

INDIA

Rohini Malkani

+91-22- 6631-9876

rohini.malkani@citigroup.com

Mumbai

Anushka Shah

Mumbai

Table of Contents

Market Summary + Spotlight	1
Market in Pictures	2-3
India Mkt Monitor + Financial Mkt Forecasts	4

Note Released: 12-Mar-07

*CitiViews – India Market Watch

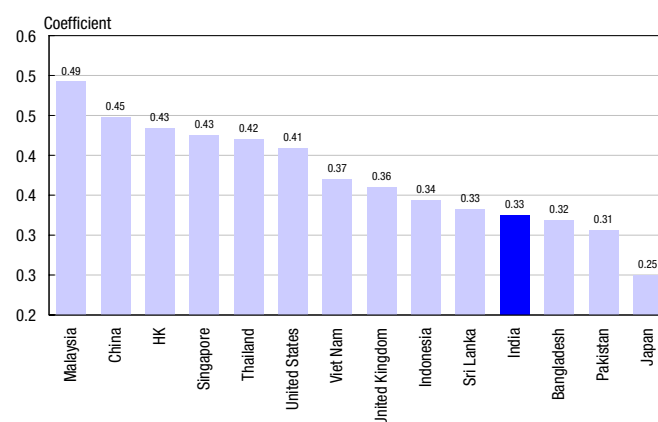
- **Spotlight Poverty in India:** Although touted as one of the fastest growing economies in the world, India is also one of the poorest as there are nearly 250m people below the poverty line¹. Though trends indicate an improvement with the latest National Sample Survey pegging the poverty rate at 22% in FY05, down from 26% seen in FY00; as the Planning Commission points out, this is at best a modest rate of decline given the high absolute levels. This is due largely to the poor agricultural performance as despite its falling contribution to GDP, it continues to remain an important source of livelihood for the rural sector.
- **On a positive note,** the government is taking wide ranging measures to improve the situation. This is reflected in an improvement across social sector indicators, as seen in the rankings of the UNDP's Human Development Index. The 'farm to retail' model, is also likely to result in higher rural incomes. Moreover, India has a low Gini Coefficient, which is an indicator of income equality; although it is important to note that this is not an efficient yardstick of poverty.
- **Forex Market:** In one of the most volatile weeks, the rupee closed stronger at Rs44.21/US\$ from 44.30/US\$ in the week before. The synchronized global sell-off initially took its toll on the rupee with the unit falling to Rs44.70/US\$. However, recovery in the markets saw the rupee bounce back. While trends in the near term are likely to be choppy, we maintain our 12M estimate of Rs43.2.
- **Bond Market:** Benchmark 10-year yield rose to 7.99% from 7.94%. Overall liquidity was comfortable as reflected in the LAF receiving bids worth Rs251bn on a daily average basis. This resulted in ample liquidity in the money market – a result of the Rs30bn daily cap on reverse repos bids, which saw call money rates come down to 5.3%. However, concerns on upcoming advance tax outflows, coupled with the possibility of more bonds being issued to absorb surplus cash kept sentiment weak and saw the 10-year yield rising over 8% intra-week.

Trends in the Poverty Ratio

	Number of Poor (Mns)	% of Popn
FY74	321	54.9
FY84	323	44.5
FY94	320	36.0
FY00	260	26.1
FY05	~250	22.0

Source: Human Development Report, 2006; RBI, NSS

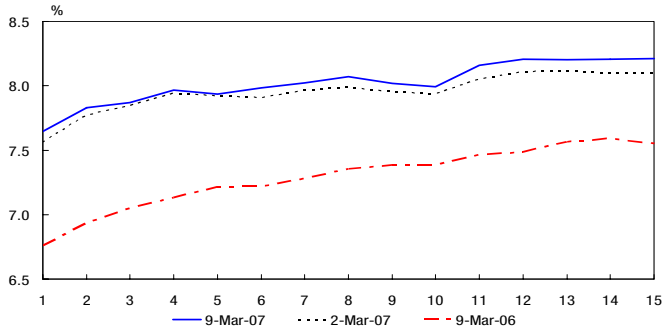
Gini Coefficient - India and Comparative



¹ **Poverty Line:** In India, poverty lines correspond to a total household per capita expenditure sufficient to provide, in addition to basic non-food items a daily intake of 2400 calories per person in rural areas and 2100 in urban areas. Individuals who do not meet these calorie norms fall below the poverty line. In the FY00 survey, the criterion used was monthly consumption of goods below Rs211 for rural areas and Rs454 for urban areas

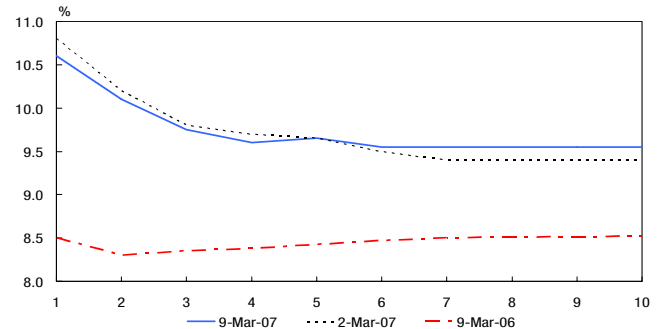
India – Markets in Pictures

Trends in GOI Yield Curve



The curve was higher and inter-tenor spreads widened with the spread between 2-year and 15-year yield rising to 38bps from 32bps with yields rising at the longer tenors.

Trends in AAA Yield Curve



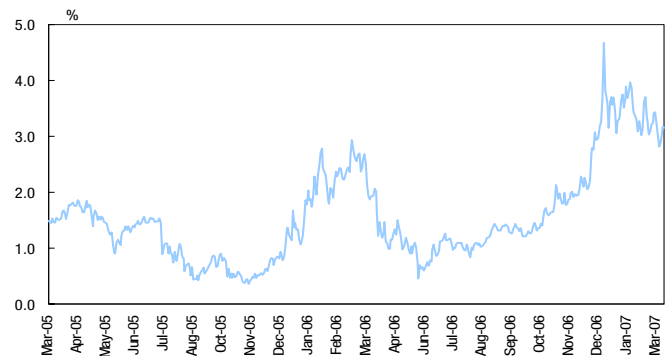
The curve flattened amidst sporadic interest in oil bonds and a few AAA rated bank bonds. The 5-year benchmark was flat at 9.65% while the credit spread narrowed 5bps to 151bps.

Trends in Exchange Rate - Rs/US\$



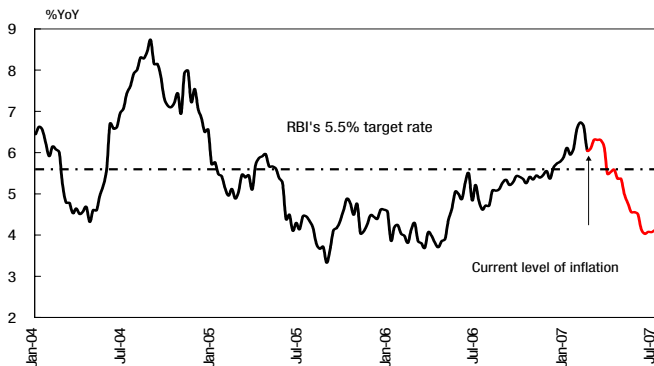
The rupee closed stronger at Rs44.21/US\$ from 44.30/US\$ in the week before. The synchronised global sell-off initially took its toll on the rupee with the unit falling to Rs44.70/US\$. However, recovery in the markets saw the rupee bounce back.

Trends in 6 Month Premiums (%)



The Premium rose to 3.15% from 3.03%. Stock indices indirectly affected the premium as movements in the currency market responded to stock market swings.

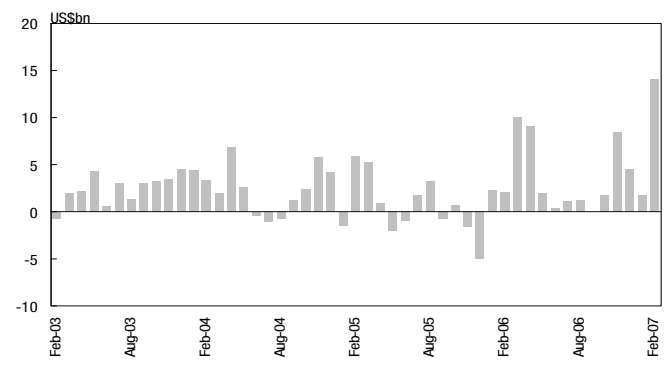
Trends in Inflation (% YoY)



Inflation remained over the 6% mark, with the WPI at 6.1% for the week-ended 24 Feb, up from 6.05% the previous week. While Primary Articles were up 11.1%, Manufactured Goods rose by 6.2% and the Fuel Index was up 1.2% yoy. We expect inflation to ease to 5% levels by May.

Source: Reuters, Bloomberg

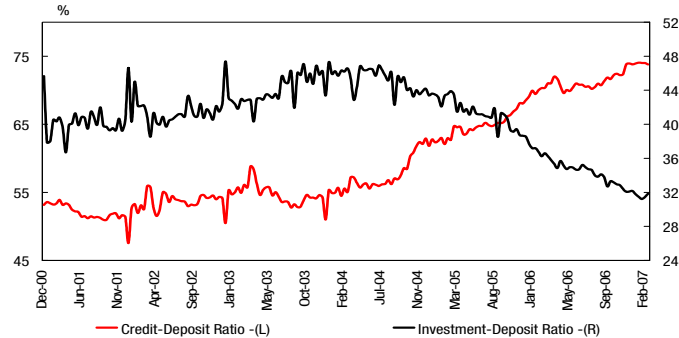
Monthly Increase in Forex Reserves (US\$bn)



Total forex reserves, including gold, rose by US\$1.5bn for the week ended 2 March. Fiscal YTD, foreign currency assets have also increased by US\$42bn and currently stand at US\$187bn as compared with US\$143bn the previous year. Forex reserves including gold stand at US\$195bn.

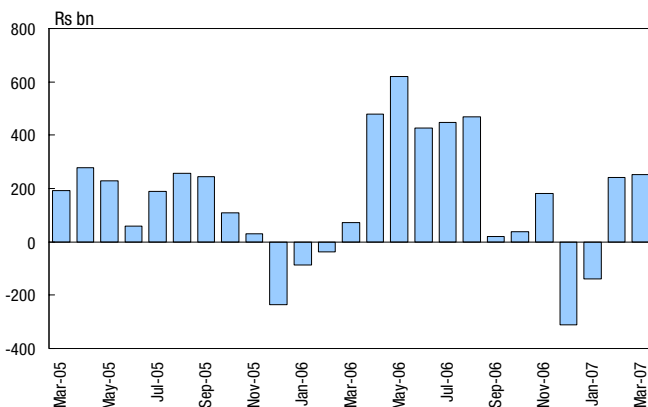
India - Markets in Pictures

Trends in the Credit and Investment Deposit Ratios



Trends in credit remain buoyant, up 29.3% for the week ended 23 Feb 07. However, deposits have also picked up, rising by 24.5% yoy. This has resulted in the credit-deposit ratio remaining more-or-less flat, at 73.8% currently.

Trends in Reverse Repos/Repos (Rs bn)



Dollar buying in the last few weeks resulted in comfortable domestic liquidity conditions, with the RBI receiving reverse repo bids to the tune of Rs250bn on a daily basis. The Rs30bn per day reverse repo cap led to call money rates coming off to 5.3%.

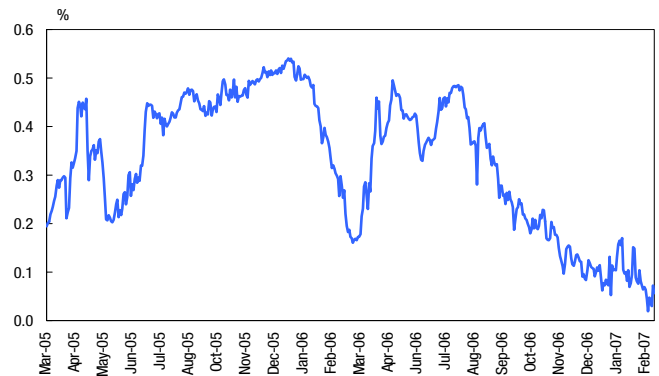
Trends in Commodities - Gold(US\$/Oz)



Gold rose to US\$650.28/oz from US\$642.95/oz in the previous week as investors re-entered the market following the financial market sell-off.

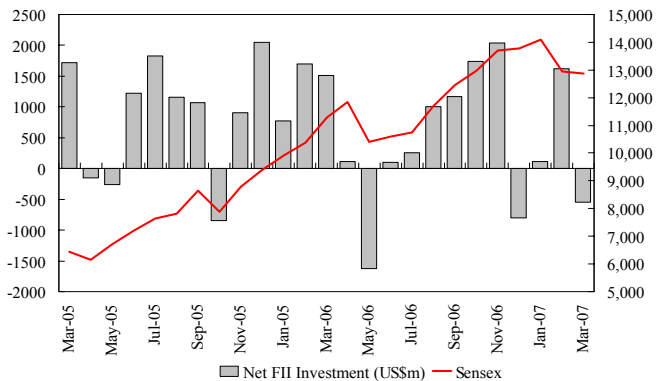
Source: Reuters; Bloomberg; Citigroup

Trends in 10 Year GOI over 5 Year Spread



The spread between the 5- and 10-year GOI rose to 6bps up from 2bps in the previous week, with the longer end of the curve ending up.

2 Yrs - Trends in FII Flows (US\$ m)



Equities saw FII outflows to the tune of US\$154m for the trading week ended 9 March. March MTD, total FII outflows (equity) amounted to US\$550m. Fiscal YTD, flows totaled US\$5.2bn, as compared with US\$10.1bn during the same period last year.

Trends in Commodities - Oil (US\$/bbl)



The recovery in global stock markets along with a drop in US gasoline inventories provided support to Brent to stay above \$60/bbl.

India- Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	5.60	6.10	6.50	6.20	6.70
1 year Treasury Bill	%	7.73	7.84	7.70	6.94	6.80
1 year OIS	%	7.74	7.84	7.65	6.86	6.54
1 year MIFOR	%	8.32	8.50	8.63	7.41	7.44
5 year Corp AAA spread over GOI	%	1.54	1.56	1.34	1.15	1.08
10 year GOI	%	7.99	7.942	7.80	7.39	7.39
Currency & Reserves						
USD/INR		44.21	44.30	44.13	44.73	44.48
EUR/USD		1.32	1.32	1.30	1.33	1.19
USD/JPY		117.43	117.20	121.39	115.64	117.30
12 Month INR Forward Premium	%	2.91	3.15	2.90	2.46	2.08
FX Assets As On (2 Mar 07)	US\$ bn.	187.3	186.1	173.0	168.4	136.6
Money & Banking						
Credit-Deposit Ratio	%	73.8	74.0	74.0	73.8	71.0
Money Supply - M3	% YoY	21.8	19.2	21.10	19.40	16.30
Inflation - WPI (24 Feb 07)	% YoY	6.10	6.05	6.58	5.55	4.13

Source: Citigroup; RBI.

Financial Market Forecasts

Currency Forecasts and Forwards

	Spot		1 Month		3 Months		6 Months		12 Months	
	Range in Feb	8-Mar	Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
Versus USD										
Japan YEN	118.49-121.81	116.13	119.00	115.66	120.00	114.77	120.00	113.48	118.00	111.23
Euro EUR	1.2926-1.3245	1.3180	1.2800	1.3196	1.2600	1.3227	1.2600	1.3265	1.2400	1.3318
India INR	43.95-44.18	44.33	44.50	44.70	44.00	44.90	43.50	45.11	43.00	45.54
China RMB	7.7396-7.7662	7.7370	7.7000	7.7030	7.6300	7.6355	7.4700	7.5375	7.3000	7.3555

Source: Reuters, Citigroup estimates.

Interest Rate Forecasts

		Range in February	8-Mar	1Q07	2Q07	3Q07	4Q07
US	Fed Fund Rate	5.25 - 5.25	5.25	5.25	5.25	5.00	5.00
	10-Year Treasuries	4.51 - 4.83	4.50	4.80	4.90	4.95	4.95
EU	Repo Rate	3.5 - 3.5	3.50	3.75	3.75	4.00	4.00
	10-Year Bunds	3.95 - 4.12	3.92	3.90	3.90	3.95	3.95
JP	Call Money	0.25 - 0.705	0.53	0.50	0.50	0.50	0.75
	10-Year JGBs	1.63 - 1.75	1.62	1.70	1.80	1.90	2.00
IN	Overnight Reverse Repo Rate	6 - 6	6.00	6.00	6.25	6.25	6.25
	91-Day T Bill	7.47 - 8.10	7.48	7.50	7.50	7.50	7.50
	10 Yr Gilt	7.69 - 8.08	7.96	8.00	8.00	8.00	8.00
CN	1-year lending rate	6.12 - 6.12	6.12	6.12	6.39	6.39	6.39
	Bond repo rate (7-Day)	1.94 - 4.38	1.45	1.90	2.00	2.20	2.50
	Government bond yield (5-Year)	2.68 - 2.76	2.70	2.75	2.80	2.95	3.12

Source: Datastream, CEIC Data Company Limited, Bloomberg, Moneyline Telerate, Citigroup estimates.

Disclosure Appendix

Analyst Certification

This research report contains commentary and analysis by Rohini Malkani and Anushka Shah. Each of these individual analysts/strategists/economists hereby certifies that, with respect to the issuers about which they have provided commentary or analysis all of the views expressed in this research report accurately reflect the analyst's/strategists/economists personal views about the subject issuer(s) and its (their) securities. Each of these individuals also certifies that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Other Disclosures

Additional information regarding this report is available on request.

Citigroup research analysts receive compensation based on a variety of factors. Like all Citigroup employees, analysts receive compensation that is impacted by Citigroup's overall profitability, which includes revenues from, among other things, investment banking activities. Analyst compensation is determined by Citigroup research management and other senior management (not including investment banking personnel).

Issuer-Specific Disclosures

Citigroup, its officers, directors and/or employees, may from time to time have long or short positions in, act as principal in connection with, and buy or sell securities or derivatives (including options and warrants) discussed in this report. For purposes of your review of this report, you should assume that this is the case with respect to the securities covered herein.

Citigroup does and/or seeks to do business with many issuers, including through the provision of investment banking or other services. For purposes of your review of this report, you should assume that Citigroup has acted as a manager or co-manager of an offering of securities discussed in this report within the prior 12 months or has provided other services to the issuer within the prior 12 months for which it has received or expects to receive compensation.

Citigroup is an active market maker or liquidity provider for many fixed-income securities and from time to time takes principal positions in such securities or related derivatives. For purposes of your review of this report, you should assume that this is the case with respect to the securities covered herein.

Other General Disclosures

This research report was prepared by Citigroup Global Markets Inc. ("CGMI") and/or one or more of its affiliates (collectively, "Citigroup"), as further detailed in the report, and is provided for information and discussion purposes only. It does not constitute an offer or solicitation to purchase or sell any securities or other financial products.

This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investing in securities and other financial products entails certain risks, including the possible loss of the entire principal amount invested. Certain investments in particular, including those involving structured products, futures, options and other derivatives, are complex, may entail substantial risk and are not suitable for all investors. The price and value of, and income produced by, securities and other financial products may fluctuate and may be adversely impacted by exchange rates, interest rates or other factors. Prior to effecting any transaction in options or options-related products, investors should read and understand the current Options Clearing Corporation Disclosure Document, a copy of which may be obtained on request from your Citigroup representative. Certain securities may not be registered with, or subject to the reporting requirements of, the US Securities and Exchange Commission or any comparable regulatory authority. Information available on such securities may be limited. Investors should obtain advice from their own tax, financial, legal and other advisors and only make investment decisions on the basis of the investor's own objectives, experience and resources.

The information contained in this report is based on generally available information and, although obtained from sources believed to be reliable, its accuracy and completeness is not guaranteed. The analysis contained in this report is based on a number of assumptions. Changes in such assumptions could produce materially different results. This communication is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results.

Citigroup research analysts may communicate with sales and trading personnel and other Citigroup personnel for the purposes of gathering and analyzing market information and may discuss with such personnel information regarding, among other things, market trends, economic trends, the market for bonds of a specific issuer and other market information (such as current prices, spreads and liquidity), so long as such communications do not impair the analyst's independent ability to express accurately his or her personal views about any and all of the subject securities or issuers. Other Citigroup personnel who do not function as research analysts, including sales and trading personnel, may provide oral or written market commentary or trade ideas to Citigroup's customers or proprietary trading desks that differ from the views expressed in this report. Citigroup's proprietary trading and asset management businesses may make investment decisions that are different from the recommendations contained in this report.

Citigroup has no duty to update this report and the opinions, estimates and other views expressed in this report may change without notice. No liability whatsoever is accepted for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from this report.

Securities recommended, offered or sold by Citigroup (unless expressly stated otherwise): (i) are not insured by the Federal Deposit Insurance Corporation or any other body; and (ii) are not deposits or other obligations of Citibank, N.A. or any other insured depository institution.

Citigroup does not provide tax advice and nothing contained herein is intended to be, or should be construed as, tax advice. Any discussion of US tax matters contained in this report was written to support the promotion or marketing of the transactions or other matters addressed herein and is not intended to be used, and must not be used by any recipient, for the purpose of avoiding US federal tax penalties. Recipients of this report should seek tax advice based on the recipient's own particular circumstances from an independent tax adviser.

This report is intended for distribution solely to customers of Citigroup in those jurisdictions where such distribution is permitted. No part of this report may be copied or redistributed by any recipient for any purpose without Citigroup's prior written consent.

Local law requirements may prohibit certain investors from effecting a transaction in the security or securities covered in this report. US persons wishing further information or to effect a transaction should contact a registered representative of CGMI in the United States. Non-US persons wishing further information or to effect a transaction should contact a Citigroup entity located in their own jurisdiction unless applicable governing law permits otherwise.

Australia: This report is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citigroup Wealth Advisors Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), participants of the ASX Group, and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000.

Canada: If this report is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3.

Hong Kong: If this report is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If this report is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority.

India: The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021.

Japan: This report is being distributed in Japan by Nikko Citigroup Limited. If this report was prepared by a Citigroup affiliate of Nikko Citigroup Limited, it is being distributed by Nikko Citigroup Limited under license. If this report was prepared by Nikko Citigroup Limited, it may be based in part on a report produced by one of its affiliates used under license. If this report was prepared by Nikko Citigroup Limited and is being distributed in other jurisdictions by other Citigroup affiliates, or by Nikko Cordial Securities Inc., it is being distributed by them under license. Nikko Citigroup Limited is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Akasaka Park Building, 2-20, Akasaka 5-chome, Minato-ku, Tokyo 107-6122.

Korea: The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061.

Malaysia: The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450.

Mexico: This report is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F.

New Zealand: This report is made available in New Zealand through Citigroup Global Markets New Zealand Limited, a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington.

Poland: The Product is made available in Poland by Dom Maklerski Banku Handlowego SA, an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa.

Russia: The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow.

Singapore: The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services License holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192.

South Africa: Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa.

Taiwan: The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand.

United Kingdom: This report is being distributed in the United Kingdom by Citibank, N.A., London Branch, or Citigroup Global Markets Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, UK. This material is directed exclusively at market professional and institutional investor customers in the United Kingdom and is not for distribution to private customers in the United Kingdom as defined by the Financial Services Authority. Any investment or service to which this material may relate will not be made available to such private customers. This material may relate to investments or services of a person outside the United Kingdom or to other matters that are not regulated by the Financial Services Authority, and further details as to where this may be the case are available on request in respect of this material.

United States: This report is being distributed in the United States by CGMI. If this report was prepared in whole or in part by a non-US affiliate of CGMI, CGMI accepts responsibility for its contents (subject to the notices above). If this report covers non-US securities, US investors should be aware that non-US companies may not be subject to uniform audit and reporting standards, practices and requirements comparable to those in the United States. Securities of some non-US companies may be less liquid and their prices may be more volatile than securities of comparable US companies. Exchange rate movements may have an adverse effect on the value of an investment in non-US securities and its corresponding dividend payment for US investors. CGMI is a member of the Securities Investor Protection Corporation.

European Union: Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by the Financial Services Authority. Many European regulators require that the firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publishing or distribution of investment research. The policy applicable to research analysts within the Citigroup Investment Research division can be found at www.citigroupgeo.com. The policy applicable to research analysts within Citigroup's Fixed Income Strategy and Analysis and Economic & Market Analysis divisions, as well as the investment research they produce, can be obtained by contacting Citigroup Global Markets Inc., 388 Greenwich Street 11th floor, NY NY 10013, Attention: Fixed Income Publishing.

© Citigroup Global Markets Inc., 2007. All rights reserved. Smith Barney is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citigroup and the Umbrella Device are trademarks and service marks of Citicorp and its affiliates and are used and registered throughout the world. CitiFx® is a service mark of Citicorp. Nikko is a service mark of Nikko Cordial Corporation. Any unauthorized use, duplication or disclosure is prohibited by law and may result in prosecution.