

Investments in India - Risks and Opportunities

Hanseatic India Colloquium
Pharmaceuticals, Biotechnology and Healthcare

Hamburg, November 9, 2007



Olaf Meuser

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Did you know that India

- Is the 2nd largest country in terms of population and 7th largest in terms of area;
- has the 2nd largest pharmaceutical industry;
- is the largest producer of livestock & milk, 2nd largest producer of food;
- is a storehouse of minerals (mining to touch US\$ 70 Bio by 2015);
- is the largest importer and consumer of gold and processor of gemstones
- lists 8,500+ companies on Bombay Stock Exchange (2nd to NYSE);
- has a young graduate talent pool of 14 million (1.5 x China & 2 x USA), 2.5 million new graduates are added every year;
- has the second largest group of software developers after the U.S;
- is one of six countries that launches its own satellites;
- makes its own supercomputers (besides only U.S.A & Japan);





Key Information of India

Size and structure

- 13th largest economy in the world; 4th largest on a PPP basis
- Consistently strong & sustainable (real) GDP; 2007F: USD 1.000 bn & 8.8% yoy growth
- FX-Reserves: USD 231 bn (2007F)
- Long term Foreign Currency Rating (FCY) at investment grade

Demographics

- World's largest democracy: >1 billion with social stability
- Young nation: 50% of the population < 25 years of age
- Pre-dominantly English speaking workforce
- 35 Indian cities have population >1mn
- Low cost labour base

Key features

- Strong Democracy, freedom of press and well established judicial system
- Global player in IT (software & outsourcing)
- Pro reforms for opening the economy (since 1991)
- Strong financial system (banking: Non Performing Assets: 5%; 8.500+ listed companies, resilient to Asian crisis)

Challenges

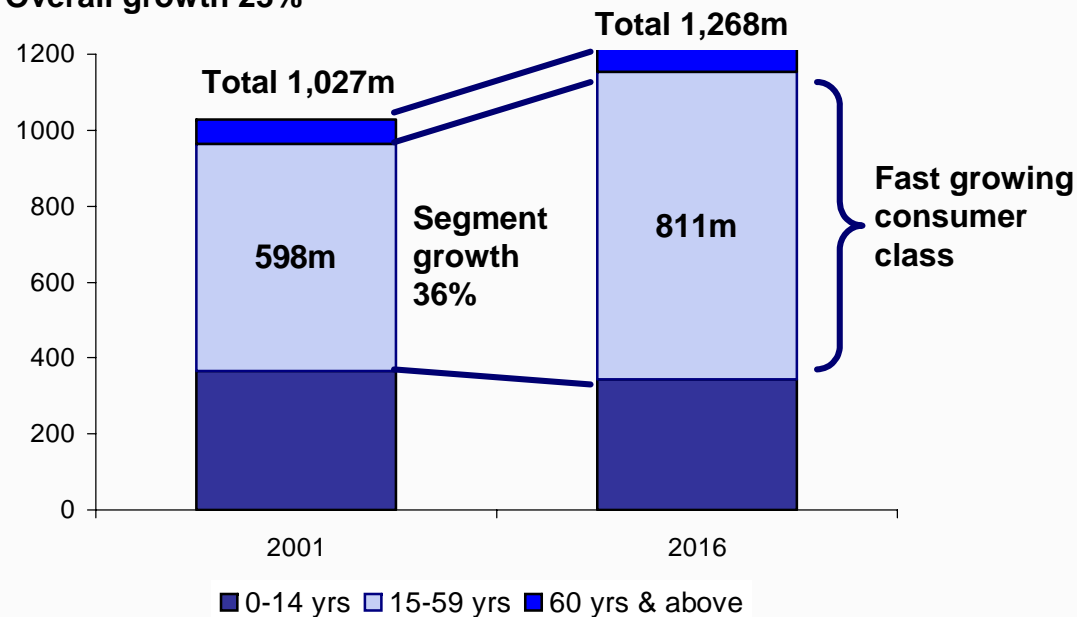
- Control fiscal deficit (~9%)
- Relations with Pakistan
- Market discontinuities, regulations, corruption
- Rising oil prices dampening Asia's expansion
- Slow enhancement of Infrastructure
- High workforce fluctuation since the demand for skilled workforce is higher than capacities





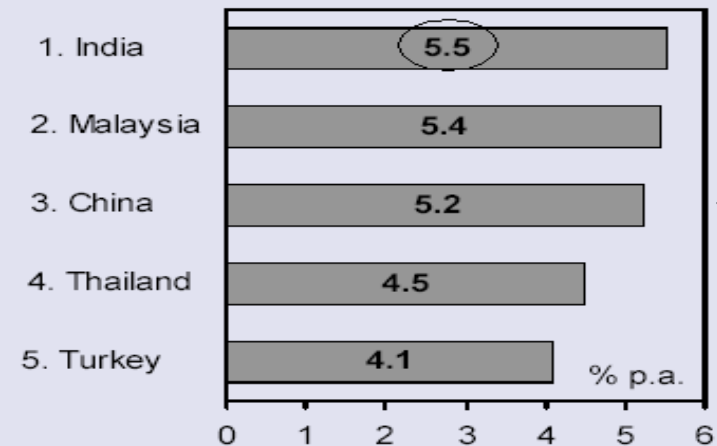
Opportunities: Sustained Growth in Population and GDP

Overall growth 23%



Source: Census 2001

The top 5 growth centres until 2020 ... in the emerging markets



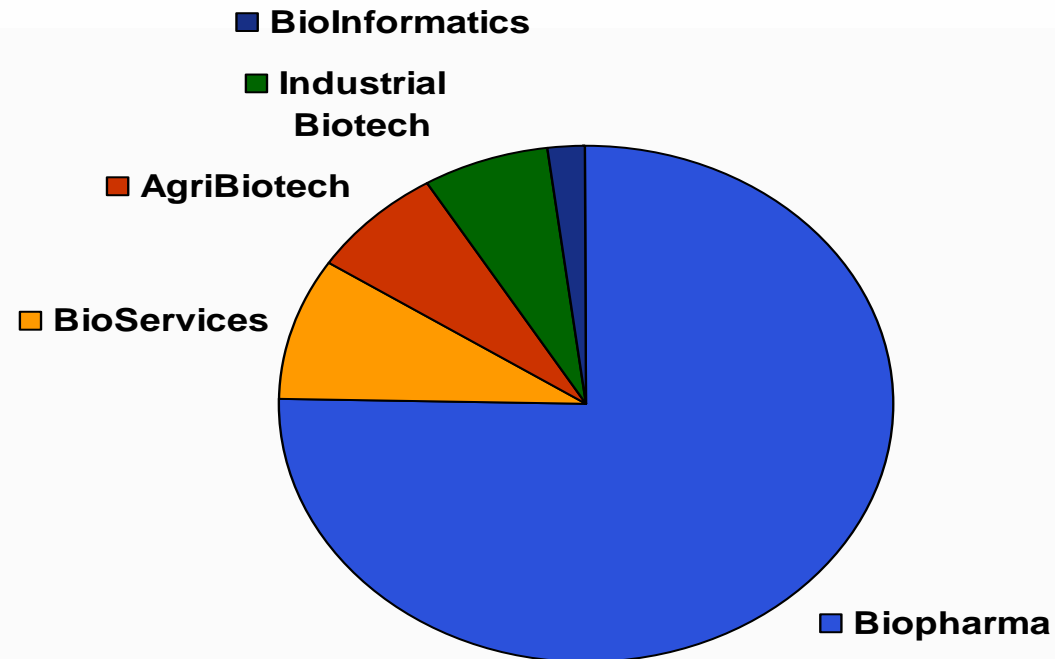
Source: Deutsche Bank Research

- A consumption driven growth story which continues since the Indian working class displays a strong growth momentum
- Strong population growth, a rapid improvement in human capital and increasing trade with other countries allow average real GDP growth of more than 5% per year in the top three countries.





Biotechnology: Market Overview



Source: Biospectrum-ABLE Annual Survey 2005

- Biopharma is largest pie of the market
- AgriBiotech is the fastest growing (81% 2005-6)

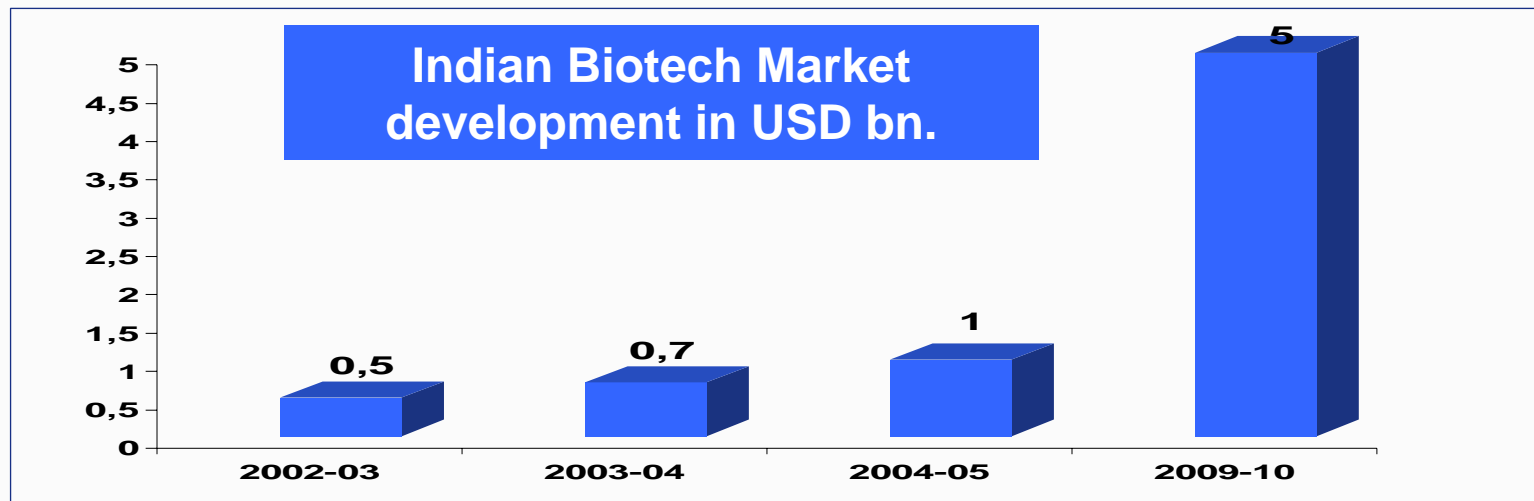




Biotechnology: Opportunities

- Indian biotech industry today comprises over 325 companies with top three companies contributing 27 % of the revenues*
- Industry recorded revenues of USD 2 bn and exports of USD 1.2 bn in 2006-2007*
- Sector is rapidly attaining critical mass in terms of skills and capabilities to become a truly global player
- Sector in India is witnessing accelerated growth

* source: IBEF



source: IBEF
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Biotechnology: Risks

Complex and Dynamic Regulatory Environment

- Shifts in government policy may substantially impact reimbursement levels and can have sudden and profound consequences on industry margins

Patent challenges

- Smaller players with less diversified portfolio may be hit more severely
- Patent infringement/enforcement still remains difficult to tackle in India so that sales and earnings may suddenly drop





Healthcare / Pharmaceuticals in India: Opportunities

- Global pharmaceuticals sales are expected to grow by 7.4% in 2007
- Top 5 EU markets are forecast to grow by 3-4% in 2007
- BRIC countries are growing > 10% p.a.
- Significant growth potential in volume across markets
- Focus keeps shifting – US (till 2004) to Europe (till 2006) to ROW (current)
- Production cost advantages of India remain considerable, esp. for Medical Devices and Generics
- India's rapidly growing middle class can afford to pay for first-class healthcare
- Clinical Trials are moved outside the US/EU to India, which, for instance, has the largest pool of diabetics, many of whom have never received treatment





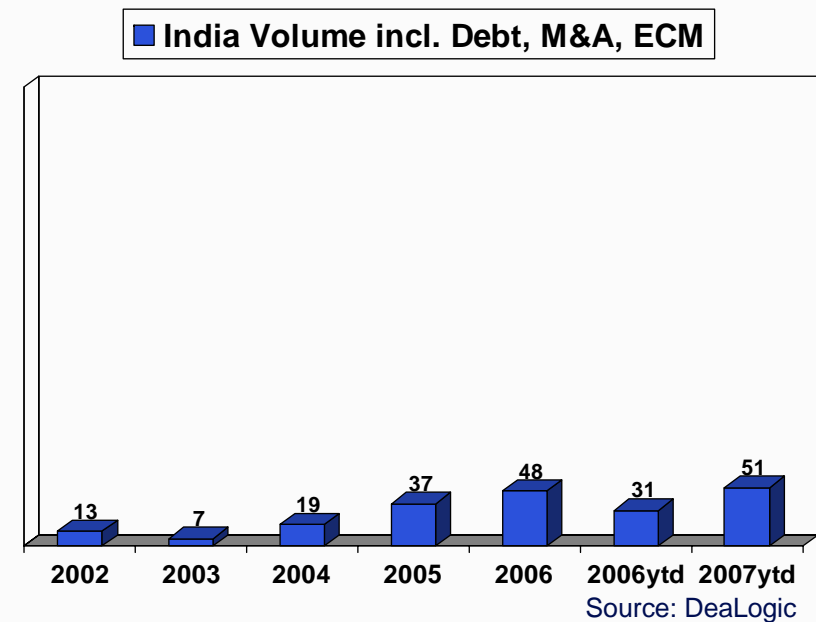
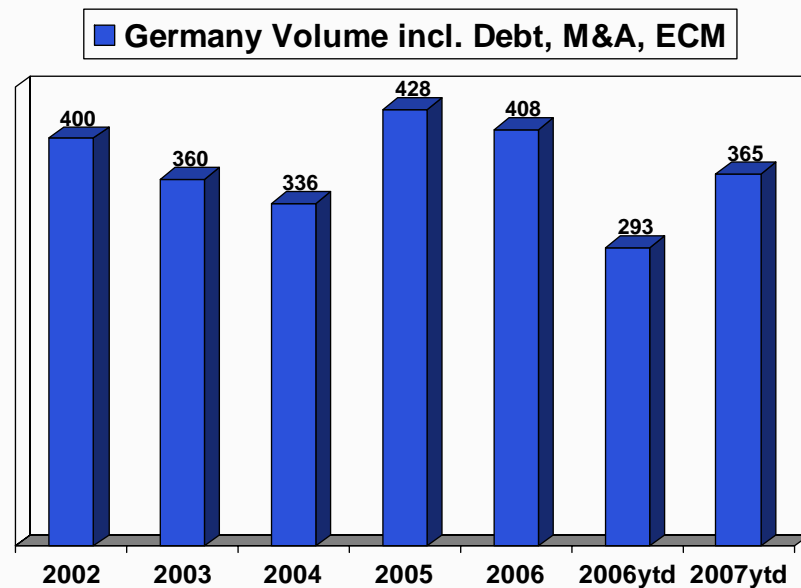
Healthcare / Pharmaceuticals in India: Risks / Challenges

- Pricing pressures hit markets
- High entry barriers as locally manufactured Generics generally dominate these markets
- Launch of high potential generics gets difficult with aggressive life-cycle strategy by the patentholder
- Niches are getting elusive due to increasing competition
- Delay in product approvals and tightening of norms for manufacturing units further adds to the uncertainty and costs
- Complex logistics are challenging due to climate conditions
- Highly fragmented markets as in M&A market India seems to be left out, few bigticket acquisitions by Indian companies and few Indian companies being acquired





Corporate Finance Volume Trend



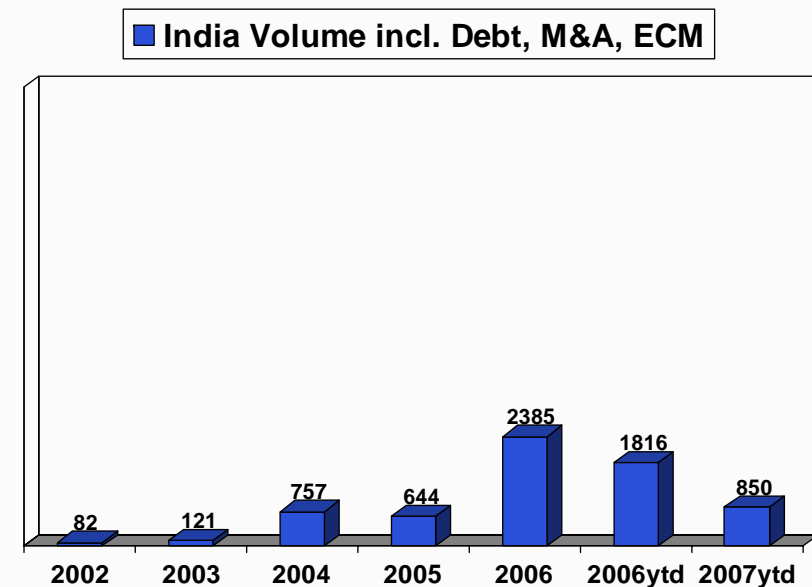
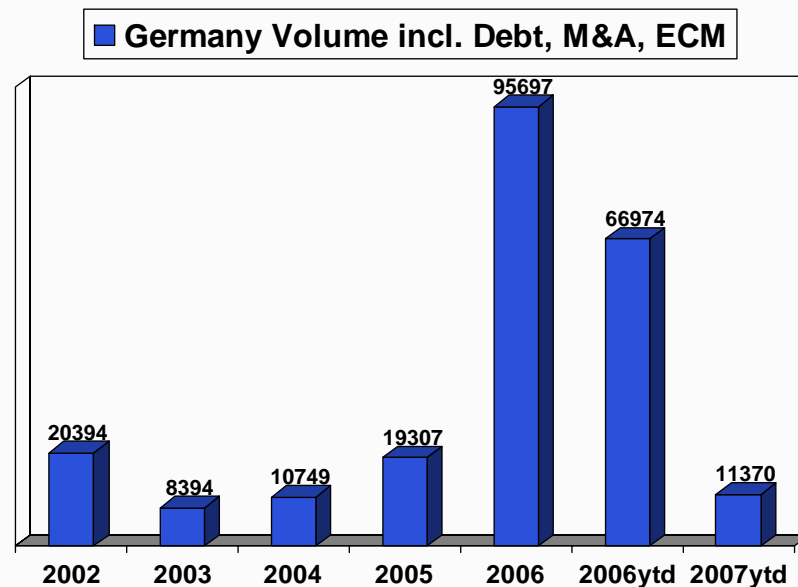
- India's Corporate Finance Volume grew +369%, 2002 vs. 2006
- Germany +2%, 2002 vs. 2006





Corporate Finance Volume Trend – Healthcare

(Biotech volume trend were not available)

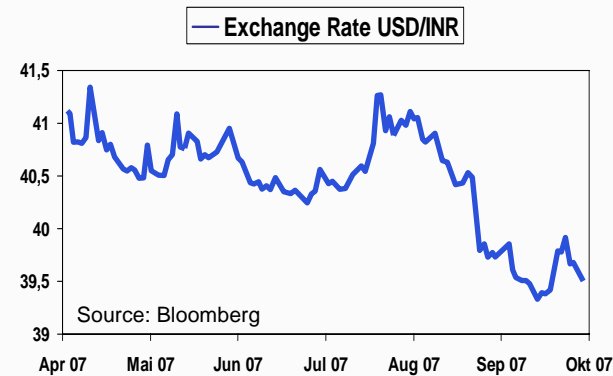
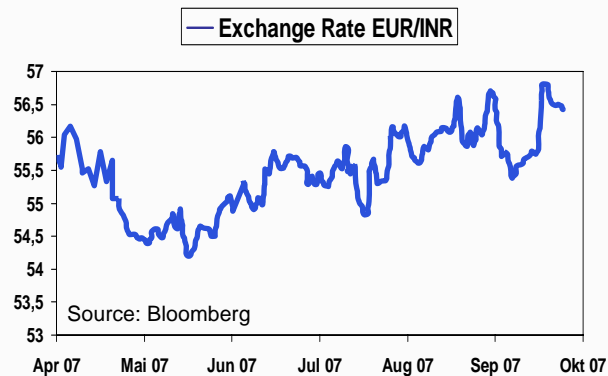


- Healthcare accounted for 10-15% of Germany and India overall CF fee pool
- CF fee pool year on year growth in both countries decreased more than 50%
- While overall CF volume is growing, healthcare volume is dipping





Indian Rupee Development: Risk or Opportunity ?



- Companies pooling INR sales to EUR suffer losses compared to companies converting to USD
- High currency volatility is a risk which must be handled!!
- Indian USD exporters forfeit competitiveness
- US Imported Raw Materials rise operating profits vs. competitors with local or EUR sourcing

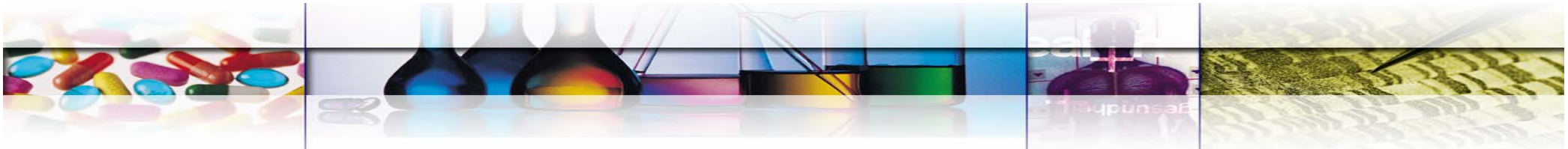
➔ **FX Management (Hedging) strongly recommended !!**

Currency Forecast

	Spot	3M	6M	12M
■ INR/USD:	39.46	39.4	39.8	41.1
■ INR/EUR:	56.76	57.13	56.91	57.54

Source: DB Global Markets Research, 28 Sept 2007





Pros and cons of acquisitions in India

Greenfield strategy

Acquisition strategy

Pros

- Measured pace of growth; opportunity for 'culture building'.
- Complete control over systems, processes, reporting, type of contracts

- Ready access to Target's assets, employees, set-up, business approvals
- No lead time to offshore parts of existing contracts to immediately lift margins / bid for new contracts that earlier did not meet margin threshold

Cons

- Long lead time to establishing operations and gain any critical scale
- Employees costs would typically be higher as most new hires would have to be from competitors

- Challenging valuations
- Existing customers could have change of control clauses
- Integration could be a challenge due to business and cultural issues



Deutsche Bank's Set-up in India



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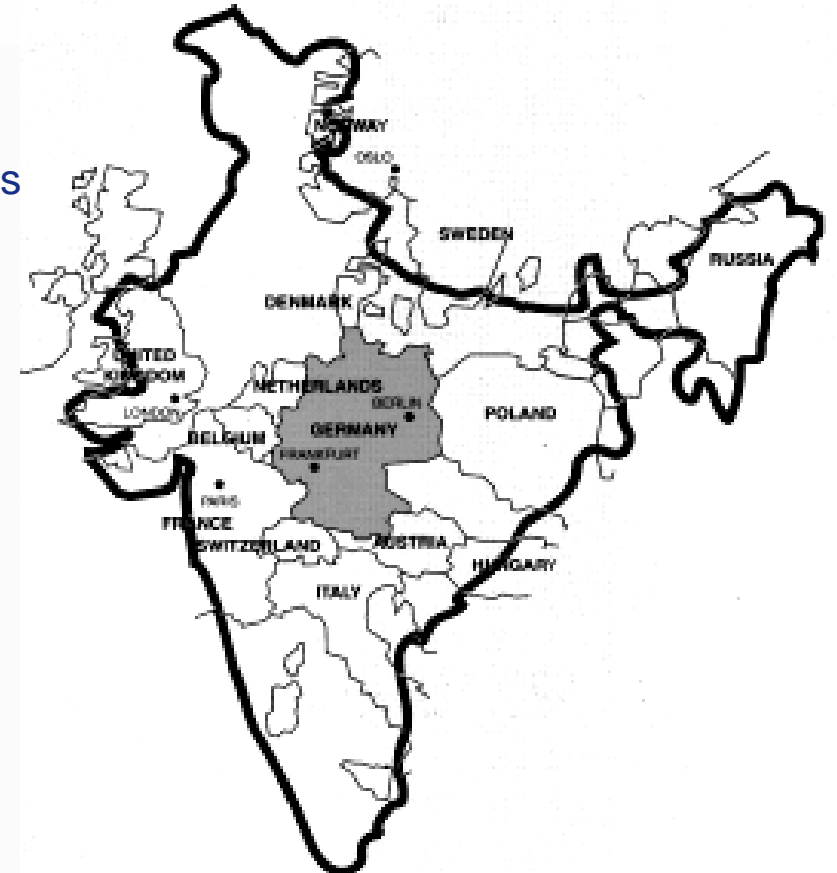


Our Footprint in India

- 27 years in India.
- 5,800+ employees & 12 legal entities.
- Unparalleled access to top corporates & regulatory bodies
- Excellent understanding of local regulations.
- Market penetration of relevant German MNC's > 90% (client relationships to approx. 230 German MNC's of approx. 250 German MNC's which are substantially invested in India)

DB is full service provider with complete financial products and services platform in India

- Top-notch relationship management.
- Leader in transaction banking products.
- Leader in currency / interest risk management products.
- Leader in corporate finance & capital market products.
- Leader in wealth management.
- Industry expertise & coverage.





Our Business Divisions ⇒ Full Fledged Bank

Corporate and Investment Bank (CIB)

Global Banking

- Transaction Banking:
Full services of cash management, trade finance and trust & securities services
- Relationship Management:
overall coverage of requirements occurring in the relationship
- Investment Banking:
M&A / divestment advisory, support for capital market transactions

Global Markets

- Derivatives, foreign exchange, bonds, structured products and securitisations

Private Clients and Asset Management (PCAM)

Private Wealth Management

- Caters to specific needs of high net worth clients and selected institutions

Private & Business Clients

- First launch outside of Europe in December 2005. Tailor-made solutions in retail banking. 8 branches in India: more to come

Asset Management

- Tailored products in equities, bonds & real estate for institutional clients and private investors





Deutsche Bank Research



Think Tank of Deutsche Bank Group

- DB Research is one of world's leading Think Tanks for trends in business, society and the financial markets
- DB Global Markets equity research for many sectors
- Highly qualified, independent research
- Strong research franchise in Asia
- Comprehensive analysis of Risks & Opportunities in India
- Equity analysts located in India



Links: www.dbresearch.de , www.db-rbf.net





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Annex



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2005/2006 select Awards and Achievements

Markets – Debt & Equity

Debt

1 International Bond House in India with 25.6% market share in 2006 (Bloomberg)

Comprehensive product suite across FX, Derivatives and Financing business

Pioneered 3rd party Structured Asset distribution in Indian retail market

Pioneered Distress Assets and Real Estate Financing, Principal Protected Funds, etc.

Equity

Launched in Q4 2003; Amongst top 5 Institutional Brokers

Comprehensive product suite including Derivatives and Prime Brokerage

Dedicated resources for India in London & New York

EUROMONEY

Best Investment-Grade Debt House
Best Emerging Market Debt House
Best Risk Management House

» *Euromoney, Awards for Excellence, July 2006*

credit

Best Distressed Debt House

» *Credit Magazine, Credit Awards, June 2006, 2005*

EUROMONEY

No.1 Provider of FX Services

» *Euromoney Foreign Exchange Poll, May 2006, 2005*

» *World's Best Foreign Exchange House*

Global Finance

» *Global Finance, World's Best Foreign Exchange Banks, Jan 2006*

Risk

Derivatives House of the Year

Credit Portfolio Manager of the Year

» *Risk Awards, Jan 2006*

Bank of the Year

Bond House

Structured Finance House

Derivatives House

Sovereign/ Supranational/ Agency Bond House

Interest-Rate Derivatives House

Credit Derivatives House

» *IFR Awards, Dec 2005*



asiamoney

1st - Best Overall FX Services (Financial Institutions)

» *Asiamoney, Asiamoney FX Poll, Sept 2005*





Investment banking

Deutsche Bank is among the top investment banks in India

In 2006, we have executed marquee transactions such as:

Largest ever AIM IPO listing by an Indian sponsor (UCP)

Largest ever sole bookrun equity-linked offering out of India (Reliance Comm.)

First international IPO by an India-centric BPO company (WNS)

Largest ever overseas corporate acquisition announced by an Indian company (Tata - Corus)

India: M&A Advisory League Table 2006

Pos	Investment Bank	Mkt. Share	Amount (US\$ mn)	Transactions
1	ABN Amro Bank	25.1%	12,771	8
2	Deutsche Bank*	23.7%	12,050	15
3	Rothschild	23.0%	11,696	8
4	Ernst & young	21.5%	10,936	62
5	Morgan Stanley	13.0%	6,615	10

** Includes US\$30mn OnMobile private equity placement*

Source: Bloomberg2007 India Announced Deals League Table

India: Equity & Equity Linked League Table 2006

Pos	Investment Bank	Mkt. Share	Amount (US\$ mn)	No. of Issues
1	Citigroup	14.7%	2,461	26
2	Deutsche Bank	12.7%	2,133	15
3	Morgan Stanley	10.5%	1,765	18
4	Enam	6.6%	1,106	23
5	Barclays	4.9%	829	7

Includes WNS and Infosys ADR offerings, Ishaan, UCP, IHC and HiroCo AIM listings

Source: Bloomberg(2006)

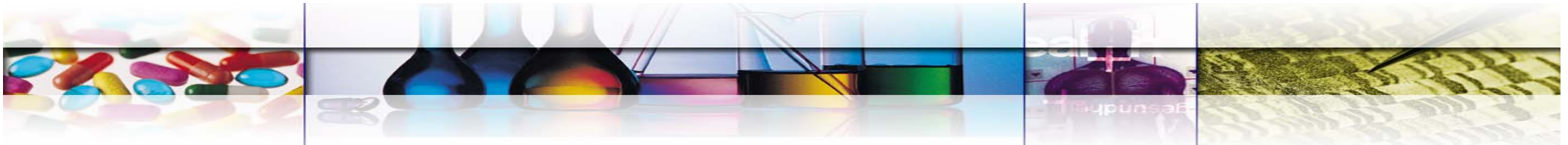




400+ MNC relationships



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