

Indian Investments in Germany

Innovation and R&D gain momentum in a stable partnership

Growth in Indian firms' investments in Germany, by and large, continued to stay on a stable course between September 2010 and August 2011, since our last report in the IGCC Annual Review. In a maturing market, one could see some significant investment projects and a new and positive dimension in Indian subsidiaries' operations in Germany: More & more firms are discovering the merits of using Germany's technological expertise and infrastructure for augmenting own R&D capabilities and innovation portfolios. This trend is fostered by the excellent growth that many Indian firms are witnessing in Germany at present.

- By **Rajnish Tiwari**



Introduction

The recent financial crisis in the euro-zone notwithstanding Germany has emerged as a reliable economic powerhouse growing by an impressive 3.6% in 2010. A powerful combination involving a strong domestic base of 82 million consumers with relatively high purchasing power at their disposal, the world's fourth largest Gross Domestic Product (GDP) of nearly €2.5 trillion, and the successful "Made in Germany" brand in foreign trade keeps attracting many overseas investors to Germany. For instance, in May 2011, a worldwide survey by consultancy firm Ernst & Young declared Germany to be "the" most attractive FDI location within Europe. Not surprisingly, it has become the second largest recipient of Foreign Direct Investments (FDI) in Europe, and the sixth largest recipient globally, having received over \$46 billion (approx. €35 billion) in FDI from foreign firms in 2010 as a recent report from UNCTAD reveals.

At the same time, private sector Indian firms, in their pursuit of expansion opportunities and technological know-how, have rapidly emerged as a significant source of FDI. In the 10-year period between March 2001 and March 2011, India's outward FDI stock has increased nearly 38-fold, growing from \$2.6 billion to \$98.2 billion, according to official Reserve Bank of India (RBI) data. A more realistic figure can be expected to be on a significantly higher side because many FDI projects are carried out by overseas subsidiaries on behalf of the "mother" firm back home and are not necessarily incorporated in the official government data. Buoyed by the sustained economic growth of the previous years, Indian firms have been at the forefront of emerging market investors in Germany. According to one KPMG report more than every fourth acquisition in Germany (27%) carried out by an emerging market investor has Indian roots, followed by a distant second Russia (17%), and much ahead of China (5%).

Recent Developments in Indian FDI in Germany

Even though the official figures of the German Bundesbank continue to show significantly lower figures owing to statistical problems in officially assigning investment figures to firms with complex holding structures, global operations, and utilizing both local and global financing instruments, the stock of Indian FDI in Germany is estimated to stand at about €4.5 billion as of August 2011. At least 11 FDI projects could be monitored between September 2010 and August 2011. These projects had an estimated volume of about \$325 million.

Six of the projects were greenfield investments (including follow-up investments), while the others involved acquisitions. The Ruia Group (Meteor Gummiwerke), Thermax Ltd. (Omnical Kessel- und Apparatebau GmbH), and Hindustan National Glass and Industries (Agenda Glas AG) were amongst the major acquirers in Germany in this period. The Hinduja Group, too, made an unsuccessful bid to acquire German power company Steag with estimated assets of approx. €3.5 billion. Wind energy firm Suzlon decided to increase its stake in Hamburg-based REpower Systems SE from 91.7% to 95.16% with an intention to acquire the full control.

Table 1 Developments in Indian FDI in Germany between January 2009 and August 2010

Key indicators	Aug. 2010	Aug. 2011
No. of Indian MNCs in Germany	134	139
No. of subsidiaries of Indian MNCs in Germany	190	195
Full time regular employees of Indian MNCs in Germany*	18,600§	22,000
Estimated stock of Indian FDI in Germany	€4.125 billion	€4.5 billion

* This figure does not include the approx. 3,600 employees of the Luxemburg-based Mittal Group. § This figure has been re-adjusted after getting authoritative data on Corus/Tata Steel's employment.

Interestingly, the federal state of Mecklenburg-Vorpommern saw two Indian investments (by Suzlon in a joint venture with its own subsidiary REpower, and by Kenersys) in the field of wind energy, thus underscoring the potential that the regions in the eastern part of Germany hold for Indian firms.

Taking into consideration the investments and divestments in this period, one could count 139 India-headquartered MNCs and their 195 subsidiaries (majority stakes and wholly-owned businesses) active in Germany as of August 2011. This figure also does not include holding companies and dependent firms within given concern structures.

■ ■ ■ Employment in Germany

Subsidiaries of Indian firms in Germany are estimated to have approx. 22,000 regular employees on their payroll on a full-time annual average. Additionally, there were about 1,000 trainees and interns, which are not included in the figures below.

Table 2 Top-5 Indian employers in Germany in fiscal year 2009-10

No.	German Firm	Indian Stakeholder	Employees
1	Meteor Gummiwerke	Ruia Group	2,421
2	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2,212
3	SONA BLW Präzisions-schmiede GmbH	Sona Group	1,379
4	REpower Systems SE	Suzlon Energy Ltd	1,287
5	Corus Deutschland GmbH	Tata Steel	1,166

Source: Author's compilation based on companies' last available official annual report.

This figure has been re-adjusted after having estimated the number of employees of Indian firms as standing at 23,600 the previous year. The authoritative headcount of Tata Steel (Corus) has been found to stand at a much lower 1,166 than the one reported last year in this space (6,100), which was based on an online database entry that was apparently erroneous. The new figure is based on an annual report filed by Tata Steel.

It may also be noted that the total employment provided by the business group of the Indian stakeholder might be much higher. For example, conglomerates such as the Ruia Group and the Tata Group, have multiple presence in Germany and

their total employment would stand at significantly higher than the figures above suggest.

■ ■ ■ Performance of Indian firms in Germany

Germany seems to provide a highly attractive yet challenging playground for Indian firms. While analyzing annual reports of about 50 Indian subsidiaries for fiscal year ending in 2010 or 2011, one can find examples of both high growth and severe struggle. While firms generally coped well with the given market parameters, some firms managed to outperform the market growing with a double-digit figure exceeding 20%. At the same time, a few firms (e.g. logistics, automobile ancillaries, and clinical research) recorded negative growth in the turn-over exceeding well over 20%. In one instance, the firm suffered a severe setback with the turn-over decreasing on a year-to-year basis by as much as over 75%, coming down to less approx. €2.5 million from over €10 million. Such incidences underscore the competitive and challenging nature of the German market and the subsequent need for continuous alert. Generally, firms having a broader customer base, experienced local management, collaborative practices, and a supportive business network consisting of suppliers, customers, institutional players, and other firms are less prone to such abrupt shocks.

■ ■ ■ R&D and Innovation

Slowly but surely Indian firms are recognizing the need of cutting-edge technologies and an innovative product portfolio in a competitive globalized world. While some FDI decisions are directly motivated by the desire to seek access to technological know-how, in other instances technological set-up such as a functioning Research and Development (R&D) department is acquired as a package deal. At any rate, one can now see several Indian firms actively making use of Germany's advanced engineering capabilities and technical infrastructure.

For instance, while TechMahindra has opened a development centre in Bonn, Suzlon and REpower Systems SE have founded a joint venture called Renewable Energy Technology Center (RETC) with offices in Hamburg and Rostock with an express purpose of doing basic research in the field of renewable energies. REpower itself provides an excellent example of successful R&D by Indian subsidiaries in Germany: In fiscal year 2010-11, it increased its R&D expenditure by over 40% from €25.6 million in the previous year to €36.9 million. Its

annual report proudly mentions successful commercialization of several new products. The R&D efforts also paid rich dividends in that the firm could generate €7.5 million in license fee (0.6% of the total turn-over). Some of the firms, apart from those listed in Table 2 participating in the “global innovation” value-chain in Germany are listed below:

acquisitions by Indian firms in 2010 were carried out in 4 Anglo-Saxon countries (USA, UK, Canada and Australia), with USA alone cornering a lion’s share of 35%.

The EMIAT data also reveal that even though Germany remains highly preferred by Indian firms outside the Anglo-Saxon countries, France and Singapore are beginning to challenge Germany’s attractiveness for Indian firms. Therefore, it seems appropriate to call upon both firms and institutional players in Germany and India to further work on maintaining the momentum of the growing bilateral relations. The “win-win” proposition of the bilateral cooperation is very much self-sustaining. Germany’s excellent physical infrastructure and innovation prowess and India’s strengths in production, marketing, low-cost engineering, and business model innovations can generate a unique competitive advantage.

Table 3 Examples of some Indian firms with successful R&D activities in Germany

No.	German Firm	Indian Stakeholder	Products/ Patents
1	MBE Coal & Minerals Technology	McNally Bharat	Yes
2	Minda KTSN Plastic Solutions	Minda Group	Yes
3	Ecron Acunova GmbH	Manipal Acunova	Yes
4	Eisenwerk Erla GmbH	Dynamatic Group	Yes
5	Lloyd Dynamowerke	Kirloskar Group	Yes

Source: Author’s compilation based on companies’ last available official annual report.

One interesting aspect, though, is that apart from TechMahindra hardly any other big IT company from India is using Germany for innovation and R&D activities. Most firms are singularly focused on delivery, which probably has been the reason why their growth has not yet realized its full potential.

Summary

As evident from the data described above, India is not only “the” top emerging investor in Germany but also that Indian investments here have remained stable with an increasing monetary volume. At the same time, however, one gains the impression that the Indian FDI in Germany has not kept pace with the rapid growth of overall Indian overseas investments. The reason for this development might be three-fold:

- First, Indian firms, of late, have started to look “south”, i.e. to other developing countries as investment destination. This finding is also corroborated by a KPMG study.
- Second, economic recovery in Germany has reduced financial woes of firms so that the general availability of distressed assets has gone down shrinking the pool of suitable acquisition targets.
- Finally, Indian firms continue to demonstrate a strong preference for acquisitions in Anglo-Saxon countries. According to the Emerging Markets International Acquisition Tracker (EMIAT) of KPMG as much as 64% of all developed country

In conclusion one could say that Germany has established itself and continues to be a preferred and stable partner for Indian firms in their pursuit of overseas growth and technological advancement. The growing R&D engagement of Indian firms in Germany is a welcome sign for bilateral technological collaboration on the path of sustainable development with positive effects for all concerned. Furthermore, it underscores that globalization is not a one-way street and that high-tech jobs can withstand the cost pressure. Collaboration and cooperation, therefore, works both ways and we might be entering an era of “Indian innovations, made in Germany”.

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