

## EMISSARY CAPITAL BUSINESS REPORT

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### INDIA

#### DEAL ANALYSIS:

India Rank (Global)	11
India Rank (Asia)	4
India (# of deals)	84
India (Deal value)	13.79B

Includes: IPO, FPOs and Convertibles

Source: The Economic Times, Business Standard and company filings

#### REPORT HIGHLIGHTS:

- *Indian government announces second economic stimulus package.*
- *RBI cuts bench mark interest rates, fourth time since October.*
- *Inflation falls to 10-month low of 6.38%.*
- *India's state run **ONGC Videsh** gets shareholder approval to acquire **Imperial Energy**.*

#### ECONOMIC NEWS:

- Representing the fourth rate cut since October '08, the RBI cut its benchmark overnight lending rate, or the repurchase rate, to 5.5% from 6.5%, as well as the reverse-repurchase rate, or the rate at which it absorbs money from the banking system, by a percentage point to 4%. In an effort to further improve liquidity, the RBI also reduced the cash reserve ratio - the proportion of deposits banks must set aside as cash - by a half-point to 5%, which is projected to free up \$4.16 billion within the domestic banking system.
- Inflation, which has more than halved from its 16-year high of 12.92% registered in the first week of August, declined to a 10-month low of 6.38% for the week ended December 20 (versus 6.61% the previous week), a result of continued price declines across all three major segments of the wholesale price index - namely articles, fuel and manufactured products. Fuel, on a week-on-week basis, fell by 50 basis points, a decline that should continue to impact prices of manufactured goods and further weigh down on inflation in the near to intermediate term.
- India's foreign exchange reserves increased for the third consecutive week (ending December 26) due partly to higher FII dollar inflows – reversing the trend of the last several weeks - as well as revaluation of non-dollar assets in reserves. According to latest RBI figures, India's foreign exchange reserves - including gold and SDR – grew by \$651 million to \$254.6 billion. FIIs have brought in \$500 million by way of investment in Indian equities and debt as of December '08.

## EMISSARY CAPITAL BUSINESS REPORT

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### INDUSTRY NEWS:

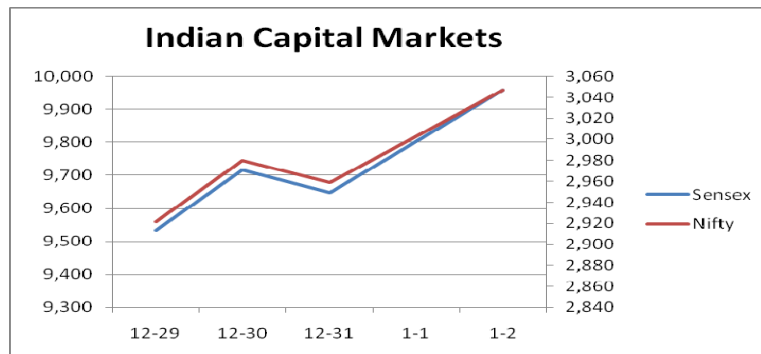
- **ONGC Videsh**, the foreign investment arm of the Indian state oil company, is poised to acquire, for £1.3 billion, British oil explorer **Imperial Energy** having received the minimum 90% shareholder approval, or specifically 96.8%, to seal the deal. The deal for Imperial, which maintains a bulk of its assets in Russia, should close on January 14, 2009. In defining the rationale for the transaction, ONGC highlighted the attractiveness in acquiring established assets in western Siberia – one of the world's largest oil and gas producing regions - with significant long-term production and reserves potential. Imperial's assets include probable reserves of 3.4 billion barrels of oil equivalent and the company plans to increase production to 80,000 barrels a day by 2011.
- Indian companies, struggling to raise money from banks, will have access to more funds from overseas foreign investors. As part of its second economic stimulus package, the Indian government has more than doubled the limit for investment in Indian corporate bonds from \$6 billion to \$15 billion. There remains huge demand for investment in Indian bonds in general, corporate bonds in particular. Foreign funds, for example, that unloaded equities worth an estimated \$13.5 billion in 2008, have been aggressively buying Indian debt paper or approximately \$3 billion worth in 2008, which was more than half the amount invested since Indian regulators allowed foreign investments in India. According to Indian bond dealers, a large part of this has been in corporate bonds, with government bonds absorbing most of the investment.

According to analysts and observers, the move by the government is timely as it should help satisfy the growing appetite of foreign funds seeking to take advantage of relatively higher coupons in India, which, in addition to broadening the investor base, should narrow corporate spreads. Appetite for Indian corporate bonds has always existed despite earlier restrictions, and most analysts now believe that the SEBI – India's market regulator – will begin to distribute limits more freely among foreign investors and thereby attract more investments in corporate bonds.

A contraction in corporate spreads – the premium in yield that a company has to pay over comparable sovereign paper to compensate for additional risk – should be another positive fallout from the government's action. Following the Lehmann collapse in September, the risk aversion that had gripped traders led to unprecedentedly high spreads. As a result, spreads on bonds issued by even government-owned companies have recently been quoted at 275-300 basis points and 350-375 basis points for private companies. Indian policy makers remain hopeful that its initiatives will enhance the liquidity of Indian companies that have been actively tapping the bond markets to raise cash while shifting the currency risk on to foreign investors.

EMISSARY CAPITAL BUSINESS REPORT

CAPITAL MARKETS UPDATE:



Source: The Economic Times, The Financial Times, Yahoo Finance!

- Expectations for a second government stimulus package, further rate cuts by the RBI and buying by foreign investors, helped the averages reverse losses stemming from the preceding week. Markets closed higher on four out of five trading sessions for the week ended January 2, 2009. The BSE 30-share **Sensex** rose 629.30 points or 6.75% to 9,958.22, the **S&P CNX Nifty** gained 189.50 points or 6.63% to 3,046.75. The BSE Sensex is down 11,248.55 points or 53.04% from its all-time high of 21,206.77 struck on January 10, 2008.

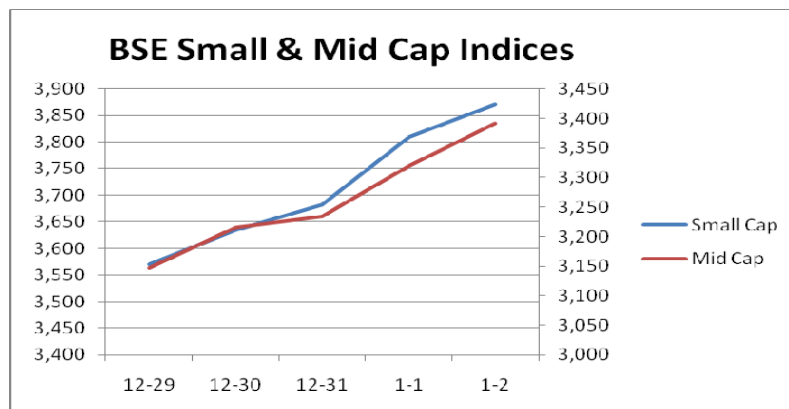
Outperforming the Sensex, the **BSE Mid-Cap index** gained 284.50 points or 9.16% to 3,391.18 and the **BSE Small-Cap index** rose 321.91 points or 9.07% to 3,870.45 for the week. The **BSE Bankex** was up 8.88% to 5,674.31, the **BSE Power index** increased 9.23% to 1,908.15, the **BSE Capital Goods index** increased 10.4% to 7,286.83, the **BSE Metal index** was up 12.34% to 5,561.24, and the **BSE Realty index** was up 12.34% to 2,472.51. The **BSE IT index**, which increased 6.27% to 2,284.20 and the **BSE Auto index** up 6.65% to 2,521.09, were the only underperformers relative to the Sensex.

Highlighting individual stock performances, India's largest private sector firm by market capitalization, **Reliance Industries**, gained 5.93% after its unit **Reliance Petroleum** commenced crude production at 580,000 barrels per day. India's largest private sector bank by net profit, **ICICI Bank**, rose 12.74% after the bank cut the benchmark advance rate to 16.75% from 17.25% previously as well as rates for home loans by 50 basis points. India's fourth largest IT firm by revenue, **Satyam Computer Services**, jumped 31.2% on rumors that senior managerial changes were looming in the wake of the recently aborted bid to buy stakes in firms in which management held shares. India's second largest telecom services provider by revenue, **Reliance Communication**, increased 22.12% after the company announced a nationwide rollout of GSM-based cellular services. India's largest electrical equipment maker by revenue, **Bharat Heavy Electricals**, rose 8.31% on news that it had successfully secured a large contract win. India's largest motorbike maker by revenue, **Hero Honda Motors**, fell 0.19% after posting a 10% y/y decline in sales for the month of December 2008. Other stocks in play included **Infosys** (up 1.93%), **HDFC Bank** (up 4.44%),

## EMISSARY CAPITAL BUSINESS REPORT

**Tata Consultancy Services** (up 5.34%), **Wipro** (up 6.98%), **State Bank of India** (up 6.89%).

### SME / SMALL & MID CAP NEWS:



- Amid a volatile capital markets environment and lackluster performances by large cap stocks, small and mid-caps performed relatively well with such stocks as **Dredging Corporation, Spice Telecom, Bajaj Hindustan, Patel Engineering, Central Bank, India Infoline, ABG Shipyard, GVK Power** drawing particular investor interest including those from foreign funds.

While market observers caution that a broad-based upswing is unlikely to be sustained given the still battered macro-economic situation, there still exist a quality number of stocks trading at reasonable valuations which have led analysts to reckon that a near-term rally can be sustained for a short period longer. Market participants also point to the fact that numerous funds dedicated to the SME space continue to sit on huge piles of cash, which may serve as a harbinger of actions to come..

### FOCUS OF THE WEEK:

#### Indian government announces second stimulus package:

In summary, the Indian government moved swiftly to limit a slowdown in the broader economy by slashing key rates, easing limits on foreign investment in corporate bonds and rolling back some anti-inflationary measures. The federal government's stimulus package -- the second in as many months -- included steps to ease overseas borrowing norms for infrastructure, finance and real-estate companies, all of which have been hit hard by the current crisis. The new stimulus package comes after the Indian government in December announced a \$4 billion spending plan for roads and ports and cut excise duties 4% across the board.

EMISSARY CAPITAL BUSINESS REPORT

**Key highlights of new stimulus plan** – a) the Indian government raised the foreign-investment limit in corporate bonds to \$15 billion from \$6 billion; b) until June 30, 2009, removed the ceiling on the interest rates that Indian companies have to pay for overseas borrowings - previously, Indian companies paid up to only three percentage points above LIBOR for loans of up to five years and five percentage points for loans of longer maturity; c) the government has allowed India Infrastructure Finance Co., an SOE that finances and develops infrastructure projects in India, to borrow an additional \$6 billion in the form of tax-free bonds on top of the \$2 billion it borrowed in December '08; d) state governments can now raise an additional \$6 billion by March 31, 2009 to build roads, schools and hospitals; e) the government's plan to provide \$4 billion to boost the capital of state-run banks and \$5 billion for non-bank finance companies; f) the re-imposition of a special import duty on cement and steel-related products; g) increasing a tax refund for exporters on several textile and engineering items.

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CHINA

DEAL ANALYSIS:

China Rank (Global)	7
China Rank (Asia Pacific)	2
China (# of deals)	115
China (Deal value)	18.43B

Includes: IPO, FPOs and Convertibles  
Source: China Daily, Financial Times and company filings

BUSINESS NEWS HIGHLIGHTS:

- Three Chinese steel companies -- **Tangshan Iron and Steel Co**, **Handan Iron and Steel Group** and **Chengde Xinin Vanadium and Titanium Co** -- agreed to merge, creating the country's largest listed steel maker. The three Hebei-based companies will operate under the entity, **Hebei Iron and Steel Group**, which will be the only listed company of the group following the merger. According to the company, combined annual production of raw steel will be about 32 million tons versus major steel producer **Baosteel's** 30 million tons capacity.

Pending shareholder and regulatory approval, **Tangshan** will merge with the two smaller companies through share swaps whereby one **Handan** share will be swapped for 0.775 **Tangshan** share and one **Chengde** share for 1.089 **Tangshan** shares, according to the merger agreement. Handan and Chengde would cease to exist as separate legal entities and their assets, debts, businesses and staff would go to Tangshan.

According to analysts, the merger creates China's largest steelmaker by production, though enhanced profitability in the short-term is expected to be unlikely. Given the scale of the

## EMISSARY CAPITAL BUSINESS REPORT

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transaction, a renewed push for steel industry restructuring/consolidation in China, which has been ongoing, is likely to be the most important fallout.

- According to data released by the **Census and Statistics Department of the Hong Kong Special Administrative Region** government, the value of total November retail sales in Hong Kong, provisionally estimated at \$2.65 billion, increased 1.1% from a year earlier. When netting out the effect of price changes over the same period, the volume of total retail sales declined 2.8%. The data reveals that during the first 11 months of 2008, total retail sales grew 11.6% in value and 5.6% in volume, over the same period last year, with the volume of fuels sales (up 9.3%) reflecting the greatest increase, followed by furniture and fixtures, commodities in department stores and electrical goods. The volume of vehicle and parts sales declined the most, down 36.6%, followed by footwear, allied products and clothing accessories.

The decline in volume of retail sales is believed to be related to the ongoing global economic slowdown. However, compared with October, retail sales reflected improvement particularly out of clothing and footwear outlets as well as department stores.

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## EMISSARY CAPITAL BUSINESS REPORT

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