Sharekhan
by BNP PARIBAS

Cement

Weak pricing accentuate seasonally fragile Q2

Q2FY2025 Results Preview

Sector: Cement

Sector View: Positive

Summary

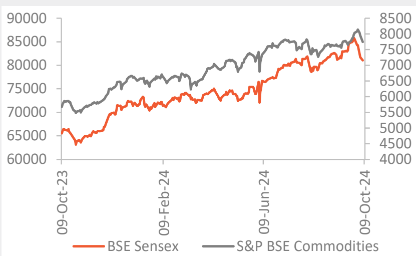
- Cement companies in our coverage (ex-Grasim) are likely to see a 7.2% y-o-y fall in revenues in Q2FY2025, led by a 8.7% y-o-y decline in realisation, while volume growth remain weak at just 1.7% y-o-y.
- Weighted average EBITDA/tonne is expected to see a 26.7% y-o-y decline to Rs. 672 as limited savings in key variable costs are unlikely to offset the impact of weak realisations and negative operating leverage. Operating and net profits to decline by 25% y-o-y and 56%, y-o-y respectively.
- Demand revival and absorption of recently initiated price hikes remain key monitorables in the near term. Management commentaries on pricing behavior and capacity additions will be keenly watched.
- We stay Positive on the sector. **Preferred Picks -** UltraTech, Shree Cement, Dalmia Bharat, The Ramco Cements, Grasim Industries, and JK Lakshmi Cement.

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Shree Cement	25353	Buy	29800
Ultratech Cement	11233	Buy	13000
Grasim Industries	2721	Buy	3050
The Ramco Cement	856	Buy	1010
JK Lakshmi Cement	800	Buy	1000
Dalmia Bharat	1852	Buy	2250

Source: Sharekhan Research

Price chart



Source: BSE; Sharekhan Research

We expect cement companies in our coverage universe (ex-Grasim) to report a 7.2% y-o-y revenue decline for Q2FY2025, owing to weak realisations (down 8.7% y-o-y) led by a dip in pan-India cement prices. Sales volume growth is expected to remain weak at just 1.7% y-o-y on sluggish demand from government-led infrastructure projects (time lag for fund allocation post elections) and heavy monsoons. Weighted average EBITDA/tonne is expected to decline by 26.7% y-o-y (down 22% q-o-q) to Rs. 672, as limited savings from power & fuel and diesel prices are unlikely to offset weak realisations and negative operating leverage. Overall, operating profit is expected to decline by 25.3% y-o-y (down 24.9% q-o-q), and net profit is expected to decline by 56% y-o-y (down 53.3% q-o-q). Cement companies have been initiating price hikes since August 2024 although weak demand has led to partial absorption of the same. However, as cement demand revives during H2FY2025, cement prices may rise. For Grasim, we expect a marginal growth in net earnings y-o-y led by higher dividend income from UltraTech while continued losses in new businesses is expected to lead to a 41.3% y-o-y dip in operating profits. We stay Positive on the sector, continuing our selective preference for UltraTech, Shree Cement, The Ramco Cements, Dalmia Bharat, Grasim Industries and JK Lakshmi Cement.

Sustained weak prices, soft demand to drag down revenues: Our universe of cement companies (ex-Grasim) is likely to register a 7.2% y-o-y decline (down 15.1% q-o-q) in revenues, owing to weak blended realisations (down 8.7% y-o-y and 2.2% q-o-q) in Q2FY2025. Sales volume growth is expected to remain weak at just 1.7% y-o-y (down 13.3% q-o-q) affected by weak demand from government led infrastructure projects (time lag of fund allocations post elections) and heavy Monsoons. Pan-India cement prices during Q2FY2025 were lower by 1% q-o-q (down 7.8% y-o-y), as cement companies initiated price hikes from fag end of August. However, the said price hikes were only partially absorbed due to weak demand. Consequently, we expect overall realisations to fall by over 2% q-o-q during Q2FY2025. We expect volume growth of 5-8% y-o-y for Ultratech, Ambuja, ACC and Dalmia Bharat. Other companies (barring India Cements) are expected to report a 4-8% y-o-y volume decline for Q2FY2025. For Grasim, we expect mid-single digit revenue growth for VSF and Chemicals, while realizations are expected to improve q-o-q for Chemicals. Further, led by higher contributions from B2B e-Commerce and Paints, overall standalone revenues are expected to rise by 15.3% y-o-y.

Negative operating leverage and sluggish realisations to affect EBITDA/tonne: Our cement universe (ex-Grasim) is expected to report a weighted average EBITDA/tonne of Rs. 672 (down 26.7% y-o-y, down 22.0% q-o-q), on account of a fall in realisations and negative operating leverage. Limited cost savings from power & fuel costs and diesel prices are unlikely to offset the dip in realisations and lower absorption of fixed costs. We expect Shree Cement, The Ramco Cements and JK Lakshmi Cement to report more than 30% y-o-y decline in operating profit, while Dalmia Bharat and ACC are expected to report over 20% y-o-y decline. We expect UltraTech to report 13% y-o-y decline in operating profits. Grasim is expected to report a 41.3% y-o-y decline (although up 7.1 q-o-q) in operating profit owing to continued losses in paints and weak operating margins in the VSF segment.

Expect higher demand, better pricing and contained cost structure for H2: The cement industry is expected to see demand growth of 6-8% y-o-y post a low-single digit y-o-y growth during Q1FY2025 and seasonally weak Q2FY2025. Demand was affected by the elections, extended heat-wave conditions, labour shortage at construction sites, and extended monsoon in some regions during H1FY2025. Industry players estimate strong demand in H2FY2025 especially post festive season, led by kickstart of government spending on infrastructure and sustained demand from the housing sector. Further, lower power and fuel costs and stable freight costs are expected to aid operational profitability for the industry during H2FY2025.

Our Call

Valuation: Stay positive: Over the trailing three months, ACC/Ambuja has corrected by ~12-13%, Shree Cement/JK Lakshmi Cement by ~7%, UltraTech by ~3%, Grasim by ~1% and Dalmia Bharat stayed flat. The Ramco Cement has risen by ~8% and India Cements by more than 30% led by its acquisition by UltraTech. We remain positive on the sector, continuing our selective preference for UltraTech, Shree Cement, The Ramco Cements, Dalmia Bharat, Grasim Industries, and JK Lakshmi Cement.

Key Risks: Weak macroeconomic environment and rising interest rates are key risks across three sectors

Leaders for Q2FY2025: UltraTech, ACC, Dalmia Bharat

Laggards for Q2FY2025: Ambuja Cements, Shree Cement, The Ramco Cements and India Cements

Preferred Picks: UltraTech, Shree Cement, Dalmia Bharat, The Ramco Cements, Grasim Industries, and JK Lakshmi Cement.

Q2FY2025 results estimates

Company	Revenue (Rs. cr)				OPM (%)				Net profit (Rs. cr)			
	Q2 FY25E	Q21 FY24	y-o-y (%)	q-o-q (%)	Q2 FY25E	Q21 FY24	y-o-y (%)	q-o-q (%)	Q2 FY25E	Q21 FY24	y-o-y (%)	q-o-q (%)
Active Coverage												
Grasim	7426	6442	15.3	7.7	4.7	9.2	-452	-3	820	795	3.1	-
UltraTech	14986	15517	-3.4	-14.5	13.7	15.1	-145	-331	884	1206	-26.6	-47.2
Shree Cement	3708	4585	-19.1	-23.3	15.0	19.0	-401	-398	29	491	-94.2	-91.0
The Ramco Cements	2047	2329	-12.1	-2.0	12.4	17.1	-472	-290	-14	101	-	-
JK Lakshmi Cement	1242	1453	-14.5	-14.0	10.0	12.3	-232	-281	45	83	-46.0	-71.3
Dalmia Bharat	3137	3149	-0.4	-13.4	14.5	18.7	-422	-400	62	119	-47.6	-72.2
Soft Coverage												
ACC	4263	4435	-3.9	-17.3	10.2	12.4	-218	-295	197	384	-48.7	-46.2
Ambuja Cements	3803	3970	-4.2	-15.8	11.6	19.5	-793	-275	249	644	-61.3	-57.3
India Cements	848	1222	-30.6	-12.7	-4.8	0.7	-544	-158	-155	-81	-	-
Total	**41460**	**43101**	**-3.8**	**-11.2**	**11.3**	**14.9**	**-365**	**-309**	**2117**	**3742**	**-42.8**	**-29.6**
Total (ex-Grasim)	**34034**	**36659**	**-7.2**	**-15.1**	**11.3**	**14.1**	**-282**	**-496**	**1297**	**2947**	**-56.0**	**-53.3**

Source: Company, Sharekhan Research

Valuations

Company	Reco	Price target (Rs.)	CMP (Rs.)	EV/EBITDA (x)			P/E (x)		
				FY24	FY25E	FY26E	FY24	FY25E	FY26E
Active Coverage									
Shree Cement	Buy	29,800	25353	18.6	21.5	17.7	37.1	57.0	43.6
UltraTech Cement*	Buy	13,000	11233	25.5	25.6	20.0	46.5	48.0	36.1
Grasim Industries*	Buy	3050	2721	65.4	79.9	57.3	108.8	246.2	133.6
The Ramco Cement	Buy	1010	856	16.0	16.9	13.7	51.2	68.0	36.4
Dalmia Bharat	Buy	2250	1852	12.8	12.9	10.9	42.6	38.3	31.2
JK Lakshmi Cement*	Buy	1000	800	8.9	9.5	7.5	18.5	17.8	15.0
Soft Coverage									
ACC*	Not Rated		2350	13.9	14.9	11.6	20.8	26.7	20.4
Ambuja Cements*	Not Rated		590	17.0	17.9	12.9	35.7	40.0	29.4
India Cements	Not Rated		363	206.0	-	-	-	-	-

*Source: Company, Sharekhan Research, * Standalone financials*

Q2FY2025 Cement earnings preview

Company-wise key expectations

Company	y-o-y (%)	q-o-q (%)	Comment
UltraTech Cement			
Sales	-3.4	-14.5	Volumes to grow at 4.5% y-o-y, while we expect realisations to decline by 7.6% y-o-y.
OPM (bps)	-145	-331	We expect EBITDA/tonne of Rs. 765 (down 16.4% y-o-y, down 20.7% q-o-q).
PAT	-26.6	-47.2	Negative operating leverage and weak realisations to lead to 26.6% y-o-y decline in net earnings.
Shree Cement			
Sales	-19.1	-23.3	We expect volumes to decline by 8% y-o-y. The realisation is likely to decline by 12.1% y-o-y.
OPM (bps)	-401	-398	We expect EBITDA/tonne of Rs. 736 (-30.7% y-o-y, -22.6% q-o-q).
PAT	-94.2	-91.0	Weak operational performance to dent net earnings.
The Ramco Cements			
Sales	-12.1	-2.0	We expect volumes to decline by 4% y-o-y, while realisations are likely to decline by 8.5% y-o-y.
OPM (bps)	-472	-290	Lower volumes and weak realisations to led to EBITDA per tonne of Rs. 573 (-33.7% y-o-y, -21.8% q-o-q).
PAT	-	-	Sluggish operational performance to lead to net loss.
JK Lakshmi Cement			
Sales	-14.5	-14.0	We expect volumes to decline by 5% y-o-y, while realisations are likely to decline by 10% y-o-y.
OPM (bps)	-232	-281	We expect EBITDA per tonne of Rs. 600 (down 27% y-o-y, -24.3% q-o-q).
PAT	-46.0	-71.3	Lacklustre operational performance to dent net earnings.
Dalmia Bharat			
Sales	-0.4	-13.4	We expect volumes to rise by 6% y-o-y, while realisations are expected to decline by 6% y-o-y.
OPM (bps)	-422	-400	We expect EBITDA/tonne of Rs. 695 (-27.2% y-o-y, -22.8% q-o-q) due to lower realisations.
PAT	-47.6	-72.2	Lower realisations to lead to decline in net earnings.
Grasim Industries			
Sales	15.3	7.7	We expect mid-single digit revenue growth for Viscose and chemical vertials. Higher B2B and paints revenues to aid overall standalone revenue growth y-o-y.
OPM (bps)	-452	-3	OPM to remain weak y-o-y on account of continued losses in new businesses.
PAT	3.1	-	Higher other income led by dividends from UltraTech to led to 3% y-o-y growth in net earnings.

Source: Sharekhan Research

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