

## Global steel giants rush in to set up facilities



THE big boys of the global steel industry are in a race to invest in high-growth zones such as India, China, Latin America and Eastern Europe.

In the space of only a few days, the world's two top players — the Netherlands-based Mittal Steel and European firm Arcelor — each announced colossal multi-billion dollar investment projects. India-born British billionaire Lakshmi Mittal, whose family owns Mittal Steel, revealed recently that he was planning to invest \$9 billion (€7.5 bn) in a 12-million-tonne-a-year steel plant in India's Jharkhand state. This would be India's second largest foreign investment in the steel sector, after South Korean Posco's \$12-billion (€10 bn) project in Orissa announced in June.

The OECD's steel expert Franco Mannato warned that the sector could begin to see problems of overcapacity and might have to close unprofitable facilities.

### M&A reach record \$18 billion

THE VALUE OF MERGERS and acquisitions in India has more than quadrupled to a record \$18.3 billion in 2005, as companies seek to capitalise on the country's long-running economic boom. A total of 872 Indian companies merged or were taken over in the year up to November 30, compared with 565 deals worth \$4.5 billion dollar in the same period in 2004, *The Times* reported, quoting research agency Thomson Financial.

The merger and acquisition surge forms part of a broader economic boom in India, which has seen its 30-share benchmark stock market index (Sensex) nearly triple from 3,300 in March 2003 to over 9,000 in December.

Foreign companies and institutional investors are pouring into India, which recorded an annual increase of 8 per cent in its GDP in the three months to October.

The investors are attracted by India's burgeoning affluent classes, which have nearly tripled from 30 million households

Steel prices in the Chinese domestic market are already falling, Mannato pointed out. He added that while many analysts are banking on strong steel consumption in India, its development will not be as fast as that of China.

### Robust growth in Q2

INDIAN COMPANIES' second quarter performance seems to indicate a robust economy. Many companies, led by technology and two-wheeler majors, have improved their numbers during the quarter ended September '05 (Q2). This is shown in a study on corporate results of 354 companies.

These companies have recorded a 32 per cent growth in net profit to \$1.42 billion, while their aggregate sales improved 20 per cent to \$11.4 billion.

The list includes companies across sectors such as IT, auto, banking, power, cement and finance. Infosys Technologies, TCS, Wipro, ICICI Bank, Hero Honda, Bajaj Auto, IDBI, Satyam Computer Services, Tata Power, HDFC Bank, ACC, Reliance Energy, Ranbaxy Laboratories and Gujarat Ambuja Cement are among major companies in the study.

Interest cost has gone up 25 per cent to \$1.43 billion, while depreciation and tax provision were higher at 14 per cent and 6.4 per cent at \$489 million and \$412 million, respectively.

According to analysts, the trend so far, has been encouraging even though performances of a few select companies, especially those belonging to the cement and pharma sectors, have fallen below expectations.

Analysts feel that sectors like oil, especially marketing companies, will continue to witness pressure on margins.

A sector-wise analysis showed that IT players logged in an impressive performance during the second quarter. About 40 IT companies posted a healthy 56 per cent rise in sales to \$2.29 billion, while their net profit rose 42 per cent to \$480 million. Seven banks posted a 22 per cent rise in operating income, while their net profit climbed 36 per cent. Private sector banks like ICICI Bank, HDFC Bank and UTI Bank led the pack.

to 81 million in the past ten years.

India, which has particular strengths in outsourcing and manufacturing, also has a young, well-educated population, many of whom speak English.

About half the country's population are under 25, which is indicative of the strong purchasing potential.

Vodafone's \$1.5 billion purchase of a 10 per cent stake in Bharti Tele-ventures, India's largest mobile phone operator, in October, is the largest foreign investment this year.

## Global boom lifts construction exports



INCREASED spending in the core sector across the globe has given an indirect push to infrastructure-driven sectors like electrical equipment, mining and construction. These sectors are also thriving on high export demand from overseas. Exports of electrical equipment and components from India are set to grow more than 20 per cent from the present \$1 billion with companies like Siemens,

ABB, Alstom and GE planning to outsource these products from India in a major way.

The organised construction sector accounts for 50-55 per cent of the total construction equipment industry which is growing at around 25 per cent per annum. Currently, the market size of India's organised construction equipment industry is around \$1.44 billion.

Ketan Shah, head infrastructure, ICICI Securities, said: "There is an all-pervasive boom in Indian infrastructure, and pure infrastructure projects take a much longer time to complete, and the immediate beneficiaries have been the infrastructure-driven sectors.

The growth in core sector-driven sectors is expected to be fairly robust over the medium-term, especially for companies with mature management and good corporate governance."

## Pharma majors have big plans for India

AFTER THE CHANGE in the country's patent laws, international pharma majors are eager to set up operations in India.

Eisai, Japan's fourth largest pharmaceutical company, has big plans for India. The company has just set up its operations in India and has already rolled out two products into the domestic market. "One factor that played a role in bringing Eisai to India is the passing of the product patent law," says Deepak Naik, MD of Eisai Pharmaceuticals India. "The other factor was that Eisai's early experience in the country gave a positive sign on the potential of the country".

"We out-licensed our product, Methycobal, to Wockhardt a few years ago and that product created a market of \$33 million," Naik said. "Two months ago, Eisai launched two more products — Aricept and Parit (being marketed by GlaxoSmithKline) — and both are doing 'very well'".

Among other entrants into the domestic pharmaceutical market are two of the top 10 global pharma companies — Bristol-Myers Squibb and Merck. A few more, including German pharma major, Boehringer Ingelheim GmbH, are understood to be looking at the domestic market.

The advent of the product patent era and a positive outlook for the pharmaceutical sector as a manufacturing hub has resulted in a significant increase in foreign investment in the drugs and pharmaceuticals sector. The sector has seen the maximum foreign direct investment inflow amounting to \$340 million in 2004.

According to data provided by the department of industrial policy & promotion, Ministry of Commerce & Industry, Government of India, the sector also saw the largest increase in FDI inflow among the major sectors, growing over six fold from just \$60.7 million in 2003.

Bristol-Myers Squibb (BMS), for instance, recently set up shop in India not only to establish its presence in the country but also to explore other options including sourcing raw material, intermediaries and final products.

## Global majors get attracted to R&D in India

THE GOVERNMENT contributes 65 per cent to the total R&D spends in India whereas in Japan, US and Germany, governments account for only 30-40 per cent of the total spend for this purpose. R&D investment in India, at present, is estimated at \$6.8 billion and is growing at a CAGR of 45 per cent per annum from 2002. Around 300,000 people are employed in the industry, according to a survey by outsourcing firm Evalueserve.

The cost competitiveness of R&D work in India is attracting global majors like IBM, GE, LG, Philips, Eli Lilly, Pfizer and HP. The cost of a researcher in India is one-fifth of that in the US. For instance, the salary of a chip designer in India is about \$15,000 per annum compared with \$70,000 per annum in the US.

From the government side, major investment in R&D goes



for agriculture, forestry, defence, space, healthcare and industrial development.

Amongst key sectors for investment from industry, IT sector comprise the maximum share with the

highest CAGR of 32 per cent. The IT R&D outsourcing market in India is expected to reach \$9.1 billion in 2010 from \$1.3 billion in 2003.

The R&D market in telecom is projected to grow from \$0.7 billion in 2003 to \$4.1 billion in 2010 registering a CAGR of 28.7 per cent.

## Briefs

### FDI allowed in asset reconstruction

THE GOVERNMENT has allowed foreign direct investment up to 49 per cent in asset reconstruction companies (ARCs) that buy stressed assets from banks and financial institutions and attempt to turn them around.

The move is aimed at imparting the requisite liquidity in the business of asset reconstruction in the form of FDI by foreign banks. The banking sector is currently saddled with non-performing assets in excess of \$13 billion.

### Indian cos. invest \$1.46 bn. abroad

THE GOVERNMENT is bullish on outward foreign direct investment from India.

The Finance Minister P Chidambaram revealed, "In 2004-05, outward FDI from India amounted to a sum of \$1.46 billion. In my view this is only the beginning."

### Trade over \$126 billion in 7 months

INDIA'S exports crossed \$50 billion in the first seven months of the current year. India's exports grew 22 per cent during April-October '05-06 to \$51.5 billion as compared with \$42.2 billion during the same period last fiscal.

Imports continued to grow at a faster pace, widening the trade deficit for the first seven months of '05-06 to \$23.5 billion as against \$14.18 billion in the corresponding period last fiscal. Imports during April-October '05-06 are valued at \$75 billion, representing a 33 per cent increase over \$56.4 billion a year ago.

### FDI cap for telecom raised to 74%

INDIA has approved a rise in the foreign investment limit in telecom firms to 74 per cent from 49 per cent. Foreign equity in state-run banks' holding stakes in telecom firms will not be included in the 74 per cent cap.

### M&M buys Stokes of UK

MAHINDRA & MAHINDRA (M&M) acquired a 98.6 per cent stake in the UK-based automotive forging maker Stokes Group for an undisclosed amount in early January. The Stokes Group is the largest automotive forging company in the UK with a turnover of \$43 million. It has two manufacturing facilities at Walsall and Dudley, near Birmingham.

"We believe the acquisition demonstrates our commitment to build a world class business that serves its global customers and enhances value for M&M's stakeholders," said Anand Mahindra, vice-chairman & managing director, Mahindra & Mahindra.

## Wall Street jumps on offshoring bandwagon

BY THE END OF 2007, JP Morgan plans to have 30 per cent of the operational jobs of its investment bank, or 3,000 jobs, in India. While that is the most ambitious move by a Wall Street bank, rivals are also building operations in India, to take advantage of a highly educated but low-cost workforce in an attractive time zone.

Goldman Sachs has about 700 staff in India — out of a total workforce of 22,000 — with about 300 in operations, including clearing and settlement, and 30 in research.

Morgan Stanley also has a big presence in India but declines to give any figures.

Stefan Spohr, of consultants AT Kearney, estimates that international investment banks have about 6,000 staff in India involved in business processing outsourcing (BPO), excluding information technology.

This is relatively small compared with the numbers employed by some retail financial services groups such as HSBC, which has 10,000 people in five centres in India. It compares with an estimated total of BPO jobs in India of about 350,000.

JP Morgan initially focused on support staff but now has a wide range of processing, risk management, research and analysis being done in India. The group plans to have 9,000 employees there by the end of 2007. In addition to cost and quality benefits, the time-zone difference makes it possible to get work done during the day in India ready for the start of business in the US or Europe, improving the service to customers.

Although the pool of talent in India is huge, competition is starting to push up salaries. However, other costs, such as telecommunications and infrastructure, are coming down and the rates charged by BPO providers are declining.



## India considered low-risk for overseas investors

INDIA IS CONSIDERED a stable country for investing in by corporates overseas. This is evident from the fact that not a single corporate has approached the World Bank Group's Multilateral Investment Guarantee Agency (Miga) for non-commercial risk cover for making direct investments in the country.

This was revealed by Miga's global head of agri-business, manufacturing and services, Nabil Fawaz. Speaking at a round table meet on overseas investment opportunities with Miga organised by Export Import (Exim) Bank of India, Mr Fawaz, said that if a company approaches Miga for insurance cover for investments in India, the rate for risk premiums would range between 110-130 basis points. This is significantly lower than what Miga would charge for investments in countries, like Nigeria and Iran, etc, where the rate was as much as 200 basis points.

Meanwhile, Fawaz revealed that Miga was evaluating proposals for risk cover from three Indian companies that are investing in south east Asia and Africa. The total investment is around \$200 million-400 million. The companies are exploring investments in manufacturing, power and mining industries, he said. Meanwhile, six Indian companies in the pharma and engineering field are ready to acquire and pump in foreign direct investments in the UK and European markets.

## Briefs

### 10 per cent GDP growth feasible

PRIME Minister Manmohan Singh raised India's economic growth ambition by suggesting that the country, already among the fastest growing economies of the world, should aim at an "eminently feasible" 10 per cent GDP growth in two to three years. The Prime Minister said 10 per cent GDP growth is totally possible "if we have the expected increase in our savings rate arising out of a young workforce, if we manage to make a quantum leap in the growth rate of agriculture, if investment in infrastructure provides a fresh impetus to industry and if services continue with their impressive performance".

### Visa group acquires Australian mine

KOLKATA-BASED Visa Group has acquired a coal mine at Queensland in Australia. Visa Steel, which is setting up a 1.5-million-tonne steel and stainless steel plant in Orissa, will source its coking coal from this Australian company at a concessional rate.

### HSBC upbeat on India growth story

HSBC Holdings chairman Sir John Bond said that the group is planning to increase its investment in India. "Our revenues are likely to grow with faster economic growth.... We are willing to invest more here," he told reporters, adding that HSBC was upbeat on India's economic growth.

Commenting on the pace of economic reforms, Bond said, "The Indian economy is growing at seven per cent. Our judgement is that any change in growth will be on the upside."

### FDI in more sectors

OUTLINING the reform roadmap for 8 per cent growth, Finance Minister P Chidambaram promised to open up more sectors to FDI and push up public investment in farm and infrastructure sectors. "FDI worked wonders in China. I believe it can work wonders in India," he said.

### Manufacturing turns competitive

INDIAN manufacturing companies have gross profits and sales growth rates that are nearly twice that of global manufacturers, according to preliminary findings of a global benchmark study by Deloitte Touche Tohmatsu.

Deloitte's study in India suggests that Indian manufacturers have average sales growth of 15 per cent, compared with 7 per cent for their global peers. Their gross profits average 16 per cent, compared with an 8 per cent global average. It said Indian companies now intend to compete globally.

## India, third largest car market by 2030

US-based consultancy Keystone — a subsidiary of LaSalle Consulting Associates — has forecast that India will become the world's third largest automobile market by 2030, behind just China and the US. An ageing population and increasing costs of ownership will see the auto market shrinking in Japan, Korea and Europe while increasing per capita income will fuel the two Asian giants' growth, it says.



Over the next quarter century, emerging markets will replace the mature markets of America, Europe and Japan as the primary driver of sales growth and will account for 69 per cent of industry sales and 87 per cent of vehicle registrations. Over the next 25 years, more motor vehicles will be sold than in the entire history of the industry, the report says.

The projected size for China is 62 million and for US 23 million. The size of the Indian vehicle market is forecast to cross 20 million (assuming a consistent GDP growth rate of 6 per cent) from the one million plus vehicles sold in 2004. This amounts to a CAGR of over 12 per cent. The next two countries in the pecking order would be Brazil and Japan, whose sales are projected to be in single digit millions. Currently, the top five motor vehicle markets are the US, Japan, China, Germany and the UK.

## 35% of Tata revenues from overseas by 2010



THE Tata Group (sales \$18.2 billion) expects international business to contribute 35 per cent of its total turnover by 2010, up from 25 per cent now.

Tata Consultancy Services, Tata Motors and Tata Steel will be the major contributors to the growth in overseas business. Group companies are expanding overseas operations in line with the group's international strategy.

International Finance Corporation recently identified the Tata Group as one of the emerging 'southern multinationals.' For Tata Motors, exports contribute 18 per cent of its total revenues and the target is to reach 20 per cent by next year. Exports year-on-year have increased more than 100 per cent in the last quarter. International operations account for nearly 89 per cent of TCS's revenues. By 2010, TCS wants to become one of the top ten IT companies in the world.

The Tata companies had made significant overseas acquisitions in the recent past. Tata Motors had acquired the Daewoo Commercial Vehicle Company last year. Tata Steel had acquired NatSteel of Singapore. TCS has made a number of acquisitions overseas. Tata Tea, Indian Hotels and Tata Chemicals are also expanding their international operations. According to recent reports, Indian Hotels is looking for properties in Australia and China.

Ratan Tata, Tata group chairman, said at a recent seminar "We would like to focus on geographies where we have opportunities to be a prominent player." The group proposes to invest \$2.2 billion in Bangladesh in four major projects, mainly in the fertiliser and steel sectors. The Economist Intelligence Unit estimated that the projects would increase the GDP in Bangladesh by 1.9 per cent.