India ranked 'top reformer' in South Asia by World Bank

INDIA has been ranked as the "top reformer" in South Asia in a survey by the World Bank and the International Finance Corporation (IFC).

"Doing Business 2007: How to Reform," the special report released by the World Bank and the IFC, finds that India implemented five reforms during the last financial year (2005-06): simplifying business registration, cross-border trade, payment of taxes, easing access to credit, and strengthening investor protection.

These five reforms reduced the time, cost and hassles for businesses to comply with legal and administrative requirements. India's overall ranking - 134 of the 175 economies surveyed -- has improved significantly during the year. No other South Asian economy was able to improve its business regulations, resulting in the region being placed last in terms of the pace of reforms.

According to Michael Klein, vice president for financial and private sector development, World Bank-IFC: "South Asian countries need to do more to reap the benefits from new enterprises and jobs, which can come with more business-friendly regulations."

Another World Bank document - 'Financing Firms in India' - noted recently that entrepreneurs in India rely more on informal governance mechanisms - such as those based on reputation, trust and relationships - than formal mechanisms to resolve disputes and finance corporate growth.

The paper notes that the importance of the state sector in the Indian economy has been declining relative to the non-state sector, though as a group public sector undertakings (PSUs) have been growing at comparable rates.

The World Bank report notes that informal and alternative financing sources can provide an effective, though partial, substitute for formal channels and support the growth of small and medium enterprises (SMEs) in India.

IMF bullish about economic growth in India

THE International Monetary Fund (IMF) is bullish about the growth prospects in India during the current financial year. According to an IMF growth forecast, India's GDP (gross domestic product) is expected to grow by 8.3 per cent, up a percentage from earlier projections.

The Prime Minister's economic advisory council has projected a growth rate of 7.9 per cent for 2006-07, while the Reserve Bank of India, the country's central bank, estimates GDP growth of between 7.5 per cent and 8.0 per cent. The Indian economy grew by a hefty 8.5 per cent last year.

Interestingly, the fund sees prospects for an even higher growth in India during the fiscal. "In fact, India could even witness a higher growth rate than that projected on the upside, while on the downside, inflation has picked up with rising oil prices and strong domestic demand," it adds.

The IMF, while noting that higher inflation due to soaring oil prices could pose a risk to the economy, points out that interest rates may have to be raised further to check the rise in consumer prices. The IMF, in its World Economic Outlook, has projected an inflation figure for India of 5.6 per cent this fiscal, and 5.3 per cent in the next financial year.

New India's net profit up by 78 per cent

THE NEW INDIA Assurance Company, a government-owned insurance giant, has reported a 78.1 per cent rise in net profit for fiscal 2005-06. New India's net profit has grown to $85 million, while total assets have shot up by over 36 per cent to $5.75 billion.

B. Chakrabarti, chairman and managing director, New India Assurance - the largest non-life insurer in India - says that the company plans to expand its operations in the Arabian Gulf region. New India, like the other government general insurers, will be facing a major challenge, as the Insurance Regulatory and Development Authority (IRDA), the industry regulator, is pushing for a 'de-tariffed regime,' where insurance companies can go in for free pricing.

Insurance companies will be allowed to decide on the premium amount, based on several factors, including safe driving skills. High exposure to the motor insurance business has resulted in lower underwriting profit for New India Assurance: it fell from nearly $50 million to just over $7.5 million last year.

ADB's $180 million loan for rural roads

THE Asian Development Bank (ADB) is extending a $180 million loan to India for its rural roads development programme.

The agreement for the first tranche of a $750 million, multi-tranche financing facility (MFF) for the Rural Roads Sector II Investment Programme, was signed recently between the Manila-based bank and the Indian government in the national capital.

The MFF is part of the ADB's 'innovation and efficiency initiative' programme, which aims to reform its business model and provide flexibility to meet the needs of clients like India. Under the programme, the borrower can decide the time to avail of the loan, and even reduce commitment charges.

ADB's assistance to India is expected to increase from around $2.45 billion in 2007 to $2.85 billion two years later. Besides focussing on core areas such as transport, energy and urban sector operations, ADB plans to increase its aid to other areas, especially in the rural sector.

According to Kunkio Senga, ADB's director-general for South Asia, the bank aims to provide assistance of up to $1 billion this year for one special project - rural finance through cooperatives. The 20-year-loan will attract an interest rate about 40 basis points over the six months Libor (London Inter-bank Offered Rate).

Government-owned insurance giant raises market share, premium income

DESPITE the opening up of the insurance sector in India, and the entry of dozens of international players, government-controlled insurance behemoths continue to report excellent performance.

The Life Insurance Corporation of India (LIC), which is facing competition from 15 private companies - most of who have signed up with international partners - has for the first time raised its share (since the opening up of the sector) from 71 per cent to 77.51 per cent.

According to T.S. Vijayan, the new chairman of the corporation, LIC's premium income has risen by a whopping 180-plus per cent during the first four months of the current fiscal, beating even the industry average. Its new premium income soared by over 190 per cent.

"The life insurance industry in India has grown largely because of LIC's growth in the current fiscal," says Vijayan. For financial year 2006-07, LIC expects premium income to rise by 40 per cent to $5.1 billion.

The corporation, which turns 50 this year, has also set a world record by settling 11.8 million claims worth $6.06 billion in 2005-06. Every day, LIC settles nearly 45,000 claims, and 97 per cent are settled on or before the due date, he adds. In the case of death claims, 93 per cent are paid within 20 days of intimation of death.

Buoyed by its strong performance, LIC is toying with the idea of entering the credit card business. International consultancy KPMG has prepared a report suggesting LIC could look at making a foray into the lucrative business. But Vijayan says LIC will seek out partners before launching the new business.

LIC has invested over $63 billion in federal and state government bonds, about $12.75 billion in the infrastructure sector, and just under $650 million in equities.

Bangalore campus to drive Philips' global innovation strategy

INTERNATIONAL electronics giant Royal Philips Electronics, which is eyeing acquisitions in emerging markets including India, plans to make its India operations central to its global innovation strategy.

The European electronics major set up an 'innovation campus' in Bangalore about 10 years ago; it has about 1,600 professionals working out of the campus, handling about 50 per cent of the software capacity for consumer electronics.

According to Rudy Provoost, global CEO, Philips Consumer Electronics, "our innovation campus in Bangalore will reflect the new profile of the company to drive technologies and products in lifestyle and healthcare for contributing about 50 percent of our global software and research and development requirements."

The innovation campus at Bangalore would now focus on developing software products and solutions for high-definition television, LCD (liquid crystal display) TVs, CRTs (cathode ray tubes), set-top boxes, and mobile and multi-media devices, following the hiving off of its semi-conductor business.

The group wants to transform the campus into "a brain factory" to provide end-to-end solutions in lifestyle and healthcare domains and promote its products in emerging markets. It would also evolve into "a global inter-operable certification centre, focussed on building world-class capability to develop software, hardware, content and user interface for digital and ICT products." The Indian subsidiary has filed for over a dozen patents this year – and another seven are expected to be filed by the year-end – as against a mere four in 2004.

Briefs

ONGC to invest $500 million for redeveloping ageing Heera fields

OIL and Natural Gas Corporation (ONGC), a government-controlled energy giant, will invest nearly $500 million to redevelop its ageing Mumbai offshore Heera and South Heera fields in the Arabian Sea.

ONGC recently got approval from the industry regulator for redeveloping its Heera oilfields. The redevelopment will enhance production with improved recovery and redistribution of water injection, pattern sweep and pressure maintenance. Following the redevelopment, ONGC hopes for an incremental gain of over 10 million metric tonnes of crude oil and 2.26 billion cubmic metres of natural gas by 2030. The oil major plans to invest about $12.75 billion over the next five years to raise its production.

Indian corporates eyeing overseas assets

LEADING Indian public and private sector giants are scouring the globe for potential acquisitions. Many Indian firms are negotiating deals in Central Asia, Eastern Europe, Africa, and Latin America.

Indian groups that are on the prowl include the Tatas, the Aditya Birla group, the Vedanta group, Reliance Industries, Reliance ADA group, Mahindra & Mahindra, Jindal, and state-owned giants including ONGC, Indian Oil, Bharat Petroleum and MTNL.

Most of these groups/companies are seeking control over commodities and assets, including minerals and oil.

Mahindra & Mahindra seeking opportunities in Europe

AUTOMOBILE major Mahindra & Mahindra (M&M) is looking for opportunities – both in terms of exports and acquisitions of auto component firms – in Europe. According to Anand Mahindra, managing director and vice-chairman, M&M, the company is very much in the running for the Romanian government's stake in Tractorul, a tractor manufacturer. M&M is active in Asia, Africa and Europe. India's leading tractor and automobile manufacturer is also keen on a foray into the hugely competitive American market. M&M has seven factories, 33 sales offices and over 500 dealers in India.

India Inc on capex spree

INDIAN corporates are on a capital expenditure (capex) spree, investing billions of dollars on fixed assets. According to a study, investments by Indian corporates in capex soared by nearly 30 per cent during 2005-06 over the previous year's figures.

India Inc is estimated to have spent about $23.5 billion in capital expenditure during financial year 2005-06, up from the previous year's figure of $18 billion. Over half of the expenditure was on plant and machinery, over a quarter on capital work in progress and over 20 per cent on land and buildings.

The survey of 1,425 manufacturing and service firms – with total gross fixed assets of over $160 billion – indicated that just about 25 firms accounted for over half of the spending on fixed assets. Eighty per cent of the capex was incurred by just about 100 top companies.

The big spenders included Reliance Industries ($2 billion), NTPC ($1.42 billion), Bharti Airtel ($1.11 billion), ONGC and Essar Steel (both of about $1 billion each). Investments by refineries accounted for $3.75 billion worth of capital expenditure. Steel firms invested about $2.5 billion, while power generators incurred capex of $1.7 billion. Telecommunications ($1.56 billion), textiles ($1.12 billion) and information technology ($1.03 billion), were the other big capex spenders.

Government approves $720 million international realty fund of HDFC

THE Indian real estate sector, growing at a phenomenal pace, continues to attract huge international funding. The government recently gave its approval to the proposal by housing finance major HDFC Ltd to invest $720 million, raised overseas, in units issued by HDFC International Real Estate Fund (IREF).

The cabinet committee on economic affairs recently approved the Mauritius-registered, HDFC-sponsored India Offshore Real Estate Investments, to route foreign investments into the country. HDFC set up the fund in Mauritius to attract international investors, who can save on tax by investing through the island nation.

Several top international investors, including Morgan Stanley, Merrill Lynch, and GE Commercial Finance Real Estate have invested millions of dollars in the Indian real estate sector, which according to Merrill Lynch, is expected to surge from $12 billion to $90 billion in about 10 years.

An estimated $8 billion in private equity is expected to flow into the Indian realty sector over the next few months. Property prices in select localities in cities including Mumbai, Delhi and Bangalore have been growing by between 35 and 50 per cent annually. Land prices in many localities in these cities have doubled over the past two years.

India has thrown open the realty sector to 100 per cent foreign direct investment (FDI), and dozens of companies from around the globe are firming up major investment plans.

Three government banks in strategic alliance

THREE state-owned banks in India have joined hands to present a formidable challenge to new rivals, especially from the private sector. Corporation Bank recently signed a memorandum of understanding with the Oriental Bank of Commerce and Indian Bank, forming a strategic alliance to take on the competition.

The three banks will collaborate in several areas, including building an e-payment system, sharing information technology, treasury and training resources, besides sharing business syndication. They would also cooperate in the lucrative, 'bancassurance' business.

The strategic alliance will enable the three banks to cut costs, grow their portfolio, and take on rivals. The move will also help the banks to improve their bottom-line, besides significantly improving returns. The first such tie-up between nationalised banks also covers areas like treasury operations, sharing of technology and distribution of insurance products.

According to K.C. Chakrabarthy, chairman, Indian Bank, the move "is a new experiment to usher in a new horizon in Indian banking," without going in for a full-fledged merger. "We are trying to integrate our strengths," he says. The three banks have a total of over 3,600 branches and combined assets of nearly $32 billion. But this is way below the country's largest commercial bank, government-owned State Bank of India ($85 billion), and ICICI Bank, the largest private bank ($42.5 billion).

India world's fastest wealth creator

INDIA will emerge as the world's fastest wealth creator, with a growth rate of 13.3 per cent during the period 2005-10, as against a global average of 5.6 per cent.

International research firm Boston Consultancy Group (BCG), in its 2006 Global Wealth Report, notes that India was the second fastest wealth creator after China between the years 2000 and 2005. Robust growth in sectors like information technology, textiles and pharmaceuticals has ensured such rapid growth in India.

Both India and China have seen the highest growth in the number of millionaire households – above 15 per cent every year between 2000 and 2005. India today is home to the world's 18th largest population of millionaires – and nearly a third of them live in the country's commercial and financial capital (Mumbai) and the political capital (Delhi).

According to the BCG report, the number of millionaire households globally grew by 0.9 per cent in 2005 to 7.2 million; their overall wealth rose by 1.5 per cent to $25.8 trillion, accounting for 28.6 per cent of total global wealth.

India's total wealth – which is reflected in assets managed by wealth managers – shot up to nearly $560 billion in 2005, more than double the 2000 level of $268 billion. Of course, the US continued to lead the world with the assets of the wealthy placed at $31.29 trillion.

India, together with Russia, has moved to the top-20 in the 'wealth leagues' table, while China has improved its position to eighth, from tenth.

Briefs

GMR to foray into realty development

THE GMR group, which is involved in the modernisation of Delhi international airport, plans to venture into the residential and commercial development space.

According to the group, it would initially take up projects in Bangalore and Hyderabad, and later expand nationally. The company, which has already identified land in the two southern Indian cities, has begun the process of acquiring it.

The infrastructure group has major interests in energy, transportation and manufacturing. Group company GMR Infrastructure, which recently went in for an Initial Public Offering (IPO), has gone in for a listing on both the Bombay and National Stock Exchanges.

Tata group to invest $25 billion for expansion

THE Tata group, India's leading business conglomerate, plans to invest a whopping $25 billion over the next three to five years to expand its operations across several domains, including automobiles, chemicals, power, steel and telecommunications.

Investments will be made in the domestic market by group companies including Tata Steel ($15 billion), the telecommunications group and the power group ($4.25 billion each), and Tata Motors ($2.12 billion). The group also plans to expand into emerging new sectors including biotechnology, according to Kishore Chaukar, managing director, Tata Industries.

Godrej Agrovet in JV with Malaysian firm

Godrej Agrovet Ltd, part of the $1.25 billion Godrej group, has signed a memorandum of understanding with IJM Plantations Berhad of Malaysia, to set up a joint venture unit in India.

The new venture, with an initial investment of $42.5 million, will include procurement of oil palm planting materials, raising nurseries, supply of seedlings and provision of agronomic assistance to oil palm farmers in India. Godrej Agrovet has about 10,000 hectares of oil palm in several Indian states, and has also taken up oil palm plantation activities in other areas.