India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Prism Johnson and its NCDs to 'IND A'; Outlook Stable

15

JUL 2019

By Krishan Binani

India Ratings and Research (Ind-Ra) has upgraded Prism Johnson Limited's (PJL) Long-Term Issuer Rating to 'IND A' from 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR4,950	IND A/Stable	Upgraded
Term loans	-	-	FY23-FY24	INR7,950	IND A/Stable	Upgraded
Fund-based limits	-	-	-	INR4,500	IND A/Stable	Upgraded
Non-fund-based working capital limits	-	-	-	INR4,000	IND A1	Affirmed
Term deposit programme	-	-	-	INR150	IND tA+/Stable	Upgraded
Unsecured short-term loans	-	-	-	INR3,550	IND A1	Affirmed
Commercial paper programme	-	-	0-365 days	INR2,000	IND A1	Affirmed
Proposed NCDs	-	-	-	INR1,150	Provisional IND A/Stable	Assigned

* Details given in annexure

Analytical Approach: Ind-Ra continues to take a consolidated view of PJL and its subsidiaries - Raheja QBE General Insurance Company Limited (shareholding of 51%); Silica Ceramica Private Limited ('IND A-(SO)'/Positive; shareholding of 99.93%); H&R Johnson (India) TBK Limited (100%); RMC Readymix Porselano (India) Limited (100%); and Milano Bathroom Fittings Private Limited (100%) - because of the strong operational and strategic linkages between the entities.

The upgrade reflects the continued improvement in PJL's profitability levels, driven by the cement segment's performance amid the stable ready mix concrete (RMC) and tiles business. The increased profitability led to PJL's consolidated net leverage (net debt/EBITDA) improving to 3.1x in FY19 (FY18: 4.4x), breaching the positive trigger of 3.5x.

KEY RATING DRIVERS

Improved Credit Metrics: PJL's consolidated credit metrics improved in FY19 on the back of 12% increase in revenues (FY19: INR61.9 billion, FY18: INR55.1 billion) and a rise in the EBITDA margin to 9.7% (FY18: 8%) due to the improved performance of the cement and RMC divisions. The net leverage (net debt/EBITDA) was 3.1x in FY19 (FY18: 4.4x) and interest coverage (EBITDA/interest expense) was 2.7x (2x). Ind-Ra expects the metrics to improve further owing to an improvement in the profitability levels across all divisions.

Leading Market Position: PJL is among the largest cement producers in central India (Satna Cluster). The cement division contributed over 80% to its EBITDA in FY19, followed by the tiles and RMC divisions. H. & R. Johnson (India) Ltd (HRJ), established in 1958, has been a pioneer in the ceramic tiles industry in India for the past five decades. The RMC division was set up in 1996 as RMC Readymix (India) Pvt. Ltd. and is a leading RMC manufacturer. Both companies amalgamated with PJL in FY10.

Continued Steady Improvement in Cement Division: After bottoming out in FY14, the EBITDA per tonne of the cement division has been increasing steadily in the subsequent years. It increased to INR834 in FY19 (FY18: INR619), driven by an increase in realisation as well as sales volume; this mitigated the cost pressures. The realisation rose to INR4,395 per tonne in FY19 (FY18: INR4,182 per tonne) owing to the increased pricing power of existing players, due to industry consolidation in the recent years in the central region, and growth in demand, led by higher spending in rural and infrastructure segments.

Eastern Uttar Pradesh, north east Madhya Pradesh and Bihar accounted for 55%, 24% and 21% of the division's sales in FY19, respectively. The division's cement sales volume rose 11.2% yoy to 6.27 million tonnes in FY19, with capacity utilisation touching 89% (FY18: 81%). Moreover, the share of PJL's premium branded cement increased to 18% in FY19 from 15% in FY18.

Ind-Ra expects the division's EBITDA per tonne to remain buoyant over the near term, as the realisations are likely to be robust on account of a supportive demand outlook amidst high industry utilisation in central India. Cost benefits should accrue from savings of power costs due to resumption of supplies from BLA Power Private Limited (25MW purchase agreement) and the use of solar power (15MW each in 1Q/4Q FY20). Fuel costs are likely to decline owing to a fall in the share of imported coal due to higher use of linkage coal (20% to 25%) and the increased share of petcoke (from 60% to 70%). Logistics costs are likely to reduce on account of relaxation in axle load norms. The lead distance has remained unchanged at 391km.

Improved Performance of HRJ and RMC divisions: The HRJ division's revenue grew by 8% yoy on a consolidated basis to INR18.2 billion in FY19 (FY18: INR16.8 billion), driven by volume growth. While the volume growth signalled the reversal of the declining-to-flattish trend witnessed over past few years, it was restricted to 4% yoy by the floods in Kerala and the transportation strike. The HRJ division's EBITDA margin fell to 3.3% in FY19 (FY18: 3.7%), due to continued investments in marketing and distribution. The management expects volume recovery to continue with improved margins through scaling up of marketing activities by strengthening of the distribution network (six new display centres in FY19; the company aims to have 20 centres by the end of FY20 against 11 in March 2019), reorganisation of the sales team into four separate verticals for each brand to generate volumes, influence engagement programmes, expansion in the product portfolio, strict control on working capital, and cost optimisation. The recent National Green Tribunal's ban on using coal gasifiers in Morbi should aid organised and branded players.

The RMC division's revenue increased by 8% yoy to INR14.8 billion in FY19 (FY18: INR13.6 billion) on the back of volume growth. Its EBITDA margin rose to 2.6% (FY18: 2.0%). After witnessing a flattish trend for nearly five years, the segment saw double-digit volume growth of 14% in FY19. The company expects an improvement in both volumes and margin over the medium term, led by a strong order book in the mega vertical catering to the infrastructure segment.

Moderate Liquidity: PJL's average use of the fund-based and non-fund-based working capital limits was 21% and 72%, respectively, for the 12 months ended March 2019. This leaves a sizable cushion in the form of unused working capital facilities with a sanctioned limit of INR3.95 billion. The company has debt worth nearly INR4.4 billion maturing in FY20 and INR5.0 billion maturing in FY21 on a consolidated basis. The agency believes the repayments will be made through internal accruals or refinancing. According to the management, PJL has a track record of refinancing debt within 18 months from maturity. Ind-Ra draws comfort from the fact that PJL is a Rajan Raheja group company, and the access to the group's bank funding gives it financial flexibility.

PJL's cash flow from operations remained strong at INR4.7 billion in FY19 (FY18: INR3.8 billion). Ind-Ra expects its cash flow from operations to remain positive during FY20-FY21 in view of an improvement in the EBITDA, and stable and comfortable working capital days (FY19: 34; FY18: 31). The free cash flow was positive for the third consecutive year in FY19. In FY20, the agency expects the cash flow from operations to be offset by the planned capex.

Moderate Capex: PJL has an annual maintenance capex requirement of INR2.0 billion-2.5 billion for FY20-FY23. In FY20, PJL intends to spend INR1.9 billion on the construction of a 22.5MW waste heat recovery power plant (WHRS) at a cement unit; this will save power cost and, thus, boost margins. The WHRS is likely to be commissioned in June 2020.

Over FY21-22, PJL plans to set up a 1.5-2-million-metric-tonne cement split grinding unit, involving an investment of INR4 billion. The proposed unit should help in optimising logistics cost and improving supplies to Uttar Pradesh. PJL does not expect to incur any material capex towards its greenfield project in Andhra Pradesh in the next three years.

Standalone Profile: The revenue from standalone operations increased to INR59.6 billion in FY19 (FY18: INR54.1 billion) and the margins improved to 9.3% (7%). The net debt/EBITDA improved to 2.55x (FY18: 3.9) and interest coverage rose to 3.2x (2x).

RATING SENSITIVITIES

Positive: An improvement in the operating performance, leading to the net leverage reducing below 2.5x, on a sustained basis, could lead to an upgrade.

Negative: Lower-than-expected operating performance and/or unexpected debt-funded capex, leading to net leverage exceeding 3.5x, on a sustained basis, along with deterioration in the liquidity profile, will be negative for the rating.

COMPANY PROFILE

PJL has diversified business activities, with a presence in the cement, HRJ and RMC segments. It has been manufacturing and selling cement since 1997. It manufactures Portland Pozzolana cement under the brand Champion, in addition to ordinary portland cement at its plants in Satna, Madhya Pradesh. It has a total cement manufacturing capacity of 7.0 million metric tonnes. It caters to the cement requirements of major markets in Uttar Pradesh, Madhya Pradesh and Bihar.

Its HRJ division has 11 manufacturing units nationwide and has added various product categories to offer complete solutions to customers. The RMC division has 97 plants countrywide and has presence in aggregates business operating large quarries and crushers.

FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR million)	61,944	55,077
Operating EBITDA (INR million)	6,010	4,431
EBITDA margin (%)	9.7	8.0
Interest coverage (x)	2.7	2.0
Net leverage (x)	3.1	4.4
Source: PJL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	15 November 2018	8 November 2017	8 December 2016
Issuer rating	Long-term	-	IND A/Stable	IND A-/Positive	IND A-/Stable	IND A-/Stable
NCDs	Long-term	INR6,100	IND A/Stable	IND A-/Positive	IND A-/Stable	IND A-/Stable

Term loans	Long-term	INR7,950	IND A/Stable	IND A-/Positive	IND A-/Stable	IND A-/Stable
Fund-based limits	Long-term	INR4,500	IND A/Stable	IND A-/Positive	IND A-/Stable	IND A-/Stable
Non-fund-based working capital limits	Short-term	INR4,000	IND A1	IND A1	IND A1	IND A1
Term deposit programme	Long-term	INR150	IND tA+/Stable	IND tA/Positive	IND tA/Stable	IND tA/Stable
Unsecured short-term loans	Short-term	INR3,550	IND A1	IND A1	IND A1	IND A1
Commercial paper programme	Long-term	INR2,000	IND A1	IND A1	IND A1	-

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE010A07208	13 December 2016	9.25	29 April 2020	INR2,000	IND A/Stable
NCDs	INE010A07216	10 November 2017	10.7	10 November 2020	INR1,000	IND A/Stable
NCDs	INE010A08065	11 April 2018	10.65	9 April 2021	INR750	IND A/Stable
NCDs	INE010A07224	3 August 2018	10.4	22 June 2021	INR1,200	IND A/Stable
Total					**INR4,950**	

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Krishan Binani

Associate Director
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block.
Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40356162

Secondary Analyst

Shochis Natrajan

Analyst
+91 22 40001788

Committee Chairperson

Prashant Tarwadi

Director
+91 22 40001772

Media Relation

Namita Sharma

Manager – Corporate Communication
+91 22 40356121