CRISIL Ratings

Rating Rationale

October 06, 2023 | Mumbai

Prism Johnson Limited

Rating reaffirmed at 'CRISIL A1+'

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Rating Action

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

Note: None of the Directors on CRISIL Ratings Limitedâ€™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 â€˜CRISIL A1+â€™ rating on the commercial paper programme of Prism Johnson Ltd (PJL).

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The rating reflects the healthy business risk profile supported by PJLâ€™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 liquidity and financial risk profile maintained. These strengths are partially offset by susceptibility to fluctuations in input costs and realisations, cyclicality in the industry and exposure to intense competition.

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During fiscal 2023, the consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) margin moderated to 5.2% compared to 7.7% in the previous fiscal due to decline in profitability of the cement division owing to rise in petcoke/ coal prices. 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.

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Over the past five years, operating performance has seen significant improvement across divisions, as indicated by the cement divisionâ€™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 2023 with EBITDA per tonne at Rs 709 and Rs 448, respectively. The H & R 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 fiscal 2023 due to rising gas prices.

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The decline in operating performance and the resultant reduction in cash accrual consequently moderated the financial risk profile during fiscal 2023 as seen in consolidated net debt (gross debt less cash and equivalents) to EBITDA ratio moderating to 3.0 times as on March 31, 2023 against 2.4 times a year earlier, on account of lower profitability.

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During July 2023, the company announced sale of certain land parcels and mining lease rights in Andhra Pradesh to The Ramco Cements Limited (TRCL). The consideration for this transaction has been received by PJL during Q2FY24. The transaction will improve the leverage position of the company and, thus, shall strengthen its financial risk profile. CRISIL Ratings expects the net debt to EBITDA ratio to improve substantially to around 1.5 times in fiscal 2024 and sustain at these levels over the medium term. Liquidity remains strong, with cash and equivalents of approximately Rs 330 crore as on March 31, 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.

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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 and central UP. PJL sells cement under the brands â€“ 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.

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The companyâ€™s tiles division, HRJ, has total tile manufacturing capacity of 61 million m^2 across 10 units (including JVs) across India. Its greenfield tile production plant at Panagarh, West Bengal, with a production capacity of 6.3 million m^2 Â has commenced trial runs and is expected to start commercial production during second half of October 2023. This will increase its tile production capacity to ~67 million m^2. 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 1,300 dealers and 21 large format experience centres. Â Â Â Â Â Â Â Â Â Â Â Â Â

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PJL, one of the leading RMC manufacturers, operates 93 RMC plants at 44 locations across India as on June 30, 2023.

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- **Healthy operating efficiency:** The EBITDA per tonne of PJLâ€™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 fiscals 2022 and 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 September 2024, which will lead to cost savings.

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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 focused efforts on internal efficiency improvements, EBITDA margins should improve from current levels over the medium term.

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- **Heathy financial risk profile and strong liquidity:** Decline in operating performance and resultant accrual led to moderation in the financial risk profile as seen in consolidated net debt to EBITDA ratio declining to 3.0 times as on March 31, 2023 from 2.4 times a year earlier. However, with proceeds from the land parcel and mining lease sale, and improvement in cash accruals, the financial risk profile is expected to strengthen. Debt protection metrics, as indicated by interest coverage and net cash accrual to total debt ratios are estimated to improve above 5 times and 0.5 times, respectively, over the medium term. Liquidity remains strong, with cash and equivalents of approximately Rs 330 crore as on March 31, 2023, along with a practice to prepay or refinance large part of the term debt a year in advance.

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Weaknesses:Â

- **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 have impacted the profitability of several cement players. Realisations and profitability are also affected by demand, supply, offtake and regional factors.

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- **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.

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Despite being a leading player, the HRJ division faces significant competition from reputed brands such as Kajaria Ceramics Ltd, Somany Ceramics Ltd (rated â€˜CRISIL AA-/Stable/CRISIL A1+â€™), Asian Granito India Ltd and Orient Bell Ltd (rated â€˜CRISIL A/Stable/CRISIL A1â€™). Intense competition restricts profitability, given the delay in passing on cost hikes to customers.

Liquidity: Strong

Estimated net cash accrual of over Rs 650 crore and Rs 550 crore per annum for fiscals 2024 and 2025 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.

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Environment, social and governance (ESG) profile

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.

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Key ESG highlights

- During FY23, Prism Cementâ€™s emissions intensity declined from 650 kg CO_2 per tonne of cementitious material during 2021-22 to 626 kg CO_2 per tonne of cementitious material.
- It has a target to meet over 50% of power consumption needs from renewable sources (including WHRS) by 2024-25, as against ~32% during 2022-23.
- The Company has adopted an ambition to reduce the emission intensity of Clinker, OPC and PPC production by 5% each by 2024-25, against the baseline year of 2021-22.
- LTIFR for employees reduced from 0.99 in FY22 to 0.21 in FY23 while LTIFR for workers reduced from 0.76 in FY22 to 0.45 in FY23. Total work-related injuries and safety incidents also reduced.
- Its governance structure is characterised by 38% of the board members comprising independent directors; 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.

Key Financial Indicators (consolidated) â€“ Adjusted by CRISIL Ratings

Particulars	Unit	2023	2022
Revenue	Rs crore	7359	6307
PAT	Rs crore	-158	44
PAT margin	%	-2.1	0.7
Adjusted debt/adjusted networth	Times	1.13	1.10
Adjusted interest coverage	Times	2.08	2.70

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 -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â 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.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the 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 â€“ 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
ReNew Green (MPR Two) Private Limited	Proportionate	Associate

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	200.0	CRISIL A1+	23-03-23	CRISIL A1+	25-03-22	CRISIL A1+	Â	--	Â	--	--

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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