

July 21, 2010

India Strategy

Quick Comment : QE June 2010 Earnings Season Thus Far

Key Highlights from the Earnings Season

- Still early days of earnings.
- Within Morgan Stanley coverage, three-quarters of the reported companies (9 out of 12) have beaten our analyst expectations.
- Narrow and broad market earnings appear strong.

Quarterly Earnings Tracker

YoY Earnings growth	Q2F10	Q3F10	Q4F10	Q1F11E	Q1F11E*	Q1F11A
MS coverage	37%	17%	10%	3%	17%	33%
Broad Market	22%	39%	33%	-	-	32%
BSE Sensex	1%	21%	24%	1%	12%	11%

Source: Company Data, Capitaline, Morgan Stanley Research

E = MS Analyst Estimate for Morgan Stanley coverage universe

***E* = MS Analyst estimate for 12 companies that have reported thus far**

***A = Actual earnings for the quarter for 12 companies that have reported thus far**

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QE June 2010 Earnings Season Thus Far (Morgan Stanley Coverage Universe)

Sector Growth vs. Expectations: Two out of the three companies in tech sector miss expectations

Revenue Growth: Of 25% YoY for Morgan Stanley Coverage and 20% for the Broad Market

Sector Profit Growth: Still early days

EBITDA Margins: Margin expansion in 5 out of 5 sectors.

# Cos Rptd earnings	#Cos beating earnings expectations	YoY change MS Coverage	MS Estimates				Actuals					
			Sales	EBITDA	Net Profit	EBITDA Margins	Sales	EBITDA	Net Profit	EBITDA Margins	Chg in EBITDA Mrgn (bps)	NP Growth vs. MS estimates
3	2	Cons. Disc.	43%	219%	126%	25%	52%	254%	151%	26%	1,501	25%
1	1	Cons. Staples	9%	5%	-4%	25%	13%	30%	19%	30%	405	22%
4	4	Financials	19%	23%	15%	63%	30%	35%	45%	64%	230	30%
1	1	Materials	120%	149%	117%	49%	140%	252%	211%	64%	2,027	94%
3	1	Technology	14%	16%	3%	30%	14%	14%	1%	30%	1	-2%
12	9	Total (MS Cov)	21%	28%	17%	40%	25%	39%	33%	42%	401	16%
8	5	Total ex-Fin	22%	32%	17%	32%	24%	41%	27%	34%	418	10%
11	8	Total ex-Materials	16%	21%	9%	39%	19%	26%	18%	39%	200	10%
3	2	Sensex	15%	17%	12%	35%	14%	16%	11%	35%	46	-1%
105		Broad market					22%	24%	32%	40%	63	

EBITDA Margins: up 401bps YoY; up 63 bps for broad market

Broad Market: 105 companies have reported earnings so far

Surprise Breadth: 9 out of 12 companies have beaten analyst expectations

Sensex Profit Growth: up 11% YoY- only 3 companies have reported

Broad Market: tad behind narrow market with 32% YoY profit growth

Aggregate Earnings: ahead of Expectations, up 27% YoY. Ex-materials, up 18% YoY

Snapshot of Companies' Reported Earnings for the Quarter Ended June 2010

Name of company	Sector	QE Jun-09			QE Jun-10A			YoY			Miss/Beat expectations
		Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	Revenues	EBITDA	Net Profit	
Hotel Leelaventure	Consumer Discretionary	847	189	3	1,058	316	92	25%	67%	2788%	-23%
UTV Software	Consumer Discretionary	865	-629	-233	1,993	396	413	130%	NM	NM	50%
ZEE	Consumer Discretionary	4,759	1,170	914	6,770	1,870	1,210	42%	60%	32%	5%
Colgate	Consumer Staples	4,680	1,226	1,028	5,288	1,599	1,220	13%	30%	19%	23%
AXIS Bank	Financials	20,042	11,764	5,620	25,146	14,501	7,419	25%	23%	32%	5%
Canara Bank	Financials	17,651	9,213	5,553	24,618	14,834	10,134	39%	61%	82%	88%
HDFC	Financials	8,863	7,919	5,649	10,824	9,816	6,946	22%	24%	23%	2%
IndusInd Bank	Financials	3,401	1,743	865	4,566	2,306	1,186	34%	32%	37%	13%
Sesa Goa	Materials	9,986	4,328	4,241	23,940	15,229	13,171	140%	252%	211%	43%
Infosys Tech	Technology	54,720	18,680	15,270	61,980	19,600	14,880	13%	5%	-3%	-5%
MindTreeLtd	Technology	3,048	507	2,601	3,487	441	158	14%	-13%	-94%	-63%
TCS	Technology	72,070	19,619	15,203	82,173	24,100	18,443	14%	23%	21%	2%



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Underweight/Sell	348	14%	94	11%	27%
Total	2,562		851		

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