

## EMISSARY CAPITAL BUSINESS REPORT

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### REPORT HIGHLIGHTS:

- *IMF sees growth of 6.7% and 5.1% in 2009 for China and India, respectively*
- *India's core infrastructure growth falls to 2.3% in December 2008*
- *India's Larsen & Toubro announces tripling in 3Q earnings*
- *Airbus announces JV to produce parts and components in China*
- *China's Finance Minister reckons that 8% growth likely to create further difficulties in balancing budget*
- *Neusoft Corp., China's largest software company, sees 20% profit increase in 2009*
- *Chinese Premier Wen expresses optimism over China's growth at Davos summit*

## INDIA

### DEAL ANALYSIS:

India Rank (Global)	8
India Rank (Asia)	5
India (# of deals)	3
India (Deal value)	0 .274B

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

### ECONOMIC NEWS:

- The IMF's forecasts 2009 worldwide growth at 0.5%, the lowest since World War II (60 years), and reduces India's growth prospects in fiscal 2010 to 5.1% from its earlier forecast of 6.3%. China's growth forecast was also downgraded to 6.7% from its earlier projection of 8.5%.
- According to provisional December 2008 data released by India's commerce and industry ministry, growth of India's six infrastructure-related industries - crude oil, refinery products, coal, power, cement and finished steel - fell to 2.3% versus 3.2% last year, due predominantly to a drop off in steel and crude oil output, though coal and cement production increased y/y. Crude oil, steel, and electricity posted declines of 0.3%, 0.8%, and 0.7%, respectively. The 5.1% growth in September 2008 had stoked optimism after the combined industries grew at a 2.3% clip in August. Between April-December, growth slowed to 3.5% from 5.9%.

### INDUSTRY NEWS:

- According to a recent study by the Economic Times, India's companies improved capital productivity, measured by revenue generated per unit of capital deployed, by 36% between fiscal 2002 and 2008. The increase coincided with the unprecedented economic and corporate earnings growth over the past 6 years. Capital productivity in the industrial sector

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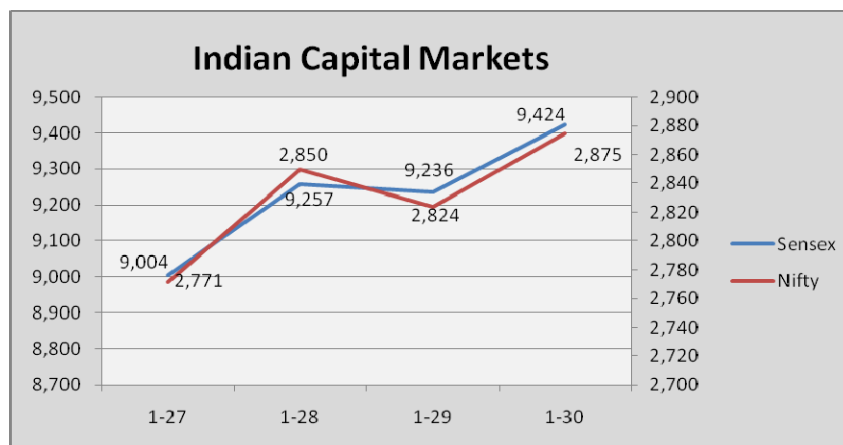
rose from 1.13 units in fiscal 2002 to 1.54 units in 2008, meaning that revenue generated for every Rs. 10 million (\$200,000) worth of their fixed assets increased from Rs. 11.3 million (\$226,000) to Rs. 15.4 million (\$308,000), respectively. Aggregate sales of 2,000 Indian companies surveyed for the study grew at an 18% CAGR of 18% during the period while fixed assets grew at CAGR of 12%.

Companies that have experienced maximum improvement in capital productivity include **Rajesh Exports, Mangalore Refinery & Petrochemicals, Sterlite Industries, Haldia Petrochemicals, Jindal Saw, L&T, Siemens, Hindalco** and **NMDC**, most of which operate in the oil, mineral, metals, and jewelry sectors and have seen sharp increases in prices.

- Larsen & Toubro Ltd.**, India's largest engineering firm, announced a tripling in 3Q earning, which benefited from greater construction of roads, bridges and factories as well the sale of its ready- mix concrete business. Net income grew to Rs. 15.2 billion rupees (\$310 million) from Rs. 4.82 billion posted a year earlier. According to analysts, the May 2008 sale of its concrete business to **Lafarge SA** has enabled Larsen to increase working capital and help finance new orders, projected to increase 35% in fiscal 2009. The company is also seeking to address new markets beyond the Middle East – Africa, Malaysia, China and the Far East - in anticipation of the continued domestic slowdown. Accordingly, revenue is expected to increase 30% this year, aided by a 15%-20% gain in orders.

In 3Q, the company secured orders worth Rs. 146.2 billion (\$1.4 billion), a 12% y/y increase, thanks to a 36% increase in new engineering and construction business while cost escalation clauses enabled them to keep margins at bay. Earnings grew to a better than expected Rs. 6.04 billion (\$60 million) yielding an 11.5% profit margin versus 12% last year.

**CAPITAL MARKETS UPDATE:**



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

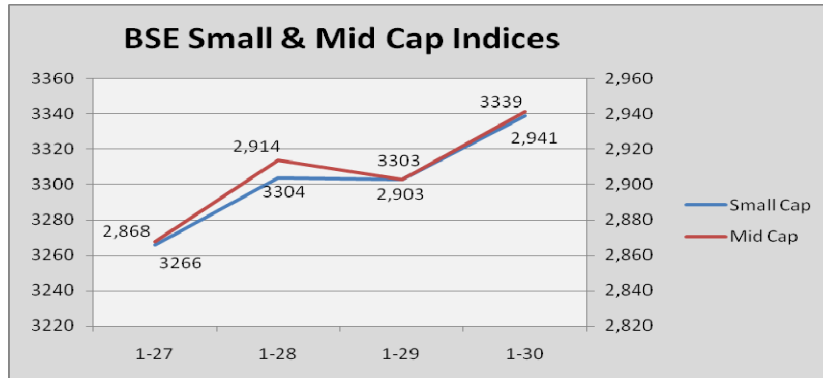
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- According to a recent study by **Prime Database**, fund mobilization into IPOs reached a new 5-year low in 2008. Indian companies raised \$3.3 billion in IPOs and follow-on offerings, a

63% y/y decline of 63% from the \$9 billion raised in 2007. The last time the figure went below \$4 billion in a single year was 2003, when Indian companies raised \$435 million through 14 issues.

In 2008, there were a total of 38 issuances versus 106 last year, with only two issuances over \$200 million versus six, respectively. 22 of 38 issuances raised less than \$20 million while 14 raising less than \$10 million. 6 of the 37 IPOs were oversubscribed by more than 10 times, compared with 50 out of 101 IPOs in 2007. 14 issuances managed to get a one-time subscription, while 3, including the \$1.08 billion issue of **Emaar MGF** and the \$112 million issue of **Wockhardt Hospitals**, were cancelled. The only significant IPO in 2008, was that of **Reliance Power**, India's largest ever, which raised \$2.04 billion and accounted for 60% of total public offering fund mobilization.

**SME / SMALL & MID CAP NEWS:**



According to its director, the LSE, one of the most successful small-cap exchanges in the world that helps small companies and start ups raise capital, will continue to aid the development of India's exchanges for trading in shares the country's SMEs. Should an arrangement be forged, the LSE, similar to that of a JV established with the Tokyo Stock Exchange, would provide technical expertise and provide small companies listed on an Indian SME exchange exposure to the global capital markets through AIM. Trading turnover in the LSE's AIM market in 2008 totaled £49.2 billion versus £75 billion a year earlier. The AIM platform offers easier norms for smaller companies and does not subject them to regulations such as the minimum 25% free float or shareholder approval for transactions.

However, earlier attempts at setting up stock exchanges in India for smaller companies have yet to be successful. For instance, **OTC Exchange of India** (OTCEI) commenced in 1990 and modeled after the over-the-counter market in the U.S., has just 115 listings versus the 23



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Indian or India-related SMEs listed on the AIM, which in 2008, saw four Indian companies raise approximately \$400 million. In October, India's capital markets regulator Securities and

Exchange Board of India (SEBI) announced it would step up the process of establishing exchanges for SMES to quickly raise capital and reduce lower costs.

### FOCUS OF THE WEEK:

#### **Indian police detain two PwC auditors in Satyam Computers fraud case.**

India's police detained two **PwC** auditors over the scandal afflicting **Satyam Computer Services**. The pair is being accused of colluding with the former chairman of the company to "window dress" the outsourcing group's accounts. The auditors have confessed to their involvement during an interrogation, but the arrests were made based on evidence collected during searches at the Hyderabad offices of PwC. PwC noted that it was cooperating with authorities and has suspended the two auditors from their normal duties but that they still remain partners of the firm.

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### CHINA

#### DEAL ANALYSIS:

China Rank (Global)	1
China Rank (Asia Pacific)	1
China (# of deals)	5
China (Deal value)	5.75B

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: China Daily, Financial Times and company filings

#### ECONOMIC / INDUSTRY NEWS:

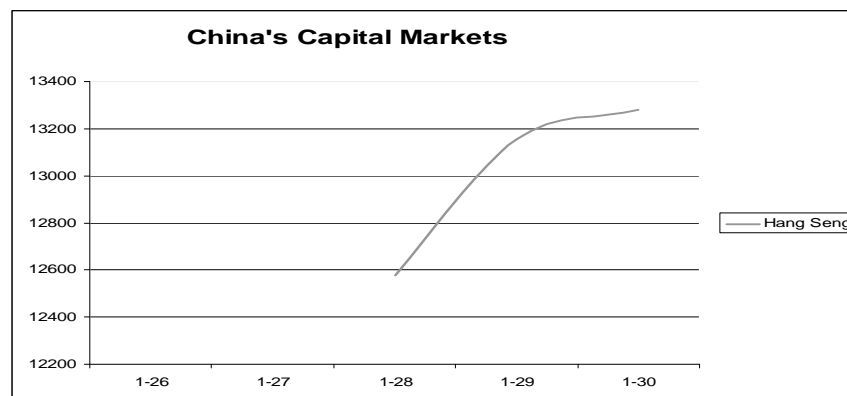
- On January 26, the first day of the Lunar New Year holiday week, Finance Minister Xie Xuren stated that government initiatives to support a GDP growth target of 8% in 2009 is likely to create difficulties in balancing its budget given the implementation of stimulus plans calling for greater spending and lower taxes.
- The 27-nation EU imposed tariffs as high as 85% on Chinese screws and bolts in a decision made on January 26 in Brussels. The measure, to take effect February 9, is expected to prevent further distortions and restore fair competition. Chinese fastener manufacturers increased their share of the EU market to 26% from 17% over a three-year period since 2004, while EU producers suffered market share declines to 17% from 22% during the same period. China is expected to file a WTO complaint against the measure.
- European aeronautics giant **Airbus** announced it is establishing a JV with a group of industrial partners to produce parts and composite materials in China. A production center will be formed in Harbin, China by September of this year, and will produce parts and composite elements utilized within the A350 XWB program and the A320 family of Airbus aircraft. A second plant is due to open in 2010. The JV structure will have 50% held by **Harbin Aircraft Industry Group Company Limited**, 20% by **Airbus China**, and **Hafei Aviation Industry Company Limited**, **Avichina Industry et Technology Company Limited**, et **Harbin Development Zone Heli Infrastructure Development Company Limited** each taking a 10% stake. In September 2008, Airbus opened a production facility in the Chinese port of Tianjin, the firm's first outside of Europe.

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- **Neusoft Corp.**, China's largest software outsourcing firm, sees earnings growth of at least 20% in 2009, with sales aided by an increasing imperative by Chinese manufacturers to shift more into innovative products and solutions. The company will also seek acquisitions and look to establish JVs in the U.S., Europe and Japan, with the goal of employing 500-600 engineers in the U.S. and Europe each, and 1,000 to 2,000 in Japan. Initiatives would be

funded with internal cash flow and credit. Analysts forecast China's outsourcing industry to grow between 40% and 45% annually over the next several years.

### CAPITAL MARKETS UPDATE:



Source: FT, WSJ, Bloomberg, Xinhua

- Hong Kong stocks advanced on the last day of the week on speculation China will introduce a new stimulus plan over the weekend. The Hang Seng index rose 123.8 points or 0.9% to close at 13,278.2. Analysts believe that fresh stimulus could lift mainland Chinese markets following the weeklong Lunar New Year holiday. Among gainers were insurers **Ping An Insurance (+6%)** and **China Life (+0.2%)**, telecom operators **China Telecom (+6.7%)**, **China Unicom (+2.1%)** and **China Mobile (+0.7%)**. Bucking its recent trend, **HSBC Holdings PLC** declined 2.9% and **Industrial & Commercial Bank of China Ltd.** fell 0.9%.

### FOCUS OF THE WEEK:

#### Chinese Premier Wen Jiabao and business leaders maintain optimism over China's growth prospects at the World Economic Forum Summit in Davos:

At the recent World Economic Forum summit, Chinese Premier Wen Jiabao reckoned that while China may face severe challenges near-term, he remained confident in China's longer-term growth prospects, reiterating the government's 8% GDP growth target and intention to gear the \$586 billion stimulus capital on tax cuts, public housing, the rural population hit badly by



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unemployment, railway and infrastructure projects, environmental protection and rebuilding in the aftermath of last year's earthquake.

The fundamentals and conditions that have allowed for 30 years of unprecedented growth remain unchanged – that is, a relatively low cost labor force and a huge trade balance which allows for significant levels of cash inflows. In addition, the government is expected to unveil another round of stimulus measures next month, including interest rate and tax cuts, thus a stronger than expected rebound is anticipated by the second half of the year.

Similar sentiments were expressed by China's **Federation of Industry and Commerce**, real estate firm **Dalian Wanda Group**, which saw pent up demand in December from mid-2008, and carmaker **Geely Holding**, which is expected to benefit from new government measures such as tax cuts for smaller vehicles.

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