Indian Economy – A snapshot (March 2010)

The Indian economy is set to grow between 7 per cent and 7.5 per cent in the current fiscal, according to Dr C Rangarajan, Chairman of the Prime Minister's Economic Advisory Council (PMEAC). The mid-year review has projected a growth rate of 7.75 per cent for the fiscal.

India's gross domestic product (GDP) grew by 7.9 per cent during July-September 2009, up from 6.1 per cent in the previous quarter, as per data released by the Central Statistical Organisation (CSO). According to the latest estimates available on the Index of Industrial Production (IIP), the index of mining, manufacturing and electricity, registered growth rates of 9.5 per cent, 9.2 per cent and 7.5 per cent, respectively in Q2 of 2009-10, as compared to the growth rates of 3.8 per cent, 4.9 per cent and 3.2 per cent in these industries in Q2 of 2008-09. The key indicators of construction sector, namely, cement and finished steel registered growth rates of 12.6 per cent and 2.1 per cent, respectively in Q2 of 2009-10, as against the growth rates of 5.2 per cent and 3.8 per cent, respectively in Q2 of 2008-09.

The Economic scenario

Overseas investors have infused US$ 816.69 million into the stock market in the first trading week of 2010, reflecting a positive start for the year after record inflows in the last year. FIIs were net investors of US$ 973.22 million in debt instruments in the first trading week of the year, according to the data released by Securities and Exchange Board of India (SEBI). The wealth of foreign institutional investors (FIIs) in leading Indian companies now stands at more than double the level a year ago, vindicating India's image of being a safe and lucrative investment destination.

Consumers in India continued to be optimistic slightly more than what they were six months ago, as per a latest MasterCard Worldwide Index of Consumer Confidence survey. "In India consumers are more optimistic than six months ago (68.0) and a year ago (63.9)," said the study. Additionally, India ranks second with 117 points in consumer confidence in the fourth quarter of 2009, according to the Nielsen Global Consumer Confidence survey. The survey results indicate that the recovery from the global economic downturn is faster in India as compared with other countries in the world.

Global ratings firm Moody's has upgraded long-term foreign currency (FC) deposit ratings of 14 Indian banks, including the country's largest bank. State Bank of India (SBI), by one notch to Ba1 from Ba2 with a stable outlook. This reflects a slight improvement in the credit quality of the rated entities. This move has come in wake of the revision in India's sovereign outlook by the ratings firm. Among the banks which would be benefited by the ratings decision include Axis Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Export-Import Bank of India, HDFC

Bank, ICICI Bank, IDBI Bank, Oriental Bank of Commerce, Punjab National Bank, State Bank of India, Syndicate Bank and Union Bank of India.

India's local currency rating outlook has been raised to 'positive' from 'stable' by Moody's Investors Service on the back of the country's demonstrated resilience to the global crisis and expectation that it will resume its high growth path. The global credit rating major also held out the possibility of upgrade of the local currency bond rating.

Simultaneously, the agency also raised the ceiling on banks' foreign currency deposits to 'Ba1' from 'Ba2' to reflect the robust external position of India better. Both 'Ba1 and 'Ba2' ratings, according to Moody's definition, fall in the speculative grade category.

Of the more than 200 companies from over 50 countries that form part of the World Economic Forum's Global Growth Companies (GGC) Community, India today has the second largest representation, with a total of 18 GGCs. Indian GGCs come from every sector, with a strong representation in information technology and electronics, retail, consumer goods and banking.

The GGC Community was formed to engage high-growth companies with the potential to be tomorrow's industry leaders and drive economic and social change.

India ranks 49 among 133 countries in 2009-10 in the global competitiveness index (GCI) prepared by the World Economic Forum (WEF), an improvement of one position from last year. India's position is a result of mixed performance across 12 categories covered by the GCI.

India's trade confidence remains higher than the regional average as small and mid-market business in India continue to be optimistic about their trade outlook, as indicated by the latest HSBC Trade Confidence Index, which covers a total of 12 markets, including key economies in the Asia-Pacific region. The businesses surveyed continued to be confident with an Index of 117, an increase over the second quarter index of 115.

The prospect of a global economy recovery has driven confidence across the board, supported by a sustained confidence in the domestic economy, says a survey conducted in September by JP Morgan Asset Management, in association with ValueNotes, a market research company.

- Net capital inflows into India during the current fiscal will be about US$ 50 billion, said Dr C. Rangarajan, Chairman of the Prime Minister's Economic Advisory Council (PMEAC), on the sidelines of an OECD-India symposium co-hosted by the Organisation for Economic Cooperation and Development and ICRIER. The year 2008-09 saw a net capital outflow from the economy.
- After purchasing 200 tonne gold from IMF, India has now the highest gold reserves as a percentage of total forex reserves, among the BRIC

nations. India has US$ 17.5-billion worth gold reserves, which is 6.66 per cent of its total forex reserves estimated at US$ 262.9 billion as on November 13, 2009.

- According to data released by the market regulator SEBI, FIIs transferred a record US$ 17.46 billion in domestic equities during the calendar year 2009. This FII investment in 2009 proved to be the highest ever inflow in the country in rupee terms in a single year, breaking the previous high of US$ 14.96 billion parked by foreign fund houses in domestic equities in 2007.
- During the October-December period in 2009-10, FIIs made a net buy of shares worth US$ 5.19 billion, according to data compiled from market regulator, SEBI. In the quarter, December attracted the highest inflow of US$ 2.2 billion, followed by October US$ 1.95 billion and November US$ 1.18 billion. FIIs poured a net US$ 1.26 billion in debt instruments during the said period.
- Indian companies have raised about US$ 2.6 billion from the international market through external commercial borrowings and foreign currency convertible bonds (FCCBs) in October to fund overseas acquisitions and import capital goods and modernisation and lending. This is highest amount raised in a month by Indian companies through ECB\FCCB route after the financial crisis intensified on collapse of Lehman Brothers in September 2008.
- Exports from India are estimated at US$ 14.6 billion in December 2009, 9.4 per cent higher than the level in November 2009, according to Mr Anand Sharma, Union Commerce and Industry Minister. Export growth in December was driven by sectors such as pharmaceuticals, engineering and auto components he added.
- In November 2009, India’s containerised volume reported a double-digit growth of 15 per cent year-on-year, according to a report by the domestic brokerage India Capital Markets Pvt. Ltd.
- India's logistics sector is witnessing increased activity—the country's major ports have posted a 12.8 percent year-on-year (y-o-y) rise in cargo volumes in November 2009. The Public Private Partnership Appraisal Committee (PPAC) has approved four projects worth over US$ 897.7 million to be developed through the public-private partnership (PPP) mode in a move to boost capacity at the major ports in the country.
- Foreign tourist arrivals in India in the peak tourism season of 2009-10 is set to witness a growth of 25 per cent over the same period of 2008-09, according to Mr Vijay Thakur, President, Indian Association of Tour Operators (IATO).
- The recovery of the Indian economy, as was broadly expected, worked well for the advance tax figures for the third installment that was payable by December 15, 2009. The all India direct tax collection between April and December 2009, which includes corporate and personal taxes, increased 8.1 per cent to US$ 48.39 billion, according to figures that are currently with the income-tax (I-T) department.
- The domestic mutual fund (MF) sector registered positive growth in November 2009. According to the latest statistics from the Association

of Mutual Funds in India (AMFI), the assets under management (AUM) of top fund houses have increased by two to 10 per cent.

- Independent investment bank Rothschild sees potential for M&A activity in banking, telecom and aviation in India driven by consolidation in these sectors.
- India is likely to emerge as a major hub for production of quality steel products, as per Ratan Jindal, vice-chairman, managing director and CEO of Jindal Stainless Steel (JSL). The International Steel Exhibition 'Indinox', to be held at Ahmedabad in January, will portray India as a major destination for manufacturing steel products.
- The Indian drug retail market grew by a 29.24 per cent in value terms in October 2009 over the year ago period, more than double the average monthly revenue growth rate of 13-14 per cent in the recent past, as per market research firm ORG IMS.
- The country's IT exports under the Software Technology Parks of India (STPI) scheme logged an estimated US$ 46.25 billion in the first half of the current financial year, with Bangalore accounting for over 30 per cent of the total export basket.
- India's iron ore exports more than doubled to 9.3 million tonne in October 2009 as compared to 4.4 million tonne in the same month a year ago on the back of increase in demand from Chinese steel producers, as per a joint study by a group of iron ore exporters.

- India's pharmaceutical industry is the third largest in terms of volume. The Indian US$ 20 billion pharmaceutical industry has shown tremendous progress in terms of infrastructure development, technology base creation and a wide range of products, as per the Ministry of Chemicals and Fertilisers.
- India has joined an elite group of six countries which have successfully decoded the human genome indigenously. The discovery, which was announced by the Council of Scientific and Industrial Research (CSIR), will bring pharmaceutical companies a step closer to designing drugs accounting for the specific characteristics of the Indian physiology.
- India leads the top real estate investment markets in Asia for 2010, according to a study by PricewaterhouseCoopers (PwC) and Urban Land Institute, a global non-profit education and research institute.
- A new survey undertaken by Manpower Inc, a world leader in the employment services industry, found that Indian employers are most optimistic about adding staff.
- India's life insurance sector is expected to grow by almost 15 per cent in the current financial year and touch a total premium income of US$ 50 billion, according to Life Insurance Council secretary general S B Mathur.
- India which retained its numero uno position in world milk production this year as well, is estimated to have produced 110 million tonnes of milk in 2008-09.

- The mobile subscriber base in the country crossed the 500-million mark to touch 506 million in November 2009, according to the figures released by the Telecom Regulatory Authority of India (TRAI).
- The country's infrastructure sector accelerated by 5.3 per cent in November 2009, backed primarily by growth in steel and cement production in the month. The six core sectors, which contribute 26.7 per cent to the overall Index for Industrial Production (IIP), had grown 0.8 per cent in the corresponding month of 2008.
- According to data released by Society of Indian Automobile Manufacturers, car sales in November stood at 1.33 lakh units in the domestic market, up from 83,121 in the same month last year.
- Accordiing to the Gem and Jewellery Export Promotion Council, the exports of gems and jewellery from India, the world's largest supplier, rose 45 per cent over December 2008 to touch US$ 1.89 billion in December 2009.
- Merger and acquisition (M&A) volumes have touched US$ 74.5 billion till January 13, 2010—the next highest Year To Date (YTD) level in ten years since 2000.

The rural India growth story

Estimated at close to 350 million, the bottom-of-pyramid (BOP) consumer segment is the biggest and perhaps the fastest growing in the country with about 40 million families making the jump from poverty to the BOP club every year. Consumer product makers such as GlaxoSmithKline, Nestle, Coca-Cola, PepsiCo, Hindustan Unilever, Marico, Godrej and Dabur are rushing to the bottom-of-the-pyramid market with custom-made products six years after management guru CK Prahalad said consumers with incomes less than $2 a day can be a profitable segment for marketers.

Major fast moving consumer goods (FMCG) companies like Hindustan Unilever (HUL), Marico, Godrej Consumer Products, Dabur and even brewers like Sab Miller have stepped up hiring in small towns and rural India—primarily appointing sales staff to increase visibility and connect, and simultaneously boost sales.

Growth potential story

- A report from the Automotive Component Manufacturers Association of India (ACMA) estimates the turnover of the auto component industry in India will touch US$ 40 billion by 2015-16. By then India's share in the global auto component market is likely to grow from the current per cent to nearly per cent.
- Ernst and Young has forecast the passenger car market in India to grow by 12 per cent annually over the next five years from the present figure of 1.89 million units to reach 3.75 million units by 2014.
- Small and medium enterprises (SMEs) are expected to contribute 22 per cent to India's Gross Domestic Product (GDP) by 2012, up from

about 17 per cent at present, according to a survey by the Associated Chambers of Commerce and Industry of India (ASSOCHAM).

- The healthcare industry in the country, which comprises hospital and allied sectors, is projected to grow 23 per cent per annum to touch US$ 77-billion mark by 2012 from the current estimated size of US$ 35 billion, according to a Yes Bank and ASSOCHAM report.
- India's domestic business processing outsourcing (BPO) market, that has close to 500 players, will grow at a compound annual growth rate (CAGR) of 33.3 per cent, to reach revenues of US$ 6.82 billion by 2013, up from US$ 1.62 billion in 2008, according to a report by information technology research firm IDC India.
- India is targeting annual foreign direct investments worth US$ 50 billion by 2012 and would double the inflows by 2017.
- As per a study conducted by the Indian Council for Research on International Economic Relations (ICRIER), the retail sector is expected to contribute to 22 per cent of India's GDP by 2010.

Trade and External Sector

The year 2009 witnessed foreign institutional investors (FIIs) streaming in to bet on the India growth story, bringing in over US$ 17.46 billion in domestic equities as per Securities and Exchange Board of India (SEBI) data as of December 31, 2009. This is the highest ever inflow in the country in rupee terms in a single year, breaking the previous high of US$ 15.9 billion parked by foreign fund houses in domestic equities in 2007. The Bombay Stock Exchange's benchmark Sensex, comprising 30 bluechip stocks, gained more than 70 per cent during the year 2009, becoming one of the best performers among leading global bourses.

The 'OECD Investment Policy Reviews: India 2009' report hails India as both a major destination for foreign direct investment (FDI), and a major source of FDI. The report adds that India has become a major global player with high economic growth rates and its performance in the past year has been particularly impressive in view of the global collapse in FDI flows.

As per a Press Information Bureau press release dated December 24, 2009, India's share of world FDI has jumped from 0.78 per cent in 2005 to 2.45 per cent in 2008, according to Mr Anand Sharma, Union Minister of Commerce and Industry. He quoted the World Investment Report 2009 which named India as one of the top five most attractive locations for FDI for 2009-11. The 2009 survey of the Japan Bank for International Cooperation, conducted among Japanese investors, ranks India as the second most promising country for overseas business operations.

India's foreign exchange reserves stood at US$ 278.7 billion as on Feb. 5, 2010 according to the Reserve Bank of India (RBI) in its weekly statistical supplement.

The country's gold reserve also went up with the RBI purchasing 200 metric tonnes of gold for US$ 6.7 billion, in November 2009. This amount of gold represented about 6.1 per cent of the nation's total reserves at the time. RBI's gold holdings increased to 557.7 metric tonnes with the purchase. As on Feb. 5, 2010, the country's gold reserves were valued at US$ 18.06 billion, according to the RBI's weekly statistical supplement.

Estimated Capital Inflows in 2009-10

Net capital inflows into India during 2009-10 fiscal are expected to be about US$ 50 billion, according to Dr C Rangarajan, Chairman of the Prime Minister's Economic Advisory Council (PMEAC) who spoke on the sidelines of an OECD-India symposium co-hosted by the Organisation for Economic Cooperation and Development (OECD) and Indian Council of Research in International Economic Relations (ICRIER) on December 3, 2009.

According to a press release issued by the RBI dated December 31, 2009, gross capital inflows to India during April-September 2009, amounted to US$ 175.3 billion (US$ 184.4 billion in April-September 2008) as against an outflow of US$ 145.8 billion (US$ 172.5 billion in April-September 2008). Net capital flows at US$ 29.6 billion in April-September 2009 remained higher as compared with US$ 12.0 billion in April-September 2008.

FDI

FDI inflows for the period April-November 2009 stood at US$ 19.38 billion, according to Mr Anand Sharma, Union Minister of Commerce and Industry, as per a Press Information Bureau press release dated December 24, 2009. FDI inflows for November 2009 were US$ 1.74 billion, an increase of almost 60 per cent over the US$ 1.08 billion figure in November 2008. FDI equity inflows, as a percentage of GDP, have grown from 0.75 per cent in 2005-06, to nearly 2.49 per cent in 2008-09.

According to the second quarter Balance of Payment (BoP) data released by the RBI in a press release dated Dec 31, 2009, net FDI flows (net inward FDI minus net outward FDI) were higher at US$ 7.1 billion in the second quarter of 2009-10, as compared with US$ 4.9 billion in the second quarter of 2008-09. Net inward FDI remained buoyant at US$ 11.3 billion during Q2 of 2009-10 (US$ 8.8 billion in Q2 of 2008-09) reflecting relatively better growth prospects of the Indian economy. Net outward FDI amounted to US$ 4.2 billion in Q2 of 2009-10 (US$ 3.9 billion in Q2 of 2008-09).

FDI for the month of December 2009, grew to US$ 1.54 billion, an increase of 13.2 per cent over the December 2008 level of US$ 1.36 billion, according to the RBI bulletin.

FII

The trend of strong FII inflows to the tune of US$ 6.3 billion witnessed during April-June 2009 gained further during July - September 2009 and the period witnessed an infusion of US$ 7.37 billion. So far in the December quarter, foreign fund houses have made a net investment of about US$ 4.73 billion in the stock market, amid a period that witnessed the Dubai debt crisis.

Moreover, in the debt instruments, FIIs have made a net investment of about US$ 1.1 billion in 2009, according to the market regulator Securities and Exchange Board of India (SEBI) data. During the year, the number of registered FIIs increased by 114 to 1,708, while the tally of registered sub-accounts rose by 458 to 5,330, according to SEBI.

Portfolio investment mainly comprising foreign institutional investors (FIIs) investments and American depository receipts (ADRs)/ global depository receipts (GDRs) witnessed large net inflows to the tune of US$ 17.9 billion in April-September 2009 due to large purchases by FIIs in the Indian capital market.

Exports

The country's merchandise exports registered a growth of 11.5 per cent in January 2010 to touch US$ 14.34 billion up from US$ 12.86 billion. The areas that posted growth include commodities such as tea, coffee, basmati rice, agricultural products and sectors such as gems and jewellery, drugs and petroleum products and plastics.

Exports of petroleum products reached US$ 2.4 billion in November 2009 against US$ 1.3 billion in the same month last year, whereas gems and jewellery exports topped US$ 2.15 billion from US$ 1.6 billion in November 2008.

According to a press release issued by the Ministry of Commerce and Industry dated December 15, 2009, even during the current economic meltdown, Special Economic Zones (SEZs) registered an impressive growth in export, investment and employment generation.

The release also stated that the SEZ Policy intends to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the single window clearance mechanism, he said.

The release stated that in a short span of about three years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 570 SEZs. A total of 418,129 persons have been provided employment in SEZs.

Exports from Special Economic Zones (SEZs) in the first nine months of 2009-10, stood at US$ 32.42 billion compared to US$ 14.23 billion in the same period last year, it was stated by L B Singhal, Director General, Export Promotion Council for EOUs and SEZs. Exports from SEZs, or tax free enclaves, during April-December 2009, grew by a robust 127 per cent to over US$ 32.04 billion year-on-year.

External Sector

India's balance of payments (BoP) surplus in July-September 2009 was US$ 9.42 billion, compared with a deficit of US$ 4.7 billion during the corresponding quarter of the previous year. The country posted a surplus of US$ 115 million in the April-June 2009 quarter, according to the Reserve Bank of India (RBI) press release on India's Balance of Payments Developments during Q2 2009-10, dated December 31, 2009.

Merchandise trade deficit remained lower at US$ 58.2 billion during April-September 2009 as compared to US$ 64.4 billion in April-September 2008, mainly on account of decline in oil import. Net invisibles stood at US$ 39.6 billion during the period April-September 2009.

Private transfer receipts, comprising mainly remittances from Indians working overseas, increased to US$ 27.5 billion in April-September 2009 as compared with US$ 26.4 billion in the corresponding period of the previous year. Private transfer receipts constituted 17.6 per cent of current receipts in April-September 2009 (13.4 per cent in the corresponding period of the previous year), according to the RBI press release dated December 31, 2009.

India's trade relations with several countries also improved significantly.

- In an effort to boost their bilateral trade to US$ 20 billion in 2015, India and Russia are mulling new hi-tech projects in the fields of nuclear energy and nanotechnology, among other fields. The trade volume between two countries stood at US$ 7 billion in 2009, it was stated by Russian Vice Premier Sergei Sobyanin while opening the 15th session of India-Russia Inter-governmental Commission on trade, economic, scientific, technological and cultural cooperation.
- Bilateral trade between India and Nigeria has touched new heights, crossing the US$ 10 billion mark for the first time, it has been stated by Mahesh Sachdev, Indian high commissioner to Nigeria. Trade between the two countries grew by 17 per cent in the last one year to reach US$ 10.22 billion, securing India’s position as Nigeria’s second largest trading partner. Both India and the European Union are negotiating a Free Trade Agreement (FTA) that has the potential to double bilateral trade from over US$ 100 billion to US$ 200 billion by 2013.
- As part of the Comprehensive Economic Cooperation Agreement (CECA), India and the 10-member Association of South East Asian Nations (ASEAN) signed a free trade agreement (FTA) in goods in Bangkok on August 13, 2009. In the last financial year, bilateral trade between India and ASEAN was more than US$ 40 billion. India and

ASEAN have set an ambitious target of achieving bilateral trade of US$ 50 billion by 2010.

- Australia is keen to expand its bilateral trade and investment ties with India in the areas of food and beverages, travel and tourism, automotive sector and aerospace industry, according to Michael Carter, Counsellor Commercial, Australian Trade Commission.
- To capitalise on the strengths of India, which tops the chart of ten most attractive destinations for offshoring and IT, Chile signed a memorandum of understanding (MoU) with NASSCOM on March 20, 2009. Chile also hopes to double bilateral trade with India in the next five years.
- India and the United Kingdom have agreed to increase FDI flows between the two nations and have decided to increase bilateral co-operation in the areas of manufacturing, innovation and green technologies. At a meeting of the Indo-UK Joint Economic & Trade Commission (Jetco), both countries agreed on the need to further improve the regulatory environment and boost trade and investment flows.

Foreign Trade Policy

Announcing the foreign trade policy for 2009-14, Mr Anand Sharma, Union Minister of Commerce and Industry, has set a policy objective of achieving an annual export growth of 15 per cent with an annual export target of US$ 200 billion by March 2011. The new policy provides for duty-free import of capital goods, extension of the duty refund scheme, and lower transaction costs for exporters, with a view to boost exports and double outbound sales of goods and services in five years.

Some of the highlights of the policy are:

- The Duty Entitlement Passbook scheme, which neutralises the incidence of Customs duty on the import content of export products, has been extended by a year to December 2010.
- The new policy exempts exporters from paying fees for availing incentives under export development schemes.
- The Export Credit Guarantee Corporation Scheme, which provides credit risk insurance cover to exporters, will continue at least till March 31 next year.
- To protect small and medium exporters, who are unable to seek expensive legal help for foreign markets, a Directorate of Trade Remedy Measures will be set up.
- The government of India will be reviewing its FDI rules twice a year from fiscal year 2011. Releasing a compendium of all 177 FDI-related press notes for comments from the public, Mr Anand Sharma, Union Minister of Commerce and Industry said, "A new press note on regulatory framework would be issued every six months which will incorporate and reflect all the changes in the regulations."

Government Initiatives

The government has taken several measures to boost exports during the global meltdown.

- The Election Commission (EC) has cleared the government's decision to allow zero duty import of raw and refined sugar under the open general license scheme.
- Giving major relief to Indian shrimp exporters, the US Customs and Border Protection (CBP) has withdrawn the customs bond requirement imposed in 2004. This will be effective from April 1, 2009.
- The government has allowed companies located in SEZs to claim service tax refund for services availed outside the tax-free export zones.
- A notification issued by the Directorate General of Foreign Trade (DGFT) has said that import of toys from China would be allowed if it was accompanied by a certificate that the toys conformed to certain international quality standards.
- To facilitate foreign investment, the government has recently approved formation of an investment promotion firm 'Invest India' that will partner with the states and the industry to ensure hassle-free entry for foreign investors.
- In a move that will simplify and speed up external commercial borrowings (ECB) transactions, the RBI has allowed banks to make changes in the drawdown or repayment schedules as long as the average maturity of the loan remains the same.

Domestic Investments

India's economy has been witnessing steady growth since the last decade. It has been holding its ground at an average of 5-6 per cent and is expected grow at close to 7 per cent in the 2010 fiscal on the back of notable growth in the manufacturing and services sectors, according to Dr C Rangarajan, Chairman of the Prime Minister's Economic Advisory Council (PMEAC).

Indian companies planned investments worth nearly US$ 20.1 billion in January 2009, registering a rise of 36 per cent from January 2008 and the government has received investment proposals totalling US$ 11.1 billion in September 2009.

According to government data, electrical equipment and metallurgical industries and cement and gypsum industries lead in proposed investments. As of September 2009, investment intentions for the year for licensable and delicensed sectors taken together indicate a preference for electrical equipment, cement and gypsum and metallurgical Industries with investment of US$ 6 billion, US$ 1.2 billion and US$ 931.4 million respectively.

As of September 2009, Maharashtra, Andhra Pradesh and Gujarat were the leading states in terms of the number of industrial entrepreneurs memoranda (IEMs) filed. In terms of amount of proposed investment through IEMs, the three leading states were Chhattisgarh, Gujarat and Orissa.

For the period from January 2005 and September 2009, Orissa received proposed investments of US$ 30.01 billion, followed by Chattisgarh and Jharkand at US$ 18.25 billion and US$ 13.2 billion respectively.

Consultancy major Grant Thornton has said that a total of 267 merger and acquisition (M&A) deals were announced during 2009, for a total value of US$ 10.03 billion. The deal sphere was dominated by domestic deals with 142 domestic deals with an announced value of US$ 5.80 billion.

Among the major deals of the year was the merger of Reliance Industries with Reliance Petroleum. Other major acquisitions of the year included Tech Mahindra's acquisition of Satyam Computers for US$ 576 million in April 2009, mining firm Sesa Goa acquiring Dempo Mining Corp for US$ 350 million in June 2009 and mobile services company Sterling Infotech buying S Tel for US$ 230 million in June 2009.

Red herring prospectus for IPOs filed with the Securities and Exchange Board of India (SEBI) and fund-raising plans announced by listed companies to stock exchanges suggest that 129 companies intend to tap the capital market in 2010—companies have lined up equity raising plans of US$ 32.1 billion, close to two-and-a-half times of what they raised through share sales in 2009.

In 2009, 96 companies raised US$ 13.85 billion through qualified institutional placements (QIPs), initial public offers (IPOs) and right issues to existing shareholders.

Agriculture

Agriculture is one of the strongholds of the Indian economy and accounted for 15.7 per cent of the country's gross domestic product (GDP) in 2008-09. According to a Rabobank report, the agri-biotech sector in India has been growing at a whopping 30 per cent since the last five years, and it is likely to sustain the growth in the future as well. The report further states that agricultural biotech in India has immense potential and India can become a major grower of transgenic rice and several genetically engineered vegetables by 2010.

Production

India has become the world's largest producer across a range of commodities due to its favourable agro-climatic conditions and rich natural resource base.

India is the largest producer of coconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper. It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables.

According to the Centre for Monitoring Indian Economy (CMIE), crop production is expected to rise by 1.7 per cent during FY 10 and foodgrain production is expected to increase by 1.1 per cent and wheat production is projected to remain at the same level of 80 million tonnes as estimated for FY 09 while rice production is projected to increase by 1.1 per cent to 98.8 million tonnes. Production of coarse cereals and pulses is also expected to rise in FY 10.

According to government data, wheat acreage has gone up marginally to 27.75 million hectares by February 4, 2010, compared to 27.58 million hectares in the same period last year. The acreage under pulses (gram, lentil, urad, moong) has gone up to 13.74 million hectares, compared to 12.95 million hectares in the same period last year.

Cotton production in India, the world's second-largest producer, may rise 10 per cent to about 32 million bales (one bale is equal to 170 kg) in the 2009-10 season (October-September), on the back high support price and more sowing of high-yielding Bt seeds.

India's coffee output is pegged at 310,000 tonnes in 2009-2010, 4.4 per cent higher compared to 2008-09, according to the post-blossom estimates released by the Coffee Board. If the actual output in 2009-10 matches estimates, India is likely to climb up in the ranking list of top 10 coffee-producing countries in the world. According to the International Coffee Organisation (ICO), India has a bright chance of becoming the fifth largest coffee producer in the world, replacing Mexico. Currently, it is placed in the sixth position.

Exports

According to the government's agri-trade promotion body, Agricultural and Processed Food Products Export Development Authority (APEDA), India's exports of agricultural and floricultural products, fruits and vegetables, animal products and processed food products was worth US$ 7.98 billion in 2008-09, an increase of 13.88 per cent from US$ 7.01 billion in 2007-08.

India's agri-export turnover is expected to double in the next five years, according to APEDA. Agri-export turnover is set to rise to nearly US$ 18 billion by 2014.

At present, around 70 per cent of the country's agricultural and processed food exports are to developing countries in the Middle East, Asia, Africa and South America.

Indian seed companies, such as J K Seeds, Namdhari Seeds, Nuziveedu Seeds, Nath Seeds, Rasi and Vibha Seeds, are eyeing the export markets in SAARC (South Asian Association for Regional Cooperation) and African countries with a host of hybrid seeds and best farm practices. The seed producers, who are seeking to expand their horizons, are cashing in on the poor market infrastructure in East and West African countries and the appetite for hybrid seeds in the SAARC region.

Investments

- India is expected to spend around US$ 14.05 million for the development of organic spices, particularly turmeric, chilli, and ginger, by 2012.
- Vibha Seeds Group has invested US$ 43.01 million in setting up a multi-crop seed processing facility at Janampet in Mahboobnagar district of Andhra Pradesh.
- Karnal Agriculture Industries limited (KAIL), the fourth largest manufacturer and exporter of disc blades in the world, will invest US$ 21.50 million in both forward and backward integration projects.
- The National Cooperative Development Corporation (NCDC), a statutory corporation under the Union Ministry of Agriculture, is to take up programmes worth US$ 684.81 million during the year 2009-10. For the 11th Plan Period, a programme with an outlay of US$ 4.07 billion has been chalked out by NCDC for various cooperative development programmes in the country.

Government Initiatives

In Budget 2010-11, the Finance Minister, Mr Pranab Mukherjee has made the following announcements for the agriculture sector:

- Provision of US$ 88.02 million to increase the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern Uttar Pradesh, West Bengal and Orissa
- Provision of US$ 66.02 million to organize 60,000 pulses and oil-seed villages in rain-fed areas in 2010-11 and to provide an integrated intervention for water harvesting, watershed management and soil health to improve productivity of the dry land farming areas
- (Banks have been consistently meeting the targets set for agricultural credit flow in the past few years.) For the year 2010-11 the agricultural credit flow target has been set at US$ 82.53 billion
- The one-time bank loan waiver of nearly US$ 14.6 billion to cover an estimated 40 million farmers was one of the major highlights of the 2008-09 Budget. Under the Agricultural Debt Waiver and Debt Relief Scheme (2008), farmers having more than two hectares of land were given time up to June 30, 2009 to pay 75 per cent of their overdues. In the 2009-10 Budget, the time frame was extended by six months up to December 31, 2009. This has been further extended till June 30, 2010.

- In addition to the 10 mega food park projects already being set up, the government has decided to set up five more
- External commercial borrowings are now available for cold storage for preservation or storage of agricultural and allied products

A number of other initiatives are already in place for the agriculture sector.

- The government has already approved 60 Agricultural Export Zones (AEZs)
- The National Food Security Mission was launched in 2007, with an outlay of US$ 979.51 million over the 11th Plan (2007–2012). It aims at enhancing the production of rice, wheat and pulses by 10 million tonnes, 8 million tonnes and 2 million tonnes respectively, by the end of the 11th Plan
- Services related to agro and allied sectors have been thrown open to 100 per cent foreign direct investment (FDI) through the automatic route
- The Cabinet has approved 2 per cent interest subsidy on bank loans taken by farmers. The subsidy would cost the exchequer about US$ 826 million in the fiscal year 2009-10
- The Planning Commission has approved the US$ 66 million Rukura medium irrigation project (MIP) in Sundergarh district of Orissa. The project is targetted to be completed by 2014.

Road ahead

With the government's increased focus on the sector, agriculture is set to play a more dynamic role in the economy.

Agriculture credit is likely to touch US$ 67.14 billion for the year 2009-10. In 2008-09, agriculture credit flow stood at US$ 59.3 billion.

Manufacturing

India is fast emerging as a global manufacturing hub. India has all the requisite skills in product, process and capital engineering, thanks to its long manufacturing history and higher education system. India's cheap, skilled manpower is attracting a number of companies, spanning diverse industries, making India a global manufacturing powerhouse. India with its vast design skills has attracted a lot of outsourcing technological orders.

According to a United Nations Industrial Development Organization (UNIDO) analysis based on 2007 figures mentioned in the International Yearbook of Industrial Statistics 2009, India ranks among the top 12 producers of manufacturing value added (MVA). In textiles, the country is ranked fourth after China, USA and Italy, while in electrical machinery and apparatus, it is ranked fifth. It holds sixth position in the basic metals category; seventh in chemicals and chemical products; 10th in leather, leather products, refined petroleum products and nuclear fuel; twelfth in machinery and equipment and motor vehicles.

India's manufacturing sector is on an uptrend with the majority of sectors recording positive trends in the first half of fiscal year 2009-10, as compared with the corresponding period in 2008-09, according to a Confederation of Indian Industry (CII) survey. The buoyant manufacturing growth in the first half is led by a rise in production of basic goods, intermediate goods and consumer durables.

Quarterly estimate of GDP for July-September (Q2) 2009-10, according to data released by the Central Statistical Organisation (CSO), for manufacturing stood at US$ 46.42 billion at current prices, 9.4 per cent higher than during the same period in 2008-09.

The Indian economy clocked a robust 7.9 per cent growth in the second quarter (Q2) ended September 2009, catapulted by a stimulus packages-powered strong industrial growth. Manufacturing sector grew by 9.2 per cent in Q2 of 2009-10 against 4.9 per cent in Q2 of 2008-09, according to the latest CSO estimates available on the Index of Industrial Production (IIP).

Growth Trends

Major indicators Nomura's Composite Leading Index (CLI), UBS' Lead Economic Indicator (LEI) and ABN Amro' Purchasing Managers' Index (PMI), variety of indices that track activity in vital economic sectors, indicate an upward trend in economy owing to growth in the manufacturing sector.

The HSBC Markit Purchasing Managers' Index (PMI), the most reliable indicator of manufacturing activity in the country based on a survey of 500 companies, climbed to its highest level in one-and-half years to 57.6 in January, 2010. The index had stood at 55.6 in December 2009.

Companies reaped the benefit of increasing new orders which led them to step up their production levels. According to the HSBC Markit report, Indian manufacturers sharply raised their output levels during the month in line with the increase in new orders and the latest gains have been above the pre downturn averages.

"The pick-up in exports is extremely heartening and it does point towards a sustainable trend of growth in manufacturing. Growth in industrial output will stay in double digits till the end of this financial year (2009-10) and the encouraging bit is that the composition of lead indicators of the economy are now becoming more and more broad- based," said Jyotinder Kaur an economist with HDFC.

Exports from special economic zones (SEZs) rose 33 per cent during the year to end-March 2009, far outpacing the country's overall exports growth of just 4 per cent, according to the Commerce Department. According to the data, exports from such tax-free manufacturing hubs totalled US$ 18.16 billion last year. Between April to June 2009, exports from SEZs totalled US$ 8.7 billion.

- LG is looking at making India its global manufacturing hub for its mobile handsets. The company will soon be exporting mobile phones to Europe and the Commonwealth Independent States (CIS) from India.
- Luxury brands like Louis Vuitton and Frette are looking at India as a manufacturing base for their products.
- Aircraft manufacturer, Airbus is considering India as one of the key centres for design and development of its long haul A 350 plane.
- Samsung plans to invest US$ 100 million over a period of four years in its manufacturing plant near Chennai and make it its global hub.
- Hyundai has made India the manufacturing and export hub for its small cars. The i10 is being manufactured only in India and exported to the world. India is Hyundai's largest base outside Korea.
- Suzuki too is making India its manufacturing hub for small cars. The Ritz is being manufactured solely in India and exported to Europe.
- Taiwan-based Feng Tay Group which is setting up a US$ 61.5 million footwear manufacturing unit in its own SEZ in Tamil Nadu plans to invest an additional US$ 41 million.
- Panasonic India plans to invest US$ 100 million in its new plasma TV production facility in 2011.
- GE Healthcare is drawing up plans to grow its India business and develop the country as a global hub for manufacturing low-cost medical devices.
- Volkswagen AG will make India a low-cost manufacturing hub catering to select export markets. Volkswagen will export from the second quarter of next fiscal fully-built models and completely knocked-down kits of its hatchback, Polo, to South East Asia, Middle East and Africa from its Pune plant.

The Road Ahead

The rapid growth of the Indian economy is likely to make India the fifth largest consumer market in the world by 2025 from twelfth in 2005, according to a study by McKinsey Global Institute. Aggregate Indian consumer spending is likewise estimated to more than quadruple to approximately US$ 1.5 trillion by 2025, on the back of a ten-fold increase in middle class population and a three-fold jump in household income.

The manufacturing sector is estimated to have a US$ 180-billion investment opportunity over the next five years, according to the Investment Commission of India.

Infrastructure

The country's infrastructure sector accelerated by 5.3 per cent in November 2009, backed primarily by growth in steel and cement production in the month. The six core sectors, which contribute 26.7 per cent to the overall Index for Industrial Production (IIP), had grown 0.8 per cent in the corresponding month of 2008. Finished (carbon) steel production grew at the highest rate—11.7 per cent—during the month, against a decline of 6.3 per cent in the corresponding period of 2008. Cement production also picked up to post a growth rate of 9 per cent in November, marginally up from 8.7 per cent in the month in 2008. Production of petroleum refinery products also grew by 4.9 per cent on a year on year basis, as against a contraction of 1.1 per cent in the year ago period.

Infrastructure investment in India is set to grow dramatically. India has become a major outbound investor and people are engaging with Indians to seek investment into their countries, said the Minister for Road Transport and Highways, Mr Kamal Nath, in Davos. According to investment banking company Goldman Sachs, India's infrastructure sector will require US$ 1.7 trillion investment in the next 10-years. It also added that such investment would come more from the domestic market than overseas.

Furthermore, India is likely to emerge as a major hub for production of quality steel products, according to Ratan Jindal, vice-chairman, managing director and CEO of Jindal Stainless Steel (JSL). The International Steel Exhibition 'Indinox', to be held at Ahmedabad in January, will portray India as a major destination for manufacturing steel products. The domestic demand, especially from the railways, and varied use of stainless steel, will also act as a catalyst in growth of the steel industry in India.

Notably, truck sales, a key indicator of goods movement, zoomed by an astronomical 201.1 per cent in December 2009. According to data released by the Indian Foundation for Transport Research and Training (IFTRT), though April-December truck sales rose by 11.9 per cent, the normally weak offtake month of December belied all calculations by registering a 201.09 per cent jump in the sales of trucks in the 5-49 tonne range and operating on intra-state, countersigned inter-state and on national permit routes.

Meanwhile, the public private partnership appraisal committee (PPPAC) has given its nod for the proposed US$ 806.4 million mega container terminal at the Chennai port. The port trust is likely to award the project by March 2010. The project would be developed in phases between 2013 and 2018. The Tuticorin Port Trust (TPT) is planning to award projects worth US$ 371 million over the next two years. The proposed investment would enable the port to increase its cargo handling capacity by another 20 million tonnes.

Safexpress, one of the largest supply chain and logistics Companies in India, has launched its ultra-modern logistics park in Pune. This is company's ninth warehouse in India.

The Rajasthan State Industrial and Investment Corporation Limited (RIICO) has signed a memorandum of understanding (MoU) with Container Corporation of India Limited (Concor) to set up a US$ 75.23 million multi-model logistic park (MMLP) in the state. The park would have facilities for a container yard, a modern container handling system, cargo handling, warehousing, etc.

Ports

India's logistics sector is witnessing increased activity—the country's major ports have posted a 12.8 percent year-on-year (y-o-y) rise in cargo volumes in November 2009. The Public Private Partnership Appraisal Committee (PPAC) has approved four projects worth over US$ 897.7 million to be developed through the public-private partnership (PPP) mode in a move to boost capacity at the major ports in the country. The four port projects have been cleared by a panel headed by Mr Ashok Chawla, Finance Secretary. These include projects for development of a mega container terminal at the Chennai Port, a project to develop a multi-purpose berth at the Paradip Port in Orissa, development of the second North Cargo Berth at Tuticorin Port in Tamil Nadu and development of a container terminal at the New Mangalore Port.

The Cabinet Committee on Infrastructure (CCI) has approved a proposal to develop the fourth container terminal at the Jawaharlal Nehru Port (JNPT), the country's busiest port, at an estimated cost of US$ 1.44 billion. The government also cleared a proposal to build standalone container handling facility at Mumbai port at a cost of US$ 129.6 million. The project would be implemented within two years from the date of the award of the project. Meanwhile, cargo handled by the major ports in the country, a key indicator of economic activity, grew for the fifth consecutive month at 49.1 million tonnes (MT) compared to 45.3 MT in the corresponding month last year. According to data from the Indian Ports Association (IPA), for the third quarter ended December 2009, the major ports have registered cargo growth of 10.7 per cent compared to the same period last year, while sequential growth has been 9.7 per cent.

Airports

Flying high on strong economic recovery, domestic air travel has made a comeback in 2009, with traffic registering an increase of 7.9 per cent over the previous year. The increase to 44,510,000 flyers in 2009 came on the strong revival in traffic since July 2009. Jet and Kingfisher operated over 70 percent of their fleet with budget airlines. The combined market share of IndiGo, SpiceJet, JetLite and Go Air was 38.5 per cent.

Mumbai Airport posted its highest ever monthly passenger traffic in its history in December 2009. According to Mumbai International Airport (MIAL), the Chhatrapati Shivaji International Airport (CSIA) saw a record 2.53 million passengers in December 2009. This number is the highest-ever passenger volume handled by the airport in its history, with the previous high standing at 2.38 million passengers in January 2008.

The government has mandated MIAL with the task of upgrading and modernising CSIA, which is a joint venture between the Airports Authority of India and the GVK-SA consortium.

Railroads

Indian Railways' revenue earnings have increased by 8.74 per cent to an estimated US$ 11.97 billion during April-November 2009, compared with US$ 10.29 billion during the same period last year. Total earnings from goods traffic went up by 8.56 per cent to US$ 8.04 billion during April-November 2009 from US$ 6.92 billion during April-November 2008. During this period, the Railways carried 574.38 MT of revenue freight traffic, registering an increase of 7.44 per cent over the 534.6 MT carried during the corresponding period last year. During the first eight months of the financial year 2009-10, total passenger revenue earnings increased by 8.01 per cent to US$ 3.36 billion from US$ 2.91 billion during the same period last year.

According to the Department of Industrial Policy and Promotion (DIPP), the foreign direct investment (FDI) inflow into railways related components has been US$ 77.49 million from April 2000 to September 2009. A quarterly estimate for Q2, 2009-10 for railways by the Central Statistical Organisation suggests growth rates at 11.2 per cent and 6.3 per cent for net tonne km and passenger km, respectively.

Roads

The CCI has approved the widening of over 445 km of national highways at an estimated cost of US$ 950 million, which will be undertaken by the National Highways Authority of India (NHAI) in the design-build-finance-operate-transfer (DBFOT) mode.

One of the projects is four-laning of 83.85 km Godhra-Gujarat/Madhya Pradesh border section on National Highways in Gujarat (total project cost is estimated at US$ 156.55 million; concession period is 27 years, including a construction period of 30 months). Besides, the Government would also meet the expenditure amounting to US$ 24.5 million for land acquisition and other pre-construction activities for the project.

The CCI gave its nod to for a six-laning project of 54.83 km stretch on the Chengapalli to start of Coimbatore bypass section and four-laning of 13 km on the end of Coimbatore bypass to Tamil Nadu/Kerala border section. The total project cost is estimated at US$ 186.2 million, with a concession period of 27 years. Another approval was for a project to four lane 155.15 km Indore-Jhabua-Gujarat/Madhya Pradesh border section. The total project cost is estimated at US$ 256.55 million after restructuring under the

DBFOT pattern. The concession period is for 25 years, including a construction period of 30 months, said an official release.

The CCI also gave its nod to implement four-laning of Haridwar-Dehradun on DBFOT basis in annuity mode. The total project cost is estimated at US$ 104.4 million.

Another project to be implemented is four-laning of 80 km stretch on Muzaffarnagar-Haridwar. The total project cost is estimated at US$ 164.6 million, with a concession period for 25 years, including a construction period of 910 days. The sixth project is four-laning 65.07 km long section of Goa/Karnataka Border to Panaji (Goa). The total project cost is estimated at US$ 102.8 million under the DBFOT pattern.

Anil Dhirubhai Ambani Group (ADAG)'s flagship company Reliance Infrastructure Ltd (R-Infra) won a US$ 218.3 million road project from the Gujarat government, within a week after winning the US$ 380 million Pune-Satara Road project from the National Highway Authority of India (NHAI). The project is to execute a 71 kilometre four-six lane corridor connecting the ports of Mundra and Kandla in Gujarat. The project has to be completed by December 2012 on a DBFOT (toll) basis with a concession period of 25 years.

Recently, the elevated expressway between Silk Board junction and Electronic City junction, built for US$ 165.5 million, was opened to public use. A consortium comprising Soma Enterprise Ltd, Nagarjuna Construction Company and Maytas Infra Ltd constructed the 9.985 km long elevated road project. The project, executed through a special purpose vehicle, Bangalore Elevated Tollway Ltd, was built on a build operate transfer basis for the National Highways Authority of India. The consortium has set up a highway traffic management system comprising of CCTV surveillance of the roads, automatic traffic counters and classifiers, meteorological stations, variable message signs and emergency call boxes for the road users. The consortium will operate and maintain the roads in the stretch between Silk Board junction and inter-state border for the next 18 years.

Investments

- Larsen & Toubro (L&T), the country's largest engineering company, will invest around US$ 5.46 billion to build its thermal power business in the next five years. L&T Power, the wholly-owned subsidiary of L&T, will have a generation capacity of 5,500 MW, including hydro power, by 2015. Larsen and Toubro Ltd also formed a Joint Venture with Malaysia-based SapuraCrest Petroleum to install pipelines and construct offshore rigs and platforms in India, the Middle East and South East Asia.
- Maersk India, part of the A.P. Moller-Maersk Group of Denmark, inaugurated its container freight station (CFS) at Ponneri, around 25 km north off Chennai. It has invested around US$ 10 million in the

CFS, which will provide storage and 'stripping' of laden import containers and consolidation of export cargo, according to Mr Hans-Henrik Skonning Hansen, South Asia Cluster Manager, Maersk India.

- Corus, a subsidiary of Tata Steel, has decided to invest US$ 50.38 million pounds at its rail production facility in Hayange, France. The move has come after the Europe's second largest steel maker secured contract worth US$ 503.79 million from the French railway operator SNCF.
- York Transport Equipment, the Singapore-based axles/suspensions maker for heavy commercial vehicles and part of the Tata group, will soon set up a second plant in India. It already has one in Jamshedpur and is now on the lookout for a site in south-west India to set up a facility with a capacity of 100,000 units. York was acquired by TRF, a Tata company specialising in material handling equipment, in 2007. It has units in Singapore, Australia and China with operations across half a dozen countries.
- Swiss cement company Holcim plans to invest US$ 1 billion in setting up 2-3 greenfield manufacturing plants in the country in the next five years to serve the rising domestic demand, according to a senior company executive.
- Tata Power has lined up investments of US$ 5.19 billion for its upcoming plants in Mundra, Maithon and Jojobera over the next three years. Tata Power and Reliance Power are coming up with UMPPs with a combined generation capacity of close to 16,000 MW. Jindal Steel & Power, which has a production capacity of 1,000 MW, plans to add another 4,380 MW thermal power and 6,100 MW hydro power capacity in the next five years. With this expansion as planned core sector engineers are required for boiler, turbine and pump operations, and to also take care of the logistics.

According to the Central Electricity Authority (CEA), the country will require manpower of around 800,000 to keep the growth engine running over the next decade. The industry is likely to require around 40,000 engineers for core sectors such as electrical, mechanical and instrumentation every year since the average manpower-to-MW ratio here is close to 0.75.

Government Initiatives

The Government of India has envisaged capacity addition of 100,000 MW by 2012 to meet its mission of power to all.

Recently, a ministerial group discussing large power plants with a capacity to generate 4,000 MW of power has approved, in principle, a proviso requiring such plants that will be awarded in the future to use local power generation equipment. The move is expected to provide a fillip to domestic manufacturing. The decision on so-called ultra mega power plants, or UMPPs, will also benefit domestic power generation equipment manufacturers such as state-owned Bharat Heavy Electricals Ltd (Bhel) and Larsen and Toubro Ltd (L&T), which has a joint venture with Mitsubishi

Heavy Industries Ltd (MHI) of Japan. At least three joint ventures, between Toshiba Corp. of Japan and JSW Group; Ansaldo Caldaie SpA of Italy and GB Engineering Enterprises Pvt. Ltd; and Alstom SA of France and Bharat Forge Ltd are looking to start manufacturing power equipment in India.

The Uttar Pradesh government has signed memorandum of understanding (MoU) with Lanco Infratech Limited and Bajaj Hindusthan Limited for generation of 2,400 mega watt (MW) power in the state. Under the terms and conditions of the MoU, Lanco would generate 1,320 MW and 660 MW power in Fatehpur and Anpara respectively, while Bajaj Hindusthan would generate a total of 400 MW power at its five sugar mills in the state. Bajaj is the largest sugar producer in the country and controls 16 mills in UP. The state government is targeting a total power generation capacity of 25,000 mega watt (MW) by the end of the next 12th Five-Year Plan.

The Asian Development Bank (ADB) has approved a financial assistance for US$ 200 million under the Assam Power Sector Enhancement Investment Programme. The project has some innovative features like franchisee-based distribution, off grid electrification with renewable energy, reduction in CHG emissions through efficiency gains.

The road transport and highways ministry has proposed priority sector status for road development, allowing private highway developers more funds from banks.

Power

As the Indian economy continues to surge ahead, its power sector has been expanding concurrently to support the growth rate. The demand for power is growing exponentially and the scope for the growth of this sector is immense.

According to the Central Electricity Authority (CEA), India's total installed capacity of electricity generation has expanded from 105,045.96 MW at the end of 2001–02 to 156,092.23 MW at the end of December 2009. In fact, India ranks sixth globally in terms of total electricity generation.

Source-wise, at the end of December 2009, thermal power plants accounted for an overwhelming 64 per cent of the total installed capacity, producing 99861.48 MW. Hydel power plants come next with an installed capacity of 36,885.40 MW, accounting for 23.60 per cent of the total installed electricity generation capacity.

Besides thermal and hydel power, renewable energy sources contribute 9.80 per cent to the total power generation in the country producing 15,225.35 MW.

Nuclear energy makes up the balance 2.60 per cent, contributing 4,120 MW.

Growth Potential

According to a report by KPMG and CII, released in December 2007, India's energy sector will require an investment of around US$ 120 billion-US$ 150 billion over the next five years.

The government has revised its target of power capacity addition to 92,700 MW in the 11th Five Year Plan (2007-12), from the earlier estimate of 78,577 MW (as of June 2007) to sustain the growth momentum of the economy.

Further, according to Planning Commission estimates, renewable energy (RE) projects worth US$ 16.50 billion, for the generation of 15,000 MW power, would come up in the 11th Plan.

Moreover, the government has earmarked a total capital subsidy of US$ 6.88 billion for providing electricity connections and for the distribution of infrastructure to rural households.

Public sector power major National Thermal Power Corporation (NTPC) is planning scale up its capacity from the present 30,000 MW to 75,000 MW by 2017.

India has launched its ambitious solar energy mission which aims to generate 20,000 MW of solar power by 2022.

Nuclear Power Generation

Subsequent to the Indo-US nuclear deal and India getting clearance from the Nuclear Suppliers Group (NSG), nuclear power generation is likely to provide an opportunity of US$ 10 billion in the next five years, according to a JP Morgan estimate.

Since the Indo-US nuclear deal, India has signed a crucial civil nuclear agreement with Mongolia for supply of uranium to New Delhi. In November 2009, the Indo-French civil nuclear agreement was unanimously adopted by the French Parliament, paving way for companies to build nuclear power plants in India. India has also signed a civil nuclear pact with Argentina and has reached an agreement on civil nuclear cooperation with Canada. In December 2009, Russia and India signed an agreement to expand nuclear cooperation. Recently, Britain and India have reached an outline agreement on nuclear energy cooperation and are looking at expanding ties in defence manufacturing.

- Hindustan Construction Company (HCC) has signed a memorandum of understanding (MoU) with the international engineering and project management company AMEC plc, to jointly explore the application of consulting and EPC services for the establishment of nuclear power plants in India.

- The Central government has finalised six 1,000 MW nuclear power units at Mithivirdi in Gujarat, involving an investment of US$ 12.8 billion.
- Indian Oil Corporation Ltd (IOCL) has signed a memorandum of understanding (MoU) with the Nuclear Power Corp of India (NPCIL) for setting up of a US$ 2.2 billion nuclear power plant.

Investments

According to research by Venture Intelligence, India's power sector is set to emerge as a key destination for private equity (PE) players to make investments, with close to US$ 1.64 billion worth of infrastructure funds, mainly in power, awaiting their launch.

- National Hydroelectric Power Corporation (NHPC), the country's largest hydel power producer, will develop the 1,500-MW Tipaimukh hydropower project in the north-eastern state of Manipur at an investment of US$ 1.7 billion.
- More than US$ 15.4 billion worth of investments have been lined up for various power projects in Maharashtra, it was announced by Mr Subrat Ratho, Maharashtra Power Secretary.
- Torrent Power Limited, has dedicated the country's biggest gas-based power project of 1,147 MW capacity near Surat and is further scaling up generation capacity of its plant by adding another 3,400 MW in the next five years.
- Larsen & Toubro (L&T) will invest around US$ 5.36 billion to build its thermal power business in the next five years. L&T Power, the wholly-owned subsidiary of L&T, will have a generation capacity of 5,500 MW, including hydro power, by 2015.
- Bonfiglioli Transmissions, the 100 per cent subsidiary of the Italian Bonfiglioli Group, which manufactures new generation industrial power transmission products plans to invest US$ 8.58 million within six months.
- Gujarat-based Adani Power Ltd (APL) will set up a coal-based thermal power project of 1320 MW in Chhindawara district in Madhya Pradesh.
- JSW Energy, part of the JSW Group, plans to scale up its capacity to 11,390 MW which entails an investment of over US$ 10.72 billion over the next five years.
- NTPC will incur US$ 6.32 billion in the next fiscal to build additional capacity of 4,500 MW.

Government Initiatives

The government has taken several proactive steps to open the sector for the private players and realise the full potential of the country in the power sector.

- Introduction of the Electricity Act 2003 and the notification of the National Electricity and Tariff policies.
- Constitution of Independent State Electricity Regulatory Commissions in the states.
- Allowing the private sector to set up coal, gas or liquid-based thermal projects, hydel projects and wind or solar projects of any size.
- Allowing foreign equity participation up to 100 per cent in the power sector under the automatic route.
- Allowing 100 per cent foreign direct investment (FDI) in the Indian power sector (except nuclear).
- Allowing 100 per cent foreign direct investment (FDI) in the renewable energy sector.
- Providing income tax holiday for a block of 10 years in the first 15 years of operation and waiver of capital goods' import duties on mega power projects (above 1,000 MW generation capacity).
- The government has also taken up some ambitious programmes like the Ultra Mega Power Projects (UMPP), Rajiv Gandhi Grameen Vidhyutikaran Yojana (RGGVY), Accelerated Rural Electrification Programme and the goal of Power for All by 2012 among others, to rapidly increase the installed capacity.

Looking ahead

A study by consultancy major McKinsey estimates India's power demand to increase to 315 GW–335 GW by 2017, if India continues to grow at an average of 8 per cent in that time. This would require a five- to ten-fold rise in power production, entailing investments worth US$ 600 billion.

To fuel its rapidly growing economy, India is planning to get an additional 60,000 MW of electricity from various hydro-power projects by the end of 2025.

The government targets providing electricity for all by 2012. Under the Rajiv Gandhi Grameen Vidyutikaran Yojna, the Ministry of Power plans to electrify 120,000 villages in the current Five Year Plan (2007–12).

Moreover, the Ministry of Power and CEA have projected a total investment of US$ 4.31 billion for renovation and modernisation, as well as extending the life span of various old power plants during 11th and 12th Five-Year Plans. Of this, US$ 1.30 billion is planned for the 11th Plan and US$ 3 billion for the 12th Plan. Dec 30, check the figures once.

This would be over and above the investment of US$ 214.50 billion proposed for the capacity addition of 78,700 MW in the 11th Plan (2007-12) and US$ 235.95 billion to add over 94,431 MW in the 12th Plan.

Roads

India has the world's second largest road network, aggregating over 3.34 million kilometers (km).

According to the Planning Commission, the road freight industry will be growing at a compound annual growth rate (CAGR) of 9.9 per cent from 2007-08 to 2007-12. A target of 1,231 billion tonne km (BTK) has been put on road freight volumes for 2011-12.

According to Crisil Research estimates, Indian roadways is among the eight infrastructure sectors expected to draw more than US$ 337.49 billion investment in India between 2007-12. The report further forecasts that during the specified period, Indian roadways is likely to grow at an amazing 100 per cent.

According to industry sources, the road sector in the country would require an investment of US$ 80 billion in the next 3-4 years of which US$ 45 billion is anticipated from the private sector.

Growth Potential

The Indian government has launched the ambitious National Highway Development Programme (NHDP) involving a total investment of US$ 54.1 billion up to 2012.

In 2008-09 itself, the NHAI has infused US$ 4 billion in the NHDP.

It has also started the Bharat Nirman Programme that aims to cover every village having a population of over 1,000 or over 500 in hilly and tribal areas, with all-weather roads.

For the roads and bridges sector, the Eleventh Five Year Plan envisages a total investment of approximately US$ 78.5 billion over the five-year period starting from 2007-08.

As part of a larger plan to improve the country's infrastructure, the government has given the nod to 10 road projects which will be built in public-private partnership at an estimated cost of US$ 2.48 billion. The projects are aimed at four-laning of national highways in eight states.

According to the Press Information Bureau, in the third week of December 2009, the government approved four-laning 384 km of highways with an investment of US$ 673.88 million.

Moreover, in January 2010, the government approved road projects worth US$ 1.33 billion in five states for upgrading nearly 562 km of four-lane highways into six lanes, according to the Press Information Bureau.

The World Bank has agreed to provide a US$ 3 billion loan for developing national highways. The World Bank assistance will be utilised for converting 6,372 km of one-lane highways to two-lane, out of the total of 19,702 km of single lane highways in the country.

Private Sector Investments

- The Anil Dhirubhai Ambani (ADA) Group-promoted Reliance Infrastructure is aiming at a near five-fold increase in its roads portfolio to US$ 4.54 billion by 2012 from the US$ 950.78 million currently.
- GMR Highways, the road construction division of Bangalore-based infrastructure major GMR Infrastructure Ltd, is looking at an investment of US$ 423.12 million in the next two-three years to develop various road projects in the country.
- IVRCL Infrastructure & Projects Ltd has received a road project in Madhya Pradesh worth US$ 335.71 million from the National Highways Authority of India.

Public Private Partnership

Many road projects with public-private partnerships (PPP) are also on the anvil.

The Public-Private Partnership Appraisal Committee (PPPAC) has approved 15 highway projects worth US$ 3.23 billion. Since its constitution in January 2006, the panel has approved 116 projects costing US$ 23.9 billion.

The CCEA has also given its approval for four-laning of National Highways in Kerela and Tamil Nadu. The projects, involving a cumulative cost of US$ 1.6 billion, will be executed under the PPP mode.

National Highways Authority of India (NHAI), the apex road development agency, has planned to six-lane 6,500 kms of the Golden Quadrilateral and other high density corridors by 2012 under NHDP-V. It has already awarded five projects with a length of about 900 km to private developers.

Government Initiatives

- Allowing 100 per cent foreign direct investment (FDI) under the automatic route in all road development projects.
- With incentives like 100 per cent income tax exemption for a period of 10 years, the NHAI provides grants/viability gap funding for marginal projects, and formulation of model concession agreements among others.
- Investors in identified highway projects permitted to recover investment by way of collection of tolls for specified sections and periods.

- The government has also announced an increase in the overseas borrowing amount of infrastructure sectors, to US$ 500 million from US$ 100 million.
- In order to tide over the shortage of funds, the road transport and highways ministry has proposed priority sector status for road development, allowing private highway developers more funds from banks.

Looking Ahead

According to a consultation paper by the Planning Commission, investment in the roads sector during the Eleventh Plan is projected at US$ 93.11 billion. According to a KPMG report, investments of the order of US$ 500 billion are expected to take place in the coming years for developing roads and infrastructure in India.

The Asian Development Bank (ADB) is extending a US$ 420 million loan to the Indian state of Bihar for the upgradation and expansion of the state highway network, over a period of 25 years.

Further, the roads of Delhi will be getting a facelift, keeping the 2010 Commonwealth Games in mind. The Municipal Corporation of Delhi (MCD) plans to spend a massive US$ 1.24 billion for the year 2009-2010 for upgrading the city's roads and infrastructure.

Moreover, highway projects worth about US$ 23.65 billion will be executed in the country over the next three years, Minister of State for Road Transport and Highways RPN Singh has informed the Rajya Sabha.

Ports

The Indian coastline is dotted with 12 major ports and 187 minor ports. According to the Indian Ports Association, these major ports together handled a total of 519.24 million tonnes (MT) of cargo in 2007-08, an increase of 11.94 per cent over 463.78 MT handled in 2006-07. In 2008-09, cargo traffic at major ports increased to 530.4 MT.

During April to December 2009, major ports handled 411.95 MT, an increase of 5.14 per cent over the same period in 2008.

For the third quarter ended December 2009, the major ports in the country have registered cargo growth of 10.7 per cent compared to the same period last year, while sequential growth has been 9.7 per cent, according to data from the Indian Ports Association (IPA).

India is also likely to emerge as a major destination for container operations. The container trade went up to 7.2 million twenty-foot equivalent units (TEUs) by 2007 from 2.47 million TEUs in 2000.

The Indian shipbuilding industry comprising 27 shipyards—including eight public sector and 19 private sector shipyards—is on a roll driven by the booming maritime trade. According to an industry report, the shipbuilding sector has witnessed a 359 per cent increase in the turnover of shipyards from US$ 216.60 million to US$ 778.90 million in the last five years. By 2012, it is likely to corner around 3 per cent of the global share with an annual turnover of US$ 3.72 billion.

Minor ports are expected to add 610.85 MTPA capacity during the Eleventh Plan. A section of experts feels that new capacity could add up to one billion tonnes by 2011-12. Gujarat, Maharashtra and Andhra Pradesh are likely to drive the port capacity expansion of the country over the next five years.

Investments

According to the Planning Commission, there is an investment opportunity of US$ 25 billion by 2011-12 in India's shipping and ports sectors, as the country seeks to double its ports capacity to over 1,500 MT. Segment-wise, while ports sector would provide a US$ 13.75 billion investment opportunity, shipping and inland waterways are likely to present a US$ 11.25 billion-investment opportunity.

In a major thrust to expand capacity at important ports in the country, the Ministry of Shipping has awarded seven projects worth over US$ 387 million, to be developed through the public-private partnership (PPP) route.

In November 2009, another three projects worth US$ 1.66 billion were approved, to be developed through public-private partnership (PPP) mode.

Moreover, in January 2010, the Public Private Partnership Appraisal Committee (PPPAC) gave its nod for the proposed US$ 795.59 million mega container terminal at Chennai port. The port trust is likely to award the project by March 2010.

Major investments in the sector

- The JSW Group is planning to develop four ports along the Indian coastline. It will invest US$ 515.2 million for the Jaigarh port.
- The Aditya Birla group has signed a MoU with the Orissa government to develop a sea port at Chudamani in Bhadrak district on an investment of US$ 322.2 million.
- Essar Shipping Ports and Logistics, plans to invest US$ 1.5 billion for capacity expansion and hopes to achieve a turnover of US$ 838.8 million by 2012.
- Sembmarine Kakinada Limited (SKL), a joint venture between Singapore-based Sembawang Shipyard Pvt Ltd and Kakinada Seaports Ltd, will establish a shipyard at Kakinada port at an estimated cost of US$ 375 million. The facility will be developed over three to five years.

- The Tuticorin Port Trust (TPT) is planning to award projects worth US$ 364.77 million over the next two years. The proposed investment would enable the port to increase its cargo handling capacity by another 20 million tonnes.
- Adani Group arm Mundra Port and Special Economic Zone (MPSEZ) will develop non-LNG port facilities at Hazira in South Gujarat. Industry sources estimate MPSEZ to invest US$ 173.27 million in the first phase.
- State-owned Hindustan Shipyard plans to build a dockyard for large crude carriers at an estimated cost of US$ 649.77 million-US$ 866.36 million.

International interest in Indian Shipping Industry

Investment banks with primary focus on shipping such as the German Konig and Cie Asia Advisors Pvt. Ltd, DnB NOR Bank ASA from Norway and the world's largest shipping bank, HSH Nordbank, have all set up operations in India. Moreover, several overseas classification societies have also jumped on the 'let's-sail-to-India' bandwagon.

Classification societies such as Korean Register of Shipping and Germanischer Lloyd are the latest to set up shop in India. Moreover, global firms including Rio Tinto and Noble Group are interested in participating in India's US$ 11.5 billion port expansion projects.

India is becoming a favourite hunting ground for port and exim trade operators from western countries. Recently many foreign ports and their trade delegations have been doing the rounds of exim centers of the country looking for possible avenues for trading opportunities.

Government initiatives

- The Indian government has set up the National Maritime Development Plan (NMDP) to improve facilities at India's 12 major ports and it plans an expenditure of around US$ 12.4 billion.
- A further investment of over US$ 9.07 billion will be made for 111 Shipping Sector Projects by 2015.
- Hundred per cent foreign direct investment (FDI) under the automatic route is permitted for port development projects.
- Hundred per cent income tax exemption is provided for a period of 10 years for port developmental projects.
- Government has opened up all the areas of port operation for private sector participation.
- The Indian government is considering a US$ 2 billion package to help local shipping firms finance new vessel acquisitions as global lenders tighten up their purse strings.

Looking ahead

Traffic at the ports has been growing at a brisk pace and therefore, increasing cargo handling capacities of the ports is crucial to India. To meet this demand, India's ports are likely to increase cargo handling capacity to 1,855 MT by 2012 from the present 758 MT, with an investment of about US$ 20.61 billion, as foreign trade expands. Private firms are likely to invest about 65 per cent of this amount.

To achieve the projected traffic target of 615.70 MT to be handled at major ports by 2011-12, it is estimated that capacity of about 800.41 MT would be needed. Therefore, an additional capacity of around 403 MT has to be built up by 2011-12, against the current capacity of 397 MT.

Services

The services sector has been at the forefront of the rapid growth of the Indian economy, contributing nearly 63 per cent of the GDP in 2007-08. The sector has come to play an increasingly dominant role in the economy accounting for 59.6 per cent of the overall average growth in GDP in the last eight years between 2000-01 and 2007-08.

As per the Central Statistical Organisation, the services sector has continued to grow in the second quarter of 2009-10.

- Trade, hotels, transport and communication grew 8.5 per cent in July-September 2009 from a year earlier.
- Financing, insurance, real estate and business services grew at 7.7 per cent in July-September, 2009 from a year earlier.
- Community, social and personal services grew at 12.7 per cent in July-September, 2009 from a year earlier.

Indicators

Lead indicators suggest that the pace of expansion in the services sector activity is likely to be sustained even in the next financial year.

- Foreign tourist arrivals (FTAs) during calendar year 2009 were 5.10 million.
- Railways freight traffic increased to 833.03 million tonnes during fiscal 2008-09 from 794.21 million tonnes carried during 2007-08, an increase of 4.89 per cent.
- The number of telecom subscribers in the country increased to 562.21 million in December 2009, an increase of 3.5 per cent from 543.20 million in November 2009. With this the overall tele-density (telephones per 100 people) has touched 47.89.
- Cargo handled at major ports during April–December 2009 2010 has been 411.95 million tones as against 391.82 million tonnes in the corresponding period in the previous fiscal.

The prospects for growth in the Indian services sector continues to be robust, according to a survey by KPMG, conducted across the BRIC (Brazil, Russia, India and China) countries in the spring of 2009. The survey revealed that 31.3 per cent of Indian companies saw their activity levels improving. Around 37 per cent forecast new order growth in one year's time, compared with 16 per cent that anticipated a fall. Even capital expenditure at Indian services firms is anticipated to rise, with 43 per cent of companies saying they plan to increase spending on fixed assets.

According to a HSBC survey, business activity among Indian services companies expanded at its fastest pace in 16 months in January 2010, rising for a second straight month on a sharp increase in new work orders.

The HSBC Markit Business Activity Index, based on a survey of 400 firms, rose to 58.96 in January 2010, its highest since September 2008. (A reading above 50 represents expansion while anything below points to a contraction.)

According to a global investment banking report, Indian law firms have beat the world's biggest to emerge top legal advisors to global project deals. In the first half of 2009 India closed 36 projects valued at US$ 31.9 billion an increase of 158 per cent over the same period last year.

Moreover, India's education sector presents an investment potential of US$ 100 billion over the next five years according to sector experts. The growth potential in the sector is driven by increasing demand for skilled professionals and need for infrastructure development.

According to experts, the education sector could turn into one of the most preferred sectors for investment by venture capitalists and private equity players.

Exports

In recent years India has made rapid strides in services exports and has improved its share in worldwide exports from 1.2 per cent in 2000 to 2.7 per cent in 2008.

- Exports for software and Business Process Outsourcing (BPO) sectors are expected to touch US$ 50 billion in the current fiscal (2009-10), according to the National Association of Software and Service Companies (NASSCOM). For 2010-11, it hopes that IT and BPO exports should grow at an annual 13-15 per cent to touch US$ 56-57 billion.
- US-based healthcare companies are expected to send more information technology projects to India, in order to bring down their costs of operations, according to a study done by Offshoring Research Network (ORN).

- Despite global economic downtrend, the medical transcription (MT) industry is looking for a further growth buoyed by a NASSCOM report stating that recession has not hit the healthcare industry. As per a NASSCOM report, the MT industry will be worth US$ 798.1 million by 2010 and could employ as many as 50,000 people.

Investments

The services sector accounted for a huge 24.3 per cent of the total foreign direct investment (FDI) inflow in 2008. In actual terms, the FDI inflow to this sector has grown 32 times in the past five years from a mere US$ 214.78 million in 2004 to US$ 6.78 billion in 2008.

The services sector continues to remain the favourite destination for foreign investors as it attracted US$ 2.62 billion or 22 per cent of the total FDI in the first six months (April-September) of the 2009-10 fiscal.

Some of the major investments in the service sector include:

- Tata Consulting Services (TCS) has signed a five-year contract with Volkswagen Group, UK, to deliver IT transformation and support services.
- Chicago-based Global Hyatt Corporation has outsourced part of its financial and accounting transaction services to Genpact.
- The US$ 30 billion pharma company, AstraZeneca has outsourced its end-to-end maintenance services for a variety of corporate services (such as human relations, finance) to Bangalore-based Infosys.
- Sequoia Capital India has announced that it has invested US$ 8.3 million in Just Dial, a local search engine.
- DHL will invest US$ 10 million for two competence centres in Mumbai and Hyderabad.
- India's largest back office firm, Genpact, has acquired US-based analytics and data management services provider, Symphony Marketing Solutions (SMS).

Consumer Markets

According to a study by the McKinsey Global Institute (MGI), 'Bird of Gold': The Rise of India's Consumer Market, Indian incomes are likely to grow three-fold over the next two decades and India will become the world's fifth largest consumer market by 2025, moving up from its 2007 position as the world's 12th largest consumer market.

India ranks second in the Nielsen Global Consumer Confidence survey released on January 7, 2010—an indication that recovery from the economic downturn is faster in India with consumers more willing to spend. The survey showed that in addition to the emerging markets of Indonesia and India, eight of the top ten most confident markets in the fourth quarter of 2009 came from the Asia Pacific region.

Retail

Estimates by the Retailers Association of India (RAI), the apex body of organised, modern retailers, have shown that the country's US$ 21.05 billion organised retail segment has grown 20 per cent in the September quarter 2009-10.

Approximately 315 hypermarkets are expected to come into existence in tier-I and tier-II cities across India by the end of 2011, says a joint study by consultancy firm KPMG and industry body, Associated Chambers of Commerce and Industry of India (ASSOCHAM) named `Reinventing India's Retail Sector'.

The country's largest retailers—Future Group, Spencer's Retail and Shoppers Stop—have lined up investments of at least US$ 128.3 million for 2010.

Rural Consumers

As socio-economic changes sweep across India, the country is witnessing the creation of many new markets and a further expansion of the existing ones. According to Pradeep Kashyap, chief executive officer of MART Rural Solutions, speaking at the Calcutta Management Association Rural Marketing Meet, over 300 million people would move up from the category of rural poor to rural lower middle class between 2005 and 2025 and rural consumption levels are expected to rise to current urban levels by 2017.

Mega retail chains are looking to build a high-quality supply chain—retailers such as Bharti-Wal-Mart, Carrefour and Reliance are working to strengthen their supply chain formula by roping in farmers as stakeholders. Despite being the biggest names in the trade, these retailers are ploughing rural areas to teach innovative farming methods and find the best suppliers among them.

FMCG

According to a FICCI-Technopak report, despite the economic slowdown, India's fast moving consumer goods (FMCG) sector is poised to reach US$ 43 billion by 2013 and US$ 74 billion by 2018. The report states that implementation of the proposed Goods and Services Tax (GST) and the opening of Foreign Direct Investment (FDI) are expected to fuel growth further and raise the industry's size to US$ 47 billion by 2013 and US$ 95 billion by 2018.

The Ministry of Food Processing Industries is also planning to double the market size of the food processing industry to US$ 165.1 billion by 2009-10 and trebling it to US$ 271.8 billion by 2014-15.

Demand for personal care products such as shampoos, toothpastes and hair-oils grew faster in rural areas than urban areas during April-September 2009, a period that includes the peak monsoon months, as per the numbers released by market researcher AC Nielsen.

Luxury Products

The country's largest real estate developer, DLF, sold apartments worth US$ 219.1 million in December 2009—the company's highest monthly sales in its history. A large portion of DLF's sales are also from the luxury and semi-luxury segments. Many developers like DLF have seen a surge in the sale of apartments across the country in the quarter ended December 2009, particularly in the luxury and semi-luxury category. Developers are capitalising on this demand by offering more expensive and exclusive apartments.

The Indian car market is seeing big-ticket launches in sedans and sports utility vehicles (SUVs); new launches include those by Tata Motors, Toyota, Skoda, BMW, Mercedes, Renault, Mahindra and Jaguar.

Consumer Durables

A combination of changing lifestyles, higher disposable income, greater product awareness and affordable pricing have been instrumental in changing the pattern and amount of consumer expenditure leading to strong growth in the consumer durables industry.

Companies such as LG Electronics India Ltd (LGEIL), Samsung India and Whirlpool are reporting strong sales figures. Samsung has posted a growth of nearly 80 per cent in its refrigerator category. In 2009, overall industry sales of LCD televisions grew by 93-94 per cent over the earlier year. Multimedia mobile phones have grown from 800,000 units in 2008 to 1.8 million in 2009.

Japanese consumer durables company Panasonic expects to double its sales in India to US$ 945.09 million in the 2010 fiscal and subsequently expects the contribution from the country to its global business to increase by 10 per cent by 2014.

Automobiles

The year 2009 saw the Indian automobile industry post significant export growth and launch new models for the domestic market, bucking the trend of most global automobile majors in the year. Experts maintain that during 2009, the car market grew 15 per cent over the previous year and that similar numbers were expected for 2010.

According to a report by the global rating firm, Fitch, the Indian automobile industry is likely to see a growth of 10-12 per cent in sales in 2010. Truck sales, a key indicator of goods movement, grew by 201.1 per cent in December 2009.

Meanwhile, Maruti Suzuki has become the first Indian automobile company to cross the monthly retail sales figure of 100,000. The company posted record sales of 100,874 units in December 2009.

Rural Market

The Indian growth story is now spreading itself to India's hinterlands. Rural India, which accounts for more than 70 per cent of the country's one billion population (according to the Census of India 2001), is not just witnessing an increase in its income but also in consumption and production.

The Union Budget for 2009-10 hiked the allocation for the National Rural Employment Guarantee Act (NREGA) to US$ 8.03 billion, giving a boost to the rural economy. This is in addition to the ambitious Bharat Nirman Programme with an outlay of US$ 34.84 billion for improving rural infrastructure.

According to a study on the impact of the slowdown on rural markets commissioned by RMAI and conducted by MART, the rural economy has not been impacted by the global economic slowdown, according to a study by the Rural Marketing Association of India (RMAI).

The study found that the rural and small town economy which accounts for 60 per cent of India's income has remained insulated from the economic slowdown. Moreover, rural incomes are on the rise driven largely due to continuous growth in agriculture for four consecutive years.

Moreover, the rural consumer market, which grew 25 per cent in 2008 when demand in urban areas slowed due to the global recession, is expected to reach US$ 425 billion in 2010-11 with 720-790 million customers, according to a white paper prepared by CII-Technopak. That will be double the 2004-05 market size of US$ 220 billion.

According to the study, while the durables market shrunk in urban India, the rural market is seeing a 15 per cent growth rate. Fast moving consumer goods (FMCG) sales are up 23 per cent and telecom is growing at 13 per cent.

FMCG

According to figures released by market researcher AC Nielsen, demand for personal care products grew faster in rural areas than urban areas during the period April-September 2009.

Several FMCG companies such as Godrej Consumer Products, Dabur, Marico and Hindustan Unilever (HUL) have increased their hiring in rural

India and small towns in order to establish a local connect and increase visibility.

GlaxoSmithkline Consumer Healthcare (GSK) and Nestle and are now launching products specifically for rural markets. Anand Ramanathan, an analyst from KPMG, said, “Till recently, most FMCG companies used to treat rural markets as adjuncts to their urban strongholds and rural consumers as a homogeneous mass without segmenting them into target markets and positioning brands appropriately.”

Retail

The rural retail market is currently estimated at US$ 112 billion, or around 40 per cent of the US$ 280 billion Indian retail market, according to a study paper, ‘The Rise of Rural India’, by the Associated Chambers of Commerce and Industry of India (ASSOCHAM).

Major domestic retailers like AV Birla, ITC, Godrej, Reliance and many others have already set up farm linkages. Hariyali Kisan Bazaars (DCM) and Aadhars (Pantaloon-Godrej JV), Choupal Sagars (ITC), Kisan Sansars (Tata), Reliance Fresh, Project Shakti (Hindustan Unilever) and Naya Yug Bazaar are established rural retail hubs.

Pharmaceuticals /Healthcare

According to a report by McKinsey, the rural and tier-II pharmaceuticals market will account for almost half of the growth till 2015. The tier-II market will grow to 44 per cent by 2015, amounting to US$ 8.8 billion.

The health ministry is setting up a mechanism to screen people in rural areas for lifestyle diseases such as diabetes. Union Health Minister Ghulam Nabi Azad said that in the case of diabetes, the government was working out a strategy to diagnose those in the age group 30-40 years in rural areas, for diseases.

The multinational drug company, Sanofi-Aventis, has launched ‘Prayas’, a marketing initiative to market generics in rural areas and small towns. Through this initiative, the company looks to share medical knowledge with a body of practitioners and specialists in rural areas through workshops.

Telecommunication

A joint Confederation of Indian Industries (CII) and Ernst & Young report reveals that of the next 250 million Indian wireless users, approximately 100 million (40 per cent) are likely to be from rural areas, and by 2012, rural users will account for over 60 per cent of the total telecom subscriber base in India.

In a bid to acquire rural subscribers, most Indian telecom operators have started investing in infrastructure to roll out their services in these areas. Realising this as a huge potential, small Indian handset manufacturing companies, including Micromax, Intex Technologies and Karbonn, have lined up a marketing spend of around US$ 21.02 million for the financial year 2009-10.

Infrastructure

The World Bank has said that all-weather roads in villages in India have served to double the income of rural households, lift the literacy rate and increase land prices. Meanwhile, the Orissa government had decided to undertake an initiative to improve roadways in rural areas and upgrade 10,000 km of roads in rural areas. The decision was taken at a high level meeting chaired by Mr Naveen Patnaik, Chief Minister of Orissa in December 2009.

The National Bank for Agriculture and Rural Development (NABARD) has sanctioned an amount of US$ 34.4 million to the government of West Bengal under the Rural Infrastructure Development Fund (RIDF) XV. NABARD has also sanctioned a US$ 26.29 million loan to Karnataka for the construction of infrastructure projects, such as secondary schools, rural godowns, jetties, minor irrigation structures, roads and bridges, in rural areas.

Automobiles

Mahindra and Mahindra Group (M&M) arm, Mahindra First Choice, has announced that it is to set up sales and service outlets in rural areas with the target of setting up 100,000 vehicles by 2015, according to M&M President Rajeev Dubey.

Meanwhile, motorcycle manufacturer TVS Motor Co. Ltd has said that it is depending on a far-reaching penetration of the rural market and the launch of new brands to boost the company's growth in 2010.

Services Sector

According to a report based on the 63rd round of survey by the National Sample Survey Organisation (NSSO), 60 per cent of the services sector enterprises in the country are located in rural areas.

Of the 16.5 million services sector enterprises in India in 2006-07, 85 per cent were own account enterprises (OAEs) while the remaining 15 per cent were establishments. Seventy six per cent of the workers employed in these enterprises were employed in the rural areas of the country.

Road ahead

According to international consultancy firm Celent, rural markets in India will grow to a potential of US$ 1.9 billion by 2015 from the current US$ 487 million. Rural markets are growing at double the pace of urban markets and for many product categories, rural markets account for well over 60 per cent of the national demand.

The success of the National Rural Livelihood Mission (NRLM), which has so far trained 100,000 rural youth, has led the rural development ministry to request an increase in budgetary allocation for the project. Rita Sharma, Secretary in the Rural Development Ministry, has said that they had sought US$ 2.29 billion from the Finance Ministry.

Urban Market

According to a study by the McKinsey Global Institute (MGI), Indian incomes are likely to grow three-fold over the next two decades and India will become the world's fifth-largest consumer market by 2025.

Further, India is likely to see rapid urbanisation, with around 45 per cent of Indians living in urban areas by 2050, up from 30 per cent in 2007-08, according to a study by National Council of Applied Economic Research (NCAER) and Future Capital Research.

Consumers in India continued to be optimistic slightly more than what they were six months ago, according to the latest MasterCard Worldwide Index of Consumer Confidence survey. In India consumers are more optimistic than six months ago (68.0) and a year ago (63.9), according to the study. Both Mumbai (79.1 vs. 61.7) and Chennai (95.2 vs. 61.3) consumers have become more optimistic than they were six months ago.

Retail

According to a report by McKinsey, India's overall retail sector is likely to grow to US$ 419.93 billion by 2015.

According to global real estate consultant, CB Richard Ellis, India has moved up to the 39th most preferred retail destination in the world in 2009, up from 44 last year.

The Indian retail market, which is the fifth largest retail destination globally, has been ranked as the most attractive emerging market for investment in the retail sector by AT Kearney's eighth annual Global Retail Development Index (GRDI), in 2009.

Foreign direct investment (FDI) inflows as on September 2009, in single-brand retail trading, stood at approximately US$ 47.43 million, according to the Department of Industrial Policy and Promotion (DIPP).

Consumer Durables

The Indian consumer durables market seems to be relatively untouched by the economic slowdown. The consumer durable goods output witnessed a 2.5 per cent rise in durables output in the first quarter of 2009, according to a report by the Development Bank of Singapore (DBS). Consumer durables led the growth in manufacturing by expanding at a significant rate of 46 per cent in December 2009.

Meanwhile, top private steel makers including JSW, Essar and Ispat Industries Limited have witnessed up to 30 per cent growth in sales volume in January 2010 over the year ago period, boosted by robust demand from consumer durable sector.

Automobiles

Global car makers such as General Motors (GM), Ford Motor Company, Fiat Automobiles, and Toyota Motor Sales are making huge sums of investment and partnering companies in India, the world's second fastest growing automobile market, as consumers in their home markets tighten purchases after the credit crisis.

Global luxury carmakers launched new models, with companies like Mercedes India, which exhibited as many as twelve different car models at the 10th Auto Expo held at New Delhi in January 2010. BMW India, which is now the country's largest selling luxury passenger carmaker, launched three new car models at the expo.

The luxury car maker, Aston Martin Lagonda Ltd, is firming plans to enter India. Luxury bike makers are also attracted to enter India. Harley-Davidson plans to launch its range of motorcycles in April 2010, and Ducati is expanding its presence across the country.

Ernst & Young has forecast the passenger car market in India to grow by 12 per cent annually over the next five years from the present figure of 1.89 million units to reach 3.75 million units by 2014. The industry's turnover is estimated to touch US$ 155 billion by 2016, which would rank the Indian automobile industry as the world's seventh largest as per analysts at Ernst & Young.

The Automotive Mission Plan of the government also forecasts that by 2016, India is to emerge as the seventh largest carmaker in the world, accounting for over 10 per cent of the country's economy.

FMCGs

The industry is poised to grow 10-12 per cent yearly for the next 10 years to reach US$ 43 billion by 2013 and US$ 74 billion by 2018, according to a FICCI-Technopak report.

An average of total estimates of ET Intelligence Group (ETIG) and three other broking analysts for leading eight FMCG companies points to a strong 23 per cent increase in net profits during the December quarter in 2009, against the corresponding quarter in the previous year.

The growth momentum in the electronics sector has been on a rise since 2009. According to Samsung India Deputy MD Ravinder Zutshi, the company is likely to achieve a 40 per cent growth in 2010 to cross US$ 3 billion in sales, with a total investment of US$ 15 million.

Luxury Products

India ranks second with 117 points in consumer confidence in the fourth quarter of 2009, according to the Nielsen Global Consumer Confidence survey.

Tie-ups with international retailers and brands, emphasis on profitable growth and increased focus on private labels are set to be key trends in the Indian retail sector in 2010, according to retailers and consultants.

Italian fashion brand Diesel is set to launch in India by March 2010 in partnership with Reliance Brands Ltd, a unit of Reliance Industries Ltd.

The country's largest retailers — Future Group, Spencer's Retail and Shoppers Stop — have lined up investments of at least US$ 128.3 million for 2010.

Likewise, Pantaloon Retail, the country's largest retailer, plans to invest nearly US$ 85.5 million for expansion of its various retail formats by June 2010, to add up to 2.4 million sq ft of retail space. According to Kishore Biyani, CEO, Future Group, the holding company of Pantaloon, US$ 106.9 million has been raised in November 2009 for Pantaloon through qualified institutional placement and further investment is being sought for expansion.

The durables industry posted double-digit volume growth in January-November 2009 on the back of buoyant demand. The consumer electronics industry benefitted from robust demand for high-value goods in 2009, as per data from market research agency ORG-GFK. The LCD television category grew 93 per cent during January-November 2009, washing machine sales grew 14 per cent and refrigerators surged 16.4 per cent from a year ago, as per the data. Notably, around 70 per cent sales continued to be driven by large cities.

Direct Selling

The Indian direct selling market, growing at the rate of 17 per cent in the last few years, is expected to cross the US$ 1 billion-mark by 2012-13, according to the World Federation of Direct Selling Associations.

The association pointed out that the current Indian market for direct selling products is worth around US$ 600 million and provides employment to around 1.8 million people.

Meanwhile, Reliance Anil Dhirubhai Ambani Group (RADAG) has diversified into direct selling of telephony products and services under its retail arm.

Direct selling firm, Amway India Enterprises, is targeting to achieve an annual growth of 25 per cent in the next two years.

E-commerce

The increase in the personal computer and Internet penetration along with the growing preference of Indian consumers to shop online has given a tremendous boost to e-tailing–the online version of retail shopping. Several online retailers are reporting good business in categories like travel, art, books and music. E-tailing in lingerie and fresh fruit businesses is also doing well.

Marketing and Strategy

With market liberalisation, increasing consumerism and the entry of more foreign players, Indian markets are seeing revolutionary changes. The Indian consumer is rapidly evolving and is spoiled for choice by a host of international brands selling their products at competitive prices.

According to a study by the McKinsey Global Institute (MGI), India's middle class will swell by more than ten times—from its current size of 50 million, to 583 million people—by 2025. And over 23 million Indians—more than the present population of Australia today—will be counted as billionaires. By 2025, India will also become the 5th largest consumer market, surpassing Germany, moving up from the 12th position it occupied in 2007.

India has been ranked as the most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm A T Kearney in its entity's Global Retail Development Index (GRDI) 2009.

Vodafone, Hindustan Unilever, Bharti Airtel, Nokia and PepsiCo are India's 'Most Admired Marketers', best in the marketing class of India Inc 2009, according to a survey carried out by Economic Times, thanks to marketing and strategy innovation, million-dollar ad budgets and some of the finest marketing executives in the business.

Rural Market: The Next Big Opportunity

Rural India makes up 40 per cent of India's US$ 280 billion retail market and offers alluring opportunities for retailers. The rural market offers great untapped potential. In 2008, the rural market grew at an impressive rate of

25 per cent compared to the 7-10 per cent growth rate of the urban consumer retail market. Further, according to international consultancy firm Celent, the rural market will grow to a potential of US$ 1.9 billion by 2015 from the current US$ 487 million.

Today, the rural market accounts for a hefty share in most market segments—55 per cent of LIC policies, 70 per cent of toilet soaps, 50 per cent of television, fans, bicycles, tea and wrist watches.

Also rural India is less affected by the global slowdown. Consequently, an increasing number of marketers are targeting it across fast moving consumer goods (FMCGs), cars, two-wheelers and consumer durables.

Most FMCG companies are now working on increasing their distribution in smaller towns and focussing on marketing and operations programme for semi-urban and rural markets.

For instance, GlaxoSmithKline Consumer Healthcare is not only launching smaller packs at lower prices but is also developing products at appropriate price points for rural consumers.

Similarly, HMT Watches is planning to strengthen its brand in the rural market and will invest on brand-building this year, including in advertising.

Car makers are making greater inroads into rural markets with industry majors reporting 50-100 per cent rise in sales in such regions in the current fiscal.

Market leader, Maruti Suzuki's rural sales more than doubled to 116,000 cars in April-December 2009. For Maruti the share of rural sales this year increased to 16 per cent from 9 per cent last year.

Hyundai, the second major player, noticed that the shares of its tier-2 and tier-3 markets' sales – largely rural and semi-urban – grew to 29 per cent from 23 per cent.

Others such as Hyundai, GM and Mahindra & Mahindra have also seen higher growth.

Media and Communication Channels

Word-of-mouth remains the most important influence in the buying decision of the Indian consumer—a fact confirmed by 85 per cent users who participated in a recent global Nielsen Internet survey. Among the top ten countries that attach maximum importance to the recommendation of the fellow consumer, India ranks fourth while Hong Kong tops the list.

Newspaper (77 per cent) is the second most trustworthy advertising medium while television ranks fifth at 65 per cent. For the Internet users, online opinions are at the third position with a 73 per cent vote.

There is an 82 per cent rise in the number of brands advertised on television during 2008 compared to 1999, according to a new survey by AdEx India, a division of Tam Media Research. Print ad volumes has seen rise of 2.2 times between 1999 and 2008.

According to Radio Audience Measurement data, 49 per cent listeners access radio from their mobile phones. Fostered by its increasing popularity, private FM is especially emerging as a preferred communication channel for the marketers in India.

Rising interest in social networking in 2008 has made brands think seriously about online advertising. According to a FICCI-PwC report, it is expected to touch US$ 212.91 million in 2011 from the current US$ 58.1 million.

Companies such as HUL, Tata Tea, Titan, HDFC among others are using peer-to-peer network on sites like Facebook or Twitter to spread product reviews and create a buzz around the brand.

The mobile digital advertising market is supposed to be the next big thing with analysts pegging the year-on-year growth to be 55 per cent. Moreover, analysts say 22 per cent companies are expected to increase their mobile advertising spend in 2009-10 as compared to 15 per cent companies that did so in 2008-09. Telecom and FMCG sectors are investing between US$ 4.2 million and US$ 7.3 million on this medium to communicate their product messages in rural areas.

Digital advertising space grew by about 74 per cent in 2008-09 to reach US$ 141.6 million and is expected to be US$ 1.12 billion by 2011. Of US$ 141.6 million, wireless application protocol based advertising was about 30 per cent of the mobile ad market, while opt-in SMS contributed 10 per cent of the market share.

Moreover, according to a survey by Webchutney, a digital agency which works with HUL, P&G, Airtel and Microsoft, among others, ad spends of 445 advertisers on digital media will grow by 44 per cent (from US$ 59.96 million to US$ 86.06 million this fiscal (2009-10). In India, Vodaphone, Airtel, Samsung, Kwality, Adidas and a host of other companies across sectors such as FMCG, mobile handset makers and consumer durables are positioning their brands on some of these sites.

Packaging and Design

Both packaging and design are increasingly being seen as potent marketing tools for product differentiation and communication with the consumer.

Convenient packaging assures consumers of the product quality and helps boost sales. The recent Asian Paints campaign marks a new trend among advertisers, who are now looking to attract consumers with try-vertising—or mainstream advertising that encourages them to try the sample or smaller-sized product—while also building brand image.

E-Commerce

The Indian e-commerce market is valued at US$ 1.97 billion, growing at 30 per cent, while the B2C non-travel market is valued at US$ 473.54 million, growing at 40 per cent. A recent study on the distribution of the global online population by 2012 noted that India will contribute 6 per cent or 109 million users, out of the 812 million in all of Asia.