NEW DELHI, **WEDNESDAY**, FEBRUARY 9, 2011
VOL XXXVI NO 295 24 PAGES I Rs 4.00

THE FINANCIAL EXPRESS

READ TO LEAD

P6 CORPORATES
WIPRO'S IT BUSINESS RECAST WILL BEAR FRUIT AFTER THREE QUARTERS, SAYS CEO KURIEN

P10 INFRASTRUCTURE
PPP projects: Need to cap annuity-based financing

P11 POWER PLAY
PRANAB HINTS GOVT MAY AGREE TO JPC PROBE INTO 2G SPECTRUM SCAM

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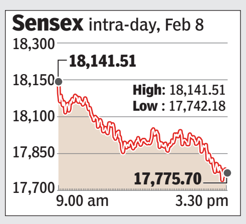
In the news

INDICES Closing Up/down

	Closing	Up/down
BSE Sensex	17,775.70	▼261.49
S&P CNX Nifty	5,312.55	▼ 83.45

Sensex plunges 261 pts, closes at seven-month low



The BSE Sensex closed 261 points or 1.45% down at 17,775.70 on Tuesday, a seven-month low. Across-the-board selling was seen in the markets, with consumer durables, realty, auto and banking leading the decline. ■ **Detailed reports on P13**

British bonanza for Indian IT firms

UK will outsource Universal Benefits, a technology project costing Rs 7,300 crore, opening up possibilities for TCS, Infosys & HCL Tech. The project is in the design stage, a UK cabinet official told *FE*. ■ **Nasscom reports on P6**

Govt nears decision on Cairn buyout

The government is close to deciding on clearing Vedanta's Cairn India buyout, which is hanging fire for four months now. The oil ministry is expected to get the final view of the department of legal affairs soon. **P3**

Posco distributes pink slips in Orissa

Posco India is pruning staff in Orissa. Surprising, because it has just got green clearances for the 12-mt steel plant. Posco is also seeking land for a $7-bn Karnataka factory. **P19**

RESULT CORNER

■ **Fortis third quarter net up 59% at Rs 34.5 cr, P5**
■ **Punj Lloyd in Rs 62-cr loss, scrip plunges**

EDIT P8

50 black, 50 white

There's no rational explanation for the 50% black economy figures. It seems more an article of faith
Bibek Debroy

The Economist

Exclusive!
Bold or reckless?

A beleaguered Japan PM takes a big gamble on economic reforms ■ P12

Look out for the special feature on aero india 2011 with today's issue

GARY LOCKE, ANAND SHARMA DISCUSS ENTRY OF FOREIGN INSURERS

Lloyd's to get a warm welcome

Rajat Guha

New Delhi, Feb 8: THE government is planning a red carpet welcome for the world's biggest insurer Lloyd's to set shop in India. It is considering amending the Insurance Act to remove the legal hurdles that prevent the London-based society of underwriters that handled gross premiums worth over £21.97 billion in 2009.

Currently, for an insurer to do business in India, it has either to be an Indian insurance company itself or a foreign company in joint venture with an Indian firm, subject to the 26% FDI cap in the sector. Lloyd's could not use this route to enter India as it is not a company but a society of underwriters. Sources said the current provision in the Insurance Act which defines a "foreign company" as one that is not a "domestic company" would be changed to "a company or body established or incorporated under a law of any country outside India." This would facilitate Lloyd's entry.

Gary Locke, US commerce secretary

Tata AIG, Max New York, Max Bupa, Bajaj Allianz are the insurance firms in India in which foreign players are involved. Sources added the government was also considering permitting overseas re-insurance companies to open branch offices in India with a minimum net worth of Rs 5,000 crore.

■ **Continued on Page 2**

2G spectrum up to 6.2 Mhz to cost 53% of 3G; beyond, 136%

■ **Differential pricing of spectrum to take into account circle, Mhz**

Rishi Raj

New Delhi, Feb 8: The Telecom Regulatory Authority of India (Trai) will announce its recommendations on differential pricing for 2G spectrum on Wednesday. Essentially, 2G spectrum up to 6.2 Mhz will be priced at 53% of 3G spectrum price (arrived at through auctions) while beyond 6.2 Mhz, it will cost 136% of 3G rates.

Spectrum will not be priced uniformly, but will be based on the circle and the amount of Mhz. This means that the price of spectrum, say in Uttar Pradesh on a per Mhz basis, will vary from that in Delhi. The team of technical and commercial experts who conducted a detailed study for Trai based on certain models found that opportunity costs are different in different circles; so, there cannot be an all-India uniform price.

The recommendations will stick to Trai's own May 11, 2010, suggestion that auction is currently not feasible in 2G. However, it is going to say that once the government cancels the 69 licences which did not meet rollout obligations as recommended by it last November, the government will get 277 Mhz. This will enable it to provide up to 8 Mhz spectrum to all existing operators. Even after this, some will be left. It is this spectrum which can be put up for auction and once that's done, the price discovered through auctions will become the final 2G price.

For spectrum up to 6.2 Mhz, the average price comes to Rs 1,769.75 crore per Mhz. This ranges from Rs 7.6 crore per Mhz on the lowest end for J&K circle and Rs 187.38 crore, the highest for Tamil Nadu.

FE EXCLUSIVE

Similarly, for spectrum beyond 6.2 Mhz, the average cost of 2G spectrum on an all-India basis will come to Rs 4,571.87 crore per Mhz. On the lowest band, this will be Rs 22.89 crore per Mhz in J&K and Rs 431.95 crore per Mhz in Andhra Pradesh.

The telecom regulator will clarify that these prices are applicable from 2010 onwards and not for 2008 when the controversial licences were given out by former telecom minister A Raja. However, current telecom minister Kapil Sibal has said that he will charge for additional spectrum beyond 4.4 Mhz only. This means the per Mhz cost worked out by Trai will have to be paid by new operators like Uninor, Etisalat, Loop, Reliance GSM and Tata Teleservices GSM. Incumbents like Bharti, Vodafone, Idea and state-owned firms like BSNL and MTNL will pay the price on per Mhz and circle basis on the charges now worked out by Trai for spectrum they hold in excess of 6.2 Mhz.

As is known, Trai had come out with a 2G spectrum pricing report on May 11, 2010 which had basically linked 2G spectrum in 1800 Mhz at 1.3 times the 3G price. However, the Trai had then said that simply linking the 2G price to 3G price is not proper and a separate exercise would be conducted by it to come to a final pricing.

The CAG had taken this as the basis for working out the Rs 1.76-lakh crore presumptive revenue loss to the exchequer due to Raja's move of not auctioning 2G spectrum in 2008. Sibal, however, had debunked CAG's calculation stating that 2G spectrum cannot be priced more than 3G since the latter was more efficient.

■ **CBI gets two more days to interrogate A Raja**

DIFFERENTIAL SPECTRUM PRICING

■ Up to 6.2 Mhz to cost 53% of 3G spectrum price

■ Beyond 6.2 Mhz to cost 136% of 3G spectrum price

Spectrum to be priced on per Mhz and circle basis

■ Average price of spectrum up to 6.2 Mhz will cost **Rs 1,769.75 crore** per Mhz

■ Lowest cost in J&K at **Rs 7.6 crore** per Mhz

■ Highest cost in Tamil Nadu at **Rs 187.38 crore**

■ Average price of spectrum beyond 6.2 Mhz at **Rs 4,571.87 crore** per Mhz

■ Lowest cost in J&K at **Rs 22.89 crore** per Mhz

■ Highest cost in AP at **Rs 431.95 crore** per Mhz

S-band contract with Devas cancelled

THE government has decided to annul the 2005 contract signed between the Isro's commercial wing Antrix and private sector Devas Multimedia for lease of transponders in two yet-to-be-launched satellites, following reports that the deal gave the company rights to use 70 Mhz of scarce S-band spectrum. Department of space secretary and the current Isro chairman K Radhakrishnan told reporters in New Delhi that the Space Commission, which reviewed the deal, had decided to terminate the contract last July itself.

No revenue lost, says PMO; BJP differs

The PMO said there was no revenue loss in the S-band case, since no spectrum was allocated yet. The BJP, however, said the government is indulging in sophistry.

■ **Detailed report on P2** ■ **See Edit: Spaced out losses? P8**

Subsidiary layers for cos could be capped at three

Murli Deora, corporate affairs minister

FRESH BREEZE

■ Standing committee had suggested 5-year rotation of auditors, one subsidiary layer
■ Redefining 'promoter' to absolve one of culpability after he sells his stake
■ Subsidiaries won't be required to physically attach balance-sheet reports
■ Industry had criticised several recommendations made by the committee

Ronojoy Banerjee

New Delhi, Feb 8: The ministry of corporate affairs is planning key changes to the Companies Bill to make it more industry-friendly, an official told *FE*. These include raising the cap on layers of subsidiaries to three from one proposed by the Parliamentary Standing Committee and raising the time period to nine years from five years proposed by the panel for mandatory rotation of audit firms.

Besides, the official added, the ministry also wants to redefine a "promoter" to absolve him of culpability in case of a fraud after he sells his entire stake. As per the Bill introduced in Parliament in 2009, corporates can have unlimited layers of subsidiaries and rotation of audit firms is not mandatory. What the ministry has now opted for is to tread the median path. The PSC on finance is headed by former finance minister Yashwant Sinha.

Partner at Delhi-based law firm SRGR Law Offices Saroj Jha said the less the government interference in corporate structuring, the better it would be to increase efficiency. "Companies form layered subsidiaries to improve efficiency and plan out their tax liabilities."

■ **Continued on Page 2**

Industry-friendly steps by Deora at first media interaction in new ministerial role

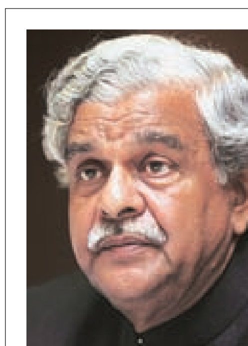
■ In his first media interaction since taking charge, Deora announced industry-friendly steps. He said unlisted companies would no longer require government's approval for increasing managerial remuneration for senior execs till a special resolution was passed by the board. Deora's predecessor Salman Khurshid was against high CEO pay.

Tough coal policy to be soft on govt firms

Subhash Narayan & KG Narendranath

New Delhi, Feb 8: The government would give a special dispensation to state-owned entities such as NTPC for the development of captive blocks under a new policy to be announced within a week, coal minister Sriprakash Jaiswal told *FE* in an exclusive interview.

The policy on development of captive blocks will, however, be tough on private sector companies who fail to adhere to agreed time-lines for development of coal blocks. Penal action for delays could be as harsh as deallocation of the blocks, the minister said.



Blocks which have done no development will be deallocated

Considerate view, appropriate action in other cases of delay

Public sector firms to get more time in national interest

Sriprakash Jaiswal, coal minister

The new policy will categorise projects into three categories; one, where coal block development process is genuinely slow; two, where some small progress has been made; and three, which made some progress but unable to move further due to genuine problems such as delay in land acquisition or other statutory clearances. "There will be no relaxation for the first category where the captive coal block will face immediate deallocation. For others, we will take a considerate view to ascertain the reasons for delay and take appropriate action," Jaiswal said.

■ **Continued on Page 2**

GoM agenda for green-nod okay

■ The environment and coal ministers have finalised the agenda of the meeting of the GoM that will settle the tussle over the classification of 'go, no-go' areas. **P2**

Rural marketing could get a 'haat' push

■ **Report says traditional weekly rural markets or haats can drive the dynamics of rural marketing**

Sarika Malhotra

New Delhi, Feb 8: Much before the Wal-Marts of the world got hot on retail, India had its own grassroots retail network, known as haats, selling a mind boggling a variety of products as a Wal-Mart store. Though traditional, these Indian avatars of hypermarkets promise to drive marketing plans of companies as they eye the emerging rural market, accounting for over two-thirds of India's population, 56% of income, 64% of expenditure and 33% of savings.

The report *Haats as marketing hubs*, by Rural Marketing Association of India (RMAI), available exclusively with *FE*, says India's 43,000-odd haats can offer immense thrust to rural marketing with their readymade distribution network.

Though the Rs 50,000-crore sales that these weekly rural bazaars collectively generate every year may just be a fraction (under 3%) of all rural private consumption expenditure (Rs 20 lakh crore), their importance in rural life goes beyond sales. Consider this: over 70% of all haats have been in existence before Independence, making it an integral and inseparable part of rural life and landscape. Almost every villager is a regular haat visitor, with over three-fourths visiting one every week. And two in every five visitors here are women. With the average distance between a haat and the nearest big town at 24 km (16 km in case of the most urbanised state in Tamil Nadu), these haats double up a shopping-cum-outing opportunity for millions of entertainment-starved rural Indians.

The RMAI Haats report says rural Indians prefer to buy branded consumer expendables like soaps, shampoos, detergents and tea at the haat rather than the permanent village shop because of the variety on offer at these weekly markets, which spring up naturally across the country. With growing rural incomes and rising brand awareness, big brand marketers can look at converting huge unbranded and copycat goods consumption at these haats into sales for their value-priced brands. Equally, the habits of the haat seller, like from where and how he buys his wares — largely from the nearby city wholesaler and preferably on credit — has a huge bearing on distribution incentives and plans of rural-bound companies. S Siva Kumar, chief executive, Agribusiness, ITC, commenting on the evolution of marketing in the rural space, points out: "Yesterday's rural marketing was just about a combination of low price and outreach. Building a complete ecosystem around marketing will hold the key to the future of rural marketing in India." Surely, haats seem to be providing that ecosystem.

■ **Haats of India: Page 7**
■ **See Edit: Haats off to rural India, Page 8**

RURAL INDIA'S TRADITIONAL SUPERMARKETS

■ 43,000 haats in India ■ 70% established before Independence
■ Rs 50,000 crore annual sales ■ Out of total footfalls around two-fifth are women
■ Large haat, in a 10,000+ village, caters to 57 villages attracts 12,000 visitors daily
■ Small haat, in a 5,000+ village, caters to 21 villages, average footfall of 5,600 a day
■ 545 stalls appear in a large haat while around 327 stalls are set up in a small haat
■ 98% rural people are regular visitors to haats
■ 75% visit any particular haat almost every week
■ Three-fifth come to buy specific products from haats despite the fact that similar products are available in their villages
■ A buyer spends Rs 40 on purchase of FMCG products in a single haat day. It nears Rs 60 in UP and Maharashtra while is comparatively lower at Rs 22 in Orissa and AP
■ On an average, a haat accounts for Rs 2,224 of sale of branded products for an FMCG seller while total sale (including unbranded FMCG products) is Rs 7,521