

Weekly Economic Bulletin

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News Feature

GDP growth at 18-year high

The Economy grew an impressive 9.6% in 2006-07, the highest in the past 18 years. Releasing the revised estimates, finance minister P Chidambaram said the government was confident of achieving "a close-to-9%" growth rate in the current fiscal.

This translates into an almost Rs 1,700 rise in every Indian's annual income. Per capita income, or the income each citizen would receive if national income were equally distributed, grew at 8.1% to Rs 22,553 in 2006-07, from Rs 20,858, in 2005-06.

Chidambaram said despite growing uncertainty and turbulence in global Markets, the Indian Economy was estimated to grow at near-9% in 2007-08, although the government may need to make 'rapid adjustments' in policy, depending upon the global situation. "Which side of 9% it is difficult to say," the minister told reporters. He added that he would be doubly happy if it was to the right side of 9%.

The government's Central Statistical Organisation (CSO) had earlier estimated growth in gross domestic product (GDP)—a measure of overall domestic income—at 9.4% for 2006-07. The upward revision comes as a result of higher growth in the banking & insurance sector at 13.9%, instead of the estimated 10.6%.

CSO has also revised the growth estimate for 2005-06 to 9.4% from 9%. The revised data puts the Economy's average growth rate over the past four years since the UPA government has been in power at 8.8%.

"This shows that since the United Progressive Alliance came to power, there has been an investment boom. People are investing and they have confidence in the future," Chidambaram said. "Domestic investment has been high and foreign direct investment also played its part."

Sector-wise, while growth in manufacturing has slightly eased, construction has improved to 12% from 10.7%.

<http://www.financialexpress.com/news/GDP-growth-at-18yr-high/267669/>

India not vulnerable to US recession: S&P

Unlike South Korea and Singapore, India is not vulnerable to fallout of the US recession, says a report by the international credit rating agency Standard and Poor's.

However, the US recession could "lead to a decline in capital inflows and weaker exports particularly of services. This could affect the capital and current account and put pressure on the balance of payment surplus," said the S&P report 'Asia Pacific sovereigns brace themselves for headwinds from US'.

In addition to India, China too has been placed in the category of 'not vulnerable' countries by the rating agency.

Those which are 'vulnerable' to the US recession are Pakistan, Singapore, South Korea, Malaysia, Philippines and Thailand. The countries which fall in the 'moderately vulnerable' category include Japan, Australia, Hong Kong, Indonesia and Sri Lanka.

The report further pointed out that "economies with a relatively small export sector and a large domestic market, such as India, are going to be much less vulnerable to a US recession-induced fall in export demand".

India's large domestic market, the report said is also among the factors which will reduce the risk of an economic slowdown due to external factors.

While commenting on the credit implications of the US slowdown on India, it however said that a widening current account deficit could put some pressure on the country's external position but "would not be expected to significantly harm its credit fundamentals".

<http://www.livemint.com/2008/01/28190758/India-not-vulnerable-to-US-rec.html>

29 India-based IT companies among world's best 100

Twenty-nine India-based companies have been listed among the best 100 IT service providers in a new survey carried out with a view to assist business heads of major outsourcers identify reliable, innovative and tech savvy partners.

The toppers from each of the 10 categories that were identified included four companies each from India and the US and one company each from China and Mexico, said the survey by CyberMedia and Global Services Magazine.

They included India's Tata Consultancy Services, HCL Technologies, Genpact, WNS Global Services, America's EDS, Sitel, EPAM Systems and Computer Sciences Corporation, Mexico's Softtek and China's Neusoft, a release by Global Services Magazine said.

"The presence of four companies each from China and Malaysia, and three each from Russia and Brazil serves as a gentle reminder that these countries are emerging as viable outsourcing destinations," it said.

The year 2007 reported a total of 436 M&A deals in the services industry. Nearly one-third of the Global Services survey respondents said that they merged with or acquired one or more providers. Of these, 11 per cent confirmed acquisition of a consulting firm.

The Indian service providers who derive between two-third to three-fourth of their revenues from the US are back to the drawing board to consider non-US avenues. While many IT-services companies were looking towards Europe and Japan as potential

markets, others have strengthened plans for servicing the maturing domestic Indian market, it said.

India has emerged as the hub for global delivery with 57 per cent of the employees engaged in delivery centers located in India, followed by 18 per cent in the US.

http://economictimes.indiatimes.com/Infotech/ITeS/29_India-based_IT_companies_among_worlds_best_100/articleshow/2742171.cms

Overseas Investment

India lifts FDI caps in key sectors

India raised caps on foreign investment in civil aviation, refineries, some mining of minerals, and commodity exchanges as it hopes to hook more overseas money for its fast-growing Economy.

The South Asian giant is particularly looking abroad for financing of infrastructure improvements, including in its refining sector, and for producing key minerals such as titanium.

The announcement had more to do with removing bottlenecks than a major revamp of foreign investment policy in Asia's third-largest Economy.

"The union cabinet reviewed and approved foreign direct investment policy for further liberalisation in civil aviation, petroleum and natural gas, commodity exchanges," cabinet minister Priyaranjan Dasmunsi told .

He added there would also be new limits for credit information services, mining in titanium, industrial parks and construction and development.

The Indian Economy has grown at an average 8.6 percent in the past four years and is poised to maintain that pace in the current year to March 2008, but analysts and policymakers say creaky infrastructure may pose a threat to faster expansion in the future.

India hopes to attract foreign investment of \$26 billion in the 2007/08 fiscal year that ends in March, substantially higher than \$16 billion a year earlier.

But it is currently grappling with the problem of huge capital inflows, which pushed the rupee up by nearly 12 percent against the dollar last year, hitting exporters.

The cabinet raised the foreign equity cap for oil refineries involving state-run and overseas firms to 49 percent from the current 26 percent, and said from now on projects could be approved by the Foreign Investment Promotion Board.

Until now they have needed a nod from the cabinet if the foreign holding exceeded 26 percent.

The cabinet also approved ending a rule which made it mandatory for foreign firms to shed up to 26 percent of equity in favour of Indian partners or the public within five years for ventures involving the trading and marketing of petroleum products.

India hopes to turn itself into a oil refining hub. India already allows 100 percent foreign investment for refining in the private sector.

Foreign holdings in commodity exchanges would now allowed up to 49 percent, the first time a upper ceiling has been formally set, with foreign direct investment to the tune of 26 percent permitted.

Another 23 percent can be held by foreign institutional investors.

<http://www.financialexpress.com/news/India-lifts-FDI-caps-in-key-sectors/267054/>

Easier FDI norms likely for industrial parks

RBI might have disappointed realty companies that were looking forward to cheaper home loans to revive growth, but the government is ready with a booster dose: exempting foreign direct investment (FDI) in industrial parks from conditionalities like minimum capitalisation and lock-in period of three years. Differences within the government over a proposal to this effect have been resolved and the Cabinet Committee on Economic Affairs (CCEA) is scheduled to take it up.

All the departments concerned have conveyed its support to the proposal, which was put forward by the department of industrial policy & promotion (Dipp) last October, highly-placed government sources said. This would enable the CCEA to exempt industrial parks from the conditions specified for FDI in real estate under Press Note 2, they added. The proposal has been pending for three months due to differences of opinion within the government.

Apart from a minimum capitalisation of \$10 million for subsidiaries of foreign companies and \$5 million for joint ventures, Press Note 2 also specifies that FDI in real estate projects would be allowed only in the case of projects spread over 10 hectares in the case of serviced housing plots. In the case of construction projects, the minimum built-up area has been specified as 50,000 sq m. A three-year lock-in is also mandatory.

In the case of industrial parks, the condition for allowing 100% FDI through the automatic route is construction of at least 10 units out of which no one should occupy more than 50% of the allotted area. At least, 66% of the total area should be allocated for industrial activities like manufacturing, telecom, software, data processing, consultancy and other computer-related businesses. Power, gas and water supply would also be allowed in such industrial parks. Business and management consultancy, engineering, architectural and R&D activities in natural sciences is also allowed.

http://economictimes.indiatimes.com/Easier_FDI_norms_likely_for_industrial_parks/articleshow/2741885.cms

FII buy shares worth Rs 27K cr in Q3FY08

The shareholding pattern of foreign institutional investors (FIIs) in the period between September 30 and December 31, 2007, revealed that they made a net purchase of Rs 26,856 crore, buying mostly undervalued stocks.

According to the latest available data, FIIs offloaded shares valued at Rs 19,326 crore in 384 companies, while buying shares worth Rs 46,182 crore in 709 companies.

They were selective in their purchases, buying undervalued stocks across sectors — from fast moving consumer goods, finance, electrical, media-content providers, to turnkey infrastructure and mid-sized manufacturing firms in aluminium, cement, power, refineries, steel and sugar sectors.

On the other hand, they sold stocks across the board, particularly large caps in the manufacturing and services sectors.

The FIIs offloaded their stakes in large capacity cement stocks, housing construction, power equipments, media and entertainment, and medium-scale automobiles, mid-sized software services, bulk drugs exporters, metals, sugar and small-sized steel companies.

The provisional data on the Bombay and National Stock Exchanges indicate that the FIIs were net sellers to the tune of Rs 12,492 crore, while custodian data to the Securities and Exchange Board of India (Sebi) revealed net buying of shares worth Rs 17,624 crore during the quarter ended December 2007.

http://www.businessstandard.com/common/news_article.php?leftnm=0&autono=311991

Overseas hydel firms look to tap potential in India

Companies from Russia, Scandinavia and France are looking to form joint ventures (JVs) with Indian firms to set up hydroelectric power projects in India, a business in which the country is just beginning to tap some of its considerable potential.

“There are three companies who are in active talks from these geographies for setting up JVs to enter the Indian hydroelectric power generation sector,” said a senior official in the power ministry, who did not wish to be identified. India has “exploited only 25% of its hydropower potential,” the official added, saying such ventures could help the country meet targets it has set.

The government plans to set up 16,553MW of hydropower capacity in the five years to 2012, and another 30,000MW in the five years to 2017.

The official did not disclose the names of the companies. Big hydropower companies from these regions include Electricity De France and Norwegian state-owned electricity company Statkraft.

The government is hoping the involvement of foreign firms will boost growth in the sector. These firms have the technical and construction expertise for setting up projects which are more complex to build, and need specialized technology and design inputs.

Several hydro projects in the country have been delayed and India has met a little less than half the target of 14,393MW set for hydropower generation in the five years to 2007. In April, a study by the parliamentary standing committee on energy showed the increase in project costs due to delays varied from 400% to 2,500%.

<http://www.livemint.com/2008/01/31000150/Overseas-hydel-firms-look-to-t.html>

Boeing in tech venture with Wipro, HCL

Boeing Co has entered into an agreement with the Indian Institute of Science and software firms Wipro Technologies and HCL Technologies to develop wireless technologies and other network technologies.

The venture, Aerospace Network Research Consortium, is for a period of four years and can be extended based on "mutual interests", according to a joint statement.

Financial terms of the agreement were not disclosed. Wipro Technologies is the software services arm of No. 3 software exporter Wipro Ltd.

"We have a great need for advanced, affordable aerospace network R&D," Naveed Hussain, vice president for engineering and technology, Boeing India, was cited as saying.

Boeing last year signed a 10-year manufacturing deal with India's state-run Hindustan Aeronautics Ltd worth more than \$1 billion.

Boeing has said it sees business worth \$80 billion in India's commercial sector and \$15 billion in the defence segment over 10-15 years.

<http://www.financialexpress.com/news/Boeing-in-tech-venture-with-Wipro-HCL/266651/>

Trade News

Exports up 16.04 per cent to US\$ 12.31 billion in December 2007

India's exports registered a growth of 16.04 per cent to 12.31 billion dollars in December 2007, as against 10.61 billion dollars in the same month of 2006.

Imports during the month were valued at 17.68 billion dollars, up 18.06 per cent, from 14.97 billion dollars in December 2006.

For April-December period of 2007-08, India's exports stood at 111 billion dollars, registering a growth of 21.76 per cent, from 91.20 billion dollars in the corresponding period of the previous fiscal.

Imports for the April-December period of current fiscal grew 25.97 per cent to 168.87 billion dollars, compared to 134.05 billion dollars in the year ago period.

Trade deficit for April-December stood at 57.82 billion dollars.

<http://www.financialexpress.com/news/Exports-up-16.04-to-12.31-bn-in-Dec07/267856/>

Railways exports diesel multiple units to Angola

In the first-ever export of Indian manufactured Diesel Multiple Units (DMUs), Indian Railways has dispatched DMU coaches to Angola.

The fifteen DMU coaches, six each for two trains and three for self-propelled accident relief train, manufactured by Integral Coach Factory, the production unit of Indian Railways, Chennai, and exported to Angola by RITES, were flagged off for export to Angola by the Minister of State for Railways, Mr R. Velu, at a ceremony in Chennai.

ICF has so far manufactured 230 varieties of different designs of coaches and is still venturing into new designs and assimilating the latest technology available to provide the best comfort to the passengers, the Minister said in an official release.

The Minister further said that manufacture and dispatch of these DMUs and the self-propelled accident relief train mark the successful completion of various on-going projects undertaken by RITES in Angola which include technical assistance, upgradation of maintenance workshops and earlier export of passenger coaches manufactured in ICF and Diesel locomotives manufactured in DLW, Varanasi.

RITES, which exported the coaches, has worked in about 60 countries, including Myanmar, Vietnam, Mozambique, Tanzania, Ghana, Zambia, Bangladesh, Sri Lanka, Sudan, Senegal, Mali and Angola.

http://www.ibef.org/artdisplay.aspx?cat_id=60&art_id=17813

FICCI for removal of trade barriers with EU

As the roadmap to the India-EU free trade agreement (FTA) is being outlined, industry estimates the potential trade between the two partners to touch \$572 billion by 2015.

“This engagement includes both trade in goods and services, with the latter constituting a share of around 57 per cent of the total trade. India’s trade in goods could be around \$251 billion and in services around \$320 billion with EU under the FTA by 2015,” said the Federation of Indian Chambers of Commerce and Industry (FICCI) in a statement.

At present India's merchandise trade stands at \$79 billion in goods and \$32 billion in services. Despite the potential trade, FICCI has expressed its concerns over a number of issues that remain unsettled and could improve India's export share which currently stands at 1.8 per cent in EU's world imports of goods, and 1.3 per cent in services.

"Some of the important barriers to trade and investment faced by Indian business in the EU market: the lack of harmonisation of micro-biological standards in EU countries, costly certificates required for exporting fruits, high conformity procedures for CE mark; aflatoxin limits in groundnuts; delay in approvals by European Commission for Indian milk product units; and VAT amongst others," stated FICCI.

<http://www.thehindubusinessline.com/2008/02/04/stories/2008020451310300.htm>

Sectoral News

Agri-biotech sector grows at 30 per cent

Backed by the government, the industry logs Rs 926 cr sales in 2006-07.

The agri-biotech sector in India is growing at 30 per cent for the last five years, and it is likely to maintain the growth in the future as well, says a Rabobank report titled "Indian agri-biotech sector: Emerging scenario, issues and challenges".

The country made its entry into agri-biotech in early 2002 with the government giving its nod for commercial cultivation of Bt cotton. Since then, agri-biotech continues to be the fastest growing industry among all the biotech industries in the country.

In 2006-07, the industry made Rs 926 crore in sales, accounting for 10.84 per cent of the country's biotech market. In 2005-06, it registered a growth of over 81 per cent with a value of Rs 598 crore compared to Rs 330 crore in 2004-05.

Within six years, the Bt cotton acreage in the country has grown manifold accounting for about 70 per cent of the total area under cotton cultivation in 2007-08.

The report says that the industry was backed by the government through streamlined regulatory framework, policies and fiscal benefits that resulted in a functional genomics project with an investment of \$8 million.

The government has already initiated a project to conduct genome-wide research on a range of agronomically important crops.

Also, the recent infrastructure developments have provided an impetus to the agribiotech sector in the country, says the report.

Private sector efforts to introduce agri-biotech in India began in 1995. However, most research and development (R&D) works have been conducted in the public sector.

http://www.businessstandard.com/common/news_article.php?leftnm=0&autono=311981

1.2 lakh villages to get electricity by 2009

Electricity will reach 1,20,000 villages across India by 2009 for which an outlay of Rs33,000 crore has been made, according to Union power minister Sushil Kumar Shinde. Inaugurating a Rs145 crore project under the Rajiv Gandhi Rural Electrification Programme here on the India-Bangladesh border in North Dinajpur district, Shinde, who was accompanied by Union Information and Broadcasting minister Priya Ranjan Dasmunshi, said an amount of Rs5,000 crore had already been spent under the programme and Rs28,000 crore more would be spent in the next two years to reach power to 40,000 villages.

The minister said the Union government has targeted to produce 80,000 mw of power in the next five years of which 30,000 mw would alone be required by the northeastern states.

The Goalpukur project would reach electricity to families below the poverty line free of cost. The state government will bear a subsidy of 10% and the rest by the Union government, Dasmunshi said.

<http://www.livemint.com/2008/01/29155602/12-lakh-villages-to-get-elect.html>

India's outsourcing revenue to hit US\$ 50 billion

India's revenue from back-office outsourcing is expected to surge nearly five-fold to \$50 billion by 2012 despite a possible recession in the key United States market, an industry report said.

But a skills shortage, creaky infrastructure in smaller towns and cities and rapidly rising wages are major challenges.

The sector has logged 35 percent annual growth over the last five years to hit annual revenues of about \$11 billion, with the bulk coming from exports, said the study by leading IT lobby group Nasscom and consulting firm Everest.

"We have seen that when there are recessions and when there are costs pressures that come in, the Companies still want to cut costs," Som Mittal, president of the National Association of Software and Service Companies, or Nasscom, told reporters. India's back-office firms like Infosys BPO, a unit of No. 2 software firm Infosys Technologies, have thrived by providing Western firms with services such as processing insurance claims, managing payrolls and customer support. The boom in business process outsourcing, or BPO, is built on a large, skilled and cheap English-speaking workforce.

The sector employs 700,000 people and is expected to provide direct employment to about 2 million by 2012.

<http://www.financialexpress.com/news/Indias-outsourcing-revenue-to-hit-50-bn/266661/>

General Insurance clocks 12 per cent growth in first 9 months

The general insurance industry grew by 12 per cent in the first nine months of current fiscal led by Anil Ambani group firm Reliance General Insurance, which recorded the highest growth of 149 per cent in gross premium as compared to last fiscal.

The 13 non-life insurers collected Rs 20,796 crore first premium in the first three quarters. Of the total premium, the share of nine private sector players stood at Rs 8,305 crore while remaining was contributed by four public sector players.

In percentage terms, while the public sector could increase their premiums by just 4 per cent, eight private sector players clocked premium growth of 27 per cent during the period.

Reliance General Insurance in the private sector, during the period, collected Rs 1,524 crore registering a growth of 149 per cent, the highest among the private sector players, while Iffco-Tokio witnessed negative growth of 10 per cent at Rs 800 crore.

Kishore Biyani-promoted Future Generali, which started its operation recently, contributed Rs 1 crore to the kitty.

During the period under review, market leader New India Assurance with 19 per cent market share premium collection witnessed an increase of 5 per cent to Rs 3,911 crore. It was closely followed by Kolkata-based National Insurance with premium collection of Rs 2,922 crore.

http://economictimes.indiatimes.com/Personal_Finance/Insurance/General_Insurance_clocks_12_growth_in_first_9_months/articleshow/2738333.cms

News Round – Up

VC firms invest \$543 mn in 2007

Venture Capital firms invested \$543 million across 98 deals in India during 2007, according to a study by Venture Intelligence in partnership with the US-India Venture Capital Association . The amount invested during 2007 was slightly higher compared to 2006, which had witnessed 94 deals amounting to \$500 million.

“With early stage investments accounting for about 66% of all investments during the year, the resurgence in seed and first round investments has been a key highlight of 2007,” said Arun Natarajan, Founder & CEO of Venture Intelligence, a firm that tracks venture capital and private equity investments. Over 50% of the VC investments during 2007 were below \$5 million including 23% below the \$2 million threshold, the US-IVCA/Venture Intelligence study showed.

“With strong interest among limited partners in both the VC segment as well as India as a destination, the resurgence in early-stage investments is likely to be sustained going forward as well,” said Mr Sudhir Sethi, Director of US-IVCA and Founder, Chairman & Managing Director of IDG Ventures India. The US-India Venture Capital Association (US-IVCA) is an association of US-based venture capitalists interested in US-India cross-border investments.

With 65 investments worth about \$377 million, the Information Technology and IT-Enabled Services (IT & ITeS) industry retained its status as the favorite among VC investors during 2007, the study indicates. Within IT & ITeS, Online Services companies were the favorite sector accounting for 31% of the investments, followed by BPO, IT Products and Mobile VAS companies.

IT and ITeS was followed by healthcare, life sciences and the media & entertainment industry. Sequoia Capital India continues to be the most active VC investor in India with nine investments during 2007. Sequoia ventured beyond IT & ITeS to invest across a range of sectors including Clinical Research Outsourcing, Micro finance, Out of Home media and Printing Services.

http://economictimes.indiatimes.com/News/News_By_Industry/Banking_Finance_IVC_firms_invest_543_mn_in_2007/articleshow/2744814.cms

Sovereign fund may boost India's wealth

While Sovereign Wealth Funds (SWF) owned by big Asian economies invest in assets the world over, Indian policymakers too are looking at whether the country needs to float such a fund.

The finance ministry is planning to set up a committee to examine the pros and cons of an Indian sovereign wealth fund. An SWF essentially helps governments get better returns on the excess foreign exchange reserves they accumulate.

Singapore, for instance, earns over 20% annually by deploying its SWFs in diversified assets abroad. India earns less than 5% by investing its forex reserves in US treasury

bills. In times of excess capital flows, the return becomes negative as it pays higher than 5% interest rate in sterilising excess dollar flows.

Within the government, at present, there are strong views for and against the country setting up an SWF. The thinking in support of the view has gained momentum after the country's next-door neighbour China floated a \$200-billion SWF, China Investment Corp, in September. Those arguing against the fund say China is building its corpus from current account surpluses while India remains a current account deficit country.

Although setting up an SWF may not be possible immediately, the government wants to begin the groundwork for such a move in future, sources told ET. The committee would also look at what kind of structure would be best for the country if it floats an SWF.

It may be pointed that finance minister P Chidambaram recently ruled out any proposal to set up an SWF. However, the idea of SWF could gain momentum once foreign exchange reserves increase well beyond \$300 billion. The country's foreign exchange reserves stood at \$266.55 billion at the end of December. Those who support the move feel the country could earn better returns if it floats such a fund.

http://economictimes.indiatimes.com/Economy/SWF_may_boost_Indias_wealth/articleshow/2744474.cms