

## EMISSARY CAPITAL BUSINESS REPORT

### REPORT HIGHLIGHTS:

- *India's inflation rate falls to 0.27%*
- *Overseas funds raised by Indian companies declines 49%*
- *Sensex has best weekly gain in 5 weeks; UBS forecasting 35% gain within a year*
- *ArcelorMittal issues convertible notes to shore up balance sheet*
- *Profits at China's major industrial companies falls sharply in January and February*
- *Four Chinese banks agree to finance Chinalco's \$21 billion acquisition of Rio Tinto*
- *China Coal Energy Co. to suspend \$2.5 billion investment in Heilongjiang province due to weak demand*
- *China calls for new currency to replace dollar as world standard*

## INDIA

### DEAL ANALYSIS:

India Rank (Global)	16
India Rank (Asia)	8
India (# of deals)	4
India (Deal value)	0 .279B

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

### ECONOMIC NEWS:

- India's inflation rate continued to drift towards zero, falling to a new low of 0.27% from 0.44% a week earlier, according to data issued by India's Ministry of Commerce. Further declines are expected in the coming weeks, increasing the likelihood of more rate cuts by the RBI. The wholesale price index rose 0.1% to 227 from 226.7 the previous week as a result of higher prices of metals and food products
- To help facilitate a 6% increase in spending to 9.53 trillion rupees in fiscal year 2010, the RBI announced plans to borrow/raise 3.6 trillion rupees (\$74 billion) - after raising its borrowing target four times to 3.06 trillion throughout fiscal 2009. The government will borrow 480 billion rupees each month from April to June, and 320 billion rupees per month from July to September, which translates to approximately \$47.7 billion in the fiscal 1H10. The RBI is expected to issue a detailed borrowing calendar next week.
- Based on the RBI's latest figures, following an absolute decline in both international assets and liabilities, India's net international liabilities rose \$10.2 billion in the period ended September 2008, widening to \$62.2 billion from \$52 billion in June 2008. External assets fell by \$19.7 billion to \$358.2 billion due mainly to a \$25.8 billion decline in foreign exchange reserves despite a \$3.2 billion increase in direct investment abroad to \$55.9 billion. Liabilities fell by \$9.5 billion to \$420.5 billion, a decline that was due mainly to outflows in foreign equity investments and valuation changes.

## EMISSARY CAPITAL BUSINESS REPORT

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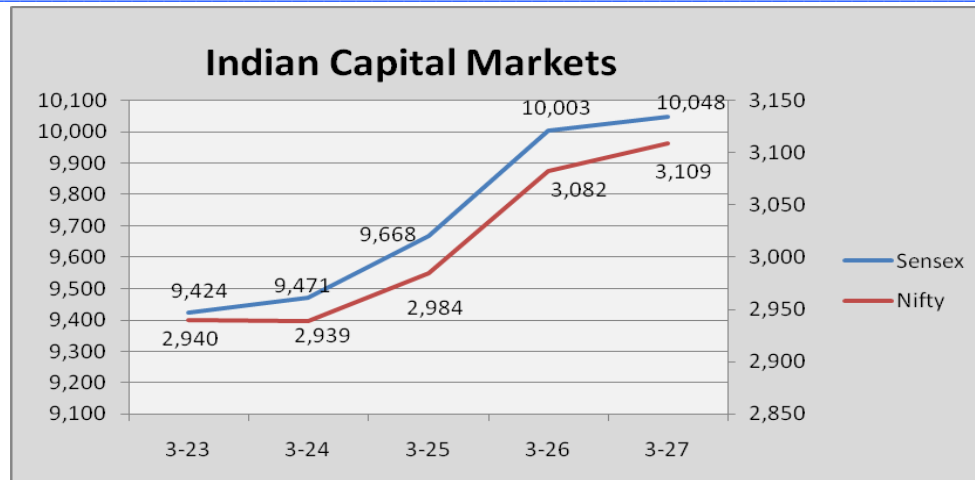
- Representatives from the National Association of Software Services Companies launched a campaign in an attempt to head off protectionism in the U.S and block trade barriers aimed towards India's offshore IT sector. While most companies in export-centric nations remain concerned over protectionism, the stakes are especially high for India's outsourcing industry, which is projected to generate over \$47 billion in export income from developed markets in fiscal 2009. The debate threatened to blow up into an international trade issue when the U.S. government signed off a \$787 billion stimulus plan that included a "Buy American" clause for some U.S. public works and building projects, a move that has added to negative market sentiment over India's IT sector, which even before the downturn was under pressure from rising costs and growing competition from global outsourcing companies.

### INDUSTRY NEWS:

- Honda Motorcycle, a wholly owned unit of Honda Motor Co., and Scooter India Pvt. Ltd. anticipates sales of its two-wheelers to rise 18% to 1.25 million units in the new fiscal year due to greater penetration into India. The company also announced that it will exceed its sales target of a million units in the current fiscal year ending March 31, 2009, which would reflect y/y growth of 17% from the 907,000 units sold last year, a figure that reflected an increase of 27% from the a year earlier. The company, which has a plant at Manesar in northern Haryana state, will add 100 retail outlets next year to the 600 it currently has across the country.
- According to a recent study by India's industry body Assocham, funds raised overseas by Indian companies declined 49% y/y to \$17.02 billion in 2008 from \$33.33 billion. According to the study, India's ECB (external commercial borrowing) as a source of funds has lost its favor among Indian conglomerates as reflected by declines of 18 to 94% from the likes of Jindal group, Kirloskar group, Reliance Industries and Tata group. The absolute number of companies borrowing funds via ECBs fell by 45.24% to 414 from 756.
- In a move to shore up its balance sheet and reduce leverage – net debt of \$26 billion - ArcelorMittal, the world's largest steelmaker, issued \$1.7 billion in convertible bonds last week in a deal that was five times oversubscribed. The five-year bonds, which carry a coupon of 7.25%, are convertible once the share price increases 32.5% above the prior day's close. The steel business has been among the worst affected among industrial sectors with global output, of which ArcelorMittal accounts for approximately 10%, expected to fall by at least another 10% in the current year. Over the past six months, ArcelorMittal has cut output by at least 30%, leading industry observers to believe that the company may run into issues paying the interest on its debts if earnings were to fall precipitously by year-end.

### CAPITAL MARKETS UPDATE:

EMISSARY CAPITAL BUSINESS REPORT

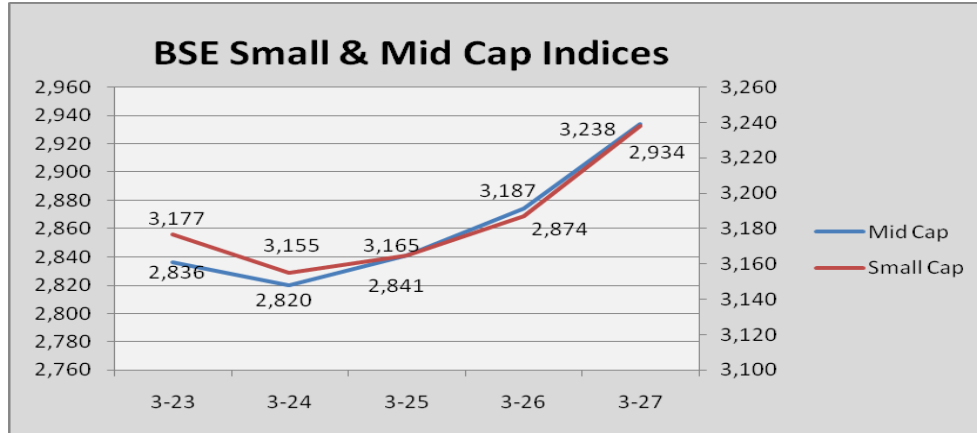


Source: The Economic Times, The Financial Times, Yahoo Finance!

- The Sensex had its best performing week in almost five months, surging 23% from a three year low on March 9. To close the week, the index rose by 45.3 points or 0.5% to 10,048.49, while the S&P CNX Nifty Index advanced 0.9% to close at 3,108.65, the BSE 200 Index gained 1.2% to finish at 1,170.58. Indices gained on UBS's prognostication that the Sensex would make its way up by 35% to 13,500 by fiscal year-end March 2010, led specifically by automobile, bank and metal stocks.
- India's fourth national commodities exchange and a new currency exchange will likely commence operations in June and July respectively, according to MMTC Ltd., a partner in both ventures. MMTC Ltd., the state-run trading house and India's largest importer of gold, is partnering with Indiabulls Financial Services to launch the commodities exchange and co-promoting a currency exchange with a group of nationalized and private banks. India currently has three national commodity exchanges and 20 regional exchanges, most of which trade in a single commodity and have a limited number of members. The partnerships are a part of MMTC's broader strategy to diversify its businesses, part of which also includes its plan to rollout a jewelry retail store chain by July and start production at its gold and silver refinery, which is being set up in partnership with Switzerland's Produits Artistiques Métaux Précieux. MMTC sees revenue rising 36% in the current fiscal year to 360 billion rupees or \$7.14 billion.
- The number of Indian companies buying back their foreign currency convertible bonds (FCCBs) has been increasing as discounts on the bonds of 40-50% and the recent extension of the deadline by the RBI to buy back the bonds, have given them good reason to initiate such a strategy. Last week, more than four companies announced buy-backs including JSW Steel, India's third-largest steelmaker, which repurchased FCCBs worth \$47.80 million, as well as Moser Baer, Firstsource Solutions and Financial Technologies. The RBI recently extended the deadline to complete the buyback for bonds trading at a minimum discount of 25%, to December 31, 2009 from March 31, 2009.

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

EMISSARY CAPITAL BUSINESS REPORT



- India's industry body CII reaffirmed its belief that the two stimulus packages announced by the Indian government and rate cuts by the RBI (repo, reverse repo, and CRR) should have a beneficial impact on the domestic MSME space across all sectors reeling under the impact of the global slowdown.

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**EMISSARY CAPITAL BUSINESS REPORT**

**CHINA**

**DEAL ANALYSIS:**

China Rank (Global)	5
China Rank (Asia Pacific)	2
China (# of deals)	15
China (Deal value)	6.31B

Includes: IPO, FPOs and Convertibles (2009 YTD)  
Source: China Daily, Financial Times and company filings

**ECONOMIC / BUSINESS / INDUSTRY NEWS:**

- ICBC, China's largest lender and world's largest bank by market capitalization, issued an upbeat assessment of the domestic economy by once again reasserting the achievability of the government's 8% GDP growth target, citing the uptick in overall consumption activity and property markets and raving over the opportunity for attractively valued overseas acquisitions, all while acknowledging the enormity of the decline in global demand for Chinese goods. While 98% of ICBC's business continues to be geared towards the domestic market, the bank has begun to make inroads abroad, in recent years purchasing banking interests in South Africa and Macau.
- According to the National Bureau of Statistics (NBS) profits in China's industrial sector, particularly from oil producers and steel makers fell sharply in January and February. The hardest-hit were producers of aluminum and other nonferrous metals, which suffered a net loss of 1.9 billion yuan (\$277 million) versus the iron and steel industry's net loss of 770 million yuan (\$112 million). In recent months, the government has announced additional aid plans encompassing tax cuts and technology investments for ten industries including steel, shipbuilding, electronics and auto manufacturing.

Profits at the largest industrial companies - annual revenues above 500 billion yuan (\$7.3 billion) - totaled 219.1 billion yuan (\$32 billion) in January and February. Income at producers of electronics and telecommunications gear nosedived 96.3% during the two months and those for oil and gas producers dropped 86.1%. Power industry profits fell 77% as oil and power companies have been squeezed by government controls barring them from passing on higher costs for crude and coal.

- China Construction Bank Corp. reported a 34% y/y increase in 2008 earnings on higher interest and fee income, despite charges for its U.S. subprime mortgage-related holdings. Growth in yuan-denominated loans is expected to mirror last year's 16% increase. The bank

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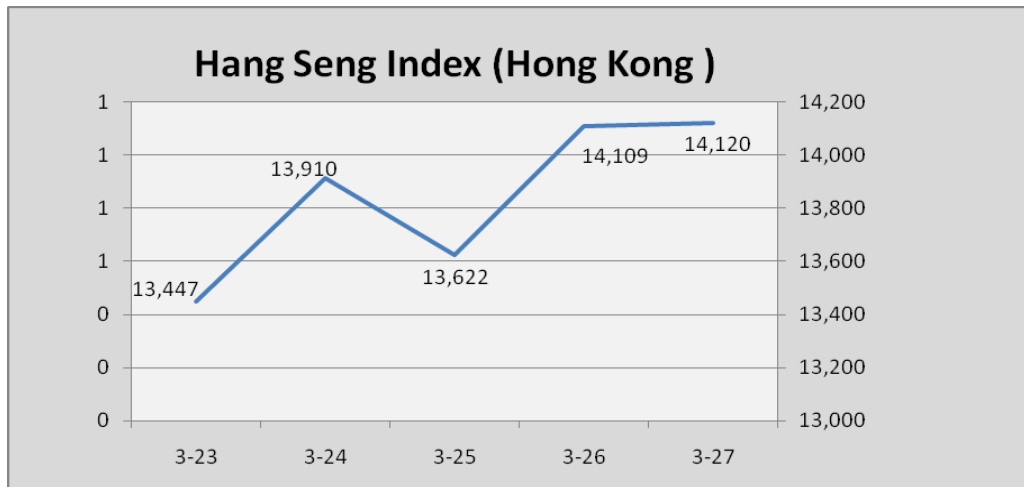
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held \$162 million worth of U.S. subprime-mortgage-related investments and had taken a charge of \$730 million to cover potential losses.

- On a 3.3% y/y revenue increase, China Telecom announced a 96% decline in net income to 884 million yuan from 24.2 billion yuan due primarily to impairment losses on assets associated with its low-cost, limited wireless service. As a result, the company will reduce its capex plans for this year by as much as 19% to 39.2 billion yuan in 2008 and will focus on high-growth businesses. The goal this year is to add 30 million mobile subscribers and increase its subscriber base to more than 100 million by 2011 from the 30.63 it had at the end of February. China Telecom, China's largest fixed-line operator by subscribers, was transformed into a nationwide full-service operator offering fixed-line, broadband and mobile services after the government restructured the domestic telecom industry last year.
- Aluminum Corp. of China (Chinalco) announced that four Chinese banks - Agricultural Bank of China, Bank of China Ltd., China Development Bank Corp. and Export-Import Bank of China - agreed to lend it \$21 billion to finance its proposed \$19.5 billion investment in Rio Tinto Group, which has yet to overcome opposition from Rio Tinto shareholders and win approval from Australia's Foreign Investment Review Board. Chinalco agreed on February 12 to purchase \$7.2 billion of convertible bonds and invest an additional \$12.3 billion - \$19.5 billion in total - for stakes in the world's third-largest mining company, which has about one-third of its assets in Australia.
- According to a recent McKinsey study, China risks misallocating investment by overspending on airport projects in poorer western provinces and holding back on allocations to faster-growing coastal provinces in its \$70bn plan to expand capacity until 2013, according to a study by McKinsey, the consultancy. Of the 97 greenfield airport projects planned by Beijing until 2020, McKinsey categorises only 20 to 30 as offering "attractive" investment opportunities by addressing expected capacity shortfalls.
- China Coal Energy Co., the country's second-biggest producer of the fuel, will suspend a \$2.5 billion plant investment in northeastern Heilongjiang province due to weak demand. The project, which would have been capable of producing 10 million tons of coal annually, would have yielded minimal profits given the 31% slump in the domestic benchmark price per ton for coal from July's record level, according to the China Coal Transportation and Distribution Association. The company intends to seek alternative plans to deploy the funds after having spent 12 million yuan on the project thus far.

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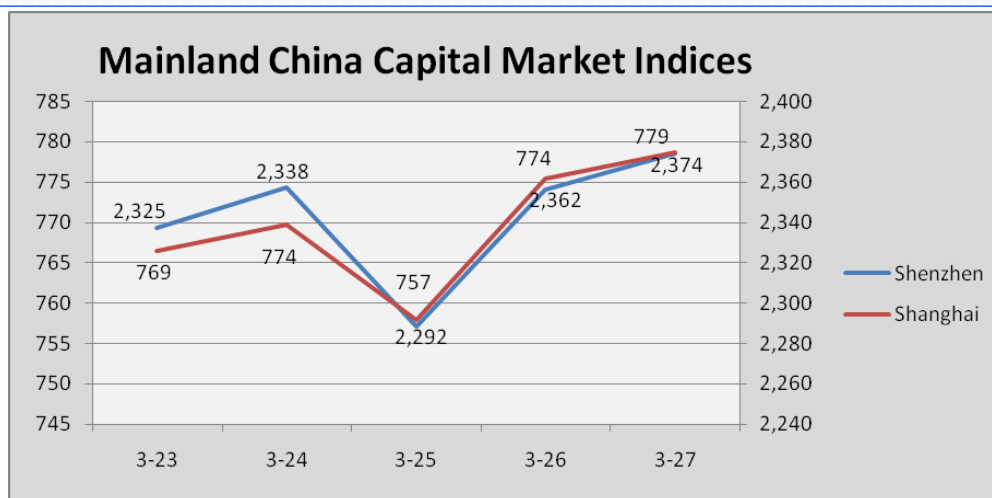


Source: FT, WSJ, Bloomberg, Xinhua

- The Hang Seng Index racked up its biggest gain in five months, recovering 10% on the week to close at 14,119.5 thanks to a rally in bank stocks on the heels of the U.S. government's plan to rid the financial system of \$1 trillion in toxic assets. Among some of the gainers were shares of China Unicom, which rose 5% and CITIC Pacific, which recovered 4.5% after slumping earlier during the week on its earnings report. The China Enterprises Index (HSCE) added 13.1% on the week to close at 8,481.22. ICBC rallied after a solid earnings report and on news that Goldman Sachs pledged to extend the lock-up a majority of its stake in the company.

Among losers was fashion retailer Esprit, which fell 9.9% following the resignation of Thomas Grote, director and president of the Esprit brand, raising doubts over Esprit's succession plan. This was the second high profile exit from Esprit in less than a year and comes two months after the company reported its first profit decline in a decade. Also weighing down on the shares was an unexpected decline in first quarter earnings at rival Hennes & Mauritz AB.

EMISSARY CAPITAL BUSINESS REPORT



Source: FT, WSJ, Bloomberg, Xinhua

- The benchmark Shanghai Composite Index rose 4.1% on the week to close at 2,374.44, its highest closing level since February 16, when it ended at 2389.39. The Shenzhen Composite Index rose 0.6% to end the week at 778.54. Steel makers, including Baoshan Iron & Steel and Wuhan Iron & Steel advanced 3.5% and 8.7%, respectively, while shares of solar energy equipment makers, including Baoding Tianwei Baobian Electric and CSG Holding rallied 10% each after the Ministry of Finance announced that it would provide subsidies for solar power installation.

**FOCUS OF THE WEEK:**

**China calls for new currency to replace dollar as world's standard**

China has called for the creation of a new currency to eventually replace the dollar as the world's standard, proposing a sweeping overhaul of global finance. The unusual proposal, made by China's central bank governor is seen as part of China's increasingly assertive approach in shaping the global response to the financial crisis. The proposal came amid preparations for a summit of the world's industrial and developing nations, the Group of 20, in London. Analysts argue that the technical and political hurdles that revolve around implementing this new recommendation are enormous, and thus is unlikely to change the dollar's role at least in the short term. Central banks around the world hold more U.S. dollars and dollar-denominated securities than they do assets denominated in any other individual foreign currency, sufficient enough to be used to stabilize the value of the central banks' domestic currencies.

The central government has become increasingly frustrated over its financial dependence on the U.S., with Premier this month publicly expressing worries over China's significant holdings of U.S. government bonds. The size of those holdings means the value of the national rainy-day fund is mainly driven by factors China has little control over, such as fluctuations in the value of the dollar and changes in U.S. economic policies. While Chinese banks have weathered the global downturn and continue to lend, the collapse in demand for the nation's exports has shuttered



## EMISSARY CAPITAL BUSINESS REPORT

factories and left millions jobless. In his paper, the central bank's governor argues for reducing the dominance of a few individual currencies, such as the dollar, euro and yen, in international trade and finance. Most nations concentrate their assets in those reserve currencies, which exaggerates the size of flows and makes financial systems overall more volatile, according to the governor. Thus, he continues, moving to a reserve currency that belongs to no individual nation would make it easier for all nations to manage their economies better because it would give the reserve-currency nations more freedom to shift monetary policy and exchange rates and would also be the basis for a more equitable way of financing the IMF.

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