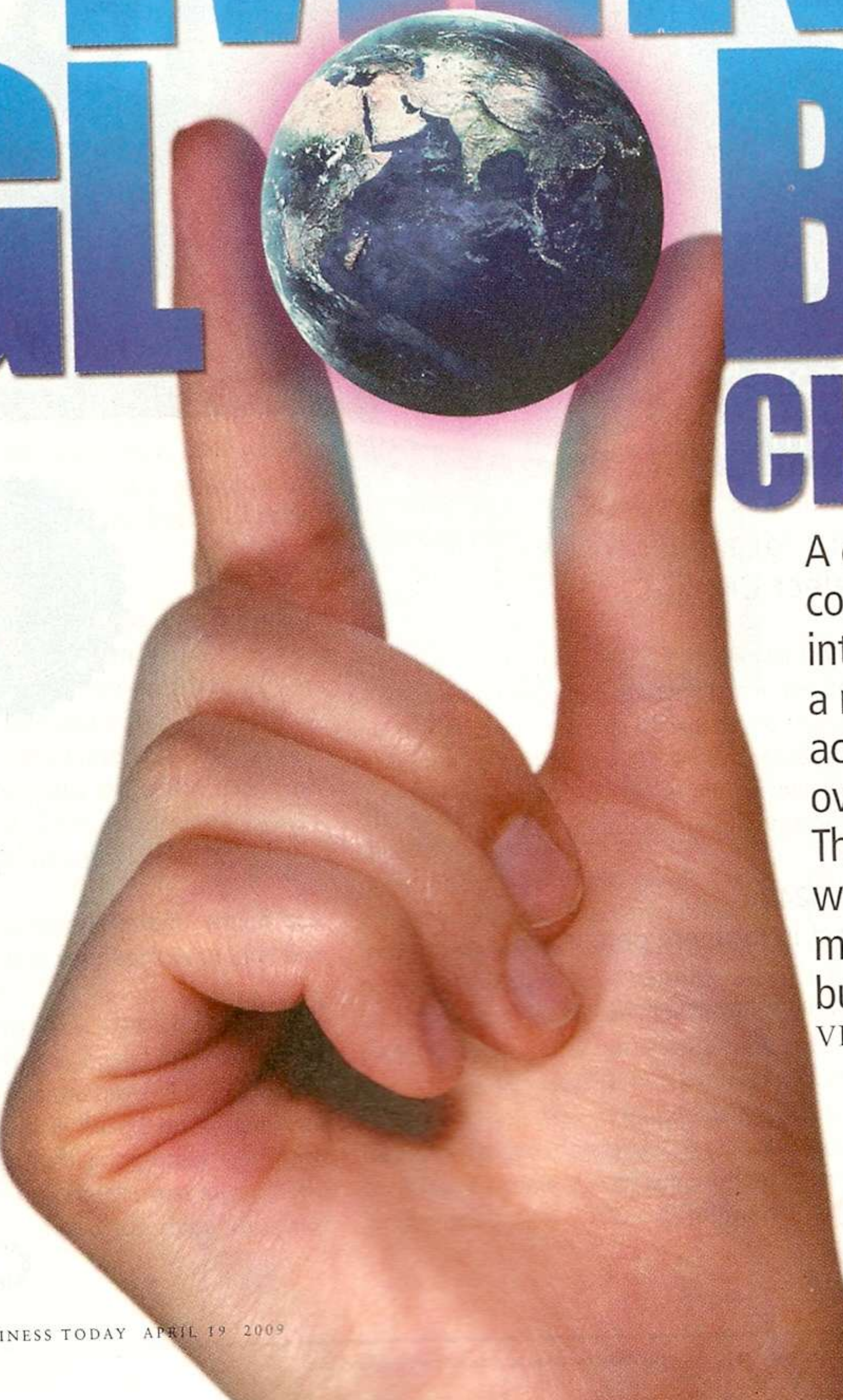
INDIA'S MINI GLOBAL CHAMPS



A clutch of smaller Indian companies has gone international by making a number of small acquisitions the world over. The best part: They seem to be working, unlike some multi-billion-dollar buyouts.

VIRENDRA VERMA

In JANUARY 2007, WHEN TATA STEEL ACQUIRED UK STEEL GIANT CORUS FOR $12.2 billion, the transaction heralded India Inc.'s largest ever outbound buyout. The pundits were quick to also label the Tata-Corus deal—and subsequent multi-billion capers such as Hindalco-Novelis, Tata Motors-Jaguar Land Rover and Suzlon-REpower—as a surefire sign that Indian business was finally ready to take on the world.

The pundits weren't wrong. Making acquisitions for size and scale, amongst other objectives like new markets and new products, isn't a bad reason to plant your flag in outposts across the globe. The only problem: Big acquisitions take longer to digest—and the process gets even more difficult when global economies slip into a downturn. Suddenly, these overseas conquests appear like reckless adventures, as demand conditions turn soft and debt suddenly jumps out of the books to rudely remind promoters of the perils of putting cash where often the investment bankers' mouth was.

Now cut to a company like the over Rs 3,500-crore agrochemicals firm United Phosphorus Ltd (UPL). It hasn't made any billion-dollar deals, but the 26 acquisitions (including products) it has pulled off since 1994—a decade in which going global was considered extreme rather than the norm—would easily cross that number. UPL is unlikely to figure in consultants' case studies of big-bang acquisitions. But consider what UPL has achieved: A global footprint that covers 23 countries (which in turn allows it to address customers in 86 countries), a broad range of operations that includes agrochemicals, seeds and biotechnology and significant entry barriers in countries that it has entered. And yes, most of its buyouts are working well. Reason? UPL doesn't wait for more than three years for them to yield results. They usually do.

Like UPL, a host of Indian companies have over the years made sub-billion-dollar acquisitions that have begun yielding benefits that go beyond size and scale. A few have found assured supplies of raw materials, some have been able to lay their hands on high-end talent, and others have been able to ride on new opportunities that would have taken years to start from scratch.

Many of these companies operating in niche areas have gone on to become world leaders in their respective areas via the buyout route. Rain Commodities, for instance, has become the world's largest maker of calcined petroleum coke, a raw material that's needed to make aluminium and titanium dioxide.

The companies *BT* has looked at have made acquisitions in the $10 million-$600 million range. The smaller ticket sizes have ensured that they haven't burnt holes in their balance sheets. However, many of these firms have used foreign currency convertible bonds (FCCBs) to fund their buyouts and a few of them will be challenged at conversion time if the stock markets continue to stay bearish.

Yet, there's little doubt that most of our mini-champs are on the right track. *BT* profiles 10 of them. The lesson to be learnt is clear-cut: Small can be beautiful—and often works better, too.

BIG TRIGGERS
FOR SMALL ACQUISITIONS

It's not just about gaining size and scale.

Global footprint: This doesn't involve setting up countless outposts the world over. Binani Cement, for instance, by acquiring just two strategically-located units, can address a fair share of the globe.

New opportunities: By acquiring in the US, pharma packaging firm Bilcare has hit upon a $21-billion market—that's the value of counterfeit drugs sold in the US.

Broadbase operations: United Phosphorus' buyout of Dutch seed maker Advanta was triggered by the impact of biotechnology on the agrochemicals sector.

Cost arbitrage: Allied Digital acquired a remote infrastructure management firm in the US, with the plan of offshoring projects to India, where professionals are available at a fifth of the price in the US.

Find raw material sources: Rain Commodities has found an assured supply of anode-grade petroleum coke after buying out CII Carbon in the US.

Access high-end talent: By acquiring companies in the geospatial information sector, Rolta has been able to integrate 400 top-notch consultants from the international firms into its stable.

NISHIKANT GAMRE

Allied Digital's Shah: Cashing in on the cost arbitrage

Remote Control

Allied Digital rides on the next big opportunity in IT services with a buyout in the US.

TO MAKE AN ACQUISITION at the peak of the subprime crisis in the US would be considered foolhardy for most businesses. Unless, you are in one that could actually benefit during recessionary conditions. Allied Digital Services Ltd (ADSL) may be one such firm. An IT infrastructure-management service provider, ADSL manages company servers, IT security and such related activities which, in industry parlance, are classified as remote infrastructure management (RIM).

So, what does a company like ADSL do? It acquires an RIM-company in the US, called En Pointe Global Services, outsources the work to India, and hopes to cash in on the cost arbitrage advantage. "The business opportunity in the US is huge despite the subprime crisis. For instance, a Cisco-certified

THE BUYOUT EDGE

ACQUISITIONS: En Pointe Global Services, US (2008)

PRICE TAG: **$10 million and a 4.11 per cent** stake in Allied Digital

FINANCING: Proceeds from an IPO

BENEFITS DERIVED: Access to big customers like J P Morgan and American Airlines and offering other services to existing customers

INTEGRATION ACHIEVED: Underway, with a part of the manpower to be shifted to India

inter-networking professional in the US is available for $150,000 a year whilst in India I can get one for Rs 15 lakh ($30,000)," says ADSL Chairman & Managing Director Nitin Shah.

A study by IT industry body NASSCOM last year said RIM business is the next big opportunity for India's IT industry. The apex body highlighted that the total addressable market is estimated to be about $100 billion, and of this, India is well-positioned to capture $13-15 billion by 2013.

With En Pointe in the bag, ADSL gets direct access to marquee customers like JP Morgan, American Airlines and Mitsubishi. And, of course, it gets a ready-made outpost in the US. "It would have taken us five years to get to the size of the business En Pointe has," says Shah.

The numbers indicate that ADSL is gaining from the acquisition, within just six months. "Business has already increased to $50 million compared to $40 million at the time of acquisition," says Shah. He adds that the operating profit margin will climb to 22-25 per cent (after full integration) from 10-12 per cent—that's primarily due to the lower-cost associated with offshoring activities, and the ability to provide additional services to the US clients.

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