

December 19, 2006

Industry View
Attractive

India Cement Pricing Blowout Continues

Volumes up 16.1% YoY, prices up 1.2% MoM.

November saw a return of pricing discipline with regional market share losses. The top regional players lost market share in three of the four regions (South being the exception). The market share losses were accompanied by pricing gain in three of the four regions; South again being the exception, showing a marginal price decline of 80 bps. On the whole, November witnessed a further increase in pricing with all-India pricing moving up by a strong 1.2% MoM from the previous month's all-time high to hit a new record high price of Rs205 per bag. YoY change in pricing also remained a strong 31.7%.

Northern region's recovery continued on the higher base:

The recovery remained strong in the Northern market with a strong 17.3% YoY growth in volumes. The pricing in the region moved up a strong 140 bps on the back of the loss of 100 bps of market share by the top four players in the region. We still believe that given the high capacity utilization in the region (91% in November); we should see continued growth in pricing in the next few months.

Southern growth slows in line with expectations:

The Southern region saw a strong pick up in volume growth (18.3% YoY growth) with the end of the monsoon season. The top four players in the region gained market share by a marginal 20 bps leading to a marginal dip of 80 bps MoM in pricing (prices at Rs200 per bag, were still up by a strong 29.2% YoY). While we continue to expect strong pricing in the Southern region, we expect a decline in volume growth over the next four months, in line with the rest of the sector.

MSCI Country: India

Asia Strategist's Recommended Weight	2.4%
MSCI Asia/Pac All Country Ex Jp Weight	7.0%

Companies Featured

Company	Rating
ACC (Rs1,017.80)	Overweight
Grasim (Rs2,717.30)	Overweight
Gujarat Ambuja(Rs135.15)	Overweight
Ultratech (Rs1039.60)	Overweight

Source: Morgan Stanley Research:

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Investment Case

Summary & Conclusions

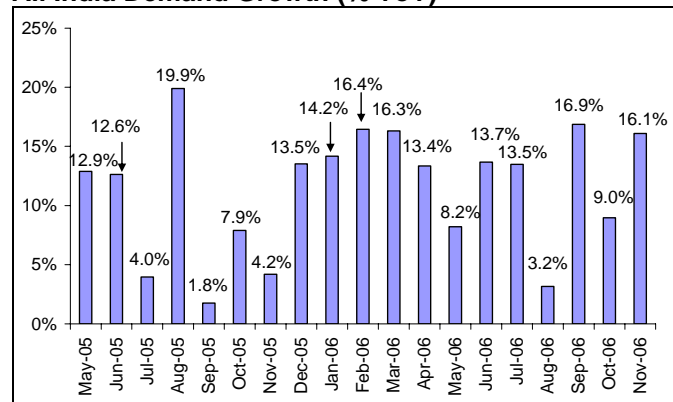
Volume growth, at 16.1% YoY in the month of November, moved up significantly after the slowdown in October 2006 (growth of 9% YoY). The market share loss trend saw a comeback with the top regional players gaining market share in three of the four regions (South being the exception). November witnessed a further increase in pricing with all India pricing moving up by a strong 1.2% MoM from the last months all time high to hit a new record high price of Rs205 per bag. On a YoY basis, pricing showed a strong growth of 31.7%. We expect the pricing strength to continue to hit new highs on the back of high utilizations (90% in November).

The recovery in the Northern market that started in Oct 2005 continued to gain strength in Nov 2006, with a strong growth of 53% YoY in value terms in the month. Volumes also showed strong YoY growth of 17.3%. High utilizations (91%), coupled with the market share losses by the top players, resulted in the MoM pricing uptrend with prices being up 140 bps MoM. Given the high capacity utilization, we expect the region's pricing recovery to strengthen further. The Southern region's pricing continued on a downward trajectory with an 80 bps MoM decline. With the end of the monsoon season, the volume growth showed a strong pick up in line with our expectations to 18.3% YoY growth.

We continue to believe that ACC & Ultratech are best positioned in the industry in the short term, given their higher leverage to cement prices coupled with the change in management (to Holcim and Grasim respectively).

Exhibit 1

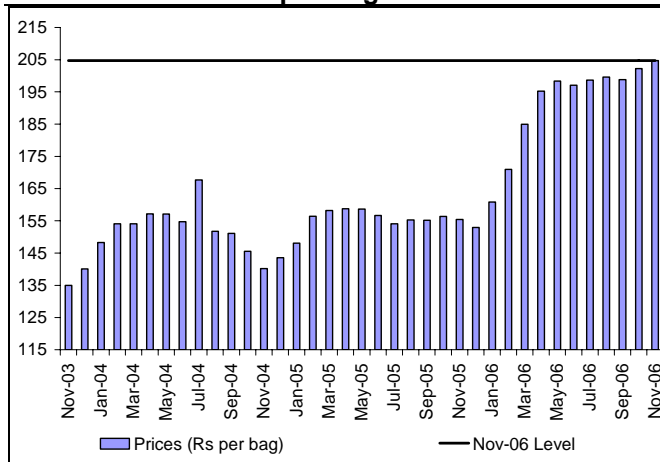
All India Demand Growth (% YoY)



Source: CMA, Morgan Stanley Research

Exhibit 2

India Cement: Prices per Bag



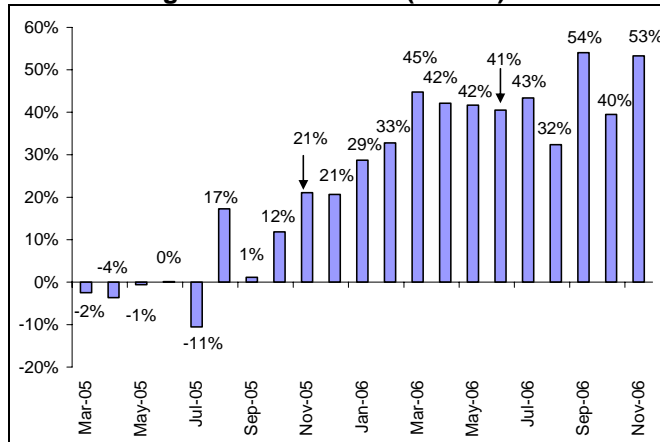
Source: Company data, Morgan Stanley Research

November 2006 Developments

Northern Market Recovery Continues. The recovery that resumed in October 2005 gained further strength in November, with strong value growth of 53% YoY, despite the increasing base. Volumes showed a strong growth of 17.3% YoY a significant pickup from October 2006 despite the higher base. Prices showed a strong growth of 30.6% YoY and 140 bps MoM mainly on the back of the loss of 100 bps of market share by the top-4 players in the region. Given the high capacity utilization in the region (a strong 91% in November 2006), we expect the region's pricing recovery to continue for the next couple of quarters.

Exhibit 3

Northern Region Value Growth (% YoY)

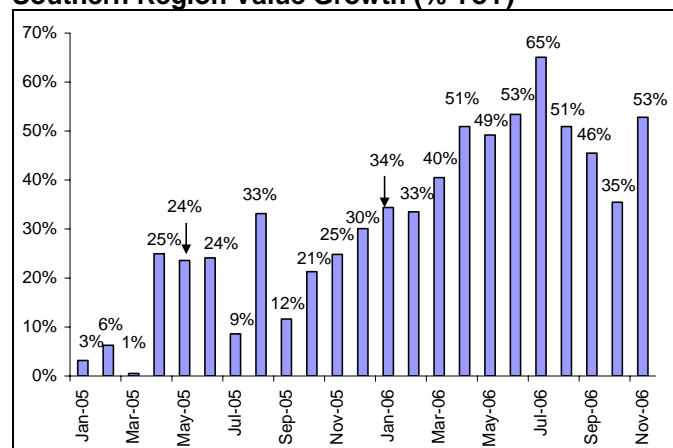


Source: CMA, Morgan Stanley Research

Southern volumes show a pick up in line with expectations. With the end of the monsoon season in the Southern region as well as a small base in November 2005, the region's volume growth showed a recovery from a weak 5.1% growth in October 2006 to a strong 18.3% YoY growth in November 2006. Pricing per bag declined for the third month in a row (down 80 bps MoM) on the back of market share gains of the top four players in the region (a marginal growth of 20 bps MoM). YoY pricing growth remained strong at 29.2% in the month. YoY growth in value terms also showed a recovery with 53% growth YoY in November (Exhibit 4). We expect volume growth to remain weak in the next 4 months in F2007, as the larger (more normalized) base comes into play.

Exhibit 4

India Cement: Southern Region Value Growth (% YoY)



Source: CMA, Morgan Stanley Research

Market Share Losses on the back of Pricing: Trending Up East. In November, the inverse relationship between the market share of the top-four players and price per bag of cement saw a come back after two months. While the top players' market share declined by 220 bps MoM to 57.1%, prices moved up by a strong 4.7% in November.

West. Prices in the region moved up 150 bps MoM in November on the back of strong capacity utilization of 94% in the region. The top four players lost market share by 200 bps with their market share in the month's despatches falling to 55.4%.

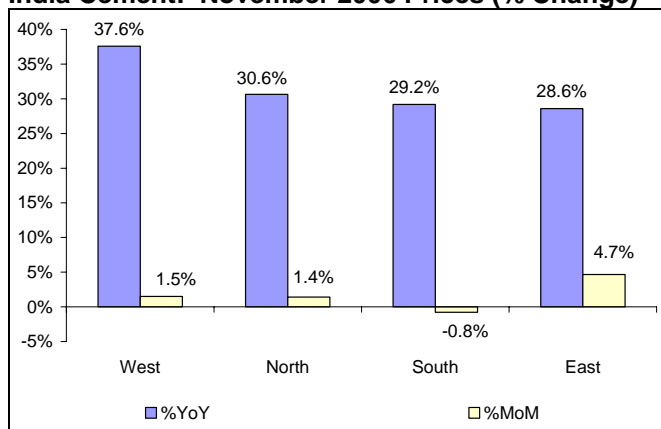
North. Prices per bag continued to be strong moving up by 140 bps MoM to Rs205 mainly as a result of the top four players losing market share by 100 bps to 53.9% from 54.9% in October 2006.

South. The market share of the top four players in the region increased by a marginal 20 bps to 47% (from 46.8% in October 2006). This along with the lower utilizations (87% vs. 90% for India) led to a MoM decline of 80 bps in pricing to Rs200 per bag (from the peak of Rs205 per bag in August 2006).

All India. Pricing showed an increase in three of the four regions (the South being the exception) to Rs205, a new high after the all time high of Rs202 per bag of cement in October 2006. We believe that strong utilizations (90% for the month) are resulting in a weakening of the inverse relationship between pricing and the market share loss / gain of the top regional players. However, this month the relationship reappeared with the market share losses registered by the top players helping the sector to register a 120 bps pricing gain. On a YoY basis, prices increased by strong 31.7% YoY (a new high). We believe that, given the blowout, there is a significant chance that prices might exceed our stiff growth estimate of 25% in F2007. Exhibits 6-9 show market shares and pricing for the four regions.

Exhibit 5

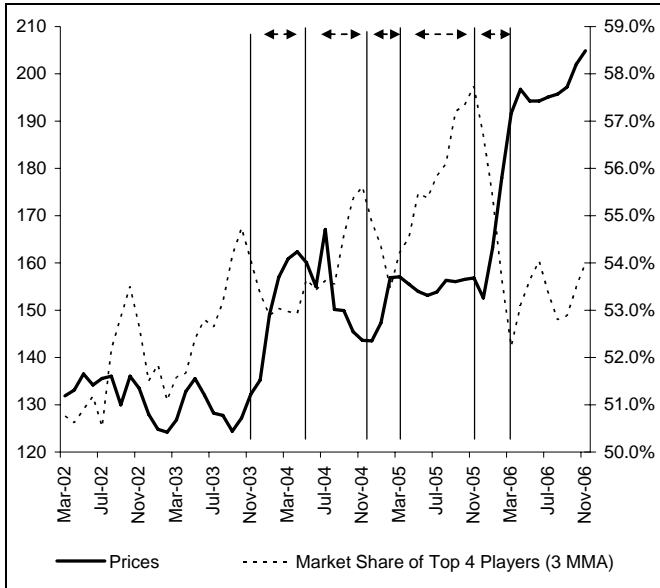
India Cement: November 2006 Prices (% Change)



Source: Company data, Morgan Stanley Research

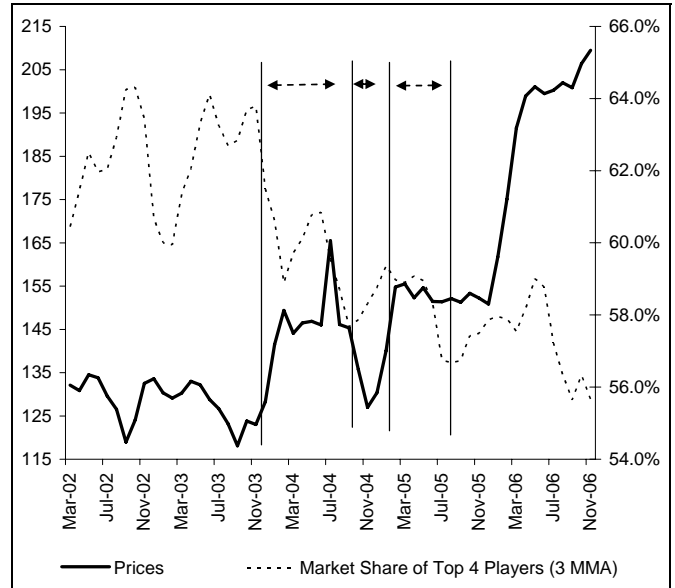
Pricing Discipline in the Current Uptrend

Exhibit 6
India Cement: Northern Region



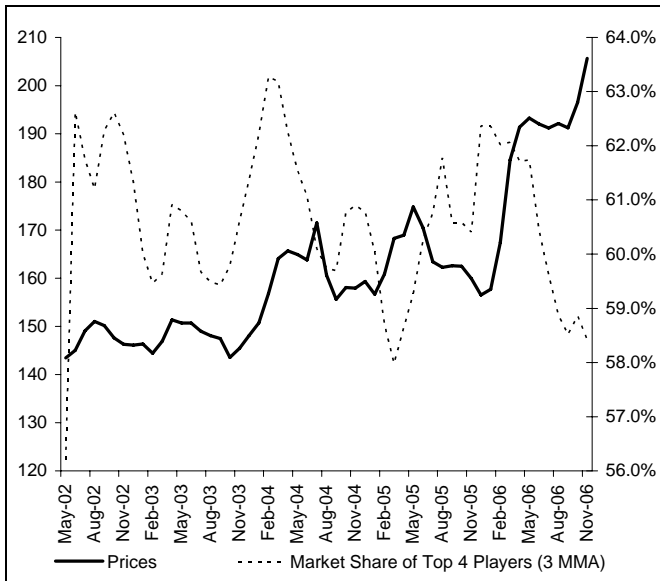
Source: CMA, Morgan Stanley Research

Exhibit 8
India Cement: Western Region



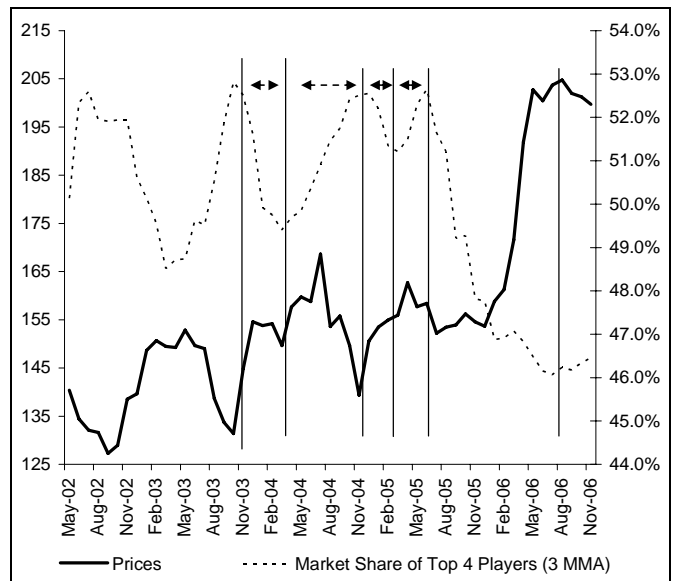
Source: CMA, Morgan Stanley Research

Exhibit 7
India Cement: Eastern Region



Source: CMA, Morgan Stanley Research

Exhibit 9
India Cement: Southern Region



Source: CMA, Morgan Stanley Research

December 19, 2006

India Cement

Demand Growth: Dipped up In Line with Expectations

East. The region registered a strong growth of 20.9% YoY on a low base in Nov 2005, with volumes increasing to 1.8 million tons in the month (Exhibit 10). We expect the growth to dip significantly next month as the base in Dec 2005 increases.

West. The region reported a YoY growth of 9.7% in volumes in November as expected (on the back of a lower base in November 2005), with overall consumption at 3 million tons (Exhibits 11 & 12). We expect growth to weaken over the remaining 4 months of F2007 as the base increases.

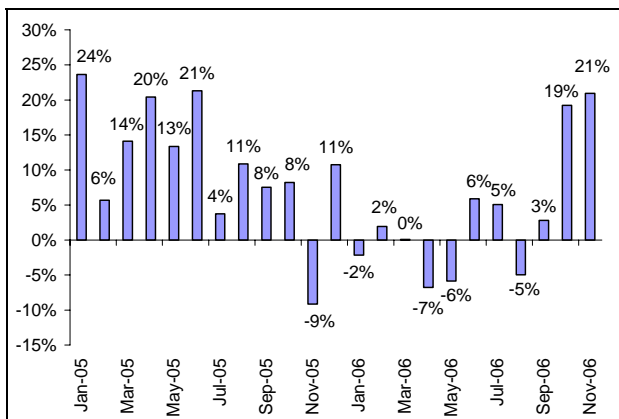
North. The recovery gained momentum despite a higher base, with a volume increase of 17.3% YoY basis to 3.8 million tons (Exhibit 13). We expect growth to weaken over the remaining 4 months of F2007 as the base increases.

South. Growth jumped as expected on a more normalized base in the Southern region, with volume clocking strong 18.3% YoY growth (Exhibit 14). Consumption for the region in November 2006 stood at 3.4 million tons. We retain our expectation of the growth weakening over the remaining 4 months of F2007 as the base increases.

All India. Demand growth accelerated to 16.1% YoY in November 2006 (mainly on the back of a small base) after a decline in October 2006. Pricing rose 1.2% MoM to Rs205 (on the back of loss in market share of among the top producers in three of the four regions.) from the record of Rs 202 in October 2006, with YoY growth jumping to a new high of 31.7%. We believe the top players will continue to take market share cuts by dropping dispatches to move prices higher over the next 12 months.

Exhibit 10

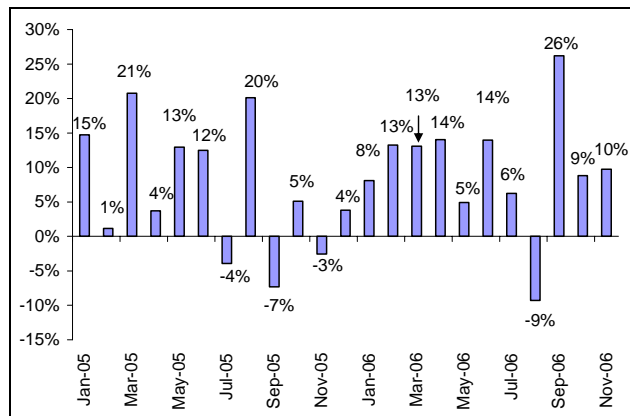
India Cement: Eastern Region Consumption (YoY % Change)



Source: CMA, Morgan Stanley Research

Exhibit 11

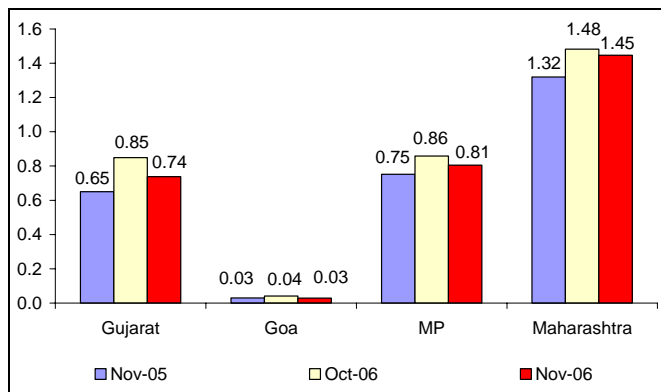
India Cement: Western Region Consumption (YoY % Change)



Source: CMA, Morgan Stanley Research

Exhibit 12

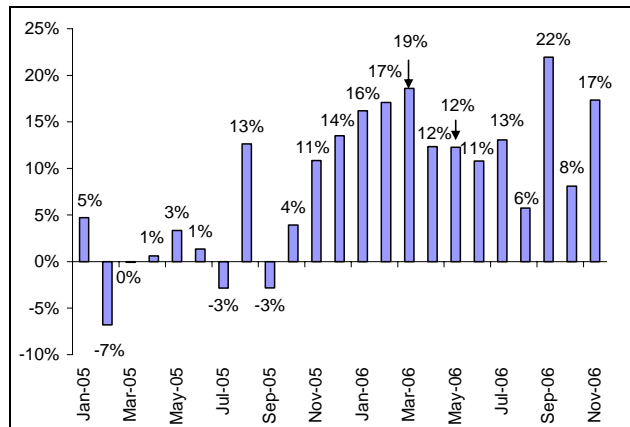
India Cement: Western Region Consumption Breakdown (million tonnes)



Source: Company data, Morgan Stanley Research

Exhibit 13

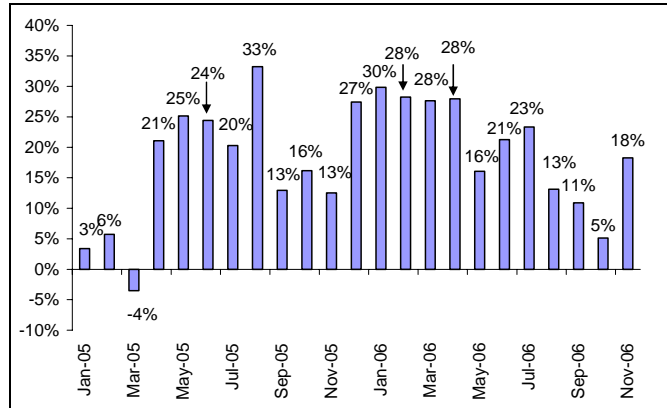
India Cement: Northern Region Consumption (YoY % Change)



Source: CMA, Morgan Stanley Research

Exhibit 14

India Cement: Southern Region Consumption (YoY % Change)



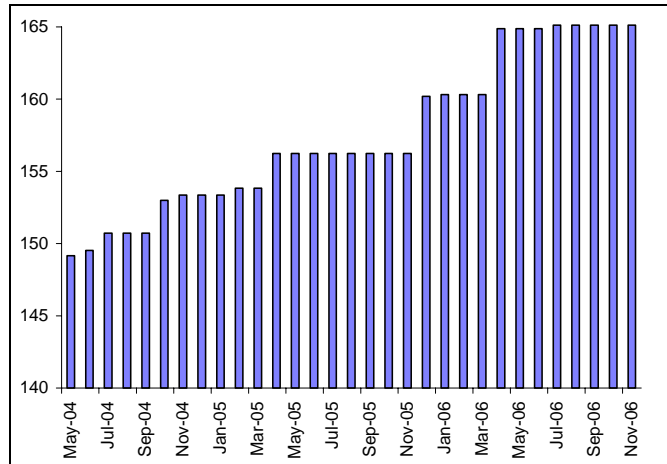
Source: CMA, Morgan Stanley Research

Utilization

With 8.4 million tons of capacity being added in the past 12 months (Exhibit 15), the increase in demand outstripped the increase in capacity by a wide margin, leading to high utilization at 90% in October 2006 (vs 85% in November 2005). However, the utilization slipped slightly from 93% in October 2006 (Exhibit 16).

Exhibit 15

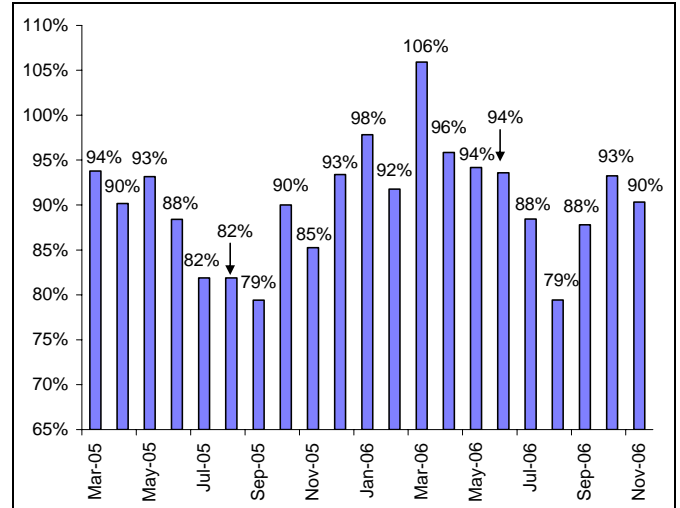
India Cement: Annual Capacity (mn tons)



Source: CMA, Morgan Stanley Research

Exhibit 16

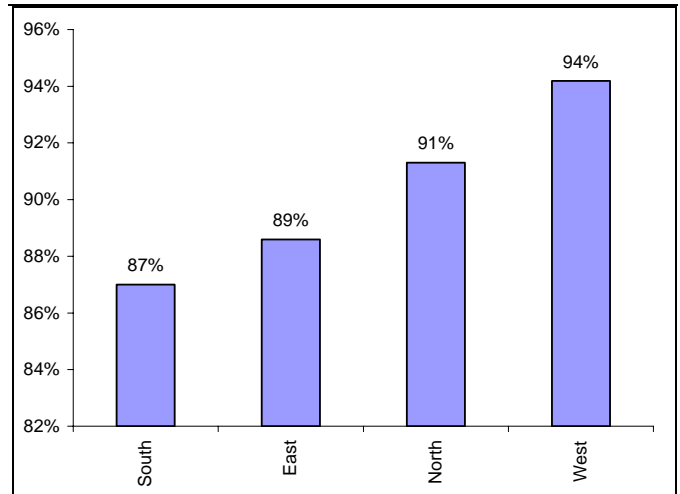
India Cement: Utilization (%)



Source: CMA, Morgan Stanley Research

Exhibit 17

Capacity Utilization –November 2006



Source: Company data, Morgan Stanley Research

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(as of November 30, 2006)

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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	804	38%	291	43%	36%
Equal-weight/Hold	966	45%	302	44%	31%
Underweight/Sell	367	17%	90	13%	25%
Total	2,137		683		

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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.

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.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

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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.

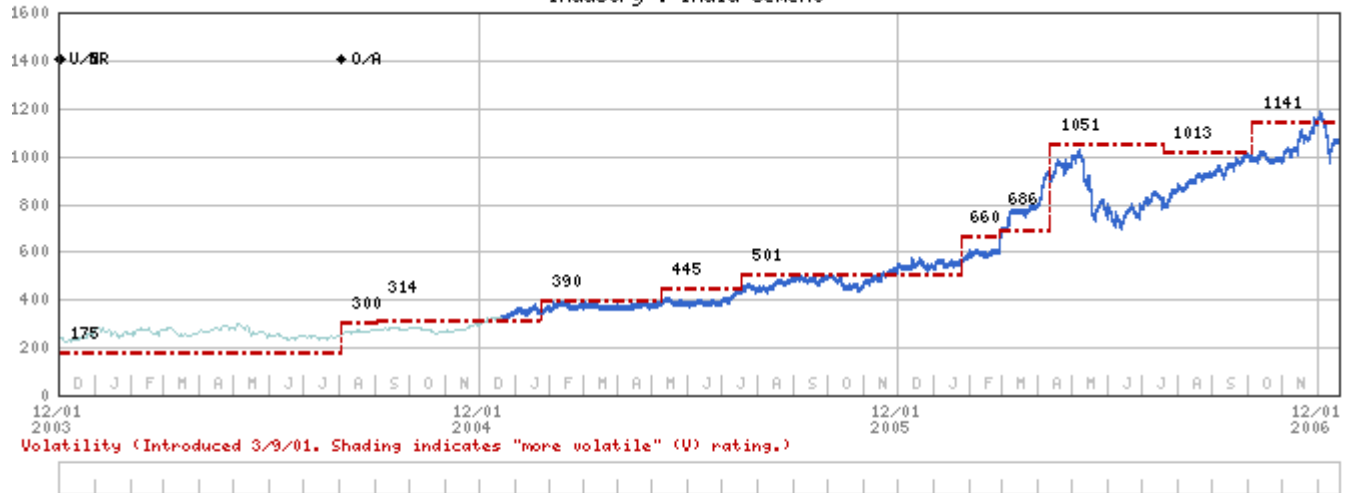
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Stock Price, Price Target and Rating History (See Rating Definitions)

Associated Cement Cos. (ACC.BO) - As of 12/19/06 in INR
Industry : India Cement



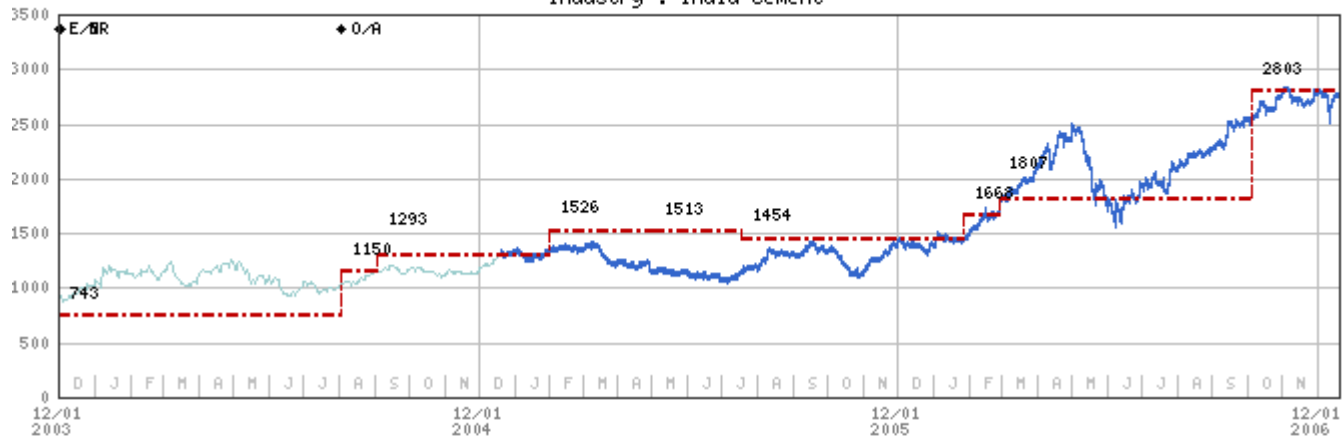
Stock Rating History: 8/7/02 : U/NR; 12/2/03 : U/C; 8/3/04 : O/A

Price Target History: 10/20/03 : 175; 8/3/04 : 300; 9/3/04 : 314; 1/24/05 : 390; 5/9/05 : 445; 7/18/05 : 501;
1/25/06 : 660; 2/27/06 : 686; 4/13/06 : 1051; 7/20/06 : 1013; 10/5/06 : 1141

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
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 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

December 19, 2006
India Cement

Grasim Industries (GRAS.BO) - As of 12/19/06 in INR
Industry : India Cement



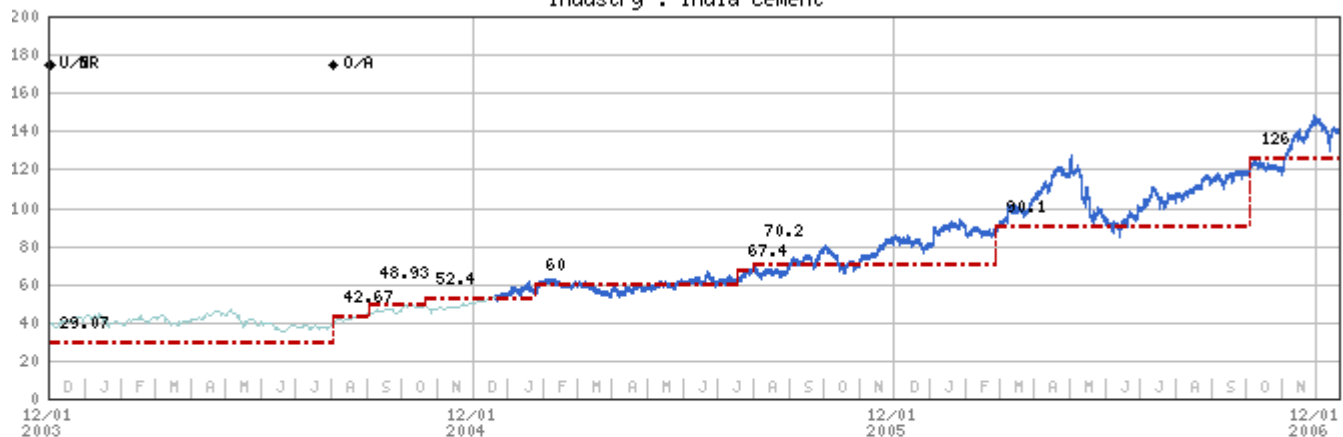
Volatility (Introduced 3/9/01. Shading indicates "more volatile" (V) rating.)

Stock Rating History: 6/23/03 : E/NR; 12/2/03 : E/C; 8/3/04 : O/A

Price Target History: 10/20/03 : 743; 8/3/04 : 1150; 9/3/04 : 1293; 1/31/05 : 1526; 5/2/05 : 1513; 7/18/05 : 1454; 1/27/06 : 1668; 2/27/06 : 1807; 10/5/06 : 2803

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ■
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 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Gujarat Ambuja Cements (GACM.BO) - As of 12/19/06 in INR
Industry : India Cement



Volatility (Introduced 3/9/01. Shading indicates "more volatile" (V) rating.)

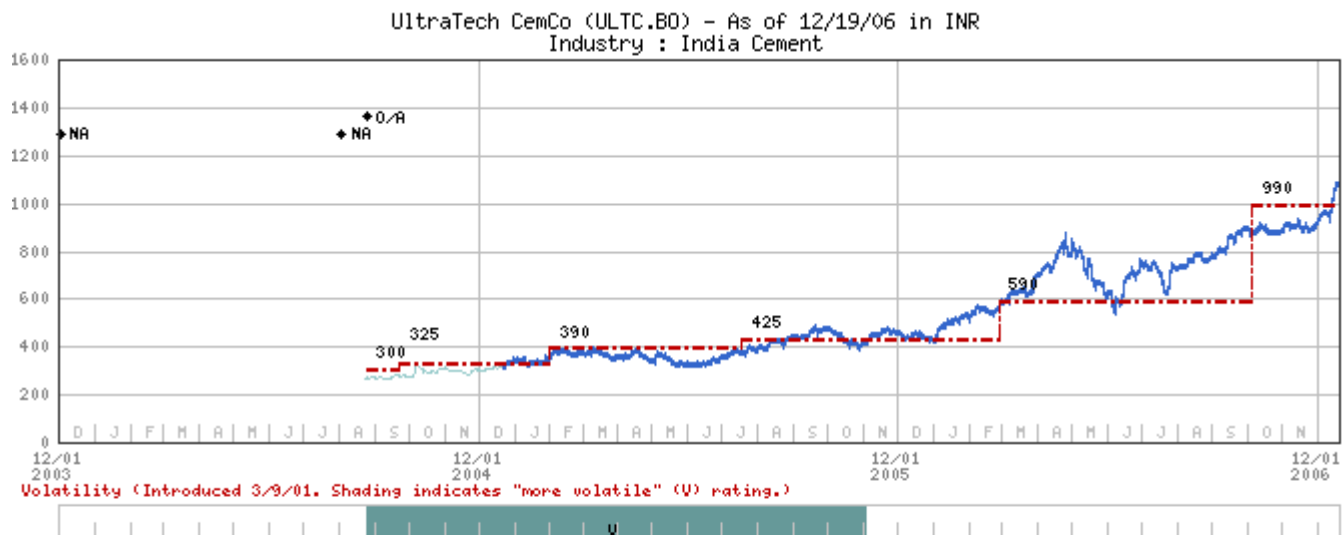
Stock Rating History: 10/30/02 : U/NR; 12/2/03 : U/C; 8/3/04 : O/A

Price Target History: 10/20/03 : 29.07; 8/3/04 : 42.67; 9/3/04 : 48.93; 10/21/04 : 52.4; 1/24/05 : 60; 7/18/05 : 67.4; 8/1/05 : 70.2; 2/27/06 : 90.1; 10/5/06 : 126

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 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

December 19, 2006

India Cement



Stock Rating History: 12/2/03 : NA; 8/3/04 : NA; 8/25/04 : O/A

Price Target History: 8/25/04 : 300; 9/23/04 : 325; 1/31/05 : 390; 7/18/05 : 425; 2/27/06 : 590; 10/5/06 : 990

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
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Industry Coverage:India Cement

Company (Ticker)	Rating (as of)	Price (12/19/2006)
Akshay Soni		
Associated Cement Cos. (ACC.BO)	O (08/03/2004)	Rs1,017.80
Grasim Industries (GRAS.BO)	O (08/03/2004)	Rs2,717.30
Gujarat Ambuja Cements (GACM.BO)	O (08/03/2004)	Rs135.15
UltraTech CemCo (ULTC.BO)	O (08/25/2004)	Rs1,039.60

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