Indian Investments in Germany: Promising Prospects and Still Untapped Potential

In the reporting period between August 2013 and July 2014 several Indian companies continued to invest in Germany. The "evident pace" of investments, however, did not match the overall growth in India's outward foreign direct investments. Also, firms from other emerging economies increased their investment activities threatening to overshadow India's leading position amongst investors from emerging economies in Germany. With the new Indian government's thrust on the manufacturing sector and its explicit efforts to foster partnership with Germany, new avenues are expected to emerge for bilateral collaboration. On the back of a rebound Indian economy, domestic companies are once more expected to exploit the large investment potential still-untapped.

The bygone fiscal year in India (FY 2013-14) witnessed increased outward foreign direct investments (FDI) by Indian firms. The gross outflow of FDI from India stood at US $14.6 billion as per data released by Reserve Bank of India.[1] This was about US $3 billion more than in the previous 2 years each, signalling a renewed vigour after a slowdown in the recent past. At the same time, Indian investments in Germany seem to have slowed down a little as far as their evident pace is concerned.

The largest recipients of officially monitored FDI outflows from India were British Virgin Islands (US $3.2 billion), Mozambique (US $3.0 billion), and the Netherlands (US $2.1 billion), followed with some distance by Singapore (US $1.2 billion), the United States of America (US $1.1 billion), the United Kingdom (US $0.5 billion) and Switzerland (US $0.5 billion). Germany did not make it to the list of top recipient countries published by the RBI. A similar picture is painted by the "High Growth Markets International Acquisition Tracker" published by KPMG.

Notwithstanding this "disappointing" placement of Germany in the official report, there is reason to believe, and enough evidence to substantiate that belief, that Germany is one of the primary destinations for Indian outward FDI. In many instances, investments are channelized by firms via countries such as the Netherlands and Switzerland to ultimately finance their projects in a large economy like Germany while benefitting from some other contextual factors in the third countries, as will be shown in this article. Germany already constitutes a significant business for some parent Indian concerns. The following quote from the Annual Report of Mahindra Forgings Ltd. (FY 2012-13) amply underscores the importance of Germany for its business: "The German operations are a full range provider of forging parts for trucks while being one of the top axle beam manufacturers in the world. They are the largest and account for more than two thirds of the Company's revenues." Similar views were expressed by the Suzlon Group in its Annual Report (FY 2012-13): "our German subsidiary – REpower Systems SE – continued to outperform the market and achieved over 35% CAGR over a three-year horizon. [...] Suzlon Group continued its product innovation and research and development drive at R&D centres in Germany, The Netherlands, Denmark and India." These two examples show that for several Indian multinational firms Germany has become a cornerstone of their corporate strategy.

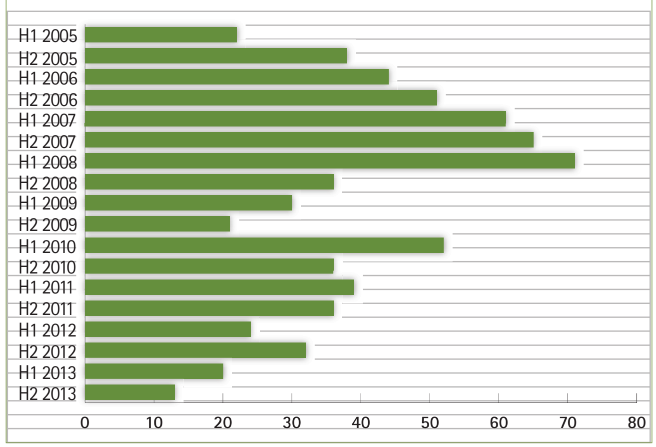
Brownfield investments in the form of acquisitions

The number of brownfield investment projects by Indian corporate houses targeting acquisition objects in the developed world, as monitored by KPMG's tracker, peaked in the first half of 2008 and have since then not regained the same strength. In fact, with only 33 such transactions the bygone year saw the lowest number of developed market acquisitions in the past eight years, see Figure 1.

KPMG's HGM tracker, based on an analysis of Thomson Reuters' data, reported merely one acquisition by an Indian firm in Germany in 2013 out of total 33 acquisitions by them the same year in the developed world. Nevertheless, with a cumulated 44 acquisitions between 2005 and 2013, Germany remained the third largest acquisition target for Indian companies in the developed world after the USA (246) and UK (116); and ahead of Singapore (41) and France (30). Germany's share in the overall number of outward FDI projects, however, shrank from an all-time high of 14.3% in the second half of 2009 to 7.7% in the second half of 2013, while the first half of 2013 failed to see even a single Indian acquisition in Germany. Overall speaking, 6.4% of all acquisitions by Indian firms in the developed countries have taken place in Germany.

Figure 1: **Number of acquisitions by Indian companies in the developed world**

No. of acquisitions based on KPMG HGM Tracker, Feb. 2014



Within Germany, India nevertheless continued to retain its position as one of the top acquirers from an emerging country as measured by the number of acquisitions. Seen from a German perspective, Indian firms have a share of 17.7% in all acquisitions involving investments from emerging economies (total 249 acquisitions between 2005 and 2013). India is placed second; preceded only by Russia (45) and followed with some distance by China (31). In 2013, however, it was the Chinese companies that set the pace. Of total 25 acquisitions monitored in the previous year, 6 involved Chinese acquirers. In 3 instances, the acquirers had roots in the Russian Federation, whereas only 1 acquisition the company went into Indian hands.[2]

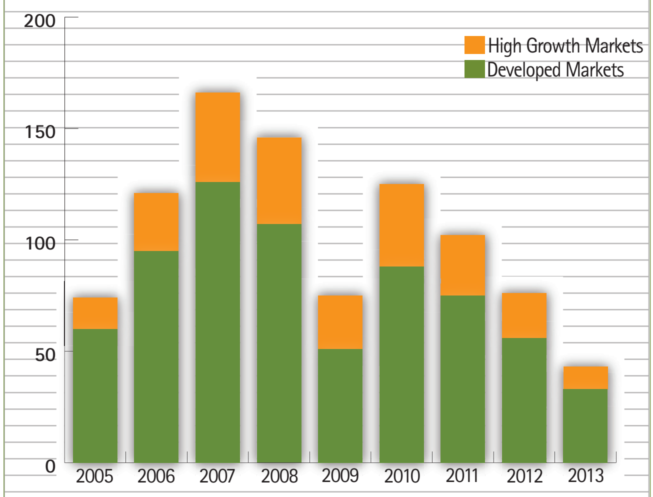
Indian firms acquire overseas firms more often than their Chinese counterparts

In 2013 too, Indian corporate houses continued to display a marked preference for acquisition targets in the developed world. The number of acquisitions by Indian companies in the developed economies, as per KPMG Monitor, stood at 33. In contrast, only 10 transactions involving Indian acquirers were observed in the developing nations. Between 2005 and 2013 a total of 237 acquisitions by Indian firms were reported from developing nations, whereas the total number

[1] See, RBI (2014): "Developments in India's Balance of Payments during 2013-14", in: Monthly Bulletin, Vol. LXVIII, No. 7, p. 42.
[2] Source for all KPMG data in this report: "High Growth Markets International Acquisition Tracker", Feb. 2014.

of acquisitions by Indian firms in the developed nations in the same period stood at 691 (see Figure 2).

Figure 2: **Indian acquirers continue to prefer developed markets**



In an interesting comparison, Chinese companies in the same timeframe made 564 acquisitions in the developed world, excluding Hong Kong, and 94 in the developing countries. Indian firms, thus, displayed a greater penchant for overseas acquisitions.

It must be noted that the KPMG figures only relate to the number of projects and not to the monetary value of the acquisitions. Furthermore, the KPMG monitor owing to usual difficulties involved in collecting such data does not capture the true extent of FDI flows. For example, while the KPMG monitor did not observe any single Indian acquisition in Germany in the first half of 2013, this author reported a couple of acquisition projects in the previous year's Annual Review of the IGCC for that period.

Official Statistics of the Bundesbank

According to latest official statistics (April 2014) issued by the Bundesbank, Germany's central bank, the cumulated stock of Indian FDI in Germany stood at €476 million at year-end 2012. There were 34 Indian firms active in Germany providing employment to around 2,000 people while generating annual revenues worth €800 million.

While confirming a general upward trend in the stock of Indian FDI in Germany, these figures grossly underrepresent the true level of investments and the actual control by majority shareholders. As a matter of fact, these figures do not even suffice for the investment pumped in by the Suzlon Group in its German operations and the revenues generated by it there. As mentioned in previous reports too, 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.

This point can be illustrated with a recent example: India's Hero Cycles Group, the world's largest manufacturers of bicycles reportedly secured a minority stake (~47%) in Germany's prestigious bike manufacturer Mitteldeutsche Fahrradwerke AG (MIFA) in May 2014 for an estimated cost of €15 million. The transaction, however, was conducted by Hero Cycle's Dutch subsidiary OPM Global B.V. Therefore, the official statistics in Germany would not capture it as an Indian investment. Similarly, this case might point out one reason for the high FDI flows from India to the Netherlands since some firms might be using their Holland operations as a base for extended Europe operations. Another example is provided by parts of Piramal's business in Germany. Piramal Imaging GmbH in Berlin is wholly-owned by Piramal Imaging SA in Matran (Switzerland). Complicated concern structures make it difficult to gauge the true extent of involvement in official reports. This article attempts to provide the readers with information that can be to some extent more representative of the situation on the ground.

Select examples of recent investment activity

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

Table 1: **Examples of Indian acquisitions in Germany during August 2013 – June 2014**

No.	Indian MNE	German Object	Deal Amount	Comments
1	Amtek India	Küpper-Gruppe	€50 million	750 employees in 5 locations including one in Hungary, estimated annual turnover €200 mil.
2	Amtek India	Kaiser GmbH	not disclosed	640 employees
3	OPM Global (Hero Cycles Group)	Mifa - Mitteldeutsche Fahrradwerke AG	up to €15 million	Minority stake (up to 47%)
4	Prisma Global Limited	Prisma Gmbh	not disclosed	Majority stake (51%)

Amtek India acquired Germany's Küpper Group, which primarily consists of two firms August Küpper GmbH & Co. KG (based in Heiligenhaus) and H. J. Küpper GmbH & Co. KG (based in Velbert). The deal amount was officially not disclosed. However, The Economic Times (17.03.14) put the value of the deal at €50 million which made "[…] the Amtek Group one of the top three global suppliers of cast and machined turbocharger housings with a 20% market share". Kaiser GmbH is an automotive parts supplier based in Lower Bavaria (Niederbayern) that faced insolvency and was acquired by Amtek with the promise of retaining all jobs. At the time of writing this report, the Bundeskartellamt, the federal anti-trust authority, had reportedly approved the acquisition.

At least one greenfield investment project involving Aurangabad Electricals Ltd. (AEL), belonging to the Bagla Group, could be monitored in the reporting period. AEL has announced setting up a production facility in Arnstadt (in the federal state of Thüringen) for manufacturing aluminium castings for oil and water pumps. The facility would provide employment to 40 people and involves an investment of €12 million of which 30% would be contributed by the State of Thüringen as investment incentive for AEL, reports DPA (07.06.14).

Based on these investment projects we update the key data on Indian FDI stock in Germany (approximate figures) (see table 2).

Table 3 shows some select Indian firms in terms of the number of employees. The compilation is based on the respective companies' last publically available official annual report or statements on their respective websites. In case of Mahindra Forgings the number of employees stationed in the UK (192) has been excluded. The item Bharat Forge Group as a German firm refers to 3 independent companies owned by the Bharat Forge Group, i.e. Bharat Forge Aluminiumtechnik, Bharat

Table 2: **Developments in Indian FDI in Germany between Aug. 2013 and July 2014**

Key indicators	Aug. 2013	July 2014
No. of Indian MNCs in Germany	149	152
No. of subsidiaries of Indian MNCs in Germany	218	223
No. of full time employees of Indian MNCs in Germany [3]	26,000	27,500
Estimated stock of Indian FDI in Germany	€5.5 billion	€5.6 billion

Forge Daun, and CDP Bharat Forge. Many firms unfortunately choose to treat this information as "secret", so that eventual variations and/or exclusion of some large employers is not ruled out.

Other noteworthy developments

Hamburg-based REpower Systems, a wholly-owned subsidiary of India's Suzlon Group, changed its name to Senvion. In a press release dated 20th January 2014, the company informed that it had been using the name "REpower" under licence from a Swiss firm which is now using the name on its own necessitating the need for a new name. In company's own words, "the elements of the name Senvion refer to the company's renewable energy operations: the S stands for the sustainability of its products, EN stands for energy, VI for vision and ON for being switched on."

In December 2013, Novelis, a daughter concern of Hindalco Industries, announced plans to invest US $205 million in the United States and Germany, without giving exact break-up. This example shows that many firms continue to scale up their operations in Germany in the form of follow-up investments. Internal, follow-up investments are, however, generally not announced to the media by firms, especially by small and medium-sized firms so that they are not registered by the outside world. Moreover, such investments, in many instances, are financed by the local subsidiary in the form of bank loans from local creditors so that these figures are not properly reflected in the official statistics of the reporting authorities. Therefore the "evident pace" of investments might differ from the actual pace.

Increasing focus on R&D and innovation

Indian companies are also utilizing the technological & 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, the Bharat Forge Group, the Piramal Group, Novelis, Sona BLW, and the Suzlon Group. R&D Expenditure at Novelis Deutschland GmbH increased from €10.4 million to €13.2 million on a yearly basis in fiscal year ending March 2013.

Promising prospects and the unrealized potential

Seen in the overall context it seems that the Indo-German partnership has matured in terms of operations of Indian-owned firms in Germany. A stable level of investment flows from India to Germany has already set in which cuts across industries and corporate business processes. It has also largely become capable of absorbing short-term external shocks such as business cycle turbulences. The reason is that the operational basis of Indian firms in Germany has expanded greatly in recent years. They invest in Germany not any more merely to sell their goods and services produced back home but also to set up value chain activities here and produce goods and services locally, as well as to engage in R&D and innovation activities.

Table 3: **Select large Indian employers in Germany**

No.	German Firm	Indian Stakeholder	Employees
1	SMP Deutschland GmbH	Samvardhana Motherson Group	7,593
2	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	1,930
3	SONA BLW Präzisionsschmiede GmbH	Sona Group	1,392
4	Mahindra Forgings Europe AG	Mahindra Forgings	1,326
5	Tata Steel Germany GmbH	Tata Steel	1,310
6	SEVION SE (formerly REpower Systems)	Suzlon Energy Ltd.	1,287
7	Bharat Forge Group	Bharat Forge Group	753
8	Tata Consultancy Services Deutschland GmbH	Tata Consultancy Services	638

They make use of not only brownfield investments but also set the shop from scratch. In this they are also supported by local institutions and government bodies.

Nevertheless, it cannot be overlooked that a large potential for bilateral relations remains still untapped. For both modes of investment, brownfield and greenfield, very significant opportunities exist that could be exploited to a much better extent. Firms have a chance to become innovative by creating frugal innovations that combine affordability with excellence, and are not mere "*Jugaad*" items. Such frugal innovations can benefit immensely from technological and design capabilities present in Germany and by use of inventive analogies. Recent research at TUHH suggests that India can act as a "lead market" for frugal innovations. Once those frugal innovations have overcome image barriers with the help of proven technological capabilities and brand reengineering, they can tap a substantial and increasing number of price-sensitive-yet-quality-conscious customers in Germany and elsewhere. It is estimated that frugal innovations could soon account for 25% of market share across all product categories. In a Western context that faces challenges of a demographic disadvantage and saturated markets, 'frugal innovations with excellent quality' presents a wonderful opportunity for Indian firms, which they should strive to make full use of.

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[3] This figure does not include the approx. 3,600 employees of the Luxemburg-based Mittal Group.