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News Feature

India can surpass US economy in three decades: Economist

India can emerge as the world's second largest economy in the year 2039, bigger than the US', if its GDP continues to grow at the rate of eight-nine per cent, says a senior economist.

Former senior advisor and a Director at The World Bank, Harinder Kohli said India's average per capita income would jump 22 times from USD 940 two years to USD 22,000 in 30 years from now, in that scenario. "India's footprint in global economy will go to more than 17 per cent in 2039 from less than two per cent in 2007".

But he underlined that it can become a reality if the current economic growth momentum is sustained in the next three decades. "It (India's becoming the world's second largest economy and related indicators) could happen if things go well. That if all goes well".

Kohli warned against India getting caught in the "middle income trap" - similar to the experience of Mexico and Brazil. This trap was explained as one when countries start stagnating after reaching middle income levels and don't grow to advanced country levels.

Countries getting into such trap are unable to compete with low income, low wage economies in manufacturing exports and also unable to compete with advanced economies in high skill innovations.

At a Confederation of Indian Industry-organised session on "India 2039 - An Affluent Society in One Generation" authored by him, here last evening, he said when countries reach middle income group, they need to do a lot of adjustments, required a very different governance, education system, human resource needs and competitiveness, among others.

<http://economictimes.indiatimes.com/articleshow.cms?msid=5793964>

Crisil pegs India's growth rate at 8% for next 3 years

Crisil, a subsidiary of a Standard and Poor's, has said India is expected to grow at around 8% of GDP in the next three years. Robust growth will be seen in sectors like banking, insurance and asset management in 2010-11 and credit in the banking industry may grow at an estimated 20-22%, according to the rating agency

Speaking at an S&P-Crisil seminar held in Mumbai, Roopa Kudva, managing director & chief executive officer, Crisil, said, "India's financial stability emerged relatively unscathed in the global financial crisis. We expect India to grow at around 8% GDP in the next three years. Globally, it is among the highest. Bank credit may grow at 20-22% in the current fiscal year, driven by infrastructure spending and revival in capital spending."

Though credit pick up will be across sectors, according to her, infra will remain the key driver. Banks term loan may grow at around 27%. The lenders may resort to short-term borrowings like certificate of deposits in case they cannot meet deposit targets. The non-

performing assets may reach 3.5-4% by March 2011. Financial stability will be underpinned by regulations. If there is a sign of financial destabilisation due to overseas hot money pouring into India, the regulator may creep in and is expected to play around with measures in different foreign investment limits or through foreign direct investment norms, said Kudva.

Foreign investment limit in corporate bond market is \$ 15 billion while it is \$ 5 billion in case of government securities.

“With the global recovery, it is encouraging to see India’s GDP reaching double digit. Confidence is again coming back in the capital market, which is critical for economic growth too,” pointed out Deven Sharma, president of S&P and chairman of Crisil, adding that banks in developing markets like India have proved resilient (in the recession).

The rating agency, which recently upgraded India’s outlook to ‘stable’ from ‘negative, however observes that regulations will play important role in shaping the economic activities.

<http://www.financialexpress.com/news/crisil-pegs-indias-growth-rate-at-8-for-next-3-years/606918/>

ADB pegs India's economic growth at 8.2 pc in 2010

The Asian Development Bank said India is poised for an economic growth of 8.2 percent in 2010 although rising inflation would remain a concern.

Noting that India's rebound from the global crisis is set to accelerate this year, the bank said the stimulus measures taken by the government would be gradually rolled back as the economy sets itself on the high growth path.

"India's rebound from the global crisis is set to accelerate in 2010, with estimated growth of 8.2 percent, although rising price pressures present a challenge to policy makers as they steer the economy's recovery," ADB said in its report 'The Asian Development Outlook 2010'.

The report said even though overseas demand will take some more time to revive, robust domestic consumption and rising investment would place the economy firmly on the growth trajectory.

"Expansionary fiscal and monetary policies are now being wound back gradually as the rebound gains traction. While trade flows have yet to return to pre-crisis levels, rising private consumption and investments are likely to underpin growth over the next two years," it said.

After clocking an impressive 9 percent growth for the previous three fiscals till 2007-08, India's GDP grew by a relatively modest 6.7 percent in 2008-09.

The multilateral lending agency said prompt fiscal and monetary stimulus measures, improved overseas demand and increased capital inflow would help the Indian economy grow at the government-estimated 7.2 percent in 2009.

It expects the economy to expand by 8.7 percent in 2011. The report, further noted that the positive developments could be offset by signs of increasing inflation following a poor summer monsoon and floods, as well as expectations of further increase in fuel prices this year and the next.

"The outlook is for a return to high growth, although this will require continued apt handling of macroeconomic policies, and to sustain long-term growth it will be essential to address infrastructure bottlenecks and to reform agriculture," ADB Chief Economist Jong-Wha Lee said.

<http://economictimes.indiatimes.com/articleshow.cms?msid=5794729>

Overseas Investment

Forex reserves surge \$932 m

India's foreign exchange reserves has risen by \$932 million to \$280.02 billion in the week ended April 9, the Reserve Bank of India (RBI) said in its weekly statistical supplement,

While foreign-currency assets rose by \$933 million to \$255.66 billion, gold reserves remained unchanged at \$17.92 billion, the RBI said.

Special Drawing Rights with the IMF fell by \$1 million to \$5 billion, while its reserves with the IMF was little changed at \$1.38 billion. The rupee ended higher against the dollar, recovering from lows aided by fund inflows into an infrastructure company via qualified institutional placement, and dollar sales from a pharmaceutical company, dealers said.

<http://www.financialexpress.com/news/forex-reserves-surge-932-m/607476/>

FDI circular & review document are valuable reckoners

Recent few weeks have seen two major announcements by the government related to its foreign direct investment policy. Firstly, the government finalised and released its consolidated Circular on the FDI policy (FDI Circular) and secondly, it released a review document containing relevant statistics and a summary of key decisions taken by the Foreign Investment Promotion Board (FIPB) in approving FDI related decisions (FDI handbook). Coming on the back of each other, these documents serve as handy and valuable reckoners. Separately, the government recently eased the threshold requirements for foreign investments requiring the clearance of the Cabinet Committee on Economic Affairs (CCEA) — clearances are now required only for proposals in excess of Rs 1,200 crore (as against the earlier limit of Rs 600 crore).

The FDI Circular consolidates all the FDI Policy related aspects, recognising that the FDI policy framework is fairly complicated since it has been a compendium of scattered Press Notes, that have often been drafted in rather layman terms, begging for aids to

interpretation. While the new consolidated FDI Circular is subordinate to the Foreign Exchange Management Act, 1999, it supersedes all earlier Press Notes, press releases, clarifications, etc, issued on FDI policy related matters. From a perception and aesthetics perspective, the first impression is, therefore, positive. It also attempts to articulate the legal basis for foreign investment in the country, the FDI sectoral caps for different industries and pricing regulations, and also starts with a section on definitions.

<http://www.financialexpress.com/news/fdi-circular-&-review-document-are-valuable-reckoners/606956/>

FII's taking FDI route face 10% stake cap in local co

Foreign institutional investors or FIIs will have to follow the rules applicable to portfolio investors even if they are investing India's road to economic reform through the foreign direct investment route, limiting their ability to acquire big stakes in companies.

The new rule released by the Department of Industrial Policy and Promotion or DIPP has clarified that an individual FII will not be allowed to pick up more than 10% equity in an Indian company even if it is coming as a foreign direct investor.

“FDI route is long term and more stable form of investment and this policy will restrict the free flow of FDI into the country,” said Punit Shah, leader, financial services tax practice, KPMG.

FIIs can invest in Indian companies through both the portfolio investment route or secondary market purchases and foreign direct investment route. But the policy makes a distinction between portfolio investments by FIIs and foreign direct investment.

Under the portfolio route FIIs can individually acquire up to 10% equity in an Indian company though the aggregate FII limit is pegged at 24%. The limit can, however, be raised after securing board's approval in sectors where 100% FDI is allowed.

The DIPP has now clarified that the same rule will apply if FIIs come through the FDI route. They can not pick up more than 10% stake in a company even if their investments are treated as FDI and that such investment should not be more than 24% of the total equity.

“It is more restrictive as 10% limit is lesser than FDI caps in most sectors”. This also brings the issue of composite foreign investment caps to the fore that the finance ministry has been pitching for,” says Mr Shah.

Under the earlier policy, an individual FII investing through the FDI scheme route could pick up up to 100% in such a sector. This will impact investments through preferential route or private placements to foreign investors. FIIs will not be able to pick up substantial equity in Indian companies through preferential allotment.

“Regarding FII investments in India, companies could have FII investments up to 49% or the FDI limit after obtaining shareholder approval. However, this point has not been

mentioned in the DIPP circular, and one interpretation can be that the FII limit in an Indian company is now capped at 24%," says Akil Hirani, Managing Partner, Majmudar & Co.

<http://economictimes.indiatimes.com/Finance/articleshow/5814523.cms>

FII get \$4.4 bn as corporate debt

Foreign Institutional Investors (FII) were allocated corporate debt worth \$ 4.4 bn (Rs 20,000 crore) at the auction conducted on the National Stock Exchange on Friday by Securities and Exchange Board of India (Sebi). The bonds were distributed among 18 FIIs while another eleven FIIs were allocated government debt, worth approximately \$400 million (Rs 2,000 crore).

The data was put out on the Sebi website. With FIIs having bought corporate bonds worth approximately \$3.5 billion in March alone and additional purchases of \$ 72.46 million in April till April 15, 2010, their cumulative investments in corporate bonds and government securities have crossed \$ 12 billion. Given the little headroom left to hit cap of \$15 billion for corporate bonds, the Securities and Exchanges Board of India (Sebi) had, last week, decided to allocate the unutilised limit for bonds through a bidding process on the National Stock Exchange.

In a circular issued last week, the regulator trimmed the limits for corporate bonds, which can be allotted to individual FIIs to Rs 2,000 crore, while the minimum amount that can be bid for, is Rs 200 crore. For government paper, the limit has been lowered to Rs 200 crore from Rs 300 crore. However, FII investments in government securities are understood to have almost hit the \$5 billion ceiling with the unutilised portion at just around a few hundred million dollars.

<http://www.financialexpress.com/news/fiis-get-4.4-bn-as-corporate-debt/607432/>

Trade News

FTA with Israel will bolster trade ties: Envoy

The proposed free trade agreement (FTA) between India and Israel will boost trade and economic ties between the two countries and the bilateral trade will treble over the next few years, according to Mr Mark Sofer, Ambassador of Israel to India.

The bilateral trade between the two countries was at \$4 billion in 2008, likely to touch \$12 billion over the next few years. "Israel will be the first country with which India will have a one-to-one FTA. Post-FTA, the trade volume is expected to treble to \$12 billion," Mr Sofer said while speaking at a meeting on 'Enhancing the Indo-Israel Business Cooperation,' organised by the Bengal National Chamber of Commerce and Industry.

The trade was at just about \$150-160 million in 1992, he pointed out. The bilateral trade was evenly balanced between exports and imports, he added.

Areas of cooperation

Talking about the areas of cooperation between the two countries, Mr Sofer said, Israel was the world leader in drip irrigation technology, IT, supercomputers, medical equipment and solar power and would look at partnering with India in these areas.

“The trade between India and Israel does not compete with each other but is primarily complementary in nature,” he observed.

A high level business delegation from Israel will visit West Bengal at the end of the calendar year in order to identify areas of cooperation in drip irrigation technology.

Israel, Mr Sofer said, will aim at augmenting its trade relations with Bengal.

“Our companies have presence in Bangalore, Delhi and Mumbai but not many companies have their presence in Bengal so we would like to augment our presence here,” he added.

<http://www.blonnet.com/2010/04/13/stories/2010041353321900.htm>

India second largest biz partner of UAE

Trade ties between India and the United Arab Emirates (UAE) continued even during the economic downtrend, a top official of the UAE's Hamriyah Free Zone Authority (HFZA) said.

India in general was the second largest business partner of the Emirates after the US. Over 15,000 Indian companies are operating in the region out of which 400 are in the free zone, HFZA director general Rashid Al Leem said.

Speaking at a seminar on 'Business between India and UAE in the present economic scenario' organised by the Kerala Chamber of Commerce and Industry he said, "there is historical relationship between the UAE and India that you cannot deny... We have been dealing with each other for centuries now even during tough times.'

He said HFZA, housing over 4,700 companies from 135 countries, offered an array of business incentives including 100 per cent ownership, full repatriation of capital and profits and nil taxes or commercial levies to encourage businesses develop further.

The 15-year-old free zone continued to evolve with an average annual growth rate of 33 per cent, he said, adding it formulated policies and designed special programme to strengthen the SME sector. He said there are 500 SMEs in the free zone out of which 90 are Indian companies.

<http://economictimes.indiatimes.com/articleshow.cms?msid=5804551>

Sectoral News

Domestic air traffic grows 20.54% in Jan-Mar

Passenger numbers for domestic air carriers jumped 20.54% in the Jan-March quarter. 120.32-lakh passengers flew in the Jan-March quarter as compared with 99.82-lakh in the same quarter last year. Analysts say the growth is on account of sustained recovery in the air travel industry as corporate and leisure travel is gaining momentum. The hike in passenger traffic is likely to have a positive impact on the financial health of the air carriers, most of which have been reeling under heavy losses for last two years.

Industry watchers say the revival in the economy has resulted in more travel by air. This, together with cost cutting and rationalisation of routes by carriers, has boosted their load factors and improve financial performances. Carriers have also improved their on-time performance. The March quarter has been very good for airlines, which collectively saw a growth of 25% in air traffic. The April-June period also looks promising to analysts since airlines are not adding capacity.

While private carrier has maintained a status quo by securing the highest market share at 26%, its archrival Kingfisher Airlines has secured 23% share. Air India has secured 17.8% share and Chennai-based Paramount has secured 1.3% shares. In the low cost space, Delhi-based Indigo has once again notched up numero uno place at 14.7% market share. Low fare airline SpiceJet has grabbed 11.9%, while Mumbai-based GoAir is able to manage a 5.3% share.

<http://www.financialexpress.com/news/domestic-air-traffic-grows-20.54-in-janmar/606970/>

Demand rise, radial focus to drive growth

Tyre makers have begun adding production capacity in what appears as yet another capex cycle for the industry. The new capacities are coming up for two reasons: pick-up in demand for commercial vehicles as the economy has recovered from a slowdown and structural changes where consumers are shifting towards technologically superior radial tyres.

The big concern for investors is whether the extra production capacity brings down pricing power of the industry. However, tyre makers are on a strong footing as the new capacity will come in phases and is unlikely to create an oversupply at one go.

Secondly, with an expected compound annual growth rate (CAGR) of close to 7% in demand for truck and bus tyres over the next five years, the extra capacity will get absorbed gradually. Among the big players JK Tyre, Birla Tyres, Ceat and MRF Tyres have lined up major investments in greenfield radial tyre plants besides global giant Michelin which has announced plans to invest Rs 4,000 crore in a radial tyre plant in Chennai.

Brokerage house Emkay estimates the industry will invest Rs 7,000 crore (or 58% of current total fixed asset during FY09-13 that will translate into additional capacity of

around 20 million tyres or 29% more than the existing capacity for the year ending March 2013 (excluding two-wheeler tyres).

If we look at the past performance of the industry, tyre makers have been operating with almost 90% capacity utilisation since FY03 in the commercial vehicle segment that accounts for over half of the industry. Robust demand for tyres and pricing discipline helped tyre makers maintain operating margin at 7-10% over the past four years. This was despite a 20% CAGR in raw material cost which accounts for more than half of sales.

Moreover, the projected GDP growth of over 7% in the next few years will lend support to medium-long term growth rate of the truck and bus (T&B) tyre segment as commercial vehicle sales are closely linked to economic growth. Further, replacement demand that accounts for 60% of sales is also linked to economic growth and is expected to keep demand buoyant.

A positive factor for tyre makers is that a lot of new supply is coming for radial tyres which commands a price premium compared to traditional cross-ply tyres. As the industry shifts towards radial tyres it will boost revenues.

<http://economictimes.indiatimes.com/Tyres/articleshow/5799064.cms>

Two-wheeler sales cross 10 million in 2009-10

The domestic two-wheeler industry has whizzed past a key milestone of making and selling one million units, in March. For the first time, the industry also crossed the 10-million mark in a fiscal by selling 10.5 million two wheelers in 2009-10.

In 2009-10, total two-wheeler sales were up by 24.52%, over the previous fiscal which stood at 8.4 million, according to CMIE data. The market is dominated by motorcycles accounting for nearly 77-78% of all sales, scooters sell around 15-16%, and the rest by mopeds. With these heady numbers, India has emerged as a strong competitor to China, the largest two-wheeler market with 15 to 16 million bikes. However, China's electric two-wheeler market is another 10 million strong. In India, e-bike hasn't taken off yet.

"With the economy growing very fast, there is enough reason to believe that the momentum in two-wheeler sales would continue," H S Goindi, president (marketing), TVS Motor, said. "India is a grossly under penetrated market. In Indonesia, penetration is 30 per 1000." S Sridhar, CEO of Bajaj Auto's two-wheeler division, said that two-wheeler penetration would double to about 30% over next decade.

<http://economictimes.indiatimes.com/news/news-by-industry/auto/two-wheelers/Two-wheeler-sales-cross-10-million-in-2009-10/articleshow/5791999.cms>

GSM users touch 421 m

Mobile operators offering services on GSM technology added 13.94 million subscribers in March taking the overall GSM user base to 421 million in the country.

According to the subscriber figures released by the GSM industry body, the Cellular Operators Association of India (COAI), the country's largest telecom operator Bharti Airtel added 3 million users during the month taking its market share to 30.25% at the end of the month. With this Bharti's total subscriber base touched 127 million.

Vodafone-Essar, the country's second largest GSM operator added more than 3.6 million subscribers taking its total subscriber base to 100.8 million with a market share of 23.91%. Idea Cellular's subscriber base grew by 2.71% with the addition of 1.68 million users during the month, taking its total subscriber base to 63.8 million. Idea had a market share of 15.13%.

<http://www.financialexpress.com/news/gsm-users-touch-421-m/607455/>

India plans launch sale of 4G mobile services: Report

India plans to hold an auction of ultra-high-speed fourth-generation (4G) mobile phone spectrum soon after completion of 3G access now underway, a report said.

The sale for 4G, which will provide high-speed Internet connections, will begin as soon as operators roll out their 3G networks this year, Communications Minister A. Raja was quoted.

The government expects to bring in at least 350 billion rupees (eight billion dollars) from the sell-off of 3G airwaves and a follow-on auction of broadband wireless access spectrum.

Operators believe 4G will bring near-broadband speed technology to mobile phones, allowing users to receive multimedia such as TV broadcasts and online games at rates up to 10 times faster than those possible on 3G networks. "I do not want any delay in 4G services. We should be with the rest of the world in 4G," Raja said.

Germany began Europe's first auction of 4G frequencies. Raja said he expected the successful telecom bidders for 3G frequency would start launching their new networks within a few weeks of receiving the spectrum when it is allocated in September.

The auction of 3G spectrum will propel India into the Internet era, giving millions who have no computer access the ability to surf the web from their phones. It will also heat up the battle for customers in the world's fastest-growing mobile market.

The Telecom Regulatory Authority of India (TRAI) has already started the pre-consultation process for the sale of 4G spectrum, Raja said. "Once TRAI submits its recommendations, the government will work on it," he said.

<http://economictimes.indiatimes.com/articleshow.cms?msid=5802503>

Gems & jewellery exports shine 16% on US demand

Signalling that the export market is gaining momentum, a major export item —gems and jewellery—that accounts for 13% of the country's export basket, increased 16% in 2009-10

to \$28.4 billion against \$24.4 billion in the previous year. The figures were released by the Gem & Jewellery Export Promotion Council (GJEPC).

Cut and polished diamond exports increased over 20% to \$17.5 billion in the fiscal year from \$14.6 billion in 2008-09. Within the entire export basket for gems and jewellery, cut and polished diamonds account for over 60%, gold jewellery 31% and colour gemstones accounting for the rest.

Coloured gems stone export rose 10.55% to \$286.65 million in 2009-10 against \$259.29 million in the previous fiscal, while gold jewellery export increased by 9.38% to \$9.42 billion during the period under review compared with \$8.61 billion in 2008-09.

Chairman of GJEPC Vasant Mehta said the surge in exports was a strong indicator that the gem and jewellery export market had overcome the recessionary phase of decline and could continue to see high growth rates in the years ahead. The gems and jewellery industry has set a target to double jewellery exports by 2012-13.

Over the last 10 years gems and jewellery exports have witnessed a four-fold jump. In 2000-01 gems and jewellery exports stood at \$7.7 billion which increased to \$28.4 billion in the last fiscal year.

<http://www.financialexpress.com/news/gems-&-jewellery-exports-shine-16-on-us-demand/607494/>

India among top 10 global pharma markets by 2020: PWC

India will join the league of top 10 global pharmaceuticals markets in terms of sales by 2020 with the total value reaching USD 50 billion by then, according to a report by PricewaterhouseCoopers (PwC).

The country's population is growing rapidly, as is its economy--creating a large middle-class that can afford western medicines, consultancy firm PwC's report said.

An ageing population together with increase in problems associated with cardio-vascular disorders and central nervous system will lead to higher demand for drugs, the report said.

Around USD 70 billion worth of drugs are expected to go off patent in the US over the next three years and India is capable of manufacturing a substantial share of the products.

India, which produces more than 20 per cent of the world's generics, is likely to become a competitor of global pharma in some key areas, and a potential partner in others.

It has a considerable contract manufacturing expertise, the report says.

"Global players in the pharmaceutical industry are seeing immense prospects in the Indian market due to its sheer demographic profile. India could be the most populous country in the world by 2050 and is now making its mark as a growing market," Sujay Shetty of PwC said.

Several Indian firms have already entered into research partnerships with multinationals-- Dr Reddy's Laboratories Torrent have joined hands with Novartis while Ranbaxy has formed alliances with GSK and Schwarz Pharmaceuticals, the report added.

India has the world's second biggest pool of English speaking population and a strong system of higher education, so it should be well-positioned to serve as a source for talent for research professionals, the report said.

<http://economictimes.indiatimes.com/articleshow.cms?msid=5797552>

News Round-Up

Indian investors continue run as most optimistic in Pan-Asia in Q1 of 2010

Investor sentiment in India and China continues to be the highest in the region. Strong domestic consumption and positive economic outlook drives India investor sentiment to highest levels in Asia. India investors indicated increased optimism across a number of areas despite rising food inflation. In fact, the number of respondents who indicated that rising food inflation positively impacts investment decisions in both the past three months and in the quarter ahead doubled in Q1 2010 as compared to Q4 2009.

ING, the global financial services group, which released data from its quarterly ING Investor Dashboard Survey, says, investor sentiment in India continues to be the highest amongst the pan-Asia (ex Japan) markets. Climbing further in the 'very optimistic' zone, the India Investor Sentiment Index rose to 174 in Q1 2010 from 169 in Q4 2009 riding on "growth optimism", improvement in pessimism related to inflation, strong domestic demand and confidence in the local stock market.

A significant 91% of India investors believe the economic situation will improve in the next quarter, signalling continued confidence in the local economy. Risk appetite expands among India investors with bullish economic outlook.

The overall pan-Asia (ex-Japan) ING Investor Dashboard Sentiment Index remains level at 145 for Q1 2010 from 147 for Q4 2009. Investor confidence continues to be high at double the low of 73 for Q4 2008 during the crisis – and remains in the optimistic territory for the fourth consecutive quarter.

Commenting on the market Index scores for India, Mr. Navin Suri, MD & CEO of ING Investment Management India said, "The confidence showed by India investors is based on domestic consumption and their anticipation of the return to robust economic growth." "Given that the global economy has stabilized and is entering a period of weak growth and risk of a double dip recession in the U.S. has abated, investors are recommended to look into consumer, capital goods, construction and infrastructure sectors to capitalise on the domestic growth prospect" said Mr. Suri.

As optimism in the local economy grows, more India investors see high-risk, high-return investment tools positively. In Q1 2010, 69% of India investors – the highest percentage in Asia – find the high risk investment sector favourable, which is up from 56% a year earlier. During the last two quarters, 79% of India investors reported increased return on

investment (ROI) and a significant 86% are confident about increased ROI in Q2 2010 as well.

<http://economictimes.indiatimes.com/news/economy/indicators/Indian-investors-continue-run-as-most-optimistic-in-Pan-Asia-in-Q1-of-2010/articleshow/5803306.cms>