

Weekly Economic Bulletin

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News Feature

India has 1.3% of global M&A deals

The value of merger and acquisition activity in India rose to \$9.5 billion this year from \$5.37 billion in 2005, nearly doubling its share in the global M&A deals to 1.30 per cent from 0.72 per cent.

Globally, 2,932 M&A deals worth \$732.32 billion were struck in 2006, compared with 3,000 deals worth \$736 billion last year. Of the 113 deals involving India, Indian companies accounted for 53 overseas buyouts valued at \$3.91 billion, while overseas companies struck 60 deals worth \$5.69 billion.

Data sourced from Bloomberg show that nearly 50 per cent of cross-border deals valued at \$710 billion have not yet been completed.

Deals worth \$731.32 billion have been completed, of which 247, valued at \$136.20 billion, were for listed entities, and the remaining 2,685 deals, valued at \$595.12 billion, were struck by undisclosed and unlisted sellers.

As many as 1,458 deals valued at 273.43 billion were struck with mutual understanding, while only 11, valued at \$94.46 billion, were hostile takeovers. The data do not throw any light on 1,463 deals valued at \$363.42 billion

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&bKeyFlag=BO&autono=268874&chkFlg%20=

Overseas Investment

Govt clears 18 FDI proposals

Swiss firm Nuance Group's plan to set up duty-free shops in airports and Nokia Siemens Networks' proposal to make investment for manufacturing telecom equipment were among the 18 applications involving a total of 64.66 crore FDI inflow cleared by the government today.

While Nuance Group plans to invest Rs 25 crore to manage duty-free shops in airports, Nokia Siemens Networks would make an investment of Rs 12.42 crore in manufacturing and marketing of telecom equipment.

The proposals were cleared by Finance Minister P Chidambaram on the recommendations of Foreign Investment Promotion Board, an official statement said.

Nuance Group's proposal is to undertake operation and management of duty-free shops, food and beverage outlets at airports in Mumbai, Bangalore, Hyderabad and other places.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=268876

RBI allows 49% FDI in stock exchanges

The government on Friday opened up the country's stock exchanges for foreign investment, with a cap of 49 per cent.

The Reserve Bank and SEBI issued separate notifications in this regard which said 49 per cent foreign investment would be allowed in infrastructure companies in the securities market like stock exchanges, depositories and clearing corporations.

Within overall foreign investment cap of 49 per cent, FDI would be permitted up to 26 per cent and FII 23 per cent.

However, no foreign investor will be allowed to hold more than five per cent of the equity in the stock-exchanges

http://www.financialexpress.com/latest_full_story.php?content_id=149649

Overseas investment norms eased

With the Reserve Bank of India (RBI) rationalising its guidelines, resident individuals now have the freedom to invest in any listed foreign company.

Individuals no longer face the restriction of investing only in a listed foreign company that has at least a 10 per cent stake in a listed Indian company.

“The requirement of 10 per cent reciprocal shareholding in listed Indian companies by overseas companies has been dispensed with,” the RBI said in a circular to banks, accepting the recommendation of the S S Tarapore Committee on fuller capital account convertibility.

The condition had restricted the overseas equity investment universe to just a handful of companies like Unilever PLC, the parent of Hindustan Lever, and resulted in this investment avenue being spurned by potential individual investors.

Investments by mutual funds in equities overseas have also not taken off despite the RBI raising the overall ceiling to \$3 billion from \$2 billion. The Securities and Exchange Board of India (Sebi) has put a ceiling of 10 per cent of a fund's net asset value (NAV), subject to an overall limit of \$50 million.

The Tarapore committee had noted that the first limit restricted small mutual funds that might have the skills for investing abroad, while the second limit thwarted large mutual funds and consequently recommended their abolition. Indian portfolio investments abroad have drawn a blank so far.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&bKeyFlag=BO&autono=268729&chkFlg=

FDI inflow soars 312% to \$1.7 bn in Oct

The ongoing economic boom has turned India into a magnet for foreign direct investment (FDI). In October 2006, FDI flows rose by a whopping 312% to touch \$1.7 billion against \$0.412 billion in October 2005.

The record-breaking performance is paving the way for a milestone growth in FDI inflows during 2006-07. As of April-October, FDI flows touched \$6.1 billion compared to \$2.6 billion during the first eight months of the previous fiscal.

Interestingly, the strong growth in FDI inflows follows rationalisation of the FDI policy at the beginning of this year to scrap mandatory clearances for several sectors. The government also made a symbolic beginning in opening up the retail sector to FDI by allowing foreign investment in single-brand retail.

“In fact, in April-October 2006 the country has FDI worth \$6.1 billion against \$2.6 billion in the same period last year showing a growth of 134%,” commerce & industry minister Kamal Nath said on Wednesday. Delhi was the top destination for FDI in October 2006, followed by Mumbai.

http://economictimes.indiatimes.com/FDI_inflow_soars_312_to_17_bn_in_Oct/articleshow/870632.cms

Foreign banks keen on tapping ultra projects

Foreign banks including Citibank and Standard Chartered Bank are keen on extending their credit lines for ultra mega power projects given the significant capital outlay involved.

The projects would benefit from the involvement of international lenders in addition to domestic lenders. The ministry of power and the Power Finance Corporation had earlier met with foreign bankers and export credit agencies to interest them in the 4,000 mw projects.

The banks could tap into key international participants including other commercial banks, multilateral and bilateral institutions and other debt providers, for arranging debt or equity for financing these projects.

With at least five projects in the pipeline — two of which were awarded on Monday — this power generation capacity addition programme would require funding to the tune of Rs 80,000-Rs 90,000 crore. Fact is that domestic funds will not be able to meet this requirements.

“We hope to play a role in the financing of the project subject to acceptable risk sharing between the constituents. Given the large size of debt financing required for the project, it would be perhaps be necessary to tap international banks and export credit agencies for financing the projects,” Citigroup India CEO & area head (Bangladesh, Sri Lanka & Nepal) Sanjay Nayar said.

http://economictimes.indiatimes.com/News/Economy/Finance/Foreign_banks_keen_on_tapping_ultra_projects/articleshow/856714.cms

Lightspeed invests \$29.5m in B'lore net cos

US-based venture capital fund Lightspeed Venture Partners has announced that it has invested a total of \$29.5 million in two internet companies, primarily operating out of Bangalore — Mercantila and TutorVista.

Lightspeed has invested \$22.5 million in Mercantila, which is a collection of hundreds of online speciality stores catering to the US and Canadian markets, with a captive Bangalore operation with over 100 people. The VC firm has invested \$7 million in TutorVista, an online tutoring and test preparation company.

Ravi Mhatre, general partner, Lightspeed Venture Partners, said: "Internet technology companies across a spectrum of sectors, including retail and education, are in the key focus set of global VCs.

We are scouting for Indian entrepreneurial ventures which could be candidates for early and growth stage equity investments."

The VC firm, which is betting on India as a strategic market, is also planning to set up an office in the next 12 months. Lightspeed recently raised a \$475 million fund of which one third is allocated for investments outside the US.

http://economictimes.indiatimes.com/News/News_By_Industry/Finance_Insurance/Finance/Lightspeed_invests_295m_in_Blore_net_cos/articleshow/843514.cms

Trade News

Export graph zooms to \$9.6 bn in November

India's exports during November 2006 stood at \$9.68 billion, a healthy 57 per cent increase on a year-on-year basis, as compared to \$6.16 billion in the same month last year.

Exports during October this year stood at \$9.6 billion, indicating that the growth momentum is being maintained this year.

The trade deficit for the first eight months (April to November) in financial year 2006-07 rose by \$8.4 billion at \$36.04 billion, which is 30 per cent higher than the deficit of \$27.64 billion during the same period in 2005.

The month of November witnessed a huge trade deficit of \$6.2 billion, nearly the same as the previous month.

Foreign Direct Investment (FDI) inflows to the country for the month of October has also registered an increase of 312 per cent over the corresponding month last year and stood at \$1.7 billion. Over the April to October period, FDI inflows stood at \$6.1 billion, an increase of 134 per cent over the corresponding period last year.

As per the foreign trade data released by Director General of Commercial Intelligence and Statistics, the cumulative value of merchandise exports in the first eight months (April-November) of financial year 2006-07 increased by 39 per cent at \$79.58 billion.

<http://www.businessstandard.com/common/storypage.php?autono=268733&leftnm=3&subLeft=0&chkFlg=>

Immense scope to boost trade with European Union

The Eastern Region arm of the European Union India Facilitation Desk (EUIFD), under the € 13.3 million (Rs 78 crore) EU-India Trade and Investment Development Programme (TIDP), was formally launched here today at a workshop on "FDI: Role if TIDP".

The TIDP programme, funded by a € 12.7 million contribution from the European Union and € 0.6 million from the Government of India, has been conceived to improve trade and investment ties between India and Europe.

Speaking at the opening session of the workshop, Mr A. Sahasranamam, Advisor-TIDP, said the objective was to assist India in creating an environment that encouraged trade and investment, and thereby carve out a strategic partnership between European and Indian companies, particularly in the SME sector.

He said TIDP has been developed by the European Commission on behalf of the EU, in partnership with the Department of Commerce, Government of India, and in close coordination with the relevant Union ministries and their field organisations.

The overall project structure is under the supervision of a Steering Committee comprising representatives of EU, Government of India and beneficiaries of the programme.

<http://www.thehindubusinessline.com/2006/12/23/stories/2006122303050300.htm>

Indo-German trade to touch €10 b by 2009

Mr Bernd Muetzelburg, Ambassador of the Federal Republic of Germany in India, is confident that the bilateral trade between India and Germany will touch € 10 billion by 2009 against € 5.6 billion in the first half of the current year.

Along with the increased trade turnover, direct investments from Germany to India will increase considerably in the coming years. Mr Muetzelburg said that it was evident that "incredible India is changing to credible India" in the area of economic growth. Many German companies were keen on coming to India, particularly in West Bengal, because of various positive factors.

Speaking at the concluding function of the golden jubilee celebration of the Indo-German Chamber of Commerce here recently, Mr Muetzelburg said, "I shall bring a series of German investors in India," adding that the presence of German companies in West Bengal would be doubled in 2007-08.

The West Bengal Minister for Commerce and Industries, Mr Nirupam Sen, said : "I strongly believe that German's engineering potential has to be utilised for industrial development in the State". He advised Indo-German Chamber of Commerce to play a major role in cementing bilateral trade between the two countries.

<http://www.blonnet.com/2006/12/22/stories/2006122203241100.htm>

Indo-Chile trade likely to treble this year

There has been a tremendous surge in Indo-Chilean trade in recent years and this is set to treble to \$1.5 billion, going by the current trend, according to Dr Jorge Heine, the Ambassador of Chile in India.

Dr Heine, on a two-day visit to Visakhapatnam, said at a press meet on Wednesday that the two countries had signed a preferential trade agreement (PTA) earlier this year in March. He said the agreement would have to be approved by the Chilean Senate before it can come into effect.

He said the agreement would cover 300 Indian products and 180 Chilean products. He said Chile mainly exported copper to India besides wine, wood and newsprint. He said India exported as many as 1,200 different products to Chile. "Indian software firms such as TCS are making forays into the Chilean market and TCS has bagged a major contract relating to the transport system in the Chilean Capital," he said.

<http://www.blonnet.com/2006/12/22/stories/2006122202300300.htm>

Sectoral News

Cement, textiles clock fastest profit growth in three years

While the growth of various segments of the industry is fairly established, what is not sufficiently appreciated is the extent of change in growth rates, when compared to the slowdown preceding the turnaround.

ETIG conducted a study of ten different sectors to gauge the extent of turnaround, or change in the growth rate, between FY 00-03 and FY 03-06.

The analysis, covering a total of 1,563 listed companies, shows that cement and textiles have shown maximum change in profit growth rate — from less than 20% CAGR to more than 110%. Metals sector comes third, with more than 100% profit growth.

Besides, three other sectors have grown in the range of 40-70% from less than 10% earlier and two are placed between 25-30%.

http://economictimes.indiatimes.com/News/Economy/Indicators/Cement_textiles_clock_fastest_profit_growth_in_three_years/articleshow/926860.cms

Pharma firms take lead in R&D tie-up

The domestic pharmaceuticals industry has proven its mettle once again with Glenmark Pharmaceuticals announcing the receipt of euro 25 million from German drug major Merck as upfront payment for a recently signed new drug (NCE) research collaboration in the area of diabetes.

Merck is to develop, register and commercialise Glenmark's molecule (GRC 8200) for markets in North America, Europe and Japan, allowing Glenmark to retain its rights for India.

The German partner will bear the cost of all ongoing studies and will be responsible for all future development activities. The value of all payments to Glenmark could total up to euro 190 million, including the just received upfront payment. GRC 8200 is one among the six potential NCE candidates for the company.

Glenmark is not an exception and is one among the 15 R&D-intensive companies that are into NCE research. Leading the pack is Ranbaxy Laboratories, with 10 NCEs in various stages of clinical development.

Ranbaxy had just announced a collaboration with Department of Science and Technology for two new drug discovery programmes in the areas of anti-infectives and inflammation.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=268576

IT parks may enjoy tax sops even after '09

The IT bandwagon led by TCS, Infosys and Wipro could be in for a pleasant surprise in the forthcoming Budget. The government is actively considering extending the Software Technology Parks of India (STPI) scheme beyond March 31, 2009. The scheme, introduced in 1999, offers a complete waiver of income tax on export earnings.

With the majority of the IT companies virtually operating out of garages and quite far from attaining global scales, the Centre could well extend the tax exemption for a few years, a senior government official said. The possibility of extending the waiver has gained momentum following recommendations from PM's economic advisor C Rangarajan. The issue was examined by PM's Economic Advisory Council headed by Mr Rangarajan, who has recommended against withdrawal of the tax exemption.

Sources in the revenue department said though the software industry in the country has seen phenomenal growth, it has yet to attain that global stature and some handholding was still needed for it to implant its footprint in the global map. More so, as some of the Asian countries, including China, are gearing up for an IT revolution and could pose challenges to the industry in the near future.

http://economictimes.indiatimes.com/News/News_By_Industry/Infotech/Software/IT_parks_may_enjoy_tax_sops_even_after_09/articleshow/856293.cms

Aviation biz to enter consolidation zone in '07

The entry of big corporate houses, such as the Tata group and the Reliance-ADA group as financial investors and global private equity players like US-based Texas Pacific Group, into the Indian aviation business may well expedite the consolidation in the industry leading to mergers and acquisitions in 2007.

In a year when a strong national carrier — with merged domestic and international operations — will play out in the market, passenger yields for domestic carriers are expected to improve, with airfares heading northwards. For the industry, this means cut-down in losses, expected to be in the range of Rs 2,500 crore for the current financial year.

While expansion of seat capacity — through introduction of new aircraft — will continue to meet the growth in passenger demands next calendar year, many in the industry feel that the interest shown by big corporate houses in the aviation business bodes well for the industry.

Many stock market analysts feel corporates may be just testing the water as financial investors to start with, but their entry into the business as strategic players is expected in a major way over the next 12 to 15 months.

http://economictimes.indiatimes.com/News/News_By_Industry/Transportation/Aviation_biz_to_enter_consolidation_zone_in_07/articleshow/843583.cms

Textile ministry plans 24 parks for Rs 1k cr

The textile ministry has mooted establishment of 24 new textile parks, increasing the total number of such parks to 50. The 24 new parks would require an estimated investment of over Rs 1,000 crore. The proposal is part of the draft plan to raise the country's share of global textiles trade to 10% by 2015 from the current 3%. A medium term target of 8% has been set for 2010. The textile ministry has already approved 26 textile parks under the Scheme for Integrated Textile Parks (SITP). Many of the parks are at various stages of implementation.

The draft plan for raising competitiveness in the sector has been prepared in consultation with the National Manufacturing Competitiveness Council (NMCC), which has marked out

textiles and garments as a priority sector for increasing competitiveness. The plan will be discussed by the Prime Minister's high level committee on manufacturing (HLCM).

According to experts, Indian textile industry has not been able to compete with countries like China as most of its textile units are in the small sector. These textile parks are expected to make the Indian industry competitive vis-à-vis other nations. "The problems of economies of scale can be dealt with by these textile parks, which would also enhance our competitiveness," NMCC member secretary V Govindarajan told ET.

http://economictimes.indiatimes.com/Textile_ministry_plans_24_parks_for_Rs_1k_c/r/articleshow/843312.cms

Govt releases Vision document for textile industry

The Union Government is committed to create an enabling and conducive milieu for the Indian textile to modernise and expand capacities, as it constitutes the "backbone of our manufacturing sector", the Union Textile Minister, Mr Shankersinh Vagehla, said.

Releasing the revised Vision Statement for textile and clothing industry for the Confederation of Indian Textile Industry (CITI) here, the Minister expressed happiness about the industry's more ambitious Vision compared to the one it made in 2004 to make investment of Rs 1,94,000 crore by 2012. However, Mr Vaghela said the industry Vision to capture a market size of \$110 billion was slightly lower than the Government's objective of \$115 billion by the terminal year of the Eleventh Plan.

He urged the industry to focus more on manufacturing value-added items since the higher growth in value would flow from manufacture of more valued products and a rise in use of diversified textile products such as technical textiles. He said after being subdued for long investments in the sector had picked in the last two years after several policy initiatives by the UPA Government.

<http://www.thehindubusinessline.com/2006/12/19/stories/2006121905261000.htm>

News Round – Up

Liberalised foreign investment policy early next year

The UPA government is planning another booster dose to make the country more attractive for foreign investment. A comprehensive review of the foreign direct investment (FDI) policy would be carried out in early 2007 to open up more areas to foreign investment. Various areas including financial services, civil aviation, trading, information & broadcasting and real estate are expected to benefit from the policy review.

The FDI policy liberalisation would be similar to the comprehensive review undertaken earlier this year, highly-placed government sources said. We are now planning to make FDI policy review an annual exercise, they added.

While several areas of financial services are not open to FDI, there is a need for clarity in the case of several sub-segments that are already open to FDI. Therefore, various aspects related to FDI in commodity exchanges, stock exchanges, banks and asset reconstruction companies are likely to be taken up in the review.

There is also a need to look at atomic energy that has not been opened to FDI. The scenario in the case of atomic energy would change after the India-US civil nuclear cooperation agreement comes into effect.

The liberalisation resulting out of the FDI policy review could be announced in Budget 2007. It is expected that the unresolved aspects related to hike in insurance FDI cap would also be resolved by then.

http://economictimes.indiatimes.com/News/Economy/Policy/Liberalised_foreign_investment_policy_early_next_year/articleshow/889589.cms

PEs are India Inc's top money-spinner

Private equity (PE) investments have, for the first time, exceeded the amount raised through IPOs and follow-on issues in the country. While the amount raised through IPOs and follow-on issues in 2006 stands at Rs 24,100 crore, the total PE funds invested in Indian companies add up to Rs 33,750 crore. The figures reflect the growing clout of PE funds in India.

With a volatile capital market, some analysts say, PE players are ideal financiers to fund companies through their growth trajectories. In addition, mid-cap companies whose appetite for funds is growing require mentoring and growth capital - factors which PE players are better at. "PE investors are stronger hands and take a medium-term view of the company. For companies on the growth path, PE players are sustainable investors," said

Standard Chartered Bank India private equity head Nainesh Jaisingh.

The spate of M&As by India Inc also makes the PE route the preferred mode of fund-raising. "IPO funds are largely used for organic expansion, while PEs are flexible and allow funds to be utilised for acquisitions. As the current phase of growth in the industry is driven by an aggressive acquisition strategy, PE funds are more in demand," said ICICI Securities senior vice-president Ravi Sardana.

http://economictimes.indiatimes.com/News/Economy/Finance/PEs_are_India_Incs_top_money-spinner/articleshow/889335.cms