

30 May 2020

## Prism Johnson

*Hit by the lockdown, but attractive valuation; upgrading to a Buy*

Rating: **Buy**

Target Price: ₹46

Share Price: ₹33

On the continued weak TBK and RMC and the lockdown, Prism Johnson's results were subdued, revenue/EBITDA/PAT falling 18%/21%/96%. The cement division did well; the other segments dragged. The stock has fallen considerably in the last few months. We believe it factors in a fair valuation for cement, with negligible contributions from the other two businesses to our sum-of-parts valuation. We upgrade our rating to a Buy, with a lower TP of ₹46 (earlier ₹48).

**Impacted by lockdown.** The 14% drop in volumes, and 3% in realisations pulled down the cement division revenue 16% y/y to ₹6.7bn. Further, higher depreciation shrank EBIT 10% y/y. However, savings in cost on lower petcoke prices, better fuel mix & lower lead distance drove EBITDA/ton 14% y/y to ₹955/ton. The lockdown further hit TBK and RMC, which were already struggling with demand slump and lower operating efficiency. For Q4, TBK/RMC revenue fell 28%/10% and reported PBIT losses of ₹309m/₹85m (Q4 FY19: a ₹71m loss and a ₹45m gain).

**Focus on de-levering, working-capital management.** Net standalone debt on 26<sup>th</sup> May'20 was ₹13bn, down ₹1.8bn from 31<sup>st</sup> Mar'20 on repayment/ prepayment of ~69%/11% of loan obligations for FY21/FY22. The company plans to pre-pay/refinance in coming quarters ~12%/~37% of its loan obligations for FY21/FY22. We expect a net D/E of 1.4x (vs. 1.5x in FY20)

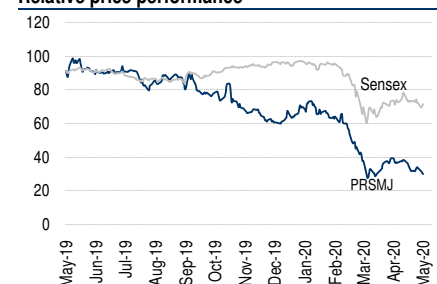
**Outlook, Valuation.** The company is likely to scale down capex, but continue with plans of the additional 12.5MW solar and WHRS for cement and the 5MW solar plant for the TBK division with some delays. It expects demand for rural and individual housings to return to normal and pick up pace faster than urban demand. We upgrade our rating to a Buy, with a lower target price of ₹46 on a sum-of-parts valuation. **Risks:** Rise in petcoke/diesel prices; extension of the lockdown.

Key data	PRSMJ IN / PRIS.BO
52-week high / low	₹101 / 26
Sensex / Nifty	32424 / 9580
3-m average volume	\$0.2m
Market cap	₹17bn / \$220.3m
Shares outstanding	503m

Shareholding pattern (%)	Mar'20	Dec'19	Sept'19
Promoters	74.9	74.9	74.9
- of which, Pledged	-	-	-
Free float	25.1	25.1	25.1
- Foreign institutions	3.7	4.2	5.6
- Domestic institutions	7.6	7.5	6.2
- Public	13.8	13.5	13.3

Estimates revision (%)	FY21e	FY22e
Sales	(1.6)	(1.8)
EBITDA	5.7	2.0
PAT	NA	9.3

### Relative price performance



Source: Bloomberg

Key Financials (YE: Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	53,889	59,306	55,535	48,326	52,095
Net profit (₹ m)	704	1,572	668	25	827
EPS (₹)	1.4	3.1	1.3	0.0	1.6
PE (x)	77.7	30.3	22.8	667.5	20.1
EV / EBITDA (x)	20.0	12.1	6.3	9.0	6.4
EV / ton (\$)	86.8	76.2	38.2	42.6	40.0
RoE (%)	7.1	13.5	5.0	0.2	7.3
RoCE (%)	5.6	9.3	4.3	3.8	6.3
Dividend yield (%)	-	0.5	3.3	1.5	1.5
Net debt / equity (x)	1.7	1.5	1.5	1.7	1.4

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	5.6	6.3	5.7	5.0	5.4
Net revenues	53,889	59,306	55,535	48,326	52,095
Growth (%)	7.8	10.1	-6.4	-13.0	7.8
Direct costs	42,172	45,423	41,989	36,386	39,232
SG&A	8,121	8,586	8,517	8,038	7,744
<b>EBITDA</b>	<b>3,596</b>	<b>5,297</b>	<b>5,029</b>	<b>3,902</b>	<b>5,120</b>
EBITDA margins (%)	6.7	8.9	9.1	8.1	9.8
- Depreciation	1,531	1,601	2,004	2,089	2,237
Other income	858	457	453	290	313
Interest expenses	1,873	1,741	2,059	2,065	1,942
PBT	1,051	2,413	1,420	38	1,253
Effective tax rate (%)	33%	37%	57%	34%	34%
+ Associates / (Minorities)					
Net income	704	1,460	564	25	827
Adjusted income	704	1,572	668	25	827
WANS	503	503	503	503	503
FDEPS (₹ / sh)	1.4	3.1	1.3	0.0	1.6
FDEPS growth (%)	302.1	123.3	-57.5	-96.3	3222.7

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	1,051	2,413	1,420	38	1,253
+ Non-cash items	1,531	1,601	2,004	2,089	2,237
Oper. prof. before WC	2,581	4,014	3,423	2,127	3,490
- Incr./(decr.) in WC	-367	265	-3,472	2,449	72
Others incl. taxes	270	532	-	13	426
Operating cash-flow	2,678	3,217	6,895	-334	2,992
- Capex (tang. +intang.)	1,748	2,093	5,336	1,699	550
Free cash-flow	930	1,124	1,560	-2,034	2,442
Acquisitions					
- Div.(incl. buyback & taxes)	-	303	607	252	252
+ Equity raised	-	-	-	-	-
+ Debt raised	-661	-519	2,796	-825	-1,500
- Fin investments	338	241	297	-	-
- Misc. (CFI + CFF)	4	101	241	0	-
Net cash-flow	-72	-40	3,211	-3,111	690

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

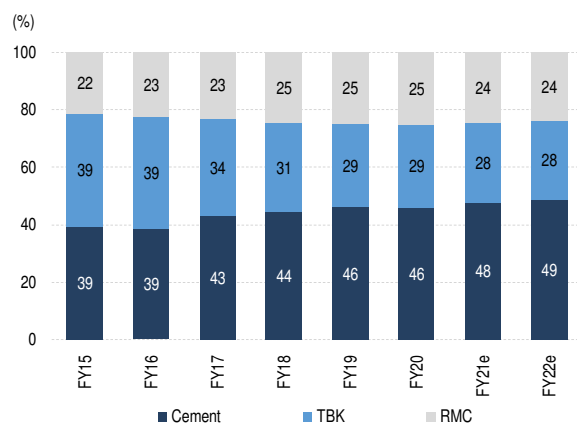
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	5,034	5,034	5,034	5,034	5,034
Net worth	10,258	11,421	11,235	11,008	11,584
Debt	17,797	17,279	20,075	19,250	17,750
Minority interest					
DTL / (Assets)	-564	-250	508	508	508
<b>Capital employed</b>	<b>27,492</b>	<b>28,450</b>	<b>31,818</b>	<b>30,766</b>	<b>29,841</b>
Net tangible assets	19,969	20,161	22,067	24,044	22,357
Net intangible assets	160	185	245	245	245
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	925	1,202	2,567	200	200
Investments (strategic)	4,157	4,398	4,695	4,695	4,695
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	15,659	17,623	16,589	14,696	15,843
Cash	595	555	3,766	655	1,345
Current liabilities	13,974	15,673	18,111	13,770	14,844
Working capital	1,685	1,951	-1,522	927	999
<b>Capital deployed</b>	<b>27,492</b>	<b>28,450</b>	<b>31,818</b>	<b>30,766</b>	<b>29,841</b>
Contingent liabilities	4,837	5,833	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	77.7	30.3	22.8	667.5	20.1
EV / EBITDA (x)	20.0	12.1	6.3	9.0	6.4
EV / Sales (x)	1.3	1.1	0.6	0.7	0.6
P/B (x)	5.3	4.2	1.4	1.5	1.4
RoE (%)	7.1	13.5	5.0	0.2	7.3
RoCE (%) - after tax	5.6	9.3	4.3	3.8	6.3
DPS (₹ / sh)	-	0.5	1.0	0.5	0.5
Dividend payout (%) - incl. DDT	-	20.8	107.5	1,011.3	30.4
Net debt / equity (x)	1.7	1.5	1.5	1.7	1.4
Working capital (days)	11.4	12.0	-10.0	7.0	7.0
EV / ton (\$)	86.8	76.2	38.2	42.6	40.0
NSR / ton (₹)	4,349	4,423	4,526	4,606	4,726
EBITDA / ton (₹)	619	782	885	786	868
Volumes	5.64	6.27	5.71	5.05	5.42
CFO : PAT %	380.4	204.6	1,032.7	-1,344.0	361.8

Source: Company, Anand Rathi Research

**Fig 6 – Division-wise revenue break-up**



Source: Company

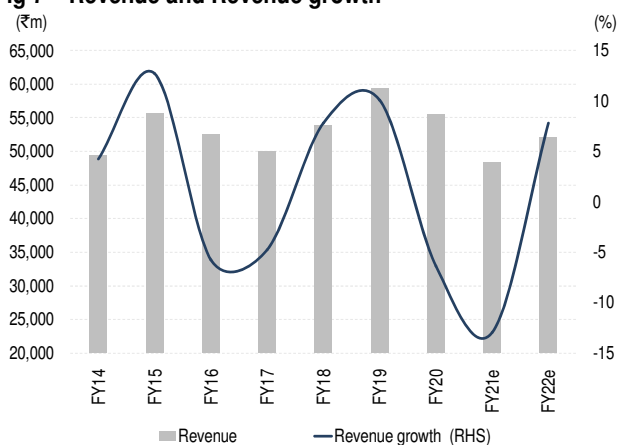
## Other key highlights

### Revenue growth

Q4 revenue (overall) was down 18% y/y to ₹13.7bn. The cement division's revenue declined 16.2% y/y to ₹6.7bn on the 14% y/y fall in volumes to 1.51m tons mainly due to lost sales in Mar'20 because of the lockdown and the steep fall in clinker sales. Further, realization/ton (of the cement division) slipped 2.9% y/y to ₹4,412. Premium-product volumes continued to rise and constituted ~22% of overall cement volumes in FY20 (18% in FY19).

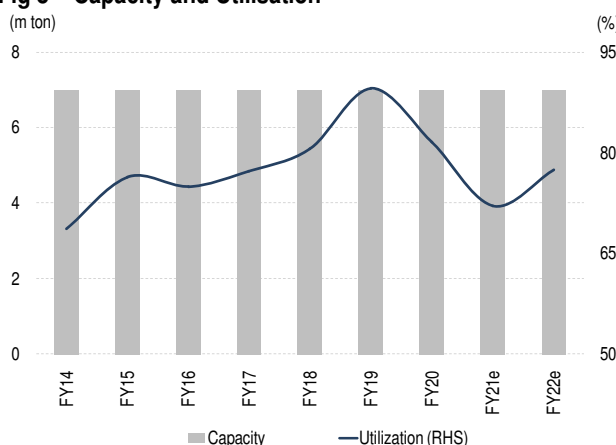
On the general slowdown and the lockdown from Mar'20, revenues of the TBK and RMC divisions declined 28% and 10% y/y respectively to ₹3.7bn and ₹3.5bn.

**Fig 7 – Revenue and Revenue growth**



Source: Company, Anand Rathi Research

**Fig 8 – Capacity and Utilisation**



Source: Company, Anand Rathi Research

### Operating performance

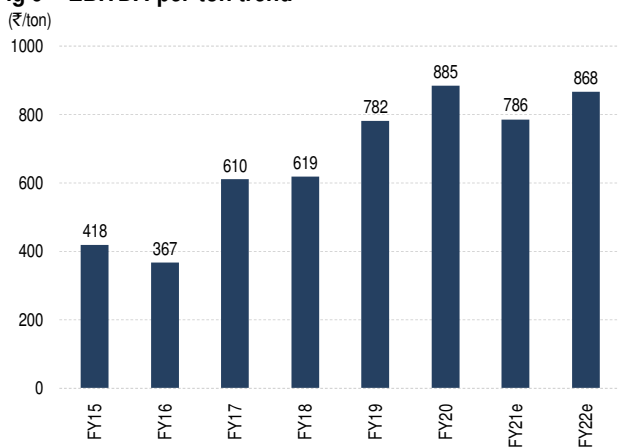
Q4 EBITDA slid 20.6% y/y to ₹1,362m mainly due to subdued top-line growth and losses in the TBK and RMC divisions. On softening input costs, power & fuel, freight and stores & spares declined respectively 26%, 15% and 10% y/y. Further, other expenditure slipped 3%/y/y.

Power costs fell on power obtained from a third party at a lower cost and partly from solar power. Fuel cost declined partly from the change in fuel mix and on soft pet-coke prices. Freight and forwarding declined on the reduced lead distance and optimised freight rates. On the lower costs, cement EBITDA/ton stepped up a smart 14% y/y to ₹955.

The TBK division suffered a ₹309m EBIT loss (vs a ₹72m loss a year ago), mainly due to the continuous investment in marketing and distribution and falling volumes due to the lockdown from Mar'20. Eight experience centres were opened in FY20 taking the total to 19. The RMC division reported an ₹85m EBIT loss (vs. a ₹45m gain a year ago) due to lower utilisation levels, higher input costs and falling volumes.

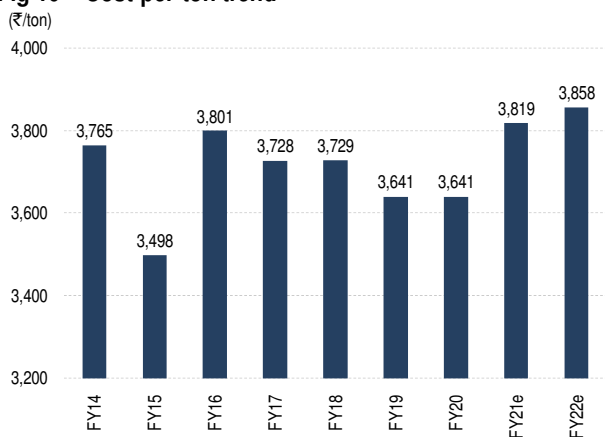
The company reported adj PAT of ₹24m, down 96% y/y, on account of the constrained top-line, a 32% rise in depreciation and a 20% rise in interest and lower other income (down 13.5%/y/y).

**Fig 9 – EBITDA-per-ton trend**



Source: Company, Anand Rathi Research

**Fig 10 – Cost-per-ton trend**



Source: Company, Anand Rathi Research

## Result Highlights

Fig 11 – Quarterly Trend

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	11,624	12,963	16,081	14,956	13,307	14,344	16,699	15,037	13,107	13,736	13,655	(18.2)	(0.6)
EBITDA	376	822	1,637	1,788	757	1,036	1,716	1,811	791	1,065	1,362	(20.6)	27.9
EBITDA margins (%)	3.2	6.3	10.2	12.0	5.7	7.2	10.3	12.0	6.0	7.8	10.0	-30bps	222bps
EBITDA per ton (₹)	380	561	741	977	539	657	838	1,079	616	737	955	13.9	29.5
Interest	464	487	453	448	436	437	421	467	515	573	503	19.6	(12.3)
Depreciation	360	402	389	376	385	400	440	459	477	488	579	31.6	18.6
Other income	209	216	105	53	166	77	161	137	62	116	139	(13.5)	20.4
PBT	(239)	149	900	1,017	103	277	903	1,022	(140)	119	316	(65.0)	166.4
Tax	-	-	273	315	33	87	406	366	(52)	43	395	(2.7)	825.3
Adjusted PAT	(239)	149	627	702	70	190	610	656	(88)	76	24	(96.1)	(68.4)
Reported PAT	(239)	149	627	702	70	190	497	656	(88)	76	(79)	(115.9)	(204.3)

Source: Company, Anand Rathi Research

Fig 12 – Division-wise performance

	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
<b>Revenue</b>													
-Cement	4,420	5,714	7,556	7,330	5,863	6,586	7,954	7,283	5,725	6,170	6,663	(16.2)	8.0
-TBK	4,153	3,903	4,770	3,983	4,097	4,254	5,075	4,208	4,082	4,304	3,659	(27.9)	(15.0)
-RMC	3,124	3,480	3,860	3,733	3,403	3,731	3,939	3,704	3,457	3,442	3,535	(10.3)	2.7
<b>Total</b>	<b>11,697</b>	<b>13,097</b>	<b>16,186</b>	<b>15,046</b>	<b>13,363</b>	<b>14,571</b>	<b>16,968</b>	<b>15,196</b>	<b>13,264</b>	<b>13,915</b>	<b>13,857</b>	<b>(18.3)</b>	<b>(0.4)</b>
Less Inter-segment	45	48	49	69	11	173	140	119	122	127	141	0.6	10.9
<b>Net sales</b>	<b>11,653</b>	<b>13,049</b>	<b>16,137</b>	<b>14,977</b>	<b>13,353</b>	<b>14,398</b>	<b>16,828</b>	<b>15,077</b>	<b>13,142</b>	<b>13,788</b>	<b>13,716</b>	<b>(18.5)</b>	<b>(0.5)</b>
<b>PBIT</b>													
-Cement	272	607	1,036	1,428	552	771	1,265	1,459	499	756	1,136	(10.2)	50.2
% of sales	6.1	10.6	13.7	19.5	9.4	11.7	15.9	20.0	8.7	12.3	17.1	115bps	479bps
-TBK	-50	-45	96	-92	-63	-84	-72	-73	-103	-109	-309	330.8	184.2
% of sales	(1.2)	(1.1)	2.0	(2.3)	(1.5)	(2.0)	(1.4)	(1.7)	(2.5)	(2.5)	(8.4)	-703bps	-592bps
-RMC	(34)	48	112	106	18	5	45	9	(45)	(18)	(85)	(288.7)	378.1
% of sales	(1.1)	1.4	2.9	2.8	0.5	0.1	1.1	0.2	(1.3)	(0.5)	(2.4)	-355bps	-189bps
<b>Total</b>	<b>188</b>	<b>611</b>	<b>1,244</b>	<b>1,443</b>	<b>507</b>	<b>692</b>	<b>1,238</b>	<b>1,395</b>	<b>350</b>	<b>630</b>	<b>742</b>	<b>(40.1)</b>	<b>17.8</b>
Less: Interest & Finance	464	487	453	448	436	437	421	467	515	573	503	19.6	(12.3)
Less: Other Net unalloc. exp.	(37)	(25)	(109)	(22)	(32)	(22)	(85)	(94)	(25)	(62)	(77)	(10.2)	23.5
<b>PBT (after extraordinary)</b>	<b>(239)</b>	<b>149</b>	<b>900</b>	<b>1,017</b>	<b>103</b>	<b>277</b>	<b>903</b>	<b>1,022</b>	<b>(140)</b>	<b>119</b>	<b>316</b>	<b>(65.0)</b>	<b>166.4</b>

Source: Company, Anand Rathi Research

## Key Updates

- The company has not opted for a moratorium with any banks/FIs for principal or interest payments. It did not opt for a moratorium on TDS and made all payments in time
- It intends to opt for the lower tax regime. No tax provision for the year has been made as it would be entitled to set-off brought-forward losses and no tax would be required to be paid on book profits. It has recognised the consequential impact by reversing deferred-tax assets
- The Board of Directors considered and approved issuing Unsecured, Redeemable, Listed, Taxable, Non-convertible Debentures, tranche-XVI (face value: ₹1,000,000) totaling ₹500m, through private-placement.
- It has considered and approved a Composite Scheme of Arrangement and Amalgamation of Prism Johnson, H&R Johnson (India) TBK, Milano Bathroom Fittings Pvt. Ltd., Silica Ceramica Pvt. Ltd., TBK Rangoli Tile-Bath-Kitchen Pvt. Ltd., TBK Venkataramiah Tile-Bath-Kitchen Pvt. Ltd., TBK Samiyaz Tile-Bath-Kitchen Pvt. Ltd. and their shareholders and creditors. The Composite Scheme of Arrangement and Amalgamation is pending before the NCLT, Hyderabad. The appointed date for the Scheme is 1<sup>st</sup> Apr'18 and the accounting effect in the financial results will be given once the Scheme is approved.
- Net standalone debt of ₹14.75bn on 31<sup>st</sup> Mar'20 climbed mainly due to the WHRS capex. Good working-capital management pulled it down by 26<sup>th</sup> May'20, to ~₹13bn, ~₹1.8bn lower than on 31<sup>st</sup> Mar'20.
- On 31<sup>st</sup> Mar'20 the company had cash & equivalents (incl. undrawn CC limit) of ~ ₹5100m. With better-than-anticipated collections and control on cash, it has already repaid/prepaid ~69% and 11% of its loan obligations for FY21 and FY22 respectively. In the coming quarters, it plans to pre-pay /refinance a further ~12% and ~37% of its loan obligations for FY21 and FY22 respectively, subject to acceptance of pre-payment by lenders.

### Q1 FY21 updates

- The Company started operating its manufacturing plants in a phased manner from the last week of Apr'20.
- Rural-sector cement demand is reasonably good on government support and individual housing. The cement division sales volumes are in line with May'19 volumes till date. Non-trade sales are slowly picking up with the government push toward job creation through infrastructure and highways.
- Work on the critical WHRS resumed in Apr'20. On the current assessment, the company expects commissioning by Nov'20 in a phased manner.
- In case of the HRJ and RMC divisions, dispatches resumed in May in view of the staggered opening of markets. Channel off-take for tiles was subdued till the first half of May. After that, a modest pick-up in tile sales was seen. Retail trade is expected to slowly open up and will probably take some time for normal footfalls to return.
- A few RMC plants outside containment zones have resumed operations according to state directives.
- Employees above a certain grade have taken a salary cut. Accordingly, all employees have been paid for April in time.

## Valuations

Prism Johnson's cement division continues to do well; the other segments dragged. The stock has fallen considerably in the last few months. We believe it now factors in a fair valuation for the cement business, with negligible contributions from the other two businesses to our sum-of-parts valuation.

At the ruling price (₹33), it quotes at an EV/EBITDA of 6.4x FY22e. Our sum-of-parts target price of ₹46 is based on 7.5x FY22e EV/EBITDA for its cement, TBK and RMC divisions each. We upgrade our rating to a Buy, with a lower target price (earlier ₹48)

### Change in estimates

We have broadly maintained our revenue and EBITDA estimates. We raise our FY21e & FY22e PAT on account of higher than expected debt reduction leading to lower interest cost.

**Fig 13– Change in estimates**

(₹ m)	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	% Chg	% Chg
Sales	49,089	53,073	48,326	52,095	(1.6)	(1.8)
EBITDA	3,690	5,021	3,902	5,120	5.7	2.0
Adjusted PAT	(96)	756	25	827	NA	9.3
Realisation / ton (₹)	4,645	4,795	4,606	4,726	(0.8)	(1.4)
EBITDA / ton (₹)	712	818	786	868	10.5	6.1
Volumes (m tons)	5.0	5.4	5.0	5.4	0.0	0.0

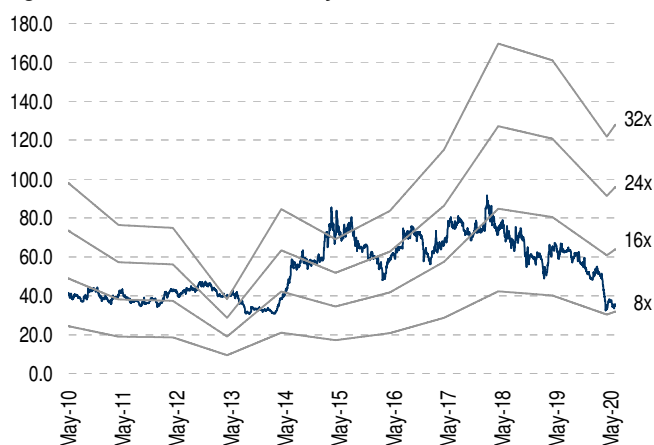
Source: Anand Rathi Research

**Fig 14 – Sum-of-parts valuation (consolidated)**

Segments	Methodology	EBITDA (₹ m)	Multiple (x)	Stake (%)	Value (₹ m)	Value (₹/ sh)
Cement	7.5x FY22e EV/EBITDA	4,706	7.5	100	35,297	70
RMC	7.5x FY22e EV/EBITDA	72	7.5	100	541	1
Tiles	7.5x FY22e EV/EBITDA	341	7.5	100	2,559	5
Raheja QBE General Insurance	Mar'18 transaction value	1,056	2.5	51	1,346	3
Less: Net debt (Mar'22)					16,405	33
<b>Equity value</b>					<b>23,339</b>	<b>46</b>
No. of shares (m)						503

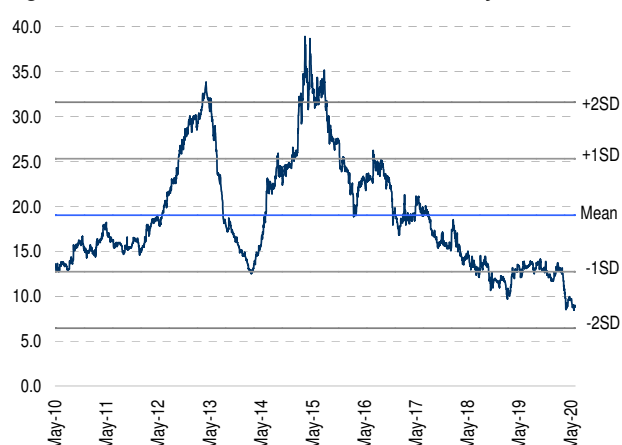
Source: Anand Rathi Research

**Fig 15 – EV/EBITDA band, one-year-forward**



Source: Company, Anand Rathi Research

**Fig 16 – EV/EBITDA: Standard deviation, one-year-forward**



Source: Company, Anand Rathi Research

**Fig 17 – Peer comparison – Valuations**

	CMP ₹	P/E(x)		EV / EBITDA (x)		EV / ton (\$)	
		FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Prism Johnson	33	NA	20.1	9.0	6.4	43	40
Birla Corp.	518	16.3	11.7	7.6	6.3	56	47
Dalmia Bharat	555	NA	256.3	8.2	6.5	74	67
Deccan Cement	242	12.2	6.6	5.5	3.2	18	16
Heidelberg Cement	164	19.1	13.9	9.5	7.4	74	68
India Cement	126	NA	28.1	12.6	9.5	60	61
JK Cement	1,167	28.2	19.0	13.2	10.2	96	92
JK Lakshmi	241	40.6	12.0	9.5	5.3	44	37
Mangalam Cement	168	13.4	6.8	6.6	4.6	34	31
NCL Indus	63	9.4	5.0	4.8	3.2	24	20
Orient Cement	47	61.3	13.9	7.4	5.4	33	31
Ramco Cement	603	34.8	24.0	18.1	13.4	105	101
Sanghi Industries	17	NA	10.1	11.5	7.4	33	34

Source: Anand Rathi Research

### Risks

- Rise in pet-coke and diesel costs.
- Extension of the lockdown.



## Appendix

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