

## It's official now: India is the global market leader



INDIA is turning into the world's fastest-growing market across several categories and sectors: in cell phones, automobiles, travel and tourism, DVDs, digicams and laptops, among other things. Cell phone sales are growing at a whopping 60 per cent. Forecasts made by the World Travel and Tourism Council rank it as the second-fastest growing travel and tourism economy in the world.

In automobiles, India logged the fastest growth among the top 15 passenger car-producing countries last year. The International Organisation of Motor Vehicle Manufacturers states India's car production grew 30 per cent in 2004 followed by Brazil at 17 per cent.

That's not all. Indians are spending more on luxury items than ever before. AC Nielsen figures for January-August 2005 show home theatre sales grew 387 per cent, frost-free refrigerators 42.4 per cent, ACs 116 per cent, flat TVs 64 per cent

### Three public sector banks among world's top 25

INDIA'S STATE-OWNED BANKS have a reason to smile. Three of them — Oriental Bank of Commerce, Indian Overseas Bank and Bank of India — have figured among the top 25 global banks in terms of return on capital employed (RoCE) as on July 31, 2005, according to the latest *Banker* magazine.

In fact, 22 Indian banks, with an average return on capital of a healthy 32.8 per cent, feature among the top 1,000 banks across the globe. While OBC, placed ninth on the list of top banks recorded a 57.5 per cent return on capital, IOB and Bol registered returns of 53.0 per cent and 49.5 per cent respectively.

American Express Centurion Bank grabbed the top slot with a 117.1 per cent return on capital. Prominent Asian banks like Biwako Bank of Japan, Bank Rakyat Indonesia and National Bank of Pakistan also figure in the top 25 list. In overall performance, the State Bank of India ranks 93rd.

and automatic washing machines surged 35.2 per cent. While certain categories of consumer durables have grown by over 50 per cent, some like laptops have had a 123 per cent y-o-y growth in the April to June quarter. According to a Morgan Stanley report, in June 2005 the growth rate of the consumer goods sector was at a 10-year high.

One reason for the high growth rates has been the low base of these products. Changing demographics have also played a role in growth of the Indian market. A recent McKinsey quarterly report says India's consumer demand — increasing three to five times faster than the economy — reveals the outlines of an aspiring middle class that is vibrant, growing and young. Indeed, 70 per cent of India's citizens are less than 36 years old, and the country is home to 20 per cent of the world's population under the age of 24.

### Motorola to enhance R&D set up in India



**MOTOROLA**

MOTOROLA, the \$31 billion mobile devices major, is increasing its R&D efforts out of India. The firm has 2,500 professionals in the software engineering and R&D domain and has announced that it will hire another 1,000 developers in India by end of the next year.

The global major has so far invested close to \$85 million in India and expects to increase this further. Edward J Zander, chairman and CEO, Motorola who recently visited India said in Bangalore, "Today we have the largest, most versatile and fastest growing R&D presence in the country among all telecom MNCs. Out of every phone that comes to the marketplace from Motorola, 40 per cent of the software is from India. This is the kind of importance India plays in our global framework."

Motorola also outsources 20 per cent of its global software development work to vendors like TCS and Satyam and currently close to 1,100 developers from third party vendors in India are working on Motorola projects. "We anticipate that even this outsourcing will continue to grow," Zander added.

In addition to tapping local talent, Zander said Motorola will look into the handset assembling option in the near future. "For us to manufacture here in India, we need volumes and we are getting there in gaining marketshare. As we get good volumes, we might look at this option."

According to the report, gross non-performing assets (NPA) in India have shrunk in absolute terms in the last two years, falling 5.6 per cent as a result of increased efforts at cleaning up of bad assets. In terms of capital/asset ratio, Singapore and Taiwan banks emerged the strongest.

## ADB projects better growth for India in 2006



THE ASIAN Development Bank has raised its growth forecast for India for 2006-07 from 6.2 per cent to 6.8 per cent. The growth forecast for 2005-06, however, remains 6.9 per cent, the same as given in its Asian Development Outlook 2005, released earlier this year.

"India's outlook continues to look bullish in 2006, lifting the sub-regional average for South Asia to 6.6 per cent compared with 6.2 per cent forecast in ADO 2005," said the Asian Development Outlook 2005 Update, a supplement to ADB's flagship publication.

The growth forecast for China has also been scaled up to 9.2 per cent in 2005-06, up from 8.5 per cent projected earlier. The forecast for China's next fiscal is 8.8 per cent, against 8.7 per cent forecast in the ADO. However, rising oil prices would cause a great deal of uncertainty. "If prices are at about \$70 a barrel through end-2006, growth could be clipped by up to 1.1 percentage points," it said. The impact was expected to be offset by positive effects like initiatives on infrastructure.

The Bharat Nirman Programme, for which the Indian government will spend over \$40.5 billion in six rural infrastructure areas over four years, will create additional demand for steel, cement and other manufactured goods. This would push the industrial growth up in 2006-07.

The import bill could be accommodated by healthy foreign exchange reserves, but the effect of increased costs on producers and consumers were more difficult to predict. The outlook for high global prices had led to revisions in the forecasts for inflation, imports and current account. The inflation rate based on the wholesale price index was now expected to touch 4.8 per cent in 2005-06, against the earlier forecast of 4.2 per cent. Current account deficit was expected to go up from 1 per cent of GDP projected earlier, to 1.5 per cent now.

## Indian subsidiaries of MNCs valued more than their parents

MULTINATIONAL GIANTS are valued more at the Bombay Stock Exchange than Wall Street. An *Economic Times* study of valuations (price to earnings ratio) of prominent multinational companies

in India revealed that a majority of them are valued more than their parents. Traditionally, this used to be the case in the FMCG sector but now, companies in other sectors like engineering and pharmaceuticals have also joined the list.

One of the factors that has pushed up valuations recently is the outsourcing from India in the case of manufacturing companies. This list includes names like HLL, P&G, Gillette, 3M, Colgate, Kennametal, Goodyear, Pfizer, Astra Zeneca, Novartis, Timken and Siemens.

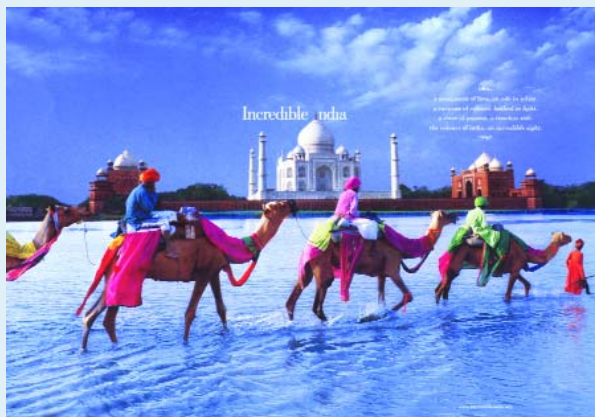
For the study, the *Economic Times* took the trailing P/E ratio, which takes into account the last four quarters' financial performance against the last financial year.

According to Avinash Gorakshakar, equity analyst with Kotak Securities, "In general, MNC subsidiaries are valued high, given the long-term expectation of an open offer. This is specially so when the holding of the parent company is very high, where it is a known fact that now or some time in the future, it will come up with an open offer."

The striking thing about the list is that even pharma companies are part of it. In the past, Indian subsidiaries of global pharma companies had lower P/E ratios than their parents.



## India rated among top five tourist destinations



GIVING A further boost to the aggressive 'Incredible India' campaign of India Tourism, the prestigious UK magazine *Conde Nast Traveller* has rated the country fifth among the top ten travel destinations in the world.

"India is one of the most inimitable, incomparable travel destinations in the world," the magazine said while announcing the annual readers Travel awards 2005 in the current issue, which hit the stands in early September.

The rankings are an index of satisfaction with travel facilities and services, scored out of a maximum of 100.

The survey was done via a survey booklet that was part of the May issue of the magazine. Readers were then asked to rate their choices according to various criteria, such as service and value for money. From these responses, the average mark on each criterion was calculated and used to provide the overall satisfaction percentage figure.

## Briefs

### Small firms in Red Herring's Asia100

AT LEAST 12 small and medium Indian IT firms have made it to Red Herring's first-ever Asia 100 survey. The survey features the fastest-growing IT trailblazers in the Asia-Pacific region. The list includes companies that are changing the rules of the games: Applabs Technologies, Comat Technologies, DQ Entertainment, Ittiam Systems, Jataayu, Navin Communications, Pinstorm, Pramati, Tejas Networks India, Bharti Telesoft, Indiagames and Progeon.

This is the first time that Red Herring came out with an Asia list.

### Fastest growing market for servers

INDIA has emerged as the fastest growing market for servers in Asia-Pacific in the second quarter of 2005, clocking 30 per cent growth year-on-year, according to analyst firm Gartner. The demand was strongest in banking, finance, manufacturing and services with demand from the state-owned public sector also being active.

### BNP arm plans to tap India's rich and famous

CORTAL CONSORS, an arm of BNP Paribas, is planning to foray into the wealth management services market in India, targetting the high-net-worth investors whose incomes range from \$23,000 to \$ 230,000. The total size of India's asset management industry is \$38.4 billion. Cortal will target a growing number of affluent Indians — a section of the economy which is expected to be a 17 million-strong market by 2010.

### US firm to invest in real estate

NEVADA-BASED Royal Indian Raj International Corp., headed by people of Indian origin, has entered into a strategic partnership with New York-based real estate investment banking firm, Greenwich Group International LLC, to raise \$1 billion to finance commercial and residential projects in India. Royal Indian will develop townships in four big cities; Bangalore, Mumbai, Kolkata and New Delhi.

### India a better market than China: Time Warner

RICHARD PARSONS, chief executive of Time Warner Inc., the world's largest media company, has said that India is a better market than China for immediate growth for his firm because the country offers stronger rule of law and less censorship. India is also catching up in infrastructure to distribute media content, setting the stage for Time Warner to build a presence quickly.

## Carlyle comes to India with \$200 million for M&A

THE WASHINGTON-BASED private equity firm Carlyle Group expects to invest about \$200 million in buyouts in India over the next two years, mainly in high-growth software services companies, said Rajeev Gupta, managing director at Carlyle India Advisors Pte. Ltd. Carlyle, which manages nearly \$30 billion globally, will make the investment from its \$750 million Asia buyout fund.

"We're not looking at a 10-15 percent stake, we're for 25-30 per cent and in partnership with industrial groups," Gupta said. "India has the potential for about \$200 million in the next two years."

Carlyle, which recently raised \$10 billion for two buyout funds, has been active across Asia — from South Korea and Japan to China, where it had aimed to spend \$1 billion over two years. Technology will be the focus in India, Gupta said, adding Carlyle sought above average growth rates over 5-7 years.

Carlyle set up a new buyout team in India in June, joining private equity houses such as The Blackstone Group from the United States and Temasek Holdings, the Singapore government's investment arm. Carlyle has so far invested about \$40 million in India from its growth fund, which has \$323 million for investment in Asia.



## Booming India to have global impact:IMF



INDIA's booming but relatively closed economy could have a profound impact on the world economy at large if progress in boosting regional and global trade links continues apace, the IMF said in its twice-yearly World Economic Outlook. Revising India's 2005 growth forecast upwards by half a percentage point to 7.1 per cent, the International Monetary Fund said an open Indian economy with a young population and rapid growth rates could become a key engine of world growth over the next decade.

"If India continues to embrace globalisation and reform, Indian imports could increasingly operate as a driver of global growth as it is one of a handful of economies forecast to have a growing working-age population over the next 10 years." Some 75 million to 110 million will enter India's labour force over the next decade, the Fund stated.

Government efforts to boost international trade links will bear fruit, it added. India's exports, although coming from a relatively low level, were forecast to more than double by 2010, while imports would nearly triple. The IMF said imports were growing at about 33 per cent in 2003-04, four times as fast as in the 1990-2002 period.

However, the IMF stressed that such a boost to world demand will present major challenges for the global economy as well as obvious opportunities. "Faster growth, rising incomes and the accompanying urbanisation and industrialisation of India will, however, exert further pressure on an already tight global energy market," it said. India is the world's seventh-largest importer of crude oil and imports over 70 per cent of its oil needs. With vehicle ownership expected to quadruple by 2030, the country's crude oil imports will only rise.

## Briefs

### Direct overseas investments up

INDIA'S direct investments overseas have increased by \$2.49 billion to gross \$9.57 billion as on March 2005; up from \$7.08 billion in the previous fiscal. According to the figures released by the Reserve Bank of India, the country's direct international investments have more than doubled in the last three years. Total reserve assets increased from \$137.12 billion to \$169.26 billion. The country's total liabilities also increased from \$184.13 billion in 2004 to \$210.13 billion in 2005.

### India among top 15 equity markets

India has emerged as the world's 15th largest equity market after it added several companies to the billion dollar club in terms of market capitalisation in the June-August period, taking the total to 81 companies. The country has overtaken Korea, China and Singapore that have 80, 50 and 47 firms with billion-dollar market-cap respectively.

### Japan pumps \$1.5 billion

Japan's Ambassador to India Yasukuni Enoki revealed that his country, with a portfolio investment of \$4.4 billion in India, had pumped in \$1.5 billion into the securities markets in the last six months. He said that massive investments would be coming into the Indian market as Japanese investors were gung-ho about India's growth story.

### India among top nations in retailing

Seven countries — China, India, Turkey, Vietnam, Russia, Romania and Bulgaria — offer the strongest investment opportunities for retail and consumer companies, according to the fourth edition of PricewaterhouseCoopers' Retail and Consumer study titled From Beijing to Budapest: Winning Brands, Winning Formats.

Of the seven, Russia, Romania and Bulgaria joined the list for the first time. The report says that companies that develop new products and formats tuned to the quickly evolving tastes of customers will be successful.

### Deutsche Bank in retail foray

Deutsche Bank has launched retail banking services in India, the first country outside Europe where the German banking major will have a retail presence. It will set up branches in Mumbai, New Delhi, Chennai, Kolkata, Bangalore, Noida and Gurgaon to tap the growing retail business potential. Deutsche Bank has \$2.3 billion of wholesale banking assets in India and it has infused \$97 million of capital to support its growth in the country.

## Cisco sees India as its most attractive market

CISCO SYSTEMS INC., the largest maker of Internet equipment, sees India at the top of its list of markets to work in, according to Cisco Senior Vice President Howard Charney. He saw security, Internet telephony, storage networking and wireless as chief technologies to drive business at Cisco.

China is often named as the key driver for growth in many industries, but Charney said India had an edge as a market, with a legal system familiar to the US-based company and a strong work force of engineers who speak English.

Cisco expects total annual revenue growth of 10 per cent to 15 per cent

## CISCO SYSTEMS



in the coming years, while the company's compound annual growth rates in India are 50 per cent to 70 per cent, said Charney, who is a member of Cisco's office of the president.

"India on balance is maybe the most attractive market in the world right now for us," said Charney at a summit held by Reuters in Tokyo.

## Mall mania to outpace GDP over next 5 years



DRIVEN by changing lifestyles, growing incomes and favourable demographic patterns, the growth in organised retail in the country is expected to outpace GDP growth in the next five

years, according to a KPMG report. Retailing is developing at breakneck speed, with shopping malls coming up in all cities. Development plans project another 150 new shopping malls by 2008. The report estimates the annual growth of departmental stores at 24 per cent — faster than overall retail.

An interesting observation is the sheer size and potential of the rural segment. The Indian market is evolving dynamically and there is hidden consumption power in low-income rural areas that offers considerable opportunities for organised retailers in rural territories that many companies have failed to address. The retail growth therein is expected to reach double digits if companies can access newer markets at reasonable costs.

The report adds that the Indian consumer is increasingly becoming more trend-conscious. Specialised retailers in segments like consumer durables, music, lifestyle goods, furnishings, furniture, healthcare and beauty are developing rapidly and larger retail outlets are gaining ground. F&B and gems and jewellery are the other emerging segments that offer significant growth potential. However, for foreign retailers, cost and shortage of retail space, FDI controls and competition from the unorganised sector are concerns that are yet to be fully addressed.