The Great Indian Takeover of America

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Watch out, Indian MNCs are going to take over American globocorps, predicts Swaminathan S Anklesaria Aiyar.

Even as Indian leftists think Bill Clinton is coming to take over India, Indian companies are preparing to take over American ones on a gargantuan scale. Infosys and Wipro, our two most glamourous infotech companies, both want automatic permission from FIPB to take over foreign companies worth--hold your breath--$ 10 billion each. To put this in perspective, recall that when Ramesh Chauhan sold his Parle brands to Coca-Cola amidst much swadeshi wringing of hands, he got a reported Rs 180 crore. Now Infosys and Wipro propose takeovers of Rs 44,000 crore each.

This is more than the combined GNP of several African and even European countries. The GNP of Guniea Bissau is $ 0.2 billion, of Gambia $ 0.4 billion. The GNP of Armenia is $ 1.7 billion, Albania $ 2.7 billion, Estonia $ 4.9 billion, Latvia $ 5.9 billion.

Astonishingly, Wipro and Infosys are not big companies by conventional Indian standards, let alone international ones. In Rajiv Gandhi's time, a larger industrial house was defined as one having fixed assets of Rs 500 crore, which at today's prices would be around Rs 2,000 crore. But the fixed assets of Wipro are just Rs 450 crore, and of Infosys only Rs 169 crore. In 1999, Wipro had a net profit of Rs 176 crore, Infosys Rs 144 crore.

Readers will want to know, how can such modest-sized companies aspire to take over foreign companies worth Rs 44,000 crore each? How can Indian minnows have the temerity to try and swallow American whales? The answer lies in the stock market excitement about the coming of a New Economy, driven by knowledge rather than machinery. This has sent technology stocks like Infosys and Wipro into the stratosphere.

Historically, the traded price of a good company has been 16-to 20-times annual EPS. But Infosys in the US has traded at a mind-boggling 1,000-times EPS. In part this represents the current craze for technology stocks, which is unlikely to last forever. But it also reflects the ability of Infosys to double its profits every year, which, if it continues, means that in five years, profits will go up 3,200 per cent! Everybody expects some slowdown, but few software companies anywhere in the world can match this growth. Which is why Indian software companies suddenly look ready to conquer the whole world.

All major Indian software companies are already MNCs. All of them have branches abroad, all do most of their high-end work abroad using foreign employees, and then do the low-end work very cheaply in India. No foreign companies can match this. So suddenly Indian companies look like world-beaters.

They can take over high-end companies in the US and get low- end work done cheaply at home. Which is why Indian companies have become darlings of global stock markets, and have a stock market value far above that of foreign giants like Groupe Bull of France, BaaN of Holland, or Cambridge Technology Partners of the US, all of whom could be taken over.

For traditional companies, offshore work means work done abroad. It is just the opposite in the software business. Work done by Infosys in the US is called on- site, and work done in Bangalore is called off-shore. That exemplifies the revolution in mind-set which software represents. It sees the globe as its shore, and the Indian base as offshore. It is MNC by instinct, and in character and operation.

Many people, including myself, think technology stocks are grossly overvalued. Many have warned that this is a bubble that will burst. But if your value goes from 10 to 1,000 and then deflates to 400, that still represents a huge gain. Besides, all talk of bubbles bursting has been transformed after America Online (AOL) took over Time Warner, the biggest entertainment and media company in the world, a few months ago. The takeover involved no money--AOL simply offered its paper shares, and the industry captains at Time Warner accepted. In a trice, the supposed bubble became the most prized content company in the media world.

The same formula has just been repeated in Hong Kong. Richard Li launched an Internet company called Pacific Century Cyber Works less than a year ago, saw its price soar, and used that high valuation to take over the telephone giant of Hong Kong, Cable and Wireless HKT in a deal worth $ 38 billion. Once again, a supposed bubble was transformed into a merged company with some of the finest hardware in Hong Kong.

Infosys, Wipro and others can do the same. Making use of their stratospheric stock market values, they can acquire foreign software giants, or Internet giants, or telecom companies, or a combination of all three. Infosys is valued in the US stock market at $ 40 billion, more than traditional MNCs like Dow Chemicals, or military-industrial-complex giants like Raytheon and Northrop-Grumman. In the new knowledge economy, brains matter more than physical assets. And it seems Indians can match the world's best in brain power.

The action is not limited to the software sector. Subhash Chandra of Zee TV has already taken over ICO, the global satellite communications company, and now plans a new issue of equity in the US worth $ 1.5 billion, which he will use for further acquisitions. All the top Indian pharmaceutical companies, like Ranbaxy, Dr Reddy's Labs and Cipla, are acquiring foreign firms. They can do so easily because global stock markets value them highly for their R&D skills.

So India, which failed to catch the global manufacturing bus, has finally latched onto the global knowledge bus. And that is taking us places in the new knowledge economy. Remember that when Clinton lands. Do not worry about the possible takeover of Indian manufacturing companies by American ones. Indian MNCs are going to take over American ones on a much larger scale. This is inter-dependence, not domination.

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