Indian companies pay a price in push to go global

WORLD VIEW

In their rush to go global, Indian companies are sacrificing one of their most hard-fought advantages - high margins.

Having spent much of the past decade restructuring debt and tortuously shedding labour, companies such as Tata Steel, which last month paid £6.7bn ($13bn) for Anglo-Dutch rival Corus, have achieved margins of more than 40 per cent. But after consolidation with Corus, Tata Steel's margin will be well below 20 per cent. It is already significantly lower if it is consolidated with its other recent foreign acquisitions in Singapore and Thailand.

Hindalco Industries, the aluminium producer that has agreed to pay $6bn for Novelis of Canada, will be even worse affected. Novelis made a loss in the third quarter compared with Hindalco's margin in the June-September quarter of 29.2 per cent.

Suzlon Energy, the profitable Indian wind energy equipment maker, meanwhile, is trying to buy Repower of Germany, which has an estimated margin of 4 per cent. Indian companies are hoping to produce cost savings by combining their low-cost bases in India with their western takeover targets' access to high-priced markets.

But realising the full benefit of these synergies will take time - at least three years in the case of Tata Steel and Hindalco. In the meantime, investors are showing an unwillingness to hang around to see if the experiment works, as shown by the sharp falls in each of the three companies' share prices in recent days, joseph.leahy@ft.com

Power struggles

Up to now, the internal power struggle at Capitalia has been compared to a rather ungentlemanly game of chess. But in the past few days it seems to have turned into a fight to the death more akin to the merciless battles fought by Roman gladiators in the Coliseum.

Cesare Geronzi, the septuagenarian chairman of the Roman bank, may look old but does not appear to have lost any of his fighting spirit. Although he has decades of experience in the Machiavellian power struggles of the Italian banking system, he should not underestimate his youthful adversary, Matteo Arpe. Capitalia's chief executive is not only a tough operator himself, but also enjoys the support of the crowds.

The question ultimately is whether Mr Geronzi and his crony network can trip up Mr Arpe for whom the markets and the bank's management are rooting. After all, his track record managing the bank is impressive. He was recruited nearly five years ago when the group's shares were worth a mere 80 euro cents. They are now trading at about €7. The problem - as always in Italy with its incestuous financial system linked to politics and big business - is that there is still the risk that the market's wishes will be ignored. Mr Geronzi is clearly in a hurry to unseat his troublesome rival. Mr Geronzi has only recently been reinstated as chairman after being suspended over criminal proceedings - he is appealing a suspended jail term in a case related to the bankruptcy of a property company - for the second time in 12 months.

Worse, the government is considering tightening legislation that suspends for two months any director of a bank convicted of a criminal offence. After this period, a director can be reinstated by a majority shareholder vote.

Under the new proposal, any convicted bank director would be disqualified until he or she had cleared their name. Although Mr Geronzi is appealing against his latest conviction and claims he has done nothing wrong, he has yet to clear his name. Since the new rule would apply retroactively, it means Mr Geronzi, if the law is passed, would have to step aside once again.

Under the circumstances, it is not surprising he is trying to move heaven and earth to topple his rival and reinforce his own power base by appointing a friendly new chief executive. He has even invited the Spaniards of Santander and France's Vincent Bollore into the bank to bolster his control over Capitalia.

Mr Arpe, who until recently had avoided an open clash with his chairman, last week compared this invitation to a sad episode of 15th century Italian history. It reminded him of Ludovico Sforza, who turned to the French king and the emperor of the Holy Roman Empire to help defeat his domestic enemies. He ended up not only losing his crown and being sent to prison in France, but also opening a long season of foreign domination of the Italian peninsula.

With Capitalia's largest shareholder, ABN Amro, still reluctant to take on Mr Geronzi, what can Mr Arpe do?

But Mr Arpe is in no mood to resign and it is difficult to see how he can be quickly and quietly evicted. Second, in the current consolidation climate, he could easily try to entice a bigger rival such as Unicredito to make a move on Capitalia with whose boss, Alessandro Profumo, he shares the same market philosophy.

This would kick off the long-awaited auction for the Roman bank. That said there is always the possibility this big mess could play into the hands of Intesa-Sanpaolo's Giovanni Bazoli, who could well end up as the main beneficiary of all the back stabbing at Capitalia.
paul.betts@ft.com

world.view@ft.com

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