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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Cement Sector

03 March 2025

Healthy volumes and improving prices aid recovery in February

Pricing remains stable; gradual recovery on the cards

Our channel checks suggests that price hikes in the range of Rs10-30/bag happened in various pockets of the country in early February. However, part of these hikes was rolled back and only Rs10-15/bag was absorbed owing to continued soft demand. Price hike attempts to the tune of Rs20-25/bag are also expected in the first week of March led by the Eastern and Northern markets, followed by Rs10-15/bag in the Central and Western markets while South remains flattish. However, sustained competitive intensity and year end volume targets are likely to hamper a possibility of price increase. North prices improved 2.8% in February vs Q3 average to Rs371/bag while Central Prices improved to Rs374/bag, +1.6% MoM. South prices remained flat with no near term signs of recovery. Pan India prices averaged at ~Rs371/bag, a 2% increase MoM. South prices remained the worst hit with no near term signs of recovery. West prices remained largely stable at Rs382/bag.

Focus on cost efficiencies as competition mounts

Cement demand has been facing challenges due to labor shortages, transportation bottlenecks, and muted government spending, further exacerbated by the ongoing Kumbh Mela. Pricing remains under pressure, and the typical year-end push for higher volumes in March 2025 could add to the strain. However, early signs of recovery were visible in December 2024, and with an expected pickup in government capex in Q4FY25, demand is likely to gain momentum in the coming months. On a sequential basis, demand has strengthened significantly; however, it remains 10%-15% lower compared to Q4FY24. We expect a 7-8% volume growth in Q4FY25.

Outlook:

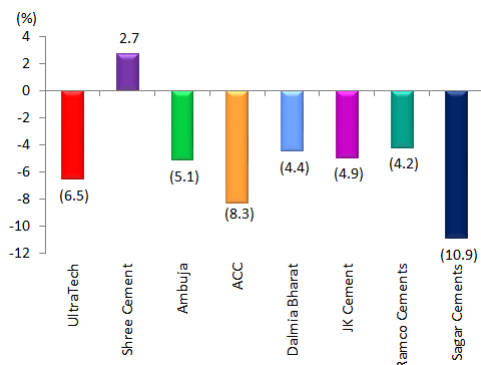
The Indian cement industry is on track for steady expansion, with demand anticipated to grow by 4%-5% in FY25E and gain further momentum to 6%-7% in the following years. Cement prices have witnessed a notable recovery, with all-India average prices rebounding to Rs371 per bag from the August 2024 low of Rs337/bag, reflecting a 10% improvement. Moreover, companies shift focus from consolidation to organic growth—driven by improved performance, efficiency, and margins—cement prices are expected to rise steadily over the medium term. Since the end of Q3, prices across most regions have increased by 3%-4%, supported by a seasonal pick-up in demand. While most regions are targeting a price hike of Rs20-25 per bag, its sustainability remains an overhang, as manufacturers may prioritize volume growth over pricing discipline to meet year-end sales targets. Additionally, demand could experience a temporary dip in certain regions due to disruptions caused by the Holi festival. **Ultratech** and **Ambuja** remain our top picks within the coverage universe with a TP of Rs12,660 and Rs654, respectively.

SECTOR UPDATE

Industry

Cement

Monthly Stock Returns



Source: Bloomberg, Systematix Institutional Research

Sector Recommendations

Ticker	Mkt Cap (Rs bn)	TP (Rs)	Rating
Ultratech Cement	2,919	12,660	BUY
Shree Cement	984	27,185	HOLD
Ambuja Cement	1,145	654	BUY
ACC	342	2,701	BUY
Dalmia Bharat	317	1,853	HOLD
JK Cement	339	4,582	HOLD
Ramco Cement	196	1,000	HOLD
Sagar Cements	23	221	HOLD

Source: Systematix Institutional Research

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UltraTech's Foray into the Cables and Wires Segment

UltraTech Cement announced its entry into the cables and wires sector with an investment of Rs18bn over the next two years. The company plans to establish a manufacturing facility near Bharuch, Gujarat, aiming for commissioning by December 2026. This strategic move aligns with UltraTech's objective to broaden its footprint in the construction value chain, targeting the growing demand for C&W across residential, commercial, infrastructure, and industrial sectors. The C&W industry has witnessed a 13% CAGR from FY19-24 with the momentum expected to continue going forward.

Key Takeaways from UTCEM call

- UltraTech Cement remains committed to its core businesses: grey cement, ready-mix concrete (RMC), and white cement.
- Cement capacity is projected to reach 183 MTPA by FY25E and 209 MTPA by FY27E, maintaining a ~28% industry capacity share.
- The company will not invest in any new business segments beyond cement and wires & cables over the next five years.
- **Rationale for foray:** Chosen for its synergies with UltraTech's existing cement business, leveraging relationships with contractors, builders, and its 4,432 UltraTech Building Solutions (UBS) outlets.
- **Capex & Timeline:** Rs18bn investment, with the plant in Jhagadia, Gujarat; operations to start by FY27E and full ramp-up expected by FY31E.
- **Revenue & Returns:** Expected IRR of ~25%, and ROCE of 20-25%.
- **Product Mix:** Wires (~60%) will follow a distribution-led model and Cables (~40%) will use both distribution and institutional channels (focus on low-tension cables initially)

Exhibit 1: Ultratech's entry into the C&W space

Particulars	Description
Location	▪ Jhagadia, Gujarat
Capacity	▪ 35 to 40 lakh km
Key Product categories	▪ Wires ▪ Cables: Low Tension, Control, Instrumentation, Flexible, Rubber etc.
Distribution	▪ Pan-India reach ▪ Ability to leverage existing UBS network

Source: Company, Systematix Institutional Research

Valuation and our view:

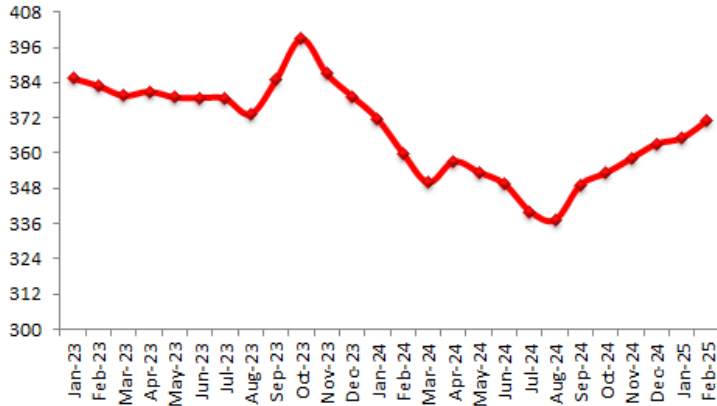
The Cables & Wires (C&W) industry remains fragmented, offering significant export opportunities and enough headroom room for growth. With a Rs18 bn outlay (~2% of UltraTech's planned annual capex) and requirement for multiple regulatory approvals, the plant is expected to contribute meaningfully only from FY28, making it unlikely to disrupt the existing market in the near term. Based on the current planned investment and a 4-5x asset turnover, we estimate the C&W segment to contribute 3-4% to revenue and 5-6% to UltraTech's bottom line from FY28E.

While synergies and capital allocation are amidst the key concerns, management remains committed to its core grey cement business. Strong domestic volume growth in power transmission, urban infrastructure expansion, and a robust real estate cycle support the long-term demand outlook for C&W. Though operating margins in C&W (11-13%) are lower than UltraTech's cement margins (18-22%), the higher growth rate of 13-14% (vs. UltraTech's 11% and the cement industry's 7-8%) and superior ROCE driven by higher asset turnover could make this foray value accretive.

In an industry expected to reach Rs1.8tn, UltraTech aims to capture a 5-6% market share, with projected C&W revenue of Rs100-120bn by FY31. Despite near-term weakness in cement pricing and demand, we remain optimistic about UltraTech's growth outlook, further bolstered by its expansion into high-growth segments. We maintain a **BUY** rating on the stock with a target price of **Rs12,660** valuing UTCEM at 20x FY26E EV/EBITDA.

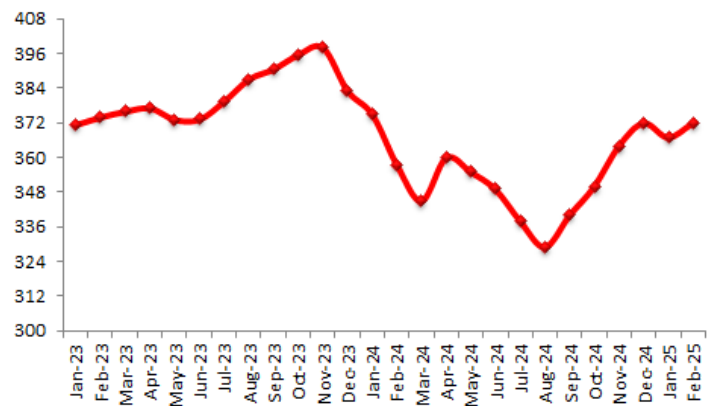
Story in Charts: Regional Pricing Scenario

Exhibit 2: All India Prices stood at Rs371/bag



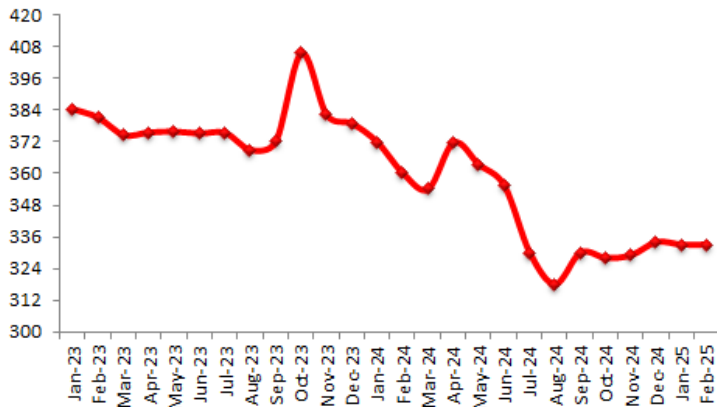
Source: Company, Systematix Institutional Research

Exhibit 3: North Prices improved 2.8% in February vs Q3 average



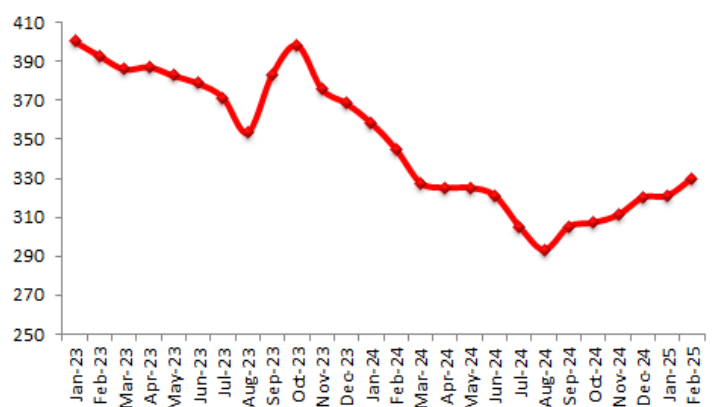
Source: Company, Systematix Institutional Research

Exhibit 4: South prices continued to remain flat



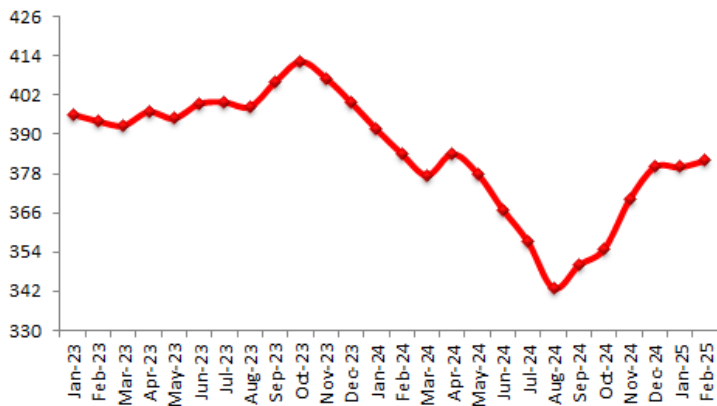
Source: Company, Systematix Institutional Research

Exhibit 5: East Prices among the lowest pan-India at Rs330/bag



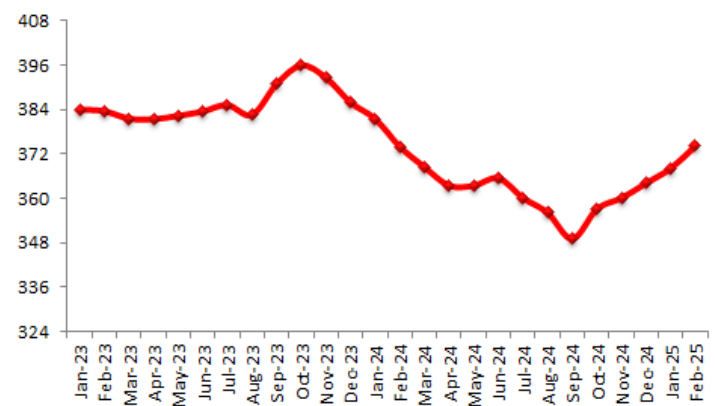
Source: Company, Systematix Institutional Research

Exhibit 6: West Prices remained healthy at Rs382/bag



Source: Company, Systematix Institutional Research

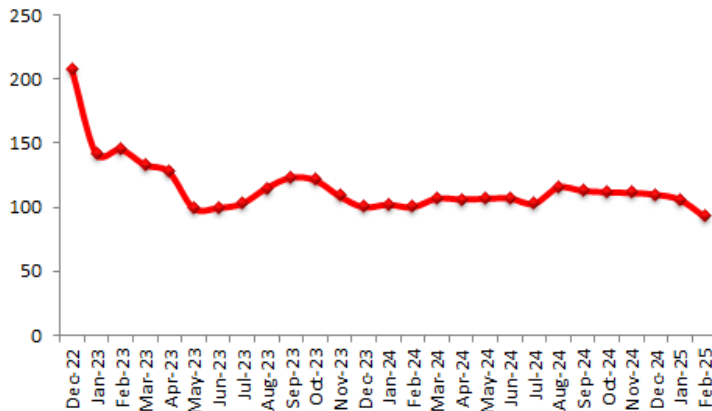
Exhibit 7: Central Prices improved to Rs374/bag, +1.6% MoM



Source: Company, Systematix Institutional Research

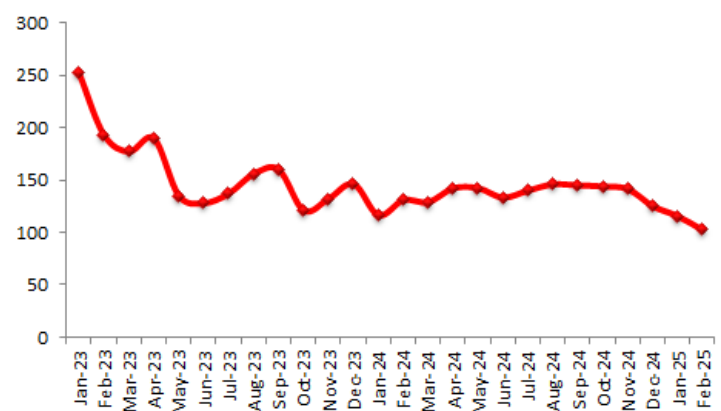
Story in Charts: Input Costs

Exhibit 8: Richard Bay Coal (\$/tn) slumped below \$100/tn



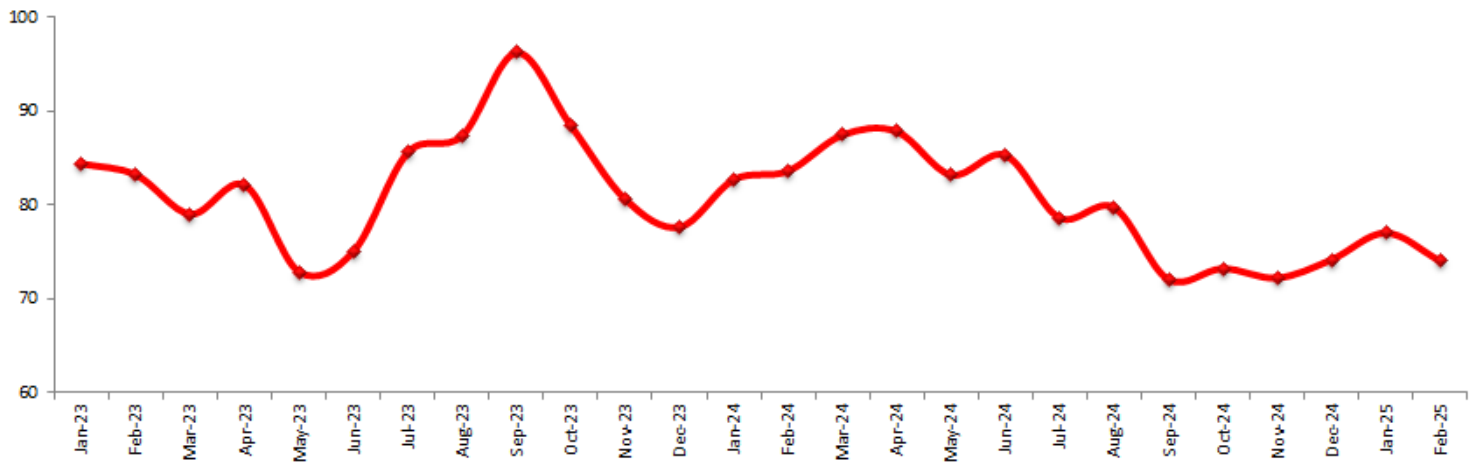
Source: Bloomberg, Systematix Institutional Research

Exhibit 9: Newcastle Coal (\$/tn) continues to remain benign



Source: Investing.com, Systematix Institutional Research

Exhibit 10: Brent crude remains volatile amid tariff uncertainties



Source: Bloomberg, Systematix Institutional Research

Exhibit 11: Valuation Snapshot

Companies	CMP (Rs) (Rs)	Reco	TP (Rs)	P/E			EV/EBITDA			RoE (%)		
				FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Ultratech Cement	10,341	BUY	12,660	42.3	37.9	28.0	25.7	23.6	18.2	12.3	12.5	15.2
Shree Cement	27,530	HOLD	27,185	40.2	58.4	32.4	4.7	4.6	4.0	7.5	12.8	8.1
Ambuja Cement	472	BUY	654	30.6	41.2	25.0	16.3	15.0	10.1	9.3	6.0	8.4
ACC	1,826	BUY	2,701	16.2	15.9	13.7	11.5	9.9	8.1	14.1	12.8	13.4
Dalmia Bharat	1,712	HOLD	1,853	102.6	102.2	66.2	16.6	15.6	13.1	5.7	5.4	8.0
JK Cement	4,449	HOLD	4,582	100.9	171.0	79.7	13.1	17.2	12.0	5.2	2.9	6.1
Ramco Cement	842	HOLD	1,000	7.8	9.2	5.6	19.8	22.5	16.0	16.6	12.5	18.0
Sagar Cements	175	HOLD	221	-43.9	-16.3	-80.6	15.2	21.8	12.6	-2.6	-7.6	-1.6

Source: Systematix Institutional Research

Exhibit 12: Stock Performance over a decade

Name	% Price								
	Week	Month	3 Months	6 Months	1 Year	YTD	2 Years	5 Years	10 Years
Ultratech Cement	(7.3)	(7.5)	(12.8)	(9.8)	2.3	(9.5)	43.3	147.8	224.2
Shree Cement	(1.3)	(4.3)	(19.1)	1.0	0.2	(12.8)	14.6	12.2	148.3
Ambuja Cement	(2.1)	(4.7)	(16.7)	(23.6)	(23.6)	(11.9)	20.4	126.7	72.6
ACC	(3.1)	(0.1)	1.4	7.9	7.4	7.1	7.3	18.4	146.8
Dalmia Bharat	(3.1)	(8.3)	(20.3)	(22.0)	(32.4)	(11.0)	(3.6)	37.7	7.5
JK Cement	(1.7)	(5.4)	(11.3)	(10.6)	(17.1)	(3.1)	(8.1)	134.9	51.5
Ramco Cement	(2.9)	(6.4)	(4.3)	(4.3)	(1.3)	(3.2)	56.1	231.6	525.9
Sagar Cements	(7.4)	(13.3)	(23.3)	(22.9)	(29.3)	(20.2)	(16.1)	111.3	187.1
S&P BSE SENSEX Index	(3.0)	(5.3)	(9.6)	(11.5)	(1.0)	(6.5)	22.2	90.3	148.2
NSE Nifty 50 Index	(3.0)	(5.3)	(9.6)	(12.5)	(1.2)	(6.5)	25.7	96.6	147.5

Source: Bloomberg, Systematix Institutional Research

Exhibit 13: Key Estimates Summary (Rs bn)

Companies	% (YoY)			% (QoQ)			% chg (vs our estimates)		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
Ultratech Cement	2.7	-11.3	-17.0	10.0	43.1	78.7	0.7	5.0	4.7
Shree Cement	-13.6	-23.3	-68.8	13.6	59.8	146.3	-7.9	12.2	12.0
Ambuja Cement	14.8	-1.2	140.5	24.1	54.0	454.1	13.2	32.6	39.2
ACC	19.9	22.8	106.5	28.0	158.5	365.7	14.6	74.2	208.1
Dalmia Bharat	-11.7	-34.4	-75.2	3.0	17.7	34.7	-2.9	1.1	-42.3
JK Cement	-2.5	-19.5	-29.2	13.5	79.5	353.2	2.4	28.2	68.8
Ramco Cement	-6.2	-29.3	-103.9	-3.0	-10.5	-114.4	-1.5	-15.0	-110.2
Sagar Cements	-15.8	-56.8	-	18.7	88.9	-4.4	11.1	48.5	-1.7
Coverage Universe	-14.6	-52.5	802.4	18.3	81.6	-11.7			

Source: Bloomberg, Systematix Institutional Research

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