Teams from IMAP India and IMAP Czech Republic recently collaborated to advise NEI Limited, a leading tier-1 automotive and industrial bearings supplier in India, on their acquisition of Slovakia-based bearings manufacturer, Kinex Bearings.

The Origins of a Cross-Border Acquisition
NEI Limited is a leading tier-1 supplier of automotive and industrial bearings and part of CK Birla Group, a USD 2.4 billion Indian industrial conglomerate, with whom IMAP India had formed a strong relationship. The group has a rich history of mergers, acquisitions and alliances with several renowned global companies, employing 20,000+ staff, across its 24 manufacturing units around the world. Across the globe, IMAP Czech Republic had also built up a solid relationship with HTC Investments, to which Kinex Bearings belonged. HTC Investments was keen to sell Kinex Bearings through a bilateral process to a strategic investor, so the IMAP teams presented the acquisition of Kinex to NEI highlighting its synergies and the benefits it would bring once incorporated into NEI’s larger operations. Following Board ratification, IMAP India and IMAP Czech Republic were awarded the buy-side mandate and together initiated the transaction on behalf of NEI Limited.
A Strategic Expansion Move into European Markets

NEI Limited, based in Jaipur, India, is the largest Indian manufacturer of bearings and had identified Europe as the next stage of growth in their global strategy. In order to win orders from European industries, businesses prefer companies to have a local manufacturing presence. Therefore, NEI was looking to establish a manufacturing base in Europe and develop strong linkages with its Indian operations in order to lower manufacturing costs and at the same time, expand its client base.

Based in Bytca, Slovakia, Kinex Bearings specializes in manufacturing rolling bearings for a number of end use applications. It is a leading supplier of textile bearings and European leader in the supply of cylindrical roller bearings for railway vehicles. The company operates two manufacturing units, located in Bytca and Kysucké Nové Mesto, in Slovakia.

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By acquiring Kinex, NEI would now have an exceptional platform to grow in the European bearings market, specifically within the railways segment. As well as further strengthening Kinex’s presence in the railway segment, NEI could at the same time can look at bringing products from its own Indian operations to market.

Identifying the Synergies to Bridge the Gap on Pricing

The acquisition process took approximately two years, which is not unusual for a deal of this type and scale. Discussions regarding valuation were lengthy as the initial difference between the asking price and bid was quite wide. In cases such as these, it was important that IMAP identified the synergy benefits for the buyer, attributing accurate values to the post acquisition synergies, which were then included in the financial model. This proved key in increasing the bid price, which was achieved following several subsequent rounds of discussions.

Seamless Cross-Border Execution

The IMAP partners from both countries worked in close collaboration to ensure seamless execution support for the client through all the transaction phases, including submission of a non-binding offer, due diligence and a binding offer and the subsequent signing of the definitive documents.

International IMAP collaboration and local support in both countries during this cross-border transaction were crucial in delivering value to the client. Likewise, perseverance was critical. It is to be expected in transactions like these, that negotiations can be both lengthy and at times, complicated. Therefore, it was imperative that the investment bankers (IMAP for the buyer and EY for the seller) ensure the whole team (client, legal advisors, diligence advisors) on both sides remained motivated.

IMAP also worked closely with lawyers from both Slovakia and India on the transaction documentation, to ensure it was watertight and securely represented any potential risks. Transactions involving plants that are 30-40 years old run the risk of potentially high environmental issues, which needs to be adequately reflected in the transaction documents.

The share purchase was completed through NEI’s overseas investment company based in Zurich, Switzerland and financing was part equity and part debt from international banks.

No Substitute for Face to Face Interaction

Early in the process, IMAP recognized the inefficiency of conference calls due to language and cultural barriers. Therefore, it was collectively decided that any SPA negotiations would be undertaken face to face. To this effect, IMAP organized at least 5 visits from India to Europe during the documentation stage. In cross-border transactions, with counterparts of different nationalities and cultures, face to face interactions really go a long way to bridging the communication gap.
Market Expansion and the Value Chain Driving Cross-Border Acquisitions

The acquisition by NEI reflects what is currently happening in the market. Indian companies are increasingly looking at expanding their manufacturing footprint in developed markets, increasing their ability to attract overseas customers. A well selected overseas acquisition provides two key benefits: 1) increasing linkages with Indian manufacturing operations thereby lowering costs and 2) opening new customer avenues that would otherwise be impossible to secure with India-only operations.

In terms of the Industrials sector specifically, it is becoming imperative for European plants to reposition their value chain in order to lower costs. This can be achieved by outsourcing part of the manufacturing process to lower-cost Asian countries. For IMAP this opens up new opportunities and there is potential for replicating this in other markets; Asia to Europe and Asia to North America acquisitions hold a lot of promise.