

June 5, 2006

Industry View  
Attractive

## India Cement

### Marginal Volume Slowdown

#### **Sector volumes slowed a little in May.**

The sector's domestic dispatch growth in May 2006 dipped a little from the 11.1% registered in F2006 (and 13.4% in April 2006). Growth continued to be strong at 10.1% YoY (based on our estimates). We estimate that exports jumped 18.3% taking the total dispatch growth up to 10.4% YoY (vs. 12.3% in F2006).

#### **Volume growth will slow at the expense of pricing.**

On a YTD basis, the top 4 players in the industry have registered a domestic dispatch growth of only 7.1%, while the balance players have grown at 15.4% (Exhibit 1). This clearly demonstrates the pricing discipline arrangement under which the top players have been losing market share to keep prices up. This, along with the sector moving onto a more normalized base over the next quarter, will mean an improved pricing environment at the cost of volume growth.

#### **Pricing remains key, not volumes.**

We continue to believe that profits in the sector will be driven by pricing strength, not volume gains. We believe that prices moved up slightly in May 2006, which would mean that they moved up 24% YoY. With the sector operating at a capacity utilization of 94.7% in May, volumes remain strong on a fundamental basis.

#### **Gujarat Ambuja led the volume growth table.**

Gujarat Ambuja was the standout performer with a domestic dispatch growth of 20.2% YoY in May 2006. UltraTech and Grasim clocked volume growth of 5.1% YoY and 4.3% YoY, respectively. UltraTech's domestic dispatches grew by a strong 9.3% YoY, with exports dropping by 22% YoY (despite clinker exports continuing to be converted into cement exports). ACC registered flat dispatches on a YoY basis (mainly on the back of plant shutdowns, in our opinion). We estimate that the Top 4 players (UltraTech, Grasim, Gujarat Ambuja and ACC) together witnessed a volume growth of about 7.8% YoY.

We have an Attractive industry view on Indian Cement.

Morgan Stanley does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section.**

+ = Analysts employed by non-U.S. affiliates are not registered pursuant to NASD/NYSE rules.

Exhibit 1

**May 2006 Cement Sector Dispatch Growth (%)**

	<b>ACC</b>	<b>GACM</b>	<b>UltraTech</b>	<b>Grasim</b>	<b>Top 4</b>	<b>Balance</b>	<b>Industry</b>
Domestic	0.0%	20.2%	9.3%	4.9%	7.8%	11.8%	10.1%
Total (Including Exports)	0.0%	18.1%	5.1%	4.3%	6.5%	13.5%	10.4%
YTD Growth (Domestic)	3.3%	10.9%	9.9%	5.6%	7.1%	15.4%	11.7%
2 Year Domestic CAGR (May 04-06)	4.2%	11.8%	7.3%	6.1%	7.1%	15.2%	11.6%

Source: Company data, Morgan Stanley Research

## Disclosure Section

The information and opinions in this report were prepared or are disseminated by Morgan Stanley Dean Witter Asia Limited (which accepts the responsibility for its contents) and/or Morgan Stanley Dean Witter 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 & Co. International Limited, Taipei Branch and/or Morgan Stanley & Co International Limited, Seoul Branch, and/or Morgan Stanley Dean Witter 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 JM Morgan Stanley Securities Private Limited and their affiliates (collectively, "Morgan Stanley").

### 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: Akshay Soni.

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

### Global Research Conflict Management Policy

This research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflictolicies](http://www.morganstanley.com/institutional/research/conflictolicies).

### Important US Regulatory Disclosures on Subject Companies

As of April 28, 2006, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in this report: Associated Cement Cos., Gujarat Ambuja Cements.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Gujarat Ambuja Cements.

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 companies covered in this report: Gujarat Ambuja Cements.

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 companies covered in this report: UltraTech CemCo.

An employee or director of JM Morgan Stanley Securities Private Ltd. is a director of Gujarat Ambuja Cements.

The research analysts, strategists, or research associates principally responsible for the preparation of this research report 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 & Co. Incorporated and/or Morgan Stanley DW Inc. is a director of Gujarat Ambuja Cements.

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

### STOCK RATINGS

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. For example, Morgan Stanley uses a relative rating system including terms such as Overweight, Equal-weight or Underweight (see definitions below). A rating system using terms such as buy, hold and sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its 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 May 31, 2006)

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 and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, 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 Underweight to hold and sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total	% of Rating Category
Overweight/Buy	742	37%	281	42%	38%
Equal-weight/Hold	906	45%	303	46%	33%
Underweight/Sell	349	17%	78	12%	22%
<b>Total</b>	<b>1,997</b>		<b>662</b>		

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.

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.

**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; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

*Stock price charts and rating histories for companies discussed in this report are available at [www.morganstanley.com/companycharts](http://www.morganstanley.com/companycharts) or from your local investment representative. You may also request this information by writing to Morgan Stanley at 1585 Broadway, (Attention: Equity Research Management), New York, NY, 10036 USA.*

## **Other Important Disclosures**

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. Research is available through your sales representative or on Client Link at [www.morganstanley.com](http://www.morganstanley.com) and other electronic systems.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report 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 this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

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

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

With the exception of information regarding Morgan Stanley, reports 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 this report change apart from when we intend to discontinue research coverage of a subject company. Facts and views presented in this report 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.

To our readers in Taiwan: Information on securities that trade in Taiwan is distributed by Morgan Stanley & Co. International Limited, Taipei Branch (the "Branch"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. This publication 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 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. The Branch may not execute transactions for clients in these securities.

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

Certain information in this report was sourced by employees of the Shanghai Representative Office of Morgan Stanley Dean Witter Asia Limited for the use of Morgan Stanley Dean Witter Asia Limited.

This publication is disseminated in Japan by Morgan Stanley Japan Securities Co., Ltd.; in Hong Kong by Morgan Stanley Dean Witter Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Dean Witter 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 by Morgan Stanley Dean Witter Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services licence No. 233742, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International Limited, Seoul Branch; in India by JM Morgan Stanley Securities Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of this publication 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 this document 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 and Morgan Stanley DW Inc., which accept responsibility for its contents. Morgan Stanley & Co. International Limited, 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 Limited representative about the investments concerned. In Australia, this report, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

The trademarks and service marks contained herein 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.

This report or any portion hereof 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 is available on request.**

**The Americas**

1585 Broadway  
New York, NY 10036-8293

**United States**

Tel: +1 (1) 212 761 4000

**Europe**

25 Cabot Square, Canary Wharf  
London E14 4QA

**United Kingdom**

Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008

**Japan**

Tel: +81 (0) 3 5424 5000

**Asia/Pacific**

Three Exchange Square  
Central

**Hong Kong**

Tel: +852 2848 5200

**Industry Coverage:India Cement**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price (06/02/2006)</b>
<b>Akshay Soni</b>		
Associated Cement Cos. (ACC.BO)	O (08/03/2004)	Rs786.15
Grasim Industries (GRAS.BO)	O (08/03/2004)	Rs1800.65
Gujarat Ambuja Cements (GACM.BO)	O (08/03/2004)	Rs93.20
UltraTech CemCo (ULTC.BO)	O (08/25/2004)	Rs621.30

Stock Ratings are subject to change. Please see latest research for each company.