

November, 2011

INDIA STRATEGY CHARTBOOK (Bi-monthly Guide to the Indian Equity Market)

## India Strategy

### Risk-Reward Continues to Favor Equities

#### An opportunity for long-term investors

**Cyclical growth problems:** India has been through a tumultuous time over the past three years – slow pace of reforms has created doubts about the structural story, corruption scandals have dampened business sentiment, global turmoil has further hurt investment confidence, and high inflation has prompted rate hikes and cuts in growth forecasts. It is pertinent to note that for market participants, and as our proprietary indicators suggest, the pain trade is on the upside. In short, much bad news seems to be in the price.

**Structural story intact:** The long-term growth story may appear chaotic to the casual observer. However, India has transitioned. Robust growth (earnings CAGR of c15% over the coming decade) driven by productivity upside, trailing wealth creation, and a more considered investment cycle is underway (=> positive ROE surprise).

**Long-term story not priced in:** This also is a recipe for strong equity returns because we think that the growth story is not in the price, i.e., equity valuations look attractive. Stock selection should still occupy focus. Volatility in the coming three to six months and even a sharp decline in absolute terms if global markets tumble is still likely.

#### Key triggers: Our proprietary market timing and sentiment indicators are perched in buy zone.

- Corporate activity is strong.
- Policy expectations are low.
- Good monsoons may moderate food inflation.
- Valuations look compelling on an absolute basis.
- Interest rates could be peaking.

#### Tail risks not in the price.

- DM world problems could keep pegging back equities.
- Weak domestic policy response further hindered by alleged corruption scandals is a continuing worry.
- Growth: Inflation and high rates are impediments.

#### Sensex target: 8% to Dec-11 and 30% to Dec-12.

During the 2008 crisis, Indian earnings outperformed, but equities fell due to a large outflow of capital. A recession with no seizing up of capital markets is India's best case in the context. Massive global stimulus or a breakdown in capital markets will hurt India on a relative basis a la 2008.

#### Still a stock picker's market

We prefer domestic over global cyclicals with emphasis on discretionary names. Top picks: DRRD, INFO and MM.

MORGAN STANLEY RESEARCH  
Asia

Morgan Stanley India Company Private Limited+

#### Ridham Desai

Ridham.Desai@morganstanley.com  
+91 22 6118 2222

#### Sheela Rathi

Sheela.Rathi@morganstanley.com  
+91 22 6118 2224

#### Utkarsh Khandelwal

Utkarsh.Khandelwal@morganstanley.com  
+91 22 6118 2226

#### Amruta Pabalkar

Amruta.Pabalkar@morganstanley.com  
+91 22 6118 2225

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## SUMMARY

## Summary of Our Views

## Key Investor Debates

Equity valuations are not cheap enough – *our view is equity valuations are looking as good as they have in several years, especially for the broad market.*

Growth is slowing due to high inflation and global headwinds plus tepid domestic capex and negative earnings revisions will cap equity upside. *Reflexivity is at work – lower share prices are affecting growth and vice versa. Earnings have support from decade-low gross margins and strong balance sheets. We think broad market earnings growth may have troughed. ROE is off lows and bears upside risk given balance sheet discipline.*

Equity returns are over-dependent on foreign flows – the current account deficit is a problem. *Global winds are critical to outcomes for Indian equities. India's high rates has levered it to a DXY rally.*

Politics might play spoilsport. *We think expectations are low, and so a positive surprise is possible.*

## Catalysts

Global risk appetite: DM growth, European issues, China hard landing, ME situation. Watch: DXY, Oil.

Domestic growth (policy announcements – RBI, government projects, reforms).

Inflation (oil prices and food prices).

Corporate performance.

Cautious positioning in the market.

## What's in the Price?

Slowing growth seems to be in the price. The market appears to be looking for a sharp drop in nominal growth.

Our residual income model for the Sensex implies an ERP of 5.7%. At a 10-year bond yield of 8.9%, this denotes a long-term return of c15% - better than fair level in our view. Future growth has been assigned 51% of the MSCI Index value, below its five-year average. Several stocks are implying very low long-term growth rates.

The market's P/B is implying a long-term return of 14.5%, which we think is a good return in the context of India's equity risk premium. That said, tail risks are not in the price if the VaR indicator is a guide.

## Trades and Themes

**Sectors: OW:** Consumer Discretionary., Energy, Technology Utilities

**UW:** Consumer Staples, Healthcare, Financials, Materials

**Neutral:** Industrials, Telecoms

**Stocks:** Favorites include DRRD, INFO and MM (see page 5 for Focus List and page 6 for stocks to avoid picked by our analysts).

## Themes

- Focus on stock picking – macro influence on stock prices has already peaked.
- Small- and mid-cap look very attractive.
- Technology and discretionary consumption stocks look the most interesting macro stories.
- Industrials under threat from slowing capex but share prices look badly hit.

**Market Outlook:** The probability-weighted outcome for the BSE Sensex is 18,850 for December 2011, 8% above the current level. The probability-weighted outcome for the BSE Sensex is 22,750 for December 2012, 30% above the current level.

**Base Case (60% probability)**

Our base case calls for fiscal prudence, policy initiatives in FDI, infrastructure, taxation and deregulation, no global financial crisis with range bound crude oil prices and reasonable capital flows, a pause by the RBI in late 2011 as inflation peaks and moderate equity supply (less than US\$25bn). A slower global growth is a big benefit for corporate margins in India as well as inflation.

**BSE Sensex: 21,022**

**Bull Case (30% probability)**

Our bull case assumes global calm and a measured recovery in global growth, strong domestic policy action, range-bound crude oil prices, rate cuts in response to a fall in inflation and very slow increase in equity supply. Sensex earnings growth rises to 22% for both F2012 and F2013.

**BSE Sensex: 28,782**

**Bear Case (10% probability)**

Our bear case assumes weak policy action, a fragile global situation culminating into some sort of crisis and supply shock in crude oil prices causing tighter monetary policy. Sensex earnings growth falls to 12% and 8% for F2012 and F2013, respectively.

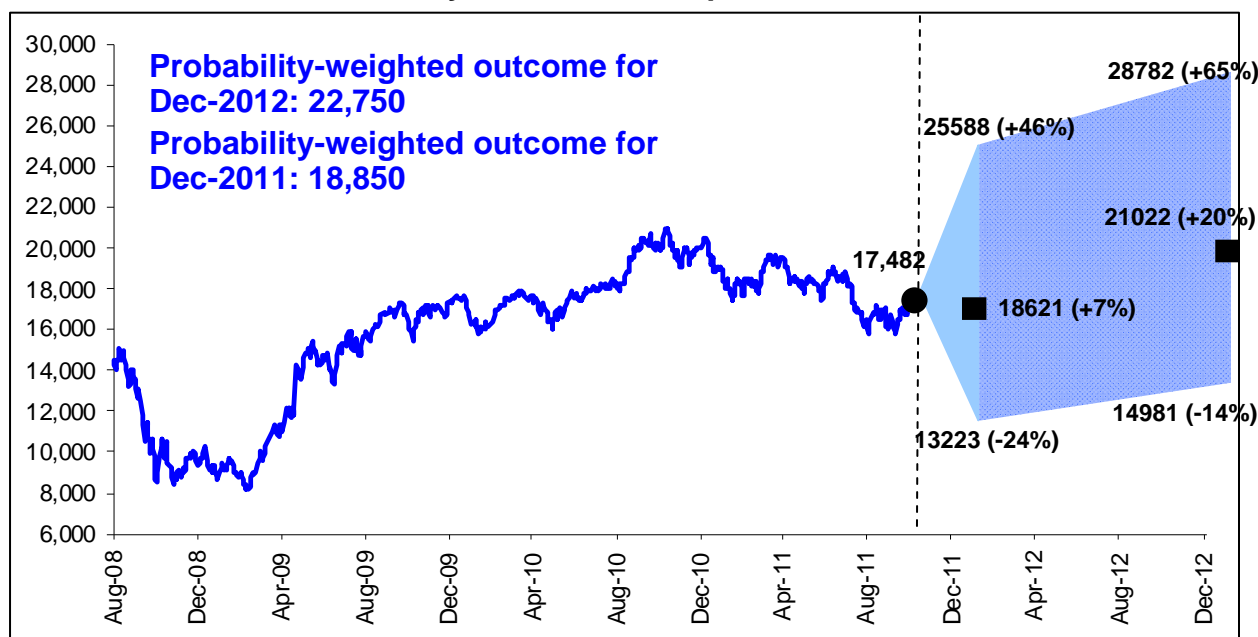
**BSE Sensex: 14,981**

**SUMMARY**

**BSE Sensex Outlook: Attractive Risk-Reward Ratio**

Our probability-weighted outcomes for the Sensex are 18,850 for Dec-11 and 22,750 for Dec-12, implying 8% and 30% upside, respectively.

**BSE Sensex: Scenario Analysis for Indian Equities\***



**Watch Out for:**

Domestic	Global
Corporate Activity	Global growth
Oil Prices	Policy moves
Reforms	Sovereign Spreads
Inflation/ RBI Policy	US Long Yields
Domestic Growth	EM multiples
Long Bonds	Gold
Infra Spend	China Growth & CNY

Source: Morgan Stanley Research

\*Sensex level as on 3/Nov/2011

## SUMMARY

## Summary of Key Market Indicators

Key Indicators	View
<b>MACRO</b>	
Industrial Growth	Industrial growth continues to slow, risk is that it falls further due to inflation/global growth issues
Current account deficit	Appears to be reigned in but crude oil is risk. Funding risk also exists due to the fragile global situation
Inflation	Remains sticky though the headline number could decline - risk is oil and other global commodities prices
Fiscal Deficit	Budgeted to decline but assumptions may turn out to be optimistic. Yet deficit is off its recent high point
Credit Deposit Ratio	Declining at the margin
Monetary policy	Action data dependent as well as a function of how global commodity prices fare in the coming weeks
Government action	Not strong enough but improving at the margin: Retail FDI, Urea price decontrol, Environmental clearances, SEB tariff hikes
Politics	Alleged corruption scandals have slowed down policy actions, Busy election calendar in 2012
Monsoons	Monsoons better than expected - Summer crop output heading for trend line growth
Global risk appetite	Fragile - MENA risk, DM growth, Sovereign risks
<b>VALUATIONS</b>	
Absolute valuations	Consistent with strong prospective returns
Relative valuations	Approaching long term averages
Valuations relative to bonds	Equities hold the edge on growth optionality
Composite Valuations	Broad market valuations look attractive
<b>CORPORATE FUNDAMENTALS</b>	
Earnings growth	Pricing power low, our proprietary leading indicator suggests trough in broad market earnings growth
Earnings revisions	Revisions have been negative, consensus estimates appear reasonable
Capex	Remains tepid due to rate hikes, growth risks and policy hiatus
ROE	Key debate is whether ROE is on a structural decline, Our view is positive ROE surprise in the offing in 2012
<b>MARKET DYNAMICS</b>	
Liquidity	Remains tight but may have troughed
Breadth	Weak
Momentum	Weak - again good for future returns
Hedging	Put-call ratio at highs, markets appear hedged for downside risks
Flows	Mixed bag - Corporates, retail buying, FII's may not have capitulated
Ownership	High for FII's relative to history, though off the peak
Performance	India has been neutral since the Libyan crisis
Stock Pledging	Off highs
Style	Market focused on low beta, high quality (low capex, high FCF and ROE)

SUMMARY

Sector Model Portfolio/Focus List

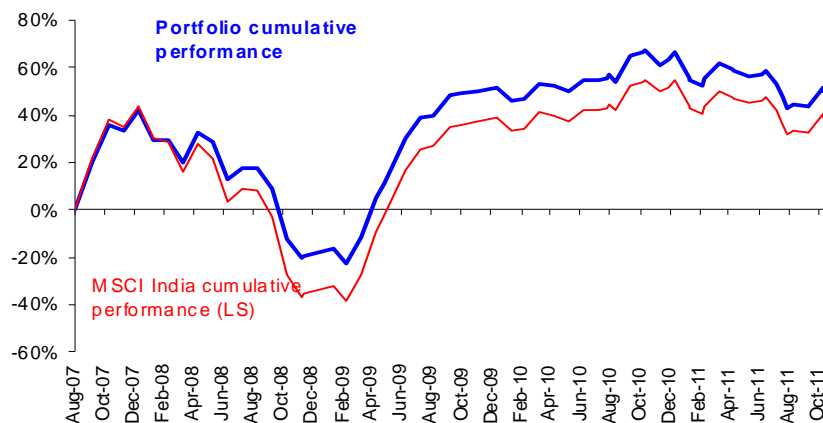
India Sector Model Portfolio

Sector	ISCI Weight	Portfolio Weight	Over/Under Weight (bps)	Portfolio Posit	Perf Rel. To MSCI India (YTD)	Perf Rel. To MSCI India (12M)
<b>MSCI India</b>					<b>-16%</b>	<b>-16%</b>
Consumer Disc	8.6	11.6	300	300	25%	28%
Consumer Sta	7.5	4.5	-300	-300	30%	34%
Energy	12.8	13.8	100	100	1%	-3%
Financials	27.6	26.6	-100	-100	1%	-6%
Healthcare	4.7	2.7	-200	-200	10%	13%
Industrials	6.9	6.9	0	0	-19%	-21%
Technology	16.7	17.7	100	100	1%	15%
Materials	9.8	8.8	-100	-100	-14%	-10%
Telecoms	0.3	0.3	0	0	-37%	-50%
Utilities	5.0	7.0	200	200	-11%	-14%
Cash	-	-				

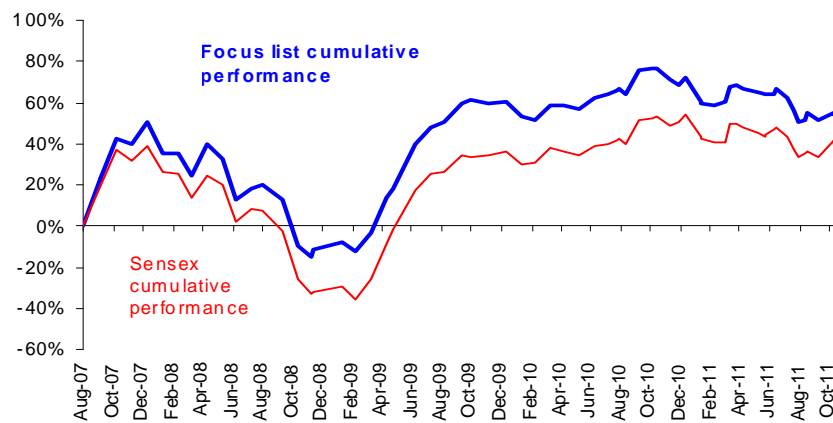
Focus List

Stocks	Sector	Ticker	Analyst Rating	Price (Rs) Nov 1	MCap (US\$ bn)	Avg 3M T/O (US\$ mn)	Relative to MSCI India YTD Perf	Relative to MSCI India 12m Perf
Bajaj Auto	Consumer Disc	BJAUT IN	OW	1,715	10	3	32%	34%
Cox & Kings	Consumer Disc	COXK IN	OW	220	1	3	-1%	-8%
M&M	Consumer Disc	MM IN	OW	834	11	35	27%	30%
ZEE Enter	Consumer Disc	Z IN	EW	118	2	4	-5%	-1%
Coal India	Energy	COAL IN	EW	330	42	37	24%	NA
ICICI Bank	Financials	ICICIB IN	EW	895	21	84	-7%	-13%
Oberoi Realty	Financials	OBER IN	OW	235	2	0	9%	2%
Dr. Reddy's	Healthcare	DRRD IN	OW	1,610	6	11	15%	14%
Adani Ent	Industrials	ADE IN	OW	465	10	8	-15%	-25%
IRB Infra	Industrials	IRB IN	OW	164	1	7	-14%	-25%
Jain Irrigation	Industrials	JL IN	OW	123	1	5	-31%	-38%
Tata Steel	Materials	TATA IN	OW	472	9	52	-18%	-5%
Infosys	Technology	INFO IN	OW	2,837	33	91	-2%	13%
Bharti	Telecoms	BHARTI IN	OW	395	31	41	31%	41%
GAIL	Utilities	GAIL IN	OW	423	11	9	-2%	3%

Sector Model Portfolio Performance vs. MSCI India



Focus List Performance Since Launch



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Past performance is no guarantee of future results. Results shown do not include transaction costs. Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research

## SUMMARY

## Stocks to Avoid – Chosen by our Analysts

Stocks	Sectors	Stock Rating	Share price Nov 3, 2011	Market Cap (US\$ mn)	Average Daily Volumes (3m - US\$MN)	F2011 PB	F2011PE	12M Perf	5-year CAGR in Share Price	Analyst
Ashok Leyland (AL)	Auto	Underweight	27	1,476	3.4	1.8	11.4	-25%	4%	Binay Singh
Bank of Baroda (BOB)	Banks	Underweight	823	6,629	7.9	1.5	7.6	-12%	24%	Mihir Sheth
Bank of India (BOI)	Banks	Underweight	334	3,750	4.7	1.1	7.3	-28%	14%	Mihir Sheth
Canara Bank (CBK)	Banks	Underweight	489	4,440	7.1	1.1	5.4	-34%	11%	Mihir Sheth
IDBI (IDBI)	Banks	Underweight	114	2,297	5.0	0.9	6.8	-30%	7%	Mihir Sheth
Punjab National (PNB)	Banks	Underweight	987	6,416	8.5	1.5	7.1	-19%	14%	Mihir Sheth
State Bank of India (SBI)	Banks	Underweight	1,935	25,199	138.1	1.5	11.5	-35%	13%	Mihir Sheth
Educomp Solutions (EDSL)	Consumer Discretionary	Underweight	265	530	3.2	1.2	7.7	-53%	15%	Vipin Khare
Colgate-Palmolive India (CLGT)	Consumer Staples	Underweight	1,049	2,927	1.7	38.9	35.4	19%	20%	Nillai Shah
Bajaj Hindustan (BJH)	Consumer Staples	Underweight	35	164	1.9	0.3	18.1	-67%	-33%	Girish Achhipalia
Marico	Consumer Staples	Underweight	150	1,886	1.1	10.0	34.2	16%	23%	Nillai Shah
GMR Infrastructure (GMRI)	Industrials	Underweight	26	2,088	2.7	1.3		-43%	-5%	Akshay Soni
Hindalco	Materials	Underweight	136	5,327	29.2	0.9	10.6	-34%	-5%	Vipul Prasad
JSW Steel (JSTL)	Materials	Underweight	668	3,057	37.0	0.9	8.6	-41%	15%	Vipul Prasad
MphasiS (MPHL)	Technology	Underweight	336	1,446	3.1	2.1	6.5	-45%	9%	Vipin Khare
Tech Mahindra (TECHM)	Technology	Underweight	619	1,588	3.2	2.3	9.0	-3%	-9%	Vipin Khare
Infotech Ent. (INFTC)	Technology	Equal-Weight	124	282	0.1	1.3	9.9	-20%	0%	Vipin Khare
Mahanagar Telephone (MTNL)	Telecoms	Underweight	31	395	0.6	NM	NM	-42%	-26%	Vinay Jaising
Tata Communications (TCOM)	Telecoms	Underweight	186	1,085	0.9	NM	NM	-32%	-16%	Vinay Jaising
Tata Power (TPWR)	Utilities	Underweight	105	5,129	9.8	2.2	24.8	-18%	14%	Parag Gupta
Adani Power (ADANI)	Utilities	Underweight	86	3,833	2.5	3.0	36.4	-37%	NA	Parag Gupta
Indiabulls Power (IBPOW)	Utilities	Underweight	11	461	0.1	0.5	410.9	-60%	NA	Parag Gupta
JSW Energy (JSW)	Utilities	Underweight	51	1,726	1.2	1.5	10.7	-49%	NA	Parag Gupta
Lanco (LANCI)	Utilities	Equal-Weight	16	775	5.0	0.7	4.6	-75%	NA	Parag Gupta

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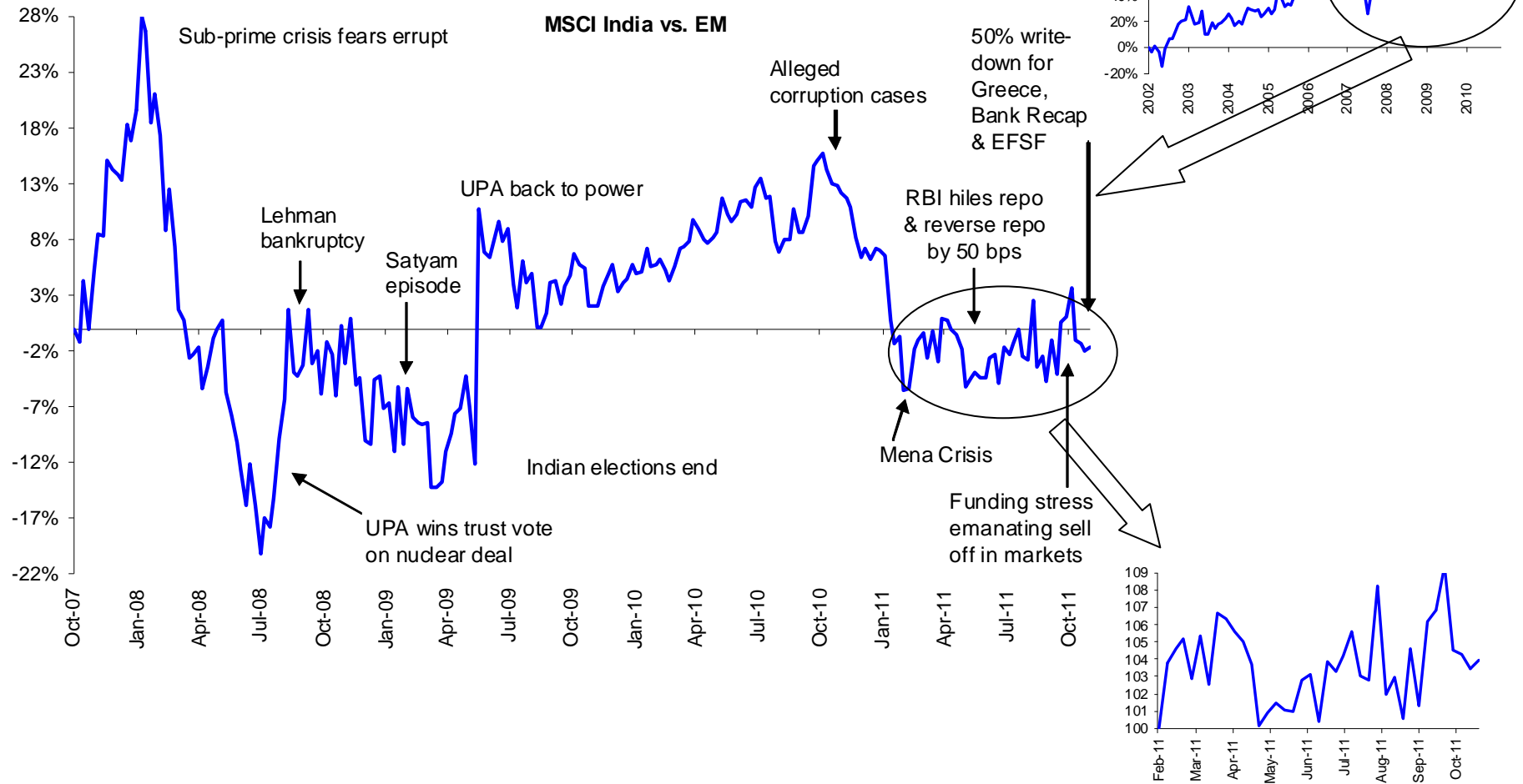
Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research

SUMMARY

India Has Not Underperformed since the Libyan Oil Crisis

India Gave Up All Its Relative Performance since May 2009 in 15 weeks

Driven by a combination of domestic and global events



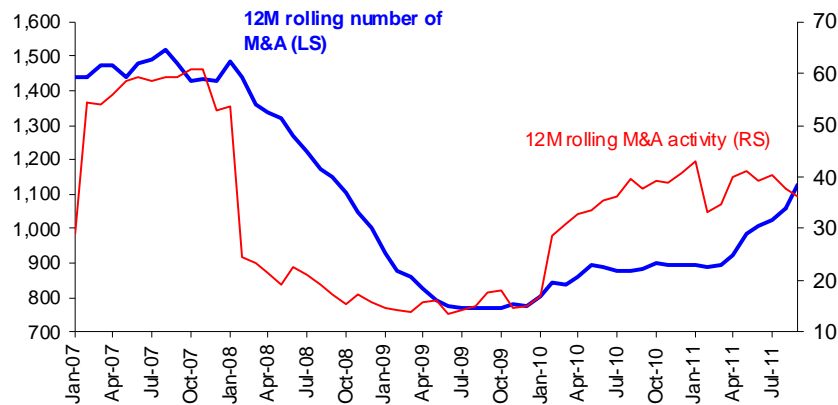
Source: MSCI, FactSet, Morgan Stanley Research

SUMMARY

Corporate Activity Is Strong

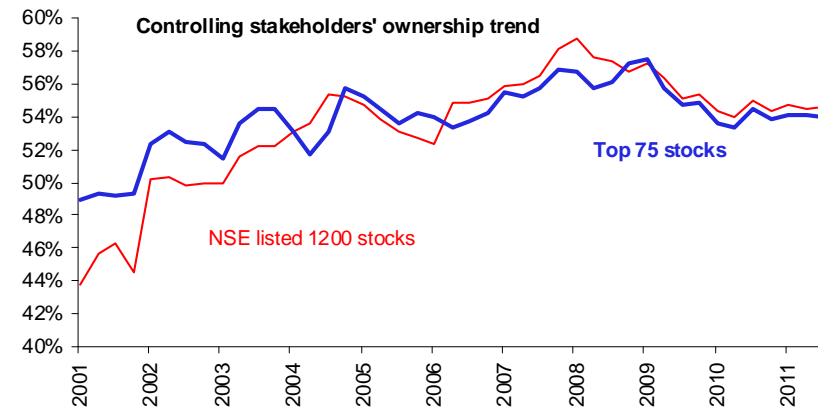
M&A Activity in Value: In Good Shape

M&A heading to 2007 levels



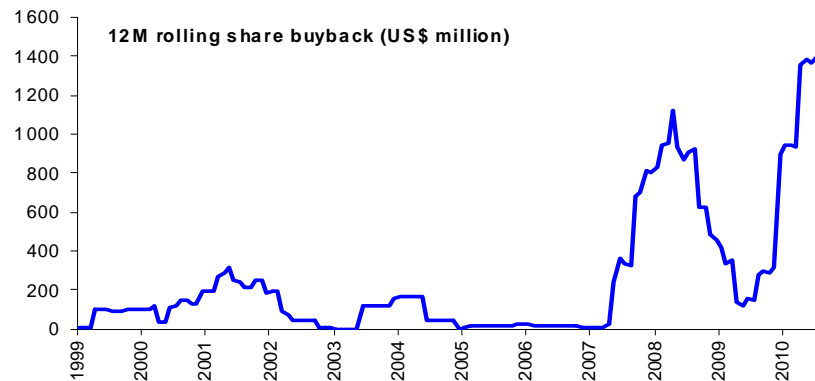
Controlling Stakeholders Have Stopped Selling

Slight uptick in shareholding



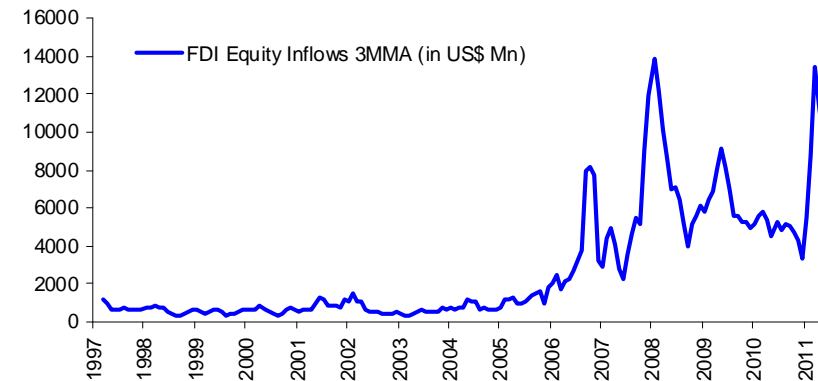
Corporations Buying Back Stock

Corporations indicating their view on valuations vs. fundamentals



FDI Inflows Gaining Momentum

Highest monthly flows in three years

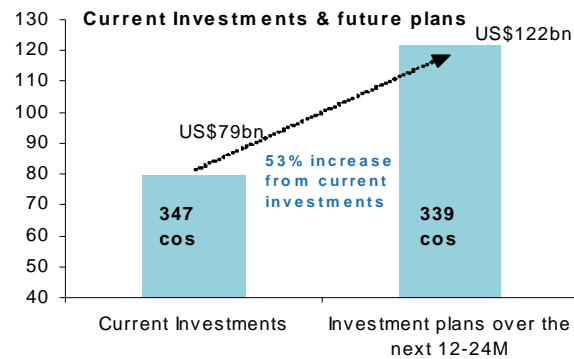




**SUMMARY**

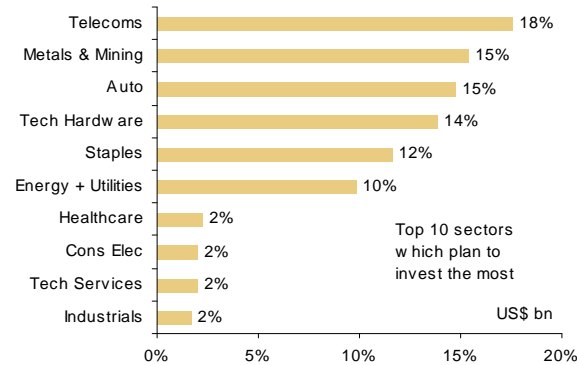
**Our Proprietary FDI Survey: Global Interest is High in India**

**FDI stock of our sample to rise by 53%**



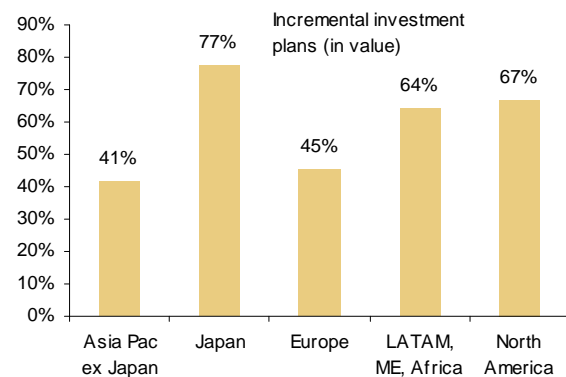
*In the next 12-24 months, per our analysts, global companies in our sample intend to incrementally invest US\$42bn. Assuming the ratio of 53% with the actual stats is applicable to future investments implies FDI of US\$80bn over the next 12-24 months.*

**Metals & Mining, Tech hardware and Autos likely to gain share in total FDI inflows**



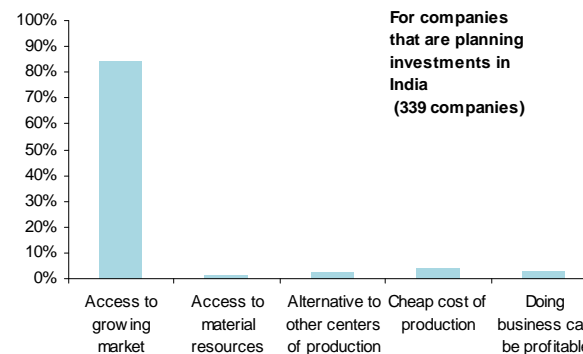
*Metals & Mining, Tech hardware and Autos are likely to gain market share. This, in our view, could lead to rising competition in autos and metals and mining.*

**Japanese and North American companies to see most incremental investments**



*Press reports and pipeline deals tend to validate these survey results.*

**The tug o' war between growing market and infrastructure Issues**



*Global companies see big opportunity in India's growing market, although they consider "infrastructure" to be a big impediment, and thus, India does not rank highly as an FDI destination.*

## SUMMARY

## Policy Expectations Remain Low

Date	Reforms & Key Govt. Announcements
25-Jun-11	Diesel prices hiked by Rs 3 per litre, kerosene Rs 2 per litre and cooking gas about Rs 50 per cylinder
29-Jun-11	MoEF clears six coal blocks linked to 3 power projects
30-Jun-11	CCEA gives conditional approval to Cairn Vedanta deal
30-Jun-11	India cabinet approves changes to hydro, transmission tariffs
6-Jul-11	CEPI moratorium lifted in two more coal blocks (this will remove 9 blocks out of the moratorium - 16 coalfields had come under the CEPI moratorium initially).
6-Jul-11	Nilekani comes out with a blueprint on the proposed system to restructure subsidy distribution system
7-Jul-11	Phase III FM Policy approved by the union cabinet
8-Jul-11	India's Group of Ministers approved the draft mining bill which involves the imposition of a mining tax in India and is forwarding it to the Union cabinet
12-Jul-11	Finance Ministry announces measures to cut government spending
12-Jul-11	Road Ministry approves projects worth Rs 97.7 Bn
14-Jul-11	Power Ministry has proposed to convert all State Govt loans to SEBs into equity
15-Jul-11	Adani Power's Dahej project given conditional environment clearance
20-Jul-11	India plans \$10 Bn Sovereign Wealth Fund
22-Jul-11	India to allow QFIS to invest up to \$10B in MF
22-Jul-11	Cabinet clears Reliance Industries, BP deal
23-Jul-11	Committee of Secretaries (CoS) recommends up to 51% FDI in multi-brand retail
25-Jul-11	Lower subsidy burden for upstream in F1Q12
25-Jul-11	India panel to discuss spectrum, licensing issues in two weeks
28-Jul-11	Reforms by SEBI: Threshold for open offer raised from 15% to 25%; Uniform and simplified KYC norms for retail investors; Modified advertisement code for Mutual Funds
29-Jul-11	Power Ministry directs Reliance Power and Andhra Pradesh govt officials to meet to discuss upward renegotiation in tariff of Krishnapatnam UMPP
29-Jul-11	Land acquisition bill prepared for parliament monsoon session
1-Aug-11	SEBI issues discussion paper for public comments on guidelines for alternative investment funds
2-Aug-11	Telecom Commission approves major policy changes; includes uniform revenue share for mobile phone companies at 8.5%
5-Aug-11	GoM approves decontrol of urea prices
17-Aug-11	New Bank Licenses rules to be rolled out next week
25-Aug-11	Government agrees on most of Anna Hazare's demands on Jan Lokpal Bill
28-Aug-11	RBI releases draft guidelines for new banking licenses
30-Aug-11	Parliament approves SBI subsidiary bill
5-Sep-11	Land acquisition bill approved by cabinet
15-Sep-11	India accepts Yuan as a currency for overseas borrowing
15-Sep-11	Govt. relaxes ECB norms and raises ECB limit to US\$ 750 Mn
16-Sep-11	DEPB rate revised from 9% to 5.5%
30-Sep-11	Cabinet approves new mining bill
13-Oct-11	Ordinance passed by CCEA mandating TV digitization across India
24-Oct-11	India cabinet approves new manufacturing policy

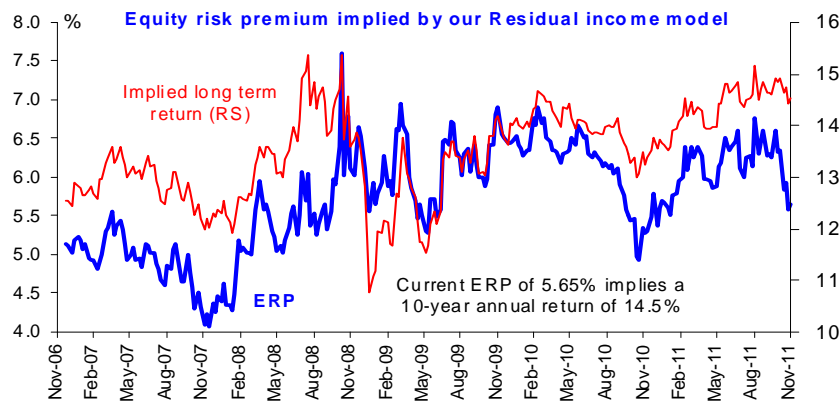
Source: Morgan Stanley Research

SUMMARY

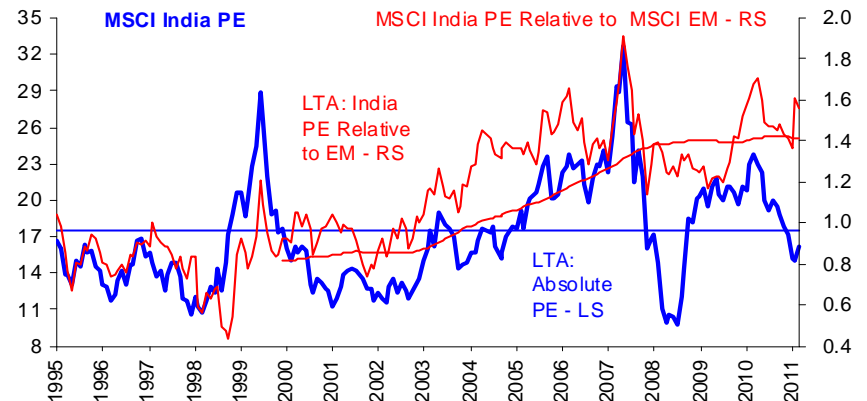
What's in the Price? Market Appears below Fair Value

Valuations Imply Strong Returns for Long-term Investors P/E Multiples a Lot Lower

ERP at better-than-fair level

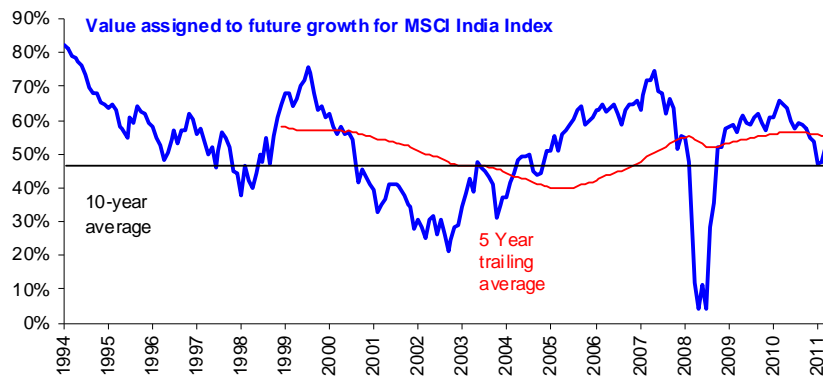


Absolute P/E in the bottom tercile



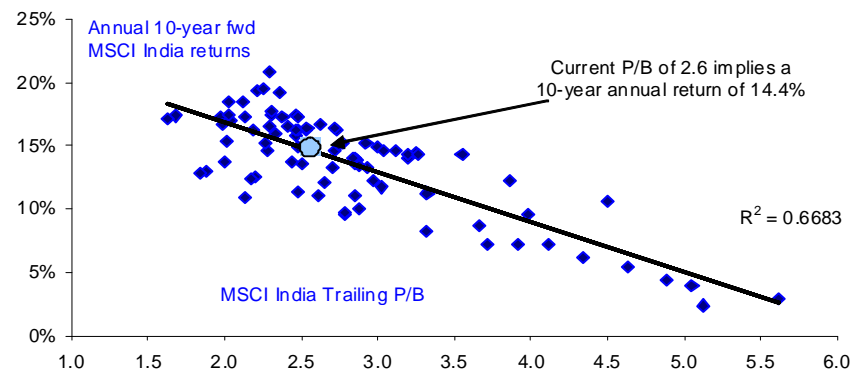
Market Assigning 46.5% of Index to Future Growth

Below the five-year trailing average



P/B vs. Long-term Returns: 14.4% CAGR in Returns

Returns appear attractive

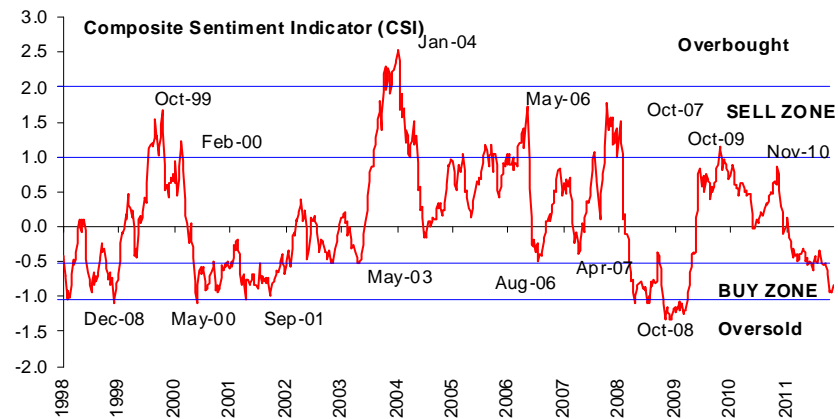


**SUMMARY**

**Sentiment and Market Timing Indicators in “Buy” Territory**

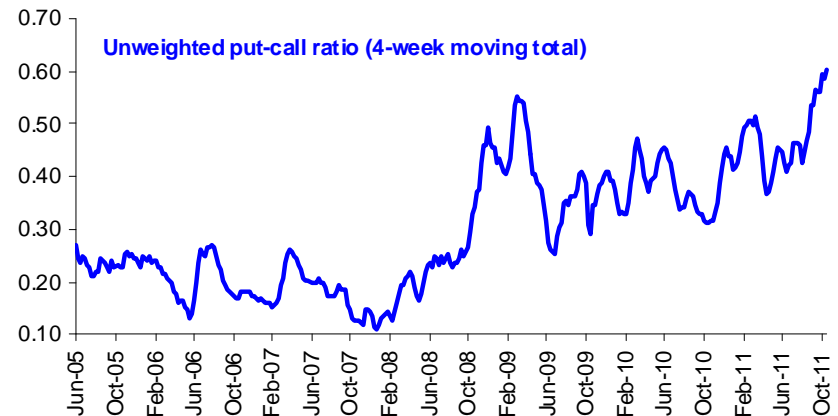
**Proprietary Composite Sentiment Indicator: Weak**

At levels that may protect the market on the downside



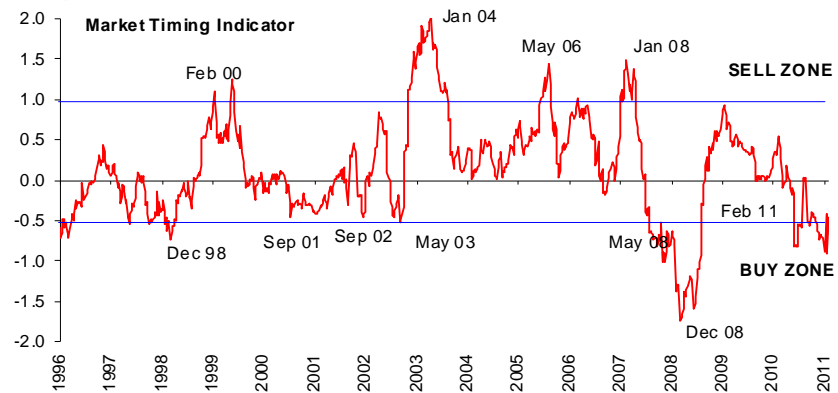
**Put-Call Ratio: At All-time Highs**

Heightened caution in the derivatives markets



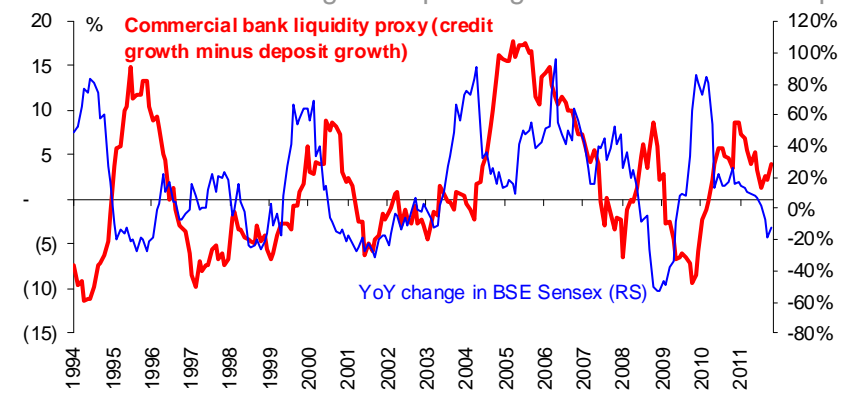
**Market Timing Indicator: In Buy Zone**

Compares with levels seen in 1998 and 2008



**Commercial Banks: Peak Tightness Behind Us**

Markets tend to trough with peaking of commercial bank liquidity

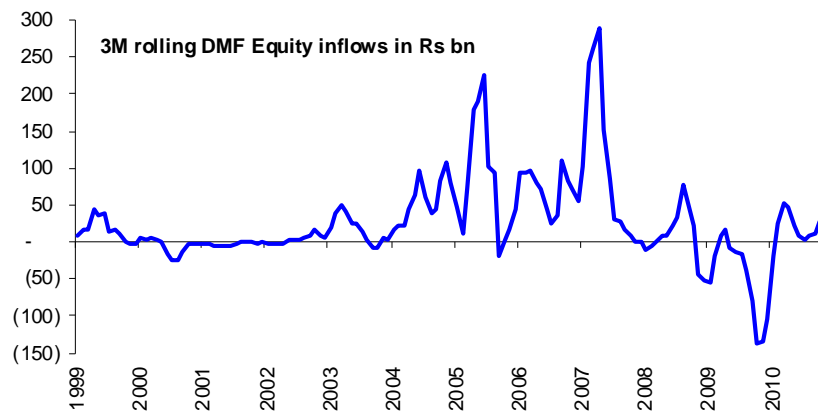


**SUMMARY**

**Market Participants and Their Activity: Domestic Investors Staying Put**

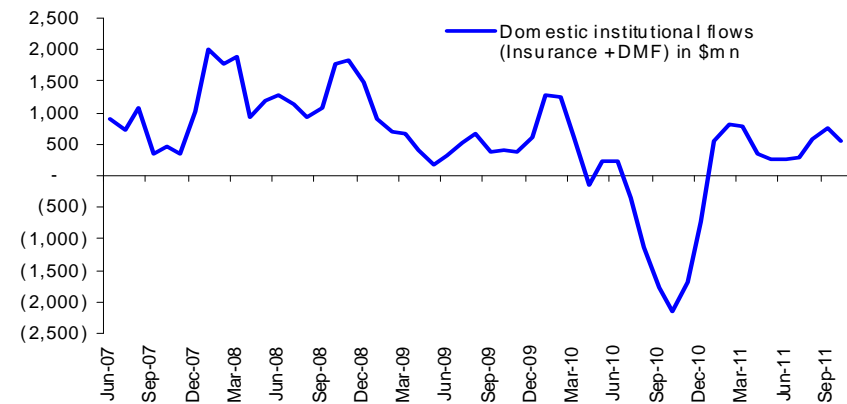
**Retail Investors Weathering the Storm**

Retail investors have been surprisingly resilient



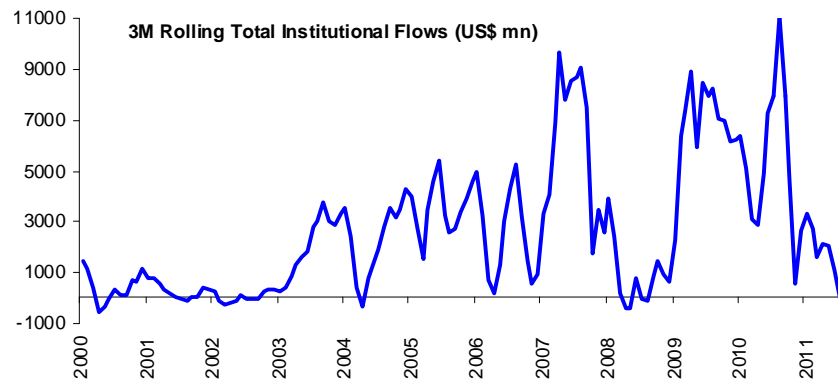
**Domestic Institutional Investors Have Bought the Fall**

We expect domestic flows to remain good



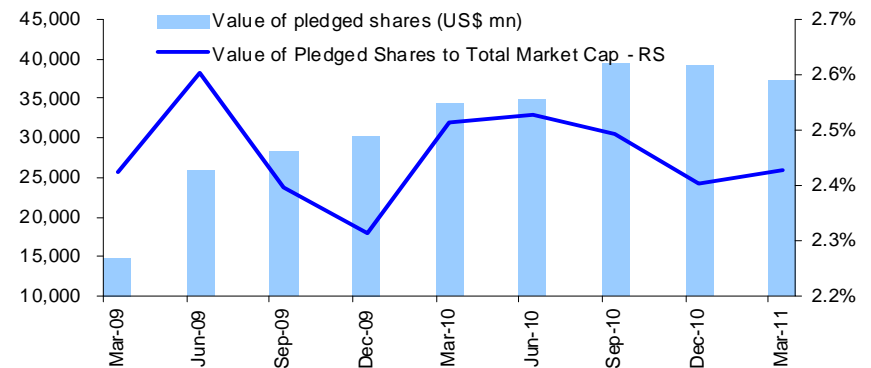
**Institutional Flows Have Been Largely Positive**

FII's have not capitulated despite India's underperformance



**Promoter Leveraging Has Fallen from Peak Levels**

Lower level of leverage has eased the pain of falling share prices



**SUMMARY**

**Domestic Financial Savings Have Lost Share**

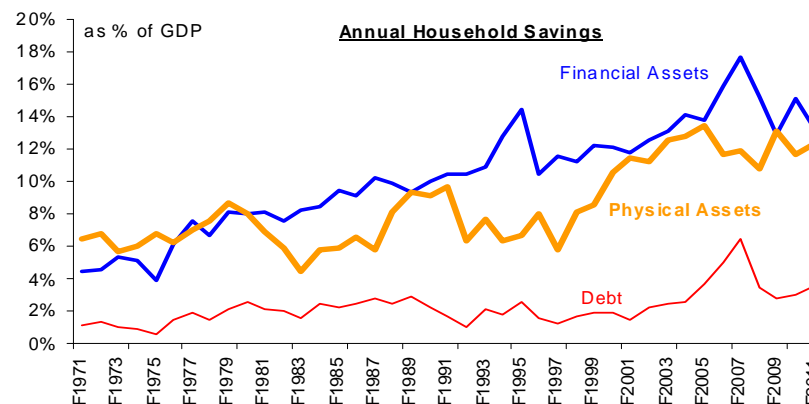
**What Assets Are Households Buying?**

Flow Data for 6-months ending in Rs billion unless otherwise mentioned	Jun-09	Jun-10	Jun-11	YoY Change
Gold (tons)	188	444	540	22%
Residential Units Purchased in India's top 7 cities '000 Nos	38	92	88	-4%
Mortgage Loans (as a proxy for residential house purchases)	98	289	457	58%
PPF, Small Savings, Govt Deposits	139	418	141	-66%
New Business Insurance Premium	493	673	574	-15%
Bank Fixed Deposits	2,094	1,573	1,890	20%
Fixed Income Mutual Funds	292	(91)	135	NM
Change in Shareholding for 1250 NSE Listings (public+mutual funds+institutions) %	27.4%	28.9%	27.2%	-1.7%

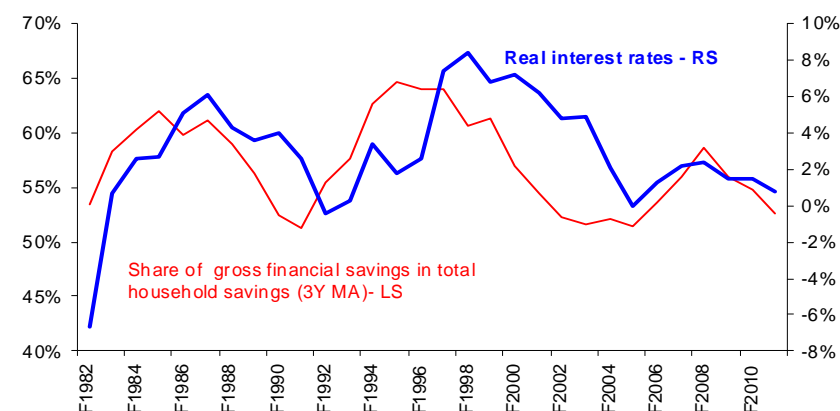
Value of purchases during period ending (in constant USD mn\ terms using Re: USD of 47)	Jun-09E	Jun-10E	Jun-11E	YoY Change
Gold	5,832	16,146	24,309	8,163
House Property (top 7 cities)	2,894	7,404	8,447	1,043
PPF, Small Savings, Govt Deposits	2,962	8,898	2,997	(5,901)
New Business Insurance Premium	10,480	14,310	12,213	(2,096)
Bank Fixed Deposits	44,552	33,460	40,214	6,755
Fixed Income Mutual Funds	6,221	(1,928)	2,869	4,796
Equity Purchases (Direct in the Market + Through Institutions)	247	5,257	(58)	(5,315)
<b>Total (US \$ m)</b>	<b>73,188</b>	<b>83,547</b>	<b>90,992</b>	<b>7,445</b>

Performance of Assets for 6-months during the period ending	Jun-09E	Jun-10E	Jun-11E
Property using weighted average prices in top 7 cities	-25%	24%	10%
Gold in Re terms	7.1%	12.6%	6.6%
BSE Mid-cap index	56.9%	6.4%	-12.2%
Fixed Deposit return (SBI's avg one-year fixed deposit rate)	7.9%	6.0%	9.2%

**Household Savings: Preference for Physical Assets**



**Fall in Real Rates Hurts Financial Savings**

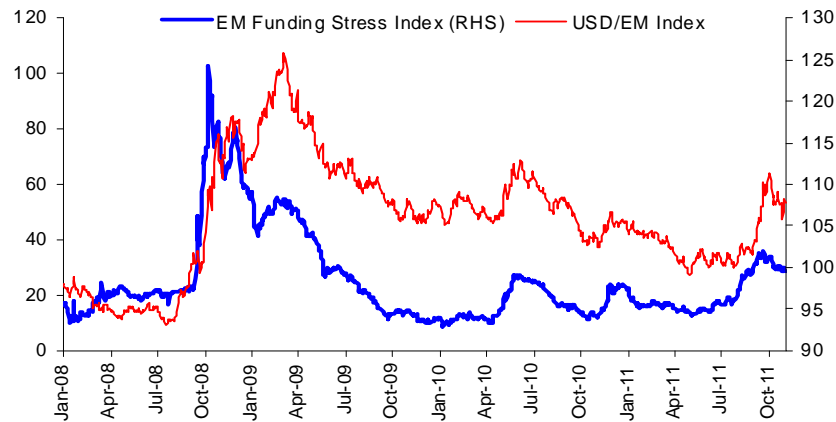


Source: RBI, FactSet, MSCI, BSE, Morgan Stanley Research

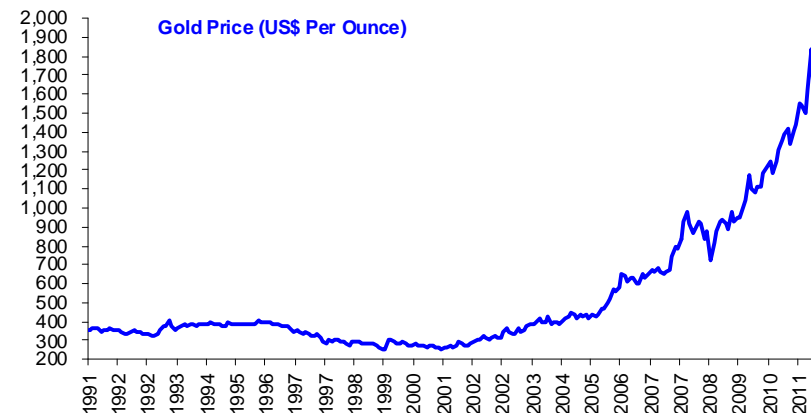
SUMMARY

Risk Signposts – Factors to Watch to Assess Global Risk Appetite

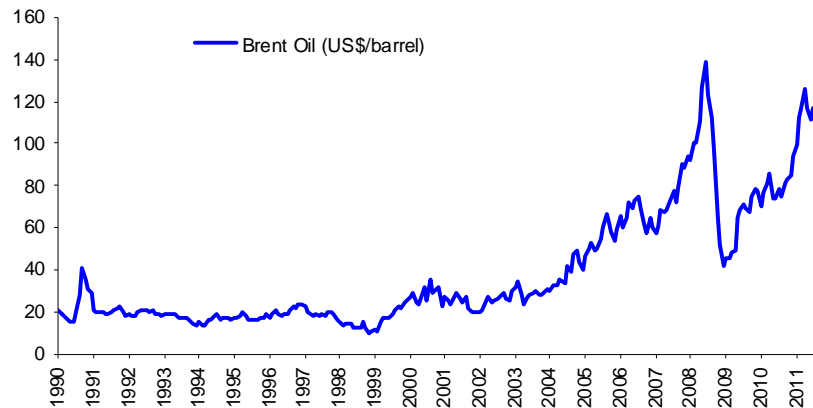
Funding Stress Index\* and EM Currency to USD



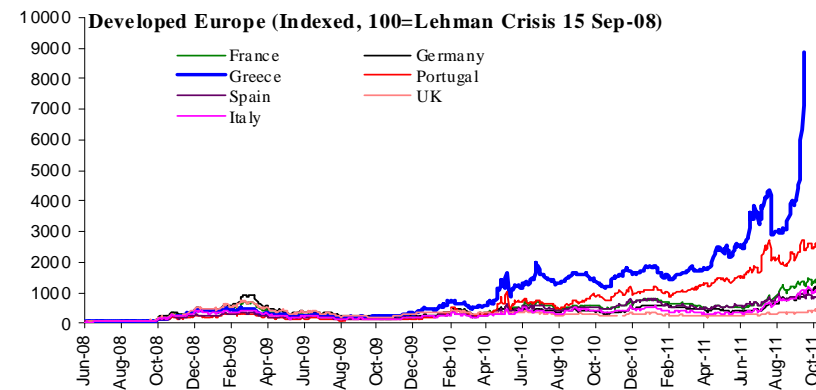
Risk Aversion: Gold Prices at New Highs



Oil Prices: India's Biggest Bugbear



Debt/Sovereign Stress: Spreads Widening



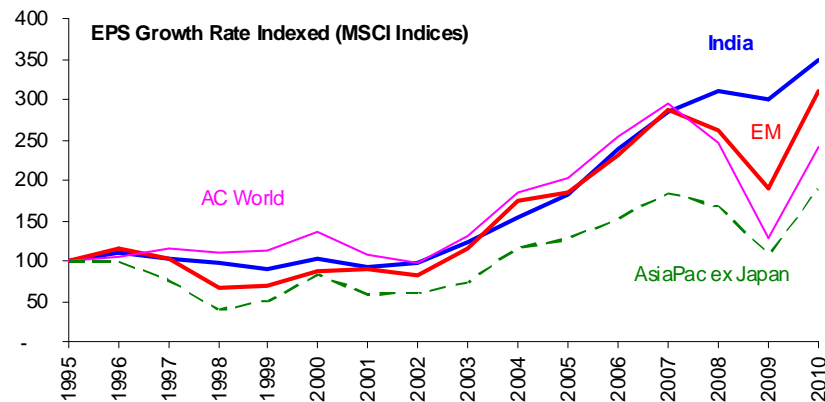
Source: Bloomberg, Morgan Stanley Research, \*Funding Stress Index: It's a composite of LIBOR-OIS spread, EURIBOR-EONIA spread, EUR/USD basis swap and a composite of EM cross-currency basis swaps

**SUMMARY**

**Indian Earnings Are Defensive, Tail Events Could Still Hurt the Equity Market**

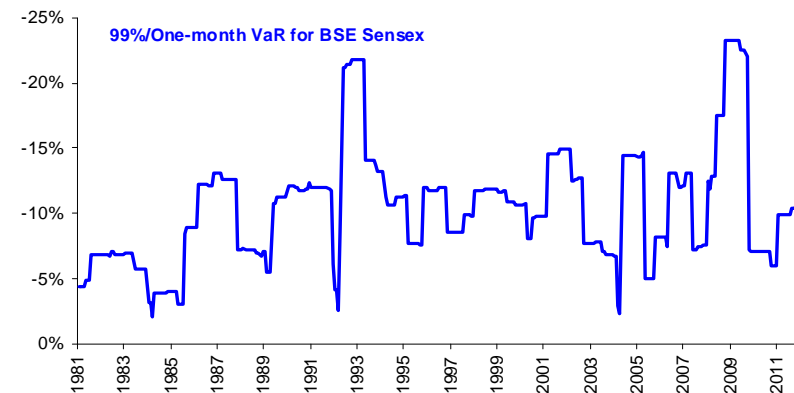
**India's Earnings Outperformed Significantly in 2008**

Market earnings fell only in one quarter



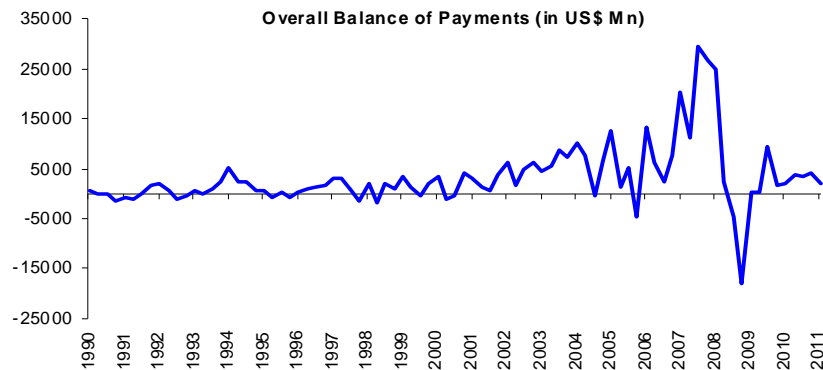
**99%/One-month VaR at 10%**

Not at a level that is consistent with tail risks being in the price



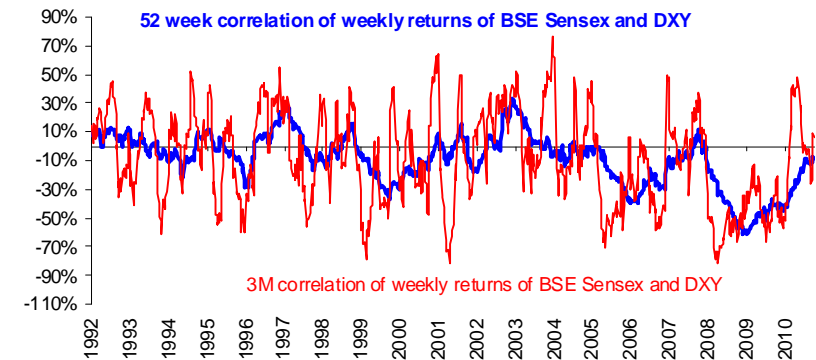
**What Hurt Equities in 2008 Was Capital Outflows**

The breakdown in capital markets was key to India's Underperformance



**Indian Equities & DXY Could Correlated Positively**

Trailing correlation has been negative



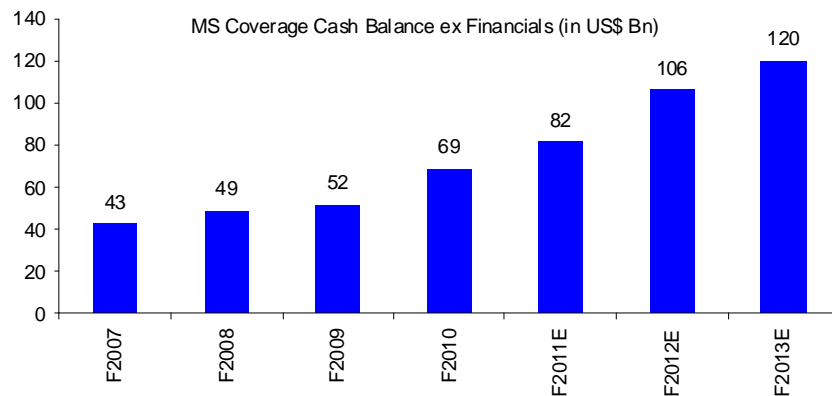


SUMMARY

Corporate Fundamentals Remain in Good Shape

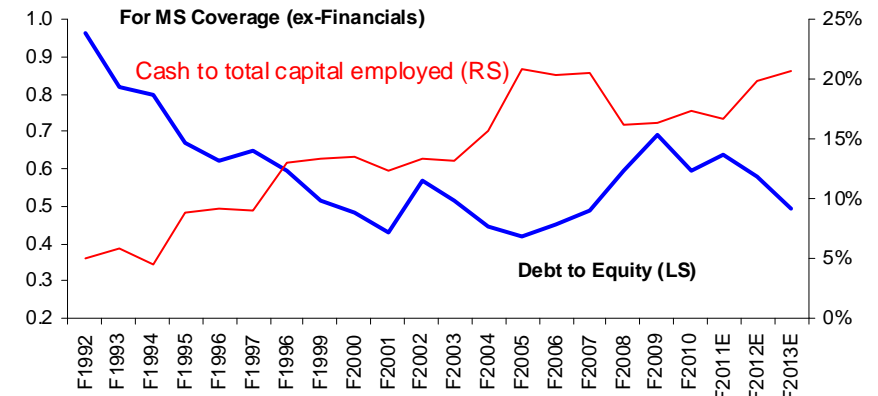
Lots of Liquidity on Balance Sheets

Cash Holdings Twice as Much as F2009



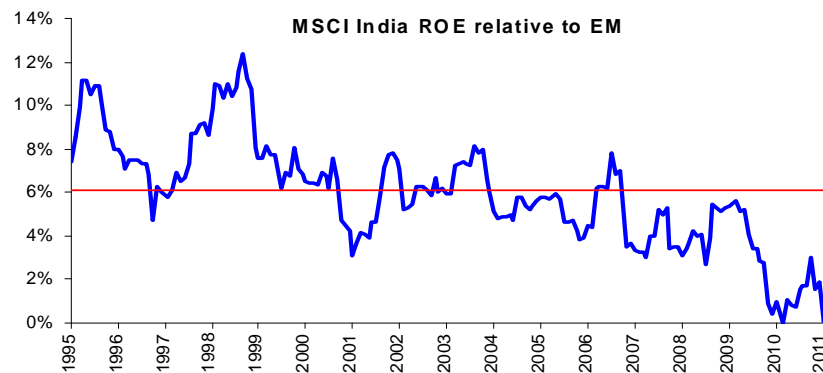
Balance Sheets Looking Solid

Debt-equity off F2009 levels



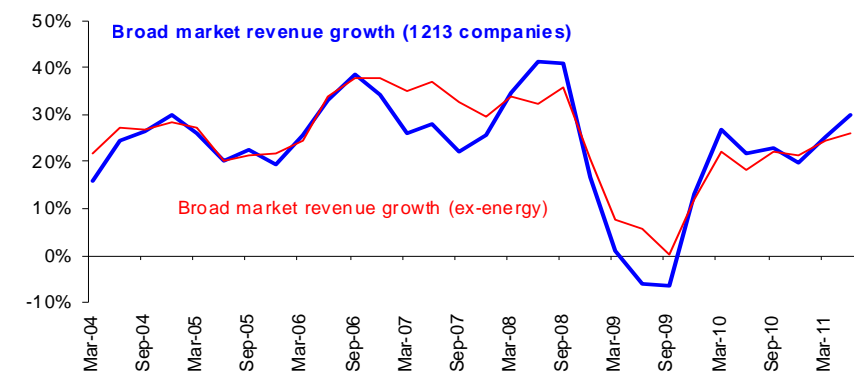
India's ROE Relative to EM at 15-year Lows

We expect the ROE gap to rise as asset turn improves



Revenue Growth Remains Robust

Margins under pressure

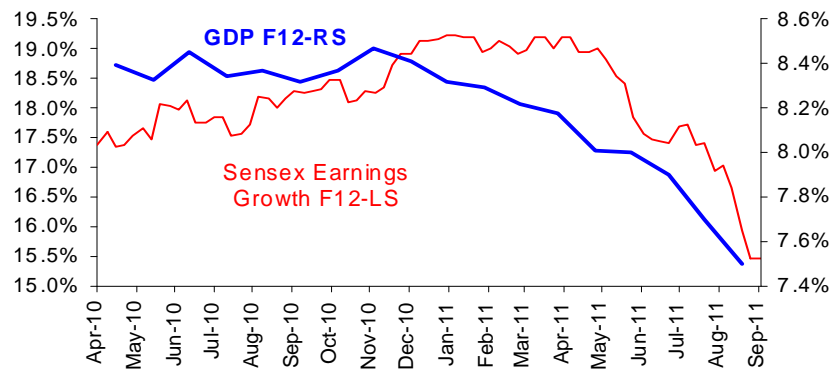


SUMMARY

Sensex Consensus Estimates Appear Reasonable

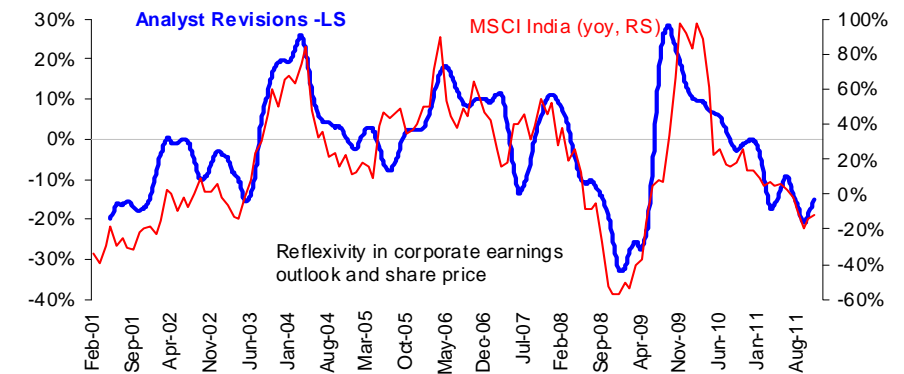
F2012 – Consensus GDP Growth vs. Consensus Sensex Earnings Growth

Macro and micro forecasts look consistent



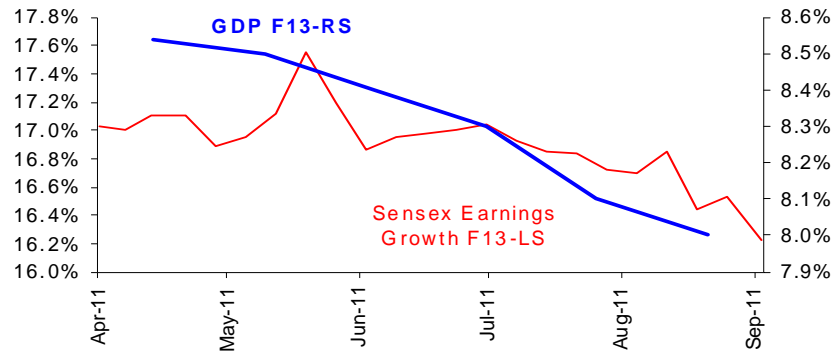
Earnings Revisions Breadth Looks Weak

But off Lows



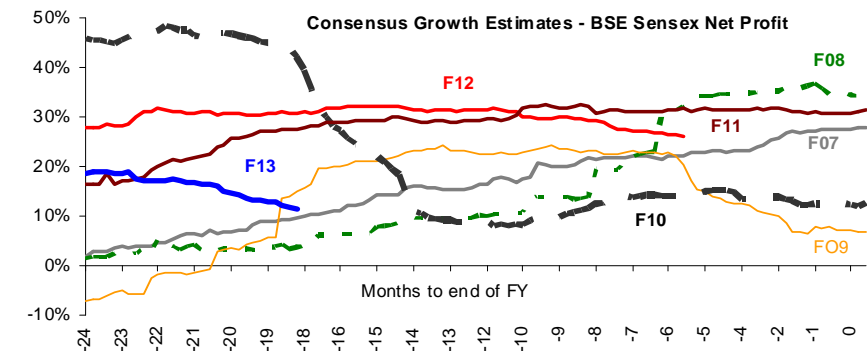
F2013 – Consensus GDP Growth vs. Consensus Sensex Earnings Growth

F13 Estimates look reasonable now



Starting Street Estimates Proved Optimistic only in F2009

In all other years since F2005, analysts have raised estimates from the start of the year

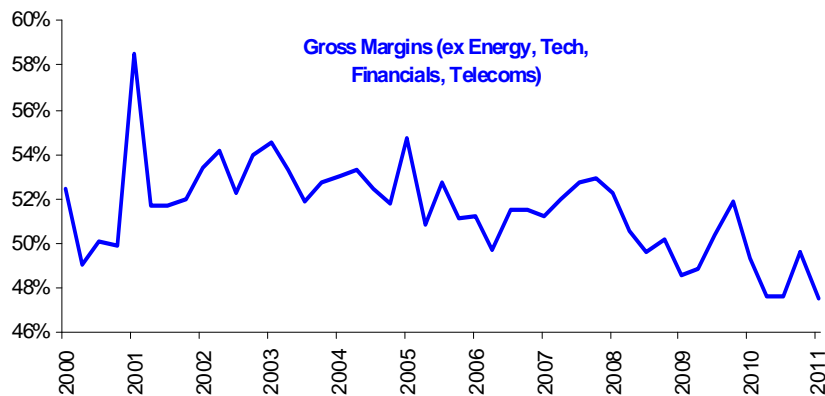


SUMMARY

# Gross Margins Bear Upside Risk and May Support Broad Market Earnings

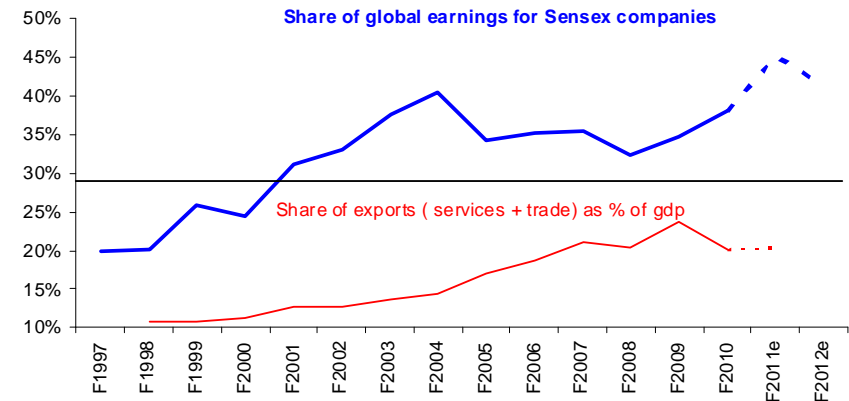
## Gross Margin at Record Lows

Corporate India has not exhibited pricing power



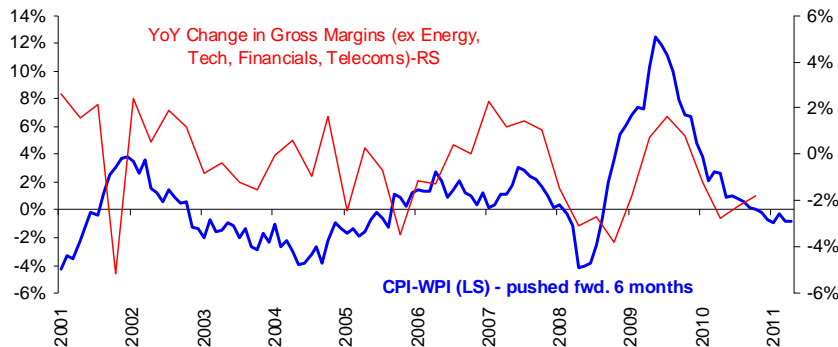
## Share of Global Earnings for Sensex Companies

Almost half of Sensex earnings associated with global sectors



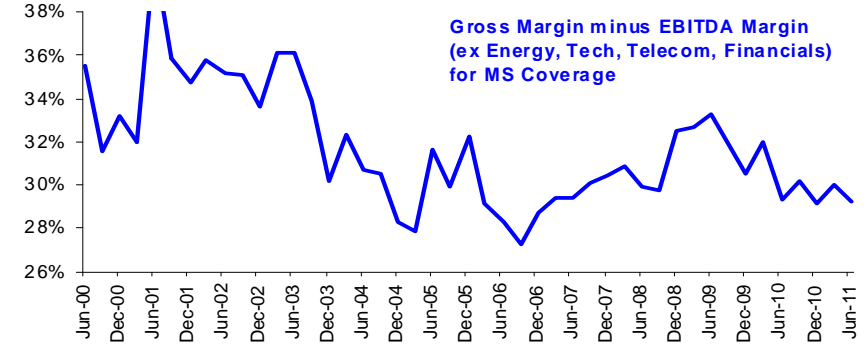
## Gross Margin Leading Indicator Troughs Out

Gross margins may stop falling, environment looks better at the margin



## Operating Leverage Has Been Falling

We are in that part of the cycle where margins will be a bigger driver of earnings growth

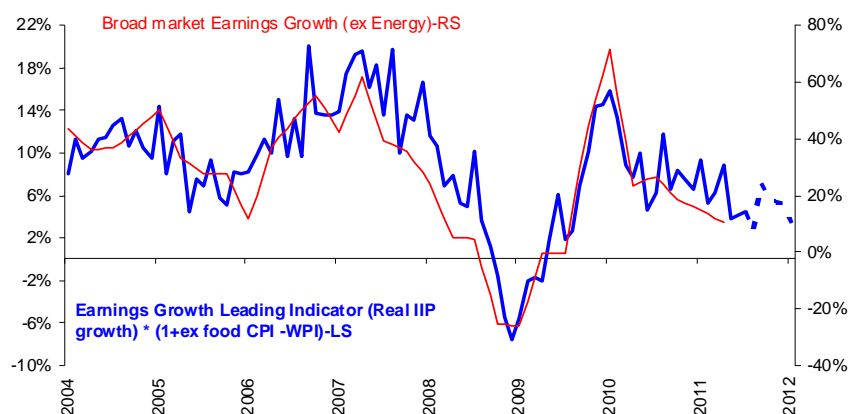


**SUMMARY**

**Broad Market Earnings Growth Unlikely to Collapse**

**Broad Market Earnings Growth May Have Troughed**

Based on our economist's current assumptions on growth and inflation



**F2012 Earnings Growth for MS Coverage Universe**

MS analysts' base case is 14%

F2012E		EBITDA Margin				
		17%	18%	19%	20%	21%
Revenue Growth	12%	-12%	-5%	2%	10%	17%
	13%	-11%	-4%	4%	11%	18%
	14%	-10%	-2%	5%	12%	20%
	15%	-9%	-1%	6%	14%	21%
	16%	-8%	0%	7%	15%	22%
	17%	-7%	1%	9%	16%	24%
	18%	-5%	2%	10%	17%	25%
19%	-4%	3%	11%	19%	26%	

**Where our Analysts Differ with the Consensus**

It is essentially down to specific stocks

Sector	F2012 Profit Differences	Companies Driving the Difference
Consumer Discretionary	-3%	Maruti ahead, Tata Motors behind
Consumer Staples	7%	United Spirits and Bajaj Hind. ahead
Energy	1%	Coal India ahead, RIL behind
Financials	-5%	SBI and Bank of Baroda behind
Healthcare	0%	Dr Reddy ahead, Ranbaxy behind
Industrials	7%	GMR ahead, Adani Enterprises behind
Materials	2%	Sesa Goa and Sterlite ahead
Technology	1%	Infosys and Tech Mahindra ahead
Telecom	43%	MTNL (MTNL IN, Rs 35) ahead
Utilities	-15%	Tata Power behind and Lanco ahead
<b>Total</b>	<b>0%</b>	

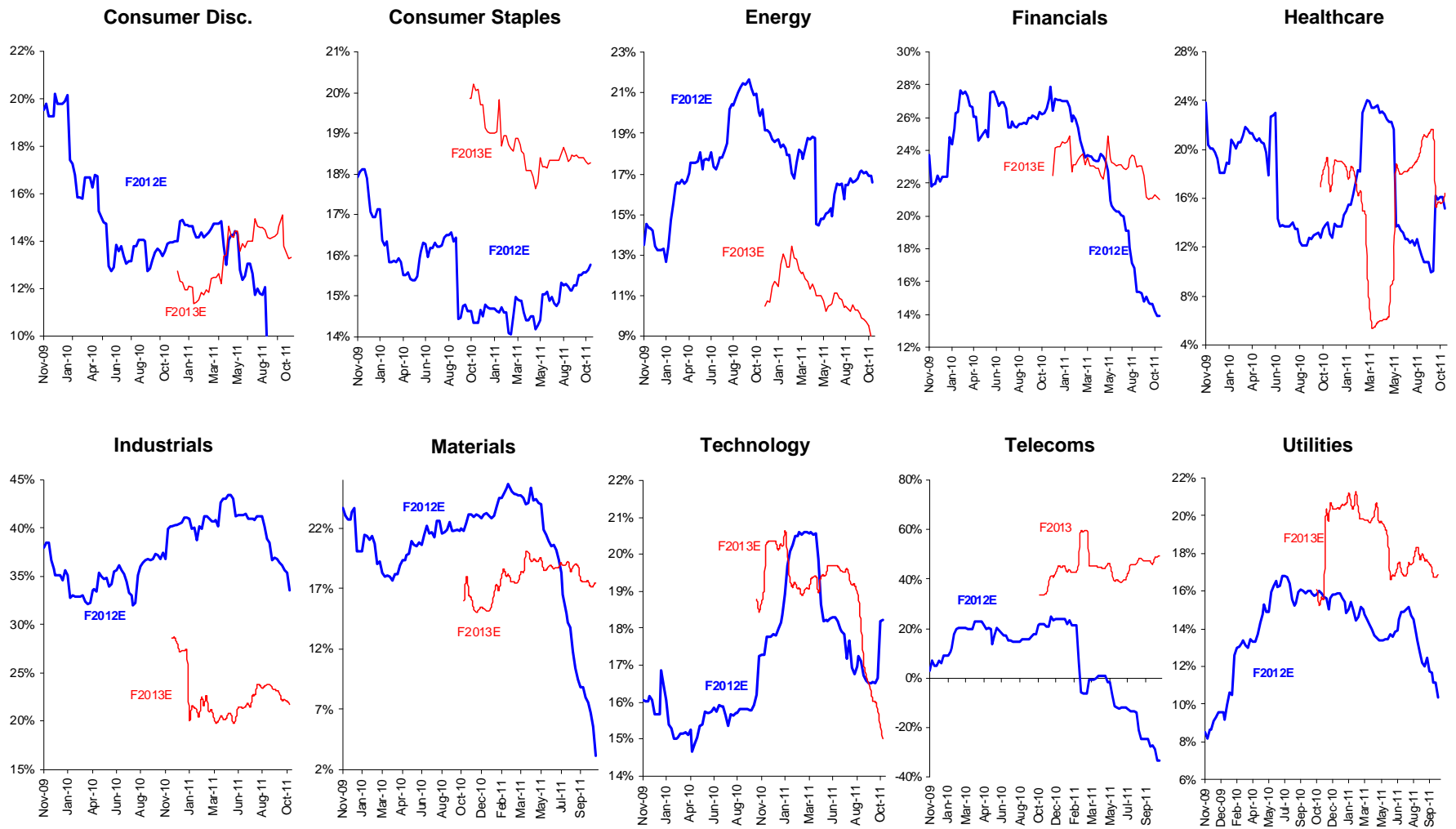
**MS Top-down Sensex EPS Estimates**

We are looking at trend line growth

BSE Sensex EPS	F12e	F13e
<b>MS Top Down Estimates</b>		
Bear Case	1210	1307
EPS Growth	12%	8%
Base Case	1275	1466
EPS Growth	18%	15%
Bull Case	1318	1608
EPS Growth	22%	22%
<b>Consensus EPS Estimates</b>		
EPS Growth	23%	15%

SUMMARY

MSCI Sector Consensus Earnings Growth Estimates: Deep Cuts

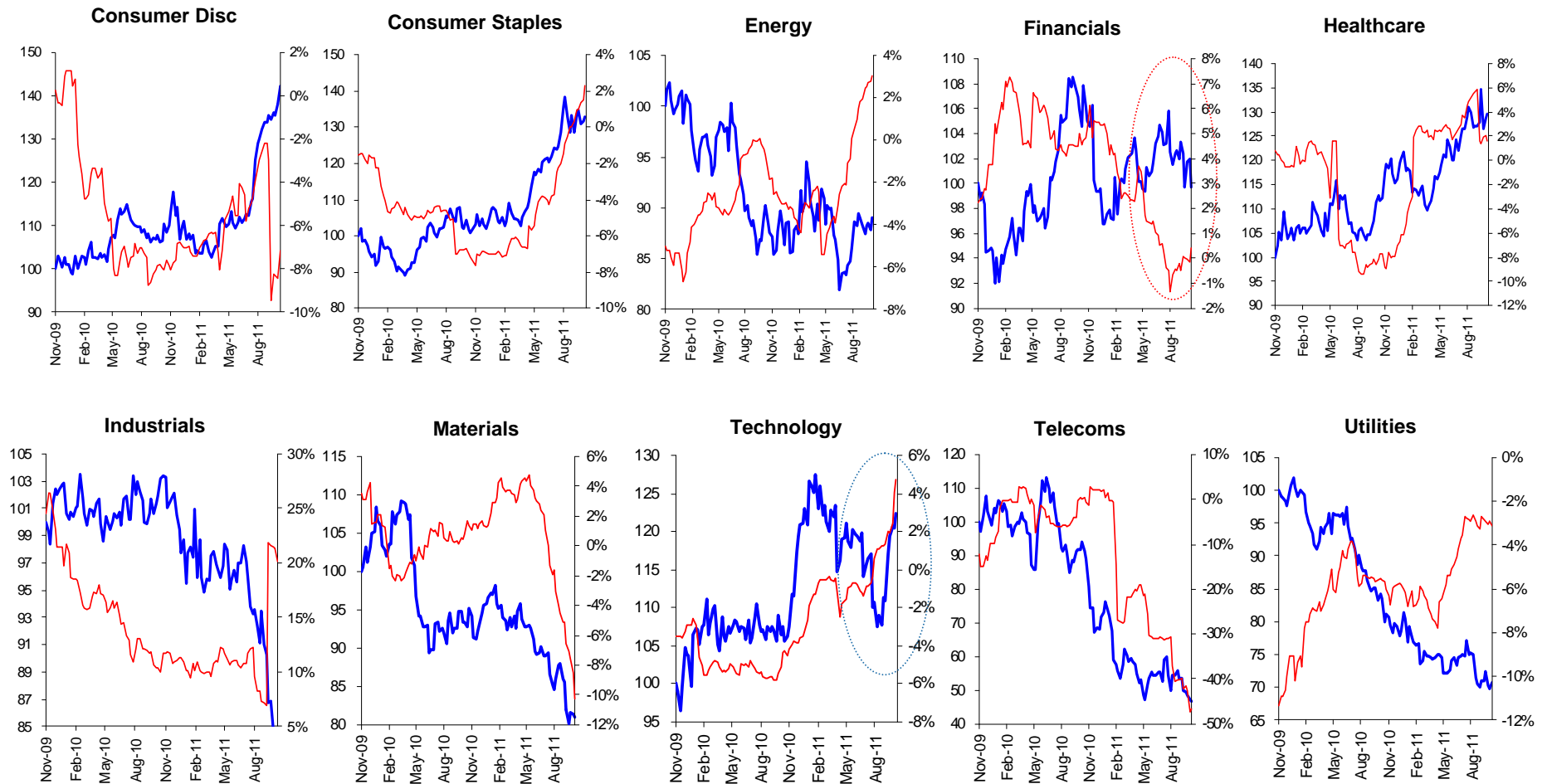


Source: FactSet, IBES Estimates, Morgan Stanley Research

SUMMARY

# MSCI India Sectors: Relative Earnings Revisions vs. Relative Price Performance

Blue line – MSCI India sector performance relative to MSCI India indexed to 100 (LS), Red Line – MSCI India Sector F12 earnings growth relative to MSCI India F12 earnings growth (RS)

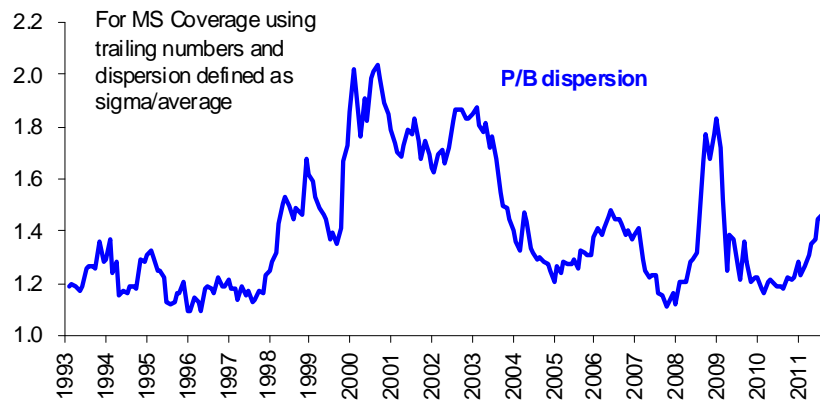


SUMMARY

Micro and Macro Indicators Support Stock Picking

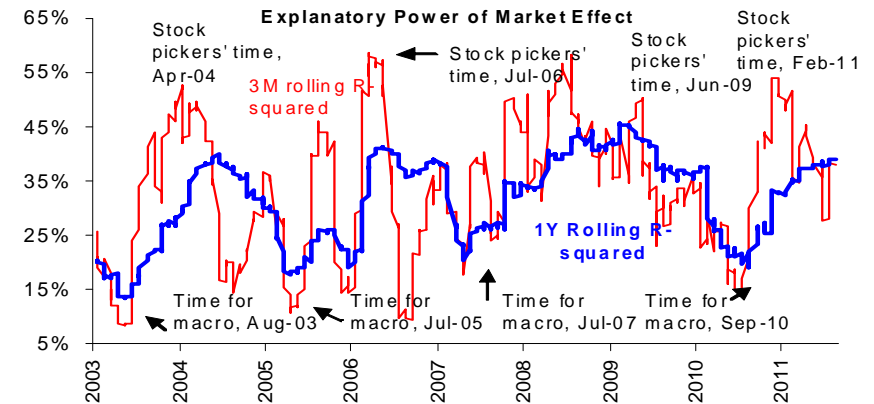
Valuation Dispersion Rising

Enough gap in valuations for stock pickers' to benefit



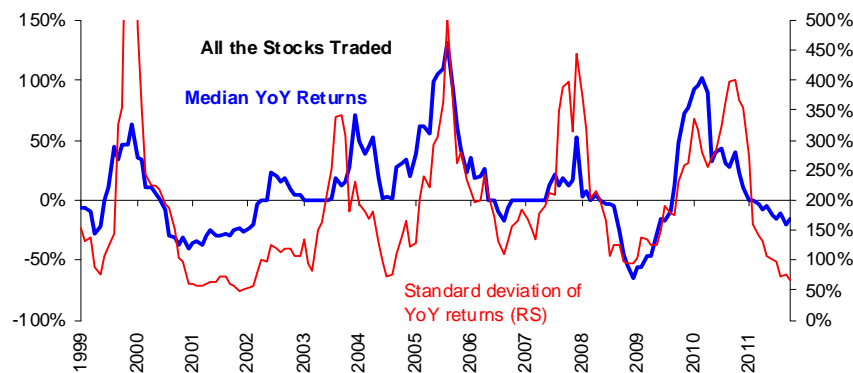
Market Effect Still High

Correlations across stocks off highs but still elevated



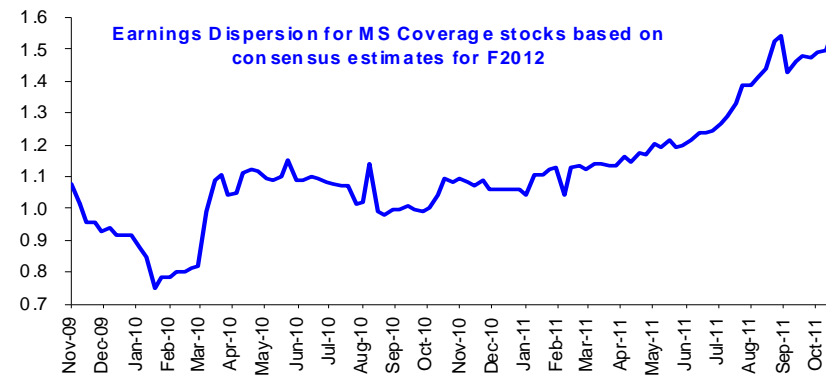
Return Dispersion Approaching Lows

Stock price moves not discriminating enough



Earnings Growth Dispersion Is Higher

Not all companies are growing earnings at the same pace



**SUMMARY****Sector Effect and Its Impact on Stock Selection****Sector effect: How much are sector factors influencing stock performance**

Consumer Discretionary, Energy, Telecoms & Utilities appear to be sector driven

Sector	Current R-Square	Z-Score	Sector or Stock Picking?
Consumer Discretionary	20%	-0.92	Focus on the macro call
Consumer Staples	25%	0.12	Avoid explicit call - a more stock specific situation
Energy	25%	-0.80	Sector call - we are o/w
Financials	51%	1.05	Pick stocks
Healthcare	34%	-0.04	More sector than stock specific, we are u/w
Industrials	40%	0.66	Pick stocks
Materials	47%	1.17	Pick stocks
Technology	37%	0.09	Moving towards a sector call - we are o/w
Telecoms	43%	-0.76	Sector call, we are e/w
Utilities	28%	-1.66	Sector call, we are o/w

**Sector effects and stock selection**

- Intra-sector correlations versus the respective MSCI sector indices tell us how much sector factors are influencing stock performance within each sector.
- Correlations are very low for consumer discretionary, energy, telecoms and utilities and, to that extent, stocks in these sectors are set for sector-specific moves
- Conversely, correlations seem high in materials, industrials and financials. These sectors are more amenable to stock selection.

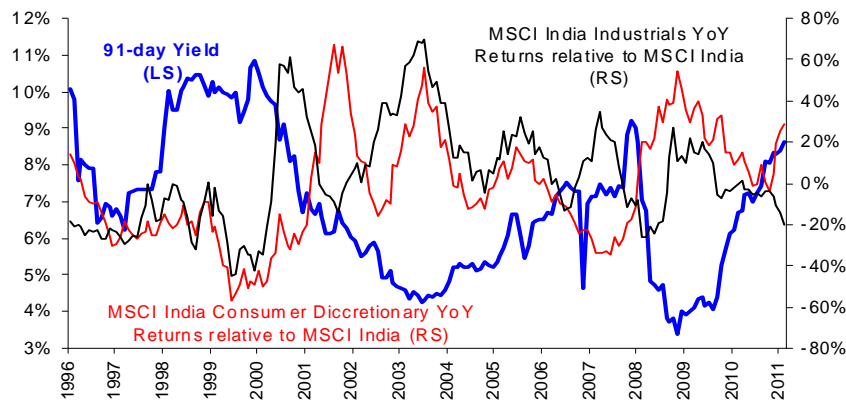


**SUMMARY**

**Key Sector Trades: Tech and Cons. Disc Look Attractive**

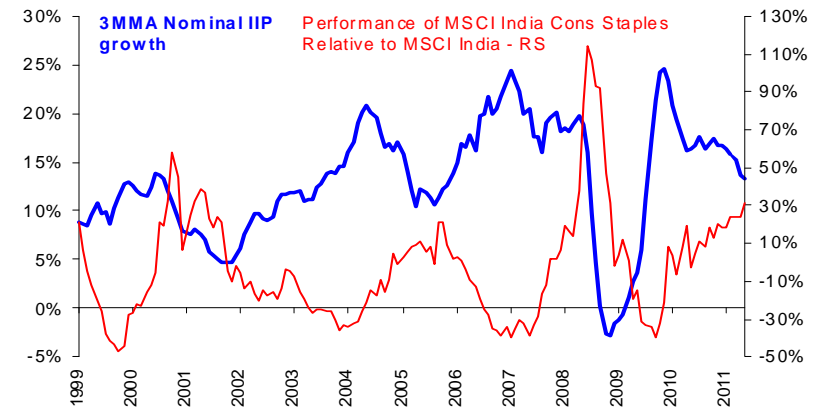
**Cons. Disc and Industrials Are Contra Rate Plays**

This is the key risk of selling industrials at this point of time



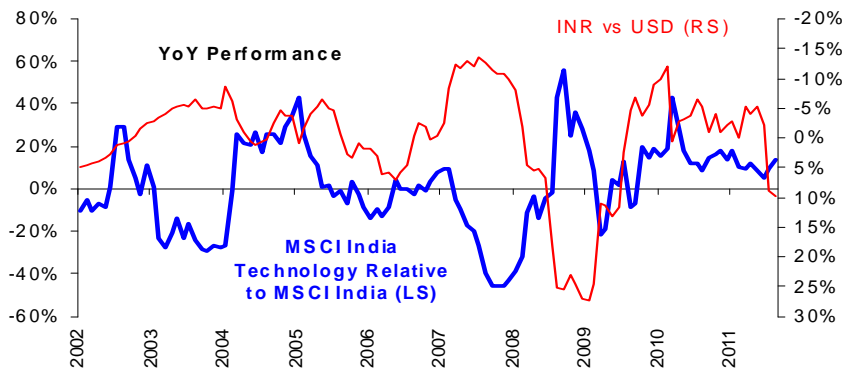
**Staples Get Support from Soft Industrial Growth**

However, valuations worry us



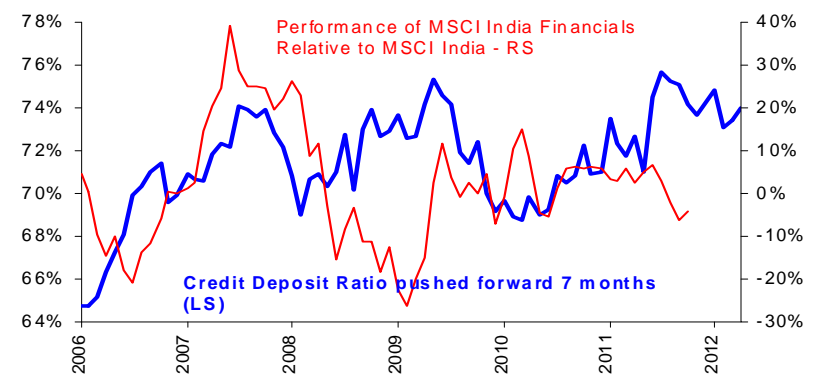
**MSCI India Tech and INR**

An inverse relationship implies tech stocks could do better, going forward



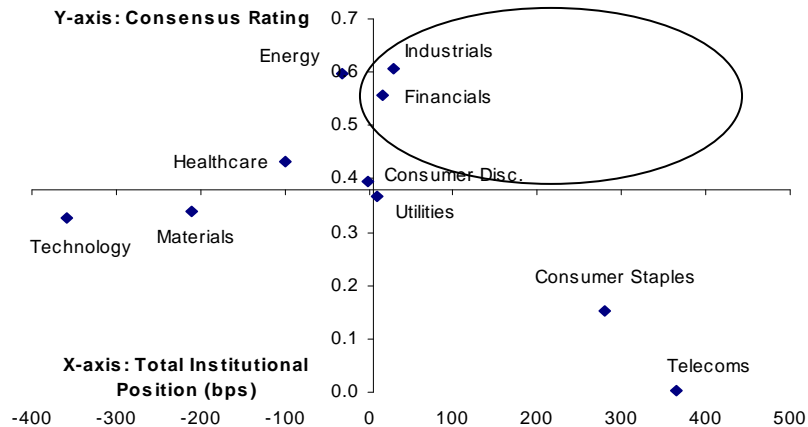
**Financials vs. Credit-Deposit Ratio**

As banking sector liquidity improves, financials will find a trough

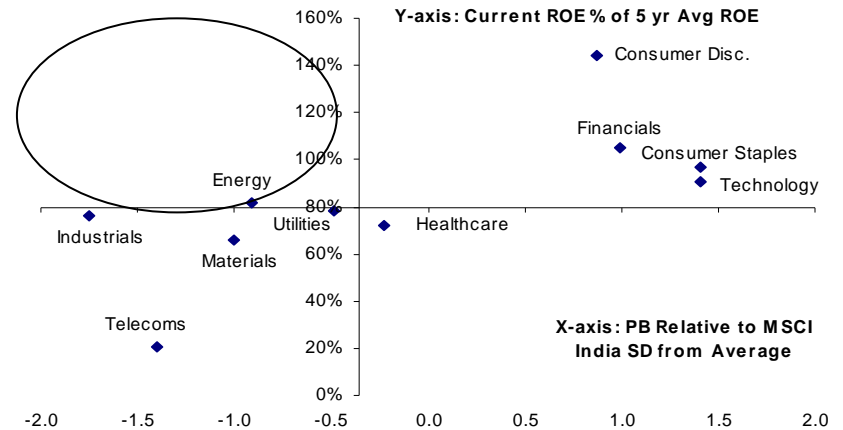


## Sectors: At a Glance

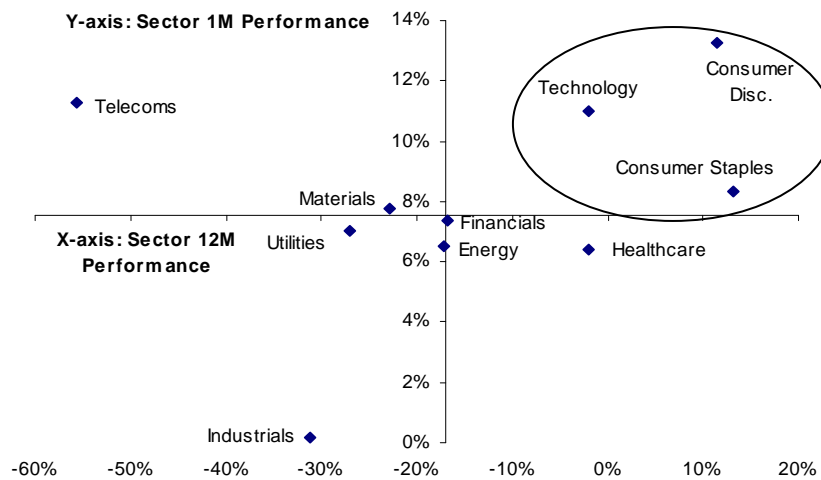
### Sectors with the Most Bullish Consensus View



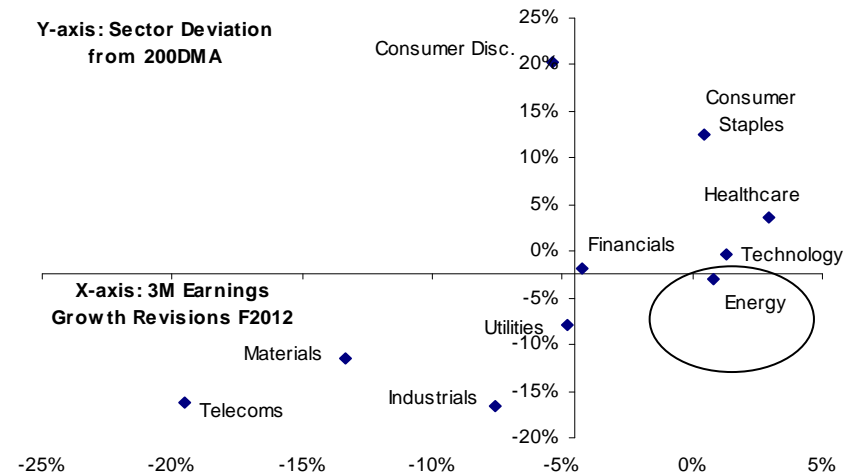
### Sectors with Fundamental and Valuation Mismatch



### Sectors with Maximum Price Momentum



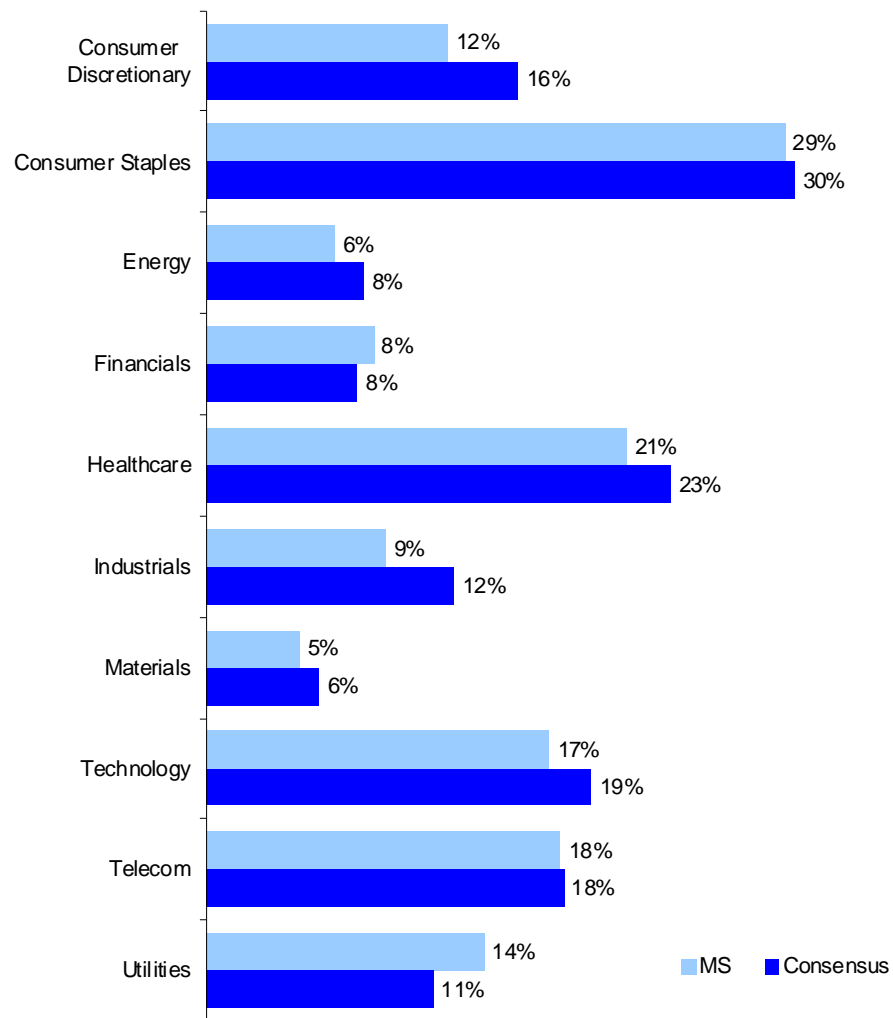
### Sectors Where Earnings Momentum Not in the Price



SUMMARY

What's in the Price? Sector and Stock Summary

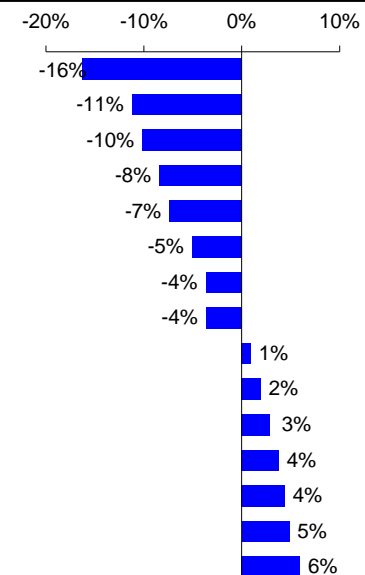
Morgan Stanley vs. Consensus at the Sector Level



Stock Standouts (5-year Implied EPS Growth from F13)

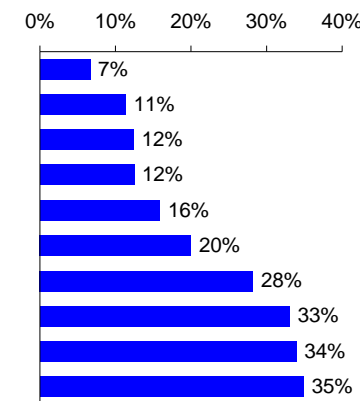
Overweight-rated stocks

- Aban Offshore
- Jaiprakash
- IVRCL Infrastructure
- Great Eastern Shipping
- Nagarjuna Const.
- IBREL
- Cairn India
- Tata Steel
- Pantaloon Retail
- Tata Motors
- Jain Irrigation
- United Phosphorus
- MindTree Consulting
- Oil India
- IRB Infra



Underweight-rated stocks

- Ashok Leyland
- GMR Infrastructure
- JSW Energy
- Nalco
- Adani Power
- Hero MotoCorp.
- Marico
- Tata Power
- Colgate
- HUL



Past performance is no guarantee of future results. Results shown do not include transaction costs.

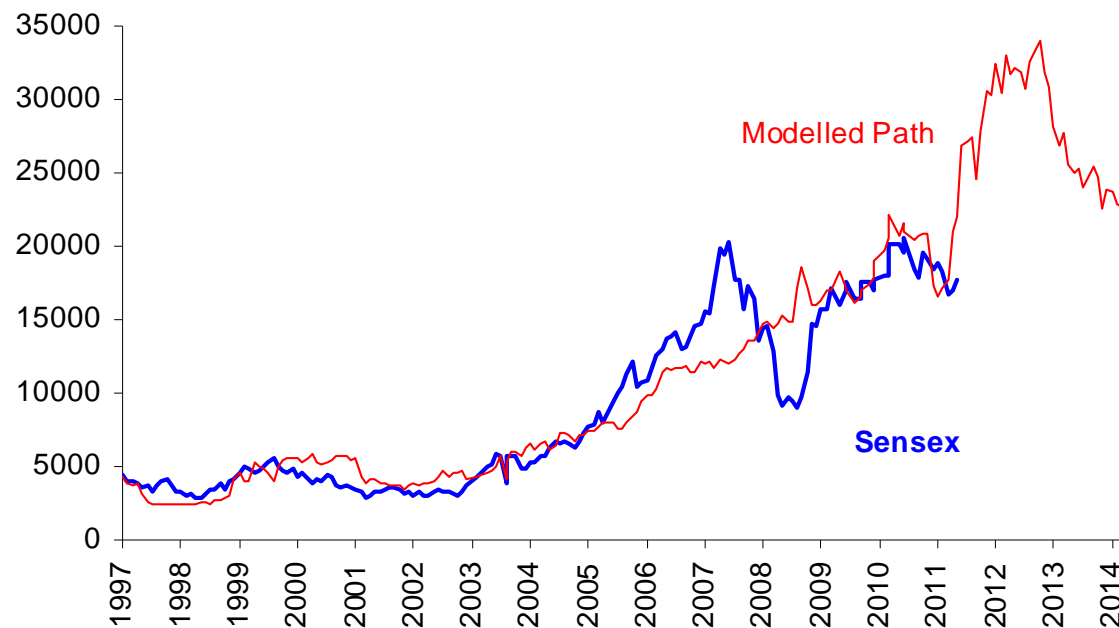
Source: FactSet, IBES Estimates, Company Data, Morgan Stanley Research, Morgan Stanley Estimates. Priced as of 3rd Nov 2011

## SUMMARY

## Modeling the Index Path: Getting Ready for 2012 Market Surge

### BSE Sensex vs. BSE Sensex

Our model has predicted most of the Sensex path



### Sensex to rise and then fall

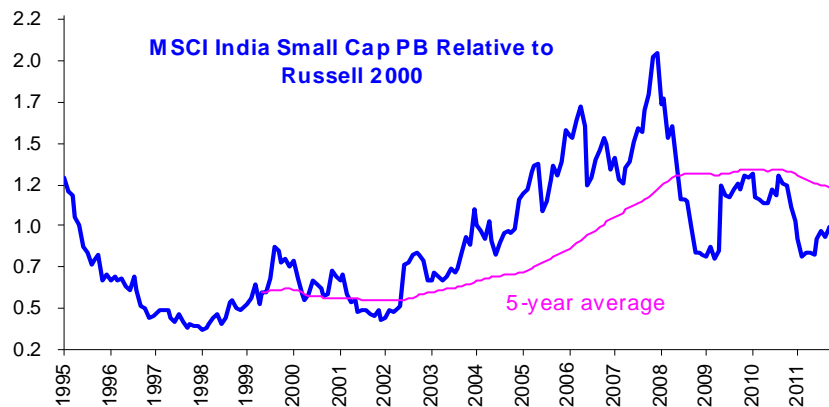
- We use the historical relationship between our modified earnings yield gap and forward MSCI Index returns to model the path of the MSCI India historically and prospectively. As is visible from the adjoining chart, the paths are not perfectly aligned and, for sure, there is deviation during the 2007-08 bubble-crisis period. That said, the proximity in the relationship is quite visible.
- We also use the historical relationship between the MSCI India index and the BSE Sensex to mimic the path for the BSE Sensex. The Sensex is looking at a phenomenal run up in the coming 18 months. Where the model works the best, which is the three-year forward term, the outlook appears to be getting tepid with compounded annual returns forecast at around 9%.

SUMMARY

Small-caps: How Much More to Pay?

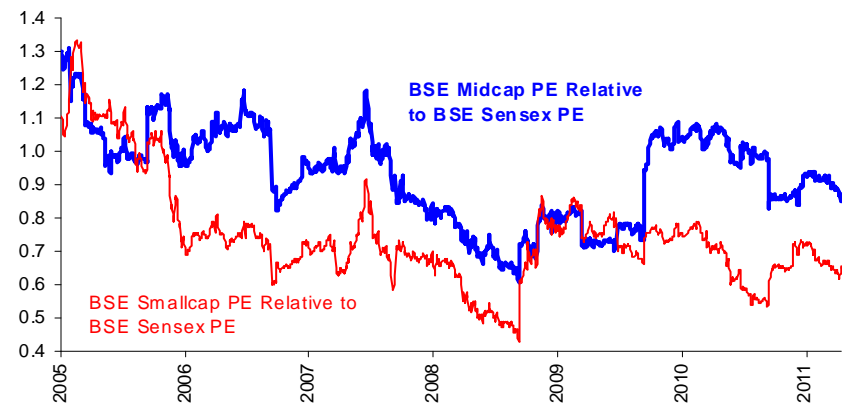
Indian Small Cap Relative Valuations at Seven-year Lows

The de-rating since the 2008 peak has been quite vicious



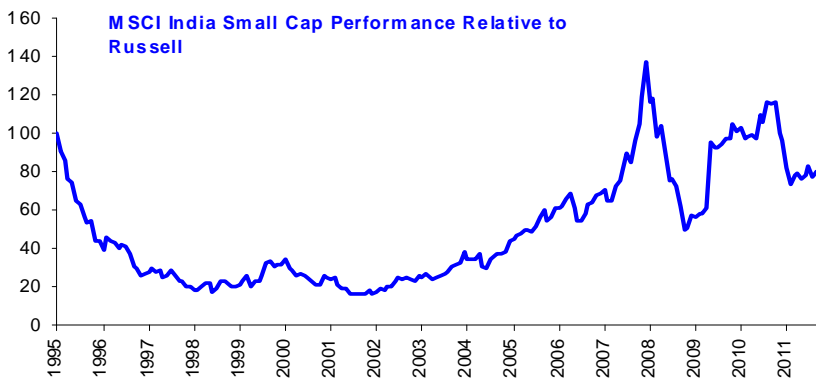
Indian Small Cap Relative Valuations at Seven-year Lows

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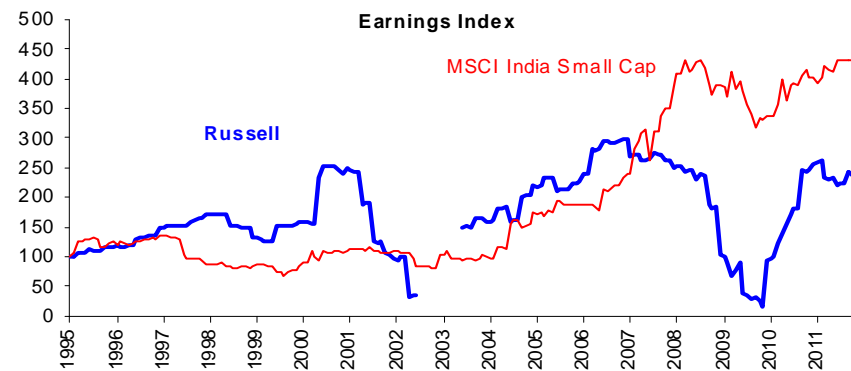
Indian Small Cap: Fresh Relative Low

Relative performance approaching crisis levels



Indian Small Cap Earnings already at New Peak

Indian earnings in better shape

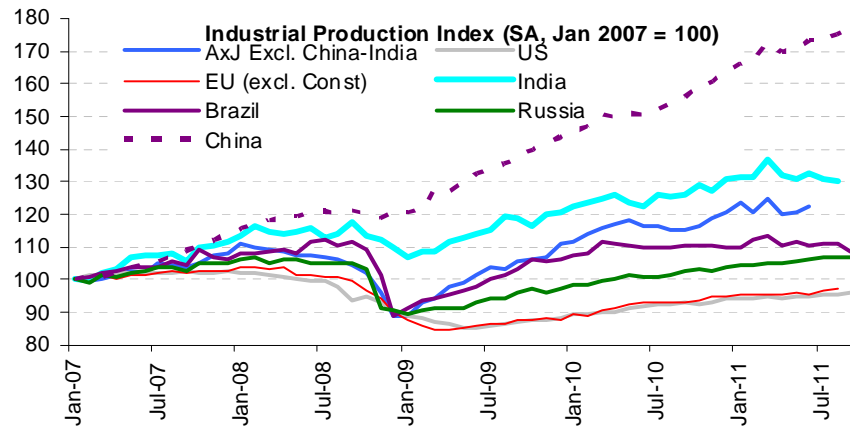


**Overview of Macro, Corporate Fundamentals, Valuations,  
Market Dynamics, Sector Rotation, the Consensus View,  
Factor Analysis, and Other Data**

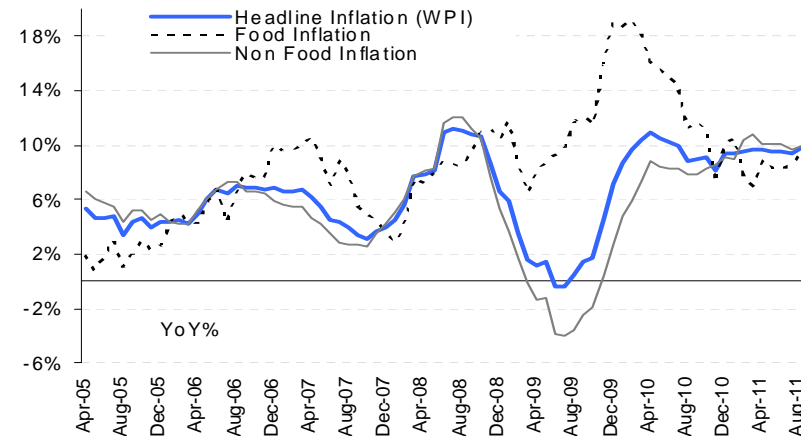
MACRO

# Difficult Times: Stubborn Inflation, Higher Rates, High Fiscal Deficit = Slowing Growth

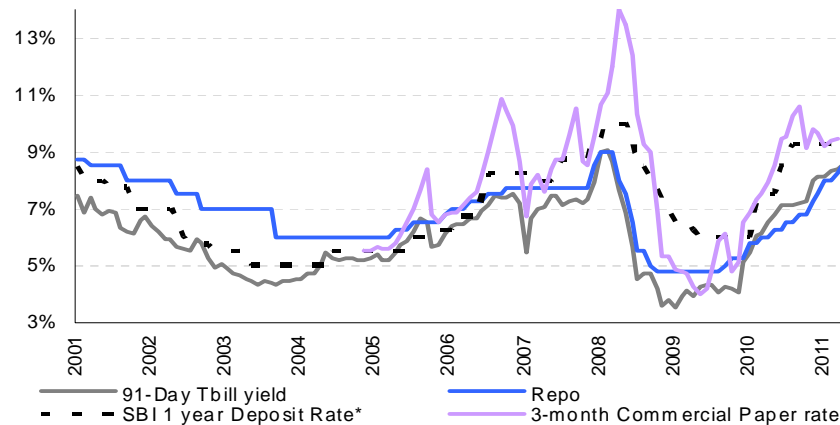
Industrial Production: India vs. Rest of the World



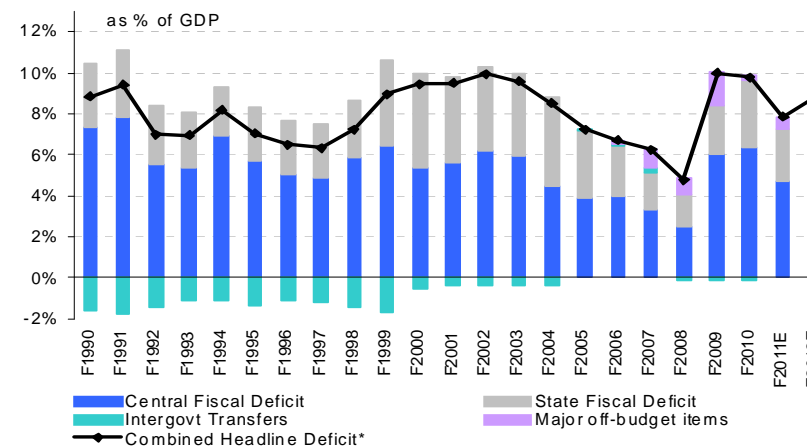
Inflation (WPI): Headline, Food and Non-Food



Bulk of Effective Monetary Tightening Has Happened



Fiscal Policy Tightening Is Critical

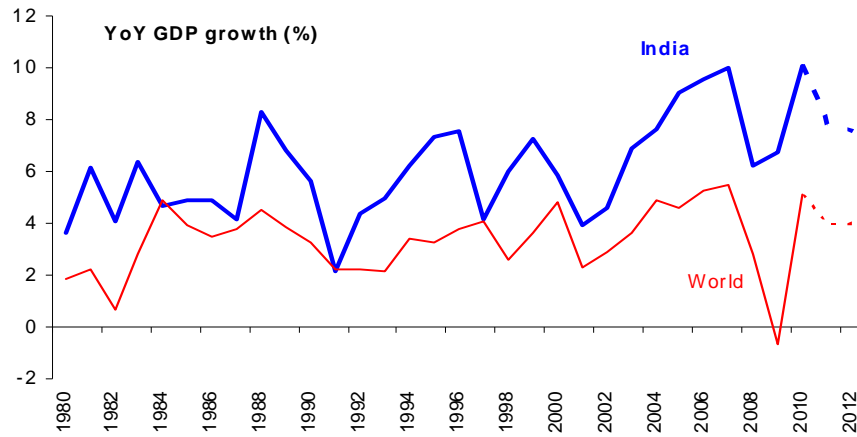


Source: CEIC, RBI, Economic Survey, Ministry of Finance, Morgan Stanley Research. Note: \*Here the off-budget items include expenditure on food, fertilizer and oil. E = Morgan Stanley Research estimates.

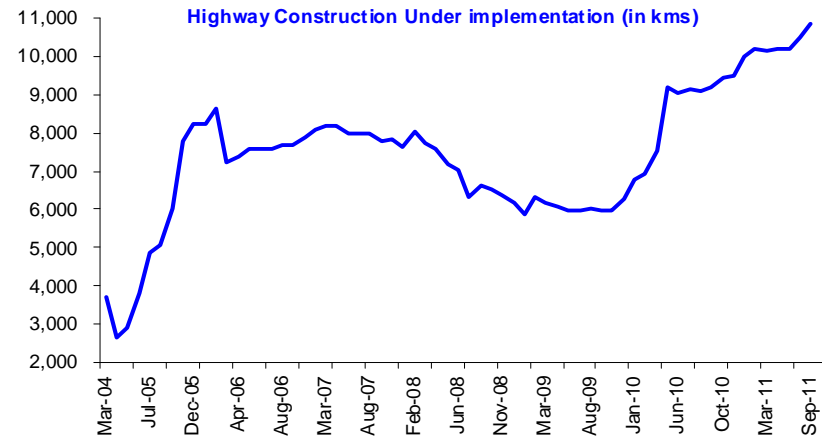
MACRO

Difficult Times: Infrastructure Spending Is Key

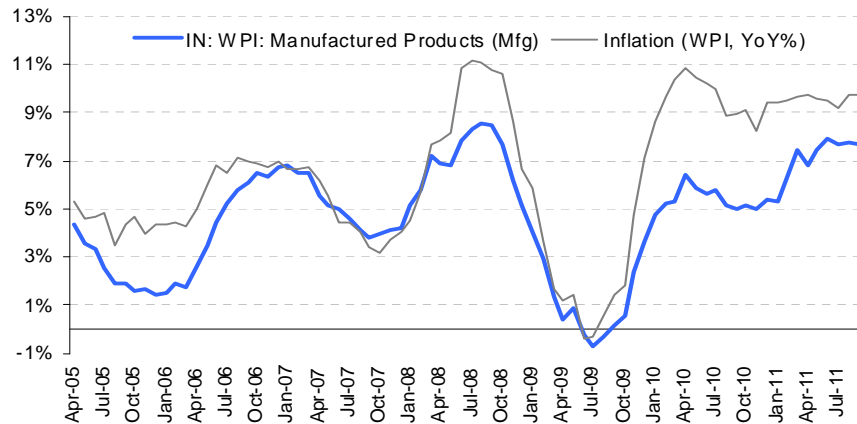
Strong but Slowing Relative Growth for India



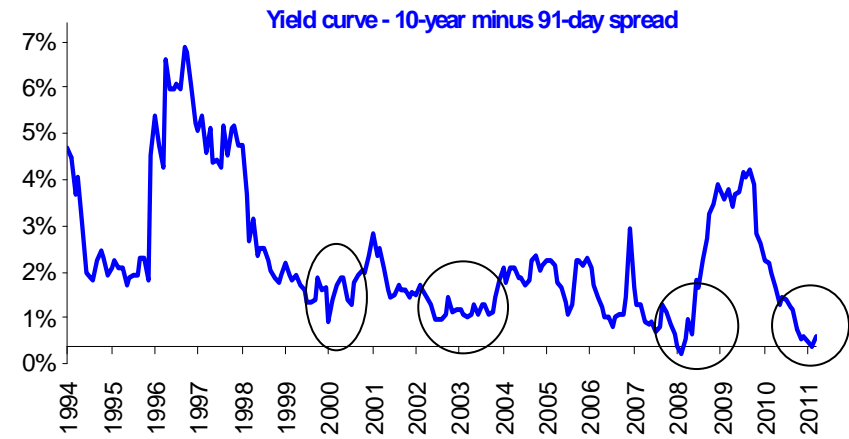
Infrastructure Execution Is Improving and Is Key



Headline Inflation Remains a Key Concern



Yield Curve: Bulk of the Flattening May be Done





MACRO

Difficult Times: Good Monsoons – A Relief

Agri Output Seems To Be Heading Higher

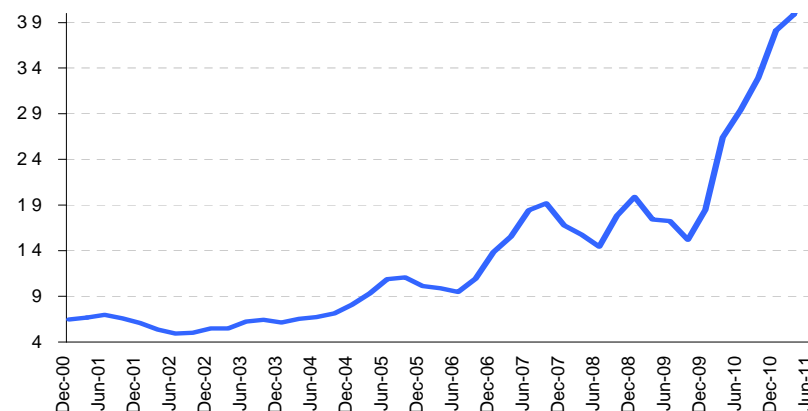
Crop Area Under Cultivation (As on Sep 30)

Mn Hectares	Area Typically Covered In Full Season	2010YTD	2011YTD	YoY%
Rice	39.4	35.04	38.37	9.5%
Coarse Cereals	22.0	21.22	20.02	-5.6%
Pulses	10.6	12.10	11.01	-9.0%
<b>Sub Total: Food Grains</b>	<b>72.0</b>	<b>68.36</b>	<b>69.40</b>	<b>1.5%</b>
Oilseeds	17.7	17.48	17.96	2.7%
Sugarcane	4.6	4.94	5.09	3.0%
Cotton	10.4	10.99	12.02	9.4%
<b>Grand Total</b>	<b>104.7</b>	<b>101.8</b>	<b>104.5</b>	<b>2.7%</b>

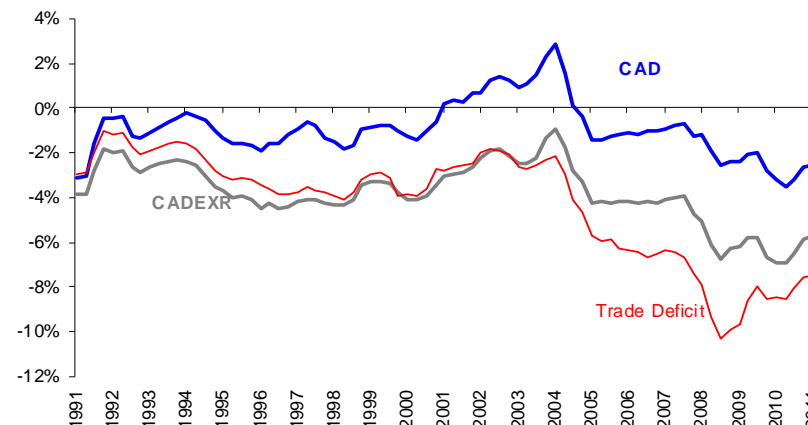
State Election Calendar

Year	State Elections Scheduled	Incumbent Party
2012	Uttaranchal	BJP
2012	Punjab	SAD- BJP
2012	Manipur	Congress
2012	Uttar Pradesh	BSP
2012	Goa	Congress
2012	Himachal Pradesh	BJP
2012	Gujarat	BJP
2013	Meghalaya	UDP
2013	Tripura	CPI(M)
2013	Nagaland	NPF
2013	Karnataka	BJP
2013	Rajasthan	Congress
2013	Delhi	Congress
2013	Mizoram	Congress
2013	Chhattisgarh	BJP
2013	Madhya Pradesh	BJP
2013	Jammu & Kashmir	Nat. Conf.
2014	Andhra Pradesh	Congress
2014	Orissa	BJD + Allies
2014	Sikkim	SDF
2014	General Elections	Congress

Gold Demand Remains Strong



CAD and Source of Its Funding Creates Financial Market Linkages for India's Macro

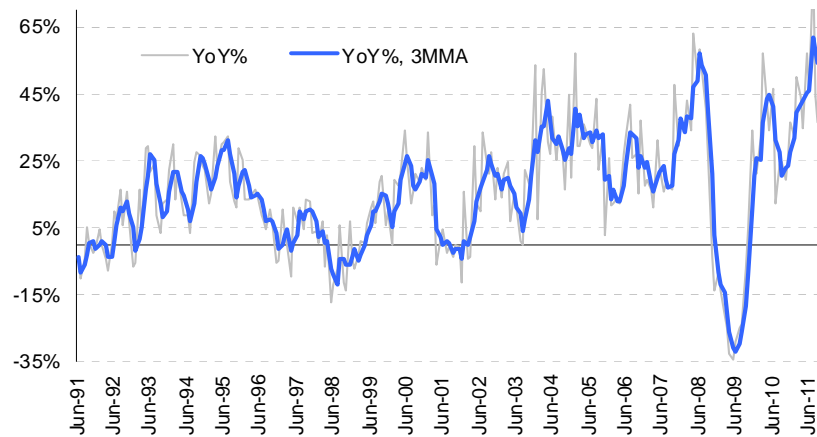


Source: Election Commission, CEIC, RBI, Morgan Stanley Research

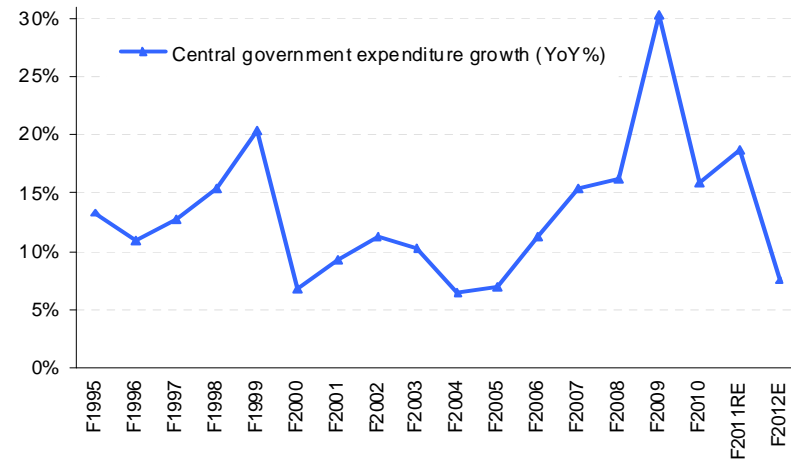
CORPORATE FUNDAMENTALS

Macro Indicators Suggesting Slowdown

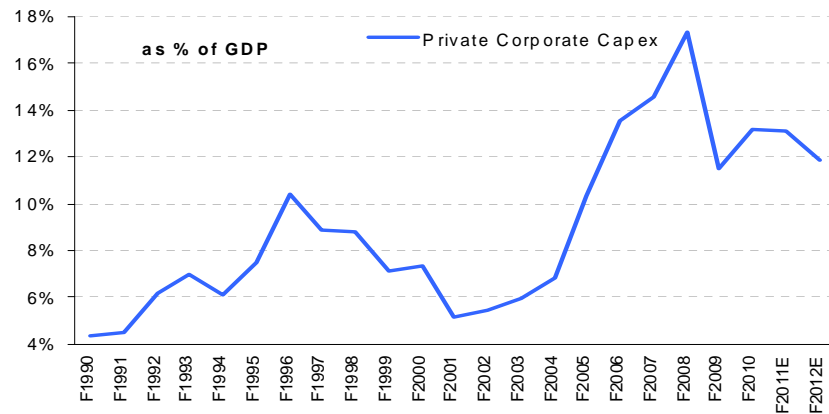
Export Growth (in USD) YoY% and YoY%, 3MMA



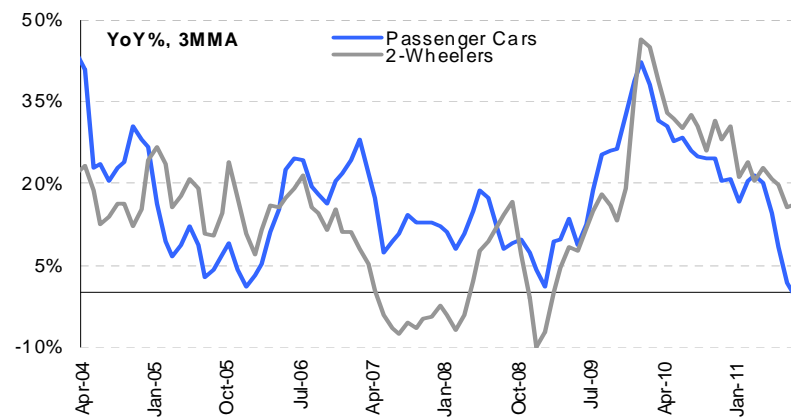
Central Government: Expenditure Growth (YoY%)



Private Corporate Capex (as % of GDP)



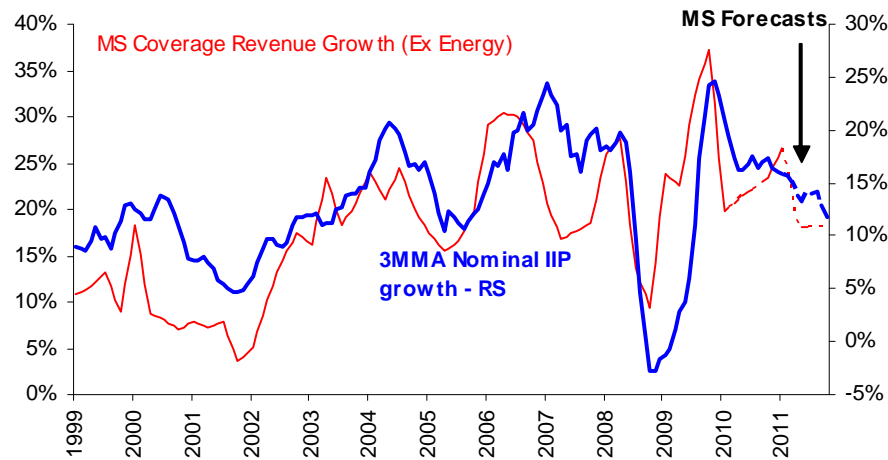
Signs of Moderation in Auto Sales



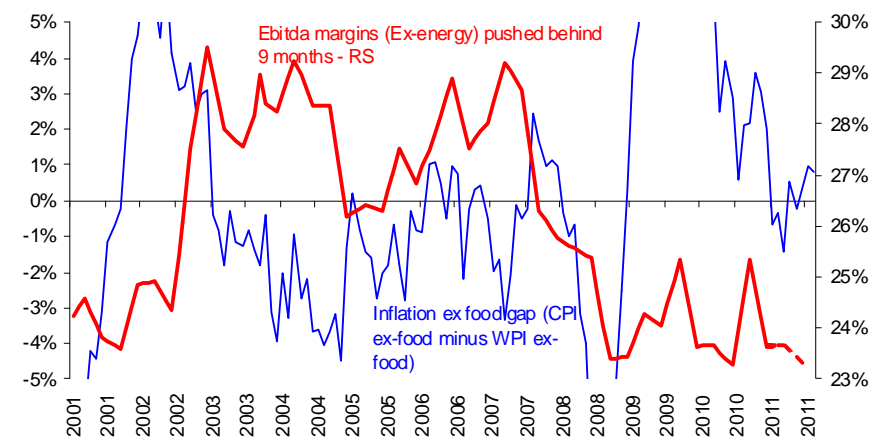
CORPORATE FUNDAMENTALS

Earnings Growth Slowing with Macro Headwinds

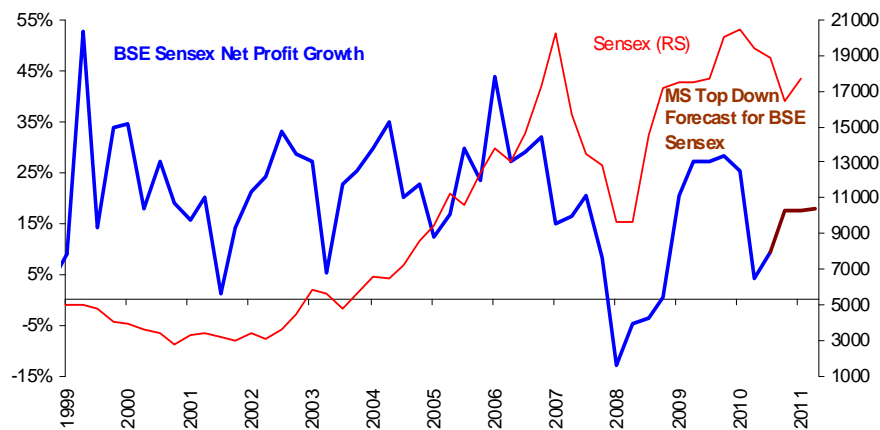
Revenue Growth Gets Support from Nominal IP



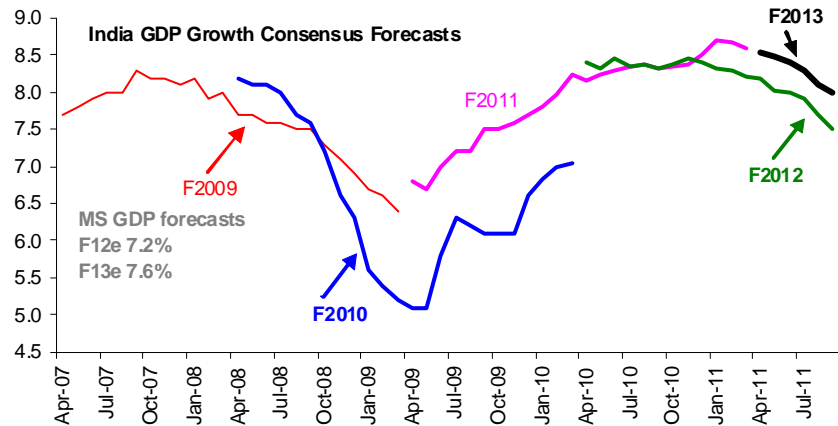
Macro Environment Favors Margins, Going Forward



EPS Growth Suffers from a High Base



Consensus Cuts Economic Growth Projections



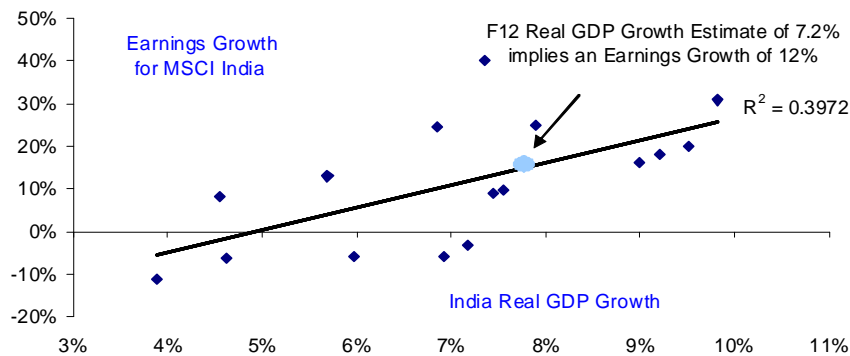
Source: CEIC, Company data, Morgan Stanley Research, Morgan Stanley Estimates

CORPORATE FUNDAMENTALS

Macro Forecasts Point to F2012 EPS Growth of 5-15% Using History as a Guide

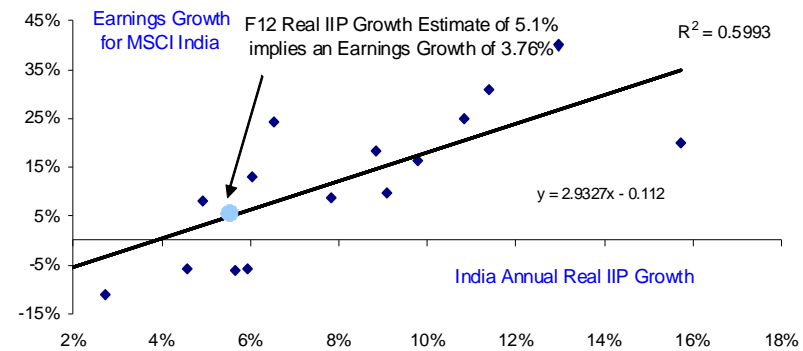
Real GDP Growth Estimates Are Down since Start of 2011

Consistent with 12% earnings growth, if history is a guide



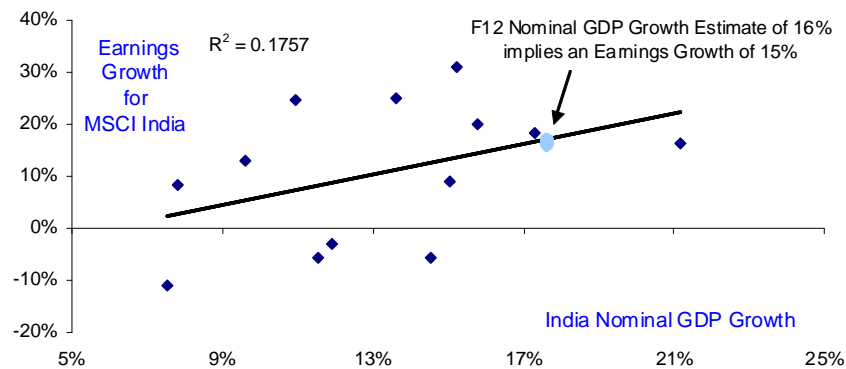
IIP Growth Has Better Explanatory Power on Earnings Growth

5% earnings growth for F2012 if our IIP forecasts are right



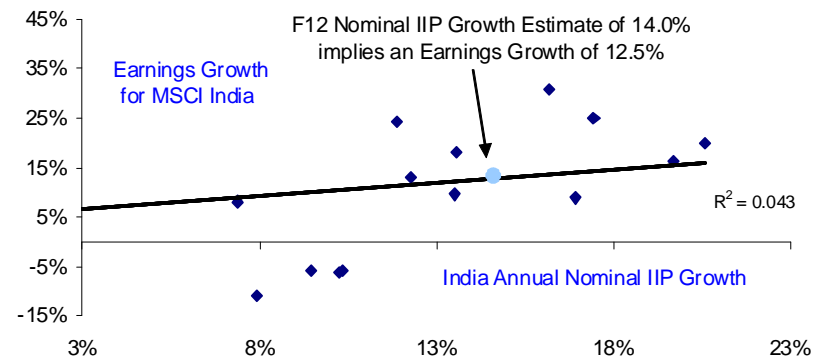
Nominal GDP Growth vs. Earnings

Signaling around 15% earnings growth for MSCI India index



Nominal IIP Growth > Nominal GDP's Explanatory Power

MSCI India EPS growth projected at 13%



Source: CEIC, Company data, Morgan Stanley Research, Morgan Stanley Estimates

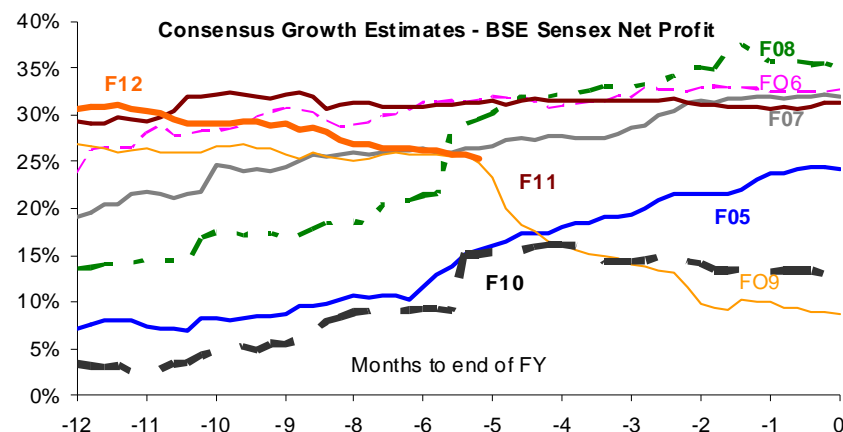
CORPORATE FUNDAMENTALS

Concentration of Earnings Is Not a Big Issue

Sectoral Earnings Concentration: Not Worse

MS Coverage Consensus Estimates	Share in Agg. Net Profit		Sector Contribution to Growth	
	F2003	F2012e	F2011e	F2012e
Consumer Discretionary	4%	7%	19%	5%
Consumer Staples	6%	4%	1%	5%
Energy	44%	29%	25%	32%
Financials	20%	21%	22%	25%
Healthcare	3%	2%	3%	2%
Industrials	2%	6%	7%	11%
Materials	5%	14%	25%	7%
Technology	6%	9%	7%	10%
Telecommunications	2%	2%	-12%	-2%
Utilities	9%	6%	3%	6%
<b>MS Universe</b>	<b>100%</b>	<b>100%</b>	<b>23%</b>	<b>14.0%</b>

F2012 Earnings Revised Down Quite Early



Earnings Concentration Decreasing into F2012\*

Contribution to Sensex Earnings Growth (Consensus)		Contribution to Sensex earnings growth			
Contribution to Sensex earnings growth	FY2012E	FY2013E	FY2012E	FY2013E	
Coal India	16.9%	7.3%	Bajaj Auto	1.9%	1.1%
Reliance Industries	10.1%	5.7%	Tata Power Co	1.5%	-0.1%
TCS	7.0%	5.5%	Sun Pharma.	1.5%	1.3%
Sterlite Industries	6.9%	2.9%	Hero MotoCorp	1.3%	1.3%
State Bank of India	5.9%	12.6%	Jindal Steel & Power	1.3%	2.2%
HDFC Bank	5.3%	3.9%	Wipro	1.2%	2.5%
ICICI Bank	4.9%	3.5%	Hindustan Unilever	0.9%	1.2%
Infosys Technologies	4.6%	4.0%	Hindalco Industries	0.7%	0.7%
ITC	4.3%	3.5%	Jaiprakash Ass.	0.5%	1.2%
NTPC	3.6%	3.7%	Cipla	0.4%	0.8%
Mahindra & Mahindra	2.5%	1.7%	Maruti Suzuki	-0.2%	1.7%
HDFC	2.4%	2.7%	DLF	-0.2%	1.1%
Bharti Airtel	2.1%	11.2%	Tata Motors	-1.2%	2.8%
Larsen & Toubro	1.9%	2.6%	Tata Steel	-1.3%	4.0%

MS Analysts in Line with Consensus

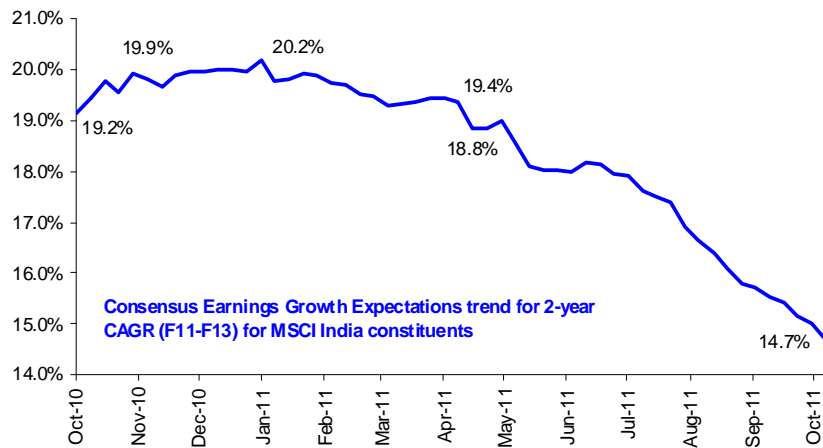
MS vs Consensus	F2012E		F2013E		Diff in CAGR MS over Consensus CAGR (F11 to F13)
	MS	Consensus	MS	Consensus	
Consumer Discretionary	0%	10%	13%	15%	-6%
Consumer Staples	20%	17%	10%	18%	-2%
Energy	18%	16%	11%	11%	1%
Financials	15%	17%	15%	22%	-3%
Healthcare	12%	14%	18%	16%	0%
Industrials	30%	28%	8%	22%	-7%
Materials	18%	6%	0%	14%	-1%
Technology	16%	16%	18%	15%	2%
Telecommunications	6%	-15%	48%	86%	0%
Utilities	20%	13%	12%	16%	1%
<b>MS Coverage Universe</b>	<b>16%</b>	<b>14%</b>	<b>12%</b>	<b>17%</b>	<b>-1%</b>
<b>Sensex</b>	<b>16%</b>	<b>14%</b>	<b>14%</b>	<b>15%</b>	<b>1%</b>

Source: FactSet, BSE, Company Data, Morgan Stanley Research. \*Sector Classification as per MSCI, \*ONGC and BHEL excluded

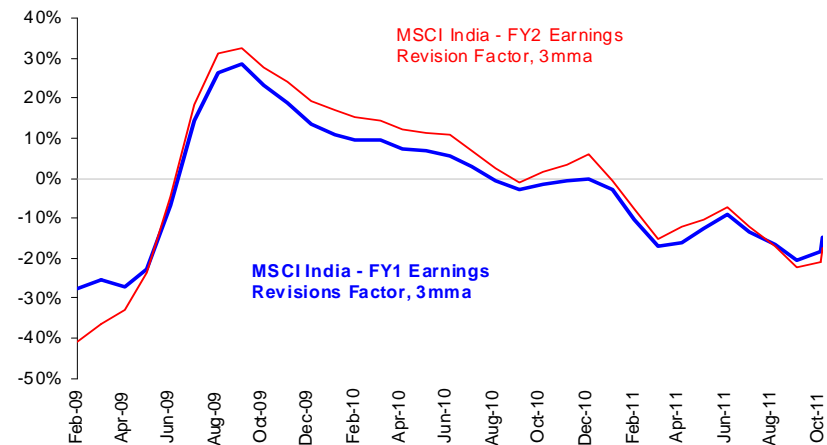
CORPORATE FUNDAMENTALS

What's the Consensus View on Earnings?

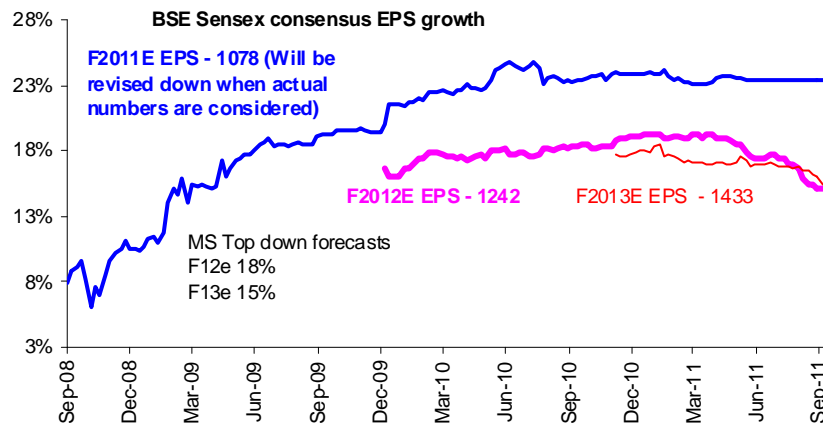
MSCI India Consensus Two-year Earnings CAGR



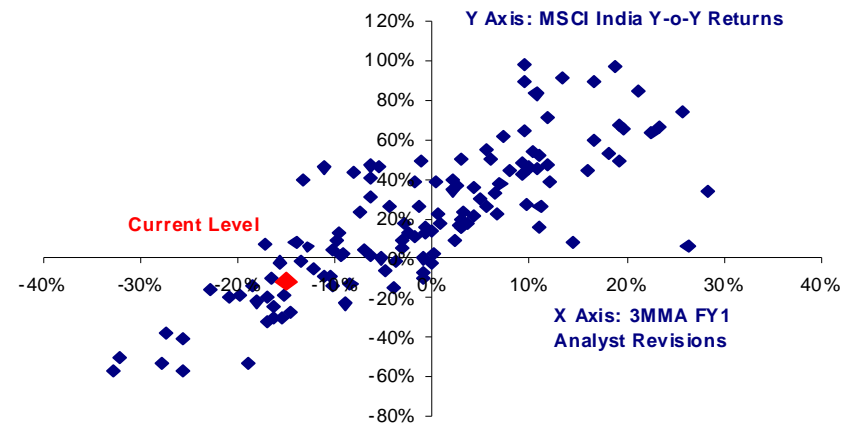
Earnings Revisions Breadth Weak...



Sensex Consensus EPS Estimates Marked Down



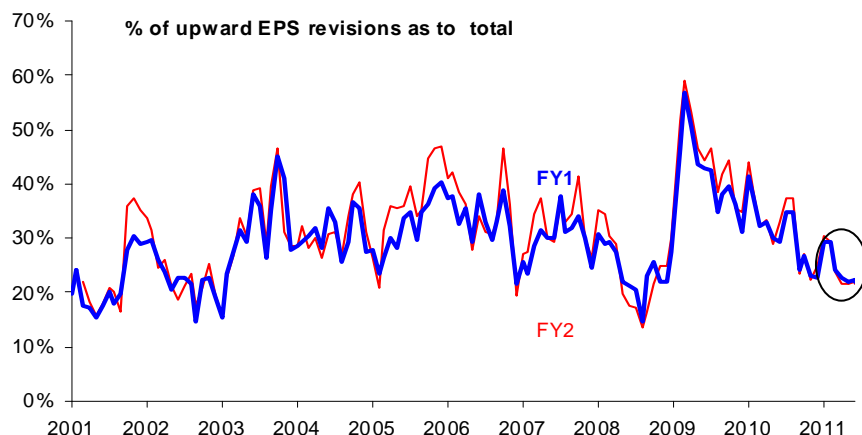
...Negative for Share Prices



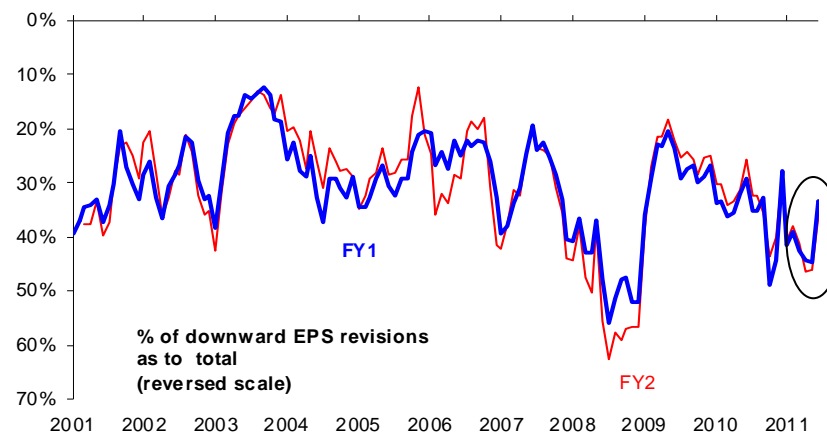
CORPORATE FUNDAMENTALS

Earnings Revisions Breadth Is Negative

Earnings Breadth: Upward Revisions



Earnings Breadth: Downward Revisions



Earnings Growth Revision by Sector (MSCI India Constituents)

	EPS Earnings Growth (MSCI India constituents)						Earnings Revision					
	F11 to F13	Current	1W	1M	3M	6M	YTD	1W	1M	3M	6M	YTD
CD	10%	9%	10%	13%	13%	13%	13%	0.4%	-0.2%	-3.4%	-3.4%	-3.5%
CS	17%	17%	17%	17%	16%	17%	17%	0.1%	0.1%	0.1%	0.8%	0.2%
Energy	13%	13%	13%	13%	15%	15%	15%	-0.2%	-0.8%	-0.4%	-2.5%	-2.5%
Financials	17%	17%	18%	21%	23%	26%	26%	-0.1%	-0.4%	-3.4%	-5.7%	-8.4%
Healthcare	16%	16%	16%	15%	14%	17%	17%	-0.1%	0.1%	0.3%	1.6%	-0.9%
Industrials	28%	29%	29%	32%	31%	34%	34%	-1.0%	-2.0%	-4.7%	-3.6%	-6.5%
IT	17%	17%	16%	18%	19%	19%	19%	-0.2%	0.3%	-1.4%	-2.8%	-2.6%
Materials	10%	11%	13%	18%	22%	19%	19%	-1.1%	-2.6%	-7.6%	-11.9%	-8.9%
Telecoms	0%	0%	3%	12%	21%	34%	34%	0.4%	-3.2%	-12.1%	-20.8%	-33.9%
Utilities	14%	14%	15%	16%	17%	18%	18%	-0.4%	-1.0%	-2.7%	-3.5%	-4.5%
<b>Total</b>	<b>15%</b>	<b>15%</b>	<b>16%</b>	<b>18%</b>	<b>19%</b>	<b>20%</b>	<b>20%</b>	<b>-0.3%</b>	<b>-0.9%</b>	<b>-3.0%</b>	<b>-4.8%</b>	<b>-5.3%</b>

Source: FactSet, IBES estimates, Morgan Stanley Research

## CORPORATE FUNDAMENTALS

## EBITDA Margin Forecasts Not at All Demanding

## EBITDA Margin Trends Across Key Sectors

F2012E margins off highs

MSCI Sectors and Sub-sectors	F2003	F2004	F2005	F2006	F2007	F2008	F2009	F2010	F2011E	F2012E	F2012E EBITDA Margin minus All time Peak EBITDA Margin	F2012E EBITDA Margin vs. 5-year trailing average in bps
<b>Consumer Discretionary</b>	<b>13.1%</b>	<b>14.7%</b>	<b>14.1%</b>	<b>14.0%</b>	<b>13.4%</b>	<b>13.4%</b>	<b>7.9%</b>	<b>13.0%</b>	<b>14.3%</b>	<b>13.4%</b>	<b>-2.3%</b>	<b>95</b>
Auto	12.3%	13.9%	13.2%	13.4%	12.8%	12.6%	6.7%	12.3%	13.6%	12.5%	-3.0%	91
Media	33.9%	36.0%	35.2%	22.3%	22.9%	25.5%	22.6%	33.4%	36.1%	33.8%	-2.2%	573
<b>Consumer Staples</b>	<b>21.9%</b>	<b>22.4%</b>	<b>21.7%</b>	<b>21.8%</b>	<b>21.6%</b>	<b>19.9%</b>	<b>19.5%</b>	<b>21.8%</b>	<b>20.4%</b>	<b>21.6%</b>	<b>-0.9%</b>	<b>95</b>
<b>Energy</b>	<b>16.3%</b>	<b>16.2%</b>	<b>15.7%</b>	<b>14.0%</b>	<b>10.9%</b>	<b>13.5%</b>	<b>10.6%</b>	<b>13.9%</b>	<b>12.3%</b>	<b>12.1%</b>	<b>-6.4%</b>	<b>-18</b>
Energy PSU	16.0%	15.7%	15.0%	13.3%	9.7%	12.7%	9.6%	13.7%	11.8%	12.2%	-5.5%	66
Energy Private	18.2%	19.0%	19.4%	17.8%	18.1%	17.1%	14.7%	14.4%	13.9%	11.8%	-24.4%	-384
<b>Financials</b>	<b>48.7%</b>	<b>50.5%</b>	<b>47.2%</b>	<b>49.4%</b>	<b>50.2%</b>	<b>53.8%</b>	<b>55.1%</b>	<b>54.1%</b>	<b>54.4%</b>	<b>54.7%</b>	<b>-0.4%</b>	<b>118</b>
Banks	47.8%	49.7%	46.6%	48.8%	49.0%	51.5%	54.5%	55.2%	55.1%	55.0%	-0.2%	190
Real Estate	15.4%	13.0%	13.0%	20.8%	50.7%	61.0%	55.0%	38.8%	40.7%	44.6%	-16.4%	-466
<b>Healthcare</b>	<b>21.2%</b>	<b>23.4%</b>	<b>19.7%</b>	<b>17.7%</b>	<b>19.7%</b>	<b>19.9%</b>	<b>11.9%</b>	<b>17.8%</b>	<b>22.6%</b>	<b>22.7%</b>	<b>-0.7%</b>	<b>435</b>
<b>Industrials</b>	<b>17.2%</b>	<b>17.0%</b>	<b>18.0%</b>	<b>18.3%</b>	<b>19.0%</b>	<b>18.5%</b>	<b>13.8%</b>	<b>15.3%</b>	<b>18.8%</b>	<b>19.0%</b>	<b>-0.1%</b>	<b>188</b>
<b>Materials</b>	<b>19.2%</b>	<b>24.9%</b>	<b>32.7%</b>	<b>28.3%</b>	<b>32.6%</b>	<b>21.3%</b>	<b>17.4%</b>	<b>20.2%</b>	<b>20.7%</b>	<b>20.9%</b>	<b>-11.8%</b>	<b>-154</b>
Metals	19.1%	25.8%	35.5%	29.9%	33.2%	20.2%	16.4%	18.8%	20.6%	20.7%	-14.9%	-118
Cement	20.1%	21.2%	20.7%	21.1%	30.3%	30.4%	25.4%	29.2%	21.8%	22.6%	-7.9%	-488
<b>Technology</b>	<b>25.8%</b>	<b>24.8%</b>	<b>26.9%</b>	<b>26.2%</b>	<b>25.7%</b>	<b>24.2%</b>	<b>25.0%</b>	<b>26.5%</b>	<b>25.4%</b>	<b>24.4%</b>	<b>-7.3%</b>	<b>-94</b>
<b>Telecom</b>	<b>28.5%</b>	<b>28.4%</b>	<b>31.0%</b>	<b>25.4%</b>	<b>32.4%</b>	<b>35.4%</b>	<b>34.2%</b>	<b>32.3%</b>	<b>28.9%</b>	<b>28.9%</b>	<b>-6.4%</b>	<b>-371</b>
<b>Utilities</b>	<b>22.7%</b>	<b>23.8%</b>	<b>19.6%</b>	<b>20.2%</b>	<b>13.5%</b>	<b>18.3%</b>	<b>12.8%</b>	<b>20.0%</b>	<b>22.1%</b>	<b>27.1%</b>	<b>-1.8%</b>	<b>973</b>
<b>Aggregate</b>	<b>20.4%</b>	<b>21.6%</b>	<b>21.7%</b>	<b>20.2%</b>	<b>18.7%</b>	<b>20.3%</b>	<b>17.2%</b>	<b>20.1%</b>	<b>19.4%</b>	<b>19.3%</b>	<b>-2.5%</b>	<b>10</b>

## EBITDA margin risks skewed to the upside

- We compare the MS forecasts for F2012 EBITDA margins with previous peaks as well as with the trailing five-year average. The forecast is off the peak for all sectors. Sectors to watch for possible upside margin surprise seem to be Cement, Private Sector Energy, Telecoms, Autos, Technology and Real Estate. The downside risk seems to be in Consumer Staples, Industrials and Banks. Overall, it is quite possible that EBITDA margins may be slightly conservative given the upside case for gross margins.



## CORPORATE FUNDAMENTALS

## QE Sep-11 Earnings Season Thus Far (MS Coverage Universe)

**Total MS Coverage:**  
Accounts for 70% of India's market cap

**Revenue Growth (ex-energy):** 20% YoY for MS Coverage

**Sector Profit Growth:**  
Utilities and Industrials lead, Energy and Telecoms lag

**EBITDA Margins:**  
Compression in 6 out of ten sectors

# Cos Rptd earnings	#Cos beating earnings expectations	YoY change MS Coverage	MS Estimates				Actuals						
			Sales	EBITDA	Net Profit	EBITDA Margins	Sales	EBITDA	Net Profit	EBITDA Margins	Chg in EBITDA Mrgn (bps)	NP Growth vs. MS estimates	
8	3	Cons. Disc.	7%	-2%	2%	13%	8%	-6%	-8%	13%	(177)	-10%	
5	2	Cons. Staples	17%	16%	15%	25%	19%	20%	19%	25%	12	4%	
5	0	Energy	33%	-54%	-80%	4%	26%	-62%	-90%	4%	(873)	-11%	
18	11	Financials	11%	9%	12%	55%	12%	15%	13%	57%	152	1%	
2	1	Healthcare	11%	4%	-6%	19%	21%	12%	5%	18%	(144)	10%	
2	1	Industrials	15%	26%	15%	12%	19%	21%	19%	11%	19	4%	
9	4	Materials	30%	40%	10%	23%	37%	29%	11%	20%	(128)	1%	
9	6	Technology	23%	18%	15%	25%	21%	14%	12%	24%	(131)	-2%	
2	1	Telecom	26%	34%	-42%	25%	26%	34%	-42%	26%	161	0%	
3	0	Utilities	19%	33%	51%	22%	21%	15%	20%	18%	(98)	-31%	
63	29	<b>Total (MS Cov)</b>	<b>25%</b>	<b>-2%</b>	<b>-13%</b>	<b>16%</b>	<b>23%</b>	<b>-6%</b>	<b>-18%</b>	<b>15%</b>	<b>(475)</b>	<b>-5%</b>	
58	29	<b>Total ex-Energy</b>	<b>18%</b>	<b>18%</b>	<b>14%</b>	<b>27%</b>	<b>20%</b>	<b>16%</b>	<b>12%</b>	<b>26%</b>	<b>(86)</b>	<b>-3%</b>	
40	18	<b>Total ex-fin and energy</b>	<b>20%</b>	<b>23%</b>	<b>16%</b>	<b>21%</b>	<b>22%</b>	<b>17%</b>	<b>11%</b>	<b>19%</b>	<b>(80)</b>	<b>-5%</b>	
16	9	<b>Sensex</b>	<b>29%</b>	<b>16%</b>	<b>19%</b>	<b>20%</b>	<b>27%</b>	<b>12%</b>	<b>15%</b>	<b>20%</b>	<b>(254)</b>	<b>-4%</b>	
15	9	<b>Sensex ex-Energy</b>	<b>19%</b>	<b>21%</b>	<b>19%</b>	<b>26%</b>	<b>20%</b>	<b>15%</b>	<b>14%</b>	<b>24%</b>	<b>(114)</b>	<b>-5%</b>	
1193		<b>Broad market</b>					<b>22%</b>	<b>2%</b>	<b>-12%</b>	<b>19%</b>	<b>(368)</b>		
1181		<b>Broad market Ex-energy</b>					<b>19%</b>	<b>16%</b>	<b>7%</b>	<b>27%</b>	<b>(106)</b>		

**Broad Market:**  
Accounting for 56% of India's market cap have reported earnings so far

**Sensex Profit Growth:** up 15% YoY, 4ppt behind expectations

**Broad Market (ex-energy):** growth of 19% and 7% YoY in revenues and profits

**Aggregate Earnings (ex-energy):** up 12% YoY, 3ppt behind expectations

Source: Company data, Capitaline, Morgan Stanley Research  
Please note Sensex estimate for quarter does not include Coal India.

CORPORATE FUNDAMENTALS

QE Jun-11 Earnings Season Actual vs. Expected (Morgan Stanley Coverage Universe)

**Total MS Coverage:**  
 Accounts for 70% of India's market cap

**Revenue Growth:**  
 26% YoY for MS Coverage and 28% YoY for the broad market

**Sector Profit Growth:**  
 Energy leading the pack while Telecoms lag

**EBITDA Margins:**  
 Compression across all 10 sectors

# Cos Rptd earnings	#Cos beating earnings expectations	YoY change MS Coverage	MS Estimates				Actuals					
			Sales	EBITDA	Net Profit	EBITDA Margins	Sales	EBITDA	Net Profit	EBITDA Margins	Chg in EBITDA Mrgn (bps)	NP Growth vs. MS estimates
15	7	Cons. Disc.	18%	13%	9%	14%	19%	9%	13%	14%	(132)	3%
8	3	Cons. Staples	20%	17%	17%	22%	22%	16%	16%	21%	(110)	0%
8	4	Energy	35%	69%	130%	15%	38%	28%	52%	11%	(80)	-78%
27	9	Financials	17%	18%	9%	57%	15%	11%	-4%	55%	(200)	-13%
7	1	Healthcare	17%	1%	-2%	22%	12%	0%	0%	23%	(278)	2%
12	5	Industrials	15%	13%	8%	15%	19%	14%	2%	15%	(60)	-6%
13	8	Materials	24%	1%	1%	20%	25%	8%	3%	21%	(343)	2%
10	5	Technology	23%	18%	17%	24%	24%	14%	16%	23%	(193)	0%
6	0	Telecom	25%	19%	-3%	29%	23%	19%	-43%	30%	(98)	-39%
8	5	Utilities	22%	18%	-5%	22%	20%	13%	17%	22%	(137)	22%
114	47	<b>Total (MS Cov)</b>	<b>25%</b>	<b>24%</b>	<b>25%</b>	<b>22%</b>	<b>26%</b>	<b>15%</b>	<b>11%</b>	<b>20%</b>	<b>(204)</b>	<b>-14%</b>
106	43	<b>Total ex-Energy</b>	<b>20%</b>	<b>13%</b>	<b>6%</b>	<b>26%</b>	<b>21%</b>	<b>11%</b>	<b>3%</b>	<b>25%</b>	<b>(206)</b>	<b>-3%</b>
79	34	<b>Total ex-fin and energy</b>	<b>21%</b>	<b>11%</b>	<b>5%</b>	<b>20%</b>	<b>22%</b>	<b>12%</b>	<b>7%</b>	<b>20%</b>	<b>(177)</b>	<b>1%</b>
30	17	<b>Sensex</b>	<b>22%</b>	<b>14%</b>	<b>12%</b>	<b>23%</b>	<b>25%</b>	<b>14%</b>	<b>9%</b>	<b>22%</b>	<b>(218)</b>	<b>-2%</b>
28	17	<b>Sensex ex-Energy</b>	<b>20%</b>	<b>15%</b>	<b>11%</b>	<b>24%</b>	<b>22%</b>	<b>16%</b>	<b>8%</b>	<b>23%</b>	<b>(125)</b>	<b>-3%</b>
3317		<b>Broad market</b>					<b>28%</b>	<b>21%</b>	<b>15%</b>	<b>19%</b>	<b>(108)</b>	
3287		<b>Broad market Ex-energy</b>					<b>23%</b>	<b>19%</b>	<b>12%</b>	<b>24%</b>	<b>(75)</b>	

**Earnings Beat:**  
 Surprise breadth (at 41%) fell almost to Dec-08 levels

**Sensex Profit Growth:** Up 9% YoY, 2ppt behind expectations

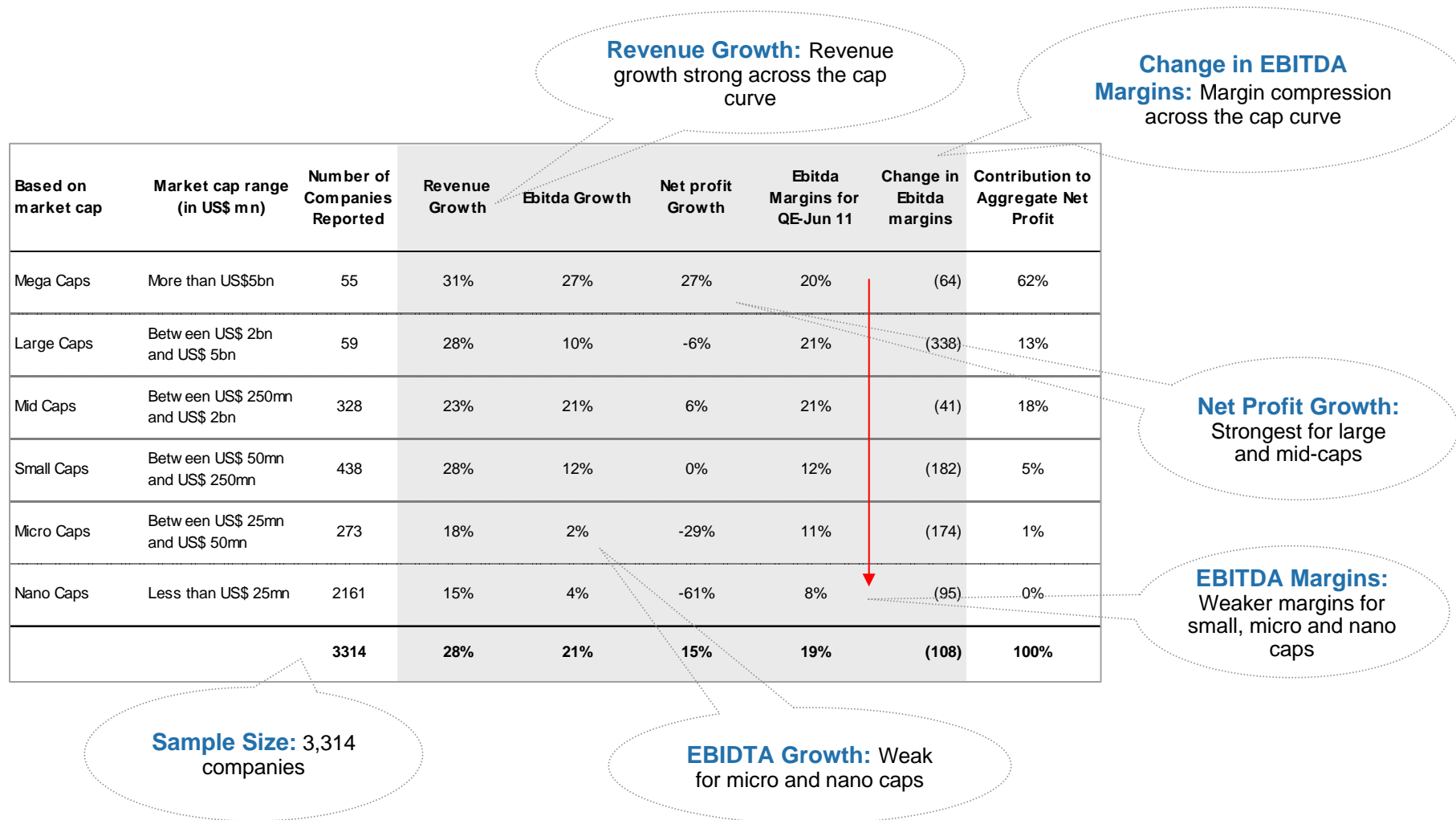
**Broad Market (ex-Energy):** 12% YoY profit growth

**Aggregate Earnings (ex-Energy):** Up 3% YoY, 3ppt below expectations

**NP Growth vs. MS Est:**  
 Lags in six out of 10 sectors

CORPORATE FUNDAMENTALS

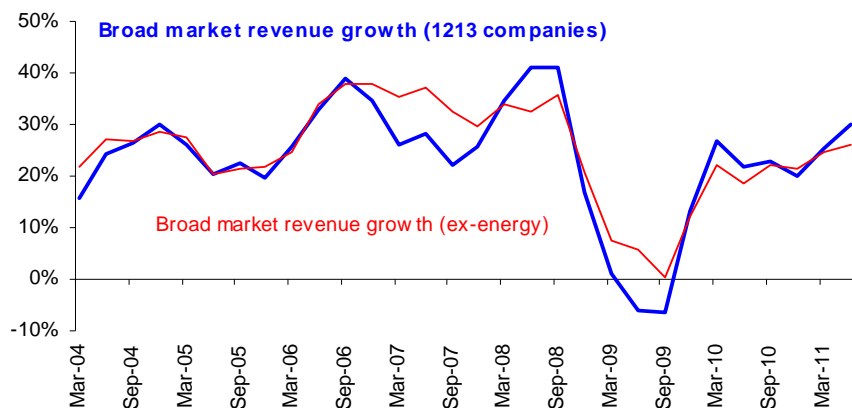
Snapshot of the Broad Market Earnings (QE Jun-11)



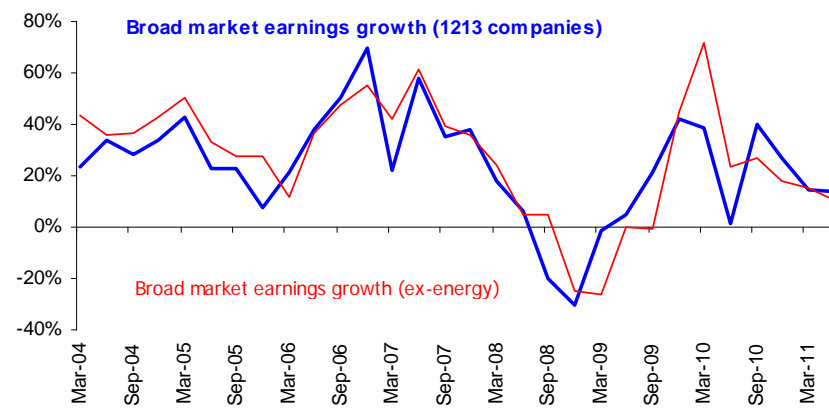
CORPORATE FUNDAMENTALS

QE-Jun11 Earnings: Broad Earnings (Ex-Energy) Growth at a Two-year Low

Broad Market Revenue Growth



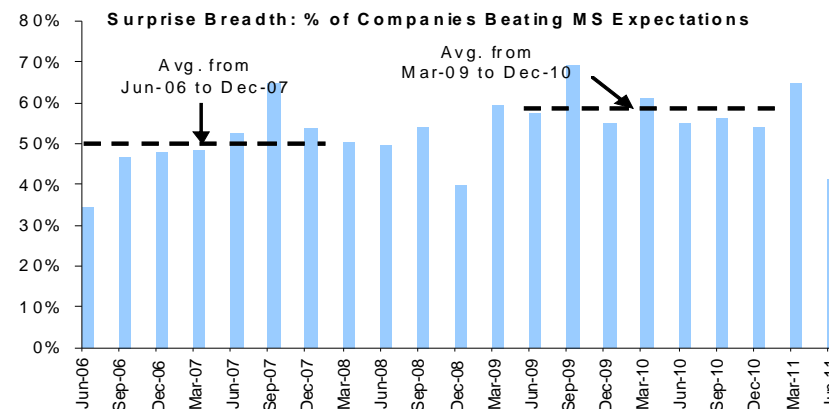
Broad Market Net Profit Growth



Sectoral Quarterly Earnings Trend

MSCI Sector	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Consumer Discretionary	199%	92%	84%	48%	16%	-3%
Consumer Staples	31%	-8%	-5%	-4%	31%	35%
Energy	-28%	-85%	115%	86%	13%	118%
Financials	27%	28%	24%	25%	9%	0%
Health Care	NM	11%	24%	47%	-6%	10%
Industrials	22%	-7%	30%	11%	33%	9%
Information Technology	16%	19%	13%	19%	15%	23%
Materials	295%	54%	47%	21%	26%	34%
Telecoms	-68%	-54%	-49%	-60%	-79%	-86%
Utilities	66%	8%	15%	2%	0%	9%
<b>Total</b>	<b>38%</b>	<b>1%</b>	<b>40%</b>	<b>27%</b>	<b>15%</b>	<b>14%</b>
<b>Total (ex Energy)</b>	<b>71%</b>	<b>23%</b>	<b>27%</b>	<b>18%</b>	<b>15%</b>	<b>11%</b>

Earnings Breadth: Falls in the Latest Quarter

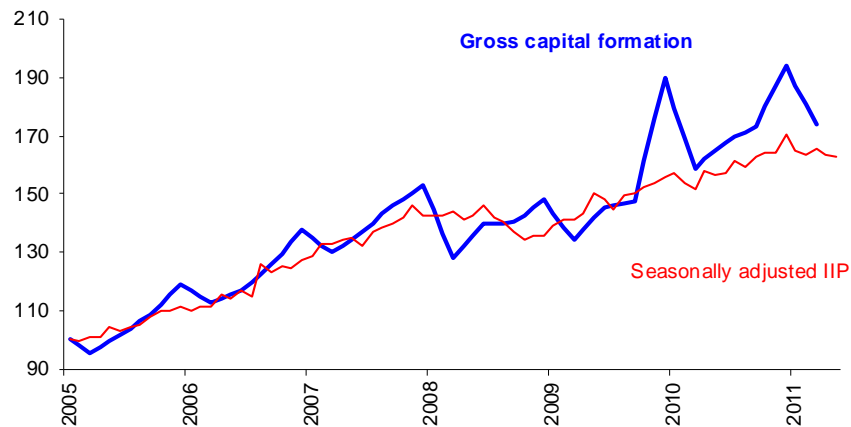


Source: Capitaline, Morgan Stanley Research

CORPORATE FUNDAMENTALS

Demand Side Supportive of Capex Trough

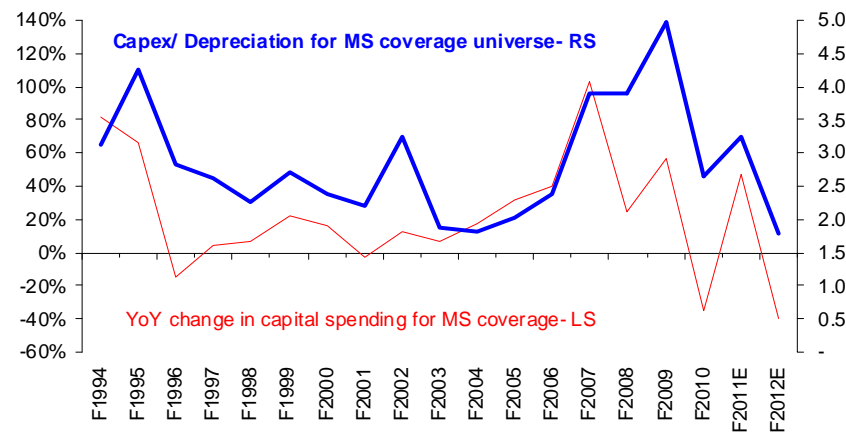
Output Gap Is Closing



Trade Deficit Has Contracted



Private Capex Has Collapsed



Decline in Capex Was Broad-based

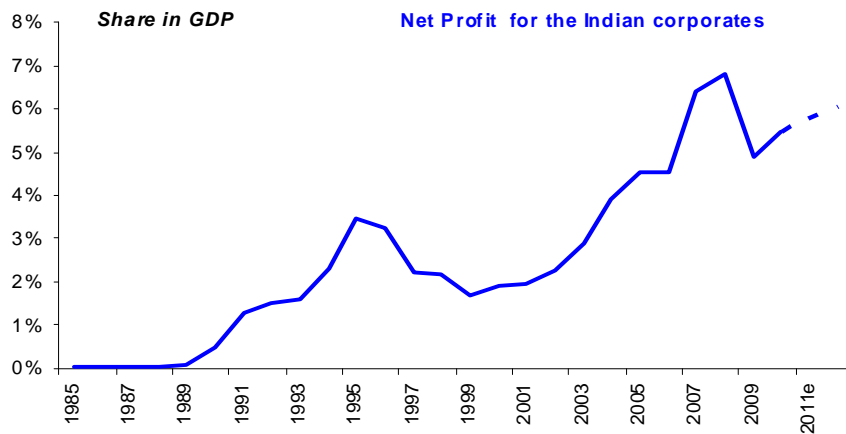
Capex to Dep	Avg F93 to F07	F2007	F2010	F2012E	Change (F12 over F07)
Cons. Staples	1.93	3.44	2.40	1.67	-52%
Cons. Disc.	1.55	5.24	2.02	1.74	-67%
Energy	1.74	3.93	1.90	0.76	-81%
Healthcare	2.48	4.00	1.48	1.54	-61%
Industrials	1.92	5.17	3.87	3.18	-39%
Materials	1.32	2.94	2.56	3.28	12%
Technology	1.28	2.52	1.09	1.76	-30%
Telecom	1.16	4.97	1.50	1.00	-80%
Utilities	1.59	4.74	9.32	5.37	13%
<b>Total</b>	<b>1.63</b>	<b>4.18</b>	<b>2.64</b>	<b>1.80</b>	<b>-57%</b>

Source: CSO, PPAC, Company data, Morgan Stanley Research E: Morgan Stanley estimates

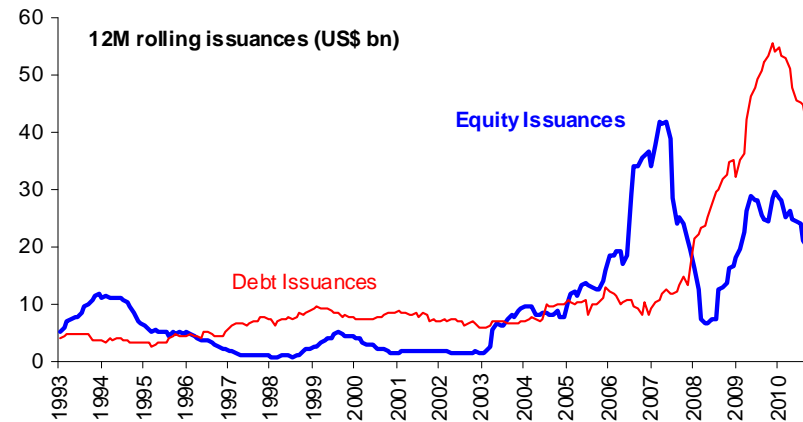
CORPORATE FUNDAMENTALS

Supply-side Factors Favor Recovery in Capex but Not as Strongly

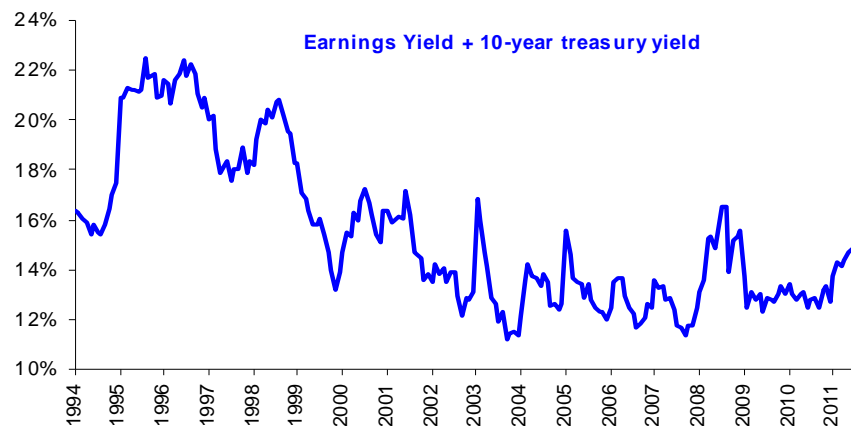
Profits to GDP Heading Higher in 2012



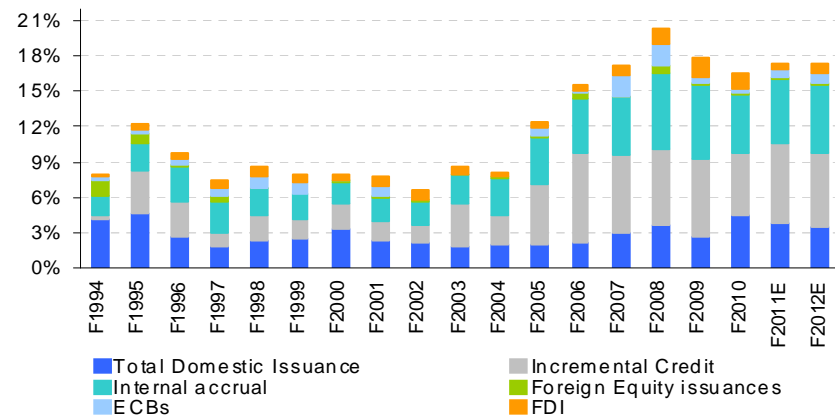
Equity and Debt Issuances: Sluggish Primary Markets



Capital Approaching Multi-year Highs



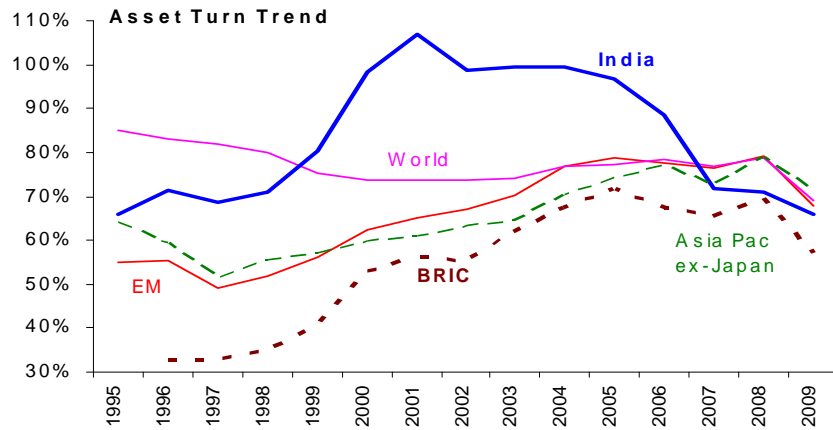
Capital Supply Likely to Remain Flat



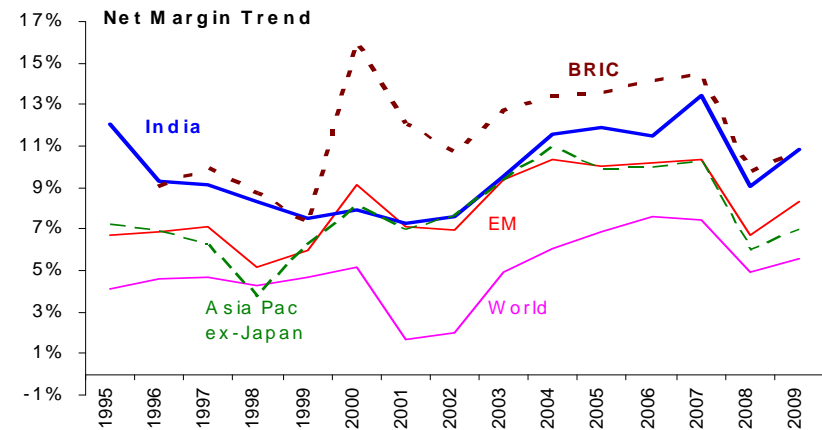
CORPORATE FUNDAMENTALS

India's ROE Advantage Expands

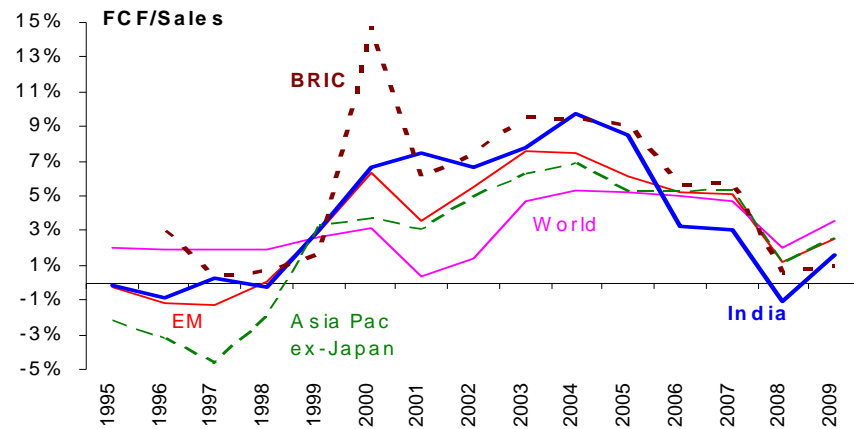
India's Asset Utilization Still Falling in 2009



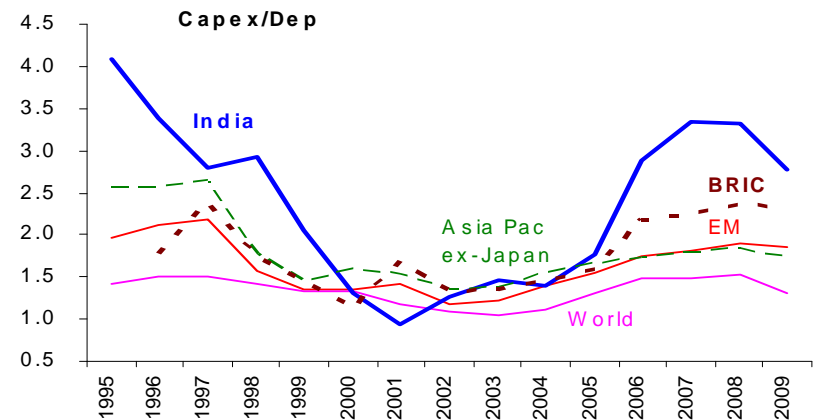
India's Net Margins Recover from Cyclical Correction



Free Cash Flows Starts Recovery



India's Capex Has Gone through Cyclical Correction



Source: World Scope, FactSet, Morgan Stanley Research

## CORPORATE FUNDAMENTALS

## Summary of Sector-wise Profit Drivers

## Sectorwise YoY Change in Indicators and Their Current Level Vs. Peak (Current minus Peak Level)

Gross margins and operating leverage well below peak, Capital costs to sales above historical levels

Sector	# Companies	Gross Margins		Operating Leverage		Employee Cost/Sales		Capital Costs/Sales	
		Current-Peak	4-qtr change (bps)	Current-Peak	4-qtr change (bps)	Current-Peak	4-qtr change (bps)	Current-Peak	4-qtr change (bps)
Consumer Discretionary	268	-8%	-378	-13%	-214	-2%	-16	-1%	-4
Consumer Staples	69	-7%	96	-5%	-91	-1%	13	-1%	-4
Consumer Staples (ex-sugar)	56	-7%	-466	-6%	-460	-1%	5	-1%	-74
Energy	29	-21%	-80	-12%	32	-1%	-16	-1%	-60
Banks	40	-	-	-11%	14	-7%	55	NA	NA
NBFCs	79	-	-	-33%	-49	-1%	-22	NA	NA
Real Estate	43	-25%	-818	-36%	-393	-3%	59	-3%	-5
Health Care	66	-9%	-210	-19%	-121	0%	94	-2%	-40
Industrials	148	-11%	-457	-9%	-285	-3%	-107	0%	56
Information Technology	73	-	-	-1%	-13	0%	54	-4%	-203
Materials	286	-16%	-275	-19%	-170	-2%	-75	-7%	-214
Telecoms	20	-	-	-15%	52	-7%	50	-2%	660
Utilities	24	-4%	206	-5%	294	-1%	-5	-7%	-9
<b>Total</b>	<b>1145</b>	<b>-11%</b>	<b>-315</b>	<b>-8%</b>	<b>-164</b>	<b>-1%</b>	<b>-59</b>	<b>-1%</b>	<b>-59</b>
<b>Total ex (Energy, Financials, Real Estate, Tech, Telecoms)</b>	<b>861</b>	<b>-10%</b>	<b>-279</b>	<b>-9%</b>	<b>-166</b>	<b>-1%</b>	<b>-50</b>	<b>-3%</b>	<b>-77</b>

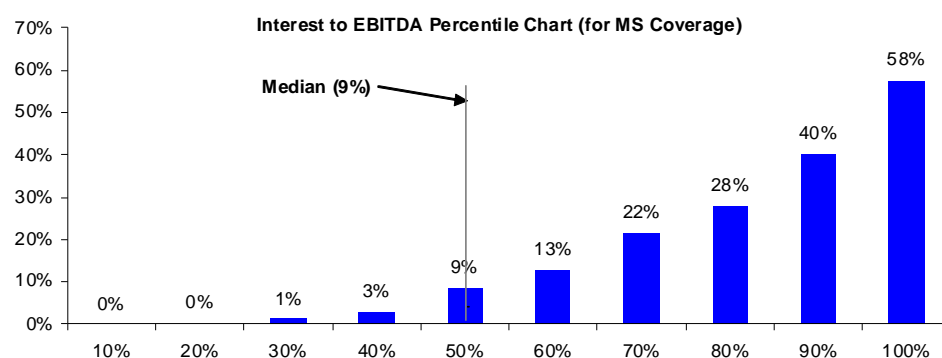


## CORPORATE FUNDAMENTALS

## Stocks of Companies in the Interest Cost Tails Already Hurt

## Interest Rates Matter only for the Tail

20% of our coverage universe lose a third of EBITDA in interest payments



## Top quintile of Interest/EBITDA Already Hammered by the Market

Stocks	F12E Interest to EBITDA (in INR Mn)	Trailing 6 months perf.
GMR Infrastructure	58%	-29%
Bajaj Hindustan	57%	-41%
DLF Limited	47%	12%
Essar Oil	46%	-35%
Balrampur Chini Mills	46%	-27%
Tata Communications	45%	-18%
VRCL Infrastructures & Projects	44%	-49%
Aban Offshore	44%	-30%
Jaiprakash Associates	42%	-10%
JSW Energy	42%	-26%
Indian Hotels Company	39%	-11%
LANCO Infratech	38%	-55%
Nagarjuna Construction Company	35%	-48%
Pantaloon Retail	35%	-24%
United Spirits	34%	-22%
Shree Renuka Sugars	34%	-18%
Tata Power Co	31%	-14%
Adani Power	30%	-21%
Jaypee Infra	30%	-7%
Bharat Petroleum Corp.	28%	-5%

## Interest costs are not high

- It is only the tail that is affected by rising rates if we use the MS coverage universe as our set. Indeed, the stocks in the top interest/EBITDA quintile have been sold quite heavily in the past two quarters if their performance is any indicator.
- The median interest/EBITDA for F2012 is only 9%.

## CORPORATE FUNDAMENTALS

## Stock Pledging – How Big Is the Hole?

## Sectoral Distribution of Promoter Holding

MSCI Sectors	No. of cos	Total value of stock pledged (US\$m)	Share in total Pledge Value	MCap (US\$m)	Value of Pledged As a % of market cap
Consumer Discretionary	196	5,509	16%	56,710	9.7%
Consumer Staples	65	2,352	7%	22,719	10.4%
Energy	8	736	2%	4,890	15.0%
Financials	66	2,615	8%	15,945	16.4%
Health Care	48	2,212	7%	26,879	8.2%
Industrials	90	4,944	15%	61,548	8.0%
Information Technology	54	4,773	14%	57,648	8.3%
Materials	213	4,535	14%	64,302	7.1%
Telecoms	14	446	1%	3,697	12.1%
Utilities	14	5,272	16%	24,221	21.8%
<b>Total</b>	<b>768</b>	<b>33,392</b>	<b>100%</b>	<b>338,560</b>	<b>9.9%</b>

## Trends in Pledging by Sector (# of companies)

MSCI Sectors	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Consumer Discretionary	205	207	205	203	196
Consumer Staples	74	77	80	75	65
Energy	8	8	9	9	8
Financials	66	69	72	72	66
Health Care	51	49	49	52	48
Industrials	88	90	102	99	90
Information Technology	64	61	64	64	54
Materials	198	213	211	215	213
Telecoms	12	13	14	14	14
Utilities	14	14	13	14	14
<b>Total</b>	<b>780</b>	<b>801</b>	<b>819</b>	<b>817</b>	<b>768</b>

## Trends in Pledging by Sector (US\$ mn)

MSCI Sectors	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Consumer Discretionary	4,355	5,132	4,746	6,232	5,509
Consumer Staples	2,468	2,807	3,036	2,417	2,352
Energy	960	971	978	843	736
Financials	3,765	4,531	3,849	3,056	2,615
Health Care	1,973	2,099	2,240	2,105	2,212
Industrials	5,516	6,883	7,022	6,428	4,944
Information Technology	4,159	5,208	6,365	5,920	4,773
Materials	3,744	4,379	4,306	4,103	4,535
Telecoms	477	554	477	510	446
Utilities	7,276	7,077	6,308	5,425	5,272
<b>Total</b>	<b>34,694</b>	<b>39,642</b>	<b>39,329</b>	<b>37,039</b>	<b>33,392</b>

## Share as % of Total Pledged

MSCI Sectors	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Consumer Discretionary	12.6%	12.9%	12.1%	16.8%	16.5%
Consumer Staples	7.1%	7.1%	7.7%	6.5%	7.0%
Energy	2.8%	2.5%	2.5%	2.3%	2.2%
Financials	10.9%	11.4%	9.8%	8.3%	7.8%
Health Care	5.7%	5.3%	5.7%	5.7%	6.6%
Industrials	15.9%	17.4%	17.9%	17.4%	14.8%
Information Technology	12.0%	13.1%	16.2%	16.0%	14.3%
Materials	10.8%	11.0%	10.9%	11.1%	13.6%
Telecoms	1.4%	1.4%	1.2%	1.4%	1.3%
Utilities	21.0%	17.9%	16.0%	14.6%	15.8%
<b>Total</b>	<b>11.5%</b>	<b>11.1%</b>	<b>10.9%</b>	<b>10.7%</b>	<b>9.9%</b>

## CORPORATE FUNDAMENTALS

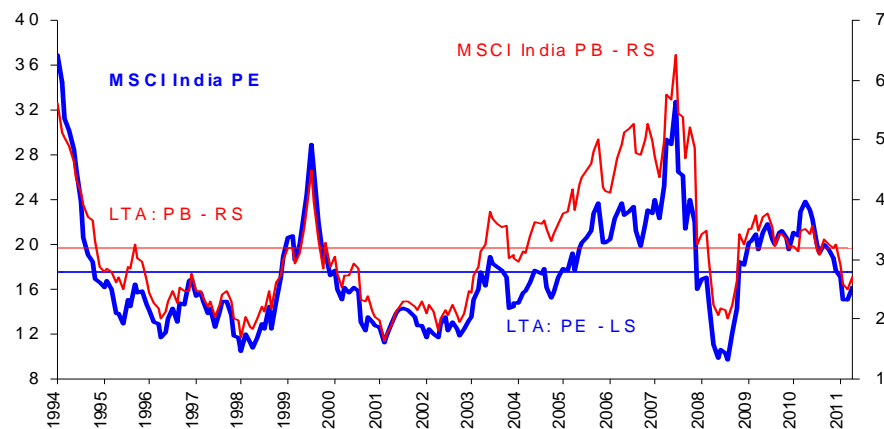
## Largest Pledges by Sector (in Value Terms)

<b>Consumer Discretionary</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>	<b>Industrials</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>
Videocon Inds.	44%	636	Tata Motors	7%	994
Hero Motocorp	7%	622	Suzlon Energy	36%	679
Sun TV Network	13%	384	Pipavav Defence	45%	510
Zee Entertainmen	11%	335	GMR Infra	17%	470
D B Corp	34%	325	Era Infra Engg	47%	325
<b>Consumer Staples</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>	<b>Technology</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>
United Spirits	25%	704	TCS	8%	4253
United Breweries	7%	203	Glodyne Techno	41%	139
Tata Coffee	57%	203	Core Projects	13%	96
Sh.Renuka Sugar	19%	190	NIIT Tech.	24%	58
Tata Global	11%	151	Spanco Ltd	29%	27
<b>Energy</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>	<b>Materials</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>
Essar Oil	13%	533	Asian Paints	14%	977
Shiv-Vani OilGas	42%	96	JSW Steel	11%	467
Aban Offshore	18%	93	Bhushan Steel	17%	360
Dolphin Offshore	18%	9	Guj NRE Coke	38%	239
Confidence Petro	3%	3	JSW ISPAT	20%	205
<b>Financials</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>	<b>Telecoms</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>
Unitech	33%	619	Tata Tele. Mah.	26%	212
Religare Enterp.	21%	303	Tulip Telecom	11%	60
Omaxe	60%	303	GTL	23%	45
Parsvnath Developers	59%	272	Tata Comm	4%	44
Ackruti City	59%	187	AGC Networks	51%	27
<b>Healthcare</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>	<b>Utilities</b>	<b>% Paid-up Capital</b>	<b>Pledged Value (\$m)</b>
Wockhardt	64%	575	Adani Power	39%	2112
Fortis Healthcare	37%	546	JP Power	52%	1158
Apollo Hospitals	20%	261	Tata Power	11%	783
Plethico Pharma	74%	196	JSW Energy	15%	372
Aurobindo Pharma	11%	124	Indiabulls Power	40%	326

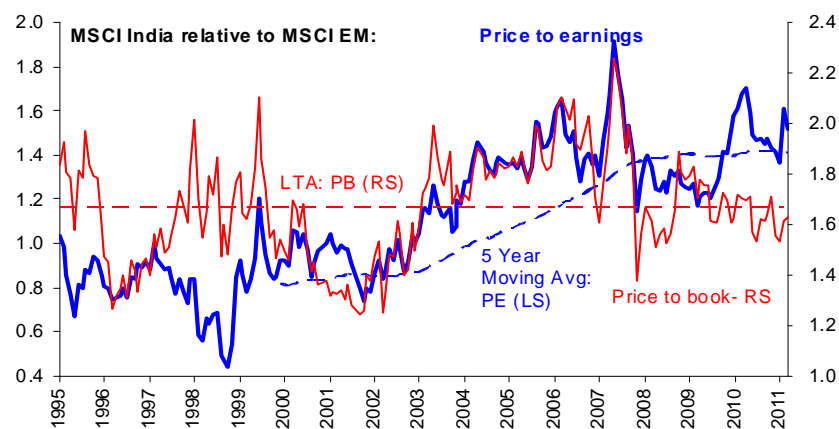
VALUATIONS

No Longer Rich

Absolute Valuations: At Historical Averages



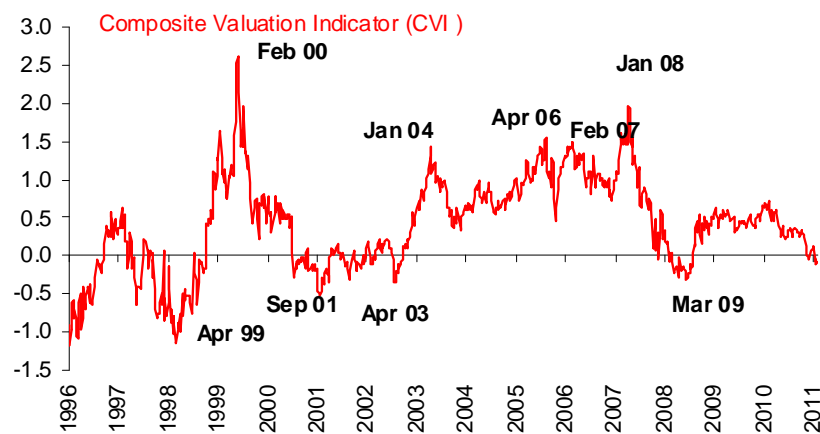
Relative Valuations: Off Highs



Sensex: Key Valuation Metrics\*

BSE Sensex	Current	Median	Current / Median	Curr as SD from avg
P/E (trailing)	16.1	16.6	1.0	(0.4)
12m Fwd PE	12.7	13.1	1.0	(0.2)
P/B	2.3	2.4	1.0	(0.2)
Div yield	2.2%	2.1%	1.0	(0.1)
P/Cash	10.7	10.3	1.0	(0.1)
P/Sales	1.4	1.4	1.0	(0.1)
EV/EBITDA	9.3	10.5	0.9	(0.6)
Earnings yield-Bond yield	-2.7%	-3.1%	0.9	0.2
Bond yield - Div yield	6.4%	5.5%	1.2	0.4
Implied EPS growth	13%	13%	1.0	(0.2)

Composite Valuation Indicator: Neutral Zone

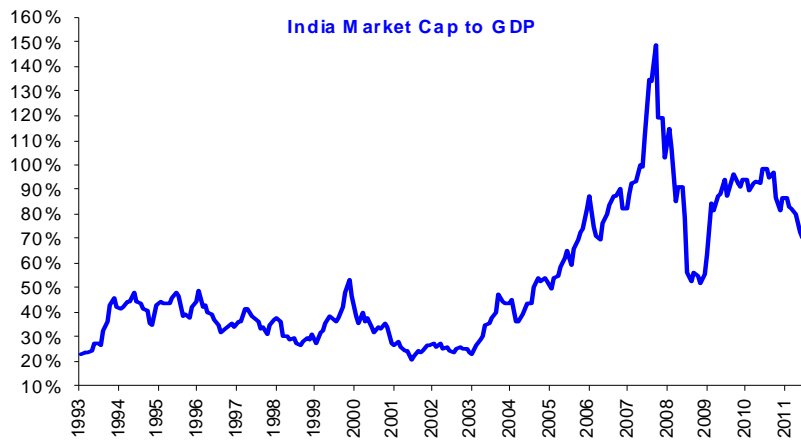


Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research. \*Data as on Nov 2, 2011

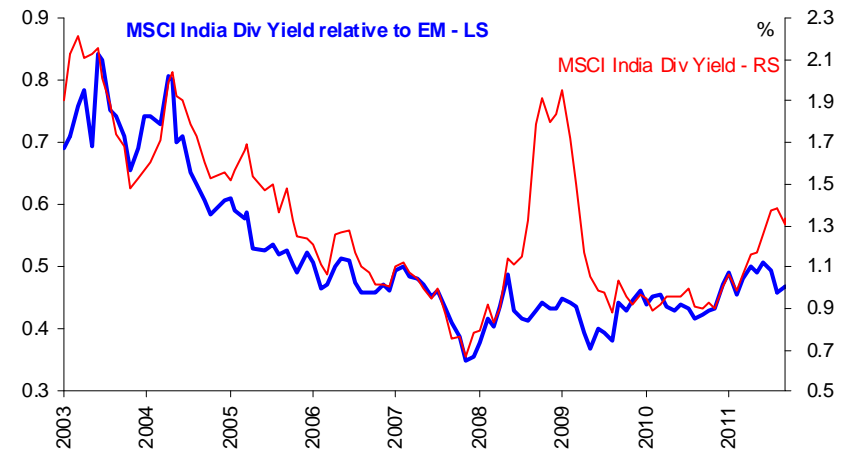
VALUATIONS

Long-term Investors May Reap Rewards

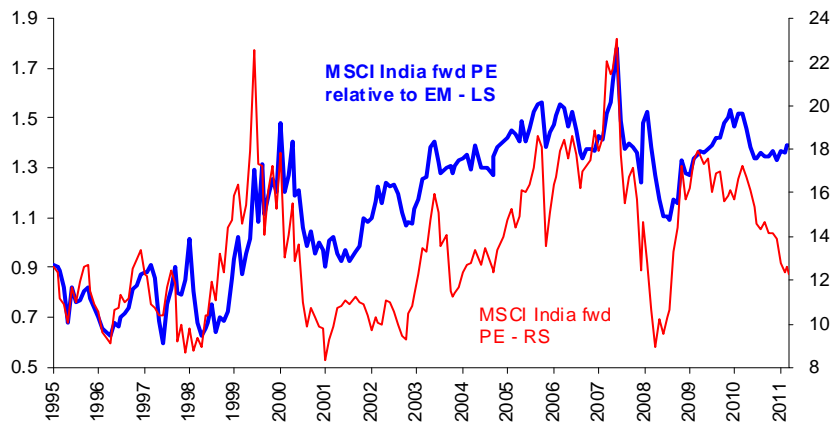
Broad Market Valuations Off Highs



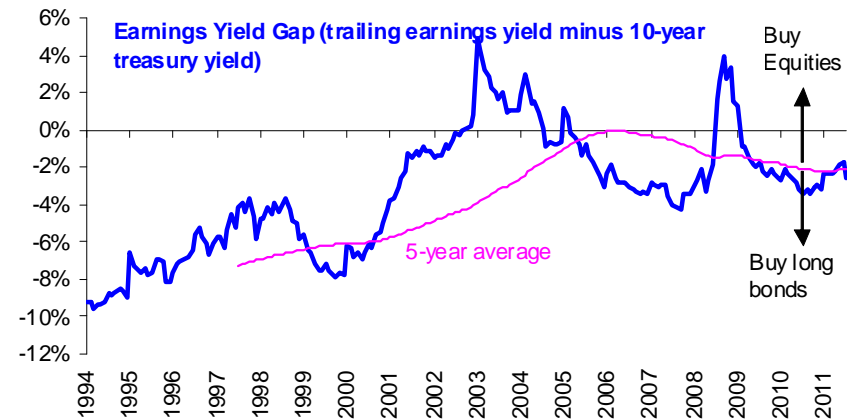
Relative Dividend Yield at Multi-year Highs



Forward P/E Looks Attractive



Equity Valuations vs. Bonds: On the Edge

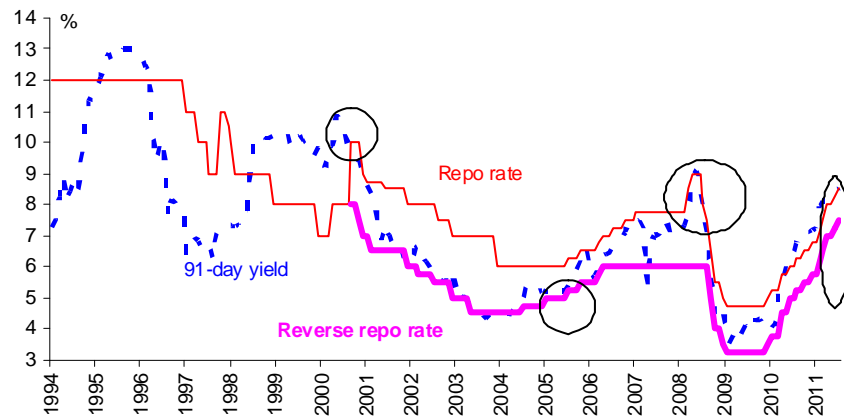


Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research

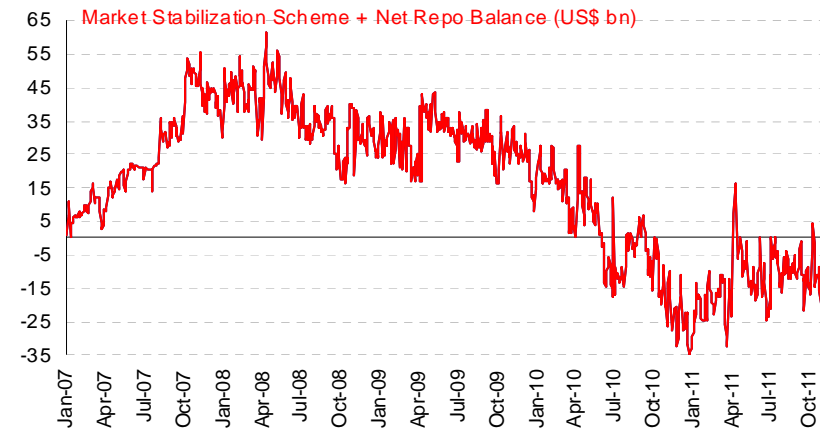
MARKET DYNAMICS

Liquidity Remains Tight but Improving at the Margin

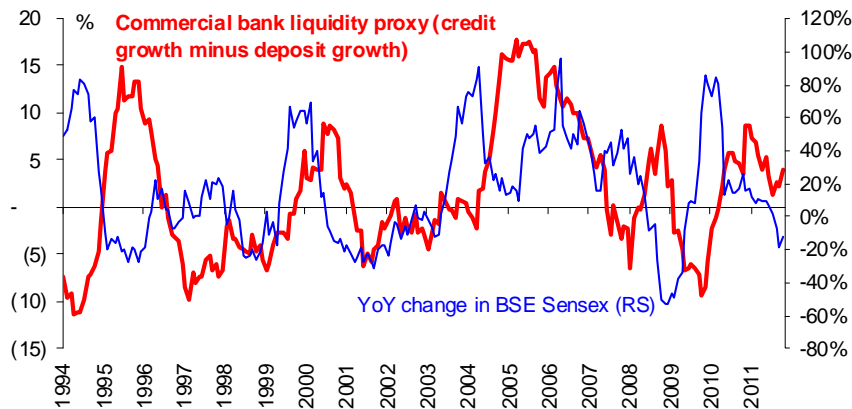
91-day Yield: Indicator of Liquidity/Monetary Position



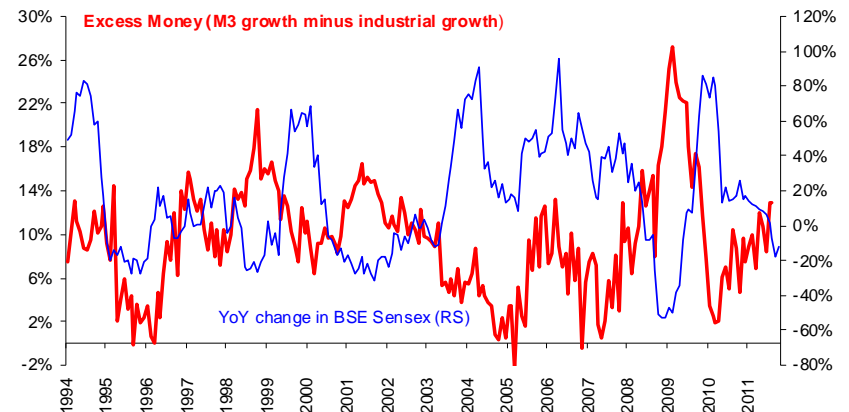
Liquidity Conditions Remain Tight but Improving



Commercial Banks: Peak Tightness Behind Us



Improving Excess Money



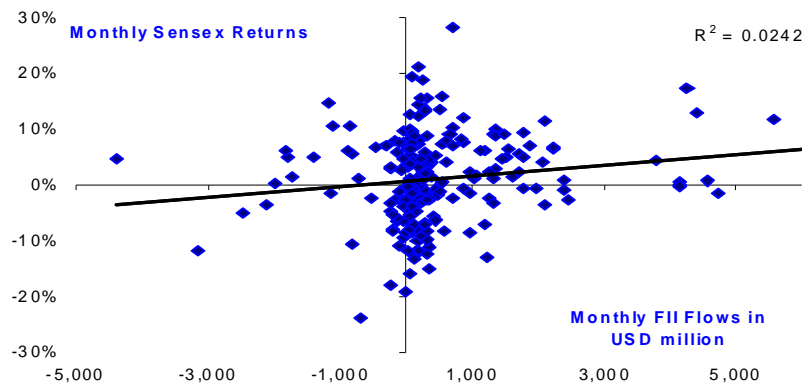
Source: RBI, CEIC, FactSet, MSCI, Bloomberg, Morgan Stanley Research

MARKET DYNAMICS

Capital Flows Remain Critical for India

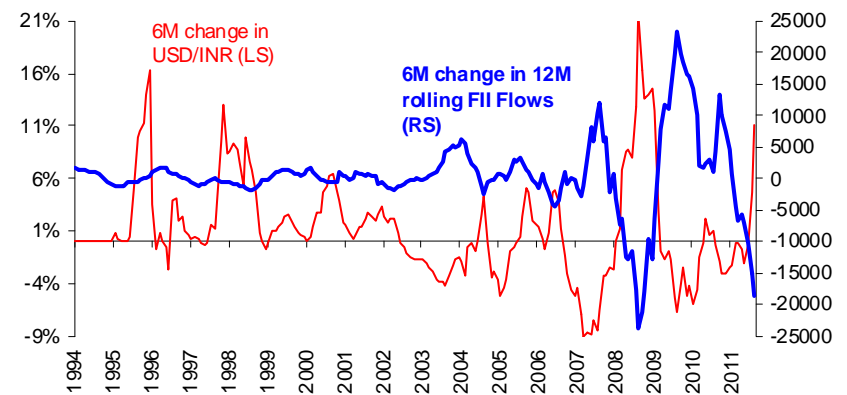
Short-term Returns vs. FII Flows: Extreme Levels Matter

Importance overstated for short-term market returns



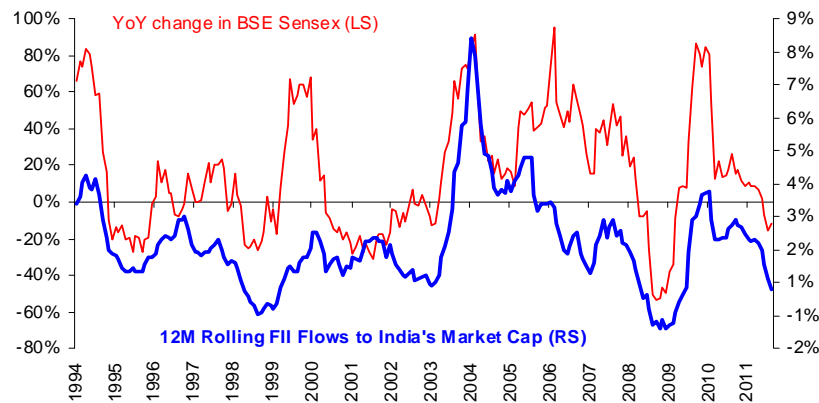
INR Getting Attractive for Equity Investors

Flows move with the currency



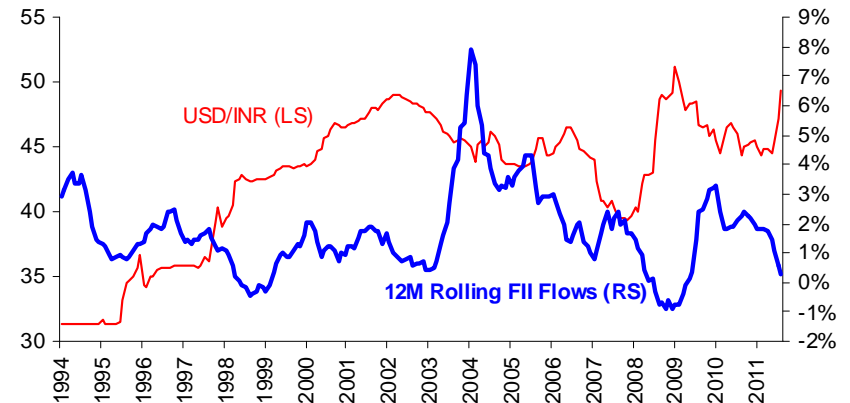
FII Flows Important to 12M Returns

FII flows fund India's current account deficit



INR vs. FII Flows

Concurrent indicators

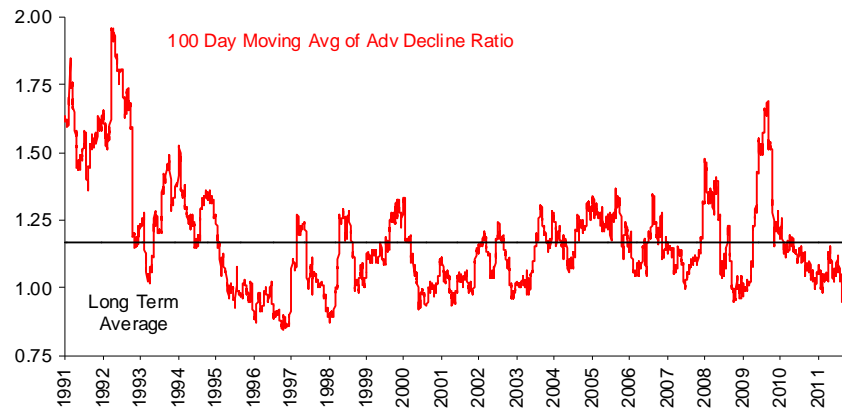


Source: FactSet, SEBI, Bloomberg, Morgan Stanley Research

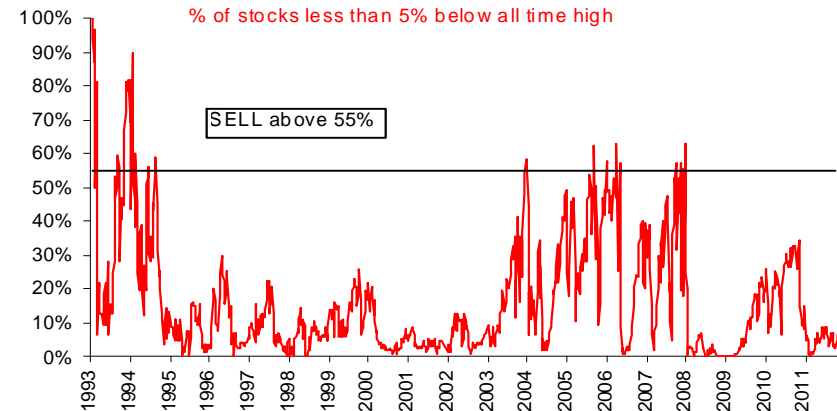
MARKET DYNAMICS

Market Breadth Indicators in Buy Zone

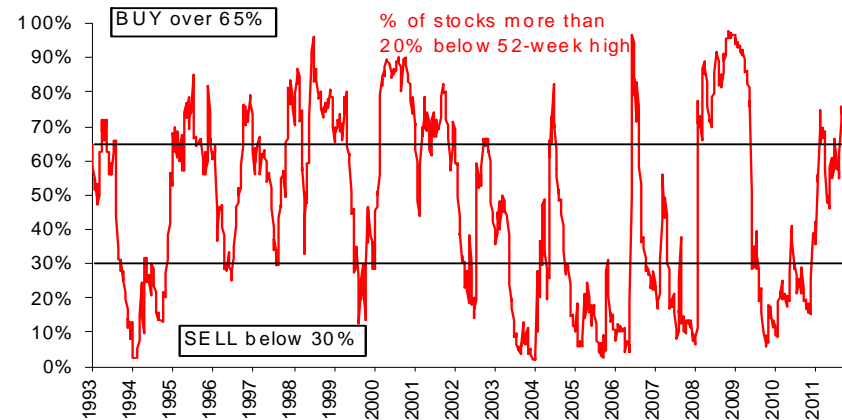
Market Breadth Has Been Weak



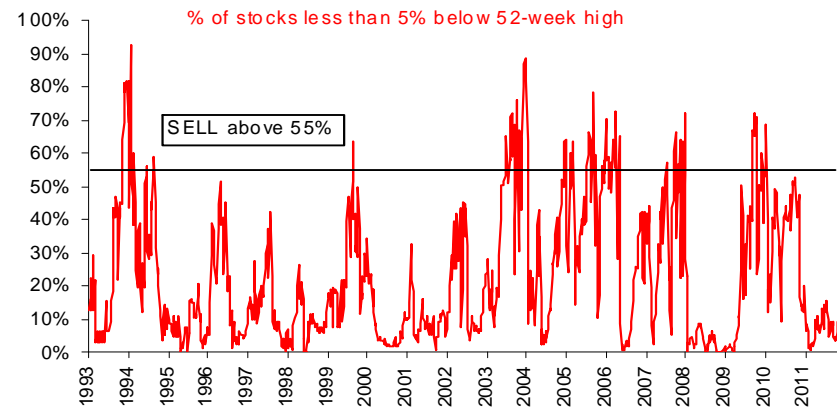
Breadth as Bad as It Gets



Breadth in Buy Zone



Breadth Close to 2008 Levels

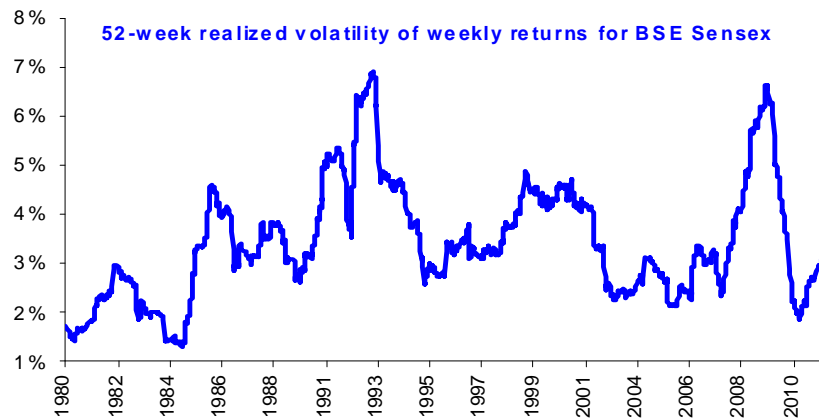




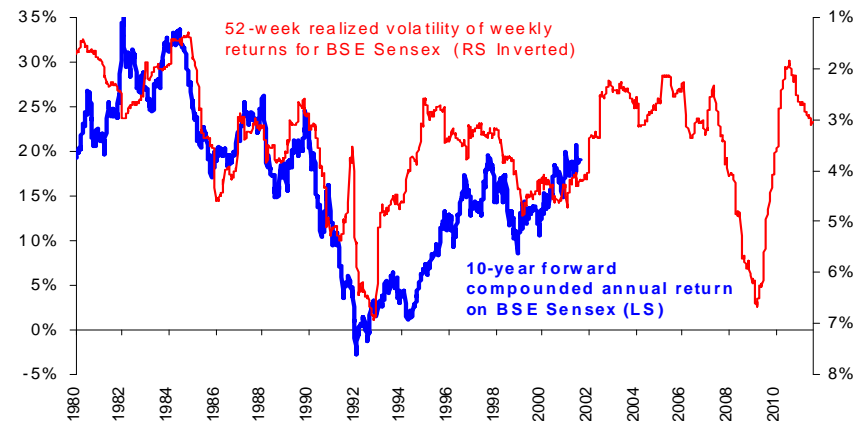
MARKET DYNAMICS

Volatility of Equity Returns Has Risen Both on Absolute and Relative Basis

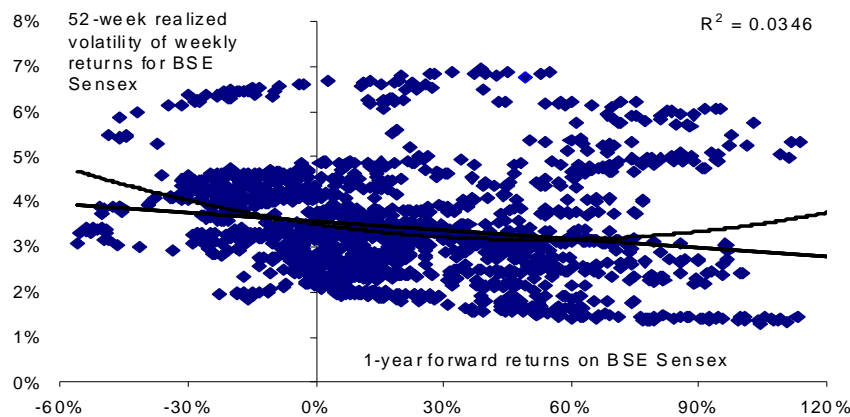
Equities: Absolute Volatility Off 25-year Low



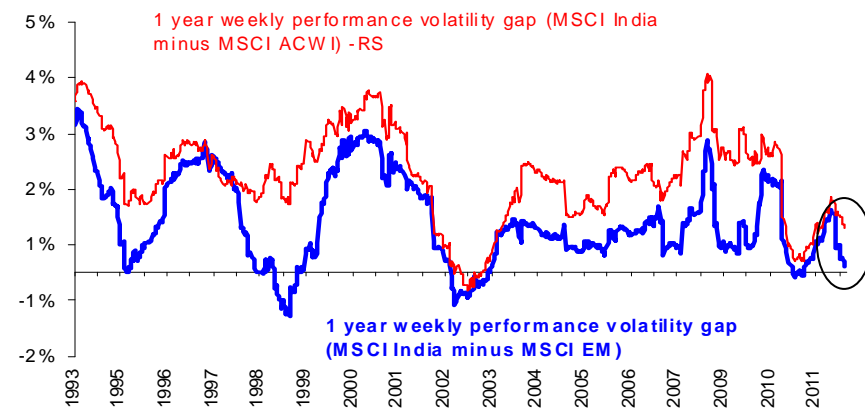
Low Volatility Positive for Long-term Returns



Short-term Equity Returns vs. Volatility: Random Outcomes



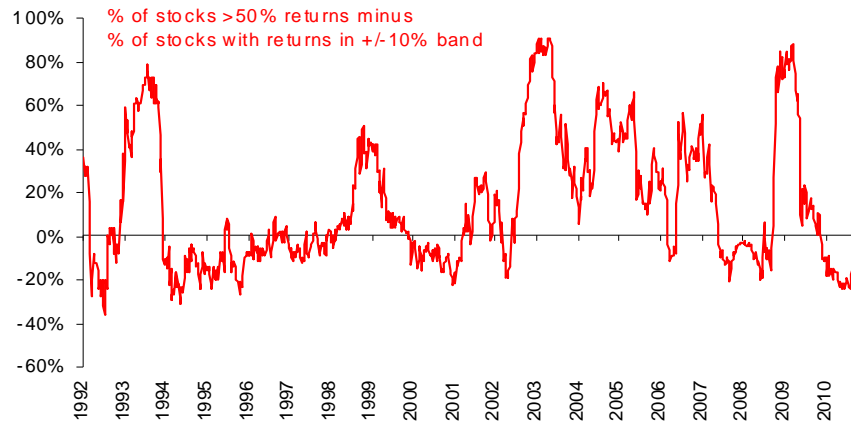
India's Volatility: Falling vs. EM & ACWI



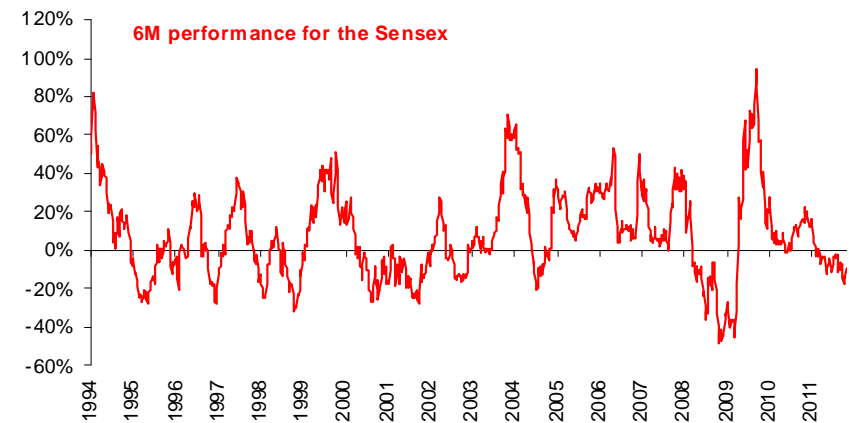
MARKET DYNAMICS

Momentum Indicators in Buy Territory

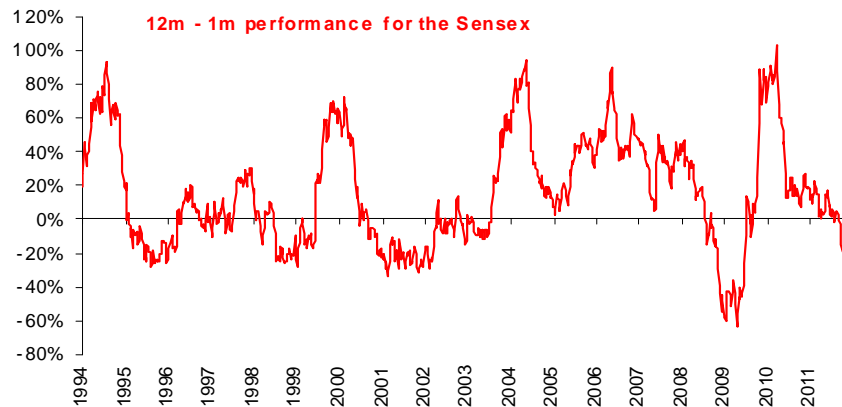
Return Tails in Buy Zone



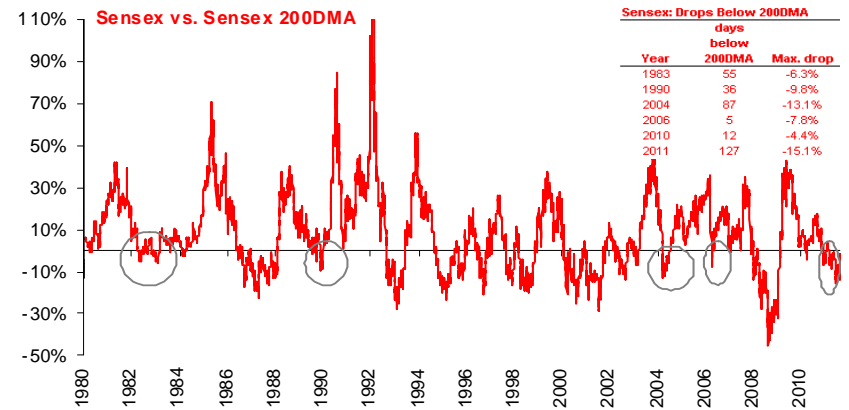
6M Trailing Momentum: Buy Territory



Market Momentum: Also in Buy Zone



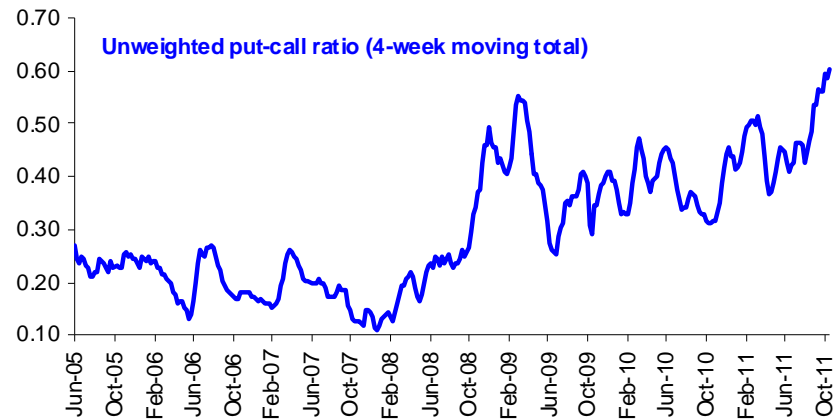
Sensex Deviation from 200DMA: Buy Zone



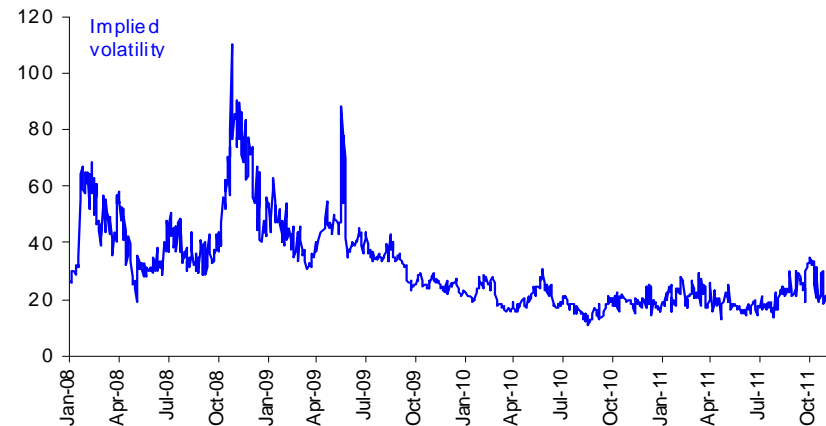
MARKET DYNAMICS

Derivatives Markets: Cautious Market Positioning

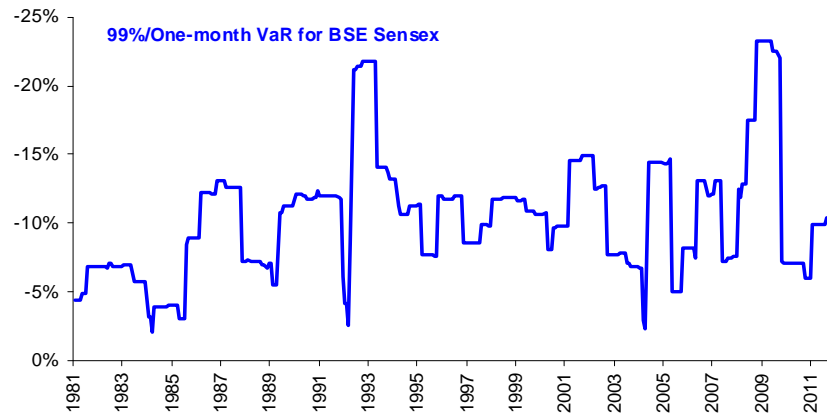
Put Call Ratio: Hedges at Highs



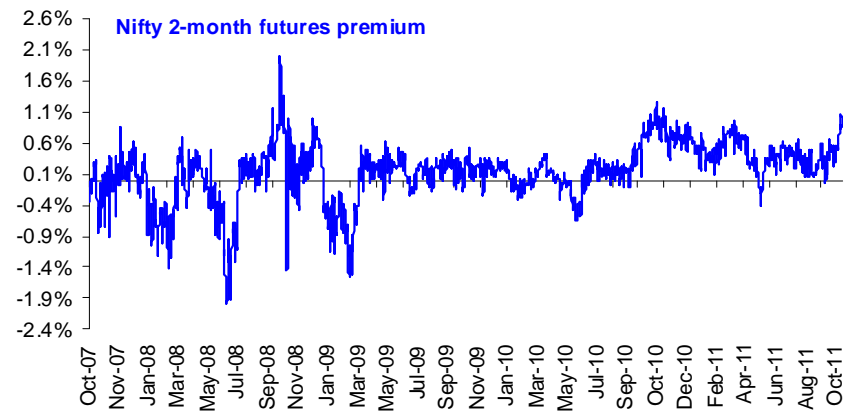
Implied Volatility Is Still Low



VAR Suggesting Tail Risk Partly Priced In



Nifty Premium Above Historical Levels

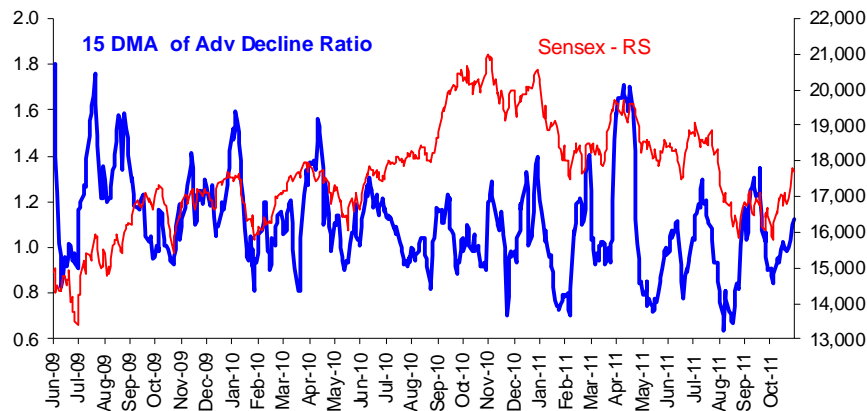


Source: FactSet, MSCI NSE, ASA, Bloomberg, Morgan Stanley Research

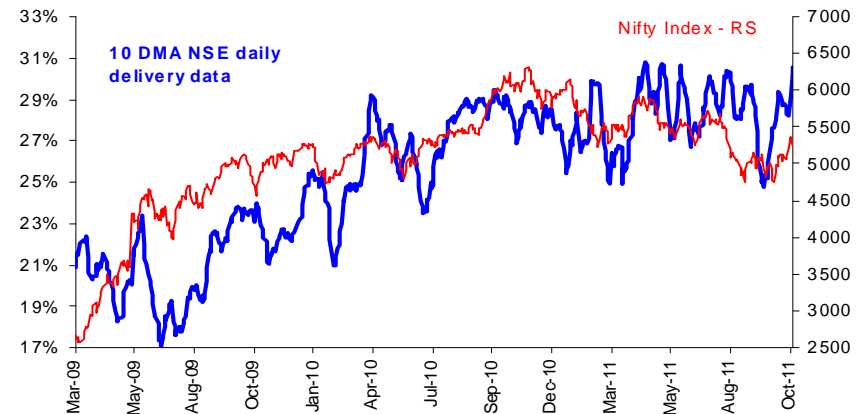
MARKET DYNAMICS

Market Timing Indicator Is in Buy Zone

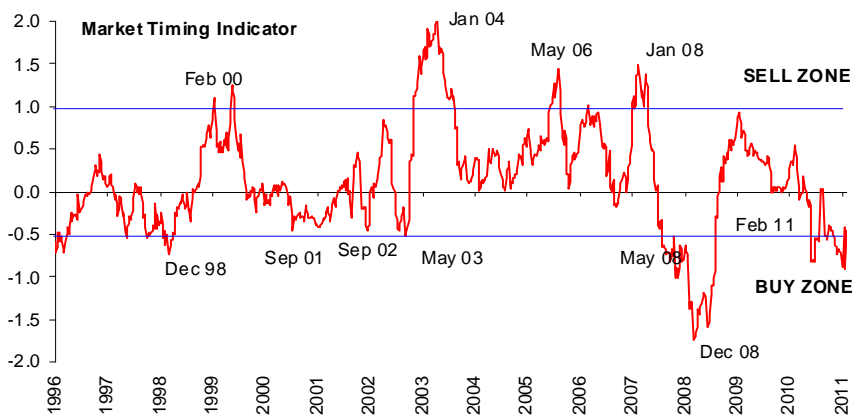
Market Breadth: Weak



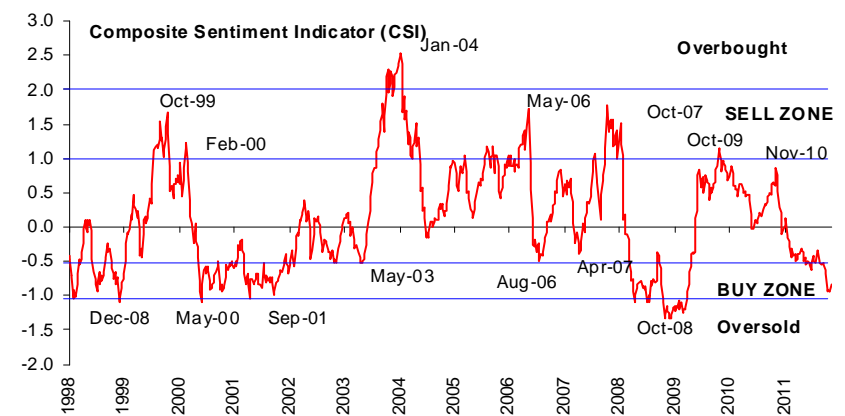
Depth of Investor Activity Off Lows



Market Timing Indicator: Buy Zone



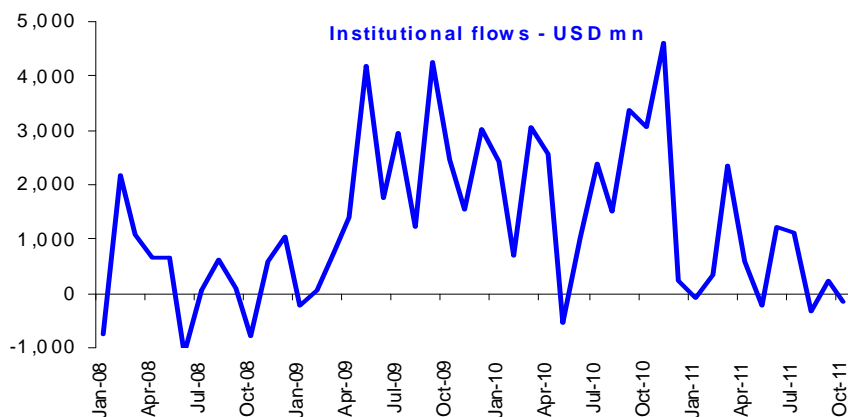
Composite Sentiment Indicator: Remains Weak



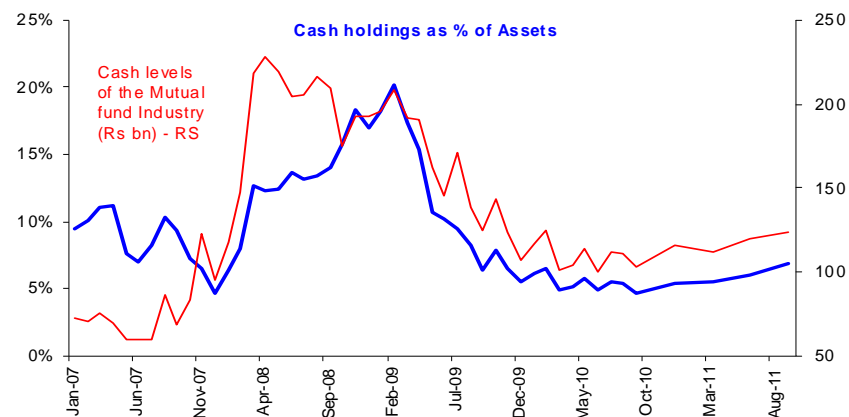
MARKET DYNAMICS

Institutional Ownership and Flows: Mixed Bag

Overall Institutional Flows Have Been Weak



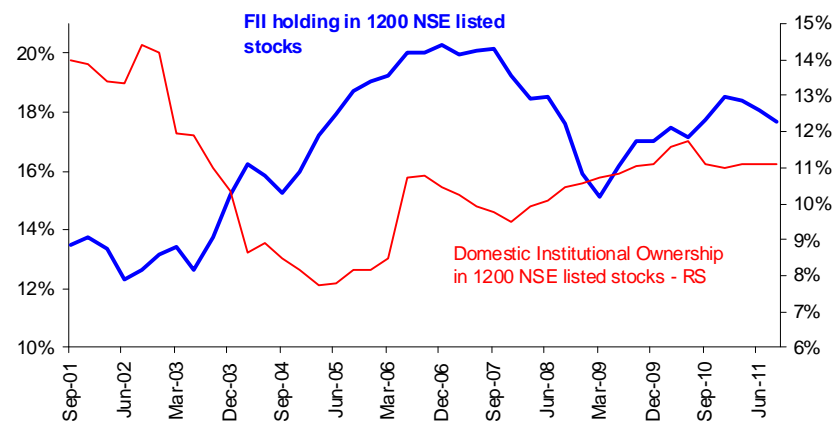
Domestic Mutual Funds Cash Risen Ever so Slightly



Total Institutional Portfolio (Sep-11): OW Telecom, UW Tech

Overall Institutional sector positions	FII's	Domestic financial Institutions	Domestic Mutual Funds	Total Institutional Holdings	MSCI Weight*	Total Institutional Position over MSCI weight	BSE 100
Cons Disc	9.0%	8.0%	4.5%	8.2%	8.2%	0.0%	6.6%
Cons Staples	6.9%	14.2%	18.8%	10.2%	7.4%	2.8%	9.2%
Energy	11.8%	14.4%	13.9%	12.7%	13.0%	-0.3%	12.9%
Financials	32.5%	20.5%	21.3%	28.0%	27.9%	0.2%	26.4%
Healthcare	3.8%	3.5%	3.9%	3.8%	4.8%	-1.0%	4.8%
Industrials	5.8%	10.1%	12.2%	7.7%	7.4%	0.3%	9.9%
Materials	7.5%	9.1%	5.8%	7.7%	9.8%	-2.1%	9.9%
Technology	15.0%	8.1%	10.1%	12.6%	16.2%	-3.6%	11.3%
Telecoms	4.1%	3.2%	5.1%	4.0%	0.3%	3.6%	3.4%
Utilities	3.5%	9.0%	4.5%	5.1%	5.0%	0.1%	5.7%

Foreigners Stakes Flattening Out

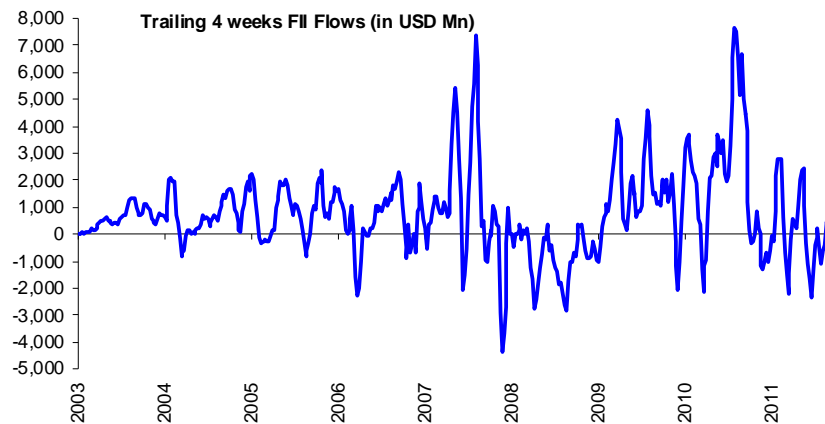


Source: SEBI, AMFI, Capitaline, FactSet, MSCI, Bloomberg, Morgan Stanley Research. Please note Institutions include FIIs, domestic insurance companies and domestic mutual funds. 61 Starting September quarter, mutual funds report the cash holding data on a quarterly basis. Cash holding data is updated till Mar-11. \* We use MSCI India Index as proxy benchmark

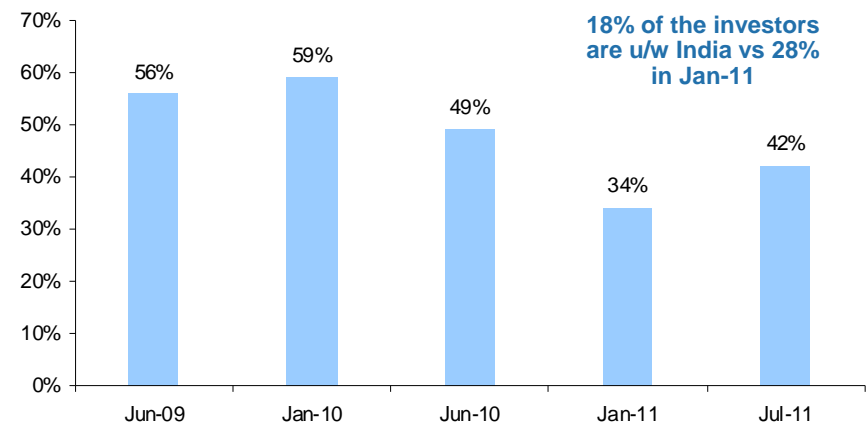
CONSENSUS VIEW

Consensus View: A Mixed Bag

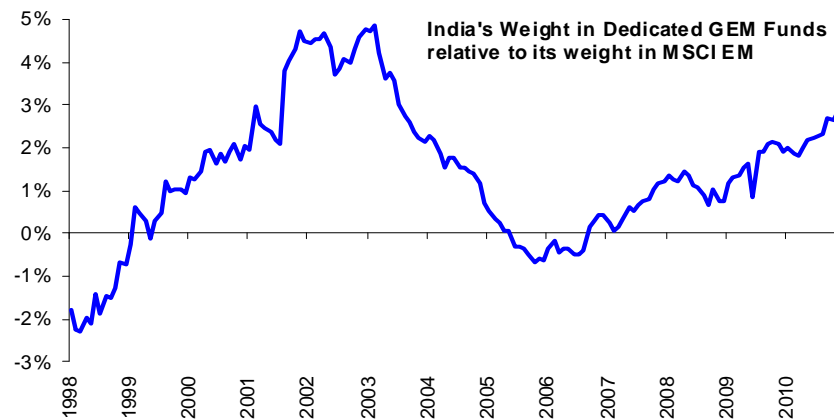
FII's Have Sold Stocks – Could Sell a Bit More



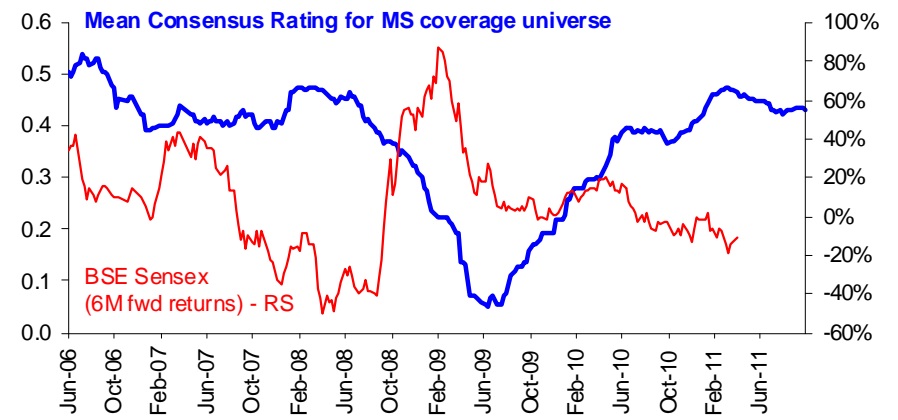
MS Investor Survey: OW Position Just off Low Point



EM Fund Managers Have Not Cut Positions



Sell Side Yet to Cut Ratings Meaningfully

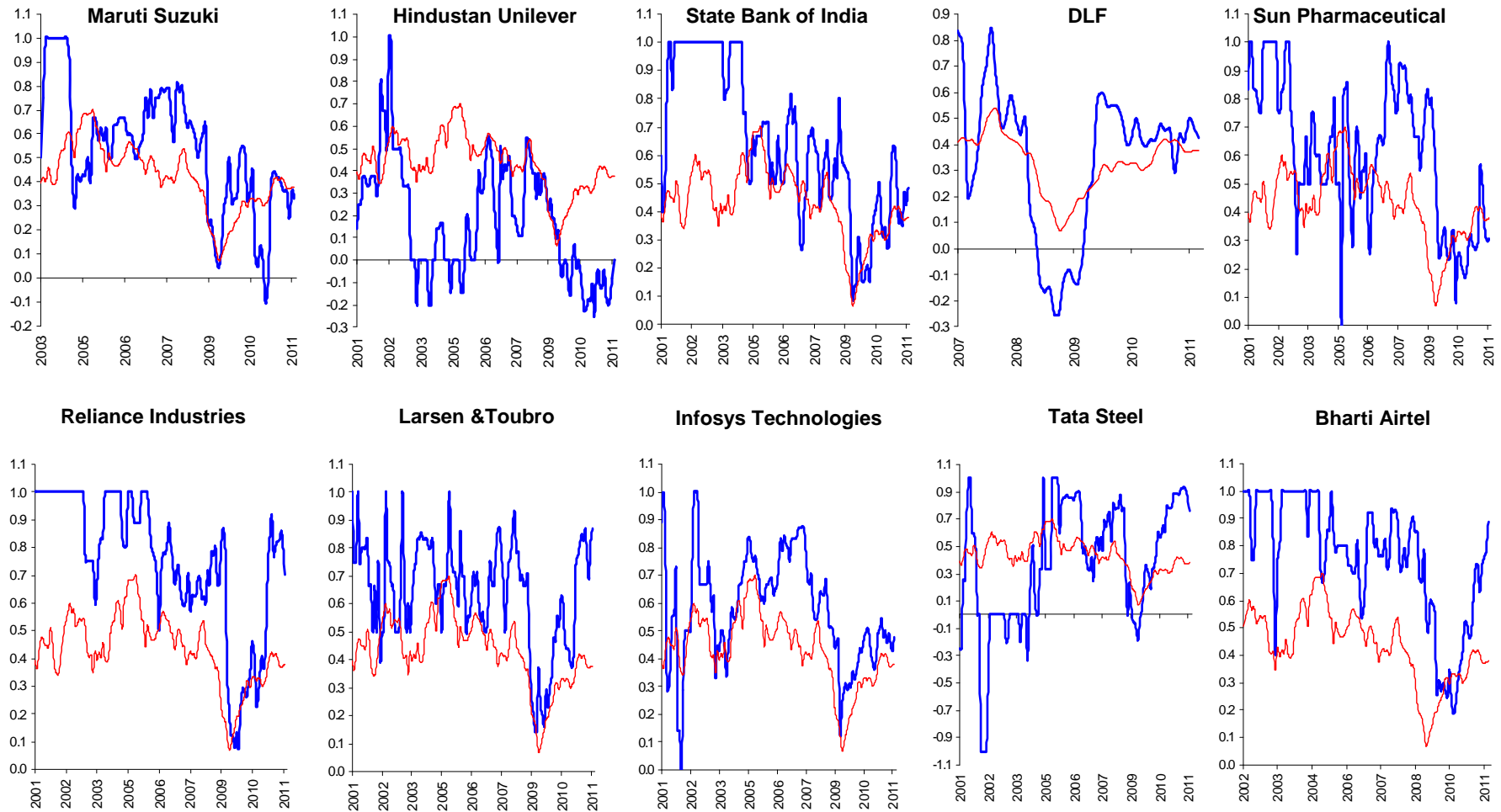


Source: FactSet, EPFR, SEBI, Bloomberg, Morgan Stanley Research

CONSENSUS VIEW

Sell-Side Consensus Net Buy Ratio for Key Stocks

Dark blue Line – Stock Consensus Rating, Light red line – Average of Total MS Coverage Ratings



Source: FactSet, MSCI, Morgan Stanley Research. Sector consensus rating is calculated as ratio of average net buy ratings of the sector constituents to the average number of ratings of the sector constituents.

## SECTOR ROTATION MODEL

## Sector Rotation Model: Telecoms at the Top, Consumer Staples at the Bottom

## Rankings and Factors

	Consumer Discretionary	Consumer Staples	Energy	Financials	Healthcare	Industrials	Information Technology	Materials	Telecoms	Utilities
<b>PERFORMANCE</b>										
1M Absolute Performance	13%	8%	6%	7%	6%	0%	11%	8%	11%	7%
12M Absolute Performance	11%	13%	-17%	-17%	-2%	-31%	-2%	-23%	-56%	-27%
12M Rel to EM Performance	1%	1%	-20%	-8%	5%	-22%	-8%	-19%	-58%	-23%
Deviation from 200 DMA	20%	12%	-3%	-2%	4%	-17%	0%	-11%	-16%	-8%
<b>VALUATIONS</b>										
PE Rel to MSCI India	0.7	2.0	0.8	1.1	1.6	1.2	1.4	0.6	0.8	1.0
PE Rel to MSCI India SD from Avg	(1.0)	0.1	0.4	0.7	(0.4)	0.3	(0.4)	(0.6)	0.3	0.9
PB Rel to MSCI India	1.5	3.8	0.7	0.9	1.4	1.1	2.3	0.6	0.2	0.6
PB Rel to MSCI India SD from Avg	0.9	1.4	(0.9)	1.0	(0.2)	(1.8)	1.4	(1.0)	(1.4)	(0.5)
Rel PE to EM Sector SD from Avg	(0.7)	(0.2)	1.3	1.2	(0.0)	1.0	(0.0)	0.7	0.5	1.0
Rel PB to EM Sector SD from Avg	(0.6)	0.8	(0.3)	0.2	(1.5)	(1.3)	0.1	(1.0)	(1.5)	(0.8)
<b>EARNINGS</b>										
Earnings Revisions Breadth F2012	8%	4%	-14%	-18%	1%	-32%	36%	-33%	-36%	-18%
3M Earnings Growth Revision for F2012	-5%	0%	1%	-4%	3%	-8%	1%	-13%	-20%	-5%
Current ROE % of 5 yr Avg ROE	145%	97%	82%	105%	72%	76%	90%	66%	21%	78%
<b>CONSENSUS VIEW</b>										
Δ Total Institutional ownership position (bps)	(9.0)	39.2	(1.4)	(52.3)	(15.7)	(25.1)	3.0	8.5	47.3	5.6
Consensus Rating % of Avg MS Cov	105%	40%	158%	147%	115%	160%	87%	90%	1%	97%
<b>Rank Based on Cumulative Score</b>	<b>5</b>	<b>10</b>	<b>8</b>	<b>9</b>	<b>6</b>	<b>3</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>4</b>

Past performance is no guarantee of future results. Results shown do not include transaction costs.

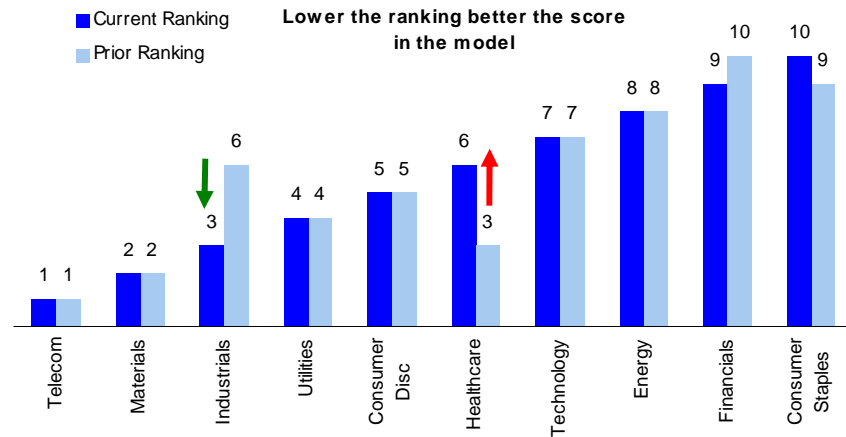
Source: FactSet, MSCI, IBES Estimates, Company Data, Morgan Stanley Research. Please note Tata Motors has been recently reclassified as Consumer Discretionary from Industrials.



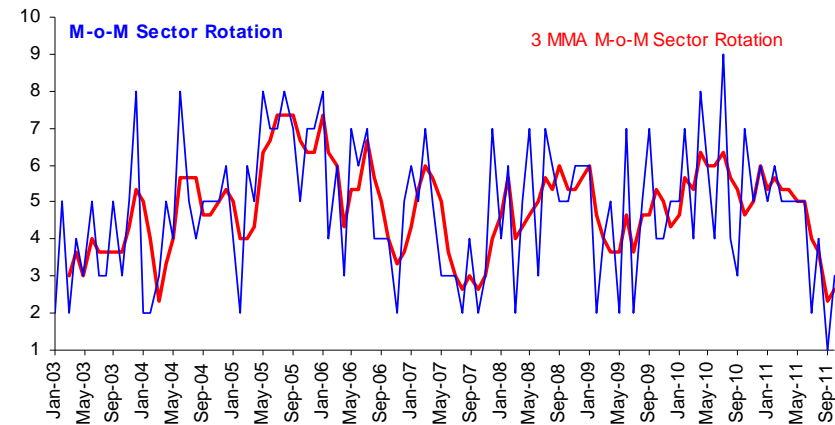
**SECTOR ROTATION MODEL**

**Industrials, Financials Gain Rank, Healthcare, Consumer Staples See Fall in Ranking**

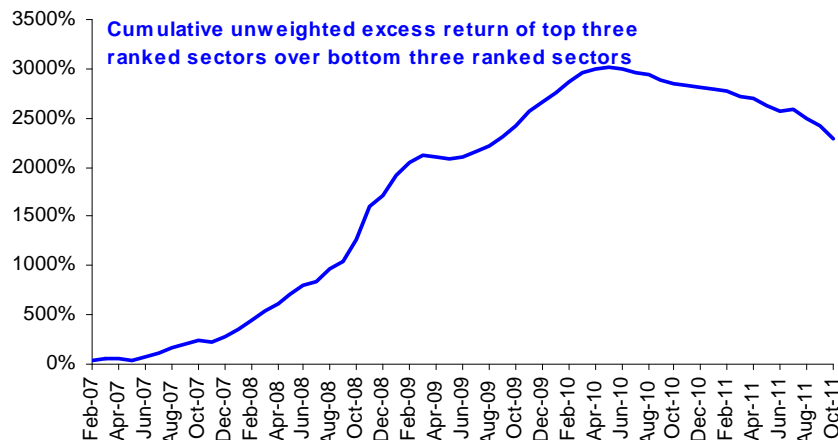
**Summary of Changes to Sector Rankings**



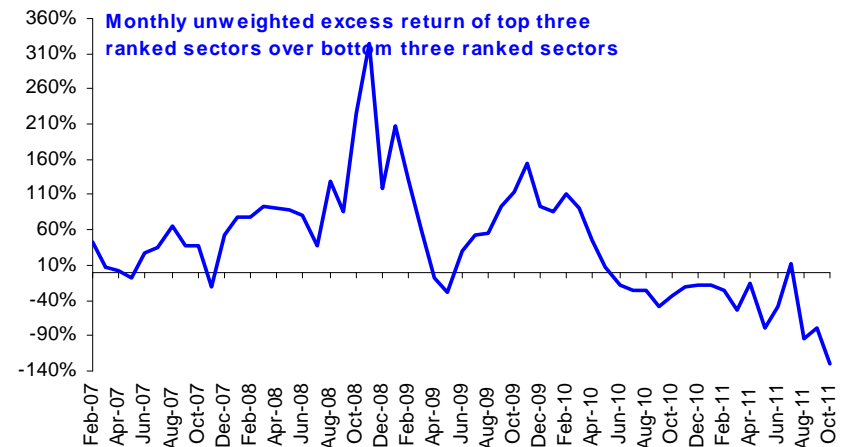
**Actual Sector Rotation: Pick-up MoM**



**Cumulative Returns from Our Sector Rotation Model**



**MoM Returns from Our Sector Rotation Model**



SECTOR ROTATION MODEL

Sector Performance Snapshot

MSCI India

	Absolute Performance						Rank					
	1M	2M	3M	6M	12M	YTD	1M	2M	3M	6M	12M	YTD
<b>MSCI India</b>	<b>8%</b>	<b>7%</b>	<b>-2%</b>	<b>-8%</b>	<b>-13%</b>	<b>-14%</b>						
CD	13%	16%	19%	16%	11%	8%	1	2	1	1	2	2
CS	8%	8%	5%	13%	13%	10%	4	3	2	2	1	1
Energy	6%	7%	3%	-11%	-17%	-14%	8	4	3	6	6	5
Financials	7%	6%	-5%	-8%	-17%	-13%	6	6	6	5	5	4
Healthcare	6%	6%	-1%	2%	-2%	-6%	9	5	5	3	3	3
Industrials	0%	-6%	-15%	-22%	-31%	-31%	10	10	9	10	9	9
Technology	11%	16%	0%	-4%	-2%	-14%	3	1	4	4	4	6
Materials	8%	2%	-9%	-21%	-23%	-26%	5	8	8	9	7	8
Telecoms	11%	0%	-21%	-20%	-56%	-45%	2	9	10	8	10	10
Utilities	7%	4%	-9%	-14%	-27%	-24%	7	7	7	7	8	7

MSCI India Relative to MSCI APXJ

	Relative Performance						Rank					
	1M	2M	3M	6M	12M	YTD	1M	2M	3M	6M	12M	YTD
<b>MSCI APXJ</b>	<b>-3%</b>	<b>4%</b>	<b>2%</b>	<b>0%</b>	<b>-13%</b>	<b>-11%</b>						
CD	1%	11%	20%	18%	0%	-2%	3	1	1	1	3	3
CS	1%	6%	3%	3%	4%	0%	4	3	5	4	1	2
Energy	-5%	4%	7%	-2%	-21%	-11%	6	5	2	7	6	6
Financials	-6%	6%	3%	2%	-11%	-5%	7	2	6	5	5	4
Healthcare	3%	4%	3%	6%	3%	2%	2	7	4	2	2	1
Industrials	-13%	-6%	-6%	-7%	-23%	-19%	10	10	9	9	8	7
Technology	0%	4%	-2%	3%	-8%	-8%	5	6	7	3	4	5
Materials	-6%	5%	5%	-2%	-21%	-20%	8	4	3	6	7	8
Telecoms	11%	-2%	-26%	-29%	-61%	-51%	1	9	10	10	10	10
Utilities	-9%	0%	-3%	-5%	-28%	-22%	9	8	8	8	9	9

MSCI India Relative to MSCI EM

	Relative Performance						Rank					
	1M	2M	3M	6M	12M	YTD	1M	2M	3M	6M	12M	YTD
<b>MSCI EM</b>	<b>8%</b>	<b>5%</b>	<b>6%</b>	<b>4%</b>	<b>-11%</b>	<b>-4%</b>						
CD	10%	17%	24%	17%	0%	1%	2	1	1	1	2	4
CS	5%	1%	3%	8%	-2%	4%	7	7	5	5	3	2
Energy	10%	16%	19%	15%	-8%	0%	3	2	2	2	5	5
Financials	11%	8%	8%	9%	-8%	4%	1	3	3	3	4	1
Healthcare	3%	2%	7%	9%	10%	3%	9	5	4	4	1	3
Industrials	5%	1%	2%	-2%	-16%	-8%	8	6	7	6	7	6
Technology	6%	-1%	-3%	-5%	-10%	-8%	4	8	9	9	6	7
Materials	5%	4%	1%	-3%	-20%	-12%	6	4	8	8	8	8
Telecoms	-11%	-26%	-23%	-32%	-57%	-49%	10	10	10	10	10	10
Utilities	6%	-2%	3%	-3%	-21%	-15%	5	9	6	7	9	9

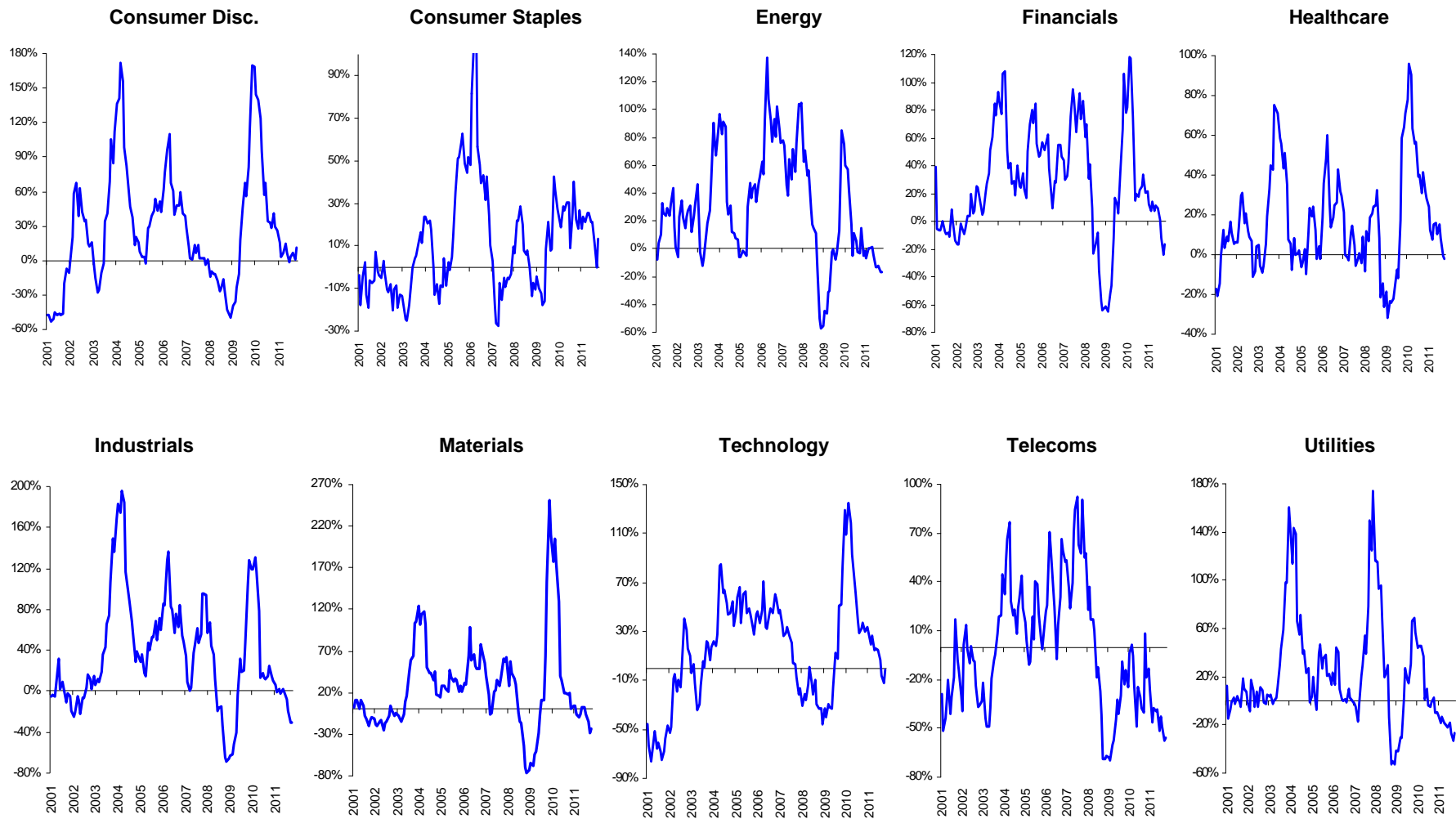
MSCI India Relative to MSCI ACWI

	Relative Performance						Rank					
	1M	2M	3M	6M	12M	YTD	1M	2M	3M	6M	12M	YTD
<b>MSCI ACWI</b>	<b>-2%</b>	<b>1%</b>	<b>-4%</b>	<b>-4%</b>	<b>-20%</b>	<b>-16%</b>						
CD	3%	8%	15%	16%	-1%	2%	4	1	1	1	1	1
CS	3%	3%	-3%	6%	-2%	-2%	3	3	4	2	2	2
Energy	-8%	0%	2%	-4%	-29%	-19%	9	7	2	5	8	5
Financials	-4%	2%	-2%	5%	-13%	-6%	7	5	3	3	3	3
Healthcare	2%	1%	-5%	-2%	-15%	-17%	5	6	6	4	5	4
Industrials	-10%	-11%	-15%	-14%	-35%	-29%	10	10	9	9	9	9
Technology	1%	4%	-8%	-8%	-14%	-20%	6	2	7	6	4	6
Materials	-5%	2%	-4%	-9%	-24%	-20%	8	4	5	7	6	7
Telecoms	6%	-4%	-25%	-20%	-58%	-48%	1	9	10	10	10	10
Utilities	4%	-2%	-14%	-13%	-28%	-26%	2	8	8	8	7	8

Past performance is no guarantee of future results. Results shown do not include transaction costs. Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research

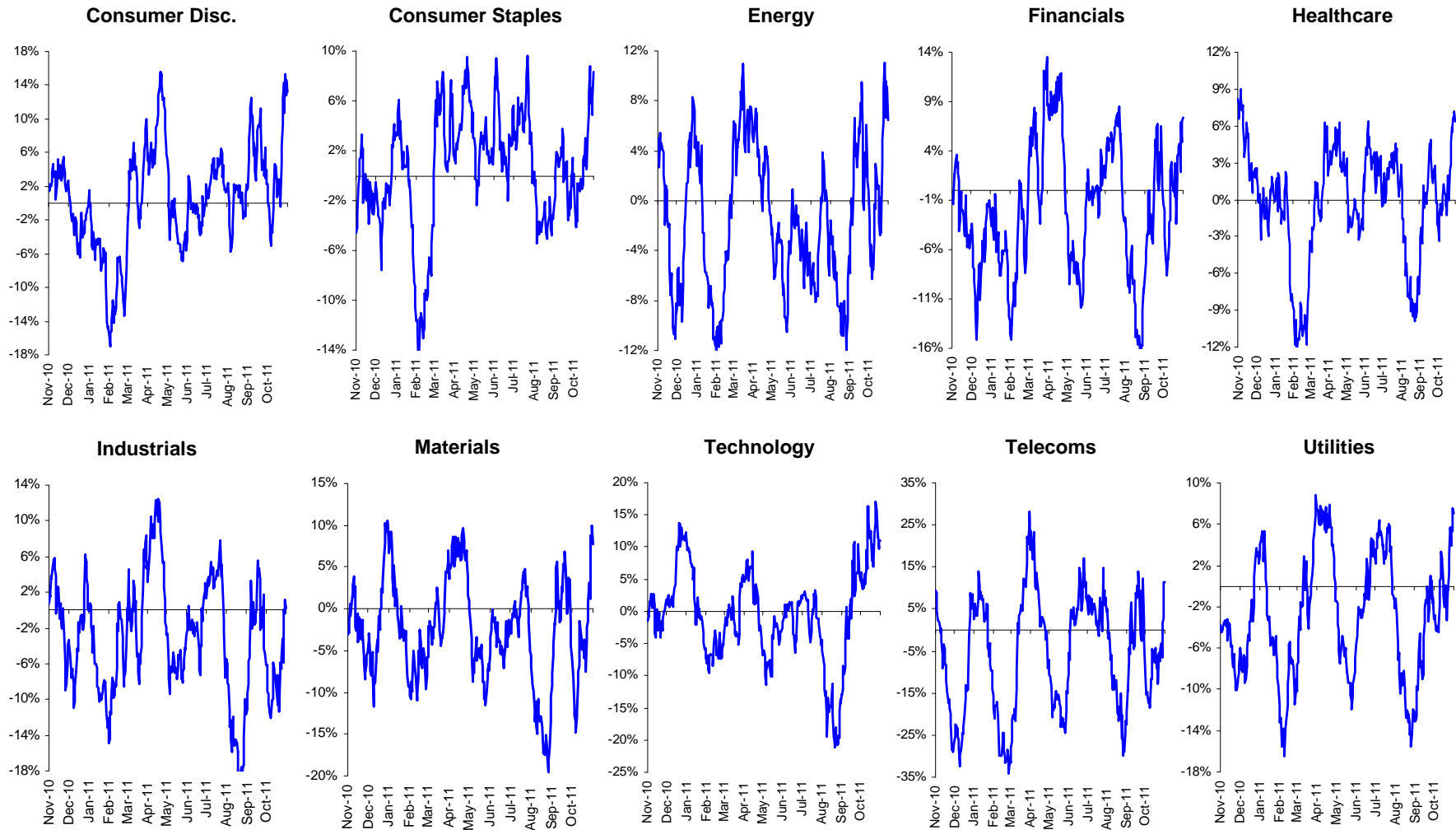
SECTOR ROTATION MODEL

YoY Absolute Returns



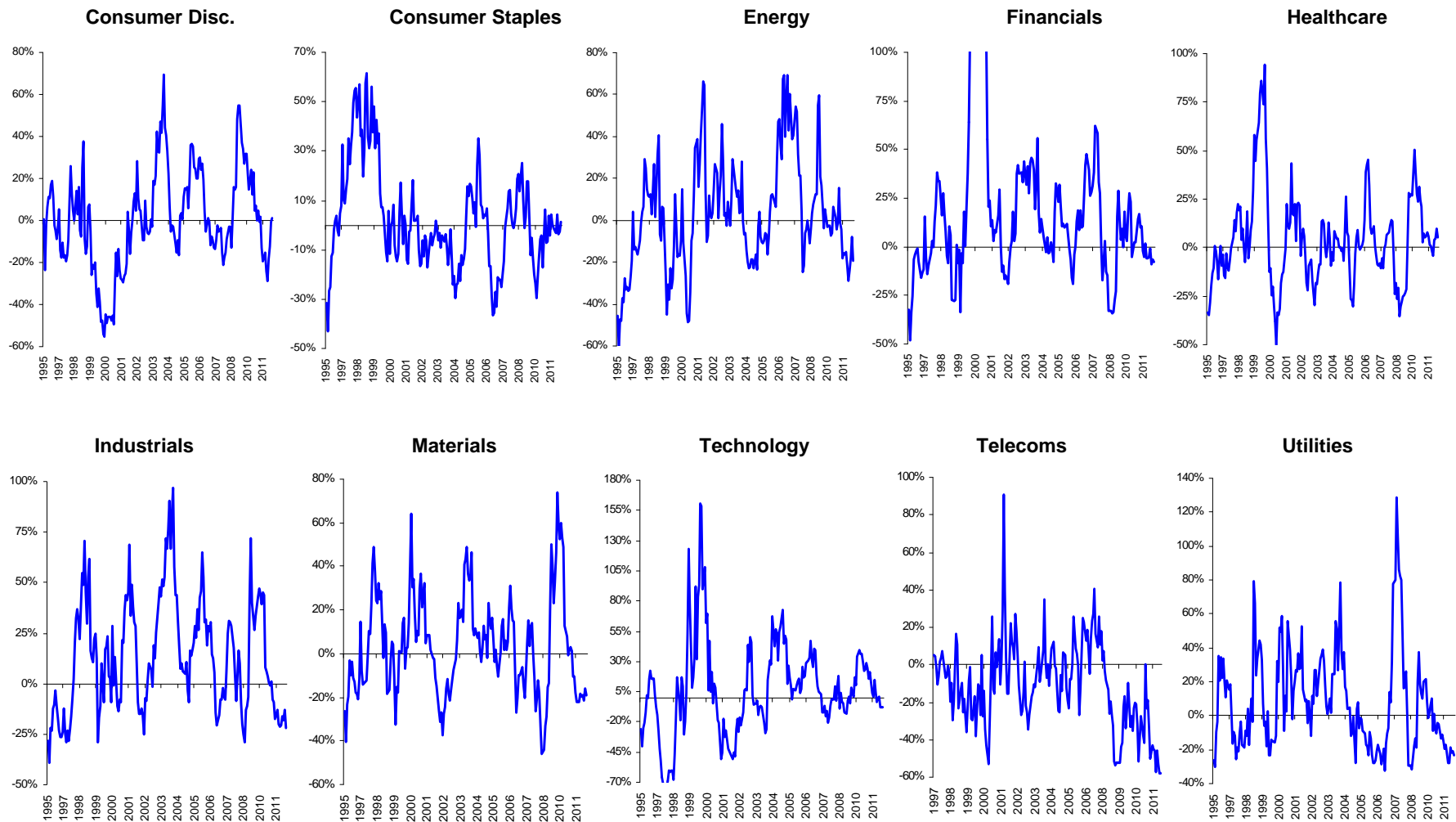
SECTOR ROTATION MODEL

1M Absolute Returns



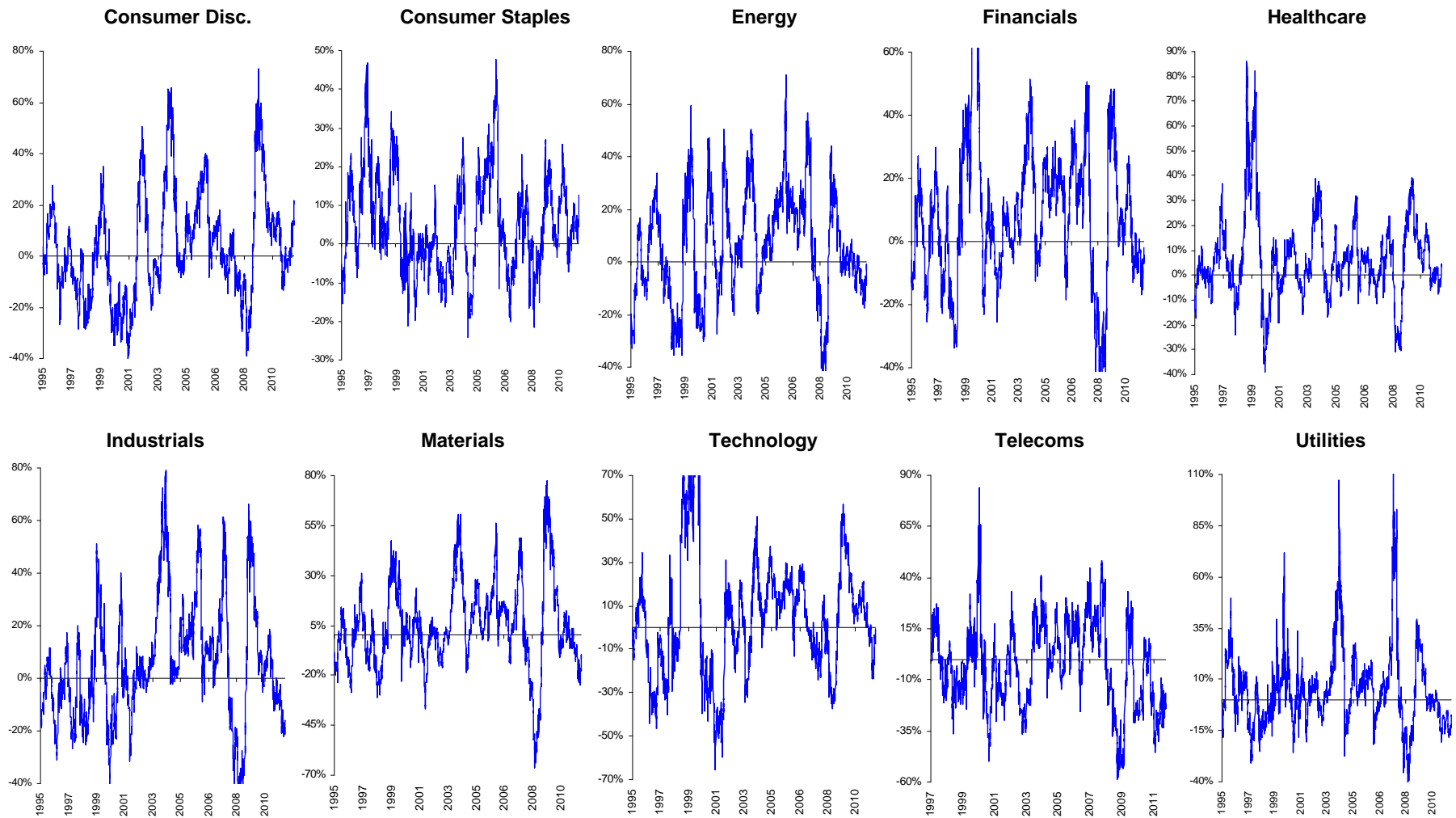
SECTOR ROTATION MODEL

YoY Performance Relative to EM



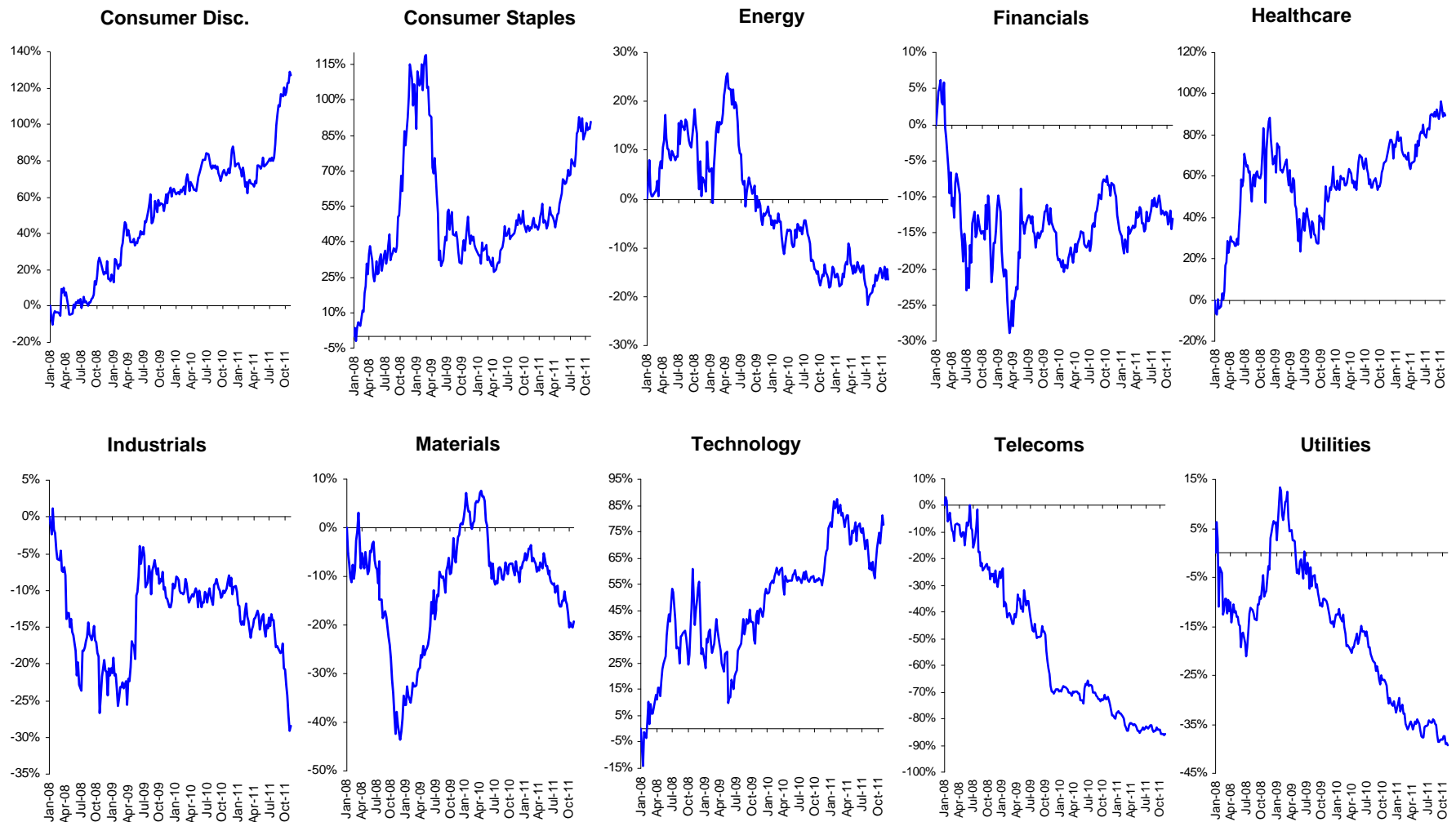
SECTOR ROTATION MODEL

Deviation from 200 DMA of Respective Sector Index



SECTOR ROTATION MODEL

Relative Performance since January 2008

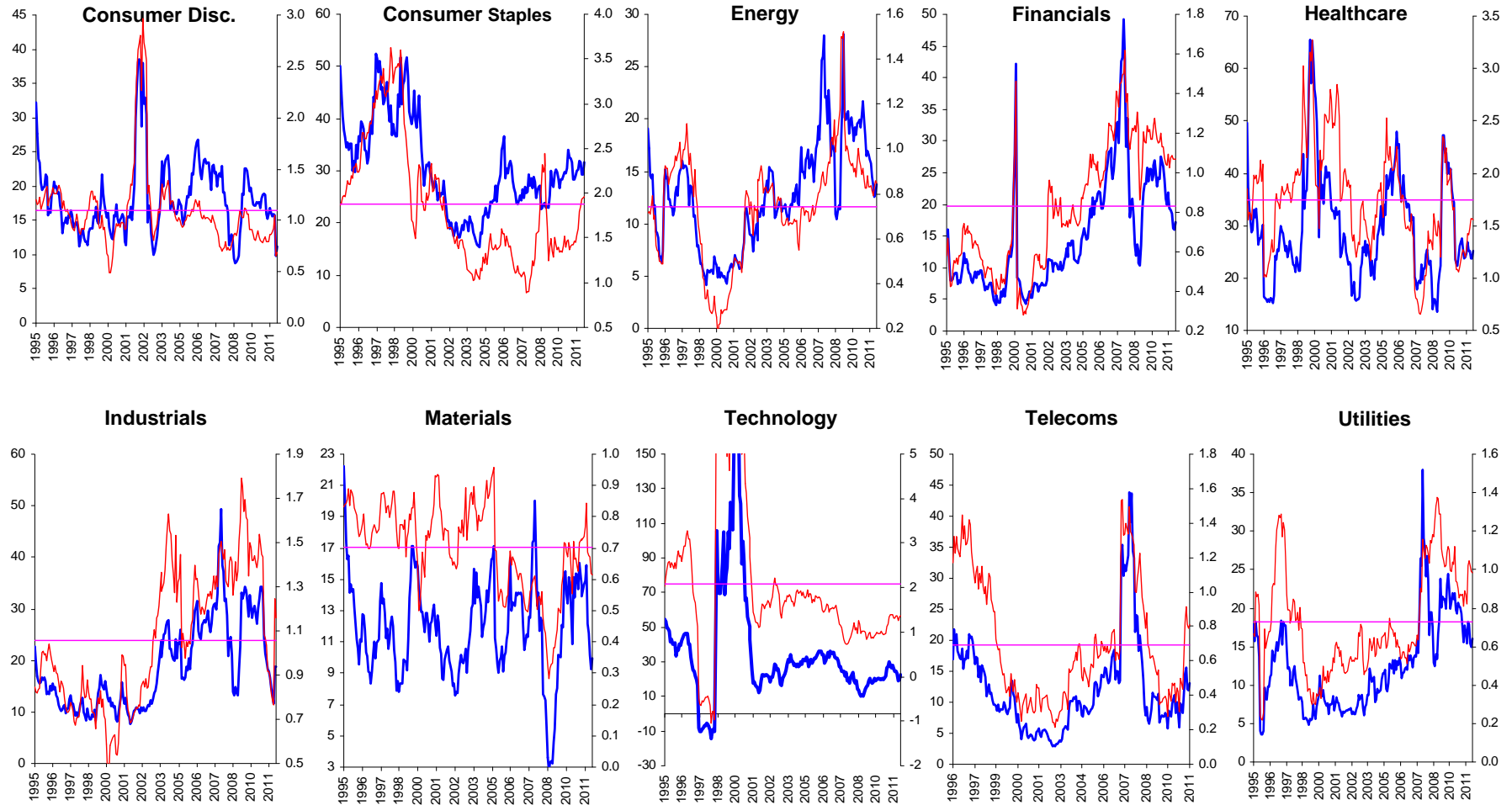


Source: FactSet, MSCI, Morgan Stanley Research

SECTOR ROTATION MODEL

Relative P/E to MSCI India

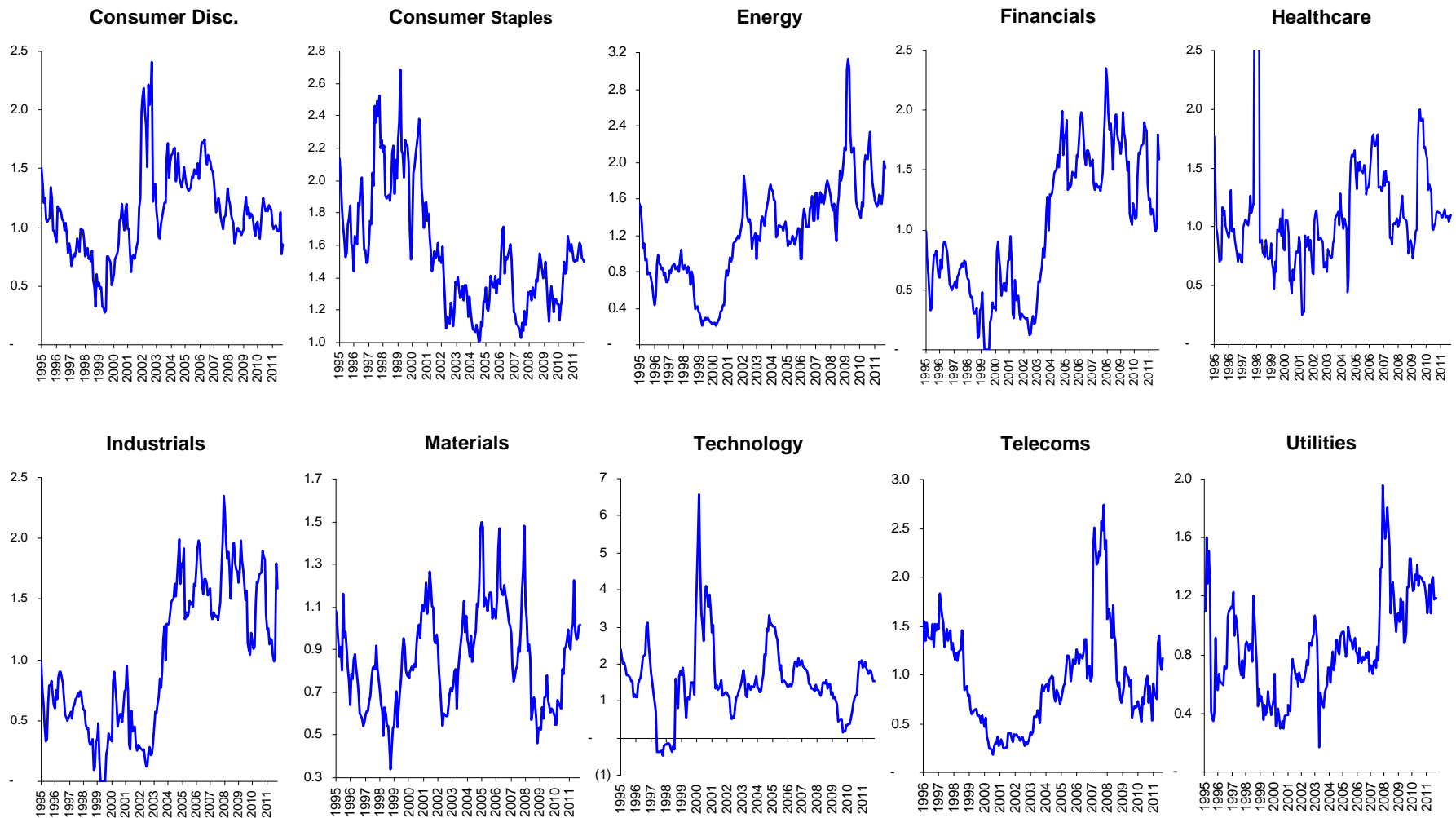
Dark blue Line – Price to Earnings – LS, Light red line – Sector P/E Relative to MSCI India – RS, Pink Line - Long Term Average of Relative P/E- RS





SECTOR ROTATION MODEL

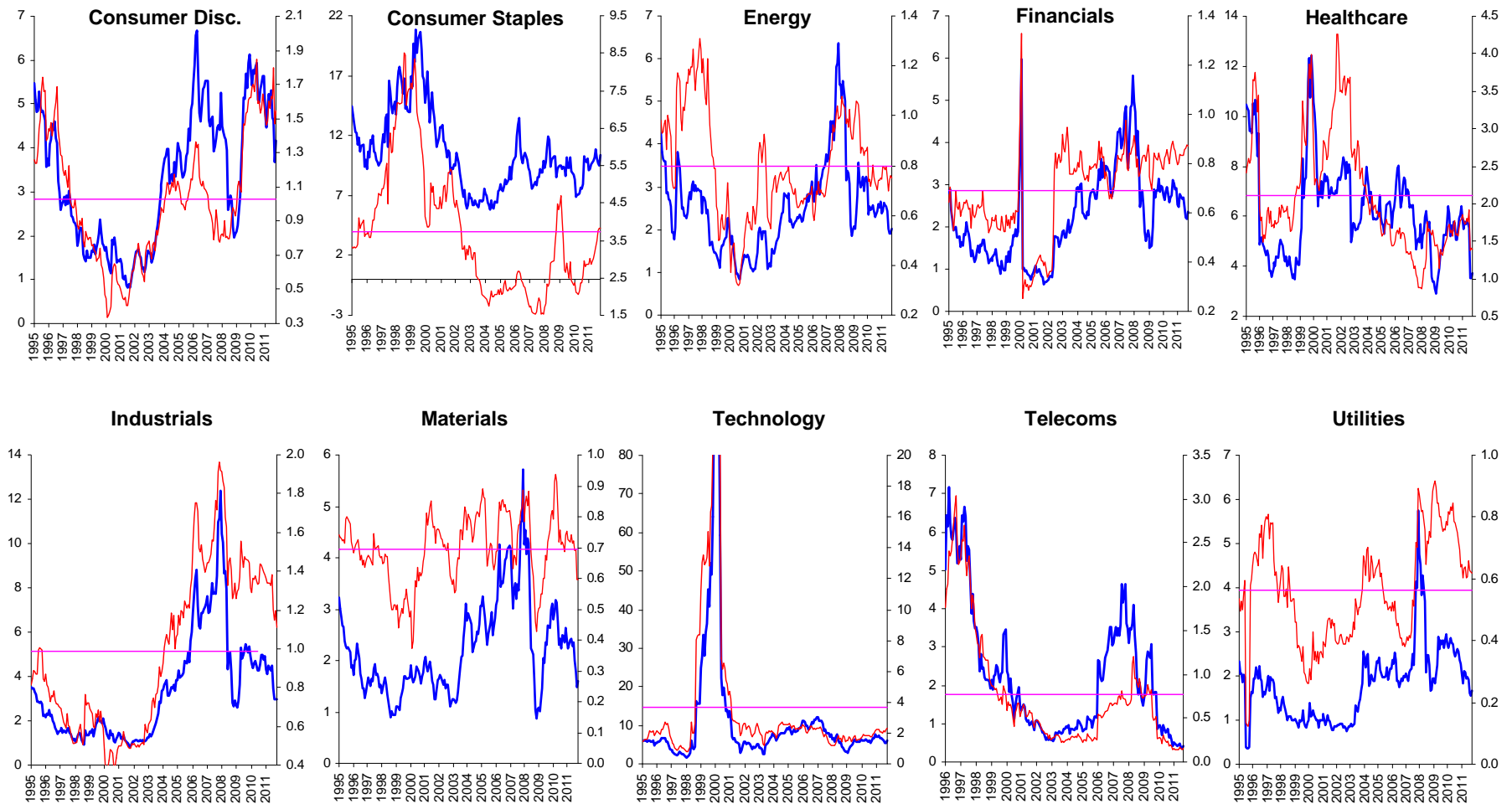
Relative P/E to Respective EM Sector



SECTOR ROTATION MODEL

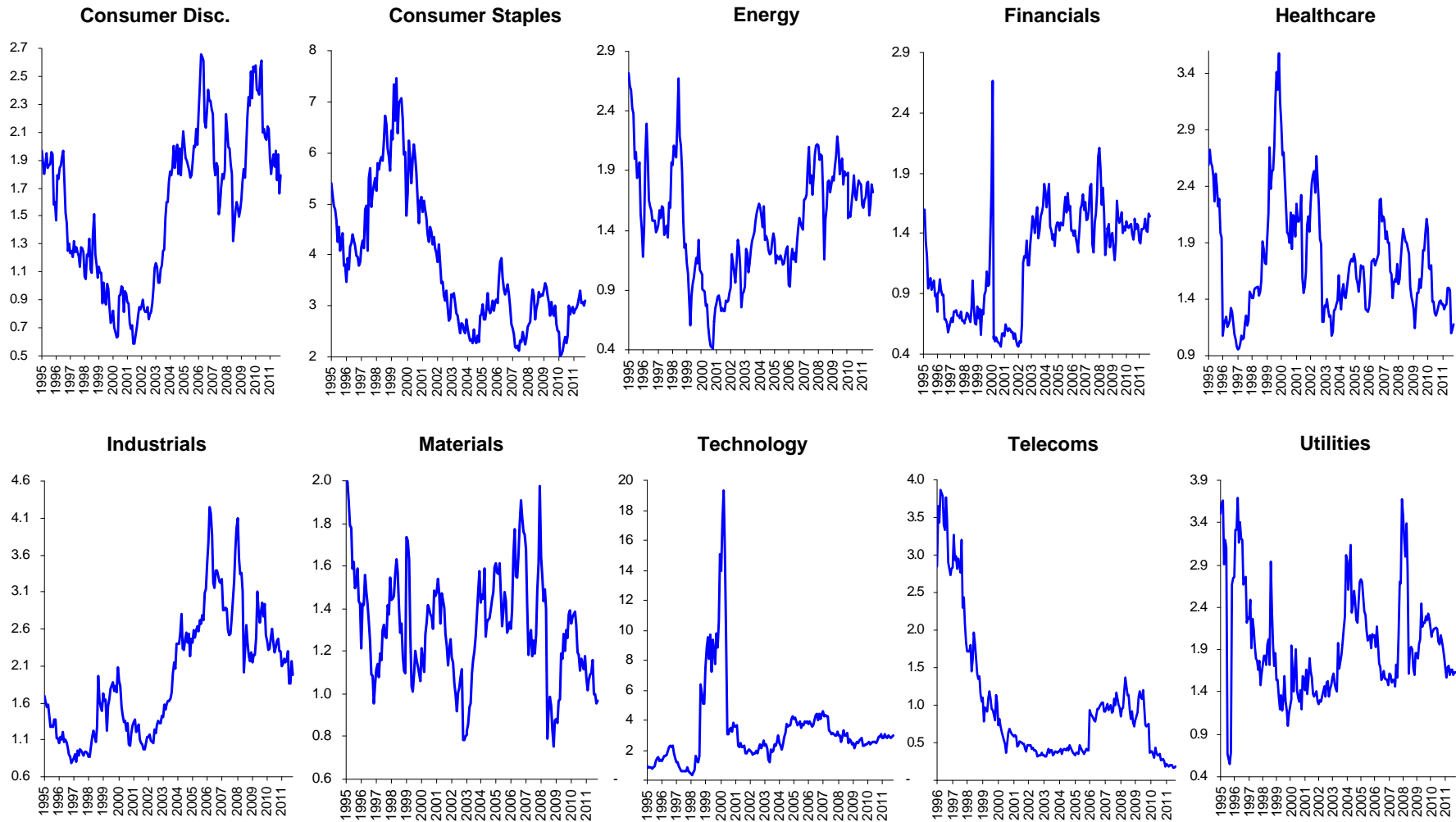
Relative P/B to MSCI India

Dark blue Line – Price to Book – LS, Light red line – Sector P/B Relative to MSCI India – RS, Pink Line - Long Term Average of Relative P/B - RS



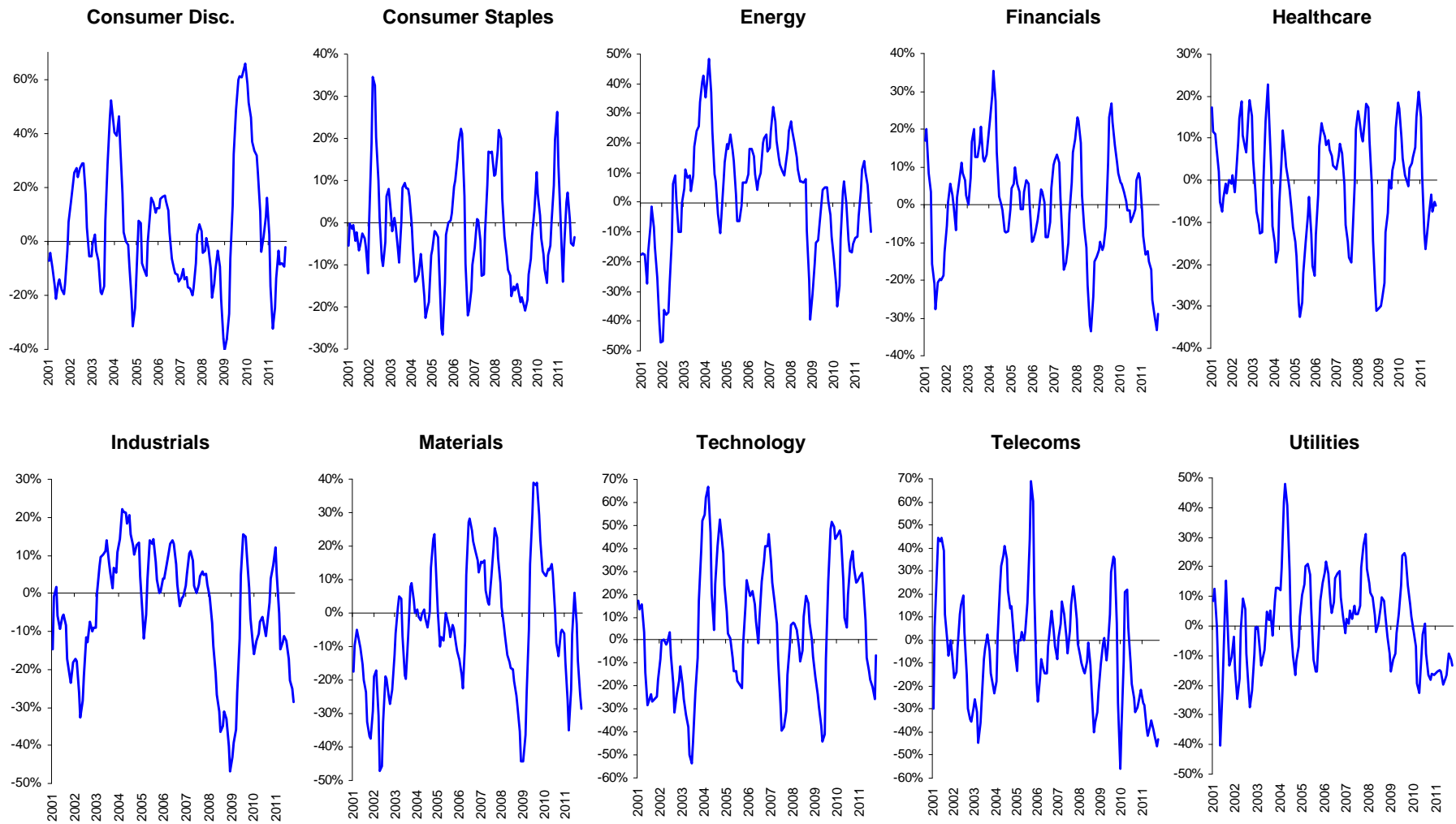
SECTOR ROTATION MODEL

Relative P/B to Respective EM Sector



SECTOR ROTATION MODEL

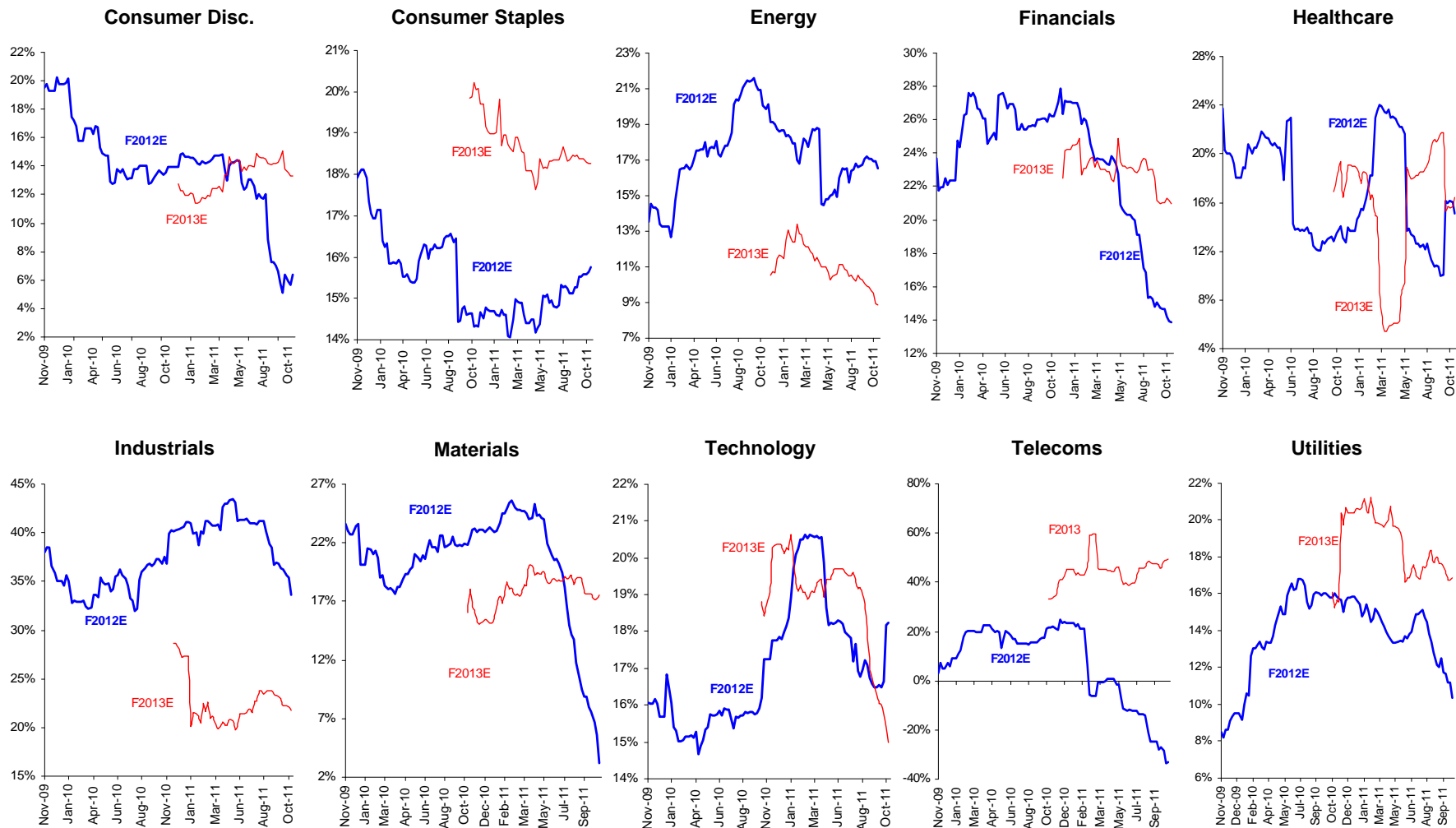
Earnings Revision Breadth 3MMA



Source: FactSet, MSCI, Morgan Stanley Research. Earnings revision breadth is calculated as ratio of net upward revisions to the total number of revisions by the brokers on the stocks.

SECTOR ROTATION MODEL

Consensus Earnings Growth by Sector (MSCI India Constituents)



Sources: FactSet, MSCI, IBES Estimates, Morgan Stanley Research. Please note Tata Motors has been recently reclassified as Consumer Discretionary from Industrials.

## SECTOR ROTATION MODEL

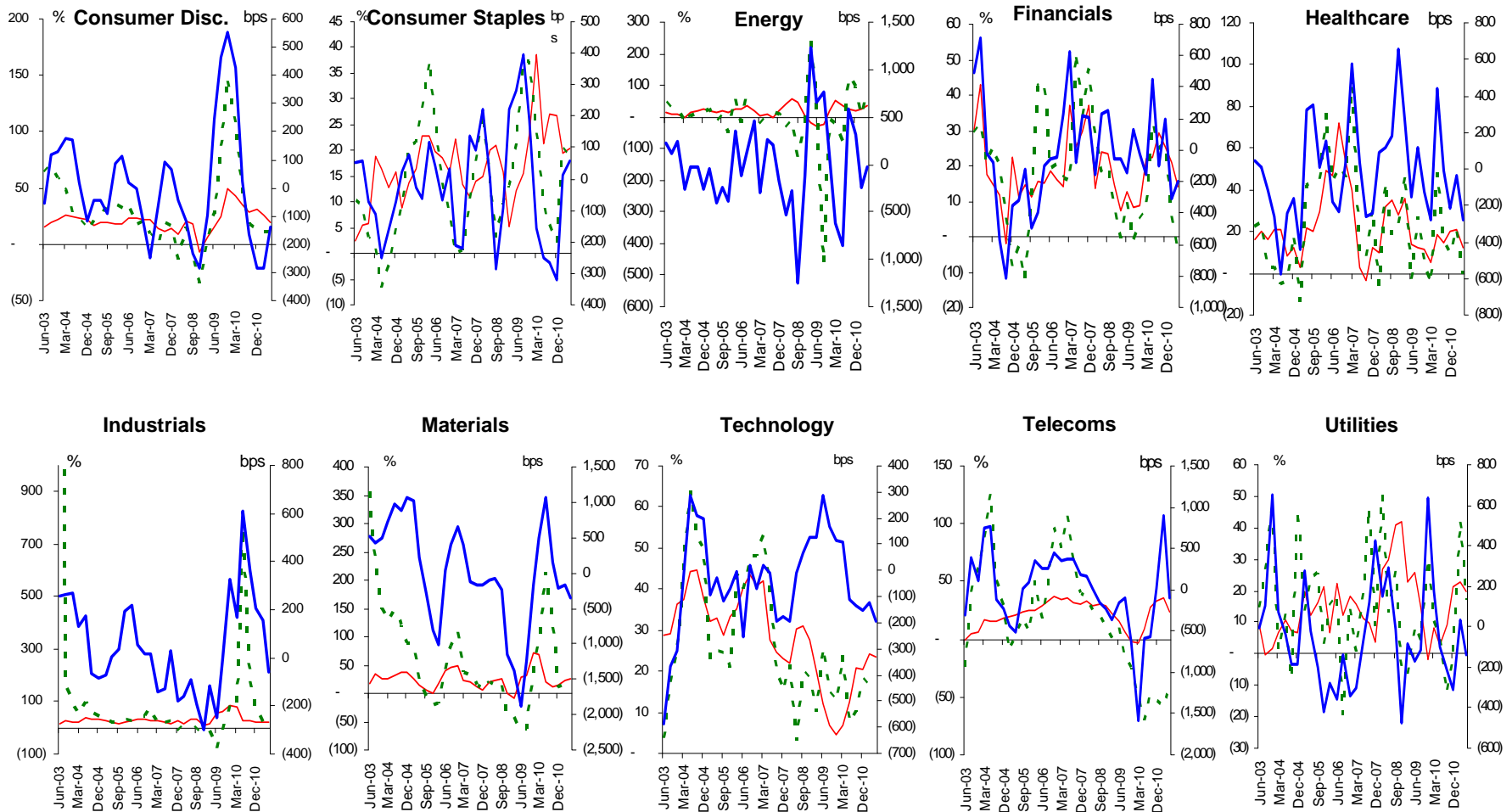
## Earnings Growth Revisions by Sector (MSCI India Constituents)

EPS Earnings Growth (MSCI India constituents)							Earnings Revision				
F12	Current	1W	1M	3M	YTD	12M	1W	1M	3M	YTD	12M
CD	6%	6%	5%	12%	15%	14%	0.7%	1.3%	-5.4%	-8.3%	-7.2%
CS	16%	16%	16%	15%	15%	15%	0.1%	0.2%	0.4%	1.1%	1.1%
Energy	17%	17%	17%	16%	19%	21%	-0.4%	-0.5%	0.8%	-2.1%	-4.4%
Financials	14%	14%	15%	18%	27%	26%	-0.1%	-0.8%	-4.2%	-13.2%	-12.3%
Healthcare	15%	16%	16%	12%	15%	14%	-1.0%	-1.0%	2.9%	0.5%	1.6%
Industrials	34%	35%	36%	41%	41%	38%	-1.8%	-2.8%	-7.6%	-7.5%	-3.9%
IT	18%	18%	17%	17%	18%	17%	0.1%	1.7%	1.3%	0.1%	1.0%
Materials	3%	6%	8%	17%	23%	22%	-2.4%	-4.8%	-13.3%	-19.9%	-19.2%
Telecoms	-33%	-33%	-28%	-14%	24%	22%	0.2%	-5.4%	-19.5%	-56.8%	-54.9%
Utilities	10%	11%	12%	15%	16%	16%	-0.8%	-1.4%	-4.8%	-5.5%	-5.7%
<b>Total</b>	<b>14%</b>	<b>14%</b>	<b>15%</b>	<b>17%</b>	<b>22%</b>	<b>22%</b>	<b>-0.6%</b>	<b>-1.1%</b>	<b>-3.9%</b>	<b>-8.3%</b>	<b>-8.2%</b>
EPS Earnings Growth (MSCI India constituents)							Earnings Revision				
F13	Current	1W	1M	3M	YTD	12M	1W	1M	3M	YTD	12M
CD	13%	13%	15%	15%	12%	NA	0.1%	-1.8%	-1.2%	1.4%	NA
CS	18%	18%	18%	18%	19%	NA	0.0%	-0.1%	-0.2%	-0.7%	NA
Energy	9%	9%	10%	10%	12%	NA	-0.1%	-1.0%	-1.6%	-2.8%	NA
Financials	21%	21%	21%	23%	25%	NA	-0.2%	0.0%	-2.5%	-3.5%	NA
Healthcare	16%	16%	15%	19%	19%	NA	0.7%	1.2%	-2.4%	-2.3%	NA
Industrials	22%	22%	23%	24%	27%	NA	-0.3%	-1.2%	-2.1%	-5.6%	NA
IT	15%	15%	16%	19%	20%	NA	-0.4%	-1.0%	-4.2%	-5.3%	NA
Materials	18%	17%	18%	19%	15%	NA	0.3%	-0.1%	-1.4%	2.4%	NA
Telecoms	50%	49%	47%	46%	45%	NA	0.8%	2.3%	4.0%	4.6%	NA
Utilities	17%	17%	17%	17%	20%	NA	0.1%	-0.6%	-0.6%	-3.5%	NA
<b>Total</b>	<b>16%</b>	<b>16%</b>	<b>17%</b>	<b>18%</b>	<b>18%</b>	<b>NA</b>	<b>-0.1%</b>	<b>-0.7%</b>	<b>-2.0%</b>	<b>-2.4%</b>	<b>NA</b>

SECTOR ROTATION MODEL

Quarterly Earnings Growth

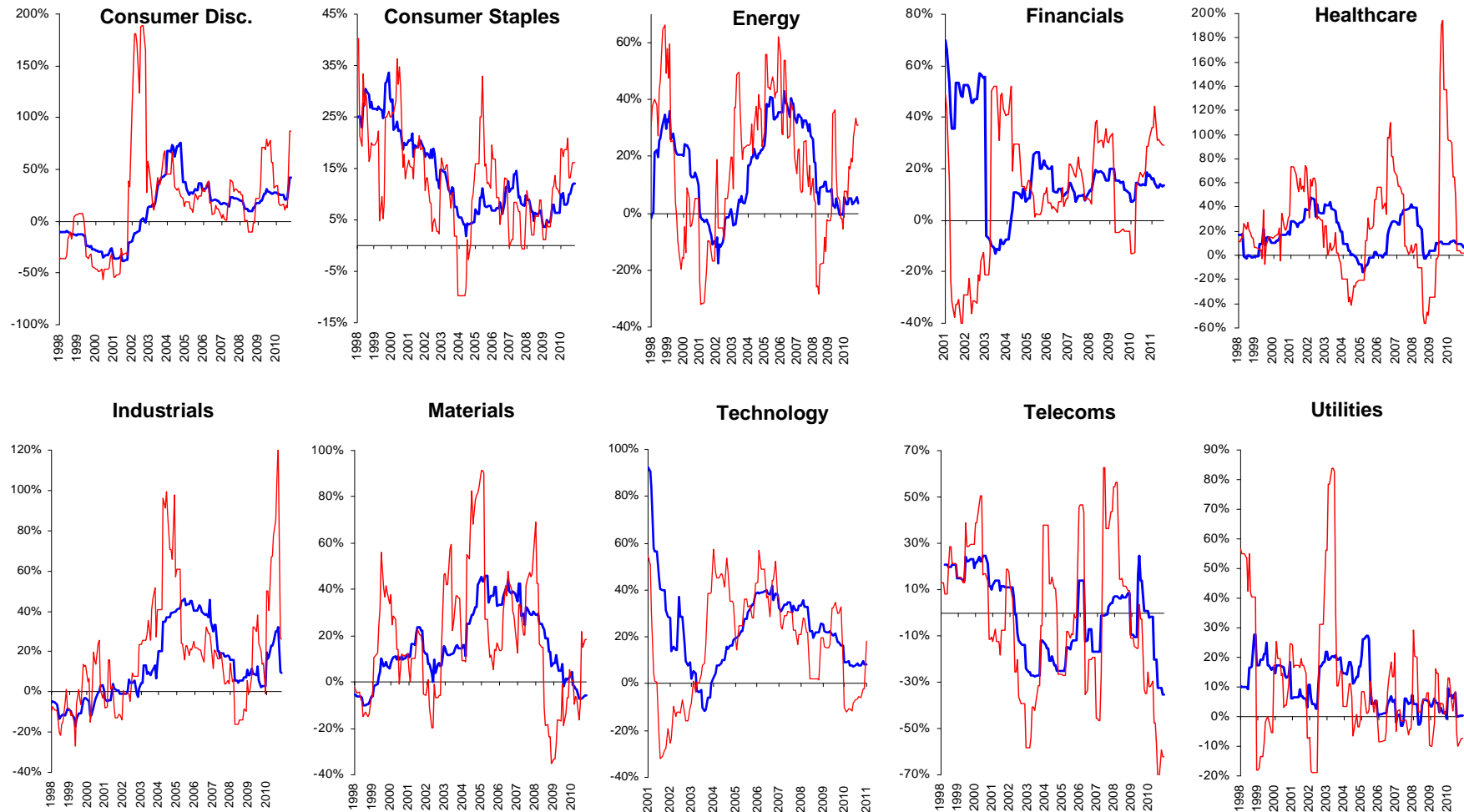
Green dotted Line – YoY Net profit growth (%) – LS, Red line (light) - YoY Revenue growth (%) – LS, Blue Line (dark) – Operating margin trend (bp)- RS



SECTOR ROTATION MODEL

Annual Earnings Growth

Dark Blue Line – 3-year CAGR in EPS, Light Red line – Annual EPS Growth

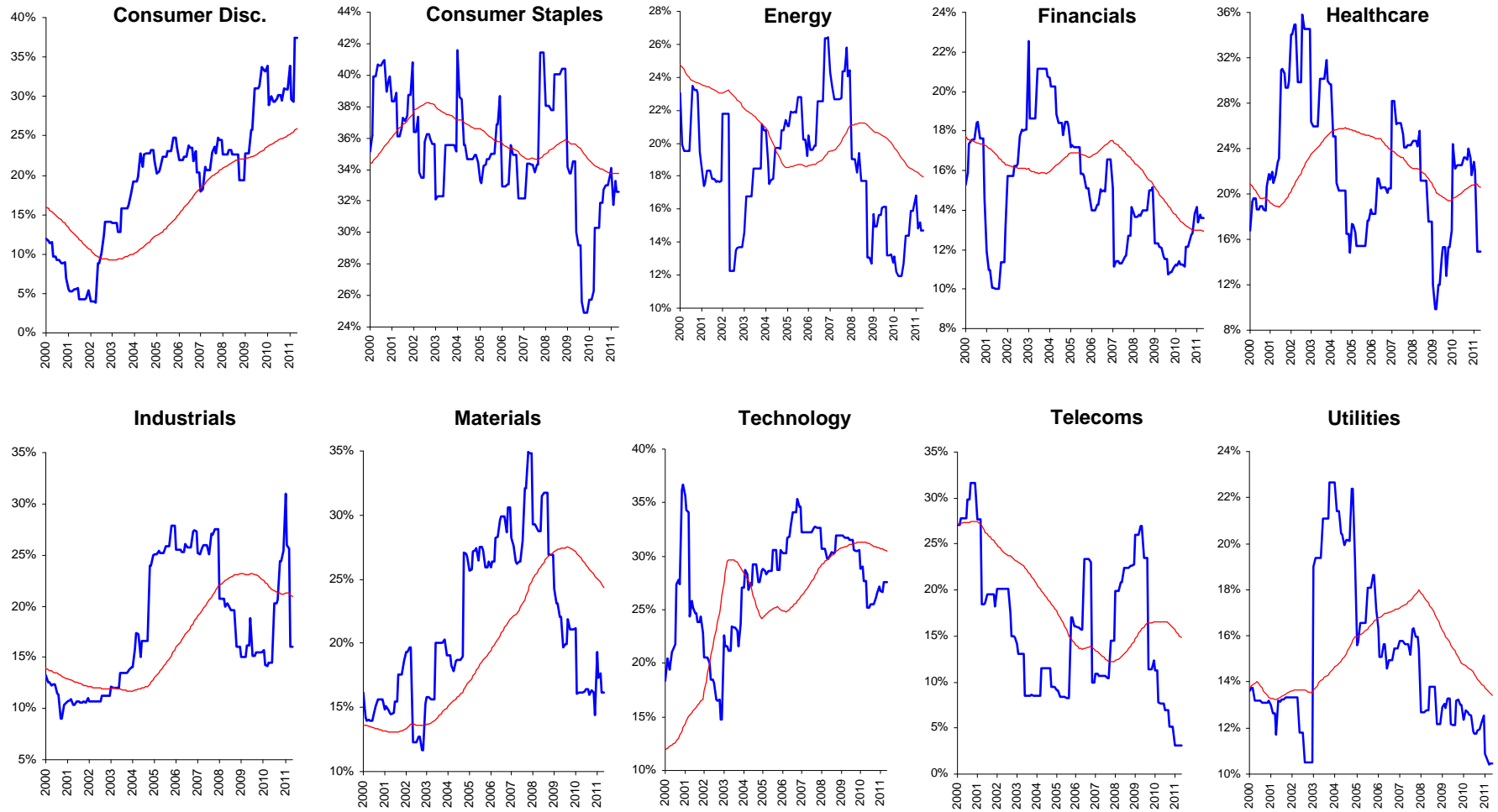




SECTOR ROTATION MODEL

ROE Trends

Dark blue Line – Sector ROE, Light red line – five-year moving avg. ROE

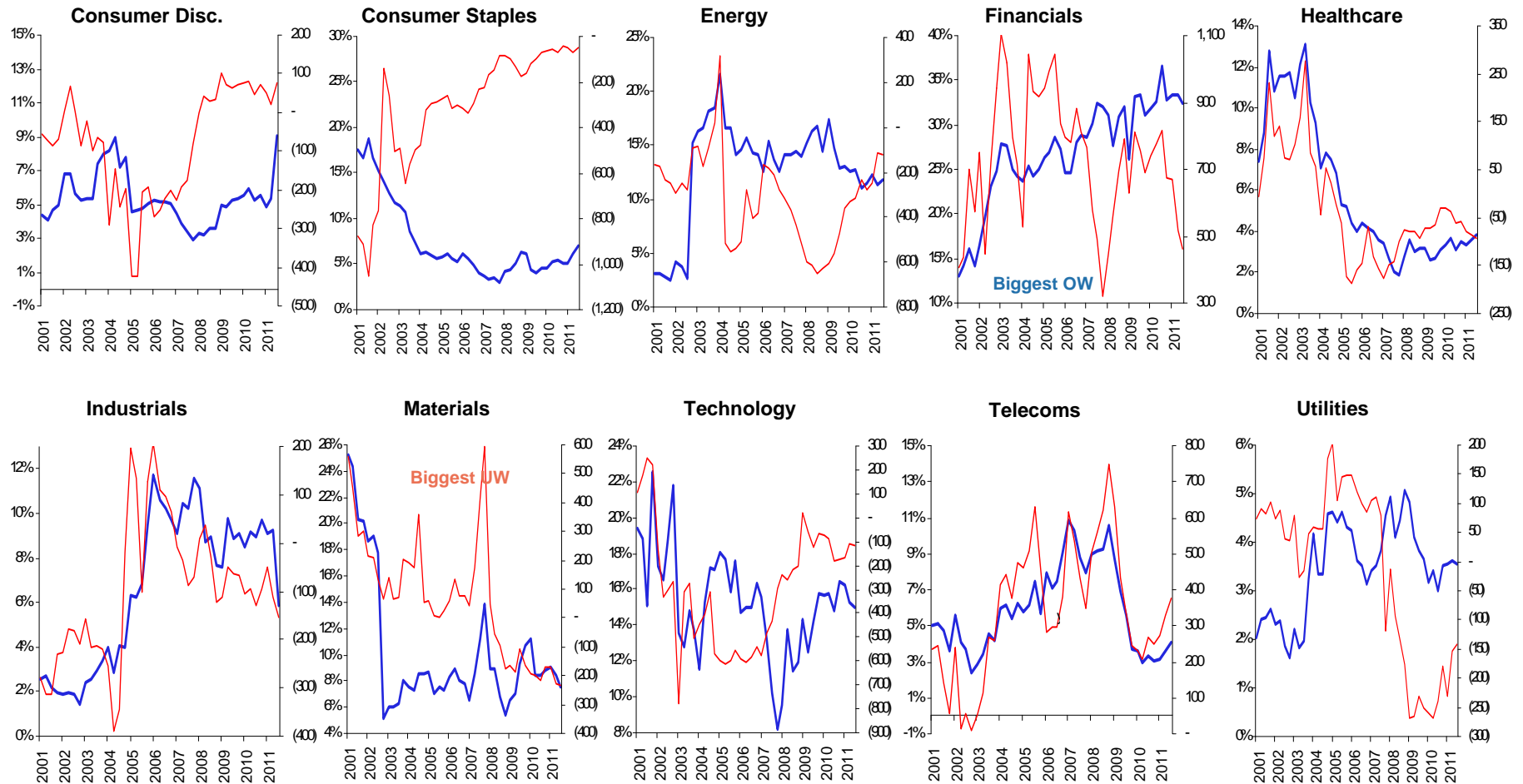


SECTOR ROTATION MODEL

FII Portfolios: Sector Positions – Absolute and Relative Over Time

Dark blue Line - Weight in the average FII portfolio using our sample of 75 companies – LS

Light red line – Relative Position to MSCI Sector weight (above/below benchmark in bps) – RS



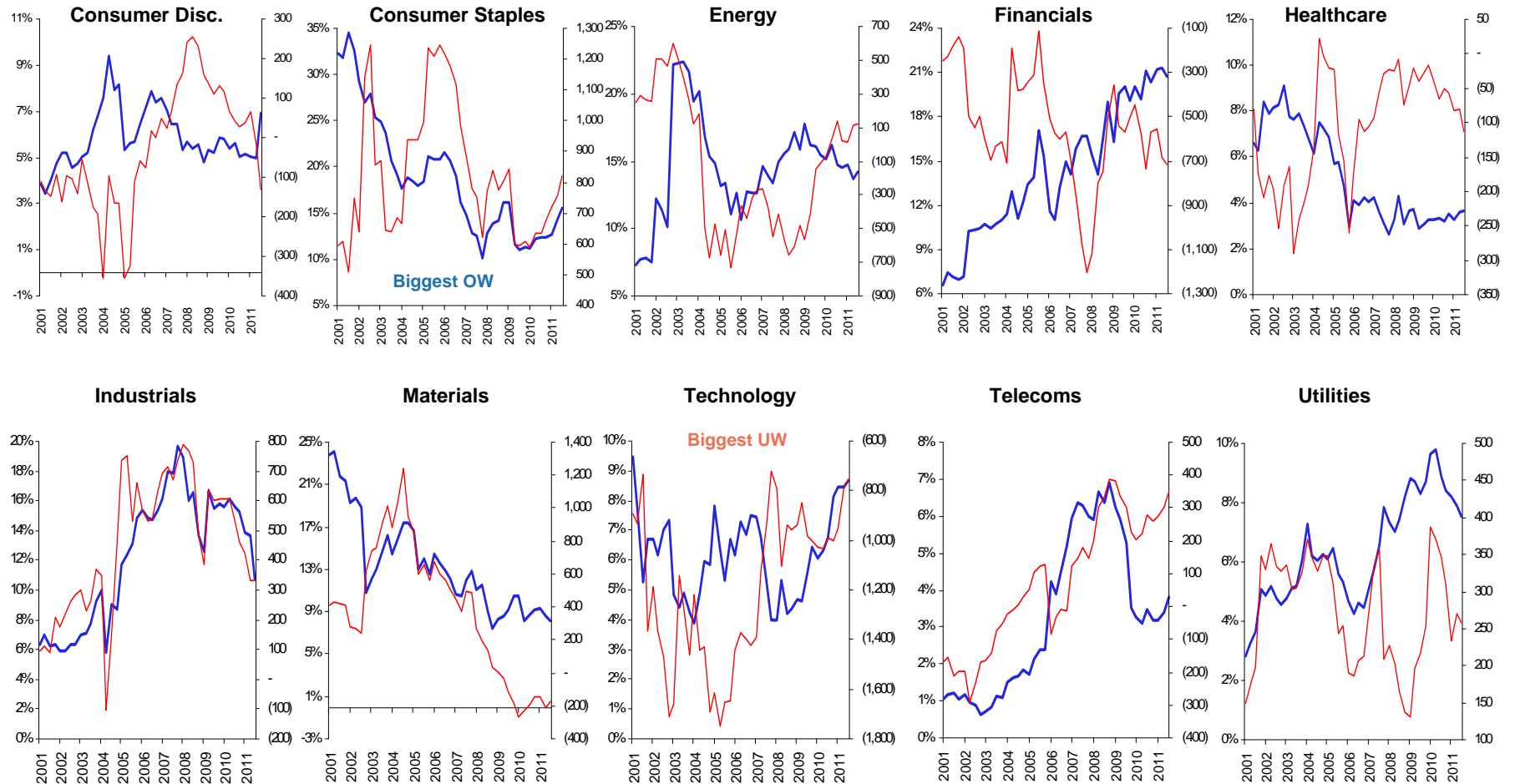
Sources: FactSet, MSCI, Morgan Stanley Research. Historical weights are adjusted for Reliance Ind and Tata Motors, which were earlier classified in Materials and Consumer Disc and later as Energy and Industrials, respectively

SECTOR ROTATION MODEL

Domestic Institutional Portfolios: Sector Positions – Absolute and Relative Over Time

Dark blue Line – Weight in the average Domestic institutional portfolio using our sample of 75 companies – LS

Light red line – Relative Position to MSCI Sector weight (above/below benchmark in bps) – RS



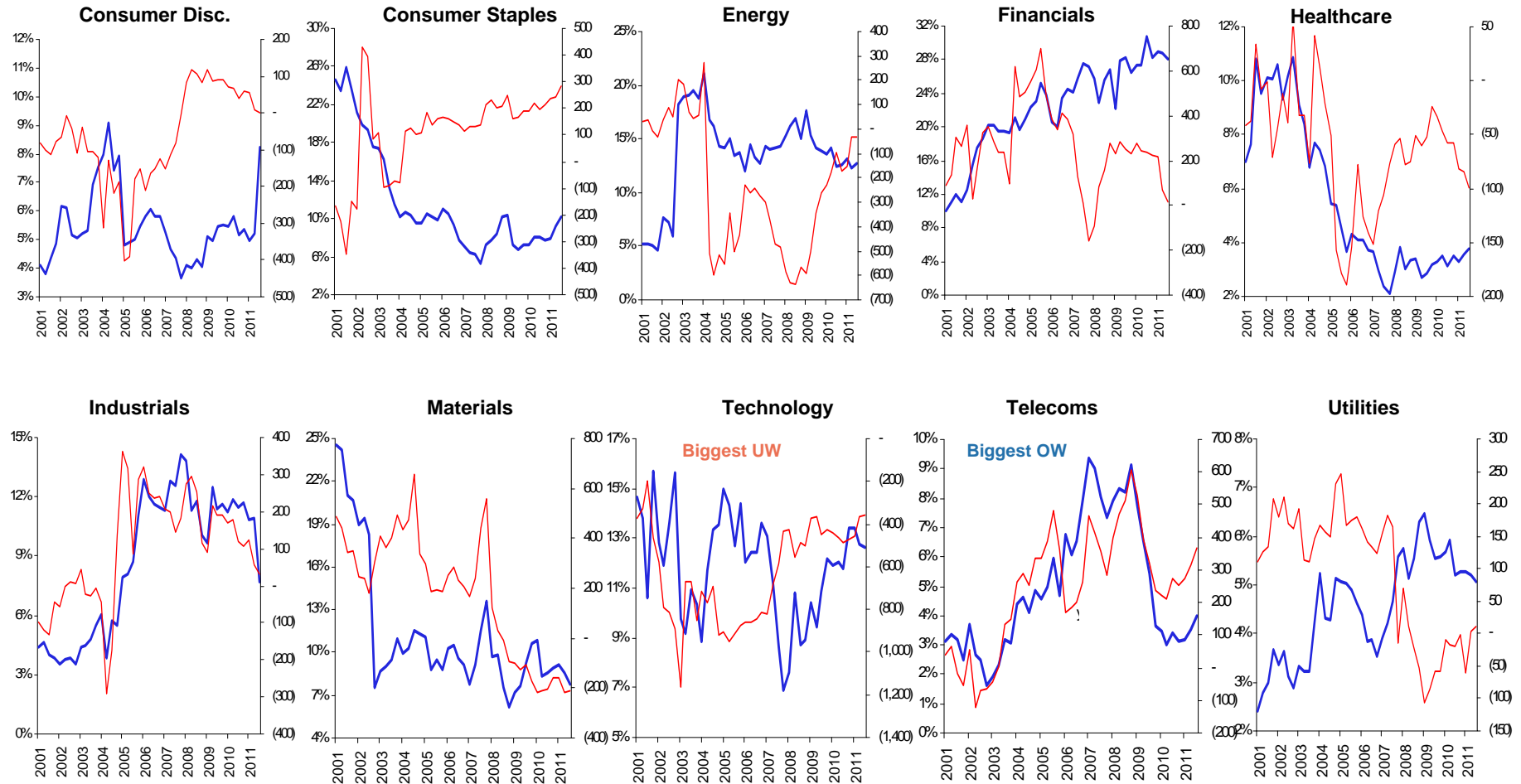
Source: FactSet, MSCI, Morgan Stanley Research. Historical weights are adjusted for Reliance Ind and Tata Motors, which were earlier classified in Materials and Consumer Disc and later as Energy and Industrials, respectively

SECTOR ROTATION MODEL

Total Institutional Portfolios: Sector Positions – Absolute and Relative Over Time

Dark blue Line - Weight in the average Institutional portfolio (domestic + foreign) using our sample of 75 companies – LS

Light red line – Relative Position to MSCI Sector weight (above/below benchmark in bps) – RS

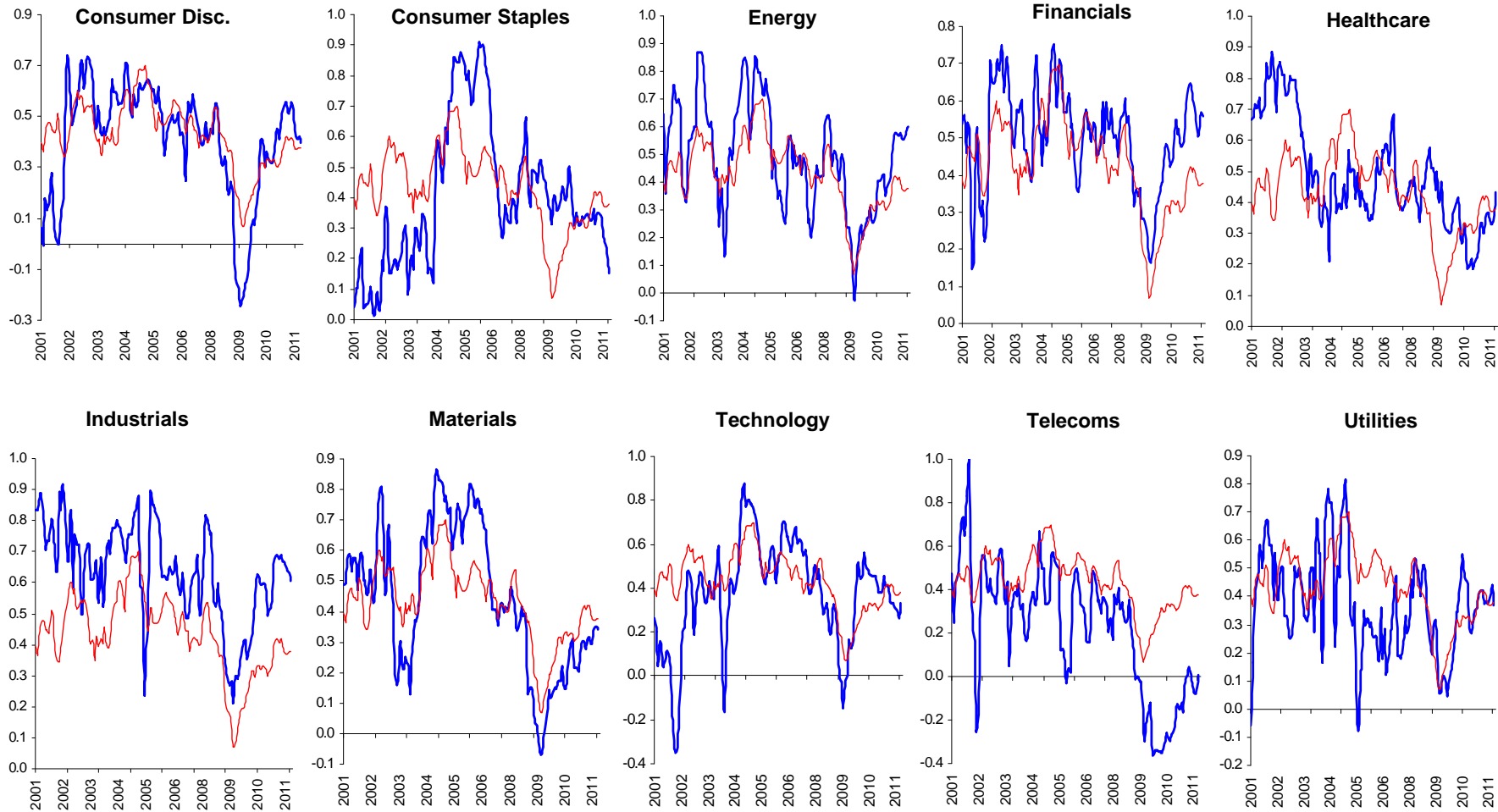


Sources: FactSet, MSCI, Morgan Stanley Research. Historical weights are adjusted for Reliance Ind and Tata Motors, which were earlier classified in Materials and Consumer Disc and later as Energy and Industrials respectively

SECTOR ROTATION MODEL

Sell-Side Consensus Net Buy Ratio

Dark blue Line – Average Sector Consensus Rating, Light red line – Average of Total MS Coverage Ratings

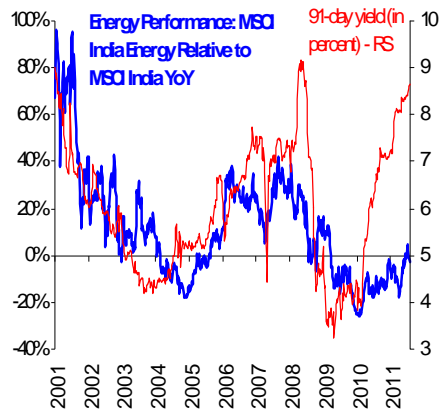


Source: FactSet, MSCI, Morgan Stanley Research. Sector consensus rating is calculated as ratio of average net buy ratings of the sector constituents to the average number of ratings of the sector constituents.

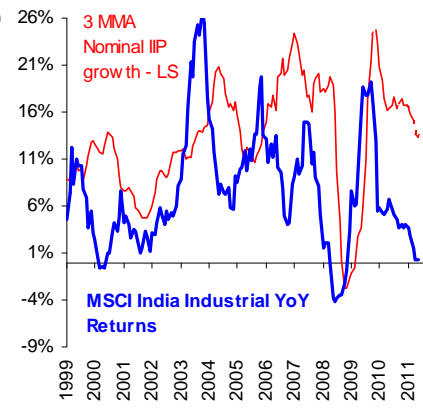
SECTOR ROTATION MODEL

Macro Indicators for Sectors

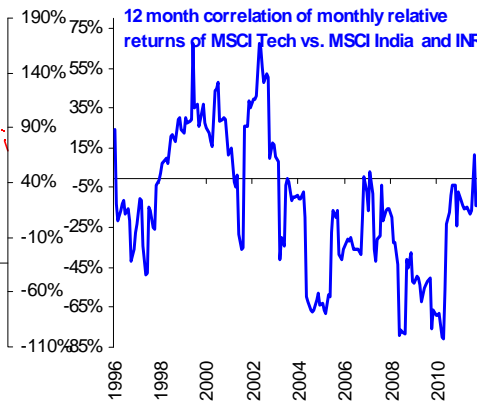
Energy Moves with 91-day Yields



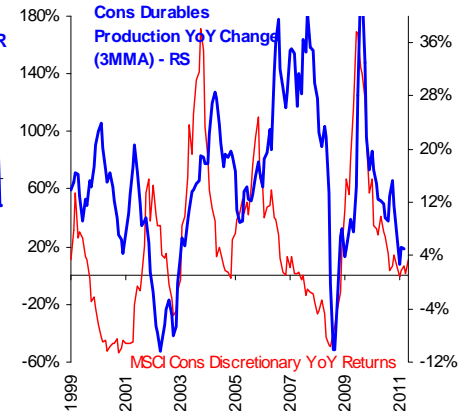
Industrials vs. IIP Growth



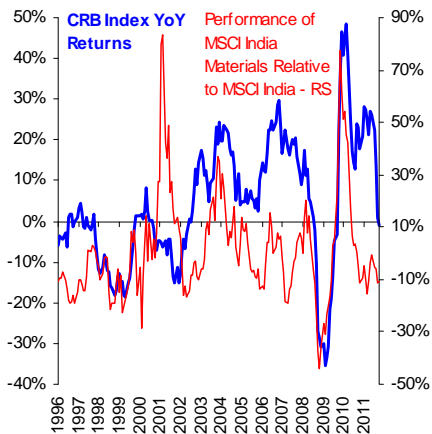
Tech Correlates Negatively with INR



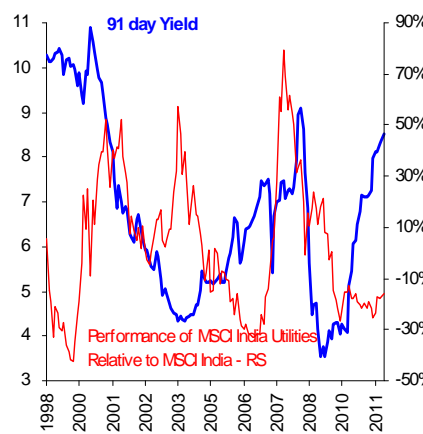
Cons. Disc. vs. Non-Durables Growth



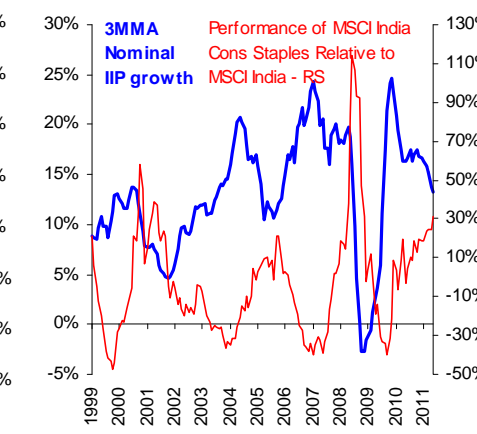
Materials vs. CRB Index



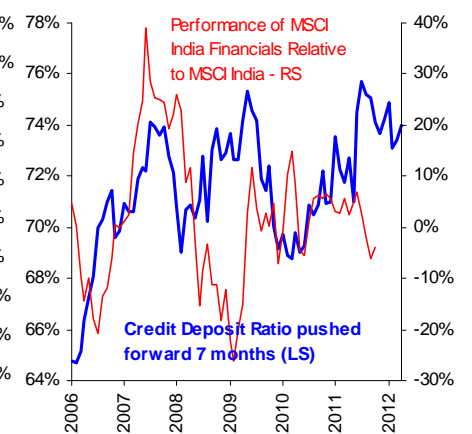
Utilities vs. 91-day Yields



Cons. Staples vs. IIP Growth



Financials vs. Credit-Deposit Ratio



**FACTOR ANALYSIS****What's Working, What's Not**

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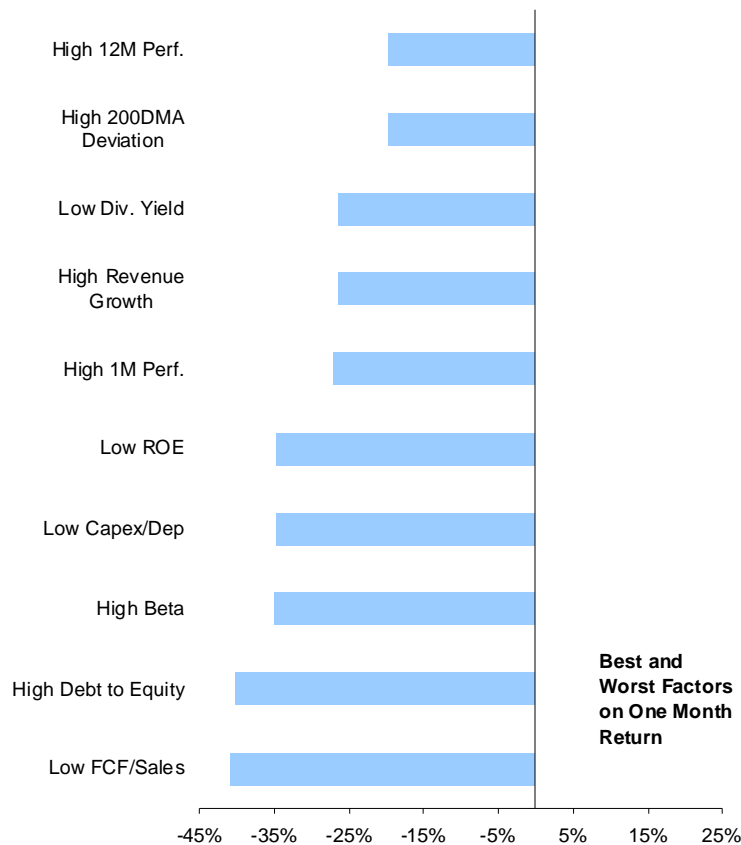
- **Key Debate:** This is the latest edition of our new product, which focuses on what styles are generating returns for investors. We address the question of which styles have been working over the past year and month. We also evaluate the differences between 2003-07 and the ongoing bull market in terms of winning styles (pages 8-9). We filter stocks that have the most “overweight” or “underweight” signals based on styles (page 7).
  - **What has happened over the past month and 12 months?** For long-only fund managers, over the past month, momentum was the best style during the month while high debt and low FCF were the worst styles. For hedge funds, low capex and strong 12M price momentum were the money making strategies while low ROE, high leverage and low FCF are money losing strategies.
  - Over the past 12 months, investors have been rewarding stocks of companies with rising institutional ownership, low capex and trailing 12-month performance. In contrast, high beta, high leverage and low quality (low free cash flow) have been losing strategies. Some of these winning strategies are bit different from what has worked over the long run (see adjoining text).
  - **Our Approach:** *Our product focuses on assessing which factors or styles are working and which ones are not. We have reviewed the performance of 18 most actively used styles and back-tested their ability to pick stocks (both winners and losers) in a portfolio context. We calculate factor (investment style) returns as follows: At the end of each month, we sort the stocks in our universe on their current exposure to the given style (for P/E, we sort stocks on P/E as at the end of the month). We then form a portfolio of stocks using the top and bottom quintiles and calculate the median returns for each basket going 12 months forward. We accumulate these returns for each month by re-sorting at the end of each month, going back to 1993. This methodology allows us to test the efficacy of a given style in picking both good and bad stocks. Our 18 factors include factors from three categories: Fundamentals (quality, growth and financial leverage), valuations, and market dynamics (like price momentum, ownership, beta and size).*
  - *Over the long run, not surprisingly, the market focuses on a combination of high quality, high growth, cheap valuations, and small size. Stocks with these characteristics do well over market cycles. The factors that do not work well in picking stocks include high consensus ratings, high institutional ownership levels, and high beta. The market message is mixed on certain growth and quality metrics, such as free cash flows and ROE delta, but it certainly likes companies with disciplined capex. There is a surprising bias for past winners in future winners – implying that stocks that have done well appear to be continuing to do well.*
-



**FACTOR ANALYSIS**

**For Long-only Portfolios: Factor Rankings in the Most Recent Month**

**Gross Factor Return over Past Month**



- Over the long run, long-only portfolio managers should be picking stocks for their portfolios on the basis of strong growth, high quality, low valuations, small size (i.e., small and mid-cap), and high leverage. Price momentum is also a key winning style – i.e. past winners seem to continue to deliver returns. What doesn't work includes the consensus view, institutional ownership, and beta. The market is also not a fan of too much change in ROE and one-month trailing price momentum. Then again, low capex is a favored “quality” metric over free cash flow. The market does not like companies paying too much dividend – maybe signaling that it prefers companies plough back cash for growth. The key valuation metric that works over time is P/B, and top-line growth is more important than EPS growth (details on slide 4).
- Some of these factors have not worked over the past 12 months, notably revenue growth, while higher institutional ownership and cheap valuations has assumed more importance. Over the past month, low free cash flow, high debt-equity, high beta and low capex are big losers whereas momentum appears to be in favor.

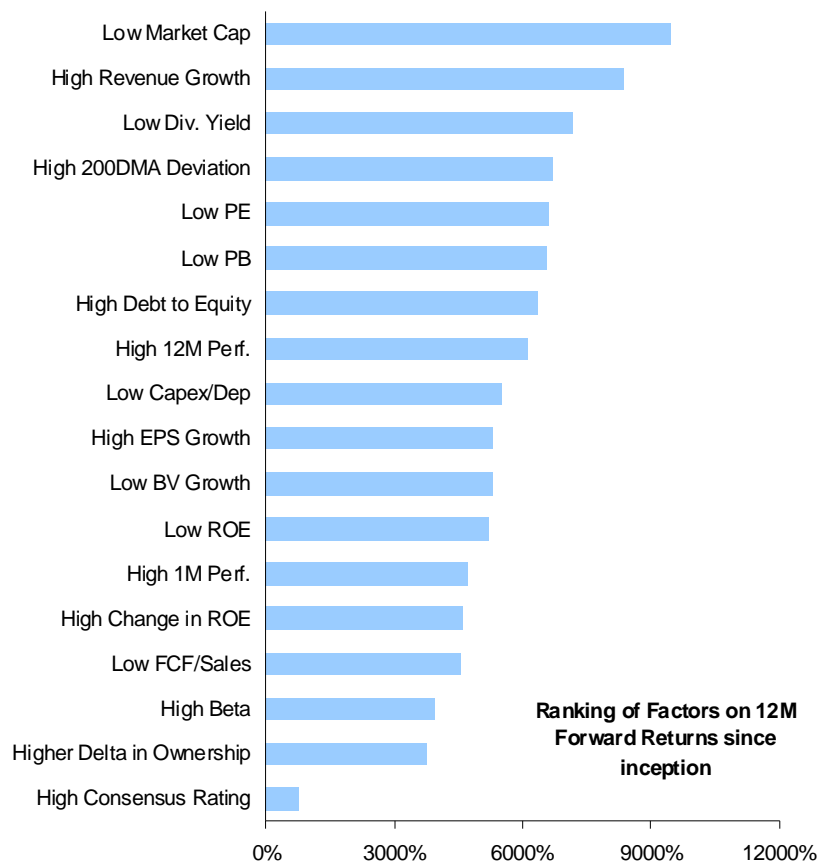
Source: FactSet, Company Data, Morgan Stanley Research



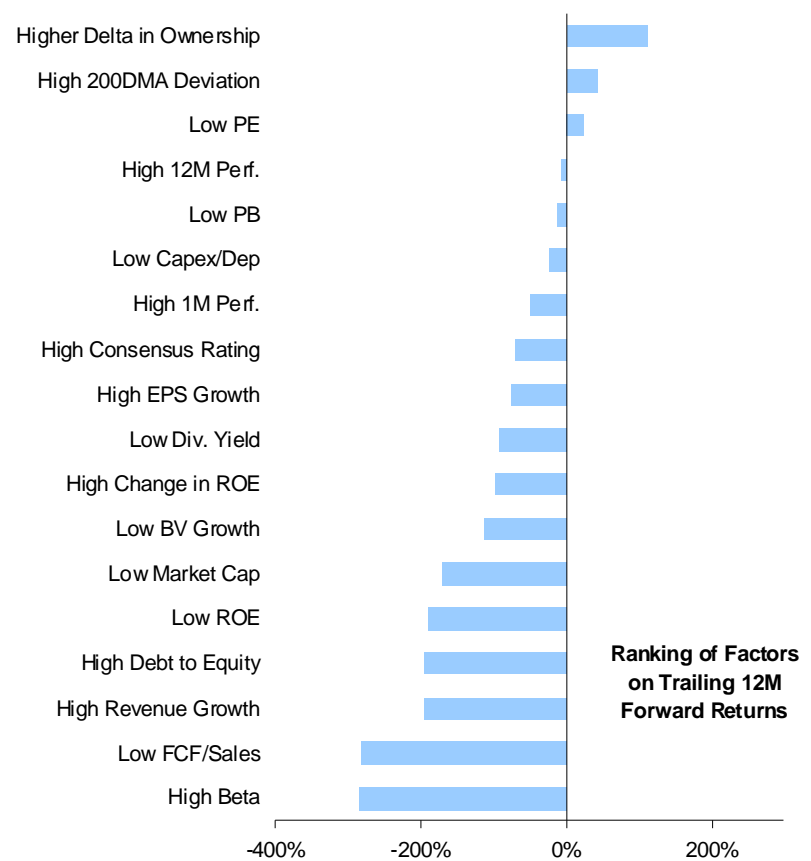
**FACTOR ANALYSIS**

**For Long-only Portfolios: Factor Rankings over Life and Past 12 Months**

**Gross Factor Return Since Inception**



**Gross Factor Return over Past 12 months**

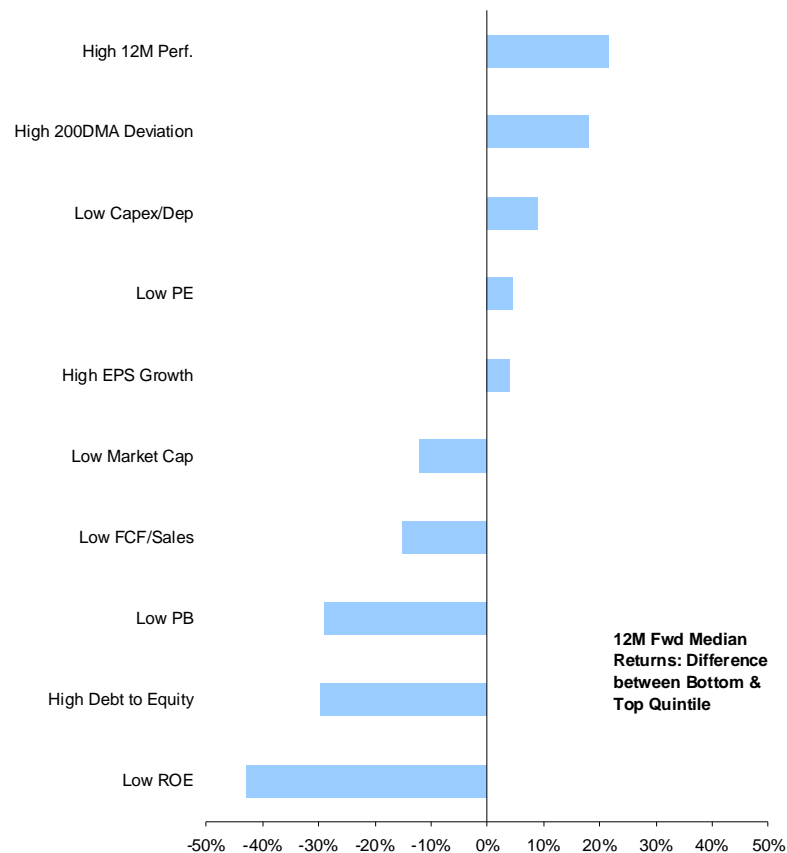


Source: FactSet, Company Data, Morgan Stanley Research

**FACTOR ANALYSIS**

**For Hedged Portfolios: Factor Rankings in the Most Recent Month**

**Net Factor Rankings Over Past Month**



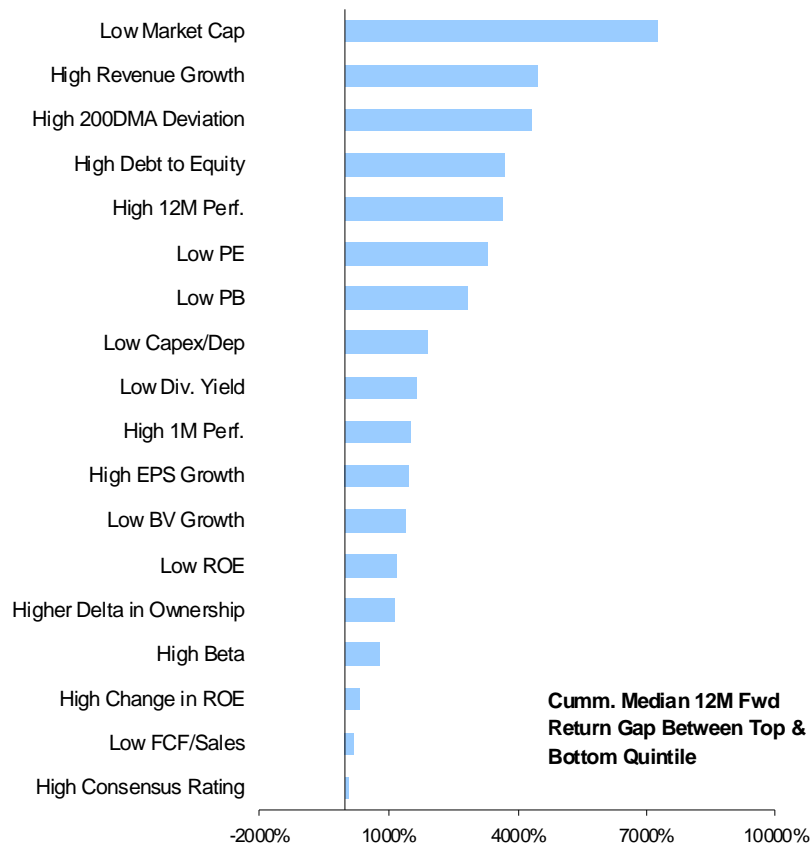
- Over the long run, hedge fund portfolio managers need not look at factors different from what long-only managers need to look at. The difference is what works better when “shorting” stocks. There, it seems a bullish consensus: too much short-term change in ROE, low dividend yield, and low free cash flow are clearly winning styles.
- Indeed, the results over the past 12 months have been a bit different. Higher delta in ownership, low PE and low capex have been very much in focus to pick winners, while high beta and low free cash flow have lost money.
- Over the most recent month, low capex to depreciation and momentum have been stock-picking strategies, whereas low ROE and high debt to equity have been losing money for investors.

Source: FactSet, Company Data, Morgan Stanley Research

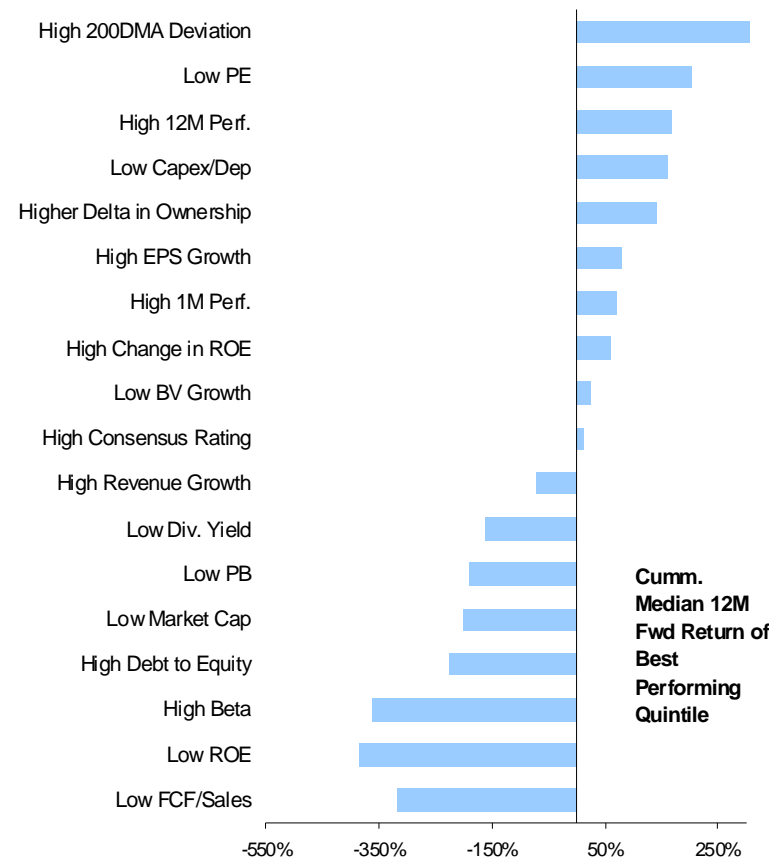
**FACTOR ANALYSIS**

**For Hedged Portfolios: Factor Rankings over Life and Past 12 Months**

**Net Factor Return Since Inception**



**Net Factor Return Over Past 12 Months**



Source: FactSet, Company Data, Morgan Stanley Research

## FACTOR ANALYSIS

## Picking Stocks Using Styles

## Stocks with maximum “Overweight” signals using styles as filters

	Styles Favouring Stocks									
Hathway (HATH IN, Rs 115 )	High 1M Perf.	High Consensus Rating	Low FCF/Sales	Low ROE	Low Capex/Dep	Low BV Growth	Low Market Cap			
Shree Renuka Sugar (SHRS IN, Rs 54)	High Revenue Growth	High Trailing EPS Growth	High ROE 6M Change	High Consensus Rating	High Debt to Equity	Low FCF/Sales	Low PE	Low Market Cap		
Balrampur Chini Mills (BRCM IN, Rs 54)	High Revenue Growth	High 1M Perf.	High Beta	High Debt to Equity	Low FCF/Sales	Low Capex/Dep	Low Market Cap			
Aban Offshore (ABAN IN, Rs 400)	High Trailing EPS Growth	High 1M Perf.	High Beta	High Debt to Equity	Low Capex/Dep	Low PE	Low PB	Low Div Yield	Low Market Cap	
TVS Motors (TVSL IN, Rs 66)	High Revenue Growth	High 1M Perf.	High 200DMA Deviation	Low Market Cap						
Aditya Birla Nuvo (ABNL IN, Rs 877)	High Trailing EPS Growth	High 12M Perf.	High Consensus Rating	Low ROE	Low Capex/Dep					
Sobha Developers (SOBHA IN, Rs 237)	High 1M Perf.	High Beta	High Consensus Rating	Low Capex/Dep	Low Market Cap					
Jaypee Infra (JPIN IN, Rs 63)	High Revenue Growth	High Trailing EPS Growth	High 1M Perf.	High 200DMA Deviation	High Beta	Low FCF/Sales				
OnMobile Global (ONMB IN, Rs 56)	High Trailing EPS Growth	High Beta	High Consensus Rating	Low FCF/Sales	Low PE	Low PB	Low Market Cap			
GE Shipping (GESCO IN, Rs 231)	High Consensus Rating	Low FCF/Sales	Low ROE	Low PE	Low PB	Low BV Growth	Low Market Cap			

## Stocks with maximum “Underweight” signals using styles as filters

	Styles Not Favouring Stocks									
Dabur India (DABUR IN, Rs 98)	Low ROE	Low Capex/Dep	Low PE	Low PB	Low BV Growth	High 1M Perf.	High Beta			
Mphasis (MPHL IN, Rs 318)	Low FCF/Sales	Low ROE	Low BV Growth	High 1M Perf.	High 12M Perf.	High 200DMA Deviation	High Beta	High Consensus Rating	High Debt to Equity	
Glaxo Smithkline Pharma India (GLX0 IN, Rs 2080)	Low FCF/Sales	Low ROE	Low PE	Low PB	High Beta	High Debt to Equity				
SUN TV (SUNTV IN, Rs 259)	Low FCF/Sales	Low ROE	Low PB	Low Div Yield	High 12M Perf.	High 200DMA Deviation	High Debt to Equity			
TCS (TCS IN, Rs 1079)	Low ROE	Low PE	Low PB	Low Market Cap	High Debt to Equity					
Colgate (CLGT IN, Rs 994)	Low FCF/Sales	Low ROE	Low PE	Low PB	High Beta	High Consensus Rating	High Debt to Equity			
Coal India (COAL IN, Rs 325)	Low ROE	Low PB	Low Market Cap	High Beta						
SAIL (SAIL IN, Rs 106)	Low Div Yield	High Revenue Growth	High Trailing EPS Growth	High 12M Perf.	High Consensus Rating					
Nestle (NEST IN, Rs 4280)	Low ROE	Low PE	Low PB	Low BV Growth	High Beta	High Consensus Rating				
NALCO (NALC IN, Rs 61)	Low FCF/Sales	High 200DMA Deviation	High Beta	High Consensus Rating	High Debt to Equity					

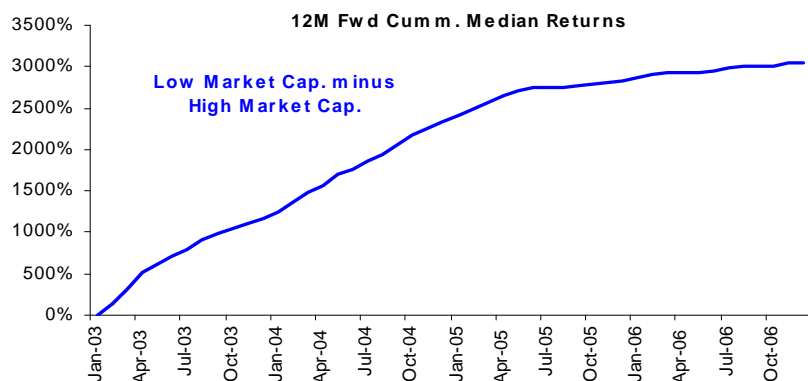
Please note that all important disclosures including personal holding disclosures and Morgan Stanley disclosures for stocks under coverage appear on the Morgan Stanley public website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). For non-covered stocks please refer to Important US Regulatory Disclosures on Subject Companies and Other Important Disclosures located at the back of this report.

Source: FactSet, Company Data, Morgan Stanley Research

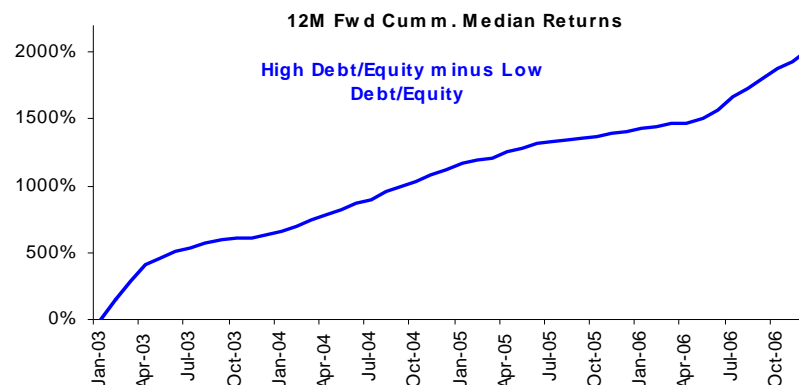
**FACTOR ANALYSIS**

**What Worked from 2003 to 2007: Small Cap, Momentum and Leverage**

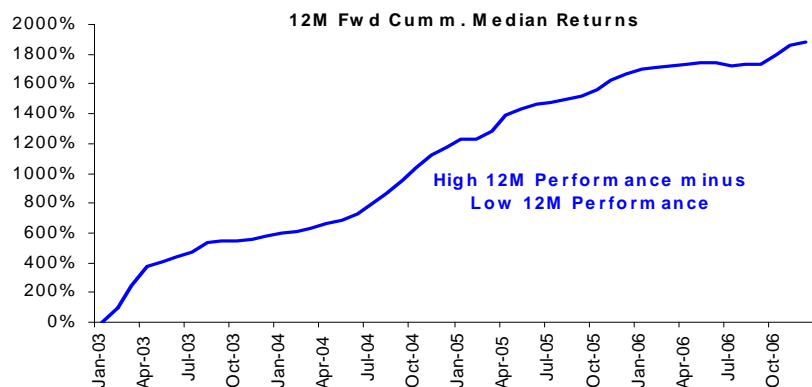
**Small Cap Beats Large Cap**



**High Leverage Produces Winners**



**Momentum Was in Favor**



**Factor Analysis: Fundamentals Mattered Less**

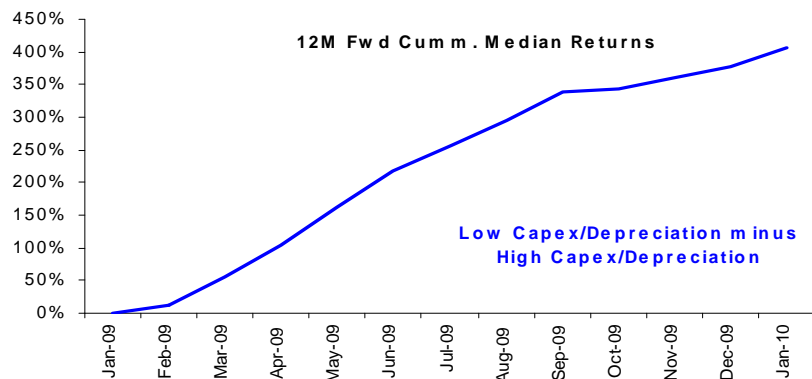
Winning Factors over 2003-2006	Winning Factor Returns over losing Factor Returns (12M Fwd Cum m. Median Returns)	Gross Returns for the winning factor
Low Market Cap	2721%	4487%
High Debt to Equity	2053%	3604%
High 12M Perf.	1883%	3405%
High 200DMA Deviation	1505%	3190%
Low FCF/Sales	1399%	3113%
High Revenue Growth	906%	3069%
Low PB	1145%	2910%
Low Div Yield	1059%	2906%
Low ROE	1055%	2662%
High ROE 6M Change	543%	2626%
High 1M Perf.	533%	2579%
Low BV Growth	553%	2432%
Low PE	243%	2397%
Low Capex/Dep	229%	2381%
High Beta	171%	2298%
High Ownership	626%	2258%
High Trailing EPS Growth	155%	2216%

Source: FactSet, Company Data, Morgan Stanley Research

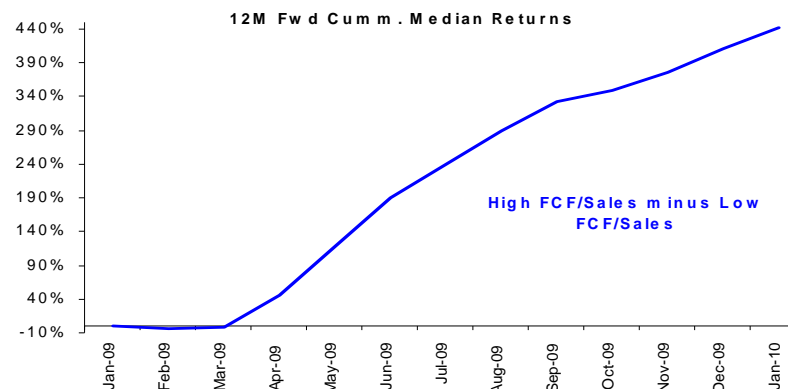
**FACTOR ANALYSIS**

**What Worked from 2009 to 2010: All About Quality**

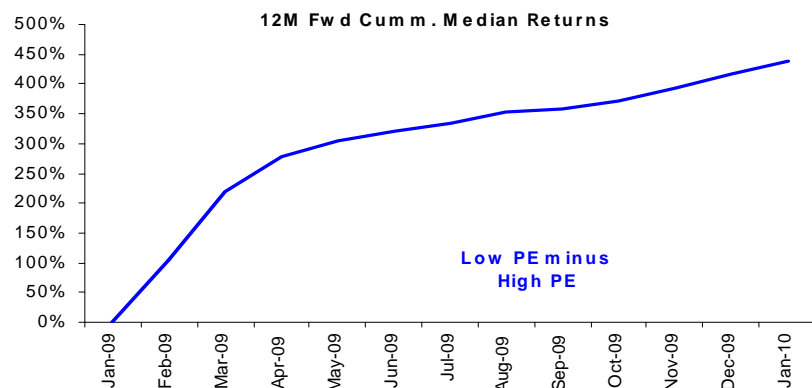
**Low Capex is a Big Winning Factor**



**Free Cash Flow Wins**



**Market Prefers Cheap Stocks**



**Factor Analysis: Quality, Valuation Discipline, Low Risk**

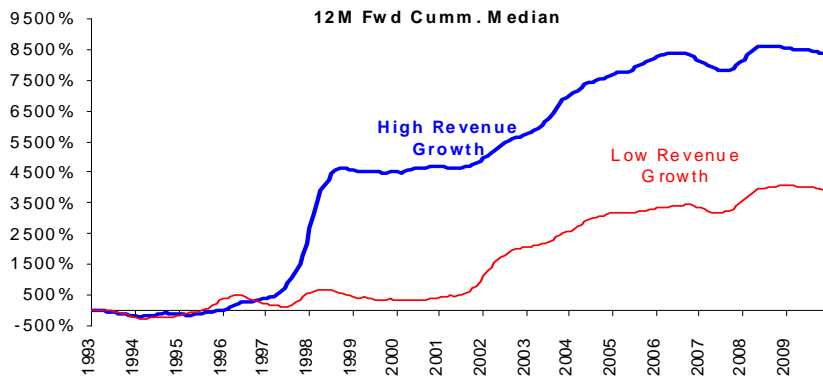
Winning Factors over 2009-10	Winning Factor Returns over losing Factor Returns (12M Fwd Cum. Median Returns)	Gross Returns for the winning factor
Low Capex/Dep	412%	709%
High FCF/Sales	387%	614%
Low PE	347%	653%
Low BV Growth	345%	721%
Low Beta	285%	553%
High Div Yield	262%	702%
Low Market Cap	231%	678%
Low 200DMA Deviation	226%	679%
Low ROE 6M Change	198%	554%
Low ROE	188%	614%
High Debt to Equity	187%	654%
Low Trailing EPS Growth	173%	593%
Low PB	163%	712%
Low 12M Perf.	161%	574%
High 1M Perf.	120%	597%
Low Revenue Growth	74%	371%
High Ownership	59%	383%
Consensus Rating	11%	657%

Source: FactSet, Company Data, Morgan Stanley Research

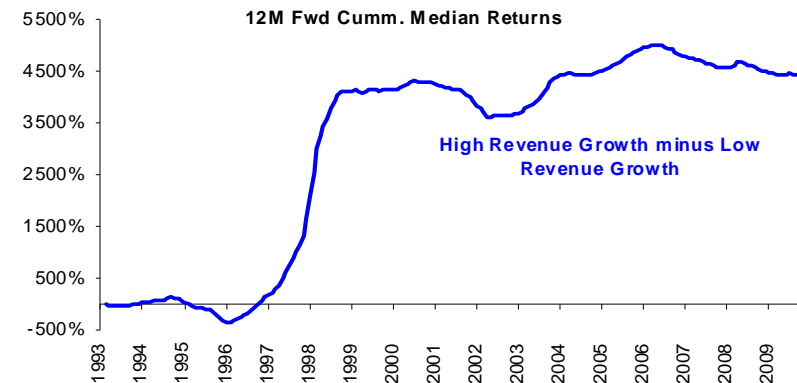
**FACTOR ANALYSIS**

**Revenue Growth: High Revenue Growth Remains Critical Metric to Pick Stocks**

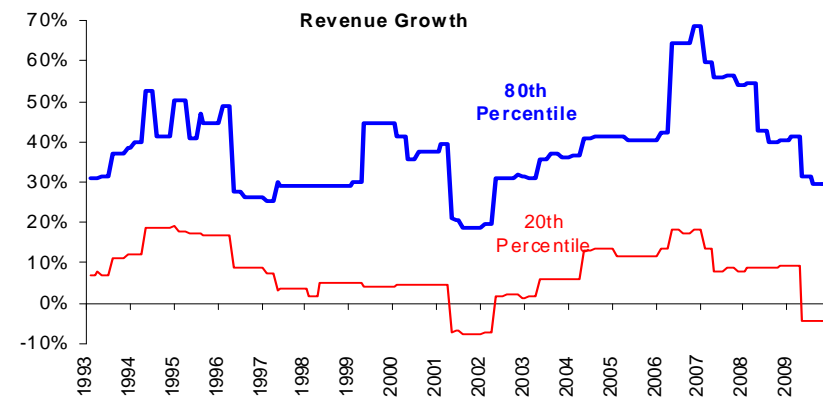
**Gross Factor Return: High Revenue Growth Leads**



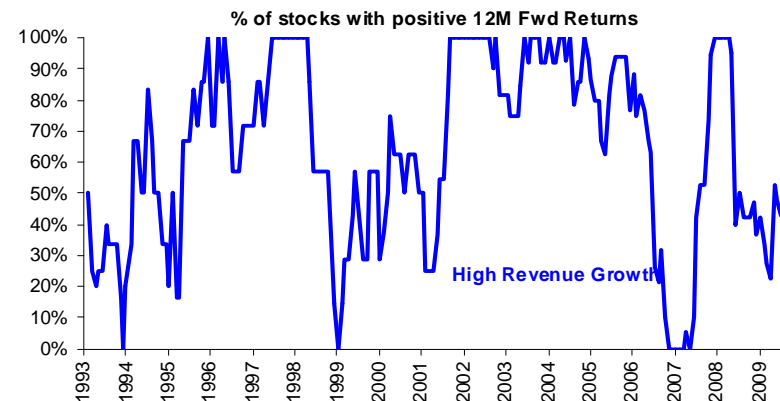
**Net Factor Return: Growth Has Lost a Bit in Recent Months**



**Factor Level: Revenue Growth Has Slowed Down**



**Win Ratio: Revenue Growth Not Picking Winners as Efficiently**

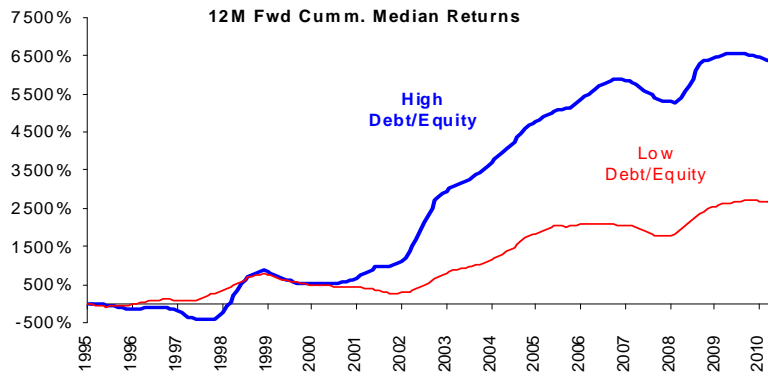


Source: FactSet, Company Data, Morgan Stanley Research

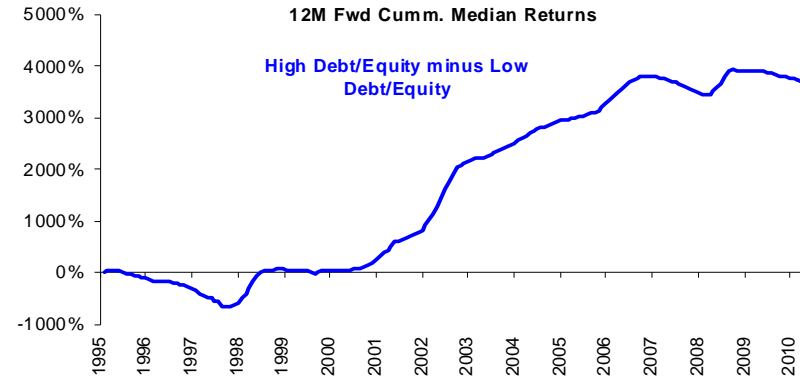
**FACTOR ANALYSIS**

**Debt/Equity: Leverage Works**

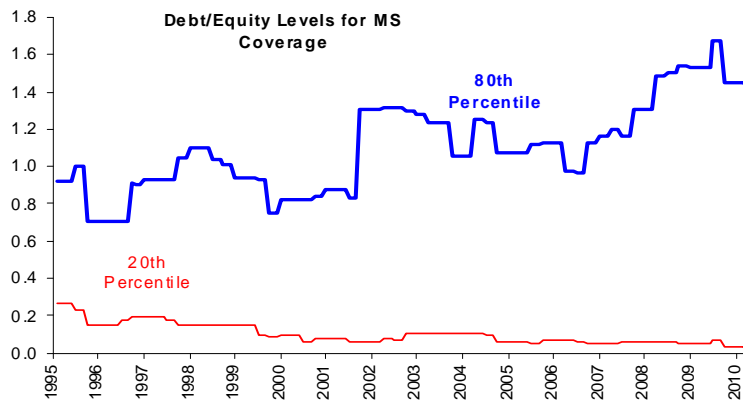
**Gross Factor Return: High Debt/Equity Is a Winner**



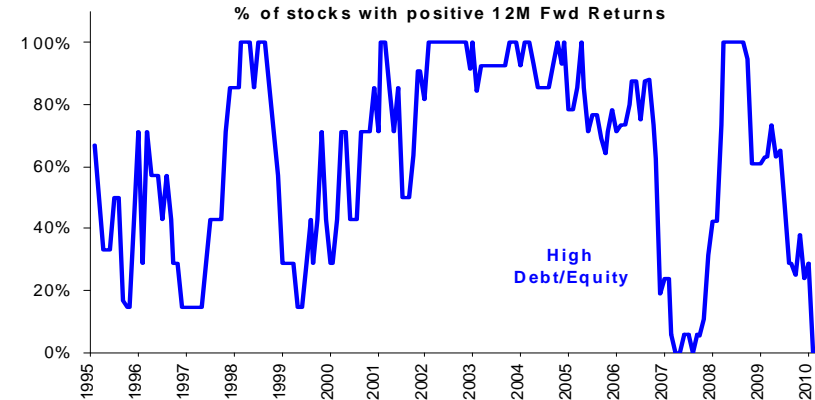
**Net Factor Return: Leverage Has Lost the Edge Recently**



**Factor Level: Debt/Equity Has Risen Recently**



**Win Ratio: Not a Good Stock Picker of Late**



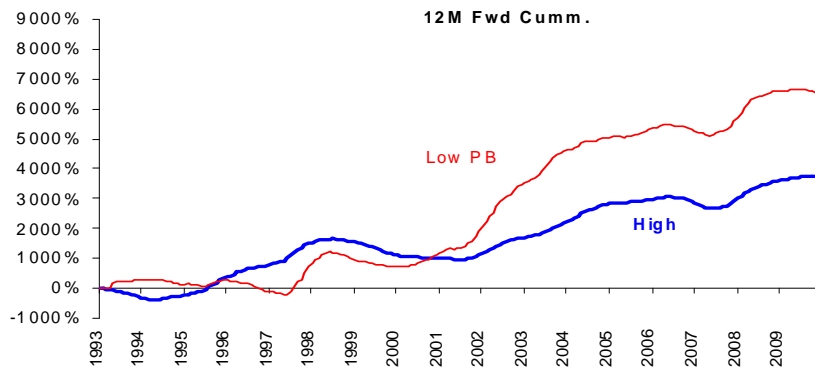
Source: FactSet, Company Data, Morgan Stanley Research



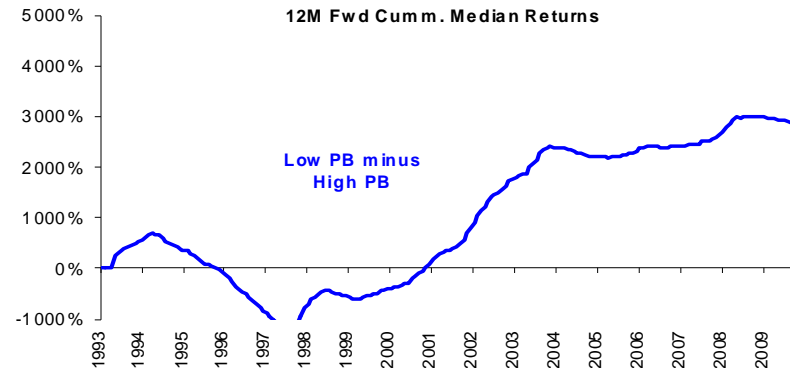
**FACTOR ANALYSIS**

**P/B: Low Valuations Stand Out, and P/B Is a Very Reliable Portfolio Construction Tool**

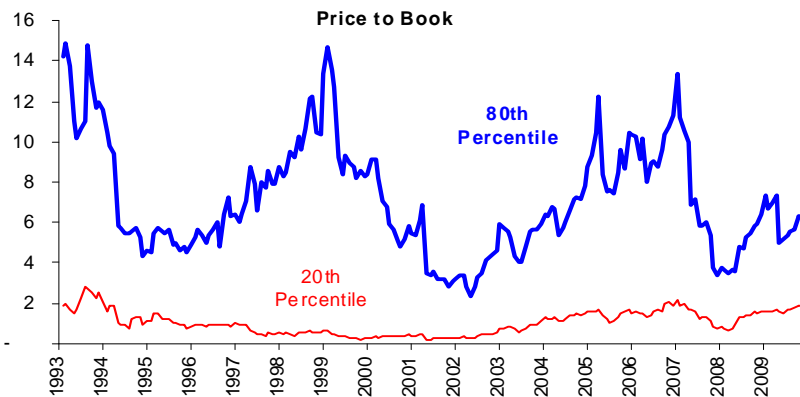
**Gross Factor Return: P/B Better than P/E**



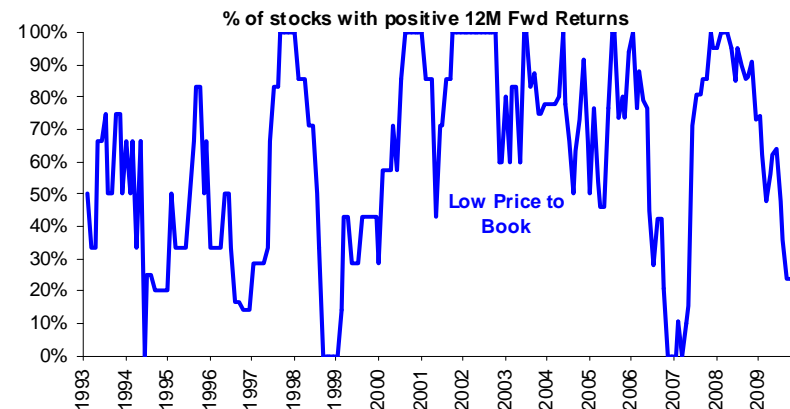
**Net Factor Return: P/B Is Powerful Tool**



**Factor Level: Off Trough Levels, but Nowhere Close to Highs**



**Win Ratio: Super Ratio to Pick Winners**

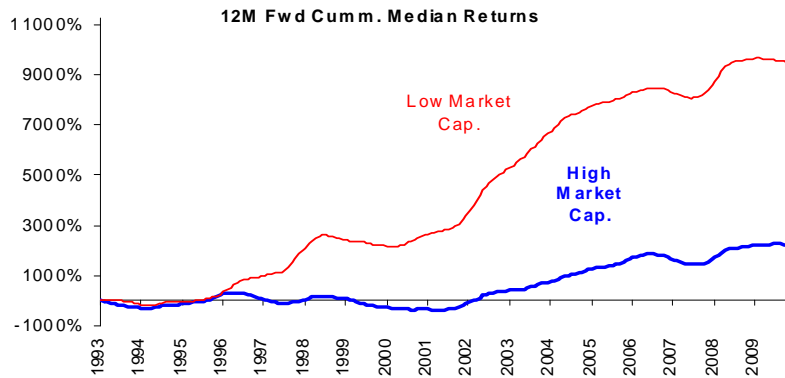


Source: FactSet, Company Data, Morgan Stanley Research

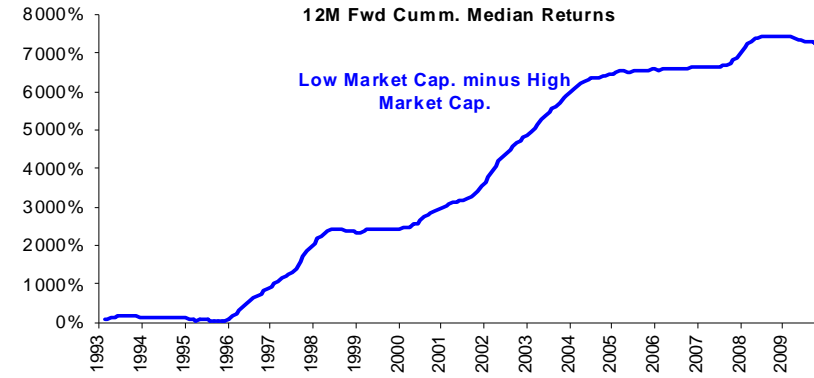
**FACTOR ANALYSIS**

**Market Cap: Small Is Big**

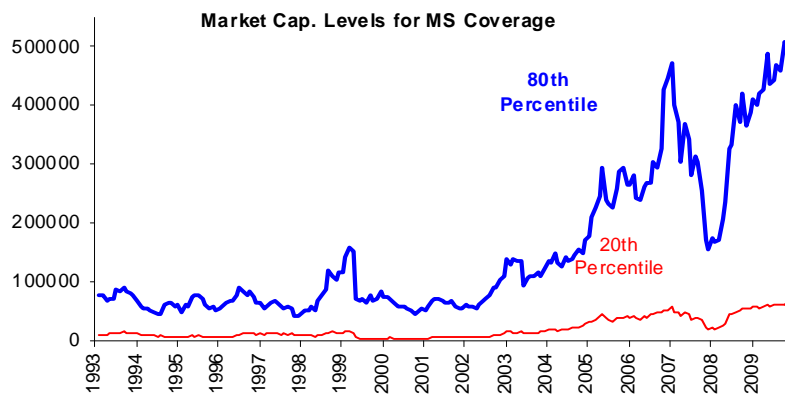
**Gross Factor Return: Small Cap Wins Consistently**



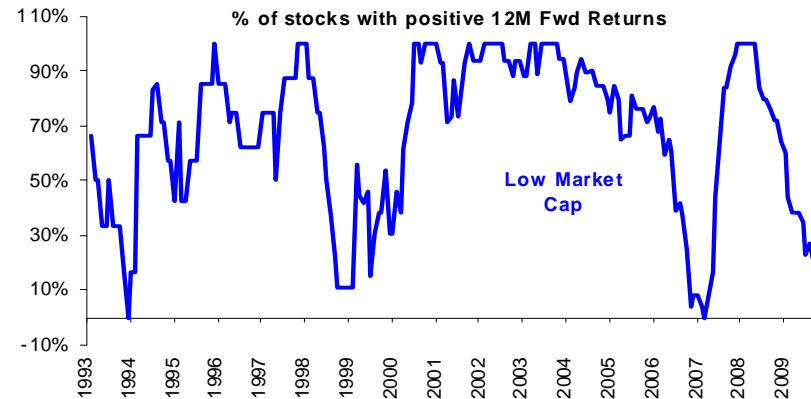
**Net Factor Return: Back the Small Companies**



**Factor Level: Small Is Getting Bigger**



**Win Ratio: Bear Markets Are Bad for Small Cap**

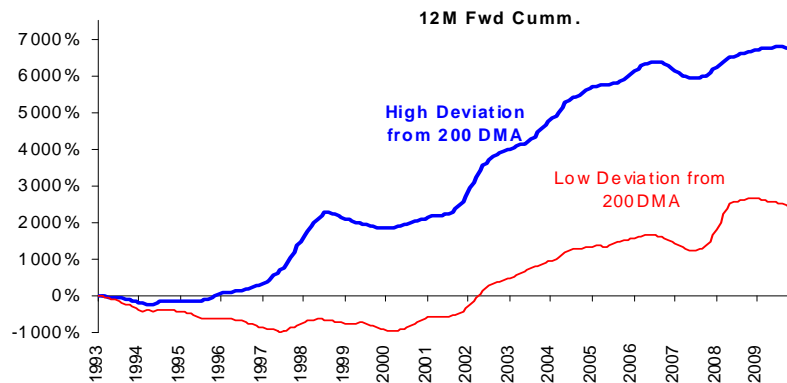


Source: FactSet, Company Data, Morgan Stanley Research

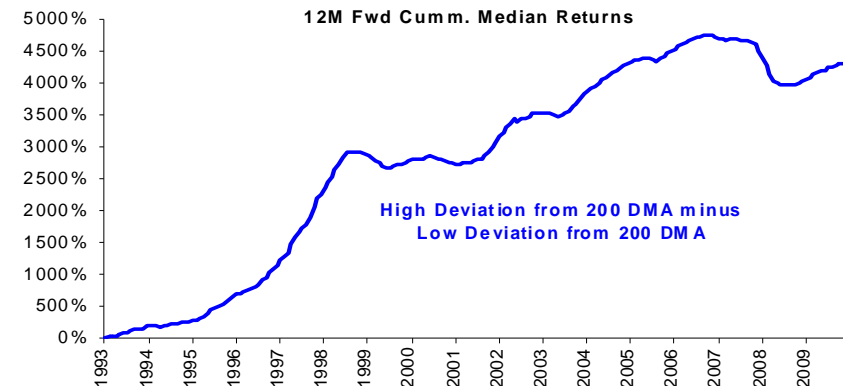
**FACTOR ANALYSIS**

**Deviation from 200DMA: High Momentum Is a Good Portfolio Construction Tool**

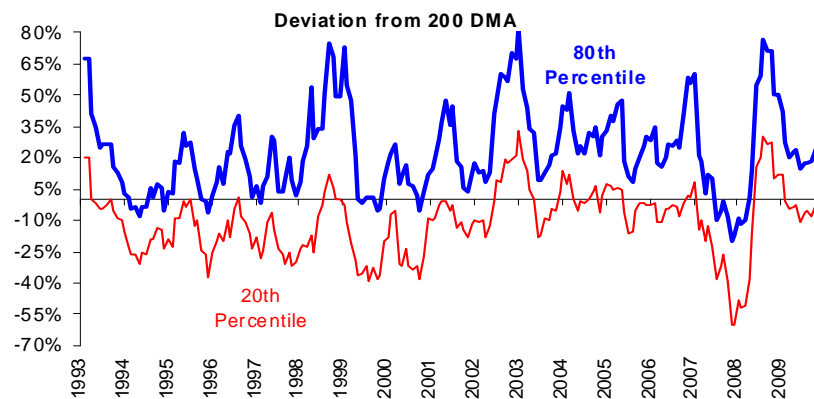
**Gross Factor Return: High Momentum = Excess Returns**



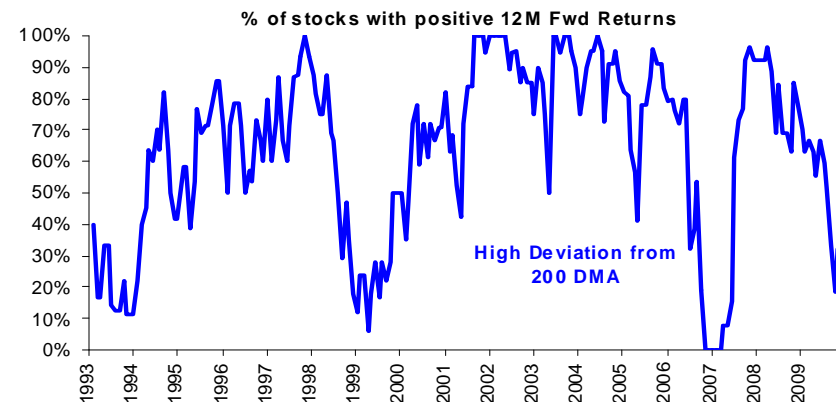
**Net Factor Return: 2010 Has Not Favored Momentum**



**Factor Level: Momentum Has Been Waning**



**Win Ratio: High Momentum Is a Safe Stock-picking Style**



Source: FactSet, Company Data, Morgan Stanley Research

## LONG TERM EQUITY RETURNS

## India's Coming Growth Acceleration: Does It Also Mean High Equity Returns?

**Key Debate: Will India's accelerating growth translate into high equity returns?** Our economist, Chetan Ahya, argues that India's growth will accelerate to a sustainable 9-10% by 2013-15, after an average of 7.3% over the past decade (see *China and India: New Tigers of Asia, Part III*, dated August 13, 2010). The combined effect of demographics, structural reforms, and globalization will help create a virtuous cycle of productive job creation, income growth, savings, investments, and higher GDP growth.

**Starting point on price and ROE matter for long-term equity returns:** There are several examples from history when high growth did not translate into robust equity returns. In our view, for high macro economic growth to translate into strong equity returns, there are two necessary conditions:

- A sensible starting point of valuations (i.e., the growth story should not already be in the price); and
- The ability of companies of listed stocks to translate macro growth into earnings, which in turn needs discipline on equity capital supply or, put another way, reasonable ROE.

**Valuations appear fair:** India seems to score well on both counts. On various valuation models we use, the long-term growth that seems priced into Indian equities is tolerable. Our residual income model implies that the equity risk premium is above 6% (implying a long-term rupee return from equities of around 15% using the 10-year bond yield at 8.3%). The regression of historical P/E and P/B multiple to long-term equity returns suggests similar outcomes, and so does a regression analysis on the value assigned to future growth. In summary, valuations are offering equity investors an acceptable level of equity risk premium.

**The ROE debate:** The cyclical pressure on ROE is quite evident. The MSCI Index ROE has dropped to its decade low, driven down by a fall in net margins as well as asset turnover. No doubt, India's nominal ROE will fall over the long run as long-term interest rates decline (with the progress of time, the potential growth rate falls, and with enhanced productivity, inflation expectations should also drop). However, the excess ROE over interest rates will likely remain intact for some time to come. Our arguments are:

- GDP growth, industrial growth, and earnings growth correlate well in India. Higher growth should translate into earnings growth;
- Balance sheets are under-levered lending upside surprise to ROE – Indian corporations have historically exhibited good discipline on raising equity, although easier access to global capital flows is the downside risk; and
- India's growth dynamic – including its balanced economic model – is lending itself to lower cyclicality in earnings as we have seen over the past 10 years.

All in all, Indian companies may show a decline in nominal ROE, but the spread of ROE over long-term interest rates appears to have a good case.

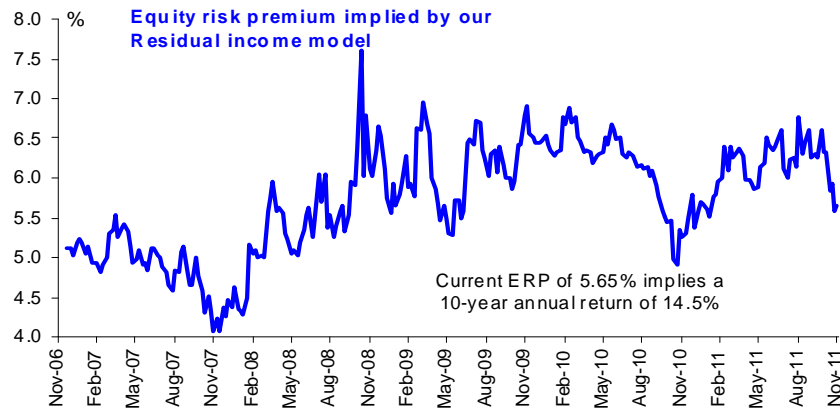
**Structural liquidity helps:** An additional factor that helps is the structural liquidity story: The side effect of the demographic dividend is the structural liquidity story. As domestic savings rise, a younger population will likely take more risk with its savings, causing higher flows into riskier asset classes like equity shares. The flow of savings into equities is supported by a strong capital market infrastructure. The starting point on capital markets is a good relative to the physical economy, i.e., the financial economy seems more well developed than the physical economy.

**Conclusion:** For now, we do not believe that long-term returns from Indian equities are likely to move significantly from recent trends (the trailing 10-year CAGR in returns is 14% in rupee terms). The valuation and ROE levels should be watched closely.

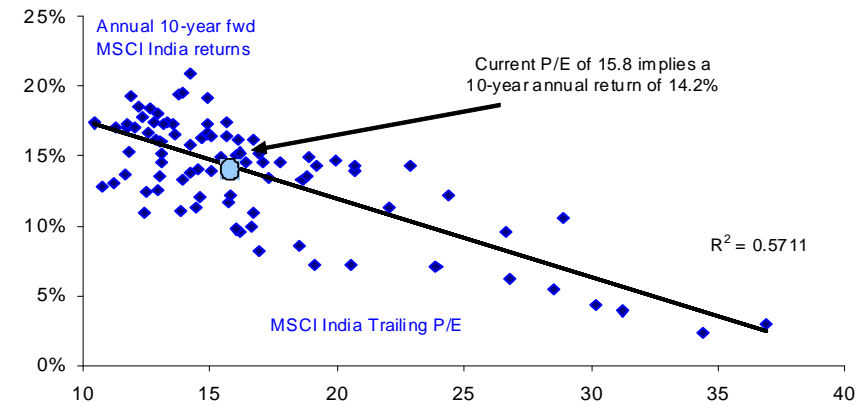
LONG TERM EQUITY RETURNS

Valuations Point to 14% Annual Index Returns over 10 Years in Base Case

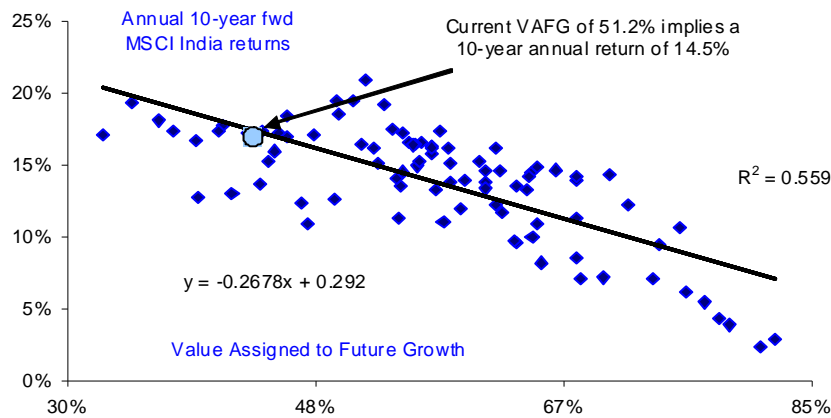
Implied Equity Risk Premium Suggests Fair Returns



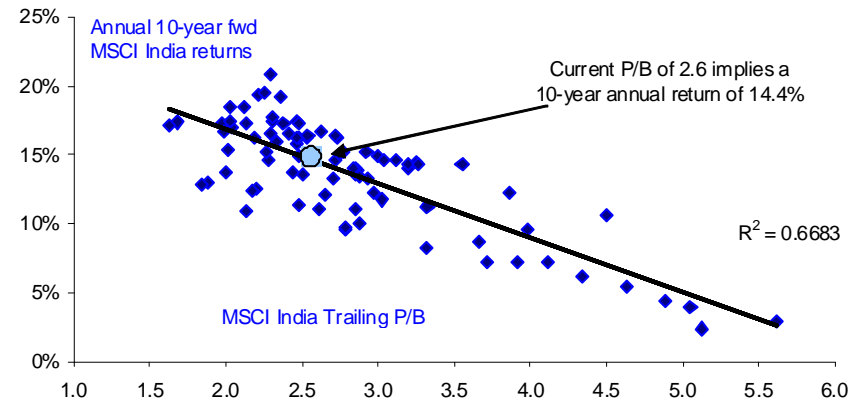
P/E vs. Long-term Returns: 14% CAGR in Returns



Value Assigned to Future Growth: 15% CAGR in Returns



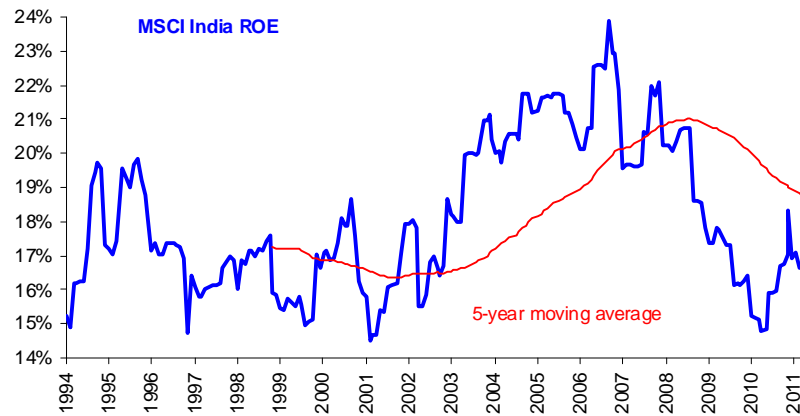
P/B vs. Long-term Returns: 14% CAGR in Returns



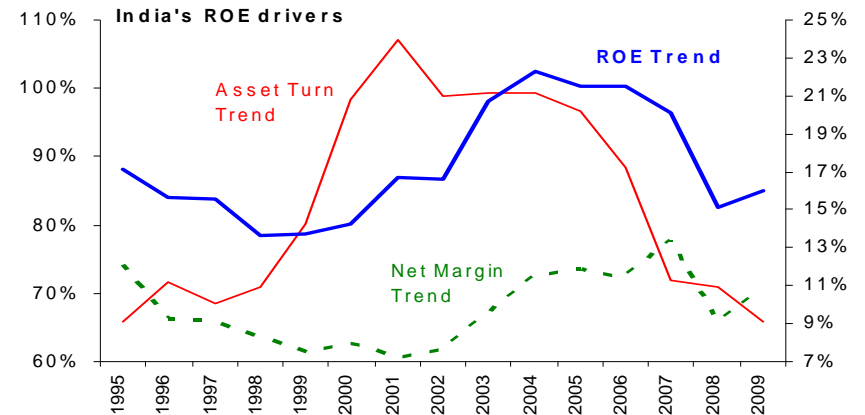
LONG TERM EQUITY RETURNS

Cyclical Pressure on ROE Likely to Ebb

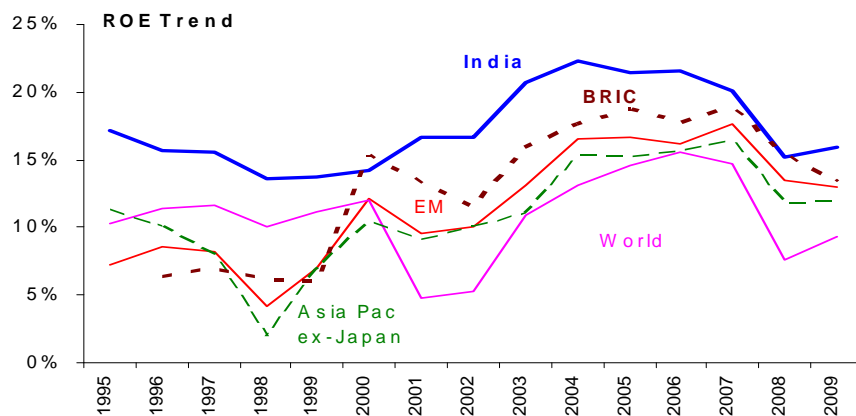
ROE Takes a Cyclical Knock



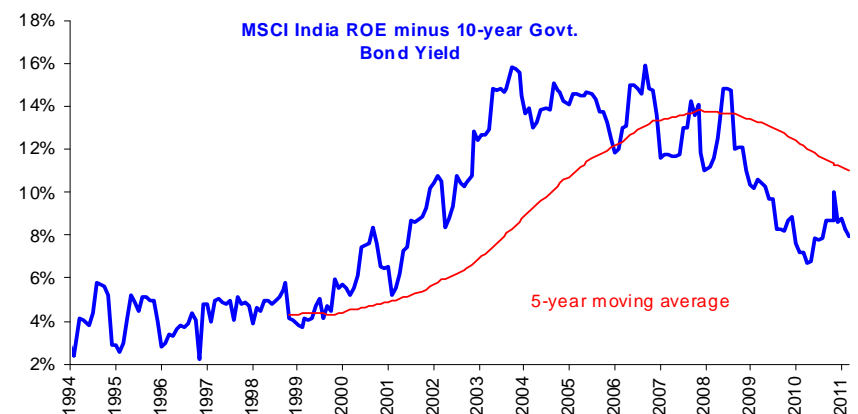
India's ROE Drivers: Margin Drop Leads Fall



India's ROE Superiority vs. Globe



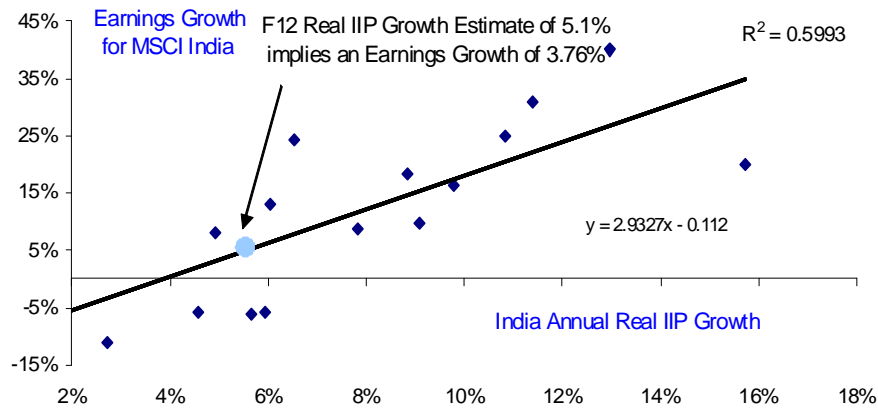
Excess ROE Over Long Bond Yield: Off 8-year Low



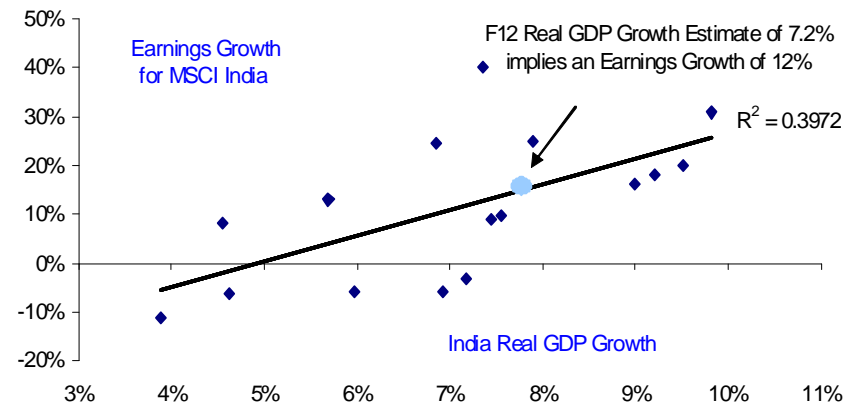
LONG TERM EQUITY RETURNS

Structural Case for ROE Is Intact

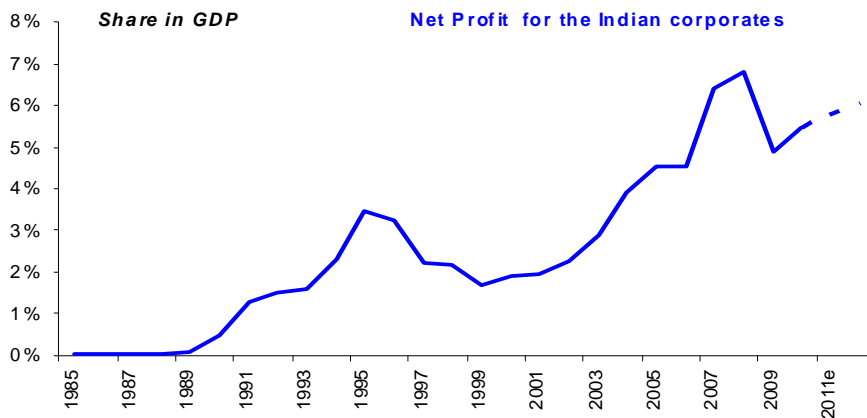
Earnings: Strong Correlation with Real IIP



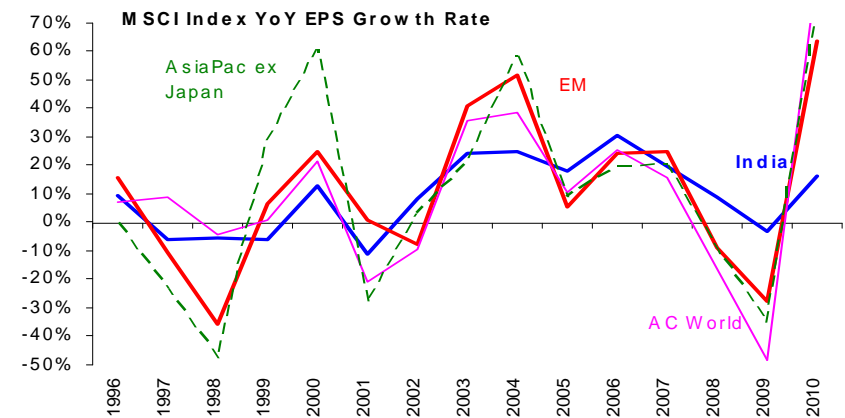
GDP Growth vs. Earnings Growth: High Correlation



Profits Share in GDP Approaching New Peak



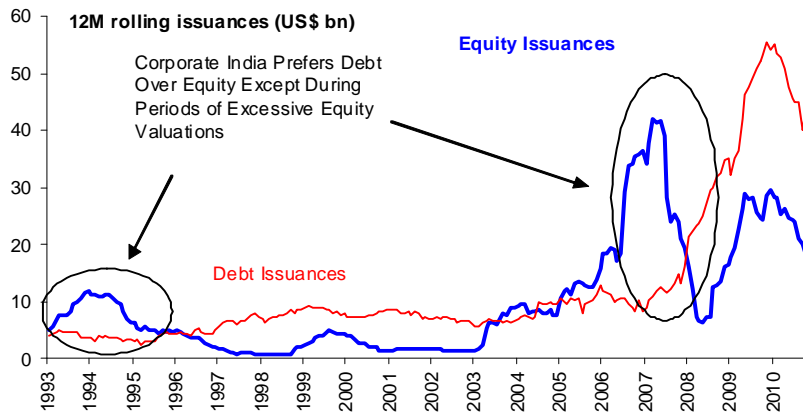
India's Earnings: Lower Cyclicity



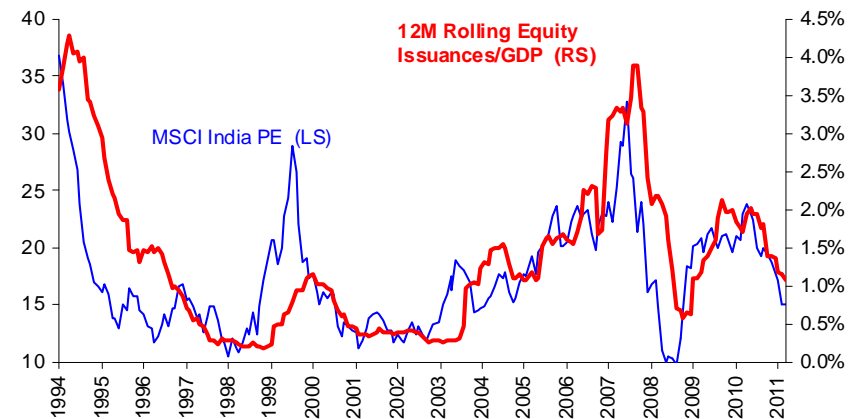
LONG TERM EQUITY RETURNS

Corporate India Is Mostly Disciplined about Capital Structure

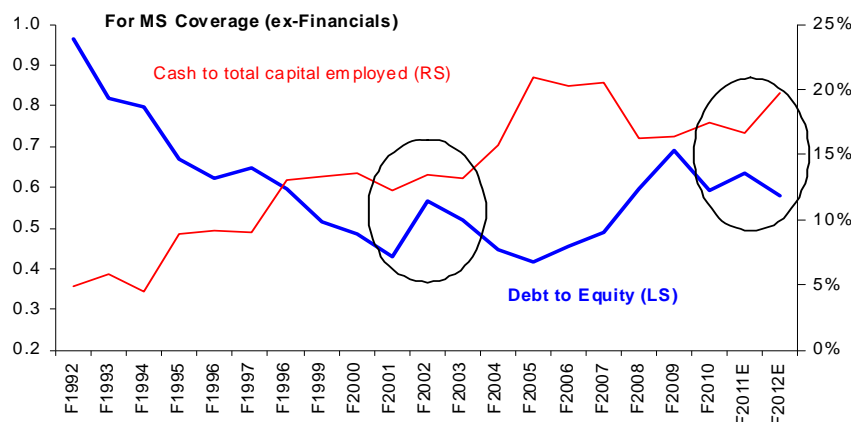
Preference for Debt Over Equity Through Cycles



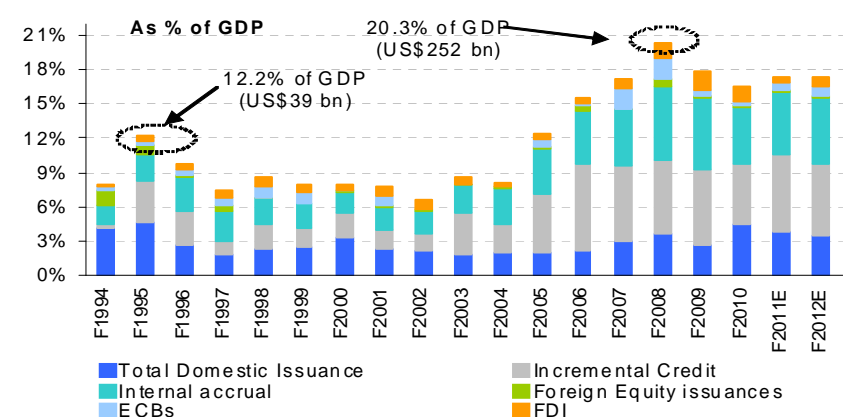
Equity Issues Correlate with Equity Valuations



Balance Sheets Under Levered



Easier Access to Foreign Capital Is a Key Risk



Source: Worldscope, FactSet, MSCI, BSE, Morgan Stanley Research



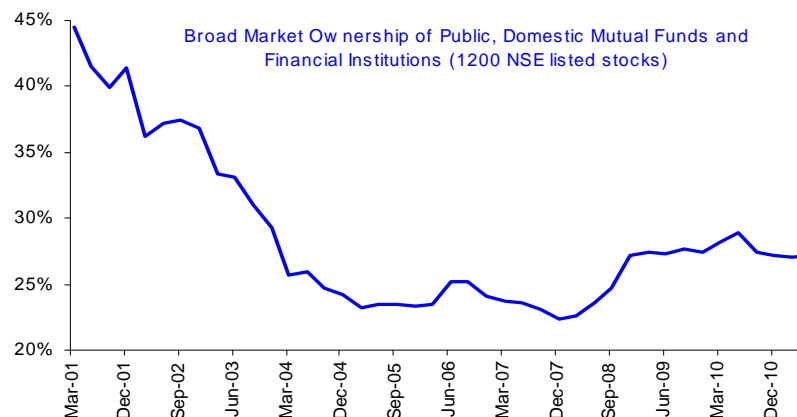
LONG TERM EQUITY RETURNS

India's Structural Liquidity Story Should Help

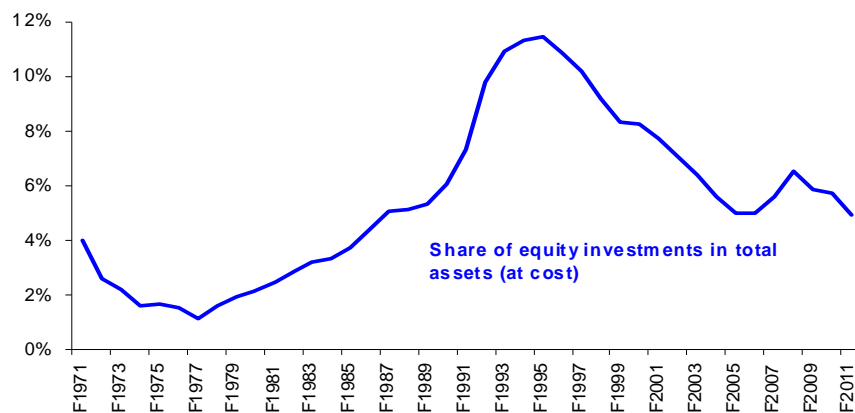
Equity Savings Likely > US\$300bn in the Next Decade

	GDP (Rs b)	Financial Savings (Rs b)	Financial Savings to GDP	Equity Savings	Equities to Financial Savings
F2007	42,937	6,439	15.0%	586	9.1%
F2008	49,864	7,066	14.2%	891	12.6%
F2009	55,826	7,255	13.0%	71	1.0%
F2010	65,503	9,882	15.1%	474	4.8%
F2011	78,756	10,401	13.2%	(46)	-0.4%
F2012E	91,098	12,259	13.5%	736	6.0%
F2013E	104,133	14,274	13.7%	928	6.5%
F2014E	116,108	16,205	14.0%	1,134	7.0%
F2015E	129,460	18,393	14.2%	1,379	7.5%
F2016E	144,348	20,869	14.5%	1,669	8.0%
F2017E	160,948	23,671	14.7%	2,012	8.5%
F2018E	179,457	26,842	15.0%	2,416	9.0%
F2019E	200,095	30,429	15.2%	2,891	9.5%
F2020E	223,106	34,486	15.5%	3,449	10.0%

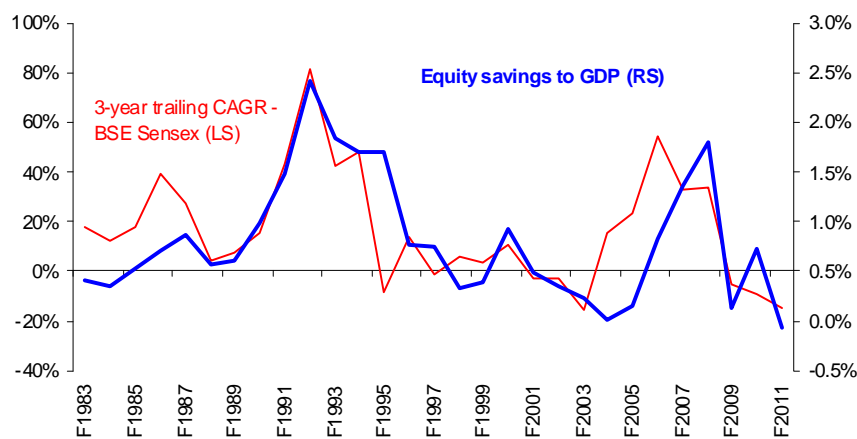
Household Equities' Ownership Has Declined Sharply



Households Grossly Underexposed to Equities



Equity Savings Track Trailing Returns



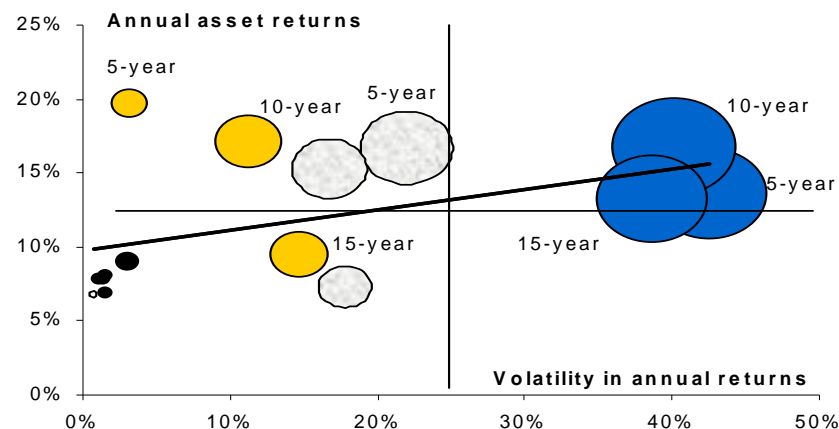
**LONG TERM EQUITY RETURNS**

**Long-term Asset Class Performance: High Risks ≠ High Returns**

**15Y Returns: Equity at the Top, Property at the Bottom**

Asset classes	Post Tax		Pre Tax	
	15Y CAGR	Volatility in annual returns	15Y CAGR	Volatility in annual returns
Gold	8.6%	13.3%	9.6%	14.7%
10-year treasuries	6.7%	2.5%	9.1%	3.0%
Bank fixed deposit	5.1%	1.9%	7.8%	1.1%
Property (across 7 cities)	6.5%	16.4%	7.3%	17.9%
Equities (BSE Sensex)	13.2%	38.6%	13.3%	38.6%

**Yellow Metal Glows on Risk-Adjusted Basis**



**10Y Returns: Gold and Equities – Take Your Pick**

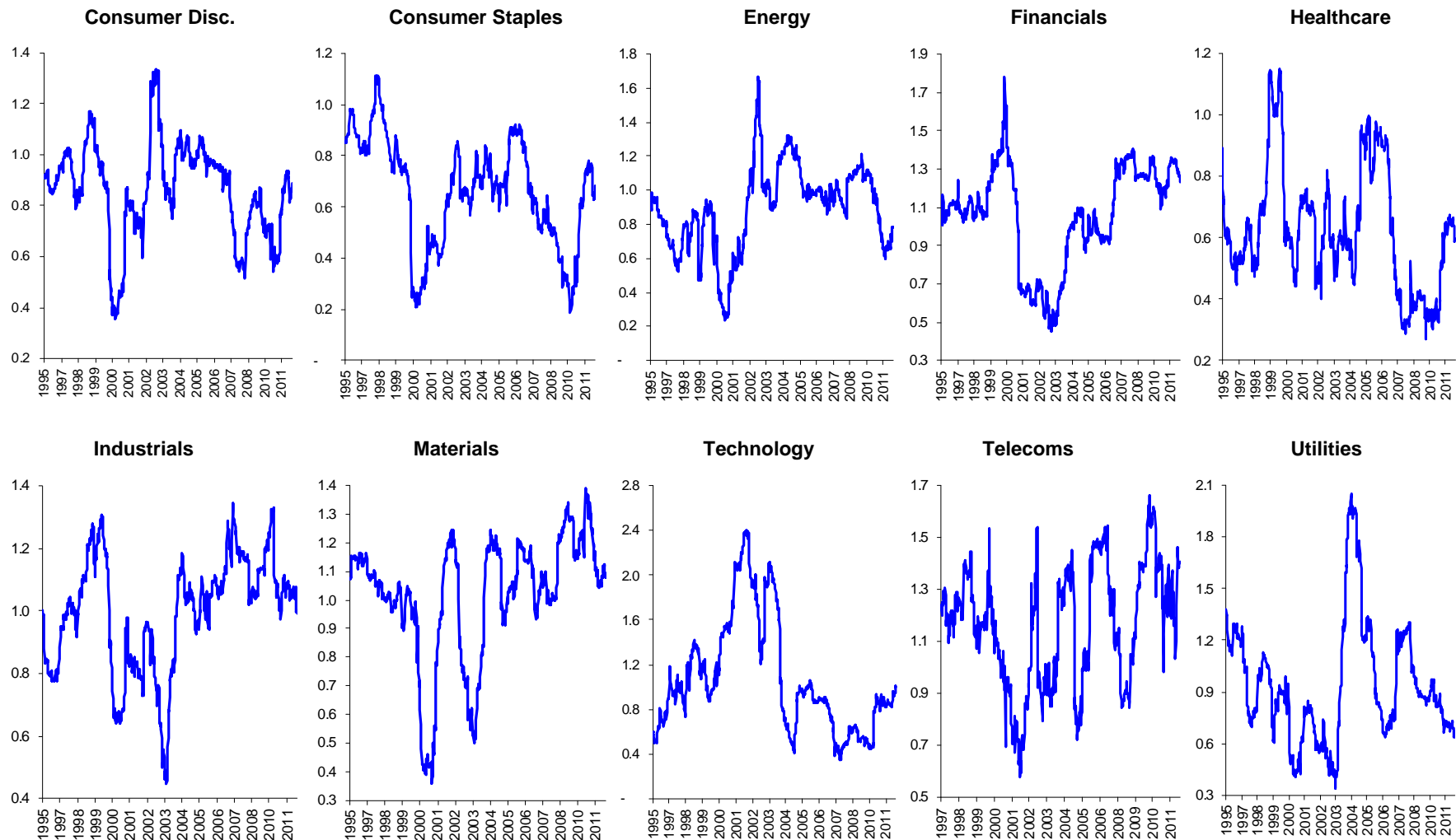
Asset classes	Post Tax		Pre Tax	
	10Y CAGR	Volatility in annual returns	10Y CAGR	Volatility in annual returns
Gold	15.4%	10.1%	17.1%	11.3%
10-year treasuries	6.0%	0.9%	8.1%	1.6%
Bank fixed deposit	4.6%	1.0%	6.9%	1.5%
Property (across 7 cities)	13.7%	15.3%	15.3%	16.7%
Equities (BSE Sensex)	16.8%	40.1%	16.8%	40.1%

**5Y Returns: Gold Sparkles Ahead of Equities**

Asset classes	Post Tax		Pre Tax	
	5Y CAGR	Volatility in annual returns	5Y CAGR	Volatility in annual returns
Gold	17.8%	2.9%	19.8%	3.2%
10-year treasuries	4.7%	0.4%	6.8%	0.8%
Bank fixed deposit	5.2%	0.8%	7.9%	1.3%
Property (across 7 cities)	16.6%	19.9%	18.5%	22.1%
Equities (BSE Sensex)	13.7%	42.6%	13.7%	42.6%

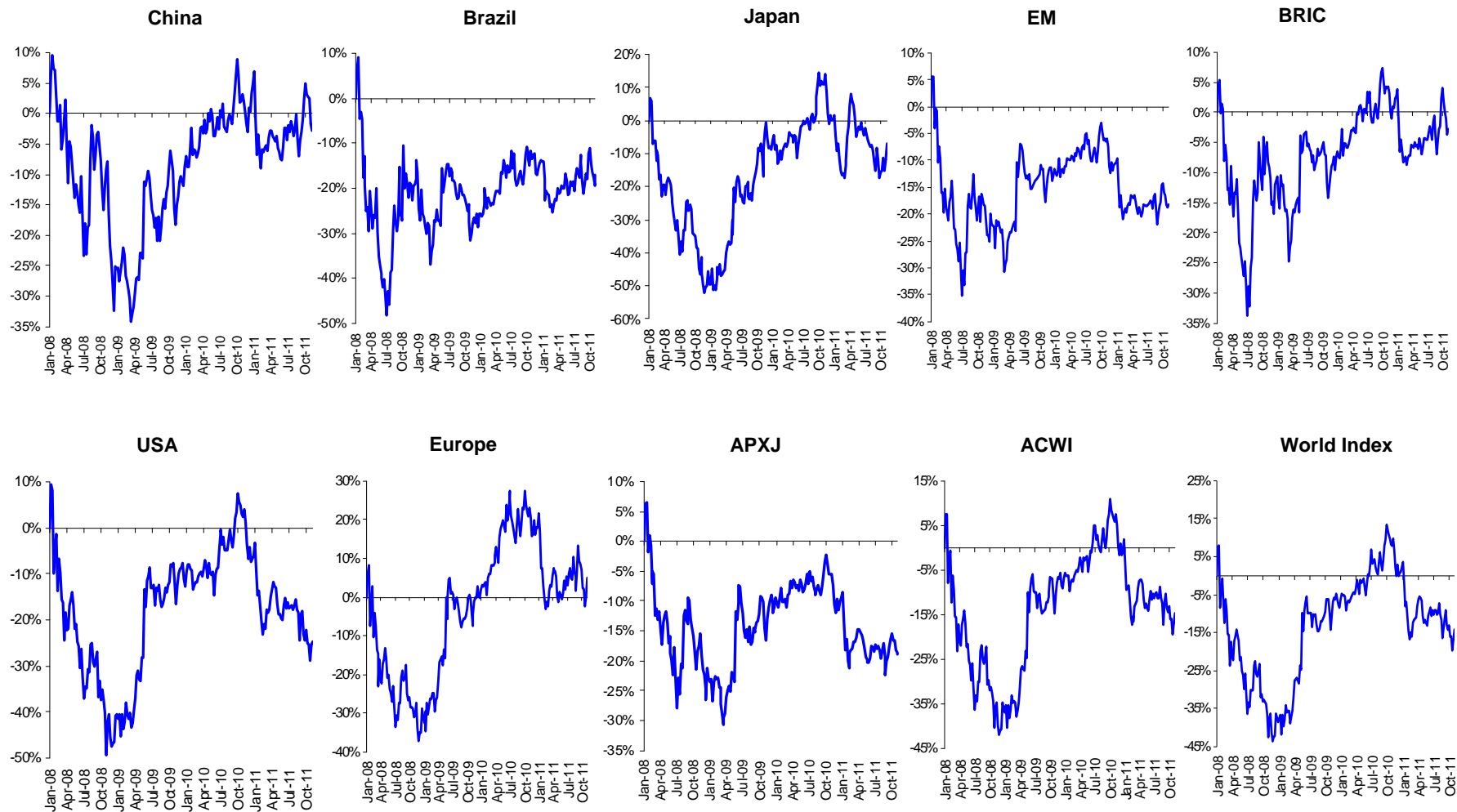
AT A GLANCE

12M Beta Relative to MSCI India



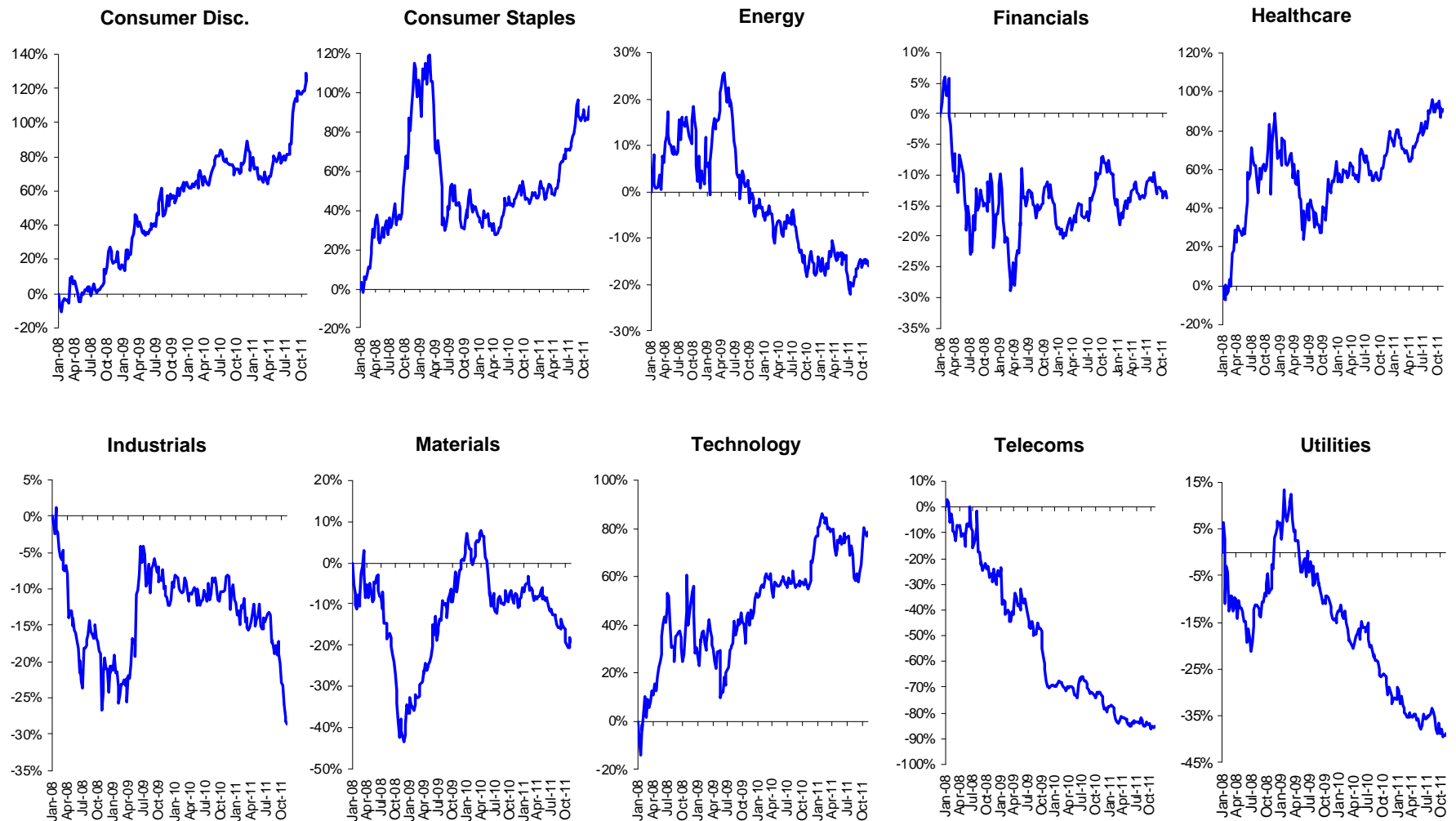
AT A GLANCE

MSCI India Performance Relative to Country Index since January 2008



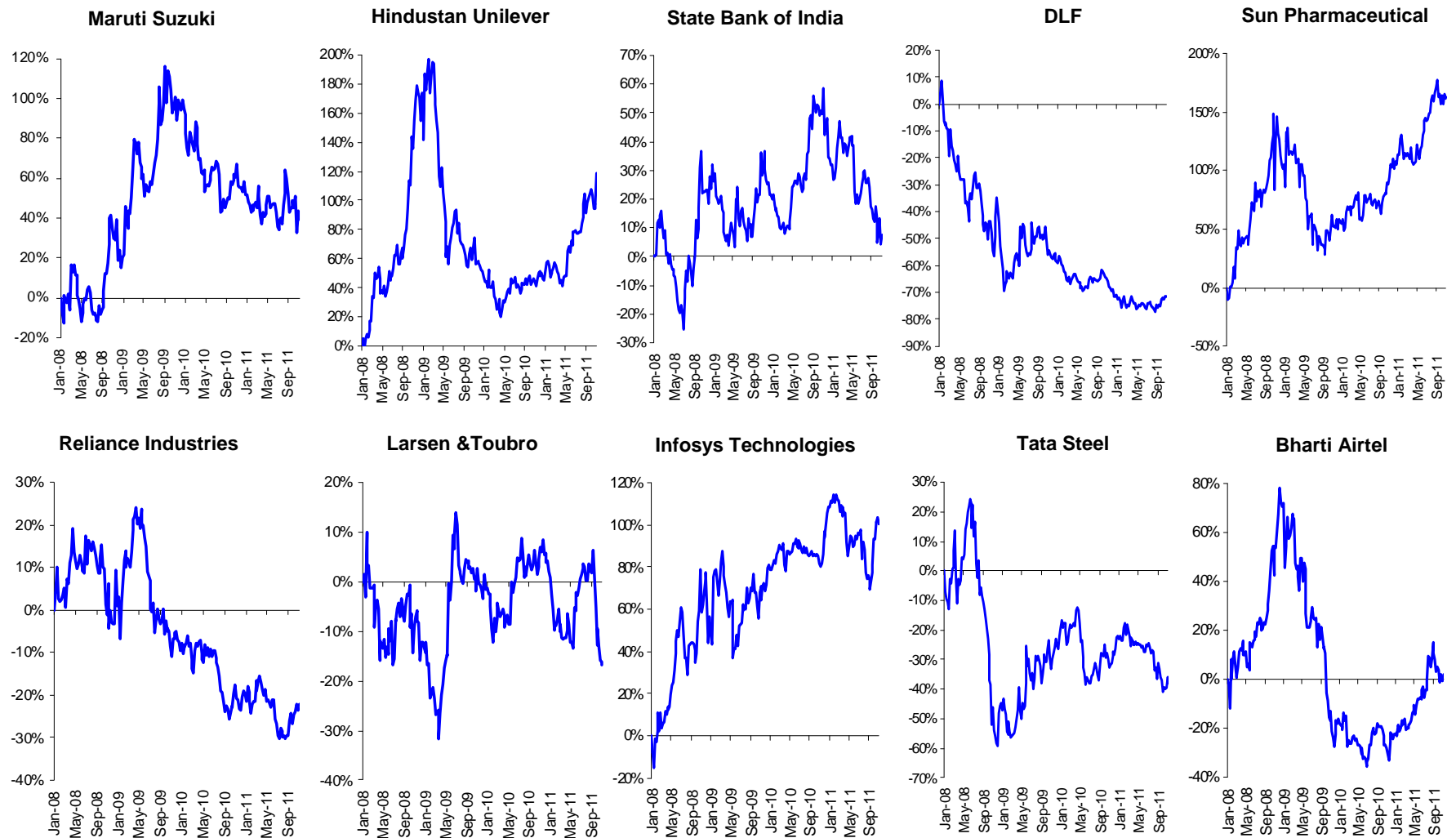
AT A GLANCE

Sector Performance Relative to MSCI India since January 2008



AT A GLANCE

Stock Performance Relative to MSCI India since January 2008



## AT A GLANCE

## Macroeconomic Forecasts

	2007	2008	2009	2010	2011 YTD
India GDP* (US \$ billion)	947	1229	1212	1383	1726
Market Cap (US \$ billion)	1815	637	1301	1632	1263
Listed Companies (BSE)	4,887	4,921	4,955	5,034	5,092
FII ownership (1200 NSE listed stocks)	20%	19%	16%	19%	18%
<b>Flows (US \$ million)</b>					
FII (cash)	17,790	-12,745	17,650	29,317	358
FII (Futures)	-13,110	5,731	-4,049	-5,777	-2,880
Domestic fixed income fund	26,759	-7,197	29,505	-15,711	6,950
Domestic equity mutual fund	7,044	8,032	145	-3,369	1,683
Domestic mutual fund activity	1,719	3,517	-1,175	-6,027	1,182
Domestic Insurance activity	4,252	13,647	7,003	1,144	3,647
Total AUM	139,436	84,981	142,643	138,691	134,895
Equity AUM	56,075	23,916	44,323	48,269	38,992
<b>Trading (US\$ million)</b>					
Total trading volumes	4,031,800	3,673,445	4,288,391	6,588,795	6,497,588
Cash trading volumes	1,104,939	1,058,155	1,055,523	1,061,582	652,663
Derivatives trading volumes	2,926,861	2,615,290	3,232,867	5,527,214	5,844,925
FII cash trading volumes	381,890	354,045	242,921	306,413	231,687
FII derivatives trading volumes	512,095	530,946	611,775	1,138,437	1,333,060
Domestic MF trading volumes	88,976	82,623	76,896	75,518	47,680
Equity issuances (domestic + Euro)	32,947	19,217	17,437	28,118	9,761
FCCBs	8,727	532	2,549	1,318	280
Debt Issuances	8,776	22,888	31,091	54,273	36,640

Source: SEBI, AMFI, BSE, NSE, Prime database, CMIE, Morgan Stanley Research, E = Morgan Stanley estimates \*Morgan Stanley 2011 GDP Estimate

## AT A GLANCE

## Morgan Stanley Stock Coverage

	Price 11/3/2011	Mkt Cap (US\$m)	Rating	Avg. Daily Vol. 3M (\$MN)	6M Price Perf	Trail 3 Year EPS CAGR	Implied LT EPS grth	Div grth*	Fwd ROE	Fwd PE	Fwd P/B	Trailing P/Sales	Fwd Div Yield	Trailing FCF Yield	Consensus F2012	Earnings growth** F2013
<b>BSE Sensex</b>	<b>17,482</b>	<b>591,556</b>			<b>-5.5%</b>	<b>8.3%</b>	<b>13.1%</b>		<b>17.9%</b>	<b>13.1</b>	<b>2.3</b>	<b>1.4</b>	<b>2.2%</b>	<b>0.2%</b>	<b>11.6%</b>	<b>14.8%</b>
Aban Offshore Ltd	432	382	Overweight	7	-26.1%	77.2%	-4.2%	25.4%	19.1%	2.9	0.6	0.6	0.2%	50.2%	4.2%	5.7%
ACC Ltd.	1,210	4,624	Overweight	7	17.9%	-3.0%	15.5%	7.6%	20%	14.2	2.8	2.9	2.9%	5.2%	-1.3%	16.7%
Adani Enterprises Ltd	464	10,365	Overweight	8	-27.2%	NM	15.4%	36.2%	14.2%	13.0	1.8	1.9	0.7%	44.4%	67.0%	36.6%
Adani Power	86	3,798	Underweight	3	-25.8%	NM	22.4%	NM	15%	15.4	2.3	8.8	0.0%	-80.7%	189.8%	37.2%
Aditya Birla Nuvo	948	2,188	Overweight	2	5.7%	37.9%	17.0%	18.9%	10%	41.7	4.2	0.6	0.7%	5.5%	70.3%	18.3%
Ambuja Cements Ltd.	157	4,888	Overweight	7	13.3%	8.6%	14.7%	12.3%	17%	15.5	2.6	3.3	2.2%	4.0%	-3.6%	12.6%
Ashok Leyland Ltd.	27	1,463	Underweight	3	5.9%	10.4%	9.0%	3.6%	16%	9.9	1.6	0.6	5.1%	-5.6%	5.8%	17.8%
AXIS Bank	1,116	9,632	Equal-Weight	56	-12.7%	38.8%	11.2%	15.7%	18%	10.3	1.9	-	1.9%	0.0%	25.0%	20.5%
Bajaj Auto Ltd.	1,725	10,150	Overweight	3	28.3%	63.1%	11.9%	8.5%	43%	15.1	6.5	3.0	3.2%	6.8%	18.9%	10.2%
Bajaj Hindustan	35	162	Underweight	2	-48.0%	164.5%	14.2%	13.8%	-1%	NM	0.3	0.2	1.8%	NM	NM	-79.9%
Bairampur Chini Mills	53	259	Equal-Weight	2	-14.7%	-253.3%	5.0%	15.5%	4%	24.8	1.0	0.4	1.6%	-66.7%	-36.7%	49.3%
Bank of Baroda	823	6,722	Underweight	8	-4.7%	39.0%	4.9%	10.4%	15%	8.2	1.2	-	3.1%	0.0%	19.2%	19.5%
Bank of India	334	3,776	Underweight	5	-24.9%	5.4%	4.5%	9.8%	14%	6.3	0.9	-	2.8%	0.0%	4.0%	19.6%
Bharat Petroleum Corp.	631	4,640	Equal-Weight	6	-0.3%	-2.2%	11.2%	7.9%	12%	11.0	1.3	0.1	3.2%	14.5%	10.0%	20.8%
Bharti Airtel Limited	393	30,309	Overweight	41	4.9%	-3.4%	17.7%	35.3%	14%	17.1	2.4	2.5	0.5%	6.7%	7.7%	48.1%
BHEL	329	16,385	++	24	-15.3%	27.9%	10.8%	12.4%	++	++	++	1.9	++	1.2%	15.9%	8.3%
Biocon Ltd	348	1,416	Equal-Weight	2	-1.3%	14.6%	15.6%	19.8%	22%	11.4	2.5	2.6	1.2%	8.4%	3.6%	21.8%
Cairn India Ltd.	300	11,601	Overweight	12	-11.6%	NM	6.5%	NM	19%	5.7	1.1	5.6	4.5%	6.5%	35.8%	12.9%
Canara Bank	489	4,401	Underweight	7	-10.3%	33.5%	1.1%	8.8%	15%	5.8	0.9	-	3.1%	0.0%	-9.8%	21.5%
Cipla Ltd.	291	4,750	Equal-Weight	8	-10.8%	10.1%	17.5%	20.3%	16%	17.7	2.9	3.7	1.3%	-1.6%	9.7%	20.3%
Coal India	326	41,807	Equal-Weight	36	-20.3%	NM	13.0%	14.1%	39%	10.4	4.1	3.9	3.8%	3.4%	39.4%	14.4%
Cox & Kings	221	614	Overweight	3	19.1%	NM	17.3%	34.4%	13%	14.8	2.0	5.9	0.4%	7.3%	19.9%	26.2%
Colgate-Palmolive India	1,049	2,901	Underweight	2	17.3%	20.2%	22.1%	9.6%	93%	30.2	28.0	6.4	2.9%	2.9%	6.6%	16.0%
Corporation Bank	430	1,296	Equal-Weight	1	-21.1%	23.0%	-0.7%	1.6%	17%	4.2	0.7	-	7.8%	0.0%	9.6%	15.7%
Dabur India	100	3,532	Equal-Weight	3	-14.6%	19.2%	20.3%	16.4%	38%	22.7	8.6	4.3	2.1%	-0.2%	15.6%	19.8%
Dish TV India Ltd	76	1,644	Equal-Weight	6	-2.9%	-32.4%	NM	NM	73%	84.9	NM	5.6	0.0%	-7.8%	NM	NM
DLF Limited	245	8,460	Equal-Weight	34	2.8%	-41.8%	18.8%	12.3%	6%	25.2	1.6	4.4	1.0%	21.2%	-4.2%	19.0%
Dr. Reddy's Lab	1,639	5,625	Overweight	11	1.4%	33.1%	17.9%	24.4%	23%	15.7	3.6	3.7	0.7%	-0.3%	22.0%	17.3%
Educomp Solutions Ltd.	265	528	Underweight	3	-42.8%	61.4%	4.8%	37.6%	13%	7.4	1.0	1.9	1.2%	-22.4%	68.3%	8.0%
EIH Limited	92	739	NAV	0	12.3%	-21.1%	21.1%	23.2%	++	++	++	2.8	++	4.5%	99.1%	38.0%
Essar Oil	84	2,372	Equal-Weight	2	-35.5%	NM	14.0%	0.0%	19%	8.7	1.6	0.2	0.0%	-33.4%	69.9%	136.2%
Exide Industries	27	1,463	Equal-Weight	7	-22.4%	31.1%	13.8%	17.6%	18%	16.8	3.0	2.3	1.0%	1.4%	-12.1%	32.6%
Fortis Healthcare Limited	130	1,081	Overweight	2	-19.8%	NM	20.5%	NM	6%	22.0	1.2	3.5	0.0%	-1.6%	18.9%	NA
GAIL (India)	427	11,015	Overweight	9	-4.1%	5.7%	12.1%	13.3%	18%	12.4	2.2	1.7	2.2%	-3.1%	8.7%	10.1%
GlaxoSmithKline Pharma	2,089	3,598	Equal-Weight	1	-10.0%	13.3%	20.2%	10.7%	29%	22.9	6.6	8.4	1.8%	3.8%	12.5%	16.7%
GMR Infrastructure Ltd.	26	1,936	Underweight	3	-26.6%	NM	NM	NM	9%	12.1	1.1	1.5	0.0%	-47.0%	NM	NM
Godrej Consumer Products Limited	423	2,780	Equal-Weight	2	1.2%	32.5%	19.4%	17.8%	27%	19.9	5.4	3.7	1.8%	-10.1%	24.2%	25.6%
Grasim Industries	2,503	4,668	Overweight	4	8.8%	-7.8%	7.7%	20.2%	13%	10.1	1.3	1.1	1.0%	0.9%	12.7%	5.2%
Great Eastern Shipping	228	705	Overweight	1	-21.1%	-30.7%	4.0%	4.4%	11%	4.6	0.5	1.4	4.1%	-36.4%	11.6%	15.6%
Hathway Cable and Datacom Ltd.	114	331	Overweight	1	1.9%	NM	NM	NM	3%	53.7	1.8	1.8	0.0%	-11.9%	NM	NM
HCL Technologies	437	6,135	Overweight	12	-15.2%	5.0%	14.5%	13.7%	21%	13.5	2.8	1.9	2.8%	2.1%	33.0%	17.5%

\* Assuming no change in payout, \*\* Consensus earnings growth based on IBES estimates. Forward valuation ratios based on Morgan Stanley Research estimates. NM = Not Meaningful, NR = Not Rated.

++ Rating/estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time, Past performance is no guarantee of future results. Results shown do not include transaction costs.

Source: IBES, Morgan Stanley Research



## AT A GLANCE

## Morgan Stanley Stock Coverage

	Price 11/3/2011	Mkt Cap (US\$m)	Rating	Avg. Daily Vol. 3M (\$MN)	6M Price Perf	Trail 3 Year EPS CAGR	Implied LT EPS grth	Div grth*	Fwd ROE	Fwd PE	Fwd P/B	Trailing P/Sales	Fwd Div Yield	Trailing FCF Yield	Consensus Earnings growth**	
															F2012	F2013
HDFC	681	20,310	Equal-Weight	39	-0.2%	10.6%	19.8%	14.9%	22%	21.1	4.6	-	1.8%	0.0%	17.3%	19.6%
HDFC Bank	481	22,739	Overweight	38	0.7%	31.2%	19.5%	22.6%	19%	18.2	3.4	-	1.2%	0.0%	32.3%	24.8%
Hero Honda Motor Ltd	2,071	8,408	Underweight	24	11.7%	27.5%	15.6%	0.4%	75%	17.4	13.0	2.1	5.5%	4.5%	16.3%	16.7%
Hexaware Technologies Limited	86	507	Equal-Weight	3	27.5%	-1.0%	17.0%	10.0%	17%	12.7	2.2	2.4	3.9%	0.7%	5.9%	10.8%
Hindalco Industries	136	5,280	Underweight	29	-31.2%	10.3%	8.2%	17.0%	10%	7.8	0.8	0.4	1.3%	-29.7%	6.2%	5.3%
Hindustan Petroleum	341	2,352	Equal-Weight	7	-10.2%	10.7%	4.6%	4.1%	11%	7.4	0.8	0.1	4.1%	-29.8%	8.2%	22.1%
Hindustan Unilever	382	16,776	Underweight	21	25.3%	7.6%	23.1%	11.9%	71%	31.5	22.4	4.3	2.5%	2.4%	14.7%	14.9%
Hotel Leelaventure Limited	39	298	++	0	-3.2%	-5.7%	12.7%	15.0%	++	++	++	2.3	++	2.4%	14.3%	44.0%
IBREL	75	611	Overweight	8	-36.3%	-44.3%	19.3%	NM	5%	6.2	0.3	8.6	1.6%	-33.3%	34.0%	36.7%
ICICI Bank	878	20,572	Equal-Weight	83	-19.1%	6.2%	15.1%	13.1%	10%	15.4	1.6	-	2.6%	0.0%	22.4%	14.4%
IDBI	114	2,277	Underweight	5	-15.3%	18.5%	3.5%	5.7%	11%	6.9	0.8	-	3.8%	0.0%	48.3%	15.5%
Idea Cellular Ltd.	97	6,494	Overweight	14	41.4%	0.0%	22.1%	0.0%	6%	29.6	1.9	2.1	0.3%	-0.5%	-10.1%	86.5%
IDFC	129	3,961	Equal-Weight	18	-8.9%	10.2%	13.3%	13.3%	13%	10.9	1.5	-	2.3%	0.0%	13.4%	19.3%
Indiabulls Power	11	3,798	Underweight	0	-46.6%	NM	56.0%	NM	3%	13.1	0.4	NM	0.0%	NM	NM	NM
Indian Hotels Company Ltd	71	1,051	Equal-Weight	2	-11.3%	-61.2%	47.6%	15.9%	11%	18.7	2.0	1.8	2.0%	-3.4%	20.6%	131.0%
IndusInd Bank	277	2,625	Overweight	4	5.0%	80.3%	16.6%	22.4%	17%	15.1	2.5	-	1.2%	0.0%	40.7%	27.6%
Info Edge (India) Ltd.	685	760	Equal-Weight	0	-1.3%	1.2%	29.6%	47.2%	19%	33.2	6.2	11.6	0.2%	1.6%	30.7%	20.2%
Infosys Technologies	2,802	32,563	Overweight	90	0.4%	13.6%	17.2%	9.3%	25%	16.6	4.1	5.8	1.4%	5.4%	17.0%	14.8%
Infotech Ent.	124	282	Equal-Weight	0	-12.1%	15.7%	7.5%	17.9%	13%	8.9	1.1	1.2	1.7%	-0.6%	-0.6%	0.0%
ING	338	1,026	Equal-Weight	1	-0.2%	14.8%	12.6%	21.9%	11%	11.1	1.2	-	1.3%	0.0%	31.6%	30.0%
IRB Infra	165	1,118	Overweight	7	3.2%	64.4%	8.5%	18.9%	17%	10.0	1.7	2.3	1.3%	-15.5%	0.3%	13.2%
ITC Ltd.	210	32,793	Overweight	34	8.6%	24.6%	21.0%	9.4%	36%	24.3	8.7	7.6	3.2%	2.4%	21.8%	17.2%
IVRCL Infrastructures & Projects LTD	39	210	Overweight	5	-47.1%	-9.1%	3.1%	13.2%	10%	4.3	0.4	0.2	2.4%	-41.9%	-8.0%	24.3%
Jain Irrigation Systems	116	896	Overweight	5	-30.7%	27.2%	11.9%	17.6%	25%	8.5	2.1	1.0	2.2%	6.9%	25.1%	NA
Jaiprakash Associates Limited	78	3,378	Overweight	27	-9.6%	8.1%	11.4%	19.6%	15%	10.3	1.6	1.3	2.0%	-24.3%	11.6%	28.4%
Jaypee Infra	54	1,518	Equal-Weight	2	0.6%	NM	4.7%	NM	18%	6.5	1.2	3.5	0.0%	-23.4%	-21.6%	-3.0%
Jindal Steel & Power	210	3,719	Overweight	26	-13.2%	41.5%	11.2%	34.8%	23%	10.6	2.4	4.0	0.3%	-9.8%	8.1%	15.4%
JSW Energy	51	1,711	Underweight	1	-27.0%	NM	8.3%	10.4%	9%	13.7	1.3	2.0	0.0%	-19.1%	-18.7%	9.8%
JSW Steel Ltd.	668	3,267	Underweight	37	-31.6%	-5.9%	6.8%	11.8%	10%	8.2	0.8	0.7	3.1%	-12.5%	3.5%	52.9%
Kotak Mahindra Bank	504	7,549	Equal-Weight	9	14.4%	14.0%	17.3%	47.6%	14%	19.1	2.7	-	0.2%	0.0%	20.4%	19.4%
LANCO Infratech Ltd	16	769	Equal-Weight	5	-53.8%	25.5%	-0.4%	NM	23%	2.6	0.6	0.3	0.0%	NM	-41.1%	98.8%
Larsen & Toubro	504	7,549	Equal-Weight	72	14.4%	14.0%	17.3%	47.6%	14%	19.1	2.7	-	0.2%	0.0%	10.6%	16.5%
LIC Housing Finance	236	2,275	Equal-Weight	18	2.0%	30.8%	9.1%	13.4%	20%	10.0	2.0	-	2.7%	0.0%	19.8%	28.8%
Lupin Ltd.	475	4,306	Overweight	9	1.0%	28.1%	17.7%	25.5%	24%	18.4	4.4	3.6	0.8%	1.5%	16.7%	19.6%
Mahanagar Telephone Nigam	31	392	Underweight	1	-32.6%	-18.1%	6.5%	4.8%	2%	8.0	0.2	0.5	3.8%	22.0%	NM	NM
Mahindra & Mahindra	838	10,448	Overweight	34	24.7%	22.2%	14.1%	14.6%	25%	13.7	3.4	2.2	2.0%	0.0%	23.1%	15.1%
Marico Limited	150	1,869	Underweight	1	0.2%	17.9%	21.6%	28.1%	26%	24.0	6.3	2.9	0.6%	4.5%	12.4%	25.4%
Maruti Suzuki India Limited	1,129	6,634	Equal-Weight	17	-8.0%	10.5%	10.9%	23.0%	15%	12.2	1.8	0.9	0.8%	3.7%	-10.5%	27.2%
Mindtree Ltd.	388	320	Underweight	1	10.4%	-3.1%	12.4%	17.1%	17%	9.1	1.5	1.0	1.3%	2.2%	45.0%	NM
MphasiS Limited	336	1,437	Underweight	3	-28.1%	61.9%	3.0%	17.8%	19%	8.1	1.6	1.4	1.4%	12.5%	-2.1%	7.4%
NCC	53	274	Overweight	1	-39.0%	-4.6%	5.9%	10.7%	10%	5.0	0.5	0.3	4.5%	-69.3%	-24.9%	11.2%
National Aluminium	63	3,283	Underweight	0	-31.3%	-13.1%	12.1%	12.6%	11%	12.0	1.3	2.7	2.3%	7.9%	21.8%	7.5%
Nestle India	4,418	8,660	Equal-Weight	0	9.0%	24.7%	26.6%	16.9%	84%	34.8	29.1	6.8	2.1%	1.4%	23.9%	20.6%

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															F2012	F2013
NTPC	178	29,840	Overweight	9	5.4%	8.8%	12.7%	8.6%	14%	14.2	1.9	2.6	3.1%	-3.5%	10.2%	11.3%
NMDC Ltd	230	18,532	Equal-Weight	2	-14.3%	25.5%	11.3%	15.6%	27%	11.1	3.0	8.0	1.8%	6.3%	19.8%	5.4%
Oberoi Realty	233	1,553	Overweight	0	3.4%	NM	11.9%	NM	16%	11.5	1.8	7.7	0.7%	0.0%	-1.2%	45.7%
Oil India	1,296	6,335	Overweight	2	0.7%	NM	8.9%	6.8%	18%	8.9	1.6	3.7	4.0%	2.8%	14.4%	5.2%
Oil & Natural Gas Corp.	278	48,348	++	25	-1.3%	4.2%	8.2%	6.7%	++	++	++	1.9	++	5.4%	++	++
OnMobile Global	65	156	Overweight	1	-41.3%	13.2%	6.0%	NM	7%	12.2	0.8	1.4	0.0%	-17.3%	-7.0%	34.7%
Oriental Bank of Commerce	297	1,759	Equal-Weight	3	-15.9%	15.3%	1.8%	4.1%	12%	5.7	0.7	-	5.5%	0.0%	-1.1%	31.9%
Pantaloon Retail	189	917	Overweight	4	-28.2%	14.0%	14.9%	26.0%	12%	9.8	1.1	0.4	0.8%	0.1%	28.8%	25.1%
Patni Computer Systems	333	887	Equal-Weight	2	-6.0%	8.1%	4.8%	-12.2%	12%	9.3	1.1	1.4	1.5%	9.7%	16.5%	16.0%
Punjab National Bank	987	6,359	Underweight	8	-10.2%	29.1%	3.9%	8.8%	18%	6.3	1.1	-	3.5%	0.0%	18.9%	20.4%
Ranbaxy Laboratories	514	4,397	Overweight	7	-6.4%	24.5%	11.6%	29.3%	19%	17.9	3.3	2.5	2.4%	4.7%	4.5%	3.6%
Reliance Capital	373	1,865	Equal-Weight	30	-25.7%	-33.9%	20.7%	10.9%	6%	14.3	0.9	-	3.2%	0.0%	10.6%	26.4%
Reliance Communications Ltd.	83	3,496	Overweight	17	-6.8%	-31.4%	10.3%	23.7%	3%	12.1	0.3	0.8	1.2%	-20.9%	-33.1%	49.6%
Reliance Industries	885	58,872	Equal-Weight	90	-7.1%	10.1%	11.5%	20.3%	13%	12.3	1.6	1.2	1.0%	6.6%	12.4%	7.5%
Reliance Infrastructure Limited	465	2,528	Equal-Weight	14	-18.4%	18.1%	10.4%	13.1%	5%	12.2	0.7	1.3	2.4%	-4.1%	0.6%	25.6%
Sesa Goa	210	3,719	Equal-Weight	16	-27.4%	35.2%	-1.1%	11.5%	22%	4.4	1.0	2.1	2.3%	16.8%	-20.3%	15.3%
Shipping Corporation of India	72	677	Equal-Weight	1	-31.4%	-4.3%	-0.4%	-2.2%	9%	4.9	0.4	0.9	9.6%	-24.6%	-77.2%	64.4%
Shree Renuka Sugars Limited	57	776	Equal-Weight	8	-8.5%	81.3%	3.3%	13.3%	20%	6.4	1.3	0.5	1.9%	-145.3%	NA	NA
Shriram Transport	593	27,418	Equal-Weight	7	-15.8%	41.6%	8.5%	13.9%	22%	8.9	2.0	-	2.5%	0.0%	13.5%	14.4%
Sobha Developers Ltd.	242	482	Overweight	1	-10.5%	-16.1%	10.5%	15.5%	11%	10.3	1.1	1.6	2.3%	10.6%	7.2%	24.6%
State Bank of India	1,935	27,418	Underweight	137	-15.8%	2.8%	10.1%	12.2%	14%	8.3	1.1	-	2.7%	0.0%	10.9%	25.1%
Steel Authority Of India	109	9,629	Equal-Weight	8	-22.6%	-14.2%	7.0%	4.5%	10%	10.6	1.0	1.1	4.1%	-16.7%	-21.4%	23.8%
Sterlite Industries (India) Limited	121	8,276	Underweight	19	-29.4%	-1.1%	5.3%	15.7%	14%	5.7	0.8	1.3	2.2%	-6.2%	36.2%	11.8%
Sun TV	273	2,190	Overweight	6	-29.9%	33.1%	11.3%	5.3%	33%	10.8	3.6	5.4	5.1%	10.6%	15.1%	14.3%
Sun Pharmaceutical Industries	504	10,608	Overweight	11	5.6%	6.9%	19.6%	22.4%	19%	22.0	4.2	9.1	0.9%	2.5%	21.5%	18.2%
Tata Communications Ltd	186	1,076	Underweight	1	-13.5%	NM	NM	9.3%	-23%	NM	2.1	0.5	2.0%	-35.1%	NM	NM
Tata Consultancy Services	1,103	43,910	Equal-Weight	49	-4.8%	20.2%	17.8%	17.0%	28%	18.9	5.3	5.8	1.6%	1.5%	20.3%	16.1%
Tata Motors	189	12,153	Overweight	62	-13.6%	54.0%	3.2%	9.6%	26%	7.6	2.0	0.5	2.5%	4.9%	-3.4%	9.5%
Tata Power Co	105	5,083	Underweight	10	-14.5%	10.0%	17.8%	9.6%	26%	7.6	2.0	0.5	2.5%	4.9%	20.2%	-1.3%
Tata Steel	462	9,125	Overweight	52	-21.6%	-6.6%	3.2%	9.1%	15%	6.2	0.9	0.4	3.1%	-9.4%	-5.2%	20.0%
Tata Tea	91	1,138	Equal-Weight	4	3.6%	-7.9%	16.7%	9.0%	9%	13.3	1.3	0.9	3.1%	0.2%	10.9%	13.5%
Tech Mahindra Limited	619	1,601	Underweight	3	-8.9%	2.3%	6.6%	23.8%	24%	6.3	1.5	1.5	1.3%	3.8%	11.5%	9.8%
Titan Industries Ltd	215	3,885	Overweight	17	-2.0%	47.7%	23.9%	24.7%	41%	28.0	11.6	2.9	1.6%	5.5%	35.2%	23.9%
TVS Motors	66	640	Equal-Weight	3	22.4%	82.9%	12.9%	21.4%	20%	11.3	2.3	0.5	2.1%	-0.9%	35.0%	18.5%
Ultratech Cement Ltd	1,149	6,400	Equal-Weight	4	11.9%	-14.7%	16.9%	26.0%	16%	14.0	2.3	2.3	0.7%	-22.7%	48.9%	13.3%
Union Bank of India	229	2,500	Equal-Weight	5	-27.9%	12.3%	2.1%	8.3%	15%	5.2	0.8	-	4.3%	0.0%	15.3%	23.5%
Unitech Limited	29	1,412	NAV	14	-17.7%	-23.5%	2.8%	13.0%	++	++	++	1.5	++	7.8%	-11.5%	23.1%
United Phosphorus Limited	146	1,372	Overweight	4	-9.9%	13.2%	9.4%	14.4%	17%	8.6	1.4	1.2	2.5%	0.2%	22.5%	20.8%
UTV Software Communications Ltd	951	785	++	1	46.8%	26.9%	19.1%	NM	++	++	++	4.0	++	-2.2%	32.6%	9.1%
United Spirits Ltd	811	1,932	Overweight	5	-23.7%	15.1%	15.5%	30.4%	15%	11.9	1.8	1.4	0.8%	1.7%	17.9%	30.7%
Wipro Ltd.	370	18,364	Overweight	12	-17.1%	17.3%	13.5%	12.9%	20%	14.5	2.9	2.9	2.1%	4.6%	6.0%	13.1%
Yes bank	309	2,512	Overweight	18	2.9%	39.3%	13.4%	19.7%	15%	11.9	1.8	-	1.4%	0.0%	33.6%	25.8%
Zee Entertainment Enterprise Limited	123	2,453	Equal-Weight	4	-10.0%	14.7%	14.3%	NM	17%	19.2	3.2	4.0	1.4%	5.0%	17.4%	15.9%

\* Assuming no change in payout, \*\* Consensus earnings growth based on IBES estimates. Forward valuation ratios based on Morgan Stanley Research estimates. NM = Not Meaningful, NR = Not Rated.

++ Rating/estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time, Past performance is no guarantee of future results. Results shown do not include transaction costs.

Source: IBES, Morgan Stanley Research

## AT A GLANCE

## Latest Macro Indicators

	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Trade Balance (US\$billion)	-8.9	-2.6	-8.0	-8.1	-5.6	-9.0	-15.0	-7.7	-11.1	-9.8	-14.0	NA
Exports (US\$billion)	18.9	22.5	20.6	23.6	29.1	23.8	25.9	29.2	29.3	24.3	24.8	NA
Exports (YoY)	27%	36%	32%	50%	44%	34%	57%	46%	82%	44%	36%	NA
Imports (US\$billion)	27.8	25.1	28.6	31.7	34.7	32.8	40.9	36.9	40.4	38.4	34.6	NA
Imports (YoY)	11%	-11%	13%	21%	17%	14%	54%	42%	51%	42%	17%	NA
Foreign Direct Investment (US\$million)	1628	2014	1042	1274	1074	3121	4664	5656	1090.0	2830.0	NA	NA
Foreign Exchange Reserves (US\$billion)	292	295	297	299	301	310	307	306	314	316	309	316
Net FII Flow s (US\$million)	4,159	329	-1,387	-826	2,471	658	-1,156	1,333	1,066	-2,107	-203	970
Rs/US\$1 (period average)	45.0	45.2	45.4	45.4	45.0	44.4	44.9	44.9	44.4	45.3	47.6	49.3
M3 (YoY)	16.2%	15.3%	16.2%	16.5%	16.6%	17.6%	16.8%	17.1%	16.4%	16.7%	16.3%	16.2%
Bank Loans (Non-food credit, YoY)	22.4%	26.4%	23.0%	23.0%	21.2%	21.7%	21.4%	21.1%	18.5%	20.6%	19.5%	19.5%
Deposit Growth Rate (YoY)	14.0%	18.1%	15.9%	16.4%	15.8%	17.3%	16.4%	18.2%	17.2%	17.9%	17.4%	17.5%
Prime Lending Rate	12.50%	12.50%	12.75%	13.00%	13.00%	13.25%	14.00%	14.00%	14.25%	14.75%	14.75%	14.75%
SBI 1 year Deposit Rate*	7.50%	8.50%	9.00%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%
364 day T-Bill Yield	6.9%	7.3%	7.5%	7.5%	7.5%	7.6%	8.1%	8.2%	8.1%	8.2%	8.3%	8.5%
91 day T-Bill Yield	6.8%	7.1%	7.1%	7.1%	7.2%	7.3%	8.0%	8.1%	8.1%	8.3%	8.4%	8.5%
10 yr Government Bond Yield	8.0%	8.0%	8.2%	8.1%	8.0%	8.0%	8.3%	8.3%	8.3%	8.3%	8.3%	8.7%
Industrial Production	6.4%	8.1%	7.5%	6.7%	9.4%	5.3%	6.2%	8.8%	3.8%	4.1%	NA	NA
Manufacturing( in %)	6.5%	8.7%	8.1%	7.5%	11.0%	5.7%	6.3%	10.3%	3.1%	4.5%	NA	NA
Consumer Goods	0.7%	3.6%	8.3%	13.4%	13.3%	3.2%	7.2%	2.3%	7.7%	3.7%	NA	NA
Basic Goods	5.7%	7.8%	7.7%	5.6%	6.5%	7.2%	7.5%	7.5%	9.5%	5.4%	NA	NA
Capital Goods	25.7%	20.2%	5.4%	-5.7%	14.5%	6.6%	6.2%	38.2%	-13.8%	3.9%	NA	NA
Intermediate Goods	4.3%	8.1%	7.4%	6.3%	3.1%	3.9%	0.1%	0.6%	-0.5%	1.3%	NA	NA
Consumer Price Index (YoY)	8.3%	9.5%	9.3%	8.8%	8.8%	9.4%	8.7%	8.6%	8.4%	9.0%	10.1%	NA
Wholesale Price Index (YoY)												
- All Commodities	8.2%	9.4%	9.5%	9.5%	9.0%	8.7%	9.6%	9.5%	9.4%	9.8%	9.7%	NA

## AT A GLANCE

## Macroeconomic Forecasts

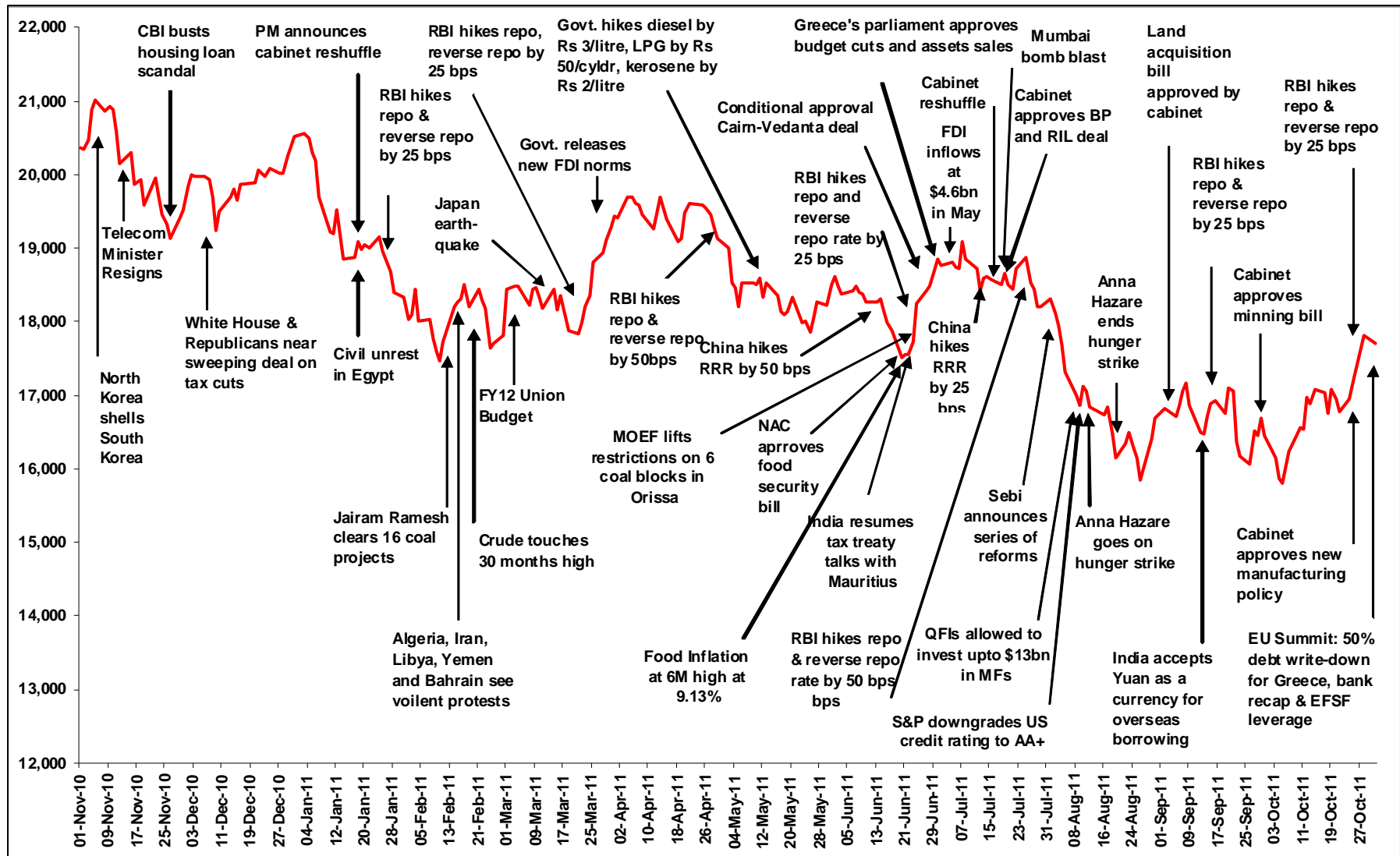
Years Ending March 31	F2002	F2003	F2004	F2005	F2006	F2007	F2008	F2009	F2010E	F2011E	F2012E
<b>National Income</b>											
GDP (US\$ bn)	477	508	602	721	834	950	1,242	1,202	1,383	1,726	1,992
Gross domestic product	5.8%	3.8%	8.5%	7.5%	9.5%	9.6%	9.3%	6.8%	7.9%	8.4%	7.2%
Agriculture and Allied activities (incl. mining)	5.9%	-5.9%	9.3%	0.8%	4.6%	4.6%	5.5%	0.0%	1.3%	6.5%	3.7%
Manufacturing, Constn, Electricity	2.8%	6.9%	7.8%	10.5%	10.7%	12.7%	10.3%	4.7%	8.4%	7.8%	5.9%
Services	7.2%	7.5%	8.5%	9.1%	11.0%	10.1%	10.3%	10.1%	9.9%	9.3%	8.8%
<b>Money and Banking</b>											
Money Supply (M3) growth (avg)	16.2%	16.3%	13.1%	14.2%	16.1%	19.6%	21.8%	20.5%	19.3%	15.9%	17.0%
Bank non-food credit (avg y-y increase)	11.9%	25.0%	17.2%	27.5%	33.7%	31.3%	24.3%	24.1%	14.6%	21.4%	19.0%
<b>Interest rates</b>											
91-Day T-Bill Yield (year-end)	6.2%	5.8%	4.3%	5.2%	6.5%	7.4%	7.3%	4.7%	4.3%	7.1%	7.8%
Repo Rate (year-end)	8.0%	7.0%	6.0%	6.0%	6.5%	7.5%	7.8%	5.0%	5.0%	6.8%	8.3%
<b>Prices</b>											
Wholesale price index (avg y-y increase)	3.7%	3.4%	5.5%	6.5%	4.4%	6.5%	4.8%	8.1%	3.9%	9.6%	8.8%
<b>External sector</b>											
Exports (US\$ bn)	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.2	250.5	312.7
Imports (US\$ bn)	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	380.9	469.1
Exports as % of Imports	79%	83%	83%	72%	67%	68%	64%	61%	61%	66%	67%
Invisibles, net (US\$ bn)	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	86.2	110.4
Current account balance (US\$ bn)	3.4	6.3	14.1	(2.5)	(9.9)	(9.6)	(15.7)	(27.9)	(38.4)	(44.3)	(46.0)
Debt creating capital inflows (US\$ bn)	2.3	(1.8)	(2.1)	6.2	7.0	22.2	24.9	14.6	8.6	20.1	21.2
Total capital -net (US\$ bn)	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	53.4	59.7	56.5
Foreign currency reserves (US\$ bn)*	54.1	76.1	113.0	141.5	151.6	199.2	309.7	252.0	279.1	302.1	308.9
Average exchange rate (USD/INR)	47.8	48.3	45.8	45.0	44.3	45.2	40.1	46.5	47.4	45.6	45.7
Year end exchange rate (USD/INR)	48.8	47.5	43.4	43.8	44.6	43.6	40.0	51.0	45.1	44.9	46.0
External debt (US\$ bn)	98.8	105.0	111.7	123.2	138.1	172.4	224.4	224.5	261.0	305.9	333.1
External debt as a percentage of GDP	20.7%	20.7%	18.6%	17.1%	16.6%	18.2%	18.1%	18.7%	18.9%	17.7%	16.7%
<b>Fiscal deficit (As % of GDP)</b>											
-----Central government	6.2%	5.9%	4.5%	3.9%	4.0%	3.3%	2.5%	6.0%	6.4%	4.7%	5.6%
-----State government	4.1%	4.1%	4.4%	3.3%	2.4%	1.8%	1.5%	2.4%	3.3%	2.5%	2.3%
-----Consolidated Deficit *	9.9%	9.6%	8.5%	7.2%	6.5%	5.4%	4.0%	8.3%	9.6%	7.2%	7.9%

Source: RBI, CSO, Budget documents, Morgan Stanley Research

\* Total of Central & State Govt deficit does not tally due to inter-governmental transactions. E = Morgan Stanley Research estimates;

AT A GLANCE

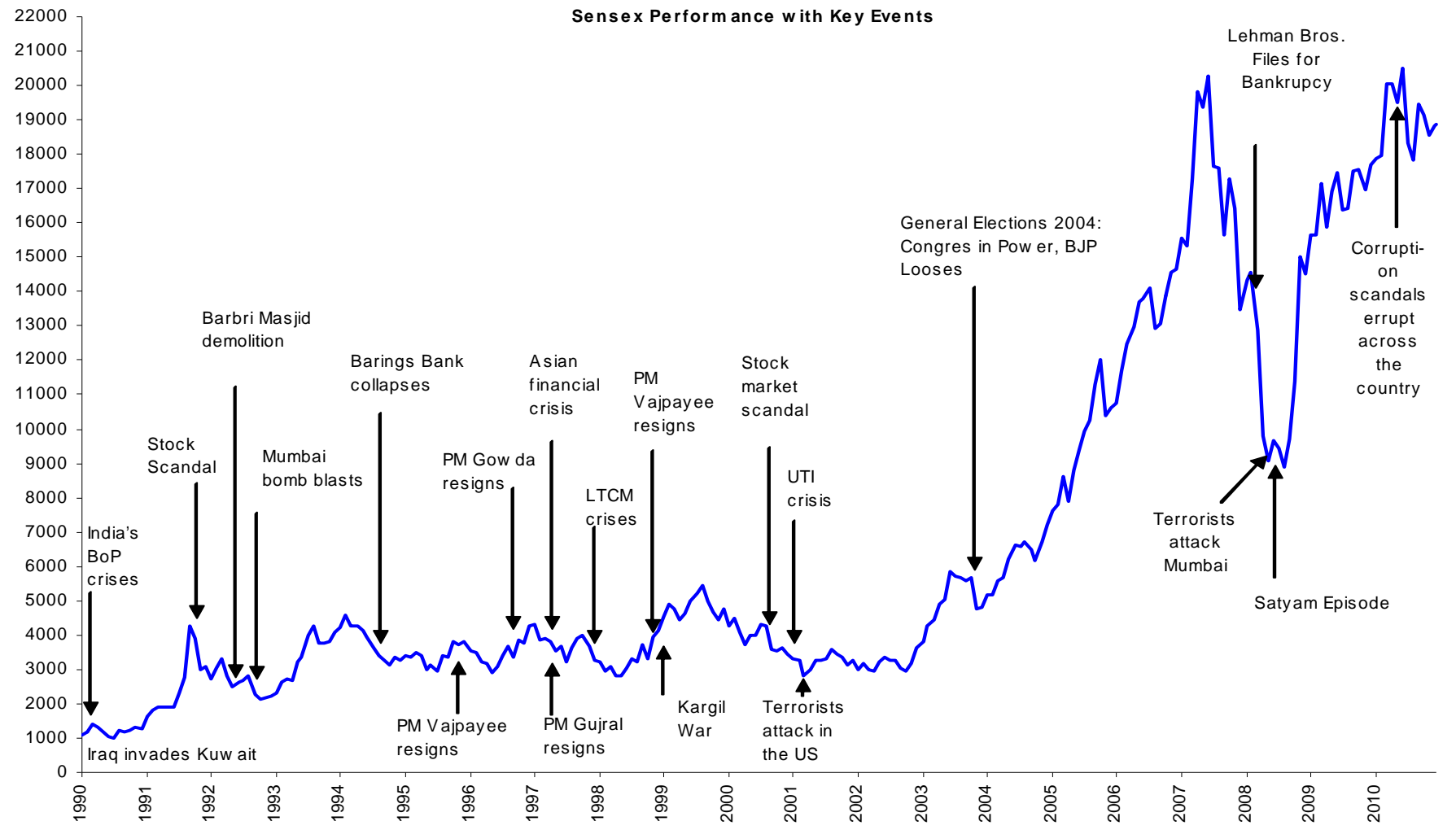
News Flow and Market Performance



Source: Economic Times, Business Standard, Morgan Stanley Research

AT A GLANCE

Key Events Influencing Market Performance over the Past Two Decades





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(as of October 31, 2011)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1126</b>	<b>40%</b>	<b>449</b>	<b>44%</b>	<b>40%</b>
<b>Equal-weight/Hold</b>	<b>1176</b>	<b>42%</b>	<b>431</b>	<b>42%</b>	<b>37%</b>
<b>Not-Rated/Hold</b>	<b>108</b>	<b>4%</b>	<b>23</b>	<b>2%</b>	<b>21%</b>
<b>Underweight/Sell</b>	<b>418</b>	<b>15%</b>	<b>115</b>	<b>11%</b>	<b>28%</b>
<b>Total</b>	<b>2,828</b>		<b>1018</b>		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

## Disclosure section (cont.)

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### Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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**The Americas**

1585 Broadway  
New York, NY 10036-8293  
United States  
+1 212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD  
United Kingdom  
+44 (0)20 7425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
Japan  
+81 (0) 3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon  
Hong Kong  
+852 2848 5200