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Research  
India

## India Strategy

### *Model Portfolio & Focus List: Adding State Bank of India*

MORGAN STANLEY RESEARCH

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## Model Portfolio & Focus List: Adding State Bank of India

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- **Changes to Focus List:** We are adding State bank of India (Rs1,799) to our focus list. Our banks analyst Mihir Sheth argues that with the macro environment improving, SBI's loan growth and asset quality are set to improve.
- He believes that NIMs will bottom out in F2Q10 and will start expanding significantly on account of re-pricing of high cost deposits and an acceleration in loan growth. The improvement in capital and credit markets will ease the asset quality concerns thereby aiding SBI's key borrower segment – the corporate sector.
- SBI is gaining market share versus private players in terms of fee income generation and its subsidiary performance (including insurance) has remained strong. We believe this will provide further support to earnings and valuations.
- After taking an increase of 125% in credit costs in F2010, SBI still generates an ROE of 16% which is attractive in Mihir's view. SBI trades at 1.8x book, 11.8x P/E – a significant discount to private banks and the market. He believes this will likely narrow as core earnings momentum returns.
- We fund this change by removing Union Bank (Rs213) from our Focus List which has been a relative outperformer.
- We are not making changes to our sector model portfolio which remains biased for a recovery in economic activity. Thus we are backing infrastructure and consumer discretionary sectors while remaining underweight in materials. We remain neutral financials.

## Focus List

Stocks	Sector	Ticker	Analyst Rating	Price (Rs) 5/8/09	MCap (US\$ bn)	Avg 3M T/O (US\$ mn)	Relative to MSCI India	
							YTD Perf (%)	12m Perf (%)
Maruti Suzuki	Cons Disc	MSIL IN	Overweight	1,374	8.3	22	59%	103%
Zee Entertainment	Cons. Disc	Z IN	Equal-Weight	185	1.7	8	-20%	-15%
Hindustan Unilever	Cons Staples	HUVR IN	Equal-Weight	263	11.9	26	-37%	6%
Reliance Ind	Energy	RIL IN	Overweight	2,023	69.1	235	-1%	-15%
ONGC	Energy	ONGC IN	Equal-Weight	1,164	51.8	62	5%	5%
DLF	Financials	DLFU IN	Equal-Weight	400	14.2	173	-15%	-23%
HDFC	Financials	HDFC IN	Overweight	2,363	14.0	62	-5%	-1%
State bank of India	Financials	SBIN IN	Overweight	1,799	23.6	112	-16%	18%
Jaiprakash Asso.	Industrials	JPA IN	Overweight	224	5.5	104	62%	25%
Larsen & Toubro	Industrials	LT IN	Overweight	1,496	18.2	109	16%	8%
Infosys Tech	Technology	INFO IN	Equal-Weight	2,065	24.6	68	11%	17%
Reliance Infra	Utilities	RELI IN	Overweight	1,168	5.5	114	21%	14%

## Focus List Timeline Since Inception

	Date Added	Dated Removed	MSCI India price (in Rs) on date when removed or current	Stock price when removed or current price	Dividend if any	Stock return*	Stock Relative return to MSCI India
DLF	15-Jul-09		615	400	3	24%	14%
HDFC	22-Aug-07		615	2363	35	24%	16%
Hindustan Unilever	21-Aug-08		615	263	9	9%	1%
Infosys Technologies	29-Nov-07		615	2065	27	32%	68%
Jaiprakash Associates	29-Nov-07		615	224	1	-38%	-21%
Larsen & Toubro	15-May-09		615	1496	12	51%	18%
Maruti Suzuki	15-May-09		615	1374	4	62%	26%
Oil & Natural Gas Corp.	22-Aug-07		615	1164	34	44%	34%
Reliance Industries	22-Aug-07		615	2023	16	14%	7%
Reliance Infrastructure	15-Jul-09		615	1168	8	6%	-3%
Zee Entertainment	21-Aug-08		615	185	2	-12%	-18%
State bank of India	13-Aug-09		615	1799	33	0%	0%
Union Bank of India	22-Aug-07	13-Aug-09	615	213	5	70%	58%
Arvind Ltd.	22-Aug-07	4-Dec-08	334	15		-65%	-41%
Bharti Airtel	22-Aug-07	15-Jul-09	564	780	1	-8%	-7%
Cipla Ltd.	4-Dec-08	15-May-09	478	231	3	25%	-8%
GAIL (India)	22-Aug-07	29-Nov-07	784	418	8	40%	2%
Marico	22-Aug-07	15-May-09	478	63	1	9%	31%
Reliance Infrastructure	22-Aug-07	29-Nov-07	784	1664	8	130%	68%
Sobha Developers Ltd.	27-Sep-07	21-Aug-08	583	279	4	-67%	-62%
Sun Pharmaceutical	22-Aug-07	15-Jul-09	564	1216	7	32%	34%
Tata Steel	22-Aug-07	21-Aug-08	583	605	14	6%	5%
Tata Consultancy Services	22-Aug-07	27-Sep-07	687	1062	14	4%	-14%

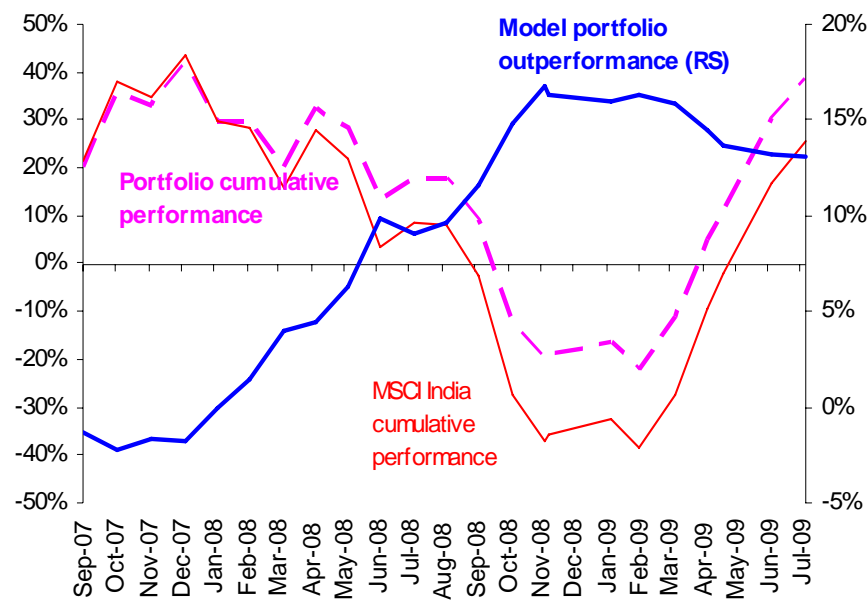
Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research

\* Stock return is excluding dividend received. Stocks marked in red are the ones removed from the focus list, and stocks marked in blue are those added to the focus list. The stocks marked in maroon have been removed from the focus list over time. Past performance is no guarantee of future results. Results shown do not include transaction costs.

## Sector Model Portfolio

We are not making changes to our sector model portfolio which remains biased for a recovery in economic activity. Thus we are backing infrastructure and consumer discretionary sectors while remaining underweight in materials. We remain neutral financials.

Sector Model Portfolio Performance Since Inception



India Sector Model Portfolio: Latest Positions

Sector	MSCI Weight (%)	Portfolio Weight (%)	Over/Under - Weight (bps)	Perf Rel. To MSCI India (YTD Perf.) (12M)
Consumer Disc.	4.6	5.6	100	27%
Consumer Staples	6.3	6.3	0	-28%
Energy	18.5	19.5	100	-2%
Financials	24.5	24.5	0	-3%
Healthcare	3.3	2.3	-100	-20%
Industrials	9.8	10.8	100	15%
Technology	14.6	14.6	0	8%
Materials	9.5	7.5	-200	43%
Telecom	2.3	3.3	100	-33%
Utilities	6.7	5.7	-100	-12%
Cash	0.0	-	-	-

Source FactSet, MSCI, Morgan Stanley Research



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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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<b>Total</b>	<b>2,299</b>		<b>641</b>		

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