

March 7, 2007

Research  
India

Strategy Chartbook

## India Strategy

### *This Is Not May 2006*

- **Correction could be prolonged this time**

Global risk appetite appears to be under a multi-pronged attack, interest rates are higher than in May 2006, the inflation issue in India portends the risk of slower growth – not what asset prices may be discounting. India was the worst performing emerging market in February – a rare event for India and could be a precursor of future developments.

- **Key Factors to Watch**

*Macro slowdown is possible:* Six key factors to monitor: credit growth, inflation rate, current account deficit, property prices, credit quality and FDI. *ROE and earnings - deceleration is likely:* The three key inputs are gross margins biased for a further decline, capital costs (interest and depreciation) poised for a further increase, and asset turnover dropping as new capacity comes on stream. *Corporate Activity:* Capex, M & A activity, and equity and debt issuances are all likely to touch new peaks in 2007 consequent to strong corporate sentiment. The bunching up of equity supply could be a risk. *Politics:* Political activity has been inconsequential for the past three years but could play a bigger role in policy formation – watch for the UP election results in May. *Markets:* The price of risk remains the most important input in market behavior. Indian equities are highly correlated with those in the rest of the world and the correlation is rising. Global factors (such as US growth/inflation) are likely to remain the key influence on India's equity returns in the next 12 months.

- **Base Case: 7% Decline in BSE Sensex from Current Levels by End-2007**

From a portfolio perspective, we are playing three themes – large caps over mid-caps, GARP (growth at reasonable price) over GAAP (growth at any price) and relative volatility with low beta. Consequently, our portfolio appears defensive in the traditional context with overweight positions in consumer staples, energy, technology, telecoms, utilities and healthcare and underweight positions in industrials, financials, consumer discretionary and materials.

MORGAN STANLEY RESEARCH

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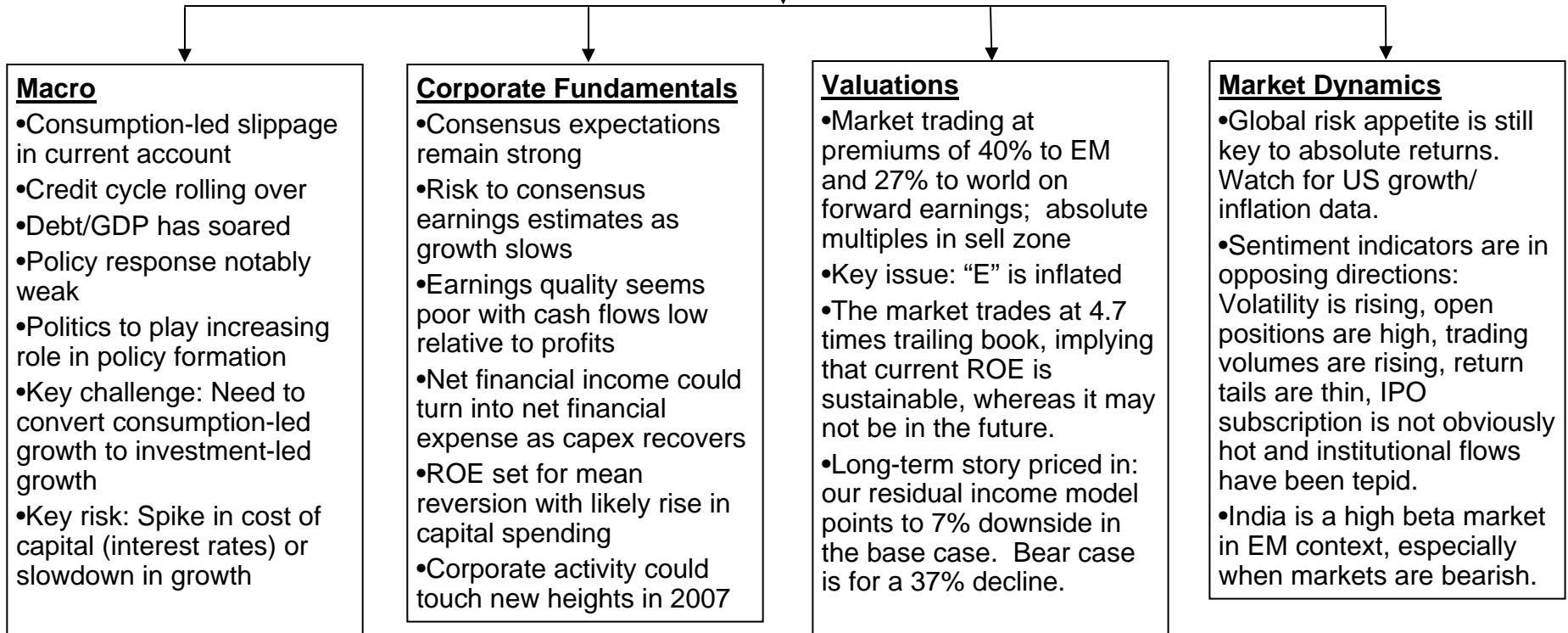
For analyst certification and other important disclosures, refer to the Disclosure Section.

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## INVESTMENT STRATEGY SUMMARY



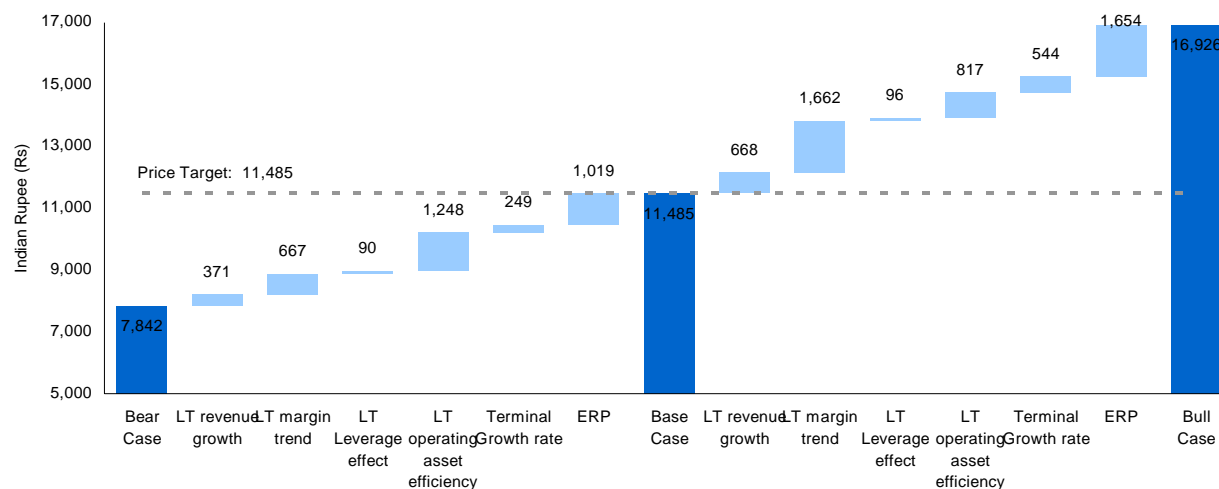
**Sectors and Stocks:** We continue to back defensive sectors where we see better valuations. We highlight three screens for investors – one based on beta, one on price momentum and one on a combination of valuations, ownership and love (defined by trading volumes and relative performance). Our favorite stocks include Hindustan Lever, Reliance Ind., Sun Pharma, Infosys Tech, ACC, and Reliance Comm.

## INVESTMENT STRATEGY SUMMARY

### Scenario Analysis for Indian Equities

Residual Income Model	Base Case	Bear Case	Bull Case
Ist Stage F07 to F09	MS Analysts' Estimates	MS Analysts' Estimates	MS Analysts' Estimates
2nd Stage F09 to F19			
Revenue Growth (over GDP growth) (%)	5 higher (16)	4 higher (15)	6 higher (17)
EBIT Margin (over F09 level)	Annual fall of 20 bps	Annual fall of 30 bps	F09 level sustained
Average Interest Cost (%)	At F2009 level (6.6)	50 bps higher (7.1)	50 bps lower (6.1)
Tax Rate (%)	22	22	22
Asset Turn (over F09 level)	Annual increment of 0.01	Annual decrease of 0.005	Annual increment of 0.02
Debt to Equity (%)	F2009 level (23)	F2009 level (23)	F2009 level (23)
Terminal Growth Rate (%)	6.0	5.5	6.5
Implied TV Multiple	14.3	12.6	16.7
Equity Risk Premium (%)	6.0	6.5	5.5
<b>BSE Sensex Fair Value</b>	<b>11,485</b>	<b>7,842</b>	<b>16,926</b>

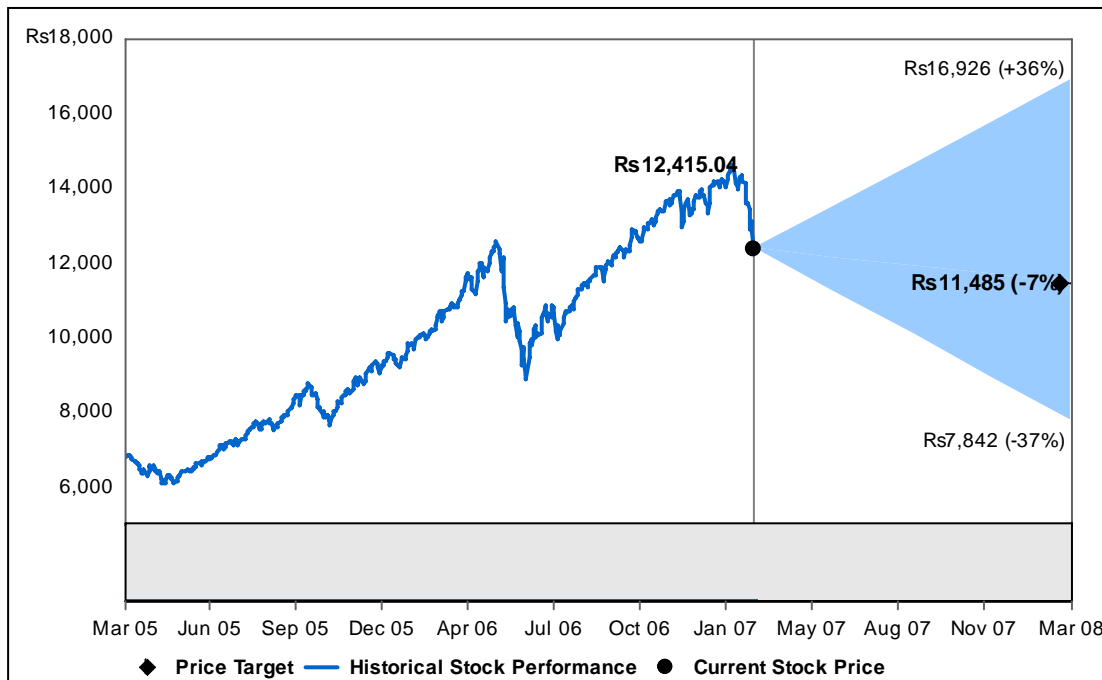
Source: Morgan Stanley Research estimates



## INVESTMENT STRATEGY SUMMARY

### Scenario Analysis for Indian Equities

#### Key Factors Driving Market Returns Over the Next 12 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 7% 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. A growth and/or inflation surprise could be key inputs.

Crude oil prices

Further slowdown in credit growth

Rise in interest rates (both global and local)

Earnings momentum, which is at risk driven by a possible slowdown in credit growth. ROE could roll over

Equity supply which could rise rapidly in the coming weeks

Politics

#### Upside Risks

Sustained risk appetite

Politics and policy – surge in reforms

Large FDI flows

## INDIA MODEL PORTFOLIO

### Sector Weights:

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

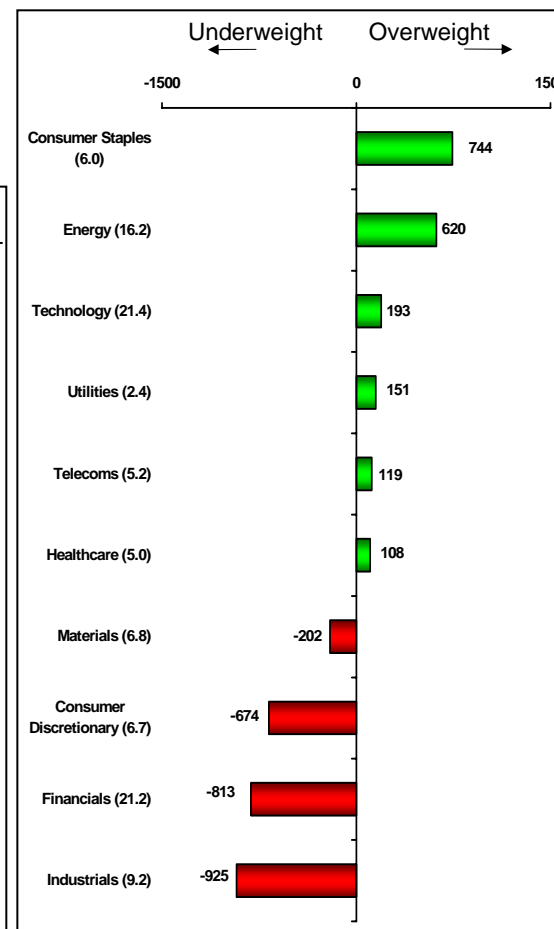
### Key Stock Picks:

- Hindustan Lever, Reliance Ind., Sun Pharma, Infosys Tech, ACC, Reliance Comm

Company	Reuters Ticker	MSCI Weight (%)	Portfolio Weight (%)	Over/Under Weight (bps)	Price (Rs) 6/3/07	Mkt Cap US\$mn	Avg 3M T/O US\$mn	Analyst Rating	YTD Perf. (%)
<b>Consumer Discretionary</b>		<b>6.7</b>	<b>0.0</b>	<b>-674</b>					
<b>Consumer Staples</b>		<b>6.0</b>	<b>13.4</b>	<b>744</b>					
ITC Ltd.	ITC.BO	2.7	3.7	100	162.1	13,771	20.2	Overweight	-7.9
Hindustan Lever Ltd	HLL.BO	2.3	5.8	350	171.4	8,535	20.7	Overweight	-20.8
Marico Industries	MRCO.BO	NA	2.0	200	54.5	715	0.6	Overweight	1.0
Dabur India	DABU.BO	NA	2.0	200	90.2	1,755	3.9	Overweight	-7.9
<b>Energy</b>		<b>16.2</b>	<b>22.4</b>	<b>620</b>					
Oil & Natural Gas Corp.	ONGC.BO	3.3	6.3	300	770.1	37,275	32.5	Overweight	-11.5
Reliance Industries Ltd.	RELI.BO	12.1	14.1	200	1,299.4	40,966	97.9	Overweight	2.3
Hindustan Petroleum	HPCL.BO	0.4	2.0	160	254.8	1,954	5.7	Underweight	-8.5
<b>Financials</b>		<b>21.2</b>	<b>13.0</b>	<b>-813</b>					
HDFC Bank Ltd.	HDBK.BO	3.2	3.2	0	935.7	6,630	15.9	Equal-Weight	-12.5
ICICI Bank	ICBK.BO	8.3	7.8	-50	851.6	17,148	31.4	Equal-Weight	-4.4
Union Bank of India	UNBK.BO	NA	2.0	200	91.0	1,040	2.5	Overweight	-25.8
<b>Healthcare</b>		<b>5.0</b>	<b>6.0</b>	<b>108</b>					
Lupin	LUPN.BO	NA	1.4	136	579.7	1,097	1.8	Overweight	-5.3
Sun Pharma	SUN.BO	0.7	4.7	400	946.9	4,438	6.3	Overweight	-3.3
<b>Industrials</b>		<b>9.2</b>	<b>0.0</b>	<b>-925</b>					
<b>Materials</b>		<b>6.8</b>	<b>4.8</b>	<b>-202</b>					
Steel Authority of India	SAIL.BO	NA	1.5	150	97.1	9,071	27.6	Overweight	8.8
Associated Cement Cos.	ACC.BO	0.8	3.3	250	854.4	3,587	20.6	Overweight	-21.3
<b>Technology</b>		<b>21.4</b>	<b>23.3</b>	<b>193</b>					
Infosys Technologies Ltd.	INFY.BO	14.0	17.0	300	2,116.3	26,147	69.7	Overweight	-5.5
Patni Computer Systems	PTNI.BO	NA	1.0	100	414.5	1,292	3.6	Overweight	-0.8
Tata Consultancy Services	TCS.BO	2.3	5.3	300	1,199.1	26,554	35.0	Overweight	-1.6
<b>Telecoms</b>		<b>5.2</b>	<b>6.4</b>	<b>119</b>					
Reliance Communications	RLCM.BO	4.4	6.4	200	401.0	18,551	84.3	Overweight-V	-14.9
<b>Utilities</b>		<b>2.4</b>	<b>3.9</b>	<b>151</b>					
Reliance Energy	RLEN.BO	0.8	1.9	110	475.0	2,282	10.3	NA	-8.6
GAIL India	GAIL.BO	1.0	2.0	100	267.3	5,114	5.4	Underweight	2.2
<b>Cash</b>		<b>0.0</b>	<b>6.8</b>	<b>680</b>					

NA = Not available; Source: Bloomberg, Morgan Stanley Research

### Percentage Weighting Over/Under MSCI Benchmark

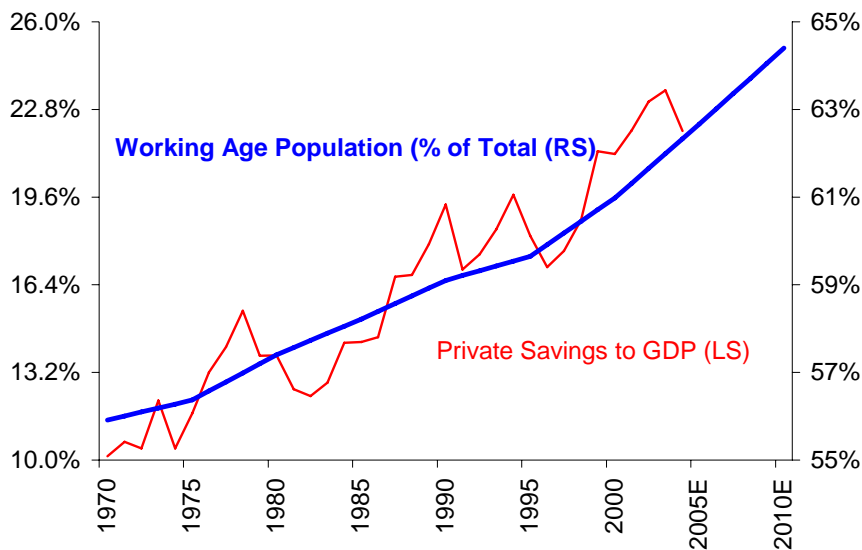


Numbers in brackets show MSCI neutral weights, Source: Morgan Stanley Research, Bloomberg

## MACRO

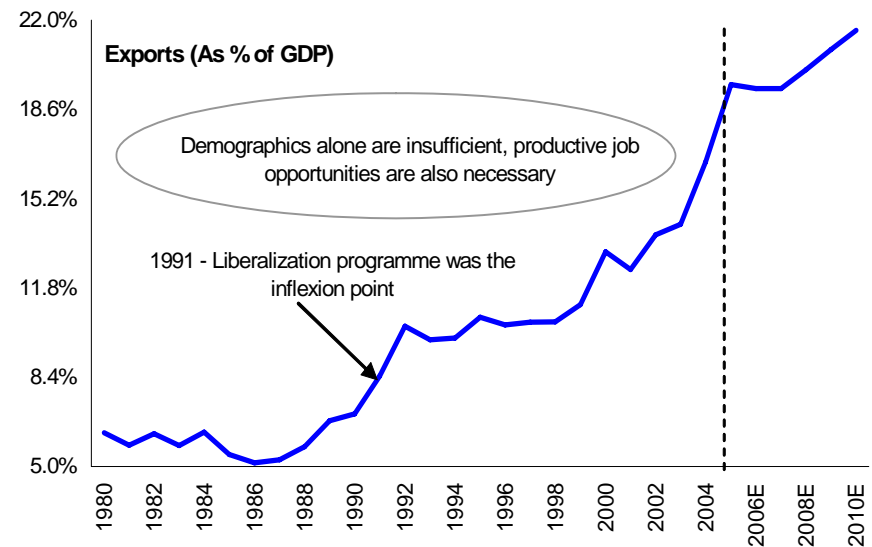
India's long-term growth story is an interplay of the DRG factors, i.e., demographics, reforms and globalization.

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

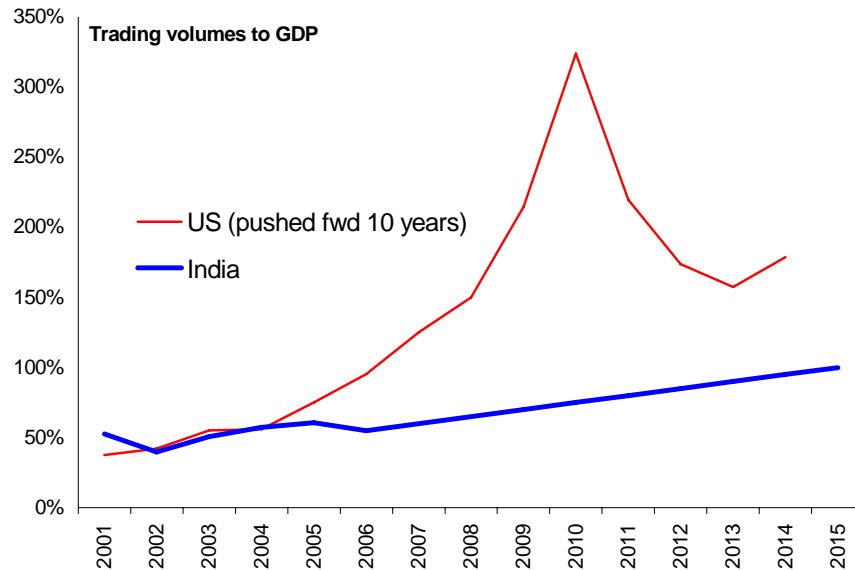


Source: WTO, Morgan Stanley Research; E= Morgan Stanley Research Estimates

## 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	31,214	4,357	14.0%	50	1.1%	65	130%
F2006	35,315	5,887	16.7%	290	4.9%	371	128%
F2007E	39,986	6,765	16.9%	367	5.4%	275	75%
F2008E	44,631	7,663	17.2%	454	5.9%	318	70%
F2009E	49,540	8,629	17.4%	555	6.4%	388	70%
F2010E	54,990	9,716	17.7%	673	6.9%	471	70%
F2011E	61,038	10,937	17.9%	812	7.4%	569	70%
F2012E	67,753	12,310	18.2%	976	7.9%	683	70%
F2013E	75,205	13,852	18.4%	1167	8.4%	817	70%
F2014E	83,478	15,585	18.7%	1391	8.9%	974	70%
F2015E	92,661	17,530	18.9%	1653	9.4%	1157	70%
F2016E	102,853	19,716	19.2%	1957	9.9%	1370	70%

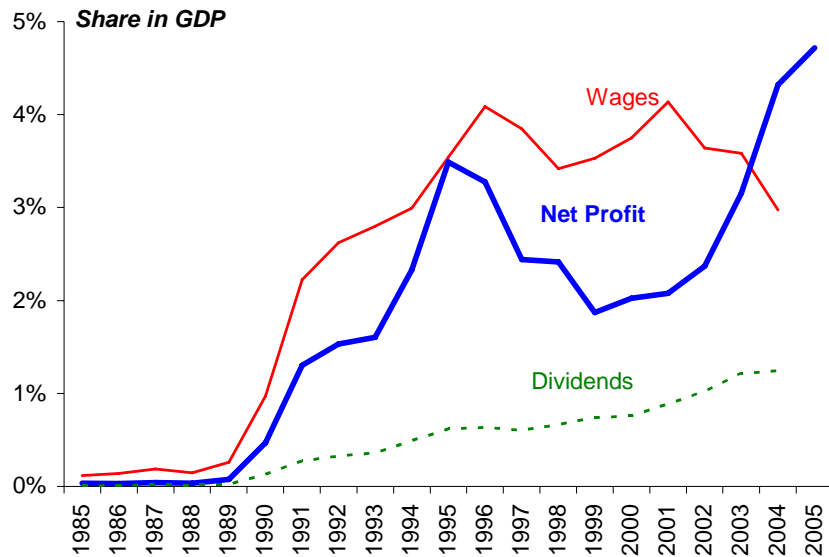
E = Morgan Stanley Research estimates, Source: RBI, Morgan Stanley Research



**MACRO**

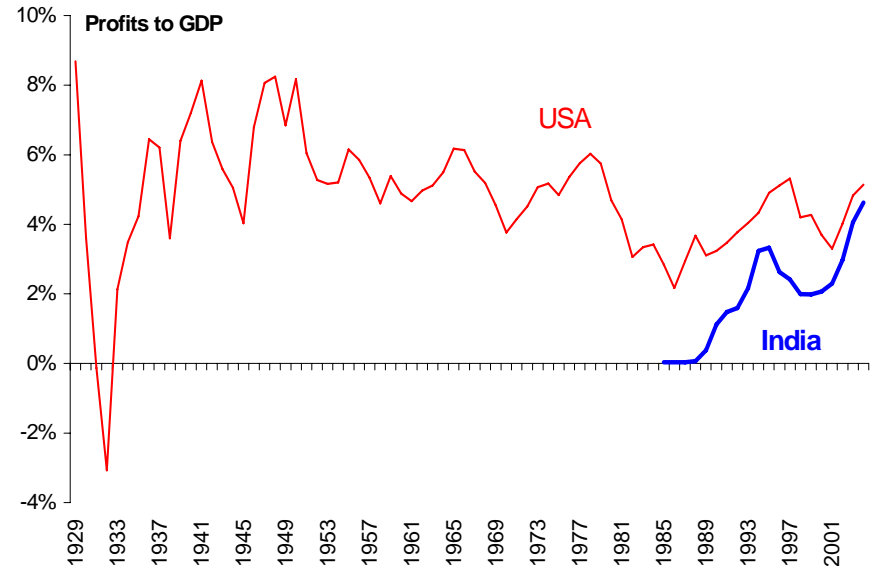
Structurally, the inflexion point has been the arrival of capitalism with its obvious positive implications for equity owners.

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



Source: Capitaline, Morgan Stanley Research

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

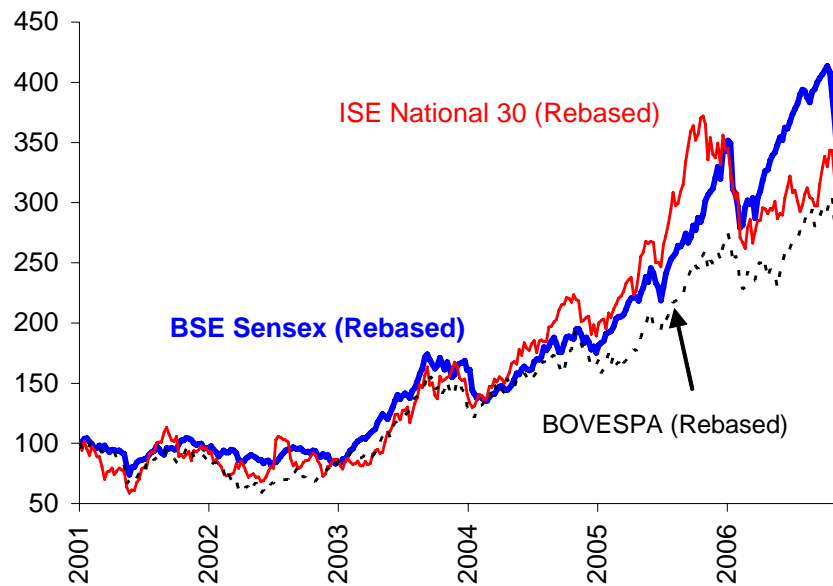


Source: CMIE, Morgan Stanley Research

**MACRO**

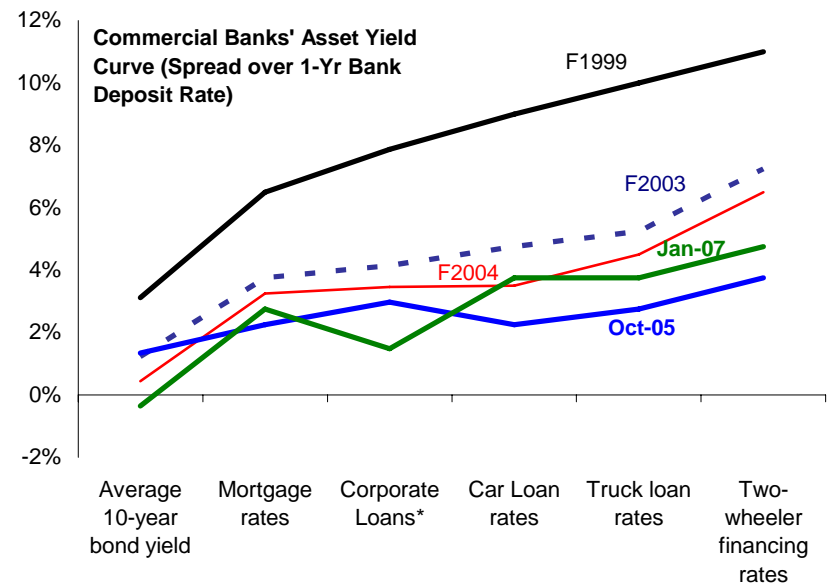
Price of risk, i.e. global risk appetite, has been critical to Indian equities over the past four years.

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



Source: Bloomberg, Morgan Stanley Research

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

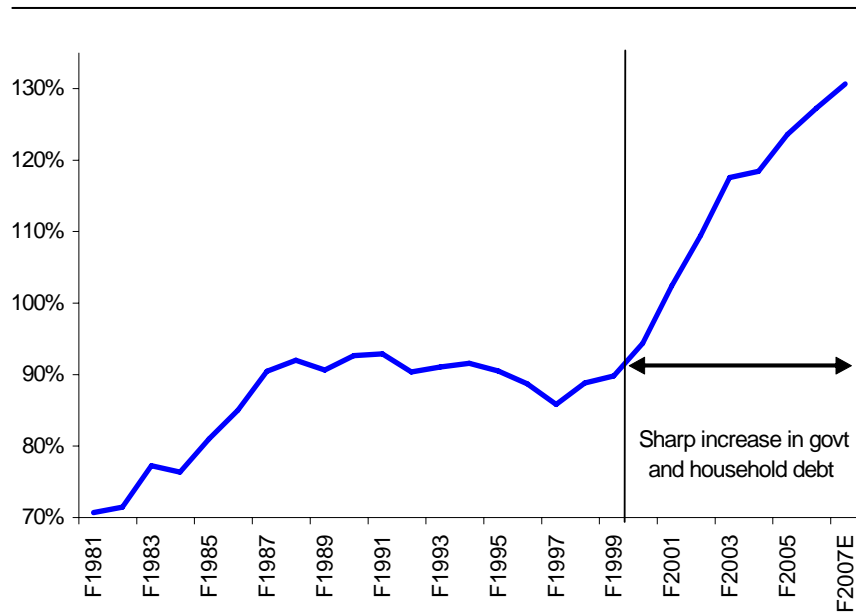


Source: CSO, CEIC, RBI, Company Data, Morgan Stanley Research

**MACRO**

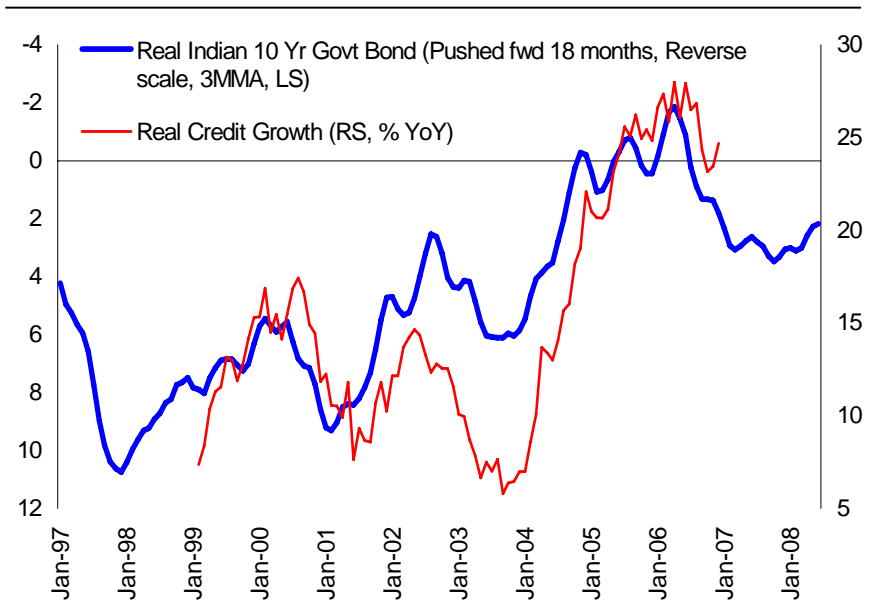
**Growth slowdown risks are rising: Too much debt added to the consumer and government balance sheets. The credit cycle seems to be rolling over.**

**Aggregate Debt to GDP**



Source: RBI, Morgan Stanley Research. Note debt stock figures are understated as they do not include external borrowings by corporates and lending by non-banking financial entities; E= Morgan Stanley Estimates

**Credit Growth Rolling Over**

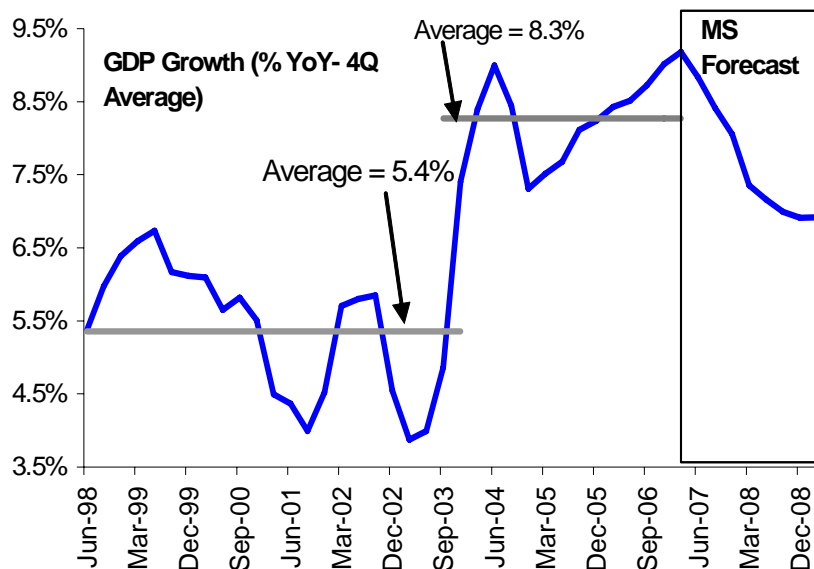


Source: RBI, Bloomberg, Morgan Stanley Research

## MACRO

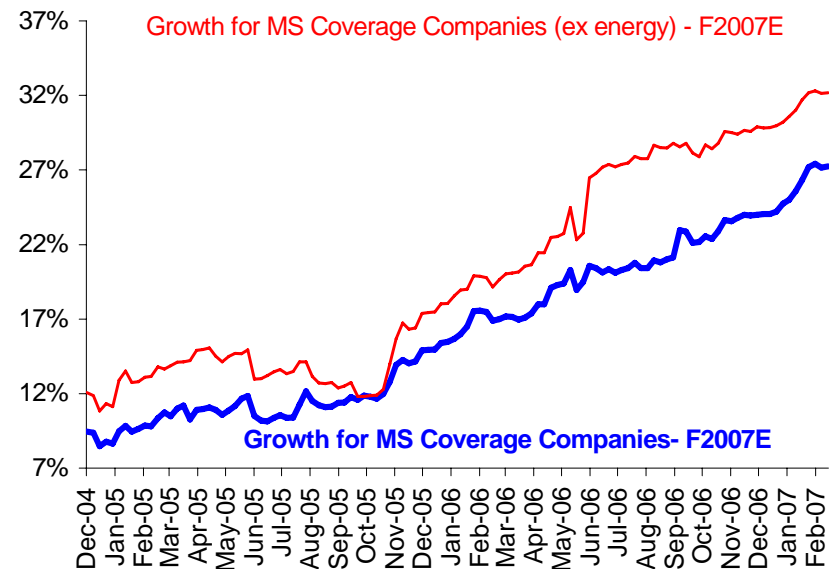
We forecast a growth slowdown over the next 12-18 months while consensus earnings estimates continue to rise.

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



Source: CSO, Morgan Stanley Research

### Consensus Optimism on Earnings Is Rising

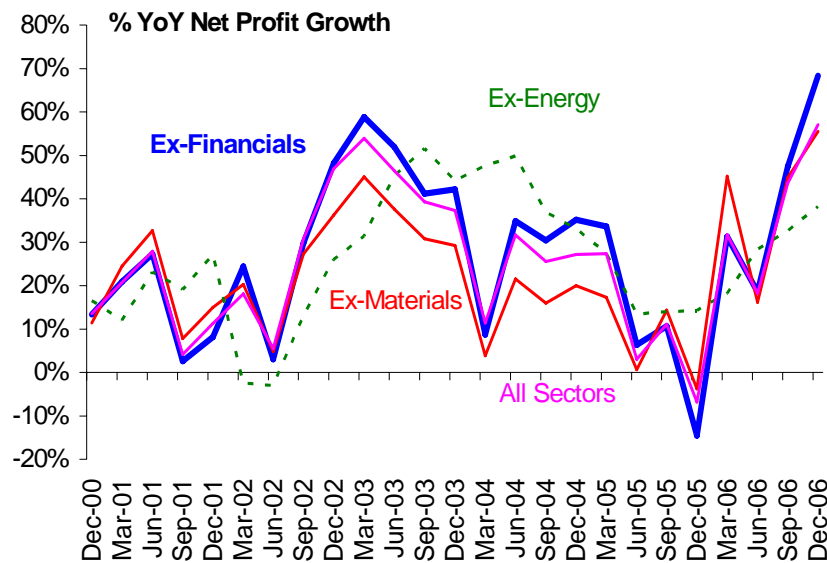


E = Morgan Stanley research estimates Source: Factset, IBES, Morgan Stanley Research

## FUNDAMENTALS

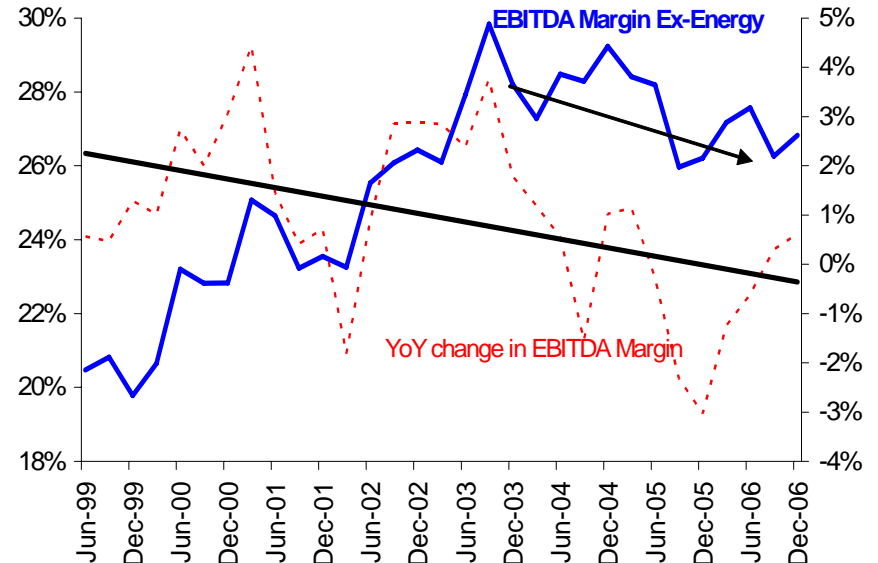
Earnings growth momentum has reaccelerated despite margin pressure.

Earnings Growth Has Recovered Recently



Source: Morgan Stanley Research, Company Data for Morgan Stanley Coverage Universe

Margins Trending Lower

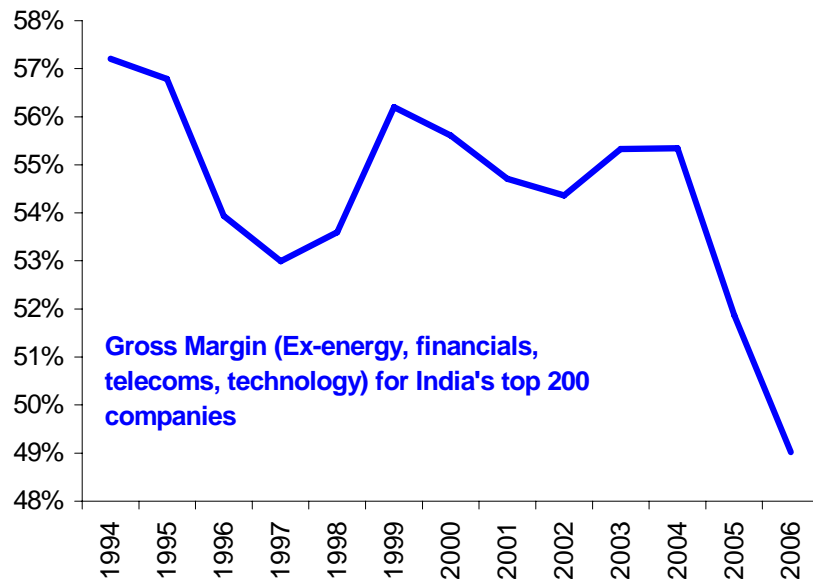


Source: Morgan Stanley Research, Company Data

## FUNDAMENTALS

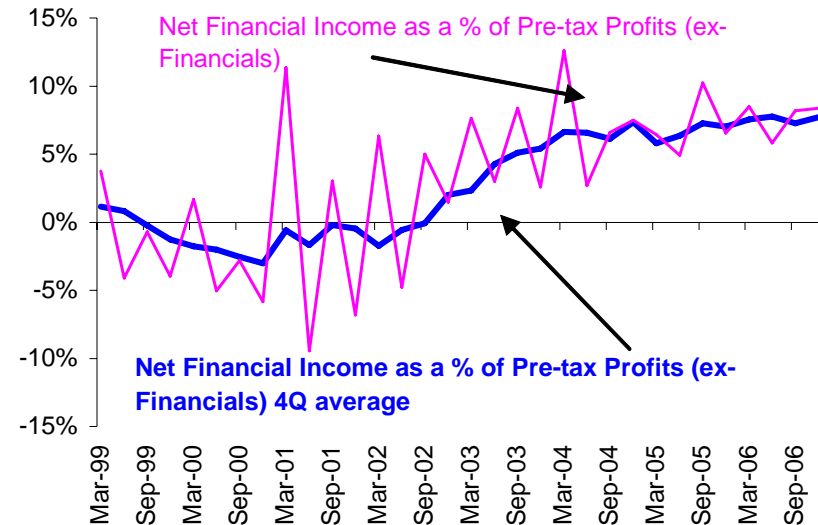
Earnings risk is coming from rising costs and declining pricing power in addition to possible slowdown in top-line growth. At the margin, wage, energy and fixed costs are rising; net financial earnings likely to become a net financial expense.

**Declining Gross Margins: Pricing Power Is Dead**



Source: Morgan Stanley Research, Capitaline

**Net Financial Income at a High Point**



Source: Company data, Morgan Stanley Research

## FUNDAMENTALS

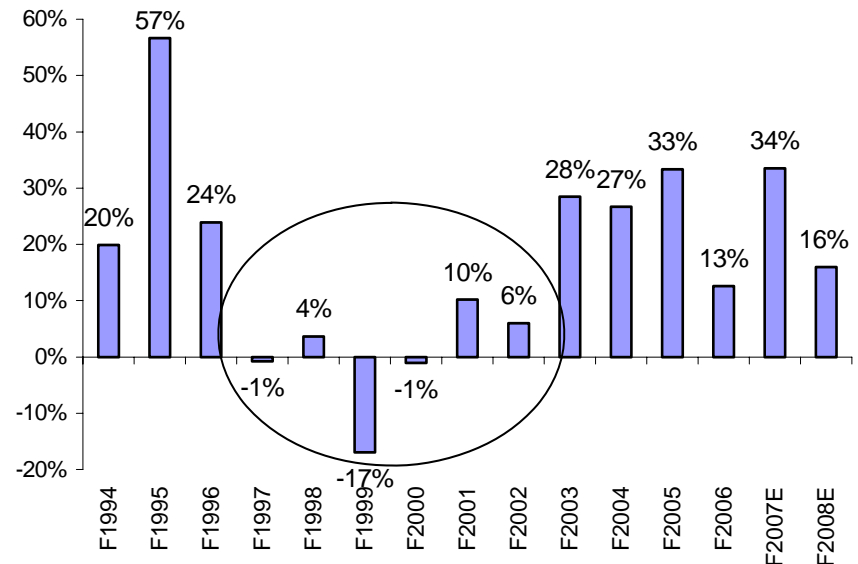
Consensus does not believe in normalization of earnings growth excesses.

### Consensus vs. Morgan Stanley Earnings Estimates

	MS		Consensus	
	F2007E	F2008E	F2007E	F2008E
Consumer Discretionary	25.2%	19.5%	20.4%	23.0%
Consumer Staples	15.6%	17.7%	22.3%	20.2%
Energy	18.5%	3.3%	21.3%	2.5%
Financials	6.4%	15.4%	13.4%	23.2%
Healthcare	51.9%	14.0%	53.5%	12.5%
Industrials	36.7%	9.9%	56.9%	21.3%
Materials	32.7%	16.1%	37.7%	1.4%
Technology	43.5%	25.4%	43.8%	30.0%
Telecommunications	117.4%	40.4%	111.7%	44.2%
<b>MS Coverage Universe</b>	<b>26.8%</b>	<b>14.2%</b>	<b>30.7%</b>	<b>15.1%</b>
<b>Sensex</b>	<b>28.7%</b>	<b>15.9%</b>	<b>33.5%</b>	<b>16.0%</b>

Source: IBES, Morgan Stanley Research

### BSE Sensex Earnings Growth Over Time: Only Minor Deceleration in Consensus Forecasts

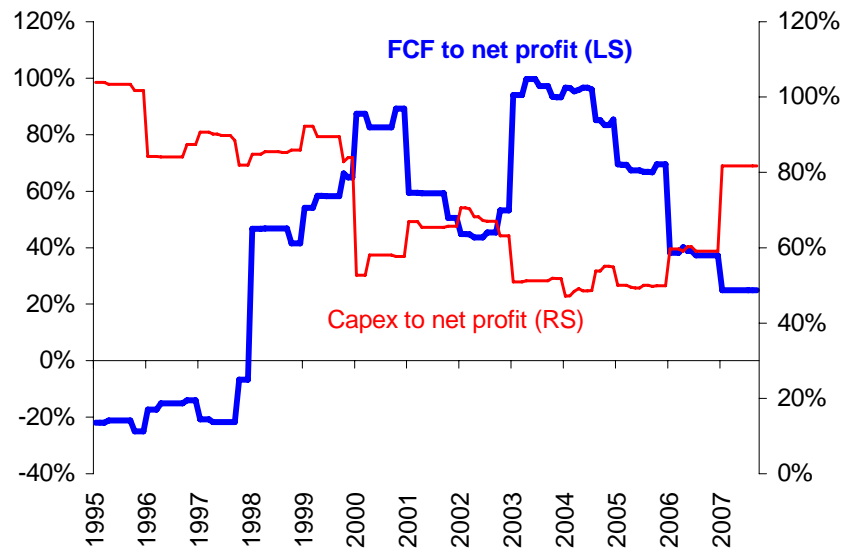


Source: Morgan Stanley Research, Company Data, E= IBES estimates

## FUNDAMENTALS

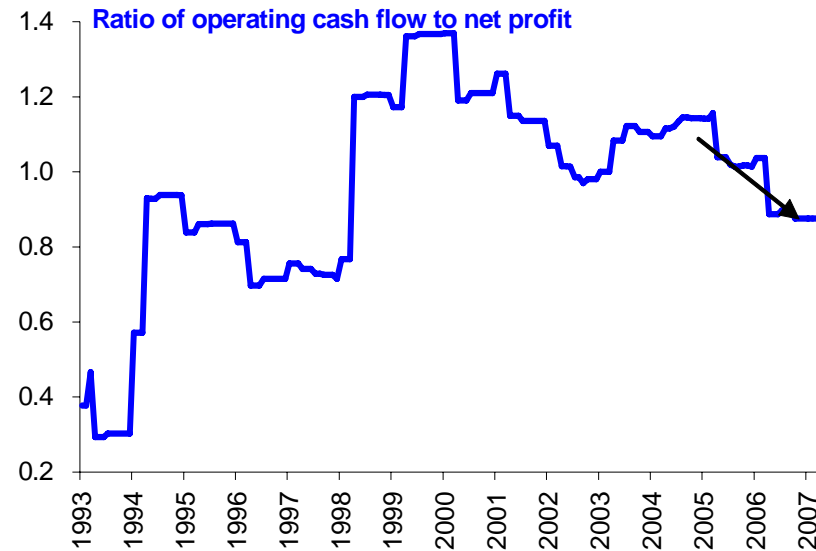
Earnings quality has slipped. The ratio of operating cash flow to net profit is at an eight-year low.

Where's the Cash?



Source: Company data, Morgan Stanley Research

Earnings Quality Problem at Hand



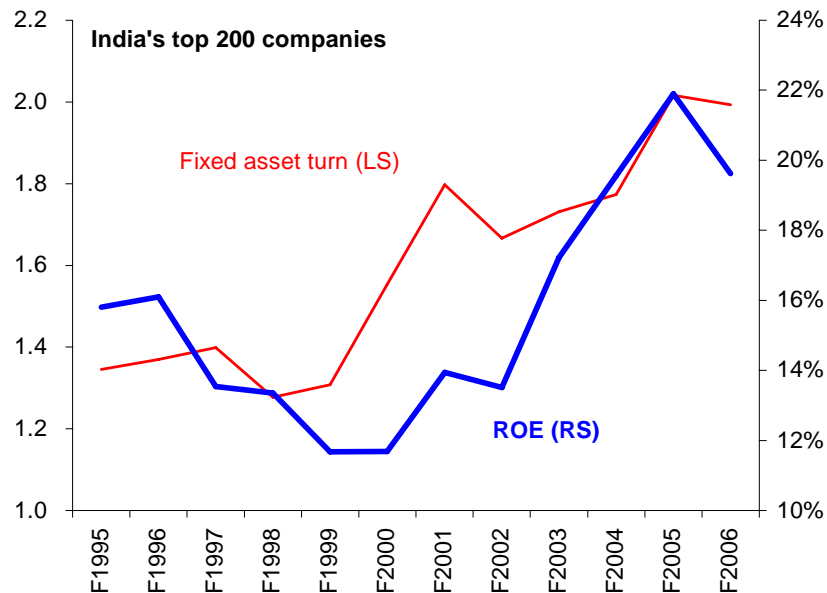
Source: Company data, Morgan Stanley Research



## FUNDAMENTALS

Pricing power is falling. A slight slip in asset turn has caused ROE to decline for the first time in four years and we expect ROE to remain under pressure over the next 12-24 months, led by margin pressure and rising corporate activity. Altering capital structure could support ROE.

Rising Capacity Utilization Is Driving ROE



Source: Capitaline, Morgan Stanley Research

Operating Performance Pushes ROE Lower

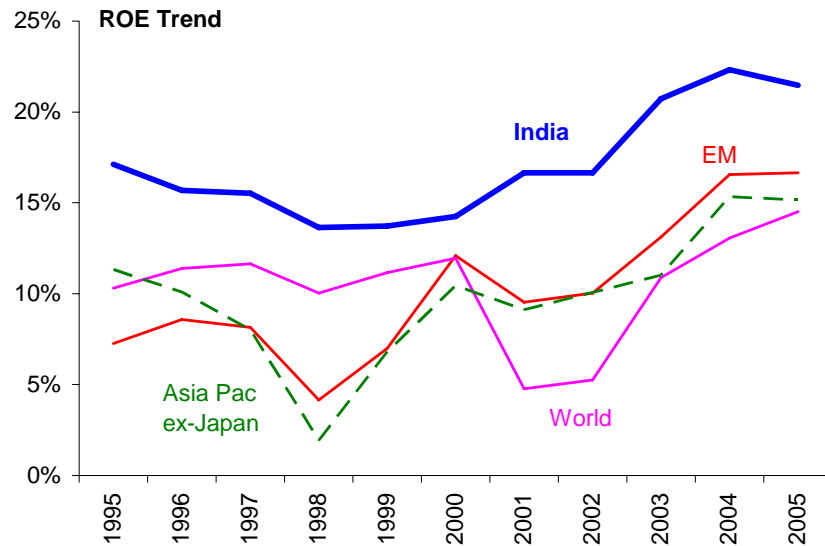
Components of ROE Change	Annual Increase in ROE	Financial Leverage	Capacity Utilization	Operating Performance
F1996	0.7%	0.6%	0.3%	-0.2%
F1997	-2.8%	-1.4%	0.3%	-1.7%
F1998	0.2%	0.2%	-1.1%	1.0%
F1999	-1.4%	-1.0%	0.3%	-0.8%
F2000	0.0%	0.0%	2.2%	-2.2%
F2001	2.1%	0.5%	1.8%	-0.2%
F2002	-0.4%	0.2%	-1.0%	0.5%
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%
Cumulative change since				
F2003	5.6%	2.2%	4.0%	-0.6%
F1996	4.0%	1.3%	6.8%	-4.1%

Source: Capitaline, Morgan Stanley Research

## FUNDAMENTALS

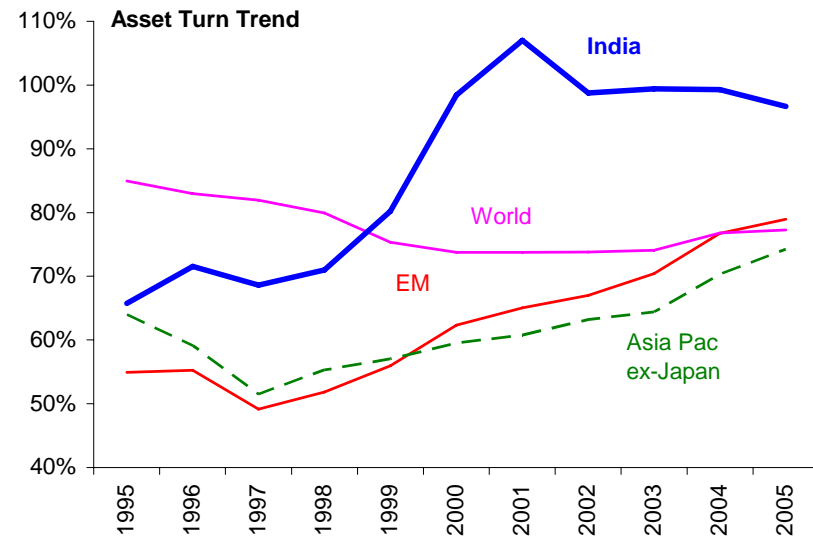
India's ROE advantage over the rest of the world has come from the aggressive use of assets, overestimation of the life of assets, lower earnings quality and positive financial leverage. In addition to cyclical pressure on ROE, there could be structural pressure as India becomes a recipient of more capital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

India Dominates ROE Performance



Source: Morgan Stanley Research estimates

Asset Turn at the Helm of India's ROE Performance

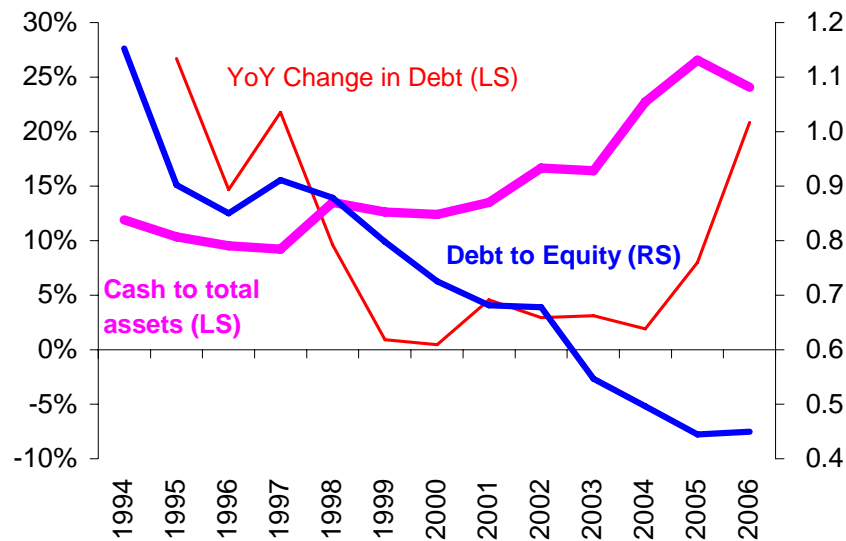


Source: Morgan Stanley Research estimates

## FUNDAMENTALS

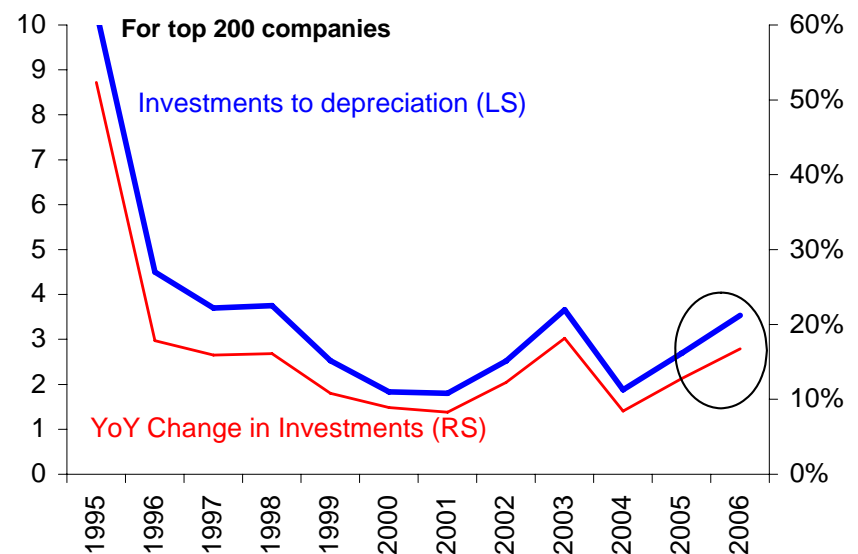
The silver lining is that corporate balance sheets are in great shape with low debt-equity, high cash balances and renewed focus on adding capital stock.

Balance Sheets Remain Solid



Source: Capitaline, Morgan Stanley Research

Smart Pickup In Capital Spending

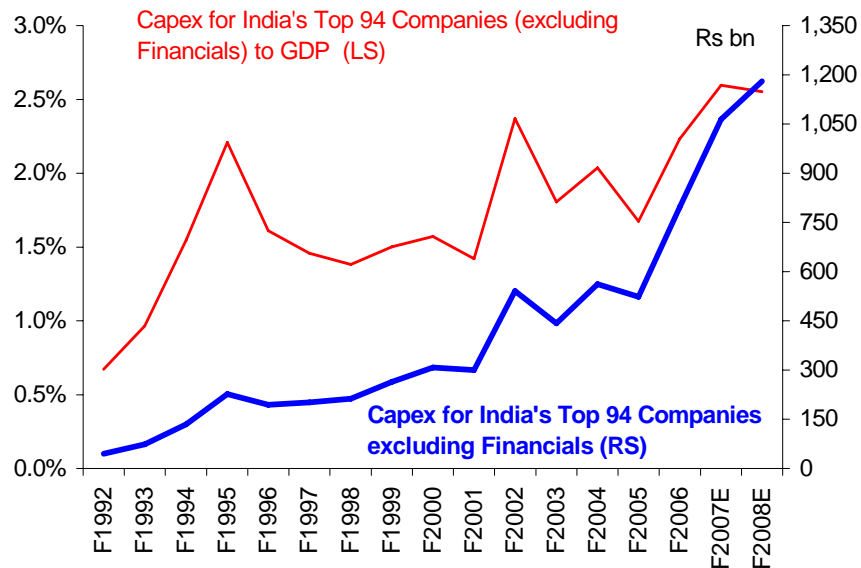


Source: Capitaline, Morgan Stanley Research

## FUNDAMENTALS

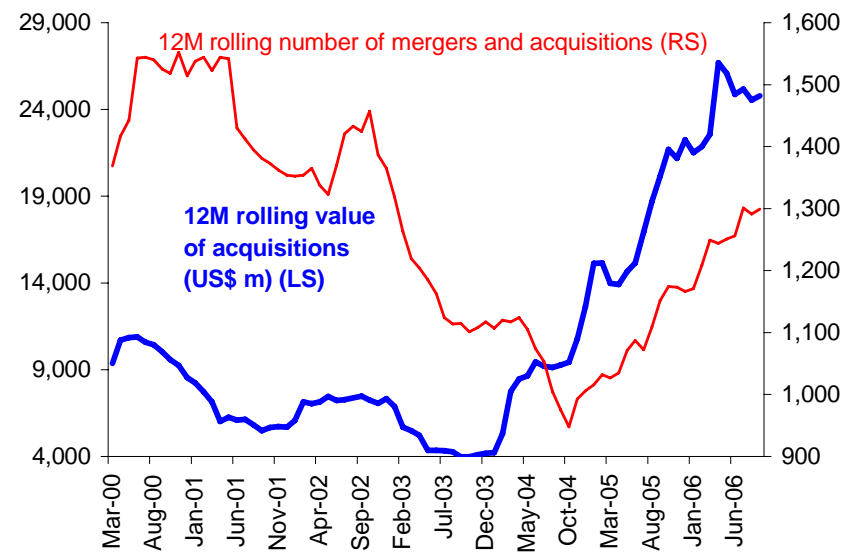
Corporate sentiment seems to be the best it has been in a decade and we expect capital spending, M&A – domestic and overseas – and capital issuances to breach five- or 10-year highs.

### Corporate Activity Likely to Scale New Heights



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

### M&A Booming

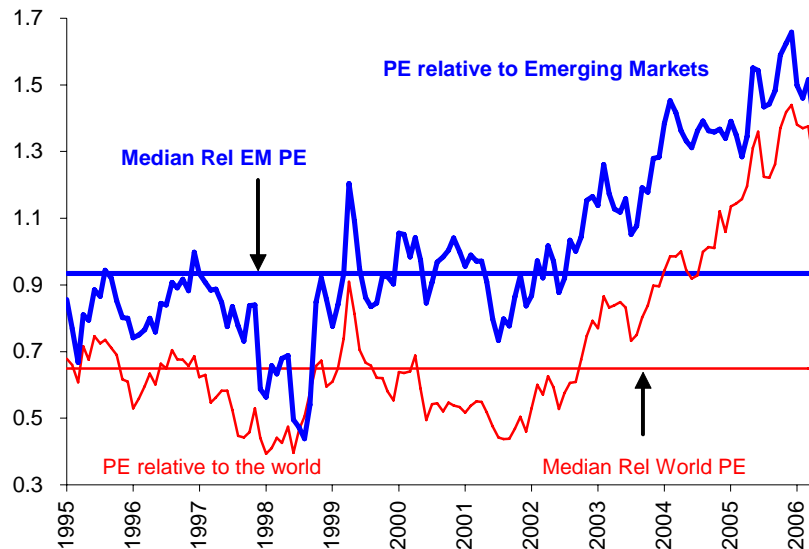


Source: CMIE, Morgan Stanley Research

## VALUATIONS

India is trading off its best P/E multiple ever versus the world and emerging markets. Several sectors trade at premiums to history and emerging market/Asian averages.

### Relative Valuations Beyond Previous Highs



Source: Factset, MSCI, Morgan Stanley Research

### Indian Sectors Trading at a Significant Premium

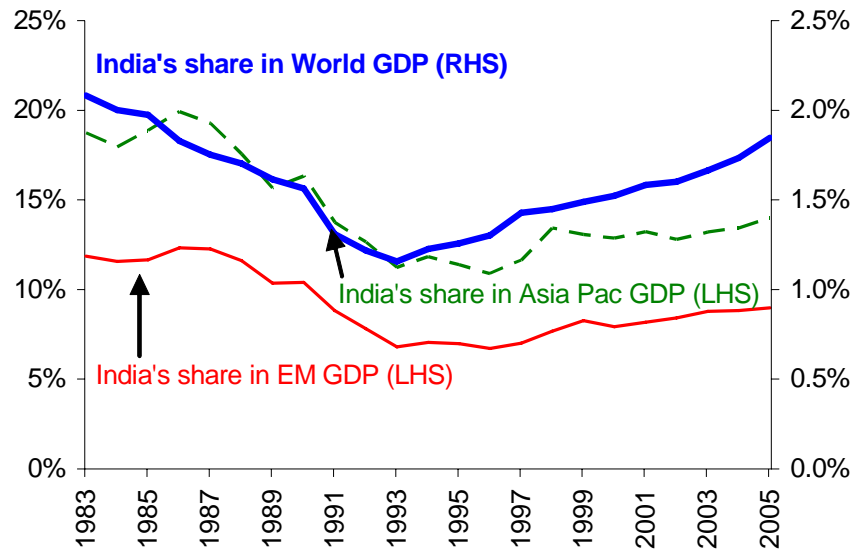
	MSCI India		Asia Pac		Emerging Markets	
	PE	Curr / Avg	Rel PE	Curr / Avg	Rel PE	Curr / Avg
<b>March 5, 2007</b>						
Consumer Discretionary	19.5	105%	1.2	114%	1.3	109%
Consumer Staples	22.7	72%	1.1	75%	1.1	68%
Energy	14.9	140%	1.4	168%	1.6	166%
Financials	25.2	217%	1.5	217%	1.6	218%
Health Care	28.5	93%	0.7	80%	1.3	118%
Industrials	24.8	160%	1.4	170%	1.4	166%
Technology	31.6	66%	1.9	99%	2.0	103%
Materials	11.2	93%	0.9	119%	0.8	92%
Telecoms	12.7	121%	0.8	140%	0.8	122%
Utilities	12.2	124%	0.9	132%	0.7	97%

Source: Factset, MSCI, Morgan Stanley Research

## VALUATIONS

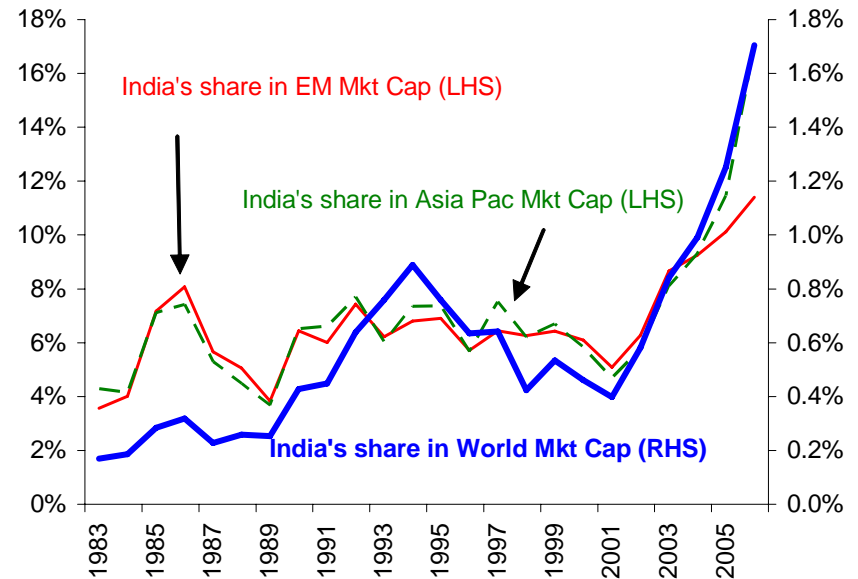
India's significant re-rating signals a distinct compression in long-term returns from equities.

India's Share in GDP Rises Marginally



Source: IMF, Morgan Stanley Research

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

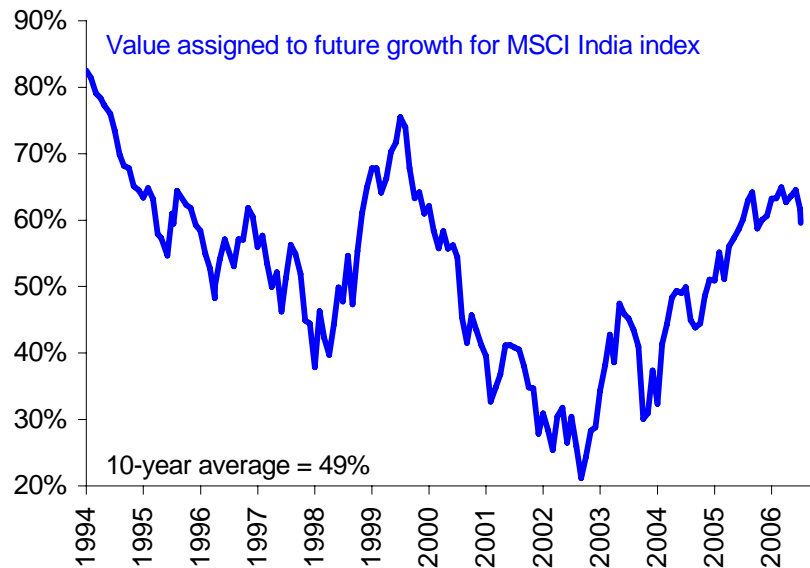


Source: Factset, Morgan Stanley Research

## VALUATIONS

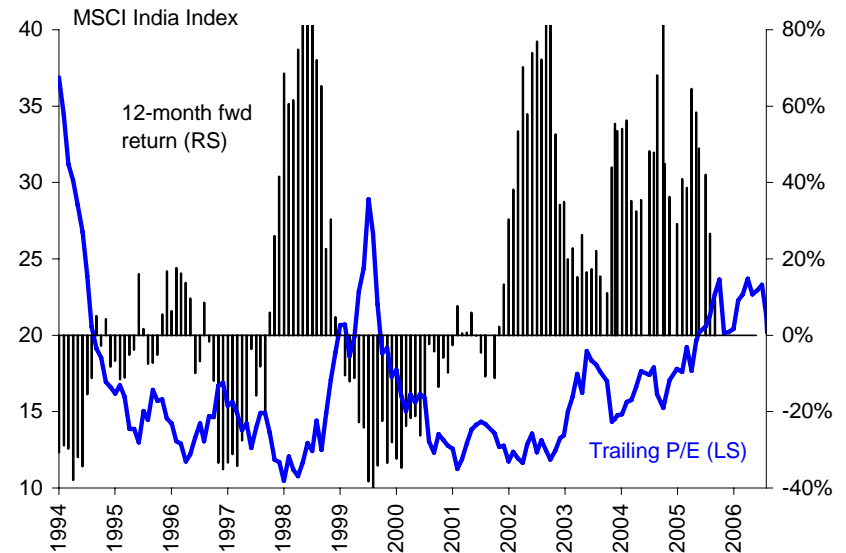
Equity valuations suggest weak short-term returns as well. Trailing P/E (at 20) indicates a negative return in the coming 12 months. Valuations indicate that the market is optimistic about the future. We estimate that 60% of the index value is attributed to future earnings growth.

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



Source: Morgan Stanley Research estimates

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

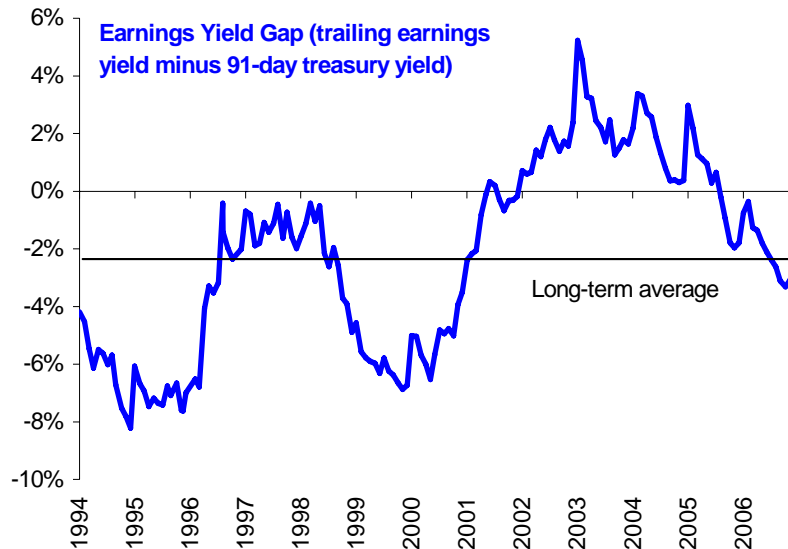


Source: Factset, MSCI, Morgan Stanley Research

## VALUATIONS

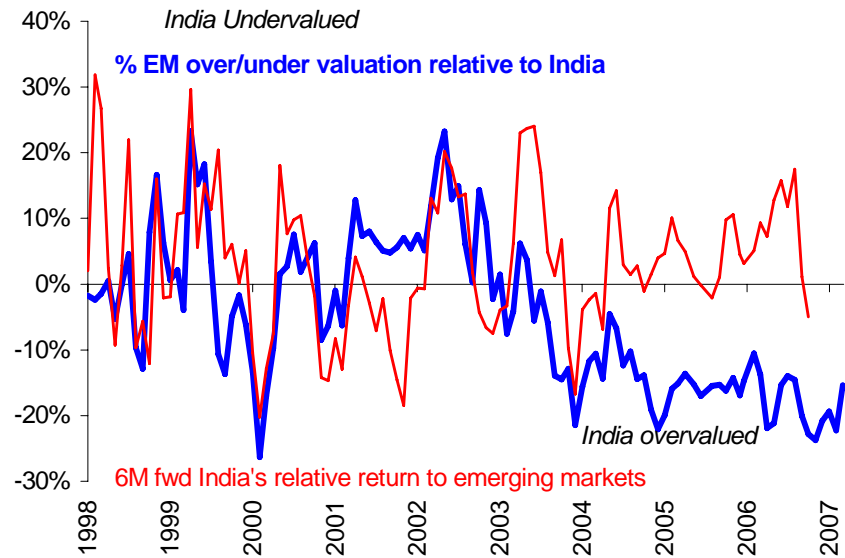
Neither the sector composition nor India's ROE superiority defends equity valuations. Valuations appear inexpensive relative to bonds but that does not tell us anything about the fairness of bond prices or whether earnings are inflated or not.

Earnings Yield Gap Below Historical Average



Source: Bloomberg, Company data, Morgan Stanley Research estimates

India vs. EM ROE Premium More Than in the Price



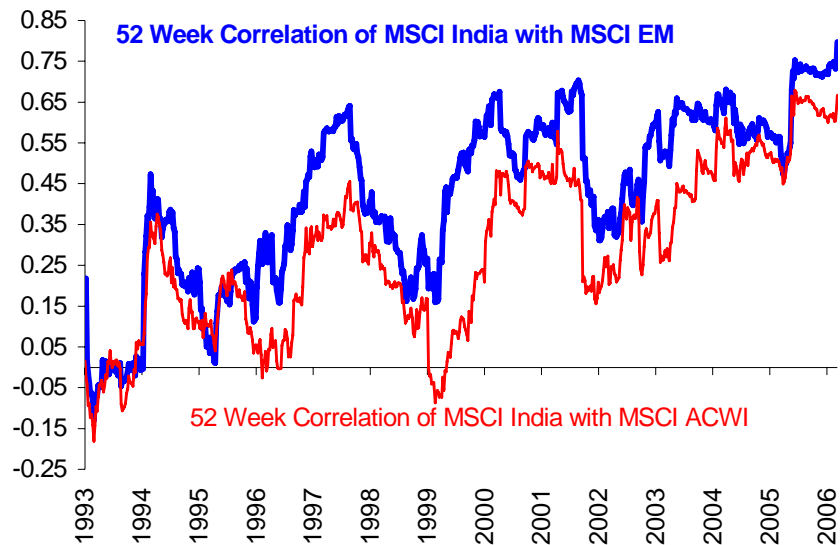
Source: MSCI, Factset, Morgan Stanley Research estimates



## MARKET DYNAMICS

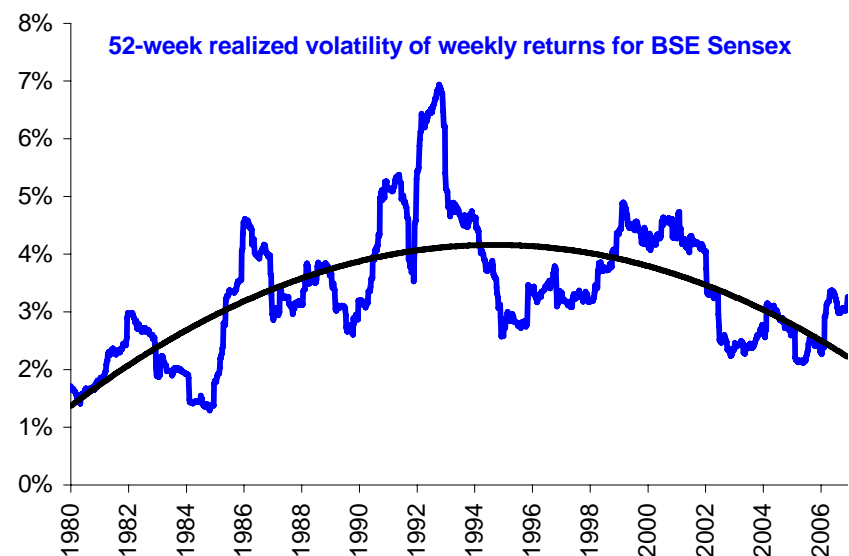
The correlation of returns on Indian equities is high relative to emerging markets and to the world. Realized volatility has spiked, which has negative implications for returns, going forward.

Indian Equities: High and Rising Correlation



Source: Factset, MSCI, Morgan Stanley Research

Realized Volatility Up and Could Go Up Further



Source: Bloomberg, Morgan Stanley Research

## MARKET DYNAMICS

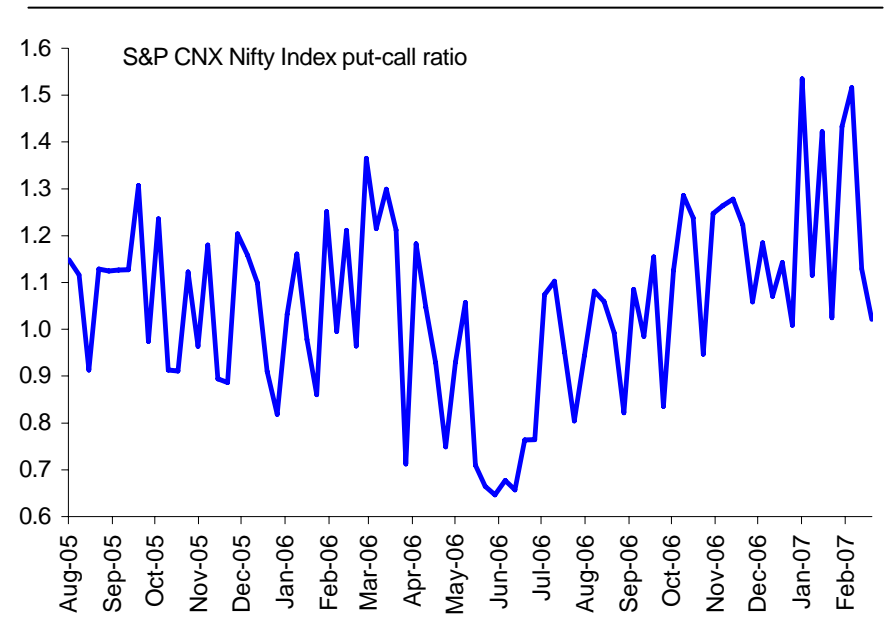
Sentiment indicators are all over the place. While India's performance has been slipping, investors have cut back on flows and have also increased shorts. Return tails have thinned and market response to corporate activity has been tepid.

**India vs. EM: Months in which India Has Been the Worst Performing Emerging Market**

Month	India's Perf.	EM Perf.	Rel Perf.
Apr-99	-12.6%	12.2%	-22.1%
Mar-93	-15.5%	3.1%	-18.1%
Jan-96	-9.6%	7.0%	-15.5%
May-04	-16.2%	-2.3%	-14.3%
Apr-03	-4.6%	8.4%	-12.0%
Nov-96	-8.9%	1.6%	-10.3%
Feb-07	-8.7%	-0.7%	-8.1%
Mar-97	-8.1%	-2.9%	-5.4%

Source: Morgan Stanley Research

**NIFTY Index Put-Call Ratio**

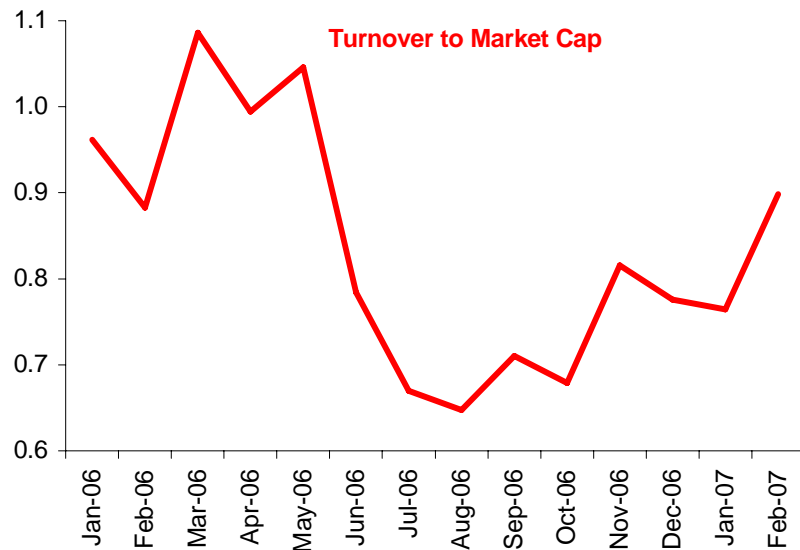


Source: Bloomberg, NSE, BSE, Morgan Stanley Research estimates

## MARKET DYNAMICS

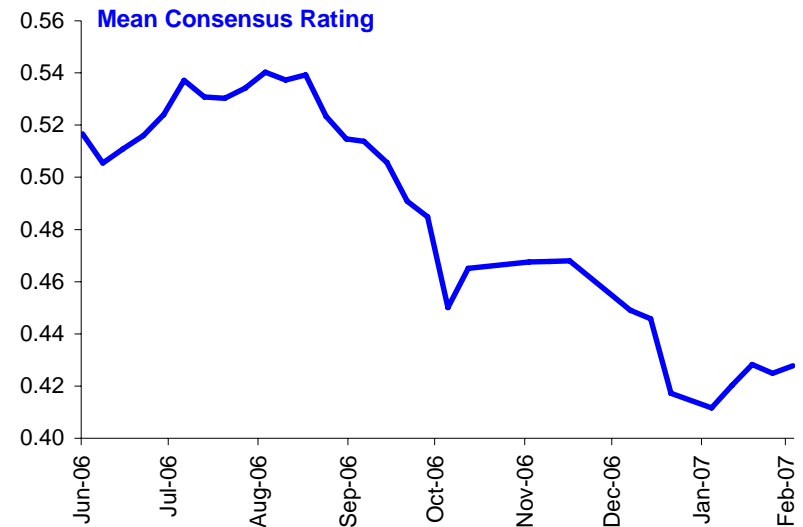
The consensus has been cutting ratings on stocks within the MS coverage universe and at the same time trading volumes have surged. These conflicting sentiment signals suggest scope for portfolio rotation.

Trading Volumes Have Surged



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

Consensus Has Reduced Stock Ratings

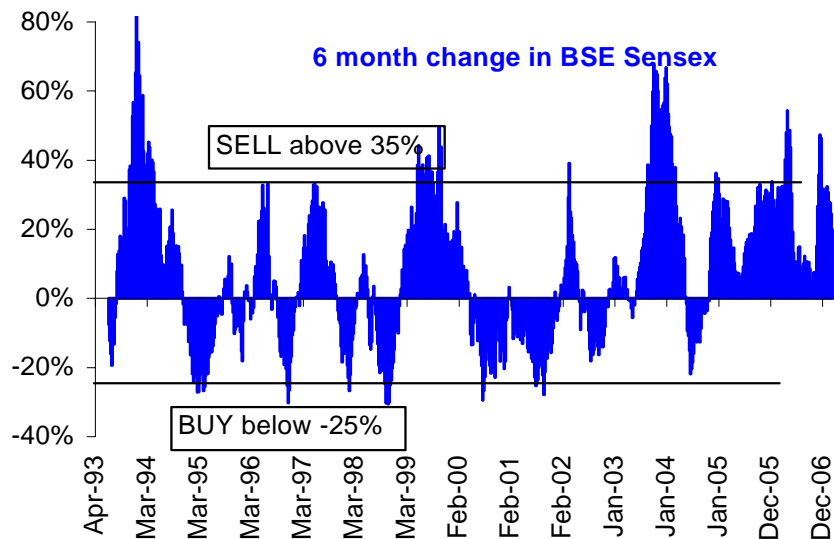


Source: Bloomberg, Morgan Stanley Research estimates

## MARKET DYNAMICS

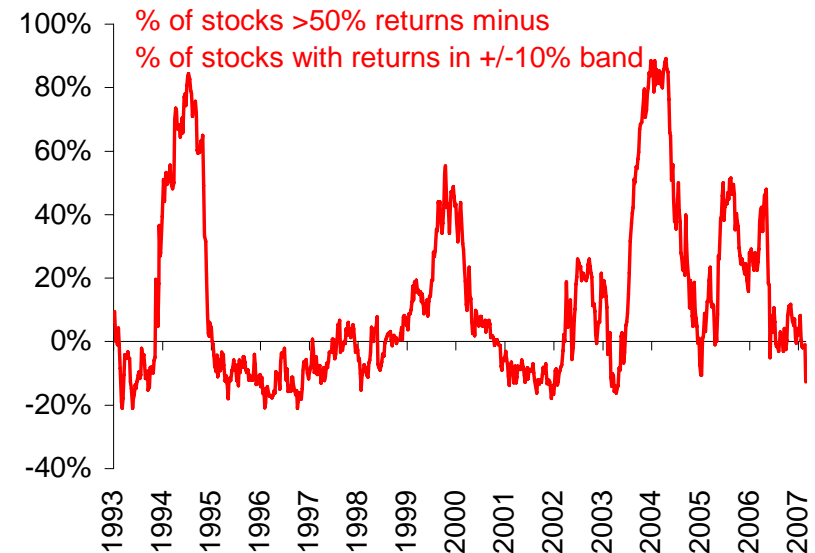
Our proprietary momentum indicators are off November's euphoric levels and are moving in the opposite direction with some suggesting caution and some exuberance.

**6M Trailing Returns: Spiking to Worrying Levels**



Source: Bloomberg, Morgan Stanley Research

**Return Tails: As Thin As They Can Be**

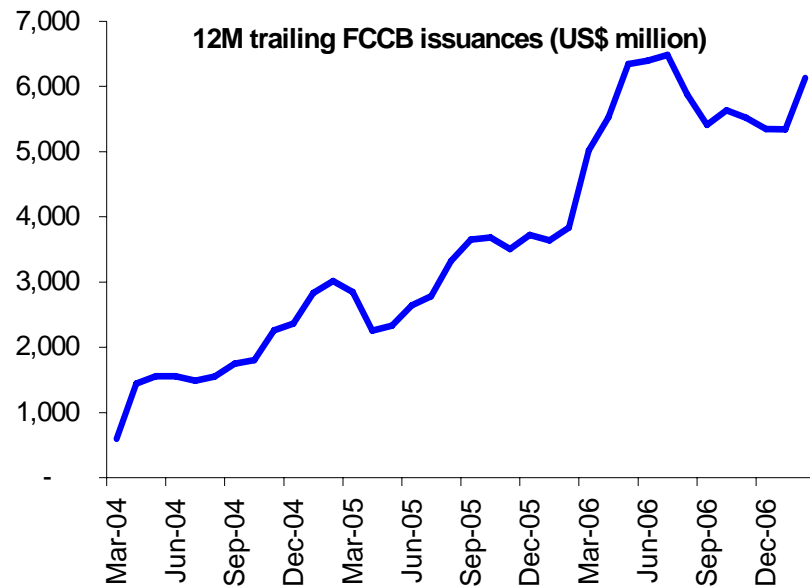


Source: Bloomberg, Morgan Stanley Research

## MARKET DYNAMICS

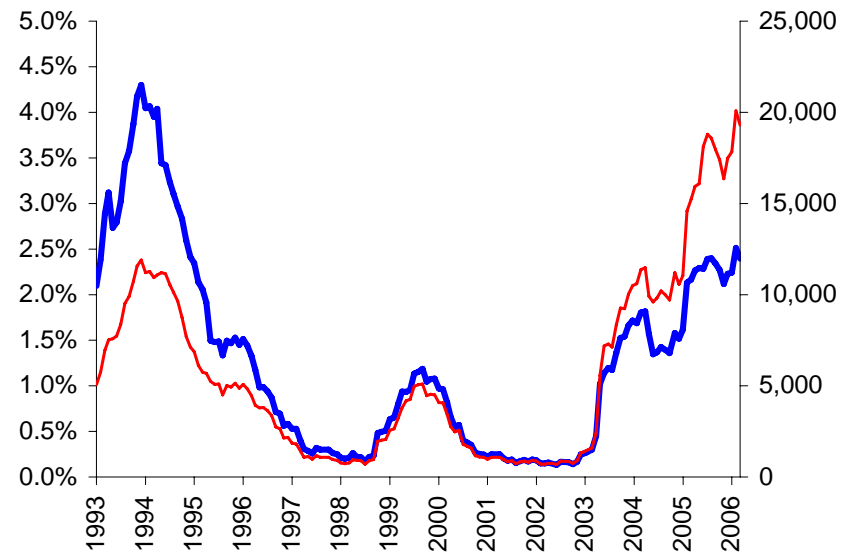
Equity issuances have been slow to take off but the pipeline appears solid for the coming months.

**FCCBs Boom: Second Innings to Start in 2007?**



Source: Prime Database, Morgan Stanley Research

**Equity Issuances Rising But Still Not Close to Peak**



Source: CMIE, CSO, Morgan Stanley Research

## STYLE & SECTOR STRATEGY

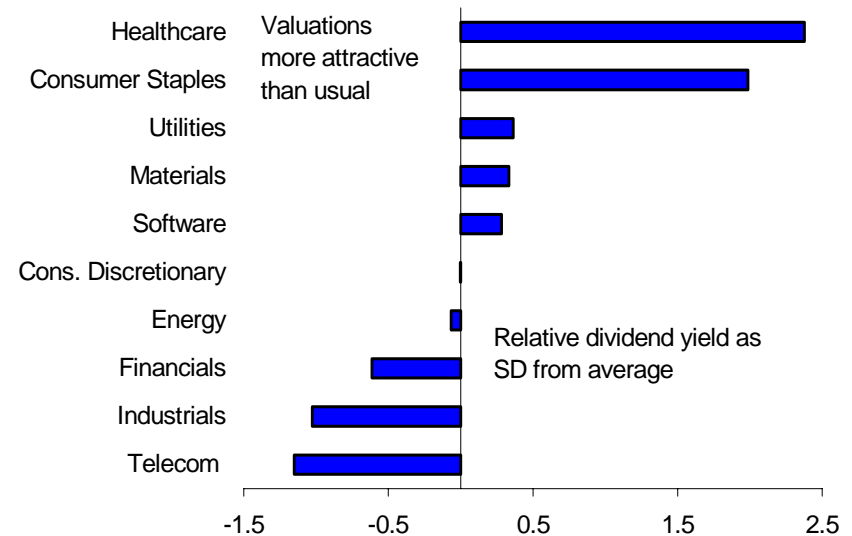
We expect defensive sectors to do well, helped by valuation and earnings momentum. We are overweight consumer staples, energy, telecoms, technology, utilities and healthcare.

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

5-Mar-07	Relative to EM			P-B ROE Model
	PE	PB	ROE	Deviation From Fair Value
Consumer Discretionary	1.3	1.8	7%	10%
Consumer Staples	1.1	2.5	19%	-32%
Energy	1.6	1.6	0%	38%
Financials	1.6	1.6	0%	43%
Health Care	1.3	1.9	7%	7%
Industrials	1.4	2.9	13%	17%
Technology	2.0	4.3	19%	-19%
Materials	0.8	1.5	14%	-8%
Telecom	0.8	0.9	4%	11%
Utilities	0.7	1.6	8%	-12%

Source: Morgan Stanley Research estimates

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

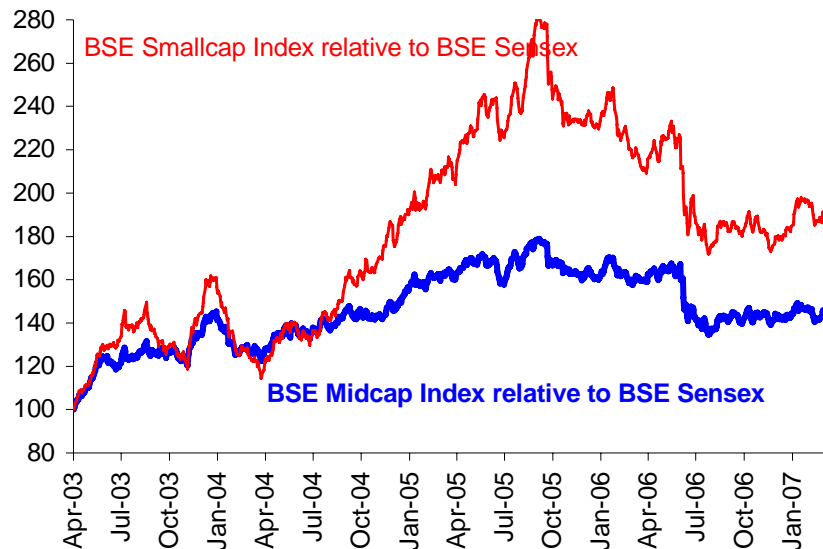


Source: Morgan Stanley Research estimates

## STYLE & SECTOR STRATEGY

We favor large caps over mid-caps given par valuations. Earnings revision momentum appears strong in telecoms, materials, energy and technology.

### Small- and Mid-Caps Underperforming



Source: Bloomberg, Morgan Stanley Research

### Strong Positive Earnings Revisions in Telecoms, Materials, Energy and Technology

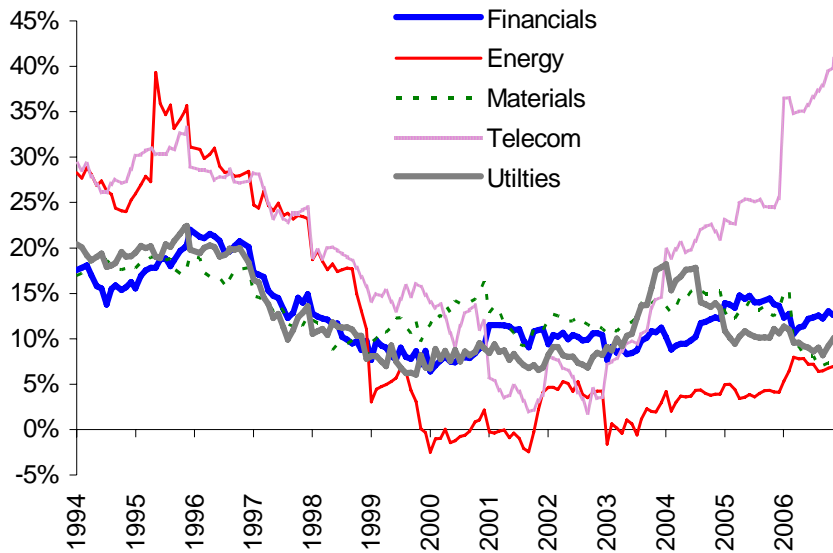
	F2007 earnings		F2008 earnings	
	1 month	3 months	1 month	3 months
Consumer Discretionary	-1.2%	-1.9%	-0.6%	-1.8%
Consumer Staples	-0.8%	-0.7%	-2.2%	-1.8%
Energy	1.6%	4.3%	1.0%	3.6%
Financials	-0.2%	1.7%	-0.1%	0.7%
Healthcare	0.9%	7.4%	0.8%	2.5%
Industrials	-0.7%	1.3%	1.3%	2.9%
Material	1.3%	2.8%	3.8%	6.7%
Technology	0.4%	1.6%	0.8%	3.5%
Telecom	3.5%	7.3%	2.4%	9.5%
Utilities	0.9%	1.6%	0.4%	1.8%
Market	0.7%	2.6%	0.9%	3.0%

Source: Factset, IBES, Morgan Stanley Research

## STYLE & SECTOR STRATEGY

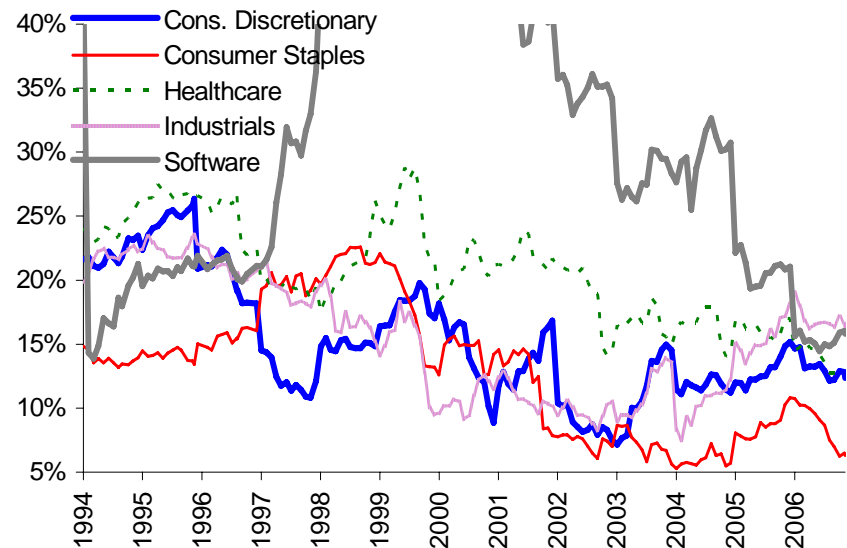
**Valuations favor defensive growth: We are overweight consumer staples, energy, technology, telecoms, materials and healthcare.**

**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 the 3 'U's Screen

	% of Buy Recos	Trading volumes as % of 3-year average	Relative Performance	Dividend Yield	Under-owned	Un-loved	Undervalued	Over-owned	Over-loved	Overvalued	Hit Ratio 3Us	Hit Ratio 3Os
Canara Bank	44.4%	37.4%	-36.8%	4.0%	Yes	Yes	Yes				100%	0%
GAIL (India)	26.7%	53.5%	-18.2%	3.8%	Yes	Yes	Yes				100%	0%
Hindustan Petroleum	45.0%	76.3%	-33.7%	5.7%	Yes	Yes	Yes				100%	0%
Shipping Corporation of India	25.0%	39.8%	-10.1%	5.6%	Yes	Yes	Yes				100%	0%
Arvind Mills	7.1%	70.4%	-59.3%	2.4%	Yes	Yes					67%	0%
Bharat Petroleum Corp.	35.3%	81.3%	-43.5%	3.8%	Yes		Yes				67%	0%
Corporation Bank	38.9%	120.7%	-38.2%	3.8%	Yes		Yes				67%	0%
Great Eastern Shipping	33.3%	124.4%	-3.5%	5.0%	Yes		Yes				67%	0%
Hero Honda Motor Ltd	29.2%	92.3%	-40.2%	4.4%	Yes		Yes				67%	0%
Mahanagar Telephone Nigam	14.3%	143.0%	-25.3%	3.6%	Yes		Yes				67%	0%
Nestle India	53.8%	74.0%	-32.3%	4.0%		Yes	Yes				67%	0%
Oil & Natural Gas Corp.	63.6%	76.8%	-14.2%	5.6%		Yes	Yes				67%	0%
Oriental Bank of Commerce	62.5%	47.1%	-38.9%	3.4%		Yes	Yes				67%	0%
Tata Steel	54.5%	64.8%	-18.0%	4.5%		Yes	Yes				67%	0%
TVS Motors	25.0%	142.9%	-59.3%	4.6%	Yes		Yes				67%	0%
Biocon Ltd	26.7%	42.5%	-24.8%	1.2%	Yes	Yes				Yes	67%	33%
Shoppers' Stop	36.4%	16.8%	-6.6%	0.4%	Yes	Yes				Yes	67%	33%
Union Bank of India	75.0%	40.1%	-33.4%	4.9%		Yes	Yes	Yes			67%	33%
Ashok Leyland Ltd.	50.0%	118.8%	-15.2%	4.8%			Yes				33%	0%
Balrampur Chini Mills Limited	46.7%	161.5%	-68.7%	2.6%	Yes						33%	0%
Colgate-Palmolive India	57.1%	119.8%	-38.9%	4.3%			Yes				33%	0%
Dabur India	31.3%	112.8%	3.7%	2.2%	Yes						33%	0%
EIH Limited	42.9%	116.8%	-16.3%	2.1%	Yes						33%	0%
HCL Technologies	61.5%	86.2%	-18.9%	3.3%			Yes				33%	0%
HDFC	47.1%	105.7%	-10.7%	1.7%	Yes						33%	0%
Hindustan Lever	50.0%	118.9%	-42.3%	4.0%			Yes				33%	0%
IDBI	0.0%	110.5%	-21.0%	2.8%	Yes						33%	0%
National Aluminium	26.3%	87.5%	-39.9%	2.3%	Yes						33%	0%
Polaris Software Lab Ltd.	16.7%	110.9%	20.3%	1.9%	Yes						33%	0%
Shree Renuka Sugars Limited	66.7%	35.4%	-73.8%	1.9%		Yes					33%	0%
State Bank of India	59.3%	55.6%	-4.2%	1.7%		Yes					33%	0%
Tata Motors	53.8%	61.1%	-25.1%	2.1%		Yes					33%	0%
Videsh Sanchar Nigam	20.0%	126.5%	-17.0%	2.4%	Yes						33%	0%
Bajaj Hindustan	35.7%	178.5%	-64.1%	0.7%	Yes					Yes	33%	33%
Bank of Baroda	90.0%	75.5%	-18.8%	2.9%		Yes		Yes			33%	33%
HDFC Bank	34.5%	114.1%	5.9%	0.7%	Yes					Yes	33%	33%
i-flex Solutions Ltd.	11.1%	116.6%	36.9%	0.5%	Yes					Yes	33%	33%
Kotak Mahindra Bank	0.0%	107.9%	42.7%	0.2%	Yes					Yes	33%	33%
Maruti Udyog Ltd.	65.4%	44.1%	-23.7%	0.8%		Yes				Yes	33%	33%
Patni Computer Systems	35.0%	84.0%	-27.5%	1.1%	Yes					Yes	33%	33%
Punjab National Bank	79.2%	51.9%	-18.9%	1.7%		Yes		Yes			33%	33%
Steel Authority Of India	71.4%	66.3%	32.1%	4.1%			Yes	Yes			33%	33%
Triveni Engineering & Industries Ltd.	50.0%	69.1%	-55.7%	0.8%		Yes				Yes	33%	33%
Wipro Ltd.	64.5%	72.1%	-10.4%	1.1%		Yes				Yes	33%	33%
Hexaware Technologies Limited	71.4%	57.8%	-10.3%	1.4%		Yes		Yes		Yes	33%	67%
Mphasis BFL	41.2%	149.2%	24.7%	1.5%	Yes				Yes	Yes	33%	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, Morgan Stanley Research

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

	% of Buy Recos	Trading volumes as % of 3-year average	Relative Performance	Dividend Yield	Under-owned	Un-loved	Undervalued	Over-owned	Over-loved	Overvalued	Hit Ratio 3Us	Hit Ratio 3Os
Pantaloon Retail	76.9%	41.6%	-5.0%	0.5%		Yes		Yes		Yes	33%	67%
Satyam Computer Services	83.3%	56.7%	-12.8%	1.2%		Yes		Yes		Yes	33%	67%
Ambuja Cements Ltd.	57.7%	93.8%	-1.1%	1.8%				Yes		Yes	0%	0%
Aventis (India)	60.0%	126.3%	-45.7%	1.9%							0%	0%
Bajaj Auto Ltd.	64.0%	129.2%	-25.7%	1.6%							0%	0%
GlaxoSmithKline Pharma	52.9%	129.0%	-29.4%	1.6%							0%	0%
Godrej Consumer Products Limited	63.2%	116.1%	-24.8%	2.9%							0%	0%
Hotel Leelaventure Limited	66.7%	118.1%	-33.0%	1.6%							0%	0%
IDFC	60.0%	70.4%	1.1%	1.6%							0%	0%
Ranbaxy Laboratories	50.0%	116.7%	-36.9%	2.8%							0%	0%
Tata Tea	66.7%	104.5%	-47.4%	2.3%							0%	0%
Wockhardt Limited	63.2%	112.6%	-42.7%	1.5%							0%	0%
ACC Ltd.	60.0%	94.6%	3.0%	1.4%						Yes	0%	33%
Bank of India	81.3%	87.2%	-1.0%	2.5%				Yes			0%	33%
Bharat Forge	75.0%	162.8%	-38.9%	1.6%				Yes			0%	33%
Dr. Reddy's Lab	64.0%	121.7%	-19.5%	1.3%						Yes	0%	33%
GMR Infrastructure Ltd.	50.0%	100.0%	NA	0.0%						Yes	0%	33%
ITC Ltd.	77.8%	95.8%	-20.2%	2.5%				Yes			0%	33%
Larsen & Toubro	52.6%	86.4%	0.9%	1.0%						Yes	0%	33%
Mahindra & Mahindra	87.5%	52.6%	6.0%	1.6%				Yes			0%	33%
Marico Limited	92.3%	78.6%	20.0%	2.6%				Yes			0%	33%
New Delhi Television Limited (NDTV)	50.0%	82.6%	17.7%	0.0%						Yes	0%	33%
Reliance Industries	65.2%	65.6%	55.0%	0.7%						Yes	0%	33%
Reliance Petroleum Limited	50.0%	100.0%	NA	0.0%						Yes	0%	33%
UltraTech Cemco	62.5%	63.3%	19.0%	0.2%						Yes	0%	33%
Voltas Limited	66.7%	109.4%	-6.3%	1.2%						Yes	0%	33%
Amtek Auto Ltd.	100.0%	85.7%	-8.9%	1.0%				Yes		Yes	0%	67%
Bharti Airtel Limited	80.0%	38.4%	54.6%	0.8%				Yes		Yes	0%	67%
Cipla Ltd.	73.9%	111.7%	-16.4%	1.4%				Yes		Yes	0%	67%
Entertainment Network (India) Limited	75.0%	42.5%	9.3%	0.0%				Yes		Yes	0%	67%
Gammon India	71.4%	131.7%	-53.7%	0.3%				Yes		Yes	0%	67%
Grasim Industries	69.6%	102.0%	-4.8%	1.2%				Yes		Yes	0%	67%
ICICI Bank	70.4%	98.3%	11.2%	1.2%				Yes		Yes	0%	67%
Indian Hotels Company Ltd	90.0%	171.2%	-13.4%	1.4%				Yes		Yes	0%	67%
Infosys Technologies	91.2%	68.8%	19.0%	0.7%				Yes		Yes	0%	67%
Jaiprakash Associates Limited	71.4%	120.3%	-10.5%	1.1%				Yes		Yes	0%	67%
Jindal Steel & Power	80.0%	91.0%	18.5%	0.8%				Yes		Yes	0%	67%
Lupin Ltd.	80.0%	85.7%	6.0%	0.9%				Yes		Yes	0%	67%
Reliance Communications Ltd.	80.0%	100.0%	NA	0.4%				Yes		Yes	0%	67%
Sun Pharmaceutical Industries	79.2%	118.3%	-1.2%	0.7%				Yes		Yes	0%	67%
Tata Consultancy Services	73.3%	69.3%	15.8%	1.1%				Yes		Yes	0%	67%
United Phosphorus	100.0%	131.2%	-9.1%	0.8%				Yes		Yes	0%	67%
UTI Bank	56.5%	136.8%	15.2%	0.9%					Yes	Yes	0%	67%
Zee Telefilms Ltd.	64.3%	123.5%	27.3%	0.7%					Yes	Yes	0%	67%
IVRCL Infrastructures & Projects	100.0%	165.3%	19.3%	0.6%				Yes	Yes	Yes	0%	100%

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, Morgan Stanley Research

## STOCK SCREENS: Price Momentum

### Defensive Investors Could Focus on Low 12M Minus 1M Performance Metric

	MS Rating	Target Price	12 mth Perf	1 mth Perf	12M-1M Perf		MS Rating	Target Price	12 mth Perf	1 mth Perf	12M-1M Perf
Zee Telefilms Ltd.	Equal-Weight	343	51%	-34%	86%	Indian Hotels Company Ltd	Overweight	180	-4%	-19%	16%
Kotak Mahindra Bank	Underweight	315	68%	-18%	85%	Punjab National Bank	Equal-Weight	475	-7%	-21%	14%
Reliance Industries	Overweight	1457	76%	-9%	85%	Amtek Auto Ltd.	Overweight	420	6%	-8%	14%
Bharti Airtel Limited	Overweight	752	69%	-12%	81%	Dr. Reddy's Lab	Equal-Weight	780	-7%	-18%	11%
i-flex Solutions Ltd.	Equal-Weight	2100	68%	-5%	73%	Cipla Ltd.	Underweight	240	-1%	-12%	11%
UltraTech Cemco	Overweight	990	41%	-27%	67%	Mahanagar Telephone Nigam	Overweight	206	-10%	-19%	9%
Polaris Software Lab Ltd.	Equal-Weight	225	34%	-31%	65%	Bank of Baroda	Overweight	350	-8%	-17%	8%
Steel Authority Of India	Overweight	147	47%	-13%	60%	GAIL (India)	Underweight	270	-7%	-12%	6%
Mphasis BFL Group	Equal-Weight	275	37%	-22%	59%	EIH Limited	Underweight	85	0%	-6%	6%
IVRCL Infrastructures & Projects LTD	Overweight	528	19%	-37%	56%	HCL Technologies	Equal-Weight	750	-2%	-6%	5%
Infosys Technologies	Overweight	2500	42%	-11%	53%	Voltas Limited	Equal-Weight	114	-15%	-19%	4%
ICICI Bank	Equal-Weight	840	35%	-13%	48%	Bajaj Auto Ltd.	Overweight	3000	-9%	-13%	4%
Tata Consultancy Services	Overweight	1575	36%	-11%	47%	Tata Steel	Overweight	578	-8%	-11%	3%
UTI Bank	Equal-Weight	510	25%	-21%	46%	Maruti Udyog Ltd.	Equal-Weight	825	-16%	-19%	3%
Ambuja Cements Ltd.	Overweight	126	23%	-22%	45%	JTC Ltd.	Overweight	220	-7%	-8%	2%
Jindal Steel & Power	Overweight	1722	30%	-14%	45%	Tata Motors	Equal-Weight	825	-19%	-20%	1%
Mahindra & Mahindra	Overweight	950	18%	-24%	42%	Patni Computer Systems	Overweight	600	-13%	-12%	-2%
ACC Ltd.	Overweight	1141	19%	-22%	41%	Godrej Consumer Products Limited	Overweight	185	-13%	-9%	-4%
Grasim Industries	Overweight	2803	16%	-25%	41%	Ranbaxy Laboratories	Equal-Weight	386	-26%	-23%	-4%
Entertainment Network (India) Limited	Overweight-V	264	39%	-1%	41%	Oriental Bank of Commerce	Equal-Weight	225	-33%	-27%	-6%
New Delhi Television Limited (NDTV)	Equal-Weight	256	32%	-8%	40%	Hindustan Petroleum	Underweight	261	-24%	-18%	-6%
HDFC Bank	Equal-Weight	1075	22%	-16%	38%	Nestle India	Overweight	1200	-23%	-17%	-6%
IDFC	Overweight	110	9%	-27%	37%	Biocon Ltd	Underweight	363	-8%	-1%	-7%
Marico Limited	Overweight	62.5	30%	-5%	35%	Union Bank of India	Overweight	165	-27%	-19%	-8%
Larsen & Toubro	Overweight	1512	15%	-18%	33%	Hotel Leelaventure Limited	Underweight	55	-25%	-15%	-10%
Bank of India	Overweight	240	15%	-17%	32%	GlaxoSmithKline Pharma	Overweight	1353	-17%	-7%	-10%
Jaiprakash Associates Limited	Overweight	704	6%	-26%	32%	Canara Bank	Overweight	300	-33%	-22%	-11%
HDFC	Equal-Weight	1455	13%	-18%	31%	Corporation Bank	Overweight	425	-34%	-21%	-12%
Sun Pharmaceutical Industries	Overweight	1100	20%	-11%	31%	Hindustan Lever	Overweight	265	-29%	-16%	-12%
Hexaware Technologies Limited	Overweight	225	18%	-12%	30%	Bharat Petroleum Corp.	Equal-Weight	388	-32%	-19%	-13%
Lupin Ltd.	Overweight	600	21%	-9%	30%	Colgate-Palmolive India	Overweight	450	-22%	-9%	-14%
Pantaloon Retail	Overweight	410	15%	-13%	28%	Bharat Forge	Equal-Weight	380	-31%	-16%	-15%
State Bank of India	Underweight	1035	8%	-20%	27%	National Aluminium	Equal-Weight	203	-22%	-7%	-15%
Dabur India	Overweight	113	18%	-8%	27%	Hero Honda Motor Ltd	Underweight	600	-22%	-6%	-16%
Shoppers' Stop	Equal-Weight	600	16%	-8%	23%	Tata Tea	Equal-Weight	750	-38%	-22%	-16%
Videsh Sanchar Nigam	Underweight	343	-7%	-30%	23%	Gammon India	Overweight	471	-47%	-29%	-19%
Great Eastern Shipping	Equal-Weight	280	19%	-3%	22%	Arventis (India)	Overweight	1769	-38%	-15%	-23%
IDBI	Underweight	55	-13%	-34%	21%	Arvind Mills	Underweight	75	-53%	-25%	-28%
Satyam Computer Services	Overweight	575	4%	-15%	19%	TVS Motors	Overweight	88	-56%	-27%	-29%
Shipping Corporation of India	Underweight	125	2%	-16%	17%	Wockhardt Limited	Overweight	460	-32%	2%	-33%
Wipro Ltd.	Equal-Weight	675	2%	-15%	17%	Triveni Engineering & Industries Ltd.	Equal-Weight-V	49	-44%	-8%	-37%
United Phosphorus	Overweight	345	6%	-11%	17%	Balrampur Chini Mills Limited	Underweight	68	-62%	-13%	-50%
Ashok Leyland Ltd.	Overweight	55	-8%	-25%	16%	Bajaj Hindustan	Equal-Weight	185	-57%	5%	-62%
Oil & Natural Gas Corp.	Overweight	1058	1%	-15%	16%	Shree Renuka Sugars Limited	Equal-Weight	391	-69%	-5%	-64%

Source: Bloomberg, Morgan Stanley Research

## STOCK SCREENS: Correlation & Beta

### Defensive Investors Should Slide Down the Beta Curve and Up the Relative Volatility Curve

Company	Price	Rating	Correl	Rel SD	Beta	Company	Price	Rating	Correl	Rel SD	Beta
Indian Hotels	125.65	Overweight	0.85	1.69	1.44	UltraTech CemCo	812.7	Overweight	0.66	1.65	1.09
Larsen & Toubro	1383.75	Overweight	0.82	1.40	1.15	Maruti	779.25	Equal-Weight	0.66	1.32	0.87
Reliance Industries	1259.2	Overweight	0.79	1.30	1.03	Glaxo	1125.55	Overweight	0.66	1.21	0.80
Infosys Technologies	2006.6	Overweight	0.79	0.94	0.74	Bank of Baroda	205.85	Overweight	0.65	1.65	0.70
Mahindra & Mahindra	708.6	Overweight	0.78	1.27	0.99	Sun Pharma	936	Overweight	0.65	1.13	0.74
Videsh Sanchar Nigam	355.25	Underweight	0.78	2.09	1.62	Dr. Reddy's Laboratories	618.65	Equal-Weight	0.65	1.24	0.81
Jaiprakash	523.4	Overweight	0.77	2.26	1.74	T V S Suzuki	54.15	Overweight	0.64	2.12	1.36
UTI Bank	447.55	Equal-Weight	0.77	1.73	1.33	Kotak	414.9	Underweight	0.64	2.08	1.33
Grasim Industries	2102.1	Overweight	0.76	1.46	1.11	Triveni Engineering & Industries	42.9	Equal-Weight-V	0.64	2.75	1.22
Cipla	217.3	Underweight	0.76	1.37	1.04	HDFC	1495.15	Equal-Weight	0.63	1.41	0.89
Satyam Computer Services	413.6	Overweight	0.75	1.39	1.05	Lupin	568.3	Overweight	0.63	1.59	1.00
IDBI	70.95	Underweight	0.75	2.13	1.60	Dabur India	92.4	Overweight	0.62	1.46	1.08
Bajaj Auto	2455.35	Overweight	0.75	1.32	0.99	Hindustan Petroleum Corporation	247.15	Underweight	0.62	1.76	1.08
Tata Motors	736.3	Equal-Weight	0.75	1.32	0.99	Mahanagar Telephone Nigam	134.45	Overweight	0.62	1.52	0.94
HDFC Bank	929.85	Equal-Weight	0.75	1.23	0.92	Biocon	428.5	Underweight	0.61	1.26	0.77
NDTV	297.65	Equal-Weight	0.72	2.33	1.69	Punjab National Bank	412.25	Equal-Weight	0.61	1.50	0.91
Jindal Steel	2217.7	Overweight	0.72	1.91	1.37	Colgate-Palmolive (India)	313.8	Overweight	0.61	1.36	0.83
ICICI Bank	820.7	Equal-Weight	0.72	1.45	1.04	Hotel Leelaventure Limited	53.6	Underweight	0.61	2.24	1.76
Arvind Mills	45.25	Underweight	0.71	2.00	1.42	Wipro	537.15	Equal-Weight	0.61	1.20	0.73
ACC	813.2	Overweight	0.71	1.41	0.99	i-flex Solutions	1860.8	Equal-Weight	0.60	1.90	1.15
Bank of India	160.05	Overweight	0.70	2.18	1.54	Gammon	293.8	Overweight	0.60	1.96	1.18
Canara Bank	186.8	Overweight	0.70	1.68	1.17	Marico	54.05	Overweight	0.60	1.61	0.96
Hindustan Lever Ltd	173.55	Overweight	0.70	1.38	0.97	Polaris Software	157.1	Equal-Weight	0.59	2.17	1.28
Bharti Tele-Ventures	690.95	Overweight	0.69	1.20	0.84	Hexaware	145.3	Overweight	0.59	1.39	0.82
Bharat Forge	301.05	Equal-Weight	0.69	1.72	0.74	ENIL	309.55	Overweight-V	0.58	2.21	1.36
State Bank of India	962.35	Underweight	0.69	1.26	0.87	Voltas Limited	83.55	Equal-Weight	0.57	1.77	1.27
Union Bank	91.05	Overweight	0.69	1.57	1.08	EIH Limited	92.05	Underweight	0.57	1.30	0.91
Tata TEA Ltd	562.75	Equal-Weight	0.68	1.13	0.78	Wockhardt	361.15	Overweight	0.56	1.54	0.85
I T C	162.5	Overweight	0.68	1.20	0.82	Balrampur Chini Mills Limited	58.05	Underweight	0.55	2.22	1.22
SAIL	97	Overweight	0.68	1.75	1.19	Zee Telefilms	219.75	Equal-Weight	0.54	2.21	1.20
Gujarat Ambuja Cements	111.85	Overweight	0.68	1.32	0.90	GESCO	199.3	Equal-Weight	0.54	2.02	1.09
Ranbaxy Laboratories	321.15	Equal-Weight	0.68	1.38	0.94	Shree Renuka Sugars	303.85	Equal-Weight	0.50	2.56	1.19
Oriental Bank of Commerce	160.9	Equal-Weight	0.68	1.85	1.25	United Phosphorus	294.85	Overweight	0.50	1.43	1.19
IVRCL	270.8	Overweight	0.67	2.31	0.71	Mphasis BFL Group	245.15	Equal-Weight	0.49	1.93	0.95
Oil & Natural Gas Commission	773.35	Overweight	0.67	1.34	0.90	Godrej Consumer Products	138.2	Overweight	0.49	1.43	1.29
HCL Technologies	609.45	Equal-Weight	0.67	1.32	0.89	Bajaj Hindustan	165.45	Equal-Weight	0.48	2.47	0.82
TCS	1162.2	Overweight	0.67	1.10	0.74	Bharat Petroleum Corporation	289.25	Equal-Weight	0.48	1.49	0.72
Ashok Leyland	36.65	Overweight	0.67	1.61	1.08	Shoppers' Shop	618.2	Equal-Weight	0.48	1.90	0.91
IDFC	77.6	Overweight	0.67	1.69	1.14	Gas Authority of India	258.75	Underweight	0.46	1.19	0.55
Aventis	1184.35	Overweight	0.67	1.15	0.77	Amtek Auto	348.25	Overweight	0.45	1.41	0.63
SCI	152.1	Underweight	0.67	1.34	0.90	Hero Honda Motors	684.45	Underweight	0.43	1.09	0.47
Tata Iron & Steel Company	420.25	Overweight	0.67	1.62	1.08	Patni Computer Systems	403.75	Overweight	0.35	1.66	0.58
National Aluminium Company	218.55	Equal-Weight	0.66	1.55	1.03	Nestle	896.3	Overweight	0.34	1.40	0.47
Corporation Bank	238.8	Overweight	0.66	2.08	1.38	Pantaloon	407.15	Overweight	0.32	3.70	1.17

Source: Bloomberg, Morgan Stanley Research

## AT A GLANCE

### India Stock Coverage Universe

	Price 5/3/07	Mkt Cap (US\$m)	Rating	6M Price Perf	Trail 3 Year EPS CAGR	Implied LT		ROE F2006	Fwd PE	Fwd P/B	Trailing P/Sales	Fwd Div Yield	Trailing FCF Yield	Consensus **		3M Rev F2007
						EPS grth	Div grth*							F2007	F2008	
<b>BSE Sensex</b>	<b>12,415</b>	<b>362,738</b>		<b>-0.3%</b>	<b>19.1%</b>	<b>4.6%</b>		<b>22.5%</b>	<b>15.3</b>	<b>3.4</b>	<b>1.9</b>	<b>1.8%</b>	<b>3.1%</b>	<b>27.2%</b>	<b>15.4%</b>	<b>3.1%</b>
Amtek Auto Ltd.	348	978	Overweight	5.0%	53.0%	9.2%	20.8%	15.3%	11.4	1.8	1.6	1.1%	-21.5%	46.4%	30.3%	10.1%
Arvind Mills	45	216	Underweight	-33.6%	NA	5.4%		6.3%	8.6	0.5	0.4	2.4%	72.7%	-72.6%	140.1%	-51.2%
Ashok Leyland	37	1,104	Overweight	-18.6%	35.7%	8.7%	2.0%	25.9%	10.3	2.7	0.9	4.8%	3.7%	30.2%	15.0%	1.6%
ACC Ltd.	813	3,456	Overweight	-18.1%	166.9%	7.2%	13.5%	24.0%	15.7	3.8	2.6	1.4%	5.1%	242.3%	21.6%	1.2%
Aventis (India)	1,184	617	Overweight	-26.4%	23.2%	8.7%	9.9%	25.7%	13.6	3.5	3.2	1.9%	7.2%	9.7%	15.4%	-1.5%
Bajaj Auto	2,455	5,622	Overweight	-18.1%	25.2%	13.0%	10.1%	24.9%	14.6	3.6	3.2	1.6%	5.3%	16.5%	20.6%	-1.9%
Bajaj Hindustan	165	544	Equal-Weight	-49.0%	58.5%	6.6%	31.1%	17.4%	7.6	1.3	1.5	0.6%	-53.7%	69.0%	21.3%	-7.5%
Balrampur Chini Mills Limited	58	331	Underweight	-42.9%	98.3%	-3.3%		16.5%	8.0	1.3	1.0	2.5%	-28.6%	22.8%	21.0%	
Bank of Baroda	206	1,730	Overweight	-28.6%	NM	3.1%	6.2%	12.2%	6.6	0.8	-	2.9%	0.0%	14.8%	26.0%	
Bank of India	160	1,768	Overweight	-1.3%	NM	4.7%	8.6%	16.5%	7.2	1.2	-	2.5%	0.0%	29.8%	28.2%	
Bharat Forge	301	1,663	Equal-Weight	-16.0%	33.1%	15.6%	16.9%	22.9%	16.8	3.8	2.4	1.6%	-3.2%	25.7%	31.9%	
Bharat Petroleum Corp.	289	1,964	Equal-Weight	-21.1%	NM	1.5%	6.7%	13.7%	5.9	0.8	0.1	3.8%	12.1%	8.7%	12.1%	-0.2%
Bharti Tele-Ventures	691	29,665	Overweight	47.4%	NM	23.6%	0.0%	32.7%	22.6	7.4	10.7	0.8%	-1.0%	101.3%	47.0%	6.6%
Biocon Ltd	429	970	Underweight	14.2%	NM	14.0%	19.9%	19.8%	17.7	3.5	5.3	1.2%	1.6%	5.7%	25.1%	1.8%
Canara Bank	187	1,733	Overweight	-34.3%	10.2%	-1.8%	2.1%	16.1%	5.2	0.8	-	4.0%	NA	-1.1%	21.2%	2.1%
Cipla	217	3,775	Underweight	-17.1%	35.0%	14.8%	16.7%	23.3%	17.9	4.2	5.5	1.4%	1.2%	40.8%	24.6%	-0.5%
Colgate-Palmolive India	314	966	Overweight	-14.6%	19.8%	15.3%	7.1%	74.8%	17.4	13.0	3.8	4.3%	3.9%	24.0%	15.5%	3.0%
Corporation Bank	239	775	Overweight	-42.3%	2.5%	1.3%	2.7%	13.3%	6.2	0.8	-	3.8%	NA	5.0%	16.7%	1.1%
Dr. Reddy's Lab	619	2,148	Equal-Weight	-15.4%	NM	23.2%	26.2%	14.9%	14.5	2.2	3.5	1.4%	-2.6%	218.8%	-10.9%	14.6%
Dabur India	92	1,798	Overweight	1.4%	38.8%	17.6%	13.1%	49.2%	24.3	11.9	4.2	2.2%	0.2%	22.9%	22.8%	
EIH Limited	92	819	Underweight	-9.7%	208.1%	17.7%	9.8%	16.8%	18.1	3.0	4.4	2.1%	4.4%	-17.2%	28.0%	
Entertainment Network (India) Limited	310	293	Overweight-V	26.5%	NM	22.9%		8.8%	46.1	4.1	8.9	0.0%	-15.9%		70.5%	
GAIL (India)	259	4,952	Underweight	-1.6%	7.1%	5.1%	2.6%	18.3%	9.6	1.8	1.3	3.8%	7.5%	1.7%	1.0%	3.4%
Gammon India	294	577	Overweight	-19.4%	41.3%	12.7%	31.7%	13.7%	16.1	2.2	1.3	0.3%	0.6%		46.0%	-3.1%
GlaxoSmithKline Pharma	1,126	2,224	Overweight	-8.7%	20.2%	14.7%	4.5%	27.5%	22.1	6.1	6.3	1.6%	4.5%	26.0%	6.4%	2.3%
GMR Infrastructure Ltd.	346	2,138	Underweight-V	NA	NM	34.8%		3.6%	121.1	4.3	8.5	0.0%	-8.6%		15.8%	
Godrej Consumer Products	138	706	Overweight	-23.4%	33.2%	14.1%	5.6%	85.4%	17.0	14.5	4.3	2.9%	3.9%	15.1%	23.5%	0.3%
Grasim Industries	2,102	4,362	Overweight	-16.6%	27.0%	11.4%	16.0%	26.0%	12.1	3.1	2.4	1.2%	4.3%	90.1%	24.2%	9.3%
Great Eastern Shipping	199	858	Equal-Weight	-35.3%	63.4%	-5.1%	-1.4%	14.2%	7.0	1.0	1.5	5.0%	5.9%	-21.5%	-22.8%	-1.6%
Ambuja Cements Ltd.	112	3,470	Overweight	-4.3%	27.1%	10.9%	12.0%	28.3%	12.8	3.6	4.5	1.7%	2.8%	85.6%	19.7%	7.1%
HCL Technologies	609	4,465	Equal-Weight	10.8%	28.4%	14.0%	4.1%	24.7%	16.5	4.1	4.3	3.2%	2.7%	37.2%	21.8%	2.9%
HDFC	1,495	8,445	Equal-Weight	-2.6%	21.9%	15.8%	12.5%	29.4%	20.9	6.1	-	1.7%	NA	12.7%	19.1%	1.8%
HDFC Bank	930	6,595	Equal-Weight	0.4%	27.3%	17.2%	20.9%	15.2%	17.0	2.6	-	0.8%	NA	29.3%	31.1%	-1.6%
Hero Honda Motor	684	3,093	Underweight	-11.6%	19.2%	7.5%	4.2%	36.8%	14.1	5.2	1.6	4.4%	5.2%	-9.3%	17.0%	-12.6%
Hexaware Technologies Limited	145	438	Overweight	-10.2%	59.8%	8.5%	14.8%	19.3%	11.4	2.2	2.2	1.6%	1.6%		30.1%	1.8%
Hindalco Industries	134	3,007	***	-21.7%	39.2%	1.6%	10.3%	15.5%	5.5	0.9	1.1	1.7%	-4.5%	74.9%	-5.6%	3.8%
Hindustan Lever	174	8,642	Overweight	-32.3%	NM	13.8%	2.3%	77.7%	19.6	15.2	3.1	4.2%	4.3%	19.7%	17.4%	-0.4%
Hindustan Petroleum	247	1,896	Underweight	-11.6%	NM	4.2%	3.0%	12.8%	6.1	0.8	0.1	5.7%	-13.5%	-20.4%	9.0%	31.5%
Hotel Leelaventure Limited	54	448	Underweight	-19.9%	118.3%	15.0%	17.2%	14.9%	13.1	1.9	5.6	1.6%	-16.3%	71.7%	53.7%	
ICICI Bank	821	16,763	Equal-Weight	17.4%	13.3%	15.6%	15.6%	14.4%	18.5	2.7	-	1.1%	NA	35.9%	25.7%	6.0%
IDBI	71	1,162	Underweight	-14.2%	NM	2.8%	7.2%	8.3%	8.5	0.7	-	2.8%	NA	22.4%	23.4%	-6.3%
IDFC	78	1,989	Overweight	14.6%	NM	12.6%	13.1%	18.7%	13.5	2.5	-	1.6%	NA	25.8%	16.8%	3.0%
i-flex Solutions	1,861	3,217	Equal-Weight	29.6%	6.6%	25.4%	32.3%	16.4%	34.0	5.6	9.3	0.6%	0.2%	31.5%	37.6%	-2.1%
Indian Hotels Company Ltd	126	1,635	Overweight	-9.2%	119.9%	15.4%	14.1%	19.4%	14.5	2.8	3.8	1.5%	2.0%	78.0%	31.3%	2.0%
Indian Oil Corp	402	10,632	***	-23.2%	NM	***	***	***	***	***	0.2	***	0.7%	19.0%	-7.3%	-0.5%
Infosys Technologies	2,007	24,827	Overweight	8.6%	35.4%	20.6%	14.0%	32.5%	23.0	7.5	11.1	0.7%	2.1%	52.2%	32.3%	-0.1%
ITC	163	13,819	Overweight	-13.4%	18.7%	14.6%	10.3%	27.0%	19.1	5.2	6.1	2.5%	2.3%	23.2%	19.6%	0.7%
IVRCL Infrastructures & Projects LTD	271	667	Overweight	6.8%	43.7%	16.4%	27.6%	18.4%	16.3	3.0	1.9	0.6%	-7.7%	1.7%	-1.7%	
Jaiprakash	523	2,325	Overweight	10.1%	NM	18.8%	22.9%	18.4%	19.0	3.5	3.2	1.1%	-1.2%	14.7%	30.2%	-9.9%
Jindal Steel	2,218	1,545	Overweight	29.5%	64.7%	4.1%	18.4%	24.0%	8.6	2.1	2.3	0.8%	-4.6%	28.6%	14.5%	6.5%
Kotak	415	3,048	Underweight	25.0%	NM	9.9%	40.5%	13.2%	29.4	3.9	-	0.2%	NA	65.8%	22.2%	26.8%

\* Assuming no change in payout, \*\* Consensus Earnings Growth based on IBES Estimates. Fwd valuation ratios based on Morgan Stanley Research estimates. Exchange Rate = 44.36. \*\*\* Rating/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 at this time, NA = Not Applicable, NR = Not Rated. Source: Morgan Stanley Research

## AT A GLANCE

### India Stock Coverage Universe

	Price	Mkt Cap		6M Price	Trail 3 Year	Implied LT		ROE	Fwd	Fwd	Trailing	Fwd	Trailing	Consensus **		3M Rev
	5/3/07	(US\$m)	Rating	Perf	EPS CAGR	EPS grth	Div grth*	F2006	PE	P/B	P/Sales	Div Yield	FCF Yield	F2007	F2008	F2007
Larsen & Toubro	1,384	8,644	Overweight	8.7%	NM	16.8%	18.9%	25.8%	20.7	5.3	2.5	1.0%	3.4%	16.5%	29.9%	2.4%
Lupin Ltd.	568	1,079	Overweight	23.2%	35.7%	14.0%	12.7%	20.0%	16.1	3.2	2.8	0.9%	1.1%	20.2%	38.6%	-1.6%
Mahanagar Telephone Nigam	134	1,917	Overweight	-14.1%	NM	6.9%	8.1%	7.8%	8.7	0.7	1.6	3.6%	5.4%	-27.8%	5.4%	-5.6%
Mahindra & Mahindra	709	3,941	Overweight	4.1%	74.6%	9.0%	11.6%	27.3%	10.6	2.9	2.1	1.6%	4.6%	50.8%	20.0%	2.3%
Marico	54	709	Overweight	3.9%	22.5%	16.5%	14.3%	44.3%	16.9	7.5	2.7	2.7%	-3.5%	33.7%	29.2%	-5.1%
Maruti Udyog	779	5,096	Equal-Weight	-20.6%	0.0%	10.4%	25.2%	19.8%	13.7	2.7	1.8	0.8%	5.8%	31.9%	19.3%	0.1%
Mphasis BFL Group	245	895	Equal-Weight	32.1%	24.9%	14.5%	13.4%	18.0%	21.6	3.9	4.1	1.5%	5.5%	-7.6%	58.3%	1.8%
National Aluminium	219	3,187	Equal-Weight	3.1%	45.7%	3.0%	6.6%	17.6%	9.5	1.7	2.9	2.3%	12.1%	43.7%	-26.5%	6.9%
NDTV	298	410	Equal-Weight	34.9%	NM	25.9%		28.9%	29.6	8.5	8.1	0.0%	0.2%		34.6%	-33.5%
Nestle India	896	1,955	Overweight	-15.8%	5.3%	14.3%	2.0%	112.5%	19.8	22.3	3.1	4.1%	3.9%	9.7%	17.4%	-5.5%
Oil & Natural Gas Corp.	773	37,432	Overweight	-0.9%	12.6%	4.6%	1.2%	26.9%	7.8	2.1	2.3	5.6%	7.0%	23.3%	6.7%	3.0%
Oriental Bank of Commerce	161	930	Equal-Weight	-40.8%	10.0%	-2.7%	4.5%	12.8%	5.9	0.7	-	3.4%	NA	5.0%	7.6%	2.3%
Pantaloon Retail	407	1,263	Overweight	8.0%	56.8%	28.7%	0.0%	21.3%	34.1	7.3	2.8	0.4%	NA	54.5%	77.6%	-8.2%
Patni Computer Systems	404	1,269	Overweight	4.8%	NM	8.6%	16.0%	16.4%	12.5	2.1	2.1	1.2%	2.7%	7.6%	35.6%	8.0%
Polaris Software Lab	157	349	Equal-Weight	33.7%	NM	29.4%	17.5%	19.0%	11.0	2.1	1.8	1.9%	0.1%	116.0%	30.8%	10.2%
Punjab National Bank	412	2,941	Equal-Weight	-21.7%	0.0%	3.0%	11.7%	13.4%	8.4	1.1	-	1.7%	NA	12.0%	25.5%	8.6%
Ranbaxy Laboratories	321	2,919	Equal-Weight	-27.0%	NM	13.7%	5.4%	14.4%	18.4	2.7	2.1	2.8%	-1.6%	173.0%	-1.7%	27.2%
Reliance Communications Ltd.	399	19,982	Overweight-V	15.0%	NM	42.4%		22.4%	21.4	4.8	7.7	0.4%	-0.2%		52.3%	11.5%
Reliance Industries	1,259	39,699	Overweight	7.5%	30.9%	11.0%	20.5%	22.6%	19.3	4.4	2.1	0.7%	-2.5%	14.9%	-1.1%	7.9%
Reliance Petroleum	66	7,320	Overweight-V	-0.5%	NM											
Sesa Goa	1,638	1,459	***	68.4%	127.5%	***	***	***	***	***	3.5	***	5.9%	17.0%	21.8%	-1.6%
SAIL	97	9,067	Overweight	24.4%	NM	4.7%	8.5%	37.8%	5.2	2.0	1.4	4.1%	8.4%	5.0%	15.1%	2.2%
Satyam Computer Services	414	6,082	Overweight	1.1%	41.0%	14.8%	17.8%	24.6%	16.1	4.0	5.5	1.2%	2.8%	38.5%	25.2%	0.4%
Shipping Corporation of India	152	972	Underweight	-5.0%	54.4%	-4.5%	-2.5%	11.8%	7.1	0.8	1.2	5.6%	13.8%			
Shoppers' Stop	618	489	Equal-Weight	6.7%	NM	29.2%	0.0%	16.1%	37.0	5.9	2.8	0.4%	-1.6%	97.0%	43.5%	-1.6%
Shree Renuka Sugars Limited	304	168	Equal-Weight	-51.6%	NM	-1.3%	20.6%	28.4%	5.5	1.6	0.6	1.8%	-46.8%	1240.5%	56.9%	
State Bank of India	962	11,462	Underweight	-6.4%	12.5%	5.5%	11.6%	11.3%	13.5	1.5	-	1.7%	0.0%	-4.4%	22.7%	-3.2%
Sun Pharmaceutical Industries	936	4,425	Overweight	0.6%	27.9%	17.4%	23.4%	19.2%	22.6	4.4	11.7	0.7%	-0.2%	28.0%	23.0%	5.2%
Tata Steel	420	5,265	Overweight	-21.5%	32.2%	-0.1%	3.6%	26.2%	4.5	1.2	1.5	5.0%	12.3%	17.7%	-6.6%	1.4%
Tata Motors	736	6,409	Equal-Weight	-14.6%	61.7%	10.6%	9.6%	26.9%	12.4	3.3	1.3	2.2%	-7.9%	20.2%	16.5%	2.0%
Tata Tea	563	716	Equal-Weight	-24.9%	0.0%	4.7%	7.9%	16.5%	9.5	1.6	1.0	2.3%	10.6%	8.4%	6.9%	0.6%
Tata Consultancy Services	1,162	25,778	Overweight	13.8%	NM	19.2%	20.6%	40.5%	21.5	8.7	8.3	1.1%	1.4%	44.0%	30.4%	2.2%
Triveni Engineering & Industries Ltd.	43	254	Equal-Weight-V	-39.5%	NM	2.2%	23.3%	16.1%	8.9	1.4	0.9	0.8%	-20.1%			0.0%
TVS Motors	54	291	Overweight	-56.5%	NM	5.7%	6.3%	15.6%	9.7	1.5	0.4	4.6%	-9.5%	-44.6%	51.7%	-42.3%
UltraTech Cemco	813	2,288	Overweight	-8.8%	NM	19.7%	34.6%	27.7%	18.3	5.1	2.9	0.2%	0.8%		25.9%	6.3%
Union Bank of India	91	1,048	Overweight	-33.2%	3.2%	0.3%	1.5%	16.3%	4.8	0.8	-	4.9%	0.0%	9.3%	22.8%	-2.9%
United Phosphorus	295	1,168	Overweight	20.8%	31.5%	13.2%	26.2%	19.4%	11.4	2.2	2.8	0.9%	-8.7%	50.3%	37.3%	
UTI Bank	448	2,827	Equal-Weight	18.0%	28.8%	14.1%	18.7%	13.7%	12.1	1.7	-	1.1%	NA	36.0%	25.3%	2.4%
Videsh Sanchar Nigam	355	2,291	Underweight	-10.7%	NM	11.5%	10.1%	10.1%	14.8	1.5	2.7	2.4%	-18.5%	4.9%	10.3%	2.4%
Voltas Limited	84	626	Equal-Weight	-19.3%	62.7%	15.5%	19.8%	29.8%	21.2	6.3	1.4	1.2%	2.8%	-22.3%	42.8%	
Wipro	537	17,332	Equal-Weight	2.3%	33.6%	18.6%	16.4%	28.0%	22.1	6.2	7.0	1.1%	2.0%	37.3%	28.6%	2.5%
Wockhardt	361	975	Overweight	-10.0%	26.7%	7.7%	12.3%	20.3%	11.4	2.3	2.5	1.6%	-8.0%	1.2%	24.2%	1.7%
Zee Telefilms	220	2,051	Equal-Weight	-28.1%	NM	20.6%	0.0%	13.6%	20.2	2.7	6.2	0.7%	-4.6%	14.6%	53.8%	-7.2%

\* Assuming no change in payout, \*\* Consensus Earnings Growth based on IBES Estimates. Fwd valuation ratios based on Morgan Stanley Research estimates. Exchange Rate = 44.36.  
NA = Not Applicable, NR = Not Rated. Source: Morgan Stanley Research

## AT A GLANCE

### Latest Economic Indicators

	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
Trade Balance (US\$billion)	-2.9	-4.2	-3.8	-3.8	-4.0	-3.5	-5.3	-6.2	-6.2	-5.7	-5.8	NA
Exports (US\$billion)	10.9	8.3	9.4	10.0	10.2	10.4	10.3	9.6	9.7	9.9	9.6	NA
Exports (YoY)	20.6%	14.6%	15.8%	25.1%	34.8%	20.5%	21.9%	11.4%	33.6%	7.7%	5.5%	NA
Imports (US\$billion)	13.8	12.7	13.2	13.8	14.1	13.9	15.6	15.8	15.9	15.6	15.4	NA
Imports (YoY)	18.6%	18.3%	8.1%	22.4%	24.2%	11.7%	24.8%	36.4%	42.9%	31.1%	23.2%	NA
Foreign Direct Investment (US\$million)	1240.0	661.0	538.0	523.0	1127.0	619.0	916.0	1698.0	1151.0	NA	NA	NA
Foreign Exchange Reserves (US\$billion)	151.6	159.9	161.8	162.1	163.3	164.6	164.5	166.4	172.1	176.7	178.5	192.7
Net FII Flows (US\$million)	1468.3	122.1	-1793.8	311.2	300.3	1026.4	1353.1	1554.7	2076.0	-806.9	40.6	1266.9
Rs/US\$1 (period average)	44.49	44.95	45.41	46.06	46.46	46.54	46.12	45.47	44.86	44.63	44.33	44.19
M3 (YoY)	16.3%	18.2%	18.3%	18.3%	19.2%	19.5%	19.2%	18.8%	19.0%	19.8%	20.8%	21.3%
Bank Loans (Non-food credit, YoY)	30.8%	33.5%	32.7%	35.0%	32.7%	33.4%	31.1%	29.8%	30.1%	31.0%	30.4%	30.2%
Money Multiplier	4.6	4.6	4.7	4.7	4.9	4.9	4.8	4.8	4.8	4.7	4.7	4.6
Deposit Growth Rate (YoY)	16.9%	20.5%	20.1%	21.7%	21.2%	21.2%	19.7%	19.8%	21.4%	23.0%	23.3%	23.2%
Prime Lending Rate	10.3%	10.3%	10.8%	10.8%	10.8%	11.0%	11.0%	11.0%	11.0%	11.5%	11.5%	12.3%
One Year Deposit Rate	6.0%	6.0%	6.3%	6.3%	6.3%	6.8%	6.8%	6.8%	6.8%	7.5%	8.3%	8.3%
364 day T-Bill Yield	6.7%	6.3%	6.4%	6.8%	7.0%	6.9%	6.9%	7.0%	7.1%	7.1%	7.3%	7.6%
91 day T-Bill Yield	6.5%	5.6%	5.7%	6.1%	6.4%	6.4%	6.4%	6.6%	6.7%	6.9%	7.1%	7.5%
10 yr Government Bond Yield	7.4%	7.5%	7.6%	7.9%	8.3%	8.1%	7.7%	7.7%	7.5%	7.5%	7.7%	7.9%
Manufacturing( in %)	10.1%	11.0%	13.3%	10.7%	14.3%	11.9%	12.7%	3.8%	16.7%	11.9%	NA	NA
Consumer Goods	12.4%	8.9%	10.5%	6.1%	16.8%	15.0%	12.1%	-2.3%	12.8%	7.4%	NA	NA
Basic Goods	8.5%	9.3%	9.1%	8.5%	10.0%	4.8%	11.5%	10.3%	11.9%	11.7%	NA	NA
Capital Goods	11.9%	19.6%	21.4%	21.6%	18.3%	16.6%	9.5%	4.2%	29.2%	20.2%	NA	NA
Intermediate Goods	3.3%	8.5%	12.5%	11.2%	10.7%	8.7%	13.8%	6.0%	17.5%	11.2%	NA	NA
Consumer Price Index (YoY)	5.3%	5.3%	6.1%	7.9%	6.9%	6.0%	6.8%	7.6%	6.7%	6.7%	NA	NA
Wholesale Price Index (YoY)												
- All Commodities	4.1%	3.9%	5.0%	4.8%	4.7%	5.3%	5.4%	5.3%	5.6%	5.6%	6.3%	6.7%
- Manufactured Products	1.7%	1.9%	2.6%	2.6%	3.5%	3.6%	4.1%	4.8%	5.3%	5.0%	5.8%	6.4%

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	906	1,069	1,203
Gross domestic product	5.8%	3.8%	8.5%	7.4%	9.0%	9.2%	7.5%	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%	10.4%	8.5%	7.3%
Services	7.1%	7.3%	8.2%	10.7%	9.8%	11.2%	8.4%	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%	24.0%
<b>Interest rates</b>								
91-Day T-Bill Yield (year-end)	6.2%	5.8%	4.3%	5.2%	6.1%	7.6%	7.0%	6.5%
Bank Rate (year-end)	6.5%	6.3%	6.0%	6.0%	6.0%	6.0%	6.3%	6.3%
<b>Prices</b>								
Wholesale price index (avg y-y increase)	3.6%	3.4%	5.4%	6.4%	4.4%	5.4%	5.0%	4.5%
Consumer price index (avg y-y increase)	4.3%	4.0%	3.9%	3.8%	4.4%	6.6%	4.6%	4.3%
<b>External sector</b>								
Exports (US\$ bn)	44.7	53.8	66.3	85.2	105.8	127.3	146.3	168.2
Imports (US\$ bn)	56.3	64.5	80.0	118.9	156.3	193.5	223.4	259.2
Trade balance (US\$ bn)	-11.6	-10.7	-13.7	-33.7	-50.4	-66.2	-77.1	-90.9
Invisibles, net (US\$ bn)	15.0	17.0	27.8	31.2	40.9	50.9	61.1	70.3
Current account balance (US\$ bn)	3.4	6.3	14.1	(2.5)	(9.5)	(15.3)	(16.0)	(20.6)
Current account Balance as a % of GDP	0.7%	1.3%	2.3%	(0.4%)	(1.2%)	(1.7%)	(1.5%)	(1.7%)
Foreign investment (US\$ bn)	8.1	6.0	15.7	15.3	20.2	17.0	17.5	17.5
Capital inflow as a % of GDP	1.8%	2.1%	2.8%	4.0%	3.1%	4.8%	2.4%	2.2%
Foreign currency reserves (US\$ bn)	54.1	75.4	111.6	140.1	155.6	185.5	197.2	202.3
Foreign currency reserves as no. of months imports	10.9	13.2	15.9	14.1	12.0	11.5	10.6	9.4
Average exchange rate (USD/INR)	47.7	48.4	45.9	45.0	44.3	45.3	43.3	43.0
Year end exchange rate (USD/INR)	48.7	47.6	45.0	43.7	44.5	44.1	43.0	43.0
External debt (US\$ bn)	98.8	105.0	111.7	123.2	125.2	141.7	151.0	160.3
External debt as a percentage of GDP	21.1%	20.4%	18.2%	17.2%	15.6%	15.2%	14.0%	13.3%
Short term debt as a proportion of total	2.8%	4.4%	4.0%	6.1%	7.0%	9.0%	9.5%	9.9%
Debt service ratio (Payments over currents receipts)	13.9%	15.1%	16.3%	6.1%	10.2%	7.0%	7.5%	7.2%
<b>Fiscal deficit (As % of GDP)</b>								
----Central government	6.2%	5.9%	4.5%	4.0%	4.1%	3.4%	3.8%	4.1%
----State government	4.2%	4.2%	4.5%	3.5%	3.2%	3.3%	3.4%	3.3%
----Consolidated Deficit *	9.9%	9.6%	8.4%	7.5%	7.4%	6.8%	7.3%	7.5%

\* 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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(as of February 28, 2007)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	834	38%	288	42%	35%
<b>Equal-weight/Hold</b>	1003	45%	308	45%	31%
<b>Underweight/Sell</b>	370	17%	91	13%	25%
<b>Total</b>	2,207		687		

*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.

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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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