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Growing industry has component makers targeting merger deals

While foreign firms are looking at deals in India, domestic companies are seeking opportunities abroad

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Mumbai: The Indian auto component industry could be in for some hectic mergers and acquisition (M&A) activity as global firms look to enter or enhance their presence in a country that has, over the past 18 months, emerged a sweet spot in the global auto market.

And while foreign auto component firms are looking for joint ventures, alliances, or outright buys in India, Indian firms are looking for the same overseas—despite the state of most global markets, although this has meant assets are now available at lower prices.

Investment bankers say that they know of five global component firms looking to enter or expand in India and three domestic firms seeking to purchase assets or form an alliance overseas.

RIDING GROWTH			
The Indian auto market has been a major attraction for global companies in the past 18 months.			
Jan-Dec 2009			
Month	Target company	Acquirer	Type
Apr	ThyssenKrupp JBM	JBM Auto	Domestic
Apr	Leroy Somer and Controls India	Emerson Electric	Inbound
May	Sundaram Clayton	TVS Group	Domestic
May	Wabco TVS	Wabco	Inbound
Jul	Motherson Pudeniz Wickmann	Motherson Sumi Systems	Domestic
Dec	Henniges Automotive Grefrath	Pawan Rula group	Outbound
Jan-June 2010			
Jan	Ceekay Daikin	Exedy	Inbound
Feb	Nederlandse Radiateurs Fabriek	Banco Products	Outbound
Mar	Hero Chassis Systems	ZF Lemforder	Inbound
Apr	Terex Vectra Equipment	Terex	Inbound
May	Avtec	Birlasoft	Domestic
May	Valeo Minda Electrical Systems	Valeo	Inbound
Jun	Mazda	Circor International	Domestic
Type of acquisition: Domestic (Red), Inbound (Yellow), Outbound (Blue)			
Source: Venture Intelligence			

The Japanese are the head of the queue. Many auto component firms from Japan are looking to establish or grow their presence by setting up new factories, and forming alliances with or purchasing Indian companies because Japanese car makers who are present in India prefer to retain relationships with their existing suppliers from their home markets, according to Sourav Mallik, executive director, mergers and acquisitions at investment bank Kotak Mahindra Capital Co. Ltd.

Graphic: Ahmed Raza Khan/Mint

On Wednesday, Japan's Denso Corp. announced a joint venture with domestic auto air-conditioner maker Subros Ltd for a product development centre. The Japanese firm will hold 74% stake in the venture, Denso Subros Thermal Engineering Centre. "This move has been congruous with the influx of global OEMs (original equipment manufacturers). We

are looking to cater to new entrants including Renault, Nissan, Volkswagen and General Motors in India in addition to supplying to Maruti, M&M (Mahindra and Mahindra Ltd) and Tata," said Ramesh Suri, chairman, Subros, which ended 2009-10 with a revenue of Rs984 crore. Denso has appointed a research and development (R&D) executive to head this venture in India, he added.

Renault India is already in talks with its global component suppliers to operate out of its supplier park in Chennai. "We would like them to bring in their expertise as they are competent in terms of design," said Ashish Sinharoy, vice-president, corporate affairs, Renault.

Some analysts say that the Forrester effect is playing out in the Indian auto market, where higher demand for cars, bikes and trucks has forced car makers to expand, resulting in a corresponding demand for components. India saw sales of 1.24 million passenger cars, 7.4 million two-wheelers, and 384,122 commercial vehicles (CVs) in 2009, compared with 1.20 million passenger cars, 7.2 million two-wheelers, and 490,494 CVs in 2008, according to data from the Society of Indian Automobile Manufacturers.

The bankers listed Johnson Controls Inc., Valeo SA, Magna International Inc., and GKN Driveline among the multinational firms looking to expand their presence in India. While some of these firms are present here through joint ventures, others have subsidiaries.

Mint couldn't immediately establish whether Johnson, which has a joint venture with the Tata group, will expand existing partnerships or seek new ones.

Paul Dinwiddy, global communication director for GKN Driveline, a company that supplies drive-shafts and side-shafts, said that the firm currently has three facilities in India. "The fourth will definitely be a greenfield as that is our focus," he said, adding that the company is open to acquisitions.

Scott Worden, manager, corporate communications and public relations of Magna International, said that the company would not be able to provide any information about possible acquisitions or greenfield developments in India. Magna, which ended 2009 with revenue of \$17.4 billion (Rs81,258 crore), currently has joint ventures in India for the manufacture of components such as flex plates, seating and mirrors.

The Tata group declined to comment. Emails sent to Valeo remained unanswered.

There is enough reason for a foreign auto component firm to look at acquisitions in India, said one investment banker. Foreign firms are not comfortable with a complete technology transfer, according to Preet Mohan Singh, executive director, and head, industrials group, at investment bank Aventus Capital.

Interestingly, technology is the motive behind the global moves of several Indian auto component makers. Foreign companies have the competency when it comes to hi-tech components, said Tarang Jain, managing director at the Ahmedabad-based Varroc Group that makes a range of products such as handle bars, lamps, starter motors and fly-wheel magnets for bikes. "We should be closing a couple of deals on the technology front and alliances in the R&D space in about three-four months," he added.

Seema Chaturvedi, managing director of US-based investment bank Accelerator Group LLC said that her bank has been in talks with some global players looking to enter India in niche component categories. "The trend appears to be that the global makers seem to be preferring either the acquisition route or the greenfield route."

Further, Indian companies are also looking at acquisitions in the North American market to establish an overseas presence and for technological capabilities, she added.

Amtek Auto Ltd, which has assets in Europe, has appointed bankers to look for more overseas acquisitions or partnerships. Santosh Singhi, Amtek's chief financial officer, said that his company was expected to complete one or two cross-border deals in the next six months.

"All our partnerships are joint ventures for the specific purpose of transfer of technology," he added.

Amtek reported a consolidated net profit of Rs1.9 billion for the year ended June 2009.

Investment bankers add that Sundaram Auto Components Ltd and Autoline Industries Ltd are also looking for overseas buys. An Autoline executive, who did not want to be named, said that the company was looking at acquisitions.

Queries emailed to Sundaram on Wednesday remained unanswered.

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