

Indian tigers vs Chinese dragons

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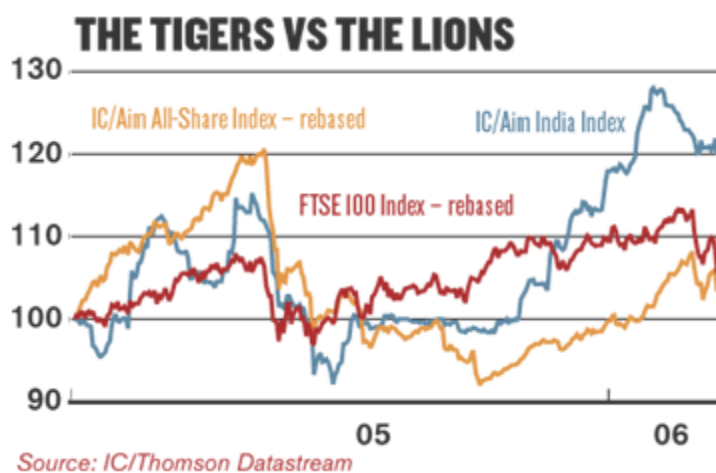
23 March 2007

Indian companies trading on the Alternative Investment Market (Aim) have always lagged behind the Chinese companies on UK's secondary market. Now, though, this looks set to change, with approximately 20 to 30 Indian companies waiting to take advantage of the more relaxed Aim entry rules. The next newcomer will be Evolvence India, an Isle of Man-based private-equity fund-of-funds company, which will concentrate on investing in the Indian subcontinent. It hopes to raise approximately US\$65m through its flotation on Aim. Of the few Indian Companies, KSK made its mark in LSE. KSK is one of a number of Indian energy companies on Aim. It raised £30m at 107p, when it joined Aim in October 2006, and it's not surprising that the share price has raced ahead.

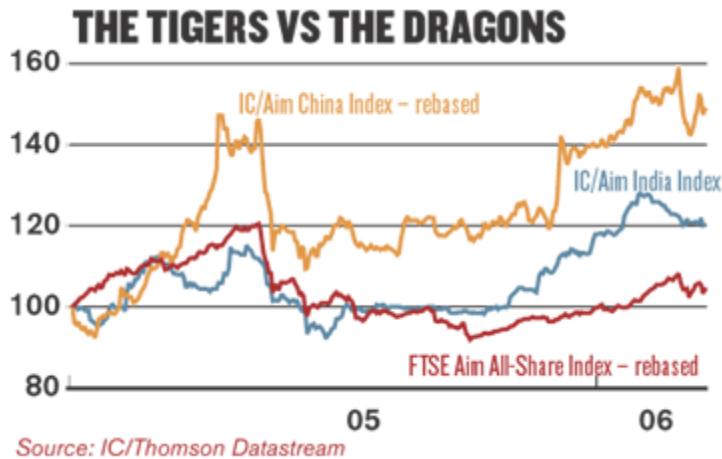
INDEX PERFORMANCE

So, to measure the investment performance of these Aim-traded 'Indian Tigers' - and compare them with the National Stock Exchange of India's Nifty 50, and the Mumbai 30-share Sensex index - we've created our own IC/Aim India index. Our index is based on 18 companies, weighted by market capitalisation.

And, since January 2006, it has outperformed both the FTSE All-Share Aim and the FTSE 100 indices...



...although it did not beat its stablemate, the IC/Aim China index:



Much of this outperformance has come from a rally in the past five months. Over this period, our index rose 25 per cent, even though it fell 4 per cent in February. This reflects what happened in India to the Nifty 50 and Sensex indices. In the early part of February, both indices hit new highs but, on 23 February, the market plunged 2.5 per cent in one day. This was blamed on higher interest rates, concerns over rising inflation, and the fact that global markets weren't that strong.

Then, a week later, the markets fell again. This time, it was blamed on the dragons - global markets got the jitters when the share prices of companies based in mainland China fell approximately 9 per cent. News from the US didn't help, either, with fears raging about the sub-prime mortgage market and Alan Greenspan warning of a possible US recession. There were also worries about a strong Japanese Yen. But it was the Indian stock market that led the Asian equity fight back on the 8 March. The Nifty 50 was true to its name, and rebounded by almost 4 per cent - offsetting most of its previous loss. The Sensex index proved equally resilient and went on a good run, closing above 13000 - approximately 13 per cent off its all-time peak.

THE COMPANIES

There are now 21 Indian or India-related companies currently trading on Aim (see below for a brief description of each). They include Lipoxin, a predominately UK company, which has a strong relationship with India, and Synexus Clinical Research, which has a strategic alliance in Mumbai. Approximately half of these Indian tigers are property-related companies. So, even though the number of constituents of the IC/Aim India index is well below its counterpart, the IC/Aim China index, the two indices' market values are fairly similar, at around £2bn. The largest Indian company traded on Aim is Eros, with a market value of £400m, while the smallest is India Outsourcing Services, at £2m.

The following table provides some basic information on the share price and financial performance of the companies.

Despite this, India is still classified as an emerging market. However, it's currently more like a market for entrepreneurs wanting to take advantage of an economic growth rate of 8-9 per cent a year, backed up by UK legal and financial structures laced with tax breaks. Two further factors have encouraged foreign investment: the loosening of state controls and the relaxation of limits on inward investment.

So far, the type of Indian company that has floated on Aim is quite narrow. There are plenty of property ventures, but as yet no manufacturers or food businesses, for example. Right now, the popular investment play is backing infrastructure projects, which should produce steady - and possibly spectacular - returns. But there are other sectors worth watching, too. We like the following companies.

West Pioneer Properties

West Pioneer Properties floated on Aim in late 2006, raising \$50m to build, own and operate "consumer-centric" shopping centres in "tier-two cities" outside the main metropolises such as Delhi and Mumbai. To begin with, land prices in these tier-two cities, which have populations of between one and five million, are half those in the bigger cities, which means it is much easier to find tenants and customers - particularly as tier-two shopping centres have no rivals so far. West Pioneer has nearly completed half a shopping mall in Kaylan, 30 miles north-east of Mumbai, and has agreed outline lease terms with prospective retailers including Big Bazaar, a major Indian department store, and McDonald's. And, at the moment, the key market for West Pioneer - middle-class Indians - is comparatively small, perhaps 60m out of a total population of 1.15bn. But it's also a market growing at between 10m and 20m a year - and one that has significant spending power.

Trinity Capital

Another feature of Indian companies on Aim is that they don't hang around. Trinity Capital is a good example. Since September last year, the property and infrastructure investor has announced a blizzard of deals. It has acquired a 5 per cent stake in a major highway developer, for £4.19m; 10 per cent of a company redeveloping a township in Thane, near Mumbai, at a cost of £10.75m; a large stake for a similar price in a similar venture in Mumbai; plus sizeable stakes in an internet technology park, a project to build luxury hotels, and a further project to build hotels in the grounds of hospitals. It has also taken a strategic stake in a shipyard near Mumbai. And the flow of deals has not stopped there. A total of £250m was raised when the company's shares were admitted to Aim in April 2006.

Noida Toll Bridge

Another candidate for an Indian infrastructure portfolio is Noida Toll Bridge, which controls a 553 metre-long bridge connecting the tier-two city of Noida to southern Delhi, across the Yamuna river. The bridge opened in 2000 and, on weekdays, more than 80,000 vehicles cross it, with cars paying 18 rupees each way. This toll concession should run until 2070. And the company's \$45m Aim placing in March 2006 paid off some expensive debt. So the next move is to replace the remaining 14-year money, with 20 to 30-year money. When this is completed, capital repayments will fall, and Noida might start paying dividends.

KSK Power Ventur

KSK is one of a number of Indian energy companies on Aim. It raised £30m at 107p, when it joined Aim in October 2006, and it's not surprising that the share price has raced ahead. Following deregulation of the Indian electricity industry in 2003, KSK has been setting up power plants for private industry. Not only is there a chronic shortage of electricity in India, but the state suppliers are obliged to provide electricity free-of-charge to farmers and other low-income groups, and then charge high prices elsewhere as a result. So, to date, KSK has provided 1,900 megawatts (MW) of electricity to customers based close to coal and lignite deposits. Pipeline deals take that figure to 4,000MW, which is more output than the North Yorkshire-based Drax power station provides altogether - and it supplies 7 per cent of the UK's electricity needs. The clever bit is how KSK earns its keep. To begin with, customers finance a lot of the capital cost. Then KSK earns not only project management fees, but also takes a fee for supplying coal and lignite. Plus, it has equity interests in special-purpose vehicles created to develop, operate and maintain the power stations. In the six months to end-September 2006, a 43MW power plant for cement maker Lafarge India became fully operational, and a study indicates there were big and immediate cost savings. So, in the year to end-March 2007, broker Arden Partners expects KSK to report profits of £3.5m, rising to £14.6m next year.

Great Eastern Energy

Great Eastern Energy is spending \$150m drilling 100 coal-bed methane wells in its 210 sq km concession, situated on the Raniganj coalfields in West Bengal. It received its exploration permits in 2001, well before rivals were interested. The royalty it will pay on gas output will, therefore, be just 12.5 per cent, while more recent entrants will be paying 50-70 per cent. To date, 23 wells have been drilled down to 1,000 metres, and gas will be supplied to industries up to 50km away. It should start to be delivered to customers in May or June of this year.

Eros

For the excitement factor, the Indian Aim share to go for must be Eros. It now distributes and co-produces Bollywood films, and has a vast library of more than 1,300 productions to fall back on. Indian demand for Bollywood productions continues to grow fast. So it's not surprising that Hollywood moguls are eyeing this market, especially as production costs and filming times are shorter. And, just as Hollywood is coming to Bollywood, Eros is looking overseas for distribution deals, as its own productions take on an international hue - in *Namaste London*, for example, a fun-loving Punjabi husband tries to make a success of an arranged marriage to a sophisticated English rose. In November, Eros reported more than doubled interim profits of \$9m on sales up by approximately half to \$21.8m.

India outsourcing: a warning

Not all the Indian companies listed on Aim have enjoyed success. For example, for more than two years, India Outsourcing has been hoping to acquire one or more outsourcing businesses in India, and has considered more than 100 possibilities - from the "good to the bad and ugly", according to chief executive Amit Pau. But with outsourcing revenues growing at between 50 and 100 per cent a year, profit margins of 20 to 28 per cent, and no tax to pay under the so-called Software Technology Parks of India (STPI) scheme on foreign-earned income, it's not surprising that vendors have an inflated view of what their businesses are worth. STPI runs out in March 2009, though, so India Outsourcing is now trying to acquire US and UK businesses that would benefit from outsourcing their back-office functions to India.

The latest news from Aim's indian companies

Origo Sino-India is an investment company focused on the private-equity markets of China and India. The company has recently made a strategic investment in the world of publishing through the acquisition of a 10 per cent stake in Asia Weekly, an English-language magazine that provides regional news and analysis for local and expatriate businessmen, journalists and diplomatic staff. The magazine is currently distributed in Hong Kong, China, India and the Philippines and has a circulation in excess of 20,000 copies per week.

Great Eastern Energy has just gained approval from the Directorate General of Hydrocarbons in India for its field development plan, in relation to its licence area in the Raniganj Coalfields, West Bengal. The approved plan includes the completion of the first-phase development of Great Eastern's licence area, including the first 100 wells and construction of the gas-gathering stations. India is the third-largest coal producer in the world and, significantly, this is the first time a field development plan for the production of natural gas from coal beds has been approved in India.

Sony Entertainment Television has signed a deal with film producer and distributor Eros International to broadcast a swathe of previously released Bollywood titles, together with a number of upcoming releases. Sony will have exclusive global satellite broadcasting rights to the original version of the titles for a period of five years. The deal will lead to increased exposure for many Eros titles, as Sony Entertainment Television is watched by more than 40m households throughout India, Pakistan, Sri Lanka, Bangladesh and the Middle-East.

Eredene Capital has invested £2.75m for a 35 per cent stake in a project to develop a 100-acre integrated residential township, situated on the outskirts of the city of Indore in Madhya Pradesh State. The settlement will be well-served by major arterial roads, and is strategically located between Indore and a 2,600-acre special economic zone in Pithampur. A total of 3,600 residential units are to be constructed, and will be sold along with 700 land plots. Complementary infrastructure will be put in place, including schools, retail outlets and medical centres. Following this investment, Eredene will have invested approximately 24 per cent of the £57m it raised in April 2006.

Ishaan Real Estate was admitted to Aim in November last year, and has quickly set about building up its property portfolio. The company has completed a £21.6m investment for 40 per cent of Trio Properties, the developer of two shopping mall projects in Pune and Hyderabad. Ishaan is also in the process of acquiring a 40 per cent stake in Magna Warehousing and Distribution, a special-purpose vehicle and developer of a hotel, retail and IT business park, located in India's boomtown, Bangalore.

KSK Power Ventur, a power-plant development company, reports that its Marudhar Power plant in the state of Rajasthan has entered into power-purchase agreements with a number of local industrial consumers with significant energy requirements. KSK also reports that project-commissioning for the 43MW Sitapuram power plant is expected by the end of this month. KSK Power started trading on Aim in November last year, and is on course to develop a generating capacity of 4,000MW of electrical power.

Hardy Oil and Gas has announced the discovery of gas and condensate in the Fan-A-1 exploration well, located in the Cauvery Basin off the East Coast of India. A series of production tests have already been carried out, and the company intends to submit a detailed appraisal program for the drilling area to the Indian government, as soon as the preliminary review of the test results is completed.