

## Weekly Economic Bulletin

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## News Feature

### Q2 advance tax collections point to robust recovery

Advance tax collections for the second quarter of the current financial year (2009-10) have shown robust growth of 35 to 40 per cent across industries, reinforcing the government's hopes of a sooner-than-expected recovery.

Although total tax collections are yet to be officially collated, Mumbai's large tax payer unit has collected Rs 2,628 crore in the second quarter against Rs 895 crore in the last quarter.

The second quarter is significant, since companies or banks pay almost 45 per cent of the total annual tax payable. The first quarter accounts for 15 per cent.

"Second quarter collections give a rough indication to the Central Board of Direct Taxes whether or not the tax departments will be able to meet the annual target for the financial year, which is definitely good for this year," said an official source.

The target for direct tax collections for 2009-10 has been fixed at Rs 3,70,000 crore, roughly 10 per cent higher than Rs 3,38,212 crore last year.

Most industries, especially automobile and infrastructure companies like Tata Motors, L&T and Reliance Industries, have done well.

The income-tax department, however, thinks even if all the banks have reported a quarter-on-quarter growth, their total tax payout has fallen if the advances are compared with the first quarter.

For instance, India's largest bank, State Bank of India, saw second quarter advance taxes at Rs 1,838 crore, 78 per cent more than Rs 1,068 crore paid in the first quarter. If total tax payment projections are calculated on the basis of the first quarter payout, which is typically 15 per cent of the annual pay-out, annual tax works out to Rs 7,120 crore (that is, Rs 1,068 crore/0.15).

Add in second quarter collections, which comes to Rs 2,906 crore, and the annual payout falls more than Rs 600 crore. Assuming the second quarter accounts for 45 per cent of annual tax collections, the pay-out for 2009-10 works out to Rs 6,457 crore (that is, Rs 2,906/0.45).

Similar calculations for other banks show the same result.

<http://www.business-standard.com/india/news/q2-advance-tax-collections-point-to-robust-recovery/370261/>

## Overseas News

### India's overseas investment zooms to \$17.7 billion

India's foreign direct investment (FDI) inflows during 2008 amounted to \$41.5 billion in 2008, constituting 9.6 per cent of its gross fixed capital formation, against just 1.9 per cent annual average or \$1.7 billion in 1990-2000, in the first flush of the country's reforms decade.

This is in contrast to China which remained the darling of overseas investors for most part of its reform era beginning in the 1980s. In 2008, China's FDI inflows amounted to \$108.3 billion or 6 per cent of its gross fixed capital formation, against 11.9 per cent annual average or \$30.1 billion of 1990-2000, the latest Unctad's World Investment Report shows.

Even as India attracted \$41.5 billion in FDI in 2008, its outward flows or overseas investments amounted to \$17.7 billion, roughly 4.1 per cent of its gross fixed capital formation. This is in sharp contrast to its meagre annual average overseas investments of \$110 million for whole of 1990-2000, when such outward investments comprised 0.1 per cent of its gross capital formation.

It is also revealing that FDI stocks of India, which were just \$1.6 billion in 1990, zoomed to \$123.3 billion in 2008, constituting 9.9 per cent of GDP, against a paltry 0.5 per cent of GDP in 1990. In the case of China, such FDI flows, which were \$20.7 billion in 1990, leapt to a whopping \$378 billion in 2008.

In the case of cross-border mergers and acquisitions (M&As), Indian companies' net sales surged from an annual average of \$282 million during 1990-2000 to \$4.4 billion in 2007 and to \$9.5 billion in 2008. Against this, Indian companies' purchases of overseas firms which averaged \$104 million annually between 1990 and 2000 rose to a peak of \$29 billion in 2007 and came down to \$11.6 billion last year in the wake of the onset of the global economic and financial crisis.

The report said that two Indian companies, one in the private sector and the other in the public sector, found a place among the top 100 non-financial transnational companies from developing countries, ranked by foreign assets in 2007. Tata Steel Ltd (metals and metal products), with assets of \$20.7 billion, was ranked ninth, while Oil and Natural Gas Corporation (ONGC), with assets of \$13.3 billion, was ranked 13th.

<http://www.thehindubusinessline.com/2009/09/18/stories/2009091851241500.htm>

### FDI tide turns in favour of BRIC countries: Report

The economic and financial crisis seems to have altered the global investment landscape considerably. It is now the developing countries that are taking the lead in attracting investments as well as investing globally, according to the Unctad World Investment Report 2009.

Unctad predicts global inflows to fall from \$1.7 trillion in 2008 to below \$1.2 trillion in 2009. Recovery is expected to be slow in 2010 (to a level up to \$1.4 trillion) and gain momentum in 2011 (approaching \$1.8 trillion).

According to Unctad secretary-general Supachai Panitchpakdi, “The BRIC countries (Brazil, Russia, India, China) are the most favoured destination for FDI. Not all trans-national corporations (TNCs) have been affected by the financial crisis, particularly those involved in food and agriculture. Others that have not been affected are those that put their targets on long-term prospects such as the pharma industry.”

The report stresses agricultural production and development as a means to development and food security for these countries, and as Mr Supachai said, “We believe that it is up to national governments to do their bit to revive their agricultural process as the World Investment Report 2009 tries to propose.”

The report shows that there was a huge surge in investments in developing and transition economies, increasing their share in global FDI flows to 43% in 2008. This was partly due a concurrent large decline in FDI flows to developed countries (29%).

FDI inflows to South Asia in 2008 amounted to \$51 billion. In 2007, the growth rate in South Asia was 49%. Inflows to the two largest emerging economies, China and India, continued to increase in 2008. China and India have been steadily gaining importance as host economies.

According to Unctad’s World Investment Prospects Survey 2009-11, both India and China ranked third and first, respectively, as the most-preferred FDI locations. Their strong performance, even during the current crisis, has reshaped the landscape of FDI flows to the region as well as to the world at large. China became the third-largest FDI recipient country, after the US and France, with India catching up in the 10th position.

<http://economictimes.indiatimes.com/news/economy/finance/FDI-tide-turns-in-favour-of-BRIC-countries-Report/articleshow/5024624.cms>

## **Trade News**

### **India signs civil nuclear deal with Mongolia**

India and Mongolia signed a crucial civil nuclear agreement for supply of uranium to New Delhi, making the country number fifth in the world to seal a civil nuclear pact.

The government, apart from announcing a soft loan of \$25 million to rejuvenate the economy of the resource-rich Central Asian country, also signed four more agreements talks between Prime Minister Manmohan Singh and Mongolian President Tsakhia Elbegdorj. Later in the evening an MoU was also signed between Ficci and Fifta (Foreign Investment and Foreign Trade Agency of Mongolia, to further enhance trade relations with India.

The MoU on “development of cooperation in the field of peaceful uses of radioactive minerals and nuclear energy” was signed by senior officials in the department of atomic energy of the two countries.

Earlier, Singh, in an opening statement said that Indo-Mongolian relations have strong historical and spiritual roots. “They are characterised by warmth and deep friendship. The 1994 Treaty of Friendly Relations and Cooperation provides the guiding principles for developing our relations,” he said.

According to the Prime Minister, the discussions with the visiting leaders were productive, where both sides reviewed the entire gamut of bilateral relations, and discussed regional and international issues of mutual interest. Singh also revealed that after discussions, bilateral ties have been raised to the level of a Comprehensive Partnership and added that a joint declaration would be issued that would chart out the future course of relations.

India has assured assistance to Mongolia in the field of education, particularly in the teaching of English language, and information technology. There is great potential for deeper cooperation in the areas of mining and agriculture. The two countries have agreed to increase trade, investment and economic exchanges, building upon the Bilateral Investment Protection and Double Taxation Avoidance Agreements that are already in place.

<http://www.financialexpress.com/news/india-signs-civil-nuclear-deal-with-mongolia/516967/>

### **Sri Lanka expecting USD 100-mn FDI from India by end-December**

Sri Lanka is expecting a foreign direct investment (FDI) from India to the tune of USD 100-million by end-December, a senior Lankan Government official said.

"We are targeting FDI worth USD 1,000-million by the end of this year (2009) and India's contribution this year is expected to be around USD 100-million," Sri Lanka's Minister of Investment Promotion, Navin Dissanayake, said.

He was in the city to meet with Indian investors, including big conglomerates such as the Tata group.

In 2008, Sri Lanka attracted a total FDI of USD 889-million out of which India's contribution was USD 126-million, he said.

"Last year, out of the USD 126-million FDI which came from India, a major share of around USD 100-million came from Bharti Airtel," Dissanayake said.

India's largest mobile operator, Bharti Airtel, has started its mobile services in Sri Lanka under the Airtel brand.

The company has announced a total investment of USD 200-million till 2012 in Sri Lanka.

Bharti Airtel has also ventured into Seychelles, Jersey and Guernsey.

<http://economictimes.indiatimes.com/news/economy/finance/Sri-Lanka-expecting-USD-100-mn-FDI-from-India-by-end-December/articleshow/5022679.cms>

### **Scotland companies urged to tap into Indian market**

The UK India Business Council has urged companies in Scotland to tap into the opportunities available in India and has formed a committee to help entrepreneurs to gain insight into the Indian market.

The next generation committee of the UK India Business Council (UKIBC) is being launched in Edinburgh on September 28 to help entrepreneurs and young companies build profitable relationships in India.

The next generation committee, which has been set up with investment from the UK government, will help future business leaders develop links between India and the UK.

John Rendall, chief executive of HSBC in Scotland, told the local media, "If you set India's economic growth against that of the world as a whole, the buzz currently surrounding India is more than justified."

He explained that while the world's GDP is expected to shrink by 2.3 per cent this year, India will probably enjoy growth of 6 per cent. HSBC's prediction is that this trend is likely to continue into 2010, with GDP growth of 7.5 per cent in India set against a world GDP growth rate of 2.2 per cent.

Rendall added, "India is a shining example of a developing economy in which opportunities are abundant. Its resilient economy and commercial vitality is what has made the country so attractive to investors and ambitious companies."

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Scotland-companies-urged-to-tap-into-Indian-market/articleshow/5037986.cms>

### **Europe looking at Indian mkts for further growth**

If it was "focus China" in 2006, it is time now for the European companies to shift their focus towards India to not only overcome the current crisis but to exploit it for their future growth, said Moselle Development Council vice-president Claude Bitte, which is part of France and connecting Germany, Northern Italy, France, Belgium.

There is no growth in the European markets and the companies in the region are seriously looking out Asian markets for future growth. Given the huge opportunities particularly in the infrastructure and transportation sectors in India, European companies have shifted their focus towards India and seek to play a major role in the Indian market, he said.

Towards this move, France will be conducting a three-day exclusive business (B2B) event on Euro India Transport Systems (EITS), the first ever and largest one to be held at Moselle (eastern France). Over 1,200 companies from European countries and 300 companies from India are expected to attend the event to explore business opportunities

in the areas such as automotive, aeronautics and aerospace, rail, truck/bus, ship building, transport and logistics industries.

Companies such as Airbus, Bombardier, Alstom, Corus Rail (Tata Group Co), ArcelorMittal among global majors and a host of SMEs are looking at Indian partners to explore markets in a big way. These companies seek to either set up manufacturing plants on their own or joint ventures apart from looking at outsourcing components, products and parts and giving sub-contracting jobs to Indian companies, said Bitte.

<http://www.financialexpress.com/news/europe-looking-at-indian-mkts-for-further-growth/517472/>

### **India, ASEAN to start talks on opening services trade soon**

After signing a Free Trade Agreement that will eventually lead to duty-free commerce for bulk of the trade, India and the 10-nation ASEAN bloc are set to start talks for opening the crucial services sector.

"Negotiations for the free trade pact (between India and ASEAN) on services sector will begin soon," Ambassador of Thailand Krit Kraichitti said. He, however, said given the complex nature of issues involved among India and 10 countries of Southeast Asia, it would take about two years for the negotiations to conclude.

Services sector is of key interest to Indian economy as it contributes over 55 per cent to the GDP.

It is also emerging as an important area for export earnings for the country. But the sector faces hurdles such as harsh domestic regulations, including those relating to visa, and the complex tax regime.

Noting that the services sector is "very important" to multiply trade and investment between ASEAN countries and India, the Thai ambassador said "safeguard measures" will have to be incorporated before finalising the pact.

"Services sector is very important. The pact will benefit all," he said, but added that there would be safeguards built into the agreement, which will have to be "finalised carefully".

<http://economictimes.indiatimes.com/news/economy/foreign-trade/India-ASEAN-to-start-talks-on-opening-services-trade-soon/articleshow/5033216.cms>

## **Sectoral News**

### **Plantation commodities export likely to rise 15%**

The global drop in production of plantation commodities should benefit India. The Exim Bank Chairman and Managing Director, Mr T C Venkatsubramanian, expects a 15 per cent increase in exports during the current fiscal.

*'focus on niche'*

Addressing a technical session at the United Planters' Association of Southern India, Mr Venkatsubramanian said export of plantation commodities during 2008-09 was \$1.9 billion. "It should increase by 15 per cent this year. However, a small drop in the price levels should see exports go up drastically. Planters should strive to increase productivity and be more cost-effective to improve the country's stand on the export front. Small growers should focus on niche products to explore opportunities. The Exim Bank will extend support," he said.

Out of the total production of 15.5 million tonnes in 2008-09, plantation commodities exports totaled 5.3 lakh tonnes, he said.

UPASI's annual report has pegged the total value of plantation commodities in 2008-09 at Rs 22,725 crore, and export realisation at Rs 6,025 crore. South India's share in the total value is estimated at 65.6 per cent and its share in export value at 72.2 per cent.

Of the 14.7 lakh growers and 22.8 lakh labourers involved in raising plantations in India, over 83 per cent of growers and 57 per cent of labourers are from South.

<http://www.thehindubusinessline.com/2009/09/15/stories/2009091551821600.htm>

### **India to turn world's third largest steel producer this year**

Going by the production of steel in the country so far this year, India is on its way to becoming the third largest steel producer in the world. With an output of 55 million tonne (mt) last year, the country was ranked fifth in the world after China (501 mt), Japan (119 mt), United States (91 mt) and Russia (69 mt). Germany, Ukraine and Brazil followed India at the sixth, seventh and eighth positions, respectively.

India, which had earlier set itself the target of becoming the world's third largest steel producer by 2013, is also aiming to produce 124 mt of steel by 2011-12. Joint Plant Committee (JPC) executive secretary Goutam Kumar Basak said that going by the production figures for April-August 2009, which saw a production of 22.14 million tonne of steel (a jump of 6.6% over the corresponding figure for 2008), the country India is likely to emerge as the third largest producer of steel in the current year itself.

Basak, while attending an awareness programme on energy efficient technologies & pollution abatement measures for the secondary steel sector, said steel production in the country has always risen considerably in the second half of the year, as demand for steel picks up from around October. This, he said, was mainly because construction activity in the country picks up significantly after the monsoon. Basak also said that figures with JPC showed that the consumption of steel in Jharkhand so far this year had gone up by 8% compared with last year.

<http://www.financialexpress.com/news/india-to-turn-worlds-third-largest-steel-producer-this-year/516964/>

## **DTH players sniff 100% growth, hike marketing budgets**

Videocon's entry into the direct-to-home (DTH) industry in July has spiced up competition in the segment and the main players are focusing on three mantras for success – packaging, pricing and marketing. Looking to grow by almost 100% in the current financial year – from Rs 1,500 crore in 2008-09 to an expected Rs 3,000 crore in the current financial year – leading firms have increased their marketing budget by 20% to 25%.

Sun Direct's marketing budget was hiked from Rs 125 crore to Rs 150 crore in FY10, whereas Big TV has an annual spend of about Rs 160-180 crore on marketing and promotion, and is believed to have spent Rs 50 crore last August during its launch month. Bharat Business Channel Ltd (BBCL), the company housing Videocon's DTH venture, plans to invest Rs 1,000 crore over two years. Since the launch of Tata Sky Plus, the company has spent over Rs 25 crore on promotion of the total investment of Rs 2,500 crore made in the project.

Sugato Banerjee, CMO, Bharti Airtel DTH, said, "The FY10 marketing budget has definitely increased to achieve better distribution in large and small cities." Tata Sky with Aamir Khan, Dish TV with Shahrukh Khan and Airtel's recent Kareena Kapoor and Saif Ali Khan ads have created an impact and make these three the only DTH players using movie celebrities in their ads. Big TV and Sun Direct, on the other hand, plan to continue with their current ads and are not in any hurry to rope in Hindi film stars.

Tony D'Silva, COO, Sun Direct, said, "We achieved the three-million subscriber mark by March and recently touched four million."

On the other hand, Big TV believes in fulfilling the increasing regional and Hollywood market demand. Mahesh Prasad, president, Reliance Big TV, said, "In the last financial year, our subscriber base was 1.4 million, which increased to two million in March this year. We have recently tied up with a Warner Brother channel and Korean and Russian channels for global content."

<http://www.financialexpress.com/news/dth-players-sniff-100-growth-hike-marketing-budgets/517478/1>

## **IT industry may create 40k jobs this fiscal: Nasscom**

NASSCOM has projected that some 30,000-40,000 students will be absorbed by IT companies this fiscal. Nasscom president Som Coming to terms with lay-off.

Mittal said: "Typically, we take one to two lakh people annually into our industry. In the current fiscal, we had made offerings to 80,000 fresh graduates, of which we are expecting that some 30,000-40,000 will join."

He further added: "This year, we have asked companies to recruit those who have completed their eighth semester to ensure that hiring is closer to the need of companies. This is being done, so that companies don't have a huge talent pool who are in the pipeline to join the industry."

Asked about the outlook of the industry in 2010-11, He said the industry was on a wait-and-watch mode about the growth in FY11. “We will review the situation in December this year. We have already reached end of the recession. By end of the calendar year 2009, we expect deals, some large deals are coming up.”

Mr Mittal said the industry in the past one year has witnessed slowdown in growth, as a result of the global crisis. Nasscom estimates for the IT-BPO industry for 2009-10, include export growth at 4-7% and domestic market growing at 15-18%.

While uncertainty prevails, the sentiment now being reflected is that the worst of the crisis is over. “The industry has demonstrated maturity, resilience and enhanced efficiency. Of specific interest was the growth in domestic market, a three-fold growth in emerging verticals and geographies, enhanced globalisation and over 90% repeat business from clients in this tough environment,” he said.

Mckinsey & Company in its report on the perspective of the IT industry by 2020 has given the current pace of reforms and expected constrains in talent and infrastructure supply, the exports component of the Indian IT industry is expected to reach \$175 billion in revenues by 2020.

The domestic component will contribute \$50 billion in revenues by 2020, which is larger than the total exports revenues for India now.

The Nasscom president said the during the recessionary period the IT industry has invested in new verticals and geographies, which would start yielding results shortly. “Continental Europe, Latin America, the Middle-East, Japan and Korea remain the new emerging markets for IT industry,” he said.

<http://economictimes.indiatimes.com/IT-industry-may-create-40k-jobs-this-fiscal-Nasscom/articleshow/5016063.cms>

### **275 mn 3G subscribers in India by '13: Evalueserve**

With the availability of the 3G spectrum, about 275 million Indian subscribers will use 3G-enabled services, and the number of 3G-enabled handsets will reach close to 395 million by 2013-end, estimates the latest report by Evalueserve, a provider of knowledge process outsourcing (KPO) services.

Although the Centre has allotted two state-owned operators — Bharat Sanchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL) — for the roll out of 3G services in over 12 Indian cities, the technology will gather steam only when private telecom operators are also allotted 3G spectrum, says the report.

The growth in the 3G subscriber base is expected to be driven primarily by the adoption of the service by the urban (above poverty line) customer segment.

This segment is expected to be the fastest adopter of the new technology. The urban (above poverty line) segment is expected to account for about 80 per cent of the 3G

consumer base by 2013. The below poverty line segment is expected to remain dormant over four to five years following the launch of 3G.

Evalueserve expects that nearly 50 per cent of the urban (above poverty line) customers will opt for 3G services by 2013. The low rural (above poverty line) penetration indicates a huge untapped potential in the rural market. With the launch of the advanced 3G services by private operators, the revenue from data services is expected to increase substantially in the near future. In addition, the demand for regional content like video clips, mobile comic strips and mobile magazines is expected to surge in the rural segment post-2012. Industry experts estimate that the percentage share of data revenues (in total revenues) is expected to reach 23 per cent by 2013.

3G-enabled handset market in India is set to grow at a tremendous pace in the next few years, estimates the report. Although 3G services have just been launched, the number of 3G handset users is already above 20 million. The number of 3G handsets is expected to reach 395 million by 2013, an increase of about 82 per cent (CAGR) from 2008. As handset manufacturers are preparing to launch 3G handsets for as low as \$100 (Rs 4,850 approximately), it is expected that by 2013, 3G handsets will account for over 40 per cent of the mobile handset base in India.

With rising income per household and improving standards of application-related services in India, the total mobile subscriber base in India could cross the 850 million mark by the end of 2012 and reach nearly 1 billion by the end of 2013, said the report. During 2005-2008, India's overall subscriber base recorded a growth of 66 per cent (CAGR). As of the end of 2008, the number of mobile service users in the country stood at 346.9 million.

According to Evalueserve estimates, the mobile subscriber base in India is expected to rise at a CAGR of 23 per cent during 2008-2013 and will reach nearly 1 billion by end of 2013. The growth in this sector, according to the report will be primarily driven by increasing adoption of mobile services by the rural segment, which is largely untapped as of now.

The overall mobile penetration is expected to reach 78.3 per cent in 2013 from about 30 per cent in 2008. In 2013, the penetration is expected to reach 142.5 per cent, 79 per cent and 15 per cent in the urban (above poverty line), rural (above poverty line) and urban (below poverty line), respectively. However, the rural (below poverty line) segment will remain relatively dormant due to low purchasing power, says the report.

<http://www.business-standard.com/india/news/275-mn-3g-subscribers-in-india-by-13-evalueserve/370205/>

## **News Round-Up**

### **MFs' August assets grow 5%, courtesy debt funds**

The domestic mutual fund industry registered a moderate growth of 5 per cent in its assets under management (AUM) in August at Rs 7, 57,000 thanks to the good showing by debt funds.

Except for the debt funds, all other categories of funds witnessed net outflows during the month primarily because of the ban on entry load imposed by the Securities and Exchange Board of India (Sebi) from August 1. But the debt category, driven by the ultra short-term segment, registered net inflows during the month under review.

On the returns front, according to a report by Crisil FundServices, equity funds outperformed on the back of a strong performance from mid-cap and small-cap funds, while long-term debt funds suffered losses due to rising yields. “Ultra short-term debt funds saw strong inflows in August with banks parking their surplus funds in these schemes,” said Krishnan Sitaraman, director, Crisil FundServices.

He further added that the ban on entry loads seemed to have initially dulled the inflows into equity funds even though fund performances were good for the month.

In its analysis, Crisil covered over 300 equity-oriented schemes, which revealed that more than 250 of them gave better one-month returns than that of the S&P CNX Nifty in August. “Mid-cap and small-cap funds posted better returns than large-cap funds,” said the report.

The month under review saw a net inflow of Rs 32,700 crore across all categories, though debt funds alone witnessed Rs 38,300 crore of net inflows. The overall net inflow was lower than that of the debt funds because of massive outflows in equity funds.

Liquid funds saw the highest net outflows of Rs 5,200 crore among mutual fund categories.

“This was driven by lower returns, which led investors to shift to ultra short-term debt funds,” said the report.

Gilt funds and equity-oriented funds too witnessed net outflows of Rs 450 crore and Rs 250 crore, respectively.

<http://www.business-standard.com/india/news/mfs/-august-assets-grow-5-courtesy-debt-funds/370195/>