

UBS Investment Research

India Strategy

Staying bullish

■ **March 2011 Sensex target of 20,000**

Despite the rally in Indian markets, we believe fundamentals and liquidity are likely to support higher valuations. We believe Indian stocks are likely to re-rate further over the medium term as positive data points relating to IIP, GDP, quarterly earnings show positive momentum. Given FY2011 will fully capture the economic recovery and corporate earnings, we now set a March 2011 target of 20,000 based on a P/E multiple of 14.9x FY12 earnings. Sensex is trading at a forward PE of 15.9x and forward P/BV of 2.6x.

■ **Increase exposure to metals, power, real estate & IT services**

We add Tata Steel and JSW Steel with overweight stance on metals sector due to bullish outlook on the Indian steel sector (Indian Steel: Green shoots or weeds? dated 25 Aug 2009). We turn overweight on Power sector due to positive outlook on coal and good progress on projects under execution. We continue to stay bullish on real estate as a play on India's economic recovery. We maintain our O/W exposure to Indian IT services as we believe the sector is a great way to play the global recovery.

■ **Reduce autos, banks, telecom to neutral**

We also reduce our weights on autos (neutral), telecom (neutral), banks (neutral) and consumer staples (underweight) as we believe these sectors are likely to underperform given negative newsflow regarding monsoons. We also reduce cement & pharma to underweight. We maintain cash level of 5% in our portfolio.

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Table 1: Current UBS model portfolio sector weightage

Overweight	Neutral	Underweight
IT Services	Auto	Consumer staples
Metals	Banks and FIs	Engineering
Power	Telecom	Oil & Gas
Real Estate		Petrochemicals
Cash		Others*

Source: UBS estimates Note 1: Others include cement, pharmaceuticals & conglomerates.

This report has been prepared by UBS Securities India Private Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 14.

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## Sensex Earnings

Our bottom-up earnings estimates for the Sensex indicates 4% growth in FY10, 22% growth in FY11 and 21% growth in FY12. We estimate strong earnings growth for pharma, cement and petrochem companies in FY10 while real estate and metals companies are likely to post strong earnings growth in FY11.

Table 2: Sensex earnings growth

Sector	% of total PAT			EPS (% Y/Y)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Engineering	7.4%	7.5%	7.8%	20.3%	24.1%	26.5%
Cement	4.4%	3.8%	3.5%	55.9%	4.4%	7.1%
Conglomerates	0.9%	1.1%	0.9%	16.1%	14.5%	11.3%
Banks & FIs	20.0%	20.9%	21.8%	8.6%	27.9%	26.4%
Consumer staples	6.2%	6.0%	5.8%	18.2%	17.9%	16.5%
Pharmaceuticals	0.9%	0.8%	0.7%	159.1%	10.0%	-2.6%
IT Services	11.6%	10.7%	10.0%	2.9%	13.2%	12.8%
Metals	7.0%	7.7%	11.5%	-45.2%	34.0%	80.8%
Oil & Gas	5.4%	5.4%	4.6%	-9.3%	21.7%	3.0%
Petrochemicals	17.4%	18.0%	16.5%	48.4%	26.8%	10.5%
Power	5.1%	4.9%	4.5%	10.3%	17.1%	11.5%
Real Estate	0.5%	0.5%	0.5%	-56.9%	41.9%	19.4%
Telecom	8.2%	7.5%	7.1%	8.1%	12.1%	15.0%
Auto	5.0%	5.2%	4.8%	-40.1%	26.8%	11.5%
Sensex	100.0%	100.0%	100.0%	4.4%	22.3%	21.0%

Source: UBS estimates

We estimate Sensex EPS of Rs907 for FY10, Rs1,110 for FY11. We introduce FY12 EPS of Rs1,343.

Table 3: Sensex EPS estimates

	Value (Rs)
FY09E	868
FY10E	907
FY11E	1,110
FY12E	1,343

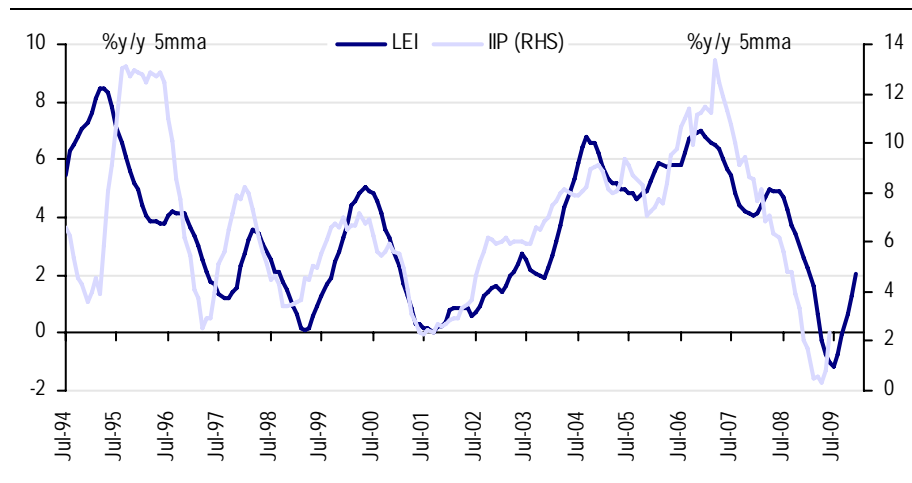
Source: UBS estimates

## India LEI points to sustainable recovery

In his recent report “India: LEI Update” published on 26 Aug’09, UBS India economist Philip Wyatt pointed that our LEI (lead economic indicator) has passed the turning point for IP and the recovery of LEI looks sustainable. He believes that the continuous rise in LEI corresponds well with a preference for cyclical portfolio equity investments relative to defensives. Further, the continuous acceleration in Real M1 points to consumer recovery up ahead. According to Philip, the only serious roadblock which can scale back the

economic recovery is a deficient monsoon (in progress) that can impact consumer confidence from food shortage. Here he expects high grain bufferstocks to limit the negative consumer impact. He expects the real consumption growth of 5-6% should be attainable, up from the low point of 3% in FY09.

Chart 1: LEI & Industrial production



Source: CEIC, Bloomberg, UBS

## India: Monsoon update

Philip Wyatt in his latest note *India: Monsoon update* published on 26 Aug'09 provided an update on Indian monsoon. Rainfall so far has been below 26% normal even though it has stepped-up in the first half of August. By region the worst hit areas remain N. East and N. West which contain the important rice growing states of W. Bengal, UP and AP. Philip however, remains sanguine on the general local inflationary impact of higher food prices because the main shortage appears likely to be rice. Here government buffer stocks appear sufficient to meet demand and avoid transmission of global prices even in an event similar to the 2002-03 droughts.

## Sensex target

We introduce March 2011 Sensex target of 20,000. Our target is based on forward PE multiple of 14.9x (long-term average) on FY12 EPS.

Table 4: Sensex target derivation

Parameter	Value	Remarks
FY10E Sensex EPS (Rs)	907	
FY11E Sensex EPS (Rs)	1,110	
FY12E Sensex EPS (Rs)	1,343	
Target forward PE - March 2011E	14.9x	Valuing at long-term average PE
Sensex target - March 2011E	20,007*	

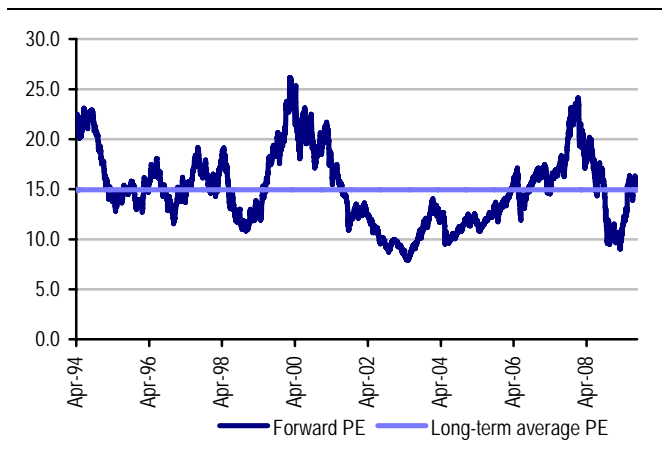
\* Rounded off to 20,000 Source: UBS estimates

# UBS view on Indian stock market

We are positive on the Indian market in the medium term with March 2010 Sensex target of 16,750.

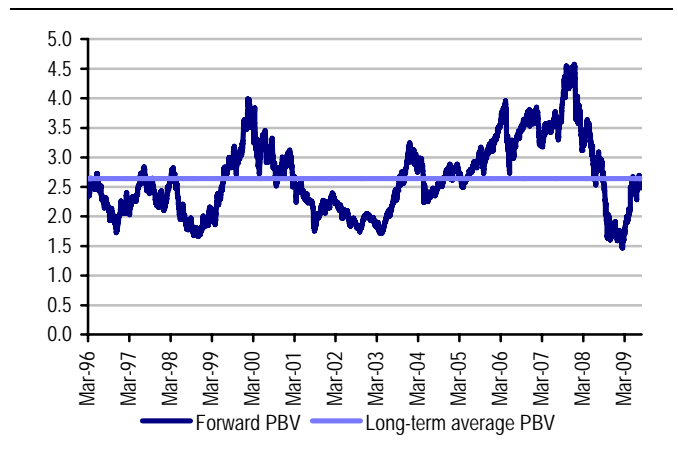
- **Valuation:** The Sensex is currently trading at 15.9x forward PE (long term average of 14.9x). On a forward P/BV, it is trading at long term average of 2.6x.
- **Earnings growth:** Our bottom-up earnings estimates for the Sensex indicate 4% growth in FY10. We expect earnings to grow significantly in FY11/FY12 with 22% / 21% growth.
- **Liquidity:** FII's and DII's were net buyers in India equities in 2009 with net inflow of US\$7.4bn from FII's and US\$0.89bn from DII's (till 24<sup>th</sup> August 2009).
- **Sentiment:** Sentiment has been positive in spite of poor monsoons. The Indian market has rallied ~92% from the lows on March 09, 2009.

Chart 2: Sensex 12-month forward PE



Source: UBS estimates

Chart 3: Sensex 12-month forward P/BV



Source: UBS estimates

# UBS India Model Portfolio

Table 5: UBS India model portfolio sector weights – current versus earlier

Sectors	Benchmark weight	Current UBS portfolio weights	Earlier UBS portfolio weights <sup>1</sup>	Current tilts	Earlier tilts	Current weightings	Earlier weightings
Real Estate	1.5%	7.0%	6.4%	5.5%	4.9%	Overweight	Overweight
IT Services	12.6%	16.0%	17.1%	3.4%	4.5%	Overweight	Overweight
Power	5.5%	8.0%	6.0%	2.5%	0.5%	Overweight	Neutral
Metals	4.7%	7.0%	2.9%	2.3%	-1.8%	Overweight	Underweight
Telecom	6.4%	6.5%	8.1%	0.1%	1.7%	Neutral	Overweight
Auto	5.6%	5.5%	6.0%	-0.1%	0.4%	Neutral	Overweight
Banks & FIs	22.1%	22.0%	22.9%	-0.1%	0.8%	Neutral	Overweight
Pharmaceuticals	0.9%	0.0%	1.5%	-0.9%	0.6%	Underweight	Neutral
Conglomerates	1.3%	0.0%	0.0%	-1.3%	-1.3%	Underweight	Underweight
Cement	2.3%	0.0%	4.5%	-2.3%	2.2%	Underweight	Overweight
Oil and Gas	4.4%	2.0%	3.0%	-2.4%	-1.4%	Underweight	Underweight
Engineering	10.7%	8.0%	4.8%	-2.7%	-5.9%	Underweight	Underweight
Petrochemicals	13.9%	10.0%	4.4%	-3.9%	-9.5%	Underweight	Underweight
Consumer staples	8.1%	3.0%	7.9%	-5.1%	-0.2%	Underweight	Neutral
Cash	0.0%	5.0%	4.5%	5.0%	4.5%	Overweight	Overweight

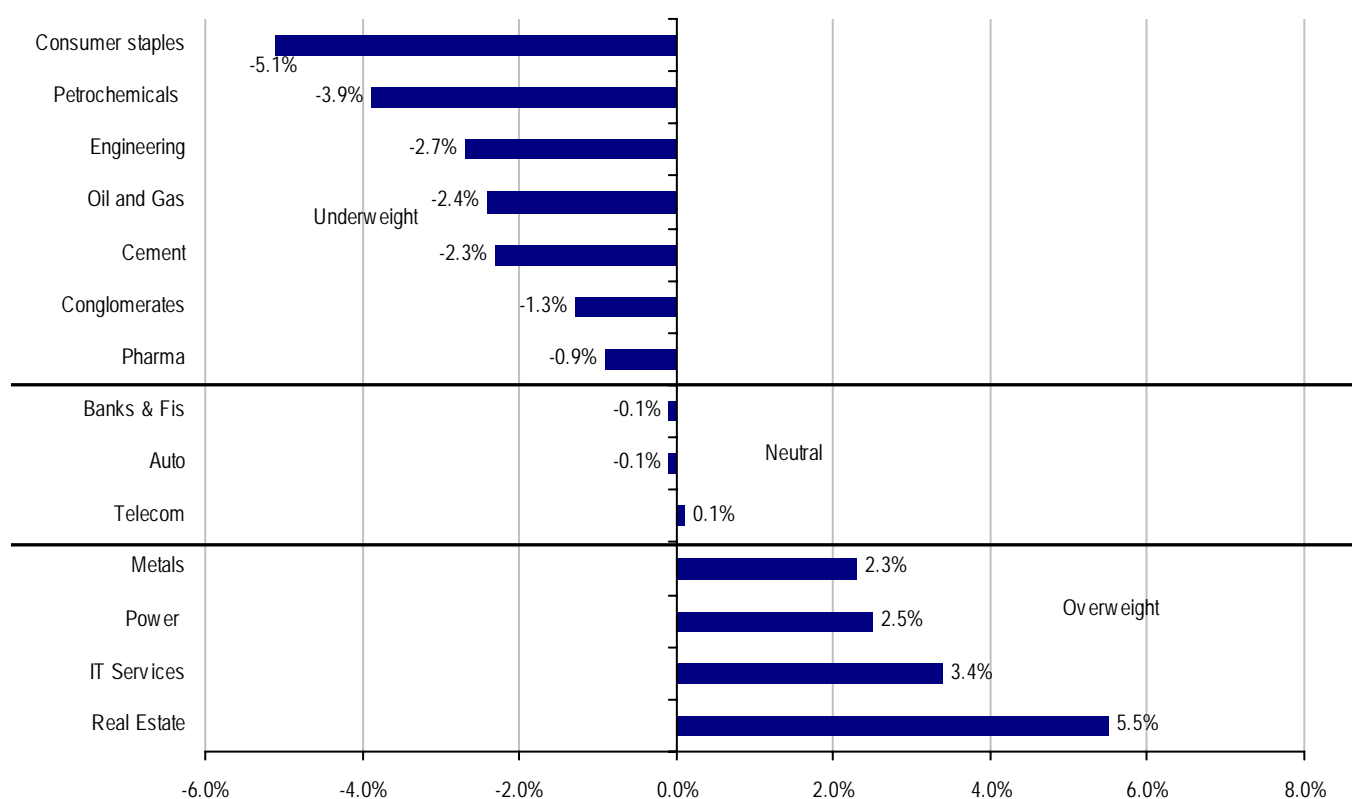
Source: UBS estimates, Bloomberg; Note: Benchmark weights as on 25 Aug'09; Note 1: Earlier portfolio weights as on 25 Aug'09 i.e. before changes in weights

Table 6: UBS India model portfolio stock weights – current versus earlier

Sector	Company	Sensex Weight (%)	Current UBS Weight (%) <sup>1</sup>	Earlier UBS Weight (%) <sup>2</sup>	Current tilt (%)	Earlier tilt (%)
Auto	Maruti	1.8%	5.5%	6.0%	3.7%	4.2%
Banks and FIs	Bank of Baroda	0.0%	6.0%	6.7%	6.0%	6.7%
	ICICI Bank	7.4%	4.0%	4.7%	-3.4%	-2.7%
	HDFC	5.6%	0.0%	4.9%	-5.6%	-0.7%
	PNB	0.0%	6.0%	0.0%	6.0%	0.0%
	Union Bank	0.0%	6.0%	6.6%	6.0%	6.6%
Cement	Ambuja Cements	0.0%	0.0%	4.5%	0.0%	4.5%
Consumer staples	Hindustan Lever	2.6%	0.0%	2.3%	-2.6%	-0.3%
	ITC Limited	5.5%	3.0%	5.6%	-2.5%	0.1%
Engineering	Larsen & Toubro	7.3%	8.0%	4.8%	0.7%	-2.5%
IT Services	Infosys Technologies	8.9%	10.0%	10.9%	1.1%	2.0%
	TCS	2.3%	6.0%	6.2%	3.7%	3.9%
Metals	Tata Steel	2.0%	4.0%	0.0%	2.0%	-2.0%
	JSW	0.0%	3.0%	0.0%	3.0%	0.0%
	Sterlite Industries	1.6%	0.0%	2.9%	-1.6%	1.3%
Oil and Gas	Cairn India	0.0%	2.0%	3.0%	2.0%	3.0%
Petrochemicals	Reliance Industries	13.9%	10.0%	4.4%	-3.9%	-9.5%
Pharmaceuticals	Dr Reddy's	0.0%	0.0%	1.5%	0.0%	1.5%
Power	Tata Power	1.8%	8.0%	6.0%	6.2%	4.2%
Real Estate	IndiaBulls real estate	0.0%	4.0%	6.4%	4.0%	6.4%
	Unitech	0.0%	3.0%	0.0%	3.0%	0.0%
Telecom	Bharti Airtel Ltd	4.7%	6.5%	8.1%	1.8%	3.4%

Source: UBS estimates, Bloomberg; Note: Benchmark weights as on 25 Aug'09; Note 1: Allocation to cash is 5% in current portfolio; Note 2: Allocation to cash is 4.5% in earlier portfolio

Chart 4: Current UBS model portfolio sector tilts



Source: UBS estimates; Note: Allocation to cash is 5% in current portfolio

### Model Portfolio performance

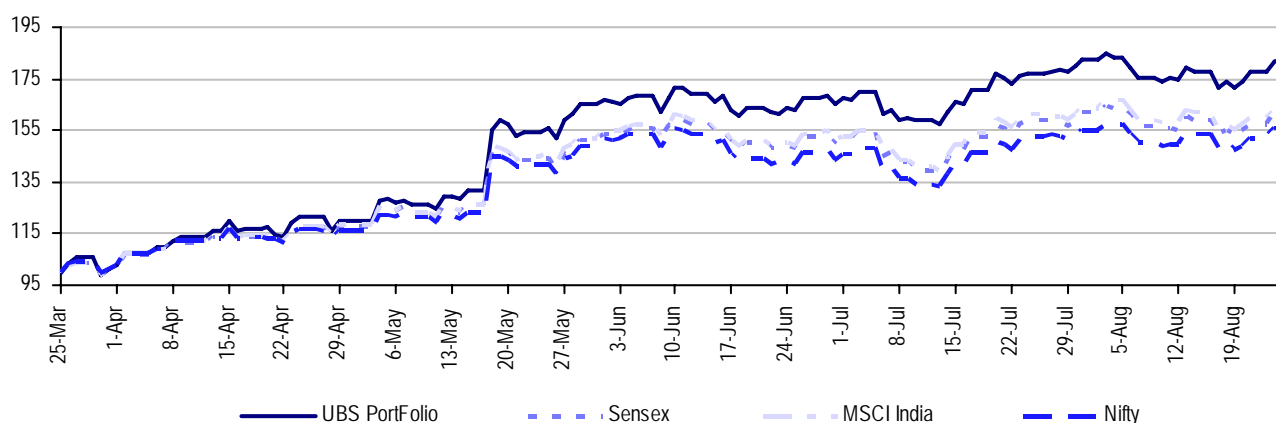
As of 25 Aug'09, our portfolio has generated 82.5% returns vs. 62.3% by Sensex, 56.1% by Nifty, 65.0% return by MSCI. Key sectors that have outperformed when compared with Sensex are power (98.2% excess return), conglomerates (54.4%), engineering (48.7%), autos (31.0%), and metals (76.6%) while oil & gas (52.2%), pharmaceuticals (35.6%), consumer staples (34.5%), petrochemicals (30.3%) and cements (29.9%) have underperformed

Table 7: UBS India model portfolio performance since launch (26 Mar'09)

	Return (%)	Relative performance
UBS model portfolio	82.5%	N/A
BSE Sensex	62.3%	20.2%
MSCI	65.0%	17.5%
Nifty	56.1%	26.3%

Source: UBS estimates; Bloomberg; Note: Performance as on 25 Aug'09; See note on page 14

Chart 5: UBS India model portfolio, Sensex, Nifty and MSCI (India) performance since launch



Source: Bloomberg, UBS estimates (as of 25 Aug'09) – Indices rebased to 100 using 25 Mar'09 closing prices; See note on page 14

Table 8: UBS India model portfolio sector performance since launch (26 March 2009)

Sectors	Return (%)	Current sector weights	Sector weights till 25 Aug'09
Auto	93.2%	Neutral	Overweight
Banks and FIs	81.5%	Neutral	Overweight
Cements	32.4%	Underweight	Overweight
Conglomerates	116.7%	Underweight	Underweight
Consumer staples	27.8%	Underweight	Neutral
Engineering	111.0%	Underweight	Underweight
IT Services	63.7%	Overweight	Overweight
Metals	91.8%	Overweight	Underweight
Oil and Gas	10.1%	Underweight	Underweight
Petrochemicals	32.0%	Underweight	Underweight
Pharmaceuticals	26.7%	Underweight	Neutral
Power	160.5%	Overweight	Neutral
Real Estate	101.3%	Overweight	Overweight
Telecom	50.9%	Neutral	Overweight
Cash	1.0%		
UBS Portfolio	82.5%		

Source: UBS estimates; Bloomberg; Note: Performance as on 25 Aug'09; See note on page 14



Table 9: UBS India model portfolio stock performance summary since inclusion

Stock	Entry Date	Exit Date	Performance during the period
Ambuja Cement	18-Jun-09	25-Aug-09	1.7%
Aditya Birla Nuvo Limited	26-Mar-09	17-Jun-09	116.7%
Axis Bank	4-May-09	17-Jun-09	29.7%
Bank of Baroda	26-Mar-09		89.1%
Bharti Airtel	4-May-09		8.7%
BHEL	26-Mar-09	6-Apr-09	3.3%
Cairn India	18-Jun-09		10.1%
Cipla	26-Mar-09	13-Apr-09	11.4%
Dr. Reddy's Laboratories	18-Jun-09	25-Aug-09	13.4%
Grasim Industries	4-May-09	17-Jun-09	30.3%
HDFC	18-Jun-09	25-Aug-09	10.1%
Hindustan Lever	18-Jun-09	25-Aug-09	3.0%
ICICI Bank	26-Mar-09		107.6%
Idea Cellular	26-Mar-09	17-Jun-09	65.3%
IndiaBulls real estate	14-Apr-09		101.3%
Infosys Technologies	26-Mar-09		56.5%
ITC Limited	26-Mar-09		35.6%
L&T	7-Apr-09		104.3%
Maruti	26-Mar-09		93.2%
Punjab National Bank	26-Mar-09	29-Apr-09	21.0%
Reliance Communication	26-Mar-09	29-Apr-09	28.1%
Reliance Industries	26-Mar-09		32.0%
Reliance Infrastructure	26-Mar-09	17-Jun-09	134.5%
Sterlite Industries	18-Jun-09	25-Aug-09	8.6%
SAIL	4-May-09	17-Jun-09	44.7%
Tata Power	18-Jun-09		11.1%
Tata Steel	26-Mar-09	29-Apr-09	22.0%
TCS	18-Jun-09		39.4%
Union Bank	26-Mar-09		52.0%

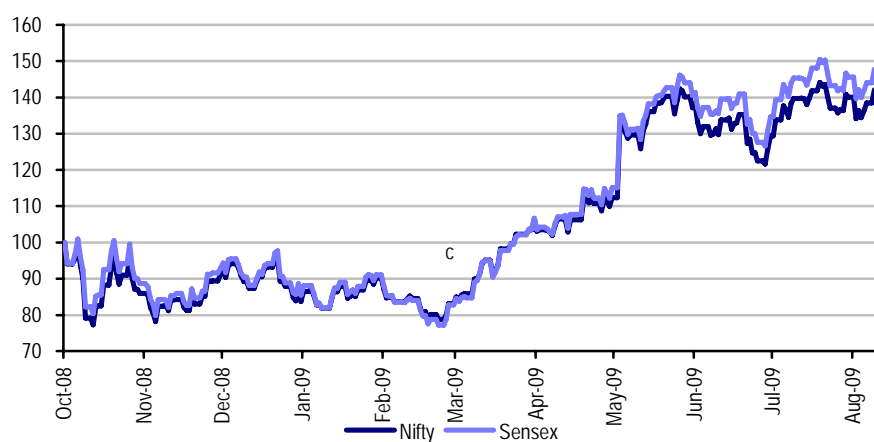
Source: UBS estimates; Bloomberg; Note: Performance as on 25 Aug'09; See note on page 14

Table 10: Model portfolio valuation

Model Portfolio stock	UBS Rating	Model Portfolio Weight	Mkt Cap (US\$ mn)	Price (Rs)	Price Target (Rs)	Potential	ROE	P/BV(x)	PE(x)
						Upside	FY11E	FY11E	FY11E
Bharti Airtel	Buy	6.5%	31,507	405	500	23.3%	22.4%	3.3	14.8
BOB	Buy	6.0%	3,179	426	525	23.2%	14.1%	1.0	6.9
Cairn India	Suspended	2.0%	9,951	257	260	1.2%	15.8%	1.2	7.6
IBREL	Buy	4.0%	2,297	280	340	21.6%	6.3%	1.4	21.9
ICICI Bank	Neutral	4.0%	17,304	761	820	7.7%	10.4%	1.5	14.3
Infosys Technologies	Buy	10.0%	25,520	2,181	2,350	7.7%	27.2%	5.0	18.2
ITC	Buy	3.0%	18,422	238	275	15.4%	24.9%	4.8	19.3
JSW Steel	Buy	3.0%	2,771	723	900	24.4%	19.3%	1.3	7.0
L & T	Buy	8.0%	18,951	1,575	1,700	7.9%	22.3%	5.0	22.3
Maruti Suzuki India	Buy	5.5%	8,314	1,405	1,540	9.6%	17.8%	3.0	17.0
PNB	Buy	6.0%	3,647	671	865	28.9%	18.0%	1.2	6.2
Reliance Industries	Sell	10.0%	65,727	2,040	1,800	-11.7%	15.6%	2.1	13.2
Tata Power	Buy	8.0%	6,032	1,334	1,550	16.2%	15.2%	2.3	12.7
Tata Steel	Buy	4.0%	6,888	460	550	19.6%	10.4%	1.2	11.2
TCS	Buy	6.0%	21,979	548	600	9.4%	26.4%	4.2	15.8
Unitech	Buy	3.0%	4,477	92	110	20.1%	11.3%	1.9	16.7
Union Bank	Buy	6.0%	2,005	213	300	41.0%	17.6%	1.1	5.3

Source: UBS estimates

Chart 6: Sensex and Nifty performance since Oct-08 (Rebased to 100)



Source: Bloomberg, UBS estimates

## Model Portfolio changes

### Sector changes

#### Autos – Neutral (from Overweight)

We have become neutral on Autos largely due to the inclusion of Hero Honda in the Sensex on 29 Jun'09. We have reduced our weightage on the sector by 0.5% as we believe the current negative sentiments surrounding monsoon can be an overhang on the sector. We continue to play the sector with Maruti as the company's valuation remains attractive, given the prospect of improving margin and strong volume growth.

#### Banks – Neutral (from Overweight)

We are downgrading Banks from overweight to neutral due to significant outperformance over the past 5 months. We also believe concerns on lending growth (impacted by monsoons) and its impact on margins could act as an overhang on the sector. Concerns on bond yield performance could also act as a dampener on the sector.

#### Cement – Underweight (from Overweight)

We reduce cement to an underweight position as we believe in the near term negative newsflow on seasonal pricing correction are likely to remain an overhang on the sector though we are positive on the sector from a medium term perspective.

#### Consumer staples – Underweight (from Neutral)

We believe defensive sectors like consumer staples are likely to underperform in a rising market. In addition, negative newsflow regarding monsoon and impact on rural demand are likely to be an overhang on the sector.

#### Metals – Overweight (from Underweight)

We believe the worst is over for the steel industry (please refer to our report '*Indian Steel Sector: Green shoots or weeds*' dated 25 Aug 2009) as: 1) steel prices should remain firm globally (the global steel industry is operating at 55-60% capacity utilisation); and 2) Chinese HRC prices increased in Q1 FY10 on robust demand, providing support for domestic prices (import duty is 5%). We believe the Indian economy is over the worst, based on the upturn in the UBS Lead Economic Indicator, Index of Industrial Production, and strong cement and auto sales.

Indian steel prices are likely to remain firm on the back of strong domestic demand. We do expect no significant overcapacity in next 2-3 years. Further, with raw material costs having declined significantly from the peak of 2008 we remain bullish on the sector.

#### Pharmaceuticals – Underweight (from Neutral)

We have reduced our weightage on pharmaceuticals as a part of our strategy to reduce preference for defensive sectors as we believe these sectors are likely to underperform in a rising market.

## Power – Overweight (from Neutral)

We increase overweight position on the power sector as we are bullish on Tata Power. We believe Tata Power is likely to outperform due to our: 1) improved outlook on coal, and, 2) good progress on under construction 5,500MW capacity. Tata Power also has a project pipeline of 6,000MW that has not been included in valuation. Tata Power is our preferred pick in Indian utility space with a SoTP based price target of Rs1,550.

## Telecom – Neutral (from Overweight)

We are becoming neutral on the sector as the sector has been hampered by the increasing competitive intensity. The sector's return ratios have been on decline over the past several quarters and we believe they will remain under pressure in the near future. Further, the sector has underperformed the Sensex since inclusion. We continue to play the sector with Bharti as the stock is one of our top picks in the sector given its strong brand, excellent management team and solid execution. Also, we expect the stock to benefit once the uncertainty regarding the MTN deal settles down.

## Stock additions

### JSW steel: Buy, Rs900

We believe JSW is an attractive domestic growth story with front ended capacity expansion. JSW is increasing capacity to 11mt by FY12 from 7.8 currently (4.8mt in FY09). JSW would benefit the most in a declining cost environment as it is the least integrated amongst the larger Indian steel stocks (It imports 100% of its coking coal requirement while 20% of its iron ore requirement is met through captive mines).

We believe JSW also is unlikely to have cash flow issues in spite of the high leverage. We estimate capex for FY10/FY11 at Rs37.8bn/Rs75.6bn, respectively, and debt repayment of Rs9bn/Rs11bn in FY10/FY11. Please refer our report '*Indian Steel Sector: Green shoots or weeds*' dated 25 Aug 2009.

### PNB: Buy Rs865

We rate PNB as Buy, given attractive valuations of 6.3x FY11E PE and 1.2x FY11E P/BV. This is with an expected RoE of 17-18% driven by focus on operating performance, that is, protecting NIMs, and healthy growth in fees. We think PNB could be a potential long-term beneficiary of the government's rural thrust.

### Tata Steel: Buy, Rs550

We believe leverage concerns regarding Tata Steel are overdone as we estimate that the company is unlikely to have cash flow issues in FY10/11. Tata has renegotiated covenant testing with its lenders with a waiver till March 2010. It currently has cash of US\$2.2bn, an undrawn credit facility of US\$1.3bn, capex of US\$1bn in FY10 and debt repayments of US\$0.28bn/1.2bn in FY10/11. Gross debt as at end-FY09 was US\$11.78bn. We forecast consolidated EBITDA of Rs91bn/Rs115bn/Rs171bn (US\$1.9bn/2.4bn/3.6bn) in FY10-12.

We believe interim growth for Tata Steel would be led by the Indian business as we estimate breakeven EBITDA for Tata Europe in FY10. The Indian business

would benefit from front-ended volume expansion (10mt by FY11 from 6.8mt currently). We expect earnings and ROE for the company to bottom-out in FY10. Please refer our report '*Indian Steel Sector: Green shoots or weeds*' dated 25 Aug 2009.

### Unitech: Buy, Rs110

We have added Unitech to the model portfolio as we increase exposure to the real estate sector. We believe the sector will continue to benefit from the government support that it has received lately and the lower interest regime. We are positive on Unitech as the company is currently active in mid-incoming housing which is getting maximum support in the form of tax benefits and interest rate subsidies. Also, the company's leverage is approaching comfortable level after two consecutive QIP issues, since 1QFY10, and non core asset sale. The stock has 21.4% upside potential to our price target. UBS India real estate Suhas Harinarayanan in a note *India Real Estate: Increasing volumes* dated 18 Aug 2009, highlighted significant volume pick-up in real estate sector recently with top picks being IBREL & Unitech in the sector.

### Stock deletions

#### Ambuja Cement: Buy, Rs120

We remove Ambuja from the portfolio as we believe near-term newsflow regarding seasonal price corrections could overweigh though we remain positive on the sector from a medium term.

#### Dr. Reddy's: Buy, Rs930

We remove Dr. Reddy's from the model portfolio as we reduce exposure to defensives. The stock has also outperformed the Sensex by 5.4% since inclusion in the model portfolio on 18<sup>th</sup> June 2009.

#### HDFC: Neutral, Rs2,550

We recently removed our short-term Buy rating on HDFC. While we still expect FDI deregulation by end of the financial year, competition over interest rates on housing loans may lead to near-term pressure on stock performance. HDFC's retail lending business accounts for 65% of its total loans. Stock is trading at 4.4x P/B and 24x FY10 PE. We maintain Neutral rating.

#### Hindustan Unilever: Buy, Rs300

We remove HUL from the portfolio as we believe defensive sectors like consumer staples are likely to underperform in a rising market. In addition, negative newsflow regarding monsoon and impact on rural demand are likely to weigh on the stock.

#### Sterlite Industries: Neutral, Rs675

We remove Sterlite from the model portfolio as it has outperformed since inclusion in the portfolio. We now play the metals sector through steel companies (Tata Steel & JSW Steel).

*The indicated performance returns are based on capital appreciation, excluding dividends and transaction costs such as commissions, fees, margin interest, and other charges. Actual transactions adjusted for such transaction costs will result in reduced total returns. Prices of stocks in the performance calculations reflect closing prices. Since its inception on 26 March 2009, the UBS India model portfolio has had 29 stocks, all of which have advanced. A complete record of all the recommendations upon which this report is based is available from UBS Securities India Private Ltd. upon written request. Past performance is not an indication of future results.*

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#### ■ **Statement of Risk**

The risks to investing in India arise from the possibility of an economic slowdown, weakening currency and government policy changes.

#### ■ **Analyst Certification**

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	44%	38%
Neutral	Hold/Neutral	39%	36%
Sell	Sell	17%	25%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	33%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2009.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

## KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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**UBS Securities India Private Ltd:** Suresh A Mahadevan, CFA; Navin Gupta, CFA.



## Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
<b>Ambuja Cements Limited</b>	ABUJ.BO	Buy	N/A	Rs97.75	25 Aug 2009
<b>Bank of Baroda</b>	BOB.BO	Buy	N/A	Rs426.10	25 Aug 2009
<b>Bharti Airtel Ltd.</b>	BRTI.BO	Buy	N/A	Rs407.25	25 Aug 2009
<b>Cairn India Limited</b>	CAIL.BO	Suspended	N/A	Rs258.55	25 Aug 2009
<b>Dr. Reddy's Labs<sup>16</sup></b>	REDY.BO	Buy	N/A	Rs807.80	25 Aug 2009
<b>Hindustan Unilever</b>	HLL.BO	Buy	N/A	Rs268.90	25 Aug 2009
<b>Housing Development Finance Corporation<sup>4</sup></b>	HDFC.BO	Neutral	N/A	Rs2,511.90	25 Aug 2009
<b>ICICI Bank<sup>16</sup></b>	ICBK.BO	Neutral	N/A	Rs759.40	25 Aug 2009
<b>Indiabulls Real Estate<sup>13</sup></b>	INRL.BO	Buy	N/A	Rs284.20	25 Aug 2009
<b>Infosys Technologies Ltd.<sup>16</sup></b>	INFY.BO	Buy	N/A	Rs2,096.10	25 Aug 2009
<b>ITC</b>	ITC.BO	Buy	N/A	Rs240.45	25 Aug 2009
<b>JSW Steel</b>	JSTL.BO	Buy	N/A	Rs715.50	25 Aug 2009
<b>L &amp; T<sup>16</sup></b>	LART.BO	Buy	N/A	Rs1,573.60	25 Aug 2009
<b>Maruti Suzuki India</b>	MRTI.BO	Buy	N/A	Rs1,418.30	25 Aug 2009
<b>Punjab National Bank</b>	PNBK.BO	Buy	N/A	Rs672.90	25 Aug 2009
<b>Reliance Industries<sup>5, 16, 22</sup></b>	RELI.BO	Sell	N/A	Rs2,023.75	25 Aug 2009
<b>Sterlite Industries<sup>3, 16, 20</sup></b>	STRL.BO	Neutral (CBE)	N/A	Rs654.95	25 Aug 2009
<b>Tata Consultancy Services Ltd.<sup>22</sup></b>	TCS.BO	Buy	N/A	Rs528.50	25 Aug 2009
<b>Tata Power<sup>22</sup></b>	TTPW.BO	Buy	N/A	Rs1,312.10	25 Aug 2009
<b>Tata Steel Ltd.<sup>2, 4, 5, 22</sup></b>	TISC.BO	Buy	N/A	Rs457.80	25 Aug 2009
<b>Union Bank<sup>20</sup></b>	UNBK.BO	Buy (CBE)	N/A	Rs212.75	25 Aug 2009
<b>Unitech<sup>2, 4, 5, 6, 13, 20</sup></b>	UNTE.BO	Buy (CBE)	N/A	Rs90.60	25 Aug 2009

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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