

# Monthly Economic Analysis Fortune 2008

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## **Macro Economic Developments**

### **Industrial Growth:**

The overall industrial growth remains subdued during the April - February period of 2007-08 compared to the growth registered in the same period of previous year.

In February 2008 the overall industry grew by 8.6% as against 12.0% in the same month of the previous fiscal. Moderation in the manufacturing sector was observed during the month of February 2008 compared to the same month of the previous fiscal. However growth in the other two sectors namely mining and electricity exceeded growth seen in the previous year.

The slowdown in industrial growth was found firstly on account of high base numbers recorded in the previous year and secondly due to high input costs.

Growth in basic, intermediate and capital goods decelerated in February 2008 compared to that of growth registered in the same month of previous year. Growth in consumer goods segment was seen to escalate due to high demand in the consumer non-durables.

During the period from April to February 2007-08, of the 16-industry sectors growth in 6 industry sectors outstripped the growth posted in 2006-07. These 6 sectors included food products, beverages, jute, wood, leather and basic chemicals.

### **Core Infrastructure Industries:**

Growth for the overall six core infrastructure industries in February 2008 exceeded that of the corresponding month of 2007. The bounce back in growth during the month was mainly on account of improved performance in cement, coal and power sector. Growth in the remaining sectors (steel, petroleum refinery and crude petroleum) remained lower than that of the previous year. A turnaround in these sectors can arrest the slide in manufacturing growth.

### **Telecommunications:**

Total telephone subscription neared 300 million. Wireless connection was found to cross the 250 million mark, adding 7 million mobile phones on an average each month. The wired line subscription is seen to slowly decline from its current levels.

### **Inflation Trends:**

Inflation reaches 40-month high touching 7.41% in the week ending 29th March 2008 compared to that of 7.0% recorded a week ago. The items that drove inflation to such levels were food articles, food products and metal products. The average inflation during the 11-month period remains close to what has been targeted for

the FY08. In defense the government has scrapped import duty on all crude form of edible oils and placed a ban on export of non-basmati rice, hiked the minimum export price (MEP) on basmati rice and extended the ban on export of pulses for another year.

### **Monetary Indicators:**

Data up to February 2008 (percentage change from end March 2007 to February 2008) shows high growth in money supply. (Taking numbers on YoY basis we see broad money supply increase on the higher side above 20%) . Growth in the net bank credit to the government and commercial sector continues to remain low compared to the rise in the previous year. Credit appetite of the commercial sector and government sector increased by 16% and 2.1% February 2008 as against 20.8% and 7.7% respectively in the previous year. Foreign exchange assets of banks exceeded the increase recorded in the previous year. Investments in the government and other approved securities have stepped up compared to last year.

### **Stock Market Trends:**

The 30-stock index sensex hurred from its peak above 20K points in January to near 14K in March 2008. Sensex dropped by over 20 percentage points in about 50 trading sessions. Nifty too collapsed from above 6K points to 4K points. It is seen that flooding of investments by FIIs up to early January 2008 disappeared from the Indian stock market turning into net sellers. Despite US Federal Reserve interest rate cut we did not see diversion of funds in the Indian stock market.

### **Fiscal Trends:**

Revenue collections from tax sources up to February 2008 stood at Rs 466163 crore growing at a low 26% than the rate of tax collected in the previous year. Corporation tax mopped Rs 139506 crore and grew slowly that in the previous year, contributing 30 % percent of the total tax collected. Revenue received from the income tax sources spiked by 42.4% in Feb 2008 compared to 30% recorded in the previous year.

Cumulative growth in revenue up to February 2008 from customs slipped to 19% in contrast to 34% growth posted in the previous year. A slightly higher growth was in excise than the increase registered previously, accounting for 53% to the total tax collected, including the other taxes collected.

### **Foreign Trade:**

Merchandise exports worth USD 14237 million up to February 2008 were made recording a growth of 35%. Growth in exports speeded up for the second time during the 11-month period of 2007-08. Cumulatively from April- Feb exports worth

USD 138.4 billion was recorded. Imports too rose sharply during the month. It also maintained high growth levels during the 11-month period.

The annual foreign supplement to trade Policy been announced in early April 2008 brought in some relief to the exporting community with even more ambitious target of USD 200 billion for the current fiscal.

### **Capital Inflows:**

The country attracted total foreign direct investment of more than USD 50 billion of which foreign direct investment received was USD 25 billion, nearing the targeted FDI for the fiscal 2007-08. In February alone India received FDI of USD 5.6 billion, the highest during the 11-month period. Portfolio investments composed mainly of FII in Feb 2008 recorded a negative USD 8.9 billion.

### **Foreign Exchange Reserves:**

Foreign exchange reserves crosses 300 billion in February 2008. The country's foreign exchange reserves rose by USD 2.7 billion to touch USD 311.8 billion for the week ended 4th April 2008. The rise in the forex could be on account of revaluation of foreign currencies (barring US dollar) as the reserves swelled despite large trade deficit and outflows in FIIs.

### **Trends in the Exchange Rates:**

In March 2008 Rupee traded weak at above 40 in most of the trading sessions. Rupee is likely to depreciate further from the current Rs 39-40 levels against the USD due to the view that the capital market will remain negative and FIIs distancing from the stock market for some time. Rupee versus the Euro too showed weakness during the month.

## **Lead Stories of the Month**

### **Foreign Companies Allowed to Acquire Up To 74% in New Telcos**

The Government has clarified that foreign companies or other strategic investors are free to acquire up to 74 per cent stake in new telecom operators as permitted by Foreign Direct Investment rules.

The three-year restriction is only for the existing telecom companies like Bharti Airtel or Vodafone-Essar to buyout the new telecom player, so as to prevent them from getting additional spectrum beyond the permissible limit.

In February this year, Vodafone CEO Arun Sarin had said they may buy radio waves from the market to meet their requirements. This will be difficult as per the new merger and acquisition guidelines, which were announced on April 22.

Among the new telecom companies, Videocon-promoted Datacom is in talks with various foreign players, including AT&T of the US, and the fresh guidelines would have no bearing on such proposals, senior officials in the Department of Telecom (DoT) said. "As far as acquiring 74 per cent stake in telecom companies (whether new or old) is concerned, it is as per the FDI rules of the ministry of finance and there is no change in it," they said.

The new guidelines have made consolidation in the telecom industry difficult, but the issue of acquisition of a controlling stake in companies has not been dealt with. As per the new rules, no merger of two companies would be allowed in case the total number of service providers in a circle fall below four compared to earlier rule of at least three operators in a circle.

Making the merger even more stringent, the revised norms stipulated that the combined market share of merged entities should not exceed 40 per cent.

The Government has recently issued 120 new telecom licences to seven companies, including Datacom, Unitech, Shyam Telelink and Loop Telecom.

Some are looking to sell a majority stake to strategic investors or foreign companies to raise funds and roll out networks faster.

### **Shipyard Construction Nodal Agencies Formed**

The Government of India has nominated Mumbai Port Trust and Ennore Port Limited to function as the nodal agencies for setting up of shipyards on the West Coast of India and the East Coast of India, respectively. The nodal agencies have been authorized to appoint consultants with clear terms of reference to identify three or four alternative sites each for setting up of shipyard on west coast and east coast of India, respectively, and also suggest optimal locations with detailed justification.

The Government of Andhra Pradesh has proposed Vodarevu in Prakasam District as a suitable site for setting up international size shipyard. The features of the location are:

- Vodarevu is declared Non Major Port and is situated in Prakasam District at Latitude 15 degrees 48' North 80 degrees 15' East.
- Vodarevu is well connected with the State Highway at a distance of 5 Kilometres and Howrah-Madras main railway line is about 6 Kilometres.

- Due to unique geographical position, it is sheltered port with 5 metres contour at a distance of 300 metres from the shore and 10 metres contour at a distance Of 5 Kms.
- The required land would be made available free of cost for the purposes of shipyard.

This Ministry of Shipping has subsequently sought certain further details regarding the location from Government of Andhra Pradesh.

The nodal agencies have been entrusted with the responsibility of engaging consultants for preparing, inter alia, detailed project reports, documents for request for proposals/qualifications etc. for setting up two international size shipyards. As such, no definite time frame can be set at this stage for finalization of the project and commencement of civil works. The Ministry had projected to the Planning Commission an outlay of Rs.3000 crore comprising of Gross Budgetary Support from Government and Internal and Extra Budgetary Resources (IEBR).

### **Capacity Enhancement at Major Ports**

Under the Eleventh Five Year Plan, which covers the period from 2007-2012, the capacity of Major Ports is planned to be enhanced to 1016 million tonnes per annum (MTPA) to cater to a projected traffic of 708 MTPA. Major Ports have identified projects covering the entire gamut of activities, namely, deepening of channels/berths, construction and reconstruction of berths/jetties, floating jetties, rail and road connectivity projects, procurement, upgradation and modernization of equipment and other demanding schemes in order to meet the capacity requirement.

The Government has also put in place a scheme for private sector participation in Major Ports for handling bulk, break bulk and multipurpose and specialized cargo, warehousing and public storage facilities, dry docking and ship repair facilities. To make the project bankable, Government has also issued a new Model Concession Agreement (MCA). It takes into account, amongst other things, investor's concerns. In addition, all the 12 Major Ports have formulated Port Business Plan, with a 20 years perspective as well as Action Plan for 7 years period with a view to transforming them into ports with world-class facilities suited to the requirement of Future economy of India.

The total proposed outlay for the Eleventh Plan period for the Major Ports is Rs.17551.24 crores, of which the Gross Budgetary Support (GBS) component is Rs.2056.98 crores. Private sector investment is anticipated to the tune of Rs.36868.24 crores.

## **Indian Companies Sign Up for Oil in Yemen**

Agreements for five hydrocarbon exploration blocks in Yemen have been signed by Indian companies on April 13, 2008 at Saana'a the capital city of Yemen. These include agreements for block Nos. 82 & 83 by Oil India Limited (OIL) and Indian Oil Corporation (IOC) consortium with their foreign collaborators namely, Medco Energy and Kuwait Energy Company and for block Nos. 19, 28 and 57 by Gujarat State Petroleum Corporation with their foreign collaborators Jubilant Enpro and Alkor Petro. The agreements were signed in the presence of Yemeni Minister of Oil and Minerals Khaled Mahfoudh Bahah, senior officials in the Ministry of Oil and Minerals, representatives of various oil companies in Saana'a.

Speaking on the occasion the Minister of Oil of Yemen expressed great optimism in the Indian oil companies and said that he looks forward to the Indian oil companies starting their operations in Yemen in the near future. The agreements signed would go for ratification by the Yemen Parliament and then eventually would be sent for the signature of the President of Yemen. This process is expected to take about two months or so. Thereafter the agreements will become operational and the work on exploration and prospecting of hydrocarbon is Expected to commence during 2008 itself.

It may be recalled that in December 2006, seven oil blocks were allotted to different Indian companies: 82 & 83 to OIL-IOC; 19, 28 & 57 to GSPC with foreign collaborators as given above and 34 & 37 to Reliance India Limited (RIL) with Hayel Saeed Group of Yemen as the collaborator.

As for the oil block Nos. 34 & 37 allotted to Reliance India Limited, agreements were signed earlier on 20.11.2007 at Sana'a. In their case also the agreements require ratification of Yemen Parliament.

## **India to Take Infrastructure Delegation to Saudi Arabia**

Bullish on bilateral cooperation in infrastructure projects, India will take a delegation to Saudi Arabia in May that would be headed by Deputy Chairman of Planning Commission Montek Singh Ahluwalia.

The effort would be to attract infrastructure funds for India from the Arab countries, said Union Minister for External Affairs Pranab Mukherjee, while addressing the Indo-Arab investment projects conclave organised by FICCI in New Delhi.

The move to strengthen cooperation between the two regions would be followed by a series of events, including an Indo-Arab Festival and a partnership conference in November and an Arab cultural festival, to be organised by FICCI in New Delhi in association with the Ministry of External Affairs.

Mukherjee said there was enormous scope for Arab investment in India in diverse areas such as IT, telecom, auto parts, healthcare, biotechnology, food-processing, education, manufacturing, construction and banking services. "However, the most important opening for the future is the chance to invest capital on one side to combine virtuously with the capacity and experience on the other side," he said.

"The Arab nations are not only flush with funds but also have a massive capacity to invest in building India's infrastructure," said FICCI Senior Vice-President Harsh Pati Singhanian.

Salman Sulieman Al Safi, State Minister for Investment, Republic of Sudan, invited Indian investment in Sudan's mining and fisheries sectors, apart from scaling up investments in the oil and gas sector.

### **Marks & Spencer to Form JV With Reliance**

UK retailer Marks and Spencer Group and Reliance Retail, part of the \$27.13-billion Reliance Industries Group, have announced a joint venture in India.

The value of the initial investment in the venture will be up to £29 million (in cash or in kind) or Rs 230 crore, between the parties, with both agreeing to provide further funding in the future.

The new joint venture signals a major foray into India of the UK retailer. It will have the right to operate Marks & Spencer stores in India selling items such as women's, men's and children's clothing as well as home wares. It will aim at opening at least 50 new stores in India over the next five years.

According to a press release, the UK retail major has entered into an agreement with Reliance Retail (which currently has over 500 stores in over 49 cities spanning over 3.5 million sq ft.) with the goal of establishing Marks & Spencer as a major retail brand in India.

Subject to the satisfaction or waiver of certain conditions, including the receipt of approval from the Foreign Investment Promotion Board, Marks & Spencer will take a 51 per cent interest in Marks and Spencer Reliance India Pvt Ltd with Reliance Retail taking the remaining 49 per cent.

It is envisaged that Planet Retail, Marks & Spencer's existing franchise partner in India, will continue as a franchisee in respect of the 14 existing franchise stores. This announcement is part of Marks & Spencer's plans to grow its international business to 15-20 per cent of Group revenues (£8.5b (2006-07)), within the next five years, the release said.

Sir Stuart Rose, Chief Executive, Marks & Spencer, said: "India is a very exciting opportunity for Marks & Spencer and a market where there is the potential for M&S to become a major retail brand. Reliance Retail is the ideal partner for us to accelerate our expansion and create the opportunity to open much bigger M&S stores".

Mukesh Ambani, Chairman of Reliance Industries Ltd., said: "We are excited to partner with M&S to combine Reliance's understanding of the Indian marketplace, and its traditional strengths in the areas such as technology, infrastructure, logistics and training with M&S's legendary retailing and product development capabilities to deliver a delightful experience for Indian consumers."

The Chief Executive Officer of Marks and Spencer Reliance India Pvt. Ltd. will be Mark Ashman and Chief Financial Officer will be Jatin Luthra. Marks and Spencer Reliance India Pvt. Ltd. is currently named Tapti Trading Pvt. Ltd.

### **Greaves Cotton to Set Up New Unit Near Chennai**

Mumbai-based Greaves Cotton Ltd (GCL) intends to set up a Greenfield production centre at Gummidipoondi, 50 km north of Chennai, where it will manufacture petrol/kerosene engines. GCL has another unit to produce such engines at Thoraipakkam, 20 km south of Chennai. Over time, this unit will also be shifted into the new unit at Gummidipoondi.

Though the proposed unit will come up on a fresh piece of land, GCL already has four other independent production facilities at Gummidipoondi, where it produces construction equipment. The fourth, set up at a cost of Rs 22 crore, was inaugurated. The company has one more at Ranipet, some 120 km west of Chennai.

According to the Managing Director and CEO of the company, Praveen Sachdev, the company has been manufacturing more than 2.5 lakh engines annually supplying to all the OEMs except Bajaj Auto. In the company's financial year 2006-07, which ended in June, the engines business for GCL accounted for 80 per cent of sales. It has subsequently dropped to 70 per cent due to poor off take from three-wheelers manufacturers.

### **Czech Republic to Introduce Mobile Airports in Northeast**

Mobile airports will soon take a place in the country's aviation sector, with the Czech Republic planning to introduce its latest innovation in the Northeastern part of the country.

The Czech Republic claims to have expertise in the field and plans to introduce such airports that can be transported in trucks and set up anywhere in 20 minutes in the Northeastern states like Mizoram and Meghalaya.

"We are interested in the region because the Czechs are all over India but drew a blank in the Northeast," the Czech Republic Ambassador Hynek Kmonicek said.

"The Republic provides integrated airport control and monitoring system and mobile airports that can be carried in trucks and set up within 20 minutes.

We have been in the aviation sector since the beginning of the 20th century. Our skills in portable heliports and mobile airports are recognised world over," he said.

These portable airports, it is learnt, can take aircraft loads of 26-40 tonnes. Czech aviation companies are providing their services in as many as 27 countries.

### **IFC to Help Improve Coastal Roads in Andhra Pradesh**

IFC, a member of the World Bank Group, will advise the Infrastructure Corporation of Andhra Pradesh (INCAP), on a coastal roads project to boost economic growth in the Indian state. IFC will help develop public-private partnerships for the project, a combination new and existing toll roads and connecting radial roads.

The Vizag-Kakinada project, located on the east coast of Andhra Pradesh, is one of the first to be undertaken by IFC since it was appointed as adviser to INCAP last year.

Sanjay Jaju, Vice Chairman and Managing Director of INCAP, acknowledged that roads are an important component of the physical infrastructure needed for development and growth. He said, "An efficient transportation system is the lifeline of an economy, and this important project will boost the state's economic development."

Vipul Bhagat, who leads IFC's Infrastructure Advisory in South Asia, said: "We have extensive experience in advising governments on public-private partnerships in key infrastructure sectors, especially road transportation, airports, and ports. We are privileged to support the coastal roads project in Andhra Pradesh through this unique partnership with INCAP and the state government."

The project is expected to include about 100 kilometers of radial roads that connect a 150-kilometer coastal road to National Highway 5. IFC will undertake a due diligence review, help design the financial model, and hold consultations with potential bidders. IFC will also recommend an approach for private sector involvement, including allocating risks and responsibilities between the private and public sectors.

As part of its outreach efforts in India, IFC has signed a Memorandum of Understanding with the INCAP, to help develop infrastructure projects through public-private partnerships. In addition, the Indian government has enlisted IFC as transaction advisor for public-private partnerships in the country.

### **Cabinet Clears Coke Investment Proposal**

The Cabinet Committee on Economic Affairs has approved an investment of US\$ 52.4 million (Rs.205.00 crore approximately) in HCCB by their parent company to predominantly fund capital expenditure in their subsidiary Hindustan Coca-Cola Beverages Pvt. Ltd. (HCCB).

The approval would be subject to compliance with SEBI/RBI pricing guidelines and adherence by the company of the RBI's notification of 14.12.2007 regarding issuance of shares against application money, which the company has proposed to do by 31.3.2008.

After the approval, FDI amounting to Rs.205 crore approximately will be received in the country.

### **External Sector: Foreign Trade April - December**

Region/Country	Export			Import		
	US \$ million		% change	US \$ million		% change
	2006	2007	2007	2006	2007	2007
World	91318.4	113413.3	24.20	134032.4	171831.1	28.20
Africa	7424.6	10167.8	36.95	11463.6	15414.6	34.47
Egypt	508.1	962.3	89.41	1367.7	1526.5	11.60
Kenya	1038.5	967.6	-6.83	41.1	65.3	58.77
Mauritius	486.1	795.5	63.64	10.2	7.3	-28.30
Nigeria	674.1	780.1	15.73	5629.4	5683.4	0.96
South Africa	1691.1	1722.4	1.85	1935.5	2684.8	38.71
America	17817.5	20147.3	13.08	13109.4	15813.4	20.63
Brazil	1170.2	1646.4	40.70	762.5	702.3	-7.91
Canada	823.8	903.9	9.72	1031.8	1434.0	38.98
Mexico	392.3	429.7	9.54	500.3	782.6	56.42
USA	13932.5	15241.7	9.40	7698.2	10060.3	30.68
Asia (excl. Middle East)	27657.5	34345.2	24.18	37673.0	50579.0	34.26
Bangladesh	1193.0	1600.2	34.13	184.4	193.1	4.74
China	5587.1	6749.2	20.80	12634.1	19858.0	57.18
Hong Kong	3255.6	4440.8	36.41	1841.8	2198.2	19.35
Indonesia	1427.5	1315.7	-7.83	2802.0	3485.7	24.40

Japan	2044.9	2464.9	20.54	3284.9	4548.2	38.46
Korea DPR (North)	93.6	700.3	647.91	419.2	110.3	-73.68
Korea Republic (South)	1674.3	1666.2	-0.49	3570.5	4280.5	19.88
Malaysia	995.2	1563.2	57.07	4012.0	4462.4	11.22
Nepal	700.8	914.1	30.44	229.4	312.1	36.07
Philippines	450.3	446.2	-0.90	135.2	146.0	7.98
Singapore	4766.5	5135.8	7.75	4174.9	5622.4	34.67
Sri Lanka	1609.6	1917.0	19.09	353.2	330.7	-6.38
Taiwan (Taipei)	639.0	1243.4	94.59	1209.8	1805.4	49.23
Thailand	1022.1	1251.7	22.47	1246.0	1720.1	38.05
Viet Nam	652.2	898.8	37.81	132.0	123.5	-6.48
Middle East	15637.5	20231.6	29.38	36533.7	45292.8	23.98
Iran	1187.2	1653.2	39.26	5699.7	7257.0	27.32
Iraq	139.3	161.6	16.04	4453.0	4399.3	-1.21
Israel	936.1	1165.7	24.53	818.2	1127.7	37.83
Kuwait	462.7	472.1	2.05	4401.7	4885.9	11.00
Saudi Arabia	1829.3	2490.5	36.14	10258.0	13513.9	31.74
UAE	8913.6	11423.6	28.16	6495.1	9691.4	49.21
Europe	21463.1	27368.4	27.51	29443.9	38161.2	29.61
European Union	18505.2	23238.1	25.58	19327.3	24646.5	27.52
Belgium	2427.1	2998.3	23.53	3187.1	3934.7	23.45
Denmark	326.0	346.1	6.16	257.7	338.5	31.38
France	1511.4	1835.3	21.43	1595.3	1998.5	25.27
Germany	2809.3	3635.1	29.39	5454.4	6765.7	24.04
Italy	2584.5	2781.7	7.63	1915.2	2752.9	43.74
Netherlands	1867.9	3575.0	91.39	814.9	1428.9	75.34
Spain	1377.2	1559.6	13.25	444.7	687.3	54.55
Sweden	283.7	390.9	37.81	1477.9	1543.2	4.42
UK	4092.0	4903.4	19.83	3101.6	3822.9	23.26
Other European Countries	2957.9	4130.2	39.63	10116.6	13514.7	33.59
Russia	638.2	666.3	4.40	1514.4	1861.4	22.91
Switzerland	315.4	424.6	34.65	6330.7	7842.0	23.87
Turkey	857.8	1296.4	51.12	152.9	1048.4	585.65
Oceania	1200.0	991.9	-17.35	5710.6	6377.5	11.68
Australia	676.2	841.4	24.42	5240.4	5981.5	14.14