

US industrials hop off fence, actively consider acquisitions in India – analysis - [Analysis](#)

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US industrial and construction companies are actively seeking acquisitions in India to capitalize on an expected infrastructure boom in the region, several industry sources said.

By acquiring in India, they achieve two main goals: lower operating costs and the ability to more easily supply products to other markets in the Asia-Pacific, Middle East, and even Russia, the sources said. Manufacturers, especially those serving the personal care and consumer products sectors, are also eyeing the region seeking to benefit from product demand from India’s growing middle class.

For the targets, being part of a US multinational would make them better able to sell to other overseas markets and upgrade their technologies.

Companies which are believed to be scouring the markets, and which already have an India presence, include Downers Grove, Illinois-based **Dover (NYSE: DOV)**; Peoria, Illinois-based **Caterpillar (NYSE: CAT)** and Cleveland, Ohio-based **Eaton (NYSE: ETN)**, two industry bankers said.

Dover is currently in talks with companies in niche sectors, including the flow control space as well as automation related to oil and gas, said an India-based banker. The company is believed to be working with Bangalore-based MAPE Advisory, which has shown the company a few targets in the space, said the second India-based banker. Mape declined comment.

Caterpillar is looking for targets in the engine and rail ecosystem category and Eaton, after completing its almost USD 12bn acquisition of **Cooper Industries** in 2012, is also seeking deals in the power segment, continued the first banker.

Charlotte, North Carolina-based **SPX (NYSE:SPW)** was scanning the market about four to six months ago but its effort could be on hold now, suggested the first banker, as it announced a plan for a tax-free spin-off of its flow business by Q3 2015.

ICICI Securities is also believed to have approached some of these companies with potential targets, continued the second banker. ICICI Securities declined comment.

Some of the potential targets in the fragmented space are very profitable – with margins of about 35%, and sophisticated manufacturing facilities, said the first banker.

However they would represent small nibbles for giant companies like Dover, Eaton and Caterpillar, the bankers said. Total deal values would probably fall below USD 50m, said the first banker. The larger companies could fetch valuations of 13-16X EBITDA while the smaller ones might be valued at between 8-12X EBITDA, said the second banker.

Indian government outreach

"India has been a long-time target for foreign investment," said Greg Oehley, a Middlebury, Connecticut-based lawyer in private practice who specializes in cross-border transactions. "What's changed now, the reason it shows up on a lot of people's radar, is that it has a lot of economic growth," he said.

India's Minister of Commerce, Nirmala Sitharaman, said in May the country would need about USD 1trn in new infrastructure investment over the next few years and that the government was seeking reforms to fulfill this agenda and achieve 9% GDP growth, a gain from its current 7.3% level.

"There is global interest in investing in construction and engineering in India," said Sara Haq, a principal at **SH International**, a Delaware-based consultancy specializing in emerging markets. Driving the interest is the new BRICS Bank, a development bank established last year by the BRIC countries, which has a USD 100bn reserve currency pool, most of it earmarked for infrastructure work.

Indian Prime Minister Narendra Modi's 'Make in India' campaign has also contributed to US companies seeking targets in India, said a fourth India-based banker. During his visit to the US in October last year, Modi detailed plans to cut some of the red tape associated with doing business in India and steps to develop infrastructure projects. A number of US companies that were earlier sitting on the fence about investment in the region have decided to actively look at India as a growth destination, he noted.

Corruption a concern

In addition to finding targets of the right size, obstacles for US multinationals acquiring in India include the risk of accounting fraud and bribery, the sources said.

American companies seeking deals in India have to engage in detailed due diligence. "US companies have to be extremely careful [not to] get involved in corruption and bribery, which are still major issues in India," Haq said. She said US companies "have to put in extra effort to make sure they have clean deals."

Dover, SPX and Caterpillar did not respond to calls seeking comment. In Dover's January 2015 earnings call, President and CEO Robert Livingston said India continues to be one of the key emerging markets for the company.

An Eaton spokesperson declined comment but mentioned India as important for the company, and noted it has seven manufacturing locations and more than 4,200 employees in the country.