KPMG

Sectoral Snippets

India Industry Information

Issue 19 - May 2008

KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

Sectoral Snippets

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KPMG in India

Sectoral Snippets, Issue 19

The Indian economy has in recent times, encountered increasing inflation arising from increases in prices of fuel, food and commodities. This is a key concern of the current government which has contemplated a number of measures like controlling exports and cutting custom duties to mitigate the impact of inflation.

As summer peaks, the impact of the impending monsoon will play an important part in how the economy and prices play out in the next few months.

We hope you find this edition of Sectoral Snippets informative and 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.

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

Indian Economy

India's annual inflation rate, which is at a three-year high, touched 7.6 percent last month with higher contributions from three main components – primary articles, fuels and manufacturing. With the mounting inflation, India has now come under scrutiny for rising global food prices.

The increase in Wholesale Price Inflation, with policymakers globally battling escalating commodity prices, was driven by a hike in cost of staples such as vegetables, rice and milk, along with manufactured goods like steel sheets for construction.

The Indian government has taken measures such as banning the export of staple foods like rice and lentils, and cutting customs duties on other items to try and mitigate the impact of inflation.

The Reserve Bank of India (India's central bank) has maintained a tight monetary stance to rein in inflation. The central bank in its policy review last month raised the cash reserve ratio by 25 basis points to 8.25 percent with effect from 24 May, to reduce money available for loans and control inflation, keeping all other official rates unchanged.

The new inflation rate is far above the Reserve Bank of India's declared comfort level of 5.50 percent for the current financial year to March 2009.

Inflation in Asia's third-largest economy last hovered around these levels in late 2004, when the central bank embarked on its aggressive monetary tightening cycle that had hit borrowing and economic growth.

Although, inflation has also raised global food security fears, India is capable of increasing its production with small investments in order to export bigger surplus to world markets. Diverse climatic conditions and the world's biggest population of farmers is likely to help India become a major supplier of food to the world.

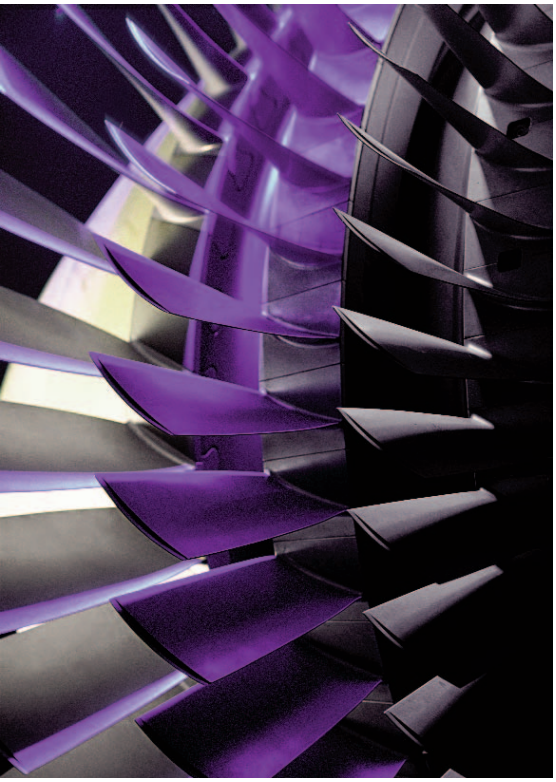
Many expect India to cope with the rising inflation in the long-term with the help of sound policy measures while maintaining price stability which is consistent with its growth.

"Diverse climate and the world's biggest population of farmers would help India achieve the status of a major supplier of food to the world."

M. S. Swaminathan - Father of the Green Revolution in India
(Source: Reuters, 5 May, 2008.)

Analyst: Asmita Deshmukh

Auto and Auto Components



"The sale of total luxury cars in India during the first two months of this year posted 176 percent growth, while the car industry as a whole posted just 9 percent growth, which shows the demand for luxury cars is growing at a tremendous pace."

Benoit Tiers, Managing Director, Audi India.
(Source: Economic Times, 25 April, 2008)

- **Mahindra launched Scorpio SUV in Chile**
  Mahindra & Mahindra Ltd. (M&M), one of India's leading auto brands announced the launch of its Mahindra Scorpio SUV in Chile, in partnership with Automotores Gildemeister Group. This is Mahindra's second product launch in Chile, after the launch of the Mahindra Pik Up Double Cab in July 2007. Mahindra is making its presence felt globally and is reportedly in talks to buy a stake in Italian car designer and contract manufacturer Stile Bertone. It is also reported to be in advanced talks to acquire Belgian gear maker VCST in a deal estimated to be worth USD 473 million.

- **UMW acquired two auto component manufacturers in India**
  UMW Corporation Sdn Bhd subsidiary of UMW Holdings Bhd has acquired 2 auto component manufacturers in India for a total of USD 23.5 million. UMW has acquired a 51 percent stake in MK Autocomponents Ltd. for USD 22.52 million and a 50 percent stake in MK Automotive Industries Ltd. for USD 970,993.

- **Bharat Forge acquired controlling stake in Groupe Sifcor**
  Bharat Forge, a subsidiary of the Kalyani Group, has acquired an 89 percent stake in French forgings company Groupe Sifcor (Society of Industrial and Financial Courcelles). The acquisition is expected to give Bharat Forge an entry into the French automotive sector and access to big Sifcor clients like PSA Citroen and Renault. Groupe Sifcor operates 5 manufacturing sites in Europe and employs around 1,280 people.

- **JK Tyres acquires Mexican company Tornel**
  In order to expand their presence in America, JK Tyres have made their maiden acquisition of Tornel, a Mexican tyre manufacturing company. JK Tyres is expected to hold 100 percent shareholding of the company at a cost of USD 68 million. Tornel manufactures an entire range of bias and radial tyres, including tyres for commercial vehicles and high speed passenger cars. JK Tyres is expected to get access to Tornel's 3 operating plants with a capacity of 6.6 million tyres per annum. The acquisition procedure is expected to end by May 2008.

- **CEAT plans to invest USD 250 million in 2 new Greenfield plants and a R&D centre**
  CEAT Ltd., one of India's leading tyre manufacturers has planned an investment of USD 250 million in 2 new manufacturing plants. It currently manufacturers 10 million tyres annually from its 2 plants in Mumbai and Nashik. The additional 2 plants is expected to raise the capacity to 15 million annually. One of the plants is expected to come up in Ambarnath near Mumbai, whereas the second location could be in Gujarat, Karnataka or Tamil Nadu. One plant is expected to be dedicated to manufacture radial tyres for trucks and cars and the other is expected to manufacture speciality off-the-road tyres. CEAT also plans to invest USD 15 million in a Research and Development (R&D) centre.

Analyst: Rajiv Somani

Banking and Insurance

"India is a booming market with enormous customer potential. That's why it is essential for us to expand our presence in this region".

Herbert Walter, Chairman of the Board of Managing Directors, Dresdner Bank.
(Source: Company Press Release, 10 April, 2008)

- **Religare acquires UK-based Hichens Harrison**
  India financial services firm Religare Enterprises, has reached an agreement to acquire Hichens Harrison through its wholly owned subsidiary Religare Capital Markets Ltd. Religare has made an open offer, valuing Hichens at about USD 110 million. Through this acquisition, Religare is expected to be able to create a global distribution and execution platform within emerging countries. Religare has received in aggregate irrevocable undertakings to accept the offer, representing around 57.93 percent of equity. The Alternative Investment Market listed Hichens, has its presence in nearly a dozen countries and is the oldest firm of stockbrokers in London.

- **Dresdner Bank to open branch in India**
  Dresdner Bank, a part of the Germany-based Allianz Group, has received licence to open a full-fledged branch from the Reserve Bank of India. Dresdner is expected to open its first branch in Mumbai in the coming year. The bank aims to expand its private client business in India. The planned branch is expected to offer customers a wide range of financial services ranging from bank accounts to mortgages and consumer loans. Dresdner is the second German entity to get into retail banking in India after Deutsche Bank. Dresdner Bank's parent company, Allianz, has a presence in India through life and non-life insurance business as the partner of automaker Bajaj. India is expected to ease rules of entry and expansion for foreign banks after March 2009.

- **StanChart to invest USD 250 million in India**
  Global financial major Standard Chartered Bank (StanChart) is expected to invest USD 250 million in its Indian operations, raising the total capital base to USD 1.9 billion. This investment should strengthen the bank's capital adequacy ratio and support the wholesale and consumer banking services. The bank had registered a pre-tax profit of USD 690 million in 2007, reflecting a rise of 52 percent over 2006. The Indian market contributes about 17 percent to the bank's global operations.

- **RBI allows domestic mutual funds invest USD 7 billion overseas**
  The Reserve Bank of India (RBI) has raised the overall limit for overseas investment by domestic mutual funds from USD 5 billion to USD 7 billion. The move is in line with the RBI's stated policy of encouraging flow of money outside the country. The step should also allow mutual fund players to have greater opportunities for investment overseas. At present, there are about 17 schemes that invest overseas, which include equity and debt. Industry estimates peg the amount invested overseas at USD 1-2 billion.

- **Reliance Money draws up global expansion plan**
  Indian financial services firm, Reliance Money has chalked out aggressive expansion plans for setting up shop in about 6 new overseas markets by the end of fiscal year 2009. The company has identified locations like Kuwait, Bahrain and Doha in the Middle East, while it is looking at Singapore and Hong Kong in South Asia. Reliance Money also has plans to open its London office in the next six months. Meanwhile, the company is in the process of opening an outlet in Muscat. Earlier in the month, Reliance Money joined hands with Canada's Recognia, a leading provider of technical charts for stocks.

Analyst: Kunal Jain

Consumer Markets and Retail

"When we looked at the market and the scale of opportunity here, we realised a joint venture was the way to do it, as it gave us a lot more involvement in the business".

Mark Ashman, Chief Executive, M&S Reliance India.

(Source: The Mint, 21 April, 2008)

- **Reliance Retail ties up with Office Depot and Marks and Spencer**

  In line with its plans to tie up with global retail giants for enhanced retail play in India, Reliance Retail has entered into a 49:51Joint Venture (JV) with Office Depot, an international office products and services provider. The partners have already acqiured eOfficePlanet which is an independent contract stationer in India. The JV is expected to combine the global resources of Office Depot with the local expertise of Reliance Retail to establish a sophisticated supply chain network and enhance eOfficePlanet's capabilities.

  In addition to this, Reliance Retail has also formed a 49:51 partnership with Marks & Spencer, an international retailer of food, clothing and home products. The JV targets to have a chain of 50 stores in 5 years and involves an initial investment of USD 55 million. The JV called M&S Reliance India, would have the right to operate Marks & Spencer stores in India selling items such as women's, men's and children's clothing as well as homeware.

- **M&M forms JV with Capespan**

  Indian conglomerate Mahindra & Mahindra (M&M) has inked a 50:50 JV with a South African international supply-chain heavyweight, Capespan through its agri-business initiative, Mahindra ShubhLaabh Services Ltd. (MSSL). The JV would help Capespan, which markets famous brands such as Cape, Outspan and Bella Nova, to expand its operations to the Indian market. This deal would provide MSSL with sourcing, packaging and logistic specialisation. The JV is expected to begin as a one-year pilot activity and is expected to also develop product-based supply chains and customer linkages. MSSL is already a supplier of fresh produce to global retailers such as Carrefour, Tesco, Albert Heijn and Sainsbury's.

- **Bombay Rayon Fashions acquires retail businesses from an Italian firm**

  Textile firm Bombay Rayon Fashions Ltd. (BRFL) announced that its Netherlands-based subsidiary is expected to acquire the brand Guru and other related retail businesses from Italian firm Jam Session Holdings Srl for USD 52.5 million. The company would acquire the brand and business by exercising the call or put option within 42 months and operate on a lease basis during that period.

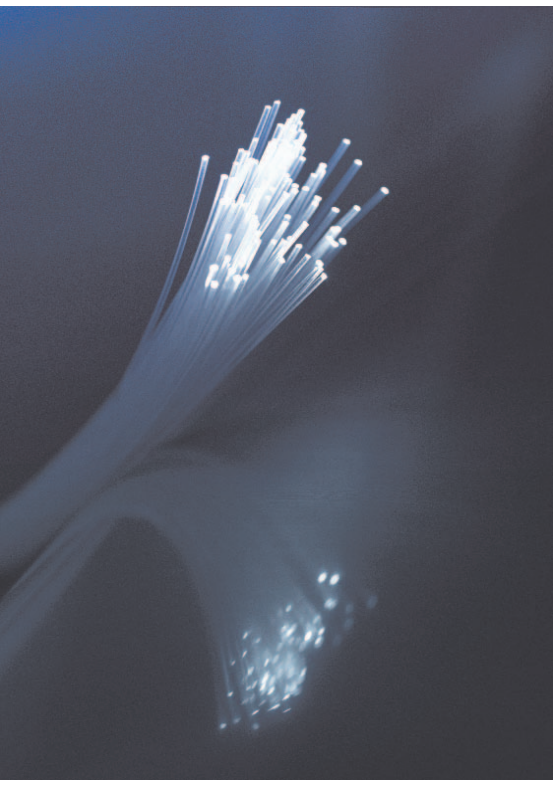
  Further, a scheme of amalgamation of its wholly-owned subsidiary Leela Scottish Lace Pvt. Ltd. into BRFL has been approved. BRFL had acquired a controlling stake in Leela in 2006 and exports 100 percent of its garments to American and European markets. Major labels like Tom Tailor, DKNY and Liz Claiborne source their garments from BRFL.

- **Berger Paints acquires Polish company for USD 38 million**

  Berger Paints has entered into an agreement with Advent International, a global private equity group, for buying the shares of Bolix SA, Poland for USD 38 million. The buyout is expected to be made through a wholly-owned subsidiary of Berger Paints India in Cyprus. The company should seek clearance from the Polish Anti-Monopoly Office to complete the acquisition formalities. Berger Paints is also expanding its solvent-based paint and resin manufacturing plant in Goa. Bolix is the largest provider of EIFS systems in the business to business segment in Poland and neighbouring countries such as Ukraine, Russia and the Baltic states.

Analyst: Sonia Topiwala

IT / ITeS



- **WNS acquires UK-based Call 24/7 Ltd.**
  WNS, a leading business process outsourcing services provider, has acquired UK based auto insurance-claims-processing services provider Call 24/7 Ltd. for about USD 16 million. WNS believes that the deal is expected to enable it to extend its market leadership position in accident claims management in the UK WNS is expected to integrate Call 24/7 into WNS Assistance, a division of WNS Global Services Ltd. UK, and a subsidiary of WNS.

- **Infosys bags Conseco outsourcing deal**
  India's second-largest software services exporter Infosys Technologies Ltd. has signed a five-year outsourcing contract with U.S.-based Conseco Inc. As per the terms of the contract, Infosys is expected to provide application development and maintenance services. Conesco is a leading insurance provider in the U.S. offering financial security for the life, health and retirement needs of middle-market and senior Americans. Financial details of the deal were not disclosed.

- **Accentia Tech acquires 51 percent in Oak Technologies**
  Accentia Technologies has acquired a 51 percent stake in U.S.-based Oak Technologies in an all-cash deal. Oak Technologies is an integrated services provider in healthcare receivables management with five operational units in the U.S. and India. With this acquisition, Accentia Technologies' global workforce count has reached 700 employees.

- **3i Infotech buys U.S.-based Regulus for USD 80 million**
  3i Infotech has acquired U.S.-based payment and document processing company Regulus Group, for about USD 80 million. With this acquisition, 3i Infotech expects to increase its footprint in the payment processing industry both in the U.S. and in emerging markets like India and China. Regulus had reported revenue worth USD 148 million for the year-ended December 2007.

- **Dell plans expansion in India**
  U.S. computer maker Dell has drawn up aggressive expansion plans to become a USD 1 billion company in India by the end of 2008. To achieve this target, the company is ramping up capacity at its manufacturing unit at Sriperumbudur in Tamil Nadu. At present, Dell manufactures around 4,00,000 desktop computers in a year which would increase to 1 million computers per year after expansion. Dell also plans to manufacture laptops from this unit.

- **TCS signs pact with Chrysler**
  Tata Consultancy Services Ltd (TCS) has signed a multi-year contract with U.S. based automobile manufacturer Chrysler LLC to provide an in depth portfolio of IT services. As per the terms of the agreement, TCS is expected to deliver IT application and maintenance support services to Chrysler by leveraging its Global Network Delivery Model. The project should also include several other functional areas within Chrysler such as sales and marketing, shared services, product development and after sales.

"India is the fastest-growing market for Dell worldwide and laptops have emerged as the fastest-growing form factor. Dell has decided to focus on laptops worldwide as a strategic growth priority and the start of laptop production in India is an important part of our plan".

Paul-Henri Ferrand, President, Dell Asia-Pacific.
(Source: The Economic Times, 24 April, 2008)

Analyst: Parnika Patil

Media

- **Big Entertainment acquires the digital images business of DTS Inc.**
  Reliance Big Entertainment (BIG), the flagship media and entertainment company of Anil Dhirubhai Ambani Group (ADAG) has acquired a U.S.-based firm DTS Digital Images (DDI), also known as Lowry Digital Images. DDI offers picture quality enhancement services to movies, television and video content in Hollywood. This is the first overseas acquisition by Reliance in the digital services space. DDI has clients like Walt Disney, Paramount Pictures, MGM and 20th Century Fox. BIG plans to have three main lines of business - internet and new media, film entertainment and TV broadcasting.

- **Zee forays into Russian Media market**
  Zee TV, one of India's leading entertainment channels, is expected to be the first foreign television company to operate directly in the Russian market. With an investment of USD 7 million, the channel is scheduled to launch satellite and cable services in Russia by the end of 2008. Zee plans to air Bollywood movies and programs which could be dubbed in Russian from their studio in Mumbai. Currently, Zee TV has only one channel available in Moscow through a local broadcaster Kosmos TV, with 2000 subscribers.

- **Turner to launch more television channels and animation movies**
  Turner International plans to launch more entertainment television channels and start a production unit of animation movies in India. Turner currently has two kids' channels in India – Cartoon Network and Pogo and also has a news channel CNN – IBN in a joint venture with Global Broadcast News Ltd. The English entertainment channel is expected to be in a venture with its group company Warner Brothers and is scheduled to go on air by the end of 2008 along with its Hindi entertainment channel. It also plans to produce 2 animated films a year starting with their first release in 2009.

- **Adlabs Cinemas to foray into megaplexes**
  Adlabs Cinemas, one of India's largest motion picture exhibitors, part of the Reliance ADAG Group are foraying into construction of megaplexes. It initially plans to setup six megaplexes, which is expected to be five – six times the size of a multiplex and is likely to not only offer cinema screens but also gaming, alternative cinema, sports, housing, hotels and retail space. The company has already started construction of these megaplexes in Mohali, Lucknow, Hyderabad, Mumbai and Delhi.

- **Ubisoft acquires India video game development studio**
  Europe's largest video games publisher, Ubisoft Entertainment SA, has agreed to acquire an India-based video game development studio from Gameloft. The studio, which is based in Pune, currently has a team of 120 developers and testers. Ubisoft aims to raise that headcount to 200 developers in a year's time and to 500 in the coming years. The Indian animation industry is expected to grow at a Compounded Annual Growth Rate (CAGR) of 25 percent during 2006-10 and Indian gaming industry at a CAGR of 72 percent over the same period.

"We see ample opportunity, driven by the demographics of a young audience, the fast growth of multiplexes and theatrical trends, with very little animated output in India now."

Steve Marcopoto, President, Turner Broadcasting System, Asia Pacific.
(Source: Reuter News, 10 April, 2008)

Analyst: Mehul Desai

Oil and Gas

- **India and Venezuela sign oil and gas agreement**
  India and Venezuela have joined hands for exploration and production of natural gas in eastern Venezuela. State-owned Petroleos de Venezuela SA (PDVSA) is expected to hold 60 percent stake in the joint venture while the rest could be controlled by Oil and Natural Gas Corporation (ONGC). As per government estimates, the venture is expected to yield 232 million barrels of crude from the San Cristobal oil field. Venezuela plans to ship 150,000 barrels of heavy crude a day to India.

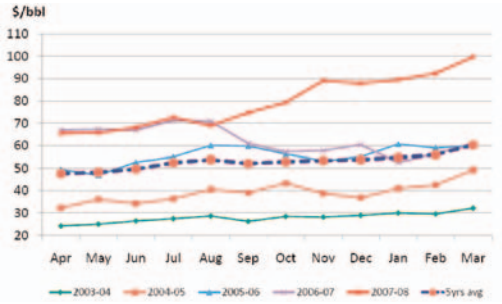
- **OVL qualifies for oil and gas contracts in Iraq**
  ONGC Videsh Ltd. (OVL), the overseas arm of public sector Oil and Natural Corporation (ONGC) has been qualified to bid for oil and gas contracts in Iraq to develop one of the world's largest oilfields. OVL was the only Indian company in the list of 35 companies that the Iraqi Government found eligible to be bidding for contracts.

- **ONGC lines USD 5 billion spend for FY09**
  State owned Oil and Natural Gas Corporation (ONGC) is expected to invest USD 5 billion (1 USD = INR 40) for its different oil and gas recovery improvement programmes in FY09. The major chunk of investments is expected to go into ONGC's Mumbai High South Redevelopment Phase-II.

- **RIL team strikes oil in Yemen**
  A consortium comprising Reliance Industries Ltd. (RIL) has made an oil discovery in Yemen. The discovery in Block 9 in Qarn Qaymah 2 well is believed to be significant, and RIL is in the process of evaluating the potential commercial interest. Block 9 has an output of 10,000 barrels of oil per day (bopd), operated by Calvalley Petroleum of Canada holding a 50 percent stake. Hood Oil, a subsidiary of the Yemen-based Hayel Saeed Anam Group (HSA) owns 25 percent of this block.

- **ONGC plans to set up a new unit with an investment of USD 3.1 billion**
  ONGC has announced plans to set up a new dual cracker petrochemical complex at Dahej. The expected investment for this arrangement is approximately USD 3.1 billion. The proposed complex is expected to have the capacity to produce 1.1 million tonnes of ethylene and 360,000 tonnes of propylene per annum. The complex is expected to be operational by December 2011 or January 2012.

Price trend of Indian Basket of crude oil



Source:http://ppac.org.in/OPM/Indian_basket_crude_apr.pdf

Analyst: Rajiv Parekh

Pharma

- **Dr. Reddy's completes three global acquisitions**

  Dr. Reddy's Laboratories' acquisition of Jet Generici Srl, an Italy-based generic finished dosages company, is expected to give Dr. Reddy's an access to an essential product portfolio, a pipeline of registration applications, and a sales and marketing network.

  Dr. Reddy's acquired BASF's pharmaceutical contract manufacturing business catering to generic prescription and over-the-counter products for branded and generic companies in the U.S. As per the agreement, Dr. Reddy's is expected to acquire the relevant business, customer contracts, related abbreviated and new drug applications, trademarks, manufacturing facility and assets at Shreveport, Louisiana.

  Dr. Reddy's also acquired The Dow Chemical Company's Dowpharma Small Molecules Business associated with its Mirfield and Cambridge, UK sites. This acquisition includes the relevant business, customer contracts, associated products, process technology, intellectual property, and trademarks and the Mirfield and Cambridge facilities.

- **Ranbaxy enters into a strategic alliance with Orchid Chemicals & Pharmaceuticals**

  Ranbaxy Laboratories, one of India's leading pharmaceutical companies, has entered into a business alliance agreement with Orchid Chemicals & Pharmaceuticals, an Indian pharmaceutical company. The agreement involves finished dosage forms and Active Pharmaceutical Ingredients (API) for several therapies covering multiple markets. This deal is expected to give Ranbaxy access to Orchid's manufacturing capabilities, while Orchid is expected to leverage on Ranbaxy's sales and distribution network.

  Orchid has also announced the establishment of its wholly-owned subsidiary in Japan called Orchid Pharma Japan KK, through which it plans to market its range of antibiotic and lifestyle products in Japan.

- **Jubilant Organosys acquires Draxis**

  Jubilant Organosys, an Indian pharmaceutical company in the custom research and manufacturing services space, has announced the acquisition of DRAXIS Health Inc., a specialty pharmaceutical company providing sterile products, non-sterile products and radiopharmaceuticals, for USD 255 million. This acquisition is expected to mark Jubilant's foray into the high growth-high margin radiopharmaceutical business in the North American markets. It could also help Jubilant in consolidating its position in the sterile and non-sterile contract manufacturing business.

- **Fresenius Kabi (Singapore) is acquiring a stake in Dabur Pharma**

  Fresenius Kabi (Singapore) Private Ltd., a part of the Germany-based healthcare group Fresenius SE, is acquiring 73.27 percent stake in Dabur Pharma, an Indian pharmaceutical company focused on the oncology segment. This stake has been purchased from the promoters of the Dabur group. Dabur offers a range of products in the oncology segment across injectables, orals, intermediates and APIs and has a presence in over 40 countries.

"Dr. Reddy's has taken a significant step forward by establishing its business in the third largest pharmaceutical market in Europe. …This strategic investment will generate substantial opportunities for long-term value creation in one of the fastest growing generic markets of the world."

VS Vasudevan, President and Head, Europe Operations, Dr. Reddys Laboratories.
(Commenting on the acquisition of Jet Generici Srl)
(Source:http://www.drreddys.com/newsroom/newsroom.htm#, 3 April, 2008.)

Analyst: Nandita Kudchadkar

Power

- **Areva T&D bags USD 104 million order from Essar Constructions**
  Areva T&D India has secured a USD 104 million order from Essar Constructions to provide equipment for the power plant projects in Gujarat and Madhya Pradesh. The scope of the contract includes supply and commissioning of switchyards, generator circuit breakers and distribution transformers. Additionally, the contract would also provide for the electrical balance of the plant, which reduces complexity in co-ordination and improves projects delivery time. The project is scheduled to be completed by February 2010.

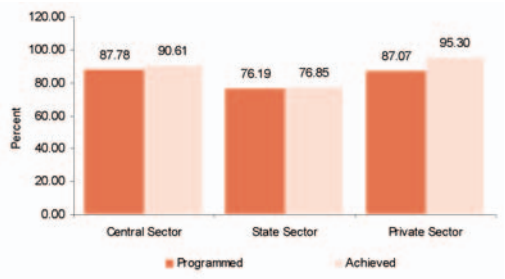
- **Power Trading Corporation forays into wind energy sector**
  Power Trading Corporation Ltd. (PTC) has forayed into the wind energy generation business by successfully commissioning a wind farm project in Maharashtra. The project, located at Sinnar in Nashik, is a public private partnership venture between PTC and State Government and is expected to generate 6 MW of power.

- **NTPC and the Uttar Pradesh government form a JV to set up a power plant**
  National Power Thermal Corporation (NTPC) and Uttar Pradesh Rajya Vidyut Utpadan Nigam have formed a 50:50 Joint Venture (JV), Meja Urja Nigam, for setting up a power plant of 1320 MW (2X660 MW) at Meja Tehsil or at any other suitable site at Allahabad, Uttar Pradesh.

- **CLP Group to invest USD 125 million in Jamnagar wind power plant**
  The China Light and Power (CLP) Group is expected to invest USD 125 million to set up a 100.8 MW wind power project at Samana in the Jamnagar District of Gujarat. The project involves building of 126 turbines, each with a capacity of 800 KW. The project is expected to be completed in two phases. First phase of 50.4 MW is expected to be completed by June 2008 and the remaining capacity is likely to be added in the second phase by January 2009. At full capacity, the wind farm is expected to reduce nearly 200,000 tonnes of carbon dioxide annually.

- **GMR buys 5 percent equity stake in South African mine company**
  GMR Energy, the energy division of GMR Group has acquired 5 percent equity stake in mining company, Homeland South Africa (HAS). As per the deal, GMR would have the option of acquiring a 45 percent stake in the company at a later date, for USD 145 million. This transaction relates to the projects and properties held within Homeland's South African subsidiaries which include the Kendal Mine, Eloff coal mining project, the Northfield site reclamation project as well as exploration projects in South Africa. This acquisition could help ensure fuel security for the GMR Group's power projects in India.

All India Plant Load Factor for March, 2008



Source:http://cea.nic.in/power_sec_reports/executive_summary/2008_03/7.pdf

Analyst: Rajiv Parekh

Real Estate and SEZs

"The Indian real estate market is growing at an incredible pace and we believe it presents significant investment opportunities. Warburg Pincus' investment in Unique Builders reflects the firm's confidence in the company and in the potential of the Indian real estate sector".

Julie Johnson Staples, Head-Communications, Warburg Pincus.

(Source: Business Standard, 9 April, 2008)

- **SEBI allows AMCs to invest in real estate**

  The Securities & Exchange Board of India (SEBI) has now allowed Indian Asset Management Companies to invest in the Indian real estate market. According to the new guidelines issued by SEBI, real estate mutual funds can now invest 35 percent of the fund corpus directly in real estate assets. The remaining funds can be allocated for mortgage-backed securities and instruments of companies in the sector. The investments in real estate assets and real estate-related securities have to be less than 75 percent of the net assets of the scheme. Some of the guidelines state that all schemes could be close-ended with units listed on stock exchanges, the net asset values (NAVs) of the funds must be made public every day and each asset has to be valued by 2 credit rating agencies every 90 days with the lower of the 2 values being taken for computing the NAV.

- **Warburg Pincus invests USD 75 million in India**

  Warburg Pincus, a PE firm, has invested USD 75 million in Unique Affordable Homes, a Jaipur-based real estate company and part of Mannat Group to build affordable housing projects in North and Western India. Unique Builders has completed nine real estate projects comprising four residential and five commercial projects mostly in Rajasthan. The company has a large land bank in Jaipur and its surrounding areas and has plans to launch mega projects in the residential, corporate/commercial and township sectors.

- **Mahindra Lifespace enters in JV with ARCH Capital Asian Partners**

  Mahindra Lifespace Developers, the real estate arm of the Mahindra Group, has signed a Joint venture (JV) agreement with ARCH Capital Asian Partners, a PE fund and part of Philippines based Ayala Land, to develop a residential township at the Mahindra group's special economic zone, Mahindra World City, near Chennai. The Mahindra group is expected to have a 51 percent stake in the JV company and ARCH Capital is likely to hold 49 percent. The township is expected to be developed on a 55 acre plot of land and would have 750 residential apartments and retail and recreational facilities. Mahindra Lifespace has a land bank of nearly 5 million square feet and is developing 2 other Mahindra World Cities at Pune and Jaipur.

- **L&T to develop Bombay Dyeing complexes**

  Larsen & Toubro (L&T), the Indian engineering and construction company, is developing 9 million square feet of commercial project comprising of retail, IT and hospitality space at Bombay Dyeing & Manufacturing Company's textile mills and spring mills complexes at Worli and Wadala in Mumbai at a cost of USD 500 million (INR 2,000 crore). The built-up area at Worli would be about 44 lakh square feet with 13 lakh square feet of IT space and a hotel of about 6 lakh square feet. The Wadala development would be of 53 lakh square feet, having 20 lakh square feet for IT and 6 lakh square feet for hospitality.

Analyst: Nitin Dehadraya

Telecom

"Our aim is to buy into an operator that covers most of India, and Spice is one possibility,"

Mohammed Omran, Chairman, UAE's Emirates Telecommunications Corp (Etisalat).
(Source: Economic Times, 30 April, 2008)

- **Reliance Globalcom acquires 90 percent stake in eWave**
  Reliance Globalcom Ltd., acquired a 90 percent stake in UK-based eWaveWorld, a service provider of world-wide interoperability for microwave access, or WiMax, a telecommunications technology. The deal value has not been disclosed but the company is expected to fund the acquisition through internal accruals. Reliance Globalcom Ltd., a part of the Anil Dhirubhai Ambani Group runs the group's global telecom operations. The company also plans to invest USD 500 million through eWaveWorld over the next few years to build and acquire WiMax networks in emerging markets in Asia, Europe, South America and Africa.

- **Datacom plans to launch GSM services by the end of 2008**
  Datacom, part of Videocon Industries, plans to launch its GSM mobile services by the end of 2008. Datacom is expected to start its operations from south India and hopes to have a customer base of 25 million in 3 years and 40 million by the end of the fifth year. The company initially plans to invest close to USD 1.5 billion for its mobile operations and later plans to scale up investments as required. The company is also in talks with telecom equipment makers to supply GSM network equipment.

- **Tata Teleservices to sell 30 percent stake**
  Tata Teleservices plans to sell 30 percent of their stake to private equity player or investors for USD 1 billion. The company wants to raise funds for expansion of their existing Code Division Multiple Access (CDMA) services and also to launch Global System for Mobile communication (GSM) services.

- **Dhanus Techonologies acquired a 60 percent stake in Sreeven**
  Dhanus Technologies acquired a 60 percent stake in Hyderabad-based IT and ITES services provider, Sreeven Infocom Pvt Ltd. The company is also looking at acquiring a couple of telematics companies in the U.S. and Europe. With these acquisitions, the company wants to accelerate its growth in telematics services, e-governance and BPO services in India.

- **BSNL signs contract with Convergys Corp**
  India's largest telecommunication company Bharat Sanchar Nigham Ltd (BSNL), has signed a contract with Convergys Corporation. The contract is a multi-year licensing, support and maintenance agreement for rating and billing solutions to reduce IT costs and introduce services. The Convergys solution is expected to support BSNL's 18 million customers.

Analyst: Mehul Desai

Transport and Logistics

"We are considering picking up stakes in players operating in warehouses, trucks and the trailer space…..With India, China and Brazil witnessing high level of infrastructure projects, there will be a large project cargo movement. This will result in high demand for break-bulk cargo".

Jan Boje Steffens, Managing Partner and CEO, Rickmers Holding.

(Source: www.thehindubusinessline.com,15 April, 2008)

- **Rickmers to adopt acquisition route to grow third party logistics operations**

  Rickmers Line, the German shipping major which specialises in global transportation of break bulk, heavylift and project cargo, is reportedly eyeing acquisitions of warehouses and road transport firms with trucks and trailers in India. It also wants to get into break-bulk terminal handling in ports along with local partners. This would help Rickmers, which handles 5 lakh tonnes of cargo in India annually comprising steel coils, power generators, cranes and excavation equipment get a part of the port handling and hinterland connectivity business pie.

- **ADAG charts USD 1.2 billion foray into shipping**

  The Anil Dhirubhai Ambani Group (ADAG) group has set its sights on the shipping sector. Having secured coal mines in Indonesia, group company Reliance Power is now planning to float a shipping subsidiary to cart the coal to India. It is looking at an investment of around USD 1.2 billion initially. Reliance Power has won the rights to build and operate two ultra-mega power projects, one in Krishnapatnam in Andhra Pradesh and another one at Shahapur in Haryana, in the past six months.

  The proposed shipping company is reportedly expecting a business of around 20 million tonnes annually in the initial stage, which is equivalent to the coal required for Reliance Power's Krishnapatnam and Shahapur plants. Reliance Power has drawn up an ambitious strategy for its shipping business in the next three years. It plans to have a fleet size of almost 12 vessels, including 5 Capesize carriers, the largest ships in the world.

- **Jet Airways to set up second European hub at Milan**

  Jet Airways is planning to establish its second European hub at Milan Airport. Jet Airways anticipates operating its flights to the U.S. via this hub and would closely work with European carriers like Air-France-KLM-Alitalia to offer seamless connections between Europe, the U.S., Canada, Africa and India. However, the beginning of operations with Milan as a transit point is still being worked out. Last year, Jet had opened a hub in Brussels. Brussels was chosen as the hub because of unavailability of slots at Heathrow airport in London for the U.S. operations. Jet expects revenues from cargo to grow from the current 8 percent to 15 percent in the next 6-12 months.

- **Raheja, ProLogis JV to invest USD 575 million in India**

  K Raheja Corp and U.S.-based logistics firm ProLogis have formed an equal JV to develop warehousing and logistics infrastructure in India. The JV is expected to invest USD 575 million to develop 7.5 million square-feet over 3 years for this business and is likely to initially focus on projects in the 4 metros and Bangalore and Pune. The JV has already acquired 27 acres near Pune, and is in talks to acquire between 30-140 acres in the other cities. The first logistics park is expected to come up in 2009-10. The highly-fragmented Indian warehousing market is currently worth around USD 7 billion, and is growing at 29 percent annually. Demand for warehousing and distribution is rising, as organised retail in India grows 40 percent a year and is projected to touch USD 22 billion by 2010. This venture is expected to be the first investment in India by ProLogis, which gets nearly 85 percent of its revenues outside the U.S. The company is open to investment in the port logistics business in India, through the JV.

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