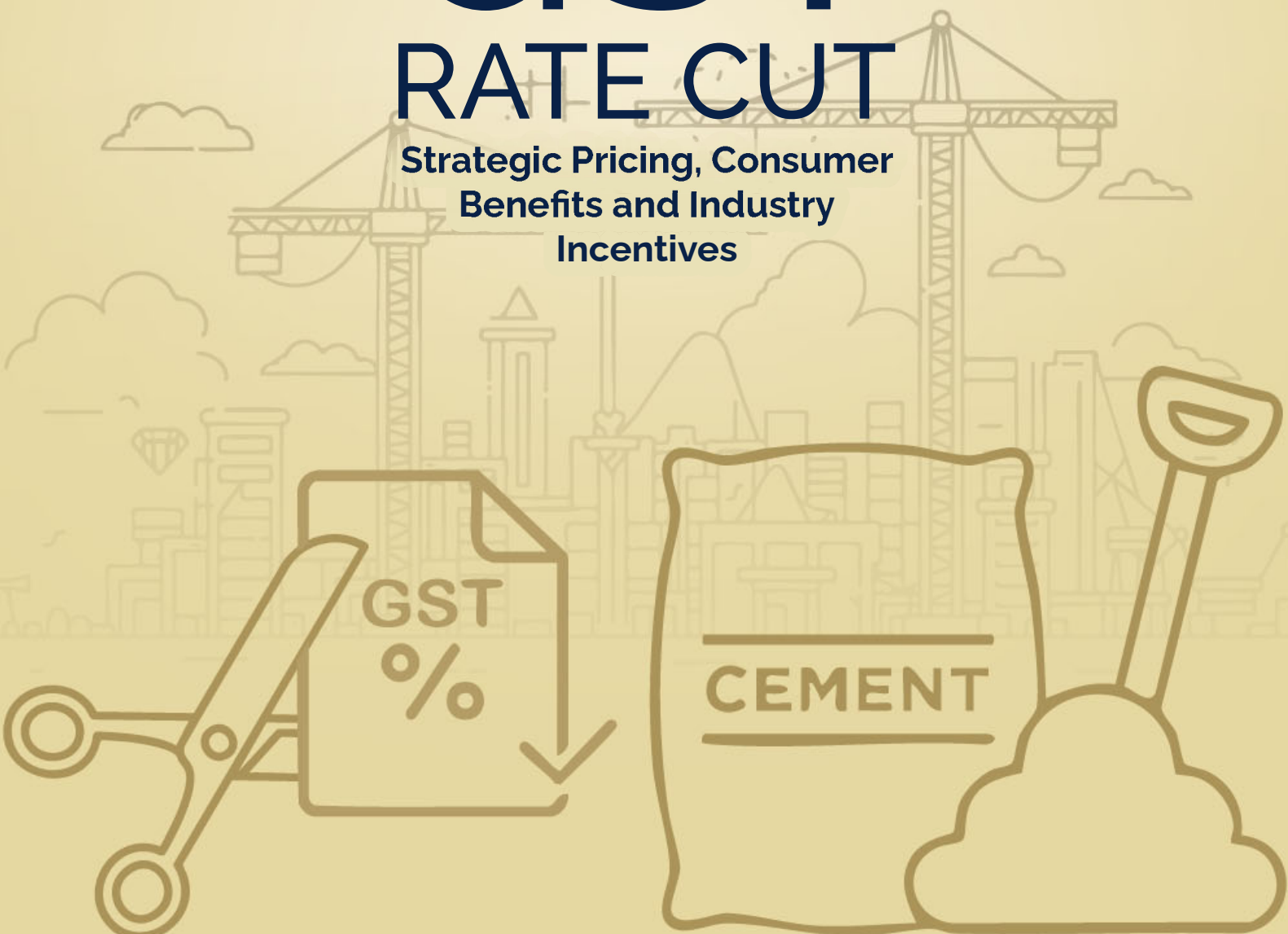


IMPACT OF GST RATE CUT

**Strategic Pricing, Consumer
Benefits and Industry
Incentives**



September 01, 2025

THEMATIC REPORT | Sector: Cement

Impact of GST Rate Cut

Strategic Pricing, Consumer Benefits and Industry Incentives

THEME I: WHO POCKETS THE GST-DRIVEN TACC RELIEF?

The TACC (Total Average Construction Cost) for a 500 sq. ft. IHB (including Tier 1, Tier 2, and Rural) post-GST rate cut is likely to fetch ~Rs17,400 in construction cost savings for consumers. The major construction costs currently taxed under the 28% GST slab are Cement (~12% of TACC), Paint (~12% of TACC), and Sanitary Fittings (~6% of TACC), which together are likely to provide ~Rs35/sq. ft. of cost relief to consumers if the GST rate is reduced to 18%.

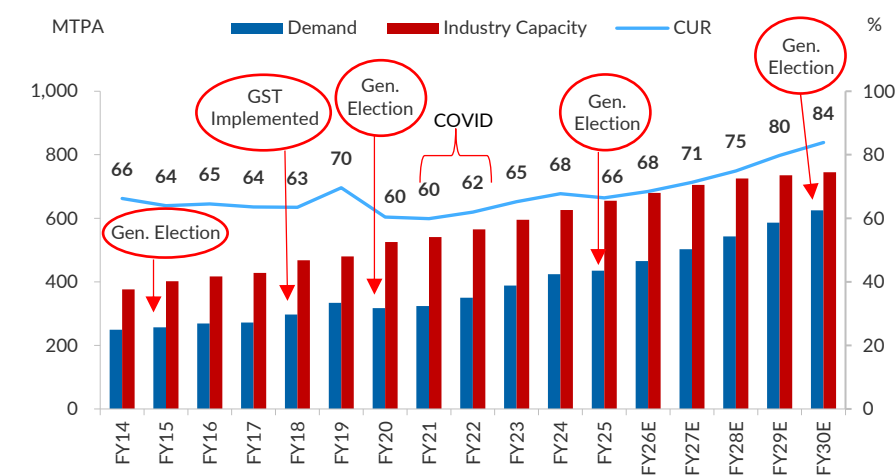
The question, however, is whether the consumer will be the real beneficiary of these savings or if there will be any shift.

Consumer behavior:

- **No over-purchasing:** In construction, cement is a basic and essential raw material, followed by paint and sanitary fittings. A house builder will purchase only the required quantity (e.g., ~225 bags for 500 sq. ft.), not more, even if GST is reduced. Cement is a commodity; a lower GST rate will not lead to consumers buying excess volumes.
- **No expansion of planned layout:** For instance, if someone has a planned layout of 1,200 sq. ft., they will not extend the area just because of a GST rate cut.

"Hence we believe, whether it is cement, paint, or sanitary fittings, the consumer will ultimately save the money rather than spend it on additional or unplanned construction."

Exhibit 1: Industry demand has no correlation with the GST rate cut



Sources: Ultratech Cement, YES Sec

GIRIJA SHANKAR RAY
Lead Analyst

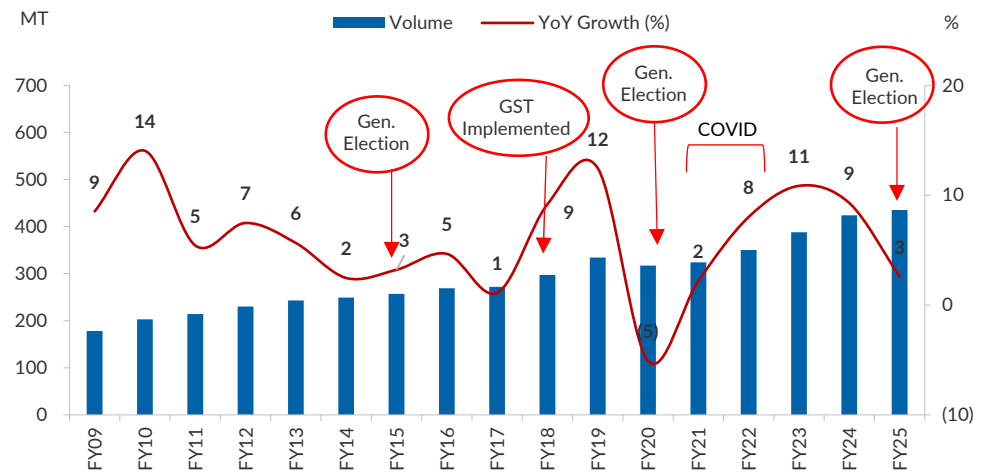
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KRISHNA TULSIAN, Associate

Impact of GST Rate Cut

Exhibit 2: Post GST Implementation, no significant impact on cement demand. As cement is a commodity driven by Govt & Pvt Capex in infra and construction



Sources: Ultratech Cement, YES Sec

Exhibit 3: Region wise Dominance & Category

Company Name	East	West	North	South	Central
UltraTech	A	A	A	A	A
ACC	A	-	-	A	-
Ambuja	B	A	A	B	B
Dalmia Bharat	A	B	-	A	-
Shree	B	-	B	-	-
Birla Corp	-	B	-	-	A
J K Lakshmi Cement	B	B	A	-	-
India Cement	-	-	-	B	-
Orient Cement	-	B	-	B	-
Star Cement	B	-	-	-	-
J K Cement	-	-	A	B	B
Ramco Cements	B	-	-	A	-
Sagar Cements	B	-	-	B	-
Nuvoco Vistas	A	-	B	-	-

Source: Company, YES Sec

Consumer Preference: Save More vs. Shift to Higher Brand

Now let's look at a different scenario: "Consumers may shift their preference to higher brands from lower ones if they can get a higher brand at the same price they previously paid for a lower brand."

Here, we are referring to the A/B/C and premium category brands in cement. Cement categories are typically identified based on 1. Brand positioning, 2. Regional dominance, and 3. Premiumization (Ref – Exhibit 3).

At present, the price difference between A/B/C category cement bags is around Rs10. With GST savings, a consumer may either; Shift their purchase preference from C → B → A category, since

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they would get higher-quality cement and a saving of Rs10-15/bag or continue purchasing the same brand and enjoy double the savings.

"However, we believe cement, being a commodity, does not make a significant difference in house construction. Hence, consumers are more likely to focus on maximizing savings rather than shifting to higher brands. Additionally, we expect rural housing cost savings to be slightly higher compared to Tier 1 / Tier 2 TACC savings. A detailed savings framework (Exhibit: 4) is provided for better understanding."

Exhibit 4: IHB avg. construction savings is Rs12/ Sq. ft (implied Rs6000/500sq.ft saving on overall construction cost unlikely to shift demand upward)

No of 50/kg bags is 225 - Incl. GST			
500 sq. ft construction cost (in Rs)	Tier 1**	Tier 2***	Rural****
Cement (Normal PPC/PSC)	79875	77850	76950
50kg bag price base price excl. GST effect	277	270	267
GST Amount/Bag at 28%	78	76	75
50kg cement bag prices (Incl. 28% GST)	355	346	342
Other Cost*	507745	438282	429042
Contractor (RCC, Brickwork, Plasterwork)	125000	105000	95000
Total Cost	712620	621132	600992
Estimated Cost/Sq. Feet	1425	1242	1202
No of 50/kg bags is 225 - Excl. GST			
500 sq. ft construction cost (in Rs)	Tier 1**	Tier 2***	Rural****
Cement (Normal PPC/PSC)	73635	71768	70938
50kg bag price base price excl. GST effect	277	270	267
GST Amount/Bag at 18%	50	49	48
50kg cement bag prices (Incl. 18% GST)	327	319	315
Price reduction/Bag post GST reduction	28	27	27
Other Cost*	507745	438282	429042
Contractor (RCC, Brickwork, Plasterwork)	125000	105000	95000
Total Cost	706380	615050	594980
Estimated Cost/Sq. Feet	1413	1230	1190
Construction Cost Savings/ Sq. feet (Post GST Rate Cut)	12	12	12

Source: UltraTech, YES Sec *Except cement, we are considering other inputs as medium grade quality, while for cement we are taking Normal PPC/PSC. Other Cost incl. steel, bricks, aggregate, sand. Flooring, windows, doors, Elec. Fittings. Kitchen Work etc. ** Tier1 cities Delhi, Mumbai, Bangalore, Chennai, Kolkata, Hyderabad, Ahmedabad, Pune. *** Tier2 cities Jaipur, Coimbatore, Surat, Bhopal, Lucknow, Nagpur, Kochi, Vizag, Thiruvananthapuram. ****Rural place we are considering from five regions - Kutch (West), Satna (Central), Kendrapada (East), Sonipat (North), Kannur (South)

Exhibit 5: Low-cost housing to fetch less savings as compared to IHB

PMAY - Gramin Avg. Housing Cost Structure (Pre-GST Rate Cut)				
350 sq. ft construction cost (Rs)	RCC Roof	% of Total Cost	CGI Roof	% of Total Cost
Cement	38500	16%	29750	14%
50kg bag price base price excl. GST effect	273		273	
GST Amount/Bag at 28%	77		77	
50kg cement bag prices (Incl. 28% GST)	350		350	
Other Cost*	157150	66%	145758	67%
Labour Cost (Skilled & Unskilled)	42428	18%	40867	19%
Total Cost	238078		216375	
Estimated Cost/Sq. Feet	680		618	
PMAY - Gramin Avg. Housing Cost Structure (Post-GST Rate Cut)				
350 sq. ft construction cost (Rs)	RCC Roof	% of Total Cost	CGI Roof	% of Total Cost
Cement	35492	15%	27426	13%
50kg bag price base price excl. GST effect	273		273	
GST Amount/Bag at 18%	49		49	
50kg cement bag prices (Incl. 18% GST)	323		323	
Price reduction/Bag post GST reduction	27		27	
Other Cost*	157150	67%	145758	68%
Labour Cost (Skilled & Unskilled)	42428	18%	40867	19%
Total Cost	235070		214051	
Estimated Cost/Sq. Feet	672		612	
Construction Cost Savings/ Sq. feet (Post GST Rate Cut)	9		7	

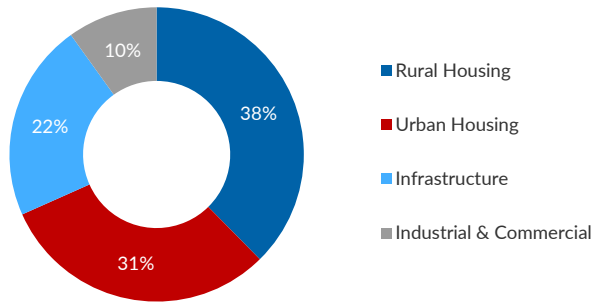
Source: NIPFP 2018 Rural Housing Cost Structure - Bihar, YES Sec

Exhibit 6: Avg. construction cost savings incl. Cement, Paint and Sanitary Fittings likely to save Rs35/sq. ft

GST on Cement, Paint & Sanitary Fittings savings	Qty	Avg. Cost (Rs) for 500 Sq. ft	% of TECC	Avg. Cost/Sq. ft (Incl. 28% GST)	Post GST Cut (i.e. at 18%)	Savings
Cement (Qt in Bags)	225	78225	12%	348	321	27
Paint (Qt in Sq. ft)	3000	76000	12%	25	23	2
Sanitary Fittings (Qt in Sq. ft)	500	36000	6%	72	66	6
Total Construction Cost savings/Sq. ft						35
Avg. Construction Cost (Tier 1/2/Rural)/ Sq. ft		1290				1255

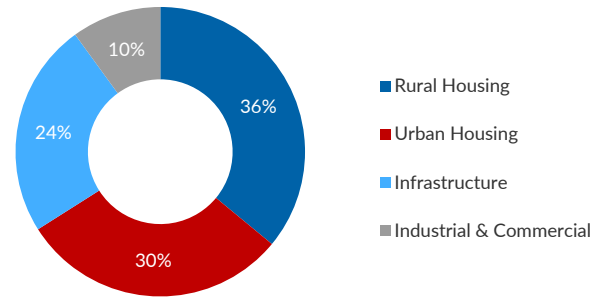
Sources: Company, YES Sec

Exhibit 7: : ~69% cement demand from housing (Rural + Urban) in FY25



Source: Ultratech Cement, YES Sec

Exhibit 8: ~66% cement demand from housing (Rural + Urban) in FY30E, Rural is expected to save more through less spending from benefits



Source: Ultratech Cement, YES Sec

THEME II: GST CUT - WHAT'S NEXT FOR CEMENT PRICING?

Cement pricing is a key driver for strong top-line growth, along with higher capacity utilization. As already discussed, demand has no correlation with a GST rate cut, it rather depends on the push from government or private capex. Consumers are unlikely to consume more cement simply because prices come down, given that cement is a commodity with no product differentiation.

In terms of pricing, reactions could play out in multiple ways, but two major scenarios stand out: 1. Companies passing on the benefit to consumers, or, 2. Consumer unacceptance of higher prices in case of opportunistic hikes.

Companies may attempt to retain part of the GST cut benefit instead of fully passing it on. However, we believe this is unlikely in the immediate term, since the intent of a rate cut is to benefit consumers, and the CCI would closely monitor to prevent any cartelization.

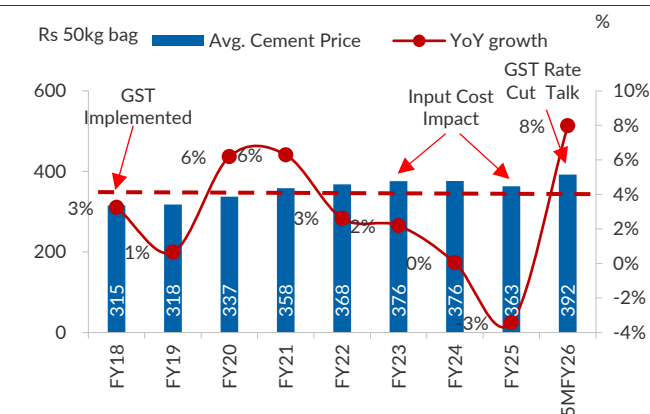
Over the years, cement prices have moved up gradually, but FY25 prices were as low as FY22 levels. This correction was driven mainly by: a) Intensifying competition, particularly after Adani's entry into the cement business, b) Sluggish demand due to a slowdown in both government and private capex (IHB, infra, and construction), c) Consumer pushback against higher prices, and d) Adoption of a volume-over-value strategy by most cement players.

However, prices stabilized in H2FY25 and gradually increased in Q1FY26. Price softness in the prior periods adversely impacted margins, with industry EBITDA/tn falling sharply from Rs1,097 in FY22 to Rs840 in FY25.

Historically, whenever input costs rose, companies attempted to pass these on through price hikes, for example, the sharp increase in energy costs during Q2/Q3 FY23 or the Rs160/tn limestone royalty hike in Tamil Nadu in Q3FY25.

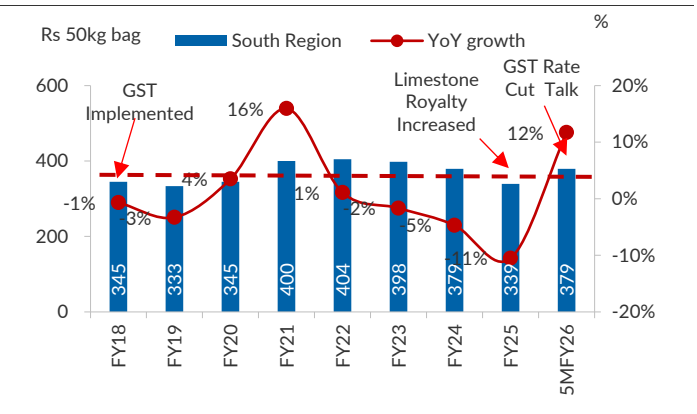
We believe that any sharp price hike attempt to "chase GST cut benefits" is highly unlikely in the near term. Instead, companies are more likely to take a strategic approach, implementing price hikes gradually in the medium to long term, once demand normalizes, while avoiding sacrificing volumes or attracting CCI penalties. Alternatively, companies may take hikes ahead of the GST Council's decision and then roll back prices post-GST cut, effectively keeping net realizations unchanged at current elevated levels.

Exhibit 9: All-India avg. price reaction on GST rate cut



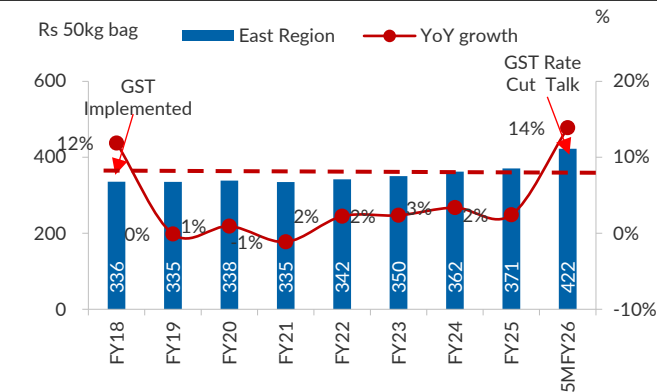
Source: Company, YES Sec

Exhibit 10: Southern pricing are more sensitive



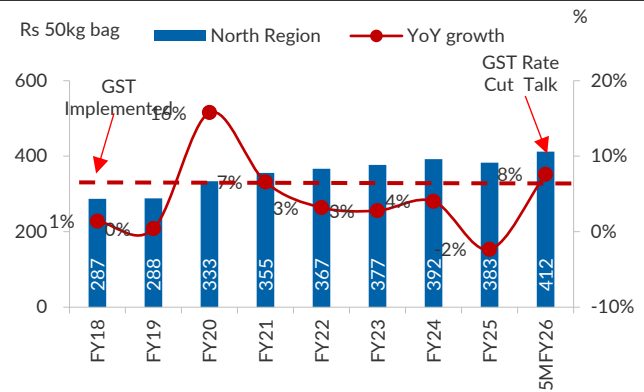
Source: Company, YES Sec

Exhibit 11: East pricing is more sensitive



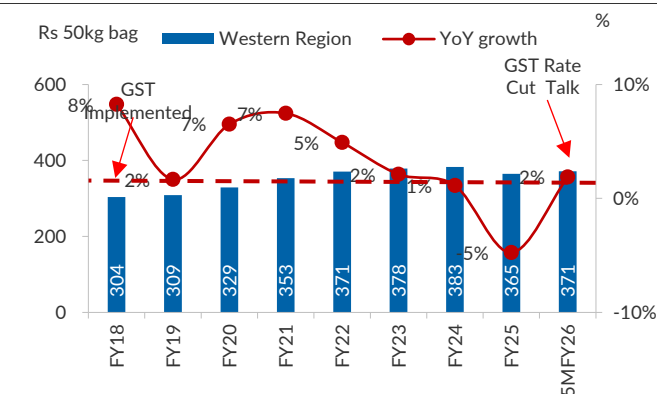
Source: Company, YES Sec

Exhibit 12: North pricing less impacted



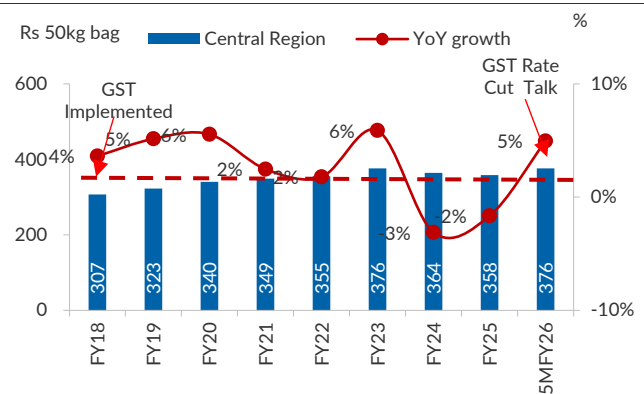
Source: Company, YES Sec

Exhibit 13: Western pricing is inelastic to GST news



Source: Company, YES Sec

Exhibit 14: Central price stable despite GST news



Source: Company, YES Sec

The average prices in 5MFY26 are ~Rs29/Rs24 higher than the average exit prices of FY25 and the five-year average, respectively, indicating strong momentum. However, the bulk of the price contribution has come from the eastern region, followed by the southern, northern, central, and western regions, respectively.

As mentioned earlier, when there is cost pressure to pass on, prices in the east and south tend to be more reactive. The recent hike in limestone royalty (Tamil Nadu) was one of the key triggers for sharp price increases in these regions (Ref: Exhibit 15). Companies such as India Cements, Ramco Cements, and Dalmia Bharat were particularly impacted due to their high dependence on limestone from Tamil Nadu, ~90%/51%/38% of their installed capacities, respectively, are based in the state.

As a result, the southern region witnessed a sharp price hike of ~Rs70/bag. However, ~Rs20-25/bag of this was rolled back due to sluggish demand and limited market acceptance.

Exhibit 15: Impact of Increase in Limestone Royalty

Rs160/tn Limestone Royalty Increase in Tamil Nadu Impact Framework					
Pre-Limestone Royalty		Post Limestone Royalty		Impact (Rs 13/Bag)	
Industry Revenue (In 3Q FY25) - Rs mn	486,272	Industry Revenue (Rs mn)	508,946	The overall cost impact increases by 5%	
Total Opex at 85% of revenue (Rs mn)	411,004	Total Opex (Rs mn)	430,169		
Total RM at 21% of Total Opex (Rs mn)	88,191	Total RM (Rs mn)	107,356		
Limestone at 75% of Total RM Cost (Rs mn)	66,143	Limestone at 75% of Total RM Cost (Rs mn)	80,517		
Industry Volume (Mt in 3Q FY25)	90	Industry Volume (Mt in 3Q FY25)	90		
Realization (Rs)	5,413	Realization (Rs)	5,665	Impact on realization	252
Opex/tn (Rs)	4,575	Opex/tn (Rs)	4,788	Impact on Opex/tn	213
RM Cost/tn (Rs)	982	RM Cost/tn (Rs)	1,195	Impact on total RM Cost	213
Limestone Cost/tn (Rs)	736	Limestone Cost/tn (Rs) post royalty increase	896	Impact on total Limestone Cost	160

Month	South Region	Price (Rs/bag) assumption in each month	
December'24	No price hike	9	A price roll-back of Rs20/bag within 20th Apr'25 to 1st week of May'25.
January'25	No price hike	9	
February'25	No price hike	9	
March'25	No price hike	9	
April'25	Rs 70/bag	=Rs36+Rs13+Rs21 = Rs70/bag	

Source: Company, YSE Sec

Companies have already taken a price hike of ~Rs30/bag in the last week of Aug'25, ahead of the GST rate cut meeting. However, we believe a rollback is inevitable, and it is prudent to wait and watch for a few more days post the GST announcement.

THEME III: DOES GST CUT LIGHTEN INPUT COSTS?

There is no major impact on the cost structure. Except for petcock (18% GST) and fly ash aggregates (12%), most other inputs already fall under the 5% GST slab. Hence, we believe the cost structure will remain unchanged, with no material impact from a GST rate cut.

Additionally, there will be no direct impact on margins since companies report revenue net of GST. However, consumer preference for value over brand may support the topline growth of Category B players and aid margin expansion.

Exhibit 16: Current GST rates on cement input costs

Item	CGST Rate (%)	SGST / UTGST Rate (%)	IGST Rate (%)
Gypsum	2.5	2.5	5.0
Limestone	2.5	2.5	5.0
Coal	2.5	2.5	5.0
Pet-Coke	9.0	9.0	18.0
Lignite	2.5	2.5	5.0
Fly Ash	2.5	2.5	5.0
Fly ash aggregates	6.0	6.0	12.0
Slag	2.5	2.5	5.0
Diesel	2.5	2.5	5.0
Transportation	2.5	2.5	5.0

Source: Company, YES Sec

THEME IV: GST & INCENTIVE BENEFITS - WHO REALLY WINS?

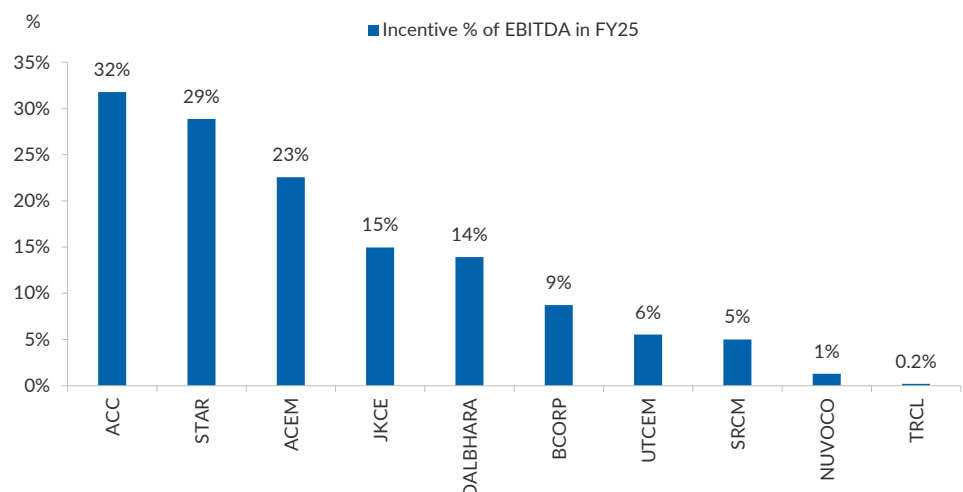
State/Central government subsidies, booked as part of revenue, directly flow through to EBITDA. Since the implementation of GST, the cement industry has accrued accumulated incentives of ~Rs162bn, of which the top five players account for ~80%.

On an industry level, incentives have contributed ~7% of EBITDA on average during FY18-25, rising to ~12% in FY25. In recent years, this share has increased due to higher capacity additions through incentive-eligible brownfield and greenfield projects.

In FY25, incentives contributed ~13% of total EBITDA for the top five cement players (vs. 6% in FY24), while for other players the contribution rose to 8% (vs. 6% in FY24).

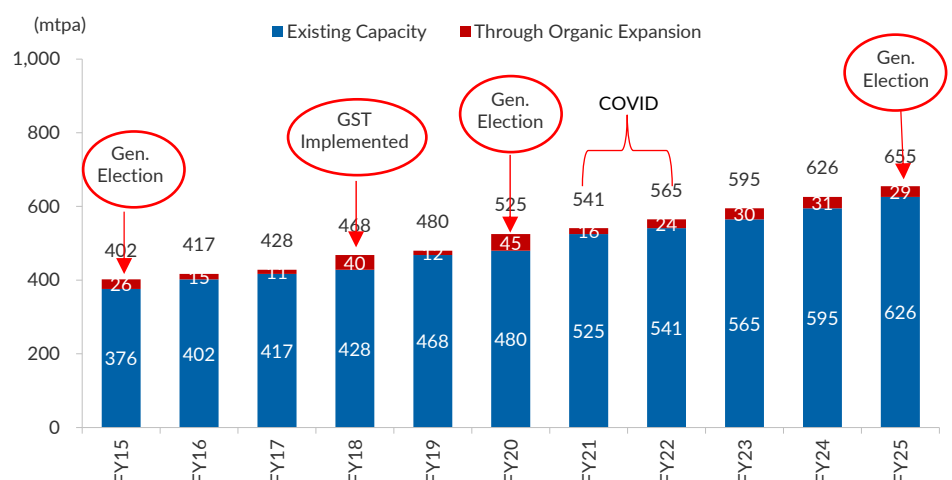
A GST rate cut, however, could directly impact profitability and may potentially disrupt greenfield/brownfield expansion plans to some extent.

Exhibit 17: Overall industry Incentive as a % of EBITDA is 12%



Sources: Company, YES Sec

Exhibit 18: Brownfield/ Greenfield Expansion over the years - fetched higher incentives



Sources: Ultratech Cement, YES Sec

Exhibit 19: Coverage Universe Recommendation Table

Company Name	FY27E EV/EBITDA (x)	Reco	TP (Rs)
ACC	9	ADD	2149
ACEM	15	SELL	460
BCORP	9	BUY	1681
DALBHARA	12	REDUCE	2197
SRCM	17	NEUTRAL	30755
UTCEN	16	SELL	10110

Source: Company, YES Sec

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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

DISCLOSURE OF INTEREST

Name of the Research Analyst : Girija Shankar Ray, Krishna Tulsian

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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