KPMG

Sectoral Snippets

India Industry Information

Issue 20 - June 2008

KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

Sectoral Snippets

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Chief Executive Officer
KPMG in India

Sectoral Snippets, Issue 20

With sharp rises in food and fuel costs coming in quick succession, the Indian government has been facing considerable economic challenges ahead of the upcoming elections in 2009. Despite declaring generous subsidies for the poor including the loan waiver, many analysts feel the government has to strike the delicate balance between meeting the needs of its electorate and satisfying international investors.

In other developments, the Indian External Affairs Minister, Pranab Mukherjee recently concluded a visit to China, during which both nations decided to work together on issues like rising petroleum prices, food prices and climate change.

We hope you find this edition of Sectoral Snippets interesting 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

Crude oil prices reached a record high of USD 140 a barrel raising concerns to economies around the world, especially countries like India and China, where energy requirements are high. India's dependence on imported crude continues to remain over 70 percent as the country spends billions of dollars subsidising fuel prices every year. Under-recoveries by oil marketing companies have increased from USD 5 billion in 2004-05 to USD 19 billion (estimated) in 2007-08; a surge of 285 percent.

Oil Disconnect in India

	Prices excluding subsidies	Prices inclusive of subsidies	Subsidy
	Rs / litre	Rs / litre	Rs / litre
Petrol	45.52	61.86	16.34
Diesel	31.76	55.25	23.49
Cooking Gas	294.75	600.70	305.95
Kerosene	9.09	37.81	28.72

Source: The Hindu Business Line, No soft options to stem the barrelling oil crisis, May 27, 2008
Prices as in Delhi

Amid all the concerns, the Indian government finally decided to raise prices of petrol, diesel and domestic cooking gas. Simultaneously, the excise duty on petrol was reduced, while customs duty on crude was abolished.

The government's dilemma in increasing oil prices is understandable, as it could further dampen the inflationary and political scenario. A fuel price hike is expected to further push inflation, which is ranging between 8-9 percent.

The government has been left with limited options, as it has already lifted the reserve requirement for banks by 2.25 percentage points to 8.25 percent of deposits since April 2007. India has also tried to keep domestic supplies up and external price pressures down by banning some exports and lowering some import duties.

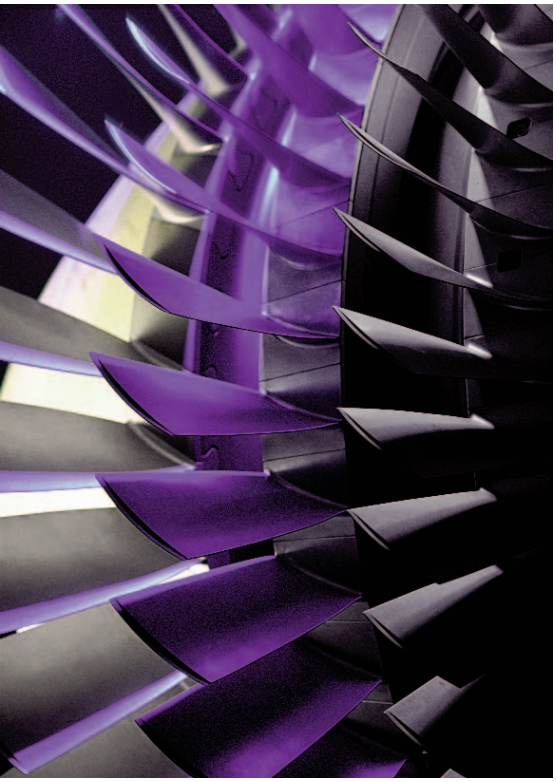
With slower growth in the manufacturing sector coupled with rising commodity and oil prices, financial turbulence and meltdown of some global financial institutions, the government is likely to face challenging times ahead given the parliamentary elections due next year.

"We cannot allow the subsidy bill to rise any further. Nor do we have the margin to fully insulate the consumer from the impact of world commodity price and world oil price inflation. Up to a point we can and we have indeed insulated poorer sections of our society."

Mr. Manmohan Singh, Prime Minister of India at General Meeting ASSOCHAM
(Source: Hindu Business Line, June 3, 2008.)

Analyst: Asmita Deshmukh

Auto and Auto Components



"India is no longer an emerging country. It is a reality worldwide. We feel it is the right time to enter the Indian market,"

Gabriele Del Torchio, CEO, Ducati Motor Holding.
(Source: Business Standard, May 8, 2008.)

- **Super-bikes maker Ducati launches five racing bikes in India**
  Italy-based Ducati Motor Holding has entered the Indian market, launching 5 racing-bikes equipped with over 800cc engines and priced between USD 50,000 and USD 115,000. Ducati has signed a long-term partnership agreement with Precision Motors India Pvt. Ltd. for supplying the bikes. The company plans to sell 50 units in the first year through its dealerships in Delhi, Mumbai, Bangalore, Chennai and Hyderabad and plans to invest USD 2-3 million to expand its dealership network in the next 3 years.

- **Asia MotorWorks plans to invest in the bus and LCV segment**
  Heavy commercial vehicles manufacturer, Asia MotorWorks Ltd. is planning an entry into the bus and Light Commercial Vehicle (LCV) segments in the next 12-18 months. It plans to launch sub-three tonne trucks and 12-tonne vehicles in the LCV category and both city buses and inter-city vehicles. The company has planned investments of about USD 477 million for these projects.

- **Volvo acquires 8.1 percent stake in Eicher motors**
  AB Volvo has acquired a stake of 8.1 percent in Eicher Motors Ltd. (EML) from the promoters at USD 16.48 a share. Volvo and EML intend to set up a Joint Venture (JV), VE Commercial Vehicles Ltd., to manufacture trucks in India. Volvo has to pay USD 258 million for 45.6 percent stake in the JV. In addition, the company is expected to pay USD 9.5 million to EML as non-compete consideration.

- **Eicher Motors reported to buy back stake from Daimler motors**
  The promoters of Eicher Motors Ltd. (EML) are reportedly planning to buy back a 3.6 percent stake in EML held by Daimler Motors (Daimler), the German automobile company. Mitsubishi Motors of Japan, the technology partner in EML, sold 3.6 percent of its stake in EML to Daimler. The promoters, the Lal family of New Delhi, hold a 58.2 percent stake in EML.

- **Ashok Leyland maps out expansion plans with investments of USD 715 million**
  The Hinduja group's flagship company, Ashok Leyland intends to invest USD 715 million for a new plant in Uttarakhand and to expand capacity at its Ennore facility in Tamil Nadu. The new plant is expected to have a capacity of 50,000-unit and the first vehicle is expected to be rolled out by April 2009. The investments in Uttarakhand are entitled to income tax and excise breaks. A part of the investment is planned to be used for new engine development with Austrian firm AVL.

Analyst: Rajiv Somani

KPMG

Banking and Insurance

Net Capital Flows (USD Millions)			
	Apr-Dec	Apr-Mar	
	2007-08	2006-07	2005-06
Foreign Direct Investment	8,402	8,479	3,034
Portfolio Investment	32,996	7,062	12,494
External Assistance	1,250	1,767	1,702
External Commercial Borrowings	16,296	16,155	2,508*
NRI Deposits	-931	4,321	2,789
Banking Capital excluding NRI Deposits	6,702	-2,408	-1,416
Short-term Trade Credits	10,845	6,612	3,699
Rupee Debt Service	-45	-162	-572
Other Capital #	6,427	3,953	1,232
Total	**81,942**	**45,779**	**25,470**

Source: RBI
* Include the impact of redemption of Indian Millennium Deposits of USD 5.5 billion.
# Other capital includes leads and lags in exports, funds held abroad, advances received pending issue of shares under FDI and other capital receipts not included elsewhere

- **RBI relaxes rules for overseas borrowings**

India's central bank, Reserve Bank of India (RBI), has relaxed External Commercial Borrowing (ECB) guidelines for companies that were originally tightened during August 2007. The new rules permits borrowers in infrastructure sector to avail ECB up to USD 100 million to fund their domestic expenditures. In the case of other borrowers, the present limit of USD 20 million for rupee expenditure for permissible end-uses has been enhanced to USD 50 million. The government also raised the limit on the cost of ECBs. Additionally, the Foreign Institutional Investors (FII) investment limit in government securities and corporate bonds has also been raised to USD 5 billion and USD 3 billion respectively.

This move is expected to benefit increasing number of Indian companies, especially the infrastructure companies that are planning to tap international markets to fund their rupee spending.

- **HSBC acquires IL&FS Investsmart**

The Hongkong and Shanghai Banking Corporation (HSBC) has acquired a 73.21 percent stake in IL&FS Investsmart, a leading retail brokerage house in India, in an all-cash deal for USD 261 million. This move was a bid to foray into retail broking business in the country. HSBC is expected to also pay IL&FS an additional USD 19.4 million as part of a 3 year non-compete agreement and is likely to soon make an open offer to acquire up to 20 percent of the remaining shares. Mumbai-based IL&FS Investsmart has 2,000 employees and provides various financial services such as equity and commodity broking, investment banking and fund distribution. Increasing number of foreign banks and brokerages are establishing their India presence to tap the rising savings of its growing middle class.

- **Cantor Fitzgerald to set up institutional brokerage business in India**

New York-based financial services provider Cantor Fitzgerald plans to enter the institutional brokerage business in India. Cantor is planning a JV model for the brokerage business with a large industrial house. Cantor plans to invest USD 5 million and hiring 12 to 15 senior professionals. Cantor Fitzgerald offers services in equity and fixed income capital markets, investment banking, merchant banking, asset management, clearing and market data services, globally.

- **Reliance Money to set up operations in Hong Kong**

Indian financial services company Reliance Money, a unit of Reliance Capital Ltd., has partnered with Hong Kong-based Goldride Securities Ltd. to set up operations in Hong Kong and China. Reliance Money plans to reach out to the large base of non-resident Indians and persons of Indian origin in Hong Kong and China as customers for its broking and portfolio management services. Goldride offers Internet trading facilities to clients in Hong Kong, mainland China and Southeast Asia, and has an affiliate securities dealing company in the Philippines.

Analyst: Kunal Jain

Consumer Markets and Retail

- **SABMiller to invest USD 476.6 million in India in 5 years**
  Leading brewer, SABMiller, plans to invest around USD 476.6 million in India in the next five years to more than double its capacity and modernise its existing facilities. SABMiller has 10 facilities in India with production capacity of around 50 million cases per annum (p.a.). The company expects to grow at around 15 percent p.a. for the next 5 years and plans to raise its capacity to around 105 million cases p.a. by the end of 2013.

  The country's beer market is estimated to be around 155 million cases a year and growing at around 30 percent annually. SABMiller has around 36 percent share in the domestic beer market and is the second largest beer maker in the country.

- **Arvind Brands inks pact with Hartmarx Corporation**
  Arvind Brands, a division of Arvind Mills Ltd., has tied up with the US-based Hartmarx Corporation to design, distribute, and retail leading brands like Hart Schaffner Marx, Pierre Cardin and Sansabelt. The company has plans to open 10-15 exclusive stores for these brands during the 16-month period beginning December 2008 and is expected to spend around USD 2.4 million on the venture. The company plans to initially focus on cities like Delhi, Mumbai and Bangalore. Hartmarx Corporation is America's largest men's tailored clothing company, catering to 40 percent of the tailored clothing market in US.

- **Salvatore Ferragamo forms JV with DLF**
  Italian luxury apparel and footwear brand Salvatore Ferragamo has set up a JV with Indian real estate developer DLF. Ferragamo earlier had a franchise agreement with Sports Station India. The JV Company plans to set up at least 3 stores in Delhi, Mumbai and Bangalore in 2008 and add another 10 across the country in the next 5 years. Ferragamo, currently has only one store in Mumbai. Ferragamo is a maker of leather shoes and accessories including handbags, belts, ties, apparel, perfumes and sunglasses.

"Spurred by the growth of value added and aspirational products, Fast Moving Consumer Goods industry is poised to clock a 16 percent growth in sales during 2008-09 compared with a growth of 14.5 percent during the previous year"

FICCI

(Source: FICCI survey, Economic Times, May 20, 2008)

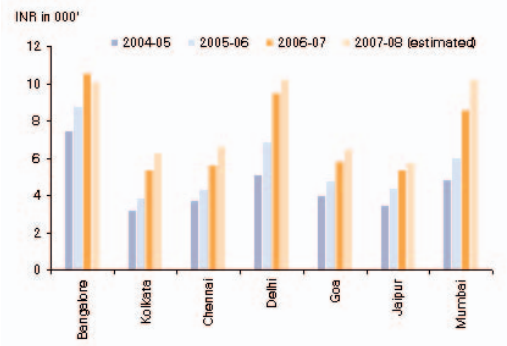
- **Tata-Total Produce JV launches operations in Punjab**
  Khet-Se Agriproduce, a JV between Tata Chemicals Ltd. and Ireland-based Total Produce, has launched its wholesale business for fresh fruits and vegetables sourcing, packaging and distribution in Punjab. Khet-Se has set up its first distribution centre at Malerkotlam, Punjab which is expected to target Ludhiana and Patiala. Khet-Se would cater only to registered business to business customers such as small retailers, organised retailers and institutional segments comprising of hotels, restaurants and caterers.

- **S Kumars acquires controlling stake in Italy's Klopman**
  S Kumars, through its subsidiary, has acquired a controlling stake in Klopman International – Europe's leading manufacturer of polyester and cotton fabrics for image workwear, protective wear and casual apparel markets, for an enterprise value of USD 107 million. MW Unitexx S.A. a wholly owned subsidiary of MW Corp, an S Kumars group company, bought this controlling stake from BS Private Equity, Italy. S Kumars Unitexx is an Indian company whose brand S Kumars is the most popular brand of fabrics for workwear and school uniforms.

Analyst: Sonia Topiwala

Hospitality

City-wide Average Room Rates



(Source: 2008 India Hotel Valuation Index (HVS Hospitality Services), May 23, 2008)

- **ALDAR enters into an agreement with Taj Hotels Resorts and Palaces**

  Taj Hotels Resorts and Palaces, one of Asia's largest hotel chains has signed an agreement with ALDAR Hotels and Hospitality (ALDAR), the Abu Dhabi-based property developer. As per the agreement, ALDAR Hotels and Hospitality has planned to develop the five-star hotel on the YAS Island, the luxury leisure entertainment destination in Abu Dhabi. This 500 room luxury resort hotel is planned to be the first hotel under the agreement and reportedly be branded as a 'Taj Palace' Hotel.

- **India's Country Club chain ventures into the Middle East**

  In order to expand its presence in the Middle East market, Country Club India Ltd. (CCIL), one of the India's largest leisure and infrastructure companies has acquired the Dubai-based luxury hotel, Chelsea Hotel for USD 45 million (Dh 165 million). CCIL is expected to acquire and set up similar facilities in other parts of the UAE and the Middle East region. Additionally, it has identified Mauritius, Singapore, Malaysia, Poland, and other European countries for its global expansion.

- **Dawnay Day plans to launch of its new four - star brand across India by 2010**

  Dawnay Day International, a London based group intends to set up a chain of four-star hotels across India. The first hotel is scheduled to open in Jaipur by November 2008 followed by hotels in Ahmedabad and Pune by 2009. Dawnay, Day Hotels plans to have 8 properties operational by the end of 2010.

- **Holiday Inn in Chennai**

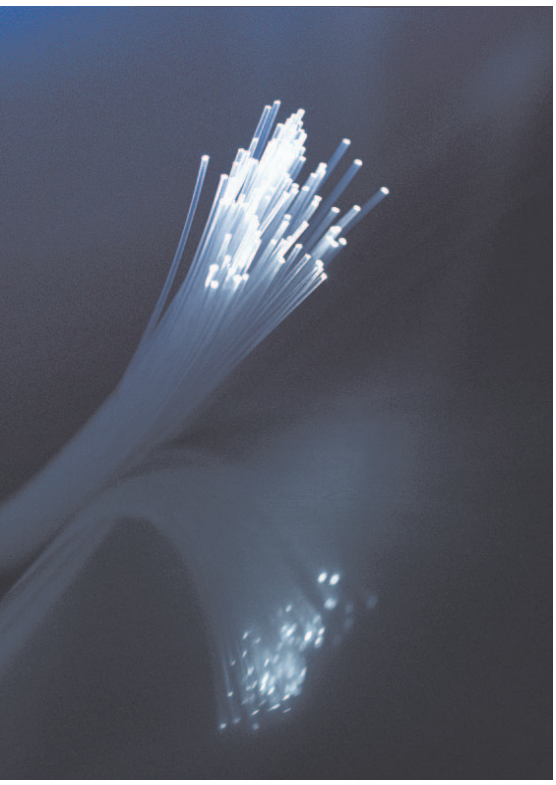
  Larsen & Toubro (L&T) and Arun Excello Commercial Projects Private Limited have joined hands with the UK-based InterContinental Hotels Group (IHG), for setting up Holiday Inn hotel as a part of Estancia Integrated Township in Chennai by 2011. The cost of the 200-room 75-suite hotel, Holiday Inn Estancia Chennai hotel is expected to be USD 35 million (INR 150 crore). L&T and Arun Excello Urban Infrastructure Private Limited plan to jointly develop the hotel and IHG is expected to manage it for 15 years.

- **Hyatt's brand expansion in India**

  In line with the brand expansion plans in India, the India affiliates of Global Hyatt Corporation, Hyatt Hotel in Hyderabad entered into a management agreement with Lanco Hills Technology Park Private Limited, a part of the Lanco Group, for setting up the 400-room Grand Hyatt Hyderabad. The hotel is scheduled to open in India by early 2011. The proposed hotel is located about two miles from the HITEC city, Hyderabad, India.

Analyst: Pallavi Phatak

IT / ITeS



- **HP acquires EDS for USD 13.9 billion**
  Hewlett-Packard (HP) has acquired Electronic Data Systems (EDS) for an enterprise value of about USD 13.9 billion. HP intends to establish a new business group, to be branded as EDS - an HP company, which is to be headquartered at EDS' existing executive offices in Plano, Texas. HP anticipates that the transaction is expected to start adding to non-GAAP earnings in fiscal 2009 and to GAAP earnings in 2010. Further, the company expects significant synergies as a result of the combination.

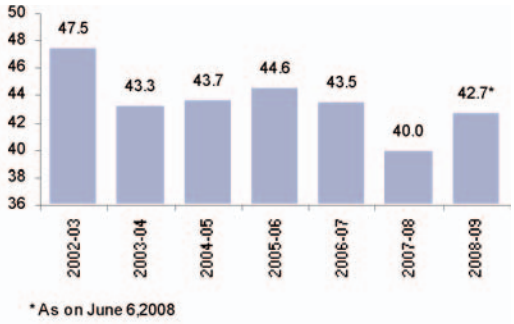
- **TCS signs five year contract with NXP Semiconductors**
  Tata Consultancy Services (TCS) has signed a 5 year contract worth USD 100 million with Europe based NXP Semiconductors to provide IT applications services. As per the terms of the contract, TCS is to provide high end consulting services as well as application management, development and support services across NXP's supply chain operations.

- **Educomp Solutions Ltd. acquires US-based Learning.com**
  Education service provider Educomp Solutions has acquired a 51 percent stake in US-based Learning.com (Learning) for USD 24.5 million. This includes the purchase of existing shares as well as an infusion of new capital into the company. Learning is the provider of web-delivered curriculum and assessment, and partners with schools and districts throughout the US to improve student learning outcomes. The acquisition is expected to enable Educomp to leverage on Learning's competencies in developing high quality web-delivered curriculum service offerings.

- **Mascon Global acquires Ebusinessware**
  Delhi-based Mascon Global (MGL) has acquired New York-based IT solutions and consulting firm Ebusinessware Inc., for around USD 35 million. Ebusinessware with about 1,100 employees (750-800 in India and the rest in the US) provides technology solutions and services in areas like credit risk management, market risk management, credit derivatives, business process management and reference data management. Subsequent to the acquisition, MGL intends to rebrand Ebusinessware as MGL Finance and bring all its businesses catering to the financial services (estimated at USD 10-15 million) under the same brand.

- **Firstsource bags deal from London Stock Exchange**
  Mumbai-based Firstsource's subsidiary Pipal Research Corporation has bagged a Knowledge Process Outsourcing (KPO) deal from the London Stock Exchange (LSE). As a part of this deal, Pipal would provide industry and company focused research reports to Alternative Investment Market (AIM), which is a sub-exchange of the LSE. The company expects the deal to bring in revenues at the end of June 2008 quarter.

INR - USD Exchange Rate (Apr-Mar)



(Source: The Hindu Business Line, June 16, 2008)

Analyst: Parnika Patil

Media

- **Adlabs Films acquire controlling stake in Lotus Cinema**
  Adlabs Films Ltd., a part of Reliance Big Entertainment, has entered into a pact to acquire controlling stake in Lotus Five Star Cinemas, a Malaysian cinema exhibition company to operate its 51 screens which are to be spread across Malaysia. The company operates 220 screens overseas covering the East, Mid West and West Coast of US. It also produces movies, television, content, film processing and currently has 160 screens in India. Reliance Big Entertainment is exploring 30 Hollywood projects with a budget of USD 25 million to USD 150 million per project and anticipates 8–10 successful projects with a target revenue of USD 1 billion.

- **Sony Pictures signs deal with Pritish Nandy Communication**
  Sony Pictures Worldwide has signed an agreement with Pritish Nandy Communication (PNC) to co-produce three movies targeted at Indian movie-buffs as well as the global audience. This would be their second project in India after its first Indian production 'Saawariya'. Both companies have not released the official figure but the investments are valued at approximately USD 60 million and would mainly depend on the budget of the movies.

- **NBC Universal and NDTV Networks conclude strategic partnership**
  NDTV Group and NBC Universal (NBCU) have successfully concluded their strategic partnership initiative for NDTV Networks Business. With a share subscription for USD 150 million, NBCU has an effective indirect 26 percent stake in NDTV Network PLC. NBCU has an option to increase its stake at the then fair market value to 50 percent in 2 years. This strategic partnership, between these two professional media organisations with similar goals, promises to be a major force in the media industry both in India and globally.

"I believe that Indian creativity with Hollywood money is a lethal combination".

Pritish Nandy, Chairman, PNC.
(Source: Economic Times, May 7, 2008)

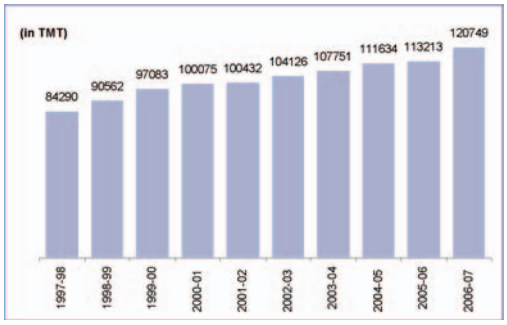
- **TOI group buys UK's Virgin Radio**
  The Times of India (TOI) group has acquired UK-based Virgin Radio Holdings Ltd. and its subsidiaries for USD 104.57 million from SMG plc. Virgin Radio is a music channel which operates under an FM license in London and AM license in the rest of UK. Virgin Radio, after a period of transition, plans not to retail the Virgin brand – giving it the freedom to develop its own mix of music and entertainment, without the branding parameters outlined by Virgin Enterprises. The acquisition is being seen as a key entry point in British radio market, as the new owners have closed the deal at almost a quarter of what SMG paid in 2000, to acquire the radio station.

- **Eros International ties up with Lionsgate for film distribution**
  Eros International has signed a deal with Lionsgate, one of Hollywood's independent studios to distribute their films and third party products in North America. The deal gives Lionsgate access to 20 films, from Eros' library of 1,900 big screen titles for mainstream distribution in the US. As a phase 2 of the deal, within 12 to 18 months, Eros International has exclusive rights to remake some of Hollywood's hits from Lionsgate's library of 12,000 titles.

Analyst: Mehul Desai

Oil and Gas

Consumption of petroleum products in India - April 2007



Source: http://ppac.org.in/ppac_0607/consumption-APR07.htm

- **RIL picks up 90 percent in Peru block**

  Reliance Industries Ltd. (RIL) has inked a 90 percent stake agreement with Pan Andean for an oil block in Peru. As per the deal, RIL is expected to bear all exploration costs for commercial discovery. Following a discovery of an agreed size, Pan Andean shall reimburse RIL for its share of the exploration costs. Pan Andean also has the right to increase its stake to a maximum of 30 percent, and the company is likely to compensate RIL for that proportion of its exploration expense on the block. RIL believes the block contains potentially valuable structures.

- **OIL signs exploration deal with Poland based GT**

  Oil India Limited (OIL) has signed a USD 24 million deal with Poland-based Geofizyka Torun (GT) to locate hydrocarbon deposits in Rajasthan. The company is a pioneer in 3D seismic technology in Eastern Europe. This technology has contributed to discoveries of the biggest onshore oil and gas deposits in Poland and India. According to the terms of the agreement, GT is to provide geophysical service for the project. This is amongst the big 3D land seismic data acquisition program ever to be executed in India.

- **Cals buys Petro Canada's units for USD 110 million**

  Cals Refineries, owned by the privately held Spice Group, has bought two distillation units and a delayed coker plant of Petro Canada for USD 110 million. Petro Canada is one of Canada's largest oil and gas companies, operating in both upstream and the downstream sectors of the industry in Canada and internationally. With this investment, Cals expects to enhance its capacity of processing complex crude oil that has high sulphur content and is heavy with density.

- **Hungarian oil firm takes 35 percent stake in ONGC block**

  The Budapest-based MOL Hungarian Oil and Gas Plc has taken a 35 percent stake in Oil and Natural Gas Corporation's (ONGC) onshore exploration block in the Himalayan foothills. MOL would take a stake in block HF ONN-2001/1 with an aerial extent of 1,513 square kilometers. The proposed assignment of Participating Interest (PI) with MOL is a part of strategic alliances ONGC wants to have with internationally renowned and experienced companies for exploration.

- **India-Brunei ink agreement to boost investment**

  India has entered into an agreement with Brunei Darussalam, the third largest producer of oil in South East Asia, to protect and promote bilateral investments. The Bilateral Investment Promotion and Protection Agreement (BIPA) aims at increasing bilateral investment flow between the two countries. The 10-year agreement requires India and Brunei to encourage and create favourable conditions for investors from the other side. The agreement also stipulates the principles of the most-favoured nation treatment and provides for an elaborate dispute resolution mechanism. The fourth largest producer of liquefied natural gas, Brunei, is the 70th country with whom India has so far signed the BIPA.

Analyst: Rajiv Parekh

Pharma

- **Ranbaxy and Merck enter into a drug discovery and development agreement**
  Ranbaxy Laboratories, one of India's leading pharmaceutical companies, has entered into a collaboration agreement with Merck & Co., Inc. for drug discovery and clinical development of new products in the anti-infective therapeutic segment. As per the agreement, Ranbaxy is to conduct drug discovery and clinical development research through Phas IIa clinical trials and Merck is to carry out further development and commercialisation of drug candidates. Ranbaxy is expected to receive an undisclosed initial payment followed by milestone payments (with a potential of earning over USD 100 million) and royalties on sales.

  Ranbaxy has also announced plans to strengthen its presence in the generics segment in the Middle East. It has launched its operations through a tie up with Pharma Ltd. (Natco). Ranbaxy is expected to focus on the anti-infectives, gastro-intestinal, cholesterol lowering and anti-allergic therapeutic segments in this market.

- **GVK Biosciences enters into a drug discovery agreement with Wyeth Pharmaceuticals**
  GVK Biosciences, an Indian Contract Research Organisation, has entered into a research agreement with Wyeth Pharmaceuticals, to discover drug candidates with a focus on pre-defined discovery targets. GVK Biosciences is expected to identify drug candidates, to be later transferred to Wyeth for further research to take the compounds towards clinical studies. As per the agreement, Wyeth is expected to pay GVK Biosciences an initial payment and successive milestone payments.

"This agreement further validates India's capability to do innovative research along with leading pharmaceutical and biotech companies".

Mr. G V Sanjay Reddy, Managing Director, GVK Biosciences.
(Commenting on the GVK Biosciences and Wyeth Pharmaceuticals drug discovery deal).
(Source:Company Press Release, Hyderabad, May 26, 2008.)

- **Zydus Cadila acquires Spain-based Laboratorios Combix**
  Zydus Cadila, one of India's leading pharmaceutical companies, has acquired 100 percent stake in Spain-based Laboratorios Combix. Combix was established in 2006 and has a focus on the pure generics segment with a portfolio covering 17 molecules. This acquisition marks Zydus' foray into the high-growth Spanish market.

- **SIRO Clinpharm acquires Europe-based Omega Mediation**
  SIRO Clinpharm, an Indian Clinical Research Organization (CRO), has acquired 100 percent stake in Omega Mediation, a European CRO, for an undisclosed amount. This acquisition is likely to give SIRO an access to operational infrastructure in five European countries and Israel and to Omega's customer base of pharmaceutical and biotech companies in Europe.

- **Jubilant Organosys acquires Speciality Molecules**
  Jubilant Organosys Ltd., one of India's leading Custom Research and Manufacturing Services companies, has acquired Speciality Molecules, an Indian niche manufacturer of speciality intermediates, for about USD 4.75 million. Speciality Molecules develops, manufactures and sells speciality intermediates, including pyridine derivatives that are used in pharmaceuticals and other life science industries. This acquisition is expected to strengthen Jubilant's ability to expand its product capabilities to include a range of offerings of pyridine derivatives.

Analyst: Nandita Kudchadkar

Power

The Green Obligation

State	RPO fixed by state regulator (p.a.)	RPO electricity estimates in million units*
Andhra Pradesh	5%	3,207
Gujarat	2%	1,375
Haryana	3-10%	2,935
Karnataka	10%	4,032
Kerala	5%	783
Madhya Pradesh	10%	4,156
Maharashtra	3%**	3,447
Orissa	-	450
Rajasthan	7.5%	2,755
Tamil Nadu	10%	6,578
Uttar Pradesh	7.5%	4,697
West Bengal	3.8%	1,103

*** Based on annual demand in 2007-08**
**** With annual increase of 1 percentage point**

RPO: Renewable Purchase Obligation

Source: The Hindu Business Line, May 14, 2008

- **L&T, GE Energy join hands to focus on power generation market**
  Engineering major Larsen & Toubro (L&T) and US-based GE Energy has entered into a strategic partnership agreement focusing on the country's power generation market. As per the agreement, GE Energy would provide its power plant main control system products to L&T, while the latter is expected to leverage its strengths in engineering and project execution as well as experience in the Indian market to deliver efficient power plant automation services to customers.

- **Government plans to add 40,000 MW of hydro power capacity by 2022**
  The Government of India (GoI) is planning a 40,000 MW hydro power generation capacity during 12th (2012-17) and 13th Plan (2017-22). Jammu and Kashmir, Arunachal Pradesh, Himachal Pradesh, Sikkim and Uttarakhand are the states that have been identified with hydro power potential.

- **Nandan Biomatrix ties up with firms for renewable energy**
  Nandan Biomatrix, a Hyderabad-based company has entered into agreements with group of companies including overseas companies, for setting up a Bio Investment Eco Industrial Zone (BIEZ). The company has signed agreements with IL&FS, BPCL, Shapoorji Pallonji, Alphakat of Germany and Malaysia's Platinum Energy. BPCL intends to set up an entire value chain for establishment of biofuel refineries and also produce biofuel from the BIEZ project for their India blending requirements. Alphakat is expected to supply cost-effective technology in producing bio-diesel, as it has already established its experience in the US and Europe.

- **States firm up RPO for green power**
  Power regulators across 12 states have firmed up their Renewable Purchase Obligation (RPO), which makes it mandatory for all distribution utilities in that state to source a minimum quantum of electricity annually from renewable sources — a move that could boost installation of 'green power' capacities. As a percentage of its total consumption, the RPO varies from 1-10 percent across the states that have implemented it so far. On an pan-India basis, the total RPO commitment by these 12 states cumulatively adds up to around 35,518 million units (MUs), which is around 5.33 percent of the total power consumed by in the country during 2007-08.

Analyst: Rajiv Parekh

KPMG

Real Estate and SEZs

"Affordable housing is a big issue in the country. There is a shortage of 24 million housing units in the country, a majority of which are in the economically weaker section, LIG, and Janta flat segments."

Rohtas Goel, Chairman and Managing Director, Omaxe ltd.

(Source: Business Standard, May 14, 2008)

- **SachsenFonds invests USD 145 million in Trikona Projects**

  SachsenFonds (SF), a German investment bank, has acquired a stake in four real estate projects of Trikona Trinity Capital, a London Stock Exchange listed India-focused realty fund, in India. SF raised its stake from 8 percent to 33 percent in the Delhi-based Uppal IT park. It picked up the remaining 41 percent and 40 percent stake respectively in Hyderabad-based residential and retail project Manjira and MK mall being developed by DB Realty in Mumbai and now owns 100 percent of both the projects. SF also took 15 percent stake in Delhi's Luxor Cybercity, owned by Trikona. Trikona Capital has entered into a binding agreement with SachsenFonds Holdings, a subsidiary of leading German public sector bank Sachsen, to divest a part of its portfolio and co-invest in new projects, at a transaction value of USD 147 million.

- **Omaxe to invest USD 20 billion to build affordable homes**

  Omaxe, an Indian-based real estate firm is investing USD 20 billion to develop 10 lakh affordable homes in tier-II and III cities for low-income consumers, in the next 5 years. The company is planning to offer these housing units in a price range of USD 7150-USD 36000 (INR 3-15 lakh) per flat. Omaxe has set up a new subsidiary called National Affordable Housing and Infrastructure Ltd. to develop this project. The company plans to begin work by July 2008 and develop 1 lakh units this year. In the first phase, the company plans to develop the project in cities of north India and later expand it to other parts of the country.

- **Akme Projects enters into JV with MPC Synergy Real Estate**

  Akme Projects, Anil Nanda Group Company, has signed a 50:50 JV agreement with MPC Synergy Real Estate, a private equity firm, to develop premium housing projects with an equity investment of USD 238 million. The JV named Akme Rhine River Projects plans to develop 7 projects at Ludhiana, Mohali and Greater Noida and 2 each in Bangalore and Gurgaon by 2012. The projects would have more than 7600 apartments and 400 villas and would be launched in the current fiscal. The company is targeting a sales turnover of USD 1668 million by 2012 from these projects.

- **MMRDA to build 5 lakh low-rent houses**

  The Mumbai Metropolitan Regional Development Authority (MMRDA) will build 5 lakh houses in the Mumbai Metropolitan Region (MMR) over the next 5 years under the Slum Prevention Programme (SPP). Under the SPP, 160 square feet houses with attached toilets will be made available for a rent of between USD 19-36 (INR 800-1500) per month. The MMRDA has allocated USD 24 million (INR 100 crore) for this project and would develop the project indigenously in some cases and also through the public-private partnership route. These houses are to be made available to the migrants who have come in search of job opportunities in the city.

Analyst: Nitin Dehadraya

Telecom

Growth in Subscriber base (March 2008)

Source: TRAI

- **Reliance Globalcom buys UK-based Vanco**
  Reliance Globalcom, a subsidiary of Reliance Communications has signed an agreement to acquire Vanco Group for USD 76.9 million. The London headquartered Vanco Group, a managed network services provider, is set to add USD 365 million to the annual revenue of Reliance Globalcom through secure long-term contracts. With the acquisition of Vanco, Reliance Globalcom is expected to get an access to over 700 global, regional and domestic carriers capable of offering services in 230 countries. Vanco increases the Reliance Globalcom tally of enterprise customers to 1,400.

- **Avnet to acquire Ontrack Solutions**
  New York Stock Exchange-listed, Avnet Inc. has signed a definitive agreement to acquire India-based Ontrack Solutions. Ontrack is a leader in security, networking, consolidation, virtualisation, storage and server solutions with annual revenue of USD 13 million. Avnet expects to leverage Ontrack's existing business and capabilities to build value-added solutions distribution business in India. Avnet already has a presence in Indiathrough its Avnet Electronics Marketing Group, which is a leading distributor of electronic components servicing a broad base of Original Equipment Manufacturers (OEM) and Full form please (EMS) customers. The acquisition is subject to Government approval, is expected to close by July 2008

- **Providence invests USD 640 million in Aditya Birla Telecom**
  US private equity firm, Providence Equity Partners has agreed to invest USD 640 million in Aditya Birla Telecom (ABTL), a wholly-owned subsidiary of Idea Cellular. ABTL plans to use the Providence investment to fund the network rollout and ongoing operations. ABTL owns the telecom license for the Bihar service area and is expected to hold a 16 percent stake in Indus Towers. In October 2006, Providence invested USD 400 million in Idea Cellular in a pre-Initial Public Offering (IPO) placement. The transaction is subject to regulatory approvals and is expected to close by August 2008.

- **Motorola receives contract from Bharat Sanchar Nigam Ltd.**
  Motorola Inc. received a USD 90 million contract to supply GSM network equipment to Bharat Sanchar Nigam Ltd. (BSNL). The equipment is expected to add 2.3 million subscribers to BSNL's existing GSM network in the south region. The supply of equipment has already begun in April and is reported to provide a network services programme including both software and hardware support to BSNL.

Analyst: Mehul Desai

KPMG

Transport and Logistics

"It is absolutely imperative that we have members from India and China. We cannot afford to ignore these markets We are in talks with some Indian carriers. They have to decide when to join"

John McCulloch, Managing Partner, OneWorld .
(Source: The Economic Times, June 3, 2008)

- **Realty companies now eyeing warehousing business**
  After building luxury homes and corporate offices, top-of-the-line property developers such as Akruti City Ltd., Emaar MGF Land Ltd., K Raheja Corp., and Nitesh Estates are planning to build warehouses as organised retail booms and traditional realty market slows. Organised warehousing, though in its nascent stage, has whipped up a huge demand—nearly 340 million sq. ft is needed by 2015, according to Jones Lang LaSalle Meghraj (JLLM), a property consultancy firm. Akruti City, formerly known as Akruti Nirman Ltd., targets building warehouses at 20 locations across the country. Bangalore-based Nitesh Estates, which is now heading for a national footprint with several residential projects, has announced a USD 476 million plan for warehousing, with space in Chennai, Bangalore and Pune.

  With international companies coming to India, warehousing is set to change from old-fashioned storage stores to planned hubs that are designed to serve as inventory management and storage spaces for retail chains. International experts could customise design elements for every segment, be it automobile or furniture, and most importantly, provide infrastructure to retail and industrial clients to set up such warehousing hubs. A good example of the same is the JV between Mumbai-based realty group K Raheja Corp. and Colorado, US-based warehousing multinational ProLogis.

- **Indian Railways to invest USD 47 billion during 11th Plan**
  Indian railways is planning to invest USD 47 billion for modernisation, capacity increase and completion of new projects during the 11th Five Year Plan. Indian Railways have decided to invite Public Private Partnership (PPP) in the non-core sector for setting up of logistic parks, wagon investment schemes, wagon leasing schemes and also to participate in the setting up of more than 7,000 agricultural outlets throughout the country. It would encourage the introduction of a PPP model for setting up of new factories for production of wagons, coaches and locomotives, he added. The Indian Railways plans to upgrade 26 major railways stations as world class stations throughout the country including 4 metropolitan cities.

- **DG Shipping bans 25-year old foreign ships from India waters**
  With effect from 15 May, 2008, the Directorate General of Shipping (DGS) has banned foreign cargo vessels over 25 years and gas carriers over 30 years from sailing on Indian waters because of the rise in 'casualties' during the monsoon season. The immediate impact of this circular would be that the number of ships sailing on India waters would decrease, leading to a spike in freight rates. The move to ban older foreign vessels came after DGS' analysis of accidents over the last three years showed a significant correlation between the age of vessels and break-downs which cause these casualties.

- **Global airline alliance eyeing Indian carriers as partners**
  OneWorld, a leading alliance of airlines, is reportedly in talks with Indian carriers to expand its global footprint. OneWorld brings together some of the biggest names in the airline business, including American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, Qantas and Royal Jordanian. Between them, these carriers serve almost 700 airports in nearly 150 countries, with more than 9,000 daily departures. They carry some 320 million passengers a year and operate almost 2,500 aircrafts, while generating over USD 100 billion in annual revenues.

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