Indian companies are gaining ever-greater confidence to flex their substantial financial muscle on the world stage, writes **Christopher Spink**.

INDIANS GO GLOBAL

The Indian economy has passed a critical stage over the past two years, firmly establishing itself on an equal footing with its former masters in the West.

No longer is the sub-continent considered merely a useful source of cheaper labour for more developed economies. Now the tiger is biting back, challenging those that outsource this work and even acquiring such companies.

Since the start of last year, the value of acquisitions by Indian companies of overseas businesses, at US$28.3bn, has outstripped the value of purely domestic deals by more than 50%.

Larger acquisitions dominate this crop, including such landmark deals as Hindalco's US$5.8bn purchase of US aluminium group Novelis and Ford's recent US$2.3bn sale of Jaguar and Land Rover to Tata Motors.

Some of the UK's most sacred items have also been taken East, such as Scottish whisky group Whyte & Mackay, acquired by Kingfisher beer entrepreneur Vijay Mallya for US$1.18bn. Even English cricket is under threat by the lucrative Indian Premier League.

"2007 was a turning point. There have been a number of bigger ticket transactions," says Ralph Voltmer, a partner at US law firm Covington Burling, which has advised telecom-focused conglomerate Reliance. "Many large Indian companies are truly multinational now. I expect this trend to continue," he says.

The acquisitions of such trophy assets inevitably grab the limelight, drawing attention away from the more prosaic deals that have happened over the past 18 months. There have been 369 in all, which is still half the number of domestic deals. Ian Gomes of KPMG says there are "scores of deals in the US$50m to US$80m range".

"Over the last four years there have been lots of smaller deals, where Indian companies have bought overseas, but these have slowly been getting larger," says Ian Scott, a partner at lawyer Ashurst, which has had an office in India for 14 years.

Andy Currie, managing director of Catalyst, has noticed a distinct rise in interest from Indian potential purchasers of UK assets, saying: "Five years ago, we had no Indian interest when running disposal mandates, but now 80% of such deals will have interest from India."

The UK mid-market adviser is part of cross-border network Mergers Alliance, whose Indian member Singhi recently organised a conference in Delhi attended by more than

300 Indian corporates, keen to learn about doing overseas acquisitions.

"A third of Indian money invested overseas goes into the UK," says Currie, citing the cultural links through the Empire and the English language as important reasons for this. He has sold building product, construction and IT businesses to Indian buyers.

Drugs seeking targets

One of Singhi's bigger deals this year involved advising an Indian pharmaceutical client, Plethico, on the acquisition of Natrol, a US herbal medicine maker.

"We were brought in to find targets for Plethico to buy outside India," says Abhijeet Biswas, head of Singhi's dedicated cross-border M&A team.

"Plethico's strategy is quite different from that of Ranbaxy or other Indian makers of generic drugs, who make products under licence from Western companies. As a maker of herbal medicines, Plethico already had exports into unregulated markets such as CIS countries, the Gulf and South East Asia. Now it wanted to move into regulated markets.

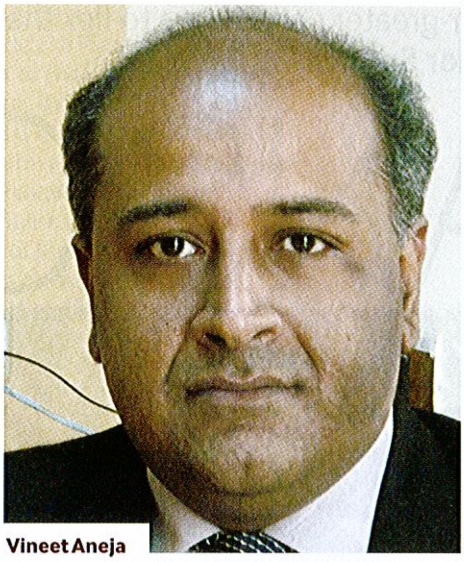
"Herbal treatments are popular in the US and Germany, so these were the places where we drew up a good set of targets," says Biswas. "Plethico decided to target the US first as it was a much bigger market, then other smaller ones. We then approached Merger Alliance's US partner Brocair, which is a healthcare specialist.

"The search was then narrowed down to Natrol, as it was a Nasdaq company, principally owned by institutions that were willing to sell. This made it easier to acquire than a herbal business that was privately owned or part of a larger corporation. Natrol is a top 10 business in the US and a good platform for future growth," he says

"This was very much a stepping stone. Indian pharma companies want to get into the US in order to gain FDA approval for their processes. This will take a lot of time to do from a standing start, so acquiring an existing approved facility makes sense."

This trend is continuing. Jubilant Organosys, which bought two US research businesses, Target Research Associates and Trinity Laboratories, in 2005, acquired Hollister-Stier Laboratories for US$122.5m a year ago. And last month it announced plans to buy Draxis Health of Canada for US$255m. This enhances its presence in regulated markets.

Rusty Ray at Brocair, Singhi's US partner firm, notes that Indian pharma companies are also looking to buy US developers of drugs, rather than just established products, saying: "Major Indian companies are definitely interested in buying US pharmaceutical companies in the development space."


Vineet Aneja

Ranbaxy, best known for making copies of off-patent drugs developed in the West, is spinning off its development arm this summer and smaller rivals, such as Wockhardt, are also expanding in this field.

A year ago, Wockhardt bought French developer Negma Laboratories for US$265m. Negma has 172 patents connected to drugs in development. Wockhardt has now made five European acquisitions.

Vineet Aneja is a partner in the largest Indian law firm by number of lawyers, Fox Mandal Little. "We remain busy with Indian companies still looking overseas, principally at the US and Europe," he says.

Aneja still sees the drive for many of these deals as the opportunity to relocate the manufacturing facilities acquired in the West back to lower-cost India. Others detect a trend away from this motive.

"The high profile Tata acquisition of Jaguar and Land Rover had nothing to do with buying IT and technology. It was a traditional M&A deal driven by the desire to expand in the global market place," says Nikhil Mehta, partner at Cleary Gottlieb Steen & Hamilton.


Ralph Voltmer

The firm knows about this dynamic, as it advised Mittal on the takeover of Arcelor. Steel and materials continues to be an extremely active sector. Mehta again emphasises that the recent deals have been done to give Indian companies and their products access to a global market place, saying: "Tata already had lots of expertise when it bought Corus".

IT issues

Ian Gomes of KPMG reckons there are several reasons why Indian companies want to make acquisitions overseas. "They either want a Western brand name to use globally; access to an established distribution network throughout Europe and the US; or are looking to acquire hi tech design or intellectual property," he says.

Gomes highlights the pharmaceutical, automotive and IT sectors as being particularly active. Some of the dominant Indian companies in the latter area, such as Infosys, Wipro, Satyam and Tata Computer Systems have long been linked with possible targets in Western Europe and the US, such as SAP and Cap Gemini.

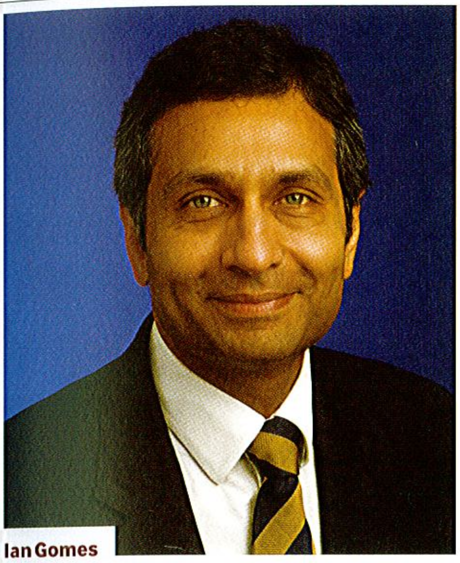
However, Anthony Miller, a partner at Arete Research who has long tracked the fortunes of these companies, notes that shareholders have become disenchanted with how they have integrated purchases already made in the West. Their share prices have all fallen over the past two years, even though their revenues have on average doubled.

This is partly because investors already link these stocks inextricably with the US and EU economies, as most of their income is received from companies in these developed markets deciding to send IT contracts offshore. A fear that a downturn in the US economy will dampen such activity seems to have gripped these investors.

Wipro chairman Azim Premji said last month: "The global economic outlook has changed significantly since the beginning of this calendar year. It poses challenges and at the same time, opens up new opportunities. Given the uncertainty in the environment, we remain cautious but resilient."

KPMG's Gomes disagrees. "Yes, all IT companies have been affected by the US downturn hitting top-line growth. However, that's a short-term issue. Many US operators are also going to be urged to cut costs, so more offshoring to India may take place in the long term." Another issue has been the increasing labour costs these IT giants face.

Arete's Miller notes that some of the deals that saw Western companies buy Indian ones in the last two years appear to have turned sour, citing Cap Gemini's US$1.25bn pur-



Ian Gomes

chase of Kanbay in October 2006 and EDS's US$380m purchase of Mphasis in June the same year.

Both have since seen many Indian IT consultants leave, after seeing the disparity in pay between themselves and colleagues in developed economies. The deals have effectively been regarded as reverse takeovers internally. This is making Indian companies wary about buying in countries where labour costs are higher.

However, some continue to make moves overseas. Most notably, last August Wipro bought Nasdaq-listed Infocrossing for US$673m, nearly three times its annual revenues. Infocrossing stores data for US clients, notably in the healthcare sector, on servers at five remote locations in the US.

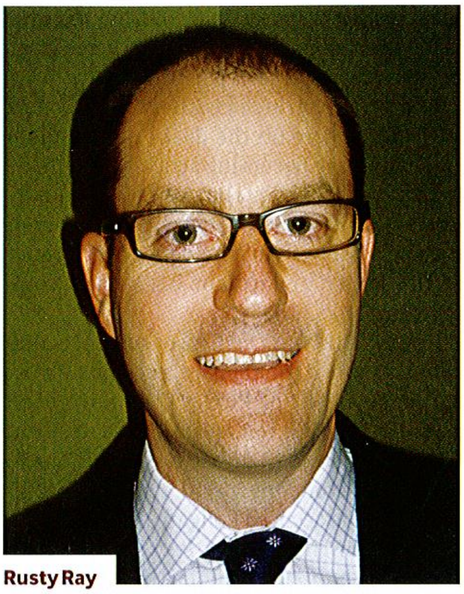
The logic behind this deal was reasonably traditional. Wipro president Suresh Vaswani said: "This acquisition of an acknowledged industry leader broadens the data centre and mainframe capabilities of Wipro Technologies to uniquely position us in the remote infrastructure management space."

Satyam's acquisition of Bridge Strategy Group in January for US$35m was much smaller but highly significant, says Arete's Miller, as Bridge is a high-end management consultant rather than a provider of commodity IT services.

This means Bridge is definably different from Satyam, making integration less of a problem. The hope is that Bridge's 36 fee earners could generate offshore contracts too through their contact with senior management in US companies.

Financial forays

Religare, a financial services group majority owned by pharmaceutical giant Ranbaxy, has also established a bridgehead in the West,



Rusty Ray

through its recently announced acquisition of Hichens, Harrison for £55.5m. Hichens is an AIM-listed stockbroker specialising in advising and raising money for businesses on London's junior market.

Hichens finance director Brian Rowbotham believes the deal will provide benefits for both parties, saying: "We have expanded in the emerging markets lately, trying to become broker of choice for mid-market companies

TOP 20 INDIAN ACQUISITIONS OF FOREIGN TARGET M&A RANKING 2007-YTD

Date	Target	Value (US$m)	Acquirer	Target advisers	Acquirer advisers	Status
10/2/07	Novelis Inc (US)	5,766.66	AV Aluminum Inc (CA)	Evercore Partners/Morgan Stanley	UBS Investment Bank/ABN-AMRO Holding	C
11/7/07	Sabiha Gokcen International (TK)	2,656.40	Malaysia Airport Hldg Bhd/ GMR Infrastructure Ltd/ Limak Insaat Sanayi ve Ticaret (IN)	–	ABN-AMRO Holding NV	P
26/3/08	Jaguar Cars Ltd (UK)	2,300.00	Tata Motors Ltd (IN)	Goldman Sachs/Morgan Stanley/ HSBC Holdings	Citi/JPMorgan	P
15/4/07	Algoma Steel Inc (CA)	1,467.04	Essar Global Ltd (IN)	Genuity Capital Markets	UBS Investment Bank	C
30/3/07	Kaltim Prima Coal PT (ID)	1,300.00	Tata Power Co Ltd (IN)	Credit Suisse Group	Macquarie Bank	C
16/5/07	Whyte & Mackay Ltd (UK)	1,176.38	United Spirits Ltd (IN)	Citigroup	UBS Investment Bank/ICICI Bank Ltd/ Standard Chartered PLC/Citibank (Bombay)	C
31/1/08	General Chemical Industrial (US)	1,005.00	Tata Chemicals Ltd (IN)	Jefferies & Co Inc/Houlihan Lokey Howard & Zukin	Lazard/Standard Chartered Bank	P
22/8/07	Jindal United Steel Corp (US)	940.00	JSW Steel Ltd (IN)	–	–	C
6/8/07	Infocrossing Inc (US)	672.91	Wipro Technologies Inc (US)	Credit Suisse Group	Citi/KPMG Corporate Finance	C
3/6/07	CII Carbon LLC (US)	595.00	Rain/CII holdings Inc (IN)	–	Citigroup/ICICI Bank Ltd	C
30/5/07	Globeleq Ltd-Latin America Bus (BM)	568.00	DS Constructions Ltd/ Israel Corp (IN)	Lehman Brothers	Genesis Investment & Business	C
9/2/07	REpower Systems AG (GM)	552.76	Suzlon Windenergie (GM)	Network Corporate Finance	ABN-AMRO Holding NV	C
21/5/07	Taro Pharmaceutical Industries (IS)	441.19	Sun Pharmaceuticals Inds Ltd (IN)	Blackstone Group/Merrill Lynch	Greenhill & Co, LLC	P
25/9/07	Undisclosed M'boundi Oil Field (RC)	350.00	BPCL (IN)	–	–	P
29/8/07	MedAssist Inc (US)	330.00	Firstsource Solutions Ltd (IN)	Robert W Baird & Co Inc	–	C
20/2/08	JB Ugland Shipping AS (NO)	302.40	Siva Ventures Ltd (IN)	Standard Chartered PLC	–	C
13/3/07	SLI Sylvania (NT)	300.39	Havells (IN) Ltd (IN)	Rothschild/Ernst & Young LLP	–	C
23/12/07	Sony Online Entertainment LLC (US)	300.00	Zapak Digital Entertainment (IN)	–	–	P
16/7/07	Yipes Communications Inc (US)	300.00	FLAG Telecom Group Ltd (UK)	–	–	C
14/3/07	Sylvania Lighting- (NT)	300.00	Havells (NT) BV (NT)	Rothschild	Deutsche Bank AG	P

Source: Thomson Reuters

P=Pending; C=Completed

LEAD FEATURE BRIC REPORT

seeking a listing in London. Religare has over 500,000 clients, many of whom have businesses that could seek a listing."

Andrew Perkin of PricewaterhouseCoopers advised Religare on the deal. "Large Indian companies are becoming acquisitive outside India," he says. "Smaller ones are equally interested in expanding beyond their domestic borders, but many are beneath the radar of the larger investment banks and commercial banks."

He says this was the first of several acquisitions planned for Religare, previously a tax and audit client of PwC. "They have been active in Australia but are also keen to buy in the US," he says. "Religare has ambitions to be a global company."

Some have accused Religare of paying over the odds for Hichens but Perkin says: "Religare is not bothered. This is a long term play for the business." Indeed, an AIM brokerage seems worth paying for, judging by recent activity from the sub-continent.

Robert Ogilvy-Watson, a partner at Ashurst, says: "Lots of Indian companies are floating in London via the Isle of Man." One London listed Indian company is Vedanta Resources, which has made the most of its quote to buy a 79% stake in a Zambian copper miner Konkola for US$700m.

There have been some setbacks for Indian acquirers of foreign assets. Last year, Suzlon bought a majority stake in German wind power group ReEnergy for US$1.7bn in a complicated two-stage process.

Suzlon is one of the world's biggest makers of wind turbine blades and is hoping to take advantage of the move to greener forms of power generation. However, the group is facing manufacturing quality problems at present, having recalled most of its blades sold in the US.

It is also having problems securing access to ReEnergy's product designs, according to reports. This is because technically it only holds a minority stake in the German group, as two major shareholders, while already ceding votes, have yet to transfer their equity to Suzlon.

The acquisition of Jaguar and Land Rover from Ford could also prove a challenge to Tata in the current environment. The two UK marques employ 16,000 and Tata might be looking to reduce costs, particularly as it had to take out a US$3bn bridge loan to finance the acquisition. As part of the deal Ford paid US$600m into the brands' pension schemes.

That said, there were fears about Tata's financing of its Corus purchase, which proved unfounded, notes Ashurst's Scott. "The refinancing of the Tata Corus deal has been tricky to get away but it hasn't stopped the company from buying Jaguar and Land Rover," he says.

Speaking of the current financial climate, Scott adds: "Our Indian office is as busy as ever but some deals have fallen over. However, I am not expecting a huge slowdown in M&A deals. Smart money will back places where fast growth will be."

KPMG's Gomes is equally positive, because of the strong relationships Indian corporates have with their clients. "Indian banks know their acquirers well and so are happy to help them. Many of these banks, such as ICICI, now have London offices," he says. "They can price risk more appropriately for Indian acquirers."

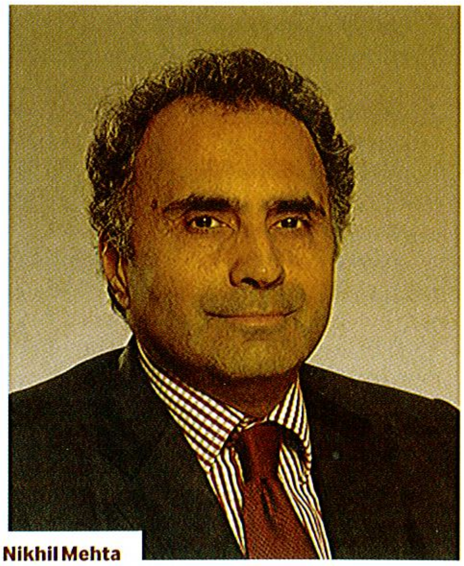
Singhi's Biswas agrees, saying: "The impact of the sub-prime crisis is limited. Not many Indian banks are affected. It has certainly slowed down the process of doing M&A but it has not stopped. I have seen one deal shelved recently. But if you find the right company you can still conclude the transaction."

At present, Indian acquirers are remaining positive.

INDIAN ACQUISITIONS OF FOREIGN TARGET M&A RANKING 2007-YTD

Financial adviser	Value of target (US$m)	Market share	No of deals
UBS	8,410.1	30.0	3
Morgan Stanley	8,066.7	28.8	3
Evercore Partners	5,766.7	20.6	1
Citi	4,744.3	17.0	5
RBS	3,247.2	11.6	3
Standard Chartered	2,648.8	9.5	4
HSBC Holdings	2,485.4	8.9	9
JPMorgan	2,330.0	8.3	4
Goldman Sachs & Co	2,300.0	8.2	2
Credit Suisse	2,299.5	8.2	8
Genuity Capital Markets	1,467.0	5.2	1
Lazard	1,363.2	4.9	4
Jefferies & Co Inc	1,340.8	4.8	4
Macquarie Bank	1,300.0	4.6	2
ICICI Bank Ltd	1,176.4	4.2	1
Rothschild	980.8	3.5	5
KPMG Corporate Finance	760.3	2.7	5
Merrill Lynch	696.8	2.5	2
IMAP	568.0	2.0	2
Lehman Brothers	568.0	2.0	1
Network Corporate Finance	552.8	2.0	1
Greenhill & Co, LLC	441.2	1.6	1
Blackstone Group LP	441.2	1.6	1
Banc of America Securities LLC	394.3	1.4	2
Ernst & Young LLP	375.9	1.3	7
Industry total	**27,994.4**	**100.0**	**348**

Source: Thomson Reuters

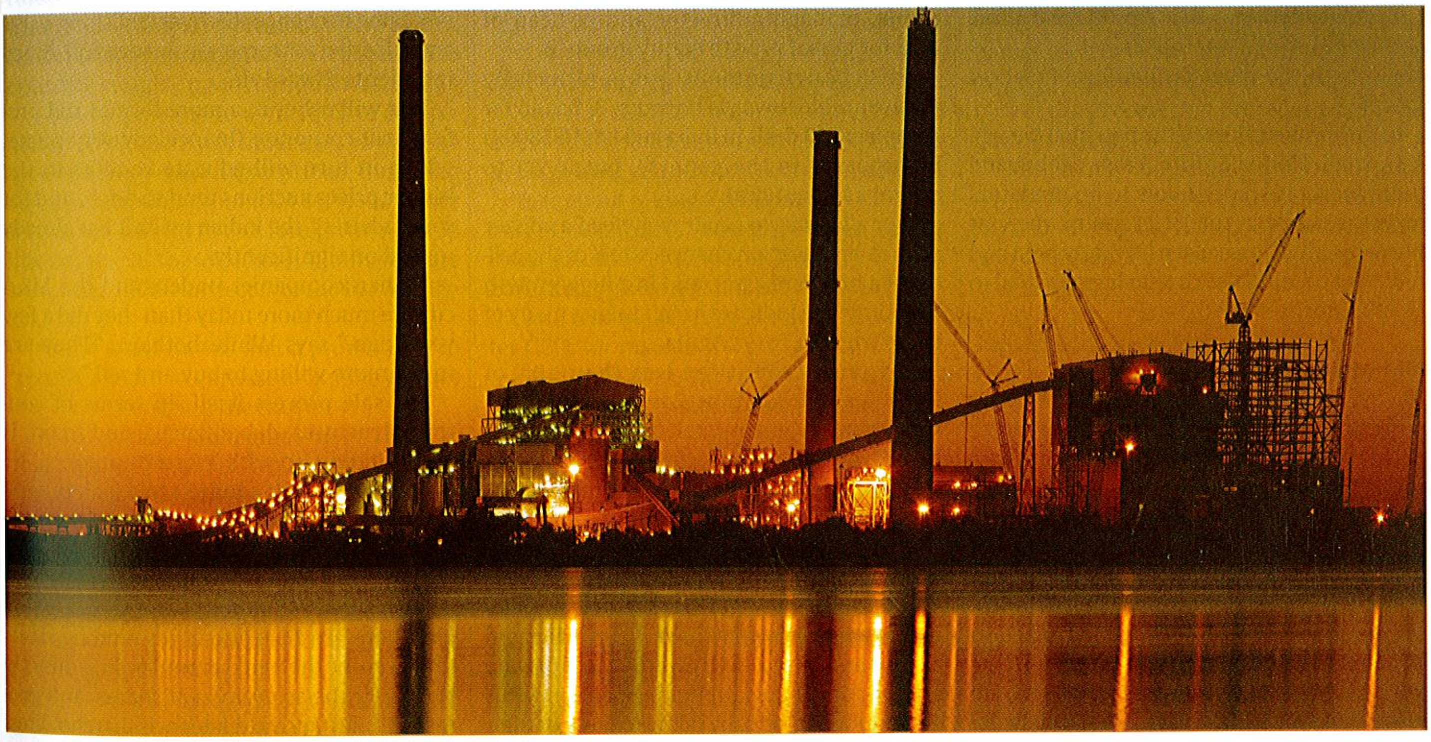


Nikhil Mehta

Andrew Perkin

International corporates and buyout groups look to India with its 8% GDP growth rate as a land of opportunity. Most deals that are struck, however, are in the mid-market, where private owners dominate the scene and strategic advice is the strongest currency. **Sarah Young** reports.

ACCESSING INDIA



Last year, Vodafone's investment in India's fourth largest telecoms player grabbed the headlines. In many ways, aspects of it epitomise the attraction of Indian assets to international acquirers and the issues surrounding these transactions.

At a time when corporates are facing tougher trading times in their traditional US and European markets, India's burgeoning consumer society and its cheaper production costs are attracting international players in their multitudes. The 8m new cellular contracts signed per month in India explain Vodafone's US$10.9bn appetite for a 67% stake in Hutchison Essar.

Most wanted

Private equity funds and corporates alike are queuing up for exposure to India.

"A meaningful proportion of our clients have an interest in making acquisitions or entering into joint ventures in India. They are all waiting to be shown opportunities," says Daniel Confino, head of cross-border M&A at UK Investment bank Noble & Company Ltd, who principally advises mid-market clients.

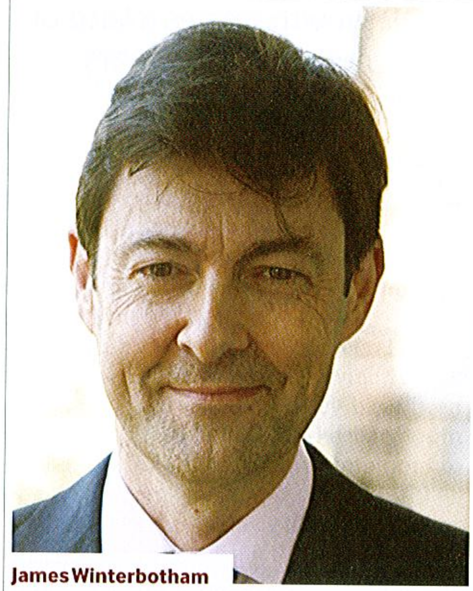
Ian Gomes, chairman of KPMG's new and emerging markets practice for KPMG in the UK agrees, saying: "Every Fortune 500 company has an emerging markets strategy, of which India is more often than not a central part."

Recent research supports the growing prominence of India as a top destination for international cash. In an April-published survey entitled M&A Beyond Boarders published by Marsh Mercer Kroll, six in 10 of the 670 multinational executives questioned said that India, China and South East Asia would figure significantly, or very significantly, in their companies M&A strategies.

Research by India Advisory Partners demonstrates the huge inflow of international capital into India (see table). In 2007, international companies invested a total of US$29bn in Indian deals, compared with US$3.3bn five years earlier and US$13.6bn the previous year. Last year's figures were somewhat skewed by the Vodafone-Hutchison Essar deal. The total number of deals also rose, albeit at a lesser rate. In 2002, some 279 deals were completed by non-Indian corporates compared with 340 last year.

The slower growth rate of the number of deals done in India is indicative of the bottleneck situation in which international acquirers find themselves. Demand for exposure to Indian assets is outstripping supply by

LEAD FEATURE **BRIC REPORT**



James Winterbotham

far in both the mega-deal and mid-market spaces.

In the former category the potential targets, Tata Steel, United Spirits, Essar Global and their peers, are more likely to be predators overseas, while in the latter group, the vast majority of businesses are privately held and reluctant to sell. Sales that do happen tend to be of minority stakes.

Mid-market

The average size of deals carried out by international players has also soared over the period from 2002 to 2007. In 2002, the average deal size weighed in at US$11.82m. This had shot up to US$85.27 by 2007, or US$53m if you discount Vodafone's megadeal.

"Most of the deals taking place are not multi-billion transactions," says Gomes, "There are scores of deals taking place in US$50m to US$80m range."

International buyers on the Indian scene are mostly active in India's mid-market, where the majority of companies are privately held.

"The vast majority of Indian companies are promoter-controlled," says James Winterbotham, a partner at India Advisory Partners, where promoter means a family founder or owner. "A promoter will tend to hold between 15% and 75% of the company's equity, although it is typically in the 30% to 40% range," he says.

It is this dominant ownership structure that mitigates international corporates' ability to make acquisitions in India. "There's a lot of emotion tied up in ownership of companies and this limits the scope for M&A," says Winterbotham.

The knowledge of the Indian market that outside acquirers build up reflects their appetite for the country.

"Would-be acquirers are now very sophisticated," says Confino. He explains that typically, one of his clients, a UK-based company may be shown an Indian opportunity. The company will then usually employ a team of consultants to perform a mapping exercise.

"Strategic consultants provide acquirers with the paper theory," he says. "As an M&A adviser, we are then brought in and in India, due to the owner-controlled nature of many companies, we ask questions about persuadability and deliverability."

Persuadability

Persuadability is a key driver of success in the Indian mid-market. The market is undisputedly highly competitive but the general lack of a desire to sell mutes M&A activity.

"There is not much appetite to sell at the moment, as people expect companies to keep increasing in value over the next few years, so they are hanging on," says Anil Ahuja, managing director and co-head of Asia for global private equity group 3i.

This environment is especially unfavourable towards buyouts. 3i has so far completed 12 deals in India and has US$800m of exposure to the country, but is yet to secure a buyout deal.

"For a buyout to occur, you need a trigger such as a generation change, stress or the sell-off of a non-core asset, and in a high growth economy like India we aren't seeing many of these triggers," says Ahuja.

Buyouts account for less than 10% of Indian private equity activity, with most private equity groups operating in the country forced to concentrate on growth capital opportunities. This could change in the years to come. There are already some companies that are actively seeking private equity funding.

"There's a new generation of company owners in India that have been educated abroad and have a high awareness of private equity and financial engineering, and this generation is gradually taking charge of their fathers' businesses," says Rohan Bhappu, from Marsh India.

Not on the block

In the market, the persuadability factor manifests itself as reluctance on the vendor's part to admit that a stake in the company is up for sale.

"The marketplace is driven by marketable information. The intuitive feeling that you forgo a vital negotiating tool if you admit you are for sale is widespread," says Confino. "Vendors are known to be in receive-mode if they are open to interest from prospective investors."

Receive-mode companies are in the tier below companies that are advised by large domestic or international investment banks. These are smaller listed companies and medium-sized privately held businesses worth tens of millions of dollars to a couple of hundred million dollars.

This situation is expected to change. A typical Indian company of the said size would expect some corporate finance advisory as part of its relationship with its commercial bank. India's second largest bank ICIC Bank is seeking to change this by establishing a separate division for corporate finance and directing clients towards it.

This will usher in a more formal and professional corporate finance advisory scene, which in turn will educate vendors to the higher prices auctions tend to fetch, and for some advisers, the Indian market has already moved on significantly.

"Indian companies understand the M&A culture much more today than they did a few years ago," says Winterbotham. "They are much more willing to buy and sell."

The sale process itself, in terms of contract structures, due diligence and so on, is also catching up with Western practice, he adds. However, in addition to a lack of willing sellers, the M&A market in India faces some structural difficulties.

"There is a lot less room to manoeuvre on deals in India," Winterbotham says. For example, there are regulations on funding deals that prevent the banks from lending directly to finance the acquisition of shares, and promoters' reluctance to dilute their shareholdings means that there are few share for share offers.

Although India's legal sector remains fairly restricted, India's laws are part of the country's attraction to companies with an emerging markets agenda.

"The great advantage of India over China as a destination for foreign capital is the legal similarities it shares with Europe, and

INBOUND DEALS BY INTERNATIONAL COMPANIES 2003-07

		2002 Full year	2003 Full year	2004 Full year	2005 Full year	2006 Full year	2007 Full year
Number		279.0	240.0	141.0	221.0	307.0	340.0
Value	Rs bn	148	106	170	428	612	1,189
	US$m	3,298	2,356	3,782	9,511	13,589	28,991
Average size	Rs bn	0.53	0.44	1.21	1.94	1.99	3.50
	US$m	11.82	9.82	26.82	43.04	44.26	85.27

Conversion at today's value Rs per US$ 45 Except in 2007 where it is Rs 41

Source: Indata © IAP Investment Banking

the UK in particular," says Nikhil Mehta, a partner in Clearly Gottlieb's London office.

Receive mode

"Generally speaking, we advise non-Indian acquirers to pursue a joint venture strategy in India unless they have a history with the Indian market, a target company or a cultural link already in place," says Confino.

The dominant growth capital model in private equity activity in India is mirrored in the corporate space by the prevailing trend for joint ventures. This trend is dictated as much by the availability of assets, that is the stakes proffered by promoters, as by India's laws, which prevent 100% foreign ownership of companies in certain sectors.

Since liberalisation in 1991, when foreign companies were permitted to own 51% of a company, up from the previous figure of 40%, consecutive governments have continued to open the country up to foreign investment.

It is now possible to own 100% of companies in the majority of industries with some specific policy-driven exceptions, including defence and some financial services. Other sectors are subject to 75% foreign ownership limitations. In these sectors, a joint venture is the only option for access to the Indian market.

Where word travels that a promoter is in "receive mode" it is often not liquidity issues that have prompted the move.

"Many Indian companies have tremendous liquidity," says Peter Walther, managing director and the leader of Marsh's private equity and M&A practice for Asia-Pacific. "They often allow a strategic or financial investor in for strategic reasons rather than due to a need for equity."

It is always a combination of equity needs and strategic advice that compels Indian companies to pursue joint ventures with international companies or investors, in Ahuja's opinion. However, the importance of non-equity motives does appear to weigh in higher on the list for Indian companies than it does elsewhere, as indicated by the preference for selling minority stakes.

Where a non-Indian acquirer buys a stake in a company, it will be a carefully negotiated stake that, even if it is a minority shareholding, could entail control over management. In the Vodafone-Essar deal, for example, Vodafone paid US$10.9bn for a majority stake plus an additional US$415m to secure management control.

The strategic help that Indian companies seek from their joint ventures with corporates or private equity investors is wide-ranging. In some cases, they are looking to expand their global footprint or enhance their technological capacities.

3i has found that the quality of person it can offer to a company's board can open doors for it. "In a few cases, a company might give you a very small stake because their chief objective is getting you on their board," says Ahuja.

> "Many Indian companies have tremendous liquidity. They often allow a strategic or financial investor in for strategic reasons rather than due to a need for equity."
> – Peter Walther

"It is about taking a company on the next part of its journey," he adds. "When an outsider becomes involved, a company is then governed by a board, not the founding family, and this makes it easier to attract a better CEO, for instance."

International acquirers introduce best practice accounting, professionalise management and introduce stock option programmes.

Sunit Sinha, a principal for Mercer in India, says that a joint venture frequently has an impact on human capital issues. "When a non-Indian company takes a stake in an Indian company, it often leads to the company becoming more process-driven as opposed to the relationship-driven and paternalistic management styles previously at play," he says.

The strategic help that these Indian companies seek in terms of making acquisitions and professionalising their management is part of the process that precedes what is the goal for many.

Peter Walther

Anil Ahuja

"Most family companies want to end up listed," says Ahuja, "They see it as the next level of their existence. It's about the credibility that being quoted gives them with customers and employees alike."

Infrastructure is key

International appetite for Indian companies is just one thread of the Indian M&A story. The defining factor is the volume of traffic going the other way.

"For every UK buyer looking at India, we have 20 Indian companies looking at assets here," says Confino. Indian buyers are aggressively snapping up foreign businesses at a startling rate. They spent US$33.3bn on deals outside India in 2007, compared with US$8.0bn the year before and US$2.4bn in 2005.

As Indian companies become more aggressive overseas, they may also become so in their home market. International buyers should expect growing competition on the limited number of opportunities that are available from home-grown players.

In spite of fierce competition, the limited number of opportunities and the heightened risk that many of them believe accompanies buying Indian assets, the appetite for Indian companies continues apace.

In April 2008 alone, two hefty India-specific funds were announced – 3i closed a US$1.2bn vehicle and Macquarie and State Bank of India launched fundraising for a US$2bn fund.

Both these funds will target infrastructure opportunities and with the current government estimating that US$300bn of investment is needed in India's infrastructure to sustain its growth rates, it looks like infrastructure is the key to unlocking India.