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India Strategy

Asia Insight – Test for Echo

Asia Insight

Index target cut again: The RBI's dovish commentary last Monday amidst possibly the severest liquidity tightening it has initiated since 1998 has made the asset markets even more vulnerable to global cues especially the QE taper in the US. As RBI's moves echo into the economy, we believe that share prices in India are likely to fall led by banks. The RBI's attempt to protect the INR lends itself to a prolonged growth slowdown and, therefore, a fall in market multiples and earnings. Thus, we take our bear case on the Sensex down another 10% and lift the probability of that happening from 20% to 35%. Our bull case probability falls to 5% and our probability-weighted index target for end-2013 is cut to 19,720 – 3% upside from here. The fall could be more severe but the index has heavyweights, which are insensitive to rates and beneficiaries of a rising USD.

The 1998 template: The current battle against the USD/INR cross is reminiscent of 1998. The similarities are striking – leverage and NPLs were elevated and growth was slowing. Indeed, the current account deficit was lower in 1998. The key problem is the tail. If growth suffers for another four quarters, it will expose the tail which is strained by high debt and worsening cash flows leading to more NPLs and further growth slowdown.

What to watch – US data, signs of capitulation, or an early election: Eventually, RBI tightening will feed into inflation and moderate the CAD. The pivotal debate is in yield land and the indicators to track are variations of the earnings-yield gap and the yield curve. The market's P/B is 7% from its bottom decile and sentiment signals are in the buy zone. Early elections could be a source of upside risk as the market prices in a polarized outcome.

India in the EM context: Jonathan Garner points out that India ranks 17/25 on his quant model – at the low end of the EW countries. He is currently EW on India.

Portfolio strategy: We hug the benchmark and emphasize quality, growth and US$ hedges – different from where we were in 1H2013. Our portfolio changes are summarized on the right. Our active sector position is down 90bps to 60bps over the past month.

Exhibit 1

Model Portfolio Changes: Active Position vs. MSCI India

Sector	Old Weight	New Weight	Change
Consumer Disc.	200	200	0
Consumer Staples	0	0	0
Energy	300	200	(100) ⬇
Financials	(200)	(400)	(200) ⬇
Health Care	(300)	0	300 ⬆
Industrials	200	0	(200) ⬇
Technology	100	200	100 ⬆
Materials	100	0	(100) ⬇
Telecoms	(200)	0	200 ⬆
Utilities	(200)	(200)	0

Source: MSCI, Morgan Stanley Research

Exhibit 2

Focus List Changes

Coming In	Going Out
Coal India	HPCL
HDFC	ICICI Bank
Bajaj Auto	Ashok Leyland
Exide	Sterlite
TCS	Crompton

Source: Morgan Stanley Research

Exhibit 3

Sensex Index Target Changes

	Old		New		EPS Growth	
	Index	Prob-ability	Index	Prob-ability	F14E	F15E
Base	21500	60%	21500	60%	11%	19%
Bull	23000	20%	23000	5%	15%	25%
Bear	17912	20%	16200	35%	5%	10%

Source: Morgan Stanley Research (E) estimates

Test for Echo

Impact of Central Bank Action

Equity Drivers Shaky; Index Targets Reduced Again

Four crucial drivers to our hitherto bullish view had been: a) the prospects of a steepening yield curve – the bond market's way of telling us that growth is returning; b) rising real rates because of falling inflation; c) improving domestic liquidity; and d) a steady recovery in earnings. As we have pointed out, the RBI action of quantitative tightening has hurt things at the margin. The yield curve has flattened – no surprise since rising rates will put pressure on growth. Real rates are up but for the wrong reason – higher nominal rates – not something equities cherish. Liquidity has tightened and it appears that the RBI does not intend to supply INR anytime soon. Indeed short rates have not been higher in more than a decade (Exhibit 4). Earnings growth will now be slower and a recovery more prolonged.

Our earlier expectation was that the Nifty would trade in the 5,600-6,300 range, but last week's policy guidance and dovish signals may take toll on the market led by financials (possibly ex-HDFC Bank and HDFC). Valuations and sentiment protect the downside but draining global and local liquidity and fresh growth uncertainty will likely cap the upside. Indeed, a rising dollar will constantly challenge the rupee. In the near term, India's CPI and US labor data (good data is bad news for the INR) will likely determine RBI actions. We now think the Nifty is likely to be in a lower trading range of 5,200-6,000. We cut our bear case target from 17,912 to 16,200 implying that the BSE Sensex will be trading at 11.4 times our bear case earnings forecast and 10.8 times our base case earnings forecast. We increase the probability of this happening from 20% to 35% and cut our bull case probability to 5%. Thus, our Dec-13 target falls to 19,720 (Exhibit 5).

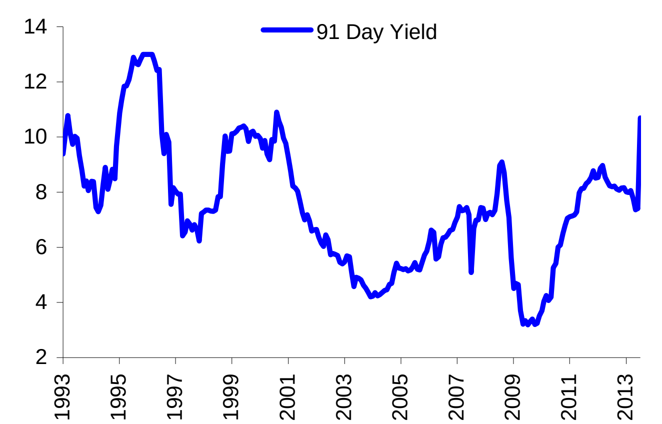
The 1998 Template

The current battle against the USD-INR cross is reminiscent of 1998 when the RBI lifted rates to stem currency depreciation in the aftermath of the Asian Financial Crisis. The result was slower growth and NPLs in the banking sector. The similarities are striking – leverage was high, growth was slowing and NPLs were elevated. The only difference is that the CAD was lower in 1998 (Exhibit 7). Essentially, the key problem today is the tail. If India's growth suffers for another say 4 quarters, it will expose a group of companies, which have strained debt-serviceability because of the high starting point of debt and deteriorating cash flows. This stress will likely then spill over into a banking problem and further growth slowdown.

Usually, when the equity yield is lower than financing yield it signals compelling valuations, but for stocks of companies that are strained by high indebtedness lower equity yield compounds the problem because the equity values are not high enough to replace debt with equity. We short-list companies from our coverage universe which appear to be vulnerable on these criteria. Indeed, the trailing performance of these stocks shows that the market is aware of the problem but that does not preclude these stocks from falling more if sluggish growth prolongs (Exhibit 6).

Exhibit 4

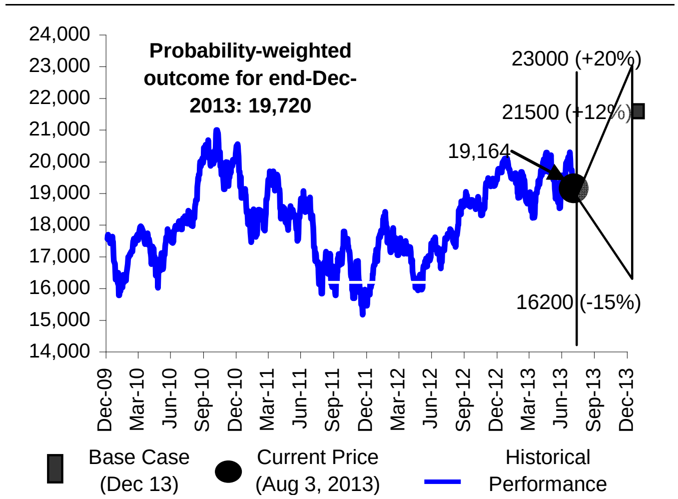
Central Bank Action: Short Yields at 12-year High



Source: RIMES, Morgan Stanley Research

Exhibit 5

BSE Sensex Risk Reward



Source: RIMES, Morgan Stanley Research

Exhibit 6

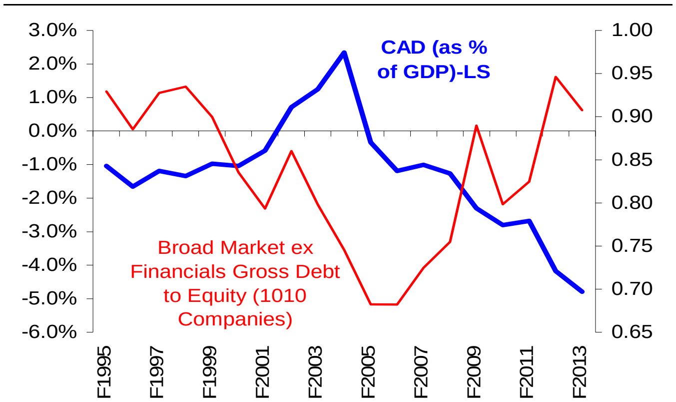
MS Coverage Universe Companies with Debt Servicing

Company name	Sector	Share price	Debt to Equity			Debt to EBITDA			Debt to Market Cap			Interest to EBITDA			Earnings Yield	Trailing 12M Perf.
			F13	F14E	F15E	F13	F14E	F15E	F13	F14E	F15E	F13	F14E	F15E	F14E	
LANCO Infratech	Utilities	5	7.82	8.52	8.33	17.91	12.90	11.20	16.58	32.90	32.94	1.09	0.88	0.72	-49%	-59%
Adani Power	Utilities	37	10.61	7.68	7.33	42.64	12.39	6.71	4.72	5.46	5.00	1.46	0.82	0.63	-12%	-20%
HPCL	Energy	199	2.36	2.41	2.26	7.50	7.50	6.59	3.37	5.10	5.01	0.47	0.51	0.47	13%	-39%
NCC	Industrials	23	1.39	1.58	1.65	7.26	6.74	6.24	4.02	6.62	7.13	0.78	0.74	0.63	8%	-39%
IVRCL	Industrials	12	1.24	1.30	1.53	8.94	6.03	6.12	4.53	7.91	9.54	1.01	0.81	0.71	14%	-73%
Essar Oil	Energy	57	22.31	12.63	7.35	8.12	5.05	4.54	2.33	3.12	3.10	1.13	0.63	0.54	11%	-7%
Jaiprakash Ass.	Industrials	38	1.77	1.72	1.65	7.00	6.99	6.20	1.59	2.78	2.78	0.60	0.59	0.52	6%	-51%
IRB Infra.	Industrials	54	2.71	2.91	2.70	5.31	5.60	5.23	2.34	4.43	4.79	0.33	0.36	0.31	32%	-43%
Bhushan Steel	Materials	460	3.07	2.71	2.29	8.46	6.57	5.24	2.70	2.72	2.63	0.39	0.37	0.36	11%	0%
Tata Power Co	Utilities	86	2.89	2.70	2.47	5.75	5.52	5.27	1.57	1.72	1.68	0.35	0.42	0.39	3%	-10%
Hindalco	Materials	87	1.59	1.61	1.57	7.18	6.47	5.87	3.21	3.69	3.86	0.27	0.30	0.28	18%	-25%
IOCL	Energy	195	1.32	1.36	1.37	6.34	5.34	4.77	1.18	1.77	1.88	0.50	0.43	0.41	11%	-24%
JSW Steel	Materials	533	1.22	1.62	1.46	3.28	4.22	3.66	1.45	2.56	2.50	0.30	0.37	0.35	12%	-15%
Tata Steel	Materials	209	1.93	1.86	1.72	5.36	4.22	3.78	2.09	3.37	3.52	0.31	0.28	0.24	18%	-48%
Jain Irrigation	Industrials	53	1.73	1.53	1.39	4.91	4.24	3.73	1.29	1.56	1.59	0.66	0.46	0.41	11%	-38%
Reliance Comm.	Telecom	127	1.19	1.05	0.95	6.07	4.49	4.42	3.52	1.42	1.31	0.38	0.30	0.30	6%	149%
Jaypee Infratech	Financials	19	1.20	0.93	0.68	5.15	3.59	2.60	1.39	2.46	2.05	0.63	0.48	0.36	28%	-67%
DLF	Financials	160	0.85	0.75	0.67	6.01	4.84	3.86	0.55	0.76	0.72	0.81	0.62	0.48	6%	-28%

Source: Bloomberg, Company Data, Morgan Stanley Research, Morgan Stanley (E) Estimates. For important disclosures regarding companies that are the subject of this screen, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures. Disclosures for Focus List stocks can be found at the end of this report.

Exhibit 7

Broad Market Leverage at '98 Level, CAD Lower



Source: Capitaline, CEIC, Morgan Stanley Research, F13 data for 441 companies

Exhibit 8

Model Portfolio: Hugging the Benchmark

Sector	MSCI Weight (%)	Portfolio Weight (%)	Over-weight / Under-weight (bps)	Perf Rel. To MSCI India	
				(YTD)	(12M)
Consumer Disc.	6.1	8.1	200	-4%	10%
Consumer Staples	11.7	11.7	0	18%	23%
Energy	12.4	14.4	200	0%	-6%
Financials	27.3	23.3	-400	-14%	-10%
Healthcare	7.1	7.1	0	19%	14%
Industrials	3.9	3.9	0	-28%	-28%
Technology	19.4	21.4	200	40%	30%
Materials	5.8	5.8	0	-29%	-30%
Telecoms	2.7	2.7	0	31%	30%
Utilities	3.6	1.6	-200	-20%	-29%
Cash	-	-			

Source: RIMES, MSCI, Morgan Stanley Research

Exhibit 9

Focus List

Stocks	Sector	Ticker	Analyst Rating	Price (Rs) Aug 3, 2013	MCap (US$ bn)	Avg 3M T/O (US$ mn)	Rel. to Sensex	
							YTD Perf	12m Perf
Maruti Suzuki	Consumer Disc.	MSIL IN	OW	1,337	6.3	16.9	-9%	7%
Tata Motors A	Consumer Disc.	TTMT/A IN	OW	133	2.3	6.6	-23%	-6%
ZEE Enter.	Consumer Disc.	Z IN	OW	242	3.8	9.5	11%	30%
Exide	Consumer Disc.	AL IN	OW	122	1.7	2.9	-14%	-15%
Bajaj Auto	Consumer Disc.	BJAUT IN	EW	1,908	9.0	1.5	-9%	6%
Dabur India	Consumer Staples	DABUR IN	OW	160	4.6	4.1	26%	19%
ITC	Consumer Staples	ITC IN	OW	333	42.4	38.5	18%	15%
Coal India	Energy	Coal IN	OW	255	26.3	13.8	-27%	-34%
ONGC	Energy	ONGC IN	OW	277	38.8	20.7	5%	-10%
Reliance Industries	Energy	RIL IN	OW	857	45.9	54.7	4%	4%
HDFC	Financials	HDFC IN	OW	808	19.5	45.6	-1%	4%
HDFC Bank	Financials	HDFCB IN	OW	631	24.2	31.9	-6%	-3%
Sobha Developers	Financials	SOBHA IN	OW	285	0.5	0.8	-24%	-27%
Biocon	Healthcare	BOB IN	OW	314	1.0	1.6	11%	17%
Sun Pharma.	Healthcare	SUNP IN	OW	555	18.8	20.5	53%	52%
Larsen & Toubro	Industrials	LT IN	EW	830	12.5	43.3	-21%	-19%
Tata Steel	Materials	TATA IN	OW	202	3.3	25.1	-52%	-55%
TCS	Technology	TCS IN	OW	1,845	59.1	35.8	49%	35%
Infosys	Technology	INFO IN	OW	3,007	28.1	46.2	31%	23%
Bharti Airtel	Telecom	BHARTI IN	OW	345	21.4	21.7	10%	4%

Source: RIMES, MSCI, Morgan Stanley Research

Portfolio Implications

Hug the Benchmark

We are trimming our active position further: The global economy and, more crucially, the Indian economy, remain fragile. In this context, the strong central bank action has surprised the market. In India, it has taken its toll on the banks index and the INR. We reduce our banks weighting by another 200 bps following the 500 bps that we have cut over the past three weeks (Exhibit 8). Even though the correlation of returns across stocks is low, it does not pay to take large sector positions in the current environment. If central banks change their view based on incoming data and each other's actions, portfolios can experience a big fall in Sharpe ratios, or, even worse, can underperform. Hence, our view is that it is prudent to stay close to the benchmark until central bank action has settled down. We recently reduced our active position by 50 bps to 90 bps and take it down further to 60 bps today. To us, this is a stock pickers market (see Focus List – Exhibit 9).

Prefer Quality over Junk, Growth over Value and Defensives over Cyclicals

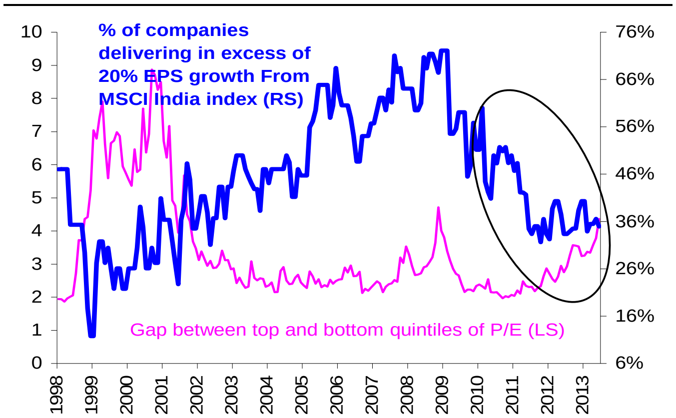
The Scarcity Premium and the Case for Insolvency: We expect quality to gap higher relative to junk. The valuation reward is not driven by better fundamental performance but by the dwindling opportunity set of superior fundamentals. The percentage of companies generating 20%+ earnings growth or 20%+ ROE is at decade lows (Exhibit 10). Money pools have been concentrated in this shrinking universe of stocks driving up their valuation multiples. The prime reason is that the market is taking a rather dim view of what the underperformers of the past five years can achieve in the next two or three years and hence, does not see any basis for higher multiples for this set. The issue is the growth cycle. Until the growth cycle broadens, weaker companies will likely struggle to generate earnings and ROE. At some point, when growth improves and broadens, the premiums will contract. However, the recent QT by the RBI creates growth uncertainty and therefore will likely lead to higher valuation dispersion. The other problem is that the low end of the ROE has been depressed to an all-time low (Exhibit 11), which exposes these companies in the tail to the risk of insolvency and thus a falling stock price multiples (as equity values tend to zero in the event of insolvency). Our view is that the market may continue to add P/E points to this small universe of fundamentally superior stocks. Thus, quality will continue to outperform junk, defensives will likely beat cyclicals and growth will likely beat value despite being at extreme levels (Exhibit 12, 13 and 14). Please refer to our quality basket (Bloomberg Ticker: MSNJINFS).

Add US$ hedges

As most investors will recall, the US dollar was in a punishing bear market between 2002 and 2008. Since then, it has moved higher (in the context of the preceding 40% fall in the DXY) but mostly sideways. Our global currency strategists think we could be in a long-term ascent for the US$. From an equity market angle, this could bring tail risks to the fore. However, the lack of bubbles (either in asset valuations, growth or capital allocation) like in 2008 implies that the adverse impact on the equity market of a tail event is unlikely to resemble 2008 when India finished among the worst markets in the world. The R-squared between the MSCI India index and the DXY was 33% between 2002 and 2008, i.e., the dollar played a subsidiary role in explaining India's equity returns in that period.

That said, the opportunity at the portfolio level seems to be relevant. Indeed, if the dollar is in a secular rise, then what the market did during the dollar bear market of 2002 to 2008 is of interest to us because in all likelihood, the opposite will likely happen in the coming months or years. Generally speaking, the correlations between Nifty stocks and the US$ are weak. In our view, if the dollar is going to climb perceptibly, the stocks to buy are the top end of the correlation curve (i.e., the positively correlated ones) and vice versa (Exhibit 15). In summary, domestic consumption, IT stocks, select banks and select pharmaceutical names will do well in a secular dollar rise: In contrast, Materials and Utilities are avoidable (Exhibit 16). To some extent, the equity market has been preparing itself for a dollar bull run. Stocks that were positively correlated with the USD in the previous cycle are already delivering strong returns. The chances are we get more of the same if the dollar sustains its climb.

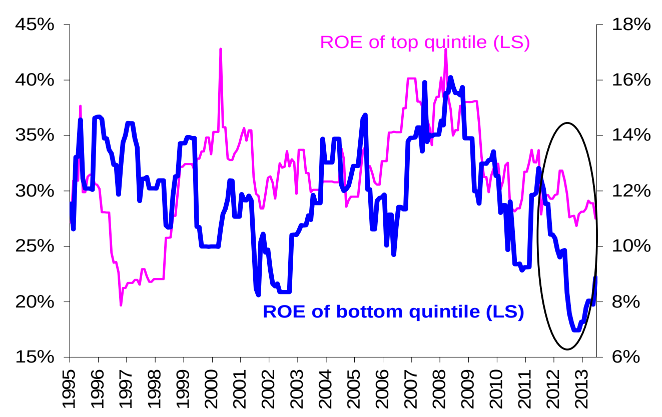
Exhibit 10
Scarcity of Growth Drives up PE Premium



Source: RIMES, MSCI, Morgan Stanley Research

Exhibit 11

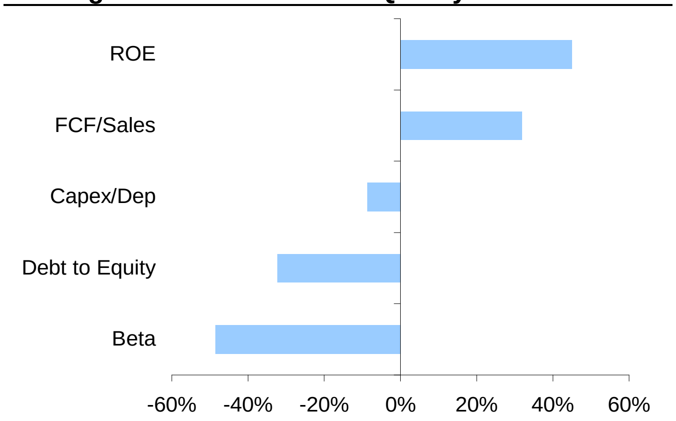
The Bad is Getting Worse: ROE of Bottom Quintile Hits New Low



Source: RIMES, MSCI, Morgan Stanley Research

Exhibit 12

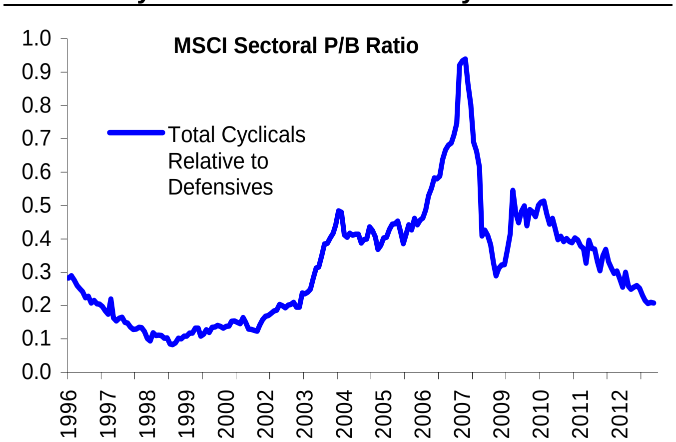
Trailing 12M Factor Returns: Quality Beats Junk



Source: RIMES, MSCI, Company Data, Morgan Stanley Research

Exhibit 13

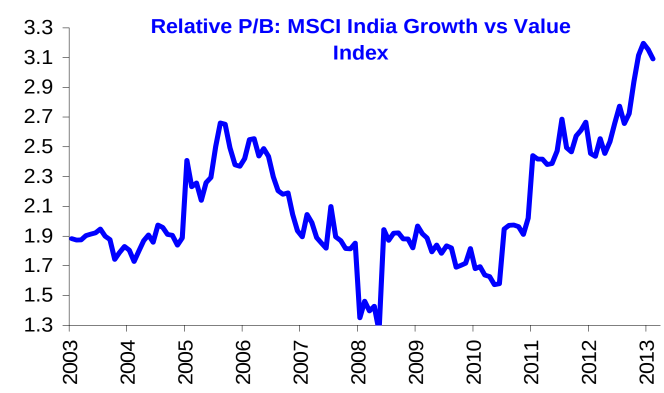
Relative Cyclical Valuations at Multiyear Lows



Source: RIMES, MSCI, Morgan Stanley Research

Exhibit 14

Growth at Multiyear High vs. Value on Valuations



Source: RIMES, MSCI, Morgan Stanley Research

Exhibit 15

Nifty Stocks Correlation with DXY from 2002 to 2008

Ranbaxy Laboratories	-65%	Asian Paints	57%
Punjab National Bank	-51%	Hindustan Unilever	57%
Bank of Baroda	-48%	ITC	56%
Tata Steel	-45%	Cipla	50%
Cairn India	-44%	ACC	48%
NMDC	-36%	HCL Technologies	42%
Reliance Infrastructure	-36%	Ambuja Cements	41%
IndusInd Bank	-36%	Maruti Suzuki India	40%
Jindal Steel & Power	-35%	Infosys	39%
GAIL India	-34%	Tata Consultancy Services	38%
Lupin	-33%	Hero Motocorp	32%
Grasim Industries	-31%	Dr Reddy's Laboratories	24%
Tata Power Co	-30%	HDFC	22%
Sesa Goa	-27%	Kotak Mahindra Bank	21%
Oil & Natural Gas Corp	-26%	Ultratech Cement	21%
Bharat Petroleum Corp	-25%	HDFC Bank	21%
IDFC	-23%	ICICI Bank	19%
Axis Bank	-20%	Bharat Heavy Electricals	12%
Hindalco Industries	-15%	Larsen & Toubro	8%
Bharti Airtel	-14%	Sun Pharmaceutical	5%
Tata Motors	-14%	Jaiprakash Associates	2%
State Bank of India	-13%	Reliance Industries	2%
NTPC	-8%	Mahindra & Mahindra	-4%

Source: Factset, Morgan Stanley Research, Note: Bajaj Auto, Coal India, DLF and Power Grid excluded due to lack of data in the concerned period.

Exhibit 16

Correlations: MSC India Sectors vs. DXY between 2002 and 2008

Utilities	**-29%**
Materials	**-9%**
Health Care	-6%
Industrials	-3%
Financials	9%
Energy	12%
Consumer Discretionary	17%
Telecommunications Services	21%
MSCI India	**33%**
Information Technology	**52%**
Consumer Staples	**65%**

Source: RIMES, MSCI, Morgan Stanley Research

What cures the malaise?

We see three catalysts for the RBI to end QT

a) US data disappoint causing the Fed to backtrack on QE and that results in the DXY losing steam and EM sentiment improving.

b) The RBI's measures feed into the economy – consumer inflation dives, savings rise and the CAD declines fixing India's external imbalance and allowing lower real rates.

c) General elections happen (Exhibit 17). There is a growing chance that they take place early because the incumbent Congress party may not want to risk lower growth and hence poorer electorate sentiment going into the polls. The electorate delivers a strong mandate (our view – see India Elections Dossier dated 28th March) and the investment sentiment improves leading to improved growth and a virtuous cycle.

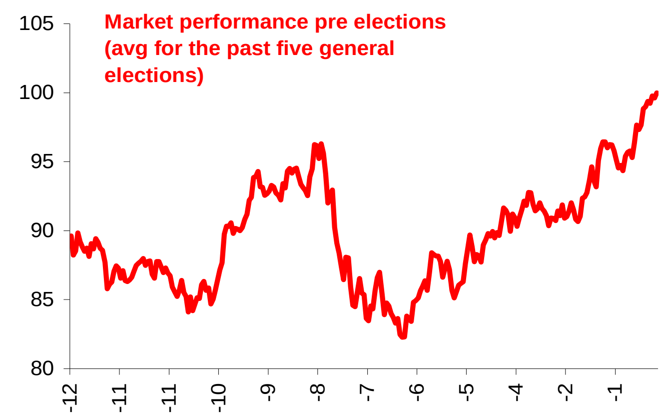
The pivotal debate is still in 'yield' land

However, this is now because yields are rising rather than falling, as was the case only a few weeks ago. Four indicators that should be sitting on screens are the global liquidity proxy (Indian earnings yield minus the US 10-year bond yield), the modified earnings yield gap (Indian earnings yield minus the local 91-day yield), the yield curve, and equity valuations relative to local long bonds. Each of these is telling us that equities will struggle to make headway, with a reversal in central bank policy being the most obvious upside risk to their case (Exhibits 18, 19, 20 and 21).

Two other considerations (as always) – valuations and sentiment

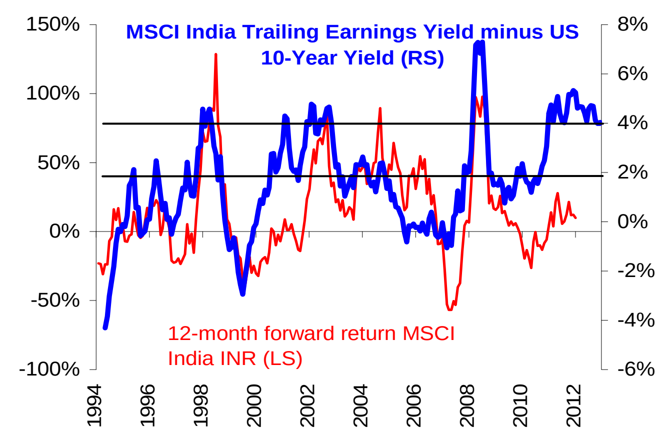
Even though on conventional valuation measures the market is looking attractive, the valuation measure that is probably going to determine the market's fate is the modified yield curve (the earnings yield minus the domestic short yield). This measure is currently implying that equities are overvalued unless short yields fall 300 bps (i.e., the RBI reverses its recent tightening). Alternatively, the modified EY gap is implying 0% returns in the coming 12 months from equities at the current level of short rates. The market's P/B is just 8% from the bottom decile from where the market rarely returns negatively over 12 months. Our sentiment indicators are mostly in the buy zone and this probably protects the market from falling a lot more from current levels unless hit by a crisis. In the current macro situation, it is quite possible that we hit previous lows or bottom deciles on both valuations and sentiment (Exhibit 22-25).

Exhibit 17
Prospects of Elections can Turn the Market Around



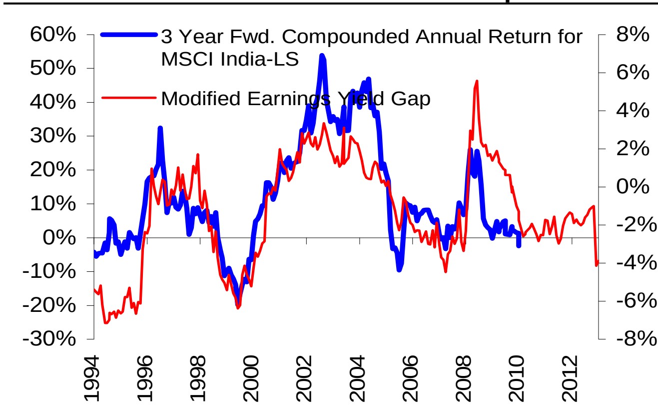
Source: RIMES, ECI, Morgan Stanley Research

Exhibit 18
Global Liquidity Proxy at its Worst since 2011 – Watch US 10-year Bond Yield



Source: MSCI, RIMES, Bloomberg, Morgan Stanley Research

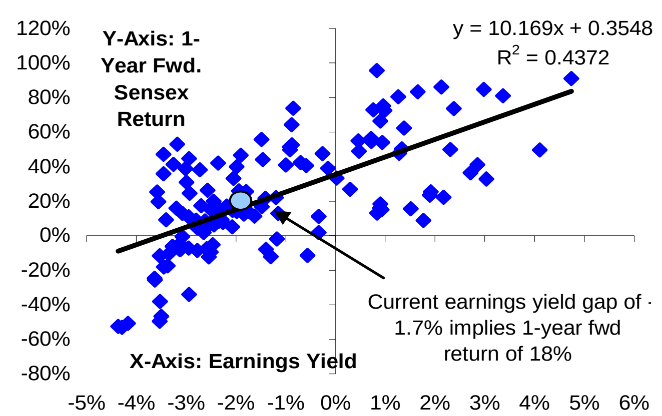
Exhibit 19
Yield Gap with Short Term Rates at Their Worst since Asian Financial Crisis: Bad for Equities



Source: MSCI, RIMES, Bloomberg, Morgan Stanley Research

Exhibit 20

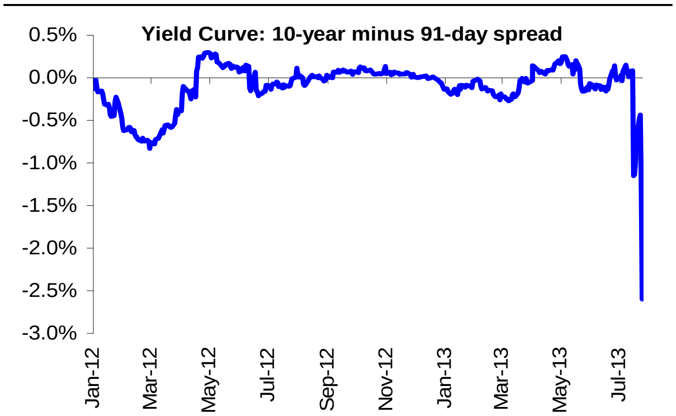
Rising Long Bond Yields Nudging Long Bonds into Buy Zone Relative to Equities



Source: Company Data, Bloomberg, Morgan Stanley Research

Exhibit 21

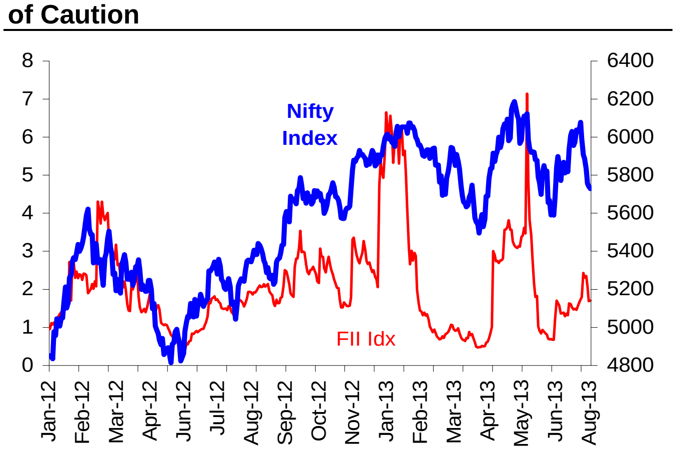
Bond Markets Turn Bearish on Growth



Source: Bloomberg, Morgan Stanley Research

Exhibit 22

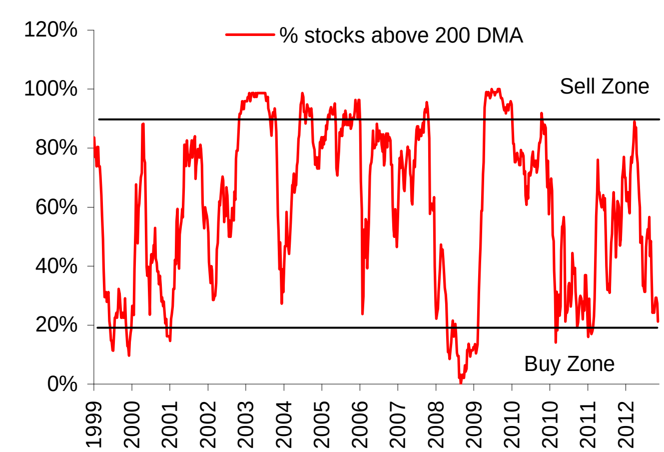
FII Positioning in the Futures Market Some Degree of Caution



Source: NSE, Morgan Stanley Research

Exhibit 23

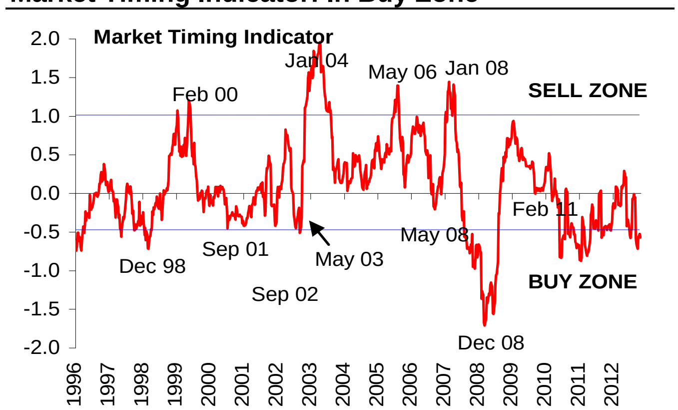
Performance Breadth: Near Buy Zone



Source: RIMES, MSCI, Morgan Stanley Research

Exhibit 24

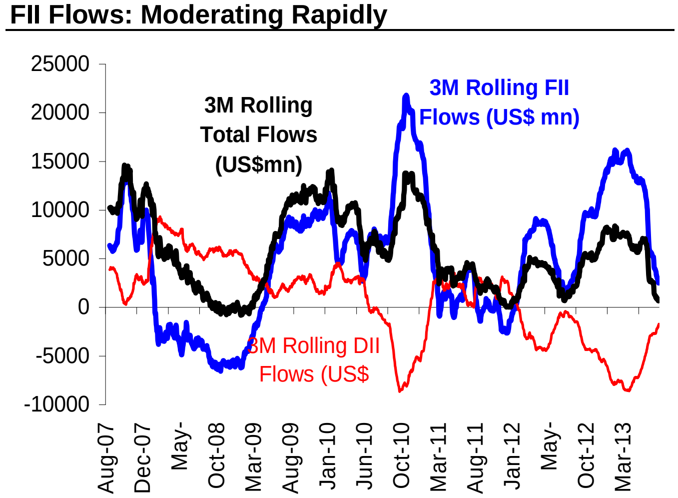
Market Timing Indicator: In Buy Zone



Source: RIMES, MSCI, SEBI, ASA, NSE, BSE, Bloomberg, Morgan Stanley Research

Exhibit 25

FII Flows: Moderating Rapidly



Source: SEBI, BSE, Morgan Stanley Research

India from an EM Perspective

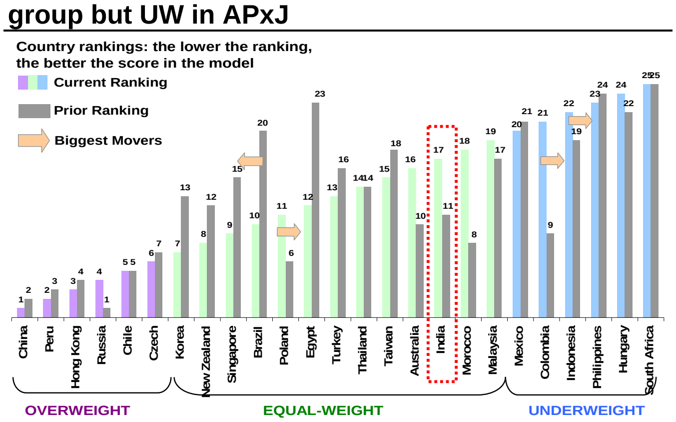
India ranks EW in our GEM model (#17/25) but UW in APxJ (#9/12).

Our Asia/GEMs strategy team's country quantitative model currently positions India at the lower end of equal-weighted countries in Asia/GEMs (ranks #17/25). For a dedicated APxJ investor our quant model has suggested an underweighted rating on India (currently ranks #9/12) since July 4, 2013.

India ranks poorly on valuation (trailing P/B ranks #22/25, trailing dividend yield ranks #24/25), earnings revision breadth (#17/25), and political risk & corporate governance score (#21/25). It scores well in terms of trailing ROE (#4/25) and dedicated fund flow (#7/25, used as a contrary indicator). (See *Asia/GEMs Strategy: Country Quant Model: Upgrade Brazil to EW and Downgrade Indonesia to UW*, dated July 4, 2013 for details). Exhibit 27 shows the performance of MSCI India relative to the MSCI EM and MSCI APxJ index. India has underperformed MSCI EM by 283 bps and MSCI APxJ by 756 bps year to date. India has been an underperformer during the recent economic deceleration in EM. We think that this is partially due to the relatively high beta of India market in EM, but also reflects the structural challenges that the India economy has been facing in generating non-inflationary growth. Near term, the country is more risky than the average in EM in an environment of rising global funding costs given its relatively high reliance on capital inflows and sizeable current account deficit. However, despite the recent re-rating, MSCI India is still trading at 2.34x trailing P/B, or a 57% premium to MSCI EM. Sell-side analysts' earnings revision breadth for MSCI India continues to be quite negative so far this year, which reflects the market's concern on the earnings downside risk of India companies.

Exhibit 26

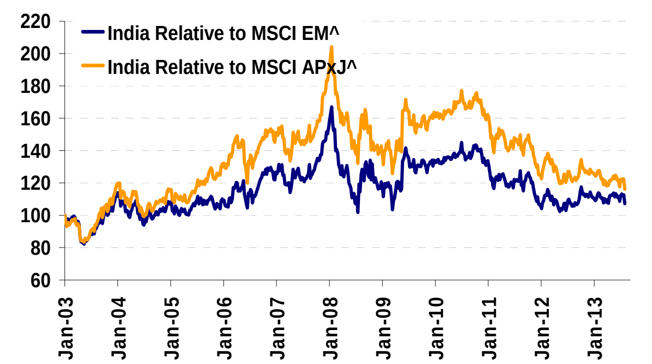
EM/APxJ Country Rankings – India lower end of EW group but UW in APxJ



Source: Morgan Stanley Research. Rankings as of published report dated July 4, 2013

Exhibit 27

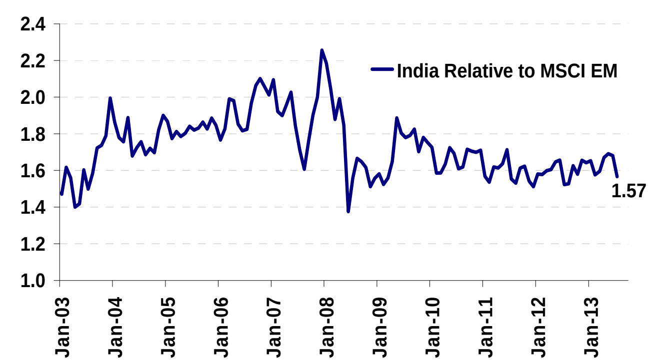
MSCI India relative to MSCI EM and MSCI APxJ Index (US$ total return) – underperforms ytd



Source: RIMES, Morgan Stanley Research. Data as of July 31, 2013 ^ total return in US$

Exhibit 28

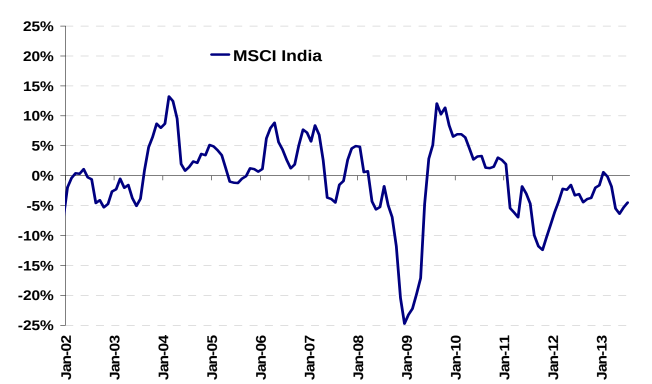
MSCI India Trailing P/B relative to MSCI EM – still trading at 57% premium



Source: MSCI, Morgan Stanley Research. Data as of July 31, 2013

Exhibit 2

MSCI India Earnings revision breadth (3mma)



Source: MSCI, IBES, Morgan Stanley Research. Data as of July 31, 2013. Earnings Revision breadth = (No. of Upward Revisions - Downward Revisions) / Total No. of Estimates

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(as of July 31, 2013)

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Not-Rated/Hold	**112**	**4%**	**27**	**3%**	**24%**
Underweight/Sell	**467**	**16%**	**123**	**12%**	**26%**
Total	**2,890**		**1056**		

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