AXIS DIRECT

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Top Conviction Ideas: Cement

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Cement Sector: Q4FY26 Review

Q4FY26 Cement Review –Volume Growth On Track, Realisations Subdued

✓ *Financial Performance*

- **Companies under our coverage posted positive growth,** with volumes up 8%, revenue rising 9%, EBITDA increasing 4%, and PAT growing 24%. This compares with our forecasts of 11% volume, 12% revenue, 8% EBITDA, and 1% PAT growth. PAT was higher on account of tax reversal accounted for by Ambuja Cement during the quarter.
- **EBITDA/tonne during the quarter improved by 18% QoQ but declined 8% YoY** to Rs 1,082/tonne owing to subdued realisation. EBITDA margins contracted by 100 bps YoY and up 300 bps QoQ.
- **Blended Realisation per tonne improved by 2% QoQ and declined 1.3%YoY to Rs 5,478,** as most regions experienced improvement in cement prices QoQ, particularly Non-trade prices. Cost per tonne was Rs 4,396, showing a 2% decline QoQ and largely flat YoY owing to operating leverage benefit. Power and fuel costs declined 5%/2% QoQ/YoY to Rs 1,063 per tonne, as despite increase in Pet Coke prices, as companies optimised fuel use and availability of lower-cost fuel inventory. Q1/Q2FY27 to see the impact of higher fuel prices by Rs 200-250/tonne basis.
- **Performance across the coverage universe was mixed.** Notably, Dalmia Bharat, JK Cement, UltraTech Cement, Birla Corp, and Star Cement performed well, while Ambuja Cement and JK Lakshmi underperformed; Shree Cement's performance was mixed during Q4FY26.
- **UltraTech Cement** became the first Indian cement company to achieve 200 mtpa cement capacity. Meanwhile, JK Cement, Birla Corporation, Star Cement, and Shree Cement commissioned cement grinding units with capacities of 3 mtpa, 1.4 mtpa, 2 mtpa, and 3.5 mtpa, respectively. Earlier announced capacity expansion plans remain largely on track, with some recalibration by Ambuja Cements.
- The management highlighted that **cement prices have improved across regions** to offset the impact of higher fuel and packaging costs. The increase in cement prices is expected to partially mitigate the rise in input costs. While demand remained subdued in Apr'26. It has since shown improvement, with the industry guiding for volume growth of 6–8% in FY27.

Cement Sector: Q4FY26 Review

Volume Improved YoY with Cost Under Control

In Q4FY26, cement volumes across our coverage universe grew by 8%. However, blended realisations declined by 1.3% YoY as cement prices remained soft despite the hike undertaken by the companies owing to higher competitive intensity and new capacity addition. We expect demand conditions to remain benign in FY27, supported by increased government spending on infrastructure and steady housing demand. The industry has taken a hike in cement prices in the month of Apr'26 across regions to combat higher fuel prices and packaging costs. During the quarter, cement production cost on a per tonne basis was registered at Rs 4,396/tonne, flattish YoY and lower 2% YoY.

Cement Demand remained resilient in FY26:

- **Volume-led Growth:** The Indian cement industry witnessed healthy demand momentum during Q4FY26, supported by strong government infrastructure spending, a pickup in construction activity, and improved rural demand. Industry demand growth for FY26 is estimated at around 7–8%, while Q4FY26 demand growth remained in the range of 6–6.5% YoY. Sequentially, volumes improved meaningfully due to favourable construction activity and higher project execution across infrastructure and housing segments. Management commentaries across major cement companies indicate that demand remained temporarily soft during April 2026 owing to unseasonal rainfall and slower construction activity; however, demand conditions improved subsequently. Industry players are currently guiding for FY27 cement demand growth of around 6–8%, supported by continued infrastructure investments, housing demand and industrial and commercial demand uptick.
- **Realisation Remained Soft:** After remaining under pressure for a large part of FY26, cement prices improved meaningfully during Q4FY26 across most regions. Price hikes were undertaken primarily to offset rising fuel, logistics, and packaging costs. While the sustainability of these hikes remains region-specific, realisations improved sequentially for most cement companies during the quarter**.** Cement prices declined 1.3% YoY but improved 2% YoY for our coverage universe, with most of the regions witnessing an improvement in prices during the quarter. Currently, Cement prices have improved by Rs 15- Rs 20 per bag across the region. Market dynamics and the demand-supply scenario will dictate the pricing environment.
- **Regional Demand Dynamics**: There were regional variations in demand. While the South, Central and West regions saw strong demand supported by infrastructure activity, the North and East regions witnessed softness owing to a slowdown in infrastructure-related spending.

Cement Sector Outlook

Input Cost

- During the quarter, power and fuel costs declined by 5% QoQ to Rs 1,063/tonne for our coverage universe, and on a YoY basis, costs were lower by 1.9% on a tonne basis on fuel optimisation and more use of green energy and availability of lower-cost inventory. The impact of higher fuel prices is expected in Q1& Q2 of FY27 as international Pet Coke prices remained elevated at $150-160/tonne. Freight costs are expected to increase in FY27 owing to an increase in diesel prices, while raw material costs remained slightly elevated. Other costs are also negatively impacted by an increase in packaging costs. Overall cost impact is estimated at Rs 350-Rs 400 tonne to be reflected over Q1-Q2FY27.

Outlook

- **Cement Demand Remains Strong:** We expect cement demand to remain strong in FY27, supported by sustained government infrastructure spending, steady housing demand, and a recovery in rural consumption and industrial and commercial construction activity. These positive drivers are likely to keep the industry on a solid growth trajectory. We forecast volume growth in the range of 7-8% across our coverage universe in FY27. The industry added nearly –35 MTPA of new capacity in FY26, with a further ~35-40 MTPA expected in FY27. This sustained capacity expansion reflects confidence in long-term demand growth and continued investment momentum across the sector.
- **Sector Outlook**: The medium-term to long term outlook for the Indian cement sector remains positive; however, profitability will depend on Sustained pricing discipline, Stability in fuel costs, Demand absorption of new capacities and Regional supply-demand balance. We remain positive as long-term demand drivers are intact and expect cement demand to grow at a CAGR of 7%-8% over FY24-28E. Sector consolidation is expected to benefit large players through economies of scale, supply chain efficiency, and better pricing in the long term. Cement prices, regional demand and supply dynamics, and trends in input costs will be key monitorables.

Short and Medium-term Outlook

Short term

Decline in Cement Prices

Higher Competitive Intensity
Rise in input prices

Govt Capex Trajectory will Drive Cement Demand

Premiumization, Higher blending ratio, More use of green energy to support margin stability

Medium Term

Key Monitorables – ***Higher Price Realisations; Input Cost; Demand Pick-up***

Top Conviction Ideas: Cement

Stock	Reco.	TP	Recommendation Rationale
UltraTech Cement Ltd	BUY	Rs 14,000*	✓ **Capacity Expansion:** The company's capacity expansion programme is progressing as planned. Following the acquisition of India Cements' assets, consolidated grinding capacity in India stands at 200 mtpa. The company plans to add 15.9 mtpa in FY27 and 29.8 mtpa in FY28. Upon completion of the third and fourth phases of expansion, the total consolidated Grey Cement grinding capacity is expected to reach ~242 mtpa. ✓ **Market Leadership on Track:** The enhanced scale and wider regional footprint are likely to reinforce market leadership, with market share targeted to increase from ~28% to ~32%. We estimate volume growth at a CAGR of ~13% over FY25–28E, driven by timely capacity commissioning and sustained demand momentum. ✓ **Cost Optimisation to Boost Margins:** The company is targeting a cumulative cost reduction of over Rs 300/tonne over the next 2–3 years. It has already achieved a Rs 185/tonne reduction in cost. Margin expansion is expected to be driven by a higher blending ratio, a rising share of premium products, and increased adoption of green energy ✓ **Market Share Gains Continue:** Between 2013 and 2024, the market share of large players increased from 46% to 57%, and by FY27-28, it is expected to rise further to 65%-70%. With the growing pace of consolidation and capacity expansion by top players, its overall market share is set to increase further. This trend will positively influence cement pricing, economies of scale, and supply chain efficiency. UltraTech, being the top player in the country, is well-positioned to benefit from this consolidation in the medium to long term.

Note: Target Price is based on our Q4FY26 Result Update Report

Top Conviction Ideas: Cement

Stock	Reco.	TP	Recommendation Rationale
Dalmia Bharat Ltd	BUY	Rs 2,430*	✓ **Capacity Expansion Plan on Track:** The company had earlier announced a comprehensive capacity expansion plan involving a 6 MTPA cement unit and a 3.5 MTPA clinker unit at Kadapa (clinker capacity: 3 MTPA) and a 3 MTPA bulk terminal in Chennai, entailing a total capital outlay of Rs 3,287 Cr. These projects are targeted to become operational by Q2FY28. Additionally, its 6 MTPA capacity addition in the western region (3 MTPA each at Pune and Belgaum) is progressing as per schedule and is expected to be commissioned by Q2FY28. ✓ **Strong Volume Growth Visibility:** Dalmia has also commenced commercial production at its 3.6 MTPA clinker unit in Umrangso, Assam, marking a key milestone in its ongoing capacity expansion program. These expansion initiatives are expected to drive future volume growth, supported by its current capacity utilisation of 61%, which provides significant headroom for operating leverage. The company is projected to deliver a 6% volume CAGR over FY25–28E. ✓ **Volume Growth and Margin Support Continue:** The company's quarterly performance was supported by higher realisations and lower costs. Cement prices have improved, driven by rising fuel and packaging costs across its regions, and are expected to help offset the current increase in input costs. In parallel, the company is actively undertaking cost-saving initiatives, targeting a reduction of Rs 150–200 per tonne over the next two years through enhanced operational efficiency and process optimisation. It has already achieved a cost reduction of Rs 100/tonne in FY26. These initiatives are likely to support profitability and drive margin expansion going forward. Accordingly, we estimate EBITDA margins in the range of 21–22% over FY27–FY28E.

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Top Conviction Ideas: Cement

Stock	Reco.	TP	Recommendation Rationale
JK Cements Ltd	BUY	Rs 6,005*	✓ **Capacity Expansion on Track:** The company's ongoing capacity expansion program is progressing well, targeting an addition of 7 MTPA and will raise its total Grey Cement capacity to 39.3 MTPA from the current 32.26 MTPA, implying a 14% capacity CAGR over FY20–FY28 ✓ **Capacity Ramp-Up to Drive Volumes:** The ramp-up of the recently commissioned capacity, along with the ongoing 7 MTPA expansion, is expected to drive strong volume growth in the future. As a result, JK Cement is projected to deliver a volume CAGR of 14% over FY25–FY28E. ✓ **Strong Operating Performance Sustains:** JK Cement delivered a positive operating performance during the quarter, supported by volume growth and lower costs, leading to an 8% QoQ improvement in EBITDA per tonne to Rs 1,004. This positive momentum is expected to sustain through FY27, backed by robust cement demand. Management has guided for cost savings of Rs 150–200 per tonne over the next two years. Consequently, the company is expected to achieve an EBITDA margin in the range of 18%–19% in FY28E, driven by higher volumes, improved realisations, and ongoing cost optimisation initiatives. ✓ **Regional Expansion Supports Growth:** Post-expansion, Central India will account for ~40% of JK Cement's grey capacity, while entry into the Eastern region strengthens its long-term growth footprint. Supported by rising infrastructure-led demand, the company is well placed to capture higher cement consumption, underpinning a 14% revenue CAGR over FY25–FY28E.

*** Note: Target Price is based on our Q4FY26 Result Update Report***

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