AXIS SECURITIES

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Top Conviction Ideas: Cement

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Q1FY26 Cement Review – Higher Prices Boost Profitability; Outlook Remains Positive

✓ *Financial Performance*

- Companies under our coverage delivered YoY growth of 10% in volume, 16% in revenue, 40% in EBITDA and 45% in PAT, beating our expectations. This compares to forecasted growth of 10% in volume, 14% in revenue, 39% in EBITDA, and 25% in PAT.

- EBITDA/tonne during the quarter improved notably. EBITDA margins expanded by 350 bps YoY, supported by higher volumes and realisation, which grew by 10% and 4% respectively. Sequentially, margins remained flattish at 19.7%. EBITDA per tonne rose to Rs 1,070, marking a 30% YoY increase but a 1% decline QOQ.

- Blended Realisation per tonne improved by 4% YoY and 2.5% QoQ to Rs 5,510, as most regions experienced a rise in cement prices. Cost per tonne was Rs 4,441, showing a 1% decline YoY, as power and fuel costs softened by 7% to Rs 1,010 per tonne.

- Performance across the coverage universe was largely in line with expectations. Notable outperformance came from JK Cement, JK Lakshmi, Ambuja Cement, and UltraTech Cement. Dalmia Bharat Limited and Shree Cement delivered stronger margins, while ACC Limited and Birla Corporation's performance remained mixed.

- During the quarter, UltraTech Cement, Shree Cement, and Ambuja Cement commissioned 3.5 mtpa, 6.5 mtpa and 4.5 mtpa of new capacity, respectively. Dalmia Bharat also announced fresh expansion plans of 6 mtpa. Previously announced capacity additions are on track and are expected to be commissioned within the given timelines.

- Management noted that cement prices are largely flattish since Q1FY26 exit levels, and they expect demand to strengthen in FY26. This optimism is driven by rising government infrastructure spending, along with a recovery in housing, industrial, and commercial demand.

Cement Sector: Q1FY26 Review

Better Realisation Supported Overall Performance

In Q1FY26, cement volume for our coverage universe grew by 10%, meeting our expectations. Realisations improved by 4% as cement prices increased, while operating costs reduced by 1% YoY. We anticipate operating performance to remain benign in FY26, supported by improved pricing, higher government spending on infrastructure projects, and housing demand.

Cement Demand Meets Expectations:

- **Resilient Pricing:** Cement prices improved by 4% YoY and 2.5% QoQ, with the Southern and Eastern regions playing the major role in positive price sentiment and are currently largely at the same level as Q1FY26 exit prices. Market dynamics and the demand-supply scenario will dictate the pricing environment. Despite the typical monsoon season slowdown, cement prices held up well across most regions, particularly in the Southern and Eastern parts of India, which had seen significant price hikes earlier in the quarter. This helped companies improve their realisations and, consequently, their profitability.
- **Volume-led Growth:** Demand for cement remained strong, driven by government infrastructure spending and a revival in housing and commercial construction. UltraTech Cement, for instance, saw a 10% YoY growth in sales volume, while Ambuja Cement achieved a record 20% YoY increase. The early onset of the monsoon season in some regions did cause a temporary slowdown in demand, particularly in states like Kerala, which impacted volumes for some companies. However, this seasonal weakness was largely offset by strong pre-monsoon demand and resilient pricing.
- There were regional variations in demand. While the Eastern, Western, and Southern regions saw strong demand supported by infrastructure activity, the Central and Northern regions experienced some seasonal softness.

Cement Sector Outlook

Input Cost

- The softening of power and fuel costs positively impacted the operational performance of cement companies in Q1FY26. During the quarter, power and fuel costs decreased by 7% YoY to Rs 1,010/tonne for our coverage universe. While raw material costs saw a slight uptick, the overall power and fuel costs were well-managed, thanks to a sustained focus on green energy and operational efficiencies.

Outlook

- We expect cement demand to remain strong in FY26, supported by sustained government infrastructure spending, steady housing demand, and a recovery in rural consumption. These positive drivers are likely to keep the industry on a solid growth trajectory, and we forecast high single-digit volume growth across our coverage universe. The industry added nearly 30–35 MTPA of new capacity in FY25, with a further ~40 MTPA expected in FY26. This sustained capacity expansion reflects confidence in long-term demand growth and continued investment momentum across the sector.
- We remain positive as long-term demand drivers are intact and expect cement demand to grow at a CAGR of 7%-8% over FY24-27E. Sector consolidation is expected to benefit large players through economies of scale, supply chain efficiency, and better pricing in the long term. Despite ongoing capacity additions, we believe long-term cement demand will outpace supply. Cement prices, regional demand and supply dynamics, and trends in fuel costs will be key monitorables.
- In summary, the cement sector has started FY26 on a strong footing. The results from market leaders demonstrate that a combination of robust demand, resilient pricing, and disciplined cost management is leading to impressive profit growth.

Short and Medium-term Outlook

Short term

Decline in Cement Prices.
Lower demand owing to the Monsoon.
Higher competitive intensity

Higher Capex outlay in the budget for infrastructure.

Better Housing, Infra, and Real Estate demand.

Capacity expansion plan progressing well.

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 13,840*	✓ The company's capacity expansion is on track. Its total grinding capacity in India stands at 187 mtpa after acquiring India Cement's assets. ✓ The company plans to add a further 11 mtpa in FY26 and another 15 mtpa in FY27, bringing its total cement manufacturing capacity to 212 mtpa in India. ✓ With expanded capacity and scale, the company is positioned to strengthen its market leadership, targeting a market share increase from 25% to 28%. We project volume growth at a 1% CAGR over FY24–27E. ✓ In FY25, total efficiency improvements saved Rs 86 per tonne. The company projects a total cost reduction of Rs 200–300 per tonne over the next 2–3 years. We project that its EBITDA margins will increase to 22% in FY27E, driven by higher volume, better realisations, and cost optimisation initiatives. ✓ Between 2013 and 2024, the market share of large players increased from 46% to 55%, 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 Q1FY26 Result Update Report***

Top Conviction Ideas: Cement

Stock	Reco.	TP	Recommendation Rationale
 **Ambuja Cements Ltd**	**BUY**	**Rs 660***	✓ The company is expanding its capacity from the current 104.5 MTPA (including 8.5 MTPA of Orient Cement) to 118 MTPA, with the ongoing expansion set to be completed in phases over FY26. ✓ The company is exploring further growth opportunities to achieve a combined capacity of 140 MTPA by FY28. This expansion is expected to support its sustained growth momentum. Volume and revenue are projected to grow at CAGRs of 11% and 12%, respectively, over FY24-FY27E. ✓ Business initiatives are expected to further lower operating costs by reducing the clinker factor and logistics costs, improving the sale of blended cement, and expanding the EBITDA margins. We forecast the company's EBITDA margins to improve to 20%-21% in FY27E. ✓ Strong infrastructure demand and ongoing needs from the housing and commercial sectors are anticipated to boost cement demand in FY26. Strategic investments in roads, railways, and urban and commercial amenities are poised to drive robust growth. The company expects demand for the industry during FY26 to grow in the range of 7-8%.

Note: Target Price is based on our Q1FY26 Result Update Report

Top Conviction Ideas: Cement

Stock	Reco.	TP	Recommendation Rationale
Dalmia Bharat Ltd	BUY	Rs 2,550*	✓ The company announced a fresh capacity expansion plan involving a 6 MTPA cement unit and 3.5 MTPA clinker unit at Kadapa and a 3 MTPA bulk terminal in Chennai, with a capital outlay of Rs 3,287 Cr, targeted to be operational by Q2FY28. Additionally, the earlier announced 6 MTPA capacity addition (3 MTPA each in Pune and Belgaum) aimed at catering to the western region is progressing well and is expected to be commissioned by Q4FY27. With improved utilisation and incremental capacity coming onstream, the company is projected to deliver a 7% volume CAGR over FY25–27E ✓ It is expected that the company will enhance its EBITDA margins to 21-22% over FY26E-FY27E, driven by improved operating efficiency, higher sales of premium products, increased trade sales, and stable realisations. Pricing remains a key monitorable. ✓ The Indian cement industry is witnessing a wave of consolidation, with larger players acquiring regional or mid-sized firms to enhance market presence, optimise logistics, and achieve cost synergies. This consolidation trend is expected to reduce competitive intensity, enabling better price discipline and margin stability across the sector. The company, with its strategic focus on profitable growth through selective capacity expansion, focus on high-margin regions, improved product mix (e.g., blended cement), and disciplined capital allocation, is well-positioned to capitalise on this industry shift.

*** Note: Target Price is based on our Q1FY26 Result Update Report***

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Stock	Reco.	TP	Recommendation Rationale
JK Lakshmi Cement	BUY	Rs 1,050*	✓ The setting up of a grinding unit in Surat of 1.4 mtpa at a capital cost of Rs 220 Cr, which is to be funded out of a mix of internal accruals and debt, 1st phase is expected to commence in Q2FY26.The company is also setting up a grinding unit with a capacity of 4.6 mtpa and a Clinker unit of 2.3 mtpa. These facilities are expected to commence in phases over FY26-FY28, thereby boosting its market share, volume and revenue growth. We project a volume and revenue growth CAGR of 8%/11% over FY25-27E ✓ JKLC reported an 11% YoY increase in revenue to Rs 1,741 Cr. This was driven by a 10% YoY growth in sales volume, outperforming the industry's average growth. ✓ JKLC expects cost savings of Rs 100-120 per tonne. We project EBITDA/tonne growth at a 7% CAGR over FY24-27E, reaching Rs 1,000/tonne, supported by better realisations, higher volumes, and cost-saving measures. ✓ Given the government's emphasis on infrastructure development and increased budgetary allocation for housing and road projects, the outlook for the cement sector remains positive for the upcoming year.

***Note: Target Price is based on our Q1FY26 Result Update Report**

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