

Weekly Economic Bulletin

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News Feature

M&As, private equity deals surge in July

Mergers and Acquisitions (M&As) and private equity deals showed heightened activity in July, with both reporting significant surges as against the corresponding period last year. This may further strengthen the country's growth story, analysts feel.

M&A values reported during the month were close to a billion dollar, while private equity deals reported a quantum rise in investments to nearly \$2 billion during the month, primarily owing to several QIPs (qualified institutional placements) that closed in July this year. Significantly, QIPs constituted over 90% of the PE investments. With several more QIPs in the pipeline, analysts expect to see sustained level of PE investments during the next few months.

There were eight inbound deals in July, mopping up \$934.39 million as against seven in the corresponding period last year, totalling \$124 million. Overall M&A deals added up to 35, notching up over \$982 million as against 44 deals in the same period last year with a value of \$637.23 million, according to consulting firm Grant Thornton. Amongst the largest cross-border inbound deal was of pharma major Sanofi Pasteur buying nearly 80% in Shantha Biotechnics for \$665 million.

CG Srividya, partner, specialist advisory services, Grant Thornton says: "Both M&A and Private Equity have seen significant increase in activity in July 2009 compared to the same period the previous year. M&A volume has been the highest in the last 10 months during July 2009. While the M&A value has been close to a billion dollar, the value has not increased in line with the volume as the deal considerations have not been reported for several transactions, especially transactions within group companies".

The total M&A deals registered during the first seven months of this year stand at 158 with a value of \$5.91 billion, against 313 deals amounting to \$16.73 billion during the corresponding period in 2008. While PE deals stand at 114, totalling a value of \$4.89 billion. As against this, there were 214 deals amounting to \$7.58 billion during same period in 2008.

During July, there was one IPO of Mahindra Holidays and Resorts which raised \$61.77 million. The total amount raised through IPOs in the calendar year 2008 was \$4,476.33 million from 42 IPOs.

<http://economictimes.indiatimes.com/News/MAs-private-equity-deals-surge-in-July/articleshow/4927106.cms>

India Inc optimistic on recovery by 2010: KPMG

Most of the Indian corporates are hopeful that the economy would revive by 2010 and are lining up fresh investments either for this year or the next, a survey by global financial consultancy firm KPMG has said.

About 70 per cent of the respondents according to the survey expect recovery by 2010, India seems to be more optimistic than the average, a survey titled 'Global business reactions to recession and strategies for recovery' carried out by the firm said.

While, nearly 50 per cent of those surveyed plan to make new investments either this year or next year, it added.

Infact, eight per cent of the respondents also feel that they were not impacted by the global recession at all.

The survey was carried out by KPMG in companies across 29 countries and involved more than 850 senior decision makers in the companies.

While talking about steps taken by the government it pointed out that a good number of India Inc feels that the government has taken enough measures including tax and interest rate cuts to face economic downturn.

"18 per cent think the government has done enough already or should not interfere," it stated.

<http://economictimes.indiatimes.com/News/Economy/Indicators/India-Inc-optimistic-on-recovery-by-2010-KPMG-/articleshow/4915555.cms>

Overseas News

India's June FDI up 8% at \$2.58 billion

India has attracted foreign direct investment (FDI) worth \$2.58 billion in June this year, an 8% increase over the same month last year, said department of industrial policy and promotion (DIPP) secretary Ajay Shankar.

He was speaking on the sidelines of an event organised by industry body CII. A part of the commerce ministry, DIPP collates data related to FDI in the country.

The rise in FDI in June comes along with robust growth in index of industrial production that rose 7.8%, fuelling hopes of a strong revival in the industrial sector.

Higher FDI in June also comes as a reversal in trend after the first two months of the fiscal reported 40% drop in total inflow in the country to \$4.54 billion. FDI inflow in May 2009 was \$2.2 billion, as compared with \$3.9 billion in same month last year and April reported FDI worth \$2.34 billion as compared with \$3.74 billion in the year-ago period.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Indias-June-FDI-up-8-at-258-billion/articleshow/4913044.cms>

Foreign investors are bullish on India: Finance Secy

Foreign institutional investors (FIIs) are bullish on India but are seeking changes in some of the country's tax laws on investments, Finance Secretary Ashok Chawla said.

"What came through was that FIIs are bullish on India. They raised some issues on taxation, especially STT (securities transaction tax) and capital gains tax," he told reporters after Finance Minister Pranab Mukherjee had met some foreign investors.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Foreign-investors-are-bullish-on-India-Finance-Secy/articleshow/4911762.cms>

Government clears 10 FDI proposals of Rs 1,123 crore

The government today cleared 10 foreign direct investment (FDI) proposals which will bring in Rs 1,123 crore.

The largest FDI of Rs 750 crore will be brought in by Essel Group-promoted DTH service provider, Dish TV India.

The government has deferred nine proposals, including that of Unitech Wireless (Tamil Nadu) Pvt Limited and ByCell Telecommunication.

<http://economictimes.indiatimes.com/News/Economy/Finance/Government-clears-10-FDI-proposals-of-Rs-1123-crore/articleshow/4907299.cms>

Trade News

Bangladesh exports to India to reach \$1 bn by 2011

Bangladesh's exports to India will reach at least \$1 billion by the end of 2011 as customers in that India now find several of its neighbour's products attractive, a business leader said.

"Our main focus will be the consumers of north-eastern states of India who preferred Bangladesh products including food items, textiles, melamine products and toiletries" said Abdul Matlub Ahmad, President of India-Bangladesh Chamber of Commerce and Industry.

"At the moment negotiations are continuing with India to raise export quotas of ready-made garments to 20 million pieces from 8 million now," Ahmad told.

Ahmed is also chairman of Nitol-Niloy Group of Industries, a conglomerate.

Bangladeshi manufacturers started to export bricks to India from last week, a new item on the export list.

Initially Bangladesh will export 400 million bricks worth \$40 million to the Indian state of Tripura.

Ready-made garments are the principal export of Bangladesh, which accounts more than 80 percent of the total export earnings of the country.

Bangladesh's exports grew 10.3 percent to \$15.56 billion in the 2008/09 fiscal year that ended in June, the lowest growth in six years, data showed, reflecting falling demand as a result of the global economic slump.

Ahmad said exports of Bangladeshi products such as processed foods, cement, plastics, sheet glass, dry fish, furniture and stone chips will grow 10-fold in the next two years.

He said that new Bangladeshi products such as melamine and scrap steels were also finding their way into the north-eastern provinces of India.

"Brick export to India opened up a new but strong potential window for Bangladeshi manufacturers and that will enormously help reduce our trade gap with India," Ahmad said.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Bangladesh-exports-to-India-to-reach-1-bn-by-2011/articleshow/4925042.cms>

India, Nepal agree for new trade treaty

India and Nepal reached a new trade treaty and an agreement to control unauthorised trade, particularly from a third country, aimed at widening the bilateral economic engagement.

The trade treaty, which has been negotiated for the last two years, aims at enlarging the scope of the existing institutional framework, under which India gives duty-free access to its market to goods manufactured in Nepal.

However, the trade treaty and the agreement to control unauthorised trade would be formally signed later, an official said.

The agreements were initialled by Commerce Secretary Rahul Khullar and Nepalese Secretary of Commerce and Supplies Purushottam Ojha here.

External Affairs Minister S M Krishna and Nepalese Minister of Commerce and Supplies Rajendra Mahto were also present on the occasion.

The new pacts will replace the existing arrangements since 1991, extended from time to time.

The agreements were initialled on the last day of the five-day visit of Nepalese Prime Minister Madhav Kumar Nepal.

The bilateral trade takes place generally in Indian currency barring for a few items. Indian rupee is legal tender in Nepal and is freely convertible.

The trade between the two countries was USD 1.8 billion in 2008-09 (April-February).

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-Nepal-agree-for-new-trade-treaty/articleshow/4921977.cms>

Indo-Thai trade may jump to \$10 bn by 2010

Indo-Thai trade should jump from \$6 billion to \$10 billion by 2010. And, trade between India and the Asean countries is poised to climb from around \$48 billion to \$60 billion in this span. There is also tremendous scope for growth in tourism between India and Thailand. There are half a million Indians visiting Thailand yearly, but only 60,000 from Thailand arriving in India annually. Even here, there is ample room for expansion from both ends.

This was the call that Mr Kiat Sitttheeamorn, president of Thailand Trade Representative (TTR), took at a meet in Kolkata. TTR enjoys the rank of deputy prime minister. The interactive session with the media was fielded by the Confederation of Indian Industry, eastern region and The Royal Thai Consulate General. "Thailand is looking at setting up trade cooperation with India in pharmaceuticals, infrastructure, hospitality, real estate and logistics," Mr Sitttheeamorn said.

His visit will pave the way for a series of roadshows that will be led by Prime Minister Abhisit Vejjajiva in November and by deputy prime minister Korbasak Sapawasu in October. "These series of high level visits reaffirm the importance Thailand attaches to India. Dialogues at the high levels will lead to concrete outcomes for the benefits of the two countries and the betterment of the peoples," he said.

He added that Thai investment in India is pegged at \$831.2 million, while India's investment into Thailand amounted to \$282.11 in projects.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Indo-Thai-trade-may-jump-to-10-bn-by-2010/articleshow/4903778.cms>

Sectoral News

Agri exports up 24% in '08-09

Despite global recession affecting India's foreign trade, agriculture exports from the country grew by more than 24% in 2008-09, largely because of huge demand for fruits, vegetables and basmati rice (aromatic rice).

According to figure released by Agricultural and Processed Food Products Export Development Authority (Apeda), exports rose to Rs 39,461 crore during 2008-9 from Rs 31,712 crore a year.

"The Gulf countries are the key rising market for us and there is huge opportunity for greater export of fruits and vegetables to these countries," Asit Tripathy, chairman, Apeda said.

After the government banned exports of non-basmati rice last year, there was fear that rice exports could be affected, but exports picked up due to huge demand of Pusa 1121 variety of basmati rice. Rice exports from the country in 2008-09 were to the tune of Rs 11,162 crore during last fiscal from Rs 11,755 crore achieved during the year before.

“Rise in basmati rice exports has replaced the lost ground because of ban on non-basmati rice export,” Tripathy said. Fruits and vegetables exports during last fiscal grew by huge a 128% to Rs 3,552 crore from only Rs 1,525 crore achieved a year before. Tripathy also said that the deficient monsoon this year would not have any impact on the agri exports as ‘most of areas for agricultural exports have irrigation facilities’.

“Basmati-rice areas do not have problems as farmers use under-ground water and other sources, while fresh fruits and vegetables have assured irrigation facilities,” Tripathy said, adding that processed foods may even perform better.

The basmati-rice areas have increased this year, the Apeda chairman said, but the quantum of the rise would be available after the second round of satellite survey.

<http://www.financialexpress.com/news/agri-exports-up-24-in-0809/503118/>

Leather units see recovery on export front by FY10

The leather industry is expecting a turnaround in its export performance by the end of 2009-2010. If not in value, increase in volume would help the industry to move forward, according to Indian Finished Leather Manufacturers and Exporters Association (IFLMEA) outgoing chairman Zackria Sait.

In the association’s 26th annual general body meeting he said being an export-driven country, the impact of the global economic slowdown on leather and leather products industry has been severe. The demand contraction in the developed world has had its crippling effects on exports.

“Lower sales volumes, global credit crunch, liquidity problems, ever increasing technical and bureaucratic barriers, environmental issues and finally the price undercutting have taken the wind out of our sails,” he said.

The year 2008-2009 the leather industry had two distinct halves. April 2008 to September 2008 the industry grew by 13.74% and October 2008 to March 2009 it dropped by 12.54% with the tanning industry also performing along the same lines.

In the period April to June this year the scene has not changed much and the slowdown continues. “We expect to end 2009-2010 with a gradual improvement in volumes though the actual value of exports may be down by 10% to 15% as the worldwide recession shows signs of abating and a slow and gradual recovery is on the cards.” India with its natural feel for genuine high quality finished leather at reasonable prices supported by highly qualified technicians who are able to adapt and produce leathers addressed to the needs of the various segments of the world market. The deterring factors are our

incapacity, inability and the lack of intent to continuously invest in modern machinery and technology to upgrade our tanneries.

<http://www.financialexpress.com/news/leather-units-see-recovery-on-export-front-by-fy10/503617/>

Education sector attracting pvt equities

Private equity players are beginning to show a fair amount of interest in the non-regulated education business in India. More than half a dozen companies in the education business have received private equity investments in the past two years, Mr Mohit Khullar, Vice-President, Equirus Capital Private Ltd, said.

Franklin Templeton India's private equity arm recently invested Rs 50 crore in Career Point Infosystems Ltd. This company which is based in Kota (Rajasthan) has been in the news recently for the high success rate of IIT aspirants that it trains.

Other companies in the education business that have received private equity investment are Mahesh Tutorial, FIITJEE, Time, Career Launcher, Time, Hurix System, Wigan & Leigh, Tree House Play School.

"In the current uncertain economic environment, the attractive and predictable rates of return of the education industry are serving as a magnet for PE investors," the CEO of a private equity firm said.

Private equity investments tend to give very high returns to investors. Returns from the education business are pretty high, say PE firms.

Gaja Capital had made a pre-IPO investment of \$1 million in Educomp Solutions which gave them a handsome return of around 20 times when they exited.

Listed players

There are four education related companies that are listed on the bourses. The promoters hold between 10 to 55 per cent stake in them, as at June end. These are Educomp Solutions (54.93 per cent), NIIT (34.04 per cent), Evronn Systems India Ltd (29.94 per cent), and Edserv Softsystem Ltd (10.82 per cent).

There are some more companies which are looking for investments from private equity players and are at different stages of negotiation, Mr Khullar said.

"We are in an advanced stage of talks with a Delhi-based company; we are also in discussions with 2-3 active promoters who are asking us to raise money," Mr Khullar said.

In India, education institutions can be regulated and unregulated. Private equity investments happen only in the unregulated institutions or companies as there is no exit option in the case of regulated institutions.

All schools and colleges which fall under the CBSE, ICSE, State Education Boards or are AICTE accredited, have to run as non-profit organisations, as per guidelines. Money invested in such institutions cannot be taken out by investors.

<http://www.thehindubusinessline.com/2009/08/22/stories/2009082250841000.htm>

News Round – Up

India's a better bet than China

Indian stocks will avoid a sell-off that drove China into a bear market last week as the South Asian nation is poised to topple its neighbour as the world's fastest growing economy, ICICI Prudential Life Insurance Company said.

"India's economy will grow faster than China's next year," Puneet Nanda, executive vice president at ICICI Prudential, the country's largest private insurer with \$6 billion in equities, said in an interview. "Industrial and services sectors will grow far more rapidly than expected."

India's economy may expand this year at a faster pace than earlier forecast as business confidence rebounds, buoyed by government stimulus measures and record low borrowing costs, the central bank said July 27. China's main stock index fell into a bear market, denoted by a 20 per cent decline from its peak this year on August 4, on concern economic growth will falter as banks rein in lending.

India's benchmark Sensitive Index has slid 5.7 per cent from its August 3 peak. The measure is still up 56 per cent this year, the ninth-best performer among 89 global indexes tracked by Bloomberg. "People are under-estimating how good the second half will be," Nanda said. "We are betting on a strong recovery." China's Shanghai Composite Index today rose 4.5 per cent, the most since March and erasing yesterday's 4.3 per cent slide. Still, the gauge is 16 per cent below its August 4 high.

Accelerating production

India's industrial production increased at the fastest pace in 16 months in June, adding to signs that Asia's third-largest economy has escaped the worst of the global recession as low interest rates have encouraged consumers to borrow to buy cars, motorbikes and other factory-made goods. India's economic growth may exceed 7 per cent in the fiscal year to March 31, and as much as 10 per cent in the following year, Nanda said. China's gross domestic product may expand 7.2 per cent this year and 7.7 per cent in 2010, the World Bank forecast on June 22. Concern that insufficient rainfall will trigger a decline in India's stocks is "over-rated," Puneet said. "Agriculture's contribution to the economy is just 17 per cent." Drought fears Indian stocks may slide as much as 15 per cent on concerns that lower monsoon rainfall will slash farm output and cut consumer spending, Bank of America Merrill Lynch said on August 17, saying it expects the nation's economy to expand 5.8 per cent this year. Citigroup Inc. on August 18 cut its forecast for economic growth to the same pace, citing the drought.

The seasonal monsoon, which delivers about three-quarters of the nation's annual rainfall, may be the driest in seven years, Ajit Tyagi, director general at the India Meteorological Department, said on August 13, adding that may curb farm output in the world's second-biggest producer of rice, wheat and sugar. "India remains very attractive for equity opportunities," Nanda said. He prefers shares in companies that will benefit from economic growth by building power plants, roads and automobiles and providing services including banking and engineering. He declined to name specific stocks.

Spending

Teera Chanpongsang, the Hong Kong-based manager of Fidelity International's \$2.3 billion India Focus Fund shares Nanda's optimism that an economic recovery in the South Asian nation will buoy its stocks, saying government spending in rural areas will mitigate the effect of diminished monsoon rains.

India's Sensitive Index is valued at 17.6 times estimated earnings while the Shanghai Composite Index trades at 22 times earnings and the MSCI Asia Pacific Index is valued at 24 times.

The nation's insurance companies will probably buy more than the \$12 billion of stocks this year than they bought in the Indian stock market last fiscal year, Nanda said.

"Indian equities could provide returns in the mid-teens over the next five to 10 years," Nanda said.

<http://www.business-standard.com/india/news/indiasbetter-bet-than-china/367857/>