Ref. : ASK/UD/2020-21 August 13, 2020

The National Stock Exchange (India) Ltd., Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051.	BSE Limited, Corporate Relationship Department, P. J. Towers, Dalal Street, Fort, Mumbai – 400 023.
Code : PRSMJOHNSN	Code : 500338

Sub.: Intimation of Credit Rating

Dear Sir,

In compliance with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with Para A of Part A of Schedule III of the said Regulations, we wish to inform you that India Ratings and Research Pvt. Ltd., has assigned the Credit Rating 'IND A/Stable' to the proposed new issue of the Company of Listed Unsecured Rated Redeemable Taxable Non-convertible Debentures, Tranche XVII of Rs. 75 Crores on private placement.

The details are being furnished on the basis of information received by India Ratings and Research Pvt. Ltd today. (Copy of press release attached).

We request you to take on record.

Thanking you,

Yours faithfully,

for **PRISM JOHNSON LIMITED**

ANEETA S. KULKARNI
COMPANY SECRETARY

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CIN: L26942TG1992PLC014033

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Prism Johnson's NCDs Final 'IND A'/Stable; Affirms Other Ratings; Limits Enhanced

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AUG 2020

By Krishan Binani

India Ratings and Research (Ind-Ra) has taken the following rating actions on Prism Johnson Limited (PJL):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND A/Stable	Affirmed
NCDs^##	-	-	-	INR0.75	IND A/Stable	Assigned
Proposed non-convertible debentures (NCDs)#	-	-	-	INR1.75	WD	Withdrawn
NCDs*	-	-	-	INR2.49 (reduced from INR3.69)	IND A/Stable	Affirmed
Term loans	-	-	FY23-FY24	INR12.39 (increased from INR10.39)	IND A/Stable	Affirmed
Fund-based limits	-	-	-	INR4.0	IND A/Stable	Affirmed
Non-fund-based working capital limits	-	-	-	INR5.44	IND A1	Affirmed
Term deposit programme	-	-	-	INR0.05	IND tA+/Stable	Affirmed
Unsecured short-term loans	-	-	-	INR0.9	IND A1	Affirmed
Commercial paper (CP) programme**	-	-	0-365 days	INR2.0	IND A1	Affirmed

Forthcoming debt issue/transaction carrying an expected rating is no longer expected to proceed as previously envisaged
The provisional rating of the proposed NCDs has been converted to final rating as per Ind-Ra's updated policy. This is because the agency notes that the proposed NCDs are likely to follow the standard terms and conditions of the NCDs already issued, and are not a rating driver.
^Yet to be issued
* Details in Annexure
** CP has been carved out of PJL's working capital limits and will be used to meet working capital requirements

Analytical Approach: Ind-Ra continues to take a consolidated view of PJL and its subsidiaries - H&R Johnson (India) TBK Limited (100% stake); RMC Readymix Porselano (India) Limited (100%); Milano Bathroom Fittings Private Limited (100%) and Raheja QBE General Insurance Company Limited (51%) because of the strong operational and strategic linkages between the entities.

KEY RATING DRIVERS

Leading Market Position: PJL is among the largest cement producers in central India (Satna Cluster). The cement division contributed over 75% to its EBITDA over FY16-FY20 (FY20: 85%), followed by the tiles division (FY16-20 average: 10%, FY20: 13%) and ready mix concrete (RMC) division (FY16-20 average: 7%, FY20: 4%). H. & R. Johnson (India) Ltd (HRJ), established in 1958, has been a pioneer in ceramic tiles in India for the past five decades. The RMC division was set up in 1996 as RMC Readymix (India) Pvt. Ltd. and is a leading RMC manufacturer. Both companies amalgamated with PJL in FY10.

Financial Profile Likely to Weaken due to COVID-19; Recovery Likely in FY22: The steady improvement in PJL's credit profile is likely to have come to a halt over FY20-FY21, with the COVID-19 containment measures having resulted in the shutdown of plant operations amid significantly reduced construction activity. The cement industry's performance was better than expected in 1QFY21, with production declining by an average 38% against Ind-Ra's projections of around 60% (April/May/June: actual yoy fall of 85%/21%/7% against expectation of 90%/75%/40%). However, Ind-Ra continues to expect cement demand to contract by 10%-15% in FY21, given the demand headwinds from the increased frequency of the pandemic-led lockdowns amidst floods in some parts of the country. The unit profitability is likely to have remained buoyant in 1QFY21, aided by the price hikes during April-May 2020, resulting from supply disruptions, and lower variable costs; however, the absolute EBITDA is likely to have declined. Ind-Ra believes that the combined impact of monsoon/floods and the lockdowns across states can aggravate the weakness in prices in the seasonally weak 2QFY21 after which the recovery will depend on the demand pick-up.

With the expected fall in volumes, and the subdued demand across divisions likely to impact its margins, PJL's net leverage is likely to remain elevated over FY21 (FY20: 3.4x, FY19: 3.1x, FY18: 4.4x). However, the company is likely to implement significant cost-reduction initiatives along with reduced capex in FY21. This in addition to PJL's track record of timely refinancing and liquidity buffers is likely to enable the company to withstand the temporary slowdown. Ind-Ra expects the company's profit and credit metrics to improve meaningfully in FY22, aided by normalization of operations, and the proceeds from the sale of insurance arm (INR2.9 billion). A prolonged lockdown, which could delay the envisaged recovery, remains a key monitorable.

Cement Division to see Reduced Utilisation in FY21; Rebound in FY22: The cement division has seen a steady improvement in utilisation and profitability since FY14, resulting from improved demand and industry consolidation in central India. However, the shutdowns from end–March until early-May adversely impacted the division's profitability in FY20 and are likely to weigh on the performance in FY21 as well. In FY20, the combined cement and clinker volume declined 9%, with a steep fall in clinker volumes and cement volumes down by 3% (up 1% yoy for first 11 months of FY20). However, the segment EBITDA was down only 3% yoy in FY20, as improved realisations boosted the EBITDA per tonne to INR889/tonne, the highest level witnessed by the company since FY10 (FY19: 834/tonne). Ind-Ra expects the utilisation to drop to around 70% (FY20: 82, FY19: 89) and the segment EBITDA to fall by around 16%-18% in FY21, with modest pressure on the EBITDA per tonne.

The agency believes the central region is likely to experience a faster recovery due to higher proportion of rural demand (incomes better protected due to the high share of rabi crops; the likelihood of normal monsoons; and lower impact from COVID-19) and better availability of local labour. The region has also seen an increase in the pricing power of existing players, due to the industry consolidation in recent years, and growth in demand, led by higher spending in the rural and infrastructure segments. PJL's cement sales volumes declined by around 20% in 1QFY21, a lower decline than that witnessed by the industry, with yoy growth in May and June, backed by increased prices. The variable costs declined in 1QFY21 because of lower coal, petcoke, and flyash prices; the impact of the same will start reflecting in 2HFY21. Moreover, the company's efforts to reduce costs are likely to aid profitability. Furthermore, power costs are likely to decrease due to the commissioning of the waste heat recovery power plant (WHRS) over 3QFY20 and higher use of solar power (12.5MW already commissioned, 12.5MW to be commissioned by December 2020). In addition, the increased shares of linkage coal (to 25% from 20%) and petcoke (to 70% from 60%) are likely to lead to fuel cost savings. Also, the rising share of PJL's premium branded cement is likely to bolster realisations (FY20:22%, FY19: 18%, FY18: 15%). Overall, Ind-Ra expects a strong uptick in the cement division's volumes and EBITDA in FY22.

HRJ and RMC to Witness Significant Headwinds in FY21; Sharp Recovery Likely in FY22: After having shown a declining-to-flattish trend over the preceding years, the HRJ division reported revenue growth during FY19-9MFY20, driven by volume growth. However, the growth was impacted by the nationwide lockdown, and consequently, the division's revenue remained flat at INR18.2 billion in FY20 (FY19: INR18.3 billion, FY18: INR16.8 billion). However, the division's margins improved to 3.8% in FY20, the highest level since FY14 (FY19: 3.3%, FY18: 3.7%), despite continued investments in marketing and distribution. Although the division's profitability is likely to experience a significant decline in FY21, it might record a sharp recovery from FY22 on the back of the strengthened distribution network, refocused sales team, expansion in product portfolio, strict control on working capital, and cost-optimisation measures. In 1QFY21, the division' sales plunged by 65% yoy, though it reported an increasing trend in May and June (drop of 38% yoy in June).

The RMC division's performance was impacted by the tight liquidity, prolonged monsoons (in 3QFY20), and volatile input costs, which caused its revenue to decline by 5% yoy in FY20 against the growth of 8% yoy in FY18 and FY19 (FY20: INR 14.1 billion, FY19: INR14.8 billion, FY18: INR13.6 billion). Its EBITDA margins also fell to 1.6% in FY20 (FY19: 2.6%, FY18: 2.1%). Given the urban-centric customer base, the RMC division is likely to witness a sharp decline in revenue in FY21, with a rebound likely in FY22. In 1QFY21, the division's revenues plummeted by 80%, though recovery continued on a month on month basis (June: yoy drop of 64%).

Liquidity Indicator - Adequate: PJL's average use of the fund-based and non-fund-based working capital limits was 32% and 71%, respectively, for the 12 months ended June 2020. The company has undertaken several refinancing measures to ensure that there would not be any major repayment obligations till March 2022. On a consolidated basis, at end-June 2020, the company had debt repayment obligations of INR2 billion/INR6.3 billion/INR4.8 billion for FY21/FY22/FY23. Since then, PJL has already prepaid INR2 billion NCDs that were due in FY22 and replaced it with a longer maturity term debt. Ind-Ra believes the remaining obligation would be met through internal accruals, refinancing, and the available cash. The company had cash of around INR5 billion and unutilised working capital lines of INR0.8 billion at end-June 2020. PJL is likely to maintain liquidity of INR2.5 billion at least until the company resumes normal operations. According to the management, PJL has a track record of refinancing debt within 18 months from maturity. Ind-Ra draws comfort from the fact that PJL is a Rajan Raheja group company, and access to the group's bank funding gives it financial flexibility. PJL has not availed the Reserve Bank of India-prescribed moratorium and does not plan to do so.

PJL's cash flow from operations fell to INR2.7 billion in FY20 (FY19: INR4.7 billion in FY19) on account of a large working capital outflow of INR1.2 billion due to lost sales in March. Ind-Ra expects the cash flow from operations to remain positive over FY21-FY23, albeit at sharply reduced level in FY21. After having been positive for three consecutive years, PJL's free cash flow turned negative at INR1.6 billion in FY20 (FY19: INR1.6 billion) due to lower operating cash flow and capex of INR3.7 billion (FY19: INR2.9 billion). The agency expects the free cash to breakeven in FY21, as the decline in profitability would be offset by the fall in capex.

PJL has announced the divestment of its entire holding of 51% in Raheja QBE Insurance Company Limited to QORQL Private Limited, a technology company with majority shareholding of Vijay Shekhar Sharma and remaining held by Paytm (owned by One97 Communications Limited), for INR2.9 billion, subject to the receipt of approval from the shareholders and all other requisite approvals. The sale is likely to be completed by March 2021. Raheja QBE Insurance Company reported sales of NR1.8 billion and EBITDA loss of INR0.3 billion in FY20.

Moderate Capex: In view of the disruption caused by the COVID-19 outbreak, PJL has targeted a sharp reduction in capex in FY21 to conserve liquidity. PJL intends to incur capex of INR1.6 billion-1.7 billion in FY21 against nearly INR3.7 billion in FY20. The INR1.9 billion, 22.5 MW WHRS is likely to be commissioned by November 2020, which will save power costs, thereby boosting margins. PJL has deferred plans to set up a 1.5-2-million-metric-tonne cement split grinding unit, which would have entailed an investment of INR4 billion. Over FY22-FY23, the company is likely to resume normal capex of INR2.5 billion-3 billion. The company may undertake debottlenecking capex in FY22 to enhance its cement capacity by one million tonne per annum. PJL does not envisage any material capex towards its greenfield project in Andhra Pradesh over FY21-FY23; for the project, land is in possession, limestone reserves have been secured and environmental clearances have been obtained.

Standalone Profile: PJL's standalone revenue declined to INR55.7 billion in FY20 (FY19: INR59.6 billion) and the margins remained steady at 9.4% (9.3%). The net debt/EBITDA deteiorated to 2.8x (FY19: 2.5x) and interest coverage dropped to 2.5x (3.2x).

RATING SENSITIVITIES

Positive: An improvement in the operating performance, leading to the net leverage reducing below 2.5x, on a sustained basis, could lead to an upgrade.

Negative: Lower-than-expected operating performance and/or unexpected debt-funded capex, leading to net leverage exceeding 3.5x, on a sustained basis, along with deterioration in the liquidity profile, will be negative for the rating.

COMPANY PROFILE

PJL has diversified business activities with presence in the cement, HRJ and RMC segments. It has been manufacturing and selling cement since 1997. It manufactures Portland Pozzolana cement under the brand Champion, in addition to ordinary portland cement at its plants in Satna, Madhya Pradesh. It has a total cement manufacturing capacity of 7.0 million metric tons. It caters to the cement requirements of major markets in Uttar Pradesh, Madhya Pradesh and Bihar.

Its HRJ division has 11 manufacturing units nationwide and has added various product categories to offer complete solutions to customers. The RMC division has 99 plants countrywide and has presence in aggregates business operating large quarries and crushers.

FINANCIAL SUMMARY

Particulars	**FY20**	**FY19**
Revenue (INR billion)	59.56	61.94
Operating EBITDA (INR billion)	5.39	6.01
EBITDA margin (%)	9.1	9.7
Interest coverage (x)	2.1	2.7
Net leverage (x)	3.4	3.1

Source: PJL, Ind-Ra

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	23 June 2020	5 February 2020	15 November 2018
Issuer rating	Long-term	-	IND A/Stable	IND A/Stable	IND A/Stable	IND A-/Stable
NCDs	Long-term	INR3.24	IND A/Stable	IND A/Stable	IND A/Stable	IND A-/Stable
Term loans	Long-term	INR12.39	IND A/Stable	IND A/Stable	IND A/Stable	IND A-/Stable
Fund-based limits	Long-term	INR4.0	IND A/Stable	IND A/Stable	IND A/Stable	IND A-/Stable
Non-fund-based working capital limits	Short-term	INR5.44	IND A1	IND A1	IND A1	IND A1
Term deposit programme	Long-term	INR0.05	IND tA+/Stable	IND tA+/Stable	IND tA+/Stable	IND tA/Stable
Unsecured short-term loans	Short-term	INR0.9	IND A1	IND A1	IND A1	IND A1
Commercial paper programme	Short-term	INR2.0	IND A1	IND A1	IND A1	IND A1

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE010A08107	12 June 2020	10.25	25 June 2021	INR0.350	IND A/Stable
NCDs	INE010A08115	12 June 2020	10.25	30 December 2021	INR0.150	IND A/Stable
NCDs	INE010A08081	26 July 2019	10.7	25 July 2022	INR1.150	IND A/Stable
NCDs	INE010A08099	31 January 2020	10.0	January 31, 2023	INR0.840	IND A/Stable
NCD*					INR0.750	IND A/Stable
NCDs	INE010A07224	3 August 2018	10.4	22 June 2021	INR1.200	WD (Paid in full)
Total					**INR3.240**	

***Unutilised**

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

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