

16 August 2020

Prism Johnson

*Subdued performance; de-levering to continue; retaining a Buy*Rating: **Buy**

Target Price: ₹61

Share Price: ₹48

The lockdown hit the TBK and RMC divisions hard, leading to losses for Prism while its revenue and EBITDA dropped steeply y/y, 49% and 78.5% respectively. The cement division, too, was washed out in April, but cost savings helped to a y/y higher EBITDA/ton. With the TBK and RMC divisions likely to be weak, de-levering and divestment of non-core businesses would help consolidate operations. We retain our Buy rating, with a higher TP of ₹61 (earlier ₹46)

Cost optimisation would help. With its volumes/realisations falling 23%/2.4% y/y, the cement division's revenue dropped 24.7% y/y. But cost savings and lower volumes pulled up EBITDA/ton 2.6% y/y to ₹1,107. The balance 12.5MW of the 25MW solar plant is expected to be commissioned by Mar'21. We expect cement volumes to dip 8% in FY21 and grow 6.7% in FY22, with EBITDA/ton at ₹862/₹915 in FY21/22 (vs. ₹885 in FY20).

TBK and RMC suffered the most. The TBK and RMC divisions were hit by low urban demand and cities locked down; their revenues declined a steep 65% and 80% respectively with EBIT losses of ₹582m and ₹587m. In Jul, the TBK and RMC divisions clocked respectively ~ 94% and 50% of Jul'19 consolidated revenues as cities opened up. We expect the TBK and RMC performances to remain weak

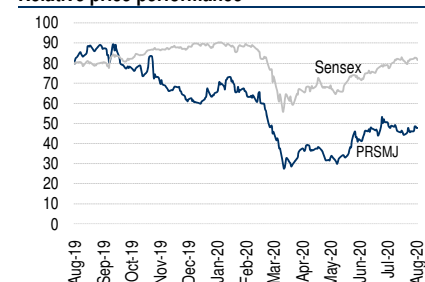
Outlook, Valuation. Net standalone debt was ₹12bn, down ₹2.8bn from 31st Mar'20, on re-/pre-payment of ~78% and 50% of loans for FY21 and FY22, respectively. The company plans to pre-pay/refinance in coming quarters ~22% and 37% of such loan obligations (for respectively FY21 and FY22). During Jul'20, the Board approved the divestment of a 51% stake in Raheja QBE General Insurance Co. for ~₹2.9bn, subject to shareholder and other requisite approvals. We retain our Buy rating with a higher target price of ₹61 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	₹93 / 26
Sensex / Nifty	37877 / 11178
3-m average volume	\$0.2m
Market cap	₹24bn / \$321.2m
Shares outstanding	503m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	74.9	74.9	74.9
- of which, Pledged	-	-	-
Free float	25.1	25.1	25.1
- Foreign institutions	3.1	3.7	4.2
- Domestic institutions	8.0	7.6	7.5
- Public	14.1	13.8	13.5

Estimates revision (%)	FY21e	FY22e
Sales	(1.0)	(0.6)
EBITDA	(8.6)	7.9
PAT	NA	35.3

Relative price performance



Source: Bloomberg

Key Financials (YE: Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	53,889	59,306	55,535	47,856	51,792
Net profit (₹ m)	704	1,572	668	-261	1,119
EPS (₹)	1.4	3.1	1.3	-0.5	2.2
PE (x)	77.7	30.3	22.8	NA	21.4
EV / EBITDA (x)	20.0	12.1	6.5	12.0	7.3
EV / ton (\$)	88.0	77.2	40.2	52.6	49.6
RoE (%)	7.1	13.5	5.0	-2.4	10.0
RoCE (%)	5.6	9.3	4.2	3.1	7.2
Dividend yield (%)	-	0.5	3.3	1.1	1.1
Net debt / equity (x)	1.7	1.5	1.6	1.8	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	5.3	5.6
Net revenues	53,889	59,306	55,535	47,856	51,792
Growth (%)	7.8	10.1	-6.4	-13.8	8.2
Direct costs	42,172	45,423	41,989	36,271	37,926
SG&A	8,121	8,586	8,517	8,018	8,342
EBITDA	3,596	5,297	5,029	3,567	5,524
EBITDA margins (%)	6.7	8.9	9.1	7.5	10.7
- Depreciation	1,531	1,601	2,004	2,039	2,187
Other income	858	457	453	239	363
Interest expenses	1,873	1,741	2,059	2,162	2,005
PBT	1,051	2,413	1,420	-395	1,695
Effective tax rate (%)	33	37	57	34	34
+ Associates / (Minorities)					
Net income	704	1,460	564	-261	1,119
Adjusted income	704	1,572	668	-261	1,119
WANS	503	503	503	503	503
FDEPS (₹ / sh)	1.4	3.1	1.3	-0.5	2.2
FDEPS growth (%)	302.1	123.3	-57.5	-139.0	-529.3

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	1,051	2,413	1,420	-395	1,695
+ Non-cash items	1,531	1,601	2,004	2,039	2,187
Oper. prof. before WC	2,581	4,014	3,423	1,644	3,882
- Incr. / (decr.) in WC	-367	265	-2,206	1,173	75
Others incl. taxes	270	532	-	-134	576
Operating cash-flow	2,678	3,217	5,629	606	3,230
- Capex (tang. + intang.)	1,748	2,093	5,336	1,700	550
Free cash-flow	930	1,124	293	-1,094	2,680
Acquisitions					
- Div. (incl. buyback & taxes)	-	303	607	252	252
+ Equity raised	-	-	-	-	-
+ Debt raised	-661	-519	4,063	-1,500	-1,500
- Fin investments	338	241	297	-	-
- Misc. (CFI + CFF)	4	101	241	-0	-
Net cash-flow	-72	-40	3,211	-2,846	929

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

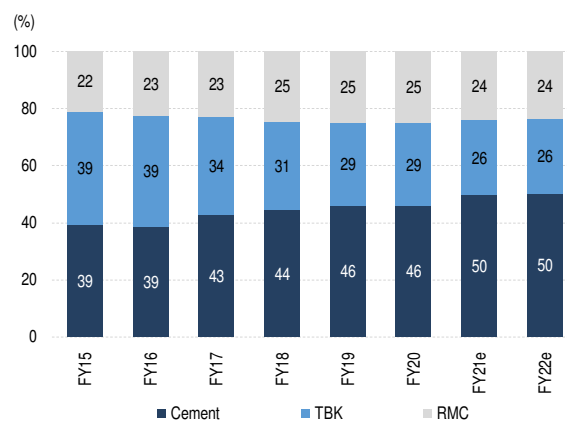
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	5,034	5,034	5,034	5,034	5,034
Net worth	10,258	11,421	11,235	10,723	11,590
Debt	17,797	17,279	21,342	19,842	18,342
Minority interest					
DTL / (Assets)	-564	-250	508	508	508
Capital employed	27,492	28,450	33,085	31,073	30,440
Net tangible assets	19,969	20,161	22,067	24,094	22,457
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	14,553	15,751
Cash	595	555	3,766	920	1,849
Current liabilities	13,974	15,673	16,844	13,636	14,757
Working capital	1,685	1,951	-255	918	993
Capital deployed	27,492	28,450	33,085	31,073	30,440
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	NA	21.4
EV / EBITDA (x)	20.0	12.1	6.5	12.0	7.3
EV / Sales (x)	1.3	1.1	0.6	0.9	0.8
P/B (x)	5.3	4.2	1.4	2.2	2.1
RoE (%)	7.1	13.5	5.0	-2.4	10.0
RoCE (%) - after tax	5.6	9.3	4.2	3.1	7.2
DPS (₹ / sh)	-	0.5	1.0	0.5	0.5
Dividend payout (%) - incl. DDT	-	20.8	107.5	NA	22.5
Net debt / equity (x)	1.7	1.5	1.6	1.8	1.4
Working capital (days)	11.4	12.0	-1.7	7.0	7.0
EV / ton (\$)	88.0	77.2	40.2	52.6	49.6
NSR / ton (₹)	4,349	4,423	4,526	4,576	4,696
EBITDA / ton (₹)	619	782	885	862	915
Volumes	5.64	6.27	5.71	5.25	5.60
CFO : PAT %	380.4	204.6	843.0	-232.4	288.7

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up, by division



Source: Company

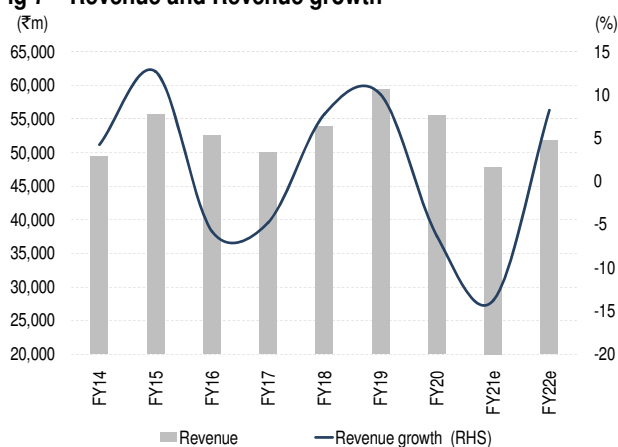
Other key highlights

Revenue growth

Q1 overall revenue was down 49% y/y to ₹7.6bn. The cement division's revenue declined 24.7% y/y to ₹5.5bn on the 23% y/y fall in volumes to 1.2m tons, curtailed by the lockdown. Further, realisation/ton (of the cement division) slipped 2.4% y/y to ₹4,570. Premium-product volumes continued to rise and constituted ~26% of overall cement volumes in Q1 FY21 (22% in FY20).

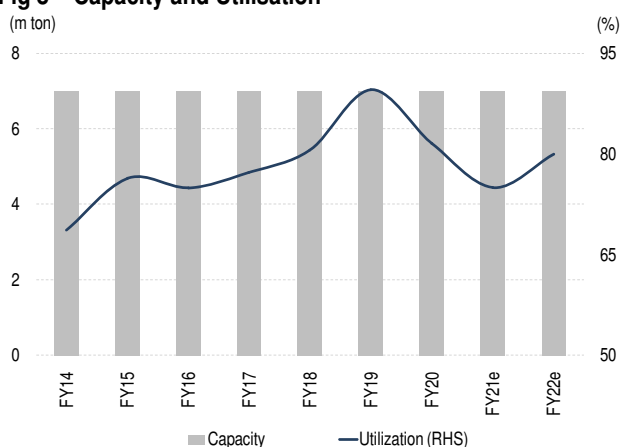
On the general slowdown and low volumes, revenues of the TBK and RMC divisions declined 65% and 80% y/y respectively to ₹1.5bn and ₹729m.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rath Research

Fig 8 – Capacity and Utilisation



Source: Company, Anand Rath Research

Operating performance

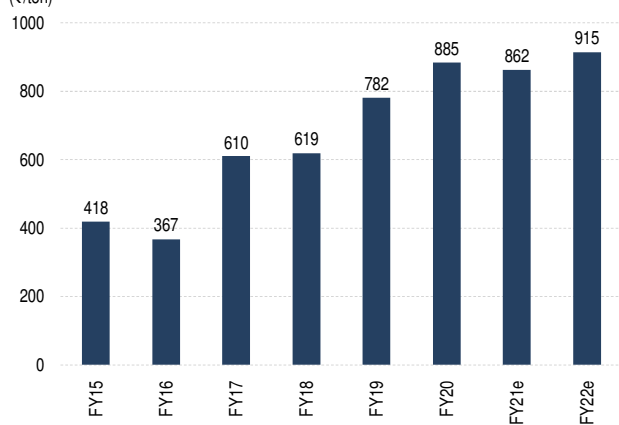
Q1 EBITDA plunged 78.5% y/y to ₹389m, mainly due to subdued top-line growth and losses in the TBK and RMC divisions. On softening input costs and various cost savings, power & fuel, freight and stores & spares declined respectively 53%, 41% and 55% y/y. Further, other expenditure slid 24% y/y. On the lower costs, cement EBITDA/ton stepped up 2.6% y/y to ₹1,107.

The TBK division suffered a ₹582m EBIT loss (vs. a ₹72.7m loss a year ago). During the quarter, net working capital rose due to robust collections and inventory reductions. The RMC division reported a ₹587m EBIT loss (vs. a ₹9m gain a year ago) on lower volumes.

The company reported adj. loss of ₹525m (vs. ₹656m PAT a year ago) on account of the constrained top-line, an 18% rise in depreciation and 2.4% in interest, and other income down 22.9% y/y.

Fig 9 – EBITDA-per-ton trend

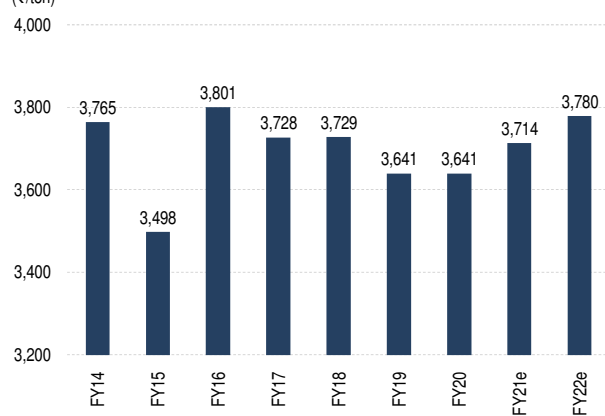
(₹/ton)



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend

(₹/ton)



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly Trend

(₹ m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	12,963	16,081	14,956	13,307	14,344	16,699	15,037	13,107	13,736	13,655	7,632	(49.2)	(44.1)
EBITDA	822	1,637	1,788	757	1,036	1,716	1,811	791	1,065	1,362	389	(78.5)	(71.4)
EBITDA margins (%)	6.3	10.2	12.0	5.7	7.2	10.3	12.0	6.0	7.8	10.0	5.1	-694bps	-488bps
EBITDA per ton (₹)	561	741	977	539	657	838	1,079	616	737	955	1,107	2.6	15.9
Interest	487	453	448	436	437	421	467	515	573	503	478	2.4	(5.0)
Depreciation	402	389	376	385	400	440	459	477	488	579	542	18.1	(6.5)
Other income	216	105	53	166	77	161	137	62	116	139	105	(22.9)	(24.2)
PBT	149	900	1,017	103	277	903	1,022	(140)	119	316	(525)	P2L	P2L
Tax	-	273	315	33	87	406	366	(52)	43	395	-	NA	NA
Reported PAT	149	627	702	70	190	497	656	(88)	76	(79)	(525)	P2L	NA
Adjusted PAT	149	627	702	70	190	610	656	(88)	76	24	(525)	P2L	P2L

Source: Company, Anand Rathi Research

Fig 12 – Division-wise performance

	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Revenue													
-Cement	5,714	7,556	7,330	5,863	6,586	7,954	7,283	5,725	6,170	6,663	5,484	(24.7)	(17.7)
-TBK	3,903	4,770	3,983	4,097	4,254	5,075	4,208	4,082	4,304	3,659	1,467	(65.1)	(59.9)
-RMC	3,480	3,860	3,733	3,403	3,731	3,939	3,704	3,457	3,442	3,535	729	(80.3)	(79.4)
Total	13,097	16,186	15,046	13,363	14,571	16,968	15,196	13,264	13,915	13,857	7,679	(49.5)	(44.6)
Less Inter-segment	48	49	69	11	173	140	119	122	127	141	34	(71.5)	(75.9)
Net sales	13,049	16,137	14,977	13,353	14,398	16,828	15,077	13,142	13,788	13,716	7,645	(49.3)	(44.3)
PBIT													
-Cement	607	1,036	1,428	552	771	1,265	1,459	499	756	1,136	1,031	(29.3)	(9.2)
% of sales	10.6	13.7	19.5	9.4	11.7	15.9	20.0	8.7	12.3	17.1	18.8	-122bps	175bps
-TBK	-45	96	-92	-63	-84	-72	-73	-103	-109	-309	-582	NA	NA
% of sales	(1.1)	2.0	(2.3)	(1.5)	(2.0)	(1.4)	(1.7)	(2.5)	(2.5)	(8.4)	(39.7)	NA	NA
-RMC	48	112	106	18	5	45	9	(45)	(18)	(85)	(587)	NA	NA
% of sales	1.4	2.9	2.8	0.5	0.1	1.1	0.2	(1.3)	(0.5)	(2.4)	(80.5)	NA	NA
Total	611	1,244	1,443	507	692	1,238	1,395	350	630	742	(138)	P2L	P2L
Less: Interest & Finance	487	453	448	436	437	421	467	515	573	503	478	2.4	(5.0)
Less: Other Net unalloc. exp.	(25)	(109)	(22)	(32)	(22)	(85)	(94)	(25)	(62)	(77)	(91)	NA	NA
PBT (after extraordinary)	149	900	1,017	103	277	903	1,022	(140)	119	316	(525)	P2L	P2L

Source: Company, Anand Rathi Research

Valuations

At the ruling price of ₹48, the stock quotes at an EV/EBITDA of 7.3x FY22e. Our sum-of-parts target price of ₹61 is based on 8x FY22e EV/EBITDA for its cement, TBK and RMC divisions each. We retain our Buy rating, with a higher target price of ₹61 (earlier ₹46)

Change in estimates

We have broadly maintained our revenue estimates. We have reduced FY21e EBITDA by 8.6% and raised our FY22e EBITDA and PAT 8% and 35% respectively.

Fig 13– Change in estimates

(₹ m)	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	% Chg	% Chg
Sales	48,326	52,095	47,856	51,792	(1.0)	(0.6)
EBITDA	3,902	5,120	3,567	5,524	(8.6)	7.9
Adjusted PAT	25	827	(261)	1,119	NA	35.3

Source: Anand Rathi Research

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

Segments	Methodology	EBITDA (₹ m)	Multiple (x)	Stake (%)	Value (₹ m)	Value (₹/ sh)
Cement	8x FY22e EV/EBITDA	5,126	8.0	100%	41,007	81
RMC	8x FY22e EV/EBITDA	57	8.0	100%	460	1
Tiles	8x FY22e EV/EBITDA	341	8.0	100%	2,727	5
Raheja QBE General Insurance	Proposed divestment value				2,897	6
Less: Net debt (Mar'22)					16,493	33
Equity value					30,597	61
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

Risks

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

Fig 17 – Peer comparison – Valuations

	CMP ₹	P/E(x)		EV / EBITDA (x)		EV / ton (\$)	
		FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Prism Johnson	48	NA	21.4	12.0	7.3	53	50
Birla Corp.	613	15.6	12.2	7.8	6.8	61	51
Dalmia Bharat	790	NA	NA	8.3	7.3	102	90
Deccan Cement	295	8.9	6.4	4.4	2.9	21	18
Heidelberg Cement	181	18.6	13.5	9.0	6.9	82	76
India Cement	115	NA	30.0	12.8	9.4	57	58
JK Cement	1,513	31.5	20.1	15.0	10.9	119	113
JK Lakshmi	276	17.3	11.3	7.3	5.3	47	41
Mangalam Cement	203	14.7	8.3	7.0	5.0	38	35
NCL Indus	89	10.8	7.6	5.3	4.5	30	30
Orient Cement	69	24.5	12.3	7.4	5.6	40	37
Ramco Cement	711	39.9	26.3	21.9	15.3	129	125
Star Cement	88	17.1	13.2	9.6	7.5	78	79
Sanghi Industries	24	NA	13.7	11.8	7.7	42	41

Source: Anand Rathi Research

Appendix

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