November 17, 2017

Prism Cement Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	560.00	[ICRA]A- (Stable); Re-affirmed
Term Loan	1,080.50	[ICRA]A- (Stable); Re-affirmed
Long-term, Fund-based Facilities	297.90	[ICRA]A- (Stable); Re-affirmed
Short-term, Fund-based Facilities	80.00	[ICRA]A1; Re-affirmed
Short-term, Non-fund Based Facilities	192.00	[ICRA]A1; Re-affirmed
Long-term / Short-term, Fund-based Facilities	40.00	[ICRA]A- (Stable) / [ICRA]A1; Re-affirmed
Long-term / Short-term, Non-fund Based Facilities	110.00	[ICRA]A- (Stable) / [ICRA]A1; Re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A- (pronounced as ICRA A minus)[1] to the Rs. 1,080.50 crore[2] term loan, Rs. 297.90 crore long-term fund-based facilities and Rs. 560.00 crore non-convertible debenture (NCD) programme of Prism Cement Limited ('PCL'). ICRA has also re-affirmed the short-term rating of [ICRA]A1 (pronounced as ICRA A one) to the Rs. 80.00 crore short-term fund-based facilities and Rs. 192.00 crore short-term non-fund based facilities of the company. Furthermore, ICRA has reaffirmed the ratings of [ICRA]A- / [ICRA]A1 (pronounced ICRA A minus / ICRA A one) to the Rs. 40.00 crore long-term / short-term interchangeable fund-based facilities and Rs. 110.00 crore long-term / short-term interchangeable non-fund based facilities of PCL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings takes into account the diversified and established position of the company in the domestic building materials sector having presence across cement, ceramic/vitrified tiles, bathroom fittings and kitchen, and ready mixed concrete (RMC) businesses, and the financial flexibility enjoyed by the company by virtue of being a part of the Rajan Raheja Group. PCL is one of the leading cement manufacturers in Central India (the Satna belt); launch of premium cement brands coupled with various cost saving initiatives undertaken by the company have resulted in improvement in the cement division's profitability over the past two years. ICRA notes that cement prices have firmed up in central and northern India from mid-February 2016 onwards, supported by the Central Government's push towards higher infrastructure development. Recent business consolidations in the region should also aid improvement in realizations. Profitability of the cement division is supported by the coal linkage from South Eastern Coalfields Limited and tie up of cheaper power by acquiring 15.23% stake in BLA Power Private Limited (under the Government's Group Captive Power Arrangement scheme). The TBK (Tiles, Bath fittings and Kitchen) division (H&R Johnson) is also a leading player in the ceramic tiles industry. The rating favorably factors in the improved power and fuel availability at its plants in Andhra Pradesh and Karnataka, which is expected to drive volumes and profitability going forward. The RMC division—the second largest RMC player in India with 91 concrete plants across the country—is well placed to benefit from any revival in the construction sector. The ratings also favorably factor in the mitigation of

---

[1] For complete rating definition please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

near term liquidity concerns through various divestment and refinancing strategies (replacing relatively shorter tenor debt with longer tenor ones); the company has adequate liquidity marked by sizeable cash & bank balances and unutilised bank lines.

The ratings are, however, constrained by the weaker performance of the TBK and RMC divisions over the past few years, and the moderate financial profile of the company characterised by stretched capital structure (gearing of 1.57x as of March 31, 2017 and Total Debt/OPBDITA[3] of 5.50x in FY2017) and moderate debt coverage indicators (interest coverage of 1.63x). The weakness in selling and distribution network of the TBK division, amidst intense competition from other branded players, has led to loss of market share and the division has been reporting losses at PBIT level over the past few quarters in spite of mitigating the power and fuel availability issues in FY2016. The performance of RMC division has also been subdued, with the division reporting PBIT level losses over the past few quarters. With the division's mega projects vertical witnessing strong order flows on the back of pick up in the pace of execution of certain large infrastructure projects in the country, the divisional performance is expected to improve over the medium term.

The recent implementation of GST is expected to augur well for the company, especially the TBK and RMC divisions, which are dominated by unorganised sector. Additionally the demand would also draw support from favourable budgetary allocations towards rural development, affordable housing and the impact of adequate monsoon. Ability of the company to turnaround the performance of the TBK division and further improve the profitability of the cement division will remain critical for an improvement in the financial profile of the company.

Key rating drivers

Credit strengths

- **Long standing experience of the management and PCL's established presence as a key cement manufacturer in the Satna (Madhya Pradesh) cluster** – PCL is a key cement manufacturer in central India, with a cement capacity of 7 million tonnes per annum (MTPA). It has an established presence in the eastern Uttar Pradesh (51% of PCL's cement sales in FY2017), Madhya Pradesh (28%) and Bihar (21%) markets.
- **Improvement in cement division profitability** – Various steps taken to improve the cost structure of the division have resulted in improvement in EBITDA per tonne of cement (EBITDA/T) over the past three years. The division achieved an EBITDA/T of Rs. 588 in FY2017 as against Rs. 372 in FY2016. Improved profitability in FY2017 was also supported by higher cement realisation, as the industry passed on the increase in fuel costs to the customers.
- **Cement realisations are expected to firm up in the central belt on back of industry consolidation in the region** – Cement industry in the central India region has witnessed consolidation over the past couple of years, with Birla Corporation Ltd (capacity of 10 MTPA) acquiring the cement assets of Reliance Infrastructure Ltd (5.5 MTPA) and UltraTech Cement Ltd (66.3 MTPA spread across India) acquiring the cement assets (21.2 MTPA; large part of which is in central and northern India) of the Jaypee Group. This is expected to bring price stability in the region.
- **TBK division continues to be one of the market leaders in ceramic tiles with 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 61 million square meters per annum across 11 manufacturing plants (including that under subsidiaries and joint ventures). The division has a nation-wide trade network of 1,000 dealers and 10,000 sub-dealers, in addition to its 'House of Johnson' chain of retail outlets.

[3] OPBDITA: Operating Profit before Depreciation, Interest, Tax and Amortization

* **Refinancing strategies mitigate near term liquidity concerns** – PCL has an average debt repayment obligation of Rs. 330 crore per annum over FY2018-FY2021. The company has been generating retained cash flows (operating cash flows net of interest and dividend payments; before capex) of Rs. 200-250 crore over the past two years (adjusted for onetime gains, such as gain from sale of stake in the insurance business). This necessitates active cash flow and liquidity management. As per the management, they have adopted a strategy of evaluating the refinancing requirement over the 18 months timeframe and tying up the funds with the banks / financial institutions ahead of time. With the average utilisation of fund-based bank limits at ~32% (of ~Rs. 390 crore) over the past one year, the company has sizeable cushion in the form of undrawn limits. The company has demonstrated successful liquidity management over the years.

Credit weaknesses

* **Intense competition coupled with weak demand has severely impacted the profit margins of the TBK division** – The tiles segment is highly competitive with the presence of several prominent organised players and a large number of unorganised players. Increase in competitive intensity coupled with certain production related issues (power and fuel availability at its plants in south India) has been constraining the TBK division's performance over the past few years. While the company had sorted out the fuel supply related issues in FY2015, its capacity utilisation remained low owing to subdued demand for its products. As the company embarked on new marketing initiatives, it disposed the non-moving and obsolete inventory during FY2017, thus impacting the profitability. The division reported EBITDA margin of 0.4% during FY2017. The management expects the division to turnaround in another four to five quarters.
* **Weak demand from the construction sector continue to weigh on the RMC division –** During FY2017, the division's performance was impacted due to heavy rains and demonetisation. As the division derives sizeable portion of its demand from the housing construction segment, implementation of real estate regulation act (RERA) by several states during H1 FY2018 and the resulting slowdown in real estate activities during the period impacted demand. The division continues to post modest EBITDA margin of ~3%. However, with the increased focus on the infrastructure segment with its mega projects vertical, the division is witnessing higher order inflow. This is expected to lead to improvement in scale and profitability of the division.
* **Leverage and debt coverage indicators, though improved marginally in FY2017, remain stretched** – As indicated by a gearing of 1.57 times and Total Debt/OPBDITA of 5.50 times as of March 31, 2017, PCL has a leverage capital structure. The debt coverage indicators are moderate as indicated by the interest coverage of 1.63 times and the cash coverage of 10% in FY2017. The liquidity is moderate with cash balances of Rs. 62.75 crore as of March 31, 2017, while it maintains sizeable unutilised bank lines to meet the temporary cash flow mismatches.
* **Moderate maintenance capital expenditure (capex) requirements continue to stretch cash flows; any large debt funded Greenfield expansion plan could adversely impact the credit profile** – PCL's annual capex requirements amount to Rs. 150-160 crore, mainly towards maintenance and de-bottlenecking activities. ICRA expects a large part of the capex requirement to be debt funded, thus limiting the reduction in overall debt levels. However, no significant increase in debt levels is expected from the current levels, unless the company undertakes a large debt funded capex. While the company has 3,000 acres of land in possession, limestone reserves secured and environment clearance in place for a Greenfield cement plant in Kurnool District, Andhra Pradesh, the management has indicated that they will proceed with the project only once the demand-supply situation in the south Indian market improves from the current level. The management estimates a timeframe of at least two years for the project execution to commence.

Analytical approach: For arriving at the ratings, ICRA has analysed the consolidated business and financial profile of PCL and applied the following rating methodology.

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
Prism Cement Limited, promoted by the Rajan Raheja group, was incorporated in 1992 and has been in the business of manufacturing and selling cement since 1997. The company's cement division operates two units, both based in Satna, Madhya Pradesh, with a combined installed cement capacity of 7.0 MTPA (saleable). It caters to the major markets in Uttar Pradesh, Madhya Pradesh and Bihar. In FY2010, PCL amalgamated H & R Johnson (India) Limited and RMC Readymix (India) Private Limited with itself. Post amalgamation, PCL has three divisions, namely Cement, TBK and RMC.

During FY2017, PCL reported profit after tax (PAT) of Rs. 14.25 crore on an operating income (OI) of Rs. 5,011.32 crore, as compared to an adjusted PAT of Rs. 25.26 crore on an OI of Rs. 5,223.10 crore during FY2016.

Key financial indicators (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	5,223.10	5,011.32
PAT (Rs. crore)	25.26	14.25
OPBDIT/ OI (%)	6.75%	7.18%
RoCE (%)	9.44%	8.24%
Total Debt/ TNW (times)	1.77	1.57
Total Debt/ OPBDIT (times)	6.27	5.50
Interest Coverage (times)	1.23	1.63
NWC/ OI (%)	9%	5%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2017 (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					November 2017	-	-	-
1	Non-Convertible Debenture	Long-term	560.00	450.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long-term	1,080.50	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Fund-based Bank Facilities	Long-term	297.90	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Fund-based Bank Facilities	Short-term	80.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	Non-fund Based Bank Facilities	Short-term	192.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
6	Fund-based Bank Facilities	Long-term / Short-term	40.00	-	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1
7	Non-fund Based Bank Facilities	Long-term / Short-term	110.00	-	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1
8	Commercial Paper	Short-term	-	-	-	Withdrawn	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE010A07141	NCD 1	26-Nov-2014	11.70%	25-Nov-2019	100.00	[ICRA]A- (Stable)
INE010A07166	NCD 2	21-Jan-2015	Zero Coupon (YTM#: 9.80%)	26-Apr-2018	50.00	[ICRA]A- (Stable)
INE010A07174	NCD 3	03-Feb-2015	11.00%	25-Apr-2018	50.00	[ICRA]A- (Stable)
INE010A07190	NCD 4	21-Jan-2015	10.75%	21-Jan-2020	150.00	[ICRA]A- (Stable)
INE010A08040	NCD 5	15-Sep-2015	SBI Base Rate - 0.30%	14-Sep-2018	100.00	[ICRA]A- (Stable)
INE010A07117	NCD 6	20-Aug-2014	11.25%	24-Apr-2017	55.00	[ICRA]A- (Stable)
INE010A07133	NCD 7	20-Aug-2014	11.25%	21-Jun-2017	55.00	[ICRA]A- (Stable)
-	Term Loan	-	11%-12%	Various; upto Dec 2020	1,080.50	[ICRA]A- (Stable)
-	Fund-based Bank Facilities	-	-	-	297.90	[ICRA]A- (Stable)
-	Fund-based Bank Facilities	-	-	-	80.00	[ICRA]A1
-	Non-fund Based Bank Facilities	-	-	-	192.00	[ICRA]A1
-	Fund-based Bank Facilities	-	-	-	40.00	[ICRA]A- (Stable) / [ICRA]A1
-	Non-fund Based Bank Facilities	-	-	-	110.00	[ICRA]A- (Stable) / [ICRA]A1

Note: # YTM: Yield to Maturity

Source: PCL

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Relationship Contact

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20- 6606 9999; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	