November 3, 2008

Research India

## **India Monthly Review**

## Retrospective – October 2008: Terrible Month

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## Retrospective – October 2008: Terrible Month

India underperformed EM, albeit marginally, in October. India is the second worst-performing emerging market year-to-date. The absolute fall of 24% in the Sensex during October was the worst month ever for the index. The following were notable market indicators in October:

- Technology was the best-performing sector for the month (fourth time since the start of the year) while Materials
  was the worst. (for the third consecutive month). Materials holds the same position while Consumer Staples retains
  the top position on a year-to-date basis. October witnessed moderate sector rotation with five out of 10 sectors
  changing relative performance month over month and underperformance of small- and mid-cap indices versus the
  large caps.
- FII continued to be net sellers in the cash market for a sixth straight month. October is the third occasion since FIIs first started investing in India that selling in the cash market exceeded US\$2 billion in a month. Domestic institutions remained net buyers for the month. FIIs' net purchases of derivatives continued.
- Trading activity fell MoM across both the cash and derivative markets, average open interest was lower, realized volatility was at an all-time high, Nifty put-call ratio dropped to a four-year low, average implied volatility spiked to a an all-time high, and breadth collapsed to a multi-year low all summarizing a terrible month for the market.
- The yield curve remained inverted for the first half of October but ended the month in positive territory. The rupee depreciated 4.6% against the USD while appreciating 7.4% against the euro. The rupee is now at an all-time low against the USD. Year to date, INR has depreciated 20% and 8% against the USD and euro, respectively.
- Consensus EPS estimates for the BSE Sensex constituents were lowered by 1.6% and 3.5% for F2009 and F2010, respectively. Consensus estimates are now 8.6% and 11.7% lower than their June-08 high for F2009 and F2010 respectively.

India's Rank In 25 EM countries

### **Market Performance**

October was a second successive month of underperformance by Indian equities versus emerging and other regional markets. India's performance ranked 13 out of the 25 emerging markets in October, but it continues to be the second worst-performing emerging market in 2008. Mid- and small-cap indices underperformed the large-cap index in October for the second consecutive month and continue to trail the narrow market on a year-to-date basis. The absolute fall of 24% in the Sensex during October was the worst month ever for the index.

#### **Equity Markets** Current 1 Mth 3 Mths 12 Mths YTD MSCI India 239 -28.6% -42.5% -62.4% -64.3% MSCI EMF 571 -27.5% -45.2% -57.3% -54.2% MSCI EM Asia 229 -24.2% -41.5% -59.9% -55.5% MSCI Europe 78 -12.8% -21.3% -42.5% -38.8% **MSCIACWI** 236 -19.9% -31.7% -44.8% -41.4% MSCI Asia Pacific 244 -24.6% -41.5% -58.4% -54.0% **BSE Sensex** 9.788 -23.9% -31.8% -50.7% -51.8% BSE 100 Index 4.954 -26.0% -33.8% -52.3% -55.6% BSE 200 Index 1.146 -26.4% -34.5% -53.0% -56.9% BSE 500 Index 3,570 -27.1% -35.4% -54.1% -58.5% 3,200 -33.3% -42.5% -67.3% **BSE Midcap Index** -60.7% **BSE Smallcap Index** 3,765 -32.5% -45.5% -61.6% -71.8% Dow Jones 9,325 -14.1% -18.0% -33.1% -29.7% Nasdaq 1,721 -17.7% -26.0% -39.8% -35.1%

Note: All MSCI Indices are in USD. Source: Bloomberg, MSCI, Morgan Stanley Research

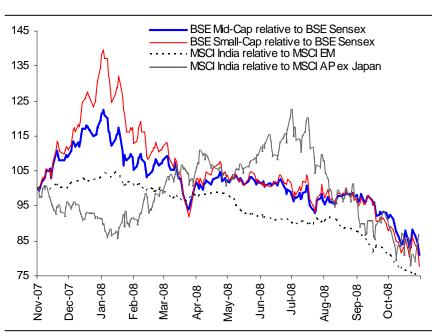
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Source: Bloomberg, MSCI, Morgan Stanley Research



### **Relative Performance**

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### **Sector Performance**

Technology was the best-performing sector for the month (fourth time since the start of the year) while Materials was the worst-performing sector for the month (for the third consecutive month). Consumer Staples and Materials continue to retain their top and worst positions on a year-to-date basis. October witnessed moderate sector rotation with five out of 10 sectors changing relative performance month over month. Year to date, all MSCI India sectors except consumer staples have underperformed their respective EM sectors with Consumer Staples being the best and Telecoms the worst.

### India: Sector Performance

		Abso	lute Perfo	ormance			Rank				Relative	Perforn	nance		Rank			
	Weights	1 Mth 2 Mths	3 Mths	12 Mths	YTD	1 Mth	12 Mths	YTD		1 Mth	2 Mths	3 Mths	12 Mths	YTD	1 Mth	12 Mths	YTD	
MSCI India	100%	-24.8% -34.4%	-33.3%	-52.8%	-55.2%				MSCI India	-1.5%	-2.4%	4.9%	-10.5%	-22.1%				
Cons. Discretionary	3.2%	-21.1% -24.3%	-19.0%	-43.2%	-45.4%	3	4	4	Cons. Discretionary	0.6%	7.6%	17.1%	-11.5%	-12.9%	4	6	4	
Consumer Staples	6.4%	-16.7% -16.6%	-14.7%	-13.2%	-19.3%	2	1	1	Consumer Staples	0.8%	9.7%	14.0%	-2.1%	7.2%	3	3	1	
Energy	23.2%	-31.4% -36.7%	-37.9%	-50.4%	-52.3%	8	5	5	Energy	-0.3%	7.3%	13.2%	-4.0%	-6.4%	5	4	3	
Financials	24.0%	-24.5% -34.4%	-30.9%	-58.1%	-61.5%	4	7	7	Financials	2.2%	-0.3%	9.7%	-25.3%	-29.7%	2	10	7	
Healthcare	3.8%	-26.1% -35.4%	-33.0%	-21.4%	-30.5%	5	2	2	Healthcare	-18.5%	-27.0%	-28.6%	6.8%	-29.0%	10	2	6	
Industrials	9.3%	-32.6% -41.6%	-40.0%	-65.1%	-66.7%	9	8	8	Industrials	-6.5%	-9.7%	3.8%	-6.1%	-24.9%	6	5	5	
Information Tech.	13.6%	-4.7% -24.9%	-18.8%	-32.4%	-30.6%	1	3	3	Information Tech.	8.7%	-4.3%	2.9%	14.7%	-0.1%	1	1	2	
Materials	7.7%	-36.1% -51.2%	-52.0%	-70.4%	-72.1%	10	10	10	Materials	-9.5%	-13.8%	-5.9%	-17.2%	-43.9%	7	7	9	
Telecommunication	3.0%	-29.8% -38.9%	-51.2%	-68.5%	-68.4%	7	9	9	Telecommunication	-16.5%	-22.0%	-34.6%	-24.6%	-52.9%	9	9	10	
Utilities	5.8%	-26.4% -33.1%	-32.9%	-53.1%	-59.1%	6	6	6	Utilities	-9.7%	-7.3%	-4.0%	-21.7%	-39.7%	8	8	8	

All MSCI indices in local currency. Source: Bloomberg, MSCI, Morgan Stanley Research

All MSCI indices in USD. Source: FactSet, MSCI, Morgan Stanley Research

### India: Relative to EM Sectors

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## NSE's Best- and Worst-performing Stocks in October with Market Caps above US\$500mn

### India: Best-performing Stocks

Company	Price (Rs)	1-Mth (%)	YTD Perf (%)
Sterling Biotech	185	8.0	3.7
Tata Communications	485	7.5	-36.6
Gtl Infrastructure	38	5.1	-59.5
Indian Bank	128	0.3	-34.1
Infosys Tech	1,389	-0.2	-21.5
Satyam Computer	305	-3.2	-32.6
Colgate-Palmolive	380	-3.9	-6.6
Bhushan Steel	643	-4.8	-58.6
Bajaj Auto	545	-5.6	N.A.
Titan Inds	1,008	-6.5	-35.5

Company	Price (Rs)	1-Mth (%)	YTD Perf (%)
Essar Oil	85	-42.8	-73.8
Aditya Birla Nuvo	544	-43.7	-72.9
Tata Steel Limited	210	-46.6	-77.6
Tech Mahindra	330	-47.1	-70.8
BF Utilities	678	-48.3	-69.7
Tata Motors	170	-48.7	-76.4
Aban Offshore	799	-54.2	-83.9
National Aluminium	159	-54.4	-67.2
Unitech	48	-56.8	-90.1
Suzlon Energy	44	-69.9	-88.5

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

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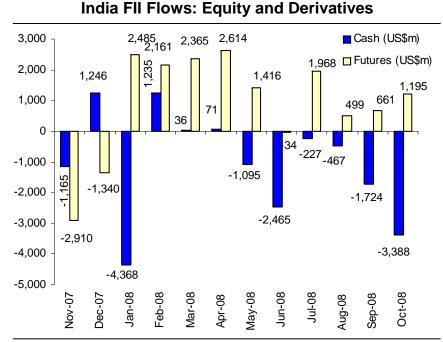
### India: Worst-performing Stocks

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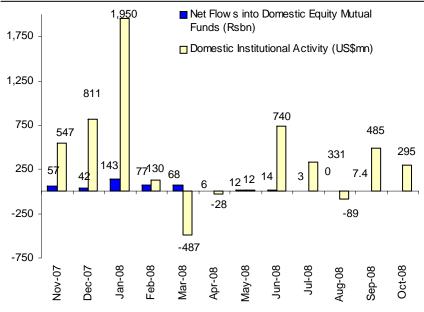
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### **Flows**

FIIs continued selling in the cash markets for a sixth straight month. October wasthe third occasion since FIIs first started investing in India that selling in the cash market exceeded US\$2 billion in a month. All the three occasions have been in 2008. FIIs' were net buyers of derivatives – now for nine out of the past 10 months. Domestic institutions remained positive for the second consecutive month. Domestic institutions have purchased close to US\$3.3 billion so far in 2008, whereas FIIs have sold US\$12.4 billion in the cash markets – more than ever in a single calendar year – while notionally buying US\$15.3 billion in derivatives for the year to date.



### Flows into Domestic Equity Mutual Funds and Domestic Institutional Activity



Note: Updated through Oct 29 Source: AMFI, SEBI, Morgan Stanley Research

Note: Updated through Oct 29 Source: SEBI, Morgan Stanley Research

Source: BSE, NSE, Morgan Stanley Research

## **Cash Trading**

In October, cash trading volume (number of shares) rose 3% MoM but remains a good 45% below its December 2007 peak. However, trading volumes (value) fell 26% MoM to an 18-month low and are now 63% below their October 2007 peak. Shares purchased for delivery (as a percentage of total trading) rose 5% in September (data comes with a month's lag).

180 35 32% Cash Turnover 161 (US\$ bn) - LS 31% 160 148 Cash Volumes 30% 134 (bn) - RS 140 30 29% 120 28% 101 98 95 27% 25 100 97 81 26% 78 80 25% 61 60 20 24% 23% 40 22% 20 15 21% 0 20% Jan-08 Feb-08 Mar-08 Apr-08 May-08 Jun-08 Jul-08 Aug-08 Oct-08 Nov-07 Dec-07 Sep-08 Jan-08 Feb-08 Nov-07 Dec-07 L 10 -20

### **Cash Trading: Turnover and Volumes**

Source: BSE, NSE, Morgan Stanley Research

**Deliveries to Total Trading** 

 32%
 Deliveries as a % of total volumes

 31%

 30%

 29%

 28%

 27%

 26%

 24%

 22%

 21%

 20%

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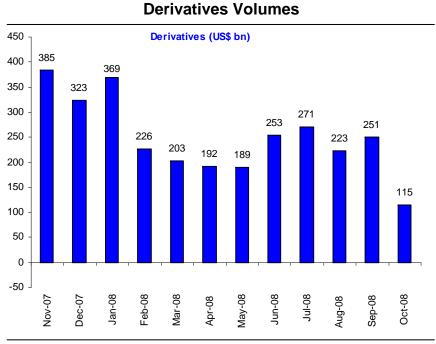
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### **Futures Market**

Futures market activity was subdued in October with derivative trading volumes falling 54% MoM. Derivative volumes are now 75% off their October 2007 peak. Average open interest was down 20% MoM in September and remains 39% off its January 2008 peak.



Note: Only NSE Source: Bloomberg Morgan Stanley Research

Source: Bloomberg, Morgan Stanley Research

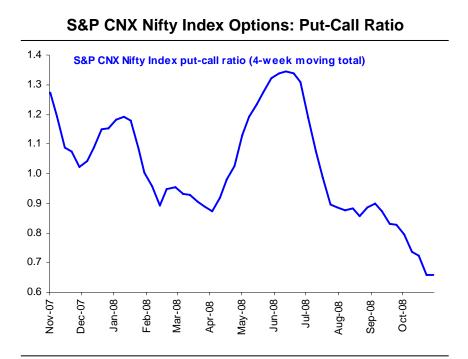
### Average Open Interest for the Month

27.7<sup>Average Open Interest for the month (US\$ bn)</sup> 30 26.8 24.8 25 20 17.9 17.6 16.8 17.2 16.8 17.7 15.5 14.8 15 13.4 10 5 0 Dec-07 Jan-08 Feb-08 Mar-08 Apr-08 May-08 Jun-08 Jul-08 Aug-08 Sep-08 Oct-08 Nov-07

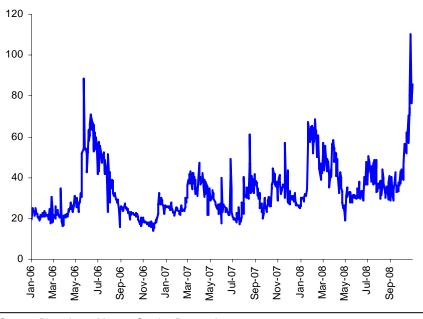
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### **Futures Market**

The put-call ratio dropped for a fifth consecutive month ending October, 21.5% lower compared to the previous month-end (lowest level since June-04). On a monthly average basis, implied volatility increased 26.4pp to 62.1% in October. During the month, the implied volatility touched 110% - an all-time high. The month-end number was higher by 49ppt compared to the September-end number.



S&P CNX Nifty Index: Implied Volatility



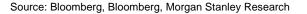
Source: ASA, Morgan Stanley Research

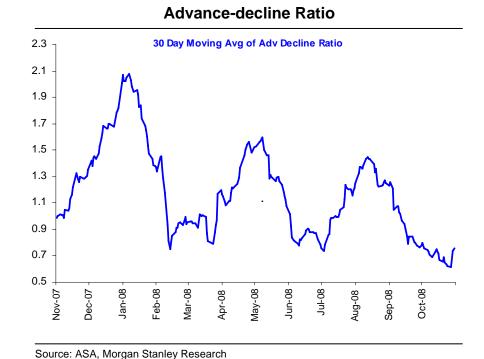
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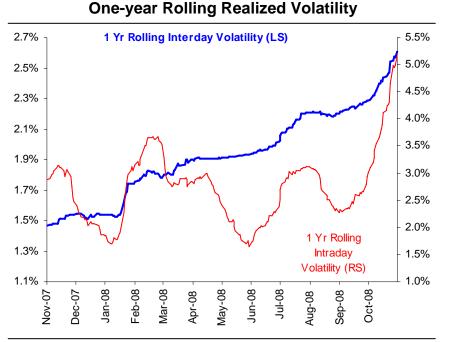
Source: Bloomberg, Morgan Stanley Research

## **Breadth and Volatility**

During the month, the market breadth fell to its lowest level since 1990 (when our data series starts). The recovery toward the month end meant that breadth finished the month 3% lower MoM and is down 64% from its Jan-08 high. Realized intraday volatility rose 223bp (MoM) to an all-time high level (our data stream starts in 1990). Inter-day volatility also rose 32bp and touched a 15-year high in October.



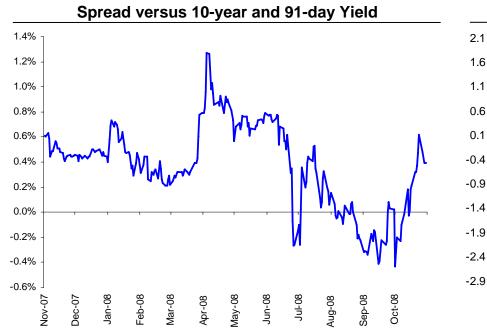




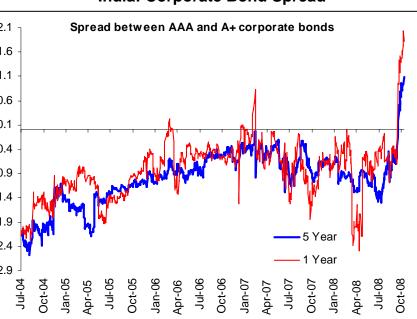
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**Bond Market** 

The yield curve remained inverted for the first half of October but ended the month in positive territory. The spread between Corporate AAA and A+ bonds for five-year maturity widened by 179bp to -109bp in October. The spread between Corporate AAA and A+ bonds for one-year maturity widened 241bp to -183bp (AAA yields are higher).



India: Yield Curve –



Source: Bloomberg, Morgan Stanley Research

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Source: Bloomberg, Morgan Stanley Research

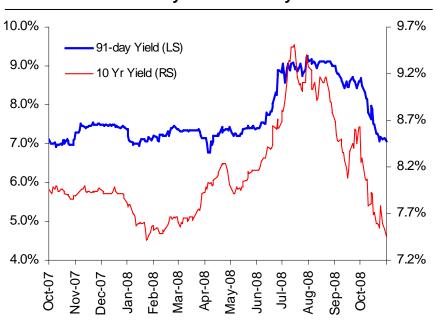
India: Corporate Bond Spread

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### **Bond Market**

At the end of October, the 10-year bond yield fell to 7.45% - a nine-month low; while the 91-day yield closed the month at 7.06% - a six-month low.



Source: Bloomberg, Morgan Stanley Research

India: 10-year and 91-day Yield

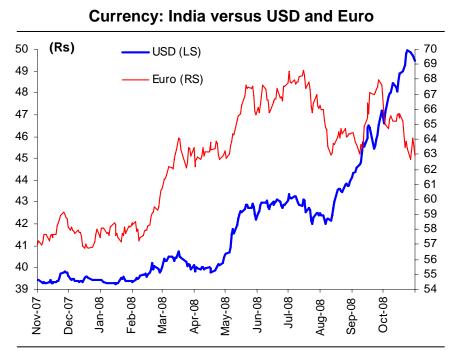
9.0% Treasury Yields: India vs. the US 6.0% 91-day Yield (LS) 5.5% 8.0% 10 Yr Yield (RS) 5.0% 7.0% 6.0% 4.5% 5.0% 4.0% 4.0% 3.5% 3.0% 3.0% Jun-08 Jul-08 Oct-08 Jan-08 May-08 Nov-07 Feb-08 Mar-08 Aug-08 Sep-08 Dec-07 Apr-08

### Treasury Yields: India versus the US

Source: Bloomberg, Morgan Stanley Research

## Currency

During October, the rupee depreciated 4.6% against the USD while appreciating 7.4% against the Euro. The rupee is now at an all-time low against the USD (since 1986 when our data stream starts). Year to date, INR has depreciated 20% and 8% against the USD and the euro, respectively.



Source: Bloomberg, Morgan Stanley Research

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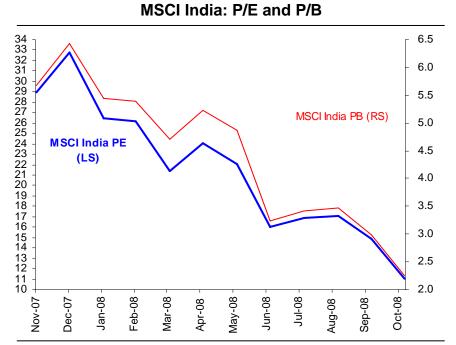
Korea 130 Taiw an India 120 Japan Thailand 110 100 90 80 70 60 Feb-08 Mar-08 Jan-08 May-08 Jun-08 Jul-08 Sep-08 Oct-08 Dec-07 Apr-08 Nov-07 Aug-08

**Currency: Asian Countries (Rebased)** 

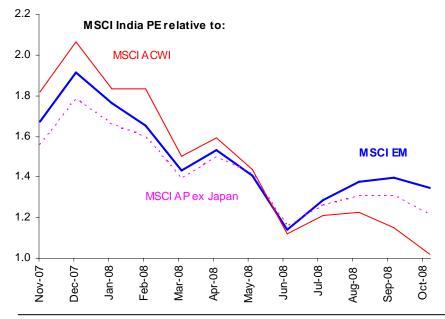
Source: Bloomberg, Morgan Stanley Research

### **Equity Valuation Snapshot**

With the MSCI India underperforming MSCI EM and MSCI ACWI during October, its relative premium fell to 35% and 2%, respectively. MSCI India's relative trailing P/E premiums are now 30% and 51% below their all-time highs versus MSCI EM and MSCI ACWI, respectively.



### MSCI India P/E Relative to EM, ACWI, and Asia Pacific ex-Japan



Source: FactSet, Bloomberg, MSCI, Morgan Stanley Research

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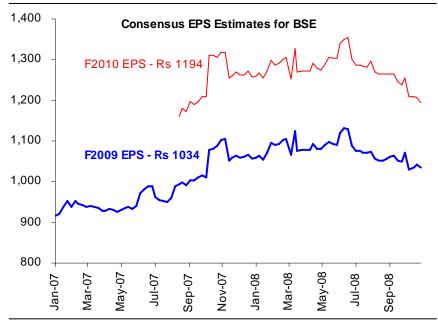
Source: FactSet, Bloomberg, MSCI, Morgan Stanley Research

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## **Earnings Snapshot**

In October, aggregate consensus EPS estimates for the BSE Sensex constituents were lowered by 1.6% and 3.5% for F2009 and F2010, respectively. Consensus estimates are now 8.6% and 11.7% lower than their June-08 highs for F2009 and F2010, respectively.



### **BSE Sensex: Consensus EPS Estimates**

### Top Earnings Revisions for 2009 by Consensus for Our Coverage Universe

Company	Earnings Re	Rel. Price Perf				
	1M	ЗM	1M	3M		
MphasiS Limited	20.8%	23.1%	12.3%	12.5%		
Titan Industries Ltd	10.8%	13.1%	28.1%	40.8%		
Bank of India	7.8%	4.4%	12.0%	29.5%		
Canara Bank	5.9%	-6.9%	18.5%	35.2%		
AXIS Bank	5.3%	1.9%	4.2%	27.5%		
Wockhardt Limited	-14.9%	-14.7%	2.7%	-4.9%		
ldea Cellular Ltd.	-15.2%	-14.8%	-26.9%	-30.7%		
Shree Renuka Sugars Limited	-15.5%	-34.3%	-37.7%	-43.1%		
Steel Authority Of India	-17.5%	-16.8%	-5.1%	-4.1%		
Ashok Leyland Ltd.	-17.7%	-22.8%	-1.5%	3.5%		

Source: IBES, Morgan Stanley Research

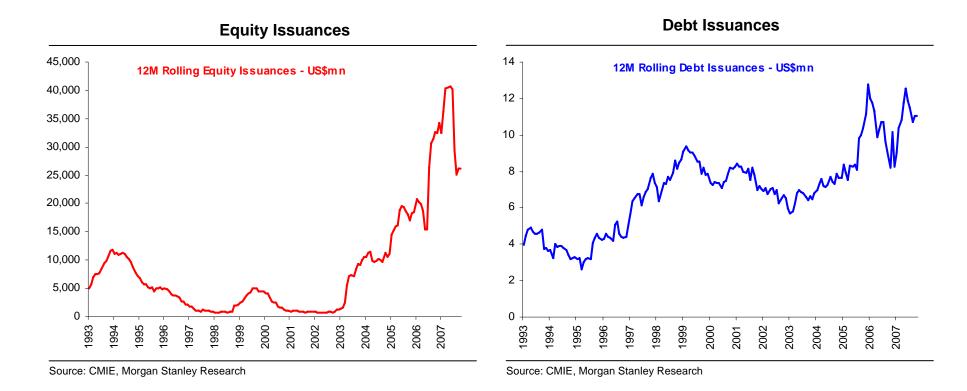
Source: IBES, Morgan Stanley Research

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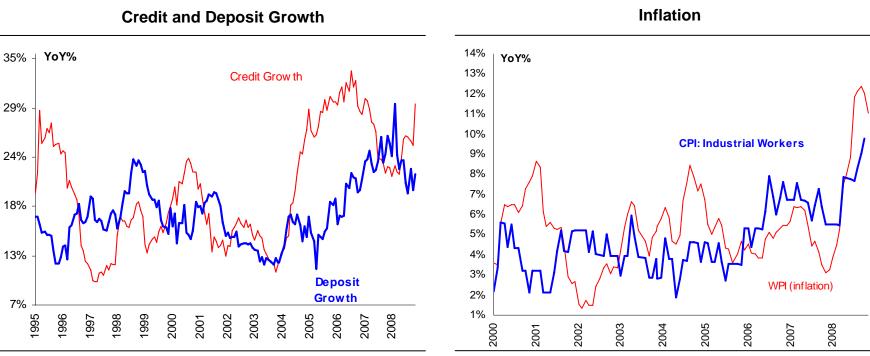
## **Corporate Activity**

Equity issuances were up 7% MoM in September. The 12-month rolling number is now 35% of the highs for equities and 12% off the high for debt issuances.



**Macro Indicators** 

Credit growth picked up at 29.4% during October to a 21-month high, while deposit growth improved 180bp to 22.5%. Inflation, as measured by the Wholesale Price Index, fell well below 12% in October, and now it is at a five-month low. The consumer price inflation accelerated to multi-year highs (9.8% in September).



Source: RBI, Morgan Stanley Research

Source: CSO, Morgan Stanley Research

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## **Macro Indicators**

	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Trade Balance (US\$billion)	-7.6	-5.4	-9.4	-4.2	-6.9	-9.9	-10.8	-9.8	-10.8	-13.9	-10.6	NA
Exports (US\$billion)	12.8	12.3	13.1	14.2	16.3	14.4	13.8	14.7	16.3	16.0	13.7	NA
Exports (YoY)	30.6%	16.0%	20.5%	35.3%	26.6%	31.5%	12.9%	23.5%	31.2%	26.9%	10.4%	NA
Imports (US\$billion)	20.4	17.7	22.5	18.5	23.2	24.3	24.5	24.5	27.1	29.9	24.4	NA
Imports (YoY)	32.8%	18.1%	63.6%	30.5%	35.2%	36.6%	27.1%	25.9%	48.1%	51.2%	43.3%	NA
Foreign Direct Investment (US\$million)	1864	1558	1767	5670	4443	3749	3932	2392	2247	NA	NA	NA
Foreign Exchange Reserves (US\$billion)	273	272	284	301	309	312	314	311	306	295	291	258
Net FII Flows (US\$million)	(1,165)	1,246	(4,368)	1,235	36	71	(1,095)	(2,465)	(227)	(467)	(1,724)	(3,388)
Rs/US\$1 (period average)	39.44	39.44	39.37	39.73	40.36	40.01	42.13	42.82	42.84	42.94	45.56	48.72
МЗ (YoY)	23.3%	22.1%	22.4%	21.2%	20.7%	21.2%	22.5%	20.7%	20.0%	21.0%	21.0%	19.0%
Bank Loans (Non-food credit, YoY)	22.9%	21.9%	23.2%	22.5%	22.3%	24.5%	25.8%	26.2%	26.1%	25.5%	24.8%	29.3%
Money Multiplier	4.5	4.6	4.5	4.5	4.6	4.7	0.0	0.0	0.0	0.0	0.0	0.0
Deposit Grow th Rate (YoY)	25.0%	23.6%	29.5%	23.7%	22.2%	23.1%	23.1%	20.6%	19.5%	22.1%	19.8%	19.8%
Prime Lending Rate	12.8%	12.8%	12.8%	12.3%	12.3%	12.3%	12.3%	12.8%	12.8%	13.8%	13.8%	13.8%
One Year Deposit Rate	8.0%	8.3%	8.8%	8.8%	8.8%	8.8%	8.8%	9.5%	9.5%	10.0%	10.0%	10.0%
364 day T-Bill Yield	7.7%	7.7%	7.4%	7.5%	7.5%	7.7%	7.8%	8.4%	9.3%	9.2%	8.7%	7.9%
91 day T-Bill Yield	7.4%	7.5%	7.1%	7.3%	7.3%	7.2%	7.3%	7.9%	9.0%	9.1%	8.6%	7.7%
10 yr Government Bond Yield	7.9%	7.9%	7.6%	7.6%	7.7%	8.1%	8.0%	8.4%	9.2%	9.0%	8.4%	7.8%
Manufacturing( in %)	4.7%	8.6%	6.7%	9.6%	5.7%	6.7%	4.5%	6.1%	8.0%	1.1%	NA	NA
Consumer Goods	-2.9%	8.7%	8.4%	11.7%	0.9%	8.5%	7.4%	9.7%	8.5%	5.1%	NA	NA
Basic Goods	5.2%	3.4%	3.6%	7.3%	3.3%	4.0%	3.0%	2.5%	5.4%	3.9%	NA	NA
Capital Goods	24.2%	17.6%	2.6%	10.7%	20.3%	12.4%	4.3%	8.3%	20.4%	2.3%	NA	NA
Intermediate Goods	5.5%	7.6%	8.0%	8.5%	4.9%	3.1%	1.9%	2.5%	2.7%	-6.2%	NA	NA
Consumer Price Index (YoY)	5.5%	5.5%	5.5%	5.5%	7.9%	7.8%	7.8%	7.7%	8.3%	9.0%	9.8%	NA
Wholesale Price Index (YoY)												
- All Commodities	3.1%	3.8%	4.8%	5.7%	7.5%	8.0%	8.8%	11.9%	12.2%	12.4%	12.0%	11.1%
- Manufactured Products	3.5%	4.0%	4.5%	4.6%	7.3%	8.4%	9.7%	10.9%	11.2%	11.1%	11.6%	10.9%

#### MORGAN STANLEY RESEARCH

November 3, 2008 India Monthly Review

## **Current Earnings Estimates for Morgan Stanley Universe**

V																		
Sectors		Price	Trgt	52-V			EPS		Earnings	DPS	P/E	P/B		Div Yld	(US\$MN)		Rel. Perf.	
Company	Rating	31/10/08	Price	High	Low	F08	F09E	F10E	10E/08	F08	F09E	F08	F08	F08	Mkt Cap	3M ATV	3M	12M
Consumer Discretionary									16.1%		8.1	1.5	18.8%	2.7%	15,750	64.2	21.4	20.3
Amtek Auto Ltd.	Overw eight	72	500	526	58	28.1	35.3	42.3	22.7%	3.5	2.0	0.3	11.6%	4.8%	235	1.6	-44.3	-68.4
Arvind Ltd.	Equal-Weight	14	34	94	13	0.8	-0.9	3.2	104.9%	0.0	NM	0.3	1.7%	0.0%	72	0.9	-37.7	-58.1
Ashok Leyland Ltd.	Equal-Weight	19	34	58	16	3.6	3.1	3.6	-0.3%	1.5	6.0	1.2	21.0%	8.0%	502	1.8	3.5	0.1
Bharat Forge	Underw eight	103	270	390	82	12.1	14.9	17.4	20.1%	3.5	6.9	1.3	17.6%	3.4%	462	1.6	-32.8	-37.0
EIH Limited	Underw eight	84	90	247	77	5.7	6.1	6.2	3.8%	2.1	13.9	2.6	12.2%	2.5%	667	1.1	17.3	38.3
Entertainment Netw ork (India) Limited	Overw eight	153	533	700	115	6.8	17.7	23.3	85.3%	0.0	8.6	2.2	7.8%	0.0%	147	0.1	-24.2	-31.1
Hero Honda Motor Ltd	Underw eight	748	640	895	561	48.5	50.3	53.4	5.0%	17.0	14.9	5.0	28.7%	2.3%	3,021	9.3	49.0	128.4
House of Pearl Fashions Limited	Overw eight	55	100	364	43	28.5	37.8	42.6	22.3%	2.3	1.5	0.2	10.9%	4.1%	22	0.1	-14.5	-48.2
Indian Hotels Company Ltd	Equal-Weight	46	69	164	43	6.2	4.8	5.1	-9.1%	2.2	9.6	1.2	14.9%	4.8%	560	2.3	-17.1	-25.7
Hotel Leelaventure Limited	Underw eight	29	20	77	21	2.9	2.8	2.6	-4.4%	0.6	10.1	1.2	8.6%	2.0%	219	1.2	41.7	29.4
Mahindra & Mahindra	Equal-Weight	372	800	872	236	53.6	66.9	78.5	21.0%	11.5	5.6	1.9	29.2%	3.1%	1,850	5.9	-8.2	-12.3
Maruti Suzuki India Limited	Overw eight	564	1,050	1,112	475	61.9	75.0	87.6	18.9%	5.0	7.5	1.9	18.7%	0.9%	3,298	16.0	49.1	10.6
New Delhi Television Limited (NDTV)	NA	100	NA	512	85	4.4	7.4	9.5	46.7%	0.9	13.5	2.0	6.8%	0.9%	126	0.9	-57.9	-38.6
Pantaloon Retail	Overw eight	203	568	875	195	7.9	11.0	18.7	53.8%	0.6	18.5	1.8	3.3%	0.3%	654	1.5	-6.0	-25.8
Shoppers' Stop	Underw eight	161	466	629	141	3.5	6.1	12.5	89.5%	1.0	26.4	1.9	8.3%	0.6%	113	0.0	-8.4	-28.5
Tata Motors	Underw eight	172	444	790	133	38.5	36.9	43.8	6.7%	14.2	4.7	0.9	27.2%	8.3%	1,414	10.2	-36.3	-53.1
Titan Industries Ltd	Equal-Weight	1,009	1,335	1,760	710	32.4	42.5	48.3	22.0%	9.4	23.7	10.3	27.0%	0.9%	905	2.8	40.8	27.7
TVS Motors	Equal-Weight	29	50	79	23	2.1	3.9	6.2	73.5%	0.8	7.4	0.8	8.9%	2.6%	141	0.5	44.4	10.1
Zee Entertainment Enterprise Limited	Equal-Weight	153	155	342	93	8.9	9.3	11.3	12.8%	2.3	16.4	2.3	8.3%	1.5%	1,343	6.3	14.0	-7.7
Consumer Staples	Equal-Weight	155	155	342	55	0.9	9.3	11.5	12.0%	2.5	23.0	6.9	31.7%	3.6%	29.044	92.6	27.9	83.6
Bajaj Hindustan	Overw eight -V	45	240	400	39	-21.8	-1.8	19.0	NM	0.6	23.0 NM	0.6	16.9%	1.3%	129	8.7	-57.7	-51.1
Balrampur Chini Mills	Overweight -V	43	150	128	36	-1.9	3.3	10.3	NM	0.0	13.0	1.2	33.9%	0.0%	213	8.3	-30.8	2.2
Colgate-Palmolive India	Overw eight	378	400	521	316	17.1	19.1	22.6	15.0%	24.8			137.2%	6.6%	1,038	1.0	48.7	114.9
Dabur India	Overw eight	80	125	134	60	3.9	4.6	5.5	18.8%	1.8		11.2	45.8%	2.2%	1,396	1.5	18.8	39.1
Godrej Consumer Products Limited	Equal-Weight	100	135	158	94	6.9	7.3	8.8	12.5%	4.0		13.4	79.5%	4.0%	457	0.1	27.3	77.2
Hindustan Unilever	Overw eight	222	300	265	170	8.1	11.4	11.3	17.8%	10.7		33.6	107.0%	4.8%	9.771	23.2	37.2	119.4
ITC Ltd.	Underw eight	154	139	239	132	8.3	9.6	11.0	15.2%	4.1	16.1	4.8	26.2%	2.7%	11,726	25.9	29.4	87.8
Marico Limited	Overw eight	49	80	83	47	2.6	3.0	3.6	17.0%	1.0		10.4	44.1%	2.1%	604	0.4	50.6	65.2
Nestle India	Overw eight	1,450	1,824	1,880	1,200	44.7	54.9	66.0	21.5%	38.4		33.4	78.1%	2.6%	2,826	1.5	37.6	99.0
Shree Renuka Sugars Limited	Overweight -V	50	180	142	41	3.2	7.0	13.3	104.5%	0.3	7.2	2.8	27.1%	0.5%	2,020	15.5	-43.1	25.8
Tata Tea	Overw eight	505	809	1,014	476	51.2	69.4	77.7	23.2%	39.4	7.3	0.9	8.6%	7.8%	630	1.4	6.3	36.2
Energy	of of the olgine	000	000	1,011		01.2	00.1		19.9%	00.1	10.5	1.7	14.0%	2.8%	97,438	350.8	-6.9	5.1
Aban Offshore Itd	Overw eight	796	3,210	5,555	610	10.0	344.7	465.3	NA	10.5	2.3	5.9	-6.8%	1.3%	608	18.1	-55.6	-67.2
Bharat Petroleum Corp.	Underw eight	286	333	560	206	52.9	42.0	60.2	6.7%	15.8	6.8	0.8	14.1%	5.5%	2.092	7.1	48.7	96.6
Cairn India Ltd.	Overw eight	129	339	343	88	1.7	3.3	11.7	NA	0.0	39.3	0.8	-0.1%	0.070	4,698	20.4	-23.7	22.9
GAIL (India)	Overw eight	213	347	370	165	30.9	24.5	27.2	-6.2%	10.0	8.7	1.4	15.9%	4.7%	3,648	15.1	31.4	66.3
Hindustan Petroleum	Underw eight	191	237	406	164	36.8	37.0	51.3	18.1%	12.3	5.2	0.6	12.2%	6.4%	1,308	5.9	37.4	74.6
Indian Oil Corp	NA	338	NA	810	299	46.4	47.4	46.6	0.2%	15.1	7.1	1.0	10.5%	4.5%	7,993	3.9	36.8	58.5
Oil & Natural Gas Corp.	Overw eight	670	1,252	1,387	538			125.4	18.0%	37.4	5.6	1.8	22.9%	5.6%	28,965	48.3	3.1	13.9
Reliance Industries	Overw eight	1,371	1.619	3.252	930			187.3	33.6%	13.6	12.6	2.4	14.6%	1.0%	40.280	232.0	-13.8	-5.3
Reliance Petroleum Limited	Overw eight	86	116	295	70	NA	NA	17.8	NA	NA	NA	2.9	NA	NA	7,847	50.5	-22.4	-28.2
Financials	2 · 2 ·								27.9%		9.1	1.5	10.2%	2.3%	72,603	819.4	3.5	-11.3
Bank of Baroda	Equal-Weight	242	225	501	188	39.3	31.7	36.8	-3.2%	9.3	7.6	0.8	9.3%	3.9%	1,786	9.0	49.4	54.4
Bank of India	Overw eight	241	330	466	189	38.2	39.7	42.4	5.3%	4.6	6.1	1.2	10.6%	1.9%	2.559	22.2	29.5	36.3
Canara Bank	Equal-Weight	165	192	421	135	38.2	28.4	33.0	-7.0%	9.4	5.8	0.6	13.5%	5.7%	1,370	3.9	35.2	17.4
Corporation Bank	Equal-Weight	195	282	490	180	51.2	42.4	49.7	-1.5%	12.3	4.6	0.7	12.7%	6.3%	567	0.5	25.0	4.7
DLF Limited	Underw eight -V	220	467	1,225	158	46.0	55.5	68.8	22.2%	6.9	4.0	2.0	10.5%	3.1%	7,590	62.4	-37.2	NM
HDFC Bank	Equal-Weight	1,024	975	1,825	865	44.9	54.6	62.4	17.9%	9.9	18.7	3.2	9.9%	1.0%	7,335	52.0	36.4	25.1
HDFC	Overw eight	1,765	2,500	3,257	1,382	85.8	90.4	102.6	9.4%	29.2	19.5	4.2	13.1%	1.7%	10,133	73.0	4.2	18.5
ICICI Bank	Equal-Weight	399	600	1,465	282	37.4	36.0	41.0	4.7%	12.4	11.1	1.0	6.7%	3.1%	8,984	165.5	-14.0	-39.8
IDBI	Underw eight	58	60	181	53	8.7	9.6	11.1	12.6%	1.7	6.1	0.6	9.2%	2.9%	854	6.1	17.6	-23.9
IDFC	Overw eight	58	150	235	45	5.7	6.8	8.9	24.8%	1.4	8.5	1.3	9.0%	2.4%	1,510	21.5	-12.5	-42.3
Kotak Mahindra Bank	Underw eight	337	370	1,436	239	28.8	23.3	28.6	-0.3%	1.0	14.5	2.0	9.2%	0.3%	2,348	31.1	-3.4	-28.7
Oriental Bank of Commerce	Equal-Weight	122	155	321	110	33.6	26.7	30.9	-4.1%	4.7	4.6	0.5	14.3%	3.9%	617	2.0	30.7	21.9
Punjab National Bank	Equal-Weight	420	407	721	332	65.0	56.5	65.0	0.0%	13.0	7.4	1.1	12.5%	3.1%	2,678	11.0	40.6	67.2
Parsvnath Developers Limited	Underw eight	41	109	598	37	24.0	26.5	32.1	15.7%	3.4	1.5	0.4	15.6%	8.3%	151	2.0	-42.7	-73.8
Reliance Capital	Equal-Weight	650	1,040	2,925	509	40.9	46.9	53.9	14.8%	6.4	13.9	2.4	10.6%	1.0%	3,237	156.8	-23.0	-34.6
Sobha Developers Ltd.	Equal-Weight	112	296	1,041	100	32.3	37.0	46.2	19.7%	7.5	3.0	0.8	16.2%	6.7%	165	0.9	-23.0	-74.6
State Bank of India	Underw eight	1,110	942	2,397	991	106.6	85.6	97.1	-4.6%	24.1	13.0	1.4	9.3%	2.2%	14,155	99.4	22.9	23.4
Union Bank of India	Overw eight	125	132	235	96	27.5	21.4	25.4	-3.9%	4.7	5.9	0.9	11.5%	3.7%	1,279	4.6	53.4	61.1
AXIS Bank	Underw eight	563	460	1,291	474	32.9	37.0	42.9	14.3%	7.7	15.2	2.1	7.5%	1.4%	3,708	69.4	27.5	25.7
Unitech Limited	Underweight -V	48	138	5,555	610	57.6	11.9	13.6	-51.4%	1.6	4.0	2.2	36.2%	3.4%	1,577	26.2	-55.6	-67.2
				2,220		20	9		2					2	.,			

\* AVT = Average Value Traded. \*\* Absolute Performance. NA = Not Available, NM = Not Meaningful. V = More volatile. We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "volatile" can still perform in that manner.++ Stock rating, price target and estimates for this company have been removed from consideration in this report because, under applicable law and/or 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: Company data, Morgan Stanley Research, E = Morgan Stanley R

#### MORGAN STANLEY RESEARCH

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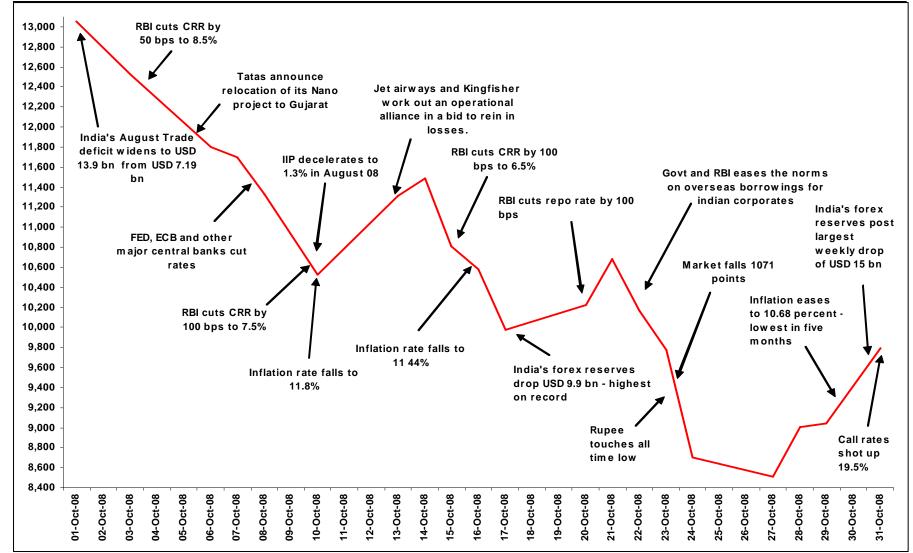
## **Current Earnings Estimates for Morgan Stanley Universe (Continued)**

	<u> </u>				34.1			<u> </u>			(-							
Sectors Company	Rating	Price 31/10/08	Trgt Price	52-\ High	NK Low	EPS F08	F09E	F10E	Earnings 10E/08	DPS F08	P/E F09E	P/B F08	ROE F08	Div Yld F08	(US\$MN) MktCap	3M ATV	Rel. Perf. 3M	<u>. (%)</u> 12M
Healthcare	Rating	31/10/08	Frice	riigii	LOw	100	TUSE	110	6.5%	100	14.0	2.8	17.0%	2.2%	14,142	62.5	0.4	66.4
Aventis (India)	Overw eight	710	1,769	1,190	662	62.7	95.6	105.2		16.0	7.4	2.3	23.9%	2.3%	331	0.1	40.1	47.1
Biocon Ltd	Underw eight	96	160	332	92	11.2	11.0	13.7	10.5%	2.5	8.7	1.3	13.5%	2.6%	389	0.7	-21.2	-20.2
Cipla Ltd.	Overw eight	177	271	244	146	9.0	10.8	13.5	22.6%	2.0	16.4	3.7	17.8%	1.1%	2,789	7.4	21.6	106.1
Dr. Reddy's Lab	Equal-Weight	428	537	760	395	27.8	33.4	35.8	13.4%	4.4	12.8	1.5	19.8%	1.0%	1,456	6.0	15.1	46.1
GlaxoSmithKline Pharma	Overw eight	1,070	1,280	1,212	800	47.2	53.1	61.0	13.7%	42.1	20.2	6.7	26.6%	3.9%	1,833	0.5	44.5	103.6
Lupin Ltd.	Overw eight	662	847	780	430	48.7	46.1	52.9	4.3%	9.9	14.4	3.4	18.3%	1.5%	1,123	2.9	42.3	147.6
Ranbaxy Laboratories	Underw eight	169	271	614	165	20.8	14.6	15.3	-14.3%	10.0	11.6	1.4	11.3%	5.9%	1,277	34.9	-45.3	-11.5
Sun Pharmaceutical Industries	Overw eight	1,123	1,604	1,558	890	71.8	58.0	69.7	-1.5%	12.3	19.3	4.7	15.7%	1.1%	4,702	9.8	28.0	137.0
Wockhardt Limited	Equal-Weight	110	314	448	110	35.3	34.2	43.2		13.2	3.2	0.7	17.7%	12.0%	243	0.3	-4.9	-41.5
Industrials									18.5%		10.8	2.5	18.4%	2.0%	36,323	301.6	-10.1	-26.2
ACC Ltd.	Underw eight	493	527	1,155	369	66.7	50.8	25.3		23.4	9.7	2.2	25.2%	4.7%	1,874	5.4	28.1	-3.8
BHEL	Equal-Weight	1,282	2,071	2,925	984	69.4	95.0	113.4		17.5	13.5	5.6	21.7%	1.4%	12,684	75.4	10.9	-1.3
Gammon India GMR Infrastructure Ltd.	Overw eight	75 50	461 112	845 269	70 46	11.9 1.4	15.6 4.0	19.0 6.0	26.4% 104.5%	0.6 0.0	4.8 12.5	0.5 1.5	3.6% 2.8%	0.8% 0.0%	132 1,855	1.2 13.7	-45.4 -11.2	-71.6 -35.8
Grasim Industries	Underw eight Equal-Weight	1,026	1,919	269 3,950		315.4	4.0 242.0	172.3		38.8	4.2	1.5	2.8% 21.3%	3.8%	1,855	4.5	-11.2	-35.8 -39.5
Great Eastern Shipping	Equal-Weight	217	1,919	572	139	89.1	67.6	67.7	-12.9%	17.3	3.2	0.8	21.2%	7.9%	669	2.3	-27.0	-14.6
Ambuja Cements Ltd.	Underw eight	61	68	161	43	6.5	7.0	4.0	-21.3%	3.7	8.7	2.0	36.4%	6.1%	1,876	2.8	12.0	-13.0
IVRCL Infrastructures & Projects L		85	455	575	57	15.8	19.3	26.0		2.4	4.4	0.8	9.4%	2.8%	229	5.7	-58.4	-65.6
Jain Irrigation Systems	Overw eight	300	500	770	245	17.8	26.8	36.7	43.6%	2.6	11.2	2.8	10.1%	0.9%	437	1.6	-11.4	11.6
Jaiprakash Associates Limited	Overw eight	72	209	510	47	5.2	6.3	7.2		1.0	11.4	2.0	9.9%	1.4%	1,702	44.4	-37.9	-53.8
Larsen & Toubro	Overw eight	805	1,514	2,335	680	37.9	54.0	69.4	35.3%	9.8	14.9	4.9	19.4%	1.2%	9,522	99.3	-7.4	-21.3
Shipping Corporation of India	Underw eight	84	64	221	70	17.6	19.0	19.7	5.6%	6.6	4.4	0.6	15.2%	7.9%	717	1.6	-15.8	11.9
Suzion Energy	Overw eight	44	450	460	42	8.2	12.7	17.7	47.1%	1.6	3.5	1.0	13.3%	3.6%	1,344	37.2	-67.2	-74.4
Ultratech Cement Ltd	Underw eight	355	533	1,070	297	81.1	52.5	38.8	-30.8%	5.8	6.8	1.6	29.0%	1.6%	893	1.1	-7.5	-26.4
Voltas Limited	Equal-Weight	73	86	267	49	5.3	6.9	8.5	26.8%	1.6	10.6	4.2	18.2%	2.2%	486	3.4	-13.3	-32.1
Materials									19.2%		4.4	1.0	18.5%	3.8%	23,639	203.7	-28.1	-37.3
Gitanjali Gems Ltd	Overw eight	71	547	480	70	19.7	28.4	35.8	34.6%	2.3	2.5	0.3	5.0%	3.3%	128	1.4	-50.9	-55.6
Hindalco Industries	Overw eight	60	192	203	38	14.0	20.6	25.1	33.7%	2.3	2.9	0.5	16.0%	3.8%	1,493	12.3	-34.4	-34.7
Jindal Steel & Pow er	Underw eight	795	759	3,356	517	78.9	102.6	136.9	31.7%	5.7	7.7	3.4	20.3%	0.7%	2,474	21.5	-47.4	-36.6
JSW Steel Ltd.	Underw eight	305	240	1,390	188	86.9	63.5	58.2		11.6	4.8	0.7	15.1%	3.8%	1,153	11.9	-50.6	-47.6
National Aluminium	Equal-Weight	160	494	566	108	25.2	34.6	44.1	32.2%	8.4	4.6	1.2	27.1%	5.3%	2,080	4.7	-44.7	0.8
Rajesh Exports Ltd Sesa Goa	Overw eight Overw eight	22 80	175 152	170 220	19 64	6.1 19.6	10.1 27.1	14.7 28.2	55.5% 19.9%	0.6 2.6	2.2 3.0	0.6 2.1	9.1% 21.5%	2.7% 3.2%	129 1,279	1.4 29.0	-36.4 -25.6	-69.6 -7.0
Steel Authority Of India	Underw eight	85	90	220	62	17.7	20.9	20.2	-3.3%	2.6	3.0 4.1	1.5	26.8%	3.2% 4.3%	7,119	29.0	-25.6	-28.5
Sterlite Industries (India) Limited	Overw eight	282	647	1.140	165	63.5	20.9 59.7	59.6		4.5	4.7	0.9	20.3%	1.6%	4,046	33.5	-38.4	-28.3
Tata Steel	Underw eight	210	233	966	150	75.0	84.3	55.1	-14.3%	13.3	2.5	0.5	12.2%	6.3%	3,738	55.9	-54.8	-54.7
Technology									19.0%		12.1	3.8	26.1%	2.5%	43,183	151.4	21.7	43.1
HCL Technologies	Underw eight	173	200	336	115	20.4	21.9	24.6		9.0	7.9	2.2	20.8%	5.2%	2,317	3.9	18.9	6.4
Hexaw are Technologies Limited	Equal-Weight	20	21	110	17	0.5	5.2	6.2	252.2%	0.5	3.8	0.4	17.6%	2.7%	58	0.2	-38.0	-60.3
Infosys Technologies	Equal-Weight	1,382	1,650	2,017	1,040	81.5	101.1	110.9	16.7%	36.9	13.7	5.7	28.0%	2.7%	15,974	69.3	30.0	54.9
MindTree Consulting Limited	NA	282	NA	552	222	27.7	32.4	35.3	12.9%	2.0	8.7	2.0	16.9%	0.7%	215	0.4	6.0	14.5
MphasiS Limited	Equal-Weight	153	240	321	119	12.2	15.8	18.4	22.7%	3.9	9.7	2.8	15.6%	2.5%	644	1.6	12.5	4.3
Patni Computer Systems	Equal-Weight	140	170	430	130	33.5	31.8	30.1	-5.3%	3.4	4.4	0.7	12.9%	2.4%	392	1.5	5.8	-23.0
Satyam Computer Services	Equal-Weight	305	300	544	220	25.2	34.6	35.1	18.0%	4.1	8.8	2.8	19.4%	1.3%	4,121	33.9	17.7	29.7
Tata Consultancy Services	Equal-Weight	537	590	1,125	418	51.3	57.0	62.3	10.2%	14.0	9.4	4.2	33.4%	2.6%	10,634	23.1	2.9	14.3
Tech Mahindra Limited	Equal-Weight -V	328	830	1,248	299	63.5	72.1	81.2		6.4	4.5	3.2	51.4%	2.0%	804	1.6	-35.6	-44.1
Wipro Ltd.	Equal-Weight	272	315	552	182	22.5	26.8	28.3	12.2%	6.0	10.2	3.4	25.1%	2.2%	8,024	11.5	-2.7	11.1
Telecommunications				4 0 0 0		05.0		57.0	42.1%		13.8	2.9	12.3%	0.3%	40,035	168.0	-26.9	-33.3
Bharti Airtel Limited	Overw eight	649 43	993	1,063	484 34	35.3 4.0	44.5	57.0		0.0	14.6	5.5 3.2	19.1%	0.0%	24,904	84.4	21.6	33.7
ldea Cellular Ltd. Mahanagar Telephone Nigam	Equal-Weight Underw eight	43 66	54 131	149 219	34 52	4.0 9.4	2.6 11.6	3.3 12.5	-8.2% 15.2%	0.0 4.1	16.3 5.7	3.2 0.3	14.2% 3.9%	0.0% 6.3%	2,278 837	10.9 2.8	-30.7 -8.8	-37.3 -27.0
Reliance Communications Ltd.	Equal-Weight	221	509	844	149	9.4 26.2	30.2	34.8	15.2%	0.9	7.3	1.8	3.9% 12.6%	0.4%	9,210	66.3	-38.7	-27.0
Tata Communications	Underw eight	487	371	783	320	20.2	34.0	39.7	37.9%	6.3	14.3	2.3	1.5%	1.3%	2,806	3.6	-38.7 44.1	61.7
Utilities	Grider w eight	407	371	103	320	20.9	54.0	39.7	14.8%	0.3	14.3 16.4	2.3	10.7%	2.3%	2,808 29,203	139.8	0.6	-0.7
LANCO Infratech Ltd	Equal-Weight -V	114	288	888	83	17.2	38.8	55.3	79.3%	0.0	2.9	1.5	11.2%	0.0%	510	9.3	-45.0	-47.0
NTPC	Equal-Weight	141	144	291	113	8.7	10.0	11.4	14.8%	3.5	14.1	2.2	12.4%	2.5%	23,431	31.7	24.2	22.5
Reliance Infrastructure Limited	Overw eight	457	496	2,632	354	24.1	28.5	30.6	12.6%	7.4	16.0	0.9	5.2%	1.6%	2,184	76.6	-29.7	-49.7
Tata Pow er Co	Overw eight	690	1,341	1,641	532	31.3	27.7	25.7	-9.3%	10.5	24.9	1.9	7.3%	1.5%	3,078	22.3	-16.0	11.3

\* AVT = Average Value Traded. \*\* Absolute Performance. NA = Not Available, NM = Not Meaningful. V = More volatile. We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "volatile" can still perform in that manner.++ Stock Rating, Price Target or Estimates are not available or have been removed due to applicable law and/or Morgan Stanley policy. Past performance is no guarantee of future results. Results shown do not niclude transaction costs. Source: Company data, 20 Morgan Stanley Research, E = Morgan Stanley Research estimates

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### **News Flow and Market Performance**

Source: Bloomberg, Economic Times, Business Standard, Morgan Stanley Research

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Equal-weight/Hold	983	44%	286	44%	28%				
Underweight/Sell	403	18%	89	14%	22%				
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