August 26, 2019

Prism Johnson Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	280.00	280.00	[ICRA]A- (Stable); reaffirmed
Fund-based – Term Loan	1,080.50	1,080.50	[ICRA]A- (Stable); reaffirmed
Fund-based – Working Capital Facilities	297.90	297.90	[ICRA]A- (Stable); reaffirmed
Fund-based – Working Capital Facilities	80.00	80.00	[ICRA]A1; reaffirmed
Non-fund based – Working Capital Facilities	192.00	192.00	[ICRA]A1; reaffirmed
Fund-based – Working Capital Facilities	40.00	40.00	[ICRA]A- (Stable) / [ICRA]A1; reaffirmed
Non-fund based – Working Capital Facilities	110.00	110.00	[ICRA]A- (Stable) / [ICRA]A1; reaffirmed
Total	**2,080.40**	**2,080.40**	

* Instrument details are provided in Annexure-1

Rationale

The reaffirmation of Prism Johnson Limited 's ratings takes into account its diversified and established position in the domestic building materials sector with a presence across cement, ceramic/vitrified tiles and ready mixed concrete (RMC) businesses. PJL is one of the leading cement manufacturers in central India (the Satna belt). The ratings favourably factor in the improved operating performance of PJL in FY2019, which was primarily supported by healthy volume growth and improvement in realisation levels in its cement division, which offset the cost pressures and resulted in considerable improvement in cement division's profitability. ICRA notes that business consolidations in the region, in the recent past, coupled with healthy demand from housing and infrastructure sectors, have aided improvement in realisation levels. Profitability of the cement division is further supported by the coal linkage from South Eastern Coalfields Limited and tie up of cheaper power from BLA Power Private Limited (under the Government's Group Captive Power Arrangement scheme; PJL holds 15.23% stake in BLA Power). While the power sourcing from BLA Power was impacted during the past two fiscals, the same has resumed in the current fiscal. Furthermore, ICRA notes the cost saving initiatives being undertaken for the cement division in form of setting up of solar power capacity (25 MW in FY2020) and waste heat recovery system (WHRS; 22.5MW), which is expected to further aid improvement in profitability, once they become operational. PJL's tiles and bath fittings division (HRJ) is a leading player in the tiles industry. The rating favourably factors in the initiatives undertaken by the company over the past couple of years to turnaround the HRJ division, which is expected to drive volumes and profitability, going forward. PJL's RMC division - with 97 concrete plants across the country - is well placed to benefit from pick up in the real estate and infrastructure sector. ICRA notes the financial flexibility enjoyed by the company as a part of the Rajan Raheja Group.

The ratings are, however, constrained by the relatively weaker performance of the HRJ and RMC divisions which has dragged the overall credit profile. Thus, despite improvement in the financial profile it remains moderate as characterised by moderate capitalisation and coverage indicators (gearing of 1.4 times, Total Debt/OPBDITA of 3.1 times, as on March 31, 2019 and interest coverage of 2.8 times in FY2019). Further, with ongoing capital expenditure towards

WHRS impinging free cash flow generation, ICRA expects the debt levels to remain in line with FY2019. The power and fuel supply related issues in the south during FY2011-FY2014 and weakness in sales and distribution network of the HRJ division in the past, amid intense competition from other branded players, has led to loss of market share. Consequently, the HRJ division's profitability and return on capital employed (RoCE) has remained low on account of the lower capacity utilisation levels and continued investments in marketing and distribution, targeted towards demand generation. However, ICRA notes the positive trajectory in the performance of the HRJ division, as reflected in revenue growth of ~8% and ~14% in FY2019 and Q1 FY2020 and improvement in EBITDA margin in Q1 FY2020.

Considering that the company has sizeable debt repayments due over the next three years, this will necessitate active cash flow and liquidity management. However, the company's practice of evaluating the refinancing requirement for the next year and tying up funds with banks / financial institutions ahead of time, coupled with the financial flexibility enjoyed by PJL as a part of the Rajan Raheja Group, is expected to mitigate such refinancing risk. PJL's ability to turn around the performance of its HRJ division and sustain the improvement in profitability of the cement division in the backdrop of macro-economic concerns will remain critical for an improvement in its financial profile.

Outlook: Stable

ICRA expects PJL, especially its cement and RMC divisions, to benefit from the thrust of the Government of India towards infrastructure development. With the consolidation in the industry in the Satna belt and better utilisation levels, the cement division realisations are expected to remain firm in the near term. And with regards to the HRJ division, the various initiatives undertaken by the company over the past couple of years to scale up its operations, are expected to drive volumes and profitability, going forward. ICRA expects these market conditions and efforts to help PJL improve its operating profit margins. ICRA also believes that PJL continues to benefit from being a part of the Rajan Raheja Group, which provides significant financial flexibility while raising funds from banks and financial institutions. The outlook may be revised to Positive if PJL manages to sustain the improvement in operating performance of its cement and RMC divisions and remains on the improvement path in the HRJ division in the near term. The resulting increase in cash accruals is critical for PJL to reduce its debt levels significantly and improve its credit profile. The outlook may be revised to Negative if the profitability of the cement division declines significantly, adversely impacting its credit profile. Any large debt-funded capex or acquisition resulting in higher than expected debt levels will also be a credit negative.

Key rating drivers

Credit strengths

Established presence as a key cement manufacturer in the Satna (Madhya Pradesh) cluster – PJL 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 (55% of PJL's cement sales in FY2019), Madhya Pradesh (24%) and Bihar (21%) markets.

Continued improvement in cement division's profitability – The improvement in cement realisation levels, on the back of healthy demand and overall higher capacity utilisation levels in the central region, has mitigated the cost pressures in the form of higher power and fuel and freight costs. Consequently, the operating performance of the cement division has improved considerably over the past couple of years, thus, aiding the improvement in overall operating performance of PJL. This is reflected in improvement in EBITDA/t to Rs. 834 in FY2019 from Rs. 619 in FY2018 and Rs. 567 in FY2017. The division's profitability has further improved in Q1 FY2020, as reflected by EBITDA/T of Rs. 1,111 in as against Rs. 1,009 in Q1 FY2019 and Rs. 971 in Q4 FY2019. Furthermore, the cost saving initiatives being undertaken for the cement division in form of setting up of solar power capacity (25 MW in FY2020) and WHRS (22.5MW) is expected to further aid improvement in profitability, once they become operational.

Firm cement realisations in the central belt on the back of industry consolidation in the region – The cement industry in the central Indian region has witnessed consolidation over the past couple of years. With Birla Corporation Ltd. acquiring the cement assets of Reliance Infrastructure Ltd. and UltraTech Cement Ltd. acquiring the cement assets of the Jaypee Group, the consolidation has brought price stability in the region. This was further supported by healthy demand from housing and infrastructure. Sustenance of the demand supported by the above factors will be critical to drive the cement division's performance.

HRJ division continues to be one of the leading players in tiles 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 ~68 million square meters per annum across 13 manufacturing plants (including those under subsidiaries and joint ventures). The division has a nation-wide trade network of 1,000 dealers, in addition to its 'House of Johnson' chain of retail outlets and display centers. While the division's operating performance remains muted on account of lower capacity utilisation levels, the demand generation efforts being undertaken by PJL are expected to drive volume growth profitability.

Credit Challenges

Intense competition resulting in muted demand growth for HRJ's products has severely impacted the profit margins and RoCE of the HRJ division – The tiles segment is highly competitive with several prominent organised players and a large number of unorganised players. Increase in competitive intensity (from domestic players as well as Chinese imports in the past), coupled with certain production related issues (power and fuel availability at its plants in southern India), has been constraining the HRJ division's performance over the past few years. While the company had sorted out its power and fuel supply related issues in FY2015, its capacity utilisation remained low owing to subdued demand for its products, as it had lost market share to its competitors. The division reported a marginal dip in its EBITDA margin in FY2019 to 3.3% from 3.7% in FY2018. Nonetheless, as discussed above, the demand generation efforts being undertaken by PJL are expected to drive volume growth profitability. This is also reflected in its Q1 FY2020 performance, wherein, the division reported ~14% revenue growth and improvement in EBITDA margin to 4.6% (Q1 FY2020: 3.3%).

Leverage and debt coverage indicators, though improved in FY2019, remain moderate – As indicated by a gearing of 1.4 times and Total Debt/OPBDITA of 3.1 times as of March 31, 2019, interest coverage of 2.8 times and debt service coverage metrics of 1.0 time in FY2019, PJL's capitalisation and coverage indicators continue to remain moderate. Considering that the company has sizeable debt repayments due over the next three years, this will necessitate active cash flow and liquidity management. Nonetheless, as per the management, the company adopts a strategy of evaluating the refinancing requirement for the next year and ties up funds with banks / financial institutions ahead of time, which is also evinced from its successful liquidity management over the years. This mitigates the liquidity mismatch risk to an extent.

Additional capex towards WHRS in FY2020 to restrict free cash flows; any other large debt-funded capex could adversely impact the credit profile – PJL's annual maintenance capex requirements amount to ~Rs. 200 crore (~Rs. 210 crore in FY2019), mainly towards maintenance and de-bottlenecking activities. In addition, the WHRS plan for its cement division is expected to entail an additional capex of Rs. 150-200 crore in FY2020. Accordingly, the free cash flows of PJL are expected to be restricted in FY2020 and the debt repayments in the current fiscal are not expected to result in any material debt reduction at the end of FY2020. Furthermore, any additional large debt funded capex could adversely impact PJL's credit profile.

Liquidity position

PJL's cash flow from operations improved in FY2019 on the back of revenue growth and improvement in profitability. On a consolidated basis, the company had external long-term loans and NCDs aggregating to Rs. 1,617.4 crore as on March 31, 2019, with debt repayments of ~Rs. 600 crore in FY2020 (of which, so far, the company has already repaid ~Rs. 187 crore as on June 30, 2019), ~Rs. 448 crore in FY2021 and ~Rs. 727 crore in FY2022 (on a consolidated basis). The company is expected to meet its debt obligations through its internal accruals as well as refinancing. The company had a balance of cash and liquid investments of ~Rs. 181 crore as on March 31, 2019 and also had a cushion in form of unutilised fund-based limits of ~Rs. 205 crore as on March 31, 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Rating Methodology for Indian Cement Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on PJL's consolidated financial profile. As on March 31, 2019, PJL had five subsidiaries, six joint ventures and two associates, which are enlisted in Annexure-2.

About the company

Prism Johnson Limited, promoted by the Rajan Raheja Group, was incorporated in 1992. It has been engaged 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 7.0 MTPA (saleable). 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.

Key Financial Indicators (audited; consolidated)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	5,507.0	6,193.3
PAT (Rs. crore)	51.8	105.2
OPBDIT/ OI (%)	8.2%	10.1%
RoCE (%)	10.6%	13.4%
Total Debt/ TNW (times)	1.5	1.4
Total Debt/ OPBDIT (times)	4.5	3.1
Interest coverage (times)	2.0	2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 August 2019	Date & Rating in FY2019 November 2018	August 2018	Date & Rating in FY2018 December 2017	November 2017	Date & Rating in FY2017 November 2016
1	NCD Programme	Long-Term	130.00	130.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
2	NCD Programme	Long-Term	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	NCD Programme	Long-Term	150.00	150.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Fund-based – Term Loan	Long- Term	1,080.50	0.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Fund-based – Working Capital Facilities	Long-Term	297.90	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	Fund-based – Working Capital Facilities	Short-Term	80.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
6	Non-fund based – Working Capital Facilities	Short-Term	192.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
7	Fund-based – Working Capital 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	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1

8	Non-fund based – Working Capital 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	[ICRA]A- (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A1
9	Commercial Paper	Short-Term	-	-		-	-	-	-	Withdrawn

**As on March 31, 2019*

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE010A07190	NCD 1	21-Jan-2015	9.77%	21-Jan-2020	150.00	[ICRA]A- (Stable)
INE010A07232	NCD 2	31-Aug-2018	Zero Coupon (YTM^: 10.40%)	27-Sep-2021	80.00	[ICRA]A- (Stable)
INE010A08073	NCD 3	17-Sep-2018	10.40%	17-Sep-2021	50.00	[ICRA]A- (Stable)
-	Term Loan	Various; Upto Sep 2013	9%-11%	Already repaid	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: Prism Johnson Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Milano Bathroom Fittings Private Limited	100.00%	Full consolidation
Silica Ceramica Private Limited	99.93%%	Full consolidation
H. & R. Johnson (India) TBK Limited	100.00%	Full consolidation
RMC Readymix Poselano (India) Limited	100.00%	Full consolidation
Raheja QBE General Insurance Company Limited	51.00%	Full consolidation
Sentini Ceramica Private Limited	50.00%^	Full consolidation
Spectrum Johnson Tiles Private Limited	50.00%^	Full consolidation
Antique Marbonite Private Limited	50.00%^	Full consolidation
Small Johnson Floor Tiles Private Limited	50.00%^	Full consolidation
Coral Gold Tiles Private Limited	50.00%^	Full consolidation
Ardex Endura (India) Private Limited	50.00%	Equity Method
CSE Solar Parks Satna Private Limited	27.00%	Equity Method
Prism Power and Infrastructure Private Limited	49.00%	Equity Method

** As on March 31, 2019; ^As per the principle of IND AS, these JVs are considered as subsidiaries and therefore total profit of the said entities have been considered for consolidation.*

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