ISO 9001 : 2008 (Excl.Design)
ISO 14001 2004
OHSAS 18001 : 2007
SA 8000 : 2008
BUREAU VERITAS
Certification

PRISM JOHNSON LIMITED

Ref. : ASK/UD/848/2020 May 14, 2020

The National Stock Exchange (India) Ltd., Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051.	BSE Limited, Corporate Relationship Department, P. J. Towers, Dalal Street, Fort, Mumbai – 400 023.
Code : PRSMJOHNSN	Code : 500338

Sub.: Intimation of Credit Ratings

Dear Sir,

In compliance with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III of the said Regulations, we wish to inform you that India Ratings and Research Pvt. Ltd., has re-affirmed the Credit Rating of Long-term facilities of Prism Johnson Limited.

The details are being furnished on the basis of information received by India Ratings and Research Pvt. Ltd today. (Copy of press release attached).

We request you to take on record.

Thanking you,

Yours faithfully,

for PRISM JOHNSON LIMITED

Sd/-

ANEETA S. KULKARNI
COMPANY SECRETARY

Login

India Ratings Assigns Prism Johnson's Proposed NCDs 'Provisional IND A'/Stable; Affirms Existing Ratings

14

MAY 2020

By Krishan Binani

India Ratings and Research (Ind-Ra) has taken the following rating actions on Prism Johnson Limited (PJL):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND A/Stable	Affirmed
Proposed non-convertible debentures (NCDs)#	-	-	-	INR3	Provisional IND A/Stable	Assigned
NCDs*	-	-	-	INR4.94 (reduced from INR6.94)	IND A/Stable	Affirmed
Term loans	-	-	FY23-FY24	INR10.39 (increased from INR9.45)	IND A/Stable	Affirmed
Fund-based limits	-	-	-	INR4.0 (reduced from INR4.5)	IND A/Stable	Affirmed
Non-fund-based working capital limits	-	-	-	INR5.44 (increased from INR4)	IND A1	Affirmed
Term deposit programme	-	-	-	INR0.05 (reduced from INR0.15)	IND tA+/Stable	Affirmed
Unsecured short-term loans	-	-	-	INR0.9 (reduced from INR2.05)	IND A1	Affirmed
Commercial paper programme**	-	-	0-365 days	INR2.0	IND A1	Affirmed

#The final rating will be assigned following the final issuance and the receipt of the final documentation, conforming to the information already received by Ind-Ra

* Details in Annexure
** CP has been carved out of PJL's working capital limits and will be used to meet working capital requirements.

ANALYTICAL APPROACH: Ind-Ra continues to take a consolidated view of PJL and its subsidiaries - H&R Johnson (India) TBK Limited (100% stake); RMC Readymix Porselano (India) Limited (100%); Milano Bathroom Fittings Private Limited (100%) and Raheja QBE General Insurance Company Limited (51%) because of the strong operational and strategic linkages between the entities.

KEY RATING DRIVERS

Leading Market Position: PJL is among the largest cement producers in central India (Satna Cluster). The cement division contributed nearly 80% to its EBITDA over FY15-FY19, followed by the ready mix concrete (RMC) and tiles divisions (about 14%). H. & R. Johnson (India) Ltd (HRJ), established in 1958, has been a pioneer in ceramic tiles 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.

Financial Profile Likely to Weaken due to COVID-19; Recovery Likely in FY22: The steady improvement in PJL's credit profile is likely to have come to a halt over FY20-FY21, with the COVID-19 containment measures having resulted in the shutdown of plant operations amid significantly reduced construction activity. Ind-Ra expects cement demand to fall by 10%-15% yoy and the absolute EBITDA to decline by 20%-25% yoy in FY21. Normal production is likely to rise gradually from less than 10% in April 2020 to 25% in May 2020, and further to 60% in June 2020, and finally touch 95%-100% of normal sales over July-August, with demand likely to grow by about 7% in 3QFY21, and by around 9% in 4QFY21. The fall in volumes as well as margins in an environment of subdued demand in all its divisions is likely to cause PJL's net leverage to remain elevated above 3.5x in FY21 (FY20 Estimate: 3.5x, FY19: 3.1x, FY18: 4.4x). However, in FY21, PJL is likely to implement significant cost-reduction initiatives along with the reduced capex. This in addition to the company's track record of timely refinancing and liquidity buffers might enable it to withstand the impact of the temporary slowdown. Ind-Ra expects the company's profit and credit metrics to improve meaningfully in FY22, with risks emanating from any prolonged lockdown of businesses. The company has resumed partial operations from April 2020 and intends to restart operations in a phased manner at other locations after bringing down the inventory to the desired level.

Cement Division to see Reduced Utilisation in FY21; Rebound in FY22: The cement division has seen a steady improvement in utilisation and profitability since FY14, led by improved demand and industry consolidation in central India. However, the shutdowns from end-March until early-May are likely to have adversely impacted the division's profitability in FY20, and would affect its performance in FY21 as well. Ind-Ra expects the utilisation to drop to around 70% in FY21 (FY9M20: 80, FY19: 89) and the absolute EBITDA to fall by around 18% in FY21 with modest pressure on the EBITDA per tonne (FY9M20: INR844, FY19: INR834, FY18: INR619).

According to the agency, the central region is likely to experience faster recovery due to higher proportion of rural demand (incomes would be better protected due to the high share of rabi crops and likely normal monsoons) and availability of local labour. The region has also seen an increase in the pricing power of existing players due to industry consolidation in recent years, and growth in demand, led by higher spending in the rural and infrastructure segments. Variable costs are likely to decline due to the fall in coal, petcoke, diesel and flyash prices, which will start reflecting in 2HFY21. Moreover, the company's efforts to reduce costs are likely to aid profitability. Cost benefits should accrue from the savings of power cost due to resumption of supplies from BLA Power Private Limited (25MW purchase agreement), the use of solar power and the commissioning of the waste heat recovery power plant over 3QFY20 (WHRS). In addition, fuel costs are likely to decline due to a fall in the share of imported coal, resulting from an increase in the usage of linkage coal (to 25% from 20%) and growth in the share of petcoke (to 70% from 60%). Ind-Ra expects a strong uptick in FY22 volumes and EBITDA in the cement division.

Uttar Pradesh, Madhya Pradesh and Bihar accounted for 55%, 24% and 21%, respectively, of the division's sales in FY19. The market share of PJL's premium branded cement increased to 21% in 9MFY20 (FY19: 18%, FY18: 15%). In 9MFY20, the cement segment's EBITDA was largely flat at INR3.6 billion, as a fall of 7% in volumes was offset by an increase in the EBITDA per tonne to INR844 (9MFY19: INR782).

HRJ and RMC to Witness Significant Headwinds in FY21; Sharp Recovery Likely in FY22: After having shown a declining-to-flattish trend over the preceding years, the HRJ division had been on the recovery path over FY19-9MFY20, with its revenue on a consolidated basis rising by 8%-9% yoy during the period (9MFY20: INR14 billion, FY19: INR18.2 billion, FY18: INR16.8 billion), driven by volume growth. The division's margins too improved to 4.6% in 9MFY20, the highest level since FY13 (FY19: 3.3%, FY18: 3.7%), despite continued investments in marketing and distribution. Although the division's profitability is likely to experience a significant decline in FY21, it might record a sharp recovery from FY22 on the back of the strengthened distribution network, refocused sales team, expansion in product portfolio, strict control on working capital, and cost optimisation measures.

The RMC division's performance was impacted by tight liquidity and heavy monsoons in 3QFY20, which caused its revenue to decline by 2% yoy in 9MFY20 against the growth of 8% yoy in FY18 and FY19 (9MFY20: INR 10.6 billion, FY19: INR14.8 billion, FY18: INR13.6 billion). Its EBITDA margins also fell to 2% in 9MFY20 (9MFY19: 2.6%; FY19: 2.6%, FY18: 2.0%). Ind-Ra expects the segment to witness a decline in profitability over FY20-FY21, with a rebound likely in FY22.

Liquidity Indicator - Adequate: PJL's average use of the fund-based and non-fund-based working capital limits was 21% and 70%, respectively, for the 12 months ended March 2020. The company has debt repayment obligations of INR4.6/7.1/4.5 billion for FY21/22/23 on a consolidated basis; Ind-Ra believes the obligation would be met through internal accruals, refinancing, and cash available. The company repaid INR2.4 billion (including accrued interest) against NCD repayment in April 2020. As on date, PJL has cash worth INR2.5 billion and unutilised working capital lines amounting to INR0.5 billion. The company is likely to maintain liquidity of INR2.5 billion at least until the resumption of normal operations. 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 access to the group's bank funding gives it financial flexibility. PJL did not avail moratorium for April 2020 and does not plan to avail the same in May 2020.

PJL's cash flow from operations remained strong at INR4.7 billion in FY19 (FY18: INR3.8 billion), led by the substantial increase in EBITDA and the stable working capital cycle. Ind-Ra expects the cash flow from operations to remain positive over the medium term, though it is likely to have been flat in FY20 and might decline sharply in FY21. PJL's free cash flow continued to be positive for the third consecutive year at INR1.57 billion in FY19 (FY18: INR0.39 billion). The agency expects the free cash flow to turn negative in FY21 due to the decline in profitability, though the impact of the same would be slightly offset by lower capex spending.

Moderate Capex: In view of the disruption caused by the COVID-19 pandemic, PJL plans to slash its capex in FY21 to conserve liquidity. The company intends to spend INR1.6 billion-1.7 billion in FY21 against the capex of nearly INR3.5 billion-3.6 billion in FY20. The INR1.9 billion, 22.5MW WHRS, which is likely to be commissioned by October 2020, will save power costs, thereby boosting margins. PJL has deferred its plans to set up a 1.5-2 million metric tonne cement split grinding unit, which would have entailed an investment of INR4 billion. Over FY22-FY23, the company is likely to resume its normal capex of INR2.5 billion-3 billion. The company might undertake de-bottlenecking capex in FY22 to enhance its cement capacity by 1 million tonnes per annum. PJL does not envisage any material capex towards its greenfield project in Andhra Pradesh over FY21-FY23; for the project, land is in possession, limestone reserves have been secured and environmental clearances have been obtained.

Standalone Profile: PJL's standalone revenue increased to INR59.6 billion in FY19 (FY18: INR54.1 billion), the margins rose to 9.3% (7%). The net leverage fell to 2.55x in FY19 (FY18: 3.9x), and the 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 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, Champion plus and Duratech 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 tons. 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(CONSOLIDATED)

Particulars	**FY19**	**FY18**
Revenue (INR billion)	61.94	55.08
Operating EBITDA (INR billion)	6.01	4.43
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 (billion)	Rating	5 February 2020	15 November 2018	8 November 2017
Issuer rating	Long-term	-	IND A/Stable	IND A/Stable	IND A-/Positive	IND A-/Stable
NCDs	Long-term	INR7.94	IND A/Stable	IND A/Stable	IND A-/Positive	IND A-/Stable
Term loans	Long-term	INR10.39	IND A/Stable	IND A/Stable	IND A-/Positive	IND A-/Stable
Fund-based limits	Long-term	INR4.0	IND A/Stable	IND A/Stable	IND A-/Positive	IND A-/Stable
Non-fund-based working capital limits	Short-term	INR5.44	IND A1	IND A1	IND A1	IND A1
Term deposit programme	Long-term	INR0.05	IND tA+/Stable	IND tA+/Stable	IND tA/Positive	IND tA/Stable
Unsecured short-term loans	Short-term	INR0.9	IND A1	IND A1	IND A1	IND A1
Commercial paper programme	Short-term	INR2.0	IND A1	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	WD (paid in full)
NCDs	INE010A07240	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
NCDs	INE010A08081	26 July 2019	10.7	25 July 2022	INR1,150	IND A/Stable
NCDs	INE010A08099	31 January 2020	10.0	January 31, 2023	INR840	IND A/Stable
Total					**INR4,940**	

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.

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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

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