

March 1, 2012

India Strategy: Mid-cap List Adding DITV and INFTC

Adding DITV and INFTC

We are adding Dish TV and Infotech Enterprise to our Mid-cap list. Effectively, we are increasing the number of stocks in our mid-cap list to 12 from 10.


Continue to favor stock picking


Our sector calls remain narrow given our view that this is a stock-pickers' market. We reiterate our preference for domestic over global cyclicals. Consumer Discretionary is our favored rate-sensitive sector. We continue to choose mid-caps over large caps given the valuation gap. Top avoids remain Materials and SOE Banks.


MORGAN STANLEY RESEARCH
Asia/Pacific

Morgan Stanley India Company Private Limited+

Ridham Desai 
+91 22 6118 2222

Sheela Rathi 
+91 22 6118 2224

Amruta Pabalkar 
+91 2261182225

Utkarsh Khandelwal 
+91 22 6118 2226

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Mid-cap List: Adding DITV and INFTEC

Why are we adding Dish TV to our mid-cap list?

- Amongst the biggest gainers from ongoing digitization in India - We expect DTIL to grow its gross subscriber base at a healthy CAGR of 18.9% from F2012-14 to reach 19.8mn by F2014. Also, if the government were to diligently enforce the digitization rollout, there could be a potential upside to our growth assumptions.
- We expect the valuation to see upside based on improving ARPU and cost trends, which will drive margin expansion for DTIL.
 - Competitive pressures have led to tepid ARPU growth over the last six months for DTIL. We expect other DTH players to shift their focus toward profitability at the same time we expect greater consumer willingness to pay for digital content. This is expected to drive ARPU growth. We expect ARPU CAGR of 12% over F2012-14.
 - We expect DTIL's cost structure to be rationalized as it is spread over an increasing subscriber base. Programming cost as a % of revenue is expected to drop to 30% in F2014 from 35% in F2011 and 32% in F2012e.
 - We expect an EBITDA CAGR of 45% from F2012-14e.
- Currently, the stock trades at an EV/EBITDA of 8.3x based on our F2013 estimates.

Why are we adding Infotech Enterprise to our mid-cap list?

- Risk-reward remains favorable: Infotech stock is currently trading at 8.6x F2013e EPS, ~20% discount to its 8-10 year historical average. This may reflect concerns that USD revenue growth would slow down significantly to 14-15% yoy in F2013e (vs. 25% in F2012e) based on consensus estimates. We expect Infotech to continue to deliver strong USD revenue growth of ~19% in F2013, helped by stable 2012 budgets for its clients, expectations of price increases in the current environment, and ramp up of new accounts. Overall, we expect Infotech to grow revenues and earnings at a CAGR of 20% over F2012-14.

- Infotech stock has risen ~36% YTD (vs. the 15% gain in the Sensex). However, over the last year, the stock is still underperforming Sensex and its other mid-cap peers. The stock is up 17% (vs. ~8% for the Sensex) since announcing its F3Q12 results (January 18, 2012) as concerns about margins eased after it reported stronger-than-expected margin improvement. We believe Infotech stock has further upside potential and should continue to outperform once revenue growth concerns ease for the company over the coming quarters.
- Improved volume growth, robust hiring in 4Q (strongest in the last few quarters) and a stable hiring outlook for F2013 are the key catalysts that should help ease concerns on revenue growth, in our view.

Focus List and Sector Model Portfolio Performance

- Year to date, our sector model portfolio has outperformed the MSCI India index by 13bp and our Focus List has outperformed the BSE Sensex by 375bp. Our mid-cap list has outperformed BSE Midcap by 104bp.
- We are not making changes to our sector model portfolio. We are Overweight Consumer Discretionary and Technology and Underweight Financials, Industrials, Materials and Telecoms. We are Neutral on Consumer Staples, Energy, Healthcare and Utilities.

Focus List and Mid-cap List

Focus List

Stocks	Sector	Ticker	Analyst Rating	Price (Rs) Feb 29, 2012	MCap (US\$ bn)	Avg 3M T/O (US\$ mn)	Relative to Sensex	
							YTD Perf	12m Perf
Bajaj Auto	Consumer Disc	BJAUT IN	OW	1,799	10.4	3	-2%	42%
Cox & Kings	Consumer Disc	COXK IN	OW	173	0.5	2	-2%	-12%
M&M	Consumer Disc	MM IN	EW	708	9.1	38	-10%	16%
Tata Motors A	Consumer Disc	TTMT/A IN	OW	153	1.5	7	54%	28%
ZEE Enter.	Consumer Disc	Z IN	EW	127	2.6	4	-6%	7%
Coal India	Energy	COAL IN	OW	333	42.0	31	-4%	2%
ICICI Bank	Financials	ICICIB IN	EW	907	21.8	111	15%	-6%
Oberoi Realty	Financials	OBER IN	OW	284	1.8	0	19%	31%
Dr. Reddy's	Healthcare	DRRD IN	OW	1,639	5.6	13	-10%	6%
Adani Ent	Industrials	ADE IN	OW	374	8.4	16	11%	-38%
IRB Infra	Industrials	IRB IN	OW	184	1.2	6	24%	0%
Jain Irrigation	Industrials	JI IN	OW	108	0.9	7	8%	-41%
Tata Steel	Materials	TATA IN	OW	472	9.3	64	23%	-22%
Infosys	Technology	INFO IN	OW	2,875	34.2	73	-9%	-4%
Wipro	Technology	WPRO IN	OW	432	21.7	14	-6%	-1%

Mid-cap List

Stocks	Sector	Ticker	Analyst Rating	Price (Rs) Feb 29, 2012	MCap (US\$ bn)	Avg 3M T/O (US\$ mn)	Relative to BSE Midcap	
							YTD Perf	12m Perf
Cox & Kings	Consumer Disc	COXK IN	OW	173	0.5	2	-10%	-13%
Dish TV	Consumer Disc	DITV IN	EW	54	1.2	7	-26%	-8%
Hathway	Consumer Disc	HATH IN	OW	166	0.5	2	22%	39%
Tata Motors DVR	Consumer Disc	TTMT/A IN	OW	153	1.5	7	42%	27%
Marico	Consumer Staples	MRCO IN	OW	158	2.0	1	-13%	33%
Oberoi Realty	Financials	OBER IN	OW	284	1.8	0	9%	30%
IRB Infra	Industrials	IRB IN	OW	184	1.2	6	14%	0%
Jain Irrigation	Industrials	JI IN	OW	108	0.9	7	0%	-42%
United Phosp	Materials	UNTP IN	OW	155	1.4	4	-2%	14%
Infotech Enter	Technology	INFTC IN	OW	148	0.3	0	9%	-7%
Mindtree Ltd.	Technology	MTCL IN	OW	465	0.4	1	-6%	26%
OnMobile Global	Telecoms	ONMB IN	OW	71	0.2	2	-10%	-29%

Past performance is no guarantee of future results. Results shown do not include transaction costs.

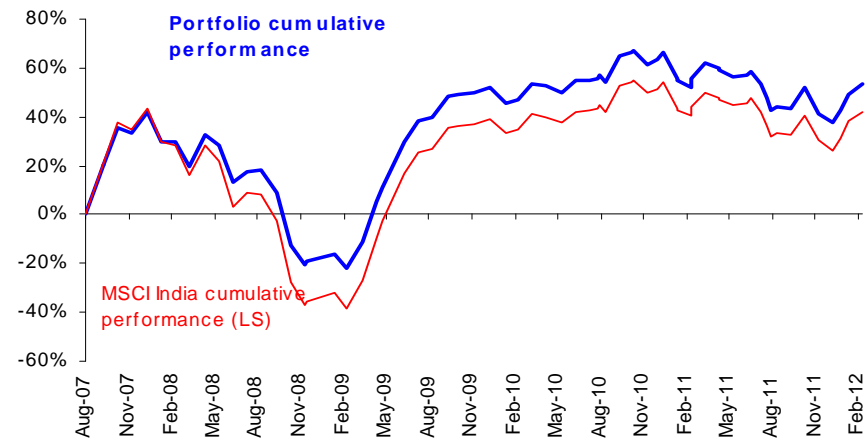
Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research. Please note performance of Cairn is considered up to August 13, 2010 and then December 20, 2010 onwards.

Sector Positions and Performance

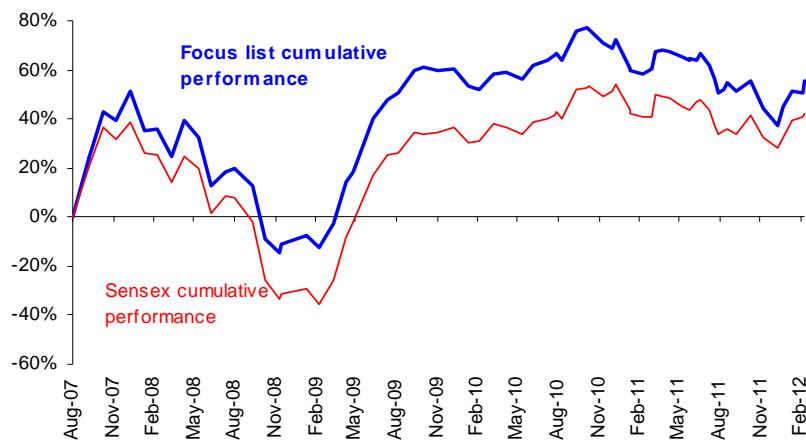
Sector Model Portfolio

Sector	MSCI Weight (%)	Portfolio Weight (%)	Over/Under - Weight (bps)	Perf Rel. To MSCI India (YTD)	(12M)
MSCI India				17%	-1%
Consumer Disc.	8.5	11.5	300	7%	47%
Consumer Staples	7.3	7.3	0	-13%	18%
Energy	12.0	12.0	0	-2%	-11%
Financials	26.6	25.6	-100	7%	5%
Healthcare	4.8	4.8	0	-9%	14%
Industrials	6.3	5.3	-100	13%	-23%
Technology	17.0	18.0	100	-10%	0%
Materials	9.9	8.9	-100	9%	-10%
Telecoms	2.5	1.5	-100	-8%	-17%
Utilities	5.1	5.1	0	3%	-1%
Cash	-	-			

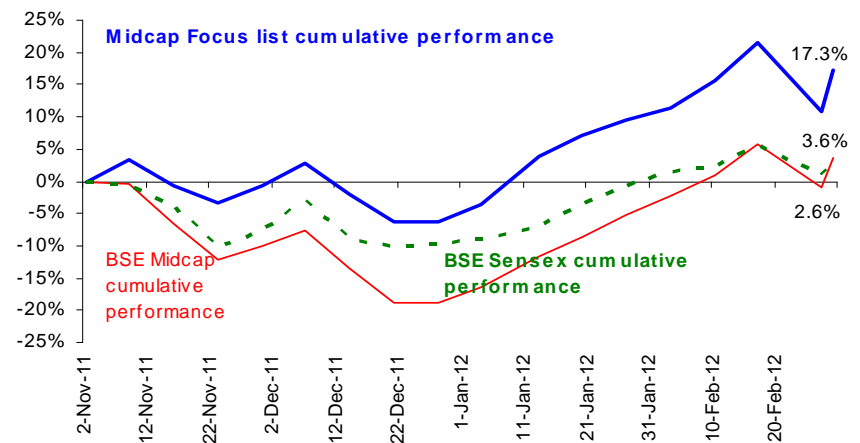
Sector Model Portfolio Performance Since Launch



Focus List Performance since Launch



Mid-cap List Performance since Launch



Past performance is no guarantee of future results. Results shown do not include transaction costs.

Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research. Please note performance of Cairn is considered up to 13th August 2010 and then 20th December 2010 onwards.

Focus List Timeline Since Inception


		Date Added	Dated Removed	Sensex on date added	Sensex on date w hen removed or current	Stock price w hen Added	Price w hen removed or current price	Dividend if any	Stock return*	Returns relative to Sensex
ADE IB Equity	Adani Enterprise	15-Apr-11		19387	17753	643	374	1	-42%	-36%
BJAUT IB Equity	Bajaj Auto	18-Aug-11		16470	17753	1438	1799	46	25%	16%
COAL IB Equity	Coal India	18-Aug-11		16470	17753	391	333	5	-15%	-21%
COXK IB Equity	Cox & Kings	13-Jun-11		18266	17753	214	173	1	-19%	-17%
DRRD IB Equity	Dr. Reddy's	14-Jun-11		18309	17753	1555	1639	11	5%	9%
ICICIB IB Equity	ICICI Bank	21-Mar-11		17839	17753	1006	907	16	-10%	-9%
INFO IB Equity	Infosys	15-Apr-11		19387	17753	2989	2875	70	-4%	5%
IRB IB Equity	IRB Infra	13-Jun-11		18266	17753	176	184	2	5%	8%
JJ IB Equity	Jain Irrigation	10-Aug-11		17131	17753	162	108	1	-34%	-36%
MM IB Equity	M&M	15-Apr-11		19387	17753	724	708	13	-2%	7%
OBBER IB Equity	Oberoi Realty	6-Sep-11		16863	17753	225	284	0	26%	20%
TTMT/A IB Equity	Tata Motors DVR	27-Feb-12		17446	17753	135	153	-	13%	11%
TATA IB Equity	Tata Steel	15-Apr-11		19387	17753	630	472	12	-25%	-18%
WPRO IB Equity	Wipro	13-Jan-12		16155	17753	401	432	7	8%	-2%
Z IB Equity	ZEE Entertainment	10-Aug-11		17131	17753	127	127	2	0%	-4%
DLFU IB Equity	DLF	15-Jul-09	6-Sep-11	14253	16863	322	199	5	-38%	-48%
ACC IB Equity	ACC	19-Aug-10	15-Apr-11	18455	19387	881	1111	29	26%	20%
ADANI IB Equity	Adani Pow er	28-Apr-10	21-Mar-11	17380	17839	119	111	0	-7%	-9%
ARVND IB Equity	Arvind Ltd.	22-Aug-07	4-Dec-08	14249	9230	43	15	-	-65%	-47%
BHARTI IB Equity	Bharti Airtel	22-Aug-07	15-Jul-09	14249	14253	424	390	1	-8%	-8%
BHARTI IB Equity	Bharti Airtel	28-Apr-10	27-Feb-12	17380	17446	295	341	1	16%	15%
CAIR IB Equity	Cairn India	22-Sep-09	10-Aug-11	16886	17131	263	273	0	18%	22%
CIFLA IB Equity	Cipla Ltd.	4-Dec-08	15-May-09	9230	12173	184	231	2	25%	-5%
COAL IB Equity	Coal India	18-Jan-11	14-Jun-11	19092	18309	311	395	5	27%	32%
GAIL IB Equity	GAIL (India)	22-Aug-07	29-Nov-07	14249	19003	199	279	10	40%	5%
GAIL IB Equity	GAIL (India)	21-Mar-11	13-Jan-12	17839	16155	451	373	8	-17%	-8%
HDFC IB Equity	HDFC	22-Aug-07	29-Jun-10	14249	17534	1901	2902	34	53%	24%
HUVR IB Equity	Hindustan Unilever	21-Aug-08	6-Nov-09	14244	16158	236	273	11	16%	2%
INFO IB Equity	Infosys Tech	29-Nov-07	1-Dec-09	19003	17198	1570	2395	27	53%	69%
ITC IB Equity	ITC	6-Nov-09	19-Aug-10	16158	18455	124	165	2	33%	16%
JPA IB Equity	Jaiprakash Asso.	29-Nov-07	18-Aug-11	19003	16470	241	58	1	-76%	-72%
LT IB Equity	Larsen & Toubro	15-May-09	18-Aug-11	12173	16470	988	1625	17	64%	22%
MRCO IB Equity	Marico	22-Aug-07	15-May-09	14249	12173	58	63	1	9%	28%
MSIL IB Equity	Maruti Suzuki	15-May-09	28-Apr-10	12173	17380	848	1271	4	50%	5%
ONGC IB Equity	ONGC	22-Aug-07	22-Sep-09	14249	16886	809	1155	34	43%	21%
RBXY IB Equity	Ranbaxy Lab	1-Dec-09	2-Nov-10	17198	20346	469	602	12	28%	8%
RIL IB Equity	Reliance Industries	22-Aug-07	7-Jul-11	14249	19078	884	870	8	-2%	-26%
RELI IB Equity	Reliance Infra	22-Aug-07	29-Nov-07	14249	19003	725	1664	7	130%	72%
RELI IB Equity	Reliance Infra	15-Jul-09	13-Jun-11	14253	18266	1104	543	11	-51%	-62%
SBIN IB Equity	State Bank of India	13-Aug-09	21-Mar-11	15518	17839	1799	2583	59	44%	25%
SESA IB Equity	Sesa Goa	29-Jun-10	18-Jan-11	17534	19092	356	354	3	-1%	-2%
SOBHA IB Equity	Sobha Developers	27-Sep-07	21-Aug-08	17151	14244	856	264	8	-69%	-63%
SUNP IB Equity	Sun Pharmaceutical	22-Aug-07	15-Jul-09	14249	14253	922	1216	12	32%	32%
SUNP IB Equity	Sun Pharmaceutical	2-Nov-10	13-Jun-11	20346	18266	438	479	4	10%	22%
TTMT IB Equity	Tata Motors	7-Jul-11	10-Aug-11	19078	17131	1053	844	17	-20%	-11%
TATA IB Equity	Tata Steel	22-Aug-07	21-Aug-08	14249	14244	503	589	13	17%	17%
TCS IB Equity	TCS	22-Aug-07	27-Sep-07	14249	17151	512	531	7	4%	-14%
UNBK IB Equity	Union Bank	22-Aug-07	13-Aug-09	14249	15518	126	213	5	70%	56%
Z IB Equity	Zee Entertainment	21-Aug-08	28-Apr-10	14244	17380	211	303	2	44%	18%

Source: FactSet, MSCI, Bloomberg, Morgan Stanley Research. Past performance is no guarantee of future results. Results shown do not include transaction costs.

Please note performance of Cairn and Sesa Goa were considered up to 13 August 2010. Cairn was out of restriction on 20th Dec 2010. We have considered performance of Cairn from 20th December onwards. Morgan Stanley & Co. Limited is acting as financial adviser and sponsor to Vedanta Resources PLC ("Vedanta") on Vedanta Group's proposed acquisition of 51% to 60% of Cairn India Limited ("Cairn India"), as announced on 16 August 2010. Morgan Stanley & Co. International plc. is also Corporate Broker to Vedanta. In accordance with its general policy, Morgan Stanley expresses no rating or price target on Vedanta, Cairn India, Cairn Energy PLC or Sesa Goa Ltd. This report and the information herein are not intended to serve as an endorsement of the proposed transaction. This report was prepared solely upon information generally available to the public. No representation is made that it is accurate and complete. This report is not a recommendation or an offer to buy or sell the securities mentioned. Please refer to the notes at the end of this report.

Mid-cap List Timeline Since Inception

		Date Added	Dated Removed	BSE Midcap on date added	BSE Midcap on date w hen removed or current	Stock price w hen Added	Price w hen removed or current price	Dividend if any	Stock return*	Returns relative to BSE Midcap
DITV IB Equity	Dish TV	29-Feb-12		6387	6387	54	54	-	-	-
INFTC IB Equity	Infotech Enter	29-Feb-12		6387	6387	148	148	-	-	-
COXK IB Equity	Cox & Kings	2-Nov-11		6254	6387	222	173	1	-22%	-24%
HATH IB Equity	Hathw ay	2-Nov-11		6254	6387	117	166	0	42%	39%
IRB IB Equity	IRB Infra	2-Nov-11		6254	6387	166	184	2	11%	9%
JI IB Equity	Jain Irrigation	2-Nov-11		6254	6387	117	108	1	-8%	-10%
MRCO IB Equity	Marico	13-Jan-12		5582	6387	152	158	1	4%	-9%
MTCL IB Equity	Mindtree Ltd.	2-Nov-11		6254	6387	395	465	5	18%	15%
OBBER IB Equity	Oberoi Realty	2-Nov-11		6254	6387	233	284	0	22%	19%
ONMB IB Equity	OnMobile Global	2-Nov-11		6254	6387	57	71	0	24%	21%
TTMT/A IB Equity	Tata Motors DVR	27-Feb-12		6110	6387	135	153	-	13%	8%
UNTP IB Equity	United Phosp	2-Nov-11		6254	6387	144	155	2	8%	5%
GESCO IB Equity	Great Eastern Shipping	2-Nov-11	27-Feb-12	6254	6110	233	228	9	-2%	0%
PATNI IB Equity	Patni Computer	2-Nov-11	13-Jan-12	6254	5520	334	471	75	41%	60%

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of January 31, 2012)

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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	1135	39%	460	44%	41%
Equal-weight/Hold	1248	42%	444	42%	36%
Not-Rated/Hold	107	4%	25	2%	23%
Underweight/Sell	454	15%	121	12%	27%
Total	2,944		1050		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Disclosure section (cont.)

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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The Americas

1585 Broadway
New York, NY 10036-8293
United States
+1 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
+44 (0)20 7425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
+81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
+852 2848 5200