

June 27, 2012

CONSENSUS vs. US (Bi-Annual Guide on Consensus Ratings)

India Strategy

Consensus vs. Us: A Less-bearish Consensus

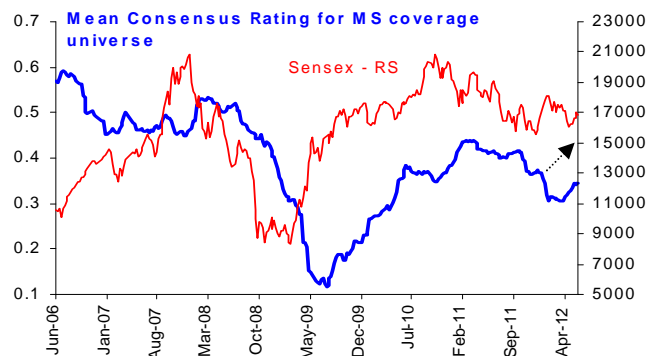
What's new

The sell-side consensus rating has improved to a five-month high point. MS analysts and consensus disagree on 50% of the MS covered stocks. More important, consensus has a buy or an equivalent rating for 68% of the MS covered stocks while MS analysts have a buy or an equivalent rating for only 42% of the MS covered stocks. MS analysts appear to be more bearish than consensus. The table below highlights the strongest contrarian plays.

MS Analysts' strongest contrarian plays

Stocks	% of Ratings with Buys	% of Ratings with Sells	MS Rating	Consensus Rating
Max India	89%	0%	U	O
Bank of Baroda	78%	9%	U	O
IDFC	74%	5%	U	O
State Bank of India	72%	13%	U	O
PNB	67%	18%	U	O
HPCL	64%	20%	U	O
Canara Bank	62%	19%	U	O
Hindalco Industries	62%	15%	U	O
Titan Industries	61%	18%	U	O
Essar Oil	58%	25%	U	O
Tata Power	49%	15%	U	O
Jubilant Foodworks	32%	50%	O	U
ACC	31%	53%	O	U
Ultratech Cement	30%	48%	O	U
Ambuja Cements	25%	46%	O	U

Mean Consensus Rating and Index: Moving in Sync?



Source: Bloomberg, Morgan Stanley Research

Interesting Snippets

- AXSB, HDFC Bank, INFO and TCS are the most actively covered stocks by the Street (68-70 analysts).
- MCX, ING and ABNL have the most “buy” ratings.
- NALCO and GPL have the most “sell” ratings.
- Consensus ratings are most positive for Financials while they are least positive for Telecoms.

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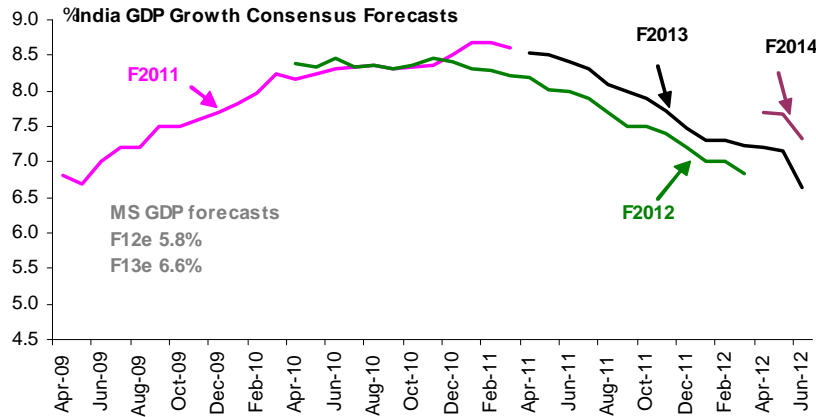
The “Sell-Side” Consensus Ratings: A Less-bearish Consensus

- **Key Debate:** Since our February 2012 update of consensus vs. MS, sell-side analysts have downgraded F2013 GDP and earnings estimates by 65bp and 1.6ppt, respectively. Moreover, the market is down 6% during this period. What has this done to the sell-side conviction levels vs. what we saw in Feb-12?
- **What’s New:** In the latest run of consensus ratings vs. MS ratings, we observe that the sell-side conviction level on MS coverage stocks has improved to a five-month high - at 0.34. A score greater than 0.3 implies a “buy” or an equivalent rating while a score of less than -0.1 implies a “sell” or an equivalent rating. The conviction level is highest across small- and mega-caps and the lowest for the large caps.
- We assign one point to a buy rating, and -1 point to a sell rating and hold is given a 0 score. We find that the consensus has a “buy” or equivalent recommendation on 68% of our coverage universe (of 126 stocks), better than the 59% in Feb-12. Similarly, MS analysts have “buy” ratings for 42% of the universe vs. 41% in Feb-12. This suggests MS analysts remain more bearish than consensus.
- **MS Analysts vs. Consensus:** MS analysts agree with consensus ratings on half of the stocks considered in the sample (63 out of the 126 stocks) – a slight improvement from the previous update. Out of the 63 stocks, both set of analysts rate 42 stocks as buys, nine as sells and rest as hold or any other equivalent rating.
- Out of the 63 stocks where they disagree, MS analysts have a buy rating only on 10 stocks, while consensus has a buy rating on 43 stocks, once again suggesting a more bullish consensus.
- Within the MS coverage universe, there are 48 stocks (or 38% of our coverage universe) in which 70% or more of the Street has a “buy” or equivalent rating. MS analysts differ with the street on 22 out of these 48 stocks. On the other hand, there are only three stocks in which 60% or more of the Street has a “sell” or equivalent rating. Notably, MS analysts also have a “sell” rating for two of these stocks. Please see pages 4 and 5 for the most bullish and bearish consensus calls along with the contrarian calls between MS and consensus.
- **Consensus Sector Calls:** The average consensus ratings have fallen since Feb-12 for three out of the 10 sectors with Consumer Discretionary and Staples seeing marginal falls. On the other hand, Materials saw the most gains in mean ratings. The consensus ratings are most positive for Financials and Industrials, while they remain least positive for Telecoms (see page 6).
- **Conclusion:** The sell-side consensus conviction seems to be improving. Indeed, consensus seems to be more constructive than MS analysts. The opportunity, in our view, lies at the stock level. Page 5 (and the table on the front page) highlights these calls.

Earnings See a Steeper Downgrade vs. GDP Growth

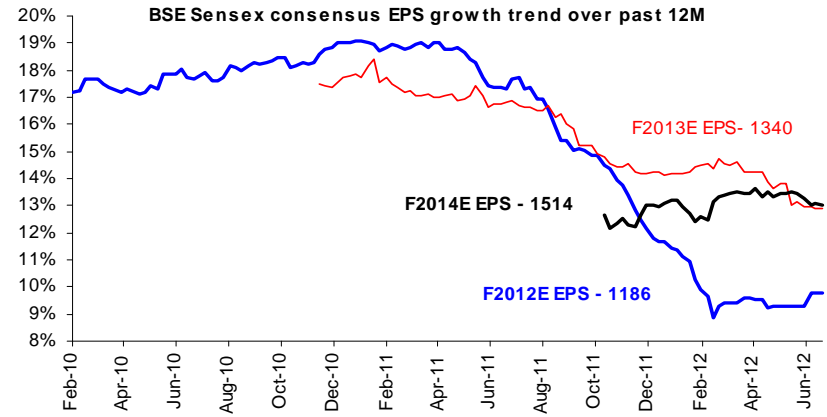
Consensus GDP Growth Estimates

Downward revision persists...



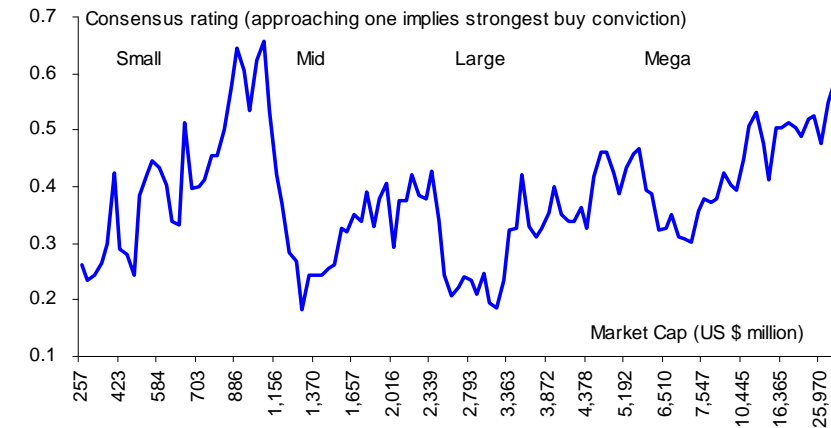
Consensus Earnings Growth Estimates

... while earnings revision slows



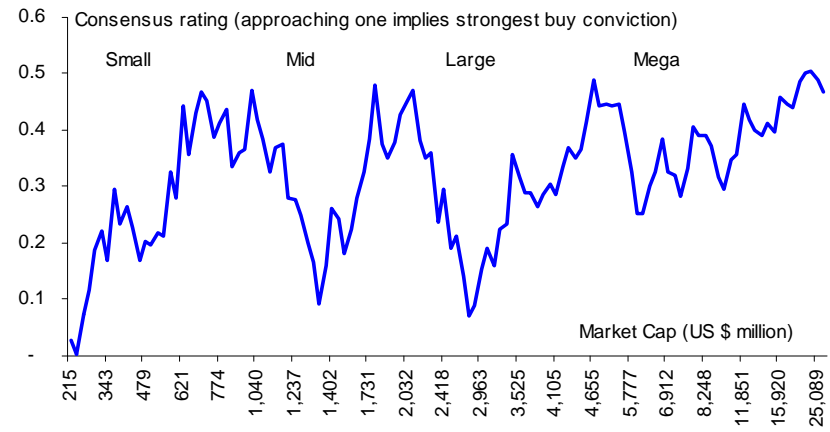
Consensus Conviction Across Market Cap

Conviction level highest for small-and mega-caps



...Versus the Level in Feb-12

High dispersion in conviction levels across market cap segments



The Most Bullish Consensus Stock Calls

38% of our coverage universe is rated “buy” by more than 70% of the Street

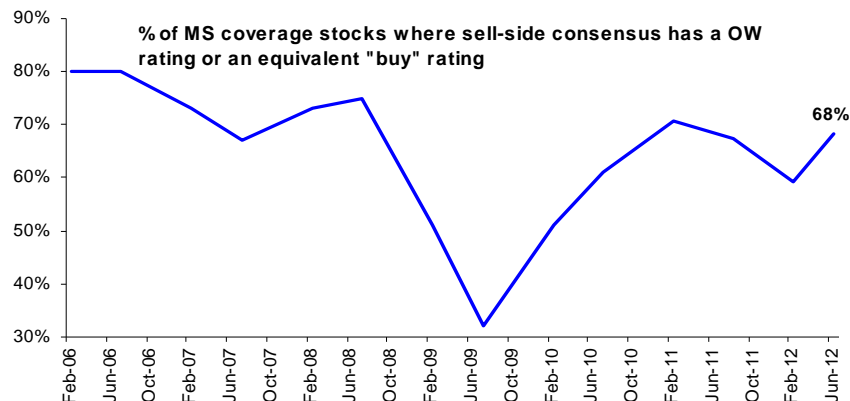
Stocks	Share Price (Rs) Jun 25, 2012	% of		No of Analysts*	Consensus Earnings Growth	
		Ratings with Buys	MS Rating		F13E	F14E
MCX	1,044	100%	E	12	17%	12%
ING	343	94%	E	17	0%	37%
Aditya Birla Nuvo	788	92%	O	12	18%	21%
Max India	193	89%	U	9	133%	-62%
Corporation Bank	412	88%	E	25	1%	-1%
United Phosphorus	114	88%	E	25	15%	17%
ITC	250	88%	O	49	19%	18%
ICICI Bank	847	87%	E	62	22%	19%
Prestige Properties	114	86%	O	22	131%	45%
AXIS Bank	1,011	86%	E	70	6%	20%
OnMobile Global	38	86%	O	14	7%	3%
ITNL	182	85%	O	27	12%	7%
Power Grid	108	84%	O	38	24%	17%
IRB Infra	124	84%	O	43	5%	2%
Infotech Ent.	152	83%	O	12	-1%	57%
Oriental Bank	248	83%	E	30	25%	23%
Mundra Port	117	83%	O	29	30%	35%
IndusInd Bank	323	83%	E	46	22%	26%
Info Edge	375	82%	E	17	27%	26%
Grasim Industries	2,464	81%	O	37	6%	13%
ONGC	273	79%	O	58	1%	4%
Bharti Airtel	309	79%	O	57	41%	35%

Stocks	Share Price (Rs) Jun 25, 2012	% of		No of Analysts*	Consensus Earnings Growth	
		Ratings with Buys	MS Rating		F13E	F14E
Cox & Kings	130	79%	O	14	NM	28%
Mahindra & Mahindra	689	78%	E	60	17%	11%
Bank of Baroda	698	78%	U	64	11%	9%
Jain Irrigation	76	78%	O	18	13%	27%
Tata Motors	246	76%	E	58	14%	12%
Yes bank	339	76%	O	62	13%	23%
Oil India	489	76%	O	45	-2%	5%
Hathway Cable	174	75%	O	12	NM	269%
IDFC	131	74%	U	38	15%	20%
Mindtree	610	74%	O	34	19%	12%
Sobha Developers	335	73%	O	30	36%	32%
Reliance Infra	530	73%	E	22	6%	9%
Dish TV India	58	73%	E	40	NM	NM
State Bank of India	2,115	72%	U	61	20%	20%
Godrej Consumer	560	72%	O	43	22%	22%
Oberoi Realty	240	72%	O	32	-3%	43%
NMDC Ltd	176	71%	O	21	2%	6%
HCL Technologies	465	71%	O	66	18%	13%
Jindal Steel & Power	428	71%	E	34	11%	20%
Coal India	337	71%	O	51	13%	11%
Larsen & Toubro	1,355	70%	E	54	9%	12%
Lupin	522	70%	O	54	22%	18%
Hexaware Tech	125	70%	E	27	12%	12%

The Most Bullish and Bearish Consensus Stock Calls

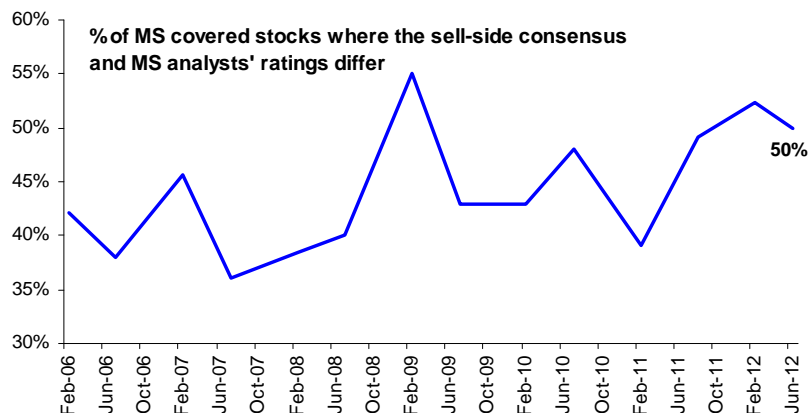
Consensus OW Rating on MS Coverage

Sell-side analysts' ratings rise further



% of MS Covered Stocks Where the Ratings Differ

MS and sell-side analysts' differ on half our coverage universe



The Most Bearish Consensus Calls

Three stocks where consensus is most bearish

	Share Price (Rs) Jun 25, 2012	% of Ratings		No of Analysts*	Consensus Earnings Growth	
		with Sells	MS Rating		F13E	F14E
National Aluminium	59	67%	U	27	23%	14%
Bajaj Hindustan	29	63%	U	8	NM	NM
Godrej Properties	544	67%	E	21	30%	56%

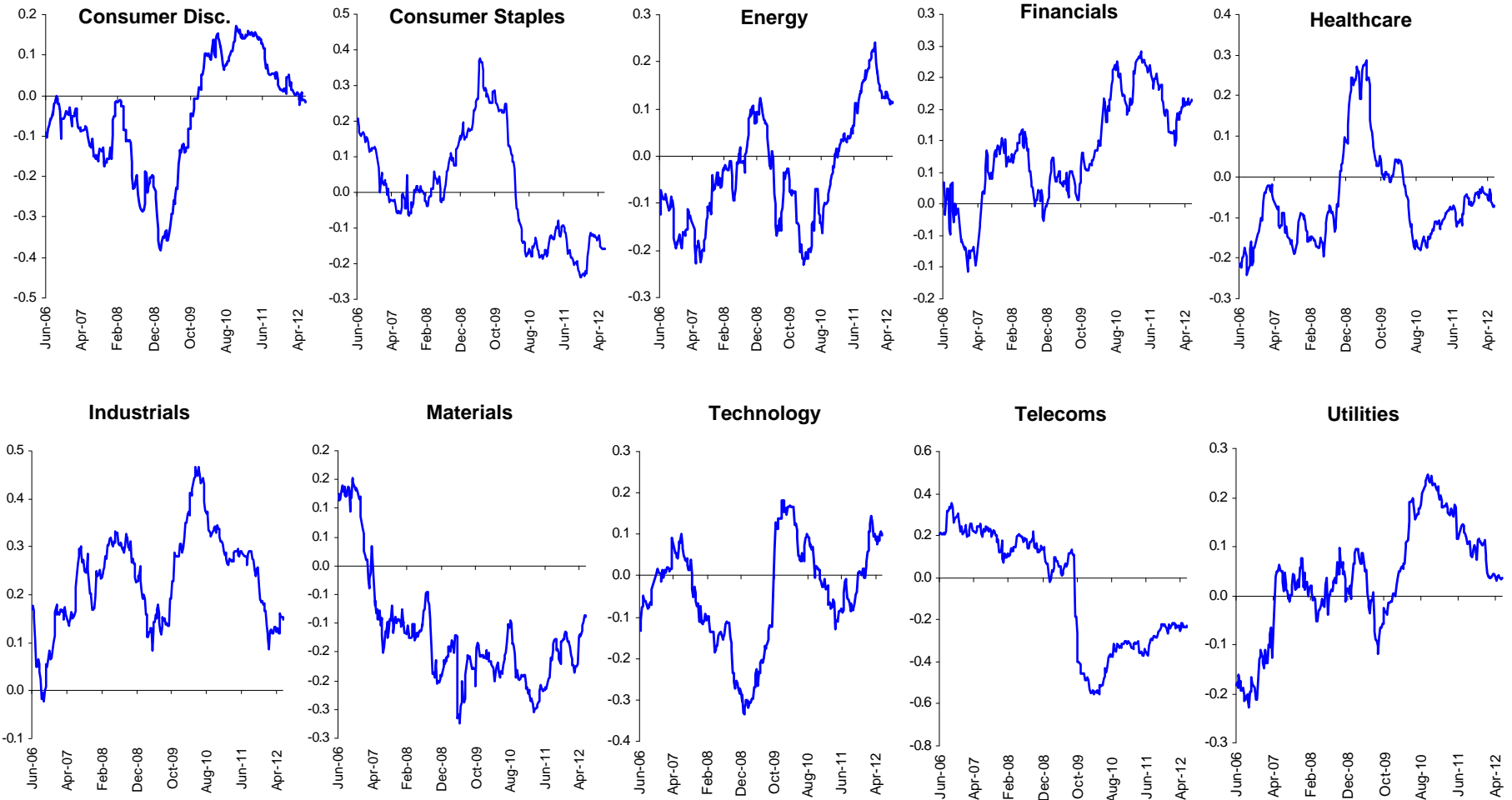
Stocks Where the MS and Consensus Ratings Differ

The strongest contrarian plays

Stocks	Share Price (Rs) Jun 25, 2012	% of Ratings		MS Rating	Consensus Rating	No of Analysts *	Consensus F13 earnings growth
		with Buys	with Sells				
Max India	193	89%	0%	U	O	9	133%
Bank of Baroda	698	78%	9%	U	O	64	11%
IDFC	131	74%	5%	U	O	38	15%
State Bank of India	2,115	72%	13%	U	O	61	20%
PNB	776	67%	18%	U	O	66	12%
HPCL	329	64%	20%	U	O	45	73%
Canara Bank	411	62%	19%	U	O	37	15%
Hindalco Industries	115	62%	15%	U	O	47	-1%
Titan Industries	221	61%	18%	U	O	33	26%
Essar Oil	55	58%	25%	U	O	12	513%
Tata Power	94	49%	15%	U	O	41	-3%
Jubilant Foodworks	1,147	32%	50%	O	U	22	47%
ACC	1,209	31%	53%	O	U	59	20%
Ultratech Cement	1,469	30%	48%	O	U	56	24%
Ambuja Cements	168	25%	46%	O	U	61	16%

Sell-Side Consensus Net Buy Ratio for MS Coverage Universe

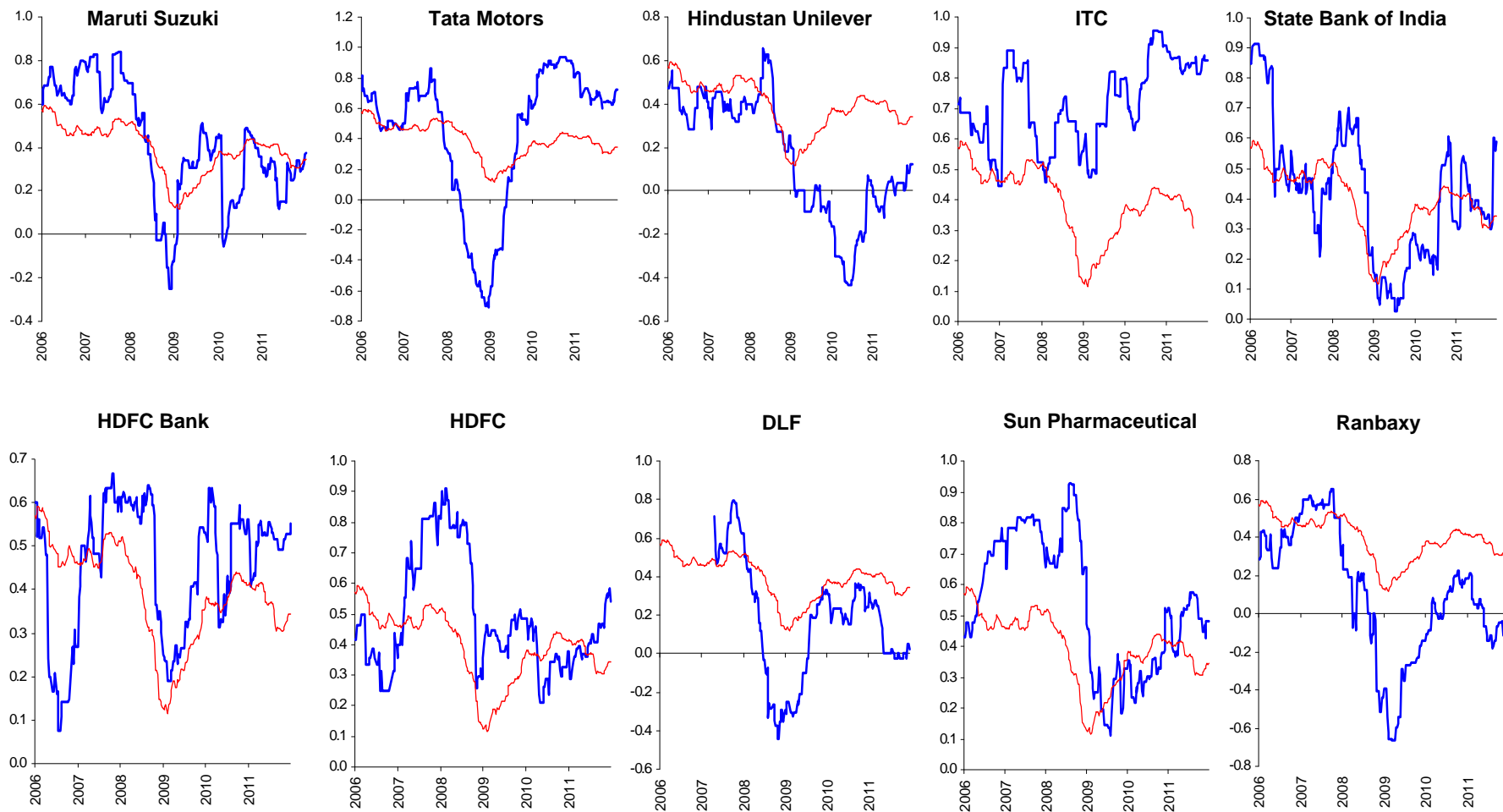
Gap between Sector Consensus Rating and Average of MS Coverage Consensus Rating



Source: Bloomberg, Morgan Stanley Research. Sector consensus rating is calculated as ratio of average net buy ratings of the sector constituents to the average number of ratings of the sector constituents.

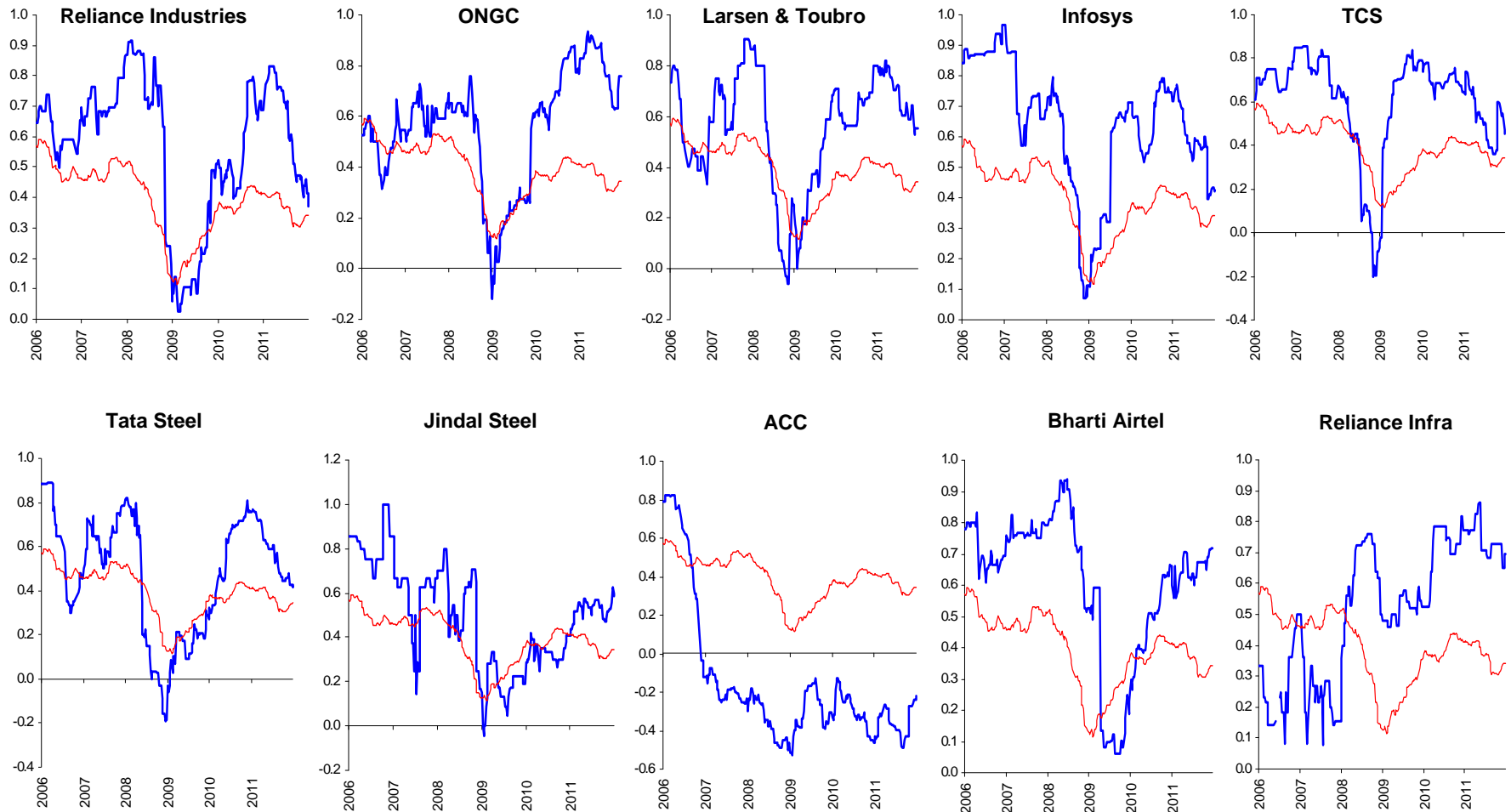
Sell-Side Consensus Net Buy Ratio for Key Stocks

Dark blue Line – Stock Consensus Rating, Light red line – Average of Total MS Coverage Ratings



Sell-Side Consensus Net Buy Ratio for Key Stocks

Dark blue Line – Stock Consensus Rating, Light red line – Average of Total MS Coverage Ratings





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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1133	38%	471	43%	42%
Equal-weight/Hold	1250	42%	472	43%	38%
Not-Rated/Hold	99	3%	27	2%	27%
Underweight/Sell	461	16%	121	11%	26%
Total	2,943		1091		

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