Morgan Stanley

MORGAN STANLEY RESEARCH
ASIA/PACIFIC

Morgan Stanley India Company Private Limited+

Ridham Desai
Ridham.Desai@morganstanley.com
+91 22 2209 7790

Sheela Rathi
Sheela.Rathi@morganstanley.com
+91 22 2209 7730

July 7, 2009

India Strategy

A Realistic Budget: Now Look Forward to Execution

Investment conclusion: The budget has disappointed the market. The key reason may be that the market was expecting a road map on wide-ranging reforms, including the oil sector, divestments, fiscal consolidation, insurance, FDI, and infrastructure. Notwithstanding the market's reaction, we think the big picture out of the budget looks more positive than negative (see Exhibit 1). Three key points:

1) The fiscal stimulus, through a combination of tax cuts and spending, will assist growth recovery. Apart from small MAT-related negative earnings revisions, it is quite likely that earnings revisions will stay positive in the months ahead. 2) The Finance Minister has embarked on a tax reform agenda that includes simplification and reduction of tax rates. There is little fine print on taxes and a move away from the "incremental" changes in tax rates of recent years. FBT, CTT, and surcharges on personal tax have been removed. 3) The budget seems realistic and thus there may be upside to numbers. Aside from using 6.5% real growth in GDP as a basis for computing revenues, the Finance Minister has not committed to divestment targets. Divestment proceeds, if any, will fund the National Investment Fund and not finance the fiscal deficit. In our view, the market is disappointed because it was looking for a budget with several significant announcements, but the Finance Minister seems more focused on delivery. To that extent, this may prove to be the first step in the right direction for India's medium-term growth story.

Trades from the budget: We continue to back consumption sectors with cyclical consumption (especially autos – Maruti (Rs1,035) and M&M (Rs710) are key picks) being an area of focus. Our concern with industrials (including infrastructure stocks) has been valuations. We are neutral on the sector and hope that there will be a further correction in valuations. Financials, especially large-cap banks (ICICI (Rs678) and SBI (Rs1,655)) will likely take a back seat given that long bond yields may be sticky in response to a higher fiscal deficit.

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision. Customers of Morgan Stanley in the US can receive independent, third-party research on companies covered in Morgan Stanley Research, at no cost to them, where such research is available. Customers can access this independent research at www.morganstanley.com/equityresearch or can call 1-800-624-2063 to request a copy of this research.

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

+= Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Exhibit 1

Key Announcements in the Budget

Taxes	Impact
Structural changes in direct taxes to be pursued. A New Direct Taxes Code to be put up for debate within the next 45 days	**Positive**: Should improve compliance and also be positive for corporate earnings in the long run
Introduction of the Goods and Services Tax (GST) with effect from 1 April, 2010. GST Model envisages dual GST comprising of a Central GST and a State GST.	**Positive:** Again a long-term positive for both the economy and corporate earnings
No change to corporate tax rate. Minimum alternate tax (MAT) increased from 10% to 15%	**Negative:** Higher taxes for companies who pay MAT. Earnings will be revised down by around 1% for the market. However, the growth stimulus from the budget will ultimately take earnings higher
Businesses to be incentivized by providing investment-linked tax exemptions rather than profit-linked exemptions. Cold chain, warehousing facilities for storing agricultural produce, and the business of laying and operating cross-country natural gas or crude or petroleum oil pipeline network for distribution will be the first ones eligible.	**Positive:** The next investment cycle in the private sector will benefit from this change
Sunset clauses for deduction in respect of export profits under sections 10A and 10B of the Income-tax Act being extended by one more year (i.e., for the financial year 2010-11)	**Positive:** Export companies (software services included) will benefit in the next fiscal year. Earnings for large software companies will likely be revised by 2-3%
Fringe Benefit Tax (FBT) abolished	**Positive:** A positive move toward simplification of taxes as well improve earnings
Abolition of the surcharge of 10% on personal income-tax	**Positive:** Boost for high-end consumption. Focus on car companies
Commodity Transaction Tax (CTT) to be abolished.	**Positive:** Simplification of tax code
Donations to electoral trusts to be allowed as a 100% deduction in the computation of the income of the donor.	**Positive:** Greater transparency
Excise duty rate on items currently attracting 4% to be raised to 8% with a few major exceptions	**Positive:** Rationalization of tax regime
Divestments & Fiscal Deficit	**Impact**
The finance minister plans to raise, in a phased manner, the threshold for non-promoter public shareholding for all listed companies.	**Positive:** Good for stock market liquidity. Higher institutional and retail ownership should improve prospects of companies in the capital market business
The FM intends to return to the FRBM target for fiscal deficit at the earliest. On the medium-term fiscal perspective, the finance ministry awaits the recommendations of the 13th Finance	**Positive:** Fiscal consolidation will likely happen in the coming three years, ultimately leading to lower interest rates and higher growth
Infrastructure Spending	**Impact**
Infrastructure finance company (IIFCL) would evolve (in consultation with banks) "takeout financing" scheme. IIFCL and banks in a position to support projects involving total investment of Rs1 trillion.	**Neutral:** Measures on infrastructure fall short of expectations
Increased outlay on Highways and Railways, Urban Infrastructure, Power and facilitate setting up of National Gas Grid	**Positive:** Execution is key
Social Agenda	**Impact**
Government intends to move toward a nutrient-based subsidy regime for the fertilizer sector	**Positive:** This could improve the productivity of agri land in the medium term
Loan repayments extended due to delay in monsoons	**Negative:** Higher fiscal costs
Government to set up an expert group to advice on a viable and sustainable system of pricing petroleum products.	**Positive:** Will likely help fiscal deficit in the long run and also improve transparency
Food Security Bill to be put on the website of the Department of Food and Public Distribution for public debate	**Neutral:** First attempt at building a social security net. However, execution and implementation are key for the benefits to accrue

Source: Budget documents Morgan Stanley Research

Exhibit 2

Sector Related Budget Announcements with Impact on Sectors

Sector	Budget Announcement	Impact
Agriculture	MIS direct subsidy maintained at Rs4.3bn	Negative for Jain Irrigation (Rs658); unlikely to curtail MIS growth but lack of incremental government focus is a cause of concern
Agriculture	Interest subvention scheme for short-term crop loan to be continued. Providing incentive to farmers to make early repayment	Increases farm incomes; positive for agri input companies
Agriculture	Debt Waiver Scheme extended to 31 December 2009. Taskforce to be set up to examine the issue of debt taken by a large number of farmers in some regions of Maharashtra from private money lenders who were not covered by the loan waiver scheme	Increases farm incomes; positive for agri input companies
Agriculture	Allocation under Accelerated Irrigation Benefit Programme (AIBP) increased by 75% over B.E. 2008-09.	Positive for Jain Irrigation as part of this allocation can be channelized for MIS
Agriculture	Allocation under Rashtriya Krishi Vikas Yojana (RKVY) stepped up by 30% in B.E. 2009-10 over B.E. 2008-09.	Positive for Jain Irrigation as part of this allocation can be channelized for MIS
Agriculture	Government intends to move toward a nutrient-based subsidy regime so as to cover larger basket of fertilizers with innovative fertilizer products available in the market at reasonable prices.	Neutral for fertilizer companies. Intent is positive but lack of incremental reform roadmap is an area of concern
Autos	Utility Vehicles: Specific Component of Excise Duty on Utility vehicles 2000 CC or more brought down to Rs15,000 per vehicle from the earlier Rs20,000 per vehicle	No impact: UV prices go down by marginal 1%.
Autos	Petrol-driven Trucks: Reduction of Excise Duty from 20% to 8% to align them with Diesel driven trucks	No impacts as all trucks are on diesel.
Autos	JNNURM: Allocation Stepped up to Rs129bn with close to 39% (Rs50bn) being allocated to the purchase of buses by State Governments	Marginally positive: In the Fiscal Stimulus Package in January, the government allocated Rs50bn to transportation and some 15,000 bus orders were expected. As of now, 9,500 buses have been ordered with Tata Motors (Rs284) and Ashok Leyland (Rs29) having similar share. Increased allocation is positive but the initial allocated amount is yet to be used fully and further we are not sure as to what extent will the increased allocation will go to transport segment.
Cement	Service Tax Levied on Transport of Goods (both raw material and finished goods) by Rail	This is eligible for Modvat Credit; hence no impact on companies
Construction & Infrastructure	Excise duty exemption on goods manufactured at site	Goods manufactured at construction site are a miniscule portion of the total materials consumed. Hence, the exemption will make very marginally reduce the excise duty liability of construction companies
Construction & Infrastructure	Abolishing Fringe Benefit Tax	The FBT abolition will add 0.8-2.2% to the bottom-line of construction & infrastructure companies
Construction & Infrastructure	Greater flexibility to IIFCL	Marginal positive for infrastructure developers like GMR (Rs133), JPA (Rs193), and L&T (Rs1,464) - though this will eased the availability of funds and help projects achieve financial closure; we believe equity financing is more of the bottleneck currently

Source: Budget documents Morgan Stanley Research

Exhibit 2

Sector Related Budget Announcements with Impact on Sectors (Continued)

Sector	Budget Announcement	Impact
Construction & Infrastructure	Increase in Minimum Alternate Tax (MAT) from 10% to 15%	The increase in tax rate would translate in to the companies having to incur a higher tax liability affecting the project IRRs. While power, port, airport projects would be more protected due to clauses in the agreements as well as their long duration, we believe that road projects might be hit to the extent of around 3% of NPV
Consumer	No Increase in excise duty on cigarettes	Positive impact on ITC. Following the increase in VAT rate from 12.5% to 20% by Congress-led state governments such as Delhi and Maharashtra, the market was expecting a relatively harsh union budget for cigarettes. No increase in excise duty on cigarettes is the best outcome for ITC (Rs198).
Consumer	No Increase in excise duty on most FMCG products	Subsequent to the two fiscal stimuli given by the government last year, excise duty rates for FMCG products had dropped to 8%. The market was expecting some rollback in these fiscal stimuli. However, the FM continued its thrust on driving consumption by maintaining excise duty at 8% for most FMCG products
Consumer	Abolishing FBT	Overall impact on earnings is likely to be around 1% positive. FMCG companies paid an FBT of 0.2% to 1.5% of PBT in F2009. HUL (Rs278), Dabur (Rs129) Marico (Rs71), Nestle (Rs1,933), Colgate (Rs609) paid over 1% of PBT whereas ITC, GCPL and Tata Tea paid 0.5% and below of PBT as FBT.
Consumer	Increase in MAT rate	GCPL (Rs163) and Dabur (Rs129) are under MAT for the domestic business. We expect the blended income tax rate to increase by around 500bp per se for GCPL and Dabur.
Consumer	Rural sops - the FM continues to push its social agenda in the rural sector.1) Real wage of Rs100/day under NREG and NREG scheme - Rs390bn allocation for F2010 (vs. Rs300bn announced in interim budget and Rs160bn in F2009). 2) Incentive to farmers to make early repayment and loan repayments extended by six months due to delay in monsoons.	Rural growth has been one of the key growth drivers for FMCG in the recent past. We believe that these sops are likely to help in keeping the rural growth momentum alive for FMCGs.
Consumer	Other changes in excise duties: Concessional excise duty on biscuits and sherbats maintained at 4%, on toothbrushes raised from 4% to 8%	No change in excise duties on biscuits positive for ITC and Britannia (Rs1583). Increase in excise duties for toothbrushes negative for Colgate
Education	Maintained outlay for school education	Neutral for listed stocks catering to government schools
Education	Increased outlay for higher education	No impact of listed stocks
Financials	No FDI increase in insurance.	Negative for banks/institutions having insurance arms.
Hotels	Increase in outlay for Commonwealth Games	No direct impact but could be positive for the overall tourism sector
Internet	Employment exchanges with public private partnerships to help job seekers register online	Details of implementation and public private partnership are awaited. In the bull case: Would expand the market for online job aspirants. In the bear case: Government entry into the online job market could create a formidable competitor for online players like Naukri.com
IT Services	Extension of STPI	Positive for small and mid caps. EPS revision of 2-3% for Infosys (Rs1,760), TCS (Rs382); 5-8% for other stocks on MS estimates for F2011e
IT Services	Removal of FBT	Marginally positive for IT companies. Even though FBT accounted for 0.2-0.3% of revenues, overheads involved in managing it were high maintenance

Source: Budget documents Morgan Stanley Research

Exhibit 2

Sector Related Budget Announcements with Impact on Sectors (Continued)

Sector	Budget Announcement	Impact
IT Services	Increase in MAT to 15%; duration for credit entitlement raised to 10y ears	Has no EPS impact but could negatively affect cash flows due to 5% higher MAT payout.
IT Services	Removal of Surcharge on Personal tax	Lowers need to raise salaries giving more room to cut variable pay if needed. Slightly positive for margins
IT Services	Correction of section 10AA(7)	Reduces uncertainty over taxation norms for SEZs and grants complete tax exemption to SEZ profits
IT Services	Removal of excise duty for packaged software	No material impact on listed players in our coverage universe.
Media	(1) 5% import duty imposed on set top boxes, (2) Removal of FBT, (3)Waiver of 15% agency commission and 10% higher rate on government advts has been extended by six months for print media	(1) Negative for TV channel distribution companies, mildly negative for broadcasters like ZEEL (Rs171). (2) FBT removal is a positive for the sector. (3) Positive for print media companies
Metals and mining	No duty change, MAT increased from 10% from 15%	JSPL's (Rs2493) earnings can fall by 2-3% since its power division is a MAT paying company. Some other companies like Hindalco (Rs78) and Sterlite (Rs580) may have also have negative impact of MAT, but at a much smaller scale.
Oil and Gas	1) New committee to be formed to relook petroleum pricing for controlled products. Oil subsidy accounted in the budget for F2010 is Rs31bn. Oil bond for Rs103bn is provisionally accounted for downstream companies for F2010. 2) The corporate Minimum Alternate Tax (MAT) has increased from 10% to 15%. The overall tax rate after surcharge increases from 11.33% to 17%. 3) Tax holiday under section 80-IB(9) of the Income Tax Act has been given to all natural gas blocks that would be awarded under NELP VIII and start producing after 1 April 2009. The finance bill does not give clarity on tax holiday from blocks awarded in NELP 1 to NELP VII rounds. The tax holiday would be given on a block-wise basis and not on a single well basis. 4) Private refineries to get tax holiday if they start before April 2012. 5) Excise Duty: a) Duty paid High Speed Diesel blended with up to 20% bio-diesel has been fully exempted from excise duties. b) The ad valorem component of excise duty of 6% on branded petrol and diesel has been converted into a specific rate. Consequently, such petrol would now attract total excise duty of Rs14.50 per litre and diesel would have an excise duty of Rs4.75/lit. c) Excise duty on Naphtha has been reduced from 16% to 14%. D) Excise duty on man-made fibers, PTA, DMT, Polyester chips has been increased from 4% to 8%	Cairn and RIL's (Rs1,894) earnings which come under MAT will get impacted negative. Cairns earnings could be under pressure by 5-6%. RIL's earning could be under pressure by 2% -There is still no clarity on RIL's gas receiving tax holiday on gas since the fine print only mentions NELP VIII in this budget. No news for Oil PSUs - we await clarity on how the subsidy burden will be lowered
Pharmaceuticals	Abolishing FBT	Marginal benefit to all pharmaceutical companies. We estimate 1-3% impact on net profits.
Pharmaceuticals	MAT increased from 10% to 15%	Sun Pharma (Rs1127.20) get's marginally impacted, we estimate 2% impact on net profit.
Pharmaceuticals	Extension of Section 10B (EOU) by one year	Most Indian drug companies have some portion of exports derived from EOUs, so earnings will benefit for one year. Cipla (Rs260.05), Lupin (Rs823.55), Sun (Rs1,127.2), and Ranbaxy (Rs261.6) to benefit.
Pharmaceuticals	Custom duty drop from 10% to 5% for life saving drugs	Such drugs are less than 5% of overall sales, so little beneficial impact

Source: Budget documents Morgan Stanley Research

Exhibit 2

Sector Related Budget Announcements With Impact on Sectors (Continued)

Sector	Budget Announcement	Impact
Real Estate	Allocation to JNNURM and NHAI raised by 87% (to Rs129bn) and 23% versus F2009	Government's measures to bolster infrastructure should ensure greater availability of developable land for the property companies in the mid-longer term and also drive property demand
Real Estate	Abolition of FBT	Should lift the earnings by 1% for our coverage universe (incl DLF - Rs309.25, UT - Rs75.90, SDL - Rs224.25) and lower administrative burden
Real Estate	Removal of surcharge, increasing tax exemption limit by Rs10,000 in Personal Income Tax	Would assist domestic consumption
Retail	Removal of excise on branded jewellery (from 2% to 0%)	No impact on Titan (Rs1238). Titan branded its stores and not its jewelry and hence stopped paying excise tax on jewelry from F2009. However, Titan now has the flexibility to brand its jewelry without paying excise tax
Retail	Increase in import duty on gold bars from Rs100 to Rs200 per 10 gms	Negligible impact for Titan (Rs1238). Rs100 increase in import duty translates to around 0.7% increase in gold prices and less than 0.5% increase in Titan's gold jewelry prices for the end consumer. We believe that Titan will be able to easily pass on this increase in cost to the consumer with negligible impact on its volumes
Retail	Abolishing FBT	Titan (Rs1238) and PRIL (Rs303) get positive impact on earnings by 0.11% and 0.06%, respectively. PRIL and Titan paid over 1.5% of PBT.
Telecom	1) Minimum Alternate Tax (MAT) rate has been increased from 10% to 15%. 2) The Government has said bulk of Rs280bn (US$5.7bn) increase in non-tax revenue will be on account of 3G spectrum auction	1) Bharti (Rs783.60) earnings would lower by 4% for next 2-3 years due to increase in MAT. RCOM (Rs269.40) and Idea (Rs69.5) have carried-forward losses hence no tax and earnings impact in F2010; however F2011E onwards both companies' earnings would lower by 4% for the next 2-3 years. 2) Our estimate for 3G is US$5bn revenue for the government in F2010E assuming five operators @ US$1bn per operator. We expect another US$5bn in F2011E since spectrum availability in F2010 is limited.
Utilities	Increase in Minimum Alternate Tax (MAT) from 10% to 15%	This will not have any impact on regulated or competitive bid-based projects since tariffs will be re-worked using the new tax rate. There might be a marginal impact for merchant plants.
Utilities	Increase in outlay for the APDRP and RGGVY schemes	Increase opportunities for rural electrification and transmission projects - positive for Reliance Infrastructure, Tata Power (Rs1,102) and Lanco (Rs353)

Source: Budget documents Morgan Stanley Research

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H, regulated by the Monetary Authority of Singapore, which accepts the responsibility for its contents), and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Ridham Desai.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst, strategist, or research associate (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Ridham Desai - Hindustan Unilever (common stock), Infosys Technologies (common stock), ITC Ltd. (common stock), Nestle India (common stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

As of May 29, 2009, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: GCL-Poly Energy Holdings Limited, Hindustan Unilever, Infosys Technologies, Jaiprakash Associates Limited, Jindal Steel & Power, Ranbaxy Laboratories, Reliance Communications Ltd., Sterlite Industries (India) Limited, Tata Consultancy Services, Unitech Corporate Parks Plc.

As of June 30, 2009, Morgan Stanley held a net long or short position of US$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): Bharti Airtel Limited, Colgate-Palmolive India, Hindalco Industries, Hindustan Unilever, ICICI Bank, Mahindra & Mahindra, Nestle India, Parkson Retail Group Limited, Ranbaxy Laboratories, Reliance Communications Ltd., State Bank of India, Sterlite Industries (India) Limited, Tata Motors.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering of securities of Sobha Developers Ltd..

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from GCL-Poly Energy Holdings Limited, Nestle India, Sobha Developers Ltd..

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Britannia Industries, Cipla Ltd., DLF Limited, GCL-Poly Energy Holdings Limited, GMR Infrastructure Ltd., Hindalco Industries, ICICI Bank, Idea Cellular Ltd., Infosys Technologies, Jaiprakash Associates Limited, Jindal Steel & Power, LANCO Infratech Ltd, Larsen & Toubro, Lupin Ltd., Mahindra & Mahindra, Nestle India, Pantaloon Retail, Parkson Retail Group Limited, Ranbaxy Laboratories, Reliance Infrastructure Limited, State Bank of India, Sun Pharmaceutical Industries, Tata Consultancy Services, Tata Power Co, Tata Tea, Titan Industries Ltd.

Within the last 12 months, Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from Hindalco Industries, ICICI Bank, State Bank of India.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Britannia Industries, Cipla Ltd., DLF Limited, GCL-Poly Energy Holdings Limited, GMR Infrastructure Ltd., Hindalco Industries, ICICI Bank, Idea Cellular Ltd., Infosys Technologies, Jaiprakash Associates Limited, Jindal Steel & Power, LANCO Infratech Ltd, Larsen & Toubro, Lupin Ltd., Mahindra & Mahindra, Nestle India, Pantaloon Retail, Parkson Retail Group Limited, Ranbaxy Laboratories, Reliance Infrastructure Limited, Sobha Developers Ltd., State Bank of India, Sun Pharmaceutical Industries, Tata Consultancy Services, Tata Power Co, Tata Tea, Titan Industries Ltd.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: GCL-Poly Energy Holdings Limited, Hindalco Industries, ICICI Bank, Nestle India, State Bank of India, Sterlite Industries (India) Limited, Tata Power Co.

Within the last 12 months, Morgan Stanley has either provided or is providing non-securities related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: GCL-Poly Energy Holdings Limited.

Within the last 12 months, an affiliate of Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from GCL-Poly Energy Holdings Limited.

The research analysts, strategists, or research associates principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

An employee or director of Morgan Stanley is a director of GCL-Poly Energy Holdings Limited.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. 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.

Global Stock Ratings Distribution

(as of June 30, 2009)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**739**	**32%**	**235**	**38%**	**32%**
Equal-weight/Hold	**1022**	**45%**	**290**	**47%**	**28%**
Not-Rated/Hold	**31**	**1%**	**7**	**1%**	**23%**
Underweight/Sell	**485**	**21%**	**87**	**14%**	**18%**
Total	**2,277**		**619**		

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 or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

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.

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.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
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.
.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies that are the subject of this Morgan Stanley research report. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports. In addition to the disclosures on this research report and on the Morgan Stanley disclosure website (www.morganstanley.com/researchdisclosures), important disclosures regarding the relationship between the companies that are the subject of this report and Morgan Stanley Smith Barney LLC, Citigroup Global Markets Inc. or any of its affiliates, are available at https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

This Morgan Stanley research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley produces a research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in this or other research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities/instruments discussed in Morgan Stanley Research may not be suitable for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities or derivatives of securities of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities or derivatives of securities of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons

Morgan Stanley and its affiliate companies do business that relates to companies/instruments covered in Morgan Stanley Research, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis.

With the exception of information regarding Morgan Stanley, research prepared by Morgan Stanley Research personnel are based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Unless otherwise stated, the cover page provides the closing price on the primary exchange for the subject company's securities/instruments.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to “wholesale clients” and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at wholesale customers only, as defined by the DFSA. This research will only be made available to a wholesale customer who we are satisfied meets the regulatory criteria to be a client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley has based its projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on publicly available information. MSCI has not reviewed, approved or endorsed the projections, opinions, forecasts and trading strategies contained herein. Morgan Stanley has no influence on or control over MSCI's index compilation decisions.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

Morgan Stanley

MORGAN STANLEY RESEARCH

The Americas	**Europe**	**Japan**	**Asia/Pacific**
1585 Broadway	20 Bank Street, Canary Wharf	4-20-3 Ebisu, Shibuya-ku	1 Austin Road West
New York, NY 10036-8293	London E14 4AD	Tokyo 150-6008	Kowloon
United States	**United Kingdom**	**Japan**	**Hong Kong**
Tel: +1 (1) 212 761 4000	Tel: +44 (0) 20 7 425 8000	Tel: +81 (0) 3 5424 5000	Tel: +852 2848 5200

© 2009 Morgan Stanley