

Weekly Economic Bulletin

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News Feature

India among top 5 developing nations: UN

India ranks among the top five developing countries in production of six major industrial items, including textiles, motor vehicles, chemicals and basic metals, according to a UN agency UNIDO.

In four out of the six industrial products - textiles, chemicals and chemical products, basic metals and electrical machinery and apparatus - India figures at number two only behind China.

India's annual growth rate of manufacturing value added (MVA) has risen from 6.9 per cent in the period 2000-2005 to 12.3 per cent between 2005 and 2007, according to the year book of the United Nations Industrial Development Organisation (UNIDO).

It found that the share of MVA in India's gross domestic product (GDP) has risen to 14.8 per cent in 2006 from 13.8 per cent in 2001.

UNIDO found that the developing countries now produced almost 30 per cent of the world MVA compared to 16 per cent in 1990.

"The increasing share of developing world vis-à-vis industrialised countries is also explained by the shift of location of manufacturing, especially assembling of final products from industrialised countries to developing countries," the UNIDO said.

<http://www.financialexpress.com/news/india-among-top-5-developing-nations-un/444265/>

India Inc raised \$14 billion via NCDs in FY '09

Corporate India raised \$14 billion from domestic primary market through debt papers — mostly non-convertible debentures (NCDs) in the fiscal ended March 31, 2009.

Resources raised through debt papers (in the domestic primary market) rose 46.7% to \$13.95 billion (1 US\$ = Rs 50) in the 12 months as against \$9.51 billion in the same period last year, according to data from CMIE. Almost 99% of the money raised through debt came from NCDs in fiscal year 2008-09.

These debt instruments are issued for a fixed maturity and in which no part of the debenture is convertible into equity. The face value of the debenture is redeemed in one instalment (a bullet payment) or in tranches with typical redemption periods ranging from 5 years to 10 years, experts said.

Some of the companies which opted for this route include Tata Capital where it raised \$300 million while others such as SKS Microfinance used the NCD route to raise smaller monies. During April-November 2008, LIC invested around \$4.6 billion in NCDs on private

placement basis and could have invested at least another \$2-3 billion in the remaining months of this fiscal, market sources said.

This shows the rise as well as the acceptance of debt instruments as investors flock towards assured returns. "The appetite for debt is only increasing. Global debt markets are larger both in terms of trading volume and issue sizes. In India, we have so far only scratched the surface. It could get a lot bigger than this if a vibrant secondary market comes up in place," K Ramakrishnan, executive director of Spark Capital, an investment bank, said.

With debt's appeal increasing, even foreign institutional investors, known for their exploits in the stock market, were net buyers of debt securities to the tune of \$500 million in FY '08. "Debt is a different ball game altogether. Investors cannot be short-term as they can be in equity-linked instruments. With equity markets in a downturn, both globally and domestically, debt was a safer option for many long-term investors," C Venkat Subramanyam of Veda Corporate Advisors said.

According to CMIE data, resources mobilised from the domestic primary equity-linked routes fell 77% to \$5.8 billion when compared to around \$26 billion in the previous fiscal as the appetite for public issues, right issues and private placement diminished.

Public issues or IPOs raised a dismal \$705 million in April '08 to March '09 period as against nearly \$10 billion raised by companies in the same 12 months the year before.

<http://economictimes.indiatimes.com/Market-Analysis/India-Inc-raised-14-billion-via-NCDs-in-FY-09/articleshow/4373141.cms>

Overseas Investment

Mauritius replaces US as India's biggest investment partner

Despite the global financial crisis, inflow of foreign capital to the country has increased sharply in 2008. The aggregate inflow of foreign direct investment (FDI) has more than doubled in 2008 — up 113.3% from Rs 65,495 crore in 2007 to 139,725 crore last year.

Interestingly, capital inflow from the US, which has suffered most from the financial crisis, has increased 107.3% last year against a rise of only 9.6% in the previous year.

The US' share in India's total FDI inflows, however, has declined further in 2008 as the total FDI inflow has grown at a higher rate.

The share of US in India's total FDI inflow, for that matter, has been declining steadily over the years. From about 11.5% in 2000, US' share in India's total FDI inflow has come down to only 5.4% last year.

The fall in the US' share in our aggregate FDI kitty has led to a major change in the order of India's investment partners. Mauritius has become India's biggest investment partner in the new millennium, replacing the US.

Its share in India's aggregate FDI inflow has increased dramatically from about 19% in 2000 to 43.7% last year. Mauritius accounted for about half of India's total FDI inflow in 2007.

But then Mauritius is not an isolated example. Unlike in the past, when India had to depend largely on the US for capital inflow, the new millennium has witnessed a drastic change in the sources of foreign funds.

The liberalisation has improved India's rating abroad and investors all over the world are now keen to invest in India.

As a result, India has witnessed a massive change in the order of her investment partners too in the recent years.

Singapore, which had a less than 1% share in India's FDI kitty in 2000, for example, has become the second-biggest source of FDI in 2008.

As much as 11.3% of the total FDI inflow in 2008 was accounted for by Singapore. In actual terms, the total capital inflow from Singapore grew by a huge 170.6% in 2008 over the previous year.

But more surprising has been the performance of Cyprus. Cyprus was a near non-entity in 2000 having just about Rs 3.1 crore worth of FDI approvals under its kitty — less than 0.1% of India's total approved FDI.

In 2008 it accounted for 4.2% of our total FDI approvals. Actual inflow from Cyprus has increased 164% last year from Rs 2,204 crore in 2007 to Rs 5,825 crore in 2008.

There are a number of new entrants as well. Israel, Thailand, Saudi Arabia and South Africa, whose names did not appear in the FDI list prior to economic liberalisation, have gone on to increase their stake steadily over the years.

<http://economictimes.indiatimes.com/Mauritius-replaces-US-as-Indias-biggest-investment-partner/articleshow/4393090.cms>

Foreign exchange reserves rises \$2.8bn during week ended Apr 03

Foreign exchange reserves have risen \$2.8bn during the week ended April 03, partly on account of revaluation of non-dollar assets in reserves. Also there have been some year-end inflows that have helped boost the reserves.

In the local markets, the total money supply growth for 2008-09 was reined in within the revised growth target of 19% for the year at 18.6%. For the first time in four years has the money supply has managed to remain within the targeted levels.

According to the figures released by the Reserve Bank of India, in its weekly statistical supplement, total reserves including gold and SDR rose \$2.8bn to \$255.2bn during the week ended April 03.

While foreign currency assets rose \$3bn, the value of gold in reserves dipped \$169m. The level of special drawing rights-currency with the International Monetary Fund (IMF)-remained unchanged during the week.

Though part of the rise in reserves could be also attributed to revaluation of non-dollar assets such as the euro, sterling pound and the yen, foreign exchange dealers say that there are year-end inflows through various channels such as unutilised aid, and exporters bringing back their proceeds.

This could have also partly help boost reserves during the week.

<http://economictimes.indiatimes.com/News/Economy/Finance/Foreign-exchange-reserves-rises-28bn-during-week-ended-Apr-03/articleshow/4386169.cms>

India strong pillar of growth, we'll continue to invest: Standard Chartered Bank

Bullish on the India growth story, Standard Chartered Bank, the largest foreign lender in the country, said it would continue to invest here despite global economic downturn.

"India is a strong pillar of growth... we have been investing every year on capital, new branches, systems improvement, product launches, hiring more people every year. So on every facet we have been investing and the trend would continue," Standard Chartered Asia CEO Jaspal Bindra told.

The intent is to grow the market share, he said, adding, "we want to grow at the rate we have been growing for the last two years."

Besides, the bank also looking at inorganic route to grow its business expressed interest in taking over the Asian business of the Royal Bank of Scotland, which is selling retail and commercial assets in the region, including Indian operations.

<http://economictimes.indiatimes.com/News/Economy/Finance/India-strong-pillar-of-growth-well-continue-to-invest-Standard-Chartered-Bank/articleshow/4391077.cms>

Trade News

Australia for expanding ties with India

Besides mining, agriculture, education and services, which were some of the core areas of bilateral trade and investment between India and Australia at present, Australia was keen to focus on other potential areas of business like food and beverages business, automotive sector, aerospace industry etc, informed Micheal Carter, Counsellor Commercial, Australian Trade Commission.

"India happens to be the fourth largest export destination for Australia, it is a very important strategic partner for trade, but the current export import activity between the two countries is largely confined to mining and mining resources, education, services,

agriculture, and more of a resource-based relationship which can be widened. There is a lot of scope for business and possible collaboration in the areas of food and beverages particularly wine, travel and tourism,” he said.

Australia's exports to India was worth around 12 billion Australian dollars last fiscal.

There is a need to widen the export-import portfolio through sectors like aerospace, travel and tourism, wine and beverages industry. A lot of Australian wine exporters were particularly robust about investing in India as it was seen as the next growth market, Carter pointed out.

<http://www.business-standard.com/india/news/australia-for-expanding-tiesindia/354445/>

Japan looking at India as investment destination

Japanese investors are increasingly looking at India as an investment destination, for business partners and the momentum is set to grow, according to Mr Arjun G. Asrani, Former Ambassador of India to Japan.

Addressing the Indo-Japan Chamber of Commerce and Industry, Mr Asrani said that the numbers of investors and the diversity of areas in which they wish to invest had substantially increased. Earlier, automotive industries dominated most of the investments but now investors were looking at pharmaceuticals and healthcare, telecommunications, steel, logistics and financial services. In the context of the global slowdown, the relatively better performing Indian economy is attractive. Japan considers this an ideal opportunity to ‘pick good bargains,’ he said. Mr Asrani felt that Japanese businesses were also increasingly flexible in their approach business relationships with their Indian counterparts. They have understood the advantage of having a local partner who can address issues such as government liaison, labour and compliance while the Japanese partner could go on with the job of manufacturing. Economic relations between Japan and India had gone through its share of ups and downs over the last five decades. But in recent years the relationship has gained strength based on the experience and is bound to grow, he said.

<http://www.thehindubusinessline.com/2009/04/13/stories/2009041351710300.htm>

Egypt seeks stronger trade ties with India

Preferential treatment in trade, investment and technology transfer, information exchange about regulatory measures in financial markets and sharing of expertise and human capital are considered important factors for boosting trade between India and Egypt, said Egypt's ambassador to India Mohamed Higazy.

Speaking at a meeting organised by Merchants' Chamber of Commerce, Mr Higazy said his country is keen to accelerate joint cooperation in the fields of space technology, IT, biotechnology and alternative energies, as have been outlined by its president Mohamed Hosni Mubarak during his visit to New Delhi in mid-November, 2008.

Last year, about 1-lakh tourists from India visited the land of the Pharaohs. The number is expected to double this year. With Egypt growing by over 7% and India growing beyond that level, efforts should be made from both sides to double Indo-Egypt trade in two years from the existing \$4- billion, said Mr Higazy.

India is the fourth largest trading partner of Egypt, followed by Italy, the US, and Saudi Arabia. By the end of 2008, Egypt's exports to India recorded \$2.2 billion and India's exports to Egypt at \$1.8 billion. As for the entire Arab world, its trade with India quadrupled from \$8 billion in 2000 to \$70 billion in 2007-08.

Indian investments in that country exceeds \$2.2 billion in 2008. With no problem in getting land and for having a regulated financial system in place, many Indian companies are opting Egypt as an investment destination, which is the gateway to the Arab world, Africa and Mediterranean region, said the ambassador.

MCC president Anupam Shah, while making an observation on prospect of Indo-Egypt collaboration in trade and investments, said there are huge scopes to increase the collaboration in food processing industry and in agriculture.

These two areas may be included while talking about free trade agreement (FTA) between the two countries, he suggested. The FTA dialogue between the two nations, which is at primary stage, revolves around areas like chemicals & petro-chemicals, drugs & vaccines, communication & IT, iron & steel, building materials, automotive and its components.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Egypt-seeks-stronger-trade-ties-with-India/articleshow/4386338.cms>

Sectoral News

Vehicle sales: On fast track mode

Vehicle sales numbers for March reinforce the wave of optimism that followed sales numbers for the first two months of 2009.

March numbers released by companies showed a six per cent growth compared with the same month last year and two per cent cumulative growth for the year ended 2008-09, with commercial vehicles remaining the sole segment yet to participate in this tentative recovery.

Passenger cars

Drawing strong support from the A2 and A3 segments (mainly A-Star and Swift D'zire), Maruti Suzuki clocked a 13 per cent growth in passenger vehicles sales in March 2009. It sold 792,167 vehicles in its silver jubilee year, taking the growth for 2008-09 to 3.6 per cent over last year.

The company's sales included exports of 70,023 units for the year, up 32.1 per cent. Growth in export was mainly led by A-Star, launched in Europe during the year.

Interestingly, sales of older brands such as Maruti 800, Omni and Versa, which the company plans to phase out by 2011, posted a 29 per cent and 13 per cent dip in sales this year.

For Mahindra & Mahindra, with Xylo's bookings crossing 12,000 units and Scorpio sales crossing the two lakh mark, the year saw a 11 per cent growth in March, though its total sales for the entire year fell one per cent when compared to 2007-08.

Helped by accelerated depreciation benefits, excise duty and price cuts, sales of UVs registered a 30 per cent growth for the year. The three-wheeler space, where M&M has managed to increase its market share from 9 per cent to 13 per cent, has grown 30 per cent this year.

The farm equipment division aided by the amalgamation of Punjab Tractors, has expanded 21 per cent. The export picture was, however, bad in the UV and tractors segment, where numbers shrank 31 per cent and 19 per cent respectively for the fiscal.

Two Wheelers

The picture for two wheeler majors was mixed. While Hero Honda and TVS Motors reported a 10 per cent and 4 per cent growth in March 2009, Bajaj reported a 13 per cent fall in sales.

Hero Honda's mix of urban and rural sales and a host of new launches helped the company post a robust growth of 12 per cent for the financial year 2008-09. Similarly, TVS Motors closed the year with a 3 per cent growth. Backed by the launch of Scooty Streak, it has registered a 44 per cent growth in its scooterette sales and 25 per cent increase in exports in March, though motorcycle sales dipped 8 per cent.

Despite recording 25 per cent cumulative growth in exports, sales of Bajaj Motors have fallen 10 per cent for 2008-09. Performance of the company both in the two-wheelers and three-wheelers has been muted in spite of its new launches.

Outlook

With the year closing on a mixed note for the companies, all eyes are on whether the recent recovery in sales numbers will continue. Some portion of the first quarter sales can be attributed to customers deferring their buying in 2008, anticipating excise duty cuts.

It is doubtful if recent cuts in interest rates are as yet to filter down to vehicle loans. Dealers say that they are yet to see a substantial loosening of bank credit to the automobile segment. They point out that March was driven more by cash sales than those financed by credit.

Hopes are up that once credit to the sector resumes significantly, demand for passenger vehicles will sustain growth.

<http://www.thehindubusinessline.com/2009/04/08/stories/2009040851100200.htm>

Tea exports rise marginally in April-Feb

With the Indian tea exports for the 11-month period ended February 2009 showing a marginal increase, it is unlikely to touch the 200 million kg for the full year as expected earlier. While the southern tea exports have shown a significant rise, the northern exports have declined. The total tea exports for the period stood at 169.8 million kg, an increase of over 2 million kg as compared with the same period of the previous year.

The southern tea export at 80 million kg recorded almost over 12 million kg rise, while the northern export fell by nearly 10 million kg to 89 million kg. According to market sources, the rise in exports from south has been due to increased offtake by Egypt, Iraq and Pakistan. The northern export is mostly to traditional markets like Russia and European countries.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Tea-exports-rise-marginally-in-April-Feb/articleshow/4387370.cms>

Rural India promises retail growth

There may be a slowdown in urban retail, but 'Bharat' is still shining for retailers. The next phase of growth is expected to come from rural markets with rural India accounting for almost half of the domestic retail market, valued over \$300 billion.

Rural India is set to witness an economic boom, with per capita income having grown by 50% over the last 10 years, mainly on account of rising commodity prices and improved productivity. Development of basic infrastructure, generation of employment guarantee schemes, better information services and access to funding are also bringing prosperity to rural households.

"Overall there is a huge market which is waiting to be served, ready to splurge, willing to explore new products and services, and retailers can tap on their wallets," said Ramesh Srinivas, national industry director (consumer markets), KPMG India.

In rural markets, consumers are practical and price sensitive. Even though consumers at the bottom of the pyramid do not seem to have predictable income (affects purchasing dynamics), the rural market proved to be surprisingly loyal. So if companies get it right they could really reap the rewards, experts added. This is particularly true as changes in the rural economy such as people moving from agriculture into manufacturing, which pays better, are likely to lead to an economic boom.

In order to earn brand loyalty in the rural market, product design will need to go beyond ideas like smaller sizes (such as single use sachets) to create genuinely new products that appeal to this segment.

"This requires a deep understanding of the market and an appetite for innovation, posing a challenge for both consumer products companies and retailers as there is still lack of shared understanding about the ever-changing Indian market and types of consumers that make it", says Pinakiranjan Mishra, leader retail and consumer products, E&Y India.

<http://economictimes.indiatimes.com/News/Rural-India-promises-retail-growth/articleshow/4373127.cms>

'Improved demand for steel to continue'

Economic think-tank Centre for Monitoring Indian Economy (CMIE) has said that the demand for steel has improved and the trend will continue in the current fiscal.

"The ongoing government funded infrastructure projects during the peak construction season, a slight revival in the automobile industry and a sharp 40-45 per cent correction in steel prices from the peak level of July 2008 spurred the demand for the commodity," the CMIE said in its monthly review of the Indian economy.

Revival of demand, it said, would also start reflecting in the prices, which were up two to three per cent in March after sharply falling in the previous four months.

"While the improved demand scenario would continue in 2009-10, this would not translate into a major recovery in steel prices," CMIE said.

Average prices of hot rolled coils rose by 1.8 per cent in March. Prices of cold rolled coils and galvanised sheets rose by around two per cent each.

"With a sharp reduction in input prices expected in the renewed contracts of domestic companies and global steel prices remaining subdued, we expect domestic steel prices to remain weak in 2009-10," it said.

The economic think-tank expects steel output to pick up in the current fiscal backed by healthy demand from long steel products used in the infrastructure construction.

"Further, a gradual pick up in the housing construction activity in the second half of 2009-10 due to low interest rates and fall in property prices would create new demand for long products," it said.

With fresh capacity of 4.8 million tonnes coming on stream in the current fiscal, total finished steel capacity of the industry will go up around 70 million tonnes.

"We expect finished steel production to grow by a healthy 6.5 per cent in 2009-10 as compared to a modest 1.5 per cent rise estimated for 2008-09," the CMIE said.

<http://www.financialexpress.com/news/improved-demand-for-steel-to-continue/447220/>

News Round – Up

India among top 12 manufacturers, finds Unido

United Nations Industrial Development Organisation (Unido) found that the share of developing countries in the world's manufacturing value-added output has almost doubled in the last 18 years due to the shift of production units and outsourcing of services from developed nations.

Unido in the International Yearbook of Industrial Statistics 2009 stated that developing countries produced almost 30% of world manufacturing value added (MVA) at the end of 2008 as compared to 16% in 1990. The per capita MVA doubled as early as 2006, while the industrialised world achieved merely 30% increase, it added.

Among developing countries, those in Asia account for nearly $\frac{3}{4}$ of the total MVA. China alone produces 42% of MVA among all developing countries.

For India, the growth rate of MVA output rose from 6.9% in 2000-2005 to 12.3% in 2005-2007. The MVA per capita grew 10.6 % in 2005-2007 compared to 5.2% in 2000-2005. The share of MVA in India's gross domestic product (GDP) stood at 14.8% in 2006 compared to 13.8% in 2001, Unido stated in the yearbook. Manufacturing still contributes around 15% of GDP of the country.

According to Unido analysis based on 2007 figures, India ranks among the top 12 producers of MVA. In textiles, the country is ranked fourth, after China, USA and Italy; while in electrical machinery and apparatus it is ranked fifth. It holds sixth position in the basic metals category; seventh in chemicals and chemical products; 10th in leather, leather products, refined petroleum products and nuclear fuel; twelfth in machinery and equipment and motor vehicles.

Among industrialised countries, Japan accounts for most MVA per capita, followed by Switzerland, Singapore, Ireland, Finland, Sweden, USA, Germany and Austria. Luxemburg, Republic of Korea, Denmark, Iceland, Canada, Belgium, United Kingdom, Norway, Netherlands, Italy and France come lower down the list.

“Although in most industrialised countries, the share of manufacturing is decreasing due to the increasing role of service sectors and outsourcing of production activities abroad mainly to developing countries, manufacturing still accounts for more than 20% of the GDP of Japan, compared to the 17 % average for all industrialised countries,” Unido said in the 15th publication of the yearbook.

The organisation said production of information and communication technology products has strengthened the performance of relatively smaller economies like Singapore, Ireland and Finland. “As a result, they have outperformed relatively larger economies such as the USA, Germany, Canada and France,” the yearbook stated.

<http://www.financialexpress.com/news/india-among-top-12-manufacturers-finds-unido/444286/>