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

PRISM JOHNSON LIMITED

March 24, 2023

The National Stock Exchange of 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 Rating

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 Crisil Ratings Limited ('CRISIL') has re-affirmed its 'CRISIL A1+' rating on the Commercial Paper programme of the Company.

The details are being furnished on the basis of information received from CRISIL. A copy of rating rationale published on the website of CRISIL is attached.

We request you to take the same on record.

Thanking you,

Yours faithfully,
for **PRISM JOHNSON LIMITED**

ANEETA SUHAS KULKARNI

Digitally signed by ANEETA SUHAS KULKARNI

ANEETA S. KULKARNI
COMPANY SECRETARY

Encl. As above

CRISIL Ratings

Rating Rationale

March 23, 2023 | Mumbai

Prism Johnson Limited

Rating Reaffirmed

Rating Action

Rs.200 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper programme of Prism Johnson Limited (PJL).

The rating reflects the healthy business risk profile supported by PJL's position as a prominent cement player in the central region, its established presence in the domestic ceramic and vitrified tiles industry along with being one of the leading players in the ready-mix concrete (RMC) business and structural improvement in the operating efficiency of the cement and tiles divisions. The rating also factors in the healthy financial risk profile and adequate liquidity maintained. These strengths are partially offset by susceptibility to fluctuations in input costs and realisations, cyclicality in the industry and exposure to intense competition.

During the first nine months of fiscal 2023, the consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) margin moderated to 4.1% compared to 8.8% in the corresponding period of the previous fiscal due to decline in profitability of the cement division owing to rise in petcoke/ coal prices and planned shutdown in some plants during the third quarter. Operating profitability was also lower in the tiles division due to rise in gas prices. For fiscal 2024, CRISIL Ratings expects EBITDA margin to improve to 7.5-8.5% driven by cost reduction in the cement division with decline in power and fuel cost on account of lower input prices and benefit of investments made in green energy in cement division. Profitability of tiles division is also expected to improve with expected reduction in gas prices next fiscal.

Over the past five years, operating performance has seen significant improvement across divisions, as indicated by the cement division's EBITDA per tonne of Rs 800-1,000 during fiscals 2019, 2020 and 2021, compared to Rs 500-700 per tonne in fiscals 2017 and 2018. However, with continuous rise in petcoke/ coal prices, operating profitability declined in fiscal 2022 and first nine months of fiscal 2023 with EBITDA per tonne at Rs 709 and Rs 434, respectively. The HR Johnson (HRJ) division after witnessing a turnaround in fiscals 2021 and 2022 as seen in EBITDA margin improving to double digits (barring quarters impacted due to the pandemic) from 3-4% during fiscals 2018 to 2020 moderated in the first nine months of fiscal 2023 due to rising gas prices.

The decline in operating performance and the resultant reduction in cash accrual consequently moderated the financial risk profile during fiscals 2022 and 2023 as seen in consolidated net debt (gross debt less cash and equivalents) to EBITDA ratio declining to 2.4 times as on March 31, 2022 against 1.8 times a year earlier However, the total debt level has remained flat and increase in net debt to EBITDA ratio is on account of lower profitability. CRISIL Ratings expects the net debt to EBITDA ratio to further moderate to 3.5-4.0 times in fiscal 2023 due to lower operating profitability. Net debt to EBITDA ratio is expected to improve to below 2 times fiscal 2024 onwards on account of higher operating profitability and repayment of debt obligation. Liquidity remains strong, with cash and equivalents of approximately Rs 190 crore as on February 14, 2023, along with a policy to prepay or refinance a large part of the term debt a year in advance.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of PJL and its joint ventures (JVs), associate and subsidiary companies as these have strong financial, managerial and operational linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Prominent cement player in the central region, established presence in the domestic tiles business and one of the leading players in the RMC business**
  PJL is a prominent cement player in the central region with capacity of 5.6 million metric tonne per annum (MTPA) supported by long track record of operations. Cement sales for PJL are concentrated in Uttar Pradesh (UP), Madhya Pradesh (MP) and Bihar with majority of the offtake from eastern UP. PJL sells cement under the brands – Champion, Champion Plus, Champion All Weather and Duratech. PJL also has arrangement for toll manufacturing with three suppliers for supply of cement with grinding capacity of 0.82 MTPA.

The company's tiles division, HRJ, has total tile manufacturing capacity of 61 million m^2 across 10 units (including JVs) across India, which it plans to increase by 5.5 million m^2 through greenfield expansion by June 2023. The division also houses a faucet manufacturing plant each in Samba, Jammu & Kashmir, and Baddi, Himachal Pradesh. HRJ has a wide product range including tiles, sanitary ware, faucets, quartz and engineering marbles, and construction chemicals. HRJ has a wide distribution network of over 1,200 dealers and 18 large format experience centres.

PJL, one of the leading RMC manufacturers, operates 87 RMC plants at 44 locations and three aggregate quarries across India as on December 31, 2022.

- **Healthy operating efficiency**
  The EBITDA per tonne of PJL's cement division has improved consistently to Rs 800-1,000 during fiscals 2019, 2020 and 2021 from Rs 500-700 per tonne in fiscals 2017 and 2018. The improvement was driven by various cost efficiency measures such as savings from installation of waste heat recovery system (WHRS) plant, rationalisation of lead distance, along with increasing share of high margin premium products and industry wide increase in realisations. The EBITDA per tonne moderated in fiscal 2022 and the first nine months of fiscal 2023 due to heightened power and fuel cost. The company has continued with investments in green energy and AFR with expected commissioning of wind power project of 24 MW by March 2024, which will lead to cost savings.

  The HRJ division witnessed a turnaround in fiscals 2021 and 2022 as seen in EBITDA margin improving to double digits (barring quarters impacted due to the pandemic) from 3-4% during fiscals 2018 to 2020. The improvement in profitability was on account of focused sales team generating demand, improving product portfolio and expanding distribution network along with cost rationalisation. Operating profitability was impacted during fiscal 2023 due to high gas prices witnessed across the industry. However, with expected reduction in gas prices, and focused efforts on increasing utilisation and capacity, EBITDA margin should improve from current levels.

- **Heathy financial risk profile and strong liquidity**
  Decline in operating performance and resultant accrual has weakened the financial risk profile in the interim as seen in consolidated net debt to EBITDA ratio declining to 2.4 times as on March 31, 2022 from 1.8 times a year earlier. Debt protection metrics, as indicated by interest coverage and net cash accrual to total debt ratios are estimated to be adequate above 1.8 times and 0.1 time, respectively, as on March 31, 2023, compared to 2.7 times and 0.2 time, respectively, as on March 31, 2022. However, with no large capital expenditure (capex) and debt plans, the metrics are expected to remain above 3.5 times and 0.35 time, respectively, fiscal 2024 onwards. Liquidity remains strong, with cash and equivalents of approximately Rs 190 crore as on February 14, 2023, along with policy to prepay or refinance large part of the term debt a year in advance.

Weaknesses:

- **Susceptibility to fluctuations in input costs and realisations; and cyclicality in the industry**
  Capacity addition in the cement industry tends to be sporadic because of the long gestation period for setting up a facility and numerous players adding capacity during the peak of a cycle. This has led to unfavourable price cycles for the sector in the past. Moreover, profitability remains exposed to volatility in input prices, including raw material, power, fuel and freight. Increase in coal and pet coke prices in the second half of fiscal 2022 impacted the profitability of several cement players. Realisations and profitability are also affected by demand, supply, offtake and regional factors.

- **Exposure to intense competition**
  The ceramic tiles industry is intensely competitive and dominated by unorganised entities. However, with changes such as closure of ceramic units running on coal gasifiers, and implementation of the Goods and Services Tax (GST) and Real Estate (Regulation and Development) Act, 2016 (RERA), the market share of organised players has expanded in recent times.

  Despite being a leading player, the HRJ division faces significant competition from reputed brands such as Kajaria Ceramics Ltd, Somany Ceramics Ltd (rated 'CRISIL AA-/Stable/CRISIL A1+'), Asian Granito India Ltd and Orient Bell Ltd (rated 'CRISIL A/Stable/CRISIL A1'). Intense competition restricts profitability, given the delay in passing on cost hikes to customers.

<u>Liquidity: Strong</u>

Net cash accrual of over Rs 150 and Rs 450 crore per annum for fiscals 2023 and 2024 along with high cash and equivalents balance, are more than adequate to meet the yearly scheduled debt repayment. Also, PJL has demonstrated its ability to refinance debt in the past as the company typically prepays or refinances major portion of loans due in the next one year. Moderately utilised bank lines of over Rs 500 crore provide additional cushion to liquidity. Furthermore, being part of a strong group provides healthy financial flexibility.

<u>Environment, social and governance (ESG) profile</u>

The ESG profile of PJL supports its healthy credit risk profile.

The cement sector has a significant impact on the environment owing to higher emissions, waste generation and water consumption. This is because of energy-intensive cement manufacturing process and high dependence on natural resources such as limestone and coal as key raw materials. The sector has significant social impact due to its nature of operations, affecting local community and health hazards. PJL has continuously focused on mitigating these environmental and social risks.

Key ESG highlights

- PJL has target to reduce Scope 1+ Scope 2 emission intensity by around 9% from 650 kg Co2/tonne of cementious material in 2021-22 to 592 kg Co2/ tonne by 2024-25.

- It has a target to meet over 50% of power consumption needs from renewable sources (including WHRS) by 2024-25, as against 36.6% during 2021-22.
- It has an emission reduction strategy in place and has installed Continuous Emission Monitoring Systems (CEMS) and Continuous Ambient Air Quality Monitoring Systems (CAAQMS), which are connected to the concerned Central Pollution Control Board (CPCB) servers for real time data monitoring. This helps understand emission load and identify improvement opportunities wherever possible.
- It aims to decrease SoX emissions by reducing the use of fossil fuels by co-processing and process optimisation through technological interventions
- Its governance structure is characterised by 37% of the board members comprising independent directors with no independent director's tenure exceeding 10 years; chairman and CEO position are split

Rating Sensitivity factors
Downward factors:
- Weakening of the financial risk profile with net debt to EBITDA ratio sustaining above 4 times
- Lower-than-expected liquidity either owing to low cash balance or high utilisation of fund-based limits
- Slower-than-expected turnaround in profitability across divisions (cement, HRJ and RMC)
- Large, debt-funded capital expenditure exposing the company to project risks

About the Company
PJL is an integrated building materials company, with a wide range of products such as cement, RMC, tiles and bath products. The PJL group currently has four divisions - Cement, HRJ, RMC and RQBE General Insurance Co. PJL is listed on the Bombay Stock Exchange and National Stock Exchange.

In the first nine months of fiscal 2023, PJL generated consolidated revenue of Rs 5,249 crore and profit after tax (PAT) loss of Rs 162 crore, compared to revenue of Rs 4,452 crore and PAT of Rs 24 crore in the corresponding period of the previous fiscal.

Key Financial Indicators (consolidated) – Adjusted by CRISIL Ratings

Particulars	Unit	2022	2021
Revenue	Rs crore	6307	5588
PAT	Rs crore	44	140
PAT margin	%	0.7	2.5
Adjusted debt/adjusted networth	Times	1.10	1.17
Adjusted interest coverage	Times	2.70	3.06

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7-365 days	200	Simple	CRISIL A1+

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
TBK Rangoli Tile Bath Kitchen Pvt Ltd	Full	Significant operational and financial linkages
TBK Venkataramiah Tile Bath Kitchen Pvt Ltd	Full	Significant operational and financial linkages
TBK Samiyaz Tile Bath Kitchen Pvt Ltd	Full	Significant operational and financial linkages
TBK Prathap Tile Bath Kitchen Pvt Ltd	Full	Significant operational and financial linkages
H. & R. Johnson (India) TBK Ltd	Full	Significant operational and financial linkages
RMC Readymix Porselano (India) Ltd	Full	Significant operational and financial linkages
Raheja QBE General Insurance Company Ltd	Full	Significant operational and financial linkages
Sentini Cermica Pvt Ltd	Full	Significant operational and financial linkages
Spectrum Johnson Tiles Pvt Ltd	Full	Significant operational and financial linkages
Antique Marbonite Pvt Ltd	Full	Significant operational and financial linkages
Sanskar Ceramics Pvt Ltd	Full	Significant operational and financial linkages
Small Johnson Floor Tiles Pvt Ltd	Full	Significant operational and financial linkages
Coral Gold Tiles Pvt Ltd	Full	Significant operational and financial linkages
Ardex Endura (India) Pvt Ltd	Proportionate	JV

TBK Deepgiri Tile Bath Kitchen Pvt Ltd	Proportionate	JV
TBK Florance Ceramics Pvt Ltd	Proportionate	JV
CSE Solar Parks Satna Pvt Ltd	Proportionate	Associate
Sunspring Solar Pvt Ltd	Proportionate	Associate

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Commercial Paper	ST	200.0	CRISIL A1+		--	25-03-22	CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]
[Rating criteria for manufaturing and service sector companies]
[The Rating Process]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
[Rating Criteria for Cement Industry]
[CRISILs Criteria for rating short term debt]
[CRISILs Criteria for Consolidation]

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