Prism Johnson Limited

August 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	-	130.00	[ICRA]A- (Stable); Assigned
Non Convertible Debenture Programme	450.00	450.00	[ICRA]A- (Stable); Outstanding
Fund-based – Term Loan	1,080.50	1,080.50	[ICRA]A- (Stable); Outstanding
Fund-based – Working Capital Facilities	297.90	297.90	[ICRA]A- (Stable); Outstanding
Fund-based – Working Capital Facilities	80.00	80.00	[ICRA]A1; Outstanding
Non-fund based – Working Capital Facilities	192.00	192.00	[ICRA]A1; Outstanding
Fund-based – Working Capital Facilities	40.00	40.00	[ICRA]A- (Stable) / [ICRA]A1; Outstanding
Non-fund based – Working Capital Facilities	110.00	110.00	[ICRA]A- (Stable) / [ICRA]A1; Outstanding
Total	**2,250.40**	**2,380.40**	

* Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 130.00 crore[1] non-convertible debenture (NCD) programme of Prism Johnson Limited (PJL; formerly Prism Cement Limited) [2]. The outlook on the long-term rating is Stable.

Rationale

The assigned rating factors in the diversified and established position of the company in the domestic building materials sector with a presence across cement, ceramic/vitrified tiles, bathroom and kitchen fittings, and ready mixed concrete (RMC) businesses. ICRA notes the financial flexibility enjoyed by the company as a part of the Rajan Raheja Group. PJL is one of the leading cement manufacturers in central India (the Satna belt). The 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 three years. ICRA also 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 has also aided improvement in realisations. 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). PJL's tiles, bath fittings and kitchen division (H&R Johnson or HRJ) is also a leading player in the ceramic tiles industry. The rating favourably 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 92 concrete plants across the country—is well placed to benefit from any revival in the construction sector. The ratings also favourably factor in the mitigation of near term liquidity concerns through

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

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

The ratings are, however, constrained by the weaker performance of the HRJ and RMC divisions over the past few years, and the moderate financial profile of the company characterised by stretched capital structure (gearing of 1.54x as of March 31, 2018 and Total Debt/OPBDITA of 4.49x in FY2018) and moderate debt coverage indicators (interest coverage of 1.94x). ICRA notes that the capital structure and debt coverage indicators have improved over the past two years. The 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 division has been reporting losses at PBIT level over the past couple of years in spite of mitigating the power and fuel availability issues in FY2016. The performance of its RMC division, which was also subdued during FY2017 and 9m FY2018, turned around starting Q4 FY2018 and started reported PBIT margins of ~3%. 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 of RMC and HRJ is expected to improve further over the medium term.

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

Outlook: Stable

ICRA expects that PJL, especially its cement and RMC divisions, will benefit from the infrastructural push by the Government of India. With the consolidation in the industry in the Satna belt, the cement division realisations are expected to be steady in the near-term and improve over the longer term. While the HRJ division continues to underperform amidst a slow real estate market, the affordable housing schemes of the Government will favourably impact the division over the medium to longer term. ICRA expects that these market conditions will help PJL improve its operating profit margins. ICRA also believes that PJL will 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 reduce its debt levels significantly or achieves turnaround in HRJ business in the near term. The outlook may be revised to Negative if cement division profitability declines significantly, thereby 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

- **Longstanding experience of the management and PJL's 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 (52% of PJL's cement sales in FY2018), 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. 619 in FY2018 (Rs. 819 in Q4 FY2018) as against Rs. 567 in FY2017. Improved profitability in FY2018 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 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. (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.
- **HRJ 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 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 and 10,000 sub-dealers, in addition to its 'House of Johnson' chain of retail outlets.
- **Refinancing strategies mitigate near term liquidity concerns** – PJL has an average debt repayment obligation of Rs. 330 crore per annum over FY2019-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 three 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 ~55% (of ~Rs. 370 crore) over the past one year, the company has sizeable cushion in the form of undrawn limits. PJL has demonstrated successful liquidity management over the years.

Credit Challenges

- **Intense competition coupled with weak demand has severely impacted the profit margins 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, 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 the fuel supply related issues in FY2015, its capacity utilisation remained low owing to subdued demand for its products. The division reported EBITDA margin of 3.7% during FY2018 (PY: 0.5%).
- **Weak demand from the construction sector continues to weigh on the RMC division** – 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 demand, however, recovered in H2 FY2018 after nearly five years of flattish growth. The division continues to post modest EBITDA margin of ~2-3%. 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 FY2018, remain stretched** – As indicated by a gearing of 1.54 times and Total Debt/OPBDITA of 4.49 times as of March 31, 2018, PJL has a leverage capital structure. The debt coverage indicators are moderate as indicated by the interest coverage of 1.94 times and the cash coverage of 12% in FY2018. The liquidity is moderate with cash balances of Rs. 63.18 crore as of March 31, 2018, 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** – PJL's annual capex requirements amount to ~Rs. 200 crore (Rs. 341.64 crore in FY2018), 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 the Kurnool district of Andhra Pradesh, the management has indicated that it will proceed with the project only once the demand–supply situation in the

southern 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 followed its withdrawal policy as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

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 three divisions, namely cement, HRJ and RMC.

During FY2018, PJL reported total comprehensive income (TCI) of Rs. 51.91 crore on an operating income (OI) of Rs. 5,506.91 crore, as compared to TCI of Rs. 15.09 crore on an OI of Rs. 5,011.32 crore during FY2017.

Key Financial Indicators (Audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	5,011.32	5,506.91
PAT (Rs. crore)	12.76	51.80
OPBDIT/ OI (%)	7.18%	8.18%
RoCE (%)	8.19%	10.61%
Total Debt/ TNW (times)	1.57	1.54
Total Debt/ OPBDIT (times)	5.50	4.49
Interest coverage (times)	1.63	1.94

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: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating August 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 December 2017	November 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 September 2015
1	NCD Programme	Long-Term	130.00	0.00	[ICRA]A-(Stable)	-	-	-	-
2	NCD Programme	Long-Term	450.00	350.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Fund-based – Term Loan	Short Term	1,080.50	-	[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)
5	Fund-based – Working Capital Facilities	Short-Term	80.00	-	[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
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
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
9	Commercial Paper	Short-Term	-	-	-	-	-	Withdrawn	[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 Name	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)
Yet to be placed	NCD 6	NA	NA	NA	130.00	[ICRA]A- (Stable)
-	Term Loan	-	9%-11%	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: Prism Johnson Limited

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