Enabling Collaborative Development

Indo-German Deals in a Decade

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Foreword

India's and Germany's relations play a strategic role in the development of both economies. Growing across seven decades of bilateral relations, the two countries have always maintained strong associations and liaised for mutual development. Testament to German investors' confidence in the growth potential of the Indian market, the country ranks as the seventh-largest source of Foreign Direct Investment (FDI) in India since April 2000. Located in Central Europe, Germany is viewed as a strategic location in terms of infrastructure, logistics, and research and development by many Indian companies. With the United Kingdom's exit from the European Union, Indian investors are increasingly viewing Germany as a prime investment destination to strengthen their foothold and consolidate operations in the European market.

To further fortify the association, inter-governmental consultations between the two countries aim at constant measures to simplify procedures and allure cross-border investments. Germany and India have signed numerous agreements to promote collaborative development in upcoming fields such as artificial intelligence, green urban mobility, industrial automation and robotics, as well as in sectors such as automotive, pharmaceuticals, and agriculture.

A popular route of entry and expansion for companies in the Indo-German corridor has been Mergers and Acquisitions (M&A). Led by sectors such as software and services, automotive, pharmaceuticals, and capital goods, deal trends in this corridor over the past decade are a reflection of the strengths of both economies, as they have largely complementary ecosystems that bridge business needs and introduce new growth avenues for one another. Consolidations to opportunistic acquisitions by strategic/cash-rich buyers for market penetration, technological advancements, and customer acquisition are among the key factors that drove M&A activity in this corridor.

A key motivation driving Indian companies' acquisitions in Germany is the country's renowned technological prowess. Adding German competencies to their portfolio allows Indian companies to enhance product offerings and also tap into their global customer base. On the other hand, German acquisitions in India were fueled by the country's large captive consumption market and its positioning as a value-efficient base to cater to the world.

As the world combats the COVID-19 pandemic, M&A activities since early 2020 faced a challenging climate in various industries as well as businesses worldwide, and Indo-German cross-border transactions were no exception. Many of the M&A deals that were announced before the pandemic managed to remain on track despite the crisis. However, subsequent deal execution became significantly challenging. Many businesses were forced to halt their inorganic growth plans as a result of the financial strain, travel restrictions, and economic uncertainty brought on by the pandemic.

With the resulting lockdowns, the rising demand for at-home services steered the economic landscape towards a digital marketplace, making the Telecommunication, Information Technology, and Healthcare sectors among the most important sectors in the years to come, thereby increasing M&A activity. Deals in these sectors, coupled with existing trends in the Indo-German landscape, are inclined to potentially continue in the coming years as companies adjust to build resilience and take advantage of the anticipated recovery in the post-pandemic era.

While there is tremendous potential for the two economies to develop cross-border business partnerships further, China has also been a key contender for German companies looking to enter the Asian market. Moreover, with the pandemic-driven geo-political developments, other South Asian economies are also increasingly gaining focus among international businesses looking to decentralize their operations. Thus, going forward, it will be important to dive deeper into the areas discussed during Intergovernmental Consultations and focus on a comprehensive approach to implement the initiatives, which will drive business in both directions.

As we celebrate the Seventieth Anniversary of diplomatic ties and the Twentieth Anniversary of the strategic partnership between India and Germany, it is important to understand how strategic business partnerships augment the relationship between these economies and their collaborative vision for the next decade. In this paper, we have attempted to dwell upon some of these complementary areas enabling collaborative partnerships over the past decade and in the years to come.

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Executive Summary

Indo-German Investment Relations

With 20 years of strategic partnership, Germany's contribution to India's economic growth stands strong, as it ranks as India's largest trading partner in the European Union (EU) and 7th largest source of FDI.

Mergers and Acquisitions (M&A) has been a popular route of entry and expansion for companies in the Indo-German corridor, with 171 deals over the past decade.

Germany ranks in the Top 5 M&A destinations for Indian companies globally. While UK has been the leading investment destination in Europe for Indian companies in the past, Brexit may propel Germany's popularity as a foothold for Indian companies in the EU, as they need an alternative to consolidate and manage their EU operations.

Germany was ranked the 3rd most active European acquirer in India, solidifying its importance in both inbound and outbound acquisitions.

Achieving Collaborative Growth through M&A

What drove deal activity?

M&A trends in the Indo-German corridor over the past decade are a reflection of the strengths of both economies, with largely complementary ecosystems bridging business needs and introducing growth avenues.

Industries and Rationales that drove M&A deal activity between 2011 to 2020

- **18% Software & Services**
- **17% Materials**
- **16% Capital Goods**
- **15% Automobiles & Components**
- **8% Pharmaceuticals, Biotechnology & Life Sciences**

Rationales

Germany	India
Technological advancements	Large untapped captive consumption market
Portfolio enhancement	Manufacturing base for exports
Customer acquisition	Local know-how
Base for the European market	Supply chain
R&D capabilities	Talent acquisition

- M&A trends in the Software & Services industry, a major strength of the Indian economy, were dominated by a larger number of outbound acquisitions by cash-rich Indian IT giants looking to expand their technology portfolio and market reach.
- Companies in automobiles & components chose M&A as a route for growth owing to the synergies between Germany's expertise in auto innovation/manufacturing as well as India's export capabilities and untapped potential for vehicle penetration.
- With India's leading position in the pharmaceuticals industry, this segment also witnessed prominent cross-border activity. German Pharma majors adopted M&A deals to leverage the manufacturing capabilities and strategic relationships of the Indian pharmaceutical ecosystem. Indian Pharma leaders, on the other hand, have looked towards Germany as their primary hub for the European market.

Valuation trends

India: Largely, trading multiples in the aforementioned industries have been consistent during the last 3-4 years, subject to interim fluctuations. Although Automobiles was among the sectors subject to the most volatility, it witnessed significant recovery in 2020.

Europe: Across the five key sectors analyzed, trading multiples witnessed a partial decrease in 2018, followed by an improvement over the next two years that surpassed 2017 multiples. This trend was more prominent in the EBITDA based multiples.

Although transaction multiples would differ from trading multiples, these trends allow an insight into general industry sentiments and indicative value expectations.

Operating strategies

Less than 30% of all acquisitions by German companies in India were complete buy-outs, suggesting German companies' preference to retain Indian promoters to counter challenges of operating in the subcontinent with their local know-how and on-ground management.

In contrast, ~70% of all acquisitions by Indian companies in Germany have been complete buy-outs, on the back of a more organized and mature economy.

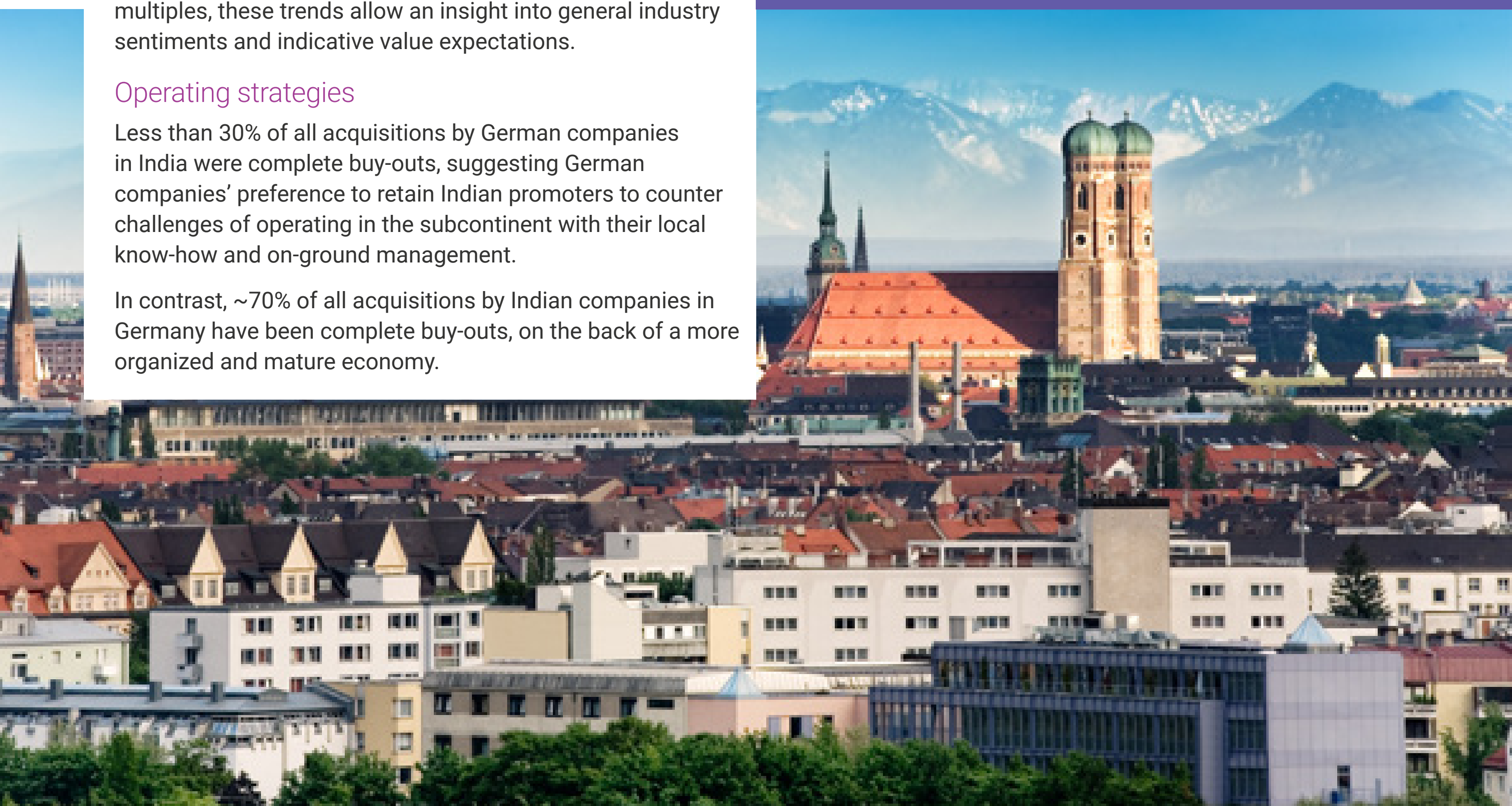
Outlook

After the setback observed in 2020, the economies of both Germany and India are expected to observe a strong recovery as GDP growth rates for 2021 have been pegged at 3.7% and 9.5% respectively.

Many businesses were forced to halt their inorganic growth plans as a result of the financial strain, travel restrictions, and economic uncertainty brought on by the pandemic. The lull observed in cross-border deals is expected to be countered on account of the reopening of dialogues in halted transactions as well as renewed rigour for fresh deals.

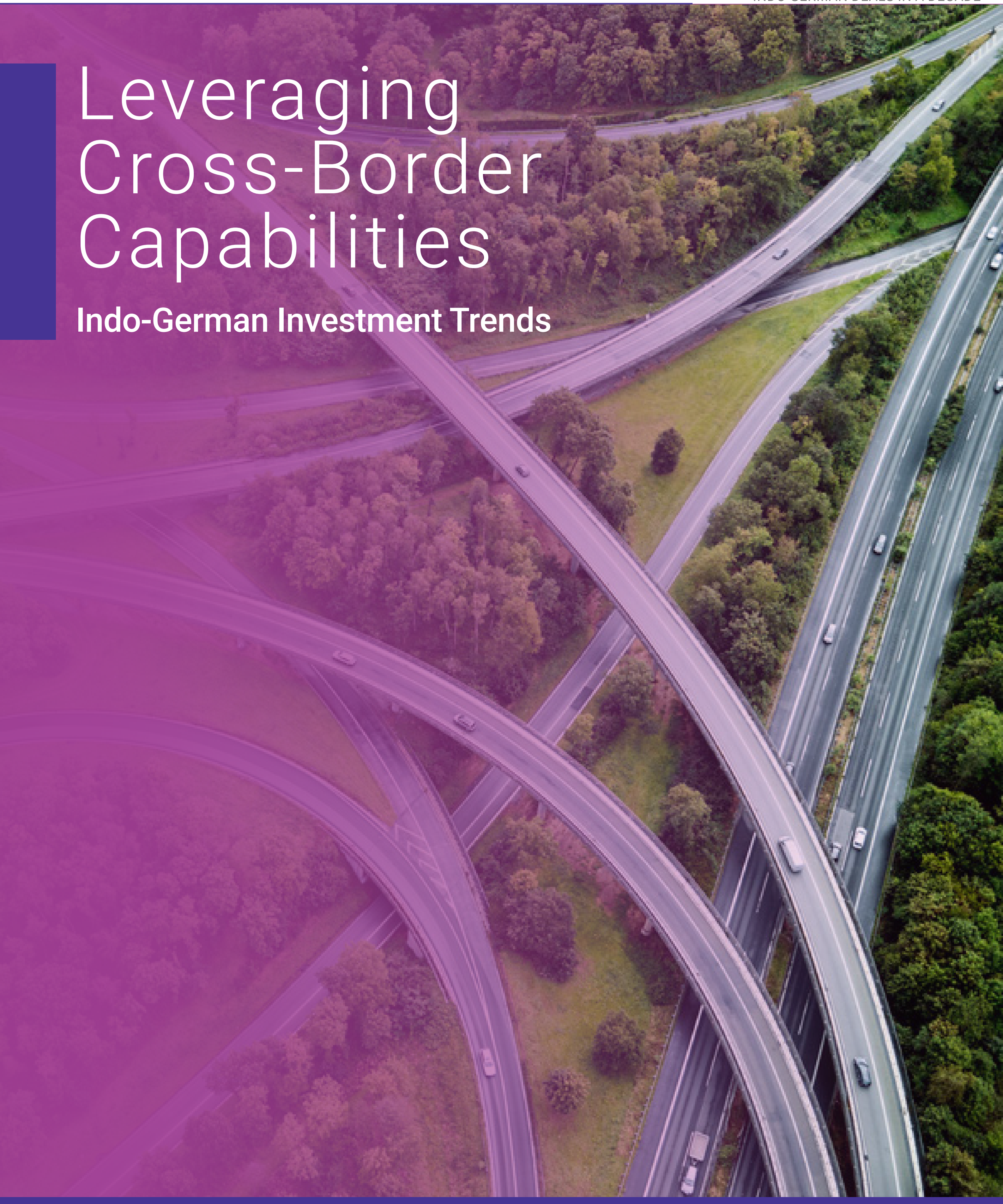
Sectoral trends expected to drive deal activity in the next few years:

1. **Software & Services:** Propelled by the pandemic, digital-focused deals in segments such as e-health, ed-tech, e-retail, artificial intelligence, and automation are expected to rise.
2. **Automotive:** The transition to hybrid and electric vehicles along with technological enhancements (such as light-weight materials) will increase collaborations and investments.
3. **Pharmaceuticals:** Streamlining of supply chains and development of specialized drugs are expected to boost FDI.
4. **Capital Goods and Materials:** Increased investments in green products and sustainability are expected to drive growth within this sector.



Leveraging Cross-Border Capabilities

Indo-German Investment Trends



Indo-German Relations

70 Years of Diplomatic Relations

20 Years of Strategic Partnership

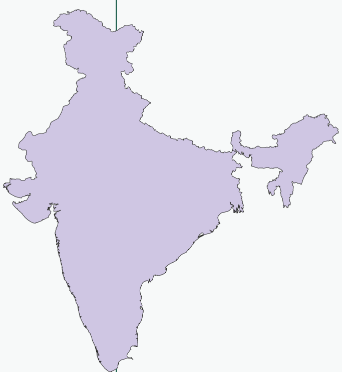
Germany is India's **prime trading partner** in Europe

USD 22 billion of bilateral trade in FY 2019-20

Traditional Focus:
Climate Change, Environmental Protection, Renewable Energy

Focus Areas for **State-driven Collaborations**

Emerging Areas:
Digitalization, Healthcare, Artificial Intelligence, Space, Smart Cities, Urban Green Mobility



1800 German companies active in India, providing around **500,000** direct and indirect jobs

Over **600** Indo-German Joint Ventures in operation in India

12,000 Germans and people of German origin in India

Over **215** Indian companies operating in Germany

170,000+ Indians and people of Indian origin in Germany

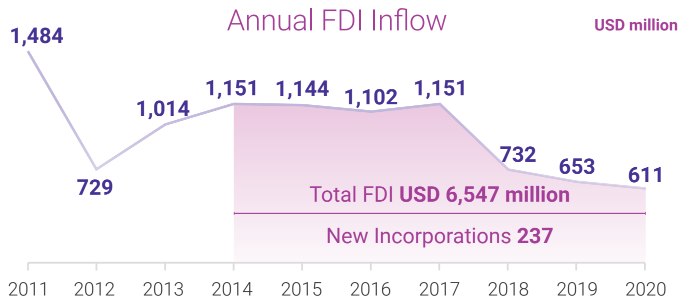
Fast-Track Mechanisms

Set up by both governments to **support inbound Indian/German companies**

German Investments in India

Germany ranks as the 7th largest source of FDI for India, with over USD 12.5 bn investment in the last two decades

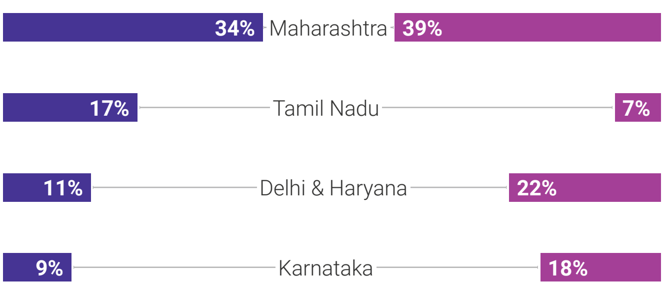
Over 50% of this investment was received in the last seven years



Top States

FDI % (Jan'00 to Sep'19)

Incorporation % (2014 to 2020)



Industry Wise Incorporations (2014 - 2020)

- **24% Capital Goods**
- **7% Commercial & Professional Services**
- **9% Software & Services**
- **10% Materials**
- **8% Technology Hardware & Equipment**

Select German Investors in India

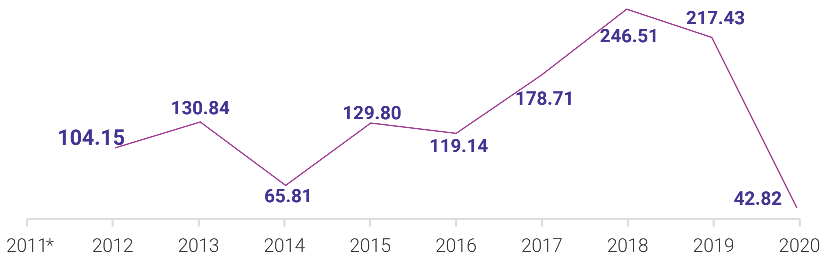
Casa Everz GmbH **Consumer Durables and Apparel**	Gerresheimer AG **Materials**	Bayer AG **Pharmaceuticals, Biotechnology & Life Sciences**
Daimler AG **Automobiles & Components**	Siemens **Electrical Components & Equipment**	MAN Truck & Bus AG **Automobiles & Components**
Volkswagen Financial Services AG **Diversified Financial Services**	MHM Holding GmbH **Materials**	DKY INIL Health Holding **Utilities**
Webasto Group **Automobiles & Components**	Metro Cash & Carry International GmbH **Foods & Staples Retailing**	Merck Holding GmbH **Pharmaceuticals, Biotechnology & Life Sciences**

Indian Investments in Germany

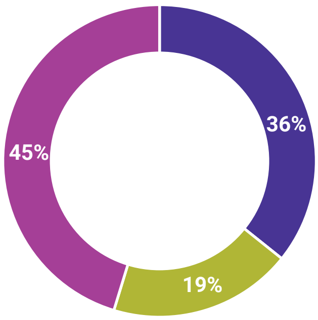
Accumulated FDI of over USD 7.5 billion by Indian companies in Germany to date

Annual Financial Commitment

USD million

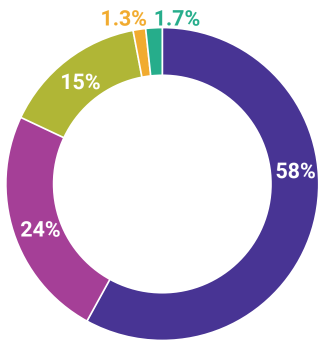


By Commitment Type



Equity · Loan · Guarantee Issued

By Activity Type



Manufacturing · Others · Financial, Insurance and Business Services · Wholesale, Retail Trade, Restaurants and Hotels · Community, Social and Personal Services

By Ownership Structure

92% in Wholly Owned Subsidiaries **VS** **8%** in Joint Ventures

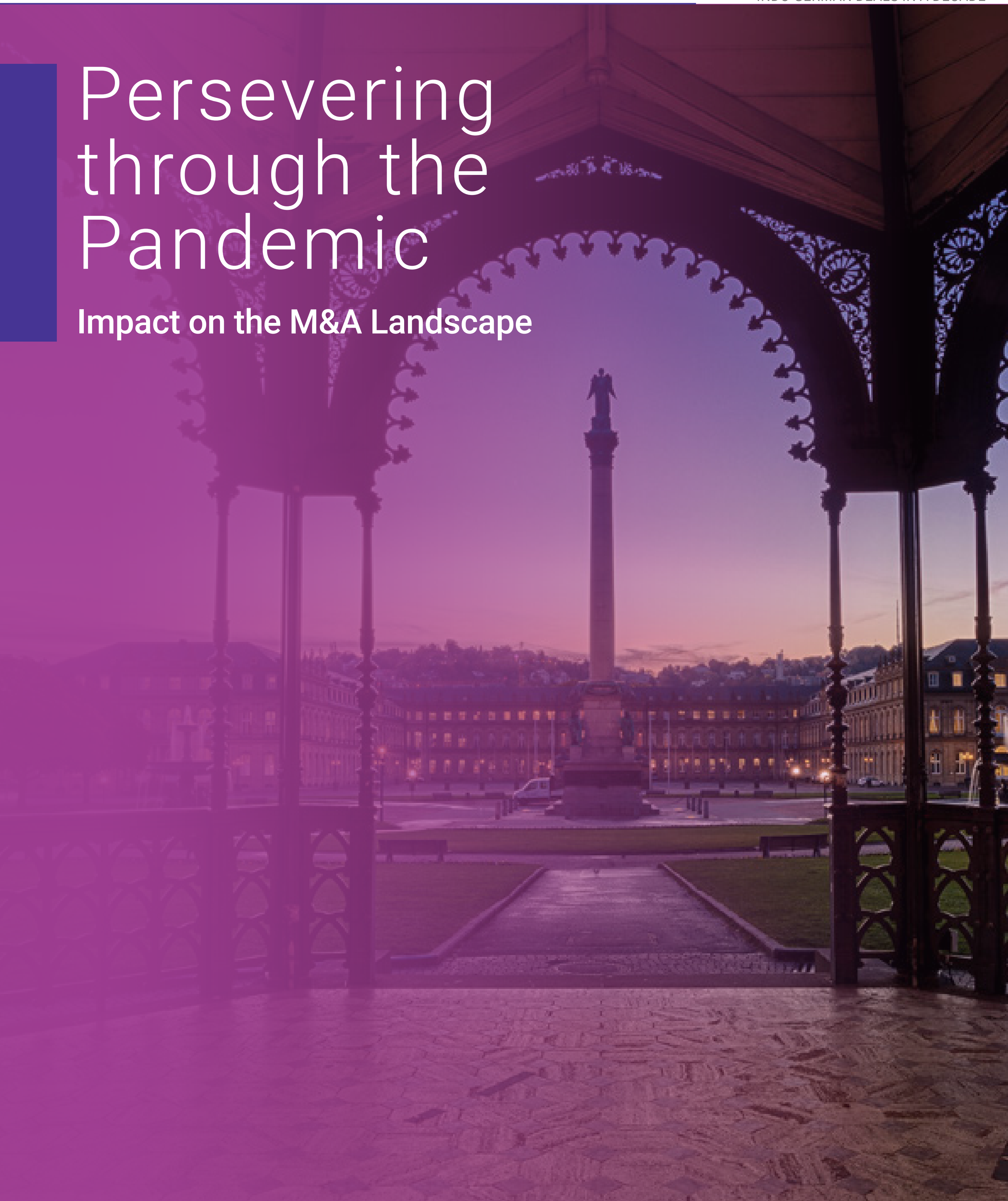
Select Indian Investors in Germany

- Transasia Bio Medicals Ltd — **Pharmaceuticals, Biotechnology & Life Sciences**
- Neel Metal Products Ltd — **Materials**
- Mahindra CIE Automotive Ltd — **Automobiles & Components**
- Minda Corporation Ltd — **Automobiles & Components**
- Ashok Leyland Ltd — **Automobiles & Components**
- Hexaware Technologies Ltd — **Software & Services**
- Larsen & Toubro Infotech Ltd — **Software & Services**
- Dalmia Refractories Ltd — **Materials**
- HCL Technologies Ltd — **Software & Services**
- Abja Global Hospitality Investment Private Ltd — **Diversified Financial Services**

*Data on OFDI from India to Germany for 2011 is not available

Persevering through the Pandemic

Impact on the M&A Landscape



M&A Deal Landscape for Europe (2020)

The year 2020 was the most challenging for the European economy since the financial crisis of 2008. The European commission has recorded a decline of 6.1% in EU GDP for 2020. The MSCI Europe, an index tracking more than 400 companies in 15 European countries, fell as much as 36% at the height of the COVID-19 uncertainty in March 2020.

This disruption directly impacted European M&A with deal volume and value declining steeply in the first six months of 2020. Year-on-year, the first six months of M&A activity in

Europe were down 31% by volume and 29% by value. However, the deal volumes posted a sharp recovery in Q3 2020 in Europe, positively overcoming the near-decade-low quarterly volume experienced in Q2. Alternative pricing structures such as earn-outs and deferred considerations largely helped mitigate the risks and bridge valuation disconnects. Q3 of 2020 saw an increase of approximately USD 49 billion or 26% compared to Q2 of 2020.

By the end of Q4, the transaction value in Europe increased by USD 124 billion compared to Q4 of the previous year, corresponding to a growth of 78%. This increase is attributable to both a 65% rise in average value and an 8% increase in the number of transactions compared to the same quarter of the previous year. All in all, the transaction value in Europe for 2020, as a whole, increased by USD 270 billion or 42% compared to the previous year (despite the pandemic) which clearly indicated a strong recovery of the markets in the second half of 2020.

Statistics show that Europe is strongly positioned especially in the Technology, Media & Telecoms (TMT) sector and the Pharma, Medical & Biotech sector. Merger market data shows that although Europe's share of global M&A deal volume has dropped commensurate with the rest of the world in terms of the value of deals in the first six months of 2020, the percentage represented by Europe has risen to 29% of the global total from 19% in the same period last year.

Key German players are attracting investments from India post Brexit as a leverage gateway to Europe as Indian companies need an alternative to manage their European Union business divisions.

Naturally, many of the large deals were announced before the pandemic and managed to remain on track despite the crisis, but the reason for these sectors showing growth is straightforward. TMT businesses have had immense growth through lockdown periods as workers, consumers, teachers, and pupils became more reliant on broadband and digital services to work, learn, and shop from home.

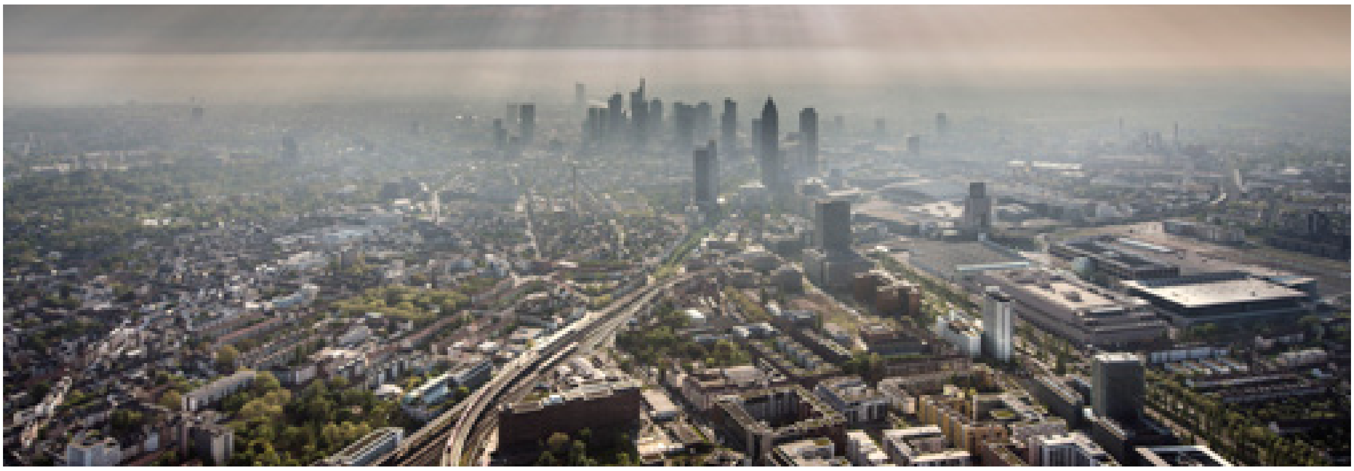
The Pharma, Medical & Biotech space has been similarly robust, highlighting the governments' commitment to funding healthcare systems as well as COVID-19 treatments and vaccines.

The Consumer and Leisure sectors were among the hardest-hit sectors during the pandemic. Deal values in the former almost halved from ~USD 28 billion to ~USD 15.4 billion in the first six months of 2020, while the latter recorded a decline in deal value from ~USD 19.4 billion to ~USD 15.3 billion year-on- year. However, following the trend of the overall M&A activity in the second half of the year, the consumer goods sector recorded a 10% increase for the year 2020 as compared to the previous year.

M&A Landscape in Germany (2020)

In Germany, both inbound and outbound M&A activities have been increasing steadily in terms of total number of transactions announced in the last 10 years. Cross-border M&A activities are receiving more and more attention from German investors investing outbound and foreign investors showing interest in German companies. In general, there are more inbound transactions than outbound transactions, indicating the persistent attractiveness of German companies in the international market. Cross-border M&A transactions in both directions have increased significantly, especially in the last year, compared to the previous 5 years.

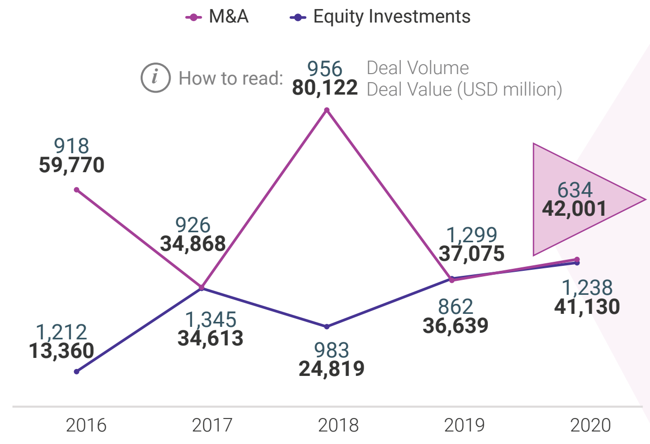
At the end of 2020, despite the shock in the economy caused by the COVID-19 pandemic, the total number of M&A transactions with a German counterpart exceeded the 2019 level. On the other hand, the pandemic has twisted the market trend. Digitalization has become a hot topic in recent years that has accelerated significantly with the outbreak of COVID-19. Among all other sectors, TMT was the only sector with increasing M&A transactions compared to 2019. Apart from that, almost 70% of the M&A transactions with German counterparts were implemented by strategic investors.



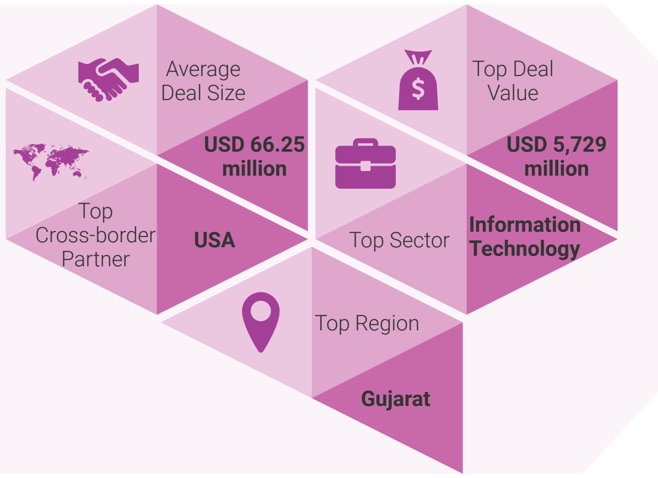
M&A Landscape in India (2020)

Testament to the undeterred investor confidence in India's long-term growth story, 2020 garnered M&A and Equity Investments at a value of USD 83 billion, second only to the phenomenal performance of 2018, despite severe global economic distress. Leading to strained resources, an increased focus on stability, and logistical limitations, the pandemic's wrath was more pronounced in deal volumes, with M&A volumes hitting a five-year low. However, big-ticket transactions compensated for this gap as they accounted for almost half of the total deal value.

Deal Trends — How M&A compared with Equity Investments



M&A Highlights – 2020



Continuing on their linear growth trajectory, Equity Investments set a new decade-high benchmark at USD 41.1 billion in 2020. In contrast, Private Equity Exits reached a decade low as sanguine investors opted to weather temporary value erosions to earn higher returns in the future.

Even as valuations weathered, only financially and operationally secure companies could confidently act on their acquisition strategies. The key factors driving deal activity were consolidation, debt reduction, and portfolio enhancement/diversification. Several companies were compelled to restructure and divest their stressed and non-core assets to deleverage their balance sheets and sustain core growth plans. Information technology led in terms of deal volume as the need for cloud computing and cybersecurity services surged with remote operations.

Prominent cash-rich IT companies also completed several overseas acquisitions to plug gaps in their technological prowess and enhance their global footprint.

Another section of buyers leading M&A activity were private equity backed players, as investors aimed to enhance their portfolio's marketability for monetization through tuck-in acquisitions. The pandemic expedited habit formation towards digital services, which opened the floodgates for investments/consolidations in telecommunication and consumer technology, primarily in segments such as Education, Retail, and Healthcare. Furthermore, India's position as a forerunner in drug manufacturing, an essential aspect in the current climate, and the government's determination to reduce dependence on imports reinforced investments in the Healthcare sector.

Sectoral Trend Highlights

Technology, Media and Telecommunications

Decade in Review

Indo-German M&A Deals (2011-2020)

In a Nutshell

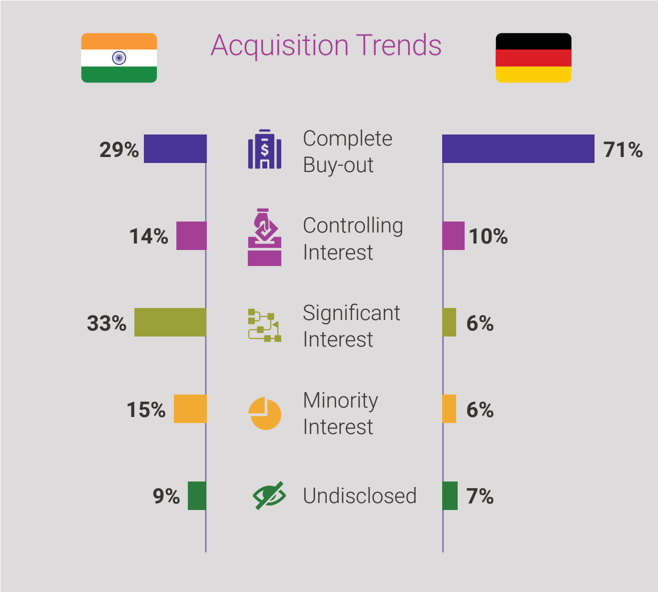
Overview of M&A Trends

Analysis by Target Destination (2011-2020)

India		Germany
USD 2,902 million	Value	USD 1,579 million
93	Volume	78
USD 31.20 million	Average Size	USD 20.24 million
Materials	Top Sector (Volume)	Automobiles & Components
Maharashtra	Top Region (Volume)	North Rhine-Westphalia

India and Germany witnessed 171 M&A deals valued at ~USD 4.5 billion during 2011 to 2020, with the former gaining a 20% larger share in the volume but close to twice the value. While the first half of the decade saw India receiving more acquisitions, both destinations ran neck and neck in the corridor's deal count in the second half.

As Indian companies' potential and vision to cater to global markets increases, outward investments from the country have been on a growing trend, with the inorganic route a preferred mode of global expansion. Germany ranks in the Top 5 M&A destinations for Indian companies globally, and ranks second to the United Kingdom in Europe. While the impact of Brexit is yet to be observed, it is expected to only propel Germany's popularity as a foothold for Indian companies in the European Union. Germany has also ranked as the third most active European acquirer in India, solidifying its importance in both inbound and outbound acquisitions.



More than 40% of all acquisitions in Indian companies were for a majority stake, with 27 out of the 93 transactions representing complete buy-outs. The remaining half witnessed German acquirers taking up a significant or minority interest, with local promoters continuing to be invested in the management and growth of the business. Apart from these direct acquisitions by overseas investors, another trend observed has been of Indian subsidiaries of German companies buying-out their minority shareholders, with a view to hold 100% stake in the company.

Over 70% of all acquisitions of German companies involved complete buy-outs by cash-rich Indian companies, primarily in the Automotive, Capital Goods and Software & Services segments.

With India's improving R&D competencies, German companies are also viewing the country as an R&D hub. M&A trends emphasize the strengths of the two countries as sectors such as Automotive, Pharmaceuticals, and Software lead deal activity, highlighting the synergistic opportunities. Considering the complex and distinct business environments of India and Germany, the corridor has been ripe with collaborations, with over 600 Indo-German joint ventures in India.

In Focus

Essential Industries driving M&A Deals

Sectors	Volume	Value USD mn	Leading Destination[§]
Software & Services	31	344	Germany
Materials	29	219	India
Capital Goods	28	1,960	India
Automobiles & Components	26	946	Germany
Pharmaceuticals, Biotechnology & Life Sciences	13	123	Germany
Retailing	6	259	India
Consumer Durables & Apparel	5	97	India
Commercial & Professional Services	5	23	India
Others	28	511	India

[§] Leading Destination refers to the country (India/Germany) which received the larger portion of deals in the corresponding sector.

Software & Services

Deal Volume 31

Value USD 343.77 mn

Volume%	Internet Software & Services	IT Services	Software	Internet & Catalog Retail
	29	42	26	3

Industry Edge: Accounting for 75% of global digital talent, India has become the hub for digital innovation and capabilities.

The abundance of IT firms and cost-effectiveness of over 3 times that of US-based companies makes India a prime contender in the global sourcing market. With this leadership in servicing international clientele, the IT-BPM industry is the largest contributor to total exports in India. Along with its cost-competitiveness and large talent base, the immense potential for digital transformation makes it an essential consumer market for service providers globally. India's 450 million+ internet subscriber base is already the second-largest in the world, and is set to grow exponentially.

Deals Dissection: Indian investments in overseas software companies have been following an increasing trend. Given the rapidly evolving nature of the industry, cash-rich IT companies have been making global acquisitions to enhance their technology portfolio and tap into experienced talent, along with expanding their customer base. Germany has emerged as the second-most popular destination for such acquisitions, with the most recent being Tata Consultancy Services' buy-out of Postbank Systems AG. Half of all projects initiated by India in Germany pertain to the IT sector and several prominent Indian software companies including Wipro, HCL, and Tech Mahindra have opted for inorganic growth in the German market in recent years.

India Industry Highlights

- USD 177 billion in 2019 and is expected to grow to **USD 350 billion by 2025**
- 2nd **largest** tech startup hub of the world
- **55% share** in global outsourcing market
- Employment to **3.9 million** people
- More than **17,000 firms**

Deal Volume and Key Deals

India 15 — Germany 16

2012 — Internet Software & Services
Target: Networkplay Media Pvt Ltd
Buyer: Gruner + Jahr AG and Co KG
Value: USD 8.22 million
% Sought: 90.48%
Deal Rationale: Portfolio Enhancement

2015 — IT Consulting & Other Services
Target: Cellent AG
Buyer: Wipro Ltd
Value: USD 77.87 million
% Sought: 100%
Deal Rationale: Market Penetration

2017 — IT Consulting & Other Services
Target: Ramyam Intelligence Lab Pvt Ltd
Buyer: Bertelsmann SE and Co KGaA
Value: NA
% Sought: 100%
Deal Rationale: Technological Advancement

2017 — Internet Software & Services
Target: Kreditech Holding SSL GmbH
Buyer: PayU Corporate
Value: USD 120.52 million
% Sought: NA
Deal Rationale: Technological Advancement

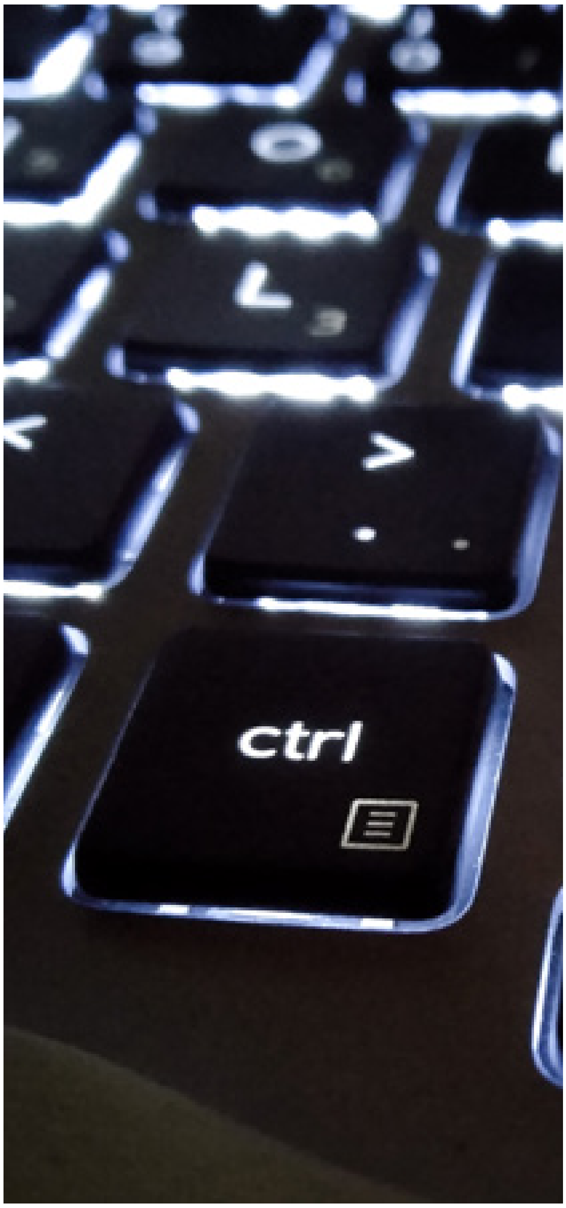
2018 — Application Software
Target: Quantiguous Solutions Pvt Ltd
Buyer: Deutsche Bank AG
Value: NA
% Sought: 100%
Deal Rationale: Talent Acquisition

2018 — IT Consulting & Other Services
Target: Honigsberg and Duvel Datentechnik GmbH
Buyer: HCL Technologies Ltd
Value: USD 35.02 million
% Sought: 100%
Deal Rationale: Market Penetration

Valuation Multiples (Trading)##

Revenue Multiple	2017	2018	2019	2020
India	1.8x	2.1x	2.0x	2.0x
Europe	3.6x	2.8x	3.7x	4.2x

EBITDA Multiple	2017	2018	2019	2020
India	13.2x	12.9x	11.0x	12.3x
Europe	16.7x	14.0x	18.0x	22.7x



Impact of COVID-19

Demand	Sourcing	Production	Workforce	Exports
∧	⊖	∧	∧	∧

The pandemic has created an immediate exigency for a shift to digitalization due to the amplified demand for at-home services, making this one of the few industries to witness a positive impact. Important services related to Education, Food, Consumer Services, Retail, etc. all take place online now, steering investments in education and consumer technology. The imposed lockdown enabled "work from home" opportunities for employees pushing for a rise in application developments, data protection, and cyber security, to allow for smooth collaborations in the ongoing remote working scenario.

ⓘ How to read: ∧ Increase ⊖ No Change ∨ Decrease

Trends likely to drive deal activity

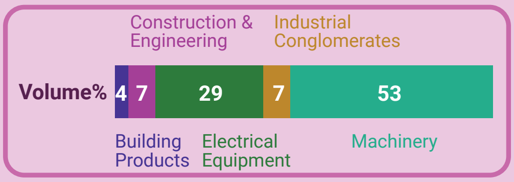
- Digital transformation in businesses as well as service delivery
- Cloud adoption services, cyber/data security, and collaborative applications
- Broadened demand for system and service management software, and performance management tools
- Automation of business processes by way of robotics, artificial intelligence, machine learning, and big data analytics
- Deepening rural penetration of information technology and data localization
- Growing enthusiasm from venture capitalists due to the long-term potential of the sector

The aforementioned valuation multiples are an average of listed company valuation multiples in the specified regions and are a function of the sub-industrial landscape and company composition prevalent in that region. Valuation multiples for transactions would vary on account of several deal-specific factors such as control premium, expected synergies for buyer, time sensitivity, brand/reputation, etc. The sub-industries considered here comprise Software and Information Services, Computer Services and Peripherals for Europe and Internet Services and Infrastructure for India.

Capital Goods

Deal Volume 28

Value USD 1,959.53 mn



Deal Volume and Key Deals

India: 16 | Germany: 12

Industrial Conglomerates (2011)
- **Target:** Siemens Ltd
- **Buyer:** Siemens AG
- **Value:** USD 1,400 million
- **% Sought:** 19.82%
- **Deal Rationale:** Growth and Expansion

Construction & Engineering (2013)
- **Target:** Rail.One GmbH
- **Buyer:** PCM Cement Concrete Pvt Ltd
- **Value:** USD 46.31 million
- **% Sought:** 100%
- **Deal Rationale:** Customer Acquisition

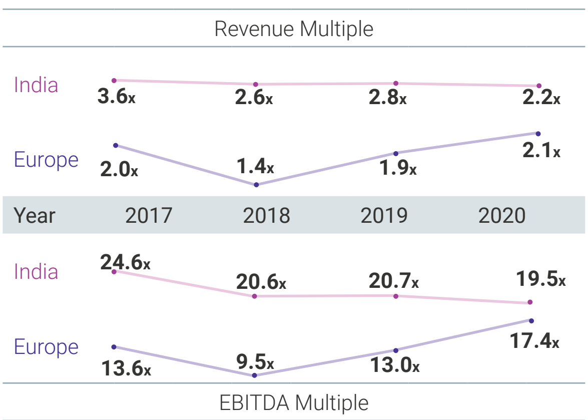
Industrial Machinery (2014)
- **Target:** Micro Precision Products Pvt Ltd
- **Buyer:** Wika Alexander Wiegand SE
- **Value:** USD 42 million
- **% Sought:** 100%
- **Deal Rationale:** Manufacturing Capabilities

Heavy Electrical Equipment (2016)
- **Target:** Platin 1255.GmbH
- **Buyer:** TD Power Systems Ltd
- **Value:** NA
- **% Sought:** 100%
- **Deal Rationale:** Asset Management

Industrial Machinery (2018)
- **Target:** Kimplas Piping Systems Ltd
- **Buyer:** Norma Group SE
- **Value:** NA
- **% Sought:** 100%
- **Deal Rationale:** Capacity Enhancement

Industrial Machinery (2019)
- **Target:** GSB Group GmbH
- **Buyer:** Dalmia Refractories Ltd
- **Value:** USD 17 million
- **% Sought:** 100%
- **Deal Rationale:** Technological Advancement

Valuation Multiples (Trading)##



Impact of COVID-19

Demand	Sourcing	Production	Workforce	Exports
Decrease	Decrease	Decrease	Decrease	Decrease

The lockdown-mandated production halts raised unabsorbed fixed costs, consequently leading to a liquidity crunch, longer credit cycles and pressurized working capital requirements. Trade tensions and slowing economic growth further deteriorated the situation for an already stressed industry. Factories will be required to be refurbished to meet safety and social distancing norms, which will likely result in cascading costs to customers. Revival of this sector is expected to be prolonged, with order inflows hinging on a possible increase in government spending on capital infrastructure projects.

How to read: Increase | No Change | Decrease

Trends likely to drive deal activity

- Green Capital Goods to control pollution and waste levels of SMEs
- Free Trade Agreements signed by India with countries like Japan and Korea, and the ASEAN trading bloc
- Increasing focus on accessibility of capital and technology
- Impetus to domestic manufacturing and improvement of trade balance through:
  - Relaxed FDI norms
  - Government programs like 'Make in India' and 'Aatmanirbhar Bharat'
  - Industry focus through the Capital Goods Scheme and National Capital Goods Policy
  - Increasing tax incentives

The aforementioned valuation multiples are an average of listed company valuation multiples in the specified regions and are a function of the sub-industrial landscape and company composition prevalent in that region. Valuation multiples for transactions would vary on account of several deal-specific factors such as control premium, expected synergies for buyer, time sensitivity, brand/reputation, etc. The sub-industries considered here comprise Industrial Machinery.

Automobiles and Components

Deal Volume
26

Value
USD 946.25 mn

Volume%	Auto Components	Automobiles
	88	12

Industry Edge: Given Germany's recognition globally for its technological prowess and India's large consumer market, the popularity of this industry in the Indo-German deal landscape is apparent.

India is expected to be the world's third-largest Automotive market in terms of volume by 2026, reaching a value of USD 300 billion, owing to growing household income coupled with an immense untapped potential for vehicle penetration. The country enjoys one of the top positions in manufacturing and exports globally, with Germany as the second-largest export market for Indian auto component manufacturers.

Deals Dissection: With these synergies, German auto companies enjoy a strong position in India, with brands like Mercedes, BMW, and Audi in the luxury car segment, and Volkswagen and Skoda in the mid-range segment. A mix of large auto houses as well as fragmented players has allowed foreign players to enter the market through both tie-ups with major powerhouses and acquisitions of smaller companies.

Germany is also the most popular M&A destination for Indian auto companies. The highly competitive and innovative German Automotive industry is one of the largest employers in the world. Germany is, by far, Europe's leading production market accounting for approximately 25% of all passenger cars manufactured in the continent. The country's R&D infrastructure and complete industry value chain integration creates an internationally peerless Automotive environment, thus making it an attractive target for buyers.

In the coming years, the focus on electric mobility will drive investments and deals in the Auto segment, as Germany pledges to invest USD 1 billion in India over the next five years.

India Industry Highlights

- The USD 118 billion Automobile industry is expected to reach **USD 300 billion by 2026**
- A total of **26 million** vehicles were manufactured in April-March 2020
- India is the **largest tractor manufacturer** and **second-largest bus manufacturer**
- The total value of Auto Component exports are expected to reach **USD 80 billion by 2026**
- The Electric Vehicle (EV) market is expected to reach **6.34 million-unit annual sales** by 2027

Deal Volume and Key Deals

8 (India) — 18 (Germany)

2011 — Tires & Rubber
Target: Modi Tyre Company Pvt Ltd
Buyer: Continental AG
Value: USD 30.48 million
% Sought: 100%
Deal Rationale: Market Penetration

2011 — Auto Parts & Equipment
Target: SMP Deutschland GmbH
Buyer: Samvardhana Motherson Global Holdings Ltd
Value: USD 197.79 million
% Sought: 80%
Deal Rationale: Product Portfolio Enhancement

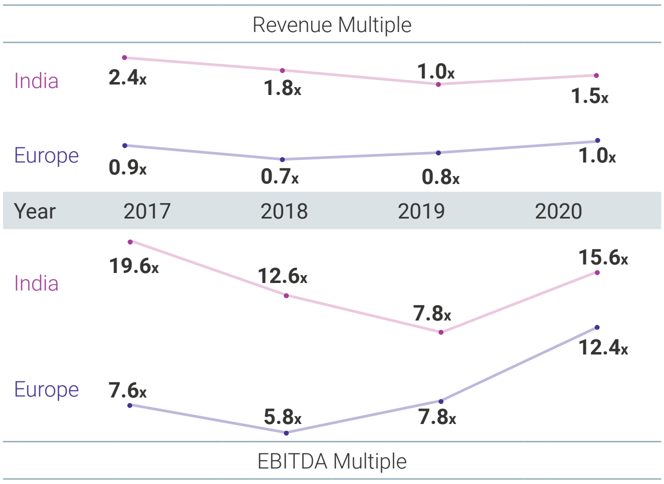
2013 — Auto Parts & Equipment
Target: Sigma Vibracoustic India Pvt Ltd
Buyer: Freudenberg SE
Value: USD 92 million
% Sought: 50%
Deal Rationale: India Business Integration

2015 — Auto Parts & Equipment
Target: Reifencom GmbH
Buyer: Apollo Tyres Ltd
Value: USD 48.92 million
% Sought: 100%
Deal Rationale: Strengthening Distribution

2019 — Auto Parts & Equipment
Target: Wabco India Ltd
Buyer: ZF Friedrichshafen AG
Value: USD 430.63 million
% Sought: 25%
Deal Rationale: Technological Advancement

2019 — Auto Parts & Equipment
Target: Linde + Wiemann SE and Co KG
Buyer: JBM Auto Ltd
Value: NA
% Sought: Majority
Deal Rationale: Technological Advancement

Valuation Multiples (Trading)##

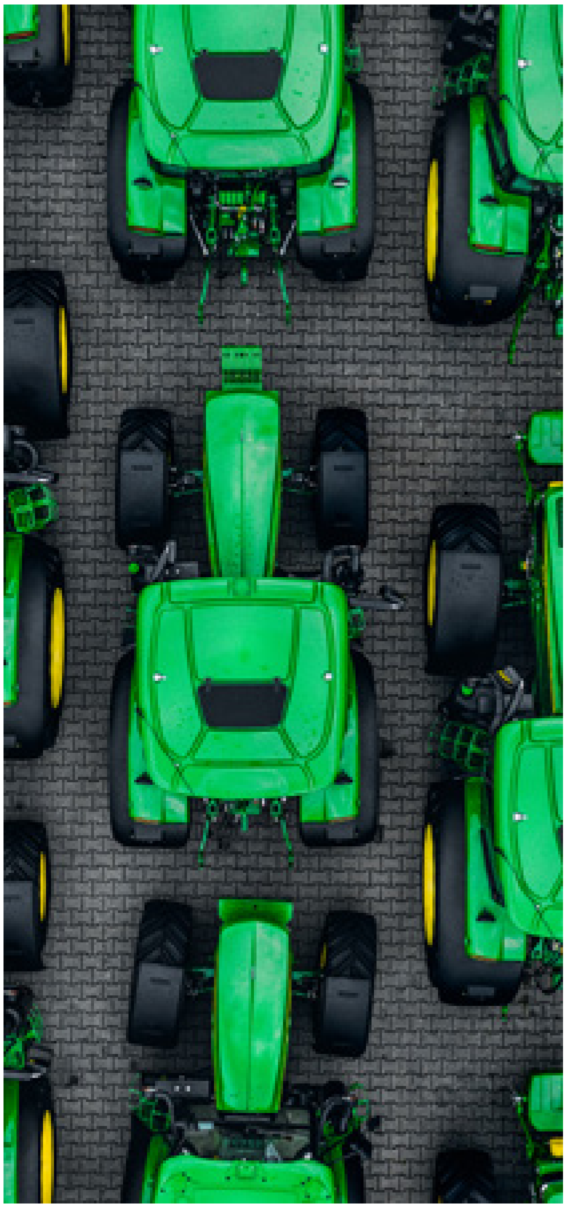


Impact of COVID-19

Demand	Sourcing	Production	Workforce	Exports

There were several factors for the particularly low domestic demand, which were compounded by the lockdown, namely the low consumer confidence, the NBFC liquidity crunch, and high fuel prices. Original Equipment Manufacturers (OEMs) in India slashed their production by almost 20% due to the sluggish demand for vehicles, which had a percolating impact on the sales of most MSME auto component manufacturers, resulting in the loss of jobs. However, while on the road to recovery from COVID-19, experts expect an increase in sales as demand of personal mobility increases as a preferred mode of movement. The government is also focused on coming up with measures to guide the path towards Electric Vehicles (EVs).

How to read: Increase No Change Decrease



Trends likely to drive deal activity

- Resurgence in sales as people prefer private transport due to social distancing concerns
- Transition to hybrid and electric vehicles
- Technological enhancements such as light-weight materials
- Voluntary vehicle fleet modernization program aimed at replacing old vehicles
- Switching to local suppliers for production components to promote localization
- Production linked incentive schemes to encourage production and exports

The aforementioned valuation multiples are an average of listed company valuation multiples in the specified regions and are a function of the sub-industrial landscape and company composition prevalent in that region. Valuation multiples for transactions would vary on account of several deal-specific factors such as control premium, expected synergies for buyer, time sensitivity, brand/reputation, etc. The sub-industries considered here comprise Automobile Manufacturers and Auto Parts & Components.

Materials

Deal Volume 29

Value USD 218.74 mn

Volume%	Chemicals	Construction Materials	Containers & Packaging	Paper & Forest Products	Metals & Mining
	31	7	38	21	3

Deal Volume and Key Deals

18 (India) — 11 (Germany)

Year	Sector	Target	Buyer	Value	% Sought	Deal Rationale
2011	Metal & Glass Containers	Agenda Glas AG, Gardelegen Glass Container Plant	Hindusthan National Glass and Industries Ltd	USD 71.45 million	100%	Market Expansion
2012	Metal & Glass Containers	Triveni Polymers Pvt Ltd	Gerresheimer AG	NA	75%	Manufacturing Capabilities
2013	Aluminium	H.J. Kupper GmbH and Co KG	Castex Technologies Ltd	USD 68.43 million	100%	Manufacturing Capabilities
2015	Diversified Chemicals	Monarch Catalyst Pvt Ltd	Evonik Industries AG	NA	100%	Supplier and Customer Relationships
2016	Metal & Glass Containers	Essel Deutschland GmbH and Co KG	Essel Propack Ltd	USD 24 million	75.10%	Capacity Utilization
2019	Paper Packaging	Kamakshi Flexiprints Pvt Ltd	SUDPACK Verpackungen GmbH and Co KG	USD 8.61 million	41%	Customer Relationships

Valuation Multiples (Trading)##

Revenue Multiple

Year	2017	2018	2019	2020
India	2.6x	2.0x	1.7x	1.7x
Europe	1.6x	1.3x	1.5x	1.8x

EBITDA Multiple

Year	2017	2018	2019	2020
India	16.2x	11.7x	10.4x	11.4x
Europe	10.0x	8.4x	9.5x	13.1x

Impact of COVID-19

Demand	Sourcing	Production	Workforce	Exports
Decrease	Decrease	Decrease	Decrease	Decrease

The effects of COVID-19 led to severe supply chain disruptions and rising costs coupled with delayed project executions. The significant dependency on raw materials from single sources/imports and non-lean supply chain strategies are the major factors impacting this industry. Repercussions of the lockdown led to materials classified as discretionary spends (wood, ceramic, etc.) experiencing a deferred demand. To sustain operations amidst reduced demand and raw material availability, packaging products witnessed a significant hike in prices, likely to be corrected as economic activity normalizes.

How to read: Increase — No Change — Decrease

Trends likely to drive deal activity

- Increased investments in sustainability and the use of green materials
- Increase in the localization and decentralization of supply chains
- Accelerated growth in the Material Handling and Packaging segment due to investments in Food Processing, Personal Care, and Pharmaceuticals
- Gain in market share of Agro-chemicals and Biocidal material use
- Government focus on infrastructure development projects to encourage FDI inflows
- Production linked incentive schemes to encourage production and exports

The aforementioned valuation multiples are an average of listed company valuation multiples in the specified regions and are a function of the sub-industrial landscape and company composition prevalent in that region. Valuation multiples for transactions would vary on account of several deal-specific factors such as control premium, expected synergies for buyer, time sensitivity, brand/reputation, etc. The sub-industries considered here comprise Chemicals, Construction Material, Metals and Mining.

Pharmaceuticals, Biotechnology & Life Sciences

Deal Volume
13

Value
USD 122.66 mn

	Biotechnology	Life Sciences Tools & Services	Pharmaceuticals
Volume%	15	8	77

Industry Edge: Rightly hailed as the 'Pharmacy to the World,' India's role in manufacturing affordable medicines, particularly generics, makes the industry critical in the global landscape. The manufacturing base provides pharmaceutical companies an edge in terms of cost and quality, housing the largest number of US-Food and Drug Administration (FDA) compliant pharmaceutical plants outside of the US, with the manufacturing cost approximately 33% lower than that of the US. The country is the largest provider of generic drugs globally, with a high dependency of countries like the US and UK on exports from India. The industry is expected to grow to USD 100 billion by 2025.

Deals Dissection: Given the significant protocols involved in new set-ups in this industry and the abundance of Indian manufacturers, several global players have opted for the inorganic route to leverage the Indian advantage. German majors like Braun AG have enhanced their presence in India by acquiring local companies for manufacturing and regional strategic supplier/customer relationships. Indian pharma companies like Lupin, Sun Pharma, and Piramal have also taken over German companies to make the country their primary hub in the European market.

India Industry Highlights

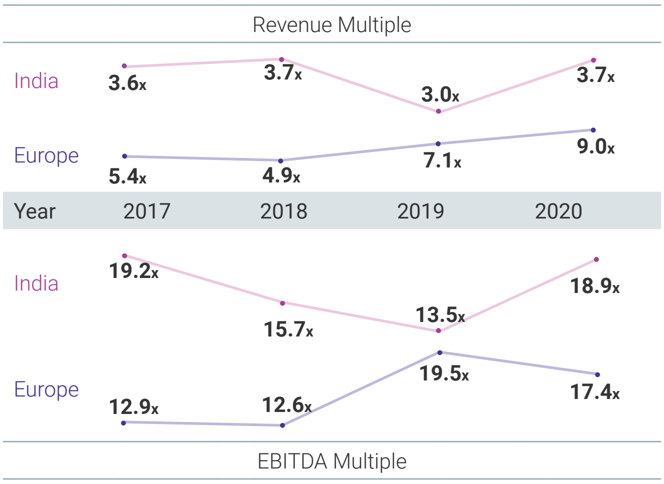
- Industry size – **USD 40 billion** (expected to grow to **USD 100 billion by 2025**)
- **60,000** generic brands
- Over **3,000** manufacturers (**~10,500** manufacturing units)
- **3rd largest** API industry

Deal Volume and Key Deals

India: 6 — Germany: 7

Year	Sector	Target	Buyer	Value	% Sought	Deal Rationale
2011	Life Sciences Tools & Services	Evotec India Pvt Ltd	Evotec AG	USD 2.27 million	30%	Operational Efficiency
2012	Pharmaceuticals	Ahlcon Parenterals India Ltd	B. Braun Melsungen AG	USD 48.53 million	75%	Capacity Enhancement
2014	Pharmaceuticals	Piramal Enterprises Ltd, Diagnostic Solutions Business	DiaSys Diagnostic Systems GmbH	USD 2.15 million	100%	Supplier and Customer Relationship
2015	Pharmaceuticals	Temmler Pharma Gmbh and Co Kg, Specialty Product Portfolio	Lupin Ltd	NA	100%	Portfolio Enhancement
2017	Biotechnology	Evoxx Technologies Gmbh	Advanced Enzyme Technologies Ltd	USD 8.91 million	100%	R&D Capabilities, Product Enhancement
2018	Pharmaceuticals	Bremer Pharma GmbH	Alivira Animal Health Ltd	USD 2.80 million	100%	Manufacturing Capabilities

Valuation Multiples (Trading)##

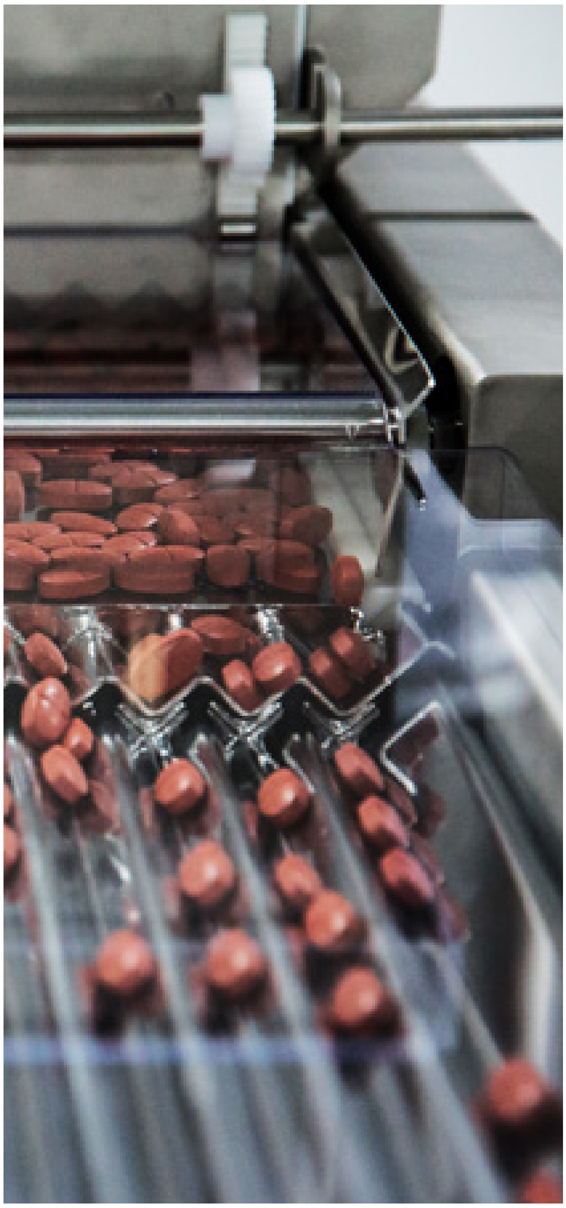


Impact of COVID-19

Demand	Sourcing	Production	Workforce	Exports
∧	∨	∧	∧	∧

The growing need of Active Pharmaceutical Ingredients (APIs) and the creation of vaccines to curb the COVID-19 spread led to crucial collaborations in the Healthcare space. Indian manufacturers greatly relied on imports of key materials, however, government incentives helped to overcome these problems, gradually leading to India playing an essential role by providing more than 20% of the world's and almost 50% of US generic drug requirements. As the circulation of vaccines begins on a large scale, India's position as a front-runner in drug manufacturing is expected to continue in the years to come.

(i) How to read: ∧ Increase ⊖ No Change ∨ Decrease



Trends likely to drive deal activity

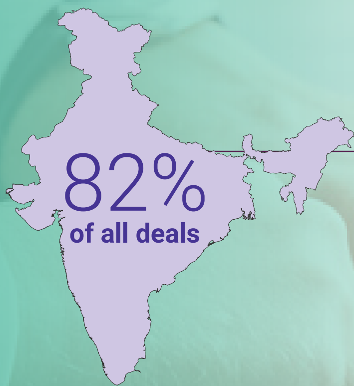
- Dominant position for branded generic medicines and the API market
- Streamlining of supply chains
- Contract research and manufacturing arrangements
- Digitization of information held on customers and businesses, to ensure the safety of data and minimize risk of errors in the system
- Development of specialized drugs

The aforementioned valuation multiples are an average of listed company valuation multiples in the specified regions and are a function of the sub-industrial landscape and company composition prevalent in that region. Valuation multiples for transactions would vary on account of several deal-specific factors such as control premium, expected synergies for buyer, time sensitivity, brand/reputation, etc. The sub-industries considered here comprise Pharmaceuticals and Biotechnology.

Mapping Investor Interest

Regional Concentration of Deals

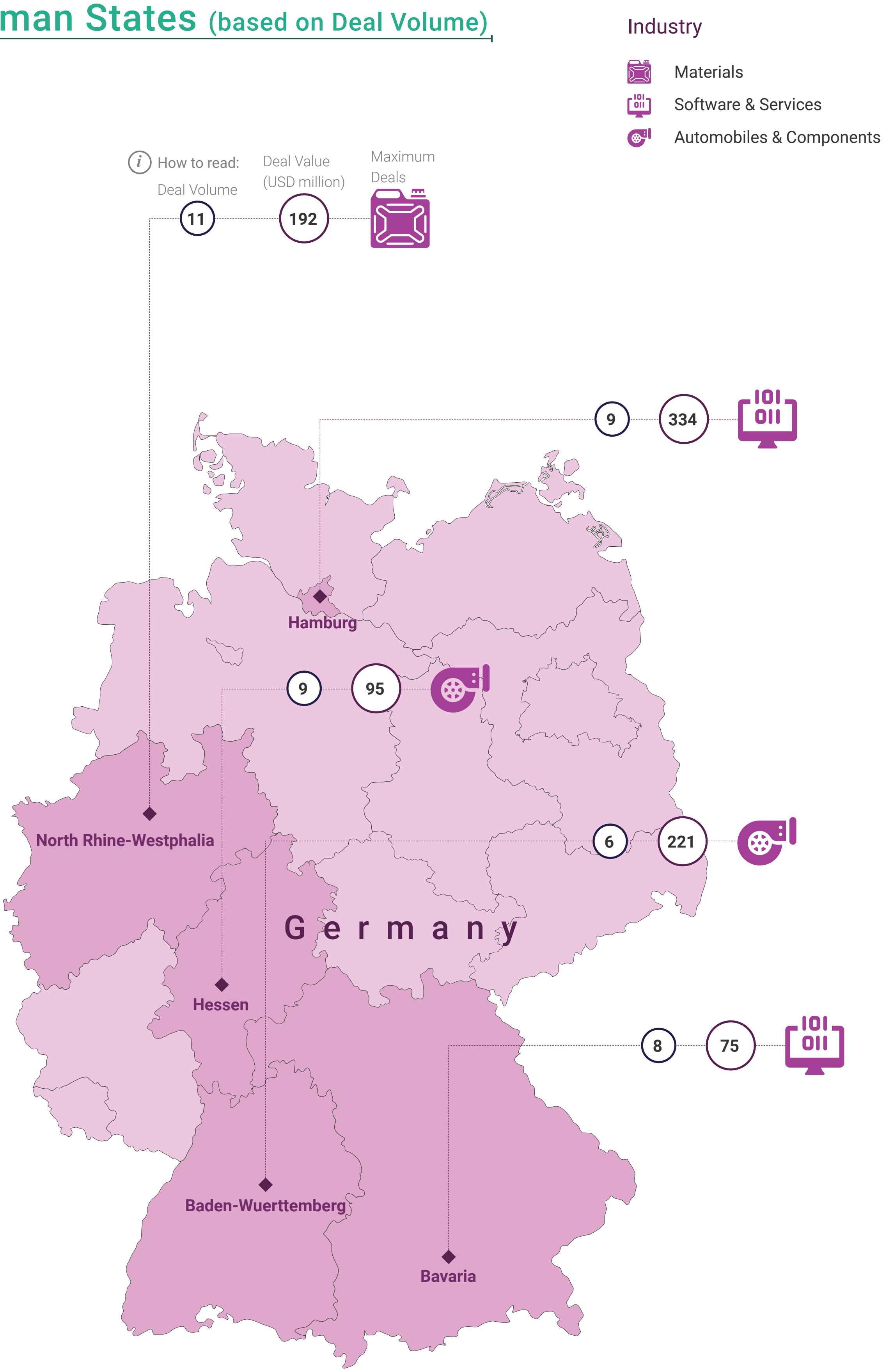
Top 5 Regions Comprising



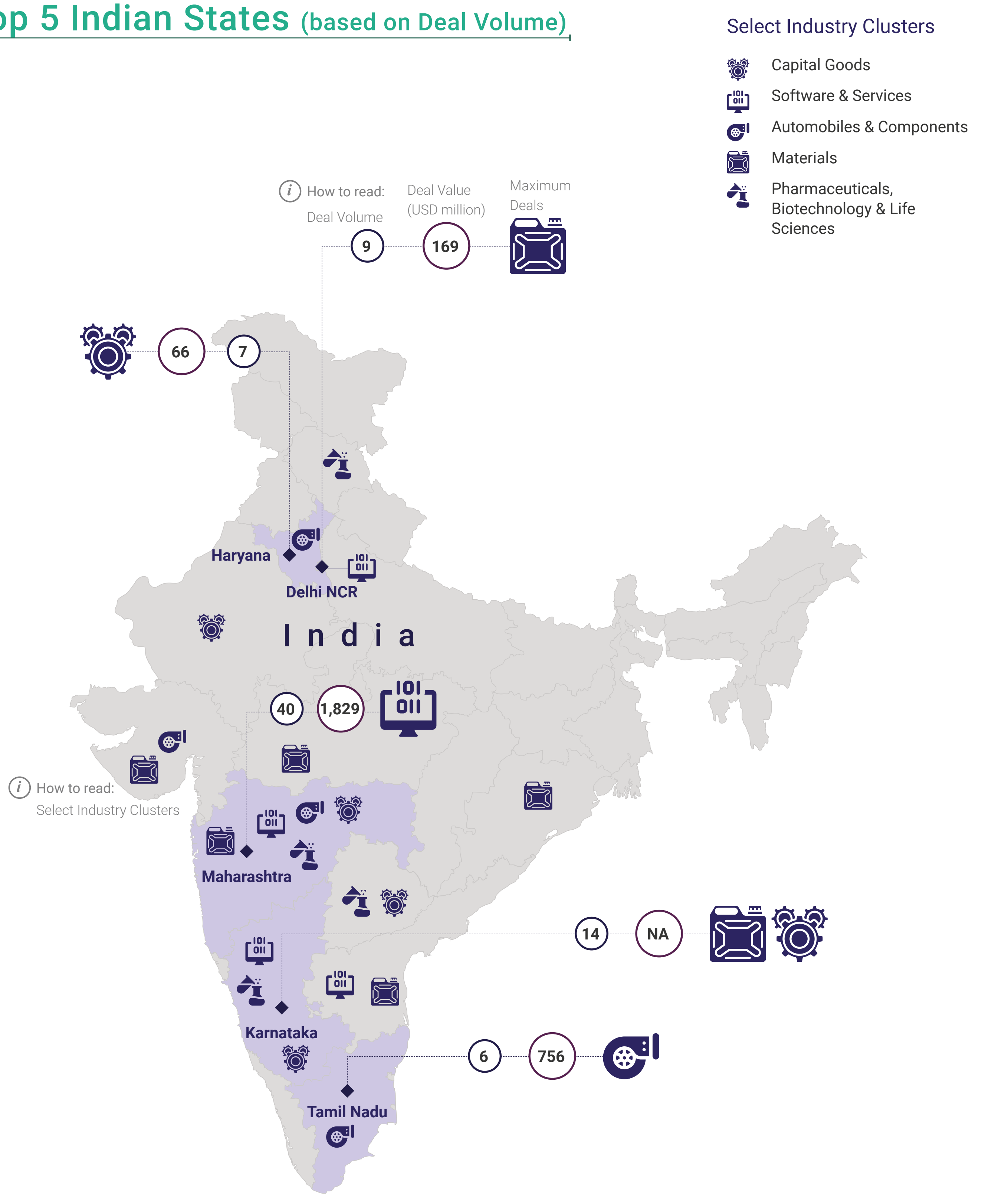
Powered by

- Industry Clusters
- Infrastructure
- Availability of Targets
- Government Incentives
- Supply Chain and Market

Top 5 German States (based on Deal Volume)



Top 5 Indian States (based on Deal Volume)



Delving into the Details

Case Studies

Building capabilities for the global market

Acquirer:	HIL Ltd
Deal Value:	USD 97.36 million
% of share acquired:	100%
Industry:	Materials
Deal completed:	August 2018
Target:	Parador Holdings GmbH

Background of the Acquirer

HIL Ltd is a flagship company of the reputed USD 2.4 billion conglomerate 'CK Birla Group'. The company has a legacy of more than 70 years in the Building Materials and Solutions industry. Known for pioneering the concept of 'green technology' almost a decade ago, HIL Ltd has vested compelling interest in environmentally sustainable products. The company has 20 manufacturing facilities spread across India. HIL Ltd has been recognized among the top 30 manufacturing companies in India and achieved market leadership for its high quality and innovative products. Honoured with numerous titles, HIL Ltd has been able to captivate the 'Superbrand' image in the market through its widespread sales and distribution network in over 80 countries.

Background of the Target

With experience of over four decades, Parador Holdings GmbH is engaged in developing products for flooring, walls, and ceilings with the highest standards in terms of quality and design based in Germany. Having a well-experienced team of in-house designers and architects, the company has received various international design awards such as the German Design award, the European Design award, etc. The company has two manufacturing facilities, one in Germany and the other in Austria. It also supports campaigns related to climate change and sustainable forestry.

Mechanics of the Deal

Through its wholly owned subsidiary 'HIL International GmbH', HIL Ltd bought 100% stake in Parador Holding GmbH for a total consideration of USD 97.36 million.

In 2018, this deal was carried out when the EBITDA market multiples for the industry in which HIL Ltd operated was between the range of 12x-15x.

When the transaction took place, Parador Holdings Gmbh was estimated at an enterprise value of EUR 82.8 million (USD 96.7 million), generating revenue worth EUR 140 million (USD 163.5 million) and a revenue multiple of approximately 0.6x with the help of its 550 employees. The average industry listed company revenue multiple (at that time) stood between 1.2x-1.3x.

Prior to this deal, the debt-equity ratio of HIL Ltd was 0.12, both on a standalone and consolidated basis. However, as the transaction was financially backed by a bundled source of Euro debt, Rupee debt, and internal accruals, the debt-equity ratio of HIL Ltd increased subsequently to 0.55 and 1.00 on a standalone and consolidated basis, respectively.

Post transaction, Parador Holdings GmbH will operate as wholly owned subsidiary of HIL Ltd.

Understanding the Synergies

HIL Ltd had followed the organic route to grow before this deal, and is now focusing on its core Building and Infrastructure business emphasized by the recent divestment of its insulation products division.

The transaction is in line with the vision of HIL Ltd to establish itself as a global building material solution provider, also expanding their manufacturing capabilities to Germany and Austria.

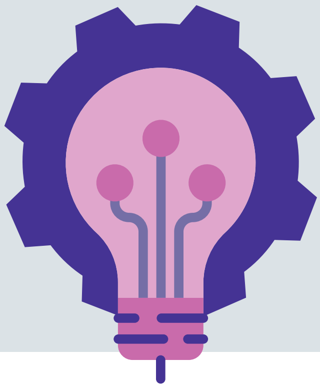
After the deal, HIL Ltd will reinforce its position in its well-built network in India by means of cross-selling and leveraging. It will also provide opportunities to augment the European market and markets of other countries in South East Asia and United States of America.

The main hypothesis for executing this transaction is centered around the following fundamental parameters:

- Robust acumen for its best-in-class technology
- Renowned brand value, customer base, and market access
- Strong research and development design capabilities to deepen their presence in green technology

HIL Ltd comprehensive building solutions is broadly categorized into four main types, namely, roofing, walling, flooring, polymer (pipes & putty), and engineering solutions. Parador Holdings GmbH is primarily engaged in flooring, wall, and ceiling solutions. Therefore, the products of Parador Holdings GmbH, are complementary to HIL Ltd's product portfolio.

With this deal, the management of HIL Ltd aimed to achieve a gradual growth of its Earnings Per Share (EPS) and double its revenue from FY20 onwards.



Technological advancements for product upgradation

Acquirer:	Minda Industries Ltd	
Deal Value:	USD 23.05 million	USD 7.61 million
% of share acquired:	100%	80%
Industry:	Commercial & Professional Services	Software & Services
Deal completed:	Dec 2019	Oct 2018
Target:	Delvis GmbH	iSYS RTS GmbH

Background of the Acquirer

Reaping revenues greater than USD 1 billion, UNO Minda is a leading Tier 1 supplier of Proprietary Automotive Solutions to Original Equipment Manufacturers (OEMs). Being in the market for more than 60 years, the conglomerate has significantly contributed to the Automotive industry supply chain with innovative products, designed and engineered for efficiency. The company has manufacturing facilities in seven countries, more than ten R&D centres, and operations spread across 62 plants globally.

Background of the Target

Delvis GmbH

Founded almost a decade ago, Delvis GmbH is an established international development partner in the Automotive industry in the areas of design, electronics, and lighting technology. It engages in designing, developing, and industrializing innovative concepts and solutions for the next generation of vehicles.

iSYS RTS GmbH

iSYS RTS GmbH is a niche medium-sized enterprise engaged in the development of embedded system and software development services in areas of vehicle technology and environmental technology. The company has 70 employees with the primary aim to design innovative solutions and develop for the future.

Mechanics of the Deal

Delvis GmbH

In the final quarter of 2019, Minda Industries Ltd acquired 100% equity shares from existing shareholders of Delvis GmbH for a consideration USD 23.05 million.

The acquisition (funded by a combination of debt and equity) also includes two wholly owned subsidiaries of Delvis GmbH (namely Delvis Solution and Delvis Products). At an enterprise value of ~EUR 21 million (USD 22.96 million), this deal garnered a revenue multiple of 1x.

Post this transaction, Delvis GmbH will operate as the subsidiary of Minda Industries Ltd.

iSYS RTS GmbH

At a time when iSYS RTS GmbH generated revenue of EUR 5.9 million (USD 6.91 million), Minda Industries Ltd took over 80% stake in iSYS RTS GmbH for a consideration USD 7.61 million.

The transaction is a mixture of secondary and primary infusion, with a major component acquired through secondary infusion (USD 5.86 million), i.e., from existing shareholders of iSYS RTS GmbH, and the remaining USD 1.76 million as a primary issue.

Post this transaction, iSYS RTS GmbH will operate as a subsidiary of Minda Industries Ltd and will operate as an independent unit led by its existing management team.

Understanding the Synergies

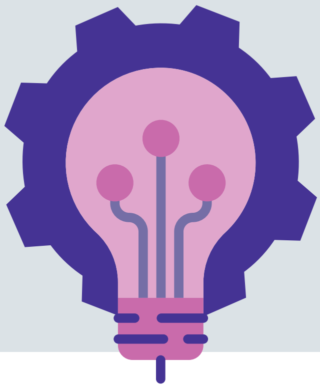
In the past decade, Minda Industries has extensively opted for the inorganic growth route. The company entered into approximately ten transactions, from which four transactions pertain to outbound transactions only in Europe. The Automotive conglomerate chose to acquire controlling stake in Automobiles & Components, or its related technology services companies.

Consequently, these acquisitions are in line with Minda Industries Ltd long-term goal to thrive in its technological aspects/process for its existing product lines and will boost its product offerings to OEMs. It also further aims at enhancing prospects from India to the European Union (EU) and the Association of Southeast Asian Nations (ASEAN).

Delvis GmbH is quite an established company in the auto-lighting technology market and has reputed clientele such as Volkswagen, Audi, and Porsche. While Light Emitting Diode (LED) based lighting products have been in existence in the global markets over the past decade, they have been gaining prominence in India recently. Delvis GmbH's commendable presence in auto-lighting technology was the driving factor for this deal to materialize in order to fill the gap to serve its global markets.

Keeping in mind the increase in content for electronics and kit value in the near term, Minda Industries Ltd has identified controllers as one of its key product lines for future growth. The acquisition of iSYS RTS GmbH will help Minda Industries offer high-end cockpit electronics with the 'premiumization' of vehicles.

For the target companies, these acquisitions will cater to its capital infusion requirements enabling them to take up larger scaled projects and widen its customer and product base. They would also have the access to the manufacturing facilities and engineering centres of Minda Industries Ltd in an emerging country like India.



Expanding capabilities in a prime market

Acquirer:	Brenntag AG
Deal Value:	Undisclosed
% of share acquired:	65%
Industry:	Energy/Materials
Deal completed:	May 2018
Target:	Raj Petro Specialities Pvt Ltd

Background of the Acquirer

Being a global market leader in the Chemical Distributor segment, Brenntag AG provides distribution solutions for industrial and speciality chemicals worldwide. The company's range of ~10,000 products are designed to majorly cater to industries such as Adhesives, Paints, Oil and Gas, Food, Water Treatment, Personal Care, and Pharmaceuticals. With 16,000+ employees across 580 locations in 73 countries, the German headquartered company serves ~200,000 customers globally.

Background of the Target

A family-owned business operating for over 70 years, Raj Petro Specialities Pvt Ltd is an established company in the Indian lubricant industry. Headquartered in Mumbai and Chennai, the 500-employee strong company manufactures and distributes its own blended brands of petroleum-related products to diverse customer industries in India and other countries in the Asia Pacific region as well as in Africa and the Middle East. Raj Petro has two state-of-the-art ISO 9001, 14001 & OHSAS 18001 certified manufacturing plants based in Chennai and Silvassa (D&N), further backed by two hi-tech R&D Centers approved by the Department of Scientific and Industrial Research (DSIR), Ministry of Science & Technology, Government of India and the National Accreditation Board of Testing and Calibration accredited laboratory.

Mechanics of the Deal

As part of the first tranche of the agreement, Brenntag AG gained a majority stake of 65% of the shares in Raj Petro Specialities Pvt Ltd, India. The remaining 35% is to be gained by Brenntag after a period of 5 years with a possible extension of an additional one or two years.

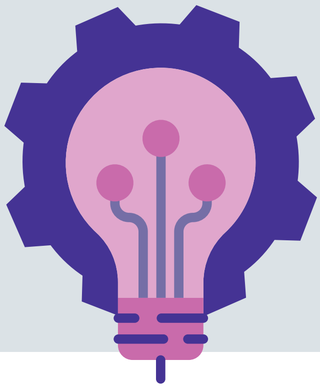
Although the deal value remains undisclosed, according to reliable publicly available sources, the target company has commanded an enterprise value of EUR 92 million (USD 100 million) with the deal taking place at revenue and EBITDA multiples of 0.58x and 5.06x, respectively.

Understanding the Synergies

India has the 7th largest chemical distribution market and 3rd largest for lubricants, which made it an important region for Brenntag's expansion. Raj Petro's strategically placed facilities near major ports in West and Southeast India to offer its blending and repackaging capabilities, as well as house its strong application development team. This coupled with its existing product portfolio and market presence made Raj Petro a prime acquisition target for expansion, not only in India but across APAC, Africa, and the Middle East. Brenntag also reported having a 'synergy plan' for expansion of capacities with Raj Petro's products catering to FMCG, Food, Pharma, Automotive, Rubber, Energy and Power sectors.

Chemical distribution is a very granular business with market characteristics that differ from country to country. The Indian chemical distribution market also has its own market conditions, and knowledge of local requirements, customer and supplier behavior, and cultural differences is key to success in this country. The acquisition of Raj Petro Specialities has therefore been structured as a joint venture. This enables Brenntag to benefit from the Indian colleagues' extensive knowledge of local conditions and country-specific requirements.

As for Raj Petro, through this joint venture, it intends to integrate into Brenntag's global platform of products, suppliers, customers, and best-in-class industry practices and fully leverage the synergies to emerge as one of the fastest-growing specialty petroleum products companies in South Asia. By virtue of Brenntag AG's logistics network, sales organization, and application experts, Raj Petro pursues to engage more deeply with international key accounts and expand their business into new countries.



Global strategy paving way for Indian acquisition

Acquirer:	ZF Friedrichshafen AG
Deal Value:	USD 481.72 million
% of share acquired:	25%
Industry:	Automobiles & Components
Deal completed:	May 2020
Target:	Wabco India Ltd

Background of the Acquirer

ZF Friedrichshafen AG, also known as ZF Group, is a global technology company that develops, manufactures, and distributes products and systems for passenger vehicles, commercial vehicles, and industrial technology among others, enabling the next generation of mobility. With its four technology domains - Vehicle Motion Control, Integrated Safety, Automated Driving, and Electric Mobility - ZF is strategically positioned to focus on comprehensive solutions for established vehicle manufacturers and electric mobility going forward.

Background of the Target

Wabco India Ltd is India's market leader for advanced braking systems, conventional braking products, and related air assisted technologies and systems. Powered by its vision for accident-free driving and greener transportation solutions, Wabco India provides industry-leading solutions in the Autonomous, Connected and Electric (ACE) domains to the commercial vehicle industry in India. Its clientele includes renowned industry players such as Ashok Leyland, Tata Motors, Bharat Earthmovers, TAFE, Volvo, Eicher Motors, Force Motors, and Mahindra & Mahindra. Wabco India has five manufacturing facilities, an advanced technology development center, a vehicle testing facility, and a nation-wide aftermarket distribution and services network.

Mechanics of the Deal

ZF Friedrichshafen AG made an open offer of INR 7,067.51 per share, totalling INR 33.51 billion (~USD 481.72 million) for a 25% share in Wabco India Ltd. The open offer was triggered under regulations of the Securities and Exchange Board of India (SEBI) after ZF Group's acquisition of the target's parent group, US-based Wabco Holdings. The shares of Wabco India were eventually acquired in May 2020 along with Wabco Asia Pvt Ltd.

With an implied enterprise value of USD 1.8 billion against revenues and EBITDA of USD 421.43 million and USD 69.46 million, respectively. This open offer generated transaction multiples of 4.4x revenue and 26.6x EBITDA.

Post this transaction, ZF Group will hold 100% shares of Wabco India, of which 75% shares are indirectly held through Wabco Asia.

Following the global acquisition, Wabco was integrated to operate as the new Commercial Vehicle Control Systems Division within ZF Friedrichshafen AG.

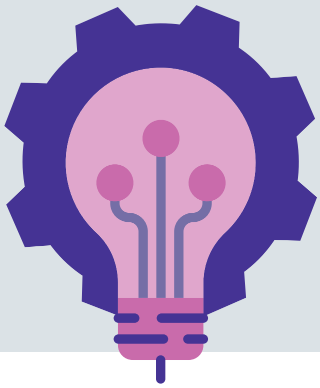
Understanding the Synergies

ZF has a strong history of growing its presence in India through acquisitions and joint ventures. Similar to its earlier global acquisition of TRW, the deal with Wabco enhanced ZF's India assets.

This transaction brings together two leaders with highly complementary and innovative technology offerings to address future demand for advanced mobility in commercial vehicles.

With this acquisition, ZF aims to serve OEMs and fleets in the Automotive and Commercial Vehicle industry with greater efficiency. The differentiated technologies and customer intimacy developed over the years will be leveraged going forward to sustain the company identity as the global leader for the next generation of ACE commercial vehicles. The extensive combined product portfolio now encompasses conventional/electric drive and chassis components, a comprehensive suite of sensors as well as fully integrated, advanced braking, steering, and driver assistance systems for OEMs seeking technological differentiation for their new vehicle platforms. Additionally, ZF can offer digital fleet management solutions and an extensive global network of aftermarket services for commercial vehicles.

Despite the acquisition being completed amidst the disruptions caused by the pandemic, the company declared that the integration process of Wabco is running according to plan and progressing particularly well in the areas of highly advanced driver assist systems and autonomous functions for commercial vehicles.



Adapting and Emerging

How COVID-19 impacted M&A Deal-making

Under the wrath of the COVID-19 pandemic, the volume of mergers and acquisitions worldwide fell by 28% in the first quarter of 2020, reaching USD 698 billion (equivalent to EUR 643 billion), the lowest level since the first quarter of 2016. Governments across the globe were forced to take resilient measures to protect their economy. Although many ‘new normal’ regulations came in place, the pandemic had the corporate finance world in its grip. Being over a year and a half into the pandemic now, corporates and investors have stopped holding their breath and are slowly venturing back into deals, of course, with great caution.

The reason for the slow return is the uncertainty surrounding the transactions. Both attractive targets and strong buyers have been weakened by the pandemic. As a result, both sides of the transaction may want to invest more time in the M&A process.

However, there is one sub-sector of transactions that has received a boost because of the pandemic - the distressed assets sector - where companies are sold out of a crisis situation or insolvency. Both India and Germany have extended emergency aids to struggling companies and many managed to keep their heads above water in the first phase of the crisis. Apart from the emergency aids, interest and loan payments have been deferred, along with the obligations to file for insolvency. However, all of these measures are limited in nature and post expiry of which, some companies will not be able to cope with the continuing financial burdens.

The distressed transactions can be categorized into two categories. The first is where companies were already in financial difficulties before the pandemic and faced acute liquidity shortages in the wake of the crisis. The second is where companies are unable to sustain themselves beyond the emergency aids or unable to refinance huge amounts of deferred debt. In such a situation, apart from specialized distressed investors, other financial investors and strategic buyers are on the look-out for promising opportunities where companies are crisis-ridden but not yet insolvent.

Adapting to Change

- Investors are more vigilant than before while investing and lending money to potential targets, with paramount importance given to valuation gaps emerging between the transacting parties, leading to prolonged and challenging pricing negotiations. Negotiations are trickier as buyers are keen on including possible crisis effects in the purchase price while sellers claim that the temporary effects of the crisis should not be a factor.
- An in-depth analysis of the sectoral impact of COVID-19 is required to understand how it should be addressed in the business plan. While sectors such as Tourism, Hospitality, and Construction would see a longer-term impact, consumer products is experiencing a faster recovery. The uncertain times call for a deeper emphasis on the assessment of the target’s cashflow management, solvency risk, and normalization of working capital.
- To safeguard the interests of buyers and sellers, companies are opting for alternative transaction structures involving earn-outs and deferred payments.
- Increased emphasis is being paid to comprehensive deal documentation to cover contingencies. Clauses to consider emergency protocols along with contingency and business continuity planning are gaining increased prominence.

Forging the Future

Outlook

Economic Upturn

Germany

The real GDP growth of Germany is expected to reverse significantly from -5.1% in 2020 to 3.7% in 2021, with a continued increasing trend in 2022 as well (5.2%). One of the main drivers behind this strong growth can be attributed to the export industry. Moreover, both the Service and the Manufacturing sectors recovered swiftly since Q3 of 2020. While there was a strong increase in the inflation rate in Q1 of 2021, as suggested by the Deutsche Bundesbank, this is most likely a one-time effect.

The saving ratio in Germany in 2020 was much higher than in previous periods, which is expected to drop sharply through 2021 and continue at a low level until 2023. The decrease in the savings ratio sends out the signal that there will be a huge recovery in consumer spending in future periods. Apart from that, the existing deficit in government budget is expected to fall significantly in the coming year due to the expiration of COVID-19 support measures. The reduced fiscal deficit, according to the Mundell-Fleming model, will lead to a decrease in the exchange rate of the Euro, which will benefit potential foreign investors.

At the same time, thanks to the ongoing vaccination campaign in Germany, the perceived risks and uncertainties in the economy have decreased substantially. Improved investor sentiment in the whole economy is expected to lead to more confidence in the M&A market, backed by minimal restrictions for foreign investors in most business areas.

India

According to the World Bank, the economy of India contracted significantly in 2020 with the GDP growth rate at -8.0% under the impact of the COVID-19 pandemic. However, confidence in the economy's strong recovery remains high with the GDP growth rate forecast for 2021 at 9.5%. The positive GDP growth rate is expected to continue at a slower but still positive level at around 7.0% in 2022.

In India, despite the pandemic, the Agriculture sector performed steadily in 2020. The Manufacturing sector, along with several others, are expected to experience a strong rebound in the coming periods. Furthermore, although capital investments went through a lull in 2020, the postponed investment decisions and held-up capital are expected to be implemented soon after the lag year.

Indo-German Investments

2021 and Beyond

Emerging from the initial shock of the pandemic, businesses are increasingly looking beyond sustainability and toward their growth plans. The financial strain, operational and travel restrictions, and economic uncertainties had forced many companies to pause their inorganic growth plans in 2020, especially in the case of cross-border deals. However, with businesses coping with the new normal, they now have a strong will to come back to the M&A playfield and make up for missed/delayed opportunities. The lull observed in the cross-border activities in the pandemic year is expected to be countered on account of fresh deals and the reopening of dialogs in halted transactions.

The year began with the deal value of the global M&A market in Q1 2021 setting a new record since 2007, creating a very promising prospect for the current year. In India, the M&A landscape witnessed signs of recovery primarily led by domestic deals and a sizeable contribution of outbound deals. Although inbound M&A in India this year witnessed a dramatic low deterred by the unnerving second wave of the virus, this is expected to be a temporary setback. In Germany too, more than half of all transactions were domestic/ outbound in nature from January to June 2021.

Key Indo-German M&A deals in 2021

Acquirer Service Lee Technologies Pvt Ltd
Target WebToGo GmbH
Software & Services
Acquisition Type: Complete Buy-out

Acquirer Acquisition by ERGO Versicherungsgruppe AG
Target HDFC ERGO General Insurance Company Ltd
Insurance
Acquisition Type: Increase of stake in subsidiary through Minority Acquisition

What will drive Indo-German Deals?

Propelled by the distancing norms mandated during the pandemic, the transactional trend in the next few years is geared towards digitalization. E-health, Ed-tech, and E-retail are among the sectors which have observed a flurry of deals in the past year and a half, and this interest is only expected to pique further. Artificial intelligence, cloud adoption, and data security are other areas in Information Technology that will drive deal activity.

The pandemic also reinforced the need for enhancing Healthcare availability as well as the diversification of supply chains, particularly for Pharmaceuticals. In addition to acquisitions and joint ventures, companies would also look to contract research and manufacturing arrangements in the near future.

Electric mobility and renewable energy are being heavily promoted by the Indian government and will likely see promising developments in the near future. Moreover, with India's vision of becoming a self-reliant economy and establishing itself as a global manufacturing hub, a sizeable boost to investments in the manufacturing sector can be foreseen in the near future. MSMEs are expected to be an integral part of this change.

These factors, clubbed with India's long-term potential, positive Indo-German trade and investment relations, conducive policy frameworks, and the implementation of Intergovernmental Consultations by both economies, are expected to attract greater cross-border collaborations.

Cross-border synergies driving deal activity

- **Developed market** with lucrative sales potential and a **mature economy**
- Access to an **organized market of industrial customers** having a global presence
- Access to **leading technologies and know-how**
- Gateway to the **European market**
- Strong **Mittelstand** ecosystem
- Strong **R&D** capabilities and **innovation-friendly** ecosystem
- **A strong brand recall** associated with German products and technologies

- Growing **captive consumption** market with rising **disposable income**
- **Investor-conducive ecosystem** backed by government **incentives for FDI**
- **Destination for relocation** or decentralization of **operations/ supply chains**
- Base for the **Asian market**
- Large **start-up** ecosystem
- **Skilled workforce** at lower wage levels
- **English-speaking** and **youthful population** with a median age of 28

The biggest perceived challenges for investors in the Indian economy are the bureaucracy, a complex legal and regulatory framework, and a lack of adequate infrastructure. India's improvement in the Ease of Doing Business index in recent years is a testament to the government's efforts to address these challenges to create an investor-friendly environment.

On the contrary, one of the biggest challenges Indian investors face in penetrating the German market, apart from its high cost, is the significant competition stemming from a largely developed and organized ecosystem. This necessitates adaptability of business strategies and offerings from incoming investors as a rule to succeed in this competitive landscape.

To sum up, the economic outlooks in both countries are promising and the economies are both expected to go through a rebound in 2021. Thanks to the ongoing vaccination program in both countries and the steadily increasing cross-border M&A activities over the last few years, the M&A markets in both countries are expected to exhibit a sustainable recovery. With the increasing interests from Mittelstand/mid-market companies in the Indo-German corridor, cross-border M&A, strategic collaborations, and technology tie-ups will be crucial to drive the business in these sectors, depending on several factors such as investors' objective, timeframe, quantum of investment, and availability of opportunities.

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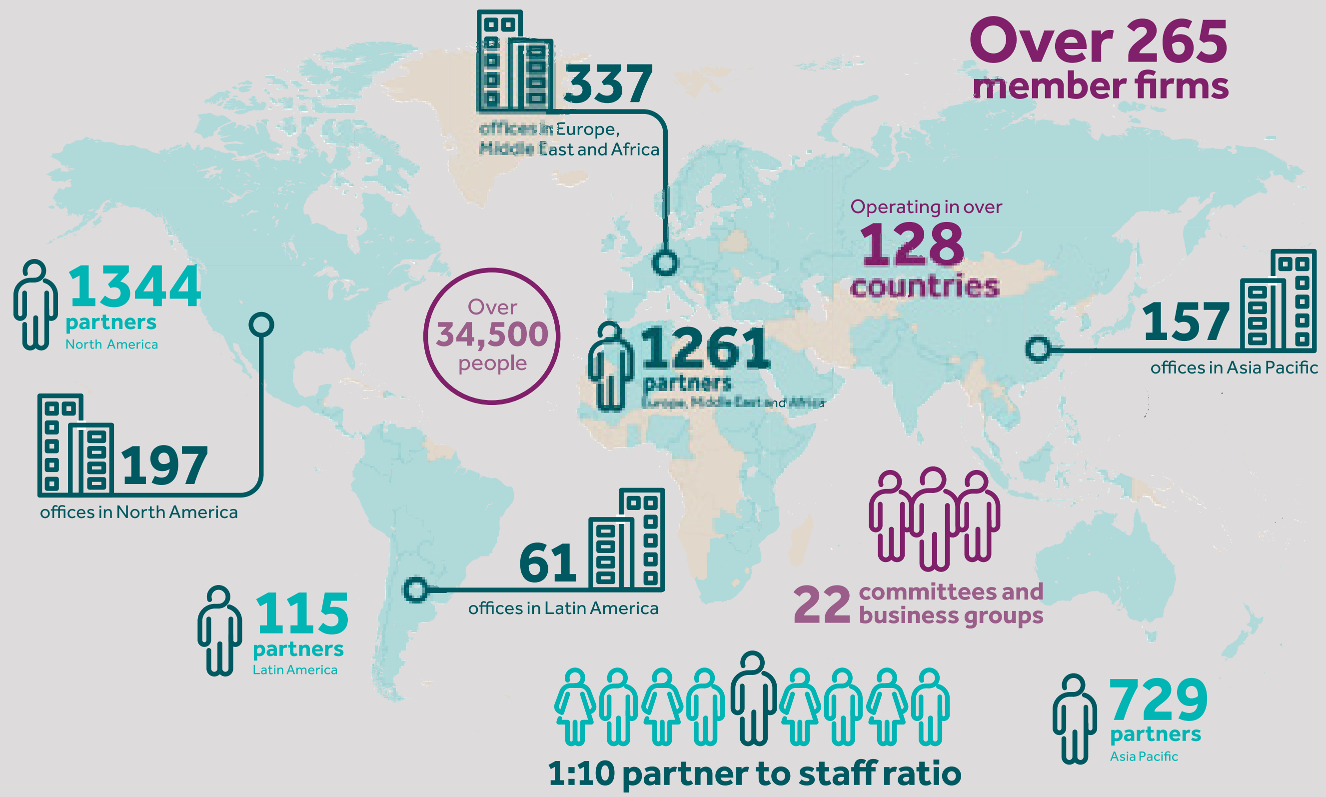

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