

Cement

Demand and prices recover, albeit sub-par

- Demand picks up in Q3FY25:** Post a flattish H1FY25, we estimate demand recovered ~5% YoY in Q3FY25. This is led by revival in construction activities post monsoon and acceleration of Government Capex, which had taken a beating in H1. However, demand recovery in Q3 is slower than what the industry was looking forward to (~8-10% for H2FY25E) and it is expected to accelerate in subsequent quarters. We estimate the aggregate volumes of our coverage universe to rise 7% YoY in Q3, implying a 10% QoQ recovery. This appears higher vs industry on account of factoring in higher volumes from ramp-up of Penna and Sanghi Cement assets by Ambuja.
- Prices recover; albeit sub-par:** Cement prices had been drifting lower since Oct-2023 (after a sharp increase seen in Aug/Sep-2023). Thus, average NSR for the industry had been on a decline QoQ in first three quarters of CY24. However, this trend has been arrested and average realisation for the sector is expected to recover 1% QoQ in Q3FY25. However, it would be ~9% lower YoY as Q3FY24 enjoyed strong pricing tailwinds. In our view, cement prices recovered 1-2% QoQ across north, central, east, and west while they declined ~1% QoQ in south.
- Op-lev gain to lower opex QoQ:** We estimate unitary input cost (energy) and freight costs (for our coverage universe) to cool off ~1% QoQ, benefiting from rising share of green power and slight moderation in energy prices. These costs should decline 5/4% YoY. With seasonal uptick in volumes, we estimate op-lev gains to kick in and unit fixed cost to reduce by 8/4% QoQ/YoY. Thus, unit opex for our coverage universe should reduce 3/4% QoQ/YoY.
- Industry margin to recover QoQ:** We estimate unit EBITDA for our coverage to recover by INR 176/MT QoQ, led by INR 49/MT recovery in cement realisation and INR 127/MT reduction in unit opex. Subsequently, Q3FY25 unit EBITDA should expand QoQ to INR 849/MT. However, it would still be INR 304/MT lower YoY as the base quarter had strong pricing tailwinds. We estimate sub-par margin recovery QoQ in companies with high exposure to south (Ramco, Dalmia and Orient Cements). Owing to higher clinker purchase, even Star Cement's QoQ margin recovery could be muted.
- Expectations of demand acceleration, going ahead; consolidation gains awaited:** Industry remains hopeful of demand acceleration in subsequent quarters. This should aid price recovery, in our view. Ambuja and UltraTech's recent acquisitions have increased the market share for the cement majors. This should enhance the sector's pricing power, which has been absent so far. We estimate this will play out in H2FY26, leading to healthy margins thereafter. Additionally, the industry is beefing up low-cost green power consumption to further boost margin. Hence, we remain positive on the sector outlook. Factoring in slower demand, sub-par pricing gains, and expected delays in consolidation gains, we lower our aggregate EBITDA estimates for the coverage universe by 5/4/3% respectively for FY25/26/27E. We model in INR 140/MT YoY contraction in unit EBITDA in FY25E to INR 840. However, pricing gains and continued cost reduction should drive industry's unit EBITDA up by INR 190/90 per MT during FY26/27E, in our view, to INR 1120 per MT in FY27E.
- Ratings:** We roll forward target valuations to Mar-27E from Sep-26E earlier, leading to target price upgrades for our coverage universe. We maintain our ratings on all stocks. We maintain BUY on Dalmia Bharat, JK Lakshmi, Birla Corp, Nuvoco and Star Cement. We maintain ADD ratings on UltraTech Cement, Ambuja Cements, Shree Cement, ACC, Ramco Cements and Sagar Cements. We have REDUCE ratings on JK Cement, Heidelberg Cement, Orient Cement, and Deccan Cements. Our top picks: large caps—Ambuja Cement; mid-caps—Dalmia Bharat; and small cap—JK Lakshmi.

COMPANY	RATING	TP (INR)
UltraTech Cem	ADD	11,813
Shree Cem	ADD	28,020
Ambuja Cem	ADD	658
ACC	ADD	2,647
Dalmia Bharat	BUY	2,205
Nuvoco Vistas	BUY	420
Ramco Cem	ADD	870
JK Cement	REDUCE	4,385
Birla Corp	BUY	1,604
Heidelberg Cem	REDUCE	136
Star Cement	BUY	227
JK Lakshmi	BUY	872
Orient Cem	REDUCE	145
Sagar Cement	ADD	237
Deccan Cem	REDUCE	450

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Q3FY25E estimates

Y/E March (INR mn)	Net sales (INR mn)			EBITDA (INR mn)			EBITDA Margin (%)			Adj. PAT (INR mn)		
	Dec-24	YoY (%)	QoQ (%)	Dec-24	YoY (%)	QoQ (%)	Dec-24	YoY (%)	QoQ (%)	Dec-24	YoY (%)	QoQ (%)
ACC \$	51,285	4.4	11.2	6,193	(31.5)	41.9	12.1	(6.3)	2.6	3,367	(37.4)	43.5
Ambuja \$	84,729	4.2	12.7	14,828	(14.4)	33.4	17.5	(3.8)	2.7	6,398	(22.3)	4.5
Birla Corp \$	22,315	(3.5)	14.3	2,813	(25.7)	58.8	12.6	(3.8)	3.5	468	(57.2)	
Dalmia \$	33,031	(8.2)	7.0	5,175	(33.2)	19.2	15.7	(5.9)	1.6	938	(64.3)	103.8
Heidelberg Cem	5,374	(11.5)	16.5	736	12.4	96.4	13.7	2.9	5.6	375	19.3	234.8
JK Cement \$	28,716	(2.2)	12.2	4,543	(27.3)	60.0	15.8	(5.5)	4.7	1,489	(47.5)	534.4
JK Lakshmi \$	14,835	(12.9)	20.2	1,859	(38.5)	108.3	12.5	(5.2)	5.3	543	(59.7)	
Nuvoco Vistas \$	25,162	3.9	10.9	3,029	(26.2)	38.5	12.0	(4.9)	2.4	(215)		
Orient Cem	6,528	(13.1)	20.0	722	(37.4)	63.4	11.1	(4.3)	2.9	204	(54.5)	778.2
Ramco Cem	20,382	(3.2)	-	3,048	(22.9)	(2.3)	15.0	(3.8)	(0.4)	185	(80.2)	(27.7)
Sagar Cem \$	5,562	(16.9)	17.1	380	(56.4)	90.6	6.8	(6.2)	2.6	(377)		
Shree Cement	42,778	(12.7)	14.8	8,878	(28.0)	49.8	20.8	(4.4)	4.9	3,008	(59.0)	222.9
Star Cem \$	7,019	7.8	9.4	1,050	(29.4)	9.9	15.0	(7.9)	0.1	257	(65.1)	352.7
UltraTech Cem \$	1,71,346	2.4	9.6	28,172	(13.4)	39.6	16.4	(3.0)	3.5	12,994	(26.9)	58.5
Total (ex ACC)	4,67,777	(1.6)	11.0	75,235	(21.0)	38.4	16.1	(4.0)	3.2	26,266	(40.2)	79.9

Source: Company, HSIE Research, \$ - Consolidated numbers, NA – not applicable.

Q3FY25E operational estimates

Y/E March	Sales volume (mn MT)			NSR (INR/MT)			EBITDA (INR/MT)*			Opex (INR/MT)		
	Dec-24	YoY (%)	QoQ (%)	Dec-24	YoY (%)	QoQ (%)	Dec-24	YoY (%)	QoQ (%)	Dec-24	YoY (%)	QoQ (%)
ACC \$	10.2	14.9	10.0	4,720	(9.0)	1.5	591	(425)	137	4,129	(0.9)	(1.6)
Ambuja \$	15.9	13.0	11.6	5,318	(7.7)	1.0	931	(298)	152	4,388	(3.3)	(2.2)
Birla Corp \$	4.5	6.5	13.0	4,792	(9.6)	1.5	619	(284)	158	4,173	(5.1)	(2.1)
Dalmia \$	7.1	4.8	7.0	4,621	(12.5)	-	724	(413)	74	3,897	(5.9)	(1.9)
Heidelberg Cem	1.1	(6.3)	15.0	4,749	(5.5)	1.3	650	108	269	4,099	(8.6)	(4.9)
JK Cement \$	4.3	4.0	12.5	4,944	(8.2)	1.0	857	(371)	300	4,087	(1.7)	(5.8)
JK Lakshmi \$	2.9	(0.4)	19.0	5,033	(12.5)	1.0	631	(390)	270	4,402	(7.0)	(4.8)
Nuvoco Vistas \$	4.6	13.7	8.0	4,850	(10.7)	1.0	663	(328)	157	4,187	(5.6)	(2.5)
Orient Cem	1.3	(5.9)	20.0	4,982	(7.7)	-	551	(277)	146	4,431	(3.0)	(3.2)
Ramco Cem	4.5	12.3	-	4,541	(13.9)	-	679	(310)	(16)	3,862	(9.8)	0.4
Sagar Cem \$	1.4	(4.5)	16.8	4,060	(13.0)	0.2	277	(329)	107	3,782	(6.8)	(2.5)
Shree Cement	8.7	(2.3)	14.3	4,925	(10.6)	0.4	1,022	(365)	242	3,903	(5.3)	(5.4)
Star Cem \$	1.1	10.3	9.4	6,560	(2.3)	-	982	(552)	5	5,578	7.7	(0.1)
UltraTech Cem \$	30.1	10.1	8.1	5,696	(7.0)	1.4	937	(255)	212	4,759	(3.6)	(2.7)
Total (ex ACC)	87.5	7.4	9.9	5,216	(8.6)	0.9	849	(304)	176	4,367	(4.1)	(2.8)

Source: Company, HSIE Research, \$ - Consolidated numbers, *EBITDA/MT changes are in INR/MT

Operating assumption summary

Operational assumptions/estimates for coverage universe

	Sales Vol (mn MT)			Sales Vol YoY (%)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
UltraTech \$	128.6	145.2	161.0	8.0	12.9	10.9	5,686	5,772	5,858	982	1,193	1,311	4,704	4,579	4,547
Shree Cem	36.6	41.4	45.5	3.0	13.0	10.0	4,988	5,113	5,190	999	1,186	1,271	3,989	3,927	3,919
Ambuja \$	68.6	85.1	97.8	16.0	24.0	15.0	5,270	5,296	5,375	963	1,126	1,278	4,307	4,170	4,097
ACC \$	42.6	46.7	51.3	15.9	9.5	9.9	4,774	4,822	4,870	647	742	847	4,127	4,080	4,023
Dalmia Bharat \$	30.2	32.6	35.9	5.0	8.0	10.0	4,695	4,835	4,884	822	990	1,008	3,873	3,846	3,876
Nuvoco \$	19.0	20.3	21.9	1.0	7.0	8.0	4,927	5,050	5,151	666	846	926	4,261	4,204	4,226
Ramco Cem	18.8	20.6	22.7	2.0	10.0	10.0	4,623	4,692	4,762	745	838	925	3,878	3,854	3,837
JK Cement \$	20.0	21.8	24.4	5.1	9.2	11.9	5,900	5,950	5,939	940	1,105	1,206	4,961	4,845	4,732
Birla Corp \$	18.0	19.1	20.0	2.0	6.0	5.0	4,872	4,994	5,094	627	812	897	4,246	4,182	4,197
Heidelberg	4.7	4.9	5.2	(2.0)	5.0	5.0	4,749	4,797	4,821	673	776	810	4,076	4,020	4,011
Star Cem \$	4.6	5.5	6.6	3.1	20.0	20.0	6,597	6,597	6,597	1,128	1,349	1,387	5,469	5,247	5,209
JK Lakshmi \$	12.1	13.3	14.8	1.0	10.0	11.0	5,096	5,249	5,354	673	918	953	4,423	4,331	4,400
Orient Cem	5.6	6.1	6.8	(9.0)	10.0	10.0	5,090	5,192	5,296	631	756	825	4,459	4,436	4,471
Sagar Cem \$	5.7	6.5	7.3	2.0	13.0	12.0	4,055	4,217	4,343	289	605	760	3,766	3,612	3,583
Deccan Cem	2.2	2.5	2.9	15.0	15.0	15.0	4,100	4,182	4,245	408	537	608	3,692	3,645	3,637

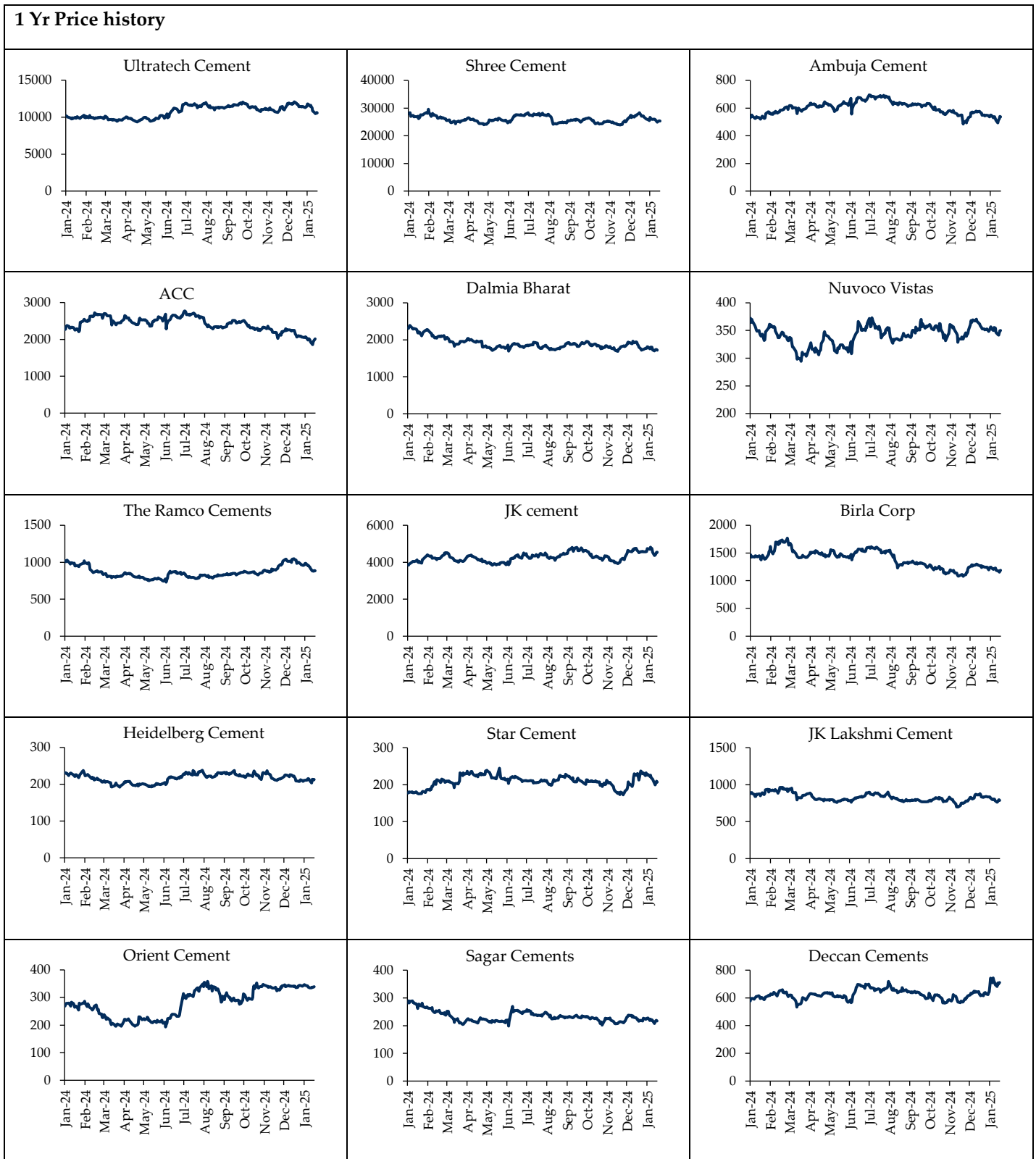
Source: Company, HSIE Research, \$ - Consolidated numbers

Peer-set valuations and TP revisions

Rating and target price revision summary

Company	Mcap (INR bn)	CMP (INR/sh)	New Rating	Old Rating	New TP	Old TP	Valuation multiple [^]	EV/EBITDA (x)			EV/MT (USD)		
								FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
UltraTech	3,119	10,586	ADD	ADD	11,813	11,260	16.5	25.2	18.3	14.9	219	204	188
Shree Cem	913	25,297	ADD	ADD	28,020	27,400	16.5	23.0	17.4	15.0	169	142	133
Ambuja Cem	1,321	536	ADD	ADD	658	650	16.5	22.5	16.7	13.8	171	161	150
ACC	378	2,013	ADD	ADD	2,647	2,685	10.0	12.0	9.5	7.4	100	90	83
Dalmia Bharat	327	1,722	BUY	BUY	2,205	2,205	12.0	14.6	11.7	10.9	88	92	96
Nuvoco Vistas	125	350	BUY	BUY	420	450	9.0	12.0	9.5	7.9	78	83	66
Ramco Cem	209	884	ADD	ADD	870	880	12.0	18.1	15.0	12.7	132	104	97
JK Cement	351	4,541	REDUCE	REDUCE	4,385	4,235	13.0	21.0	16.6	13.9	157	133	135
Birla Corp	91	1,187	BUY	BUY	1,604	1,685	9.0	10.4	8.0	7.3	71	69	65
Heidelberg	48	212	REDUCE	REDUCE	136	145	7.0	13.7	11.3	12.6	81	81	99
Star Cem	84	207	BUY	BUY	227	240	10.0	16.9	11.8	10.1	137	109	95
JK Lakshmi	93	789	BUY	BUY	872	960	9.0	13.3	9.0	8.6	73	66	65
Orient Cem	69	339	REDUCE	REDUCE	145	175	7.5	19.8	16.1	14.8	99	106	73
Sagar Cem	29	219	ADD	ADD	237	230	7.5	25.7	10.5	7.1	49	44	39
Deccan Cem	10	712	REDUCE	REDUCE	450	480	6.0	17.2	11.2	8.2	46	45	43

Source: Company, HSIE Research, ^ Target multiples are EV/EBITDA based on Mar-27E. CMP as on Jan 17, 2025.



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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