

Outbound M and A deals may come down in 2008

Availability of finance and the changing economic scenario globally may see a drop in overseas acquisitions by Indian companies. A deal that was possible in 2007 may not be considered so this year owing to the changed economic environment - inflation, increasing interest costs and others, according to a leading business consultant firm.

The drop will be evident in sectors like pharma, auto components, supply chain and information technology (IT) space as the companies resort for outbound mergers and acquisitions (M and A) to gain customers and grow fast, said Jayesh Desai, national director, Ernst and amp; Young Pvt Ltd, here Friday.

Addressing the two-day India Finance Forum seminar, organised by the Confederation of Indian Industry (CII), here, Desai said securing their supply chain, control of natural resources (ONGC buying oil assets overseas), fast ramping up of their scale of operations (Tata Steel buying Corus), and getting technology (Tata Motors buying Jaguar and Landrover) are the major reasons for Indian companies going in for outbound M and As.

According to estimates, the total value of global merger and acquisition (M and A) deals in 2007 was around \$70 billion and India's share in that is 2 per cent.

While the outbound deals like those mentioned earlier and inbound deals like Vodafone buying out Hutch, and Holcim investing in Gujarat Ambuja are mega-sized ones, over 150 M and A deals were of mid-market size, Desai remarked.

He said the drop in M and A activity will be more perceptible in the mid-market level deals as the companies will be facing pressure on profits and cash flow.

According to him, foreign companies are interested in acquiring Indian companies so as to be part of the India growth story. Besides, there is a pressure on them to be in the Brazil, Russia, India and China (BRIC) countries.

'But the growth story should be supported by credible numbers to attract serious investors as data like low per capita consumption and others are overused cliches.'

Listing out the reasons for the promoters of Indian companies willing to cash out their stakes, Desai said: 'Nowadays, Indian promoters are analyzing their business portfolios continually and are willing to exit at right values. Further domestic companies are constricted to grow beyond a size for want of appropriate technology.'

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