

- **FDI in INDIA: THEN AND NOW**

According to United Nations Conference on Trade and Development's (Unctad) Trade and development report 2006, "FDI inflows to India stood at \$5.5 billion in 2004, making it the tenth largest

- **FDI into India is 54.628 million USD From 1999 to 2007**
- **India makes a record in receiving FDI in 2006.**
- **Growth of FDI in India is an upshot of the financial crises raised due to the collapse of its major trading partner-Soviet Union in the late 80s**

developing economy in terms of overseas Investment received." Commerce and Industry Union Minister Kamal Nath uncovered that India Received record foreign direct investment (FDI) in 2006, India has been speedily moving into a moderate approach from a restrictive regime, it is having one of the most translucent and moderate FDI establishments among the developing countries with strong macro-economic ground rules. During the period of 1991 to December 2007 cumulative FDI into India stands 54.628 million USD. In the year 2007-2008 the FDI has grown up to 12699 million USD which has brought the drastic change in the outlook of India. The

rate at which FDI has grown during the period is a clear indication that India is mounting as an attractive destination for overseas investors.

In late 80s, the price of oil raised as an outcome of collapse of Soviet Union and the first Gulf war. Soviet Union was one of the major trading partners of India and it lead India into default on its loans but India recovers with every problems on its way to development and *as an upshot of this balance -of-payments crisis*, it lead to the Economic Liberation of 1991 initiated by Prime minister Narasimha Rao along with his finance minister Manmohan Singh which ended many public monopolies including Licence Raj and approved Foreign Direct Investment (FDI). And then a new Industrial policy came to existence, which approved projects with foreign equity to have participation up to 51 per cent in high priority areas. Before this the government led by Rajiv Gandhi also eased restrictions on capacity expansion for incumbents; removed price controls and reduced corporate taxes.

In recent years, the Policy for FDI allows freedom of location, choice of technology, repatriation of Capital and dividends. There has been a strong flow of international interest in the Indian economy, mergers and acquisitions by corporate companies coasted up enlarged investment in growing markets, and India is well balanced to avail of their investment plans. The largest source of FDI in India's are countries Mauritius, Japan, Cyprus, the US and Singapore. Sectors catching the attention of FDI include transportation, fuels, chemicals construction and services like infrastructure, Telecom, Real-Estate, Power, Civil Aviation, electrical equipment. At present, India does not allow FDI in multi-brand retailing, but allows 51% in single-brand retailing and 100% in the wholesale cash-and-carry business which is a

customary entry mode for foreign company in which either they choose the direct mode as one adopted by Metro AG or the partnership mode as Wal-Mart with Bharti, or through retail franchise agreements.

Sir Alfred Lord Tennyson rightly quoted in “ Change is the law of nature” and when the situations changes the policies need to be changed, this happened with time in relation to FDI in India and we hope it will always be improving day by day as it has improved in past.

- **REAL ESTATE in India- All Gain No Gurgle**

Real estate in India has emerged as one of the most attractive investment areas not only for the domestic but also the foreign investors. On real estate investments India offers a high return of 20-25 % as compared to the other property markets not only this but also high rental, capital value appreciation, and large availability of quality supply, attracts people to get into the real-estate investments in India.

A study released by in December 2007 the Associated Chambers of Commerce and Industry of India (Assocham) said,

“Growing at a scorching 30 per cent, the Indian real estate sector has witnessed a revolution, driven by the flourishing economy, constructive demographics and

- **King of Investment in India covering both the domestic and the foreign clients.**
- **Real Estate is the second largest Employing sector in India.**
- **FDI inflow into the sector is estimated to be between US\$ 5 billion and US\$ 5.50 billion.**
- **A large number of foreign Companies are investing in Indian Real-Estate Market.**

liberalized foreign direct investment (FDI) regime. The second largest employing sector in India (including construction and facilities management), real estate is linked to about 250 ancillary industries like cement, brick and steel through backward and forward linkages. Consequently, a unit increase in expenditure in this sector has a multiplier effect and the capacity to generate income as high as five times.”

At present, foreign direct investment (FDI) inflows into the sector are estimated to be between US\$ 5 billion and US\$ 5.50 billion. With the remarkable investment prospect budding in this industry, a large number of international real estate players have entered the country, following are a few examples- Jones Lang La Salle (JLL), the world's leading integrated global real estate services and money management firm plans to invest in the country's swiftly escalating property market approximately US\$ 1 billion. Dubai-based DAMAC Properties would invest up to US\$ 4.5 billion to expand properties in India.. UAE-based real estate company Rakeen and Chennai-based mineral firm Trimex Group have formed joint venture company - Rakindo Developers - which would invest over US\$ 5 billion over the next five years. Merrill Lynch & Co bought 49 per cent equity in seven mid-income housing projects of India's largest real estate developer DLF in Chennai, Bangalore, Kochi and Indore for US\$ 375.98 million, Dubai-based Nakheel and Hines of the US have also tied up with DLF to develop properties in India. DLF has also formed a joint venture with Limitless Holding, a part of Dubai World, to develop a US\$ 15.23 billion township project in Karnataka. Gulf Finance House (GFH) has decided to invest over US\$ 2 billion in a Greenfield site close to Navi Mumbai.

The growth of Real Estate in India is a result of many grounds one of which is the growth in the income of people resulting into the rising income levels of the middle class. Now every one wants to own a house and with the increase of the nuclear families in India the demand is high. The attitude has changed to that level that people do not purchase a house to make it a home for them but they bank to Purchase some property with a purpose of getting reimbursed.

There is a high escalating curve in the real estate sector, which owes some tribute to a booming economy and liberalized FDI regime in India. The rapid growth of the Indian economy has a graceful consequence on demand for commercial property to help meet the needs of business, such as modern offices, warehouses, and hotels and retail shopping centers. Growing outsourcing and information technology (IT) industry and organized retail are escorting the growth in commercial office space requirement for example; ITES alone is estimated to have need of 150 million sq ft across urban India by 2010. Similarly, the organized retail industry is likely to require an additional 220 million sq ft by 2010. Similarly an estimated US\$ 25 billion investment will be required over the next five years in urban housing. This segment is likely to drift immense investment opportunities.

- *N-Deal: Pranab Going to US next Month:*

External affairs minister Mr.Pranab Mukherjee is likely to visit Washington next month even as the US continued to urge India at different levels to conclude the remaining steps in the nuclear deal. Visiting US defense secretary Robert Gates on

February 26th 2008 , hoped that the nuclear deal will be concluded successfully while the US under secretary of the State Mr. Nicholas Burns, the American point person for the nuclear Deal, said the July timeline for concluding the remaining steps for operating the nuclear deal was 'realistic'.

Even though defense ties particularly the 126 fighter jet purchase, were on top of Mr. Gates' agenda, the nuclear issue did not remain far behind. "We are certainly hopeful that India can get done what it needs, so that we can get done what needs to be done." Mr. Gates told reporters ahead of his meetings with the Indian Leadership. Even though the U.S. is calling the deal a 'Symbolic Centerpiece' of Indo-US bilateral ties, Mr. Gates said that the defense ties with India would continue regardless of what happens to the nuclear deal. "I am here independent of that, to see how we can expand the military-to military relationship, independent of the civil nuclear agreement, " he said.

Mr.Gates met with external affairs minister Mr. Pranab Mukherjee, defense minister Mr. A.K. Antony , national security advisor Mr. M. K. Narayanan and leader of the opposition Mr. L.K.Advani.

With the government here struggling to conclude the IAEA safeguards agreement and unable to convince its allies on the merits of the nuclear deal, the Bush Administration has started stepping up the pressure. Key interlocutors on the deal both here and in the US have again started speaking out and pushing merits of the deal in a last-ditch attempt to salvage the nuclear deal.

The Bush Administration called Senetor Joseph Biden's comments about the political timeline expiring in July as realistic and said the deal has to get to the Congress before the summer recess. "That is our appreciation of timeline as well," Mr.Burns

said. Senator Biden during his visit to India had said that the remaining steps in the nuclear deal have to be completed in the next three months so that the congress can take up the 123 agreement in June and rectify it in July. This gives the Government in India to conclude the IAEA safeguards agreement, convince the allies and obtain NSG waiver.

The deal is likely to be the main focus of Mr. Mukherjee's visit to US. The dates are yet to be finalized being hoped that the AEA safeguards agreement will be concluded before Mr. Mukherjee travels to the US. "Secretary of State (Condoleezza) Rice is looking forward to welcoming Foreign minister Mukherjee to the United States and obviously we want to focus on the major issues in our relationship, our regional cooperation in South Asia, Afghanistan, our civilian nuclear accord, energy cooperation, our space cooperation and our relationship across the board," Mr. Burns said.

Mr. Burns was further quoted as saying that bipartisan support remained for the deal in congress and that a "very strong majority of countries internationally" are supporters of the Nuclear Suppliers Group granting exemption to India.

- **BUDGET 2008-The Intelligent Populism**

On 29th February 2008 Finance Minister P. Chidambaram presented the Budget for the year 2008-2009, a budget that can be called Intelligent Populism- combining populist sops with sensible

- **Liquidity in markets to be impacted by hike in short-term capital gains.**
- **Rs.60,000 crore of loans for 40 Million farmers has been waived.**
- **The Taxpayer will have the basic exemption limit up by Rs.40,000/- for men, Rs.35,000/- for women and Rs.30,000/- for Senior citizen.**

measures to stimulate growth, through wide range tax cut and big outlays on Infrastructure and knowledge development. The Taxpayer will have the basic exemption limit up by Rs.40, 000/- for men, Rs.35, 000/- for women and Rs.30, 000/- for Senior citizen. However the sensx fell 246 points in the aftermath of budget populism, which included a hike in short term capital gains tax from 10% to15%.The Budget waived Rs.60, 000 crore of loans for 40 Million farmers, wooing the biggest vote bank of all, and opposition parties have for months taken to the streets shouting for a loan waiver. Mr. Chidambaram has now stolen their election plunk leaving them speechless and sulking.

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THE BUDGET SPECIAL

Union

Industry Effect

Overall sectoral impact

1. Auto components & Tyres Marginally positive

The reduction in excise duty rate from 16 per cent to 14 per cent would be positive for some auto component manufacturers. While the benefit from reduction in duties would be entirely passed on to OEMs, components deriving higher proportion of sales from the replacement segment, such as bearings, batteries, brake linings, would retain the benefit. The tyres sector is also expected to benefit from the excise duty cut, since over 60 per cent of the sales are to the replacement segment. The thrust to small car and two-wheeler demand, due to the reduction in excise duty, will have a positive impact on component sales to OEMs.

2. Automobiles Marginally positive

We expect two-wheeler demand to benefit from the increase in disposable income due to alteration in income tax slabs and the cut in excise duty, which is likely to be passed on due to intense competition. We expect small car manufacturers also to pass on the benefit, resulting in a marginally favorable impact on demand. However, commercial vehicle manufacturers may increase their margins by retaining the benefit. The waiver of loans for small and marginal farmers will have a neutral impact on tractor sales.

3. Banking and Finance Neutral

The emphasis is on agricultural banking. The loan waiver of Rs 500 billion and the one time settlement scheme of Rs 100 billion are expected to provide relief to debt-burdened farmers. Banks will be positively impacted if the government funds the waiver in some manner or else bank margins will suffer. The reduction in growth target (17 per cent y-o-y) for farm credit will help banks consolidate their origination systems for farm loans. The addition of 250 rural household accounts, annually, at each rural and semi-urban branch, envisaged for scheduled commercial banks, including RRBs, will extend their reach to uncovered sections. Further, measures to expand the market for corporate bonds would help increase liquidity and market-driven price discovery.

4. Cement Neutral

In the Union Budget 2008-09, the excise duty on bulk cement has been revised from Rs 400 per tonne in 2007-08 to Rs 400 per tonne or 14 per cent ad-valorem, whichever is higher. The average all-India retail price of cement is Rs 230 per bag, whereas bulk cement sells at discount of Rs 10-16 per bag owing to savings on excise and packaging cost. This proposal is expected to increase the cost of cement for bulk consumers, who account for an estimated 10-15 per cent of total cement consumption. The cement industry will not be affected, as producers will be able to pass on this increase to customers, which include ready-mix concrete producers, infrastructure companies and large builders. Further, the excise duty on clinkers has been hiked from Rs 350 per tonne in 2007-08 to Rs 450 per tonne in 2008-09. This will also have a neutral impact on cement industry, as players possess the flexibility to pass on any increase in cost to end consumers

5. Construction Marginally positive

The government has increased the outlay in key infrastructure sectors such as roads, urban infrastructure and irrigation. Under roads, led by National Highways Development Programme, the budget allocation has been increased by 19 per cent from Rs 108.67 billion in 2007-08 to Rs 129.66 billion in 2008-09, much higher than the 9 per cent growth in allocation of the previous year. The central assistance under Jawaharlal Nehru Urban Renewal Mission has also been increased by 25 per cent - from Rs 54.82 billion in 2007-08 to Rs 68.66 billion in 2008-09. Further, the annual

outlay under the 'Accelerated Irrigation. Benefit Programme' has been raised from Rs 110 billion to Rs 200 billion. These increased allocations would augur well for construction companies in terms of healthy order book growth and better revenues of Rs 290.86 billion in the segments of roads, urban infrastructure and irrigation.

6. Fertilizers Neutral

The reduction in customs duties on phosphoric acid (from 7.5 per cent to 5 per cent) and sulphur (from 5 per cent to 2 per cent) is marginally positive for the industry. However, the budgetary allocation for fertilizer subsidy has been increased marginally from Rs 305 billion in 2007-08 to Rs 310 billion in 2008-09, even as the subsidy bill for 2008-09 is estimated to be around Rs 500 billion. Thus, this could result in arrears if the balance subsidy is not provided in time, straining the working capital of fertilizer companies. The greater thrust on agricultural credit and irrigation will boost fertilizer consumption in the long run.

7. Hotels Neutral

The impact of the Union Budget 2008-09 on premium hotels sector is neutral. A 5-year tax holiday has been announced for two-; three- and four-star hotels that are established in specified districts that have UNESCO-declared 'World Heritage Sites' (there are 27 such sites in India). The above-mentioned hotels should be constructed and begin functioning between April 1, 2008 and March 31, 2013.

8. Household Appliances Positive

The alteration in income tax slabs will lead to a significant reduction in tax liability for the salaried class (especially for income up to Rs 5 lakh), inducing higher demand for household appliances. Reduction of basic excise duty from 16 per cent to 14 per cent is unlikely to benefit the household appliances industry, as a significant part of the production of major manufacturers comes from excise-free zones. The resultant reduction in CVD will have negligible effect on the industry, due to unique product specifications (such as size) and competitiveness of the domestic industry in terms of cost, brand perception and distribution Network.

9. Housing Neutral

There were no major announcements for the housing sector in the Union Budget 2008-09. The subsidy towards housing for the people below the poverty line in rural areas, under the Indira Awas Yojna, has been enhanced. However, this proposal will not impact the organized housing sector.

- **Industry Effect**

10. Information Technology Marginally negative

The budget focuses on building the talent pool of the country and the IT sector, being a major recipient of the knowledge resources, is expected to benefit in the long

run. However, the excise duty increase from 8 per cent to 12 per cent on packaged software and the addition of customized software in the service tax net is expected to negatively affect application development players in the domestic software industry. Maintenance service providers will not be impacted. With no comment on extension of the IT Tax exemption (under section 10A and 10B), the overall impact is expected to be marginally negative for the IT sector.

11. Media and Entertainment Neutral

The overall impact on the media and entertainment industry is expected to be neutral. The customs duty on certain parts of set-top boxes such as switched mode power supply (SMPS) power board and infrared (IR) module has been reduced from 7.5 per cent to nil. The reduction rationalizes the differential between importing raw material for set-top box manufacturing and importing the finished set-top box, which attract zero customs duty. This move is expected to boost the domestic manufacturing of set-top boxes.

12. Non-ferrous Metals Neutral

The reduction in CENVAT rate on all goods, from 16 per cent to 14 per cent, will result in decline of around Rs 2,000 per tonne in aluminium and zinc prices, and Rs 5,000-6,000 per tonne in copper prices, notwithstanding the future trend in international prices. However, it will not have a

Significant impact on the sectors, as these items are sold to industrial buyers only. The excise duty on aluminium, copper and zinc sold is MODVAT'able , and hence, the buyer industry's cost remains unchanged. Customs duty on aluminium scrap, used in manufacturing recycled aluminium, has been reduced from the existing 5 per cent to zero. The share of recycled aluminium in the domestic aluminium industry is low; consequently, the cut is unlikely to have any significant impact on the industry.

13.Oil and Gas Marginally positive

The imposition of a 5 per cent customs duty on naphtha for the manufacture of polymers is expected to marginally improve refining profits (Rs 7-8 billion). Further, a reduction of 2.5 per cent in customs duty on project imports is likely to reduce capital costs of players in the industry. The replacement of ad-valorem portion of the excise duty (6.2 per cent) on unbranded petrol and diesel by an equivalent specific duty of Rs 1.35 per litre will be revenue neutral. However, this is expected to act as a cushion against the cascading effect of any change in international prices on domestic prices for the consumer. Other changes such as the reduction in peak excise duty (by 2 per cent) and CST (by 1 per cent) are also expected to be revenue neutral for the sector, as they are likely to be passed on to the customer.

14. Paper Neutral

The reduction in excise duty from 12 per cent to 8 per cent on paper, paper board and articles manufactured out of non-conventional raw materials; and reduction in excise duty on clearances upto 3,500 MT from 8 per cent to nil, is not likely to have a significant impact on the industry. The measure is relevant only primarily for the small-scale players who are likely to pass on the benefit of the cut to the end-users. The same will result in decline in prices of certain lower grades of Paper. Large players produce higher grades of paper. Thus, the impact of the budget measures on large-scale players is neutral. Higher emphasis on educational sector is likely to boost the demand for the writing and printing paper from this segment. The segment is estimated to account for around 30 per cent of the total writing and printing paper demand.

15. Petrochemicals Neutral

The customs duty on all petrochemical products (basic and polymers) remains unchanged. However, customs duty on naphtha for petrochemicals use has been increased from zero to 5 per cent. This will negatively impact naphtha-based crackers (70 per cent of total capacity). Conversely, excise duty (CENVAT) has been reduced from 16 per cent to 14 per cent and central sales tax has been reduced by 1 per cent. This is expected to be passed on to the end consumers, and hence, aid demand growth. CRISIL Research therefore believes that the overall impact of these changes will be neutral on the industry.

16. Pharmaceuticals Marginally positive

The budget will have a marginally positive impact on the pharmaceuticals sector. The cut in excise duty on pharmaceutical products, from 16 per cent to 8 per cent, will reduce the burden on players. However, as most large and mid-sized players have set up manufacturing facilities in excise-free zones, the overall impact will be marginal. The 125 per cent deduction on R&D outsourcing expenditure will increase the competitiveness of Indian players. The reduction in customs duty on select life saving bulk drugs, from 10 per cent to 5 per cent, will be marginally positive. Increase in outlay for HIV treatment will be positive and will benefit players such as Cipla , Glaxo Smith Kline and FDC.

17. Power Neutral

There were no major announcements impacting the power sector. On the generation front, the government expects to award the Tilaiya (Jharkhand) UMPP in 2008-09. The basic custom duty on project imports has been reduced from 7.5 per cent to 5 per cent. However, the exemption on additional duty of 4 per cent has been withdrawn (other than mega power projects), resulting in a neutral impact. The budgetary allocation for APDRP programme has been maintained at Rs 8 billion. To

address the concern of higher losses at the transmission and distribution level and for the development of the sector, the government has proposed to set up a National Transmission and Distribution Fund.

18.Roads Neutral

The Government has enhanced the allocation for National Highway Development Programme (NHDP), from Rs 109 billion in 2007-08 to Rs 130 billion in 2008-09, an increase of 20 per cent on year-on-year (yo-y). Although, this is higher than the increase of 9 per cent, y-o-y, in 2007-08 (allocation of Rs 99 billion in 2006-07), it is in line with the stated requirement of Rs 1.6 trillion for the phases in action of NHDP for the next 5 years. In spite of the Union Budget stating that under Bharat Nirman (PMGSY) programme , 17 habitations are connected through all-weather roads each day, as against the target set of 20,071 habitations for 2007-08, only 17 per cent had been achieved until December 2007.

19.Steel Neutral

Reduction in the CENVAT rate on all goods from 16 per cent to 14 per cent is likely to result in a decline in steel prices by around Rs 500 per tonne, notwithstanding the future trend in international prices. However, the impact of the same on the industry is neutral, as the excise duty on most of the steel sold is MODVAT'able, and hence it does not impact the buyer industry's cost, except where the output is directly used by the retail buyer. Retail buyers purchase around 60 per cent of the galvanized steel

sold in the domestic market. Similarly, some quantity of long products, primarily bars and rods, is bought for use in self-developed housing projects. The customs duty on melting scrap is reduced from existing 5 per cent to nil. Since the share of imported melting scrap in the total raw material mix of the industry is low, the measure is not likely to have any significant impact on the industry.

20. Sugar Marginally negative

The impact of the Union Budget 2008-09 on the sugar sector is likely to be marginally negative. The imposition of a commodities transaction tax for transactions in commodities futures is expected to marginally increase the hedging cost of sugar companies. Also, through a pre-budget notification on 25 February 2008, the excise duty on sugar has been increased from Rs 875.5 per tonne to Rs 978.5 per tonne. The cess component of the excise duty on sugar has been hiked from Rs 140 per tonne to Rs 240 per tonne while the basic excise duty on sugar has been left unchanged at Rs 710 per tonne. The proceeds collected from the imposition of the cess will be transferred to the Sugar Development Fund, which will be mainly used for extending loans to mills at subsidized interest rates. We expect that the margins of sugar companies will be under pressure as they will not be able to pass on the increase in the excise duty to consumers, given the oversupply situation currently prevailing in the market.

21. Telecom Neutral

The overall impact on the telecom sector is expected to be neutral. The excise duty cut on wireless data card from 16 per cent to zero is marginally positive, as the effective duty would reduce from 21.65 per cent to 4.00 per cent. With an average handset priced at Rs 2,500, the 1 per cent National Calamity contingent Duty (NCCD) would have a negligible impact; hence, the penetration of cellular services will not be affected. The reduction in customs and excise duties on convergence products would benefit services like Voice over Internet Protocol (VoIP) services. The establishment of 100,000 broadband Internet-enabled common service centers in rural areas and state wide area networks (SWAN) is expected to increase the penetration of broadband services in the hinterland.

22. Textiles Positive

The budget measures are largely positive for the textiles sector. The Union Budget 2008-09 has maintained the provision for the scheme for integrated textile parks (SITP) at Rs 4.5 billion in 2008-09. The allocation of funds under TUFs has been enhanced from Rs 9.1 billion in 2007-08 to Rs 10.9 billion in 2008-09. This will continue to help attract investment flows into the sector by subsidizing the interest costs on borrowings for expansions and new projects. The identification of Bhiwandi

and Erode for development as mega-clusters will support the modernization and improvement in the infrastructure of these two key power loom (weaving) clusters, which contribute significantly to India's fabrics production.

 Sourced from Crisil 26 research analysis and outlook, February 29, 2008