

Weekly Economic Bulletin

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News Feature

Happy New Decade, India

India's Deciding Decade. The 10 years can end with India becoming a different country, where mass prosperity is taken for granted. Or it can become a country where much changes radically—but many problems persist.

The Indian Express-Indicus Analytics study on how India will look in 2020 has a remarkable finding: even if no reforms happen, India's GDP can grow at an average annual rate of 9.6% for the next 10 years.

Nine per cent growth for 10 years with no reforms—that's how well-placed India is as 2010 begins.

But if there are no reforms, and growth is 9%-plus, more than 250 million people, of a total population of 1.3 billion-plus, will still be very poor in 2020. And not even 100 million Indians will be graduates or post-graduates.

With rapid reform, these bad numbers can change dramatically. So 2010-2020 is the deciding decade because India starts it with the most advantageous conditions it's ever had in its post-Independence history to effect a real paradigm shift.

The Indian Express-Indicus study crunched all sorts of numbers to take a call on the future.

These are the headline good numbers by 2020:

* Even if no significant reforms happen, per capita income will grow at an average of 8% per year. Incomes will be almost double compared to now.

* Fifty million more households in India will join the ranks of the middle class - defined by those earning between Rs 75,000 a year to Rs 10 lakh a year.

* The households-in-middle class number will jump from less than 120 million now to almost 170 million. Taking the accepted multiple of five people per household, this means that roughly 800 million Indians will be middle class, out of an end-of-decade population of 1.3-plus billion.

* Average household expenditure will be twice the current levels in real terms; education, health and recreation will be among the fastest growing heads, share of food in people's budget will fall significantly (although absolute levels spent on food will rise as incomes go up). Penetration of durables like two-wheelers, TV and air coolers will be more than 80% of the population.

<http://www.financialexpress.com/news/happy-new-decade-india/562028/>

November exports up 18.2 per cent

India's exports rose an annual 18.2 per cent in November to \$13.2 billion, the first rise after 13 straight months of decline, the government said.

Imports dropped 2.6 per cent from a year earlier to \$22.88 billion.

The trade deficit shrunk to \$9.69 billion in November from \$12.33 billion a year earlier.

Exports for April-November, the first eight months of the 2009/10 fiscal year, were down 22.3 per cent at \$104.25 billion from the same period in the previous year.

<http://www.financialexpress.com/news/november-exports-up-18.2-per-cent/562179/>

Overseas Investment

Sensex may touch 26k mark in 2010; FIIs to flood equity markets

The Sensex and Nifty will grow between 40% and 50% and are expected to touch 26,000 and 7,000, respectively by end of 2010.

By March 2010, the Sensex will cross the 20,000 mark and the next three to four years will be that of buyers market only, said Kishor P Oswal, chairman and managing director, CNI Research, a listed entity with a major focus on research in small and mid-cap companies.

"Investors have not yet returned to the market. There is lot of money sitting ideal. The ownership pattern is not up to the level that of early 2008 and 2007 and the foreign institutional investors (FIIs) are waiting for an opportunity to flood the Indian equity markets with a warchest of over \$12 billion to \$15 billion as liquidity," Oswal.

With the total liquidity reserve of around \$8 to \$10 billion in hand, the mutual funds, which have withdrawn their active participation into the equity markets for quite sometime due to volatile condition (owing to global meltdown), are expected to revive their activities in a big way. This will help Sensex cross the 25,000 mark, he said.

Having undergone major corrections in the last one year or so, the Indian equity markets are expected to see buyers' sentiment in 2010. "Considering the increasing liquidity in hands and reduced ownership pattern (HNI were involved in selling spree), and less supply of quality issues (IPOs), one would see the equity markets flooded with strong secondary market activities in a big way," he pointed out.

According to him, having successfully reaped rich benefits on their investments in early 2008 and 2007, the FIIs are set to return with a big bang.

With their cheap borrowings of funds and expected extension of US stimulus packages beyond 2010 to 2011, the FIIs have no alternative but to invest in the emerging markets

like India. "We expect at least \$12 to \$13 billion investments to be made in India during 2010," he said.

<http://www.financialexpress.com/news/sensex-may-touch-26k-mark-in-2010-fiis-to-flood-equity-markets/561611/>

Forex reserves swell 11% in 2009

The country's foreign exchange reserves have gone up by 11% to \$283 billion between January and December 2009, after witnessing an 8% fall in 2008 to \$254 billion. During 2009, forex reserves increased \$29 billion on the back of large inflows into the stock market of just over \$17 billion during the year and despite some moderate intervention by the central bank to check the rupee's appreciation. The bigger capital flows have resulted in the Indian currency strengthening by 4.4% during the current year taking the rupee to 46.62 against the dollar. The rupee has bounced back by almost 13% after touching a record low of 52.185 in March 2009.

"The fairly large capital inflows into the economy have boosted the reserves. The RBI has also signalled that it is comfortable with the pace of capital inflows thus far and hence it hasn't intervened much in the foreign markets," noted Shubhada Rao, chief economist with Yes Bank.

Approximately, \$13 billion was added to the reserves during August-October and much of this is believed to be due to the revaluation of non-dollar assets in the reserves such as the euro, the pound and the yuan.

<http://www.financialexpress.com/news/forex-reserves-swell-11-in-2009/562248/>

Trade News

Indo-Japan relations: Emergence of a new bond

Indo-Japan bilateral development co-operation has seen remarkable and progressive expansion in the recent years. For centuries, India and Japan have engaged in cultural exchanges, primarily as a result of Buddhism, which spread from India to Japan. The relations have now been extended to economic and social ties. With the newly elected government in place, it is believed that Japan will set its sights on innovations to drive economic and social growth further.

Among direct investment towards emerging countries, Japan's investment towards India has grown manifold to \$8 bn said Hideaki Domichi, the Japanese ambassador to India. He added that the media had played a great role in further deepening of economic, social and cultural relationships between the two. He said robust 8-9 per cent growth had made India one of the lucrative investment destinations worldwide.

"India has shown resilience to the economic downturn, which exemplifies the prospects of its future growth. India's international status has risen over the past few years and Japan is also eyeing India," shares Domichi. "The number of Japanese companies has grown in

India across sectors including consumer durable and automobile, which clearly indicates big business opportunities being offered by India," he adds.

Auto companies such as Suzuki, Toyota and Nissan are looking at expanding their production capacities in India. Besides auto, even pharma and telecom have started showing interest in the Indian market. For instance, acquisition of India pharma major Ranbaxy by Japan's Daiichi Sankyo marks latter's entry into the growing Indian pharmaceutical market. Similarly, NTT Docomo picked up 26 per cent stake in Tata Teleservices with a view to grab a pie of the fast growing telecom market in India.

Japan's Seiko Watch, which has completed two years of operation in the country, gives its success' credit to strong economic growth of India. Says the company's CEO Shinji Hattori, "We got favorable response not only from consumers but also retailers and other business partners. Furthermore, our products have been well appreciated by the target consumers for assortment, technologies, design, reliability and pricing. The company will keep logical and steady investments in all areas of marketing activities."

While Indian IT companies such as TCS and Wipro are already present in Japan, others are aiming to tap the market. But, even today most of the Indian IT companies are still dealing with the US. "A natural marriage between Japanese manufacturing and Indian IT is yet to happen," feels Domichi. Besides manufacturing Japan is also strong in environment technology and this is the area in which Japan and India can consolidate their relationship, he added.

Further, Japan is entering into aged society and its young population is declining. Therefore, at this point in time link with developing economies like India is essential, Domichi said. "Today, China and India in my view are the specific countries where the population is over a billion and growth rates are very high. Moreover, young people are more than half of the population. These characteristics are not found anywhere else in the world. Japan is fortunate that it is situated close to China and India," he says.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Indo-Japan-relations-Emergence-of-a-new-bond/articleshow/5389733.cms?curpg=1>

India, Russia to set up \$600-million aircraft JV

India and Russia are to invest \$600 million to set up a joint venture (JV) to produce a medium lift transport aircraft for their armed forces.

While Bangalore based state-owned Hindustan Aeronautics Limited (HAL) will fork out \$300 million, Russia's United Aircraft Cooperation (UAC) will invest a similar amount for the joint venture which will start rolling out the aircraft by 2017.

Voice of Russia radio said the joint venture coming up with fifty-fifty equity would develop the aircraft at Aviastar-SP plant based in Ulyanovsk city on Volga.

The Indian Air Force is expected to order at least 35 and Russian Air Force as many as 100 medium lift transport aircraft.

In its basic configuration the new transport aircraft will have a payload capacity of 18.5 tonne of cargo and can fly up to a distance of 2500 km in any climatic conditions.

The aircraft is being designed to also operate from high altitude mountain airstrips, according to information posted on UAC website. India hopes that the new medium lift transport aircraft will replace its ageing fleet of 104 AN-32 aircraft.

<http://www.financialexpress.com/news/india-russia-to-set-up-600million-aircraft-iv/561156/>

Sectoral News

Global tie-ups, private labels to be buzzwords in retail this year

Tie-ups with international retailers and brands, emphasis on profitable growth and increased focus on private labels are set to be key trends in the Indian retail sector in 2010, say retailers and consultants.

Though foreign direct investment in single-brand retailing and cash-and-carry ventures are allowed along with franchising and licensing pacts as of now, 2009 saw most of the foreign retailers focusing on manage the business in their home countries, where they were seeing declining sales.

“In 2010, a lot of international retailers and brands are most likely to look at India as global markets have stabilised and the Indian economy has proved to be better than most other countries. These factors give a lot of confidence for them to invest in India,” said Arvind Singhal, chairman of Technopak Advisors, a business consultancy.

Wal-Mart has set up its first unit in the country and Tesco, the UK’s largest retailer, is providing back-end support to Tata’s hypermarket Star Bazaar, Carrefour is said to be talking Kishore Biyani’s Future Group for a possible tie-up.

Industry sources said a number of international brands are also holding talks with Future Group, Reliance Retail and Spencer’s Retail for tie-ups.

Devangshu Dutta, chief executive of business consultancy Third Eyesight, believes franchising and licensing agreements could be a major avenue used by overseas brands to enter the country.

“Our research shows that 45 per cent of fashion and lifestyle brands, which have entered India in the recent past, have used this route because it gives a quick entry and allows tie-ups with partners who have good real estate capabilities,” Dutta says.

A profitable growth

Though retailers such as Reliance Retail, Aditya Birla Retail and Spencer’s Retail closed hundreds of stores or shifted stores to economical locations in 2008 and 2009 and took

various steps to cut costs, they are likely to continue to focus on profits and boosting margins in 2010.

Shoppers Stop's top management took 15 per cent salary cuts, while 300 floor-level staff were not replaced. The company shrank its office space 20 per cent and corporate office expenses by 40 per cent to cut losses.

Delhi-based Vishal Retail, which has been battling cash woes and mounting debt, relocated 25 stores in the financial year 2009 and 10 stores since April 2009. It is now planning to close 20 more and go only through the franchisee route.

"In 2010, our strategy is to increase margins, reduce costs and boost revenues. In 2009, we mostly focused on controlling costs," says Thomas Varghese, chief executive officer of Aditya Birla Retail, part of the Aditya Birla group. "We will watch the situation and open stores," Thomas adds.

"Retailers will not book properties at ridiculous rentals and look at private labels to boost margins. Growth with profitability is the main mantra in 2010," says Singhal.

Private labels to rise

Most retailers like Future Group, Spencer's Retail and Aditya Birla Retail, among others, are stepping up their private label plans to boost margins. The reason: Private labels in food and groceries carry margins of 25-35, while private labels in apparel and accessories offer more than 40 per cent margins.

Future Brands, which manages the private labels of Future Group, is expecting a turnover of Rs 750 crore in 2010 (the group's flagship Pantaloon's financial year ends on June 30), 14 per cent growth.

Private labels contribute 30 per cent of its sales in FMCG and 25 per cent in personal care products. The group is expanding its private label portfolio further. It is planning to launch its own brands in lingerie and a toothpaste brand 'Sach', according to Future Group CEO Kishore Biyani.

Aditya Birla Retail, which has more than 400 products in its private labels, plans to take its share of private labels in overall revenues from 19 per cent to 25 per cent next year.

RPG's Spencer's Retail is also planning to double the contribution of private labels and fashion to its overall revenues in the next couple of years.

<http://www.business-standard.com/india/news/global-tie-ups-private-labels-to-be-buzzwords-in-retail-this-year/381351/>

Domestic auto sales grow 49% in December

Domestic passenger vehicle sales for December 2009 grew 49 per cent to 119,930 units. This is the second highest sales notched by the auto industry in the current financial year, with November sales being the highest at 66.54 per cent.

Passenger vehicle sales have seen a double-digit growth rate since July 2009. In the last three months alone, sales grew at a far higher rate on the back of a low base in the previous year when car sales grew by just 0.13 per cent.

The country's largest manufacturer of passenger vehicles, Maruti Suzuki, sold 84,804 units in December 2009 — 51 per cent higher than the sales posted in December 2008. Domestic sales last month stood at 71,000 units, which is a rise of 36.5 per cent against the same month in 2008.

“Excise duty cuts, attractive vehicle loans made possible by PSU banks and improving sentiments have helped the whole industry to post good sales numbers for December 2009,” says Shashank Srivastava, chief general manager (marketing) at Maruti Suzuki.

Exports for the company during the Christmas month stood at 13,804 units — an impressive growth rate of 224 per cent against the 4,264 units sold abroad in December 2008. “Sales numbers are wholesale (sold to dealers) and do not represent actual retail (customer) sales. However, we see good demand for our fifth strategic car model A-Star across Europe due to its attractive positioning and emission compliances,” adds Srivastava.

Cumulative December car sales for Hyundai grew 23 per cent to 47,217 units. The manufacturer of the successful i10 and i20 models sold a total 22,252 units in the domestic market — a year-on-year rise of 43 per cent.

However, exports for the company moderated to 24,965 units, which is growth of 9 per cent. Last year was a high base in exports for the company.

Cumulative domestic sales in December 2009 for Mahindra & Mahindra grew by a whopping 120 per cent. The company sold 16,999 units of utility vehicles, comprising the Xylo, Scorpio and the Bolero, last month.

On the back of a brisk demand for the Skoda Superb in the premium segment and the Laura in the executive segment, December 2009 sales for Skoda stood at 1,113 units — a 52 per cent rise over the previous year.

General Motors, the manufacturer of the Chevrolet-badged vehicles, sold a record 8,258 vehicles in December last year, representing a robust 101 per cent rise in sales against the numbers achieved in December 2008. General Motors says this is the highest ever sales numbers achieved in the history of the company's operations in the country. The Cruze (executive segment), the Chevrolet Beat (to be launched on January 4 but already dispatched to dealers) and the Spark have contributed to this sales achievement.

December sales for Mahindra Renault rose by 13 per cent to 308 units. This is for the first time in the current financial year that the company's monthly sales turned positive.

<http://www.business-standard.com/india/news/domestic-auto-sales-grow-49-in-december/381441/>

X'mas, New Year see jump in gift item exports

With the Western economy back on the revival track, the New Year is set to ring in glad tidings for India's exports. Buoyed by a huge demand for gifts in the Christmas-New Year season in the US and Europe, gems and jewellery, handicrafts and apparel are showing a significant uptrend in exports. Global retailers such as Wal-Mart, Macy's, Tesco, Marks & Spencer too have upped their sourcing from the country this festive season.

The world's largest retailer, Wal-Mart, has upped its sourcing from India for the New Year season. It sources products such as home textiles like towels, shower curtains and bedding sheets, apparel, leather accessories, fine jewellery, and houseware from India.

When contacted, Wal-Mart senior director (international corporate affairs) Kevin Gardner said: "India continues to be an important market for Wal-Mart Global Procurement. Our suppliers in India have provided high quality products at competitive prices."

Tesco, which sources products worth £180 million from India, too has increased sourcing for products such as textiles and some hardlines, including glassware, a company spokesperson said.

Federation of Indian Export Organisations (FIEO), India's apex body of export promotion organisations, estimates that merchandise exports would touch \$14-billion mark in December, the second consecutive month of growth. It also estimates that export of gift items from India for the New Year has shot up by around 20%.

Orderbook positions too, say exporters, are showing a healthy growth, as retailers in the West are beginning to build up their inventories after a long lull. "Since global sentiments have improved since September, this has translated into healthy order books for Indian exporters," said FIEO director general Ajay Sahai.

It was in November that India's exports registered a growth of 18% and touched \$13.3 billion after 13 months. "Indian exporters too have become much wiser this year. They have changed their product and pricing strategy for the gifting season since consumers in Western markets may still be cautious about making hi-value purchases," said Mr Sahai.

According to Gem and Jewellery Export Promotion Council (GJEPC), exports of gems and jewellery from India in November has shown a jump of over 47% as compared to the corresponding period last year. GJEPC vice-chairman Rajiv Jain said: "The Christmas season is what has driven this spurt in sales. People were buying less the whole year, but retailers built up their inventories for the festive season. But since customers are now looking for lower-value products, so we have rejigged our portfolio somewhat."

Besides major retailers, TV networks in the US, UK and Germany also source jewellery from India. "They have also increased their orders," adds Mr Jain.

Even handicraft exports have received a vital lifeline after more than a year. "Christmas-New Year orders have gone up by more than 15% this year as compared to last. This has

helped to arrest the fall in handicrafts exports, which was declining at more than 45%," said Export Promotion Council for Handicrafts chairman Raj Kumar Malhotra.

This year-end, to mitigate risks and dependence on the US, Europe and Australia, exporters have also tried to open up newer markets such as Latin America, Japan, Korea and South Africa, where Christmas-New Year is celebrated in a big way.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Xmas-New-Year-see-jump-in-gift-item-exports/articleshow/5397030.cms>

FMCG industry eyes 15% growth this yr

The Rs 86,000-crore FMCG industry is expected to witness a lot of action in 2010. With the economy showing signs of revival, the industry is expected to register a 15% growth in 2010 as compared to the previous year.

"The industry will witness a spate of acquisitions & mergers in the 2010. There will be a renewed focus on rural consumers too," said an analyst based in Mumbai. The country's FMCG industry registered a 12% growth in 2009 despite the economic downturn. The captains of the FMCG sector are optimistic about the industry's performance in the New Year. Godrej Group chairman Adi Godrej said, "With 8% GDP growth and GST implementation, we feel it will be a great year for the FMCG sector in India. The focus area for the Godrej Group will be on FMCG business in 2010."

Sharing similar sentiments, Amit Burman, vice-chairman of Dabur India said the industry is expected to register a 14% growth this year as India is getting out of the recessionary blues. Our focus would be on OTC healthcare and skincare brands to sustain our growth in this sector," he added.

According to Wipro Consumer Care & Lighting CEO Vineet Agarwal, the industry is expected to perform better in the new year as compared to the previous year. Even during the economic slowdown, the FMCG industry registered a 12% growth. When you see buoyancy in economy, the industry will further grow in 2010. Our core focus will continue to be on rural consumers," he said.

Harsh Agarwal, director of Emami Ltd said Emami is looking at both organic and inorganic growth strategy in 2010. "The industry is poised for a double digit growth as the overall growth rate of the country is growing," he said.

Echoing similar views, Saugata Gupta, CEO, Consumer Products, Marico Ltd said the industry will register a 15 % growth in 2010 as compared to the previous year." I expect the topline growth of the industry to register 15-20 % this year," he added.

Nikhil Vora, managing director , IIDFC SSKI Securities Ltd said the topline of the FMCG is likely to grow by 14.2% y-o-y in Q3FY2010, substantially driven by volume growth.

Despite the rise in input costs, FMCG industry is likely to sustain its robust growth momentum aided by increased rural incomes, taxation benefits and gradual shift from the unorganised sector/regional players.

<http://www.financialexpress.com/news/fmcg-industry-eyes-15-growth-this-yr/562232/>

News Round-Up

Record raising of funds in 2010

India Inc could set a new fund-raising record in 2010. Even before the year starts, companies have lined up equity raising plans of Rs 1,50,000 crore, close to two-and-a-half times of what they raised through share sales this year.

According to data collated by Business Standard research bureau, 96 companies raised Rs 64,750 crore this year through qualified institutional placements (QIPs), initial public offers (IPOs) and right issues to existing shareholders.

Red herring prospectus for IPOs filed with the Securities and Exchange Board of India (Sebi) and fund-raising plans announced by listed companies to stock exchanges suggest that 129 companies intend to tap the capital market in 2010.

With more companies expected to be added to the list as the year progresses, the 2007 record when 176 companies mobilised Rs 82,627 crore could be consigned to history books. The data for next year do not include the public offer for stake sale in public sector companies as the government has not yet finalised the details.

“The government’s plan to divest its stake in public sector undertakings (PSUs) and a number of companies proposing to raise money via QIPs and IPOs will see a record fund mobilisation in 2010,” said Prithvi Haldea, managing director of Prime Database.

“A lot of prospectus have been filed with Sebi. There are companies that have raised capital and would be back next year. Besides, there are very few midcaps that have raised capital this year,” said Vedika Bhandarkar, managing director and head of investment banking at JP Morgan. She added that unlike 2009, when a large number of companies raised equity to reduce leverage, next year could see companies raising funds to fuel expansion and step up growth.

During 2009, 60 per cent, or Rs 39,183 crore, mobilised through sale of shares was used for repayment of debt contracted in previous years.

The data suggest that QIPs will continue to dominate fund-raising plans. Out of the 129 companies that have announced their intent to raise equity, 87 have indicated their preference for QIPs, while 42 IPOs are lined up for next year.

Similarly, Rs 1,02,000 crore, or over two-thirds of the fund-raising plans announced so far would be through QIPs. This year, 64 per cent of the equity raising was through QIPs.

“For listed companies, QIPs are a faster, cheaper and easier way of raising funds. Looking at the flow of liquidity from local and overseas investors, companies will find it easy to access capital,” said S Ramesh, chief operating officer, Kotak Investment Banking.

Merchant bankers and brokers said that with liquidity remaining high and risk appetite back in the market, companies would not face any hurdles provided the pricing is right.

“There is enough appetite and even liquidity for raising huge funds from primary market provided pricing is proper,” said Dharmesh Mehta, head of broking at Enam Securities. He added that huge fund-raising would provide plenty of choice to investors who could select between issues. “But valuations will play a key role in investment decisions,” he added.

Like 2009, the real estate sector would be the top issuer next year as well with fund-raising plans of Rs 23,914 crore announced so far. This is followed by power (Rs 18,400 crore), banks and finance (Rs 14,570 crore), engineering and infrastructure (Rs 7,740 crore), steel (Rs 7,865 crore), textile (Rs 6,710 crore), FMCG and trading (Rs 3,000 crore each) and refineries and sugar (Rs 2,000 crore each).

The flip side is that an active primary market could result in the secondary market remaining range-bound, especially when valuations were already high.

<http://www.business-standard.com/india/news/record-raisingfunds-in-2010/381047/>