Indian Companies in Germany –
A Report on Investment Activities in 2014–15

General trends in outward FDI from India
In the previous fiscal year (April 2014 to March 2015) the level of outward foreign direct investments (FDI) by Indian firms witnessed some moderation. The gross outflow of FDI from India in FY 2014–15 stood at US $8.5 billion as per data released by the Reserve Bank of India.\(^1\) At March-end 2015, the cumulative stock of FDI from India stood at US $130.5 billion, which was only slightly higher from US $128.7 at the end of FY 2013–14. One reason for this can be seen in the massive repatriation/disinvestment by Indian firms in the overseas totalling US $6.7 billion in FY 2014–15. Nevertheless, the overall stock of India’s outward FDI has grown tremendously from being practically non-existent in 1991 to the current level, as Figure 1, based on UNCTAD data for the respective calendar years shows.

![Figure 1: Cumulative FDI stock of Indian firms abroad](image)

The largest recipients of officially monitored FDI outflows from India in FY 2013–14, and in the first half of FY 2014–15 were the Netherlands (US $2.3 billion), Singapore (US $2.1 billion), Mauritius (US $1.6 billion) and the USA (US $1.4 billion). The UK, the UAE, and Switzerland followed with US $600 million each. All other countries, put together, received a sum of US $6.12 billion in this timeframe.

Since the flows of officially monitored FDI from India to Germany, apparently, did not exceed this amount, Germany did not find mention in the list of the top recipient countries of Indian FDI as published by the RBI. This might be also related to the shifting pattern of investments and the “priority industries” for many an Indian investor. The RBI data shows that the largest chunk of outward FDI by India (US $6.4 billion or almost 40% of the total volume) in FY 2013–14, and in the first half of FY 2014–15 went into “Agriculture, Hunting, Forestry and Fishing”. Other important sectors were “Manufacturing” (US $3.8 billion), “Financial, Insurance, Real Estate and Business Services” (US $2.3 billion), “Transport, Storage and Communication Services” (US $1.4 billion), and “Wholesale, Retail Trade, Restaurants and Hotels” ($1.4 billion).

Notwithstanding this absence in the official report, there is reason to believe, and enough evidence to substantiate that belief, that Germany continues to remain one of the key destinations for Indian outward FDI. In many instances, investments are channelized by firms via third countries such as Singapore and the Netherlands, as will be also shown in this article. Besides, Germany, both as a domestic market and a gateway to Europe, constitutes a significant business for some parent Indian concerns. For example, Mahindra Forgings Europe AG (MFE), a daughter concern of the Mahindra Group, reportedly counts amongst the top-5 forging firms worldwide. The MFE consists of 5 wholly-owned subsidiaries; 4 of them in Germany: Gesenkschmiede Schneider GmbH, Schönweiss Et Co. GmbH, Falkenroth Umformtechnik GmbH, and Jeco-Jellinghaus GmbH. The fifth subsidiary, Stokes Forgings Ltd. is located in the UK. MFE, as per its own information, has a turnover of about €300 million and employs about 1,500 employees, a bulk of them in Germany. The following quote from the Annual Report of Mahindra CIE Automotive Ltd. (FY 2013–14, p. 15) underscores the importance of Germany for its business: “The German operations provide a full range of forged parts for trucks and are one of the top axle beam manufacturers in the world. In Europe, a significant portion of the product portfolio consists of value added products like complex and machined forgings. MFE is significantly dependent on four large commercial vehicle manufacturers in Europe which together account for ~40% of revenues.” The Bharat Forge Group too in its Annual Report for 2014–15 reported revenues of close to Rs.17.50 billion (approx. €250 million) in 2014 for its German subsidiaries. Such examples show that Germany for some Indian multinational firms has become a cornerstone of their corporate business.

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 2007 and 2008 (126 and 107 acquisitions respectively) and have since then not regained the same strength. While 2013 saw a record low of only 34 such transactions, the bygone year (2014) took a positive turn with 47 such acquisitions reported in the developed countries, see Figure 2.

![Figure 2: Number of acquisitions by Indian companies in the developed world](image)

KPMG’s HGM tracker, based on an analysis of Thomson Reuters’ data, reported 3 acquisitions by Indian firms in Germany in 2014 out of total 47 acquisitions by them the same year in the developed world. With a total of 47 acquisitions between 2005 and 2014, Germany, as an individual nation, remained the third most-sought after acquisition target for Indian companies in the developed world after the USA (265) and UK (121); and ahead of Singapore (42) and France (31). Overall speaking, 6.4% of all acquisitions by Indian firms in the developed countries have taken place in Germany.

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\(^1\)See, “Foreign Investment Inflows”, Table 34, in: RBI Monthly Bulletin, July 2015, p. 59. Figure does not contain Repatriation/Disinvestment sums.
The looming Chinese shadow
Within Germany, India managed to retain its overall 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' cumulated share in all acquisitions from emerging economies dropped slightly from 17.7% in 2013 to 15.9% in 2014 (total 295 acquisitions between 2005 and 2014). India continues to be placed second; preceded by Russia (52) and followed with an ever-decreasing distance by China (41). In 2014, again, it was rather the Chinese companies that set the pace. Of total 37 acquisitions from emerging markets monitored in 2014, 10 involved Chinese acquirers. Russian and Indian acquirers were involved in 3 acquisitions each. The picture is even more revealing if one looks at the data for past 4 years. Between 2011 and 2014, a total of 130 acquisitions of German firms by investors from emerging markets were observed. Of these, 25% involved Chinese firms, 11% Russian investors, and in only 8% of cases Indian firms were involved. In contrast, between 2005 and 2010, Indian firms were responsible for 22% of total 165 acquisitions by developing country companies in Germany. While the Russian share stood at 23%, the Chinese share in that timeframe languished at 5%.2

Indian firms acquire overseas firms more often than their Chinese counterparts
In 2014 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 47. In contrast, only 14 transactions involving Indian acquirers were observed in the developing nations. Between 2005 and 2014, a total of 296 acquisitions by Indian firms were reported from developing nations, whereas the total number of acquisitions by Indian firms in the developed nations in the same period stood at 737 (see Figure 3).

![Figure 3: Indian acquirers continue to prefer developed markets](image)

In an interesting comparison, Chinese companies in the same timeframe made 682 acquisitions in the developed world (excluding Hong Kong), and 147 in the developing countries. Indian firms, thus, displayed a greater penchant for overseas acquisitions in the form of brownfield investments. 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 also might not fully reflect the true extent of FDI flows.

Official Statistics of the Bundesbank
According to the latest official statistics (April 2015) issued by the Bundesbank, Germany’s central bank, the cumulated stock of Indian FDI in Germany stood at €542 million at year-end 2013. There were 34 Indian firms active in Germany proving employment to around 2,000 people while generating annual revenues worth €800 million.

Though 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 of 2013). 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 an example: In March 2015, the business press reported acquisition of Scholz Edelstahl GmbH, based in Aalen, by India’s Amtek Auto. Scholz Edelstahl, which reportedly generates revenues of around €175 million, is in the business of manufacturing high-quality hot die forgings manufacturer auto and non-auto component industries. The acquisition, whose financial details were not disclosed, was routed through Singapore. A report in the New Indian Express (17th March 2015) stated: >> “The company has acquired German-based Scholz Edelstahl GmbH through its 100% Singapore-based subsidiary Amtek Precision Engineering Pte. Ltd,” Amtek Auto said in a BSE filing. << The later acquisition of the Rege Holding in Germany was also channeled by Amtek through this wholly-owned subsidiary in Singapore.

The official statistics in Germany would obviously not capture this acquisition as an Indian investment. Similarly, this case might point out one reason for the high FDI flows from India to Singapore since some firms might be using their Singapore operations as a base for managing overseas 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, especially so 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>
<thead>
<tr>
<th>No.</th>
<th>Indian MNE</th>
<th>German Object</th>
<th>Deal Amount</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lupin Pharmaceuticals</td>
<td>Temmiller Pharma</td>
<td>not disclosed</td>
<td>Lupin acquires the specialty product portfolio related to central nervous system (CNS) business</td>
</tr>
<tr>
<td>2</td>
<td>Amtek India</td>
<td>Scholz Edelstahl GmbH</td>
<td>not disclosed</td>
<td>127 employees as of December 2012</td>
</tr>
<tr>
<td>3</td>
<td>Amtek India</td>
<td>Rege Holding</td>
<td>not disclosed</td>
<td>Rege has an international workforce of 1,450 employees. Approval of anti-trust authorities awaited at time of writing.</td>
</tr>
</tbody>
</table>

Acquisition of Scholz Edelstahl by Amtek allows it access to “state-of-the-art forging facility in Aalen” and the company “also provides customized solutions for steel services and product support out of another facility located in Esslingen.” The Economic Times (17th March 2015) said that the acquisition reinforces “Amtek Group’s position after its successful integration of recently acquired German companies Neumayer Tekfor and Kuepper Group, making it one of the largest integrated global forging, casting and machining entities, said one person close to the development.” In May 2015, Amtek also announced plans to acquire Rege Holding, based in Hörselberg. Rege, as reported by the Economic Times (23rd May 2015), “has two plants in Germany and one in Romania and it manufactures various components including connecting rods, cylinder heads and gear housings.” Another report on vccircle.com (25th May 2015) mentioned that “Rege generates majority of its revenues acting as a tier I and single-source supplier to leading automotive companies globally.” A company press release by Rege, dated 28th May 2015 states, “REGE Motorenteile GmbH is a leading system provider focused on machining and assembling complex components. Founded in 1987, REGE has [...] a workforce of 1,450 employees at sites in Eisenach and Witzenhausen (Germany), Brasov (Romania), and Seoul (South Korea).” This also underscores the role of Germany-based subsidiaries in the corporate strategy of many Indian multinationals.

The reporting period also witnessed a major disinvestment project in Germany. Suzlon, so far having the largest FDI interest in Germany amongst all Indian investors, decided to sell Servion (formerly known as RPower Systems) to the U.S.-based private-equity fund Centerbridge Partners for an amount of €1 billion, as widely reported in the press. According to a report in the Wall Street Journal, Suzlon “has been selling assets for years to help deal with its debt of about US $2.6 billion that was left over from a decade-long expansion and acquisition spree.” The report quoted Tulsi Tanti, Chairman of the Suzlon Group, as stating in a statement to India’s stock exchanges that “The proceeds [will] be used for debt repayment thereby reducing interest cost and [augmenting] business growth.” Suzlon had acquired Servion for a total of about €1.8 billion, making the acquisition and the subsequent disinvestment a solid loss for it. Based on these developments the key data on Indian FDI stock in Germany can be updated to the following (approximate figures):

| Table 2: Developments in Indian FDI in Germany between July 2014 and July 2015 |
|-----------------|--------|--------|
| No. of Indian MNCs in Germany | 152    | 153    |
| No. of subsidiaries of Indian MNCs in Germany | 223    | 226    |
| No. of full time employees of Indian MNCs in Germany | 27,500 | 28,500 |
| Estimated stock of Indian FDI in Germany | €5.6 billion | €4.0 billion |

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 MFE, 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 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 cannot be ruled out. In case of TCS the number of employees increased on year-on-year basis from 732 in March 2014 to 912 in March 2015, rising by almost 25%.

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, and Sona BLW. R&D Expenditure at Novelis Deutschland GmbH increased from €10.4 million to €13.8 million between 2012 and 2014. SMP Deutschland reported R&D expenditure on non-customer specific projects to the tune of €3.8 million and a total of 270 employees working on them.

Promising prospects to tap the unrealized potential

Seen in the overall context it can be noted 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 set in which cuts across industries and 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 manufacture goods and services locally, as well as to engage in R&D and innovation activities. Nevertheless, it must be noted that a large potential for bilateral relations remains still untapped. Whereas Chinese firms are accelerating their German activities in a very significant manner, Indian firms seem to be more involved with consolidation of their activities. This is not necessarily wrong. However, it would be beneficial for firms to keep an eye open on acquisitions that provide significant synergies while avoiding mistakes of overzealous acquisitions as in the case of Suzlon. Nevertheless, for both modes of investment – brownfield and greenfield – significant opportunities exist that could and should be exploited to a greater extent.

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Dr. Rajnish Tiwari is 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 especially in the knowledge-intensive field of innovation. 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.” 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. His research has benefited from the generous support of the Claussen-Simon-Stiftung.