

Weekly Economic Bulletin

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News Feature

India to be 5th largest mkt by '25: McKinsey

India will pole-vault into the premier league of the world's consumer markets by 2025, according to a study by the McKinsey Global Institute (MGI), if it sustains and accelerates economic growth.

From the current 12th rank, the study predicts that India's market will be the world's fifth largest, surpassing Germany.

By then, the middle class will have grown almost 12 times, from 50 million today to 583 million. Over 23 million Indians—more than the population of Australia today—will number among the country's wealthiest citizens.

At the same time, overall economic growth will benefit India's poorest people, with the deprived segment dropping from 54 per cent of the population in 2005 to 22 per cent by 2025.

The report says a further 291 million people will move out of poverty during a period when 322 million people will be added to the country's population. In effect, India will have 465 million fewer poor people by 2025 than if the poverty rate remains at 2005 levels.

Titled "The 'Bird of Gold': The rise of India's consumer market", the study, conducted over a year, says, "The combination of rapidly rising household incomes and a robustly growing population will lead to a striking increase in overall consumer spending."

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=283379

Even rural India shining: Survey

Signs of economic development are becoming more visible even in rural India with the number of households owning cars, motorcycles and television sets increasing significantly in recent years.

The number of rural households possessing cars or jeeps has grown four times between 1993-94 and 2004-05, according to the 61st survey conducted by the National Sample Survey Organisation (NSSO).

Similarly, the number of people owning motorcycles or scooters recorded a three-fold jump during the 11-year period.

In urban areas, households possessing cars or jeeps have gone up from 1.2 per cent in 1993-94 to 4.6 per cent in 2004-05. Similarly, motorcycle or scooter owners have increased from 11.6 per cent to 26.0 per cent.

The survey results reflect the country's expanding economy, which has been growing over 8 per cent in last three years and more than five per cent in the last decade.

http://www.financialexpress.com/latest_full_story.php?content_id=162930

Overseas investment

Foreign funds bet on real estate

With more than 35 big-ticket foreign funds having already checked into the real estate sector India, global realtors, banks and bond houses from New York to Jerusalem are suddenly finding the opportunity to invest in India irresistible.

If the year 2006 marked some of the country's biggest land deals, the future bets on India realty are set to usher in a gold rush. A study by the India Brand Equity Foundation (IBEF) suggests that the first half of 2007 will see at least 20 more funds making an entry into India. This translates into \$10 billion of foreign direct investment in realty. In fact, the study indicates that India would be merely scratching the surface of the potential infrastructure opportunity with \$191.51 billion of investments committed over the next five years. The sector is estimated to grow at a CAGR of 15% over the next few years .

Merrill Lynch forecasts that the Indian realty sector will grow from \$12 billion in 2005 to \$90 billion by 2015. Prominent global funds including Carlyle, Blackstone, Morgan Stanley, Trikona and Warbus Pincus are sitting on a total corpus of \$12-15 billion, say experts.

Eminent global real estate business houses like the Philippines-based Ayala, and Signature group, Och-Ziff Capital, EurIndia and Old Lane from Dubai are keen on sizeable investments into India . While FDI from the UK is also likely to pick up in the next few months, investors in the US, Israel, Malaysia and Singapore want to be a part of the India story.

http://www.financialexpress.com/latest_full_story.php?content_id=163428

FDI cap for indirect foreign holdings

The government proposes to remove loopholes in foreign direct investment (FDI) norms that allow foreigners to own stakes in Indian companies higher than the sectoral caps. The new guidelines, however, will not affect the existing foreign investments. The proposed change is to bring assorted forms of indirect foreign holding under the FDI cap, as well as to clearly define the contours of indirect holding.

A senior government official said it is likely that interest-free loans given by the foreign partners (or loans for which it has stood guarantee) to the Indian promoter for investing in the joint venture as well as fully convertible preference shares issued to the foreign ally will be treated as indirect foreign holding, and will come within the purview of the sectoral FDI cap. In addition, if the foreign investor has an equity stake in a domestic company which in

turn holds shares in the JV, the loans advanced by the domestic company to the JV will also be considered as indirect foreign holding.

If these proposals are indeed implemented by the government, it could have sweeping effects on sectors such as insurance, aviation, defence and stock broking where there are FDI sectoral caps. However, as these changes are expected to take place with prospective effect, existing JVs will escape unscathed. A final decision may be taken in the next few weeks, said the official. The proposal may come up in the annual review of FDI norms, which is likely to take place next month.

http://economictimes.indiatimes.com/FDI_cap_for_indirect_foreign_holdings/article_show/2009294.cms

Chinese FDI comes with tonnes of money

In what could be the biggest ever Chinese FDI in India, Sinosteel plans to invest Rs 16,000 crore to build a 5 million tonne (MT) greenfield steel plant in Jharkhand and would sign a MoU with the state government next month on the same.

"We will submit our project proposal to the Jharkhand government within 10 days and sincerely expect to sign a Memorandum of Understanding (MoU) by June to build a 5 MT steel plant in the mineral-rich province of India at an investment of \$4 billion (about Rs 16,000 crore)," Sinosteel India Managing Director Hongseng Wang told PTI.

Sinosteel would fund the entire \$4 billion investment out of its own accruals.

He said the state-run MECON has been entrusted with carrying out the feasibility study for the plant, which is likely to be located within 40 kms of Ranchi and the firm is expected to submit its report soon.

The company would need around 4,000 acres of land for the plant.

Ruling out any problem on land acquisition, Wang argued that the Plant would provide direct employment to 3,000 people and the villagers would definitely appreciate the value of the plant within their vicinity.

http://economictimes.indiatimes.com/Chinese_FDI_comes_with_tonnes_of_money/articleshow/2008411.cms

Honda Siel to invest \$485 mn in new plant

Honda Siel Cars India Ltd, the Indian unit of Japan's Honda Motor Co, said it will invest up to Rs 20 billion in a second plant and raise its capacity to more than 150,000 cars by 2010.

The plant in north-west Rajasthan would roll out its first car in the final quarter of 2009 and have an initial capacity of 60,000 units per year, which would be increased to 200,000 units, the company said in a statement.

With the proposed plant we plan to foray into volume segment-the compact car segment," the company's President and Chief Executive, Masahiro Takedagawa, said in the statement.

Honda Siel said it plans to double car production to 100,000 units by end of 2007 at its existing plant in Uttar Pradesh.

http://www.financialexpress.com/latest_full_story.php?content_id=163040

Trade News

Tuna exports may top 300 tonnes this year

The Seafood Exporters' Association of India (SEAI) has said tuna exports from the country are poised to touch 300 tonnes in 2007 and realize an average price of \$5 per kg.

Already 150 advance licences have been given for the conversion of mechanised fishing vessels to tuna long-liners and another 300 would be given the facility during 2007.

These measures are expected to augment the catch of tuna from the Indian coastline. Each vessel is expected to have a catch of 90 tonnes.

The Marine Products Export Development Agency (MPEDA) expects the number of tuna boats along the Indian coastline to increase to 1,000 in three years.

"And even by most conservative estimates, we should be realising an average return of \$5 per kg," the MPEDA Director, Mr Kuruvilla Thomas, said.

"Given the global interest in tuna we are placing special focus on this species, both in aquaculture and value addition," Mr Thomas said. While it is true that the country had gone in for promoting tuna only recently, it is to being pursued with full zeal and vigour.

<http://www.blonnet.com/2007/05/02/stories/2007050201611300.htm>

India, Pak must promote SAFTA

Pakistan and India have a responsibility to promote the South Asian Free Trade Agreement (SAFTA) for the development of the region, said Mr Shahid Malik, Pakistan High Commissioner to India.

While addressing the members of the PHD Chamber of Commerce and Industry, he said, the present level of intra-SAARC trade at 5 per cent is inadequate and more proactive steps are required to enhance this.

Any trade dispute can be first discussed under the bilateral framework and if the solution eludes, it can be referred to multilateral consideration under SAFTA, he said.

Underscoring Pakistan's capability to supply to India wheat and cement, for which supply bottlenecks exist, Mr Malik said that Pakistan has a surplus of 40 million tonnes of wheat, which can be supplied to India with price advantage. The same is the case with cement, which cannot be freely imported into India because of non-compliance to stiff Indian standards. He agreed that the Pakistan manufacturers have to be sensitised about the standards set by the Bureau of Indian Standards.

<http://www.blonnet.com/2007/05/05/stories/2007050505391000.htm>

Nathula deals: Daily ceiling for trader enhanced to Rs 1 lakh

A day after the start of the second season of trade through the Nathula border point between India and China, local traders have something to cheer about. The Union Government has decided to raise the daily ceiling on trade, thus meeting one of the major demands of the local traders.

On May 2, the Union Commerce Ministry decided to lift the restriction on the trade limit from Rs 25,000 per day per trader to Rs 1 lakh. The local traders came to know of this decision through a notice issued by the Directorate-General of Foreign Trade on May 2.

The decision was later confirmed by Mr S.P. Subba, Director, Sikkim Commerce and Industries department.

The step has brought cheer to the local traders, who have been asking for it ever since the resumption of the Nathula trade in June 2006. "We are extremely delighted and grateful to the Union Government for raising the trade ceiling. The limit of just Rs 25,000 per trader per day was hampering our business and was one of the reasons for the slow growth," Mr Anil Kumar Gupta, General Secretary of the Indo-China Traders' Association of Sikkim said.

<http://www.thehindubusinessline.com/cgi-bin/bl.pl?mainclass=03&subclass=032>

Russia aiming to treble bilateral trade with India

Russia is aiming at \$10-billion bilateral trade with India by 2010, from the current level of \$3.1 billion. The Russian Federation, in consultation with India, is drawing up a strategy to achieve the target, according to Mr Vyacheslav I. Trubnikov, Russian Ambassador to India.

In his address to the members of the PHD Chamber, the Ambassador expressed the hope that the economic co-operation between the two countries can be taken to the level that existed during the Soviet Union.

"I am convinced that it is high time we translated our good intentions into real action. The key factor of success is the public private partnership on both sides," he said, adding that till date, the focus has been mainly on government-to-government trade dialogue.

Pitching for greater degree of co-operation between Russian and Indian SMEs to facilitate business-to-business contacts, the Russian Ambassador said that efforts are on to boost this relationship.

<http://www.blonnet.com/2007/05/03/stories/2007050304361000.htm>

Sectoral News

Indian biotech sector to touch \$5 bn by 2009-10

Driven by the increasing number of biotech firms in India, the biotechnology sector is likely to grow over three times to touch \$5 billion by 2009-10, according to industry body Assocham.

"The domestic biotechnology sector, which was at \$1.5 billion during 2005-06, is expected to reach \$5 billion by 2009-10 with a consecutive year-on-year growth rate of 35.1 per cent," the chamber's paper on "Biotechnology Future" stated.

India has more than 300 bio-tech firms focusing on different aspects of value chain and their number is going to more than double in next 3-4 years, it said.

Bio pharma, the largest segment of bio-tech industry grew by 32 per cent in 2005-06 to reach \$1 billion.

Exports, which accounted for 52 per cent of the industry's total revenue, stood at \$763 million. While, Bio pharma accounted for 75 per cent of the total exports and 70 per cent of domestic sales.

According to the study, agri bio-tech and bio services are registering fastest growth. Investments in the sector have crossed \$360 million in 2005-06, growing 36 per cent over the previous year.

Vaccines and bio-generics are the common areas of interest among leading bio-tech companies such as Bharat Biotech, Biocon, Dr Reddy's Lab, Panacea Biotech, Serum Institute, Shanta Biotech, Workhardt and Zydus, it said.

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=283667

Medical tourism to touch \$1.5 bn by 2010

The tourism industry can get a major boost if the hospitality industry, travel specialist (agents), state government and local people work collectively towards promoting medical tourism in India. This was one of the major issues discussed at an international seminar—Maharashtra Vision II—organised by the Maharashtra economic development council (MEDC).

“Medical tourism is one of the most lucrative industry as it is anticipated to attract tourists from world over especially the UK, South Africa, Canada and Malaysia, and is expected to grow into a \$1.5 billion industry by 2010,” said Abhijeet Patil of Raja Rani Health Alliance.

“With increasing number of medical tourists coming to India, tour operators have immense opportunities to grab their own share of financial profits by way of fee-based agreements with the hospitals,” he added.

Patil also noted that it is important to form an alliance of medical professionals and institutions to work towards the goal of promoting India as a medical tourism centre in a united consortium.

http://www.financialexpress.com/fe_full_story.php?content_id=163077

Consumer spend to drive retail

Most retailers are expected to report healthy sales growth in the current quarter and financial year, since consumer spending is expected to remain high. Buoyed by the growing economy, most retailers say there is nothing to dampen consumer interest.

“As the interest rates increase, buyers are deferring the decision to purchase property. Therefore we are expecting the consumers to have a surplus of cash,” said Arvind Singhal, the chairman of retail consultancy Technopak.

According to the consultancy, approximately Rs 8,000-10,000 crore will be invested by retailers in the next nine to 12 months on acquisition of space, doing up store interiors and on logistics such as transport and warehousing.

Industry experts add that domestic retailers will continue to rule the roost this financial year. The joint venture between Bharti and Wal-Mart is the only development that could make a dent in the domestic retailers' market share.

However, as the retailers continue with their expansion, their operating margins are likely to come under pressure and profitability may be affected. “The gestation period in retail is long. As retailers invest in new stores and back-end operations, they will have to wait for the revenues to internalise. Added to that, the cost of the rupee is going up which will obviously impact margins,” said Rajan Chibba, head of the retail consultancy Intrim Business Associates

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=283227

IT, ITeS to be \$100 bn sector by 2011

The Indian information technology and related services (IT/ITeS) industry is predicted to become a \$100 billion plus industry by 2011, growing at a compound annual growth rate (CAGR) of 18 per cent, states an IDC report.

Moreover, the domestic IT/ITeS, with revenues growing at 19.7 per cent CAGR, is projected to touch Rs 1,68,370 crore in 2011 (IT growing at 16.4 per cent and ITeS or BPO at 40.4 per cent). This also means that domestic IT/ITeS revenues will grow faster than the export revenues over the next five years.

On the occasion of Directions08, IDC's annual briefing session for the information and communication technology (ICT) industry, the research firm stated the Indian IT/ITeS industry clocked Rs 1,98,477 crore of revenue in 2006, up by an impressive 31 per cent over 2005.

With equal drives from exports revenue and domestic IT spending, the Indian IT industry has been able to keep up with the momentum it gained since 2003.

On the domestic front, IT/ITeS spend has been estimated at Rs 68,411 crore in 2006, a gain of 26 per cent over 2005. The growth in domestic IT/ITeS spend has been primarily driven by investments by enterprises in IT infrastructure, line of business applications, security products and services, IT outsourcing and managed services and by consumers in mobile and digital products (digicams, notebooks, smart handheld devices etc.).

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=283208

Car sales zip past rate hike, up 16% in April

Bucking the impact of steep interest rates, car companies managed to bring customers back to their showrooms after a dismal performance in March.

Passenger car sales for Maruti, Honda and General Motors, which account for 60 per cent of the market, jumped 16 per cent in April over the same month last year.

High demand for recently-launched cars such as Swift Diesel and Zen Estilo, and renewed demand for Maruti 800, which had seen sales falling, did the trick for Maruti Udyog. Maruti-800 sales, which increased for the first time in four months, stood at 6,324 units in April this year, against 5,761 units in April 2006.

The company also dispatched its yet to-be-launched sedan, SX4 (slated for May 7), to dealers.

“The sales increase was due to innovative schemes launched in collaboration with banks and financial institutions, which negated the impact of high interest rates. Customers are paying almost the same interest as last year, as dealers, along with Maruti and banks, have shared the interest burden,” said a Delhi Maruti dealer.

Added Vaishali Jajoo, an analyst with Angel Broking, “Sales were better than expected. Due to the rising interest rate, we had estimated growth of 10-12 per cent in April, but the low interest rates the companies offered helped them maintain steady sales.”

http://www.businessstandard.com/common/storypage_c.php?leftnm=10&autono=283137

News Round – Up

Destination India: PE cos betting big

Enticed by an expanding economy and fast rising consumerism, global private equity firms and financial services companies are going all out to increase their presence in India.

Firms which have recently made moves to affirm their interest in Asia's third largest economy include big names such as Lehman Brothers, Baird Private Equity, Apax Partners and Soros Fund Management.

From putting in place a series of high level appointments to oversee Indian operations, to holding strategic meetings aimed at tapping investment opportunities here, the firms have been doing it all. Apax Partners, one of the world's largest and most well established private equity firms, held a media advisory board meeting in Mumbai aimed at evaluating investment opportunities in the country. The meeting saw seven advisory board members flying in from abroad to interact with potential clients.

“The board meeting is a quarterly affair held in different countries. It is being held in India this time as we are excited about the prospects here,” said MD and country head Neeraj Bharadwaj. Apax is currently raising a Euro 8.5-billion fund that will invest in emerging markets, including India.

<http://economictimes.indiatimes.com/Destination India PE cos betting big/articleshow/1986493.cms>

Notified SEZs touch the 100 mark

The number of special economic zones (SEZ) notified in the last 14 months since the SEZ Act came into force in February 2006, has touched the 100-mark.

The latest among the SEZs to be notified are those of Wockhardt, Mahindra, Ranbaxy and Bajaj Auto.

Altogether 37 SEZs were notified since April 5, when the ban on notification—following controversy over land acquisition for SEZ and allegations of not enough compensation to the displaced farmers—was lifted. With the latest batch of notifications, of the 234 SEZs with formal clearance from the Board of Approval, 100 have been notified.

Official sources said out of the remaining 134 SEZs with formal approval, another 100 are likely to be notified by this October and by this July 50 SEZs are expected to be operational. Currently, 19 zones are functional. The notified SEZs until now have received an investment of Rs 15,000 crore and generated 25,000 jobs.

http://www.financialexpress.com/latest_full_story.php?content_id=162911