

# INFRASTRUCTURE UPDATE

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## Kerala relaxes power project rules

The Kerala government has relaxed the terms for construction of mini and micro power projects by private agencies in the state. As per the new rules, investors will be exempted from paying water cess and will be allowed to use the entire generation for captive consumption. The earlier terms had specified a cess and supply of 25% generation to the Board. The State Electricity Board had put up 62 projects for investment by private agencies. This did not receive a good response prompting the state government to grant exemptions.

## Kudankulam nuclear power project ahead of schedule

The Nuclear Power Corporation of India Ltd's largest nuclear power project under construction, Kudankulam Nuclear Power Project, is ahead of schedule. The Rs 131.7 bn project has been funded 50% through a soft loan by the Russian government. Russia is providing the total design of the project as well as technical supervision during the execution of the project.

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## Mega power policy to be revamped

The finance ministry is considering a proposal to expand the mega power policy and provide fiscal sops to a larger number of projects. The new proposal is expected to cover all thermal power projects of 1,000 mw and above and all hydel projects of 500 mw and above.

The earlier policy, framed eight years ago, was restricted to only eight projects of which only one — NTPC's Simhadri project — has started construction. The move to expand this policy is aimed at facilitating more capacity addition at lower costs. The mega power policy status would provide for a complete waiver on the customs and excise duty on all project imports for the plant. It has also recommended that state governments relax sales tax on such projects. Government sources said the policy would be effective only if a large number of projects can avail of the tax sops. Though this policy was announced almost four years ago, it failed to take off as it was restricted to a few promoters who kept delaying their projects. Analysts have estimated that the proposed tax exemptions can help reduce capital costs by 15%. At the current market rate, the fixed cost element in the tariff is around Rs 1.30 per unit. This could be lowered by 20 paise per unit under the mega power policy.

The expanded mega power policy, which makes more plants eligible for tax sops, may be announced in budget 2003-04. It has also been proposed by the power ministry that this policy should include some large-scale transmission projects, which require equipment imports of high-voltage lines.



## National power grid to be in place by 2012

The inter-regional transmission capacity of the Power Grid Corporation of India (PGCIL) will touch a record 30,000 MW in 2012 when the national power grid will be in place through inter-connection of all the regions. PGCIL expects to form the national grid in different phases, as and when the interlinking projects are completed.

The PGCIL's transmission capacity will increase to 23,000 mw by 2007 when the Eastern, Northern and Western regions will be inter-connected. With 90% of the coal reserves concentrated in four states - Bihar, Orissa, West Bengal and Madhya Pradesh, hydro potential totalling about 84,000 mw concentrated in three states - Arunachal Pradesh, J & K and Himachal Pradesh, the national power grid is essential to the country's power sector. Since the transportation of coal is costly and hydel resources are location specific, the only option is to generate power at the resource points and transmit it through a national grid. PGCIL estimates that the national power grid will require an investment of Rs 700 bn. The corporation is confident of raising 500 bn on its own.

## Largest power generating unit commissioned

The country's largest 250 mw power generating unit for the 1500 mw Nathpa Jhakri power project has been commissioned for trial runs. The project has six such units with an aggregate capacity to produce 1500 mw of power and is scheduled to be commissioned in 2003.

## Two new power plants in Uttaranchal

The National Thermal Power Corporation (NTPC) and the government of Uttaranchal have signed a MoU to execute two new power projects — The Lohari Nagpala Hydro project and the Tapoban Vishnugad hydro project. The 560mw Lohari-Nagpala project will be located near Uttarkashi, on the Rishikesh-Gangotri road. The 360 mw Tapoban-Vishnugad Hydro Project will be located near Joshimath on the Rishikesh-Badrinath road.

## Kehalgaon units revert to 500 mw

In order to ensure that the Kehalgaon project takes off during the 10th Plan, the National Thermal Power Corporation (NTPC) has decided to revert to the 500-mw technology instead of the new 660 mw energy-efficient units. This has been done to avoid delays expected in implementing the project based on the 660 mw technology parameter.

Instead of having two 660 mw units as planned earlier, the second stage of the Kehalgaon project will now have three 500 mw units, of which two units would be commissioned during the 10th Plan. The decision to revert to the 500-mw technology has also been taken to offset generation loss due to the delay in commissioning of the Sipat project, the country's first project using 660-mw technology.

## KPCL to go alone in Bellary power project

The Karnataka Power Corporation Ltd. (KPCL) has decided to go ahead with the 500 mw Bellary Thermal Power Station (BTPS) on its own. The Jindal group, the joint venture partner in the project, is yet to commit its equity stake. Work on the project has already begun and negotiations are under way with BHEL for supply of equipment, which includes boilers and turbines. However, the power purchase agreement between the bulk buyer(s) has not yet been finalised, but is expected to happen sometime next year.

As per the original arrangement, the Jindal group was expected to pick up stake up to 25% in BTPS. KPCL, in turn, was to have picked up an equivalent stake in the expansion project of Jindal Thermal Power Project. However, KPCL has not committed any equity stake in that project as yet. KPCL is now persuading BHEL to pick up an equity stake in BTPS. BHEL so far has not participated in the equity of any of the projects where it has supplied equipment, since this is not part of the company's charter.



## Tata Power buys 10% stake in PTC

Tata Power has picked up a 10% stake in Power Trading Corp. (PTC) for Rs 100 mn. BSES is also likely to pick up a similar stake soon. PTC has offered each company a seat on its board. PTC is restructuring its equity which is being increased to Rs 1 bn from Rs 240 mn. Tata Power intends to set up sizeable power generation capacity, near coal pitheads at Jharkhand and Chattisgarh, and will then use PTC to wheel the power to load centres in Mumbai and Delhi.



## Nagarjuna power may move court on financial closure row

The Nagarjuna Power Corporation Ltd (NPCL) has threatened to seek legal intervention once more to ensure financial closure of the 1,000 mw power project proposed to be set up near Mangalore. The project promoters are being drawn into this battle for not providing an adequate financial security mechanism acceptable to the project lenders, Power Finance Corporation (PFC), Rural Electrification Corporation Ltd. (REC) and ICICI. So far all funds lent by these agencies have been made on the basis of a payment security mechanism (PSM), which included an escrow or assignment of central transfers, backed by guarantees. However, PSM offered on the High Court's directive, involves setting up of a power reform fund. This fund is to be activated at least three months before the commercial date of operations and is to be supported by a state government guarantee. Two months ago, the state government had indicated that it was prepared to provide a PSM. However, it has now gone back on its commitment.



## BHEL diversifies into O&M of power plants

BHEL has entered a new business area of operation and maintenance (O&M) of power plants as part of its strategy to fuel growth. It has secured its first O&M contract from Damodar Valley Corporation. Valued at Rs 33 mn, the contract is for 'Reliable Performance Demonstration Programme' of the 120 mw fourth unit at Chandrapura thermal power station in Jharkhand.

## Basic operators to move DoT over interconnect

Private basic operators will soon approach TRAI and DoT to protest against interconnect charges, which will make limited mobility services less affordable for customers. As per the Association of Basic Telecom Operators (ABTO), TRAI through its recent tariff amendment, which has equated WLL (mobility) service with cellular service with regard to interconnect usage charges (IUC) is addressing cellular industries concerns to the detriment of basic service operators. With the interconnect charges, ABTO states that WLL tariffs will increase for the end consumer.

## Hughes offers SMEs broadband solutions

Hughes Escorts Communications Limited (HECL), a leading broadband satellite solutions player, is targeting its DirecWay satellite-based broadband services towards small and medium enterprises (SMEs) market across India. The company is looking to generate revenues of Rs 400 mn by 2005 from this sector.

Hughes is seeking to appoint 50 state-level channel partners across India to deliver reliable, secure broadband connectivity and value-added solutions for this segment. Hughes has invested over \$15 mn to launch DirecWay in India.

DirecWay will deliver broadband connectivity and services to key verticals such as the state governments, manufacturing, export houses and hospitality sectors. It is targeting non-governmental Organisations also. SEC A category comers residing in farmhouses as well as NRI townships across India are also being targetted. The company has, since inception in 1995, deployed more than 10,000 VSAT terminals.

## TRAI raises monthly rental for landline

TRAI has announced a 11-12% increase in monthly rental for landline telephone users while reducing the pulse duration for local calls to two minutes instead of the prevailing three minutes. Presently, monthly rental varies between Rs 70 to Rs 250 depending upon the area and capacity of telephone exchange while call charges are Rs 1.20 for three minutes. Along with this, the regulator has also proposed to make all incoming calls on mobile phones from any source (mobile, landline or WLL-mobile) free of charge.

For landline phones free calls have been cut from 60 to 30 in urban areas and from 75 to 50 in rural areas. There would be no free calls in the case of WLL-mobile services. For distances upto 50 km, call charges will be Rs 1.20 for two minutes while for all other distance categories, TRAI has put a ceiling of Rs 8.40 per minute. Landline telephone rental in cities have gone up from Rs 250 to Rs 280 per month.



## TRAI to address dial-up net rates

TRAI's latest tariff announcements relating to basic landline charges will make dial-up internet access expensive. However, TRAI is looking at steps to address the issue of internet affordability. It is examining a technological solution and will be talking to operators. Last month TRAI announced fresh basic tariffs reducing the pulse rate of local calls to two minutes from the current three minutes and a 11-12% increase in the monthly rental for basic landline telephone. The new tariffs will be implemented from April 1, 2003. The rise in basic tariffs, industry players fear, will drive down net usage. They are recommending to the government that the pulse rate be changed so that dial-up users find it more cost effective and are also asking for a revenue share from basic operators. The pulse rate being recommended by the industry will reduce the cost of net dial-up to the customer to Rs 12 per hour rather than the existing Rs 24 and Rs 36.



## Cellcos' row with WLL operators still simmers

Cellular operators plan to continue to argue against the legality of limited mobility (WLL) phones with the telecom appellate body TDSAT. Their argument is that now that TRAI has classified WLL as a separate service, WLL players too need to satisfy conditions of need and time. Cellular operators point out that there are several other issues on which there is no level playing field between them and WLL operators. Licence fee and points of interconnection are some of the issues.

Cellular operators had filed a case in the Supreme Court after TDSAT had earlier ruled in favour of WLL operators. The Supreme Court reverted the case back to TDSAT. The hearing by TDSAT has been deferred and is expected to take into consideration the new access charges levied by TRAI. The telecom regulator had levied an interconnection charge of 30 paise for calls from cellular to WLL and vice-versa. In the case of calls from cellular to fixed an access charge of 50 paise would be payable while from fixed to cellular an access charge of 30 paise would be payable. Cellular operators are also unhappy with the 30 paise access charge that they will receive, since it is much lower than the Rs 1.49 paise airtime charge that they had been getting from incoming calls from subscribers until now. They are also unhappy with the 20 paise charge per tax (interconnecting point) that BSNL can collect for interconnectivity in circles.

## BSNL gets ILD licence

Bharat Sanchar Nigam (BSNL) has obtained a licence to operate in the international long distance (ILD) segment. The company expects to commence operations from March 2004. BSNL will also have to honour the commitment to keep Videsh Sanchar Nigam (VSNL) as the preferred ILD carrier for two years. However, as soon as BSNL becomes its own preferred international carrier, it won't need to share any revenue with VSNL or any other operator. It is expected that BSNL will offer competitive rates that would justify MTNL's shifting to BSNL as its preferred ILD carrier. This has major implications for VSNL, whose principal source of revenue is the ILD business from BSNL and MTNL.

## CDMA equipment to grow by 192%

Telecom magazine Voice and Data has projected Indian CDMA equipment market to grow by 192% during April 2002-March 2003 in revenue terms. In volume terms, CDMA is expected to post a 522% growth during this fiscal and about 253% in the next fiscal. The magazine had conducted a study following the launch of Reliance's CDMA services. The study further says that India would have one-eighth of the world's new mobile subscribers in the next six years and even if half of the new users opt for CDMA, about 50 mn users in the country would be use CDMA phones by 2010.

## Telecom sector nets Rs 95.58 bn FDI

The Indian telecom sector has attracted Rs 95.58 bn of foreign direct investment till date, of which Rs 50.48 bn has come in the last two years. Cellular services, manufacturing and consultancy, basic telephone services, e-mail services and VSAT services, have seen maximum inflow.

## Spice Telecom to invest Rs 750 mn in Karnataka

Spice Telecom is planning to up its investment to Rs 750 mn (2003) from Rs 500 mn (2002) to support its operations in the Karnataka cellular circle. The company intends to make the proposed investment in the current calendar year towards meeting the demands of market operations as well as technology upgradations. Fresh investments into technology will be utilised for a second switch in Bangalore and for more cell sites. In the last six months, Spice has added about 28 to 30 new cell sites to improve its services. Spice Telecom today has a subscriber base of 200,000 in Karnataka with a strong presence in upcountry markets. The pre-paid and post-paid ratio of the subscriber base is pegged at 60:40. The total cellular subscriber base in the state is estimated at about 550,000. The figure would increase if BSNL's cellular subscribers were also taken into account.



## BSNL, MTNL slash mobile STD rates

Government telecom operators, Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) have also dropped national long distance rates for their mobile services. They now offer rates cheaper than private operators. BSNL's CellOne STD rates are not only cheaper than the price being offered by private cellular operators but also lower than its own fixed line STD rates. The company has dropped rates for beyond 500 km distance from Rs 9 per minute for peak time and Rs 4.50 for non-peak time charged earlier in its Plan-325 to a flat Rs 4.80 per minute. The charges for other distances, i.e., flat Rs 1.20 for less than 50 km, Rs 2.40 (peak) and Rs 1.20 (non-peak) for 50-200 km, Rs 4.80 (peak) and Rs 2.40 (non-peak) for 200-500 km, remain same in Plan 325. The company will also not charge any airtime in addition to these rates in this package. The other CellOne packages being offered by BSNL will continue to remain unchanged. With private cellular operators dropping their national long distance rates to Rs 2.99 per minute for a distance beyond 50 km, BSNL rates work out cheaper due to the airtime charges (an average of Rs 2 per minute) in addition to STD rates, which private cellular operators have to bear, which will drive their costs to a minimum of Rs 4.99 per minute. BSNL rates will thus be cheaper by 19 paise per minute. The BSNL package will also continue to offer free incoming calls from cellular to cellular and from fixed to cellular for calls originating from its own network. In addition CellOne subscribers will pay same STD rates while calling a fixed line or mobile phone of any other operator. The new STD rates being offered by cellular operators are, however, applicable to only mobile to mobile calls. MTNL has also introduced a new package for its cellular service Dolphin with flat STD rates of Rs 1.20 per three minute for distance upto 50 km and Rs 2.90 per minute for a distance beyond 50 km, making its upper slab cheaper by nine paise as compared to private cellular operators. MTNL, unlike BSNL, will continue to charge airtime in addition to STD rates. These rates are, however, only applicable for mobile to mobile calls.



## BSNL to launch mobile telephony in J&K

BSNL will launch mobile telephony services in Jammu and Kashmir in April 2003. The first phase, which constitutes erecting 22 communication towers, will provide global system of mobile communication to the cities of Jammu, Srinagar and Vaishno Devi. These cities and the entire length of Srinagar-Pathankot national highway will be covered in the first phase.

## In brief...

- ◆ The \$60 mn takeover of the Adani-owned Mundra International Container Terminal by P&O Ports (Mundra), has been cleared by the Foreign Investment Promotion Board. The proposal has also been cleared by the Department of Company Affairs and the Reserve Bank of India. The proposed deal involves transfer of 100,000 equity shares of Adani Container Terminals (ACTL), from the Adani group to a P&O Ports group company registered in Mauritius, for \$60m. Once the deal is signed, P&O Ports (Mundra), registered in Mauritius, will own 100% of ACTL. The Mundra container terminal has already commenced its construction and will be operational within a few months of concluding the deal.
- ◆ With the Cabinet not agreeing to the joint venture route of developing the four metro airports, the government may take the long-term route of leasing out the four metro airports after amending the Airports Authority of India Act (AAI). The joint venture route had been suggested to expedite the privatisation process, which if it had been adopted would have bypassed amending the AAI Act. Currently, the civil aviation ministry has to seek an amendment of the AAI act for the Bangalore and Hyderabad projects.
- ◆ During the 10th plan, the Tuticorin Port Trust has planned to add 8 mn tonnes to its existing capacity at an estimated cost of Rs 2.30 bn. The port will be handling 21.65 mn tonnes of cargo in 2006-07. It has sought government assistance of Rs 1 bn for capital dredging as its internal resource generation will not cover the same.

## Capacity addition planned for ports in 10th plan

Major ports in the country registered cargo traffic of 287.71 mn tonnes during 2001-02. The first nine months of the current year saw a significant growth of 8.63% in traffic at 231 mn tonnes. These ports, it is estimated, would handle 415 mn tonnes of cargo during 2006-07 and minor ports would handle 150 mn tonnes. With cargo handling capacity of major ports standing at 344 mn tonnes at the beginning of the 10th Plan, capacity enhancement is imperative. According to government estimates, there is a need for creating an additional 126.2 mn tonnes capacity at a cost of Rs 163.11 bn.



## Courts dismiss P&O Ports petition against JNPT

The Bombay High Court dismissed a writ petition filed by P&O Ports India against the Jawaharlal Nehru Port Trust (JNPT) for preventing the port operator from bidding for the new Rs 9 bn container terminal. JNPT had barred P&O Ports from bidding for the new terminal, since it already operates a terminal at Nava Sheva and controls around 43% of India's container market. The court took the view that it does not have jurisdiction over the centre's decisions. The court only wanted to verify that the procedure for the tender was not malafide and ruled that the government was entitled to decide its policy. Many shipping industry associations and shippers' forums are also in agreement with JNPT and have filed an application in court supporting the port trust.



## Government seeks advisors for non-metro airports

The government has initiated the process of private participation in commercial development of land and operation of facilities at about 20 non-metro airports in the country. It is in the process of appointing a financial consultant to prepare an action plan on private sector participation in development and operation of city-side facilities for these 20 non-metro airports. The Airports Authority of India (AAI) is preparing a list of airports for which the government will seek joint venture partners.



## Kerala to showcase 4 minor ports at global meet

Kerala will showcase the development of four minor ports at the forthcoming global investors meet (GIM) being organised by the government at Kochi. The ports being presented at the meet are Azhikkal, Bepore, Alappuzha and Thangassery. The department had invited expressions of interest (EOIs) for the development of these ports. Azhikkal received two EOIs while Bepore and Alappuzha received one each. The Azhikkal port near Kannur is to be developed into a modern port at a cost of Rs 17.50 bn. The project, for which a detailed report had been prepared by ICICI-Kinfra, will be implemented in four phases with the first phase to cost Rs 3.60 bn. The development of the Bepore port near Kozhikode is proposed to have an outlay of Rs 3 bn. The port is already functioning with a 100-metre wharf and last year, it handled cargo to the tune of one lakh tonnes. The wharf will be extended by another 70 metres and related infrastructure will be put in place. The Alappuzha port is being developed keeping in mind the tourism potential of the region. As per the feasibility report, the project will entail a cost of Rs 2.50 bn. In the case of Thangassery near Kollam, the plan is to create cargo handling and other related facilities within the fishing harbour there. Earlier, Gujarat Ambuja Ltd. had signed a memorandum of understanding with the state government but the company has since lost interest in the project and the government has decided to look for another promoter to develop the port.

## In brief...

- ◆ Indications of large gas accumulations have come to light in the offshore block A-1 in Myanmar, where ONGC Videsh Limited (OVL) and Gail India Limited hold joint equity stakes with Daewoo International of Korea and the Korean Gas Company (KOGAS). The A-1 block in Myanmar has in-place gas reserves of 32 trillion cubic feet (tcf) and recoverable gas reserves of 22 tcf. Gail has the rights to market 90% of the gas production from this block including the shares of OVL and Daewoo International. Currently Gail is in talks with KOGAS for marketing its 10% share of gas. Gail is also studying the feasibility of laying a 550-600 km offshore pipeline from Block A-1 to India through the exclusive economic zone of Bangladesh and Haldia in West Bengal.
- ◆ India may be able to dramatically boost its oil & gas production, judging by the geological studies which show that onshore and offshore structures are highly prospective. These studies show that there is a possibility of many parts of the country, including the Himalayas, the northeast and offshore areas, off the east and south coast, yielding huge oil & gas reserves. India's hydrocarbon reserves could increase by two to three times to around 32 mn tons, up by 18%.
- ◆ Indian Oil Corporation (IOC) is planning to go ahead with its 9 mn tonne Paradip Refinery in Orissa. The feasibility report, done by IDBI bank, has projected a 8% return on equity for the project. IOC had earlier deferred its plan to pursue the refinery project due to a surplus refining capacity in the country. The company is now ready to commission it after the 10th five-year plan.

**Budget '03-04 proposals for petro sector**

The Union Budget '03-04 is likely to introduce specific excise duties for the petroleum sector, in place of the ad valorem duties levied currently. The specific duty is likely to be Rs 10.50 - Rs 11 per litre on petrol and about Rs 3 per litre on diesel, if current duty levels are maintained. Currently, the ad valorem excise duty translates into an absolute duty of Rs 3.50 per litre on petrol, on top of which Rs 6 per litre was introduced as a cess last year. Added to this is one rupee charged as cess for road development. On diesel, the duty works out to Rs 1.80 per litre and an additional one rupee for road development. The advantage of a specific duty is that the duty element of the final price does not fluctuate with global changes in product prices. Specific duties will also make the actual levy of taxes and provision of subsidy more transparent to the consumer.

The Budget is also expected grant tax exemption for new grassroots refinery developers. Given the government's keenness to complete the Bhatinda refinery with the help of either IOC or ONGC, it has decided to provide a total customs duty-exemption on project imports for these two refineries and any other new refinery which comes up within this period. The current rate of customs duty on project imports for new refineries is 35% which will be brought down to zero. The decision will be referred to the Finance ministry soon and the relaxation in the duty structure is expected to be only for a few years.

**HPCL and BPCL sell-off get approval**

The Cabinet Committee on Disinvestment (CCD) has decided to go ahead with the divestment of public sector oil companies Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL). HPCL will be sold to a strategic investor while BPCL will be divested through a public issue. Oil and Natural Gas Corporation (ONGC), a public sector upstream oil company that was keen on HPCL, has not been permitted to bid. The government has decided to sell 34.01% equity in HPCL to a strategic investor. Another 5% will be given to the company's employees. This will leave the government with 12% equity after divestment. However, the government will retain veto powers on crucial decisions even after the privatisation of oil refiner HPCL through special clauses in the sale agreement. The special agreement would ensure that the strategic investor consults the government in matters like altering memorandum of association, changing share capital, winding up the company, disposing of existing assets and pursuing a new line of business that may be detrimental to HPCL's interests. The government will sell off a 35.2% stake in BPCL through public issues in the domestic and international markets. Again, 5% will go to the company's employees. This will leave the government with a 26% stake in the company.

**Indraprastha gas to come out with an IPO**

Indraprastha Gas Ltd. (IGL) is set to hit the market with a Rs 1.50 bn initial public offering. The proceeds will be used to expand its existing network of CNG stations and network to reach more Delhi localities with piped gas. The public issue will be 25% of the company's post issue capital. Of the issue size, half would be through fresh issue of shares while the rest would be offer for sale by the existing promoters to offer a decent float in the market. The premium to the issue is yet to be decided.

## Software earnings contribute one third of India's forex reserves

According to the National Association of Software and Services Companies (Nasscom), the software services sector has contributed over US\$ 25 bn to the country's foreign exchange reserves of \$70 bn, more than a third of the reserves. Software exports have been increasing considerably over the past few years and are on track to achieving the target of over \$50 bn exports by 2008. In 2000-01, the software services sector saw its exports zooming to \$6.2 bn while during 2001-02, software exports stood at \$7.6 bn. For 2002-03, Nasscom has projected software export earnings to be in the region of \$9.5 bn.

## Branding software

The Indian software industry has embarked on a worldwide campaign to market itself. The Indian software industry's brand awareness campaign, which has already been soft-launched in its two key markets, U.S. and the U.K. The campaign will focus on its key strengths — business value and competitive edge that Indian IT vendors are offering in a tough market environment. Initiated by Nasscom, it is being supported by the ministry of Communications and Information Technology.

As a first step, it has kick-started a PR and Public Affairs campaign in the U.S. and the U.K. which aims to inform key influencers, decision makers, industry analysts and the IT community about India's strong value proposition as an IT destination. The overall perspective is to spread the entire activity in two broad phases with the first phase focusing on retaining India's leadership image and the second phase concentrating on further enhancing it.

## Nasscom and the New Jersey Bill

National Association of Software and Services Companies (Nasscom) is planning to get the government to move the WTO against the law passed by the American state of New Jersey, prohibiting outsourcing of information technology work by the state's administration. This development underlines the tough times that prevail in key global IT markets. According to Wipro, there is a growing backlash in the US regarding job losses to India. The mood in New Jersey is not isolated. Britain is already denying a shortage in IT skills, thus closing the door on further on-site work by Indian companies. Only Germany and Japan haven't placed any hurdles for Indian companies. Analysts predict global technology spending to go down by 2 per cent this year. However, as US companies are still focused on cutting costs, given the absence of revenue growth, outsourcing work to India will continue. Over the next few years there is likely to be a substantial rise in India's share of that technology spend. This is expected to result in increased revenue but narrower margins. As India grows in importance as an outsourcing destination, the pressure to discount will remain.



## India emerging as R&D hub for chip software

Even as chip design majors like Intel and Motorola continue to shift a chunk of their research and development work to India, the country is emerging as a major hub for software services companies which provide development tools that aid chip designing. Cadence Design System is inaugurating its second facility in February, adding 350 research and development seats. The company plans to ramp up from the existing 400 people to about 700 in the next three years. Currently the Indian centre does 20% of the total R&D for Cadence and the company has an R&D budget of \$35-40 mn for India. Mentor Graphics, which has 75 employees in India, expects to double the number next year. It hopes to deal in both chip design as well as embedded systems, and plans on getting high end work. The company has an R&D budget of \$40-50 million for expansion in India in the next five years. Interra Systems, which is a 100% owned subsidiary of the US based company, has 100 engineers and expects to grow between 20-25% this year too.



## Indian IT companies turn to China for a boost

Indian software service companies are now wooing Chinese companies for business as their development centres in the country reach critical size. Tata Consultancy Services (TCS) has made rapid strides in China and has bagged its first consultancy project from a Chinese bank - Shenzhen Development Bank. TCS has set up a wholly-owned subsidiary in China called Tata Information Technologies (Shanghai). It has hired around 25 Chinese engineers and plans to have about 150 engineers by the end of 2003. In the past six months, TCS has signed MoUs with two Chinese companies for tapping the local market - Zoom Networks and Ebis. Other Indian companies such as Infosys and Satyam also have their presence in China. Wipro is also keen on servicing Japanese customers from China though it has yet to enter China. Indian companies fare favorably against Chinese companies, as they are more flexible in making specialised goods. China is wooing Indian software companies as it is felt that it will help domestic employment as well as help the local software industry move up the value chain. Guangzhou economic zone, a leading free trade zone in China, is trying to entice Indian IT and pharmaceutical companies to invest there.

## Gurgaon to have a IT Park

Gurgaon will soon have its own IT park. Delhi-based Unitech is set to start work on Rs 1.5 bn project, christened Cyber Park, for IT & IT-enabled services. The project cost excludes the cost of land. Spread over 160 acres, the township, once completed, will have a total floor space of around 1.6m sq feet spread over five buildings of nine floors each. The company has received all the statutory approvals for the project. Scheduled to be completed in two phases by 2006, the commercial township will be financed through a mix of debt and internal accruals. The company has achieved financial closure for the first phase, involving a investment of Rs 500 mn with a debt component of Rs 200 mn. The second phase will require additional investment of around Rs 1 bn, for which Unitech plans to securitise the future lease rentals with banks.

## CMC bags RBI contract

CMC Ltd. has bagged a Reserve Bank of India (RBI) contract for providing an "integrated establishment system" for its 13 central office departments in Mumbai and 20 regional offices in India. Earlier the company had bagged a total branch automation order from Central Bank of India to automate 300 branches across 36 cities in the country.

The solution offered to RBI will cater to the requirements of pay roll, budgeting, loans and advances, employee claims and handle requirements for more than 30,000 employees. It will also take care of the processing and operational requirements and will interface with the existing integrated accounting, human resources information and electronic clearing systems of RBI.

## Software firms go tough on piracy

Global software piracy increased by 40% in 2001, up from 37% in 2000, says a research done by International Planning and Research Corporation. India has one of the highest piracy rates worldwide, up at 70% in 2001 from 63% in 2000. Companies such as Adobe, Autodesk and Macromedia have created business alliances with domestic industry bodies like Nasscom to independently pursue initiatives to stem software piracy. Nasscom has adopted a multi-pronged approach by assisting individual companies in pursuing measures to control piracy and also fighting cases on a collective basis. Affected companies are now increasingly using cyber crime cells set up by the police in several states to conduct raids and for search and seizure operations on those violating the Copyright Act through pirated software.



## Oracle to set up global finance centre in Bangalore

Oracle Corporation plans to set up a global finance information centre (GFIC) in Bangalore. This centre is part of the company's shared services initiative spread across US, Australia and Ireland. The Indian set-up will cater to Oracle's global requirements for financial forecasting, planning and reporting. The company's existing 225 seats centre, set up in September last year at Bangalore, currently works on two projects — version updates and customer data integrity and is staffed by over 60 people. The company plans to increase staff strength to 173 by March this year. Employees at GFIC will focus on tactical work on creating and distributing staffing reports, data collection, and working on and identifying key financial trends for Oracle globally.



## MNCs to save \$1bn by Indian IT outsourcing

At the international IT summit in London titled 'Outsourcing to India - Strategic Direction for Value Creation and Growth' - Nasscom projected that western multinationals could save up to \$ 1 bn in five years by utilising IT outsourcing facilities in India. The one-day conference, an annual activity initiated in 2002 as part of Nasscom's long-term strategy to expand the Indian IT Industry horizon beyond the US, was attended by Mike Grime, Group Head of Operations, Standard Chartered Bank, Pramod Bhasin, President, GE Capital Asian Operations, Simon Fanning, Strategic Sourcing Programme Director, Global Technology and Operations, Deutsche Bank and representatives from other companies like Deloitte Touche Tohmatsu Europe, Mckinsey and Company, Global Consumer Bank and Electrolux IT Solutions. It was stressed that outsourcing to India would help western MNCs cut costs while increasing productivity and quality. So instead of importing manpower, western companies could export work and get better returns. Representatives of European companies stated that their experience of Indian collaboration had been satisfying. The 900 Indian companies which participated in the conference stated that they now wanted to move up the value chain and provide services like financial surveys and research and tele-marketing.

### For further information communicate with:

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