitality and Tourism	6 (75)	2 (25.00)		8 (100)
Telecommunication Services	7 (77.78)	2 (22.22)		9 (100)
Media & Entertainment	9 (64.29)	5 (35.71)		14 (100)
IT & ITES	197 (87.95)	26 (11.61)	1 (0.45)	224 (100)

Note: Percentage shares in parenthesis.

Source: Same as Table-1.

The developed region acquisitions by Indian firms appeared to be highly concentrated. USA alone had claimed about half of the total developed region acquisitions in 2000–2007 (Table-8). It is followed by UK with 16 per cent, Germany with 7.5 per cent and Australia with 5 per cent. For long since USA, UK and Germany are among the top direct capital exporters to India and it seems that time has arrived for India to start the reverse process of capital exports in both greenfield and brownfield forms². They are also among India's largest export markets together claiming about 25 per cent of total Indian exports. Given the rising importance of overseas presence in the form of trade supporting network and after-sales service centres for sustain export performance, it is likely that overseas acquisitions by Indian companies may partly be due to their desire to acquire marketing infrastructure overseas.

² USA, USA, UK and Germany respectively accounted for about 14 per cent, 5.4 per cent and 4.2 per cent of total FDI inflows into India during August 1991 to October 2006.

Table-8
Country-wise Distribution of Developed Region Acquisitions
by Indian Multinationals, 2000–2007

<i>Host region/country</i>	<i>Overseas Acquisitions in Number</i>								
	2000	2001	2002	2003	2004	2005	2006	2007	All Years
Developed Region	29 (100)	21 (100)	14 (100)	31 (100)	32 (100)	102 (100)	137 (100)	88 (100)	454 (100)
European Union	7 (24.1)	8 (38.1)	3 (21.4)	13 (41.9)	14 (43.8)	42 (41.2)	57 (41.6)	28 (31.8)	172 (37.9)
Austria						1 (1.0)			1 (0.2)
Belgium	1 (3.4)				1 (3.1)	3 (2.9)	3 (2.2)	1 (1.1)	9 (2.0)
Denmark					1 (3.1)		1 (0.7)		2 (0.4)
Finland							3 (2.2)		3 (0.7)
France				3 (9.7)	3 (9.4)	1 (1.0)	3 (2.2)	2 (2.3)	12 (2.6)
Germany	1 (3.4)	3 (14.3)	1 (7.1)	3 (9.7)	4 (12.5)	7 (6.9)	9 (6.6)	6 (6.8)	34 (7.5)
Greece						2 (2.0)	1 (0.7)		3 (0.7)
Ireland			1 (7.1)		1 (3.1)	3 (2.9)	1 (0.7)		6 (1.3)
Italy						3 (2.9)	2 (1.5)	4 (4.5)	9 (2.0)
Netherlands				1 (3.2)	1 (3.1)	1 (1.0)	1 (0.7)	4 (4.5)	8 (1.8)
Portugal		1 (4.8)					1 (0.7)		2 (0.4)
Spain						2 (2.0)	3 (2.2)		5 (1.1)
Sweden						2 (2.0)	2 (1.5)	1 (1.1)	5 (1.1)
UK	5 (17.2)	4 (19.0)	1 (7.1)	6 (19.4)	3 (9.4)	17 (16.7)	26 (19.0)	10 (11.4)	72 (15.9)
NA							1 (0.7)		1 (0.2)
Other Western Europe						1 (1.0)	4 (2.9)	4 (4.5)	9 (2.0)
Norway							1 (0.7)	3 (3.4)	4 (0.9)
Switzerland						1 (1.0)	3 (2.2)	1 (1.1)	5 (1.1)

contd...

<i>Host region/country</i>	<i>Overseas Acquisitions in Number</i>								
	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>All Years</i>
North America	19 (65.5)	12 (57.1)	10 (71.4)	15 (48.4)	17 (53.1)	50 (49.0)	69 (50.4)	52 (59.1)	244 (53.7)
Canada	1 (3.4)			1 (3.2)		3 (2.9)	2 (1.5)	9 (10.2)	16 (3.5)
USA	18 (62.1)	12 (57.1)	10 (71.4)	14 (45.2)	17 (53.1)	47 (46.1)	67 (48.9)	43 (48.9)	228 (50.2)
Other Developed Countries	3 (10.3)	1 (4.8)	1 (7.1)	3 (9.7)	1 (3.1)	9 (8.8)	7 (5.1)	4 (4.5)	29 (6.4)
Australia	3 (10.3)	1 (4.8)	1 (7.1)	3 (9.7)	1 (3.1)	8 (7.8)	5 (3.6)	1 (1.1)	23 (5.1)
Israel								2 (2.3)	2 (0.4)
Japan						1 (1.0)	1 (0.7)	1 (1.1)	3 (0.7)
New Zealand							1 (0.7)		1 (0.2)

Note: Percentage shares in parenthesis.

Source: Same as Table-1.

Indian multinationals' developing region oriented acquisitions appear to be well spared among developing countries with relatively more bias towards Asian region caused by closer cultural, ethnic and geographical linkages. Singapore claiming about 21 per cent of developing region overseas acquisitions has been the top targeted developing country (Table-9). Given its developed financial, trading and IT infrastructure, Singapore has long since been attracting direct investment by Indian firms from software sector who have been using the city-state as a gateway to serve East Asian markets. China's fast growing economy has been the second largest host developing country for Indian overseas acquisitions. It has attracted about 11 acquisitions accounting for 12 per cent of total acquisitions done by Indian firms during 2000–2007. South Africa with 7.6 per cent, Thailand with 5.9 per cent, Brazil and China each with 5 per cent emerged as other important developing countries attracting brownfield investment by Indian multinationals. These top five developing countries together accounted for more than half of the developing region oriented overseas acquisitions by Indian firms during 2000–2007.

Table-9
Country-wise Distribution of Developing Region Acquisitions
by Indian Multinationals, 2000–2007

<i>Host Region / Country</i>	<i>Overseas Acquisitions in Number</i>								
	2000	2001	2002	2003	2004	2005	2006	2007	All Years
Developing Region	3 (100)	2 (100)	6 (100)	7 (100)	12 (100)	27 (100)	35 (100)	26 (100)	118 (100)
Africa	2 (66.7)		2 (33.3)	0 (0.0)	4 (33.3)	7 (25.9)	8 (22.9)	2 (7.7)	25 (21.2)
Angola					1 (8.3)				1 (0.8)
Cote-d'Ivoire					1 (8.3)				1 (0.8)
Egypt			1 (16.7)				3 (8.6)		4 (3.3)
Kenya						2 (7.4)			2 (1.7)
Mauritius	1 (33.3)					1 (3.7)		1 (3.8)	3 (2.5)
Morocco						1 (3.7)			1 (0.8)
Nigeria						1 (3.7)			1 (0.8)
Senegal					1 (8.3)				1 (0.8)
South Africa	1 (33.3)					2 (7.4)	5 (14.3)	1 (3.8)	9 (7.6)
Sudan			1 (16.7)						1 (0.8)
Zambia					1 (8.3)				1 (0.8)
Latin America and Caribbean			3 (50.0)		1 (8.3)	6 (22.2)	2 (5.7)	5 (19.2)	17 (14.4)
Argentina						2 (7.4)	1 (2.9)	0 (0.0)	3 (2.5)
Bermuda								2 (7.7)	2 (1.7)
Brazil			2 (33.3)			1 (3.7)	1 (2.9)	2 (7.7)	6 (5.1)
Caribbean					1 (8.3)				1 (0.8)
Chile						1 (3.7)			1 (0.8)
Mexico			1 (16.7)			1 (3.7)			2 (1.7)
Venezuela						1 (3.7)			1 (0.8)

contd...

<i>Host Region / Country</i>	<i>Overseas Acquisitions in Number</i>								
	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>All Years</i>
NA								1 (3.8)	1 (0.8)
Asia and the Pacific	1 (33.3)	2 (100)	1 (16.7)	7 (100)	7 (58.3)	14 (51.9)	25 (71.4)	19 (73.1)	76 (64.4)
China		1 (50.0)		3 (42.9)	1 (8.3)	4 (14.8)	4 (11.4)	1 (3.8)	14 (11.9)
Fiji				1 (14.3)					1 (0.8)
Hong Kong		1 (50.0)				1 (3.7)			2 (1.7)
Hungary							1 (2.9)		1 (0.8)
Indonesia				1 (14.3)	1 (8.3)	1 (3.7)			3 (2.5)
Iran					1 (8.3)				1 (0.8)
Jordan							1 (2.9)		1 (0.8)
Malaysia							3 (8.6)	1 (3.8)	4 (3.4)
Myanmar							1 (2.9)		1 (0.8)
Philippines				1 (14.3)					1 (0.8)
Singapore	1 (33.3)		1 (16.7)	1 (14.3)	3 (25)	2 (7.4)	7 (20.0)	11 (42.3)	26 (22)
South Korea					1 (8.3)	1 (3.7)		1 (3.8)	3 (2.5)
Sri Lanka						1 (3.7)	1 (2.9)		2 (1.7)
Thailand						3 (11.1)	3 (8.6)	1 (3.8)	7 (5.9)
Turkey						1 (3.7)			1 (0.8)
UAE							2 (5.7)	1 (3.8)	3 (2.5)
Uzbekistan							1 (2.9)		1 (0.8)
Vietnam								3 (11.5)	3 (2.5)
Yemen							1 (2.9)		1 (0.8)

Note: Percentage shares in parenthesis.

Source: Same as Table-1.

Within the Central and Eastern European region that had attracted a total of 22 overseas acquisitions during 2000–2007, Romania is the top country with 6 acquisitions. It is followed by Czech Republic with 5 acquisitions, Poland with 4 acquisitions and Russia with 3 acquisitions in that order. Among these acquisitions, ONGC's acquisition of 20 per cent stake in the oil and gas field of Sakhalin for \$1.7 billion has been the largest overseas acquisition undertaken in 2002.

4. Motivations for Overseas Acquisitions

The overseas acquisition activities of national firms are likely to be motivated by a set of firm-specific objectives. It can be just a market entry strategy or market entry plus strategy (e.g. accessing strategic asset) implying a multi-purpose overseas acquisition. Pradhan and Abraham (2005) in their study on Indian firms' overseas acquisitions observed that Indian overseas acquirers possessed a set of diversified motivations from market entry to the acquisition of firm-specific strategic assets, to reap operational synergies and to overcome limitations of home country market. This fact of multi-purpose overseas acquisition by Indian firms can clearly be seen in the case of five selected deals each representing the largest acquisition made by Indian firms from their respective sectors such as pharmaceuticals, chemicals, transport equipment, metal and IT&ITES sector (Table-10). See appendix Table-A1 for information on sector-wise top three overseas acquisitions done by Indian Multinationals.

Table-10
Selected Acquisition Deals for Examining Motivations

<i>Sector Name</i>	<i>Description of Acquisition</i>	<i>Value (\$ Million)</i>	<i>Year</i>	<i>Target Country</i>
Pharmaceuticals	Betapharm by Dr Reddy's Lab	597.33	2006	Germany
Chemicals	CII Carbon by Rain Calcining	595.00	2007	USA
Transport Equipment	Intermet Europe by Sakthi Auto	130.00	2007	Germany
Metal and metal Products	Corus by Tata Steel	13650.00	2007	UK
IT&ITES	Infocrossing Inc by Wipro Technologies	600.00	2007	USA

The largest overseas acquisition from Indian pharmaceutical industry has been made by Dr Reddy's Laboratories in February 2006³. It had acquired the fourth-largest generic company in Germany, Betapharm Arzneimittel GmbH, for about \$597 million. The acquired entity had sales of euro 164 million in 2005, accounting for 3.5 per cent of the

³ Hindu Business Line (2006) 'Dr Reddy's buys German co Betapharm for Rs 2,250 cr—Biggest overseas acquisition by an Indian pharma co', February 17.

German pharmaceutical market. The basic objective of this acquisition has been the desire of the acquirer to enhance its global scale and to achieve a successful market entry into a large and fast growing European market. Dr K. Anji Reddy, Chairman, Dr Reddy's Laboratories, summed up the main motivation as⁴: "We see our investment in Betapharm as a key strategic initiative towards becoming a mid-sized global pharmaceutical company with strong presence in all key pharmaceutical markets." In addition, this acquisition also seems to be motivated by strategic objectives of product diversification and accessing a well established brand name in German market⁵. This acquisition has ensured access to Betapharm's 146 registered and marketed products and another 60 products in the development stage. This 13-year old German entity has already created a good market image and distribution networks in the European market.

The acquisition of US-based CII Carbon LLC by Rain Calcining—the biggest overseas acquisition from the Indian chemical industry—has been motivated with sole objective of becoming a global company. The acquired company is the world's second largest producer of calcined petroleum coke (CPC) with an annual production capacity of 1.84 million metric tonnes of CPC. After the acquisition, the combined entity emerged as the world's largest producer of CPC with more than 2.4 million tones with a combined sale of more than \$550 million⁶. The acquisition of Internet Europe from Internet International, USA by Sakthi Auto Component has been largely motivated by twin objectives of access to technologies and enhancing global presence⁷. The acquired entity is not only larger than the acquiring Indian firm, but also technologically a more advanced player. The acquired company is in the manufacturing of precision castings for the automotive industry and owns two plants in Germany and one in Portugal⁸. After six months of the acquisition, Chairman of Sakthi Auto Component Group, Mr M. Manickam expressed the importance of this acquisition as follows⁹ "We got all the fits right, and the takeover has supported the growth. The Group's productivity and quality levels are up. We now have a phenomenal bandwidth, which did not exist earlier."

Tata Steel's acquisition of Corus has been motivated by a set of strategic purposes like achievement of significant international production expansion, entry into European markets and accessing strong technological capabilities of the acquired entity. Moreover,

⁴ Hindu Business Line (2006) 'Dr Reddy's buys German co Betapharm for Rs 2,250 cr—Biggest overseas acquisition by an Indian pharma co', February 17.

⁵ Businessworld (2006), 'Dr. Redd's moves deep into Europe by buying betapharma, Germany's fourth largest generic firm, for \$570 million', March 20.

⁶ Economic Times (2007), 'Rain Calcining acquires US-based CII Carbon', July 20.

⁷ Hindu Business Line (2007), 'Intermet buy to help Sakthi Auto bolster presence', September 05.

⁸ Hindu Business Line (2007), 'Sakthi Auto buys Intermet Europe for Rs 533 crore', May 01.

⁹ Hindu Business Line (2007), 'Intermet buy to help Sakthi Auto bolster presence', September 05.

this acquisition has been inspired by the objective of deriving large business and technological synergies. According to Mr B. Muthuraman, Tata Steel's Managing Director, the Corus acquisition is likely to create synergies that would benefit the combined entity by \$300–350 million a year¹⁰. According to Ratan Tata, the Chairman, Tata Sons, the motivating force behind this acquisition is “the complementary strengths in technology, efficiency, product mix and geographical spread. Together we will be even better equipped to remain at the leading edge of the fast changing steel industry¹¹.” With this acquisition Tata Steel, which does not possess a single patent from the United States Patent and Trademark Office (USPTO), became the owner of more than 80 patents that have been filed and assigned to the Corus Group by the USPTO and about 950 R&D personnel across Britain and the Netherlands¹². Tata Steel has already made plans to implement alternate high-end technology developed by Corus in its greenfield steel plants to reduce cost of production¹³.

The biggest ever overseas acquisition from IT&ITES sector is the acquisition of US-based Infocrossing by Wipro Technologies in August 2007. The acquired entity through its five state-of-the-art data centres provides a full portfolio of infrastructure management solutions covering server management, mainframe outsourcing, network management and security services¹⁴. This acquisition has been mainly motivated to strengthen Wipro's long-term position in the global infrastructure services by gaining access to the data centre and capabilities of an established industry player like Infocrossing. Mr K.R. Lakshminarayana, CFO, IT business, Wipro Technologies, summed up the reason behind this acquisition as follows¹⁵: “Infocrossing will enhance our hit rate of winning large outsourcing deals.... Through Infocrossing, we are deepening our presence in the US with the addition of five data centre locations and about 900 employees.” Sudip Banerjee, President Enterprise Solutions of Wipro Technologies further added the following¹⁶: “With its unique platform based solutions, Infocrossing also brings in significant expertise in health plan & payer management segments. With its proven track record of processing over 175 million claims annually and providing contracted services to over 90 managed care organizations, Infocrossing will considerably enhance Wipro's ADM & BPO offerings to our Healthcare customers.”

¹⁰ Hindu Business Line (2007), ‘Corus buyout price is worthwhile’, February 01.

¹¹ Hindu (2006), ‘Tatas acquire Corus Group’, October 21.

¹² Hindu Business Line (2007), ‘80 plus Corus patents for Tata Steel likely’, February 04.

¹³ Hindu Business Line (2007), ‘Tata Steel to adopt Corus tech’, September 09.

¹⁴ Indian Express (2007), ‘Wipro adds another jewel to India's US takeover crown’, August 07.

¹⁵ Hindu Business Line (2007), ‘Wipro buying Infocrossing of US for Rs 2,430 cr’, August 07.

¹⁶ domain-b.com (2007), ‘Wipro to acquire Infocrossing’, August 07.

5. Locational Determinants of Overseas Acquisitions by Indian Multinationals

5.1. Analytical Framework and Hypotheses

The patterns of acquisitions by Indian firms across countries, according to the OLI theory (Dunning, 1980, 1993), would depend upon cross-country differences in the relevant set of locational advantages. Different acquiring Indian firms possess a variety of firm-specific requirements of locational advantages to pattern their acquisitions in consonance with cross-country heterogeneity in appropriate locational characteristics. As the ultimate goal of a firm acquiring another company is to enhance market share, the size of host countries is likely to be positively related with the overseas acquiring activities by Indian multinationals. The past literature dealing with the determinants of FDI inflows tends to suggest that host country market characteristics such as gross domestic product/population and per capita GDP act as pull factors for FDI inflows into host countries (UNCTAD, 1993; Hufbauer et. al., 1994; Nunnenkamp and Spatz, 2002; Buckley et. al., 2007 and other studies surveyed in Aggarwal, 1980; Pearce, Islam, and Sauvant, 1992; Lim, 2001). Chakrabarti (2001) in his sensitivity analysis has found that market size of the host country, measured by per capita GDP is a major explanatory factor determining FDI inflows. In development economics, per capita GDP has been used in a much broader sense of level of economic development than just an attribute of a market. It can be a composite proxy for levels of urbanization, infrastructure and industrialization—three indicators of agglomeration economies—that are crucial for efficiency-seeking overseas acquisitions. In view of the above empirical background and given the market-seeking motivations of Indian multinationals, overseas acquisitions from India are expected to be regionally concentrated in large-sized host countries. In the gravity model of trade in international economics, population (POP) and per capita GDP (PCGDP) both represent the relevant market characteristics in explaining bilateral trade between trading partners. Following the gravity approach, a positive impact for POP and PCGDP has been postulated in the present study.

As opposed to greenfield outward investment that are more motivated for the exploitation of existing strategic assets, brownfield investment are more likely to be for acquiring strategic assets. In the majority of overseas deals as reported in various financial newspapers, accessing new technologies and skills for competitiveness has been the most important reason given by the officials of acquiring Indian firms. In this context, it is predicted that Indian overseas acquisitions would be positively related with the various strategic assets of host countries. In the present study, host countries' patent intensity measured as resident patent applications for \$ billions of current GDP (PATIN)

and skill represented by secondary school enrolment ratio (SKILL) both are predicted to positively attract brownfield investment by Indian enterprises.

In addition to accessing strategic assets, Indian firms' foreign acquisitions are likely to be favourably affected by the import intensity of host countries from India (IMPIN). This is because Indian firms tend to visualize their target foreign firms as medium of providing after sales-services for their products exported from India. Most often the marketing networks, sales and distribution channels of target companies are important considerations for overseas acquisitions (Pradhan and Abraham, 2005).

Apart from the motivations of market access, acquisition of strategic assets and export-promotion from home country, Indian multinationals have also been observed to become active in acquiring natural resources in overseas countries. Therefore, Indian overseas acquisitions should be positively related to the host countries' natural resource position (NRP). Locational choice of Indian acquiring firms can also be related to geographical distances (DIST). Target countries that are geographically close to India would like to have closer economic relations like more trade and cross-border labour movements than other locations. A closer economic relation in turn tends to reduce information and transaction costs and may attract brownfield projects by Indian firms as a response to the growing competition in India and overseas markets.

Therefore, this study has analyzed the cross-country distributions of Indian firms' overseas acquisitions via an augmented gravity model that include traditional market and distance variables and additional independent variables to reflect different possible motivations of overseas acquiring Indian firms. The following specification has been adopted in this study:

$$OACQ_i = f(\text{POP}_i, \text{PCGDP}_i, \text{PATIN}_i, \text{SKILL}_i, \text{IMPIN}_i, \text{NRP}_i, \text{DIST}_i) \quad \dots\dots 4.1$$

where,

OACQ_i = Number of acquisitions by Indian firms attracted by *i*th host country during 2000–2007,

POP_i = Log of population of *i*th host country in 1999,

PCGDP_i = Log of GDP per capita (constant 1995 US\$) of *i*th host country in 1999,

PATIN_i = Resident patent applications by per \$ billions of current GDP of *i*th host country in 1999,

SKILL_i = Gross Secondary School enrollment (Per cent) of *i*th host country in 1999,

IMPIN_i = *i*th host country's imports from India as a per cent of its imports from world in 1999,

NRP_i = Fuel and ore exports by *i*th host country as a per cent of its total commodity exports in 1999,

DIST_i = Log of distance in kilometers between India and *i*th host country.

5.2. Data Sources

The data on overseas acquisitions by Indian firms has been from an in-house dataset built from different newspapers, magazines and other sources as mentioned earlier. World Investment Indicators, 2007 has been the primary source on data related to population, GDP, per capita GDP, and secondary school enrolment ratios of host countries. Information on different components of exports and imports of host countries has been drawn from the United Nations Commodity Trade Statistics Database, 2007. Data on resident patent applications has been collected from the World Intellectual Property Organization, online statistics on patents, 2007. Geographical distance (in kilometers) between India and host countries, calculated following the great circle formula that uses latitudes and longitudes of the most important city (in terms of population) or of official capital, has been accessed from the CEPII Distance database, 2006.

5.3. Empirical Estimations and Results

Given the discrete count form of the dependent variable—number of overseas acquisitions—in model 4.1, the application of ordinary least square estimation theoretically is inappropriate. OLS not only leads to possible negative predicted values for the count variable that essentially involve non-negative integers, but also adopts incorrect variance function assumed as homoscedastic. Ordinary count regressions such as Poisson is more relevant in situations where the mean of the count variable is roughly equal to its variance and if the variance tends to be greater than the mean (i.e. the case of overdispersion), the Negative Binomial regression is often more appropriate.

OACQ, the count dependent variable in the present study is estimated to have an unconditional variance of 287.5, hundred and one times higher than its mean of 2.9. This indicates a severe case of overdispersion. Further, over a half of the counts in OACQ are observed to assume the value of zero. Of the 107 countries, OACQ is zero in 57 countries. This suggests the case of 'excess zeros' in the dependent variable. Therefore, our dependent variable shows evidence of both overdispersion and excess zero.

The present study has adopted two zero-inflated models, namely Zero-Inflated Poisson (ZIP) regression and Zero-Inflated Negative Binomial (ZINB) regression that possess capability to account for overdispersion and excessive zeros in the raw data. In these models there are two distinct processes—(i) the logit model to predict the probability of a host country to certainly attract zero acquisitions by Indian firms; (ii) the Poisson/Negative Binomial model to predict the counts for those host countries that are not in certain zeros. As the basic objective of acquisition strategy is to increase position in large markets, two indicators of host country market such as population and per capita

GDP have been employed to investigate the probability that a country will have zero acquisitions. The Vuong tests conducted for the final sample of 107 countries across different regions favours ZIP against the standard Poisson regression and ZINB against the regular Negative Binomial regression¹⁷. All the results reported in this study have been conducted with the help of STATA statistical package.

The empirical results obtained from ZIP and ZINB estimations have been summarized in Table-11. The Wald Chi-Square statistics of both these models are statistically significant, indicating that all predictors' explanatory powers in the models are not simultaneously zero. The count coefficients, predicting the number of acquisitions for those countries that hosted non-zero acquisitions, for POP and PCGDP confirm that overseas acquisitions by Indian firms have been overwhelmingly market-seeking in character. The coefficients of population and per capita GDP came out with positive and significant impacts in both ZIP and ZINB regressions. Holding all other variables constants, the expected number of acquisitions attracted by a host country would increase if the size of its population/per capita GDP increases.

Among the two strategic asset indicators, patent intensity (PATIN) and secondary school enrolment ratio (SKILL) of host countries, SKILL has a significant and positive impact across ZIP and ZINB estimations. PATIN has a negative sign that is statistically not different from zero in ZINB but significant in ZIP regression. This shows that the role of patent intensity of host countries in attracting acquisitions by Indian firms is not consistent over different estimations. However, the findings that those countries that possess a relatively more skilled manpower base are likely to host more number of Indian brown filed investments partially substantiates the strategic asset seeking motivation of Indian firms.

The empirical results appear to support the hypothesis that overseas acquisitions by Indian firms might have been motivated to improve their export competitiveness. The variable IMPIN has a positive and statistically significant coefficient across ZIP and ZINB estimations. This suggests that host countries that import more from India are likely to host more number of acquisitions by Indian firms. As the competition in traditional export markets is growing, Indian exporters are required to improve their after sales services. Indian firms are forced to create local presence in their export markets and acquisition turned out to be an attractive strategy for them to gain a market entry with access to an established trading and distribution network of target enterprises.

¹⁷ Vuong test of ZIP vs. standard Poisson: $z = 2.20$ with $Pr > z = 0.0141$; ZINB vs. standard Negative Binomial: $z = 1.99$ with $Pr > z = 0.0235$.

Table-11
ZIP and ZINB Estimation of Overseas Acquisitions by Indian Multinationals

<i>Dependent Variable: Number of Overseas Acquisitions (OACQ)</i>		
<i>Independent Variables</i>	<i>Zero-inflated Poisson regression</i>	<i>Zero-inflated Negative Binomial regression</i>
Count Coefficient (z-value)		
POP	0.7864*** (9.41)	0.7124*** (6.66)
PCGDP	1.9992*** (6.10)	1.7267*** (4.51)
PATIN	-0.0209** (2.15)	-0.0086 (1.33)
SKILL	0.0416*** (5.24)	0.0278** (2.30)
IMPIN	0.3077*** (4.53)	0.2246** (2.04)
NRP	-0.0007 (0.09)	-0.0103* (1.70)
DIST	0.2221 (0.75)	-0.1066 (0.36)
Constant	-22.3873*** (12.19)	-16.8398*** (4.15)
Excess Zero Logit Coefficient (z-value)		
POP	-1.6671* (1.95)	-2.0396*** (3.25)
PCGDP	-2.7314** (1.99)	-3.3785*** (3.48)
Constant	34.3742** (2.00)	42.0861*** (3.52)
Log pseudo-likelihood	-207.7852	-151.5998
Wald chi2(7)	810.78	125.59
Prob > chi2	0.000	0.0000
Observations	107	107

Note: Robust z statistics in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

Among rest two predictors, the role of distance has been observed to be very minimal in the case of brownfield investment. DIST has a coefficient that is not statistically different from zero across the estimations. The impact of natural resource endowment, NRP, is mixed over ZIP and ZINB regressions. Although a number of natural resource-based Indian multinationals are engaged in acquiring natural resources like mining, oil and natural gas, but their presence is overshadowed by large number of Indian multinationals from various other sectors from India.

The coefficients of two logit predictors, POP and PCGDP, possess negative signs and are statistically different from zero in both the estimations. This indicates that increase in population and per capita GDP of host countries would significantly reduce their probability of being in the category of countries that attracted zero acquisitions from India. This further corroborates the market consideration that drives Indian brownfield OFDI.

6. Conclusion

This paper has examined the rise of overseas acquisition activities of Indian multinationals. The findings suggest that brownfield investment from India has grown considerably since late 1990s with fundamental changes in the sectoral composition. The Indian manufacturing multinationals, which are latecomers to use acquisition as a strategy of international expansion, have recently overtaken the first mover services firms from software and hospitality sector. Indian manufacturing overseas acquisitions are found to be pursued more by knowledge-intensive Indian firms from pharmaceutical, chemicals and transport equipment. Within services sector, Indian IT and ITES firms dominate the scene. Geographically, Indian brownfield investment has been more concentrated in developed regions with USA and UK as the top two host countries.

The relatively more use of acquisitions by technology-intensive sectors and also overwhelmingly directed at developing region indicate that Indian multinationals are using brownfield investment as a means of accessing large markets and strategic assets that can supplement their existing competitive capabilities. The case studies of selected acquisitions further verify that overseas acquisitions from India have been motivated with multifaceted objectives of access to market, intangible assets, geographical diversification, trade-supporting platforms, etc.

The empirical study on the locational determinants of Indian overseas acquisitions strongly supports the market-seeking motivation of Indian firms. The size of the host countries, represented by population and per capita GDP, has performed a significant role in attracting acquisitions by Indian multinationals. The finding also suggests that Indian acquisitions are likely to be concentrated in those countries that have large pool of skilled manpower and that tend to import more from India.

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Appendix

Table-A1
Information on sector-wise top three overseas acquisitions by Indian Multinationals

<i>Indian acquirer</i>	<i>Foreign target</i>	<i>Host country</i>	<i>Value</i> (\$ million)	<i>Year</i>
Banking & Financial Services				
State Bank of India	Indian Ocean International Bank	Mauritius	10	2005
State Bank of India	GIRO Commercial Bank	Kenya	7	2005
Infosys Technologies Ltd.	Treasury production division of Trade IQ	USA	3.9	2002
Biotechnology				
Chambal Fertilizers & Chemicals (Zuari-Chambal group)	51 percent stake in Technico Pty	Australia	18.54	2002
Biocon Limited	Nobex Corporation	USA	5	2006
Nicholas Piramal India Ltd	BioSyntech Inc	Canada	5	2005
Business Advisory				
Kaashyap Technologies Ltd	Consultancy division of the New Jersey-based Logistics Solutions Inc	USA	8.5	2007
Godrej Industries	Boston Analytics LLC	USA	5	2005
Crisil	EconoMatters Ltd and subsidiaries	UK	2.6	2003
Chemicals				
Rain Commodities Ltd.	CII Carbon	USA	595	2007
Wipro Ltd	Unza Holdings Ltd	Singapore	246	2007
The Sanmar Group	Trust Chemical Industries' Chemical business	Egypt	200	2006
Electrical Machinery				
Suzlon Energy Ltd	Repower	Germany	1815.7	2007
D S Constructions Ltd	Globeleq America's power assets	South America	542	2007
Havell's India Ltd	SLI Sylvania's lighting business	Netherlands	300	2007
Fabricated Metal Products				
Bharat Forge (BFL)	Carl Dan Peddinghaus GmbH (CDP),	Germany	32.7	2003
Sundram Fasteners Ltd	precision forgings business of Dana Spicer Europe	UK	2.6	2003
El Forge Ltd	Shakespeare Forgings Ltd	UK	0.2	2006
Food & Beverages				
United Spirits Ltd	Whyte & Mackay	UK	1178.2	2007
Tata Tea Ltd	Energy Brands Inc.	USA	677	2006
Tata Tea Ltd	Tetley	UK	428.1	2000
Gems & Jewellery				
Gitanjali Gems Limited	Samuels Jewellers	USA	44.44	2006
Shrenuj & Company Ltd	Simon Golub & Sons Inc	USA	22.7	2007

contd...

<i>Indian acquirer</i>	<i>Foreign target</i>	<i>Host country</i>	<i>Value</i> (\$ million)	<i>Year</i>
Hospitality and Tourism				
Indian Hotels Company Ltd	Ritz-Carlton hotel	USA	170	2006
Indian Hotels Company Ltd	Hotel Campton Place	USA	60	2007
Indian Hotels Company Ltd	The Pierre	USA	50	2005
IT & ITES				
Wipro Technologies	Infocrossing Inc	USA	600	2007
Firstsource Solutions	MedAssist Holdings	USA	330	2007
Scandent Solutions Corporation Ltd.	Cambridge Integrated Services Group Inc	USA	230	2004
Media & Entertainment				
UFO Moviez	Digital cinema arm DG2L Technologies	Singapore	50	2006
Pentamedia Graphics	51 percent stake in Film Roman Inc	USA	15	2000
United Television (UTV)	Ignition Entertainment	UK	13.33	2006
Metal and metal products				
Tata Steel	Corus	UK	13650	2007
Hindalco Industries Ltd	Novelis	USA	6000	2007
Essar Steel	Algoma Steel Inc	Canada	1580	2007
Mining				
Global Steel Holdings-Ispat Inds	Colcarbon SA	USA	150	2006
Gujarat NRE Coke Ltd	Southern Coalfields of New South Wales	Australia	60	2005
Sterlite Industries	Konkola Copper Mines	Zambia	48.2	2004
Non-electrical Machinery				
Volvo Construction Equipment	Ingersoll Rand's road development division	USA	1300	2007
Suzlon Energy Ltd.	Hansen Transmissions International NV	Belgium	558	2006
Wipro Ltd	Hydrauto Group AB	Sweden	31	2006
Non-metallic mineral products				
Carborundum Universal Ltd	Abrasives Enterprise	Canada	1.95	2006
Oil & Natural Gas				
ONGC	offshore project at Sakhalin	Russia	1700	2002
INDIAN Oil Corporation Ltd	Iranian liquefied natural gas (LNG) block	Iran	1000	2004
ONGC	25 per cent interest in the Greater Nile Oil Project	Sudan	720	2002
Paper & Pulp				
Ballarpur Industries Limited (BILT)	Sabah Forest Industries	Malaysia	261	2006
Grasim Industries	St Anne Nackawic Pulp Mill	Canada	7	2005
Pharmaceuticals				
Dr Reddy's Laboratories	Betapharm Arzneimittel GmbH	Germany	597.33	2006
Sun Pharmaceutical Industries	Taro Pharma	Israel	454	2007

contd...

<i>Indian acquirer</i>	<i>Foreign target</i>	<i>Host country</i>	<i>Value (\$ million)</i>	<i>Year</i>
Ranbaxy Laboratories Ltd	Terapia S.A.	Romania	321.11	2006
Plastic & products				
Reliance Industries Ltd	Trevira GmbH	Germany	96	2004
Essel Packaging Ltd	Propack Mauritius	Mauritius	11	2000
Jindal Polyester Ltd	Rexor, S.A.,	France	9.9	2003
Telecommunication Equipment				
Videocon led consortium	Daewoo Electronics Corporation	South Korea	752	2007
Videocon group	Thomson SA's global colour picture-tube business	Italy	290	2005
Crompton Greaves	Ganz Transelektro Villamossagi Zrt & Ganz - Transverticum Kft	Hungary	43.56	2006
Telecommunication Services				
Reliance Communication	Yipes Holding Inc	USA	300	2007
VSNL	Teleglobe International Holdings Ltd	USA	239	2005
Reliance Communication	FLAG Telecom	UK	207	2003
Textiles & Apparels				
Skumar's	American Pacific	USA	90	2006
Spentex Industries Ltd.	Tashkent-To'yetpa Tekstil Ltd	Uzbekistan	81	2006
Gujarat Heavy Chemicals Ltd.	Rosebys	UK	40	2006
Transport equipment				
Sakthi Auto Component	Intermet Europe	Germany	130	2007
Mahindra & Mahindra Ltd	Jeco Holding AG	Germany	125.24	2006
Tata Motors Ltd.	Daewoo Commercial Vehicle Co Ltd	South Korea	102	2004
Others				
Golden Ace Pte Ltd	RSH (Royal Sporting House)	Singapore	242.5	2007
Sical Logistics Limited	Bergen Offshore Logistics Pte Limited	Singapore	96.9	2006
Punj Lloyd Limited	SembCorp Engineers and Constructors	Singapore	22.22	2006

Note: Only those acquisitions are considered for whom value of consideration was available.

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