

Weekly Economic Bulletin

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News Feature

India Inc's operating profit improves in Q2

The results season has begun on a reasonable note with the early birds registering a 23% growth in topline and 32% growth in bottomline for quarter ending on September 2007. The results are based on a sample of 108 companies, excluding the financial services firms that have announced their second quarter results so far.

While the topline growth for this set of companies was 25%, the bottomline growth was 57% for the June 2007 quarter, a major part of it was on account of sharp rise in other income, which rose by as much as 190% in Q1. This has come down to 88% in Q2 2007-08, thereby reducing the profit growth. As a result, contribution of other income in pre-tax profit has come down from 22% in Q1 to 13% in Q2.

On the cost front, while raw material cost has gone up by 29%, employee cost has barely increased, leading to operating profit going up by 35%. Increase in interest expenditure was relatively sharp at 43%, even though depreciation grew at 21% only. Still, the performance of companies on major operating cost is better than that in the previous quarter, when raw material cost went up by 32% and employee cost went up by 19%.

The growth rate for larger companies with sale of more than Rs 100 crore, within this set stands at 23% for topline and 30% for bottomline, which is same as the overall figures.

This is contrary to the general perception that larger companies drive growth and an important indication that growth is broad-based. However, it will be unwise to call the early trend as a barometer for the overall performance.

This is evident from the fact that aggregate growth for more than 3,000 firms for Q1 FY08 was 16% in sales and 35% in profit only, which is much less than the growth rate of the early birds for that quarter.

Excluding IT companies, results are even better with 51% profits growth for remaining 93 firms, even though sales growth is nearly same. As a result, net margin has moved up from 9.1% in Q1 2007 to 11% in Q1 2008.

http://economictimes.indiatimes.com/Economy/India_Incs_operating_profit_rises_in_Q2/articleshow/2468768.cms

'India to grow at 10% in the next decade' - Lehman

The country's economy is at a take-off stage and is poised to grow as much as 10 per cent every year in the next decade, Lehman Brothers Asia, a US-based brokerage said.

The economy, which has averaged 8.6 per cent growth each year since 2003, is increasing consumption and investment spending just as China and South Korea did

during the early stages of their economic development, it said in the report titled "India: Everything to Play For".

According to the report, India's equity market will outperform developed and emerging market indices over the next five years, and the Indian rupee will appreciate significantly against the US dollar.

"The launch of the firm's Indian economic report reflects the intense interest that global investors have in the world's emerging economies, especially India, and it marks yet another milestone in the expansion of Lehman Brothers in Asia," said Tarun Jotwani, chairman and CEO, Lehman Brothers, India.

"India has learned a great deal from its structural policy reforms of the past decade; and we believe that these lessons will be carried forward and built upon in the coming years. We are confident in the economic and social future of India, and fully intend to play a large and growing part in its continued development."

http://www.business-standard.com/common/storypage_c.php?leftnm=10&autono=301434

Dun & Bradstreet sees India's IIP 10.5-11% in Sep

Dun and Bradstreet expects momentum in India's industrial production to be maintained in September, in the range of 10.5-11 per cent.

Demand for consumer goods, owing to the festive season, will provide some support to overall IIP, the global business information provider said.

Price pressures on food items owing to the festive demand and the rise in prices of certain manufactured items are likely to keep headline inflation biased upwards for the next few weeks. WPI inflation is expected to average around 3.4-3.6 per cent during October, it says in its monthly economic forecast.

<http://economictimes.indiatimes.com/articleshow/2464150.cms>

Overseas Investment

India emerges second-biggest FDI magnet

India has emerged as the second most-attractive location after China, ahead of the US and Russia, for global foreign direct investment (FDI) in 2007. According to Unctad's world investment report, India's ranking in inward FDI performance index has also improved to 113 in 2006 from 121 in 2005. China is the most preferred investment location, followed by India, the US, the Russian Federation and Brazil, the report said.

The share of India and China in total global FDI outflows has also risen. While both accounted for 10% of total FDI outflows in 2005 in the Asian region, it increased to 25% in 2007. While China's outflows increased 32% to \$16 billion in 2006, Indian outflows witnessed a four-time rise since 2004.

On the increased flow of FDI into India, the report pointed out that while foreign retailers such as Wal-Mart had started to enter the Indian market, a number of US companies such as General Motors and IBM are rapidly expanding their presence in the country. So are several large Japanese MNCs such as Toyota and Nissan. Global FDI inflows soared in 2006 to reach \$1,306 billion, showing a growth of 38%.

http://economictimes.indiatimes.com/India_emerges_second-biggest_FDI_magnet/articleshow/2465267.cms

14 FDI proposals worth Rs 1,257 cr cleared

The government cleared 14 Foreign Direct Investment proposals worth Rs 1,257 crore, including those of Mauritius-based Essar Telecom Holdings Ltd and US-based Goldman Sachs Asset Management (GSAM).

The proposals include induction of foreign equity worth Rs 500 crore by Essar Telecom Holdings and Rs 200 crore from GSAM.

The investment proposals were cleared by Finance Minister P Chidambaram on the recommendations of the Foreign Investment Promotion Board (FIPB).

<http://www.financialexpress.com/news/14-FDI-proposals-worth-Rs-1-257-cr-cleared/229747/>

FDI inflows in food processing strong: Report

Investment deals need not just be restricted to the new economy with even old economy sectors such as food processing getting more than their fair share of foreign direct investment (FDI), according to a report by consulting major KPMG and Ficci quoting data from Venture Intelligence.

The report says, India has seen as many as 11 deals worth e106.4 million till date this year against a mere two deals last year. The two deals in 2006 brought in e4.2 million. India is making its mark in the global food arena both as a producer as well as an exporter.

The favorable policy environment and increasing interest of corporates in agriculture augurs well for India," said KPMG partner (markets) Pradeep Udhas. There appears to be high scope for consolidation in a fragmented market, with most businesses promising good and sustainable returns.

In fact, companies are recording higher growth rate from this sector compared to the home and personal care segment, the report added. Incidentally, exports of processed foods (which bring in higher realisation thanks to value addition) has increased to e13.8 billion in 2006-07 compared to e4.7 billion in 2002-03. The Union ministry for food processing aims to increase India's share in the global processed food trade to 3 % in the next 8 years from 1.6% at present.

http://economictimes.indiatimes.com/News/News_By_Industry/FDI_inflows_in_food_processing_strong_Report/articleshow/2465186.cms

Trai for 74% FDI in cable TV

In a move that will open the doors for foreign investments in the cable sector, the Telecom Regulatory Authority of India (Trai) has recommended a foreign equity cap of 74 per cent for companies, which want to operate Headend in the sky (HITS).

HITS is a new technology, which will help in faster digitalisation of cable transmission and can also be used for the implementation of the conditional access system (CAS).

Modeled on the lines of the direct-to-home (DTH) services, HITS involves delivery of digital television signals directly to cable operators via satellite who, in turn, pass it on to the consumers (who need a set-top box). But in the DTH services, the television signals directly reach the consumers.

With Trai bringing the foreign equity cap for HITS on a par with telecom, the industry expects that a similar change will happen for both cable and DTH services. Currently, only 49 per cent FDI is allowed in the cable and broadcasting sector.

http://www.business-standard.com/common/storypage_c.php?leftnm=10&autono=301595

Govt plans FDI centres abroad to boost inflows

In order to boost FDI flows into the country, the government has decided to set up FDI assistance centres across the globe. These facilitation centres, to be set up in all major countries, will provide a ground for foreign investors to interact with Indian officials.

They would be educated on how to go about investing in India, provide sector-specific details and clarifications on various laws relating to investment in the country.

To start with, the Department of Industrial Policy and Promotion (DIPP) has framed the policy for setting up facilitation centres in 10 countries. "The policy has been sent to the finance ministry for clearance as huge expenditure is required for setting up such facilitation centres. We also need enough funds to sponsor tours of officials so that they visit these countries and educate investors," a DIPP official said. Once the policy is

through, the DIPP would establish links with the respective embassies for facilitation of the scheme.

<http://economictimes.indiatimes.com/articleshow/2468718.cms>

Trade News

India, Brazil, SA target \$15-bn trade

India, Brazil and South Africa have committed themselves to increasing trade among themselves to more than \$15 billion by 2010. This emerged at the end of the second India-Brazil-South Africa (IBSA) heads of state summit.

Prime Minister Manmohan Singh, South Africa President Thabo Mbeki and Brazil's President Lula da Silva have urged business and industry players to be more ambitious and to exceed the target of \$15 billion.

Discussions at the summit ranged from co-operation aimed at poverty eradication and development, further enhancing political and trade relations among the three countries and developments with regard to the World Trade Organization (WTO) negotiations and the conclusion of the Doha Development Round.

The three countries also signed new agreements on cultural cooperation, cooperation in health and medicine, and MOUs on social issues, higher education, tax administration and wind resources.

http://economictimes.indiatimes.com/Economy/India_Brazil_SA_target_15-bn_trade/articleshow/2472306.cms

Italy keen on tie-ups in food processing, leather

Stressing on the need to raise the level of trade and economic cooperation between India and Italy, Mr Bruno Campria, the new Consul General of Italy in Kolkata, said that his country was particularly keen on investments in West Bengal in the two specific areas of food-processing and leather. Some of the other areas for likely bilateral cooperation, singled out by the Consul, were chemicals and textiles.

Participating in an interactive session on "Further prospects of trade and economic cooperation between Italy and West Bengal", organised by the Bharat Chamber of Commerce, Mr Campria said as a first step, the Italian government has decided to set up a Trade Commission office in Kolkata soon.

<http://www.blonnet.com/2007/10/16/stories/2007101651802300.htm>

Bahrain keen on boosting ties with India

Bahrain has expressed its willingness to boost ties with India, especially in the areas of business, as well as improving the conditions of the Indian workers in the Gulf state.

Minister for Overseas Indian Affairs Vayalar Ravi met the Bahrain Prime Minister Shaikh Khalifa bin Salman Al Khalifa, where the premier praised Bahrain-India ties and voiced appreciation for the role of the Indians in various developmental projects in Bahrain, the Bahrain news agency said.

Discussions on labour and other issues were the focus of talks between Ravi, who is on a three-day visit to Bahrain, and the Bahraini leaders.

Shaikh Khalifa praised the close ties with India in many fields, mainly in economic sectors, and expressed keenness for further cooperation with New Delhi.

"The two leaders also reviewed the latest international developments and topics of mutual interest," the agency said.

Ravi conveyed the appreciation of the Indian leadership of the care and attention the Indian workforce enjoys in Bahrain, which reflected the close friendship between the two countries.

<http://economictimes.indiatimes.com/articleshow/2472459.cms>

Sectoral News

Bio-fuels sector set for growth

Given that the overall demand for crude oil in the country is expected to rise by 5.6 per cent until 2011, and with the re-launch of the ethanol blending programme (EBM), the total demand for ethanol, including for non-fuel purposes would be 2355 million litres (mn.l.), the stage is set for the Indian bio-fuels industry to compete with the global giants.

A recent Frost & Sullivan Report prepared by its chemicals, materials, and food practices wing, says that the current installed alcohol capacity of 3000 million liters and fuel ethanol capacity of 1500 mn.l. is sufficient for the moment to cater to the demand in the country for a 5 per cent blend until 2011-12.

However, if a 10 per cent blend is to be mandated and implemented across the country during that period, then the current capacities of both alcohol as well as fuel ethanol will be insufficient, says the report.

The locomotive fleet of the Indian Railways consumes around 200 billion litres of diesel fuel annually.

To cut down on the costs, the Railways is looking at bio-diesel blended with petro-diesel as an alternative fuel.

Moreover, the Frost and Sullivan report estimates that bio-diesel is an efficient answer to the challenge of importing oil in the face of rising demand for diesel countrywide.

The diesel demand is approximately expected to increase from 52 million tons in 2006-07 to 67 million tons in 2011-12.

http://www.business-standard.com/common/storypage_c.php?leftnm=10&autono=301692

PE investments in pharma touch \$400 m

Private Equity (PE) investments in the domestic healthcare and pharma industry have touched around \$400 million during the first nine months of the year. This trend is set to accelerate as companies go for overseas acquisitions, hive off their R&D units, and Foreign Currency Convertible Bonds (FCCB) lose their sheen.

The PE investment include Apax Partners' \$104 million fund infusion in Apollo Hospitals, IFC's \$67 million in Max Healthcare, Trinity Capital's \$31.4 million in Fortis Healthcare, ChrysCapital's \$24 million in Mankind Pharma and Kotak \$10 million in Intas Biopharmaceuticals.

http://economictimes.indiatimes.com/Latest_News/PE_investments_in_pharma_tou ch_400_m/articleshow/2479639.cms

'Food processing sector to grow'

Food Processing Industry (FPI) is estimated to grow at 9-12 per cent in the near future, according to a FICCI KPMG paper. Fruits and Vegetables processing, which is currently around two per cent of total production is likely to increase to 10 per cent by 2010, and further to 25 per cent by 2025. Value-addition in food products is expected to increase from 8 per cent to 35 per cent by the end of 2025. The food processing sector has the potential of attracting €2.7 bil lion investment by 2015. For further growth of the sector, the paper suggests investment in supply chain in order to improve costs, tighten supplies and minimise wastage as also investments in better packaging and cold chain infrastructure.

<http://www.blonnet.com/2007/10/18/stories/2007101851491000.htm>

Govt to set up five centres for telecom sector

Aiming to increase the R&D infrastructure in the telecom sector, the government said it will set up five Centres of Excellence (CoE) in the first half of 2008.

The government has proposed to set up eight CoEs across the country, out of which three would be set up this year.

"The other proposed CoEs would be set up in the first half of 2008. It would be a good idea for these CoEs to develop telecom and IT solutions for rural areas at an affordable price," Minister of IT and Telecom A Raja said at an event organised by Ficci.

<http://economictimes.indiatimes.com/articleshow/2464440.cms>

Indian auto industry to witness dramatic change: UNCTAD

Driven by market-seeking foreign direct investments, the booming Indian automotive industry will witness a dramatic change in the next few years, said UNCTAD in a report.

In its World Investment Report, UNCTAD said trans-national companies have started or are planning large-scale investment projects in India as they seek a bigger pie in one of the fastest growing automobile markets in the world.

"Accordingly, the landscape of the country's automotive industry is likely to witness a dramatic change in the next few years," the report said.

<http://economictimes.indiatimes.com/articleshow/2464549.cms>

News Round – Up

India's economic growth impressive: IMF

India's recent economic performance has been impressive but it needs to reduce its high public debt and undertake structural reforms to further deregulate its economy to have a sustainable and more broad-based growth, a senior IMF official has said.

"...India has done remarkably well in recent years. But it faces a number of challenges. It has still high public debt, although it's made impressive progress in reducing its fiscal deficit in the last few years. It's recently been facing some inflation pressures, although they've taken steps to tighten monetary policy and those appear to have been reasonably effective so far," IMF Director Asia Pacific Department, David Burton said.

"And of course, above all, there's a range of structural reforms that India needs to take to further deregulate and open its economy so that it can have more broad-based growth, particularly in the manufacturing sector going forward, to drive growth and to drive the employment creation that it will need, particularly with its relatively young population and the need to provide jobs for new entrants in the labour force."

<http://economictimes.indiatimes.com/articleshow/2476727.cms>

India most reformed among emerging markets: Survey

India is the most reformed among emerging markets owing to the economic reforms undertaken by the government, according to a new survey by the Commonwealth Business Council.

According to the biennial Business Environment Survey for 2007, the availability of free-flowing funds for investment from countries such as India and China means access to finance is no longer a critical issue for developing countries.

"India's economic reforms are taking place on various fronts, ranging from privatisation, deepening the financial sector, tax reforms and pricing of goods and commodities," CBC Director General Dr Mohan Kaul said

<http://economictimes.indiatimes.com/articleshow/2464574.cms>