



Basel World 2009

Basel World 2009 (World Watch, Clock and Jewellery Fair) was held in Basel from 26 March 2009 to 2 April 2009 was held. Federal Councillor and Interior Minister Pascal Couchepin inaugurated the event. A delegation of 27 Indian exporters participated in the event under the aegis of Gems and Jewellery Export Promotion Council.

Indian Economy - Opportunities Unlimited (January 2009)

- India registered a GDP growth of 7.7 per cent in 2008
 - Foreign direct investment (FDI) inflows into India between April-October 2008 amounted to US\$ 18.7 billion.
 - During April–October 2008, exports amounted to US\$ 107.3 billion, registering a growth of 23.3 per cent as compared with 22.7 per cent during April–October 2007.
 - In 2008, a total of 454 mergers and acquisitions (M&A) deals and 312 private equity (PE) deals worth US\$ 41.54 billion were signed. The total value of M&A deals was close to US\$ 31 billion. The PE deal value was US\$ 11 billion.
- India's foreign exchange reserves stood at US\$ 254.75 billion as on January 9, 2009.

Every sector of Indian economy thrown open to foreign investment

Every sector of the Indian economy has effectively been thrown open to foreign investment, thanks to the revised norms for computation of foreign holding in an Indian company issued by the Government. According to the new guidelines, the Government would count invest-

ments by an Indian-owned company into any company, whichever sector it may be operating in, as Indian equity. Any company will be deemed Indian-owned if foreigners have less than 50% beneficial ownership in the company and if foreign investors do not control it. Investments by any company, which has a majority foreign stake, would be considered entirely as FDI. The only exception would be when a joint venture company creates a wholly-owned subsidiary in India. In that situation, the foreign stake in the subsidiary company would be considered as equal to the stake in the holding company. An Indian company, according to the press note, would be deemed controlled by non-resident, if foreign entities have the power to appoint majority directors on board. However, if an Indian company intends to transfer ownership or control to a foreign company, it would have to seek foreign investment promotion board's nod in restricted sectors such as telecom, defence production, air transport services, banking, broadcasting. The Government has also made it mandatory for companies to provide full details about beneficial ownership to the FIPB while seeking its approval. In sectors like broadcasting and defence, where the sectoral cap is below 49%, the company would need to be owned and controlled by an Indian. Hence, the equity held by the largest Indian shareholder would have to be at least 51% of the total equity.

Ten more SEZs get nod

The UPA Government on its flagship special economic zones policy cleared 10 more proposals for such tax-free zones, taking the total number of SEZs in the country, after the enforcement of SEZ Act and Rules, to 714. The Commerce Ministry expects exports from SEZs to

touch Rs 90,000 crore (US \$ 18000 million) by this fiscal-end. Exports from SEZs in April-December 2008 have touched Rs 67,000 crore (US \$ 13400 million), which is more than the Rs 66,638 crore (US \$ 13327.60 million) in the whole of 2007-08. SEZ, promoted by an aide of Reliance Industries chairman Mukesh Ambani, and L&T's shipbuilding SEZ. The board of approval (BoA) for SEZs, on Monday, also gave its approval for an application to merge three notified SEZs of the Adani group—4,846 hectare (Mundra Port SEZ I) and 1,074.17 hectare (Mundra Port SEZ II), as well as 293.88 hectare Adani Power SEZ – taking the total area of the combined zone to 6214.05 hectare. The total investment proposed for this SEZ is Rs 100,000 crore (US \$ 20000 million) and the zone is expected to provide employment to 0.5 million people over the next 10 years. This is the first time since April 2007—when an Empowered Group of Ministers (EGoM) fixed the 5,000-hectare cap on the maximum area for a special economic zone (SEZ) following protests against forcible land acquisition for the zones – that the Centre has given the nod for a tax-free enclave to breach this cap. Earlier, the EGoM had given the green signal for the same application.

Licence fee for MVNOs capped at Rs 85 crore

The Department of Telecommunications has decided to peg the entry fee for Mobile Virtual Network Operators (MVNO) at a maximum of Rs 85 crore (US \$ 17 million) for a pan-India licence. MVNOs do not own spectrum or infrastructure. They buy airtime wholesale from the existing mobile operators and then resell it to consumers under own branding and tariff plans. Usually, MVNOs target a specific-user group such as the youth or women. Companies with an existing retail and distribution chain are ideally suited to become an MVNO. DoT is expected to spell out the policy to give the licences soon. This will enable interna-

tional companies, which had missed out on getting a telecom licence, to get a foothold in the fastest growing mobile market. Global players including BT (formerly British Telecom), Verizon and France Telecom have approached the telecom regulator to open up this segment. The Telecom Commission has decided that virtual operators will have to pay an entry fee which is equivalent to 10 per cent of what the unified access licence players pay, subject to a ceiling and floor price for each service area. The maximum entry fee for Metro and Circle A States has been pegged at Rs 5 crore (US \$ 1 million), Rs 3 crore (US \$ 0.6 million) for Circle B states and Rs 1 crore (US \$ 0.2 million) for Circle C states. The Commission has set the floor price at Rs 1 crore (US \$ 02 million) for Metros and Circle A States, Rs 50 lakh (US \$ 0.1 million) for B Circle states and Rs 25 lakh (US \$ 0.4 million) for C Circle regions. The Commission has also decided that MVNOs would have to pay spectrum charges similar to what existing operators pay. In addition they would have to give a performance bank guarantee equivalent to 5 per cent of what the existing mobile players have paid.

M&A in wind, solar power sector gear up energy deal

The renewable energy sector is an increasingly important arena for deal-making as companies and investors respond to the growing role of renewable sources in meeting global energy demands and the challenge of climate change. Strong mergers and acquisitions (M&A) growth in the wind and solar power sector is adding to renewable energy deal momentum. According to PricewaterhouseCoopers' Renewables Deals 2008 Annual Review report, Asia Pacific's year on year renewables deal activity increased, with deal numbers rising 21% from 53 in 2007 to 64 in 2008. India has recorded total renewable deals of \$134 million in 2008, which is about 7.3% of total Asia Pacific renew-

able deals, and it stands third, behind China and Australia. During 2007 and 2008, 441 renewables deals were announced with reported value totalling \$70.3bn. Wind power continues to be the principal focus of deal activity, accounting for the majority of the value (57%) of all renewable energy deal making in 2008. Indeed, in 2008, solar overtook hydro as the second largest renewables deal category after wind, accounting for 20% of the total renewables deal value. The report said that a quarter of deals in the power sector were for renewable assets or technology. Renewable energy now accounts for one tenth of M&A value in the wider power sector. Solar deals quadrupled in number and more than quadrupled in total value in 2008 over the previous year. Average solar deal size also rose from \$76.7 million in 2007 to \$89.3 million in 2008.

Savings and investments set 7%-plus pace for economy

The latest savings and investment data from GDP estimates for 2007-08 released by the Central Statistical Organisation recently, show investments rose by 2.2 percentage points to 39.1% of GDP. The Government's own projection for the economy was far more modest. It estimated that the investment rate would move up from 32.4% of GDP to 36.7% by 2012. This was considered good enough to sustain a 9% GDP growth each year in the Eleventh Plan. A break-up of the data shows the highest increase in investments were in manufacturing, rising by 0.8 percentage points to 15.7% of GDP in 2007-08. The next highest increase was in the transport, storage & telecommunication segment where investments picked up by 0.7 percentage points to 5% of GDP.

RBI unveils new steps to counter slowdown

The apex bank, Reserve Bank of India (RBI) announced a more measures to

help banks and corporates tide over the effects of the domestic slow down and global economic crisis. The measures, some of which are extension of its earlier steps, include extending the timeline for forex swap facility, restructuring of non-performing assets and broad-basing the information-sharing among banks under multiple banking arrangement and raising interest rates for export credit. In view of the continuing uncertain credit conditions globally, the availability of forex swap facility, currently till June 30, 2009, has now been extended till March 31, 2010. On restructuring of assets, RBI has said on August 27, 2008, it had issued comprehensive guidelines for restructuring of advances by banks. Subsequently, in view of global developments, certain facilities were granted up to June 30, 2009, including eligibility of second restructuring and first restructuring of commercial real estate exposures for special regulatory treatment. Further, banks were allowed to apply special regulatory treatment for accounts which were standard on September 1, 2008 and taken up for restructuring up to January 31, 2009—even if these had turned non-performing during this period.

SEBI unveils norms for pledging of shares

The Securities & Exchange Board of India (SEBI) has spelt out the reporting norms for companies whose promoters have pledged shares to a third party. The market regulator has asked companies to disclose details of the promoters' pledged shares within seven days of the date of receiving information from the promoters. In a circular dated January 28, 2009 SEBI said that the promoters, who have pledged shares, have to disclose the details to the company within seven days of such a transaction. Further, the market regulator said that companies should disclose all the details pertaining to the promoters' share pledge, if at the end of any quarter, the total num-

ber of such pledged shares exceeds 25,000 or one percentage of the total shareholding, whichever is lower. The move comes as a relief to the investors, who have been in the dark with regard to which promoters had pledged shares to financiers. Promoters of some companies, including Asian Paints, Godrej Consumer Products, MindTree and JSW Steel, have provided details of pledged shares. Investors in these companies have not taken this bit of information lightly, resulting in these shares taking a beating on the bourses.

SEZ tax benefits extended to sub-contractors

The Commerce Ministry amended rules governing the Special Economic Zones (SEZs). About 16 amendments to the rules were incorporated in the SEZ rule book, catering to various demands of exporters and developers operating in the tax-free industrial enclaves for exports. These include allowing reimbursement of duty through the Duty Drawback Scheme to suppliers outside SEZs even if payment is made in rupees. Duty Drawback enables exporters to claim back taxes paid while importing or any other local taxes paid. Tax benefits enjoyed by developers and contractors are now being extended to sub-contractors, who are engaged in developing an SEZ. In addition, the new rules allowed SEZ developers to provide housing to staff and workers within the tax-free enclaves. Gems and jewellery, one of the most affected segments due to the economic slowdown, has been given some relief. These units will be allowed to bring back consignments, which have been found to be defective by the overseas buyer, or refused payment.

Economy will start looking up from June

Mr. GK Pillai, Commerce Secretary stated that Indian economy may start looking up from June much ahead of the

global economy, which is expected to reel under recession for whole of 2009. He added that while the pace of growth would not be the same as it was between 2004 and 2008, it would definitely improve. Since October, 2008, Government has announced a number of measures including cut in the excise duty and investments in the infrastructure sector to revive demands. Through monetary policy also, the Government has taken a number of measures to bring down the interest rates, so that demand for housing and other consumer items revive.

Nokia outsources its desktop maintenance and support to HCL

Handset maker Nokia has outsourced its desktop maintenance and support in 76 countries to IT services firm HCL Technologies in a multi-million dollar contract spread over five years, starting this April. The deal also involves transfer of employees from Nokia. The contract would be serviced from HCL's centres in India, China, Poland, Finland and US. It involves providing multi-lingual helpdesk services in 13 languages, creating and maintaining new user accounts, and workstation management and security. The contract is being moved from Nokia's existing vendors. HCL said it had won the deal against competition from global and Indian players. HCL Technologies, through its subsidiary HCL ISD, has been an early mover in providing infrastructure management services. The Nokia deal is part of the \$1 billion worth of contracts that the company won in the October-December '08 quarter.

India to join International Renewable Energy Agency

In a move that would enable the country to gain access to the latest research and development of renewable energy technologies, the Union Cabinet has given its go ahead for India to join the International Renewable Energy Agency (IRENA). The Cabinet meeting, chaired

by External Affairs Minister Pranab Mukherjee also gave its clearance for India to contribute \$112,500 (about Rs 54 lakh) in the first year of its joining IRENA.

Big decisions these, but where do they lead the MNCs?

India is the likely answer. And here's why: Both Polman and LG's CEO Nam Yong told reporters recently that despite the slowdown their developing markets were still growing. Talking about investments, here is a quick glimpse: Chicago-based Wrigley plans to invest close to Rs 200 crore (US \$ 40 million) in the Indian market in the coming year. Nestle has plans of investing close to Rs 600 crore (US \$ 120 million) in another 2-3 years. PepsiCo on the other hand plans to invest a much larger Rs 2,500 crore (US \$ 500 million) over the next three years. Even consumer durable firm Samsung is ready with Rs 100 cr (US \$ 20 million) this year with close competitor LG planning an infusion of Rs 200 crore (US \$ 40 million).

SEBI sets \$8-bn open bidding cap for FIIs in corp debt

In a move aimed at creating more transparency in the allocation process for investments in the corporate debt market, the Securities and Exchange Board of India (SEBI) said that it would allocate \$8 billion debt investment limit to foreign institutional investors (FIIs) in an open bidding platform, which will be provided by the stock exchanges. The new norms have come in after the government reviewed the external commercial borrowing (ECB) policy and increased the cumulative debt investment limit by \$9 billion (from \$6 billion to \$15 billion) for FII investments in corporate debt. SEBI said that all bidding for the limits would be through the stock exchanges and the window for bidding would remain open for two hours. The existing trading members would have access to the bidding

platform and FIIs or the sub-accounts have to route through the existing trading members. However, the minimum amount that an FII can bid is capped at the lower end at Rs 250 crore (US \$ 50 million), with a minimum ticket size of Rs 100 crore (US \$ 20 million). The bid price will be expressed in basis point and a minimum flat fee of Rs 1,000 (US \$ 20.-) per successful bid shall be levied for the allocated amount. Thus, an FII would end up paying a minimum flat fee of Rs 1,000 (US \$ 20.-) or bid price, whichever is higher. On the allocation front, SEBI said that successful bids will be based on price and within the time priority. While no single entity would be allocated more than Rs 10,000 crore (US \$ 2000 million) of the investment limit, FIIs will have to utilise the limits allocated within a time period of 45 days. All the limits would be denominated in rupee at the RBI reference rate as on the date the bidding takes place.

India story still lures foreign companies

Contrary to popular perception, foreign firms invested more in Indian companies through strategic partnerships in 2008 compared with 2007. Among the cross-border mergers & acquisition (M&A) deals in 2008, inbound deals rose nearly 50% compared with a growth of 30% in the previous year. According to deal-makers, although company valuations have fallen steeply, the control premium (the extra price that a strategic investor offers to pay over the prevailing market price) on Indian companies are still in the range of 60-75%. While the overseas investments in Indian companies touched \$18 billion in 2008, the number of outbound deals (Indian companies buying stake in foreign companies) declined 63% from the previous year to \$13 billion, ending a four-year rise. According to corporate advisors, foreign companies, with sufficient cash levels, will continue to look for expansion opportunities in India.

India-focused PEs to raise \$24 billion in 2009

As per research report, 78 private equity players are looking to raise \$24 billion in 2009 for investing in India, three times that of last year, when 30 private equity players raised \$9.2 billion. This list also includes real estate funds. Meanwhile, 117 Pan-Asian private equity (PE) players — with India as focus — aim to raise funds worth \$59 billion, says UK-based Preqin, an alternative assets research and consultancy group. "We have reached this estimate after talking to all concerned general partners. These are our current figures for fund raising," said Tim Friedman, company spokesperson. In 2008, PE investments in India were close to \$10 billion, but the total amount raised for 2008 would be 2-3 times of what has been invested. Besides, India is a growth story while everywhere else; there is recession, said C G Srividya, Partner, Specialist Advisory Services, Grant Thornton.

Goldman Sachs injects Rs 370 cr into NBFC

The Goldman Sachs Group, increased the capital in its wholly owned non-banking financial company, Pratham Investments and Trading Private Ltd, to Rs 485 crore (approximately US \$100 million) following a capital infusion of Rs. 370 crore (approximately US\$76 million). The firm plans to use the capital to expand its credit trading and investing businesses in India.

Morgan Stanley to invest Rs 100 cr in stock broking arm

Morgan Stanley is putting Rs 100 crore (US \$ 20 million) into its Indian retail stock broking and portfolio management services firm Morgan Stanley India Financial Services (MSIFS). It is also restructuring the group's shareholding in MSIFS, where 75% equity will be held through a Mauritius-based subsidiary Morgan Stanley Mauritius Company

(MSMC). MSIFS is into investment advisory, retail stock broking, distribution activities and portfolio management services. It also operates as a stock broker, portfolio manager and depository participant. The firm recently launched private wealth management services, primarily for the high net worth individuals (HNI) and non-resident Indians (NRI). Under the FDI policy, 100% FDI is allowed under automatic route in these activities. Morgan Stanley holds 99.99% in MSIFS through its Indian subsidiary Morgan Stanley India Company (MSIC). MSIC was established in 2007. The remaining 0.01% is held through its other Indian subsidiary Morgan Stanley India Services (MSIS).

Trade facilitation measures supplement to foreign trade policy – highlights

Duty credit scrips under DEPB scheme to be issued without waiting for realization of export proceeds special package of Rs.325 crore (US \$ 65 million) for leather and textiles sector STCL, Diamond India, MSTC, Gem & Jewellery Export Promotion Council and Star Trading Houses added as nominated agencies for import of precious metals gem and jewellery export: import restrictions on worked corals removed Bhilwara and Surat recognized as towns of export excellence for textiles and diamonds threshold limit for recognition as premier trading houses reduced to Rs.7500 crore (US \$ 1500 million) under EPCG scheme, export obligation extended till 2009-10 for exports during 2008-09. DEPB/duty credit scrip utilization extended for payment of duty for import of restricted items also procedure for claiming duty drawback refund & refund of terminal excise duty further simplified re-credit of 4% SAD for Vishesh Krishi and Gram Udyog Yojana (VKGUY), FPS and FMS allowed a new office of DGFT to be opened at Srinagar value cap under DEPB revised for two products electronic message transfer facility for advance au-

thorisation and EPCG to be established gem & jewellery units in EOU to be allowed – personal carriage of gold up to 10 kg advance licenses issued prior to 1.4.2002 requiring MODVATt/CENVAT certificate dispensed with export obligation period against advance authorizations extended up to 36 months reimbursement of additional duty of excise levied on fuel to be admissible for EOUs early refund of service tax claims & further simplification of refund procedures on the anvil.

Around 14 million new jobs generated in export sector - Exports rises from US Dollar 63 billion during 2003-04 to US Dollar 162 billion in 2007-08 Kamal Nath announces trade facilitation measures

While announcing the major trade facilitation measures (supplement to the Foreign Trade Policy), Mr. Kamal Nath, Union Minister of Commerce & Industry, said that a Special Package of Rs.325 crore (US \$ 65 million) would be provided for leather, textiles etc., for exports w.e.f. 1/4/2009 and added that export incentives have been provided for certain items like technical textiles, stapling machines, handmade carpets and dried vegetables. In a mitigating effort to boost export amidst global slowdown, the Minister said that the recognition slab for Premier Trading Houses based on export turnaround has been reduced to Rs.7500 crore (US \$ 1500 million) from Rs.10,000 crore (US \$ 2000 million). Under EPCG (Export Promotion Capital Goods) Scheme, in case of decline of exports of the product (s) by more than 5%, the export obligation for all exporters of that product(s) would be reduced proportionately. This provision has been extended for the year 2009-10, for exports during 2008-09. He further added that export obligation period against advance authorisations has been extended up to 36 months. In order to boost rural exports, the Minister announced that a re-credit of 4% SAD, in

case of payment of duty by incentive scheme scrips such as VKGUY (Vishesh Krishi and Gram Udyog Yojana), FPS and FMS, have been allowed. Bhilwara in Rajasthan and Surat in Gujarat have been recognized as Towns of Export Excellence, for textiles and diamonds respectively.

418 per cent growth in exports from SEZs and EOUs during 2003-04 to 2007-08 Kamal Nath presents EPCES export awards

Mr. Kamal Nath, Union Minister for Commerce & Industry, has stated that the Special Economic Zones (SEZs) and Export Oriented Units (EOUs) have significantly contributed towards employment generation and encouraged manufacturing activity in the country. Speaking at the Export Awards function organized by the Export Promotion Council for EOUs & SEZs (EPCES), Mr. Nath informed that during the period 2003-04 to 2007-08, exports from SEZs and EOUs have increased from Rs.42,641 crore (US \$ 8528.20 million) to Rs.221,066 crore (US \$ 4421.32 million), a growth of 418% in four years. Congratulating the export award winners, the Minister mentioned that SEZ success has been possible due to a participative and interactive approach between the Government and industry. "In the last three years, incremental investment of more than Rs.90,000 crore (US \$ 18000 million) have taken place in the SEZs. During this period, SEZs have provided incremental direct employment to over 2,27,000 people. Exports from SEZs have gone up from Rs.22,840 crore (US \$ 4568 million) in 2005-06 to Rs.66,638 crore in 2007-08. By the end of December 2008, Indian exports from the SEZs stood at Rs.70,000 crore (US \$ 14000 million), crossing last years exports from SEZs", he added. In respect of EOU Scheme, we have extended the sunset Clause by one year and now the income tax exemption under Section 10-B of the Income Tax Act is available up to March

2010. We have taken up this issue further for extending the Sunset Clause by another 3 years.”

Exports up by 17.1 per cent in April-December 2008 India's foreign trade data: December 2008

India's cumulative value of exports for the period April-December 2008 was US\$ 131990 million (Rs.585594 crore) as against US \$ 112737 million (Rs. 454997) registering a growth of 17.1 per cent in Dollar terms and 28.7 per cent in Rupee terms over the same period last year. Exports during December, 2008 were valued at US \$ 12690 million which was 1.1 per cent lower than the level of US \$ 12825 million during December, 2007. In Rupee terms, exports touched Rs. 61715 crore (US \$ 12343 million), which was 22 per cent higher than the value of exports during December, 2007.

DISCLAIMER

The information given in the Newsletter is prepared on the basis of various inputs available to the Embassy and is for general reference. It should not be construed as an endorsement of the views contained therein

**EMBASSY OF INDIA,
SWITZERLAND**

KIRCHENFELDSTRASSE 28, CH-3005 BERNE

TEL : 031-351 11 10 Fax : 031-351 15 57

E-mail : india@indembassybern.ch

Website : www.indembassybern.ch