Cement Thematic Sector Note

03rd December 2024

Cement

H2FY25E government spend surge to drive cement sector growth

Company name	CMP	Rating	Target Price	Upside	Revenue CAGR FY24-FY26E	EBITDA CAGR FY24-FY26E	Adj. PAT CAGR FY24-FY26E	EV/EBITDA multiple (x)
ACC	2,234	BUY	2,790	24.9%	7.8%	13.1%	7.9%	13.0
The Ramco Cements	1,035	ACCUMULATE	985	TA	5.1%	11.8%	29.6%	14.5
Shree Cement	26,784	ACCUMULATE	25,635	TA	8.0%	22.2%	19.4%	16.5
UltraTech Cement	11,649	ACCUMULATE	12,063	3.6%	9.5%	16.4%	18.4%	20.5

Source: Deven Choksey Research, Closing as of 02nd December 2024.

SECTOR OVERVIEW

View and Valuation:

- Cement prices continued to decline in Q2FY25, extending the downtrend observed over the past few quarters. The sequential drop in prices can be attributed to several factors, including prolonged monsoons, ongoing sector consolidation, and the traditionally weak seasonality of the quarter. Despite cement prices remaining at multi-quarter lows, demand remained subdued, with flat YoY growth across our coverage universe. This stagnation is largely due to delays in infrastructure sector fund allocations, the lingering impact of the general election, and the seasonal effects of the monsoon quarter, which typically dampen activity.
- Management commentaries suggest that cement prices have stabilized in the current quarter compared to Q2FY25, with expectations for a gradual recovery in both demand and pricing in H2FY25E.
- The medium-term outlook for the sector remains positive, supported by upcoming infrastructure projects, higher capital expenditure, and sustained growth in real estate and housing demand. Key drivers in the medium term include a) capacity expansions, b) improvements in realization, and c) margin enhancement through ongoing cost-optimization initiatives.
- In the medium term, we project volume growth underpinned by aggressive capacity expansions, alongside margin tailwinds from increased green power utilization. Furthermore, we expect cement realizations to strengthen across pan-India markets in the medium-to-long term, supported by disciplined pricing behavior stemming from ongoing industry consolidation.
- India's fiscal deficit for the first seven months of FY25 has reached INR 7.51 Tn., or 46.5% of the full-year budget estimate, a slight increase from 45.0% in the same period last year. While capital expenditure for the first seven months stands at 42.0% of the budgeted INR 11.11 Tn., the government faces a challenge in spending the remaining 58.0% over the next five months. However, positive fiscal momentum was observed in October 2024, with a 31.7% year-on-year surge in expenditure growth, reversing a negative growth of -0.4% during H1FY25.
- Given the fiscal acceleration in October and the government's prioritization of infrastructure investments, there is potential for an uptick in capital expenditure. If this trend continues, it could help meet the capex target, creating a conducive environment for cement companies. The cement sector, which typically benefits from increased infrastructure spending, could see heightened demand as the government ramps up its capex, particularly in road construction and housing projects.
- With India's GDP growth for Q2FY25 moderating to 5.4%, government-driven infrastructure spending will be crucial to sustaining growth. For cement companies, this may translate to increased volume growth and improved pricing power in the medium term, as government spending continues to flow into infrastructure projects.

Updates from our coverage universe:

The Ramco Cements Ltd (TRCL)

Ramco Cements presents a compelling investment thesis, underpinned by its disciplined and strategic capacity expansion plan targeting 30.0 MTPA by FY26E, achieved through minimal capital expenditure. The company's expansion of green power capacity is expected to significantly reduce power and fuel costs, contributing to enhanced margins and operational efficiency. Additionally, TRCL's proactive approach to asset monetization has resulted in INR 3,760 Mn in realized proceeds to date, strengthening its balance sheet and enabling further debt reduction and capex funding. Ramco's ongoing focus on cost optimization, coupled with its robust growth strategy, adds further confidence to the investment thesis.

We retain our FY26E EBITDA of INR 19,555 Mn and our multiple of 14.5x FY26E EV/EBITDA driven by confidence in the company's ability to successfully execute its expansion plans, which are expected to be completed by FY26E. This optimism is further supported by an anticipated pick-up in demand, driven by increased government spending in H2FY25E, which is likely to boost demand and volumes in the cement sector. These factors combined with the company's focus on monetizing non-core assets to reduce debt, enhance our confidence in its resilience despite sectoral challenges. Accordingly, we maintain our target price of INR 985 and retain our "ACCUMULATE" rating on the shares of Ramco Cements Ltd.

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Cement

Shree Cement Ltd (SRCM)

Shree Cement Ltd. is executing a robust capacity expansion strategy, targeting 71.8 MTPA by Q1FY26E, with key projects in Jaitaran, Kodla, Baloda Bazar, and Etah on track for timely commissioning. This expansion will be pivotal in driving both volume and earnings growth. The company's longer-term target of surpassing 80.0 MTPA by FY28E, coupled with its plan to scale its Ready-Mix Concrete (RMC) network to 100 plants over the next 3-5 years, positions it for continued growth in a competitive market.

In parallel with its expansion, Shree Cement is also prioritizing cost-efficiency initiatives, particularly through its focus on increasing its green energy share. This strategy is expected to enhance EBITDA margins and contribute to sustainable profitability, reinforcing the company's strong operational and financial trajectory. **We maintain our FY26E EBITDA of INR 53,951 Mn and retain our FY26E EV/EBITDA multiple of 16.5x, underscoring our confidence in the company's expansion plan to reach its 80MTPA target by FY28E, which remains on schedule supported by the optimism of improving macro conditions. Accordingly, we retain our "ACCUMULATE" rating and maintain our target price of INR 25,635.**

ACC Ltd (ACC)

ACC is expanding capacity with two new units—Sindri (1.6 MTPA) by Q4FY25E and Salai Banwa (2.4 MTPA) by Q1FY26E—increasing total capacity from 38.6 MTPA to 42.6 MTPA by Q1FY26E. ACC remains debt-free, with net cash of INR 14,974 Mn, supporting its growth trajectory. Adani Group's acquisition of a 46.8% stake in Orient Cement and its earlier acquisition of Penna Cement (Q1FY25) strengthens its footprint in southern India's cement market. These moves are expected to deliver synergistic benefits for ACC Ltd, enhancing operational efficiencies and boosting profitability. Margin improvement initiatives—expanded WHRS capacity, increased linkage/captive coal usage, and higher reliance on alternative fuels—are likely to support cost optimization.

We maintain our FY26E EBITDA of INR 39,130 Mn and an EV/EBITDA multiple of 13.0x, reflecting our confidence in the ACC's ability to capitalize on synergy benefits, cost savings, and the strategic acquisition by the parent company that will drive ACC's volume and enhance profitability. Accordingly, we retain our target price of INR 2,790 per share and our "BUY" rating on the shares of ACC Ltd.

UltraTech Cement Ltd (UTCEM)

As of H1FY25, UTCEM's capacity reached 156.1 MTPA, including 1.2 MTPA commissioned in October 2024. The company plans to add 6.3 MTPA in H2FY25E, followed by 11.8 MTPA in FY26E and 14.7 MTPA in FY27E, targeting 188.9 MTPA by FY27E. Pending regulatory approvals for acquisitions of Kesoram Industries (10.75 MTPA) and India Cements (14.45 MTPA) could further elevate consolidated capacity to 214.1 MTPA, strengthening its market position. UltraTech Cement is making significant strides in operational efficiency and sustainability. WHRS capacity has grown from 278 MW in FY24 to 308 MW, with a target of 450 MW by FY27E, while renewable energy capacity increased from 612 MW to 681 MW, aiming for 1.8 GW by FY27E. Additionally, lead distance is projected to decline to ~360 km by FY27E, driving a reduction in operating costs by INR 300/Ton, supported by savings from green power, alternative fuels, blended cement, logistics, and operational efficiencies.

We maintain an EBITDA of INR 175,623 Mn for FY26E and apply an EV/EBITDA multiple of 20.5x, driven by robust expansion plans expected to stimulate volume growth. This, combined with cost-cutting initiatives focusing on an improved green power mix, increased use of Waste Heat Recovery Systems (WHRS), and higher adoption of alternative fuel sources, is likely to support margin growth in the coming years. Consequently, we maintain our target price of INR 12,063 and an "ACCUMULATE" rating on UltraTech Cement Ltd. shares.

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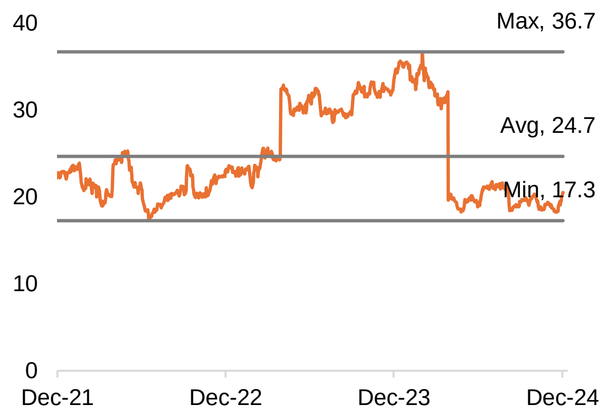
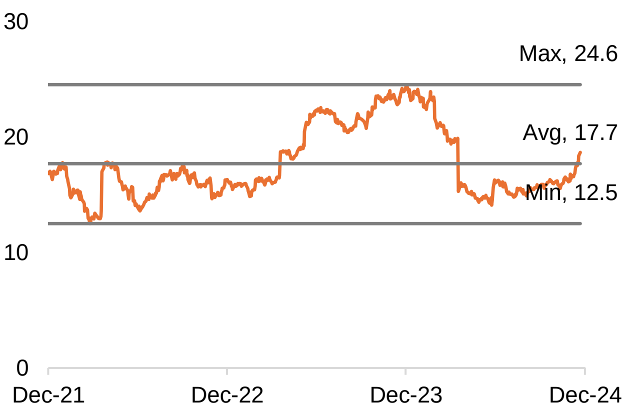
1-Year Forward EV/EBITDA charts

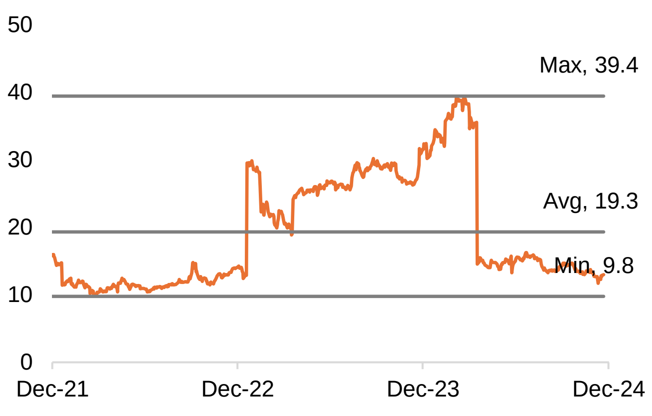
SRCM 1-Year forward EV/EBITDA



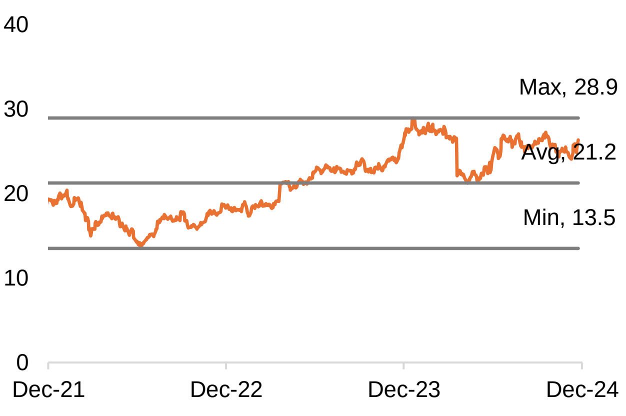
TRCL 1-Year forward EV/EBITDA



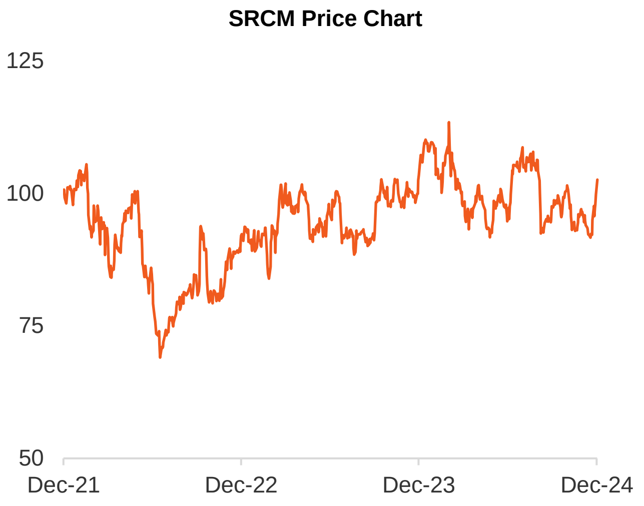
ACC 1-Year forward EV/EBITDA

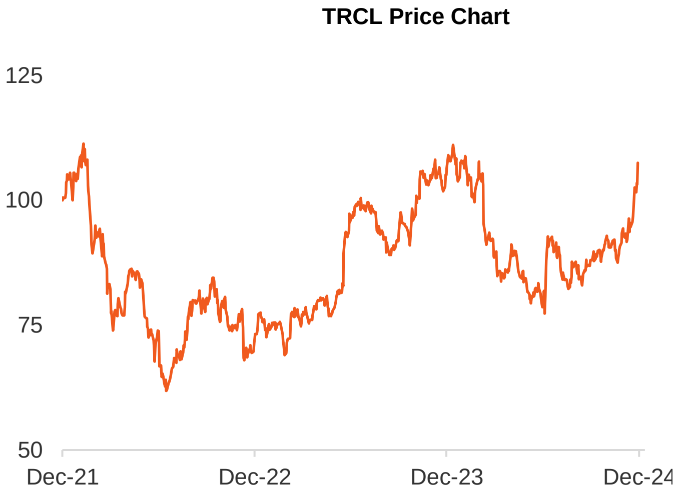


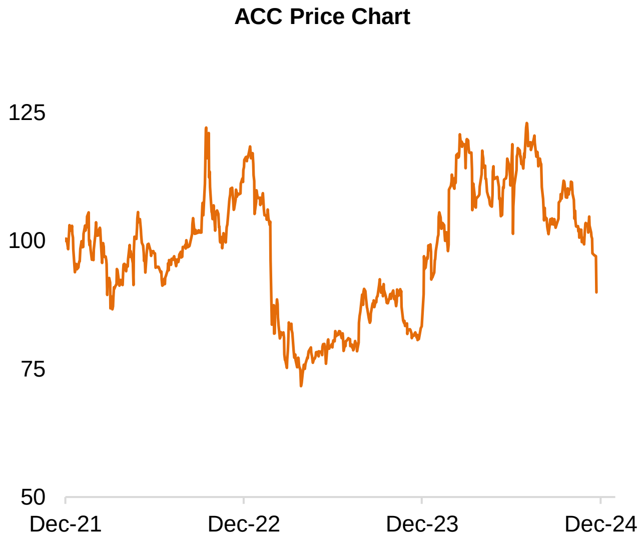
UTCEM 1-Year forward EV/EBITDA

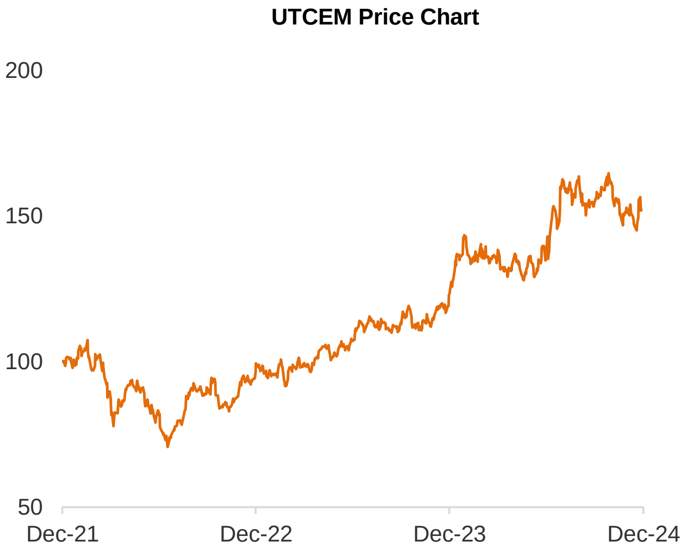


Share Price charts









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