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# Going multinational

**It will be more promising to put capital to work in the faster-growing Indian market than to buy assets in slow-growing economies**

**M**ukesh Ambani's tentative offer to buy control of the bankrupt petrochemicals company LyondellBasell could turn Reliance Industries into a major multinational in a single deal. The opportunity came up, however, only because the current owner made the mistake of paying too much and then over-leveraging the business two years ago. The same mix of years of preparation and a moment's good luck will be needed by other Indian businesses, as they try to break into the league of multinational companies.

That makes it hard to guess which Indian companies and industries are going to achieve the transition to power or dominance in world markets. It is even harder to predict how important cross-border acquisitions will be in making or breaking the global ambitions of Indian entrepreneurs.

As India's economy gains in size and influence relative to the US, Japan and Europe, Indian companies will move to produce goods and services in multiple home markets across the world. That few such companies have yet emerged from India, China or Brazil is simply a reminder that we are still several decades away from the time when these countries will account for their proportionate share of economic activity and wealth. There is no reason why Indian promoter-led companies should not evolve over this time into global leaders in a number of industries.

How are multinationals made? The US produced its first generation of multinational giants in a domestic market that was vast compared with the rest of the world. These companies – in cars, chemicals, finance, food, telecoms – were helped by the political weight of the US in world affairs. Empires endowed firms from the major European countries with multiple home markets. Companies from small economies like Sweden and Switzerland had a different incentive to become multinationals, because their home markets were small. Disruptive technologies offer yet another route to going multinational. And, as shown by Lakshmi Mittal, it can be done just by buying at the right time.

All successful multinationals, almost by definition, have been built using a formidable accumulation of skills in management, technology, manufacturing or service provision,

and marketing. India's IT services industry, which checks all these boxes, is the obvious front runner for multinational stardom.

What are the other industries that might sooner or later produce companies that make it to the world stage? Autos? Possibly, if the small car advantage carries over into electric vehicles. Pharmaceuticals? Maybe not, unless a more defensible area than generics can be developed. Financial services? Sure, but preferably after a decade or two of faithfully serving Indian clients first. Consumer goods? Food looks promising, as does the focus on big emerging markets. All the basic industries that grow fast in India and slowly in the rich economies – cement, chemicals, metals – are also good candidates.

However, it may be years before many Indian businesses evolve into truly multinational companies. The huge home market is far from fully developed. Indian promoter-led groups also have uniquely broad opportunities for deploying capital at home. In contrast to mature economies, where investors mark down the shares of companies keen on diversifying, Indian promoters with a strong reputation for financial and project management can now get high valuations for diversifying into new areas, as the large IPOs of start-up power generational companies have demonstrated. For a long time, it will often be more promising to put capital to work in the faster-growing Indian market than to buy assets, whether cheap or not, in slow-growing economies.

Reliance could be the exception that proves this rule. The group has invested heavily in new areas like retailing, where its skills, resources and market power make diversification seem like a good bet, and it may have more than enough cash flow to exploit every such opportunity available in the domestic market. RIL is already dominant in petrochemicals in India. So, it certainly looks like the right time for Reliance to consider taking on the rest of the world in its core business.

Now comes the delicate process of using a one-off opportunity – if the price is right – to transform the company into one of India's first multinationals. Part of the skill is to judge whether the company and its markets are ready for such a step. Suzlon (Hansen) and Tata Motors (JLR) were not. Reliance probably is. ♦