

January 27, 2009

Industry View  
Cautious

## India Cement

### Gauging January Cement Demand Growth

**Quick Comment – Don't be Surprised with another month of Strong Demand:** We believe the month of January will again show strong demand growth in Cement dispatches, following the 12% and 11% growth shown in December and November 2008, respectively. However, we do not think it is the revival of demand yet as the macro is still weak. The low base effect makes the YoY growth numbers look bigger, however, if looked at the data on 2 yr CAGR or YTD growth basis, the growth looks normal. We estimate the January cement demand at 16.5mn tons based on historical data and medium term growth outlook. This translates to 10.7% YoY growth in Cement demand in January 2009. Despite this strong growth in January, YTD demand is still at 7.8% and 2 yr CAGR in January 2009 is at 8.1%.

**Management commentary turns more bearish:** Ultratech management in its latest earnings release mentioned that the impending supply of over 100mn tons over the next two years will put pressure on realizations and margins. The company also mentioned that the stimulus package announced by the government is not enough and the real estate players are still facing funding problems. The smaller cement companies, which have announced results so far, have shown 5% increase in sales and 33% drop in net profits despite higher volumes, highlighting the drop in realization in Northern region and increased costs over the previous quarter.

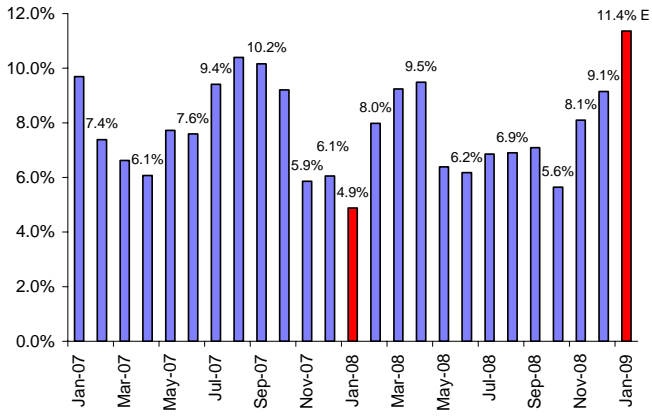
**Investment thesis:** We reiterate our Cautious view on the sector and believe that the supply is a bigger problem for cement companies than demand. We expect close to 80mn tons of capacity to be commissioned over the next 2 years out of which almost 30mn tons will come in March 2009 quarter, putting pressure on prices.

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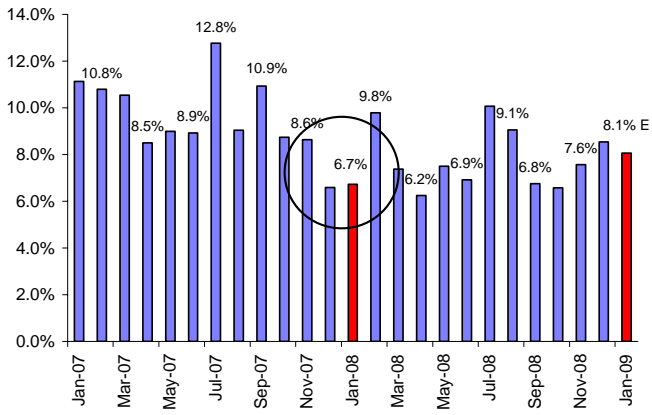
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**Exhibit 1**  
**YoY Growth in Cement Dispatches (3MMA); The low base of last year visible in all three months**



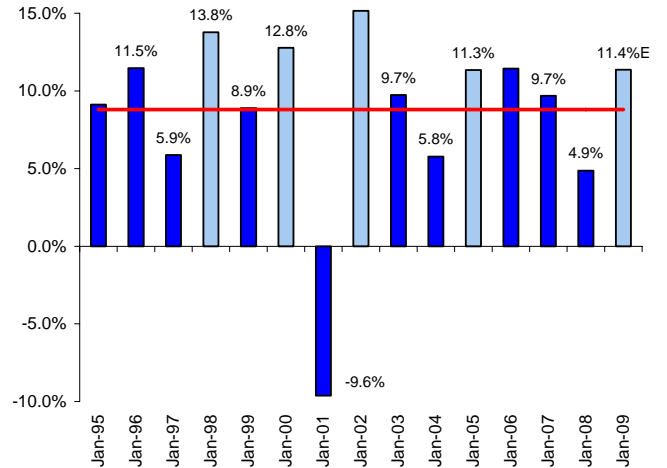
Source: Company data, Morgan Stanley Research, E=Morgan Stanley Estimates

**Exhibit 2**  
**2Yr CAGR in Cement dispatches showing no abnormalities**



Source: Company data, Morgan Stanley Research, E=Morgan Stanley Estimates

**Exhibit 3**  
**3MMA of Cement dispatch growth in January; The years in which the demand was higher due to base effect are highlighted in light shade**



Source: Company data, Morgan Stanley Research, E=Morgan Stanley Estimates

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|--------------------------|-------------------|-------------|----------------------------------|----------------|----------------------|
|                          | Count             | % of Total  | Count                            | % of Total IBC | % of Rating Category |
| <b>Overweight/Buy</b>    | <b>811</b>        | <b>34%</b>  | <b>240</b>                       | <b>40%</b>     | <b>30%</b>           |
| <b>Equal-weight/Hold</b> | <b>1060</b>       | <b>45%</b>  | <b>271</b>                       | <b>45%</b>     | <b>26%</b>           |
| <b>Not-Rated/Hold</b>    | <b>33</b>         | <b>1.4%</b> | <b>8</b>                         | <b>1.3%</b>    | <b>24.2%</b>         |
| <b>Underweight/Sell</b>  | <b>463</b>        | <b>20%</b>  | <b>87</b>                        | <b>14%</b>     | <b>19%</b>           |
| <b>Total</b>             | <b>2,367</b>      |             | <b>606</b>                       |                |                      |

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**Industry Coverage: India Cement**

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|--------------------------------|----------------|--------------------|
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| Ambuja Cements Ltd. (ABUJ.BO)  | U (08/25/2008) | Rs69.6             |
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