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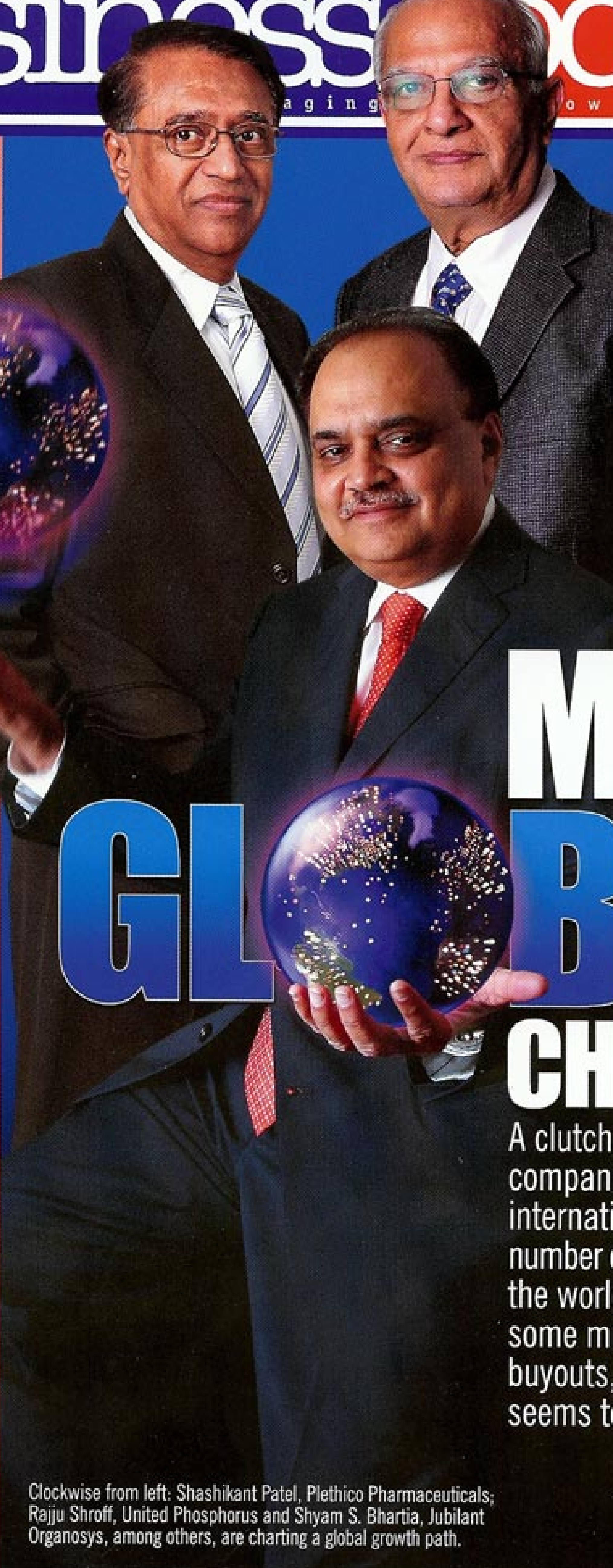
PLUS UNRAVELLING THE SATYAM FRAUD

## Microsoft's Strategic Shift

The software giant is looking for a fortune at the bottom of the pyramid in India. Pg 66



# INDIA's MINI GLOBAL CHAMPS

A clutch of smaller Indian companies has gone international by making a number of small acquisitions the world over. And unlike some multi-billion dollar buyouts, their strategy seems to be working. Pg 46

Clockwise from left: Shashikant Patel, Plethico Pharmaceuticals; Rajju Shroff, United Phosphorus and Shyam S. Bhartia, Jubilant Organosys, among others, are charting a global growth path.

## India's Henry Ford?

Ratan Tata wants to make the Nano India's—and Bharat's—car. Pg 60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Opportunities missed aren't opportunities lost. Pg 84

## Anil Ambani's Telecom Dream

He's in hot pursuit of leader Bharti Airtel. Pg 80

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# From The Editor

IT'S THE BASIC LAW OF NATURE: BIG EVENTS IMPACT BIG entities more. So, a storm is more likely to damage a tree than a plant. Yet, a fundamental irony guides public perception. The consequences of big events are disproportionately judged by their impact solely on big institutions. For instance, if the current economic crisis—which is the mother of all big events—has severely impacted the Tatas, the Birlas and the Ambanis, it must have crippled smaller businesses even more. This stands to reason. But everything that sounds reasonable is not always true.

*Business Today* had recently profiled a few winners in the current downturn (issue dated March 22, 2009). Discerning readers would have noticed a fair representation of small companies in that list. Obviously, a large number of small companies have been able to brave the slowdown better than their bigger counterparts. And since success in today's business isn't limited to a particular geography, many small companies aren't just doing well in India but abroad, too. They are acquiring businesses in the US and Europe and integrating them successfully—more successfully than some multi-billion dollar acquisitions done by large Indian companies. These are India's global champs that the world knows little of. Their stories are inspirational and instructive, for they can teach the big companies a thing or two about how to make and manage global acquisitions. Our cover story (pg 46 to 58) provides the details.


Our Special for this issue (*Shortfalls as Opportunities*, pg 84-95) could make you wonder if we are being optimistic to a fault. At a time when the UPA government is leaving behind a trail of deficit in every infrastructure sector, we have decided to concentrate on opportunities. The reason is simple. When it comes to infrastructure, the opportunities missed aren't always opportunities lost. Infrastructure is one area where demand still far outstrips supply—the current downturn notwithstanding. We provide a snapshot of what investment avenues are most immediately open in five key areas.

Opportunities are something the world's biggest software company, Microsoft, too, is scouting for in India. Having lived for almost two decades as a company whose revenue base is disproportionately lower than its customer-base (about 90 per cent of its software used in India is pirated), the company is finally reworking its business strategy. We outline it on page 66. For most businesses, elections come like a long pause when only business-as-usual goes on. There is one company for which elections do exactly the opposite—they end a five-year pause and pump up the business. Turn to page 150 for details.

Rohit Saran

ROHIT SARAN

business today

Vol. 18, No. 8, April 19, 2009



## TRENDS



## CURRENT



## COVER STORY



Cover by Kapil, Photographs by Shekhar Ghosh, Umesh Goswami and Rachit Goswami

## FEATURES



# INDIA'S MINI GLOBAL CHAMPS

A clutch of smaller Indian companies has gone international by making a number of small acquisitions the world over. The best part: They seem to be working, unlike some multi-billion-dollar buyouts.

VIRENDRA VERMA

In JANUARY 2007, WHEN TATA STEEL ACQUIRED UK STEEL GIANT CORUS FOR $12.2 billion, the transaction heralded India Inc.'s largest ever outbound buyout. The pundits were quick to also label the Tata-Corus deal—and subsequent multi-billion capers such as Hindalco-Novelis, Tata Motors-Jaguar Land Rover and Suzlon-REpower—as a surefire sign that Indian business was finally ready to take on the world.

The pundits weren't wrong. Making acquisitions for size and scale, amongst other objectives like new markets and new products, isn't a bad reason to plant your flag in outposts across the globe. The only problem: Big acquisitions take longer to digest—and the process gets even more difficult when global economies slip into a downturn. Suddenly, these overseas conquests appear like reckless adventures, as demand conditions turn soft and debt suddenly jumps out of the books to rudely remind promoters of the perils of putting cash where often the investment bankers' mouth was.

Now cut to a company like the over Rs 3,500-crore agrochemicals firm United Phosphorus Ltd (UPL). It hasn't made any billion-dollar deals, but the 26 acquisitions (including products) it has pulled off since 1994—a decade in which going global was considered extreme rather than the norm—would easily cross that number. UPL is unlikely to figure in consultants' case studies of big-bang acquisitions. But consider what UPL has achieved: A global footprint that covers 23 countries (which in turn allows it to address customers in 86 countries), a broad range of operations that includes agrochemicals, seeds and biotechnology and significant entry barriers in countries that it has entered. And yes, most of its buyouts are working well. Reason? UPL doesn't wait for more than three years for them to yield results. They usually do.

Like UPL, a host of Indian companies have over the years made sub-billion-dollar acquisitions that have begun yielding benefits that go beyond size and scale. A few have found assured supplies of raw materials, some have been able to lay their hands on high-end talent, and others have been able to ride on new opportunities that would have taken years to start from scratch.

Many of these companies operating in niche areas have gone on to become world leaders in their respective areas via the buyout route. Rain Commodities, for instance, has become the world's largest maker of calcined petroleum coke, a raw material that's needed to make aluminium and titanium dioxide.

The companies *BT* has looked at have made acquisitions in the $10 million-$600 million range. The smaller ticket sizes have ensured that they haven't burnt holes in their balance sheets. However, many of these firms have used foreign currency convertible bonds (FCCBs) to fund their buyouts and a few of them will be challenged at conversion time if the stock markets continue to stay bearish.

Yet, there's little doubt that most of our mini-champs are on the right track. *BT* profiles 10 of them. The lesson to be learnt is clear-cut: Small can be beautiful—and often works better, too.

## BIG TRIGGERS
### FOR SMALL ACQUISITIONS

**It's not just about gaining size and scale.**

**Global footprint:** This doesn't involve setting up countless outposts the world over. Binani Cement, for instance, by acquiring just two strategically-located units, can address a fair share of the globe.

**New opportunities:** By acquiring in the US, pharma packaging firm Bilcare has hit upon a $21-billion market—that's the value of counterfeit drugs sold in the US.

**Broadbase operations:** United Phosphorus' buyout of Dutch seed maker Advanta was triggered by the impact of biotechnology on the agrochemicals sector.

**Cost arbitrage:** Allied Digital acquired a remote infrastructure management firm in the US, with the plan of offshoring projects to India, where professionals are available at a fifth of the price in the US.

**Find raw material sources:** Rain Commodities has found an assured supply of anode-grade petroleum coke after buying out CII Carbon in the US.

**Access high-end talent:** By acquiring companies in the geospatial information sector, Rolta has been able to integrate 400 top-notch consultants from the international firms into its stable.

# Agri Aggressor

**United Phosphorus** has made 26 acquisitions in 15 years—and in most of them it has recovered the investment made in three years.

GOING GLOBAL MAY BE EVERY other promoter's favourite mantra these days, but Rajju Shroff is one entrepreneur who looked overseas way back in the mid-1950s. When India's first industrial policy was announced in 1956, with a focus on self-sustainability, Shroff, then a sprightly 24, set his sights on venturing abroad. He set up a chemicals plant in the UK for his family business. It wasn't until 1969 that Shroff founded agro-chemicals and seeds firm United Phosphorus (UPL). And it wasn't until the early 1990s—when Indian businesses were finally opened up—that Shroff looked outbound again. Since 1994, UPL has made 26 acquisitions—of companies and products.

### THE BUYOUT EDGE

ACQUISITIONS: Advanta BV, the Netherlands (2006); Cerexagri, France (2007); altogether 26 acquisitions over the past 15 years

PRICE TAG: **$500 million**

FINANCING: Internal accruals, debt, equity and FCCB proceeds

BENEFITS DERIVED: Entered seeds business; received regulatory approvals

INTEGRATION ACHIEVED: Partly

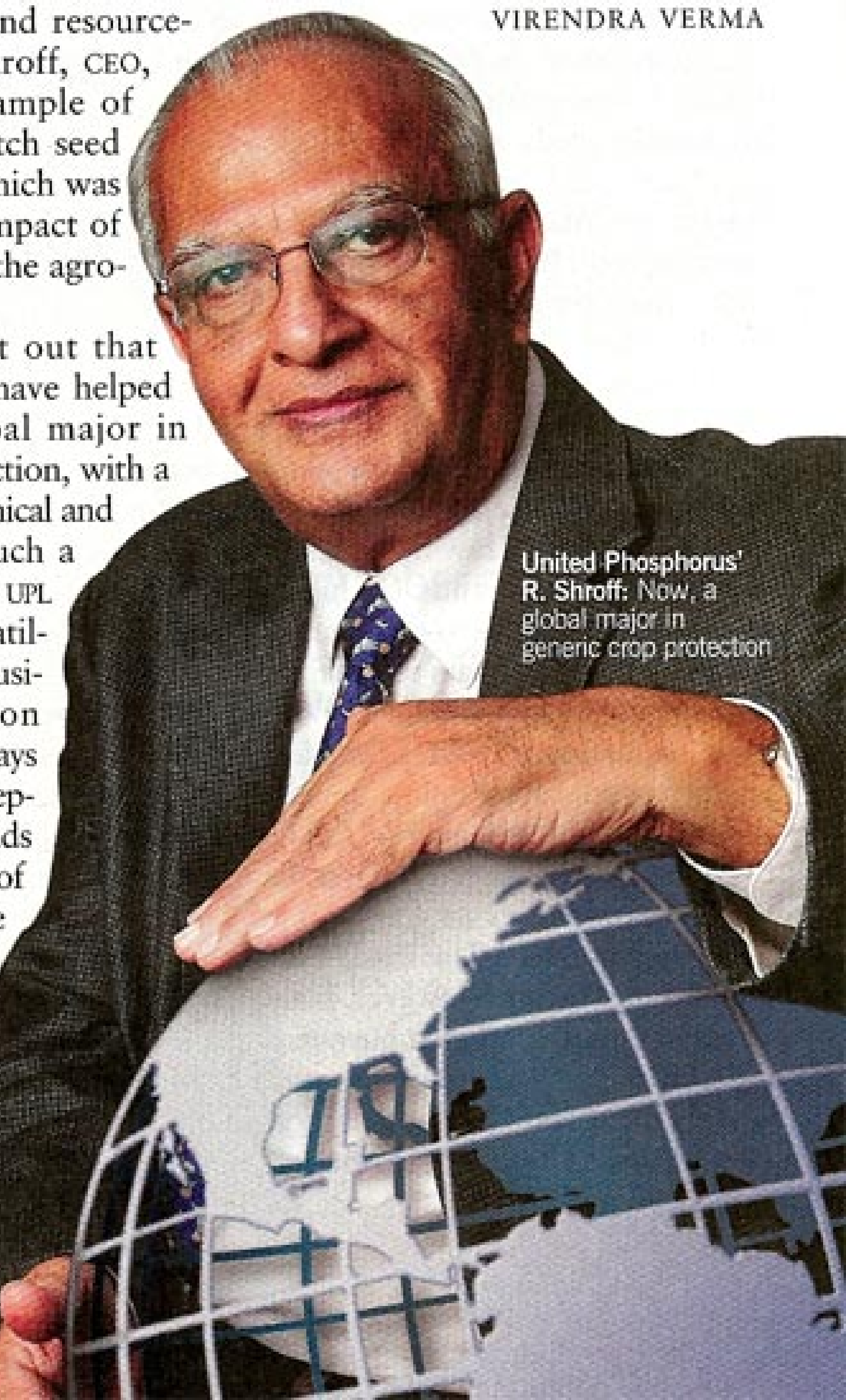
The buyouts have been across the world, right from developed countries like the US, the UK, Japan and France, to developing ones like Argentina and South Africa. "An entry into the US from India is very difficult, but with acquisitions, it is much easier," explains Shroff, Chairman & Managing Director, UPL. Many of UPL's purchases have been from leading global players like Syngenta, Bayer and DuPont.

The common triggers for most of these takeovers were access to geographies and addition of new products to the portfolio. Another key reason has been access to regulatory approvals. Often, an acquisition has helped UPL enter areas where it did not have a presence, and where creating one would have been time- and resource-consuming. Jai Shroff, CEO, UPL, gives the example of the buyout of Dutch seed maker Advanta, which was triggered by the impact of biotechnology on the agro-chemicals sector.

Analysts point out that UPL's acquisitions have helped it become a global major in generic crop protection, with a diversified geographical and crop presence. "Such a diversification helps UPL smoothen the volatility inherent in a business dependent on weather patterns," says a Kotak Securities report. The report adds that UPL's low cost of manufacturing, the significant entry barriers it has built in developed markets, in the form of registrations, and an increasing global footprint are the company's three distinct edges.

UPL's guiding principle when making acquisitions is that the investment needs to be recovered in three years. If it can't, the acquisition does not make sense. Over the past five years, in which UPL has made 16 acquisitions, revenues have increased 4.3 times, to Rs 3,761 crore as of 2007-08. Net profit has jumped 6.7 times to Rs 281 crore. Profitability at its two largest acquisitions, Cerexagri and Advanta, has improved.

VIRENDRA VERMA



United Phosphorus' R. Shroff: Now, a global major in generic crop protection

UMESH GOSWAMI

# It's Raining Cash

Calcined petroleum coke may sound esoteric, but not for **Rain Commodities,** which has emerged as the world's largest producer of this raw material.

IT TOOK JUST ONE ACQUISITION for the Hyderabad-headquartered Rain Commodities Ltd (RCL) to make the move from Asia's largest to become the world's largest player in calcined petroleum coke (CPC). CPC is a critical raw material that is needed to make aluminium and titanium dioxide. In July 2007, RCL bought CII Carbon LLC of the US for $595 million. At a stroke, its market share climbed from 3-4 per cent in the important and organised western market to 14-16 per cent.

"We became four times larger. From a total production capacity of just 0.6 million metric tonnes per annum, we reached over 2.4 million metric tonnes with this acquisition," says T. Srinivasa Rao, Vice President (Finance), RCL.

The game-changing nature of this acquisition is evident in RCL's top-line itself—roughly half of its total consolidated revenues of Rs 4,561 crore in 2008 came from the US company. "It has added to the top-line, bottom line and we have become a stable player because of this," says Rao. On annualised basis—the company changed its accounting year from April-March to January-December in 2008—net profit on a consolidated basis was up almost four times to Rs 404 crore in 2008 from Rs 104 crore a year ago.

RCL financed the acquisition via loans from Citibank and ICICI Bank. The loans are repayable by 2014-15, giving the company enough headroom to generate cash flows. In 2008, RCL generated Rs 510 crore in cash after tax and expects to maintain a similar trend in 2009. Out of a total long-term loan of $535 million (the balance in the $595 million deal is the equity component of $60 million from the company), it has already paid back $21 million to the lender banks till December 2008. Over the next four years, it will be paying $128 million ($32 million per year) and between 2013 and 2015 the remaining $386 million.

Rao adds that apart from size and scale, another big benefit of the buyout of CII Carbon is the synergy being derived, which has resulted in savings of "millions of dollars". What's more, RCL has been able to secure an assured supply of the raw material—anode grade green petroleum coke—which was in short supply at the time of acquisition. The other benefits include long-term relationships with CII Carbon's suppliers as well as a diversified customer base that is spread across the western world.

The acquisition also brings to the table CII Carbon's proprietary technical know-how, which is being used to optimise the performance of RCL's India operations. For instance, one of its technologies has helped reduce fuel consumption in the kilns by 50-60 per cent, implying savings of $2 million annually just by using a single technology. This is not a bad going for RCL, which, before the acquisition of CII Carbon, was perhaps better known as a cement manufacturer, with the brand name Priya Cement.

E. KUMAR SHARMA

### THE BUYOUT EDGE

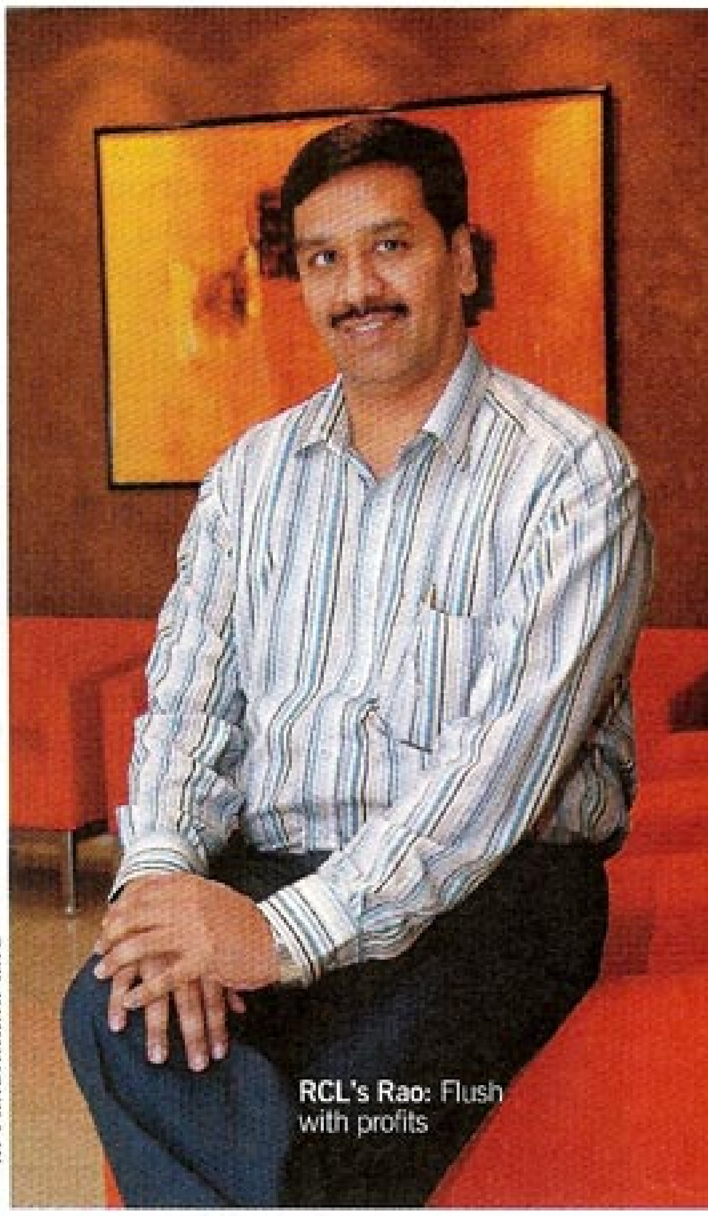
ACQUISITIONS: CII Carbon LLC, US (2007)

PRICE TAG: **$595 million**

FINANCING: Loans from Citibank and ICICI Bank; repayable by 2014-15

BENEFITS DERIVED: Became the world's largest producer of calcined petroleum coke

INTEGRATION ACHIEVED: About 250 new employees; "zero attrition" at the senior level



A. PRABHAKAR RAO

**RCL's Rao:** Flush with profits

# CRAMS Caper

**Jubilant Organosys** is currently in a sea of red, but two acquisitions in North America hold the promise of transforming the company's fortunes over the longer term.

SHEKHAR GHOSH

**Jubilant Organosys' Bhartia:** Helping transform the company's fortunes

MAKING SCIENCE WORK FOR you is Jubilant Organosys' corporate slogan. Along with science, acquisitions, too, seem to be working like a charm for this maker of pharmaceutical intermediates. It recently began offering end-to-end integrated global custom research and manufacturing services (CRAMS). The company that began in 1978, producing organic chemicals—it did so till the early 1990s—acquired two companies in West over the past two years—Draxis Specialty in Canada and Hollister-Stier in the US—to flag off its CRAMS focus. Draxis offers products in three categories—sterile, non-sterile and radiopharmaceuticals. Hollister-Stier is a contract manufacturer of sterile injectibles and allergenic extracts (used to diagnose allergies).

"These acquisitions are in line with our strategy to focus on consolidating our global position as one of the leading contract manufacturing players, in the North American market," says Shyam Sunder Bhartia, Chairman and Managing Director, Jubilant Organosys. He says with the integration of sterile injectibles business of Draxis and Hollister-Stier, "we have strengthened our contract manufacturing business".

Besides enabling a rapid scale-up, the acquisitions have also helped improve the margin profile of Jubilant. For instance, the Indian management has managed to maintain the 25 per cent operating margins of Hollister-Stier and Draxis, giving the consolidated company operating margins of around 19 per cent.

The US companies have also begun contributing to sales and profits. For the nine months ended December 2008, Hollister-Stier contributed 9 per cent to sales and 10 per cent to operating profits, whilst Draxis brought in 10 per cent of sales and 12 per cent of operating profits.

### THE BUYOUT EDGE

ACQUISITIONS: Draxis Specialty, Canada (2008); Hollister-Stier, US (2007)

PRICE TAG: **$253 million** and **$122 million,** respectively

FINANCING: Foreign currency convertible bonds

BENEFITS DERIVED: Ready-made regulatory approvals

INTEGRATION ACHIEVED: Businesses of the two acquired companies integrated into two verticals

"Jubilant Organosys has emerged as the largest CRAMS player in India through its various organic and inorganic initiatives," says Ajay Parmar, Head (Research), Emkay Global Financial Services. He adds that the pharmaceuticals and life sciences arms of Jubilant—which make up 67 per cent of the company's total portfolio—will grow at a cumulative average rate of 34 per cent in 2009-2011. The acquisitions will clearly be playing their part with Hollister-Stier expected to power ahead by 39 per cent and Draxis by 47 per cent.

Having said that, it hasn't been a great year for Jubilant so far. In the nine months till December, the company plunged headlong into the red, with a loss of Rs 137.53 crore as against a net profit of Rs 342.35 crore a year ago. The loss is courtesy of provisions for exchange rate fluctuations on the foreign currency convertible bonds (FCCBs) Jubilant had raised to fund the acquisitions. The FCCBs come up for conversion in May 2010 and May 2011. However, Jubilant's share price has crashed by 75 per cent from its peak, making it unattractive for bond holders to opt for conversion (assuming the price stays the same or deteriorates further). Jubilant found a way out by buying back the bonds worth $59.4 million with the help of internal accruals and external commercial borrowings.

VIRENDRA VERMA

# Labour Gains

**Sintex** is riding on a cost arbitrage opportunity as it goes about making three buyouts in its core business of specialised plastics.


Sintex's Patel: On a global expansion spree

IN EARLY 2000, WHEN SINTEX Industries made a small international acquisition in textiles, the management discovered that the huge labour-cost arbitrage advantage was working wonders. The Ahmedabad-headquartered company then decided to apply the same formula to its other business of specialised plastics (or composites). "Whatever applies to textiles should apply to composites as both are highly labour-intensive industries," explains Amit Patel, Managing Director, Sintex Industries.

That logic has some merit, what with Sintex's three international acquisitions and two back home in the composites space proving pretty successful. The only exception would be Geiger Technik of Germany in which Sintex picked up a minority stake—this transaction hasn't yet been completed as the German firm has filed for bankruptcy.

However, there's little doubt that the contributions from the other acquisitions have been substantial. Consider this: Till the mid-1990s, Sintex was mainly known for its overhead water tanks. The inorganic growth reflects well in the top-line, with almost a third of the consolidated revenues of Rs 2,200 crore in the first nine months of the current fiscal coming from international operations.

International acquisitions have helped the company in multiple ways. On the labour front, for instance, the company has been able to shave off 9-11 per cent in costs by shifting manufacturing to India—at the overseas locations these costs were in the 36-42 per cent range. Sintex is setting up a new facility in Chennai for Schneider Electric, a client of one of the acquired firms, Nief Plastics of France. The making of composite electrical accessories will be outsourced to this unit, courtesy of the Nief relationship.

Along with high-end customers, Sintex has also got a foothold into sectors it wasn't present in before. With Nief in tow, for instance, Sintex now has a presence in electricals, automotives, aerospace and defence. Other benefits from the buyouts include access to ready technology and extensive distribution networks.

The glow of the overseas acquisitions is also beginning to show on profitability. Operating margins have increased to 12 per cent from 8-9 per cent that prevailed before Sintex bought these operations. "Our objective was to reach 16 per cent operating margin levels by 2009-end, but due to the downtrend in the US, this could not be done," says Patel, referring to the purchase of Wausaukee Composites in the US. No such problems with Nief Pastics, though, what with operating margins expected to hit 12.5 per cent by December 2009, compared with 7.5-8 per cent at the time of acquisition.

The global recession, though, is leaving its mark on Sintex, particularly in the US. Patel doesn't expect the situation to improve before 18 months. But with net profits rising by 55 per cent in the first nine months of the current fiscal and $300 million cash in the bank, Patel has less to worry than most other promoters.

VIRENDRA VERMA

### THE BUYOUT EDGE

ACQUISITIONS: Wausaukee Composites, US (2007); Nief Plastics, France (2007); Nero Plastics (acquired by Wausaukee), US

PRICE TAG: **$20.5 million, $58 million** and **$4.77 million,** respectively

FINANCING: Foreign currency convertible bonds and an equity issue

BENEFITS DERIVED: Low-cost outsourcing from India, access to OEMs for business

INTEGRATION ACHIEVED: Part of manufacturing shifted to India

# Inorganic Prescription

**Plethico Pharma** has used acquisitions to foray into new markets—and into a high-growth area of medicine.

RACHIT GOSWAMI

**Plethico's Patel:** Going for a diversified international presence

TILL NINE YEARS AGO, IT WAS just another manufacturer of price-controlled prescription drugs—anti-TB and anti-malarial—in the Indian market. Then, in 2000, it moved to being a herbal and nutraceutical (medicines made from food extracts) company. In 2003-04, the Mumbai-based Plethico Pharmaceuticals decided to stretch its wings into new geographies, and acquired a 51 per cent stake in Rezlov, Kazakhstan, for around Rs 100 crore. Thus began Plethico's shift from a humble over-the-counter player to a herbal and nutraceutical major with a diversified international presence.

From Kazakhstan, Plethico moved into the US by buying out the Chatsworth (Los Angeles, California)-headquartered Natrol Inc. for $82 million last January, two years after going public. Natrol is a specialist in body-building supplements with a widespread US and Canadian distribution network. Soon after acquiring Natrol, Plethico acquired a 20 per cent stake in Tricon, a Dubai-based retail pharmacy chain for $20 million.

Suddenly, Plethico had emerged as a company with an international footprint. The acquisitions gave the company a foothold in—besides the US—other regulated markets like Europe, Australia, New Zealand, Hong Kong and China. It also now has a presence in the CIS (with Rezlov), Africa, South East Asia, Latin America and the GCC (Gulf Cooperation Council).

"Given this huge scale of operations, it truly makes us a global player. The size of the nutraceuticals market is $200 billion plus and we are aiming to garner a big chunk of it," says Shashikant Patel, Chairman & MD, Plethico Pharmaceuticals.

The Natrol acquisition could prove to be the game-changer. As Sanjay Pai, Chief Financial Officer, Plethico, points outs, there were three big triggers for the transaction. One, it helped Plethico become an international herbal and nutraceutical player with a strong American brand. Two, it can have access to a manufacturing base certified by the US Food & Drug Administration. And, three, Natrol has a huge retail reach with some 55,000 outlets across the US. A presence in the US with Natrol has also given Patel a chance to cross the final frontier—and take a home-grown product, Traisil, herbal lozenges to the US. Plethico may also soon look at transferring production back home to its manufacturing base in Indore in Madhya Pradesh.

Patel reveals that the acquisitions account for 45 per cent of Plethico's consolidated revenues. The company was growing on a standalone basis at an average rate of 40 per cent over the past five years. But, the US acquisition has played a spoiler on the net profit margin, dragging it down from 25 per cent on a standalone basis to 18 per cent on a consolidated basis. However, Patel sees an increase in margins in the medium term, once the integration is truly complete.

Plethico financed the Natrol acquisition with an issue of foreign currency convertible bonds (FCCB) of $75 million. The bonds come up for conversion in October 2012. "To look into and evaluate options for managing the liabilities of the company through various initiatives, such as amending the terms and conditions of the outstanding FCCBs issued or restructuring the FCCBs, we have appointed Jefferies International to advise us to attain the objective," explains Pai.

ANUSHA SUBRAMANIAN

## THE BUYOUT EDGE

ACQUISITIONS: Rezlov, CIS Region (2003-04); Natrol, US (2008); PRICE TAG: **$127 million**

FINANCING: Internal accruals, FCCB proceeds, debt

BENEFITS DERIVED: Gained control over the CIS region. Natrol gave a global reach and Tricon helped get a foothold in retail pharmacy

INTEGRATION ACHIEVED: Plethico believes in letting the acquired companies be run by original promoters

# Right Place for the Right Price

**Bilcare** buys its way into high-growth developed markets for pharmaceutical packaging.

OVER THE PAST THREE YEARS, revenues and net profits of pharmaceutical-packaging firm Bilcare have soared four-fold and three-fold, respectively. That growth has coincided with four acquisitions it made in the US, the UK and Singapore. In 2005, Bilcare plunged into the highly-regulated US market by acquiring the assets of Pro Clinical, a pharmaceutical packaging firm. Close on the heels of this buyout came three more.

Result? Revenues from international operations, in the first nine months of the year ended March 2009, have doubled to 40 per cent from 20 per cent in the year ended March 2007. During this period the companies' revenues have grown 40 per cent, implying that the international portfolio had plenty to do with that growth rate.

"The speed of growth has been because of our strategy of mergers and acquisitions (M&A)," says Vineet Mehrotra, Vice-President (Finance), Bilcare. He adds that the M&A burst helped the company save 12-15 months in getting to market. Like drugs, pharmaceuticals-packaging products also need regulatory approvals, and this exercise can prove time-consuming.

But the triggers for the acquisitions were not just size and time. In the US, for instance, other than Pro Clinical, Bilcare has also acquired International Labs, a packaging-solutions firm, along with MeadWestvaco Corp. The Pune-headquartered company felt it needed to be present in the US because of the sheer opportunity that exists in that market. That's because 7-8 per cent of the drugs sold in the US are counterfeit, and one way to reduce that number is with better packaging. The US pharma industry is estimated to be as large as $300 billion, so the addressable market in terms of just counterfeit drugs is a mind-boggling $21 billion.

Bilcare has consciously looked to make small buyouts—the largest purchase so far has been for $15 million, of Singular ID in Singapore, a provider of technology for anti-counterfeiting and brand-security products and services—and then proceed to grow them organically.

Bilcare has realised the importance of promoting interaction between the four firms acquired rather than allowing them to work in silos. Just one example: A lot of the research & development activity is shared between the various businesses.

Despite acquisitions in high-cost centres, Bilcare has no plans to shift them to India. Reason: Locational advantages, logistics, and being close to the customer. Singular ID in Singapore, for instance, is very close to the Changi airport, enabling clients to visit the site while in transit rather than make special visits. Then, the port facilities in Singapore, too, are top-notch—it takes just 30-35 days for a shipment to reach any part of the world, compared to 65 days from India. Throw in a 10-year-tax holiday, and a Singapore buyout is indeed a compelling proposition.

VIRENDRA VERMA

### THE BUYOUT EDGE

ACQUISITIONS: Pro Clinical, US (2005); DHP Ltd., UK (2006); Singular ID, Singapore (2007); International Labs, US (2008)

PRICE TAG: **$35 million.**

FINANCING: Internal accruals and FCCB proceeds

BENEFITS DERIVED: Access to technology and regulatory approvals like the USFDA's

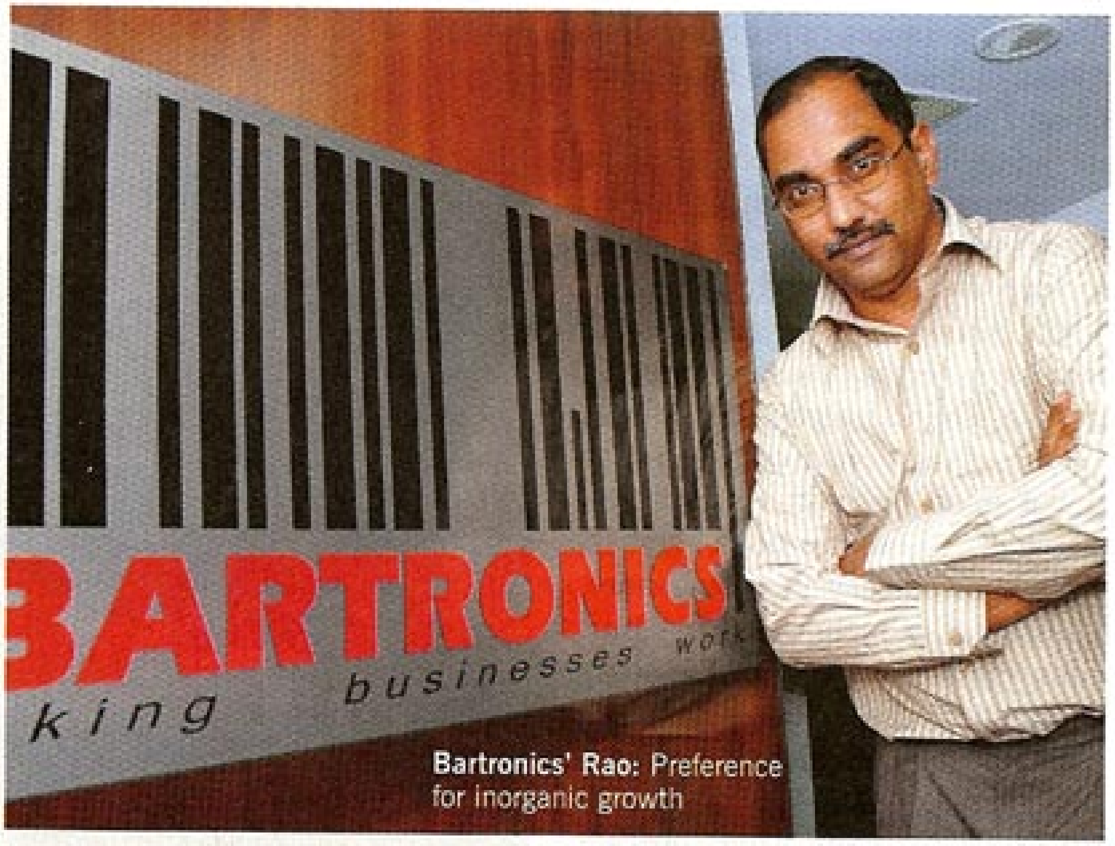
INTEGRATION ACHIEVED: Sharing of technology and development of packaging products

RACHIT GOSWAMI

**Bilcare's Mehrotra:** On the lookout for small buyouts

# Raising the Bar

**Overseas acquisitions have helped Bartronics scale up from being a local player to one that's bagging bigger-ticket international projects.**




Bartronics' Rao: Preference for inorganic growth

A. PRABHAKAR RAO

WHAT'S COMMON TO SECtors like healthcare, leisure & entertainment, transportation and the government? Answer: They're all perceived to be less-prone to recession than most other industries. So, when you are present in these sectors—and, that too, in the US where the R-word is on almost every lip—you have to be in a relatively sweet spot. As far as Bartronics India—a domestic major in radio frequency identification (RFID) technology, bar-coding and smart cards—is concerned, the US is still a land of plenty.

Propelling Bartronics into another league are two acquisitions made in January 2008 in the US for $50 million, of Proximities Inc. and Software Research Group (SRG) America Inc. These were joint buyouts as one would make little sense without the other, explains Sudhir Rao, Managing Director, Bartronics India. That's because Proximities Inc. is a pure-play technology company that has patents in RFID an area in which Bartronics is a dominant player in India, while SRG America Inc. is a pure-play software development company that is 10 years old and came with some 15 live customers in the key recession-proof sectors mentioned earlier. In leisure & entertainment, for instance, its customers include Disneyland and NASCAR (auto racing). Bartronics is one of the vendors involved in doing a pilot project for a cashless payment transaction system using RFID wristbands.

### THE BUYOUT EDGE

ACQUISITIONS: Proximities Inc. and Software Research Group America Inc. (2008)

PRICE TAG: Roughly **$50 million**

FINANCING: FCCB issue in Jan. 2008, which was fully subscribed for $50 million

BENEFITS DERIVED: Rapid scaling-up, broadened customer base and global footprint

INTEGRATION ACHIEVED: Around 200 people have come on board, including the senior management of the acquired companies

"In bad times our solutions are in greater demand," says Rao. "That is a fundamental truth because we provide solutions in the automatic identification and data capture arena; these help our customers by providing them with accurate data and make them more efficient, productive and effective."

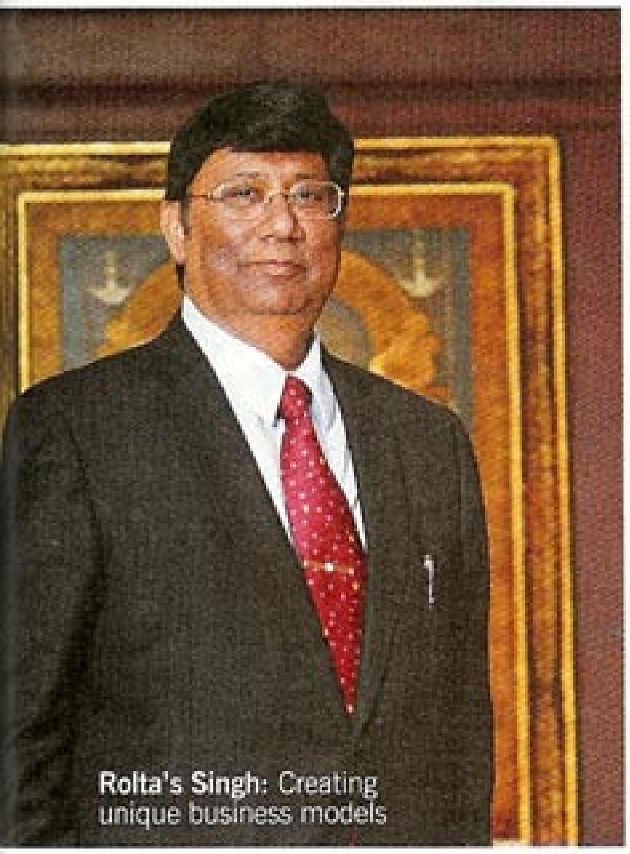
Rao adds that inorganic growth was always a priority for Bartronics when it came to gaining a foothold in the US. "If we had to set up our own operations in the US it would take us a minimum of a decade to establish ourselves," he explains.

In the very first year after the acquisition—the calendar year ended December 2008—the two entities in the US notched up a top line of $40 million. This will help Bartronics hit total revenues of Rs 500 crore for the year ended March 2009, a 78 per cent growth over the previous fiscal. A year later, Bartronics hopes to maintain the pace, and close with revenues of Rs 1,000 crore. "The reason for this confidence is we have become eligible to bid for larger projects," explains Rao. Sure enough, the average ticket size of projects being executed has gone up from Rs 5 lakh to over Rs 1 crore. Rao gives the example of a recent project from the Delhi Municipal Corporation, which is worth Rs 5,000 crore in revenues over nine years, starting 2010.

E. KUMAR SHARMA

# Mapping the Globe

**Rolta India** has used buyouts to carve a unique niche for itself in a high-end technology arena.


RACHIT GOSWAMI

Rolta's Singh: Creating unique business models

HE'S USED ACQUISITIONS, along with joint ventures and sheer organic growth, to create a unique business model. So much so, that the Rs 1,000-crore Rolta India has emerged amongst the five leading companies in the world in Geospatial Information Sector (GIS) technology that's used for the purpose of mapping, satellite imagery and infrastructure development. Over the past 18 months, Rolta has made six international purchases for a little over $100 million. These include Orion Technologies in Canada, which specialises in enterprise web-GIS (innovative technologies that are web-based and platform-neutral geospatial solutions); and three firms in the US: A consultancy operating in the business intelligence arena, an ERP consulting firm and an IT services provider that's sharply focussed on the oil & gas sector. Rolta has also acquired intellectual property rights (IPR) from two companies in the US and Canada.

Says K.K. Singh, Chairman & Managing Director, Rolta India: "The acquisitions have not been just for traditional reasons such as increasing revenues and profits but also to move up the value chain." Singh has also done well to set the stage for 400 top-notch consultants from the international firms to blend in with the Rolta stable.

Singh expects the acquisitions to add $100 million to Rolta's revenues in the year ending June 2010—which by some estimates would be 25-30 per cent of the top line. The global recession notwithstanding, Singh is optimistic about achieving a growth of 25-30 per cent in the current fiscal. Rolta funded the six buyouts via a $150-million issue of foreign currency convertible bonds (FCCBs) in July 2007, which will come up for conversion five years hence.

ANUSHA SUBRAMANIAN

### THE BUYOUT EDGE

ACQUISITIONS: Orion Technologies, Canada (2007); TUSC, US (2008); Whitmanhart Consulting, US (2008); Piocon Technologies, US (2008)

PRICE TAG: Over **$100 million** for six acquisitions

FINANCING: FCCB proceeds

BENEFITS DERIVED: Has helped move up the value chain, into products.

INTEGRATION ACHIEVED: Added 400 high-level consultants to Rolta India


NISHIKANT GAMRE

Allied Digital's Shah: Cashing in on the cost arbitrage

# Remote Control

**Allied Digital** rides on the next big opportunity in IT services with a buyout in the US.

TO MAKE AN ACQUISITION at the peak of the subprime crisis in the US would be considered foolhardy for most businesses. Unless, you are in one that could actually benefit during recessionary conditions. Allied Digital Services Ltd (ADSL) may be one such firm. An IT infrastructure-management service provider, ADSL manages company servers, IT security and such related activities which, in industry parlance, are classified as remote infrastructure management (RIM).

So, what does a company like ADSL do? It acquires an RIM-company in the US, called En Pointe Global Services, outsources the work to India, and hopes to cash in on the cost arbitrage advantage. "The business opportunity in the US is huge despite the subprime crisis. For instance, a Cisco-certified

### THE BUYOUT EDGE

ACQUISITIONS: En Pointe Global Services, US (2008)

PRICE TAG: **$10 million and a 4.11 per cent** stake in Allied Digital

FINANCING: Proceeds from an IPO

BENEFITS DERIVED: Access to big customers like J P Morgan and American Airlines and offering other services to existing customers

INTEGRATION ACHIEVED: Underway, with a part of the manpower to be shifted to India

inter-networking professional in the US is available for $150,000 a year whilst in India I can get one for Rs 15 lakh ($30,000)," says ADSL Chairman & Managing Director Nitin Shah.

A study by IT industry body NASSCOM last year said RIM business is the next big opportunity for India's IT industry. The apex body highlighted that the total addressable market is estimated to be about $100 billion, and of this, India is well-positioned to capture $13-15 billion by 2013.

With En Pointe in the bag, ADSL gets direct access to marquee customers like JP Morgan, American Airlines and Mitsubishi. And, of course, it gets a ready-made outpost in the US. "It would have taken us five years to get to the size of the business En Pointe has," says Shah.

The numbers indicate that ADSL is gaining from the acquisition, within just six months. "Business has already increased to $50 million compared to $40 million at the time of acquisition," says Shah. He adds that the operating profit margin will climb to 22-25 per cent (after full integration) from 10-12 per cent—that's primarily due to the lower-cost associated with offshoring activities, and the ability to provide additional services to the US clients.

VIRENDRA VERMA

UMESH GOSWAMI

BCL's Juneja: Tapping into export markets

# Concrete Gambit

**Binani Cement** has gone where no Indian cement maker has gone before—overseas, via two strategic buyouts.

CONVENTIONAL THINKING IS that cement is a localised business, and you're best placed manufacturing and selling it in your own backyard. Trust Managing Director Vinod Juneja to challenge conventional thinking. In early 2008, Binani Cement Ltd. (BCL) went on to acquire cement companies in Dubai and China. "By having a presence in different markets we can de-risk the business," says Juneja.

Juneja is confident about the strategic location of his overseas units, which could help him address a fair portion of the globe. Via Binani Cement Factory LLC in Dubai (on the coast), in which BCL has picked up a 49 per cent holding, Juneja can tap into the neighbouring export markets of Africa and West Asia. He has also succeeded in setting up an outpost in China via his controlling stake in the Singapore-incorporated Krishna Holdings Pte; this company owns 70 per cent in Shandong Binani Rong'an Cement Co. Analysts reckon Binani would have paid around $30 million for the Dubai acquisition and $11 million for the Chinese cement plant.

The coastal location of both plants (Dubai and China) allows BCL to export—and, that too, at a minimum cost of transportation. BCL will now set up a clinker-grinding plant in Mauritius with a capacity of one-million tonnes. This plant will also cater to Asian and African markets. The advantage of having a plant in Mauritius is that it is a tax haven; the same applies to the units in Dubai and Shandong in China.

VIRENDRA VERMA

### THE BUYOUT EDGE

ACQUISITIONS: Krishna Holdings Pte, Singapore (2008); Binani Cement Factory LLC, UAE (2008)

PRICE TAG: **$41 million***

FINANCING: Through debt

BENEFITS DERIVED: Access to local markets, raw materials,

INTEGRATION ACHIEVED: Started importing clinkers from India

*Industry estimates