INDIAN Economy & Policy WATCH
Week ended December 24, 2005 Issue No: 39 FY2006

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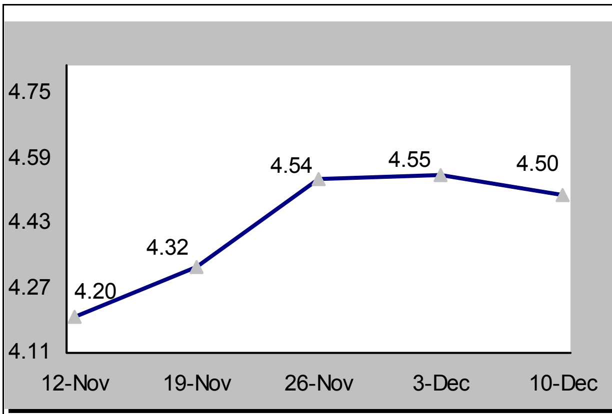
Investment Research & Information Services Limited

ECONOMIC INDICATORS

Inflation

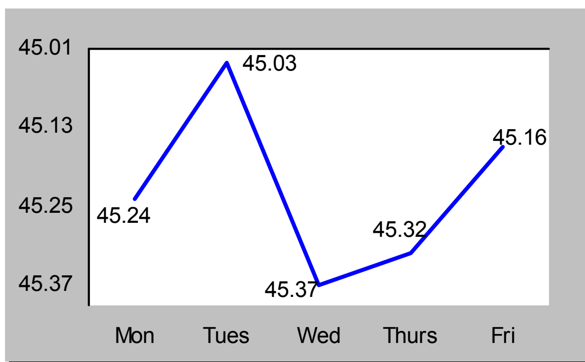


India`s wholesale price index rose 4.5 percent on an annual basis in the week ended December 10, lower than previous week`s 4.55 percent, mainly due to fall in food prices, according to agency reports.

The inflation rate was lower than a Reuters poll forecast of 4.73 percent. It was at 6.84 percent during the corresponding week of the previous year.

India`s central bank raised its key short-term interest rate by 25 basis points to 5.25 percent in October, citing inflation pressures caused by high oil prices.

Rs v/s US $

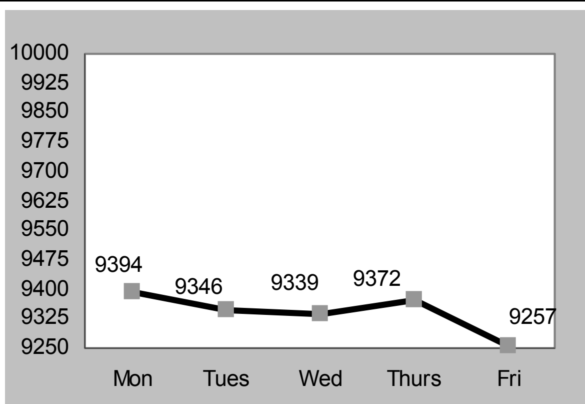


The rupee ended strong in the seventh straight session on Monday, December 19 as factors such as accumulated inflows over the weekend, the dollar's weakness against the yen, drop in global crude oil prices, dollar sell-off by banks and rallying stocks bolstered the Indian unit.

The rupee posted a recovery on Tuesday and Wednesday as strong inflows came in.

The rupee ended the week slightly stronger but failed to hold on to early gains on month-end demand. Lacklustre activity in the last hour of trade allowed the rupee to close 4 paise stronger at 45.16 against the dollar.

BSE Sensex



On the eve of Christmas, the markets were expected to be upbeat this week but it turned out to be a usual one. The BSE Sensex gained 203 points to close at 9256.91 as compared to previous week`s gain of 217 points. The Sensex has gained 526 points in three weeks.

The BSE Sensex added 110 points on Monday but lost on Tuesday slipping by 48.03 points. On Wednesday the Sensex closed flat losing 7 points and gained 33 points on Thursday. It fell sharply by 115 points on Friday.

India`s wholesale price index rose 4.5 percent on an annual basis in the week ended December 10, lower than previous week`s 4.55 percent, mainly due to fall in food prices.

Economy & its sectors

Most sectors post growth in April-Oct

The overall growth rate during the April-October 2005 period has come down in respect of most of the sectors as compared to the growth rate achieved during the same period last year.

However, only fertilisers and petroleum registered negative growth while all other sectors showed positive growth, according to an official release.

All sectors, except power, coal, finished steel, railways, cargo handled at major ports, fertilisers and crude oil exceeded their respective targets.

The total power generation in the country during April-October at 355.53 billion units was 1.3 percent lower than the target for the period, but it recorded a growth of 4.7 percent. The growth rate remained lower as compared to 7.2 percent achieved during April-October 2004. The production of coal at 208.90 million tonnes (mt) was 3.6 percent lower than the target for the period, but it recorded a growth of 5.3 percent over the production of the corresponding period of the previous year.

The growth rate remained lower as compared to 7.1 percent achieved during April-October 2004.

The production of finished steel stood at 25.40 mt, which was 13.2 percent lower than the target, but it recorded a growth of 6.5 percent over the production for the corresponding period of the previous year.

The freight traffic carried by the railways stood at 366.92 mt, which was 6.6 percent lower than the target, but 9.5 percent higher than the performance during the year-ago period.

Major ports in the country handled 234.58 mt cargo, up 11.7 percent compared to last year.

In the telecommunications sector, 46,09,014 new telephone lines were added in the switching capacity of telephone exchanges at the national level, which was 34.3 percent higher than the addition of 34,33,111 lines during the corresponding period of the previous year. Total, fixed plus cellular, telephone connections provided by the public and private sectors at 1,83,98,840 were 52.3 percent higher than 1,20,79,509 phones provided during the same period last year.

The production of fertilisers during the seven-month period stood at 8.84 mt

In the civil aviation sector, the five international airports handled 2,90,412 tonnes of export cargo during the period under consideration, which is 15.5 percent more than the year-ago period.

A total of 1,79,412 tonnes import cargo was handled at these airports, which was 12.3 percent higher than the import cargo, handled during the corresponding period of the previous year.

International terminals handled 92.22 lakh passenger traffic, 12.8 percent more than 81.72 lakh passenger traffic handled during the corresponding period of the previous year.

At domestic terminals, 159.65 lakh passengers were handled during the period, which were 22.5 percent more than 130.29 lakh passengers handled during the corresponding period of the previous year.

In the road sector, 2,688 km of National Highways were upgraded/constructed /strengthened, which was 30.3 percent higher than the target of 2,063 km, but it

remained 5.9 percent lower than the upgradation/construction of 2,856 km of highways during the year-ago period.

Domestic concerns addressed at WTO meet: Kamal Nath

The Union Commerce and Industry Minister, Kamal Nath, today said the decisions arrived at Hong Kong Ministerial of the World Trade Organisation on key issues such as agriculture and industrial tariffs would safeguard the domestic interests as they squarely and adequately addressed the abiding concerns voiced by domestic stakeholders.

Addressing a news conference here on the outcome of the recently-concluded Hong Kong Ministerial of the WTO, the Minister said the agreement reached on agriculture would help Indian farmers in giving them enough opportunities to export farm products, while permitting them to retain domestic support and exempting some products from tariff cuts.

"We have been able to secure an agreement that the WTO will not come in the way of domestic support given to farmers in developing countries like India," Nath categorically asserted.

He noted that developed countries would need to eliminate their export subsidies on farm products by 2013 while reducing them considerably by 2010. This would help make Indian products competitive and increase India's exports in the international markets, he added.

The Minister further said India would be able to draw up a list of 90 special products, which would be outside the tariff-reduction formula and enable Indian farmers to safeguard their crucial crops from global competition.

He said New Delhi would also have the option of increasing import duties on farm products if there is a drop in prices in the originating country of export to safeguard the livelihood concerns of domestic farmers.

Nath said the Indian industry would also stand to benefit as developed countries resolved to reduce duties on products of interest to developing countries, which would not have to reciprocate by cutting duties proportionately.

"Before we went to Hong Kong, certain things were clear, that we would not reach modalities but we tried to build a structure and contours for the agreement on the Doha round," Nath said adding that "I expect the modalities to be completed by June 2006".

In response to a query about the reported criticism of the CPI(M) to the Hong Kong Ministerial outcome, Nath said India made substantial gains from the deal without compromising on its policy space.

"Their apprehensions are absolutely misplaced and they need to examine the agreement in detail. I will soon hold a meeting with them," Nath said, adding that he has sought time from the Lok Sabha Speaker and the Rajya Sabha Chairman to make a statement in Parliament about the WTO Hong Kong Ministerial.

He said in services, the policy space required for developing countries including India has been fully preserved.

A right mix has been scored between flexibility for developing countries and securing market access for areas of export interest to India like Mode 4 categories delinked from commercial presence and Mode 1.

Further guidance on commitments at extant levels of Modes 1 and 2 (cross-border

supply which includes business process outsourcing or BPO and e-enabled services) have been secured.

Traditional items drive H1 export growth 22%

Traditional export items such as agriculture and allied products, chemicals and related products, engineering goods and gems and jewellery and unconventional items such as petroleum products accounting for a major share of the country's export baskets did reasonably well during the first half of this fiscal to ensure a 22 percent growth of exports in dollar terms.

Disaggregated trade data compiled by the Commerce Ministry on the basis of provisional readings of the Directorate General of Commercial Intelligence & Statistics show that even as textiles and clothing, another important export item holding a share of 14.36 percent in aggregate exports put on a tepid performance despite the removal of the quota regime. Exports of textiles items grew by a meagre 2.94 percent during April-September 2005 at $6,300.40 million, against $6,120.60 million in the corresponding months of 2004, confirming the initial fears that low-cost suppliers such as China and Bangladesh would do better than India in the post-quota regime.

While agriculture and allied products exports (7.13 percent weight) posted a growth of 15.44 percent during the first half of the fiscal at $3,129.42 million ($2,708.46 million), chemicals and related products (14.80 percent) did reasonably well by notching up a growth of 23.93 percent at $7,661.42 million ($6,182.04 million).

Exports of engineering goods (18.37 percent) posted a growth of 25.49 percent at $8,061.81 million ($6,424.30 million), while exports of petroleum products (10.54 percent) chipped in effectively by logging a growth of 58 percent at $4,623.94 million ($2926.70 million). A surprising show was put on by exports of ores and minerals, which, with a share of five percent, registered a growth of 40.28 percent at $2,195.39 million ($1,565.06 million).

Overall, exports during the first half of the fiscal registered a growth of 21.92 percent $43,883.89 million, against $35,995.12 million. Among the top 15 countries for India's exports, Singapore recorded the highest growth at 59 percent, followed by South Korea at 56 percent, Sri Lanka at 55 percent, China at 51 percent and the Netherlands at 48 percent.

Destination-wise, Western Europe, accounting for a share of 24.21 in India's total exports, logged a growth of 22.82 percent at $19,622.64 million during the first half of the fiscal ($8648.94 million). Asia and Oceania, absorbing 47 percent of the country's total exports, did reasonably well by clocking up a growth of 23.42 percent at $14,353.44 million ($11,158.29 million).

While India's exports to the Americas (21.10 percent) went up by 17.83 percent at $9,257.33 million ($7,856.66 million), exports to Latin American countries (3.24 percent share) were up by a hefty 55 percent at $1,420.05 million ($916.82 million).

Though Africa accounts for a share of just seven percent in India's total exports, exports to this region grew by a wholesome 38.80 percent at $3,053.22 million ($2199.74 million). On the import front, bulk imports, with a weight of 43.89 in aggregate imports, notched up a growth of 42.65 percent at $28,665.81 million ($20,095.52 million). Even as petroleum crude and products account for a share of 32.08 percent in total imports, they recorded a substantial spurt by registering a growth of 43.66 percent at $20,952.07 million ($14,584.09 million), mostly contributed by a steep hike in global crude prices.

Machinery imports (9.20 percent) also did exceedingly well by logging a growth of 42.62 percent at $6,008.62 million ($4,212.92 million), reflecting the pick-up in domestic industrial activity and accelerated import of industrial machinery items for export production.

There has been a steep increase of 47.23 percent in the import growth of gold and silver, which, with a share of 9.89 percent in total imports, amounted to $6,456.75 million during the first half of the fiscal ($4,385.39 million).

Overall, imports from April to September 2005 grew by 35.72 percent at $65,316.65 million ($48,125.45 million). Among the top 15 countries for imports, the highest growth was registered by Switzerland at 59 percent, followed by the United Arab Emirates at 53 percent, Germany at 51 percent, South Africa at 47 percent, Hong Kong at 42 percent, China at 42 percent and Australia at 40 percent.

Destination-wise, Western Europe, as a source for Indian imports (with a share of 21.76 percent in the country's total imports), saw a growth of 35.54 percent during the period under review at $14,214.80 million ($10,487.87 million). India's imports from Asia and Oceania (32.81 percent share) grew by 30.25 percent at $21,427.33 million ($16,450.38 million). India's imports from the Americas (7.48 percent) grew by 26.39 percent at $4,885 million ($3,864.95 million). India's imports from Latin America (1.67 percent) also went up by a huge 32.90 percent at $1,092.95 million ($822.40 million).

Exports decline 11% in November - Apr-Nov exports up 16%

The country's exports slipped in November 2005 to $ 6.163 billion, a 11.4 percent decline compared to $ 6.956 billion recorded in the same month last year.

In rupee terms, exports during November 2005 stood at Rs 28,185.45 crore, which is 10.2 percent lower than theexports recorded during November 2004. The fall in exports during November may hinder the country's attempts to clock exports of $ 100 billion this year, say trade experts.

However, during April-November 2005, exports recorded a 16.07 percent increase to touch $57.06 billion ($ 49.16 billion). In rupee terms, exports during April-November 2005 stood at Rs 2,51,173.34 crore, which is 12.25 percent higher than the export performance registered during the corresponding period last year.

Trade deficit for April-November 2005 is estimated at $27.64 billion, which is substantially higher than the $16.34 billion recorded in the same period last year.

An official release said that the slippage in export performance in November could be attributed to sectoral factors - shortfalls were primarily in engineering goods, textiles, clothing, and gems and jewellery.

Further, the value realisation for primary steel products was adversely affected due to a fall in international prices of primary steel products.

According to exporters of engineering goods, exports were also negatively impacted by service tax, fringe benefit tax etc.

In textile and clothing, manmade fibre exports were affected by the uncompetitive and high prices of raw material, while in gems and jewellery tightening of round tripping is reflected in the data, the release added.

Imports during April-November 2005 stood at $84.7 billion, 29.31 percent higher than $65.5 billion recorded in April-November 2004.

Oil imports during April-November 2005 stood at $27.76 billion, 43.46 percent higher than the $19.35 billion recorded in the same period last year.

Non-oil imports during April-November 2005 were estimated at $56.94 billion, which is 23.38 percent higher than the $46.15 billion recorded in April-November 2004. Imports during November 2005 stood at $9.91 billion, 8.66 percent higher than the $9.12 billion recorded in November 2004.

Corporate tax kitty swells 25.64%

The Centre's corporation tax collections increased by 25.64 percent to Rs 56,540 crore between April and December 20 this year, as against Rs 45,000 crore in the corresponding period last year.

The collections include the receipts from the third installment of advance tax which was payable up to December 15. The collections could increase marginally as some cheques were yet to be accounted for, finance ministry officials said here today.

According to the latest data available with the ministry, direct tax collection were estimated 23.46 percent higher at Rs 94,710 crore between April and December 20 this year, as against Rs 76,715 crore during the corresponding period last year.

The government had budgeted for an increase of 32 percent in its direct tax collections, which are estimated to touch Rs 176812 crore during the current financial year ending March 2006.

During April-November this year, personal income tax collections went up by 20.35 percent to Rs 38,170 crore, as against Rs 31,715 crore during the corresponding period last year.

This year's mop up included around Rs 3,400 collected by way of fringe benefit tax, securities transaction tax and the banking cash transaction tax.

External sector

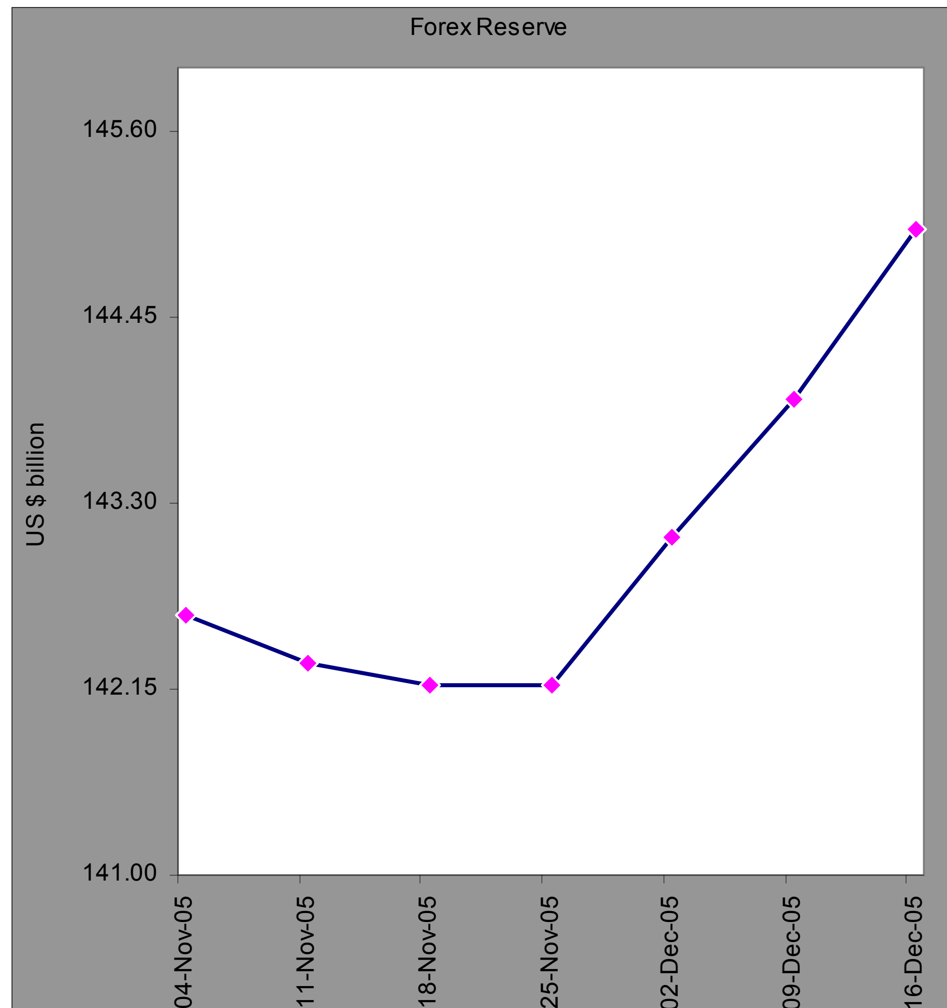
FOREIGN EXCHANGE RESERVES

Foreign currency reserves soar by US$ 1,057 million

India's total foreign exchange reserves rose by US$ 1,057 million to US$ 145 billion for the week ended December 16, helped by a rise of US$ 1,042 million in foreign currency assets (including the effect of appreciation/depreciation of non-US currencies) to US $ 1,38.816 billion according to the RBI's weekly statistical supplement released on December 23.

Gold reserves and SDRs remained static at US$ 4,925 million and US$ 5 million respectively.

The country's reserve tranche position at the IMF improved by US$ 14 million to US$ 1,254 million.



Money & Banking

INTEREST RATES & DEBT MARKET

Gilts end marginally lower

Gilts prices came off intra-week lows but closed marginally lower over the week as uncertainty over liquidity heavily weighed on sentiment. Early in the week, traders were reluctant to take position as dwindling cash surpluses continued to be a concern due to the upcoming redemptions of around Rs 33,000 crore towards the expatriate deposit scheme by SBI on December 29.

However, growing hopes that higher government spending and SDS interest inflows worth Rs 10,000 crore may ease fund crunch in coming days, boosted gilts prices mid-week but gains were short-lived as sentiment remained jittery with the day of the IMD redemption approaching.

A drop in global oil prices after rising for few sessions and rally in US Treasuries propelled some buying late in the week. Also softer inflation rate of 4.50% as against 4.55% previously propped up gilts prices but sharp upside was curbed due to caution in the market.

The yield on the actively traded 8.07% 2017 closed flat at its previous week's closing level of 7.22%, off an intra-week high of 7.24%.

Call rates trade high on tight liquidity

Call rates ended higher at 6.20-6.30% on Monday, December 19 with a few deals being reported at 6.40-6.50%. Demand for funds was quite high in the morning trade but slowed down towards the end. Supply of funds continued to be insufficient and sustained pressure on the call rates.

Call rates ended on Tuesday at 6.25-6.35%, higher then their previous closing of 6.20-6.30%. Stray deals were reported at 6.40-6.45%. Demand for funds was high throughout the day, which pushed up call rates to an intra-day high of 6.45%. Supply of funds remained inadequate to fulfill the demand, putting an upward pressure of call rates.

Call rated ended at 6.30-6.40% on Wednesday, higher then their previous closing level of 6.25-6.35%. Stray deals were reported at 6.45-6.50%.

Call rates eased on Thursday and ended at 5.75-5.85%, lower than their previous closing level of 6.30-6.40%. Fund demand was high initially in the day as players wanted to cover their reserve requirements ahead of the reporting Friday. This coupled with low supply pushed call rates to their early morning high of 6.7%. But demand for funds tapered off towards the end of the day and call rates hit their intra-day low of 5.75%.

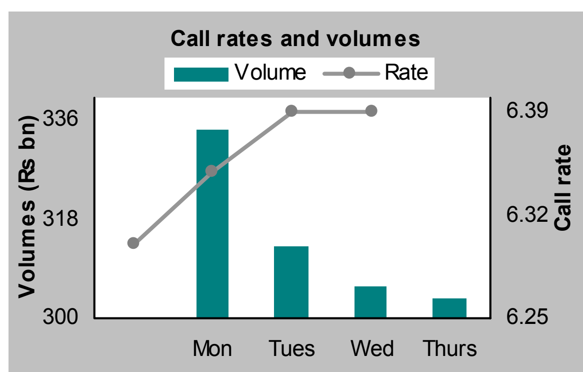
Call rates traded at 6.15-6.25% on the reporting Friday, higher then their previous close of 5.75-5.85%. Demand for funds was high as players wanted to cover their reserve requirements. High demand pushed call rates up by 40 bps and rates hit their early morning high of 6.25%.

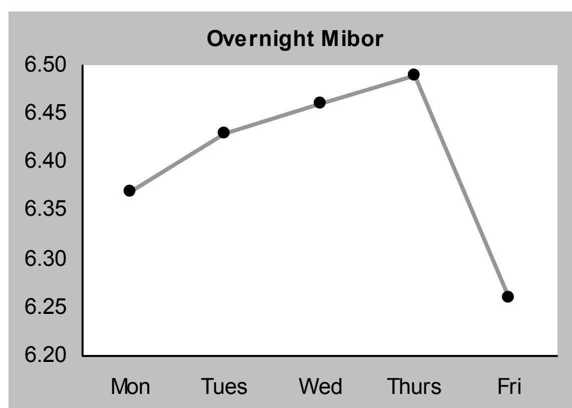
Rupee trades stronger, ends at 45.16

The rupee ended strong in the seventh straight session on Monday, December 19 as factors such as accumulated inflows over the weekend, the dollar's weakness against the yen, drop in global crude oil prices, dollar sell-off by banks and rallying stocks bolstered the Indian unit. The unit started slightly weak but soon bounced back to end at 45.03 to the dollar as huge accumulated dollar inflows over the weekend started ticking in.

The rupee posted a recovery on Tuesday and Wednesday as strong inflows came in. The rupee remained weak for most part of the day as the dollar managed to hold firm overseas. However, strong inflows and absence of follow up demand helped the rupee recover intraday losses. The unit finally closed at 45.20.

The rupee ended the week slightly stronger but failed to hold on to early gains on month-end demand. The unit started strong as the yen advanced against the dollar overnight. However, month-end demand dampened the party and dragged the rupee as low as 45.20. Lacklustre activity in the last hour of trade allowed the rupee to close 4 paise stronger at 45.16 against the dollar.





Stock Markets

Weekly Wrap : Sensex gains for third week in a row

On the eve of Christmas, the markets were expected to be upbeat this week but it turned out to be a usual one. The BSE Sensex gained 203 points to close at 9256.91 as compared to previous week`s gain of 217 points. The Sensex has gained 526 points in three weeks.

The BSE Sensex added 110 points on Monday but lost on Tuesday slipping by 48.03 points. On Wednesday the Sensex closed flat losing 7 points and gained 33 points on Thursday. It fell sharply by 115 points on Friday.

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FII investment slowed down this week compared to previous week. They invested in equities to the tune of $ 457.5mn from (Monday to Thursday). Mutual Funds offloaded worth Rs 656.33 crore in equities.

On a macro level, Indo-China trade increased by a massive 521 per cent in the last

five years to 11.35 billion dollars in 2005 from 1.8 billion dollars in 1999-2000, according to a study by industry body Assocham.

On the corporate front, Dishman Pharmaceuticals & Chemicals Ltd acquired a Bern, Switzerland based Contract Research Company, I03S Ltd. (IO3S) through its 100 per cent wholly owned Switzerland based subsidiary company Dishman Switzerland Ltd.

The government invited Expression of Interest from public sector financial institutions and banks for selling eight per cent of its 18.28 per cent stake in Maruti Udyog Ltd and said it was open to selling the entire shares on offer to a single bidder.

Oil and Natural Gas Corporation plans to enter into a 50:50 joint venture with Coal India for a Rs 150-crore underground coal gassification projects with technical collaboration from Stochinsky Institute of Russia.

Ranbaxy Laboratories Ltd entered into an agreement with Cephalon, Inc. to settle their pending patent infringement dispute in the United States related to PROVIGIL (modafinil) Tablets. Cephalon will grant the company a non-exclusive royalty-bearing right to market and sell a generic version of PROVIGIL in the United States. The company`s license will become effective in October 2011 in absence of a pediatric extension for PROVIGIL, which would delay the entry date by six months (to April, 2012).

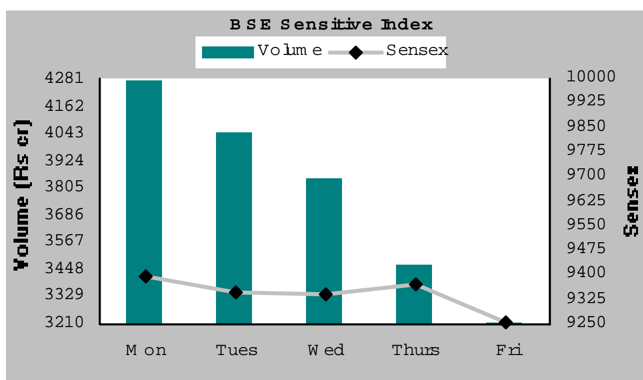
The major gainers and losers for the week on the BSE and NSE are as follows:

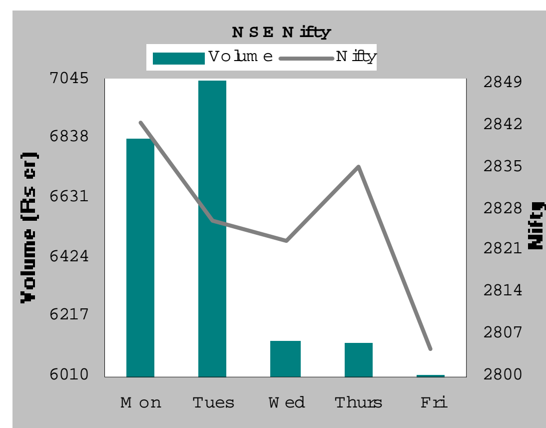
The major gainers on the BSE Sensex were, Wipro – up by 5.36 per cent to Rs 465.10, HDFC Bank – up by 4 per cent to Rs 728.30, ONGC – up by 3.81 per cent to Rs 1191.90, Dr Reddy`s –up by 3.57 per cent to Rs 967.90.

The major gainers on the NSE Nifty were, Dabur India – up by 6.05 per cent to Rs 200.70, Wipro – up by 5.37 per cent to Rs 465.45 and IPCL -up by 3.68 per cent to Rs 228.50, ONGC – up by 3.57% to Rs 1190.90.

The major laggards on the BSE Sensex were, Ranbaxy Lab – down by 7.96 per cent to Rs 359.20, BSES – down by 5.36 per cent to Rs 599, Maruti – down by 4.70 per cent to Rs 626.85, BHEL down by 4.12% to Rs 1365.95.

The major laggards on the NSE Nifty were, Ranbaxy – down by 7.91 per cent to Rs 359.75, BSES – down by 5.32 per cent to Rs 599.65 and Maruti – down by 4.79 per cent to Rs 626.50.





Inflation

Inflation dips on cheaper food, non-food items

The annual wholesale price index-based inflation rose 4.5 percent during the week ended December 10, marginally lower than the previous week's annual rise of 4.55 percent, according to data released here today by the Ministry of Commerce and Industry. The fall in the year-on-year inflation was largely because of cheaper food and non-food items.

During the latest reported week, the WPI stood at 197.4 points, as against 188.9 points during the corresponding period last year. Inflation was at 6.84 percent during the corresponding week of the previous year.

On a disaggregated basis, the Primary Articles' group index fell 0.8 percent to 195.8 points due to cheaper food and non-food items. The index was 186.2 points a year ago. The fuel, power, light and lubricants' group index stood firm at the previous week's level of 310.7 points. It was 288.8 points a year ago. The manufactured products' group index remained at the previous week's level of 172.7 points, despite a fall in prices of food products, non-metallic minerals and machinery. The index was 167.6 points during the same period a year ago.

Among the Primary Articles' group, the food articles' group index declined 0.5 percent to 199.1 points owing to lower prices of fish-marine (nine percent), fish-inland (four percent), moong (three percent) and milk, arhar, pork, barley and fruits (one percent each). However, prices moved up for vegetables, urad, tea, bajra and maize (two percent each) and wheat and gram (one percent each). The non-food articles group index fell by 1.4 percent to 174.9 points due to cheaper skins (11 percent), groundnut seed (eight percent), soyabean and hides (three percent each) and copra, rapeseed, mustardseed and linseed (one percent each). But prices moved up for tanning materials (21 percent), mesta (three percent), raw silk (two percent) and raw rubber (one percent each).

Among the Manufactured Products' group, the food products' group index fell 0.4 percent to 177.9 points due to lower prices of oil cakes (two percent, mustard oil and ghee (one percent each), but cotton seed and gur prices rose by two percent and one percent respectively.

A marginal fall in cement prices pulled down the Non-Metallic Mineral Products group index by 0.3 percent to 168.2 points. A nine percent increase in zinc prices pushed up the Base Metals Alloys and Metal Products group by 0.1 percent to 221.8 points.

INDIAN Policy WATCH

December 24, 2005 Issue No: 39 FY2006

HIGHLIGHTS

- IRDA permits third party administrators to offer other services
- Govt to divest 8% in Maruti
- TRAI issues draft recommendations on migration to IPv6
- Govt notifies new telephony regulations
- MFs allowed to offer open-ended ELSS
- Port-related infrastructure: CBDT eases norms for getting tax breaks
- Taxation laws Bill passed
- Govt to extend DEPB scheme till March 31
- FBT blow to industry may be softened
- Govt committed to sugar decontrol: Pawar
- Govt lists measures to revamp sick mills

C O N T E N T S

POLICY WATCH

Insurance

Divestment

Telecom

Taxation

Sugar

POLICY WATCH

INSURANCE

IRDA permits third party administrators to offer other services

The Insurance Regulatory and Development Authority has decided to permit third-party administrators (TPAs) in health insurance to undertake servicing of non-insurance healthcare schemes of Central and State Governments.

The TPAs have been asking the regulator for long whether they can enter into agreements with entities other than insurance companies for servicing their healthcare schemes.

In a notification here, the IRDA Chairman, Mr C.S. Rao, said, "It is hereby clarified that if the task undertaken by the TPA company is to undertake servicing of non-insurance healthcare schemes promoted, sponsored or approved by Central or State Governments, the IRDA has no objection to the TPAs undertaking that function."

However, he said since TPAs also undertake claims processing on behalf of insurers, it should be ensured that there is no conflict of interest between the work undertaken on behalf of the Central and State Governments and the work taken up on behalf of the insurance companies.

Further, the IRDA Chairman said the working capital requirements for attending to the work relating to the Central and State Governments should be worked out separately and brought in additionally so as to ensure that the processing of claims on behalf of the insurance companies is in no way impaired.

Making it clear that the IRDA would not be responsible for administrative or financial transactions between the TPAs and the Central or State Governments, Mr Rao said the IRDA, however, reserves its right to take appropriate action against the TPAs for serious acts of omission and commission brought to its notice by the Central or State Governments.

DIVESTMENT

Govt to divest 8% in Maruti

Reviving the disinvestment process, the Government today invited Expression of Interest (EoI) from domestic public sector financial institutions and public sector banks for picking up 8 percent stake in the auto major, Maruti Udyog Ltd (MUL).

The sale is to be done through the competitive bidding process. The Government currently holds 18.28 percent of equity in MUL.

The minimum bid value has been fixed at Rs 10 crore and the maximum bid size is 2,31,12,804 shares (which is the number of shares being divested). However, the Government has said that the present holding of the institution in Maruti and shares transferred from government to it should not exceed 10 percent equity of MUL on the date of such transfer.

The Government decision to limit the sale to banks and FI may imply that no other

class of investors might be allowed in this round of stake sale.

Going by the current price of Maruti's scrip on stock exchanges, the Government can raise around Rs 1,500 crore from the sale. The Maruti share ended the day at Rs 662.70 on the BSE against a previous close of Rs 657.75, while on the NSE the scrip closed at Rs 662.75 from the previous close of Rs 658.

The shares will be locked-in for six months from the date that the Government delivers shares to the demat account of the institution.

The successful bidder will have to pay the amount within three working days of date of intimation by the Government and the shares will be delivered within five working days of receipt of funds.

Financial institutions interested in participating in the process have been asked to register with the Department of Disinvestment. The last date for putting in an EoI is January 4 .

SBI Capital Markets Ltd and Kotak Mahindra Capital Company Ltd have been jointly appointed as Advisors.

In June 2003, the Government sold a 27.5-percent stake in MUL to the public at a price of Rs 125 per share and mopped up Rs 993 crore. Before that, the Government had held a 45.8-percent stake in MUL, comprising 13.23 crore shares of Rs 5 each.

TELECOM

TRAI issues draft recommendations on migration to IPv6

In a bid to give a push to Internet Protocol version 6 deployments, which offer improved address space, quality of service and data security capabilities, Telecom Regulatory Authority of India (TRAI) today suggested that IPv6 usage in platforms and applications pertaining to e-governance be mandated.

"Major thrust of TRAI's recommendations is in setting up of test beds for experimentation in IPv6 technologies, creation of a National Internet Registry in the country, in addition to the current Regional Internet registry located in Australia, and also to bring awareness about IPv6 through Government agencies," a TRAI statement said here.

Issuing its draft recommendations on `Transition from IPv4 to IPv6 in India', TRAI said the move was necessary in view of fast expanding Internet usage and increased demand on the IP address space.

TRAI's draft recommendations entail amending the definition of IP address mentioned in ISP licence to enable 128 bits to be used as needed for IPv6 based addressing, instead of the existing 32 bits; enlarging the existing IPv6 test bed of ERNET to make it country-wide; upgradation of National Internet Exchange of India (NIXI) as a national test bed for IPv6 and interconnection among various nodes to provide access to all ISPs; and encouragement to State-owned organisation such as Telecom Engineering Centre , CDOT and CDAC to set up IPv6 test beds through Government funding.

It has also suggested that the usage of IPv6 in the platforms and applications pertaining to e-governance be mandated, and that the Government also ensure IPv6 compatibility in its own procurement of IT systems and networks.

It also talks about establishment of National Internet Registry in the country, within the framework of APNIC, the regional Internet registry, utilising the existing set up of NIXI.

TRAI had issued a consultation paper in August, highlighting the need for migration

to IPv6, regulatory issues related to migration, creation of National Internet Registry, setting up of IPv6 test bed and adoption of international best practices.

After receiving comments from stakeholders and completing the open house discussions at Bangalore and Delhi, TRAI issued the recommendation document and has now sought comments from stakeholders by December 30, before finalising its views.

Govt notifies new telephony regulations

The government has notified the new National Long Distance (NLD) and International Long Distance (ILD) norms and also decided to do away with the existing Internet Protocol-II (IP-II) and Internet Protocol Virtual Private Network (IPVPN) licences.

"The new norms set in motion the process of further reduction of telecom tariffs in the country, in addition to intensifying competition in the sector and allowing smaller players to enter the market," said a department of telecommunications official.

The guidelines will come into effect on January 1, 2006.

The DoT has also made amendments to the existing NLD and ILD licences and the Universal Access Service Licence (UASL) to incorporate the new norms. The VAST licences have also been amended to reduce the revenue share to 6 percent from the existing 15 percent.

According to the new guidelines for NLD licences, the entry fee has been slashed to Rs 2.5 crore from the existing Rs 100 crore, while the annual licence fee has been cut to 6 percent of the adjusted gross revenue (AGR) from 15 percent at present. Besides, the mandatory rollout obligations have been removed.

The networth requirement and paid-up capital have been fixed at Rs 2.50 crore, against Rs 2,500 crore and Rs 250 crore respectively at present. NLD service providers have also been permitted to offer last mile connectivity.

For the ILD sector, the entry fee has been reduced to Rs 2.5 crore from Rs 25 crore at present. The reduction in revenue share, networth requirement and paid-up capital is similar to that for the NLD licence.

Here too, the rollout obligations have been removed and ILD service providers have also been permitted to access subscribers directly with regard to leased circuits closed user groups.

Additionally, for both ILD and NLD, prior experience in the telecom sector is no longer a prerequisite for being granted telecom service licences.

As per the revised UASL licence, access providers are permitted to provide internet telephony, internet services and broadband services (including triple play - voice, video and data) and can also use the network of NLD and ILD operators to offer the same.

Under the new guidelines, existing holders of IP-II and IPVPN licences will have to migrate to NLD or ILD service licence. This implies that Internet Service Providers with internet telephony will be charged licence fee at 6 percent of AGR. They, however, cannot provide content services on a managed network not derived from Internet.

IP-II licensees not interested in migrating to NLD or ILD shall not be permitted to provide national and international leased line or bandwidth to individual subscribers and also not carry voice over individual network, the guidelines added.

MFs allowed to offer open-ended ELSS

The Finance Ministry has set the record straight on the issue of allowing mutual funds to offer an open-ended equity-linked savings plan under the Equity Linked Savings Scheme 2005.

It has now amended the ELSS 2005 to specify that a mutual fund or the Unit Trust may, at their discretion, operate "one open-ended equity linked savings plan" with prior approval of SEBI.

TAXATION

Port-related infrastructure: CBDT eases norms for getting tax breaks

Availing oneself of tax breaks for creation of structures at the ports for storing, loading and unloading just got simpler.

The Central Board of Direct Taxes has relaxed the conditions that have to be met for such structures to form part of the definition of "ports" and thereby become entitled for the tax-breaks available for developing, operating or maintaining infrastructure facilities such as ports.

The Revenue Department has said that a certificate from the port authority concerned that the structures form part of the port would suffice for counting them as part of "ports" for the purpose of Section 10(23G) and Section 80-IA of the Income-Tax Act.

This stance of the Revenue Department would be applicable for and from assessment year 2002-03 onwards. For 2001-02 and earlier assessment years, two conditions had to be met for the structures to form part of the definition of ports.

Besides a certificate from the port authority concerned, there was also the requirement that such structures should have been built under the BOT (build, operate and transfer) or BOLT (build-own-operate-transfer) scheme and there is an agreement that they would be transferred to the port authority on the expiry of the time stipulated in the agreement.

"Now, from assessment year 2002-03, there will only be one condition and that is the need for a certificate," official sources said.

Section 10(23G) of the Income-Tax Act exempts income by way of dividend, interest and long-term capital gains arising out of investments made in an enterprise engaged in the business of developing, maintaining and operating an infrastructure facility. The exemption is available so long as certain conditions are fulfilled.

Under Section 80-IA, deduction is available to an enterprise involved in developing, maintaining and operating any infrastructure so long as certain conditions are fulfilled.

Taxation laws Bill passed

The Parliament on Tuesday passed the crucial Taxation Laws (second amendment) Bill, 2005, that sought to, among other things, bring legal validity to the income-tax department's efforts to recover tax on a retrospective basis on certain income arising from sale of duty entitlement passbook scheme (DEPB) scheme.

This Bill was passed by a voice vote in the Rajya Sabha on Tuesday, amidst a walkout by the Opposition, which demanded that the Bill be referred to a select committee. The Lok Sabha had already passed this Bill on December 14.

Govt to extend DEPB scheme till March 31

The Government has decided to extend the validity of the duty entitlement passbook (DEPB) scheme to March 31 next year.

After having announced that the DEPB scheme would be valid till September 30, the Government had extended its applicability to December 31, 2005. A replacement for the DEPB scheme has been in the works for more than a year.

The existing DEPB scheme neutralises the customs duty on the import content of the export product. This scheme serves a little over 50 percent of the country's merchandise exports in value terms. India's merchandise exports during April-March 2005 stood at Rs 3,56,068 crore.

Sources said that the Prime Minister's Office (PMO) has advised that the existing DEPB scheme be extended to March 31, 2006. The Commerce Ministry and the Revenue Department have also been directed to work towards the early finalisation of the new scheme that would replace the DEPB scheme.

As a replacement to the DEPB scheme, the Government is keen to put in place a WTO-compatible instrument of remission that would take into account unrebated tax incidences at various levels.

One of the factors impacting the finalisation of the alternative scheme is the stance of the Planning Commission on the issue of rebating the State-level levies under the proposed scheme. The sources said that the Planning Commission is having second thoughts on whether the new scheme should rebate State-level levies.

The DEPB scheme was considered to be WTO-incompatible, as it allowed the use of domestic inputs (which are given the deemed import status) to enable exporters to draw credit for importing anything that is not in the negative list and things that do not go into the export production.

Exporters have been insisting that the basic features of the proposed scheme must be shared with them. In fact, the Federation of Indian Export Organisations (FIEO) had demanded that at least six months' notice should be given before an alternative scheme is implemented.

FBT blow to industry may be softened

The Central Board of Direct Taxes (CBDT) Chairman, MS Darda, today indicated that the Revenue Department would try to make it easier for industry to comply with the fringe benefit tax (FBT) provisions of the income-tax law in the forthcoming budget.

"It appears that FBT is fast becoming a trauma for Indian industry. We will look at your concerns on this tax and see what could be done in terms of more clarification if necessary," Darda said at a conference on pre-budget issues in direct taxes, organised by the Associated Chambers of Commerce and Industry of India (Assocham) here today. He, however, was not forthcoming with details.

Darda also indicated that FBT was here to stay and pointed out that the increasing incidence of tax evasion had led to complications in income-tax law.

"We used to get a feeling that there is connivance between the employer and the employee (in the area of perquisites) to evade tax. This could be one of the reasons why we are having FBT today," he said.

The CBDT Chairman also said that complications in tax laws could not be avoided if undue advantages were being taken out of such laws.

Govt committed to sugar decontrol: Pawar

The Government is committed to decontrolling the sugar sector at the right time, according to the Union Minister of Agriculture, Consumer Affairs, Food and Public Distribution, Sharad Pawar. However, he did not give a timeframe for the process.

"Deregulation of the sugar industry should be on a sustainable basis and the Government will take an appropriate decision at the correct time. Deregulation must balance the interest of sugar industry, sugarcane growers, and the consumers and hence, the timing of deregulation is an important factor," he said while addressing the AGM of the Indian Sugar Mills Association (ISMA).

Currently, the Government regulates the sugar release mechanism into the market on a monthly basis by deciding the quantity of sugar that is to be sold in the open market and through the public distribution system. The sugar industry has been demanding decontrol of the sugar release mechanism.

Pawar stressed the need to keep sugar prices in control in view of the hardening of sugar prices worldwide.

"We would like to ensure that consumers don't pay higher than Rs 20-21 a kg for sugar and farmers don't get less than Rs 1,200 a tonne of sugarcane," he told newspersons on the sidelines of the meeting.

On ISMA's demand to increase the radial distance for mills from where they can access sugarcane, Pawar said: "We are examining the issue with an open mind keeping in view the need for optimisation of cane output and the need for increase in sugar production." He stressed the need to increase yield from sugarcane rather than increasing area under cultivation.

"Currently, there may be some scope of increasing area under sugarcane cultivation in some States, but there is a limit to which cane area can be increased. There is an urgent need to turn our attention to increasing the yield of sugarcane." The Finance Minister, P Chidambaram, said: "Decontrol of sugar will eventually mean decontrol of sugarcane. The sugar industry should reflect on this before demanding decontrol in release mechanism."

Govt lists measures to revamp sick mills

The Government has listed measures to help restructure various sick sugar mills.

"The Department of Food will soon be taking a decision on the issue of restructuring of loans from the Sugar Development Fund (SDF) for potentially viable but sick sugar mills," said Union Minister of Agriculture, Consumer Affairs, Food and Public Distribution, Sharad Pawar.

He added that the Government has reduced the rate of interest on SDF to two percent below rate and currently charges an interest rate of about four percent a year.

Orders have also been issued to ensure that the loans are available to all co-operative mills financed by urban co-operative bodies for restructuring, said Finance Minister P Chidambaram, referring to the cheaper finance restructuring options announced by Nabard earlier this year for co-operative mills.

He also said that banks that are members of the Indian Banks' Association are extending easy finance through corporate debt restructuring (CDR) mechanism to private mills too. "I have been told that 16 sugar mills have been restructured through the CDR

mechanism."

Moreover, Pawar and Chidambaram stressed the need to focus on ethanol production and power co-generation.

The sugar industry in India has an estimated production capacity of 2,000 million litres of alcohol a year, of which about 800 million litres of ethanol can be spared after meeting the requirements of potable and industrial alcohol for blending in petrol, said Pawar.

He added that with regard to the price of molasses, a consensus on the pricing of ethanol has to be arrived at in co-ordination with the Ministry of Petroleum and Natural Gas.

He also called upon the sugar industry to focus on bagasse-based co-generation of power as the sugar industry has the capability to produce about 3,500 MW but is currently producing only 400 MW.

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