

## Weekly Economic Bulletin

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## News Feature

### **'India Inc regains confidence'**

India Inc has regained the much-needed business confidence with majority of 300 companies stating, in an industry survey, that they see better economic outlook in the next six months.

As many as 57% of the companies measured on the quarterly Business Confidence Index (BCI) of Ficci, indicated that they expect the overall economic condition to be 'moderately to substantially' better in the next six months.

The Ficci survey of the fourth quarter of fiscal 2008-09 is in sharp contrast with findings of the BCI of the previous quarter when only nine% firms had seen a bright outlook.

"The economy has bottomed out as was also indicated in the last survey and is clearly in the recovery mode," Ficci said. The gross domestic production recorded in the last fiscal was 6.7%, which was better than expected.

Improvement in business confidence comes amidst the new UPA government working on a 100-day programme for putting the economy back on the fast track. The BCI for the fourth quarter of fiscal 2008-09 was up to 64.1 from 44 in the last quarter.

About 47% of the respondents said that their current firm performance has improved vis-à-vis last six months, representing a jump of 26% from 21% in the last survey. The percentage of companies which saw a deterioration in their performance over the last six months has declined significantly to 18% from 55% in the last survey, the Ficci-BCI survey said.

The chamber has surveyed companies in various sectors including textiles, cement, steel, leather, chemicals and fertilisers, FMCG, banking and autos. However, the companies feel that there are hindrances in their growth including weak demand, high cost of credit, although the credit problem has come down in the current survey.

The steps taken by the RBI and the government over the past two quarters have been instrumental in giving a boost to demand but there is still scope for further announcements to bring the economy back in full swing, the survey said.

<http://www.financialexpress.com/news/india-inc-regains-confidence/468894/>

### **India is now a player in M&A premier league**

India will enter the global pecking order of the largest M&A's done so far this year with the proposed Bharti Airtel-MTN deal. It will be the third largest deal so far in 2009 and if pharma is excluded, it will be the largest deal so far globally.

The proposed \$29 billion acquisition is the third largest M&A deal after pharma biggie Pfizer acquired Wyeth in January for nearly \$64 billion, and Merck's acquisition of

Schering-Plough for nearly \$46 billion, also in the pharma space announced in March this year. So excluding the two top deals done in the pharma sector, this would be the largest deal done globally.

Bharti's proposed acquisition of 49% stake in MTN worth up to \$29 billion may become the largest cross border acquisition by a domestic company after the \$12.7 billion Tata-Corus deal.

It is also the largest acquisition in India's telecom sector and in Africa by a domestic company. The deal will even surpass that of China's ICBC which acquired South African bank Standard Bank group worth \$5.6 billion in October 2007 — the biggest African cross border inbound deal on record so far.

Till date, the largest acquisition on record in Africa by a domestic company is Ranbaxy's acquisition of Be-Tabs Pharma for \$70 million announced in 2006.

In fact, quite a few domestic companies across sectors have shown an appetite for African companies. The second largest deal is Apollo Tyres buying South Africa's Dunlop Tyres for \$66 million.

Last year Godrej Consumer Products bought Kinky brand of hair business for \$33.2 million, while in January this year that of Tata Communications and Neotel for an undisclosed amount.

<http://economictimes.indiatimes.com/Features/India-is-now-a-player-in-MA-premier-league/articleshow/4577798.cms>

## **Overseas News**

### **Capital inflows likely to turn positive in Q4 FY 09: CMIE**

Capital flows into the country are likely to turn positive in the March quarter of FY 09, an economic think-tank forecast in its report.

"We expect the capital account of the balance of payments (BoP) of the country to experience a net flow of \$ 3,740-million in the March 2009 quarter as against an outflow of \$ 3,683-million in the December 2008 quarter," Centre for Monitoring Indian Economy (CMIE) said in its monthly report on the state of the Indian economy.

Along with a higher net flow, the report also projected that the foreign direct investment into the country would continue to surge, with Q4 of the previous fiscal expected to record an inflow of \$ 3,900-million on this account, CMIE said.

According to the report, the official Balance of Payments data for the December quarter of the last fiscal showed an outflow of \$ 3.7-billion.

It was for the first time in the last one decade that the capital account of the BoPs of the country showed an outflow on net basis, it said.

"However, we believe that this phenomenon will not repeat itself in the March 2009 quarter," CMIE said in its report.

The expectation was based on the fact that the biggest reason for the much-higher-than-expected outflow in December quarter was the unusually high, nearly \$ 6-billion outflows by way of bank capital (excluding NRIs deposits), CMIE said.

<http://economictimes.indiatimes.com/News/Economy/Finance/Capital-inflows-likely-to-turn-positive-in-Q4-FY-09-CMIE/articleshow/4579571.cms>

### **Change in FDI policy a continuous process: Nath**

Senior Cabinet minister Kamal Nath, "new things would be thrown up" as the government fine-tunes the foreign direct investment policy.

"This is a continuous process and new things would be thrown up as we move on," Nath told. Earlier, Nath, who held the commerce and industry portfolio in the previous government, said the Centre would be ready to remove procedural bottlenecks for foreign investors.

<http://www.financialexpress.com/news/change-in-fdi-policy-a-continuous-process-nath/465839/>

### **New FDI norms may come as a boon for Bharti**

India's largest mobile operator Bharti Airtel will benefit largely from the new foreign direct investment (FDI) guidelines notified in February if its revived merger talks with South Africa's MTN Group concludes successfully, in spite of the government's plans to take a fresh view on the latest FDI norms.

The new FDI norms notified under Press Notes 2, 3 and 4 by the previous UPA government consider a company Indian if Indian promoters hold a majority stake in it and the investments made by such companies in any joint venture or downstream venture will be treated as Indian.

Bharti Airtel, which had close to 70% foreign equity stake as per the old guidelines — where 'beneficial ownership' is interpreted to include indirect holding — has only close to 43% FDI under the new norms. This is because a significant part of SingTel's 31% holding in the company as well as Vodafone's entire are routed through majority-owned Indian companies. The proposed deal is compliant with the new norms and FDI in Bharti Airtel will remain within the sectoral cap of 74%, a Bharti spokesman said.

This assumes that 'beneficial ownership' is interpreted to exclude indirect holding — foreign beneficial ownership has to be less than 50% for a company to be treated as Indian-owned under the new FDI norms. And if 'beneficial ownership' is interpreted to

include indirect holdings, Bharti may already lack any headroom for further foreign holdings.

<http://economictimes.indiatimes.com/News/Economy/Policy/New-FDI-norms-may-come-as-a-boon-for-Bharti/articleshow/4577616.cms>

## **Trade News**

### **India set to sign FTA with ASEAN giving hope to exporters**

India is set to sign an FTA with ASEAN either in August or October this year, opening the \$1.1-trillion South-East Asian market for Indian exporters who find it hard to sell their merchandise in the recession-hit West.

"All the differences have been resolved and the free trade agreement (FTA) would be signed either on the sidelines of ASEAN trade ministers meet in August or at the ASEAN Summit in October," a senior commerce ministry official said.

He said signing trade-opening agreements with the Association of South East Asian Nations (ASEAN) and South Korea are on the 100-day agenda of the new United Progressive Alliance government for restoring high growth to the economy.

Negotiations with South Korea have also been completed. New Commerce and Industry Minister Anand Sharma said he would take the drafts of the two FTAs to the Cabinet soon for approval.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-set-to-sign-FTA-with-ASEAN-giving-hope-to-exporters/articleshow/4599772.cms>

### **Mercosur trade pact to open new vistas from next month**

The preferential trade agreement (PTA) with Mercosur (Argentina, Brazil, Paraguay and Uruguay), that comes into effect from next month, may throw open new markets for India.

R Viswanathan, ambassador of India to Argentina, Uruguay and Paraguay, said that, "Indian goods, priced competitively, stand a good chance of replacing the more expensive imports that Mercosur countries have been making from the Western and European countries."

"The PTA, which comes into force on June 1, will give India an edge over others. The imports of MERCOSUR have gone down. There is a fundamental factor in our favor. The products that we will sell to them are of the right kind," said Viswanathan.

According to the envoy, the PTA, which was signed in March 2005, has finally been ratified by the Parliaments of the four Mercosur countries. A total of 450 items of India's exports to Mercosur and 450 items of import will get customs duty discounts of 10% and 20%, and in a few cases even 100%.

The pact, which will lower tariffs on a wide range of goods, is intended to serve as a stepping-stone toward the establishment of a full-fledged free trade area among the signatories.

The PTA is India's second major agreement in Latin America. New Delhi had signed a similar PTA with Chile in 2005. Earlier this month, Santiago has indicated that the two countries will soon begin negotiations to expand the deal into a broader free trade agreement.

Senior MEA officials said that the PTA would usher in a new wave of economic and business cooperation with India.

Under the terms of the deal, India will give preferential access to 450 goods from Mercosur countries, including chemicals, petrochemicals and electronic equipment. In exchange, Mercosur will open its markets to some 452 Indian products, including air conditioning systems, refrigerators, silk and glass.

Trade between India and Mercosur, whose four member countries are home to 200 million people, totaled \$3.9 billion in 2008.

According to a recent Ficci interactive session on India-Mercosur, the fact that India's trade with Mercosur countries was \$4.6 billion during April 2007-March 2008 was highlighted. In the subsequent 8 months from April 2008-December 2008, the trade touched about \$3.9 billion.

<http://www.financialexpress.com/news/mercosur-trade-pact-to-open-new-vistas-from-next-month/467561/>

## **Sectoral News**

### **Indian telecom industry grew 24 per cent to top \$24 bn: Survey**

Despite the overall slowdown and driven by unprecedented demand for mobile phone connections, the Indian telecom equipment industry grew 20 per cent last fiscal to top \$24 billion in revenues, says a new survey.

Interestingly, though, the market for mobile and fixed-line handsets grew just 6 per cent because of crashing prices and focus on rural market, said the annual survey by Voice and Data, a telecom industry journal of CyberMedia group.

"We've seen this before," said Prasanto K. Roy, chief editor of Voice&Data. "In a downturn, telecom gains, as businesses deploy cost-saving tech," Roy told.

"In the last downturn, internet telephony got a boost. This time, it's video-conferencing, including high-spend areas such as tele-presence."

According to the survey, Finnish mobile and equipment maker Nokia retained the number one ranking among telecom equipment players. Sweden's Ericsson, Nokia-Siemens Networks, Alcatel-Lucent and Chinese vendor Huawei made up the other four in the list.

"Despite all the noise about the national security angle of Chinese vendors who are doing extremely well in most other global markets, they have been able to establish themselves as big and acceptable players in India," said the magazine.

The survey also revealed that the fixed phone market has actually fallen by a third, losing out to the mobile market segment in recent years, which expanded by 7.9 per cent in 2008-09.

"Availability of affordable feature-rich mid-range handsets in the market is the secret behind the explosive number growth in the mobile industry," the survey said.

"With more mobile operators launching services, and established players turning their attention to low tele-density markets, mobile telephony is only likely to continue its growth run."

<http://economictimes.indiatimes.com/articleshowarchive.cms?msid=4603716>

### **Telecom boom may ring in mega BPO deals**

BPO revenues from Indian telecom players have tracked the exponential growth of the telecom industry and rapid rise of new corporate giants, including Bharti Airtel. Outsourcing revenues from the telecom sector in India are set to grow at a CAGR of 31% in the next few years to nearly \$2 billion in 2012, according to a study on the potential of the domestic BPO industry by Ernst & Young.

Bharti has been growing at CAGR of 41% in the past two years. The telecom industry has been adding around 10 million subscribers every month with a subscriber base of 375 million in 2008-09. India's largest mobile service provider, Bharti Airtel, which played a pioneering role by outsourcing many of its non-core functions in 2005, is changing the way Indian firms have traditionally run business and putting pressure on others to follow suit, the consultancy said in the study. Telecom revenues made up 50% of the domestic BPO revenues at \$661 million in 2008.

"This domain (telecom) has already witnessed a couple of large outsourcing deals in recent months and the trend is expected to continue," said Milan Sheth, partner, Ernst & Young. The trend started in August 2005 with Bharti Airtel signing a \$272.2 million deal with four global BPO companies — IBM Daksh, MphasiS, Teletech and HTMT — to outsource its call centres.

The key driver for BPO in telecom is demand for customer care and sales and marketing services, according to the report. Customer service is becoming the key to telecom service providers because it can be a differentiator in the marketplace — more so, because technology is uniformly accessible to all providers.

BPO for telecom is also a huge job creator, employing over 1,22,440 people in BPO firms in 2008 — a number that is set to more than double to 2,94,444 in 2012. After telecom, banking is the biggest employment generator for domestic BPO firms.

According to the figures put out in the report, the banking sector employed around 70,100 people in 2008 and this is projected to go up to 2,25,900 in 2012. The two sectors combined contribute 80% of the domestic BPO revenues — which is tipped to reach \$6 billion in 2012.

<http://economictimes.indiatimes.com/News-by-Industry/Telecom-boom-to-ring-in-BPO-deals-/articleshow/4581983.cms>

### **Domestic pharma market to hit \$20-billion mark by 2015**

Riding high on branded generic wave, the Indian pharmaceutical market is expected to hit the \$20-billion mark by 2015 and likely to feature among the world's top10 pharma markets from its current position of 14th. The domestic pharma market may register a growth of 13% (from around \$7 billion in 2008 to \$20 billion in 2015 ) as compared to 4% growth of the global pharma market (\$650 billion in 2007 to \$844 billion in 2015). In terms of absolute growth, India will be next to the growth potential of the US, China and Japan.

Indian market has emerged as a key destination for global pharma companies, thanks to its high growth prospects and conducive regulatory environment. Underlying this fact, the Indian subsidiaries of global pharma companies outperformed their parent companies in terms of sales and profit growth in last three years. On an average, Indian subsidiaries grew by 14% vis-à-vis 5% growth of parent companies in 2008.

According to industry experts, MNC pharma companies are likely to witness a sea change in their strategy and are aggressively scouting for growth options. The MNCs have embarked on a multi-pronged strategy to establish their stronghold in Indian market by introducing patented products, divesting non-core businesses, going in for acquisitions, strengthening sales and distribution network as well as developing India-centric portfolios. "Strong cash flows and healthy balance sheets, high dividend pay-outs, out performance of the domestic market and strong patent product pipeline make the Indian MNC pharma companies an attractive investment proposition," feel experts.

<http://www.financialexpress.com/news/domestic-pharma-market-to-hit-20billion-mark-by-2015/468164/>

### **PC shipments up 7% quarter-on-quarter**

IDC's Asia Pacific Quarterly PC Tracker has said that the Indian PC market witnessed a 7% quarter-on-quarter (q-o-q) growth in shipments in the first quarter of calendar year 2009 over the fourth quarter of 2008. A total of 1.67 million units of client PCs were shipped during the January-March quarter of 2009, compared to 1.56 million PCs sold in the fourth quarter of CY2008. However, according to the report, there is a year-on-year

decline of 19% in the Indian client PC shipment. Despite that, analysts feel that the improvement from the fourth quarter could be a signal that the situation would not be getting worse.

“Though the year-on-year (y-o-y) growth rate of India client PC shipments dropped 19% (1Q CY2009 versus 1Q CY2008), this was an improvement over the previous quarter, indicating the market has perhaps already bottomed out,” said Sumanta Mukherjee, lead analyst, computing products research, IDC India. In CY 2008, the overall client PC shipment market was at 7.98 million units. According to the report the overall PC shipments to the commercial segment were sustained by demand from the government, education and banking (nationalised banks) segments. However according to IDC’s estimates, the government sector had the potential to spend more in the first quarter of CY 2009, and expects some of the spending to resurface after the formation of a new government.

Similarly, desktop PC shipments registered a sequential growth of 9% q-o-q, while notebook PC shipments recorded a growth of 3% q-o-q. However, on a year-on-year basis there was decline of 18% in desktop PC shipment, and a 21% drop in notebook PCs.

According to IDCs report, the top three players in the India client PC market during the first quarter of CY2009 were HP, HCL and Dell, without showing much difference from the earlier quarter when Dell occupied the second position and HCL was at the third spot. The report also mentioned that in spite of the overall subdued market, the total installed base of PCs in India surged past the 36 million units mark.

<http://www.financialexpress.com/news/pc-shipments-up-7-quarteronquarter/466928/>

### **India's 2nd-largest CDMA market**

India has become only the second country in the world to have more than 100 million CDMA-based (code division multiple access) mobile phone subscribers after the US, which has 157 million CDMA users, according to an industry body.

While India overtook China to become the second-largest CDMA market, the country’s leading service provider Reliance Communications (RCOM) has become the second-largest CDMA service provider behind the USA’s Verizon Wireless, the CDMA Development Group (CDG) said. Tata Teleservices is ranked fourth in the list of top global players, behind China Telecom.

It took CDMA, which competes with the GSM (global system of mobile communication) platform globally, six-and-a-half years to reach the 100 million mark in India after being introduced in December 2002. GSM is much more popular, accounting for 80% of the global market, according to its promoter GSM Association. While there are 475 million CDMA users in the world, GSM standard is being used by over three billion people. In India, the GSM user base is close to 300 million.

CDG executive director Perry LaForge attributed the rapid growth of CDMA users in India to a wide selection of affordable devices and technologies offering CDMA voice and data

services in urban and rural areas. "CDMA allows a rich telecom experience, especially on the data side, and we are confident that experience will only get better, especially as 3G arrives and we are able to unleash the full potential of applications and services," Tata Tele MD Anil Sardana said.

In March 2009, both RCOM and Tata Teleservices launched high-speed mobile broadband services. "As we look to the next 100 million subscribers, CDMA mobile broadband is already satisfying the demand for affordable high-speed wireless data services while CDG initiatives will further increase the selection of CDMA voice and data devices," Mr LaForge said.

Qualcomm, the makers of the CDMA standard, will bring the benefits of advanced CDMA technologies to India, its senior vice-president (India and South Asia) Kanwalinder Singh said.

<http://economictimes.indiatimes.com/Telecom/Indias-2nd-largest-CDMA-market/articleshow/4590765.cms>

### **Mobile entertainment revenue to grow 8%**

Music and gaming revenues are expected to shoot up to 6%-8% in the mobile entertainment space this year.

With an increase in the usage of mobile handsets, music and gaming are considered as biggest drivers of entertainment in the mobile value added services (VAS) space. Sangeet Chowfla, chief strategy officer, Comviva said, "Currently, 3%-4% of mobile VAS revenues are driven by music and gaming on mobile handsets, but this still has to cross many roadblocks. Today music has become the area of interest and innovation for the mobile industry."

Telecom operators view mobile entertainment to have a strong base among the masses. According to sources, mobile entertainment contributes almost 62% of overall VAS, and at present VAS contributes 8%-10% of revenue for mobile operators. Jai Maroo, director, Shemaroo Entertainment said, "Mobile as a medium increases the sheer reach and access to consumers both in terms of the number of screens and in terms of opportunity to consume. With the growth in user spend on mobile services, mobile entertainment is catching up. This makes media and entertainment available on mobile anytime, anywhere."

Besides music and games, infotainment (contests, jokes, astronomy and news) cricket, social networking sites are other services that still have to catch up with the customers.

Zubin Jimmy Dubash, AVP VAS, Tata Teleservices Limited said, "At Tata Indicom mobile entertainment has seen a 35% -40% growth. Music enjoys largest market share in India's mobile VAS market. Within this segment, regional music has seen a surge of almost 33% and infotainment has seen a good uptake of subscriptions services both in voice and SMS." Most telecom operators are leveraging mobile music on VAS, as it is one of the key revenue drivers for the industry with the value chain of operators, handset manufacturers,

telecom equipment providers and content providers constantly innovating and enhancing the VAS bouquet.

Mobile games have also shown strong growth recently and are expected to become as big as mobile music. "With a slew of different options such as Java, BREW, SMS-based or browser-based games, mobile gaming has evolved beyond recognition since Nokia launched ' Snake ' in 1997," added Chowfla. The most popular games downloaded today in India is cricket, action games and bollywood games.

<http://www.financialexpress.com/news/mobile-entertainment-revenue-to-grow-8/468856/>

## **News Round – Up**

### **India better prepared to tide over crisis**

India has been ranked as third best country that will tide over the global economic crisis by a worldwide survey among businesspersons to understand the business morale and impact of the economic downturn. According to the Servcorp International Business Confidence Survey India has been ranked as the third most promising country to survive the economic crisis.

The survey, which was conducted in April 2009 over a period of two weeks, was commissioned to understand the current mood, business morale and impact the economic downturn has had on businesses around the world.

Australia has been voted as the best place to be during this recessionary times by international business people, followed by China.

The third position is held jointly by India and Singapore while Hong Kong and Canada are in the fifth and sixth place respectively.

Interestingly, developing nations have emerged favourites among international businessmen as places which are best placed to tide over the recession as 21 of the 36 countries listed by the Servcorp International Business Confidence Survey are emerging market economies.

As part of the survey, Servcorp asked 7,500 international business people from over 24 nations to identify which nations they believe are surviving the crisis best.

As per international businessmen the other most promising countries include Japan, Qatar, New Zealand, Malaysia, Sweden, Vietnam, Netherlands, US, Indonesia, South America, France, Belgium, England, Korea, South Africa, Austria, Taiwan, Czech Republic, Germany, Ireland, Lebanon, Russia, UAE, Brazil, Morocco, Philippines, Scotland, Sri Lanka, Syria and Thailand. However, the Australian business people, think Australia is the best place to be during this recessionary time, and have ranked India in the sixth place along with Canada and Qatar.

As per the Australian Perspective, Australia is the best country for surviving the economic crisis, followed by China, Singapore, Hong Kong, South Africa, Canada, India, Qatar and the Netherlands among others.

<http://www.financialexpress.com/news/india-better-prepared-to-tide-over-crisis/467572/>