

Prism Cement Ltd

Prism Cement Limited (PCL) is an Integrated Building Materials company, and has wide range of products from cement, ready mixed concrete (RMC), tiles, bath products to kitchens (TBK). Its cement plant is located in central India with units in Satna (Madhya Pradesh) with a capacity of 7 MTPA. It currently operates 87 ready mixed concrete plants spread across 40 cities/ towns in India. Its TBK division is better known as H & R Johnson (India) and it was established in 1958.

Revival in tiles division to support growth: Over FY2003-12, the revenue of TBK segment grew at healthy CAGR of 17% with market leadership position. However, post FY2012, owing to unavailability of power/fuel at AP (2 plants), Karnataka (40% capacity) and intense competition, the revenue growth declined. Nevertheless, we expect recovery in market share and an improvement in margins, going forward primarily owing to (a) fuel and power issues being resolved, (b) scaling up of marketing activities and revamping sales team, (c) improving utilisation and efficiency, and (d) GST implementation to drive demand for organized products. TBK segment has witnessed reduction in EBIT losses in 2QFY2018 (from ₹23cr to ₹5cr), led by volume growth, better product mix and new product launches.

Government initiatives to propel cement demand: Cement segment has reported an uptick over the last three years, and we believe further growth would be primarily driven by (1) pick up in affordable housing, and (2) higher spending by state & central government on infrastructure. Moreover, there is no major additional capacity coming up in central region, hence, PCL will enjoy better pricing power. RMC segment is also a direct beneficiary of higher spending on road and affordable housing.

Outlook & Valuation: PCL is a direct beneficiary of government's focus on affordable housing and higher spending on infrastructure projects. Thus, we expect cement segment to continue to report better profitability. Further, PCL's efforts to revive TBK segment has also witnessed volume growth in Q2FY2018. Improvement in TBK division and debt reduction plan would improve return ratio.

We value the company on SOTP and recommend a BUY on Prism Cement with a Target Price of ₹131.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	5,168	4,961	5,155	5,616	6,030
% chg	(8)	(4)	4	9	7
Net Profit	25	14	104	163	222
% chg	(144)	(44)	631	57	36
EBITDA (%)	5.5	6.1	6.7	7.4	8.0
EPS (₹)	1	0	2	3	4
P/E (x)	227	403	55	35	26
P/BV (x)	20	20	22	25	29
RoE (%)	2.5	1.4	10.0	13.8	16.1
RoCE (%)	2.7	3.1	4.8	6.5	7.7
EV/Sales (x)	0.8	0.9	0.9	0.8	0.8
EV/EBITDA (x)	14.8	14.6	13.6	11.4	10.1

Source: Company, Angel Research Note: CMP as of December 20, 2017

BUY

CMP	₹118
Target Price	₹131

Investment Period	12 Months
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Stock Info	
Sector	Buildings Materials
Market Cap (₹ cr)	5,954
Beta	1.4
52 Week High / Low	129.8/72
Avg. Daily Volume	76,156
Face Value (₹)	10
BSE Sensex	33,777
Nifty	10,444
Reuters Code	PRIS.NS
Bloomberg Code	PRSC @IN

Shareholding Pattern (%)	
Promoters	74.8
MF / Banks / Indian Fls	9.4
FII / NRIs / OCBs	6.8
Indian Public / Others	7.7

Abs.(%)	3m	1yr	3yr
Sensex	3.7	26.2	22.5
Prism Cement	5.4	33.3	42.1

3-year price chart



Source: Company, Angel Research

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About company

Prism Cement Limited (PCL) is Integrated Building Materials Company, it has wide range of products from cement, ready mixed concrete (RMC) tiles, bath to kitchens (TBK). Its cement plant is located in central India with units in Satna, Madhya Pradesh with a capacity of 7 MTPA. It currently operates 87 ready mixed concrete plants spread across 40 cities/ towns in India. Its TBK division is better known as H & R Johnson (India) and it was established in 1958.

Prism Cement currently holds 51% stake in Raheja QBE General Insurance Company Ltd, a joint venture with Australia based QBE Insurance Group (holds 49% stake). QBE Insurance Group is one of the Australia's largest international General Insurance and Re-insurance groups operating across more than 4 dozen countries.

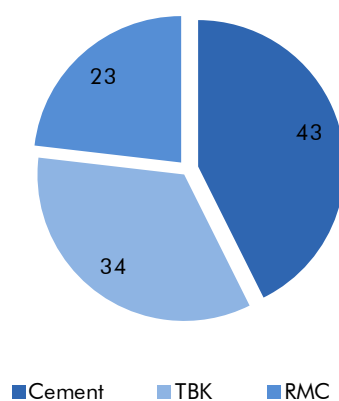
Exhibit 1: Key Stats

Distribution Network

Cement Dealer	3,810
TBK Dealer	1,000
House Of Johnson Outlet	25
RMC Plants	87

Source: Company, Angel Research

Exhibit 2: Revenue mix



Source: Company, Angel Research

Investment Rationale

Revival in tiles division to support growth

Over FY2003-12, the revenue of TBK segment grew at healthy CAGR of 17% with market leadership position. However, post FY2012, owing to unavailability of power/fuel at AP (2 plants), Karnataka (40% capacity) and intense competition, the revenue growth declined. Nevertheless, we expect recovery in market share and an improvement in margins, going forward primarily owing to (a) fuel and power issues being resolved, (b) scaling up of marketing activities and revamping sales team, (c) improving utilisation and efficiency, and (d) GST implementation to drive demand for organized products. TBK segment has witnessed reduction in EBIT losses in 2QFY2018 (from ₹23cr to ₹5cr), led by volume growth, better product mix and new product launches.

Exhibit 3: Quarterly trend

Segment (₹ cr)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue										
Cement	518.3	531.2	466.5	511.3	635.2	512.4	495.9	703.5	684.2	442
TBK	540.9	563.8	563.9	610.7	445.7	454.9	435.8	526.7	426.1	415.3
RMC	314	307.3	300.8	337.4	335.2	304.4	312.2	322.2	329.6	312.4
Total	1373.2	1402.3	1331.2	1459.4	1416.1	1271.7	1243.9	1552.4	1439.9	1169.7
Less Inter-segment	43	39	34	39	65	43	43	39	40	45
Net sales	1330.2	1363.3	1297.2	1420.4	1351.1	1228.7	1200.9	1513.4	1399.9	1124.7
PBIT										
Cement	47.5	23	35.9	46.4	81.9	26.7	34.9	118.6	87.8	27.2
% of sales	9.2%	4.3%	7.7%	9.1%	12.9%	5.2%	7.0%	16.9%	12.8%	6.2%
TBK	-4.4	-12.2	-5.5	-9.2	-18.2	-17.5	-29.2	-26.4	-22.4	-5
% of sales	-0.8%	-2.2%	-1.0%	-1.5%	-4.1%	-3.8%	-6.7%	-5.0%	-5.3%	-1.2%
RMC	4.3	2.8	5.6	12.9	10.8	-3.2	-0.2	8.2	-6.6	-3.4
% of sales	1.4%	0.9%	1.9%	3.8%	3.2%	-1.1%	-0.1%	2.5%	-2.0%	-1.1%
Total	47.4	13.6	36	50.1	74.5	6	5.5	100.4	58.8	18.8
Less: Interest & Finance	62	66.8	56.8	53.9	55.4	39.2	54.4	34.4	46.9	46.4
Less: Other Net unallocated. exp.	-2.3	-2.5	-2.2	-64.5	-2.8	-12.1	-2.7	-7.7	-12.1	-3.8
PBT (after extraordinary)	-12.3	-50.7	-18.6	60.7	21.9	-21.1	-46.2	73.7	24	-23.8

GST implementation a boon for organized sector: Revised GST rates for tiles and sanitaryware has been fixed at 18% from 28%. This would act against unorganized segment, as it will be difficult to evade taxes. Over a period of time, with better enforcement of GST, market share of unorganized players would come down, benefiting the organized players.

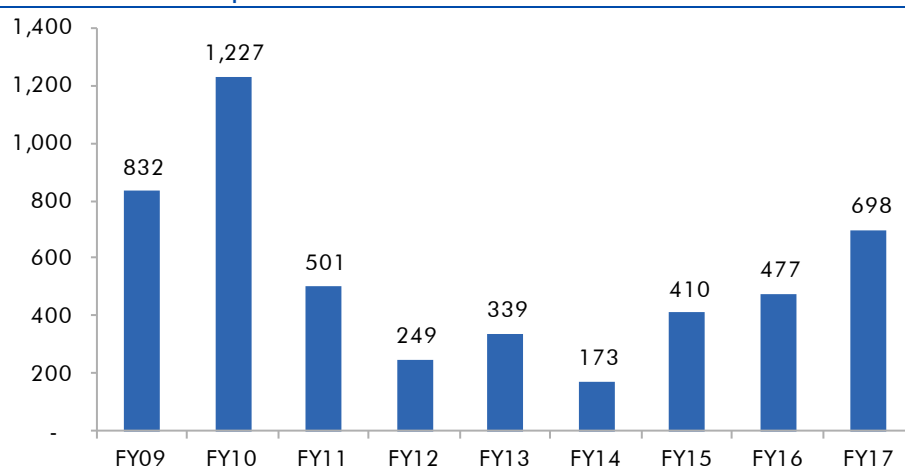
Government initiatives to propel cement demand

Cement segment has reported an uptick over the last three years, and we believe further growth would be primarily driven by (1) pick up in affordable housing, and (2) higher spending by state & central government on infrastructure. Moreover, there is no major additional capacity coming up in central region, hence, PCL will enjoy better pricing power. RMC segment is also a direct beneficiary of higher spending on road and affordable housing.

PCL has taken various following initiatives to improve EBITDA per tonne/margin

- Increasing share of pet coke
- Purchasing power from third parties at lower rates
 - 1) The company has successfully won the bid for 1,38,300 tonnes per annum of coal from South Eastern Coalfields Ltd, to partially secure the fuel requirement for the next 5 years.
 - 2) PCL has signed a power supply agreement with BLA Power for sourcing 25MW of power for its plant under the Captive Arrangement, as per the Electricity Rules, 2005
- Change in cement product mix. The higher realization cement has contributed 3% to total revenues in FY2015 and 11% in FY2017; PCL expects to reach 16% in FY2018.
- Streamlining logistics.

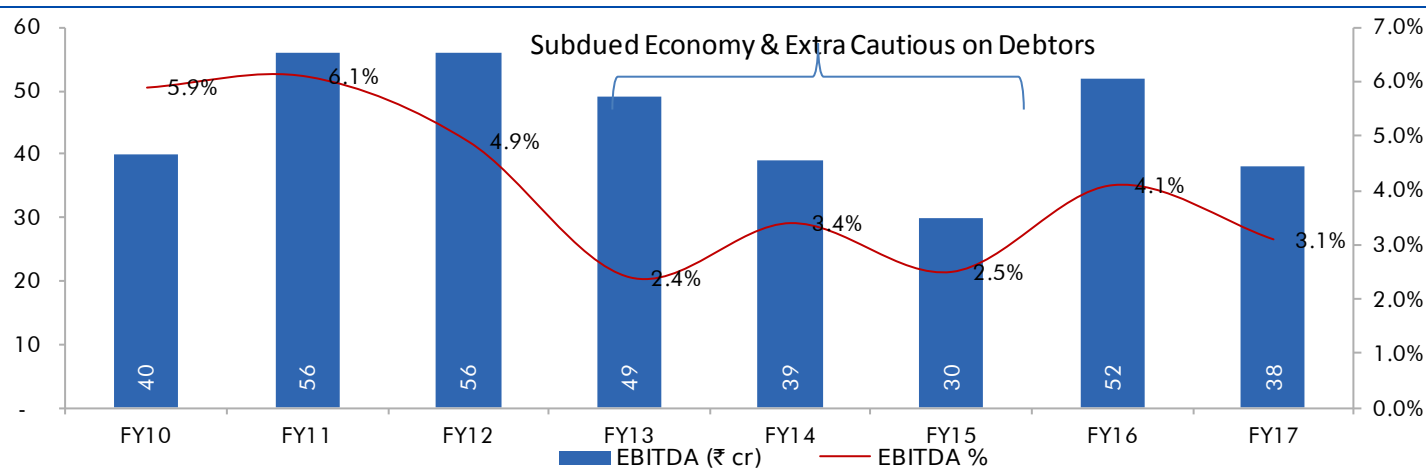
Exhibit 4: EBITDA per tonne



Source: Company, Angel Research, Reported EBITDA/Ton (Incl operating Income)

Ready Mix Concrete has reported subdued sales CAGR of 3.1% over FY2013-17. PCL management, intentionally, did not opt for aggressive growth in RMC segment post FY2012, as many large projects got stranded and led to cost overrun and ultimately high debt on infrastructure companies. Further, as debt laden infra companies were not in a position to pay the debtors on time, hence, they took the decision to go slow in RMC segment to avoid bad debts.

Exhibit 5: RMC EBITDA trend



Source: Company, Angel Research

Ready mixed concrete has much better acceptability globally than in India. RMC currently consists of 10% of the total cement consumed in India as against close to 50-70% in developed countries. In India, ready mixed concrete, in the metro and Tier I cities holds a share of close to 35% of the total cement consumed and 20% in Tier II cities.

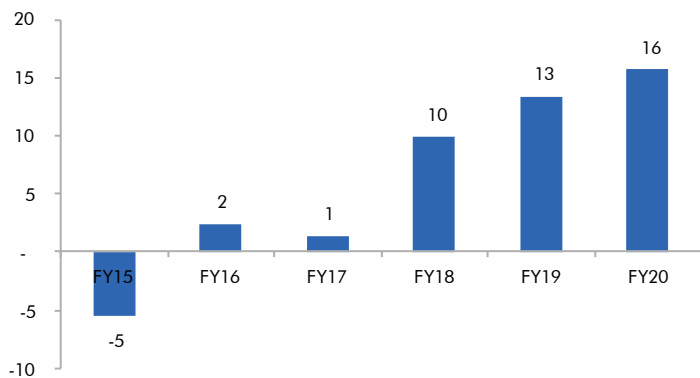
The present, the government has a clear focus regarding execution of stranded projects. In order to revive private capex, government is emphasizing on improving execution of infrastructure projects. Currently, growing pollution is the biggest challenge faced by the urban cities. Hence, there is an increased trend of using ready mixed concrete across major construction sites in cities. As per the report by Cement Vision 2025 by CII - A T Kearney, India would witness a steady growth in the use of ready mixed concrete and its share is estimated to grow up to 25% by 2025 of the total cement consumed.

No major capex in the offing, debt reduction to fuel profitability

From FY2015 onwards company has been steadily paying debt and it has planned to further reduce debt till FY2019. The company has two capex plans (1) waste heat recovery plants in next two years and the capex is likely to be funded through internal accruals, (2) Greenfield expansion in Kurnool District, AP, for which required land is in possession, limestone reserves secured and environment clearance in place. This expansion would depend on demand situation for the next two years, if demand supply situation improves than only PCL will go ahead with this expansion.

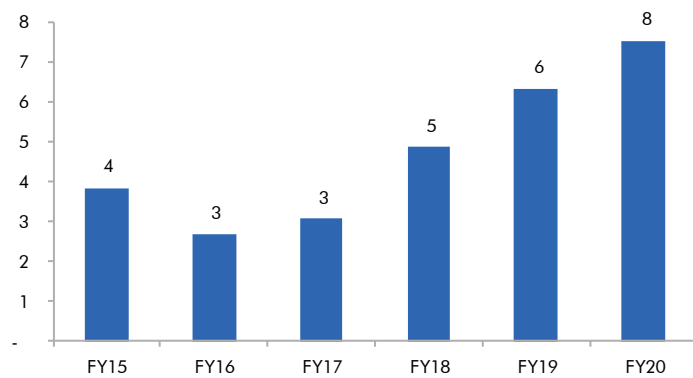
With no major capex plan, greater focus to revive TBK division and government’s infra push, PCL would witness better ROE and stronger cash from operation. We expect current subdued ROE (FY2017 – 1.4%) would improve over the next 2-3 years (FY18/FY19/FY20 -10%/13.4%/15.7%).

Exhibit 6: ROE trend (%)



Source: Company

Exhibit 7: ROCE trend (%)



Source: Company

Owing to subdued economy, silo reconstruction at cement plant, power and fuel unavailability in AP & Karnataka for TBK division, PCL’s top-line grew at CAGR of 2% over FY2012-17. However, considering the management’s efforts to revive TBK segment and government’s infra push, PCL would register improved EBITDA margin and return ratios going forward.

Outlook & Valuation

PCL is a direct beneficiary of government's focus on affordable housing and higher spending on infrastructure projects. Thus, we expect cement segment to continue to report better profitability. Further, PCL's efforts to revive TBK segment has also witnessed volume growth in Q2FY2018. Improvement in TBK division and debt reduction plan would improve return ratio. **We value the company on SOTP (15x FY20E Cement & TBK EBITDA and 12x FY20E RMC EBITDA) and recommend a BUY on Prism Cement with a Target Price of ₹131.**

Key risks

1. Ban on use of pet coke by the government authorities and sand mining issue in UP and MP may impact profitability.
2. Subdued Revival of TBK segment would adversely impact financials of the company.

Key Personnel

Atul Desai is a CEO and Executive Director at RMC Ready Mix. He did B.E. in Chemical Engineering from Gujarat University and MBA in Marketing from South Gujarat University. He is skilled in negotiation, budgeting, business planning, cement and procurement. His past experience was with Reliance Cement as an ED & CMO and with Ambuja Cement as a Unit Head.

Joydeep Mukherjee is a CEO and ED at H&R Johnson. He did PGDM in marketing management from IGNOU, Kolkata and EMIB - international business and marketing from IIFT, New Delhi. His past experience was with Hindalco and with ACC as Director, Sales, where he led medium to large sized teams consistently to achieve short and long term business goals.

Vivek Agnihotri is a CEO and Executive Director at Prism Cement Ltd., Mumbai. He did B.A. Honors Economics from Delhi University and MBA in Marketing from FMS, Delhi University. His past experience was with ACC Ltd. as Director Sales and Ambuja Cement as a Chief Corporate Services Officer.

Income statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Total operating income	5,168	4,961	5,155	5,616	6,030
% chg	(8)	(4)	4	9	7
Total Expenditure	4,886	4,656	4,809	5,201	5,547
Raw Material	1,978	1,857	1,928	2,095	2,243
Personnel	442	472	490	522	555
Others Expenses	2,466	2,327	2,392	2,583	2,750
EBITDA	282	305	345	416	482
% chg	(6)	8	13	20	16
(% of Net Sales)	5	6	7	7	8
Depreciation & Amortisation	184	192	169	180	195
EBIT	98	113	176	235	288
% chg	(27)	15	56	34	22
(% of Net Sales)	2	2	3	4	5
Interest & other Charges	281	217	200	186	173
Other Income	207	145	155	168	181
(% of Sales)	4	3	3	3	3
Share in profit of Associates	-	-	-	-	-
Recurring PBT	24	41	130	218	295
% chg	(429)	75	214	67	36
Tax	(2)	27	26	54	74
PAT (reported)	25	14	104	163	222
Adj Pat	25	14	104	163	222
% chg	(144)	(44)	631	57	36
(% of Net Sales)	0	0	2	3	4
Basic & Fully Diluted EPS (Rs)	1	0	2	3	4
% chg	(144)	(44)	631	57	36

Balance sheet

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Equity Share Capital	503	503	503	503	503
Reserves & Surplus	495	492	596	759	981
Shareholders Funds	998	995	1,099	1,263	1,484
Minority Interest	249	269	269	269	269
Total Loans	2,212	1,980	1,900	1,700	1,650
Other Liab & Prov	314	367	381	416	446
Total Liabilities	3,773	3,611	3,650	3,648	3,850
APPLICATION OF FUNDS					
Net Block	2,472	2,415	2,357	2,444	2,487
Capital Work-in-Progress	69	136	86	99	113
Investments	280	339	339	339	339
Current Assets	1,828	1,525	1,846	1,832	2,055
Inventories	645	562	579	631	677
Sundry Debtors	611	626	650	708	760
Cash	131	81	235	77	170
Loans & Advances	441	256	383	417	448
Current liabilities	1,215	1,238	1,282	1,397	1,500
Net Current Assets	613	287	564	435	555
Other Non Current Asset	339	434	304	331	356
Total Assets	3,773	3,611	3,650	3,648	3,850

Cash Flow Statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Profit before tax	(22)	28	130	218	295
Depreciation	156	160	169	180	195
Change in Working Capital	45	166	21	(23)	(20)
Interest / Dividend (Net)	228	177	200	186	173
Direct taxes paid	(2)	(5)	(26)	(54)	(74)
Others	34	(17)	-	-	-
Cash Flow from Operations	372	543	495	507	569
(Inc.)/ Dec. in Fixed Assets	(195)	(128)	(111)	(266)	(239)
(Inc.)/ Dec. in Investments	90	(39)	51	(13)	(14)
Cash Flow from Investing	(104)	(168)	(61)	(279)	(253)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	-	-	(80)	(200)	(50)
Others	(249)	(396)	(200)	(186)	(173)
Cash Flow from Financing	(249)	(396)	(281)	(386)	(223)
Inc./(Dec.) in Cash	18	(21)	154	(158)	93
Opening Cash balances	57	75	81	235	77
Closing Cash balances	75	54	235	77	170

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)					
P/E (on FDEPS)	226.9	402.7	55.1	35.1	25.9
P/CEPS	27.4	27.8	21.0	16.7	13.8
P/BV	5.7	5.8	5.2	4.5	3.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	0.8	0.9	0.9	0.8	0.8
EV/EBITDA	14.8	14.6	13.6	11.4	10.1
EV/Total Assets	1.1	1.2	1.3	1.3	1.3
Per Share Data (₹)					
EPS (Basic)	0.5	0.3	2.1	3.2	4.4
EPS (fully diluted)	0.5	0.3	2.1	3.2	4.4
Cash EPS	4.2	4.1	5.4	6.8	8.3
DPS	-	-	-	-	-
Book Value	19.8	19.8	21.8	25.1	29.5
Returns (%)					
ROCE (Pre-tax)	2.7	3.1	4.8	6.5	7.7
Angel ROIC (Pre-tax)	3.0	3.6	5.8	7.7	9.0
ROE	2.5	1.4	10.0	13.8	16.1
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.5	1.8	1.8	1.8	1.8
Inventory / Sales (days)	46	41	41	41	41
Receivables (days)	43	46	46	46	46
Payables (days)	52	55	55	55	55
Working capital cycle (ex-cash) (days)	37	32	32	32	32
Solvency ratios (x)					
Net debt to equity	1.8	1.6	1.2	1.0	0.8
Net debt to EBITDA	6.4	5.1	3.8	3.1	2.4
Interest Coverage (EBIT/Interest)	0.3	0.5	0.9	1.3	1.7

Note – Valuation done on closing price of 15/12/2017

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4. Broking relationship with company covered under Research

Prism Cement

No
No
No
No