KPMG

# Sectoral Snippets

## India Industry Information

Issue 17 - March 2008

KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

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# Sectoral Snippets

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**KPMG in India**

## Sectoral Snippets, Issue 17

The ripple effect of U.S. sub prime crisis and weak cues from Asian markets have resulted in considerable volatility in the Indian equity market with the Sensex correcting by over 25 percent from Jan 2008. The economy was further impacted by the slowing of domestic industrial production. In Jan 2008, industrial growth measured by the Index of Industrial Production (IIP) was 5.3 percent, significantly lower than the 11.6 percent growth in Jan 2007.

Nonetheless, since services contribute nearly half of India's GDP, the IIP is not the sole indicator of India's economic growth. Moreover, while India's economic growth is likely to be 8.7 percent this year ending Mar 31, 2008, on an average since 2005, economic growth will be 9.2 percent, making this the fastest growth phase for India since 1947.

We hope you find this edition of the Sectoral Snippets useful.

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.

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# Indian Economy

*"With the better targeting of government reserves and increase in quality, we can ensure the overall welfare of the common man in terms of both private consumption and supply of public goods."*

Finance Minister P. Chidambaram
(Source: Tabling of the Economic Survey 2007-08 at the Parliament)

The Indian Finance Minister P Chidambaram unveiled the much-awaited Union Budget for the 2008-09 fiscal on February 29, 2008. After a widely welcomed Rail Budget which announced cuts in passenger fares and selective reduction in freight rates, it was expected that the Finance Minister would come out with a favorable budget.

The economy is estimated to grow around 8.5 per cent during 2008-09 compared to 8.7 per cent (CSO, advance estimate) during 2007-08 as the monetary tightening undertaken over the last 2 years and world economic slowdown is expected to moderate the overall demand situation. Upward pressures particularly from rising international oil and firm food prices are likely to push inflation in the range of 4.5 – 5.0, or maybe even higher.

This year's emphasis on agriculture, education and health is in line with the inclusive growth objectives of the 11th five-year plan of increasing investments in social infrastructure. The loan waiver of Rs 500 billion and the one time settlement scheme of Rs 100 billion is expected to provide relief to the debt-burdened farmers, however, its impact on the banking system is still unclear

The critical social sectors, namely, health and education, have received considerable attention in the Budget. The budget pledges a 20 percent rise in education spending and a 15 percent increase in health spending to spread the benefits of an economic boom beyond the cities to rural areas. India has a population of 1.1 billion and 60 percent or more live and work in rural areas. Also, there is a significant emphasis on expanding higher education capacity, which will go down well with a growing and increasingly aspirational middle-class. About 6,000 high quality schools are to be built by 2009.

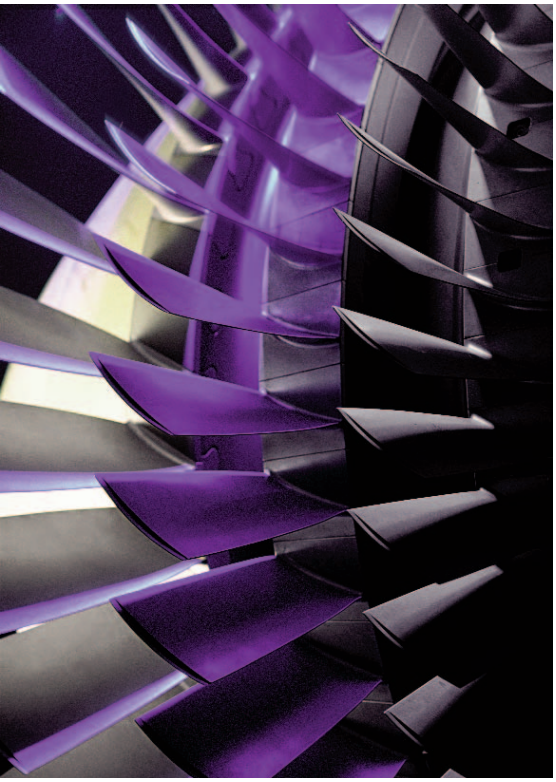
Infrastructure has also received adequate attention across the range of sectors - highways, power and the integrated rural and urban infrastructure missions. The overall availability of resources for these sectors has been enhanced by tapping into extra-budgetary resources, which opens up the opportunity for private participation and market discipline.

Populism as expected due to the general elections scheduled for early next year has been brought in as well. Raising the income tax exemption limit as well as adjusting the rate slabs will make a lot of citizens happy, especially the young working population. The revenue impact will be offset in just a few years as rapidly rising incomes take these people into either the first tax bracket or higher ones.

Taking everything into consideration this budget pleased many while disappointing very few.

Analyst: Asmita Deshmukh

# Auto and Auto Components



**Union Budget 2008-09**
**Reduction in excise duty**

| ITEM | 2007-2008 | 2008-2009 |
|---|---|---|
| Small Cars | 16.5% | 12.4% |
| Hybrid Cars | 24% | 14% |
| Electric Cars | 8% | NIL |
| Trucks (LCVs and MHCVs) | 16.5% | 14.4% |
| Buses and other vehicles for transport of more than 13 persons | 16.5% | 12.4% |
| Two-wheelers and passenger three-wheelers (upto 7 persons) | 16.5% | 12.4% |
| Engine and Engine Parts | 16.5% | 14.4% |
| Drive transmission, steering, suspension and braking parts | 16.5% | 14.4% |
| Electrical parts | 16.5% | 14.4% |
| Tyres | 16.5% | 14.4% |

Source: Union Budget 2008-09

- **Renault and Nissan form a JV for USD 1.1 bn to build a plant in Tamilnadu**

  Renault and Nissan Motors, the two companies have formed a 50:50 JV for USD 1.1bn and signed a memorandum of understanding with the Tamil Nadu government for a greenfield unit near Chennai. The unit will have a capacity of 400,000 vehicles per annum, which will primarily cater to the domestic market. Exports are expected to commence four months after the production starts. Both companies will have separate assembly lines and power train assemblies. The first car is expected to roll out in 2010.

- **Maruti Suzuki and Mundra Port have signed an agreement for a mega car terminal**

  Maruti Suzuki India Ltd (MSIL) and Mundra Port and Special Economic Zone Ltd. (MPSEZL) have signed an agreement for a mega car terminal at Mundra in the Kutch district of Gujarat. The initial investment in the project is expected to be around USD 25 mn. Of which, MPSEZL will invest USD 15 mn in setting up infrastructure at the port and MSIL will invest USD 10 mn to set up a pre-delivery inspection center at the port premises. The terminal expected to follow the roll–on–roll–off theory. The terminal is expected to be operational by December 2008.

- **Hyundai Motors India opens a new plant in Chennai**

  Hyundai Motors, India's second biggest carmaker, opened its new plant in Chennai. The new plant has come at an investment of USD 1 billion. It is expected to double the capacity of Hyundai Motors to 600,000 units per annum and will be operational by end of 2008. The plant would be devoted to the production of Hyundai's i10 model for both domestic and international markets..

- **Yamaha to launch two premium bikes in 150 cc segment**

  Yamaha Motor India has planned to launch two models R15 and FZ 150 in the premium segment. The new models will be based on Yamaha's 1000 cc super bikes YZF R1 and ZF1 respectively. Both these bikes will have a delta frame and six speed gear box, pushing the price close to INR 1 lakh, making them the most expensive bikes in the Indian market. The company is planning to tie up with the Levis, a premium denim wear, for a joint promotion strategy. Under the promotion campaign, Yamaha's showrooms are likely to have a dedicated corner for the jeans. Shriram Pistons to set up second facility at INR 600 cr

- **Shriram Pistons to set up second facility at USD 151 million**

  Shriram Pistons and Rings Limited having a unit in Ghaziabad will invest USD 151 mn over the next five years for its second unit in Rajasthan. The company manufactures pistons, piston rings and engine valves catering to most vehicles and engine manufacturers in India. The new units will double the company's capacity to produce high end products that are suitable for automotive engines that conform to Euro IV and Euro V emission norms.

Conversion Rate: USD 1 = INR 39.7081 (February 2008 Average)

Analyst: Rajiv Somani

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# Banking and Insurance

**Budget Implications - 2008-2009**

| Issue | Announcement |
|---|---|
| Agriculture Loans | • Entire loan waiver of USD 12.6 billion for marginal farmers (i.e. holding up to 1 hectare) and small farmers (1-2 hectares),<br>• One-time settlement scheme of USD 2.5 billion for other farmers |
| Dividend Distribution Tax | Parent company allowed to set off dividend earned from subsidiaries against dividend distributed by the parent company |
| Bank Cash Transaction Tax | 0.1 percent levy on taxable banking transaction withdrawn w.e.f April 2009 |
| Short-Term Capital Gain Tax | Rate of tax has been raised from 10 percent to 15 percent |
| Securities Transaction Tax (STT) | STT paid to be treated like any other deductible expenditure against business income vs 100 percent rebate provided earlier |
| Service Tax on ULIP | 12.5 percent charge on fund management charges of Insurance companies |
| Commodity Transaction Tax | Transactions on commodity futures will have to bear a commodity transaction tax on the same lines as STT |

Source: Union Budget 2008-09

- **Emphasis on agricultural banking – Union Budget 2008-09**
  The Union Budget 2008-09 spelled out a debt relief package of USD 12.6 billion and the one time settlement scheme of USD 2.5 billion for debt-burdened farmers. Again, banks have been directed to lend USD 70.5 billion to the farm sector (17 percent increase y-o-y). The Budget also requires banks (scheduled commercial banks including regional rural banks) to add 250 rural household accounts, annually, at each rural and semi-urban branch, a step towards more inclusive financial services growth. Further, steps to expand the market for corporate bonds would help increase liquidity and market-driven price discovery.

- **Centurion Bank of Punjab to merge with HDFC Bank**
  The boards of directors of HDFC Bank and Centurion Bank of Punjab (CBoP) have separately given their in-principle approvals for the merger of the two banks. The board has approved a share exchange ratio of 1 share of HDFC Bank for 29 shares of CBoP. The combined entity would have a nationwide network of 1,148 branches (the largest amongst private sector banks), a strong deposit base of around USD 30.2 billion and net advances of around USD 21.4 billion. The proposed merger will position the combined entity to significantly exploit opportunities in one of the fastest growing banking markets globally.

- **Equifax, CRISIL and Tata Capital announce to create a credit information company**
  Tata Capital, Equifax Inc. and CRISIL had reached a preliminary understanding to develop plans to create a credit information firm in India. Equifax has submitted an application to the Reserve Bank of India (RBI) to operate a credit information company in response to RBI's request for applications in 2007. The combination of Equifax's international experience, products, and services in credit information; CRISIL's deep understanding of Indian financial services industry and Tata's vast resources and capabilities, will position the alliance to provide the quality credit information services in India.

- **Standard Chartered's Indian operations becomes second largest contributor to its global revenues**
  Standard Chartered's Indian branches have posted a 71 percent increase in operating profit to USD 690 million in 2007 from USD 403 million in 2006. India is now the second largest market for the Standard Chartered Group and accounts for 17 percent of the global profits after Hong Kong. The rise in profits is largely driven by growth in the wholesale and consumer banking businesses. The wholesale and consumer banking businesses contribute around 65 percent and 35 percent respectively to the bank's revenues.

- **Russia's VTB Bank launches Indian Branch**
  VTB Bank, Russia's state-owned bank, has opened its full service branch in New Delhi to service corporate clients. The branch will mostly serve corporate clients and is designed to contribute to forging a foreign trade relationship between Russia and India. The branch assets are estimated to exceed USD 50 million by the end of this year, while for the next year the bank aims to nearly double its assets to over USD 90 million..

Analyst: Kunal Jain

# Consumer Markets and Retail

**Budget Implications 2008-2009 - Consumer Markets**

| Segment | Changes in Budget |
|---|---|
| Cigarettes | Excise duty on non-filter cigarettes – • Of length not exceeding 60mm increased to INR 819 (USD 20.4) per thousand from INR 168 (USD 4.2) per thousand |
| | • Of length exceeding 60 mm but not exceeding 70 mm increased to INR 1,323 (USD 33) per thousand from INR 546 (USD 13.7) per thousand |
| Water purification devices | Excise duty reduced to 8 percent from 16 percent |
| Tea and coffee mixes | Excise duty on tea and coffee mixes has been removed from 16 percent earlier |
| Paper and paper products | Excise duty on paper and paper products reduced from 12 percent to 8 percent |
| Breakfast cereals | Duty on breakfast cereals has been reduced from 16 percent to 8 percent |
| Household Appliances | Excise duty on TVs (B/W & Colour), Refrigerators, Room ACs and Washing Machines reduced to 14.4 percent from 16.5 percent |

Source: Union Budget 2008-09

- **McDonalds to set up food processing plant in India**
  McDonalds India is setting up a food processing plant and a distribution center in the northern region of India. The proposed plant is likely to be set up either in Punjab or Haryana with an investment of USD 25 million. The food processing plant will be set up to process the vegetables locally. Further, McDonalds India and its suppliers plan to invest USD 100 million in the next three years of which close to 50 percent would be assigned to the northern region. The organization plans to open 40 restaurants and create about 1,800 jobs by the end of this year.

- **Yakult Danone launches India's first probiotics factory**
  Yakult Danone India, a 50:50 joint venture between Japanese firm Yakult Honsha and French dairy major Danone, has set up India's first probiotics factory in Haryana with an investment of USD 34 million to exclusively manufacture Yakult, a probiotic milk drink. The factory has a capacity of 1 million bottles per day. An additional USD 25 million will be invested for marketing and promotional activities over the next 3-4 years. The new product will be available in Delhi and the National Capital Region (NCR) in the next six-nine months followed by other metros and tier-II cities in the North. The drink is said to contain more than 6.5 billion beneficial bacteria that boost immunity and aid digestion

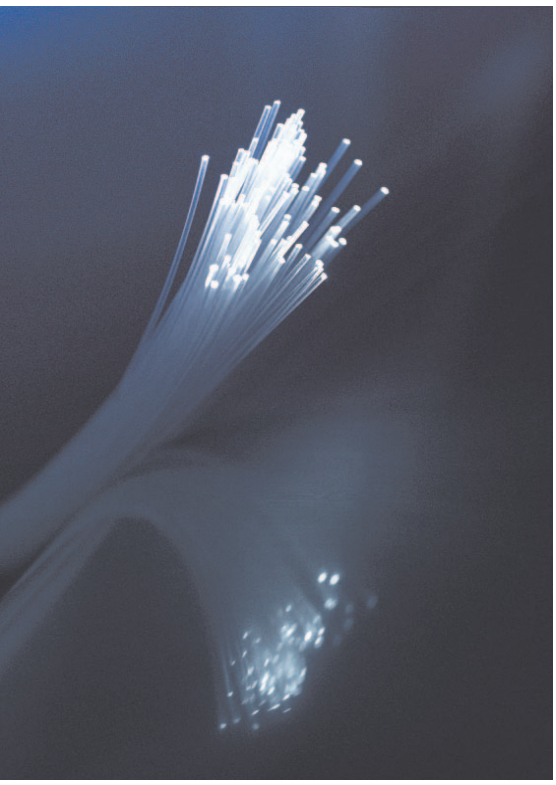
- **Sears plans cash & carry venture in India**
  Sears, America's fourth largest broadline retailer with approximately 3,800 full-line and specialty retail stores is looking at entering India. In line with Walmart's and Carrefour's strategy, Sears too seems to be interested in entering India through the cash-and-carry business. This route would be more appealing to Sears since it already has a major presence in the wholesale business in U.S. and Canada. The Indian Government allows 100 percent FDI through the cash and carry format making this route quite attractive for global retailers. The company recently met the department of industrial policy and planning officials to understand the current regulatory regime in India.

- **Fujifilm setting up a subsidiary in India**
  Fujifilm Corporation, an imaging and photographic major, plans to establish a wholly owned subsidiary in India. The company presently operates in India through its branch office and Indian dealers including Jindal Photo Limited and PID Private Limited. The new subsidiary will enable the company to capture the rising demand of digital imaging products, photo and graphic systems and medical equipment in India. The wholly owned subsidiary will work closely with the dealers in developing and promoting Fujifilm in India.

- **Giordano amplifies its India presence**
  Giordano International, the global retailer of apparel and accessories, has opened three more stores in Mumbai and Delhi in India. Giordano currently operates six stores in India, and is planning to open more stores in Bangalore, Hyderabad, Pune, Kolkata and other major cities across the country. Earlier this year, Giordano opened two stores in Chennai and a store in Ahmadabad. In addition to stand alone stores, Giordano's focus is also to operate stores inside leading department stores and in airport duty free developments

Analyst: Kunal Jain

# IT / ITeS



**Budget Highlights –IT-ITeS**

| Key Budget Highlights for IT sector |
| --- |
| Allocation to the Department of Information Technology increased from USD 0.37 billion in 2007-08 to USD 0.42 billion in 2008-09 |
| No comment on extension of Software Technology Parks of India (STPI) scheme |
| Excise duty on packaged software increased from 8 percent to 12 percent |
| 12 percent Service tax on customized software |

Source: Union Budget 2008-09

- **HCL acquires U.S.-based Capital Stream**

  HCL Technologies has acquired U.S.-based Capital Stream, Inc.—a leading provider of end-to-end lending and straight through processing solutions to commercial banks and finance companies in North America—for USD 40 mn in an all cash deal. HCL expects to enhance its ability to provide broad ranging solutions through product and multi-service delivery capability to commercial and retail financial institutions.

- **TCS inks USD 120 mn deal from Chrysler**

  Tata Consultancy Services (TCS) has won USD 120 million contract from U.S. automotive major Chrysler. As per the terms of contract, TCS will provide application, maintenance and support services to Chrysler. TCS provides services to many of the automotive original equipment manufacturers and tier I companies in North America, Europe and Japan.

- **DLG acquires stake in Comprehensive Software Solutions and Services (CS3)**

  U.S.-based Digital Liberty Group (DLG), has picked up 55 percent stake in Kochi based CS3 for an undisclosed amount. DLG has diversified business interests across the globe with operations in the fields of IT, real estate, hospitality, global investments and genetic engineering. It is looking to enhance its presence in the Indian IT sector.

- **NIIT Technologies acquires German-based SofTec GmbH**

  NIIT Technologies Limited (NIIT), a India based IT solutions organization has acquired German-based SofTec GmbH. Softec focuses on a IT solutions and services in the airline revenue accounting and operations space and has about 40 small to medium airlines clients within Europe, Africa and Asia NIIT believes that the acquisition will strengthen its presence in the travel, transportation and logistics vertical. The new company would be a wholly owned subsidiary of NIIT.

- **Infosys Technologies and Nihon Unisys sign MoU**

  Indian IT leader Infosys Technologies and Japan's IT major Nihon Unisys, Ltd. has signed a Memorandum of Understanding (MoU) for strategic business deployment and joint development for sales and solution service offering. As per the terms of the MoU, the two companies will develop and market new products together as well as cooperate in consulting,

  IT maintenance and customer support.Infosys believes that this deal will allow it to secure bigger deals and expand its market share in Japan, while Nihon Unisys expects to have greater opportunities abroad.

- **Bartronics buys Proximities Inc. and Software Research Group (SRG) America Inc.**

  Bartronics America Inc., a Delaware-based wholly-owned subsidiary of Bartronics India Ltd., has acquired U.S.-based Proximities Inc. and Software Research Group (SRG) America Inc. for a combined deal value of USD 50 mn. Bartronics believes that the deal will enable it to develop and deploy Radio Frequency Identification (RFID)-based applications to streamline traditional RFID-based services such as access control, age verification, identity management, and other new and expanded RFID applications for its clients.

Analyst: Parnika Patil

# Media

**Media and Entertainment: Tariffs**

| ( percent) | Customs | | Excise | |
|---|---|---|---|---|
| | 2007-08 | 2008-09 | 2007-08 | 2008-09 |
| Digital cinema equipment | 7.7 | 7.7 | 16.5 | 16.5 |
| Broadcast equipment | 10.3 | 10.3 | 16.5 | 16.5 |
| Set top boxes | 0.0 | 0.0 | 16.5 | 16.5 |
| Infra Red Modules* | 7.5 | 0.0 | 16.5 | 16.5 |
| *This move is expected to increase the domestic manufacturing of set-top boxes | | | | |

Source: Union Budget 2008-09.

- **Thirty Seven FDI proposals in broadcasting sector cleared**
  Thirty-seven FDI proposals pertaining to the information and broadcasting sector were approved by the Foreign Investment Promotion Board during 2007. The Government proposes to set up 93 All India Radio (AIR) transmitters and 41 Doordarshan transmitters during 2007-2008 and 2008-2009. It has also planned 100 low power transmitters to be up in the North-Eastern States. The estimated cost for the AIR is about USD 45 million and for Doordarshan is USD 49 million.

- **Walt Disney to invest USD 202.2 million in UTV**
  Walt Disney (Disney) plans to invest USD 202 million to increase its stake to 32.1 percent in media and entertainment company UTV Software Communications (UTV). Disney currently holds 14.85 percent in the company while the promoters own 30.6 percent. Disney also plans to acquire15 percent stake —for about USD 30 million— in UTV's broadcasting arm which is planning to launch an English business news channel.

- **George Soros invests USD 100 million in Reliance Entertainment**
  A fund owned by George Soros, Chairman of Soros Fund Management, LLC has acquired 3 percent stake in Reliance ADAG's flagship company Reliance Entertainment for USD 100 million. Reliance Entertainment produces and distributes movies, provides gaming services and runs a social networking portal. It also has plans to launch a bouquet of television channels in news, business and general entertainment

- **The Mahindra group plans to foray into film production**
  The Mahindra group, one of the top conglomerates in India is reportedly planning to enter the media and entertainment business. It has businesses ranging from automobiles and financial services to trade and information technology. The Mahindra group will be the third large Indian conglomerate to enter the film business after Aditya Birla Group and Reliance (ADAG). A 15 member team has been recruited including a chief operating officer. The new company aims to release at least 10 movies over the next 3 years.

- **BharatMatrimony raises USD 11.75 million from Mayfield, existing investors**
  Consim Info Pvt. Ltd., formerly known as BharatMatrimony group, has announced the second round of funding of USD 11.75 million from Mayfield Fund, and existing investors, Yahoo! and Canaan Partners. Consim Info Pvt. Ltd is India's leading Internet Company and provides a range of services including matrimony, property, automobile, jobs, listings and SMS services. It has about 15 million users worldwide. The company had earlier received an initial funding of USD 8.65 million in 2006 from Yahoo! and Canaan Partners.

Analyst: Ashwini Kulkarni

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# Oil and Gas

*"India is a key asset in BG's global portfolio" .*

BG Group Executive Vice-President and MD for Africa, Middle East and Asia Stuart Fysh.
(Source: The Indian Express Online Media Ltd, February 20, 2008 )

- **British Gas picks up stake in ONGC blocks**
  British Gas (BG) India, a subsidiary of U.K.-based gas major British Gas, has picked up stake in two deepwater exploration blocks owned by Oil and Natural Gas Corporation (ONGC), the country's largest oil company. BG will acquire a 30 percent stake in a block in the Krishna-Godavari basin off the Andhra Pradesh coast and 25 percent in another block in the Mahanadi basin off the Orissa coast. Once the agreements are approved by the government, ONGC's stake in the Krishna-Godavari block, called KG-DWN-98/4, will come down to 55 percent while Oil India will continue to hold 15 percent. ONGC is the operator of the block. ONGC is also the operator of the Mahanadi block, called MN-DWN-2002/02. BG will pick up 25 percent stake in that block with ONGC owning the rest.

- **GAIL signs MoU with Russian gas firm Itera**
  State-run gas utility GAIL India Ltd. signed an agreement with Russian oil and gas firm Itera for setting up petrochemical plants and city gas projects in that country. The Memorandum of Understanding (MoU), signed by GAIL Chairman and Managing Director U D Choubey and Itera CEO Igor Makarov, envisages cooperation in setting up compressed natural gas projects in Russia, exploring possibilities for setting up a gas-based petrochemical plant in Russia and jointly investing in oil and gas exploration and production in Russia and Commonwealth of Independent States countries.

- **Petronet to sign contract by end of June for Australian LNG**
  Petronet LNG Ltd. will by June end sign a contract with Exxon Mobil for import of 3.75 million tons of Liquefied Natural Gas (LNG) from Australia's Gorgon project, 50 percent more than the previously anticipated quantity. Petronet was earlier talking to Exxon Mobil for importing 2.5 million tons of LNG per annum for 25 years. The Gorgon project plans to develop the greater Gorgon gas fields, located about 130 km off the north-west coast of western Australia. These gas fields contain resources of about 40 trillion cubic feet of gas, Australia's largest known undeveloped gas resource. Chevron is operator of the project with a 50 percent interest, with Exxon Mobil and Shell each holding 25 percent. The company is also in talks with Algeria, Oman, Egypt, Qatar and Trinidad & Tobago for sourcing long-term LNG for the ramped up capacity of its Dahej terminal in Gujarat to 10 million tons by December 2008 from the existing 6.5 million tons.

- **Foreign stake in Indian oil refining firms raised to 49 percent**
  Foreign investments stake in Indian oil refineries have been raised from 26 percent to 49 percent. Government of India decided to raise the cap to encourage more foreign investments in the country's oil refining sector. Kuwait Petroleum is interested to jointly invest in new refineries with India's state oil companies. Some projects opened to foreign investments include the Paradip refinery in Orissa state and the Bina refinery in Madhya Pradesh.

Analyst: Rajiv Parekh

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# Pharma

- **Budget highlights for the pharma industry**
  The Union Budget 2008-09, provides a reduction in the excise duty on pharmaceutical products from 16 percent to 8 percent. The anti AIDS drug Atazanavir, as well as bulk drugs for its manufacture are to be exempted from excise duty. The customs duty on certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs has been reduced from 10 percent to 5 percent and they have also been totally exempt from excise duty or countervailing duty. Further, the budget also allows a 125 percent deduction on Research and Development (R&D) outsourcing expenditure.

- **Biocon acquires 70 percent stake in Germany-based AxiCorp GmbH**
  Biocon Ltd, one of India's leading biotechnology companies, has acquired a 70 percent stake in AxiCorp GmbH, a Germany-based pharmaceutical distribution company, for around USD 43.5 million. This acquisition will mark Biocon's entry into the European markets. Through this new subsidiary, Biocon will launch its generics, biosimilars, biologics and innovative pharmaceutical products in these markets.

- **Nicholas Piramal's Research and Development (R&D) entity entered into a second drug development agreement with Eli Lilly**
  Nicholas Piramal India Limited's (NPIL's) recently demerged unit- NPIL Research & Development Limited (NRDL) has entered into its second drug development agreement with U.S.-based Eli Lilly and Company, to develop and, in certain areas, commercialize, a select group of Lilly's pre-clinical drug candidates across multiple therapeutic segments.

  As per the agreement, both NRDL and Eli Lilly will separately conduct early clinical development of two different candidate compounds directed against the same target, in order to increase the chances of success. NRDL is expected to earn up to USD 110 million in the form of call-back payments and milestones, as well as royalties on sales.

*"We are strengthening our R&D collaboration with Eli Lilly as our first agreement is on track and has seen benefits accruing to both partners in terms of cost, quality and time. These partnerships are a win-win for both companies and will help us to reduce the burden of human disease".*

Dr. Swati Piramal, Director, Strategic Alliances & Communications, NPIL (Commenting on NRDL's second drug development agreement with Eli Lilly)

(Source: Press Company Press Release, February 15, 2008)

- **Zydus Cadila enters into a research collaboration with Sweden's Karo Bio**
  Zydus Cadila, an Indian pharmaceutical company, has entered into a three year agreement with Karo Bio, a Swedish drug discovery and development company specializing in nuclear receptors, for the discovery and development of novel, selective glucocorticoid receptor (GR) modulators for treating inflammatory diseases. Zydus Cadila will conduct activities ranging from pre-clinical candidate selection, filing of the investigational new drug application and carrying out pre-clinical studies and clinical trials. The risk and rewards of the research programme will be shared equally by both the companies.

- **Apollo Hospitals is planning to set up a hospital in Mauritius**
  Apollo Hospitals, India's leading hospital chain, is planning to set up a 200-bed multi-speciality tertiary care hospital called Apollo Bramwell Hospital in Mauritius in association with Mauritius-based British American Investment Co. (Mtius) Ltd. The hospital will target patients from Africa and Europe. The total cost of the project is expected to be around USD 70 million. The hospital is expected to be ready by January 2009.

Analyst: Nandita Kudchadkar

# Power

- **BHEL bags order to set up 350 MW power plant in Gujarat**
  Power equipment major Bharat Heavy Electricals Ltd. (BHEL), has secured USD 270 mn order from Gujarat State Energy Generation Ltd, for setting up 350 a MW power plant in Gujarat. The order is for gas turbine-based combined cycle power plant to be installed at Hazira. Scope of work for the project includes supply and commissioning of a gas turbine generator set, one steam turbine generator set and a heat recovery steam generator along with associated auxiliaries. The project is expected to be completed in 27 months.

- **NTPC to set up JV with BSEB**
  National Power Thermal Corporation (NTPC) Ltd. has signed an agreement with Bihar State Electricity Board (BSEB) to form a Joint Venture (JV) company to establish, operate and maintain a thermal power project. As per the agreement, NTPC will operate and maintain 1980 MW (3x660) coal-based thermal power project at Nabinagar in Aurangabad. The proposed JV will have equal shareholding of NTPC and BSEB.

- **LN Mittal and Farallon Capital invest USD 397.9 mn in IBPS**
  Steel baron LN Mittal and hedge fund Farallon Capital have invested USD 397.9 mn for 28.6 percent stake in Indiabulls Power Services (IBPS). IBPS has laid out plans for 11,400 MW of power projects in several Indian states. According to the deal, IBPS is now valued at USD 1391 mn.

- **BGR Energy bags USD 200 mn order from AP govt.**
  BGR energy systems, a company into supply of electrical equipment and systems and provider of turnkey engineering, has bagged a turnkey contract valued at USD 200 mn from Andhra Pradesh (AP) Power Generation for execution of balance work at Kothagudem Thermal Power Station of 1x500 MW. The scope of contract includes design, engineering, procurement and construction of complete mechanical, electrical, instrumentation and plant civil works for project. The contract is expected to be completed in 26 months.

**Budget 2008-09**

| Key Budget Highlights |
|---|
| Basic customs duty on power project imports reduced from 7.5 percent to 5 percent |
| USD 200 mn (1 USD = INR 40) of budgetary allocation for APDRP programme |
| Proposal to set up National Transmission and Distribution Fund, to address the concern of higher losses at transmission and distribution levels |
| Allocation of USD 1375 million (1 USD = INR 40) under Rajiv Gandhi Grameen Vidyutikaran Yojana |
| Exemption of additional duty of customs of 4 percent withdrawn on power generation projects (except mega-power projects), transmission, sub-transmission and distribution projects, and specified goods for high voltage transmission projects |

Source: Union Budget, 2008-09

Analyst: Rajiv Parekh

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# Real Estate and SEZs

*"The Indian real estate market is expected to touch the USD 50 billion mark by 2010 and is a very important market for Damac Properties".*

Hussain Sajwani, Founder and Chairman, Damac Holding.

(Source: Financial Express, February 14, 2008)

- **Citi Venture Capital and AIG acquire 16 percent in Akruti**

  Citi Venture Capital and AIG have agreed to acquire a 16 percent stake in Akruti City (formerly Akruti Nirman), real estate developer, for about USD 375 million (INR 1,500 crore) through preferential allotments. Akruti City will place up to 10.7 million equity shares with a face value of USD 0.25 (INR 10), accounting for 16 percent of the pre-issue share capital of the company. The company has raised this capital to meet its expansion plans. The company currently has projects in various stages of development in Mumbai, Thane, Pune and Gujarat. It has also signed a memorandum of understanding with the Gujarat government to set up a bio-IT park on 708 acres of land in Savli, Vadodara. The Gujarat government is to hold 11 percent equity stake in the project and the Akruti Nirman and Chatterjee Group will hold 66 percent and 23 percent respectively.

- **Frontline Ventures acquires 10 percent in Futura**

  Frontline Ventures, U.S.-based private equity firm, has acquired a 10 percent stake in Futura Infraprojects, a Mumbai-based infrastructure and real estate firm, for USD 40 million. The company is said to have sold this stake as a part of its first round fund raising programme for expansion activities. Futura is one of the infrastructure development contractors of Maharashtra PWD, National Highway Development Authority (NHAI) and the state irrigation department. It is also a subcontractor of construction and real estate firms such as Shapoorji Pallonji, Akruti Nirman and L&T.

- **Vasavi Builders launches seven projects**

  Vasavi Builders, a residential property developer, has launched 7 real estate projects in areas of serviced apartments, commercial buildings and townships and plans to investment of USD 47.7 million over next 2 years. The company has planned 4 residential and 3 commercial projects, covering a total area of 574,000 square feet to be developed in various parts of Chennai and expected to be completed by March 2010. The new residential projects will come up in Pallavaram (102 units), Kelambakkam (62 units), Porur (62 units) and Medavakkam (200 units) and will offer 2 or 3 bedroom flats with areas ranging between 800 square feet and 1,400 square feet. It is also building a 70 unit serviced apartment, food court and office complex in Chennai. This investment is a part of the company's USD 75 million expansion plans.

- **Damac to invest USD 5 billion in India**

  Damac Properties, a Middle-East based developer, has planned to invest USD 5 billion over the next three to five years in the Indian real estate market. The company is in talks with various Indian companies for a joint venture to pursue its investment plan. It plans to build residential complexes, offices and shops in Mumbai, New Delhi, Hyderabad and Bangalore and will fund its proposed investment through internal resources. Further, the company also hopes to attract Indian investors to its projects in the Middle East.

Analyst: Nitin Dehadraya

# Telecom

*"We are pleased to announce the new name, which builds on the track record of the Tata group. The integration will enable the company to be present globally under a single brand".*

N Srinath, Managing Director and Chief Executive, Tata Communications

(Source: Business Standard, February 14, 2008)

- **Acme Tele Power attracts USD 100 million Private Equity (PE) investments**

  Acme Tele Power, a company focused on manufacturing and supplying energy conservation solutions to telecom operators has attracted USD 100 million (INR 4 billion) PE investment, form Mauritius-based PE funds Monsoon India Inflection and Jackson Heights, for a 3.4 percent stake, valuing the company at around USD 3 billion (INR 120 billion). This is the second round of PE funding and final private placement before the company goes public in the next few months.

- **KKR to invest INR 10 billion (USD 250 million) in Bharti Infratel.**

  Kohlberg Kravis Roberts & Company (KKR), a global PE major, has committed to invest approximately USD 250 million (INR 10 billion) in Bharti Infratel. Bharti Infratel, a subsidiary of India's largest telecom company Bharti Airtel, owns and operates over 20,000 cell sites and holds around 42 percent stake in Indus Towers, a joint venture between Bharti Airtel, Vodafone-Essar and Idea, which has over 70,000 sites.

- **Tata Communications plans to spend USD 2 billion across service lines**

  Tata Communications, formerly known as VSNL, plans to invest USD 2 billion over the next three years for expanding its infrastructure and services. Approximately over a billion U.S. dollars would be invested into submarine cables and network enhancement and the rest will be invested to roll out WiMax to cover 15 cities by 2009. The company also plans to expand into emerging economies in Asia including India, China and Africa, among other countries.

- **New players get 22 licenses to start telecom services**

  Twenty two licenses have been awarded to new players by the government in the month of February. Some of the awardees include the AV Birla group-owned, Idea Cellular, which got licenses for eight circles. This has made Idea Cellular a pan-India player. Datacom Solutions, which is majority owned by the Videocon Group now has licenses for 21 circles. Real Estate Major, Unitech also received licenses for 12 circles including in Andhra Pradesh, Gujarat, Haryana, Punjab, Rajasthan and Bihar.

- **Samsung to double its market share in the Indian mobile handset market**

  Samsung, the Korean consumer electronics major, plans to double its market share in the mobile handset market to over 15 percent by end of 2008. The company believes that India will require 100 million handsets in 2008, and Samsung plans to a share of 15 million mobiles in all segments, across price segments for which it has planned a slew of new product launches during the year. The company is also planning to have tie-ups with the leading telecom network operators such as Idea Cellular, Airtel, BSNL and others to provide handsets along with mobile phone connections.

Analyst: Amit Shah

# Transport and Logistics

**2008-09 Rail Budget Highlights**

| For Passengers |
|---|
| Fare reduction across most classes |
| INR 8250 mn for passenger amenities |
| Reservation, arrival/ departure info to be available online |
| E-ticketing facility to be improved |
| **For Industry** |
| 5% reduction in freight rate for petrol |
| 14% reduction in freight rate for fly ash |
| 6% freight concession on traffic to North-East |
| **Private Track** |
| Bulk goods terminals for/by commodity producers |
| Door-to-door logistics services |
| Select stations to be developed through competitive bidding |

Source: Rail Budget 2008-09

- **Gati to invest USD 100 million in expansion**
  Logistics and supply chain management company Gati Ltd., plans to invest USD 100 million over the next 18 months to expand operations in the domestic and overseas markets. The company plans to expand warehouses, build up IT capabilities and enter new business areas as it expects to become a USD 257 mn firm by 2008-09. The company had tied up with Air India to launch Al Gati Zipp service in November last year. Gati has also entered into a strategic alliance with Amsterdam-based parcel service provider General Logistics Systems (GLS), to start its operations in Europe. The company, which covers 594 out of 604 districts in India, would act as the strategic partner of GLS in India

- **Arshiya International to expand logistics offerings**
  Logistics service firm Arshiya International Ltd., has decided to expand its services and has signed an agreement with a U.S.-based cold chain logistics provider for a joint venture (JV) in India. During the first phase of its infrastructure expansion plan, Arshiya is building two free trade zones in India, one near Mumbai and another near Delhi. Both the zones would be connected to the rail network. The entire project is estimated to be completed by 2012.

- **SCI to invest USD 800 mn in shipyard business**
  Shipping Corporation of India (SCI) is planning to invest an amount of USD 800 mn in the business of shipyard building. The company is reportedly looking for a suitable partner for JV. The company is planning to build two shipyards, one each on east coast and west coast.

- **PSA acquires 49 percent stake in ABG Terminal**
  Port of Singapore Authority (PSA) has acquired 49 percent stake in ABG Kolkata Container Terminal, a subsidiary of ABG Infralogistics. PSA paid around INR 150 crore to acquire 49 percent in the subsidiary of the Kolkata-based company. PSA is also planning to acquire stake in ABG Kandla Container Terminal, another subsidiary of ABG Infralogistics. ABG Infralogistics has plans to make capital expenditure of USD 77 mn to set up a crane manufacturing unit and USD 513 mn in the port sector.

- **Gujarat decides to set up dredging body via JV route**
  PThe Gujarat government has decided to set up a dredging company called the Dredging Corporation of Gujarat, which will be involving companies from the private sector in the JV project. For the project, three private companies will put up an investment of USD 77 mn. The proposed company will include private investors and set up as a special purpose vehicle to undertake large-scale dredging operations along the state's 1,600 km coastline. The new company will initially take up contracts in ports and inland waterways within the state, but, later on, it will take up dredging contracts in the rest of the country as also in international waters.

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