

Weekly Economic Bulletin

Date: July 28- August 03, 2009

Issue No. 327

Contents

- | | | |
|----------|--|------------|
| 1 | News Feature | Page 1-2 |
| | <ul style="list-style-type: none">• Indians got richer by Rs 4,207 in 2008-09• India Inc gets off to a rocking start in Q1 | |
| 2 | Overseas Investment | Page 2-3 |
| | <ul style="list-style-type: none">• Industrial output, FDI flows to improve: Secy• Govt eyes FDI from Germany, France to boost textile growth | |
| 3 | Trade News | Page 3-7 |
| | <ul style="list-style-type: none">• China replaces US as India's largest trade partner• Indian Inc signs \$50-m biz orders with Syria, Jordan• India signs agreement with Russia on seafood export• India set to sign pharma export deal with Nigeria• Indian cos draw \$1.6 bn deal from Japanese firms | |
| 4 | Sectoral News | Page 7-10 |
| | <ul style="list-style-type: none">• Cement despatches may grow 11% in July• Volume growth returns for FMCG firms• Indian media industry to outshine global peers | |
| 5 | News Round-up | Page 10-11 |
| | <ul style="list-style-type: none">• 2004-05 to be the new base year for inflation index: FM• RBI sees turnaround in business sentiment | |

News Feature

Indians got richer by Rs 4,207 in 2008-09

Indians got richer by Rs 4,207 in the last one-year as the per capita income of individuals stood at Rs 37,490 in 2008-09, Parliament was informed.

According to data released by the Central Statistical Organisation, the per capita income of people has increased by over one-third from Rs 26,003 in 2005-06 to Rs 37,490 in 2008-09, Minister of State for Finance Namo Narain Meena told the Rajya Sabha.

Per capita income is the amount an individual earns, of the yearly income that is generated in the country through productive activities.

It means the share of each individual when the income from the productive activities is divided equally among the citizens.

The per capita income was Rs 33,283 in 2007-08, Meena said.

The growth in real Gross Domestic Product (GDP) at factor cost declined from 9 per cent in 2007-08 to 6.7 percent in 2008-09.

The sector-wise growth of GDP in agriculture, forestry and fishing in 2007-08 was 4.9 per cent, but declined to 1.6 per cent in 2008-09. Industry witnessed a growth of 8.1 per cent in 2007-08, but it reduced to 3.9 per cent in 2008-09.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Indians-got-richer-by-Rs-4207-in-2008-09/articleshow/4830869.cms>

India Inc gets off to a rocking start in Q1

India Inc has begun the new financial year on a pleasant note, with four out of five companies making profits in the first quarter. Analysts see better earnings for the rest of the year on falling cost of operations.

An ETIG study of 850 listed companies saw their net profits rising 13% over the year-ago period after three dismal quarters, helped by falling raw material costs, lower cost of borrowing and modest growth in wage bills. The study did not include banks and public sector oil companies as their fortunes are directly linked to government policies.

Among the 22 Nifty companies that have declared quarterly results—Nifty is the benchmark stock market index that comprises 50 firms—the earnings story is even more gripping. These firms together reported a 25% increase in standalone net profit for the quarter over the year-ago period after witnessing modest earnings growth ranging between 3-8% in the previous four quarters.

Some companies that announced spectacular results include cement maker ACC, which saw 85% higher net profit, M&M (152%), Grasim (61%), Dr Reddy's (120%) and Hero Honda (83%).

This could set the tone for better earnings in the coming months, with companies and analysts seeing lower cost of operations going forward. "We can expect continued increase in profits as companies are unlikely to see input costs going up in the near term," said DR Dogra, deputy-managing director of credit rating agency CARE.

The bottom-line performance was boosted by lower raw material costs, which declined 3% for the first time in the last four quarters. In addition, wage bill went up by a modest 10% compared with an average 15-25% during the previous four quarters. With softening interest rates, borrowing costs of companies grew moderately at 20%, compared with over 30% growth over the previous few quarters.

Overall, 82% of companies covered by the study reported net profits compared with 70-72% in the previous three quarters. Companies that came out of the red after reporting losses in the March quarter include Spice Jet, Balaji Telefilms, Mcleod Russel and Advanta India.

Some other firms saw their profits going up due to one-time foreign exchange gains or sale of investments. Such companies are Ranbaxy Labs, Tata Motors, L&T, Jubilant Organosys and JSL.

During the quarter, a number of companies beat analyst estimates and reported blockbuster quarterly results. "Dalal Street is surprised by the upsides in earnings. Despite top line being under pressure last quarter, we have seen good growth in net profits due to expansion in operating margins," said Sarabjit Kour Nangra, vice-president (research) at Angel Broking.

<http://economictimes.indiatimes.com/News/Economy/Indicators/India-Inc-gets-off-to-a-rocking-start-in-Q1/articleshow/4839943.cms>

Overseas News

Industrial output, FDI flows to improve: Secy

India's June industrial output looks "promising" while foreign direct investment (FDI) inflows should improve with ample liquidity and rising confidence on the economy, the industry secretary said.

"It looks promising. We expect improvement. I expect continuous improvement going forward," Ajay Shankar said referring to industrial output.

"We think, with liquidity improving and confidence in the economy rising these (FDI) numbers should pick up," he told.

<http://economictimes.indiatimes.com/News/Economy/Indicators/Industrial-output-FDI-flows-to-improve-Secy/articleshow/4833138.cms>

Govt eyes FDI from Germany, France to boost textile growth

The ailing textiles and apparel sector is all set to receive Foreign direct investment (FDI) from France, Germany, Italy and Switzerland.

The government has undertaken an ambitious project to attract FDI in sector. "We have zeroed in on the western countries of France, Germany, Italy and Switzerland to attract FDI in the first phase as these nations have good technology at their disposal. Initially, the United States was also on the radar but later we found that it does not have the required capability as many of its companies in the sector are almost bankrupt," an official in the textiles ministry told.

For execution of the project 'Mobilisation of FDI in Textiles and Apparel Sector', the government has formulated a committee headed by textiles joint secretary JN Singh. The panel has been entrusted with the task of preparing the working plan to go about attracting foreign investments.

The \$52-billion textiles sector requires investment worth \$8 billion by 2012 to meet the expected demand, according to industry estimates.

India allows 100% FDI in the textiles and apparel sector without the need to take prior approval from the government or Reserve Bank of India. However, less than 1% of the total FDI goes into the sector. During April-December 2008, textiles received FDI of \$90 million, 0.43% of the total foreign investment of \$21.15 billion in all the sectors.

The textiles and apparel sector in India is highly decentralised and 96% of the production of fabric and garments is considered commercially non-viable. "Although the capacity in the spinning segment is appropriate, we are unable to produce fabric and garments in big lots due to small production facilities," Confederation of Indian Textiles Industry secretary general DK Nair said.

Besides, the problems of smaller size, domestic industry is also facing issues of higher price leading to lower exports in the already shrinking international market of the US and Europe. In 2008-09, the country's exports of textiles and garments came down 10% to \$20 billion from the year ago.

<http://www.financialexpress.com/news/govt-eyes-fdi-from-germany-france-to-boost-textile-growth/496155/>

Trade News

China replaces US as India's largest trade partner

China has emerged as India's largest trading partner, replacing US in 2008-09. Apart from increasing trade engagement with the neighbouring country and weak demand for foreign goods in the US, which is reeling under recession contributed to this.

According to a reply filed by minister of state for commerce Jyotiraditya Scindia in Lok Sabha, bilateral trade engagement between India and China stood at Rs 1,63,202 crore (nearly \$ 36 billion) in April to February 2008-09, an increase of nearly 7% over Rs 1,52,713 crore in the year ago period. In the same period under consideration, bilateral trade between India and the US dipped 7.5% and stood at Rs 1,55,353 crore (approximately \$ 34 billion).

Exports from India had increased 3.4% in dollar terms and 17% in rupee terms during 2008-09.

Significantly, trade deficit-the difference between exports and imports-with China expanded 41% in the period under consideration and stood at Rs 92, 676 crore (nearly \$20.3 billion), pointing towards fast expanding imports from China. This is nearly one fifth (18%) of India's trade deficit during the period under consideration, the highest for any of its trade partners.

According to data available with the commerce ministry, imports from China expanded 28% and stood at Rs 1,27,938 crore (\$ 28.10 billion) in April to February period of 2008-09. In fact, increase in large number of chemical and metal items import from China has been of concern for India, which has initiated many anti-dumping and safeguard duty mechanism investigations to ascertain if Chinese companies are adopting any unfair trade practice.

Historically, the US has been India's top trading partner. Exports to the US have mostly been greater than imports, as a result of which India has enjoyed a trade surplus. However, hit by the economic recession, demand for goods in the US plummeted, impacting exports from India as well.

<http://www.financialexpress.com/news/china-replaces-us-as-indias-largest-trade-partner/494785/>

Indian Inc signs \$50-m biz orders with Syria, Jordan

Coming as a shot in the arm for Indian businesses, 19-member business delegation during their visit to Syria and Jordan earlier this month has been able to chart new business ties with the two countries.

They have successfully raised new business orders in excess of \$50 million and have evaluated other business offers which if materialize, would substantially raise the figures. The delegation which went under the Ficci banner had CEOs from 19 Indian companies representing chemicals, infrastructure development, textiles, power, steel, home furnishings, agricultural goods and engineering services to name a few.

The Syrian deputy Prime Minister for Economic Affairs Abdullah Dardari, told that, “Indian and Syrian companies should establish joint venture projects in Syria and benefit from the diversity of its investment map and features.”

Reviewing the growing relations of cooperation between the two countries, Dardari apprised the Indian delegation of the investment opportunities available in various areas and to further enhance the prospects of cooperation and increase the volume of trade exchange between the two countries. He also called the on the businessmen and Indian companies to establish joint investment projects in Syria and benefit from the diversity of its investment map and features and facilities provided by the government to the Arab and foreign investors.

Dr Amit Mitra, secretary general, Ficci, said, “the business delegation’s visit to Syria and Jordan has indeed been path-breaking in more than one way. Apart from evaluating and successfully signing new business contracts, it has opened newer vistas for Indian businesses to proactively raise their presence in other West Asian markets.”

<http://www.financialexpress.com/news/indian-inc-signs-50m-biz-orders-with-syria-jordan/497205/>

India signs agreement with Russia on seafood export

Threat of a ban on Indian seafood imports into the Russian Federation was avoided with the Indian authorities reaching an agreement with the Federation, Marine Products Export Development Authority (MPEDA) sources said.

A new administrative arrangement regarding the terms of shipping of fish and seafood products from India to the Russian Federation was signed between the Export Inspection council (EIC) and the Federal Service of Veterinary & Phytosanitary Surveillance of the Russian Federation (FSVPS) on July 29.

Seafood exports to Russia during the last fiscal stands at 9,400 tonne, valued at Rs 115 crore. Total exports in 2007-08 were 4,500 tonne, valued at Rs 35 crore.

MPEDA sources said the main goal of these arrangements is to ensure high level of food safety and quality control for shipment of seafood products from India. The agreement defines the terms of export for more than 45 Indian fish processing establishments.

It also details on the modalities of cooperation in the fields of quarantine and inspections, during the export and import of products.

The document underlines the increased authority and responsibility of the EIC in administering India’s fish processing establishments and their recommendation and approvals for export to Russia.

The two sides also reached an understanding on the need to create a bilateral working group on sea product safety.

A mechanism has also been detailed to resolve effectively issues arising from seafood trade.

<http://www.financialexpress.com/news/india-signs-agreement-with-russia-on-seafood-export/497169/>

India set to sign pharma export deal with Nigeria

The government is set to sign an exhaustive deal with Nigeria to boost pharmaceutical exports to its eighth- largest global consumer, where the reputation of Indian drugs was recently dented by fake drugs from China bearing 'Made-in-India' labels.

The department of pharmaceuticals and the ministries of commerce, external affairs and health will start talks with a visiting Nigerian delegation on ways to prevent fake drugs from other countries bearing fabricated 'Made-in-India' labels from reaching the Rs 1,000-crore West African market for Indian generic drugs.

Orchid Chemicals and Pharmaceuticals and Medo Pharma are the biggest Indian exporters to the region. To salvage the reputation of Indian generic drug exporters and to promote sales of Indian generics, India is likely to use resources from the 'challenge India fund' maintained by the commerce ministry.

"Both the governments (India and Nigeria) will also discuss setting up a network of retail pharmacies in Nigeria operating with government licence, and putting an end to the existing unregulated medicine outlets," the official said.

The move will enable the government to put in place a fool-proof system to ensure that fake drugs are not passed off as imported generic drugs from India. Recently, a delegation of Indian authorities led by officials from the commerce ministry also visited Johannesburg to discuss the issue of fake drugs.

At the proposed talks, both the governments will identify steps to encourage Indian drug companies to set up manufacturing units in Nigeria and explore whether Indian public sector drugmakers can supply low-cost quality drugs to the Nigerian government.

The African country had seized a large consignment of fake anti-malarial drugs labelled 'Made in India' in May this year that was later traced to China. Three such consignments from China were also seized by the Indian authorities at the Chennai Port. India has also demanded that China should take strict action against the manufacturers whose names and addresses were printed on the confiscated cartons.

"Supply of spurious drugs to Africa is on the rise. Urgent steps have to be taken to ensure that India's reputation as a reliable supplier of high-quality, low-cost medicines is not ruined. The sooner we act, the better for us," the official said. Africa accounts for over 15% of India's total generic exports worth Rs 30,000 crore annually.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/India-set-to-sign-pharma-export-deal-with-Nigeria/articleshow/4850182.cms>

Indian cos draw \$1.6 bn deal from Japanese firms

India has attracted investment worth \$ 1.6 bn for projects in the fields of power, steel, construction and engineering SEZs from Japanese companies.

Besides, deals worth \$1 bn are also in advanced stages of negotiations with Japanese counterparts, sources in the visiting Assocham delegation, led by its President Sajjan Jindal, said.

The delegation is on a week-long visit to Japan as part of the Assocham efforts to promote special economic zones.

The biggest deal worth USD 1 billion was brokered by JSW Steel, company sources said.

The deal in the field of steel, power and heavy equipment will be formally inked in a couple of days, the sources said.

One of the Japanese partners of the deal is the Toshiba Group, a globally renowned conglomerate, the sources said.

Raheja Developers, a real estate company owning the biggest engineering SEZ in India, also attracted deals worth 0.60 bn dollars from Japanese firms, company sources said.

The sources, however, did not give details of the deal, saying formal agreements are yet to be signed.

Sources in other companies also said they are in advanced stages of negotiations for deals worth \$1 bn.

<http://economictimes.indiatimes.com/News/Economy/Foreign-Trade/Indian-cos-draw-16-bn-deal-from-Japanese-firms/articleshow/4833142.cms>

Sectoral News

Cement despatches may grow 11% in July

The 226-million-tonne Indian cement industry, the world's second-largest after China, is all set to hit a double-digit growth rate in July for the fifth month in a row, owing to robust demand for the building material.

Estimates from industry analysts and cement makers suggest that the industry may record an 11 per cent growth in despatches in the current month.

Hari Mohan Bangur, president, Cement Manufacturers' Association, said, "Demand was strong in July. Though compared to June, it could be slightly lower, but we expect the growth to hit 11 per cent (y-o-y)." In June, the despatch growth was 12.84 per cent.

This means the industry will end up with a total despatch of over 16 million tonnes in the month. Despatches stood at 14.5 million tonnes, growing at 8.13 per cent in July last.

Ajay Kapur, head, commercial & marketing, Ambuja Cements, said, "The monsoon has affected demand in some regions. But, more or less, July will see good growth."

Industry analysts said since there were no heavy rains in the country, except in the west, growth momentum in cement despatches might not see any adverse impact. A section of analysts felt that the current month might even witness a growth of 12 per cent.

The major chunk of the demand, they said, was coming from the north and the central parts of the country. The infrastructure push, demand emanating from semi-urban and rural regions and individual housing, in particular, was keeping the demand steady. In July alone, prices have gone up by Rs 7-10 for a 50-kg bag due to higher demand.

<http://www.business-standard.com/india/news/cement-despatches-may-grow-11-in-july/365309/>

Volume growth returns for FMCG firms

Fast moving consumer goods companies have posted yet another quarter of double-digit topline growth. However, the difference in this April to June quarter compared to the corresponding one in the previous year is that the growth is driven by volumes as against value (or price hikes) in the last financial year.

The sector also benefited due to lower input costs, which saw the margins expanding. For instance, Godrej Consumer Products (GCPL) recorded one of the strongest margin expansions of 598 basis points (bps), to 19.7 per cent (13.7 per cent last year), followed by Colgate Palmolive which delivered margin expansions of 557 bp. The margin expansions for ITC, Hindustan Unilever (HUL) and Marico were 385 bp, 209 bp, and 116 bp, Y-o-Y, respectively.

As in the January to March quarter of 2009, the midcaps — Dabur, GCPL, Marico and Colgate Palmolive -- performed much better than the largecaps, ITC and HUL. The y-o-y volume growth for the first quarter this fiscal for Dabur was 16 percent, for GCPL and Marico, 14 per cent, for Colgate Palmolive, 12 per cent. On the other hand, the volume growth for largecaps was in single digits. For instance, y-o-y volume growth for the non-cigarette business of ITC was 6 percent and for HUL, 2 per cent.

However, HUL's two per cent volume growth also shows a rebound, as in the January to March quarter it had recorded a 4 per cent dip in volumes. The rebound for HUL comes from its personal care portfolio, which recorded volume growth of 15 per cent, as the company took corrective action like reducing the price of Breeze and increasing the grammage of Clinic All Clear and relaunching it as Clear.

One reason for the high volume growth was the increase in advertising and promotion expenses due to events like the Indian Premier League (IPL) and T20 cricket tournaments,

besides the sector's ongoing efforts to adjust prices at price-sensitive points and increase grammage, and a spate of new launches and product innovations.

For instance, Dabur India rolled out a host of new products, which include a fruit beverage, Burrst, a fragrant light hair oil, Dabur Amla Flower Magic, and a new ayurvedic Dabur Total Protect Health Shampoo. Likewise, a new variant from the Godrej No.1 stable, namely Godrej No. 1 Lime and Aloe Vera for fresh, soft skin during the summer was launched. Godrej Nupur Mehendi was re-launched in a new and improved formulation. The Cinthol brand portfolio was also expanded with the launch of two new deodorant sprays 'Rainstorm' and 'Unleash'.

The y-o-y increase in advertising spending for Dabur was 39 per cent, GCPL, 30 per cent, Marico, 27 per cent and HUL, 26 per cent. The only exception to this was Colgate, whose spending reduced by 455bp.

Despite the weak monsoons, analysts are optimistic that the sector will perform well this fiscal. Weakness in the monsoon, they feel, would not significantly impact rural spending due to the National Rural Employment Guarantee Scheme and others like it, and also with urban demand picking up in the second half of the year with improving market sentiments. "We see the top line at 12 to 15 per cent in the coming quarter as well," says Anand Shah, analyst with Angel Broking.

<http://www.business-standard.com/india/news/volume-growth-returns-for-fmcg-firms/365339/>

Indian media industry to outshine global peers

The Indian media & entertainment (E&M) industry would grow at a rate five times the global annual average growth rate in the next five years, albeit on a base of around 1% of the total global media & entertainment pie.

India's E&M industry is expected to grow at a compound annual growth rate (CAGR) of 10.5% between 2009-2013 compared to the global rate of 2.7% for the same period, projects a PwC report.

While the Indian media industry would touch \$18.58 billion by 2013, the global E&M market is expected to grow 2.7% compounded annually over the five year forecast period to \$1.6 trillion in 2013. After registering a growth of around 16.6% compounded annually over the period 2004-08, growth in the Indian media industry is set to decelerate to 8% in 2009. This has largely been influenced by a marked slowdown in advertising spending, which is expected to touch 9.2% in 2009 after posting a CAGR of close to 17.3% during the period 2004-08.

Growth rates will increase in 2010 to 10.4% as economic conditions are expected to improve. For the remaining years of the forecast period, the industry will continue to grow at increasing rates, resulting in the overall CAGR for the period 2009-13 of 10.5%. The television industry is projected to be the major contributor to the overall industry revenue pie and is estimated to grow at a stable rate of 11.4%.

Cumulatively over the next five years, from an estimated \$4.8 billion in 2008 to reach \$8.4 billion by 2013. In the television pie, television distribution is projected to garner a share of 60% in 2013 television advertising industry is projected to command a share of around 40%.

The film industry is projected to grow at a CAGR of 11.6% over the next five years, touching \$3.7 billion in 2013 from the present \$2.14 billion in 2008. The relative shares of the film industry are expected to shift marginally from the traditional revenues to the new emerging revenues.

<http://www.financialexpress.com/news/indian-media-industry-to-outshine-global-peers/496241/1>

News Round – Up

2004-05 to be the new base year for inflation index: FM

Finance Minister Pranab Mukherjee said the wholesale price index (WPI) series, used to calculate inflation in the country, will have 2004-05 as the base year.

"The WPI series is being upgraded with base year 2004-05 in lieu of the existing one with base year 1993-94," Mukherjee told the Lok Sabha, replying to a question on price indices.

With the advancement of the base year and probably a revision of commodities in the index and their weights, it is expected that the index would provide a better picture of the current scenario of prices.

"The WPI will now become more representative of today's reality. I believe it will come along with the revision in commodities and weights," rating agency Crisil Principal Economist DK Joshi said.

Though Joshi said the WPI will become a better measure, he doubted if the government would include services in the index and said people will have to continue depending on other indices like the consumer price index.

<http://economictimes.indiatimes.com/News/Economy/Indicators/2004-05-to-be-the-new-base-year-for-inflation-index-FM/articleshow/4841908.cms>

RBI sees turnaround in business sentiment

In its most optimistic prognosis for the economy in 2009, the Reserve Bank of India (RBI) said overall business sentiment was slated for a sharp improvement from its nadir in the April-June 2009 quarter.

The central bank also did not sound all that concerned about inflation, explaining an inevitable rise later this year to the waning base effect.

According to the report on Macroeconomic and Monetary Development, which is released on the eve of RBI's quarterly monetary policy review, there is a turnaround in business sentiment as per industrial outlook survey conducted by the central bank.

The index measuring respondents' assessment for April-June 2009 improved sharply by 20.3% over the previous quarter. The index, which measures expectations for forthcoming quarter (July-September 2009), improved by 14% over the previous quarter. Notably, last quarter these indices had touched their lowest levels since the inception of this survey less than four years ago.

"In a way, this is positive for equities as well as bonds. RBI is talking about some improvement in domestic growth, and at the same time, it appears to be taking a pretty benign view of inflation," said Sujan Hajra, chief economist at Anand Rathi Securities.

He pointed out that since macro-economic surveys did not throw light specifically on growth or inflation, the market looked out for observations on business outlook and prices. "I expect RBI will upgrade its growth outlook in its policy and at the same time, maintain the outlook for inflation."

The bullishness is also there in the revised growth outlook by various professional economists whose forecasts are aggregated by RBI. The median of these forecasts, including those from IMF and the World Bank, has been revised upward to 6.5% from 5.7%. While agriculture growth could decelerate, industry and services are expected to clock higher growth.

Shubhada Rao, chief economist of YES Bank, shared Hajra's views on a higher growth forecast. "RBI may revise its growth forecast from 6% to 6.5% for FY10. We also expect inflation to pick up in the fourth quarter on the back of supply constraints as well as expected economic recovery," the chief economist said, adding that the central bank is likely to maintain a status quo on interest rates.

The report, which provides a disaggregation of bank credit, throws up another positive. Although credit growth has slowed, the industry's share of bank loans has grown. Bank loan data (up to May 22, 2009) show that 47.4% of incremental non-food credit (Y-o-Y) was absorbed by industry compared with 43.2% a year ago.

The growth was essentially led by infrastructure, iron & steel, engineering and construction industries. The agri-sector absorbed 16.9% of the incremental non-food bank credit compared with 10.1% a year ago. Though home loans decelerated, real estate loans continued to be high (52% Y-o-Y).

<http://economictimes.indiatimes.com/News/Economy/RBI-sees-turnaround-in-business-sentiment/articleshow/4827894.cms>