Morgan Stanley

MORGAN STANLEY RESEARCH

January 9, 2009

India

2009 Key Surprises

Some alternative scenarios for 2009. It is often surprises that drive share prices. Therefore, we have asked our analysts to identify hypothetical events that could determine the direction of returns in 2009. These are not our base cases, and we do not necessarily believe they are even likely. But, by looking for possibilities for which the probabilities are not priced in, we aim to challenge consensus thinking, provoke debate, and perhaps identify investment opportunities.

Extreme outcomes cannot be ruled out in 2009. And, the onus seems to rest with the government. For once, India will cease to be a micro story. A lot of what happens to growth and asset returns in 2009 hinges on government action. Global growth is also more important than most market participants tend to believe. If things fall in place, 2009 could provide a pleasant surprise. If not, then another 2008-type of year could be facing us. These possible macro outcomes defy the current market mood that 2009 is likely to be a range-bound year for equities.

IT services, Cement, Consumer Staples, Media, Refining, Pharmaceuticals, Sugar, and Telecoms could surprise on the upside even as growth slows in 2009. Lower-than-expected competition creates the case for Telecoms and Consumer Staples, favorable policy/regulatory changes could benefit Media, Cement, and Refining, whereas the macro outcome on currency could favor Pharmaceuticals. US recession-led cost cutting initiatives could work for IT Services and better demand-supply dynamics could create positive surprises for Sugar.

The macro environment could create negative surprises for Upstream Energy, Public Sector Banks, Property Developers, and Steel. Upstream Energy could suffer from lower oil prices, whereas Public Sector Banks may lose out from margin compression. Steel and Property Developers could face deteriorating demand-supply conditions with further negative implications on pricing.

Our analysts suggest Suzlon, NTPC, Shipping Corp, and Pantaloon could provide surprises. Suzlon and Pantaloon could surprise on the downside, while NTPC and Shipping Corp could produce upside surprises. For these stocks, the triggers are specific. For example, for Pantaloon, it is the lack of access to capital, whereas for NTPC and Shipping Corp, it is policy-related changes.

Potential surprises

Ambuja Cements Ltd.

Hindustan Petroleum

Hindustan Unilever

Infosys Technologies

NTPC

Pantaloon Retail

Shipping Corporation of India

State Bank of India

Suzlon Energy

Tata Steel

Zee Entertainment Enterprise Ltd

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.. Customers of Morgan Stanley in the US can receive independent, third-party research on companies covered in Morgan Stanley Research, at no cost to them, where such research is available. Customers can access this independent research at www.morganstanley.com/equityresearch or can call 1-800-624-2063 to request a copy of this research.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

+= Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Table of Contents

Strategy & Economics

3 **India Strategy**
The case for extreme outcomes
Ridham Desai, Sheela Rathi

5 **India Economics**
More downside from global environment
Chetan Ahya, Tanvee Gupta

Industry Analysis

7 **India Capital Goods**
Suzlon: potential for greater P&L and balance sheet stress
Akshay Soni, Arunabh Chaudhari

9 **India Cement**
Ambuja: lower duties could spring positive surprise for industry
Mangesh Bhadang, Akshay Soni

11 **India Consumer**
Hindustan Unilever: margin explosion or demand destruction?
Hozefa Topiwalla, Divya Gangahar, Girish Achhipalia

13 **India Financial Services**
SOE Banks: downside potential in low interest rate scenario
Ashish Jain, Anil Agarwal, Mansi Shah

15 **India IT Services**
Large vendors gain share despite price cuts by peers
Vipin Khare, Gaurav Rateria

17 **India Media and Entertainment**
TV subscription revenues could climb sharply; ZEEL a potential major beneficiary
Vipul Prasad, Ketaki Kulkarni

19 **India Oil and Gas**
Finally free pricing – courtesy of soft crude oil prices; positive for India R&M; negative for upstream
Vinay Jaising, Mayank Maheshwari

21 **India Pharmaceuticals**
Steep rupee depreciation could further drive up stable earnings growth
Sameer Baisiwala, Saniel Chandrawat

23 **India Property**
Negative demand surprise compounds balance sheet pressure
Sameer Baisiwala, Arunabh Chaudhari

24 **India Retail**
Pantaloon Retail: capital shocks to limit upside potential
Hozefa Topiwalla, Girish Achhipalia , Divya Gangahar

26 **India Shipping**
Regulations change allowing SCI to sell ships, monetizing NAV
Parag Gupta, Saumya Srivastav

28 **India Steel and Mining**
If steel prices descend towards 20-yr lows, Tata look vulnerable
Vipul Prasad, Ketaki Kulkarni

30 **India Sugar**
Demand-supply dynamic could surprise in F2009; we remain buyers of north Indian sugar mills
Nillai Shah

32 **India Telecommunications**
Market conditions deter new players and advantage old ones
Vinay Jaising, Surabhi Chandna

34 **India Utilities**
New regulations surprise with higher ROE; NTPC would benefit
Parag Gupta, Saumya Srivastav

36 **Valuation Methodology & Risks**

38 **Industry Views**

Macro

India Strategy
The case for extreme outcomes

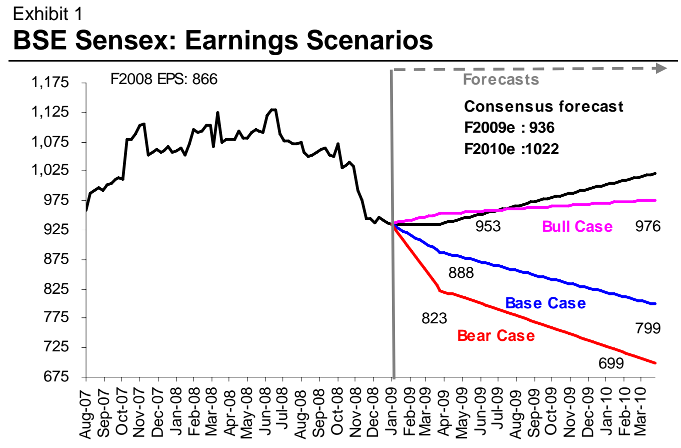
Morgan Stanley India Company Private Limited+
Ridham Desai
Ridham.Desai@morganstanley.com
Sheela Rathi
Sheela.Rathi@morganstanley.com

Key Surprise
Market participants seem to be anticipating a range-bound market in 2009. However, a good election result (narrow coalition government), followed by strong policy action and execution (privatization and pump priming) and quick corporate restructuring (operational deleveraging), could take the market higher by more than 50% from current levels by the end of 2009. On the flip side, a poor global growth scenario coupled with a bad election result and weak effort from Corporate India to delever operations could push the market's earnings and multiple lower and cause the market to halve from its current level.

The Three Critical Factors:
Global Calm, Pump Priming, and Corporate Restructuring
Indian equities are suffering from the global crisis that has plugged capital flows into the country. Consequently, growth has to slow down, and this is threatening to cause earnings to fall in 2009. Valuations are still rich on a relative basis, and the country faces some uncertainty in the form of general elections this spring. In our view, the fix for equities revolves around the following three broad factors:

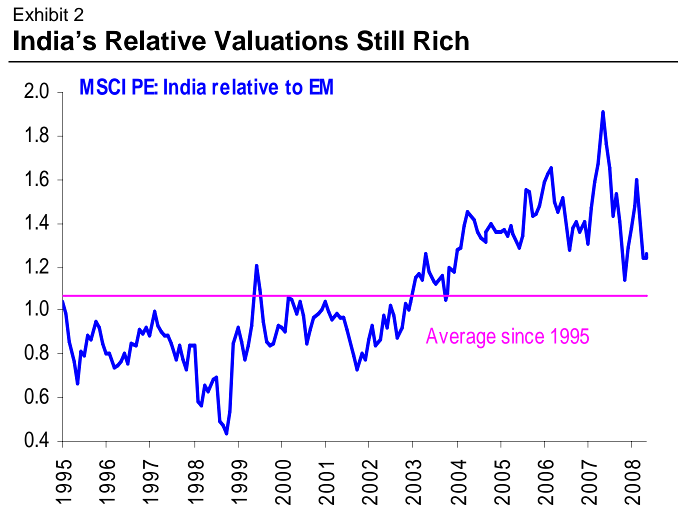
- **Global calm**: It is imperative for global markets to calm down and global trade to normalize in order for India to settle down and also improve its balance of payments (BoP). Ultimately, foreign direct investment (FDI) needs to rise. The lesson for India from the 2008 debacle in capital flows is to increase reliance on FDI. India will continue to need foreign capital to unlock its growth potential.
- **Pump priming**: The government will need to boost infrastructure spending. This cannot be funded using public debt and hence, as a corollary, the government will need to privatize assets or raise multi-lateral agency loans. Effective execution on pump priming, in turn, depends on a good election result. If India gets a fragmented verdict from the electorate, it could hamper policymaking, which, in turn, could have implications for growth.
- **Corporate restructuring**: Corporate India has built its business or financial statements for 8-9% growth, but growth is likely to slow to 6% over the next couple of years,

Exhibit 1
BSE Sensex: Earnings Scenarios



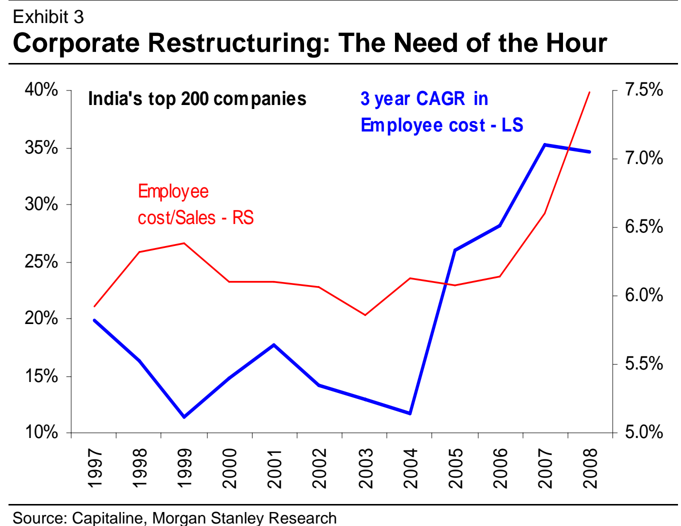
Source IBES, FactSet, Morgan Stanley Research

Exhibit 2
India's Relative Valuations Still Rich



Source: FactSet, MSCI, Morgan Stanley Research

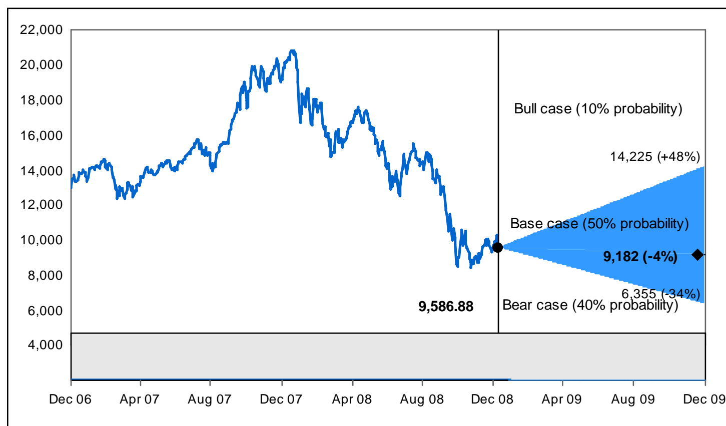
Exhibit 3
Corporate Restructuring: The Need of the Hour



Source: Capitaline, Morgan Stanley Research

Macro

BSE Sensex: Extreme Outcomes Still Possible in 2009



MS Top Down (FY–Mar)	2007	2008	2009e	2010e
EPS (Rs)	615	866	888	799
P/E	14.5	11.4	10.2	9.0
Div Yld (%)	1.8	2.2	2.7	3.2

Probability-weighted outcome for the BSE Sensex is 8,559 for December 2009.

Bull case	**Global calm:** Our bull case assumes global calm and thus quick resolution of the BoP situation, a good election result (i.e., a narrow coalition government that focuses on pump priming and privatizing government assets), benign deceleration in earnings as the corporate sector de-levers its operations at a hectic pace, and a less severe nonperforming loan (NPL) cycle in the banking sector than we currently expect, which allows liquidity to improve steadily in 2009.
Base case	**Steady improvement:** Our base case calls for some fiscal measures, a relatively weak NPL cycle, some corporate restructuring that arrests the fall in earnings by 2H09, steady improvement in the global situation and the BoP, and a measured slowdown in credit growth.
Bear case	**Disappointment on a range of levels:** Our bear case assumes that the election result does not bring a government with enough prowess to undertake fiscal measures, the NPL cycle is bad, Corporate India is slow to restructure and thus earnings fall quite sharply, and the global situation remains fragile, causing the BoP to remain in a negative flux.

e = Morgan Stanley Research estimates Source: FactSet (historical share price data), company data, Morgan Stanley Research

which means profits will likely decline. If Corporate India wishes to avoid a significant fall in ROE, then a major restructuring cycle has to get under way. Unlike in the late 1990s, when restructuring was about reducing financial gearing, this time around corporates need to deleverage operations. Cost structures and capital spending, which have been built for high GDP growth, will have to shrink.

Of course, the triggers for market performance could also be better relative valuations and negative earnings revisions. We think India should trade at a premium, although the level of premium is debatable. The current premium to emerging markets (EM) seems excessive, in our view. Bear markets do not end while earnings are falling. Consensus is forecasting 8% growth in Sensex EPS for F2009 and 9% growth for F2010. We think these numbers are likely to be significantly lower, at around 2.5% and -10%, respectively. In our bear case, we think earnings could fall 10% on a compound annual basis from F2008 to F2010.

50% Market Move Still a Possibility

The way these factors move could determine the course of the market in 2009. If we get a good election result in the form of a narrow coalition government that is then able to push through strong policy action and execute on pump priming, the downside to growth could be contained. In such a case, even though earnings could still fall in the first half of F2010, the second half could see some sort of recovery, particularly if in the next six months Corporate India aggressively de-levers operations. With a backdrop of relative global calm, this could easily translate into a 50% rise for the market from current levels. The market could thus end 2009 at just over 15 times F2010e earnings.

The flip side is that we get a bad election result – a broad coalition government that then struggles to execute on pump priming – and Corporate India is slow to restructure. In such a scenario, earnings could fall more dramatically, and the outlook might not even improve for F2011. Even with the slightest slippage in the global situation, such a situation could cause the market to sell off viciously. A 50% drop from current levels is perfectly plausible, we believe, and could take the market multiple to circa 7.5 times F2010e earnings.

The consensus seems to be looking for a steady market performance in 2009 after the carnage and volatility in 2008. In our view, the biggest surprise is that we get just the opposite, i.e., extreme outcomes, and based on the factors we identify as important market drivers, such an outcome is not impossible.

Macro

India Economics
More downside from global environment

Morgan Stanley India
Company Private Limited

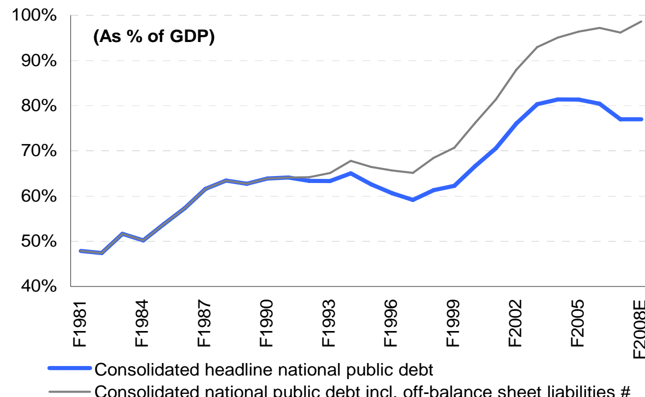
Chetan Ahya
Chetan.ahya@morganstanley.com
Tanvee Gupta
Tanvee.gupta@morganstanley.com

Potential Positive Surprise
Over the past few years, the pace of structural reforms has slowed significantly. If the government were to accelerate the pace of reforms, it would help improve the growth outlook.

Over the past few years, the government has been slow in pursuing much-needed structural economic reforms. However, if the government were to implement such reforms, there is a possibility that the near- and medium-term growth outlook could turn out to be better than we expect. What are the critical reforms that could bring about this change in outlook? **First**, as we have argued in some of our recent research notes, one of the most critical constraints on realizing India's potential growth is its weak infrastructure development. A strong platform of physical infrastructure is necessary for creating the virtuous cycle of rising working-age population, strong employment growth, increased savings and investment, and acceleration in GDP growth. While the government has moved forward in this area, the progress has been slower than warranted, we believe.

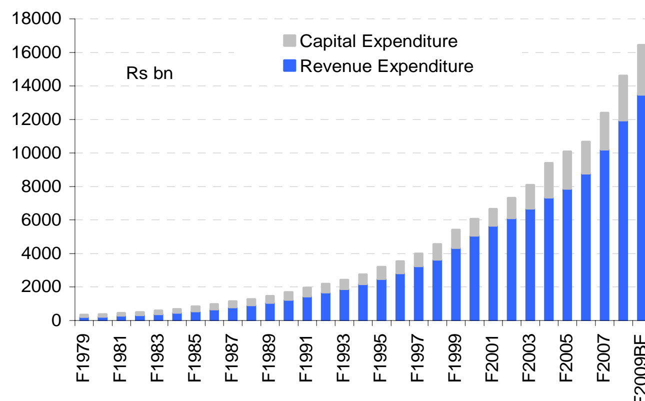
Second, measures such as privatization and/or innovative solutions to augment the government's financial resources could enhance India's growth outlook. Persistent weakness in public finances has limited the government's ability to invest in infrastructure. The government has run high fiscal deficits over the past few years, which has pushed the level of public debt (including the off-budget fiscal burden) to more than 90% of GDP. The government does not have much room to step up capital spending. Hence, we believe that its effort to accelerate infrastructure investments through augmentation of financial resources will be critical. If poor financial market conditions impede privatization efforts, the government could try to attract bilateral investments from Japan and/or the Middle East for major infrastructure projects. An alternative would be to seek investments from sovereign wealth funds.

Exhibit 1
India Public Debt (External + Internal) as % of GDP



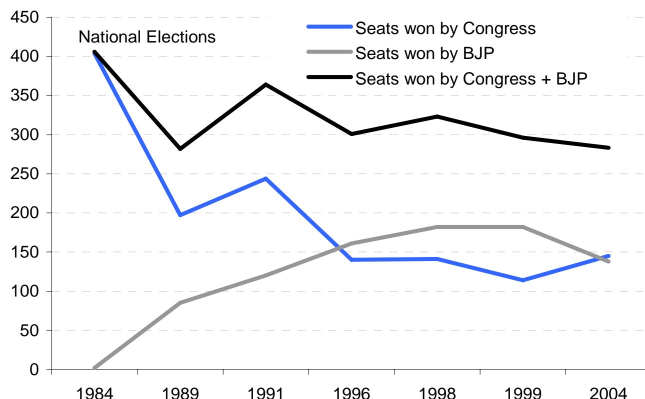
If off-balance-sheet liabilities were funded by direct government borrowing. Note that this is just an estimate to illustrate the impact of off-balance-sheet expenditure and should not be construed as an outstanding govt. liability. Source: RBI, Morgan Stanley Research estimates

Exhibit 2
Government Expenditure Mix (Central and State Government Combined)



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

Exhibit 3
Seat Tally in Past 20 Years



Source: Morgan Stanley Research

Macro

Third, a restructuring of major public finances could improve India's economic outlook. Over the past few years, the government has been pursuing a pro-cyclical fiscal policy. Moreover, its expenditure mix is significantly biased toward less productive revenue expenses. Any move on the part of the government to bring about this long pending reform should help improve sentiment about the growth outlook.

We believe the probability of implementing these reforms will increase significantly if the outcome of general elections scheduled in May 2009 is better than expected. A majority single-party government or a stronger coalition government could improve the growth outlook, given the likely acceleration in the pace of structural reforms.

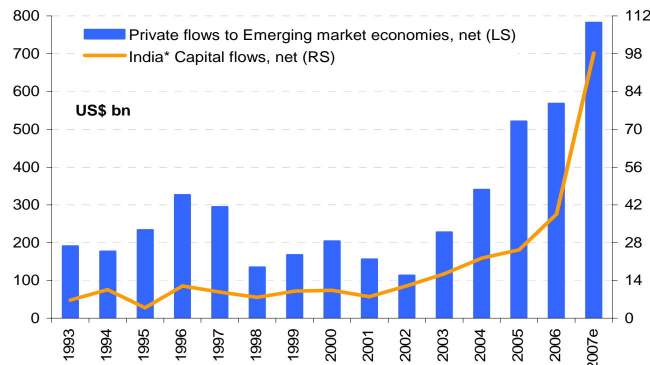
Potential Negative Surprise
While we are already building in a sharp deceleration in global GDP growth, to 0.8%, in 2009, any further deterioration in developed world and global growth would weigh negatively on India's growth outlook.

Capital Inflows Remain a Key Driver of Growth Outlook
We believe that over the past few years, India's GDP growth accelerated much more than its potential growth due to large capital inflows. India's GDP growth climbed to an average of 9.3% during the three years ended March 2008 compared with averages of 6.6% and 6.0% in the preceding three and five years, respectively. Capital inflows rose sharply in the five years through March 2008. India received an average of US$10bn per annum in F2001-F2003, and that number increased to US$108bn in F2008. We believe that higher capital flows have been the anchor of a self-fulfilling virtuous cycle of an appreciating exchange rate, lower interest rates, and strong domestic demand growth.

Unfortunately, capital flows into India have less to do with the country's long-term fundamentals, in our view. The trend of capital flows into EMs has been dependent on global risk appetite, which, in turn, has been driven by liquidity and the growth environment in the developed world. According to Institute of International Finance (IIF) estimates, capital flows into EM increased to US$782bn in 2007 from US$113bn in 2002. The trend in India has been very similar.

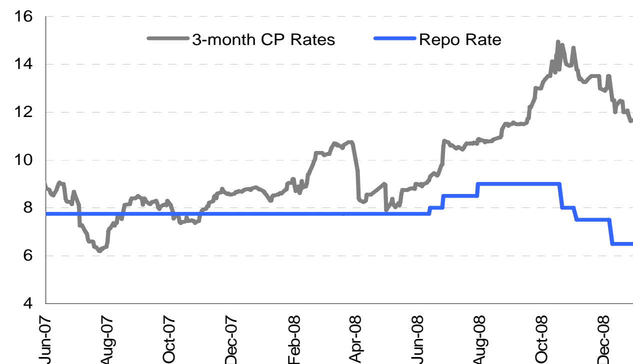
Indeed, just as the global growth environment has deteriorated, India has witnessed capital outflows. Since early October, we estimate India has had net capital outflows of more than US$10bn. Based on foreign exchange reserves data, we estimate that India's balance-of-payments deficit widened to at least US$25-30bn during the quarter ended December 2008.

Exhibit 4
Capital Flows to Emerging Markets and India



e = IIF estimates * India data are from CEIC. Source: IIF, CEIC, Morgan Stanley Research

Exhibit 5
RBI's Repo Rate vs. Three-month CP* Rate



* Commercial Paper Source: Bloomberg, Morgan Stanley Research

With the domestic banking system already witnessing tight liquidity conditions, foreign exchange outflows at the same time have resulted in a disruptive spike in the cost of capital. We are expecting the policy rate cuts and liquidity measures to help bring down the cost of capital, although with a lag as domestic demand and underlying credit demand decelerate sharply. We are estimating GDP growth of 5.3% in 2009 compared with 7.6% in 2008. Our current global growth forecast of 0.8% in 2009 assumes recovery in the second half of the calendar year. Such a recovery builds in the traction from the aggressive monetary and fiscal policy response by central banks and governments across the world. The key risks to our growth forecast for India are weaker-than-expected global growth and deleveraging. We are estimating capital inflows of US$20bn and a 5.3%YoY decline in exports in 2009, but these projections are also subject to the global growth trend.

Industry Analysis

India Capital Goods

Suzlon: potential for greater P&L and balance sheet stress

Morgan Stanley India Company Private Limited+

Akshay Soni
Akshay.Soni@morganstanley.com

Arunabh Chaudhari

Stock Rating: Equal-weight	Reuters: SUZL.BO Bloomberg: SUEL IN
Price target	Rs52.45
Shr price, close (Jan 7, 2009)	Rs52.20
Mkt cap, curr (mn)	Rs78,237
52-Week Range	Rs460.00-36.30

Key Surprise

The global environment for wind (turbine generators) continues to worsen (especially in India), and Suzlon struggles to win orders. This causes volume growth for the wind turbine generator (WTG) business to slow to a 10.5% CAGR over F2008-11E, vs. our current assumption of 18.7%. The volume decline leads to a 220 bps drop in operating margins in F2008-11E, or 180 bps worse than our current forecast. As a result, net earnings for this period undershoot our estimates by 38-47%, forcing Suzlon to breach its debt covenants on September 30, 2009. This could result in a 400 bps increase in interest rates, driving Suzlon's profits down a further 38-45% for F2010-11E and causing the stock to trade 45% below our bear-case valuation of Rs29.5.

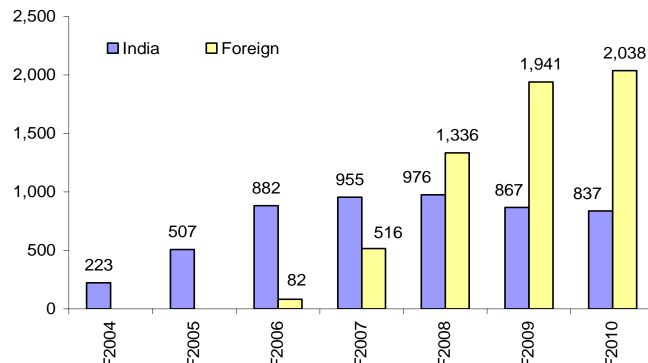
Our Faith in Indian Growth Might Be Misplaced

With oil prices coming off dramatically, the standalone viability of wind power, which had begun to look reasonable in the high fuel price environment, is now in question. More importantly, the credit crisis has become a significant challenge to growth, with downstream wind power producers struggling to access capital (both debt and equity) in these markets. We believe that the risk is spreading from only small developers to utilities and large developers are also scaling back capex plans.

However, while Suzlon's problems in winning orders in the global market on the back of the recent quality issues are well publicized and understood, we believe that the substantial risk from Suzlon's large exposure to the Indian market (composed of small corporate developers) might not be factored into estimates yet. We have modeled a 7% CAGR for the market in F2008-11E, which, in light of the growing risk of recession in India, might end up being an overstatement. Given the lack of capital available to small and medium enterprises (SMEs) that are the typical customers in this market, we believe that annual installations could decline 15% in F2008-10 before rebounding in F2011, especially since the execution period in India is significantly shorter (three months) than for foreign sales (6-24 months.)

Exhibit 1

Indian Sales Face More Risk than Foreign Sales Do



Source: UK Office of National Statistics, Morgan Stanley Research

Exhibit 2

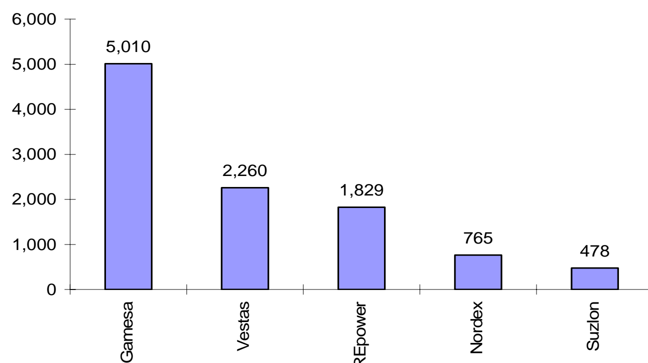
Some Risk in F2009, but Multiple Potential Breaches of Debt Covenants in F2010

Group Level	F2009	F2010
Gross Debt	95,555	117,878
Cash	11,647	11,606
Net Debt	83,907	106,271
Equity	91,574	99,921
Net Debt : Equity	**0.92**	**1.06**
Interest Payments	9,873	12,469
Debt Servicing Requirements	11,050	11,050
EBIT	26,898	27,555
DSCR	**1.29**	**1.17**
EBITDA	28,213	30,981
Net Debt to EBITDA	**2.97**	**3.23**

Source: Company data, Morgan Stanley Research estimates

Exhibit 3

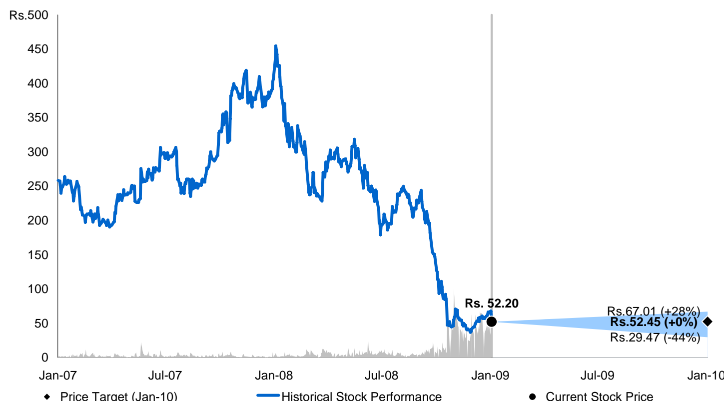
Share of Orders, Based on F2009 Announcements



Source: Statistical Office of the European Communities, Morgan Stanley Research

Industry Analysis

Lack of Significant Order Flow in a Slowing Wind Market Could Tilt Risk



Fiscal Year (Mar)	2008	2009e	2010e	2011e
ModelWare EPS (Rs)	7.89	9.05	10.61	11.21
P/E	33.4	5.8	4.9	4.7
EV/EBITDA	21.8	7.0	5.4	4.8
Div Yld (%)	0.4	3.1	3.4	3.8

Bull Case Rs67.01	• There is a significant pickup in the global alternative energy market in F2011, and Suzlon's volumes rise 20%. • Given high fixed costs, the company's margins expand by 20 bps, to 15.1%.
Base Case Rs52.45	• Suzlon's volume growth slows to 26% in F2009 and 15% over F2010-11E, in line with the global slowdown in alternative energy. • Margins fall 80 bps in F2009, to 13.8%, from already depressed levels in F2008. • The company continues to grow strongly over 25 years, after which its revenues grow 1.5% annually, given the industry's global nature.
Bear Case Rs29.47	• The Martifer stake purchase goes through (without delay) in F2009, resulting in a breach of the company's debt covenants. Suzlon's lenders charge a 400-basis-point interest-rate penalty.

e = Morgan Stanley Research estimates

Source: FactSet (historical share price data), company data, Morgan Stanley Research

Lower Volume Growth and Operating Leverage Could Lead to 50% Downside from Current Estimates …

With fixed costs being a large portion of Suzlon's cost base, the volume decline causes margins for the company to drop 220 bps over F2008-11E vs. our current assumption of a 40 bps decline. Our net income estimates for Suzlon's business ex-Hansen and REpower (i.e., the WTG division) move down 54% for F2010 and 68% for F2011 from our current estimates. However, support from robust subsidiary numbers limits the declines in our net income estimates for the consolidated company to 38% in F2009 and 47% in F2010.

… Triggering Debt Covenants

On December 16, 2008, Martifer agreed to a delay in the payment schedule for the sale of its stake in Repower (22.4%) to Suzlon. In our opinion, this gives Suzlon a further six months of breathing space (over and above the three months to March 31, 2009) to raise equity capital and reduce debt levels, so as to ensure that the breach of covenants is not triggered on September 30, 2009.

Despite this reduction in balance-sheet risk, with the increased pressure on the P&L, Suzlon might still trigger the debt-service coverage ratio (DSCR) covenant (>1.33) on its debt on the measurement date of March 31, 2009, and would almost definitely breach most of its covenants on September 30, 2009 (Exhibit 2.)

Such a violation could lead to a variety of punitive actions from lenders including calling back loans and charging penalty interest rates, both of which could have a significant detrimental impact on Suzlon's P&L and balance sheet. We continue to believe that the risk of insolvency might be low in an environment where countries globally are providing bailouts to large corporations. However, we think that the lenders might charge a penalty interest rate of 400 bps on the company's debt, given the backdrop of widening spreads in this risk-averse environment.

Such a penalty rate could drive Suzlon's profits down a further 38-45% in F2010-11E (ending up 62% and 71% below our current estimates) and cause the stock to trade at Rs16.5 (45% below our bear-case valuation of Rs30, and 68% below the current market price).

Company Description

Suzlon Energy, now combined with REpower, is the third-largest wind energy solutions provider globally. It has substantial manufacturing facilities in India, the US, China, and Belgium. Its fully integrated business model includes consultancy, site development, design, manufacturing, and overhaul and maintenance services. Suzlon has had a market share above 50% in India in the past six years. It expects the majority of its revenues to come from international markets, primarily the US and China. Promoters own a 68.9% stake in Suzlon Energy.

Industry View: In-Line

Industry Analysis

India Cement

Ambuja: lower duties could spring positive surprise for industry

Morgan Stanley India Company Private Limited+

Mangesh Bhadang
Mangesh.Bhadang@morganstanley.com

Akshay Soni
Akshay.Soni@morganstanley.com

Stock Rating: Underweight	Reuters: ABUJ.BO Bloomberg: ACEM IN
Price target	Rs68
Shr price, close (Jan 7, 2009)	Rs72.20
Mkt cap, curr (mn)	Rs109,717
52-Week Range	Rs146-43

Key Surprise

The Cement industry in India is highly taxed, making the retail price of cement expensive compared with that in other countries. Average tax on cement in the Asia/Pacific region is just 11.4%, whereas all of the government levies and taxes on cement in India come to around 60% of the ex-factory price. Reduction in these taxes by the government could improve demand considerably, in our view, and help stem the drop in operating profit margins (OPM). Conversely, emission standards for the Cement industry in India are not stringent. If the government reduces the maximum limit on emissions, this would lead to increased operating costs and capex for the industry.

We believe this year will see high growth in capacity creation, leading to a sharp fall in prices. The margins of the cement companies will be under pressure, and hence the industry is looking at various avenues to cut costs. Companies are also looking at relief from higher taxes.

Cement in India, despite being a primary commodity used in construction activities, is highly taxed. The industry is lobbying with the government to reduce the tax burden, and if such a reduction is passed on to consumers, it may lead to increased demand. Currently, the sum of all Indian duties and taxes on cement exceeds 60% of the ex-factory price. This compares with an Asia/Pacific average of 11.4%, with Sri Lanka having the second-highest level in the region at 20%. The cost of cement in China is almost 50% below that in India due to lower taxes on the produced commodity as well as on input costs.

If the government in its next budget heeds the industry's request and comes out with a tax rationalization package to revive demand, it could stem the sharp drop in OPM that we are building into our base case. We assume a decline of more than 15ppt in OPM over F2008-10, primarily because of rising costs and falling cement prices. Lower taxes would help companies improve their net realizations despite the drop in retail prices and raise their operating rates (due to higher demand), thereby lowering costs. On top of that, if the taxes on input costs are also lowered, Ambuja's earnings would improve towards our bull case.

Conversely, we looked at what could go wrong with the company or the industry apart from the known negatives such as a supply glut and soaring input prices. The cement industry is known to pollute the environment through the release of particulate matter. This matter is released in the atmosphere through the crushing, packaging, and transportation processes. Many countries limit emissions of such particulate matter in the atmosphere to a very low level. This requires higher technology, higher capital costs, and sophisticated pollution control equipment – all of which drive up the operating cost per tonne. In India, however, the emission norms are fairly relaxed (Exhibit 2). If these standards are tightened in light of environmental and health considerations, we may see a greater decline in earnings for the cement companies.

Exhibit 1
Various Duties / Taxes on Cement

Various Duties and Taxes	Rate
Excise Duty	12% of retail price without any abatement + Education Cess
VAT	12.5% (now reduced to 8%)
Royalty	Rs45/tonne of Limestone
Octroi (Municipal Tax)	Varies from 1% to 4%
Customs Duty for Imports	NIL

Source: Company data, Morgan Stanley Research

Exhibit 2
Emission Standards in Different Countries

Country	Particulate matter emission Limit (mg/Nm3)
Australia	50
Germany	50
South Africa	120
Switzerland	50
Japan	100
USA	100 / 50
Portugal	100 / 50
India	**250**

Source: Company data, Morgan Stanley Research

Industry Analysis

Positive Surprises May Skew the Risk-Reward Towards the Bull Case

Fiscal Year (Dec)	2007	2008e	2009e	2010e
ModelWare EPS	11.63	7.04	4.00	3.83
P/E	22.7	9.9	18.1	18.8
EV/EBITDA	10.6	6.4	9.6	9.7
Div Yld (%)	2.2	4.7	4.2	3.5

Bull Case Rs116	**Lower international coal prices; more exports:** 10% fall in cement prices over 2008-09. Input costs are 3-4% lower than in the base case. Operating profit margin of 24.6%.
Base Case Rs68	**Capacity addition as scheduled; continued government intervention:** 7.5% fall in cement prices in each of 2008 and 2009. 12% annual growth in cement volumes in 2008-10. Increase of 3-4% in cost per ton of cement dispatched. Operating profit margin at 18% in 2009.
Bear Case Rs49	**Lower demand from lower GDP growth:** 20% decline in cement prices over 2008-09. Input costs are 3-4% higher than in base case. Operating profit margin at 13.3%.

e = Morgan Stanley Research estimates

Source: FactSet (historical share price data), company data, Morgan Stanley Research

Our Macro Thesis Remains the Same

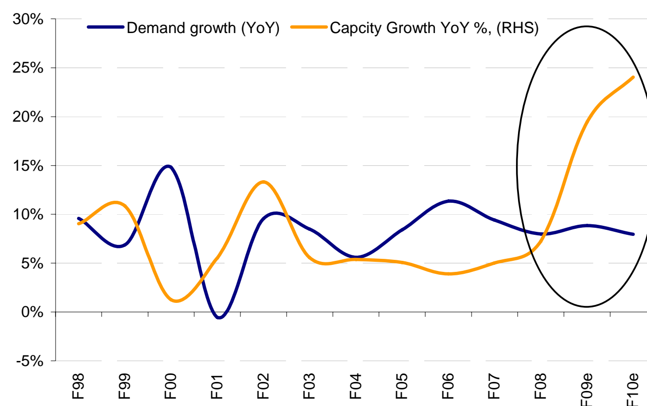
We expect significant supply in India's cement industry in F2010 to reduce capacity utilization to below 80%. Realized cement prices have risen 50% in the past three years because of capacity constraints and strong demand. We look for this up-cycle to turn and prices to fall 12-15% over F2009-10, leading to lower margins. We expect the increase in cost pressures evident in 1H F2009, coupled with government intervention in prices, to be a major negative for the cement industry.

Is the Capacity Really Coming?

We spoke to the management of FLSmidth, a leading global manufacturer of cement equipment. The company says it is not seeing any cancellations or significant delays in its India order book. The funding for most of the capacity coming up over the next two years has already been booked, and many companies have already laid out more than 80% of the total capex. Considering these points, we do not expect significant delays in capacity creation leading to a supply glut in F2009-10. Any negative surprise about more capacity coming up through smaller players and about lower demand could take our Ambuja earnings estimates south of the bear case.

Exhibit 3

Supply Growth to Far Exceed Demand Growth



Source: Company data, Morgan Stanley Research

Company Description

Ambuja Cements is arguably the lowest-cost cement producer in India. Its capacity in 2007 was 18.5mt. Swiss cement major Holcim – the second-largest cement producer in the world – is Ambuja's major shareholder. With its stakes in Ambuja Cement and ACC, Holcim has established a pan-India presence. It controls about 40mt of cement capacity, roughly 20% of the country's capacity.

Industry View: Cautious

Industry Analysis

India Consumer

Hindustan Unilever: margin explosion or demand destruction?

Morgan Stanley India Company Private Limited+

Hozefa Topiwalla
Hozefa.Topiwalla@morganstanley.com
Divya Gangahar
Divya.Gangahar@morganstanley.com
Girish Achhipalia

Stock Rating: Overweight	Reuters: HLL.BO Bloomberg: HUVR IN
Price target	Rs300
Shr price, close (Jan 5, 2009)	Rs251
Mkt cap, curr (mn)	US$11,380
52-Week Range	Rs267-170

Key Positive Surprise

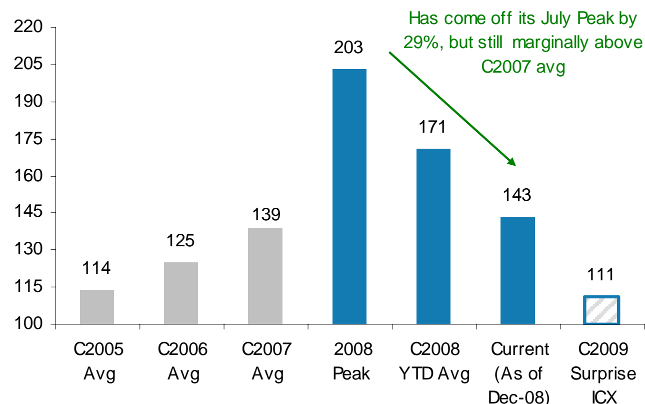
Significant fall in input costs combined with retention of pricing power could lead to substantial upside in F2010 operating margins in the range of 600-800 bps for FMCG companies from our current estimates. We believe this could result in a re-rating of stocks, as perceptions about the intensely competitive environment would change significantly with reduction in competitive pressures. We see HUL as a key potential beneficiary of such an eventuality. Should MS HUL ICX fall about one-third from its C2008 average in C2009, HUL's OPM would expand by about 700 bps and EPS would increase by almost 44%, implying an ROE in excess of 175% and a P/E multiple of 16x (which would be a 10% discount to its lowest multiple in 15 years). Combined with a consequent re-rating of the multiple, HUL shares could trade above our bull-case fair value.

HUL: Potential for 700 bps margin explosion, EPS upgrade of 44%, and an ROE in excess of 175%: If MS HUL ICX falls 35% from its C2008 average in 2009, we could witness 700 bps incremental OPM from our current estimates, assuming only 40% of the benefit is retained by the company with the balance passed on to the consumer. This would result in 44% upside to our F2009e EPS to an unprecedented level of Rs16.22 per share, representing annualized EPS growth of 68% in F2010 and an ROE of over 175%. Assuming such an outcome, the stock would trade at a P/E of 16x, or a 10% discount to its 15-year trough multiple of 18x.

Input costs: Down from peaks, but further slide likely: Contrary to popular perception, the MS HUL Input Cost Index (ICX) is flat on a year-over-year basis and still marginally higher than the C2007 average. However, the index is down 29% from its peak in July, and given Morgan Stanley's global GDP growth forecast of 0.9% for C2009 versus 5% in C2007, we believe that HUL's input costs (largely crude derivatives and chemicals) could witness a significant decline this year. In our view, the laundry category (which accounts for 21% of HUL's revenues) could be a major beneficiary of softening input cost pressures.

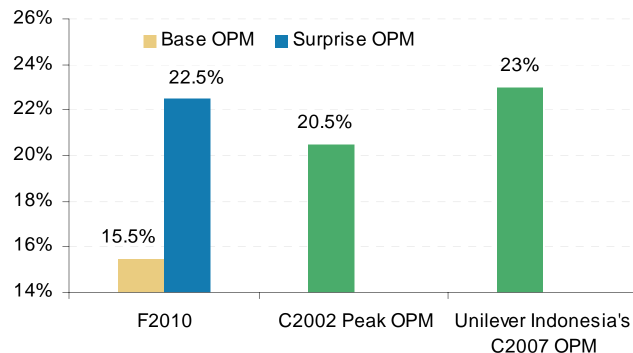
Despite surprise, high OPM would not be unprecedented: We note that after such significant margin expansion, although HUL would surpass its own historical peak OPM, it would just about reach the C2007 OPM level of Unilever Indonesia.

Exhibit 1
MS HUL ICX: Likely Impact of 35% Fall in Index in '09
Back to ~ C2005 Average Level



Source: Company data, Morgan Stanley Research

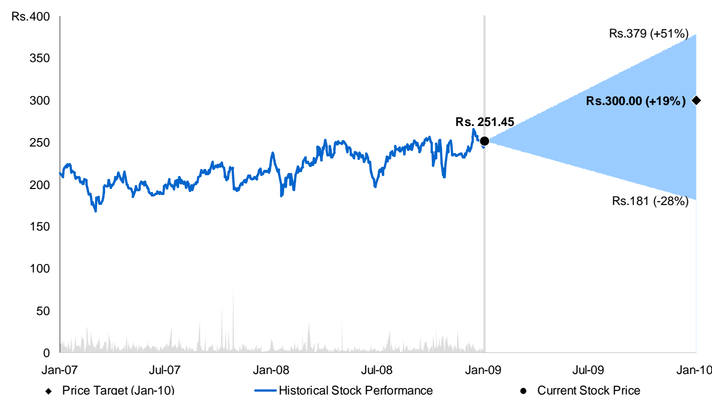
Exhibit 2
HUL: With 35% Fall in MS HUL ICX, OPM Expands 700 Bps and EPS Rise 43.8% vs. Current Estimates



Source: Company data, Morgan Stanley Research

Industry Analysis

Conversion of Potential Input Cost Deflation into Tangible Margin Expansion and Structural Growth Are Key



Bull Case Rs379	Sharper recovery in Personal Products (PP) business, faster and better margin recovery in Laundry than under Base Case, reduced cost pressures, and improved competitive environment.
Base Case Rs300	Recovery in Personal Products business, margin expansion in Laundry, rollout of foods business, and no significant deterioration in pricing power or competitive environment.
Bear Case Rs181	No recovery in Personal Products business or Laundry, an increase in cost pressures, and deterioration in competitive environment.

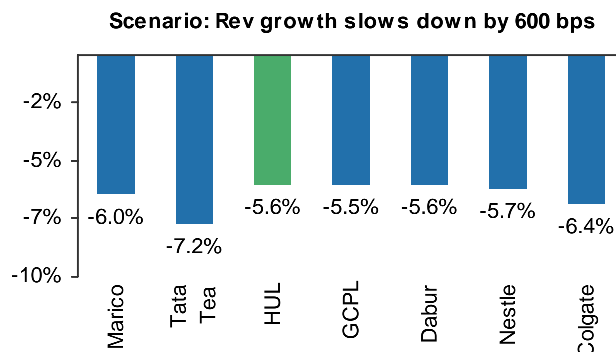
e = Morgan Stanley Research estimates Source: FactSet (historical share price data), company data, Morgan Stanley Research

Key Negative Surprise
Our global economics team has revised its GDP growth forecast downward six times in the past seven months. Assuming that our India economics team's bear-case GDP growth estimate of 4.3% plays out in C2009, Consumer Staples could witness demand destruction and a significant slowdown in revenue growth. A 600 bps slowdown in revenue growth, to about 7.3%, for F2010 could reduce EPS estimates in the consumer space by 5-7% ceteris paribus. For Hindustan Unilever, such an eventuality would result in F2010 EPS downside of 5.6%, we believe. Although such an outcome would not materially affect their intrinsic value, HUL shares could trade at a discount to intrinsic value due to a change in investor perception.

Although we have built in a revenue slowdown of about 630 bps in our current estimates for Consumer Staples companies in F2010 from the H1F09 level of 19.9% (ex-ITC), we explore the impact of a further 600 bps slowdown in revenue growth due to adverse macro conditions. Shrinking global risk appetite, a reversal in global capital inflows, tight lending standards restricting private consumption spending, and weaker domestic and external demand are likely to limit F2010 GDP growth to 5.3%.

HUL: Demand destruction could lead to 600 bps slowdown in revenue growth to 7.3%, EPS downside of 5.6%: If the contraction in income levels in such a slowdown not only reduces consumption but also partially reverses certain acquired buying habits of the Indian consumer, we could witness a 600 bps slowdown in revenue growth from our current estimates. This would result in a downward EPS revision of 5.6% to our F2010e EPS, to Rs10.65, representing annualized EPS growth of 10.5% in F2010, the lowest in three years, shrinking the ROE to 115%. Assuming such an outcome, the stock would trade at a P/E of 25x, or a 38% premium to its 15-year trough multiple but still 20% below its 15-year average multiple.

Exhibit 3
Impact on F2010e EPS of 600 Bps Incremental Slowdown in Revenue Growth to 7.3%



Source: Company data, Morgan Stanley Research

Company Description
Hindustan Unilever Limited (HUL) is India's largest fast-moving consumer goods company, with leadership in Home & Personal Care Products and Foods & Beverages. HUL's brands are spread across 20 distinct consumer categories and reach two out of three Indians. HUL has more than 15,000 employees and about 35 Power brands across nutrition, hygiene, and personal care.

Industry View: Attractive

Industry Analysis

India Financial Services

SOE Banks: downside potential in low interest rate scenario

Morgan Stanley India Company Private Limited+ — **Ashish Jain** — Ashish.G.Jain@morganstanley.com
Morgan Stanley Asia Limited + — **Anil Agarwal** — Anil. Agarwal@morganstanley.com
Morgan Stanley India Company Private Limited+ — **Mansi Shah**

Stock Rating: Equal-weight	Reuters: SBI.BO Bloomberg: SBIN IN
Price target	Rs942
Shr price, close (Jan 7, 2009)	Rs1,238.70
Mkt cap, curr (bn)	US$16.3
52-Week Range	Rs2,396.5-991.1

Key Surprise

G-sec yields fall to 3-4% on the back of rate cuts by global central banks, including the Reserve Bank of India (RBI), to spur growth. This would benefit banks, primarily state-owned enterprises (SOE), in the near term in the form of higher mark-to-market (MTM) gains. In the medium term, however, lending rate decline should lead to margin contraction. A decline in bond yield spreads on an incremental basis also affects margins. Slower growth triggers asset quality concerns, and credit costs rise. Valuation multiples contract to account for increased risk. Lower margins and higher credit cost combined with de-rating of multiples could cause SOE bank shares to trade closer to our bear-case scenario. On a relative basis, State Bank of India (SBI) would likely be worst hit, given the current rich valuation and relatively low coverage.

India's GDP growth will slow to 7% in F2009 and 5.3% in F2010, according to Morgan Stanley economist Chetan Ahya. Given the global economic outlook, India's rising fiscal deficit, and the slowdown in capital flows, growth could be even slower. This could prompt aggressive monetary measures by the RBI, pushing bond yields to 3-4% – a key negative surprise, in our view. While banks would benefit from this in the near term in the form of high MTM gains, in the medium term, this and slower growth could result in margin contraction and higher credit costs – implying lower earnings and contraction in valuations.

Near-term earnings could hold up, driven by MTM gains. Lower G-sec yield will support banks' near-term earnings. Yields declined by around 337bps in the Dec-08 quarter, possibly leading to a 7-45% rise in F2008 profit before tax (PBT). If bond yields decline to 3%, headline numbers for banks should remain strong over the next 2-3 quarters on the

Exhibit 1
India: Trend in 10-year G-sec Yield

Source: Bloomberg, Morgan Stanley Research

Exhibit 2
SOE Banks: PBT Impact of 337bps Yield Movement in Current Quarter

Impact on F2008 PBT	Rs Bn	As % of PBT
Union	8.4	45%
OBC	5.2	41%
Canara	7.1	37%
BOB	4.4	20%
SBI	19.5	19%
Corp Bank	1.8	17%
PNB	3.7	11%
BOI	1.9	7%

Source: Company data, Morgan Stanley Research

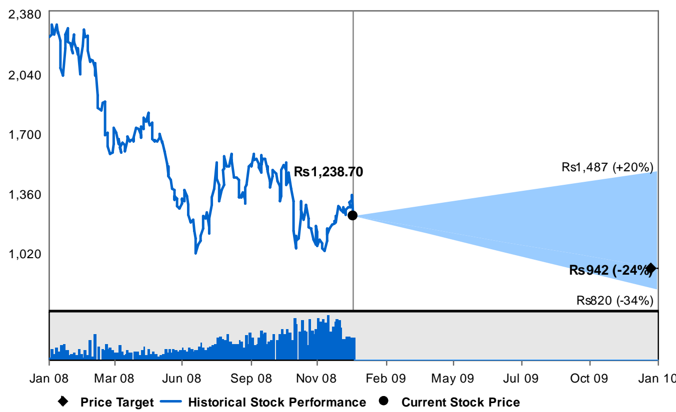
back of MTM gains, and the stocks could do well, but such earnings would not be sustainable, in our view. Moreover, in the last cycle of falling G-sec yields, banks had much larger bond portfolios with higher duration, so the potential gains this time will be relatively smaller.

Margins, however, would be under pressure in medium term. Lending yields could decline to cyclical trough levels, and term deposit rates would also likely fall, but more slowly than yields. Banks with a high proportion of low-cost deposits (30-45% at SOE banks) are hit harder as spreads on these collapse. Sharp declines in incremental bond yield spreads also affect margins, and fee income growth faces pressure. Overall, margins contract and core earnings growth slows sharply. In such a scenario, SBI's net interest margin (NIM) could decline by 100bps from 2.75% in F2008, we estimate.

Asset quality deteriorates faster than expected, leading to sharp earnings decline. Lower economic activity affects earnings profile and debt servicing of corporates. Indian banks have aggressively grown their loan books in the past couple of years, including in the SME segment. Moreover, SBI's growth

Industry Analysis

Increased Earnings Risk Amid Deteriorating Economic Outlook Has Skewed Risk-Reward Profile to Downside

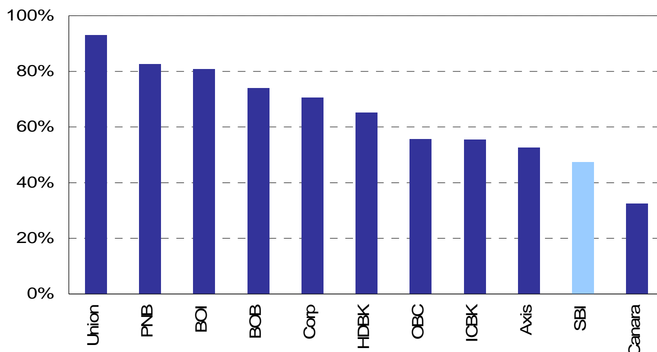


Bull Case Rs1,487	Loan growth remains strong at 25%+ and margins held up. Credit quality does not decline as expected. Bank benefits from continued momentum in non-banking subsidiaries, which we value at 1.2x our base-case value.
Base Case Rs942	NIM contracts in F2009 and F2010 and loan growth slows down. Credit costs rise in F2010 due to higher NPLs.
Bear Case Rs820	NIM contracts to <2.5% in F2010 with lower yield on investments, lower spread on CASA and lower spreads on advances. Loan growth also slows down. Credit costs rise significantly because of a greater-than-expected increase in NPLs.

e = Morgan Stanley Research estimates

Source: FactSet (historical share price data), company data, Morgan Stanley Research

Exhibit 3
Indian Banks: Coverage Ratio

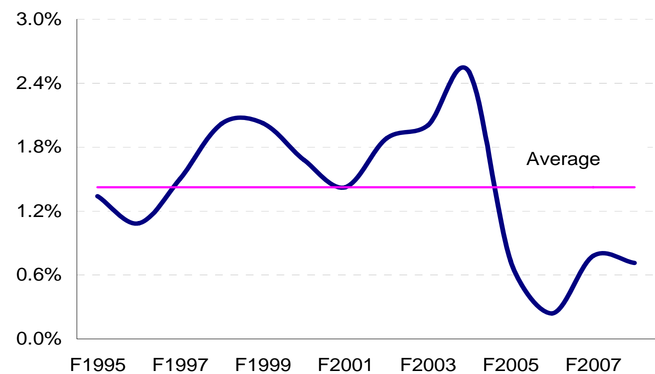


Source: Company data, Morgan Stanley Research

rate has spiked in recent quarters. As a result, credit costs for banks rise. Moreover, loan loss provisioning levels for Indian banks have been low in recent years leading to low coverage ratio. As a result, incremental credit cost will flow through P&L. With ROA for these banks around 1%, a 100bps increase in credit cost could wipe out the earnings.

This poses significant downside earnings risk for F2010. We estimate a decline in margins and roughly 40-50bps increase in credit cost over F2008 for SOE banks in F2010. If the surprise scenario materializes, SBI's earnings for F2010 (MSe) could decline sharply on the back of lower-than-estimated margins and higher credit costs. Moreover, the stock has traded at around a 0.4x P/B multiple in earlier credit cycles. As it is now trading at a 1.5 P/B, the valuation could compress by a wide margin, leading to a significant stock price correction – SBI could trade below our bear-case valuation in such a scenario.

Exhibit 4
SBI: Loan Loss Provisions as % of Average Loans



Source: Company data, Morgan Stanley Research

Company Description
SBI is the largest bank in India and accounts for about 18% of the country's deposit base. It has a network of around 10,400 branches on a standalone basis and an asset base of around US$179bn. Apart from banking businesses, SBI is active in life insurance, asset management, etc. through its subsidiaries.

Industry View: Cautious

Industry Analysis

India IT Services

Large vendors gain share despite price cuts by peers

Morgan Stanley India Company Private Ltd.+

Vipin Khare
Vipin.Khare@morganstanley.com

Gaurav Rateria
Gaurav.Rateria@morganstanley.com

Stock Rating: Equal-weight	Reuters: INFY.BO Bloomberg: INFO IN
Price target	Rs1,285
Shr price, close (Jan 7, 2009)	Rs1,187
Mkt cap, curr (mn)	Rs679,526
52-Week Range	Rs2,017-1,040

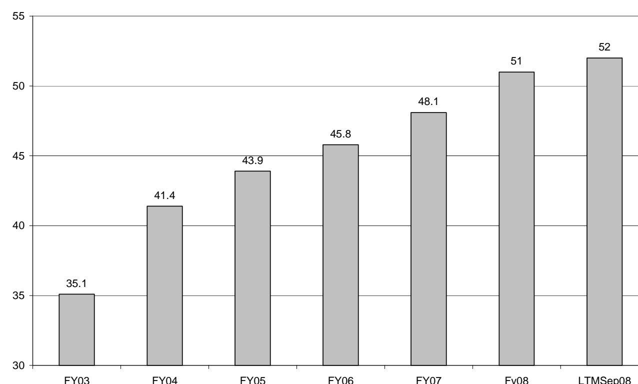
Key Surprise
Despite a US recession, clients continue to use offshore locations to manage their cost of delivering information technology (IT) services, but they take the opportunity in the current environment to de-risk and concentrate their service portfolios with select large vendors that offer a strong brand, financial stability, and scalable service offerings. In such an environment, large-cap vendors such as Infosys and Tata Consultancy Services (TCS) would be relatively better placed than small- and mid-cap vendors, which would not be able to compete merely by offering greater pricing discounts. Infosys would thus be our preferred pick, as it stacks up well on all of these parameters and offers good earnings visibility.

Falling tide does not sink all boats. IT services vendors focus on the cost line of their clients by offering cheaper, faster, and better services. With most companies worldwide struggling to maintain revenues and profitability, cost cutting has emerged as a global phenomenon and should lead to market contraction for IT services companies in our coverage universe as well. Most IT companies have so far focused on increasing their market share in the cost base of their clients (recession should lead to more offshoring due to lower costs). However, clients of offshore vendors may use the current turmoil to rationalize their vendor base and concentrate their services portfolio with a few large vendors that offer a strong brand, financial stability, and scalable service offerings.

Lower-than-expected pricing pressure could be positive surprise for large-cap vendors. Our channel checks indicate that large vendors have so far been able to push back on pricing to a certain extent. Although it is too early to rule out the impact of pricing pressure, in our view, it is not inconceivable that small- and mid-cap vendors will not succeed in wresting volumes from their larger peers despite offering significantly lower prices if clients emphasize vendors' quality over billing rates in the current cycle. In 2001-02, smaller vendors used lower pricing as an effective weapon to generate volume growth. However, pricing has been rational over the past few years, and scalability, longevity, and breadth of service offerings may be bigger concerns for clients in the current environment.

Infosys has added new service offerings to its portfolio after 2000, and revenue contribution from new services has increased from 35% in F2003 to 52% in LTM08. Recent initiatives like a focus on consulting, any accretive acquisitions, and efforts to generate non-linear revenue growth could help the company consolidate its position as the market leader.

Exhibit 1
Infosys: Contribution of Non-ADM as % of Revenues

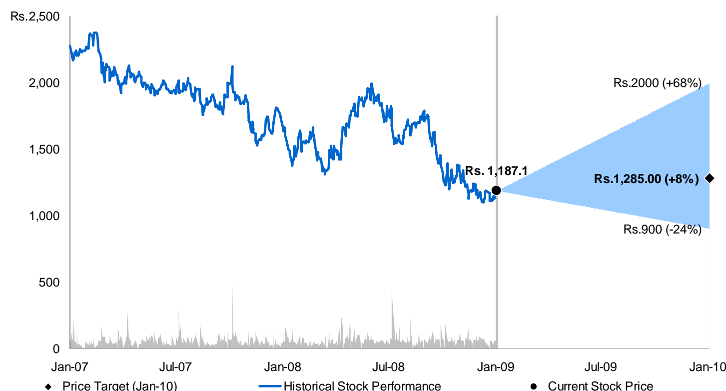


Source: Company data, Morgan Stanley Research

Our base case for Infosys assumes 4.5% YoY US$ revenue growth, a 1% pricing decline overall, and margin erosion of 70bps in F2010. With the potential benefit of vendor rationalization, volume growth could reach ~10-15% YoY, exceeding our current forecasts. Further, limited pricing pressure could support margins for the company. In our base case, if Infosys is able to manage stable margins in 2009 due to lower-than-expected pricing pressure and reduced pressure on wage costs, this could lead to earnings growth of ~10-15% YoY in F2010, surpassing our and Street estimates of 5-8% EPS growth. As such, the downside risk to the stock would be limited even in the event of a broad-based market correction, leading to relative out-performance for Infosys shares.

Industry Analysis

Infosys: Strong Management and Better Execution Are Critical to Growth



Fiscal Year (Mar)	F2007	F2008	F2009e	F2010e
ModelWare EPS (Rs)	67.7	81.3	101.2	106.5
P/E	17.5	14.6	11.7	11.1
EV/EBITDA	14.2	11.7	8.4	7.3
Div Yld (%)	1.0	2.8	1.9	2.3

Bull Case Rs2,000	**Better-than-expected growth:** Our bull case assumes pricing holds and the company continues to get business with better-than-expected volume growth. We forecast ~15% revenue and earnings growth with stable margins in USD terms in F2010. [Probability = 0.05]
Base Case Rs1,560	**Steady growth:** Pricing pressure is partly offset by rupee depreciation in F2010. Lower volume growth could lead to single-digit revenue growth and flattish/marginally lower profits in F2010 in USD terms. [Probability = 0.5]
Bear Case Rs900	**Tougher macro environment**: Pricing pressure and lower volume of new businesses could lead to revenue decline of ~4-5% in USD terms in F2010. A ~150bp margin contraction could lead net profits to decline ~10-15% in USD terms in F2010. [Probability = 0.45]

e = Morgan Stanley Research estimates

Source: FactSet (historical share price data), Company data, Morgan Stanley Research

Sector-specific surprises on tax rates for 2009 could include:

Extension of tax holiday: The tax holiday for Software Technology Parks (STP) ends in March 2010, which would lower earnings growth in F2011. The tougher macro environment and rising tax rates have resulted in P/E multiples chasing the plummeting two-year earnings CAGR (F2009-2011) despite strong EBIT growth. Extension of the tax holiday by the government in 2009 for a further 3-5 years would have a positive impact on the entire sector, in our view. Assuming revenues do not evaporate due to worsening macro environment, small- and mid-caps would likely re-rate more than large caps in such a scenario.

SEZ tax benefits: Uncertainty on Sec10AA(7) – The Special Economic Zone (SEZ) Act as it now stands allows tax exemption on SEZ profits on a proportionate basis. The proportion of SEZ profits exempt from taxes is calculated as a ratio of SEZ export revenues to total company revenues. If the existing SEZ regulation is not changed, companies with operations in SEZs may have a higher-than-expected tax rate after F2011, and that would be a negative surprise. It would be a sector-wide negative, though; earnings estimates for large vendors (top 4) would be lowered more than for others, as they have a higher presence in SEZs. However, we believe the amendment required for Section 10AA (7) is likely to be passed in 2009.

Company Description
Infosys Technologies provides IT consulting and software services to global organizations. It offers offshore-based software services such as application development, software maintenance, consulting, and BPO, and it establishes software centers for its customers. Infosys' solutions cover a wide range of business areas.

Industry View: Cautious

Industry Analysis

India Media and Entertainment

TV subscription revenues could climb sharply; ZEEL a potential major beneficiary

Morgan Stanley India Company Private Ltd.+

Vipul Prasad
Vipul.Prasad@morganstanley.com

Ketaki Kulkarni
Ketaki.Kulkarni@morganstanley.com

Stock Rating: Equal-weight	Reuters: ZEE.BO Bloomberg: Z IN
Price target	Rs155
Shr price, close (Jan 7, 2009)	Rs145
Mkt cap, curr (Rs mn)	Rs62.7
52-Week Range	Rs324-93

Key Surprise

Rapid growth in reportable subscriber numbers would lead to a boost for TV subscription revenue growth in India. This scenario could pan out if the proposed roll-out of conditional access systems (CAS) in 55 cities is expedited after the general election. Active encouragement of voluntary adoption of digital platforms at all levels of the value chain could also speed up addressability. Also, the pace of direct-to-home (DTH) subscription could gather momentum, especially with the recent entry of some new operators. Zee Entertainment Enterprise Ltd (ZEEL) should be a major beneficiary of such trends, as it is one of India's largest, full-bouquet, leading broadcasters.

The following factors could drive a rapid increase in TV subscriber numbers:

The CAS roll-out could accelerate and intensify after the general election. The current plan is to roll out CAS in another 55 cities across India (all state capitals and cities with populations of more than 1mn) by 3Q10. Currently, CAS is operational in just four cities; with about 1mn pay TV subscribers in total. However, if the new government (which is likely to assume power by 2Q09) is able to prioritize this matter then a phased roll-out may begin by 2H09. If voluntary adoption of CAS also accelerates, then overall about 2-3mn addressable subscribers (where full reporting of subscriber numbers by local cable operators takes place) could be added to the current base of about 1mn.

The DTH industry seems set for long-term growth in India, following the entry of three new operators in the past six months. Even with the new entrants, the established operators, such as Dish TV India Ltd (DTIL) and Tata Sky have been notching up good subscriber additions; DTIL added about 5.3mn subscribers annualized in November 2008 versus a total DTH subscriber base of 8mn. If the DTH operators make a further concerted effort to market and service their offerings, DTH subscription figures could provide a significant positive surprise in 2009.

We estimate the current DTH subscriber numbers at about 8mn. In our base case, we expect this to figure to increase to about 11mn by the end of 2009. However, in our surprise case, this could increase to 22mn.

Higher reportable subscription numbers could add a third of our base-case forecast of F2010 EBITDA for ZEEL. There is high revenue leakage in India because of the incorrect reporting of subscriber numbers by local cable operators, so adoption of systems that plug these leakages would certainly be positive for broadcasters. This would be true especially for broadcasters that have a large share of their revenue coming from subscriptions and that have broad channel offerings.

Exhibit 1
DTH Subscriber Growth; Surprise Case

DTIL's subscriber addition in November 2008	0.4
DTIL's subscriber addition in November 2008, annualized	5.2
Combined subscriber addition for DTIL and Tata Sky for 2009	10.3
Assumption of combined subs addition by three new operators	7.7
Total DTH subs addition in F2010	18.1

Source: Company data, Morgan Stanley Research estimates

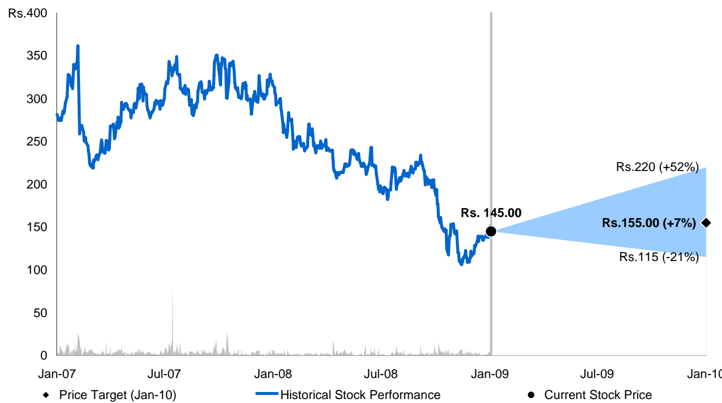
Exhibit 2
ZEEL EBITDA Could Be 31% Higher in F2010

	F09E	F10E Base case	F10E Surprise case
CAS subscribers (mn)	1.0	1.7	5
Effective CAS subscribers (mn)	1.0	1.4	3.0
Annual ARPU for ZEEL(Rs)	360	360	360
Total collection (Rs m) - A	360	486	1,080
ZEEL's share - 45% of A	162	219	486
ZEEL's EBITDA gain in surprise case over base case (Rs m) - B			267
DTH subscribers (mn)	8.3	12.3	26
Effective DTH subscribers (mn)	6.3	10.3	17.3
Annual ARPU for ZEEL(Rs)	259	288	288
ZEEL's revenue from DTH platform (Rs m)	1,620	2,966	4,991
ZEEL's EBITDA gain in surprise case over base case (Rs m) - C			2025
Total EBITDA gain for ZEEL (D = B+C)			**2,292**
Gain as a % of our base case F10E EBITDA projection			**31**

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Industry Analysis

Risk-Reward: DTH Revenues Could Provide Some Positive Surprise



Fiscal Year (Dec)	2007	2008E	2009E	2010E
ModelWare EPS (Rs)	8.9	9.3	11.3	13.0
P/E	24.9	15.5	12.8	11.1
EV/EBITDA	17.7	9.6	7.4	6.1

Bull Case Rs220	Our DCF-based bull case incorporates: 1)TV ad market CAGR of 22% in F08-11; and 2) DTH subscriber base to grow to 10mn by F09 and 15mn by F10 because of aggressive freebies by DTH operators.
Base Case Rs195	Our DCF-based base case assumes: 1)TV ad market CAGR of 20% in F08-11; 2) DTH subscriber base to grow to 8mn in F09 and 12mn in F10; and 3) ZEEL's share of total TV ad spend at 11.5% over F09-11.
Bear Case Rs115	Our DCF-based bear case incorporates: 1)TV ad market CAGR of 15% in F08-11; 2) increased competition leading to a decrease in ZEEL's share in total TV ad spend to 8% and costs to increase 15% more than in the base case over F09-11.

E = Morgan Stanley Research estimates

Source: FactSet (historical share price data), Company data, Morgan Stanley Research

Under the current system, often just 10% of total subscriber numbers is reported. Under addressable systems, such as CAS or DTH, full subscriber numbers are released, of which the broadcasters' share, in revenue terms, is 45%, according to the recommendation of the Telecom Regulatory Authority of India, the regulatory body for TV broadcasting in the country.

Company Description
Zee Entertainment Enterprise Ltd produces and develops Hindi films, serials, game shows, and children's programs. It focuses on production and distribution of content.

Industry View: In-Line

Industry Analysis

India Oil and Gas

Finally free pricing – courtesy of soft crude oil prices; positive for India R&M, negative for upstream

Morgan Stanley India Company Private Ltd.+

Vinay Jaising
Vinay.Jaising@morganstanley.com

Mayank Maheshwari
Mayank.Maheshwari@morganstanley.com

Stock Rating: Underweight	Reuters: HPCL.BO Bloomberg: HPCL IN
Price target	Rs237
Shr price, close (Jan 7, 2009)	Rs264
Mkt cap, curr (bn)	Rs1.68
52-Week Range	Rs282-171

Key Surprise

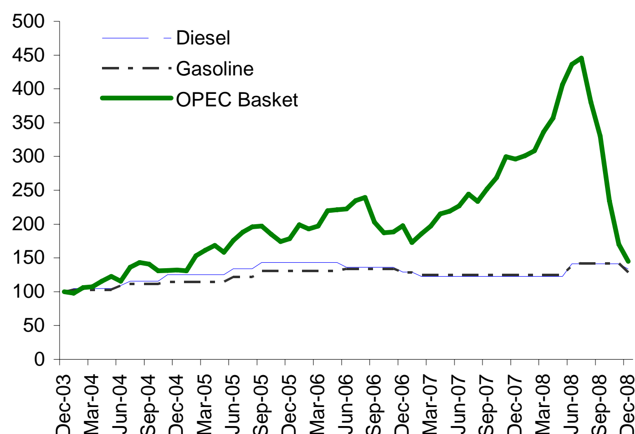
Crude oil prices have declined from a peak of US$147/bbl in 2008 to around US$50/bbl. If oil prices were to remain at current levels because of lower demand, high inventories, and non-compliance by OPEC members to cut production, Indian refining and marketing (R&M) companies would again start earning normal profits. This assumes the government does not cut product prices drastically. However, a soft crude oil price environment would be negative for ONGC and Cairn India.

Market-linked pricing: If crude oil prices remain at current levels and the government does not cut pump prices for motor spirit and diesel, India's oil marketing companies could earn marketing margins of US$10/bbl (Exhibit 2), levels they have not earned since 2005. We estimate India's petroleum basket is priced at US$52/bbl per WTI basket, which is currently trading at US$42/bbl. These marketing margins would remove the subsidy from the system and reduce the earnings uncertainty for HPCL, IOCL, and BPCL.

Effect on earnings: The oil marketing companies reported losses for F1H09, as they made marketing losses of US$10-12/bbl, after accounting for bonds and support from upstream companies. With positive marketing margins, we would expect HPCL, BPCL, and IOCL to earn EPS of Rs41, Rs70, and Rs67, respectively, for F2011.

Negative for Cairn India and ONGC: Cairn India's share price is 90% correlated to crude oil prices, making it India's most levered play to oil. Every US$1/bbl change in crude oil prices changes Cairn India's earnings 2.5%. ONGC's consolidated earnings change 2.2% for every US$1/bbl change in the company's net realized prices.

Exhibit 1
India: Retail Gasoline and Diesel Price Movement versus Crude Oil Price



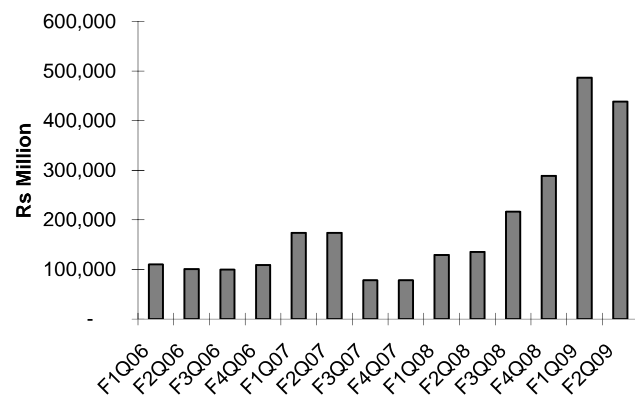
Source: Company data, Morgan Stanley Research

Exhibit 2
Prevailing Product Margins @ US$50/bbl of Crude

	Refining	Mktg.	Total
Motor Spirit	(2.7)	25.8	23.1
Diesel	8.4	11.4	19.8
Kerosene	11.5	(40.5)	(29.0)
LPG	(1.0)	(7.0)	(8.0)
Naphtha	(8.6)	8.2	(0.4)
Fuel Oil & Others	(0.9)	(1.7)	(2.6)
W.Avg Margins	**2.8**	**2.0**	**4.8**

Source: Company data, Morgan Stanley Research

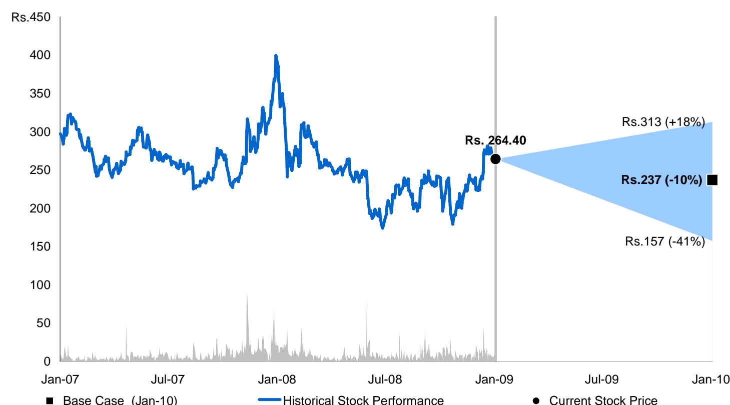
Exhibit 3
Subsidy Burden at Unprecedented High in F1H09



Source: Government of India, Morgan Stanley Research

Industry Analysis

Highest Leverage to Marketing Margins



Fiscal Year (Mar)	F2008	F2009E	F2010e	F2011e
ModelWare EPS (Rs)	22.07	37.54	50.68	58.04
P/E	10.7	6.3	4.7	4.1
EV/EBITDA	11.7	3.8	2.2	1.1
Div Yld (%)	5.2%	5.3%	7.2%	8.2%

Bull Case Rs313

Refining margins of US$4.9/bbl – US$0.5/bbl higher than in the base case. This reflects higher petroleum product demand as well as shutdowns/delays in capacity expansion.

Marketing margins of US$1.77/bbl – US$1.5/bbl higher than in the base case because of lower crude oil prices and the government not reducing retail product prices.

Base Case Rs237

Refining margins of US$4.4/bbl.

Marketing margins of US$0.77/bbl.

ModelWare EPS growth of 7%, 2008-11 EPS growth of 10%

Bear Case Rs151

Refining margins of US$3.9bbl – US$0.5/bbl lower than in the base case. This reflects an unexpectedly weaker global economy as well as more aggressive capacity expansion among global peers.

Marketing margins of US$0.51/bbl – US$0.5/bbl lower than in the base case. This reflects a higher crude oil price scenario, with the government cutting retail product prices.

E = Morgan Stanley Research estimates. Source: FactSet (historical share price data), Company data, Morgan Stanley Research

Exhibit 4

India R&Ms: Refining and Marketing Margins

	GRM(US$/bbl)				Marketing Margin (US$/bbl)				Consolidated EPS (Rs)			
	F2008	F2009E	F2010E	F2011E	F2008E	F2009E	F2010E	F2011E	F2008	F2009E	F2010E	F2011E
HPCL	3.94	4.29	4.10	4.63	0.30	(0.59)	1.55	1.55	22.07	(26.09)	36.03	40.83
BPCL	5.59	5.10	4.51	5.07	0.42	(0.46)	1.35	1.34	45.44	17.22	50.1	69.83
IOCL	10.22	6.03	4.88	5.76	(2.43)	(0.47)	1.57	1.56	66.69	32.75	55.5	67.45

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

HPCL gains the most from a free pricing regime: HPCL has the highest leverage to marketing margins, followed by IOCL and BPCL. HPCL has maximum exposure to marketing as a percentage of volumes it sells, as shown in Exhibit 5. Every US$0.5/bbl increase in HPCL's marketing margins increases our F2010 EPS estimates for HPCL by 30%.

Private marketers to benefit too: Private R&M companies, such as Reliance Industries and Essar Oil, which had closed their pumps in a controlled product price environment will also benefit in a free pricing environment. Reliance and Essar Oil already have a retail pump network to enable them to cash in on high marketing margins.

Exhibit 5

India R&Ms: Sales Profile and Production Capacity

	Total Refining Capacity (MT)	Total Sales (MT)	Controlled Products	De-controlled Products
HPCL	**16.23**	**24.46**	**68%**	**32%**
BPCL	19.57	25.79	57%	43%
IOCL	47.4	57.55	65%	35%

Source: Company data, Morgan Stanley Research

Company Description
Hindustan Petroleum (HPCL) is one of the three premier R&M companies in India. Its two refineries (Mumbai and Vishakapatnam) have a combined capacity of 13 MMTPA and a domestic market share of about 23%. The Government of India holds 51% of the company.

Industry View: In-Line

Industry Analysis

India Pharmaceuticals

Steep rupee depreciation could further drive up stable earnings growth

Morgan Stanley India Company Private Ltd.+

Sameer Baisiwala, CFA
Sameer.Baisiwala@morganstanley.com

Saniel Chandrawat
Saniel.Chandrawat@morganstanley.com

Key Surprise
The rupee depreciating against the US dollar implies significant benefits for net exporting Indian pharmaceutical companies. If USD/INR were to go to 54, our F2010 earnings estimates could rise 10-25%. Much of our F2009 earnings estimates are based on USD/INR at 42-44 because of varying forward cover by most companies. Cipla, Lupin, and Sun would be the clear beneficiaries. Declining US business for Ranbaxy and pressure in the German business for DRL would mitigate currency gains for these two companies, in our view.

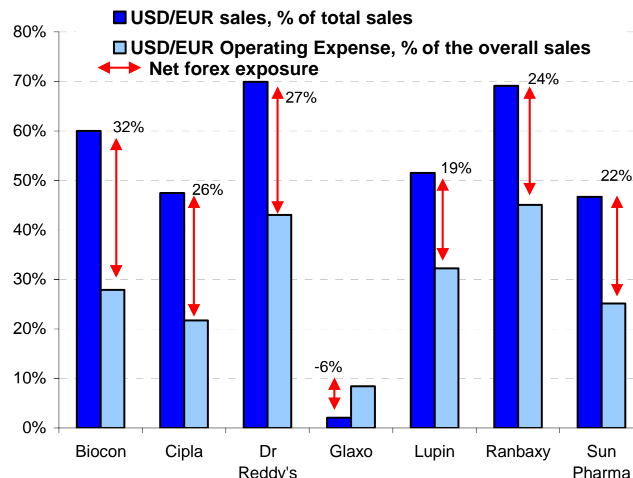
Net Exporters to Benefit
Most of the Indian pharmaceutical companies under Morgan Stanley coverage are net exporters (Exhibit 1), so should benefit from rupee weakness. However, the effect on earnings would depend upon net exposure, operating leverage, and forward cover taken. Currently, our models are set at USD/INR of 44, against the current rate of 47 and consensus estimates of a rate in the mid-to-high forties. If macro economic factors were to drive the rupee down to 54 to the dollar, we would expect solid earnings upgrades for the pharmaceutical sector for F2010.

In 2008, the rupee depreciated 23% against the dollar. Based on our proprietary work, we estimate 10-45% potential upside in Indian pharmaceutical companies' operating profit for every 20% rupee depreciation (Exhibit 3). Sun, Cipla and Lupin would be key beneficiaries. Ranbaxy and Dr Reddy's Lab could have benefited significantly (in view of low margins) but for the weakness in the base business. GSK, being a net importer, could get hurt marginally.

Investment Conclusion
We continue to like Cipla (Rs186, OW) – earnings are at an inflection point; Sun (Rs1,041, OW) – growth momentum, product options and Taro upside; and Glaxo (Rs1,122, OW) – play on new patent regime. Lupin (Rs585, OW) is our preferred mid-cap idea.

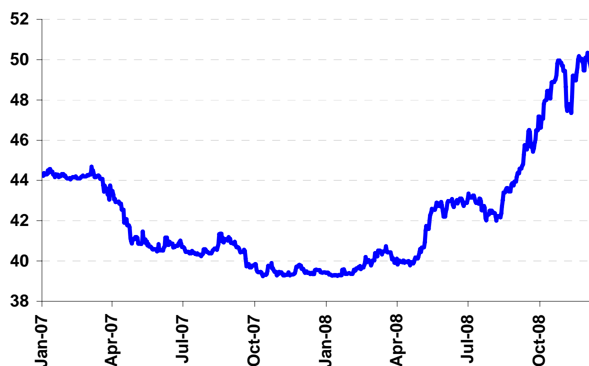
We are Underweight Biocon (Rs116) – lack of depth of product pipeline and early stages of development of proprietary products; and Ranbaxy (Rs236) – uncertainties in the US business and high level of hedging at low exchange rate. We are Equal-weight DRL (Rs465) – ongoing pressures in the German market and foreign debt.

Exhibit 1
F2008 USD/EUR Exposure



Source: Company data, Morgan Stanley Research

Exhibit 2
USD/INR – Since January 2007



Source: Bloomberg, Morgan Stanley Research

Industry Analysis

Exhibit 3

Indian Pharmaceutical Companies to Benefit From Further Rupee Depreciation

F2008

	Biocon	Cipla	Dr Reddy's	GlaxoSmithKline	Lupin	Ranbaxy	Sun Pharma*
Sales (Rs mn)	10,538	40,104	49,231	15,771	27,064	66,480	28,765
Operating profit (Rs mn)	2,985	8,615	5,846	5,375	4,876	9,147	11,511
Operating margin	28.3%	21.5%	11.9%	34.1%	18.0%	13.8%	40.05
USD/EUR Exposure							
Sales, of overall sales	60.0%	47.4%	69.9%	2.0%	51.5%	69.1%	46.8%
Operating expense, of overall sales	27.9%	21.7%	43.0%	8.4%	32.2%	45.1%	25.1%
Net USD/EUR exposure, % of overall sales	**32.1%**	**25.7%**	**26.9%**	**-6.4%**	**19.3%**	**24.0%**	**21.6%**
20% change in INR/USD							
Net impact as of original sales	6.4%	5.1%	5.4%	-1.3%	3.9%	4.8%	4.3%
Impact on operating profit	22.6%	23.9%	45.3%	-3.7%	21.4%	34.9%	10.8%

Source: Morgan Stanley Research, * Sun Pharma Excluding Pantoprazole sales

Business currency: The US and EU are key markets for many Indian pharmaceutical companies, although the geographical spread includes the US, Canada, the UK, Germany, France, other EU states, Russia/CIS, the rest of Asia, Africa, Australia/New Zealand, and Japan. We believe the US dollar is the transaction currency for most geographies, apart from the EU.

Company specific discussion

Cipla: We expect Cipla to benefit considerably from rupee depreciation in F2010. Its forward cover of roughly US$400mn as of F1Q09 at a low rate (Rs41-42/USD) will likely get used by March 2009.

Sun Pharmaceuticals' high margins will blunt the percentage profit upside from further rupee depreciation, although the effect will be visible as the company has negligible forward contracts.

Ranbaxy: Rupee depreciation may not translate to net earnings, as Ranbaxy has significantly hedged its future earnings, as implied by its separate disclosure of Rs9bn losses (per AS30) in 2Q08. Also, erosion in the US business (23% of overall revenue) will mitigate currency benefits.

Dr Reddy's Lab could benefit, given moderate forward cover and the high effect on operating profit levels.

Lupin appears well positioned to benefit from a weak rupee, given its net US dollar exposure and low forward cover.

Biocon has the highest net forex exposure (32% of sales). But, the potential benefit could be nullified by high forward cover taken for F2009.

Industry Analysis

India Property

Negative demand surprise compounds balance sheet pressure

Morgan Stanley India Company Private Ltd.+

Sameer Baisiwala, CFA
Sameer.Baisiwala@morganstanley.com

Arunabh Chaudhari
Arunabh.Chaudhari@morganstanley.com

Key Surprise
The demand slowdown worsens because of lower-than-expected GDP growth, say below 5%, and the adverse lagged wealth effect of the severe stock market decline in 2008. Developers could react with a further 15-20% property price cut, squeezing margins. New construction starts would remain low. Overall, developers would have little opportunity to de-leverage their highly stretched balance sheets. Large land banks with little unlocking of value would continue to impede stock price performance.

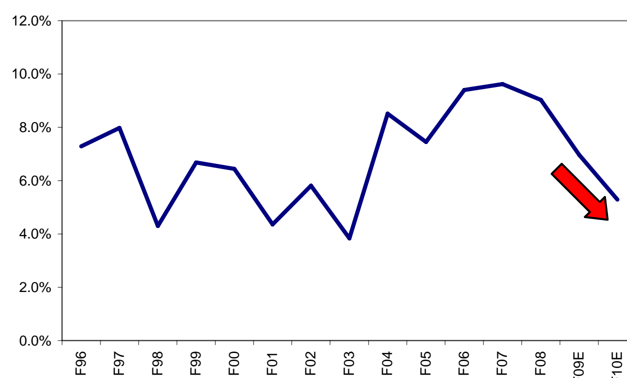
Demand remains lackluster: GDP growth for F2010 coming in much below expectations would hurt property demand across segments – residential, commercial, and retail. News flow on headcount and salary cuts from the corporate sector could continue. The adverse wealth effect of the 2008 stock market decline plays out in 2009, resulting in an overall lower affordability. Banks cut lending rates, helping sentiment somewhat, but still not enough to revive demand.

Implication for developers: Property companies continue to cut property prices, launch affordable housing (rather than mid-income/luxury projects), and significantly cut down on investment projects. All of this would result in lower realized prices with low margins, resulting in lower cash flows. This would be insufficient to de-leverage balance sheets. Some key land parcels could be sold at distress valuations to PE players.

Investment implications: Markets would continue to focus on companies better placed to unlock value in their land banks. Most companies disappoint. The property sector continues to underperform the market. The year 2009 is punctuated by sector rallies driven by interest rate cuts and stimulus packages by the government, but the broader trend is underperformance.

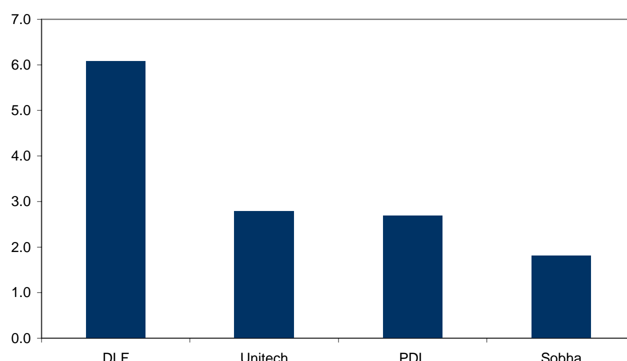
We remain Underweight DLF Ltd (Rs235), Unitech Ltd (Rs36), and Parsvnath Developers (Rs43) in our coverage universe.

Exhibit 1
GDP (% Growth)



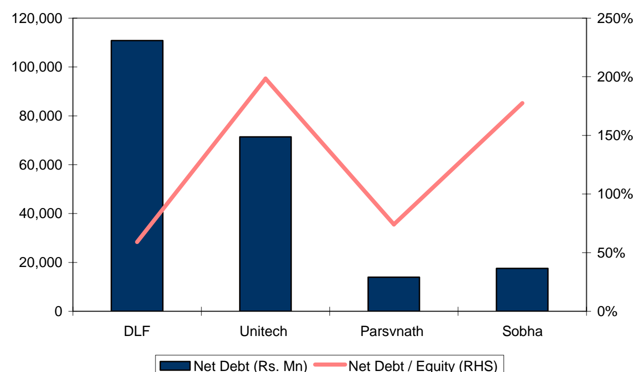
E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 2
Interest Coverage Ratio for F2009E
(includes capitalized interest)



E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Exhibit 3
Net Debt and Net Gearing in F2008



Source: Company data, Morgan Stanley Research

Industry Analysis

India Retail

Pantaloon Retail: capital shocks to limit upside potential

Morgan Stanley India Company Private Limited+

Hozefa Topiwalla
Hozefa.Topiwalla@morganstanley.com

Girish Achhipalia
Girish.Achhipalia@morganstanley.com

Divya Gangahar

Stock Rating: Overweight	Reuters: PART.BO Bloomberg: PF IN
Price target	Rs516
Shr price, close (Jan 7, 2009)	Rs232
Mkt cap, curr (mn)	Rs41,186
52-Week Range	Rs867-194

Key Negative Surprise

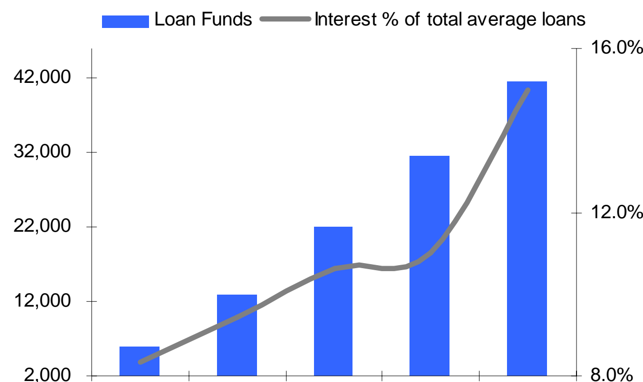
Capital shocks – as a result of a sharp rise in the cost of capital, the inability of majority shareholders to infuse equity capital, and no change in estimated capex plans – could result in a sharp rise in the cost of debt to 15% (versus our current estimate of 10%), a debt-to-equity ratio of 1.95x, and a 44% fall in interest coverage ratio, resulting in a 45% fall in earnings, versus our current estimates. Such a situation could lead to a sharp de-rating of the stock. Therefore, we could see the stock trading below our bear-case valuation of Rs215. The current market price is at a significant discount to the conversion price of outstanding warrants.

What Could Take Us By Surprise

We think that, in a deteriorating macro economic environment, Pantaloon could face a paucity of cheap funds to meet its expansion plan. We currently expect its outstanding warrants to be converted at a price of Rs500 per share, so Pantaloon would receive fresh capital of Rs5.9bn. The conversion price is more than double the current market price and the market price remaining at a considerable discount could trigger non-conversion of warrants by the promoters and employees, in our view. Also, Pantaloon's borrowing costs rising to 15% from the current 10-11% could adversely affect expansion costs and hurt profitability.

Exhibit 1

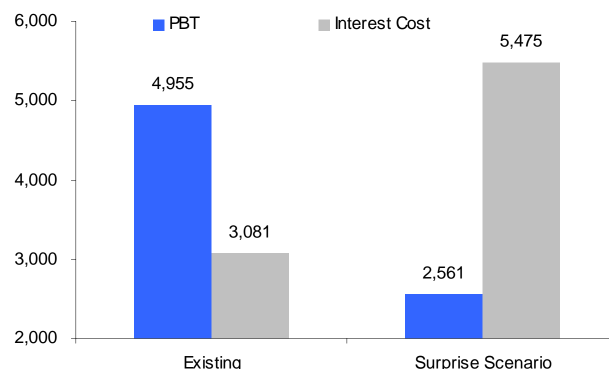
Higher Debt + Rising Interest Rate = Earnings Downside



Source: Company data, Morgan Stanley Research

Exhibit 2

Leverage Works Both Ways….



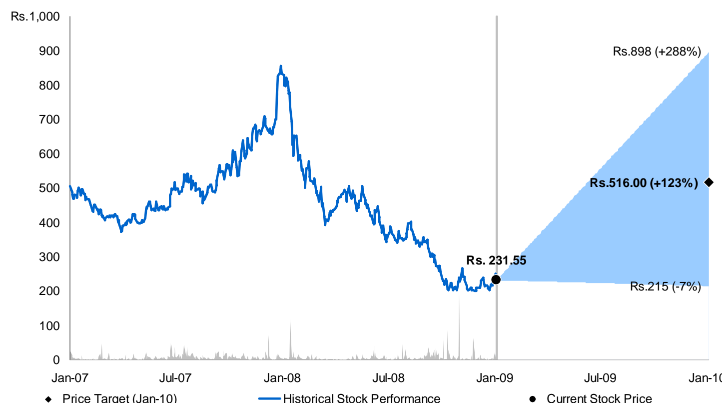
Source: Company data, Morgan Stanley Research estimates

45% Downside Risk to our F2010 EPS Estimate

We estimate that, if Pantaloon continues with its existing new store expansion plan, management is not able to convert its outstanding warrants, and debt funding costs were to rise to around 15%, then the company's profitability would come under severe strain. Therefore, Pantaloon could borrow an additional Rs8bn for expansion plans as well as servicing additional interest on the borrowings. Pantaloon had debt of Rs21bn at the end of F2008, and would likely end F2010 with borrowings of Rs41.6bn if this scenario unfolds. Pantaloon's earnings would decline 45% from our existing estimate for F2010. The company's debt-to-equity ratio would rise to around 1.95x in F2010 from our current assumption of 1.17x and the interest coverage ratio would fall from 2.60x to 1.47x.

Industry Analysis

Pantaloon Retail: Successful Execution and Strong Brands to Drive Growth



Bull Case Rs898	**Benign competition; accelerated store roll-out and margin expansion:** Retail space increases to 35msf. Operating profit margin increases to 11% by F2012. Subsidiaries add Rs153 per share.
Base Case Rs574	**Good execution/real-estate advantage:** Retail space increases to 27msf. Operating profit margin increases to 9% by F2013. Subsidiaries add Rs153 per share.
Bear Case Rs215	**Severe competition; slowdown in store expansion and margin pressure:** Retail space at 18.8msf. Operating profit margin decreases to 6.5% by F2013. Subsidiaries add just Rs68 per share.

e = Morgan Stanley Research estimates Source: FactSet (historical share price data), Company data, Morgan Stanley Research

Still the Best Way to Play the Retail Growth Story in India
Pantaloon has first mover advantage with differentiated brands that have a strong emotional connection with customers, real estate assets locked in at attractive lease rentals in prime locations, in-depth consumer insights, and a nimble and visionary management team.

We expect Pantaloon's speed and innovation, together with an in-depth understanding of the Indian consumer, to act as the crucial differentiators. We believe that, in the event of a significant rise in the cost of capital for Pantaloon, the company would slow its new store expansion plan significantly. Although management is committed to its new store expansion plan, there are already visible signs of significant slowdown in the new store expansion plan in F1Q09, as mall developers have witnessed significant delays in completion of their properties.

Exhibit 3
Pantaloon: Surprise Summary

	Current Scenario		Surprise Scenario	
	F2009E	F2010E	F2009E	F2010E
Capex and Inv. in Subsidiaries	6,642	8,067	6,642	8,067
Funding Plan				
Fresh Equity	4,000	2,533	633	-
Debt Raised	6,309	5,500	9,676	10,033
Total	10,309	8,033	10,308	10,033
Debt/Equity Ratio	1.19 x	1.17 x	1.58 x	1.95 x
Interest Coverage Ratio	2.00 x	2.60 x	1.88 x	1.47 x
EPS	9.80	17.11	9.49	9.43

E = Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Company Description
Pantaloon Retail owns and operates retail stores throughout India. It has more than 8mn sq ft of retail space under Pantaloons, Big Bazaar, Food Bazaar, and Home Town stores. Also, it has made forays into retail real estate, asset management, and consumer finance to catalyze consumption, brand management, retail media, and logistics.

Industry View: In-Line

Industry Analysis

India Shipping

Regulations change allowing SCI to sell ships, monetizing NAV

Morgan Stanley India Company Private Limited+

Parag Gupta
Parag.Gupta @morganstanley.com

Saumya Srivastav
Saumya.Srivastav @morganstanley.com

Stock Rating: Underweight	Reuters: SCI.BO Bloomberg: SCI.IN
Price target	Rs64
Shr price, close (January 7, 2008)	Rs85.20
Mkt cap, curr (mn)	US$747
52-Week Range	Rs220-67

Key Surprise

The second hand market in the shipping industry is extremely active enabling shipping companies to trade ships depending upon the business cycle and opportunities available. For instance, GE Shipping, the largest private shipping company in India, earned 10% of its revenue in F2008 purely from gain on sale of ships. However, Shipping Corporation of India (SCI) has been unable to take advantage of this due to restrictions placed by the Indian Government, its largest shareholder. We believe any significant divestment of the government stake or a change in regulations allowing SCI to sell ships would be a big surprise for the stock. Investors may start benchmarking the stock against its net asset value rather than using multiples or other valuation metrics.

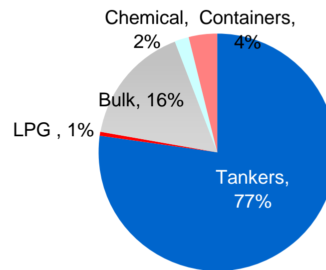
Government Holding Restricts Nimble Decision-making

The Indian Government holds an 80% equity stake in SCI, making it the largest shareholder with significant decision-making authority. However, we believe the government holding has restricted the company from making important decisions in the past. SCI has to seek cabinet approval for buying new ships, a time-consuming process. In addition, SCI has been restricted from selling ships in the second-hand market, rendering it unable to gain from the huge upswing in asset prices over the past 3-4 years.

While shipping companies globally are benchmarked against their net asset values, SCI has always traded at a huge discount to its potential NAV due to the inability of the company to monetize it. We believe this could change either if the Indian Government were to dilute its stake in the company or the restriction on the sale of ships was removed. We estimate SCI's NAV to be Rs282/share while the stock is trading at Rs85/share, implying a 70% discount to NAV.

Exhibit 1

SCI Current Fleet Composition



Source: Company data, Morgan Stanley Research

Exhibit 2

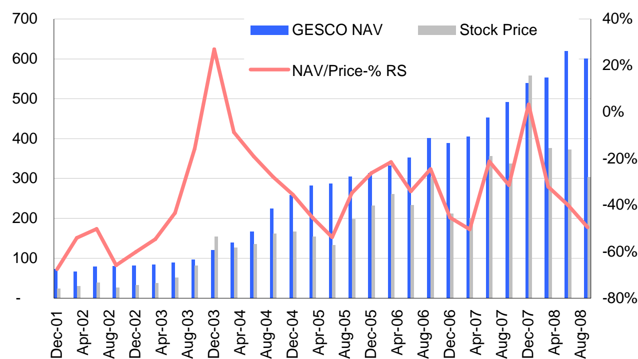
Active Second-Hand Ship Market Offers Opportunities; Ships sold by GE Shipping in the past two years

Sale of Ships by GE Shipping	Date of announcement	Remarks
Crude Carriers		
-- Suezmax	Feb-07	145K DWT built in 1992 was delivered in April 07
-- VLCC	Jun-07	266K DWT built in 1992 was delivered in Sept 07
-- Aframax	Sep-07	108K DWT built in 1986 was delivered in Nov 07
-- Aframax	Sep-07	97K DWT built in 1988 was delivered in Nov 07
-- Aframax	Jul-06	95K DWT built in 1985 was delivered in Aug 06
Product Tanker		
-- Panamax	Jan-08	66K DWT built in 1986 was delivered in Feb 08
-- Medium Range (MR)	Jan-07	47K DWT built in 1982 was delivered in Feb 07
-- Medium Range (MR)	Apr-06	44K DWT built in 1996 was delivered in May 06

Source: Company data, Morgan Stanley Research

Exhibit 3

GE Shipping: NAV to Stock Price



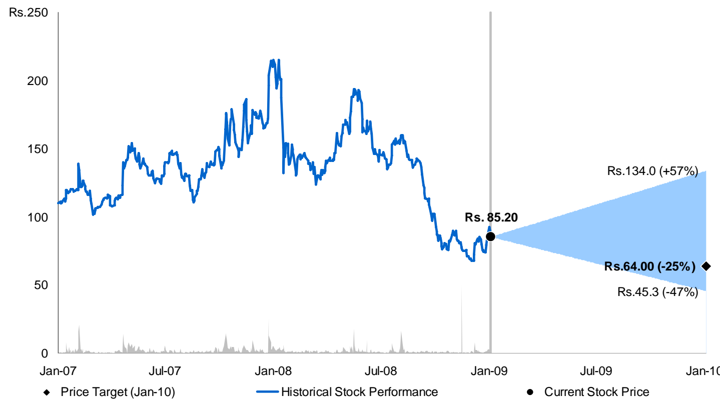
Source: Company data, Morgan Stanley Research

Benchmarking to NAV Could Prompt Upside

Bulk of SCI's fleet is in the tanker and product tanker segment, followed by bulk carriers. Asset prices for crude tankers have risen from US$102mn in October 2004 to US$150mn in October 2008, a 47% increase. Similarly, asset prices for bulkers have risen from US$57mn in October 2004 to US$129mn in October 2008. As a result, while the book value of SCI's assets is estimated to be Rs145/share at end-March 2009, we believe the net asset value on revaluing these assets at current prices to be Rs282/share. GE Shipping has historically traded at 30-130% of NAV depending upon the timing of the cycle. If SCI were to be benchmarked against its

Industry Analysis

Freight Rates to Dictate Stock Performance; NAV a Passive Stock Driver



Fiscal Year (Mar)	2007	2008eG	2009e	2010e
ModelWare EPS (Rs)	19.6	17.1	18.4	19.7
P/E	4.2	4.8	4.5	4.3
EV/EBITDA	2.1	3.3	2.8	4.6
Div Yld (%)	6.6	6.6	7.0	7.0

Bull Case Rs134	• **Stronger freight rates and margins:** We assume that bulk freight rates decline by only 5% in F2009 over F2008 and assume better freight rates in the product tanker and gas carrier segments. Our exit EBITDA margin at F2013 is 25.2%.
Base Case Rs82.7	• **Limited visibility on trade outlook and freight rates:** We assume a 10% increase in tanker freight rates and a 10% decline in bulker rates in F2009. Our exit EBITDA margin at F2013 is 22.9%.
Bear Case Rs45.3	• **Further deterioration in rates:** We assume lower freight rates in the bulk, product tanker and gas carrier segments. Our exit EBITDA margin at F2013 is 20.7%.

e = Morgan Stanley Research estimates   Source: FactSet (historical share price data), Company data, Morgan Stanley Research

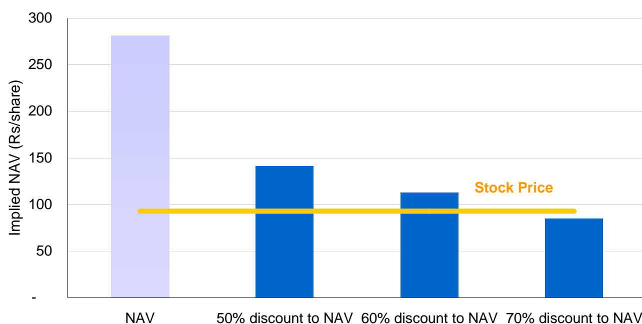
NAV, we believe, there could be significant upside from current levels.

Exhibit 4
SCI: NAV Calculation

US$ mn	
Fleet Market Value	$2,136
Fleet Book Value	$868
Value Not Captured $mn	$1,268
Book Value of Shareholders Funds	$1,171
Market Value Value of Shareholders Funds	$2,439
Shares	423
NAV(Rs / Share)	282

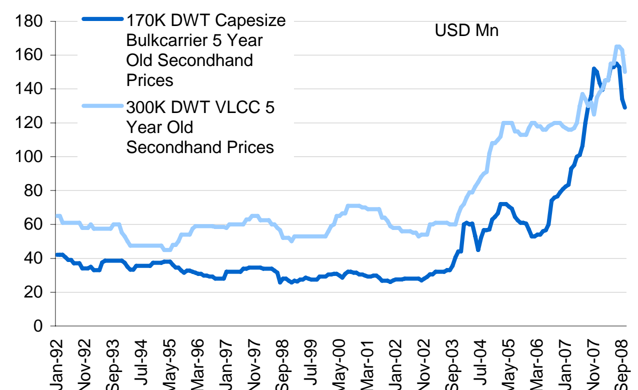
Source: CRS, Morgan Stanley Research

Exhibit 5
SCI: NAV Valuation Scenarios



Source: Factset, Morgan Stanley Research

Exhibit 6
Ship Prices Have Soared in the Past Five Years



Source: CRS, Morgan Stanley Research

Company Description
Shipping Corporation of India is India's largest shipping company by tonnage. It has exposure to all segments of the shipping industry, including tankers, dry-bulk and liners, with tankers contributing around 80% of the company's revenue and 90% of profit. The Government of India holds an 80.1% stake in the company

Industry View: Cautious

Industry Analysis

India Steel and Mining

If steel prices descend towards 20-yr lows, Tata looks vulnerable

Morgan Stanley India Company Private Limited+

Vipul Prasad
Vipul.Prasad@morganstanley.com

Ketaki Kulkarni
Ketaki.Kulkarni@morganstanley.com

Key Surprise

The view that the decline in metals demand may have run its course and that a rebound in metals prices could be supported by a worldwide production outage by metals and mining industries seems to be gaining acceptance in the investment community. Here, we highlight that even after a ~50% decline in the past 3-4 quarters, prices of materials in the steel value chain are still 52-277% higher than the lows of the past 20 years. Accordingly, our key surprise is based on a scenario of sharp declines in steel prices beginning in 2Q09, in keeping with possibly the worst global economic growth in 20 years.

Tata Steel (Rs234), with its high earnings sensitivity to steel prices and highly leveraged balance sheet, could see substantial downside under this scenario.

Surprise scenario – Steel prices spiral to 30% above 20-year lows: As the next leg of the global economic slowdown is unraveled in 2009, steel demand may remain depressed for some time, notwithstanding the stimulus packages announced by various countries. This, coupled with historically low capacity utilization levels and a sharp fall in raw materials prices, could see steel prices plummet 50% to 60% from current levels to rest 30% above 20-year lows. We note our base case calls for a 20% decline in 3QF09 and a further 15% decline in 4QF09.

This scenario may pan out if the cycle unwinding runs its full course where factors such as a surge in Chinese demand, low investment in capacity creation in the late nineties, and supply constraints are all unwound, causing the metals prices slump to deepen beyond expectations. Equity impact could be severe given investors seem to be expecting a sideways movement at the worst from here and are unaccustomed to seeing drops of more than 50-60% in metals prices in one fell swoop. Under our surprise scenario, Tata Steel looks vulnerable.

Steel Looks More Vulnerable Than Base Metals Do

Steel prices are still 37% higher than their 20-year average even though base metals prices have fallen 3% to 18% below their 20-year average (Exhibit 1). Hence, we believe steel prices could negatively surprise more than base metals in 2009.

Exhibit 1

Steel Prices Have Further to Fall

Prices are down by >50%, but are still 165% above 20-year lows and 37% above the past 20-year average

US$/t	Current	High	Low	Current vs. lowest	Average	Current vs. Average
Bulks						
Iron Ore	50	93	16	209%	27	86%
Coking Coal	150	300	40	277%	72	107%
Base Metals						
Zinc	1120	4442	736	52%	1360	-18%
Aluminum	1455	3070	1045	39%	1670	-13%
Copper	2902	8698	1351	115%	2984	-3%
Steel	599	1185	226	165%	436	37%

Source: CRU, Bloomberg, LME, Tex Reports, Morgan Stanley Research

Earnings impact for Tata Steel could be severe: For every 1% change in steel prices, our F2010 EPS estimate would change by 23%.

Even the Indian operations of Tata Steel, widely recognized as one of the lowest-cost steel making sites globally, saw its EBITDA per ton plummet to about US$60 in the last steel down-cycle in F2002. This compares with EBITDA per ton of ~US$380 for F2008 and ~US$ 570 for 2QF09.

Against this backdrop, Corus looks vulnerable considering that it was making losses of more than US$200/t at the EBITDA level in 2H00. In 2QF09, its EBITDA was a positive US$180/t.

Exhibit 2

Tata's Earnings Compression Would Be Severe

Assuming steel and RM prices drop to 30% above 20-year lows

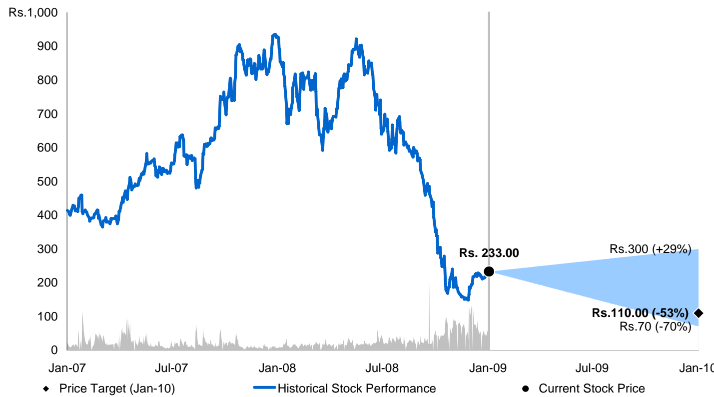
	F09E	F10E	
		Base case	Surprise case
Steel (US$/t)	750	500	293
Coking Coal(US$/t)	300	160	52
Iron Ore Fines(US$/t)	84	59	21
EBITDA per ton			
Tata Steel Standalone (Rs/t)	19,065	15,530	3,309
Corus(GBP/t)	55	29	-109
EPS			
Consolidated(Rs)	77	42	-208

E=Morgan Stanley Research estimates
Source: Company data, Industry data, Morgan Stanley Research

Tata Steel's balance sheet stress would be increasingly visible under our surprise scenario: If steel prices (and prices of its raw materials) were to drop to a level, say, 30% above the 20-year average low and stay there for more than 2-3 quarters, steel companies globally would face considerable financial strain. Under this scenario, Tata Steel may need to review the viability of its Corus assets to reduce its balance sheet burden, which could put further pressure on the stock price.

Industry Analysis

Tata Steel: Downhill Journey Not Yet Over



Fiscal Year (Mar)	2007	2008e	2009e	2010e
ModelWare EPS (Rs)	75.3	77.2	41.7	53.8
P/E	9.2	3.2	5.6	4.3
EV/EBITDA	6.0	3.6	5.0	4.5
Div Yld (%)	2.3	5.4	4.8	4.8

Bull Case Rs300	**Early recovery by 2QC09:** Our bull case assumes: (1) steel prices higher than our base case by 5% in F09 and 10% in F10 for standalone operations; (2) Corus realization growth of 5% higher than base case
Base Case Rs150	**Recovery in 2HC09:** Our base-case assumes: (1) F10 and F11 standalone realization dip of 8% and 1%, respectively; (2) F10 average realization for Corus to dip by 15%.
Bear Case Rs70	**Deeper and prolonged recession:** Our bear-case assumes: (1) Indian steel prices lower than our base case by 10%; (2) Corus prices lower by 3% than base case in F10.

e = Morgan Stanley Research estimates

Source: FactSet (historical share price data), Company data, Morgan Stanley Research

Exhibit 3

Tata Steel: Balance Sheet Stress May Be Aggravated

		F10E	
Rs mn	**F09E**	**Base case**	**Surprise case**
Interest Expense	36,252	40,011	40,011
Standalone EBITDA	98,433	98,695	21,030
Consolidated	185,172	147,057	(176,027)
Net Debt/Equity	1.18	1.27	3.4

E=Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

While all the steel stocks in our coverage (JSW, SAIL, and JSPL) would likely come under incremental pressure if our surprise scenario were to play out and steel prices fell a further 50%, we believe Tata Steel is the most exposed to such a scenario given its earnings sensitivity to steel prices and its potential for balance sheet stress.

Company Description

Tata Steek, a flagship company of the Tata group, is the second-largest steel maker in India with a capacity of 5 mtpa with a high level of vertical integration. Its sales basket consists of 40% long products with flat products constituting the rest. Tata Steel has brownfield expansion plans of 5 mtpa and greenfield expansion plans of 11 mtpa at various stages of implementation. Tata Steel purchased UK-based Corus Group Plc for an EV value of US$13.5bn, after which it has become the sixth largest steel maker globally with a total capacity of about 24 MT.

Industry View: Cautious

Industry Analysis

India Sugar

Demand-supply dynamic could surprise in F2009; we remain buyers of north Indian sugar mills

Morgan Stanley India Company Private Limited+

Nillai Shah
Nillai.Shah@morganstanley.com

Key Positive Surprises
We consider two possible positive surprises for Indian Sugar stocks in F2009: 1) Sugar production falls as low as 18mn tons, driving domestic and international prices higher; and 2) Ethanol realizations increase by ~20% in F10, when contracts are up for renewal at end-F09.

Sugar production in F2009 could fall as low as 18mn tons: While we expect domestic sugar production of around 20mn tons in F2009, sugar production could trend closer to 18mn tons if we were to see lower recoveries, higher diversion and lower cane cultivation as farmers switch to more economically viable crops. A clearer picture on expected sugar production will emerge by February 2009 and a positive surprise in the form of lower production numbers would quickly drive domestic prices to import parity, in our view.

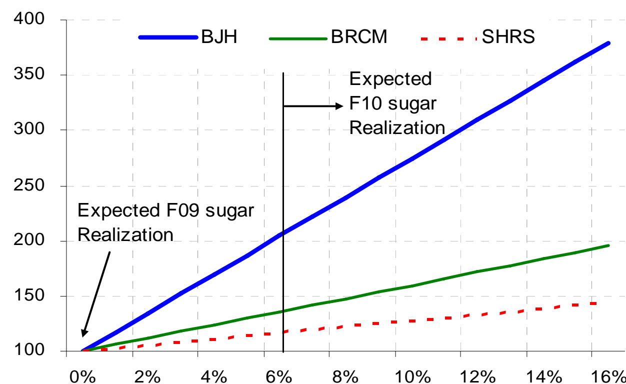
Sugar Imports May Push Prices ~Rs20,000/MT

Raw sugar Price (US cents FOB)	11	12	13
Base Price (US$FOB)	242	264	286
Freight (US$)	40	40	40
Port handling and others	20	20	20
Inland Transportation	20	20	20
landed Cost (US$)	322	344	366
Exchange rate	49	49	49
Landed Cost (Rs)	15,789	16,868	17,947
Cost of refining (INR/MT)	2,000	2,000	2,000
Excise	1,000	1,000	1,000
Cost of White sugar (Rs/MT)	**18,789**	**19,868**	**20,947**

Source: Morgan Stanley Research

Distillery realizations could surprise positively in F2009: Current ethanol contracts are due for renewal in October 2009. With crude prices coming off sharply, we think it unlikely that ethanol contract prices will be renewed substantially higher. However if crude prices were to revert to US$60-70/barrel, the contracts for supply of ethanol would likely be renewed at a higher price of around Rs26/litre in F2010, up ~20% over the previous contracted price of Rs21.5/litre.

Ceteris Paribus, BJH Most Levered to Sugar Price



Note: Above chart is the indexed stock price change for % change in sugar realization at cane procurement cost of Rs1400/MT Source: Morgan Stanley Research

We are buyers of north Indian sugar millers – BJH and BRCM are our top picks: In the race for liquidity and risk aversion, investors seem to have lost sight of the positive sugar business cycle. Stock prices continue to lag domestic realizations and the street seems to have a pessimistic view on sugar prices. We believe the key variable that will drive stock outperformance is sugar realizations, which are likely to trend up in line with import parity prices. At current valuations, we like companies with higher leverage to sugar realizations such as Bajaj Hindustan (Rs66.20, OW) and Balrampur Chini (Rs50.15, OW).

Key Negative Surprises
We consider two possible negative surprises for F2009: 1) sugar consumption trends down under the weight of the broader economy and 2) potential reduction in minimum support prices for the Rabi season (spring harvest) shortens the sugar up-cycle

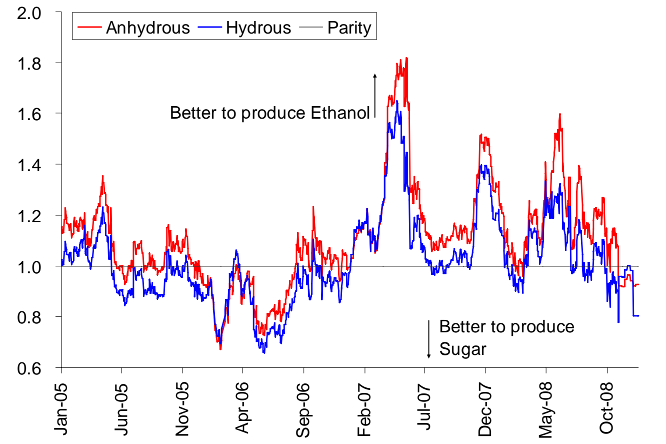
Decline in domestic sugar demand: Our expectation of white sugar imports is contingent on a tight sugar balance, which in turn is likely to be driven by supply-side factors. On the demand side, we assume consumption growth of 3% and 4% for F2009 and F2010 (inline with historical growth trends). However, if domestic sugar demand were to surprise negatively and grow by -3% over F2009 and F2010 as the broader economy turns down, it would imply an inventory level of around 5 months of consumption. While this scenario is not impossible, our analysis shows that consumption growth shows little correlation with GDP and instead reflects population growth, suggesting a continued increase in demand.

Industry Analysis

Reduction in MSP's for Rabi season could shorten the sugar up cycle: The primary reason for the severe shortage of cane in F2009 has been the switch by Indian farmers to more remunerative crops. With the crash in global commodity prices, a surprise could be that the minimum support price of competing crops is reduced for the ensuing Rabi season. This would make cane cultivation more competitive and result in higher production of cane in F2009, thereby truncating the cyclical uptrend in sugar prices. However, we note that even under this surprise scenario we would expect a maximum increase of 2-3mn tons in domestic sugar production in F10.

BJH – addressing balance sheet concerns: Some seem to be concerned about BJH's stretched balance sheet, after the company funded its aggressive capacity expansion over the past two years. The Uttar Pradesh state government recently scrapped the sugar promotion policy which, combined with the deep out-of-the-money FCCBs, has exacerbated the company's debt position. However, we believe that BJH's balance sheet has weathered the storm. Based on our assumptions of a cyclical recovery in sugar prices, we expect the net debt to equity ratio to reduce from the expected 3.7x in F2008 to around 1.8x in F2010, primarily owing to better profitability. A combination of Rs3-4bn release of capital subsidy by the state government and buyback of US$120mn of FCCB's as per the recently announced RBI guidelines could drive down BJH's leverage closer to 1.5x in F2010.

Prices Favor Sugar over Ethanol in Brazil



Source: Company data, Morgan Stanley Research

Company Description
Bajaj Hindustan (BJH) is the largest sugar manufacturer in India with plants located in Uttar Pradesh. It currently has a crushing capacity of around 136,000 tons crushed per day (TCD). BJH is an integrated player with ethanol/industrial alcohol manufacturing capacity of 640 KLPD, surplus Ccgeneration capacity of 90 MW and environment friendly fibre board capacity of 210,000 cubic metre.

Industry View: Attractive

Industry Analysis

India Telecommunications

Market conditions deter new players and advantage old ones

Morgan Stanley India Company Private Limited +

Vinay Jaising
Vinay.Jaising@morganstanley.com

Surabhi Chandna
Surabhi.Chandna@morganstanley.com

Key Surprise
New entrants who recently acquired 2G licenses do not enter the market, expecting a potential loss of over US$4-5bn of investment due to the difficult business dynamics in the Indian telecom sector. Average revenue per minute (ARPM) in India, which was already the lowest in the world, falls by 30% to 1.4 US cents/minute since these operators received licenses in January 2008, weakening their business case further. This would be positive for existing wireless operators as it would enhance their net adds market share and improve EBITDA margins (our base case assumes a reduction).

Market conditions deter new entrants: We believe the key surprise for the Indian Telecom sector would be if new operators decide not to enter the market and competitive intensity is maintained at current levels. The Indian wireless space is already one of the most competitive in the world, with 12 players, and seven more players have received wireless licenses earlier this year and are expected to launch services over the next 6-12 months. Under our surprise scenario, we assume ARPMs, which are among the lowest in the world at 1.4 cents, fall by a further 30% to 0.95 cents by F2011. Under this scenario, new entrants would need to invest US$2-4bn over 3 years, and it would take 3-4 years to break even and 6-7 years to earn profits on the investment. Such conditions would make business dynamics for new operators in any circle extremely difficult and could deter them from launching operations.

Existing operators are key beneficiaries: The most obvious beneficiaries of no new entrants are existing operators, namely Bharti, RCOM, and Idea from our coverage universe. Our base case assumes these players lose an average 3-4ppt wireless net adds market share from F2009 to F2012 with the entry of new operators. We also expect a reduction of 4-5ppt in the wireless operating margins of these operators. If there are no new entrants, it would pave the way for more rational pricing and consequently margin expansion for existing operators, improving the profitability of the sector.

Bharti would be the key winner. Bharti Airtel is the number one wireless operator in the country by subscribers, with a wireless market share of 24.7% and a wireless net adds market share of 26%. Assuming there are no new entrants, Bharti could maintain its current net adds market share, versus a 20% drop in share in our base case. In addition, its average annual ARPU decline would improve to 6% during F2009-11E versus our base case assumption of an 11% decline.

Impact of surprise: *Bharti's operating and net profit growth would improve by 5ppt and 8ppt, respectively, over F2008-11E versus our base case assumptions of 27% and 25% p.a (Exhibit 1).*

RCOM to strengthen its position: RCOM is the second largest wireless operator by subscribers, with a market share of 17.7% and a wireless net adds market share of 17%. RCOM is launching GSM in 14 new circles in the next 6-12 months. This is in addition to its pan-India CDMA and 8-circle GSM operations. If we assume no new entrants, we believe RCOM can maintain net adds market share at 23% after 2010E versus our base case assumption of a decline to 21% due to intense competition. In addition, its average annual ARPU decline would move to 6% versus our assumption of an 11% decline.

Impact of surprise: *RCOM's operating and net profit growth would improve by 4ppt and 7ppt, respectively, over F2008-11E vs our base case assumption of 25% and 10% p.a.*

Idea – growing bigger: Idea is the fifth largest wireless operator by subscribers, with a market share of 9.8% and a wireless net adds market share of 12%. Idea is launching services in 7 new circles in the next 6-12 months (excluding 2 Spice Communications' circles). If we assume no new entrants, we believe Idea can maintain its wireless net adds market share at 24% after 2010E versus our base case expectation of a decline to 21% (down from 24% currently) due to competition. In addition, we assume an average annual ARPU decline of 6% versus our expectation of a 7% decline during F2009-11E. We note that Idea's ARPUs are already among the lowest in the industry.

Impact of surprise: *Both the higher net add market share and reduction in fall of ARPUs could improve Idea's operating and net profit growth during F2008-11E by 4ppt and 11ppt from our assumptions of 22% and a decline of 10 % p.a., respectively.*

Industry Analysis

Exhibit 1

India Telecom: Existing Operators Gain If No New Entrants Launch Services

	Price (Jan 7, Rs)	Current TP (Rs)	Impact on TP due to higher wireless net adds market share and slower decline in ARPUs	Base Case Operating Profit Growth (F08-11E)	Base Case Net Profit Growth (F08-11E)	New Operating Profit Growth (F08-11E)	New Net Profit Growth (F08-11E)	Avg. EPS Change (F09-11E)
Bharti	649	950	19.5%	27%	25%	32%	33%	12%
RCOM	207	218	16.5%	25%	10%	28%	17%	11%
Idea	50	54	18.5%	22%	-10%	25%	1%	22%

Source: Company data, Morgan Stanley Research

Company Description
Bharti Airtel Limited (Bharti) is a nationwide, private-sector, integrated telecom service provider in India. It is the country's leading wireless service provider, with a 33% share of GSM subs and 24.5% of wireless subs. The company also offers access, long-distance, and broadband services to consumers. SingTel holds a 30.5% effective stake in Bharti.

Industry View: In-Line

Company Description
Reliance Communications Limited was formed by the demerger and vesting of the telecommunications undertakings of Reliance Industries Limited. RCOM is India's largest integrated communications service provider in the private sector with over 28mn individual consumer, enterprise, and carrier customers as at September 30, 2006. It has pan-Indian operations and provides wireless, wireline and long distance voice, data, and internet communication services. It has an extensive international presence through the provision of long distance voice, data, and internet services and submarine cable network infrastructure globally.

Industry View: In-Line

Company Description
Idea Cellular Limited is part of the Aditya Birla Group providing wireless telecommunications services in 12 of 23 telecom circles in India. It has received a license to launch wireless operations in 10 new circles. The company also has a National Long Distance license. Idea is the fifth-largest wireless operator in the Indian wireless space, with over 30mn subscribers as at September 30, 2008.

Industry View: In-Line

Industry Analysis

India Utilities

New regulations surprise with higher ROE; NTPC would benefit

Morgan Stanley India Company Private Limited+

Parag Gupta
Parag.Gupta @morganstanley.com

Saumya Srivastav
Saumya.Srivastav @morganstanley.com

Stock Rating: Equal-weight	Reuters: NTPC.BO Bloomberg: NATP IN
Price target	Rs144
Shr price, close (January 7, 2009)	Rs171.20
Mkt cap, curr (mn)	US$29,196
52-Week Range	Rs291-113

Key Surprise

The prevailing regulated tariff regime in India is up for revision and will be applicable for five years, starting April 2009. NTPC is the largest generation company in India and all its operations are regulated, hence any change to these regulations would have a meaningful impact on NTPC's revenue and earning capabilities. The current regulated tariff regime allows for an assured 14% post-tax return on equity (ROE) on the regulated capital base. CERC (the regulator) recently released a draft tariff paper keeping ROE unchanged, i.e. @ 14%. However, the industry has been demanding a higher ROE given the recent increase in interest rates. Our key surprise assumes that the new CERC regulation allows a 16% post-tax ROE.

Regulated Business Model

NTPC is India's largest power generating company with a current installed capacity of 27,850 MW (this excludes joint venture capacity of 2,044 MW). The total electricity generation capacity in India is 147 GW, with NTPC accounting for about 19%, making it the government's key power generating company as well as India's largest utility player. All of NTPC's operations are regulated and earn an assured post-tax ROE of 14% as per the current CERC regulations.

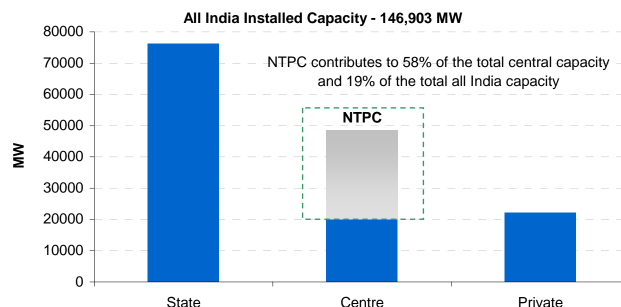
Robust Capacity Expansion Plans

The Government of India plans to add 78,577 MW during the XIth plan (F2008-F2012). Of the target addition, the central sector is likely to add 39,865 MW, state sector 27,952 MW and the private sector 10,760 MW. NTPC aims to add about 22,000 MW, making it the largest contributor amongst the central sector players, contributing to 55% of the total capacity addition. Also, NTPC is likely to contribute to 28% of the total capacity addition during the plan. Most of this capacity will be under the regulated guidelines specified by CERC, hence, any changes to regulations could impact earnings.

Exhibit 1

India's Total Installed Capacity

NTPC is amongst the large players



Source: Company data, CEA, Morgan Stanley Research

Exhibit 2

Planned Capacity Additions in the XIth Plan

NTPC to be a major contributor

Sector	Thermal	Hydro	Nuclear	Total
Central Sector	26800	9685	3380	39865
State Sector	24347	3605	0	27952
Private Sector	7497	3263	0	10760
Total	58644	16553	3380	78577

NTPC is likely to add 55% of this capacity

Source: Company data, Morgan Stanley Research

Exhibit 3

ROE* Is the Biggest Contributor to NTPC's Profits

Breakup of Business Profits	F2009E	F2010E	F2011E	F2012E
Business Return (ROE) @14%	32,100	36,827	43,356	56,140
Incentives	11,273	12,141	13,429	14,834
Efficiency linked gains	17,520	19,471	22,589	26,169
Total	60,893	68,439	79,374	97,143
ROE contribution to profits	53%	54%	55%	58%

Source: Company data, Morgan Stanley Research
* Post tax ROE @ 14% as per current CERC regulations.

Draft Tariff Regulations

CERC has released draft tariff regulations for the next five years, which are applicable from April 2009. Based on it, we believe that the net impact on NTPC's earnings will be negligible, primarily because the draft maintains a post-tax ROE of 14% on the regulated capital base. However, industry participants have been demanding a higher ROE given the increase in interest rates in the recent past.

We view a potential increase as plausible, considering that the regulations in force prior to April 2004 carried an assured post-tax ROE of 16% since interest rates during that period were approximately 11.5%. At the time of the April 2004 regulations, interest rates were lower at approximately 10.5%, therefore ROE was taken down to 14%. Industry participants now argue that interst rates have gone up to about 14% and hence ROE should be increased to 16%. (NTPC has suggested a post-tax ROE of at least 18%).

Industry Analysis

Fairly Valued at Current Levels

Fiscal Year (Mar)	2007	2008e	2009e	2010e
ModelWare EPS (Rs)	7.9	8.7	10.0	11.4
P/E	22.8	19.8	17.2	15.0
EV/EBITDA	20.5	18.7	15.0	13.1
Div Yld (%)	1.9	2.0	2.2	2.4

Bull Case Rs176	• **Stronger earnings and capacity addition program:** We assume higher efficiency-linked gains from heat rate, secondary fuel and UI charges, which increase the value by Rs10/share. We value financial assets at 1.5x book (assumed ROE of 16%), which increases the value of financial assets by Rs22/share.
Base Case Rs144	• **No slippage/delays in capacity addition:** We estimate NTPC will add 20,990 MW of capacity in the XIth Plan. Accordingly, we value the generation business at Rs99/share. We value the financial assets at book or Rs45/share (assumed ROE of 14%).
Bear Case Rs109	• **Change in regulations/lack of opportunities:** We assume lower earnings due to UI charges, savings on secondary fuel oil and heat rate. Accordingly, the value of the generation business drops by Rs23/share. Further, we value the financial assets at 0.7x book, i.e., Rs33/share (assumed ROE of 14%).

e = Morgan Stanley Research estimates   Source: FactSet (historical share price data), Company data, Morgan Stanley Research

If ROE were lifted, NTPC's profits would see significant upside from our current estimates. (Exhibit 5). We value NTPC using a sum of parts methodolgy. The value of the generation business (using the residual income method) would increase from Rs99/share to Rs114/share. While we currently value financial assets (Rs375bn in F2009e or Rs45/share) at book, if we were to assume that these assets too would earn a 16% ROE once deployed into the business, the option value of financial assets could increase to Rs67/share. At these levels, it would imply 26% upside to our current fair value.

Company Description
NTPC is India's largest state-owned power generating company with an installed capacity of 27,850 MW. The company's power plants are largely coal fired but it also holds about 3,955 MW of gas and hydro plants. The Government of India holds an 89.5% equity stake in the company, which was listed in November 2004.

Industry View: In-Line

Exhibit 4
NTPC Fair Value @ 16% ROE

NTPC Valuation (Rs/share)	At ROE of 14%	At ROE of 16%
Generation business	99	114
Financial Assets	45	67
Total	**144**	**181**

Source: Morgan Stanley Research

Exhibit 5
NTPC's Profits if ROE was @16%

Breakup of Business Profits	F2009E*	F2010E	F2011E	F2012E
Business Return (ROE) @16%	32,100	42,088	49,550	64,160
Incentives	11,273	12,141	13,429	14,834
Efficiency linked gains	17,520	19,544	22,675	26,280
Total	**60,893**	**73,773**	**85,654**	**105,274**
ROE contribution to profits	**53%**	**57%**	**58%**	**61%**

* Post tax ROE for F2009 will remain at 14%
E=Morgan Stanley Research estimates. Source: Company data, Morgan Stanley Research

Valuation Methodology & Risks

Stock	Valuation Methodology	Risks
Suzlon Energy	We value the company on a residual income model. Given the balance sheet issues, we assume that the beta of the stock will rise another 10% to 1.52 (from 1.38 for the last 12 months.) We assume 25 years of strong growth for the company, before moving it down to 1.5% annually (in line with the global GDP growth.)	**Downside risks** 1) Company breaching debt covenants on September 30, 2009, which could make lenders call their money back; 2) Continued fall in oil prices; 3) Credit crunch lasts longer than expected impacting longer term growth.
Ambuja Cements Ltd.	We value Ambuja using the DCF method. We assume 15.5% COE and 3% terminal growth rate. We use the cycle debt/equity ratio to arrive at our WACC. We cross check our intrinsic value with EV/EBIDTA and EV/ton multiples.	**Upside risks** 1) Delays in commissioning of capacity by the industry; 2) Sharp reduction in energy and raw material prices due to lower prices; and 3) Reduction in taxes and duties by the government.
Hindustan Unilever	Our price target is our base-case DCF value. We estimate HUL's DCF value at Rs300 per share based on a 6% risk premium and a 100% equity-funded balance sheet. We further assume NOPAT growth of 13% during F2012-21, terminal growth of 6.5%, and a continued 60% return on incremental capital employed (RoIC).	**Downside risks** 1) Re-escalation of input costs; 2) Increase in predatory pricing competition in categories such as skin care, shampoos and soaps; 3) Inability to institute price hikes; 4) HUL's potential failure to meet its cost savings plan; and 5) inability to expand its foods portfolio.
State Bank of India	Derived from an SOTP methodology. We value the parent business on the basis of residual income and arrive at a fair value of Rs605. The non-bank entities contribute another Rs337 to the valuation, on our estimate.	**Downside risks** 1) weaker-than expected NIM and fees progression and higher-than-expected credit costs; 2) On the non-banking front, the key downside risk is a potential slowdown in the life insurance business. **Upside risks** 1) lower than expected increase in credit cost and 2) better than expected margins.
Infosys Technologies	Our 12-month price target of Rs1,285 is based on weighted average mean of our bull-, base-, and bear-case scenarios. We assume a probability of 50% for our base case, 45% for our bear case, and 5% for our bull case, or Rs1,285 (Rs1,285=0.05*2,000+0.5*1,560+0.45*900).	**Downside risks** 1) Lower yoy IT budgets in 2009 would be negative for revenue growth; 2) Any significant rupee appreciation against the US dollar could impair operating margins and earnings; and 3) Any cut in the H1B visa quota could affect the onsite business. **Upside risks** 1) Any large deal wins; 2) Accretive acquisitions.
Zee Entertainment Enterprise Ltd.	To calculate our base case, we use a DCF model with an explicit phase of seven years and a terminal growth rate of 4%. We assume a WACC of 13% with a cost of equity of 14.6% and cost of debt of 10%. We arrive at our price target by assigning a 50% probability to our base and bear case scenarios to factor in the higher pessimism for ad growth in the current macro environment.	**Downside risks** 1) Aggressive ad rate cuts by new entrants could further hurt ZEEL's advertising revenues, as would a material fall in economic growth as the advertising revenue market is highly correlated with corporate budgets and in turn with GDP. 2) Regulatory delays in CAS rollout could cause delay in subscription revenue growth. 3) The sports business and ZEE Next contributed to a loss of Rs168m in 2QF09; we feel these new initiatives will continue to be a drag on ZEEL's performance near term.
Hindustan Petroleum	Our price target of 237/share,is based the average P/E multiples of Asian and US R&Ms for F2009, and assuming a 35% discount (i.e., 6.2x average of F2009E earnings). The discount is largely to factor in the prevailing uncertainty on regulations in the sector.	1) A fall in crude oil prices and the marketers not being forced to lower retail prices of petroleum products would positively affect earnings and, thus, the stock price. HPCL has maximum exposure to marketing as % of volumes.; 2) The government might announce a fresh regulatory package for the industry, again changing the rules of the game, which may significantly affect marketing earnings – positively or negatively; 3) HPCL has maximum exposure to marketing as a % of volumes it sells; hence, its earnings are more volatile than BPCL's; 4) HPCL may not be able to commission its refinery expansion on time and we may be forced to review our production targets.
Pantaloon Retail	Derived from an SOTP methodology. DCF value for core business (Rs433/share); Subsidiaries valuation (Rs141/share); Home Solutions, Future capital, Future Bazaar and Future Media (10% conglomerate discount to our base-case assumptions).	**Downside risks** 1)Execution risk in terms of store rollouts; 2) Heightened competitive pressures could hurt margins; 3) Inability to fund growth plans; 4) Unfavorable macro and political environment

Valuation Methodology & Risks

Shipping Corporation of India	We have taken the mid-point of our base and bear case values since we believe the current uncertainty around the macro outlook will cause the stock to be range-bound.	**Downside risks** 1) Significant slowdown in the global economy; 2) Decline in freight rates and asset prices due to limited visibility; and 3) Increase in funding costs or non-availability of credit, which may hinder capex plans.
Tata Steel	Our base case valuation is based on a DCF model with COE of 16.3% COD of 9% and WACC of 13.2%. We derive our price target by assigning 50% probability to base and bear case scenarios to factor in market pessimism for metal stocks in the current environment where demand visibility is low.	**Upside risks** 1) Resurgence in global steel prices, driven by the impact of solid supply cuts and a pickup in demand growth in China; 2) Substantial decline in input costs; and 3) Larger risk appetite for commodity stocks and a surge in the Sensex.
NTPC	Derived from our SOTP methodology. Generation business – residual income methodology (Rs99/share); Financial assets – at book (Rs45/share).	**Downside risks** 1) Adverse changes in regulations; 2) Slippage in capacity additions; 3) Loss of market share due to tariff-based bidding going forward; 4) Slowdown in capex due to non-availability of funding.

Industry Views

Industry	Industry View	Explanation
Capital Goods	In Line	We have an In-Line view on the India clean energy industry. Although the long-term growth will remain strong, led by energy security and fears of global warming, we believe the credit crunch and falling oil prices will result in developers delaying plans for investment over the next 12 months.
Cement	Cautious	India's cement industry, with 200mtpa of capacity, is second only to China's in terms of size. There has been four to five years of demand and price growth in the industry. However, we expect impending oversupply to affect pricing and margins negatively.
Consumer	Attractive	We believe India offers a three-pronged growth opportunity for consumer staples: 1) convert non-consumers with innovative products and price points; 2) target affluent consumers in the top 20 cities with aspirational product categories; and 3) target market share via value-for-money products to the vast middle class. We expect the industry to deliver a steady revenue CAGR of 15-20% over the next 10 years.
Financial Services	Cautious	Indian banks face a cyclical downturn that will lead to weaker earnings progression. Banks are facing/will face asset quality issues – in the retail, SME, and farm segments in particular – leading to a rise in credit costs. Capital markets earnings will also slow down. Moreover, some of the private institutions continue to trade at rich valuations.
IT Services	Cautious	We believe the demand environment is likely to remain challenging for the offshore vendors, with the worsening economic environment in the US. Furthermore, specific factors – such as the imposition of tax rates after F2010 for software technology parks, the inability of smaller vendors to migrate to special economic zones, and rising offshore wage costs because of increasing competition – would imply significantly lower profitability for sub-scale offshore IT vendors.
Media and Entertainment	In Line	We have an In-Line view on the Indian media industry, as we believe macro headwinds will limit near-term growth because of the following factors: 1) ad budgets of Indian corporates will shrink to some extent, leading to moderate growth in the advertising market; and 2) increasing competition in the general entertainment channel space will entail higher costs to sustain viewership, leading to narrower margins.
Oil and Gas	In Line	We prefer upstream firms to the downstream firms, as the uncertainty surrounding the subsidy sharing mechanism remains in a controlled product pricing environment.
Pharmaceuticals	In Line	In the context of a global slowdown, generic pharmaceutical demand is likely to be hurt the least. Weak currency is a tailwind and valuations are inexpensive. However, the companies lack major product catalysts.
Property	In Line	We remain on the sidelines in view of the weak demand environment across business segments, stretched balance sheets, and tough capital/credit markets. The recent run-up has made valuations rich.
Retail	In Line	In our view, the structural growth story of the industry remains robust. However, we believe cost pressures and pressures on cash flow because of increased working capital investments are likely to affect earnings and free cash flow for the companies in the foreseeable future.
Shipping	Cautious	We are Cautious on the India shipping industry because of a global slowdown in demand for crude oil and bulk commodities, such as iron ore, coal, and food grains. In our view, deteriorating trends in global economies will put pressure on freight rates for the tanker and bulker segments, which will affect earnings and net asset values.
Steel and Mining	Cautious	The steel industry is besieged by problems it has not faced in the past 10 years (rapid slump in demand, high inventory levels, above-average raw materials prices, and increasingly strained trading links in the global steel trade), even though stock prices and valuations have yet to achieve those levels. Non-Ferrous: Inline: A deeper recession triggered by a hard landing in China would keep sentiments subdued, demand sluggish, and metal prices dampened. The industry lacks a potent catalyst in the near term, in our view, until demand recovery begins, which we

Industry Views

		expect in 2H09. However, base metal prices are now below their 10-year average levels, which also limits downside, we believe.
Sugar	Attractive	The domestic sugar balance is tighter than that implied by current stock prices; we see potential for inventory levels to decline in F2010, to less than two months of consumption. Imports of sugar will likely push domestic sugar prices above Rs20,000/MT. Moreover, tighter credit conditions and slower growth are likely to constrain the supply side, reducing input usage and slowing capital investment, keeping global sugar markets in deficit through our forecast horizon.
Telecommunications	In-Line	India is the one of the world's fastest growing telecom markets, but we expect the growth to come with lower realized prices per minute, which are already the lowest in the world, and hence lower margins. In such an environment, we believe existing integrated operators will benefit and that pure wireless operators, especially those launching services, will have longer gestation periods for break-even and profitability. Key industry positives include greater regulatory certainty, falling global equipment prices, a low wireless penetration of 30%, and a nascent broadband market.
Utilities	In Line	The government's drive to increase generation capacity will benefit Indian utility companies. However, the slow pace of reforms and political intervention continue to dampen sentiment.

The industry views listed in the table above reflect the views mentioned in this report. It is not an exhaustive list of Morgan Stanley's industry views.

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.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited and their affiliates (collectively, "Morgan Stanley").
For important disclosures, stock price charts and rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

Analyst Certification

As to each company mentioned in this report, the respective primary research analyst or analysts covering that company hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.
Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst, strategist, or research associate (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Sameer Baisiwala - Infosys Technologies (common stock), Pantaloon Retail (common stock); Ridham Desai - Hindustan Unilever (common stock), Infosys Technologies (common stock), Zee Entertainment Enterprise Limited (common stock); Ashish Jain - Infosys Technologies (common stock); Vinay Jaising - Reliance Communications Ltd. (common stock); Vipul Prasad - Bharti Airtel Limited (common stock); Saumya Srivastav - NTPC (common stock), Reliance Communications Ltd. (common stock); Hozefa Topiwalla - Hindustan Unilever (common stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.
As of November 28, 2008, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Bajaj Hindustan, Balrampur Chini Mills, Bharti Airtel Limited, Hindustan Unilever, Infosys Technologies, Ranbaxy Laboratories, Reliance Communications Ltd., Suzlon Energy, Tata Steel, Zee Entertainment Enterprise Limited.
As of January 1, 2009, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): Bharti Airtel Limited, GlaxoSmithKline Pharma, Hindustan Unilever, Ranbaxy Laboratories, Reliance Communications Ltd., State Bank of India, Suzlon Energy, Tata Steel.
Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Idea Cellular Ltd., Parsvnath Developers Limited.
In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Bajaj Hindustan, Cipla Ltd., DLF Limited, Dr. Reddy's Lab, GlaxoSmithKline Pharma, Idea Cellular Ltd., Infosys Technologies, Lupin Ltd., Pantaloon Retail, Parsvnath Developers Limited, Ranbaxy Laboratories, State Bank of India, Sun Pharmaceutical Industries, Suzlon Energy, Tata Steel, Unitech Limited, Zee Entertainment Enterprise Limited.
Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from GlaxoSmithKline Pharma, Hindustan Petroleum, State Bank of India.
Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Bajaj Hindustan, Cipla Ltd., DLF Limited, Dr. Reddy's Lab, GlaxoSmithKline Pharma, Idea Cellular Ltd., Infosys Technologies, Lupin Ltd., Pantaloon Retail, Parsvnath Developers Limited, Ranbaxy Laboratories, State Bank of India, Sun Pharmaceutical Industries, Suzlon Energy, Tata Steel, Unitech Limited, Zee Entertainment Enterprise Limited.
Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: GlaxoSmithKline Pharma, Hindustan Petroleum, State Bank of India.
An employee or director of Morgan Stanley India Company Private Limited is a director of Ranbaxy Laboratories.
The research analysts, strategists, or research associates principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.
Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). 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. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. 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.

Global Stock Ratings Distribution

(as of December 31, 2008)

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	**811**	**34%**	**240**	**40%**	**30%**
Equal-weight/Hold	**1060**	**45%**	**271**	**45%**	**26%**
Not-Rated/Hold	**33**	**1.4%**	**8**	**1.3%**	**24.2%**
Underweight/Sell	**463**	**20%**	**87**	**14%**	**19%**
Total	**2,367**		**606**		

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/Hold (NA or NAV) - 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. Please note that NA or NAV may also be used to designate stocks where a rating is not currently available for policy reasons. For the current list of Not-Rated/Hold stocks as counted above in the Global Stock Ratings Distribution Table, please email morganstanley.research@morganstanley.com.
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.

Other Important Disclosures

Morgan Stanley produces a research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in this or other research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/instruments discussed in Morgan Stanley Research may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities or derivatives of securities of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities or derivatives of securities of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons

Morgan Stanley and its affiliate companies do business that relates to companies/instruments covered in Morgan Stanley Research, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis.

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

Morgan Stanley Research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the closing price on the primary exchange for the subject company's securities/instruments.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services licence No. 233742, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. In Australia, Morgan Stanley Research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

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

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

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley has based its projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on publicly available information. MSCI has not reviewed, approved or endorsed the projections, opinions, forecasts and trading strategies contained herein. Morgan Stanley has no influence on or control over MSCI's index compilation decisions.

Morgan Stanley Research, or any portion hereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1)212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0)20 7425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0)3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

© 2009 Morgan Stanley