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News Feature

GDP growth to slow down to 7.8%: NCAER

Conforming to forecast of PM's Economic Advisory Council and other economists, economic think-tank NCAER has also projected moderation in economic growth at 7.8 per cent for the current fiscal, from the earlier estimate of 8.8 per cent.

The one per cent downward revision is attributed to recent hike in interest rates, rising inflation and crude oil prices and reduction in the private investment by about Rs 60,000 crore.

Besides, increase in central government subsidies by Rs 20,000 crore and reduction in the world output by one per cent to four per cent in 2008 would have bearing on the growth, NCAER said in its latest monthly report.

Though fiscal deficit is not projected to rise much above three per cent, the Current Account Deficit is projected to grow to 6.5 per cent of GDP, it said.

Assigning the reasons for high CAD, the report said, a combination of higher crude oil prices and lower global demand has widened the projected current account imbalance.

Notably, Indian economy witnessed a growth of 9.1 per cent during 2007-08.

The decline in growth is lower in all the main sectors of the economy, it said, adding, industry is expected to grow at 8.4 per cent, against the previous forecast of 9.4 per cent while services would expand by 9.1 per cent, compared to 10.5 per cent.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=45149>

EIU lowers economic growth forecast for India to 7.5%

On the heels of Prime Minister's panel lowering the economic growth projection for 2008-09, the research arm of London-based Economist has scaled down the expansion to 7.5 per cent this fiscal from its earlier forecast of 7.7 per cent.

"The moderation in growth would be on account of issues like tight monetary policy and some global factors, including rising prices of oil and commodities," EIU (India) Director Research Manoj Vohra told PTI.

The PM's Economic Advisory Council (EAC) recently revised its GDP forecast for the current fiscal to 7.7 per cent from 8.5 per cent projected earlier in the wake of slow down in industrial production and global financial turbulence.

India's GDP, which grew by 9 per cent in 2007-08, is expected to fall further in 2009-10 to 6.8 per cent, Vohra said, adding "the long-term growth story remains intact and 2010-11 will see resurgence in growth".

The RBI, too, in its first quarterly review of the monetary policy, had moderated India's growth outlook to 8 per cent from 8-8.5 per cent projected earlier.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=45211>

Overseas Investment

FDI inflow crosses \$20 bn in January-June period

The Department of Industrial Policy & Promotion (DIPP) has said foreign direct investments (FDI) into the country crossed \$20 billion in the January-June period, the department's secretary Ajay Shanker said. Speaking at a Ficci conference Shanker said the FDI inflows could cross \$40 billion in this financial year going by the current rate.

The total FDI inflows in the last financial year was around \$25 billion.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=45238>

FDI set to touch \$40 billion this year

India would be able to attract the same proportion of foreign direct investment in the second half of the current calendar year as it recorded in the first half.

"We have seen an FDI inflow of \$20 billion in the first six months of this calendar year and we expect the inflow to top \$40 billion mark during the 12-month period," Mr Ajay Shankar, Secretary, Department of Industrial Policy & Promotion (DIPP), said at a seminar on Indo-Netherlands business meet, organised by the Federation of Indian Chambers of Commerce and Industry.

Mr Shankar said the reason for the strong growth in FDI was due to the high degree of competitiveness in manufacturing and quality shown by Indian firms and the domestic subsidiaries of foreign companies in the past four-five years.

FICCI estimates that the Netherlands holds a slot among India's top ten trading partners, ranking the fourth in terms of FDI flowing in the country.

"The second largest Indian diaspora is in the Netherlands and several Dutch MNCs such as Phillips, Shell and Unilever becoming household names in India. "The business meet will hopes to take the Indo-Dutch relations to a higher trajectory," said Dr Amit Mitra, Secretary General, FICCI.

The key sectors identified for collaboration between the two countries during the business meet to be held in November at Amsterdam include IT, agro-industry, logistics, infrastructure, water management, life sciences and health, automotive and design industry.

<http://www.blonnet.com/2008/08/21/stories/2008082152441000.htm>

FDI in real estate likely to stay padlocked for 3 years

Foreign direct investment (FDI) in real estate would not be exempted from the mandatory three-year lock-in period in the case of 'mixed' projects that include hotel and tourism activities. After inter-ministerial consultations, in which various proposals were considered, the department of industrial policy & promotion (Dipp) has circulated a note for consideration of the Cabinet committee on economic affairs (CCEA) which says that the lock-in should stay.

There were efforts within the government to exempt real estate projects from Press Note 2 of 2005 if they include hotel and tourism components. The Press Note makes minimum capitalisation, minimum area of development and three-year lock-in mandatory for flow of FDI in real estate.

The view emerging within the government is that exemption from minimum capitalisation and minimum area of development can be provided for FDI in projects including hotel and tourism activities. This will be subject to 50% of the total built-up area in such projects being reserved for tourism activities and 20% of the total built-up area being reserved for hotel rooms.

The Dipp has submitted a note to this effect to the Prime Minister's Office and ministries dealing with the subject. The note would be put up for the CCEA with the comments of other departments, highly-placed government sources said.

At least 50% of a project seeking to qualify for the exemption has to comprise of restaurants, resorts and tourism complexes providing accommodation and other related services to tourists.

[http://economictimes.indiatimes.com/Economy/Padlocked FDI in real estate likely/articleshow/3404943.cms](http://economictimes.indiatimes.com/Economy/Padlocked_FDI_in_real_estate_likely/articleshow/3404943.cms)

MNCs may get auto entry in multiple mining JVs

Foreign mining companies may forge multiple joint ventures with domestic partners without seeking government's prior approval. The government is amending foreign direct investment (FDI) regulations to boost investment by global mining firms such as Rio Tinto, De Beers, BHP Billiton and Vale.

Today, foreign firms interested in joint ventures with domestic firms are required to give a mandatory declaration to the government that they don't have another JV in the country. In the mining sector, foreign companies do not require to take foreign investment promotion board's (FIPB) clearance as stipulated in the Press Note 1. However, a declaration is mandatory.

Under the proposed change, the department of industrial policy & promotion (Dipp) is planning to scrap the rule, allowing foreign miners form multiple JVs for the same mineral, an official source said. A note to this effect is expected to come up for Cabinet approval soon.

"Mines are scattered across the country and foreign companies are located in different locations. The companies are engaged in the same line of mineral business in more than one location. Hence, there is need to allow them carry out multiple businesses seamlessly by removing the clause.

FDI in mining comes through the automatic route and there is no reason for holding back proposals for such declarations," a mines ministry official said. However, permission for FDI in the sector has to be in line with the Mines & Minerals (Development & Regulation) Act (MMDR), 1957.

http://economictimes.indiatimes.com/Economy/MNCs_may_get_entry_in_mining_JVs/articleshow/3404953.cms

No plans to allow foreign airline stake in domestic airlines

The Ministry of Civil Aviation has no immediate plans to allow foreign airlines to pick up equity in domestic airlines or divest any holding in Air India and Pawan Hans Helicopters Ltd, a senior Ministry official said.

"The idea to allow foreign airlines to pick up equity in domestic airlines keeps floating around. No such proposal is being considered. Even the Committee headed by the Cabinet Secretary is not looking at this proposal in a formal sense," Secretary, Civil Aviation, Mr Ashok Chawla, said on the sidelines of a seminar on 'Helicopter medical emergency services and development of heliports.'

At the moment, the Government caps foreign direct investment limit in the domestic civil aviation sector at 49 per cent. Foreign airlines, however, are not allowed to invest either directly or indirectly in the sector at the moment.

On the issue of divestment in two PSU companies under the Ministry, Mr Chawla said that the Ministry was not actively looking at the proposals.

"The Department of Disinvestment keeps looking at this or getting information on various PSUs to explore the possibility of perhaps disinvesting of a few percentage points. The Ministry may have provided some information to the Department, but is not actively looking at it," the Secretary added.

The Government has also received a proposal from the private sector developers undertaking the modernisation of Mumbai and Delhi airports for increasing charges by 10 per cent.

“The contractual agreement that the promoters have entered into with the Government allows them to raise the charges after two year provided some stipulated works have been done. The Ministry has received a proposal for raising charges by about 10 per cent and this is being examined,” Mr Chawla said.

<http://www.blonnet.com/2008/08/21/stories/2008082152441000.htm>

Daiichi-Ranbaxy FDI plan may be placed before CCEA

Even as the open offer by Daiichi Sankyo to acquire additional 20 per cent stake in Ranbaxy Laboratories is currently on, a “procedural issue” appears to have cropped up on the Japanese drug maker’s plans to increase its stake in the Indian drug company through issue of warrants.

The Foreign Investment Promotion Board (FIPB) now plans to place Daiichi’s FDI proposal to acquire stake in Ranbaxy before the Cabinet Committee on Economic Affairs (CCEA), as the proposal exceeds Rs 600 crore and hence requires CCEA nod.

In June, the Japanese company had announced it would buy 34.81 per cent stake in Ranbaxy, held by the Singh family, and also acquire up to 9.21 crore shares at Rs 737 each through the open offer. Daiichi Sankyo would further acquire 9.5 per cent through preferential allotment of equity shares and another 4.5 per cent through share warrants to be issued on a preferential basis (2.38 crore warrants – exercisable between 6 and 18 months from the date of allotment, for one fully paid-up equity share of Rs 5 each at price of Rs 737, being the price higher than that determined by SEBI guidelines).

Following this, Daiichi Sankyo’s stake in Ranbaxy could go up to 58 per cent. The entire deal is valued at \$3.4 billion to \$4.6 billion.

As per the FDI policy, as the proposal attracts Press Note 1 (2005 series) and also issue of warrants, it required the FIPB nod, sources said. The FIPB had accordingly considered the proposal on July 29 and also recommended it for an approval.

However, sources pointed out that the given FDI inflow on warrants itself adds up to well over Rs 600 crore, the FIPB is slated to take it up again in its meeting on August 26, and recommend the proposal for a possible consideration by CCEA. Sources added that FIPB taking up the proposal again was more of a “procedural issue”.

<http://www.blonnet.com/2008/08/24/stories/2008082451210200.htm>

Trade News

Power import policy on cards to boost hydel inflows

The Centre is working on a power import policy to step up hydropower development in the Himalayan-rim countries for facilitating electricity inflows into India, besides ensuring a greater play for private sector firms.

The policy, expected to be announced by the Government shortly, would aim at broad-basing India's energy security by securing hydropower resources in the neighbouring countries and wheeling back bulk of the generated power as a means of tiding over peaking shortages at home.

The policy is expected to give Indian firms, including private sector companies, a larger role in harnessing energy resources across the region.

Issues such as the quantum of free power to be offered to the host country and the exposure to be taken by Indian developers and lenders are likely to figure in the policy.

Besides, it would help the Government to spell out the financial and technological assistance it can extend to these projects, officials involved in the exercise said.

The issue of tariff fixation and a mechanism for review of tariff are also expected to be addressed for inter-country projects being pursued by India across Bhutan, Nepal and Myanmar.

<http://www.blonnet.com/2008/08/25/stories/2008082551910100.htm>

Textile industry seeks continuation of interest sops

The reported missive of the Union Commerce and Industry Minister, Mr Kamal Nath, to the Prime Minister, Dr Manmohan Singh, for continuation of the 4 per cent interest subvention to textile exports, even as rupee is depreciating against the US dollar continuously by more than 11 per cent since the beginning of the current fiscal, has raked up several issues impinging on the future prospects of the textile industry.

The see-saw on interest subvention of 2 per cent for pre-shipment and post-shipment credit for textiles (including handloom), readymade garments in the first part of last fiscal and additional subvention of 2 per cent from November 1, 2007 incorporating all categories of textiles and carpets but excluding man-made fibre in the wake of steady appreciation of the rupee till end-March 31, 2008 and the continuation of the 4 per cent interest subvention till end-September 2008, with the RBI announcing its termination in its latest monetary and credit policy review had tantalized the textile industry so much that it is now wringing its hand hoping for continuation of interest subvention and a higher drawback rate.

The Apparel Export Promotion Council (AEPC) Chairman, Mr Rakesh Vaid, gave a memorandum to the Union Finance Minister, Mr P. Chidambaram, listing out reasons as to

how the high growth apparel industry has been slipping in the current fiscal, because of several disabilities plaguing the textile sector in general and the readymade garment (RMG) segment in particular.

The apparel export industry is the only segment in manufacturing that could absorb uneducated and unemployed people displaced from agriculture; the authorities need to be alive to the problems plaguing this segment, he added.

Industry sources told that though India's textile exports had shot up from \$14.03 billion in 2004-05 to \$20.25 billion in 2007-08, the hype built on the potentially improved performance in the post-quota regime since 2004 remained largely a mirage, due to a combination of adverse factors that eroded the competitiveness of Indian textiles both in price and quality with China, Pakistan and Bangladesh making steady inroads into India's major market in the US.

<http://www.blonnet.com/2008/08/22/stories/2008082250650700.htm>

Sectoral News

Mobile growth hits new peak; 9.22 m wireless users in July

Mobile subscriber base in the country is growing at such a fast pace that operators are breaking the record for net additions almost every second month.

In July, mobile operators, both GSM (global system for mobile communications) and CDMA (code division multiple access) together, added 9.22 million subscribers, which is the highest ever additions in a single month till now. The previous best was 8.94 million in June.

Bharti Airtel with 2.69 million new subscribers was the biggest gainer during the month. Vodafone Essar added 1.7 million new subscribers while Reliance Communication got 1.5 million new CDMA subscribers. Both Idea Cellular and Tata Teleservices added just over a million wireless users in July.

GSM operators own 218.9 million subscribers while CDMA players have nearly 77 million users. Reliance Communications with 45 million subscribers leads the CDMA operator's pack.

India along with China is now among the top two countries that add maximum number of wireless subscribers every month. The growth in the wireless segment is expected to cross the 10 million per month mark as new operators start rolling out their services. Videocon, Unitech, Reliance and Tata Telservices have announced plans to launch GSM mobile services by the end of the year.

This should assist the Government in achieving its target of 500 million subscribers by 2010.

In the wire line segment, the subscriber base has decreased further to 38.76 million as against 38.92 million subscribers in June as subscribers prefer to take a mobile connection. State owned telecom company BSNL, which owns most of the fixed line subscribers had announced a slew of initiatives including lower STD tariffs in a bid to arrest the slide in fixed line telephone subscriber base.

<http://www.thehindubusinessline.com/2008/08/26/stories/2008082652330100.htm>

Textile sector opposes cotton support price hike

The textile industry has said any proposal to hike the Minimum Support Prices (MSP) for cotton could further aggravate the downturn in the domestic textile sector. Reacting to reports of a hike in the MSP for the cotton season 2008-09, Mr P.D. Patodia, Chairman, Confederation of Indian Textile Industry (CITI), said that the move “will not only push the textile industry further down, but will also be counter productive even for farmers”.

Mr Patodia explained that the rupee appreciation of 2007 and the increase in raw material prices, interest rates as well as input costs during the current year have already drained out the cost competitiveness of the country’s textile value chain and the huge increases announced in MSP for cotton would aggravate the situation beyond redemption.

“During the last financial year and the first quarter of this year, most textile companies have made losses and many others have made substantially lower profits compared to the earlier years. These MSPs have eroded whatever hope the industry had of reviving in the near future,” Mr Patodia said.

In a statement, Mr Patodia said the standard variety of Shankar cotton is currently being quoted at Rs 24,500 a candy for the new crop, and the mills are finding it difficult to buy at this price, because of the industry’s current downturn. The MSP of Rs 3,000 would translate to Rs 26,000 a candy for this cotton and this is bound to reduce consumption of Indian cotton by mills, the statement said, adding that the only options before the mills will be to import cheaper cotton from abroad, switch over to man-made fibres or close down.

“There is going to be chaos both in the industry and farming sectors, unless the Government is able to take immediate remedial action to sustain cotton consumption by reducing the MSPs or by assisting the industry to absorb the extra cost,” Mr Patodia said.

<http://www.blonnet.com/2008/08/24/stories/2008082450970500.htm>

PM stresses on urgent growth in health care

Prime Minister Manmohan Singh said one of the major challenges facing the country was to provide adequate health care facilities to the growing population and address the shortage of trained medical personnel.

"One of the major challenges is in providing adequate health care facilities for the growing population of our country. There is a shortage of both trained doctors and nurses," Singh said after laying the foundation stone of the Jorhat Medical College here.

"This needs to be addressed at the national and regional levels. I am happy that the Assam Government is taking major steps to overcome the shortage in health care," he said.

"Five of the southern states have more than 60 per cent of the medical colleges in the country. This uneven distribution of medical facility is the root cause of the problem," the Prime Minister asserted.

The Centre is taking on the issue by working out ways for the spread of medical education in the country, he said.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=45256>

Ethiopia and Egypt are promise lands for Indian leather industry: CII

Huge opportunities exist in Ethiopia and Egypt for the Indian leather industry, says a 19 member delegation led by industry body CII, which paid a five-day visit to these two countries.

The Confederation of Indian Industry (CII) along with All India Skin & Hides Tanners and Merchants Association (AISHTMA) and Indian Finished Leather Manufacturers & Exporters Association (IFLMEA) had organised an Indian leather industry delegation visit to Ethiopia and Egypt, CII said in a release.

"Their visit achieved new relationships to create stronger ties with industry of Ethiopia and Egypt," CII National Committee on Leather and Leather Products Chairman Habib Hussain said.

While Indian Ambassador in Ethiopia Gurmeet Singh said: "Ethiopia provides a huge opportunity to Indian Leather industry as it has good raw material and low labor costs. Indian industry needs to bring in the technology and capital."

The delegation called on Ethiopian Minister for Trade and Industry, Girma Birri and Ethiopian State Minister for Trade and Industry, Tedesse Haile and visited various tanneries in and around Addis Ababa and the Egyptian Leather association.

AISHTMA President M Rafeeqe Ahmed said Indian competence could create new possibilities for individual companies for either setting up manufacturing facilities or joint ventures in Ethiopia and to increase sourcing of leather from Egypt.

While IFLMEA President Zackaria Sait said this visit would pave the way for new relationships between Indian industry and leather sector of Ethiopia and Egypt.

The delegation had members from companies in the leather sector including Farida Group, AV Thomas Group, K H Group, Orient Express, Tata International, R Y Gaitonde & Co and many others, the statement added.

<http://www.business-standard.com/india/storypage.php?tp=on&autono=45217>

News Round – Up

Infy pays Rs 3,300 cr for UK's Axon

All-cash deal major boost to Infosys Consulting. Infosys Technologies said it will acquire UK-based and London Stock Exchange-listed Axon Group, a SAP consulting company, in an all-cash deal worth around Rs 3,300 crore (\$753.1 million).

This is the third inorganic growth initiative taken by India's second largest provider of information technology services in over three decades. The company had idle cash of slightly over Rs 7,500 crore on its books as on June 30, 2008.

The acquisition is the largest overseas acquisition by an Indian IT company till date. It surpasses Wipro Technologies' Rs 2,400-crore acquisition of US-based InfoCrossing last year.

The acquisition is expected to enhance Infosys' consulting capabilities and improve its access to the boardrooms of large global organisations to advise them on transformational changes.

Infosys Consulting, ever since it was set up around four years ago, has been on investment mode and is consequently in the red. Last year, it was rumoured to be in talks to buy a controlling stake in European technology consultancy major Capgemini. Both companies had vehemently scotched the rumours.

Axon employs 2,000 employees and will add Rs 1,660 crore to Infosys' annual revenue and around Rs 160 crore to its net profit. The company has cash reserves of about Rs 205 crore and services over 200 clients including big names like BP, Xerox and PSL Energy.

<http://www.business-standard.com/india/storypage.php?autono=332569>

Indian cos on buying spree in UK, Europe

India now ranks among the first five largest investors in British companies and equities, spearheaded by the Tatas, who made ambitious purchase of Jaguar and Land Rover auto brands.

Many Indian companies are on “serious lookout” to acquire “strategically placed” British companies, including stock broking and financial firms in London, which is the heart of the European commerce and industry.

At the same time, India, according to Geneva-based UNCTAD, has emerged as a “favourite spot” for European companies busy shifting service operations abroad to escape from high administrative and management costs. A European banker says “it is now a two-way traffic”.

Indian companies coming to Europe prefer to operate from London, as the city is seen as the “correct gateway” to oil-rich Middle East and commodities-rich African markets.

In African markets, some Indian companies benefit from the presence of well-established Indian business communities, particularly in Nigeria, East, Central and South Africa.

An Indian banker based in London stated that since March this year borrowing abroad has been made easier by the Reserve Bank of India and Indian companies can now borrow up to \$ 50 million each for spending in rupees equivalent.

It is argued that while the RBI initiative may not translate into greater flows, it widens this field for Indian companies sourcing capital for business needs. Indian companies incorporated in the European Union countries also find it convenient to borrow from European banking institutions, at much lower rate of interest and extended repayment schedules.

<http://www.thehindubusinessline.com/2008/08/26/stories/2008082652481000.htm>