

Morgan Stanley India Company
Private Limited

Tanvee Gupta
Tanvee.Gupta@morganstanley.com
+91 22 2209 7927

Morgan Stanley Asia (Singapore)
Pte.

Chetan Ahya
Chetan.Ahya@morganstanley.com
+65 6834 6738

October 12, 2010

India Quick Comment

IP Growth Decelerates Sharply – Blame Volatility in Capital Goods

Industrial production (IP) growth decelerated in

August: IP growth decelerated to 5.6%YoY in August from 15.2%YoY in July (revised upwards from 13.8% YoY earlier) and 5.8%YoY in June 2010. The growth in August was significantly below market expectation (as per Bloomberg survey) of 9.5% YoY. On a seasonally adjusted sequential basis, the IP index was down 6.7% MoM (vs. +7.5% MoM in July). The key reason for the sharp deceleration in IP growth this month was the volatile capital goods component (-2.6%YoY in August vs. +72%YoY in the previous month). If we look at IP ex capital goods, growth decelerated to 6.8%YoY in August (vs. 7.4% in the previous month) largely on base effect.

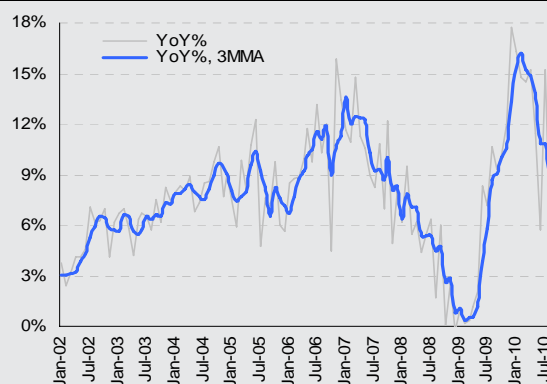
We believe the 3-month moving average is a better measure of the IP growth trend: on this basis, IP growth decelerated to 8.8% YoY in the 3-months ended August from 10.8% YoY for the 3-months ended July 2010. We do not believe the underlying growth trend in economic activity has seen as sharp a moderation as today's IP growth data for August suggest.

In fact, we do not see any sign of a major deceleration of growth in other key data points that we track: The growth in passenger car sales (23%YoY vs. 29.9% YoY in July) and 2-wheeler sales (24.9%YoY vs. 32.2% YoY in July) remained strong in August. Similarly tax revenue collections (26.6% YoY vs. 24.4% YoY in July) and non-oil imports growth (41.1%YoY vs. 49.6%YoY in July) continue to grow at a healthy pace.

IP growth to remain strong in the coming months:

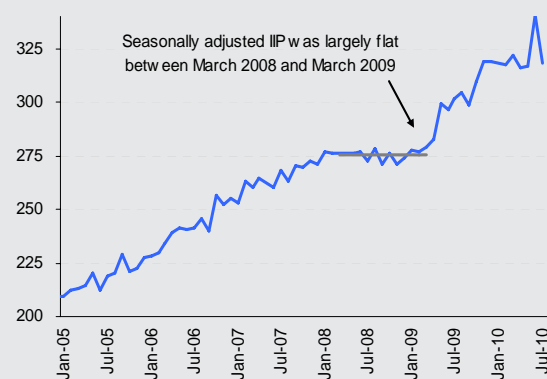
Although the high base effect will mean moderation in YoY growth going forward, we expect MoM seasonally adjusted growth in IP index to remain strong. We expect IP growth to remain in the 8-9% range in the coming months. We maintain our full year F2011 (12-months ending March 2011) IP growth estimate of 8.7%.

Exhibit 1
IIP Growth (YoY% and YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

Exhibit 2
Seasonally Adjusted IIP



Source: Morgan Stanley Research

For important disclosures, refer to the Disclosures Section, located at the end of this report.

Need to stay on course of rate hikes: The repo rate has been raised by a total of 125 basis points in this cycle, which has narrowed the gap between operative policy rates and neutral rates to about 25-50 bps. However, we believe that domestic growth and near-term macro stability risks will warrant the Reserve Bank of India's (RBI) staying the

course on policy rate hikes over the next six months unless there are signs of a major deceleration in developed world growth. Our global economics team does not expect any major slowdown in developed world growth. We expect the RBI to hike policy rates again by 25 bps at the next monetary policy review on November 2, 2010.

Exhibit 3

Trends in Industrial Production (YoY %) (Base Year – 1993-94)

	Weight	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
IIP	100	10.6	9.3	10.2	12.0	17.7	16.3	14.7	15.2	11.5	5.8	15.2	5.6
Sectoral													
Manufacturing	79.4	10.6	9.7	10.9	13.1	19.4	17.4	15.7	16.4	12.2	5.8	16.7	5.9
Mining & Quarrying	10.5	11.0	7.4	9.1	10.7	11.1	15.3	11.0	12.0	9.9	8.5	9.9	7.0
Electricity	10.2	10.6	7.5	4.0	1.8	5.4	5.6	7.3	6.9	6.4	3.5	3.7	1.0
Use Based													
Basic Goods	35.6	7.7	5.3	4.0	6.0	8.4	11.5	8.5	9.2	8.2	3.1	5.2	3.7
Capital Goods	9.3	9.2	13.5	10.2	11.1	38.7	53.7	44.0	55.0	33.7	-0.3	72.0	-2.6
Intermediate Goods	26.5	14.4	11.0	15.5	19.6	22.8	21.9	14.8	10.8	10.5	8.9	9.2	10.0
Consumer Goods	28.7	10.9	9.7	12.1	12.2	13.1	3.0	8.4	12.3	7.7	8.5	7.8	6.9
---Durables	5.4	24.7	24.1	20.0	38.1	45.9	31.7	30.3	32.7	25.3	27.8	23.7	26.5
---Non Durables	23.3	6.1	4.1	9.0	4.5	5.2	-4.7	1.6	5.2	1.2	1.5	1.4	-1.2

Source: CSO, Morgan Stanley Research

Exhibit 4

Trends in Industrial Production – Two-digit Classification (Base Year – 1993-94)

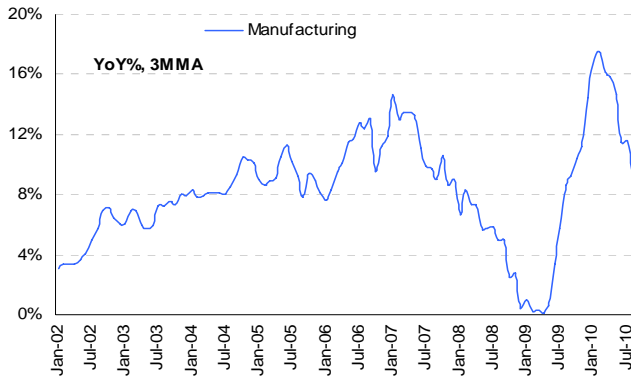
	Weight	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
IIP	100	10.6	9.3	10.2	12.0	17.7	16.3	14.7	14.5	15.2	11.5	5.8	15.2	5.6
Food Products	9.1	-6.0	-9.4	2.6	7.4	-4.5	-3.4	14.4	26.5	25.1	7.4	7.3	9.1	16.8
Beverages, Tobacco & related product	2.4	5.7	-2.8	0.2	2.6	2.0	1.4	2.7	2.4	-4.8	-7.6	-0.9	-2.1	2.5
Cotton Textiles	5.5	5.7	6.9	12.3	10.1	7.6	9.8	11.5	8.0	6.1	7.0	7.5	12.1	4.0
Wool, Silk & man-made fibres	2.3	20.4	10.1	18.0	11.9	3.2	4.9	-6.4	-4.6	-4.6	0.9	2.0	1.2	4.6
Mft of Jute & other fibre textiles	0.6	-10.2	-16.6	-15.5	-14.3	39.8	-89.3	-63.8	-9.6	1.1	26.6	30.0	19.3	7.0
Textile Products (includ. Wearing Apparel)	2.5	21.6	6.4	16.9	7.7	14.5	6.8	1.2	-0.3	0.0	1.3	5.6	-0.7	-3.0
Wood and Wood Products	2.7	2.7	-0.6	19.5	3.4	10.3	14.2	7.7	16.9	-14.4	-5.7	-7.0	-9.4	-15.3
Paper & Paper Products	2.7	-0.2	-3.0	0.6	6.3	3.8	8.8	12.4	7.5	10.4	6.4	3.3	7.3	11.5
Leather & Fur Products	1.1	-0.4	-1.4	8.9	-4.5	0.6	-2.6	14.0	12.0	2.7	12.4	-10.2	-1.8	19.6
Basic Chem and Chem Products	14.0	14.8	20.6	19.3	17.5	29.1	6.0	4.8	5.5	9.1	7.6	3.4	2.5	-2.0
Rubber, Plastic, Petroleum & Coal Products	5.7	20.4	9.9	14.3	19.2	21.7	26.0	13.3	15.1	19.2	15.6	12.6	19.4	12.2
Non-Metallic Mineral Products	4.4	7.3	0.9	4.0	7.3	8.1	16.6	11.6	6.2	3.1	5.6	3.2	0.0	3.5
Basic Metal & Alloy Inds	7.5	2.1	1.9	-1.1	5.1	7.6	12.0	7.9	16.3	10.9	9.4	-0.5	4.6	6.4
Metal Products and Parts	2.8	9.5	-4.3	9.2	28.0	13.6	39.6	58.6	43.6	31.3	39.3	61.8	14.8	33.4
Machinery & equipment	9.6	15.2	17.3	16.4	12.4	44.4	43.8	40.0	23.5	43.3	24.7	1.5	49.4	0.4
Transport equipment and parts	4.0	15.0	10.3	18.2	38.8	84.0	57.9	36.0	29.0	32.6	25.2	22.9	24.9	22.8
Other Manufacturing Inds	2.6	9.5	24.5	0.8	19.1	-9.6	9.1	-0.1	40.0	32.7	27.6	12.2	31.1	27.9

Source: CSO, Morgan Stanley Research

October 12, 2010
India Quick Comment

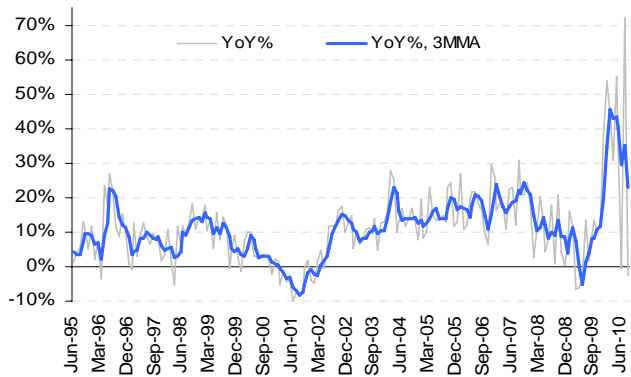
Trends in Industrial Production

Exhibit 5
Manufacturing Segment Growth (YoY%, 3MMA)



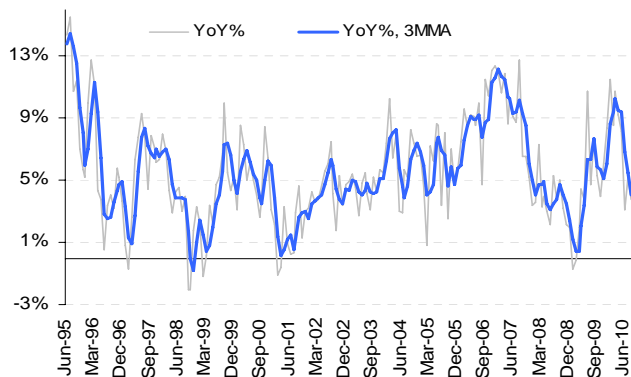
Source: CSO, Morgan Stanley Research

Exhibit 7
Capital Goods Growth (YoY% & YoY%, 3MMA)



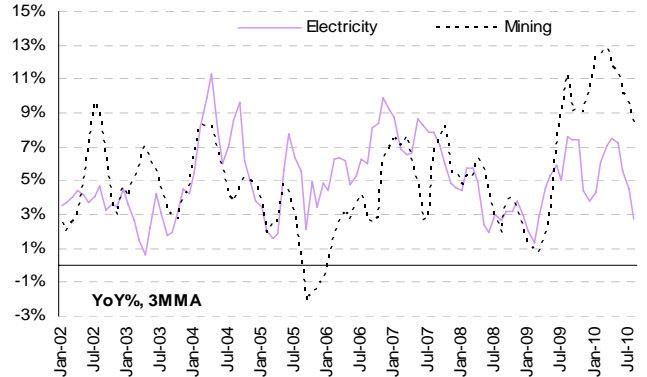
Source: CSO, Morgan Stanley Research

Exhibit 9
Basic Goods Growth (YoY% & YoY%, 3MMA)



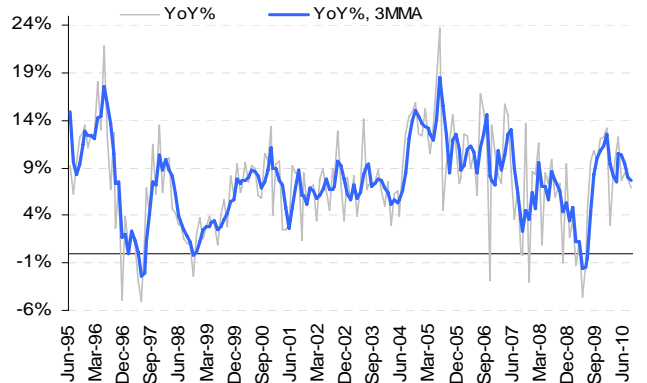
Source: CSO, Morgan Stanley Research

Exhibit 6
Electricity and Mining Segment Growth (YoY%, 3MMA)



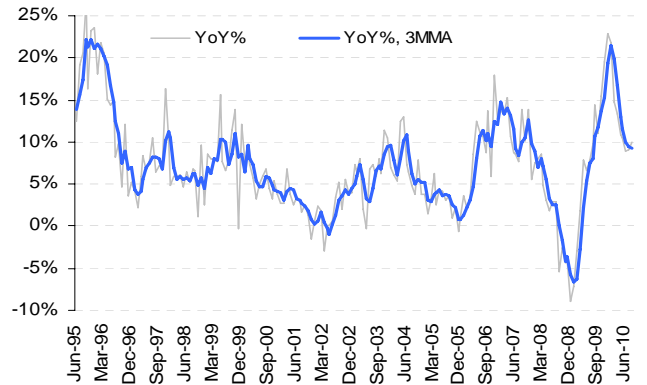
Source: CSO, Morgan Stanley Research

Exhibit 8
Consumer Goods Growth (YoY% & YoY%, 3MMA)



Source: CSO, Morgan Stanley Research

Exhibit 10
Intermediate Goods Growth (YoY% & YoY%, 3MMA)

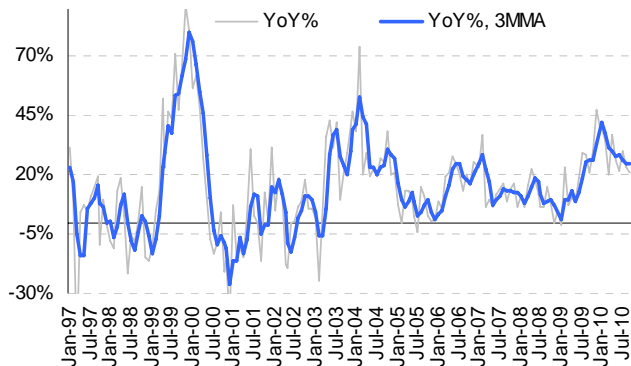


Source: CSO, Morgan Stanley Research

October 12, 2010
India Quick Comment

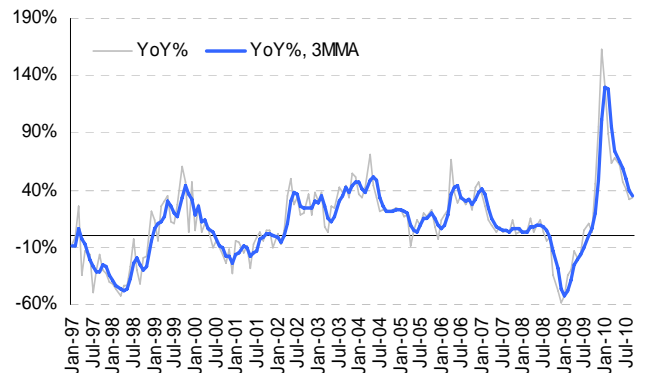
Chart Scan

Exhibit 11
Passenger Car Sales (YoY% & YoY%, 3MMA)



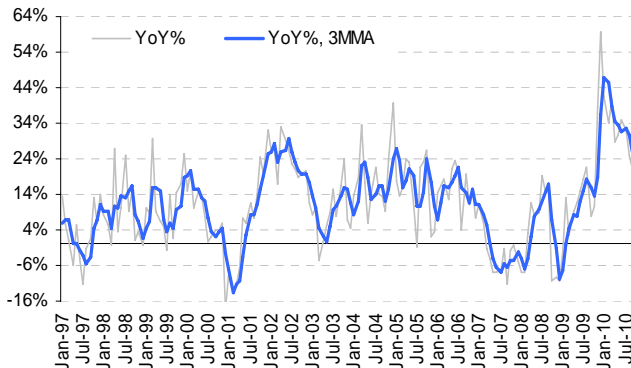
Source: SIAM, Bloomberg, Morgan Stanley Research

Exhibit 12
Commercial Vehicle Sales (YoY% & YoY%, 3MMA)



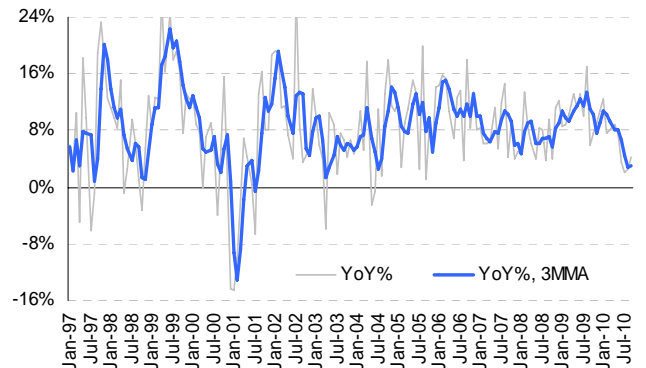
Source: SIAM, Bloomberg, Morgan Stanley Research

Exhibit 13
Two-wheeler Sales (YoY% & YoY%, 3MMA)



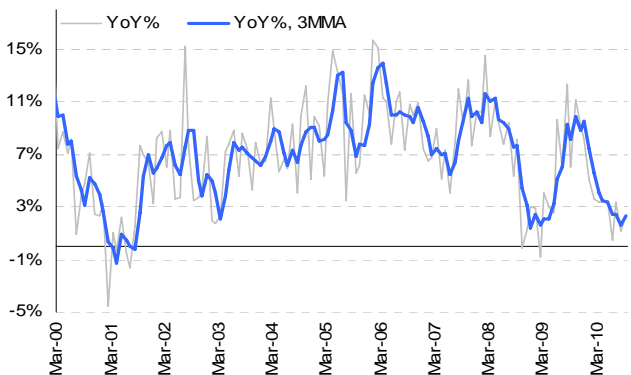
Source: SIAM, Bloomberg, Morgan Stanley Research

Exhibit 14
Cement Dispatches Growth (YoY% & YoY%, 3MMA)



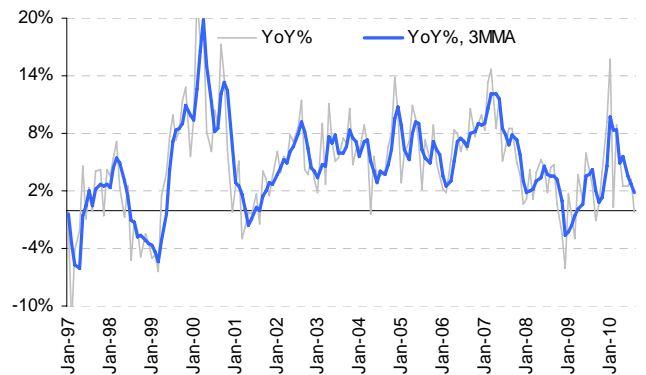
Source: CMA, CMIE, Morgan Stanley Research

Exhibit 15
Railway Freight Traffic Growth (YoY% & YoY%, 3MMA)



Source: CMIE, Ministry of Railways, Morgan Stanley Research

Exhibit 16
Steel Production Growth (YoY% & YoY%, 3MMA)

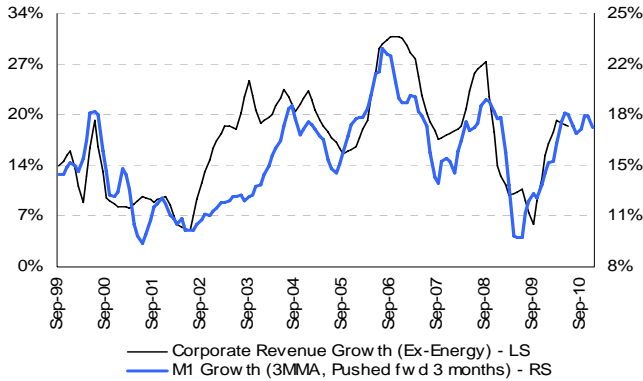


Source: CMIE, Morgan Stanley Research

October 12, 2010
India Quick Comment

Exhibit 17

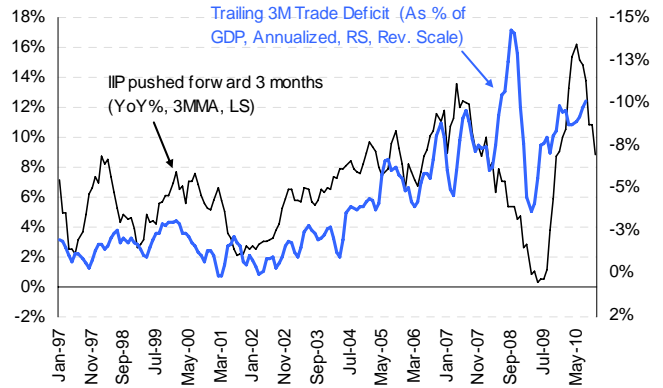
M1 vs. Corporate Revenue Growth (Ex-Energy)¹



¹ Based on available data for Morgan Stanley coverage universe (116 companies). Source: Capitaline, RBI, Morgan Stanley Research

Exhibit 18

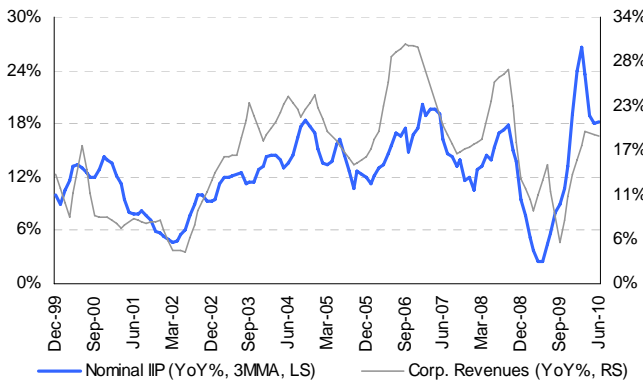
Trade Deficit vs. IP Growth



Source: CSO, Ministry of Commerce, Morgan Stanley Research

Exhibit 19

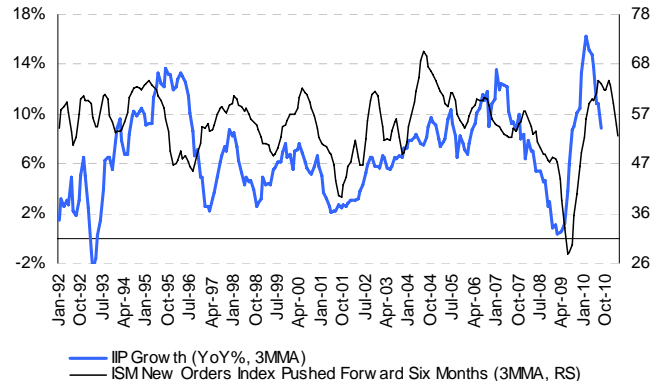
IP Growth vs. Corporate Revenue Growth (Ex-Energy)¹



Source: Morgan Stanley Research 1. Based on available data for Morgan Stanley coverage universe (116 companies)

Exhibit 20

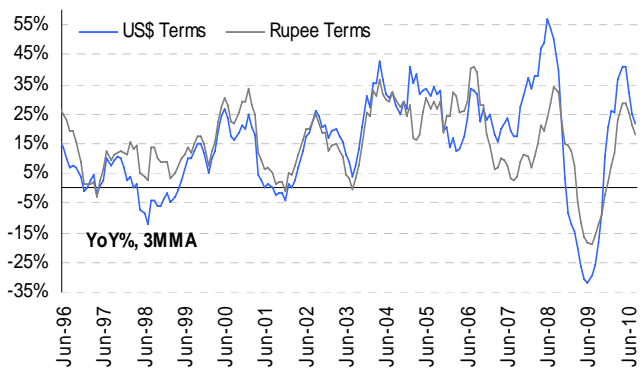
India's IP Growth vs. US ISM New Orders Index



Source: Bloomberg, CSO, Morgan Stanley Research

Exhibit 21

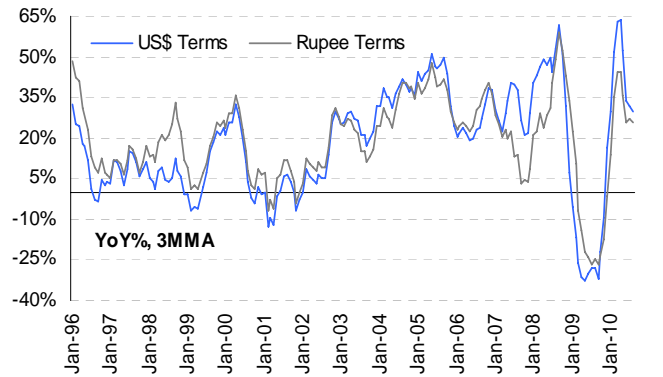
Export Growth (YoY%, 3MMA)



Source: CMIE, Ministry of Railways, Morgan Stanley Research

Exhibit 22

Import Growth (YoY%, 3MMA)



Source: CMIE, Morgan Stanley Research

October 12, 2010
India Quick Comment

Disclosure Section

Information and opinions in Morgan Stanley Research were prepared or are disseminated by one or more of the following, which accept responsibility for its contents: Morgan Stanley Asia Limited, and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z, regulated by the Monetary Authority of Singapore, and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H, regulated by the Monetary Authority of Singapore), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742), and/or Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, and/or Morgan Stanley India Company Private Limited and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Global Research Conflict Management Policy

Morgan Stanley Research observes our conflict management policy, available at www.morganstanley.com/institutional/research/conflictolicies.

Important Disclosure for Morgan Stanley Smith Barney LLC Customers

The subject matter in this Morgan Stanley report may also be covered in a similar report from Citigroup Global Markets Inc. Ask your Financial Advisor or use Research Center to view any reports in addition to this report.

Important Disclosures

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. Morgan Stanley Research is not an offer to buy or sell any security/instrument or to participate in any trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a company. Facts and views in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Morgan Stanley Research is distributed by Morgan Stanley Taiwan Limited; it may not be distributed to or quoted or used by the public media without the express written consent of Morgan Stanley. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong; if you have any queries concerning it, contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley MUFG Securities Co., Ltd.; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, supervised by the Spanish Securities Markets Commission (CNMV), which states that it is written and distributed in accordance with rules of conduct for financial research under Spanish regulations; in the US by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research it has prepared, and approves solely for purposes of section 21 of the Financial Services and Markets Act 2000, research prepared by any affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private UK investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

Trademarks and service marks in Morgan Stanley Research are their owners' property. Third-party data providers make no warranties or representations of the accuracy, completeness, or timeliness of their data and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P. Morgan Stanley bases projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on public information. MSCI has not reviewed, approved or endorsed these projections, opinions, forecasts and trading strategies. Morgan Stanley has no influence on or control over MSCI's index compilation decisions. Morgan Stanley Research or portions of it may not be reprinted, sold or redistributed without the written consent of Morgan Stanley. Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities/instruments is available on request.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The Americas

1585 Broadway
New York, NY 10036-8293

United States

Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD

United Kingdom

Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008

Japan

Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon

Hong Kong

Tel: +852 2848 5200