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September 22, 2008

Industry View
Cautious

India Cement

Demand Slowdown in North; Price Hikes in South

Volumes up only 3.8%, pricing up 2.5%: August 2008 saw the imbalance in the regional demand supply situation increase with weak demand and pricing growth in the North and strong demand and price hikes in the South. The all-India demand growth slumped to 3.8% led by 9% volume declines in the North. Capacity utilization hit a three-year low of 77% (Exhibit 1), which was down 11% YoY and 9% MoM. We expect prices to come down significantly in the North given the excessive capacity additions in the region.

Significant demand slowdown in the North: Demand in the Northern region declined by 9% YoY on the back of a slowdown in housing activity. Although YoY demand was down due to the high base effect, MoM cement dispatches were also down by 11%. The Northern region has seen the addition of more than 12 mn tons of capacity in the last six months, which is 23% of its existing capacity. We expect the dual factors of the demand slowdown as well as increasing supply to lead to a significant pricing decline in the North over the next six months. Amongst our coverage, Ambuja has the highest exposure to the Northern Region (Exhibit 18).

Demand and pricing growth remain strong in Southern region: Demand in the South at 10.3% continued its strong growth pattern exhibited over the last 2-3 years. Prices in the region increased by 3.9% with cities like Chennai, Hyderabad and Bangalore showed price increases of Rs15, Rs12.5, and Rs5 per 50kg bag, respectively. Ultratech has the highest exposure to the Southern markets, and its new capacity at *tadipatri* is coming up in the same region giving it a slight advantage over the Northern players.

Key Triggers: Grasim's 4.5mn ton Shambhupura plant will start dispatches in early October, which we believe will put tremendous pressure on pricing in the North.

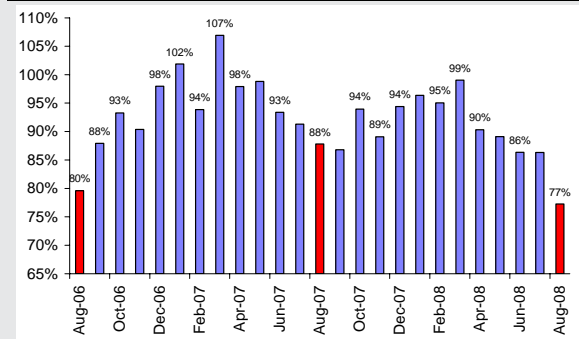
Companies Featured

Company	Rating
ACC Ltd (ACC.BO, Rs627)	Underweight
Ambuja Cement Ltd (ABUJ.BO, Rs84.6)	Underweight
Grasim Industries Ltd (GRAS.BO, Rs1937)	Equal-weight
Ultratech Ltd (ULTC.BO, Rs559)	Underweight

Source: Prices as of September 22, 2008. Source: Morgan Stanley Research

Exhibit 1

India Cement Capacity Utilization at lowest levels in the last three years



Source: CMA, Company data, Morgan Stanley Research.

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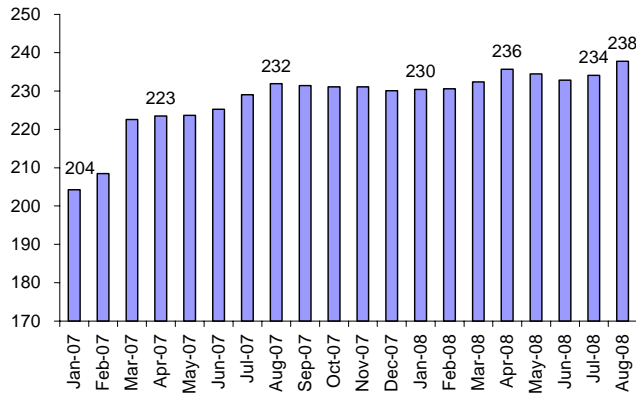
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India Cement – August 2008 Performance

Exhibit 2

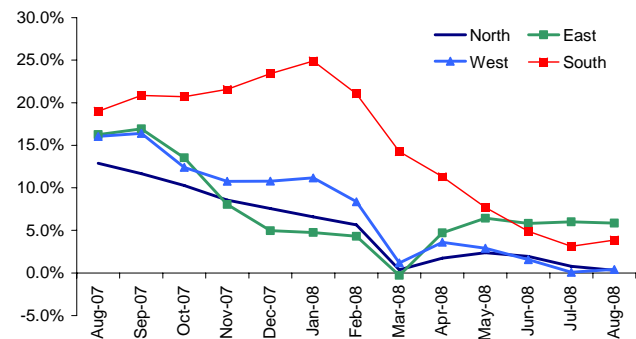
All India Cement Prices (Rs per 50kg bag)



Source: CMA, Company data, Morgan Stanley Research

Exhibit 3

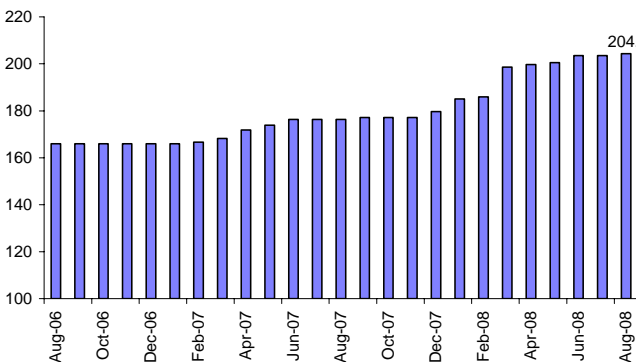
Regional Change in Prices (YoY change)



Source: CMA, Company data, Morgan Stanley Research

Exhibit 4

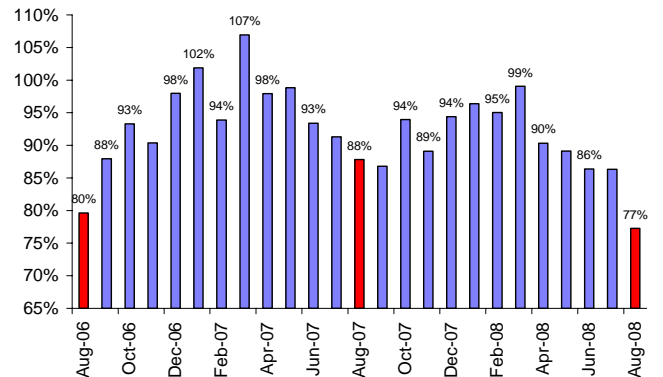
India Cement - Annual Capacity (mn tons)



Source: CMA, Company data, Morgan Stanley Research

Exhibit 5

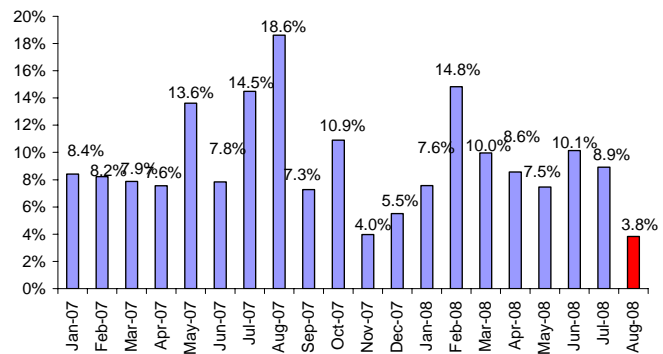
India Cement Capacity Utilization at Lowest Levels in the Last Three Years



Source: CMA, Company data, Morgan Stanley Research

Exhibit 6

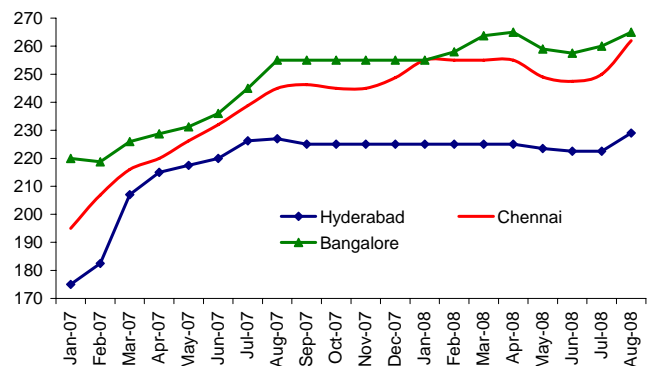
All India Demand Growth Slows



Source: CMA, Company data, Morgan Stanley Research

Exhibit 7

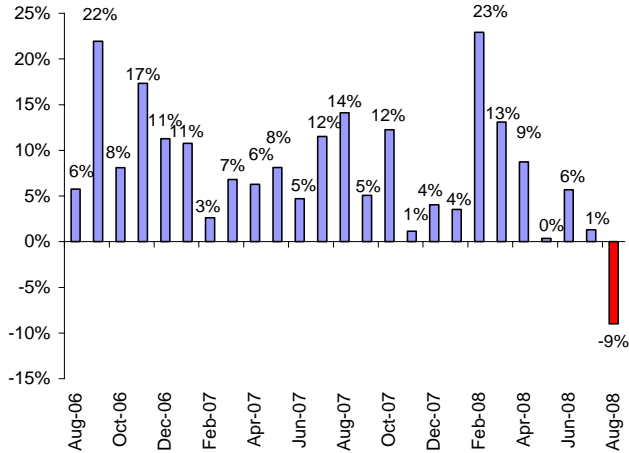
Price Hikes in Southern Cities (Rs per bag)



Source: CMA, Company data, Morgan Stanley Research

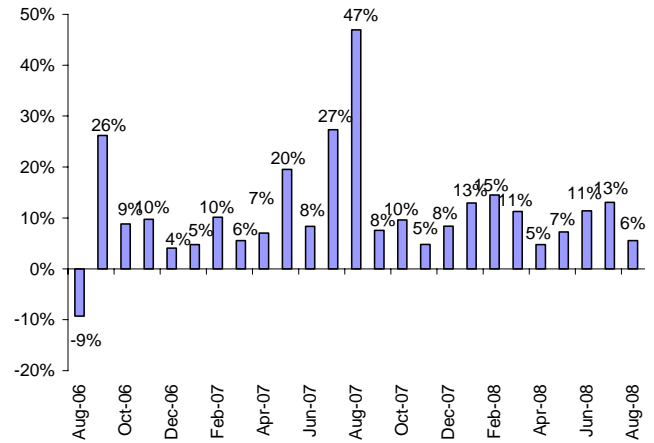
Regional Demand

Exhibit 8
Northern Demand Turns Negative (% YoY)



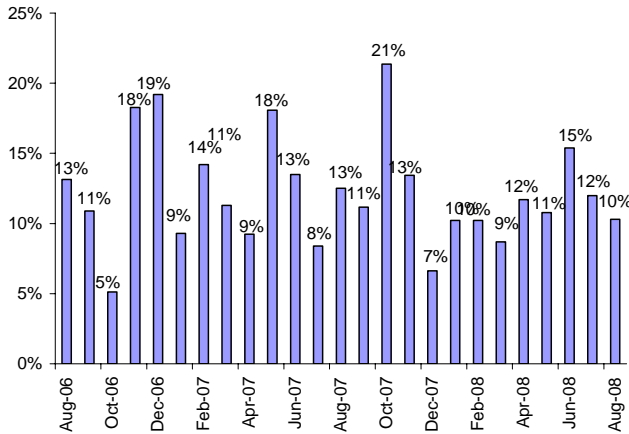
Source: CMA, Company data, Morgan Stanley Research

Exhibit 10
Moderate Demand Growth in Western Region (%YoY)



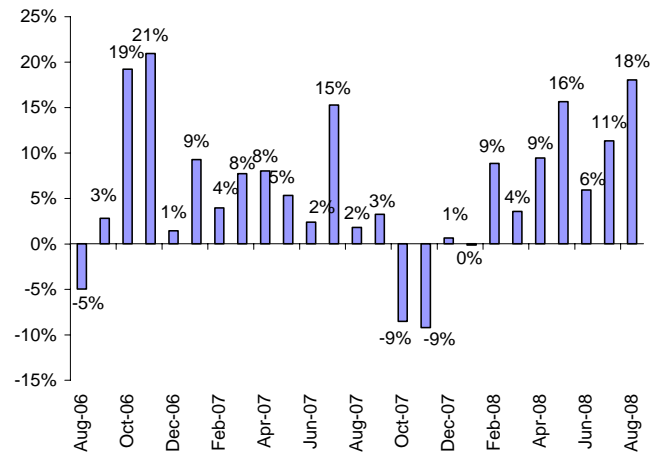
Source: CMA, Company data, Morgan Stanley Research

Exhibit 9
Strong Southern Demand Continues (% YoY)



Source: CMA, Company data, Morgan Stanley Research

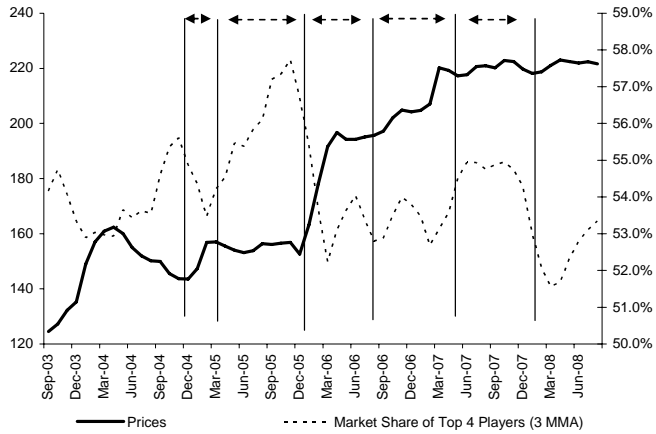
Exhibit 11
High Eastern Demand (base effect) (% YoY)



Source: CMA, Company data, Morgan Stanley Research

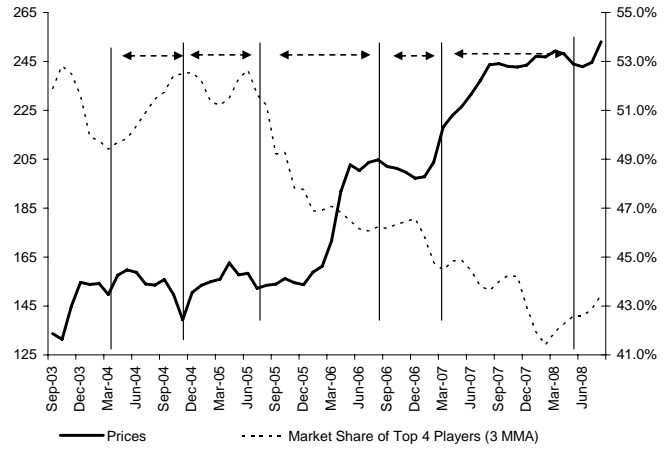
Pricing Discipline

Exhibit 12
Northern Region



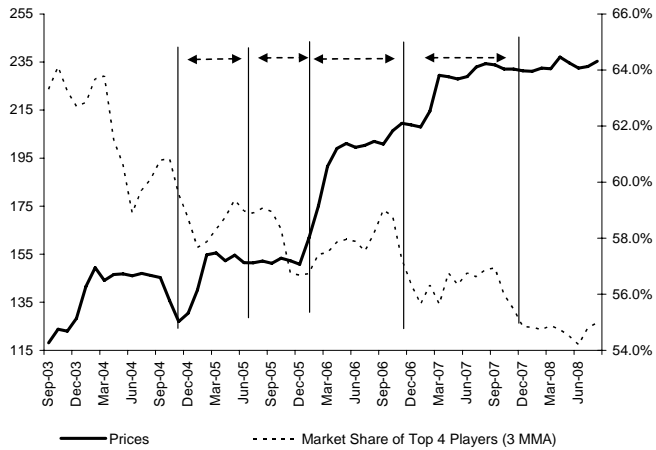
Source: CMA, Company data, Morgan Stanley Research

Exhibit 14
Southern Region



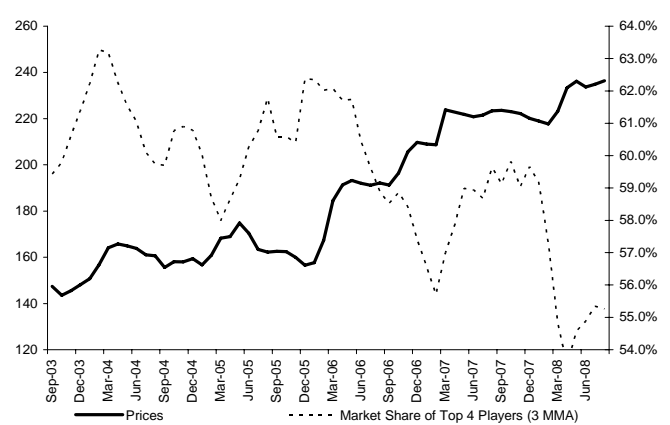
Source: CMA, Company data, Morgan Stanley Research

Exhibit 13
Western Region



Source: CMA, Company data, Morgan Stanley Research

Exhibit 15
Eastern Region



Source: CMA, Company data, Morgan Stanley Research

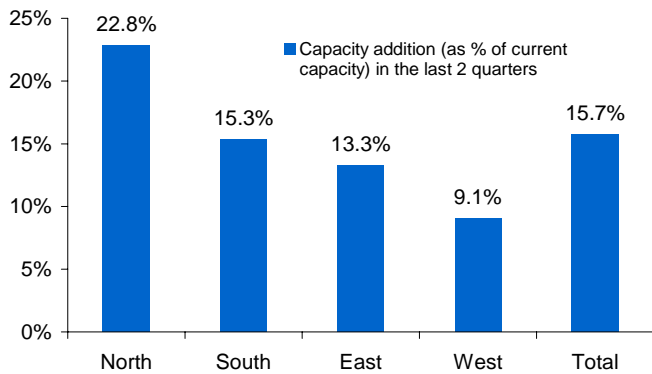
India Cement - August 2008

Exhibit 16
Regional Prices (Rs per bag)



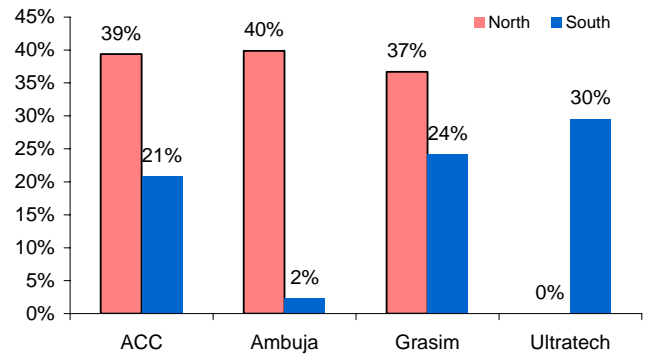
Source: CMA, Company data, Morgan Stanley Research

Exhibit 17
Capacity Addition in the Last Two Quarters



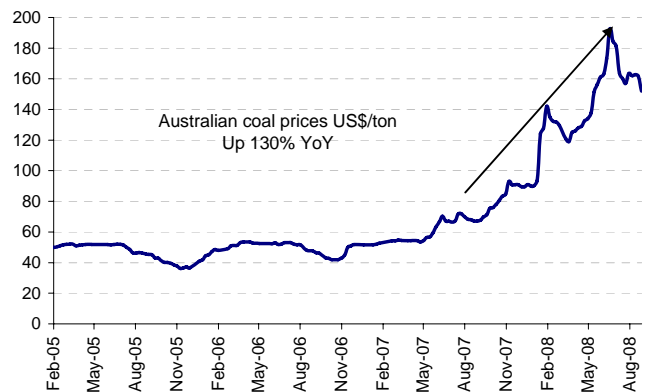
Source: CMA, Company data, Morgan Stanley Research

Exhibit 18
Ambuja Has Highest Exposure to North and Least to South



Source: Company data, Morgan Stanley Research

Exhibit 19
International Coal Prices – Off the Peak but Still Higher



Source: Bloomberg, Morgan Stanley Research

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Total	2,195		663		

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India Cement

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September 22, 2008

India Cement

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Industry Coverage:India Cement

Company (Ticker)	Rating (as of)	Price (09/22/2008)
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ACC Ltd. (ACC.BO)	U (08/25/2008)	Rs624.5
Ambuja Cements Ltd. (ABUJ.BO)	U (08/25/2008)	Rs84.55
Grasim Industries (GRAS.BO)	E (08/25/2008)	Rs1,937.2
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