



Margin Pressure Meet Structural Demand

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The Cyclical Threat Vs. The Structural Anchor

The Threat

Sharp rise in pet coke and coal prices.



Near-term margin headwinds and profitability compression.



The Anchor

Government-led infrastructure, housing recovery, private capex.

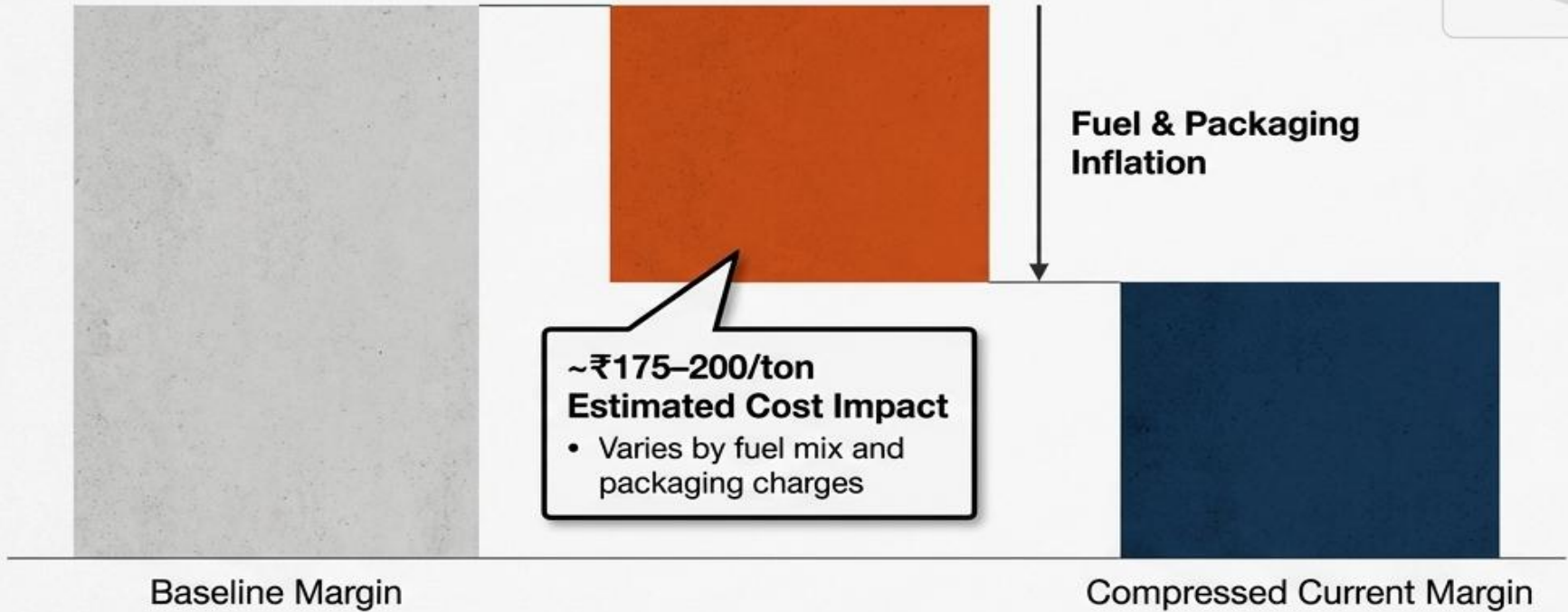
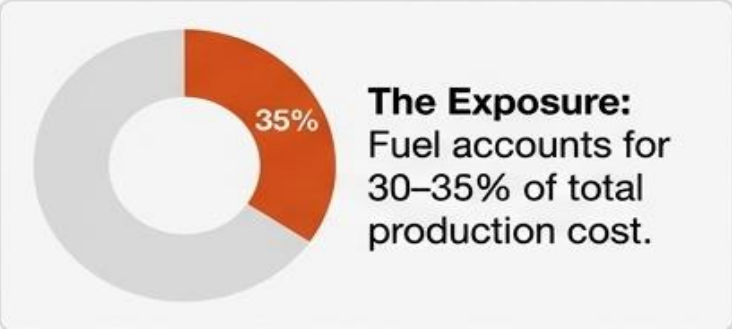


Strong structural demand drivers buffering the cycle.



Near-term cautious; medium-term constructive with preference for cost-efficient players.

The Fuel Overhang Compressing Margins



The Vulnerability: High dependence on imported fuels exposes the sector to global supply disruptions and geopolitical factors.

Insight: Given high operating leverage, even modest cost increases have a disproportionate impact on EBITDA/ton.

Source: Industry, Axis Securities Ltd

Three Pillars Supporting Structural Growth

Expected Cement Demand Growth: ~6–8% (FY26–FY28)

Government Capex Push

Continued focus on roads, railways, urban infrastructure, and energy projects.

Housing Demand

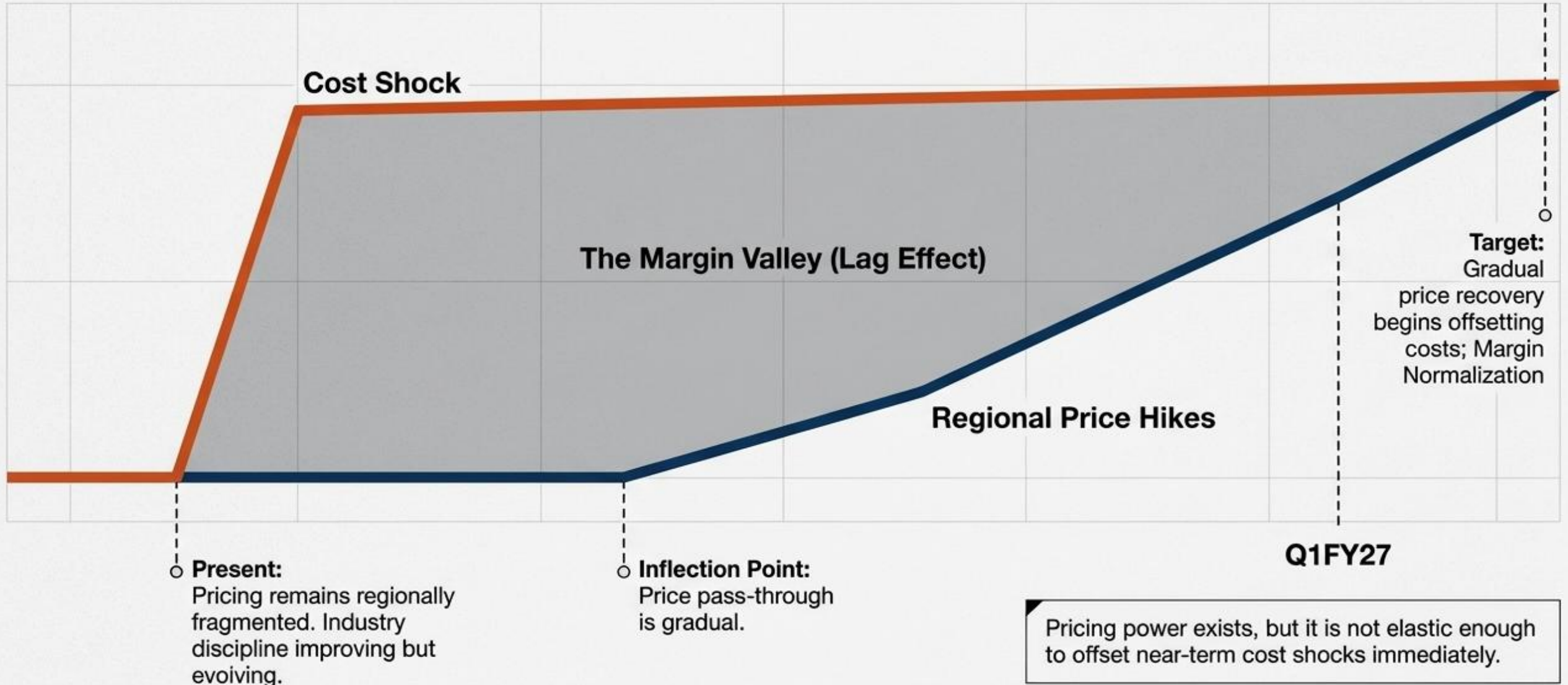
Recovery in urban real estate paired with stable rural demand.

Execution Pipeline

Strong project pipeline ensuring long-term demand visibility.

Industry volumes are heavily insulated by structural demand, cushioning the impact of cyclical cost pressures.

Navigating the Margin Valley



Profitability Trajectory

Near-Term (FY26–early FY27)

Status: Temporary Compression Cycle

Indicators: EBITDA margins likely to contract. Earnings downgrades possible.

Action: Monitor fuel trajectory and price hike effectiveness.



Medium-Term (FY27 onwards)

Status: Structural Recovery

Indicators: Margins expected to recover gradually, supported by pricing actions and cost normalization.

Takeaway: This is a temporary margin compression cycle, not a structural deterioration.

The Operational Defense Playbook

Fuel Optimization

- ✓ - Increasing the share of domestic coal.
- ✓ - Scaling Alternative Fuels (AFR).
- ✓ - Investing in Waste Heat Recovery Systems (WHRS).

Cost Efficiency

- ✓ - Logistics and freight optimization.
- ✓ - Shifting toward a higher share of blended cement (lowering the clinker ratio).

Scale Benefits

- ✓ - Leveraging operational efficiencies.
- ✓ - Utilizing massive procurement strength to negotiate fuel rates.

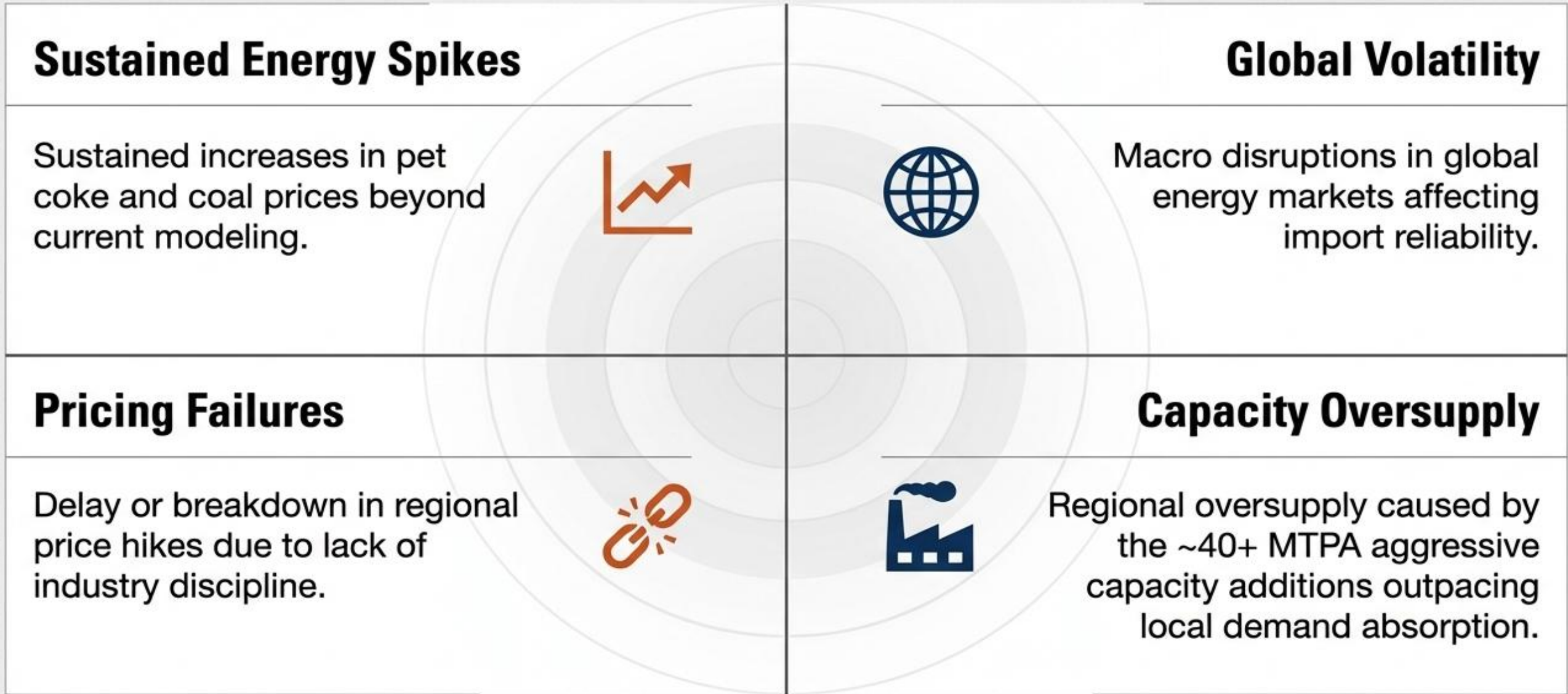


Synthesis: Large, efficient players utilizing these specific levers are systematically better positioned to survive the margin valley.

The Capacity Expansion Paradox



Monitoring the Threat Horizon



Strategic Allocation Playbook

0–6 Months (The Correction Phase)

Stance: Maintain a cautious stance.

Triggers to Watch: Fuel price trajectory and the actual ground-level effectiveness of announced price hikes.

6–24 Months (The Recovery Phase)

Stance: Constructive outlook.

Drivers: Strong demand visibility, industry consolidation, and high operating leverage kicking in as costs normalize.

Preferred Stock Characteristics

- Low fuel cost sensitivity
- Strong regional pricing power
- Efficient cost structures
- Scale advantages

Strategy: Use current market corrections for selective accumulation in high-quality players positioned to survive the cycle.

Cement Sector Valuation: The Case for Selectivity

**12.5x
EV/EBITDA**

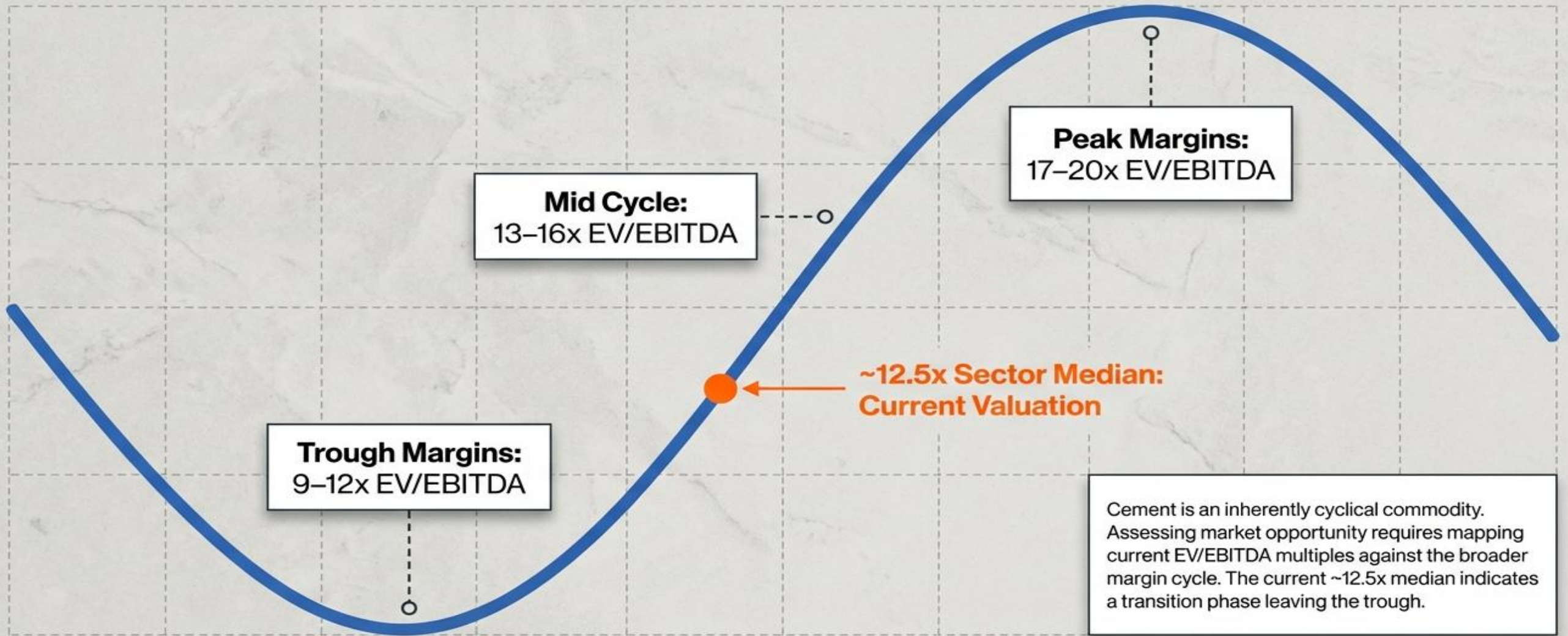
The cement sector is currently trading precisely in line with its historical average. A rising tide will no longer lift all boats.

Strategic Imperative

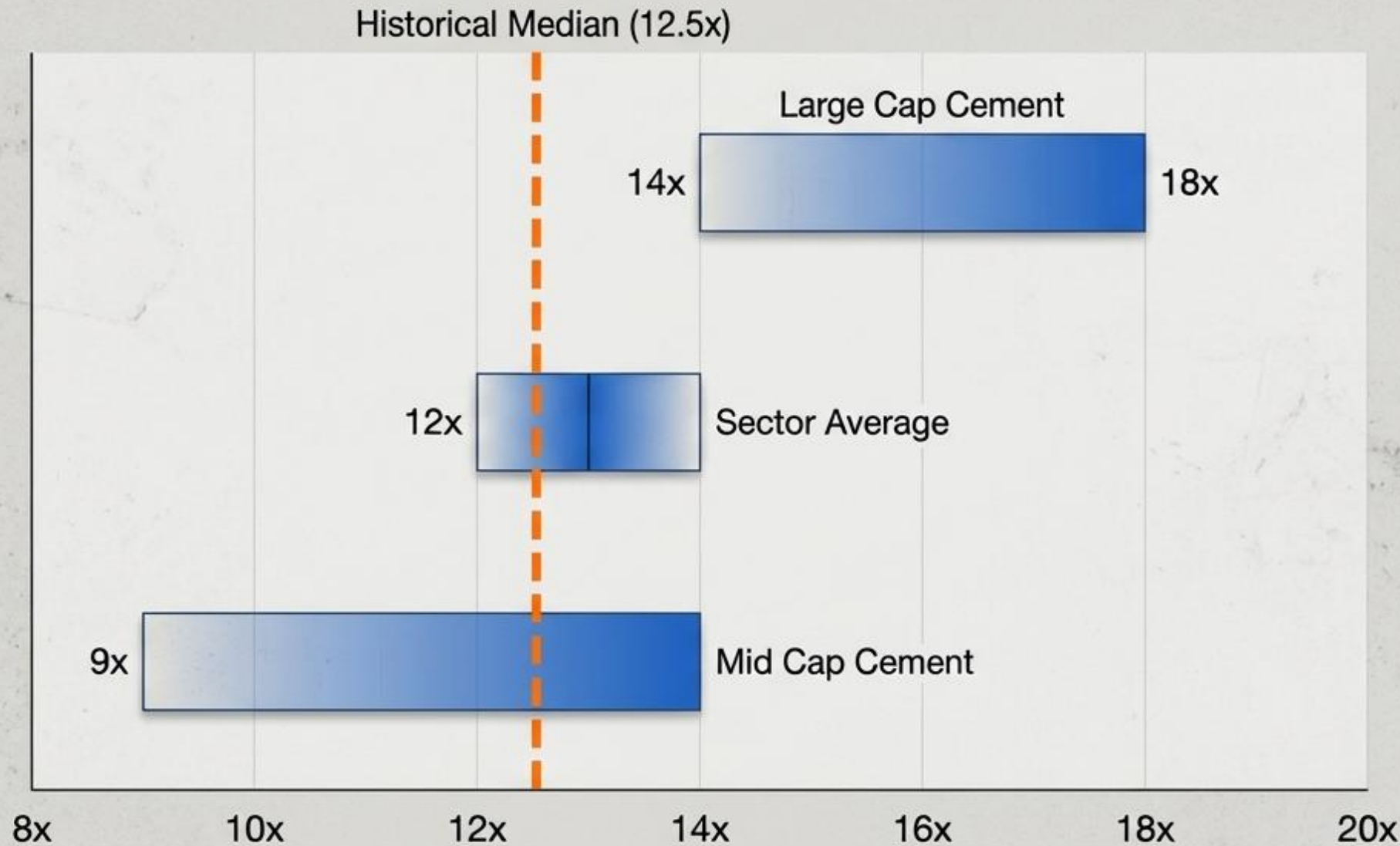
Because current valuations reflect a mid-cycle equilibrium rather than a discounted trough, broad sector exposure is suboptimal. Outperformance requires ruthless selectivity in asset allocation.

Preferred Allocations: Ultratech Cement, Dalmia Bharat Ltd, JK Cement Ltd

The Cyclical Laws of Cement Valuation



Mapping the Current Market Cap Spread



Large caps command a distinct premium (14-18x) while mid caps offer a wider discount threshold (9-14x).

This spread around the 12.5x sector median demands a precision-targeted portfolio strategy rather than broad ETF exposure.

Source: Industry, Axis Securities Ltd

Preferred Equity Picks for a Mid-Cycle Environment

Focusing on quality, operational efficiency, and margin resilience in a **12.5x** market.

UltraTech Cement

A structural play on scale and large-cap market leadership.

TGT: Rs 14,000

Dalmia Bharat Limited

A targeted play on operational efficiency and cost-curve advantage.

TGT: Rs 2,520

JK Cement Ltd.

A strategic play on specialized market positioning and product mix.

TGT: Rs 6,570

CAREFUL SELECTION AMONG THESE NAMES IS RECOMMENDED TO NAVIGATE PREVAILING MID-CYCLE DYNAMICS AND EXTRACT MAXIMUM VALUE FROM THE CURRENT 12.5X SECTOR MEDIAN.

Coverage Universe Valuation

Company Name	Current Reco	CMP	Target Price	Sales (Rs Cr)			EBDITA (Rs Cr)			PAT (Rs Cr)			ROE (%)			RoCE (%)			EV/EBITDA (x)		
				FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Ambuja Cements Ltd	BUY	421	590	35,045	41,617	47,181	5,971	7,086	9,236	4,175	3,329	4,004	10.8	8.6	7.2	10	6	9	15.8	15.5	12.3
Birla Corporation Ltd	BUY	815	1,370	9,214	9,571	10,489	1,217	1,299	1,581	295	387	562	2%	3%	4%	6	7	9	7.2	7.1	5.8
Dalmia Bharat Ltd	BUY	1,830	2,520	13,980	15,133	17,140	2,407	3,186	3,830	683	1,269	1,448	4%	7%	7%	6	8	9	11.4	9.6	8.3
Heidelberg Cement India Ltd	HOLD	149	190	2,149	2,325	2,534	239	301	380	107	151	217	7.5	10.2	15.3	11	14	19	12.7	10.0	7.7
JK Cement Ltd	BUY	5,000	6,570	11,879	13,931	15,712	2,027	2,480	3,135	752	1,076	1,345	16.8	16.4	17.4	13	15	16	17.4	14.4	14.0
JK Lakshmi Cement Ltd	BUY	593	930	6,193	6,837	7,508	865	1,061	1,269	311	440	548	7.6	9.4	10.1	9	11	13	10.1	8.5	7.6
Star Cement Ltd	BUY	216	320	3,163	3,716	4,179	579	903	1,040	169	384	424	6.0	12.2	12.3	9	16	15	15.7	10.1	8.8
Shree Cement Ltd	HOLD	23,535	27,070	18,037	18,771	20,975	3,837	4,214	4,918	1,196	1,777	2,354	5.8	8.1	10.0	7	11	13	21.0	18.0	15.3
Ultratech Cement Ltd	BUY	10,934	14,000	75,955	89,828	1,01,237	12,557	17,466	21,485	6,040	8,826	12,159	8%	11%	13%	11%	13%	15%	19.0	15.0	13.0

Source: Company, Axis Securities Ltd

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