

South Asia

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Foreign firms bloom in India

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India has emerged as an attractive destination for foreign investors and is today home of subsidiaries of many global majors, including a large number of Fortune 500 companies. Every foreign venture in the country may not have been an unqualified hit, but success stories do abound.

Historically, the main reason for the entry of multinational corporations (MNCs) into India was to jump the tariff wall. High import duties ruled out the option of exporting finished goods from the home country to India. On the other hand, the MNCs were guaranteed adequate protection by the country's high tariffs once they entered India and set up operations.

In some cases, the need to customize products necessitated a strong local presence. Over the years, Unilever's Indian subsidiary, Hindustan Lever, has developed various products to suit local tastes. This would obviously not have been possible if Unilever had only exported its products to India. In recent times, other reasons have become equally important, most notably the skilled but relatively cheap manpower. In the computer software industry, many MNCs are establishing Indian bases to tap this rich labor pool. An added advantage for Indian software workers is their knowledge of the English language compared to their counterparts in countries such as China. Companies like General Electric and Texas Instruments are also looking at India as an important research and development base that can contribute to their global knowledge base.

Indian subsidiaries of many MNCs have been the best-performing units compared to other global operations. A recent study by a leading financial paper shows that the Indian arms of a number of MNCs have been earning margins much higher than that of their parents. The study compared the operating profit margins of the MNC subsidiaries with their parent companies after averaging the margins for the past three financial years to smooth out any extraordinary business year. The calculation also excluded interest, depreciation, taxes, goodwill amortization and other exceptional items.

Operating margins

| Company | Parent (%) | Indian Subsidiary (%) |
|-------------|------------|-----------------------|
| ABB | 4.0 | 12.9 |
| Unilever | 10.9 | 22.8 |
| Cummins | 2.2 | 18.3 |
| Whirlpool | 5.5 | 6.9 |
| ICI | 8.3 | 20.9 |
| Asahi Glass | 5.5 | 23.1 |

| | | |
|-------------------|------|------|
| Pfizer | 34.5 | 18.4 |
| Hyundai | 8.1 | 17.4 |
| Suzuki | 3.8 | 10.3 |
| Alfa Laval | 9.4 | 24.1 |
| Nestle | 14.2 | 19.0 |

As one can see, most Indian companies earn margins that are multiples of the ones earned by their parents. The exceedingly successful Indo-German companies are a case in point. Backed by strong German technology and a sharp focus on efficiency through cost and manpower rationalization, better supply chain management and improvement of productivity, the 24 Indo-German companies listed on the Indian stock exchanges have recorded 56% growth in their net profit for the quarter ending March 2004, with a 16.65% growth in sales. More importantly, this growth has come on the back of a 62% rise in net profit for the same period in the previous year.

The performance of the Indo German Chamber of Commerce (IGCC) 15 index clearly bears this out. IGCC 15 is possibly the first such bilateral index anywhere in the world. It's an index of 15 Indo-German companies with German shareholding of 25%. Since its inception in January 2002, IGCC 15 has appreciated by a whopping 282% (till September 22, 2004). In contrast, the Sensex (the premier index of the Indian stock market) was up by only 73% during the same period, while the Nifty (the index of the National Stock Exchange of India) was up by 66.20%.

Led by companies like Siemens (subsidiary of Siemens AG), MICO (subsidiary of Robert Bosch GmbH), BASF (subsidiary of BASF AG) and Thomas Cook (subsidiary of Thomas Cook AG), the performance of the Indian units vis-a-vis their German parents has been outstanding. If the annual performance of Indian companies over the past three years is compared with that of their respective German parents, the results are even more startling.

| Company | | Sales growth (%) | Net profit growth (%) |
|---------------------|---------------------------|-------------------------|--------------------------------|
| Siemens | Indian subsidiary | 11.22 | 42.41 |
| | Parent | -7.63 | 8.21 |
| BASF | Indian subsidiary | 4.87 | 9.84 |
| | Parent | 1.32 | -39.41 |
| KSB | Indian subsidiary | 22.06 | 61.24 |
| | Parent | 0.51 | 15 |
| Robert Bosch | Indian subsidiary | 14.23 | 69.6 |
| | Parent | 0.39 | 17.26 |
| Merck | Indian subsidiary | 3.71 | -6.6 |
| | Parent | -2.19 | -42.35 |
| Degussa | Indian subsidiary* | -0.59 | -16.65 |
| | Parent | -1.85 | Loss in past 2 out of 3 years* |
| Thomas | Indian subsidiary | 10.85 | 36.19 |

| | | | |
|-------------|---------------|-------|-------------------------|
| Cook | Parent | -3.74 | Loss for last two years |
|-------------|---------------|-------|-------------------------|

Source: Reuters, company websites and www.myiris.com

* While Degussa Germany has been making loss in two out of the last three years, its Indian subsidiary Insilco has been making profit, though the level has declined.

Clearly, major German companies have integrated well with the Indian market. This is also borne out by another recent survey undertaken by the IGCC. The survey, based on data made available by the Centre for Monitoring Indian Economy (CMIE), studies the market share of Indo-German companies. It covers 51 product groups in the manufacturing sector and 43 existing Indo-German collaborations (German presence has been considered either by way of technical-cum-financial participation or only by technical participation in the particular product group under consideration).

This study reveals that in 2001-02, Indo-German companies were market leaders in as many as 21 product groups. These were followed by 17 companies that occupied the second spot in the respective industries and another seven that ran third. Expectedly, more than half of them were engineering companies, followed by electronic and electrical. Of the 43 companies covered, as many as 23 have German shareholding. Of these, 17 have a greater than 25% stake in the Indian joint venture and 10 have a 50% or more stake.

Not surprisingly, some of the existing Indo-German companies have announced plans of new investments in India. Bosch recently said it plans to invest about Rs10 billion (US\$218.5 million) in India over the next four years. It will also invest about Rs850 million in its Indian software company, Robert Bosch India Ltd. Siemens has announced plans to invest another Rs1 billion by 2005. Adidas Solomon plans to set up an apparel-manufacturing unit in India and invest heavily in new stores and manpower. Among the unlisted companies, Sap Lab India, one of the fastest-growing subsidiaries of SAP AG in the world, has announced plans to invest \$24 million and double manpower to 3,000, while Sap Ventures (its venture capital company) plans to invest in other Indian technology companies.

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