

Weekly Economic Bulletin

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News Feature

Banks record highest growth in Q2 lending despite crunch

There is a clear sign of resource pressure on banks, with the incremental credit-deposit ratio during the second quarter touching 80%. Despite tight credit conditions, banks have lent very high amounts in Q208-09. Between July and September, banks lent Rs 1,29,396.4 crore - the highest Q2 growth despite high interest rates.

According to the latest RBI data, the outstanding amount of total domestic loans disbursed by banks touched Rs 2,542,467 crore as on September 26, while total deposits touched Rs 34,42,137.62 crore. The year-on-year credit growth works out to 24.8%, way above the projected growth of 20% for the year.

At these levels, while incremental loans between July and September 2008 amounts to Rs 1,29,396.4 crore, incremental deposits work out to Rs 1,62,670.6 crore, resulting in an incremental credit-to-deposit ratio of 79.5% for the quarter.

This is one of the highest Q2 growth levels that banks have seen. Typically, the period between July and September is seen as part of the slack season, when there is not much demand for loans from corporate, as they go slow on their new investments because of rains during this period.

Bankers say much of the credit demand is from oil companies and PSUs to meet their input demands. Also, there is some working capital requirements from corporates with on-going projects.

But corporates, which are now finding it difficult to raise money from overseas debt markets because of the ongoing turmoil, are now borrowing from domestic banks, they say. As a result, despite high lending rates, they are still borrowing from banks. The outstanding credit-to-deposit ratio of banks is currently at around 74%.

The demand appears to be so strong that banks with a surplus stock of government bonds (they need to park at least 25% of the deposits they raise in government bonds) are selling bonds to fund the loan demand. The investment-(in government bonds) to-deposit ratio for the entire banking system has further dipped to 28.5% as on September 26, leaving very little leeway for banks to further offload their stock of bonds.

<http://economictimes.indiatimes.com/News/News By Industry/Banking Finance /Banks record highest growth in Q2 lending despite crunch/articleshow/3578311.cms>

Economy can still post 8% growth, says Chidambaram

The Finance Minister, Mr P. Chidambaram, has said that India can still end the current year with a growth rate of 8 per cent despite the financial turmoil across the world.

"I am confident that in 2009-10, the growth rate will bounce back to 9 per cent," Mr Chidambaram said at the NDTV Business Leader of the Year Awards function.

Stating that India would to some extent get affected, but indirectly, by the storm blowing across the world, Mr Chidambaram however highlighted that Indian business and industry had placed the country in a situation "where we can weather the storm".

Indian business and industry has seized the opportunity provided in the last seventeen years to bring about a transformation in the Indian economy, he added.

"We will remain vigilant. Our regulators have shown great agility. You saw SEBI move quickly earlier this evening and RBI also moved quickly immediately thereafter," he said.

On the cumulative investments of Indian industry and business, Mr Chidambaram said that the estimated cumulative investment at end June 2008 was Rs 66,77,278 crore as against Rs 44,58,840 crore at the end of June 2007. In the first quarter of the current year, new investments amounted to Rs 5,14,266 crore. In July 2008, there was a further investment of Rs 2.13 lakh crore and in August 2008 there was an investment of Rs 1.32 lakh crore.

<http://www.thehindubusinessline.com/2008/10/08/stories/2008100852221000.htm>

Overseas Investment

Govt may open special window to bring 49% FDI in defence

The country's public sector companies in the defence sector may get a head-start in attracting foreign direct investment (FDI) with the government considering a 'special dispensation' to allow 49% FDI in them.

"Discussions are on for creating a 'special dispensation' for public sector companies entering into joint ventures (JV) with foreign partners and the government could allow 49% FDI in such cases," an official said. Initially, the defence ministry was pushing for a case-by-case approval for 49% FDI in the public sector companies in the defence sector.

However, the department of industrial policy and promotion (DIPP), which oversees the FDI policy and its implementation, has opined that initially 49% FDI must be allowed in all public sector companies where there is such a joint venture with a foreign company.

Security concerns are among the reasons being cited for treating defence PSUs differently from the private sector, official sources said.

The case that sparked off proposals for raising the FDI limit in the defence sector was of Mahindra and Mahindra's (M&M) 51:49 JV with British Aerospace Systems (BAE) to manufacture anti-landmine vehicles. The matter is before the Foreign Investment Promotion Board (FIPB).

According to Dhiraj Mathur, executive director and partner, Pricewaterhouse Coopers, “This flies against the stated government’s policy of providing a level playing field where both the private and public sector would get equal opportunities in the defence sector.”

“Nevertheless, this (creating a ‘special dispensation’ for PSUs) is like ‘getting a foot in the door’. Once the public sector companies are permitted to get 49% FDI, private companies like Tatas and Mahindras will be able to push for 49% FDI in them too,” he said.

<http://www.financialexpress.com/news/govt-may-open-special-window-to-bring-49-fdi-in-defence/370122/>

Big jump in FDI inflows; global crisis proves no dampener

The government sought to allay fears of the country being hit by the worsening financial turmoil saying its strong fundamentals would continue to attract foreign direct investment and that the \$35 billion FDI target for the fiscal would be achieved.

Commerce and industry minister Kamal Nath, releasing the latest FDI data here, said the country had received \$14.6 billion worth FDI in April-August period in this financial year, which is a whopping 124% rise over \$6.5 billion in the corresponding period a year ago.

In 2007-08, India received FDI inflows of \$24.57 billion. Nath said August alone saw FDI inflow of \$2.32 billion, a jump of 180% over August 2007. “This is unprecedented...this is a good sign in comparison to the global economic situation,” Nath said. Admitting that India will be affected by the sentiment and frenzy effect of the global situation, Nath, however, said “we have the confidence to tide over the global financial crisis”.

<http://www.financialexpress.com/news/big-jump-in-fdi-inflows-global-crisis-proves-no-dampener/371052/>

Trade News

‘€20 b target for trade with Germany in sight’

The Union Minister of Commerce and Industry, Mr Kamal Nath, on Monday said that reaching the bilateral trade target of €20 billion by 2012 between India and Germany appears within sight and the strength of the relationship is evident from the healthy growth in bilateral trade.

Stating this at his interaction with Mr Christian Wulff, Minister-President of the State of Lower Saxony (Germany), here, Mr Nath pointed out that the State of Lower Saxony could be an important trading partner in sectors such as agriculture, mining, crude oil, manufacturing, aviation, shipbuilding, biotechnology, steel, tourism industry and telecommunication.

During discussion, both sides agreed to enhance bilateral relations between Lower Saxony and India.

India's Priority

Mr Nath stated that India's priority is to carry forward its reform process so as to accelerate growth in an inclusive manner. Bilateral trade between India and Germany is showing a consistent growth. During 2007-08, bilateral trade was of \$14.7 billion as against \$11.5 billion during 2006-07. India's major exports to Germany include readymade garments, machinery and instruments, electronic goods and transport equipments, while major imports from Germany include machinery (except electrical and electronics), iron and steel, machine tools and organic chemicals.

Investor-friendly

During the meeting, Mr Nath emphasised that Lower Saxony should take advantage of India's investor-friendly climate and German companies should show greater engagement with India, especially in the sectors of infrastructure, information technology, biotechnology and automobile, an official release said.

<http://www.blonnet.com/2008/10/07/stories/2008100752301000.htm>

India, China sign pact on transparency in trade

India and China entered into a memorandum of understanding (MoU) on trade remedy cooperation. This would ensure more transparency as well as better understanding of the anti-dumping and other investigations that are taken by the two countries against each other, the Commerce Secretary, Mr G.K. Pillai, said here today.

The MoU was exchanged in the presence of the visiting Chinese Vice-Minister, Mr Gao Hucheng, and Mr Pillai. "This is to have greater understanding on why certain steps are taken and the logic behind that. That is where the cooperation is taking place", Mr Pillai told reporters.

He also highlighted that India has been one of the largest initiators of anti-dumping action against China.

Largest partner

Mr Pillai also confirmed that China would emerge as the largest trading partner of India this year.

"Three years ago, we were looking at bilateral target of \$40 billion by 2010.

"Today, we have already crossed that figure. The Minister was mentioning that we will probably cross \$ 50 billion by the end of the year. We are now really looking at a figure of \$100 billion in the next five years of bilateral trade", Mr Pillai said.

Earlier, Mr Hucheng and Mr Pillai discussed ways to increase cooperation between the Ministries of the two countries with a view to facilitating more trade between India and China.

Trade up 47%

Meanwhile, the Commerce Minister, Mr Kamal Nath, said that India-China trade in 2007-08 reached \$37.8 billion, an increase of 47 per cent over 2006-07.

Interacting with the Chinese Vice-Minister, Mr Nath said there are enormous opportunities for both India and China in expanding trade in services particularly in construction and engineering, education, entertainment, financial services, IT & IT-enabled services, transport, tourism and health.

<http://www.blonnet.com/2008/10/11/stories/2008101152491000.htm>

Sectoral News

Natural rubber production surges 27%

Natural rubber production has gone up by 27 per cent so far this fiscal on the back of conducive climate and higher prices.

The overall production so far this fiscal has increased to 3.93 lakh tonnes from 3.09 lakh tonnes in the year-ago period, said an official of Rubber Board.

The output in September increased to 79,000 tonnes against 65,275 tonnes. In sync with the upward curve of production, the overall consumption during April-September also increased to 4.44 lakh tonnes from 4.22 lakh tonnes during the same period a year ago.

Consumption in September also rose marginally to 76,000 tonnes from 74,590 tonnes in the same period last year. "Consumption rose due to an increase in production and exports of tyres," the official said. During the period under review, the import of natural rubber, however, declined to 36,386 tonnes from 44,247 tonnes, while export rose to 29,667 tonnes from 17,398 tonnes. But imports in September have shot up by nine per cent to 9,878 tonnes from 9,093 tonnes due to a fall in prices in the global market, while export rose marginally to 1,250 tonnes from 1,166 tonnes.

For FY'09, the Rubber Board has pegged the natural rubber output at 8.75 lakh tonnes and consumption at 8.99 lakh tonnes. The exports and imports are estimated at 50,000 tonnes and 80,000 tonnes respectively for 2008-09. In the 2007-08 fiscal, the production of natural rubber declined three per cent to 8.25 lakh tonnes from 8.52 lakh tonnes in the previous fiscal.

<http://www.thehindubusinessline.com/blnus/08071530.htm>

'E-payment market likely to grow 70% in next 2 years'

Electronic payment is poised for rapid growth in the country in the next couple of years, even though it is still in its infancy in the country and over 50 per cent of bills are still paid by cash.

In a recent report, "Payments in India Going e-Way," Boston-based financial research and consulting firm Celent said the Indian retail e-payment market is likely to grow nearly 70 per cent in the next two years. The value of retail e-payment would be between \$150 billion and \$180 billion by 2010.

However, at present, only 17-20 per cent of bill payments occur electronically, and the majority of these transactions are in urban areas. Customers still prefer to pay standing "in line" rather than "online", the report said.

The report said India is dominated by paper-based transactions in volume, but electronic payments have been growing at over 60 per cent in the last three years, with over 75 per cent transactions currently taking place via electronic mode. Electronic payment accounts for about 37 per cent of total payments by volume.

<http://www.thehindubusinessline.com/2008/10/10/stories/2008101051780400.htm>

Indian realty sector attracts \$6-bn private equity funds

The current global financial crisis might have cast a shadow on the Indian property market, but the country's real estate sector witnessed an inflow of about \$6 billion (Rs 26,900 crore) from global private equity players during the last one year. According to a report by global realty consultant Cushman & Wakefield (C&W), PE funds struck 79 deals in the country during August 2007-August 2008 amounting to \$6 billion, a rise of 100% over the same period a year ago.

The amount received has been evenly distributed among SPV and portfolio level attracting a total investment of Rs 10,000 crore each, while that of entity level was at about Rs 6,970 crore, the report 'The Metamorphosis - Changing dynamics of the Indian Realty Sector' said.

"The commitments by the PE funds clearly indicate investor confidence in the Indian market scenario. While we have seen a dip in total amount committed in the second quarter of 2008, the wait and watch approach by the PE funds scouting for the opportune partner will force Indian developers to re-work their valuations and construction timelines to make them more reasonable," C&W India joint managing director Sanjay Dutt said. PE players have also increased their internal rate of return (IRR) expectations from projects to cater to the increase risk, he added.

The report said residential sector was the most preferred area of investment for PE players, accounting for about 41% of total inflow in this year. Township developments received about 21% of the total commitment.

“Commercial real estate sectors (office, retail, SEZ and mixed-used) have attracted significant investment to the extent of approximately Rs 5,760 crore, which forms 28 per cent of the total investment in SPV’s (Special Purpose Vehicles),” it added. In terms of regional distribution, the study pointed out that western and southern zones accounted for almost 70% of the total investments, followed by northern region 26%.

<http://www.financialexpress.com/news/indian-realty-sector-attracts-6bn-private-equity-funds/370146/>

News Round – Up

First three quarters of Indian M&As top \$26 bn

Cash-rich Indian companies are set to make new acquisitions both in India and abroad as target companies are significantly cheaper now than just six months ago. The cache of cash as an acquisition currency has also increased as global recessionary trends have driven stock prices worldwide to historic lows.

The acquisition of Citigroup's captive Business Process Outsourcing (BPO) arm Citigroup Global Services (CGSL) for \$505 million by Tata Consultancy Services -- the largest buyout of a foreign captive BPO in India; the acquisition of the UK's Imperial Energy Plc, one of the leading oil companies with assets in Russia by India's ONGC Videsh Ltd for \$2.8 billion; the pending purchase of Axon Group Plc, the UK-based provider of SAP implementation consulting, that has invited rival bids from Infosys Technologies Ltd and HCL Technologies Ltd, are all manifestations of an M&A binge fueled by large cash reserves held by Indian companies.

Indian companies with a war chest of cash reserves, such as Infosys Technologies Ltd, India's second largest IT services company with reserves of about \$2 billion; ONGC Ltd with similar reserves; Tata Sons, the holding company for all Tata Group's investments, with reserves and surplus of more than \$2.5 billion, among others, have become active acquirers in the market. This has happened as the US Standard & Poor's 500 Index has tumbled 33% in its worst yearly slump since 1937.

Infrastructure-related industries dominated mergers and acquisitions (M&As), accounting for 45% of the deals at more than \$11.8 billion of the total deal value of \$26 billion this year to September.

"The traction in the infrastructure M&As is symbolic of the need for world class facilities, adoption of internationally-applicable best practices, experienced global management expertise & technology applications to accelerate growth in the Indian economy. To get

that resource base of incremental funds and expertise, part of the capital is expected to find its way in to mergers & acquisitions (M&As)," says Bundeep Singh Rangar, chairman, IndusView Advisors Ltd, Europe's fastest-growing Indian mergers and acquisitions firm which advises multinational companies on business opportunities emanating from India's fast-growing economy.

The Indian government has responded to an urgent demand for new infrastructure targeting to spend 9% of the country's GDP on infrastructure by 2012. Estimates suggest that a third of this investment will come from the private sector, presenting an unprecedented investment opportunity, with corresponding inorganic activity.

"The focus towards the sector is buoyed by the urgency to match global standards. This augmentation is expected to cost and attract investments to the tune of \$500 billion over the next five years," added Rangar.

The power sector has been the main stay of the M&As this year within the infrastructure sector, which accounted for \$5 billion, or 42% of the deal value in the infrastructure sector. The power sector commanded 19% share in the total M&A value of \$26 billion this year compared with about \$4 billion last year, representing a 7.4% share of the total deal value of \$51 billion.

The power sector witnessed two deals worth more than \$1 billion – acquisition of the UK's Imperial Energy Plc by ONGC Videsh Ltd and the acquisition of InterGen NV, a Dutch power company, by Indian infrastructure company GMR Infrastructure Ltd.

"The recently-concluded ninth India-European Union summit in Marseille, France, is expected to further accelerate the M&A activity in the power sector as it's focus turned towards the potential of nuclear energy to the growth in trade between the two regions, which is targeted to reach €100 billion (\$140 billion) over the next five years." added Rangar.

Among the infrastructure sectors, the power sector was followed by telecommunication sector that emerged the second most consolidating sector with \$3.75 billion, a share of 32% in the infrastructure sector deal value and 14% share in the overall M&A deal value.

The other sectors which have significantly contributed to the M&A activity are banking & financial services and pharmaceutical sectors with M&A deal values of more than \$3 billion each. These sectors were followed by the automotive sector with deal value of about \$2.5 billion.

http://economictimes.indiatimes.com/News/News_By_Company/First_three_quarter_s_of_Indian_MAs_top_26_bn/articleshow/3576994.cms