

February 17, 2012

QUARTERLY EARNINGS SEASON

India Strategy

Earnings Final Cut: Bad Earnings, Subtle Surprises

What surprised during the earnings season?

- Revenue growth accelerated QoQ across the board.
- Earnings surprise ratio improved for the second quarter in a row with 50% of the MS coverage companies reporting ahead of expectations. 42% of them beat expectations by 5% or more – a 4ppt improvement vs. the previous quarter.
- Bulk of the magnitude of the negative surprise in earnings was accounted for by materials companies. Ex-materials, earnings were in line with expectations.
- The pace of downward earnings revisions breadth has slowed down and, for the first time ever, led the index performance on the upside.
- The second order derivative of EBITDA margin change was positive with a seasonal QoQ improvement. Gross margins also went higher.
- Ex-forex adjustments, profits for MS coverage companies (ex-oil PSUs) would have been 5ppt higher than reported.
- Of the 31 companies to have given guidance for the current quarter, 14 were positive while 7 were negative.

Quarterly Earnings for QE Dec-11 Snapshot

YoY Earnings growth	Q4F11	Q1F12	Q2F12	Q3F12E*	Q3F12A
MS coverage	10%	11%	-6%	5%	18%
MS coverage ex-oil psu	17%	13%	6%	8%	4%
Broad Market	18%	9%	-23%	-	1%
Broad Market ex-oil psu	21%	10%	-3%	-	-5%
BSE Sensex	4%	9%	15%	3%	1%

Source: Company data, Capitaline, Morgan Stanley Research

E = Morgan Stanley analyst estimates for 118 companies so far reported

A = Actual earnings for the quarter for 118 companies so far reported

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BROAD MARKET DATA ON EARNINGS*

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Key Takeaways from the December-11 quarter

Narrow market earnings (ex-oil psu) leads broad market earnings (ex-oil psu) for the 2nd quarter running

- **The set of 1113 companies**, for which we track long-term quarterly earnings data, reported an acceleration in revenue growth at 27% YoY. However, breadth of revenue performance saw a mild weakening.
- EBITDA margins rose to a 3-quarter high. The second order derivative of EBITDA change was positive and seasonally adjusted margins rose more than 100 bps QoQ.
- Net profit (ex-oil PSU) fell for the second quarter running, down 5% YoY.
- Profits fell across market segments. Smaller companies reported weaker earnings than the larger companies.
- For the 3000+ companies (which we track during the earnings seasons), revenues grew 21% YoY and profits fell 5% YoY.
- **For the MS coverage universe**, top-line growth accelerated even as bottom line growth decelerated. Revenue growth rose 21% YoY while earnings growth fell to a 9-quarter low, down 2.5% YoY. Margins contracted for the 5th consecutive quarter.
- Capital costs fell during the quarter. Interest cost to sales were off highs and depreciation costs fell to a 3-year low.

- Seven out of 10 sectors reported compression in margins. Consumer Staples, Healthcare and Technology beat this overall declining margin trend.
- Profits grew the most for Healthcare followed by Technology even as Telecoms continued to see another quarter of falling earnings.
- Industrials, Materials and Telecoms were the three sectors that reported falls in earnings.

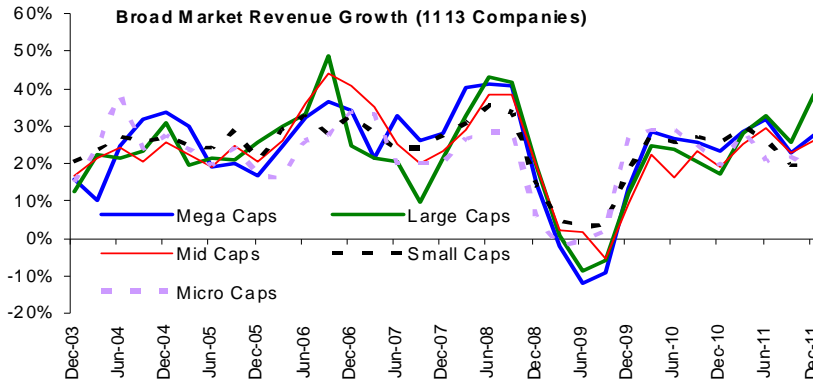
Earnings relative to expectations

- Earnings (ex-oil psu) growth for the MS coverage universe lagged analysts' expectations by 3ppt with Materials and Telecoms accounting for most of the aggregate miss.
- The earnings surprise breadth improved for the second successive quarter as the Technology sector saw the most beats while Consumer Discretionary saw the most misses.
- Sensex companies earnings continued to exhibit volatility driven by one or more companies. Profit growth was 1% YoY but excluding Tata Steel and ONGC, earnings were up 13% YoY.
- The top 5 misses in the Sensex came from Tata Steel, DLF, Sterlite, Bharti and Cipla while the top 5 beats were JPA, Tata Motors, Sunpharma, ICICI Bank and Bajaj Auto.

Charts That Surprised During the Earnings Season

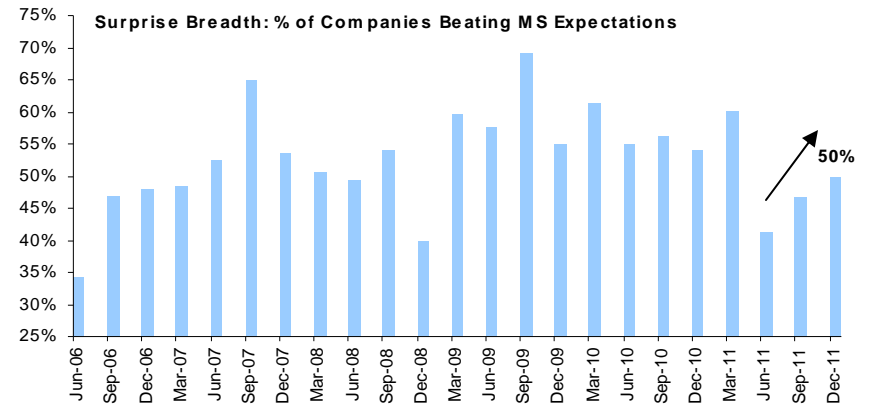
Revenue Growth Trends

Accelerate across market segments – ahead of expectations!



Earnings Breadth Surprise

Improving earnings surprise



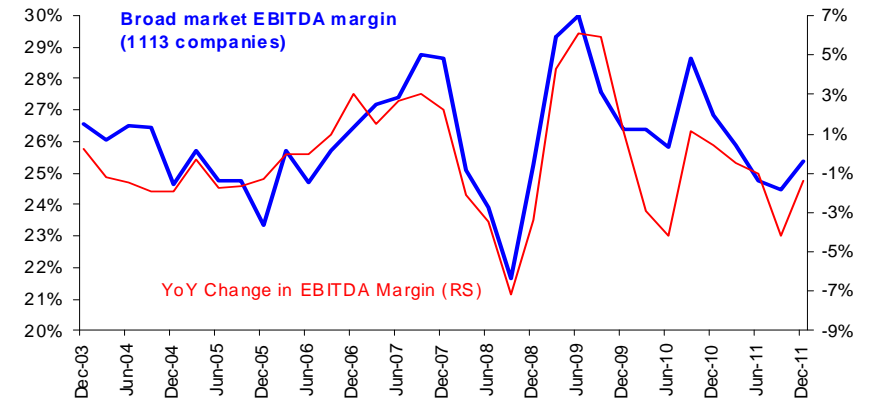
Earnings Revision Breadth

Pace of negative earnings revision breadth reduces rapidly



Broad Market Margins

Second order derivative of EBITDA margin change shows uptick



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

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

Revenue Growth:
26%YoY for MS coverage and 25% YoY for the Broad Market

Sector Profit Growth:
Healthcare leads the pack while Telecoms lag

EBITDA Margins:
Compression across 7 sectors

# Cos Rptd earnings	#Cos beating earnings expectations	MS Coverage	YoY change				MS Estimates				Actuals			
			Sales	EBITDA	Net Profit	EBITDA Margins	Sales	EBITDA	Net Profit	EBITDA Margins	Chg in EBITDA Mrgn (bps)	NP Growth vs. MS estimates		
16	4	Cons. Disc.	23%	12%	6%	13%	25%	21%	13%	14%	(52)	7%		
8	5	Cons. Staples	15%	20%	18%	23%	17%	20%	21%	23%	69	4%		
4	1	Energy	35%	0%	16%	16%	37%	-5%	9%	15%	(649)	-7%		
5	4	Oil PSU	12%	-8%	-10%	9%	30%	57%	98%	14%	237	108%		
27	16	Financials	10%	9%	5%	55%	10%	9%	6%	56%	(35)	1%		
6	3	Healthcare	22%	49%	38%	25%	26%	71%	48%	28%	749	10%		
14	5	Industrials	26%	14%	-1%	16%	27%	10%	-3%	16%	(233)	-2%		
14	7	Materials	9%	0%	-2%	18%	16%	-4%	-24%	16%	(347)	-22%		
10	7	Technology	31%	33%	22%	26%	32%	34%	24%	26%	46	2%		
5	2	Telecom	14%	15%	-17%	32%	16%	12%	-28%	31%	(88)	-11%		
9	5	Utilities	28%	22%	7%	25%	35%	16%	6%	22%	(360)	-1%		
118	59	Total (MS Cov)	19%	8%	5%	19%	26%	17%	18%	20%	(144)	12%		
114	58	Total ex-oil psu	21%	11%	8%	23%	24%	10%	4%	22%	(283)	-3%		
114	58	Total ex-Energy	16%	9%	3%	20%	24%	20%	19%	21%	(64)	15%		
109	54	Total ex-oil psu and ex-Energy	18%	13%	6%	25%	21%	13%	3%	24%	(186)	-3%		
100	51	Total ex-oil psu and ex-Materials	24%	13%	9%	24%	26%	12%	9%	24%	(280)	0%		
109	56	Total ex-oil psu and ex-Telecom	22%	11%	9%	22%	24%	10%	5%	22%	(292)	-3%		
30	15	Sensex	21%	3%	3%	22%	23%	3%	1%	21%	(409)	-2%		
29	15	Sensex ex-oil psu	23%	12%	13%	20%	26%	8%	8%	19%	(320)	-5%		
3216		Broad market					25%	13%	1%	19%	(199)			
3209		Broad Market Ex-Oil PSU					21%	11%	-5%	21%	(205)			

Earnings Beat:
Surprise breadth (at 50%)

Sensex Profit Growth:
up 1% YoY, 2ppt behind of expectations. Ex-ONGC and Tata Steel, earnings up 13% YoY – 2ppt behind expectations

Broad Market (ex-oil psu): earnings fall 5%

Aggregate Earnings (ex-oil psu): up 4% YoY, 3ppt behind expectations

NP Growth vs MS Est: leads in 6 out of 11 sectors

Snapshot of the Broad Market Earnings: Across Market Capitalization Segments

Based on market cap	Market cap range	Number of Companies Reported	Revenue Growth	Ebitda Growth	Net profit Growth	Ebitda Margins for QE-Dec 11	Change in Ebitda margins	Contribution to Aggregate Net Profit	Contribution to Aggregate Market Cap
Mega Caps	More than US\$5bn	58	25%	14%	9%	23%	(223)	67%	68%
Large Caps	Betw een US\$ 2bn and US\$ 5bn	44	37%	21%	7%	20%	(263)	12%	11%
Mid Caps	Betw een US\$ 250mn and US\$ 2bn	289	24%	19%	3%	18%	(81)	19%	17%
Small Caps	Betw een US\$ 50mn and US\$ 250mn	392	19%	-12%	-58%	11%	(394)	2%	3%
Micro Caps	Betw een US\$ 25mn and US\$ 50mn	224	18%	-11%	-52%	10%	(309)	1%	1%
Nano Caps	Less than US\$ 25mn	2209	5%	-19%	NM	8%	(249)	-1%	1%
Broad Market		3216	25%	13%	1%	19%	(199)	100%	100%
Broad Market (ex-oil PSU)		3212	21%	11%	-5%	21%	(205)	84%	93%

Revenue Growth: Strong across the cap curve except for Nano caps.

Change in EBITDA Margins: Margin compression continues

Net Profit Growth: Weak down the cap curve

EBITDA Margins: Least compression for mid-caps, maximum for micro caps

Sample Size: represents almost 100% of India's market cap

Nano Caps: 2/3rd of the broader market companies are nano caps (accounting for just 1% of the total market cap) which exhibit most volatility in earnings growth

EBIDTA Growth: Large- and mid-caps report the strongest growth

Snapshot of the Sector-Wise Earnings: Across Market Capitalization Segments

Sample of 3219 companies classified under 10 sectors and market cap segments

YoY Change	No of Companies	Net Sales	PBIDT	PAT	EBITDA Margin	Change in EBITDA Margin
Consumer Discretionary						
Mega Caps	5	29%	29%	18%	14%	-2
Large Caps	4	10%	-12%	-11%	21%	-515
Mid Caps	42	24%	12%	-19%	13%	-143
Small Caps	89	22%	-15%	NM	10%	-426
Micro Caps	61	19%	-27%	-73%	7%	-472
Nano Caps	466	5%	-35%	NM	7%	-419
Aggregate	667	23%	7%	-15%	12%	-183
Consumer Staples						
Mega Caps	3	16%	20%	20%	29%	120
Large Caps	7	30%	31%	23%	18%	6
Mid Caps	18	14%	9%	16%	13%	-53
Small Caps	30	11%	-18%	-54%	8%	-276
Micro Caps	13	26%	11%	0%	8%	-103
Nano Caps	154	-1%	-47%	NM	4%	-330
Aggregate	225	14%	10%	7%	15%	-55
Energy						
Mega Caps	6	35%	8%	8%	17%	-422
Large Caps	3	54%	148%	428%	6%	241
Mid Caps	7	37%	113%	342%	8%	299
Small Caps	9	5%	3%	-42%	28%	-60
Micro Caps	2	-13%	-18%	-41%	35%	-210
Nano Caps	21	28%	19%	NM	9%	-67
Aggregate	48	39%	21%	32%	13%	-201
Financials						
Mega Caps	10	10%	20%	18%	61%	531
Large Caps	12	13%	15%	-4%	69%	146
Mid Caps	63	17%	22%	-1%	62%	274
Small Caps	33	14%	-13%	-43%	37%	-1130
Micro Caps	18	16%	-6%	-35%	49%	-1107
Nano Caps	527	7%	6%	-24%	32%	-32
Aggregate	663	13%	19%	6%	61%	337
Health Care						
Mega Caps	3	34%	81%	70%	33%	862
Large Caps	2	21%	17%	0%	21%	-61
Mid Caps	18	24%	-4%	-29%	19%	-547
Small Caps	20	18%	-11%	-52%	14%	-459
Micro Caps	13	29%	11%	-12%	14%	-222
Nano Caps	103	-1%	-42%	NM	6%	-415
Aggregate	159	23%	18%	0%	21%	-94

Key Sector Standouts

- All sectors reported robust double digit revenue growth except for some scattered weakness in the micro- and nano-cap space.
- Materials and Consumer Discretionary companies have seen profits fall at the Ebitda level across market cap segments.
- Net profit growth has been strongest for mega-cap companies for 6 out of the ten sectors. However, Industrials, Materials, Utilities and Telecom mega caps reported weak earnings.
- Mega-cap companies in the Healthcare, Technology and Consumer Staples companies have reported over 20% YoY growth in earnings.

Snapshot of the Sector-Wise Earnings: Across Market Capitalization Segments Contd.

Sample of 3219 companies classified under 10 sectors and market cap segments

YoY Change	No of Companies	Net Sales	PBIDT	PAT	EBITDA Margin	Change in EBITDA Margin
Industrials						
Mega Caps	6	17%	13%	-2%	11%	-43
Large Caps	4	9%	8%	-1%	26%	-35
Mid Caps	56	19%	2%	-25%	13%	-216
Small Caps	90	20%	-10%	-35%	10%	-340
Micro Caps	50	14%	1%	-32%	12%	-150
Nano Caps	287	7%	3%	NM	8%	-30
Aggregate	493	17%	4%	-17%	12%	-164
Materials						
Mega Caps	13	15%	0%	-13%	20%	-292
Large Caps	3	29%	-15%	-57%	15%	-796
Mid Caps	51	30%	11%	-12%	14%	-243
Small Caps	90	24%	-17%	-60%	11%	-565
Micro Caps	47	18%	-4%	-53%	9%	-200
Nano Caps	464	8%	-17%	NM	7%	-203
Aggregate	668	20%	-2%	-26%	15%	-349
Information Technology						
Mega Caps	4	32%	32%	24%	30%	-4
Large Caps	1	11%	44%	7%	56%	1295
Mid Caps	20	28%	29%	28%	15%	14
Small Caps	26	5%	14%	-63%	13%	104
Micro Caps	18	6%	-19%	-64%	12%	-368
Nano Caps	172	-5%	-19%	NM	9%	-159
Aggregate	241	23%	27%	16%	22%	78
Telecoms						
Mega Caps	2	19%	23%	-22%	31%	86
Large Caps	1	-2%	-3%	-61%	34%	-56
Mid Caps	4	13%	14%	NM	10%	10
Small Caps	2	-4%	-7%	NM	43%	-147
Micro Caps	1	9%	NM	NM	NM	NM
Nano Caps	5	8%	118%	393%	15%	745
Aggregate	15	14%	17%	-80%	28%	49
Utilities						
Mega Caps	6	27%	3%	-2%	27%	-610
Large Caps	7	56%	14%	-67%	21%	-781
Mid Caps	10	10%	13%	-13%	31%	67
Small Caps	4	32%	-9%	NM	8%	-371
Micro Caps	1	-98%	NM	NM	NM	NM
Nano Caps	10	36%	19%	9%	10%	-132
Aggregate	38	31%	6%	-14%	25%	-593
Broad Market Aggregate						
Broad Market	3216	25%	13%	1%	19%	-199

Key Sector Standouts

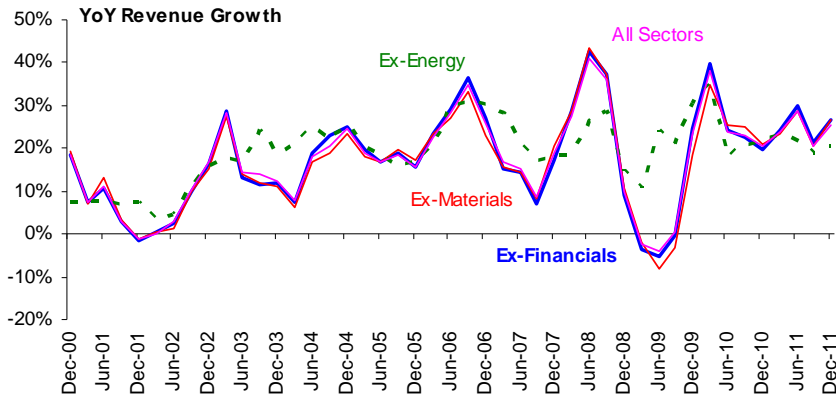
- In the mid-cap segment, Staples and Technology sector companies have seen the fastest earnings growth.
- Five sectors – Consumer disc, Industrials, Materials, Telecoms and Utilities reported a year-on-year fall in earnings in the Dec-quarter.
- Margin expansion seen in 3 out of the ten sectors namely for Financials, Technology and Telecoms.
- Mega-caps in the Staples, Financials, Healthcare and Telecom sectors and Large-and Mid-caps in the Technology and Financials sector reported margin expansion.

Revenue Growth Accelerates, Net Profit Growth Continues to Slow

Trend for MS coverage

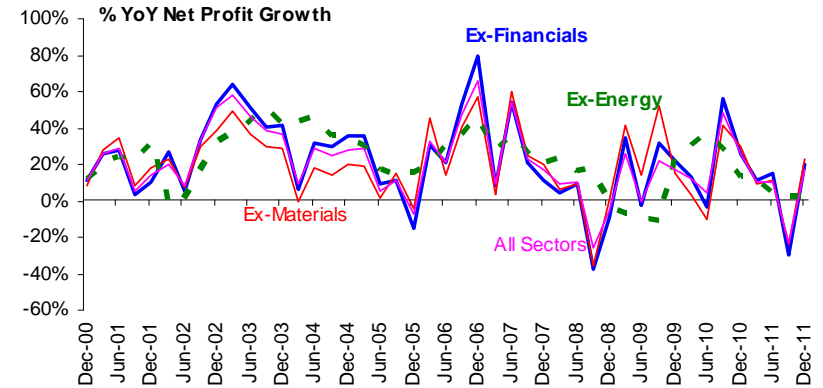
Revenues Growth Ex-Energy

Accelerates to 20.6% YoY



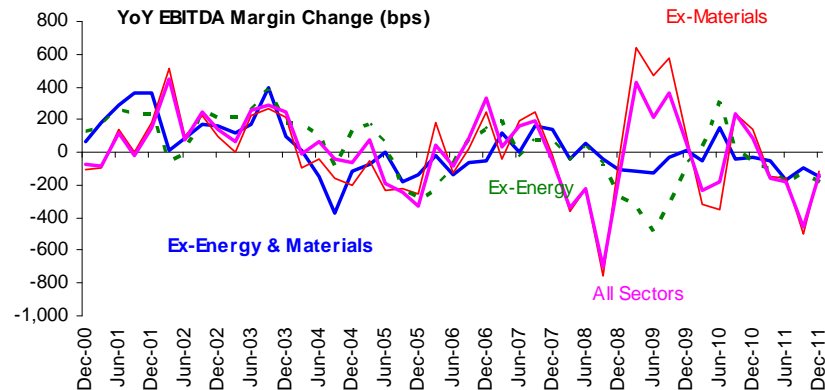
Net Profit Growth (Ex-Energy)

Slows to 9-quarter low – at 2.5% YoY



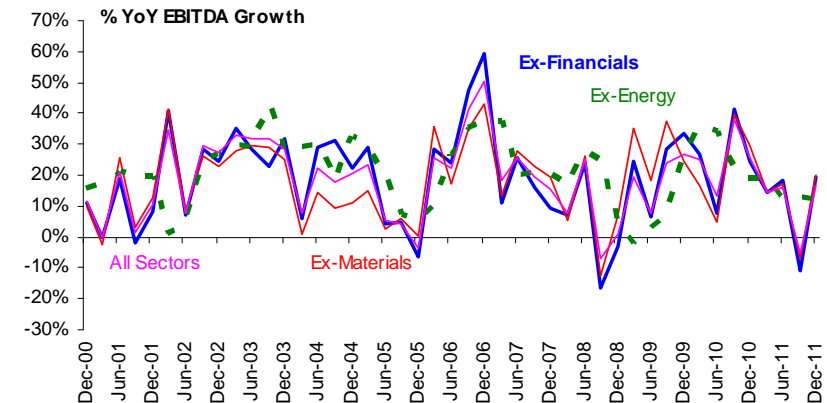
EBITDA Margins (Ex-Energy)

Continue to fall



EBITDA Growth (Ex-Energy)

Slips to a 9-quarter low – at 12.2% YoY

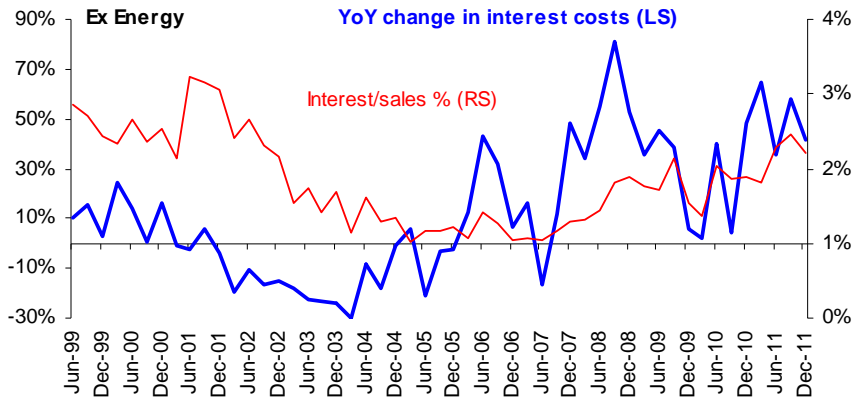


Capital Costs Fall During the Quarter

Trends for MS coverage

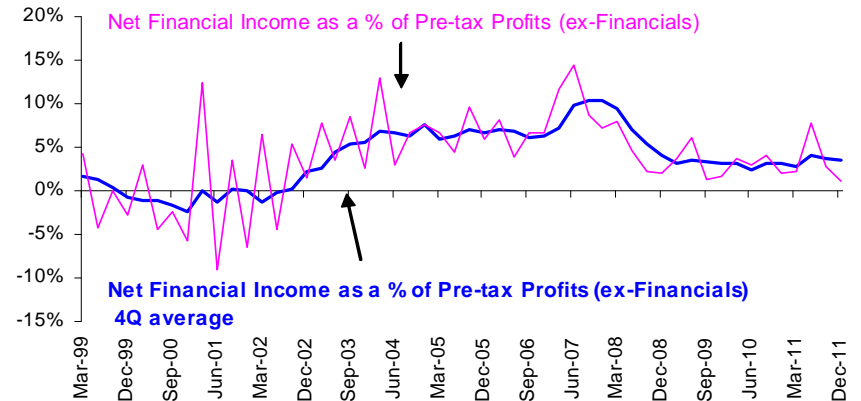
Interest Costs

Interest to sales ratio off highs



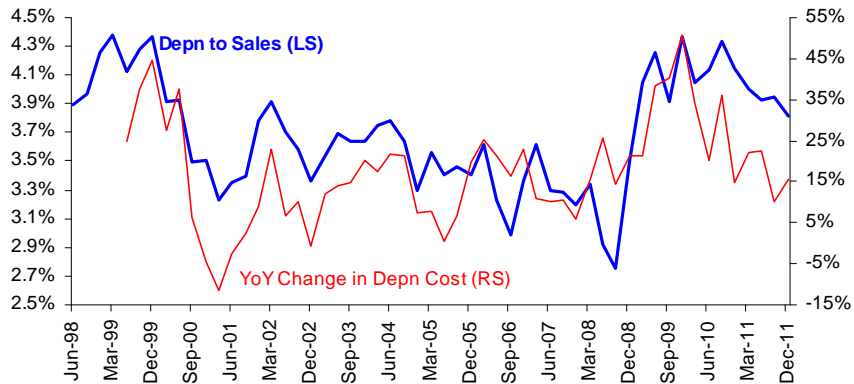
Share of Net Financial Income

Falls for a second consecutive quarter



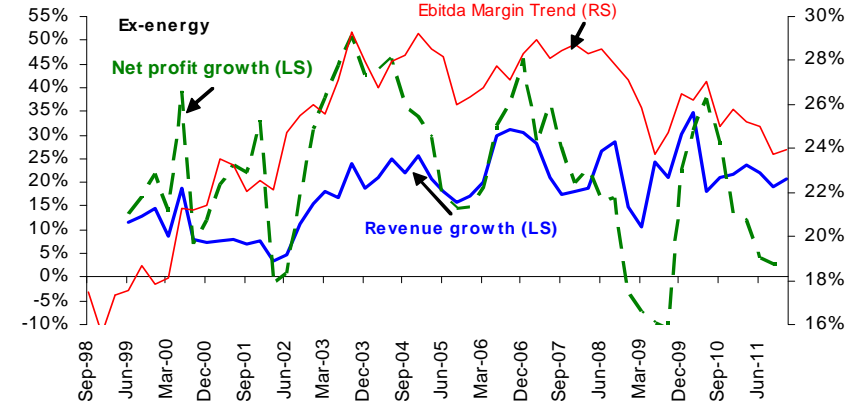
Depreciation Expenses

At a 3-year low



MS Coverage: Quarterly Earnings Snapshot

Revenue growth picks up while earnings growth decelerates

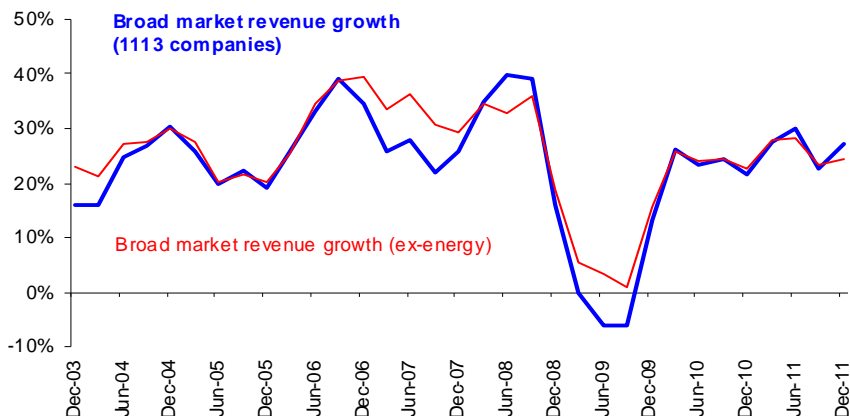


Broad Earnings Revenue Growth Accelerates, Net Profit Continues to Fall

Trend for 1113 companies with time series data

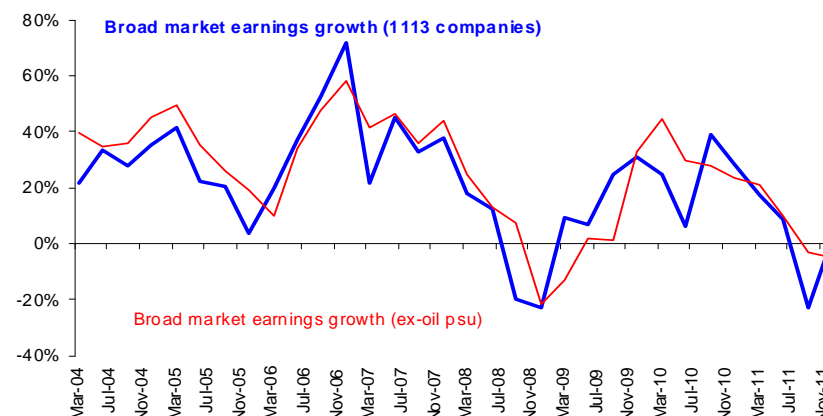
Broad Market Revenue Growth

Rises 27% YoY – accelerates QoQ



Broad Market Net Profit Growth (Ex-Oil PSU)

Earnings growth weakens further



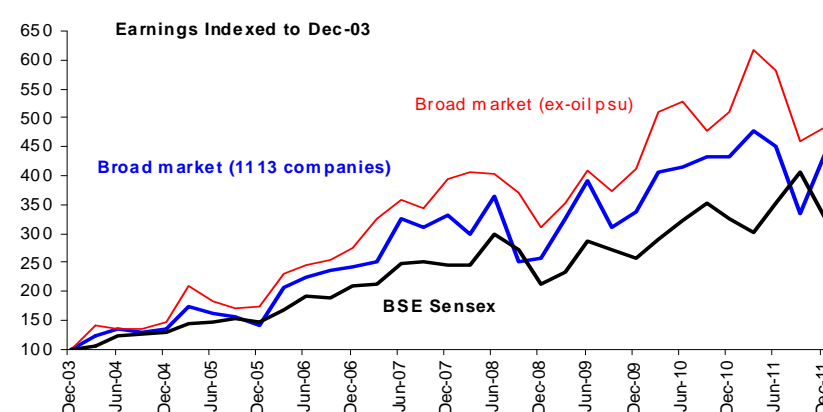
Sectoral Earnings Trend

Energy and technology lead while telecoms and materials lag

MSCI Sector	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Consumer Discretionary	64%	42%	18%	2%	-11%	-6%
Consumer Staples	-6%	-6%	28%	35%	-1%	15%
Energy	125%	105%	37%	79%	-78%	32%
Financials	24%	25%	10%	1%	15%	3%
Health Care	15%	85%	27%	13%	20%	2%
Industrials	40%	9%	28%	3%	-22%	-21%
Information Technology	11%	18%	14%	21%	9%	20%
Materials	45%	18%	15%	4%	-33%	-27%
Telecoms	-47%	-55%	-65%	-82%	-96%	-87%
Utilities	7%	2%	0%	9%	9%	-14%
Total	39%	29%	18%	9%	-23%	1%
Total (ex oil psu)	28%	24%	21%	10%	-3%	-5%

Earnings Trajectory

Sequential improvement for the broad market earnings level

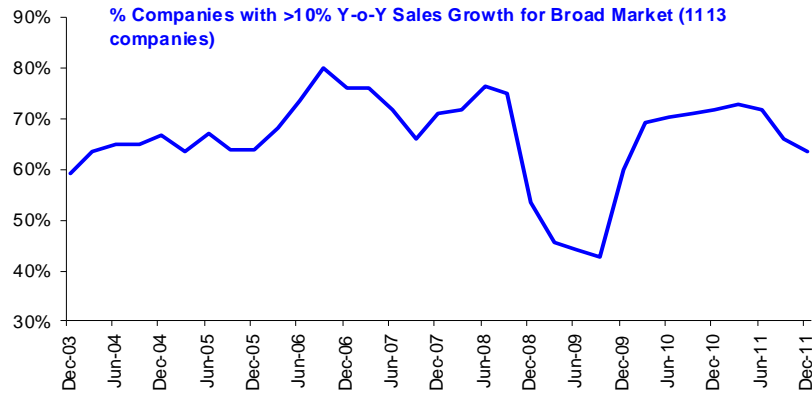


Broad Market – Breadth Remains Bad

Trend for 1113 companies with time series data

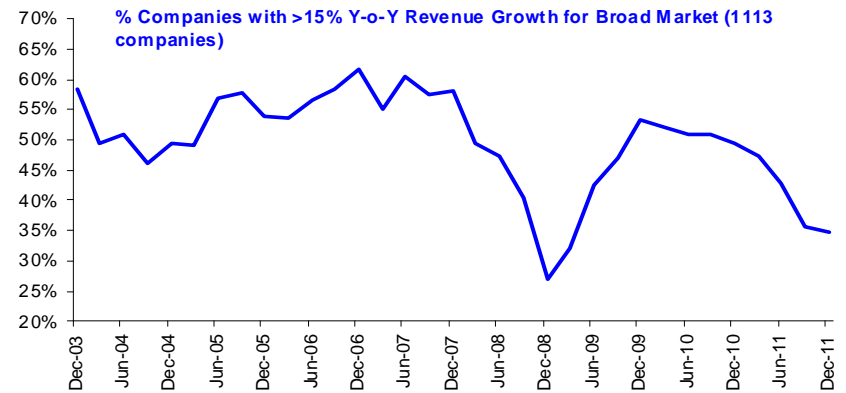
Revenue Growth

64% of the companies grow >10% – marginal weakening of breadth



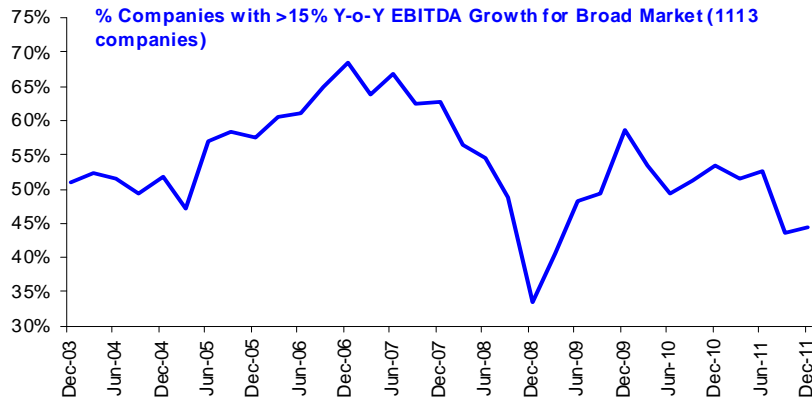
Net Profit Growth:

35% of the companies grow >15% – breadth weakest since Mar-09



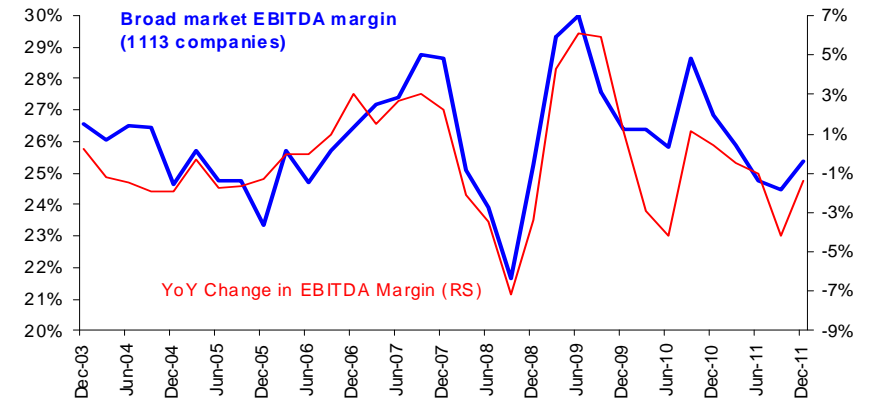
EBITDA Growth

44% see >15% EBITDA growth – weak trends persist



Broad Market Margins

YoY margins fall 140bps

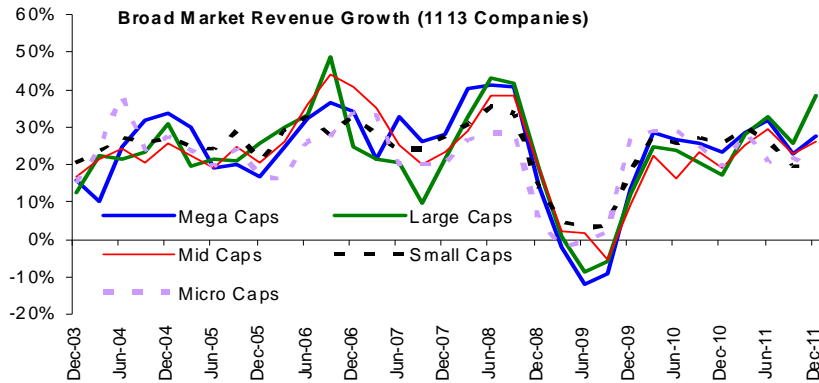


Broad Market – Slicing the Earnings Trends Across the Cap Curve

Trend for 1113 companies with time series data

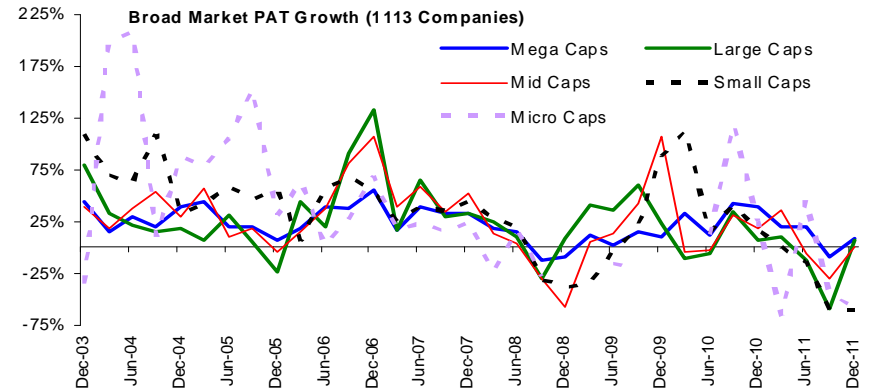
Revenue Growth

Accelerates for mega-, large- and mid-caps



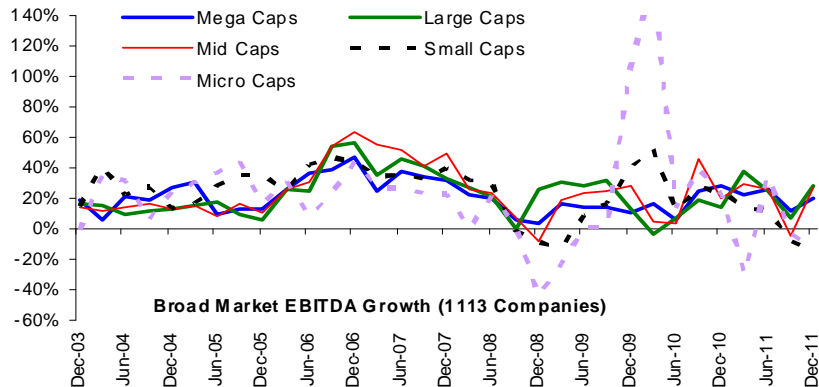
Net Profit Growth

Profits fall for small- and micro-caps



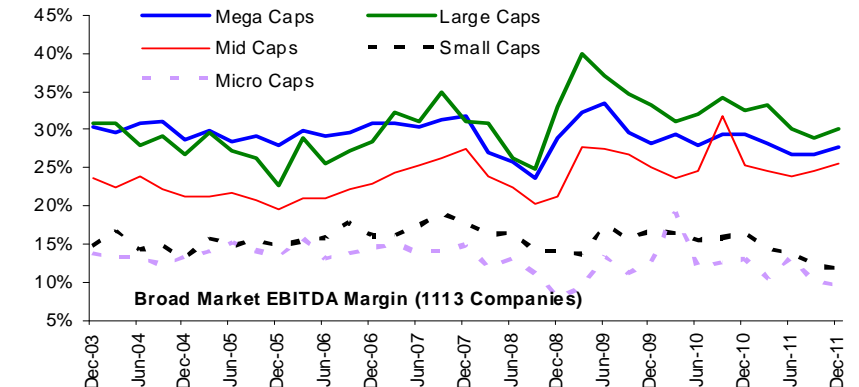
EBITDA Growth

Again, de-growth seen down the cap curve



Margin Trend

More margin deceleration for small- and micro-caps



QE-Dec11 Earnings for MS Universe: Healthcare and Telecoms Lead and Lag

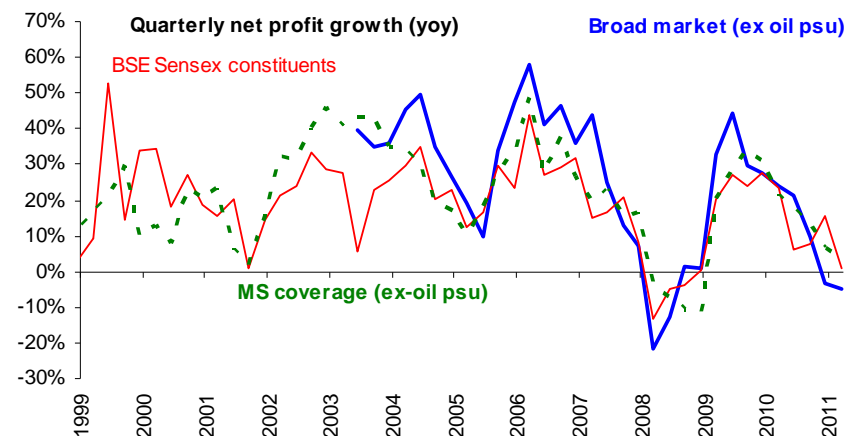
- Oil PSUs (due to subsidy burden taken care of) and Healthcare sectors saw the fastest year-on-year growth in earnings whereas Telecoms reported another quarter of fall in earnings.
- Seven out of the 10 sectors reported a rise in earnings with the exception of Telecoms, Materials and Industrials.
- Margin contraction in seven out of the 10 sectors with the exception of Healthcare, Staples and Technology.

Sector Earnings Breakdown: YoY Change for Quarter Ended Dec 2011 (124 Companies)

YoY%	Revenues	Op. Profit	Op. Margin*	Other Income	Interest	Depreciation	Pre-tax Profit	Tax	Net Profit
Consumer Discretionary	25	20	(56)	15	42	8	22	38	11
Consumer Staples	9	15	97	23	33	17	13	17	11
Energy	32	29	(31)	40	63	8	36	(15)	54
Financials	9	9	(35)	160	56	15	4	(1)	6
Healthcare	26	71	749	(50)	177	17	72	182	48
Industrials	27	10	(233)	83	49	37	5	9	(3)
Materials	16	(4)	(347)	54	24	14	(11)	0	(24)
Technology	32	34	46	(25)	141	18	30	53	24
Telecom	16	12	(88)	(57)	47	23	(8)	94	(28)
Utilities	35	16	(360)	3	43	31	4	(2)	6
Aggregate	25	17	(142)	36	47	15	15	4	17

Quarterly Net Profit Growth Trend

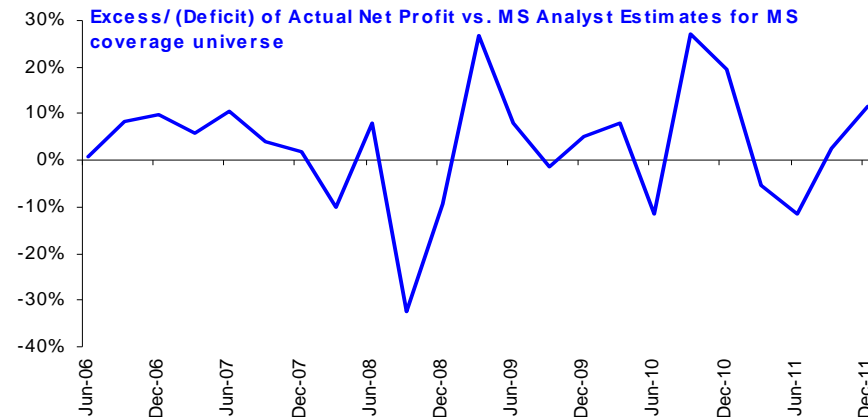
Earnings growth remains weak



What's the Consensus View: Technology sees Upward Revision

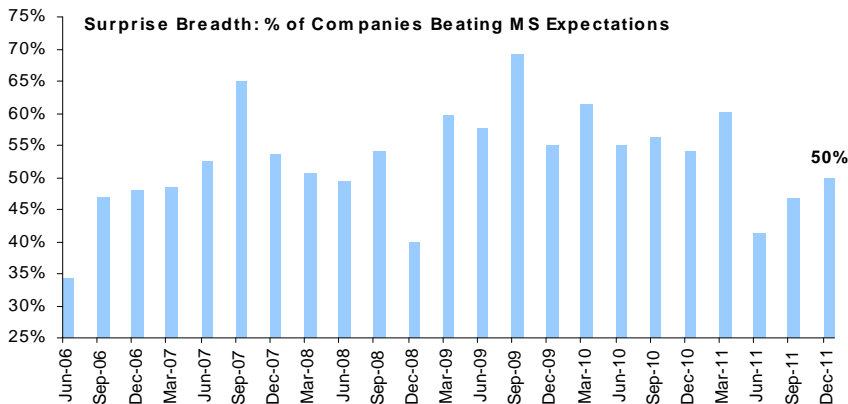
QE Dec-11 Earnings Ahead of MS Expectations

Earnings ahead of expectation



Earnings Breadth Surprise

QoQ improvement



Source: Company Data, FactSet, IBES, Morgan Stanley Research

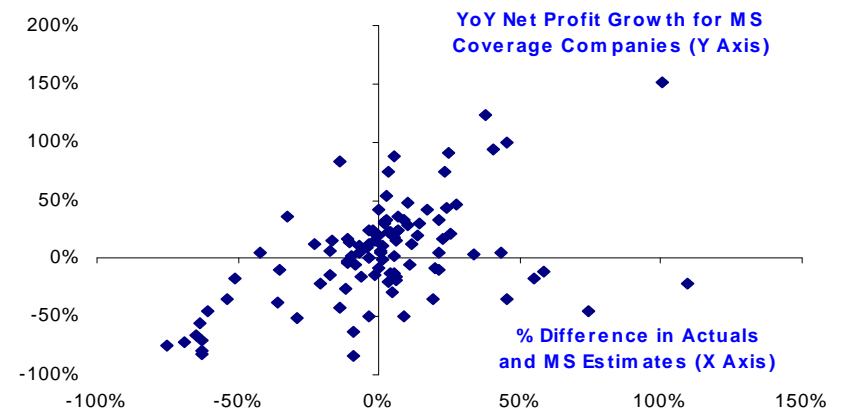
Consensus Revisions

More # of companies in energy, industrials and materials see –ve revisions

Sector	F2012		% no of Companies	
	No. of companies	Growth Revision	Downwards	Upwards
Consumer Disc	20	-0.7%	65%	15%
Consumer Staples	12	-0.5%	42%	42%
Energy	11	-2.8%	91%	9%
Financial	27	-2.0%	67%	33%
Healthcare	8	0.4%	38%	38%
Industrials	12	-3.5%	75%	17%
Materials	15	-3.0%	73%	27%
Technology	11	0.6%	27%	73%
Telecom	6	-18.5%	33%	50%
Utilities	8	-5.0%	75%	13%
MS Coverage	130	-2.4%	62%	30%

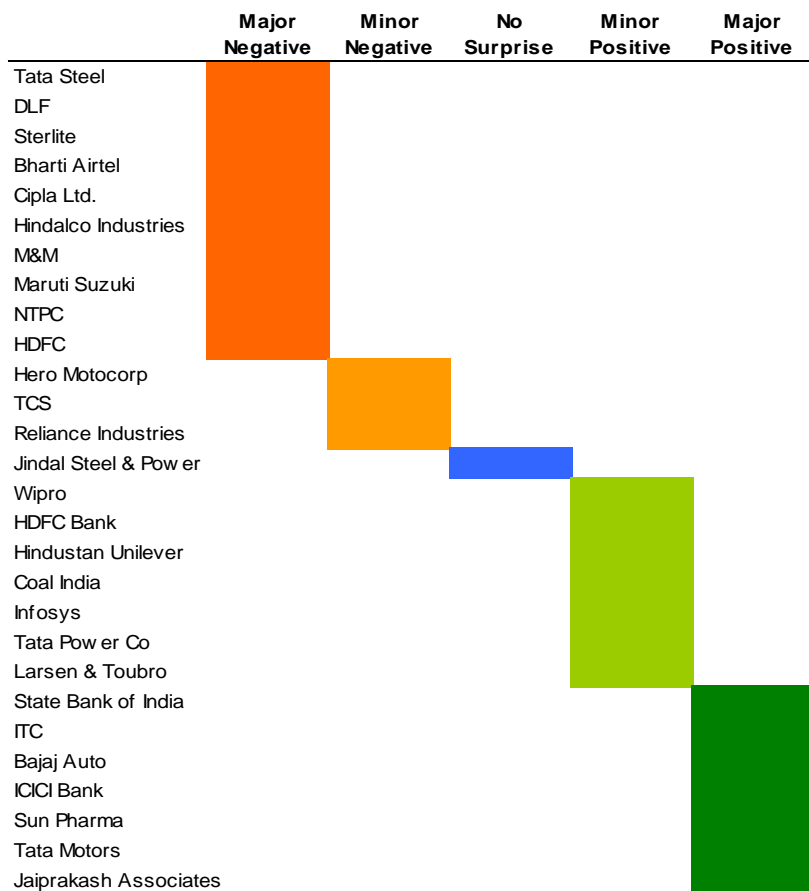
Earnings Growth Vs. Difference Between Actuals & Est.

Slower growth trends seen even as earnings surprise improves



What's the Consensus View: Consensus Revises Sensex Earnings Down

QE Dec-11 Actual Earnings vs. Morgan Stanley Expectations for Sensex Components

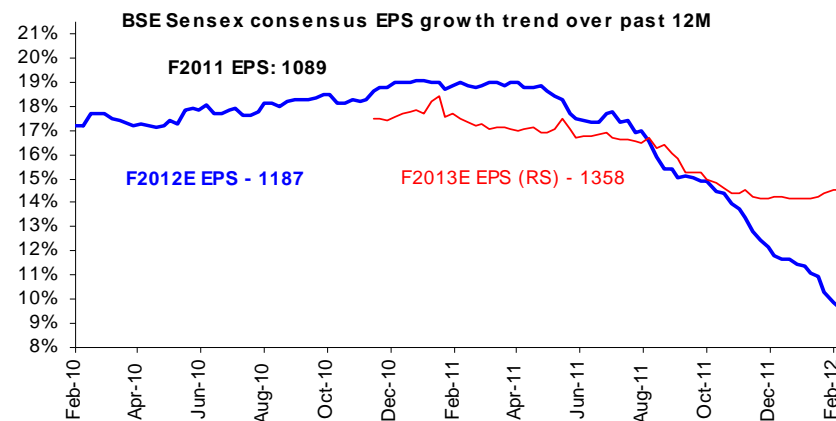


Sector Wise: Surprise Breadth

MS Coverage	# Cos reported so far	Number of companies beating MS analyst estimates				
		3QF12	2QF12	1QF12	4QF11	3QF11
Cons. Disc.	16	25%	44%	47%	56%	41%
Cons. Staples	8	63%	38%	38%	75%	29%
Energy + Oil PSU	9	56%	0%	50%	56%	50%
Financials	27	59%	56%	33%	56%	80%
Healthcare	6	50%	43%	14%	71%	29%
Industrials	14	36%	54%	42%	56%	42%
Materials	14	50%	36%	62%	62%	54%
Technology	10	70%	60%	50%	64%	67%
Telecom	5	40%	67%	0%	80%	67%
Utilities	9	56%	38%	63%	50%	43%

Sensex Consensus EPS Growth Estimates

Downward revision for F12, though F13 estimates unchanged



What's the Consensus View: Earnings Revision Breadth Picks-up

Earnings Growth Revisions by Sector (MSCI India Constituents)

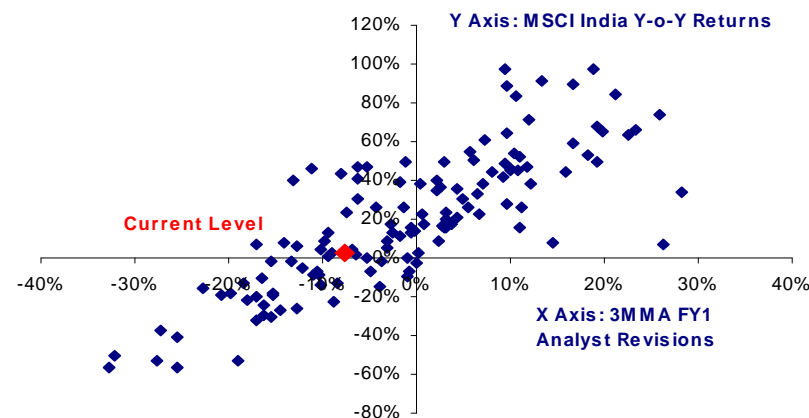
EPS Earnings Growth (MSCI India constituents)					Earnings Revision		
F12	Current	1W	1M	3M	1W	1M	3M
CD	4%	5%	4%	4%	-0.2%	0.5%	0.0%
CS	19%	19%	19%	20%	0.0%	-0.3%	-0.3%
Energy	10%	11%	13%	17%	-1.0%	-2.9%	-6.8%
Financials	9%	9%	9%	11%	-0.1%	-0.5%	-2.1%
Healthcare	11%	11%	10%	11%	0.4%	0.9%	0.0%
Industrials	26%	28%	30%	32%	-1.7%	-3.3%	-5.5%
IT	22%	22%	21%	19%	0.1%	0.7%	3.3%
Materials	-4%	-4%	-2%	-1%	-0.3%	-2.5%	-3.0%
Telecoms	-23%	-16%	-15%	-36%	-7.3%	-8.9%	12.2%
Utilities	7%	7%	9%	10%	-0.6%	-1.7%	-3.2%
Total	8.5%	9%	10%	12%	-0.7%	-1.7%	-3.5%

EPS Earnings Growth (MSCI India constituents)					Earnings Revision		
F13	Current	1W	1M	3M	1W	1M	3M
CD	16%	16%	15%	14%	-0.1%	1.2%	2.2%
CS	18%	18%	18%	17%	0.1%	0.2%	0.5%
Energy	8%	9%	8%	8%	-0.3%	-0.1%	-0.2%
Financials	20%	20%	21%	21%	0.0%	-0.7%	-0.6%
Healthcare	24%	24%	24%	21%	-0.2%	-0.4%	2.3%
Industrials	17%	16%	17%	21%	0.4%	0.1%	-4.6%
IT	17%	17%	16%	15%	0.0%	0.5%	2.0%
Materials	16%	16%	17%	18%	0.4%	-0.8%	-2.2%
Telecoms	60%	60%	60%	53%	-0.2%	-0.1%	6.7%
Utilities	15%	15%	15%	16%	0.4%	0.0%	-0.5%
Total	16.6%	17%	17%	16%	-0.1%	-0.2%	0.7%

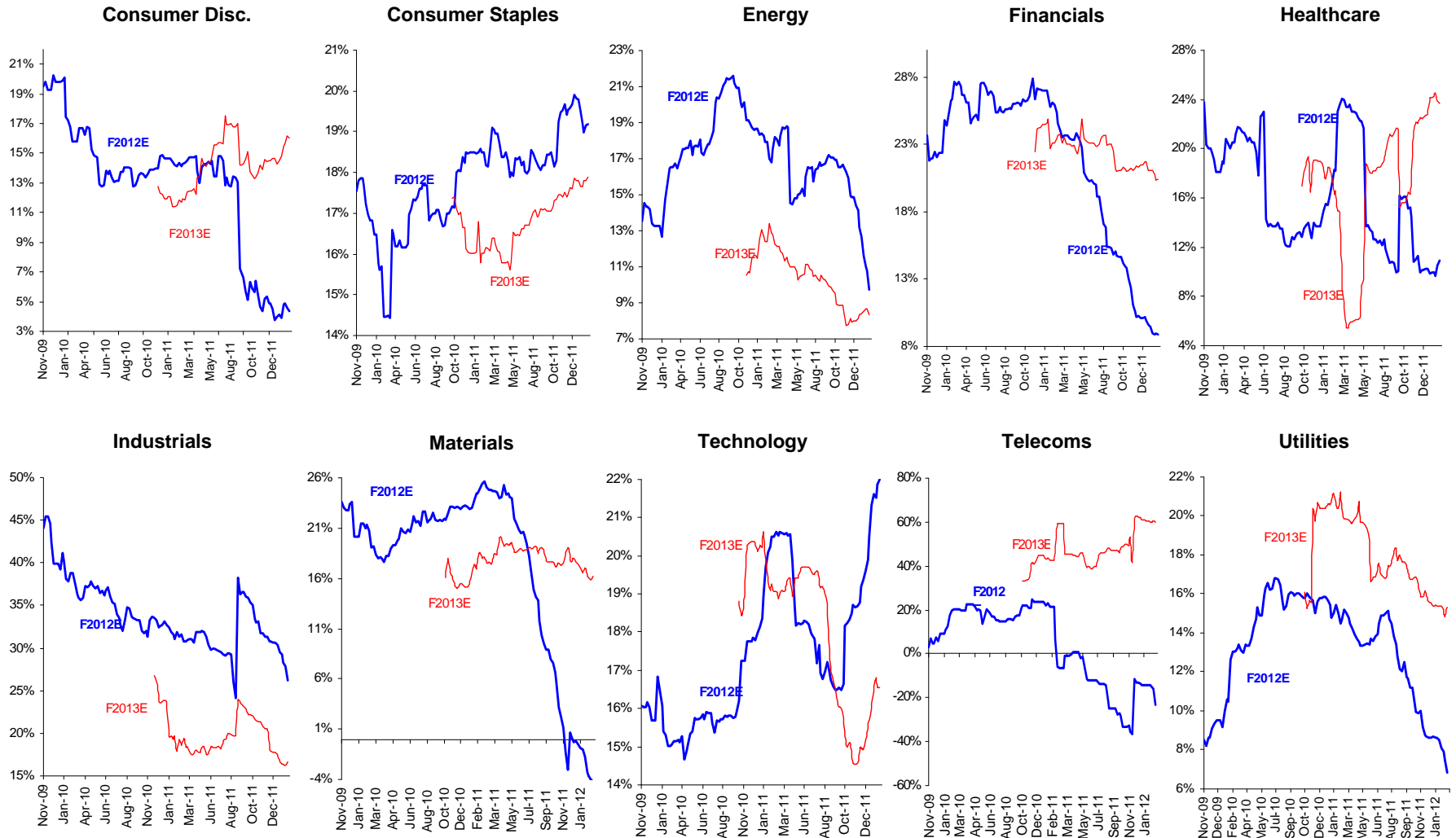
Earnings Revision Breadth Improving..



.... Off the Levels Which May Hurt Share Price



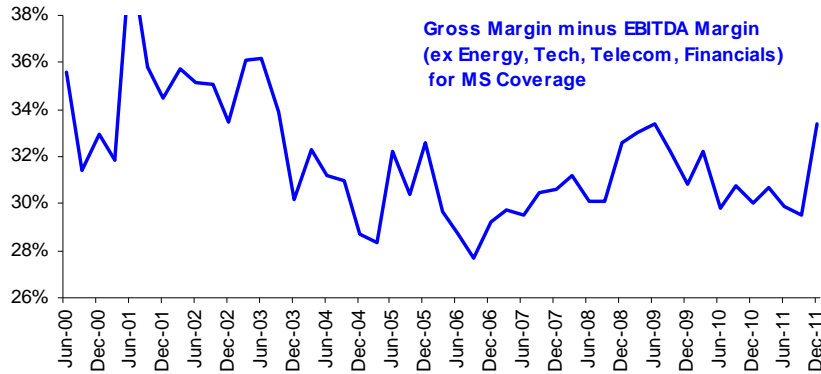
Consensus Earnings Growth by Sector (MSCI India Constituents)



Corporate Fundamentals: Pricing Power and Margins Improve

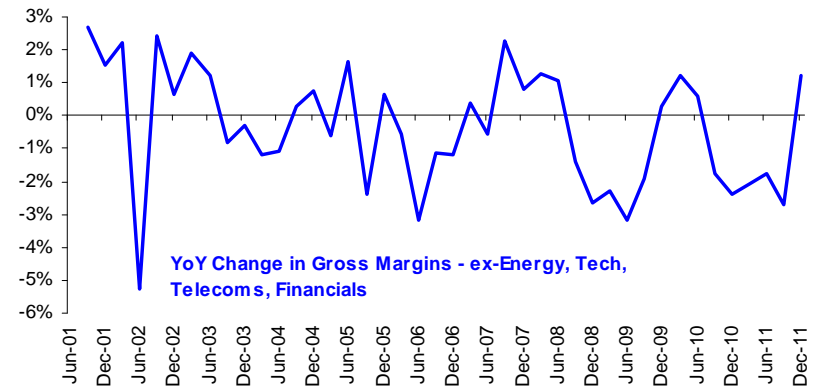
MS Coverage Operating Leverage

Rebounds to its highest level since Jun-09



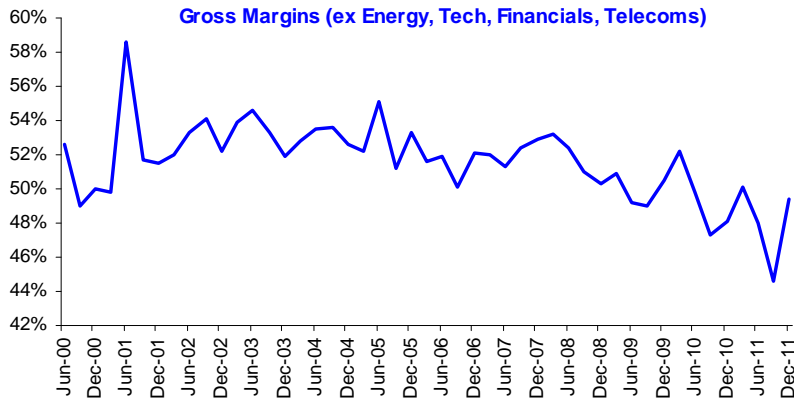
MS Coverage Pricing Power

Rises to a 15-quarter high



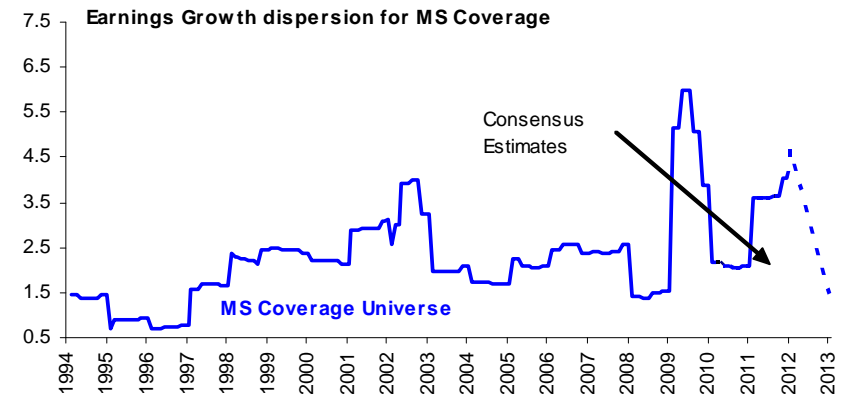
MS Coverage Gross Margins

Recuperate



Growth Dispersion

Seems to be coming off

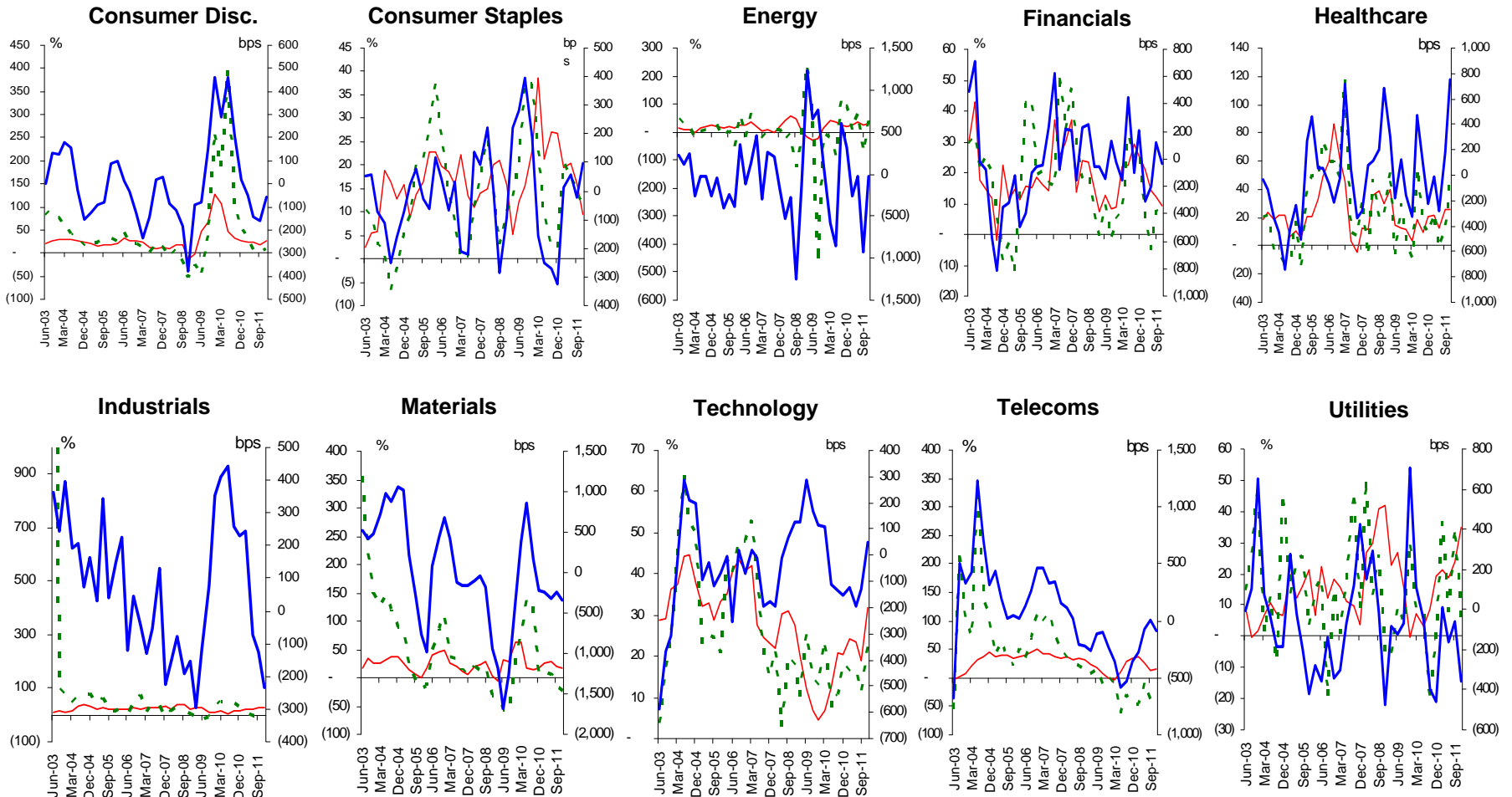


Earnings for Past 10 Quarters (124 Companies)

(YoY Change %)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Excluding Energy										
Revenues	21	30	35	18	21	22	24	22	19	21
Operating Profit	7	26	36	34	22	19	19	13	13	12
Operating Margin (in bps)	(321)	(82)	22	314	21	(68)	(95)	(204)	(128)	(181)
Other Income	(5)	10	16	25	46	18	19	91	19	34
Interest	39	6	2	40	4	48	64	36	58	42
Depreciation	46	42	34	12	24	24	29	28	21	20
Pre-tax Profit	(6)	23	36	36	26	15	16	13	6	7
Tax	14	22	38	28	20	16	19	17	8	13
Net Profit	(11)	23	31	38	29	14	12	4	3	2
Net Profit Margin (bps)	(463)	(95)	(45)	209	83	(100)	(142)	(221)	(187)	(212)
Including Energy										
Revenues	0	23	38	24	23	20	24	29	20	25
Operating Profit	24	27	25	13	38	26	14	16	(5)	17
Operating Margin (in bps)	359	57	(228)	(175)	230	90	(164)	(183)	(462)	(142)
Net Profit	22	17	12	4	49	26	10	10	(22)	17
Net Profit Margin (bps)	175	(54)	(278)	(182)	210	53	(132)	(141)	(438)	(78)
Excluding Materials										
Revenues	(3)	18	35	25	25	21	23	29	20	27
Operating Profit	38	24	17	5	40	29	14	17	(7)	20
Net Profit	52	15	4	(10)	42	30	9	11	(24)	23
YoY Change in EBITDA for Key Sectors										
Consumer Discretionary	89	232	162	113	55	28	20	11	6	20
Consumer Staples	40	34	29	7	12	9	20	24	15	15
Energy	201	29	1	(42)	100	53	1	34	(47)	29
Financials	11	8	19	33	27	30	14	10	15	9
Healthcare	19	4	(10)	48	13	9	21	(0)	36	71
Industrials	16	43	60	43	36	30	37	16	16	10
Materials	(27)	42	91	78	24	5	14	12	5	(4)
Technology	14	9	11	8	15	14	19	14	13	34
Telecom	4	(7)	(11)	(7)	10	21	27	22	13	12
Utilities	13	30	12	2	(7)	1	22	12	21	16
YoY Change in Revenues										
Consumer Discretionary	67	127	109	46	32	27	24	22	19	25
Consumer Staples	16	23	39	21	27	27	20	20	16	9
Energy	(21)	14	44	34	27	18	24	38	23	32
Financials	8	9	22	23	29	25	21	14	12	9
Healthcare	13	11	4	19	10	21	21	12	26	26
Industrials	9	10	18	4	15	14	19	22	26	27
Materials	29	64	63	16	13	17	26	28	21	16
Technology	7	5	7	13	21	20	24	24	19	32
Telecom	7	(1)	(2)	10	29	35	38	25	13	16
Utilities	16	(0)	7	3	9	19	22	19	24	35
YoY Change in EBITDA Margins (bps)										
Consumer Discretionary	148	459	290	463	211	19	(49)	(142)	(159)	(56)
Consumer Staples	395	188	(158)	(253)	(271)	(326)	14	59	(21)	97
Energy	762	119	(588)	(858)	594	307	(265)	(21)	(923)	(31)
Financials	133	(18)	(150)	452	(100)	209	(304)	(201)	114	(35)
Healthcare	126	(156)	(327)	473	76	(221)	(14)	(277)	185	749
Industrials	81	351	408	444	261	230	243	(74)	(125)	(233)
Materials	(1,267)	(342)	374	859	162	(217)	(239)	(311)	(231)	(347)
Technology	167	112	108	(109)	(135)	(153)	(123)	(193)	(128)	46
Telecom	(105)	(239)	(350)	(581)	(526)	(350)	(273)	(78)	12	(88)
Utilities	(66)	707	115	(50)	(397)	(459)	7	(166)	(60)	(360)

Quarterly Revenue/Profit Growth and Change in EBITDA Margins for Sectors

Green dotted Line- Y-o-Y Net profit growth (%) – LS, Red line -Y-o-Y Revenue growth (%) – LS, Blue Line – Operating margin trend (bps)- RS



Snapshot of Companies' Reported Earnings for the Quarter Ended Dec-11

MS Coverage	Sector	QE Dec-10			QE Dec-11A			YoY			Miss/Beat expectations
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	
Dish TV	Consumer Disc	3,732	667	-443	4,905	1,202	(430)	31%	80%	NM	NM
Ashok Leyland	Consumer Disc	22,272	1,920	637	28,798	2,104	669	29%	10%	5%	-42%
SUN TV	Consumer Disc	5,980	5,018	2,255	4,251	3,411	1,679	-29%	-32%	-26%	-12%
Hero Motocorp	Consumer Disc	51,617	6,046	4,927	60,315	7,230	6,130	17%	20%	24%	-3%
Indian Hotels	Consumer Disc	4,853	1,443	528	5,215	1,407	604	7%	-2%	14%	-10%
M&M	Consumer Disc	61,211	9,238	6,470	83,868	9,810	6,223	37%	6%	-4%	-11%
Maruti	Consumer Disc	94,945	9,541	6,025	78,824	4,362	2,206	-17%	-54%	-63%	-9%
Pantaloon Retail	Consumer Disc	27,586	2,383	472	28,933	2,612	135	5%	10%	-71%	-69%
Tata Motors	Consumer Disc	316,852	48,223	24,416	452,603	72,227	35,870	43%	50%	47%	27%
Titan Industries	Consumer Disc	19,546	1,950	1,408	24,401	2,129	1,639	25%	9%	16%	-11%
TVS Motors	Consumer Disc	16,467	1,006	558	17,622	1,153	566	7%	15%	1%	-10%
UTV Software	Consumer Disc	2,551	526	415	1,584	(755)	(962)	-38%	NM	NM	NM
ZEE	Consumer Disc	7,548	1,540	1,553	7,548	2,160	1,359	0%	40%	-12%	5%
Educomp	Consumer Disc	3,575	1,632	967	3,655	963	246	2%	-41%	-75%	-75%
Bajaj Auto	Consumer Disc	41,771	8,493	6,671	50,632	10,614	8,541	21%	25%	28%	10%
Exide	Consumer Disc	10,502	1,601	1,244	12,502	1,655	1,043	19%	3%	-16%	6%
Colgate	Consumer Staples	5,582	931	662	6,696	1,493	1,156	20%	60%	74%	23%
Dabur India	Consumer Staples	10,800	2,165	1,544	14,527	2,319	1,728	35%	7%	12%	-4%
Godrej Consumer	Consumer Staples	9,888	1,713	1,200	13,441	2,721	1,709	36%	59%	42%	17%
Hindustan Lever	Consumer Staples	50,270	7,250	5,876	58,527	9,705	7,621	16%	34%	30%	2%
ITC	Consumer Staples	54,243	20,179	13,891	61,954	23,811	17,016	14%	18%	22%	6%
Marico	Consumer Staples	8,177	1,093	791	10,578	1,347	915	29%	23%	16%	-1%
Nestle	Consumer Staples	16,710	3,343	2,217	19,547	4,207	2,681	17%	26%	21%	4%
United Spirits	Consumer Staples	19,694	2,854	1,133	19,673	2,003	329	0%	-30%	-71%	-63%
Aban Offshore	Energy	7,780	5,166	1,185	8,659	5,007	732	11%	-3%	-38%	-36%
BPCL	Energy	366,859	7,488	2,924	588,468	37,097	31,396	60%	395%	974%	189%
HPCL	Energy	340,560	7,802	2,110	480,475	37,026	27,252	41%	375%	1191%	171%
Reliance Industries	Energy	597,890	95,450	51,360	851,350	72,850	44,400	42%	-24%	-14%	-2%
Oil India	Energy	24,734	14,068	9,706	25,898	14,282	10,140	5%	2%	4%	43%

Snapshot of Companies' Reported Earnings for the Quarter Ended Dec-11

MS Coverage	Sector	QE Dec-10			QE Dec-11A			YoY			Miss/Beat expectations
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	
Coal India	Energy	126,919	34,489	26,261	153,493	48,805	40,378	21%	42%	54%	3%
Cairn India	Energy	30,964	25,634	20,101	30,968	25,456	22,619	0%	-1%	13%	-23%
AXIS Bank	Financials	28,808	16,585	8,914	35,701	20,592	11,023	24%	24%	24%	7%
Bank of Baroda	Financials	29,684	18,512	10,689	38,048	26,082	12,899	28%	41%	21%	25%
Bank of India	Financials	26,351	13,888	6,532	29,197	17,319	7,162	11%	25%	10%	-4%
Canara Bank	Financials	26,558	15,129	11,056	26,976	15,767	8,756	2%	4%	-21%	3%
Corp Bank	Financials	11,069	7,369	3,824	13,035	8,259	4,022	18%	12%	5%	21%
DLF	Financials	24,799	11,780	4,722	20,344	8,227	2,587	-18%	-30%	-45%	-61%
HDFC	Financials	13,282	12,279	8,909	14,601	13,483	9,813	10%	10%	10%	-7%
HDFC Bank	Financials	39,045	20,727	10,878	45,360	23,780	14,297	16%	15%	31%	2%
ICICI Bank	Financials	40,605	23,426	14,370	46,039	26,871	17,281	13%	15%	20%	14%
IDBI	Financials	16,512	11,345	4,541	14,243	7,573	4,098	-14%	-33%	-10%	21%
IDFC	Financials	6,610	4,990	3,218	7,600	6,330	3,809	15%	27%	18%	5%
Kotak Mahindra	Financials	19,376	5,959	3,836	19,002	7,198	4,626	-2%	21%	21%	-2%
Oriental Bank	Financials	12,613	7,739	4,083	14,352	8,271	3,542	14%	7%	-13%	4%
IBREL	Financials	3,997	1,229	766	3,565	1,031	418	-11%	-16%	-45%	1665%
Punjab National Bank	Financials	40,605	23,499	10,898	44,907	26,764	11,500	11%	14%	6%	-7%
Sobha Developers	Financials	3,629	820	490	3,115	731	401	-14%	-11%	-18%	6%
SBI	Financials	123,637	67,645	28,281	135,918	72,600	32,630	10%	7%	15%	6%
Union Bank of India	Financials	21,094	12,611	5,796	23,730	12,841	1,970	12%	2%	-66%	-65%
Yes Bank	Financials	4,848	3,113	1,911	6,390	3,988	2,541	32%	28%	33%	9%
Indusind Bank	Financials	5,590	2,912	1,539	6,731	3,263	1,841	20%	12%	20%	0%
Jaypee Infra	Financials	7,554	4,742	3,785	9,027	4,953	3,921	20%	4%	4%	34%
LIC Housing	Financials	5,451	4,891	2,135	3,797	3,263	3,057	-30%	-33%	43%	24%
ING	Financials	4,127	1,594	830	4,918	2,038	1,175	19%	28%	42%	0%
Oberoi Realty	Financials	3,987	2,469	2,052	1,873	1,134	1,021	-53%	-54%	-50%	9%
Shriram Transport	Financials	7,816	6,066	3,013	8,331	6,465	3,027	7%	7%	0%	-3%
Godrej Properties	Financials	482	65	156	1,497	267	286	211%	309%	83%	-14%
Biocon	Healthcare	7,281	1,684	1,006	5,172	1,274	848	-29%	-24%	-16%	-6%


Snapshot of Companies' Reported Earnings for the Quarter Ended Dec-11

MS Coverage	Sector	QE Dec-10			QE Dec-11A			YoY			Miss/Beat expectations
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	
Cipla	Healthcare	15,681	3,182	2,327	17,810	3,915	2,699	14%	23%	16%	-16%
Dr Reddy's	Healthcare	18,985	2,933	2,733	27,692	7,547	5,131	46%	157%	88%	6%
Lupin	Healthcare	15,102	2,973	2,240	18,189	3,735	2,351	20%	26%	5%	0%
Sun Pharma	Healthcare	16,011	4,405	3,502	21,451	9,638	6,683	34%	119%	91%	25%
Fortis Healthcare	Healthcare	3,714	539	345	6,046	832	293	63%	54%	-15%	291%
Aditya Birla Nuvo	Industrials	45,630	6,952	2,749	57,147	7,966	2,524	25%	15%	-8%	20%
NCC	Industrials	13,355	1,276	444	12,640	777	(95)	-5%	-39%	NM	NM
GMR Infra	Industrials	13,588	3,813	-520	19,993	4,693	(1,080)	47%	23%	NM	NM
GESCO	Industrials	5,560	2,023	1,173	7,514	2,513	573	35%	24%	-51%	-29%
IVRCL Infra	Industrials	14,168	1,404	423	12,025	948	68	-15%	-32%	-84%	-9%
Jain Irrigation	Industrials	7,047	1,421	456	8,330	1,864	532	18%	31%	17%	23%
Jaiprakash Associates	Industrials	29,487	8,464	2,295	33,054	8,160	1,650	12%	-4%	-28%	261%
L&T	Industrials	114,131	12,379	8,052	139,986	13,431	9,916	23%	9%	23%	4%
Shipping Corporation	Industrials	8,889	1,612	1,231	9,670	(625)	1,525	9%	NM	24%	443%
Adani Enterprises	Industrials	56,426	9,405	4,744	90,380	15,226	4,073	60%	62%	-14%	-17%
IRB Infra	Industrials	6,688	2,936	1,330	7,455	3,417	1,314	11%	16%	-1%	1%
Mundra Port	Industrials	4,508	3,098	2,285	6,916	4,824	3,106	53%	56%	36%	7%
Crompton Greaves	Industrials	23,970	3,402	2,328	30,280	1,826	771	26%	-46%	-67%	-40%
ACC	Materials	19,576	2,188	2,559	25,027	3,893	2,425	28%	78%	-5%	11%
Gujarat Ambuja	Materials	17,886	3,142	2,511	23,340	4,259	3,267	30%	36%	30%	14%
Grasim Industries	Materials	53,845	11,202	5,018	62,601	13,090	6,691	16%	17%	33%	21%
Hindalco	Materials	59,179	6,834	4,603	65,902	6,582	4,507	11%	-4%	-2%	-11%
Jindal Steel	Materials	31,740	15,987	9,354	43,545	17,389	9,967	37%	9%	7%	1%
JSW Steel	Materials	57,714	9,641	3,823	78,596	12,358	1,682	36%	28%	-56%	-64%
Nalco	Materials	14,250	3,714	2,559	14,300	453	512	0%	-88%	-80%	-63%
Sesa Goa	Materials	22,373	12,148	10,652	26,043	8,892	6,915	16%	-27%	-35%	45%
SAIL	Materials	111,432	16,261	11,076	105,938	14,462	6,321	-5%	-11%	-43%	-14%
Sterlite Industries	Materials	82,943	19,406	11,011	102,462	22,608	9,135	24%	17%	-17%	-51%
Tata Steel	Materials	290,895	34,246	10,303	331,031	17,173	(6,874)	14%	-50%	NM	NM

Snapshot of Companies' Reported Earnings for the Quarter Ended Dec-11

MS Coverage	Sector	QE Dec-10			QE Dec-11A			YoY			Miss/Beat expectations
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	
Ultratech Cement	Materials	37,152	7,078	3,190	45,719	9,650	6,169	23%	36%	93%	40%
United Phosphorus	Materials	12,221	2,211	836	19,288	3,484	1,137	58%	58%	36%	-33%
NMDC	Materials	26,212	20,159	15,180	28,220	22,607	18,588	8%	12%	22%	3%
HCL Technologies	Technology	38,884	6,095	3,745	52,452	9,503	5,527	35%	56%	48%	10%
Hexaware	Technology	2,996	345	396	4,319	994	882	44%	188%	123%	38%
Info edge	Technology	751	275	219	920	349	197	23%	27%	-10%	-35%
Infosys	Technology	71,060	23,630	17,800	92,980	31,310	23,720	31%	33%	33%	3%
MindTree Consulting	Technology	3,848	449	305	5,197	897	606	35%	100%	99%	46%
Patni	Technology	8,200	1,400	1,426	10,295	2,258	1,463	26%	61%	3%	6%
TCS	Technology	96,634	29,173	23,302	132,040	40,921	28,866	37%	40%	24%	-2%
Tech Mahindra	Technology	12,111	2,498	2,055	14,449	2,343	1,444	19%	-6%	-30%	5%
Wipro	Technology	78,202	16,344	13,188	98,808	18,679	14,564	26%	14%	10%	1%
Infotech Ent.	Technology	3,138	475	370	4,165	857	340	33%	80%	-8%	0%
Bharti	Telecom	157,560	53,176	13,033	184,767	59,584	10,113	17%	12%	-22%	-21%
Idea Cellular	Telecom	39,556	9,483	2,431	50,308	13,446	2,010	27%	42%	-17%	55%
Reliance Comm	Telecom	50,041	16,681	4,803	50,521	16,111	2,408	1%	-3%	-50%	-4%
Tata Comm	Telecom	8,776	1,979	457	10,192	2,221	295	16%	12%	-36%	-54%
OnMobile Global	Telecom	1,486	336	199	1,688	391	178	14%	16%	-11%	58%
Adani Power	Utilities	5,026	2,730	1,080	10,595	3,441	(215)	111%	26%	NM	-108%
GAIL	Utilities	83,836	13,331	9,676	112,942	17,949	10,915	35%	35%	13%	12%
LANCO Infratech	Utilities	15,615	4,800	1,106	30,290	6,028	868	94%	26%	-21%	109%
NTPC	Utilities	132,015	33,702	22,785	155,370	31,098	21,718	18%	-8%	-5%	-8%
Reliance Infra	Utilities	26,176	2,470	1,657	44,777	6,518	4,158	71%	164%	151%	100%
Tata Power	Utilities	16,419	3,219	1,373	22,519	4,751	2,391	37%	48%	74%	3%
JSW Energy	Utilities	10,765	3,538	1,853	17,687	3,495	328	64%	-1%	-82%	-63%
Indiabulls Power	Utilities	4	-61	3	-	(66)	69	NM	NM	NM	NM
Power Grid	Utilities	20,521	17,274	5,962	24,666	21,027	8,013	20%	22%	34%	16%

Disclosure section

	<p>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.</p>
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(as of January 31, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1135	39%	460	44%	41%
Equal-weight/Hold	1248	42%	444	42%	36%
Not-Rated/Hold	107	4%	25	2%	23%
Underweight/Sell	454	15%	121	12%	27%
Total	2,944		1050		

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