

EMISSARY CAPITAL BUSINESS REPORT

**REPORT HIGHLIGHTS:**

- *India's weekly inflation increases to 0.70%*
- *State Bank of India's 4Q net profit rises 46%*
- *Tata Motors Ltd. receives 203,000 orders for its Nano, double initial plan*
- *Sugar prices are expected to reach a 28-year high*
- *China vehicle sales up 25% in April*
- *China national pension fund reports net loss of \$5.77 billion*
- *China plans to shut more small-scale oil refineries and outdated metal smelters by 2011*
- *PetroChina may look to raise as much as 150 billion yuan (\$22 billion)*
- *China's automaker Geely reportedly interested in GM's Saab unit*

**INDIA**

**DEAL ANALYSIS:**

India Rank (Global)	16
India Rank (Asia)	8
India (# of deals)	12
India (Deal value)	1 .16B

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

**ECONOMIC NEWS:**

- India's weekly inflation rate edged up for the third successive week, holding near a three-decade low as the cost of food and manufactured products were kept in check. Following a 0.57% increase from the prior week, wholesale prices rose 0.70% for the week of April 25<sup>th</sup> from a year earlier, as the wholesale price index increased 0.2% to 230.7 from 230.2. The central bank suggested that it may be at the end of its cycle of rate reductions given its expectation for inflation to reach 4% over the next twelve months.
- According to an IMF report issued last week in Singapore, India will be particularly affected by the financial crisis given that the country's unprecedented investment growth in recent years owed much to favorable credit conditions. But with external financing having tightened and the domestic credit cycle having turned, investment growth is likely to be curtailed. The IMF's outlook noted that GDPs in Emerging Asia excluding China and India fell by 15% y/y during 4Q08.
- A recent survey conducted by ABN AMRO showed that April activity at Indian factories expanded for the first time in five months, with the bank's purchasing managers' index (PMI) - based on a survey of 500 companies - rising to 53.3 from the March level of 49.5. The latest reading is the highest in seven months and it has steadily increased after dipping to a trough of 44.4 in December. Manufacturing comprises roughly 16% of India's GDP.

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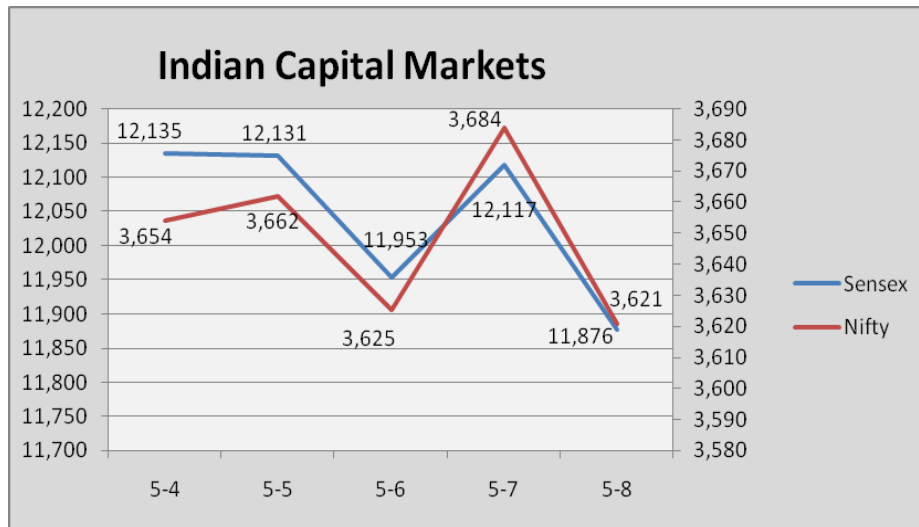
### INDUSTRY NEWS:

- Domestic manufacturing showed marginal signs of a recovery in the second and third quarters of fiscal 2008 versus the corresponding quarters in 2007-08, according to a report by The Confederation of Indian Industry (CII). All five sectors surveyed - fertilizers, low and high density polythene, pig iron, steel and mopeds - shifted from negative to moderate growth during the aforementioned periods, though the year to date 2009 comparison reflects a deceleration in manufacturing growth. Segments having reported acceleration in growth include asbestos cement, switch gears, power cables, and industrial gases. Sectors such as commercial vehicles and capital goods registered negative growth, while those in the moderate growth category included passenger vehicles, and white goods and electronic items.
- Tata Motors Ltd. said it received 203,000 orders for its Nano - the world's cheapest car- or more than double the initial sales plan, indicating surging domestic demand from first-time buyers and motorcyclists in contrast with plunging auto sales in the U.S. and Europe. The bookings amount to approximately 25 billion rupees (\$501 million) or roughly 17% of the 1.22 million passenger cars sold in India, Asia's fourth-largest automobile market, in the recent March fiscal year. Deliveries will start in July of this year with completion anticipated by the end of 2010. The company will select the first 100,000 customers through a lottery, leaving the company with at least a year of production as backlog. The first Nanos will roll out from a plant at Pantnagar in northern India, which can produce 60,000 units a year. Annual output will increase by a further 350,000 when a facility at Sanand in western India is completed at the end of this year.
- JSW Steel Ltd., India's third-largest producer, plans to raise production by 78% this year as the government improves infrastructure and rising farm incomes prompt rural homeowners to replace asbestos with steel. The company will invest 110 billion rupees (\$2.2 billion) to lift capacity by almost half to 10 million tons after posting a 4Q loss after the global recession eroded demand for its products in the U.S. where \$58 million in inventory was written down during the period. In its Indian operations, the company turned to a profit from a loss in the previous three months. Steel prices have halved from their peak in June with March quarter prices down 26% from a year earlier.
- Sugar prices are expected to reach a 28-year high as a decline in India's harvest creates the largest global production deficit in more than a decade. India, a net importer since 2006, intends to boost imports by 33% to 4 million tons over the next year as a result. Thus far in 2009, in what has been the biggest rally since 2005, raw sugar prices have risen 30% to 15.41 cents a pound, the highest level since July 2006, with prices expected to increase by another 30% into early 2010 to as high as 20 cents, the highest level since 1981. The International Sugar Organization sees the deficit hitting 7.8 million tons this year, higher than a February forecast of 4.3 million tons.
- The SBI announced a 46% y/y increase in net profit to 27.42 rupees (\$556.9 million), which was bolstered by investment-sale proceeds, a one-time gain. Total income rose to 220.61 billion rupees from 163.94 billion rupees, while its operating income improved 21% y/y to 52.77 billion rupees. Net interest income came in virtually unchanged from last year at 48.42 billion rupees, while net interest margin fell to 2.93% from 3.07%. The bank added that as of

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March 31, net nonperforming assets, or bad loans, comprised 1.76% of net customer advances, versus 1.78% a year ago.

**CAPITAL MARKETS UPDATE:**



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

- Domestic equity markets rallied throughout the week with the Sensex finishing 4.15% higher from its previous week close at 11,876.43 thanks to Monday's rally of 700 points, its biggest gain in a single day since October 31, 2008. The S&P CNX Nifty of the National Stock Exchange posted a 4.5% increase to finish at 3,620.7 points. The Sensex reached an intra-week high of 12,272 and low of 11,765, while the Nifty hit an intra-week high of 3,717 points and low of 3,478.7. The BSE mid-cap index finished the week 7.3% higher and the BSE small-cap index was up 8.54%.

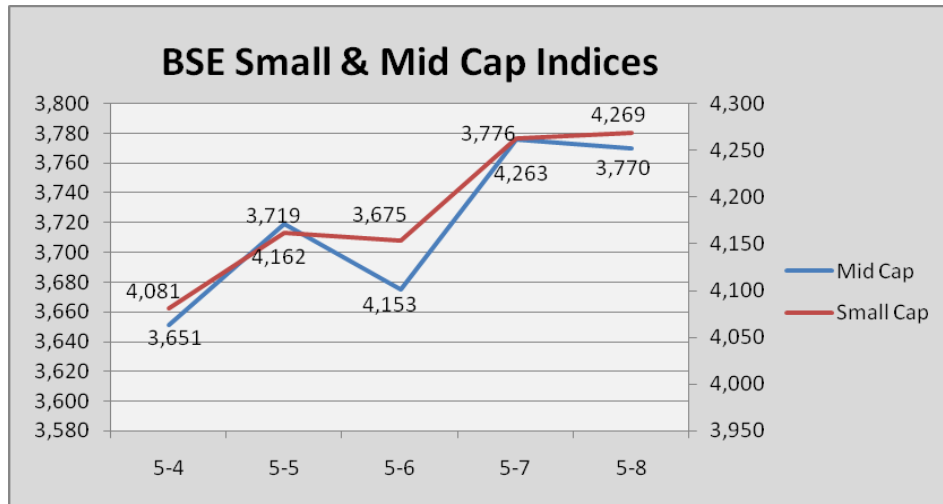
The top gainers in the Sensex included Hindalco (up 27.1%), Tata Steel (up 18.6%), L&T (up 12.7%), Reliance Infrastructure (up 10.6%) and Tata Motors (up 10.2%). Among the losers were ACC (down 8.1%), Ambuja Cements (down 7%), Cipla (down 6.2%), Hindustan Unilever (down 0.7%) and BHEL (down 0.6%).

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

- According to a study by India's industry body Assocham, SMEs will account for about 22% of India's GDP over the next three years, up from 17% currently, owing to technological upgrades with the study reckoning that over 55% of domestic SMEs are aggressively seeking to pare down input costs and streamline production. As a result, SMEs' share of the country's exports is expected to grow from 40% to over 44% in the next five years. The study also credits legislation such as the Micro, Small and Medium Enterprises Act, 2006, which

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has played its role in liberalizing and deregulating the entire sector, while highlighting the constraints that continue to weigh down on the space including credit shortages and high borrowing costs.



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**CHINA**

**DEAL ANALYSIS:**

China Rank (Global)	4
China Rank (Asia Pacific)	2
China (# of deals)	31
China (Deal value)	10.99B

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

**ECONOMIC NEWS:**

- In its quarterly monetary policy report issued last week, The People's Bank of China (PBOC) indicated that the economy performed "better than expected" in 1Q09, pledging to keep money flowing into the financial system to sustain growth. New lending surged six-fold to a record in March as banks supported the government's 4 trillion yuan (\$585 billion) stimulus package, with the report suggesting, however, that the country's recovery is not yet on a solid footing, sounding a cautious note over the high concentration of domestic lending geared towards government projects at the expense of small businesses. The pledge to keep money flowing also contrasted with the bank's concern that monetary easing in other major economies risks triggering inflation, currency devaluations and a "big consolidation" in bond markets.
- According to latest figures released from the China Association of Automobile Manufacturers, China's vehicle sales increased 25% y/y in April to a record monthly high of 1.15 million units, with passenger car sales surging 37% to 831,000 units, outpacing April U.S. sales of 820,000 units. Domestic auto sales have now risen for five straight months following a record high of 1.11 million units sold in March. A large share of April sales, approximately 691,000, comprised of small cars and crossover vehicles promoted by tax cuts and other policies favoring vehicles with engine displacement of 1.6 liters or less.
- The National Council for Social Security Fund, China's national pension fund, reported a net loss of 39.37 billion yuan (\$5.77 billion) in fiscal 2008 due to the sharp slump in the local stock markets, the first time the fund ended a year in negative territory since it was established in 2000. The pension fund reported a net profit of 135.49 billion yuan in 2007 but indicated that total assets fell to 562.37 billion yuan at the end of fiscal 2008 from 569.24 billion yuan a year earlier.

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### BUSINESS / INDUSTRY NEWS

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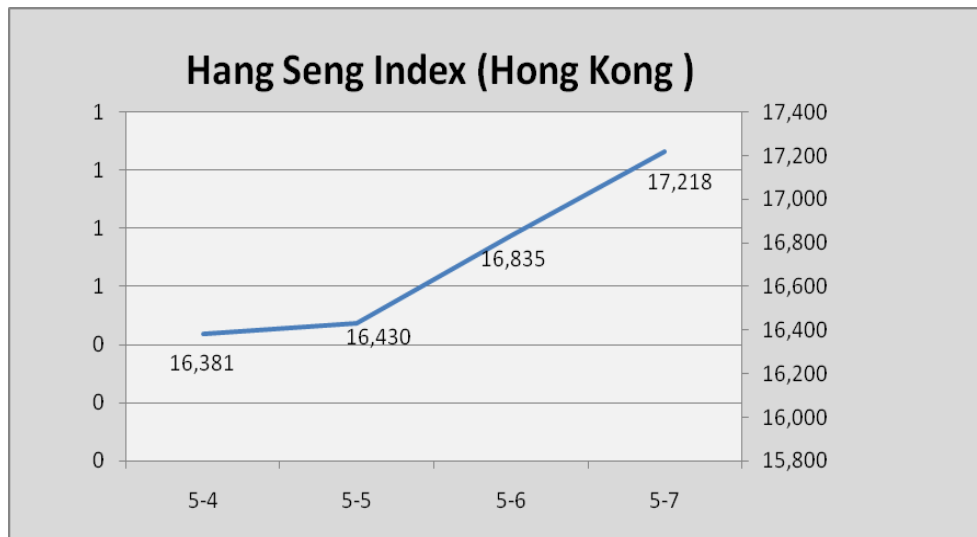
- China, the world's second-biggest energy consumer, plans to shut more small-scale oil refineries and outdated metal smelters by 2011 in order to boost efficiency and lower pollution. Refineries with annual capacity of less than 1 million tons, or 20,000 barrels a day, will be closed and the government will actively guide plants that can process 1 million to 2 million tons annually to cease operations or merge, according to the National Development and Reform Commission, China's top economic planner. Small, privately run refineries, located primarily in Shandong and Shaanxi provinces, have a combined annual capacity of about 80 million ton, which compares to Sinopec's production capacity of 20 million tons a year. The government will also ban the construction of refineries that process bitumen and heavy oil, the commission said.
- Li & Fung Ltd. plans to raise about \$350 million in what could be the largest additional share offering by a Hong Kong-listed company in 11 months or the second largest since the HK\$2.96 billion sale by Champion Real Estate Investment Trust, Hong Kong's first prime office property trust. Li & Fung, the biggest supplier of toys and clothes to Wal-Mart Stores Inc. and Target Corp. is seeking to sell shares to institutional investors at between HK\$22.55 and HK\$23.28 a share and raise capital to finance potential acquisitions and strengthen its balance sheet. The company is reportedly working on multiple deals in the U.S., saying the world's biggest economy is showing signs of improving. Talks to become the primary supplier for Talbots, the U.S. chain specializing in clothing for women, may be completed within two months, according to the company.
- Domestic soybean traders are seeking to reduce shipments into China on concern profits may decline further as domestic supplies surge. Chinese purchasers have asked overseas suppliers to delay loading orders of about 500,000 tons from this month until June, as some importers may have already canceled orders of nearly 300,000 tons. China's soybean imports are still expected to surge to nearly 8 million tons in April and May, which would reflect a 36% y/y increase after jumping 30% during the March period after the government announced a plan to stockpile as much as 6 million tons of domestic soybeans to help farmers sell their crops. Domestic users remain concerned that demand for soybean oil and soybean meal may not match the gain in soybean prices, according to the China National Grain and Oils Information Center.
- PetroChina Co. announced that it may need to raise as much as 150 billion yuan (\$22 billion) this year to boost cash flow and maintain its capital expenditure and dividend payout. The company raised 50 billion yuan through bank borrowings and a bond issue in 1Q09, and will seek approval for the remaining 100 billion yuan at a shareholder meeting this month, according to the company. The company plans to spend 233 billion yuan this year to acquire and upgrade assets such as oil fields as the central government continues to encourage its companies to take advantage of low commodity prices to expand reserves. PetroChina is also building a 142 billion yuan pipeline from northwestern Xinjiang province to Guangdong in the south and may pay as much as \$1.4 billion for a stake in a Kazakhstan oil company.
- The investor group seeking to acquire 51% of Chinese ringtone provider Hurray Holding Co. and replace management to turn the company into a diversified media platform, raised its offer to \$4 per ADS from \$3.50, according to a letter sent by the group to Hurray's

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management. The new offer would value the company at \$87.5 million, marking a rare public battle to win over investors in a takeover of a Chinese company. The investor group said the offer is contingent on immediate access to due diligence and disclosure of the terms of a competing offer received by Hurray.

- China will continue to buy gold to diversify its vast foreign reserves after it recently revealed it had been secretly purchasing bullion, almost doubling its holdings, according to Beijing and Shanghai-based gold industry analysts. China was likely to make as many purchases as possible within its borders, rather than turn to international markets where it could push up prices.

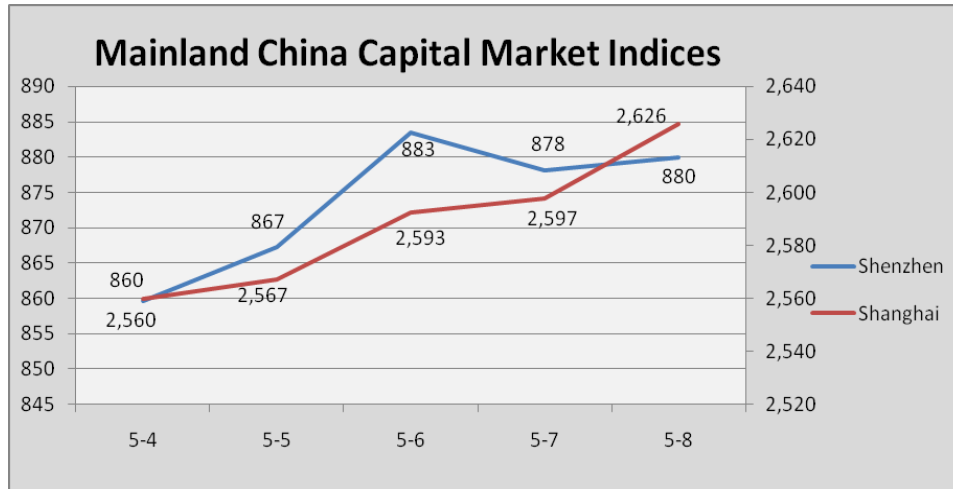
**CAPITAL MARKETS UPDATE:**



Source: FT, WSJ, Bloomberg, Xinhua

- On the last day of the trade, Hong Kong markets ended higher for a seventh consecutive session with the **Hang Seng Index** rising 171.98 points, or 1.0%, to finish at 17,389.87, its highest close since October 3, 2008.
- The Shanghai Composite Index finished the week up 1.1% at 2625.65, its highest level since August 7, 2008. The Shenzhen Composite Index rose 0.2% to 879.93.

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Source: FT, WSJ, Bloomberg, Xinhua

**FOCUS OF THE WEEK:**

**Chinese automaker Geely Automotive reportedly interested in GM's Saab unit:**

Geely Automotive is reportedly interested in General Motors' Saab unit, a report that comes a few weeks after China's number two automaker reportedly made a bid for Ford's Sweden-based operation, Volvo. While analysts say that the company is constantly in talks with several parties at both the automaker and private equity level, a deal with either Saab or Volvo would certainly help Geely get a leg up on its domestic rivals based on superior technology and marketing know-how, while providing Geely with a platform from which to sell into Western Europe.

China's experience purchasing foreign brands to initiate its foray into the international scene has been met with little success. In 2003 Huizhou-based electronics group TCL acquired the TV operation of France's Thomson and the following year took over the cell-phone business of Alcatel but neither partnership delivered on its promise for the Chinese operator. In 2005, Lenovo acquired IBM's PC business in a highly publicized deal that established it as China's first global brand, but in February the company replaced its CEO with a Chinese predecessor, after a decision was made to refocus the business on driving domestic revenue. In addition, the 2004 purchase by Shanghai Automotive Industry Corp. of a 51% stake in Korean automaker Ssangyong Motor ended with the latter seeking bankruptcy protection in January.

According to analysts, such disappointing results are likely to make it difficult for Geely or any other domestic automaker to close a deal with General Motors, though organically, Geely has had success in emerging economies, with the company currently selling in markets such as Romania, Pakistan, Bangladesh, and Peru. The company exported 37,940 cars in 2008, an y/y increase of 80%, but still a fraction of the nearly 140,000 cars exported by domestic rival Chery Motors.



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