

# Newsletter

Jan, 2011



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## **Financial regulators urge banks to disclose bonus payouts:**

A POWERFUL group of international financial regulators has proposed that the payments made by banks to senior management, risk management staff, traders and other "material risk takers" be made public for the first time.

The statement, from the Basel Committee on Banking Supervision, adds significantly to the pressure on the Government to force the British banks to publish details bank bonuses. Over the next few weeks around Pounds 7bn is expected to be paid out in bonuses, at a time when the public is being asked to accept benefits cuts, a threefold rise in student tuition fees and a hike in VAT to 20%

Excessive risk-taking, "off balance sheet" deals and bonuses paid "just for turning up" were almost universally held to be at least partly responsible for the financial crash and the deepest recession in three-quarters of a century which followed it. Regulators have now come up with draft proposals that should represent a united international front in the campaign to restrain the banks from irresponsibility.

*Source: GARP*

## **N.Y. state sues Ernst & Young:**

The big accounting firm Ernst & Young helped Wall Street investment bank Lehman Brothers conceal its deteriorating financial condition before Lehman's historic collapse, New York Attorney General Andrew Cuomo charged Tuesday.

The civil lawsuit, which seeks more than \$150 million, is the first law enforcement action to stem from Lehman's failure. The bankruptcy of the firm, which was an important cog in the machinery of the capital markets, caused immense collateral damage.

The allegations against Lehman are not new. The federally appointed lawyer examining the causes behind the firm's bankruptcy reported in March that it had cooked its books to conceal how little cash it had available in the months before it failed.

The allegations centered on sham trades that allowed Lehman to window-dress its balance sheet before filing quarterly financial reports, making it seem like it had more cash than it actually did.

*Source: GARP*

## **Australia Manufacturing Contracted for 4th Month in December:**

Australian manufacturing contracted in December for a fourth month as higher borrowing costs curbed consumer spending and the nation's currency surged to a record, eroding export earnings.

The performance of manufacturing index fell to 46.3 from 47.6 in November, the Australian Industry Group and PricewaterhouseCoopers said in a survey released in Canberra today. A number below 50 indicates contraction.

The Reserve Bank of Australia left interest rates unchanged last month after boosting borrowing costs in November to contain expected faster inflation in 2011, citing expectations for a "large expansionary shock" from trade. The bank has increased the overnight cash rate target seven times to 4.75 percent since October 2009.

*Source: Bloomberg*

## **Estonia enters new era with euro adoption:**

Estonia kicked off historic New Year's festivities Friday night as the tiny Baltic state began the countdown to a midnight changeover to the euro, Europe's embattled common currency.

The inclusion of Estonia, a minuscule \$19 billion economy, in the \$12.5 trillion euro area is being touted for its symbolic importance after the currency was battered throughout 2010 by bad news. Two members - Greece and Ireland - required international bailout funds to avert bankruptcy.

Though Estonia will become the 17th member in the euro area, it could be the last new entrant for several years as all other potential newcomers from Eastern Europe either shy away from adopting an unpopular currency or fail to meet criteria on budget deficits and inflation.

*Source: GARP*

## **Iran Oil Curbs Swelling Record Deficit May Hold Back Rupee: India Credit:**

The Indian central bank's move to block dollar or euro payments for Iranian oil threatens to swell a record current-account deficit, damping investor confidence in the rupee and government debt.

The Reserve Bank of India said on Dec. 27 that trade transactions with Iran must be settled outside the Asian Clearing Union, a regional payment arrangement that had allowed companies to skirt U.S. and European limits on doing business with the Middle Eastern nation. Sourcing the fuel from elsewhere "may impact prices," B.M. Bansal, chairman of Indian Oil Corp., the nation's biggest refiner, said last week.

Nomura Holdings Inc. forecasts bond yields will climb and Mumbai-based Kotak Mahindra Bank Ltd. estimates the rupee is likely to fall as much as 4.5 percent this year as the Iran supply disruptions aggravate the cost of rising commodity prices on India's finances. India's 10-year bond yield has risen 49 basis points to 8.04 percent since July as crude-oil prices traded in New York climbed 21 percent in the second half of 2010 to \$91.38 a barrel.

*Source: Bloomberg*

## **India seeks French partners to build motorways:**

India would like French companies to help develop its fast-growing motorway network, India's minister for road transport Kamal Nath said in an interview with French daily Le Figaro published on Tuesday.

India's government, under pressure to ramp up the country's infrastructure to keep up with its rapid economic growth, has a goal to build 20 km (12 miles) of highway per day, or 7,000 km (4,350 miles) per year, Nath told Le Figaro.

"France has an important network of roads and motorways and numerous French companies are renowned for their competence in this sector," he was quoted as saying.

Nath was on a visit to France and was due to meet Economy Minister Christine Lagarde and Environment and Transport Minister Nathalie Kosciusko-Morizet.

Asia's third-largest economy is spending \$1.5 trillion on infrastructure over the 10 years to 2017 and wants to bring foreign investors into road projects aimed at reducing supply bottlenecks.

*Source: Economictimes*

## **India current a/c gap widens to \$15.8 bln in Sept qtr:**

India's current account deficit in the September quarter widened to a record high of \$15.8 billion as booming domestic consumer demand sucked in imports and service sector exports suffered from weak global demand.

However, robust capital inflows helped the overall balance of payments remain positive, Reserve Bank of India (RBI) data showed on Friday.

The current account deficit for the September quarter widened compared with a downwardly revised \$12.1 billion in the June quarter.

A recent report by Goldman Sachs said India's current account deficit may widen to a record 4 percent in the current fiscal year ending March from 2.9 percent in the previous year, flagging the deficit as a risk for India.

The report also said the current account gap could grow to 4.3 percent in the fiscal year that ends in March 2012.

However, India's policy makers are more optimistic, with Deputy Chairman of the Planning Commission Montek Singh Ahluwalia saying earlier that India can live with a current account gap of 3 to 3.5 percent of its gross domestic product.

*Source: Reuters*

## **Rakesh Jhunjhunwala bats for A2Z; buys up shares from open market:**

What if the listing of Delhi-based infrastructure services firm A2Z Maintenance & Engineering Services Ltd was a damp squib, one of its marquee investors - the big bull - is buying up the shares from the open market, reinforcing the faith in the company. Ace investor Rakesh Jhunjhunwala along with wife acquired 1.85% additional stake in Delhi-based infrastructure services firm A2Z Maintenance & Engineering Services Ltd on its debut, when the stock was not greeted with any fanfare by the investors. Interestingly, Jhunjhunwala had sold a part of his stake in the IPO.

*Source: Yahoofinance*

# Industry Circle: Indian Education Industry

## Industry Background:

- ➔ India has amongst the **largest student populations** in the world (over 230 million enrolled in schooling and higher education) and a low literacy rate of 65% (ranked 172 globally).
- ➔ The Government of India (GoI) targets to **guarantee elementary education** to every child between the ages of 6 to 14 years.
- ➔ On recommendations of the Kothari Commission, the GoI, in 1968 fixed a target **of investing 6% of GDP** on education by 1986. But this target was not achieved by a long distance. Current spending on education in India is not more than 3.5% of GDP and has never risen beyond 4.3% of GDP.
- ➔ The **US spends 12% on education**, France 7%, Malaysia 20% and Thailand 27%.

## Categories:

Education sector has been segmented into three sub-sectors:

1. Schooling (K-12)
2. Higher Graduation
3. Vocational Education

India's Total Population in the age group 5-24 years is 434 Mn.

### 304 Mn in the school going bracket

Only 227 million of the eligible 304 million are in school. The 'gap' is due to a combination of reasons including children not in school, high dropout ratios at different levels and the demand supply gap.

### 130 Mn in the Higher Education bracket

The Gross Enrollment Ratio (GER) in higher education in India (percent of relevant age group enrolled in higher education) is estimated at 11%. In comparison, enrollments levels are 60% in the US and 16% in China.

## Growth projections:

The GoI allocated US\$ 8.6 billion to education in its budget for FY09, but the private sector is almost five times this amount. The education sector is projected to **grow at 11% (from demand perspective)** over the next 10 years, to reach US\$ 70 billion by 2013 and US\$ 115 billion by 2018.

Pre-schools, K-12 schooling and higher education will together represent **about 2/3rd of the sector**.

**Multimedia** in schools, child skill development, IT training and E-learning, preparatory and vocational studies, though relatively small segments in 2009 are forecasted to grow in the range of 25% to 60% and will together represent **1/4th of the sector**.

Increased demand for education has led to some growth in supply in the recent years, largely through increased private participation. However, the increased capacity falls significantly short of the needs of the country

Pre-school, educational CD Roms and child skill enhancement segments are likely to continue to remain an urban phenomenon.

## Regulatory Environment:

Currently, **the Government regulates who you can teach, what you can teach them and what you can charge them**. It also has huge regulatory bottlenecks. There are considerable entry barriers: Universities can be set up only through acts of legislation, approval procedures for starting new courses are cumbersome, syllabus revision is slow, and accreditation systems are extremely weak and arbitrary.

Currently, foreign universities are not permitted to open campuses or confer degrees in tie-ups with Indian partners.

However, various foreign universities are operating in India through collaborations and 'twinning' arrangements. The AICTE has recently notified such unrecognized tie-ups for technical and management education as illegal.

# Major Economic Indicators

## Economy

	<u>Current Value</u>	<u>Previous Value</u>
Inflation	7.47	8.58
IIP	11.1	3.9

## Banking

CRR	6%	6%
Repo Rate	6.25%	6.25%
91 Day T-Bill	7.2%	6.94%
10 Year G-Sec Yeild	8.09%	8.09%
Forex Reserve-USD bn	295	298

## Currency

USD	45.20	45.09
Euro	59.99	59.63

## Markets

Nifty	6146	5862
Nifty PE	24.53	23.39

## Bullion & Crude

Gold \$/Oz	1383.2	1395
Silver \$/Oz	29.59	28
Crude \$/barrel	89	87.79