

May 1, 2007

Research
India

Strategy Chartbook

India Strategy

More Snakes Than Arrows

- **Market facing more gulping snakes than propelling arrows**

Fundamentally, the fair value for the BSE Sensex is around 11,500 on our residual income model, but we see little to prevent it from trading below fair value (especially given that it has traded above fair value for months). In our view, there are three factors that could take it there: The first is that, anecdotally, investors seem complacent about the recent fall, having been burnt by their experience last year when they were caught being too bearish post the May 2006 fall. Second, the market faces several headwinds in the form of a weaker domestic demand outlook (heralded by higher interest rates), a relatively less docile political environment at home and uncertain prospects for global risk appetite. Last, neither fundamentals nor market technicals suggest that we are done with the correction.

- **Complacency, Caution, Capitulation – The Cycle is Incomplete**

Recent flows suggest that investors are not as bearish as they were in the weeks after the May 2006 correction. However, unlike in the aftermath of May 2006, investors have to deal with the prospects of slowing domestic growth – the only way India can fix its inflation problem in the coming months. This is juxtaposed with a less favorable political environment with 20 forthcoming elections over the next 24 months creating possibilities of a backlash on reforms, though probably not an upheaval in the government. The market is trading at valuations that do not suggest positive returns, while fundamentals are looking less robust than before. The apparent reflexivity between stock prices and earnings is just one of the headwinds that earnings seem to be facing in the coming months. India's high and rising beta indicates heavy dependence on global factors for its immediate performance and global factors appear less predictable than before. This situation is hard for a mixed bag of technical indicators to neutralize.

- **Portfolio: Relatively Defensive**

We are underweight consumer cyclicals and rate sensitives and overweight healthcare, energy, consumer staples and telecoms. Tactically, we are neutral technology. From a portfolio perspective, we are playing three themes – large caps over mid-caps, GARP (growth at reasonable price) over GAAP (growth at any price) and relative volatility with low beta. We think there are several potential winning trades in the market and we use five screens to shortlist possible stocks to overweight and underweight (see pages 36-42 for further details).

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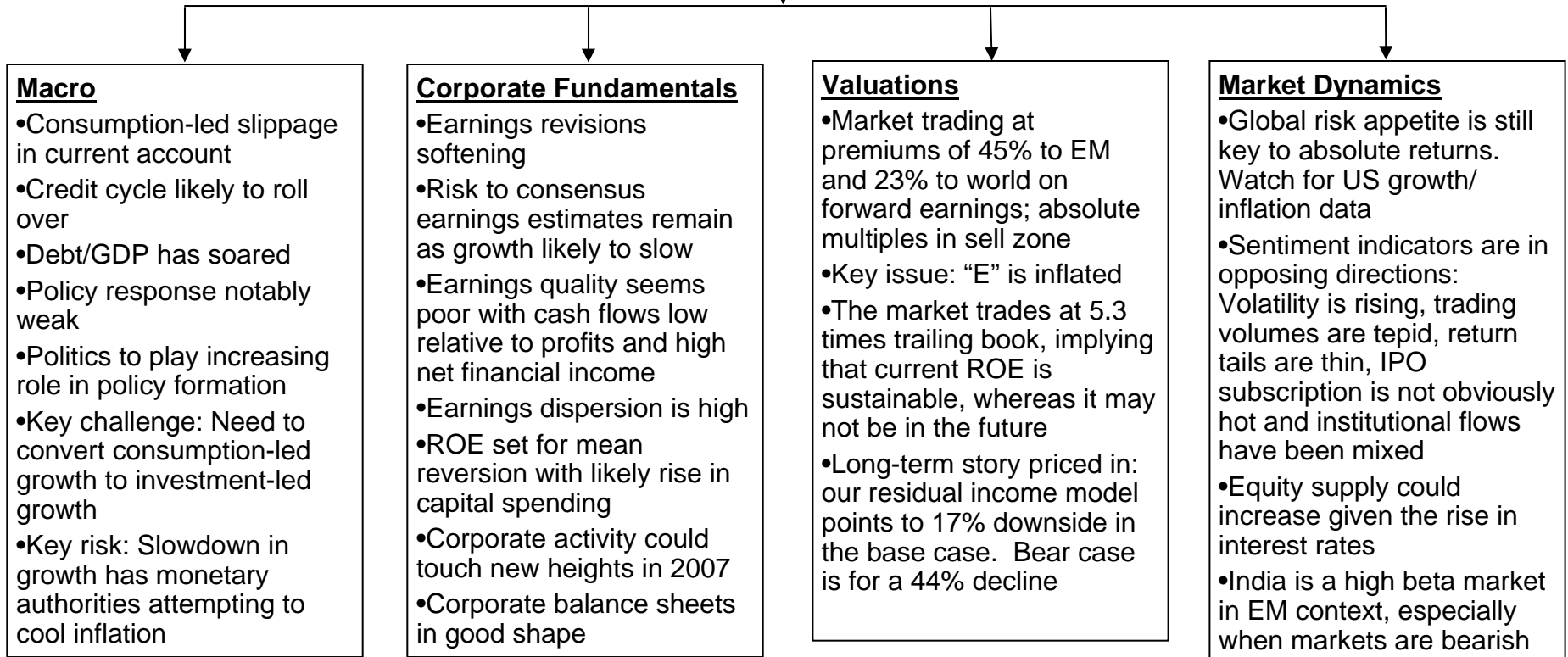
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INVESTMENT STRATEGY SUMMARY



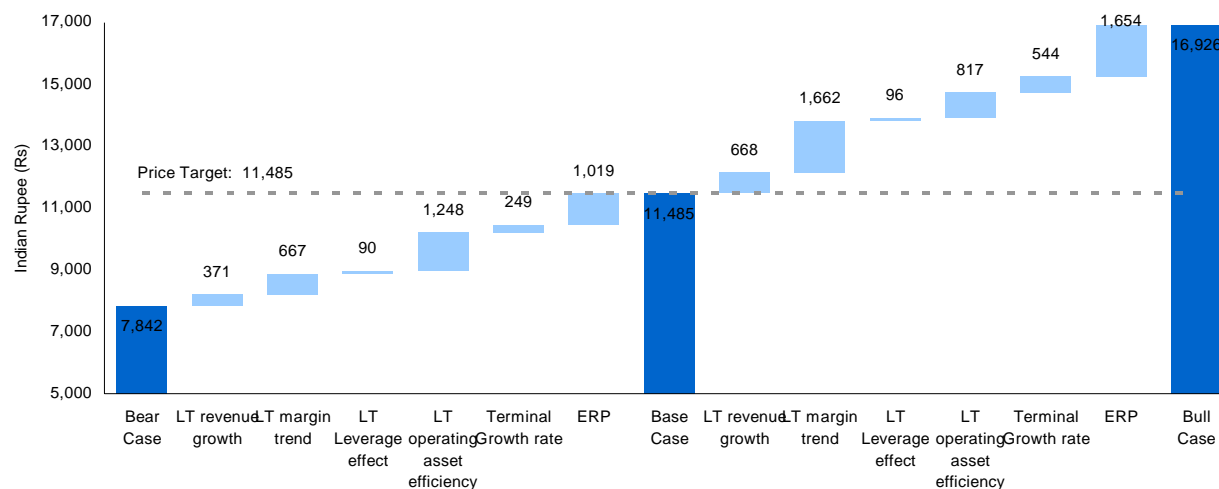
Sectors and Stocks: We continue to back defensive sectors where we see better valuations. We highlight five screens for investors – one based on beta, one on price momentum, one on a combination of valuations, ownership and love (defined by trading volumes and relative performance), one on a regression analysis using ROE and P/B and the last one using inter-stock correlations.

INVESTMENT STRATEGY SUMMARY

Scenario Analysis for Indian Equities

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

Source: Morgan Stanley Research estimates



INVESTMENT STRATEGY SUMMARY

Scenario Analysis for Indian Equities

Key Factors Driving Market Returns Over the Next 12 Months



Source: Morgan Stanley Research estimates

Investment Thesis

Long-term story driven by strong dividend growth with falling volatility in growth, a structural liquidity story and a robust capital market infrastructure that allows investors to leverage India's ROE-focused entrepreneurs.

The story may be in the price, especially in the context of the risks. Our residual income valuation model suggests downside of 17% to the market by the end of 2007.

The falling price of risk has been at the helm of India's cyclical surge and equity market performance. Our base case is that risk appetite will likely fall in 2007.

Potential Catalysts

Price of risk is the key trigger – global liquidity could be the delta. A growth and/or inflation surprise could be key inputs.

Crude oil prices

Slowdown in credit growth

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

Politics

Upside Risks

Sustained risk appetite

Politics and policy – surge in reforms

Large FDI flows

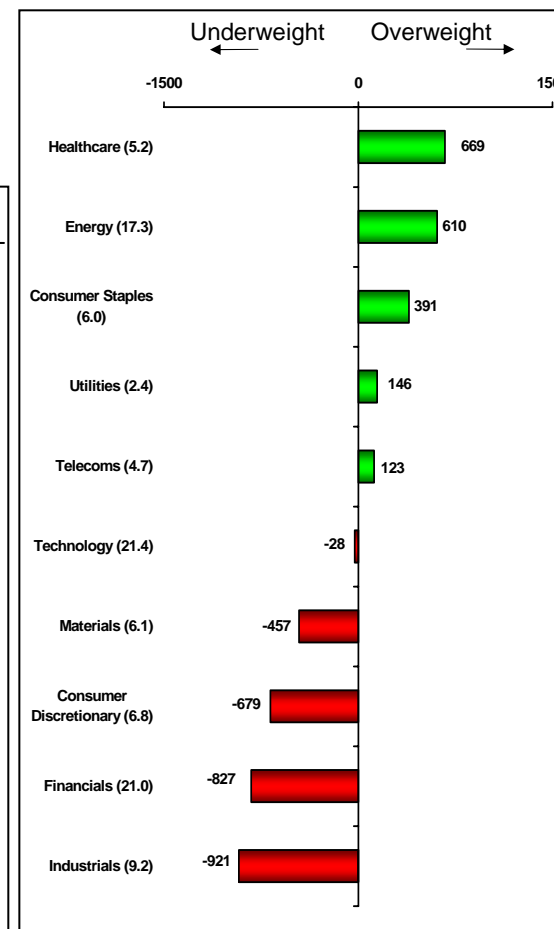
INDIA MODEL PORTFOLIO

Sector Weights:

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

Company	Reuters Ticker	MSCI Weight (%)	Portfolio Weight (%)	Over/Under Weight (bps)	Price (Rs) 27/4/07	Mkt Cap US\$m	Avg 3M T/O US\$m	Analyst Rating	YTD Perf. (%)
Consumer Discretionary		6.8	0.0	-679					
Consumer Staples		6.0	9.9	391					
Hindustan Lever Ltd	HLL.BO	2.4	5.9	350	209.5	11,269	19.6	Overweight	-3.3
Godrej Consumer Products	GOCP.BO	NA	2.0	200	139.3	769	0.5	Overweight	-7.1
Dabur India	DABU.BO	NA	2.0	200	95.0	1,996	2.8	Overweight	-3.0
Energy		17.3	23.4	610					
Oil & Natural Gas Corp.	ONGC.BO	3.4	6.4	300	929.3	48,586	28.7	Overweight	6.8
Reliance Industries Ltd.	RELI.BO	13.1	15.1	200	1,538.2	54,644	108.1	Overweight	21.1
Hindustan Petroleum	HPCL.BO	0.3	1.8	150	268.8	2,227	3.6	Underweight	-3.5
Financials		21.0	12.8	-827					
HDFC Bank Ltd.	HDBK.BO	3.1	3.1	0	1,016.5	7,936	20.6	Equal-Weight	-5.0
ICICI Bank	ICBK.BO	8.1	7.6	-50	933.7	20,403	38.2	Equal-Weight	4.9
Union Bank of India	UNBK.BO	NA	2.0	200	107.7	1,330	2.4	Overweight	-12.2
Healthcare		5.2	11.9	669					
Dr. Reddy's Lab	REDY.BO	1.3	3.1	180	711.8	2,915	12.8	Overweight	-12.3
Lupin	LUPN.BO	NA	1.3	125	696.3	1,425	2.9	Overweight	13.8
Ranbaxy Laboratories	RANB.BO	0.8	2.8	200	370.0	3,612	13.1	Overweight	-5.6
Sun Pharma	SUN.BO	0.8	4.3	350	1,035.9	5,245	7.9	Overweight	5.8
Sun Pharma Adv Res #	NA	NA	0.5	50	NA	NA	NA	NA	NA
Industrials		9.2	0.0	-921					
Materials		6.1	1.5	-457					
Steel Authority of India	SAIL.BO	NA	1.5	150	132.3	13,357	41.6	Overweight	48.3
Technology		21.4	21.1	-28					
Infosys Technologies Ltd.	INFY.BO	13.7	14.7	100	2,006.8	28,020	87.7	Overweight	-10.4
Patni Computer Systems	PTNI.BO	NA	1.0	100	455.5	1,540	3.2	Overweight	9.0
Tata Consultancy Services	TCS.BO	2.4	5.4	300	1,234.5	29,529	48.1	Overweight	1.3
Telecoms		4.7	5.9	123					
Reliance Communications	RLCM.BO	3.9	5.9	200	460.2	22,997	91.0	Overweight	-2.4
Utilities		2.4	3.8	146					
Reliance Energy	RELE.BO	0.8	1.8	100	508.9	2,843	9.7	Overweight	-2.1
GAIL India	GAIL.BO	1.0	2.0	100	284.6	5,882	5.6	Overweight	8.8
Cash		0.0	9.7	973					

Percentage Weighting Over/Under MSCI Benchmark



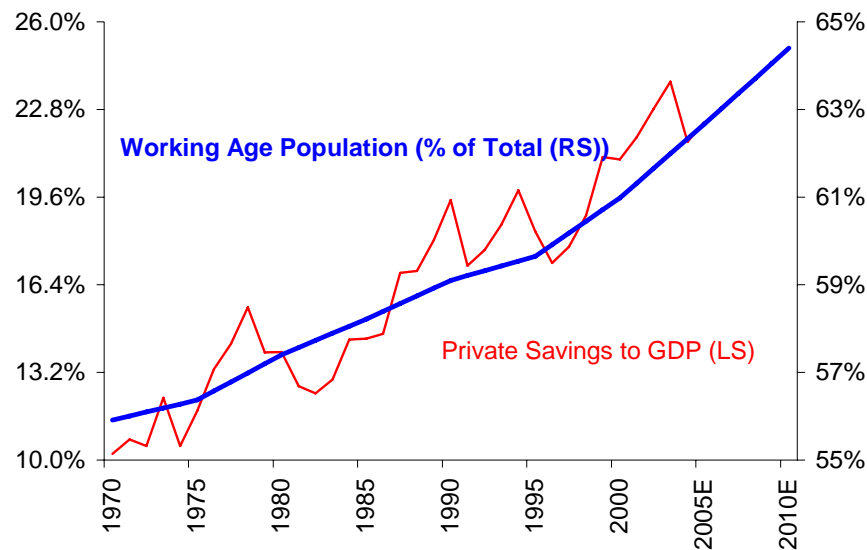
NA = Not available; Source: Bloomberg, Morgan Stanley Research, # Sun Pharmaceutical Industries has been split since 23rd April 2007 and the new company is Sun Pharma Advanced Research Co. Ltd (SPARC). We have valued SPARC using the difference in the Sun Pharma stock price on the day before split and at the end of the first day of trading post split.

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

MACRO

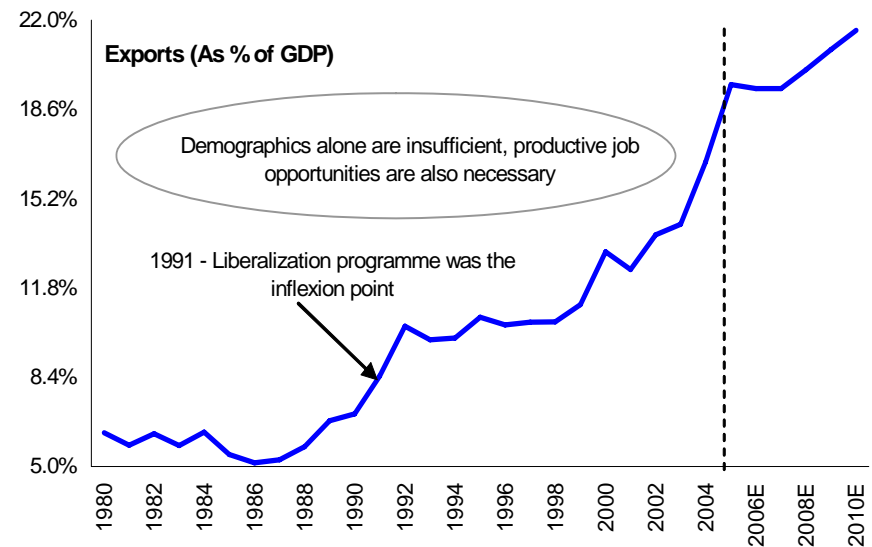
India's long-term growth story is an interplay of the DRG factors, i.e., demographics, reforms and globalization.

Private savings should keep rising, driven by improving share of working age population and...



Source: UN, CSO, CEIC, Morgan Stanley Research; E= Morgan Stanley Research Estimates

... higher exports

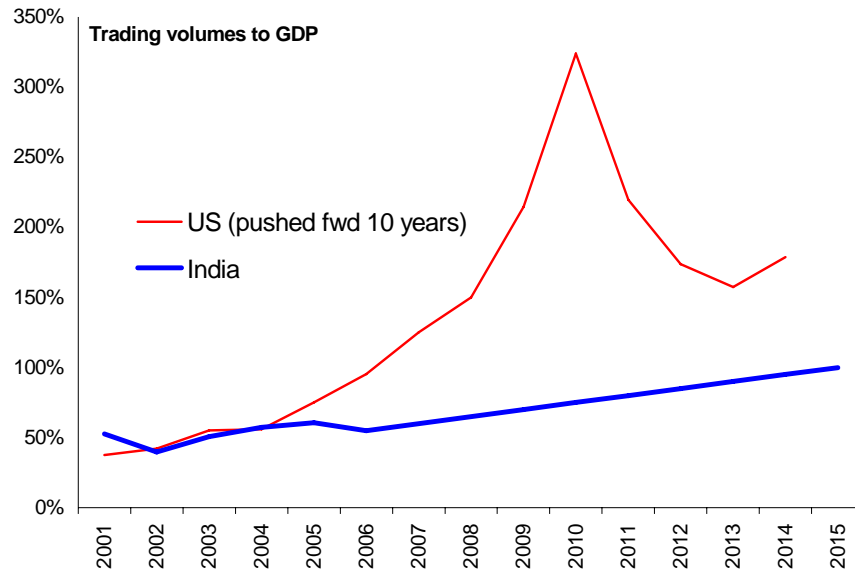


Source: WTO, Morgan Stanley Research; E= Morgan Stanley Research Estimates

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India brings four advantages to the table: Strong dividend growth with falling volatility in growth, a structural liquidity story and a robust capital market infrastructure that allows investors to leverage India's ROE-focused entrepreneurs.

Advanced Capital Market Infrastructure



Source: BSE, NSE, World Federation of Exchanges, Morgan Stanley Research

India: A Coming Boom in Equity Savings

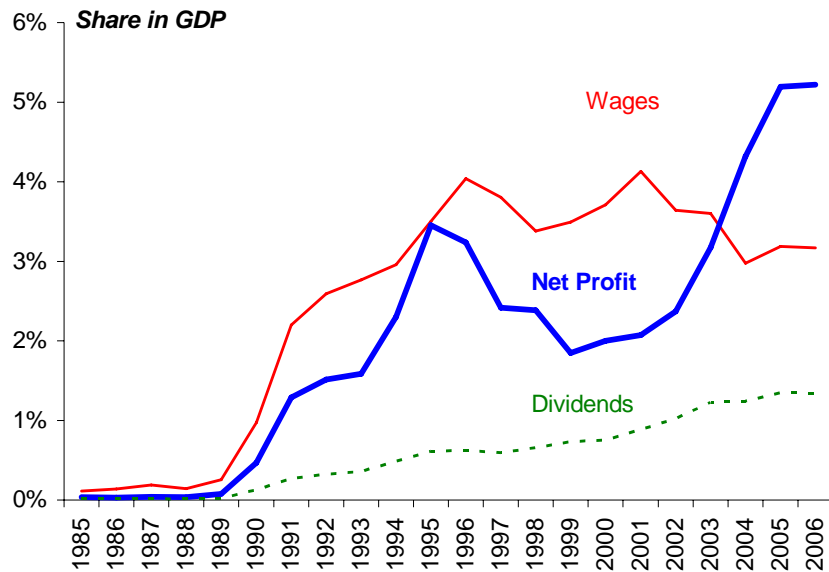
	GDP (Rs b)	Financial Savings (Rs b)	Financial Savings to GDP	Equity Savings	Equities to Financial Savings	Flows into Equity MF	MF flows as a % of equity savings
F2005	31,214	4,357	14.0%	50	1.1%	65	130%
F2006	35,315	5,887	16.7%	290	4.9%	371	128%
F2007E	39,986	6,765	16.9%	367	5.4%	275	75%
F2008E	44,631	7,663	17.2%	454	5.9%	318	70%
F2009E	49,540	8,629	17.4%	555	6.4%	388	70%
F2010E	54,990	9,716	17.7%	673	6.9%	471	70%
F2011E	61,038	10,937	17.9%	812	7.4%	569	70%
F2012E	67,753	12,310	18.2%	976	7.9%	683	70%
F2013E	75,205	13,852	18.4%	1167	8.4%	817	70%
F2014E	83,478	15,585	18.7%	1391	8.9%	974	70%
F2015E	92,661	17,530	18.9%	1653	9.4%	1157	70%
F2016E	102,853	19,716	19.2%	1957	9.9%	1370	70%

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

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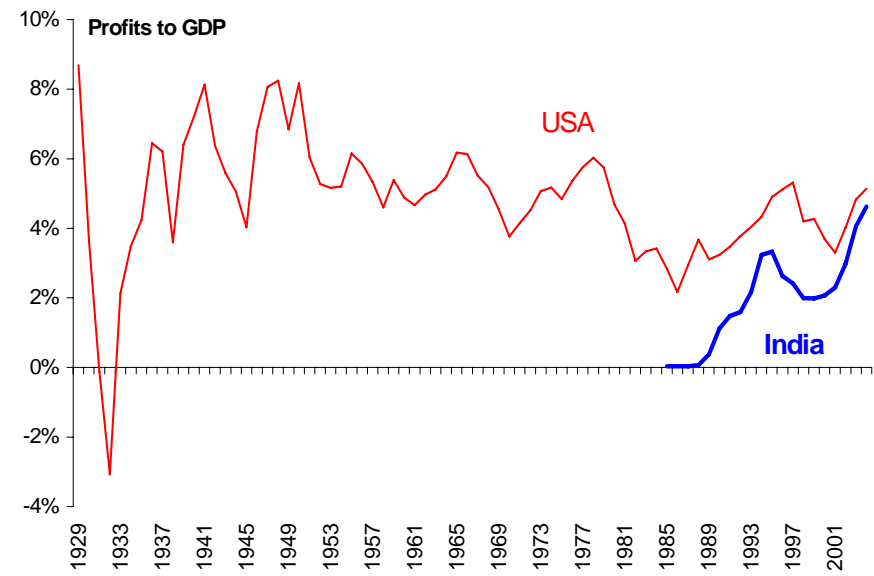
Structurally, the inflexion point has been the arrival of capitalism with its obvious positive implications for equity owners.

Share of Profits in GDP: The Birth of Capitalism



Source: Capitaline, Morgan Stanley Research

Cyclical Factors May Be Causing Overstatement of Profits

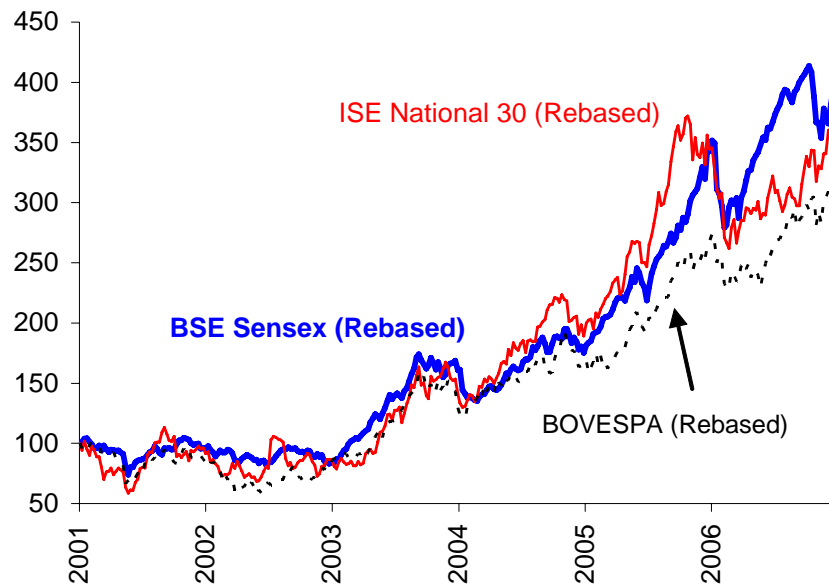


Source: CMIE, Morgan Stanley Research

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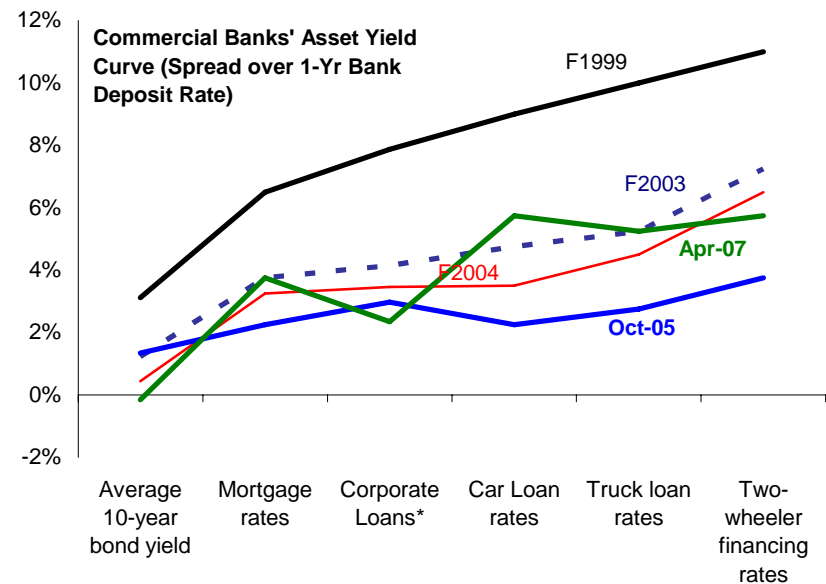
Price of risk, i.e. global risk appetite, has been critical to Indian equities over the past four years. Consequently, a lot of debt has been added to the consumer and government's balance sheet.

India and EM Constituents: Move In Sync



Source: Bloomberg, Morgan Stanley Research

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

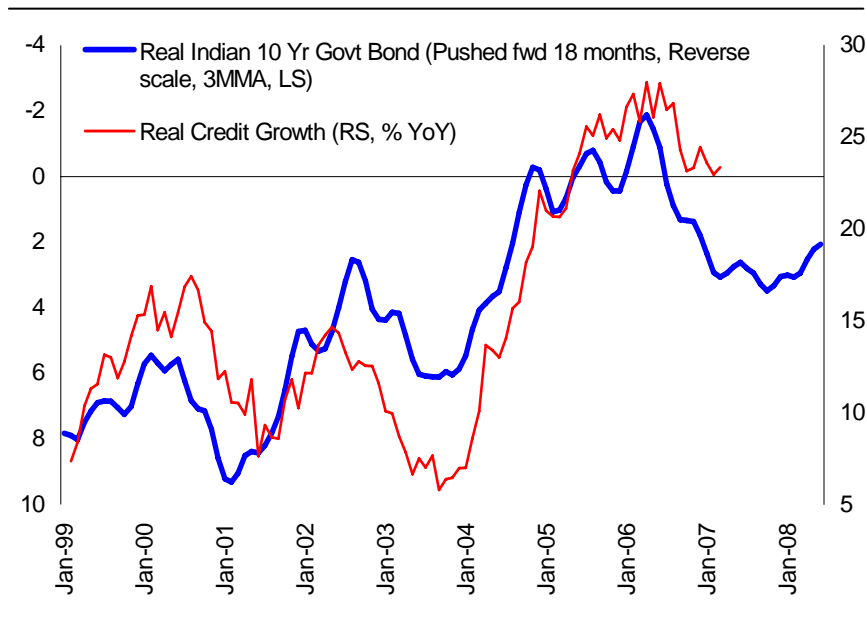


Source: CSO, CEIC, RBI, Company Data, Morgan Stanley Research

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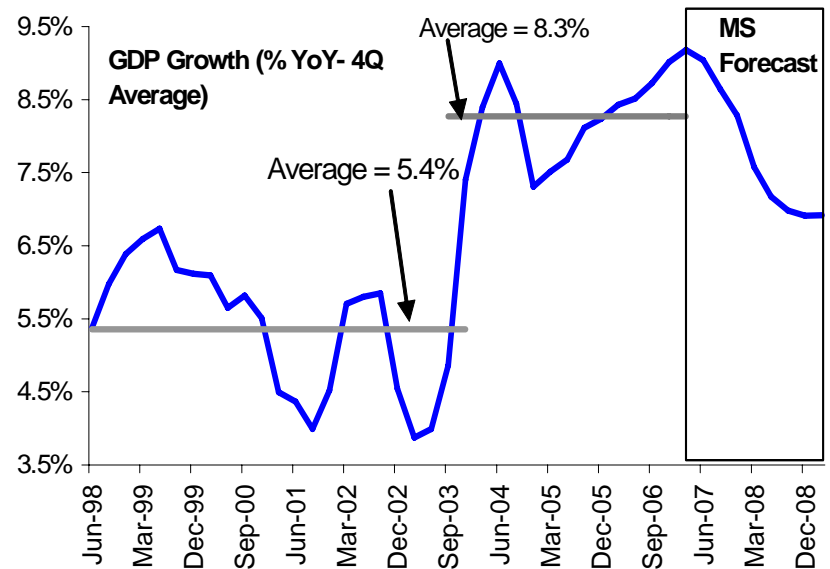
The credit cycle is likely to roll over with a tightened monetary stance. We forecast a growth slowdown over the next few months.

Aggregate Debt to GDP



Source: RBI, Bloomberg, Morgan Stanley Research

GDP Growth Is Above Trend But Threatening to Drop



Source: CSO, Morgan Stanley Research

MACRO

20 elections scheduled for the coming 24 months does not make it easy for progressive policy action.

20 Major Elections in the Coming Two-Odd Years

State	Date Due	Incumbent Party
Goa	2007	Congress
Gujarat	2007	BJP
Jammu & Kashmir	2007	Congress
Uttar Pradesh	2007	Samajwadi Party and allies
Chhattisgarh	2008	BJP
Delhi	2008	Congress
Himachal Pradesh	2008	Congress
Madhya Pradesh	2008	BJP
Meghalaya	2008	Congress
Mizoram	2008	MNF
Nagaland	2008	NPF
Rajasthan	2008	BJP
Tripura	2008	CPI (M)
Andhra Pradesh	2009	Congress
Arunachal Pradesh	2009	Congress
Karnataka	2009	Janata Dal
Maharashtra	2009	Congress + NCP
Orissa	2009	BJD + Allies
Sikkim	2009	SDF

Source: eci.gov.in

Regional Parties at the Helm of Affairs

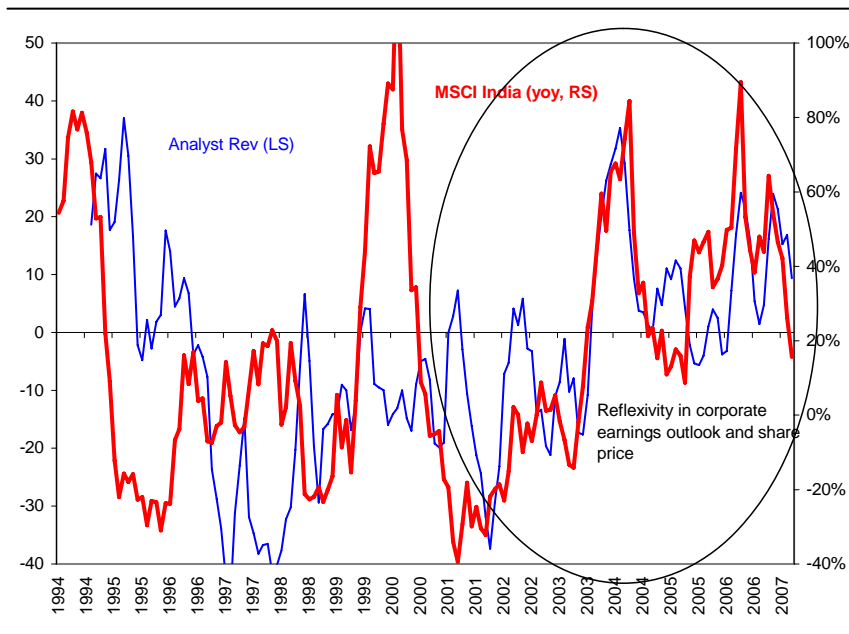
Year	Vote share			Seat Count		
	BJP	Congress	Others	BJP	Congress	Others
1984	7.7%	49.1%	43.2%	2	404	137
1989	11.4%	39.5%	49.1%	85	197	261
1991	20.0%	36.6%	43.4%	120	244	179
1996	20.3%	28.8%	50.9%	161	140	242
1998	25.6%	25.8%	48.6%	182	141	220
1999	23.8%	28.3%	48.0%	182	114	247
2004	22.2%	26.7%	51.2%	138	145	260

Source: eci.gov.in

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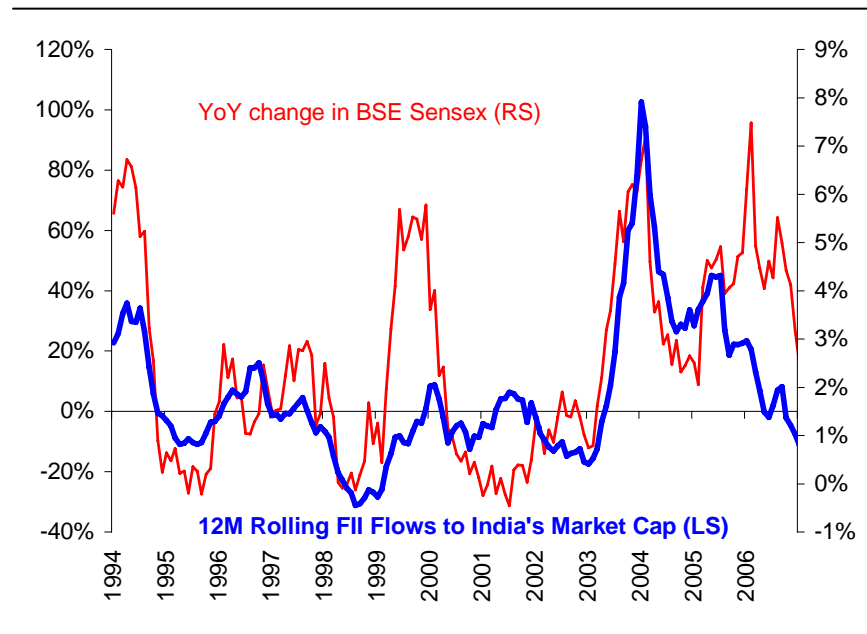
The market has to also deal with the reflexivity between share prices and corporate earnings that we have observed. The earnings outlook seemingly improves with rising share prices and vice versa.

Reflexivity: Earnings And Share Prices – Chicken and Egg



Source: Factset, Morgan Stanley Research

India: FII Flows Important To Share Prices

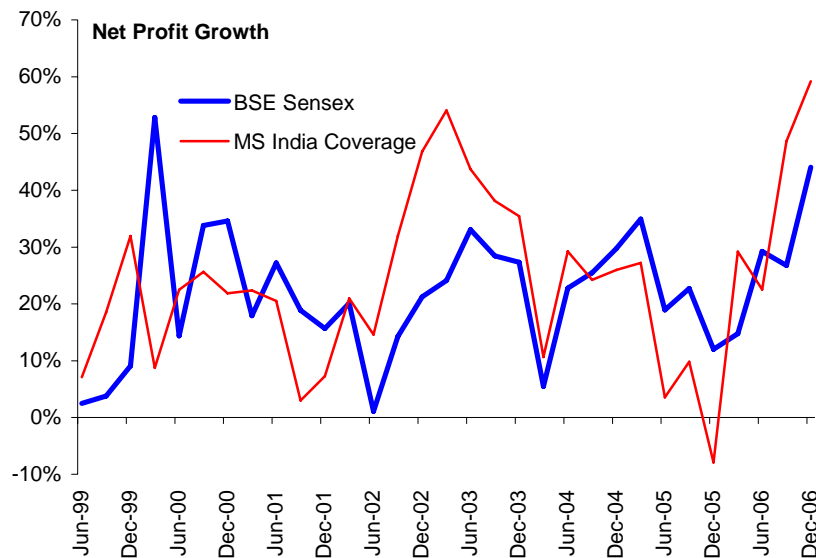


Source: SEBI, Morgan Stanley Research

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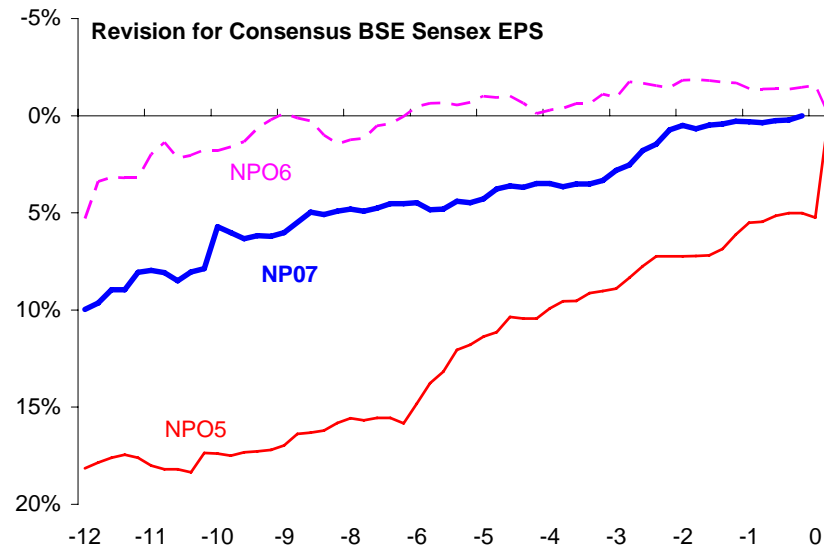
The market has benefited from strong positive earnings revisions for most of the past three years.

Strong Broad Based Earnings Growth



Source: BSE, Capitaline, Company data, Morgan Stanley Research

Strong Earnings Revisions Over The Past 3 Years

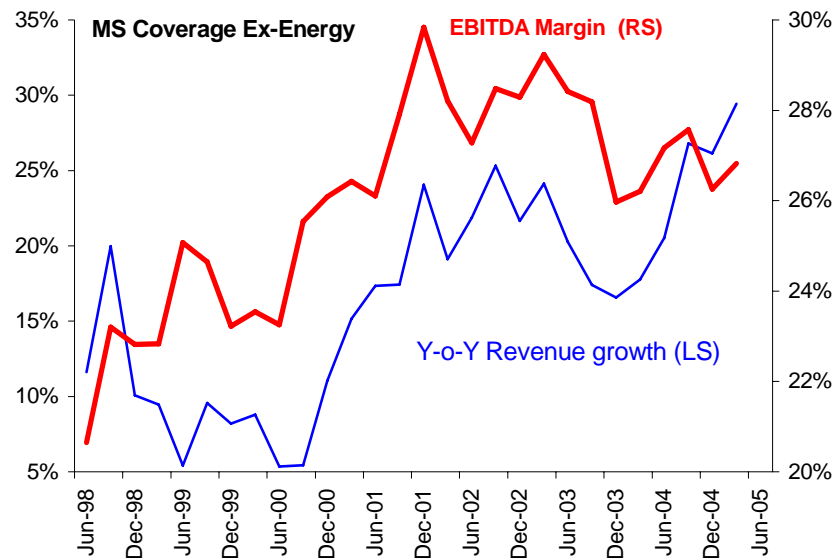


Source: IBES, FactSet, Morgan Stanley Research

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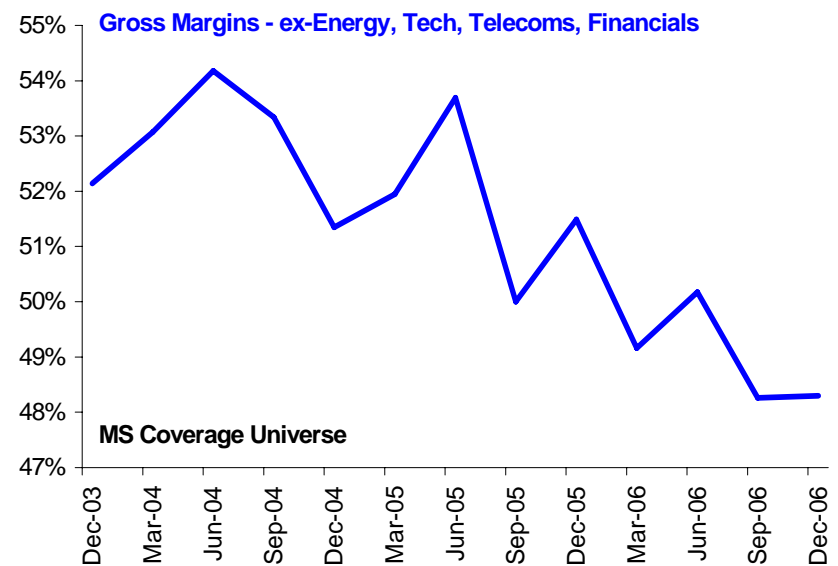
Revenue growth has been the key driver to recent earnings growth. However, there are a few headwinds to earnings including the reflexivity between share prices and earnings and falling pricing power.

Revenue Growth: Key to Recent Earnings



Source: Company data, Morgan Stanley Research

Gross Margins Decline: Lack of Pricing Power

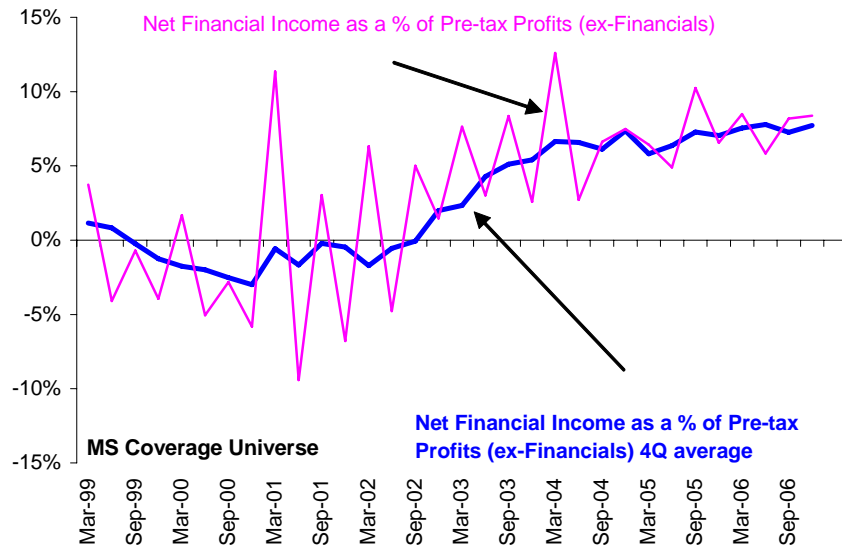


Source: Company Data, Morgan Stanley Research

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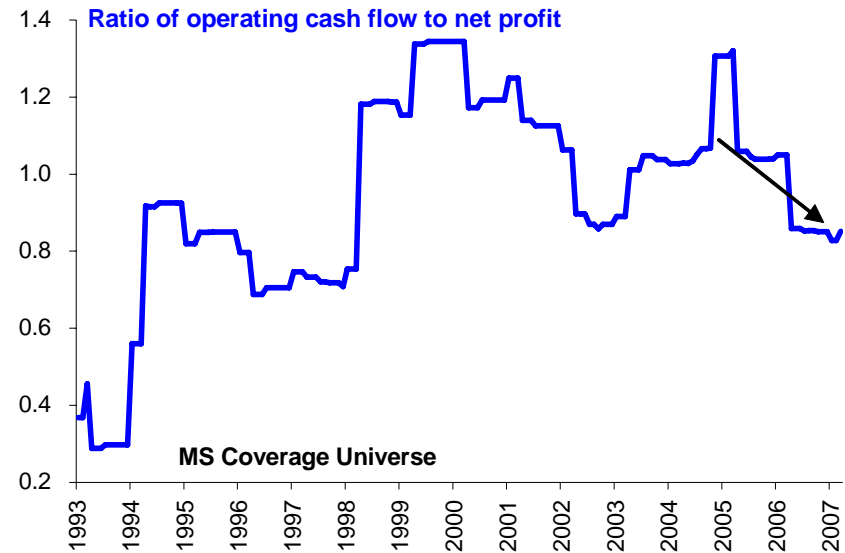
The other problem is the slippage in earnings quality. The ratio of operating cash flow to net profit is at an eight-year low. Earnings also seem dependent on financial income which in turn is a function of asset markets and cash balances.

Rising Share of Financial Income in Net Earnings



Source: Company data, Morgan Stanley Research

Earnings Quality Slipping

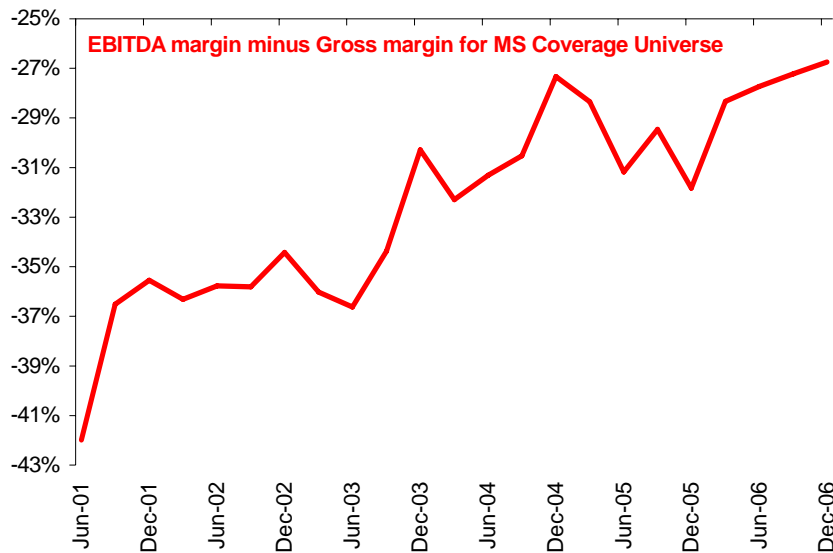


Source: Company data, Morgan Stanley Research

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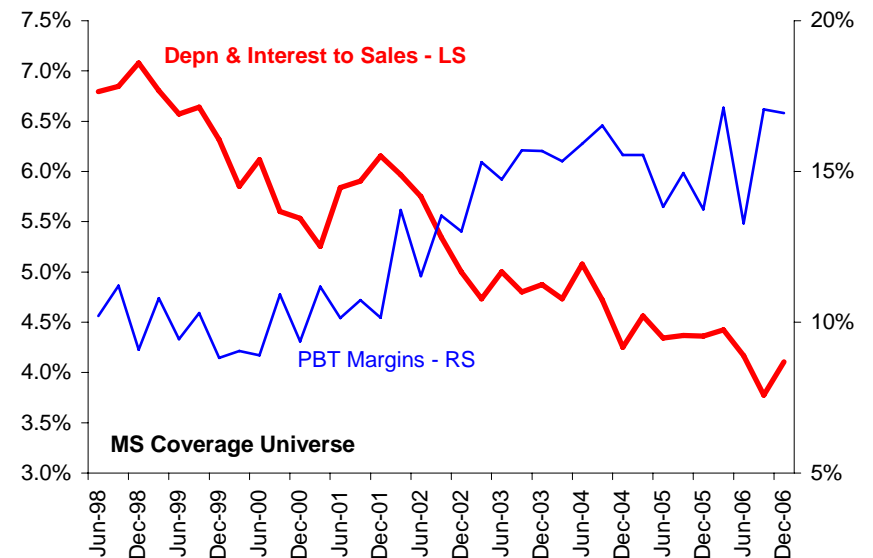
Operating leverage has been high led by the collapse in capital costs. We believe capital costs could be heading for mean reversion.

Operating Leverage Has Soared



Source: Company data, Morgan Stanley Research

Capital Costs Have Plummeted



Source: Company data, Morgan Stanley Research

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While the sector concentration of earnings seems tolerable, the dispersion of earnings at the stock level is high and indicates dependence on a few companies to generate aggregate growth. For example, five companies account for 50% of the aggregate earnings of the BSE Sensex constituents.

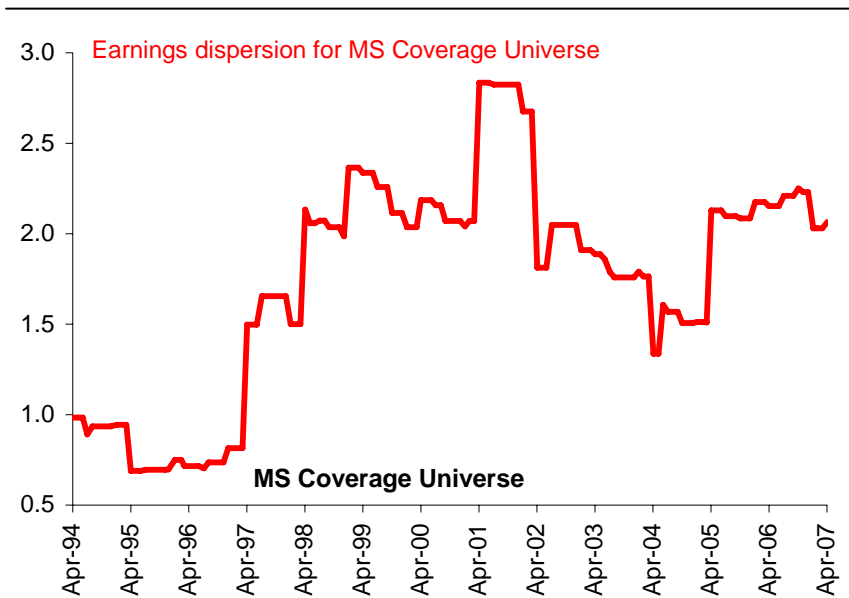
Sectoral Contribution of Earnings

	Share in Aggregate Net Profit					Sector Contribution to growth			
	Avg 10 years	F06	F07	F08	F09	F06	F07	F08	F09
Cons Disc	6.2%	7.1%	6.7%	6.9%	7.3%	15.0%	5.7%	8.3%	9.6%
Industrials	3.9%	5.5%	6.5%	5.4%	3.7%	7.6%	9.9%	-2.4%	-9.2%
Energy	36.2%	30.6%	28.7%	27.4%	27.6%	7.7%	22.2%	18.8%	28.9%
Telecom	5.1%	3.5%	6.4%	7.4%	8.5%	8.6%	16.0%	14.2%	17.3%
Utilities	7.2%	7.9%	7.4%	7.3%	7.3%	17.3%	5.5%	6.9%	7.5%
Consumer	6.1%	5.1%	4.4%	4.5%	4.6%	11.0%	2.0%	4.7%	6.0%
Financials	16.3%	16.2%	13.7%	13.9%	14.2%	27.2%	5.2%	15.6%	16.4%
Healthcare	3.1%	2.8%	3.2%	3.2%	3.2%	2.6%	4.6%	3.6%	3.1%
Technology	7.1%	9.2%	10.3%	11.2%	11.7%	20.2%	13.9%	17.3%	15.4%
Materials	8.9%	12.0%	12.7%	12.8%	11.8%	-17.2%	15.1%	12.9%	5.1%
Global Resources	45.1%	42.6%	41.4%	40.2%	39.4%	-9.6%	37.2%	31.7%	34.0%
Domestic Cyclicals	26.4%	28.8%	26.9%	26.3%	25.1%	49.9%	20.8%	21.6%	16.7%

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Earnings Dispersion Has Headed Higher



Source: Company data, Morgan Stanley Research

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ROE will likely decline with slowing growth. Most of the ROE of the past few years has come from rising utilization and the positive effect of financial leverage. The sectors most vulnerable seem to be consumer discretionary, energy and industrials.

ROE: Cap Utilization & Financial Leverage Driven

Components of ROE Change	Annual Increase in ROE	Financial Leverage	Capacity Utilization	Operating Performance
F1996	0.7%	0.6%	0.3%	-0.2%
F1997	-2.8%	-1.4%	0.3%	-1.7%
F1998	0.2%	0.2%	-1.1%	1.0%
F1999	-1.4%	-1.0%	0.3%	-0.8%
F2000	0.0%	0.0%	2.2%	-2.2%
F2001	2.1%	0.5%	1.8%	-0.2%
F2002	-0.4%	0.2%	-1.0%	0.5%
F2003	3.7%	1.3%	0.5%	1.9%
F2004	2.0%	0.8%	1.1%	0.1%
F2005	2.3%	0.7%	2.7%	-1.1%
F2006	-2.4%	-0.5%	-0.3%	-1.6%
Cumulative change since				
F2003	5.6%	2.2%	4.0%	-0.6%
F1996	4.0%	1.3%	6.8%	-4.1%

Source: Capitaline, Morgan Stanley Research

ROE: Cyclical Sectors at Risk

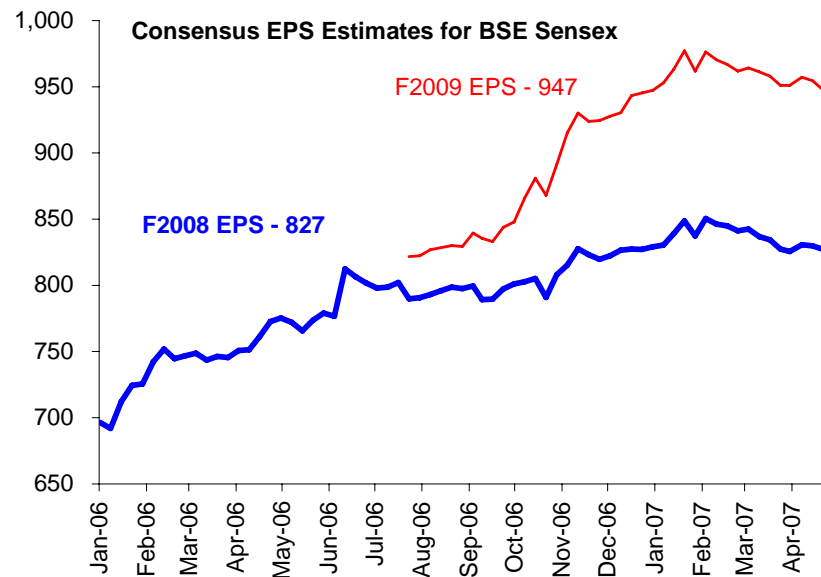
	Current ROE	Current to Max	Current as SD from avg	Change in ROE over 4 years
MSCI India	24%	100%	258%	5.7%
Consumer Discretionary	23%	90%	118%	9.2%
Consumer Staples	32%	72%	-83%	-0.2%
Energy	26%	74%	101%	9.6%
Financials	17%	62%	-20%	-2.1%
Healthcare	20%	56%	-47%	-6.0%
Industrials	27%	98%	224%	15.4%
Materials	35%	59%	75%	13.8%
Technology	29%	96%	213%	12.9%
Telecommunications	23%	58%	24%	9.9%
Utilities	15%	68%	13%	-3.9%

Source: MSCI, FactSet, Morgan Stanley Research

FUNDAMENTALS

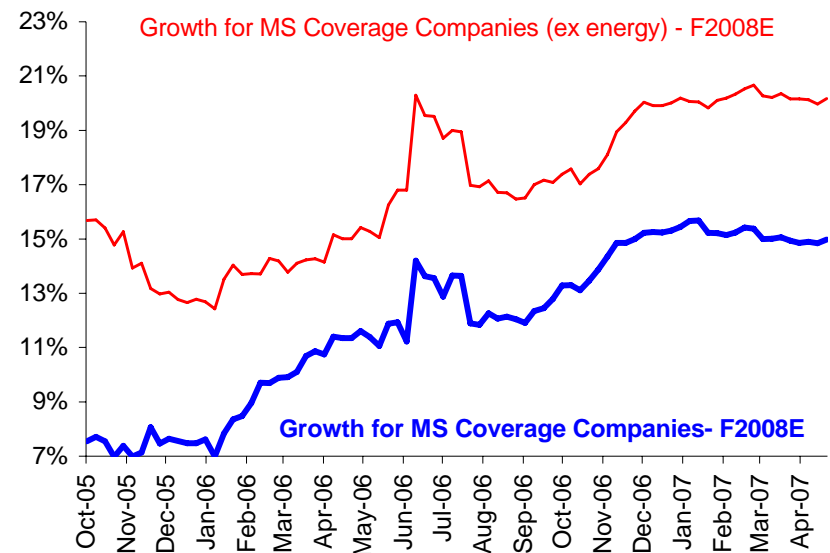
The consensus has seemingly turned soft on earnings forecasts.

Consensus Expectations: Earnings For BSE Sensex Falling



Source: Factset, IBES, Morgan Stanley Research

Consensus Expectations on Broad Market Earnings Is Flattening



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

FUNDAMENTALS

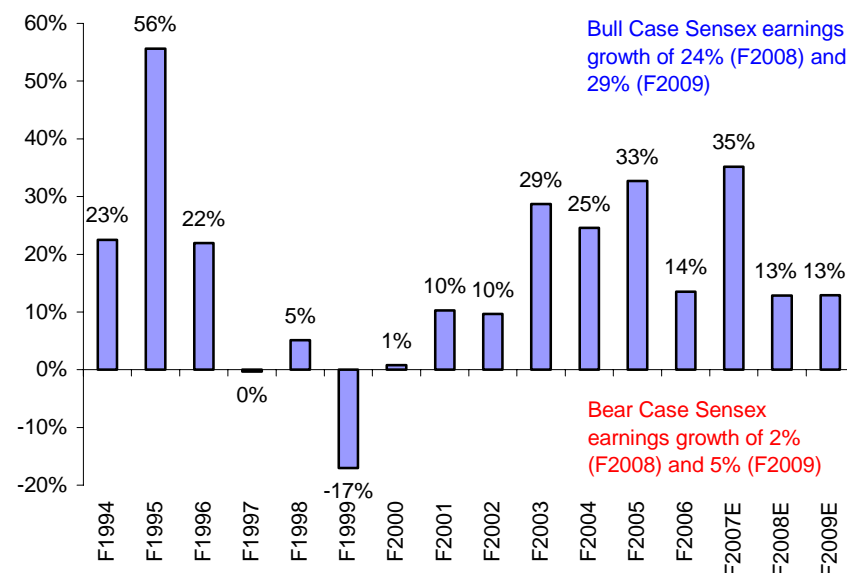
The key downside risks to earnings appear to be in consumer discretionary, consumer staples, financials and industrials sectors. The upside risks are in healthcare, energy and materials. Overall, MS analysts appear to be slightly less optimistic than the consensus.

MS vs. Consensus: Earnings Growth Expectations

	MS			Consensus		
	F2007E	F2008E	F2009E	F2007E	F2008E	F2009E
Consumer Discretionary	24%	16%	15%	22%	20%	17%
Consumer Staples	12%	11%	18%	22%	17%	10%
Energy	22%	9%	14%	25%	2%	5%
Financials	10%	17%	16%	13%	24%	21%
Healthcare	53%	17%	12%	55%	11%	19%
Industrials	52%	2%	-25%	58%	20%	13%
Materials	37%	15%	5%	38%	3%	-8%
Technology	45%	24%	17%	44%	29%	24%
Telecommunications	136%	30%	26%	114%	44%	29%
Utilities	16%	10%	9%	16%	11%	12%
MS Coverage Universe	30%	14%	12%	31%	15%	12%
Sensex	35%	13%	13%	34%	16%	16%

Note: We use the consensus estimates for BHEL while computing Sensex earnings since we do not cover the stock.
Source: IBES, Morgan Stanley Research

BSE Sensex: Earnings-Bull/Bear/Base Case (Bottom-up MS Analysts' Forecasts)

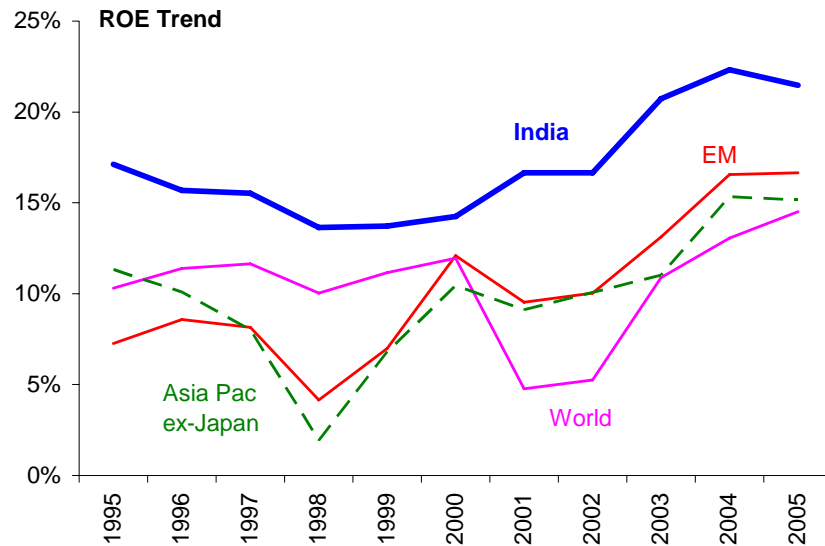


Source: IBES, Factset, Company data, Morgan Stanley Research

FUNDAMENTALS

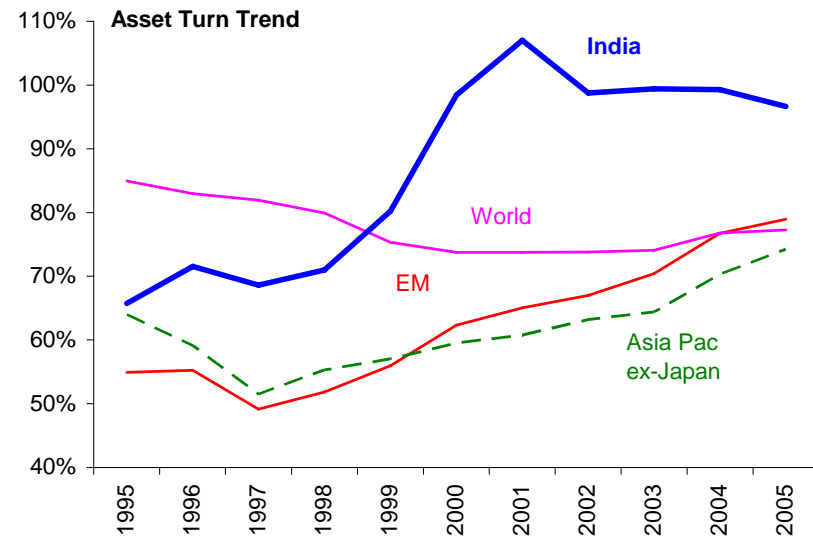
India's ROE advantage over the rest of the world has come from the aggressive use of assets, over-estimation of the life of assets, lower earnings quality and positive financial leverage. In addition to cyclical pressure on ROE, there could be structural pressure as India becomes a recipient of more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

India Dominates ROE Performance



Source: Factset, MSCI, Morgan Stanley Research

Asset Turn at the Helm of India's ROE Performance

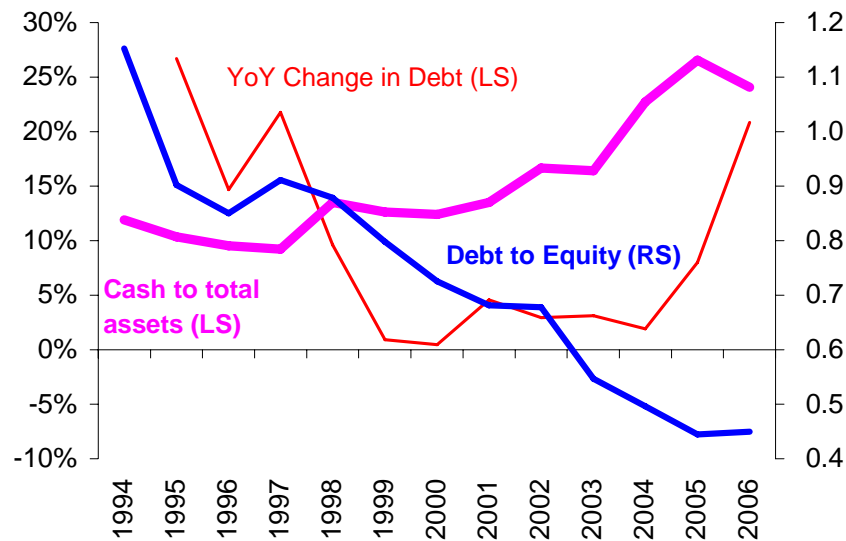


Source: Factset, MSCI, Morgan Stanley Research

FUNDAMENTALS

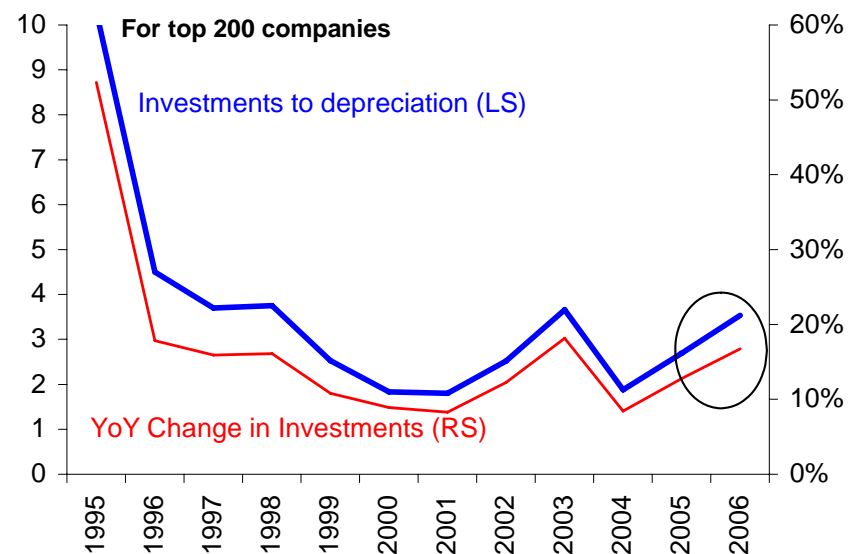
The silver lining is that corporate balance sheets are in great shape with low debt-equity, high cash balances and renewed focus on adding capital stock.

Balance Sheets Remain Solid



Source: Capitaline, Morgan Stanley Research

Smart Pickup In Capital Spending

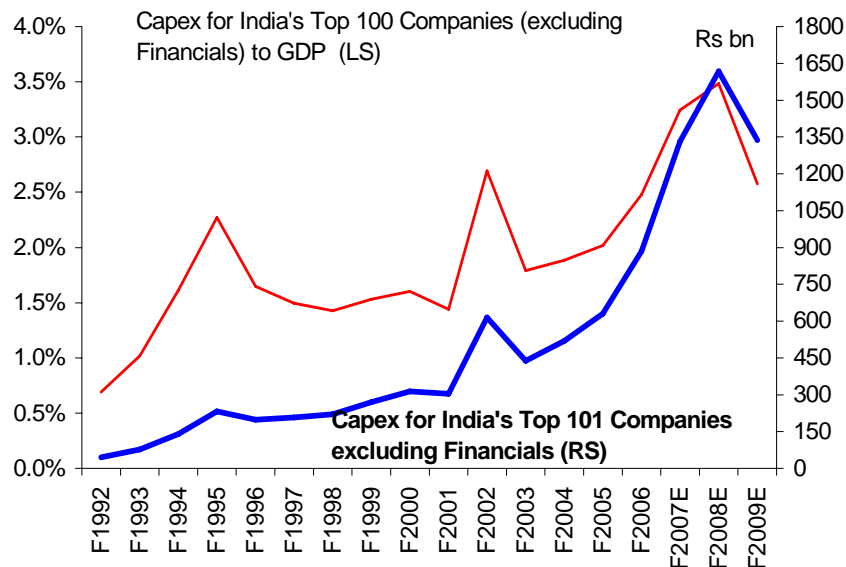


Source: Capitaline, Morgan Stanley Research

FUNDAMENTALS

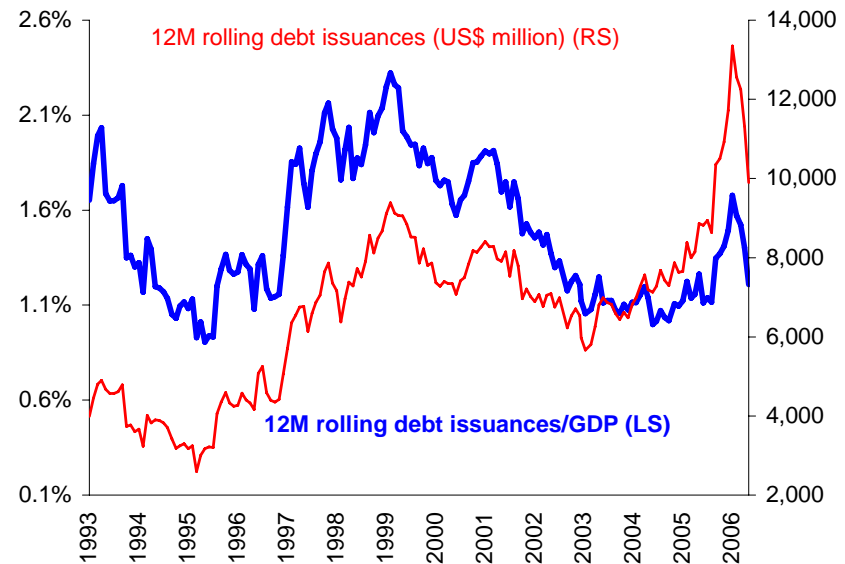
Corporate sentiment seems to be the best it has been in a decade and we expect capital spending, M&A – domestic and overseas – and capital issuances to breach five- or 10-year highs over the coming months.

Corporate Activity Scaling New Heights



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

Corporate Debt Issuances Rising

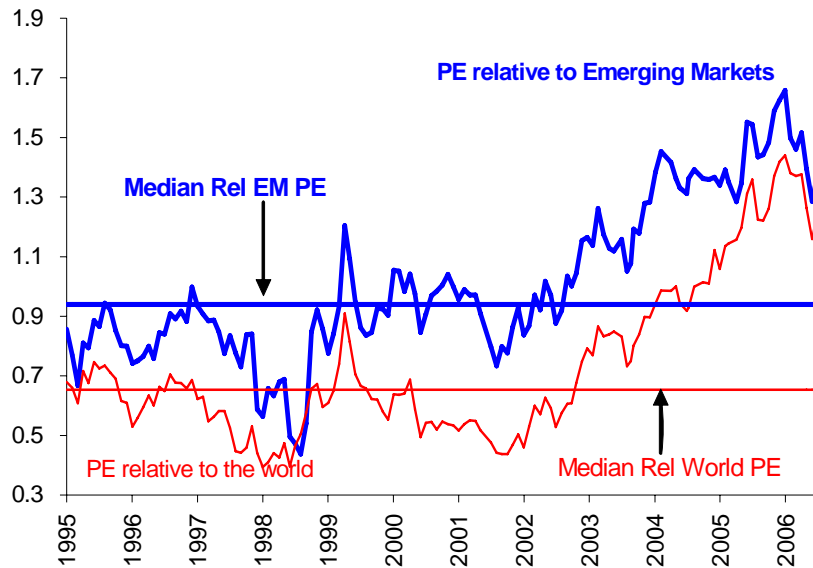


Source: CMIE, CSO, Morgan Stanley Research

VALUATIONS

India's relative multiple versus the world and emerging markets has come off its highs. Several sectors trade at premiums to history and Emerging market/Asian averages.

Relative Valuations Beyond Previous Highs



Source: Factset, MSCI, Morgan Stanley Research

Indian Sectors Trading at a Significant Premium

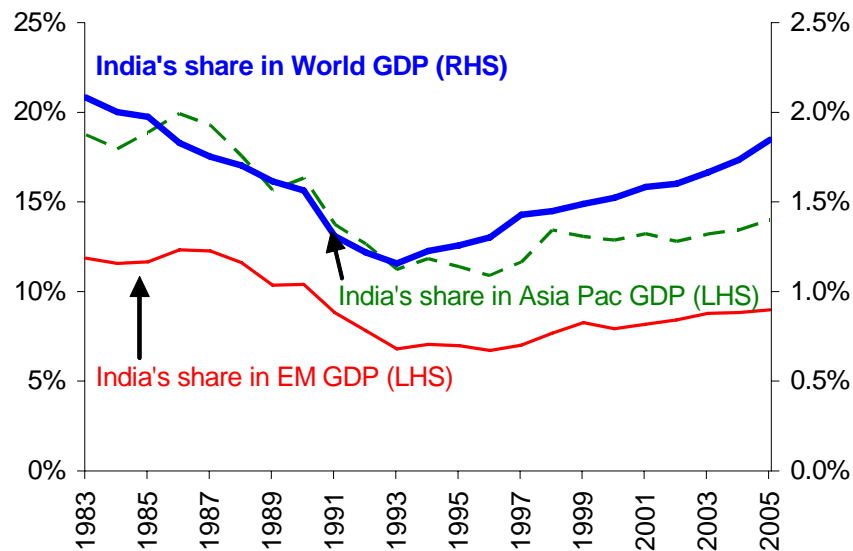
	MSCI India		Asia Pac		Emerging Markets	
	PE	Curr / Avg	Rel PE	Curr / Avg	Rel PE	Curr / Avg
Consumer Discretionary	20.3	109%	1.1	106%	1.2	101%
Consumer Staples	26.2	83%	1.1	76%	1.1	70%
Energy	16.4	154%	1.3	158%	1.6	162%
Financials	27.6	236%	1.5	216%	1.5	201%
Health Care	34.4	113%	0.9	93%	1.5	138%
Industrials	28.7	184%	1.4	169%	1.4	163%
Technology	33.5	71%	1.9	98%	1.9	102%
Materials	12.5	104%	0.9	125%	0.8	96%
Telecoms	15.5	148%	1.0	160%	0.8	132%
Utilities	14.0	141%	0.9	132%	0.7	98%

Source: Factset, MSCI, Morgan Stanley Research

VALUATIONS

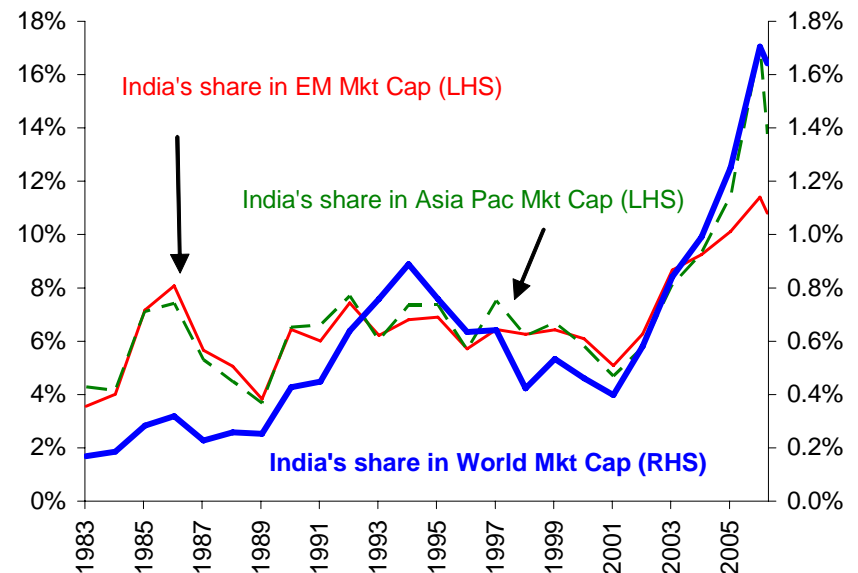
India's significant re-rating signals a distinct compression in long-term returns from equities.

India's Share in GDP Rises Marginally



Source: IMF, Morgan Stanley Research

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

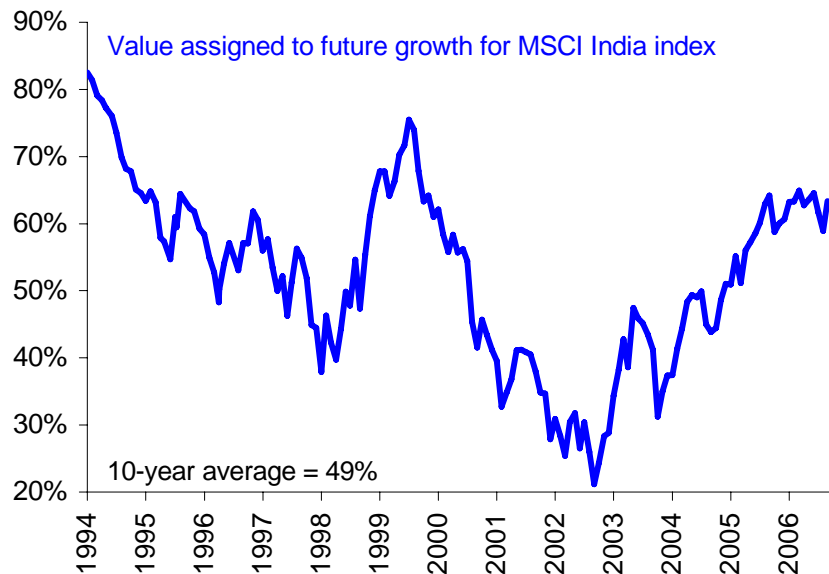


Source: Factset, Morgan Stanley Research

VALUATIONS

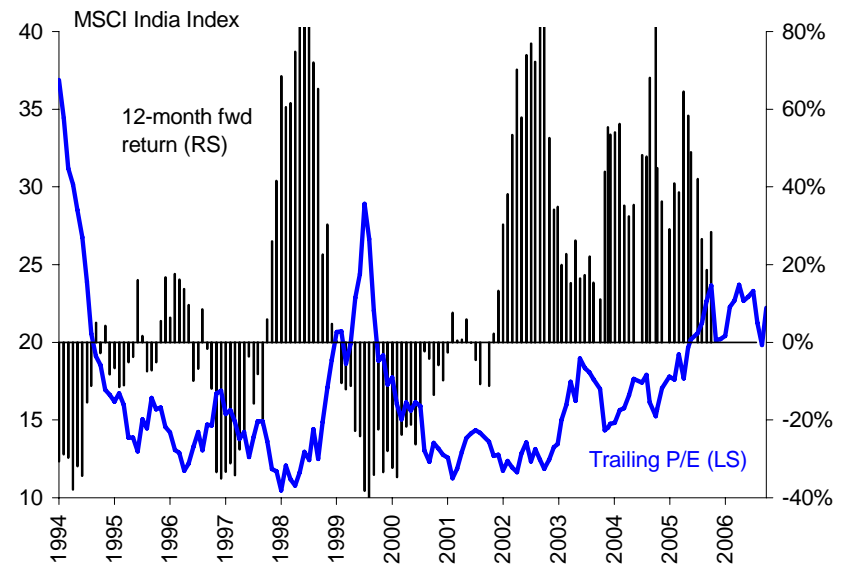
Equity valuations suggest weak short-term returns as well. Trailing P/E (at 22) indicates a negative return in the coming 12 months. Valuations indicate that the market is optimistic about the future. We estimate that 63% of the index value is attributed to future earnings growth.

More Than 60% of the MSCI India Index Is Attributed to Future Growth



Source: Factset, MSCI, Morgan Stanley Research

Valuations: Pointing to Negative Returns Over 12M

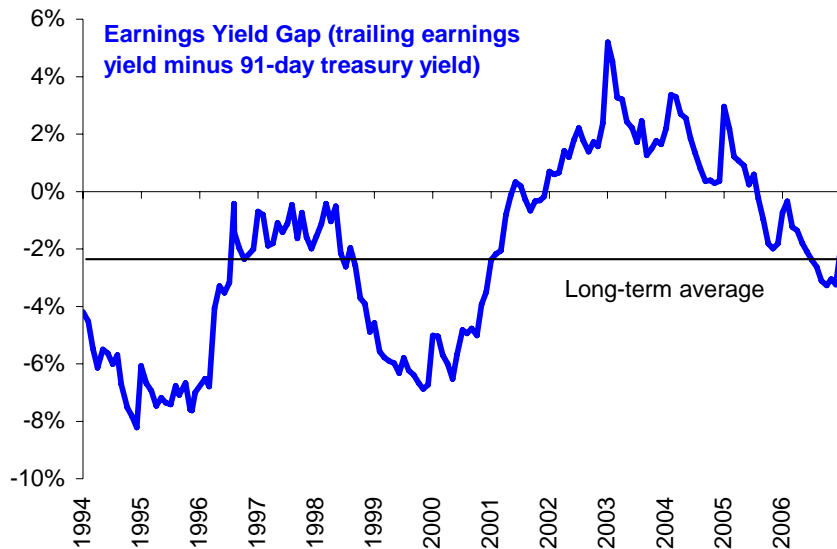


Source: Factset, MSCI, Morgan Stanley Research

VALUATIONS

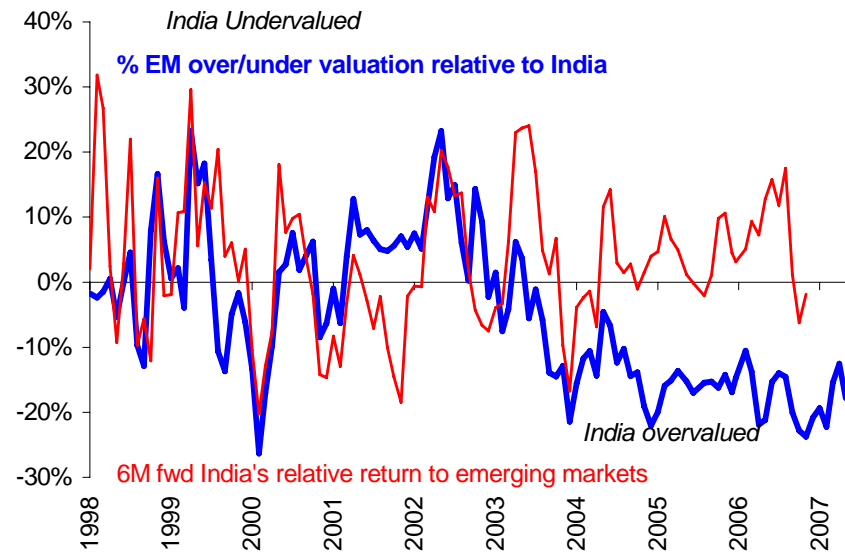
Neither the sector composition nor India's ROE superiority defends equity valuations. Valuations appear inexpensive relative to bonds but that does not tell us anything about the fairness of bond prices or whether earnings are inflated or not.

Earnings Yield Gap Below Historical Average



Source: Bloomberg, Company data, Morgan Stanley Research

India vs. EM ROE Premium More Than in the Price

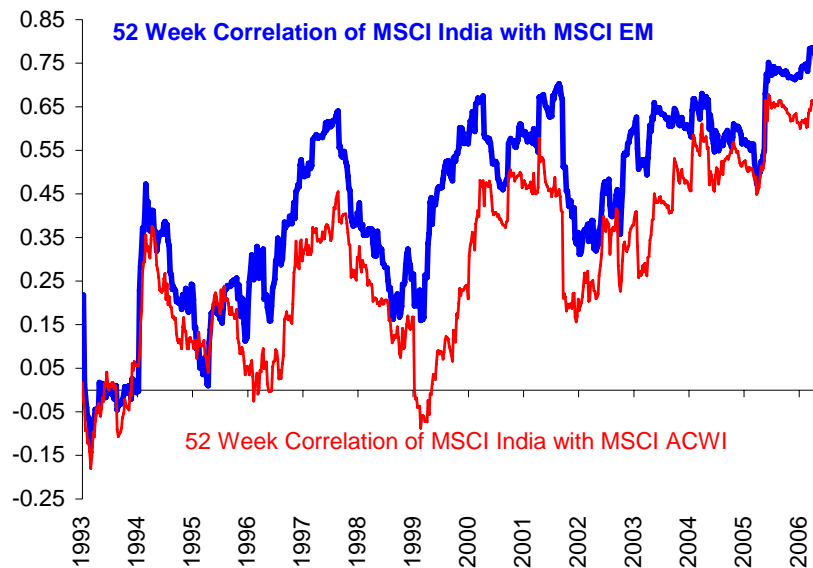


Source: MSCI, Factset, Morgan Stanley Research

MARKET DYNAMICS

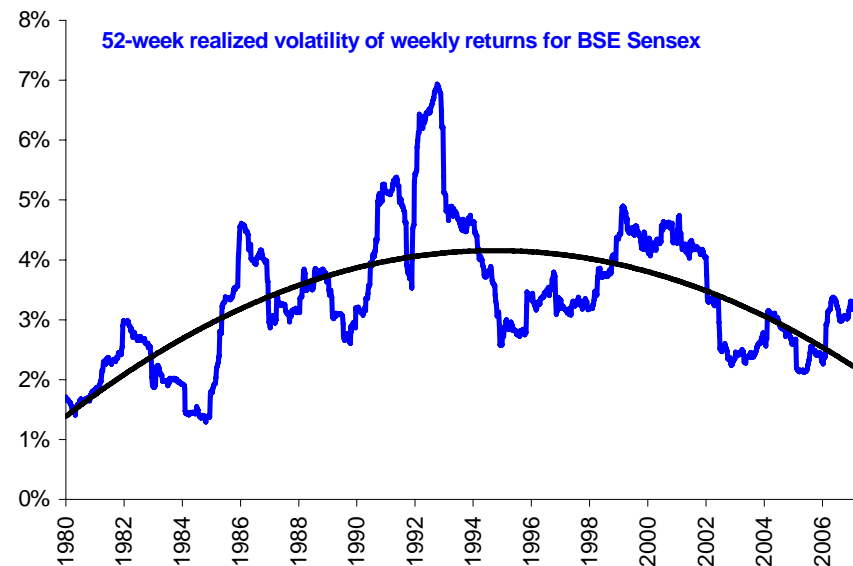
The correlation of returns on Indian equities is high relative to emerging markets and to the world. Realized volatility has spiked, which has negative implications on returns, going forward.

Indian Equities: High and Rising Correlation



Source: Factset, MSCI, Morgan Stanley Research

Realized Volatility Up and Could Go Up Further

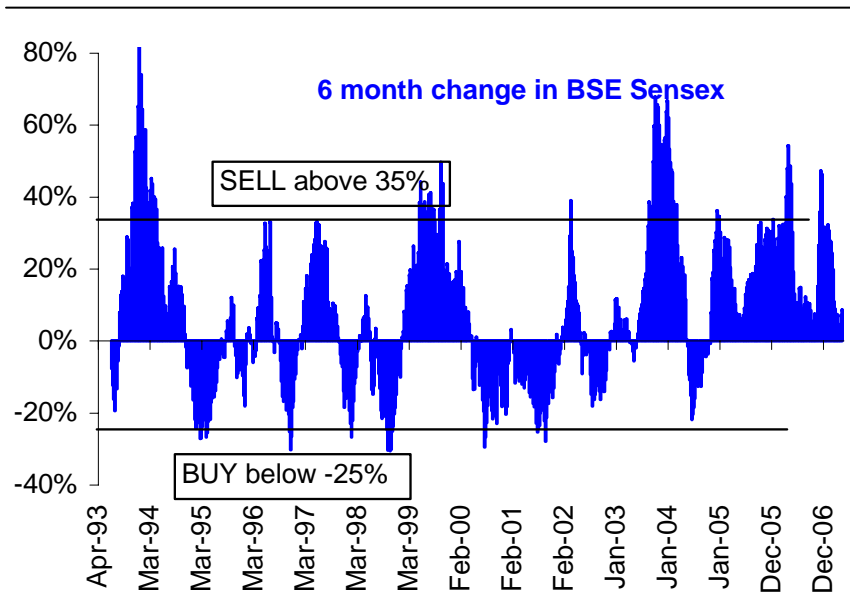


Source: Bloomberg, Morgan Stanley Research

MARKET DYNAMICS

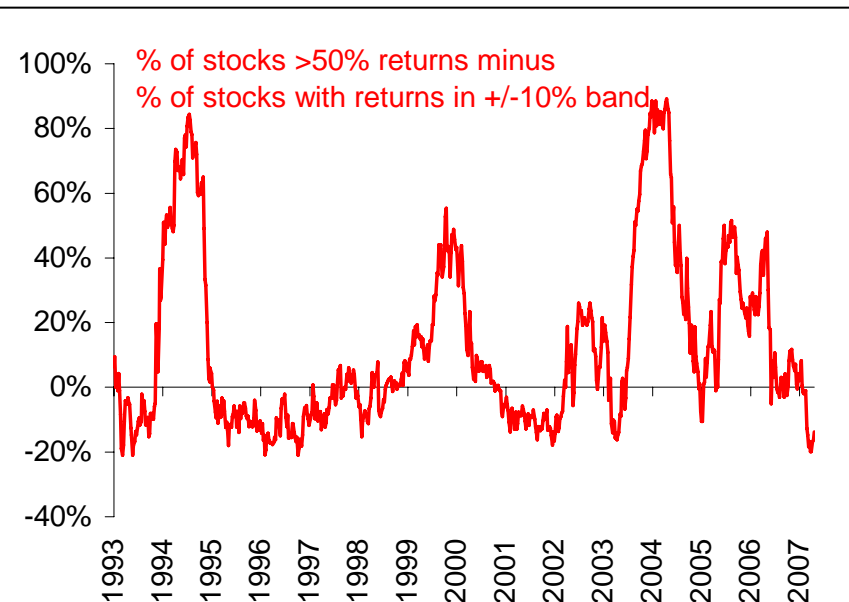
Our proprietary momentum indicators are off euphoric levels and are moving in the opposite direction with some suggesting caution and some exuberance.

6M Trailing Returns Have Come Off



Source: Bloomberg, Morgan Stanley Research

Return Tails: As Thin As They Can Be

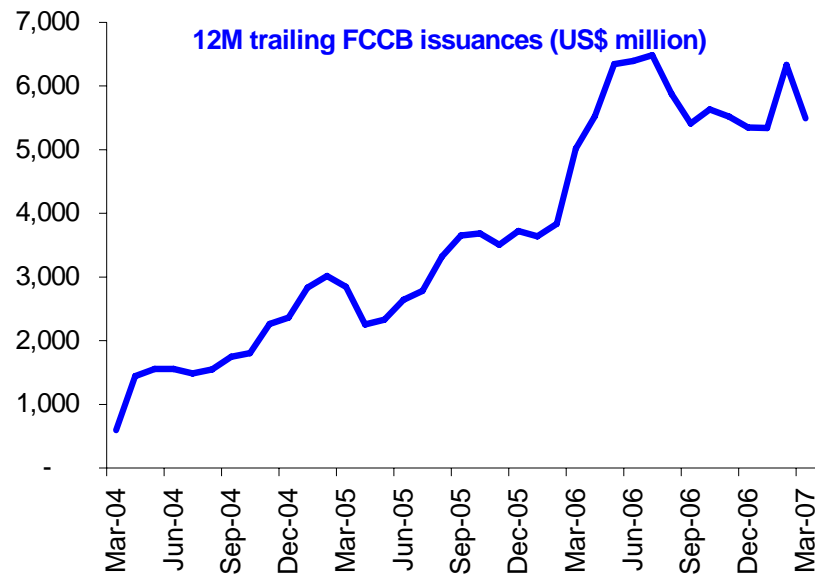


Source: Bloomberg, Morgan Stanley Research

MARKET DYNAMICS

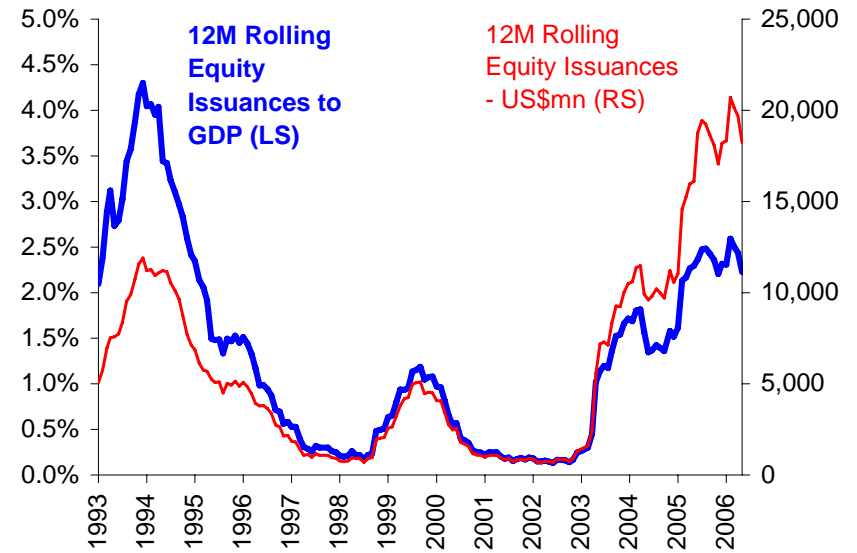
Equity issuances have been slow to take off but the pipeline appears solid for the coming months.

FCCBs Boom: Over But Not Out



Source: Prime Database, Morgan Stanley Research

Equity Issuances: A Pause in Volatile Markets



Source: CMIE, CSO, Morgan Stanley Research

STYLE & SECTOR STRATEGY

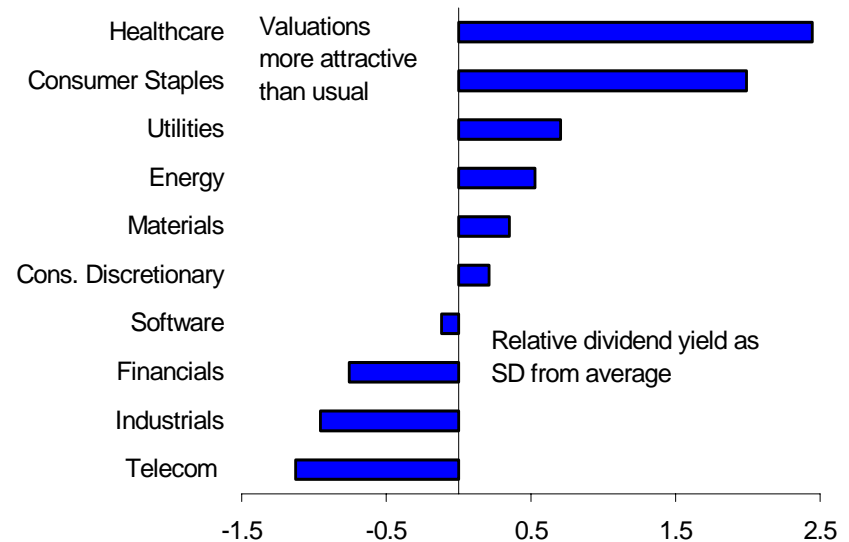
We expect defensive sectors to do well, helped by valuation and earnings momentum. We are overweight healthcare, energy, consumer staples, utilities and telecoms.

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

27-Apr-07	Relative to EM			P-B ROE Model
	PE	PB	ROE	Deviation From Fair Value
Consumer Discretionary	1.2	1.8	8%	3%
Consumer Staples	1.1	2.3	16%	-23%
Energy	1.6	2.0	5%	60%
Financials	1.5	1.6	2%	52%
Health Care	1.5	2.0	5%	19%
Industrials	1.4	2.9	15%	11%
Technology	1.9	4.5	20%	-21%
Materials	0.8	1.3	10%	-12%
Telecom	0.8	1.0	4%	21%
Utilities	0.7	1.6	9%	-11%

Source: Factset, MSCI, Morgan Stanley Research

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

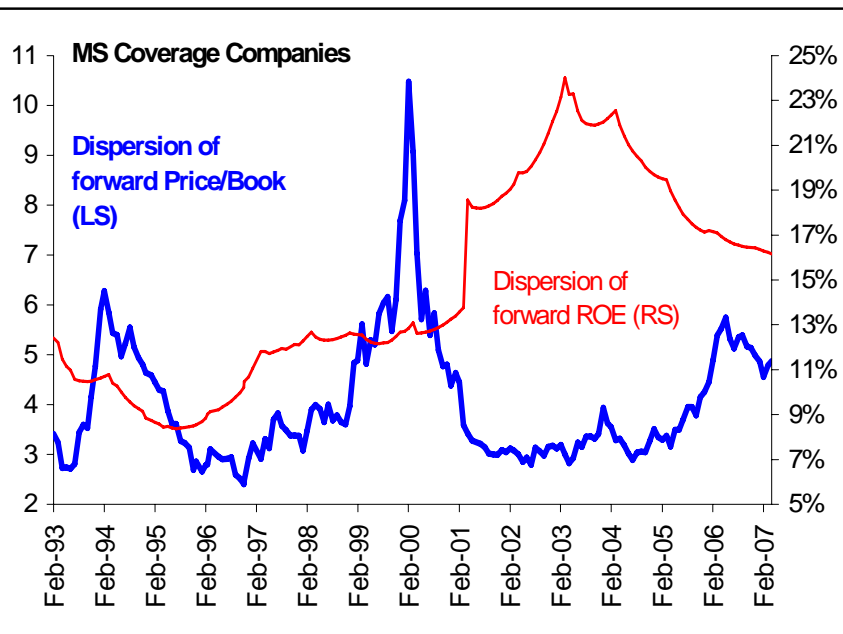


Source: Company Data, Morgan Stanley Research

STYLE & SECTOR STRATEGY

Inter sector correlations are running at two sigma above average indicating the strong influence of macro factors on sector performance (versus idiosyncratic factors). We also think ROE dispersion will likely rise and so will the P/B dispersion. These trends are opportunities for investors to buy or sell stocks and protect portfolio returns even if the market falls.

ROE Dispersion vs. P/B Dispersion



Source: Company Data, Bloomberg, Morgan Stanley Research

Return Correlation High Across the Cap Curve

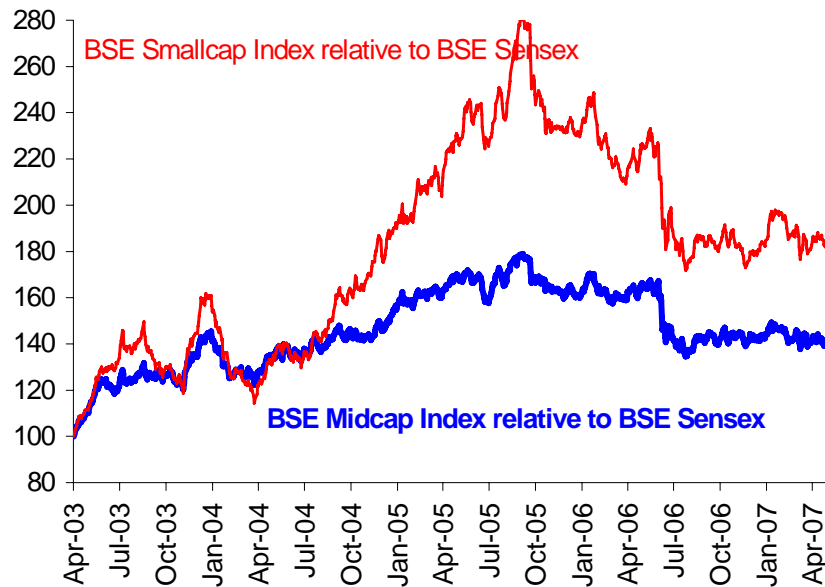
Correlation	Cons Disc.	Cons. Staples	Energy	Financials	Healthcare	Industrials	Software	Materials	Telecom
Cons. Staples	0.90								
Energy	0.83	0.77							
Financials	0.87	0.77	0.74						
Healthcare	0.88	0.77	0.60	0.60					
Industrials	0.85	0.77	0.78	0.74	0.73				
Software	0.94	0.86	0.74	0.77	0.79	0.80			
Materials	0.85	0.72	0.66	0.67	0.67	0.72	0.79		
Telecom	0.91	0.81	0.82	0.81	0.68	0.80	0.86	0.75	
Utilities	0.86	0.72	0.68	0.72	0.66	0.73	0.77	0.73	0.78

Source: Bloomberg, Morgan Stanley Research

STYLE & SECTOR STRATEGY

We favor large caps over mid-caps given par valuations. Earnings revision momentum has been strong in telecoms, materials and technology over the past six months.

Small- and Mid-Caps vs. Large Caps: Not Much To Choose in Performance



Source: Bloomberg, Morgan Stanley Research

Positive Earnings Revisions in Telecoms, Materials, and Technology

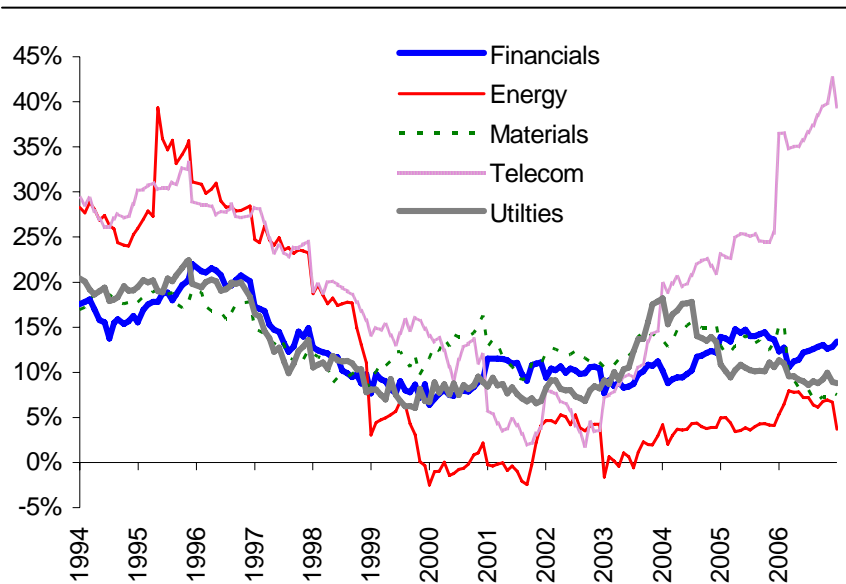
NP08	Current Value	1 months back	3 months back	6 months back
Market	15.0%	14.9%	15.2%	13.9%
Market ex energy	20.2%	20.2%	19.8%	17.6%
Cons. Discretionary	19.9%	21.8%	22.0%	20.8%
Cons. Staples	16.8%	18.8%	21.6%	20.2%
Energy	2.4%	2.2%	3.8%	5.0%
Financials	23.8%	23.7%	23.3%	22.4%
Healthcare	10.6%	11.7%	16.9%	19.8%
Industrials	23.5%	22.9%	22.1%	24.8%
Material	3.7%	0.4%	-2.6%	-4.6%
Tech	29.2%	30.0%	29.2%	20.7%
Telecom	44.1%	44.0%	44.4%	37.8%
Utilities	11.2%	11.2%	11.1%	11.1%

Source: Factset, IBES, Morgan Stanley Research

STYLE & SECTOR STRATEGY

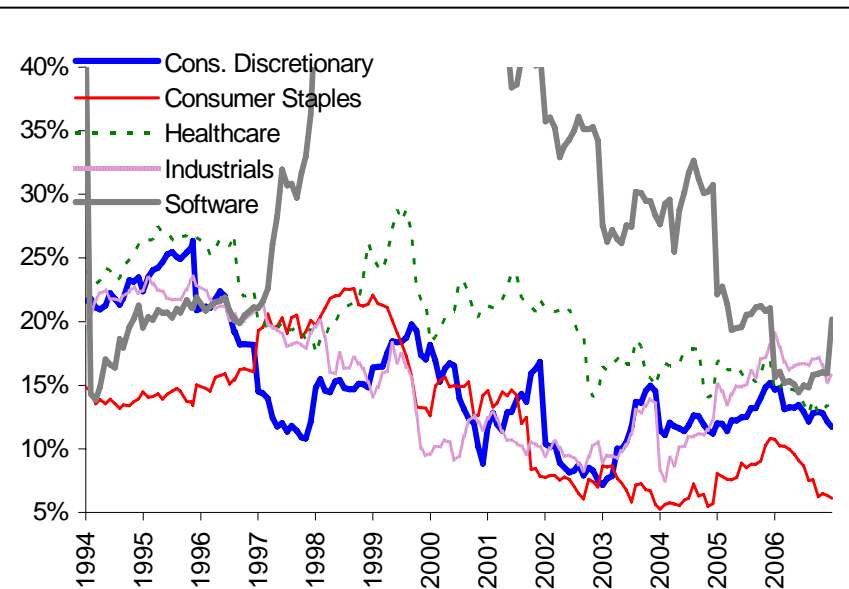
Valuations favor defensive growth: We are overweight healthcare, energy, consumer staples, utilities and telecoms.

Implied Long-Term Dividend Growth



Source: Morgan Stanley Research estimates

Implied Long-Term Dividend Growth



Source: Morgan Stanley Research estimates

STOCK SCREENS: 3 'U's and 3 'O's

Value Investors Could Focus on the 3 'U's Screen

	% of Buy Recos	Trading volumes as % of 3-year average	Relative Performance	Dividend Yield	Under-owned	Un-loved	Undervalued	Over-owned	Over-loved	Overvalued	Hit Ratio 3Us	Hit Ratio 3Os
Canara Bank	47.4%	39.3%	6.8%	3.4%	Yes		Yes				67%	0%
GAIL (India)	28.6%	55.5%	1.1%	4.1%	Yes		Yes				67%	0%
Shipping Corporation of India	25.0%	37.0%	11.1%	4.1%	Yes		Yes				67%	0%
Arvind Mills	7.1%	66.8%	-3.5%	2.5%	Yes	Yes					67%	0%
Bharat Petroleum Corp.	38.9%	88.4%	5.2%	34.2%	Yes		Yes				67%	0%
Biocon Ltd	26.7%	71.5%	-7.9%	1.1%	Yes	Yes				Yes	67%	33%
Great Eastern Shipping	33.3%	112.6%	11.1%	4.2%	Yes		Yes				67%	0%
Hero Honda Motor Ltd	24.0%	93.8%	-8.3%	4.5%	Yes		Yes				67%	0%
Hindustan Petroleum	47.4%	84.5%	2.4%	4.3%	Yes		Yes				67%	0%
Mahanagar Telephone Nigam	14.3%	113.5%	-3.5%	3.2%	Yes		Yes				67%	0%
National Aluminium	27.8%	77.8%	-1.9%	2.1%	Yes	Yes					67%	0%
Nestle India	66.7%	75.3%	-0.2%	3.6%		Yes	Yes				67%	0%
Union Bank of India	76.2%	40.2%	-2.6%	4.2%		Yes	Yes	Yes			67%	33%
Ashok Leyland Ltd.	43.5%	106.3%	-5.6%	4.5%	Yes		Yes				67%	0%
TVS Motors	23.8%	131.5%	-3.2%	4.1%	Yes		Yes				67%	0%
Corporation Bank	42.1%	126.4%	2.8%	2.8%	Yes				Yes		33%	33%
Shoppers' Stop	33.3%	18.9%	2.2%	0.4%	Yes					Yes	33%	33%
Amtek Auto Ltd.	100.0%	77.9%	-2.7%	0.9%		Yes		Yes		Yes	33%	67%
Aventis (India)	77.8%	71.5%	-5.7%	1.8%		Yes		Yes			33%	33%
Bajaj Hindustan	28.6%	176.2%	-21.2%	0.3%	Yes					Yes	33%	33%
Balrampur Chini Mills Limited	46.7%	168.5%	-8.9%	2.3%	Yes						33%	0%
Colgate-Palmolive India	71.4%	94.8%	-3.7%	3.8%			Yes	Yes			33%	33%
Dabur India	37.5%	95.6%	-6.0%	2.1%	Yes						33%	0%
EIH Limited	42.9%	109.1%	-3.2%	2.0%	Yes						33%	0%
HCL Technologies	68.0%	95.3%	5.2%	3.1%			Yes	Yes			33%	33%
HDFC	47.1%	100.9%	4.2%	1.5%	Yes					Yes	33%	33%
HDFC Bank	35.7%	104.1%	0.6%	0.7%	Yes					Yes	33%	33%
Hexaware Technologies Limited	73.3%	49.3%	-4.8%	1.2%		Yes		Yes		Yes	33%	67%
Hindustan Lever	54.5%	114.9%	-4.1%	3.3%			Yes				33%	0%
IDBI	16.7%	114.9%	2.2%	2.4%	Yes						33%	0%
i-flex Solutions Ltd.	16.7%	83.8%	11.9%	0.4%	Yes					Yes	33%	33%
Kotak Mahindra Bank	33.3%	110.9%	2.1%	0.2%	Yes					Yes	33%	33%
Maruti Udyog Ltd.	81.5%	38.9%	-8.8%	0.8%		Yes		Yes		Yes	33%	67%
Mphasis BFL	43.8%	139.3%	2.0%	1.2%	Yes				Yes	Yes	33%	67%
Oil & Natural Gas Corp.	77.3%	80.6%	-0.5%	4.7%			Yes	Yes			33%	33%
Pantaloon Retail	71.4%	37.6%	-2.6%	0.1%		Yes		Yes		Yes	33%	67%
Patni Computer Systems	38.1%	99.6%	10.7%	1.0%	Yes					Yes	33%	33%
Polaris Software Lab Ltd.	16.7%	128.0%	-2.3%	1.6%	Yes						33%	0%
Punjab National Bank	84.0%	56.0%	-0.6%	1.4%		Yes		Yes		Yes	33%	67%
Satyam Computer Services	90.0%	57.1%	-6.6%	1.2%		Yes		Yes		Yes	33%	67%
Shree Renuka Sugars Limited	66.7%	64.3%	-11.3%	1.3%		Yes				Yes	33%	33%
Steel Authority Of India	76.9%	62.7%	9.0%	3.0%			Yes	Yes			33%	33%
Tata Motors	55.6%	60.9%	-3.3%	1.8%		Yes					33%	0%
Tata Steel	56.5%	72.1%	12.4%	3.5%			Yes				33%	0%
Triveni Engineering & Industries Ltd.	50.0%	58.3%	-15.6%	0.7%		Yes				Yes	33%	33%
Videsh Sanchar Nigam	20.0%	100.6%	2.0%	2.0%	Yes						33%	0%

Note: See our strategy note, "A Bit of Love, Ownership and Valuation", dated March 5, 2007 for definition of 3 'O's and 3 'U's. Source: Bloomberg, Capital line, Morgan Stanley Research

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

	% of Buy Recos	Trading volumes as % of 3-year average	Relative Performance	Dividend Yield	Under-owned	Un-loved	Undervalued	Over-owned	Over-loved	Overvalued	Hit Ratio 3Us	Hit Ratio 3Os
Wipro Ltd.	67.7%	76.4%	-4.7%	1.1%		Yes		Yes		Yes	33%	67%
Infosys Technologies	97.0%	68.6%	-6.3%	0.8%		Yes		Yes		Yes	33%	67%
Mahindra & Mahindra	88.0%	58.1%	-8.1%	1.5%		Yes		Yes		Yes	33%	33%
Reliance Petroleum Limited	28.6%	100.0%	6.5%	0.0%	Yes					Yes	33%	33%
UltraTech Cemco	65.2%	63.2%	-2.0%	0.2%		Yes				Yes	33%	33%
Tata Consultancy Services	83.3%	69.3%	-5.8%	0.6%		Yes		Yes		Yes	33%	67%
Oriental Bank of Commerce	64.3%	51.9%	6.9%	2.6%							0%	0%
Ambuja Cements Ltd.	50.0%	101.5%	3.5%	1.5%							0%	0%
Bank of Baroda	90.9%	75.0%	6.0%	2.5%				Yes			0%	33%
Reliance Communications Ltd.	88.2%	89.3%	3.0%	0.4%				Yes		Yes	0%	67%
State Bank of India	63.0%	54.1%	4.0%	1.5%						Yes	0%	33%
Sun Pharmaceutical Industries	83.3%	124.6%	-7.6%	0.6%				Yes		Yes	0%	67%
Tata Tea	60.0%	85.3%	19.2%	1.7%							0%	0%
ACC Ltd.	51.7%	90.7%	5.1%	2.2%							0%	0%
Bajaj Auto Ltd.	64.0%	123.7%	-4.8%	1.6%							0%	0%
Bank of India	81.3%	96.0%	9.5%	2.0%				Yes			0%	33%
Bharat Forge	75.0%	139.6%	-5.2%	1.5%				Yes		Yes	0%	67%
Bharti Airtel Limited	76.9%	45.2%	1.8%	0.7%				Yes		Yes	0%	67%
Cipla Ltd.	76.2%	81.1%	-13.4%	1.4%				Yes		Yes	0%	67%
Dr. Reddy's Lab	72.0%	115.5%	-8.0%	1.1%				Yes		Yes	0%	67%
Entertainment Network (India) Limited	75.0%	23.4%	3.6%	0.0%				Yes		Yes	0%	67%
Gammon India	60.0%	126.6%	8.0%	0.3%					Yes	Yes	0%	67%
GlaxoSmithKline Pharma	52.9%	117.4%	-2.2%	1.5%							0%	0%
GMR Infrastructure Ltd.	66.7%	100.0%	2.8%	0.0%						Yes	0%	33%
Godrej Consumer Products Limited	61.1%	105.0%	-11.0%	2.8%							0%	0%
Grasim Industries	73.9%	96.5%	8.8%	1.0%				Yes		Yes	0%	67%
Hotel Leelaventure Limited	66.7%	110.1%	-6.2%	1.5%							0%	0%
ICICI Bank	67.9%	110.0%	2.9%	1.0%				Yes		Yes	0%	67%
IDFC	60.0%	74.5%	9.2%	1.3%						Yes	0%	33%
Indian Hotels Company Ltd	90.0%	142.8%	-7.0%	1.3%				Yes		Yes	0%	67%
ITC Ltd.	61.1%	93.3%	0.4%	2.5%							0%	0%
IVRCL Infrastructures & Projects	93.8%	152.4%	1.2%	0.5%				Yes	Yes	Yes	0%	100%
Jaiprakash Associates Limited	85.7%	114.8%	6.1%	1.0%				Yes		Yes	0%	67%
Jindal Steel & Power	100.0%	80.4%	9.3%	0.7%				Yes		Yes	0%	67%
Larsen & Toubro	57.9%	91.2%	-2.4%	0.8%						Yes	0%	33%
Lupin Ltd.	75.0%	81.7%	8.1%	0.7%				Yes		Yes	0%	67%
Marico Limited	78.6%	81.8%	-14.7%	1.3%				Yes		Yes	0%	67%
New Delhi Television Limited (NDTV)	50.0%	83.5%	0.6%	0.0%						Yes	0%	33%
Ranbaxy Laboratories	50.0%	94.6%	-1.4%	2.4%							0%	0%
Reliance Industries	65.2%	58.8%	5.7%	0.6%						Yes	0%	33%
United Phosphorus	100.0%	127.8%	-2.5%	0.7%				Yes		Yes	0%	67%
UTI Bank	53.8%	122.6%	-12.6%	1.1%						Yes	0%	33%
Voltas Limited	70.0%	106.6%	4.6%	1.1%				Yes		Yes	0%	67%
Wockhardt Limited	63.2%	93.9%	-0.9%	1.3%						Yes	0%	33%
Zee Telefilms Ltd.	73.3%	114.7%	7.7%	0.4%				Yes		Yes	0%	67%

Note: See our strategy note, "A Bit of Love, Ownership and Valuation", dated March 5, 2007 for definition of 3 'O's and 3 'U's. Source: Bloomberg, Capital line, Morgan Stanley Research

STOCK SCREENS: Price Momentum

Momentum Investors Could Focus on Weak 12M and Strong 1M Performance

	MS Rating	Target Price	12 mth Perf	1 mth Perf	12M-1M Perf		MS Rating	Target Price	12 mth Perf	1 mth Perf	12M-1M Perf
Bharti Airtel Limited	Overweight	1003	106%	8%	97%	Bank of Baroda	Overweight	350	9%	13%	-4%
i-flex Solutions Ltd.	Equal-Weight	2100	103%	19%	84%	Patni Computer Systems	Overweight	600	14%	18%	-4%
Zee Entertainment Enterprise Limited	Overweight	279	81%	15%	66%	Videsh Sanchar Nigam	Underweight	343	3%	9%	-6%
Polaris Software Lab Ltd.	Equal-Weight	225	70%	4%	66%	UltraTech Cemco	Underweight	554	-3%	4%	-7%
Kotak Mahindra Bank	Underweight	315	68%	9%	59%	Maruti Udyog Ltd.	Overweight	950	-11%	-3%	-8%
ICICI Bank	Equal-Weight	840	65%	9%	55%	Cipla Ltd.	Underweight	225	-17%	-8%	-9%
Mphasis BFL Group	Equal-Weight	275	56%	9%	48%	Wockhardt Limited	Overweight	460	-4%	5%	-9%
Bank of India	Overweight	240	62%	16%	45%	Ambuja Cements Ltd.	Underweight	85	1%	10%	-10%
Reliance Industries	Overweight	1735	54%	12%	42%	IDBI	Underweight	55	-1%	9%	-10%
Steel Authority Of India	Overweight	147	54%	16%	38%	GAAIL (India)	Overweight	364	-4%	8%	-12%
UTI Bank	Equal-Weight	500	29%	-7%	37%	Union Bank of India	Overweight	165	-9%	4%	-13%
Jindal Steel & Power	Overweight	3203	50%	16%	34%	Voltas Limited	Equal-Weight	114	-2%	11%	-13%
Infosys Technologies	Overweight	2500	28%	0%	28%	Corporation Bank	Overweight	425	-4%	9%	-13%
Tata Consultancy Services	Overweight	1575	26%	0%	26%	Grasim Industries	Equal-Weight	1783	2%	16%	-13%
Entertainment Network (India) Limited	Overweight	264	36%	10%	26%	Hero Honda Motor Ltd	Underweight	600	-19%	-2%	-16%
Sun Pharmaceutical Industries	Overweight	1240	23%	-2%	24%	Bajaj Auto Ltd.	Overweight	3000	-16%	1%	-17%
Mahindra & Mahindra	Overweight	950	22%	-2%	24%	Godrej Consumer Products Limited	Overweight	175	-23%	-5%	-18%
Satyam Computer Services	Overweight	575	22%	-1%	22%	Ashok Leyland Ltd.	Equal-Weight	45	-19%	0%	-20%
United Phosphorus	Overweight	345	25%	4%	21%	GlaxoSmithKline Pharma	Overweight	1353	-17%	4%	-21%
Larsen & Toubro	Overweight	1512	24%	4%	21%	Oriental Bank of Commerce	Overweight	275	-8%	14%	-22%
Great Eastern Shipping	Equal-Weight	280	38%	18%	20%	Tata Motors	Underweight	650	-20%	3%	-23%
IDFC	Overweight	120	36%	16%	20%	Colgate-Palmolive India	Overweight	380	-21%	2%	-23%
HDFC	Equal-Weight	1455	30%	11%	19%	ACC Ltd.	Underweight	598	-12%	12%	-24%
New Delhi Television Limited (NDTV)	Equal-Weight	256	25%	7%	18%	Canara Bank	Overweight	300	-10%	14%	-24%
HDFC Bank	Equal-Weight	1025	23%	7%	16%	Hindustan Petroleum	Underweight	218	-16%	9%	-24%
Shipping Corporation of India	Underweight	125	31%	18%	13%	Ranbaxy Laboratories	Overweight	447	-21%	5%	-26%
Punjab National Bank	Overweight	600	18%	6%	12%	Bharat Forge	Equal-Weight	380	-26%	1%	-26%
State Bank of India	Equal-Weight	1075	23%	11%	12%	National Aluminium	Equal-Weight	245	-23%	4%	-27%
Marico Limited	Underweight	55	2%	-9%	11%	ITC Ltd.	Equal-Weight	155	-21%	7%	-27%
Shoppers' Stop	Equal-Weight	650	18%	9%	9%	Hindustan Lever	Overweight	245	-27%	2%	-29%
Hexaware Technologies Limited	Overweight	225	11%	1%	9%	Hotel Leelaventure Limited	Underweight	55	-30%	0%	-30%
Indian Hotels Company Ltd	Overweight	180	7%	-1%	8%	Nestle India	Overweight	1200	-25%	6%	-32%
Amtek Auto Ltd.	Overweight	420	11%	3%	8%	Mahanagar Telephone Nigam	Overweight	206	-30%	3%	-32%
Lupin Ltd.	Overweight	600	20%	15%	5%	Tata Tea	Equal-Weight	750	-6%	27%	-33%
Wipro Ltd.	Equal-Weight	675	4%	1%	3%	Bharat Petroleum Corp.	Equal-Weight	316	-22%	12%	-34%
Dabur India	Overweight	113	2%	0%	2%	Tata Steel	Overweight	578	-16%	20%	-35%
Pantaloon Retail	Equal-Weight	420	5%	4%	2%	Aventis (India)	Overweight	1769	-35%	0%	-36%
Dr. Reddy's Lab	Overweight	865	-1%	-2%	1%	Triveni Engineering & Industries Ltd.	Equal-Weight	49	-55%	-10%	-45%
IVRCL Infrastructures & Projects LTD	Overweight	528	9%	8%	1%	Gammon India	Overweight	471	-36%	15%	-51%
HCL Technologies	Equal-Weight	375	13%	12%	1%	Bajaj Hindustan	Underweight	155	-69%	-16%	-53%
Oil & Natural Gas Corp.	Overweight	1058	7%	6%	1%	Arvind Mills	Underweight	75	-53%	3%	-55%
EIH Limited	Underweight	85	4%	3%	1%	Shree Renuka Sugars Limited	Equal-Weight	391	-68%	-6%	-62%
Biocon Ltd	Underweight	465	-2%	-2%	0%	TVS Motors	Overweight	88	-60%	3%	-63%
Jaiprakash Associates Limited	Overweight	704	10%	13%	-3%	Balrampur Chini Mills Limited	Underweight	68	-67%	-3%	-64%

Source: Bloomberg, Morgan Stanley Research

STOCK SCREENS: Correlation & Beta

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

Company	Price	Rating	Correl	Rel SD	Beta	Company	Price	Rating	Correl	Rel SD	Beta
Pantaloon	411	Equal-Weight	0.32	3.70	1.14	Wockhardt	419	Overweight	0.56	1.54	0.76
Triveni Engineering & Industries I	48	Equal-Weight	0.64	2.75	1.20	Mahanagar Telephone Nigam Ltd.	151	Overweight	0.62	1.52	0.85
Shree Renuka Sugars	442	Equal-Weight	0.50	2.56	0.95	Punjab National Bank	499	Overweight	0.61	1.50	1.07
Bajaj Hindustan	163	Underweight	0.48	2.47	0.86	Bharat Petroleum Corporation Ltd.	338	Equal-Weight	0.48	1.49	0.87
NDTV	333	Equal-Weight	0.72	2.33	1.68	Dabur India	95	Overweight	0.62	1.46	0.84
IVRCL	315	Overweight	0.67	2.31	1.77	Grasim Industries Ltd.	2421	Equal-Weight	0.76	1.46	1.09
Jaiprakash	608	Overweight	0.77	2.26	1.68	ICICI Bank	934	Equal-Weight	0.72	1.45	1.11
Hotel Leelaventure Limited	56	Underweight	0.61	2.24	1.38	United Phosphorus	337	Overweight	0.50	1.43	0.80
Balrampur Chini Mills Limited	64	Underweight	0.55	2.22	0.91	Godrej Consumer Products	139	Overweight	0.49	1.43	0.48
Zee Entertainment Enterprise Lirr	287	Overweight	0.54	2.21	1.23	Housing Development Finance Corp	1686	Equal-Weight	0.63	1.41	0.94
ENIL	365	Overweight	0.58	2.21	1.27	Amtek Auto	382	Overweight	0.45	1.41	0.77
Bank of India	195	Overweight	0.70	2.18	1.86	Associated Cement Companies Ltd.	822	Underweight	0.71	1.41	1.12
Polaris Software	187	Equal-Weight	0.59	2.17	1.30	Nestle	992	Overweight	0.34	1.40	0.50
IDBI	84	Underweight	0.75	2.13	1.72	Larsen & Toubro Ltd.	1682	Overweight	0.82	1.40	1.12
T V S Suzuki Ltd.	61	Overweight	0.64	2.12	1.16	Hexaware	170	Overweight	0.59	1.39	0.68
Videsh Sanchar Nigam Ltd	436	Underweight	0.78	2.09	1.52	Satyam Computer Services Ltd.	467	Overweight	0.75	1.39	0.90
Corporation Bank	316	Overweight	0.66	2.08	1.55	Hindustan Lever Ltd	210	Overweight	0.70	1.38	0.96
Kotak	521	Underweight	0.64	2.08	1.29	Ranbaxy Laboratories Ltd.(Annualise	370	Overweight	0.68	1.38	0.91
GESCO	240	Equal-Weight	0.54	2.02	0.91	Cipla Ltd.	217	Underweight	0.76	1.37	0.91
Arvind Mills	45	Underweight	0.71	2.00	1.28	Colgate-Palmolive (India) Ltd.	341	Overweight	0.61	1.36	0.66
Gammon	346	Overweight	0.60	1.96	1.12	SCI	206	Underweight	0.67	1.34	0.99
MphasiS BFL Group	306	Equal-Weight	0.49	1.93	0.89	Oil & Natural Gas Commission (ONG	929	Overweight	0.67	1.34	0.96
Jindal Steel	2765	Overweight	0.72	1.91	1.42	Tata Engineering & Locomotive Com	749	Underweight	0.75	1.32	1.09
i-flex Solutions	2481	Equal-Weight	0.60	1.90	1.16	Gujarat Ambuja Cements Ltd.	118	Underweight	0.68	1.32	0.92
Shoppers' Shop	673	Equal-Weight	0.48	1.90	1.03	Maruti	795	Overweight	0.66	1.32	0.88
Oriental Bank of Commerce	213	Overweight	0.68	1.85	1.45	Bajaj Auto Ltd.	2456	Overweight	0.75	1.32	0.95
Voltas Limited	94	Equal-Weight	0.57	1.77	1.06	HCL Technologies	326	Equal-Weight	0.67	1.32	0.81
Hindustan Petroleum Corporation	269	Underweight	0.62	1.76	1.16	Reliance Industries Ltd.	1538	Overweight	0.79	1.30	1.02
SAIL	132	Overweight	0.68	1.75	1.22	EIH Limited	97	Underweight	0.57	1.30	0.68
UTI Bank	456	Equal-Weight	0.77	1.73	1.23	Mahindra & Mahindra Ltd.	763	Overweight	0.78	1.27	1.01
Bharat Forge	318	Equal-Weight	0.69	1.72	1.19	Biocon	476	Underweight	0.61	1.26	0.67
JSW Steel Ltd.	574	Overweight	0.44	1.71	0.75	State Bank of India	1099	Equal-Weight	0.69	1.26	1.02
IDFC	97	Overweight	0.67	1.69	1.26	Dr. Reddy's Laboratories Ltd.	712	Overweight	0.65	1.24	0.78
Indian Hotels	144	Overweight	0.85	1.69	1.35	HDFC Bank Ltd.	1017	Equal-Weight	0.75	1.23	0.96
Canara Bank	221	Overweight	0.70	1.68	1.34	Glaxo	1162	Overweight	0.66	1.21	0.69
Patni Computer Systems	456	Overweight	0.35	1.66	0.65	Bharti Tele-Ventures	826	Overweight	0.69	1.20	0.87
Bank of Baroda	243	Overweight	0.65	1.65	1.26	Wipro Ltd.	566	Equal-Weight	0.61	1.20	0.69
UltraTech CemCo	803	Underweight	0.66	1.65	1.14	I T C Ltd.	161	Equal-Weight	0.68	1.20	0.76
Tata Iron & Steel Company Ltd.	538	Overweight	0.67	1.62	1.06	Gas Authority of India Ltd.	285	Overweight	0.46	1.19	0.53
Ashok Leyland	39	Equal-Weight	0.67	1.61	1.18	Aventis	1234	Overweight	0.67	1.15	0.83
Marico	56	Underweight	0.60	1.61	0.87	Tata TEA Ltd	771	Equal-Weight	0.68	1.13	0.84
Lupin Ltd.	696	Overweight	0.63	1.59	0.96	Sun Pharma	1036	Overweight	0.65	1.13	0.61
Union Bank	108	Overweight	0.69	1.57	1.19	TCS	1234	Overweight	0.67	1.10	0.66
National Aluminium Company Ltc	243	Equal-Weight	0.66	1.55	0.86	Hero Honda Motors Ltd.	668	Underweight	0.43	1.09	0.43
						Infosys Technologies Ltd.	2007	Overweight	0.79	0.94	0.66

Source: Bloomberg, Morgan Stanley Research

STOCK SCREENS: Return Correlations Across Top 20 Stocks by Market Cap

Low inter-stock low correlation offers good pair trade opportunities

Current	Reliance Industries	ONGC	Bharti	Infosys	TCS	Reliance Communications	Wipro	ICICI Bank	ITC	State Bank of India	IOCL	Steel Authority Of India	L&T	HLL	HDFC	Tata Steel	Tata Motors	HDFC Bank	Satyam
ONGC	0.65																		
Bharti	0.54	0.58																	
Infosys	0.63	0.43	0.50																
TCS	0.51	0.48	0.61	0.66															
Reliance Communications	0.63	0.56	0.60	0.62	0.45														
Wipro	0.51	0.52	0.62	0.59	0.69	0.35													
ICICI Bank	0.48	0.48	0.68	0.52	0.51	0.54	0.45												
ITC	0.66	0.50	0.47	0.51	0.50	0.56	0.51	0.36											
State Bank of India	0.48	0.52	0.57	0.44	0.48	0.66	0.33	0.71	0.42										
IOCL	0.60	0.40	0.43	0.47	0.37	0.70	0.30	0.41	0.44	0.44									
Steel Authority Of India	0.61	0.47	0.46	0.56	0.49	0.63	0.50	0.44	0.52	0.42	0.54								
L&T	0.67	0.62	0.61	0.57	0.48	0.76	0.48	0.47	0.53	0.53	0.65	0.63							
HLL	0.55	0.61	0.50	0.37	0.42	0.60	0.30	0.46	0.43	0.37	0.42	0.34	0.52						
HDFC	0.34	0.46	0.50	0.50	0.46	0.50	0.40	0.52	0.23	0.49	0.39	0.53	0.51	0.51					
Tata Steel	0.62	0.43	0.31	0.45	0.45	0.44	0.41	0.37	0.59	0.28	0.42	0.71	0.45	0.44	0.41				
Tata Motors	0.55	0.42	0.49	0.59	0.60	0.54	0.53	0.53	0.44	0.56	0.53	0.57	0.55	0.45	0.50	0.59			
HDFC Bank	0.57	0.47	0.56	0.59	0.50	0.54	0.49	0.69	0.45	0.72	0.47	0.51	0.44	0.45	0.55	0.41	0.62		
Satyam	0.63	0.55	0.55	0.72	0.67	0.64	0.63	0.49	0.41	0.47	0.44	0.52	0.65	0.48	0.39	0.39	0.61	0.53	
Bajaj Auto	0.65	0.51	0.59	0.60	0.55	0.57	0.56	0.44	0.45	0.47	0.61	0.52	0.68	0.43	0.50	0.46	0.64	0.47	0.55

Note: Correlation measured using trailing 12-month weekly returns, Highlighted cells are the weak correlation spots for the respective sectors in the vertical columns. The risk to the pair trades is a breakdown in the correlation levels. Such a breakdown could be caused by a fall in global risk appetite or by a slowdown in growth back home. Of course, the market would also be negatively impacted under such a scenario. See our strategy note "No Place to Hide" dated March 23, 2007.

STOCK SCREENS: Regression-based fair valuation using Rel. ROE and Rel. P/B

Best 'Buy' and Best 'Sell' Ideas, Based on Analyst Rating and Valuation Results

	Sector	Rating	Current Price	Current P/B	Current ROE	Forward ROE	Fair Level of Relative P/B based on regression model	Undervalued
TVS Motors	Consumer Discretionary	Overweight	61	1.04	9.6%	16%	0.47	-54%
Aventis (India)	Healthcare	Overweight	1234	1.75	26.9%	25%	0.95	-46%
HLL	Consumer Staples	Overweight	210	8.60	65.3%	75%	5.12	-40%
Dr. Reddy's Lab	Healthcare	Overweight	712	1.18	20.5%	18%	0.73	-39%
Wockhardt	Healthcare	Overweight	419	1.10	19.2%	19%	0.70	-36%
Godrej Consumer Products	Consumer Staples	Overweight	139	6.35	108.4%	85%	4.08	-36%
Ranbaxy Laboratories	Healthcare	Overweight	370	1.34	11.3%	13%	0.86	-36%
Corporation Bank	Financials	Overweight	316	0.45	14.0%	14%	0.30	-34%
Canara Bank	Financials	Overweight	221	0.38	17.0%	17%	0.26	-31%
TCS	Technology	Overweight	1234	3.46	46.1%	39%	2.40	-31%
Nestle	Consumer Staples	Overweight	992	9.51	98.2%	113%	6.77	-29%
Tata Steel	Materials	Overweight	538	0.59	30.1%	26%	0.44	-26%
GAIL	Energy	Overweight	285	0.69	20.7%	21%	0.51	-26%
GlaxoSmithKline Pharma	Healthcare	Overweight	1162	2.27	28.2%	27%	1.72	-24%
Maruti	Consumer Discretionary	Overweight	795	0.93	23.9%	21%	0.72	-23%
Union Bank of India	Financials	Overweight	108	0.31	16.7%	18%	0.25	-19%
Reliance Communications	Telecom	Overweight	460	1.56	22.6%	22%	1.36	-13%
Colgate	Consumer Staples	Overweight	341	4.97	65.8%	74%	4.35	-13%
Punjab National Bank	Financials	Overweight	499	0.41	15.3%	15%	0.36	-13%
Indian Hotels	Consumer Discretionary	Overweight	144	1.05	17.2%	19%	0.92	-12%
Lupin Ltd.	Healthcare	Overweight	696	1.22	19.4%	20%	1.08	-11%
Jaiprakash	Industrials	Overweight	608	1.35	15.6%	18%	1.23	-9%
Hexaware Technologies	Technology	Overweight	170	0.74	20.7%	18%	0.68	-8%
Bank of Baroda	Financials	Overweight	243	0.28	11.9%	13%	0.26	-7%
Zee Entertainment Enterprise Li	Consumer Discretionary	Overweight	287	1.23	8.0%	11%	1.15	-7%
Bajaj Auto	Consumer Discretionary	Overweight	2456	1.05	22.2%	25%	1.00	-5%
MTNL	Telecom	Overweight	151	0.22	7.5%	8%	0.21	-5%
Oriental Bank of Commerce	Financials	Overweight	213	0.26	16.3%	16%	0.25	-5%

	Sector	Rating	Current Price	Current P/B	Current ROE	Forward ROE	Fair Level of Relative P/B based on regression model	Overvalued
Shipping Corporation of India	Industrials	Underweight	206	0.30	21.1%	12%	0.32	5%
Marico	Consumer Staples	Underweight	56	1.83	38.5%	35%	2.04	11%
Videsh Sanchar Nigam	Telecom	Underweight	436	0.47	9.0%	10%	0.56	18%
Ambuja Cements Ltd.	Industrials	Underweight	118	0.89	51.4%	28%	1.17	31%
Kotak Mahindra Bank	Financials	Underweight	521	0.66	12.8%	13%	1.34	104%

* Based on Morgan Stanley Research analysts' forecasts. See our strategy note, "ROE Opportunities", dated April 6, 2007.

Source: Company data, Bloomberg, Morgan Stanley Research

STOCK SCREENS: Regression-based fair valuation using Rel. ROE and Rel. P/B

Most Compelling Intra-Sector Pair Trades Based on Valuation Results

Stock to be O/w	MS Analyst Rating	% over/under valued	Stock to be U/w	MS Analyst Rating	% over/under valued	Implied Alpha Opportunity to Fair Value
Maruti Udyog Ltd.	OW	-23	M&M	OW	15	38
Hindustan Lever Corporation Bank	OW	-40	ITC	EW	-15	55
Canara Bank	OW	-34	HDFC	EW	26	60
IDFC	OW	-31	ICICI Bank	EW	88	119
Jaiprakash	OW	8	Kotak	UW	104	96
ACC	OW	-9	L&T	OW	144	153
	UW	-7	Ambuja	UW	31	38

Note: The risk to the above pair trades is that the historical relationship between relative P/B and relative ROE breaks down. Such a breakdown could be caused by ROE differing from our forecasts, explicit action by companies that alters their long-term ROE outlook or a macro event that alters the market's perception of risk.

AT A GLANCE

India Stock Coverage Universe

	Price	Mkt Cap	Rating	6M Price	Trail 3 Year	Implied LT		ROE	Fwd	Fwd	Trailing	Fwd	Trailing	Consensus **		3M Rev
	27/4/07	(US\$m)		Perf	EPS CAGR	EPS grth	Div grth*	F2006	PE	P/B	P/Sales	Div Yield	FCF Yield	F2007	F2008	F2007
BSE Sensex	13,909	448,533		7.3%	25.2%	7.9%	21.4%	16.7	3.6	1.7	1.6%	3.3%	29.0%	15.0%	1.8%	
Amttek Auto Ltd.	382	1,158	Overweight	22.4%	53.0%	12.0%	22.1%	15.4%	12.3	1.9	1.8	1.0%	-19.7%	48.6%	28.9%	-0.6%
Arvind Mills	45	229	Underweight	-28.1%	NM	6.3%	7.2%	6.6%	8.0	0.5	0.4	2.5%	29.1%	-71.7%	132.5%	-44.6%
Ashok Leyland	39	1,257	Equal-Weight	-12.3%	24.9%	8.6%	2.1%	23.6%	12.1	2.9	0.8	4.6%	-5.8%	32.7%	10.0%	3.5%
ACC Ltd.	822	3,774	Underweight	-15.1%	78.1%	9.0%	9.0%	22.5%	17.6	4.0	2.6	2.1%	2.8%	242.3%	19.8%	0.0%
Aventis (India)	1,234	695	Overweight	-20.0%	23.2%	10.9%	10.5%	24.3%	14.0	3.4	3.3	1.8%	6.9%	9.3%	13.9%	0.4%
Bajaj Auto	2,456	6,075	Overweight	-10.7%	18.3%	13.2%	10.7%	24.9%	14.3	3.6	2.5	1.6%	2.3%	15.1%	15.8%	-1.8%
Bajaj Hindustan	163	567	Underweight	-47.9%	59.7%	7.9%	30.9%	8.4%	17.8	1.5	1.5	0.3%	-55.9%	69.0%	13.4%	0.7%
Balrampur Chini Mills	64	393	Underweight	-38.2%	98.3%	-0.9%	7.0%	16.3%	8.8	1.4	1.1	2.3%	-26.0%	22.8%	21.0%	-2.7%
Bank of Baroda	243	2,170	Underweight	-13.0%	NM	3.9%	7.0%	12.6%	7.3	0.9	-	2.5%	-	16.6%	25.8%	2.6%
Bank of India	195	2,332	Overweight	12.6%	NM	5.3%	9.5%	16.7%	8.5	1.4	-	2.1%	-	31.7%	36.1%	2.3%
Bharat Forge	318	1,868	Equal-Weight	-11.2%	27.8%	14.8%	11.2%	23.1%	17.1	4.0	1.8	1.5%	4.0%	23.5%	32.0%	-5.1%
Bharat Petroleum Corp.	338	2,990	Equal-Weight	-15.5%	NM	2.7%	-18.4%	1.4%	7.3	0.1	0.1	34.5%	5.0%	18.6%	3.5%	13.1%
Bharti Tele-Ventures	826	38,295	Overweight	55.9%	0.0%	20.5%	0.0%	33.0%	25.7	8.5	8.1	0.7%	-1.2%	102.8%	47.4%	3.3%
Biocon Ltd	476	1,163	Underweight	30.4%	13.4%	15.1%	18.0%	19.8%	19.5	3.8	4.7	1.1%	0.3%	9.6%	18.7%	3.4%
Canara Bank	221	2,217	Overweight	-24.7%	1.5%	1.2%	3.5%	17.0%	5.6	0.9	-	3.4%	-	-3.0%	21.7%	-2.9%
Cipla	217	4,130	Underweight	-17.2%	26.5%	16.0%	14.4%	20.9%	21.4	4.5	4.7	1.4%	1.3%	40.3%	23.8%	-1.1%
Colgate-Palmolive India	341	1,132	Overweight	-17.9%	23.6%	15.8%	3.0%	74.4%	20.9	15.6	3.5	3.9%	4.9%	27.3%	15.1%	3.1%
Corporation Bank	316	1,108	Overweight	-19.3%	2.1%	3.9%	5.2%	14.3%	7.4	1.1	-	2.8%	-	8.3%	17.4%	2.5%
Dr. Reddy's Lab	712	2,935	Overweight	-4.8%	46.0%	9.4%	11.7%	17.7%	14.7	2.6	2.0	1.1%	2.7%	232.9%	-15.2%	10.6%
Dabur India	95	1,996	Overweight	-6.9%	39.7%	17.8%	8.7%	49.0%	24.6	12.0	3.7	2.1%	3.2%	22.8%	21.8%	-0.5%
EIH Limited	97	930	Underweight	-5.4%	NM	15.6%	9.8%	16.3%	19.4	3.2	3.9	2.1%	3.1%	-17.2%	28.0%	10.5%
Entertainment Network (India)	365	425	Underweight	51.8%	NM	28.1%	9.1%	59.4%	5.4	8.2	0.0%	0.0%	0.8%	-	70.5%	0.0%
GAIL (India)	285	5,882	Overweight	11.1%	7.9%	5.9%	2.1%	20.9%	8.8	1.8	1.2	4.1%	8.5%	1.6%	1.5%	3.3%
Gammon India	346	734	Overweight	-11.9%	41.3%	16.4%	34.1%	13.3%	18.6	2.5	1.5	0.3%	0.0%	46.9%	-8.7%	-
GlaxoSmithKline Pharma	1,162	2,480	Overweight	1.1%	20.2%	16.9%	5.0%	27.5%	22.4	6.2	6.5	1.6%	4.4%	26.0%	5.4%	0.8%
GMR Infrastructure Ltd.	394	3,243	Underweight-V	28.2%	NM	42.6%	4.4%	137.9%	6.0	7.7	7.7	0.0%	-16.1%	-	0.8%	34.9%
Godrej Consumer Products	139	769	Overweight	-16.9%	30.9%	14.2%	6.0%	83.2%	17.6	14.6	3.2	2.8%	0.6%	15.9%	23.9%	1.0%
Grasim Industries	2,421	5,427	Equal-Weight	-11.9%	30.3%	8.7%	16.7%	25.3%	14.1	3.6	2.3	1.0%	-2.1%	92.3%	17.7%	7.0%
Great Eastern Shipping	240	1,116	Equal-Weight	-28.6%	16.5%	0.8%	0.7%	13.7%	8.8	1.2	1.7	4.2%	5.0%	-21.2%	-23.2%	-6.4%
Ambuja Cements Ltd.	118	4,357	Underweight	0.2%	59.9%	5.7%	9.1%	23.0%	18.3	4.2	3.0	1.6%	5.8%	85.6%	28.2%	0.0%
HCL Technologies	326	5,159	Equal-Weight	4.7%	28.4%	16.6%	5.0%	24.8%	17.4	4.3	4.6	3.0%	2.5%	43.1%	21.7%	5.6%
HDFC	1,686	10,286	Equal-Weight	14.7%	21.5%	16.8%	12.8%	29.3%	23.2	6.8	-	1.5%	-	12.8%	18.6%	1.8%
HDFC Bank	1,017	7,949	Equal-Weight	1.2%	26.7%	17.1%	20.5%	15.1%	19.4	2.9	-	0.8%	-	29.3%	31.4%	0.1%
Hero Honda Motor	668	3,262	Underweight	-11.6%	7.2%	9.9%	1.7%	36.7%	13.7	5.0	1.3	4.5%	9.6%	-10.5%	10.0%	-9.9%
Hexaware Technologies	170	554	Overweight	-0.9%	59.8%	12.0%	16.8%	18.1%	13.4	2.4	2.6	1.4%	1.5%	26.8%	2.1%	1.5%
Hindalco Industries	148	4,244	***	-21.9%	29.4%	2.7%	11.1%	15.2%	7.3	1.1	0.8	1.3%	-15.0%	77.3%	-12.4%	3.9%
Hindustan Lever	210	11,269	Overweight	-10.3%	NM	17.8%	4.4%	78.6%	23.4	18.3	3.8	3.6%	3.6%	19.7%	12.2%	-2.9%
Hindustan Petroleum	269	2,227	Underweight	-17.3%	NM	3.8%	1.3%	11.0%	7.9	0.9	0.1	4.3%	-8.0%	-20.4%	4.7%	22.2%
Hotel Leelaventure	56	505	Underweight	-12.5%	127.4%	12.6%	15.9%	14.5%	13.9	2.0	4.2	1.5%	0.2%	79.4%	47.1%	4.5%
ICICI Bank	934	20,411	Equal-Weight	20.2%	11.1%	16.1%	16.6%	13.7%	22.2	3.0	-	1.0%	-	34.2%	26.9%	1.7%
IDBI	84	1,491	Underweight	2.6%	3.8%	6.3%	9.7%	8.3%	10.0	0.8	-	2.4%	-	22.4%	12.8%	-1.8%
Idea Cellular Ltd.	113	7,333	Overweight-V	0.0%	NM	25.7%	0.0%	21.2%	29.8	6.3	6.6	0.0%	-4.7%	-	-	-
IDFC	97	2,677	Overweight	23.4%	NM	14.0%	15.9%	12.4%	16.1	2.0	-	1.5%	-	24.9%	17.7%	1.4%
i-flex Solutions	2,481	4,961	Equal-Weight	63.7%	19.4%	27.2%	29.7%	16.5%	47.6	7.8	9.6	0.4%	0.7%	30.5%	37.3%	-1.2%
Indian Hotels Company	144	2,105	Overweight	1.3%	84.6%	14.5%	15.7%	19.3%	17.1	3.3	3.6	1.3%	-3.4%	78.0%	36.9%	0.0%
Indian Oil Corp	436	12,441	***	-15.0%	NM	8.2%	0.6%	13.8%	9.4	1.3	0.2	3.0%	1.0%	23.0%	-8.4%	2.9%
Infosys Technologies	2,007	28,123	Overweight	-4.2%	43.5%	17.5%	21.9%	31.2%	23.7	7.4	8.1	0.8%	2.2%	51.9%	31.0%	-0.5%
ITC	161	14,751	Equal-Weight	-15.4%	19.8%	14.2%	7.8%	26.2%	19.4	5.1	4.9	2.5%	3.0%	23.0%	15.1%	-0.3%
IVRCL Infrastructures & Projects	315	929	Overweight	10.2%	14.0%	17.4%	27.3%	18.6%	20.3	3.8	1.7	0.5%	-6.9%	-14.3%	16.7%	-18.8%
Jaiprakash	608	2,894	Overweight	4.6%	NM	17.6%	19.7%	19.5%	22.5	4.4	3.1	0.9%	0.0%	18.7%	30.9%	3.5%
Jindal Steel	2,765	2,081	Overweight	53.6%	34.9%	7.1%	21.1%	29.4%	8.1	2.4	2.2	0.7%	5.7%	27.3%	21.7%	8.4%
JSW Steel Ltd.	574	2,309	Overweight	69.1%	165.1%	2.7%	12.4%	20.7%	6.3	1.3	1.1	1.5%	-13.6%	-	25.5%	-
Kotak Mahindra Bank	521	4,146	Underweight	50.4%	NM	23.3%	39.9%	13.1%	36.7	4.8	-	0.2%	-	72.9%	29.8%	32.2%

* Assuming no change in payout, ** Consensus Earnings Growth based on IBES Estimates. Fwd valuation ratios based on Morgan Stanley Research estimates. *** Rating/estimates for this company have been removed from consideration in this report because, under applicable law and/or Morgan Stanley policy, Morgan Stanley may be precluded from issuing such information with respect to this company at this time, NA = Not Applicable, NR = Not Rated. Source: Morgan Stanley Research

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India Stock Coverage Universe

	Price	Mkt Cap	Rating	6M Price	Trail 3 Year	Implied LT		ROE	Fwd	Fwd	Trailing	Fwd	Trailing	Consensus **		3M Rev
	27/4/07	(US\$m)		Perf	EPS CAGR	EPS grth	Div grth*	F2006	PE	P/B	P/Sales	Div Yield	FCF Yield	F2007	F2008	F2007
LANCO Infratech	158	918	Equal-Weight-V		13.6%		12.6%	15.0	1.9	2.1	0.0%	47.0%				
Larsen & Toubro	1,682	11,300	Overweight	28.1%	24.0%	18.0%	19.6%	25.7%	24.7	6.3	2.2	0.8%	1.3%	17.9%	30.3%	4.0%
Lupin	696	1,426	Overweight	35.9%	17.0%	15.3%	22.1%	19.7%	19.7	3.9	3.0	0.7%	2.2%	26.3%	27.5%	5.7%
Mahanagar Telephone Nigam	151	2,320	Overweight	7.2%	NM	6.1%	4.0%	7.8%	9.7	0.8	1.7	3.2%	28.0%	-26.8%	12.9%	-4.2%
Mahindra & Mahindra	763	4,583	Overweight	-2.5%	52.2%	8.1%	13.1%	27.3%	11.2	3.1	1.9	1.5%	3.8%	59.1%	19.5%	6.1%
Marico	56	832	Underweight	5.5%	33.8%	15.7%	13.4%	34.2%	21.4	7.3	2.2	1.3%	2.0%	32.4%	30.8%	-5.9%
Maruti Udyog	795	5,616	Overweight	-17.9%	0.0%	8.6%	22.8%	21.0%	12.2	2.6	1.5	0.8%	2.4%	32.4%	13.6%	0.5%
Mphasis BFL Group	306	1,217	Equal-Weight	34.5%	1.4%	22.1%	16.2%	17.9%	26.7	4.8	4.1	1.2%	3.3%	-7.2%	59.6%	0.4%
MindTree Consulting Limited	776	719	Underweight-V		19.0%	35.5%	21.8%	23.8	5.2	4.9	0.5%	2.0%				
National Aluminium	243	3,832	Equal-Weight	5.4%	49.5%	1.2%	6.0%	18.4%	9.2	1.7	2.7	2.1%	8.2%	46.8%	-23.7%	6.2%
NDTV	333	495	Equal-Weight	53.1%		21.7%		29.3%	32.1	9.4	7.1	0.0%	2.1%	2.3%	34.6%	-0.9%
NTPC	159	31,976	Equal-Weight	22.5%		12.9%	8.2%	13.9%	17.8	2.5	4.4	2.2%	1.9%	14.0%	11.1%	0.9%
Nestle India	992	2,338	Overweight	-5.9%	5.3%	17.3%	3.2%	112.2%	21.6	24.2	3.4	3.7%	3.6%	8.0%	14.6%	-1.6%
Oil & Natural Gas Corp.	929	48,586	Overweight	13.9%	30.5%	6.1%	0.5%	27.1%	9.1	2.5	2.2	4.8%	11.8%	25.0%	7.1%	3.2%
Oriental Bank of Commerce	213	1,306	Overweight	-17.0%	NM	1.0%	6.6%	15.3%	5.9	0.9	-	2.6%	-	3.6%	10.7%	-0.4%
Pantaloon Retail	411	1,372	Equal-Weight	10.5%	57.0%	30.9%	0.0%	11.2%	42.6	4.8	2.8	0.1%	-10.3%	70.5%	54.6%	3.0%
Patni Computer Systems	456	1,540	Overweight	9.3%	15.2%	11.6%	17.6%	17.2%	13.5	2.3	2.4	1.1%	2.5%	7.6%	35.9%	8.1%
Polaris Software Lab	187	450	Equal-Weight	43.1%	19.0%	10.4%	11.4%	19.0%	13.0	2.5	1.7	1.6%	-0.6%	116.0%	30.8%	8.3%
Punjab National Bank	499	3,846	Overweight	-3.7%	0.0%	5.4%	13.1%	15.4%	8.4	1.3	-	1.4%	-	11.5%	26.1%	2.4%
Ranbaxy Laboratories	370	3,633	Overweight	-7.4%	NM	17.1%	7.1%	13.6%	22.7	3.1	2.5	2.5%	-1.1%	173.0%	-3.3%	0.0%
Reliance Communications	460	22,997	Overweight	21.4%		16.1%		22.5%	21.6	4.9	5.9	0.4%	-2.3%		49.9%	10.3%
Reliance Energy	509	2,860	Overweight	5.3%	21.0%	9.6%	15.2%	9.6%	12.8	1.2	2.1	1.3%	4.0%	0.9%	6.1%	-1.1%
Reliance Industries	1,538	54,832	Overweight	25.4%	33.0%	11.9%	23.1%	15.7%	17.9	2.8	2.0	0.6%	-5.4%	17.2%	0.0%	5.1%
Reliance Petroleum	81	8,910	Overweight-V	26.6%								0.0%	0.0%			
Sesa Goa	1,763	1,697	Equal-Weight	48.6%	23.5%	6.6%	8.2%	24.6%	13.3	3.3	3.4	1.6%	7.9%	4.4%	10.3%	-11.5%
SAIL	132	13,357	Overweight	53.3%	35.2%	4.3%	3.6%	37.1%	7.1	2.6	1.7	3.0%	8.9%	5.4%	14.7%	2.6%
Satyam Computer Services	467	7,638	Overweight	6.1%	38.4%	14.2%	19.8%	24.2%	18.1	4.4	4.7	1.3%	2.2%	38.4%	26.8%	0.3%
Shipping Corporation of India	206	1,422	Underweight	24.5%	17.4%	0.0%	0.8%	11.4%	9.9	1.1	1.7	4.1%	5.0%			
Shoppers' Stop	673	565	Equal-Weight	8.4%		26.2%	0.0%	14.9%	45.8	6.8	2.5	0.4%	0.3%	92.9%	44.4%	-3.6%
Shree Renuka Sugars	442	263	Equal-Weight	-27.2%		4.0%	25.3%	27.9%	7.9	2.2	0.9	1.3%	-32.2%	435.2%	157.7%	-60.1%
State Bank of India	1,099	14,136	Equal-Weight	0.3%	1.4%	10.1%	12.6%	12.1%	14.0	1.7	-	1.5%	0.0%	-5.9%	22.3%	-5.0%
Sun Pharmaceutical Industries	1,036	5,245	Overweight	14.4%	24.4%	17.3%	23.7%	19.8%	23.4	4.6	10.1	0.6%	3.4%	28.7%	23.8%	4.5%
Tata Steel	538	7,661	Overweight	9.6%	17.0%	2.1%	2.7%	25.9%	6.1	1.6	1.8	3.7%	10.9%	16.9%	0.6%	0.8%
Tata Motors	749	7,367	Underweight	-9.6%	23.6%	9.9%	9.0%	24.7%	14.3	3.5	1.1	1.8%	-1.4%	20.1%	15.3%	0.8%
Tata Power Co	584	2,826	Overweight	7.9%	5.3%	9.9%	9.0%	24.7%	14.3	3.5	1.1	1.8%	-1.4%	15.9%	9.5%	4.5%
Tata Tea	771	1,059	Equal-Weight	0.9%	0.0%	9.6%	11.1%	16.5%	12.8	2.1	1.2	1.7%	11.5%	7.1%	1.5%	0.9%
Tata Consultancy Services	1,234	29,529	Overweight	13.8%		17.3%	29.1%	38.2%	22.5	8.6	6.3	0.6%	1.7%	43.9%	29.1%	0.2%
Triveni Engineering & Industries	48	305	Equal-Weight	-28.3%		6.0%	20.4%	16.0%	9.9	1.6	0.8	0.7%	-41.5%			
TVS Motors	61	356	Overweight	-43.6%	NM	13.4%	2.4%	15.9%	10.7	1.7	0.4	4.2%	6.9%	-45.8%	32.9%	-37.2%
UltraTech Cemco	803	2,443	Underweight	-8.8%		9.1%	38.6%	29.7%	13.6	4.0	2.1	0.2%	-5.2%		16.2%	2.9%
Union Bank of India	108	1,330	Overweight	-16.8%	4.1%	0.7%	1.8%	18.0%	5.0	0.9	-	4.2%	0.0%	10.0%	21.4%	-2.5%
United Phosphorus	337	1,671	Overweight	14.6%	29.2%	14.7%	26.1%	19.4%	14.8	2.9	2.9	0.7%	-9.2%	48.3%	38.0%	-1.3%
UTI Bank	456	3,139	Equal-Weight	5.0%	25.7%	12.7%	16.1%	14.3%	13.2	1.9	-	1.3%	0.0%	36.0%	28.7%	0.4%
Videsh Sanchar Nigam	436	3,036	Underweight	0.2%	17.7%	14.1%	10.7%	11.2%	17.8	2.0	2.8	1.8%	-4.3%	4.9%	10.3%	2.5%
Voltas Limited	94	764	Equal-Weight	1.5%	46.7%	19.5%	18.7%	29.8%	23.4	7.0	1.3	1.1%	2.3%	-22.3%	42.8%	-17.0%
Wipro	566	20,227	Equal-Weight	5.2%	40.7%	17.3%	17.3%	27.4%	23.4	6.4	5.4	1.1%	2.2%	37.3%	27.7%	0.5%
Wockhardt	419	1,223	Overweight	7.8%	26.7%	11.0%	14.1%	19.3%	13.1	2.5	2.9	1.4%	-6.9%	0.5%	28.6%	1.1%
Zee Entertainment Enterprise	287	3,056	Overweight	-4.9%	NM	25.8%	0.0%	11.4%	36.2	4.1	8.6	0.4%	0.2%	12.0%	52.7%	-8.1%

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

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Latest Economic Indicators

	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07
Trade Balance (US\$billion)	-3.8	-3.8	-4.0	-3.5	-5.3	-6.2	-6.2	-5.7	-5.8	-4.7	NA	NA
Exports (US\$billion)	9.4	10.0	10.2	10.4	10.3	9.6	9.7	9.9	9.6	9.7	NA	NA
Exports (YoY)	15.8%	25.1%	34.8%	20.5%	21.9%	11.4%	33.6%	7.7%	5.5%	7.8%	NA	NA
Imports (US\$billion)	13.2	13.8	14.1	13.9	15.6	15.8	15.9	15.6	15.4	14.4	NA	NA
Imports (YoY)	8.1%	22.4%	24.2%	11.7%	24.8%	36.4%	42.9%	31.1%	23.2%	25.1%	NA	NA
Foreign Direct Investment (US\$million)	538.0	523.0	1127.0	619.0	916.0	1698.0	1151.0	5130.0	1921.0	NA	NA	NA
Foreign Exchange Reserves (US\$billion)	161.8	162.1	163.3	164.6	164.5	166.4	172.1	176.7	178.5	192.7	198.7	202.6
Net FII Flows (US\$million)	-1793.8	311.2	300.3	1026.4	1353.1	1554.7	2076.0	-806.9	40.6	1266.9	325.6	1443.4
Rs/US\$1 (period average)	45.41	46.06	46.46	46.54	46.12	45.47	44.86	44.63	44.33	44.16	44.03	42.43
M3 (YoY)	18.3%	18.3%	19.2%	19.5%	19.2%	18.8%	19.0%	19.8%	20.8%	21.6%	21.6%	21.3%
Bank Loans (Non-food credit, YoY)	32.7%	35.0%	32.7%	33.4%	31.1%	29.8%	30.1%	31.0%	30.4%	30.0%	28.0%	27.9%
Money Multiplier	4.7	4.7	4.9	4.9	4.8	4.8	4.8	4.7	4.7	4.7	4.6	4.8
Deposit Growth Rate (YoY)	20.1%	21.7%	21.2%	21.2%	19.7%	19.8%	21.4%	23.0%	23.3%	24.5%	23.0%	23.7%
Prime Lending Rate	10.8%	10.8%	10.8%	11.0%	11.0%	11.0%	11.0%	11.5%	11.5%	12.3%	12.3%	12.8%
One Year Deposit Rate	6.3%	6.3%	6.3%	6.8%	6.8%	6.8%	6.8%	7.5%	8.3%	8.3%	8.3%	8.3%
364 day T-Bill Yield	6.4%	6.8%	7.0%	6.9%	6.9%	7.0%	7.1%	7.1%	7.3%	7.6%	7.6%	7.9%
91 day T-Bill Yield	5.7%	6.1%	6.4%	6.4%	6.4%	6.6%	6.7%	6.9%	7.1%	7.5%	7.4%	7.4%
10 yr Government Bond Yield	7.6%	7.9%	8.3%	8.1%	7.7%	7.7%	7.5%	7.5%	7.7%	7.9%	8.0%	8.1%
Manufacturing(in %)	13.3%	10.7%	14.3%	11.9%	12.7%	3.8%	17.2%	13.4%	12.1%	12.3%	NA	NA
Consumer Goods	10.5%	6.1%	16.8%	15.0%	12.1%	-2.8%	13.5%	10.2%	8.5%	7.6%	NA	NA
Basic Goods	9.1%	8.5%	10.0%	4.8%	11.5%	10.5%	12.1%	12.3%	11.8%	10.4%	NA	NA
Capital Goods	21.4%	21.6%	18.3%	16.6%	9.5%	6.5%	29.4%	20.9%	16.6%	18.2%	NA	NA
Intermediate Goods	12.5%	11.2%	10.7%	8.7%	13.8%	5.9%	17.9%	12.2%	13.0%	13.7%	NA	NA
Consumer Price Index (YoY)	6.1%	7.9%	6.9%	6.0%	6.8%	7.6%	6.7%	6.7%	6.7%	7.6%	NA	NA
Wholesale Price Index (YoY)												
- All Commodities	5.0%	4.8%	4.7%	5.3%	5.4%	5.3%	5.6%	5.9%	6.4%	6.1%	5.7%	6.1%
- Manufactured Products	2.6%	2.6%	3.5%	3.6%	4.1%	4.8%	5.3%	5.3%	6.0%	6.2%	5.8%	5.8%

Source: RBI, CSO, CMIE, Morgan Stanley Research

AT A GLANCE

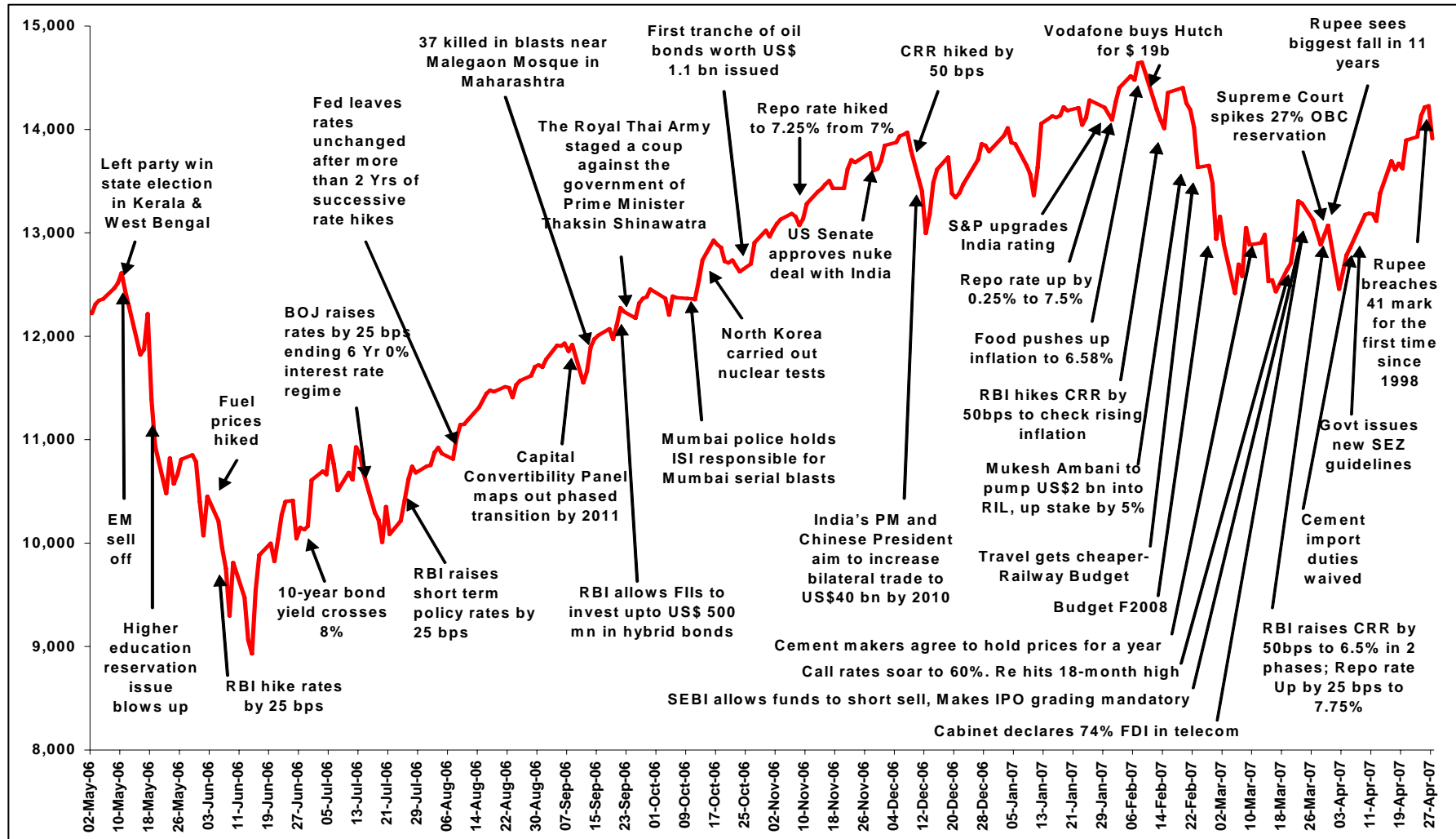
Macro Economic Forecasts

Years Ending March 31	F2002	F2003	F2004	F2005	F2006	F2007E	F2008E	F2009E
National Income								
GDP (US\$ bn)	478	506	601	695	806	906	1,077	1,207
Gross domestic product	5.8%	3.8%	8.5%	7.4%	9.0%	9.2%	7.5%	6.9%
Agriculture and Allied activities (incl. mining)	5.8%	-5.6%	9.6%	-1.5%	5.8%	2.9%	3.8%	3.2%
Manufacturing, Constn, Electricity	2.8%	6.8%	7.9%	9.1%	10.1%	10.4%	8.5%	7.3%
Services	7.1%	7.3%	8.2%	10.7%	9.8%	11.2%	8.4%	8.1%
Money and Banking								
Money Supply (M3) growth (avg)	15.7%	12.9%	12.6%	14.3%	15.4%	19.5%	17.0%	15.0%
Bank non-food credit (avg y-y increase)	11.8%	16.3%	16.2%	25.0%	30.8%	31.5%	26.0%	24.0%
Interest rates								
91-Day T-Bill Yield (year-end)	6.2%	5.8%	4.3%	5.2%	6.1%	7.6%	7.8%	7.0%
Bank Rate (year-end)	6.5%	6.3%	6.0%	6.0%	6.0%	6.0%	6.3%	6.3%
Prices								
Wholesale price index (avg y-y increase)	3.6%	3.4%	5.4%	6.4%	4.4%	5.4%	5.6%	4.5%
Consumer price index (avg y-y increase)	4.3%	4.0%	3.9%	3.8%	4.4%	6.8%	5.7%	4.3%
External sector								
Exports (US\$ bn)	44.7	53.8	66.3	85.2	104.7	124.2	142.9	164.3
Imports (US\$ bn)	56.3	64.5	80.0	118.9	156.3	193.6	223.6	257.1
Trade balance (US\$ bn)	-11.6	-10.7	-13.7	-33.7	-51.6	-69.4	-80.7	-92.8
Invisibles, net (US\$ bn)	15.0	17.0	27.8	31.2	40.9	58.0	64.8	74.5
Current account balance (US\$ bn)	3.4	6.3	14.1	(2.5)	(10.6)	(11.4)	(15.9)	(18.3)
Current account Balance as a % of GDP	0.7%	1.3%	2.3%	(0.4%)	(1.3%)	(1.3%)	(1.5%)	(1.5%)
Foreign investment (US\$ bn)	8.1	6.0	15.7	15.3	20.2	26.0	21.0	20.0
Capital inflow as a % of GDP	1.8%	2.1%	2.8%	4.0%	3.1%	5.6%	3.8%	2.9%
Foreign currency reserves (US\$ bn)	54.1	75.4	111.6	140.1	154.5	197.8	224.6	240.5
Foreign currency reserves as no. of months imports	10.9	13.2	15.9	14.1	11.9	12.3	12.1	11.2
Average exchange rate (USD/INR)	47.7	48.4	45.9	45.0	44.3	45.2	43.1	43.0
Year end exchange rate (USD/INR)	48.7	47.6	45.0	43.7	44.5	44.0	43.0	43.0
External debt (US\$ bn)	98.8	105.0	111.7	123.2	125.2	156.2	176.0	190.3
External debt as a percentage of GDP	21.1%	20.4%	18.2%	17.2%	15.6%	16.8%	16.3%	15.8%
Short term debt as a proportion of total	2.8%	4.4%	4.0%	6.1%	7.0%	7.5%	7.6%	7.8%
Debt service ratio (Payments over currents receipts)	13.9%	15.1%	16.3%	6.1%	10.2%	7.5%	8.2%	8.4%
Fiscal deficit (As % of GDP)								
----Central government	6.2%	5.9%	4.5%	4.0%	4.1%	3.7%	3.8%	4.1%
----State government	4.2%	4.2%	4.5%	3.5%	3.2%	3.3%	3.5%	3.3%
----Consolidated Deficit *	9.9%	9.6%	8.4%	7.5%	7.4%	7.1%	7.3%	7.5%

* Total of Central & State Govt deficit does not tally due to inter-governmental transactions. E = Morgan Stanley Research Estimates; Source: RBI, CSO, Budget Documents, & Morgan Stanley Research.

AT A GLANCE

News Flow and Market Performance



Source: ASA, Morgan Stanley Research



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(as of April 30, 2007)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	850	38%	291	42%	34%
Equal-weight/Hold	1008	45%	303	42%	30%
Underweight/Sell	368	17%	97	14%	26%
Total	2,226		691		

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