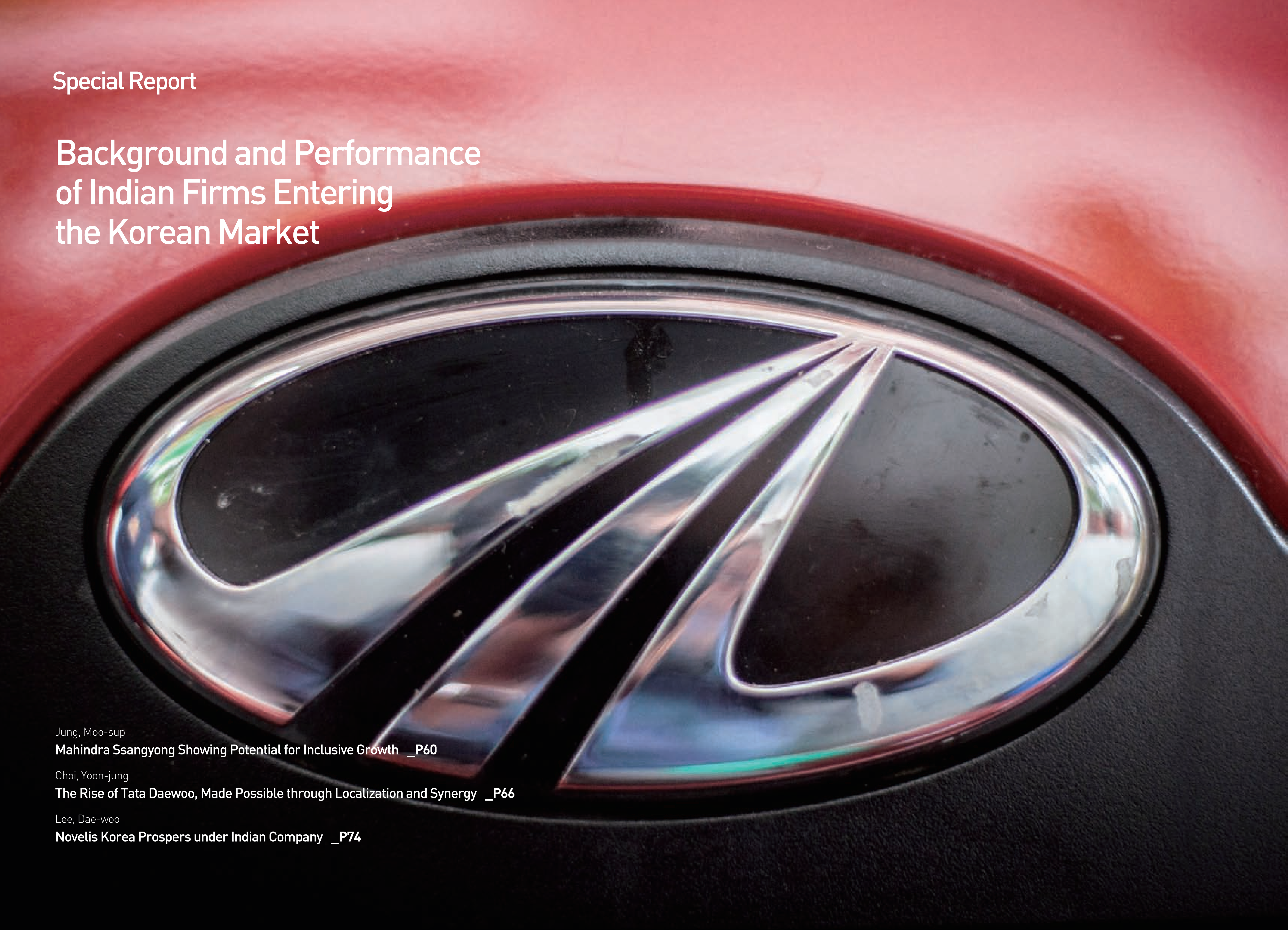
Special Report

Background and Performance of Indian Firms Entering the Korean Market



Mahindra Ssangyong Showing Potential for Inclusive Growth

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Mahindra & Mahindra and Ssangyong Motor's joint press conference at the Renaissance Seoul Hotel in Korea. From left to right, Mahindra & Mahindra President Pawan Kumar Goenka, Mahindra Group CFO Bharat Doshi, and Ssangyong Motor President Lee Yoo-il field questions from reporters.

Mahindra & Mahindra, one of India's leading carmakers, entered the Korean market with its conclusion of an agreement to acquire Ssangyong Motor on November 23, 2010. It was the fifth-largest merger and acquisition (M&A) deal in the global car industry in 2011, holding much significance for both Mahindra and Ssangyong.

Saving Cash-strapped Ssangyong Even after Acquisition

Until it was acquired by Mahindra, Ssangyong constantly suffered hard times under court receivership, including a strike and factory occupation that lasted 77 days from May 22 to August 6, 2009. After a series of meetings, a South Korean court approved a rescue plan for Ssangyong Motor on December 17. After the lead manager for the sale of the struggling automaker was selected in February 2010 and public notice of the sale was made in May of that year, seven companies submitted letters of intent (LOI) for Ssangyong, with Mahindra being selected as the preferred bidder. Mahindra signed a memorandum of understanding (MOU) with Ssangyong on August 23, 2010. After conduct-


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Ssangyong's Sales and Profit/Loss Trend

	2009	2010	2011	2012
Sales (KRW 1 Trillion)	1.07	2.07	2.77	2.86
Operating profit (KRW 100 Million)	-2,934	-550	-1,412	-991
Net income (KRW 100 Million)	-3,463	81	-1,124	-1,061
Net income to sales ratio (%)	-32.46	0.39	-4.06	-3.7

Note: Based on the December settlement and individual GAAP standards

ing due diligence, Mahindra invested a total of KRW 522.5 billion in March 2011 (KRW 427.1 billion in new paid-in capital and KRW 95.4 billion in corporate bonds) to acquire a 70% stake in Ssangyong.

Even though two years have passed since the acquisition, Ssangyong is still in the red, and its total market value is lower than what Mahindra paid to acquire it. As of March 26, 2013, Ssangyong's total market value was about KRW 730 billion, and the value of Mahindra's initial 70% stake was worth only about KRW 510 billion, showing that Ssangyong is suffering some capital losses. Such capital losses have been attributed to mounting deficits, which totaled KRW 100 billion in both 2011 and 2012 after the acquisition by Mahindra.

However, there is a silver lining in Ssangyong's future. Mahindra has made bold new investments to normalize the operation of Ssangyong. Ssangyong's sales and stock price are gradually rising thanks to Mahindra's efforts to expand overseas sales through its existing overseas sales networks. In February 2012, Mahindra unveiled a plan to invest KRW 295.8 billion in a project to develop new engines and small crossover utility vehicles. This investment plan is gaining ground as Ssangyong's new models, including the Korando Turismo and the Korando C, have been well received in the market. Ssangyong's total sales also continue to increase.

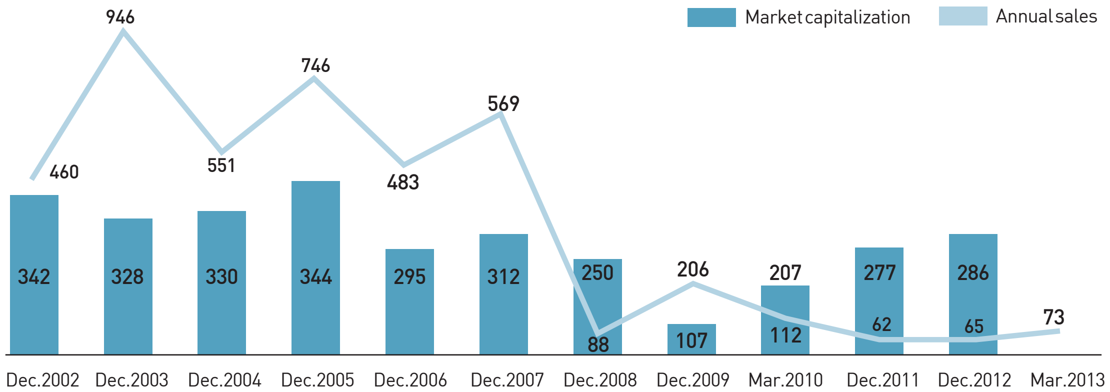
Mahindra already has a business network for assembling products in India and exporting semi-finished products. As a result, Ssangyong's exports to India and overseas sales are rapidly increasing. "Ssangyong is expected to see sales of more than 150,000 units in 2013, higher than its target of 149,000," said Lee You-il, the president of Ssangyong Motor, at the Geneva Motor Show that began on March 5, 2013. Within one and a half months from the release in early February, more than 3,000 units of Turismo were sold. Ssangyong plants went into full operation to meet the orders, and workers who had been forced to take unpaid leaves for the last four years returned to work. Its Pyeongtaek plant, which had operated for only four hours a day, is currently in operation 11 hours a day.

Mahindra Ssangyong Shows Potential

Whenever I have an opportunity to lecture on Indian companies, I never fail to talk about Mahindra Ssangyong as it has some interesting features.

First, Mahindra Ssangyong is an important case study showing the possibility of mutual growth between Korea and India, the leading candidate to become the next China. Mahindra Ssangyong is a typical cooperation model for attracting capital from and expanding access to emerging countries and it is also regarded as an effective model for the Korean economy to enter emerging markets. This model pursues growth for both Mahindra and

Ssangyong's Market Capitalization and Sales Trend (KRW 10 Billion)



Source: Ssangyong Motor's annual reports

Ssangyong as Mahindra acquired Ssangyong under court receivership at a reasonable price and Ssangyong utilized Mahindra's management resources, such as its capital and sales networks.

Second, it is a good case study for comparing Chinese and Indian companies as Ssangyong went through both a failed takeover by China's leading automaker Shanghai Automotive Industry Corp (SAIC) and the recent acquisition by India's leading automaker Mahindra. Chinese companies have acquired foreign companies in order to acquire advanced management resources required as they pursue growth utilizing China's vast domestic market and cheap labor. On the other hand, with long-term business experience in advanced English-speaking countries, Indian companies are growing as they pursue expansion both in domestic and foreign markets through M&As of global companies. Chinese and Indian companies have one thing in common: they purchase foreign companies that have advanced management resources, including advanced technologies and brands. But their goals and methods for carrying out M&As are slightly different. For this reason, much attention is being paid to whether the Indian company will be able to succeed better than the Chinese company in the acquisition of the cash-strapped South Korean automaker.

Third, foreign M&A deals led by companies in emerging countries, mainly India, are different from those led by companies in advanced countries. M&As of advanced foreign companies led by companies in emerging countries aim to create synergy between acquired and acquiring companies. This model basically respects the acquired companies and tries to minimize post-acquisition changes, aiming for mutual growth between the two. However, it seems to take more time to verify how effective this acquisition model would work, and the takeover of Ssangyong by Mahindra is a good test bed for such verification.

There is another thing I always talk about Ssangyong during lectures: Ssangyong's market value will become much higher in the future. I even predicted that its market value would surely double within a year. I began to say this last summer. If my prediction proves correct, its market value will surely double in price from last August to KRW 10,000 per share this August.

Such a prediction is not too wild considering Ssangyong's long-term stock price and sales trends. Ssangyong's sales continued to increase after 2009 and totaled about KRW 2.9 trillion in 2012. This figure is quite close to the sales figure of KRW 3.1 trillion it reached in 2007 when its total market value was over KRW 5 trillion.

Anticipating Success through Synergy

The most daunting and difficult task for Ssangyong is to address the deficit-running business and go into the black. However, it is not easy to turn chronic deficits into recurring surpluses, because investment in R&D of new models and marketing costs are enormous and the margin ratio is not high. If new investment bears fruit and economies of scale are realized through increased overseas sales, it will not be impossible for Ssangyong to stop running deficits.

Increased overseas sales are expected to contribute greatly to turning deficits into surpluses. Ssangyong and Mahindra must create synergy in order to increase overseas sales. Given that it will take at least three to four years to realize such synergy, Ssangyong will be able to achieve its goal this year—the third year after its acquisition.

Achieving success for both Ssangyong and Mahindra by creating synergy can be an exemplary model which would allow the Korean economy and companies to pursue mutual growth with emerging economies and companies. Emerging economies, including India, must nurture manufacturing in order to meet the demands of populations with increasing purchasing power. Companies in emerging countries without a manufacturing base can practically utilize Korean companies and the Korean manufacturing ecosystem. Even though Korea has technologies as sophisticated as those of advanced countries such as Japan, Germany, and the U.S., their prices are not that high. Korea and Korean companies offer many benefits to India: geographic benefits to target the Chinese and other Asian markets, strong competitive brands, and its status as an FTA hub.

The domestic markets and growth potential of emerging countries are critical for the sustainable growth of the Korean economy as it seeks to join the ranks of advanced countries. Therefore, it is necessary for Korean companies to enter emerging markets on their own, and at the same time, attract capital from emerging countries. The successful win-win strategy between Ssangyong and Mahindra will become an important test bed for the possibility of mutual and inclusive growth of the Korean and emerging economies.

The Rise of Tata Daewoo, Made Possible through Localization and Synergy

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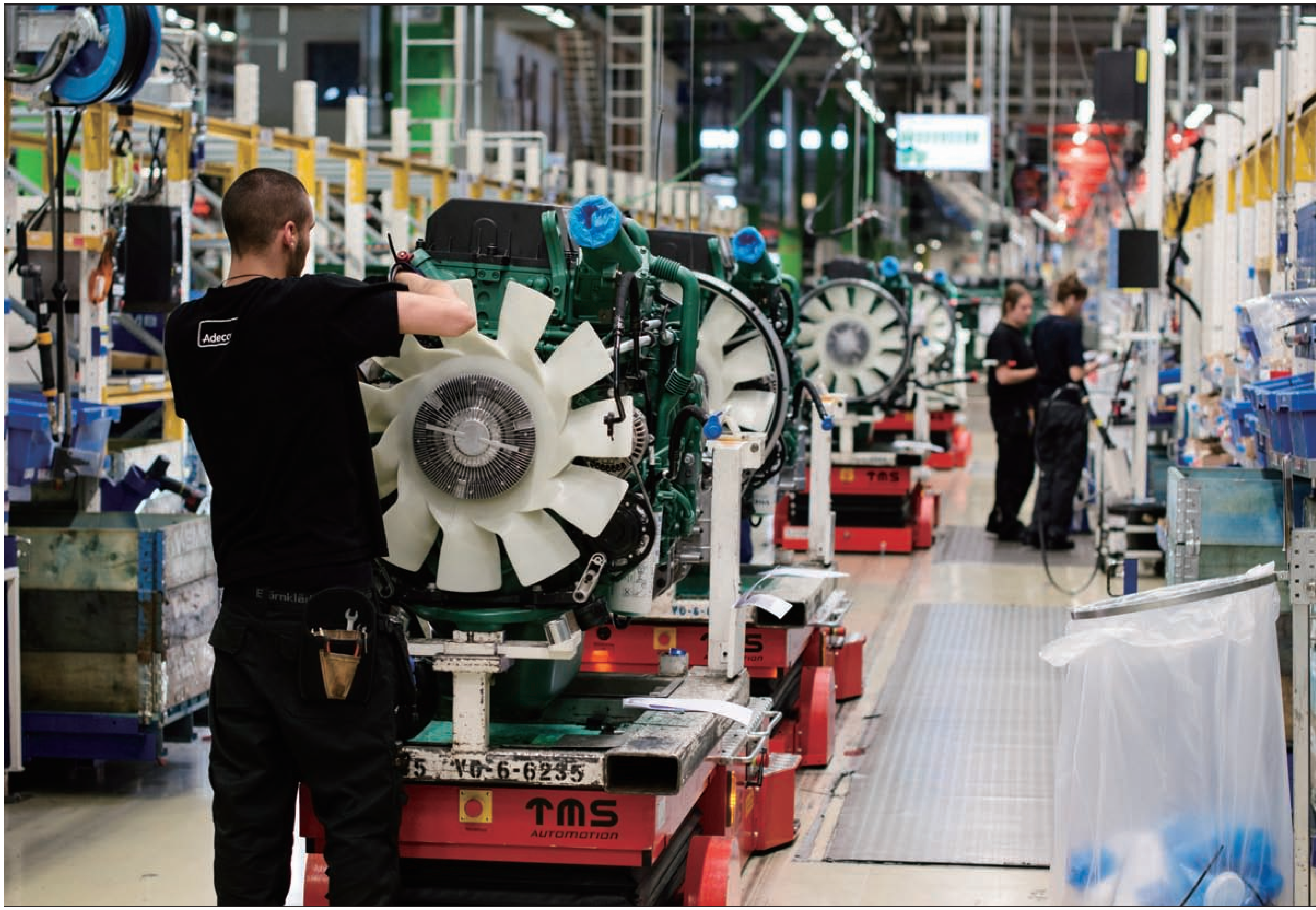

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In 2004 Tata Motors expressed its intent to purchase Daewoo's commercial vehicle unit under court receivership. It was the first M&A deal in Korea carried out by an Indian company, and Tata's first foreign M&A deal.

Why Indian Companies Seek Cross-border M&A Deals

The history of Indian companies' overseas expansion dates back to 1992, when the Indian government began unveiling policy guidelines to expand foreign investment opportunities in an effort to open its economy. Indian companies, which had gained knowledge in advanced foreign technologies, felt the urgency to enter new foreign markets. Indian companies' foreign expansion began increasing exponentially in 2003, as the Indian economy entered a high growth trajectory. India's foreign direct investment (FDI), which stood at only USD 1.7 billion in 2004, surged to nearly USD 20 billion both in 2007 and 2008.

One remarkable trend in foreign investment by developing countries, such as that of India, is that M&A is on the rise. Developing countries accounted for nearly 30% of cross-border M&As worldwide in 2009, and India accounted for 8% in 2010, an immense increase from the previous year.

There are four main causes for this increase. First, India's ample investment capital. As the Indian economy has enjoyed incredible growth since 2003, foreign capital rushed to the Indian stock market, granting leeway for investment. Second, market liberalizations that took place in 1991 eased government policies, which had formerly stood in the way of Indian companies. Currently, Indian companies are allowed to hold pure foreign subsidiaries and engage in joint investment without upper limits.

Third, Indian companies have accumulated global experience in their approach to foreign capital, labor control and management, and client service, based on their experience in the service industry, which includes business process outsourcing (BPO). With the Indian market now open more widely, Indian companies were pushed to secure advanced technologies, increase brand competitiveness in the global market, and build affinities with global clients. In doing so, they began to buy foreign companies for scrap values. Finally, domestic influences forced Indian companies to go overseas; many noted that the main cause for looking beyond India was to avoid the poor business environment, which included restrictions, bureaucracy, and bribery.

Tata Motors' Overseas Expansion and Acquisition of Daewoo Commercial Vehicle Co.

Since its establishment 145 years ago, Tata Group has been a household name in India. Tata was the first company to pioneer some of India's key industries, including steel, power, service, and aviation. Armed with such benchmarking experiences, Tata also established Tata Consultancy Services (TCS), India's first software firm. Leveraging its own technology, Tata Motors launched Tata Indica in 1998 and released the Tata Nano, an innovative "people's car," in 2008.

Tata Motors, Tata Group's core business, is leading India's automobile industry. Tata Motors is the country's market leader in commercial vehicles, and among the top three in the compact, mid-size, and utility vehicle segments. The company is also the world's fourth largest truck manufacturer and third largest bus manufacturer.

With the opening of the Indian market in the 1990s, Tata Motors faced a crisis. As Volvo and other world-class automakers entered the Indian truck market in the late 1990s, Tata Motors began to lose ground. In FY 2000, Tata Motors recorded its worst deficit of INR 5 billion. In March 2004, Tata Motors pursued innovation by acquiring Daewoo Commercial Vehicle Co., the truck unit of South Korea's ailing Daewoo. This M&A deal was not foreseen, but Daewoo Commercial Vehicle Co. became the first acquired company of Tata Motors.

Tata's purchase of Daewoo was a success. As

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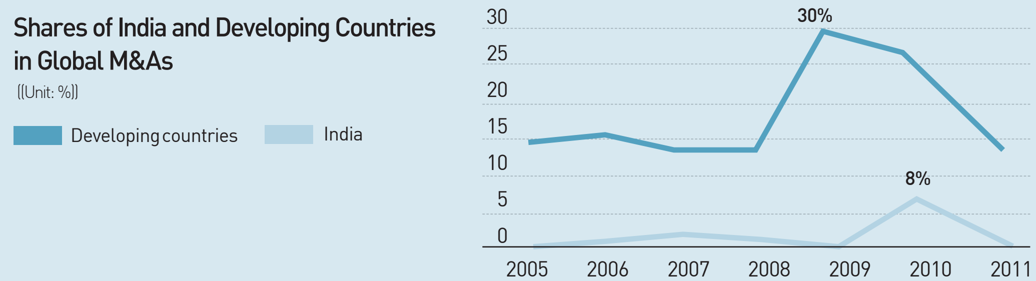
Shares of India and Developing Countries in Global M&As

((Unit: %))



Source: World Investment Report 2012, UNCTAD

Tata achieved quality improvement after the acquisition and gained competitiveness in Damas-sized minivans, the company developed a small pickup truck, the Ace, and found great success. Since then, Tata Motors has rapidly gained ground on world-class automakers via its M&As, which included the acquisition of a 21% stake in Hispano Carrocera SA and a strategic alliance with Italian carmaker Fiat.

Since its establishment in March 2004, Tata Daewoo Commercial Vehicle Co. has moved beyond its core business of manufacturing heavy-duty trucks to include medium trucks, an advance attained through product development and facility investment. Maintaining Tata Daewoo's autonomy as a Korean company, Tata Motors has retained an independent Korean management system. Tata Motors also has a management system that differentiates itself from other multinational automakers, such as GM, in that it pursues joint development of new models and joint technology ownership. As a result, Tata Daewoo's sales doubled in six years and exports increased fivefold by utilizing Tata Group's global networks. Having exported its trucks to more than 60 countries, including UAE, South Africa, Algeria, and India, Tata Daewoo was the only Korean heavy-duty truck manufacturer, taking home the 2008 200 Million Dollar Export Tower Award. Its workforce also increased by approximately 60%, to 1,350 members.

Tata Daewoo, together with its parent company, Tata Motors, has established a medium-to-long-term plan to become a global market leader in the commercial vehicle market by 2021. To this end, in an effort to expand its export production from medium and heavy-duty trucks to small trucks, compact trucks, and buses, Tata Daewoo is developing related products in phases.

A Globalized Growth Model in the Automobile Industry

Korea's commercial vehicle market, on the wane after 2001, saw its annual production decrease by 7.9% on average through 2005. However, the production rate began to rise once more in 2006, thanks to increasing exports. Currently sixty percent of domestic 24-ton payload capacity truck demand is met via importing. Even though imported heavy trucks are more expensive than domestic heavy trucks, they hold the largest market share due to advanced technology and quality service. Tata's development plan for a "world truck" aims at developing tractor trailers across all levels, from 2.5 tons to 90 tons. These will be tailored to the global market, and Tata will manufacture them at plants in Korea and India for export to the global market. It is strongly anticipated that Tata Daewoo's global role will broaden in years to come.

Meanwhile, the global car market is heralding groundbreaking changes. After the 2008 global financial crisis GM went bankrupt; Toyota underwent massive recalls in 2009 and China emerged as the world's largest automobile manufacturer. The auto industry accounts for 13% of Korea's exports and is responsible for 11% of manufacturing jobs. The industry also holds considerable forward and backward linkages. In the future, the car industry must satisfy both surging demand in emerging markets, such as China and India, and demand for new cars equipped with state-of-the-art technologies in advanced countries. Korea can gain the upper hand in the development of future intelligent vehicles, taking advantage of its advanced information and communications technologies. Tata Group has its own fortes, including advanced technologies and skilled personnel in information and communications and software. How to integrate the advantages of both companies and maximize synergy is Tata Daewoo's current task at hand.

A Trustworthy Company Even under Crisis

Tata Group's management performance offers Korea significant insight. The group puts its highest priority on holding true to the promises it makes to customers and employees, operating under a motto of "trust-based management." Comprising two-thirds of the equity of Tata Sons, Tata Group's holding company, owned by charitable trusts, Tata Sons has a business structure in which the wealth that gets passed on to society increases proportionally with better business outcomes. Tata Group has been the most admired company for 145 years according to Nielson India. In 2009, the Reputation Institute ranked Tata Group the 11th most reputable company in the world. In 2011, Brand Finance, a UK-based consultancy firm, ranked Tata the 41st most valuable brand in the world, valuing at USD 15.7 billion. In 2010, Business Week ranked Tata 17th among the "50 Most Innovative Companies" list.

Tata Daewoo Commercial Vehicle's management philosophy is modeled after that of Tata Motors. Even under harsh economic conditions, Tata Daewoo complied with a collective bargaining agreement to give 42 out of 300 workers a regular position in 2009, thus becoming an example for other companies. The company also takes the lead in public interest projects, such as offering scholarships and mentoring programs to socially marginalized youth, engaging the participation of all employees in the "Love Sharing Campaign," and signing an MOU with Korea's Ministry of Education, Science and Technology to boost education contributions. Thanks to such efforts, Tata Daewoo was awarded the Ministerial Citation of Health and Welfare at the "2012 National Sharing Grand Awards."

For now, Indian companies doing business in Korea may serve as a threat to Korean companies, especially when their areas of business and markets overlap. Indian companies' overseas expansion through M&A's has been deemed successful. As Indian companies accelerate overseas expansion, it is only a matter of time until competition between Korean and Indian companies grows fiercer. Although Indian companies fall behind Korean companies in terms of technology, their management ability and minds are world-class, surpassing those of Korean companies. Korean companies should discard any defensive attitude. Instead, they should carefully examine the management know-how of Tata Motors, a know-how that is recognized both domestically and internationally

Novelis Korea Prospers under Indian Company

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This articles deals with Novelis Korea whose largest stockholder is now an Indian company after its parent company's acquisition.

Novelis Korea: From Canadian to Indian Holding

Novelis Korea is a manufacturer of flat-rolled aluminum products, including beverage cans and packages. It is a joint venture between Alcan, the world's largest aluminum company in Canada, and Korea-based Daehan Cable. The company was established on September 1, 1999 with the initial capital of KRW 16.5 billion. Headquartered in Youngju, North Gyeongsang Province in Korea, Novelis Korea aims to develop, manufacture, and sell flat-rolled and other aluminum products. Major shareholders in the establishment are listed in the following table. In 1999, its first year, Novelis Korea ran a net deficit of KRW 3.7 billion. Since then, however, the company has reached solvency with KRW 1.8 trillion in annual sales, KRW 86.6 billion in net profit, and a debt ratio of 100% in 2012.

With this growth the company has also experienced incidents that have changed its governing structure. In 2005, Alcan spun off its aluminum rolled product business into Novelis in order to strengthen business, with Novelis becoming the largest stockholder of Novelis Korea. Following the spin-off, Novelis emerged as the world's leader in aluminum rolling and recycling. In 2007 Hindalco Industries, another leader in the aluminum industry, purchased Novelis, and the Indian company became the largest stockholder of Novelis Korea. As Hindalco Industries, headquartered in Mumbai, is the crown jewel of the multinational Aditya Birla Grou, Novelist Korea also fell under the umbrella of Aditya Birla Group. Through the acquisition of Novelis, Hindalco Industries emerged as the world's largest rolled aluminum producer and Asia's leading primary aluminum producer.

The governing structure changed once more in 2011. Novelis announced that it would pay about KRW 350 million in cash to acquire 31.2% of the total issued and outstanding shares of Novelis Korea, according to an agreement with Daehan Cable and other minority stockholders of Novelis Korea. Novelis, which had a 67.9% share of Novelis Korea, increased its shareholding to 99%. Through this acquisition, Novelis aims to hold on to its existing vision, seeking strategic opportunities in line with rapidly growing Asian and Middle Eastern markets. It also plans to invest USD 400 million to increase its production capacity of aluminum rolled products as well as expand recycling facilities. As such, Novelis Korea has completed its transformation into an Indian "sub"-subsidiary.

Aditya Birla Group: India's First Multinational Firm

Headquartered in Mumbai, Hindalco Industries is Asia's leader in aluminum and copper, and stands as the Aditya Birla Group's main enterprise. The Aditya Birla Group is a multinational corporation worth USD 40 billion with more than 133,000 employees in 33 countries. The Aditya Birla Group is India's third largest corporation after Tata and Reliance and does business in countries including India, Thailand, Laos, Indonesia, Philippine, Egypt, Canada, Australia, China, U.S., U.K., Germany, Hungary, and Portugal. Its business areas include viscose staple fiber, non-ferrous metal, cement, viscose filament yarn, clothing, carbon black, chemical products, fertilizer, sponge iron, insulator, financial service, telecom, BPO, and IT service.

The Birla family hails from the Marwari trading caste of the northwestern state of Rajasthan, as does the company chairman, Lakshmi Mittal, who has turned the company into the world's largest steel manufacturer. In 1857, B.D. Birla moved to Calcutta, India's largest city at that time, and founded his own business. In the early 20th century, the company thrived under his son, G.D. Birla, a close friend of Mahatma Gandhi who had reportedly contributed to the Indian independence movement. The Aditya Birla Group has actively participated in the fields of education, culture, medical care, and philanthropy, consistently falling in line with corporate social responsibility trends. The group ranked in as one of India's "Best Employers"in 2007.

The Aditya Birla Group is regarded as India's premiere multinational corporation. In 1969 Aditya Vikram Birla, grandson of G.D.Birla, left India, once known as the License Raj, to found a textile company in Thailand. Under A.V. Birla's leadership, Aditya Birla Group currently does business in 20 countries, including those in Southeast Asia, China, Australia, and Canada. More than half of its sales occur overseas.

Hindalco Industries, Novelis Korea's acquiring

Stockholders of Novelis Korea upon its Establishment

Name of stockholders	No. of stocks	Equity ratio
Alcan Aluminium Limited	79,386	68.0
Daehan Cable	16,864	14.4
Samyang Metal	10,612	7.7
Seol Won-rang	8,999	0.8
Others	848	100.0
Total	116,709	

Source: Audit report

Novelis Korea's performance(Unit: KRW 1Million)

	1999	2012
Sales	86,662	1,821,250
Operating profit	△2,980	103,047
Net profit	△3,764	86,662
Asset	367,034	1,299,015
Debt	131,648	651,182
Capital	235,385	647,833

Source: Audit report

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company, was founded in 1958 and is structured around two strategic enterprises: aluminum and copper. Its sales in 2011 stood at approximately USD 5.5 billion. Hindalco's copper unit has the unique distinction of being the world's largest copper smelter at a single location.

Korean Companies Should Recognize the M&A Capability of Indian MNEs

As seen in the case of Novelis Korea, in which the largest stockholder shifted suddenly to an Indian proprietor, companies cannot help but forge close relations with India. Such were the cases of Mahindra Ssangyong and Tata Daewoo Commercial Vehicle Co. as well. Novelis Korea's case is somewhat different from those of Mahindra Ssangyong and Tata Daewoo Commercial Vehicle Co., in which Indian companies directly acquired Korean companies. In the case of Novelis Korea, a multinational company was acquired by an Indian company, thus the Korean subsidiary of the multinational company came to fall under the auspices of an Indian corporation. In essence, the two cases are the same in that the Korean companies were eventually bought by Indian companies.

Indian companies are standing out in the global M&A market, capitalizing on their tradesman ship and fluency in English. Indian companies' acquisition of Korean companies is sure to continue in the future. The M&A deals of Mahindra Ssangyong and Tata Daewoo were carried out mainly to secure the Korean companies' advanced technologies. There are many other Korean companies with advanced technologies.

Still, tradesmanship and fluency in English are not the only causes for Indian companies' success in M&A; Indian companies are also skilled at post-merger integration (PMI). Granted, not all Indian companies are equally skilled in the PMI process; however, India's representative companies, such as Tata and Birla Group, are known to be adept at M&A and PMI.

Behind such skillful M&A and PMI seems to lie a distinct Indian ability to accept the differences of others. A one-sided argument makes the PMI process complicated and eventually leads to the failure of the M&A deal. Japanese, Korean, and Chinese companies are especially weak at this, mainly because of their cultural background of not accepting others' differences.

Even if acquiring companies are adept at tolerance, performance growth cannot be taken for granted. Companies carrying out acquisitions must build transparent performance evaluation systems and foment the necessary senses of motivation. In this respect, Indian companies' management systems are evolving gradually. Globalized Indian companies have faster globalization rates in corporate governance and general management than domestic demand–based companies.

It has grown difficult to view the acquisition of Korean companies by Indian companies as isolated events. Three large Korean companies have already been purchased by Indian corporations, and the number of such cases will continue to rise in the future. The time has come for Korean companies to examine closely the strengths of Indian companies and learn from their examples.