

Foreign Direct Investment in the Form of Mergers & Acquisitions in the Indian Retail Sector

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Abstract

Given the market attractiveness of the Indian Retail Sector, this industry should attract a lot of Foreign Direct Investment (FDI) also in the form of Mergers & Acquisitions (M&A). Taking into consideration the size of the country and this industry, we would also expect Indian companies to play an international role in making investments and M&A abroad. M&A is the most important form of Indian FDI. From 2004 to 2010, at least 63% of all inward FDI worth 163 bil.USD and 66% of all outward FDI worth 87 bil. USD are M&A. Seeing the trends of inward and outward M&A in an even enlarged time period from 1995 to 2012, we see that the overall Indian M&A trends has been strong and increasing. In that time, almost 4'400 acquisitions by foreign companies worth 136bil.USD and almost 2'000 acquisitions by Indian companies abroad worth 84bil. USD have been arranged. Comparing this trend with M&A in the Retail Sector, we see that M&A in this industry represents only a relatively small fraction of the total M&A. Inward M&A in the Retail Sector accounts for 1.8% of the deals but only 0.6% of the value of all transactions. Outward M&A represents only 1.4% of the number and 0% of the value. In our conclusion, we explain this relatively low activity in M&A in the Retail Sector with a couple of potential factors from the economic, social and political arena.

Key words: Retail sector, mergers & acquisitions, globalization, liberalization, multi-brand retailing, GDP

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Introduction

Retail sector in India is the second largest employer after agriculture. Although the sector is highly fragmented, retail trade in the country has mushroomed in the past decade, mainly on account of gradual increase in the disposable incomes of the middle and upper middle class households. The growing wealth with the middle-class in India, the population size and the big percentage of population being in 30's make immense possibility for entrepreneurial growth in the retail sector. The Indian Retail Sector has all the factors to be a very attractive market, especially market size and growth. India is the second largest world in the country with an estimated population of 1.2 bil. people³ as of July 2012, with the fourth largest GDP in the world as of 2010,⁴ and a retail market of 15'500 bil. RS as of 2011, this market has a considerable size. The Indian economy is forecasted to grow faster than the world's average GDP and to be one of the fastest growing of the world (Economist, 2012), so its retail sector should be attracting many players to enter it (Euromonitor, 2012). The IMD World Competitiveness study puts India at the 21st rank in terms of economic performance in 2012 (IMD World Competitiveness Database, 2012).

In this paper, we first take a look at the general Foreign Direct Investment (FDI) into and from India as well as its international inward and outward Mergers & Acquisitions (M&A) activity. We will then explore M&A in the Indian Retail Sector and compare it with the general M&A trends. In our conclusion, we will offer potential factors for explaining differences that could be noticed and might be worth further research.

Outward and Inward Foreign Direct Investment and Mergers & Acquisitions in India

Mergers & Acquisitions (M&A) represent the majority of Foreign Direct Investment (FDI). With regards to inwards FDI into India, investment worth 163 bil. USD⁵ have been made from 2004 to 2010 (see Figure 1). Whereas the known value of acquisitions by foreign companies in India during the same time period are worth more than 103 bil.USD (see Figure 2). Hence, M&A make up over 63% of the inward FDI. During the same years, Indian companies invested 87 bil. USD⁶ abroad as outward FDI. Indian companies made acquisitions abroad worth 57 bil. USD (see Figure 3) which accounts for two thirds of all outward FDI.

³ Source: CIA Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/in.html>, retrieved on January 03, 2012.

⁴ Own analysis based on OECD Factbook 2011-2012, http://www.oecd-ilibrary.org/economics/oecd-factbook-2011-2012_factbook-2011-en, retrieved on January 04, 2012.

⁵ Source: OECD, <http://stats.oecd.org/>, retrieved on January 03, 2012.

⁶ Source: OECD, <http://stats.oecd.org/>, retrieved on January 03, 2012.

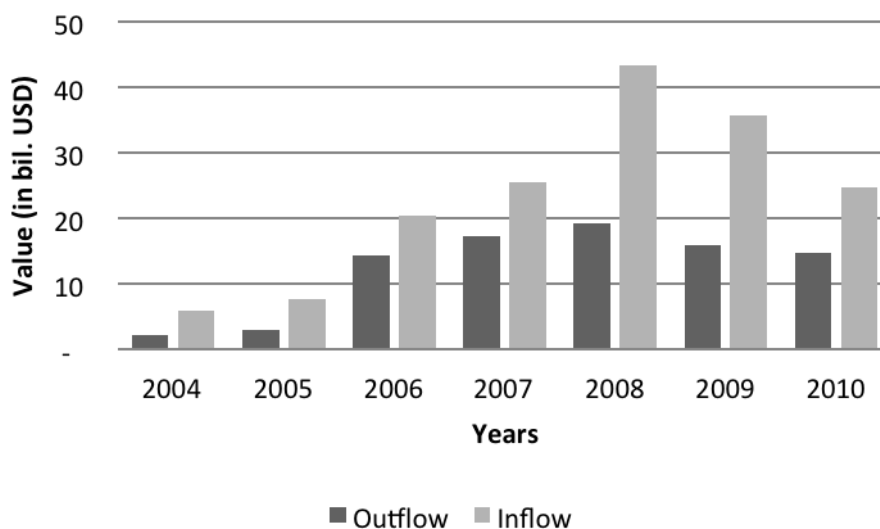


Figure 1: Indian Foreign Direct Investment Out- and Inflows, 2004-2010⁷

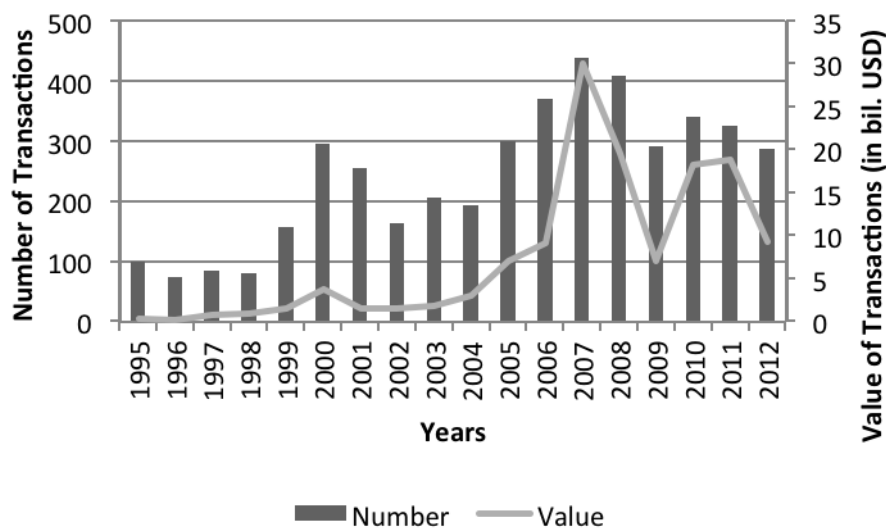


Figure 2: Foreign Mergers & Acquisitions in India, 1995-2012⁸

⁷ Based on data from OECD, <http://stats.oecd.org/>, retrieved on January 03, 2012.

⁸ Source: Thomson Financial, own analysis.

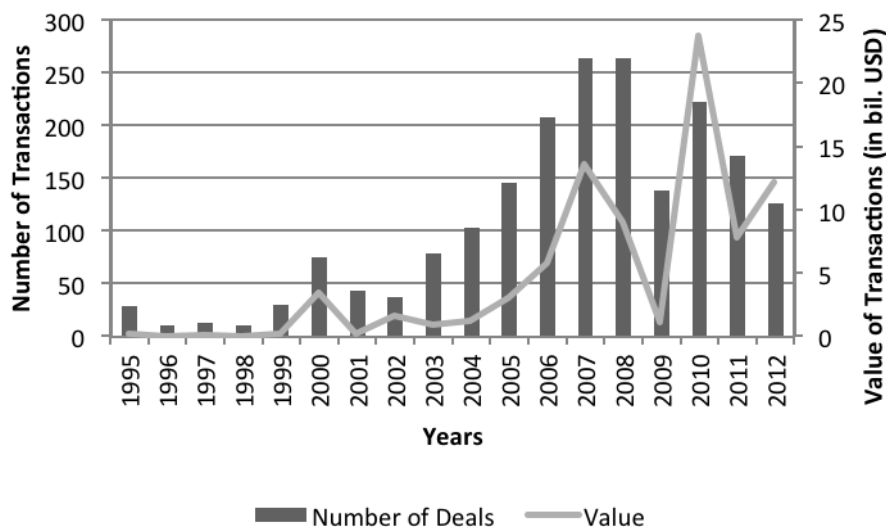


Figure 3: Indian Mergers & Acquisitions Abroad, 1995-2012⁹

Foreign Direct Investment and Mergers & Acquisitions in the Indian Retail Sector

While M&A by foreign companies into India and by Indian companies abroad have experienced a lot of growth over the past couple of years, inbound foreign direct investment in the form of M&A by foreign companies into the Indian retail sector is limited. From 1995 to 2012, there have been 77 acquisitions worth 0.9bil. USD (see Figure 4) which represents 1.8% of the number all foreign M&A into India and 0.6% of their value.

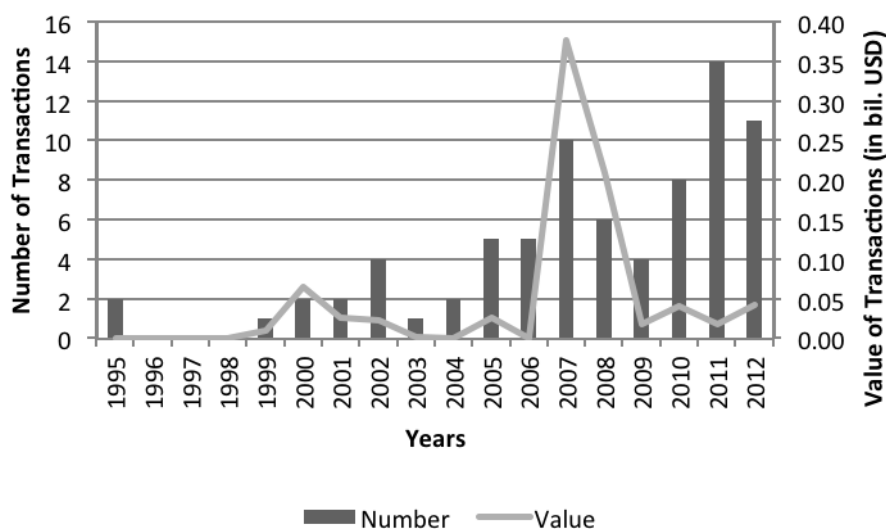


Figure 4: Foreign Mergers & Acquisitions in the Indian Retail Sector, 1995-2012¹⁰

⁹ Source: Thomson Financial, own analysis.

¹⁰ Source: Thomson Financial, own analysis.

Rank	Target	Acquiror	Acquiror Nation	Value (in mil. USD)
1	Reid & Taylor(India)Ltd	IndivestPte Ltd	Singapore	210
2	Sharekhan Ltd	Citi Venture Capital Intl	United Kingdom	175
3	Barista Coffee Co Ltd	Luigi LavazzaSpA	Italy	50
4	Escorts Yamaha Ltd	Yamaha Motor Co Ltd	Japan	46
5	Monte Carlo Fashions Ltd	Samara Capital Management Ltd	Mauritius	32

Table 1: Largest Foreign Mergers & Acquisitions in the Indian Retail Sector, 1995-2012¹¹

Also Indian companies have completed many acquisitions abroad. In the retail sector however, Indian acquisitions abroad are almost inexistent. From 1995 to 2012, there have been 28 acquisitions worth 0.3 bil. USD (see Figure 5) which represents 1.4% of the number all Indian M&A abroad and 0.4% of their value.

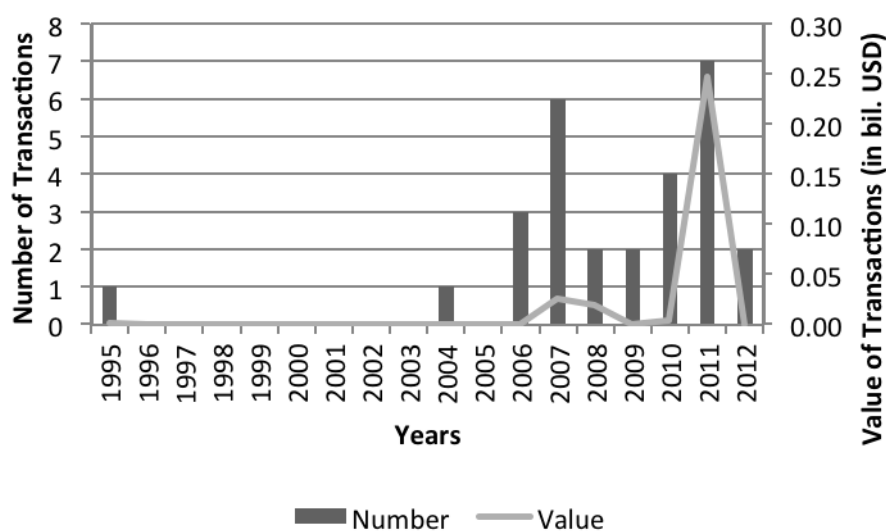


Figure 5: Indian Mergers & Acquisitions in the Retail Sector Abroad, 1995-2012¹²

¹¹ Source: Thomson Financial, own analysis.

¹² Source: Thomson Financial, own analysis.

Rank	Target Company	Target Nation	Acquiror	Value (in mil. USD)
1	Undisclosed Jewellery Retail	Italy	ShreeGaneshJewellery House	215
2	Undisclosed Jewellery Retail	UtdArabEm	ShreeGaneshJewellery House	33
3	CIS Retail PharmacySubsidiary	RussianFed	Plethico Pharmaceuticals Ltd	20
4	York Transport Equipment (Asia) Pte	Singapore	TRF Ltd	26
5	Cookie Man Pty Ltd	Australia	NAIHAA Retail Pvt Ltd	2

Table 2: Largest Indian Mergers & Acquisitions in the Retail Sector Abroad, 1995-2012¹³

In Table 3, the ratios of inward and outward M&A of the Retail Sector to total Mergers & Acquisitions are listed for BRICS (Brazil, Russia, India, China and South Africa) and some selected developed countries, i.e. United States, United Kingdom and Germany. When comparing these numbers, one can see that in terms of outward M&A India comes last in terms of value and next to last in terms of numbers. While in terms of inward M&A, India comes last in terms of numbers and value. Given the market size and future outlook of Indian retailing, this looks like a relatively low number of M&A transactions in this industry.

Country	Outward M&A		Inward M&A	
	Number	Value	Number	Value
Brazil	0.9%	0.1%	4.0%	3.8%
Russia	4.0%	3.8%	4.6%	2.4%
India	1.4%	0.0%	1.8%	0.6%
China	2.0%	0.7%	3.7%	2.5%
South Africa	3.0%	3.5%	2.7%	7.0%
United States	2.5%	3.1%	3.0%	1.6%
United Kingdom	3.5%	3.6%	3.7%	2.1%
Germany	3.6%	1.2%	3.2%	1.2%

Table 3: Ratio of Inwards and Outwards Mergers & Acquisitions of Retail Sector to Total Mergers & Acquisitions of Selected Countries¹⁴

Conclusion

Given the market attractiveness of the Indian Retail Sector, this industry should attract a lot of Foreign Direct Investment (FDI) also in the form of Mergers & Acquisitions (M&A). Taking into consideration the size of the country and this industry, we would also expect Indian

¹³ Source: Thomson Financial, own analysis.

¹⁴ Source: Thomson Financial, own analysis.

companies to play an international role in making investments and M&A abroad. As our analysis has shown this is not the case however. So what might be factors that explain the relatively low activity in M&A in the Retail Sector with a couple of potential factors from the economic, social and political arena.

Why are not more foreign retail companies expanding by M&A into the Indian market? First of all, there are still some legal entry barriers to the foreign ownership of Indian retail companies. Legislation to open up for more FDI has been partially revised in 2011 although first a complete opening up was considered (The Economist, 2011a, 2011b, 2011c). These changes might not be considered as sufficient by foreign companies. Second, there are not enough Indian retail companies of a sufficient size available up for sale or in existence to be acquired. Most foreign companies when considering as a strategic acquirer to expand by M&A favor to buy companies of a certain size so that the exercise of going through a transaction is worthwhile bringing a significant market share either as a good platform to grow (buy and build approach) or to play a major role in a national consolidation.

There are also a couple of potential explanations why Indian retailers do not expand abroad by Mergers & Acquisitions. The nature of demand as an influencing factor of competitiveness (Porter, 1990) in the Indian retail sector does not necessarily give Indian companies a competitive edge to bring abroad. Shopping behaviors in the past have not supported the development of internationally competitive players so far, but current trends suggest changes in customers' behavior (Euromonitor, 2012). The capabilities (Wernerfelt, 1984, 1995) by Indian retail companies do not really allow them to bring a distinct advantage to foreign markets. Compared to other international players, the Indian retail companies are rather small and the home market is very fragmented.¹⁵

However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organized retailing in India has been much slower as compared to the rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the ongoing wave of incessant liberalization & globalization stems from the absence of an FDI encouraging policy in Indian retail sector. With the latest move of the Indian government in December 2012, to open 100% of FDI in multi-brand retailing, things should pick up and should open doors to firm such as Wal-Mart, Tesco Plc, Carrefour SA etc. The future prospects of Indian retail looks exciting and challenging at the same time.

¹⁵ 2.4% of the retail value in 2011 could be attributed to 15 retail companies while 97.6% are determined by other companies, with the largest retailer Titan Industries Ltd. having a share of 1.3% (Euromonitor, 2012).

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