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Press Release

Indian Multinationals Buoyant on Germany

Market Size and Technological Prowess Boost Germany's Attractiveness for Foreign Direct Investments from India

Germany has become a major focal point for Indian multinational enterprises (MNEs) in their spirited pursuit of growth opportunities overseas. In 2008, Indian firms invested an estimated amount of \$ 2 billion in Germany, up from \$ 825 million in 2007 and \$ 850 million in 2006. Sixteen (16) mergers and acquisition (M&A) deals involving Indian firms in Germany were monitored in 2008, up from 7 in 2007 and 11 in 2006. The deals also involved a substantial increase in the average deal value over past few years. A study conducted by the Institute of Technology and Innovation Management (TIM) at Hamburg University of Technology (TUHH) in Germany has now identified “proximity to customers” and “access to technology” as major drivers for this trend.

Of late, Indian firms have been venturing abroad in a big way. According to official statistics, India's overseas FDI stock nearly quintupled from \$ 10 billion in March 2005 to \$ 46 billion in March 2008. In contrast, just a decade back in March 1997 India's overseas FDI stock stood at a meager \$ 617 million. Rajnish Tiwari, who led the study at TIM/TUHH, estimates the stock of Indian FDI in Germany at over \$ 4 billion. With spectacular deals like that of Suzlon/REpower, Indian FDI has surpassed Germany's FDI stock in India officially reported at \$ 2.3 billion. In fact, Indian MNEs – between May 2004 and June 2007 – were the largest single investor group in Germany from emerging countries, as a Deloitte study (2007) suggested. Between 2001 and 2006 Indian MNEs were involved in 32 M&A deals in Germany. In contrast only 21 M&A deals in this period in Germany involved Chinese MNEs.

“Germany has become a key destination for Indian investments”, emphasizes Prof. Cornelius Herstatt, Director of TIM/TUHH, who has been closely monitoring recent Indo-German business developments. “So far there had not been any serious academic research on Indian investments in Germany, especially on its motives, experiences, and employment effects on the local economy”, says Prof. Herstatt, whose institute has launched a research project called “Global Innovation” with a strong focus on India. TIM/TUHH is one of the only few academic institutions in Germany that engage in academic research on business and economic issues related to India. “German academic research has traditionally focused on issues related to language, culture and socio-political themes, as far as India is concerned”, says Prof. Herstatt stressing the need for a new focus on Indo-German business context.

The study “The Emergence of Indian Multinationals: An Empirical Study of Motives, Status-quo and Trends of Indian Investments in Germany” was conducted by an extensive data research and an empirical survey of Indian subsidiaries in Germany. The study,

presumably the only empirical study of Indian firms overseas so far, provides unique insights into the motives, operations, experiences, and future plans of Indian firms. The research, carried out by Rajnish Tiwari and Jayachandran K. Mani, was focused on corporate investments from firms headquartered in India. The study has identified 123 Indian MNEs and their 167 subsidiaries in Germany, excluding minority stakes and holding companies. The “Indian” firms employ approx. 20 000 full-time employees in Germany on an annual average. Additionally, they provide vocational training to about 1000 apprentices.

All known Indian firms in Germany were invited to participate in the survey. Twenty one (21) firms (17% of the total population) participated in the empirical survey. The respondents belonged to top management. “Proximity to customers” and “access to technology” were most-often cited reasons for investments in Germany. Selection of investment locations was in many instances “accidental” as firms decided to play it safe and preferred brownfield investment (acquisitions) as their mode of entry. The firms quite often also faced significant challenges in their day-to-day operations. “Differences in work culture”, “language problems” and “high operational costs” posed major challenges. Especially IT sector firms – with a larger number of expatriates – also complained about cumbersome visa and work-permit procedures.

The survey however also revealed that most Indian firms were doing well in Germany and had been able to grow both in terms of turn-over and headcount in recent years. “Most Indian firms in Germany are quite satisfied with the overall progress”, confirms Rajnish Tiwari citing it as a reason for the flurry of Indian investments in Germany. “India has become a key source of ‘Emerging Market’ FDI in Germany without being reflected in the official statistics”, says Tiwari. The discrepancy in the monitored actual investments and the official data is explained by the study authors Tiwari and Mani as resulting from the practice of Indian MNEs using their already established European or other foreign-based subsidiaries for expansion deals in Germany.

The study is optimistic on the outlook of Indian investments in Germany in 2009. “The present financial crisis is not going to subdue Indian FDI in Germany”, asserts Tiwari and cites the recent Visiocorp deal to make his point. On 2nd January 2009 Indian auto component maker, Motherson Sumi Systems Ltd, announced the buy out of Visiocorp (annual turn-over € 700 million) with four subsidiaries in Germany, including: Visiocorp Automotive GmbH (Wolfsburg/Hattorf) and Visiocorp Group Services GmbH (Stuttgart). More recently on 13th January 2009, India’s IT major Infosys, armed with \$1.9 billion in cash and cash equivalents, announced that it was looking for acquisition targets in consulting and ERP space in continental Europe.

“Indian MNEs have just begun to discover Germany”, summarizes Prof. Herstatt, “there is still a huge untapped potential for mutual cooperation”.

For downloading study results visit: <http://www.global-innovation.net>

For further information:

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