

07th February, 2019

CMP – ₹75

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Company Background and Business Model

Prism Johnson (Prism) is part of the Rajan Raheja group and is a unique integrated building materials' company, with a wide range of products from cement (43% of FY18 revenue), ready-mixed concrete (24.3% of FY18 revenue), tiles, and bathroom products (30.5% of FY18 revenue). Prism also has a 51% stake in Raheja QBE General Insurance Company Limited, a JV with QBE Group of Australia. Prism has been an industry leader in its tiles business segment and has also achieved industry best operating efficiency in its cement business division.

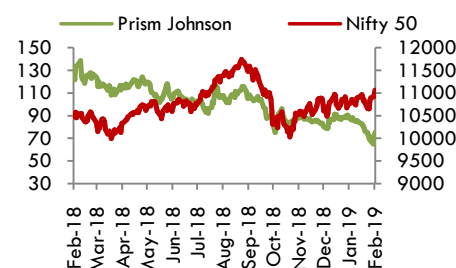
Important Statistics

M.Cap (₹Cr)	3,783
52 Week H/L (₹)	145/62
NSE Code	PRSMJOHNSN
BSE Code	500338

Investment Rationale
➤ Robust Q3FY19 an 9MFY19 performance portraying a classic turnaround –

Particulars	Q3FY19	Q2FY19	Q3FY18	YoY Growth (%)	QoQ Growth (%)	9MFY19	9MFY18	YoY Growth (%)
Net Sales (₹ Crore)	1440	1335	1305	10.3	7.8	4273	3795	12.6
EBITDA (₹ Crore)	109.0	80.3	90.8	20.0	35.7	370.2	210.0	76.3
EBITDA margin (%)	7.6	6.0	7.0	61 bps	156 bps	8.7	5.5	313 bps
PAT (₹ Crore)	19.0	7.0	14.9	28.1	170.2	96.3	7.7	1155.0

Net sales in Q3FY19 came in at ₹1440 crore, up 10.3% YoY that was supported by healthy growth in all three segments. EBITDA for the quarter stood at ₹109 crore (up 20.0% YoY) with corresponding EBITDA margins at 7.6% (up 61 bps YoY). This was largely on the back of robust cement division business that saw EBITDA / tonne rise to ₹701/tonne in Q3FY19 from ₹580/tonne in Q3FY18. This was mainly because of healthy volume growth resulting in better operational efficiencies and resurging demand in central & eastern states resulting in better realisations. Consequently, PAT in Q3FY19 came in at ₹19.0 crore vs. 14.9 crore in Q3FY18. Similarly, net sales, EBITDA and PAT came in robustly in 9MFY19 at ₹4273 crore (up 12.6% YoY), ₹370.2 crore (up 76.3% YoY) and ₹96.3 crore (up 1155% YoY) respectively. EBITDA margins for 9MFY19 came in at 8.7% (up 313 bps YoY) again supported by strong performance in cement division with EBITDA/tonne rising to ₹781/tonne in 9MFY19 from ₹535/tonne in 9MFY18.


➤ Improvement in performance across all three segments at Prism – Cement division sales for 9MFY19 stood at ₹1978 crore, up 16.5% YoY that was largely led by improved volume uptick (up 13.8% YoY). 9MFY18 EBITDA for this division stood at ₹353.3 crore (up 66.2% YoY) largely due to strong EBITDA/ tonne improvement. This robust performance of the cement division can be credited to better operational efficiency due to increased volumes, higher share of premium products and improved demand/supply situation in Central & Eastern states. RMC division registered sales of ₹1086.8 in 9MFY19 (up 9.7% YoY) with corresponding EBIT coming in at ₹12.8 crore in 9MFY19 (against ₹4.8 crore loss in 9MFY18). This improved performance was led by continued demand shift from unorganized to organized players, better demand scenario due to pick up in real estate and infrastructure and increasing share of value added products. Lastly, HR Johnson division (tiles and bathroom fittings) registered sales of ₹1233 crore in 9MFY19, largely flat YoY. The business continued to incur losses with 9MFY19 EBIT loss at ₹23.8 crore compared to 31.8 crore loss in 9MFY18. The company is committed to turnaround operations at this division in the coming quarters by strengthening its marketing & distribution reach and improved product designs.

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Consolidated Financials

Particulars	FY18	FY19E	FY20E	FY18-20E CAGR
Sales (₹ Cr)	5507	6149	6634	9.8%
EBITDA (₹ Cr)	442	586.7	722.6	27.9%
Margin	8.0%	9.5%	10.9%	
PAT (₹ Cr)	42	161.2	263.8	150.6%
P/E (x)	90.2	23.5	14.4	
EV/EBITDA (x)	12.1	9.1	7.4	
ROE	4.2%	13.6%	18.0%	

Source: Annual Report and Bloomberg

Valuation

Post the elongated period of consolidation of capacities in Central & Eastern India and resurgent demand pick up due to increased infrastructure activity has led to an improved demand/supply scenario in this region and augurs well for companies such as Prism. This has been evident from the stellar Q3FY19 and 9MFY19 performance at the company and most encouraging fact is that the improved performance is broad based i.e. across all three segments. The key to watch out for will be the turnaround expected in the H&R Johnson division under the recently appointed leadership of Mr. Sarat Chandak (over 24 years of experience in the building material industry particularly tiles). Furthermore, the recent decline in fuel prices, improved demand scenario and cost efficiency measures undertaken at the company are expected to boost the operational performance across all three verticals at Prism. Given all these positive triggers, consolidated sales, EBITDA and PAT as per consensus Bloomberg estimates are expected to grow at a CAGR of 9.8%, 27.9% and 150.6% respectively over FY18-20E. On the balance sheet front, the company has reduced its standalone debt by ~₹85 crore to ~₹1410 crore as of December 2018. At the current market cap of ₹3,783 crore the company is trading at inexpensive valuations of 14.4x FY20E P/E and 7.4x FY20E EV/EBITDA. **Therefore, given the stellar performance and anticipated turnaround across verticals at Prism we are POSITIVE on the stock as its core return ratios are expected to reach high double digits and improved profitability will result in robust cash flow generation.**

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Disclosure of Interest Statement in Prism Johnson Ltd. as on February 07th, 2019

Name of the Security	Prism Johnson Ltd.
Name of the analyst	Srinath Sridhar, CFA
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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