KPMG

Sectoral Snippets

India Industry Information

Issue 8 - March 2007

KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

Sectoral Snippets

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KPMG in India

Sectoral Snippets, Issue 8

The Budget is an important fiscal initiative of the Government which besides introducing tax and regulatory measures also lays the road map for socio-economic development of the country. In the backdrop of India's current economic development, the Union Budget of India presented on 28 February aimed at managing inflation, fuelling infrastructure development, making economic development more inclusive and widening the tax net among other things. While a significant focus area of the Budget was the country's social infrastructure, an attempt was made to ensure that all sections of the population enjoy the fruit of economic success.

Our analysis of the Union Budget 2007-08 is available on our website www.in.kpmg.com.

We hope you enjoy reading this issue.

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

> "'The Indian economy is growing at 9 percent, so that means they need 9 percent more of everything. India is growing faster than any of our other top 30 export markets"

Warren Truss, Australian Minster for Trade speaking at the 10th India - Australia Joint Ministerial Commission (Source: The Australian, March 5, 2007)

The Indian economy has had one of its best years in terms of Gross Domestic Product (GDP) performance; GDP growth this year (2006-07) is projected at 9.2 percent. While the fiscal deficit has been reduced to 3.8 percent, the investment rate is around one-third of the GDP. For the period April-December 2006 export growth was 36 percent, and today foreign exchange reserves have touched USD 185 billion. Though the Finance Minister (FM) P Chidambaram estimates that next year's GDP growth will be almost 9 percent, CRISIL, India's leading rating agency puts the figure at a more conservative 7.9 to 8.4 percent. According to the IMA's Asia Brief, the growth rate in the coming year will probably be moderate, as the Reserve Bank of India (RBI) tries to even out short-term demand and as capacity generating infrastructure plans develop.

Within the first fortnight of February itself, merger and acquisition deals worth around USD 40 billion involving Indian entities were signed. Topping these was the acquisition of Hutch-Essar by Vodafone for a value of around USD 19 billion. Another big deal was that of the Aditya Birla Group acquiring the US aluminium firm Novelis for USD 6 billion.

Being referred to as a balancing act, the Union Budget 2007-08 presented by the FM sought to maintain India's high growth levels, while putting a check on the country's soaring inflation. Inflation is currently around 6.6 percent; the RBI comfort level is under 5.5 percent. The government aims at battling this through rational macro management – "increasing production and productivity." Judging from the opinions of most, the budget was by and large a reasonable one. The FM has plans to provide financial support, credit and relief to farmers. Education and health, both indispensable for India to continue on its growth trajectory, also took centre stage; the FM has proposed measures to increase the Central Government's responsiveness to the importance of these areas. An increase from two to three percent was announced for education cess.

India and the rest of the world

- February saw the launch of the India-China year of friendship through tourism 2007. While Chinese Foreign Minister, Li Zhaoxing expressed hope that number of tourists exchanged by both countries would increase from last year's 450,000, his Indian counterpart Pranab Mukherjee stated that the rise in living standards in both countries would result in accelerating tourist traffic between the two nations
- At the 10th India-Australia Joint Ministerial Commission, Australian Trade Minister Warren Truss announced the launch of Utsav Australia. Utsav Australia is intended to be a marketing and promotion campaign to increase awareness of Australian commerce and industry in India
- This year India is the focus country and West Bengal the focus state for Italy for investment. Seven Italian banks have come together to set up the Go India fund to improve ties between Small and Medium Enterprises (SMEs) in both countries.
- India's small scale industries have evinced interest from the US as well. The Small Business Administration of the Unites States plans to join the Ministry of Small Scale Industry in India to enhance collaboration between both the countries' small businesses.

Analyst: Anjali Pai

Auto and Auto Components

"So far we have invested about ¥ 100 billion. Going forward we are investing an additional ¥ 200 billion up to 2010"

Mr Osamu Suzuki,Chairman and CEO, Suzuki Motor Corporation

(Source: Hindu Business Line, February 7, 2007)

- **M&M, Renault and Nissan to set up a USD 889 million manufacturing facility**

  Mahindra & Mahindra (M&M), one of India's leading auto manufacturers, has entered into an agreement with Renault, a French auto maker and Nissan, one of Japan's leading car manufacturer to set up an auto manufacturing facility in Chennai at a total investment of USD 889 million. The plant will have a total capacity to manufacture 400,000 cars per annum. The Mahindra-Renault joint venture will manufacture Renault's mid-sized car Logan; while Nissan will manufacture its compact car model. M&M will have a 50 percent stake in this joint venture; while Renault and Nissan will own the balance stake.

- **Bajaj Auto plans to set up a chain of retail showrooms**

  Bajaj Auto, one of India's leading players in the two and three-wheeler segments, is planning to set up a chain of 55 showrooms by March 2008. The showrooms will be marketed under the barndname 'Probiking'. The company has planned a total investment of USD 67 million for the expansion.

- **Tata to manufacture pick-up trucks at Fiat's Argentina plant**

  Tata Motors has entered into a joint venture with Italian auto major, Fiat to manufacture pick-up trucks at the latter's manufacturing unit in Argentina. The facility, which has an annual capacity of 20,000 units, will start production by 2008. It will primarily cater to Central and South America and select European markets. The trucks will be sold under the Fiat brand. The total investment for the project is expected to be close to USD 80 million.

- **Suzuki Motor plans multi-million investment in India**

  Suzuki Motor, one of Japan's leading auto makers, is planning a multi-million investment in India over the next 3-4 years. The investment will facilitate research and development, mega capacity expansions and development of new models at Maruti Udyog's fourth car assembly plant and Suzuki Powertrain India's diesel engine plant. Suzuki Motor holds 54.2 percent stake in Maruti Udyog and 70 percent stake in Suzuki Powertrain India. Further, Suzuki Motorcycle India, a subsidiary of Suzuki Motor, is planning to foray into the domestic scooter market and create an additional 100,000 capacity for production of scooters.

- **Endurance Technologies acquires two European aluminium die-casting manufacturers**

  Endurance Technologies, an Aurangabad-based auto component manufacturer, has acquired two aluminium die-casting companies -- Italy-based Nuova Renopressn and Germany-based Amann Druckguss -- for USD 52.4 million. These acquisitions will give Endurance access to new technology, as well as customers in the European markets. Endurance has also acquired 40 percent stake in Paioli Meccanica, Italy-based manufacturer of shock absorbers, for USD 7.8 million.

Analyst: Ranjeet Javeri

Banking and Insurance

"It is my hope that we .... realize the objective of making 'financial services' the next growth engine for India"

P. Chidambaram, India's Finance Minister, 2007-08 Budget Speech

- **Boost for health insurance from the 2007-08 Union budget**

  The health insurance sector has received a boost from the Union Budget. The tax deduction limit with respect to medical insurance premium under Section 80 D of the Income Tax Act, 1961 has been increased from INR 10,000 to 15,000 (USD 227-341), and for the senior citizens the deduction has increased from INR 15,000 to 20,000 (USD 341-455). According to the market estimates, the size of the health insurance market is close to INR 2,100 crore (USD 477 million), and the new provision may improve sales.

- **Foreign investment banks charting their own way in India**

  Morgan Stanley (US-based Investment bank) and its Indian partner, JM Financial (JM) recently terminated their seven-year joint venture in the investment banking and securities businesses. This was in line with the latest trend among international investment banks to go alone in India; in an attempt to get a larger market share for financial and advisory services. Morgan Stanley will pay USD 445 million for the 49 percent stake held by JM in their brokerage joint venture, JM Morgan Stanley Securities. Simultaneously, JM will acquire Morgan Stanley's stake out of their investment banking joint venture for USD 20 million.

  Earlier, Merrill Lynch paid USD 500 million in December 2005 to reduce its partner, DSP, to a minority 10 percent stake holder; while Goldman Sachs sold out of its decade-long partnership with Indian entrepreneur, Uday Kotak in March 2006 for USD 70 million.

- **Reserve Bank of India hikes Cash Reserve Ratio**

  In an effort to contain inflation and mop up excess liquidity from the banking system, India's central bank, the Reserve Bank of India (RBI) has increased the cash reserve ratio (CRR) by 0.5 percent in two stages. CRR is the amount of money that commercial banks are required to park with RBI to curb excess liquidity. The CRR hike will come into effect from February 17 and March 3 (respectively) with 0.25 percent hike in each stage. In the first stage, the CRR will be hiked from 5.5 percent to 5.75 percent; while in the second it will be hiked to 6 percent. Earlier, RBI had increased the CRR in December 2006. Industry sources estimate that around INR 14,000 crore (USD 3.2 billion) of excess liquidity may be removed from the system. The inflation had soared to around 6.6 percent (end of February), a two year high.

- **Banks raise interest rates**

  After the RBI raised the CRR by 50 basis points, several banks raised their lending rates. Some others indicated that they may follow the suit soon. India's largest bank (asset size), State Bank of India (SBI) has hiked its prime lending rate (PLR) by 75 basis points. This was the fourth rate hike for SBI in this financial year (2006-07), with its PLR going up from 11 percent to 12.25 percent. Among the other government-owned banks -- Bank of India, Bank of Baroda, Bank of Maharashtra, Punjab National Bank and Union Bank of India – raised their lending rates by 50 basis points. India's second largest bank, ICICI Bank also raised its lending rates from 13.75 percent to 14.75 percent. The banks have raised the interest rates in lieu of rising cost of funds and provisioning requirements.

Analyst: Aman Kaushik

Consumer Markets and Retail

Segments	Previous Status	Changes in Budget
Excise Duty		
Cigarettes	Various Slabs	Excise on cigarettes increased by 5 percent
Biscuits (< INR 50/Kg)	8 percent	Exempt
Food mixes including instant mixes	8 percent	Exempt
Import Duty		
Food processing machineryand Services Revenues	10 percent	7.50 percent
Packaging machines for food processing	15 percent	5 percent
Watch dials & movements	12.50 percent	5 percent

Source: Union Budget 2007- 08 document

- **Bharti plans to invest USD 2.5 billion in its retail business**

  Bharti Retail, a wholly owned subsidiary of Bharti Enterprises, plans to invest USD 2 to 2.5 billion by 2015 for its retail venture. It targets 10 million square feet of retail space in multiple formats such as small stores, hypermarkets and supermarkets. Bharti Retail would partner with existing local stores across India for the small store format, through a franchise model. The stores would stock food and grocery, FMCG and processed foods, electronics and appliances, clothing, footwear, furnishing and other household articles. The company plans to roll out its retail stores by the first quarter of 2008. This investment is only for the front-end of its retail business; while the Group has signed a Memorandum of Understanding (MoU) for a joint venture with Wal-Mart for backend retail operations.

- **Orkla acquires MTR Foods in India**

  Norway's Orkla Group has acquired the Bangalore-based processed vegetarian food products major, MTR Foods, for USD100 million. MTR Foods product range includes ready meals, ready mixes, spices and condiments. The acquisition would help Orkla to market its products in India by leveraging on MTR's distribution network. MTR's manufacturing facilities could also help the Norwegian major to lower its costs by outsourcing the manufacturing to India.

- **Essar plans to invest USD 250 million in telecom retail**

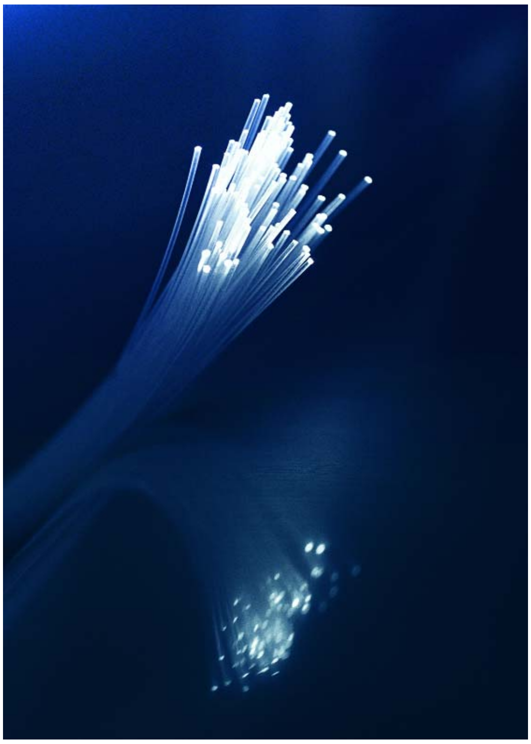
  The Essar group plans to invest about USD 250 million in a telecom retail venture under the brandname “The MobileStore”. The Group will set up a national chain of multi-service, multi-product retail outlets offering mobile handsets, mobile accessories, new connections and mobile value added services like ring tones, wallpapers and games. The stores would also provide services such as bill payment and handset repair facilities. Essar initially plans to set up 150 stores in 11 cities, and then increase the number to 2,500 stores across India over the next three years. So far, around 40 stores have been launched in Mumbai, Delhi, Kolkata, Hyderabad, Chennai, Bangalore and Ahmedabad.

- **DCM Shriram to expand its agri-retail business**

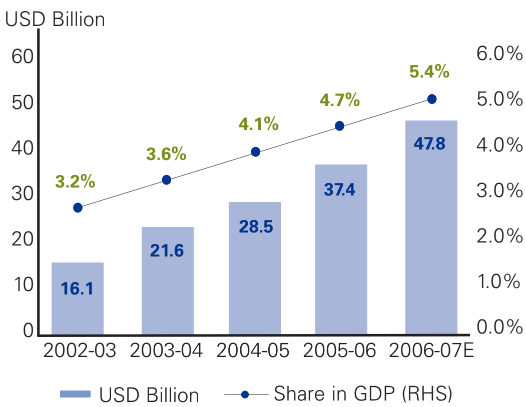
  DCM Shriram Consolidated plans to invest USD 110 million to expand its agri-retailing business across India. It plans to increase the number of retail outlets to 250 from the current figure of 54 by December 2007. DSCL operates its retail stores under the brand name “Hariyali Kisaan Bazaars” in rural areas of Uttar Pradesh, Uttaranchal, Punjab, Haryana and Rajasthan. The stores offer a range of products such as fertilizers, seeds, pesticides, farm implements & tools, veterinary products, animal feed, irrigation items, besides household and FMCG products. DCM Shriram is a North India based business group with a significant presence across sectors like chemicals, plastics and agri-business.

Analyst: Sitanshu Sheth

IT / ITeS



Indian IT/ITeS Industry



Source: NASSCOM Strategic Review 2007)

- **Govt. of India announces semiconductor policy**
  The Government of India (GOI) will provide capital subsidy of 25 percent on investments made in the first 10 years for setting up semi-conductor fabrication and other high-end items manufacturing units, according to the semiconductor policy announced on February 22, 2007. The policy is expected to be in place by 2010. The subsidy will be provided in the form of tax breaks and interest free loans. If the manufacturing unit is located in Special Economic Zone, the capital subsidy amount will be restricted to 20 percent of the total investments made in the first 10 years. GOI has prescribed minimum investment commitment of approximately USD 550 million for fabrication plant and USD 225 million for ancillary plant. The government is also expecting an investment of over USD 10 billion under this policy.

- **Minimum Alternative Tax now applicable to IT-ITeS Exporting units**
  The Finance Minister has proposed to widen the scope of Minimum Alternative Tax (MAT), in the Union Budget 2007-08, to include export units claiming tax exemption under section 10A/ 10B. This will bring IT-ITeS exporting units under the tax net. The government has also proposed to bring employee stock options under the fringed benefit tax net.

- **Moser Baer acquires Philip's subsidiary**
  Moser Baer, India's leading manufacture of removable data storage media, has acquired 81 percent in OM&T BV, a 100 percent owned subsidiary of Philips Netherlands BV, for an undisclosed amount. OM&T being the only company outside Japan shipping blue ray discs, the acquisition will give Moser Baer both, a leadership position in the next generation optical format race and a strong foothold in the European market. Blu-ray is the next-generation optical disc format jointly developed by the Blu-ray Disc Association (BDA) that offers five times the storage capacity of traditional DVDs (digital video discs) and can hold up to 25 gigabits (GB) on a single-layer disc and 50 GB on a dual-layer disc.

- **HOV Services buys US-based BPO, LASON**
  HOV Services, a Business Process Outsourcing (BPO) unit in the Finance and Accounting (F&A) space, has acquired LASON Inc., a US-based BPO for USD 148 million. The trailing revenue of the combined entity will be over USD 200 million and workforce of more than 11,000 employees. Post merger HOV will serve more than 4,000 active customers from over 49 locations based in US, Canada, India, China and Mexico.

- **TCS bags order from Bank of China**
  Tata Consultancy Services (TCS), Indian's largest IT company has bagged a multi-million dollar order from China Foreign Exchange Trade System (CFETS), part of People's Bank of China. Under the contract, TCS will implement a comprehensive trading system for CFETS.

Analyst: Devesh Bhatt

Media

Union Budget 2007- 08

Segments	Changes in Budget
Custom Duty	To be considered as project imports
Digital Cinema projects	Reduction from 10 percent to 5 percent
Digital Cinema Infrastructure	Exempted from Service tax of 12.5 percent
Broadcasting equipment	Custom duty has been levied on TV camera, auto recording etc. which were earlier exempt
Countervailing Duty	The exemption on countervailing duty for specified components of set top boxes is withdrawn.
Set Top Box	
Excise Duty	Excise duty @ 8 percent is imposed on recorded videocassettes intended for television broadcasting.
Recorded videocassettes	

Source: Union Budget 2007- 08 document

- **Sony Pictures picks up 51 percent in FrameFlow**
  US-based Sony Pictures Imageworks (SPI) has acquired a 51 percent stake for USD 5 million in FrameFlow, an animation and visual effects company based in Chennai. SPI will be investing in training, infrastructure and proprietary technology software, and it expects to generate revenues of USD 20 million over the next three years.

- **Pyramid Saimira forays into Malaysia**
  India's Pyramid Saimira Theatre, operator of 230 cinemas, has signed a preliminary deal with a local firm Asian Integrated Industries Sdn Bhd, to expand its operations in Malaysia. The new company, Pyramid Saimira Theatre Chain (M) Sdn Bhd, plans to open 150 theatres in Malaysia and buy operational and abandoned cinemas.

- **US private equity player Providence to buy stake in Asianet**
  Private equity firm Providence, is reported to buy a minority stake in Asianet Satellite Communications, Kerala's largest cable operator. Providence is likely to pay USD 67 million (Rs 300 crore) for the stake. Asianet reaches to about 5 lakh homes directly in Kerala and provides signal to other local cable operators covering an additional 3 lakh homes. Asianet has also forayed into broadband through Asianet Data Line (ADL), which is expected to contribute additional USD 5.5-6.7 million to the topline this year. Last year, Providence bought 16 percent in AV Birla-controlled Idea Cellular, for about USD 400 million.

- **Sun DTH to sell 20 percent stake to Astro**
  Mauritius based South Asian Entertainment Holdings (SAEHL) will take 20 percent stake in Sun DTH. It will invest USD 150 million over the next few years in India. SAEHL is the wholly owned subsidiary of Malaysian-based Astro Overseas. SUN DTH is the DTH platform of South India based Sun Group. Sun DTH is expected to roll out its plan in 2007. It has a presence in the satellite channels and cable distribution.

- **Thomson acquired controlling stake in Paprikaas Animation Studio**
  Thomson, through its Technicolor Content Services business has acquired a controlling stake in Paprikaas Animation Studios, a leading animation house in India. It has a headcount of 150 and offers creative, technical and production services. Thomson is expanding its entertainment services capabilities through strategic investments. The size of the Indian animation industry is estimated at USD 354 million.

- **UTV plans NASDAQ listing**
  UTV Software Communication, an Indian media company, plans to float a public issue on NASDAQ to raise USD 100 million. UTV has entered into a binding term sheet with a US broadcasting company for launching six channels. After the listing, US broadcasting company can directly invest in UTV.

Analyst: Ashwini Kulkarni

Oil and Gas

Union Budget 2007- 08

Segments	Changes in Budget
Exploration (Service Tax)	12.5 percent tax extended to cover services to exploration and production sector.
Oil Marketing Segment (Excise Duty)	Reduced from 8 to 6 percent on petrol and diesel
Petrochemical (Custom Duty)	Reduced from 12 to 7.5 percent on plastic, polyester and intermediaries
Pipeline	Pipeline projects have been accorded infrastructure status and can avail for tax benefits

Source: Union Budget 2007- 08 document

- **GAIL and China Gas to form 50:50 joint venture**
  The state-owned Gas Authority of India (GAIL) and China Gas will form a joint venture called Zhongyin Energy, by the end of 2007. It will focus on the distribution of natural gas and related technology in China.

- **Iran Pakistan India (IPI) gas pipeline to move forward**
  India and Pakistan have decided to complete and sign the final document by June 2007. IPI gas pipeline has been marred with various issues like gas pricing, security and international political pressures. IPI gas pipeline is expected to cost USD 7 billion. Iran has technically assured the availability of gas for more than 40 years.

- **Venezuela's Petroleos de Venezuela SA to set up refinery in India**
  Venezuela's state oil company, Petroleos de Venezuela SA, plans to set up a refinery and establish a petroleum retailing venture in India. The proposed refinery would process the Venezuelan crude from the San Cristobal block where India's ONGC Videsh Ltd., an arm of ONGC, has been offered a 30 percent stake.

- **Sri Lanka awards oil block to ONGC**
  Sri Lanka has identified eight blocks for oil exploration and awarded one block each to India and China on nomination basis. The oil block in the northwestern Mannar basin has been awarded to ONGC at a security of USD 100 million.

- **Shell to expand its retail presence in India**
  Shell targets to open additional 75 fuel retail shops in India, by the end of 2007. Shell has secured license for 2,000 fuel stations in India and currently has 25 operating fuel pumps. Shell Global Solutions has recently signed an agreement with the Central Government for increasing efficiency of four refineries of IOC, Chennai Petroleum Corporation, HPCL and BPCL..

- **Mittal to invest USD 710 million in Indian refinery**
  Hindustan Petroleum Corporation (HPCL), a state run downstream player, will receive USD 710 million from Luxembourg-based Mittal Investments. HPCL is selling its 49 percent stake in the 9 million tones Punjab refinery. The refinery is expected to be commissioned by 2010. HPCL and Mittal's together may also bid for overseas exploration blocks.

- **Indian and Russian firms align to explore oil**
  Oil and Natural Gas Corporation (ONGC) of India has signed an agreement with Russia's state-run Gazprom to jointly explore oil and gas fields in India, Russia and other countries. The agreement also emphasizes on increased coordination in midstream and downstream segments. Both the companies have invited each other for participation in various projects in India and Russia.

Analyst: Amiya Swarup

Pharma

Union Budget 2007- 08

Item	Current Status	Changes in Budget
Customs Duty	12.50 percent	10 percent
R&D expense tax deduction	Provision for 150 percent - weighted deduction on R&D expenses, valid up to end-FY07	The deduction will be available for the next five years
Fringe Benefit Tax	FBT is levied @ 20 percent on, inter alia, free samples distributed to physicians	FBT levy on free samples (and some other marketing expenses) withdrawn
MAT on 10A, 10B income	10A and 10B income is exempt	10A and 10B income is subject to MAT
Service Tax	12.5 percent on income from clinical trials	Withdrawn

Source: Union Budget 2007- 08 document

- **Alembic acquires Dabur Pharma's non-oncology formulations division**

  Alembic, an Indian pharmaceutical company, has acquired the domestic non-oncology formulations division of Dabur Pharma - another Indian pharmaceutical player - for USD 35.3 million. This division is primarily focused on the diabetic, gastrointestinal, cardiovascular, and gynaecology segments. This sell off is in line with Dabur's strategy to focus on its oncology business. The acquisition will expand Alembic's product portfolio and increase its presence in the domestic market.

- **Fortis Healthcare plans to set up health stores**

  Fortis Healthcare, one of India's leading healthcare companies, is planning to set up 1,000 pharmacies and health stores across India, under the Fortis HealthWorld brand in the next five years. It has planned a total investment of USD 178 million. The chain is expected to sell prescription and over-the-counter drugs, in the allopathy and ayurveda segments, health foods and health books. Fortis Healthcare is owned by the promoters of Ranbaxy Laboratories, India's leading pharmaceutical manufacturer.

- **Glaxo and Ranbaxy widen the scope of R&D pact**

  Ranbaxy Laboratories, India's leading pharmaceutical manufacturer, and GlaxoSmithKline, a global pharma giant, have widened their scope of the R&D alliance entered in 2003. As per the new multi-year agreement, Ranbaxy will develop new chemical entities till phase II of clinical trials for two ongoing programmes in the anti-infective and anti-respiratory segment; as well as future drug discovery programmes. Further, the product development and commercialization will be done by Glaxo. However, Ranbaxy will retain the rights to co-market the drugs in India. Ranbaxy will receive over USD 100 million milestone payments along with double digit royalties on global sales.

- **Biocon plans USD 222 million investments in Andhra Pradesh**

  Biocon, one of India's leading biotechnology companies, is planning to set up a vaccine bio-pharma manufacturing and R&D facility in the pharma special economic zone in Andhra Pradesh. The total investment is estimated to be around USD 222 million.

- **Paras Healthcare plans greenfield expansion in North India**

  Paras Healthcare, a Gurgaon-based healthcare company, plans to invest USD 89 million for setting up two new hospitals and to acquire three existing facilities in the National Capital Region. Currently, Paras owns a 250-bed multi super-specialty hospital. It is also planning to take the total capacity to 1000 beds by 2010.

Analyst: Nandita Kudchadkar

Power

Total Installed Capacity of Power in India as on 16th February 2007

Sector	MW	Percentage
State Sector	71,250	55.4
Central Sector	43,231	33.7
Private Sector	13,951	10.9
Total	**1,28,432**	**100**

Source: Ministry of Power

- **PFC invites RFQ for Ultra Mega Power Project in Jharkhand**
  Power Finance Corporation (PFC) has invited Request for Qualification (RFQ) for the 4,000 MW Ultra Mega Power Project (UMPP) to be set up in Jharkand. RFQs have to be submitted by 20 March, 2007. The bidder specifications are that they should have net worth of around USD 226 million and an annual turnover of USD 543 million. They should have 10 years of experience in developing projects, whose aggregate capital costs are not less than USD 678 million.

- **Suzlon Energy plans to acquire German firm RE Power**
  Suzlon Energy world's fifth largest wind turbine manufacturer by annual installations is in talks to acquire Germany's RE power. RE power is Germany's third largest maker of wind-power equipment after Vestas Wind Systems and Enercon. Suzlon's bid estimates the deal size at about US 1.3 billion. Suzlon's bid is being made in partnership with Martifer, a unit of Portugal-based Mota-Engil SGPS, which is a 25 percent stakeholder in RE power. In March 2006, Suzlon, bought Belgium-based Hansen for USD 565 million.

- **NTPC gets government nod for nuclear power foray**
  National Thermal Power Corporation (NTPC Ltd) has received approval of the Government of India to foray into nuclear power generation. It is amending its article of association for the same and plans to generate 2,000 MW of nuclear power by 2017. It is also said to be in talks with international players like GE Energy for setting up new nuclear facilities, and with Thorium Power, a US-based manufacturer of nuclear fuel technology, to establish joint ventures in the country.

- **NTPC to bid for Globeleq's Egypt power plant**
  NTPC is submitting a non-binding bid to buy the 685.2 MW Sidi Krir power project owned by British power investment firm Globeleq's assets in Egypt. Tata Power Company and Reliance Energy are among the other players that have expressed interest in buying some assets of Globeleq. Globeleq's exit from the project is part of its global strategy to sell its assets worldwide.

- **CERC issues guidelines for setting up of power exchange**
  The Central Electricity Regulatory Commission (CERC) has issued guidelines for setting up and operation of Power Exchange. Promoters would be required to develop their own power exchange model and seek permission from the Commission before the start of the operation. NTPC Vidyut Vyapar Nigam, National Commodity & Derivatives Exchange and Power Trading Corporation of India have evinced interest in setting up of power exchange.

- **NTPC to raise USD 2 billion to fund future expansion plans**
  NTPC has announced its plans to raise USD 2 billion to fund future operational expansions. Asian Development Bank will contribute around half the funds, while close to 10 percent will be raised through US pension funds along with other institutional lenders accounting for the remainder. It plans to add 4,600 MW of new power generation over the next five years.

Analyst: Amit Chhallani

Real Estate and SEZs

Union Budget 2007- 08

Item	Current Status	Changes in Budget
Section 80 IB	100 percent tax deduction of profits from housing projects approved before 31 March 2007 in the 1,000 square feet (Delhi & Mumbai) and 1500 square feet (Rest of India) category	Withdrawal of Section 80 IB
Service tax on rental income from commercial properties	Does not fall within the ambit of service tax	Brought under the service tax net
5 year tax holiday for hotel and convention centers	No tax exemption	5 year tax holiday for 2, 3 and 4 star hotels and convention centers (Capacity > 3,000) in NCR

Source: Union Budget 2007- 08 document

Analyst: Nitin Dehadraya

- **Mantri Developers to invest USD 113.63 million in Hyderabad**

  Bangalore-based Mantri Developers plans to invest USD 113.63 million to develop residential, retail and IT infrastructure projects in Hyderabad. The company has lined up two projects along with this investment. The first project would be developed on a 12 acre plot in Madhapur. It will have 1 million square feet of space for IT infrastructure and equal space for residential purpose; and it is expected to be completed in two years. The second project is residential project comprising 900 apartments of 2-3-4 bedroom flats. Morgan Stanley has acquired a minority stake in the company for USD 68.18 million.

- **HCC to increase investments in Real Estate**

  Hindustan Construction Company (HCC) is planning to raise USD 1.13 billion for its real estate arm HCC Real Estate, through a combination of private equity participation, FCCB issue or an IPO. The company plans to develop a land bank of 5,000 acres to build IT parks, commercial spaces and residential townships. The company's focus is said to be on developing townships outside Mumbai and start developing IT parks in Mumbai, Navi Mumbai and Thane. In addition to this, it plans to undertake slum redevelopment projects in Mumbai covering 4 million square feet area.

- **Och-Ziff picks up 25 percent in Nitesh Estates**

  Nitesh Estates, a Bangalore-based real estate firm, has received an investment of USD 56.81 million from Och-Ziff Capital Management, a global hedge fund. It has acquired a 25 percent stake in Nitesh Estates. The transaction is said to be the biggest in India by any hedge funds. The funds will be utilised for expansion purpose. Nitesh Estates has also received USD 100 million from Citigroup to build a 250 room luxury hotel, Ritz Carlton on Residency Road in Bangalore. Further, the Citigroup also plans to invest USD 30 million in the first phase of the hotel project.

- **Dawnay Day to invest USD 1.5 billion in India**

  Dawnay Day International, the UK-based investment company, plans to invest USD 1.5 billion in the Indian real estate sector. The company is said to have signed agreements with various Indian real estate companies to develop multiple projects. It aims to invest in residential projects especially in the Tire II and Tire III cities, build warehouse facilities and develop shopping complexes in India. Dawnay Day also plans to invest about USD 200 million to build 10-15 hotels here in the next three years. In addition to this, the firm plans to invest in contemporary Indian art and set up an auction house in India.

- **Tata Group to invest USD 1 billion in real estate**

  The Tata group is planning to set up Tata Realty & Infrastructure Company with a corpus of USD 1 billion with an aim to invest in the Indian real estate sector. The company would invest in residential and commercial real estate projects, SEZ and infrastructure projects such as bridges, ports and airports. The new company (formerly known as Tata Housing & Development Corporation) will build seven townships with an area of 60 acres to 110 acres each, in the outskirts of Mumbai, Delhi, Chennai, Kolkata and Bangalore and other mini metros. The company plans to make a cumulative investment of USD 2.27 billion for developing these projects. The Tata's have roped in KPMG International to strategise its real estate business in India.

Telecom

Union Budget 2007- 08

Item	Current Status	Changes in Budget
Unification of various taxes and levies into one comprehen-sive levy of revenues	Currently the sector attracts various levies via spectrum charges, variable license fees, access deficit charges, etc.	DoT to constitute a committee to study and recommend to government on a single levy
Inclusion of content providers to telecom in the service tax net	Previously not in the service tax bracket	Levy of service tax (12.4 percent) on mobile value added services

Source: Union Budget 2007- 08 document

- **Vodafone acquires 67 percent stake in Hutch Essar**

  Vodafone, UK's leading telecom company has acquired 67 percent stake in Hutch-Essar, India's fourth largest wireless telecom company for USD 11.1 billion. Hutch-Essar is a JV between Hutchison Telecom International, promoted by Hong Kong-based businessman Li Ka-Shing and the Essar Group. Essar Group currently holds 33 percent stake in Hutch-Essar.

- **Indian companies vying for Saudi Arabia's telecom market**

  Three of India's leading telecom companies have forged alliances with their counterparts in Saudi Arabia to acquire Saudi Arabia's third mobile license. Reliance has teamed up with local partner, Abdullah Adbulaziz Al-Rajhi, Bharti has teamed up with the Samawat and MTNL with Al Shoula. Saudi Arabia is the largest telecom market in the Gulf region. International telecom companies that are also in the fray include Orascom of Egypt, MTC of Kuwait, Oger Telecom, MTN of South Africa and Turkcell of Turkey.

- **Sony Ericsson to manufacture mobile phones in India**

  Sony Ericsson, a 50:50 joint venture of Sony Corporation and Ericsson AB, is planning to manufacture mobile phones in India through its outsourcing-manufacturing partners, Flextronics and Foxconn. Sony Ericsson would provide the design, while the manufacturing would be done by the two partners. Flextronics's manufacturing facility is situated at Sriperumbudur, near Chennai. Sony is expected to come out with its first "Made in India" phone by June 2007 and is expected to have an annual production capacity of 10 million units by 2009.

- **NEA acquires 40 percent in HFCL Infotel**

  New Enterprise Associates (NEA), a US-based private equity firm, has acquired 40 percent stake in HFCL Infotel for USD 83.3 million. HFCL Infotel is a single circle operator and provides CDMA-based wireline, fixed wireless and mobile services in Punjab. NEA, one of the oldest venture funds in the world, has now opened its Indian arm, IndoUS. It plans to invest USD 150-200 million in India.

- **Ericsson bags a network expansion contract from Idea Cellular**

  Swedish equipment major, Ericsson has bagged a multi-million three year network expansion contract from Idea Cellular. Ericsson will expand its Idea Cellular's network in Maharashtra, Gujarat, Rajasthan, Madhya Pradesh and Himachal Pradesh. As per the contract, Ericsson will provide radio access, microwave transmission and next-generation, mobile soft-switch network architecture, till November 2009. The expansion also prepares Idea Cellular for migrating to a 3G-ready network.

- **BT to buy i2i enterprise**

  British Telecom (BT), a UK based telecom major, has entered into an agreement to buy i2i Enterprise. i2i is a Mumbai -based company that specializes in Internet Protocol (IP) communications services for major Indian and global multinational companies. According to Andy Green, CEO, BT Global

Analyst: Amit Shah

Transport and Logistics

- **Railway Budget 2007-08**

  The Indian Railways expects a profit of USD 4.4 billion in 2006-07, as against USD 3.2 billion in the previous fiscal. Freight earning has showed a rise of 17 percent and passenger earnings rose by 14 percent. During the year, the operating ratio improved to 73.7 percent, considered as the best in the history of Indian railways.

Key Highlights of Rail Budget 2007-08

- Passenger fares cut across all categories Peak season AC 1st class fares cut by 3-5 percent
- Freight rates mostly unchanged. Rates cut on petrol, diesel and iron ore
- Three- decker container trains being planned. 15 private container licenses issued
- Expansion of routes to mineral- rich areas. New rail lines to planned power plants
- Construction on freight corridor to begin in 2007. Substantially higher allocations for wagons
- Target for freight loading kept at 785 MT in 2007-08
- Mission 200 MT - Railways' target higher share in transportation of Cement and Steel - 200 MT each by 2011-12
- Mission 100 MT - Container traffic target of 100 MT by 2011-12

- **World class ship building yard at Cuddalore**

  A world class ship building yard is set to come up at Cuddalore in Tamil Nadu. The Tamil Nadu government and Good Earth Maritime, a Korean company, have entered into a formal Memorandum of Understanding, where the latter plans to invest around USD 228 million in the project. The project is to be completed in two phases over three years, attracting an investment of USD 114 million for each phase.

"India is one of the fastest growing market for DHL Express in the Asia-Pacific region and we have aggressive expansion plans for sustaining that growth."

Scott Price, CEO, Asia-Pacific, DHL Express

(Source: The Economic Times, February 22, 2007)

- **DHL Express sets base in Mumbai**

  DHL Express, world's leading express and logistics operator, has restructured its business in the Asia-Pacific region to increase its focus on India. The company has created a new region within the Asia-Pacific business called the South Asia region, which will be headquartered in Mumbai. The South Asia region will cover India, Sri Lanka, Pakistan, Nepal, Maldives, Bangladesh and Bhutan. At present, China is the largest market for DHL Express, followed by Japan, Korea, Hong Kong and Singapore.

- **Mundra Port plans for capacity expansion**

  Mundra Port plans to invest around USD 205 million to expand its capacity by 2008. Post expansion, the port would cater to 30 shipping lines compared to the current figure of 17. According to the port authority, Mundra Port is one of the few ports in the country that can handle post-Panamax and Capesize vessels. The port is also expecting a growth of 44 percent in cargo handling by 2008.

- **Mauritius seeks help of Indian port developers**

  Mauritius has invited Indian port developers to invest about USD 245 million to develop ports in the country. According to Mauritius Ports Authority (MPA), India has made considerable progress in the port sector. MPA needs a total investment of USD 460 million, out of which it is expecting at least USD 245 million from the Indian port developers.

Analyst: Preeti Sitaram

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