Indian Investments in Germany: A Win-Win Proposition

Engagement of Indian multinationals in Germany continued to remain high since the publication of the last Annual Report of IGCC. At May end 2012, 204 subsidiaries of firms headquartered in India were active in Germany, up from 195 reported in the previous edition. Indian firms continue to display a preference for acquisitions in Germany, defending India's position as "the" leading emerging market investor there.

Introduction

The flow of outward foreign direct investments (FDI) by Indian companies has continued to remain stable despite economic slowdown in the recent past. According to official figures released by Reserve Bank of India (RBI) Indian firms invested close to $10 billion in their overseas ventures within the period of June 2011 and June 2012. Correspondingly, India's overseas FDI assets rose from $104 billion to $114 billion as per official data on the international investment position of India. Parts of these outflows have also tended to reach German shores. A recent study by Hamburg University of Technology (TUHH) shows that the number of subsidiaries of Indian firms increased from 195 in August 2011 to 204 in May 2012. This development shows that – away from public limelight in the absence of any large-scale, eye-catching investment – Germany has continued to enjoy a key position in the international strategy of many Indian firms engaged in international expansion.

India's Role amongst Asian Investors in Germany

According to official data released by German central bank, the Bundesbank, India is one of the key emerging market investors from Asia, while the two largest investors are Japan and South Korea. Table 1 shows the developments in inward FDI from Asian economies to Germany.

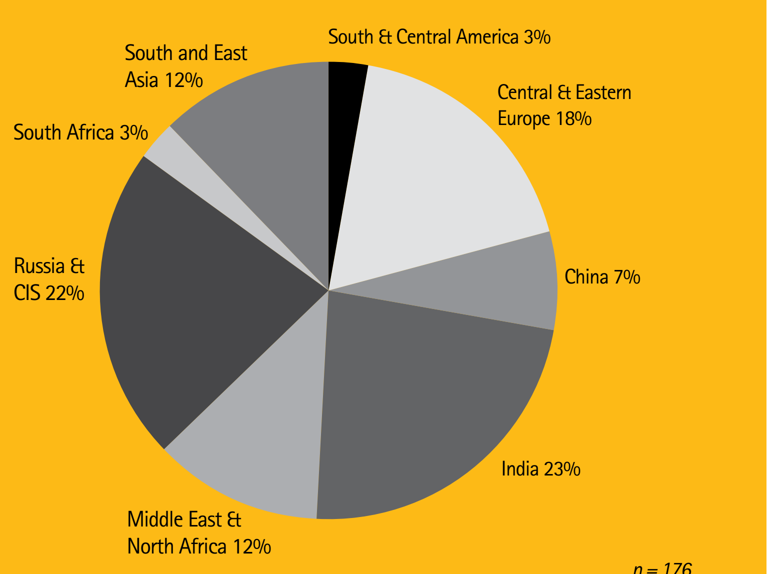
Table 1

Asian investments in Germany, based on Bundesbank data (2012)

	2007				2010			
Country /Region	FDI (million €)	Firms	Employees	Sales (billion €)	FDI (million €)	Firms	Employees	Sales (billion €)
Malaysia	44	5	–	–	490	19	2,000	0.6
Taiwan	63	19	1,000	0.3	84	17	–	0.2
Hong Kong	96	33	3,000	1.0	206	27	2,000	1.0
India	234	17	3,000	1.0	297	21	2000	0.4
Singapore	348	28	2,000	0.8	789	33	2,000	1.1
China	444	27	1,000	1.3	829	44	3,000	1.5
Middle East	2,636	86	6,000	3.8	2,981	120	8,000	4.0
South Korea	4,466	35	3,000	18.0	3,991	42	3,000	18.4
Japan	12,449	392	42,000	40.4	15,386	421	49,000	40.2
Asia	20,923	641	60,000	66.6	25,096	745	71,000	66.9

This data set however seems to be problematic. For example, the Bundesbank data puts the FDI stock of Indian firms in Germany at €297 million in 2010. It recognizes 21 firms as being of Indian-origin, with around 2,000 employees and a sales volume of €0.4 billion. As we know, the acquisition of Hamburg-based wind turbine manufacturer Repower by India's Suzlon alone carried a price tag in the range of $2.0 billion. Repower employs more than 1,000 employees and generates sales worth more than €1 billion. The official data therefore does not seem to be able to capture the true source of investment/acquisition by firms in a globalized world, where firms use complicated finance optimization tools to stem an acquisition. Such tools often employ routing of investments via third countries such as Holland, Mauritius or the United Kingdom, which make it difficult for official statistics to capture the ground reality. Therefore, it might be useful to take a second look at this picture.

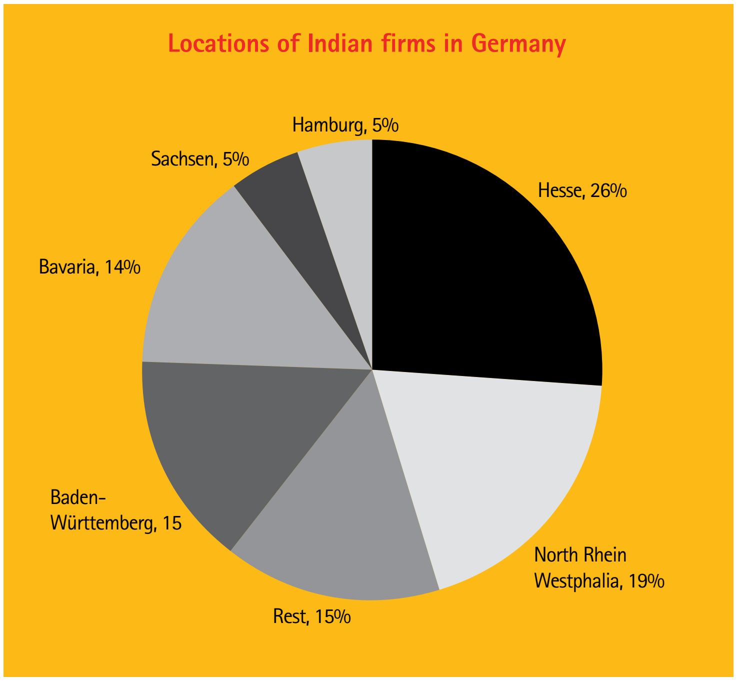
Acquisition of German firms by emerging country investors (2005-2011)



The second source of useful information is the Emerging Markets International Acquisition Tracker (EMIAT) published by consultancy firm KPMG. According to EMIAT published in April 2012, which covers the period between 2005 and 2011, India was one of the key sources of investments/acquisitions in Germany and topped the list of all emerging market nations in terms of the number of transactions in Germany. Out of 176 acquisitions in Germany which were carried out by an emerging market investor, nearly one-fourth were from India

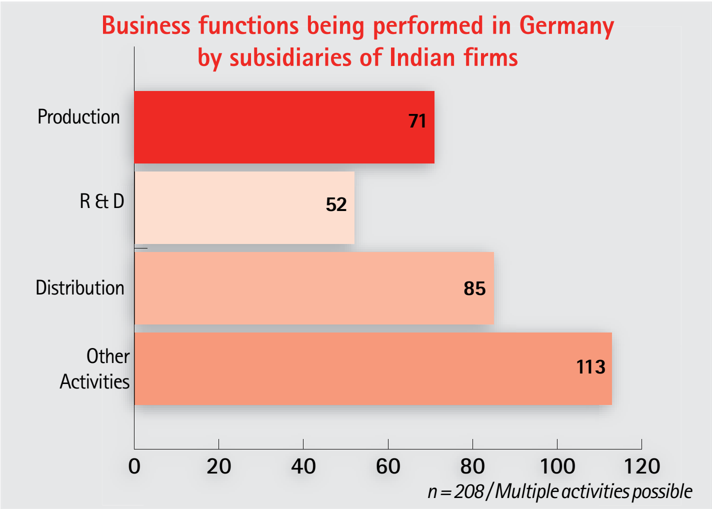
Recent Developments in Indian FDI in Germany

A TUHH study carried under supervision of this author discovered that at May-end 2012 there were 204 firms active in Germany, which can be classified as subsidiaries of firms headquartered in India. While 134 firms were registered as independent legal entities, 54 firms were dependent entities operating under the ambit of the former. The legal status of the rest could not be established. Two firms were faced with bankruptcy proceedings. The period also witnessed 4 other firms shut down their operations. Thus, for the period as a whole the number of firms can be regarded as 208.



With 73 firms Information Technology (IT) held a share of 35% and continued to lead Indian FDI in Germany. Nevertheless, the IT sector has seen its relative share decrease by close to 15% in the previous 4-5 years whereas the absolute number of firms active in that sector has gone up. This shows that the composition of Indian FDI in Germany is increasingly divergent and the FDI projects are being undertaken by firms from various sectors. The second most import investing sector is the automotive industry, which accounted for 41 firms (20%), followed by consultancy firms (9%), pharmaceuticals (7%) and wind energy (7%). As the figure here reveals, the state of Hesse, home to the national bourse (DAX) and international airport at Frankfurt, continued to remain a preferred location for many Indian firms, especially from the IT sector. Other preferred locations were North-Rhein Westphalia (NRW), Baden Württemberg and Bavaria. Two other major players are the state of Saxony and the Free and Hanseatic City of Hamburg. The 5 Eastern German states, excluding Berlin, stood at a little more than 9%, primarily on account of Saxony.

About one-third of the companies (34%) had local production operations, while 41% had established distribution operations. One-fourth of all companies also had set up research and development (R&D) operations in Germany. About 9% of all firms had comprehensive operations that included all of these three primary functions. The largest category was however classified as "other activities" since many firms had set up liaison facilities that acted as front office or performed on-site operations at customers' facilities. This category was also used when no explicit official information could be obtained about the nature of activities.



R&D activities were concentrated in sectors like IT, Automotive and Wind Energy. Sectors such as Pharmaceuticals & Biotechnology, Machinery & Parts, and Electricals & Electronics were also engaged in R&D activities as defined by the Frascatti Manual of the Organization for Economic Co-Operation and Development (OECD). Geographic distribution of R&D performing firms by and large remained along the same lines as the overall presence of Indian firms in the various Bundesländer (federal states).

Table 2

Developments in Indian FDI in Germany

Key indicators	Aug. 2011	Sept. 2012
No. of Indian MNCs in Germany	139	143
No. of subsidiaries of Indian MNCs in Germany	195	204
Full time regular employees of Indian MNCs in Germany*	22,000	22,500
Estimated stock of Indian FDI in Germany	€4.5 billion	€4.7 billion

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

A German proverb says "totgesagte leben länger", which may be translated as "those declared dead early, tend to have a long life". In the same way, wind turbine maker Suzlon's engagement with REpower in Hamburg, continued to prosper in the previous year. In late 2011, Suzlon moved swiftly to acquire a 100% stake in REpower by "squeezing-out" minority stakeholders that had continued to control nearly 4.8% of Suzlon at that time. Suzlon paid €142.77 per share. In March 2012, German business daily "Financial Times Deutschland" reported that the Indian parent of REpower is in the process of selling away its daughter concern owing to liquidity issues. The report was however rejected by Suzlon as "speculation" and at least as of end-September 2012 there is no sign of any separation.

Table 3

Top-5 Indian employers in Germany

No.	German Firm	Indian Stakeholder	Employees
1	SMP Deutschland GmbH	Samvardhana Motherson Group	3,738
2	Novelis Deutschland GmbH	Hindalco (Aditya Birla Group)	2,201
3	SONA BLW Präzisionsschmiede GmbH	Sona Group	1,385
4	REpower Systems SE	Suzlon Energy Ltd	1,287
5	Corus Deutschland GmbH	Tata Steel	1,166

Source: Compilation based on companies' last available official annual reports

Performance of Indian firms in Germany

For the purpose of this study, annual reports of 78 legally independent, Indian-owned firms for fiscal year 2010-11, or the last available year, were analyzed. The selection criterion was the public availability of the reports. The data availability was limited especially as not all firms provided comprehensive data. For 41 firms the turn-over for the respective last fiscal year could be obtained, which showed that these firms had had a turn-over of close to €6.3 billion. The largest firms in this respect were Novelis Deutschland and Repower Systems. The analysis of the complete dataset showed that 46 firms (59%) had been able to register a profit before taxes, whereas 26 firms (33%) reported a loss for that year. The rest had a no-profit/no-loss year behind them. The cumulative profits amounted €155 million, whereas the cumulative losses stood at €39 million, thus indicating a net positive balance for Indian firms that year.

Summary

Summarizing, it may be stated that Indian companies continue to display an uninterrupted preference for Germany as an "investment destination of choice". Even when no large-scale investment deals are announced, the trickling of FDI towards Germany is kept at a sustained level. The reason for this may be found in the growing bilateral economic relations & trade, and in India's penchant for made-in-Germany products and technologies. Indian companies seem to perform reasonably well in Germany, even though not all of them succeed outright. Indian firms would do well to factor in differing working cultures and socio-economic conditions in their management plans for Germany, which otherwise may cause some irritants in the business. There is a clear need for developing a thorough understanding not only of the market but also of the social/cultural aspects of life in Germany.

Overall, there is every reason to believe that Indian FDI in Germany is a win-win proposition and is set to not only continue but even gain momentum in foreseeable future due to market growth in India and strong fundamentals in Germany.

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About the author

Diplom-Kaufmann Rajnish Tiwari is a Research Associate at the Institute for Technology and Innovation Management at Hamburg University of Technology (TUHH). He has done extensive research on Indo-German business relations especially in the knowledge-intensive field of innovation collaboration. Additionally, he heads the German-Indian Round Table (GIRT) in Hamburg and is one of the founding partners of the initiative "India Week Hamburg" which was started in 2007. This article has benefitted from research assistance rendered by Christian Steichert, studying at TUHH.