

Weekly Economic Bulletin

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News Feature

GDP to grow at least 6.7 per cent in 2009/10: PM Advisor

Country's economic growth in the 2009/10 fiscal year will at least match last year's 6.7 per cent rise, as early indications of a slow revival in advanced economies could spur domestic growth, a top government advisor said.

"I am quite optimistic about the growth in 2009/10 to be at least as high as in 2008/09, with a resumption of higher growth trajectory thereafter," said Suresh Tendulkar, Chairman of the Prime Minister's Economic Advisory Council.

In April, the central bank forecast the economy to grow by about 6 percent.

Tendulkar said the prospects for an early economic recovery in the next six months have improved after the ruling Congress-led coalition was re-elected with a stronger mandate.

"With the stabilisation of the international financial market, international credit flows are being slowly restored and prospects for capital inflows have improved," he said.

Foreign investors have pumped \$7.5 billion into stocks since mid-March, taking the net purchases in 2009 to \$5.3 billion.

<http://economictimes.indiatimes.com/News/Economy/Indicators/GDP-to-grow-at-least-67-per-cent-in-200910-PM-Advisor/articleshow/4680174.cms>

India Inc buys 143 US cos in 2 years

The greater engagement of US with India seems to have benefited the former during the economic downturn as thousands of Americans managed to save their jobs when Indian corporates went on a major acquisition drive in the US.

During the last two years, Indian companies acquired 143 US firms across various sectors. While 94 deals were concluded in 2007-08, in the following year when the economy was on the downturn, Indians bought as many as 50 US entities that were on the verge of closure, saving thousands of jobs.

A study, jointly conducted by Indian industry association FICCI and Ernst & Young, said Tata Chemicals, Wipro, Reliance Communications and Firstsource Solutions were some of the top Indian entities that were involved in bailing out US companies in the red.

The report released said IT&ITeS, manufacturing and pharmaceuticals were the prime sectors in which most of the deals were formalised. Indian companies from the IT sector have over the years been aggressively expanding in the US market.

The deals were predominantly debt financed with cash being a popular mode of payment. "This trend probably extends from India Inc's traditional preference for cash transactions in the domestic merger and acquisition space," the report observed.

The Ernst & Young report says the boom in the Indian economy in the last three to four years made the domestic companies cash-rich which provided them with access to more capital than in the past.

Interestingly, one of the key factors, as the report cites, behind more acquisitions has been the liberal policies introduced by the government and RBI for overseas investments.

According to RBI data, in 2007-08 the total outbound investments of Indian companies amounted to \$18 billion. In the first half of 2008-09, at least 2,000 proposals valued at \$9 billion were cleared for overseas investments in joint ventures and wholly owned subsidiaries.

<http://economictimes.indiatimes.com/News/Economy/Indicators/India-Inc-buys-143-US-cos-in-2-years/articleshow/4674621.cms>

India Inc strikes \$872 mn private equity deals in May

India Inc struck private equity (PE) deals worth \$872 million in May, the highest since September 2008, when the US investment bank Lehman Brothers went bankrupt sinking global stock markets due to liquidity crisis and low business sentiment.

The PE activity was also strong in terms of volumes, with 18 deals during May, highest in a single month since November 2008, according to latest data by advisory firm Grant Thornton. The value of PE deals was hovering between \$200 million and \$500 million over the past seven months.

Besides the traditional PE transactions, the data also includes funds raised from financial institutions, including PE firms, through qualified institutional placement (QIP). For instance, a clutch of investors including, TPG Capital invested around \$600 million in Indiabulls Real Estate. Other prominent transactions in the past month included IFC picking 4.4% in Max India for \$33 million, besides India Value Fund's \$44 million transaction for Innovative B2B Logistic Solutions.

Grant Thornton India partner (transaction support services) CG Srividya said: "Private equity investments have increased significantly compared with the previous seven to eight months. One of the reasons for this has been the improvement in sentiments driven by the stock markets." Sensex, the benchmark stock market index, has bounced back almost 75% after seeing three-year lows in March 2009.

<http://economictimes.indiatimes.com/Indicators/India-Inc-strikes-872-mn-private-equity-deals-in-May/articleshow/4673745.cms>

Overseas News

Forex reserves rise by \$2.4 b

The country's foreign exchange reserves increased by \$2.427 billion to \$263.644 billion for the week ended June 12, according to data released in the Reserve Bank of India's weekly statistical supplement.

For the week ended June 5, the reserves fell by \$1.089 billion to \$261.217 billion.

In the week under consideration, the foreign currency assets increased by \$2.431 billion to \$252.798 billion, on account of revaluation of the reserves.

Foreign currency assets expressed in US dollar terms include the effect of appreciation or depreciation of non-US currencies. The dollar had weakened against the euro and the pound in the week ended June 5, said a dealer with a private sector bank. Gold reserves and SDRs remained unchanged at \$9.604 billion and \$1 million respectively. The reserve position in the IMF fell by \$4 million to \$1.24 billion.

Bank Credit

Bank credit increased substantially by Rs 21,460 crore to Rs 27,57,210 crore as on June 5.

Food credit increased by Rs 1,625 crore to Rs 59,108 crore and non-food credit increased by Rs 19,834 crore to Rs 26,98,102 crore.

<http://www.thehindubusinessline.com/2009/06/20/stories/2009062051050600.htm>

FIs, banks can trade in interest rate futures

The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) jointly unveiled norms enabling exchange-traded interest rate futures (IRF).

Interest rate futures are derivative contracts, which have an interest bearing security as the underlying instrument. The introduction of this instrument will help banks, insurance companies, bond houses and provident funds manage risks arising from interest rate fluctuations in their fixed income portfolios.

In a surprise move, foreign portfolio investors have been allowed to trade in IRFs, but limits have been put in place to keep their influence under check. The regulations, which were being developed by a joint committee of SEBI and RBI for over a year, also allow banks to participate in IRFs.

"IRFs are a significant reform measure that will go a long way in the development of the debt market in India," said B Prasanna, MD & CEO, ICICI Securities Primary Dealership. "This product would help financial institutions hedge the interest rate risk inherent in their underlying businesses," he added.

<http://economictimes.indiatimes.com/Commodities/FIs-banks-can-trade-in-interest-rate-futures/articleshow/4669225.cms>

Limitless plan among SEZs approved

The Board of Approval (BoA) for Special Economic Zones granted two formal approvals and one in-principle nod for setting up of IT/ITeS and Multi Service SEZs in West Bengal, Andhra Pradesh and Tamil Nadu.

The formal approvals included a IT/ITeS SEZ in West Bengal by Shyam Steel Industries and Genome Balley Biotech SEZ in Andhra Pradesh by Andhra Pradesh Industrial Infrastructure Corporation Tower. A multi-service SEZ in Tamil Nadu, promoted by Limitless Properties, was given an in-principle nod.

Formal approvals

Addressing the BoA members, the Commerce Secretary and Chairman of BoA, Mr Rahul Khullar, said so far 576 formal approvals have been granted for setting up of SEZs out of which 319 have been notified.

He further said that over Rs 1,08,903 crore have been invested in SEZs during the short span of time and direct employment of the order of 3,87,439 have been generated.

Total exports from the SEZs for the year 2008-09 stood at Rs 99,689 crore registering a growth of about 50 per cent over the previous year.

Meanwhile, an official said the BoA has also extended the validity period for the approval given to Satyam Computer Services Ltd's three special economic zones by a year.

The validity of the approval given to Satyam's proposal to set up two information technology SEZs in Hyderabad and another in Vishakhapatnam was to end this month.

<http://www.thehindubusinessline.com/2009/06/20/stories/2009062051741500.htm>

Trade News

PM calls for greater BRIC ties

Prime Minister Manmohan Singh said the coming together of BRIC states in the G20 process must be backed by co-operation in the real economy space.

Addressing the first summit of BRIC nations (Brazil, Russia, India and China), Mr Singh said there was unanimous opinion among leaders of these economies that protectionism or restrictions on free flow of trade will be counter-productive and pose a threat to recovery in the developing world. The stark collapse in world trade has heightened the importance of an early completion of the Doha round of talks keeping in mind the development dimension, he added.

Mr Singh recognised the continuing need to redefine the role of institutions of global economic and financial governance to reflect contemporary realities. The broadening of

representation in the Financial Stability Forum and the Basel Committee on Banking Supervision were an important development in this context.

BRIC leaders spoke about the need for a substantial hike in World Bank lending, enabling the developing world access much larger limits to support recovery as new ways to further improve the functioning of multilateral institutions.

<http://economictimes.indiatimes.com/Policy/PM-calls-for-greater-BRIC-ties/articleshow/4664648.cms>

UK's NIA ties up with FICCI for JVs & FDI in civil nuclear energy sector

Britain's nuclear energy sector wants a share of the Indian market, and play catch up with countries like France, which has already established its presence in the civil nuclear energy sector.

Over 17 UK companies under the aegis of the Nuclear Industry Association of UK has tied up with Ficci to identify joint venture and FDI possibilities in the civil nuclear energy sector. While FDI in nuclear energy requires a change in the Atomic Energy Act, there is no bar on FDI or JVs in the civil manufacturing for nuclear energy sector.

Ficci will play matchmaker between UK and Indian companies with core competencies in the manufacturing sector, and identify potential partners for both sides "While changes to the Atomic Energy Act will happen at its own pace, there is no bar on foreign investment in the manufacturing side. Foreign companies can make a start in the manufacturing side," said Amit Mitra, secretary general of Ficci. Companies like L&T and Bharat Forge have already roped in foreign partners for this sector, but UK companies have yet to make a mark in India.

Besides nuclear energy, the focus of Indo UK trade relations is shifting to new sectors. After the financial meltdown, UK India trade relations are coming out of the shadow of financial services, and seeking new sectors for cooperation.

At the end of a series of meetings both with Indian companies in the UK, UK companies, and policy makers, the focus sectors for joint ventures, partnerships, and trade are non-conventional energy, IT, precision engineering, medical equipment, infrastructure equipment, and creative industries.

Ficci has also decided to set up a hand-holding facility for PIOs who want to invest in India, and set up a working group with Indian companies already present in the UK to identify and facilitate businesses, especially in the SME sector.

A key takeaway for the group of high-profile Indian CEOs was that despite the recession, there is a high level of interest in India as a market, said Harsh Singhania, of JK Industries, who was with the visit.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/UKs-NIA-ties-up-with-FICCI-for-JVs--FDI-in-civil-nuclear-energy-sector/articleshow/4661179.cms>

India-Britain trade could reach \$40 bn by 2015: Industry

Bilateral trade between India and Britain, which crossed \$12 bn last fiscal, has the potential to touch \$40 bn by 2015, according to an industry lobby report.

The report by the Confederation of Indian Industry (CII) said: "CII proposes a target for merchandise trade at \$40 bn by 2015 with special emphasis on expanding services trade to \$12 billion and exploring other business avenues."

The industry will launch CII India Business Forum-UK to promote bilateral trade between the two countries.

The forum will be launched during CII's annual CEOs' mission to Britain June 21-23, the statement said.

The mission, led by CII president Venu Srinivasan, holds importance in the light of global financial crisis and the emphasis will be on "taking the robust India-UK economic partnership to new sectors, new regions and new enterprise levels," the lobby said.

The 16-member delegation will also focus on taking India-Britain ties into a strategic direction, uncovering new avenues of collaboration, and addressing issues of global concern such as regulation of the financial system, climate change and security.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-Britain-trade-could-reach-40-bn-by-2015-Industry/articleshow/4683610.cms>

India is the second largest investor in UK

India is now the second largest 'foreign direct investor' in the UK in terms of the number of projects, outdone only by the US, according to the UK Inward Investment Results, 2008-09, released recently.

With 108 projects, the number of Indian FDI projects rose 44 per cent in the year, replacing Japan as the largest Asian supplier of FDI projects in the UK.

Dr Reddy's Labs, Hemair Systems, Zanec Soft, IMI Mobile, Value Labs, Sri Jugal Kishore Jewellers, Virtual Marketing, Virinchi, Emsyne, Northgate — all from South India — are part of record-high new FDI into the UK, says a press release issued by the British Deputy High Commission, Chennai.

Dr Reddy's Labs, Hyderabad acquired a small molecules business. Chennai-based Zanec Soft set up an European Union headquarters in London. IT products/services firm Virinchi Technologies; Hyderabad has opened an office in Edinburgh. Emsyne, a Kochi-based IT firm, has also set up an office in London, while Northgate Technologies acquired Reuters' high-end data centre infrastructure, through its London-based subsidiary Axill Europe.

"The UK is an obvious base for these firms looking for a springboard to global markets. They are also attracted by the UK's blend of high-tech, high-skill and high-end industries.

To cite the example of life sciences, a fifth of all medicines globally are made in the UK and 35 per cent of Europe's biopharmaceutical clinical trials take place in the UK," Mr Mike Connor, British Deputy High Commissioner in Southern India, said in the release.

The new investors in 2008-09 join a long and growing list of FDI projects from the South into the UK: Sify, Polaris, Ma Foi, Shasun Chemicals, Orchid Pharma, Apollo Hospitals, Aurobindo Pharma, Clintox, Ocimum, to name a few, Mr Connor said.

<http://www.thehindubusinessline.com/2009/06/19/stories/2009061952281500.htm>

Sectoral News

Telecom sector earnings may cross \$30 bn by 2013

Continuing its growth trajectory, the Indian telecom sector is expected to generate revenues of over \$30 billion by 2013, according to global analyst firm Gartner. The country's telecom subscriber base is expected to cross the 770-million mark by 2013. India has over 450 million telecom users at present.

"The Indian mobile industry has now moved out of its hyper growth mode, but it will continue to grow at double-digit rates for the next three years as operators focus on rural parts of the country," Gartner senior research analyst Madhusudan Gupta said. As per Gartner, India's telecom market is unlikely to surpass China as the largest telecom market by 2013 and would retain its position as the second-largest market in the world.

The mobile penetration in the country is also expected to reach 63.5% by 2013, up from 38.7% at present, according to Gartner. Growth is largely expected to come from telecom operators increasing their focus on the rural market, local consumer durable and electronic companies entering the domestic mobile handset segment, and decline in handset prices.

The increased adoption of value-added services (VAS) will also stimulate growth. While the bulk of revenues for telcos would be generated from voice services, data usage will grow at a faster rate, Gartner said.

With the entry of new operators in the Indian telecom market, it is expected that voice tariffs will continue to fall. Also, expansion in rural circles is expected to pull down average revenue per user (ARPU).

The number of people with prepaid connections would also increase to contribute about 96% of the total subscriber base by 2013, due to increased adoption in rural circles. Currently, about 93% of the users own a pre-paid connection. The churn rate is also expected to go up in India as more players enter the fray and the government allows mobile number portability (MNP). MNP will allow users to switch their telecom service provider while retaining their mobile number.

<http://economictimes.indiatimes.com/News-by-Industry/Telecom-earnings-may-cross-30-bn/articleshow/4673660.cms>

Biotech sector turnover tops Rs 12,000 cr in 2009

The global meltdown and the foreign exchange rate have impacted Indian biotechnology.

The industry growth rate slipped to 18 per cent in 2008-09, compared with 30-34 per cent in the previous years.

The sector's overall turnover in 2008-09 was Rs 12,137 crore, said Ms Kiran Mazumdar Shaw, CMD of Biocon, and head of the Karnataka think-tank, the Vision Group on Biotechnology, citing the annual Biospectrum survey of industry. The revenue was Rs 10,273 crore in 2007-08.

With 60 per cent of the income coming from exports, the turnover in dollar terms was static year-on-year at \$2.5 billion. The exchange rate last year was Rs 47/dollar compared with Rs 40 in 2007-08.

The Bangalore cluster, with 187 or nearly half of the 370-biotech industries, topped among clusters, with a turnover of Rs 2,500 crore. The Mumbai-Pune cluster, she said, was catching up with the highest growth rate among all clusters.

She said, "India's promise is to focus on synergies and progress by partnering in knowledge. India can play a key role in addressing the global challenges of food and health insecurities. To achieve this goal, we need to innovate the very process of biotech innovation."

Bio-pharma contributed Rs 7,883 crore; bio-agri nearly Rs 1,500 crore, bio-industrial segment Rs 478 crore and bio-informatics grew 15 per cent to touch Rs 220 crore.

<http://www.thehindubusinessline.com/2009/06/19/stories/2009061952171700.htm>

Domestic BPO biz to touch \$6 bn in revenues by 2012

The domestic Business Process Outsourcing (BPO) market, with a growth rate of 50 per cent over five years, grew faster than the exports market to reach nearly \$1.6 billion revenues in the financial year 2008. Though it is smaller than the \$11-billion BPO exports market, it is expected to reach \$6 billion by 2012, according to a new Ernst and Young (E&Y) study.

The BPO sector's exports depends heavily on North America and the UK, which account for 87 per cent of total exports revenue. With these two economies having been hit badly, the growth rate for exports is expected to fall further. But, if it's "business as usual mode", India's BPO exports will touch \$28-30 billion over four-five years, states the report.

The domestic BPO market, hence, presents a huge untapped growth opportunity. Its addressable market opportunity is in the range of \$16-19 billion by 2012, with significant business growth coming in from sectors like BFSI (banking, financial services and insurance), telecom, media, retail and government sectors.

“Outsourcing is not new to India. Indian companies have been doing this for a long time now. But what we were surprised to find was the depth and scope of portfolio outsourcing firms are ready to consider,” said Milan Seth, partner, technology practice, E&Y.

Eighty per cent of the industry comprises captive shared service centres. The rest of the industry is highly fragmented. Estimates suggest that 650-700 firms constitute the unorganised sector. Over the next few years, the market will be consolidated and 8-10 large vendors will dominate it, says Seth.

<http://www.business-standard.com/india/news/domestic-bpo-biz-to-touch-6-bn-in-revenues-by-2012/361202/>

FMCG industry set for 20-30% growth on increased rural demand

The FMCG industry is set to grow 20-30 per cent in 2009-10, up from 10-20 per cent in 2008-09. The growth would be driven by the launch of new products and increasing rural consumption, according to industry experts.

“By definition, FMCG addresses a very core need in the consumer’s life and so it is less prone to economic swings than high ticket items such as television or even apparel,” said Mr Hemant Kalbag, Principal, AT Kearney. Price increases on products by the companies have also been well absorbed by the market, and so there is no reason to question the growth rate projections, he added.

The beverage industry in India is being estimated to grow at 17 per cent this year, according to experts. “Food and beverages segment has not suffered despite the slowdown in the economy. FMCG in our stores has done very well. In fact, we registered 10-15 per cent growth in this segment last year,” said a spokesperson at Spencer’s Retail Ltd.

The hot summer helped spur sales of beverages so far this year, according to senior officials.

<http://www.thehindubusinessline.com/2009/06/20/stories/2009062050780500.htm>

Big Pharma comes calling to India

Dr Kallam Anji Reddy, chairman of Dr Reddy’s Laboratories, would be wondering at how the world of pharmaceuticals has turned topsy-turvy. For the past 25-30 years, Dr Reddy, a visionary scientist turned entrepreneur, built his Rs 5,000-plus crore business empire, confronting the might of multinational pharmaceutical companies through patent challenges and litigations. Thanks to the favourable patent regime in India till 2005, his team of scientists and he worked in small research and development laboratories in Hyderabad and successfully reverse-engineered patented drugs of multinationals to make low-cost generic drugs.

Similarly, Ranbaxy, Sun Pharma, Cipla, Wockhardt and many other players emerged as suppliers of cheap generics to the world. Multinationals, which make billions of dollars from their patent-protected drugs, viewed generics as a nuisance or a 'dirty business' (as termed by the chief executive of one of the largest companies). Most of Big Pharma shunned generics, as its manufacturing required different process chemistry skill sets. Margins are very thin and require huge volume business to generate decent profits. Compared to this, each of their patent-protected blockbuster drugs enjoyed a monopoly and gave multi-billion dollar sales. MNCs adopted strategies such as litigation and authorised generics to block entry of generics, which were eating into their profits and sales.

In an emerging trend, the same MNCs are now queuing to join hands with generic specialist companies such as Dr Reddy's and Aurobindo Pharma to market their low-cost drugs in global markets. "Multinational drug companies are under pressure, as their new drug pipelines are dwindling and many existing drugs are going off-patent in the near future. In the field of generics, branded generics offer the largest margins and this is an area where we will soon see many deals by Big Pharma with Indian generic companies," said Dominic Hollamby, global head—healthcare group, of Rothschild, one of the largest private banks.

Last week, GlaxoSmithKline (GSK), the second largest drug maker in the world, teamed with Dr Reddy's to market its 100 branded pharmaceuticals in emerging markets such as Africa, West Asia, Latin America and the Asia-Pacific, excluding India. Dr Reddy's will manufacture the drugs, license these and supply to GSK.

In March, the world's largest drug maker, Pfizer, had acquired rights from Aurobindo Pharma for 39 generic finished-dose products in the US and 20 in Europe, plus an additional 11 in France. Later, Pfizer expanded this supply pact for another 60 products, for selling in several countries through Asia, Latin America, Africa and West Asia. Two months later, Pfizer entered into a partnership with Ahmedabad-based Claris Lifesciences, an injectable drug maker, to commercialise off-patent drugs in the United States, Canada, Australia, New Zealand and Europe.

"Such deals are a win-win situation for both Big Pharma and generic companies. Multinational companies enjoy big brand equity and have extensive sales and marketing set-ups, which will help the generics players to tap new markets and business," said Sarabjit Kaur Nagra, vice-president of research, Angel Broking.

<http://www.business-standard.com/india/news/big-pharma-comes-calling-to-india/361527/>

News Round – Up

Indian economy returning to potential growth path: Goldman

The Indian economy and the financial sector are returning to a "potential growth path" after adjusting to intense dislocation in the global economic environment, financial services major Goldman Sachs said.

"We believe the Indian economy and the financial sector are returning back to a potential growth path, post a period of adjustment to the intense dislocation in the global economic environment," Goldman Sachs said in a report.

Goldman expects its net income growth for the financial sector to rebound to 32 percent in 2010, from one percent in 2009.

The firm further said it is turning constructive on the Indian financial sector due to improving outlook for the macroeconomic environment, positive impact of a decisive election outcome on potential policy action and government agenda as well as on business confidence.

"Decisive election results likely to impact business confidence positively," it said.

Besides, other reasons for the constructive view is the change of outlook from negative to positive as well as upside potential to its growth expectations.

It is likely that the loan growth would be over 20 per cent by 2011, it said.

The financial services firm further said it estimates return on equity to rise to 17 percent in 2011 from 13 percent this year.

Goldman Sachs had also raised the stock ratings of some of the country's leading banks, which include the country's largest lender State Bank of India, Punjab National Bank, Indian Overseas Bank and Bank of Baroda.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Indian-economy-returning-to-potential-growth-path-Goldman/articleshow/4683272.cms>

Indian SMEs high on optimism: report

Despite the economic downturn, Indian small and medium enterprises (SMEs) showed most optimism regarding economic growth in 2009, over majority of their counterparts in the Asia-Pacific, the UPS Asia Business Monitor survey reveals.

As much as 40% of the Indian SMEs were optimistic on the growth trajectory. However, compared to last year, there is a decline, when 64% of the Indian SMEs has showed optimism regarding the same. Whereas, only 15% of the SMEs in the APAC region showed similar optimism.

The survey also reveals that the Indian SMEs see IT as the major driver for growth, followed by building & construction and healthcare & pharmaceuticals sector. About 37% felt that IT will continue to be the growth driver, whereas 29% saw building & construction to be a major force. And, 26% felt healthcare & pharmaceuticals will play an important role in their growth.

Not only for the current year, Indian SMEs also feel that due to the changes in the financial services sector, the key economic pillars for SMEs in India over the next three to five years will be IT, building & construction and manufacturing. Moreover, 29% of Indian SMEs also expect to increase their workforce, whereas 59% expect to maintain their workforce in 2009, which indicates that the Indian SMEs are expecting growth in 2009.

Pirojshaw Sarkari, MD, UPS Jetair Express, said the Indian SME sector should focus more on Latin America, Africa, and should also increase its focus on intra-Asia trade, as Europe and America are the two key markets reeling under pressure.

“Europe and America have always been the two key markets, but now is the time for the Indian SMEs to focus on Latin America, Africa, and also on intra-Asia trade, as huge opportunity lies there,” Sarkari said.

<http://www.financialexpress.com/news/indian-smes-high-on-optimism-report/477984/>