

# Prism Johnson

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
40,248	11,917
Bloomberg	PRSMJ IN
Equity Shares (m)	503
M.Cap.(INRb)/(USDb)	39.3 / 0.6
52-Week Range (INR)	104 / 62
1, 6, 12 Rel. Per (%)	-8/-17/-28
12M Avg Val (INR M)	29
Free float (%)	25.1

**CMP: INR78 TP: INR100 (+28%) Buy**

## Significant miss led by higher costs

### Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	59.6	61.4	65.9
EBITDA	5.5	5.6	6.3
PAT	1.6	1.2	1.4
EPS (INR)	3.1	2.3	2.9
Gr. (%)	123.4	-26.3	24.9
BV/Sh (INR)	22.7	24.4	26.7
RoE (%)	14.5	9.8	11.3
RoCE (%)	11.6	10.6	11.3
P/E (x)	25.0	33.9	27.1
P/BV (x)	3.4	3.2	2.9

Estimate change

TP change

Rating change

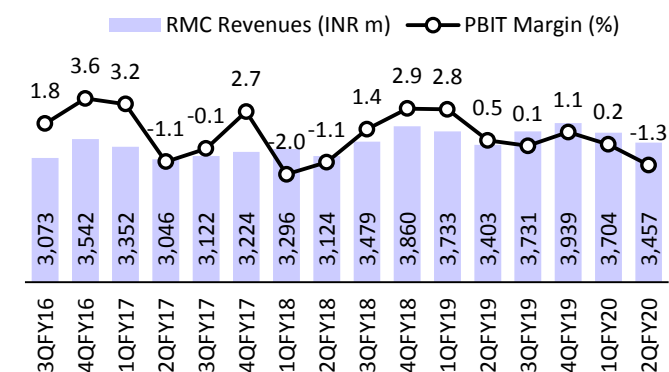


- **Cement profitability increases 4% YoY:** 2QFY20 revenues declined 2% YoY to INR13.1b (in line with est.). Cement and clinker volume growth declined ~6% YoY due to heavy monsoons and overall economic slowdown. Cement division's EBITDA/t (+4% YoY) was lower than expected at INR615 (v/s est. INR967/t) due to higher costs.
- **TBK and RMC report EBIT loss:** TBK's revenue remained flat YoY at INR4.1b, while segment volumes increased 1% YoY. TBK's EBIT loss came in at INR103m in 2QFY20 (v/s loss of INR63m in 2QFY19). 2QFY20 RMC sales stood at INR3.5b (+2% YoY); RMC EBIT loss came in at INR45m (v/s EBIT of INR18m in 2QFY19) due to lower utilization levels during the quarter. EBITDA increased 3% YoY (-55% QoQ) to INR826m (v/s est. INR1.4b), with margin at 6.3% (+0.3pp YoY; -6pp QoQ). Company reported net loss of INR88m (v/s est. INR308m profit), as against INR70m profit in 2QFY19.
- **Key highlights from management presentation:** (1) The Board has decided to simplify the corporate structure by merging a few subsidiaries into standalone, subject to necessary approvals. (2) Prism has commissioned 7.5MW of solar power capacity. Work in progress in case of 22.5MWWHRS is on schedule and commissioning is expected by Jun'20
- **1HFY20 Performance:** Sales/EBITDA/PAT increased 0%/ 2%/-26% YoY. We expect sales/EBITDA/PAT for 2HFY20 to increase 6%/ 1%/-14%. Operating cash flow in 1HFY20 turned to -INR251m (v/s INR3.3b for 1HFY19) due to higher working capital, which increased on account of higher inventory 6 days, receivables of 2 days and decline in payables by 7days.
- **Valuation and view:** We have reduced our EBITDA estimate for FY20/FY21 by 10%/5% to build in higher costs from the current quarter. As a result, our PAT estimate for FY20 has reduced by 36% (also due to higher depreciation and interest from current quarter). Our SOTP value for PRSMJ is INR100/share. We value the cement business at 7x FY21 EV/EBITDA; RMC at 6x FY21 EV/EBITDA and TBK business at 1x FY21 EV/Sales. Maintain **Buy**.

Quarterly Perf. (Standalone)

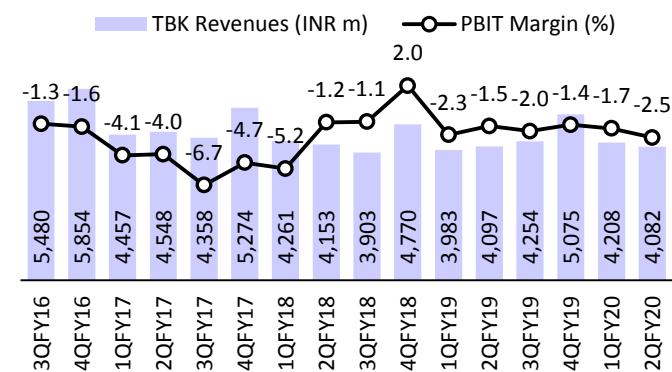
Y/E March	(INR M)											
	FY19				FY20				FY19	FY20E	FY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Sales Dispatches (m ton)	1.67	1.35	1.50	1.75	1.56	1.27	1.52	1.80	6.27	6.14	1.28	-1
YoY Change (%)	13.0	20.0	9.6	4.8	-6.8	-5.5	1.0	2.7	11.2	-2.0	-5.0	
Realization (INR/ton)	4,380	4,355	4,391	4,545	4,669	4,501	4,471	4,457	4,423	4,523	4559	-1
YoY Change (%)	-5.2	10.6	5.1	0.5	6.6	3.4	1.8	-1.9	1.7	2.3	4.7	
QoQ Change (%)	-3.2	-0.6	0.8	3.5	2.7	-3.6	-0.7	-0.3			-2.4	
<b>Net Sales</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>15,057</b>	<b>18,128</b>	<b>59,556</b>	<b>61,404</b>	<b>13,606</b>	-3
YoY Change (%)	13.1	14.6	10.3	4.3	0.7	-1.6	4.6	7.7	10.5	3.1	1.9	
Total Expenditure	13,168	12,550	13,308	14,983	13,226	12,316	13,829	16,386	54,008	55,756	12,235	1
<b>EBITDA</b>	<b>1,809</b>	<b>803</b>	<b>1,090</b>	<b>1,845</b>	<b>1,851</b>	<b>826</b>	<b>1,229</b>	<b>1,742</b>	<b>5,547</b>	<b>5,648</b>	<b>1,371</b>	-40
Margins (%)	12.1	6.0	7.6	11.0	12.3	6.3	8.2	9.6	9.3	9.2	10.1	-38
Depreciation	376	385	400	440	459	477	480	500	1,601	1,916	460	4
Interest	448	436	437	421	467	515	510	657	1,741	2,149	467	10
Other Income	32	121	24	31	97	27	35	43	207	201	30	-11
<b>PBT before EO expense</b>	<b>1,017</b>	<b>103</b>	<b>277</b>	<b>1,016</b>	<b>1,022</b>	<b>-140</b>	<b>274</b>	<b>628</b>	<b>2,413</b>	<b>1,783</b>	<b>474</b>	
Extra-Ord expense	0	0	0	113	0	0	0	0	113	0	0	
<b>PBT after EO Expense</b>	<b>1,017</b>	<b>103</b>	<b>277</b>	<b>903</b>	<b>1,022</b>	<b>-140</b>	<b>274</b>	<b>628</b>	<b>2,301</b>	<b>1,783</b>	<b>474</b>	-129
Tax	315	33	87	406	366	-52	96	214	841	624	166	-131
Rate (%)	31.0	31.9	31.4	44.9	35.8	37.2	35.0	34.1	36.5	35.0	35.0	
<b>Reported PAT</b>	<b>702</b>	<b>70</b>	<b>190</b>	<b>497</b>	<b>656</b>	<b>-88</b>	<b>178</b>	<b>414</b>	<b>1,460</b>	<b>1,159</b>	<b>308</b>	-129
<b>Adj PAT</b>	<b>702</b>	<b>70</b>	<b>190</b>	<b>610</b>	<b>656</b>	<b>-88</b>	<b>178</b>	<b>414</b>	<b>1,573</b>	<b>1,159</b>	<b>308</b>	-129
Margins (%)	4.7	0.5	1.3	3.6	4.3	-0.7	1.2	2.3	2.6	1.9	2.3	

Exhibit 1: RMC revenues increased 2% YoY in 2QFY20



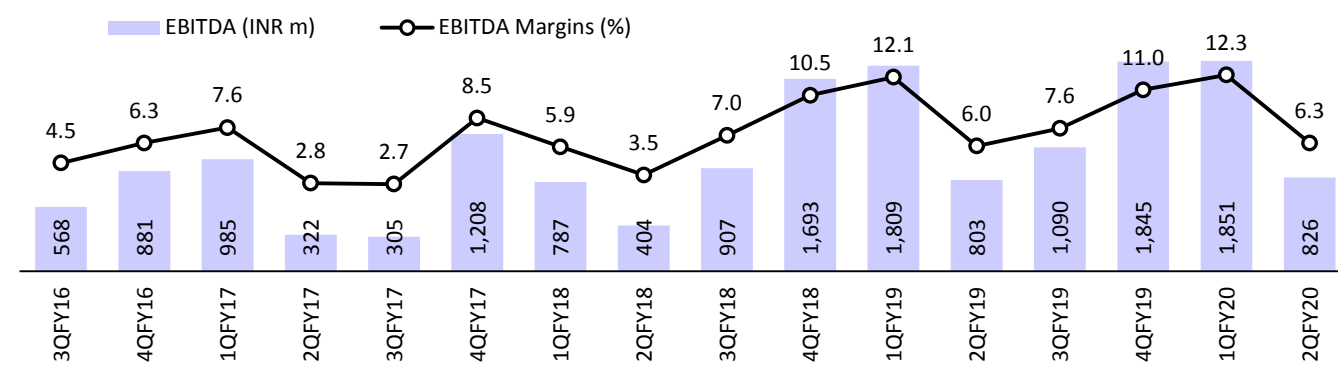
Source: Company, MOFSL

Exhibit 2: TBK revenues remained flat YoY in 2QFY20



Source: Company, MOFSL

Exhibit 3: EBITDA trend



Source: Company, MOFSL

**Key highlights from management presentation****Cement**

- Overall cost increased, mainly due to raw material and other costs; better realizations led to improvement in EBITDA.
- During 1HFY20, 7.5MW of solar power was commissioned. It also plans to commission a total of 25MW during the year.
- Work for 22.5MWWHRS is on schedule; commissioning is expected by Jun'20.

**H & R Johnson (Tiles)**

- During the quarter, tiles volume grew 1% YoY. Net working capital management continues to remain under control.
- Division continues to invest in marketing and distribution activities. Total of 13 Experience Centers are in operations.
- To simplify the corporate structure, the Board has decided to undertake composite scheme of arrangement and amalgamation amongst the Company, H. & R. Johnson (India) TBK Ltd (HRJTBK), Milano Bathroom Fittings Pvt Ltd, Silica Ceramica Pvt Ltd being 100% subsidiaries and TBK Rangoli Tile Bath Kitchen Pvt Ltd, TBK Venkataramiah Tile Bath Kitchen Pvt Ltd, TBK Samiyaz Tile Bath Kitchen Pvt Ltd being wholly-owned subsidiaries of HRJ TBK, subject to necessary approvals. Balance capacity and additional 10MW solar capacity will be commissioned during the year.
- Consolidated HRJ EBITDA margins were at ~4.2% v/s ~1.8%, reflecting EBITDA growth of ~151%. Consolidated HRJ revenues increased ~8% YoY, led by sanitaryware and faucets revenues increasing ~14%.

**Ready-mix Concrete**

- Ready-mix concrete business' performance was impacted due to heavy monsoons and tight liquidity.
- Focus continues on improving utilization levels and increase in value-added products in the Individual Housing Segment.

**Valuation and views**

We have reduced our EBITDA estimate for FY20/FY21 by 10%/5% to build in higher costs from the current quarter. As a result, our PAT estimate for FY20 has reduced by 36% (also due to higher depreciation and interest from current quarter). Our SOTP value for PRSMJ is INR100/share. We value the cement business at 7x FY21 EV/EBITDA; RMC at 6x FY21 EV/EBITDA and TBK business at 1x FY21 EV/Sales. Maintain **Buy**.

**Exhibit 4: Revision in estimates**

(INR b)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes (mt)	6.1	6.1	1.0	6.5	6.4	1.0
Net Sales	61.4	61.5	-0.2	65.9	65.9	0.0
EBITDA	5.6	6.3	-10.1	6.3	6.7	-4.7
Net Profit	1.2	1.8	-35.7	1.4	2.0	-25.9
EPS (INR)	2.3	3.6	-35.7	2.9	3.9	-25.9

Source: MOFSL, Company

## Financials and Valuations

Income Statement							(INR m)	
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>49,443</b>	<b>55,718</b>	<b>52,775</b>	<b>49,999</b>	<b>53,889</b>	<b>59,556</b>	<b>61,404</b>	<b>65,912</b>
Change (%)	4.3	12.7	-5.3	-5.3	7.8	10.5	3.1	7.3
Total Expenditure	48,244	53,098	50,341	47,385	50,292	54,008	55,756	59,566
% of Sales	97.6	95.3	95.4	94.8	93.3	90.7	90.8	90.4
<b>EBITDA</b>	<b>1,199</b>	<b>2,621</b>	<b>2,434</b>	<b>2,614</b>	<b>3,596</b>	<b>5,547</b>	<b>5,648</b>	<b>6,346</b>
Margin (%)	2.4	4.7	4.6	5.2	6.7	9.3	9.2	9.6
Depreciation	1,766	1,368	1,560	1,602	1,531	1,601	1,916	2,146
<b>EBIT</b>	<b>-567</b>	<b>1,252</b>	<b>874</b>	<b>1,012</b>	<b>2,066</b>	<b>3,947</b>	<b>3,732</b>	<b>4,200</b>
Int. and Finance Charges	2,415	2,536	2,400	1,834	1,873	1,741	2,149	2,193
Other Income - Rec.	359	556	1,343	1,103	858	207	201	221
<b>PBT bef. EO Exp.</b>	<b>-2,623</b>	<b>-729</b>	<b>-183</b>	<b>281</b>	<b>1,051</b>	<b>2,413</b>	<b>1,783</b>	<b>2,228</b>
EO Expense/(Income)	-1,341	-621	36	0	0	113	0	0
<b>PBT after EO Exp.</b>	<b>-1,283</b>	<b>-108</b>	<b>-219</b>	<b>281</b>	<b>1,051</b>	<b>2,301</b>	<b>1,783</b>	<b>2,228</b>
Current Tax	-462	-255	4	120	270	532	624	780
Deferred Tax	0	0	-304	-13	77	309	0	0
Tax Rate (%)	36.0	236.7	137.1	37.8	33.0	36.5	35.0	35.0
<b>Reported PAT</b>	<b>-821</b>	<b>147</b>	<b>81</b>	<b>175</b>	<b>704</b>	<b>1,460</b>	<b>1,159</b>	<b>1,448</b>
<b>PAT Adj for EO items</b>	<b>-2,162</b>	<b>-474</b>	<b>117</b>	<b>175</b>	<b>704</b>	<b>1,573</b>	<b>1,159</b>	<b>1,448</b>
Change (%)	253.6	-78.1	-124.7	49.3	302.1	123.4	-26.3	24.9
Margin (%)	-4	-1	0	0	1	3	2	2

Balance Sheet							(INR m)	
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Equity Share Capital	5,034	5,034	5,034	5,034	5,034	5,034	5,034	5,034
Total Reserves	5,047	4,658	4,371	4,523	5,225	6,388	7,252	8,406
<b>Net Worth</b>	<b>10,081</b>	<b>9,691</b>	<b>9,405</b>	<b>9,557</b>	<b>10,258</b>	<b>11,421</b>	<b>12,286</b>	<b>13,440</b>
Deferred Liabilities	452	136	-363	-639	-564	-250	-250	-250
Total Loans	18,333	18,828	18,524	16,308	12,426	11,532	13,032	12,032
<b>Capital Employed</b>	<b>28,866</b>	<b>28,655</b>	<b>27,566</b>	<b>25,225</b>	<b>22,121</b>	<b>22,703</b>	<b>25,068</b>	<b>25,222</b>
Gross Block	34,553	35,418	22,526	23,585	25,353	27,170	30,272	34,672
Less: Accum. Deprn.	13,607	14,935	2,092	3,693	5,224	6,825	8,741	10,887
<b>Net Fixed Assets</b>	<b>20,946</b>	<b>20,483</b>	<b>20,433</b>	<b>19,892</b>	<b>20,129</b>	<b>20,345</b>	<b>21,531</b>	<b>23,785</b>
Capital WIP	626	688	683	945	925	1,202	1,400	300
<b>Total Investments</b>	<b>5,746</b>	<b>5,569</b>	<b>5,698</b>	<b>6,730</b>	<b>6,877</b>	<b>7,772</b>	<b>7,772</b>	<b>7,772</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>14,083</b>	<b>16,028</b>	<b>15,752</b>	<b>12,698</b>	<b>13,534</b>	<b>14,804</b>	<b>15,882</b>	<b>16,463</b>
Inventory	4,622	5,500	4,717	3,997	4,315	5,012	5,167	5,547
Account Receivables	5,258	5,574	6,087	6,055	6,621	7,046	7,570	8,126
Cash and Bank Balance	525	1,081	1,152	667	587	555	884	364
Loans and Advances	3,679	3,873	3,797	1,979	2,011	2,192	2,260	2,426
<b>Curr. Liability &amp; Prov.</b>	<b>12,535</b>	<b>14,113</b>	<b>15,000</b>	<b>15,039</b>	<b>19,345</b>	<b>21,419</b>	<b>21,516</b>	<b>23,097</b>
Account Payables	12,130	13,648	14,285	14,518	18,733	20,863	21,510	23,089
Provisions	405	465	715	521	612	557	7	8
<b>Net Current Assets</b>	<b>1,548</b>	<b>1,915</b>	<b>752</b>	<b>-2,342</b>	<b>-5,811</b>	<b>-6,615</b>	<b>-5,634</b>	<b>-6,634</b>
<b>Appl. of Funds</b>	<b>28,866</b>	<b>28,655</b>	<b>27,566</b>	<b>25,225</b>	<b>22,120</b>	<b>22,703</b>	<b>25,068</b>	<b>25,222</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>-4.3</b>	<b>-0.9</b>	<b>0.2</b>	<b>0.3</b>	<b>1.4</b>	<b>3.1</b>	<b>2.3</b>	<b>2.9</b>
Cash EPS	-0.8	1.8	3.3	3.5	4.4	6.3	6.1	7.1
BV/Share	20.0	19.3	18.7	19.0	20.4	22.7	24.4	26.7
DPS	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Payout (%)	0.0	0.0	0.0	0.0	41.8	20.2	25.4	20.3
<b>Valuation (x)</b>								
P/E						25.0	33.9	27.1
Cash P/E						12.4	12.8	10.9
P/BV						3.4	3.2	2.9
EV/Sales						0.8	0.8	0.8
EV/EBITDA						8.8	8.9	8.0
EV/Ton (US\$)						54.5	54	55
Dividend Yield (%)						0.6	0.6	0.6
<b>Return Ratios (%)</b>								
RoIC	-1.6	-7.9	-1.6	3.4	9.0	18.6	17.2	17.2
RoE	-20.6	-4.8	1.2	1.8	7.1	14.5	9.8	11.3
RoCE	-0.5	-8.7	-2.9	4.9	8.1	11.6	10.6	11.3
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.7	1.9	1.9	1.9	2.3	2.7	2.6	2.6
Inventory (Days)	34.8	38.2	31.7	28.4	30.3	32.3	31.2	31.8
Debtor (Days)	36.6	35.8	38.0	39.7	44.2	44.9	45.7	96.6
<b>Leverage Ratio (x)</b>								
Current Ratio	1.1	1.1	1.1	0.8	0.7	0.7	0.7	0.7
Debt/Equity	1.8	1.9	2.0	1.7	1.2	1.0	1.1	0.9

### Cash Flow Statement

(INR m)

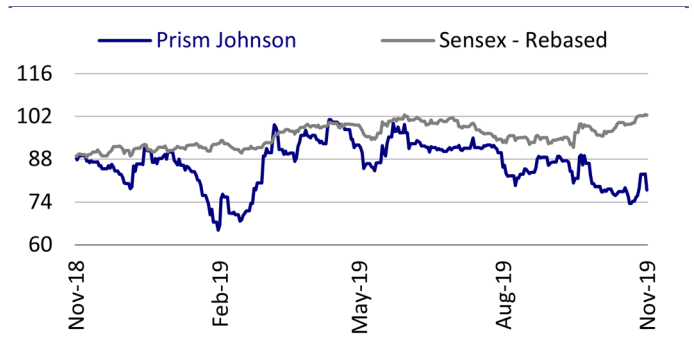
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Oper. P/L before Tax	-1,278	-108	-219	281	1,051	2,301	1,783	2,228
Interest/Dividends Recd.	1,766	1,368	1,560	1,602	1,531	1,601	1,916	2,146
Depreciation	2,216	2,273	2,281	1,768	1,810	1,681	2,149	2,193
Direct Taxes Paid	-35	26	-17	-50	-296	-430	-624	-780
(Inc)/Dec in WC	-1,697	-1,540	451	1,661	408	-446	-651	480
<b>CF from Operations</b>	<b>972</b>	<b>2,020</b>	<b>4,057</b>	<b>5,262</b>	<b>4,504</b>	<b>4,706</b>	<b>4,574</b>	<b>6,267</b>
EO expense	-1,119	287	-341	169	86	273	0	0
<b>CF from Operating incl EO</b>	<b>-147</b>	<b>2,307</b>	<b>3,716</b>	<b>5,431</b>	<b>4,590</b>	<b>4,979</b>	<b>4,574</b>	<b>6,267</b>
(inc)/dec in FA	-1,684	-1,548	-1,869	-1,253	-1,732	-2,300	-3,300	-3,300
<b>Free Cash Flow</b>	<b>-1,831</b>	<b>759</b>	<b>1,848</b>	<b>4,178</b>	<b>2,857</b>	<b>2,680</b>	<b>1,274</b>	<b>2,967</b>
(Pur)/Sale of Investments	390	681	745	-510	-281	-234	0	0
Others	1,455	511	-35	-187	-16	66	0	0
<b>CF from investments</b>	<b>162</b>	<b>-356</b>	<b>-1,158</b>	<b>-1,951</b>	<b>-2,029</b>	<b>-2,468</b>	<b>-3,300</b>	<b>-3,300</b>
(Inc)/Dec in Debt	0	0	0	0	-5,508	-7,065	1,500	-1,000
Interest Paid	-2,330	-2,087	-2,251	-1,759	-1,692	-1,501	-2,149	-2,193
Dividend Paid	0	0	0	0	0	-303	-294	-294
Others	2,465	693	-237	-2,206	4,559	6,326	0	0
<b>CF from Fin. Activity</b>	<b>135</b>	<b>-1,394</b>	<b>-2,488</b>	<b>-3,965</b>	<b>-2,641</b>	<b>-2,544</b>	<b>-944</b>	<b>-3,488</b>
<b>Inc/Dec of Cash</b>	<b>149</b>	<b>557</b>	<b>70</b>	<b>-484</b>	<b>-80</b>	<b>-33</b>	<b>330</b>	<b>-520</b>
Add: Beginning Balance	375	525	1,081	1,152	667	587	555	884
<b>Closing Balance</b>	<b>524</b>	<b>1,082</b>	<b>1,151</b>	<b>667</b>	<b>587</b>	<b>554</b>	<b>884</b>	<b>364</b>

## Corporate profile

### Company description

Prism Johnson 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: MOFSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	74.9	74.9	74.9
DII	6.2	4.9	3.8
FII	5.6	6.6	6.6
Others	13.3	13.6	14.8

Note: FII Includes depository receipts Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Jupiter India Fund	2.4
L&T Mutual Fund Trustee Limited-L&T Emerging Businesses Fund	1.8
Akash Bhanshali	1.5
Dsp Small Cap Fund	1.2
Hdfc Trustee Co Ltd A/C Hdfc Housing Opportunitiesfund-1140d Nov-17 (1)	1.2

Source: Capitaline

### Exhibit 4: Top management

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

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Rajan Raheja	Ameeta A Parpia
Raveendra Chittoor	

\*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: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	2.3	4.3	-46.7
FY21	2.9	5.7	-49.2

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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