

Prism Cement

BSE SENSEX 32,014
 S&P CNX 9,979

CMP: INR120 TP: INR140(+16%) Buy




Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	PRSC IN
Equity Shares (m)	503
M.Cap.(INRb)/(USD\$b)	60.5 / 0.9
52-Week Range (INR)	130 / 72
1, 6, 12 Rel. Per (%)	-4/5/-5
Avg. val, INRm	49
Free float (%)	25.1

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	49.6	53.0	55.0
EBITDA	3.0	4.6	6.1
PAT	0.1	1.8	2.8
EPS (INR)	0.3	3.5	5.6
Gr. (%)	-53	1,176	60
BV/Sh (INR)	19.0	21.9	26.9
RoE (%)	1.4	17.0	22.9
RoCE (%)	3.3	11.1	14.6
P/E (x)	440.3	34.5	21.5
P/BV (x)	6.3	5.5	4.5

Estimate change 
 TP change 
 Rating change 

Weak performance in the run-up to GST rollout

- **Volume growth impacted:** Prism Cement's (PRSC) standalone 1QFY18 revenue increased 3% YoY (-7% QoQ) to INR13.2b (est. of INR14.6b), led by a 3% YoY decline in cement volumes. Cement realizations increased ~3% QoQ (~+11% YoY) to INR4,620 (est. of INR4,659) due to improved pricing in its focus markets.
- **TBK losses reduce marginally QoQ:** TBK segment's revenue fell 4% YoY (+19% QoQ) to INR4.26b (est. of INR4.45b) due to a sharp decline in sales on account of destocking prior to GST implementation. TBK segment reported PBIT loss of INR224m v/s loss of INR265m in 4QFY17.
- **Cement pricing improvement drives margin uptick:** Overall EBITDA declined 20% YoY (-34% QoQ) to INR762m, with the margin at 5.8% (-2.4pp QoQ; -1.6pp YoY). Cement costing increased on account of higher power & fuel cost/t (higher petcoke prices), freight costs (overloading restriction implementation) and higher employee cost. Cement EBITDA/ton stood at INR647 (+INR35/t YoY; -19% QoQ). PAT stood at INR167m, as against INR156m in 1QFY17.
- **RMC segment posts EBIT loss:** RMC sales stood at INR3.2b (+2.3% QoQ, -1.6% YoY). EBIT loss for RMC was INR66m for 1QFY18 (v/s +INR108m in 1QFY17) due to higher cement prices.
- **Valuation view:** Our SOTP value for PRSC is INR140/share (EV of USD110/ton, 7x FY20E RMC EBITDA and 9x FY20E TBK EBITDA). PRSC is a pure-play on central India recovery – it is likely to see strong improvement in profitability, driven by higher consolidation in the region over the last 12-18 months. Additionally, the region is likely to see no meaningful capacity addition for the next 18-24 months, while there could be some pricing volatility in the next 2-3 quarters due to ramp-up of JPA's assets. However, the key monitorable would be turnaround in TBK's profitability. Maintain **Buy**.

Quarterly Performance (Standalone)

Y/E March	FY17				FY18				FY17	FY18	FY18	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales Dispatches (m ton)	1.53	1.18	1.17	1.56	1.48	1.18	1.29	1.57	5.21	5.52	1.45	2
YoY Change (%)	12.3	-12.3	-4.3	14.6	-3.0	0.0	10.0	0.5	-1.5	5.9	-6.1	
Realization (INR/ton)	4,160	4,342	4,239	4,509	4,620	4,520	4,620	4,899	4,508	4,678	4,659	-1
YoY Change (%)	9.2	3.4	3.6	29.3	11.1	4.1	9.0	8.6	8.1	3.8	13.3	
QoQ Change (%)	19.3	4.4	-2.4	6.4	2.5	-2.2	2.2	6.0			3.3	
Net Sales	12,869	11,599	11,345	14,186	13,221	13,040	13,765	13,005	49,607	53,031	14,667	-10
YoY Change (%)	-1.3	-11.5	-9.2	2.3	2.7	12.4	21.3	-8.3	-4.0	6.9	14.0	
Total Expenditure	11,917	11,351	11,094	13,023	12,459	12,567	12,870	11,050	46,558	48,946	13,848	-10
EBITDA	952	248	251	1,163	762	473	895	1,955	3,049	4,085	820	-7
Margins (%)	7.4	2.1	2.2	8.2	5.8	3.6	6.5	15.0	6.1	7.7	5.6	
Depreciation	409	399	401	394	380	406	406	431	1,918	1,622	406	
Interest	554	392	544	344	469	427	427	385	2,166	1,708	427	
Other Income	229	331	231	312	328	313	313	296	1,437	1,250	313	
PBT	219	-213	-463	738	241	-47	375	1,436	402	2,005	300	-20
Tax	63	0	7	36	74	-14	112	431	275	752	90	
Rate (%)	28.6	0.0	-1.6	4.9	30.7	30.0	30.0	30.0	68.3	37.5	30.0	
Reported PAT	156	-213	-470	702	167	-33	262	1,005	128	1,254	210	-20
Adj PAT	156	-213	-470	702	167	-33	262	1,005	128	1,254	210	
Margins (%)	1.2	-1.8	-4.1	4.9	1.3	-0.2	1.9	7.7	0.3	2.4	1.4	

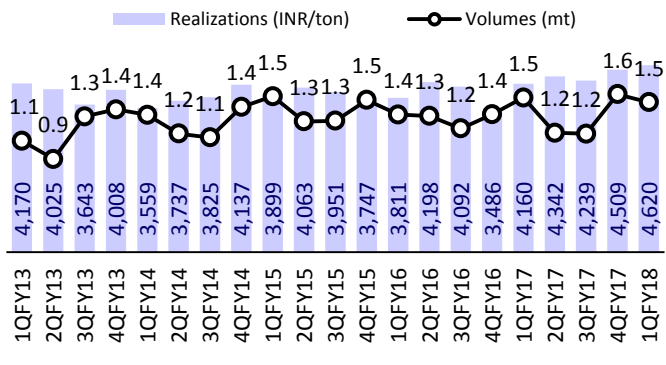
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

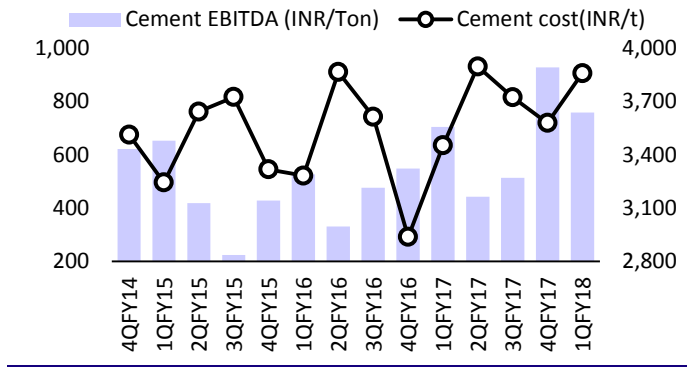
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Exhibit 1: Volume declined by 3% YoY



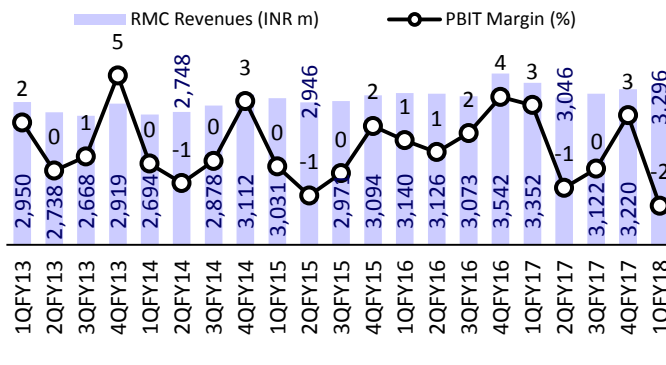
Source: Company, MOSL

Exhibit 2: Cement EBITDA/ton declined 19% QoQ



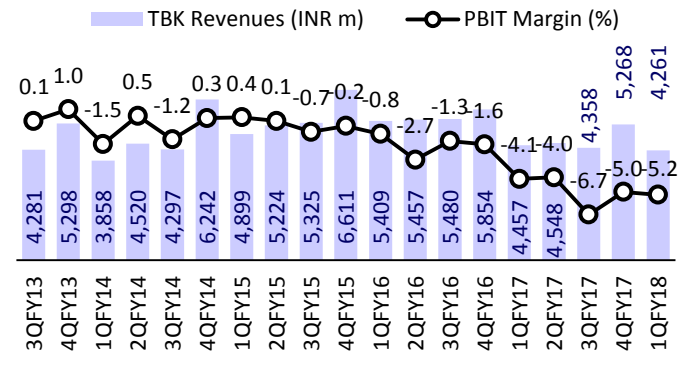
Source: Company, MOSL

Exhibit 3: RMC business declined 2% YoY in 1QFY18



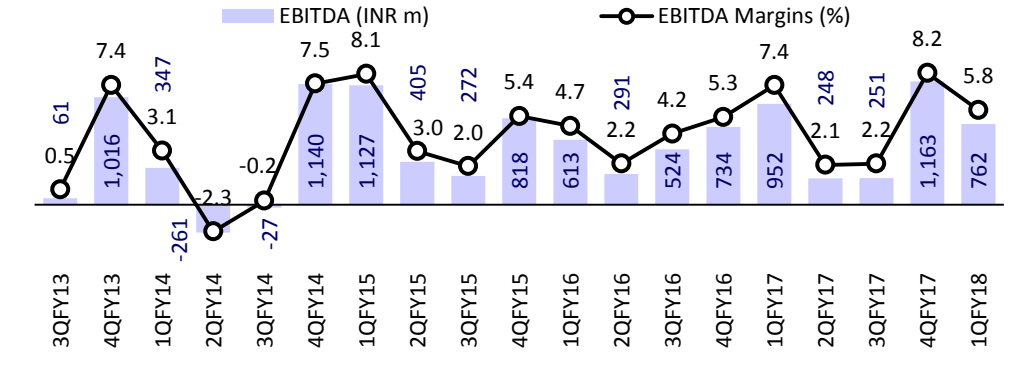
Source: Company, MOSL

Exhibit 4: TBK revenues declined 4% YoY in 1QFY18



Source: Company, MOSL

Exhibit 5: EBITDA trend



Source: Company, MOSL

Valuation and views

- **Growth headroom limited, but market mix strong:** Given ~80% capacity utilization and limited expansion plans, PRSC's cement business offers limited scope for growth outperformance. However, it has an advantage in terms of market mix (North MP, East UP, and Bihar) – low supply visibility, high consolidation and better regional growth visibility. Benefits of various measures – higher pet coke mix, blending, and better power efficiency have begun percolating through improved profitability
- **TBK segment – return of cost competitiveness taking longer:** Despite strong brand, the drag in PRSC's TBK (tiles, bath and kitchen) segment profitability has been an overhang. Operational issues (disruption in energy supply and cost), which led to severe cost inflation in the past, are behind – PRSC has installed three coal gassifiers, drilled onshore micro gas wells in Andhra Pradesh, and put in place connectivity of natural gas in Karnataka. Yet margins are taking longer to improve (losses v/s the normal 6-8%) due to (a) weak demand, (b) delay in premiumization plan (shift in product mix towards vitrified tiles).
- **Profitability and balance sheet strength to get strategic priority over growth:** Operational overhangs of the past are now behind. Strategy would ride on prudent capital allocation and cost competitiveness to normalize profitability. Conversion of cash on the back of limited capex should drive deleveraging.
- **Valuation and view:** Our SOTP value for PRSC is INR140/share (EV of USD110/ton, 7x FY20E RMC EBITDA and 9x FY20E TBK EBITDA). PRSC is a pure play on central India recovery which is likely to see strong improvement in profitability driven by higher consolidation in the region in the last 12-18 months. Additionally the region is likely to see no meaningful capacity addition for next 18-24 months while there could be some pricing volatility in the next 2-3 quarters due to ramp up of JPA's assets. However key monitorable would be turnaround in TBK profitability. Maintain Buy.

Financials and Valuations

Income Statement							(INR Million)		
Y/E March	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	44,808	47,427	49,443	55,718	51,684	49,607	53,031	54,953	55,506
Change (%)	33.3	5.8	4.3	12.7	-7.2	-4.0	6.9	3.6	1.0
Total Expenditure	42,421	45,085	48,244	53,098	48,822	46,558	48,446	48,871	47,858
% of Sales	94.7	95.1	97.6	95.3	94.5	93.9	91.4	88.9	86.2
EBITDA	2,388	2,342	1,199	2,621	2,862	3,049	4,585	6,082	7,647
Margin (%)	5.3	4.9	2.4	4.7	5.5	6.1	8.6	11.1	13.8
Depreciation	1,473	1,598	1,766	1,368	1,841	1,918	1,622	1,642	1,712
EBIT	915	744	-567	1,252	1,021	1,131	2,963	4,440	5,935
Int. and Finance Charges	1,635	1,903	2,415	2,536	2,814	2,166	1,708	1,720	1,660
Other Income - Rec.	289	313	363	556	2,070	1,437	1,250	1,300	1,300
PBT bef. EO Exp.	-432	-846	-2,619	-729	277	402	2,505	4,020	5,575
EO Expense/(Income)	28	-16	-1,341	-621	39	-15	0	0	0
PBT after EO Exp.	-460	-830	-1,278	-108	237	417	2,505	4,020	5,575
Current Tax	5	-235	-462	-255	235	299	752	1,206	1,673
Deferred Tax	-165	0	0	0	-251	-24	0	0	0
Tax Rate (%)	34.7	28.3	36.1	236.7	-6.5	65.8	30.0	30.0	30.0
Reported PAT	-300	-595	-817	147	253	143	1,754	2,814	3,903
PAT Adj for EO items	-282	-607	-1,673	996	295	137	1,754	2,814	3,903
Change (%)	-129.6	115.3	175.7	-159.6	-70.4	-53.4	1,176.1	60.5	38.7
Margin (%)	-0.6	-1.3	-3.4	1.8	0.6	0.3	3.3	5.1	7.0

Balance Sheet							(INR Million)		
Y/E March	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	5,034	5,034	5,034	5,034	5,034	5,034	5,034	5,034	5,034
Total Reserves	6,452	5,864	5,047	4,658	4,371	4,523	5,982	8,502	12,110
Net Worth	11,486	10,897	10,081	9,691	9,405	9,557	11,016	13,535	17,143
Deferred Liabilities	2,057	919	452	136	0	0	0	0	0
Total Loans	12,683	16,084	18,333	18,828	18,524	16,308	16,308	14,308	9,308
Capital Employed	26,226	27,900	28,866	28,655	27,929	25,864	27,323	27,843	26,451
Gross Block	29,462	31,984	34,553	35,418	22,526	23,585	25,731	27,231	29,231
Less: Accum. Deprn.	10,331	11,890	13,607	14,935	2,092	3,693	5,315	6,957	8,669
Net Fixed Assets	19,132	20,094	20,946	20,483	20,433	19,892	20,415	20,273	20,561
Capital WIP	664	839	626	688	683	945	300	300	300
Total Investments	3,900	3,782	3,473	3,378	3,296	3,819	3,819	3,819	3,819
Curr. Assets, Loans&Adv.	11,246	14,983	14,083	15,744	15,752	12,698	12,266	12,379	10,065
Inventory	4,273	4,674	4,622	5,500	4,717	3,997	4,843	4,919	4,637
Account Receivables	3,463	4,779	5,258	5,574	6,087	6,055	5,165	4,919	4,803
Cash and Bank Balance	565	375	525	797	1,152	667	-971	-574	-2,356
Loans and Advances	2,945	5,155	3,679	3,873	3,797	1,979	3,228	3,115	2,981
Curr. Liability & Prov.	10,947	12,599	12,535	14,113	15,000	15,039	13,026	12,478	11,843
Account Payables	10,570	12,164	12,130	13,648	14,285	14,518	12,914	12,297	11,592
Provisions	377	434	405	465	715	521	113	181	251
Net Current Assets	300	2,384	1,548	1,631	752	-2,342	-761	-99	-1,779
Appl. of Funds	26,226	27,900	28,866	28,655	27,929	25,864	27,323	27,843	26,451

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)									
EPS	-0.6	-1.2	-3.3	2.0	0.6	0.3	3.5	5.6	7.8
Cash EPS	2.4	2.0	0.2	4.7	4.2	4.1	6.7	8.9	11.2
BV/Share	22.8	21.6	20.0	19.3	18.7	19.0	21.9	26.9	34.1
DPS	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5
Payout (%)	-97.5	0.0	0.0	0.0	0.0	0.0	16.8	10.5	7.5
Valuation (x)									
P/E	-214.7	-99.7	-36.2	60.7	205.4	440.3	34.5	21.5	15.5
Cash P/E	50.8	61.0	650.3	25.6	28.3	29.4	17.9	13.6	10.8
P/BV	5.3	5.6	6.0	6.2	6.4	6.3	5.5	4.5	3.5
EV/Sales	1.6	1.6	1.6	1.4	1.5	1.5	1.5	1.4	1.3
EV/EBITDA	30.1	32.2	64.8	29.7	27.0	24.7	16.9	12.3	9.4
EV/Ton (US\$)				157.2	155.7	166.9	167	125	156
Dividend Yield (%)	0.4	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4
Return Ratios (%)									
RoIC	2.8	2.4	-1.5	-7.1	4.7	1.8	9.3	12.8	17.0
RoE	-2.4	-5.4	-15.9	10.1	3.1	1.4	17.0	22.9	25.4
RoCE	3.3	3.0	-0.5	-8.7	11.7	3.3	11.1	14.6	18.7
Working Capital Ratios									
Asset Turnover (x)	1.7	1.8	1.7	1.9	1.8	1.8	2.0	2.0	2.0
Inventory (Days)	39.8	37.0	34.8	38.2	32.1	28.8	34.4	33.3	30.6
Debtor (Days)	30.2	35.1	36.7	35.8	37.9	39.4	33.1	30.2	29.1
Leverage Ratio (x)									
Current Ratio	1.0	1.2	1.1	1.1	1.1	0.8	0.9	1.0	0.8
Debt/Equity	1.1	1.5	1.8	1.9	2.0	1.7	1.5	1.1	0.5

Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Oper. P/L before Tax	915	744	-567	1,252	1,021	1,131	2,963	4,440	5,935
Interest/Dividends Recd.	289	313	363	556	2,070	1,437	1,250	1,300	1,300
Depreciation	1,473	1,598	1,766	1,368	1,841	1,918	1,622	1,642	1,712
Direct Taxes Paid	-5	-2	-5	-62	-483	-551	-752	-1,206	-1,673
(Inc)/Dec in WC	1,190	-2,275	987	190	1,233	2,609	-3,219	-265	-102
CF from Operations	3,861	377	2,543	3,304	5,682	6,544	1,865	5,911	7,173
EO expense	-604	-24	-133	316	-234	-359	0	0	0
CF from Operating incl EO	3,257	353	2,410	3,620	5,448	6,185	1,865	5,911	7,173
(inc)/dec in FA	-1,983	-2,697	-2,356	-927	12,898	-1,322	-1,500	-1,500	-2,000
Free Cash Flow	1,274	-2,344	54	2,693	18,345	4,863	365	4,411	5,173
(Pur)/Sale of Investments	-357	118	310	95	82	-524	0	0	0
CF from investments	-2,340	-2,579	-2,046	-832	12,980	-1,846	-1,500	-1,500	-2,000
Issue of Shares	0	7	0	-536	-539	9	0	0	0
(Inc)/Dec in Debt	793	3,401	2,249	494	-304	-2,216	0	-2,000	-5,000
Interest Paid	-1,635	-1,903	-2,415	-2,536	-2,814	-2,166	-1,708	-1,720	-1,660
Dividend Paid	-293	0	0	0	0	0	-294	-294	-294
CF from Fin. Activity	-1,135	1,504	-166	-2,578	-3,657	-4,373	-2,002	-4,014	-6,954
Inc/Dec of Cash	-218	-191	198	209	14,771	-33	-1,638	397	-1,782
Add: Beginning Balance	599	565	375	525	797	1,152	667	-971	-574
Closing Balance	565	374	525	693	15,568	1,119	-971	-574	-2,356

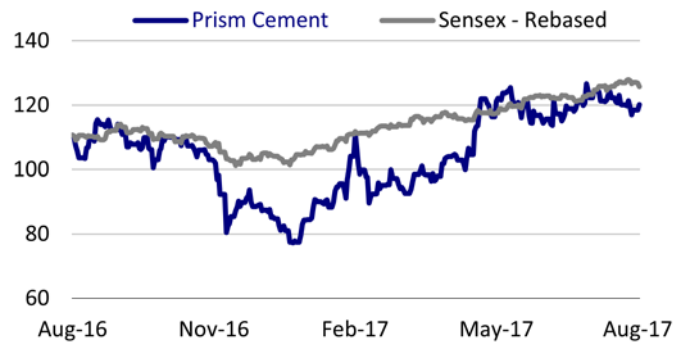
E: MOSL Estimates

Corporate profile

Company description

Prism Cement Limited is one of India's leading integrated Building Materials Company, with a wide range of products from cement, ready-mixed concrete, tiles, bath products to kitchens. The company has three Divisions, viz. Prism Cement, H & R Johnson (India), and RMC Readymix (India). Cement business has a capacity of 7mt.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	74.9	74.9	74.9
DII	9.3	8.3	6.4
FII	6.5	7.5	9.8
Others	9.3	9.3	9.0

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
HDFC TRUSTEE COMPANY LIMITED-HDFC EQUITY FUND	7.6
NATIONAL WESTMINSTER BANK PLC AS TRUSTEE OF THE JUPITER INDIA FUND	1.7
ICICI PRUDENTIAL VALUE FUND - SERIES 4	1.6
CLSA GLOBAL MARKETS PTE. LTD.	1.2
MORGAN STANLEY ASIA (SINGAPORE) PTE.	1.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shobhan M Thakore	Chairman
Vijay Aggarwal	Managing Director
Vivek Krishan Agnihotri	Executive Director
Atul R Desai	Executive Director & CEO
Joydeep Mukherjee	Executive Director & CEO
Aneeta S Kulkarni	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Rajan Raheja	Ameeta A Parpia
James Brooks	

*Independent

Exhibit 6: Auditors

Name	Type
D C Dave & Co	Cost Auditor
G M Kapadia & Co	Statutory
Savita Jyoti Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	3.5	3.5	1.4
FY19	5.6	6.5	-13.6
FY20	7.8	6.3	23.8

Source: Bloomberg

NOTES

Disclosures:

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Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

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