

December 21, 2011

ANNUAL REVIEW (A Yearly Guide on Market Performance)

## India Strategy

### The Year That Was: All About “Cs”

*Our customary year-end note highlights how challenging 2011 was – a year equity investors will want to forget quickly. It is ending as the second-worst in India’s history (after 2008). Investors faced the following 11 “Cs”, or Challenges, of 2011.*

- C - Central bank tightening – Rates at multi-year highs**
- C - Crisis in Europe**
- C - Corruption scandals occupy headlines**
- C - Costs rise faster than revenues – Corporate earnings hurt as margins drop to lows**
- C - Compression in multiples causes equities to deliver negative returns**
- C - Cold Storage for policy action**
- C - Cost of living rises – inflation proves too stubborn**
- C - Consumer stocks outperform**
- C - Currency slides to all-time lows**
- C - Capex tumbles along with corporate confidence**
- C - Cut in earnings and growth is sharp and consistent**

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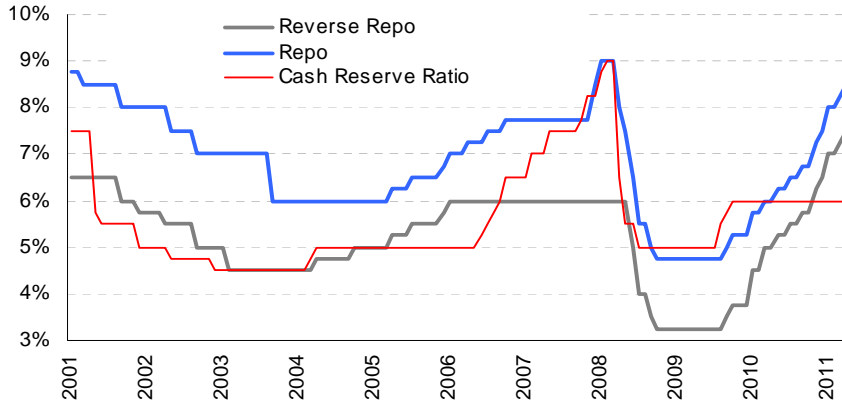
## The Year That Was

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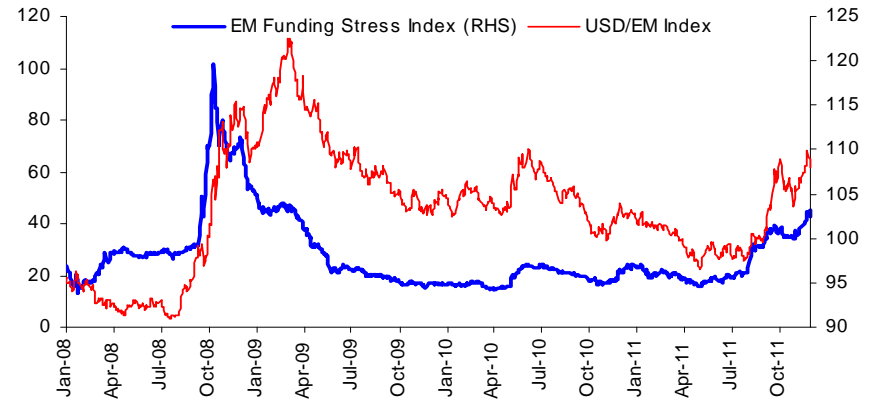
- India is likely to end the year as the second-worst-performing emerging market (out of 21). This is the second-worst yearly performance after 2008.
- Consumer Staples and Telecoms were the best- and worst-performing sectors for the year. Interestingly, the top four performing sectors (Consumer Staples, Consumer Discretionary, Technology and Healthcare) of 2010 interchangeably retained their top four positions in 2011.
- FIIs were marginal sellers of Indian equities, while domestic institutions were strong buyers during the year.
- Trading activity was marked by strong volumes in derivatives markets (at record levels), even though the cash turnover fell to a seven-year low, and, compared with % of market cap, it was at its lowest level in history. The share of options trading to total derivatives trading climbed to 75% vs. 68% in 2010 and 52% in 2009.
- Market breadth and depth were weak during the year, while hedging activity ascended to a decade high. Implied volatility picked up in the second half of the year.
- Through the year, less than 20% of the stocks were trading close to their 52-week highs, and the number fell to less than 5% by the end of the year. The share of Sensex turnover to total turnover rose for the first time since 2008 to a three-year high.
- After a tough 2010, domestic fund managers received inflows in their equity as well as fixed income funds.
- India's absolute P/E multiple fell to 2009 levels, although on relative valuations India is trading above 2009 levels.
- Consensus has revised down F12 Sensex earnings growth by 7.5 ppts since the start of 2011. Similarly, earnings revision breadth remained negative throughout the year.
- The yield curve narrowed during the year, with the 91-day and 10-year yields rising to multi-year highs, influenced by steady rate hikes by the central bank and growth scare. Also, the rupee depreciated to all-time low levels.
- India's macro looked worse than that in 2010, with elevated levels of inflation and slowing growth (IIP).

## Charts You Don't Want to Miss

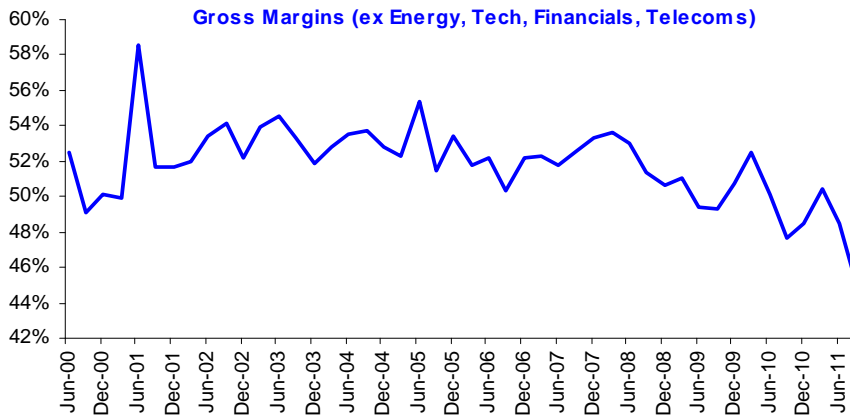
Central Bank tightening: Rates at multi-year highs



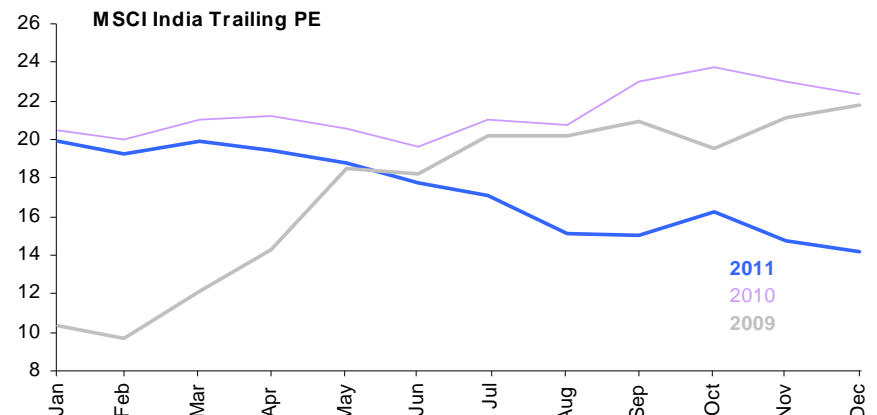
Crisis in Europe: Funding Stress Index\* and EM Currency to USD



Costs rise faster than Revenues: Corporate earnings hurt as margins drop to lows

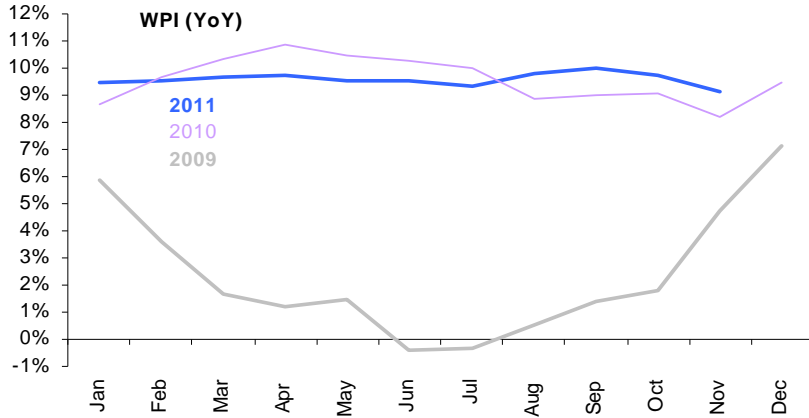


Compression in Multiples: causes equities to deliver negative returns

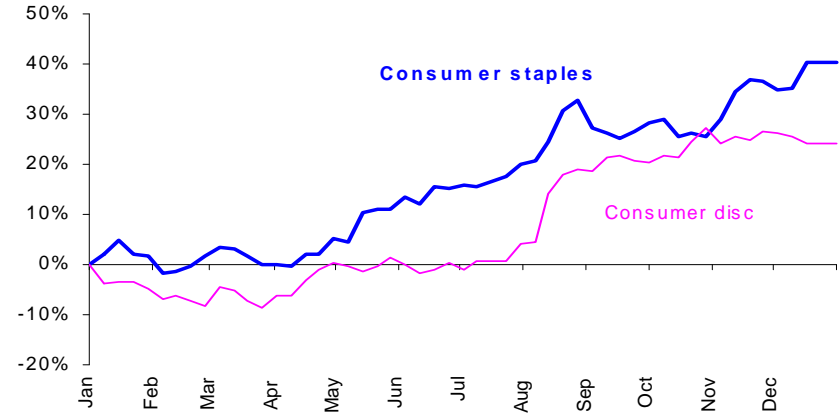


## Charts You Don't Want to Miss

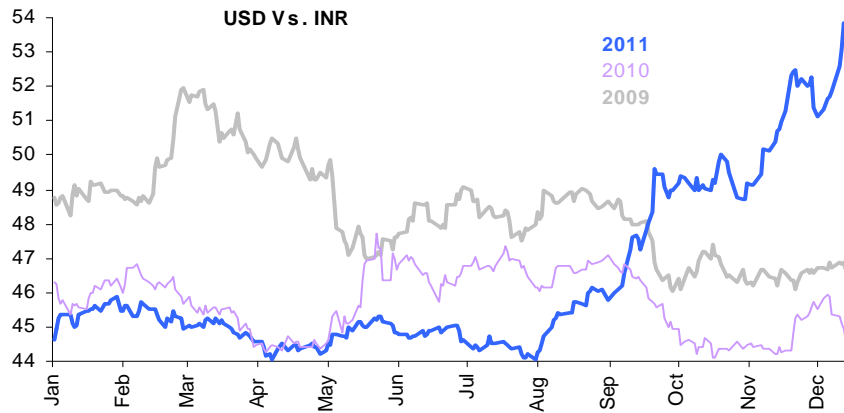
Cost of living rises: Inflation proves too stubborn



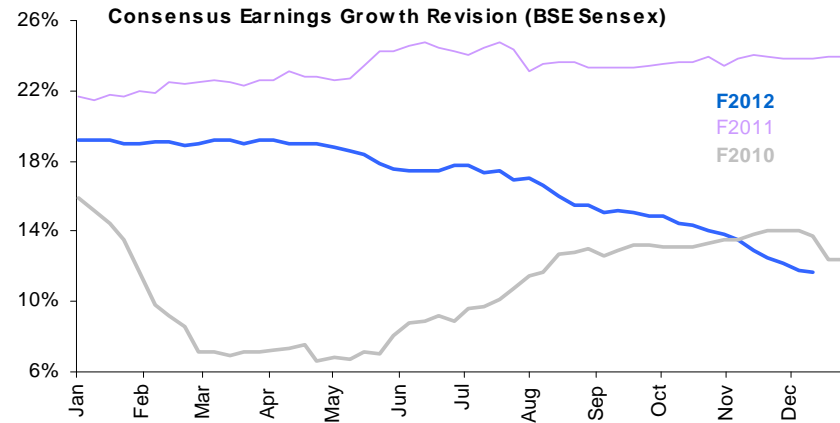
Consumer stocks: outperform



Currency: slides to all-time lows



Cut in earnings and growth: sharp and consistent



## Market Intermediaries: A Year of Challenges

(Calendar year)	2011 Highlights	2011 YTD	2010	2009
India GDP* (US\$ billion)		1,870	1,726	1,383
Market Cap (US\$ billion)	Low est level since Sep-2009	1,026	1,632	1,307
Listed Companies (BSE)		5,102	5,034	4,955
Fl ow nership (1200 NSE listed stocks)	Below the 5-year avg.	17.6%	18.5%	17.0%
<b>Flow s (US\$ million)</b>				
FII (cash)	Outflow s in 6/12 months	-375	29,317	17,650
FII (Futures)	Outflow s in 7 out of 12 months	-4,768	-5,777	-4,049
FII Debt	Inflow s decelerate but still remain 2nd best	4,383	10,131	1,079
Domestic fixed income fund	Strong inflow s after 2nd w orst outflow s in 2010	16,021	-15,711	29,505
Domestic equity mutual fund	Turn positive after w orst outflow s in 2010	1,715	-3,369	145
Domestic mutual fund activity	Buyers in 8 out of 12 months	1,285	-6,027	-1,175
Domestic Insurance activity	Buyers in 8 out of 12 months	4,659	1,144	7,003
Total MF AUM	Falls YoY	134,072	138,691	142,643
Equity MF AUM	Low est level since June-2009	34,965	48,269	44,323
<b>Trading (US\$ million)</b>				
Total trading volumes	At record Levels	7,388,933	6,588,795	4,288,391
Cash trading volumes	At a seven-year low	729,901	1,061,582	1,055,523
Derivatives trading volumes	At record Levels	6,659,032	5,527,214	3,232,867
Options trading volumes	Share in derivatives trading risen to 76% from 68% (in 2010) and 52% (in 2009)	4,998,091	3,428,011	1,482,166
FII cash trading volumes	Dow n YoY	258,065	306,413	242,921
FII derivatives trading volumes	At record Levels	1,543,695	1,138,437	611,775
Domestic MF trading volumes	Slight deceleration	75,518	76,896	82,623
Equity issuances (Domestic + Euro)	Sharp slow dow n	9,966	28,365	18,623
Debt Issuances	Decelerates after touching all-time high level in 2010	39,636	54,518	37,973
FCCBs	Sharp decline	302	1,318	2,549
ECBs	Rises for the 2nd year in a row	29,711	22,204	13,017

## Market Gainers and Losers

All Stocks	2011 YTD			2010			2009		
	2011 YTD	Market Cap. (in \$mn)	Performance	2010	Market Cap. (in \$mn)	Performance	2009	Market Cap. (in \$mn)	Performance
<b>Top 5 Performers</b>	Blue Circle Ser.	272	16563%	Prism Infor.	12	14431%	JMD Telefilms	159	7219%
	Aricent Infra	17	8480%	Rodium Real.	13	6179%	Avance Tech.	14	2575%
	Tilak Finance	107	878%	Signet Indus.	63	4018%	Kwality Dairy	447	2391%
	Krishna Vent.	8	831%	Shree Nath Comm.	79	2673%	Scanpoint Geoma	49	1716%
	Mudit Finlease	15	543%	RAS Propack	6	1879%	Choice Intl.	14	1576%
<b>Bottom 5 Performers</b>	S V Electricals	3	-96%	Teledata Tech	8	-82%	Octant Inds.	7	-80%
	Jay Energy	1	-96%	Koutons Retail	31	-84%	K Z Leasing	1	-81%
	Mahan Inds.	2	-97%	JMD Telefilms	21	-87%	Bio Green Indust	2	-83%
	Avance Tech.	2	-97%	Mavens Biotech	25	-90%	Glory Polyfilms	8	-87%
	Prraneta Inds.	4	-99%	Sigrun Holdings	51	-92%	Sylph Techno	1	-94%
<b>BSE 100</b>									
<b>Top 5 Performers</b>	Hindustan Unilever	15791	26%	Bank of Baroda	6087	75%	Tata Motors	7594	398%
	Idea Cellular	5189	21%	Bajaj Auto	8314	75%	Sesa Goa	6280	379%
	Divi's Laboratories	1874	17%	Tata Motors	15415	65%	Jindal Steel & Power	12213	363%
	ITC	28237	12%	Lupin	3993	61%	Bajaj Auto	4751	350%
	Nestle India	7573	11%	Shriram Transport	3290	61%	JSW Steel	3531	341%
<b>Bottom 5 Performers</b>	Reliance Capital	1134	-63%	NMDC	20522	-34%	MTNL	866	-7%
	Suzlon Energy	631	-65%	Welspun Corp.	647	-37%	Glenmark Pharma	1382	-7%
	Essar Oil	1215	-65%	IBREL	1045	-39%	Bharti Airtel	23270	-8%
	Unitech	953	-70%	Suzlon Energy	1810	-40%	Reliance Comm	6652	-24%
	HDIL	438	-71%	HDIL	1503	-46%	Tata Comm	1785	-33%

# Equity Markets in '11: India is the Second-worst Performing Emerging Market of 2011

## MSCI India Vs. Global indices

India underperforms the global indices

Indices (US\$)	Current	2011 YTD	2010	2009
MSCI India	353	-37%	19%	101%
MSCI EM	904	-21%	16%	74%
MSCI Asia ex JP	453	-20%	17%	68%
MSCI BRIC	267	-25%	7%	89%
MSCI AC World	291	-12%	10%	32%
MSCI DM	1146	-10%	10%	27%
MSCI China	53	-21%	2%	59%
MSCI Brazil	2801	-26%	4%	121%
MSCI Russia	731	-22%	17%	100%
MSCI USA	1164	-3%	13%	24%
MSCI Europe	1206	-17%	1%	31%
Dow Jones	11866	2%	11%	19%
Nasdaq	2555	-4%	17%	44%
S&P 500	1220	-3%	13%	23%
<b>India's Rank in 21 EM countries</b>		<b>20</b>	<b>11</b>	<b>3</b>
<b>India's Rank in ACWI in 45 ACWI countries</b>		<b>41</b>	<b>14</b>	<b>3</b>

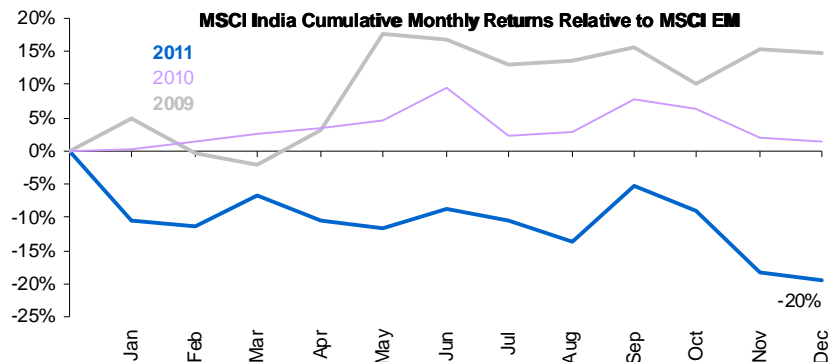
## Market Breadth

Small- and Mid-caps underperform the narrow market

Indices	Current	2011 YTD	2010	2009
BSE Sensex	15,491	-24%	17%	81%
BSE 100 Index	8,011	-25%	16%	85%
BSE 200 Index	1,874	-26%	16%	89%
BSE 500 Index	5,856	-26%	16%	90%
BSE Midcap Index	5,277	-32%	16%	108%
BSE Smallcap Index	5,688	-41%	16%	127%
S&P CNX Nifty	4,652	-24%	18%	76%
CNX Nifty Junior	8,683	-29%	18%	128%
CNX 100	4,528	-25%	18%	83%
S&P CNX 500	3,648	-26%	14%	89%
CNX Midcap	6,285	-29%	19%	99%
Nifty Midcap 50	1,798	-38%	10%	100%

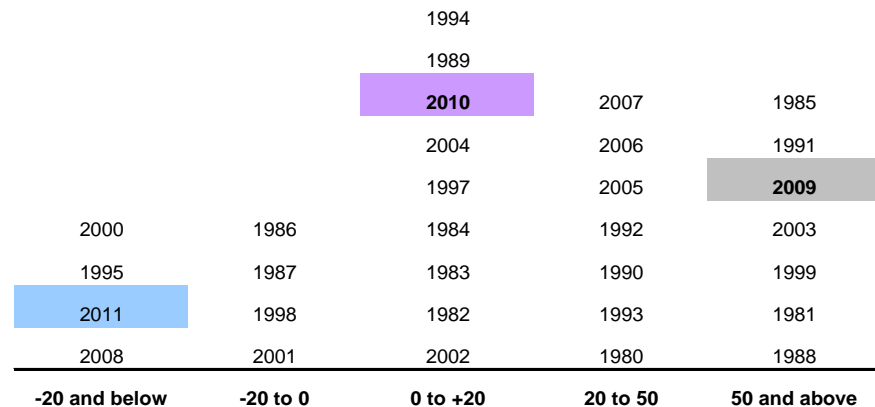
## India Relative to EM

India underperformance for the first time in three years



## BSE Sensex

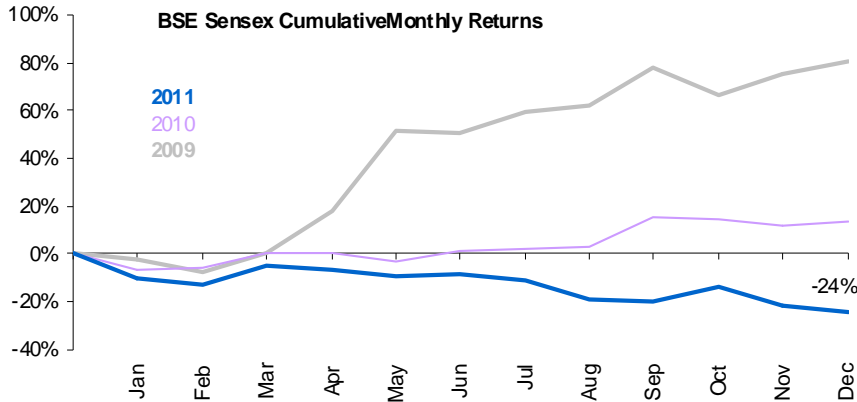
Second-worst yearly performance in history



## Equity Markets in '11: Narrow Market Outperforms the Broader Market

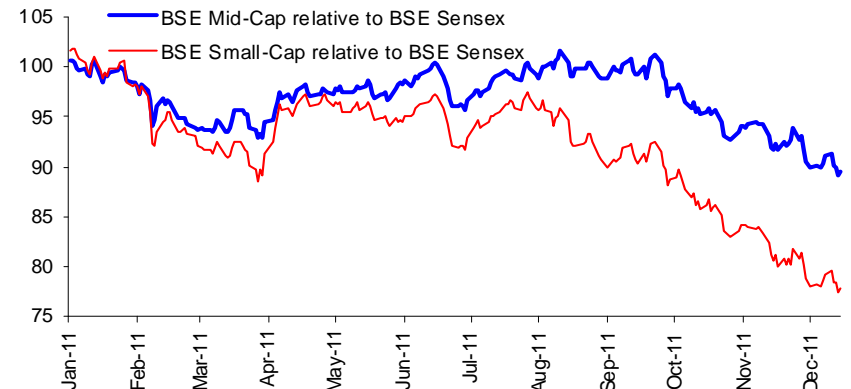
### Cumulative Monthly Sensex Returns

Negative returns through the year



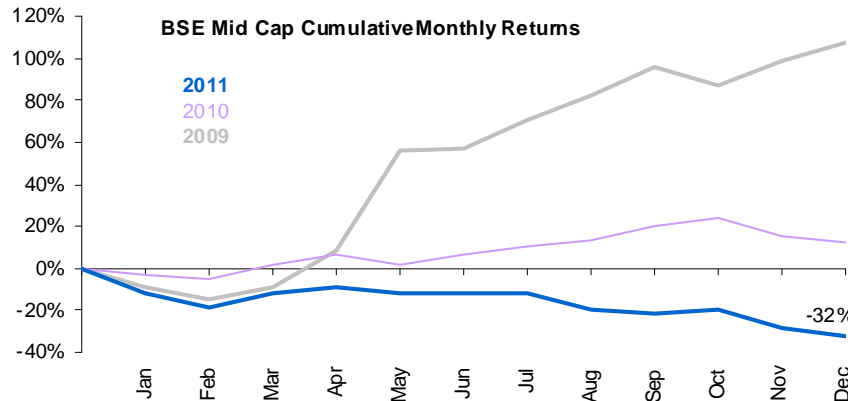
### Mid- and Small-cap stocks

At multi-year lows



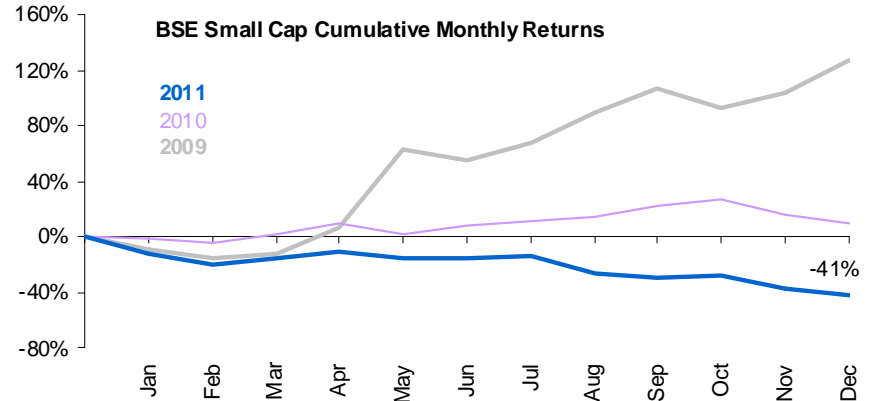
### Cumulative Monthly BSE Mid-cap Returns

Underperforms the narrow market



### Cumulative Monthly BSE Small-cap Returns

Significant underperformance to large- and mid-cap indices





## Sector Performance in '11: Consumer Staples – the Best, Telecoms – The Worst

### Sector Performance

Staples leads while Telecoms lags

Sectors	Performance			Rank		
	2011	2010	2009	2011	2010	2009
MSCI India	-26%	15%	92%			
CD	-8%	27%	168%	2	4	2
CS	4%	27%	27%	1	3	9
Energy	-27%	-1%	75%	5	8	6
Financials	-28%	21%	78%	6	5	5
Healthcare	-8%	28%	71%	3	2	7
Industrials	-48%	11%	119%	9	6	4
Technology	-16%	33%	129%	4	1	3
Materials	-37%	4%	211%	8	7	1
Telecoms	-55%	-13%	-25%	10	10	10
Utilities	-34%	-10%	56%	7	9	8

### Relative to EM

Only healthcare outperforms

Sectors	Performance			Rank		
	2011	2010	2009	2011	2010	2009
MSCI India	-20%	3%	15%			
CD	-11%	2%	32%	3	5	3
CS	-9%	4%	-20%	2	4	9
Energy	-22%	-4%	1%	6	6	8
Financials	-18%	10%	6%	5	2	7
Healthcare	2%	6%	28%	1	3	4
Industrials	-36%	-9%	47%	9	7	2
Technology	-11%	22%	17%	4	1	5
Materials	-24%	-10%	60%	7	8	1
Telecoms	-58%	-19%	-35%	10	10	10
Utilities	-32%	-11%	8%	8	9	6

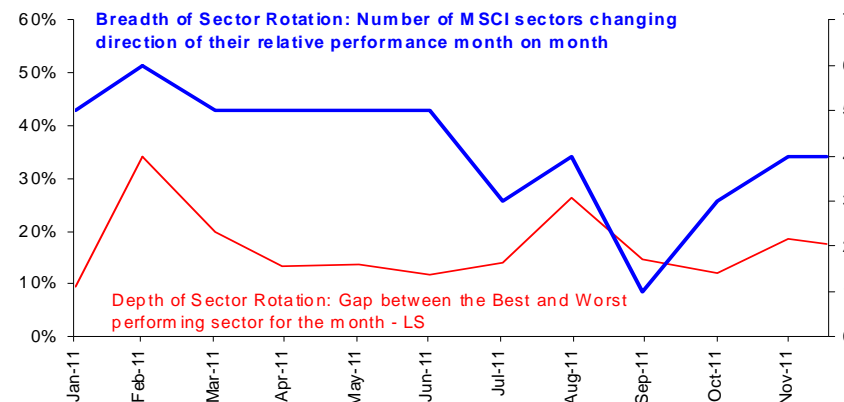
### Sector Performance Rank

Cons. staples, cons. disc, tech and healthcare maintain their top 4 positions of 2010

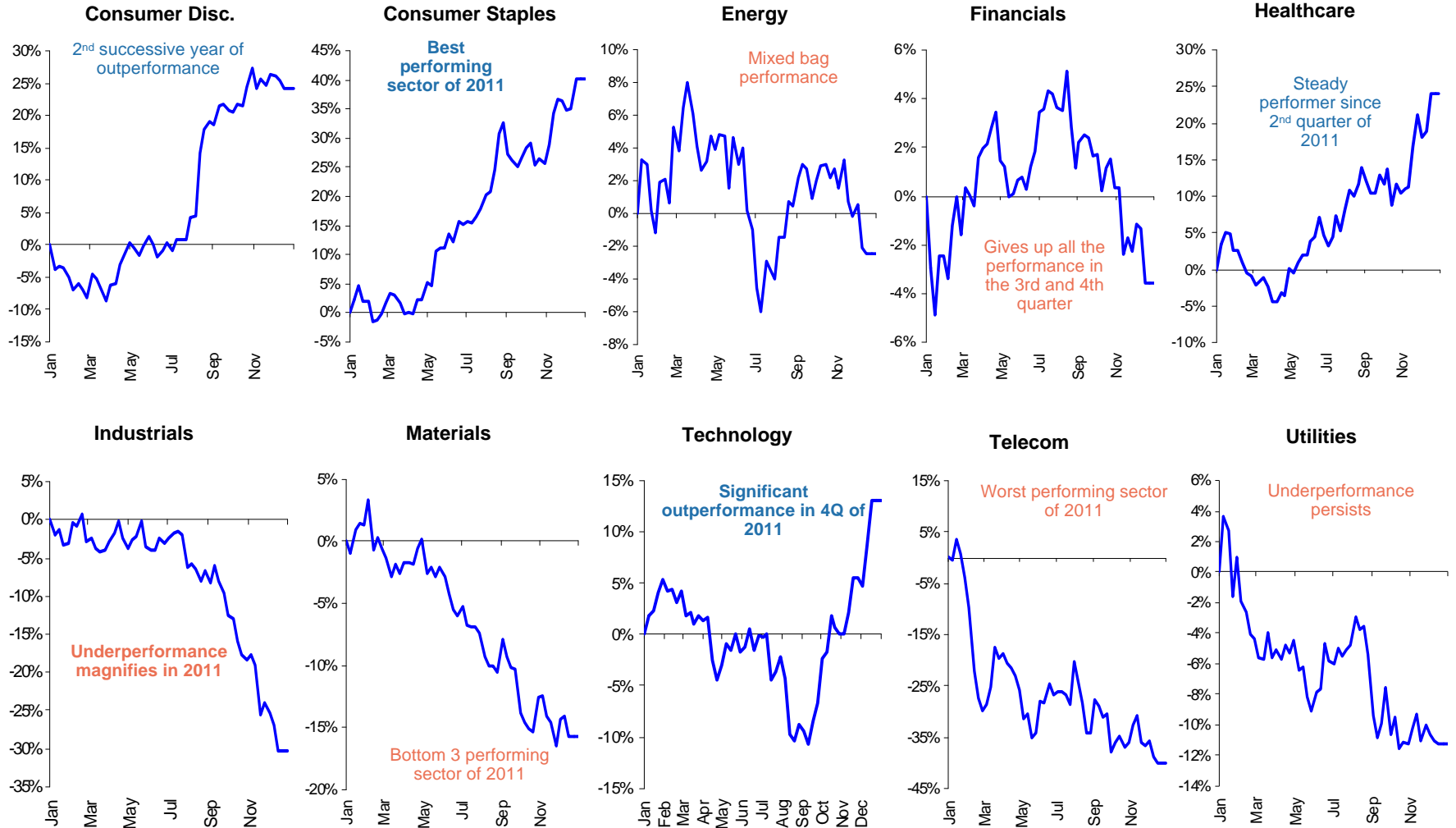
(in INR)	12M Performance											
	Dec-11	Nov-11	Oct-11	Sep-11	Aug-11	Jul-11	Jun-11	May-11	Apr-11	Mar-11	Feb-11	Jan-11
Cons Disc	5	7	1	2	1	2	6	7	1	4	7	9
Cons Staples	3	2	4	4	2	4	2	1	2	10	2	5
Energy	8	6	8	3	3	9	10	5	8	6	1	6
Financials	6	9	6	6	5	6	7	3	7	2	3	8
Healthcare	2	1	9	5	4	3	8	2	3	9	8	2
Industrials	9	10	10	9	6	10	5	6	6	5	5	7
Technology	1	3	3	1	9	7	4	4	9	7	4	1
Materials	4	8	5	8	7	8	9	8	4	8	6	3
Telecom	10	4	2	10	10	1	1	10	10	1	10	10
Utilities	7	5	7	7	8	5	3	9	5	3	9	4

### Sector Rotation: Depth and Breadth

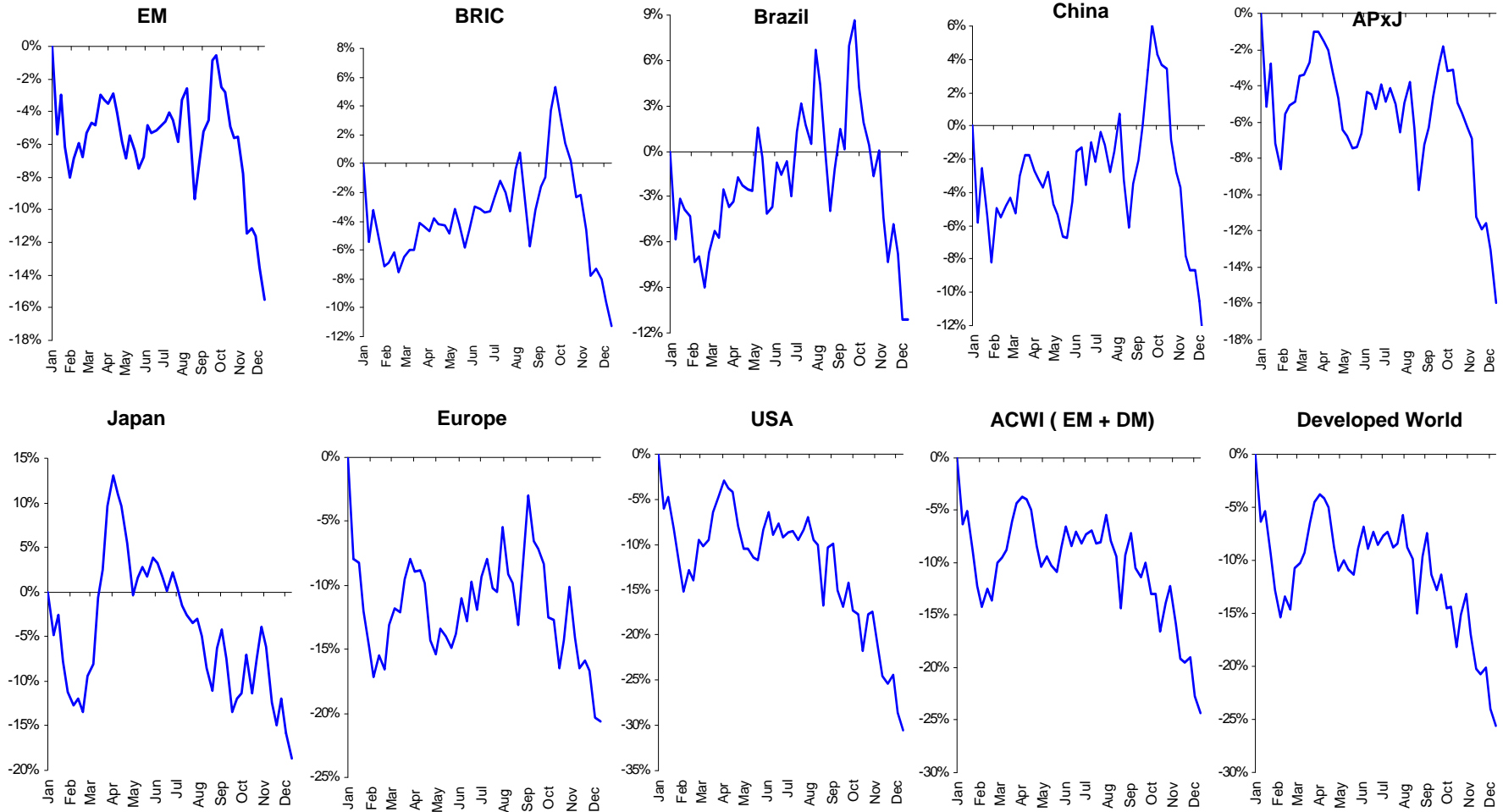
Falls below average



# MSCI Sector Perf. Relative to MSCI India in '11: Sector Rotation Through the Year



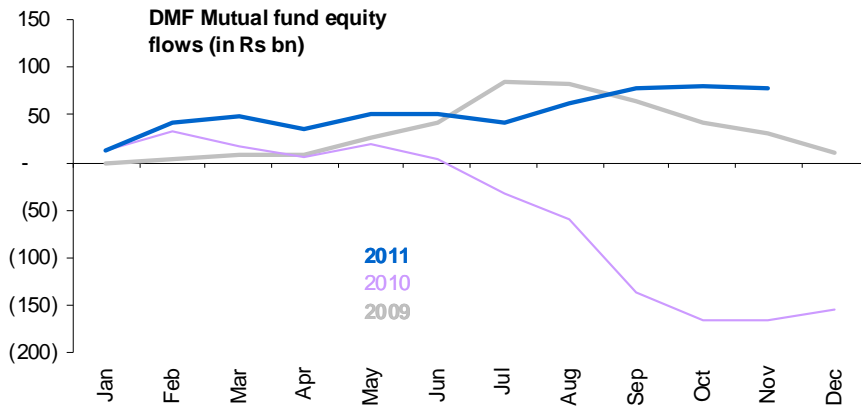
# MSCI India Relative Performance in '11: A Year to Forget



## Domestic Mutual Funds in '11: Flows Turn Positive in 2011

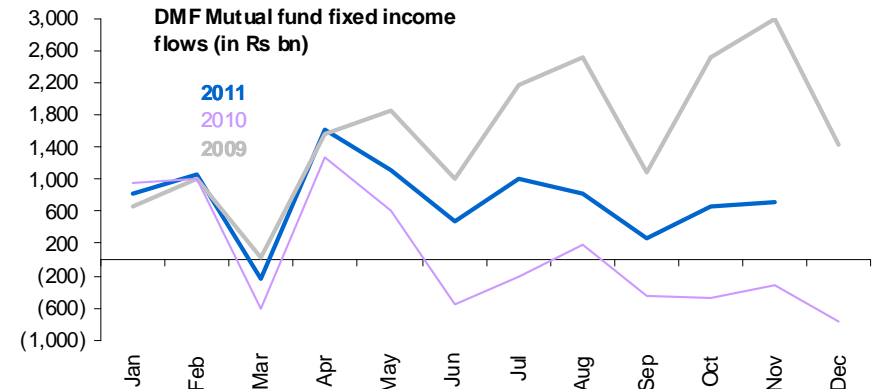
### DMF Equity Flows

Strong inflows after worst ever outflows in 2010



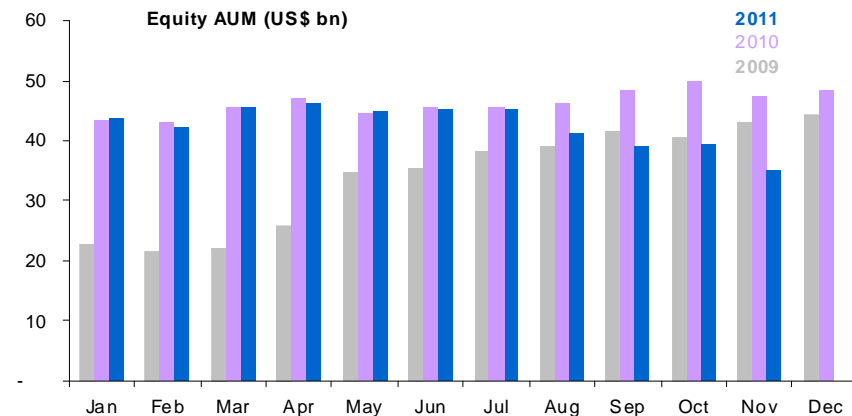
### DMF Fixed Income Flows

Strong inflows after second-worst outflows in 2010



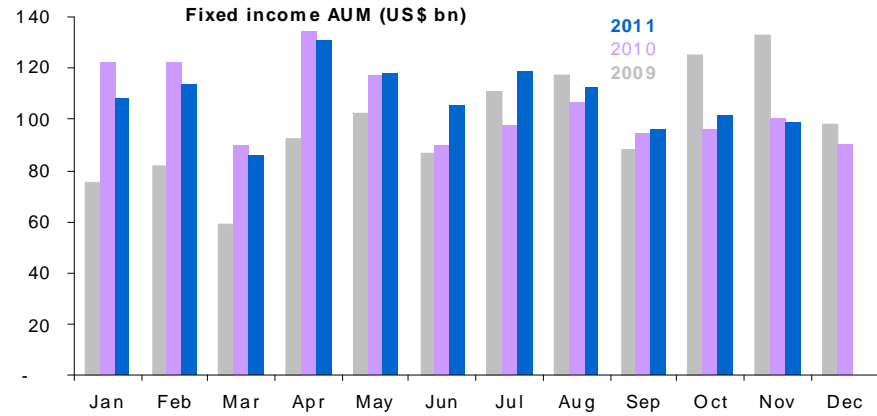
### Equity AUM

Equity AUM slip to a 2½-year low



### Fixed Income AUM

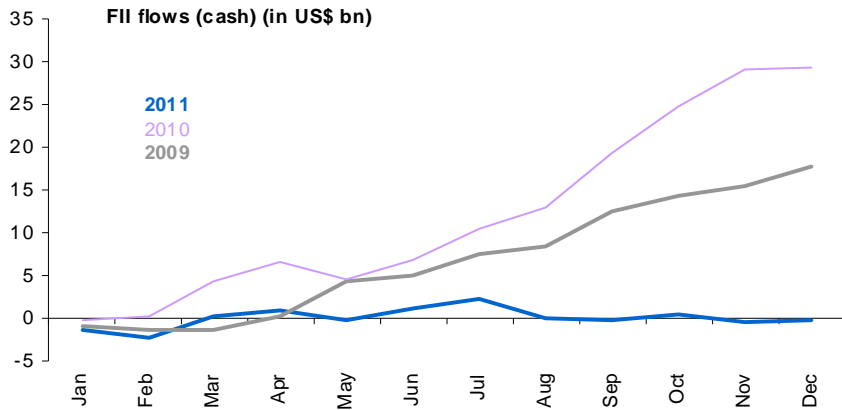
Remain unchanged on a year-on-year basis



# Equity Market Flows in '11: Foreigners Sell, While Domestic Institutions Buy

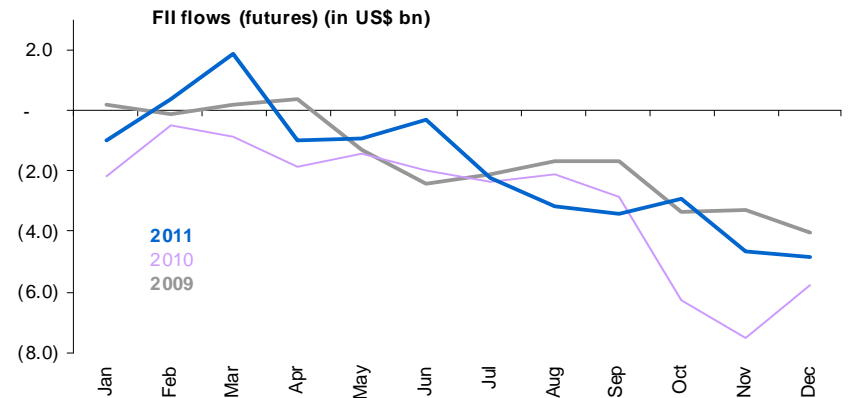
## Equity FII Flows

Marginal sellers



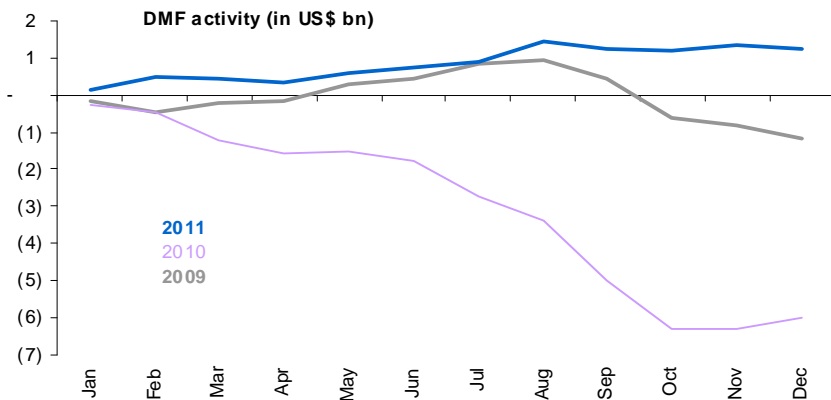
## Futures Activity

Selling Persists



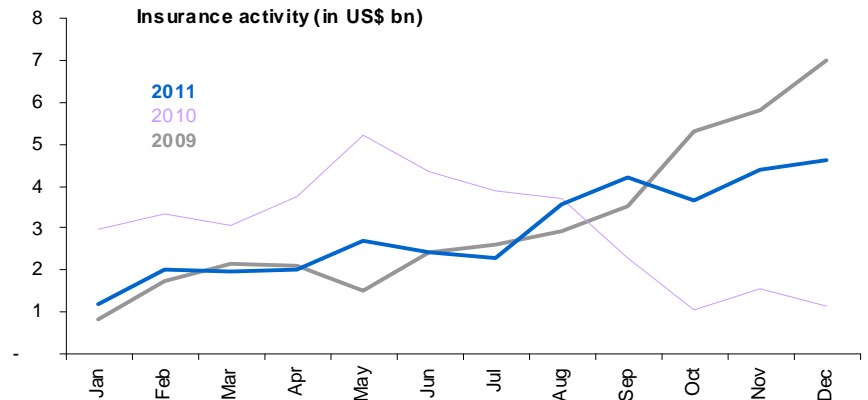
## Domestic Mutual Fund Activity

Turn buyers



## Insurance Companies

Remain buyers



# Equity Flows and Positions in '11: Strong FDI Flows But Weak Portfolio Flows

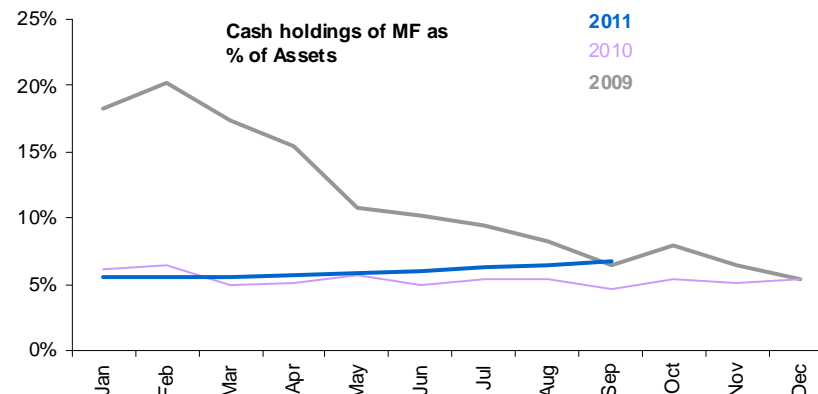
## FII Flows: India vs. Select EM (EPFR data)

Record outflows in EM

(US\$ bn)	2011YTD		2010	
	Total Flows	ETF	Total Flows	ETF
<b>All Country Total</b>	<b>-133.3</b>	<b>71.9</b>	<b>29.5</b>	<b>84.7</b>
<b>Africa</b>	-0.8	0.0	6.0	2.4
<b>Emerging Asia</b>	-19.6	0.8	50.4	23.6
China	-8.4	-0.1	17.8	8.1
India	-5.3	-0.9	7.7	4.3
Indonesia	-0.8	0.1	3.7	1.7
Korea	-2.5	-0.3	9.8	4.4
Malaysia	-0.6	-0.1	1.5	0.8
Philippines	-0.1	0.1	0.5	0.2
Taiwan	-0.5	2.0	6.2	2.4
Thailand	-1.3	-0.1	2.4	1.1
<b>Emerging Europe</b>	-5.5	0.1	12.4	6.6
<b>Latin America</b>	-11.2	-1.8	17.8	8.1
<b>Middle East</b>	-0.8	0.0	1.0	0.3
<b>Emerging Market Total</b>	<b>-38.0</b>	<b>-0.9</b>	<b>87.6</b>	<b>40.9</b>
<b>Developed Asia</b>	-5.5	7.1	6.1	5.0
<b>Developed Europe</b>	-15.9	23.5	-13.7	9.1
<b>North America</b>	-73.8	42.0	-51.5	29.1
<b>Developed Market Total</b>	<b>-95.1</b>	<b>72.6</b>	<b>-59.1</b>	<b>43.3</b>
<b>Other Total</b>	-0.2	0.1	0.9	0.5

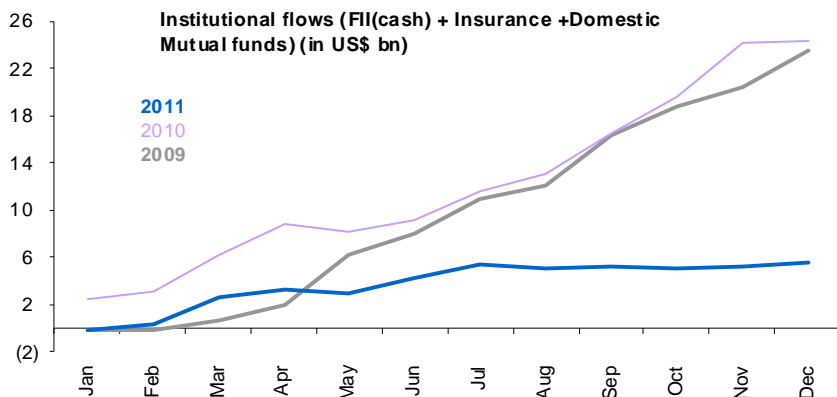
## Domestic Mutual Funds' Cash Holdings

Remain low



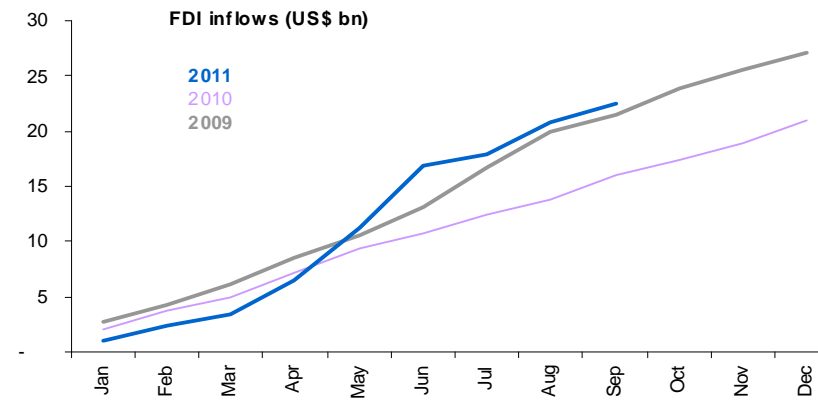
## Total Inst. Flows

Turn weak vs. 2010 and 2009



## FDI Inflows

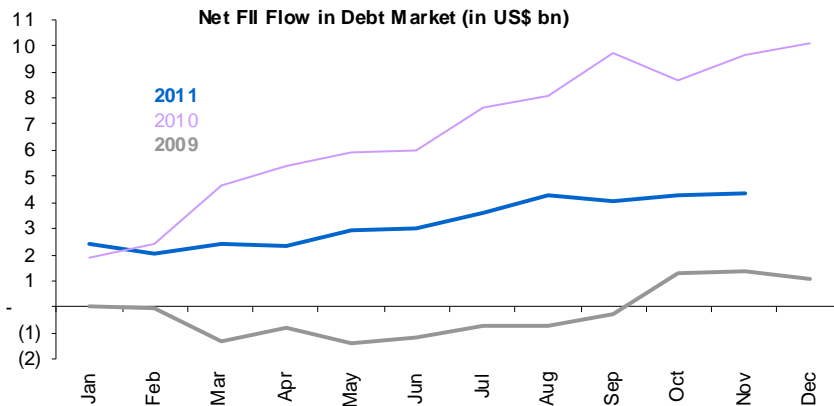
Above 2010 levels



## Foreign Institutional Activity: Slowdown in Activity Levels

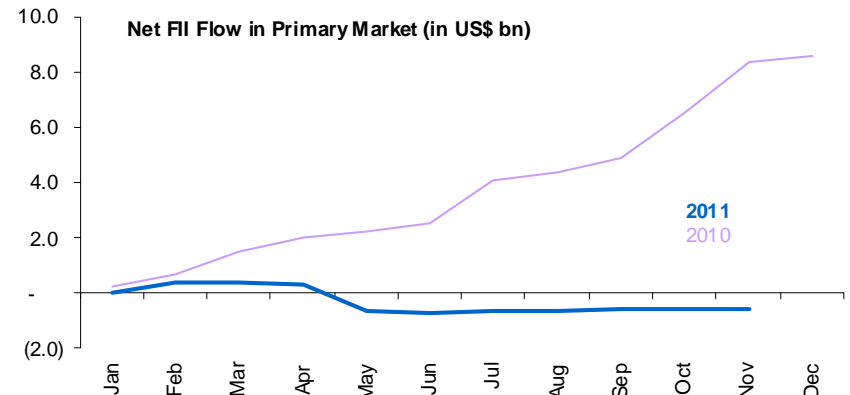
### FII Flows in Debt Market

Modest buying



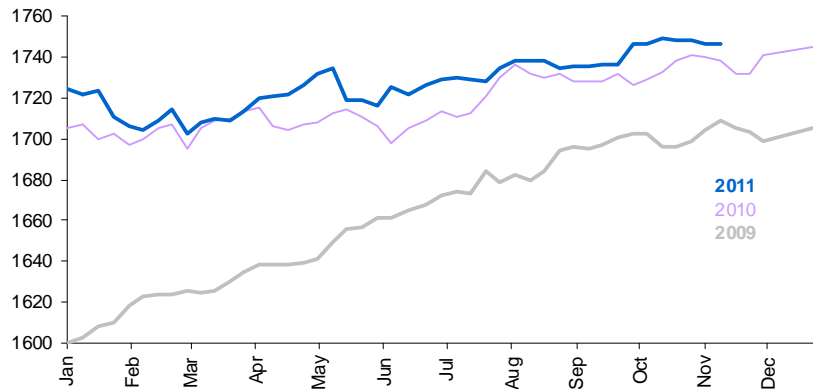
### FII Flows In Primary Market

Turn negative



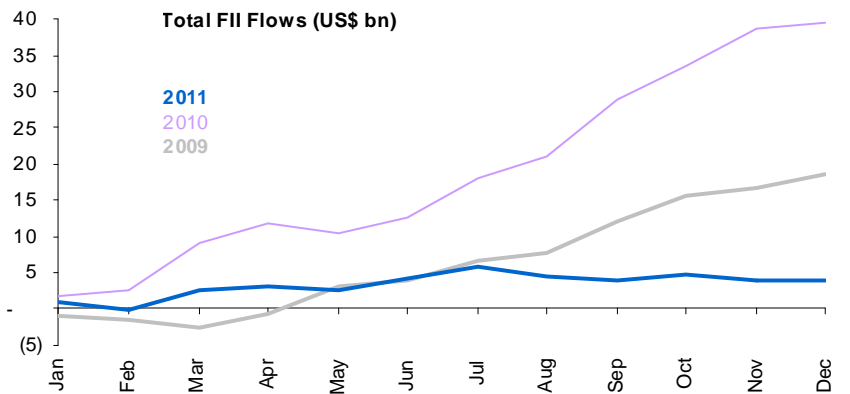
### Trend in FII registration

Slower registrations in 2011



### Total FII Flows (Debt + Equity)

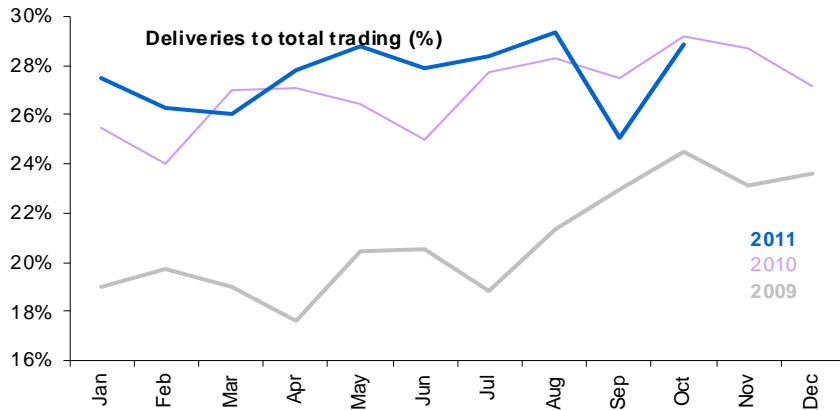
Marginal inflows



## Trading Activity in '11: Cash Turnover/Market Cap – Lowest Level Since 2000

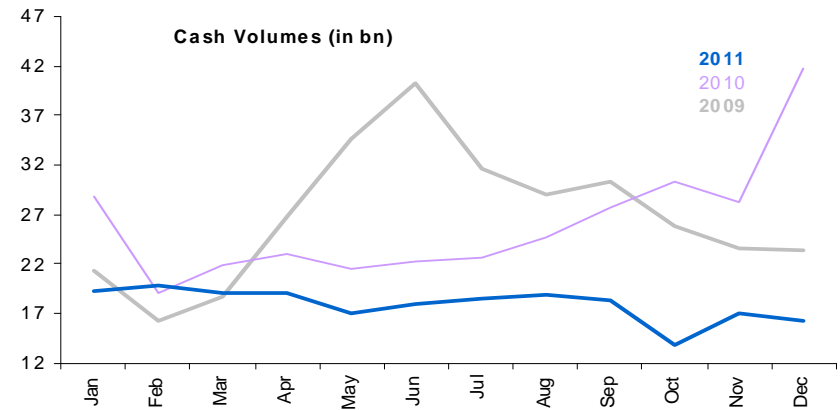
### Trades Settled for Stock

Delivery of stock remains high



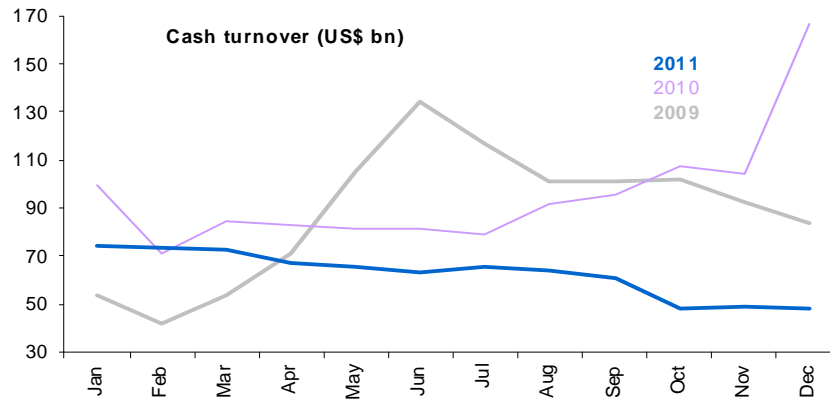
### Cash Trading Volumes

Turn weak during the year



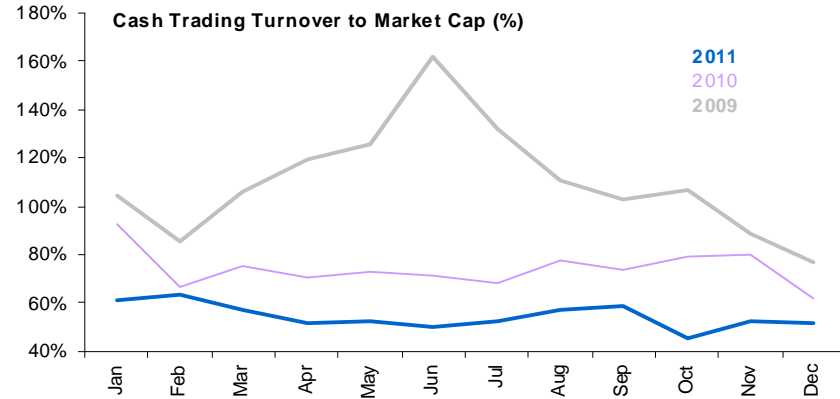
### Cash Turnover

Declines to a seven-year low



### Cash Trading Turnover / Market Cap

Dips further in 2011

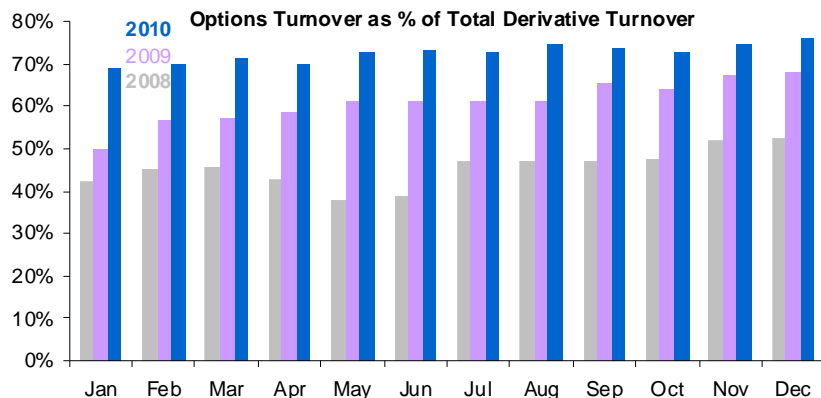




## Trading Activity in '11: Options Trading Account for 3/4<sup>ths</sup> of Total Derivatives Trading

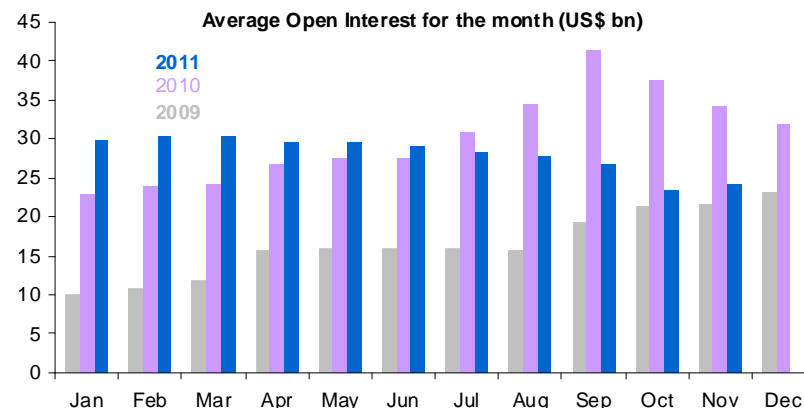
### Options to Total Trading

Sharp pick up in share of options trading



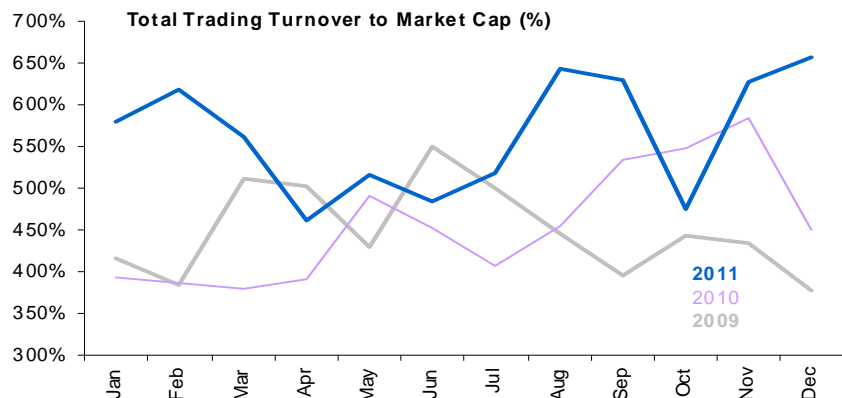
### Open Interest

Falls through the year



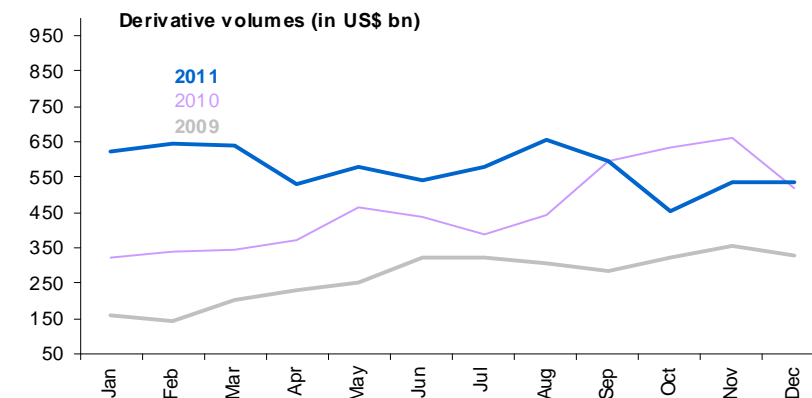
### Total Turnover / Market Cap

At record levels



### Derivatives Turnover

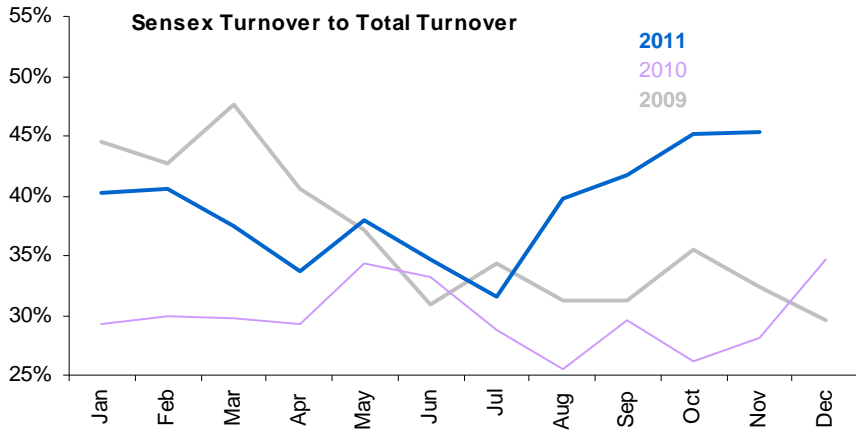
Remain high



## Breadth in '11: Breadth as Bad as It Gets

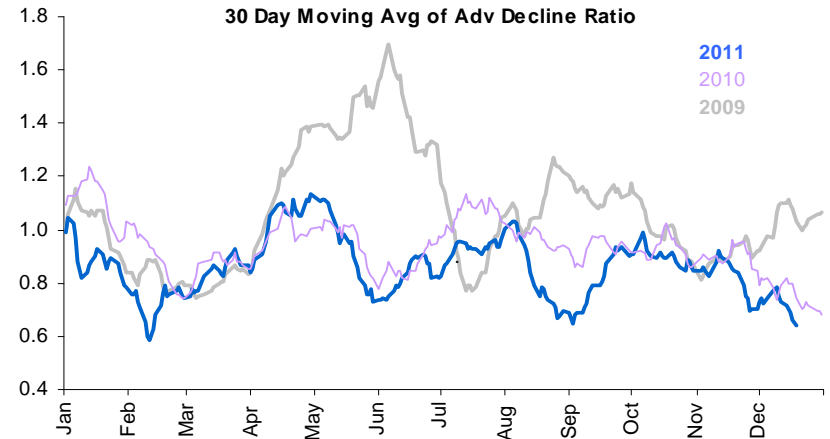
### Sensex Turnover Share in Total Turnover

Rose to a 3-year high



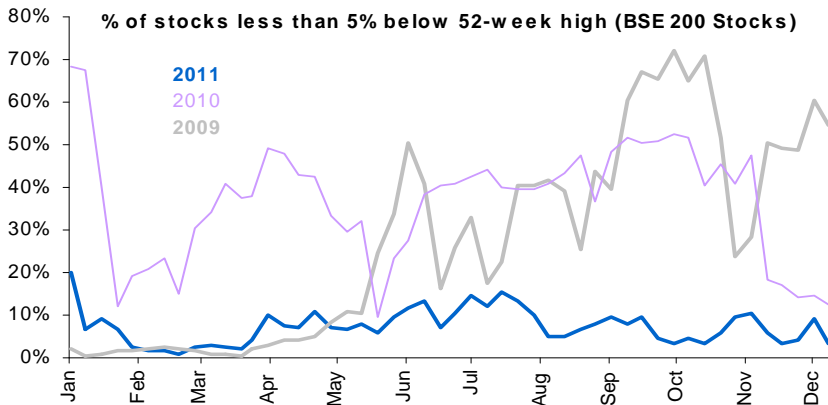
### Market Breadth

Weakened in 2011



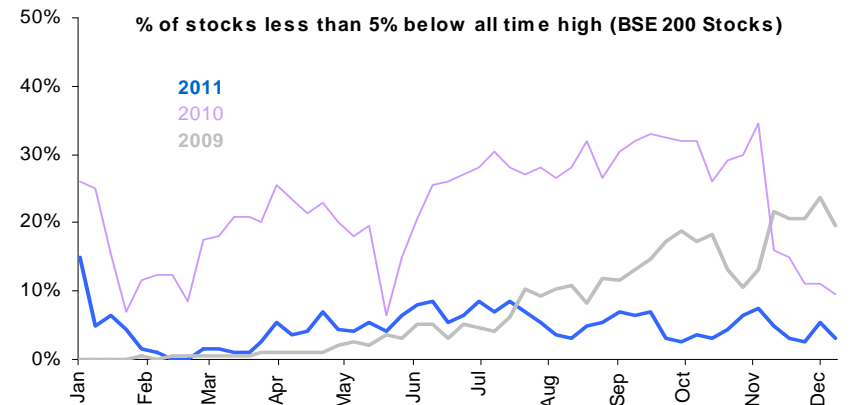
### Stocks Closer to their 52-week highs

Less than 5% of the BSE 200 stocks close to their 52-week highs



### Stocks closer to their all-time high levels

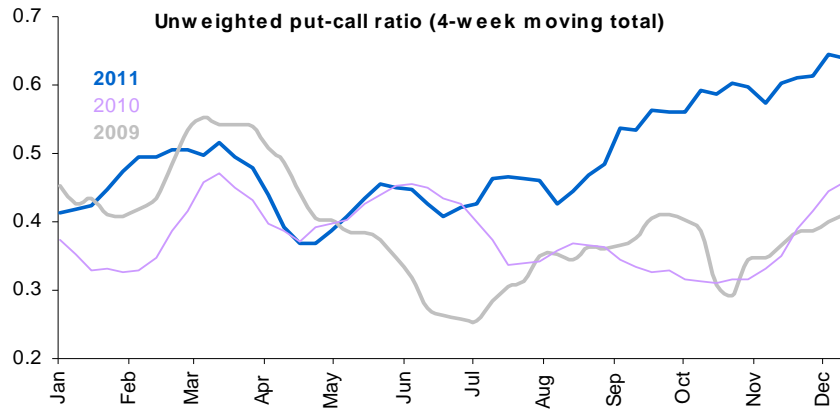
Less than 5% of the BSE 200 stocks close to their all-time highs



## Volatility in '11: Hedging Activity at Record levels

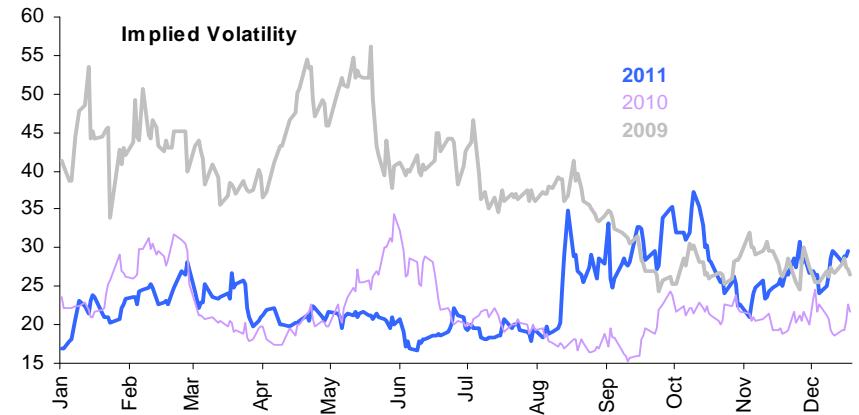
### Put-call Ratio

Hedging activity at a decade High



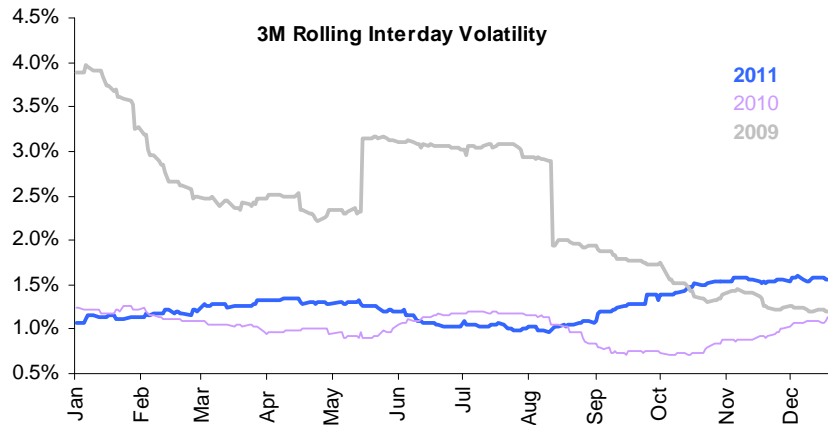
### Implied Volatility

Implied volatility rises in the second half of the year



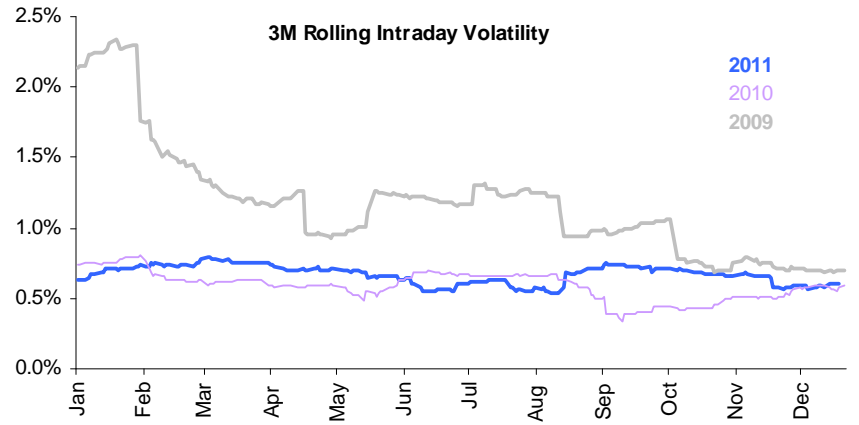
### Interday Volatility

Rises during the year



### Intraday Volatility

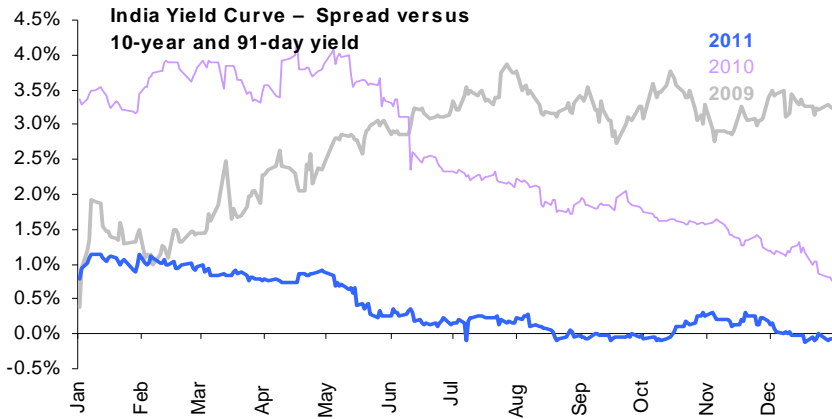
Flat YoY



## Interest Rates in '11: Yield Curve Inverts, Deposit Rates Remain at Peak Levels

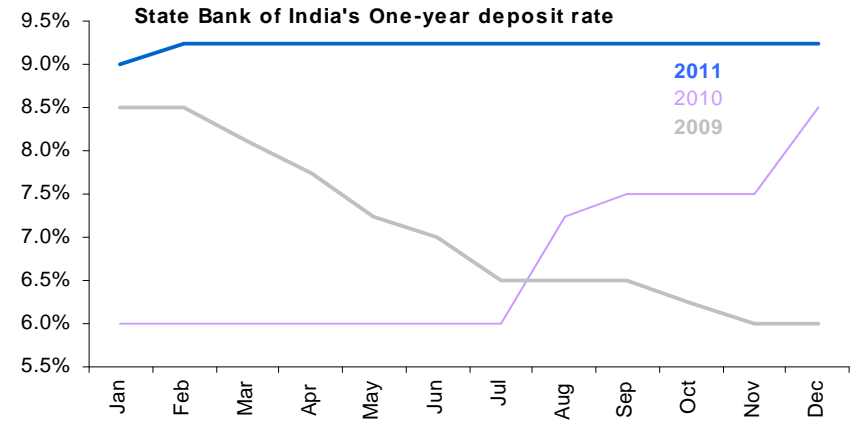
### Yield Curve

Inverts during the year



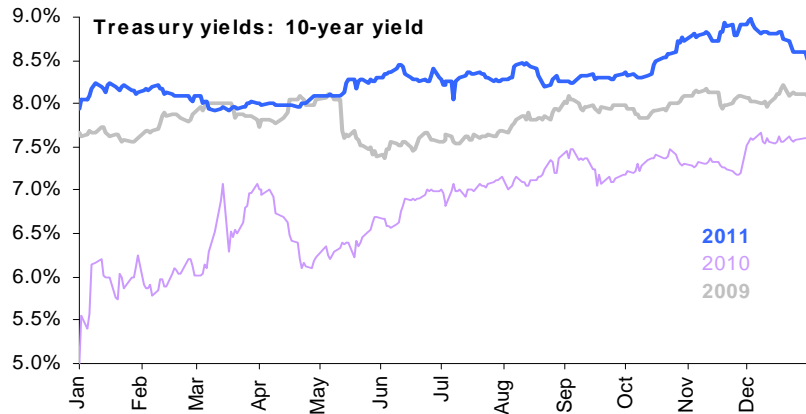
### Deposit Rates

At peak levels



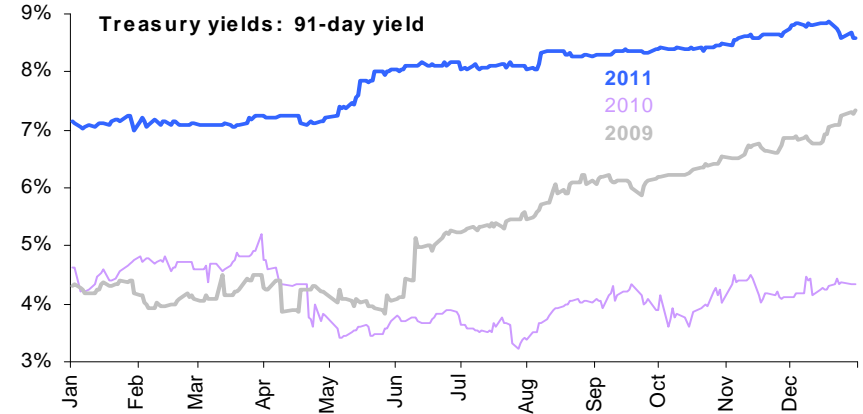
### 10-year yields

At a 3-½ year high



### 91-day yields

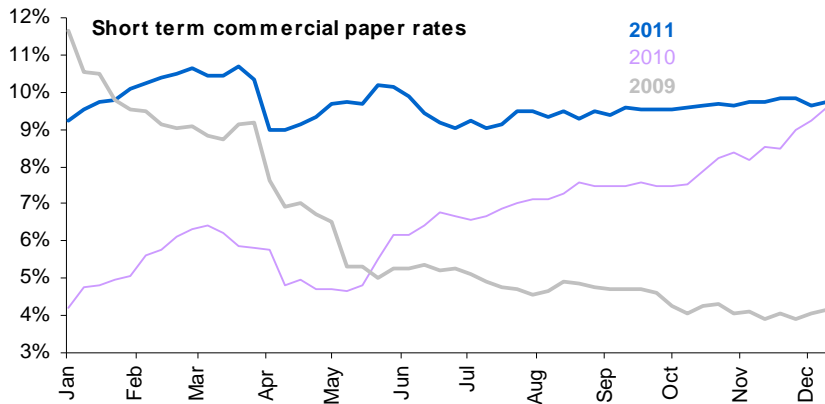
At a 3-½ year high



## Interest Rates: Rate Hike Cycle Continues through 2011

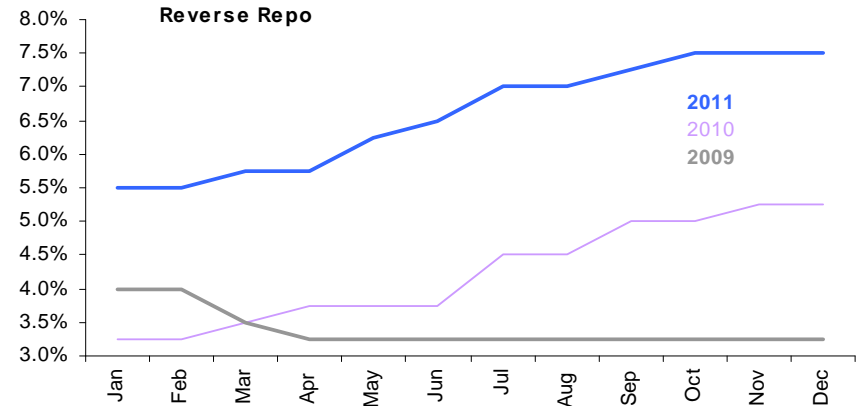
### Commercial Paper Rates

Remain above 2009 and 2010 levels



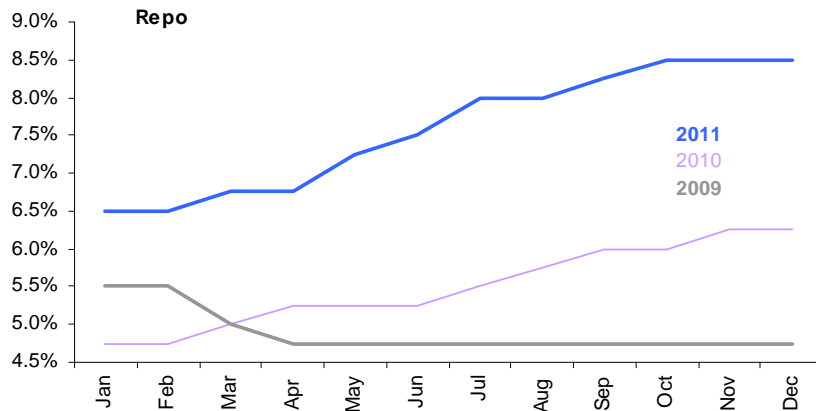
### Reverse Repo

Hiked by 225 bps through the year compared with 200bps in 2010



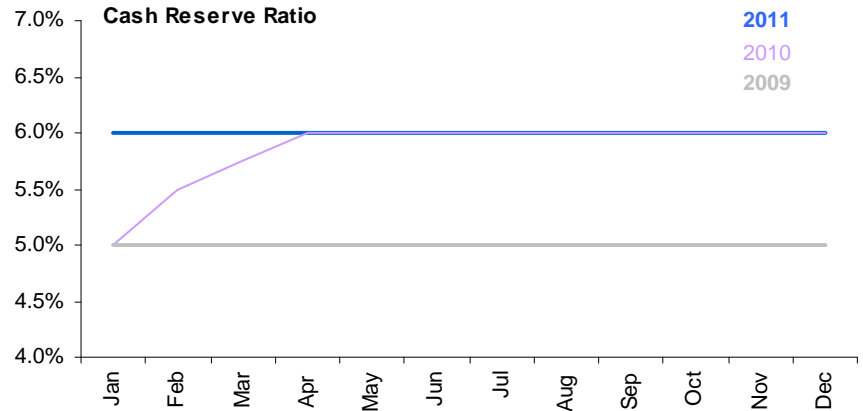
### Repo Rate

Hiked by 225 bps through the year compared with 200 bps in 2010



### CRR

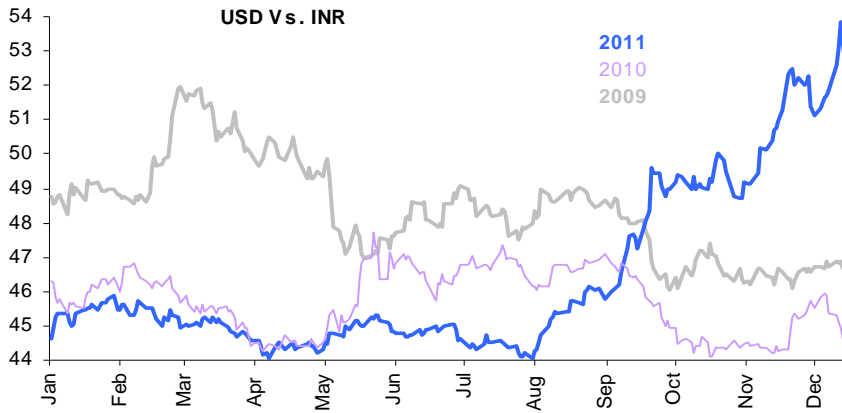
On hold since April 2010



## Currency Market in '11: INR Falls to Record Lows

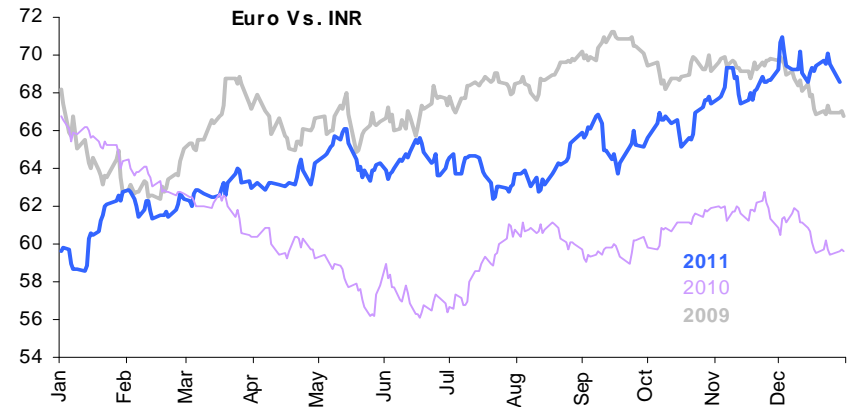
### USD/INR

Touches an all-time low in 2011



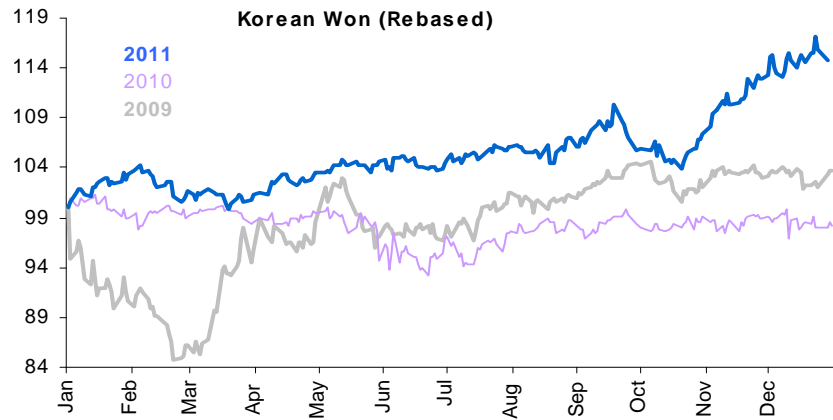
### Euro/INR

Approaching lows of 2009



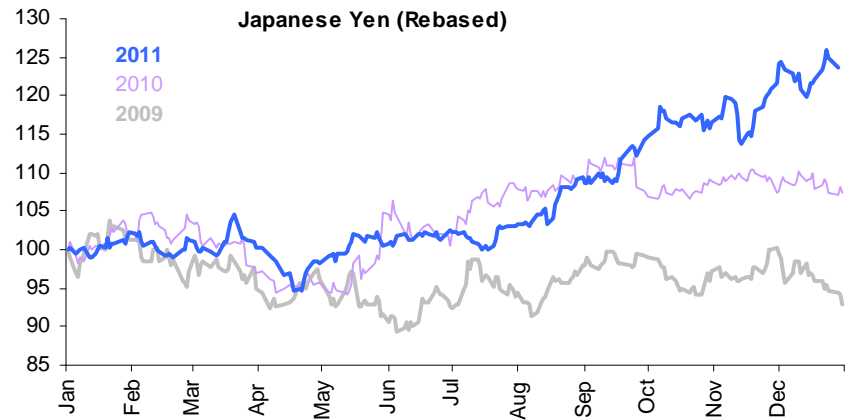
### INR/Korean Won

Appreciates against the INR



### INR/Yen

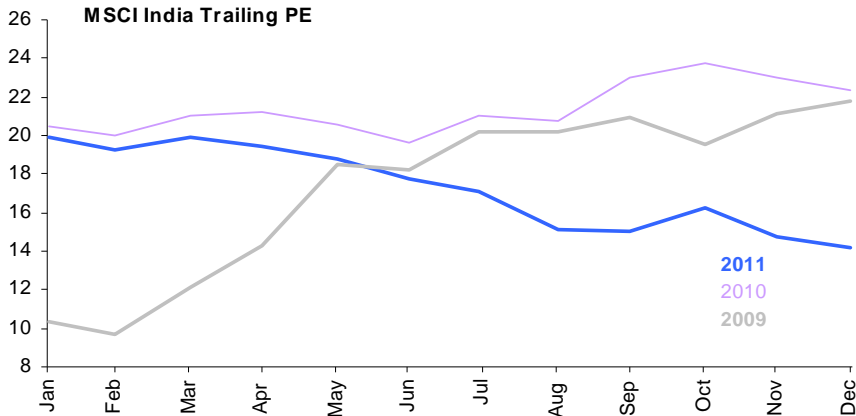
Appreciates against the INR



## Valuations in '11: De-rating is the Theme

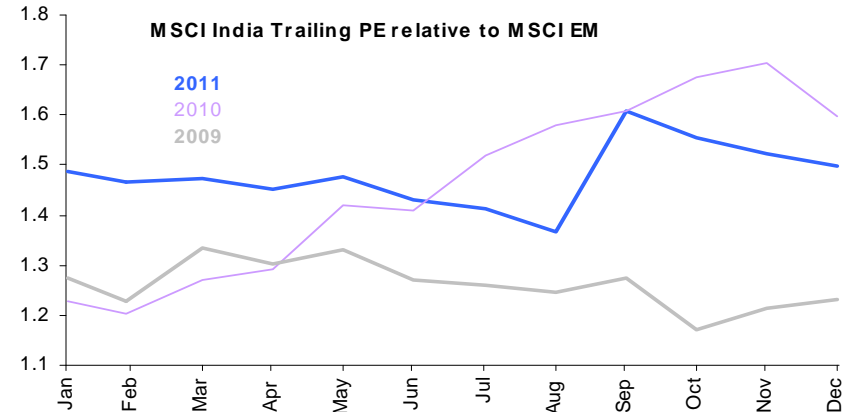
### Absolute Valuations

At early 2009 levels



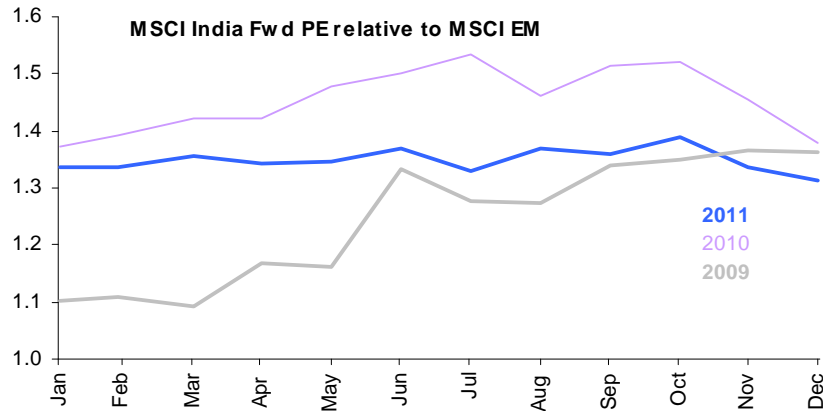
### Relative Valuations: Trailing P/E

Below 2010 levels but above 2009 levels



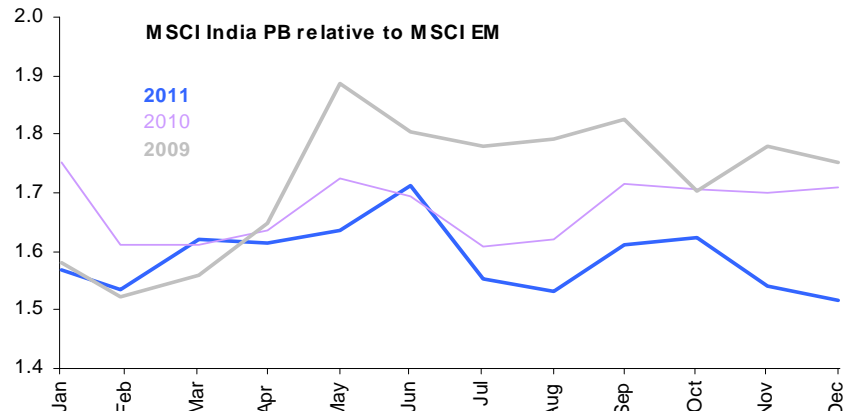
### Relative Valuations: Forward P/E

Below 2010 and 2009 levels



### Relative Valuations: Trailing P/B

Below 2010 and 2009 levels



## Valuations: De-rating Across Sectors

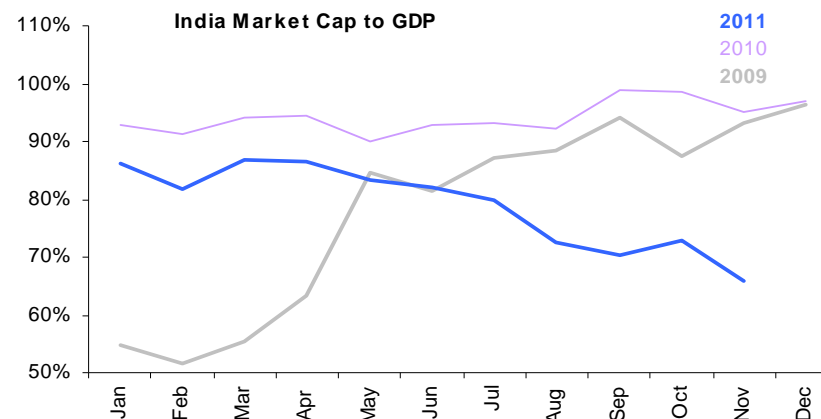
### Valuation Multiples

Premiums fall during the year

	2011			2010			2009		
	India	EM	Relative	India	EM	Relative	India	EM	Relative
PE	14.2	9.5	1.5	22.4	14.0	1.6	21.8	17.7	1.2
12M Fwd PE	12.2	9.3	1.3	16.1	11.7	1.4	17.3	12.7	1.4
PB	2.3	1.5	1.5	3.6	2.1	1.7	3.8	2.2	1.8
Div Yield	1.5%	3.0%	-1.5%	0.9%	2.1%	-1.2%	0.9%	2.0%	-1.1%
ROE	16.4%	16.2%	0.2%	15.9%	14.8%	1.1%	17.3%	12.2%	5.1%

### Market Cap/ GDP

At 08-09 levels



### Sectoral Valuations

Consumer disc. sees the most fall

Price to Earnings	Change YoY	Dec-11	Dec-10	Dec-09
Consumer Discretionary	-48%	9.6	18.7	19.8
Consumer Staples	-11%	28.3	31.8	29.7
Energy	-30%	13.0	18.5	20.1
Financials	-43%	13.8	24.1	25.5
Healthcare	-7%	25.6	27.5	41.9
Industrials	-46%	13.1	24.3	32.7
Technology	-31%	20.8	30.1	20.1
Materials	-44%	9.0	16.0	15.5
Telecom	26%	12.5	10.0	7.8
Utilities	-13%	16.8	19.3	24.4

### Sectoral Valuations

P/B de-rating across sectors

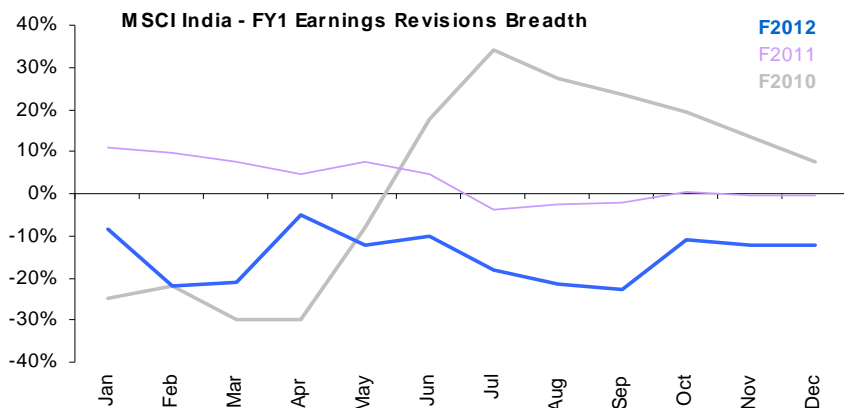
Price to Book	Change YoY	Dec-11	Dec-10	Dec-09
Consumer Discretionary	-37%	3.5	5.6	6.1
Consumer Staples	-4%	9.7	10.1	8.7
Energy	-37%	1.7	2.7	3.2
Financials	-34%	1.9	2.9	2.9
Healthcare	-43%	3.6	6.4	6.4
Industrials	-55%	2.2	4.9	4.9
Technology	-23%	5.9	7.7	6.4
Materials	-48%	1.4	2.6	3.1
Telecom	-53%	0.3	0.7	1.8
Utilities	-37%	1.4	2.3	3.0



## Earnings in '11: Downgrades Across the Board

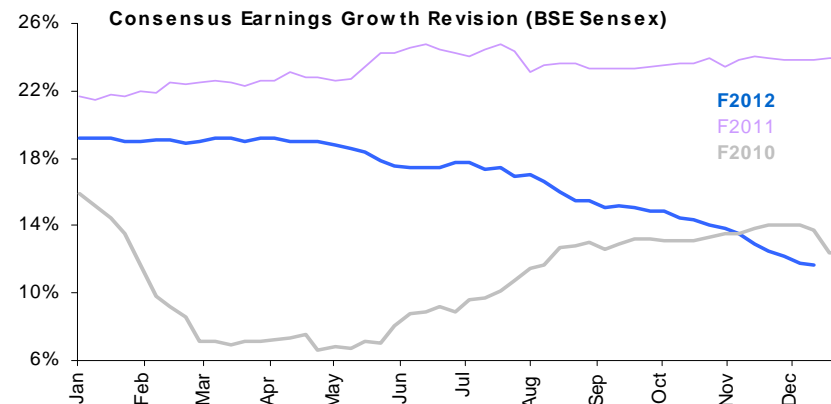
### Earnings Revisions Breadth:

Breadth remains negative in 2011



### Consensus Earnings Growth Revisions

F2012 Earnings revised downwards by c8% YTD



### Earnings Growth Revisions

Downward revisions across sectors except staples and tech

EPS Earnings Growth (MSCI India constituents)				
F12	YoY change	Dec-11	Dec-10	Dec-09
CD	-10%	5%	15%	20%
CS	3%	17%	15%	17%
Energy	-4%	15%	19%	13%
Financials	-17%	10%	27%	22%
Healthcare	-4%	10%	14%	19%
Industrials	-21%	19%	41%	36%
IT	1%	19%	18%	16%
Materials	-23%	0%	23%	24%
Telecoms	-37%	-13%	24%	6%
Utilities	-7%	9%	16%	9%
MSCI India	-11%	10%	22%	19%

### MS Coverage Earnings

Earnings growth of 9% over the past 12 months

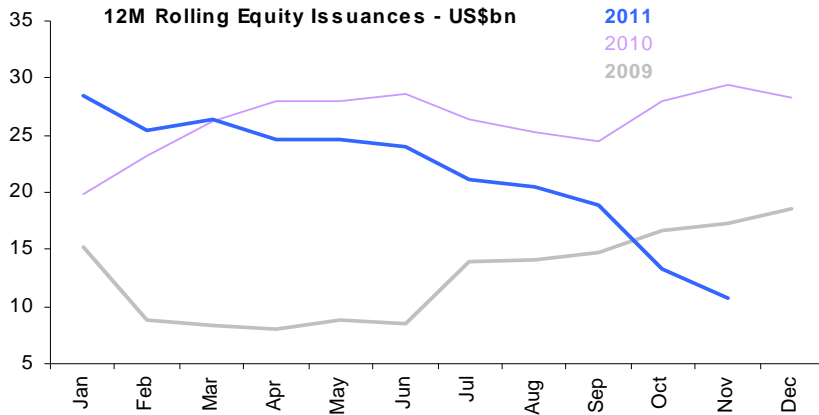
(Rs Million)	2011*	2010*	YoY
<b>Revenues</b>	<b>27,453,693</b>	<b>21,281,767</b>	<b>29%</b>
Operating Profit	4,998,438	4,282,944	17%
<i>Margins</i>	<i>18.2%</i>	<i>20.1%</i>	<i>-1.9%</i>
Other Income	497,751	356,903	39%
Interest	430,069	276,780	55%
Depreciation	1,078,794	877,567	23%
Pre-tax Profit	3,630,148	3,224,655	13%
Tax	1,008,789	843,877	20%
<b>Net Profit</b>	<b>2,537,207</b>	<b>2,352,704</b>	<b>8%</b>
<b>Total Ex-energy Companies</b>			
<b>Revenues</b>	<b>15,770,108</b>	<b>12,920,156</b>	<b>22%</b>
Operating Profit	3,894,724	3,302,308	18%
<i>Margins</i>	<i>24.7%</i>	<i>25.6%</i>	<i>-1%</i>
Other Income	329,860	258,817	27%
Interest	320,164	200,313	60%
Depreciation	656,124	518,626	27%
Pre-tax Profit	2,893,726	2,550,642	13%
Tax	774,352	660,350	17%
<b>Net Profit</b>	<b>2,035,221</b>	<b>1,860,302</b>	<b>9%</b>

Source: FactSet, MSCI, Morgan Stanley Research. Please note Bharti, Idea, Power Finance Corp are added to MSCI India and SAIL, HDIL, and IBREL have been removed effective Dec 1, 2011. Tata Motors. Since Sept. 2011 MSCI has re-classified Tata Motors to Consumer discretionary from Industrials. \* For 12-month period ending September.

# Corporate Activity in '11: Issuances Moderate, M&A Activity Rebounds

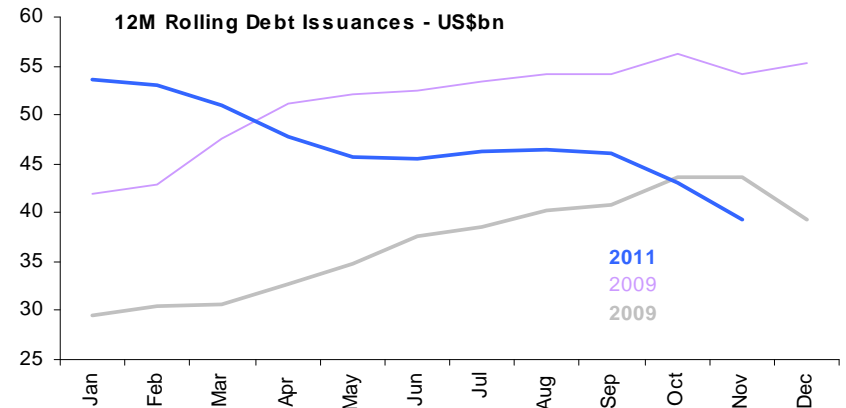
## Equity Issuances

Slows significantly



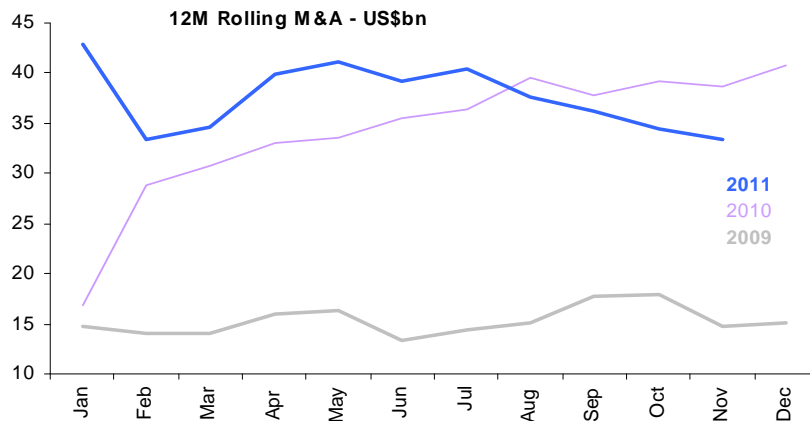
## Debt Issuances

Moderates through the year



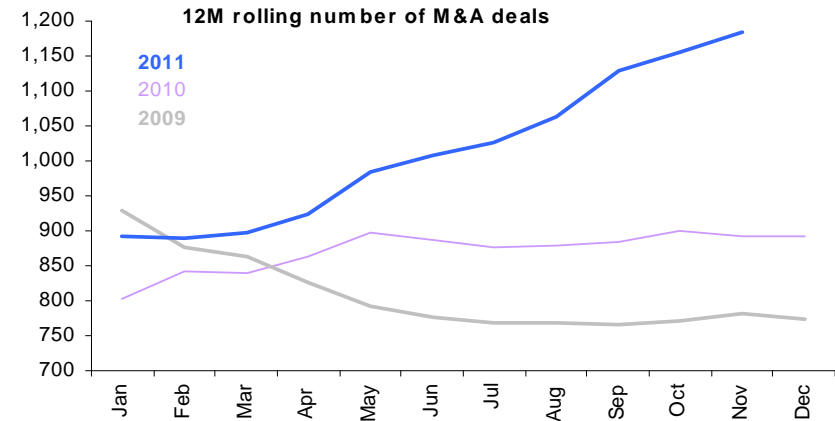
## M&A (in Value)

Moderates during the year



## M&A (in volume)

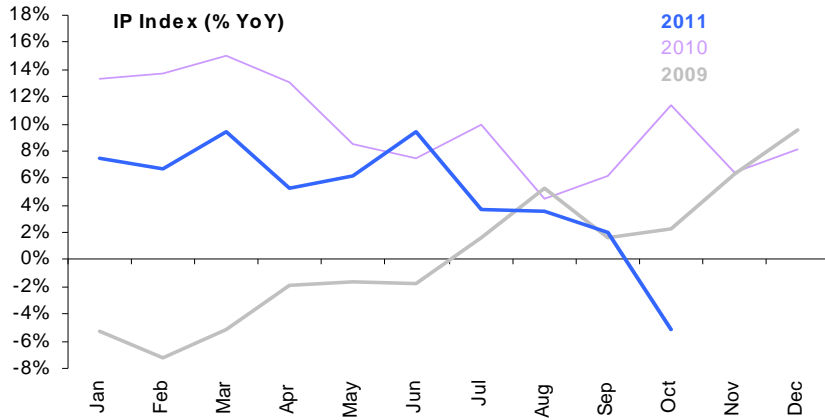
Gains pace



## Macro Indicators in '11: Indicators Worsen

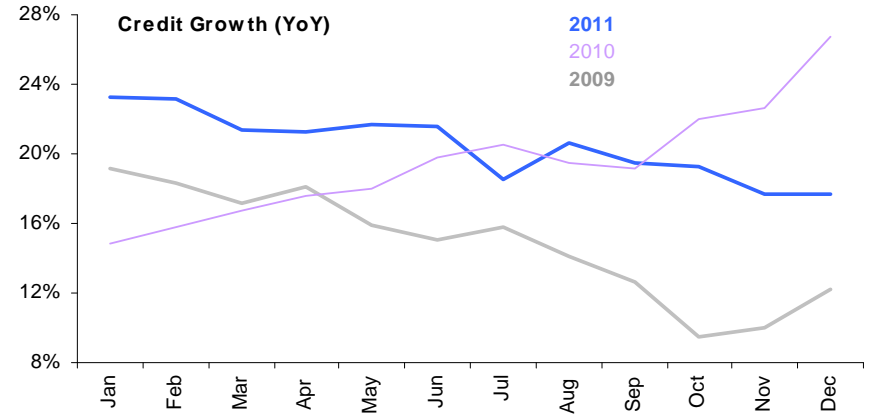
### Industrial Growth

Sharp deceleration



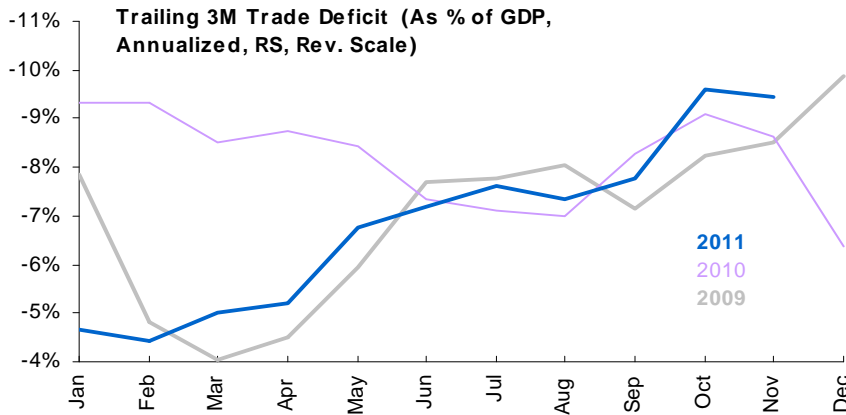
### Credit Growth

Loses momentum



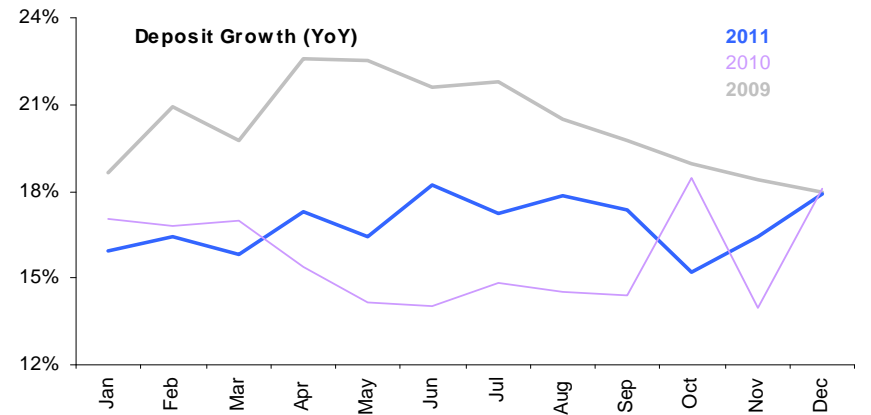
### Trade Balance

Deficit approaching 2009 levels



### Deposit Growth

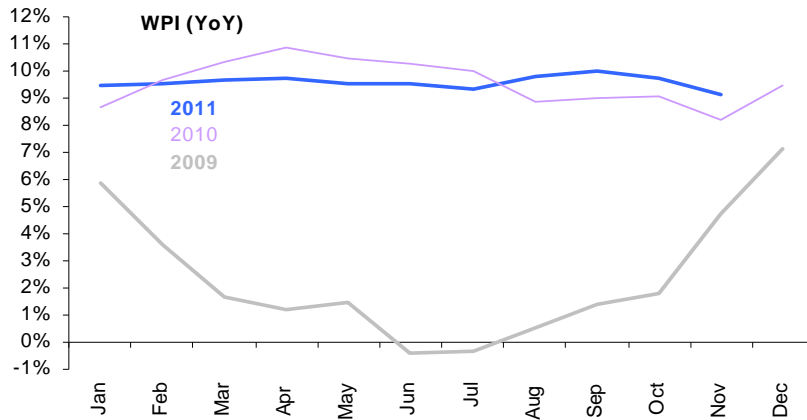
Mixed bag



## Macro Indicators in '11: Deteriorate Through the Year

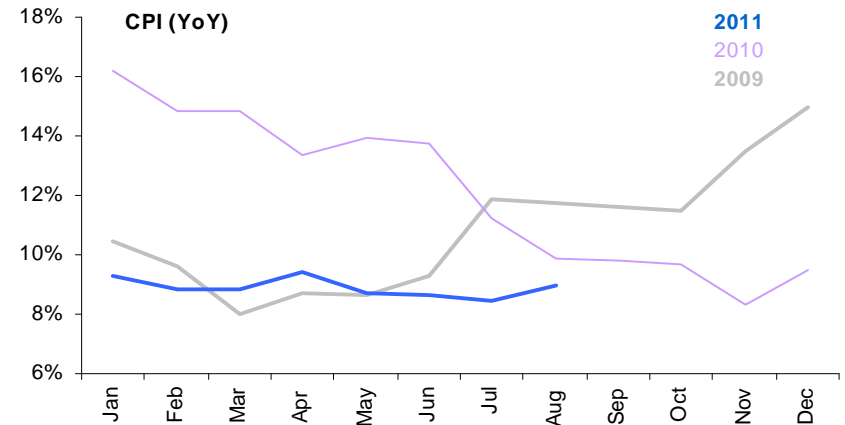
### WPI

Remains at elevated levels



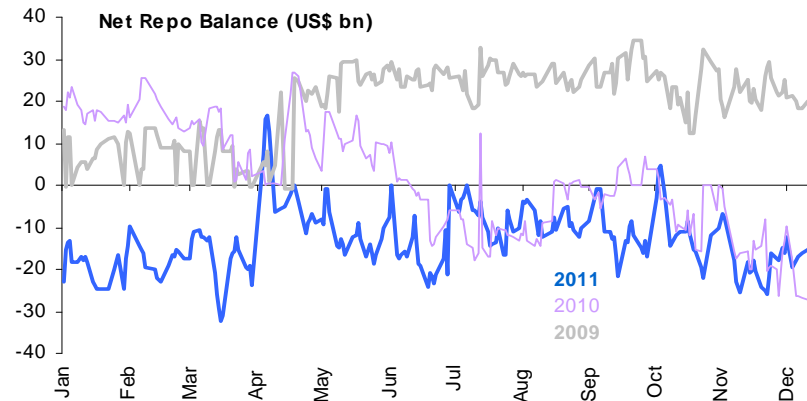
### CPI

Decelerates but remains high



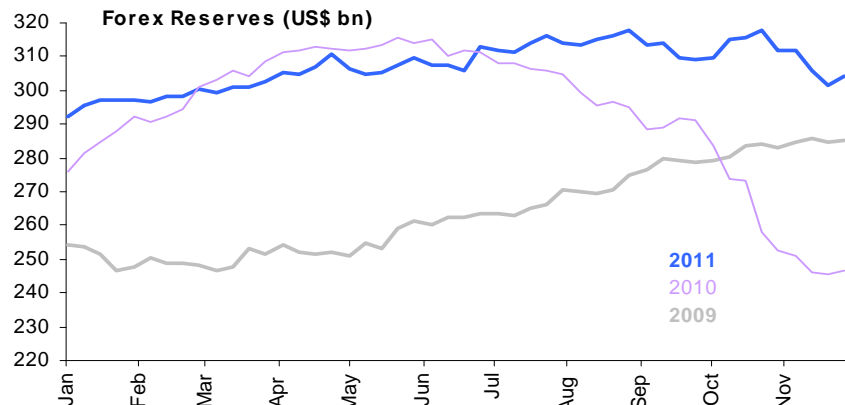
### Trend in Inter-bank Liquidity

Remain tight



### Forex Reserves

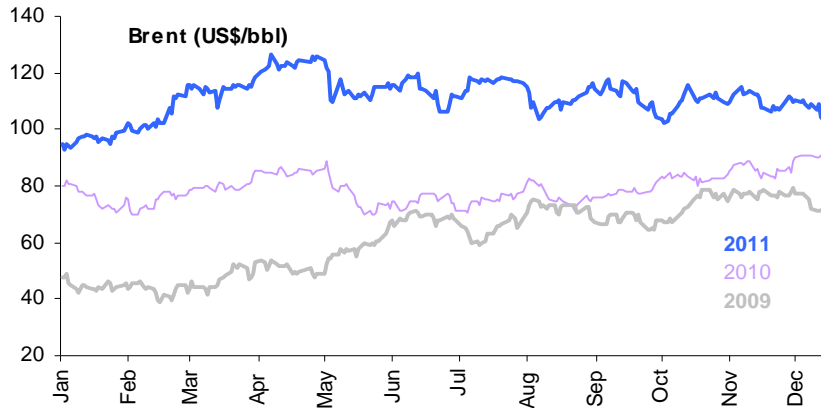
At record levels



## Macro Indicators in '11: Gold and Corn Prices Touch Record Highs During 2011

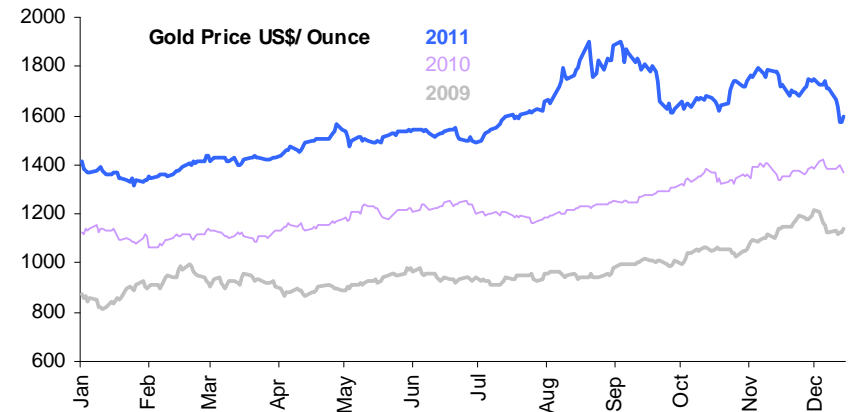
### Brent

Remains above US\$100/bbl for most of 2011



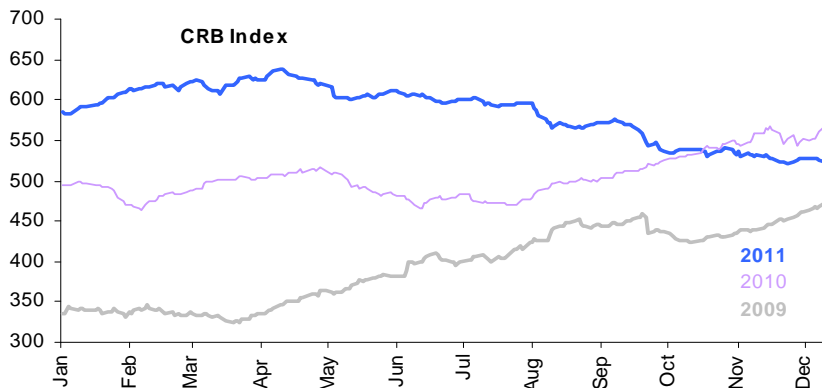
### Gold

Touches life high in 2011



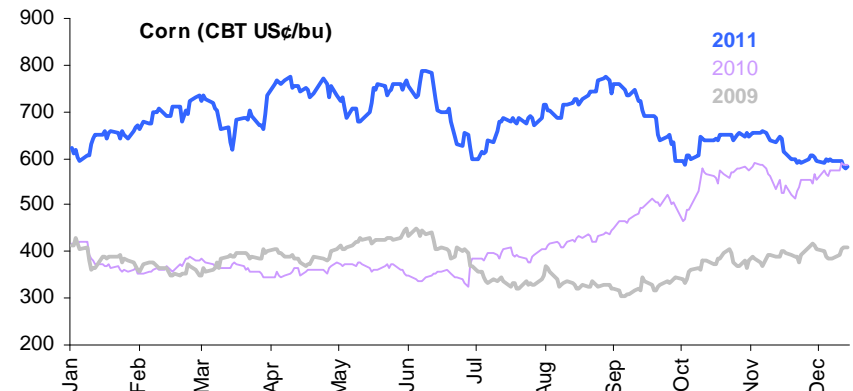
### CRB Index

Drops in 2011

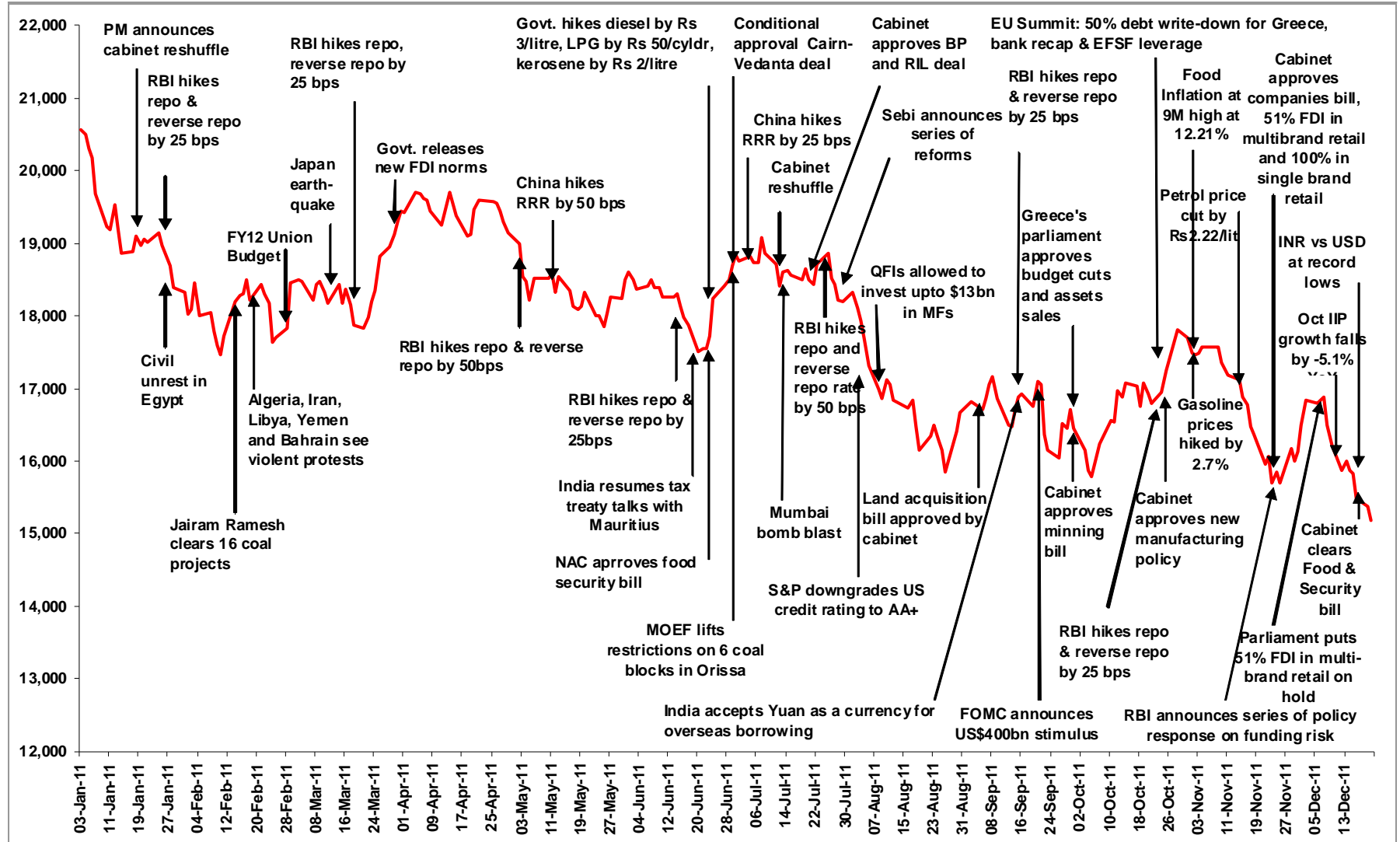


### Corn

Touches life high in 2011



## 2011: News Flow and Market Performance





**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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### Global Stock Ratings Distribution

(as of November 30, 2011)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1109</b>	<b>39%</b>	<b>453</b>	<b>44%</b>	<b>41%</b>
<b>Equal-weight/Hold</b>	<b>1203</b>	<b>42%</b>	<b>434</b>	<b>42%</b>	<b>37%</b>
<b>Not-Rated/Hold</b>	<b>108</b>	<b>4%</b>	<b>24</b>	<b>2%</b>	<b>22%</b>
<b>Underweight/Sell</b>	<b>422</b>	<b>15%</b>	<b>122</b>	<b>12%</b>	<b>29%</b>
<b>Total</b>	<b>2,842</b>		<b>1033</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.

### Analyst Stock Ratings

**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.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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