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October 20, 2008

## India Strategy

### QE September 2008

### Earnings Season Thus Far

**Quick Comment – Revenue growth very strong, margins up marginally and profit growth ahead of Morgan Stanley expectations:** Ten companies from our coverage universe have reported up until today. Aggregate earnings are up 33% YoY compared with our analysts' expectation of 29%. In terms of surprise breadth, five companies have come ahead of expectations by 5% or more and three companies are behind our expectations by 5% or more. Five Sensex companies have reported thus far with an aggregate growth in net profit of 34%, ahead of Morgan Stanley expectations of 29%. At the sector level, three out of the four sectors, namely, financials, technology, and industrials, have reported earnings above our analysts' expectations. The strongest performing sector so far has been financials.

These are still early days in the earnings season. At the broader market level, 116 companies have reported thus far. Revenue growth is very strong at 32% YoY but EBITDA margins are down 49 bps to 22.9% and hence net profit growth is 11% YoY.

#### QE September 2008: Earnings Snapshot

No. of Cos	Sector	YoY		Change in EBITDA Margin	Net Profit	
		Revenues	EBITDA		MS Est	Actual
3	Financials	52%	47%	-1.7%	36%	47%
1	Healthcare	59%	-9%	-12.3%	-29%	-54%
2	Industrials	36%	15%	-2.2%	15%	17%
4	Technology	35%	46%	2.1%	32%	34%
<b>10</b>	<b>Total</b>	<b>39%</b>	<b>40%</b>	<b>0.2%</b>	<b>29%</b>	<b>33%</b>
	Total ex-Fin	36%	36%	-0.1%	27%	28%
5	Sensex	38%	37%	-0.2%	29%	34%

Source Company data, Morgan Stanley Research

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(as of September 30, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>892</b>	<b>40%</b>	<b>292</b>	<b>44%</b>	<b>33%</b>
<b>Equal-weight/Hold</b>	<b>937</b>	<b>42%</b>	<b>278</b>	<b>42%</b>	<b>30%</b>
<b>Underweight/Sell</b>	<b>387</b>	<b>17%</b>	<b>90</b>	<b>14%</b>	<b>23%</b>
<b>Total</b>	<b>2,216</b>		<b>660</b>		

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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 Morgan Stanley Research is 12 to 18 months.

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