

Weekly Economic Bulletin

Date: August 3-9, 2010

Issue No. 380

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News Feature

India FY11 GDP seen at 8.4 pct: RBI survey

India's gross domestic product (GDP) may grow 8.4 percent in the 2010/11 year, a central bank quarterly survey of economists showed, raising their forecast from 8.2 percent in the last survey. For 2010/11, economists have assigned a 38.7 percent probability to 8.0-8.4 percent range for GDP growth, the Reserve Bank of India said.

The result does not reflect the views of the central bank. The bank polled 26 economists for the survey which included macro-economic parameters like GDP, inflation, interest rates, money supply and credit growth. In its first quarter monetary statement last month, the RBI said it projected a real GDP growth for 2010/11 at 8.5 percent and kept its baseline projection for wholesale price inflation (WPI) for March 2011 at 6 percent.

The median forecast for WPI inflation in the first quarter of 2010/11 is at 10.4 percent, according to RBI's survey, higher than 9.5 percent in the previous survey. The forecasters have assigned highest 25.8 per cent chance that it will fall in 6.0-6.9 per cent in end-March 2010-11, it added. Economists cut their forecasts for broad money (M3) growth to 17.9 percent in 2010-11 from 18.5 earlier.

Bank credit is predicted to grow at the rate of 20 percent compared with its previous forecast of 19.8 percent, the survey showed. Central government fiscal deficit is seen at 5.2 percent of GDP in the FY2011, as against its previous forecast of 5.6 percent, according to the survey.

GDP growth in the April-June 2011 quarter is seen at 8.7 percent up from 8.1 percent in the last survey. For the July-September quarter, GDP growth is placed at 8.2 percent, compared with 8.3 percent in the last quarterly survey.

<http://economictimes.indiatimes.com/news/economy/indicators/India-FY11-GDP-seen-at-84-pct-RBI-survey/articleshow/6261980.cms>

India's factory output up on strong order book

Making a strong case for the central bank to continue with the accelerated pace in the normalisation of key policy rates, the purchasing managers index (PMI) for the month of July showed a reading of 57.6, higher than 57.3 in the month before. A reading of 50 or above on the HSBC PMI shows an expansion in the industrial activity. With an expansion in July, the factory output has shown an expansion for the sixteenth consecutive month.

"The economy has given another leg up in July as new orders continued to pour in," said Frederic Neumann, a Hong Kong-based economist at HSBC Holdings. "The central bank will need to apply the brakes more forcefully and dampen demand with further interest-rate hikes," he added.

The Reserve Bank of India has hiked the key interest rates four times since mid March in an attempt to anchor the headline inflation which has been staying in double-digit territory since February. The food price inflation, which has been staying double-digit territory for

more than eighteen months, fell to 9.67% in the second week of July on account of high base effect and expectations of a good kharif harvest.

“India is on a roll. Even the exports sector seems to be holding up well, despite worries over cooling demand abroad,” Neumann added. The new export orders index signaled expansion for 14 straight months. But Indian manufacturers shed jobs for the first time in four months in July. New business growth remained robust, driven by domestic orders, with orders index holding firmly above 60 since the start of this year.

But price pressures have shown no sign of slackening despite a series of interest rate rises from the Reserve Bank of India (RBI) and the latest PMI data showed that trend is continuing.

Official wholesale inflation, the most closely watched measure of price pressures, accelerated to 10.55% in June from 10.16% in May. Fuel inflation crept up in mid-July. The recent hike in petrol prices coupled with a risk of further adjustments to the presently-subsidised kerosene and diesel rates threaten to push headline inflation even higher.

<http://www.financialexpress.com/news/indias-factory-output-up-on-strong-order-book/655099/>

July manufacturing up on new orders, better exports: Survey

India’s manufacturing grew at a strong rate in July, helped by a pick up in new orders and better export demand, a private survey showed, but there was no commensurate pick up in hiring in the month.

The HSBC Markit Purchasing Managers’ Index, or PMI, went up marginally to 57.6 in July from 57.3 in June, marking 16th consecutive month of expansion in manufacturing.

The expansion comes even as China’s PMI dropped for the first time in over a year to 51.2 in July, official data released showed.

“India is on a roll. The economy was given another leg up in July as new orders continued to pour in. Even the export sector appears to be holding up well, despite worries over cooling demand abroad,” said Frederic Neumann, co-head of Asian Economics Research at HSBC.

On the cue, India’s largest car manufacturer Maruti Suzuki reported a 29.2% surge in sales July from a year ago, substantiating the strong consumer demand. Tata Motors, the biggest automobile company, reported a 41% jump in car sales in July.

Purchasing managers index, a survey-based compilation of key manufacturing data, is considered a good leading indicator of manufacturing activity. An index level above 50 indicates expansion in manufacturing, and higher the index above that threshold greater the increase in growth. A PMI reading of below 50 indicates a contraction in manufacturing.

“It’s a good reading, especially compared to China where production was a bit softer,” said Sonal Varma, an economist at Nomura Holdings.

India’s manufacturing growth, which moderated to 12.3% in May from nearly 18% in April, could pick up momentum as the factory output index of the PMI rose to a four-month high of 62.3 in July from 60.5 in the month before.

“The growth momentum is strong and we expect the IIP to reflect the robust PMI data. However, it could be impacted to some impact by an adverse base effect,” said Deepali Bhargava, economist (financial markets), ING Vysya Bank.

A strong pick in investment activity is expected to drive the economy forward, as companies step forward to address emerging capacity constraints and infrastructure creation gathers pace.

The Centre for Monitoring Indian Economy, or CMIE, expects Indian industry to kick off projects that will entail an investment of about Rs6.5 lakh crore on fresh projects in 2010-11.

<http://economictimes.indiatimes.com/news/economy/indicators/July-manufacturing-up-on-new-orders-better-exports-Survey/articleshow/6249664.cms>

Overseas Investment

Ministry okays Rs 1,54,512-crore investment proposal in 3 PCPIRs

In a major boost for investment in the petrochemical sector, the Ministry of Chemicals and Fertilisers has approved a proposal of investments worth Rs 1,54,512 crore in three regions under its flagship petroleum chemicals and petrochemicals investment regions (PCPIR) policy.

Under the policy launched in 2007, this is the first status report on committed investments approved by an inter-ministerial high-powered committee last week. The investment includes Rs 44,812 crore for physical infrastructure development, and the rest is project-specific investments committed by various public and private companies in three PCPIRs- Visakhapatnam and East Godavari districts in Andhra Pradesh, Bharuch in Gujarat and East Midnapore in West Bengal. Investments in physical investments include a viability gap funding (VGF) by the finance ministry to the extent of 20 per cent in each PCPIR except for West Bengal. The VGF scheme provides financial support in the form of grants, one time or deferred, to infrastructure projects undertaken through public-private partnerships with a view to make them commercially viable.

Sources added the high-powered cabinet committee will take up the approval of the Paradip port PCPIR in the second week of August. The PCPIR scheme is aimed at promoting investment in the chemical and petrochemical sector so as to make India an important hub for domestic and international markets.

The ministry has also taken the initiative of organising major trade fairs in Europe and Latin American countries like Brazil, Argentina and Mexico to attract foreign investment sector.

“The priority for this sector is to increase capacity so that the growing demand is met with domestic output,” said an official.

The Visakhapatnam and East Godavari PCPIR has received investment commitment of around Rs 73,000 crore through its main or “anchor” investors — a consortium of Hindustan Petroleum Corporation Ltd and GMR. The state government has committed Rs 2,132 crore for developing physical infrastructure followed by Rs 10,565 crore from private parties and another Rs 6,334 crore through public-private partnership. Besides the anchor investors, various companies with committed investments are ONGC (oil and gas exploration in KG basin), Rain Commodities, Continental Carbon India Ltd, Indian Strategic Petroleum Reserve Ltd, Velankani Chemicals, Air Liquide India, Southern Online Biotechnologies, Reliance Industries Ltd, Bharat Petroleum Corporation Ltd, Hetero Drugs, Baker Hughes, Gangavaram Port Ltd, Visakhapatnam Port Trust, National Thermal Power Corporation, Hinduja Power Project and Kakinada SEZ.

Similarly, the Bharuch PCPIR in Gujarat with its main anchor investor, ONGC Petro Additional Ltd (OPAL) — a joint venture of ONGC and Gujarat State Petroleum Corporation — has committed project investment of Rs 16,400 crore. The investments are for the Rs 13,000-crore multi-feed petrochemical cracker and Rs 3,400-crore carbon extraction unit. Investment in infrastructure is a combination of state government budgetary support of Rs 253 crore and public-private partnership of Rs 51,496 crore, which includes commitments of state government and private developers. Various companies which have committed investments are ONGC extraction plant, ABG Shipyard, Ruchi Petrochemicals, Gujarat Alkalies and Chemicals Ltd, DIC Fine Chemicals, Sajjan Speciality, Pidilite Industries, Rallis India, Lanxess India, Ginni Filament, Arcoy Biorefinery, Romano Tiles, India Peroxide and Neesa Infrastructure. The report has also stated that the total employment generation from the Gujarat PCPIR is expected to be 800,000.

Indian Oil Corporation (IOC) is the anchor investor in the West Bengal PCPIR with a committed investment of Rs 3,000 crore for expansion of its refinery and a new hydro cracker unit, Rs 1,800 crore for a coker unit and Rs 4,000 crore for a new paraxylene unit. The Spic group-controlled CALS refinery has proposed to set up a Rs 5,000-crore crude refinery complex for blending crude which is expected to be commissioned by the end of 2010. There are also grassroot refineries proposed by IOC and CALS, which will take the total investment to Rs 93,180 crore. For physical infrastructure, the Union government has also earmarked Rs 2,108 crore in its current five-year plan. The remaining Rs 15,923 crore has been committed through the state government jointly with public-private partnerships.

<http://www.business-standard.com/india/news/ministry-okays-rs-154512-crore-investment-proposal-in-3-pcpirs/403731/>

FDI in multi-brand retail likely to pare prices: Crisil

With most retailers favouring the idea of throwing open the sector to foreign direct investment in multi-brand retail, a recent research by the research agency Crisil says that

the entry of FDI in multi-brand retail has the potential to bring down prices of perishable goods like fruits and vegetables over the long term. It adds that an efficient supply chain will enable large retailers to source fruits and vegetables directly from co-operatives, lowering annual wastage amounting to around Rs 63,000 crore.

Nagarajan Narasimhan, director, Crisil Research, said: "The wastage in the supply chain and commission to trade intermediaries inflate the final price paid by Indian consumers. They shell out almost 2-2.5 times the price a farmer gets as compared to 1-1.5 times in developed markets where penetration of organised retail is much higher."

The research estimates the entire investment to set up the supply-chain infrastructure for fruits and vegetables would be close to Rs 65,000 crore over the medium term. This estimate takes into consideration the number of cold storage facilities and refrigerated trucks that would be required for handling of perishable goods.

About 30% of the country's total production of fruits and vegetables is wasted every year because of inadequate cold storage and transport facilities. Reckons K Rajagopalan, chief executive officer, Retailers Association of India, "By bringing in specialised experts into the supply chain, wastage can be reduced by 15%. Moreover, since there will be less people in the chain, economies of scale for a modern retailer will increase, giving a further boost to operating margins."

The report also suggests that reducing commission of trade intermediaries will improve realisations to farmers and increase operating margins of large retailers.

Damodar Mall, director of food strategy, Future Group, said more than the supply chain wastage, the adverse practices affect the quality of fruits and vegetables, "The more hands the goods change, quality available to consumers become lower. Hence, it is more about intermediaries that will be scrutinised by the entry of FDI into the retail sector."

<http://www.financialexpress.com/news/fdi-in-multibrand-retail-likely-to-pare-prices-crisil/655674/>

Trade News

Colombia looks for Indian investments

Business process outsourcing (BPO), information technology, biofuel, hospitality, packing and agro chemical would be some of the key areas where Colombia would look for Indian investments, according to a senior official from the Embassy of Colombia.

"We have vast resources of coking coal and we are inviting Indian companies to invest in our country. We are also open to investment in mines either by way of mergers, acquisition, or joint venture with Indian companies.

"This apart, BPO, IT, biofuel, hospitality, packing and agro chemical will be the key areas of focus," said Mr Alejandro Pelaez, First Secretary (Commercial), Embassy of Colombia.

Colombia would look at importing machinery and tools for its food processing, mining and agri-business segments from India, Mr Pelaez said, while talking at an inter-active session on India-Colombia bilateral trade organised by the Merchants' Chamber of Commerce.

The Kalyani Group was scouting for a coking coal mine in Colombia, he said.

"They are looking for a coking coal mine in the Andean region; they are conducting a research on the available reserves in various locations," he added.

The bilateral trade between the two countries grew by about 109 per cent at \$813 million in 2009-10, against \$388 million during 2008-09. India's main exports to Colombia were motorcycles, auto parts, organic chemicals, pharmaceuticals and threads and cotton textiles.

Colombia's exports to India jumped to \$449 million in 2009-10, from \$17 million in 2008-09. Oil, coal, sugar, candies, wood, furniture, petrochemicals, iron and nickel were the key products of export from Colombia into India, according to Mr Juan Alfredo Pinto Saavedra, Colombian Ambassador.

<http://www.thehindubusinessline.com/2010/08/05/stories/2010080552920400.htm>

India lends Bangladesh \$1 billion as ties warm

India is giving Bangladesh a billion-dollar soft loan, the biggest credit package New Delhi has ever given to any nation, officials said Saturday, highlighting warming ties between the neighbours.

Relations between the South Asian neighbours chilled between 2001 and 2006 when Bangladesh was ruled by an Islamist-allied government and New Delhi regularly accused Dhaka of harbouring Indian insurgents and fostering militancy.

"It's the largest line of credit the government of India has extended to any country," Deepak Mittal, a spokesman for the Indian embassy in Dhaka, said.

The line of credit also marked the single largest loan Bangladesh has received from any nation, development bank or donor agencies, Dhaka's Economic Relations Division secretary Mosharraf Hossain Bhuiyan said.

Indian Finance Minister Pranab Mukherjee was due to arrive in Dhaka to attend the official signing for the loan.

The money will be used by impoverished Bangladesh to modernise its railway and build other transport and infrastructure.

"The terms of credit are very favourable to Dhaka. The interest rate is just 1.75 per cent and will be paid back in 20 years," Bhuiyan said.

Indian officials said Mukherjee's planned presence for the signing of the deal underscored the importance that New Delhi attaches to building better relations with Bangladesh.

The line of credit was announced by Indian Prime Minister Manmohan Singh during his Bangladeshi counterpart Sheikh Hasina's "pathbreaking" visit to New Delhi in January.

It was Hasina's first visit to India since her secular Awami League party was swept back to power with a massive victory in January 2009.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/India-lends-Bangladesh-1-billion-as-ties-warm/articleshow/6270881.cms>

Sectoral News

Indian IT firms top Europe survey

Cognizant first, TCS third, Infosys fourth in Performance and Satisfaction study.

Indian information technology (IT) service providers Cognizant, TCS and Infosys have topped the latest ranking of service providers in Europe, in a survey done by EquaTerra, an IT advisory service provider.

In the Performance and Satisfaction (SPPS) study by EquaTerra for 2009-10, Cognizant has captured the first position, with a 79 per cent score. TCS and Infosys have taken the third and fourth position, with 75 per cent and 74 per cent scores, respectively. The second place was taken by US company Compucenter, with 78 per cent.

The study evaluates client satisfaction by surveying over 2,000 client relationships from 750 top IT spending organisations across Europe, covering 12 countries. The ranking covers 25 IT service providers in all. Cognizant topped the rankings in seven of the eight parameters the study focused on. These include Relationship Management (actively managing the relationship at the operational and strategic levels), Innovation (actively identifying innovation opportunities), Transition (completing the transition successfully on time and budget and with the required functionality), Quality (meeting the service levels as set out in the Service Level Agreement), Price (charging for services in line with current market price) and Risk (shouldering reasonable commercial risk and making necessary investments to reduce it).

Jef Loos, director, EquaTerra, said this ranking, based on two-thirds of all IT deals in Europe, gives a near-accurate evaluation of client satisfaction. "We choose the clients and do cross-reference where the same client is serviced by more than one IT service provider," Loos said.

He further said, "Cognizant had not one dissatisfied client, which makes the company the best performer among the top 25 IT outsourcing service providers that we evaluated."

Apart from Cognizant, TCS and Infosys, the other major IT companies to appear in the top 25 list are Wipro (15), Mahindra Satyam (17) and HCL (18).

Francisco D'Souza, President and CEO, Cognizant, said, "Over the years, we have made significant investments in bringing our industry-leading, client-focused processes to

Europe. Our high-touch relationship model, deep domain expertise and consulting skills, our unique reinvestment philosophy, and our ability to build strong multicultural teams around the globe have helped our customers navigate structural changes in the economy and their businesses, enabling them to stay efficient, effective and innovative.”

<http://www.business-standard.com/india/news/indian-it-firms-top-europe-survey/403464/>

Handicraft exports up by 19 pc in July

India's handicraft exports grew by 19 per cent to over USD 120 million in July on the back of increasing demand for the Christmas season.

According to the Export Promotion for Handicrafts (EPCH), handicraft exports stood at USD 101 million in July 2009.

"The growth is attributed to the Christmas orders mainly from the US and European markets which start from June," EPCH Chairman Raj Malhotra said.

The council is optimistic of over 10 per cent growth in 2010-11 compared to the last fiscal. The exporters are pinning hope on demand from major markets like the US.

"Besides, we are planning to increase the number of international trade fairs which are held in various countries to 47 from 33 in the fiscal," Malhotra said.

The US and EU together account for 70 per cent of the country's handicraft exports.

Among items that registered maximum growth were imitation jewellery which grew by 37 per cent, shawls as artwares 30 per cent, woodwares 25 per cent, miscellaneous handicrafts 20 per cent and artmetal wares 17 per cent.

The sector, which was hit hard due to global economic recession, turned positive in September 2009 registering an over 165 per cent growth.

Moradabad, Jaipur, Saharanpur and Jodhpur are the major handicraft hubs catering to global markets.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Handicraft-exports-up-by-19-pc-in-July/articleshow/6261066.cms>

Truck sales rise 52% in July with strong economic growth

Truck sales in July have risen 52.30 per cent to 24,469 units, due to high demand for cargo transportation from a buoyant economy. The higher sales have also been aided by truckers buying more Euro II trucks, which will go out of production from September 30 and be replaced by the more expensive Euro III and IV trucks.

Sales of the 5-49-tonne category in July 2009 stood at 23,756 units.

According to an Indian Foundation of Transport Research and Training (IFTRT) report, despite lower discounts by manufacturers, sales have risen on the back of “consequent sustained cargo offering from manufacturing, import-export and agricultural sectors”.

“Truckers fear substantial increase in price of Euro III and IV trucks and the likely lack of after-sales support for these high-tech vehicles ... truckers are advancing the purchases to avoid the last minute rush in September,” said the report.

The highest increase of 85 per cent was seen in the 30-49-tonne multi-axle trailer category at 2,454 units, followed by a 61 per cent rise in the 25.2-31-tonne capacity multi-axle truck category at 9,824 units. The lightest, 5-7.5-tonne category, saw the smallest sales increase of 30 per cent to 3,459 units.

“Introduction of a single composite fee of Rs 15,000 for the National Permit has generated an impetus in the trucking industry to acquire new trucks and this fleet replacement and expansion is on the brisk path. Corporates with long-term contracts with logistics firms are also seeking a younger age fleet.

<http://www.thehindubusinessline.com/2010/08/04/stories/2010080452930400.htm>

Mobile phone companies push for indigenisation

While saving cost, move part of strategy to make India manufacturing hub for the globe.

Mobile phone companies are pushing through a big indigenisation effort by bringing global component vendors to set shop in the country. The move is part of a strategy to make India a global manufacturing hub for mobile phones, rather than just undertake their assembly.

Samsung, for instance, has put up an ambitious plan to indigenise its mobile phones from about 10-12 per cent currently to 40 per cent in two years. “Today, we have a capacity to make 8-10 million phones a year,” said M C Mittal, vice-president, manufacturing, Samsung India. “We are planning to increase it by 50-60 per cent. We are looking at indigenising components like batteries, chargers and folders, among others and have looked at some Taiwanese and Chinese suppliers. At least three to four have been identified.”

The country’s largest mobile phone manufacturer, Nokia, has brought in five of its leading vendors (Salcomp, for instance, is a market leader in phone chargers) who exclusively manufacture a range of components for the company such as back covers, chargers and key mats. Says D Shivakumar, vice-president and managing director, Nokia India: “We have invested \$280 million (Rs 1,300 crore) and our vendors have put in a similar amount of money in our facility near Chennai...We have generated about 25,000 jobs. India has a large domestic base and we can use this scale to go for exports.”

The plant has manufactured over 350 million phones since its inception in 2006. Industry experts say Nokia has reached indigenisation levels of 25-30 per cent in India.

LG India, a late starter in the mobile space, is also catching up, though cautious on their indigenisation aim. "We do have some vendors already producing some parts for us in India and plan to add more in the coming months," said Moon B Shin, managing director of LG Electronics India. Shin said they are at 10 per cent indigenisation, having done so for printed circuit board assembly. Their next target is to go up to 15 per cent.

It is not only individual companies pushing to bring in more investments through vendors. The Indian Cellular Association (ICA), apex body of mobile phone manufacturers, has asked KPMG for a report on how to make India a mobile phone manufacturing hub of the world. The industry, said Pankaj Mohindroo, president of ICA, has endorsed a plan to increase production of mobile phones in India from the current 130 million to 250 million yearly by 2012. Of this, at least 100 million will be for the export market. "The whole effort is to indigenise, so that mobile phone manufacturing becomes a Rs 50,000-crore industry by 2012," says Mohindroo.

Companies say indigenisation, apart from saving costs, also ensures flexibility in responding to the changing market. "Currently, we keep inventory of two months. This will go down to one week if we indigenise. That means a saving in cost of 5-10 per cent, pretty large in this business," said Mittal.

<http://www.business-standard.com/india/news/mobile-phone-companies-push-for-indigenisation/403338/>

News Round-Up

Indian manufacturers optimistic about biz growth: KPMG

Indian manufacturers are optimistic about growth in business activities in the year ahead, with output and new orders expected to see considerable increase, a survey by KPMG International said.

As per the global business outlook survey, businesses are ready to start investing again as healthy optimism, which was recorded earlier in the year, holds firm.

Manufacturers in India hold a more optimistic business outlook for the year ahead in the latest June survey, as compared to the February survey.

"With net balances of 57.9, Indian manufacturing output and new orders are both set to rise markedly. Expectations for these variables are the highest since July 2008," the survey stated.

The survey works on a net balance basis, with the percentage of respondents who are pessimistic about their company's outlook in 12 months' time getting deducted from the percentage that feels optimistic about the future.

Revenues of manufacturers are forecast to grow sharply in the next 12 months, pursuant to the growth in manufacturing output and rise in new orders.

"The latest Indian survey data is notable for the way in which confidence is oozing through the manufacturing sector. India has set its sights on becoming a global manufacturing hub and seems well on its way to achieving this aim," KPMG India Advisory Head Richard Rekhy said.

"Productivity is improving, as is quality, with a large number of Indian manufacturers now holding their own in terms of quality comparisons with their Asian competitors," Rekhy added.

However, with input costs expected to increase much faster than charges, companies anticipate a slower rise in profits (49.7) than revenues (61.9), the survey revealed.

<http://economictimes.indiatimes.com/news/economy/indicators/Indian-manufacturers-optimistic-about-biz-growth-KPMG/articleshow/6256986.cms>

India M&A deals this year near \$50-bn; treble from '09 level

India Inc seems to have regained its deal-making appetite with merger and acquisitions so far this year nearing the \$50 billion level-already over three times the total for entire 2009.

There were M&A deals worth about \$16 billion in 2009, down from close to \$40 billion in 2008.

Indicating that deal valuations are also witnessing a revival in line with the recovery in stock markets and overall economy, the value of M&A deal has risen despite a decline in the number of transactions.

According to data compiled by research firm VCCEdge, the M&A deal value rose nearly five-times to \$5.4 billion in July 2010 alone, from \$1.1 billion in July 2009.

So far in 2010, that is between January and July, the cumulative M&A deal value has touched \$49.7 billion, as compared to \$16.3 billion in the whole of 2009, VCCEdge said in its monthly deal report.

There have been 411 M&A deals so far this year, down from 453 deals seen in 2009, the report noted. July also saw fewer deals at 42, as compared to 47 in July 2009.

<http://economictimes.indiatimes.com/news/economy/indicators/India-MA-deals-this-year-near-50-bn-treble-from-09-level/articleshow/6256430.cms>