

CROSS BORDER M&A 2025

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PRIOR YEARS – A QUICK PREVIEW

2023 was a year of significant global challenges, including interest rate hikes and ongoing geopolitical conflicts. While 2024 began with optimism for economic growth and increased deal activity, persistent geopolitical tensions kept uncertainties high. Global M&A experienced a modest upward trend in 2024 with a 9.8% increase in deal volume compared to 2023.

India displayed resilience in 2024, achieving a GDP growth rate of 8.2%. Cross-border M&A deals surged by 66% in the first nine (9) months of 2024, with IT, manufacturing and banking sectors leading the inbound M&A activity. IPOs witnessed a surge which enabled exits for private equity investors.

India's 2024 growth story was a mix of positive developments and persistent challenges. Key drivers included the re-election of the government, the "Make in India" initiative, boost in the production-linked incentives, growing technical capabilities, a skilled large workforce and increased domestic consumption. Challenges remained as the rupee depreciated against the US dollar, inflation proved stubborn, markets remained volatile and global economic uncertainties persisted throughout 2024.

TARIFFS – A REAL CONCERN

Come 2025, Donald Trump's widespread statements to impose tariffs on BRICS nations, including India, as part of the "America First" economic agenda, have raised uncertainties in global trade. If this proposal were to materialize, Indian companies will face pressure on their exports or will need to establish manufacturing facilities in the US to avoid steep tariffs, if their key market is the US. Presently, it seems that the services sector is insulated from tariffs, and as a result, outsourcing activity will continue to see growth and inbound investments.

While it is almost certain that outsourcing of manufacturing activities into India for servicing the US market can face a downward trend, US investors are likely to continue to invest in India to augment their manufacturing activities to service other global markets, excluding the US, given India's technical capabilities, cost competitive advantage, and skilled large workforce.

CAN INDIA CONTINUE TO SHINE

To remain one of the preferred inbound M&A destinations, India needs to attract foreign investors not only from the US but from other countries as well by speeding up and continuing policy reforms. A promising reform is the upcoming labour law overhaul, which will consolidate various labour legislations into four (4) codes, and is anticipated to be

unveiled in the Union Budget 2025. The government is also expected to continue its focus on skill development. The government's move to ease FDI inflows in space, e-commerce, pharma, and defence sectors, with presently nearly 90% of the sectors being under the automatic route is commendable. The government needs to ease regulations in permitting investments from land border countries in non-sensitive sectors, and to ease import duties.

There is significant uncertainty how Trump's trade policies will be implemented across businesses and countries which is likely to delay cross-border investments. In our view, the first six months of 2025 will be more of a wait and watch mode as US trade policies unfold and investors reset expectations. The remaining part of 2025 will likely provide clarity on US trade policies and how cross-border M&A will shape up for a few quarters thereafter. Stay tuned.