

2 August 2021

Prism Johnson

Lockdown-hit performance; expansion to help; maintaining a Buy

Shrunken demand due to covid-19 second wave hit the performance of all Prism's divisions in Q1FY22. On the low base, however, revenue/EBITDA grew 46%/334% y/y. Expanding capacities in cement and the TBK division would aid in catering to reviving demand, in keeping debt in check and return ratios firm. The greater share of renewable energy would help contain higher input costs. We retain our Buy rating, with a higher TP of Rs.179 (earlier Rs.175).

Demand revival to aid. Local Covid'19-triggered lockdowns led to volumes falling 30.5% q/q, however grew 10% y/y on low base. The rise in the contribution of premium cement (28.1%, vs. 26.2% in Q1FY21) and stable prices helped realization/ton stay flat, leading to cement revenue growing 10.5% y/y to Rs6bn. Further, cost-optimisation steps aided EBITDA/ton grow 3.6% y/y to Rs1156. With a stable demand-supply context in the Satna cluster, demand from real estate and infra sector should pick up in H2 FY22.

HRJ/RMC suffered. With economic activity hit in metros and tier-1 cities, performances of the TBK/RMC divisions were hit. Revenues declined 48%/29% q/q (up 91%, 222% y/y). The cost-optimization steps reduced operating losses: TBK/RMC reported Rs169m/Rs155m EBIT losses (Rs670m/Rs587m a year back). With expanding capacities (HRJ) and demand reviving, we expect HRJ/RMC revenues to record 12%/20% CAGRs over FY21-23.

Business outlook. With WHRS/solar power capacity of 22.4MW/23.2MW, a further 1.3MW solar power is to be installed in Q2 FY22, increasing the share of renewable energy (36% in Q1 FY22). The capacity expansion in cement (1.9m tons) and in HRJ (8.5m sq. mtr.) will help address rising demand. With capex chiefly funded via internal accruals, we expect debt to be held in check.

Valuation. We maintain our Buy rating, with a higher TP of Rs.179 on a sum-of-parts valuation. **Risks:** Rise in pet-coke/diesel prices; demand slowdown.

Key Financials (YE: Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	59,306	55,592	50,134	57,537	63,461
Net profit (Rs m)	1,572	356	2,047	2,376	2,978
EPS (Rs)	3.1	0.7	4.1	4.7	5.9
P/E (x)	30.3	42.8	32.3	30.0	23.9
EV / EBITDA (x)	11.6	6.4	13.3	11.1	9.6
EV / ton (\$)	76.1	40.3	100.2	95.6	91.4
RoE (%)	13.5	2.4	19.2	18.9	19.5
RoCE (%)	9.8	2.8	11.3	10.7	12.1
Dividend yield (%)	0.5	3.3	-	-	-
Net debt / equity (x)	1.2	1.8	1.1	1.0	0.6

Source: Company, Anand Rathi Research

Rating: Buy

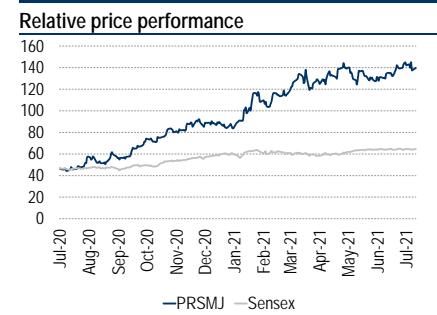
Target Price: Rs.179

Share Price: Rs.141

Key data	PRSMJ IN / PRIS.BO
52-week high / low	Rs149 / 44
Sensex / Nifty	52951 / 15885
3-m average volume	\$1.3m
Market cap	Rs70bn / \$945.5m
Shares outstanding	503m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	74.9	74.9	74.9
- of which, Pledged	-	-	-
Free float	25.1	25.1	25.1
- Foreign institutions	3.3	3.0	3.0
- Domestic institutions	7.4	7.4	7.2
- Public	14.5	14.8	15.0

Estimates revision (%)	FY22e	FY23e
Sales	(0.8)	(0.8)
EBITDA	0.7	(1.7)
PAT	(1.1)	(5.2)



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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Sales volumes (m tons)	6.3	5.7	5.8	6.3	6.7
Net revenues	59,306	55,592	50,134	57,537	63,461
Growth (%)	10.1	-6.3	-9.8	14.8	10.3
Direct costs	45,423	41,641	36,815	42,177	46,561
SG&A	8,586	8,952	7,376	7,683	8,442
EBITDA	5,297	5,000	5,943	7,676	8,458
EBITDA margins (%)	8.9	9.0	11.9	13.3	13.3
- Depreciation	1,601	2,138	2,526	2,857	3,056
Other income	457	463	580	460	508
Interest expenses	1,741	2,290	1,912	1,680	1,397
PBT	2,413	1,036	2,086	3,600	4,512
Effective tax rates (%)	37	73	2	34	34
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,460	253	2,000	2,376	2,978
Adjusted income	1,572	356	2,047	2,376	2,978
WANS	503	503	503	503	503
FDEPS (Rs / sh)	3.1	0.7	4.1	4.7	5.9
FDEPS growth (%)	123.3	-77.4	475.4	16.1	25.3

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	5,034	5,034	5,034	5,034	5,034
Net worth	11,421	9,418	11,392	13,768	16,746
Debt	14,679	20,331	17,872	15,722	12,222
Minority interest					
DTL / (Assets)	-250	275	292	292	292
Capital employed	25,851	30,024	29,556	29,782	29,260
Net tangible assets	20,161	23,696	25,295	25,694	24,688
Net intangible assets	185	245	210	210	210
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,202	2,570	1,216	1,200	1,350
Investments (strategic)	4,398	1,879	2,805	3,155	3,505
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	17,623	17,657	14,973	17,497	19,299
Cash	555	3,781	4,890	1,730	1,941
Current liabilities	18,272	19,805	19,833	19,704	21,733
Working capital	-649	-2,147	-4,860	-2,207	-2,434
Capital deployed	25,851	30,024	29,556	29,782	29,260
Contingent liabilities	5,931	6,804	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT (Adj. OI and Interest)	2,413	1,036	2,086	3,600	4,512
+ Non-cash items	1,601	2,138	2,526	2,857	3,056
Oper. prof. before WC	4,014	3,174	4,611	6,457	7,568
- Incr. / (decr.) in WC	-2,334	-1,498	-2,713	2,653	-227
Others incl. taxes	532	-	14	1,224	1,534
Operating cash-flow	5,816	4,672	7,310	2,580	6,261
- Capex (tang. + intang.)	2,093	7,102	2,736	3,240	2,200
Free cash-flow	3,723	-2,431	4,575	-660	4,061
Acquisitions					
- Div.(incl. buyback & taxes)	303	607	-	-	-
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,118	5,652	-2,460	-2,150	-3,500
- Fin investments	241	-2,519	926	350	350
- Misc. (CFI + CFF)	101	1,908	81	-	-
Net cash-flow	-40	3,227	1,108	-3,160	211

Source: Company, Anand Rathi Research

Fig 5 – Price movement



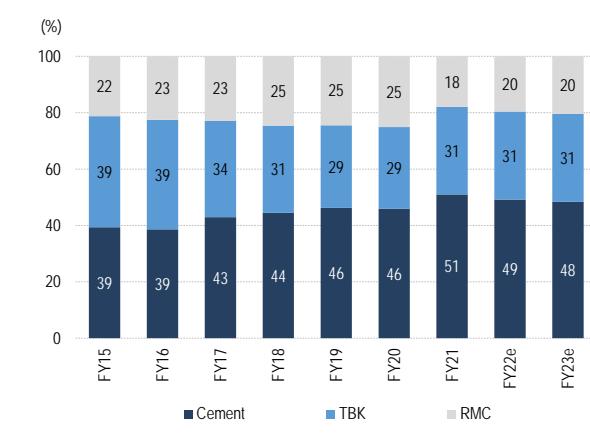
Source: Bloomberg

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	30.3	42.8	32.3	30.0	23.9
EV / EBITDA (x)	11.6	6.4	13.3	11.1	9.6
EV / Sales (x)	1.0	0.6	1.6	1.5	1.3
P/B (x)	4.2	1.6	5.8	5.2	4.3
RoE (%)	13.5	2.4	19.2	18.9	19.5
RoCE (%) - after tax	9.8	2.8	11.3	10.7	12.1
DPS (Rs / sh)	0.5	1.0	-	-	-
Dividend payout (%) - incl. DDT	20.8	240.2	-	-	-
Net debt / equity (x)	1.2	1.8	1.1	1.0	0.6
Working capital (days)	-4.0	-14.1	-35.4	-14.0	-14.0
EV / ton (\$)	76.1	40.3	100.2	95.6	91.4
NSR / ton (Rs)	4,423	4,518	4,443	4,503	4,603
EBITDA / ton (Rs)	834	889	962	1,010	1,027
Volumes	6.27	5.72	5.82	6.32	6.72
CFO : PAT %	369.9	1,313.1	357.1	108.6	210.2

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up, by division



Source: Company

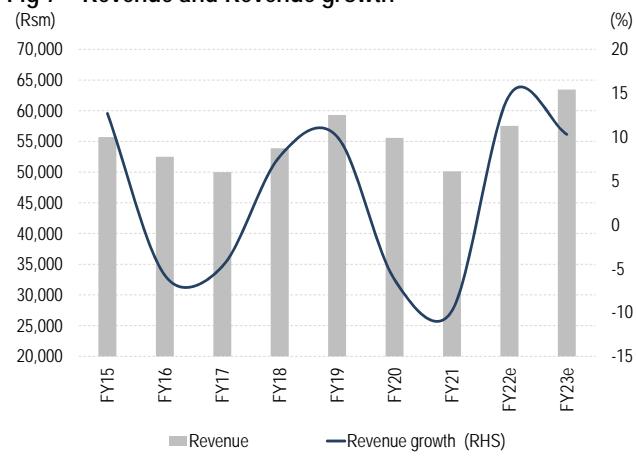
Key highlights

Revenue growth

On the favorable base, cement sales volumes rose 10% y/y (though q/q down 30.5%) to 1.32m tons, and revenue 10.5% y/y to Rs6bn. The sales mix for Q1 FY22 was Eastern UP ~53%, MP ~25%, Bihar ~22%. Realisations were flat y/y at Rs4,589/ton. Volumes of premium products continued to rise and constituted ~28.1% of overall cement volumes in Q1 FY22 (26.2% a year ago). The trade and non-trade mix was 78:22.

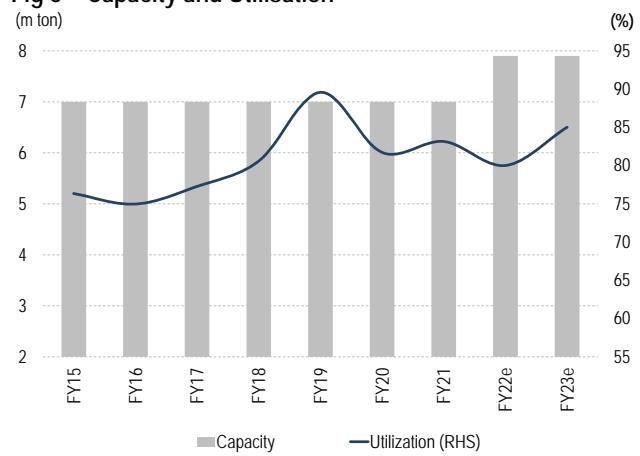
Local lockdowns on the surge in Covid-19 cases in the quarter severely hurt tile-volume growth, leading to HRJ's revenue declining 48% q/q to `2.8bn. Y/y however, it grew 91% on the low base. RMC revenue grew 222% y/y, though q/q declining 29%, to Rs2.3bn as the second wave of Covid-19 curtailed economic activity in Q1. At Rs11bn, Q1 revenue grew 46% y/y (though q/q, down 33.7%).

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



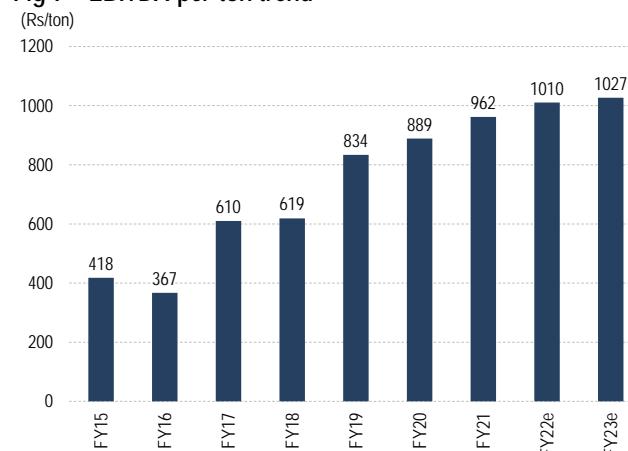
Source: Company, Anand Rathi Research

Operating performance

Q1 EBITDA grew 334% y/y to Rs1.4bn where EBITDA/ton (of the cement division) rose 3.6% y/y on several cost-reduction steps coupled with a slight rise in realisations.

The impact of the second wave of Covid-19 led to the HRJ division reporting a Rs169m EBIT loss (a Rs.670m loss a year prior); the RMC division reported a Rs155m EBIT loss (Rs.587m loss a year prior).

Adj. profit grew to Rs341m (vs. a Rs669m loss a year ago) on the better operating performance and 16.5% lower interest cost y/y, partially offset though by the 7.6% higher depreciation y/y and lower other income (down 31% y/y).

Fig 9 – EBITDA-per-ton trend

Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend

Source: Company, Anand Rathi Research

Expansion update

Fig 11 – Expansion

Division	Capacity expansion	Location	Capex (Rs m)	Commencement date
Cement (m tons)	0.7	Satna, MP	1390	Jun'22
Cement (m tons)	1	Satna, MP	2500	Sep'23
HRJ (m sq. mtr.)	2.5	Panahgarh, WB	550	Jan'23
HRJ (m sq. mtr.)	6	JV entities	700	Mar'23

Source: Company, Anand Rathi Research

Result Highlights

Fig 12 – Quarterly Trend

(Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Sales	14,344	16,699	15,037	13,107	13,736	13,660	7,634	12,011	13,683	16,805	11,149	46.0	(33.7)
EBITDA	1,036	1,716	1,811	791	1,065	1,371	333	1,486	1,785	2,317	1,446	333.8	(37.6)
EBITDA margins (%)	7.2	10.3	12.0	6.0	7.8	10.0	4.4	12.4	13.0	13.8	13.0	861bps	-81bps
EBITDA per ton (Rs)	657	838	1,111	615	753	1,016	1,116	1,012	918	875	1,156	3.6	32.1
Interest	437	421	467	515	573	560	531	435	453	439	443	(16.5)	1.0
Depreciation	400	440	459	477	488	612	574	549	549	754	618	7.6	(18.1)
Other income	77	161	137	62	116	135	103	126	139	207	71	(30.9)	(65.8)
PBT	277	903	1,022	(140)	119	230	(669)	446	802	1,584	456	(168.1)	(71.2)
Exceptional costs	-	113	-	-	-	103	-	181	120	(253)	-	NA	NA
Tax	87	406	366	(52)	43	323	-	-	188	(149)	115	NA	NA
Reported PAT	190	497	656	(88)	76	(93)	(669)	446	614	1,733	341	L2P	(80.3)
Adjusted PAT	190	610	656	(88)	76	10	(669)	627	733	1,480	341	L2P	(77.0)

Source: Company, Anand Rathi Research

Fig 13 – Performance, by division

(Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Revenue													
-Cement	6,586	7,954	7,283	5,725	6,170	6,663	5,484	5,902	6,196	8,276	6,058	10.5	(26.8)
-HRJ	4,254	5,075	4,208	4,082	4,304	3,669	1,469	4,123	4,741	5,395	2,810	91.3	(47.9)
-RMC	3,731	3,939	3,704	3,457	3,442	3,535	729	2,113	2,920	3,316	2,349	222.2	(29.2)
Total	14,571	16,968	15,196	13,264	13,915	13,867	7,682	12,138	13,857	16,988	11,217	46.0	(34.0)
Less Inter-segment	173	140	119	122	127	146	34	81	103	98	48	41.8	(50.8)
Net sales	14,398	16,828	15,077	13,142	13,788	13,720	7,648	12,057	13,755	16,890	11,169	46.0	(33.9)
PBIT													
-Cement	771	1,265	1,459	499	756	1,136	1,031	1,018	879	1,315	1,175	13.9	(10.7)
% of sales	11.7	15.9	20.0	8.7	12.3	17.1	18.8	17.2	14.2	15.9	19.4	59bps	351bps
-HRJ	(84)	(72)	(73)	(103)	(109)	(327)	(670)	(171)	288	144	(169)	NA	P2L
% of sales	(2.0)	(1.4)	(1.7)	(2.5)	(2.5)	(8.9)	(45.6)	(4.2)	6.1	2.7	(6.0)	NA	P2L
-RMC	5	45	9	(45)	(18)	(85)	(587)	(43)	26	446	(155)	NA	P2L
% of sales	0.1	1.1	0.2	(1.3)	(0.5)	(2.4)	(80.5)	(2.0)	0.9	13.4	(6.6)	NA	P2L
Total	692	1,238	1,395	350	630	725	(226)	803	1,193	1,905	851	(477.1)	(55.3)
Less: Interest & Finance	437	421	467	515	573	560	531	435	453	439	443	(16.5)	1.0
Less: Other Net unalloc. exp.	(22)	(85)	(94)	(25)	(62)	(65)	(88)	(78)	(61)	(117)	(48)	NA	NA
PBT (after extraordinary exp.)	277	903	1,022	(140)	119	230	(669)	446	801	1,584	456	L2P	L2P

Source: Company, Anand Rathi Research

Valuations

At the ruling price of Rs.141, the stock quotes at an EV/EBITDA of 9.6x FY23e. Our sum-of-parts target price of Rs.179 is based on 11.5x FY23e EV/EBITDA for each of its divisions (cement, TBK, RMC). We upgrade our rating to a Buy, with a higher target price of Rs.179 (earlier Rs.175).

Change in estimates

Fig 14 – Change in estimates

(Rs m)	Old		New		Variance	
	FY22	FY23	FY22	FY23	% Chg	% Chg
Sales	57,988	63,980	57,537	63,461	(0.8)	(0.8)
EBITDA	7,627	8,604	7,676	8,458	0.7	(1.7)
Adjusted PAT	2,403	3,141	2,376	2,978	(7.1)	(5.2)

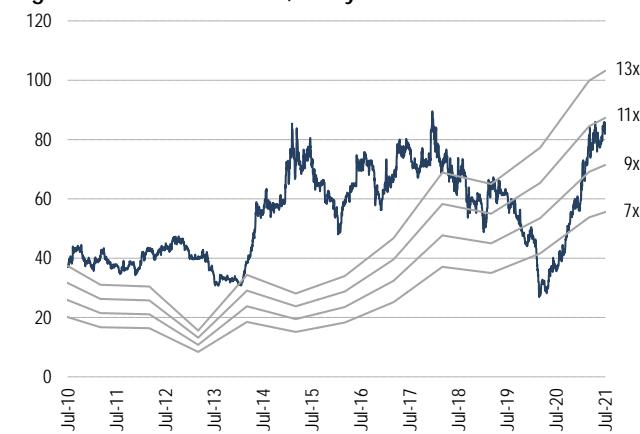
Source: Anand Rathi Research

Fig 15 – Sum-of-parts valuation (consolidated)

Segments	Methodology	EBITDA (Rs m)	Multiple (x)	Stake (%)	Value (Rs m)	Value (Rs / sh)
Cement	11.5x FY23e EV/EBITDA	6,896	11.5	100	79,305	158
RMC	11.5x FY23e EV/EBITDA	288	11.5	100	3,310	7
Tiles	11.5x FY23e EV/EBITDA	1,274	11.5	100	14,649	29
Raheja QBE General Insurance	Proposed divestment value				2,897	6
Less: Net debt (Mar'23)					10,281	20
Equity value					89,880	179
No. of shares (m)	503					

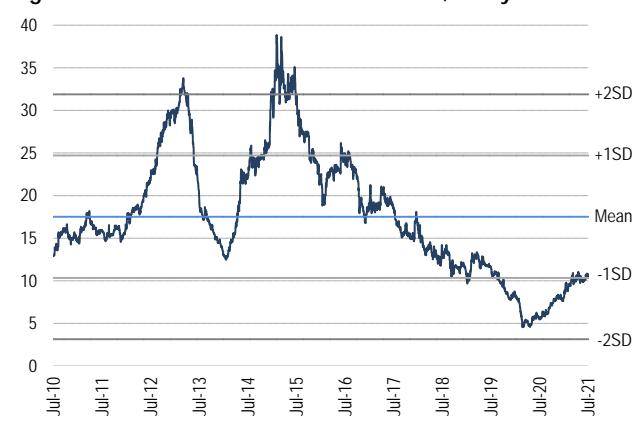
Source: Company, Anand Rathi Research

Fig 16 – EV / EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 17 – EV / EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Rise in pet-coke and diesel costs.
- Demand slowdown.

Fig 18 – Peer comparison–Valuations

	CMP	P/E(x)		EV/EBITDA(x)		EV/ton (\$)	
	Rs	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Prism Johnson	141	30.0	23.9	11.1	9.6	96	91
Birla Corp.	1,491	22.4	18.0	10.7	8.8	90	81
Dalmia Bharat	2,139	36.3	28.6	13.8	11.9	164	158
Deccan Cement	729	9.5	9.2	6.0	6.8	62	80
Heidelberg Cement	264	20.8	17.4	11.0	9.4	120	113
India Cement	192	19.8	16.3	9.3	8.3	74	72
JK Cement	3,257	28.5	24.5	15.8	14.0	232	228
JK Lakshmi	692	17.4	14.7	9.1	7.7	97	90
Mangalam Cement	456	8.4	7.1	5.0	4.0	46	41
Orient Cement	160	11.2	10.1	5.9	5.7	61	62
Ramco Cement	1,096	31.2	24.3	17.4	13.7	199	182
Star Cement	111	15.5	13.6	10.1	9.0	99	100
Sanghi Industries	66	21.7	12.9	11.5	9.4	68	65

Source: Company, Anand Rathi Research

Appendix

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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