

India Update: September – October, 2011

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PSA Peugeot re-enters India

French automobile giant to invest Rs 4,000 crore¹ in Gujarat

October 2007 saw Tata Motors' Nano project moving to Gujarat, followed by Ford announcing its foray in July 2011. Now Sanand, a small town in Gujarat, has hit a hat trick, with French automobile major, PSA Peugeot Citroen, deciding to set up a factory in the region, now described as the emerging Detroit of India. The announcement by Peugeot also marks its re-entry into the Indian market.

Peugeot will set up a vehicle manufacturing facility near Sanand at an investment of Rs 4,000 crore (around €650 million). At an initial capacity of 165,000 vehicles a year, the plant is slated to be commissioned by 2014 and can be expanded to 340,000 units in phases.

Peugeot and the Gujarat Government have entered into a 'State Support Agreement'. Peugeot plans to establish a plant spread across 600 acres in the heart of the Sanand automotive cluster. Gujarat Industrial Development Corporation has reserved another 25 acres for ancillary industry in the region. The company will begin with its Peugeot 508 model. It envisages exporting 25 per cent of the production, paving the way for Gujarat emerging as an automobile export hub. The Sanand facility would directly generate up to 5,000 jobs and indirect employment for another 25,000 people, apart from further economic opportunities through an extensive supplier park adjacent to the site. Peugeot would also create an Automotive Skills Development Institute in Gujarat, with the state government's partnership.

The existing car maker in Gujarat, General Motors, is in the process of expanding its facility at Halol, near Vadodara, from the current 85,000 units per annum to 110,000 units.

Hero MotoCorp, Force Motors and Bajaj Auto are also exploring possibilities of setting up their projects in the state. Bajaj Auto is planning to set up its fourth and largest plant near the port of Mundra in the Kutch region. The new facility could also be the location for the manufacturing of its long awaited passenger car which it is developing in collaboration with Nissan-Renault.

¹ 1 crore = 10,000,000

Auto manufacturing capacities in Gujarat by 2014

Company	Installed capacity (p.a.)	Commissioning target
Tata Nano	250,000	Operational
Ford India	240,000	by 2014
Peugeot	165,000	by 2014
General Motors	110,000	Operational
Maruti	100,000	Proposed
Bajaj Auto	500,000	Proposed

E-commerce firms brace for Amazon assault

With the world's biggest online retailer Amazon signalling its intention to enter India's \$10-billion e-commerce market, Indian online firms are sparing no effort to maintain their dream run. Indian e-commerce companies are scrambling to retain key staff, and strengthen their back-end supply chains. They are also hiring staff in a big way to fill up vacancies, and upgrading technologies.

Amazon's India debut could increase pressure on profits for incumbent e-commerce firms in the country, make their key staff vulnerable to poaching and force them to quickly identify the next product categories. While details of Amazon's proposed India entry were unavailable, it appears that the company has started debating whether to build an Indian e-commerce business from scratch or acquire an existing local firm. Amazon has the advantage of already being an established brand in India.



Super-luxury brands sail high as slowdown fails to impact

Sales of Porsche, BMW, Jimmy Choo, Canali touch new highs

Indian consumers are continuing to show strong appetite for luxury products even as consumption in the rest of the economy slows down due to inflation and sliding growth prospects.

From cars to accessories to high-priced homes, luxury items are flying off the shelves thanks to the country's growing breed of super rich. Luxury sports car maker Porsche sold 215 cars in India in the quarter ended June, 57% more than the 137 units it sold in the same period last year. Ducati says it will sell 300 bikes in 2011, 200 more than last year. And same store sales of fashion accessory labels Jimmy Choo and Canali are growing 30% year on year.

So, notwithstanding a massive dip in home sales overall, luxury homes are selling like hot cakes; and while car sales are skidding, there's no stopping the luxury car buyer.

According to a recent Merrill Lynch-Capgemini World Wealth report, India's population of HNIs surged 21% to 153,000 in 2010. This is the second straight year in which India's HNI population growth has been among the top gainers, the report said. In its first volume of Wealthy Indians, Kotak Wealth-Crisil forecast that affluent individuals with assets of at least Rs. 25 crore would triple by 2016 to 219,000. Their assets may grow fivefold to Rs. 235 lakh² crore.

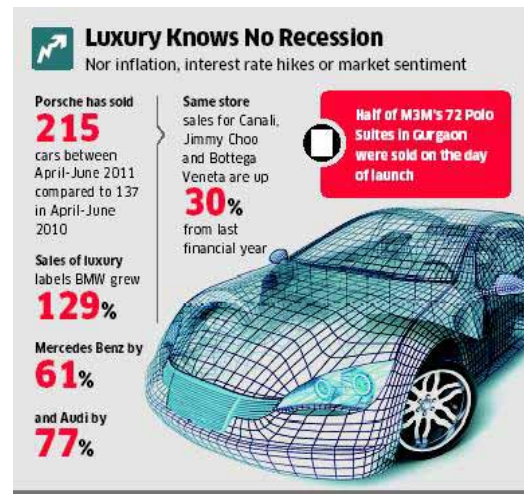
The report also estimated the potential market for luxury jewellery at Rs. 22,900 crore and for the luxury cars segment at Rs. 15,000 crore. In a report released last week, Swiss wealth manager Julius Baer forecast that the wealth of HNIs in India who have \$1 million or more in assets would more than double to 403,000 by 2015.

In the April-July 2011 quarter, sales of car slowed down to 4%. But car sales in the luxury segment (for cars priced above Rs. 20 lakh), was growing at 10%. Sales of luxury labels BMW grew 129%, Mercedes Benz by 61% and Audi by 77%. Overall homes sales are down 30%, with inventories rising to 40-months. But builders say that luxury homes are bucking the trend - sales to end-users are

² 1 lakh = 100,000

growing, though sales to investors aren't very encouraging.

Home sales, which are down at least 15-30% in the mid-income segment are still robust in the upper-end luxury segment.



India Inc. doubles overseas investment

Policy inertia, inflation & also rush to buy global assets leads to Q1 outflows doubling to \$5.5bn

The reluctance of Indian companies to invest locally stands in sharp contrast to the millions they are sending overseas to build factories, buy resources, build infrastructure and start financial services ventures. Corporate investments overseas into joint ventures and wholly-owned subsidiaries almost doubled to \$5.5 billion in the April-June quarter this fiscal from \$2.96 billion in the corresponding quarter a year ago.

In the same period, individuals invested \$64 million overseas, up marginally from \$62 million invested a year ago. Despite sitting on ample cash, Indian companies have been reluctant to invest locally because of uncertain economic environment, lack of policy impetus, high inflation and the rising interest rates. The Reserve Bank of India (RBI) has already raised interest rates by a cumulative 350 basis points since March 2010.

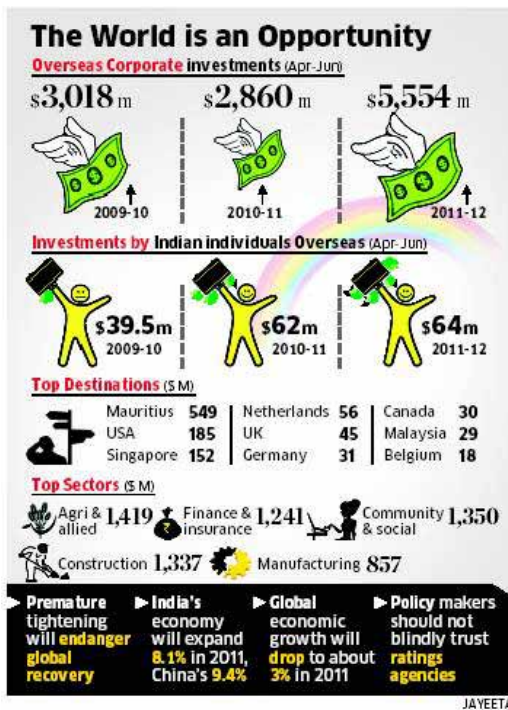
This has forced companies to look overseas for investment opportunities with Mauritius being the most-favoured destination.

India's power and steel companies have been on the hunt overseas looking for coal, ore and other resources in a race to secure supplies to feed their

projects. Others may be looking for technology and brands or merely to diversify their business lines in order to mitigate risk as global uncertainty increases.

The current investments policy allows companies to invest up to 400 times their net-worth overseas. Reversing the trend, debt flows exceeded equity flows by almost three times. The equity investment overseas was \$1.4 billion against \$4.1 billion in debt investments. Big companies can take loans on their balance sheets and channel the funds abroad in the form of loans, which would also explain the jump in the loans being given out.

The overseas investments include those made by companies, trusts, registered partnership firms and proprietary concerns into their joint ventures and wholly-owned subsidiaries. This does not include investment by Indian companies in foreign companies overseas, which is captured in the outbound FDI. The outward FDI in the first quarter was \$10.6 billion, down from \$18.3 billion in the year-ago period.



RBI seeks one-time tax relief to 'arm' MNC banks

RBI may ask foreign banks with large assets to become arms to protect them from global shocks

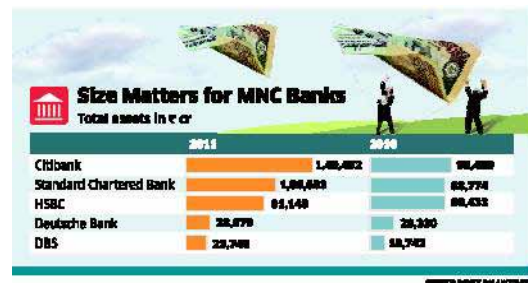
The Reserve Bank of India has sought a one-off tax exemption from the government for foreign banks that convert into local subsidiaries as it intensifies efforts to ring-fence the domestic financial system from global shocks. The permission, if granted by the government that's already facing widening fiscal gap, may lead to thousands of crores of notional revenue loss.

Currently, it is not very easy for foreign banks to acquire branch licences from the regulator. On an average, the central bank issues about 14 branches to all foreign banks every year.

Along with the national treatment, foreign banks would have to meet the 40% priority sector target. At present, the priority sector limit for foreign banks is pegged at 32% against the 40% target set for domestic banks. Foreign bankers had asked RBI to consider relaxation in mandated farm lending targets, considering their limited reach.

RBI has suggested that the government evaluate extending one-time tax relief to foreign banks that migrate to the wholly-owned subsidiary model. Under tax rules, a branch of a foreign bank in India is treated as a foreign firm. If a foreign bank chooses to convert into a subsidiary, it will have to transfer the business of the branches to the unit, requiring the parent to pay capital gains tax for the transaction.

There are 34 foreign banks operating in India as branches, accounting for 7.65% of the total banking assets as on March 2010, up from 9.03% a year ago. If the credit equivalent of balance sheet assets is included, their share was 10.52%. The share of top five foreign banks alone was 7.12%. Share in aggregate deposits and credit in December 2010 was 4.8% and 5.1%, respectively.



Delta scouts for casino partner

Company is in talks with casino biggies, including Las Vegas-based MGM Resorts and Caesars Entertainment, to sell stake

Delta Corp, which owns offshore casinos in Goa, is in talks with some of the largest hotel and casino operators in the world, including the Las Vegas-based MGM Resorts International and Caesars Entertainment, to sell a stake. They are currently studying foreign investment, technical collaboration and licensing norms.

Casinos and gambling are prohibited in most parts of India. However, in Goa and Daman the business currently operates on licences issued under the Goa, Daman and Diu Public Gambling Act. Sikkim is the only other state that allows the setting up of casinos subject to issue of licences.

The central government does not permit FDI in gaming and gambling, making it a part of a negative list. Delta's official website, however, says that it is the only gaming company in India to have approval from the Foreign Investment Promotion Board (FIPB) to induct foreign investment. Delta had got FIPB approval for FDI in 2000, before the negative list was prepared in 2002. Advani Pleasure Cruises, in which it acquired 51% stake recently, also has a 49% FDI component, which can be acquired by another foreign investor. Delta is the biggest casino firm in India, where the gaming business is growing 50% year on year. The gaming business has few licences and is concentrated in Goa, a popular global tourist destination. But casino owners are now expanding to Sikkim, Daman and even in Sri Lanka, with demand on the rise.

Delta owns three out of the six licences for offshore live casinos issued so far by the government of Goa. It operates casinos on two ships—Casino Royale and Caravela and the soon-to-be launched Horseshoe. It is also in the process of refurbishing MV Horseshoe, the ship it recently bought from Caesars Palace Entertainment, for \$3 million. This ship, to be named Kings Casino, will be Delta's third off-shore casino in Goa.

The company has bought a 51% stake in a casino in Daman, with 1,000 gaming positions (100 table games and 300 slot machines). Delta also owns an in-principle licence to set up another casino in Daman.

In 2009, ICICI Venture and a few other investors had invested Rs. 120 crore in the BSE-listed Delta Corp. The company has also attracted a set of high net-worth individuals who together invested Rs. 280 crore in it last year. At the end of March 31, 2011, the company, which also has interests in real estate in East Africa, had a turnover of Rs. 376

crore. Delta Corp's gaming and hospitality business has grown from Rs. 11 crore in fiscal 2008 to Rs. 101 crore in fiscal 2011.

Delta is currently on an expansion spree and that may explain Mody's plans to sew up foreign investment tie-ups. Mody is currently expanding the hospitality and casino business outside India. To tap the southern India and South East Asian market and to compete with casino destinations such as Macau and Singapore, Delta will invest \$200 million to set up a 500-room hotel and a 150,000 sq ft casino in the Sri Lankan capital of Colombo. It has bought around four acres in the city from the Lankan government for \$50 million. The company can build around 2.5 million sq ft of space that will house the casino and hotel.



India to be hub for Renault's SUV Duster

French carmaker Renault SA aims to make India the exclusive manufacturing and export hub of its right-hand sport utility vehicle (SUV) Duster. This will make Renault the first foreign carmaker to use India as an export base for SUVs.

Renault plans to launch the low-cost SUV in India, Asia's third-biggest automobile market, by the middle of next year.

Automakers such as Suzuki Motor and Hyundai use their Indian plants for export of small cars. Renault plans to export Duster to the UK under the Dacia badge by the end of 2012

Conceptualized essentially for the Indian market, Duster is likely to be introduced in a price band of Rs. 8-10 lakh to take on market leader Mahindra & Mahindra's Scorpio.

Powered by 1.5 litre dCi engine and 1.6 litre petrol engine, Duster will be available in the 4X2 and 4X4 versions. The SUV for the Indian and UK

markets will be similar barring some cosmetic variations in the looks.

Made in India



Renault to launch low-cost SUV in India next year

First foreign carmaker to use India as an export base for SUVs



Plans to produce 50,000 vehicles in the first year

Duster likely to be priced at ₹8-10 lakh



FDI in multi-brand retail on the back burner again

Averse to opening another political front, government won't take a call before next financial year

The much-awaited multi-brand retail policy allowing foreign direct investment (FDI) in the sector has been put on the back burner. The government is likely to take a call on the matter only in the next financial year. Officials say that no "concrete move" has yet been taken to take the matter to the Union cabinet for approval after the recommendation of the Committee of Secretaries (CoS) on July 22 to allow 51 per cent FDI.

A lack of political will is seen as the main reason for the government not taking up the proposal actively, even several months after the in-principle nod by the CoS. The government is under pressure for several reasons, and it is not in a mood to open a new front, according to sources in the know. Another reason being cited is the absence of a consensus between ministries over the policy riders.

Senior BJP leaders admit the party cannot possibly stop the government from allowing foreign companies in multi-brand retail if it has already made a decision. But they are asking BJP-ruled state governments to oppose the decision at the highest level. The states that have been more vocal against the retail FDI move include Gujarat,

Karnataka, Bihar, Madhya Pradesh and Himachal Pradesh.

International retail majors waiting for the sector to open up for years include the US-based Walmart, the UK's Tesco, and Carrefour of France.

While FDI is not permitted in multi-brand retail, single-brand outlets are allowed up to 51 per cent foreign investment. In cash and carry or wholesale trading, up to 100 per cent FDI is allowed.

Japanese net company invests \$200 mn in InMobi

SoftBank's investment in Indian company indicates country's emerging strength in tech sector

In one of the largest global deals in the mobile internet space, Japanese internet major, Soft-Bank Corp, has invested \$200 million in mobile advertising company InMobi. Half the deal amount (\$100 million) will come this year while the balance will be invested in April 2012.

Till date the largest deal in the Indian internet space this year includes the acquisition of a major stake in TutorVista by UK-based publishing house Pearson for Rs. 577 crore, valuing the five-year-old company at around Rs. 1,000 crore.

In the online commerce space, consumer deals provider Snapdeal raised \$40 million from a clutch of investors at a valuation of Rs. 1,000 crore. While e-commerce company, Flipkart raised \$20 million from New York-based private equity firm Tiger Global. InMobi, which until now had raised a total of \$16 million in funding from marquee global investor Kleiner Perkins Caufield & Byers and Shervelo Ventures led by Ram Shriram, expects to use this money to speed up acquisitions in global markets and hire fresh talent.



BGR Energy – Hitachi JV lowest bidder for NTPC tender

The joint venture of Chennai-based BGR Energy and Hitachi, has emerged the lowest bidder for NTPC's bulk tender for buying supercritical turbine generator set for units of 800 MW each, beating rivals L&T-Mitsubishi and Alstom-Bharat Forge.

NTPC had invited bids for bulk supply of boilers and turbine generators for four projects in Karnataka, Orissa and Chhattisgarh with a total capacity of 7,200 MW. BGR Energy emerged the lowest bidder with a bid of Rs. 811 crore per turbine, followed by Larsen & Toubro - Mitsubishi Heavy Industries which quoted Rs. 830 crore per turbine.

NTPC may award the contract for five turbines to BGR Energy-Hitachi. Although, L&T-Mitsubishi quoted the second best price, it may get contract for only two turbine sets and state-run Bharat Heavy Electricals may get order for the other two. The rules of the bid provides Bhel "deemed L2" bidder status, which assures at least two projects. Others in the race for the turbine generator sets were – Alstom-Bharat Forge and Toshiba-JSW Energy.

The financial bids for the steam generator packages saw South Korea's Doosan Heavy Industries emerging as the lowest bidder. While Doosan would supply five units of steam generator packages of 800 MW each to NTPC, state-run Bharat Heavy Electricals, which came second in the race, would supply four units, sources said.

Delhi-Mumbai corridor to get Rs. 18,500-cr. boost

The Union cabinet has approved the restructuring of the \$90-billion Delhi-Mumbai Industrial Corridor, or DMIC.

The cabinet also approved a change in the holding structure of the company executing the project, which will see private sector promoters replaced by state-run financial institutions.

This project includes nine mega industrial zones of about 200-250 sq km, a high-speed freight line, three ports and six airports, a six-lane intersection-free expressway connecting Delhi and Mumbai and a 4,000 MW power plant. The Delhi Mumbai

Industrial Corridor Development Corporation (DMICDC) will now set up a Rs. 18,500-crore revolving fund for financing trunk infrastructure such as sewage disposal and roads, with the government providing 35-40% of the financing through the various stages of the project.

An additional and equal amount will be put by the government of Japan. The 51% stake of Infrastructure Leasing and Financial Services (IL&FS) and Infrastructure Development Finance Company (IDFC) in the company will be bought out by government-run financial institutions like LIC, among others.

The government will continue to hold 49% in the venture.

60-65% of the projects will be structured on PPP basis. The Cabinet has also approved the setting up of a special purpose vehicle in each city where the Centre would contribute funds whereas land would be acquired by the state.

The SPV is primarily to raise long-term debt finance through required guarantees from the DMIC Project Implementation Trust Fund to make it viable for investments by insurance and pension funds.

The share of the Trust in these city SPVs is expected to be up to 50% but in projects that might be cut through cities the Trusts' share can be up to 100%.

The DMICDC is also expected to become a consultant for all state governments and SPV. The 1,500-km long Delhi-Mumbai Industrial Corridor would run across Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra.

ECB norms relaxed, limit raised

As borrowings cost higher in domestic markets, firms allowed to raise cheaper funds to refinance rupee loans

With interest rates in the country ruling high, the finance ministry has allowed Indian companies to raise cheaper funds overseas to refinance their rupee loans. For the first time, it has allowed China's Renminbi as an acceptable currency under external commercial borrowings with an overall ceiling of \$1 billion.

A high-level committee on external commercial borrowings (ECB) also decided to increase the

overall limit for these borrowings under the 'automatic' route to \$750 million from the current \$500 million. Such ECBs, where a corporate can raise money without seeking regulator's approval, would have a maturity of above five years. The overall ECB limit of \$30 billion was left unchanged, as only about \$15.13 billion from it has been used so far this year.

DECISIONS AT A GLANCE
• Automatic approval limit increased to \$750 mn from \$500 mn
• \$30 billion overall ceiling can be increased later, if needed
• Refinancing of rupee loans allowed through ECB
• ECB can be raised in Chinese currency Renminbi
• Refinance of buyer's/ supplier's credit permitted through ECB
• Interest during construction under ECB permitted
• Allowed availing of ECB denominated in rupee
• High net worth individuals can invest in infra debt fund
• Inclusion of infra finance companies as eligible issuers for FII's debt limit
• Tax exemption on interest on withholding tax to be taken up with revenue dept

Borrowers will now be allowed to use 25 per cent of the ECB to pay off their rupee debt. The remaining 75 per cent will have to be used for new projects. Under the existing ECB policy, the government does not allow any corporate to refinance its existing rupee loan through ECB. The refinance of rupee debt of all maturities would benefit the corporate sector, especially infrastructure companies buying capital goods, as it would incentivise further investment. As the money raised through ECB is cheaper given near-zero interest rates in the US and Europe, Indian companies can repay their existing expensive loans from that.

The ministry has not put any ceiling on individual companies for using Renminbi as a currency for ECB. Even though the overall limit for permitting it under ECB is only \$1 billion under the

'approval' route. India currently allows ECBs in US dollar, Euro, British pound and Japanese yen.

The limit for automatic approval has also been increased from \$100 million to \$200 million for the services sector (hospitals, tourism) and from \$5 million to \$10 million for non-government organisations and microfinance institutions.

Among other key decisions, the ministry has allowed high net-worth individuals for investment in infrastructure debt funds, included infrastructure finance companies as eligible issuers for FII's debt limit for infrastructure, permitted refinance of buyer's/suppliers credit through ECB, okayed interest during construction under ECB, given a nod to availing of ECB denominated in rupee since the borrower is insulated from the exchange rate risk, and provided clarity on definition of equity for ECB from foreign equity holders.

India Inc. holds back carbon credit sale

Faced with oversupply in the global carbon credit market, resulting in a drastic fall in realisation, India's leading corporate houses have kept the sale of around Rs 1,000 crore worth of these credits on hold.

They plan to sell the certified emission reduction (CER) certificates, popularly known as carbon credits, on revival of economic sentiment in Europe, the major buyer from India. With Europe's economic troubles, the prices of CER plunged to EUR 9-10 early this year as against EUR 14.07 each about a year before.

According to the latest report by research firm Crisil, Indian projects are estimated to receive 246 million CERs by December 2012, a three-fold rise from 72 million in November 2009. This will cement India's second position in the global CER market. But industrial houses in the country are discouraged due to a drastic decline in demand from European countries.

Each tonne of noxious gases saved from being released into the environment amount to one CER. Developing countries generate CERs by installing emission-cutting machinery and developed countries, mainly from Europe, buy CERs for releasing more of the gases than they are permitted to.

The Indian government has approved 1,400 projects as part of the CDM, which could attract

around \$6 billion (Rs 28,000 crore) into the country by 2012, through sale of CER certificates. The National CDM Authority (NCDMA) in India has accorded Host Country Approval to 1,455 projects. These projects have seen an investment of \$33.7 billion (Rs 1.6 lakh crore). If all these get registered at the CDM executive board, it will earn developers 600 million CERs by 2012. At a conservative \$10 per CER, the figure works out to a little over \$6 billion.

European countries expect a deficit of 1.97 billion permits (CERs) from 2008 to 2020 to be partly met by imports of international carbon credits, resulting in a net shortage of around 300 million tonnes. The system is likely to have a deficit of around 170 mt in 2013, rising to 380 mt in 2020 and 660 mt in 2028. As access to low-cost emission-reduction measures starts to run out, regulators may curb the allowed use of international credits, pushing the carbon price to euro 100 per tonne by 2024 without any access to international credits and EUR 65 a tonne with access to offsets.

Meanwhile, companies across the world have started hedging their risk on the futures platform. Consequently, ICE Futures reported a 93.8 per cent rise in CER volume to 34,761 contracts in August this year as compared to 17,941 contracts in the same month last year.

Expats power up foreign firms' Indian projects

Engineers from China, Korea, Russia & US stationed permanently in India to counter USP of Bhel & L&T, plug gap in local availability of specialised talent for power projects

Young engineers from China, Korea, Russia and the US are joining power projects in the country, helping foreign companies challenge Bhel and Larsen & Toubro in one of the world's biggest markets for power equipment.

HM Chris, a Korean electrical engineer in his early forties, has happily braved harsh conditions in a remote power project site at Chhattisgarh for the past five years. Working in Sipat, a far-flung village, he is helping South Korea's Doosan make a mark in the country, and helping his own savings swell handsomely in days of global economic uncertainty.

Last week, the Korean company grabbed a lucrative NTPC tender, bidding well below Bhel

whose equipment generates power to light three out of every four bulbs in India. Chris is one of 40 Korean and Russian employees at a project of NTPC. Vadim Khciuhrhko, who works for Russia's Power Machines, is also roughing it out in rural surroundings, 100 km away from the nearest town, and reaping rich dividends.

Expat engineers have been flown in to help engineer, design and construct projects such as refineries, but in the power sector, it is a recent phenomenon and unlike other sectors, engineers are being stationed permanently. These engineers also help plug the gap in local availability of specialised talent, and are rewarded handsomely even though the equipment supplied by their companies may be cheaper than what Bhel provides.

Indian companies have already ordered equipment worth \$50 billion from China to build 80,000 MW capacity. The opportunities are enormous as the country aims to add 100,000 MW in next five years. India's move to coal-saving "supercritical" technology has opened doors for Chinese, Korean and Russian companies. Major private power producers including Adani Power, Tata Power, Reliance Power, Lanco Infratech, GMR Energy and GVK Energy have placed orders with foreign companies. Indian collaborations with Mitsubishi Heavy Industries, General Electric, Hitachi, Alstom, Ansaldo and Babcock & Wilcox have also proved to a boon for foreign engineers. Indian companies are also sourcing auxiliary equipment like cooling towers and switchyards from overseas.

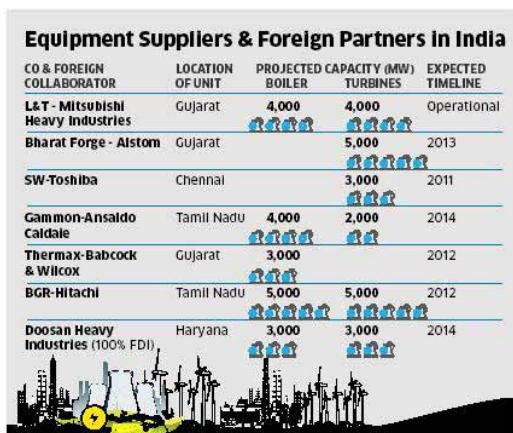
Domestic power equipment manufacturers including Bhel and L&T have touted their own equipment as better suited to local conditions and easier to maintain as its engineers are readily available. But foreign rivals have responded by stationing their own engineers on Indian soil, denting the selling proposition of local firms. Indian companies have also been demanding a level playing field against competitors in China, Korea and other countries that offer tax incentives.

Foreign companies are maintaining a skeleton staff of at least 20 people at each project site for image building and to help customers overcome concerns about after-sales service. These numbers increase when construction of the project is in swing. Indian authorities permit 300 people or 10% of entire on-site workforce from other countries at new power projects. For expansion

projects, 150 foreigners or 5% of workforce can be foreigners.

Stay of foreign engineers depends on the contract with the power developers. Chris, his colleagues and his Russian counterparts would stay at Sipat throughout the project life though the number of foreign engineers at site might come down after a few years.

Reliance Power has a 15-years maintenance contract with US-based General Electric for project in Andhra Pradesh. Lanco Infratech, however, does not see the need to host foreign engineers after the equipment is erected. Meanwhile, many like Chris and Khciuhrhko continue to learn Hindi and enjoy Indian hospitality. Lengthy work hours appear to be the only issue.



Foreign investments to be allowed in LLPs, but with riders

The government has allowed FDI in limited liability partnership (LLP) firms in sectors where 100 per cent FDI is currently allowed through the automatic route.

FDI in LLPs has several riders: it will not be allowed in agriculture, plantation and real estate sectors.

An Indian company having FDI will be permitted to make downstream investment in an LLP if both the company as well as the LLP are operating in sectors where 100 per cent FDI is allowed through the automatic route.

Foreign capital participation in the capital structure of the LLP will be allowed only by way of cash consideration, received by an inward remittance

through normal banking channels or by debit to an FCNR account maintained by an authorised dealer.

There are other restrictions too. Investment in LLPs by foreign institutional investors and foreign venture capital investors will not be permitted. They will not be allowed to raise ECBs either. Conversion of a company to LLP with FDI will be allowed only if various stipulations are met, and after approval by the FIPB.

Officers policy may be mandatory for listed companies

Move prompted by fears of directors, others facing corporate governance litigation

With the rising possibility of corporate governance litigation threatening directors and independent directors, the governing bodies might make it mandatory for all listed companies to buy a Directors & Officers (D&O) policy.

Post the Satyam fiasco, the issue of corporate governance has gained importance. The Securities and Exchange Board of India (SEBI), Ministry of Corporate Affairs (MCA) and the Company Law Board (CLB) are exploring ways to make it mandatory for all public companies to shield them from the risk of liabilities in the event of poor corporate governance. Currently, countries such as Singapore, Indonesia, Romania, Brazil and Hong Kong have made it compulsory for listed companies to have a D&O policy.

The policy functions in layers. The first layer is called the burning layer and the insurance company in the first layer settles the first tranche of claims. At present, 10% of listed companies have D&O policies of any sort. In addition to covering the executive directors, insurance companies are planning to insure the kith and kin of directors. For example, Bajaj Allianz General Insurance is planning to extend the coverage of D&O policies to indemnify children if the director is absconding or not alive. In this case, the legal expenses of the heir or the nominee would be borne by the insurer.

The policy works like this. If in the course of working, there is a litigation filed against the executive against any decision taken by him, the insurer will bear the legal expenses. At present, a D&O policy insures any liability arising from the director and his/ her spouse. The insurance policy indemnifies the corporation and its directors and

officers for wrongful actions, which cause financial harm to a third party and result in a lawsuit. In addition to insuring children, the insurer is looking to expand the ambit of coverage to physiotherapy or psychological treatment of the directors.

SECTORS	LAWSUIT FILED AGAINST	CLAIMS PAID BY INSURANCE CO.
Medical Devices	Misrepresentation of financial information regarding sale of subsidiary	8 cr
Retail	Loss of Profits	3.28 cr
Sports Goods Company	Loan Default	1 cr
Natural Resources	Deceptive Trade Practices	90 lakh
Manufacturing	Price fixing	3.8 cr
Retail	Hostile Work Environment	90 lakh

Sebi announces IDR rights norms

The Securities and Exchange Board of India (SEBI) has amended capital raising and disclosure norms, allowing issuers of Indian Depository Receipts (IDRs) to launch a rights issue. Also, merchant bankers have been directed to disclose the performance of their past issues as part of the due diligence certificate.

According to SEBI, an IDR issuer will be allowed to come out with a rights issue after making an application to all exchanges where the IDRs are listed, and if there is no breach of ongoing material obligations under the IDR Listing Agreement.

IDRs are shares issued by foreign companies and are listed on the Indian exchanges. It gives investors an opportunity to own a share of a foreign company.

Currently, Standard Chartered Plc, which is listed on London Stock Exchange and Hong Kong Stock Exchange, is the only entity that has listed its IDR in India. The global banking major came out with its IDR issue in May 2010 and was listed on the Bombay Stock Exchange and the National Stock Exchange in June 2010.

According to Sebi, an IDR holder can also renounce the rights in favour of any other person if the home country of the issuer company does not have any such restrictions. Further, the issue can be cleared on a fast-track basis if the document has been filed and reviewed by the home country regulator and there are no pending

show-cause notices or prosecution proceedings against the promoters or whole time directors.

The issuer also should have redressed at least 95 per cent of the complaints received from IDR holders before the end of three months immediately preceding the month of date of filing the offer letter.

Foreign equity investors can guarantee infrastructure sector debt

To enhance the creditworthiness of infrastructure projects, the Reserve Bank of India (RBI) has allowed foreign equity investors to issue guarantees for debt raised by companies involved in these.

Such credit enhancement by investors reduces credit and default risks and helps secure funds at lower rates. Besides guarantees, credit enhancement can also be extended through additional collateral and insurance.

Credit enhancement by non-resident entities would be permitted under the automatic route and these decisions would not require the prior approval of the central bank.

Credit enhancement is a method through which a company can improve its debt or credit worthiness. It provides reassurance that the borrower would honour its obligations. Those holding a direct stake of at least 25 per cent (for indirect foreign equity holders, the figure stands at a minimum of 51 per cent of the paid-up capital) can provide credit enhancement to Indian companies. The companies must exclusively be devoted to the development of infrastructure.

Till date, only multilateral financial institutions and government-owned development financial institutions could offer credit enhancement for domestic debt raised through debentures and bonds.

FDI cap in FM radio raised to 26%

Eases norms for old-age homes and educational institutions

The government has relaxed the foreign direct investment (FDI) norms for the FM radio segment by raising the limit of foreign capital inflows to 26 per cent from 20 per cent.

This would give foreign shareholders in private radio channels more power to take decisions

which was earlier not possible. Besides, this would also induce foreign investors to look into the sector more actively.

FDI limit in single-brand retailing may be raised

Move comes after govt had to put off plans to let foreign retailers invest in multi-brand outlets

The government is considering increasing the percentage of foreign holding allowed in single-brand retailing, after it was forced to put its plans of letting foreign retailers invest in multi-brand outlets on the backburner due to lack of political consensus. At present, only 51% foreign direct investment is allowed in single-brand retail and the industry ministry is now looking at a proposal to raise this limit to between 74% and 100% as it seeks to send a positive signal to foreign investors.

The move to raise the FDI limit in single-brand retail is being accompanied by a tightening of norms for the sector. In its update of the recently issued FDI, the government has mandated that the foreign investor must own the brand that it intends to retail in India. This is to ensure that franchisees of brands do not take advantage of a more liberal investment regime.



IPO closure, listing time gap to be cut

Sebi panel to revisit norms for IPOs, mutual funds

The Securities and Exchange Board of India (SEBI) has decided to go for a comprehensive review of the primary market processes and norms governing the mutual fund industry.

The initial public offer process review will involve further reducing the time between closure of an issue and listing. At present, listing has to be made within 12 days. To help investors make informed

judgment, SEBI has already asked merchant bankers (issue managers) to reduce the size of the application form for IPOs and disclose their track record of the issues managed and their performance.



India gets world's cheapest tablet PC

But low-cost computing yet to come of age

Nearly two years after it announced its intention to launch a low-cost computing device, the Indian government today demo-ed Aakash, now the world's lowest priced computing/internet device at \$46 (Rs 2,250). Aakash is designed, developed and manufactured by DataWind, in partnership with IIT Rajasthan, under the HRD ministry's Mission on Education Through Information and Communication Technology (NME-ICT).

The government is buying 100,000 tablets from DataWind at an all-inclusive price of \$46 (Rs 2,250) a unit. However, under NME-ICT, the target price for 10 million units is Rs 1,750 (\$35) a unit. DataWind eventually plans to bring it down to \$10 (around Rs 500) a unit.

The Aakash is a seven-inch Android 2.2 touch screen tablet that has an HD video co-processor for a multimedia experience and core graphics accelerator for faster application support, as also DataWind's UbiSurfer browser. The device includes Wi-Fi connectivity and support for optional 3G modems. Two full-sized USB ports are integrated into the unit allowing pen-drives, external keyboards, webcams, dongles and other inexpensive peripherals to be attached. DataWind is also offering a leather keyboard case with the package.

EGoM to revise contract norms

The government will declare revised guidelines for upcoming coastal-based ultra mega power projects (UMPPs) in the next three or four months to factor in the unforeseen escalation in fuel costs.

The spurt in fuel prices has impacted existing two UMPPs at Mundra in Gujarat and Krishnapatnam in Andhra Pradesh — both coastal projects.

The ministry of power will soon refer the matter to an Empowered Group of Ministers (EGoM) headed by Finance Minister Pranab Mukherjee to take a final call on the matter. The discussion for revised guidelines for new projects based on imported coal has already started. Two rounds of meetings had taken place between developers, procurers and the ministry on the issue.

The development came after Tata Power and Reliance Power wrote to the ministry asking for a price revision for their Mundra and Krishnapatnam UMPPs respectively, because of a change in the policy in coal pricing by the Indonesian government.

All the new suggestions put forward by the ministry combined with the earlier opinion by the law ministry, the Planning Commission and an international legal expert would be forwarded to the EGoM for the final decision. The new guidelines would not be applicable retrospectively, but only to new projects. The ministry is planning an imported coal-based project in Cheyyur in Tamil Nadu, for which the bids would be called in some time after getting the environment ministry's clearance for coastal regulatory zone.

The current power purchase agreement (PPA) for UMPPs excludes fuel from the force majeure provisions. Fuel, instead, is mentioned under Clause (a) of Article 12.4 of the PPA that lists out the 'Force Majeure Exclusions'. Besides, the 'Non-natural Force Majeure events' specified in the PPA do not include actions by a foreign government.

Both Tata Power and Reliance Power had won the bids for Mundra and Krishnapatnam on international competitive tariff-based bidding. While Tata quoted Rs 2.26 per unit, Reliance had quoted Rs 2.33 a unit. The companies are asking for a price revision now because of the escalating costs in the import of coal following Indonesia's decision to benchmark coal prices to the international market. The first unit of the Mundra project will be commissioned in the next four months. However, Reliance Power has stopped work at its Krishnapatnam project, according to the Central Electricity Authority.

Plan panel to review road contract models

Weighs between BOT and item-rate

The Planning Commission has decided to again review the two main, and opposed, models of road contracts, namely, build-operate transfer or annuity model, and the item-rate one.

The review would mainly focus on cost benefits, to find the cheaper one. The annuity model has been opposed by various committees on the ground that it is costlier for the government. There are, however, various benefits. The government does not have to borrow directly, there's no cost increase and time overruns, and the developer maintains the road over a period of time.

In an item-rate contract, any increase in the project cost over the construction period is paid by the government. The contract fixes the total project cost and the construction period. The government borrows to fund the project in this model.

In the past 18 months, the National Highways Authority of India (NHAI) has not awarded any road project on an item rate contract.

The government has prepared a draft model concession agreement, being discussed within the government.

Annuity is one or two ways to award a BOT project. In the annuity model, the developer builds the road and the government pays it back in instalments. The government does not raise money but provides a sovereign guarantee for the loans raised. In the other, toll method, the developer is allowed to recover his investment by collecting a toll, over a concession period of 30 years in most cases.

The road building industry feels stretches with good traffic potential should be awarded on toll and annuity and focus on building stretches in areas with less traffic potential and backward areas.



Route emerges for first hi-speed rail corridor

Railways mull private finance options; tenders may begin in 2014

Pune-Mumbai-Ahmedabad would probably be the first rail line in the country to have a high-speed corridor, from the six being planned. The estimated construction cost is Rs 100 crore a km.

Tendering for creation of infrastructure for the corridor is expected to begin in 2014. French consultancy Systra recently gave a pre-feasibility report on the project to Indian Railways (IR). The latter are considering financial options for the entire project.

One is on a design, build, finance, operate and transfer basis, through a single private developer who will be responsible for construction, operations and maintenance.

There will be no interface risk on IR and all revenue risk can be transferred to the private developer. The option is unbundling the project into components. This may make it attractive to more companies from the perspective of affordability, in terms of size and risk allocation.

The estimated cost for the infrastructure might be around Rs 50,000 crore and another Rs 7,000 crore for rolling stock, averaging approximately Rs 100 crore per km.

The estimated traffic projection is around 26.6 million passengers in 2021. This is expected to rise to 104 million passengers in 2041. The likely alignment is expected to include a tunnel of 18.3 km between Lonavala and Karjat. The initially planned alignment of Pune-Mumbai-Ahmedabad is expected to have intermediate stations at Navi Mumbai Airport, Surat and Vadodara, to get more traffic.

These high-speed rail routes are expected to be built as elevated corridors, in keeping with the pattern of habitation and the constraint of land. These tracks will be completely fenced, with no road crossings. IR's plan to have trains at more than 300 km/hour on the six selected corridors: Delhi-Chandigarh-Amritsar, Pune-Mumbai-Ahmedabad, Howrah-Haldia, Hyderabad-Dornakal-Vijayawada-Chennai, Chennai-Bangalore-Coimbatore-Kochi and Delhi-Agra-Lucknow-Varanasi-Patna.

PROJECT REPORT	
The corridors	Status of pre-feasibility studies
Pune-Mumbai-Ahmedabad (650 km approx)	French consultant Systra has submitted its final report, which is under examination by stakeholders
Delhi-Agra-Lucknow-Varanasi-Patna (991 km approx)	UK-based consultant Mott McDonald engaged to conduct the pre-feasibility study
Howrah-Haldia (135 km approx)	Spanish consultant Eneco engaged to conduct pre-feasibility study
Hyderabad-Dornakal-Vijaywada-Chennai (664 km approx)	Tenders for the consultant for pre-feasibility study has been floated
Chennai-Bangalore-Coimbatore-Ernakulam (649 km approx)	Tenders for the consultant for pre-feasibility study to be invited shortly
Delhi-Chandigarh-Amritsar (450 km approx)	Technical evaluation completed and financial bid under finalisation. Consultant to be engaged shortly

The ministry of railways' Vision 2020 in 2009 had envisaged the implementation of high-speed train projects to provide services at 250-350 kmph, and planned for corridors connecting commercial, tourist and pilgrimage hubs. Despite India having the third largest rail network in the world, the country has no line capable of supporting speeds of 200 kmph or more. The Duronto and Rajdhani are the fastest, with speed ranging from 110 to 130 kmph.

Rio Tinto may get licence to mine diamonds in Madhya Pradesh

Rio Tinto, the world's second-largest mining group, is close to getting a licence to mine a diamond find in Madhya Pradesh. This could make the state one of the top producers of the precious stone in the world.

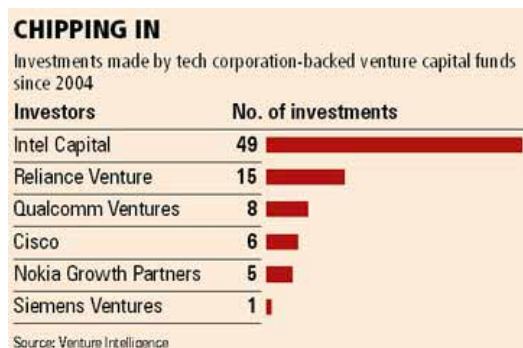
The Centre is waiting for a final nod from Bhopal before it signs on the Bunder diamond mining lease for Rio Tinto.

The Bunder project will be Rio Tinto's first operating mine in India and the only new diamond mining project in the country in nearly 50 years.

Rio has been prospecting for diamonds across India since the mid 1990s. A change in the name ACC Rio Tinto, under which it initially applied for a licence to Rio Tinto Exploration India, has been cleared by the law ministry. The Centre is now waiting for the state, which has already recommended the license, to verify the same. The Bunder project comprises a cluster of eight champagne-glass shaped volcanic rocks. Rio Tinto claims early studies have identified an inferred resource of 27.4 million carats. This makes the deposit seven times richer than National Mineral Development Corporation's Majhgawan mines, 170 km away in Panna.

Intel's VC arm to set up 2nd \$250-mn India fund

Intel Capital, the corporate venture capital arm of the world's largest chip maker, is setting the stage for its second fund to invest in India. The corpus, according to investment bankers, has been firmed at \$250 million, the same as the first fund from which Intel Capital is currently investing in India, since 2005.



Intel Capital has so far invested \$280 million in 77 companies in India, and was investing from its global fund prior to forming the India fund. Intel Capital has backed companies such as Deccanet Designs, Sharekhan, FutureSoft, India Infoline, Sasken, Rediff, R Systems and Subex besides many others early on in their growth path.

The landscape of corporate venture capital funds backed by global technology majors has been on an upswing in India. In addition to Intel Capital, which has been an early mover during 1998 in this space in India, other technology majors such as

Cisco, SAP, Qualcomm, Siemens Ventures have been getting active in India.

Companies scramble to set up solar power projects

India's solar power sector is gathering steam, with 150 companies rushing in to offer 2,500 MW of projects for the second round of bidding, seven times the allocated capacity of 350 MW for which bids were invited, raising hopes that electricity tariffs from the renewable source would fall below Rs. 10 per unit.

About 150 companies are in the fray for 218 projects worth Rs. 3,500 crore in the second round of projects under the Jawaharlal Nehru solar mission that aims to add 20,000 MW of solar capacity in the decade. In the previous round, the government had received bid applications for about 1,700 MW against an available allocation of 150 MW solar power. The government will shortlist companies by the second week of November. These firms will submit financial bids by the end of next month. They will compete by offering discounts to the prescribed tariff of Rs. 17.91 per unit fixed by the regulator.

The previous round of the bidding saw established names including Mahindra Solar One, Azure Power, Lanco Infratech and IOCL as bidders. But this time, the stakes are high due to increase in the number of big names and also the project size. With financially sound companies, the projects are likely to be of better quality and will set up faster. For this round, the government has tweaked the existing guidelines to help serious bidders. It increased the maximum size of the projects from 5 MW to 20 MW and allowed firms to bid for a total of 3 projects having a total capacity of 50 MW.

Given the increase in size per project, higher allocation allowed per company and the significant drop in module prices, this round is likely to see participation from larger companies with aggressive pricing

Bangalore metro operational

After cost overruns and multiple delays spanning four and a half years, the much-awaited Bangalore metro rail service has become a reality.

The inaugural run from MG Road in downtown Bangalore covered 6.7 km till Baiyappanahalli —

the terminus of Reach-1 of the 18.1-km east-west corridor.

NAMMA METRO
Bangalore Metro Rail Corporation Limited
<ul style="list-style-type: none"> • The project was conceived 24 years ago, but it was cleared in 2005
<ul style="list-style-type: none"> • The civil construction started in April 2007
<ul style="list-style-type: none"> • The Reach-1, 6.7 km, from Baiyappanahalli to MG Road opened for public use on October 20; entire project scheduled to be completed by December 2013
<ul style="list-style-type: none"> • Total coverage: 42.3km consists of an underground section of 8.8 km; 42 stations, including 7 underground ones • Estimated cost: Rs 11,609cr original project cost Rs 8,158 crore for 33 km • Cost per km: Rs 274cr • Peak traffic projections: 80,000 per day (for Reach-1, 6.7 km) • Fare: Minimum fare is fixed at Rs 10 and maximum is Rs 15 (end-to-end) for the 6.7 km stretch of Reach-1

The Bangalore Metro Rail Corporation Limited (BMRCL) has so far invested about Rs 4,000 crore in the project, of the total project cost of Rs 11,609 crore. Being built on the public-private partnership model, with the state and central governments holding 15 per cent equity each (Rs 1,224 crore), the project has 25 per cent (Rs 2,040 crore) debt component from Japan International Cooperation Agency.

Initially, the corporation will operate 182 trips per day at a frequency of 10-15 minutes to carry about 1,000 commuters per trip from 6 am to 10 pm daily, with fares ranging from Rs 10-15. The number of coaches for each train would be doubled to six, BMRCL managing director N Sivasailam said.

Private sector bribery may become criminal

With the corporate sector coming under a cloud for its alleged involvement in big-ticket scams, Prime Minister Manmohan Singh has advocated changes in laws to treat private sector bribery a criminal offence. The prime minister is the latest in the growing chorus of voices seeking accountability in the working of the corporates.

In its presentation before the standing committee on Lokpal, Central Vigilance Commissioner Pradeep Kumar had made a strong pitch for bringing corporate corruption within the ambit of the proposed Lokpal. He had cited the UK Bribery Act, 2010, and the Foreign Corruption Act of the USA as reference points in the formulation of the Lokpal Bill. By these laws, offering bribe itself is considered a penal offence.

The prime minister, while addressing the 18th Biennial Conference of CBI and state anti-corruption bureaus here, reminded that India had ratified UN Conventions against corruption and to meet its requirements, a long list of steps, including amendments in laws pertaining to anti-graft measures, were on the anvil. He, however, did not elaborate on the methodology being thought of to rein in corporate corruption.

Dwelling upon the measures being contemplated to rein in corruption, the PM said that the government is working on ways and means to minimise discretionary powers of public authorities and the issue of a public procurement law to minimise irregularities in the award of government contracts worth thousands of crores of rupees every year. He, at the same time, expressed the government's inability to weed out corruption *in toto*.

Imported software liable to withholding tax

Karnataka High Court ruling could impose hundreds of crores in taxes on IT-BPO companies

India's \$88-billion IT-BPO industry is likely to face more taxes at home. A Karnataka High Court ruling is likely to hit the likes of GE, Sonata Software and HP as all payments made for imported software will face withholding tax after the verdict. The eagerly-awaited decision that covered appeals from as many as 15 software players could impose hundreds of crores in taxes on them, spelling a big gain for the government's revenue department.

The high court had earlier held that all payments to non-residents were liable to withholding tax. This allowed the tax authorities to take a larger interpretation of a provision that any import from a non-resident is an income to the seller and hence the buyer needed to deduct tax. If the buyer does not want to withhold tax he had to get an approval from a revenue officer. In this case, the concerned companies made the payment without deducting

the tax, assuming that tax was not to be withheld in India on the payments made to the suppliers of software. The tax authorities treated the payments as royalty which is taxable here since those software packages had copyrights. The income tax department also declared that those who have not withheld taxes were “assessee in default”, making these companies liable to penalties of up to 300% of tax due, besides interest and the tax due. However, the Supreme Court rejected the income tax department's sweeping interpretation of the law withholding tax, or tax deducted from overseas payments. The court held that it is only in respect of those payments which are “chargeable to tax” in India that tax withholding would be applicable. The SC however, declined to answer the question of whether payments for import of software are indeed chargeable to tax in India under the provisions of the Act or not, and had instead remanded the matter back to the high court for determination on merits.

Therefore, GE, Samsung Electronics, Hewlett-Packard, Sonata Software and other firms, which had approached the Supreme Court against a Karnataka High Court decision, had to again approach the high court for a decision on withholding tax on payments made for shrink-wrapped software to their overseas suppliers

India to attract \$80 bn FDI over 12-24 months

Over the next 12-24 months India could attract a massive \$80 billion in foreign direct investment (FDI), according to a research report by Morgan Stanley. India received \$48-billion FDI in the last two years. This number came out of a survey of 176 of the firm's internationally-based research analyst teams that cover 1,766 global companies. These teams determined the likely India investment opportunity recognised by the companies they covered. The survey did not involve direct interaction with the companies. 20% of the companies covered in the survey have already invested nearly \$80 billion into India, almost 53% of the total FDI into the country.

As per Morgan Stanley's global analysts, 59 new companies are likely to invest in India while 67 of the currently invested global companies are unlikely to make further investments.

However, according to the survey, despite the intentions to pump in such large amounts India is still not a high priority destination.

National Manufacturing Policy cleared

The Cabinet has approved the National Manufacturing Policy (NMP) that seeks to raise the sector's contribution to GDP and create 100 million jobs over a decade.

The NMP seeks to enhance the share of manufacturing in the GDP to 25% within a decade and create 100 million jobs as part of the inclusive growth agenda of the UPA. At present, manufacturing contributes ~16% to the country's GDP. Close to 20 million people are added to the country's work force every year, for which employment opportunities need to be created. The prime minister had approved the policy in June but the details took long to settle because of inter-ministerial differences.

The policy envisages large integrated industrial townships, National Investment and Manufacturing Zones (NIMZs) with state-of-the-art infrastructure, lesser regulatory and compliance burden, faster clearances and fiscal incentives.

It is proposed that the zones, developed with private participation, will be positioned as self-governing and autonomous bodies.

Foreign drug companies may have to cut prices within few years of launch

Foreign drug makers may lose their freedom to sell patented drugs at high prices within few years of their launch, a move that could make them as cheap as their generic versions.

Most original research products do not fall under price control and global companies launch them at high prices saying they need to recover the R&D investments made to develop the drug.

The government is formulating a new policy that will give these companies the leeway to sell their drugs at high prices only for a fixed period to recover R&D costs. Once that period ends, the price of the original drug will be fixed according to a formula that will cover the cost of manufacturing plus a margin of up to 50%. This is the same method that is used to fix their low-cost generic equivalents.

More than 1,000 imported brands are sold in the country, most of them original patented drugs of foreign firms.

The government has been looking at ways to bring down the prices of original drugs that are sold in the country. It is exploring amendments in the 16-year-old drug pricing policy to empower the National Pharmaceutical Pricing Authority (NPPA) to question the landed cost declared by foreign firms, on whose basis price of imported brands are fixed. A government committee has also been formed to finalise a formula to fix prices of patented drugs but it has been unable to arrive at a decision for the last three years.



Infrastructure firms look for opportunities in Africa

Indian infrastructure companies are increasingly taking up projects in Africa to offset the impact of slowdown in domestic orders because of delayed decision-making by government, hurdles in land acquisition and environmental clearances.

Robust order prospects in the areas of roads, urban infrastructure, mining and affordable housing, coupled with lower entry barriers in the African region are making the continent attractive for Indian companies.

Indian companies have concentrated on developing roads in Ghana, Nigeria, Gabon and Tanzania, but opportunities could spill over to 24 countries of the total 54 nations in the African continent as these 24 nations together account for 85% percent of the gross domestic product, population and infrastructure grants of Sub-Saharan Africa.

A World Bank survey conducted in 2010 to assess Africa's infrastructure deficiency said only one in three rural Africans has access to an all-season road and more than 20% of the population in Cameroon, Ghana and Tanzania trek more than 2 km to their primary water supply. At the same time, the vast and varied continent is rapidly building out its infrastructure and is expected to

grow its economy by 5.5- 6% in 2012, a growth rate higher than the United States and Europe.

Indian firms operating in Africa say clearances are reasonable and fast and, therefore, a well-structured project in a stable country is easy to implement.



DIPP amends foreign investment policy to allow smooth PE exits

Bringing relief to the country's private equity investors, the government has amended the foreign direct investment policy by removing a new clause that did not consider any investment with in-built options such as put options or call options as FDI transaction. Put and call options are the most common route for any PE investor to exit from his portfolio companies.

According to the new paragraph (no. 3.3.2.1) that the Department of Industrial Policy and Promotion (DIPP) added in the FDI policy and released on September 30, only equity shares, fully, compulsorily and mandatorily convertible debentures and preference shares, with no in-built options of any type, would qualify as eligible instruments for FDI. This clause was viewed as being detrimental to the future PE investments in India.

The government has now withdrawn this controversial clause in the FDI policy that said that any instrument had an in-built option such as a buyback provision would be considered as debt and regulated under the external commercial borrowing rules.

Bidding norms for power projects to be revised

The qualification norms for companies bidding for power projects will be revised as many developers struggle to meet their obligations.

Many power companies are struggling because of high cost of fuel and low tariffs, which have also heightened the risk of defaults on loans. In addition, some non-serious players have entered the sector.

The government had fixed the norms in 2006 for “Case-I” bidding, where the company chooses the fuel, location and technology of the power station, as well as “Case-II” bidding where those criteria are specified, as in the case of ultra mega power projects.

The government has now decided to look at the qualification norms. The exercise would include comparing the qualification requirements for power companies against those in other infrastructure sectors including roads and highways.

The government is already working on making necessary changes in standard bid documents for ultra mega power projects and has sought the law ministry’s advice to include a tariff revision clause for ultra mega power projects if there is change of law in coal supplying nations. Now the qualification criteria of bidders for other projects would also be looked into.

Maruti Suzuki to set up plant in Gujarat

Maruti Suzuki India Limited, the country’s largest car manufacturer, has announced that it is setting up its next car manufacturing plant in Gujarat. Its board has approved land purchase for the new facility in Gujarat. The company could invest up to Rs18,000 crore in the state.

Maruti Suzuki is the third automobile manufacturer in as many months to announce car manufacturing plants in the state after Ford India and PSA Peugeot. Maruti Suzuki’s decision to drive into Gujarat would give a major boost to the state’s ambitions to emerge as India’s Detroit.

Maruti Suzuki plans to invest up to Rs. 18,000 crore for future expansion. It would invest Rs. 6,000 crore for a plant having capacity to produce 10 lakh cars per annum, and a similar amount in the second phase for another plant of similar capacity. It also plans to build a vendor park and supporting infrastructure with an investment of a further Rs. 6,000 crore.

The company requires around 500 - 600 acre land for the plant, and a further 500 acre for vendors. The state government has earmarked 500 acres land near Bechraji for the project.

Source

Press clippings

About Chadha & Co.

Chadha & Co. is a law firm based in New Delhi, India, with a strong Corporate and Commercial practice. The Firm has a specialized inbound practice in advising domestic and foreign corporations doing business in India on all Indian laws and regulations that are relevant to their business.

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