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India Equity Strategy Alpha Almanac | Asia Pacific

Triggers in place for Growth Revival

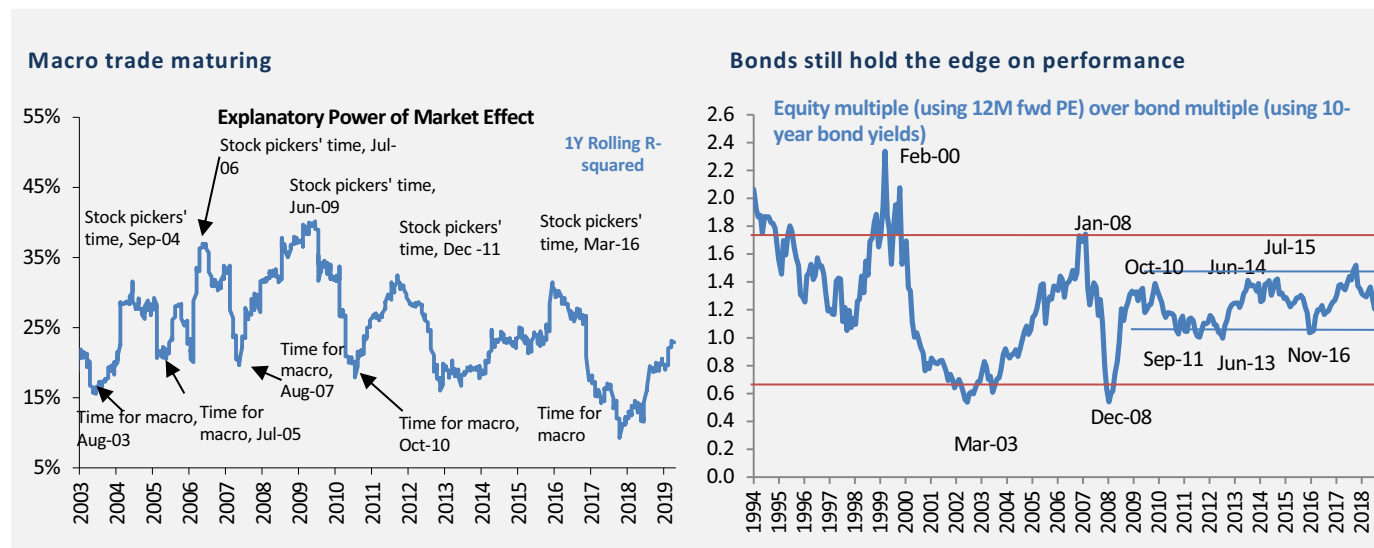
India's growth may have troughed in the quarter gone by. With the government and the RBI acting in concert to improve liquidity and lower rates, save for a big global growth slowdown, India could be on a path for a growth recovery and relative outperformance.

MORGAN STANLEY INDIA COMPANY PRIVATE LIMITED+

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Exhibit 1:



Source: RIMES, MSCI, Morgan Stanley Estimates, Morgan Stanley Research; RIMES, MSCI, Bloomberg, Morgan Stanley Research

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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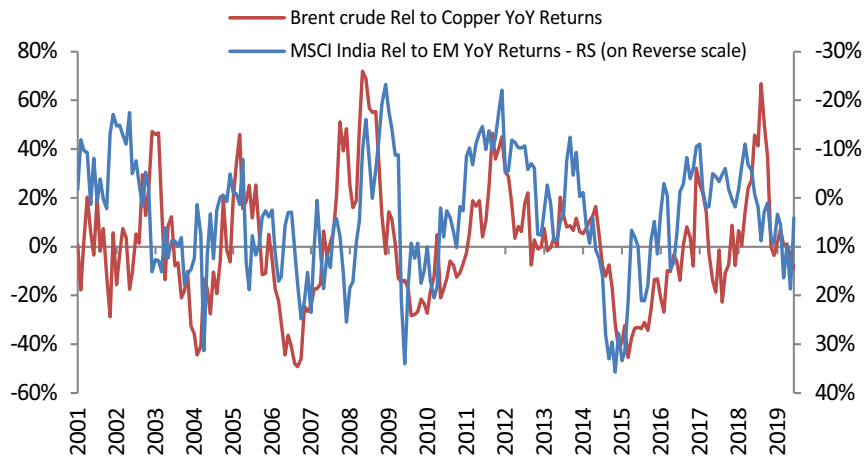
Triggers in place for Growth Revival

The government and the RBI have made a combined call to lower the cost of capital in order to revive the growth cycle. It is a measured risk since our view is that the Fed could be cutting rates and global growth is likely slowing, keeping a lid on oil prices.

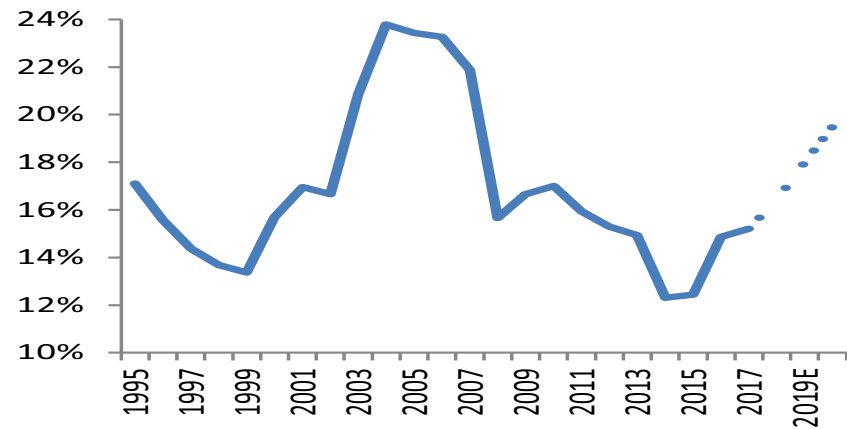
- **Long yields likely headed lower:** The government has proposed to provide capital to the state-owned banks (Rs700 billion) who had the liquidity to lend but not the capital. It has also estimated a lower fiscal deficit for F2020 to take pressure off the long yields and also decided to raise part of its borrowing overseas for the first time, implying an actual fall in the supply of long bond paper in F2020.
- **Short rates also likely going lower:** The fiscal position will let the RBI exercise more monetary accommodation. The government has raised minimum support prices for crops by just 3.8% and, with oil prices range bound, inflation is also likely to remain subdued allowing for a fall in interest rates across the curve. The RBI has cut rates by 75 bps in the past four months and we expect another 50 bps in upcoming meetings.
- **More system liquidity:** The RBI has made system liquidity positive which will ensure transmission of rates. It is providing liquidity of Rs1.34 trillion for banks to lend to the non-bank financial companies and the government has back stopped a loss of up to Rs100 billion from such lending (for public sector banks). The government has announced measures to increase direct and portfolio foreign flows which will help forex reserves to rise and improve liquidity further.
- **Higher net demand for equities:** In the meanwhile strong balance sheets and private equity funds are bidding businesses which means that the net demand for equities could be rising over the next 12 months after falling precipitously in the previous period. The new tax on buybacks could temper this somewhat. Trailing 12M saw about US\$9 billion of buybacks.
- **Relative valuations, growth and defensive characteristic in India's favor:** India's relative valuations to EM are approaching 1 SD below average whereas its forward earnings growth looks more attractive than it has been in a while. Relative policy uncertainty seems low and return correlations continue to trend lower, underscoring India's defensive nature in a tough global environment.
- **The key risk is from external sources, i.e., slowing global growth:** Exports (including goods and services) account for 20% of GDP so any global growth slowdown will affect growth and investments in India. The absolute upside to stocks may be constrained by our less than sanguine view on global equities whereas India's relative performance should make a comeback in the remainder of 2019.
- **Portfolio strategy:** The performance gap between narrow and broad market has a fair bit of distance to cover to hit normal levels so we expect the broad market to outperform a likely rising narrow market (Nifty/Sensex). We like "growth at a reasonable price" stocks among Financials, Discretionary Consumption, and Industrials – both large and mid-caps.

Key Charts – Growth is Key

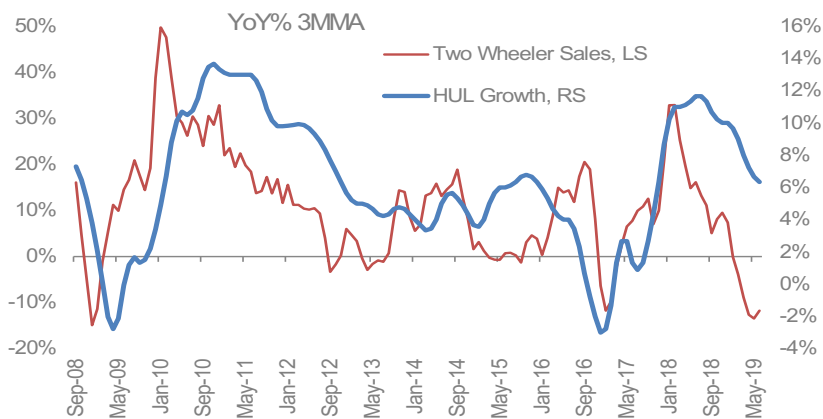
Global factors including Growth & Terms of Trade are key risks



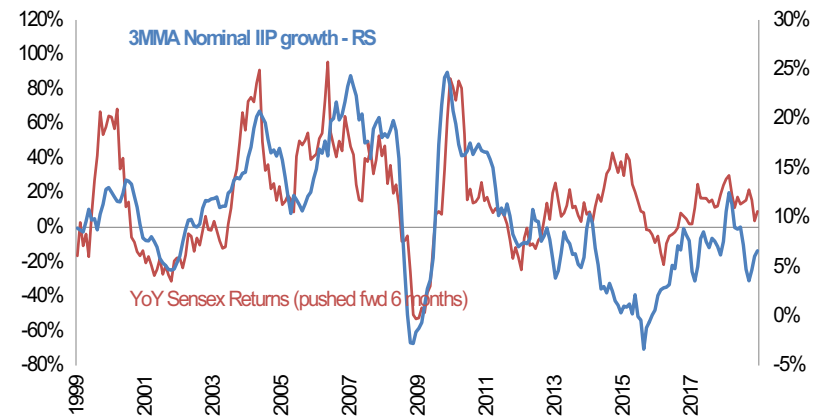
MSCI India's likely ROE progression: A New cycle in the Making



Consumption Slowdown may have Troughed



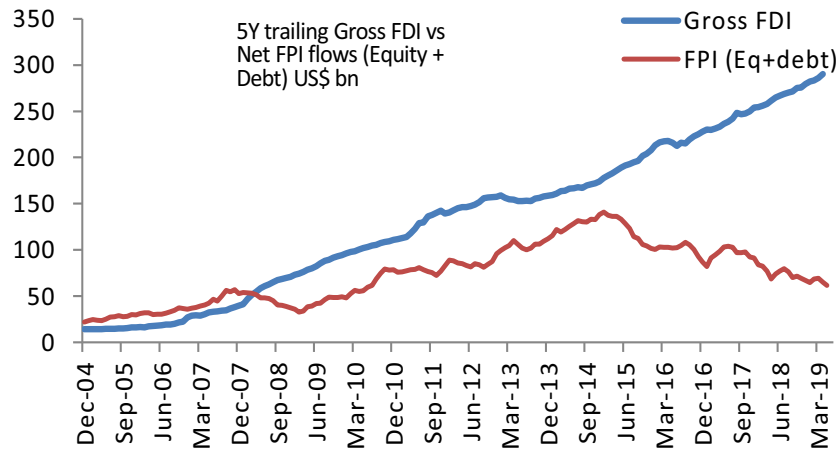
Growth is key to drive Equity Returns



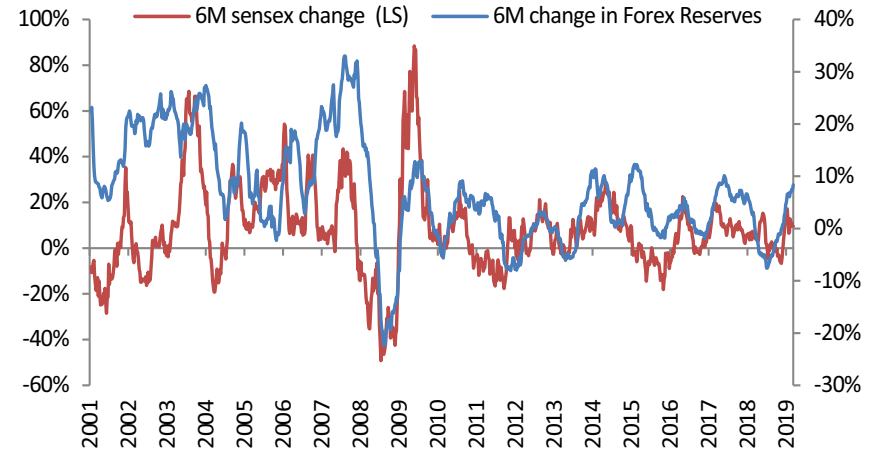
Source: BSE, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research; RIMES, BSE, Morgan Stanley Research; Bloomberg, Morgan Stanley Research.

Key Charts – Liquidity Improving

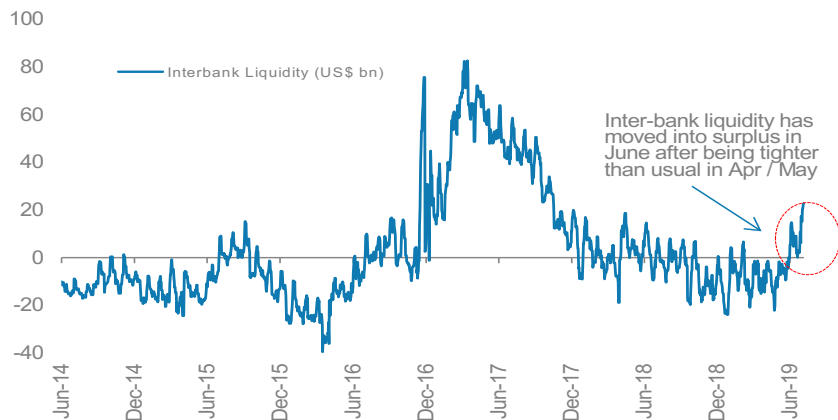
Policy measures Taken to Boost Foreign Flows



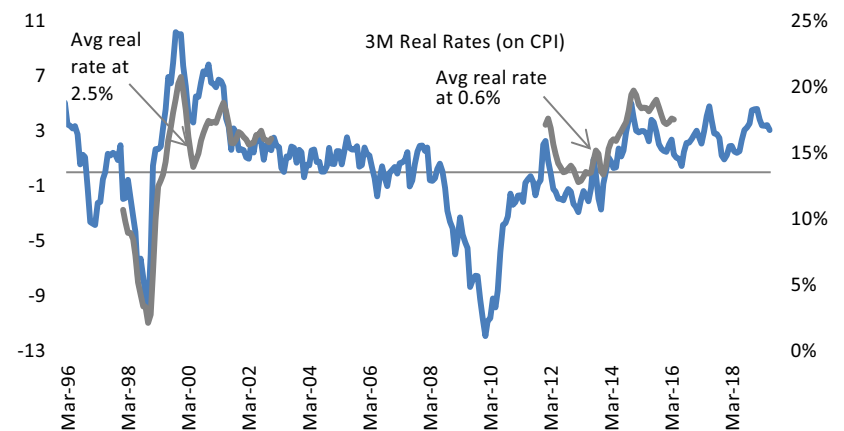
Positive Delta in Forex reserves Could Drive Markets Higher



System Liquidity in Surplus



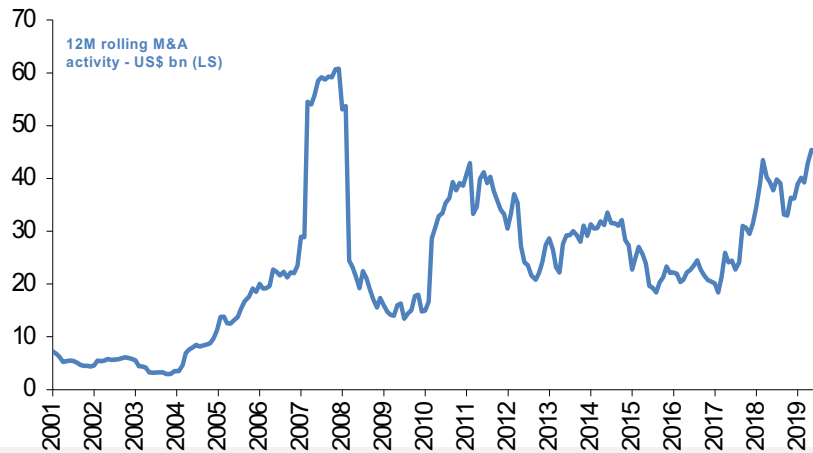
Real Rates are Falling



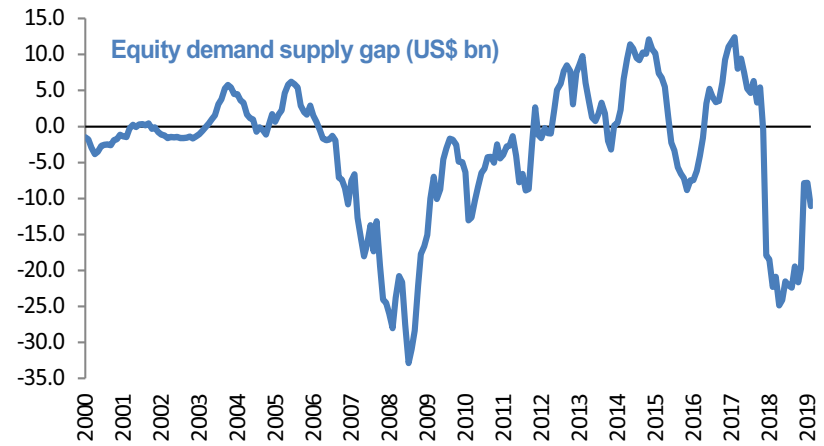
Source: BSE, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research; RIMES, BSE, Morgan Stanley Research; Bloomberg, Morgan Stanley Research.

Key Charts – The Bid Remains

Rising M&A: PE Funds and Strong Companies in the Bid



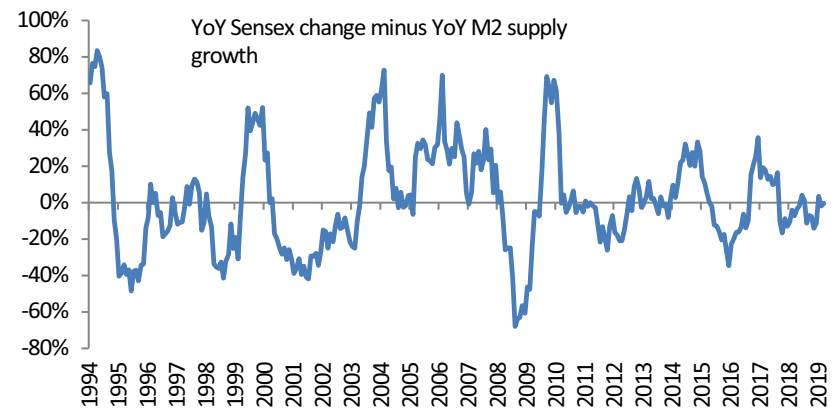
With Flows Looking Up, Net Demand Supply set to Rise



Aggregate Institutional Flows: On an Uptrend



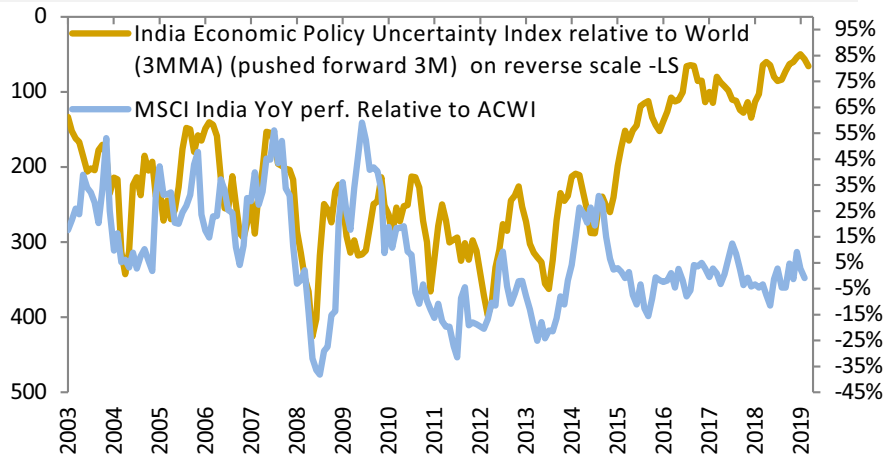
Sensex at Fair Value Relative to M2 Growth



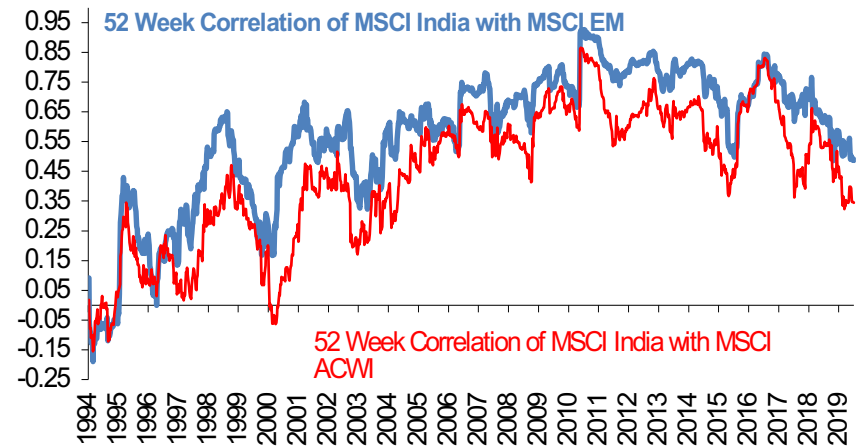
Source: RBI, RIMES, Morgan Stanley Research; CSO, Morgan Stanley Research; CDSL, SEBI, Morgan Stanley Research; Bloomberg, Morgan Stanley Research.

Key Charts – India’s Relative Position Good

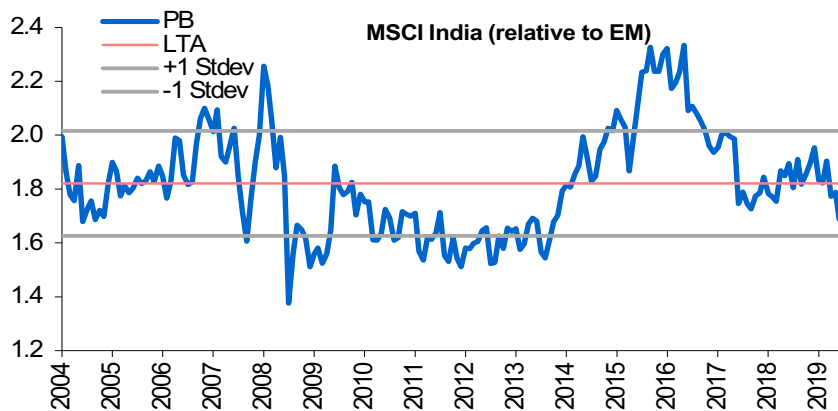
Relative Policy Uncertainty Low in India



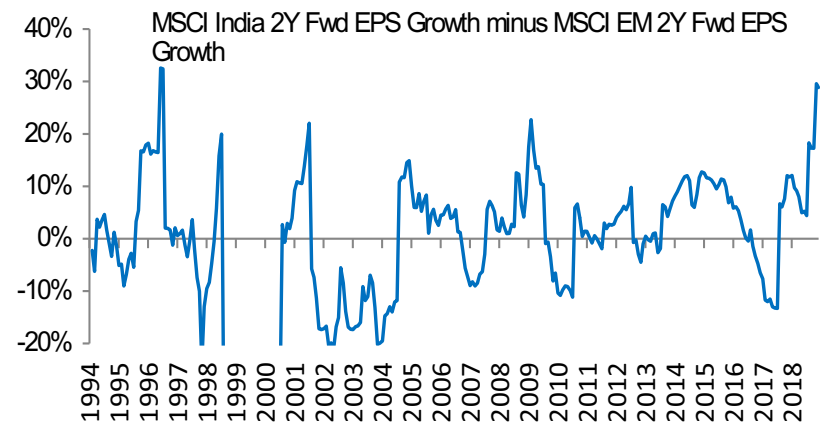
India’s Return Correlation with Global Equities @ 15 year Lows



Relative PB Approaching -1 SD



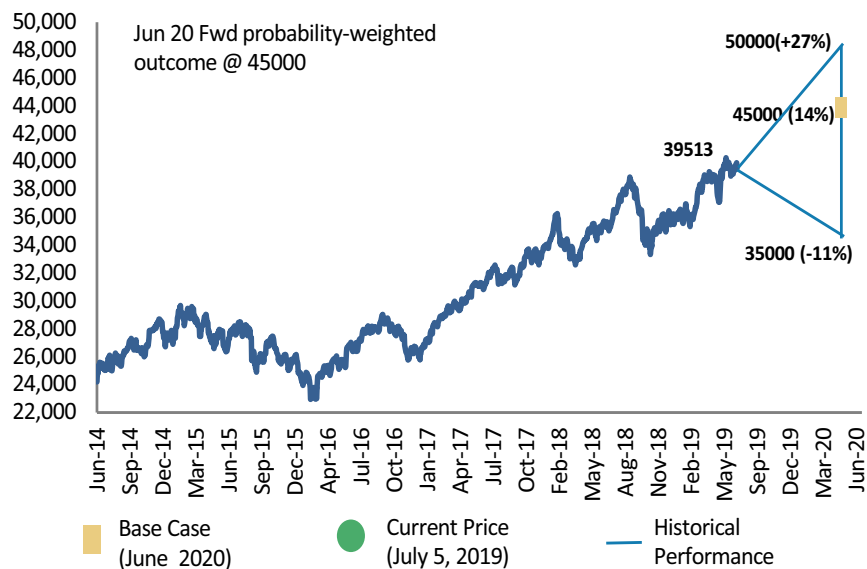
India’s Relative Earnings Growth Approaching All-time Highs



Source: RBI, RIMES, Morgan Stanley Research; CSO, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Estimates, Morgan Stanley Research; Bloomberg, Morgan Stanley Research.

Index Target

BSE Sensex Outlook: Risk-Reward for June 2020



Index target:

On our June 2020 target of 45,000, the BSE Sensex would trade at a forward P/E of 18.5x and at a trailing P/E of 22x, higher than the 25-year trailing average of 19.7x.

Base case (50% probability) – BSE Sensex: 45,000: Growth accelerates. We expect Sensex earnings growth of 24% YoY in F2020 and 20% YoY in F2021.

Bull case (30% probability) – BSE Sensex: 50,000: Better-than-expected outcomes, most notably on policy and global factors. Strong policy delivery especially in terms of tax cuts, infrastructure creation, foreign investments and fiscal consolidation. Earnings growth accelerates to 26% in F2020 and 24% in F2021.

Bear case (20% probability) – BSE Sensex: 35,000: Global conditions deteriorate and the policy delivery suffers - fiscal deficit expands and growth falters. Sensex earnings grow 18% in F2020 and 15% in F2021.

Source: RIMES, Morgan Stanley Research (E) estimate.

Portfolio Strategy

Sector Model Portfolio				
Sector	MSCI Wt (%)	OW/ UW (bps)	Performance relative to MSCI India	
			YTD	12M
MSCI India			7%	8%
Consumer Disc.	8.4	500	-14%	-27%
Consumer Staples	10.3	0	-10%	-5%
Energy	15.1	0	6%	13%
Financials	26.4	500	9%	12%
Healthcare	4.3	-200	-15%	-22%
Industrials	4.5	400	2%	9%
Technology	16.6	-700	5%	6%
Materials	8.3	-200	-2%	-2%
Comm Services	3.0	-100	-5%	-22%
Utilities	3.0	-200	-5%	-2%

We continue to back growth at a reasonable price. We believe the way to construct portfolios is to buy stocks of companies with the highest delta in return on capital. We expect market performance to broaden; hence, we also like mid-caps where the forward growth is not reflecting share price performance.

Recap of our biggest sector views:

- **Consumer Discretionary (+500bp):** Strong consumer loan growth and rising real incomes drive our view.
- **Financials (+500bp):** Credit costs may have peaked, driven by the bankruptcy process and a recovery in economic growth. Recapitalization should also help the corporate banks. Loan growth prospects are improving as the economy gathers pace. Non-banks face growth slowdown but the stronger ones look in a good position and are further helped by the budget announcements.
- **Industrials (+400bp):** Private capex is likely turning in the coming months, and public capex remains strong.
- **Technology (-700bp):** Business momentum has been strong, but stocks have re-rated and recent outperformance probably prices in the strong growth. With the US capex slowing, business could be challenged in the coming months.
- **Consumer Staples (Neutral):** Government spending for farmers and middle income families could boost consumption. Valuations keep us from being overweight.
- **Energy (Neutral):** Stocks look selectively attractive but overall sector view is not strong enough to warrant a call either way.
- **Healthcare (-200bp):** The sector remains challenged by regulatory burdens.
- **Utilities (-200bp):** We prefer cyclical exposures.
- **Materials (-200bp):** Funding source for our overweights.
- **Communication Services (-100bp):** Funding source for our overweights.

Source: RIMES, MSCI, Morgan Stanley Research; Past performance is no guarantee of future results.

Portfolio Strategy

Focus List								
	Sector	Rating	Price as on July 5, 2019	MCap (\$ bn)	Avg 3M T/O (\$ mn)	Rel to MSCI India		2Y Fwd EPS
						YTD Perf	12m Perf	Growth
Bajaj Auto	Cons. Disc.	EW	2,843	12.0	21	-1%	-10%	7%
M&M	Cons. Disc.	OW	642	11.1	32	-24%	-34%	4%
Maruti Suzuki	Cons. Disc.	OW	6,360	28.1	88	-19%	-36%	14%
Jubilant foods	Cons. Disc.	OW	1,235	2.4	23	-7%	-19%	22%
Dabur	Staples	OW	407	10.5	14	-10%	1%	16%
United Spirits	Staples	OW	581	6.2	13	-14%	-14%	24%
Reliance Industries	Energy	EW	1,263	117.0	179	7%	22%	23%
M&M Financial	Financials	OW	397	3.6	12	-21%	-19%	16%
HDFC Bank	Financials	OW	2,472	98.7	115	10%	9%	22%
ICICI Bank	Financials	OW	436	41.1	103	15%	50%	131%
Indusind Bank	Financials	OW	1,533	13.5	92	-9%	-27%	43%
Shriram Transport	Financials	OW	1,078	3.6	32	-18%	-13%	11%
ICICI Pru Life	Financials	OW	398	8.4	10	16%	1%	2%
SBI	Financials	OW	371	48.3	116	19%	35%	NM
Prestige Estates	Financials	OW	275	1.5	2	18%	-7%	25%
Ashok Leyland	Industrials	OW	87	3.7	30	-20%	-35%	-5%
Interglobe Aviation	Industrials	OW	1,562	8.8	49	27%	36%	NM
L & T	Industrials	OW	1,558	31.9	63	3%	16%	16%
Asian Paints	Materials	OW	1,359	19.0	28	-6%	-4%	20%
Ultratech Cement	Materials	NC	4,522	18.1	37	7%	7%	40%

Source: RIMES, MSCI, Morgan Stanley Research; Past performance is no guarantee of future results.

The Known Unknowns

	Why this is important	What the market could be pricing in	Our expectation
Growth			
High-frequency data	Growth cycle is at an inflexion point, in our view	Mixed data with signs of steep slowdown	Better improvement than what may be priced in
Earnings season	Earnings have persistently disappointed since 2010	Little improvement in growth	We are watching for a margin recovery from close to all-time lows as operating leverage kicks in
Earnings Guidance	Will set the stage for earnings estimate revisions breadth to turn positive	Neutral to negative guidance	Positive guidance from banks and industrials
GST Collections	GST revenues are stabilizing but still not optimum	Revenues at around the current levels of Rs1 trillion	As the economy picks up pace, GST revenues will likely head higher.
Loan growth	A lagging indicator of growth	Modest increase led by retail loan growth	New credit growth cycle underway, in our view
Order books	A signal that capex is returning	No major increase in the immediate future	We think order books are likely to build visibly in the coming months
Rates			
CPI	We expect the RBI to have limited tolerance for a rise in CPI	Lower inflation trajectory	Incoming headline inflation data likely to remain benign in 2019
Monetary policy	Crucial to protect India's hard-earned macro stability	Market is expecting a dovish RBI	50 bps rate cuts in 2019
Long bonds	Seen as the anchor to the discounting rate for equity cash flows	Borrowing calendar keeps long bonds ranged	See: India Equity Strategy: Why and How Long Bond Yields Matter to Equities (22 Mar 2018)

Source: Morgan Stanley Research

The Known Unknowns

	Why this is important	What the market could be pricing in	Our expectation
Politics & Policy			
Fiscal deficit	Sets the stage for immediate growth and fiscal targets. A higher deficit creates inflation risks	Some fiscal slippage from the targeted level of 3.3% for F2020	Limited or no fiscal slippage
Infrastructure Spending	Key growth driver in the absence of private corporate capex	The BJP election manifesto promises US\$1.4 trillion in spending over five years	If public capex crosses 10% of GDP in three years, it will be a good outcome
Privatization	A source of revenues for government and also a boost to productivity	Stake sales to institutional investors continues. F2020 target is Rs1.05 trillion.	As indicated by the government
Foreign investments	Key to capital formation	More liberalised regime for both FDI and Debt flows. Cumulative FDI over five years was US\$286 billion	Capital market reforms in order to improve FPI flows and India's weight in the MSCI Index
Market			
Domestic flows	Domestic flows have been a reliable source of equity demand over the past three years	Challenge to the run rate of US\$2 billion due to market volatility	India Equity Strategy: DREAM is Reality (4 Apr 2019)
Corporate activity	Higher supply will drag down share prices, while M&A is an offset	NA	We expect net supply-demand to be more balanced in 2019 vs. the negative gap of 2018
Fed rates	Determines risk appetite for EM	Rate cuts later this year	Rate cut of 50 bps later this month
EM performance	India remains highly correlated to global equities	NA	Return correlations are below historical levels - India is behaving idiosyncratically and may continue to do so in 2019
Oil prices	Given the fiscal constraints, higher oil could hurt growth	Oil to have a negative impact on the fiscal deficit and growth	Oil relative to copper important for India's relative performance to EM. Our global oil team believes oil prices are range bound in 2019

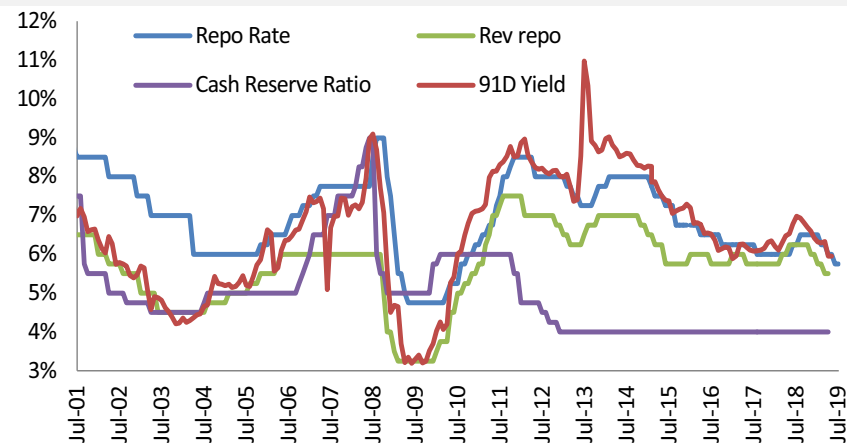
Source: Morgan Stanley Research

Politics and Macro

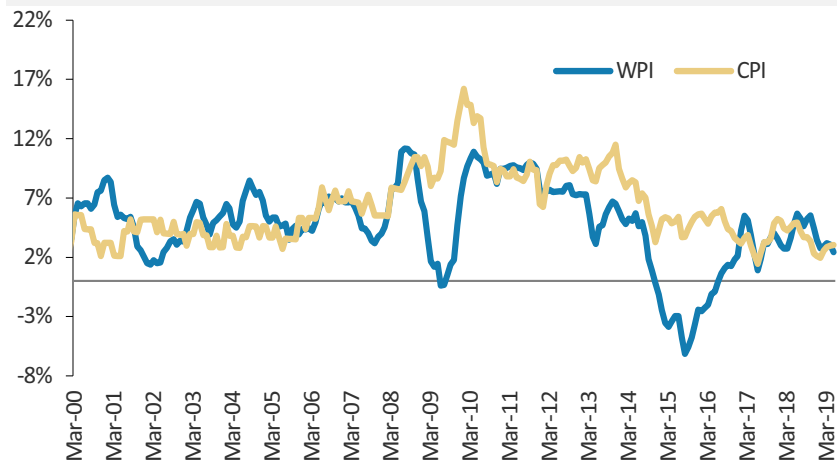
Macro Forecasts at a Glance

	F2018	F2019E	F2020E	F2021E
GDP Growth (new)	7.2%	7.0%	7.4%	7.5%
IIP Growth	4.4%	3.7%	4.2%	4.6%
Average CPI	3.6%	3.4%	3.7%	4.2%
Repo Rate (year end)	6.00%	6.25%	5.25%	5.25%
CAD% of GDP	-1.9%	-2.3%	-2.2%	-2.2%
Sensex EPS	1471	1692	2090	2508
Sensex PE	27.0	23.4	18.9	
Sensex EPS (consensus)		15.9%	26.1%	16.4%
EPS growth YoY	-0.4%	F19e	F20e	F21e
Broad Market Earnings Growth	3.0%	10.0%	22.0%	20.0%
Broad Market PE	30.6	27.8	22.8	

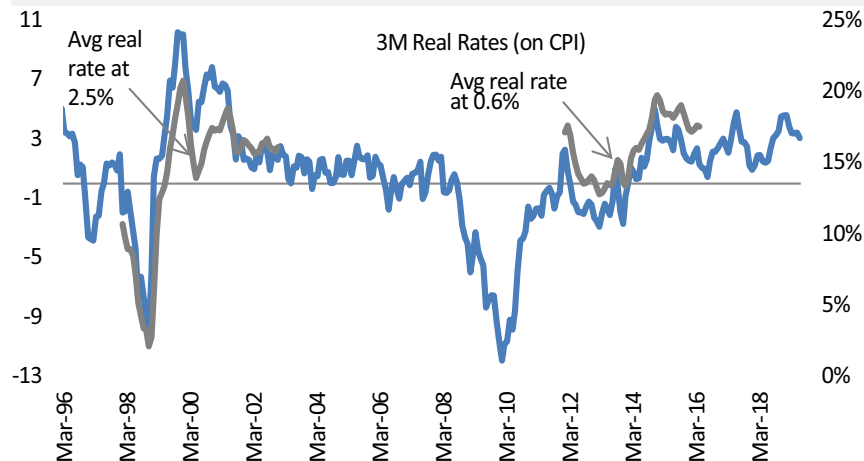
Policy Rates



Inflation



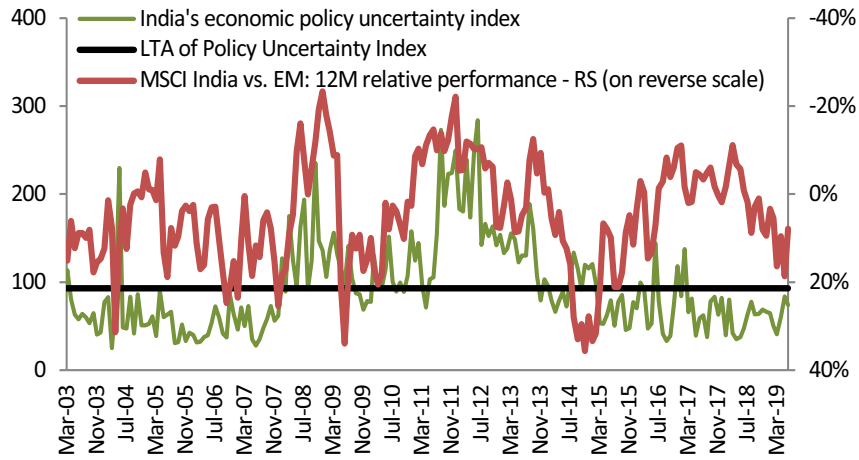
Real Rates



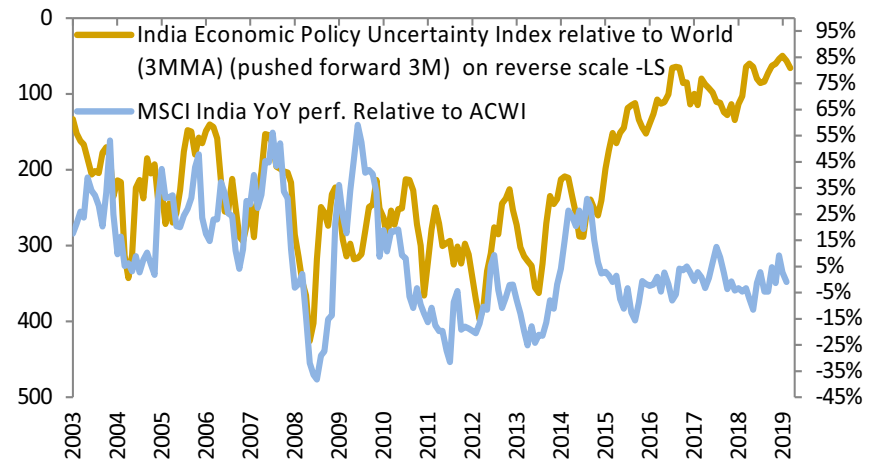
Source: RIMES, MSCI, Morgan Stanley Research (e) estimates ; RBI, Morgan Stanley Research; RBI, CSO, Morgan Stanley Research; RBI, CEIC, Morgan Stanley Research.

Politics and Macro

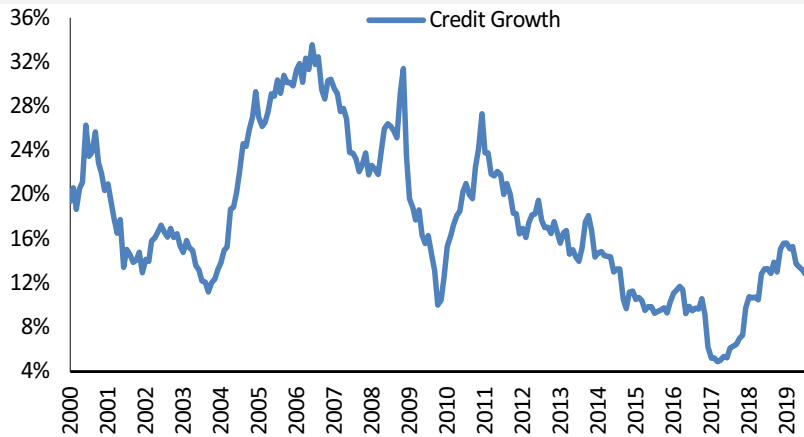
Policy Uncertainty Index



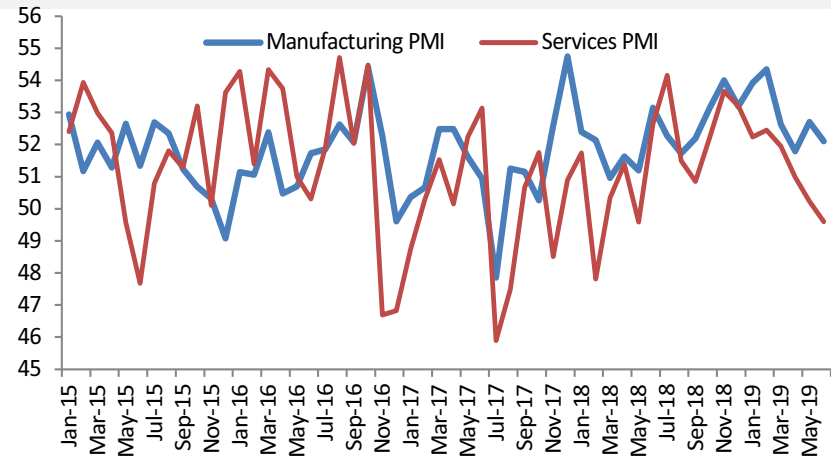
Policy Uncertainty Index: India vs. World



Bank Credit Growth



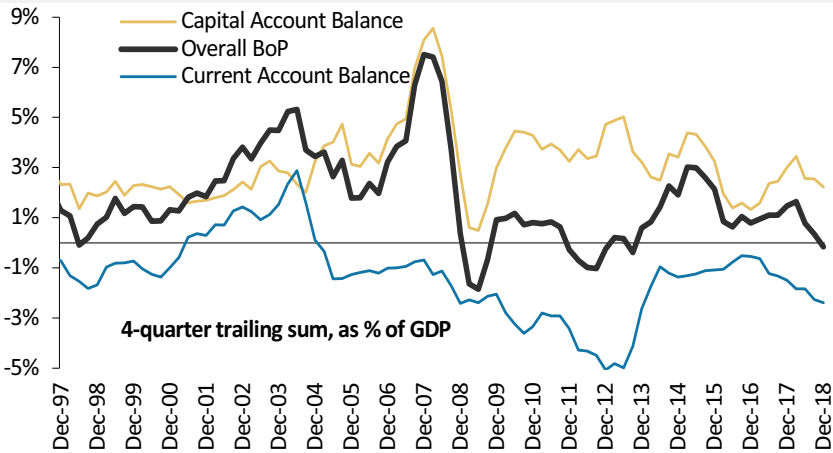
PMI: Manufacturing and Services



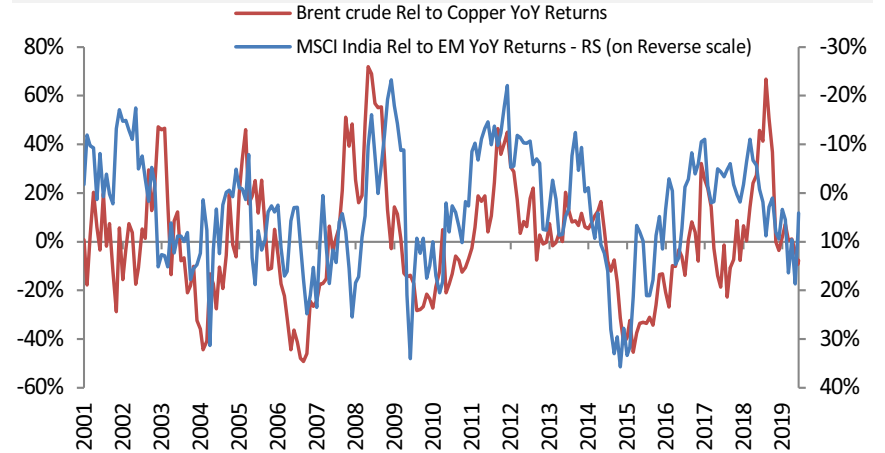
Source: Economic Policy Uncertainty Index, RIMES, MSCI, Morgan Stanley Research; Economic Policy Uncertainty Index, RIMES, MSCI, Morgan Stanley Research; CEIC, Morgan Stanley Research; Haver, Morgan Stanley Research.

Politics and Macro

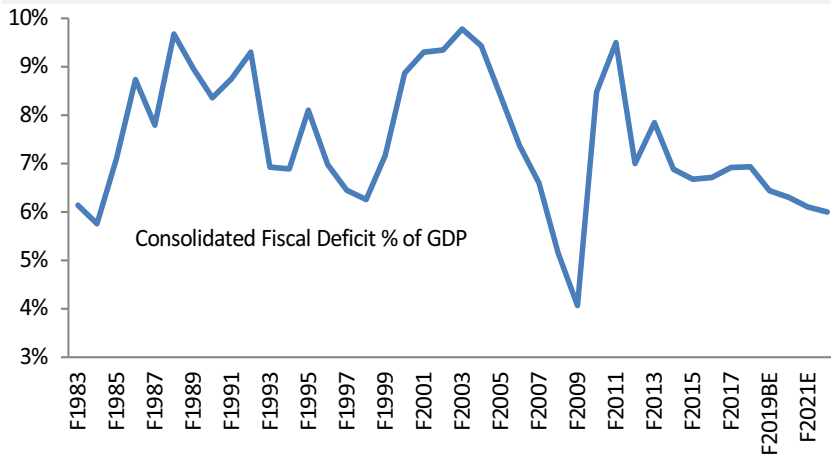
External Balance Sheet



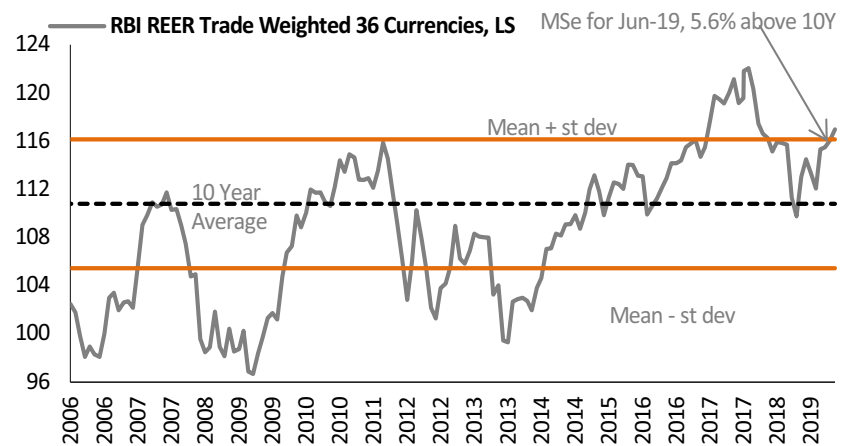
Terms of Trade



Consolidated Fiscal Deficit



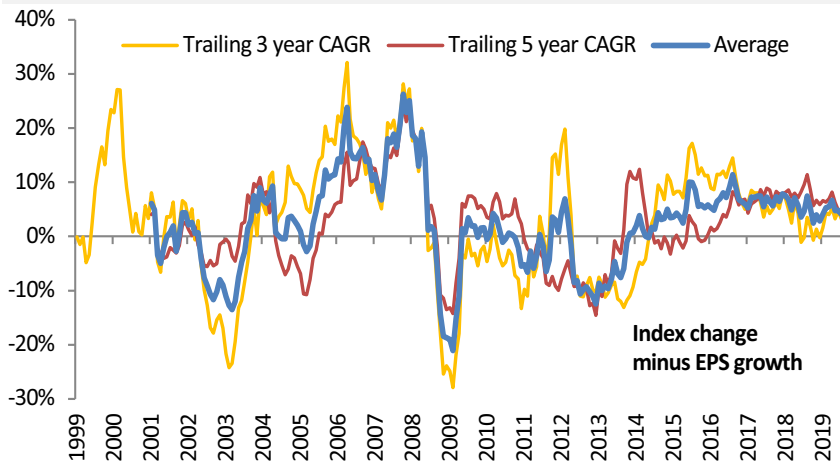
REER Movement



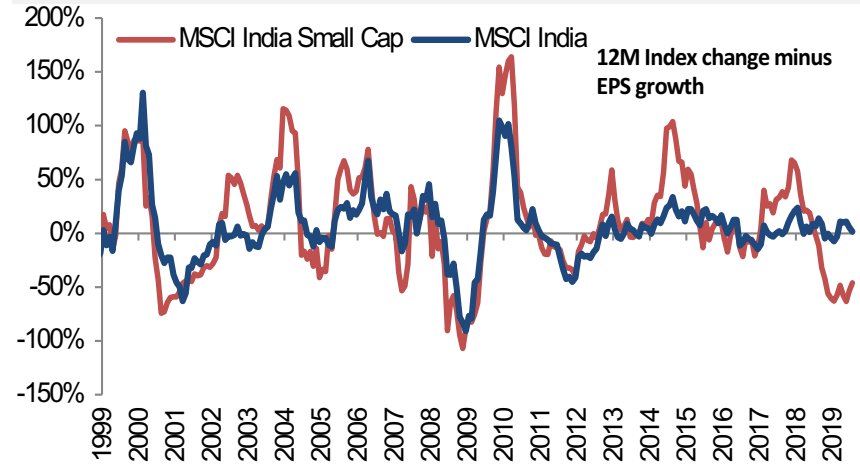
Source: RBI, CEIC, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research; CSO, Morgan Stanley Research, Morgan Stanley estimates; RBI, CEIC, Bloomberg, Morgan Stanley Research.

Liquidity

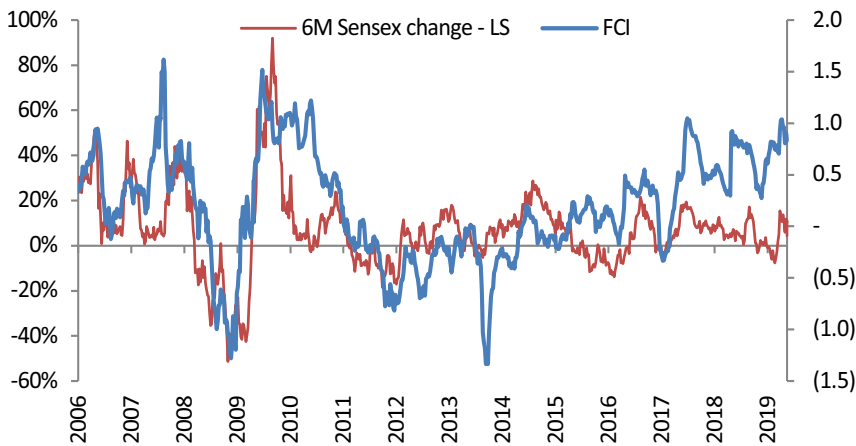
P/E Relative to Earnings Growth – Force of the Bid



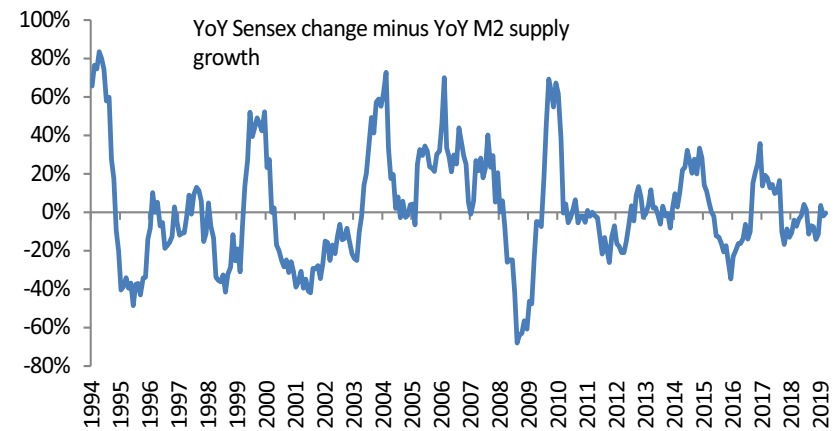
Small cap Liquidity



Financial Conditions Index vs. Share Prices



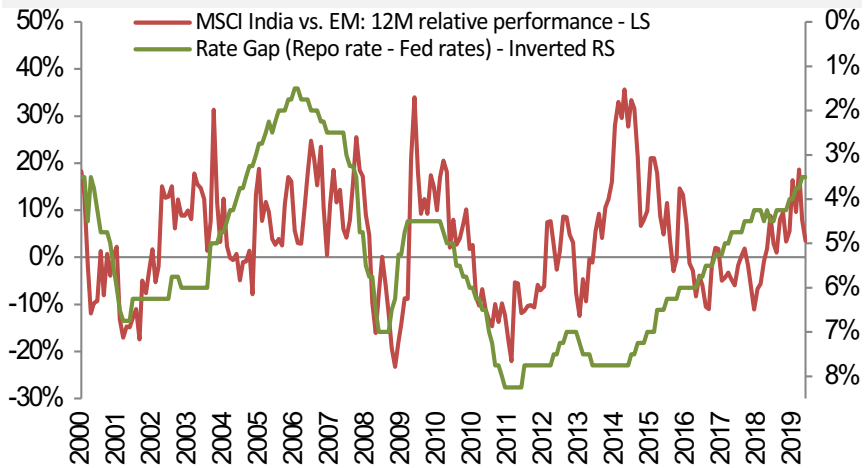
M2 Supply Growth Relative to Share Prices



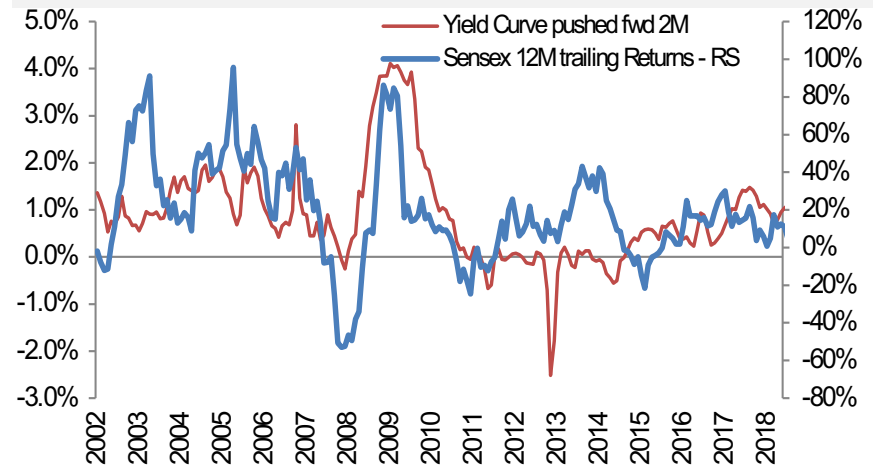
Source: RIMES, Bloomberg, MSCI, Morgan Stanley Research; RIMES, Bloomberg, MSCI, Morgan Stanley Research; Bloomberg, RBI, CEIC, RIMES, Morgan Stanley Research; RBI, RIMES, Morgan Stanley Research.

Liquidity

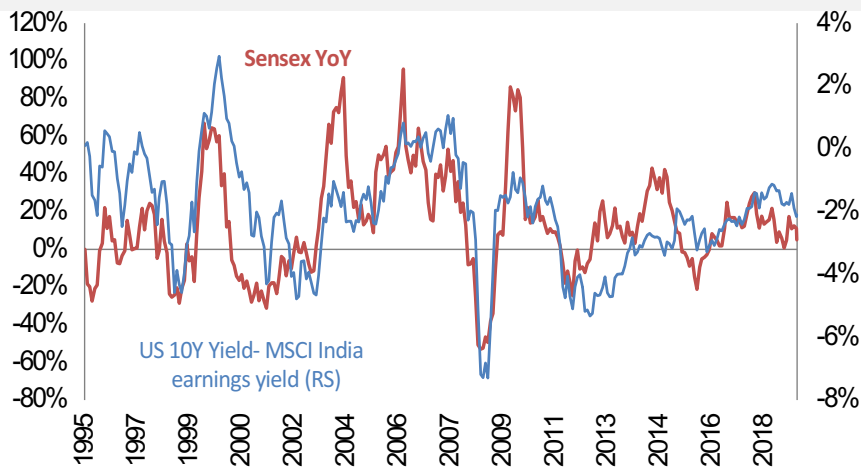
Gap with Fed rates and India's relative performance to EM



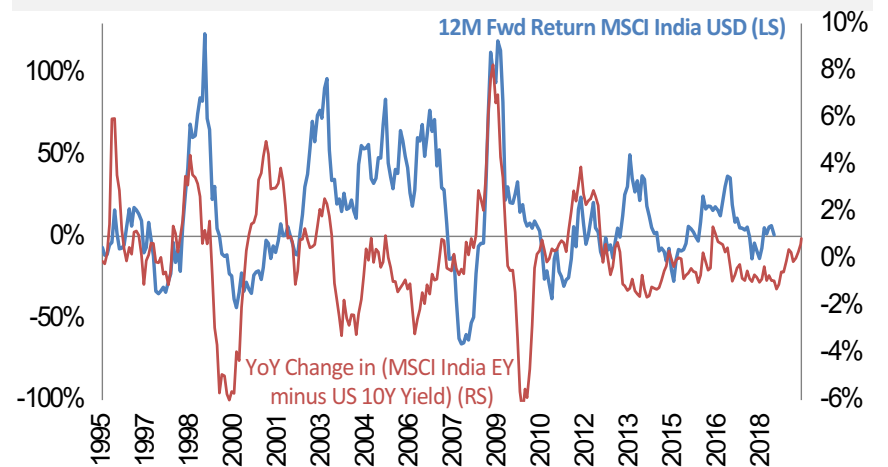
Yield Curve vs. Sensex Returns



Global Liquidity Proxy: US Treasury Yield Minus India's Earnings Yield



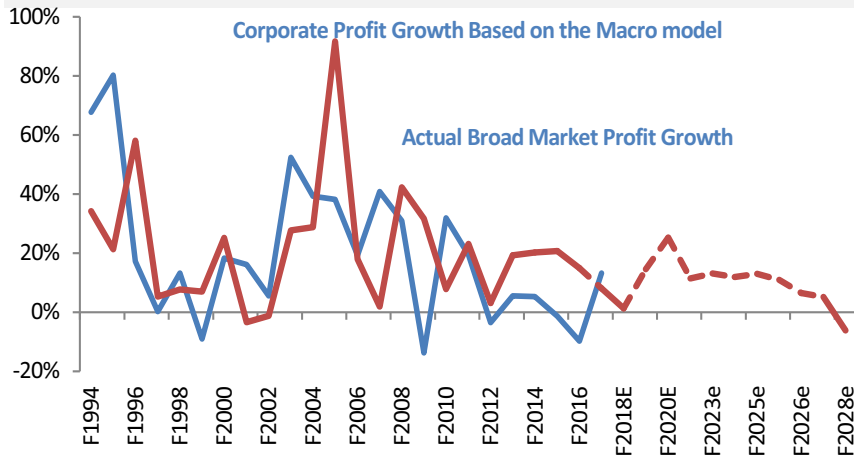
Global Liquidity YoY change chart



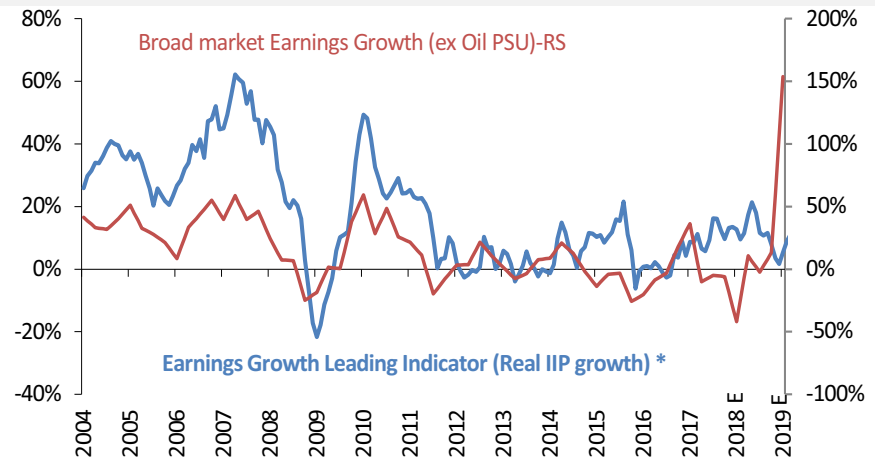
Source: Bloomberg, RBI, MSCI, RIMES, Morgan Stanley Research; BSE, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Bloomberg, Morgan Stanley Research.

Corporate Fundamentals

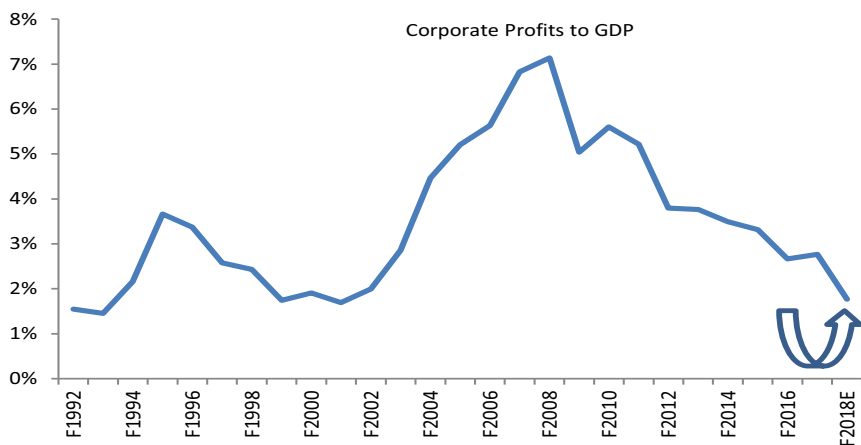
Macro Earnings Model Based on Kalecki Equation



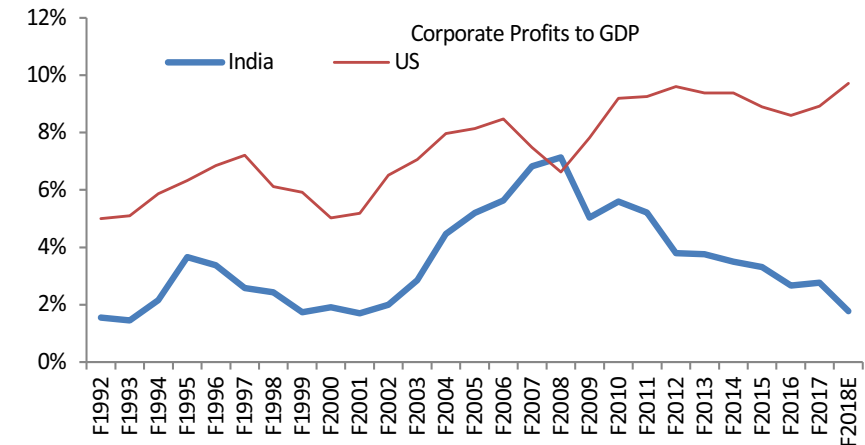
Proprietary Macro Earnings Model Based on IIP/Inflation Differentials



Corporate Profit to GDP



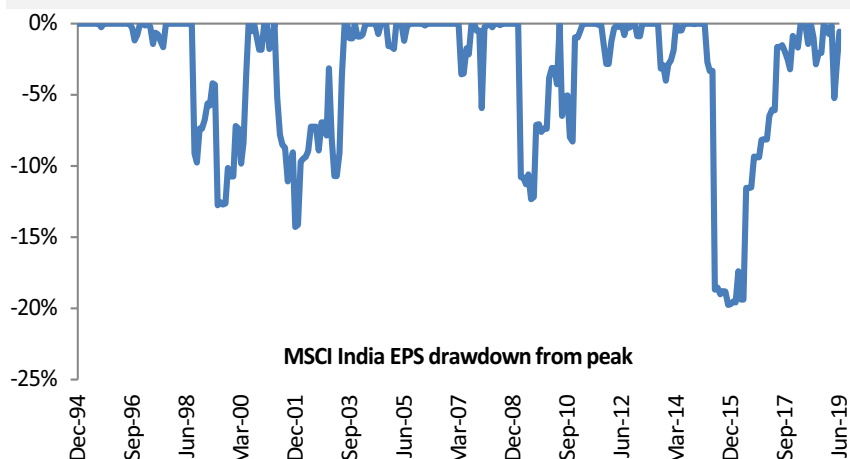
India vs. US: Corporate Profits to GDP



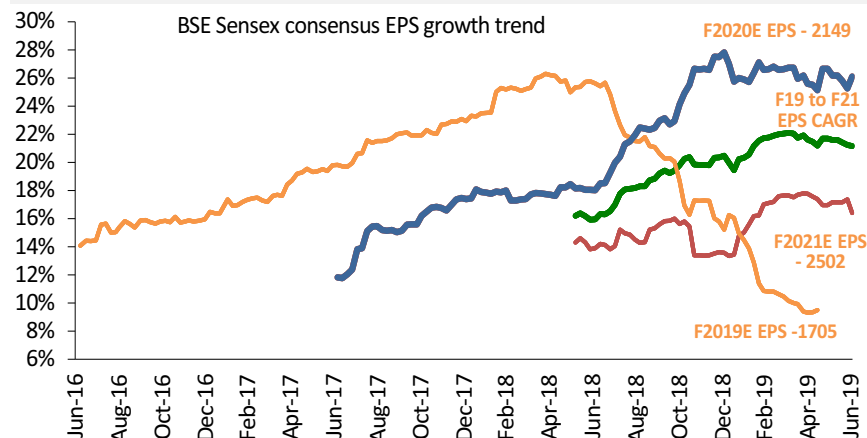
Source: CEIC, Capitaline, Morgan Stanley Research (e) estimates; CEIC, Capitaline, Morgan Stanley Research (e) estimates; CEIC, CMIE, Morgan Stanley Research; CMIE, Haver, Morgan Stanley Research (e) estimates.

Corporate Fundamentals

Earnings Drawdown or Indicator of Earnings Recession



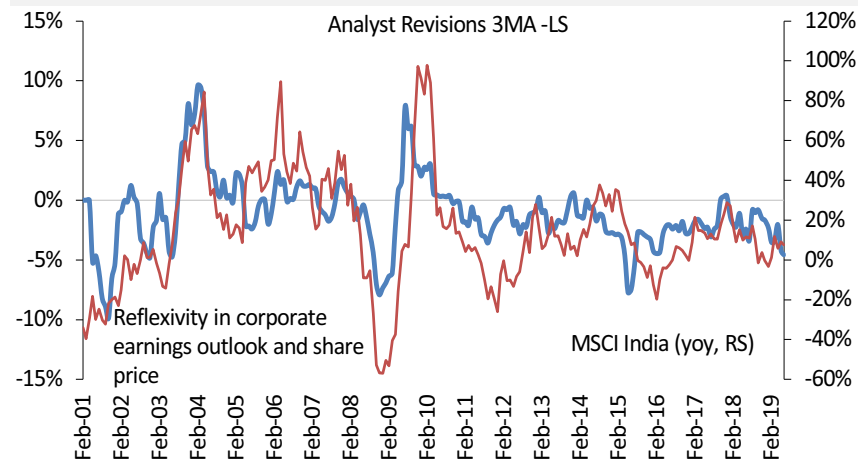
BSE Sensex Consensus EPS Growth Trend



Morgan Stanley Top-down Sensex EPS Estimates

BSE Sensex EPS	F19e	F20e	F21e
MS Top Down Estimates			
Bear Case		1,996	2,296
EPS Growth		18%	15%
Base Case	1,692	2,090	2,508
EPS Growth	15%	24%	20%
Bull Case		2,133	2,645
EPS Growth		26%	24%
Consensus EPS Estimates			
	1,705	2,149	2,502
EPS Growth	16%	26%	16%
MS Analyst Estimates			
EPS	1,694	2,101	2,454
EPS Growth	15%	24%	17%
Broad Market			
MS Top Down Estimates			
EPS Growth	10%	22%	20%

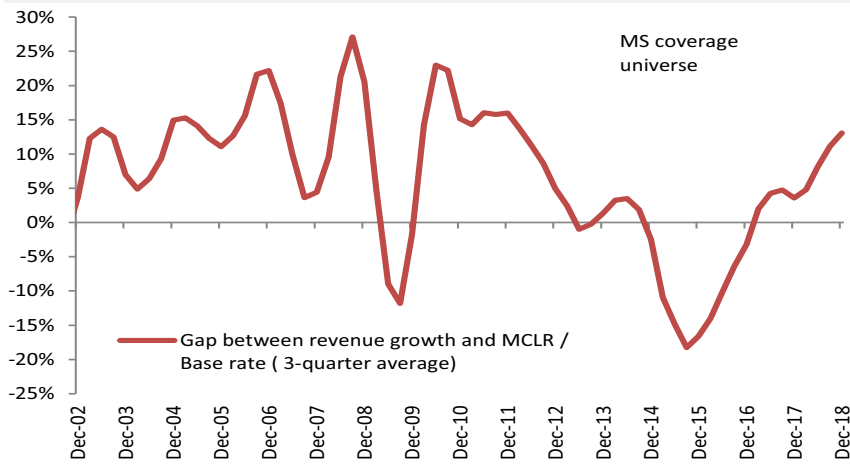
Earnings Estimate Revisions Breadth



Source: RIMES, MSCI, Morgan Stanley Research; RIMES, IBES, Morgan Stanley Research, Company Data, Capitaline, Morgan Stanley Research, e = Morgan Stanley estimates except for Consensus estimates, which are IBES estimates; RIMES, MSCI, Morgan Stanley Research.

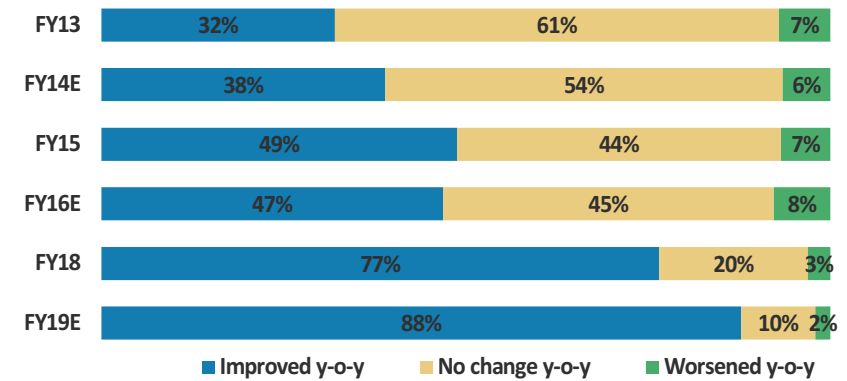
Corporate Fundamentals

Balance Sheet Recession

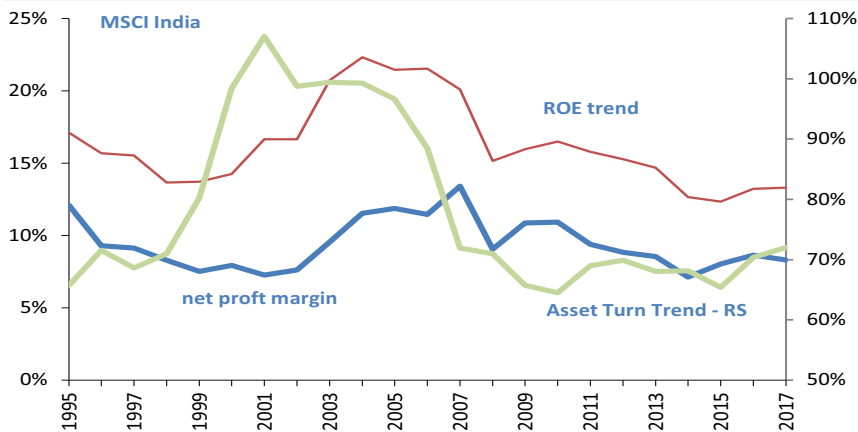


Corporate Confidence: MS AlphaWise Data

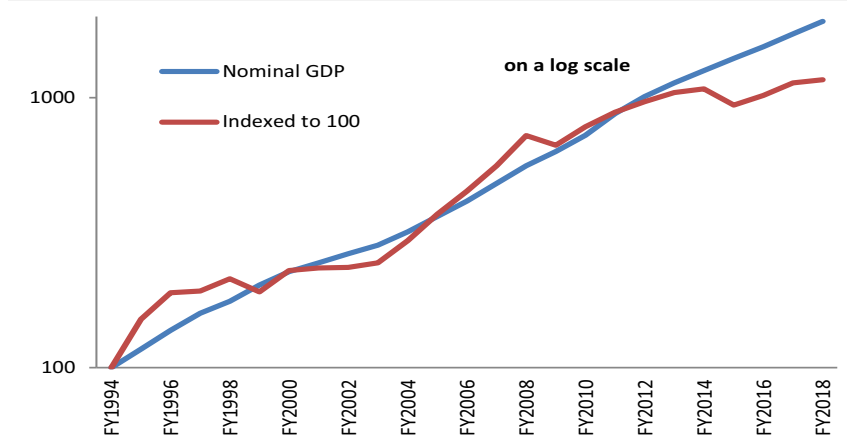
Confidence on Business Growth



India's ROE and Asset Turnover Trend



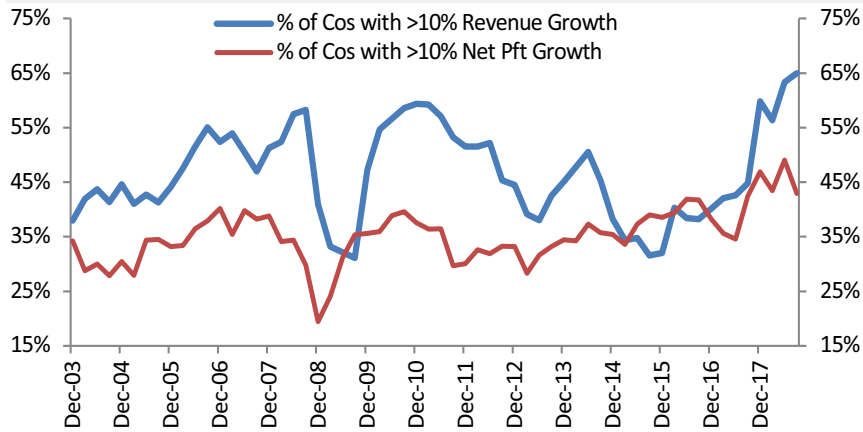
GDP Growth vs. Earnings Growth



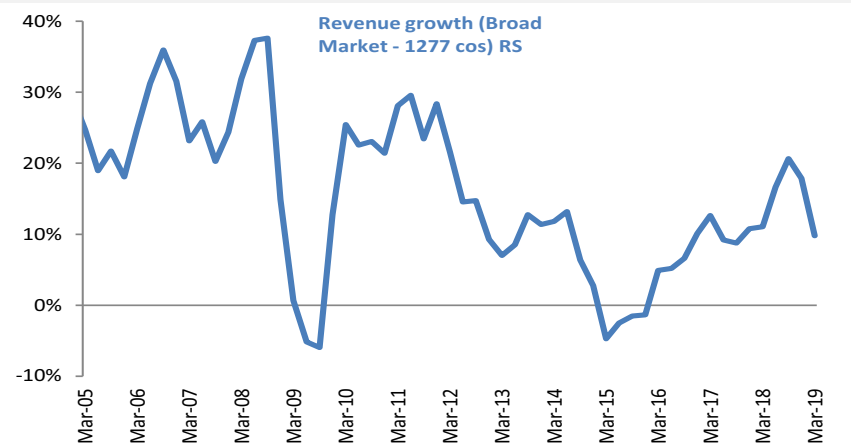
Source: Company data, Morgan Stanley Research; AlphaWise, Morgan Stanley Research; Worldscope, RIMES, MSCI, Morgan Stanley Research; RIMES, MSCI, CEIC, Morgan Stanley Research.

Corporate Fundamentals

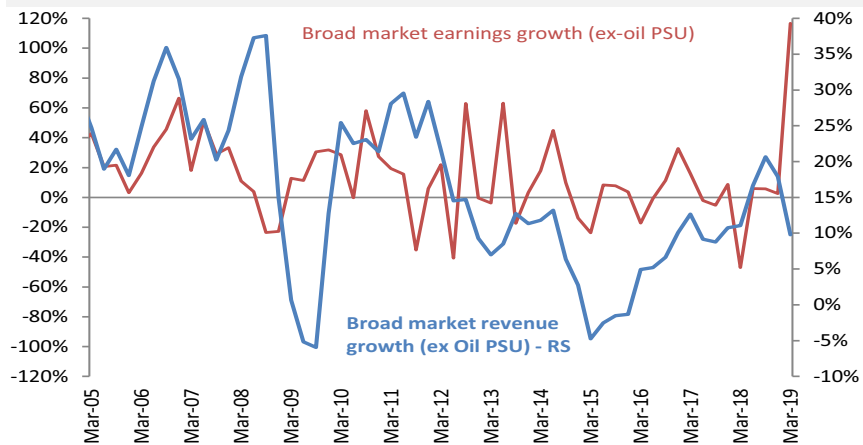
Breadth of Corporate Performance



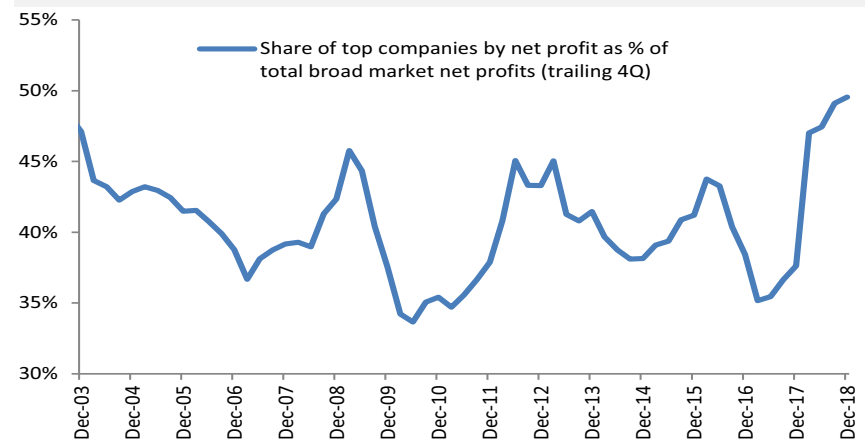
Broad Market Revenue Growth



YoY Revenue and Profit Growth for Broad Market



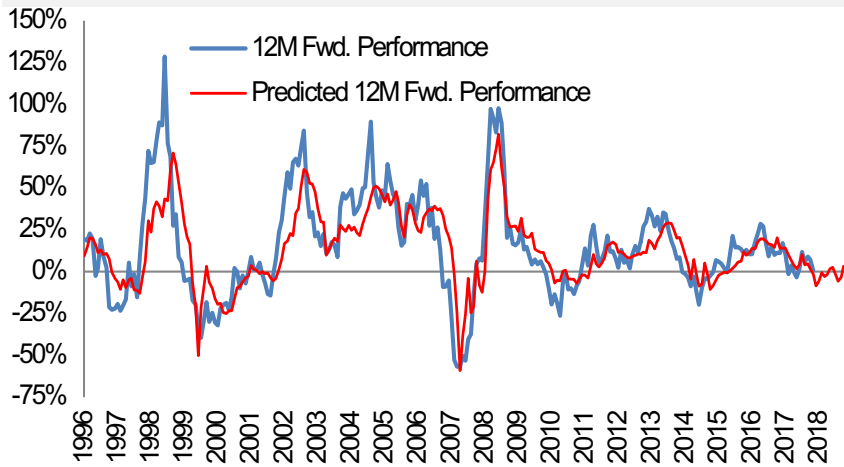
Large Companies' Share in Total Profits



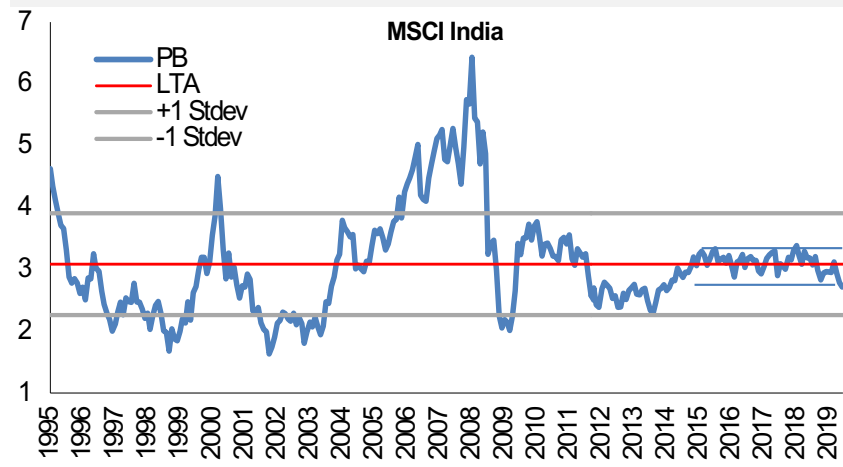
Source: Company data, Capitaline, Morgan Stanley Research.

Valuations

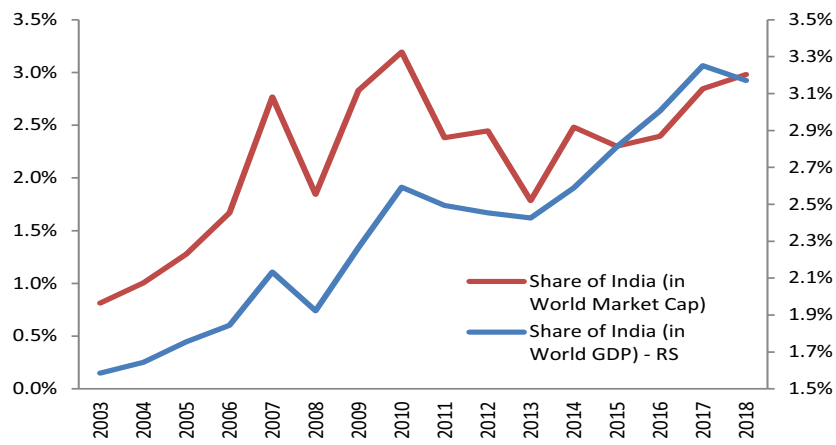
Average Predicted Performance by All Valuation Tools



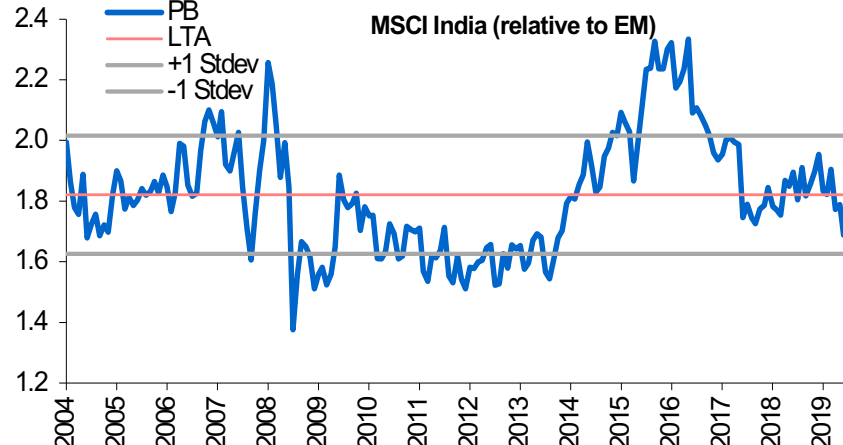
Absolute P/B



Share of India in World Market Cap & GDP



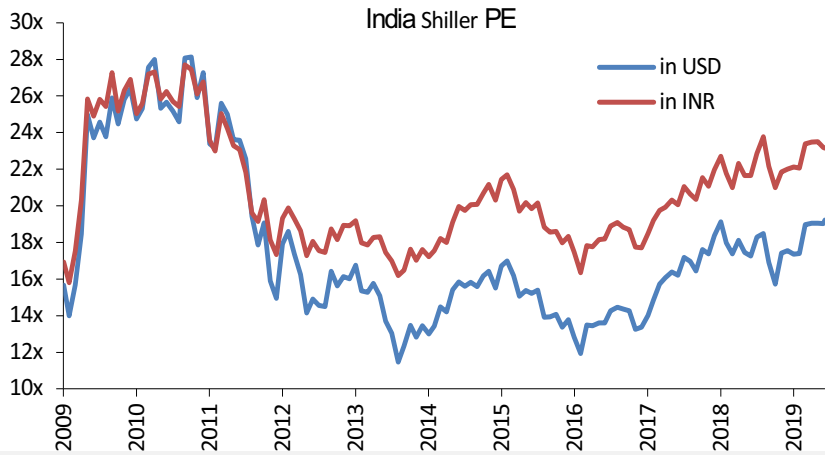
MSCI India P/B Relative to MSCI EM



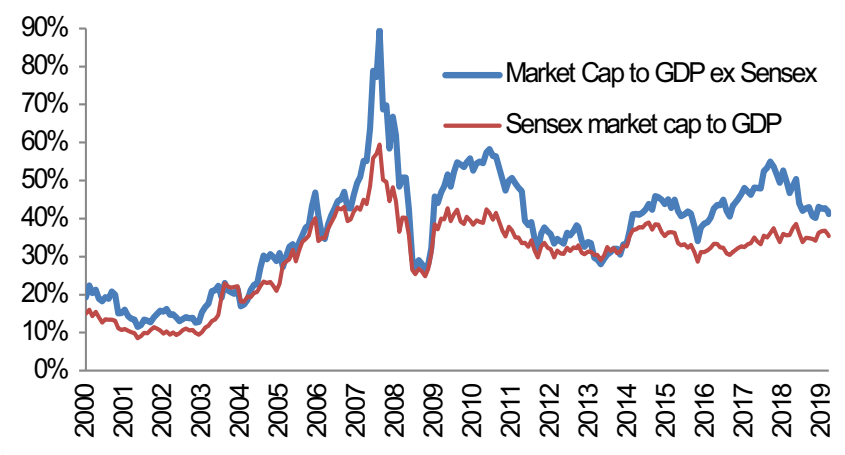
Source: RIMES, MSCI, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research; IMF, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research.

Valuations

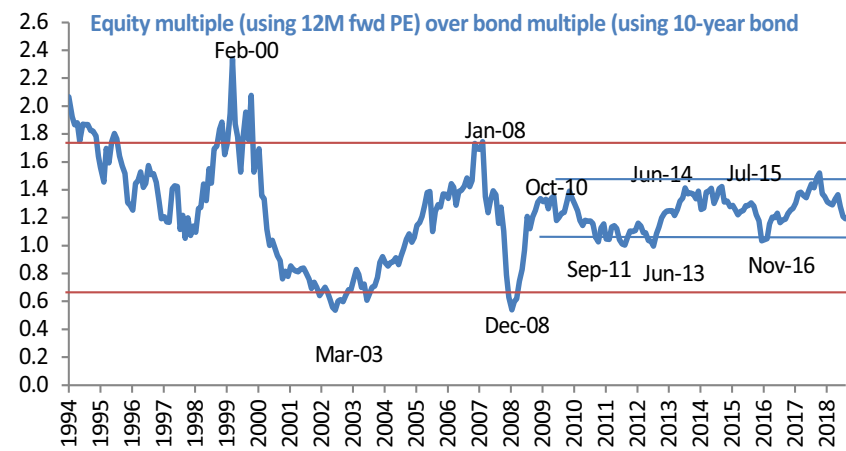
Cyclically Adjusted P/E



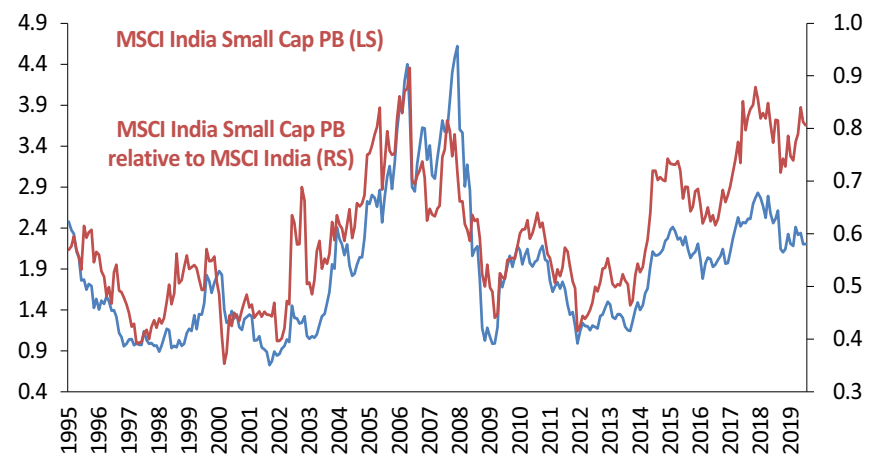
Market Cap to GDP



Equity vs. Bond Multiple



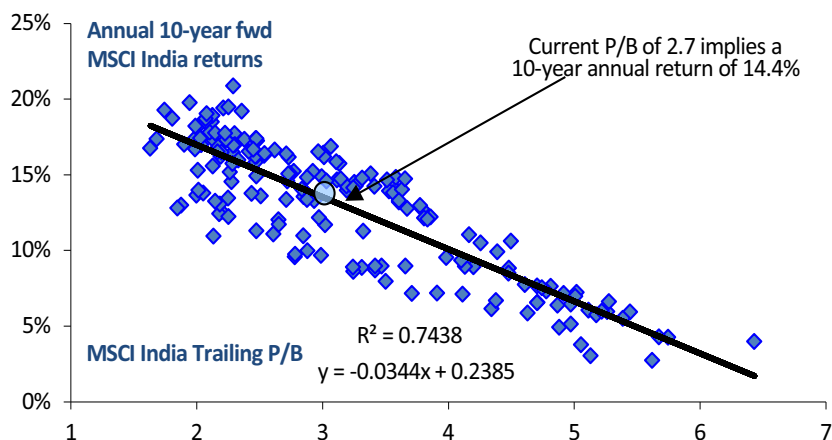
Small Cap Price to Book



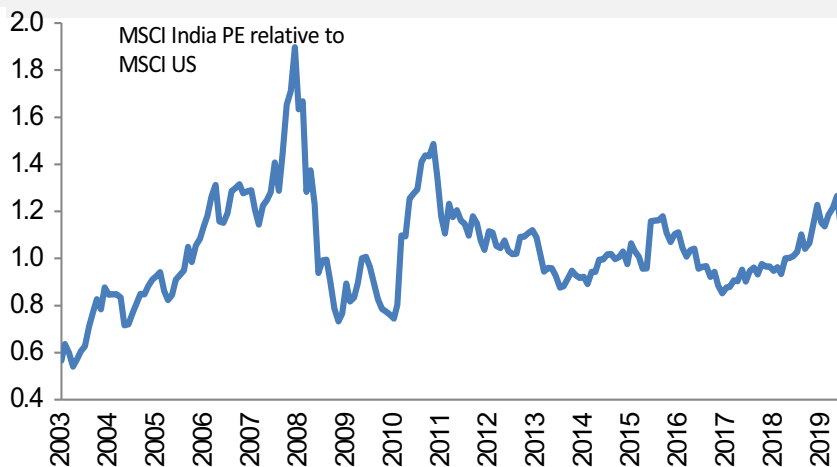
Source: RIMES, MSCI, Morgan Stanley Research; BSE, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Bloomberg, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research.

Valuations

P/B Forecasting 10-year CAGR of 14.4% in Returns

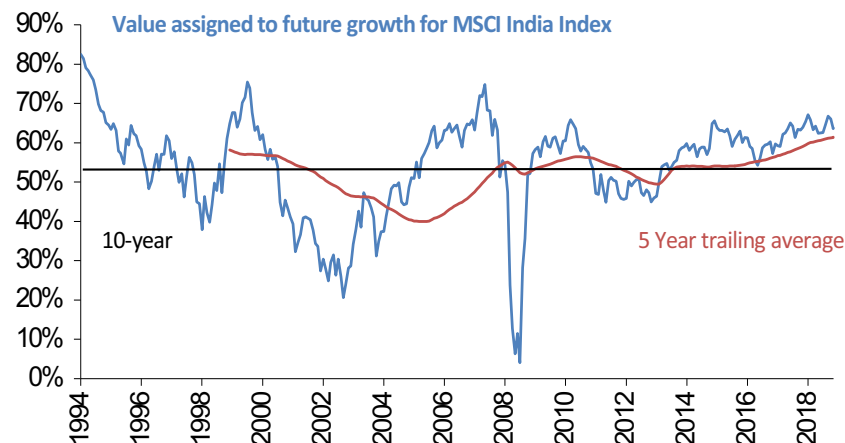


MSCI India P/E Relative to MSCI US



Source: RIMES, MSCI, Morgan Stanley Research.

Value Assigned to Future Growth

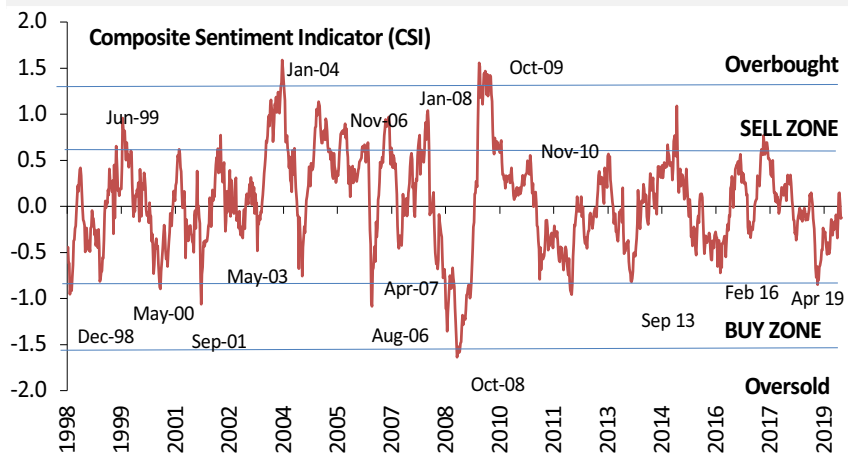


Valuation Summary

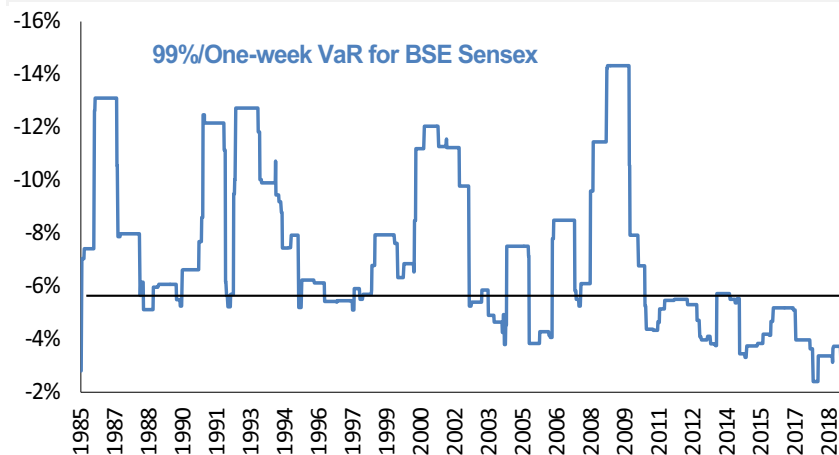
	Current	Average	z-score	%ile of current reading
MSCI India				
Trailing PE	24.2	18.3	1.3	95%
12M Fwd PE	17.6	14.5	1.0	92%
Trailing PB	2.7	3.1	-0.4	57%
Dividend Yield	1.4%	1.4%	-0.1	26%
VAFG	64%	54%	0.8	88%
Modified EY Gap	-1.8%	-1.6%	-0.1	47%
EY Gap	-2.7%	-1.9%	-0.5	41%
MSCI India Relative to EM				
Trailing PE	1.8	1.2	1.7	99%
12M Fwd PE	1.4	1.2	0.7	93%
Trailing PB	1.7	1.7	-0.2	80%
Dividend Yield	0.5	0.6	-0.6	24%

Sentiment

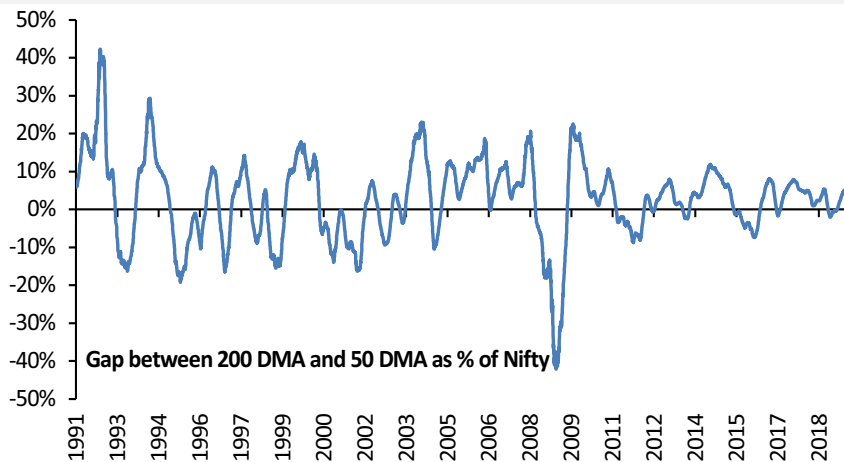
Proprietary Sentiment Indicator



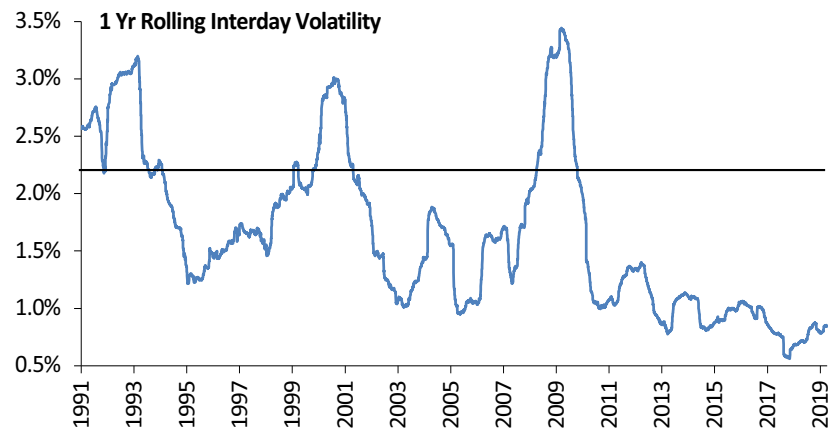
Value-at-Risk for BSE Index



GAP between 200 DMA and 50 DMA



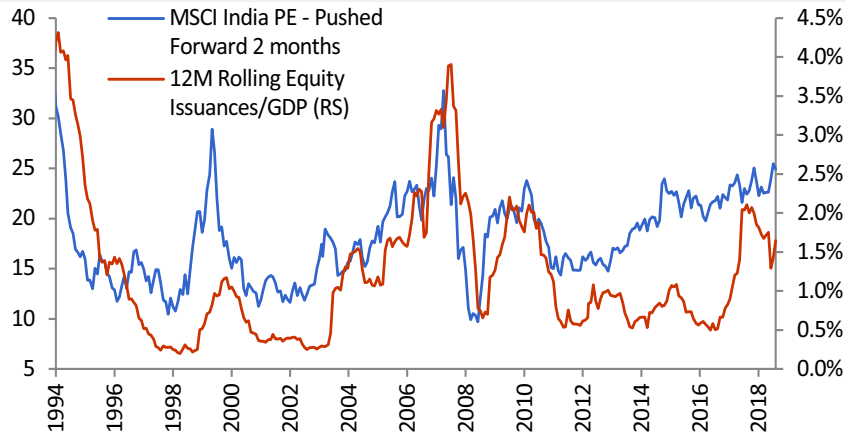
Realized Inter-day Volatility



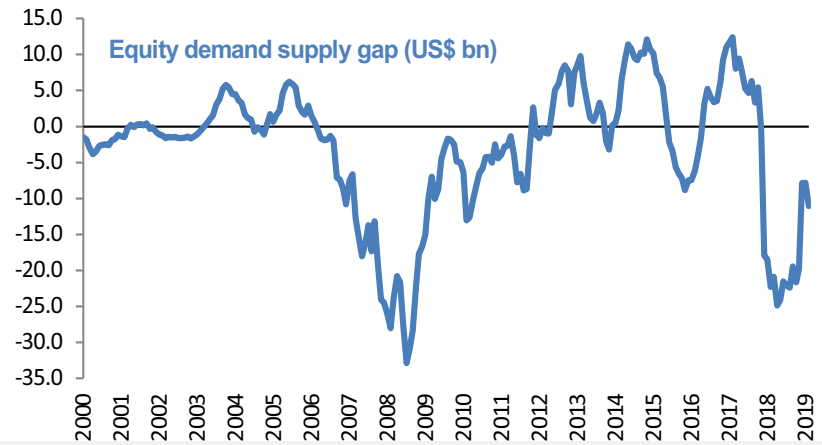
Source: RIMES, Bloomberg, ASA, BSE, NSE, CDSL, Morgan Stanley Research; RIMES, Morgan Stanley Research; NSE, Morgan Stanley Research; Bloomberg, Morgan Stanley Research;

Sentiment

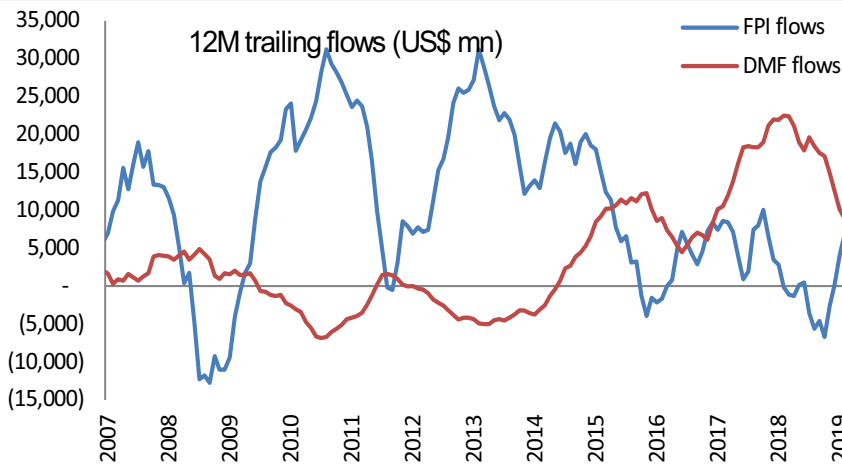
Equity Capital Raising vs. Valuations



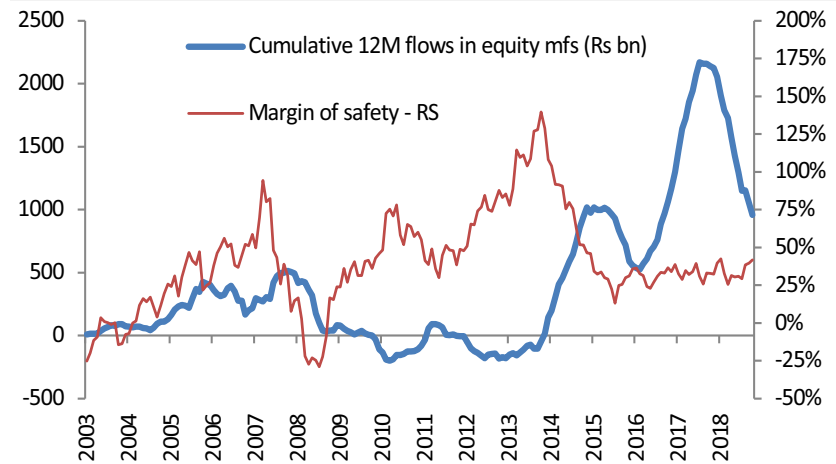
Net Equity Demand-supply



Flows: Foreign Portfolios vs. Domestic Mutual Funds



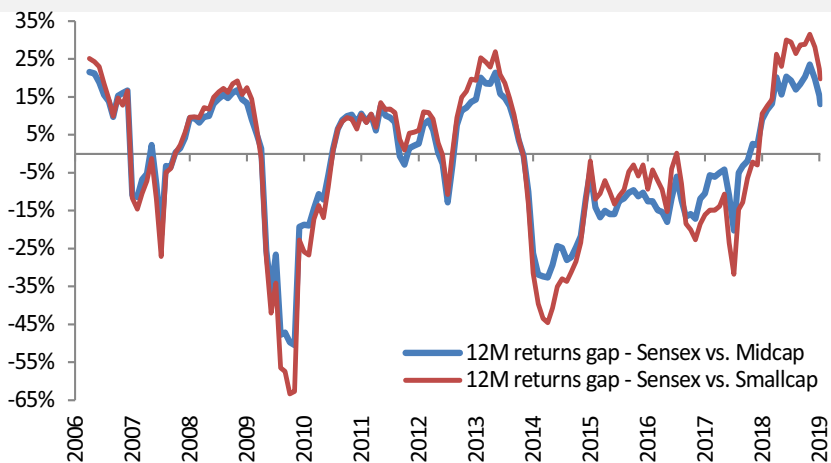
Margin of Safety for Equity Mutual Fund Investors



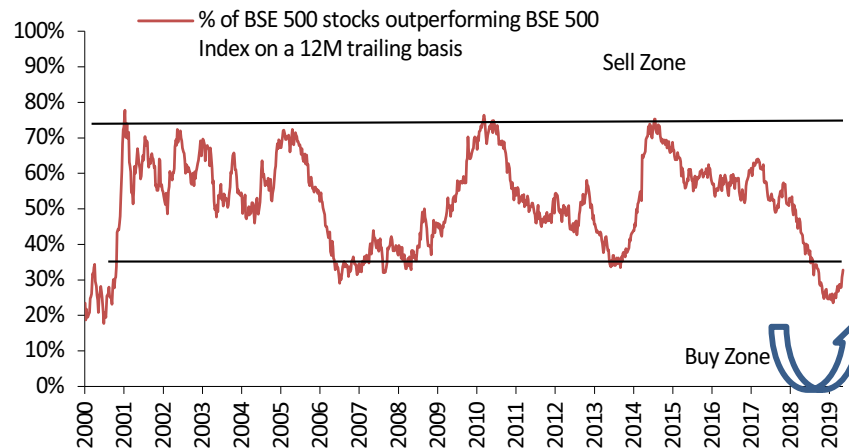
Source: Capitaline, CMIE, Morgan Stanley Research; Capitaline, CMIE, Morgan Stanley Research; NSDL, CDSL, SEBI, Morgan Stanley Research; AMFI, Morgan Stanley Research.

Sentiment

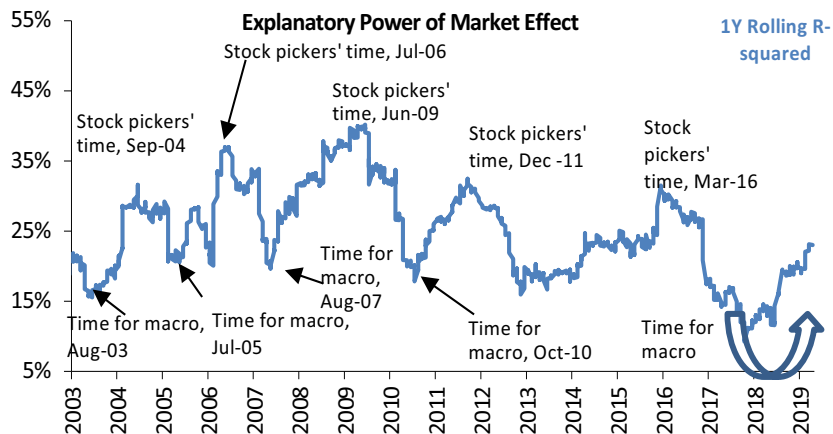
Relative Perf. of Large caps to Small caps



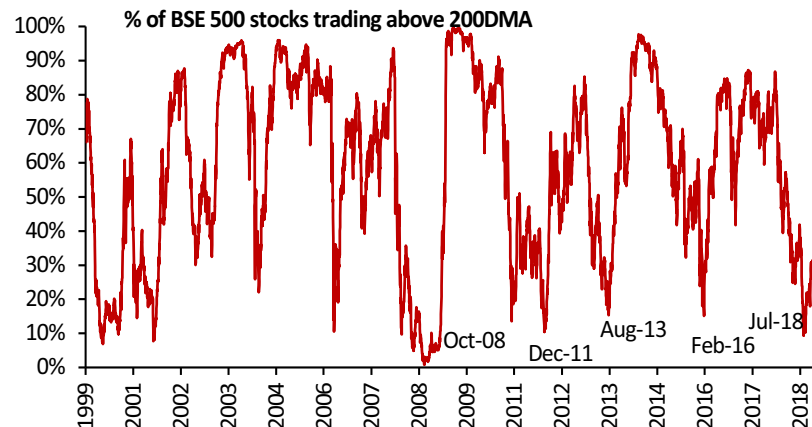
Weekly Market Breadth



Correlation across Stocks



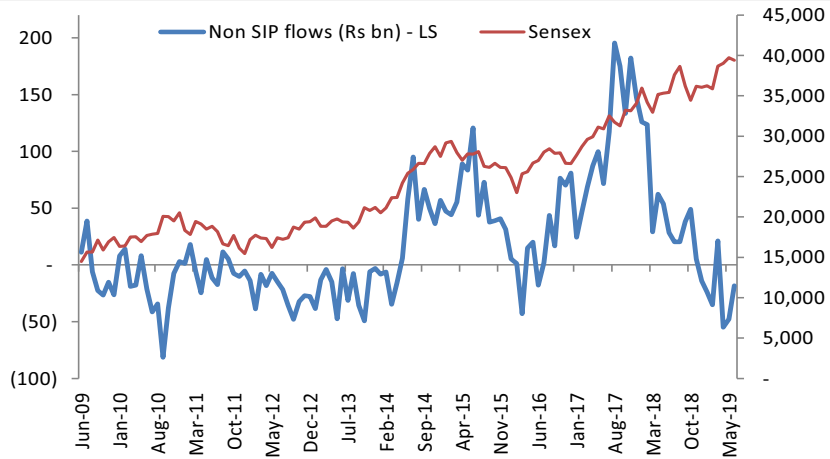
Daily Market breadth



Source: Bloomberg, Morgan Stanley Research; RIMES, BSE, Morgan Stanley Research; RIMES, BSE, Morgan Stanley Research; RIMES, BSE, Morgan Stanley Research.

Sentiment

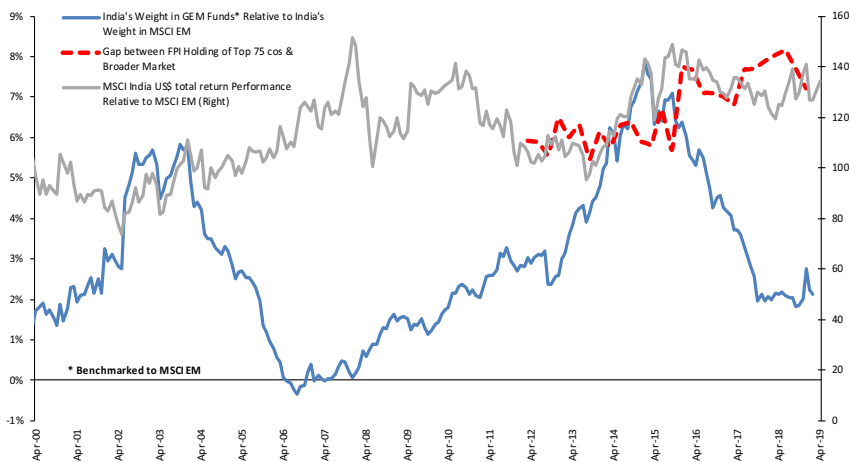
Non-Systematic Domestic equity flows



Ownership Status (Quarter Ended Mar-19)

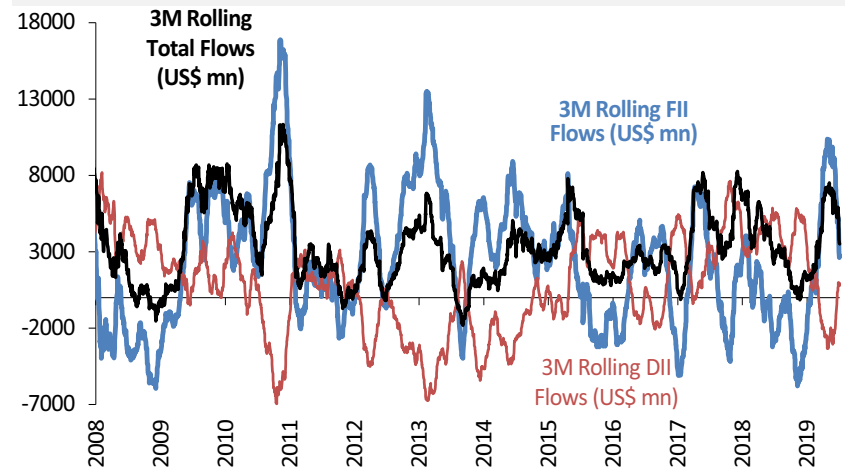
Overall Institutional sector positions	FPIs	DFIs	DMFs	Total Inst.	MSCI Weight	Total Institutional Position over MSCI weight	QoQ Change	YoY ^ in Tot Inst. Position
Cons Disc	7%	8%	5%	7%	9.1%	-2.4%	0.0%	0.0%
Cons Staples	7%	16%	11%	9%	10.2%	-0.8%	0.6%	-1.2%
Energy	11%	19%	11%	13%	15.1%	-2.5%	0.1%	-1.0%
Financials	44%	19%	39%	39%	24.8%	14.0%	0.1%	1.6%
Healthcare	2%	3%	3%	2%	5.3%	-2.8%	0.0%	0.2%
Industrials	4%	9%	6%	5%	4.1%	0.9%	-0.2%	1.5%
Materials	5%	7%	6%	6%	8.4%	-2.5%	-0.1%	0.0%
Technology	15%	13%	11%	14%	17.3%	-3.5%	-0.3%	0.4%
Comm. Services	2%	1%	2%	2%	2.7%	-0.6%	0.1%	-0.6%
Utilities	3%	5%	5%	3%	3.1%	0.4%	-0.3%	-1.0%

India's Position in EM Portfolios



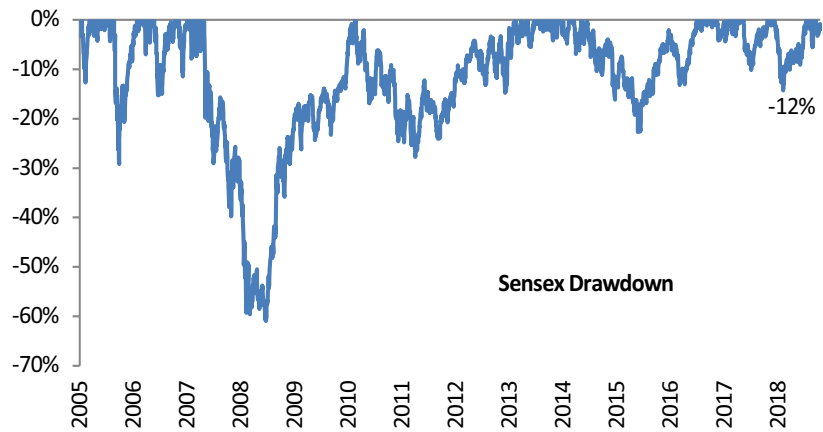
Source: AMFI, Morgan Stanley Research; BSE, Morgan Stanley Research; EPFR, Morgan Stanley Research; NSDL, CDSL, BSE, SEBI, Morgan Stanley Research.

Aggregate Institutional Flows

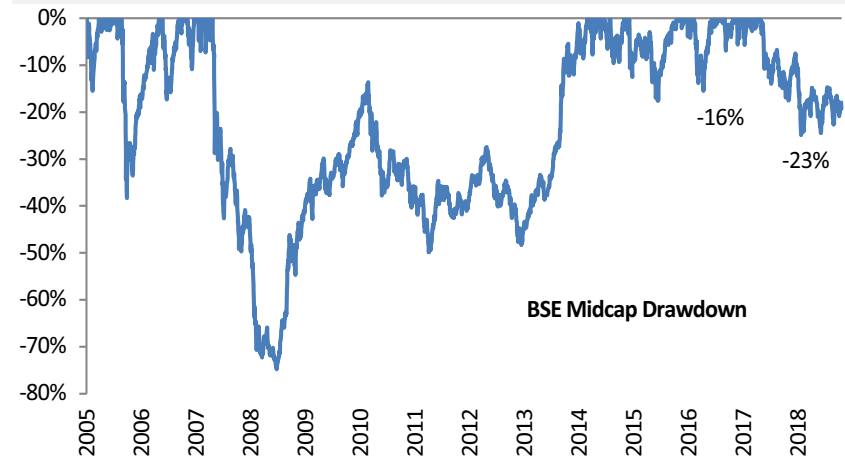


Sentiment

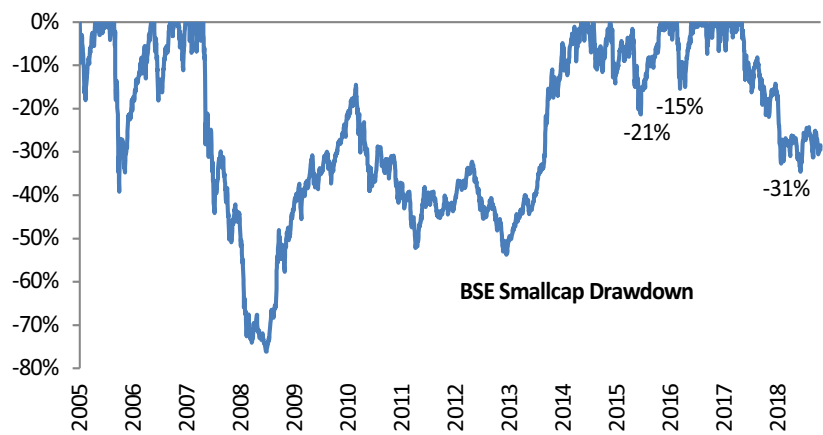
Sensex Drawdown



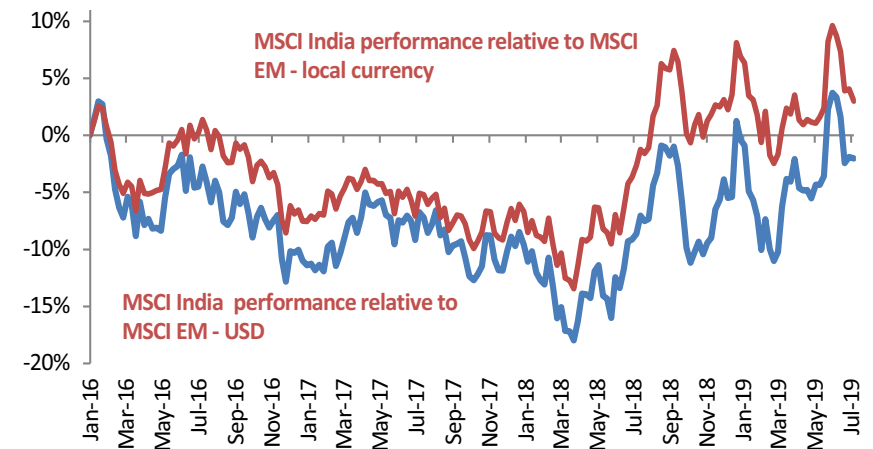
Midcap Drawdown



Small-cap Drawdown



India vs. EM relative perf.



Source: Bloomberg, Morgan Stanley Research; RIMES, MSCI, Morgan Stanley Research.

Sector Data

Sector Fundamentals

MSCI Sectors	F19 ROE	1Y Fwd Change in ROE	ROE as SD from Avg	F18 Net D/E	F18 FCF/Sales	Trailing 5Y CAGR in EPS	F19 EPS growth	6M Revision in F19 EPS growth	F20 EPS growth	1M Revision in F20 EPS growth	6M Revision in F20 EPS growth
Consumer Disc.	15.5%	2.3%	(1.1)	0.3	5.5%	-0.1%	-23.6%	-15.6%	26.3%	-1.2%	-14.1%
Consumer Staples	28.4%	0.4%	(1.0)	-0.2	15.0%	7.1%	15.3%	-0.9%	14.0%	-0.8%	-5.2%
Energy	14.6%	0.1%	(0.8)	0.4	2.4%	6.9%	12.0%	-3.1%	8.5%	-0.1%	1.3%
Financials	13.4%	6.8%	(2.1)		6.5%	-4.0%	5.1%	-9.9%	86.7%	1.6%	-73.3%
Health Care	12.1%	1.0%	(1.7)	0.4	12.7%	10.4%	11.5%	-1.9%	20.9%	-1.4%	-56.0%
Industrials	16.6%	1.3%	(0.1)	0.6	6.1%	14.1%	-0.7%	1.4%	26.0%	-0.3%	-1.9%
Technology	25.4%	-1.7%	0.1	-0.4	17.5%	10.8%	14.7%	-1.2%	8.0%	-0.2%	-8.9%
Materials	11.9%	-0.8%	(0.4)	0.7	8.8%	20.3%	14.3%	-10.0%	6.5%	-1.3%	26.7%
Comm. Services	-6.5%	0.6%	(1.4)	1.2	3.3%	18.9%	NM	NM	NM	NM	NM
Utilities	12.8%	0.1%	(0.1)	1.3	19.7%	3.4%	7.9%	-5.4%	13.6%	-1.9%	2.1%

Sector Valuations

MSCI Sectors	Trailing PE	PE as SD from Avg	Trailing PB	PB as SD from Avg	Div Yield	Div Yield as SD from Avg	LT Implied EPS Growth	LT Implied Div Growth	Value Assigned to Future Growth
Consumer Disc.	37.0	3.2	3.0	(0.3)	1.0%	-0.8	16.7%	14.3%	78.0%
Consumer Staples	43.8	1.0	12.5	0.4	1.2%	-0.7	17.7%	12.4%	79.2%
Energy	13.5	0.2	1.8	(0.5)	1.8%	-0.2	-3.3%	8.1%	45.9%
Financials	27.2	1.1	2.8	0.5	0.8%	-1.0	-11.5%	17.9%	67.8%
Health Care	25.4	(0.5)	2.5	(1.8)	0.7%	-0.5	8.7%	19.7%	59.3%
Industrials	26.8	0.7	4.0	0.3	1.0%	-0.6	5.9%	14.6%	66.3%
Technology	20.3	(0.4)	5.1	(0.3)	1.8%	1.1	3.1%	8.6%	50.6%
Materials	16.6	0.3	1.9	(0.2)	1.9%	0.4	5.4%	7.6%	48.1%
Comm. Services	120.1	2.6	1.2	(0.7)	1.6%	0.0	NM	9.9%	91.5%
Utilities	11.1	(0.4)	1.5	(0.3)	3.6%	1.8	8.3%	1.0%	13.0%

Sector Market Dynamics

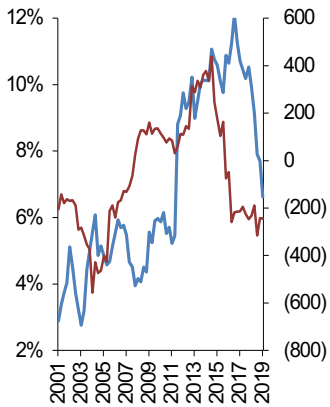
MSCI Sectors	Abs 3M perf	Abs 12M perf	Abs YTD perf	5 Year CAGR Perf	200DMA Deviation	12M Beta	3M Change in 12M Beta	Institutional Ownership	Sell Side Reco	3M change in Sell Side Reco
Consumer Disc.	-9%	-27%	-33%	-1%	-11%	1.2	0.03	71%	52%	-2%
Consumer Staples	1%	0%	13%	13%	0%	0.9	0.00	58%	49%	3%
Energy	-4%	17%	14%	9%	14%	1.5	-0.03	73%	53%	-4%
Financials	3%	17%	19%	12%	10%	1.0	0.10	82%	56%	-6%
Health Care	-16%	-17%	-20%	-4%	-1%	0.6	-0.19	70%	39%	2%
Industrials	6%	11%	6%	5%	5%	0.9	0.00	66%	61%	4%
Technology	-3%	13%	35%	9%	5%	0.7	-0.02	84%	38%	-15%
Materials	-4%	0%	-13%	4%	2%	1.0	-0.10	65%	50%	-3%
Comm. Services	-4%	-18%	-45%	-10%	-6%	0.6	0.01	91%	39%	-10%
Utilities	-4%	0%	-15%	-1%	4%	0.8	-0.03	85%	41%	-2%

Source: RIMES, MSCI, Bloomberg, Morgan Stanley Research.

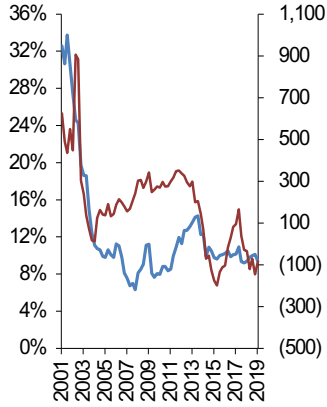
Sector Data

Total Institutional Sector Positions – Absolute and Relative over Time

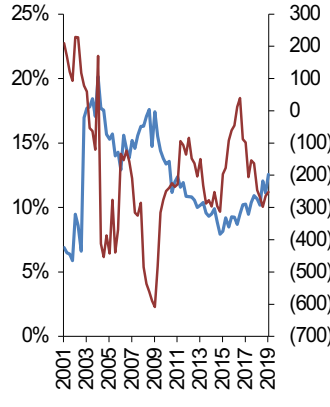
Consumer Disc.



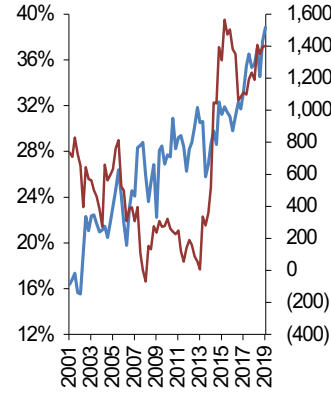
Consumer Staples



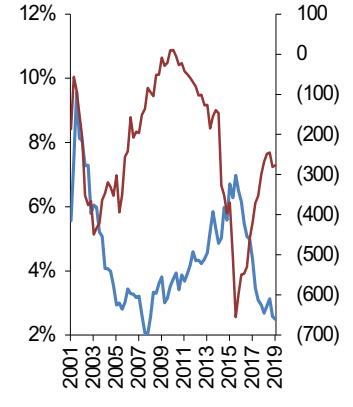
Energy



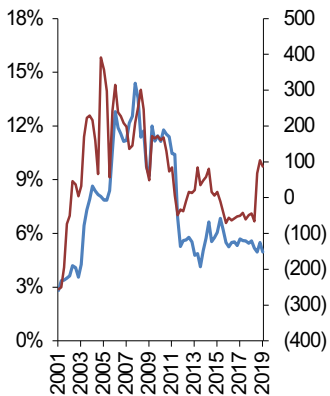
Financials



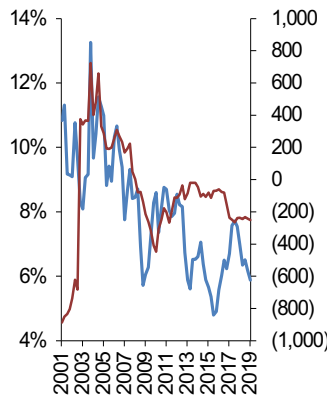
Healthcare



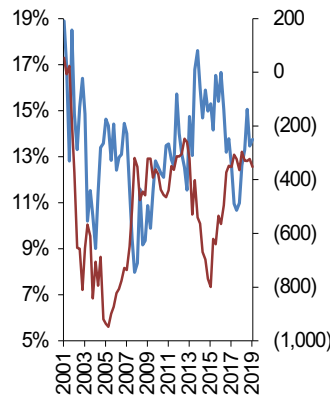
Industrials



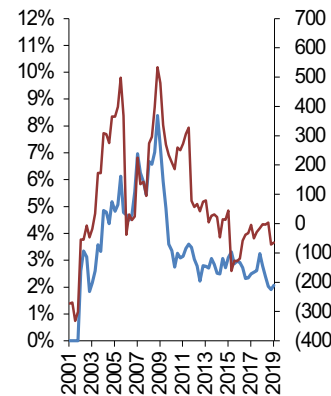
Materials



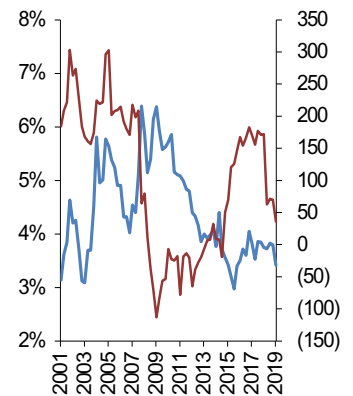
Technology



Comm Services



Utilities



Source: Company data, BSE, MSCI, RIMES, Morgan Stanley Research

Dark blue Line – Weight in the average Institutional portfolio (domestic + foreign) using our sample of 75 companies – LS

Light red line – Relative Position to MSCI Sector weight (above/below benchmark in bps) – RS

Disclosure Section

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1110	36%	282	42%	25%	515	37%
Equal-weight/Hold	1404	45%	312	47%	22%	656	47%
Not-Rated/Hold	13	0%	2	0%	15%	2	0%
Underweight/Sell	581	19%	73	11%	13%	229	16%
TOTAL	3,108		669			1402	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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