PINNACLE We Create Value...

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India surpasses China, US as most attractive investment destination: Survey

With relaxation in FDI norms to boost investor sentiments, India has emerged as the most attractive investment destination surpassing neighbouring China and the US, says a report published in October 2013.

The global survey of leading consultancy firm Ernst and Young (EY) has ranked India as the most attractive investment destination followed by Brazil and China at second and third positions, respectively.

While Canada has cornered fourth spot, the US is placed at fifth position. Other nations in the top ten are South Africa (6), Vietnam (7), Myanmar (8), Mexico (9) and Indonesia (10).

The findings are a part of EY's latest Capital Confidence Barometer report, based on a survey of about 1,600 senior executives from large companies across 70 countries. It aims to gauge corporate confidence in the economic outlook and understand boardroom priorities, among others.

About 38 per cent of the respondents felt that M&A volumes in India are expected to improve over the next 12 months.

With sharp currency depreciation and opening up of FDI in various sectors including multi-brand retail and telecom, India has become an attractive destination for foreign investors.

According to the global consultancy firm, due to present macro-economic pressures and heavy debt pile, several Indian companies are looking to divest non-core businesses. This has created a large opportunity for foreign players vying for a greater role in the Indian market, it added.

When it comes to investments, the US, France and Japan have emerged as "top three investors likely to invest in India. With respect to India, sectors with the highest level of anticipated deal-making include automotive, technology, life sciences and consumer products.

Source: EY

Auto Component Industry in India

India is emerging as a global hub for auto component sourcing and is set to break into the league of "Top Five" vehicle producing nations worldwide. The country is also emerging as a sourcing hub for engine components. Major global original equipment manufacturers (OEMs) plan to make India a component sourcing hub for their global operations.

India: The Global Auto Hub

- The automotive supplier firm Cooper Standard inaugurated a manufacturing facility at Bawal in Haryana, which will initially manufacture rubber sealing and trims for Volkswagen models in India, at an investment of around US$ 7 million.
- NMB-Minebea India Pvt. Ltd., a wholly-owned subsidiary of Minebea Co Ltd (Minebea), a global manufacturer of miniature and small-sized bearings and precision components, announced commencement of its operations in Gurgaon, India.
- Tenneco, a US$ 7.4 billion firm headquartered in Lake Forest-Illinois in the US, opened its Dyna Chrome high speed hard chromium plating facility for piston rods at its Hosur plant in Tamil Nadu (TN).
- Malaysia's Petronas is setting up a lubricants' plant near Mumbai with the aim of capturing a greater share of the growing Indian lubes market that is expected to touch nearly US$ 8 billion by 2017.

Auto Component Industry – End User Breakup (2012)			
		OEMs Off take	
OEMs	70%	Car & UVs	53%
After Market	14%	2/3 Wheelers	20%
Exports	16%	CVs & Tractors	27%

Key Developments & Investments

- Auto component major Anand Automotive plans to invest Rs 1,200 Crore (US$ 194.45 million) over the next five years on new product development and capacity expansion.
- Base Batteries plans to spend Rs 1,000 Crore (US$ 162.07 million) over four years to set up new plants and expand existing ones at Hosur, Tamil Nadu and Solan, Himachal Pradesh.
- KLT Automotive & Tubular Products, manufacturers of chassis and related components, will invest over Rs 320 Crore (US$ 51.86 million) in setting up two chassis manufacturing units in Chennai and Sri City and will also expand their existing unit.
- ARaymond inaugurated its first plant in India, at Chakan, Pune with an investment of US$ 7 million. The new plant will manufacture various plastic fasteners like rib locks, trim clips, cable straps etc.

The auto components industry is expected to invest around Rs 70 billion (US$ 1.13 billion) over the next three years on new projects, as per rating agency ICRA's estimates.

The Indian auto component industry's turnover is projected to touch US$ 115 billion by 2020-21 compared to US$ 40.6 billion in 2012. The industry is estimated to grow at a compound annual growth rate (CAGR) of 14 per cent during 2013-21. In addition, the industry's exports are projected to touch US$ 30 billion by 2020-21 compared to US$ 6.5 billion in 2012, according to Automotive Component Manufactures Association (ACMA).

Source: IBEF / ACMA

Commodity Outlook: Coking Coal

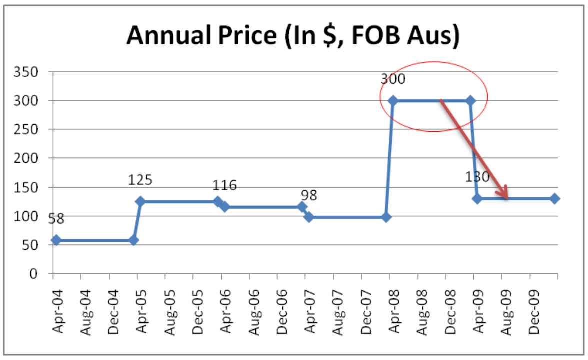
Metallurgical coal – or coking coal – is a vital ingredient in the steel making process. 70% of the global steel produced today uses coking coal. About 770 kg of coking coal is required to produce 1 tonne of steel through this production route.

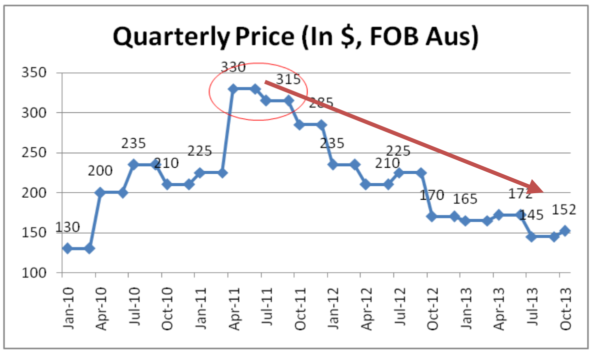
Coking coal is in the vicinity of its weakest level in about four years, with spot prices at $140 per ton FOB Australia and long term price likely to settle at $150 per ton FOB Australia for three month period starting Jan 1, 2014. While it trades above the $130 level, the price level last seen in 2009 (annual contract price of Cal Yr'09), we believe the level will provide a major support and spot prices will not breach this level in Cal Yr'14.

The Coking coal has seen unsustainable price levels of $300 and above in year 2008 and 2011, due to increased demand from steel mills and supply disruptions due to floods in Australia's Queensland respectively. But both the times prices crashed, with 2009 annual contract price settled at $130 (from $300 in 2008) and a continuous decline in prices from $330 levels of Apr-July'11 quarterly contract to $152 levels for Oct-Dec'13 quarterly contract (see graphs).

The world market of coking coal is facing a slackening demand from Chinese and Japanese consumers, the two largest importer of coking coal, due to slowdown in steel demand growth. We do not see any uptick in demand from the steel sector, as the industry suffers from chronic overcapacity and low profitability. On the other hand, there's a lot of supply after a recovery from flood-affected mines in Queensland.

But, there are indicators that the global metallurgical coal markets have bottomed and that the outlook could improve going forward. Global economic recoveries, as well as extensive production cutbacks by miners in the United States, Canada and Australia, are chief among them.





Till 2009, coking coal prices were contracted annually, but status quo was shattered in April 2010 as quarterly pricing was introduced.

Going forward, the prices will remain in the tight range of $130 on the lower side and $180 on the higher side, should the current dynamics of demand and supply hold.

Opportunities in Thailand

In the last edition of Buzz, we informed that Pinnacle has added Thailand to its presence. In this edition we would like to share with you business opportunities in Thailand.

<u>Market Overview</u>

Thailand, the second largest economy in ASEAN after Indonesia, is an upper middle income country with an open economy and a gross domestic product (GDP) of $365 billion in 2012.

Thailand's GDP expanded 6.4% in 2012 from 2011. An export-dependent economy, Thailand exported a total of $ 229 billion worth of goods in 2012, accounting for 63 percent of its GDP.

Together, China, Japan and the United States accounted for 32 percent of the market for Thai exports in 2012.

Export Partners (2012)	•China (11.7%), Japan (10.2%), US (9.9%), Hong Kong (5.7%), Malaysia (5.4%) -
Export Commodities (2012)	•Electronics, Computer Parts, Automobiles and Parts, Electrical Appliances, Machinery and Equipments
Import Partners (2012)	•Japan (20%), China (14.9%), UAE (5.3%), US (5.3%), Malaysia (5.3%)
Import Commodities (2012)	•Capital goods, Intermediate goods and raw materials, Consumer goods and Fuels.

Industrial production accounts for the second largest share of Thailand's GDP at around 39%, after services (52%) while agriculture is 8%. Manufactured products are usually the top export, accounting for 86% of all exports in 2012. Electronics/electrical appliances and automobiles are the top two export revenue earners for Thailand and made up around one-third of total export value in 2012.

In 2014, GDP is forecasted at 5.0% (YOY) while inflation should remain stable at 3.0% (YOY).

Doing Business in Thailand

The government has emphasized attracting investment in six sectors that have been determined to be key to the country's developmental objectives. These six target industries include: agriculture and agro-industry, alternative energy, automotive, electronics and ICT, fashion, and value-added services including entertainment, healthcare and tourism.

Also, to promote Thailand as investment destination, the government offers a range of tax incentives, support services and import duty exemptions or reductions to an extensive list of promoted activities through Board of Investment (BOI). Companies receiving investment promotion privileges from the BOI are not subject to foreign equity restrictions in the manufacturing sector, and there are no local content requirements or export requirements, as Thailand's investment regime is in total compliance with WTO regulations.

The World Bank ranks Thailand among the easiest places to do Business in Asia and 18th in the World.

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