

INDIA

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Table of Contents

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

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CitiViews – India Market Watch

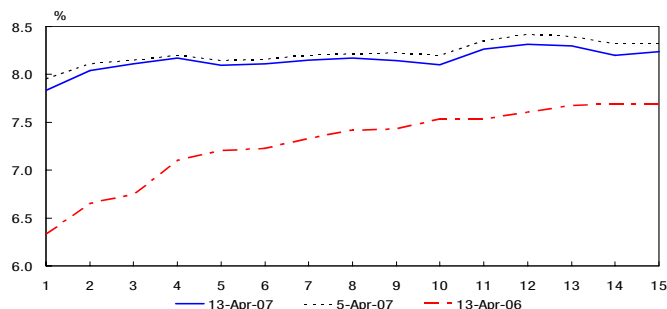
- **Spotlight on clinical trials – The new wave of Knowledge Process Outsourcing (KPO)¹:** While outsourcing as a concept is not new to global pharma majors, the Indian presence had been sporadic despite its lower cost and strong chemistry skills. However, with India having adopted a more stringent IPR law, there has been growing traction on contract research organisations – firms that assist companies (both domestic and global) in research, testing and the approval processes of products – over the past year. Recent deals such as Merck–Advinus, Eli Lilly–Nicholas Piramal, and BMS–Syngene increase the likelihood that our pharma analyst's estimates on contract research to India might be reached; up from US\$4bn currently to more than US\$17bn by 2010. This in turn would be positive for the balance of payments and the rupee, as revenues from this are classified under invisibles (*other invisibles include software services and remittances*). A growing niche segment *within* contract research has been outsourcing in clinical trials. With Indian companies also making progress with their own new drug discovery efforts, demand for clinical research services will likely grow further.
- **Why India is riding this wave:** India is today identified as a major resource centre for conducting clinical trials and data management services due to: (1) A large patient population, or patients that are treatment-naïve² (2) Besides lower trial costs, the average time to clear a clinical trial in India is 3-9 months compared with 9 months to a year in China. (3) India has well trained investigators and is compliant with global standards on clinical practice. Recent government initiatives to ensure that India remains globally competitive include exempting trials from service taxes, strengthening patent protection, and eliminating 'phase-lags' so that clinical trials can be conducted simultaneously with other markets.
- **Key players:** As evidence of the emerging opportunities in this space, we have seen a number of global players conducting trials in India. Reports suggest that there are currently more than 226 clinical trials in progress in India. These include those sponsored by Pfizer, GlaxoSmithkline and Eli Lilly. Quintiles, one of the largest healthcare and drug-testing firms in the world, is also setting up a lab in Mumbai to support global and regional clinical trials. Domestic players include Vimta Laboratories, Lambda Therapeutics, Clinigene (Biocon's clinical research arm), and Wellquest (Nicholas Piramal's clinical research division).
- **Key challenges ahead:** While India is slowing development as an R&D hub, it faces several challenges. Key among these are poor medical infrastructure, regulatory hurdles and the small size of the Indian drug market by global standards (In September 2006, India accounted for less than 1% of the 763 human clinical trials conducted around the world). Moreover, India does not allow phase I clinical trials on the basis of patient safety and only began allowing phase II trials a couple of years ago.

¹ **Knowledge process outsourcing:** Inroads into this space involve several global companies outsourcing skilled and high-ended functions such as R&D in pharmaceuticals, biotechnology, engineering, and legal services; to domestic engineers and researchers.

² This implies that patients have not been subject to drugs for the specific disease that the drug is testing for

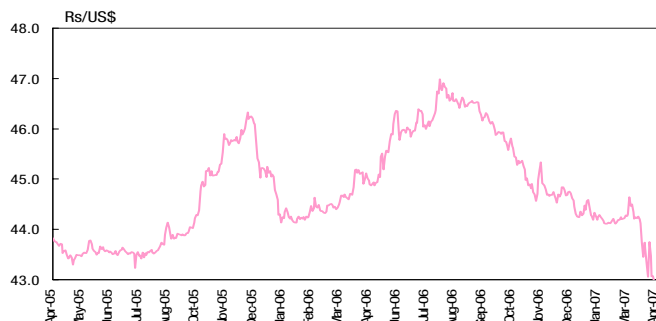
India – Markets in Pictures

Trends in GOI Yield Curve



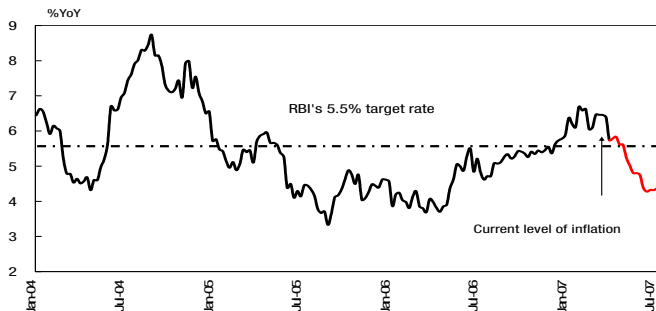
The 10-year yield ended at 8.1% from 8.2% while the spread between 15-year and 2-year was 19 bps from 21 bps. Bonds at the longer segments saw a sharp recovery intra-week – a result of the improvement in money market liquidity conditions. However, prices eased mid week on the back of concerns that excess liquidity coupled with robust trends in industrial production could prompt the RBI to announce further tightening measures

Trends in Exchange Rate - Rs/US\$



The rupee continued its appreciation path closing at Rs42.52/US\$ – an eight year high – from Rs42.93/US\$ in the previous week. The key factors supporting this move are dollar liquidation by domestic banks, global weakness in the dollar and investment inflows. While near-term movements are likely to be choppy, we maintain our view of rupee appreciation

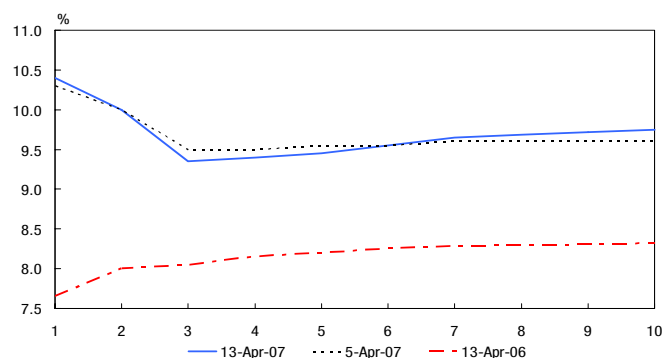
Trends in Inflation (% YoY)



Inflation ended the fiscal year (wk ended 31 Mar 07) at 5.74%yoy, lower than the 6.39% growth seen the previous week. This was largely due to the base effect, an easing in prices of Primary Articles, up 10.7%yoy; and Manufactured Products, up 5.8%yoy. We continue to expect inflation to dip below the 5% level by May.

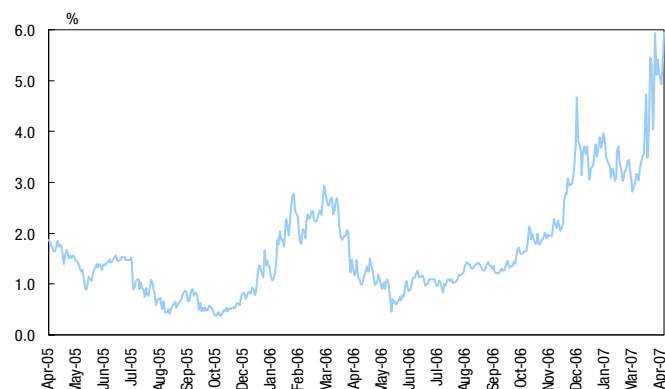
Source: Reuters, Bloomberg

Trends in AAA Yield Curve



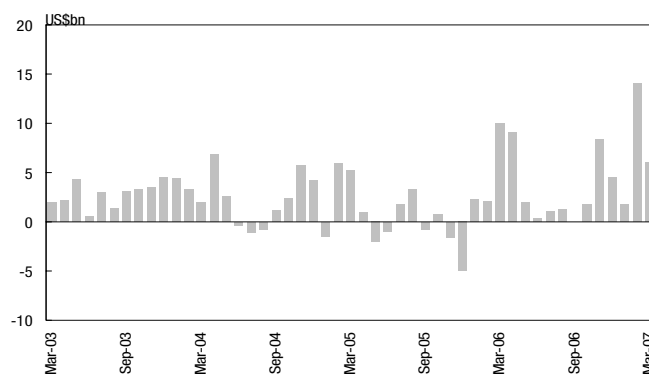
Trading activity remained weak as higher returns in lending discouraged banks to invest in corporate bonds

Trends in 6 Month Premiums (%)



Premium ended at 5.95% from 5.41%. Pressure to liquidate dollars as well as raise rupees to meet local statutory requirements resulted in traders entering sell-buy swaps, which pushed up premiums

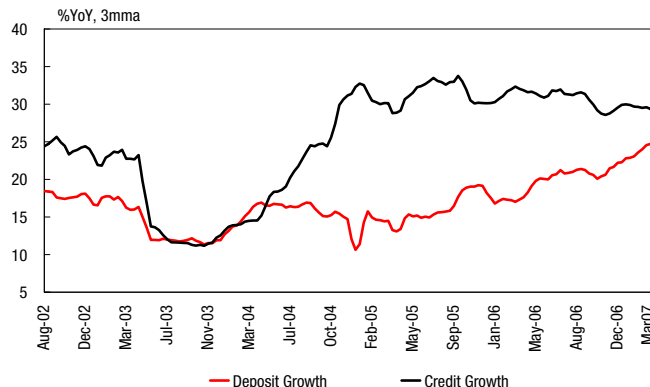
Monthly Increase in Forex Reserves (US\$bn)



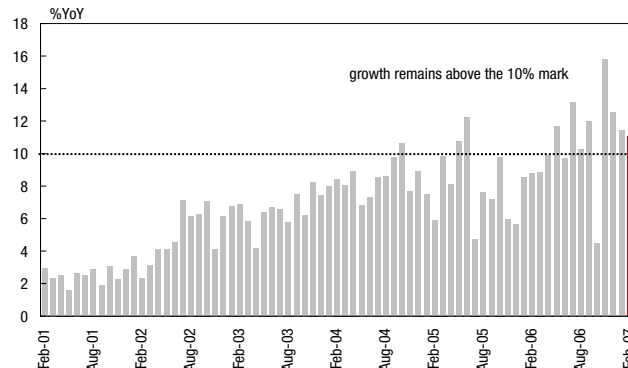
Forex reserves, including gold, rose US\$1.1bn for the week ended April 6. Foreign currency assets currently stand at US\$193bn as compared with US\$148bn last year while reserves including gold now stand at US\$200bn.

India – Markets in Pictures

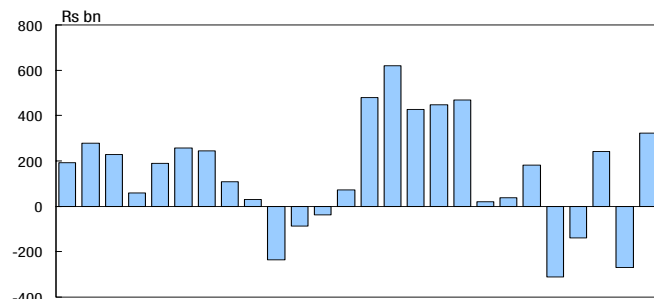
Trends in Credit and Deposit Growth (%YoY, 3mma)



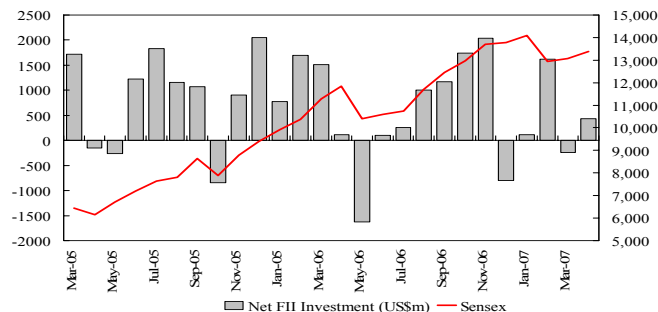
Trends in Industrial Production (%YoY)



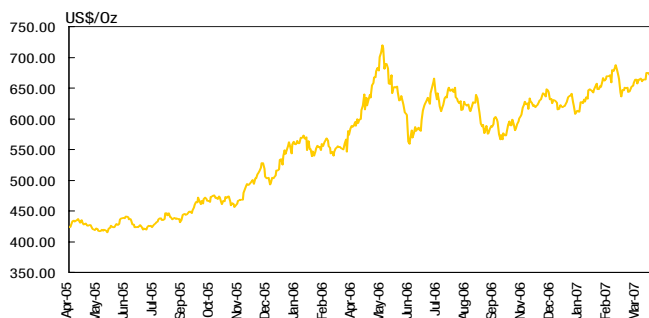
Trends in Reverse Repos/Repos (Rs bn)



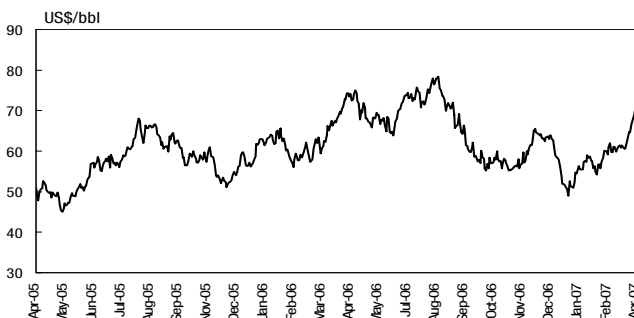
2 Yrs - Trends in FII Flows (US\$ m)



Trends in Commodities – Gold(US\$/Oz)



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



India- Market Monitor

| | Units | Latest | Previous | 1M ago | 3M ago | 12M ago |
|---------------------------------|----------|--------|----------|--------|--------|---------|
| Interest Rates | | | | | | |
| Overnight | % | 5.28 | 7.25 | 5.25 | 6.75 | 5.70 |
| 1 year Treasury Bill | % | 7.70 | 7.83 | 7.83 | 7.27 | 6.06 |
| 1 year OIS | % | 8.15 | 8.11 | 7.74 | 7.53 | 6.26 |
| 1 year MIFOR | % | 9.63 | 9.80 | 8.45 | 8.46 | 6.85 |
| 5 year Corp AAA spread over GOI | % | 1.17 | 1.21 | 1.63 | 1.28 | 0.94 |
| 10 year GOI | % | 8.10 | 8.20 | 7.97 | 7.92 | 7.61 |
| Currency & Reserves | | | | | | |
| USD/INR | | 42.52 | 42.93 | 44.22 | 44.43 | 45.19 |
| EUR/USD | | 1.36 | 1.338 | 1.318 | 1.290 | 1.210 |
| USD/JPY | | 118.34 | 118.90 | 116.86 | 120.50 | 118.69 |
| 12 Month INR Forward Premium | % | 3.99 | 4.56 | 3.14 | 3.16 | 1.27 |
| FX Assets As On (06 April 07) | US\$ bn. | 193.1 | 191.9 | 187.1 | 169.5 | 147.7 |
| Money & Banking | | | | | | |
| Credit-Deposit Ratio | % | 74.1 | 74.5 | 73.8 | 74.0 | 72.2 |
| Money Supply - M3 | % YoY | 20.7 | 22.0 | 22.1 | 20.4 | 16.2 |
| Inflation - WPI (31 Mar 07) | % YoY | 5.74 | 6.39 | 6.46 | 6.73 | 4.06 |

Source: Citigroup; RBI.

Financial Market Forecasts

Currency Forecasts and Forwards

| | Spot | | 1 Month | | 3 Months | | 6 Months | | 12 Months | |
|------------------|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Range in Mar | 12 -Apr | Forecast | Forward | Forecast | Forward | Forecast | Forward | Forecast | Forward |
| Versus USD | | | | | | | | | | |
| Japan YEN | 115.98-118.12 | 119.36 | 118.00 | 118.89 | 119.00 | 117.94 | 119.00 | 116.60 | 118.00 | 114.15 |
| Euro EUR | 1.3099-1.3368 | 1.3436 | 1.3200 | 1.3452 | 1.3200 | 1.3482 | 1.2900 | 1.3520 | 1.2600 | 1.3574 |
| India INR | 42.78-44.39 | 42.61 | 43.00 | 42.80 | 43.25 | 43.19 | 43.00 | 43.68 | 42.75 | 44.33 |
| China RMB | 7.7273-7.7542 | 7.7265 | 7.6900 | 7.6975 | 7.4500 | 7.6300 | 7.3000 | 7.5200 | 7.1000 | 7.2795 |

Source: Reuters, Citigroup estimates.

Interest Rate Forecasts

| | | Range in March | 12-Apr | 2007 | 3Q07 | 4Q07 | 1Q08 |
|----|------------------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|
| US | Fed Fund Rate | 5.25 - 5.25 | 5.25 | 5.25 | 5.00 | 5.00 | 5.00 |
| | 10-Year Treasuries | 4.48 - 4.64 | 4.72 | 4.65 | 4.70 | 4.75 | 4.80 |
| EU | Repo Rate | 3.5 - 3.75 | 3.75 | 3.75 | 4.00 | 4.00 | 4.00 |
| | 10-Year Bunds | 3.88 - 4.05 | 4.14 | 4.00 | 4.00 | 4.05 | 4.10 |
| JP | Call Money | 0.4 - 0.75 | 0.55 | 0.50 | 0.50 | 0.75 | 0.75 |
| | 10-Year JGBs | 1.55 - 1.68 | 1.66 | 1.75 | 1.85 | 1.90 | 1.90 |
| IN | Overnight Repo Rate | 7.5 - 7.5 | 7.75 | 8.00 | 8.00 | 8.00 | 8.00 |
| | Overnight Reverse Repo Rate | 6 - 6 | 6.00 | 6.25 | 6.25 | 6.25 | 6.25 |
| | 91-Day T Bill | 7.47 - 7.97 | 7.35 | 7.50 | 7.50 | 7.50 | 7.50 |
| | 10-Year Gilt | 7.94 - 8.07 | 8.05 | 8.00 | 8.00 | 8.00 | 8.00 |
| CN | 1-year lending rate | 6.12 - 6.39 | 6.39 | 6.39 | 6.66 | 6.66 | 6.66 |
| | 7-Day Shibor | 1.36 - 2.2 | 2.26 | 2.00 | 2.20 | 2.50 | 2.50 |
| | Government bond yield (5 -Year) | 2.68 - 2.81 | 2.83 | 2.75 | 2.80 | 2.96 | 3.12 |

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

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