



Indian Economy and Trends

India's GDP stood at 9 per cent

- FDI inflows into India for June 2008 amounted to US\$ 3,931 million.
- Exports in June 2008 amounted to US\$ 14.6 billion, growing by 23.5 per cent from June 2007.
- In July-August 2008, 74 overseas M&A deals with an approximate value of US\$ 5.2 billion were announced.
- India's foreign exchange reserves stood at US\$ 300.01 billion as on August 08, 2008.

India exceeds 2007-08 export target by US\$ 3 billion

According to the final figures released by the Directorate General of Commercial Intelligence and Statistics, India's exports during 2007-08 exceeded the target by US\$ 3 billion to touch US\$ 162.9 billion, registering a growth of 29.02 per cent over the same period previous fiscal. The export target for 2007-08 was US\$ 160 billion. The sectors that drove exports during the period were engineering goods, petroleum products, gems and jewellery, agriculture, ores and minerals. India's exports for the first five months of this fiscal grew by 35.1 per cent to touch US\$ 81.2 billion, compared to US\$ 60 billion of the corresponding period last year.

India blasts into elite club with Chandrayaan-1

India has successfully launched its first unmanned mission to the moon - Chandrayaan-1. The rocket was injected into an initial orbit located 250 km at its nearest point to Earth and 23,000 km at its farthest. In 18 days, it gradually moved to the lunar orbit, to its intended

100 km height from the lunar surface. While the initial lift off was a success. India became the sixth country in the world to take a spacecraft to the lunar orbit. The 44.4-meter tall, 316 tonne launch vehicle PSLV-C11, space craft, lifted off from the Satish Dhawan Space Centre SHAR, Sriharikota at 6:22 am. PSLV-C11, chosen to launch Chandrayaan-1, was an upgraded version of Isro's workhorse polar satellite launch vehicle. Over 1,000 scientists have worked on the lunar mission at a budget of Rs 386 crore (US \$ 78.77 million). Chandrayaan-1 - which means moon vehicle in Sanskrit - weighing 1,400 kg at the time of the launch, was carrying 11 scientific instruments or payloads that were used to study the moon's genesis, unearth minerals on its surface, detect presence of clean fuel Helium-3 and scan the lunar poles for traces of water. After it entered the moon's orbit, it also ejected the Moon Impact Probe (MIP), which crashed land on the moon's surface. So, while the spacecraft will orbit the moon for two years, the MIP, which bears India's tricolour, will send data from the moon's surface. The data collected from Chandrayaan-1 would be shared, officials added. Indian Space Research Organisation (ISRO) is stretching its imagination beyond Chandrayaan-1, which is likely to be followed by Chandrayaan-2, which will have an orbiter and rover. It also has plans to send a man to space by 2015.

Govt relaxes ECB norms for infrastructure sector

In order to improve liquidity and check depreciation of rupee, Finance Ministry has relaxed norms to allow companies in the mining, exploration and refineries sectors to bring in up to \$500 million in

external commercial borrowing (ECB) to the country for rupee expenditure. The earlier limit was \$50 million. This is the second time that the Ministry has tweaked norms to address liquidity crunch faced by companies amid a global financial market meltdown. The move will also result in more inflow of foreign currencies in to the country and will help check depreciation of rupee, which is at a five year low at around 48 against the US dollar. All other aspects of ECB policy such as eligible borrower, recognized lender, end-use of foreign currency expenditure for import of capital goods and overseas investments, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged. The above amendments in ECB policy will come into force on the date of Notification of Regulations issued by the Reserve Bank of India, in this regard under the Foreign Exchange Management Act, 1999.

Curbs on P-notes lifted

The Stock Exchange Board of India (SEBI) board lifted the October 2007 restrictions on issue of participatory notes by foreign institutional investors, a move widely perceived to bring in more funds to lift the sagging capital markets. FIIs can issue P-Notes against securities, including derivatives, as underlying assets. The P-Note limit of 40 per cent of an FII's total assets under custody has also been done away with. FII net inflows in equity in calendar 2007 amounted to \$17 billion; this copious inflow created concerns for the regulators. FII year-to-date outflows for the current year are more than \$9 billion, causing concerns of liquidity. Offshore Derivative Instruments (ODIs), popularly known as P-notes are issued by FIIs to foreign individuals who do not want to participate in the Indian securities market directly. In October last year, SEBI had restricted FIIs and their sub-accounts from issuing/renewing ODIs with underlying as derivatives with immediate effect and

they were required to wind up their current positions over 18 months. P-notes could also not exceed 40 per cent limit of an FII's assets under management. In another move, the SEBI board decided to enhance the stakes owned in recognised bourses by six categories of shareholders from the existing 5 per cent to 15 per cent. These categories are public financial institutions, stock exchanges, depositories, clearing corporations, banks and insurance companies.

Hotel industry going places, eyes 10m foreign visitors by 2010

The long-term outlook for the domestic hotel industry remains upbeat as the country's tourism industry experiences unprecedented growth, according to the latest Indian hotel market outlook report, 'India Digest 2008', by Jones Lang LaSalle Hotels, one of the leading hotel investment and advisory service providers. While domestic tourism is expanding in India owing to an increasingly affluent and growing population, greater consumption and the introduction of low cost airline carriers, the government is looking to grow foreign visitation to 10 million international visitor arrivals by 2010, the year of the Commonwealth Games in Delhi. Over the last five years, India has seen a double-digit growth in foreign visitors to a 10-year high of five million arrivals in 2007. Foreign exchange earnings for the same year soared in tandem to \$12 billion (Rs 48,000 crore), a year-on-year increase of 34%. In a global context, given the size of the economy, the population and the future potential of India as a tourist destination, the demand fundamentals are very good. The long-term demand for India will mean that the country requires a lot more hotels to service the future demand. With a current supply of around 1,00,000 rooms, stifled stock growth over the last five years is leading to a demand-supply mismatch. "Based on the government target for 2010, India will need to add at least 1,50,000

new rooms in the next four years. The total known supply in the pipeline for major Indian cities (as of March 2008) through to 2011 stands at just over 29,000 rooms and some of this supply will be delayed given the turmoil in the global financial markets," Mr. Jain said. Leading the development of new hotels in the country is a number of Indian real estate players who view hotels as a natural extension and synergy to their growing real estate portfolios. "The hotel investment market in India will see an increase in volume going forward. Historically, very few operating assets have transacted in the market, and currently most investment opportunities are in assets being developed; however, the future will be different as the market matures", Mr. Jain said.

Eurocopter bets big on EMS biz in India

Eurocopter, a division of EADS, world leader in aerospace defence and related services, is betting big on the emergency medical services (EMS) business in India. It is in talks with a slew of leading hospital majors in New Delhi, Mumbai and Bangalore which include the Manipal group and the Apollo group. The company is hopeful of delivering at least four helicopters equipped for emergency services, to begin with. This will mark the foray of the company into the EMS market in India. Mr. Bruno Boulnois, General Manager, Eurocopter India said that the EMS helicopter business was still in the nascent stage in India. Big corporates like the Manipal and Apollo were bullish on the growth in the EMS segment, especially in providing emergency services in the remote areas. In fact, feasibility studies were being conducted to understand the needs of the market. The company has 480 helicopters flying in India both in the civil and military sectors. They are focussed on oil and gas, corporate, charter and EMS. Of this, oil and gas commands over 50% market share. The company also sees scope for more

business through heli tourism. The current orderbook of the company for the Indian market is 20-25.

India, China can grow despite crisis: UK think-tank

According to UK-based think-tank Economic Intelligence Unit, India and China may be relatively less impacted by the ongoing global financial crisis. With the India story still strong, cash-rich sovereign wealth funds should look at Indian companies, Mr. Robert Ward, Economist Intelligence Unit (EIU) Director-global forecasting said that there would be a slowdown in the global economy in 2009. India and China may slowdown, but will still grow rapidly relative to global standards. The on-going global crisis could be divided in two phases. One that is purely financial based on the problem with structured finance products. The second would be the one in which see the impact of the financial crisis in the real sector. The second one has already started in the US started and could last until 2011, he said. We saw it happen in the late nineties, when banks went bankrupt and then impacted the real economy and took a while for the economy to be back on the track. The negative impact of the financial crisis on the real economy is with a lag. Mr Ward said that India story is still strong and that India is an exciting destination for investments. But because of less money around, FDI may not be as buoyant. Companies with cash should certainly look at Indian companies, he said. Though there may not be many such companies at this juncture, Sovereign Wealth Funds which are cash-rich should look at investing in Indian companies.

US firms eye opportunities in Indian aviation infrastructure

After selling aircraft and components, the development of infrastructure in India's aviation sector could well be the focus of the American aerospace indus-

try. Ms Marion Blakey, President and Chief Executive Officer (CEO), Aerospace Industries Association of America, citing an example of infrastructure partnership said that India is modernising its Air Traffic Control system and the US would be willing to support its effort with next-generation satellite-based systems. India's 'GAGAN' project, which was cleared recently and envisages building a constellation of small, low orbiting satellites, could gain from collaborations. There were over 300 large US companies that have interests and capabilities in hi-tech manufacturing, design and software. The Union Civil Aviation Ministry has a clear growth path for aviation infrastructure over the next two decades. The economy was also expected to grow at 7 per cent, which was better than many countries and provides re-assurance for a long-term partnership, he added. Avionics, software development, hardware, components, aircraft and next generation systems were areas that the small and medium enterprises in both countries could consider for joint development, the Association felt.

Growth in manufacturing will fuel realty

The growth of the manufacturing sector in India through the development of SEZs, industrial corridors and townships was expected to create a significant impact in the real estate market. Jones Lang LaSalle Meghraj (JLLM) in its latest research, 'Indian Industrial Real Estate Landscape - An Emerging Investment Opportunity' said that the residential and retail sectors, which act as value-added sectors to the manufacturing industry, would also experience growth.

Hot Sectors

The emerging and high-growth industrial sectors were automobile and auto components, telecommunications, semiconductor, drugs and pharmaceuticals, and biotech. The growth of the manufactur-

ing and retail sectors and the improvement in transport infrastructure had attracted many domestic and international players to invest in the logistics sector.

2G licence fee cut up to 33%, biggies to benefit

Large telcos such as Bharti Airtel, Reliance Communications and BSNL will save significant amounts as the government has just slashed licence fees by 20-33% for players whose services cover over 95% of the residential areas in a State. Currently, all telcos pay a certain percentage of their gross revenues to the government (depending on the area of operation) as licence fee. The Department of Telecom's (DoT) move implies telcos will have to share considerably lower revenues with the government if they have a comprehensive presence in any state. The new rates will be applicable from April, 2009. However, the licence fee cuts will not be applicable in the four metros. This means all operators will continue to pay 10% of their gross revenues to the government irrespective of the areas they cover within these metros. However, if their services cover over 95% of the residential areas, the licence fee will be down to 8%, 6% and 4% for category A, B and C circles, respectively. The reduction in licence fee is due to a reduction in the telcos' contribution to the Universal Service Obligation Fund (USOF) which is used to fund rural telephony. Currently, all operators pay a flat 5% of their total revenues in all circles towards the USOF. The USOF contribution has been reduced to a flat 3% for those players whose services are available in over 95% of the residential areas. Data compiled by Trai reveal that the unutilised amount in the USOF has crossed Rs 15,000 crore (US \$ 3061.22 million) in 2007-end. At present, the unutilised amount in the USOF is likely to be well over Rs 20,000 crore (US \$ 4081.63 million).

Tatas acquire 50.3% in Norwegian e-vehicle major for Rs 9.4 crore

Tata Motors has acquired a 50.3% holding in Norway-based electric vehicle major Miljo Grenland/Innovasjon for Kroner 12 million (Rs 9.4 crore). Its UK subsidiary, Tata Motors European Technical Centre, was the investment vehicle for the acquisition. The existing shareholders will retain the remaining stake in the company. Miljo will produce electric vehicles based on Tata Motors' products, besides manufacturing super polymer lithium ion batteries and developing related technologies. Electric car, or e-car, is the new super kid in the world of automobiles. The first such vehicle to be developed will be Indica EV. It is scheduled for launch in Europe in 2009. Unlike existing e-vehicles, Indica EV will be capable of carrying four people. Analysts say the vehicle may attract buyers as there is no excise duty. Tata Motors believes that this investment in Miljo Grenland would help it realise its strategy to develop convenient, affordable and sustainable mobility solutions through electric and hybrid vehicles. Miljo Grenland, founded in 1997, markets zero-emission vehicles. It is owned by Skagerak Energi, a regional utility company, and Norsk Hydro, a \$25-billion European oil, energy and light metal company.

TCS acquires Citigroup Global Services for \$505 million

India's largest IT services provider Tata Consultancy Services (TCS) beat business process outsourcing (BPO) majors like Genpact and IBM to acquire the back-office operations of Citigroup for \$505 million (over Rs 2,400 crore). After the acquisition of Citigroup Global Services Ltd (CGSL), TCS will be the second-largest BPO player globally, after IBM. Along with the sale, Citi also signed an agreement with TCS to provide process outsourcing services worth \$2.5 billion (around Rs 12,000 crore) over the next nine-and-a-half years.

Citi will be the first global bank to have outsourced its entire banking processes, including core banking operations, to a third party. While TCS defended the valuations, particularly during the financial turmoil, analysts termed the acquisition expensive. With CGSL listing its operating profit at 23 per cent, the payback time may be around 11 years for the money invested," said an analyst at a leading brokerage. In terms of the acquisition valuations, TCS said that the Citi BPO has had a consistent revenue growth rate of 27 per cent and earnings before interest and taxes (EBIT) margins are of the order of 20 per cent. The BPO has 12,472 employees, who will now join TCS along with the existing management team. The BPO will operate as an independent entity.

Eye on health care demand, PE funds seek stand-alone hospitals

Over the last one year, investors have gone beyond large corporate hospital chains to tap the growing need of health care across India. The investments in stand-alone, specialty regional hospitals have been inspired by expectations of consolidation in the sector over the next three years as well as due to the rising demand of quality health care in the country, particularly in smaller cities. A study by the Confederation of Indian Industry and **McKinsey and Co.** earlier this year predicts demand for an additional 750,000 beds (up from the current 1.05 million beds) to meet the increasing demand for in-patient services by 2012, creation of which requires an investment of \$24-34 billion. Nearly 80% of this investment has to come from private sources, it said. According to data from **Venture Intelligence**, a research firm, Private Equity (PE) players have invested \$538 million across 33 deals in the health care and pharmaceutical sector till September this year, compared with \$505 million invested across 34 deals in the whole of 2007.

L N Mittal elected Chairman of World Steel Association

Mr. Lakshmi Niwas Mittal, the India-born steel tycoon has been elected Chairman of the World Steel Association, a body that represents approximately 180 steel producers from across the globe. Mittal will remain Chairman till October 2009. Mr. Mittal has also been elected as member of the Worldsteel Executive Committee, while Mr. Naveen Jindal-led Jindal Steel and Power Ltd has joined the association as an Associate Member in the category of steel companies producing less than 2 million tones (MT) per annum.

DISCLAIMER

The information given in the Newsletter is prepared on the basis of various inputs available to the Embassy and is for general reference. It should not be construed as an endorsement of the views contained therein

EMBASSY OF INDIA, SWITZERLAND

KIRCHENFELDSTRASSE 28, CH-3005 BERNE

TEL : 031-351 11 10 Fax : 031-351 15 57

E-mail : india@indembassybern.ch

Website : www.indembassybern.ch