July 15, 2020

Prism Johnson Limited – Long-term rating placed on watch with positive implications; Rating withdrawn for Rs. 200 crore non-convertible debenture programmes

Summary of rating action:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	80.00	80.00	[ICRA]A-%; placed on watch with positive implications
Non Convertible Debenture Programmes	200.00	0.00	[ICRA]A-%; placed on watch with positive implications and withdrawn
Fund-based – Term Loan	1,080.50	1,080.50	[ICRA]A-%; placed on watch with positive implications
Fund-based – Working Capital Facilities	297.90	297.90	[ICRA]A-%; placed on watch with positive implications
Fund-based – Working Capital Facilities	80.00	80.00	[ICRA]A1; reaffirmed
Non-fund based – Working Capital Facilities	192.00	192.00	[ICRA]A1; reaffirmed
Fund-based – Working Capital Facilities	40.00	40.00	[ICRA]A-%; placed on watch with positive implications / [ICRA]A1; reaffirmed
Non-fund based – Working Capital Facilities	110.00	110.00	[ICRA]A-%; placed on watch with positive implications / [ICRA]A1; reaffirmed
Total	**2,080.40**	**1,880.40**	

** Instrument details are provided in Annexure-1*

Material Event

On July 6, 2020, Prism Johnson Limited (PJL or the company) announced the approval of the divestment of its entire equity shareholding of 51% in Raheja QBE General Insurance Company Limited (RQBE) by its Board of Directors for a total consideration of Rs. 289.7 crore, subject to receipt of approval by the shareholders of the Company and all other requisite approvals. The consideration to be received by PJL is subject to certain adjustments which may be carried out between the date of execution of definitive agreement and closure of the sale, and other customary terms for a sale of such nature. The divestment will result in the termination of the company's joint-venture with Australia's QBE in the general insurance business in India. Post the divestment, RQBE will also cease to be a subsidiary of the company. In FY2020, RQBE contributed around 3% to PJL's consolidated revenues and as on March 31, 2020, RQBE had a net worth of ~Rs. 154 crore, which constituted around 15% of PJL's consolidated net worth. Furthermore, in FY2020, RQBE reported a loss of ~Rs. 66 crore at profit before tax (PBT) level.

As per the management, while the date of completion of the stake sale depends on the time taken for receiving all approvals, it is estimated that the sale will be completed by March 31, 2021.

Impact of the Material Event

ICRA has noted the above event and believes that the divestment of its stake in a non-core business will enable PJL to pare its debt levels and focus its resources on its core businesses, viz. cement, tiles and ready-mix concrete (RMC). Coupled with the relatively favourable demand situation in the central markets, especially the rural demand, which PJL mainly caters to and which is expected to cushion the year-on-year moderation in revenue and profitability levels in FY2021, this stake sale transaction is expected to have a positive impact on PJL's credit profile in the medium term. Hence, taking cognizance of the above transaction and expectation of a continued improving momentum in its cement business' performance in FY2021 and strong recovery in FY2022 in its other two businesses of tiles and RMC, which are expected to witness considerable challenges in FY2021 on account of the lockdown measures, ICRA has placed the long-term rating of [ICRA]A- (pronounced ICRA A minus) on 'watch with positive implications' and reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one). ICRA will continue to monitor the developments with respect to the approvals for the divestment and PJL's performance in FY2021.

Key rating drivers and their description

Credit strengths

Established presence as a key cement manufacturer in the Satna (Madhya Pradesh) cluster - PJL is a key cement manufacturer in central India, with a cement capacity of 7 million tonne per annum (MTPA). It has an established presence in the eastern Uttar Pradesh (56% of PJL's cement sales in FY2020), Madhya Pradesh (24%) and Bihar (20%) markets.

Continued improvement in cement division's profitability – The company reported ~9% YoY dip in volumes (cement and clinker) in FY2020, owing to the impact on operations in March 2020 on account of the lockdown and general economic slowdown during the year. Nonetheless, an improvement in realisation levels and benign fuel cost environment in FY2020 supported an improvement in PJL's cement division's operating performance as reflected in EBITDA/t of Rs. 889 in FY2020 over Rs. 834 in FY2019 and Rs. 619 in FY2018. Furthermore, the cost saving initiatives being undertaken for the cement division in form of setting up of waste heat recovery system (WHRS) capacity (22.5MW) and adding solar power capacity (another 12.5 MW), coupled with other cost rationalisation initiatives likely to be implemented by the management in FY2021, are expected to further support its profitability. While the additional solar power capacity is expected to be commissioned by September 2020, the WHRS capacity will be commissioned in a phased manner by November 2020. ICRA expects the overall cement demand to decline by 22-25% in FY2021 on account of the impact on demand owing to the lockdown measures, which is expected to result in a sharp YoY correction in volumes in Q1 FY2021. Demand is likely to recover from H2 FY2021. However, the impact on PJL's volumes is expected to be relatively lower owing to its location and the markets that it caters too, primarily rural, where the impact of Covid-19 is less pronounced. The same is also reflected in PJL's performance in Q1 FY2021, in volume terms, wherein it reported only a ~20% YoY dip in volumes despite having no operations for the first 20 days in April 2020. However, considering that PJL's cement division contributes the most to its revenues and profitability, lower than expected demand recovery in this division will adversely impact PJL's cash accruals and, thus, will remain a key rating sensitivity.

Firm cement realisations in the central belt on the back of industry consolidation in the region – The cement industry in central India has witnessed consolidation over the past couple of years, which has aided price stability in the region. Sustenance of the demand supported by the above factors will be critical to drive the cement division's performance.

HRJ division continues to be one of the leading players in tiles with a vast distribution network and premium brand image – H&R Johnson is one of the leading ceramic / vitrified tiles manufacturers in the country with a capacity of ~63 million square meters per annum across 11 manufacturing plants (including those under subsidiaries and joint ventures) as on March 31, 2020. The division has a nation-wide trade network of over 1,000 dealers, in addition to 19 large format display centres. While the division's operating performance remains muted on account of lower capacity utilisation levels, the management continues to focus on its demand generation initiatives to drive volume growth and profitability.

Credit challenges

Weak performance in the HRJ and RMC divisions remain a drag on overall credit profile – The tiles segment is highly competitive with several prominent organised players and a large number of unorganised players. Increase in competitive intensity (from domestic players as well as Chinese imports in the past), coupled with certain production related issues (power and fuel availability at its plants in southern India), has been constraining the HRJ division's performance over the past few years. While the company had sorted out its power and fuel supply related issues in FY2015, its capacity utilisation remained low owing to subdued demand for its products, as it had lost market share to its competitors. Consequently, the weaker performance of the HRJ division has been a drag on PJL's overall credit profile. Nonetheless, the demand generation efforts being undertaken by PJL are expected to drive volume growth and profitability.

While the HRJ division recorded ~9% YoY revenue growth in 9M FY2020, the same was dragged down in Q4 FY2020 on account of the lockdown, as a result of which it ended FY2020 almost flat. Resultantly, the division's EBITDA margin moderated in FY2020 vis-a-vis FY2019. Given the expected slowdown in project execution and new launches in the real estate sector because of the lockdown, the domestic demand for tiles is expected to be adversely impacted in FY2021. The replacement demand is also expected to remain muted due to weak consumer sentiments. While the division witnessed increasing trend in sales in May and June 2020 (YoY revenue decline of ~38% in June 2020), for overall Q1 FY2021, the division has reported ~65% YoY revenue degrowth. PJL's RMC division's performance was also impacted in FY2020 by a prolonged monsoon, the NGT ban in some regions and lockdown in Q4 FY2020, which was reflected in the YoY revenue degrowth of ~5% in FY2020 and moderation in EBITDA margin vis-a-vis FY2019. While the division witnessed some recovery in May and June 2020 sales (YoY revenue decline of ~64% in June 2020), for overall Q1 FY2021, the division reported ~80% YoY revenue degrowth.

Leverage and debt coverage indicators remain moderate; expected to improve in the medium term – As indicated by a gearing (TD/TNW) of 1.9 times and net Debt/OPBDITA of 3.4 times as of March 31, 2020 (not directly comparable to net debt/OPBDITA position as on March 31, 2019 due to IND AS 116 impact) and interest coverage of 2.1 times in FY2020, PJL's capitalisation and coverage indicators continue to remain moderate. The increase in net debt levels over the past fiscal for funding WHRS capex, coupled with a YoY dip in absolute OPBDITA generated in all three divisions, especially RMC, resulted in moderation in net debt/OPBDITA as on March 31, 2020 to 3.4 times as against 3.0 times as on March 31, 2019 (net debt/OPBDITA as on March 31, 2020 is not directly comparable to net debt/OPBDITA position as on March 31, 2019 due to IND AS 116 impact). Considering that the company has sizeable debt repayments due over the next three years, this will necessitate active cash flow and liquidity management. Nonetheless, as per the management, the company adopts a strategy of actively evaluating the refinancing requirement for the next year and ties up funds with banks / financial institutions ahead of time, which is also evinced from its successful liquidity management over the years. This mitigates the liquidity mismatch risk to an extent. The stake sale in RQBE in FY2021, coupled with various initiatives likely to be implemented by the management during the fiscal—such as rationalisation of fixed costs and scaling down capex plans to cushion the impact of Covid-19—is expected to enable PJL to pare its debt levels and consequently improve its credit profile in the medium term.

Moderate maintenance capex requirements will continue to restrict free cash flows; any other large debt-funded capex could adversely impact the credit profile – PJL's annual maintenance capex requirements amount to ~Rs. 200–250 crore, mainly towards maintenance and de-bottlenecking activities, which continue to restrict its free cash flows. In FY2020, the capex spends were higher at ~Rs. 375 crore, wherein ~Rs. 130 crore was attributed to the WHRS capacity being set up for its cement division. As per the management, to conserve liquidity, the company is going to limit its capex spends in FY2021 to Rs. 160-170 crore. Any additional large debt-funded capex could adversely impact PJL's credit profile.

Liquidity position: Adequate

On a consolidated basis, the company had external long-term loans and NCDs aggregating to Rs. 1,962.5 crore as on March 31, 2020, with average annual debt repayments of ~Rs. 460 crore over FY2021 to FY2023 (on a consolidated basis). The company is expected to meet its debt obligations through its existing cash and liquid investments, internal accruals as well as refinancing. While PJL's cash flows from operations are expected to witness a dip in FY2021 on account of the pandemic induced disruptions, inflows from stake sale in RQBE will cushion the impact on the company's liquidity. The company had a balance of cash and liquid investments of ~Rs. 470 crore as on June 30, 2020 (~Rs. 413 crore as on March 31, 2020). Furthermore, the company enjoys strong financial flexibility as a part of the Rajan Raheja Group.

Rating sensitivities

Positive triggers – Sustained improvement in the performance of the HRJ division and the resulting improvement in PJL's operating profit margin (OPM) and return indicators will be a positive trigger. Furthermore, net debt/OPBDITA below 2.5 times on a sustained basis will be a positive trigger as well.

Negative triggers – Negative pressure on PJL's rating may arise if lower than expected demand recovery in PJL's cement business adversely impacts its cash accruals. Any major debt-funded capex / large inorganic expansion, leading to weakening credit metrics, would pose a downward pressure on PJL's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Rating Methodology for Indian Cement Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on PJL's consolidated financial profile. As on March 31, 2020, PJL had 10 subsidiaries, one joint venture and three associates, which are all enlisted in Annexure-2.

About the company

Prism Johnson Limited, promoted by the Rajan Raheja Group, was incorporated in 1992. It has been engaged in the manufacturing and sales of cement since 1997. The company's cement division operates two units, both based in Satna, Madhya Pradesh, with a combined installed cement manufacturing capacity of 7.0 MTPA (saleable). It caters to the major markets of Uttar Pradesh, Madhya Pradesh and Bihar. In FY2010, PJL amalgamated H&R Johnson (India) Limited and RMC Readymix (India) Private Limited with itself. Post amalgamation, PJL has been operating with three divisions, namely cement, HRJ and RMC.

Key financial indicators (audited; consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	6,193.3	5,956.2
PAT (Rs. crore)	105.2	-27.9
OPBDIT/OI (%)	10.1%	9.1%
PAT/OI (%)	1.7%	-0.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	3.7
Total Debt/OPBDIT (times)	3.1	4.5
Interest Coverage (times)	2.8	2.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018	
					15-Jul-2020	26-Aug-2019	13-Nov-2018	28-Aug-2018	21-Dec-2017	17-Nov-2017
1	NCD Programme 1	Long-Term	150.0	0.0	[ICRA]A-%; placed on watch with positive implications and withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	NCD Programme 2	Long-Term	50.0	0.0	[ICRA]A-%; placed on watch with positive implications and withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
3	NCD Programme 3	Long-Term	80.0	80.0	[ICRA]A-%; placed on watch with positive implications	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
4	Fund-based – Term Loan	Long-Term	1,080.50	0.0	[ICRA]A-%; placed on watch with positive implications	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	Fund-based – Working Capital Facilities	Long-Term	297.90	-	[ICRA]A-%; placed on watch with positive implications	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
6	Fund-based – Working Capital Facilities	Short-Term	80.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
7	Non-fund based – Working Capital Facilities	Short-Term	192.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
8	Fund-based – Working Capital Facilities	Long-Term/Short-Term	40.00	-	[ICRA]A-%; placed on watch with positive implications; [ICRA]A1	[ICRA]A- (Stable)/[ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1
9	Non-fund based – Working Capital Facilities	Long-Term/Short-Term	110.00	-	[ICRA]A-%; placed on watch with positive implications; [ICRA]A1	[ICRA]A- (Stable)/[ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE010A07190	NCD 1	21-Jan-2015	9.77%	21-Jan-2020	0.00	[ICRA]A-%; withdrawn
INE010A07232	NCD 2	31-Aug-2018	Zero Coupon (YTM^: 10.40%)	27-Sep-2021	80.00	[ICRA]A-%
INE010A08073*	NCD 3	17-Sep-2018	10.40%	17-Sep-2021	0.00	[ICRA]A-%; withdrawn
-	Term Loan	Various; Upto Sep 2013	9%-11%	Already repaid	1,080.50	[ICRA]A-%
-	Fund-based Bank Facilities	-	-	-	297.90	[ICRA]A-%
-	Fund-based Bank Facilities	-	-	-	80.00	[ICRA]A1
-	Non-fund Based Bank Facilities	-	-	-	192.00	[ICRA]A1
-	Fund-based Bank Facilities	-	-	-	40.00	[ICRA]A-%/ [ICRA]A1
-	Non-fund Based Bank Facilities	-	-	-	110.00	[ICRA]A-%/ [ICRA]A1

**prepaid on July 2, 2020; Note: % denotes ‘placed on watch with positive implications’; ^YTM: Yield to maturity*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Milano Bathroom Fittings Private Limited	100.00%	Full consolidation
Silica Ceramica Private Limited	100.00%	Full consolidation
H. & R. Johnson (India) TBK Limited	100.00%	Full consolidation
RMC Readymix Poselano (India) Limited	100.00%	Full consolidation
Raheja QBE General Insurance Company Limited	51.00%	Full consolidation
Sentini Ceramica Private Limited	50.00%	Full consolidation
Spectrum Johnson Tiles Private Limited	50.00%	Full consolidation
Antique Marbonite Private Limited	50.00%	Full consolidation
Small Johnson Floor Tiles Private Limited	50.00%	Full consolidation
Coral Gold Tiles Private Limited	50.00%	Full consolidation
Ardex Endura (India) Private Limited	50.00%	Equity Method
CSE Solar Parks Satna Private Limited	27.00%	Equity Method
Prism Solar and Infrastructure Private Limited	49.00%	Equity Method
Sunspring Solar Private Limited	27.00%	Equity Method

**as on March 31, 2020*

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