

Weekly Economic Bulletin

Date: January 1- 7, 2008

Issue No. 245

Contents

- | | | |
|----------|--|------------|
| 1 | News Feature | Page 1-2 |
| | <ul style="list-style-type: none">• India to become trillion-dollar wealth management mkt by 2012• Forex reserves increase by \$2.8 bn | |
| 2 | Overseas Investment | Page 2-5 |
| | <ul style="list-style-type: none">• Ban on FDI from Bangladesh lifted• Trai favours FDI cap of 74% for mobile TV• Caparo group to invest Rs 3,500 cr in AP• DaimlerChrysler to buy 26% in Sutelej Motors | |
| 3 | Trade News | Page 5-7 |
| | <ul style="list-style-type: none">• SAARC: Ministry scraps import duty on 4,800 items• Exports up 27% in November at \$12.4 b• Action plan to boost tuna exports | |
| 4 | Sectoral News | Page 7-10 |
| | <ul style="list-style-type: none">• India's December manufacturing growth at 33-month high: PMI• Civil aviation market expects \$5.6 bn growth• ITeS market set to cross US\$ 25.43 billion in 2008: IDC• Tier-II cities the best bet for real estate investors: Jones Lang LaSalle• Centre to set up Food Quality Authority | |
| 5 | News Round-up | Page 10-12 |
| | <ul style="list-style-type: none">• Charity Fever: Corporate donations rise 30% in FY07• VC funding set to be billion-dollar baby in 2008 | |

News Feature

India to become trillion-dollar wealth management mkt by 2012

Indians will have one trillion dollars worth investable wealth by 2012, with the country's robust economic growth driving a four-fold surge from just about 250 billion dollars in 2007.

According to a report by international consultancy firm Celent, India is set to become a huge hunting ground for wealth managers with the number of their potential clients and size of manageable wealth both expected to grow four-times through 2012.

The wealth management market will have a target size of 42 million households by 2012, as against just about 13 million in 2007, noted the report titled 'Overview of the Wealth Management Market in India'.

"The wealth management sector is poised to witness tremendous growth. India's economic growth is making larger sections of the population prospective customers of wealth management providers," Celent said.

The growth would be seen across all income-levels, but the lower-income segment would record the maximum growth in terms of volume, while high-networth households would contribute the most in terms of wealth size, it noted.

Celent has defined a household with a minimum income of \$5,000 (Rs2 lakh) as the lowest end of the target market for wealth managers, while one with at least \$30 million (Rs120 crore) of investable income has been put in the category of ultra-high net worth. The market would see different products being launched for catering to different client segments, Celent's banking practice and author of the report Ravi Nawal said.

"There is an increasing momentum towards structure in this previously chaotic domain. We should expect some very India specific innovations in the near future," Nawal added. The market is currently dominated by unorganized players, whose share is 1.5 times that of the organized market. However, a structural change is taking place and organized players are drawing clients away from the unorganized players.

<http://www.livemint.com/2008/01/06121309/India-to-become-trilliondolla.html>

Forex reserves increase by \$2.8 bn

India's foreign exchange reserves increased by \$2.837 billion for the week-ended December 28 to \$275.559 billion.

The reserves had dipped successively in previous two weeks by \$232 million for week ended December 21 and by \$599 million for week ended December 14.

Foreign Currency Assets (FCAs) increased by \$2.833 billion to \$266.767 billion against \$263.934 billion a week ago, the Reserve Bank data stated.

FCAs expressed in US dollar terms included the effect of appreciation or depreciation of other currencies such as the euro, pound sterling and yen, held in its reserves, it said.

Country's reserve position in the International Monetary Fund increased by \$4 million to \$432 million during the week.

Gold reserves and Special Drawing Rights (SDRs) remained static at \$8.357 billion and \$3 million respectively, it added.

http://economictimes.indiatimes.com/News/Economy/Indicators/Forex_reserves_increase_by_28_bn/articleshow/2675675.cms

Overseas Investment

Ban on FDI from Bangladesh lifted

India has lifted the ban on foreign direct investment (FDI) from Bangladesh, paving the way for investment flows between the two countries, which might help narrow down the huge trade deficit Dhaka currently suffers in its trade with New Delhi.

The Minister of State for Commerce, Mr Jairam Ramesh, who was spearheading the move to lift the ban, told that he was thankful to the understanding displayed and significant efforts made by the Prime Minister, Dr. Manmohan Singh, and the External Affairs Minister, Mr Pranab Mukherjee.

Mr Ramesh said that the Reserve Bank of India has effected through Second Amendment to Foreign Exchange Management Regulations, 2007, changes in October 2007 providing permission to citizens of Bangladesh or an entity incorporated in Bangladesh to purchase shares and convertible debentures of an Indian company, with the prior approval of the Foreign Investment Promotion Board (FIPB), and not through automatic route.

The RBI has issued notice to this effect to authorised dealer banks in India on December 19 after the change was gazetted on November 14.

<http://www.blonnet.com/2008/01/04/stories/2008010452560300.htm>

Trai favours FDI cap of 74% for mobile TV

Telecom regulator Trai has proposed that the government allow players to offer mobile TV services using any technology of their choice, and licences for this service be issued 'through a closed tender system on the basis of a one-time entry fee (OTEF) quoted by the bidders'. The regulator also recommended that the FDI in this sector be kept at 74% in line with the telecom sector. It also said that allocation of spectrum to mobile television

licences should be automatic for successful bidders and it should not require any further selection process.

Importantly, Trai has also proposed that sharing of terrestrial transmission infrastructure of state-owned Doordarshan should be permitted on mutual agreement basis in a non-discriminatory manner. “Wherever a mobile television service provider has installed its own infrastructure, it must be shared with other such service providers,” Trai added in its draft regulations for mobile TV. The draft regulations say that players who offer this service must share 6% of their annual revenues towards licence fee or pay 10% of the reserve one-time entry fee limit for the concerned license area, depending on whichever figure is higher. “Minimum net worth requirements of Rs 40 crores for satellite based mobile television licences and Rs 3 Crores for each service area in terrestrial mobile television licenses should be laid down for being eligible to participate in the licensing process,” it added.

At present, in the broad sense, there are two routes for providing mobile television services — one using the telecom network with spectrum already allotted, and the other using broadcasting method.

Trai said that it shared the view that existing telcos did not require any further license or permission for offering mobile television services on their own networks using spectrum already allotted to them. The draft recommendations therefore calls for creating a new class of mobile television operators using broadcast method.

“Allocation of carriers in the UHF Band V (from 585 MHz – 806 MHz) for terrestrial mode of mobile television transmission, and S-Band for satellite mode of mobile television transmission has been recommended. Apart from Doordarshan, private operators may be assigned at least 1 slot of 8 MHz each for mobile TV operation using terrestrial systems. For satellite based systems also, apart from Doordarshan, private operators may be allocated spectrum such that a bandwidth of at least 8 MHz is available to them for mobile television services,” the draft recommendations said.

<http://economictimes.indiatimes.com/News/News By Industry/Telecom/Trai favours FDI cap of 74 for mobile TV/articleshow/2673161.cms>

Caparo group to invest Rs 3,500 cr in AP

London-based Caparo Group — a manufacturer of steel, automotive and general engineering products — will invest Rs 3,500 crore in setting up an automotive and aerospace components park in Naidupet in Nellore.

The €1-billion company, which currently operates 28 component units in India with 2,000 employees, signed a memorandum of understanding (MoU) with the Government of Andhra Pradesh.

The 2,000-acre park will be a world-class automotive and aerospace component facility, Mr Sunil Pahilajani, Managing Director and Chief Executive Officer, Caparo India, told newsmen after signing the MoU.

“We will don the roles of a developer as well as a manufacturer. We wish to bring in auto component manufacturers while being a big manufacturer in the park,” he said.

The company hopes to complete the first phase of the project with Rs 2,000 crore in about 18 months. The park would generate direct and indirect employment for over 10,000 people.

The clinching of the Caparo deal did not come easy for Andhra Pradesh, which faced stiff competition from Tamil Nadu.

<http://www.blonnet.com/2008/01/06/stories/2008010651320100.htm>

DaimlerChrysler to buy 26% in Sutej Motors

DaimlerChrysler AG of Germany has taken a call option to buy 26 per cent in Jalandhar-based bus body builder Sutej Motors.

The proposal was recently cleared by the Foreign Investment Promotion Board (FIPB).

The Indian company had signed an agreement with Daimler last year to jointly make fully-built buses from Daimler’s Chakan facility based in Pune.

Under the agreement, DaimlerChrysler will produce and supply bus chassis and Sutej Motors will attach the body.

DaimlerChrysler India (DCIL), which is a 100 per cent subsidiary of DaimlerChrysler AG (DCAG), will also handle sales and after-sales services of the coaches, which are expected to be launched in India in the first quarter of 2008.

SML, which started making bus bodies in 1965, is one of the country’s biggest coach manufacturers.

DaimlerChrysler is the world’s biggest bus manufacturer. DCIL already makes chassis in India.

A DaimlerChrysler delegation from Germany headed by Wolfgang Diez, head of the DaimlerChrysler buses and coaches business unit, visited India last year to assess the market.

The German company expects the demand for high-end buses to grow as a result of India’s improving road network and the increasing need for efficient public transport systems.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&bKeyFlag=BO&autono=309890&chkFlg=

Trade News

SAARC: Ministry scraps import duty on 4,800 items

In keeping with the assurance given by the Prime Minister, Dr Manmohan Singh, the Finance Ministry has done away with import duty on more than 4,800 items from the four neighbouring least developed countries (LDC) — Bangladesh, Nepal, Bhutan and the Maldives.

In addition, the Finance Ministry has also cut customs tariff on several items imported from Pakistan and Sri Lanka.

Customs duty cuts have been effected on a variety of items such as meat, fish, milk, dairy products, and dry fruits, from Pakistan and Sri Lanka as part of attempts to boost trade within the South Asian region.

Official sources said that the latest round of tariff changes is aimed at deepening the tariff concessions given to those countries.

The new rates have come into effect from January 1, 2008.

<http://www.blonnet.com/2008/01/04/stories/2008010451851200.htm>

Exports up 27% in November at \$12.4 b

The persistent higher growth in exports in the face of appreciating rupee till October 2007 continued in November too with latest export figure for November logging a robust 27 per cent growth at \$12.4 billion, as compared to \$9.8 billion in November 2006.

Provisional trade figures provided by the Department of Commerce shows that cumulatively too, the country's exports recorded a healthy 22.08 per cent growth during the first eight months of the current fiscal at \$98.3 billion, as compared to \$80.6 billion in the corresponding period of 2006-07.

Interestingly, in rupee terms too, when export growth was in single digit for some months, has recovered to register a growth of 11.51 per cent in November 2007, though cumulatively export growth in April to November 2007 remained at 8 per cent.

Imports, on the other hand, during November 2007 grew at 29.26 per cent at \$19.8 billion, as compared to \$15.3 billion in the corresponding month of 2006.

Cumulative value of imports for the period April to November 2007 at \$151.2 billion showed a growth of close to 27 per cent as compared to \$119 billion in the corresponding period of 2006.

Oil imports during November 2007 at \$5.8 billion was 16.7 per cent higher than such imports valued at \$4.9 billion in November 2006, while cumulatively oil imports during the first eight months of the current fiscal showed a growth 10.19 per cent at \$43.3 billion against \$39.3 billion in the comparable period of 2006. Non-oil imports during November 2007 at \$14.1 billion was higher than the \$10.3 billion in the corresponding month of 2006, while cumulatively non-oil imports at \$107.8 billion was 35.24 per cent higher than the level of such imports estimated at \$79.7 billion in April-November 2007.

As a result of relatively high growth in exports and a still higher growth in imports, the country's trade deficit has zoomed to \$52.8 billion during April to November 2007, as compared to \$38.49 billion in the corresponding eight months of 2006, an official release said here.

<http://www.blonnet.com/2008/01/02/stories/2008010252141000.htm>

Action plan to boost tuna exports

Tuna exports are slated to increase to 12 per cent of the country's \$4 billion marine exports by 2013, according to a perspective plan drawn up by the Marine Products Export Development Authority (MPEDA).

Releasing the Action Plan for the Development of Tuna Fisheries in the country, the Union Minister of State for Commerce, Mr Jairam Ramesh, said that this would take Indian tuna exports to \$500 million from the low of \$29 million last year, or 0.1 per cent of the country's total marine exports.

The major foray into tuna exports would also reduce the dependence on shrimp, which constituted 53 per cent of marine exports by value today. The Action Plan would also help Andaman & Nicobar Islands which has one third of the country's tuna and constitute 50 per cent of the regions marine resources.

To start with 100 existing fishing vessels of the region would be provided with technology and converted into tuna long liners to exploit the bounteous resources of the Andaman sea. The other locations where the Action Plan would focus would be Vizag, Lakshadweep and Tuticorin, Mr G. Mohan Kumar, Chairman of MPEDA, said.

The market for Indian seafood exports had been shifting from the West to the countries of the East, especially Japan and China in the recent past.

To augment this changing trends and to further tuna exports from the country, Mr Jairam Ramesh said that an international air cargo terminal should be opened at Port Blair. He had already written to the authorities concerned in this regard.

Though India was a signatory to the 28-member Indian Ocean Tuna Commission, it was still to exercise its rights in this regard.

<http://www.blonnet.com/2008/01/07/stories/2008010751760500.htm>

Sectoral News

India's December manufacturing growth at 33-month high: PMI

Indian manufacturing activity expanded in December at its fastest pace in almost three years, indicating the economy was growing at a strong clip despite a series of policy tightening.

The ABN AMRO Bank purchasing managers' index (PMI) rose to a seasonally adjusted 61.9 in December from 60.9 in November to mark the highest reading since the survey started in April 2005 and the third consecutive month it has been above 60.

The PMI, compiled by UK-based NTC research and sponsored by the Dutch bank, tracks changes in manufacturing business conditions by polling 500 companies each month on output, new orders, employment and prices. A reading above 50 signals expansion while readings below 50 suggest contraction.

"This is a reflection of a pick-up in domestic consumption, after witnessing some moderation due to higher interest rates in the previous quarter, and also corresponds with higher bank credit off-take since October," said Gaurav Kapur, senior economist at the Dutch Bank.

India's festival season runs between September and December and usually leads to increased sales of goods from clothes to cars. The main Diwali festival was celebrated in early November.

"Robust activity levels in the manufacturing sector also signal that overall momentum in the other parts of the economy is quite strong," Kapur said.

http://economictimes.indiatimes.com/News/Economy/Indicators/Indias_December_manufacturing_growth_at_33-month_high_PMI/articleshow/2667926.cms

Civil aviation market expects \$5.6 bn growth

It is one of the fastest growing sectors at a rate of 18% annually, the Indian civil aviation market holds out great promise for potential investors.

The International Air Transport Association (IATA) in its latest estimates this year reckons India to be a driving force behind the world's civil aviation business that is globally expected to grow from \$5.1 billion to \$5.6 billion this year.

The government is planning to re-develop 45 big and small airports around the country. For greenfield airports, foreign equity up to 100% is permitted through automatic

approvals. For existing airports, foreign equity up to 74% is permitted through automatic approvals and up to 100% through special permission (from FIPB).

The Centre for Asia Pacific Aviation (CAPA) predicts that domestic traffic will grow at 25% to 30% a year until 2010 and international traffic growth by 15%, taking the overall market to more than 100 million passengers by the end of the decade. Indian carriers have 480 aircraft on order for delivery by 2012, which compares with a fleet size of 310 aircraft operating in the country today.

Kapil Kaul, CEO India & Middle East, Centre for Asia Pacific Aviation, "India's civil aviation passenger growth, at 20%, is among the highest in the world. The sector is slated to cruise far ahead of other Asian giants like China or even strong economies like France and Australia. The number of passengers who will be airborne by 2020 is a whopping 400 million."

<http://economictimes.indiatimes.com/articleshow/2678022.cms>

ITeS market set to cross US\$ 25.43 billion in 2008: IDC

With a growth of 27 per cent in 2007, the IT-enabled services (ITeS) sector in India is set to cross the Rs 1,00,000 crore mark in 2008.

This would result in a market growth of 24 per cent. The year 2008 promises to be the beginning of Growth Phase 2.0 of the Indian IT sector, said IT research company IDC (India).

"By posting a substantial jump in the domestic IT/ITeS sector since 2002, the industry is on a new growth trajectory. IDC India expects a significant transition in the Indian IT market as part of Growth Phase 2.0," said Kapil Dev Singh, country manager, IDC India.

Growth Phase 2.0 will leverage the IT infrastructure and technical capability built up to offer a new-age services to the Indian enterprises and consumers, he added.

According to the IDC study, the level of maturity reached by the Indian consumer will be measured by better internet and telecommunication services such as fixed-mobile convergence, tele-presence, Web 2.0, social networking sites, online and mobile gaming.

Broadband will emerge as a favoured choice in 2008. Mobile and internet will continue to grow as an alternative internet access medium, according to the IDC fixed-line.

In the first-half of 2008, all major operators will be offering broadband up to 8 Mbps to consumers in metros and some other key cities.

Bandwidth-hungry applications such as IPTV, online gaming and VoIP will ensure a healthy uptake of VHSB in 2008, and beyond. According to the study, the Web 2.0 market in India is set to take off in 2008 with shakeouts and a possible string of consolidations to follow.

Virtualisation is also poised to become mainstream in 2008, as it gains wide-scale adoption. IDC India estimates the share of virtualised servers to double from the current 22 per cent to 45 per cent by the year-end.

IT solutions, which include hardware, software and services, delivery will witness change in 2008, with pockets of success and growing awareness setting the stage for wider market adoption, for which the small and medium enterprise (SME) segment will be a key driver, according to IDC.

Despite the high growth rate predicted for the Indian market, IDC expects a decline in the worldwide IT spend, with a significant US market downside risk. The worldwide IT market growth will be lower, at a moderate 5.5-6 per cent, down from 6.9 per cent last year, the study stated.

According to IDC's Global Research Operation (GRO) team, the earliest impact from economic downturns is felt, historically, in the hardware sector, with software impact lagging by one or two quarters and services impact more gradual.

<http://www.businessstandard.com/common/storypage.php?autono=309647&leftnm=8&subLeft=0&chkFlg=>

Tier-II cities the best bet for real estate investors: Jones Lang LaSalle

The upcoming tier-II cities across the country would still remain the best bet for real estate investors, according to Jones Lang LaSalle Meghraj. The real estate consulting company that recently announced an investment of more than \$1 billion in the Indian property market says cities such as Chandigarh, Guwahati, Nashik, Indore, Dehradun, Vadodara and Vizag would be the hottest real estate destinations for 2008.

US-based Jones Lang LaSalle, the world's leading integrated global real estate services and money management firm, recently merged with Mumbai-based property consultant Trammel Crow Meghraj. The saturation of metros and other tier-II cities is one of the factors for the drift. However, in addition to this, the proliferation of IT companies despite the poor performance of IT stocks in the latter half of 2007 would be the other impacting factor.

According to Jones Lang LaSalle Meghraj chairman and country head Anuj Puri, IT companies — the primary drivers in Indian real estate market, are not dependent on central business locations. Since it makes more sense for foreign-based companies to offload back-office functions and even serious research processes to India than to undertake these in situ, IT/ITeS companies can operate from anywhere in India, as long as there is access to skilled manpower and necessary resources.

Therefore, MNCs would want to benefit from cheaper real estate prices and set up shops in tier-II and III towns, driving up the retail, residential and infrastructure sectors wherever they go.

http://economictimes.indiatimes.com/Markets/Real_Estate/Tier-II_cities_the_best_bet_for_real_estate_investors_Jones_Lang_LaSalle/articleshow/2672985.cms

Centre to set up Food Quality Authority

The Centre proposes to set up a Food Quality and Standards Authority of India, said Union Minister of State for Food Processing Industries, Mr Subodh Kant Sahai.

Addressing a press conference in the city, he said the authority would come into existence in a month or so. The food-processing sector has grown at 13 per cent in 2007, up from around 6 per cent in 2004, he said. The food-processing sector is one of the areas contributing to India's growth and the sector will be able to generate employment in rural areas.

The Ministry of Food Processing Industries looks to attract investments worth Rs 100,000 crore into the food processing sector by 2015, he said.

However, given the fast pace of growth of the sector, this investment target may be achieved earlier, he added.

Mr Sahai said that he has asked modern-format retailers to develop an Indian retail model that includes small shops and village shops in the supply chains of large retailers. In the 11th Plan, the Ministry has schemes for establishing various supporting infrastructure for the food processing sector, he said.

<http://www.blonnet.com/2008/01/04/stories/2008010450602300.htm>

News Round – Up

Charity Fever: Corporate donations rise 30% in FY07

Indian billionaires may still be shy of loosening their purse strings like Microsoft founder Bill Gates and ace investor Warren Buffet, but philanthropy is slowly but surely gaining currency among the echelons of India Inc as company coffers swell by the day.

Corporate donations by listed companies, which had dropped in FY'06 after a huge surge in the previous year, rose again to a new high as companies opened their earnings to shell out more than Rs 425 crore in FY'07.

According to data culled from a sample of about 3,300 listed companies, corporate donations for FY'07 increased by 30% to Rs 426.53 crore compared to the previous year's Rs 327.75 crore. This marks something of a resurgence of charity by India's listed companies.

However, there is an important caveat to be noted. Corporate donations in India include donations to political parties, which can scarcely be considered philanthropy. But most companies do not provide detailed information as to who they donated to. Nonetheless, corporate observers say a rise in donations would mean a rise in philanthropic contributions as well.

Donations by listed firms had shrunk by 18% in FY'06. One reason could have been the base effect of the previous financial year.

Corporates, particularly public sector companies, were generous in supporting the survivors of the tsunami in 2004. And it was also the year India saw a general election. Not surprisingly, corporate donations by Indian listed companies reported a sharp jump of 75% to about Rs 400 crore, an all-time high, that year.

The roster of top corporate donors last year, includes a few new entrants but it is largely led by the traditional donors. While Reliance Industries, the country's largest company, continued to lead the list of donors, Sobha Developers and Suzlon were among the newbies who entered the top ten list last year, pushing out Tech Mahindra and Bharti Airtel.

Among others who contributed Rs 10 crore-plus last financial year included Infosys, Hindalco, Jaiprakash Associates, Jindal Steel, HPCL, Ambuja Cements and Grasim who have been among the top donors in recent years.

Companies whose donation amount more than doubled last year include: Ambuja Cements, Suzlon, Sobha Developers, Grasim, Pidilite, Omaxe, JSW Steel, MICO, Jindal Stainless, Sundaram Finance, Cummins India among others.

In total, there were 73 public listed companies who donated Rs 1 crore and above last year as against 60 companies in the previous year and 70 companies in FY'05.

http://economictimes.indiatimes.com/Charity_Fever_Corporate_donations_rise_30_in_FY07/articleshow/2679246.cms

VC funding set to be billion-dollar baby in 2008

The year 2008 is slated to be an interesting year for entrepreneurs and venture capitalists alike. With a mobile subscriber population of over 200 million and a growing internet penetration base, growing middle class and over 70 million TV and satellite homes,

entrepreneurs are coming up with innovative ideas and VCs are not stopping short of funding them.

In 2007, VC funding in start-ups in India just stopped short of \$900 million. In 2008, the VC industry is slated to become worth over \$1 billion. And interestingly, it will not be run-of-the-mill IT services. In fact, in a distinct shift, VCs will shy away from investing in IT outsourcing and BPO start-ups due to the rise in value of the rupee.

However, consumer businesses revolving around online education, personal gaming, mobile advertising and payments businesses will gain momentum, thanks to the great Indian middle class. Tax breaks to IT and BPO companies are ending in 2009. Unless that gets revived in the Budget this year, VC investments in the tech outsourcing start-ups will decline.

“However, investments in high-end KPO kind of services like analytics, research and legal outsourcing will continue to see traction. But dollar-driven businesses will surely see a decline of VC interest,” says Alok Mittal of Canaan Partners, which is focusing on investing in innovative consumer-driven businesses.

In respect of outsourcing, domain-driven services will attract VC interest, feel experts. Travel, online matrimony and job site market is saturated but some interesting ideas in these areas are sure to attract the VC eyeballs. Retail may also gain momentum when FDI regulations get relaxed. The sector will see greater VC funding.

<http://economictimes.indiatimes.com/articleshow/2677969.cms>