

# COUNTRY BRIEFING

Covering the six weeks ending 8 December 2004



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## India

### Foreign Investors Pour Into India



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Foreign funds have been flowing into India at a record pace in recent months, attracted by high corporate earnings growth opportunities. The inflow has driven up the Bombay Stock Exchange's Sensex index to a new high of 6386.29 in intra day trades on 6 December.

Barry Wheelock (Editor)



#### AT A GLANCE

Data profile sourced from World Bank database

	2000	2001
Population, total	1.0 billion	1.0 billion
Population growth (annual %)	1.8	1.7
Personal computers (per 1,000 people)	4.5	5.8
Internet users	5.0 million	7.0 million
Fixed lines and mobile phones (per 1,000 people)	35.5	43.8



#### EXCHANGE RATES

(1st Dec 2004)

44.26 INR = 1 US \$
85.39 INR = 1 £ Sterling
58.89 INR = 1 Eur
43.05 INR = 100 ¥ JPY



## FIVE LATEST BRIEFINGS

- 21.10.2004 High Oil Prices Could Scupper Growth Plans
- 8.9.2004 Revival of Monsoon Rains Puts Economy Back on Track
- 28.7.2004 Government Delivers Measured Budget
- 20.6.2004 Congress Party Win Throws Market into Turmoil
- 6.5.2004 Growth Rate Outstrips China



## THE ECONOMY

*Analyses changes in interest rates, currencies, budgets and taxation and looks at factors affecting the performance of the economy.*

Economists report that, despite concerns that the incoming government would rapidly increase spending, the federal budget deficit is broadly on track. The deficit for the financial year to 31 March 2005 is expected to come in close to the official forecast of 4.4% of GDP, down from 4.8% in 2003/04, helped by the recovery in corporate profits (and hence higher tax receipts) and relatively restrained public spending. The full benefits of an expanded services tax and a new levy on stock exchange transactions will only be felt in the second half of the year. However, the combined federal and state deficit is still estimated in excess of 10% of GDP, and represents a potential long-term problem for the Indian economy. External observers point to India's extremely narrow tax base. The country has only 35m taxpayers (out of a population of one billion), and tax revenue is around 16% of GDP, compared to 27.5% in S Korea. The government will need to widen the tax base if it is to fund its promised extra spending on fighting poverty.

Minister of State for Finance S. Palanimanickam has said that the government will study the fiscal and monetary implications of a plan to use some of the country's growing foreign exchange reserves to fund infrastructure projects before deciding to act. This follows the recommendation that the government should utilise US\$5bn for each of the next three years from India's foreign exchange reserves to import hardware and services for infrastructure projects. The proposal has been criticised by economists and ratings agencies that fear it may increase the fiscal deficit and stoke inflation.

The Head of the World Bank, Mr Wolfensohn met with Prime Minister Manmohan Singh on 19 November. He praised the steps taken by India and said that the government's Common Minimum Programme (its blueprint for development) was in line with the hopes of the World Bank. Mr Wolfensohn also indicated that the World Bank was prepared to double its annual lending to India to US\$3bn, which would make India the largest recipient of World Bank assistance.

The World Bank has approved a US\$120m loan to support the development of India's small and medium sized enterprises (SMEs). The aim of the loan is to provide improved access to finance and business development services for SMEs.

Indian states have vowed to implement value added tax from 1 April 2005. The aim of the tax is to bring down state deficits. The implementation of VAT signals the reform of the country's unwieldy tax system, which includes various state run taxes.

The International Finance Corporation (IFC), the private sector finance arm of the World Bank, has shelved its plans to raise US\$100m from the Indian debt markets, following the appreciation of the rupee against the dollar, which has made the swap cost too high. "It's too expensive for us to borrow from the Indian market right now as compared to what's available overseas," said Vipul C Prakash, regional manager, South Asia IFC.

An analysis by Indian Defence Consultants (IDC) has indicated that India's trade with members of the Association of South East Nations will grow from its current level of US\$13bn to US\$30bn by 2007.

Finance Minister Palaniappan Chidambaram told a banking seminar that India's state-run banks need to consolidate and reduce their credit risk. The high levels of non-performing assets were a key threat to the Indian banking system, he said. India's banking sector has nearly 100 public sector, private and foreign banks, as well as some 200 regional rural banks.

Mobile phone users have outstripped traditional landline connections in India. The Telecom Regulatory Authority said at the end of October that some 44.5m Indians now use mobile handsets, compared with the 43.9m existing landline users. India is now the second largest market for mobile phones after China. An industry survey predicts that at least 110m new mobile phone subscribers will be added during the next three years, as call rates are cut through competition between the service providers.

On 26 October India's central bank unexpectedly raised a key interest rate for the first time in four years. The repurchase rate it pays commercial banks for loans was raised from 4.5% to 4.75%. The rate rise was driven by rising oil prices as well as rising corporate demand for credit, which was fuelling inflation.



## ECONOMIC INDICATORS

*National economic statistics in easy-to-read bullet points, for example GDP, inflation, export figures, bank lending, unemployment and other key indicators.*

- The Central Bank revised down its forecast of GDP growth for the year to 31 March 2005 to between 6%–6.5% (down from a GDP growth rate of 8.2% in 2003/4), due to the poor monsoons (agriculture makes up 25% of India's GDP).
- Wholesale price inflation was 7.34% for the year to 20 November, up from 7.2% at 2 October, and 4.3% in April 2004.
- The rupee reached a 7-month high against the dollar on 30 November, closing at 44.64 Rs/\$, helped by substantial foreign investment inflows.
- Domestic air travel market expanded by 26.5% in the half year to 30 September 2004, boosted by falling fares and the revival of tourist traffic.

- Foreign exchange reserves rose to a record US\$122.22bn on 5 November as export revenue flowed in, up nearly US\$22bn in 2004.
- Industrial output rose 7.7% y-o-y in September, slowing from 7.9% in August and 8.4% in July, which may reflect weakening domestic demand on the back of a poor monsoon.
- Manufacturing production (which represents 75% of industrial output) rose 8.0% y-o-y, down from 8.2% in August.



## MAJOR STOCK MARKET INDICES

	Value	% change one month	% change since beginning of each year to now								
			2004	2003	2002	2001	2000	1999	1998	1997	1996
India	1 Dec 2004	1 Nov 2004	2004	2003	2002	2001	2000	1999	1998	1997	1996
BSE Sens	6234.29	9.91	6.77	84.60	91.10	56.95	24.54	104.04	70.38	93.30	100.43
World	1 Dec 2004	1 Nov 2004	2004	2003	2002	2001	2000	1999	1998	1997	1996
MSCI*	1127.34	5.09	8.78	42.30	12.34	-8.24	-20.66	-1.97	20.37	37.42	53.53

\*Morgan Stanley Capital Index



## STOCK MARKET REPORT

*The stockmarket is a barometer of an economy and often indicates how the economy will be performing in 3–9 months time. We discuss the performance of each country's local stock market over previous weeks and include a table of local indices since 1996.*

The Bombay Stock Exchange (BSE) Sensex Index reached a new high of 6,386.29 in intra day trades on 6 December, helped by the appetite for Indian stocks shown by foreign institutional investors (FIIs). The markets have been in buoyant mood since the start of November, and the BSE gained 9.91% in the month, pushing through the 6,000 barrier and ending the month at 6,234.29 (see table above). The Bush election win in America in early-November, and falls in crude oil prices provided a fillip to global markets, which was echoed in India. Since then Sensex Index has been driven up as FIIs have moved back to the market. In November FII inflows touched Rs67.4bn, compared to Rs33.6bn in October. The cumulative FII inflows for 2004 are also at a record high, with inflows of Rs334.9bn to 1 December, compared to Rs304.6bn in the whole of 2003. However, since 6 December a note of caution has crept into the markets, as emerging market investors are starting to wind down for the Christmas holidays, and profit taking has occurred. The BSE closed on 8 December at 6261.29 up just 0.43% month-to-date.

Blue chip stocks have proved to be the strongest gainers, although in mid-November the markets plunged on news of a family ownership dispute in the Reliance Group. The Reliance group accounts for some 12% of the Sensex Index. However, the general upward market trend dampened the overall effects of this crisis, and by early-December Reliance shares had recovered on news of steps taken by the board to iron out the differences.



*Reviews important government announcements, ministerial changes and examines election issues and other relevant current affairs.*

The government has been accused of watering down its election pledge to set up the country's first social security support. Prime Minister Manmohan Singh is expected to introduce a bill into Parliament that will provide for an annual minimum guarantee of employment to those living below the official poverty line. The original proposal would have given a statutory right to 100 days a year of employment at the minimum wage to one person from every household. The new draft removes the statutory right and will initially cover the 150 poorest districts in India. There is no indication of when the rights would be extended nationwide. Leading economists and communist party members have all accused the government of deception. The original pledge, if rolled out, was estimated by economists to cost the government between 1–2% of India's GDP, which could impact significantly on the government's commitment to reduce its fiscal deficit.

On 3 December rallies were held in Bhopal, demanding justice to victims still suffering the effects of the world's worst industrial disaster, 20 years ago. A leak of poisonous gas from the Union Carbide pesticide plant on 3 December 1984 is estimated to have killed at least 10,000 people in Bhopal, and affected more than 550,000 others. Whilst Union Carbide paid US\$470m in compensation under a settlement with the Indian government in 1989, US\$327m is still held in India's central bank, tied up due to bureaucratic wrangling, and many people have received little or nothing.

Parliament reconvened on 1 December after the religious break. The opposition Hindu party held a march on Parliament to protest about the rising level of inflation in an attempt to undermine the six-month old government of Manmohan Singh.

Oil minister Mani Shankar Aiyar has announced that the government will auction 20 oil and gas exploration blocks in January 2005, under the New Exploration Licensing Policy. The government wishes to bring more areas under exploration as India's demand for crude oil increases. The country currently imports 70% of its crude oil needs, and this is forecast to rise to 85% over the next 10–15 years.

The government aims to restart the former Enron-owned Dabhol power plant by October 2006, according to a senior Indian Power Ministry Official. The plant was the largest foreign investment project in India. It became idle in July 2001 when its sole customer, the Maharashtra State Electricity Board launched a dispute over energy tariffs. The Indian government has set up a ministerial panel to look into ways to sell the plant.

The government has launched a food-for-work programme in 150 of India's poorest districts that have been hit by droughts and other natural disasters. The unemployed farmers will be given jobs constructing roads, bridges and irrigation channels. They will each receive 5kg of grain for a days work, part paid in cash. The project will be funded by the national government. The aim of the scheme is to accelerate rural development and boost farmers' incomes.

The Hindu nationalist BJP has expelled Uma Bharti, one of its most popular figures from its party, after she annoyed senior party leaders on a televised BJP meeting. She was sacked from her post as general secretary and her party membership was suspended for six years. The expulsion highlights the continuing tension amongst the leadership of the BJP.

The government moved one step closer towards pension fund reform in November when the Cabinet approved legislation to set up a separate pension fund regulator. Finance Minister P Chidambaram said the new legislation would empower the Pension Fund Regulatory and Development Authority to appoint pension fund managers. The proposed legislation would also set out guidelines on investment criteria and the capital requirement for the fund managers.

The Finance Ministry's Public Investment Board has approved a US\$2.2bn proposal by state-owned Indian Airlines Ltd to buy 43 planes from Europe's Airbus SAS, as part of the airline's fleet renewal plan. The plan is subject to approval by Cabinet.



## INTERNATIONAL RELATIONS

*Monitors changes in bilateral relations, trade agreements and issues impacting on economic co-operation and foreign investment.*

Russian President Vladimir Putin visited India for three days of talks from 3–6 December. He met with Prime Minister Singh, as well as business leaders. A joint declaration was signed emphasising the continuing strategic partnership between India and Russia. The two countries also signed agreements on outer-space and long-term cooperation in the development and use of Russia's Global Navigational Satellite System (GLONASS) for peaceful purposes. A separate agreement was also signed on cooperation between the cities of Mumbai and St Petersburg. Talks also took place on the supply of Russian military hardware to India. Russia is also already helping India to build two nuclear reactors, the first of which will be completed in 2007, and the countries are talking about building a further four more.

Israel and India held talks from 30 November – 2 December on defence and counter-terrorism. Talks covered ways of fighting global terrorism, as well as issues of border security, and ways of denying terrorists of finance, weapons of mass destruction and anti aircraft missiles. They also discussed the possibility of joint training and manoeuvres. The talks are part of an ongoing dialogue between the two nations. Israel is a leading supplier of arms to India, and relations have warmed in recent years, although Prime Minister Manmohan Singh's government has stressed to Israel that relations with Israel cannot ignore the plight of the Palestinians.

India and Pakistan have agreed to restore a second rail link between the two countries. The route between Munabao in Rajasthan and Khokrapar in Pakistan's Sindh province was suspended in 1965 when the two countries first went to war over the disputed territory of Kashmir.

The next round of peace talks between the foreign secretaries of India and Pakistan will be held on 27–28 December. The focus of the discussions will be ways to move forward on the Kashmir disputes.

Pakistan's new prime minister, Shaukat Aziz paid his first official visit to India on 24 November and met with Prime Minister Manmohan Singh. The two leaders discussed the proposals for a gas pipeline to India from Iran and Central Asia, which would cross Pakistan. Pakistan would earn substantial revenues from transit fees, but India is concerned over security issues. In addition, India wishes to link an agreement for the pipeline with an agreement for India to transit goods across Pakistan to Afghanistan. The two prime ministers agreed on the need to start a bus service between the capitals of Srinagar and Muzaffarabad, in Pakistan-held Kashmir.

Prime Minister Manmohan Singh paid his first visit to Kashmir on 18 November, where he addressed a rally in Srinagar, amid tight security. His speech focused on a "new vision of development" for Kashmir, and offered US\$5bn in economic assistance to Kashmir. The speech stopped short of offering concessions to the demands of the Kashmiri separatists. A few days earlier Prime Minister Singh had ordered a cut in the number of Indian troops in Kashmir (estimated to be 40,000 out of a 450,000 force). This news was welcomed by Pakistan.

India and the European Union (EU) took their first steps to a strategic partnership when Prime Minister Manmohan Singh held talks with senior EU officials in the Netherlands on 8 December. Whilst little was agreed on paper, other than a declaration to promote cultural relations and an EU commitment to offer scholarships to 1,000 Indian postgraduates at European universities, both sides agreed to establish a joint action plan before a summit next year which will set out the framework for the relationship. For many years India has felt that it has missed out in its relationship with the EU, as China has hogged the limelight. The mood at the meeting was reported as very enthusiastic. Only five nations currently have a "strategic partnership" with the EU, namely Canada, China, Japan, Russia and the USA.

Indian officials have announced that Oil Minister Mani Shankar Aiyar will visit Dhaka and Yangon in January to discuss gas imports from Myanmar (Burma) using a pipeline across neighbouring Bangladesh. The meetings coincide with a summit of the South Asian Association for Regional Cooperation (SAARC) which will be held in Dhaka.

India and Mauritius have negotiated a draft pact to improve trade and development between the two countries. The agreement should provide India with better access to African markets, and boosts Mauritius' threatened trade portfolio, which will suffer when sugar and textile quotas to lucrative western markets are eliminated under global trade liberalisation agreements.



## CORPORATE ACTIVITY

*Includes updates on previously announced mergers, planned sell-offs, unexpected increases and drops in turn over and significant events.*

Hindustan Diamond Company ("HDC") and De Beers India have signed a Memorandum of Understanding whereby HDC will subscribe for a 26% interest in De Beers India by investing US\$3.75m in De Beers India. HDC is an equal joint-venture between the Government of India and De Beers, established in 1978. This is seen as a strengthening of the relationship between De Beers and the government, and indicates De Beers' commitment to the Indian diamond exploration and mining. Active exploration by De Beers commenced in India in 2001, and 20 new kimberlite deposits have been found.

Tata Consultancy Services (TCS), the country's largest software company, has signed a multi-million dollar agreement to provide technology and engineering services for the Ferrari team in the 2005 Formula One season.

Ratan Tata, chairman of the Tata conglomerate, has indicated that he is considering a listing for the group's holding company, Tata Sons, as a further step to making the Tata Group a global player. Tata Sons holds controlling shares in a multitude of Indian companies, including Tata Consultancy Services (which listed separately this year), Indian Hotels, whose main brand is the Taj hotel chain; Tisco, India's largest private steel manufacturer; and Tata Motors, the country's largest passenger car and commercial vehicle unit. There are also a number of less successful companies in the group, which are going through a period of restructuring.

Power utility Reliance Energy Ltd is to bid for the setting up of a 1,000-megawatt thermal power project in the northern state of Uttar Pradesh, India's most populous state. The company already plans on setting up the world's largest gas-based power plant in Uttar Pradesh, with an investment of Rs110bn.

Royal Dutch/Shell has opened its first petrol station in India and plans to start importing liquefied natural gas (LNG) by March 2005. The first retail site is in Bangalore, and the company has a licence to set up 2,000 outlets. Shell will compete with the state run oil refiners – Indian Oil Corp, Hindustan Petroleum and Bharat Petroleum, who together control 99% of India's 23,000 petrol stations. Reliance Industries and Essar Oil are also setting up their own retail networks.

Nokia has announced plans to build a new manufacturing facility in India to meet the growing demand for mobile phones in India. A formal investment decision will be made in Q1 2005, but it is expected that the company will invest US\$100m–150m, and the factory will employ 2,000 staff once it reaches capacity.

Microsoft is to open a research lab in India early next year, based in Bangalore. The new centre adds to Microsoft's existing research capabilities outside of the US, in Cambridge and Beijing. The aim of Microsoft is to cement relations with the leading academic institutions, making it easier to recruit the best talent. The expansion also marks an increased willingness of top Indian students to stay and work in India to work, rather than move to Silicon Valley or Microsoft's base in Washington State.

Walt Disney Television has signed a distribution deal with News Corp's Star group for India covering the Disney Channel and the Toon Disney Channel. The channels will launch on 17 December 2004.

India's biggest domestic airline, Jet Airways has announced that it is considering an initial public offer of shares to fund growth. The airline has been in existence for 11 years, and has grown rapidly to take a 43% stake of the domestic air travel market, surpassing state-owned Indian Airlines Ltd, who was previously the monopoly provider of domestic air travel. Jet Airways is owned by Tail Winds Ltd, a company registered in the Isle of Man, controlled by Goyal, a non-resident Indian travel entrepreneur.

Mahindra & Mahindra Ltd, the country's biggest utility vehicles maker, plans to set up a joint venture with Renault of France to make its Logan car in India. The Logan is a cheap, no frills car, developed by Renault for poorer countries, and is expected to sell for about US\$6,500. The car is expected to be introduced in India in 2005.

India's Reliance Group, India's biggest private company, has been in turmoil following publicity surrounding the ownership dispute between the company's two controlling brothers, Mukesh Ambani, the Group Chairman and head of Reliance Industries, and younger brother Anil Ambani, Vice Chairman, who runs Reliance Energy. The Ambani family own 46.67% of the business, but it is thought that the dispute relates to the fact that their father, and founder of the company, Dhirubhai, who died in 2002, did not leave a will. On 25 November six directors of Reliance Energy resigned over the dispute. However, the directors agreed to return on 1 December, indicating that the brothers had been able to narrow their differences. The shares, which were adversely affected by the turmoil, rose on news of improved relations.

Private equity firm 3i Group Plc has announced that it intends to expand its investments into India by the first half of 2005. 3i, which currently has 2% of its portfolio invested in Asia, will put US\$150m into Indian investments, with each deal worth up to US\$50m. The new investment plans will put 3i alongside Warburg Pincus as the top private equity investor in India.

GE Capital International Services (Gecis), the largest back-office services unit in India, whose majority ownership was sold by General Electric to two private equity groups in November, has announced that it plans to open three more call centres in India and will expand into Romania and Bulgaria over the next two years. The new centres will take the company's Indian workforce to 18,000, and will be set up outside the major IT centres, thereby reducing costs. The sale means that the company is not free to sell its services to external clients (up until now GE has been its sole source of work), and the Chief Executive has announced that it has already won some long-term contracts with UK and US customers.

Honda Sael Cars India, the Indian car unit of Japan's Honda Motor Co, has announced that it will invest Rs1.5bn to boost capacity to meet growing demand for its best-selling City model. The company plans to raise annual capacity from 30,000 to 50,000 units by the end of 2005.

Infosys has announced that it plans to move some 16m shares or nearly 6% of its stock from the Indian stock markets to New York. The company already has a listing on NASDAQ, and Indian shareholders are being given the opportunity to sell their shares to American investors. The aim is that some 14% of the stock will in the future be traded on NASDAQ, via American depository shares. Infosys will not be issuing fresh shares or issuing new funds, but the move will put them on a stronger footing to raise money in the future, and to recompense overseas workers with shares.

Rajesh Exports, a leading Indian jewellery exporter has announced a Rs5bn expansion plan, and is considering an overseas listing in the next 12–18 months. The company is in advanced stages of negotiations to acquire a gold mine in Australia or South Africa. The bulk of the expansion finance will be spent on opening new retail stores in India and overseas.

Honeywell International, the American aerospace and high tech manufacturer has announced that it will invest US\$10m in India over the next 12 months, and hire 1,000 software programmers to strengthen its R&D activities. It already has a manufacturing unit outside New Delhi, and research bases in Bangalore and Madurai.

Indian Oil, the country's largest oil refiner has signed an agreement with Iranian Petropars to bid for a US\$3bn project to develop a gas field and set up a LNG liquefaction plant in Iran. It would be anticipated that the deal, if successful, would involve India buying LNG from Iran.

Hindalco, the country's largest non-ferrous metals company has announced that it is ready to move forward with the long delayed Rs50bn alumina refinery joint venture in Orissa with Alcan of

Canada. The joint venture was first proposed 12 years ago, but has been dogged with delays as a result of political indecision and opposition from tribal communities in Orissa who would be made homeless by the plant. The change comes on the back of intense interest in Orissa from other metals companies including South Korea's steel maker Posco, and the Vedanta metals group. Orissa has significant deposits of iron ore, coal and bauxite. The alumina refinery is expected to take three years to construct, and mining rights have been acquired.



## MERGERS AND ACQUISITIONS

### *Details of takeovers, offers and approaches, competing offers and acceptances and board recommendations.*

The government has announced that it will consider investments by foreign individuals in domestic airlines, although foreign airlines cannot. This opens the door to Richard Branson, who owns Virgin Atlantic Airways Ltd, to buy a stake in an Indian airline. The entrepreneur has announced that he is looking to buy a 25–49% stake in an Indian airline in his individual capacity, and that he is in talks with Air Deccan, the fast growing Indian "no frills" airline.

The board of Kotak Mahindra Bank Ltd has approved an issue of shares representing a 2.75% stake to Warburg Pincus, the New York–based private equity fund. The issue raises Rs759m. Warburg Pincus already holds stakes in India's second–largest mobile operator, Bharti Tele–Ventures, and drug maker Max India Ltd., and the investment in Kotak Mahindra Bank reinforces the equity house's commitment to India as an important investment area.

Singapore state investment agency Temasek Holdings Pte. Ltd has announced its acquisition of a 10% holding in Indian–Singapore logistics group Gateway Distriparks Ltd for Rs204m. Gateway Distriparks is one of India's largest private logistics companies, operating container freight stations at the Jawaharlal Nehru Port in the western state of Maharashtra and other locations. It is also setting up a large facility in Visakhapatnam and buying a facility in Madras.

General Electric Co announced on 8 November that it has sold a 60% stake in its Indian business process outsourcing unit, GE Capital International Services, for about US\$500m, making it one of the largest deals in the country's booming back–office industry. The stake has been sold to two private equity firms, General Atlantic partners and Oak Hill Capital Partners. The sale is expected to be completed within six months.

Indian technology company, i–Flex Solutions is to diversify by buying stakes in two overseas companies. The company, which designs and services the world's most popular banking software, will acquire 100% of US–based Equinox, which provides business process outsourcing services to US companies from its call centre in Delhi, and a 33% stake in Login, a French treasury software developer.

DHL is to buy a majority stake in Indian delivery firm Blue Dart Express Ltd. The global logistics company will pay US\$125m for a 68.2% stake in South Asia's leading integrated air express carrier and make an open offer to holders for a further 20%.



### *A flavour of corporate results announced during the period covered by the report.*

State-owned Indian Airlines Ltd., one of India's three main domestic carriers, has announced its first annual profit in four years, helped by tight cost controls and improved utilisation of planes. The airline reported an audited net profit of Rs441.7m in the financial year ended March 2004, compared to a Rs1.97bn loss in the previous year. Operating revenues increased 13.37% y-o-y to Rs 46.5bn, compared to a 6.81% rise in operating expenses to Rs45.25bn. Passenger traffic rose 5.5% while average plane loadings rose to 65.8% of capacity in 2003/04 from 64.6% the previous year.

Vedanta Resources, the London-listed Indian metals group, announced a hike in its first half year profit to 30 September 2004 as a result of rising metals prices. Turnover was US\$682.5m, compared to US\$582.9m in the six months to 30 September 2003, and pre-tax profits rose from US\$92.8m to US\$112.1m. Production at Vedanta's Indian subsidiaries has increased, and the group has also acquired larger stakes in subsidiaries. Its stake in Sterlite has grown to 82% from 61% one year ago.

Maruti Udyog, the car maker, reported a 48% increase in its quarterly profit to 30 September, with vehicle sales up by 19.7%, helped by low interest rates boosting consumer demand. Net profit rose to Rs1.84bn, compared with Rs1.24bn in the same quarter a year ago. Net sales for the quarter rose 25% y-o-y to Rs27bn.

Tata Motors Ltd., India's top vehicle producer reported a record quarterly 49% rise in its Q2 profit to 30 September as the robust economy boosted truck and car sales, but warned that heightened raw material costs could impact on profits for the remainder of the financial year. Net profit rose to Rs3.09bn in the quarter to 30 September, up from Rs2.07bn in Q2 2003. Revenues rose more than 30% to Rs41.47bn.

Thermax Ltd, the Indian power company announced a fall in its net profit for the quarter to 30 September to Rs108.3m from Rs154.2m a year earlier. Orders are up, though, at Rs9.56bn, compared to Rs4.47bn a year earlier. It has recently won an order for a power plant for a cement factory, worth Rs930m.

Indian Oil Corp, which controls ten of India's 19 oil refineries, has announced that it expects to make a loss of Rs120bn for fiscal year 2004/5, due to the imposition of government caps on domestic fuel prices, in the light of soaring global oil prices.

Reliance Industries Ltd, the petrochemicals company reported a better-than-expected 39% rise in its quarterly profit to 30 September on the back of strong demand for fuels and chemicals. Net income rose to Rs17.52bn in the three months ended 30 September from Rs12.63bn with sales up 27% to Rs162bn. As a private company, Reliance is unaffected by the government's freeze on fuel prices, and so has been able to maintain its margins in the wake of global oil price increases. Reliance is the world's second-biggest maker of polyester fibre and yarn, and will become the biggest producer after its purchase in June of Germany's Trevira GmbH.

State Bank of India (SBI), India's largest bank, reported a 9% rise in quarterly profit to Rs10.82bn in the quarter to 30 September, as the bank benefited from the country's lending boom. The results were impacted though by slower trading gains. Its loans grew 24% y-o-y to Rs1.81 trillion at 30 September, and net interest income grew by nearly 40%.

State-run steel producer, SAIL, which produces a third of the country's steel output, reported a trebling of net profit in the three months to September 2004 to Rs15.13bn. Total income rose 33% to Rs678.9bn.

Tata Iron & Steel Co. Ltd (TISCO) announced a more than doubling of its September quarter profits to Rs9.29bn from Rs4.03bn a year ago, helped by spiralling domestic steel prices that have risen by 30% y-o-y. TISCO will close down a blast furnace at its Jamshedpur plant for 100 days from December, as part of a 1-million-tonne expansion. Steel production would be impacted only slightly in the second half as the company has found ways to make up for the loss, a company spokesman said.

Hindalco, India's largest non-ferrous metals group published its Q2 results (q/e 30 September 2004), reporting a 10% rise in net profit to Rs2.5bn, with sales of Rs20bn, up 38% y-o-y.

The State Trading Corporation of India Ltd reported a total turnover exceeding Rs50bn during April– September 2004, up 54% on the same period of last year. It paid a final dividend of 5% for the year 2003–04 to the government, making a total contribution to the Exchequer of Rs54.6m.



## COMMENT AND ANALYSIS

*Considers relevant aspects both local and external, which may have a bearing on developing economic and stock market trends.*

Foreign funds have been flowing into India at a record pace in recent months, attracted by high corporate earnings growth opportunities. The inflow has driven up the Bombay Stock Exchange's Sensex index to a new high of 6386.29 in intra day trades on 6 December.

With lower growth prospects in the USA and Europe, global investors are turning to the investment opportunities in India and China. Confidence in India has returned after a period of uncertainty following the election of the communist-backed government in May.

However, economist-trained Prime Minister Manmohan Singh is exercising a tight control on the economy, helped also by positive underlying fundamentals in the economy. Net share purchases by foreign funds have already hit US\$7.2bn in 2004, the largest level since the markets were opened to foreign investors ten years ago, and most of that inflow has been in the last four months. The number of foreign funds registered with the capital market regulator has increased by more than 100 since January to 628. Share prices have surged 50% since the year's low in May, but shares are still reasonably valued, as most companies have been through a period of restructuring and are now far more competitive. Reuters' estimates show that the Sensex index now trades at less than 13 times forecast earnings for fiscal year 2006, compared to multiples of 13 for Malaysia and 15 for Hong Kong.

Despite the massive growth in foreign investment inflows to India, foreign direct investment inflows are still only 10% of the volumes to China. Kamal Nath, India's minister for commerce and trade has said that India's FDI inflows for the current fiscal year are on target to exceed US\$5bn for the first time. The inflows between April and October were US\$2.38bn, up 68% compared with the first six months of last year. This compares with FDI of US\$50bn last year in China. However, most of the inflows to China were primarily export-led, whilst most of the Indian investment was for the domestic market. There are also significant regional variations, with 50% of the FDI inflows going to just two states, New Delhi and Maharashtra, the most industrialised state.

A recent report for the World Bank supports the substantial improvement in India's investment climate for foreign investors. Importantly, it cites numerous improvements in regulatory hurdles, including shortened times for clearance of goods at customs, and a small improvement in India's power supplies. However, despite the gains made by India, the report cited that India was still a costlier and less efficient place to do business than China.

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