KPMG

Sectoral Snippets

India Industry Information

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KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

Sectoral Snippets

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KPMG in India

Sectoral Snippets, Issue 13

India is fast emerging as one of the world's leading destinations for investment. This is evident from the UNCTAD's recent World Investment Report, which rates India as second most-attractive location for investment after China. However, if India is to remain investment attractive, roadblocks like stringent labor laws, an underdeveloped infrastructure and bureaucracy will have to be overcome.

In a recent visit to Harvard Business School, India's Finance Minister P. Chidambaram described India as a 'poor- rich' country, in reference to the clash of realities in India, with India's youthful population and abundant natural resources on one hand and widespread poverty, illiteracy and endemic rural problems on the other.

Apart from this, the visit to India of Queen Beatrix of the Netherlands —from where 12.5 percent of India's FDI comes— is expected to augment cooperation between the two countries, particularly in terms of technology-sharing and investment.

We hope you find this edition of the snippets useful and insightful.

Regards,

Russell

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About Sectoral Snippets

Sectoral Snippets is an India-focused, monthly, freely-distributable newsletter brought out by KPMG in India. This newsletter provides an overview of the Indian economy in the form of news-briefs from across key sectors.

Contact mknowledge@in.kpmg.com if you are interested in receiving this newsletter on a regular basis, or wish to unsubscribe.

Indian Economy

Favorable economic reforms and a young skilled workforce have enabled India— the world's fastest growing free-market democracy— to claim its place in the global economy. With positive indicators such as rising foreign exchange reserves of over USD 200 billion, a booming capital market with the popular "Sensex" index touching the 19,000 mark, Foreign Institutional Investors (FII) making a net investment of USD 9.88 billion this year (till Sept 20, 2007) and Foreign Direct Investment (FDI) flow of USD 5.6 billion in 2007-08 (April – July 2007), it is easy to understand why India is a leading destination for foreign investment.

In 2006-07, the Indian economy has grown at an impressive growth rate of 9.4 percent, as against 9 percent in 2005-06. Some of the propellers of GDP growth have been manufacturing, which grew by 12.3 percent; the trade, hotels, transport and communications sector, which grew by 13 percent and construction, which grew by 10.7 percent.

However, despite these positive indicators, India is faced with many challenges. An estimated 800 million of India's 1.1 billion citizens survive on less than USD 2 a day. Education remains unattainable for millions and about 2.5 million people are infected by the HIV virus, though progress has been made in terms of having a better understanding of the epidemic. India's poor infrastructure development remains a hurdle to economic growth. Progress on these fronts is slow, and estimates are that it will be years before any substantial change is seen.

"One would have thought that the challenge of development in a democracy, will become less formidable as the economy cruises on a high growth path. The reality is the opposite."

Indian Finance Minister, P. Chidambaram at the Mahindra Memorial lecture delivered at Harvard University
(Source: The Economic Times, October 22, 2007)

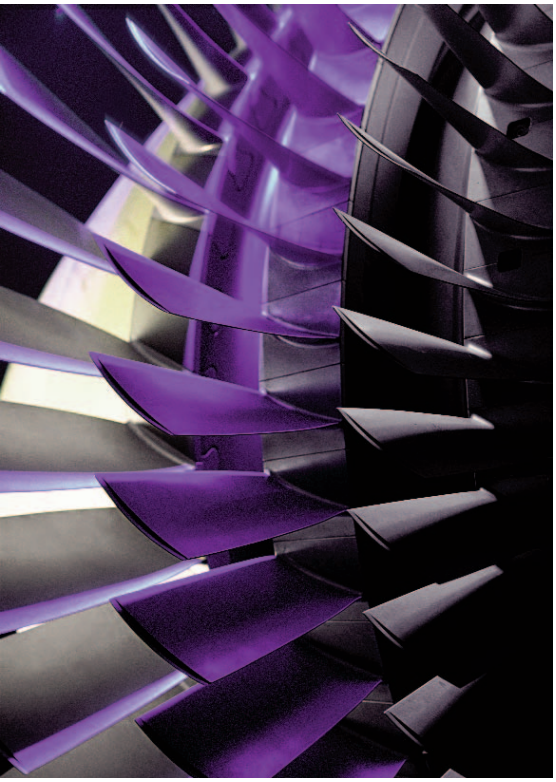
Further, international consultancy and research firm AT Kearney and Foreign Policy Globalization Index 2007 has ranked India at the 71st position (2nd to last) in its annual ranking of the world's most globalized nations. One of the many rationales behind the low ranking being, India's booming economy often camouflages the fact that 70 percent of its population lives in rural areas.

The rising value of the rupee has also created concerns over the sustainability of economic growth in recent times. The Government of India recently reduced its export target due to the appreciating rupee. Since January, the Indian rupee gained more than 11 percent against the U.S. dollar, eroding the cost advantage of Indian offshoring firms. Moreover, these firms face wage inflation, high workforce attrition and increased operational costs. Profits of Indian IT companies are down and their stock prices are falling due to the rising value of the rupee. This is clearly reflected in the fact that for the first nine months of this year while the Sensex rose by 32.47 percent, the Bombay Stock Exchange (BSE) IT index fell by 13.08 percent.

While acknowledging the reality of the challenges facing the country, India's economy continues to register significant growth, on account of its inherent strengths such as its large skilled labor pool, natural resources, well-established financial system, and a large and growing market.

Analyst: Asmita Deshmukh

Auto and Auto Components



"We need to be in India as well. What helps is the growth of the market. A year by year increase of over 10 percent (in the Indian car market) gives us the opportunity to grow as well"

Joerg Mueller, India President and group sales Managing Director for India, Volkswagen
(Source: Economic Times, September 18, 2007)

- **India to become export hub for Suzuki's two wheelers**
  Japanese auto major, Suzuki Motor Corporation, plans to make India an export hub for its two-wheelers, through its 100 percent subsidiary in India, Suzuki Motorcycles India (SMI). The company plans to export both motorcycles and scooters to emerging two-wheeler markets where the annual demand is over a million units. India will also be hub for exports to Africa, South America, and countries around India. SMI has invested USD 87.5 million in India since its inception in 2006 and will be investing another USD 37.5 million by next year. This investment will be utilized largely for capacity expansion and new product development.

- **Maruti to form JV with Futaba for exhaust systems**
  Indian passenger car leader, Maruti Suzuki India Ltd (MSIL) (formerly Maruti Udyog Ltd.), will form a Joint Venture (JV) with Japanese component major - Futaba Industrial Co., to manufacture and sell exhaust component systems, which will include exhaust pipes, exhaust mufflers, and exhaust manifolds. The estimated project cost for the new facility is close to USD 45.5 million and will be located at Manesar, Haryana.

- **Hybrid cars to be available on Indian roads by 2008**
  Hybrid vehicles are set to strike Indian roads by 2008. Hybrid cars are vehicles that will run on electricity and another optional fuel, which could be petrol, diesel or bio-fuel. The car owner will have the option to drive the car using either electricity or the alternative fuel and can easily switch from one to another fuel option. Japanese auto major, Honda plans to launch its premium Civic in its hybrid version in India by 2008. Also, Mahindra and Mahindra (M&M) is test-piloting its Scorpio's mild-hybrid variant and full-hybrid variant. American auto maker Ford India too, is monitoring the Indian market and globally has the technology ready for such products.

- **Honda to set up powertrain facility in India**
  Japanese auto major, Honda plans to setup a powertrain facility in India and the new facility will be accommodated in its new manufacturing plant in Rajasthan. The powertrain facility is expected to be operational by the first quarter of 2009 and will produce 200,000 units annually. According to market estimates, the cost for building a powertrain facility will be close to USD 150 million. The powertrain facility will help the company establish a full-fledged engine and gearbox manufacturing center in India and reduce the dependency on imports.

- **Toyota Kirloskar Motors to enter used car business in India**
  Toyota Kirloskar Motors (TKM) plans to enter the used car business in India under its own-brand outlets 'Toyota You Trust'. Initially, these will be opened in Delhi, Bangalore, and Chennai and will be independent from the existing new car dealerships, but will be linked for after-sale support. These outlets will primarily cater to buyers looking for a certified pre-owned car. Though the used car segment continues to be largely unorganized, Maruti's "True Value" and Ford's "Ford Assured" used car outlets have been relatively successful.

Analyst: Ranjeet Javeri

KPMG

Banking and Insurance

Top Five players in Non Life Insurance
(Gross premium underwritten)

Non - Life Insurer	April - August 2007-08 (USD mn)	Growth (y-o-y) %	Market share (%)
New India (public)	548.5	57	18.6
Oriental (public)	428.1	2.6	14,5
National (public)	416.7	8.1	14.1
United India (public)	394.8	6.1	13.4
ICICI-Lombard (private)	365.9	14.0	12.4
Private Total	1,157.0	27.3	39.3
Public Total	1,788.1	5.5	60.7
Grand Total	**2,945.1**	**13.1**	**100.0**

(Source: Insurance Regulatory and Development Authority

- **Home loans GDP ratio in India is close to 5 percent**
  Inspite of real estate witnessing a boom in the last few years, with substantial home loan borrowers being first timers, the home loans GDP ratio in India is close to just 5 percent as against 50 percent in the U.S. and the U.K. Home loan rates have increased from 7 percent in 2003 to 12 percent in 2007 with its impact felt across the board including genuine buyers, speculators, real estate developers and bankers. However, the share of housing loans in total personal loans has been on its way up since 2000-01, increasing from 37 percent in 2001-02 to close to 48 percent in 2005-06.

- **Private Equity Group Baring's Indian arm investing in a brokerage company**
  Duckworth Ltd., a wholly owned subsidiary of Baring India Private Equity Fund Ltd., has acquired a 44.8 percent stake in JRG Securities (JRG), the second largest brokerage company in the State of Kerala. JRG has a network of 540 branches, including a presence in West Asia and posted an income of INR 8.92 crore (USD 2.2 million) during the first quarter of fiscal 2007-08, and a net profit of INR 1.57 crore (USD 0.4 million).
  There have been several acquisitions and investments by private equity and foreign banks in Indian broking space over the last one year, including Standard Chartered investing in UTI Securities; Citigroup's private equity arm, Citigroup Venture Capital International (CVCI) acquiring an 85 percent stake in a retail brokerage firm Sharekhan and Lehman Brothers acquiring the institutional broking business of Brics Securities.

- **Foreign financial services group eyeing Non Banking Financial Companies (NBFC) space**
  U.S.-based Investment Bank, Lehman Brothers acquired a 26 percent stake in ECL Finance, the NBFC of Edelweiss Capital, for close to INR 180 crore (USD 44 million). In March 2007, Financial services company Edelweiss announced its foray into the non-banking financial space and asset management by investing a total of INR 400 crore (USD 98 million) in the new ventures. Foreign financial services group have recently focused on the Indian NBFC space with BNP Paribas acquiring a 50 percent stake in an arm of SREI Infrastructure, AIG Capital buying out 75 percent in Chennai's Vivek Hire Purchase and Barclays acquiring Chennai's Rank Investments.

- **Private sector companies exhibiting higher growth in non-life insurance market**
  The private sector companies who have a share close to 39 percent in the non-life insurance market (April – August'07), are growing at a faster rate than the public sector companies. The latest numbers released by the Insurance Regulatory and Development Authority (IRDA) for August reveal that while the private sector business in the segment increased by 27 percent; the public sector business grew only by 5 percent. Industry experts say the private sector's performance is due to aggressive selling. In addition, private companies have a smaller premium collection base compared with their public sector counterparts. For instance, United India Insurance, the smallest player in the public sector group, collected INR 1,579 crore (USD 394.7 mn) (April – Aug'07) growing at six percent compared to last year, while HDFC General Insurance, the smallest entity in the private sector group, collected INR 98 crore (USD 24.5 mn), growing at close to 28 percent for the same period.

Analyst: Aman Kaushik

Consumer Markets and Retail

"I think India is going to be a very important part of global strategy for the next 50 years and our perspective on India is in that time frame".

Raj Jain, Country President, Wal-Mart's India operations

(Source: Reuters, August 8, 2007)

- **Wal-Mart to sign JV agreement with Indian Bharti Enterprises**
  Bharti Enterprises and Wal-Mart Stores have signed an agreement to form an equal Joint Venture (JV) for wholesale cash-and-carry and back-end supply chain management operations in India. The joint venture would be named Bharti Wal-Mart Private Limited and would serve small retail stores, fruit and vegetable resellers, restaurants and other business owners. Also, the venture would invest in setting up an efficient supply chain which would link farmers and small manufacturers directly to retailers. The first wholesale facility is expected to be operational by the end of 2008. In addition, Bharti Enterprises' 100 percent subsidiary Bharti Retail, would own and manage the retail stores, entered into a franchise agreement with Wal-Mart to provide technical support to Bharti Retail.

- **McDonalds to expand Indian operations**
  The fast food chain, McDonald's Corporation plans to invest USD 115 million (excluding real estate costs), in India to double its network to 220 outlets by the end of 2008. At present, McDonalds has 110 outlets spread across 29 cities in India. As part of its expansion plans, the company aims to open about 50-60 outlets every year, by setting up a cluster of outlets at one place rather than expanding throughout the country.

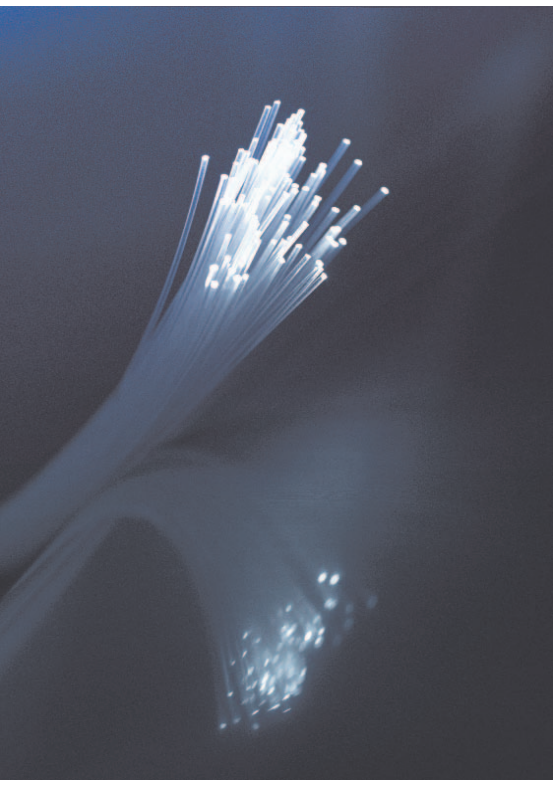
- **Shoppers Stop and Home Retail Group to introduce catalogue retailing in India**
  Shoppers Stop and HyperCity Retail (India) Pvt Ltd have signed a Memorandum of Understanding (MoU) with the U.K. based Home Retail Group, to develop the Argos format of catalogue retailing in India. The agreement is based on a franchise model wherein Argos would be providing its brand, catalogue and multi-channel experience to the joint venture. Argos will also provide Information Technology (IT) support and its expertise on developing sales through the internet. The brand would be launched at the end of 2007 in Mumbai. The arrangement is expected to give Argos a strong footing in the rapidly expanding retail market in India. Shopper's Stop is an Indian retailer, which operates 22 department stores in 11 Indian cities.

- **India's Future Group enters into a JV with UAE's Axiom Telecom**
  Future Group's flagship company Pantaloon Retail India Ltd., has signed an equal joint venture agreement with the United Arab Emirates (UAE) based Axiom Telecom LLC. The new venture would focus on developing backend sourcing infrastructure for Pantaloon Retail's existing telecom retailing business. Additionally, it would also create a nationwide network of after-sales service centers for mobile handsets in India. The arrangement highlights Future Group's plan to be a major player in the Indian telecom wholesale, retail and after-sales service market. Axiom Telecom is a distributor and retailer for international mobile brands with more than 450 outlets across the Middle East.

- **P & G ventures into the Indian skin care market**
  Procter & Gamble (P&G) forayed into the skincare products market in India with the launch of its 'Olay' brand of skincare products. The company has introduced its anti-ageing cream, Olay Total Effects, in six Indian metros, which would be available in around 2,000 outlets in India. With this move, the FMCG player plans to establish a strong presence in the Indian Skin care market. The Olay brand competes primarily with Hindustan Unilever's 'Pond's' premium skincare products in India.

Analyst: Sitanshu Sheth

IT / ITeS



- **Wipro acquires Infocrossing**
  Wipro Technologies, a part of Wipro Ltd., India's third largest IT company, acquired U.S.-based Infocrossing Inc. for approximately USD 600 million. Infocrossing provides IT infrastructure management, enterprise application and business process outsourcing (BPO) services. Further, it has five data centers and 900 employees in the U.S. Wipro believes the acquisition will strengthen its IT infrastructure management solutions.

- **Firstsource buys MedAssist Holding Inc.**
  Firstsouce, a leading third party ITES player, acquired U.S.-based ITES player MedAssist Inc. for USD 330 million. MedAssist provides services in the field of revenue cycle management in the healthcare industry including eligibility services, receivables management services and post default collections services. MedAssist has 1,400 employees serving around 1,000 clients.

- **Tata Consultancy services bags contract from BSNL**
  Tata Consultancy Services (TCS) won a multi year transformational contract from India's largest telecom player BSNL valued at USD 140 million. As per the terms of the engagement, TCS will facilitate complete transformation of existing systems and processes to next generation convergent billing system. The engagement involves setting up of complex data networks and the deployment of Operational Support Systems (OSS) and Business Support Systems (BSS) components.

- **Hero ITES acquires Telecom Service Centres**
  Hero ITES, the ITES arm of India-based Hero group, acquired U.K.-based Telecom Service Centres (TSC), a contact center player, for an undisclosed amount. Industry sources estimated the deal to be worth around USD 80 million. TSC has nine locations across the United Kingdom and serves some of the leading companies of the world in the financial, telecom, technology and retail sectors. The combined entity is estimated to have over 3,500 seats and an annual revenue in excess of USD 100 million.

- **New Zealand Stock Exchange selects TCS' BaNCS Market Infrastructure solution**
  TCS' BaNCS market infrastructure solution, which offers multi-entity, multilingual support to depository and clearing institutions with functionality across major financial products such as equity, fixed income, commodities and derivatives, has been selected by the New Zealand Stock Exchange (NZX). NZX believes that implementing this solution will enhance its efficiency in offerings such as clearing, registry and depository services.

- **Personal computer sales crosses 1.7 million units in Q1**
  According to the Manufacturers' Association for Information Technology (MAIT), the apex body representing the IT hardware industry in the country, personal computer (PC) sales in India including desktops and laptops crossed 1.7 million units for the quarter April-June 2007. The desktop sales were close to 1.4 million units. MAIT expects the desktop sales to cross 6.25 million units by FY 2008. An increase in sales is expected from implementation of e-governance projects at centre and various states, increased demand from SMEs and educational institutions.

"Since India is the largest IT manpower provider in the world, the business of Indian IT firms presently operating in Japan is currently growing at over 40 percent compound average growth rate although the Indian IT sector is growing at about 30 percent per annum".

Atul Hemani, Director, Arham Technologies Company (Japan) Ltd.

(Source: Asian Age, September 18, 2007)

Analyst: Devesh Bhatt

Media

- **TV18 acquires 50 percent stake in MTV**
  The Television Eighteen Group (TV18) acquired 50 percent equity stake in MTV Networks India (MTVI) for about USD 50 million. The deal is a part of the recent 50:50 Joint Venture (JV) between TV 18 and Viacom, known as Viacom-18. MTVI, a part of Viacom, runs the flagship channel MTV India, kid's channel Nickelodeon India and international music channel VH1.

- **Fidelity acquires 10 percent in BAG Films**
  FID Funds Ltd. (part of U.S. based Fidelity Funds) has acquired a 10 percent stake in television content provider BAG Films & Media Ltd. for about USD 16 million. BAG Films has presence in Programming, Films, Radio FM and New Media Business (mobile telephony) segments besides promoting a Media School. The company has also obtained a license for its news and current affairs channel News24 and wellness channel Bliss24.

- **Eros International and Sony to invest in Indian movies**
  Sony Pictures Entertainment and Eros International will co-invest in a series of Bollywood Hindi movies to be released in India and abroad. The JV will initially invest about USD 70 million. The companies will develop, produce and acquire multiple films. While Sony Pictures will distribute titles in the United States, Eros will look after distribution in other international regions.

- **UTStarcom and Bharti Airtel to launch IPTV in India**
  U.S.-based UTStarcom Inc., a networking solutions provider, has entered into an agreement with India-based telecom service provider Bharti Airtel, to provide RollingStream Internet Protocol Television (IPTV) solutions to the latter. The solution will enable Bharti Airtel to offer entirely new services to its customers consisting of live broadcast television, time shifted TV and video on demand (VoD) along with the operator's existing broadband and voice services.

- **OOH Media acquires AdImpact**
  Out of Home Media (OOH Media), a company owned by private equity fund 3i, has acquired Mumbai-based AdImpact, an out of home digital media company. OOH sells advertisements on a network of about 3,000 LCD Plasma screens located in heavy traffic areas in around 22 markets in India. With this acquisition, OOH Media will have access to additional 1,200 screens of AdImpact, located in key areas across Mumbai and Bangalore. The out of home television segment in India is in a nascent stage and at present, has 4,500 screens.

- **NDTV to foray into the Middle East and North Africa**
  India-based broadcaster New Delhi Television Limited (NDTV), plans to launch 'NDTV Arabia', a 24 hour news and infotainment channel. The launch marks its entry into the Middle East and North African region. It is the first wholly owned region specific channel from the bouquet of NDTV. Initially, the channel will broadcast general and business news and current affairs programming from India, and then add local news content produced from its bureau in Dubai.

"Indian pay TV market is likely to generate a turnover of USD10 billion by the next three years as against USD 4.2 billion in the current fiscal following increased digitization of the cable delivery system and the deep pay TV penetration"

(Source: Financial Express, September 21, 2007)

Analyst: Ashwini Kulkarni

Oil and Gas

"Both the oil majors (on signing MoU between ONGC and BP) have varied experiences in the exploration and production business and this synergy will give competitive advantages to both entities in global operations"

R.S. Sharma, Chairman and Managing Director, ONGC
(Source: Deccan Chronicle Group, September 2, 2007)

- **ONGC and British Petroleum (BP) tie up for joint exploration**
  India's oil giant Oil and Natural Gas Corporation Ltd. (ONGC) entered into a Memorandum of Agreement (MoA) with global oil major BP, to collaborate in the Exploration and Production (E&P) business in India and abroad. This will include sharing knowledge in Coal Bed Methane (CBM) and deepwater exploration. The memorandum envisages possible participation in each other's acreages in India and abroad, including offshore licenses and the CBM acreages in India. ONGC and BP may also jointly bid for exploration acreages in India and abroad.

- **BPCL and Premier Oil find huge gas reserves in India**
  A consortium of India's state owned Bharat Petroleum Corporation Limited (BPCL) and Premier Oil of U.K. have struck huge onshore gas reserves in Assam. Initial estimates peg gas reserves at 8-18 trillion cubic feet. The find is in the north eastern state of India, Assam. Assam accounts for about 12 percent of India's crude oil production of about 665,000 barrels of oil per day (BOPD). Premier holds 14.5 percent interest in this block.

- **Reliance Industries acquired Gulf Africa Petroleum Corporation**
  India's privately owned Reliance Industries, has acquired a majority stake in east African fuel retailer Gulf Africa Petroleum Corporation (GAPCO) for an undisclosed sum. GAPCO is headquartered in Mauritius and has 250 retail outlets and storage terminals in Kenya, Tanzania and Uganda. Reliance Industries operates the world's third largest refinery and is India's largest exporter of oil products.

- **BPCL-Videocon acquires 50 percent stake in EnCana Brasil**
  Videocon Industries and state run Bharat Petroleum Corporation acquired 50 percent stake in Brazil's EnCana Brasil Petroleo Limitada. The transaction is for interests in ten deep water offshore exploration blocks in four concessions in Brazil. EnCanBrasil, an oil exploration firm, is a subsidiary of EnCana Corporation, Canada's biggest natural gas producer. The transaction is estimated to be worth USD 425 million.

- **Petronet LNG will import LNG from Algeria**
  India's largest liquefied natural gas (LNG) importer, Petronet LNG Ltd., will sign a long term contract to import LNG with Algeria's national oil company, Sonatrach. Petronet will import 1.25 million tonnes of LNG per annum for 25 years. Sonatrach will export LNG from its 4.5 million export terminal which will be operational by 2011. Algeria has the world's fifth largest gas reserves and is fourth largest exporter of LNG.

Analyst: Amiya Swarup

Pharma

- **Cipla is planning to spend USD 230 million on capacity expansion**
  Cipla, one of India's leading pharmaceutical companies, is planning to spend around USD 230 million on capacity expansion over the next two years. It will invest in three formulations facilities - a tablet and injection facility in Sikkim; an aerosols, capsules and tablets facility in Goa and a form-filled sealed units facility in Indore. Cipla has already invested about USD 195 million over the last two years for capacity expansion.

- **Fortis Healthcare to set up USD 195 million medicity in Gurgaon**
  Fortis Healthcare, established by the promoters of Ranbaxy Laboratories, is planning to set up a seven-star medicity project in Gurgaon. It will set up a 950-bed seven-star hospital - Fortis International Institute of Medical Sciences (FIIMS), spread over 10.7 acres of land. At present, Fortis has a network of 12 hospitals in North India.

- **Sun Pharmaceuticals receives its first 180 day exclusivity**
  Sun Pharmaceutical Industries, one of India's leading pharmaceutical companies, has received the 180-day exclusivity from the USFDA for its Abbreviated New Drug Application (ANDA) with a Para IV certification, to market a generic drug in the U.S. market. Sun will market the generic version of Wyeth's Protonix, pantoprazole tablets in the strengths of 20 mg and 40 mg. These strengths of Protonix have reported yearly revenues of around USD 2.3 billion in the U.S.

- **Ranbaxy signs an in-licensing deal with an Australian company**
  Ranbaxy Laboratories, one of India's largest pharmaceutical companies, has entered into an in-licensing agreement with Sirtex Medical Pvt. Ltd., an Australia-based company, to market the latter's product, SIR-Spheres. Ranbaxy will sell the drug in India, Bangladesh, Sri Lanka and Nepal. This agreement will mark Ranbaxy's entry into the liver cancer market.

- **Ipca acquires an Australia-based company**
  Ipca Laboratories, an Indian pharmaceutical company, has acquired 100 percent stake in a small Australia-based formulation product dossier registration-cum-distribution company. At present, the Australian company has five formulation registration dossiers in Australia. It also has a wholly owned subsidiary in New Zealand having three formulation registration dossiers in that country. This acquisition will strengthen Ipca's formulations business in Australia and New Zealand.

"Fortis International Institute of Medical Sciences is going to be our flagship hospital, and it will contribute significantly in setting new standards of healthcare delivery in the country"

Shivinder Mohan Singh, CEO and Managing Director, Fortis

(Source: Business Standard, August 27, 2007)

Analyst: Nandita Kudchadkar

Power

- **Joint venture between NTPC and BHEL**
  Bharat Heavy Electrical Limited (BHEL) and National Thermal Power Corporation (NTPC) have signed Memorandum of Understanding (MoU) to form a Joint Venture (JV) for undertaking engineering, procurement and construction activity in the power sector on mutually beneficial terms.

- **FTIL gets approval to set up first power exchange**
  Financial Technologies India Limited (FTIL) has received an approval from Central Electricity Regulatory Commission (CERC) to set up India's first national level power exchange. The exchange will named India Energy Exchange Limited and Power Trading Corporation India Limited will have 26 percent stake. Others who have given their consent for the stake are Tata Power Company, Reliance Energy Limited, Rural Electrification Corporation Limited, Adani Enterprises Limited and Infrastructure Development and Finance Corporation (IDFC).

- **Crompton Greaves forays into power distribution**
  Power equipment major, Crompton Greaves has entered into the power distribution sector by winning the bid for 15-year franchise agreement from Mahavitaran (Maharashtra State Electricity Distribution Company Ltd.) in Nagpur. As per the terms of the contract, the company will pay INR 4.68 per unit to Mahavitaran against the benchmark price of INR 2.43 per unit. This move by Mahavitaran comes on the back of rising transmission and distribution losses, which is over 35 percent in six cities and towns of Maharashtra.

- **World Bank approves USD 400 million loan for hydro power project**
  World Bank has approved a USD 400 million loan to an Indian state-owned power company, Satluj Jal Vidyut Nigam limited (SJVN), to develop a run-of-river hydro power plant on the river Satluj. The loan is provided by the International Bank for Reconstruction and Development (IBRD), and has 20 years to maturity with a five year grace period.

- **BHEL wins USD 465.8 million order from NTPC JV company**
  Bharat Heavy Electricals Limited (BHEL), a public sector power equipment maker, has bagged USD 465.8 million order from NTPC-Tamil Nadu Energy Company Limited (NTECL), a JV between NTPC and the Tamil Nadu Electricity Board (TNEB). The order involves designing, engineering, manufacturing, supply, erection and commissioning of steam and turbine generators, electrostatic precipitators, associated auxiliaries and controls and instrumentation system for the upcoming Vallur Thermal Power Project at Ennore in Tamil Nadu.

"Power sector business in India is now looking attractive and we want to participate in its growth"

Hameed Syed Salahuddin, Director- ETA Ascon Star Group
(Source: The Economic Times, September 24, 2007)

Analyst: Rajiv Parekh

KPMG

Real Estate and SEZs

"The base of Indian real estate market, growing at 30 percent, is likely to touch USD 90 billion by 2015 from the current level of USD 14 billion and help economy continue to grow between 9 to 10 percent."

(Source: ASSOCHAM Press Release, October 1, 2007)

- **Deutsche Bank invests USD 425 million in Lodha Group**
  Deutsche Bank Singapore along with some private equity investors has invested USD 425 million in Lodha Group, a Mumbai-based real estate developer. This investment will fund the development of Lodha group's three FDI-compliant projects located in and around Mumbai.

- **Beary's to raise USD 100 million Shariah Compliant Funds**
  The Beary's Group, a Bangalore-based property developer, is raising over USD 100 million "Shariah Compliant Investments" from different entities in West Asia. It has raised about USD 20 million from the Saudi Economic and Development Company and plans to raise about USD 90 million from the Kuwait Finance House. The company plans to invest the funds in various commercial, retail and residential projects in Bangalore, Mysore, Mangalore, Udupi, Bhatkal and a few places in north Kerala.

- **Parsvnath to invest USD 60.67 million in Hyderabad**
  Parsvnath Developers is planning to invest about USD 60.67 million to construct a commercial complex and a five star hotel in Hyderabad. The project is expected to be completed in next three years and would be funded through internal accruals and debt. The commercial complex is expected to have a saleable area of three lakh square feet and the hotel would be spread on an area of 1.75 lakh square feet.

- **Mantri to invest in Kolhapur**
  Mantri Realty is planning to invest about USD 24.76 million in Kolhapur in Maharashtra, for setting up an IT park, a mall and a residential township. About USD 5 million will be spent on the IT park which will be spread over one lakh square feet with a seating capacity of 1000. The company plans to invest USD 19.76 million to build a 3-5 lakh square foot mall and a township which would be spread over 100 acres. The company is also planning a similar IT park in Sangli and Miraj in Maharashtra with an additional investment of about USD 5 million.

- **IL&FS and Milestone launch USD 248 million real estate fund**
  IL&FS Investment Managers Ltd. and Milestone Capital Advisors have jointly launched USD 248 million real estate investment fund on the lines of Real Estate Investment Trusts (REIT). The fund is expected to have a corpus of USD 248 million including a green shoe option of USD 124 million. The scheme is a close ended scheme with a term of four years, with an option to extend the term by a year. The fund plans to invest in ready properties, in order to eliminate the development risk. IL&FS Milestone Fund-I is said to be the first real estate investment fund in India to offer a low minimum investment commitment of USD 24,765 for individuals and USD 2,47,647 for corporates.

Analyst: Nitin Dehadraya

Telecom

"Since our entry into India, our capital expenditure has doubled. We are now spending USD 2 billion a year" .

Arun Sarin - CEO, Vodafone Group plc

(Source: Asia Pulse, October 09, 2007)

- **OnMobile buys France-based Voxmobili**
  OnMobile, a leading telecom value added service (VAS) provider incubated by Infosys Technologies, has acquired VoxMobili, a France-based company focused on providing personal data management and wireless synchronization. Voxmobili has around 45 employees and operations in Europe, North America, Middle East, Australia and Eastern Europe and has over 21 platforms deployed worldwide, and has issued over 20 million licenses for their products globally. The acquisitions will help OnMobile add powerful complementary products and IP to its VAS portfolio and will strengthen its standing in the Global Telecom VAS industry.

- **India's mobile phone production to reach 107 million units by 2011**
  According to Gartner, mobile phone production in India is expected to increase from 31 million units in 2006 to 107 million units in 2011 – registering a Compound Annual Growth Rate (CAGR) of 28.3 percent. The growth is expected to be driven by increasing mobile phone subscribers, favorable government policies, entry of new local and global telecom equipment manufacturers and increasing presence of global Electronics Manufacturing Services (EMS) players. It is expected that India could also become an export hub for the supply of low cost handsets to regions like Africa, the Middle East and other parts of South Asia.

- **India becomes second largest market for Nokia**
  India has replaced the U.S. as the second largest market for Nokia, which commands more than 50 percent market share of India's telecom handset market. In recent times, Nokia set up its first design studio in Bangalore in partnership with the Srishti School of Art, Design and Technology. This studio will give Nokia designers and Indians an opportunity to work together on new ideas for India and the global markets. At present, Nokia has about 4,700 employees at its Chennai factory and has started exporting handsets made at this plant to 58 countries.

- **Russia's Sistema acquires 10 percent stake in Shyam Telelink**
  Russia's telecom giant, Sistema JSFC, has acquired 10 percent stake in Shyam Telelink for USD 11.4 million. Shyam Telelink offers CDMA and basic telephony services in Rajasthan and has about 2,70,000 subscribers. It has also applied for new licenses for offering unified access telecom services in 22 other States. As per the agreement, Sistema will increase its stake to 51 percent after it gets approval from the Foreign Investment Promotion Board (FIPB) and has an option to increase its stake up to 74 percent.

- **New wave of telecom license applicants takes industry by surprise**
  Following the Department of Telecom's announcement that 1st October is the cut off date for new players to apply for telecom licenses and TRAI's (Telecom regulatory Authority of India) recent guidelines on the future spectrum allocation norms, at least 15 new applicants have applied for a telecom service license. The list includes names such as U.S. firm AT&T in a tie-up with diversified group Mahindra & Mahindra and property developers DLF, Unitech, Omaxe Indiabulls Real Estate and Parsvnath Developers. Media reports suggest that companies such as Hinduja Group, JSW Steel and IT firm Tulip IT, Videocon, Future Group and Jaypee Group have also applied for pan India telecom licenses.

Analyst: Amit Shah

KPMG

Transport and Logistics

"We have submitted the draft with the Planning Commission for a USD 57.4 billion investment roadmap during the 11th plan period".

V N Mathur, Railway Board Member
(Source: The Economic Times, July 24, 2007)

- **Railways plan USD 57.4 billion investments**
  The Indian Railways has submitted a proposal to the Planning Commission to raise around USD 57.4 billion (INR 2.51 trillion) in the 11th Five Year Plan (2007-2012) to develop railway infrastructure. The Indian Railways will internally generate USD 20.5 Billion (INR 900 Billion) and will raise USD 16.7 billion (INR 728 Billion) from the overseas and domestic markets to part-finance its capex plans for the next five years. It plans to raise a portion of the requisite funds through external commercial borrowings (ECBs) and from multilateral funding agencies. Railways also intend to build 20 warehouses and logistic parks as part of a development plan.

- **APL IndiaLinx to invest USD 60 million**
  Container rail freight service provider APL IndiaLinx plans to invest USD 60 million over the next one year in India. APL IndiaLinx is a 76:24 joint venture company between Neptune Orient Lines (NOL) and Hindustan Infrastructure Projects and Engineering. According to NOL, APL IndiaLinx would invest USD 60 million in acquiring rail licences, rolling stocks, nine rakes and inland container depots. It has maintained 90 percent utilization of its rail units between Mumbai and Delhi (which began operations in May 2007) and also plans to commence its second rail service between Mumbai and Delhi.

- **Indian airports to turn into aeropolises**
  Airports in India will now go beyond flight operations. Aeropolis or Aerotropolis is gaining ground and Delhi, Mumbai, Hyderabad, Bangalore and Nagpur airports will soon become self-sufficient cities. Facilities such as luxury hotels, retail space, convention centres, banks and entertainment options are planned. The Government is expected to invest around USD 2.7 billion in modernizing major airports as well as 35 non-metro airports over the next five years. Approximately USD 5.5 billion is expected to be invested by private investors and developers. Revenue earned from non-aeronautical activities at some of the airports abroad is sizeable, hence many other facilities, such as hospitals and speciality retail outlets are also in pipeline.

- **DP World plans port expansion in India**
  The world's third-largest container terminal operator DP World reportedly plans to buy or expand port facilities in India and China. Their focus area is gateway ports as almost 80 percent of their business is gateway cargo. It plans to invest about USD 3.5 billion over the next five years on global port projects, with a special emphasis on India and China. In India, the company plans for investing USD 500 million in a container terminal in the southern city of Cochin. It is also investing about USD190 million on an expansion project of Kulpi Port in West Bengal. DP World's total investment in India is likely to reach USD 2 billion.

- **Jupiter Aviation plans USD 100 million JV with Kingfisher**
  Jupiter Aviation & Logistics, an aviation infrastructure and logistics company, is planning to sign a Joint Venture (JV) agreement with Kingfisher Airlines and Air Deccan for USD100 million for a maintenance, repair and overhaul (MRO) project in Bangalore. Kingfisher Airlines and Air Deccan jointly will hold around 50 percent and Jupiter will own the remaining stake. The joint venture will be positioned as a global aviation outsourcing hub that will also cater to training and design needs of global carriers. Jupiter is an exclusive partner of Airbus parent European Aeronautic Defense and Space (EADS) for MRO and life-cycle support of commercial aircraft in India. Jupiter is also working on a proposed MRO project with national carrier Indian in Delhi.

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