

M&A Interactive

September 27, 2017

INDIAN INVESTMENTS IN EUROPE

This article was originally published in the 25th September 2017 edition of **Business Standard**

A supportive environment, domestically and overseas, is imperative for M&As

Although uncertainty on account of geopolitical issues around the world continues and despite slow progress on Brexit, the positive election results in the Netherlands, **France** and now **Germany** have kept European deal activity buoyant. This was evident in the value of European **mergers and acquisitions** (M&As), which were up by 30.1 per cent in the first six months of 2017.

Inbound investments in **Europe** amounting to almost USD 211.1 billion have been announced till June, the highest year-to-date value since 2001 as per Mergermarket data. However, there was 65.7 per cent drop in the value of Chinese investments in **Europe** to USD 25.6 billion (59 deals), as compared to the same period last year (86 deals, USD 74.8 billion). Indian companies, on the other hand, displayed more appetite for deal making in **Europe** as compared to previous years.

Indian investments in **Europe** have been on the rise on account of many factors including liberalisation of its overseas direct investment norms from time to time. **Europe** no doubt offers appealing investment opportunities for Indian companies now, as many of them are available at attractive valuations.

Besides liberalisation in overseas investment norms, a strong growth rate in the domestic market has led to Indian companies actively scouting for overseas expansion. Restrictions on overseas investments imposed in 2013 were subsequently rolled back and limits were increased in 2014. Share swap was also allowed without any regulatory approval a couple of years ago. Further as recently as this April, the RBI also allowed Indian companies to merge with foreign firms subject to its approval and other requirements.

But the question is whether **Europe** is ready to receive greater investments from India?

In principle Indian companies mostly being family owned businesses may be a natural fit for their European counterparts given shared democratic values, commonality of philosophy and the complementary nature of offerings. However, the European M&A landscape throws many challenges for Indian firms. A few are as follows:

- New investment barrier introduced at the EU level: In July **Germany** introduced investment review norms on the lines of review by the Committee of Foreign Investment in the US. This would involve case-by-case threat assessment of investments in "critical infrastructure" made by non-EU/non-European Free Trade Association companies. Other nations such as Italy, **France** and the UK are likely to introduce similar processes that may extend to review of transaction involving key technologies. Many transactions may become subject to investment review at the EU level which may create obstacles to deal closing and enhance uncertainty.
- Non-existence of EU trade treaty and heterogeneous market: After the US, some jurisdictions such as the UK, Germany, **France** and Italy have been the top overseas direct investment destinations for Indian companies. EU's single market offers a large opportunity to Indian businesses to increase their global market share. However, non-existence of trade agreement with EU poses a major challenge for Indian firms in expanding outreach. Further, although India is as diverse as many countries in Europe, difference on account of local employment and tax laws, market, culture and language poses major entry barriers.
- Acquisition financing: Although credit is cheaper in **Europe** compared to India and distressed assets may be available at low valuation, financing an acquisition via a European bank remains a challenge. Overcoming it entails complex debt structures. In countries such as Italy, Spain and Portugal which are still recovering from the Eurozone crisis, it further gets difficult for Indian firms to obtain finance for acquisition or new projects. Further, small and medium companies in their initial overseas endeavour find it difficult to prove creditworthiness, which automatically increases the cost of credit.
- Good, bad and ugly experience: Many European firms have been involved in inbound and outbound ventures with Indian companies. Indian companies are preferred by many European firms struggling with succession planning. While some major firms have gained the requisite knowledge to deal with complex issues, many midsize European companies have had varied levels of experience. So, European companies remain cautious while choosing India acquirers/partners.
- Lack of information networks: In the absence of established information network for screening of M&A opportunities, Indian firms are placed in a disadvantageous position. To complicate further, Indian regulatory restriction and challenge on acquisition financing increases the lead period on a deal. As a result, the parties in the deal are sometime seen hesitant in involving an Indian bidder only due to the longer time period involved.

Research Papers

Medical Device Industry in India

April 28, 2025

Clinical Trials and Biomedical Research in India

April 22, 2025

Structuring Platform Investments in India For Foreign Investors

March 31, 2025

Research Articles

2025 Watchlist: Life Sciences Sector India

April 04, 2025

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

Audio

CCI's Deal Value Test

February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

From Europe’s perspective, some of the solutions to the above challenges may require structural and political changes. On the other hand in the longer run, cultural adaptability of Indian firms coupled with rich intellectual capital will provide a competitive advantage to Indian buyers and European sellers. Consequently, a supportive and conducive environment both domestically and overseas is imperative for successful Indo-European **M&As**.

Ruchi Biyani

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

April 01, 2025

Vaibhav Parikh, Partner, Nishith Desai Associate on Tech, M&A, and Ease of Doing Business

March 19, 2025

SIAC 2025 Rules: Key changes & Implications

February 18, 2025