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India, Germany may witness more deals over next two years - analysis

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Over the next two years, the deal flow between India and Germany, both inbound and outbound, is likely to increase manifold with the availability of distressed targets in Germany and the Indian government opening up such sectors as retail to foreigners, according to German and Indian bankers.

The most attractive sectors to Indian companies include the automotive component, industrial, engineering, information technology enabled services (ITeS), pharmaceutical, chemical, and alternative energy like wind power sectors, said an Indian banker and a German banker. Strategic Indian players will look to gain market share, know-how and increase their access to customers, said Ulrich Bauemer, partner and head of India Desk at Osborne Clarke.

On the other hand the retail, media and consumer goods sectors could see inbound deals to India, said a second Indian banker. The Indian government is considering opening to foreign direct investments in multibrand retail as soon as recommendations of the Commerce and Industry Ministry are issued in the next couple of months, according to the first Indian banker. Retail is another sector that could potentially see outward M&A, Bauemer said, citing the recent purchase of Escada by Megha Mittal as an example.

If German companies are a little behind in the Indian market the best way to step up is to buy as organic growth is much too slow. It also gives German companies access to India's massive growth market, its neighboring countries and for the manpower, especially in engineering, Bauemer noted.

Cash-rich Indian conglomerates like Tata Group (market cap USD 101bn), Mukesh Ambani-led Reliance Industries (USD 65.65bn), Suzlon Energy (USD 1.89bn), Mahindra & Mahindra (USD 9.26m) and Hinduja Group (USD 40bn) would look for the most advanced technologies in Germany, even at a premium, said the first Indian banker. On the other hand, acquisitive automotive player Ruia Group would always look for distressed assets at a cheaper price, the banker added. Indian companies are always "bargain hunters", and they would always insist on tight negotiations, the two Indian bankers pointed out.

These Indian companies have already made a few big-ticket buys and could spend any amount on acquisitions, said bankers tracking the companies.

Other Indian automotive companies like Motherson Sumi Systems (market cap USD 1.86bn), Rico Auto Industries, Apollo Tyres, industrial companies like Syntex Industries, pharmaceutical companies like Maneesh Pharma, chemical companies like Kiri Dyes, information technology companies such as TCS (market cap USD 49.92bn), Wipro (USD 23.75bn), Infosys (USD 36.90bn), Cognizant (USD 22.53bn), HCL Technologies (USD 7.6bn) could also be on the lookout for acquisitions in Germany, according to the bankers.

The Indians are not as cash rich as the Chinese, which is why they are looking for distressed assets to add to their customer base and technology, one of the German bankers said. In the current market, there are German assets that could be bought for between 1X and 3X EBITDA, where there are no logical EU buyers. India-listed companies with high EBITDA could buy German entities with a lower EBITDA valuation to profit from a difference in the price and potentially increase their own share prices, the banker added.

Germany is the prime focus for Ruia Group and the company will keep on seeking more distressed assets over the next two years, said Chairman Pawan Kumar Ruia. Advanced technology and availability of distressed assets are the two main reasons for choosing Germany. Ruia could spend up to EUR 3bn for big acquisitions, he added.

Acquisitive Ruia Group has taken over a few auto-ancillary companies in Germany, the latest being auto sealant company Meteor and four plants of Acument, renamed as Ruia Global Fasteners, which supplies fasteners to all global car majors in Germany. Other acquired companies include Schlegel Automotive Europe in 2008, Draftex Automotive in 2009 and Gumasol in 2010.

Small and medium enterprises (SMEs) with niche product portfolio in Germany are potential targets for Indian

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