

After buyout spree, companies face integration issues

<http://economictimes.indiatimes.com/News/News-By-Company/Corporate-Trends/After-buyout-sprees-companies-face-integration-issues/articleshow/4273998.cms>

MUMBAI: When the merger and acquisition (M&A) story was at its peak in 2006 and 2007, Indian companies shopped abroad vigorously. It was not a story restricted to the Tatas and the Birlas, but included a host of smaller names as well.

If these acquisitions by smaller companies were announced with much fanfare, then the process of integration in this changing and unpredictable business scenario has been arduous. Consequently, in the past six to nine months, a lot of these companies have had to tweak their strategies. "Integration and benefits of acquisitions could take a longer time than one expected due to market conditions, which have changed globally," said O3 Capital executive director Deepesh Garg, an investment banking firm.

While it is tough to make a generalised statement on these buyouts, it remains true that it will vary on a case-by-case basis. For instance, shrinking margins across the value chain are something that needs to be tackled. "With falling demand and price, companies that have made acquisitions in sectors like auto and textiles are facing difficult times, said ICICI Securities senior vice-president Ravi Sardana. With credit not coming easy, this is taking a toll on those companies needing cash quickly. Here, Indian companies are doing what they can to make these acquisitions accretive.

Take the case of Mumbai-based Jain Irrigation, which has made four overseas acquisitions in its irrigation business at \$60 million. "We went in for acquisitions to give us access to new product lines, a competent management and bring a new range of products to India," said Jain Irrigation managing director Anil Jain.

Since the reasons for the buyouts were clear, they worked well. He cites the case of Aquarius Brands, one of the companies that Jain Irrigation bought over, has a product called "Tape" which is in the drip irrigation space. The USP of this product is that it can reach out to a large area of vegetable crop, which Jain was earlier unable to do. In one stroke, a new market was created.

Similarly Naandan, an Israel-based micro sprinklers producer, was acquired by Jain Irrigation in 2007. This has helped the Indian company in supplying irrigation products for crops such as potatoes and onions. Naandan gave it access to a range of irrigation emitters.

Another company, Havells India, an Indian electric products company, acquired Sylvania, a provider of lighting systems, in an all cash deal for \$300 million two years ago. "The change in the European markets during the past six months has intensified the process of integration," said Havells India joint MD Anil Gupta.

Functions like sales, marketing and IT have already been integrated. The head office of Sylvania itself has shifted from Frankfurt to Noida. Havells' employees have been deployed to run the business, while production is being moved from Europe to India.

Alok Industries, an Indian textile company, when it acquired Mileta, a Czech textile company, in 2007, found the acquisition handy, as it helped fill the gap in quality parameters as far as yarn dyed shirting was concerned.

With the acquisition, both volumes and realisation per metre have increased for Alok. "While

volumes increased from 5 lakh meter per month to 15 lakh meter a month, realisation increased from Rs 80 per metre to Rs 125 per metre,” said Alok Industries CFO Sunil Khandelwal.

The savings take place when the Indian company supplies semi-finished goods from India for final processing in the Czech Republic, which helps retaining the brand identity there,” he added. Clearly Indian companies are putting their best foot forward to make their acquisitions work.