livemint

23 June 2017

A stronger tie-up between Asia and Africa will benefit all: Amit Kataria

Amit Kataria, partner, Morrison and Foerster (Hong Kong), says a stronger association between Asia and Africa will benefit all parties involved by allowing more opportunity for investment and development

Joji Thomas Philip

Kataria says that an indicator of the success of the 'Make in India' initiative was the increase in foreign direct investment.

The increased interest shown by private equity (PE) firms is the direct result of the growth of the Indian economy, and a barrage of positive changes in the Indian regulatory framework introduced by the government over the past few years, Amit Kataria, partner, Morrison and Foerster (Hong Kong), said in an interview.

He also pointed out that an indicator of the success of the 'Make in India' initiative was the increase in foreign direct investments, which had risen 8% year-on-year (April 2016 to March 2017) to $60.08 billion.

At the same time, he also pointed out that while the country had undertaken significant steps to ease the inflow of foreign capital, some of the key legal challenges faced by a foreign strategic investors relate to land acquisitions, bureaucratic hurdles at the operational level, and the infamous litigation system which is marred by systemic delays.

Edited excerpts:

When you look at India, we appear to be seeing a surge in mergers and acquisitions (M&As) domestically. Will we see this play out for a bit more because many companies can't make new investments as they are weighed down by stressed assets? Demand has not picked for key capital-intensive industrial sectors like steel and cement, where capacities created are not being used up. So for all these firms, domestic M&As appear to be the only way out?

There has been a recent surge in consolidations through M&A transactions within India, which could be seen in the mega M&A deals announced in the first half of 2017. There are many reasons why a business would want to do M&A instead of growing organically, such as buying cheap distressed assets and targeting backward or forward integration along the supply chain.

We have also seen other factors shaping the Indian M&A landscape, including the consolidation of several sectors like insurance, telecom, and the especially active e-commerce sector, as well as the need of companies selling their non-core assets to reduce debt and clean up their balance sheets. With all these factors in play adding to a growing economy, we expect to see more Indian M&A deals this year.

How do you see the new wave of PE interest in India? This is against the backdrop that historically, India has generated poor returns for PE.

This is the direct result of the growth of the Indian economy and a barrage of positive changes in the Indian regulatory framework introduced by the government over the last few years.

Now that investors are more comfortable, they will be able to structure the transaction in a manner which is most optimal for their investment purpose, successfully implement their operational changes and improvements, access an ever growing Indian market and improved technology; and also avail a beneficial exit opportunity without being stuck in a regulatory nightmare.

When external investors look at India, what are the concerns? What are the challenges?

The Indian government has undertaken significant steps to ease the inflow of foreign capital into India through the continued liberalization of the Indian economy and clarification of the applicable laws and regulations. Some of the key legal challenges faced by a foreign strategic investor investing into India relate to land acquisitions, bureaucratic hurdles at the operational level, and the infamous litigation system which is marred by systemic delays.

Despite all the reforms, including the fact that over 30 foreign investment regulations have been eased in the past three years, when one looks at India's rankings when it comes to ease of doing business, there is not much of a change. Do the rankings fail to capture the reality on the ground?

The 'ease of doing business' rankings assess a country's competitive business environment and provide a quantitative measure of how nations can improve facilities for businesses. These reports have also lauded India for the improvement across various sectors, and have indicated those areas where India could improve. Therefore, we are excited about the forward looking policies and initiatives the government has rolled out and acted on.

Three years is enough to judge a policy. So, is the 'Make in India' initiative finally bearing fruit?

Since the launch of the 'Make in India' initiative by the Indian Prime Minister in 2014, we have witnessed significant development in manufacturing, innovation and design in various sectors including automobile, construction, aviation, pharmaceuticals, textiles and garments, highways and railways and media and entertainment. Another indicator of the success of the 'Make in India' initiative is the increase in foreign direct investments—according to the Department of Industrial Policy and Promotion, the total foreign direct investments India received during the period from April 2016 to March 2017 rose 8% year-on-year to $60.08 billion. We are indeed seeing progress.

Now that India has a surging rupee, rising currency reserves and a comfortable current-account gap, do you think the Reserve Bank of India (RBI) should relax rules on outward investments, thus enabling domestic companies to shop abroad a lot more?

We do see the need and potential for more outbound investments originating from India, as the economy grows even more rapidly. RBI is already relaxing in some areas, including in relation to availing debt facilities, raising funds through pledge of shares, and increasing limits on investment. A number of Indian companies have recently and very successfully made investments across various sectors and geographies.

If you were to look at the deals data from India, domestic companies appear to have slowed their foray abroad. For outbound deals, it has been reported that the deal value went up to $6.3 billion in 2016, compared with $6 billion in 2015, but deal numbers came down from 120 in 2015 to 99 in 2016. Again, in the first quarter of calendar year 2017, outbound deals have seen a sharp fall and was down to $580, when compared with $2.4 billion during the same period in 2016.

While quarter to quarter comparisons are sometimes useful, it is difficult to treat them as conclusive indicators of a trend.

It is not unusual to see the number of deals and the amount of deal values fluctuate from year to year. It is true that these numbers do not currently show a very strong outbound investment momentum and we expect inbound investments into India to far exceed outbound investments in the very near future.

Further, I would also not take this to be a sign of a weakening Indian economy, as many factors have been at play both inside and outside India at both micro and macro levels, for example, the “demonetisation” initiative in India and ripples caused by Brexit.

Even as trade barriers go up, and protectionist policies in the western world pose challenges for outbound investments for Indian corporates, where are the opportunities if these companies decide to shop? Is it Africa and Latin America?

The rapid growth of African and Latin American economies in recent years offers opportunity.

Africa and Latin America are becoming more enticing because of urbanization, evidenced by the steady increase in the number of cities and the number of middle class households, more stability in macroeconomic and political environments, and rich reserves of untapped natural resources.

Indian corporates are in a unique position to form an alliance with both Africa and Latin America. India could share with African countries its experience in industries such as information technology (IT), telecommunications, automobile, agriculture, and infrastructure, as both face similar challenges in these sectors.

On the other hand, the alliance would also benefit India in that access to natural resources such as oil could provide a steady supply and mitigate shortages in India's reserves and needs, aside from the return on investment.

There are also opportunities in sectors such as mining, oil, IT and pharmaceuticals in Latin America. Overall, we are positive about the outbound investment opportunities in both Africa and Latin America for Indian corporates.

Current European and US policies will not have a prohibitive impact upon the outbound investments by the Indian corporates.

What is your take on India, Japan coming up with AAGC to counter China's OBOR?

The Asia-Africa Growth Corridor (AAGC) and One Belt One Road (OBOR) are not necessarily contrary or otherwise opposed to each other, but have each proposed different approaches to achieve cooperation.

A stronger association between Asia and Africa will benefit all parties involved by allowing more opportunity for investment and development.

Further, as a very welcome step the AAGC initiative has proposed reduced carbon footprint and lower costs developments. We are happy to see more countries interested in helping Africa and other developing countries.

How does India's investment in Africa and Latin America compare with that of China?

Investors in the private sectors from both China and India are interested in diversified geographies—including Africa and Latin America—and industries, including service and manufacturing sectors.

The current major difference is the scale.

Chinese investments are larger and have grown faster because Beijing promoted an outbound investment policy earlier than India.

Despite having an Act East policy, has India failed to reach out adequately and tap the $2.6 trillion regional economy of the Association of Southeast Asian Nations (Asean)?

The Act East policy is definitely a well-intentioned initiative to reach out more to Asean countries.

India has taken steps to forge stronger economic ties with Asean countries. There are many mutual visits on the leadership level and many discussions on economic cooperation, including with Singapore, Myanmar and Thailand.

The Indian government also provided more funding and extended new credit lines to promote projects that further the physical and digital connectivity between India and Asean countries.

There is still much potential for India to get more engaged with the Asean economies and tap into the geographical and cultural affinities between the two.

While Asean countries remain important to India's Act East policy, India has also been working on building stronger ties with other countries including Japan, South Korea and the US.

First Published: Fri, Jun 23 2017. 12 44 AM IST

http://www.livemint.com/Companies/d4qHxsEHzer0C3BpQfleSN/Astronger-tieup-betweenAsia-and-Africa-willbenefit-all.html