

July 4, 2007

Research  
India

Strategy Chartbook

## India Strategy

### *A Stock Picker's Paradise*

- **Market appears to be above fair value**

Our residual income pegs the fair value for the BSE Sensex at 12,067. At our base case fair value estimate, the BSE Sensex would trade on a F2009E P/E of 11.6x (Morgan Stanley estimates) vs. the F2008E multiple of 16.5x at which it currently trades. In the near term, domestic growth/inflation (and hence monetary policy) and/or global risk appetite are likely to play a greater role in determining the level at which the index trades. Clearly, if global risk appetite remains steady and the Central Bank engineers a cooling-off of inflation without impacting growth, the market is more likely to head towards our bull case. On the other hand, if growth lands softly and global risk appetite wanes a tad (as we expect), our base case becomes the most likely outcome. Finally, a hard landing in growth caused by a spike in inflation and hence strong monetary action, coupled with a financial market accident somewhere in the world, could push the market into our bear case scenario.

- **It's a Stock Picker's Market**

We think the low valuation, ROE, and stock return dispersion across the market is an ideal set-up for stock picking to be the best strategy to generate portfolio returns. Given our view that growth could slow down, we expect ROE dispersion to rise in the coming months, creating a case for a back-up in valuation dispersion and thus perfect conditions for stock picking. Our stock picking is centered on stocks that appear to be out of favor with investors, trade at inexpensive valuations and bear high relative volatility but a comparatively low beta. We use four screens to pick stocks, namely beta, ROE, 3U/3O, and momentum screens (see pages 40-45 for details).

- **Portfolio: Relatively Defensive with a Large Cap bias**

Trading volume, flows and ownership have gone down the capitalization curve whereas stock returns have risen up the cap curve. Does this signal the return of mid- and small-cap stocks as a basket in the capitalization battle? We think smaller companies could suffer from negative operating leverage in the coming months as growth slows and, since the stocks of these companies trade on par with those of large companies, we continue to prefer stocks up the cap curve and remain very selective about mid-caps. We are underweight cyclicals and rate sensitives, and overweight healthcare, energy, consumer staples, utilities and telecoms.

MORGAN STANLEY RESEARCH

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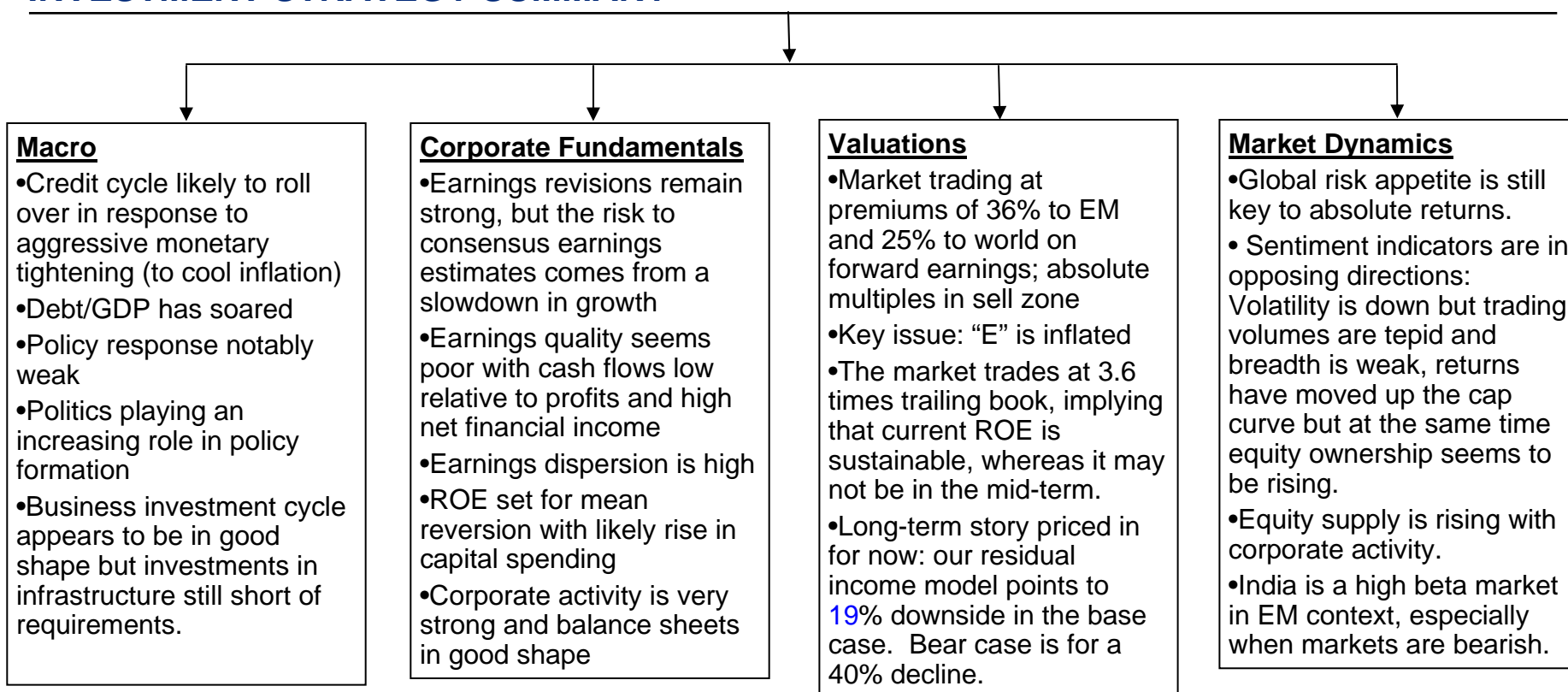
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## INVESTMENT STRATEGY SUMMARY



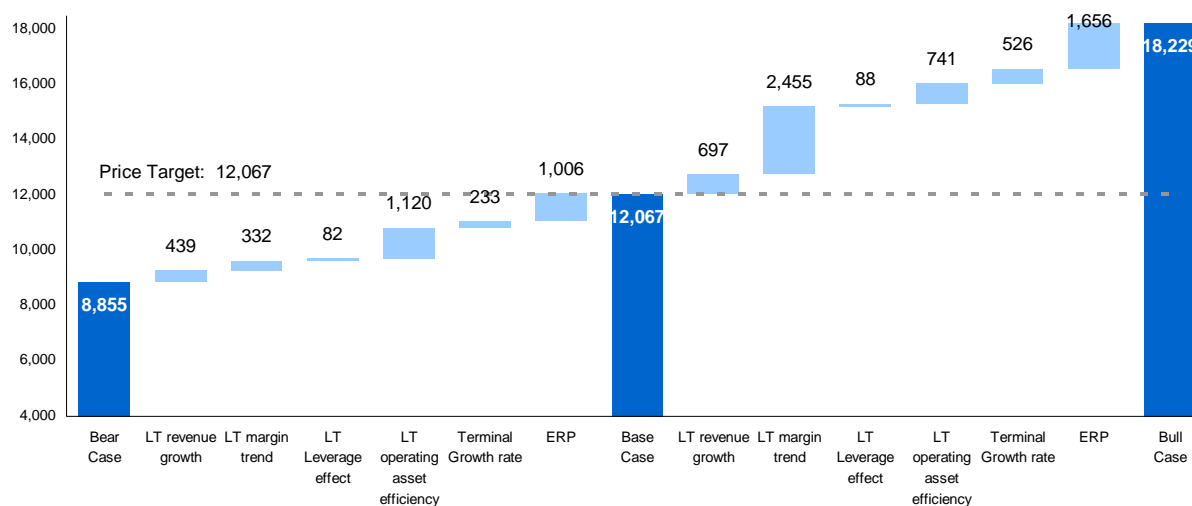
**Sectors and Stocks:** We continue to back defensive sectors where we see better valuations. We highlight five screens for investors – one based on beta, one on price momentum, one on a combination of valuations, ownership and love (defined by trading volumes and relative performance), one on a regression analysis using ROE and P/B, and the last one using inter-stock correlations. The overall environment appears to be very favorable for stock pickers with ROE dispersion likely to widen and consequently valuation dispersions could also rise. Returns have been up the cap curve, but we think it will likely stay that way.

## INVESTMENT STRATEGY SUMMARY

### Scenario Analysis for Indian Equities

Residual Income Model	Base Case	Bear Case	Bull Case
1st Stage F07 to F09	MS analysts' estimates	MS analysts' estimates	MS analysts' estimates
2nd Stage F09 to F19			
Revenue growth	5% premium to nominal GDP growth (16%)	4% premium to nominal GDP growth (15%)	1% higher than base case (17%)
EBIT margin (over F09 level)	Annual fall of 30 bps	Annual fall of 35 bps	F09 level sustained
Average interest cost	At F2009 level (6.5%)	50 bps higher than base case (7.0%)	50 bps lower than base case (6.0%)
Tax rate	27%	27%	27%
Asset Turn (over F09 level of 1.00)	Annual increment of 0.01	Annual decrease of 0.005	Annual increment of 0.02
Debt to Equity	23%	23%	23%
Terminal growth rate	6.0%	5.5%	6.5%
Implied TV multiple	13.0	11.5	14.9
Equity Risk Premium	6.0%	6.5%	5.5%
BSE Sensex Fair Value	12,067	8,855	18,229

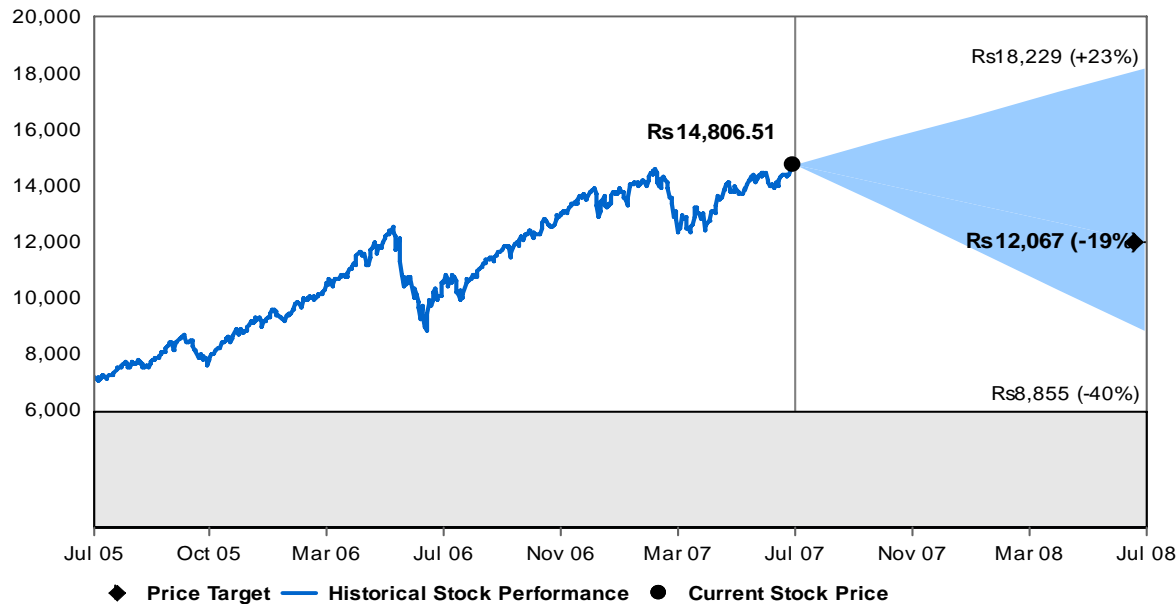
Source: Morgan Stanley Research estimates



**INVESTMENT STRATEGY SUMMARY**

**Scenario Analysis for Indian Equities**

**Key Factors Driving Market Returns Over the Next 6 Months**



Source: Morgan Stanley Research estimates

**Investment Thesis**

Long-term story driven by strong dividend growth with falling volatility in growth, a structural liquidity story and a robust capital market infrastructure that allows investors to leverage India’s ROE-focused entrepreneurs.

The story may be in the price, especially in the context of the risks. Our residual income valuation model suggests downside of 19% to the market by the end of 2007.

The falling price of risk has been at the helm of India’s cyclical surge and equity market performance. Our base case is that risk appetite will likely fall in 2007.

**Potential Catalysts**

Price of risk is the key trigger – global liquidity could be the delta.

- Crude oil prices
- Credit growth and inflation data
- Monetary policy
- Earnings season especially in October
- Politics
- Equity offerings
- Corporate activity

**Upside Risks**

- Sustained risk appetite
- Politics and policy – surge in reforms
- Large FDI flows

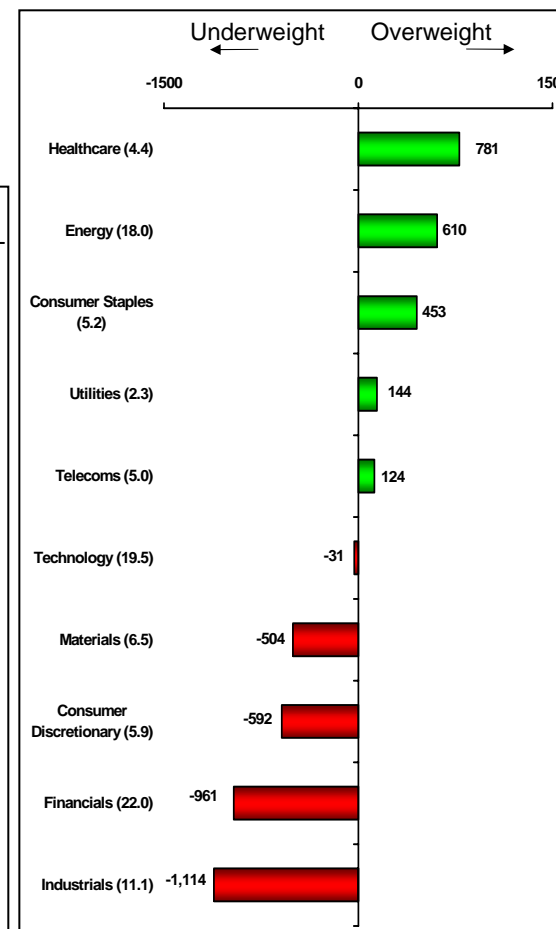
## INDIA MODEL PORTFOLIO

### Sector Weights:

- **Overweight:** Healthcare, Energy, Consumer Staples, Utilities, Telecoms
- **Neutral:** Technology
- **Underweight:** Industrials, Financials, Consumer Discretionary, Materials

Company	Reuters Ticker	MSCI Weight (%)	Portfolio Weight (%)	Over/Under Weight (bps)	Price (Rs) 7/2/07	Mkt Cap US\$mn	Avg 3M T/O US\$mn	Analyst Rating	YTD Perf. (%)
<b>Consumer Discretionary</b>		<b>5.9</b>	<b>0.0</b>	<b>-592</b>					
<b>Consumer Staples</b>		<b>5.2</b>	<b>9.8</b>	<b>453</b>					
Hindustan Lever Ltd	HLL.BO	2.3	5.8	350	189.1	10,222	15.7	Overweight	-12.7
Godrej Consumer Products	GOCP.BO	NA	2.0	200	138.3	767	0.5	Overweight	-7.8
Dabur India	DABU.BO	NA	2.0	200	102.1	2,157	3.0	Overweight	4.3
<b>Energy</b>		<b>18.0</b>	<b>24.1</b>	<b>610</b>					
Oil & Natural Gas Corp.	ONGC.BO	3.0	6.0	300	896.1	47,092	27.7	Overweight	3.0
Reliance Industries Ltd.	RELI.BO	14.3	16.3	200	1,684.5	60,150	124.4	Overweight	32.6
Hindustan Petroleum	HPCL.BO	0.3	1.8	150	270.1	2,249	5.9	Underweight	0.7
<b>Financials</b>		<b>22.0</b>	<b>12.4</b>	<b>-961</b>					
HDFC Bank Ltd.	HDBK.BO	3.2	3.2	0	1,146.1	8,994	21.7	Equal-Weight	7.1
ICICI Bank	ICBK.BO	7.7	7.2	-50	950.7	20,999	35.5	***	6.8
Union Bank of India	UNBK.BO	NA	2.0	200	131.3	1,629	3.3	Overweight	7.0
<b>Healthcare</b>		<b>4.4</b>	<b>12.2</b>	<b>781</b>					
GlaxoSmithKline Pharma	GLAX.BO	0.4	3.4	300	1,260.1	5,186	13.7	Overweight	8.2
Lupin	LUPN.BO	NA	1.3	125	724.8	1,491	6.1	Overweight	18.4
Ranbaxy Laboratories	RANB.BO	0.7	2.7	200	364.7	3,579	10.4	Overweight	-6.9
Sun Pharma	SUN.BO	0.8	4.3	350	1,036.5	5,275	7.8	Overweight	5.9
Sun Pharma Advanced Res	NA	NA	0.5	50	NA	NA	NA	NA	NA
<b>Industrials</b>		<b>11.1</b>	<b>0.0</b>	<b>-1114</b>					
<b>Materials</b>		<b>6.5</b>	<b>1.5</b>	<b>-504</b>					
Steel Authority of India	SAIL.BO	NA	1.5	150	128.4	13,031	34.4	Overweight	43.9
<b>Technology</b>		<b>19.5</b>	<b>19.2</b>	<b>-31</b>					
Infosys Technologies Ltd.	INFY.BO	12.1	13.1	100	1,942.7	27,264	90.6	Overweight	-13.3
Patni Computer Systems	PTNI.BO	NA	1.0	100	514.2	1,747	8.4	Overweight	23.1
Tata Consultancy Services	TCS.BO	2.1	5.1	300	1,134.6	27,281	43.7	Overweight	-6.9
<b>Telecoms</b>		<b>5.0</b>	<b>6.2</b>	<b>124</b>					
Reliance Communications	RLCM.BO	4.2	6.2	200	529.7	26,610	77.7	Overweight	12.4
<b>Utilities</b>		<b>2.3</b>	<b>3.8</b>	<b>144</b>					
Reliance Energy	RLEN.BO	0.7	1.7	100	624.3	3,505	15.2	Overweight	20.1
GAIL India	GAIL.BO	1.1	2.1	100	309.3	6,427	6.1	Overweight	18.3
<b>Cash</b>		<b>0.0</b>	<b>10.9</b>	<b>1,090</b>					

### Percentage Weighting Over/Under MSCI Benchmark



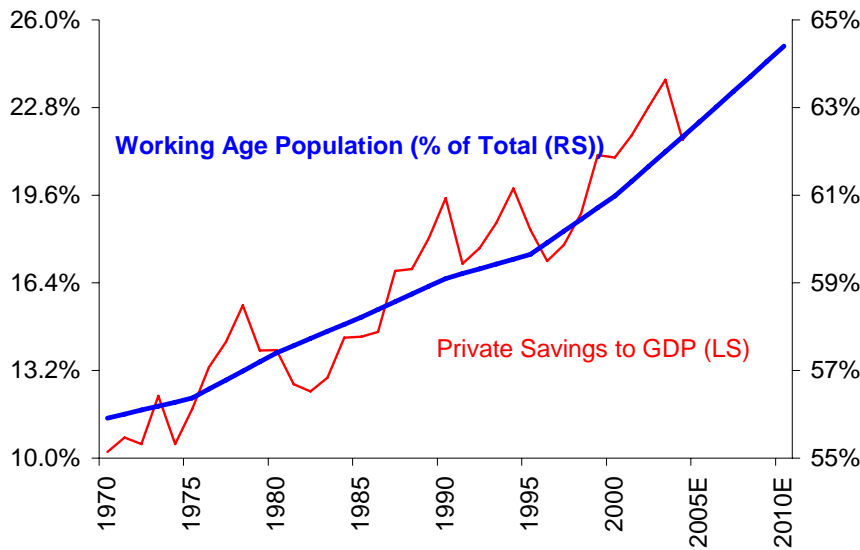
NA = Not available; Source: Bloomberg, Morgan Stanley Research, # Sun Pharmaceutical Industries has been split since 23rd April 2007 and the new company is Sun Pharma Advanced Research Co. Ltd (SPARC). We have valued SPARC using the difference in the Sun Pharma stock price on the day before split and at the end of the first day of trading post split... \*\*\* Estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company

Numbers in brackets show MSCI neutral weights, Source: Morgan Stanley Research, Bloomberg

**MACRO**

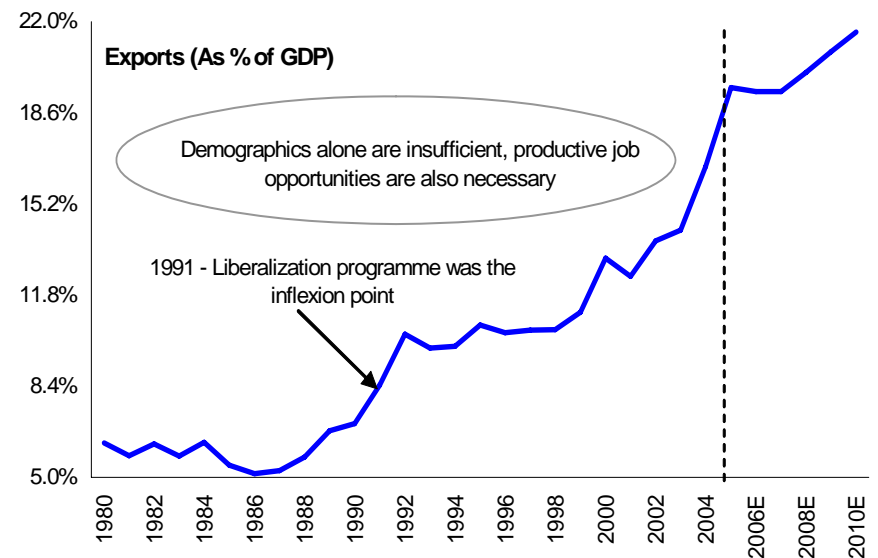
India's long-term growth story is an interplay of the DRG factors; i.e., demographics, reforms and globalization.

**Private savings should keep rising, driven by improving share of working age population and...**



Source: UN, CSO, CEIC, Morgan Stanley Research; E= Morgan Stanley Research Estimates

**... higher exports**

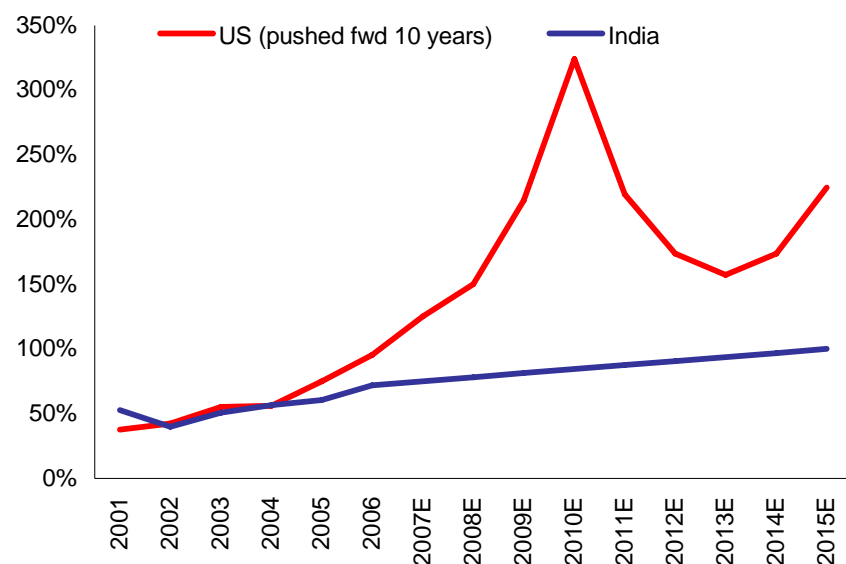


Source: WTO, Morgan Stanley Research; E= Morgan Stanley Research Estimates

**MACRO**

**India brings four advantages to the table: Strong dividend growth with falling volatility in growth, a structural liquidity story and a robust capital market infrastructure that allows investors to leverage India’s ROE-focused entrepreneurs.**

**Advanced Capital Market Infrastructure**



Source: BSE, NSE, World Federation of Exchanges, Morgan Stanley Research

**India: A Coming Boom in Equity Savings**

	GDP (Rs b)	Financial Savings (Rs b)	Financial Savings to GDP	Equity Savings	Equities to Financial Savings	Flows into Equity MF	MF flows as a % of equity savings
F2005	31,266	4,357	13.9%	50	1.1%	65	130%
F2006	35,672	5,889	16.5%	290	4.9%	371	128%
F2007E	41,257	6,914	16.8%	375	5.4%	279	74%
F2008E	46,607	7,927	17.0%	470	5.9%	329	70%
F2009E	52,240	9,016	17.3%	579	6.4%	406	70%
F2010E	57,986	10,153	17.5%	703	6.9%	492	70%
F2011E	64,365	11,430	17.8%	849	7.4%	594	70%
F2012E	71,445	12,866	18.0%	1020	7.9%	714	70%
F2013E	79,304	14,480	18.3%	1220	8.4%	854	70%
F2014E	88,027	16,293	18.5%	1454	8.9%	1018	70%
F2015E	97,710	18,329	18.8%	1728	9.4%	1209	70%
F2016E	108,459	20,617	19.0%	2046	9.9%	1432	70%

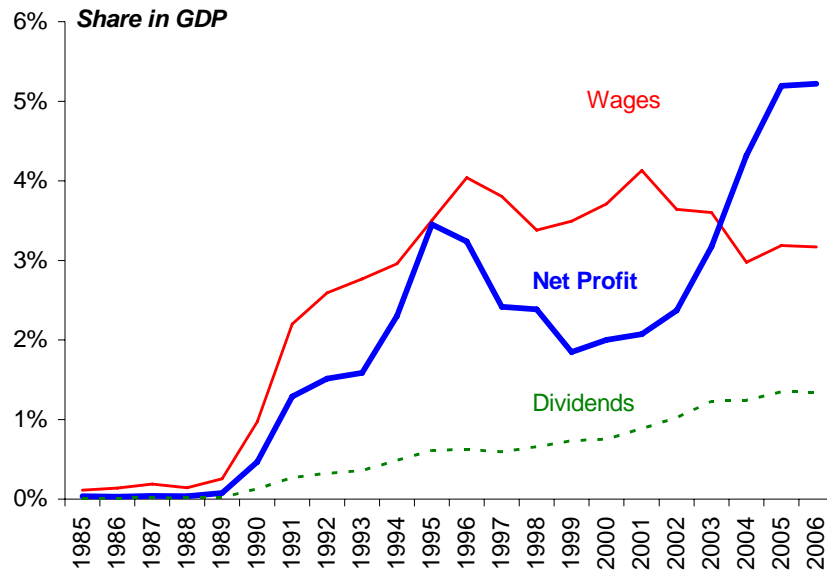
E = Morgan Stanley Research estimates, Source: RBI, Morgan Stanley Research



**MACRO**

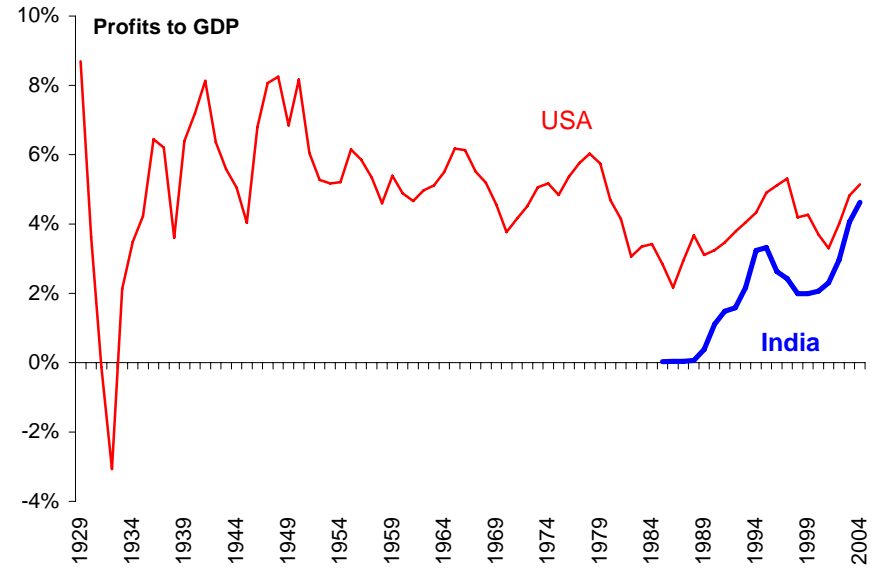
Structurally, the inflexion point has been the arrival of capitalism with its obvious positive implications for equity owners.

**Share of Profits in GDP: The Birth of Capitalism**



Source: Capitaline, Morgan Stanley Research

**Cyclical Factors May Be Causing Overstatement of Profits**

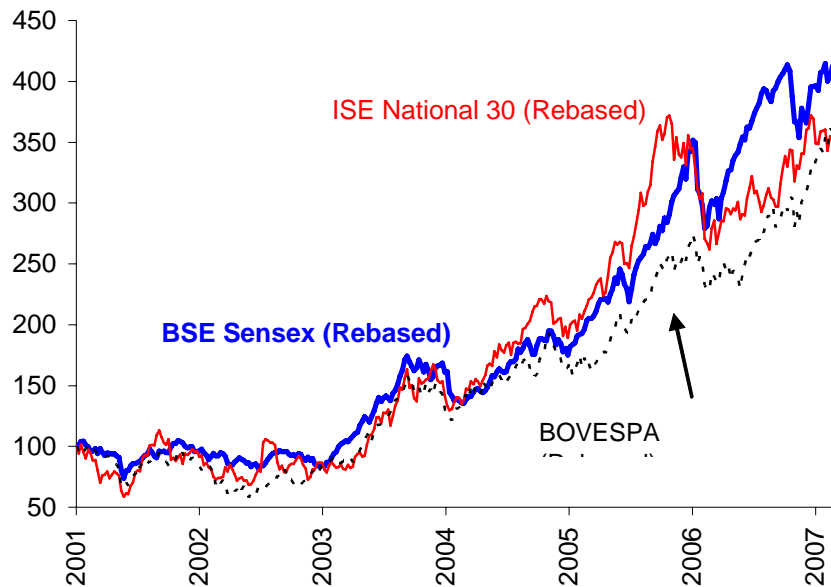


Source: CMIE, Bureau of Economic Analysis, Morgan Stanley Research

**MACRO**

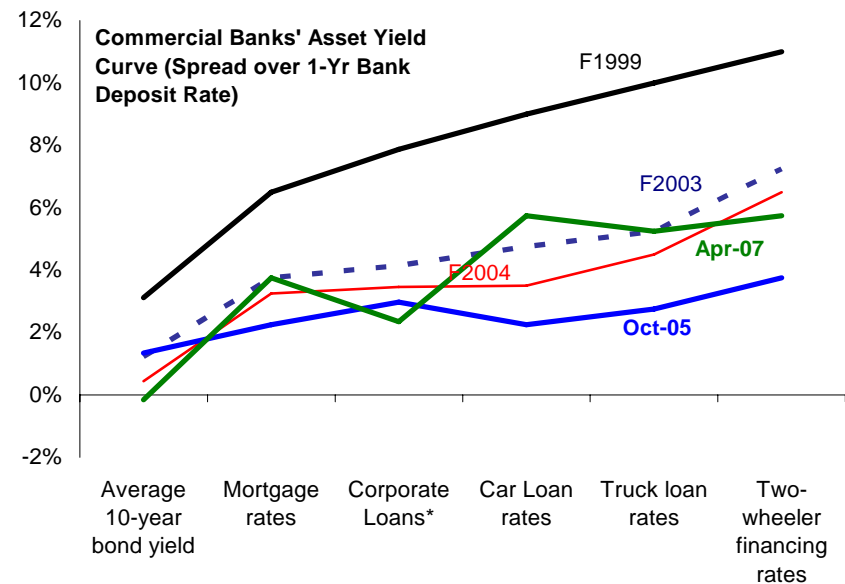
**Price of risk - i.e., global risk appetite - has been critical to Indian equities over the past four years. Consequently, a lot of debt has been added to the consumer and government's balance sheet.**

**India and EM Constituents: Move In Sync**



Source: Bloomberg, Morgan Stanley Research

**Commercial Banks' Asset Yield Curve (Spread over 1-Year Bank Deposit Rate)**

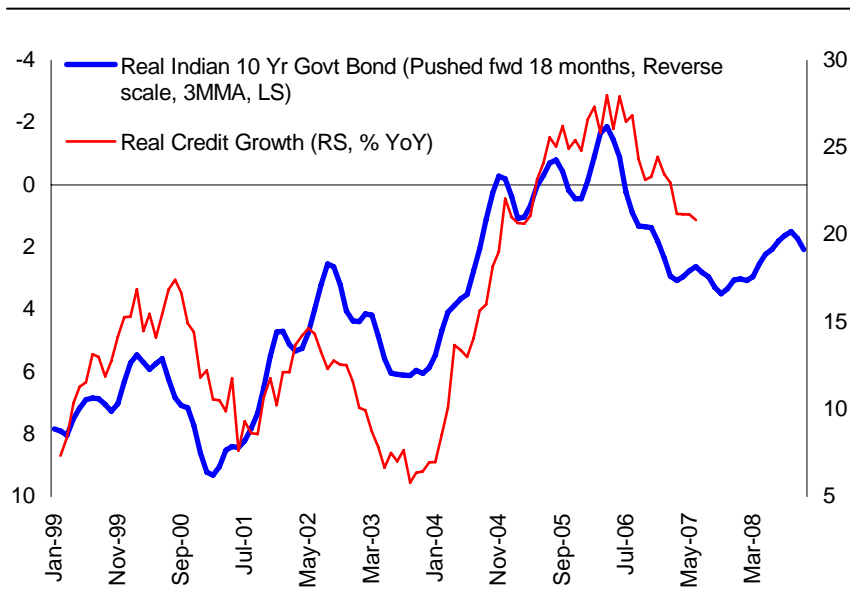


Source: CSO, CEIC, RBI, Company Data, Morgan Stanley Research

**MACRO**

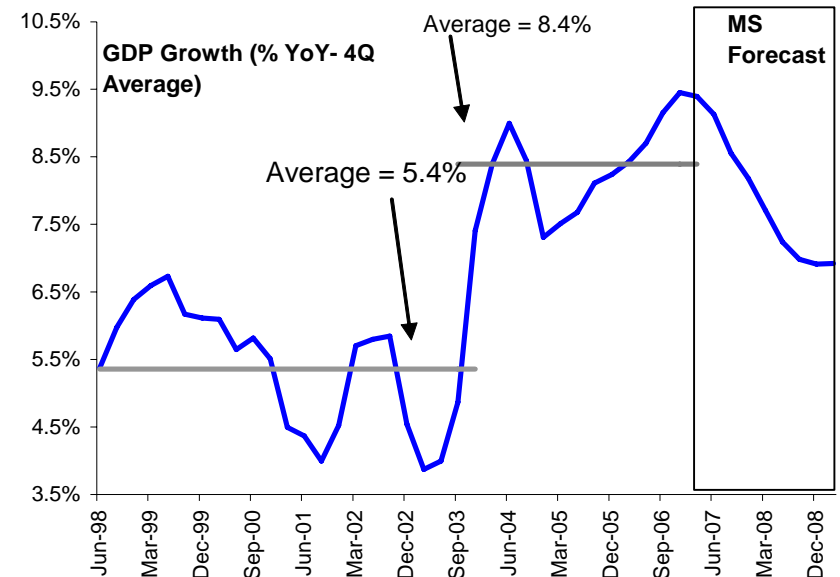
The credit cycle is likely to roll over with a tightened monetary stance. We forecast a growth slowdown over the next few months.

**Aggregate Debt to GDP**



Source: RBI, Bloomberg, Morgan Stanley Research

**GDP Growth Is Above Trend But Threatening to Drop**



Source: CSO, Morgan Stanley Research

**MACRO**

**19 elections scheduled over the coming 24 months does not make it easy for the policy environment.**

**19 Major Elections in the Coming Two Years**

State	Date Due	Incumbent Party
Goa	2007	Congress
Gujarat	2007	BJP
Jammu & Kashmir	2007	Congress
Chhattisgarh	2008	BJP
Delhi	2008	Congress
Himachal Pradesh	2008	Congress
Madhya Pradesh	2008	BJP
Meghalaya	2008	Congress
Mizoram	2008	MNF
Nagaland	2008	NPF
Rajasthan	2008	BJP
Tripura	2008	CPI (M)
Andhra Pradesh	2009	Congress
Arunachal Pradesh	2009	Congress
Karnataka	2009	Janata Dal
Maharashtra	2009	Congress + NCP
Orissa	2009	BJD + Allies
Sikkim	2009	SDF

Source: eci.gov.in

**Regional Parties at the Helm of Affairs**

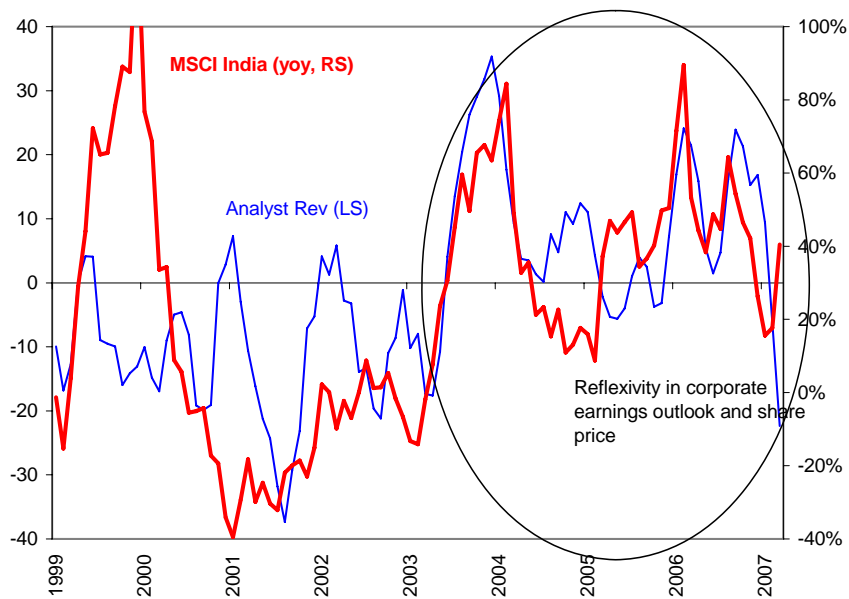
Year	Vote share			Seat Count		
	BJP	Congress	Others	BJP	Congress	Others
1984	7.7%	49.1%	43.2%	2	404	137
1989	11.4%	39.5%	49.1%	85	197	261
1991	20.0%	36.6%	43.4%	120	244	179
1996	20.3%	28.8%	50.9%	161	140	242
1998	25.6%	25.8%	48.6%	182	141	220
1999	23.8%	28.3%	48.0%	182	114	247
2004	22.2%	26.7%	51.2%	138	145	260

Source: eci.gov.in

**MACRO**

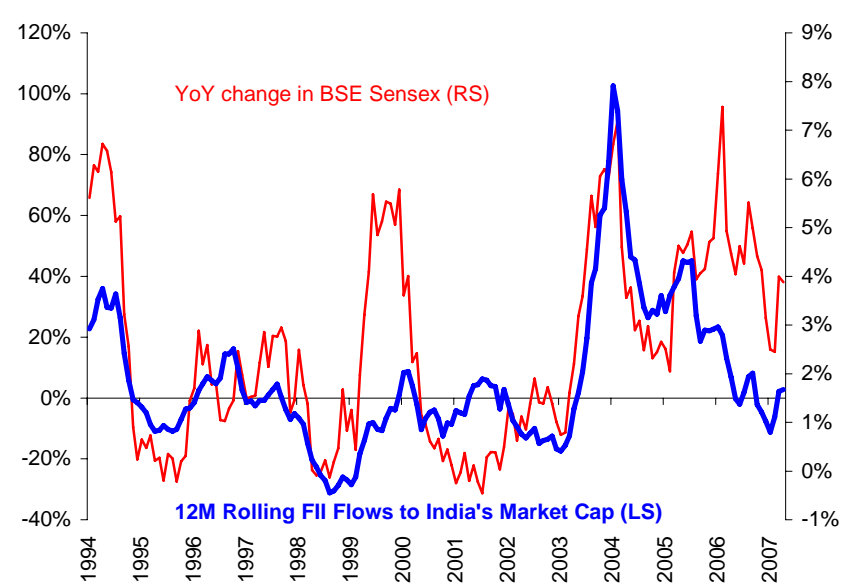
The market has to also deal with the reflexivity between share prices and corporate earnings that we have observed. The earnings outlook seemingly improves with rising share prices and vice versa.

**Reflexivity: Earnings And Share Prices – Chicken and Egg**



Source: Factset, Morgan Stanley Research

**India: FII Flows Important To Share Prices**

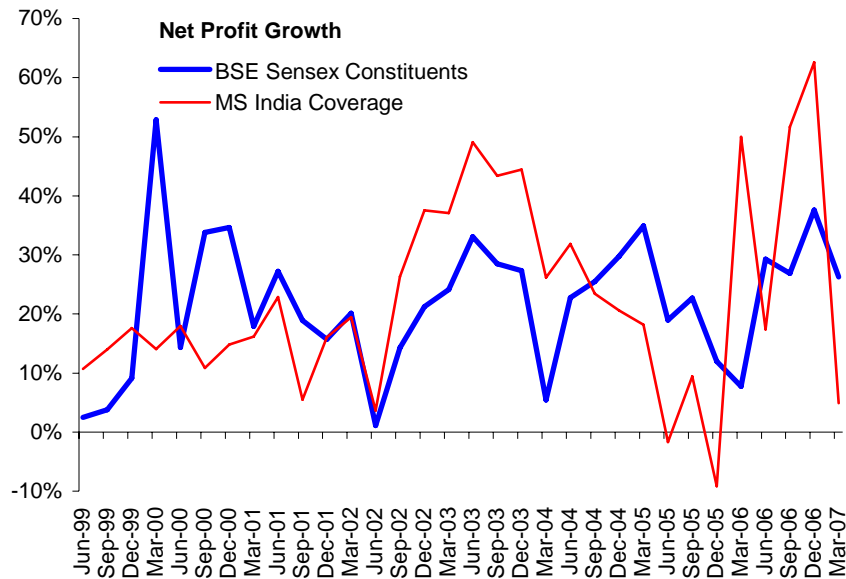


Source: Bloomberg, SEBI, Morgan Stanley Research

**FUNDAMENTALS**

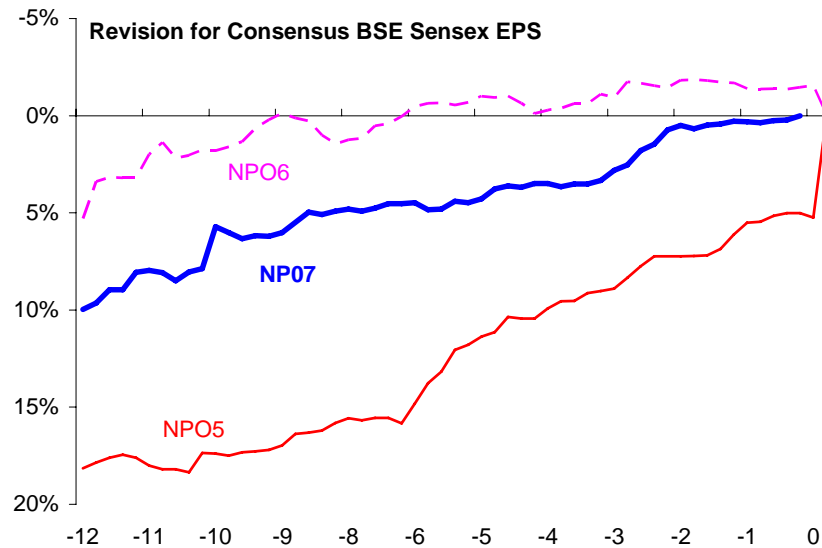
The market has benefited from strong positive earnings revisions for most of the past three years.

**Strong Broad-Based Earnings Growth**



Source: BSE, Capitaline, Company data, Morgan Stanley Research

**Strong Earnings Revisions Over The Past 3 Years**

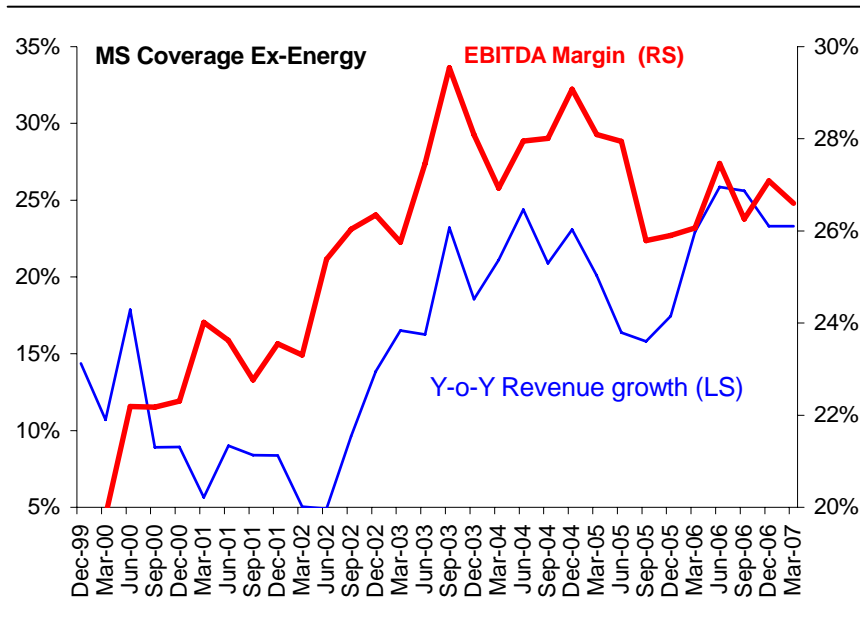


Source: IBES, FactSet, Morgan Stanley Research

**FUNDAMENTALS**

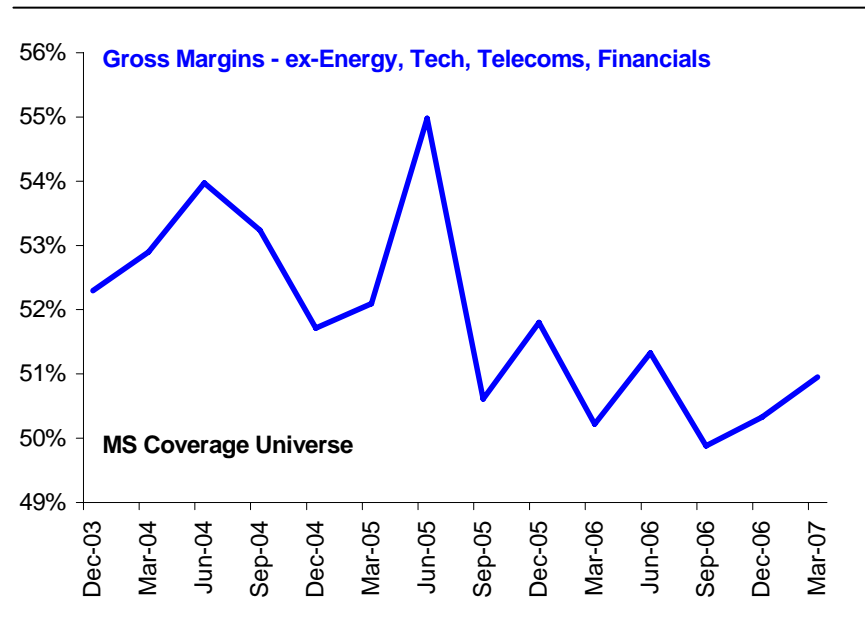
Revenue growth has been the key driver to recent earnings growth. However, there are a few headwinds to earnings, including the reflexivity between share prices and a possible soft-landing in growth.

**Revenue Growth: Key to Recent Earnings**



Source: Company data, Morgan Stanley Research

**Gross Margins Decline: Lack of Pricing Power**

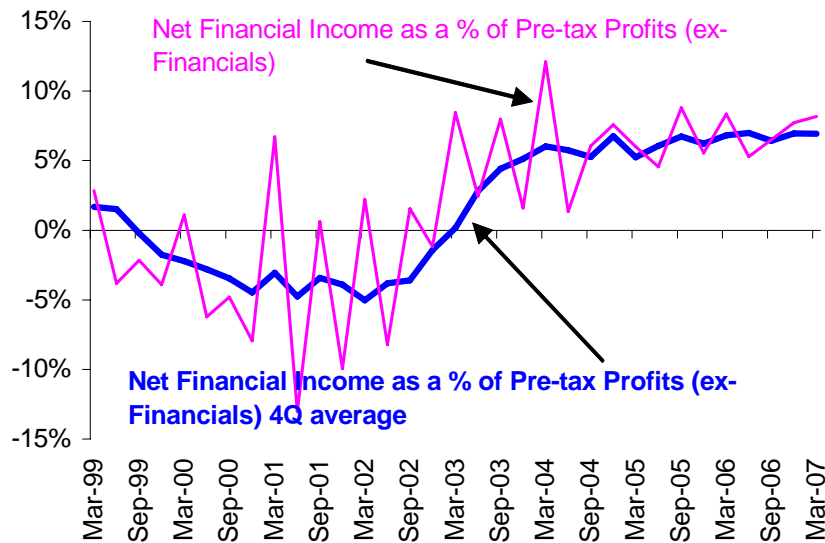


Source: Company Data, Morgan Stanley Research

**FUNDAMENTALS**

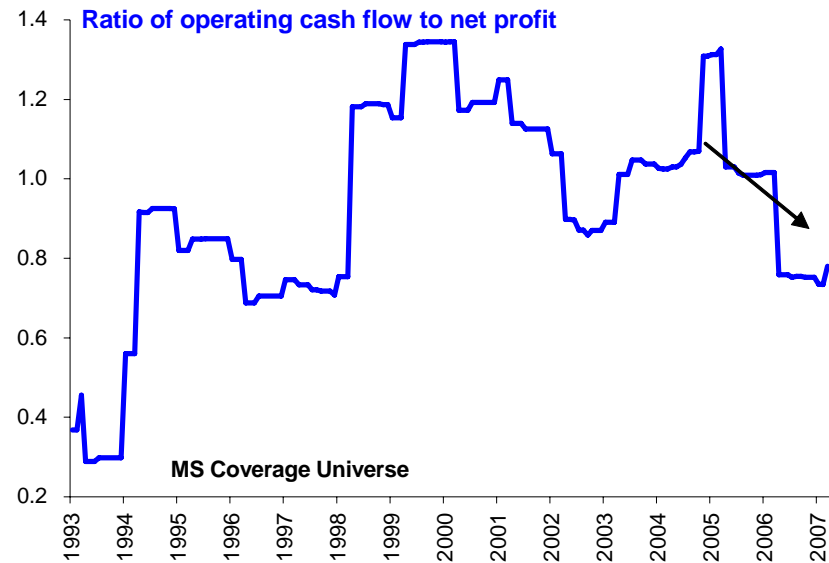
The other problem is the slippage in earnings quality. The ratio of operating cash flow to net profit is at an eight-year low. Earnings also seem dependent on financial income which in turn is a function of asset markets and cash balances.

**Rising Share of Financial Income in Net Earnings**



Source: Company data, Morgan Stanley Research

**Earnings Quality Slipping**



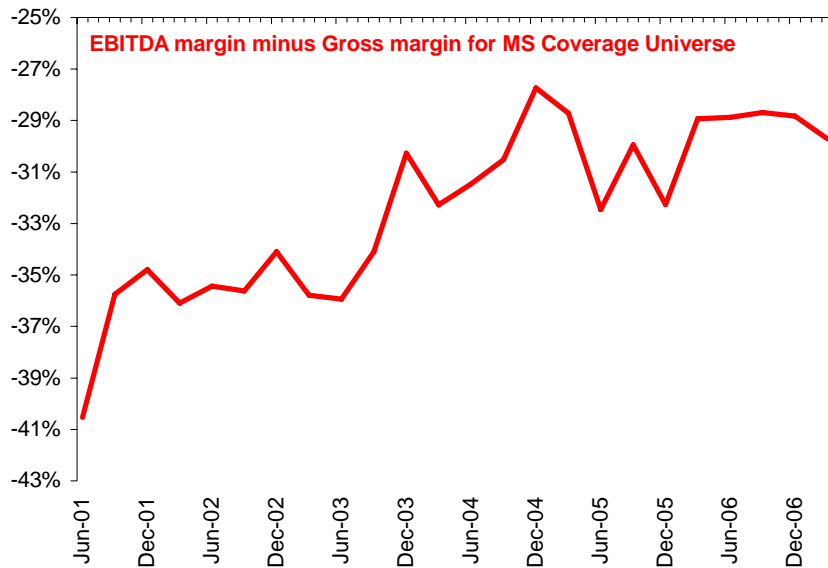
Source: Company data, Morgan Stanley Research



**FUNDAMENTALS**

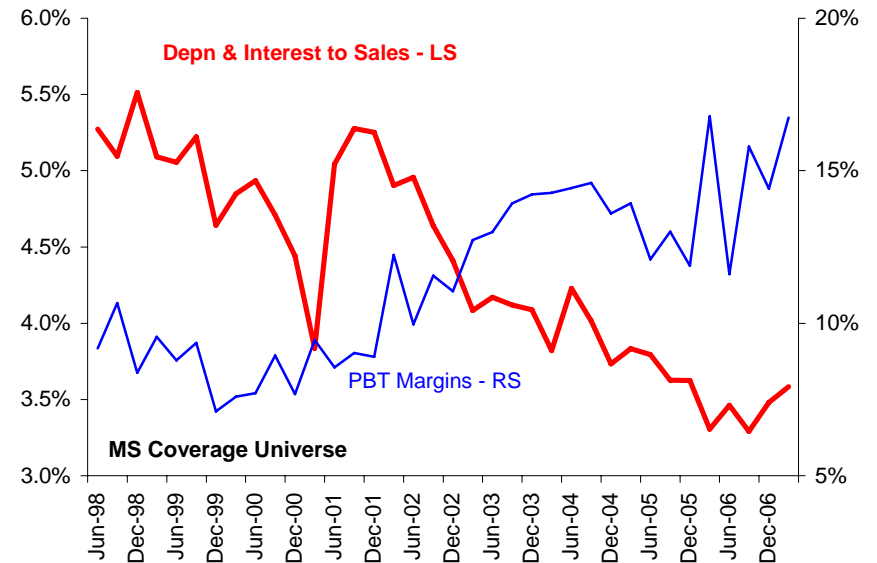
Operating leverage has been high led by the collapse in capital costs. We believe capital costs could be heading for mean reversion.

**Operating Leverage Has Soared**



Source: Company data, Morgan Stanley Research

**Capital Costs Have Plummeted**



Source: Company data, Morgan Stanley Research

## FUNDAMENTALS

While the sector concentration of earnings seems tolerable, the dispersion of earnings at the stock level is high and indicates dependence on a few companies to generate aggregate growth. For example, five companies account for 50% of the aggregate earnings of the BSE Sensex constituents.

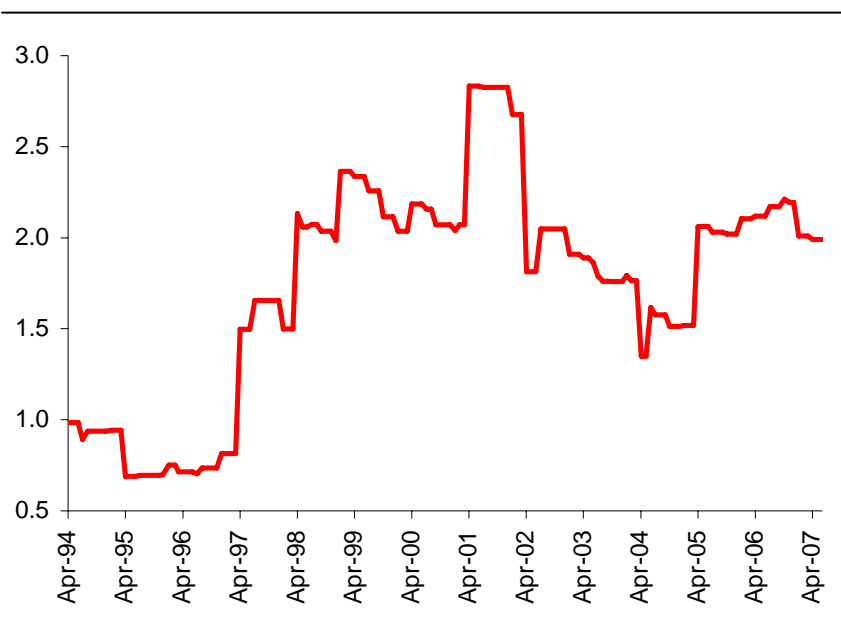
### Sectoral Contribution of Earnings

	Share in Aggregate Net Profit					Sector Contribution to growth			
	Avg 10 years	F06	F07	F08	F09	F06	F07	F08	F09
Cons Disc	6.3%	7.2%	6.9%	6.6%	6.5%	17.1%	5.9%	5.0%	6.0%
Industrials	4.0%	5.9%	6.7%	5.3%	3.7%	11.4%	9.2%	-1.7%	-6.3%
Energy	36.7%	31.0%	28.8%	26.9%	27.7%	8.5%	21.6%	17.4%	32.5%
Telecom	5.1%	3.0%	6.3%	7.9%	8.9%	-0.1%	16.9%	15.6%	15.1%
Utilities	5.7%	6.5%	5.9%	5.4%	5.2%	12.5%	3.7%	3.2%	3.6%
Consumer	6.2%	5.2%	4.3%	4.2%	4.4%	12.2%	1.5%	3.3%	5.9%
Financials	16.5%	16.4%	14.4%	15.3%	15.6%	30.0%	8.0%	19.5%	18.1%
Healthcare	3.1%	2.8%	3.2%	2.9%	2.9%	2.9%	4.6%	1.4%	3.0%
Technology	7.3%	9.7%	10.7%	11.0%	11.6%	25.2%	14.0%	12.0%	15.9%
Materials	9.1%	12.1%	12.7%	14.6%	13.5%	-19.7%	14.6%	24.3%	6.2%
<b>Global Resources</b>	<b>45.8%</b>	<b>43.2%</b>	<b>41.5%</b>	<b>41.6%</b>	<b>41.2%</b>	<b>-11.1%</b>	<b>36.2%</b>	<b>41.7%</b>	<b>38.7%</b>
<b>Domestic Cyclical</b>	<b>26.8%</b>	<b>29.5%</b>	<b>28.0%</b>	<b>27.1%</b>	<b>25.8%</b>	<b>58.4%</b>	<b>23.1%</b>	<b>22.7%</b>	<b>17.8%</b>

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

### Earnings Dispersion Has Headed Higher



Source: Company data, Morgan Stanley Research

## FUNDAMENTALS

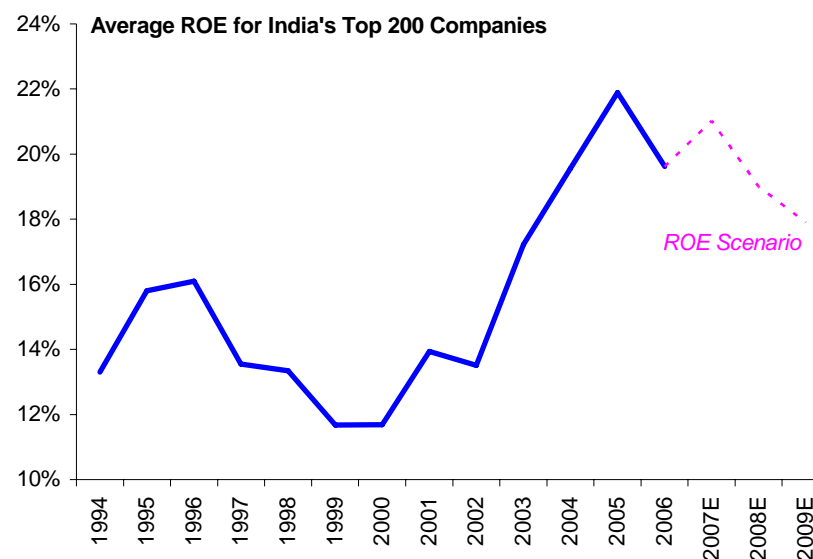
ROE will likely decline with slowing growth. Most of the ROE of the past few years has come from rising utilization and the positive effect of financial leverage. The sectors most vulnerable seem to be consumer discretionary, energy and industrials.

### ROE: Cap Utilization & Financial Leverage Driven

Components of ROE Change	Annual Increase in ROE	Financial Leverage	Capacity Utilization	Operating Performance
F1996	0.7%	0.6%	0.3%	-0.2%
F1997	-2.8%	-1.4%	0.3%	-1.7%
F1998	0.2%	0.2%	-1.1%	1.0%
F1999	-1.4%	-1.0%	0.3%	-0.8%
F2000	0.0%	0.0%	2.2%	-2.2%
F2001	2.1%	0.5%	1.8%	-0.2%
F2002	-0.4%	0.2%	-1.0%	0.5%
F2003	3.7%	1.3%	0.5%	1.9%
F2004	2.0%	0.8%	1.1%	0.1%
F2005	2.3%	0.7%	2.7%	-1.1%
F2006	-2.4%	-0.5%	-0.3%	-1.6%
<b>Cumulative change since</b>				
F2003	5.6%	2.2%	4.0%	-0.6%
F1996	4.0%	1.3%	6.8%	-4.1%

Source: Capitaline, Morgan Stanley Research

### ROE: Heading Lower?

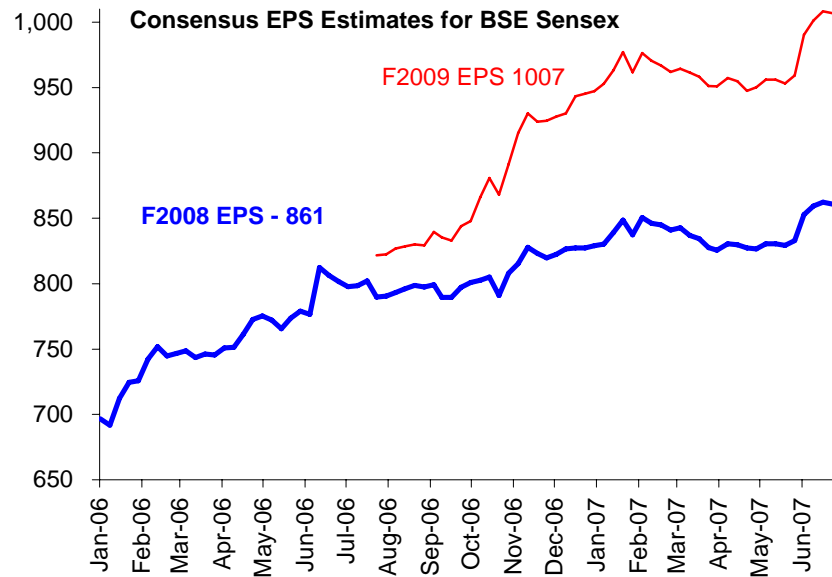


Source: Company data, Morgan Stanley Research

**FUNDAMENTALS**

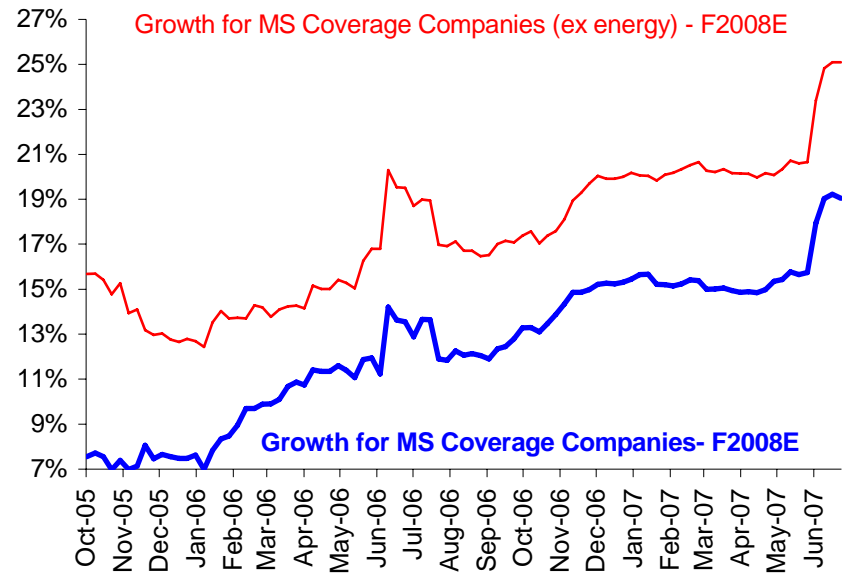
The consensus estimates on earnings are still in good shape with recent revisions strongly in the upward direction.

**Consensus Expectations: Earnings For BSE Sensex Constituents Rise Sharply**



Source: Factset, IBES, Morgan Stanley Research

**Consensus Expectations on Broad Market Earnings Spike**



E = Morgan Stanley research estimates Source: Factset, IBES, Morgan Stanley Research

**FUNDAMENTALS**

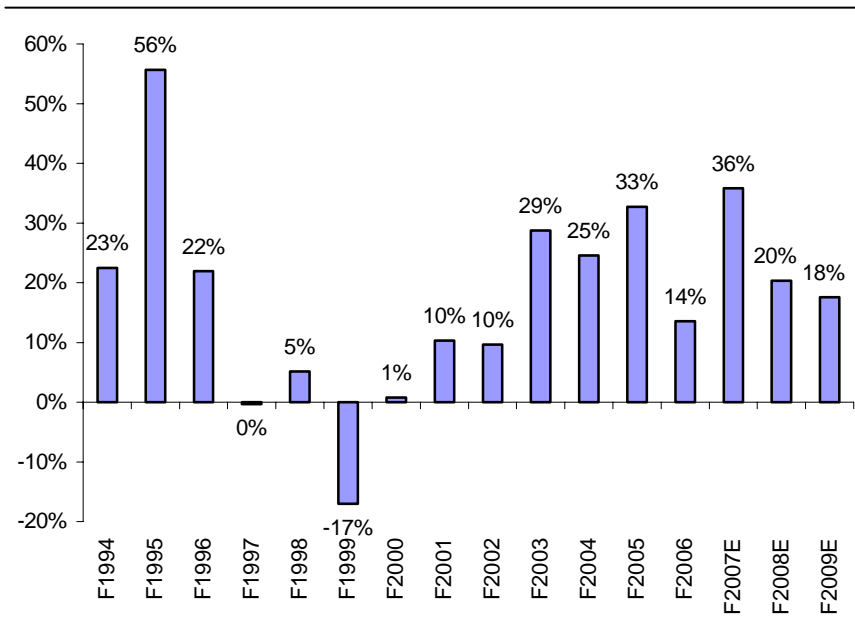
The key downside risks to earnings appear to be in technology, industrials and utilities sectors. The upside risks are in materials and energy. Overall, MS analysts appear to be in line with consensus.

**MS vs. Consensus: Earnings Growth Expectations**

	MS			Consensus		
	F2007E	F2008E	F2009E	F2007E	F2008E	F2009E
Consumer Discretionary	26%	14%	15%	20%	16%	15%
Consumer Staples	9%	15%	23%	9%	18%	16%
Energy	22%	12%	19%	24%	5%	8%
Financials	15%	27%	19%	12%	25%	22%
Healthcare	55%	8%	16%	56%	6%	18%
Industrials	49%	-5%	-18%	33%	23%	9%
Materials	38%	38%	7%	39%	23%	12%
Technology	45%	22%	23%	42%	27%	24%
Telecommunications	175%	49%	31%	169%	49%	32%
Utilities	18%	11%	11%	17%	15%	14%
<b>MS Coverage Universe</b>	<b>31%</b>	<b>20%</b>	<b>16%</b>	<b>30%</b>	<b>18%</b>	<b>16%</b>
<b>Sensex</b>	<b>36%</b>	<b>20%</b>	<b>18%</b>	<b>34%</b>	<b>19%</b>	<b>17%</b>

Note: We use the consensus estimates for BHEL while computing Sensex earnings since we do not cover the stock.  
 Source: IBES, Morgan Stanley Research

**BSE Sensex: Earnings (Bottom-up MS Analysts' Forecasts)**

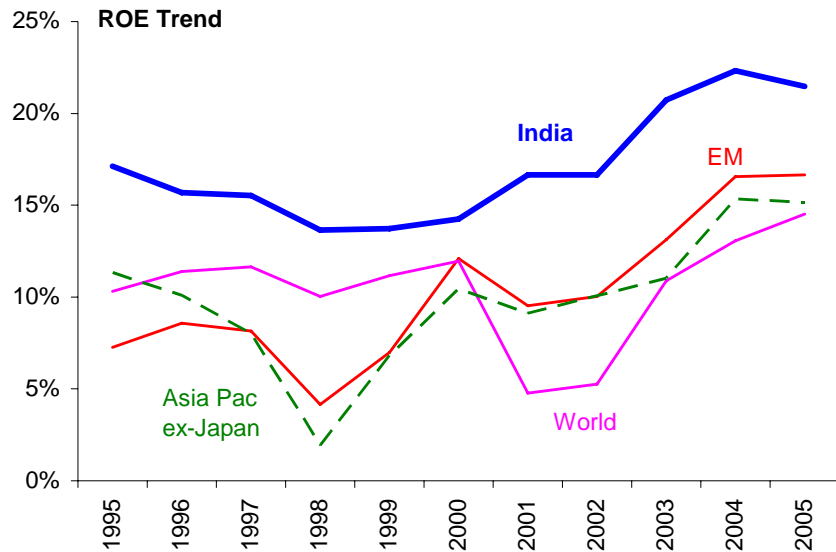


Source: IBES, Factset, Company data, Morgan Stanley Research

**FUNDAMENTALS**

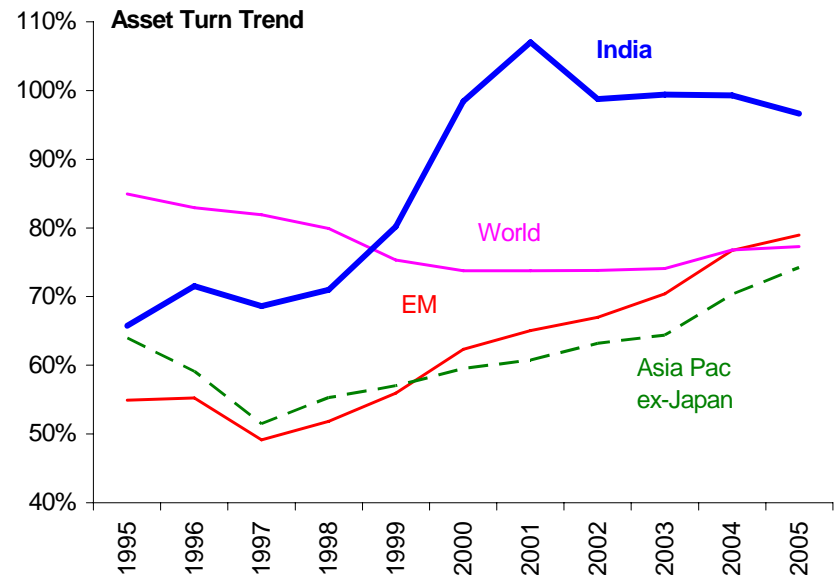
India’s ROE advantage over the rest of the world has come from the aggressive use of assets, over-estimation of the life of assets, lower earnings quality and positive financial leverage. In addition to cyclical pressure on ROE, there could be structural pressure as India becomes a recipient of more capital at lower prices.

**India Dominates ROE Performance**



Source: Factset, MSCI, Morgan Stanley Research

**Asset Turn at the Helm of India’s ROE Performance**

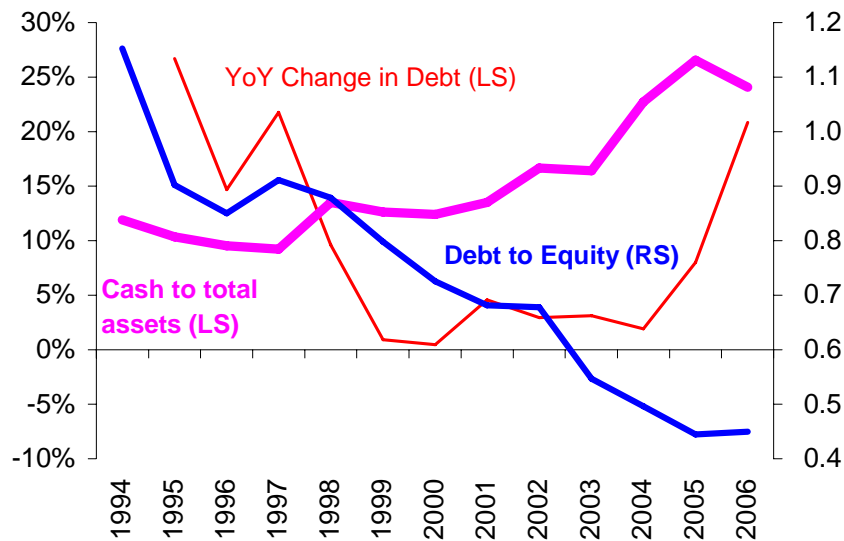


Source: Factset, MSCI, Morgan Stanley Research

**FUNDAMENTALS**

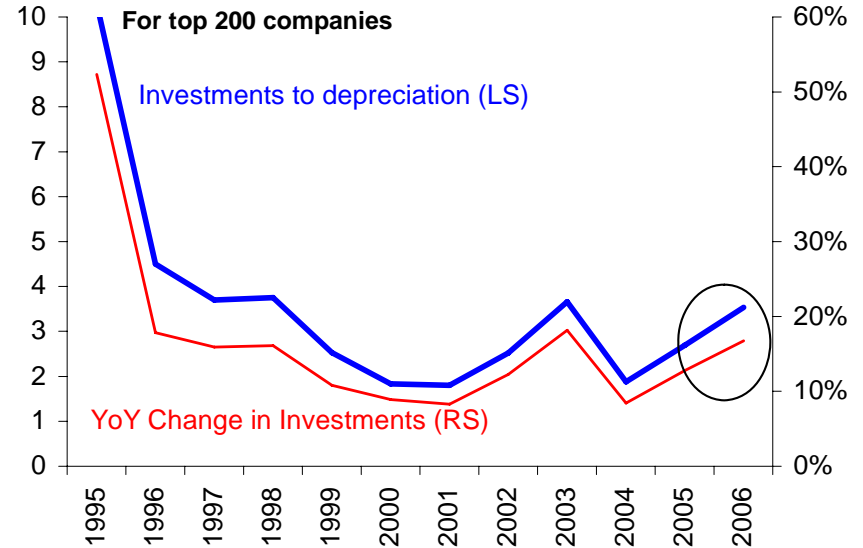
The silver lining is that corporate balance sheets are in great shape with low debt-equity, high cash balances, and renewed focus on adding capital stock.

**Balance Sheets Remain Solid**



Source: Capitaline, Morgan Stanley Research

**Smart Pickup In Capital Spending**

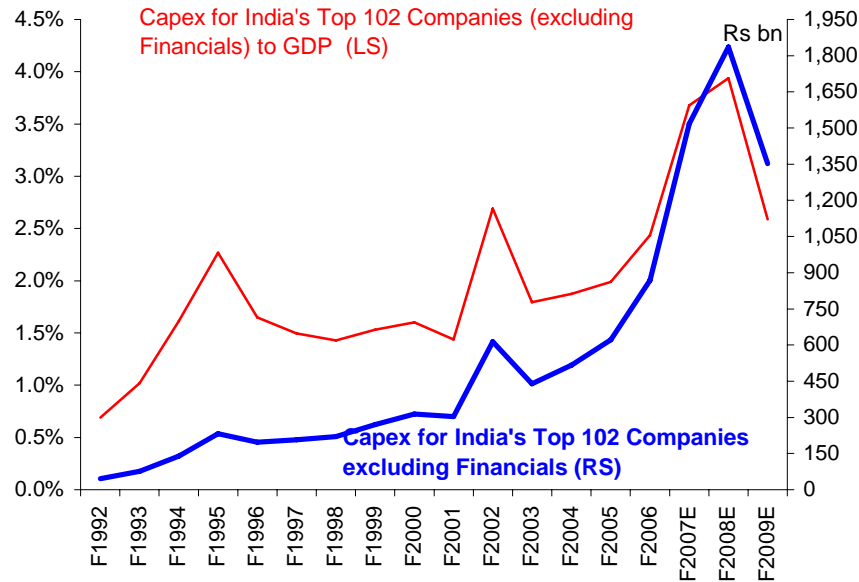


Source: Capitaline, Morgan Stanley Research

**FUNDAMENTALS**

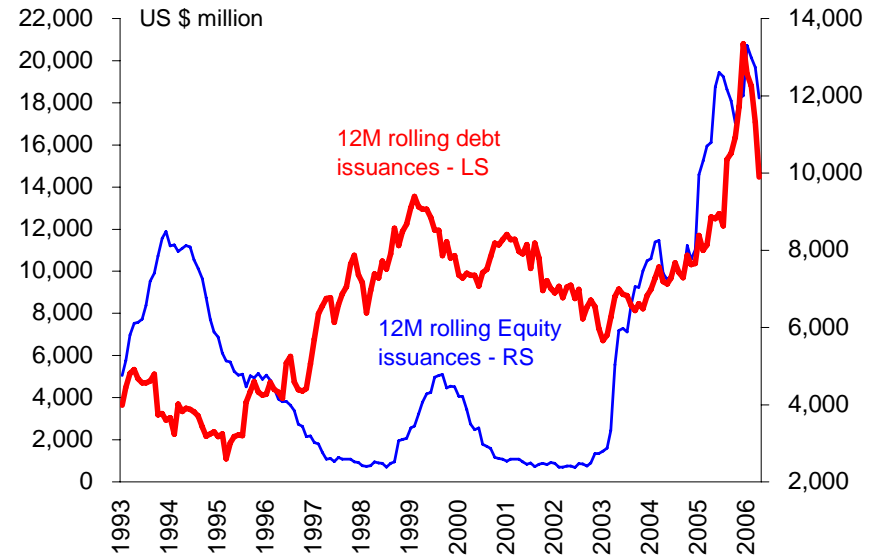
Corporate sentiment seems to be the best it has been in a decade and capital spending, M&A – domestic and overseas – and capital issuances are already approaching or have breached 10-year highs.

**Corporate Activity Scaling New Heights**



Source: Company data, Morgan Stanley Research, E = Morgan Stanley Research Estimates

**Surging Issuances Underscore View on Growth**



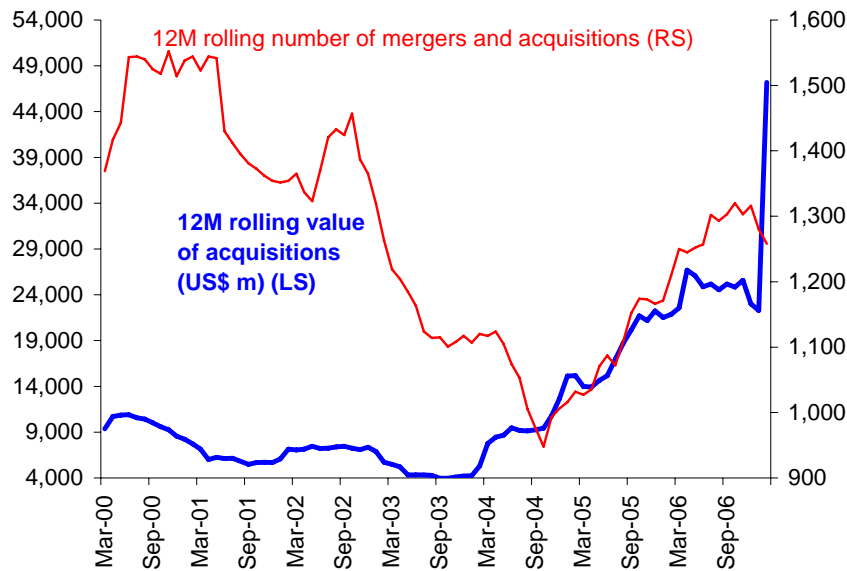
Source: CMIE, CSO, Morgan Stanley Research



**FUNDAMENTALS**

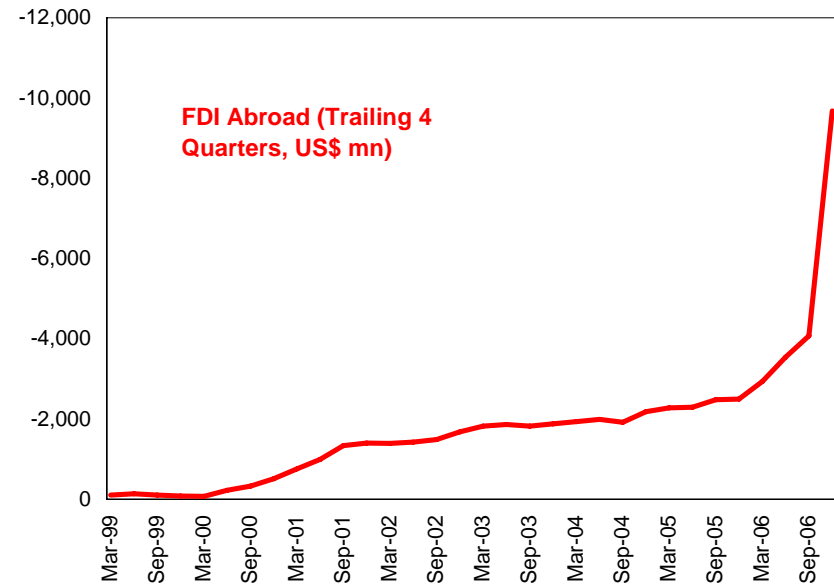
Sentiment is being helped by record profits, strong growth, strong balance sheets, and soaring share prices.

**M&A Reflects Extreme Optimism**



Source: CMIE, Morgan Stanley Research

**Overseas Investments at an All-time High**

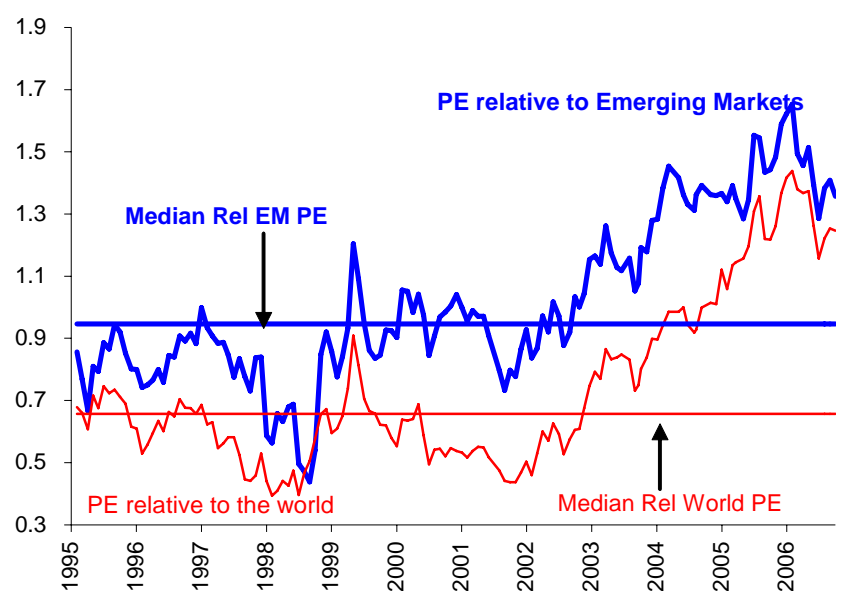


Source: CEIC, Morgan Stanley Research

## VALUATIONS

India's relative multiple versus the world and emerging markets has come off its highs. Several sectors trade at premiums to history and Emerging market/Asian averages.

Relative Valuations Off Highs



Source: Factset, MSCI, Morgan Stanley Research

Indian Sectors Trading at a Significant Premium

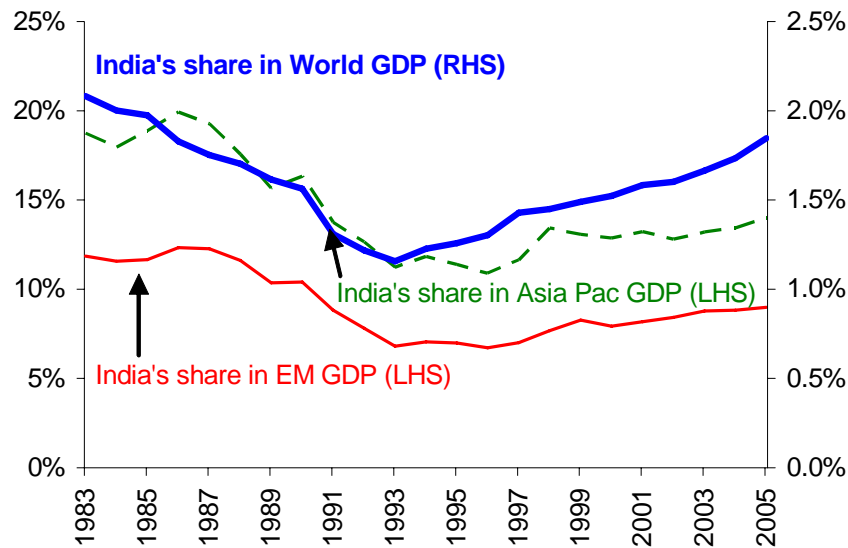
June 30, 2007	MSCI India		Asia Pac		Emerging Markets	
	PE	Curr / Avg	Rel PE	Curr / Avg	Rel PE	Curr / Avg
Consumer Discretionary	19.1	103%	1.0	95%	1.0	91%
Consumer Staples	24.9	79%	1.0	71%	1.0	63%
Energy	17.6	164%	1.2	146%	1.6	161%
Financials	29.7	249%	1.6	224%	1.5	206%
Health Care	34.0	111%	0.8	91%	1.5	132%
Industrials	30.2	191%	1.3	160%	1.3	152%
Technology	33.9	72%	1.8	93%	1.8	97%
Materials	13.4	111%	0.9	120%	0.8	95%
Telecoms	16.5	156%	1.0	164%	0.8	133%
Utilities	14.4	144%	0.9	134%	0.7	93%

Source: Factset, MSCI, Morgan Stanley Research

**VALUATIONS**

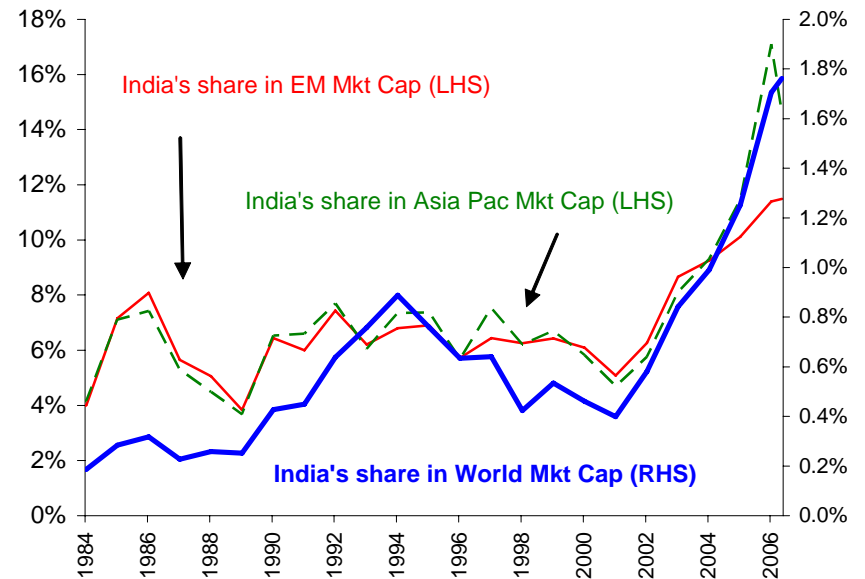
**India's significant re-rating signals a distinct compression in long-term returns from equities.**

**India's Share in GDP Rises Marginally**



Source: IMF, Morgan Stanley Research

**Big Rise in India's Market Cap Share Signifying Re-rating**

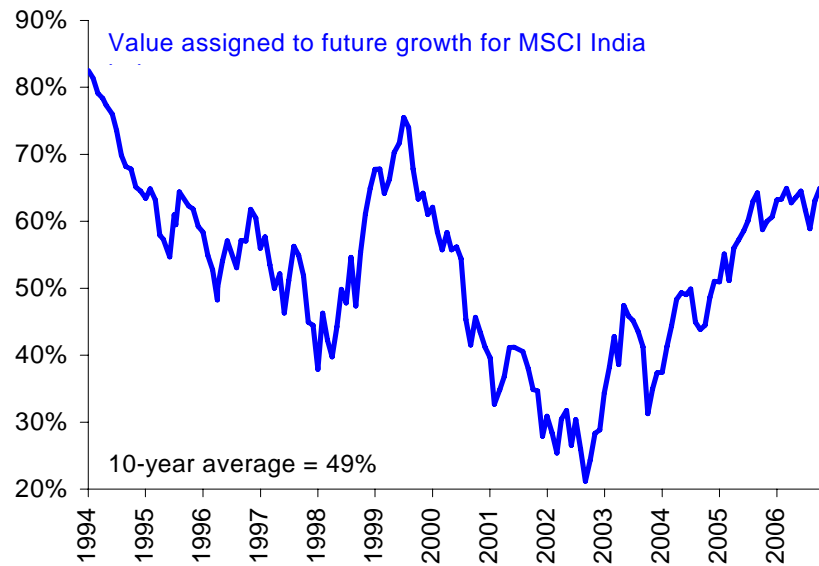


Source: Factset, Morgan Stanley Research

**VALUATIONS**

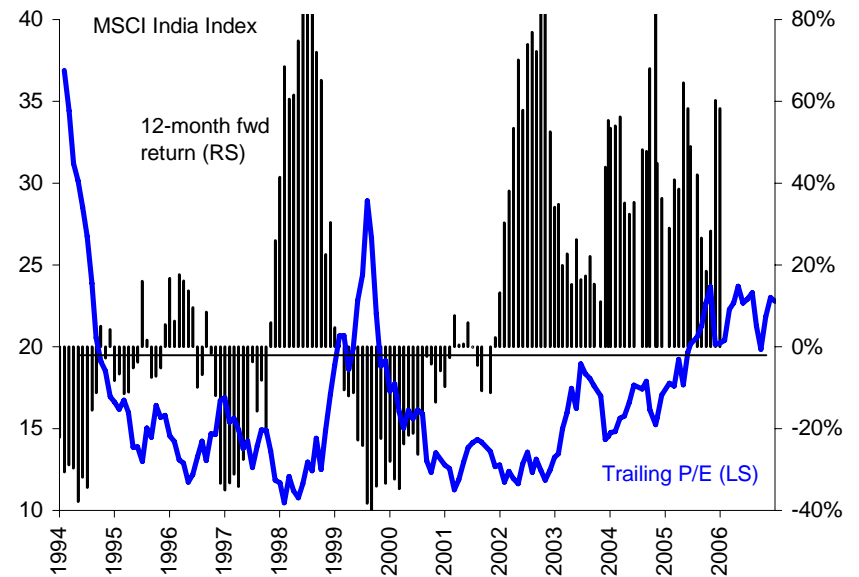
**Trailing P/E (at 22x) indicates a negative return in the coming 12 months. We estimate that 63% of the index value is attributed to future earnings growth.**

**More Than 60% of the MSCI India Index Is Attributed to Future Growth**



Source: Factset, MSCI, Morgan Stanley Research

**Valuations: Pointing to Negative Returns Over 12M**

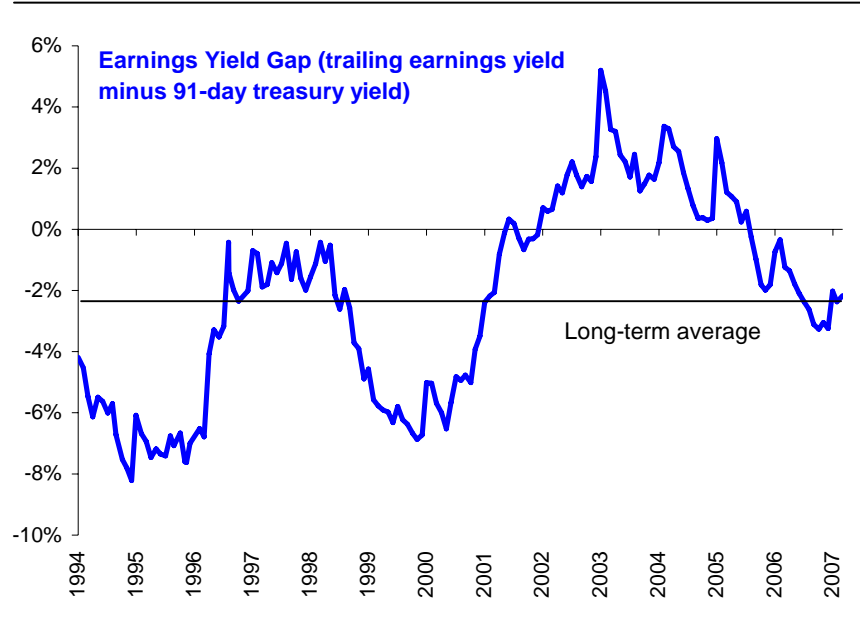


Source: Factset, MSCI, Morgan Stanley Research

**VALUATIONS**

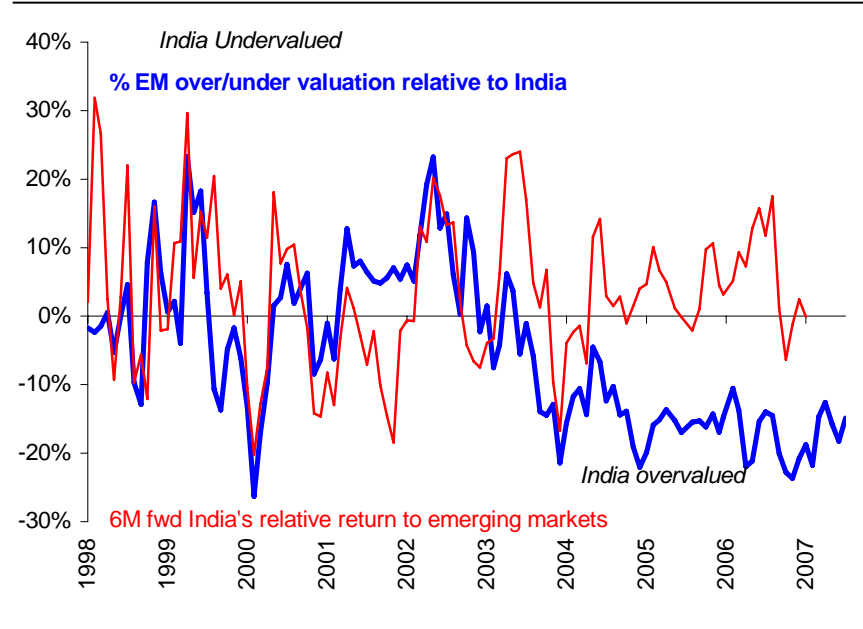
**Neither the sector composition nor India's ROE superiority defend equity valuations. Valuations appear inexpensive relative to bonds, but that does not tell us anything about the fairness of bond prices or whether earnings are inflated or not.**

**Earnings Yield Gap Below Historical Average**



Source: Bloomberg, Company data, Morgan Stanley Research

**India vs. EM ROE Premium More Than in the Price**

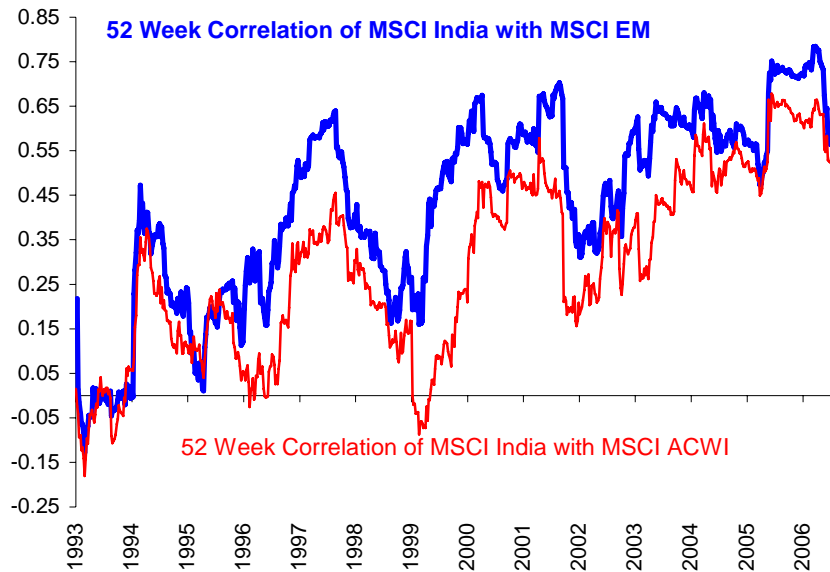


Source: MSCI, Factset, Morgan Stanley Research

**MARKET DYNAMICS**

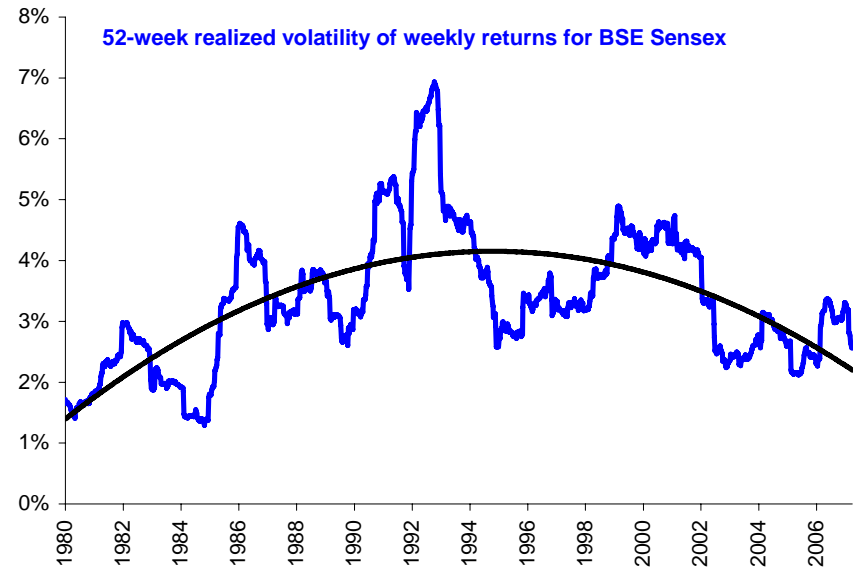
The correlation of returns on Indian equities is high relative to emerging markets and to the world. However, both realized volatility and correlations have come off recently, which could be positive for short-term returns.

**Indian Equities: High and Rising Correlation**



Source: Factset, MSCI, Morgan Stanley Research

**Realized Volatility Coming Off from Recent High**

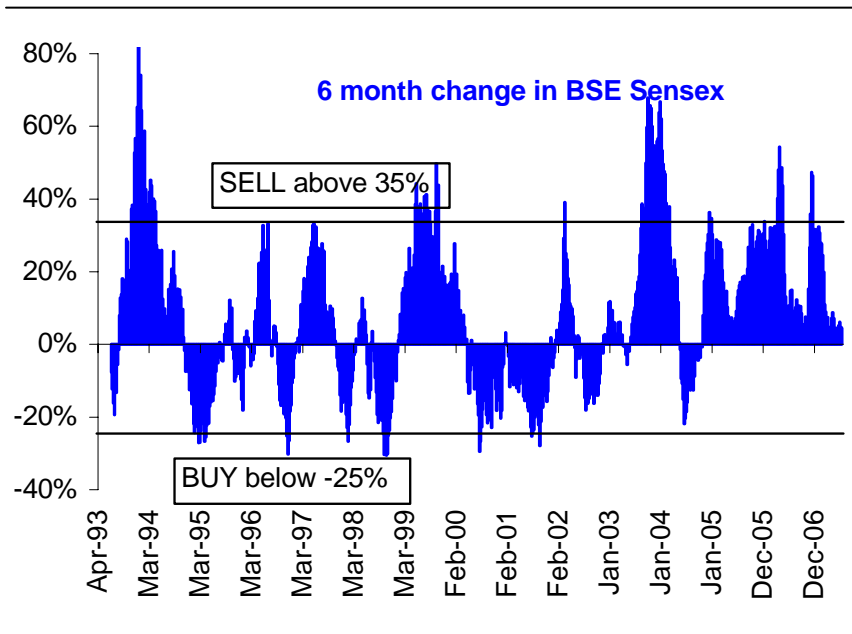


Source: Bloomberg, Morgan Stanley Research

**MARKET DYNAMICS**

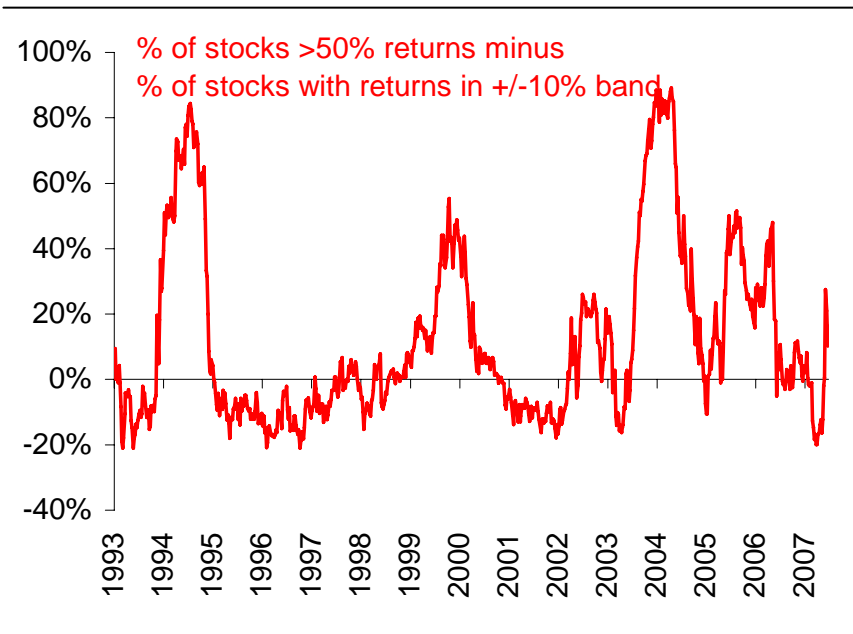
Our proprietary momentum indicators are moving in the opposite direction with some suggesting caution (trailing returns) and some exuberance (return tails).

**6M Trailing Returns Have Come Off**



Source: Bloomberg, Morgan Stanley Research

**Return Tails: Getting Thick**

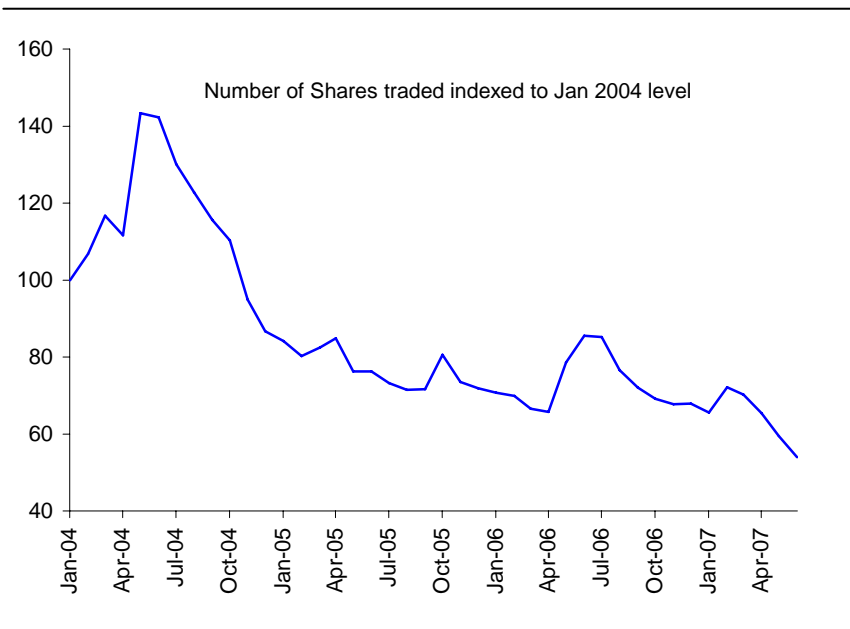


Source: Bloomberg, Morgan Stanley Research

**MARKET DYNAMICS**

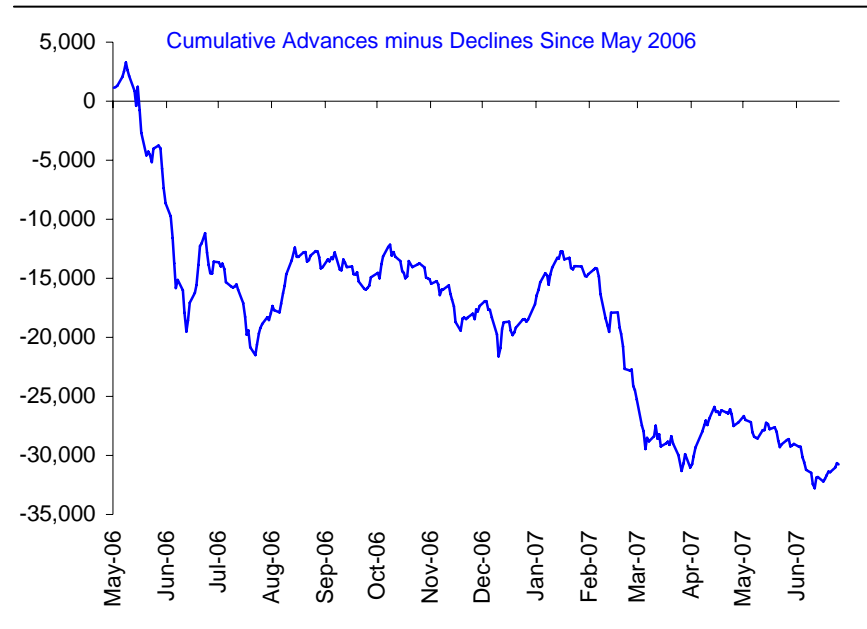
The market has lacked depth and breadth over the past year, which could be a source of concern.

**Trading Volumes Falling Sharply**



Source: NSE, BSE, Morgan Stanley Research

**Bad Market Breadth**



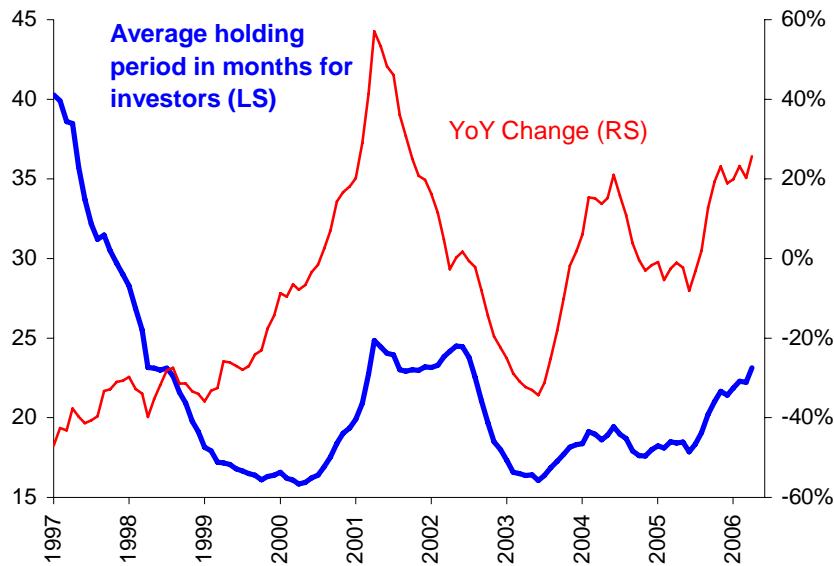
Source: ASA, Morgan Stanley Research



**MARKET DYNAMICS**

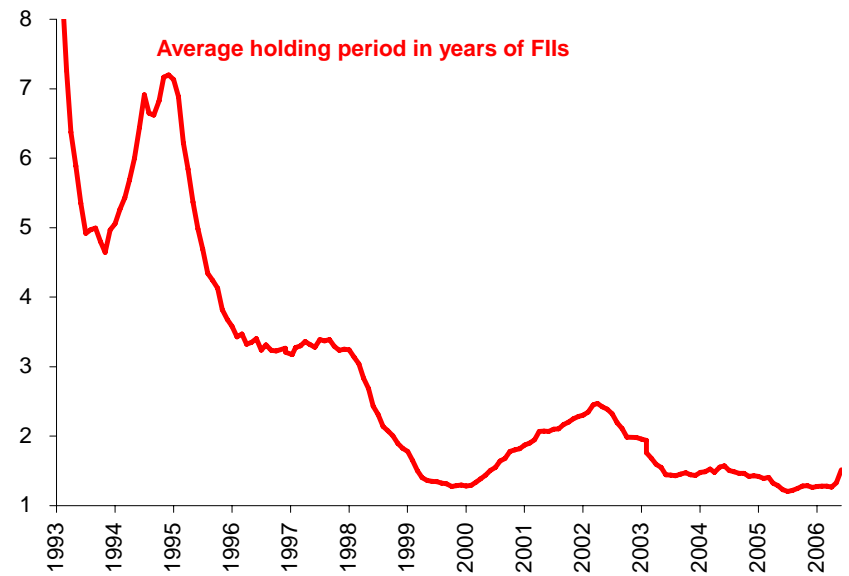
The silver lining is that investors seem to be raising their commitment to equities by holding equities for longer than they have in almost a decade.

**Rising Investor Commitment to Indian Equities**



Source: NSE India, BSE, Morgan Stanley Research

**FII: Lower Holding Period of Indian Stocks**

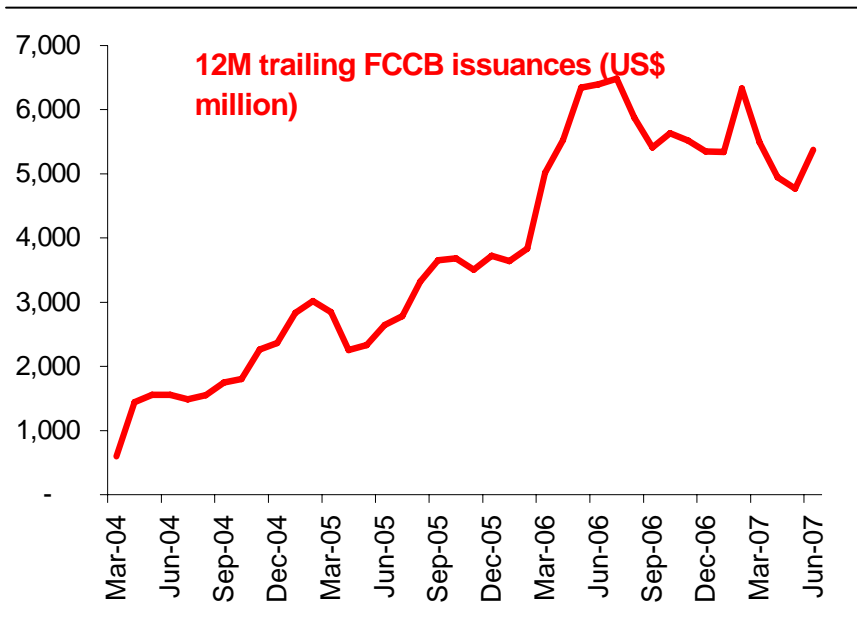


Source: NSE India, Morgan Stanley Research

**MARKET DYNAMICS**

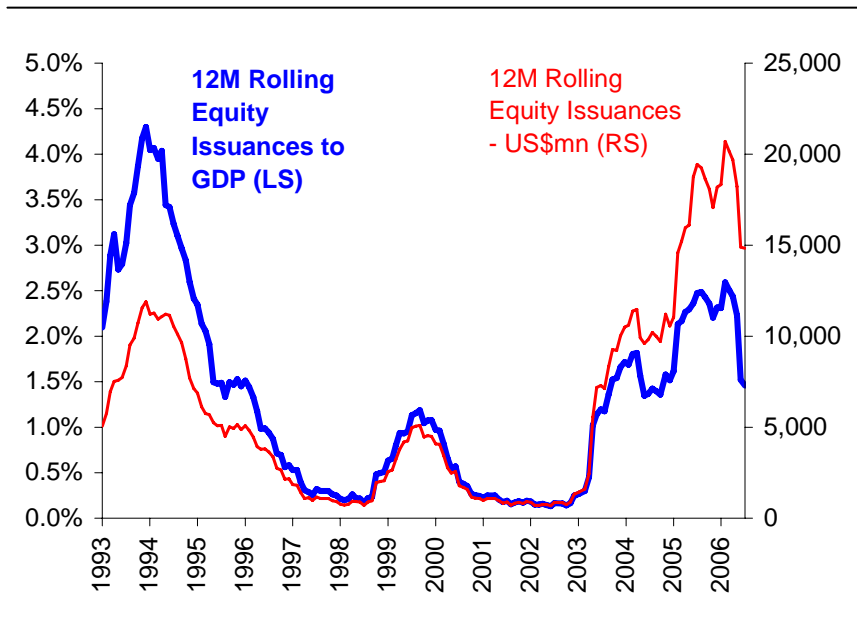
Equity issuances could get bunched up in the coming weeks as we have already seen recently, but given the strong sentiment its impact on share prices has been muted.

**FCCBs Boom: Over But Not Out**



Source: Prime Database, Morgan Stanley Research

**Equity Issuances: Bunching Up**



Source: CMIE, CSO, Morgan Stanley Research

## STYLE & SECTOR STRATEGY

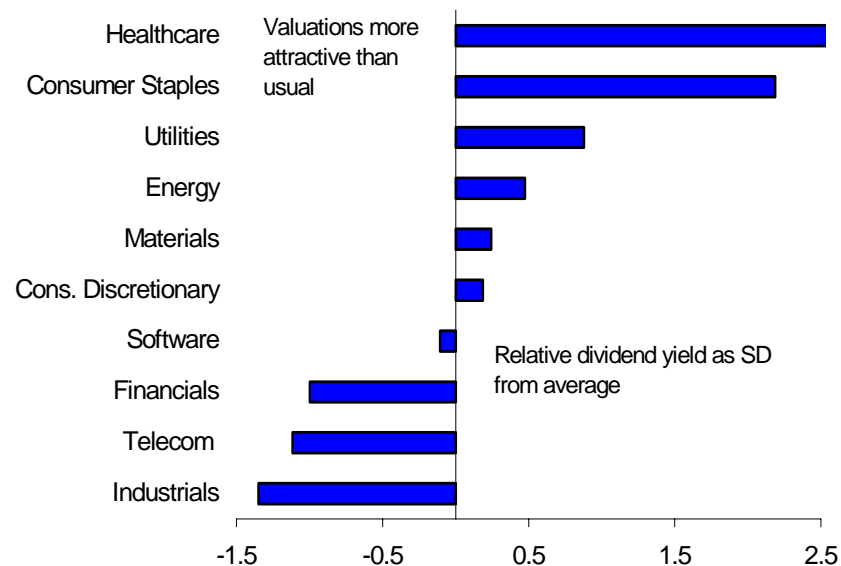
We expect defensive sectors to do well, helped by valuation and earnings momentum. We are overweight healthcare, energy, consumer staples, utilities and telecoms.

### Sector Valuations Relative to Emerging Market Sectors: Staples, Technology, Materials and Utilities Are Inexpensive

30-Jun-07	Relative to EM			P-B ROE Model
	PE	PB	ROE	Deviation From Fair Value
Consumer Discretionary	1.0	1.6	8%	1%
Consumer Staples	1.0	2.0	16%	-24%
Energy	1.6	2.0	5%	75%
Financials	1.5	1.7	2%	64%
Health Care	1.5	2.0	5%	19%
Industrials	1.3	2.8	15%	10%
Technology	1.8	4.3	20%	-23%
Materials	0.8	1.3	10%	-11%
Telecom	0.8	1.0	4%	28%
Utilities	0.7	1.5	9%	-10%

Source: Factset, MSCI, Morgan Stanley Research

### Sector Valuations Relative to History: Healthcare, Staples, Utilities, the Most Attractive

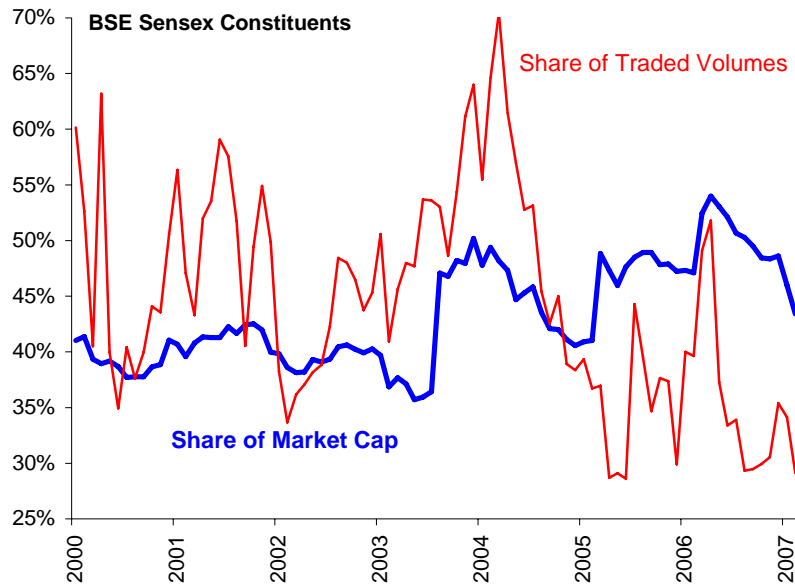


Source: Company Data, Morgan Stanley Research

**STYLE & SECTOR STRATEGY**

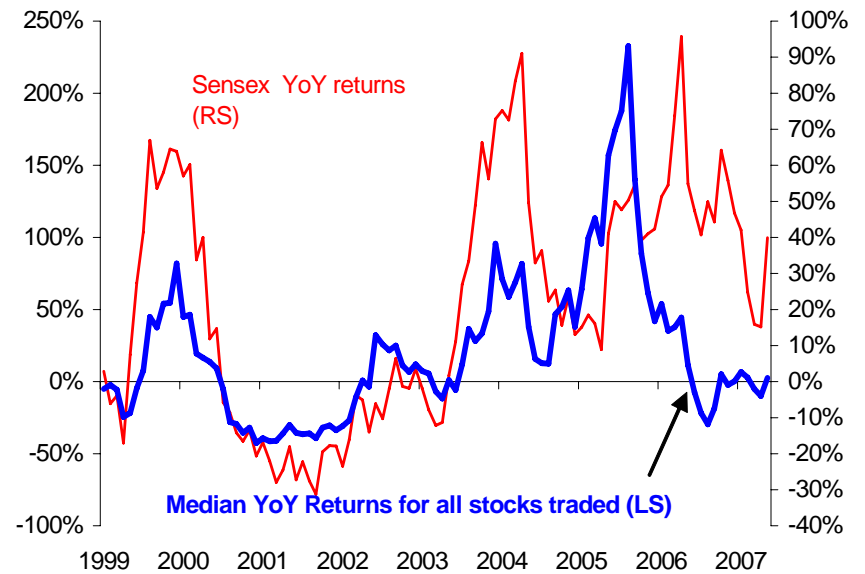
Investors need to note that returns have gone up the cap curve while trading, flows and ownership have gone down the cap curve. This coupled with the state of ROE and valuation dispersion makes the environment ideal for stock picking.

**Trading Has Moved Down the Cap Curve**



Source: Bloomberg, BSE, NSE India, Morgan Stanley Research

**Returns Have Gone Up the Cap Curve**

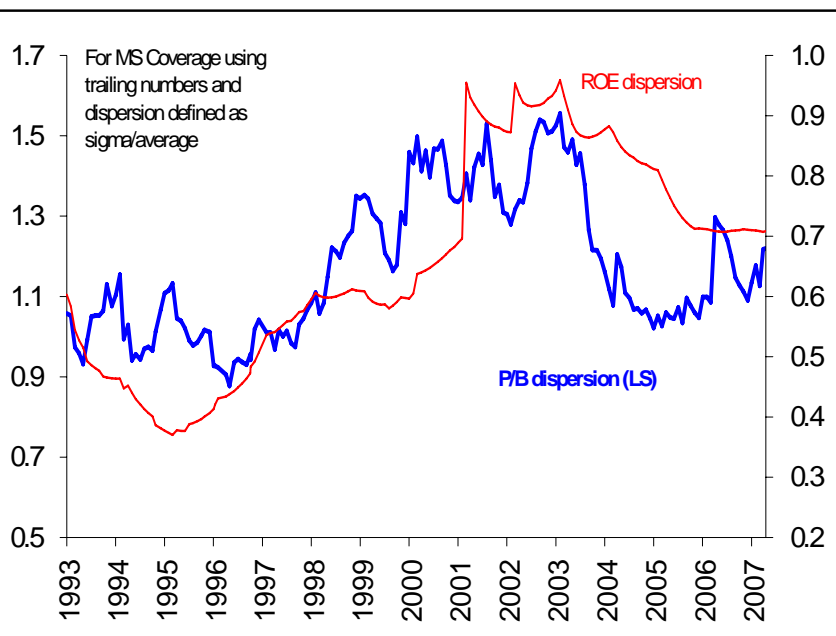


Source: Bloomberg, Capitaline, Morgan Stanley Research

**STYLE & SECTOR STRATEGY**

Inter sector correlations are running at two sigma above average, indicating the strong influence of macro factors on sector performance (versus idiosyncratic factors). We also think ROE dispersion will likely rise and so will the P/B dispersion. These trends are opportunities for investors to buy or sell stocks and protect portfolio returns even if the market falls.

**ROE Dispersion vs. P/B Dispersion**



Source: Company Data, Bloomberg, Morgan Stanley Research

**Return Correlation High Across the Cap Curve**

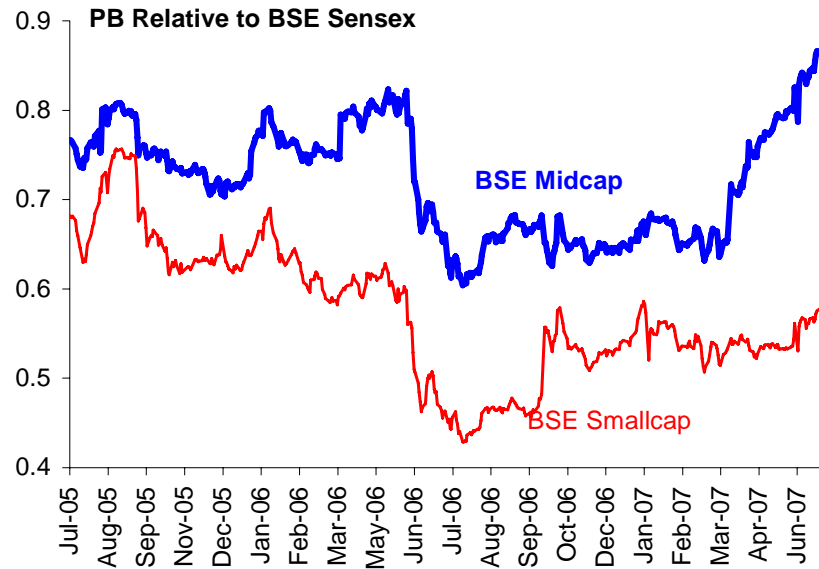
Correlation	Cons Disc.	Cons. Staples	Energy	Financials	Healthcare	Industrials	Software	Materials	Telecom
Cons. Staples	0.82								
Energy	0.77	0.63							
Financials	0.83	0.68	0.74						
Healthcare	0.86	0.65	0.60	0.60					
Industrials	0.77	0.67	0.78	0.74	0.73				
Software	0.90	0.77	0.74	0.77	0.79	0.80			
Materials	0.69	0.54	0.66	0.67	0.67	0.72	0.79		
Telecom	0.87	0.70	0.82	0.81	0.68	0.80	0.86	0.75	
Utilities	0.77	0.59	0.68	0.72	0.66	0.73	0.77	0.73	0.78

Source: Factset, Morgan Stanley Research

**STYLE & SECTOR STRATEGY**

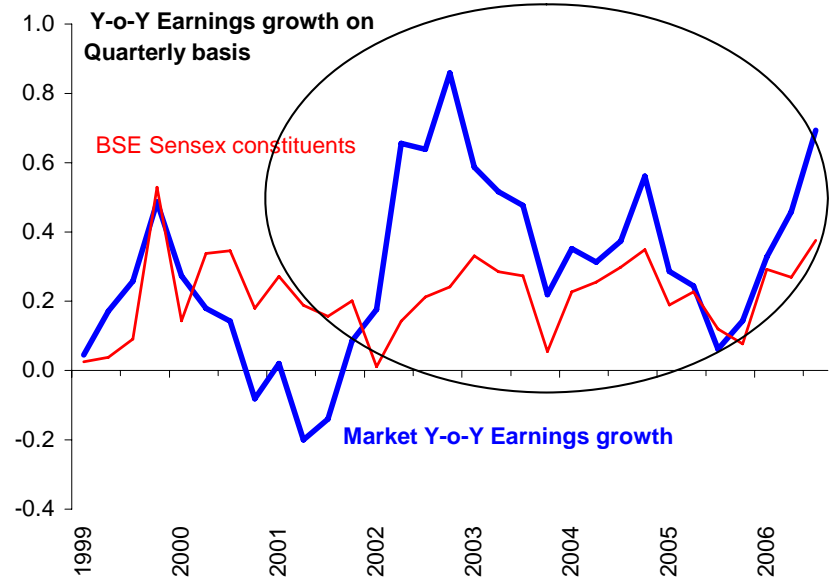
**We favor large caps over mid-caps given par valuations and the relative earnings risk in the latter.**

**Small- and Mid-Caps vs. Large Caps: Large Caps Favored**



Source: Bloomberg, Morgan Stanley Research

**Smaller Companies Outperform Large Companies In Terms of Earnings**

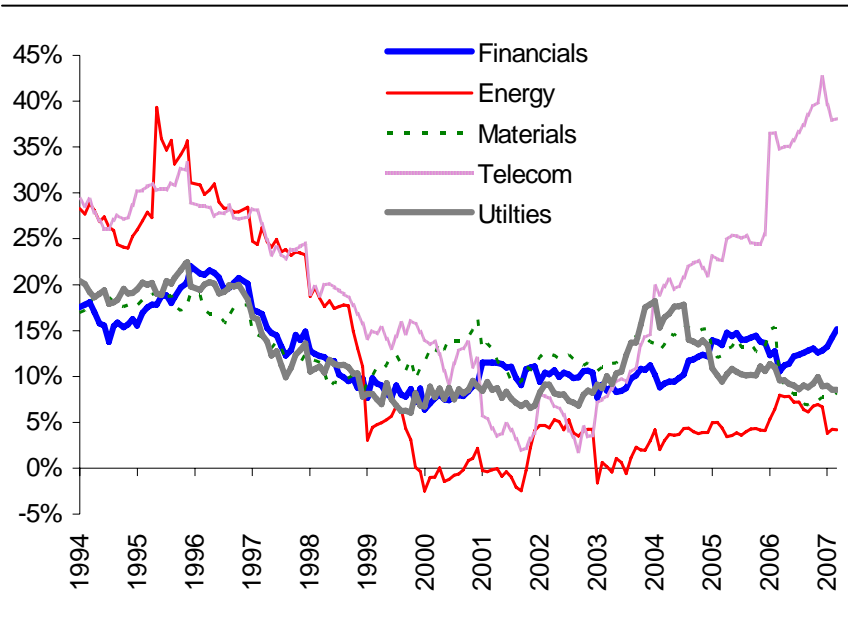


Source: BSE, Capitaline, Morgan Stanley Research

**STYLE & SECTOR STRATEGY**

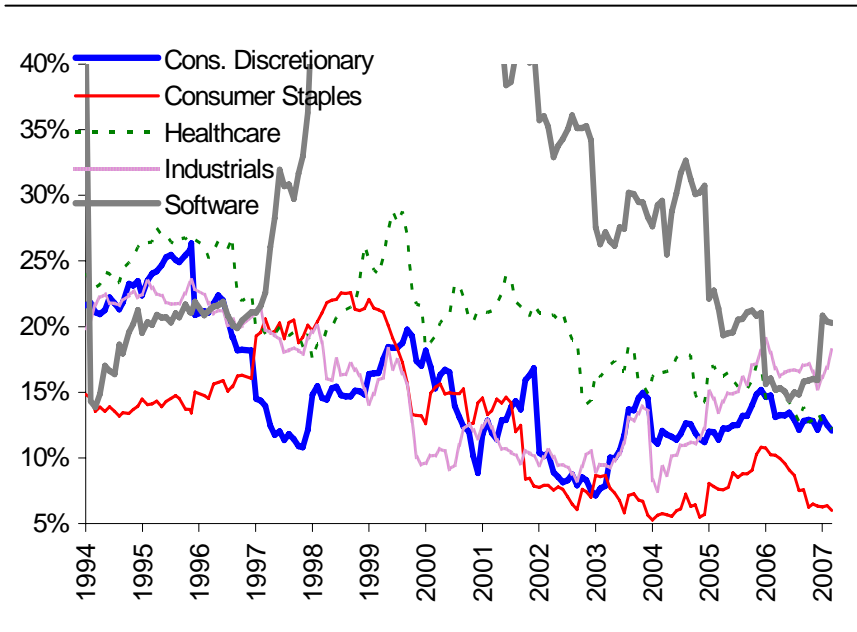
**Valuations favor defensive growth: We are overweight healthcare, energy, consumer staples, utilities, and telecoms.**

**Implied Long-Term Dividend Growth**



Source: Morgan Stanley Research estimates

**Implied Long-Term Dividend Growth**



Source: Morgan Stanley Research estimates

**STOCK SCREENS: 3 'U's and 3 'O's****Value Investors Could Focus on our 3 'U's Screen**

	MS Rating	Closing Price	% of Buy Recos	Trading volumes as % of 3-year average	Relative Performance	Dividend Yield > 3%	Hit Ratio 3Us
Shipping Corporation of India	Underweight	194.8	25.0%	45.3%	-6.6%	4.4%	100%
GAIL (India)	Overweight	309.3	26.7%	53.0%	-2.4%	3.8%	100%
Bharat Petroleum Corp.	Equal-Weight	343.1	36.4%	99.8%	-5.0%	34.0%	67%
Great Eastern Shipping	Equal-Weight	350.55	20.0%	107.0%	19.3%	3.4%	67%
Hindustan Petroleum	Underweight	270.05	40.9%	99.8%	-9.3%	4.3%	67%
Ashok Leyland Ltd.	Equal-Weight	37.75	39.1%	90.1%	-2.3%	4.6%	67%
Tata Steel	Overweight	593.4	65.2%	73.3%	-7.1%	3.5%	67%
TVS Motors	Equal-Weight	60.3	17.4%	129.2%	-13.4%	4.1%	67%
Arvind Mills	Equal-Weight	45.15	7.1%	74.6%	-2.0%	0.0%	67%
Steel Authority Of India	Overweight	128.4	78.6%	59.4%	-8.0%	3.1%	67%
Oil & Natural Gas Corp.	Overweight	896.1	69.6%	68.1%	-2.2%	4.8%	67%
Shoppers' Stop	Equal-Weight	592.5	21.4%	17.9%	-2.0%	0.4%	67%
Cipla Ltd.	Underweight	210.05	37.5%	76.3%	-6.9%	1.4%	67%

Note: See our strategy note, "A Bit of Love, Ownership and Valuation", dated March 5, 2007 for definition of 3 'O's and 3 'U's. Source: Bloomberg, Capital line, Morgan Stanley Research



**STOCK SCREENS: 3 'U's and 3 'O's (Contd.)**

	MS Rating	Closing Price	% of Buy Recos	Trading volumes as % of 3-year average	Relative Performance	Dividend yield (<1.5%)	Hit Ratio 3Os
Mphasis BFL	Equal-Weight	331	68.8%	139.3%	5.8%	1.1%	100%
Indian Hotels Company Ltd	Overweight	150	90.0%	142.8%	0.5%	1.2%	100%
IVRCL Infrastructures & Projects	Overweight	381	88.2%	152.4%	6.7%	0.4%	100%
United Phosphorus	Overweight	314	100.0%	127.8%	6.7%	0.7%	100%
IDBI	Underweight	121	42.9%	125.4%	23.4%	1.3%	67%
Wipro Ltd.	Equal-Weight	513	69.0%	79.5%	-6.4%	1.2%	67%
Tata Consultancy Services	Overweight	1135	89.3%	69.6%	-7.5%	0.6%	67%
Bharti Airtel Limited	Overweight	837	84.6%	50.0%	-0.7%	-0.8%	67%
House of Pearl Fashions Limited	Overweight -V	301	100.0%	0.0%	-16.0%	0.0%	67%
Maruti Udyog Ltd.	Overweight	771	88.0%	38.9%	-5.5%	0.9%	67%
Punjab National Bank	Overweight	528	87.0%	56.0%	-1.9%	1.3%	67%
Reliance Industries	Overweight	1685	75.0%	58.8%	-4.4%	0.5%	67%
Infosys Technologies	Overweight	1943	96.9%	68.6%	-0.5%	0.8%	67%
JSW Steel Ltd.	Overweight	605	81.3%	18.6%	-1.2%	1.3%	67%
Amtek Auto Ltd.	Overweight	407	88.9%	77.9%	-1.6%	0.9%	67%
Satyam Computer Services	Overweight	466	92.9%	57.1%	-3.1%	1.2%	67%
Reliance Petroleum Limited	Overweight -V	115	77.8%	100.0%	14.9%	0.0%	67%
Bharat Forge	Underweight	308	70.6%	139.6%	-8.6%	1.3%	67%
Hexaware Technologies Limited	Overweight	163	68.8%	50.0%	3.8%	1.2%	67%
Pantaloon Retail	Equal-Weight	499	69.2%	37.6%	7.7%	0.1%	67%
Entertainment Network (India) Limited	Overweight	585	80.0%	24.4%	46.6%	0.0%	67%
Reliance Communications Ltd.	Overweight	530	85.7%	89.3%	4.1%	0.5%	67%
Gammon India	Overweight	417	60.0%	126.6%	3.6%	0.2%	67%
GMR Infrastructure Ltd.	Underweight -V	765	71.4%	100.0%	52.2%	0.0%	67%
IDFC	Overweight	134	70.0%	74.5%	15.3%	1.0%	67%
Jaiprakash Associates Limited	Overweight	758	87.5%	114.8%	8.0%	0.7%	67%
Jindal Steel & Power	Overweight	3490	87.5%	80.4%	4.8%	0.5%	67%
Marico Limited	Underweight	56	80.0%	81.8%	-4.2%	1.4%	67%
UTI Bank	Equal-Weight	607	56.0%	122.6%	4.7%	0.8%	67%
Voltas Limited	Equal-Weight	112	70.0%	106.6%	14.3%	0.9%	67%
Zee Telefilms Ltd.	Overweight	292	78.6%	114.7%	-5.6%	0.4%	67%
Idea Cellular Ltd.	Overweight -V	125	75.0%	100.0%	-0.9%	0.0%	67%
LANCO Infratech Ltd	Equal-Weight -V	211	75.0%	100.0%	17.1%	0.0%	67%
Sun Pharmaceutical Industries	Overweight	1037	79.2%	124.6%	-5.7%	0.6%	67%

Note: See our strategy note, "A Bit of Love, Ownership and Valuation", dated March 5, 2007 for definition of 3 'O's and 3 'U's. Source: Bloomberg, Capital line, Morgan Stanley Research

**STOCK SCREENS: Price Momentum**

**Momentum Investors Could Focus on Weak 12M and Strong 1M Performance**

	MS Rating	Target Price	12 mth Perf	1 mth Perf	12M-1M Perf	Company	Closing price	Target Price	12 mth Perf	1 mth Perf	12M-1M Perf
Entertainment Network (India) Limited	Overweight	264	206%	47%	159%	Kotak Mahindra Bank	Underweight	450	173%	15%	159%
Jindal Steel & Power	Overweight	3203	145%	5%	140%	IDBI	Underweight	60	113%	24%	89%
IDFC	Overweight	162	147%	16%	131%	Shipping Corporation of India	Underweight	125	42%	-6%	48%
Bharti Airtel Limited	Overweight	1003	126%	0%	126%	Biocon Ltd	Underweight	465	27%	-3%	30%
Bank of India	Overweight	270	127%	8%	119%	Marico Limited	Underweight	55	23%	-4%	26%
JSW Steel Ltd.	Overweight	655	118%	-1%	119%	Hindustan Petroleum	Underweight	218	15%	-9%	24%
Reliance Communications Ltd.	Overweight	566	109%	5%	104%	EIH Limited	Underweight	85	22%	5%	17%
State Bank of India	Overweight	1650	106%	11%	95%	Ambuja Cements Ltd.	Underweight	85.4	24%	7%	17%
Zee Entertainment Enterprise Limited	Overweight	279	90%	-5%	95%	UltraTech Cemco	Underweight	554	21%	6%	16%
Larsen & Toubro	Overweight	1512	98%	12%	86%	Videsh Sanchar Nigam	Underweight	371	19%	3%	15%
Jaiprakash Associates Limited	Overweight	767	87%	9%	78%	Hotel Leelaventure Limited	Underweight	55	2%	-9%	10%
Reliance Petroleum Limited	Overweight -V	120	84%	16%	68%	ACC Ltd.	Underweight	598	20%	10%	10%
Punjab National Bank	Overweight	600	64%	-1%	65%	Mahanagar Telephone Nigam	Underweight	131	6%	0%	6%
Steel Authority Of India	Overweight	147	57%	-7%	65%	Bharat Forge	Underweight	290	-2%	-8%	6%
Lupin Ltd.	Overweight	600	64%	0%	64%	Cipla Ltd.	Underweight	225	-2%	-6%	4%
Reliance Industries	Overweight	1892	57%	-4%	61%	Tata Motors	Underweight	625	-13%	-8%	-5%
Patni Computer Systems	Overweight	600	54%	-7%	61%	Hero Honda Motor Ltd	Underweight	600	-12%	-4%	-9%
IVRCL Infrastructures & Projects LTD	Overweight	528	66%	7%	59%	Balrampur Chini Mills Limited	Underweight	58	-38%	-3%	-35%
Sesa Goa	Overweight	1994	60%	6%	54%	Bajaj Hindustan	Underweight	155	-58%	-5%	-53%
Corporation Bank	Overweight	440	50%	0%	49%						
Amtek Auto Ltd.	Overweight	500	39%	-1%	40%						
Sun Pharmaceutical Industries	Overweight	1209	35%	-5%	40%						
Union Bank of India	Overweight	165	47%	8%	39%						
Bank of Baroda	Overweight	350	35%	-2%	37%						
Tata Consultancy Services	Overweight	1525	26%	-7%	33%						
Oriental Bank of Commerce	Overweight	285	29%	-4%	33%						
Satyam Computer Services	Overweight	575	30%	-3%	32%						
Indian Hotels Company Ltd	Overweight	180	30%	1%	29%						
United Phosphorus	Overweight	345	36%	7%	29%						
Canara Bank	Overweight	300	35%	7%	28%						
Tata Power Co	Overweight	643	38%	13%	25%						
GAIL (India)	Overweight	364	23%	-2%	25%						
Infosys Technologies	Overweight	2425	23%	0%	23%						
GlaxoSmithKline Pharma	Overweight	1353	20%	-3%	23%						
Mahindra & Mahindra	Overweight	950	19%	-4%	22%						
Reliance Energy	Overweight	609	37%	15%	22%						
Oil & Natural Gas Corp.	Overweight	1058	20%	-2%	21%						
Gammon India	Overweight	471	22%	4%	17%						
Hexaware Technologies Limited	Overweight	225	22%	4%	17%						
Tata Steel	Overweight	732	9%	-6%	16%						
Nestle India	Overweight	1310	16%	2%	14%						
Wockhardt Limited	Overweight	460	5%	-7%	13%						
Ranbaxy Laboratories	Overweight	447	2%	-6%	8%						
Dabur India	Overweight	113.3	7%	4%	2%						
Maruti Udyog Ltd.	Overweight	950	-3%	-5%	2%						
Aventis (India)	Overweight	1769	-2%	8%	-9%						
Godrej Consumer Products Limited	Overweight	175	-13%	-1%	-12%						
Colgate-Palmolive India	Overweight	380	-10%	4%	-14%						
Hindustan Lever	Overweight	245	-20%	-6%	-14%						

Source: Bloomberg, Morgan Stanley Research, Note: Please refer to our report dated 21 June 2007 titled "A Stock Picker's Paradise" for more details

**STOCK SCREENS: Correlation & Beta****We recommend investors slide up the relative volatility curve and down the beta curve**

	Price	Rating	Correl	SD	Beta		Price	Rating	Correl	SD	Beta
<b>Defensive stocks based on Beta/Relative Volatility</b>						<b>Aggressive stocks based on Beta/Relative Volatility</b>					
Pantaloon Retail	498.25	Equal-Weight	0.38	2.31	0.87	ACC Ltd.	898.9	Underweight	0.74	1.76	1.31
i-flex Solutions Ltd.	2538.7	Equal-Weight	0.37	2.29	0.85	Mahindra & Mahindra	707	Overweight	0.71	1.74	1.24
Sesa Goa	1760.45	Overweight	0.38	2.12	0.81	Larsen & Toubro	2153.85	Overweight	0.67	1.84	1.23
Hotel Leelaventure Limited	52.1	Underweight	0.37	2.01	0.75	HDFC Bank	1092.25	Equal-Weight	0.70	1.74	1.22
United Phosphorus	300.75	Overweight	0.35	1.98	0.70	Grasim Industries	2623.5	Equal-Weight	0.75	1.57	1.18
Mphasis BFL Group	322.25	Equal-Weight	0.28	2.41	0.68	Ambuja Cements Ltd.	125.1	Underweight	0.65	1.74	1.13
Great Eastern Shipping	338.95	Equal-Weight	0.25	2.71	0.68	Maruti Udyog Ltd.	749.9	Overweight	0.71	1.57	1.12
Lupin Ltd.	724.2	Overweight	0.36	1.87	0.68	Bharat Forge	310.45	Underweight	0.58	1.81	1.06
Polaris Software Lab Ltd.	152.1	Equal-Weight	0.25	2.65	0.67	Reliance Industries	1692.25	Overweight	0.75	1.40	1.05
Patni Computer Systems	510.95	Overweight	0.26	2.24	0.59	Bharti Airtel Limited	842.5	Overweight	0.69	1.49	1.03
JSW Steel Ltd.	600.2	Overweight	0.21	1.90	0.39	Indian Hotels Company Ltd	150.15	Overweight	0.70	1.42	0.99
Balrampur Chini Mills Limited	67.45	Underweight	0.05	2.77	0.13	Bharat Petroleum Corp.	337.15	Equal-Weight	0.53	1.82	0.97
Shree Renuka Sugars Limited	595.8	Equal-Weight	0.02	3.02	0.05	Oil & Natural Gas Corp.	906.35	Overweight	0.61	1.55	0.94
Triveni Engineering & Industries Ltd.	49.3	Equal-Weight	-0.12	2.25	-0.28						
Bajaj Hindustan	156.2	Underweight	-0.20	2.71	-0.54						

Source: Bloomberg, Morgan Stanley Research

## STOCK SCREENS: Return Correlations Across Top 20 Stocks by Market Cap

### Low inter-stock low correlation offers good pair trade opportunities

Current	Reliance Industries	ONGC	Bharti	Infosys	TCS	Reliance Communications	Wipro	ICICI Bank	ITC	State Bank of India	IOCL	Steel Authority Of India	L&T	HLL	HDFC	Tata Steel	Tata Motors	HDFC Bank	Satyam
ONGC	-																		
Bharti	0.52	0.54																	
Infosys	0.37	0.13	0.40																
TCS	0.30	0.37	0.51	0.63															
Reliance Communications	0.55	0.39	0.57	0.49	0.46														
Wipro	0.30	0.28	0.50	0.50	0.62	0.18													
ICICI Bank	0.38	0.48	0.69	0.30	0.30	0.54	0.32												
ITC	0.54	0.30	0.24	0.32	0.31	0.41	0.31	0.20											
State Bank of India	0.45	0.44	0.46	0.17	0.25	0.65	0.13	0.69	0.29										
IOCL	0.59	0.20	0.34	0.34	0.40	0.47	0.15	0.32	0.31	0.45									
Steel Authority Of India	0.49	0.26	0.43	0.33	0.38	0.43	0.31	0.35	0.46	0.29	0.44								
L&T	0.51	0.38	0.50	0.30	0.30	0.51	0.28	0.41	0.30	0.46	0.40	0.33							
HLL	0.58	0.68	0.47	0.19	0.27	0.53	0.14	0.44	0.32	0.31	0.24	0.28	0.40						
HDFC	0.40	0.45	0.58	0.33	0.35	0.54	0.27	0.54	0.19	0.45	0.36	0.50	0.47	0.52					
Tata Steel	0.45	0.29	0.16	0.11	0.15	0.27	0.13	0.18	0.48	0.16	0.30	0.63	0.18	0.34	0.43				
Tata Motors	0.60	0.43	0.46	0.36	0.39	0.58	0.37	0.50	0.37	0.55	0.58	0.53	0.59	0.42	0.48	0.49			
HDFC Bank	0.49	0.39	0.50	0.35	0.33	0.45	0.35	0.57	0.34	0.59	0.31	0.42	0.32	0.40	0.59	0.28	0.55		
Satyam	0.43	0.32	0.44	0.62	0.65	0.56	0.53	0.32	0.19	0.24	0.35	0.29	0.48	0.42	0.39	0.12	0.48	0.40	
Bajaj Auto	0.37	0.25	0.47	0.41	0.41	0.41	0.44	0.26	0.20	0.31	0.51	0.29	0.53	0.25	0.44	0.21	0.59	0.25	0.35

Note: Correlation measured using trailing 12-month weekly returns, Highlighted cells are the weak correlation spots for the respective sectors in the vertical columns. The risk to the pair trades is a breakdown in the correlation levels. Such a breakdown could be caused by a fall in global risk appetite or by a slowdown in growth back home. Of course, the market would also be negatively impacted under such a scenario. See our strategy note "No Place to Hide" dated March 23, 2007.

**STOCK SCREENS: Regression-based Fair Valuation Using Rel. ROE and Rel. P/B****Best 'Buy' and Best 'Sell' Ideas, Based on Analyst Rating and Valuation Results**

			Closing price	Current P/B	Current ROE	Forward ROE	Fair Level of Relative P/B based on regression model	Undervalued
Sector	Rating							
Tata Steel	Materials	Overweight	593	0.30	29.4%	28%	0.57	-47%
Hindustan Lever	Consumer Staples	Overweight	189	4.98	65.3%	75%	8.67	-43%
Wockhardt Limited	Healthcare	Overweight	394	0.68	19.2%	19%	1.13	-40%
Ranbaxy Laboratories	Healthcare	Overweight	365	0.89	11.3%	13%	1.38	-36%
Godrej Consumer Products Limi	Consumer Staples	Overweight	138	4.18	108.4%	85%	6.27	-33%
Aventis (India)	Healthcare	Overweight	1424	1.17	26.9%	25%	1.75	-33%
Corporation Bank	Financials	Overweight	331	0.32	14.2%	15%	0.44	-27%
Maruti Udyog Ltd.	Consumer Discretionary	Overweight	771	0.70	23.9%	21%	0.93	-24%
Nestle India	Consumer Staples	Overweight	1163	7.24	84.1%	101%	8.74	-17%
Hexaware Technologies Limited	Technology	Overweight	163	0.69	20.7%	17%	0.82	-16%
Idea Cellular Ltd.	Telecom	Overweight -V	125	2.02	13.8%	21%	2.39	-15%
GAIL (India)	Energy	Overweight	309	0.59	20.7%	21%	0.69	-14%
GlaxoSmithKline Pharma	Healthcare	Overweight	1260	1.98	28.2%	27%	2.28	-13%
Canara Bank	Financials	Overweight	273	0.34	17.3%	17%	0.39	-13%
Oriental Bank of Commerce	Financials	Overweight	228	0.28	16.1%	17%	0.30	-8%
Indian Hotels Company Ltd	Consumer Discretionary	Overweight	150	1.02	17.2%	19%	1.09	-6%
Mahindra & Mahindra	Consumer Discretionary	Overweight	734	0.83	30.3%	30%	0.89	-6%
Reliance Energy	Utilities	Overweight	624	0.44	9.3%	10%	0.47	-6%
Tata Consultancy Services	Technology	Overweight	1135	2.32	46.1%	38%	2.43	-5%
			Closing price	Current P/B	Current ROE	Forward ROE	Fair Level of Relative P/B based on regression model	Overvalued
Sector	Rating							
Kotak Mahindra Bank	Financials	Underweight	664	1.68	16.6%	16%	0.66	156%
Ambuja Cements Ltd.	Industrials	Underweight	122	1.34	51.4%	28%	0.85	57%
IDBI	Financials	Underweight	121	0.37	9.9%	9%	0.28	32%
GMR Infrastructure Ltd.	Industrials	Underweight -V	765	3.39	3.2%	4%	2.63	29%
Videsh Sanchar Nigam	Telecom	Underweight	474	0.65	6.2%	10%	0.53	24%
ACC Ltd.	Industrials	Underweight	936	1.36	34.1%	29%	1.14	19%
Mahanagar Telephone Nigam	Telecom	Underweight	162	0.26	4.6%	5%	0.22	16%
Marico Limited	Consumer Staples	Underweight	56	2.10	38.5%	35%	1.87	12%
Shipping Corporation of India	Industrials	Underweight	195	0.32	21.1%	12%	0.31	3%
EIH Limited	Consumer Discretionary	Underweight	104	1.03	14.0%	17%	1.00	3%

\* Based on Morgan Stanley Research analysts' forecasts. See our strategy note, "ROE Opportunities", dated July 2, 2007.

Source: Company data, Bloomberg, Morgan Stanley Research



AT A GLANCE

India Stock Coverage Universe

	Price	Mkt Cap	Rating	6M Price	Trail 3 Year	Implied LT		ROE	Fwd	Fwd	Trailing	Fwd	Trailing	Consensus **		3M Rev
	6/29/07	(US\$m)		Perf	EPS CAGR	EPS grth	Div grth*	F2007	PE	P/B	P/Sales	Div Yield	FCF Yield	F2008	F2009	F2008
LANCO Infratech	206	1,205	Equal-Weight -V			16.6%		13.5%	17.3	2.3	2.8	0.0%	36.0%	61.1%	78.2%	
Larsen & Toubro	2,196	14,827	Overweight	52.2%	24.0%	21.1%	22.6%	25.6%	31.1	8.0	2.9	0.6%	1.0%	41.3%	28.5%	12.4%
Lupin	733	1,507	Overweight	19.7%	17.0%	15.8%	22.5%	19.3%	20.6	4.0	3.1	0.7%	2.1%	40.2%	6.7%	10.0%
Mahanagar Telephone Nigam	161	2,485	Underweight	12.4%	NM	12.5%	4.6%	5.2%	16.1	0.8	2.0	2.7%	2.1%	11.0%	5.2%	6.3%
Mahindra & Mahindra	723	4,364	Overweight	-20.2%	48.8%	8.1%	10.6%	29.1%	9.5	2.7	1.8	1.6%	5.0%	21.9%	12.2%	3.8%
Marico	55	829	Underweight	2.3%	33.8%	15.5%	13.2%	33.7%	20.6	6.9	2.1	1.4%	2.1%	30.1%	22.2%	0.4%
Maruti Udyog	743	5,277	Overweight	-19.9%	0.0%	7.8%	21.8%	20.9%	11.1	2.3	1.4	0.9%	2.6%	12.5%	13.7%	-4.2%
Mphasis BFL Group	328	1,326	Equal-Weight	8.2%	0.9%	23.0%	17.0%	17.9%	29.8	5.3	4.4	1.1%	3.1%	64.8%	28.9%	1.9%
MindTree Consulting Limited	792	748	Underweight -V			18.9%	32.5%	21.1%	25.7	5.4	5.1	0.5%	-3.3%	31.1%	35.2%	
National Aluminium	259	4,100	Equal-Weight	21.0%	49.2%	1.6%	6.5%	18.5%	9.4	1.7	2.8	1.9%	7.8%	-18.9%	-17.7%	8.4%
NDTV	418	624	Equal-Weight	81.3%		24.4%		30.2%	38.1	11.5	8.9	0.0%	1.7%	40.6%	41.9%	-7.5%
NTPC	152	30,865	Equal-Weight	11.7%		12.4%	7.6%	13.9%	16.8	2.3	4.3	2.3%	1.9%	13.7%	12.2%	2.3%
Nestle India	1,160	2,748	Overweight	2.1%	4.3%	19.4%	7.2%	99.9%	23.9	23.9	3.9	3.2%	2.6%	16.8%	16.7%	1.3%
Oil & Natural Gas Corp.	902	47,410	Overweight	3.7%	30.5%	5.8%	0.0%	27.7%	8.4	2.3	2.2	5.3%	12.1%	4.3%	1.2%	-1.1%
Oriental Bank of Commerce	226	1,389	Overweight	-0.4%	NM	1.6%	7.1%	16.5%	5.5	0.9	-	2.4%	-	10.0%	28.9%	0.1%
Pantaloon Retail	495	1,661	Equal-Weight	23.4%	57.0%	33.2%	0.0%	11.3%	48.1	5.4	3.4	0.1%	-8.5%	42.1%	67.3%	-16.2%
Patni Computer Systems	518	1,761	Overweight	24.0%	15.2%	13.0%	19.0%	17.3%	15.6	2.7	2.7	1.0%	2.8%	43.1%	15.8%	5.5%
Polaris Software Lab	153	371	Equal-Weight	-11.4%	15.2%	9.2%	9.8%	18.8%	11.1	2.1	1.4	2.3%	1.1%	14.0%	28.6%	-16.3%
Punjab National Bank	540	4,182	Overweight	6.5%	0.0%	5.8%	13.8%	15.8%	8.5	1.3	-	1.3%	-	24.4%	16.7%	-1.3%
Ranbaxy Laboratories	355	3,503	Overweight	-9.4%	NM	16.5%	6.5%	13.9%	21.1	2.9	2.4	2.6%	-1.1%	-8.0%	19.0%	-7.1%
Reliance Communications	517	25,975	Overweight	9.7%		18.2%		18.0%	20.5	3.7	7.1	0.5%	-17.2%	46.7%	39.1%	-0.6%
Reliance Energy	614	3,469	Overweight	18.2%	21.0%	11.6%	17.2%	9.7%	15.1	1.5	2.5	1.1%	3.3%	22.3%	8.7%	11.9%
Reliance Industries	1,700	60,923	Overweight	33.8%	32.9%	12.9%	24.1%	16.1%	18.7	3.0	2.2	0.5%	-4.9%	5.9%	22.7%	8.0%
Reliance Petroleum	111	12,278	Overweight -V	76.4%								0.0%	0.0%			
Sesa Goa	1,778	1,719	Overweight	26.0%	23.5%	6.6%	8.2%	28.0%	10.9	3.1	3.4	1.9%	7.9%	11.4%	6.5%	-11.6%
SAIL	131	13,305	Overweight	47.0%	35.2%	4.2%	3.4%	35.8%	6.9	2.5	1.6	3.1%	9.0%	26.8%	9.8%	9.0%
Satyam Computer Services	467	7,678	Overweight	-3.4%	38.0%	14.2%	19.7%	23.8%	17.8	4.2	4.7	1.3%	2.2%	25.6%	21.9%	0.3%
Shipping Corporation of India	195	1,354	Underweight	20.8%	17.4%	-0.6%	0.1%	10.5%	10.1	1.1	1.6	4.4%	5.3%			
Shoppers' Stop	568	480	Equal-Weight	-16.7%		24.0%	0.0%	15.4%	36.5	5.6	2.1	0.5%	0.3%	35.2%	59.6%	-14.3%
Shree Renuka Sugars	652	390	Equal-Weight	45.9%		8.1%	30.1%	26.9%	11.7	3.1	1.4	0.9%	-21.8%	157.7%		-34.4%
State Bank of India	1,525	19,724	Overweight	22.4%	7.3%	11.8%	17.0%	15.5%	13.9	2.2	-	1.0%	0.0%	22.5%	19.5%	-0.5%
Sun Pharmaceutical Industries	1,022	5,201	Overweight	4.4%	26.4%	16.5%	23.3%	20.3%	21.4	4.3	9.8	0.7%	3.6%	25.5%	23.5%	1.6%
Tata Steel	597	8,553	Overweight	23.8%	15.8%	3.4%	3.7%	26.5%	3.8	1.0	1.4	4.6%	3.8%	57.2%	25.1%	66.0%
Tata Motors	670	6,706	Underweight	-25.6%	26.8%	7.8%	7.5%	24.4%	13.0	3.2	1.0	2.1%	-3.0%	11.1%	13.6%	-4.4%
Tata Power Co	671	3,263	Overweight	19.8%	5.3%	7.8%	7.5%	24.4%	13.0	3.2	1.0	2.1%	-3.0%	11.8%	13.1%	1.8%
Tata Tea	853	1,237	Equal-Weight	18.4%	0.0%	11.6%	12.1%	8.5%	13.8	1.2	1.3	1.6%	-94.5%	12.0%	17.7%	4.2%
Tata Consultancy Services	1,149	27,633	Overweight	-5.7%		16.4%	28.0%	37.0%	20.7	7.7	5.9	0.8%	1.8%	25.9%	24.5%	-3.4%
Tech Mahindra Limited	1,396	4,174	Overweight -V	-16.4%		16.4%	50.9%	45.7%	18.4	8.4	5.6	0.2%	1.5%		39.8%	
Triveni Engineering & Industries	58	365	Equal-Weight	3.7%		7.9%	22.3%	11.6%	16.9	1.9	0.8	0.6%	-31.6%			
TVS Motors	61	355	Equal-Weight	-30.2%	NM	16.1%	2.2%	13.7%	12.8	1.8	0.4	4.4%	6.2%	9.9%	13.5%	-27.2%
UltraTech Cemco	900	2,751	Underweight	-17.9%		10.3%	40.0%	26.9%	16.3	4.4	2.3	0.2%	-4.7%	17.4%	1.4%	0.0%
Union Bank of India	132	1,642	Overweight	7.9%	3.2%	3.0%	3.8%	18.1%	5.9	1.1	-	3.4%	0.0%	19.8%	22.1%	-1.3%
United Phosphorus	311	1,552	Overweight	3.6%	27.3%	14.3%	25.0%	18.0%	14.8	2.7	2.5	0.8%	-10.0%	28.2%	42.7%	-7.1%
UTI Bank	605	4,190	Equal-Weight	29.0%	25.7%	15.9%	19.3%	14.5%	16.9	2.5	-	1.0%	0.0%	28.0%	24.5%	2.1%
Videsh Sanchar Nigam	468	3,280	Underweight	10.4%	1.8%	20.0%	14.9%	11.1%	19.4	2.1	1.6	1.4%	1.4%	10.8%	10.0%	5.1%
Voltas Limited	111	904	Equal-Weight	-2.8%	46.7%	21.4%	20.5%	29.9%	26.2	7.8	1.5	1.0%	2.0%	25.7%	29.0%	-7.0%
Wipro	519	18,624	Equal-Weight	-14.2%	40.7%	16.2%	16.3%	27.0%	21.2	5.7	5.0	1.2%	2.4%	24.2%	22.9%	-3.6%
Wockhardt	384	1,126	Overweight	9.6%	26.7%	10.0%	12.9%	19.2%	11.7	2.2	2.7	1.5%	-7.6%	23.8%	23.9%	-2.4%
Zee Entertainment Enterprise	297	3,181	Overweight	1.4%	NM	26.1%	0.0%	11.7%	35.6	4.2	8.9	0.4%	0.2%	46.4%	34.1%	-7.0%

\* Assuming no change in payout, \*\* Consensus Earnings Growth based on IBES Estimates. Fwd valuation ratios based on Morgan Stanley Research estimates.  
NA = Not Applicable, NR = Not Rated. Source: Morgan Stanley Research

**AT A GLANCE**

**Latest Economic Indicators**

	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Trade Balance (US\$billion)	-4.0	-3.5	-5.3	-6.2	-6.2	-5.7	-5.8	-4.7	-3.8	-7.0	-6.2	NA
Exports (US\$billion)	10.2	10.4	10.3	9.6	9.7	9.9	9.6	9.7	12.6	10.6	11.9	NA
Exports (YoY)	34.8%	20.5%	21.9%	11.4%	33.6%	7.7%	5.5%	7.8%	8.8%	23.1%	18.1%	NA
Imports (US\$billion)	14.1	13.9	15.6	15.8	15.9	15.6	15.4	14.4	16.4	17.6	18.1	NA
Imports (YoY)	24.2%	11.7%	24.8%	36.4%	42.9%	31.1%	23.2%	25.1%	14.5%	40.5%	26.4%	NA
Foreign Direct Investment (US\$million)	1127.0	619.0	916.0	1698.0	1151.0	5130.0	1921.0	698.0	603.0	NA	NA	NA
Foreign Exchange Reserves (US\$billion)	163.3	164.6	164.5	166.4	172.1	176.7	178.5	192.7	198.7	203.7	204.5	212.1
Net FII Flows (US\$million)	300.3	1026.4	1353.1	1554.7	2076.0	-806.9	40.6	1266.9	325.6	1322.1	1126.2	438.4
Rs/US\$1 (period average)	46.46	46.54	46.12	45.47	44.86	44.63	44.33	44.16	44.05	42.31	40.79	40.82
M3 (YoY)	19.2%	19.5%	19.2%	18.8%	19.0%	19.8%	20.8%	21.6%	21.6%	20.6%	19.9%	21.0%
Bank Loans (Non-food credit, YoY)	32.7%	33.4%	31.1%	29.8%	30.1%	31.0%	30.4%	30.0%	28.0%	27.0%	26.6%	26.2%
Money Multiplier	4.9	4.9	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.5	4.6	4.7
Deposit Growth Rate (YoY)	21.2%	21.2%	19.7%	19.8%	21.4%	23.0%	23.3%	24.5%	23.0%	21.8%	22.1%	23.4%
Prime Lending Rate	10.8%	11.0%	11.0%	11.0%	11.0%	11.5%	11.5%	12.3%	12.3%	12.8%	12.8%	12.8%
One Year Deposit Rate	6.3%	6.8%	6.8%	6.8%	6.8%	7.5%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
364 day T-Bill Yield	7.0%	6.9%	6.9%	7.0%	7.1%	7.1%	7.3%	7.6%	7.6%	7.9%	7.8%	7.8%
91 day T-Bill Yield	6.4%	6.4%	6.4%	6.6%	6.7%	6.9%	7.1%	7.5%	7.4%	7.4%	7.5%	7.2%
10 yr Government Bond Yield	8.3%	8.1%	7.7%	7.7%	7.5%	7.5%	7.7%	7.9%	8.0%	8.1%	8.1%	8.2%
Manufacturing( in %)	14.3%	11.9%	12.7%	3.8%	17.2%	14.5%	12.3%	11.9%	15.9%	15.1%	NA	NA
Consumer Goods	16.8%	15.0%	12.1%	-2.8%	13.5%	10.7%	8.2%	7.6%	16.0%	17.7%	NA	NA
Basic Goods	10.0%	4.8%	11.5%	10.5%	12.1%	12.4%	12.0%	10.6%	11.7%	8.9%	NA	NA
Capital Goods	18.3%	16.6%	9.5%	6.5%	29.4%	26.2%	16.3%	18.5%	18.2%	17.7%	NA	NA
Intermediate Goods	10.7%	8.7%	13.8%	5.9%	17.9%	12.7%	13.7%	12.2%	14.3%	12.6%	NA	NA
Consumer Price Index (YoY)	6.9%	6.0%	6.8%	7.6%	6.7%	6.7%	6.7%	7.6%	6.7%	6.7%	NA	NA
Wholesale Price Index (YoY)												
- All Commodities	4.7%	5.3%	5.4%	5.3%	5.6%	5.9%	6.4%	6.1%	5.9%	5.7%	4.9%	4.3%
- Manufactured Products	3.5%	3.6%	4.1%	4.8%	5.3%	5.3%	6.0%	6.2%	6.1%	5.5%	5.1%	5.3%

Source: RBI, CSO, CMIE, Morgan Stanley Research



## AT A GLANCE

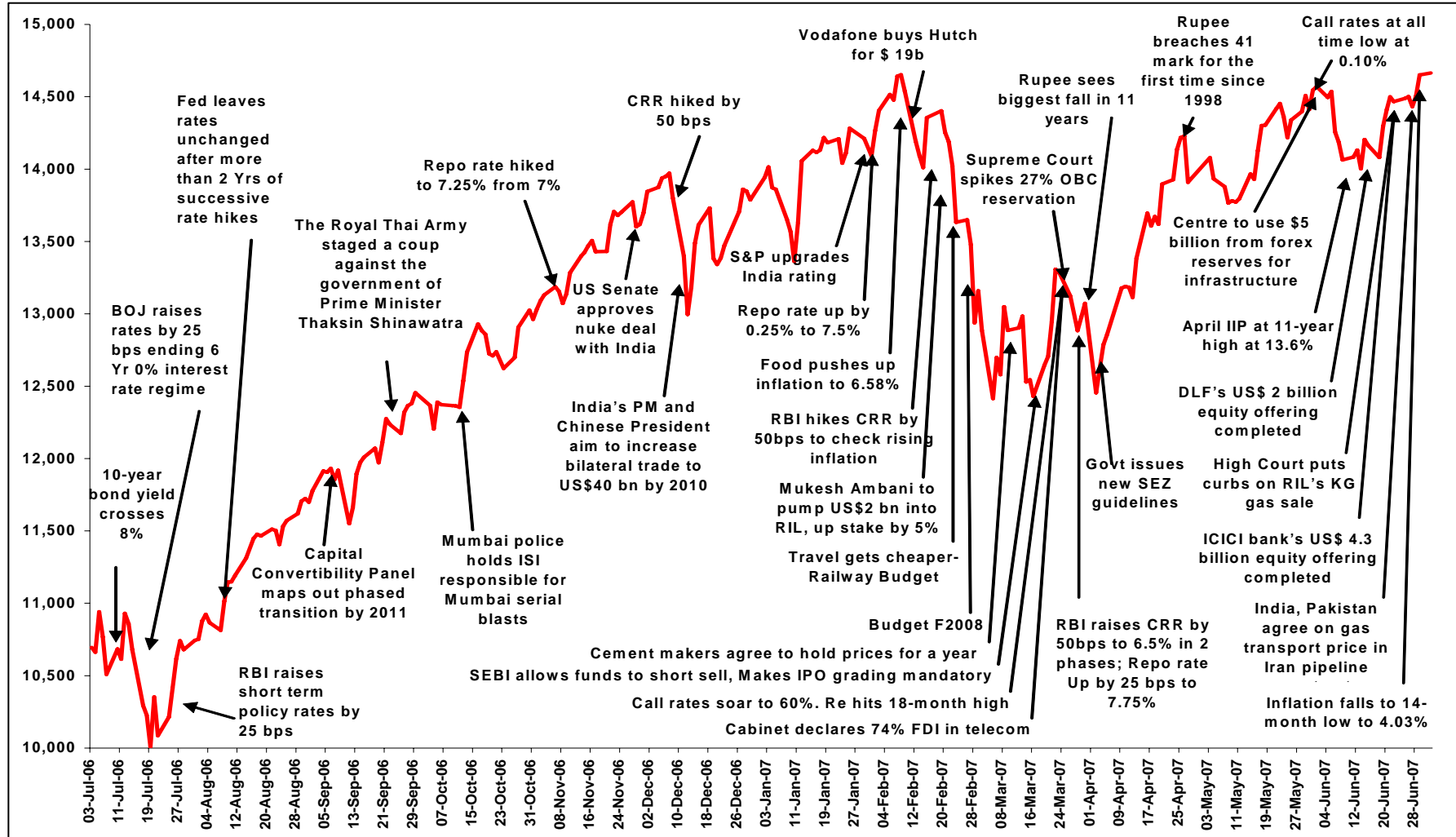
### Macro Economic Forecasts

Years Ending March 31	F2002	F2003	F2004	F2005	F2006	F2007E	F2008E	F2009E
<b>National Income</b>								
GDP (US\$ bn)	478	506	601	695	806	912	1,183	1,404
Gross domestic product	5.8%	3.8%	8.5%	7.4%	9.0%	9.4%	7.7%	6.9%
Agriculture and Allied activities (incl. mining)	5.8%	-5.6%	9.6%	-1.5%	5.8%	2.9%	3.8%	3.2%
Manufacturing, Constn, Electricity	2.8%	6.8%	7.9%	9.1%	10.1%	11.4%	8.5%	7.3%
Services	7.1%	7.3%	8.2%	10.7%	9.8%	11.0%	8.7%	8.1%
<b>Money and Banking</b>								
Money Supply (M3) growth (avg)	15.7%	12.9%	12.6%	14.3%	15.4%	19.5%	17.0%	15.0%
Bank non-food credit (avg y-y increase)	11.8%	16.3%	16.2%	25.0%	30.8%	31.5%	24.0%	22.0%
<b>Interest rates</b>								
91-Day T-Bill Yield (year-end)	6.2%	5.8%	4.3%	5.2%	6.1%	7.6%	7.8%	7.3%
Bank Rate (year-end)	6.5%	6.3%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
<b>Prices</b>								
Wholesale price index (avg y-y increase)	3.6%	3.4%	5.4%	6.4%	4.4%	5.4%	4.8%	4.7%
Consumer price index (avg y-y increase)	4.3%	4.0%	3.9%	3.8%	4.4%	6.8%	5.7%	5.0%
<b>External sector</b>								
Exports (US\$ bn)	44.7	53.8	66.3	85.2	105.2	125.9	144.8	166.5
Imports (US\$ bn)	56.3	64.5	80.0	118.9	157.0	192.7	222.5	255.9
Trade balance (US\$ bn)	-11.6	-10.7	-13.7	-33.7	-51.8	-66.8	-77.7	-89.4
Invisibles, net (US\$ bn)	15.0	17.0	27.8	31.2	42.7	55.1	61.5	70.7
Current account balance (US\$ bn)	3.4	6.3	14.1	(2.5)	(9.2)	(11.7)	(16.2)	(18.6)
Current account Balance as a % of GDP	0.7%	1.3%	2.3%	(0.4%)	(1.1%)	(1.3%)	(1.4%)	(1.3%)
Foreign investment (US\$ bn)	8.1	6.0	15.7	15.3	20.2	26.0	21.0	20.0
Capital inflow as a % of GDP	1.8%	2.1%	2.8%	3.5%	2.9%	5.5%	3.5%	2.5%
Foreign currency reserves (US\$ bn)	54.1	75.4	111.6	140.1	154.5	197.5	224.0	239.5
Foreign currency reserves as no. of months imports	10.9	13.2	15.9	14.1	11.8	12.3	12.1	11.2
Average exchange rate (USD/INR)	47.7	48.4	45.9	45.0	44.3	45.2	39.4	37.2
Year end exchange rate (USD/INR)	48.7	47.6	45.0	43.7	44.5	44.0	38.0	37.0
External debt (US\$ bn)	98.8	105.0	111.7	123.2	125.2	156.2	176.0	190.3
External debt as a percentage of GDP	21.1%	20.4%	18.2%	17.2%	15.6%	16.7%	14.3%	13.5%
Short term debt as a proportion of total	2.8%	4.4%	4.0%	6.1%	7.0%	7.5%	7.6%	7.8%
Debt service ratio (Payments over currents receipts)	13.9%	15.1%	16.3%	6.1%	10.2%	7.5%	8.1%	8.3%
<b>Fiscal deficit (As % of GDP)</b>								
----Central government	6.2%	5.9%	4.5%	4.0%	4.1%	3.5%	3.7%	3.9%
----State government	4.2%	4.2%	4.5%	3.5%	3.2%	3.3%	3.5%	3.4%
----Consolidated Deficit *	9.9%	9.6%	8.4%	7.5%	7.4%	6.9%	7.3%	7.4%

\* Total of Central & State Govt deficit does not tally due to inter-governmental transactions. E = Morgan Stanley Research Estimates; Source: RBI, CSO, Budget Documents, & Morgan Stanley Research.

**AT A GLANCE**

**News Flow and Market Performance**



Source: ASA, Morgan Stanley Research



**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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In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Bharat Forge, Bharti Airtel Limited, GlaxoSmithKline Pharma, HDFC Bank, i-flex Solutions Ltd., ICICI Bank, Idea Cellular Ltd., Oil & Natural Gas Corp., Ranbaxy Laboratories, Reliance Energy, Reliance Industries, Reliance Petroleum Limited, Shoppers' Stop, State Bank of India, Tata Consultancy Services, Tata Power Co, Tata Steel, Triveni Engineering & Industries Ltd..

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*(as of June 30, 2007)*

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 and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, 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 Underweight to hold and 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>	892	39%	316	43%	35%
<b>Equal-weight/Hold</b>	1017	45%	320	44%	31%
<b>Underweight/Sell</b>	356	16%	94	13%	26%
<b>Total</b>	2,265		730		

*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 or an affiliate received investment banking compensation in the last 12 months.*

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

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

**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.

## Disclosures (cont.)

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More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

### 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.

*Stock price charts and rating histories for companies discussed in this report are available at [www.morganstanley.com/companycharts](http://www.morganstanley.com/companycharts) or from your local investment representative. You may also request this information by writing to Morgan Stanley at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.*

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