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Strategy and Economics

Budget F2010 – Tilting Policy Bias toward Growing the Pie

First key policy signal from the new government: Investors are likely to watch the budget announcement on July 6 closely as this will be first major policy announcement from the new government and will be a reflection of the government's priorities. Will the budget live up to the market's expectations? We think the budget will provide positive signals, indicating the government is keen to make progress in policy reforms.

Growing the pie is as important as redistribution: Despite the slow pace of reforms during F2006-2008, positive global factors ensured strong GDP growth. However, in the current environment where global growth is likely to be sub-par, the government will need to move on economic reform. We expect the government to take a balanced approach, with adequate focus on reviving growth and sending the right signals to the private sector.

What do we expect from the budget? We expect the budget to focus on the following themes: (a) announcing a clear plan to improve the health of public finances; (b) augmenting resources through a divestment program; (c) committing to an increase in infrastructure spending; (d) implementing a goods and services tax (GST) scheme; and (e) maintaining the push on social sector spending but without straining the fiscal deficit further. Our expectations for FDI liberalization remain low.

Stock market implications – will history repeat? Our India Strategist, Ridham Desai, highlights that history does not favor a move up in the market in the month post the budget. However, he argues that this time, since we expect the finance minister to deliver a reform-oriented budget, history may not necessarily be relevant.

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Budget F2010 – Tilting Policy Bias toward Growing the Pie

First Key Policy Signal from the New Government

Investors are likely to monitor the budget announcement on July 6 closely as this will be first major policy announcement from the new government and will reflect its priorities. Will the budget meet market expectations? We expect positive signals from the budget, indicating that the government is eager to push forward on policy reforms. In this context, we refer to the recent comment by Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, when he was asked (in a press interview with *The Economic Times*) which are the key reforms that the government is likely to initiate in the next six months or a year? Mr. Ahluwalia's answer was "*Psychologically, you also have to look at the reform signal for the medium term; the actual impact of those decisions come only after two to three years. The signals you give today change investor expectations, and that's not necessarily to do with foreign investor expectations. Foreign investment is important but domestic investment is much larger*". He also mentioned that the key areas that would need government attention include infrastructure and progress in social sector reforms.

Growing the Pie Is as Important as Redistribution

India's growth model is very much dependent on the private sector taking the initiative. The government needs to focus on sending the right signal to the private sector and creating the right environment to attract business and infrastructure investments. During F2006-2008, strong capital inflows driven by global risk appetite ensured that GDP growth accelerated to 9.4% during this period, even though the government's reform effort was very weak. The strong growth created scope for increased government expenditure in the social sector. In other words, one could say that while the income pie grew fast due to unexpected positive global factors, the government's own effort was largely focused on redistributing the income to the poor, ensuring that growth was inclusive. Indeed, in the last two years of the previous regime, the Congress Party-led coalition allocated a massive amount of additional spending of about US$130bn, 11.3% of GDP (Exhibit 1), the bulk of which was directed to the middle and low-income population.

The adverse impact of the global credit crisis on growth caused a collapse in revenue growth, which coincided with the acceleration in the government's income redistribution effort in the two years prior to the general elections. This pushed the fiscal deficit (including off-budget expenditure) to an

Exhibit 1

Extra Government Spending in F2008 and F2009

	F2008		F2009		Aggregate
	US$bn	% of GDP	US$bn	% of GDP	US$bn
Oil Subsidy	19	1.6%	22	1.9%	42
Fertilizer Subsidy	11	0.9%	24	2.1%	35
NREGS*	3	0.3%	7	0.6%	10
Farm Loan Waiver			13	1.1%	13
Sixth Pay Commission			5	0.4%	5
Additional Fiscal Stimulus			28	2.4%	28
Total	**33**	**2.8%**	**99**	**8.5%**	**132**

NREGS =National Rural Employment Guarantee Scheme; Note: Oil and fertilizer subsidy includes both on and off budget spending by the Central government. Source: RBI, Economic Survey, Ministry of Finance, Morgan Stanley Research; E= Morgan Stanley Research estimates

Exhibit 2

India's Consolidated Fiscal Deficit

(As % of GDP)	F2007	F2008	F2009E	F2010E
Central Fiscal Deficit	3.5%	2.7%	6.2%	6.0%
State Fiscal Deficit	1.9%	2.3%	3.5%	3.3%
Sub-total	**5.3%**	**5.0%**	**9.7%**	**9.3%**
Inter-government adjustments	0.3%	-0.1%	-0.1%	-0.1%
Combined Headline Deficit	**5.6%**	**4.9%**	**9.6%**	**9.2%**
Major Off-budget expenditure items	1.8%	1.9%	3.0%	0.5%
Overall Fiscal Deficit	**7.4%**	**6.8%**	**12.6%**	**9.7%**

Note: For F2010, the Central Fiscal Deficit is budgeted at 5.5% of GDP *Here the off-budget items include expenditure on food, fertilizer, oil and waiver of farm loans. We have included the full amount of farm loan waiver in the year in which the expenditure has been incurred i.e. F2009. The government has planned to amortize the cost over the period of four financial years. Source: RBI, Economic Survey, Ministry of Finance, Morgan Stanley Research; E= Morgan Stanley Research estimates

unsustainably high level of 12.6% of GDP and public debt including off-budget liabilities to 84.8% of GDP in F2009 (Exhibit 2). However, now the government cannot afford *not* to accelerate the pace of reforms. Growing the income pie in an environment of sub-par global growth for a while will be challenging. We believe that the government's approach needs to be balanced, sufficiently focused on reviving growth and sending the right signals to the private sector.

What Do We Expect from the Budget?

From a macro perspective, we think the budget could focus on the following themes:

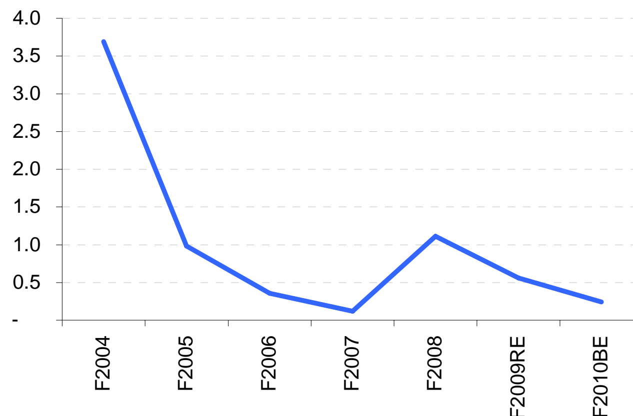
Clear plan to improve health of public finances: A first step towards demonstrating its commitment to improving public finances would be to avoid any further major increases in expenditures in F2010. We believe that the government already implemented a major spending plan in the pre-election

period, as discussed earlier. While it is hard to argue that the country does not need to spend more on social welfare (education, health and subsidies for the poor), we believe the government may need a balanced approach in announcing further large increases in expenditures when revenue growth is likely to remain weak in the next nine months – the balance of the financial year (F2010, year-end March). Although, the part of the expenditure burden that was in the form of oil/fertilizer subsidy and one-off expenses like the farm loan waiver is unlikely to recur in F2010, the fiscal deficit will probably still be high at 9.7% of GDP (vs. 12.6% in F2009). Reining in the fiscal deficit will be important for ensuring low real interest rates for the private sector. Moreover, international rating agencies are likely to watch the budget announcements closely to assess government intentions with respect to lowering the fiscal deficit. Currently, all three international rating agencies rate India as investment grade. Any downgrade would push India's rating below investment grade, adversely affecting the outlook for capital inflows into the country.

Augmenting resources through divestment program: The current high level of the fiscal deficit will likely make it difficult for the government to increase its spending to support economic growth. We believe that, in such an environment, the government will need to augment its financial resources through divestment of its stake in government companies. Over the past five years, the government's attempts to boost resources through divestment have been disappointing (Exhibit 3). A key reason for this was opposition from the left parties, which were a part of the ruling coalition for four and a half years of the five-year regime. Although we do not expect aggressive privatization in the form of transfer of management to the private sector, the new government is likely to initiate more divestments. In F2010, the government could announce a target of about US$4-5bn. Note the government will have about nine months in the financial year to execute such a plan. However, cumulatively over the next five years, we think the government would have no difficulty raising US$40-50bn through divestment.

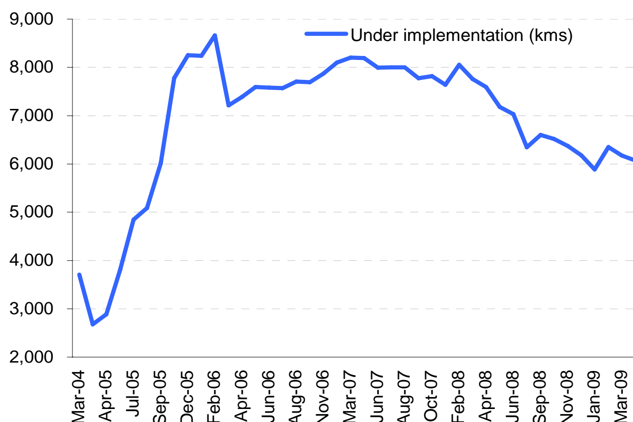
A commitment to increase infrastructure spending: Low capacity utilization in manufacturing will mean that private business capex will likely remain weak in the next 12-18 months. In this environment, an increase in investments will serve the twin objectives of providing demand support in the near term and improving productivity by reducing supply constraints. Government efforts to accelerate infrastructure investment slowed markedly during F2009. Progress in road development was especially tardy. There was a distinct slowdown in the awarding of new contracts as well as implementation of contracts already issued (Exhibit 4). About

Exhibit 3
SOE Divestment Proceeds (US$ bn) – Likely to Rise



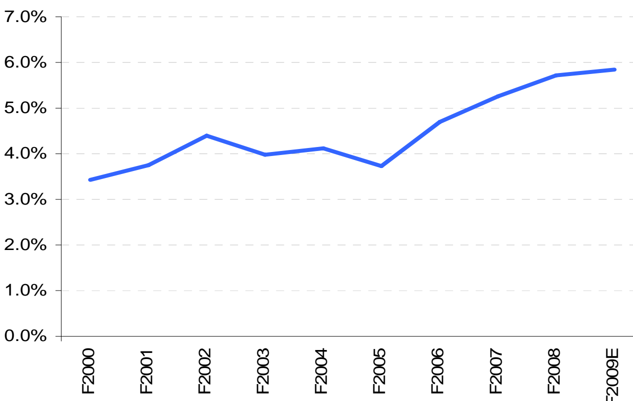
Source: RBI, Government Budget Documents, Morgan Stanley Research
RE= Government Revised estimates; BE= Government Budget estimates

Exhibit 4
All NHAI Projects – Under Implementation (kms)



Source: National Highway Authority of India, Morgan Stanley Research

Exhibit 5
India: Infrastructure Investment (% of GDP)



E= Morgan Stanley Research estimates; Source: Morgan Stanley Research

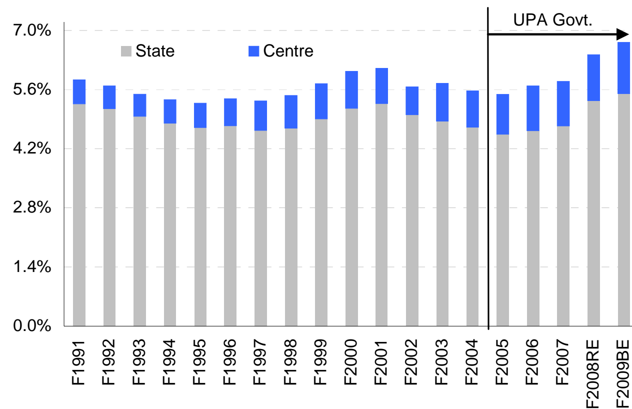
47% of tenders for roads projects planned are yet to be awarded. According to monthly data released by NHAI, not one project was awarded between August 2008 and January 2009, although some pickup was seen during February-April 2009.

We believe the government will initiate measures to accelerate infrastructure spending. It has already authorized the India Infrastructure Finance Company to collect Rs300bn by issuing tax-free bonds for financing infrastructure projects. IIFC is likely to accelerate fund raising and disbursement in F2010. The government could announce an increase in earmarked taxes on diesel and petrol to augment resources for spending on roads. The budget may provide more incentives and attempt to address the regulatory hurdles to attract private sector investments in roads and the electricity sector. We are most optimistic about road investments. Union Surface Transport Minister Mr. Kamal Nath has already indicated that he would like to increase the length of the road network by about 7,300 kms a year (36,500 kms over the next five years). The minister is determined to amend the regulatory framework to increase private sector participation and increase the budget for public spending. We believe the budget measures should help improve infrastructure spending to 6.5% over the next 12 months from the current run rate of about 5.8-6% of GDP.

***Implementation of goods and services tax (GST) scheme*:** Over the past few years, the government has already done a lot of groundwork for the transition to GST. The most difficult step was the move to substitute multiple state level sales tax rates into a uniform state level value-added tax (SVAT). We expect the government to announce a clear roadmap on the timing of GST implementation. Earlier the government announced the new GST regime would be effective from April 1, 2010. A new comprehensive indirect levy under the GST system is to replace the current central level taxes (excise and services taxes) and SVAT into a uniform countrywide GST. This will be an important step in indirect tax reforms, which should improve tax collection efficiency and business productivity.

***FDI – Keeping our expectations low*:** India's FDI regime has already made adequate progress. We believe the government is likely to choose to send the right signals to the private investors through its measures to revive overall growth rather than aggressively lifting the FDI limit further on certain sectors. The Commerce and Industry Minister, Mr. Anand Sharma, has already indicated that the government is unlikely to consider liberalizing FDI in retail soon. (See the detailed comments by our retail sector analyst, Hozefa Topiwalla, on this subject later in this note). There appears to be hope in the market, however,

Exhibit 6
Social Sector Spending (As a Percentage of GDP)



BE= Government Budget Estimates; RE= Government Revised Estimates; Source: RBI, Morgan Stanley Research

Exhibit 7
Indian Equities: Dealing with Budget Blues

	BSE Sensex			% Change	
	One Month Before Budget	Closing on Budget Day	One Month After Budget	Month Pre Budget	Month Post Budget
1991	982	1,220	1,168	24.2%	-4.3%
1992	2,214	2,831	3,802	27.9%	34.3%
1993	2,681	2,652	2,225	-1.1%	-16.1%
1994	4,054	4,286	3,776	5.7%	-11.9%
1995	3,506	3,487	3,460	-0.5%	-0.8%
1996	3,925	3,808	3,406	-3.0%	-10.6%
1997	3,526	3,475	3,361	-1.4%	-3.3%
1998	4,007	3,643	3,231	-9.1%	-11.3%
1999	3,293	3,400	3,683	3.2%	8.3%
2000	5,336	5,447	5,041	2.1%	-7.5%
2001	4,330	4,274	3,788	-1.3%	-11.4%
2002	3,318	3,562	3469	7.4%	-2.6%
2003	3,250	3,284	3,115	1.0%	-5.1%
2004	4,962	4,844	5,197	-2.4%	7.3%
2005	6,556	6,714	6,511	2.4%	-3.0%
2006	9,920	10,370	11,086	4.5%	6.9%
2007	14,091	12,938	12,884	-8.2%	-0.4%
2008	17,649	17,579	16,371	-0.4%	-6.9%
2009	15,104				
Average since 1991				**2.8%**	**-2.1%**
Standard deviation since 1991				**9.2%**	**11.1%**

Source: Morgan Stanley Research

that the government will work on increasing the foreign investment cap for the insurance sector to 49% from 26%. While there does not seem to be any major political hurdle to such a move, if the government does not announce it in the budget, the market may respond negatively, particularly for private financial sector stocks. (For detailed comments on this

issue, see the points by our Banking analyst, Anil Agarwal, later in this note).

Social sector push: Over the past five years, the central government has lifted social spending to 6.7% of GDP in F2009 (budget estimate) from 5.6% of GDP in F2004 (Exhibit 6). Having been rewarded with a stronger seat tally, the Congress Party leaders may be encouraged to respond by increasing the government's expenditure on social welfare such as education, health and rural support. However, we think the government is likely to be mindful of total expenditure growth. New measures are unlikely to push the fiscal deficit higher. For instance, the government may provide incentives to the private sector to increase investments in low-cost housing instead of directly allocating funds from the government budget.

Stock Market Implications

Our India Strategist, Ridham Desai, highlights that history does not favor a move up in the market in the month post the budget (Exhibit 7). However, he argues that this time – since we expect the finance minister to deliver a reform-oriented budget – history may not necessarily be relevant. Later in this report, our analysts detail the budget expectations for their respective sectors. A summary of the sector/stock implications from potential budget measures follows:

India Agriculture [Nillai Shah]
Jain Irrigation should benefit from a government focus on farm productivity, rural development, water infrastructure development and a potential increase in outlays for a micro Irrigation subsidy.

India Automobiles [Binay Singh/Anosh Koppikar]

- As a part of the government stimulus package, a 4% cut in excise duty was announced across the sector. We expect the government to raise the duty by taking 2% back in the budget. The rollback of the excise duty would affect all auto companies, although we expect the companies to raise prices and pass on the increased duties to consumers. In the event of any duty cuts on UVs, M&M would be affected positively.
- The extension of the accelerated depreciation benefit would benefit Tata Motors and Ashok Leyland.
- Any further steps to encourage rural demand would augur well for Maruti and M&M, and increased infrastructure spend would encourage commercial vehicle sales and thus benefit players like Tata Motors and Ashok Leyland.

India Construction/Infrastructure/Capital Goods [Akshay Soni/ Pratima Swaminathan]

- All infrastructure developers like GMR, Jaiprakash, L&T, IVRCL executing BOT contracts should benefit from the introduction of Section 80 M and Section 10(23)(G).
- Construction companies like L&T, IVRCL, Gammon, would benefit from an exemption of service tax on such companies.
- L&T and BHEL should gain if an import duty is imposed on power equipment, whereas power generation companies like GMR, which import power equipment, would lose.
- L&T would benefit from the introduction of a shipbuilding subsidy and exemption of duty for private players on defense equipment imported.

India Cement [Ashish Jain/Akshay Soni]
The sector as a whole would benefit from a push in infrastructure, since the resulting demand would help the sector deploy some of the capacity expansion that is coming up in the next 12-24 months. This would result in prices not taking as hard a beating as the market currently expects.

India Consumer [Hozefa Topiwalla/Divya Gangahar/Girish Achhipalia]

- We believe that the government may roll back part of the reduction in overall excise duties for the sector (say by 200-400 bps). For the cigarette industry, the government could increase excise duties by 7-10% as opposed to our base-case expectation of 4%.
- In the event of a rollback of excise duties, all FMCG companies would be affected. However, FMCG companies would likely raise prices to offset the impact of a potential increase in costs.
- Similarly, any steps taken to buoy rural consumption and spending would bode well for all FMCG companies.

India Financial Services [Anil Agarwal/ Mansi Shah]

- The government's effort to increase infrastructure spending would benefit IDFC the most in our coverage.
- HDFC would gain from any housing loan concessions.
- Liberalizing FDI norms for insurance would benefit banks/institutions with insurance arms like ICICI Bank, SBI, HDFC, Kotak and Reliance Capital.
- SOE banks would also be affected by any announcement related to public finances – given the sensitivity of these banks to long bond yields.

India Retail [Hozefa Topiwalla/ Girish Achhipalia/ Divya Gangahar]
We do not expect any fresh measures in the budget to benefit the companies in this sector. However, if the government were to initiate steps to liberalise FDI limits through a clear set of guidelines, this would benefit all listed companies in the retail segment, as most are short of funding for their growth plans.

India Utilities [Parag Gupta/Saumya Srivastav]
We believe that there will be greater thrust on electricity capacity addition. All power companies would be affected positively. In our coverage, NTPC, Reliance Infrastructure and Tata Power would be the beneficiaries, in our view.

India Hotels [Parag Gupta/Saumya Srivastav]
If infrastructure status is awarded to the industry, then all companies would be major beneficiaries. In addition, if the tax holiday is extended to five-star category hotels and if there is a reduction in the luxury and service tax, then Indian Hotels, Hotel Leela and East India Hotels would likely do well.

India Shipping [Parag Gupta/Saumya Srivastav]
The industry has been asking for a separate shipping fund from Indian banks to help companies buy ships. If a shipping fund is announced, then we believe Shipping Corporation of India Ltd (SCI) would be a big beneficiary. If there is a reduction in taxes, then both SCI and GE Shipping would likely do well.

India Nonferrous Metals & Mining/Steel [Vipul Prasad/Ketaki Kulkarni]

- We believe that excise duty on steel may be raised to 10% from 8% currently. This move should be neutral for companies, as they would likely pass it to consumers.
- An increase in import duty on aluminum would help Nalco, Hindalco and Sterlite in that order, in our view.
- An increase in the export tax on iron ore would hurt Sesa Goa and help JSW Steel.
- A meaningful thrust on infrastructure should aid steel companies with higher exposure to long products segments (SAIL, JSPL, Tata, JSW in that order). Aluminum and copper companies may not gain much as base metals prices are guided by import parity.

India Oil and Gas [Vinay Jaising/ Mayank Maheshwari/Surabhi Chandna]

- We believe the government could tweak duties and partially raise prices for automotive fuel (may be separately but an announcement could be made during the budget) and also provide a mechanism to share the subsidy burden for Kerosene and LPG among upstream and downstream players.
- There could be an announcement of a variable Cess tax replacing the current subsidy structure for upstream companies.
- If the above-mentioned reforms are implemented, this would be a significant positive for R&M companies, followed by ONGC and GAIL, since there would be no uncertainty about the subsidy burden. Also benefiting would be private marketers like Reliance Industries as the retail marketing business earns positive margins.

India Pharmaceuticals [Sameer Baisiwala/Saniel Chandrawat]
We think that the government could provide incentives for healthcare infrastructure (including hospitals). We do not expect any meaningful impact on our coverage universe. Some hospital players – Apollo, Fortis and Max – could potentially benefit from this measure.

India Property [Sameer Baisiwala/Arunabh Chaudhari]
We think the government could provide incentives to allow affordable housing. It could also increase the tax exemption limit on interest payment to Rs250K pa. All property companies under our coverage have some part of the land bank earmarked for affordable/mid-income housing, so accordingly this would benefit all. Specifically, Unitech could benefit more than others given its plan to undertake large volumes in the segment.

India Software Services [Vipin Khare/Gaurav Rateria]
If the tax holiday is extended, it would benefit companies like Hexaware, Mphasis, Patni, and Tech M more than larger vendors like Infosys, TCS and Wipro. Larger vendors are likely to continue expanding their SEZ presence, in our view. Lower income tax rates would further ease wage pressure and may help companies lower their employee costs further. Increasing outlays on IT and education by the government could help domestic demand, although it is <10% of revenues for companies in our coverage universe.

A detailed analysis by sector of potential budget measures is included in the following pages.

India Agriculture [Nillai Shah]

1) **What are the key issues related to the sector?**
The key issues are:
- Ensuring sustainable farm income growth;
- Rural development to promote inclusive growth;
- Government focus at all levels to ensure successful implementation of existing rural and agri welfare schemes; and
- Subsidy outlays on food and fertilizers.

2) **What has the government done for the sector already post the start of the credit crisis in Sept-Oct last year?**
Continuing government programs such as interest subvention for crop loans, agriculture loans under priority sector norms for banks and direct government subsidies/assistance under various schemes of the Bharat Nirman Plan for agriculture ensured adequate credit availability for the sector.

3) **What are the companies/industry sources indicating they would like the government to do?**
- Higher monetary allocation for driving penetration of irrigation and special focus on Micro Irrigation growth by putting the sector under 'Mission Mode';
- Long term direction on developing water infrastructure in India;
- Tax breaks for companies providing agri inputs; and
- Introduction of nutrient-based subsidy scheme for fertilizers.

4) **What measures do you think are potentially likely?**
Given concerns on food inflation and sharp increase in minimum support prices (MSP) of key crops affected over the past 3 years, we believe the government will now focus on enhancing rural incomes by reducing input costs for farmers. To that extent we believe that there could be certain tax breaks for companies providing inputs to the farm sector. In addition, Micro Irrigation (MIS) could get a further boost by higher budgetary allocation and water infrastructure development.

5) **Which companies will benefit/lose as a result of those measures?**
Jain Irrigation would benefit from government focus on farm productivity, rural development, water infrastructure development and a potential increase in a Micro Irrigation subsidy outlay.

India Automobiles [Binay Singh/Anosh Koppikar]

1) **What are the key issues related to the sector?**
Key issues include -
- Potential increase in overall excise duties (roll-back of excise duty cut);
- Extension of accelerated depreciation benefit for commercial vehicles until March 2010.

2) **What has the government done for the sector already post the start of the credit crisis in Sept-Oct last year?**
The government has, through a series of Fiscal Stimulus packages announced the following concessions for the automobile industry:
- Reduction of excise duty by 4% across the sector;
- Provision of accelerated depreciation of 50% for all commercial vehicles purchased on or after January 1, 2009, up to September 30, 2009;
- An arrangement with Public Sector Banks to provide a line of credit to NBFCs (Non-Banking Finance Cos.), specifically for the purchase of commercial vehicles;
- States are to be provided assistance under the JNNURM (Jawaharlal Nehru National Urban Renewal Mission) to purchase buses, and this scheme extends until June 2009

3) What are the companies/industry sources indicating they would like the government to do?

Passenger cars & utility vehicles segment has asked for:

- Extending the excise duty cut benefit;
- Rationalizing the excise duty structure on Utility Vehicles (UVs); currently UVs pay an excise duty of 20% whereas cars pay an excise duty of 8%. In June 2008, the government imposed additional specific duty of Rs15K/20K on high fuel consuming UVs; given that fuel prices have come down, the industry has asked for wavier of this duty.

Commercial vehicles industry expects:

- Extension of depreciation benefits beyond the stipulated deadline of September 2009;
- Provision of incentives for scrapping old trucks and lorries that cause pollution and pose safety risks.

Auto Ancillary industry has asked for:

- Provision of tax holidays and lower tax rates to promote auto ancillary manufacturing parks;
- Raising the import duty on certain components to the peak customs rate of 10% so as to provide protection to the domestic auto components industry.

4) What measures do you think are potentially likely?

- We expect the government to roll back a part of the excise duty cut and thus raise duty by 200 bps;
- For UVs, we expect the government to waive the specific duty charge of Rs15K/20K. In the case of commercial vehicles, the government may extend the accelerated depreciation benefit until March 2010.

5) Which companies will benefit as a result of those measures?

- Any rollback of excise duty would affect all auto companies, and we expect companies to raise prices and pass on the increased duties to the consumers;
- In the event of any duty cuts on UVs, M&M would be positively affected.
- Extension of accelerated depreciation benefit would be positive for Tata Motors and Ashok Leyland.
- Any further steps to encourage rural demand would augur well for Maruti and M&M, and increased infrastructure spend would encourage commercial vehicle sales and thus benefit players like Tata Motors and Ashok Leyland.

India Construction/Infrastructure/Capital goods [Akshay Soni/Pratima Swaminathan]

1) What are the key issues related to the sector?

- Availability of debt funding at lower rates for infrastructure projects;
- Given complex holding structure of most infrastructure projects (SPVs, holding companies, etc.), there is multiple level of dividend distribution taxation;
- Tough competition from foreign companies, especially Chinese companies, in power equipment.

2) What has the government done for the sector already post the start of the credit crisis in Sept-Oct last year?

- Lowered interest rates by increasing liquidity in the system;
- Mandated the government-owned India Infrastructure Finance Company (IIFC) to refinance loans given by banks for new infrastructure projects for which bids are submitted on or after January 1, 2009;
- The 'all-in-cost' ceilings on external commercial borrowing are removed, under the approval route of RBI;
- Service tax rate on taxable services have been brought down to 10% from 12%.

3) What are the companies/industry sources indicating they would like the government to do?

Direct taxes

- Re-introduce Section 80 M, which provided for a deduction for dividends received from subsidiaries for calculating dividend distribution tax at parent level;
- Make infrastructure lending more tax-friendly, through re-introduction of Section 10 (23)(G), whereby banks were allowed to claim the interest earned on long-term lending to infrastructure projects as an allowable deduction;
- Abolish minimum alternative tax (MAT) or amend the computation methodology to include exemptions;
- Exempt dividends received from overseas subsidiaries or provide for a lower tax rate for dividends received from overseas subsidiaries;
- Extend the shipbuilding subsidy of 30% until the end of the 12th plan.

Indirect taxes

- Impose a higher duty for imported second-hand construction/power equipment;
- Impose a duty on imported power plant equipment;
- Exempt the service tax levied on companies constructing infrastructure projects;
- Extend the exemption of import duty for power equipment for plants that are 500-1000 MW (currently available for Mega Power Projects above 1000 MW in size only);
- Level playing field for private sector participation in defense projects by allowing import duty exemption for private players (these are currently available only to public sector units).

4) What measures do you think are potentially likely?

- Re-introduction of Section 80 M, which provided for deduction in dividends received from subsidiaries for calculating dividend distribution tax.
- Making infrastructure lending more tax-friendly, through reintroduction of Section 10 (23) (G), whereby banks were allowed to claim the interest earned on long-term lending to infrastructure projects as an allowable deduction.
- Extension of shipbuilding subsidy

5) Which companies will benefit/lose as a result of those measures?

- All infrastructure developers like GMR, Jaiprakash, L&T, IVRCL executing BOT contracts would benefit from introduction of Section 80 M and Section 10(23)(G).
- Construction companies like L&T, IVRCL, Gammon, would benefit from the exemption of service tax on such companies.
- L&T and BHEL would benefit if there is an import duty on power equipment, whereas power generation companies like GMR which import power equipment would stand to lose
- L&T would benefit from the introduction of the shipbuilding subsidy and exemption of duty for private players on defense equipment imported.

India Cement [Ashish Jain/ Akshay Soni]

1) What are key issues related to the sector?

The key issues related to the sector are:

- Potential rationalization of the excise duty structure;
- Reduction in VAT rates;
- Demand support from potential push on infrastructure spending.

2) What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?

There haven't been any major measures by the government for the sector in particular since the beginning of the crisis, but the government's efforts to drive infrastructure spending has indirectly benefited the sector, especially against a backdrop of a slowdown in real estate.

3) What are the companies/industry sources indicating they would like the government to do?

- Impose duty on imported cement;
- Reduce excise duty by 30-35% to remove double taxation (on excise, sales tax and freight cost).
- Policy initiatives to get private sector to invest in infrastructure, given government's own large deficit, which restricts its potential spending in the area.
- Reduce VAT on cement to 4% (from 12.5% currently) to bring it in line with other building materials such as steel.

4) What measures do you think are potentially likely?

We believe that the only measure that is likely to come through is a further push on infrastructure spending, both from public and private sources.

5) Which companies will benefit/lose as a result of those measures?

The sector as a whole would benefit from the push in infrastructure, since the resulting demand would help the sector deploy some of the capacity expansion that is coming up in the next 12-24 months. This should prevent prices from taking as hard a beating as the market currently expects.

India Consumer [Hozefa Topiwalla/Divya Gangahar/Girish Achhipalia]

1) **What are the key issues related to the sector?**
Key issues include:
- Potential increase in overall excise duties (roll-back of excise duty cut);
- Increase in excise duty for cigarettes;
- Measures to drive inclusive growth to increase rural spend.

2) **What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?**
The government has lowered excise duties by 6% in two tranches as part of its stimulus package.

3) **What are the companies/industry sources indicating they would like the government to do?**
The companies don't expect any roll back of the reduction in excise duties. They expect a simplified tax structure and expect the government to continue its focus on the rural sector through employment generation and infrastructure spending to improve rural affordability. ITC expects benign to moderate increase in excise duties for cigarettes to drive growth as well as overall tax collections.

4) **What measures do you think are potentially likely?**
We believe that the government may roll back part of the reduction in overall excise duties for the sector (say by 200-400 bps). For the cigarette industry, the government could increase excise duties by 7-10% as opposed to our base-case expectation of 4%.

5) **Which companies will benefit/lose as a result of those measures?**
In the case of a roll-back of excise duties, all FMCG companies would be affected. However, FMCG companies would likely raise prices to offset the impact of a potential increase in costs.
Similarly, any steps taken to buoy rural consumption and spend would bode well for all FMCG companies.
ITC would be negatively affected if the increase in excise duties for cigarettes is higher than 7-8%.

India Financial Services [Anil Agarwal/Mansi Shah]

1) **What are the key issues related to the sector?**
Key issues include:
- Need for relaxation of limits on foreign holdings in Indian insurance companies;
- Voting rights in private banks are capped at 10%;
- Lack of long-term funding for infrastructure financiers.

2) **What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?**
The central bank has announced various measures, the key being easing of policy rates, relaxations in restructuring norms and reduction in risk weight of assets for calculating capital positions. In addition, the government has announced its intent of investing around Rs200bn in banks as capital.

3) **What are the companies/industry sources indicating they would like the government to do?**
Bankers wish list:
- Infrastructure financing – Banks have requested various sops for infrastructure financing, including tax breaks for accessing cheaper funds to finance infrastructure projects, permission to issue tax-free bonds, access to refinance and tax exemptions on loans for infrastructure projects under the Income Tax Act. Relaxation in norms for classifying loans to delayed infrastructure projects as sub-standard assets;
- Liberalizing FDI norms for insurance by increasing FDI limit to 49% from the current 26%;
- Consolidation in the banking industry;
- Increasing the voting rights in private banks in line with the shareholding.

4) What measures do you think are potentially likely?

- We expect some measures to tackle long-term funding constraints of infrastructure financiers;
- Relaxation in foreign ownership norms for insurance sector;
- There may be some sops on housing loans, for instance increase in tax benefit on interest plus principal repayment;
- There may be some announcements regarding the capital and ownership levels of SOE banks.

5) Which companies will benefit/lose as a result of those measures?

- In the case of easing infrastructure spending, the main beneficiary would be IDFC, in our coverage.
- HDFC would benefit from any sops on housing loans.
- Liberalizing FDI norms for insurance would benefit banks/institutions with insurance arms like ICICI Bank, SBI, HDFC, Kotak and Reliance Capital.
- SOE banks would also be affected by any announcement related to public finances - given the sensitivity of these banks to long bond yields.

India Retail [Hozefa Topiwalla/Girish Achhipalia/Divya Gangahar]

1) What are the key issues related to the sector?

Relaxing rules regarding FDI in retail.

2) What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?

According to the Government's Press Note 2 of 2009, "the foreign investment through the investing Indian company would not be considered for calculation of the indirect foreign investment in case of Indian companies which are 'owned and controlled' by resident Indian citizens and/or Indian Companies which are owned and controlled by resident Indian citizens". We believe that retail companies could raise foreign capital through this route.

3) What are the companies/industry sources indicating they would like the government to do?

Companies would like to see clear guidelines/timelines on allowing FDI in retail.

4) What measures do you think are potentially likely?

It is unlikely that FDI in retail may come up for discussion in the forthcoming Union Budget.

6) Which companies will benefit/lose as a result of those measures?

We don't expect any fresh measures in the budget to benefit the companies in the sector. However, if the government were to initiate steps to liberalise FDI limits through clear set of guidelines, this would benefit all listed companies in the retail segment, as most are short of funding for their growth plans.

India Utilities [Parag Gupta/Saumya Srivastav]

1) What are the key issues related to the sector?

Some key issues include:

- Lack of clarity on the mega power policy. Ambiguity on issues such as whether a developer that has access to a captive coal block would fall under the Mega power policy, etc. have left the players confused;
- Another issue includes the short period of benefits under 80 IA[1];
- BHEL's proposal to implement a 10% customs duty on imported equipment is also a concern for the power developers.

2) What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?

The government has laid down a 100-day agenda, which will focus on rapid growth in the power sector. In January 2009, public sector infrastructure funding agency, India Infrastructure Finance Co, was allowed to raise additional funds to the tune of Rs300bn for infrastructure-related funding.

3) What are the companies/industry sources indicating they would like the government to do?

Companies are rooting for an extension in 80 IA benefits by a further 10 years. They are also rooting for the removal of the Minimum Alternative Tax (MAT) and clarity on the existing Mega Power policy.

4) What measures do you think are potentially likely?
We believe that there will be greater thrust on capacity addition and hence the government's emphasis on the 100-day agenda. Clarity on the Mega power policy with issues such as its applicability to merchant power stations amongst others may be on the anvil. A further boost in funding to the sector as an aftermath of the budget is also likely.

***5)* Which companies will benefit/lose as a result of those measures?**
All power companies would be affected positively. In our coverage, NTPC, Reliance Infrastructure and Tata Power would be the beneficiaries.

[1]80 IA are deductions in respect of profits and gains from undertakings engaged in infrastructure development.

India Hotels [Parag Gupta/Saumya Srivastav]

1) What are the key issues related to the sector?
Some key issues in the sector include lack of infrastructure status, not enough outlays for the tourism sector in the budget and the levy of service and luxury taxes.

2) What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?
Companies in the sector can now raise external commercial borrowings under the automatic route and can use the proceeds for both forex as well as rupee denominated capex. The tourism ministry has also actively started pursuing the Incredible India campaign; this has been more aggressive post the terror attacks in Mumbai in November 2008.

3) What are the companies/industry sources indicating they would like the government to do?
- In the F2008 budget, the government announced a tax holiday scheme for five years for the two, three and four-star hotels and convention centers with a seating capacity of not less than 3,000. Five star hotels and other categories want this benefit extended to them as well as it will allow speedy development of properties before the Commonwealth Games.
- The industry is lobbying for provision of the coveted infrastructure status, allowing it to get various tax benefits; this, it believes, will help in speedy implementation of projects.
- Companies are hoping for a reduction in service and luxury tax.

4) What measures do you think are potentially likely?
While the awarding of infrastructure status may seem like a big demand, there is a possibility that the tax holiday scheme allowed in F2008 will be extended to five star and other categories, which did not have the benefit earlier.

5) Which companies will benefit/lose as a result of those measures?
If the infrastructure status is awarded to the industry, then all companies would be major beneficiaries. In addition, if the tax holiday is extended to five star category hotels and if there is a reduction in the luxury and service tax, then Indian Hotels, Hotel Leela and East India Hotels would do well.

India Shipping [Parag Gupta/Saumya Srivastav]

1) What are the key issues related to the sector?
The sector is affected by global trends more than domestic policymaking; hence, the budget is not something that the industry keenly looks out for. However, some of the key issues include exemption of tax/lower taxation from profit on sale of ships plus the lowering/complete exemption from service tax that companies pay on services such as ship management, manpower recruitment etc.

2) What has government done for the sector already post the start of the credit crisis in Sept-Oct last year?
We do not believe that there were any substantial changes made especially for the shipping industry post the credit crisis in September-October 2008.

3) What are the companies/industry sources indicating they would like the government to do?
Post the paucity of funding late last year, the industry has been asking for a separate shipping fund by Indian banks that would help companies to buy ships. In addition, we believe that other Asian countries are more favorable in their taxation regimes, and

so companies find it viable to set their bases in such countries. Any reduction in taxation would be a welcome relief by the industry.

4) **What measures do you think are potentially likely?**
We do not think that there will be anything significant for the shipping industry in this budget. However, the shipping fund as proposed by the government could emerge. In addition, any reduction in taxes would be viewed well.

5) **Which companies will benefit/lose as a result of those measures?**
If a shipping fund is announced, then Shipping Corporation of India Ltd (SCI) would be a big beneficiary. If there is reduction in taxes, then both SCI and GE Shipping would do well.

India Nonferrous Metals & Mining/Steel [Vipul Prasad/Ketaki Kulkarni]

1) **What are the key issues related to the sector?**
- Potential increase in excise duty on steel from current level of 8% to 10% or even to 14%,
- Change in import duty on steel and aluminum from 5% to 10%;
- Measures to drive infrastructure spending;
- Imposition of safeguard duty on steel and increase in export tax on iron ore (though these may not be a part of the budget exercise).

2) **What has government done for the sector already post the beginning of credit crisis in Sept-Oct last year?**
- Lowered excise duties from 14 % to 8% in two tranches as part of its stimulus package;
- Put HR steel in the restricted list for imports;
- Imposed 15% safeguard duty on downstream aluminum products.

3) **What are the companies/industry sources indicating they would like the government to do?**
- The companies don't expect any roll-back of the reduction in excise duties.
- They expect the government to intensify its thrust on infrastructure development with a focus on power generation and transmission, roads, rural housing etc.
- Some companies also expect increased protection from imports.

4) **What measures do you think are potentially likely?**
- We believe that excise duty on steel may be raised to 10% (neutral for steel companies even though prices for end consumers would rise).
- Import duty on primary aluminum may be raised to say, 7.5%.
- Marginal increase in export tax on iron ore in the next 3 months (not necessarily as a part of the budget).
- New infrastructure projects or renewed focus on existing schemes

5) **Which companies will benefit/lose as a result of those measures?**
- Excise duty increase should be neutral for companies.
- Increase in import duty on aluminum would help Nalco, Hindalco and Sterlite in that order, in our view.
- Increase in export tax on iron ore could hurt Sesa Goa and help JSW Steel.
- Meaningful thrust on infrastructure should aid steel companies with higher exposure to long products segments (SAIL, JSPL, Tata, JSW, in that order, in our view). Aluminum and copper companies may not gain much as base metals prices are guided by import parity.

India Oil and Gas [Vinay Jaising/ Mayank Maheshwari/Surabhi Chandna]

1) **What are the key issues related to the sector?**
The weighted average petroleum product basket is being priced at US$56-57/bbl (based on USD/INR = 47). The average loss in the system is US$13-14/bbl at the current crude oil price of US$70/bbl. The losses are different for different products – with Kerosene losses at over US$45/bbl, LPG at around US$25/bbl; and gasoline & diesel losses being around US$5/bbl.
Though there is a subsidy in the sector, due to high sales tax and excise duties, the retail customer ends up paying 50% to 75% higher prices for automotive fuels compared to international benchmarks. The subsidy share mechanism is unclear and adhoc and is the biggest issue that the sector is currently facing.

2) **What has government done for the sector already post the beginning of the credit crisis in Sept-Oct last year?**
The government lowered retail pump prices by about Rs10/litre (i.e.US$30/bbl) in gasoline and Rs4/litre (US$12/bbl) on diesel when crude oil fell from US$140/bbl to US$40/bbl. However, with the recent doubling in crude prices to US$70/bbl, over the last three months, the government has not revised pump prices. For F2009 the government issued bonds worth Rs1,032bn (US$22.2bn), preventing Refining & Marketing (R&M) companies from making losses.

3) **What are the companies/industry sources indicating they would like the government to do?**
The companies are suggesting the implementation of the Chaturvedi report and upward revision of APM (administered pricing mechanism) based gas prices for players like ONGC. The highlights of the BK Chaturvedi Committee Report are as follows:
- Raising fuel prices every month to bring them in line with production costs;
- A special windfall tax on oil fields awarded before 1999 (Pre-NELP). Incremental revenues earned beyond US$75/bbl would have to be given to the government as part of subsidy-sharing in the oil sector. ONGC and OIL, the public sector companies, would take a larger share of the subsidy bill by contributing 100% revenues beyond $75 a barrel to the government, while private oil producers would have to pay 50% of their incremental earnings to the government.
- APM gas price de-control, though not part of the committee recommendations, is being looked at by the petroleum ministry.

4) **What measures do you think are potentially likely?**
We believe the government could tweak around with duties and partially raise prices for automotive fuel (may be separately but announcement could be made during the budget) and also provide a mechanism to share the subsidy burden for Kerosene and LPG among upstream and downstream players.

There could be an announcement of a variable Cess tax replacing the current subsidy structure for upstream companies.

5) **Which companies will benefit/lose as a result of those measures?**
If the above reforms are implemented, this would be a significant positive for R&M companies, followed by ONGC and GAIL, since there would be no uncertainty about the subsidy burden. Also benefiting would be private marketers like Reliance Industries as the retail marketing business earns positive margins.

India Telecommunications [Vinay Jaising/Surabhi Chandna/Mayank Maheshwari]

For the telecom sector, we believe the budget may not include any measures other than a passing comment on 3G policy.

India Pharmaceuticals [Sameer Baisiwala/Saniel Chandrawat]

1) **What are the key issues related to the sector?**
As seen over the last few years, the pharmaceutical industry has not been affected much by budget announcements. We expect a similar outcome this year. Some of the related aspects are:
- strengthening rural health infrastructure;
- minor tax sops (R&D related for instance); and
- tax holidays for export-oriented units (EOUs).

2) **What has government done for the sector already post the beginning of credit crisis in Sept-Oct last year?**
No policy action has been directed towards the pharma sector. The companies have benefited from continuing demand, which was helped by the two stimulus packages.

3) **What are the companies/industry sources indicating they would like the government to do?**
The companies don't expect any major announcement. In general, they expect the budget to be pro-growth and pro-agriculture, which should result in steady state demand. A couple of specific expectations include -
- Increasing the scope of 150% weighted tax deduction for R&D; and
- Investments in strengthening health infrastructure.

4) **What measures do you think are potentially likely?**
We think that the government could provide incentives for healthcare infrastructure (including hospitals).

5) Which companies will benefit/lose as a result of those measures?
We do not expect any meaningful impact on our coverage universe. Some hospital players – Apollo, Fortis and Max – could potentially benefit.

India Property [Sameer Baisiwala/Arunabh Chaudhari]

1) What are the key issues related to the sector?
Key issues include -
- Focusing on affordable housing;
- Tax incentives for home loan borrowers; and
- Fiscal incentives for low cost housing.

2) What has government done for the sector already post the beginning of credit crisis in Sept-Oct last year?
The government allowed External Commercial Borrowings (ECB) for township development. In addition, policy rate cuts helped the sector indirectly.

3) What are the companies/industry sources indicating they would like the government to do?
The companies don't expect any major announcement. In general, they expect the budget to be pro-growth and employment generation, which should in turn feed into property demand. A couple of specific expectations include –
- recall of the tax incentive for developers for small unit size (homes) under Section 80IB,
- increase in the limit (currently Rs 150K pa) on tax exemption on interest payment on home loans and
- incentives for slum re-development.

4) What measures do you think are potentially likely?
We think that the government could incentivize affordable housing. It could also increase the tax exemption limit on interest payments to Rs250K pa.

5) Which companies will benefit/lose as a result of those measures?
All property companies under our coverage have some part of the land bank earmarked for affordable/mid income housing, so accordingly it would benefit all. Specifically, Unitech could benefit more than others given its plan to undertake large volumes in the segment.

India Software Services [Vipin Khare/Gaurav Rateria]

1) What are the key issues related to the sector?
Key issue is expiry of 10(A)/10(B) benefits for software technology parks of India (STPIs) in March 2010.

2) What has government done for the sector already post the beginning of credit crisis in Sept-Oct last year?
NA

3) What are the companies/industry sources indicating they would like the government to do?
IT industry is looking for an extension of 10(A)/10(B) benefits for STPIs. Last year the government extended the tax holiday benefits for one more year (until F2010). Industry is seeking a further two-year extension. As per media reports, Nasscom has recommended that the tax holiday scheme not only be extended but changed to mirror the SEZ policy, under which the first five years offer a 100% tax deduction and the next five, 50% deduction.

4) What measures do you think are potentially likely?
If the government does not extend tax holiday benefits for STPIs post March 2010, it would be a negative for the sector. The government may maintain its focus on IT and education and increase the spending outlay on the same.

5) Which companies would benefit/lose as a result of those measures?

If the tax holiday is extended, it would benefit companies like Hexaware, Mphasis, Patni, Tech M more than larger vendors like Infosys, TCS and Wipro. Larger vendors are likely to continue expanding their SEZ presence, in our view. Lower income tax rates would further ease wage pressure and may help companies lower their employee costs further. Increasing outlays on IT and education by the government could help domestic demand although it is <10% of revenues for companies in our coverage universe.

Stocks Mentioned in this Report (Rp)

Ticker	Company name	Share price, last close	Stock rating	Price target
ASOK.BO	Ashok Leyland Ltd.	30.75	Underweight	12.00
BHEL.BO	BHEL	2,090.50	Equal-Weight	1,315.00
EIHO.BO	EIH Limited	128.85	Underweight	72.00
GAIL.BO	GAIL (India)	287.50	Overweight	240.00
GAMM.BO	Gammon India	146.70	Overweight	461.00
GMRI.BO	GMR Infrastructure Ltd.	146.75	Underweight	117.00
GESC.BO	Great Eastern Shipping	239.35	Equal-Weight	202.00
HDFC.BO	HDFC	2,294.70	Overweight	2,150.00
HEXT.BO	Hexaware Technologies Limited	49.00	Underweight	21.00
HALC.BO	Hindalco Industries	88.00	Underweight	60.00
HTLE.BO	Hotel Leelaventure Limited	33.20	Underweight	12.00
ICBK.BO	ICICI Bank	713.75	Equal-Weight	330.00
IDFC.BO	IDFC	132.65	Overweight	140.00
IHTL.BO	Indian Hotels Company Ltd	64.70	Underweight	28.00
IVRC.BO	IVRCL Infrastructures & Projects LTD	299.75	Overweight	455.00
JAIR.BO	Jain Irrigation Systems	642.00	Overweight	500.00
JAIA.BO	Jaiprakash Associates Limited	200.25	Overweight	221.00
JNSP.BO	Jindal Steel & Power	2,473.55	Underweight	665.00
JSTL.BO	JSW Steel Ltd.	605.10	Underweight	100.00
KTKM.BO	Kotak Mahindra Bank	630.30	Underweight	370.00
LART.BO	Larsen & Toubro	1,496.10	Overweight	1,093.00
MAHM.BO	Mahindra & Mahindra	737.30	Overweight	603.00
MRTI.BO	Maruti Suzuki India Limited	1,047.30	Overweight	980.00
MBFL.BO	MphasiS Limited	391.80	Equal-Weight	254.00
NALU.BO	National Aluminium	352.00	Underweight	308.00
NTPC.BO	NTPC	198.10	Equal-Weight	171.00
ONGC.BO	Oil & Natural Gas Corp.	1,010.05	Underweight	653.00
PTNI.BO	Patni Computer Systems	242.10	Equal-Weight	121.00
RLCP.BO	Reliance Capital	919.00	Equal-Weight	360.00
RELI.BO	Reliance Industries	2,039.60	Overweight	2,286.00
RLIN.BO	Reliance Infrastructure Limited	1,262.25	Overweight	1,458.00
SESA.BO	Sesa Goa	188.75	Equal-Weight	85.00
SCI.BO	Shipping Corporation of India	119.85	Underweight	64.00
SBI.BO	State Bank of India	1,724.35	Underweight	875.00
SAIL.BO	Steel Authority Of India	152.35	Underweight	47.00
STRL.BO	Sterlite Industries (India) Limited	606.70	Equal-Weight	599.00
TCS.BO	Tata Consultancy Services	380.85	Underweight	287.50
TAMO.BO	Tata Motors	345.30	Underweight	111.00
TTPW.BO	Tata Power Co	1,164.35	Overweight	1,253.00
TISC.BO	Tata Steel	411.75	Underweight	96.00
TEML.BO	Tech Mahindra Limited	760.60	Underweight	240.00
UNTE.BO	Unitech Limited	80.20	Equal-Weight	60.00
WIPR.BO	Wipro Ltd.	380.70	Underweight	210.00

Prices as at June 19, 2009. Source: Morgan Stanley Research.

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Global Stock Ratings Distribution

(as of May 31, 2009)

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

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**690**	**31%**	**214**	**35%**	**31%**
Equal-weight/Hold	**1022**	**45%**	**288**	**47%**	**28%**
Not-Rated/Hold	**32**	**1%**	**7**	**1%**	**22%**
Underweight/Sell	**510**	**23%**	**99**	**16%**	**19%**
Total	**2,254**		**608**		

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.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
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