June 18, 2021[Revised]

Prism Johnson Limited: [ICRA]A+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme^	50.00	[ICRA]A+(Stable); Assigned
Total	50.00	

**Instrument details are provided in Annexure-1; ^NCD of erstwhile Silica Ceramica Private Limited transferred to Prism Johnson Limited, post amalgamation*

Rationale

The rating assigned to the Non-Convertible Debenture (pertaining to erstwhile Silica Ceramica Private Limited, transferred to Prism Johnson Limited (PJL) post amalgamation) favourably factors in the turnaround in PJL's tiles division (HRJ) as reflected in an increase in operating margins for HRJ division to 8.7% in FY2021 from 3.8% in FY2020, supported by higher sales volumes of 8.5% YoY, change in product mix and cost optimisation measures. The cement division also witnessed an increase in the OPBIDTA/MT by 8.1% to Rs. 962/MT, driven by favourable input costs –mainly power, fuel and freight expenses. As a result, PJL's overall operating margins improved to 11.1% in FY2021 from 9.1% in FY2020, despite some moderation in revenues. An improvement in the operating margins, along with decline in net debt (including lease liabilities), by 31% to Rs. 1,384.5 crore as on March 31, 2021 through prepayment of loans and an increase in cash balances due to higher internal cash accruals led to improved debt coverage metrics such as interest coverage of 3.0 times (2.1 times in FY2020) and Net Debt/OPBDITA of 2.2 times (3.5 times in FY2020). While some moderation in margins from the tiles division is likely in FY2022 from Q3-Q4 FY2021 levels of 12%-14%, it is expected to remain in the range of 11%-12%, much higher than the historic records of sub 4% levels. While PJL has planned capex to the tune of Rs. 520 crore (excluding maintenance capex) during FY2022-FY2024, it is proposed to be funded by internal accruals. Further, the reduction in debt supported by the scheduled repayments and the expected healthy operating profits are likely to result in continuing improvement in debt coverage metrics over the medium term. The ratings favourably factor in the PJL's established position as a key cement player in the central markets and HRJ continues as one of the leading brands in tiles with a vast distribution network and premium brand image. ICRA foresees some business disruptions in the current quarter caused by the adverse impact of the second wave of Covid-19 pandemic, though not to the extent of Q1 FY2021, owing to lesser stringent lockdown imposed so far. Nevertheless, the demand indicators from the infrastructure segment are anticipated to remain intact in the near term, though the rural segment may take some time to ramp up. The Government's thrust on the affordable housing and infrastructure segments is a positive from the long-term demand perspective.

The ratings, are however, constrained by the susceptibility of PJL's profitability to fluctuations in the input prices - across all the three divisions– cement, tiles and RMC. Further, the tiles and RMC segment are highly competitive with a large number of unorganised players. PJL's operations remains exposed to demand and pricing dynamics in the cement industry, which is influenced by the cyclical economic trends and capacity additions by the players during such periods. The benefits of waste heat recovery system (WHRS) and solar power would result in some power cost savings, which is likely to mitigate the impact of rising input costs in the cement division to an extent. The ratings are constrained by the subdued performance of the RMC division. Given that the company has sizeable debt repayment of over Rs. 500 crore in FY2023, the DSCR is likely to remain low in FY2023. However, ICRA notes the financial flexibility enjoyed by the company as a part of the Rajan Raheja Group and PJL's successful refinancing track record. ICRA has factored in PJL's long-term capex plans towards a grinding unit at Satna and / or an integrated unit at Andhra Pradesh, where it has limestone mines and land available. As per the management, large debt-funded capex programme will be taken up when the net debt/OPBIDTA reaches below 1x times. Further, the stake sale in Raheja QBE General Insurance Company Limited (RQBE), for an aggregate consideration of ~Rs. 365 crore, is still pending owing to the delay in regulatory approvals.

The Stable outlook on the rating reflects ICRA's opinion that PJL will continue to benefit from strong business profile, especially in its cement and HRJ divisions, and its strong financial flexibility by virtue of being a part of the Rajan Raheja Group.

Key rating drivers and their description

Credit strengths

Established presence as a key cement manufacturer in Central India – PJL is a key cement manufacturer in Central India, with a cement capacity of 5.6 million tonne per annum (MTPA). It has an established presence in the eastern Uttar Pradesh (53% of PJL's cement sales in FY2021), Madhya Pradesh (25%) and Bihar (22%) markets.

HRJ remains a leading tiles brand with a vast distribution network and premium brand image – H&R Johnson is one of the leading ceramic / vitrified tiles manufacturers in the country with a capacity of ~60 million square metres per annum across 11 manufacturing plants (including those under subsidiaries and joint ventures) as on March 31, 2021. The division has a nationwide trade network of over 1,000 dealers, in addition to 19 large format display centres.

Improvement in operating margins and debt coverage metrics in FY2021 – PJL's financial profile witnessed an improvement in FY2021, backed by improved operating margins to 11.1% from 9.1% in FY2020, despite moderation in revenues, driven by higher margins from the cement and HRJ divisions. The HRJ division's turnaround in FY2021 is reflected by an increase in operating margins to 8.7% in FY2021 from 3.8% in FY2020, supported by higher sales volumes of 8.5% YoY, change in product mix and cost optimisation measures. At the same time, the cement division witnessed an increase in the OPBIDTA/MT by 8.1% to Rs. 962/MT, driven by favourable input costs – majorly power, fuel and freight expenses. An improvement in the operating margins, along with decline in net debt(including lease liabilities) by 31% to Rs. 1,384.5 crore as on March 31, 2021 resulted in an improvement in debt coverage metrics such as interest coverage of 3.0 times and Net Debt/OPBDITA of 2.2 times against 2.1 times and 3.5 times, respectively, in FY2020. PJL has planned capex to the tune of Rs. 520 crore (excluding maintenance capex) during FY2022-FY2024, which is proposed to be funded by internal accruals. Further, the reduction in debt, supported by the scheduled repayments and the healthy operating profits are likely to result in continuing improvement in debt coverage metrics in the medium term.
ICRA foresees some business disruptions in the current quarter caused by the adverse impact of the second wave of Covid-19 pandemic, though not to the extent of Q1 FY2021, owing to lesser stringent lockdown imposed so far. Nevertheless, the demand indicators from the infrastructure segment are expected to remain intact in the near term, though the rural segment may take some time to ramp-up. The Government's thrust on the affordable housing and infrastructure segments is a positive from long-term demand perspective.

Credit challenges

Vulnerability of revenues to cyclicality in economy; susceptibility of profitability to fluctuations in input prices – PJL remains exposed to demand and pricing dynamics in the cement industry, which is influenced by cyclical economic trends and capacity additions by the players during such periods. When the incremental capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. Further, PJL's profitability remains susceptible to fluctuations in the input prices – across all three divisions, cement, tiles and RMC. The tiles and RMC segments are highly competitive with a large number of unorganised players. The benefits of WHRS and solar power would result in some power cost savings, which is likely to mitigate the impact of rising input costs in the cement division to an extent. Further, the margins are expected to moderate in tiles division in FY2022 from Q3-Q4 FY2021 levels of 12%-14% to around 11%-12%, much higher than historic record of sub 4% levels.

Weak performance of RMC continues – RMC sales declined by 36% YoY in FY2021 due to Covid-19 pandemic-led disruption and the division reported operating losses of Rs. 16.9 crore against operating profit of Rs. 22.9 crore in FY2020.

High debt repayments in FY2023 – Given that the company has sizeable debt repayment of over Rs. 500 crore in FY2023, the DSCR is likely to remain low in FY2023. However, ICRA notes the financial flexibility enjoyed by the company as a part of the Rajan Raheja Group and PJL's successful refinancing track record.

Long-term capex plans – PJL's long-term capex plans include a clinker facility at Satna along with satellite grinding units in UP and Bihar and / or an integrated unit at Andhra Pradesh, where it has limestone mines and land available. The company plans to undertake the same when the net debt/OPBIDTA reaches below 1 times.

Liquidity position: Adequate

PJL's liquidity is **adequate** with cash and liquid investment of ~Rs. 493.7 crore (ex-RQBE) as on March 31, 2021 and a significant cushion in the fund-based working capital limits. The company is expected to meet the debt repayments of Rs. 179 crore in FY2022 from its cash flow from operations. Further, it has a capacity expansion plan of around Rs. 520 crore (excluding the regular maintenance) over the next two to three years, which are likely to be funded through internal accruals.

Rating sensitivities

Positive factors – Sustained improvement in the performance of the cement, HRJ and RMC divisions and the resulting improvement in PJL's operating profit margin and return indicators will be a positive trigger. Furthermore, Total debt/OPBDITA below 2.0 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – Negative pressure on PJL's ratings may arise if there is a decline in revenues and earnings from the cement and HRJ divisions. Any major debt-funded capex / large inorganic expansion, leading to weakening of credit metrics, would pose a downward pressure on PJL's ratings. Additionally, Total debt/OPBIDTA of greater than 2.5 times, on a sustained basis, may trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Cement industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of PJL. List of entities forming part of PJL's consolidated financials are enlisted in Annexure-2

About Prism Johnson Limited

Prism Johnson Limited, promoted by the Rajan Raheja Group, was incorporated in 1992. It has been involved in the manufacturing and sales of cement since 1997. The company's cement division operates two units, both based in Satna, Madhya Pradesh, with a combined installed cement manufacturing capacity of 5.6 MTPA. It caters to the major markets of Uttar Pradesh, Madhya Pradesh and Bihar. In FY2010, PJL amalgamated H&R Johnson (India) Limited and RMC Readymix (India) Private Limited with itself. Post amalgamation, PJL has been operating with three divisions, namely cement, HRJ and RMC. The HRJ division operates with a total installed capacity of ~60 million sqm from 11 manufacturing plants (including JVs) and RMC division operates with a total installed capacity of 10.5 million cum. (across 96 plants in 44 locations).

Key financial indicators

Prism Johnson Limited (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	5954.5	5587.1
PAT (Rs. crore)	-27.9	136.1
OPBDIT/OI (%)	9.6%	11.1%
PAT/OI (%)	-0.5%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	3.0
Total Debt/OPBDIT (times)	4.2	3.1
Interest Coverage (times)	2.2	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating	FY2021		FY2020	FY2019	
					18-Jun-2021	18-Sep-2020	15-Jul-2020	26-Aug-2019	13-Nov-2018	28-Aug-2018
1	NCD Programme 1	Long term	50.0	50.0	[ICRA]A+ (Stable); Assigned	-	-	-	-	-
2	NCD Programme 2	Long-Term	-	-	-	-	[ICRA]A-%; placed on watch with positive implications and withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	NCD Programme 3	Long-Term	-	-	-	-	[ICRA]A-%; placed on watch with positive implications and withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
4	NCD Programme 4	Long-Term	-	-	-	[ICRA]A-%; withdrawn	[ICRA]A-%; placed on watch with positive implications	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
5	Fund-based – Term Loan	Long-Term	-	-	-	[ICRA]A-%; withdrawn	[ICRA]A-%; placed on watch with positive implications	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
6	Fund-based – Working Capital Facilities	Long-Term	-	-	-	[ICRA]A-%; withdrawn	[ICRA]A-%; placed on watch with positive implications	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
7	Fund-based – Working Capital Facilities	Short-Term	-	-	-	[ICRA]A1; withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
8	Non-fund based – Working Capital Facilities	Short-Term	-	-	-	[ICRA]A1; withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
9	Fund-based – Working Capital Facilities	Long-Term/Short-Term	-	-	-	[ICRA]A-%/[ICRA]A1; withdrawn	[ICRA]A-%; placed on watch with positive implications; [ICRA]A1	[ICRA]A-(Stable)/[ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1
10	Non-fund based – Working Capital Facilities	Long-Term/Short-Term	-	-	-	[ICRA]A-%/[ICRA]A1; withdrawn	[ICRA]A-%; placed on watch with positive implications; [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE214W08018	NCD	Sept 14, 2018	MIBOR+4.75%	Sept 2021	50.00	[ICRA]A+(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership^	Consolidation Approach
Raheja QBE General Insurance Company Limited	51%	Full Consolidation
H. & R. Johnson (India) TBK Limited	100%	Full Consolidation
TBK Venkataramiah Tile Bath Kitchen Private Limited	100%	Full Consolidation
TBK Samiyaz Tile Bath Kitchen Private Limited	100%	Full Consolidation
TBK Rangoli Tile Bath Kitchen Private Limited	100%	Full Consolidation
RMC Readymix Poselano (India) Limited	100%	Full Consolidation
TBK Prathap Tile Bath Kitchen Private Limited	98%	Full Consolidation
Sentini Cermica Private Limited	50%	Full Consolidation
Spectrum Johnson Tiles Private Limited	50%	Full Consolidation
Antique Marbonite Private Limited	50%	Full Consolidation
Small Johnson Floor Tiles Private Limited	50%	Full Consolidation
Coral Gold Tiles Private Limited	50%	Full Consolidation
Sanskar Ceramics Private Limited	50%	Full Consolidation
TBK Deepgiri Tile Bath Kitchen Private Limited	50%	Equity Method
TBK Florance Ceramics Private Limited	50%	Equity Method
Ardex Endura (India) Private Limited	50%	Equity Method
CSE Solar Parks Satna Private Limited	27.95%	Equity Method
Sunspring Solar Private Limited	27%	Equity Method

Source: PJL; ^As on Mar 31, 2021

Corrigendum

Rationale dated June 18, 2021 has been revised with changes as below:

- Revision in the rating history for the past three years section on page number 5.

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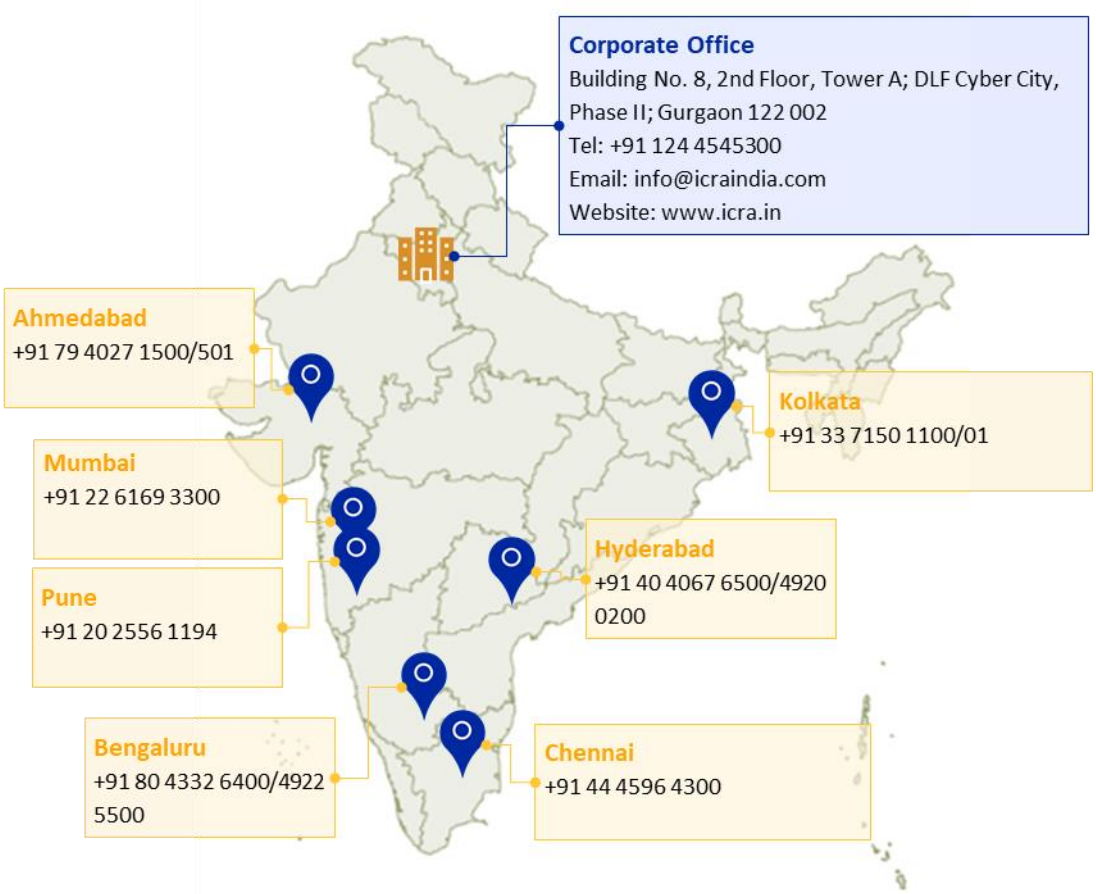

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