

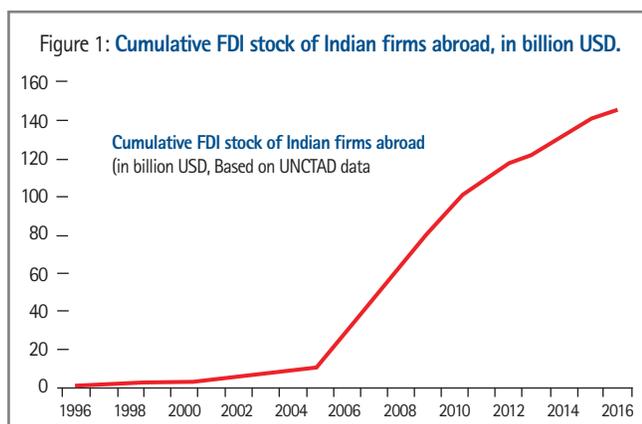
Destination Germany: A Report on Indian Investment Activities in Germany in 2016-17

In the reporting period between July 2016 and June 2017, we could observe sustained investment activities by Indian firms in Germany. According to publicly available data, Indian firms and individual investors invested at least USD 133 million in Germany in this period. Manufacturing sector had the largest share in outward FDI from India to Germany. Wholly owned subsidiaries were the preferred mode of engagement, both in terms of the number of transactions as well in terms of the amount invested. Meanwhile, research and development (R&D) and innovation continue to emerge as a new and crucial dimension of Indian firms' engagement in Germany.

General trends in outward FDI from India

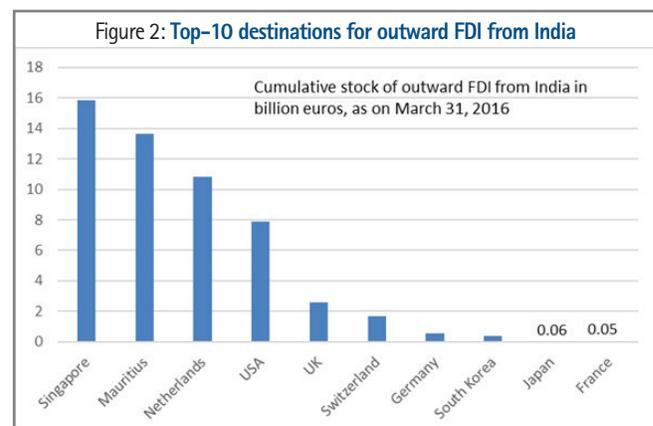
India has recognized the importance of outward Foreign Direct Investments (FDI) by its companies, which has led to liberalization of the policy regime governing outward FDI. According to a policy statement by the Reserve Bank of India (RBI), overseas engagement of Indian firms in the form of joint ventures (JVs) and wholly owned subsidiaries (WOS) can be regarded 'as an effective medium of economic co-operation between India and other countries.' Such overseas investments catalyze growth in our exports, transfer of technology and skill, sharing of results of R&D, access to wider global market, promotion of brand image, generation of employment, and utilization of raw materials available in India and in the host country¹." As a result of such policy support, the stock of India's outward FDI has been growing consistently.

As per RBI data, India's cumulative stock of outward FDI stood at USD 148.2 billion at the end of fiscal year (FY) 2016-17; USD 6.6 billion higher than in the previous year². The amount of annual outflows, however, registered a slowdown from the level of USD 9 billion the previous fiscal. As far as calendar year 2016 is concerned, the United Nations' Conference on Trade and Development (UNCTAD) observed FDI outflows worth over USD 5 billion from India. UNCTAD estimates the overall stock of India's outward FDI to have stood at a little over USD 144 billion at year-end 2016. Just 20 years back, this stock had not even reached the billion mark; languishing at USD 735 million in 1996, as Figure 1 based on UNCTAD data for the respective calendar years shows. The cumulative stock of outward FDI from India has grown tremendously since India started on the path of economic liberalisation. If we take 1991 as base year (1991 = 100) then India's outward FDI stock had grown 127,552% by 2016.



The RBI reported 2,625 Indian companies in FY 2015-16 with overseas FDI engagement. While 532 companies did not report any activity in the fiscal 2015-16, e.g. while the subsidiary was in the process of establishment, the rest (2,093) maintained 3,320 subsidiaries abroad. They reported total turnover (sales and purchases) worth INR 6,451 billion, which amounts to approximately EUR 86 billion at the end-year exchange rate of that fiscal. Services sector (51%) was

the most important generator of sales revenues for the overseas subsidiaries of Indian firms. Information and communication services alone accounted for the largest chunk (34%) of the total sales revenues generated. Manufacturing sector (47%) was another key contributor to the sales revenues of Indian firms abroad. The largest recipients of India's officially monitored FDI stock at the end of FY 2015-16 were Singapore, Mauritius and the Netherlands (see Figure 2). These were followed by the USA, the UK and Switzerland. Germany, as per official RBI figures, is host to Indian FDI worth INR 41.5 billion (EUR 553 million) and ranks 7th among the top-10, followed by South Korea (EUR 394 million). Japan (EUR 64 million) and France (USD 48 million), with values in double digit millions accounted for the last 2 positions in top-10³. As per these figures, Switzerland with a cumulative FDI stock from India worth EUR 1.7 billion had apparently attracted more investments than did Germany, the much larger economy.



Official statistics of the Bundesbank

According to the latest official statistics (April 2017) issued by Germany's central bank, the Bundesbank, the cumulated stock of Indian FDI ('liabilities') in Germany stood at EUR 473 million at year-end 2015, slightly up from EUR 464 million in the previous year. According to official figures, there were 32 Indian firms active in Germany providing employment to around 3,000 people while generating annual revenues worth approximately EUR 1 billion.

Limitations of the official statistics

The figures of both, the RBI and the Bundesbank seem to grossly underrepresent the true level of investments and the actual control by majority shareholders in some German firms. As mentioned in previous reports as well, the official statistics face a number of challenges in capturing data in a globalized world, such as in determining the nationality of investing firms that channelize their investments via subsidiaries and holding companies in the host nation and/or third countries for operational and/or tax considerations. As per World Investment Report (WIR) 2016, in case of about 39% of foreign affiliates in Germany there is a mismatch in the investor nationality in terms of direct and ultimate ownership and, on average, the investment crosses 2.5 countries before reaching Germany.

¹ RBI Press Release, 2010-2011/1855, June 22, 2011, Mumbai.

² See, "International Investment Position", Table 42, in: RBI Monthly Bulletin, July 2017, p. 63. Fiscal years in India usually run from April 1 of a given year to March 31 of the following year.

³ This data has been sourced from a report titled "Census on Foreign Liabilities and Assets of Indian Direct Investment Companies: 2015-16", published in the RBI Monthly Bulletin in January 2017. The values have been converted from INR into EUR using an exchange rate of 1 EUR = 75.0955 INR.

This can be illustrated with some examples: Annual Report of Mahindra CIE Automotive Ltd. (2014-15) states: "The Company has invested in Mahindra Forgings Europe AG (MFE AG), Germany through its wholly owned subsidiaries in Mauritius namely Mahindra Forgings International Limited (MFIL) and Mahindra Forgings Global Limited (MFGL)." Another example is provided by Piramal's business in Germany. Piramal Imaging GmbH in Berlin is wholly owned by Piramal Imaging SA in Matran (Switzerland). Similarly, Wipro Technologies GmbH in Germany is organized as a subsidiary of Wipro Portugal S.A. Probably the largest Indian firm in Germany in terms of turnover is SMP Deutschland GmbH. It is a subsidiary of India's Motherson Sumi Systems Limited (MSSL). In Germany SMP Deutschland GmbH is registered as a daughter concern of Samvardhana Motherson Automotive Systems Group B.V. (SMRP B.V.), Amsterdam. Assets of SMP Deutschland GmbH alone were reported at EUR 373 million at the March-end 2016. Annual Report of Tata Steel for FY 2016-17 states that its German subsidiary Tata Steel Germany GmbH had total investments worth INR 820.32 crores at an exchange rate of EUR 1 = INR 69.27, which amounts to approximately EUR 118 million.

These figures show that the official data about the true extent of the engagement of Indian firms in Germany is faced with non-negligible gaps. While official data undoubtedly provides very useful information, one must keep in mind that it shows only a partial picture. Official statistics fail to fully capture investments routed via third countries. Complicated concern structures, thus, make it difficult to gauge the true extent of involvement, especially so in official reports. One reason for the high FDI outflows from India to Mauritius, Singapore, the Netherlands and Switzerland may be that some firms use these countries as a base for managing their other overseas operations for perfectly legitimate organizational and strategic reasons.

Germany's importance for Indian business houses

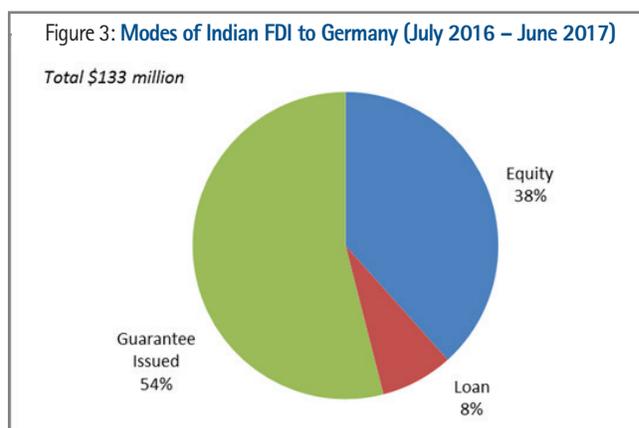
Germany, both as a domestic market and a gateway to Europe, constitutes a significant business for some Indian concerns. For example, SMP Deutschland GmbH reported sales revenues worth EUR 1.16 billion, up from EUR 984 million in the previous fiscal year. It is, to the knowledge of this author, the only Indian firm with a billion-plus revenue in Germany. India's leading IT firm Tata Consultancy Services (TCS), too, reported sales revenues worth EUR 307 million for fiscal year ending March 2017. Subsidiary companies of the Bharat Forge Group in Germany reported a cumulative sales revenue of about EUR 242 million, which amounts to more than half of its total revenues generated in international operations. Its five German subsidiaries accounted for over 28% of total consolidated net assets as of March-end 2017. Such examples show that Germany for some Indian multinational firms has become a cornerstone of their corporate business.

Select examples of investment activity, July 2016 – June 2017

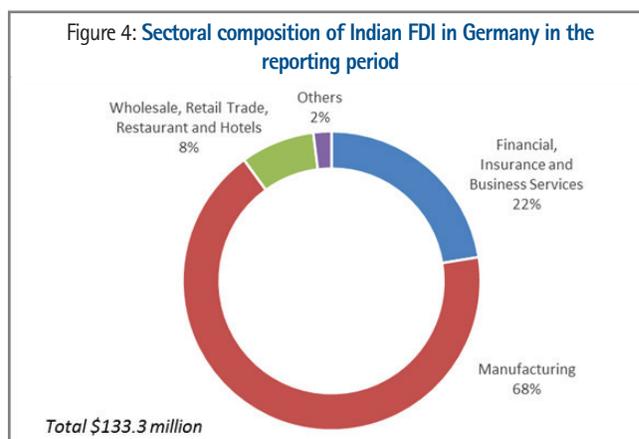
In the following, we provide some information on select notable investment projects by Indian firms in the reporting period in Germany. Table 1 shows select examples of investments observed in the reporting period.

Table 1 Examples of Indian acquisitions in Germany during July 2016 – June 2017				
No.	Indian MNE	German Object	Investment	Comments
1	Transasia Bio Medicals Limited	Erba Diagnostics (Mannheim) GmbH	EUR 25.0 Million	In-vitro diagnostic products
2	HCL Technologies Ltd.	Geometric Europe GmbH	EUR 14.4 million	After acquisition of parent concern Geometric Ltd. (Mumbai) in March 2017
3	Opto Circuits (India) Ltd.	Eurocor GmbH	EUR 9.3 million	specializes in the R&D and manufacturing of interventional cardiovascular and endovascular products
4	Geometric Limited	Geometric Europe GmbH	EUR 8.4 million	(in Sept./Oct. 2016) Since acquired by HCL Technologies
5	Ashok Leyland Ltd.	Albonair GmbH	EUR 4.5 million	

Between July 2016 and June 2017, the RBI registered total 92 transactions involving USD 133 million as FDI from India to Germany, as equity, loans or guarantees. More than half of the amount was issued in the form of guarantees, see Figure 3.



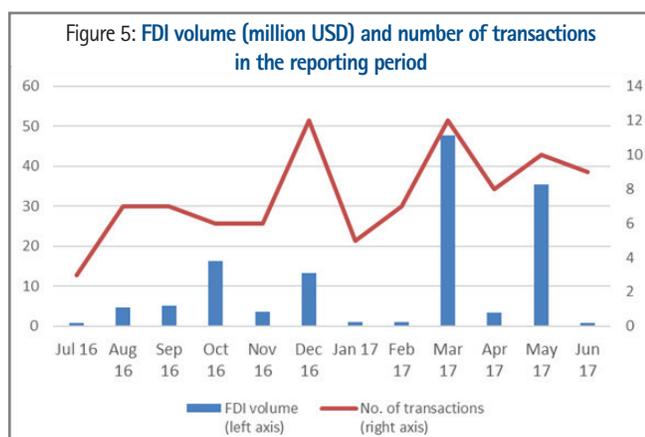
Of the 92 investment transactions that took place in this period, 55 were by unique investors, which means that some investors had engaged in multiple investments. Investments were made by corporate entities as well as by individuals: 39 of the 55 unique investors were firms and the rest 16 were individual natural persons. In terms of the investment volume it was the corporate entities, though, who were responsible for the bulk of investments with total 68 transactions accounting for EUR 131.9 million or 99.2% of the investment volume. On the German side there were 54 unique firms that received these investments through 92 transactions; 13 of the investment objects were JVs, while 41 were wholly owned subsidiaries.



With more than two-thirds (68%) of the total FDI volume, manufacturing constituted the core area of FDI activities by Indian firms in Germany in the reporting period, followed by 'Financial, Insurance and Business Services' (22%),

and 'Wholesale, Retail, Trade, Restaurant and Hotels' (15%); see Figure 4⁴. The very strong focus on manufacturing does not seem to be surprising, as it possibly reflects the desire of investors to actively seek synergies with Germany's expertise in this field. It is, however, interesting to note that the trade and gastronomy sector has been gaining importance.

Figure 5 shows the volume of FDI outflows from India to Germany in the reporting period and the number of transactions on a monthly basis. It is interesting to note that certain months witness a higher peak of investments. It is also noteworthy that in certain months the number of transactions taking place is high despite a low overall volume of outflows. This suggests that there are several small-scale investments taking place. This seems to be a good news as it shows that small and



medium-sized companies are also active in engaging with Germany.

As a matter of fact, 55 of the 92 transactions (60%) carried a volume of less than USD 100,000, and 35 of them were from corporate entities. An overwhelming majority (84%) of transactions did not exceed the investment volume of USD 1 million, while only 4 transactions carried a double-digit investment volume. The largest single investment transaction was worth USD 25 million, whereas the smallest amount invested was USD 15,000. It must be mentioned, though, that several of the small-scale investors – both corporate entities and individuals – made multiple transactions within the reporting period.

Overview of cumulative Indian investments in Germany

Based on these developments we estimate the key data on Indian FDI stock in Germany to the following (approximate figures):

Key indicators	July 2016	June 2017
No. of Indian MNCs in Germany	156	165
No. of subsidiaries of Indian MNCs in Germany	230	245
No. of full time employees of Indian MNCs in Germany ⁵	27,400	28,000
Estimated stock of Indian FDI in Germany	EUR 4.1 billion	EUR 4.2 billion

Table 3 shows some select Indian firms in terms of the number of employees. The compilation is based on the respective companies' last publicly available official annual report or statements on their respective websites. In case of Mahindra Forgings the number of employees is for 2011 and excludes those working for the UK-based group company Stokes Forgings Ltd. The Bharat Forge Group in Germany, here, refers to 3 independent (non-holding) companies owned by the Bharat Forge

Group, i.e. Bharat Forge Aluminiumtechnik, Bharat Forge Daun, and CDP Bharat Forge. Many firms unfortunately choose to treat this information as confidential, so eventual variations and/or exclusion of some large employers cannot be ruled out. The data needs to be updated in a comprehensive manner in near future.

No.	German firm	Indian stakeholder	Employees
1	Tata Steel Germany ⁶	Tata Steel	6,100
2	SMP Deutschland GmbH	Samvardhana Motherson Group	4,696
3	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2,174
4	Mahindra Forgings Europe AG	Mahindra CIE Automotive Ltd.	1,326
5	Tata Consultancy Services Deutschland GmbH	Tata Consultancy Services	1,191
6	Bharat Forge Group	Bharat Forge Group	935
7	SONA BLW Präzisionsschmiede GmbH	Sona Group	613
8	Minda KTSN Plastic Solutions GmbH	Ashok Minda Group	562

Increasing focus on R&D and innovation

Indian companies are also utilizing the technological and innovation capabilities of the German innovation systems. Examples of Indian-owned companies actively pursuing research & development (R&D) in Germany include, but are not limited to, Mahindra Forging, the Bharat Forge Group, the Piramal Group, Novelis, and Sona BLW. R&D Expenditure at Novelis Deutschland GmbH increased from EUR 14.5 million in FY 2015-16. The company reported that its Research & Technology Center was collaborating with German universities such as RWTH Aachen, TU Berlin and IOM Leipzig, and with other international partners. SMP Deutschland increased R&D expenditure on non-customer specific projects from EUR 4.1 million to EUR 4.9 million while the number of employees working in R&D grew from 296 to 345 in FY 2016-17 on year-on-year basis. The company reported working on various automotive projects to develop new, lightweight and affordable materials. Minda KTSN Plastic Solutions reported R&D activities for successful development of specific products for premium automotive brands such as VW Tiguan, VW Touareg and BMW G3x, and announced plans for further activities including for Audi 8.

The Bharat Forge Group reported working together with institutions such as Fraunhofer IAO in Stuttgart and universities in Hanover and Freiberg. The company's wholly owned subsidiaries are engaged in R&D activities. For example, CDP Bharat Forge GmbH reported R&D expenditures worth EUR 2.6 million (R&D intensity 1.5%) in 2015. The company states that its R&D activities mainly focus on implementing customer requirements and specifications in forging products that can be mass-produced reliably with high quality and in a cost-effective manner⁷.

In the healthcare sector, too, there are instances of innovative R&D work taking place. For example, Eurocor GmbH, which is a wholly owned subsidiary of Opto Circuits (India) Ltd., presents itself as a technology-driven firm 'specializing in the research, development manufacture of interventional cardiovascular and endovascular products. Eurocor is providing interventional physicians with innovative cardio- and endovascular drug coated balloon devices and coronary stent technologies made in Europe for the world.' Another example is that of Piramal Imaging, which was founded in 2012 by the 'acquisition of the molecular imaging research and development portfolio of Bayer Pharma AG.' The company engages in 'development and global commercialization of innovative molecular imaging

⁴ Sectoral information of individual investments reported by the RBI was manually updated to ensure better accuracy. ⁵This figure does not include the approx. 3,600 Germany-based employees of the Luxembourg-headquartered Mittal Group. ⁶Official company data not available; source: <https://www.wer-zu-wem.de/firma/corus.html>, retrieved: Aug. 16, 2017. ⁷A more detailed report on the Bharat Forge Group's R&D engagement in Germany, based on publicly available data, can be found in the author's publication "Innovation Pathways and Trajectories in India's Auto Component Industry" (Working Paper no. 98, July 2017) from www.global-innovation.net.

agents' and runs 'a state-of-the-art research and development facility' in Berlin and a commercialization unit in Boston.

Companies such as Sona BLW also reported elaborate R&D activities in the period concerned. While Novelis and Minda emphasized working on 'premium products', there are several examples to show that affordability-driven frugal innovations are also increasingly on the agenda of Indian entrepreneurs in Germany. The examples above also highlight how Indian companies are actively participating in 'global innovation' with Germany as a cornerstone of this strategy.

Promising prospects to tap the unrealized potential

Summarizing, it can be noted that the Indo-German partnership has been showing healthy signs of maturing in terms of operations of Indian-owned firms in Germany. A stable level of investment flows from India to Germany has set in which cuts across industries and business processes. After the growth of services sector in the previous years, it was again manufacturing that dominated India's outward FDI directed at Germany in the reporting period. The operational basis of Indian firms in Germany has expanded greatly in recent years. They invest in Germany not any more merely to sell goods and services produced back home in India but also to set up value chain activities and manufacture goods and services locally, as well as to engage in R&D and innovation activities. As also mentioned in previous reports, R&D and innovation are a very promising next-generation field of action. Especially creating affordable and environmentally sustainable technologies can provide a win-win situation for firms and both nations. A large potential for bilateral relations in this domain remains still

untapped. Germany's technological prowess and India's emerging expertise in many technological domains coupled with India's role as a lead market for socially sustainable, innovative solutions deserve to be complemented.

Finally, we need to do some more research to update the database of India's engagement in Germany so that a better, fuller and more transparent picture can emerge. Only a comprehensive overview of trends, status-quo, motivations and challenges will provide us with policy instruments that are required for a better coordination and for full exploitation of the potential that lies untapped.



About the author

Dr. Rajnish Tiwari is a Senior Research Fellow at the Institute for Technology and Innovation Management of the Hamburg University of Technology (TUHH). He has done extensive research on Indo-German business relations. He heads the Hamburg chapter of German-Indian Round Table (GIRT) and is one of the founding partners of the bi-annual initiative "India Week Hamburg", which is set to be celebrated in Hamburg from Nov. 6 – Nov. 12, 2017. Dr. Tiwari has co-founded a Center for Frugal Innovation at TUHH that seeks to promote the concept of "affordable excellence" as a key to succeed not only in the emerging markets but also in the developed nations. Dr. Tiwari advises Germany's Federal Ministry of Education and Research (BMBWF) on new global innovation pathways in the BMBWF's funding initiative called ITA (Innovations- und Technikanalysen). His research has benefited from generous support from the Claussen-Simon-Stiftung.

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