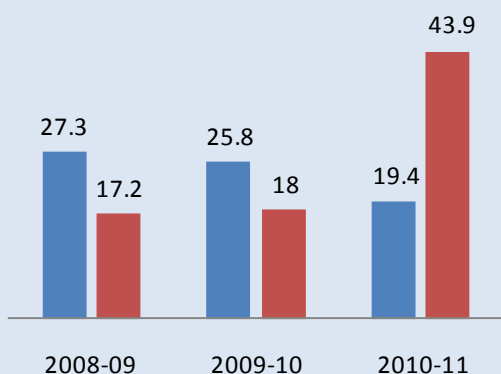


THE WEEKLY BUZZ

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A Study In Contrast

■ Inbound FDI (\$ bn) ■ Outbound FDI (\$ bn)



OVERSEAS INVESTMENTS BY INDIAN FIRMS SPURTS 144% IN 2010-11

Overseas direct investments by Indian companies rose 144% during 2010-11 to \$43.9 billion from \$18 billion in 2009-10 as they pumped money into their overseas subsidiaries, bought companies and acquired technologies and brands. This is the highest outbound investment by Indian firms since fiscal 2008 when it stood at \$20.9 billion, according to the Reserve Bank of India.

A fair number of these activities were for acquisition of not very large firms, with mainly mid-sized Indian companies buying small entities across the world. These acquisitions may have been made to access existing clients of the company being bought or technology or for acquisition of established brands, etc. This is because firms are trying to establish manufacturing centres close to the product markets as sometimes it is very difficult to penetrate these markets from India. Another reason for this spurt in overseas investments has been because of investments made by large Indian companies in natural resources like coal mines, abroad.

By contrast, foreign direct investment (FDI) into India has been falling the last couple of years. FDI declined by 25% to \$ 19.4 billion in 2010-11 from \$ 25.8 billion in 2009-10, which again was lower than the \$ 27.3 billion invested in 2008-09. However, FDI for April 2011 increased 43% year-on-year to \$3.1 billion, the highest monthly inflow since August 2009. But with the RBI consistently raising interest rates, it is widely expected that the Indian economy will slow down in the current financial year. Add to this, the ongoing debt crisis in Europe and a wobbly US economy. Thus, risks to FDI inflows are definitely on the rise and whether the falling trend has reversed cannot be gauged as yet.

POWER DEFICIT FOR 2011-12 PEGGED AT 10.3%

The Central Electricity Authority (CEA) has projected an energy shortfall of 10.3% and a peak shortage of 12.9% in the country during the current financial year (2011-12). In the previous financial year, energy shortage was 8.5% and peak shortfall 9.8%. CEA, in its Load Generation Balance Report for 2011-12, says as many as 22 States/Union Territories would have energy as well as peak deficit of varying degrees and only 3 States/Union Territories would have net surplus energy as well as peak surplus on an annual basis.

While the highest energy shortage of 11% will be in the western region, the maximum peak demand deficit of 14.5% will be felt by the southern region.

During 2010-11, only 12,161 MW could be added against the target of around 21,440 MW. This year, it has been planned to add nearly 17,200 MW. It appears that the country will not even meet the revised target of about 62,300 MW of the 11th Five-Year Plan. When the 11th Plan ends in March 2012, the achievement could be around 50,000 MW.

These only reinforce the need for focused attention on capacity addition. Fundamental and chronic problems cannot be overcome through short-term measures like load-shedding and temporary purchase of power from surplus states. Additional capacity has to be created in a sustained and rapid manner. There is no short-cut to this option.

FEDERAL RESERVE LOWERS GROWTH FORECAST FOR THE US ECONOMY

The US Federal Reserve lowered its forecasts for growth and employment in the United States this year and the next, projecting the economy will expand 2.7% - 2.9% this year, down from forecasts ranging from 3.1% - 3.3% in April. The U.S. Central Bank said that inflation, excluding food and energy, will be somewhat higher than previously forecast. It also said it sees 2012 growth in a range of 3.3% - 3.7%, lower than its previous forecast.

The Federal Reserve also confirmed it was ending its \$600 billion bond-buying program at the end of June and reiterated it will continue to reinvest principal payments from its holdings. By the time its latest "quantitative easing" program wraps up next week, the Federal Reserve will have pumped some \$2.3 trillion into the economy.

However, two years after the end of the U.S. recession, the recovery looks disappointingly weak. Employers have been reluctant to hire and the unemployment rate rose to 9.1% in May. The US Fed downgraded its view of the labour market and pushed its forecast for unemployment a bit higher. It said the unemployment rate would likely average 8.6% - 8.9% in the fourth quarter of 2011. In April, it had forecast a range of 8.4% - 8.7%.

With an uncertain job outlook and constantly falling home values, consumer spending - which makes up around 70% of U.S. GDP - has lagged. The economy grew at an annualized rate of just 1.8% in the first three months of the current year. Analysts expect growth of around 2% in the second quarter, still not sufficient to generate a big uptick in hiring.

IRDA SETS 10 YEAR THRESHOLD FOR LIFE INSURERS TO GO PUBLIC

The Insurance Regulatory and Development Authority (IRDA) has made an experience of 10 years mandatory for life insurance companies to list on the bourses.

IRDA has announced its long-awaited draft IPO norms and has listed a series of stringent conditions in its regulations on 'Issue of Capital and Disclosure Requirements for Life Insurance Companies, 2011'. Earlier capital market regulator SEBI had given its nod to IRDA's proposal to allow life insurers, a new class of companies, to float IPOs. Only after obtaining the consent of IRDA to make an application, the insurer may proceed with complying with various requirements as may be laid down by SEBI. Although most suggestions of the life insurance industry have been accepted by IRDA, 2 important suggestions: 1) permitting private placements before going public and 2) being allowed to go public after completing 5 years of operation, were turned down by the industry regulator.

Only 3 insurance companies in India have completed 10 years of operations: LIC, ICICI Prudential Life and HDFC Standard Life.

NEW TELECOM COMPANIES' REVENUE STREAMS TURN INTO A TRICKLE

The average revenue per user (ARPU) of the country's four new GSM operators who got licences in 2008 — Uninor, S-Tel, Videocon and Etisalat DB — was between Rs 8.50 and Rs 39 in the January-March quarter. The ARPU of all GSM operators combined was Rs 118. This means the ARPU of Uninor (Rs 39), the best performer among the four, was one-third the industry average. Videocon's ARPU of Rs 8.50 was one-thirteenth the industry average. Etisalat DB's ARPU was Rs 26.75 while S-Tel's was Rs 25.99. Experts say such low ARPU does not even cover the cost of acquiring a customer, which is Rs 300-400.

In stark contrast, the ARPU of the 3 largest GSM players, Bharti Airtel, Vodafone and Idea Cellular were Rs.194, Rs.171 and Rs.161, respectively. The four companies have already invested Rs 13,000 cr. to date. While Uninor operates in 13 circles, S-Tel has operations in five, Etisalat-DB in 15 and Videocon in 13 circles.

Did You Know?

CIBIL TransUnion Score is a 3 digit numeric summary of an individual's credit history which ranges from 300 to 900 points. The score is issued by Credit Information Bureau (India) Ltd. (CIBIL) and tells a credit institution how likely is the individual to pay back a loan based on his or her past pattern of credit usage and loan repayment. The closer the score is to 900, the better. Consumers can obtain a copy of their CIBIL TransUnion Score directly from CIBIL for Rs.450.

Weekly Spotlight

	June 17	June 24	% change	
			Weekly	YTD
Sensex	17,870.53	18,240.68	↑ 2.07	↓ (11.06)
Nifty	5,366.40	5,471.25	↑ 1.95	↓ (10.81)
US	12,004.36	11,934.58	↓ (0.58)	↑ 3.08
China	2,642.82	2,746.21	↑ 3.91	↓ (2.20)
Japan	9,351.40	9,678.71	↑ 3.50	↓ (5.38)
Hong Kong	21,695.26	22,171.95	↑ 2.20	↓ (3.75)
Germany	7,164.05	7,121.38	↓ (0.60)	↑ 3.00
UK	5,714.90	5,697.70	↓ (0.30)	↓ (3.43)
Brazil	61,059.98	61,017.00	↓ (0.07)	↓ (11.96)
NYMEX Crude (\$ per barrel)	93.00	91.20	↓ (1.94)	↓ (0.22)
Gold (\$ per oz)	1,537.50	1,514.75	↓ (1.48)	↑ 7.77
Weekly DII Inflow (Rs.cr)	1,029.91	1,206.19		
Weekly FII Inflow (\$ mn)	(329.49)	(250.70)		
Cumulative DII Inflow - YTD (Rs.cr)	15,300.41	16,506.60		
Cumulative FII Inflow - YTD (\$ mn)	(139.43)	(390.13)		
Food Inflation (%)	8.96	9.13		

All you need for a lifetime of successful investing is a few big winners, and the pluses from those will overwhelm the minuses from the stocks that don't work out.

- Peter Lynch

Research Analyst: K. Sanjay Karanth | Email: research@sunshinefinancials.com | For archives: www.sunshinefinancials.com

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