SMIFS LIMITED
LEGACY | TRUST | GROWTH

INITIATING COVERAGE REPORT

16 JULY 2021

PRISM JOHNSON LIMITED
(FORMERLY PRISM CEMENT LIMITED)

Research Analyst
Anik Das
smifs.institutional@smifs.com

Table of Contents

Sections	Page No.
Executive Summary	3
Investment Rationales	4-9
Industry Overview	10-25
Company Overview	26-29
Key Performance Indicators	30
Peer Analysis	31
Key Risks	31
Outlook & Valuation	32
Financial Detail	33-34
Disclaimer	35-37

16th July 2021

Brief Overview

CMP (INR) (As at 15th July 2021)	140
Current Target (INR)	172
Upside(%)	23
Recommendation	STRONG BUY

BSE Code	500338
NSE Code	PRSMJOHNSN
Reuters Ticker	PRIS.BO
Bloomberg Ticker	PRSMJ.IN

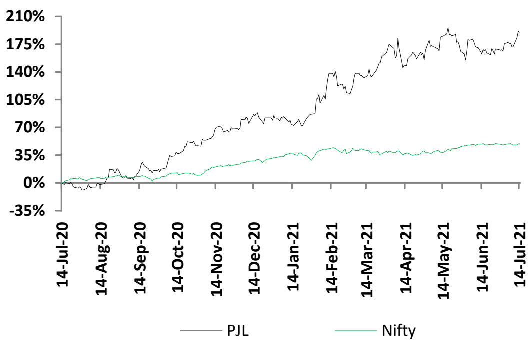
Stock Scan

Market cap (INR Cr.)	7,042
Outstanding Shares (Cr.)	50.34
Face Value (INR)	10.0
Dividend Yield(%)	0.76%
TTM P/E (x)	35.8
P/B (x)	5.7
Debt/Equity	1.4
Beta	0.85
52 Week High/ Low (INR)	149/44
Avg. Daily Vol. (NSE)/1 yr.	5,66,936

Shareholding Pattern (%)

	Mar-2021	Dec-2020	Sep-2020
Promoters	74.87	74.87	74.87
Institutions	10.35	10.14	10.88
Non-Institution	14.78	14.99	14.25

Stock vs. Nifty (Relative Returns)



Source: NSE

Company Overview

Prism Johnson Ltd. (PJL), is an integrated building material company with presence in cement, ready-mix-concrete (RMC), and H&R Johnson India (Tiling and building material business). Its cement business has a capacity of 5.6 MMT at Satna cluster in Central India, with sales mix skewed towards central India. It currently has total WHRS and solar capacity of 22.4 MW and 22.5 MW, respectively. PJL manufactures cement with the brand name 'Champion' and premium quality grade of cement under 'Champion Plus' and 'DURATECH' brand. **We believe that cement division would continue to be key contributor in the company's profitability on expectations of a) robust volume growth in high growth markets (Eastern UP, MP and Bihar) b) the debottlenecking of cement capacity by 0.9 MMT by June'22 and expansion of grinding capacity by 1 MMT at Satna by Sep'23 c) continual rise in share of premium products (~28% in FY21) and d) addition of WHRS (22.4 MW) and solar power capacity (10 MW) would provide substantial and sustainable reduction in power & fuel costs. Furthermore, HRJ division of the company seems to have turned around with sharp volume recovery and more importantly an improvement in EBITDA margin to ~8.7% vs 3.8% (YoY) in FY21. Therefore, we initiate a coverage on the stock with a "STRONG BUY" rating.** Our key investment thesis are as follows.

- **Cement division to drive growth-** Company has a cement capacity of 5.6 MMT and in past, company has been able to sell volumes of 6 MMT plus with change in product mix. In cement business, PJL is debottlenecking at Satna plant in Madhya Pradesh, with an increase in cement capacity by 0.9 MMT by June'22. The company further plans to increase grinding capacity (1.0 MMT at Satna by Sep'23 for a capex of Rs 2.5bn). These expansions will help the company to maintain volume growth going forward. Furthermore, strategic location of it's plant will provide efficient access to the larger market while quicker and larger supplies will strengthen trade partner's relationship even further. Post expansion cement production capacity will increase to 7.5 MMT.

- **HRJ division continues to be one of the leading players in tiles with a vast distribution network and premium brand image –** H&R Johnson is one of the leading ceramic / vitrified tiles manufacturers in the country with a capacity of ~60 million square meters per annum across 11 manufacturing plants (including those under subsidiaries and joint ventures) as on March 31, 2021. Segment margins have improved to 8.7% in FY21 as it benefitted from operating leverage and other cost saving initiatives. The company has shown tremendous resilience in difficult times and we expect HRJ division to maintain double digit margins in ~10-11% range, going forward. PJL announced a greenfield tile capacity expansion of 2.5 msm at Panhagarh, West Bengal for incremental capex of Rs 550 mn and another expansion of 6 msm at its JV entities for an estimated capex of Rs 700 mn, both likely to commission by Q4FY23. The tile production capacity will increase from 60 msm to 68 msm, post both these expansions.

- **Balance sheet deleveraging to be strong despite capex-** PJL is expanding its cement capacity by 1.9 MMT to 7.5 MMT, and tiles capacity by 8.5 msm to 68.5 msm. Management is likely to fund FY22E capex of ~Rs 4,000-5,000 mn from primarily internal accruals. Debt reduction continues to be on track as net debt reduced by Rs 6,205 mn in FY21 to Rs 11,827 mn as of Mar'21. We expect Net debt-to-EBITDA to improve from 1.9x in FY21 to 0.8x by FY23E, backed by better traction in cement & HRJ divisions. Further, Raheja QBE General Insurance (RQBE) JV stake sale is still awaiting regulatory approvals, which would further reduce net debt by Rs 3,000-3,500 mn plus any incremental capital invested by the company in JV.

We expect the company to benefit from strong regional presence in cement, improving utilization, and cost efficiencies, apart from industry triggers like higher realizations. We prefer PJL due to its improving margins on the back of substantial ongoing cost reduction and future growth visibility on the back of expansion plans. However, in the short to medium term, demand recovery in core markets continues to be the key monitorable. Also, the divestment of the insurance business should help improve liquidity and profitability. We have valued the stock on SOTP basis valuing cement, HRJ & RMC business at 9x/10x/5x FY23E EV/EBITDA, Raheja QBE general insurance at its proposed divestment value and recommend a "STRONG BUY" on the stock with a target price of Rs 172.

Exhibit 1: Financial Performance at a glance (Consolidated)

Particulars (Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	61944.2	59562.0	55871.4	61885.0	70752.0
Growth %	12.5%	-3.8%	-6.2%	10.8%	14.3%
EBITDA	6010.1	5386.3	6218.2	7735.6	9339.3
EBITDA Margin (%)	9.7%	9.0%	11.1%	12.5%	13.2%
Net Profit	1164.0	100.4	1712.3	2604.9	3604.5
Net Profit Margin (%)	1.9%	0.2%	3.1%	4.2%	5.1%
EPS	2.3	0.2	3.4	5.2	7.2
BVPS	22.4	21.4	24.7	28.6	34.0
P / E (x)	60.5	701.4	41.1	27.0	19.5
P / BV (x)	6.3	6.5	5.7	4.9	4.1
ROE (%)	10.8%	0.9%	14.8%	19.4%	22.9%
ROCE(%)	14.1%	10.0%	11.7%	16.2%	19.5%
EV/EBITDA (x)	15.0	16.6	13.4	10.6	8.4

Source: Company Data, SMIFS Research

Investment Rationale

Cement division to drive growth -

Company has a cement capacity of 5.6 MMT and in the past, company has been able to sell volumes of 6 MMT plus with change in product mix. In cement business, PJL is debottlenecking at Satna plant in Madhya Pradesh, will increase cement capacity by 0.9 MMT by June'22 for a capex of ~Rs 1,390 mn . The company further plans to increase grinding capacity (1.0 MMT at Satna by Sep'23 for a capex of Rs 2,500 mn). PJL also has mining lease clearances in Andhra Pradesh.

The above expansions will help the company to maintain volume growth going forward. Furthermore, strategic location of it's plant will provide efficient access to the larger market while quicker and larger supplies will strengthen trade partner's relationship even further. ***Post expansion cement production capacity will increase to 7.5 MMT.***

In the past five years, the Company has consistently increased its retailer network. ***Currently, it has a wide marketing network with about 4,000 dealers serviced from ~160 stock points.***

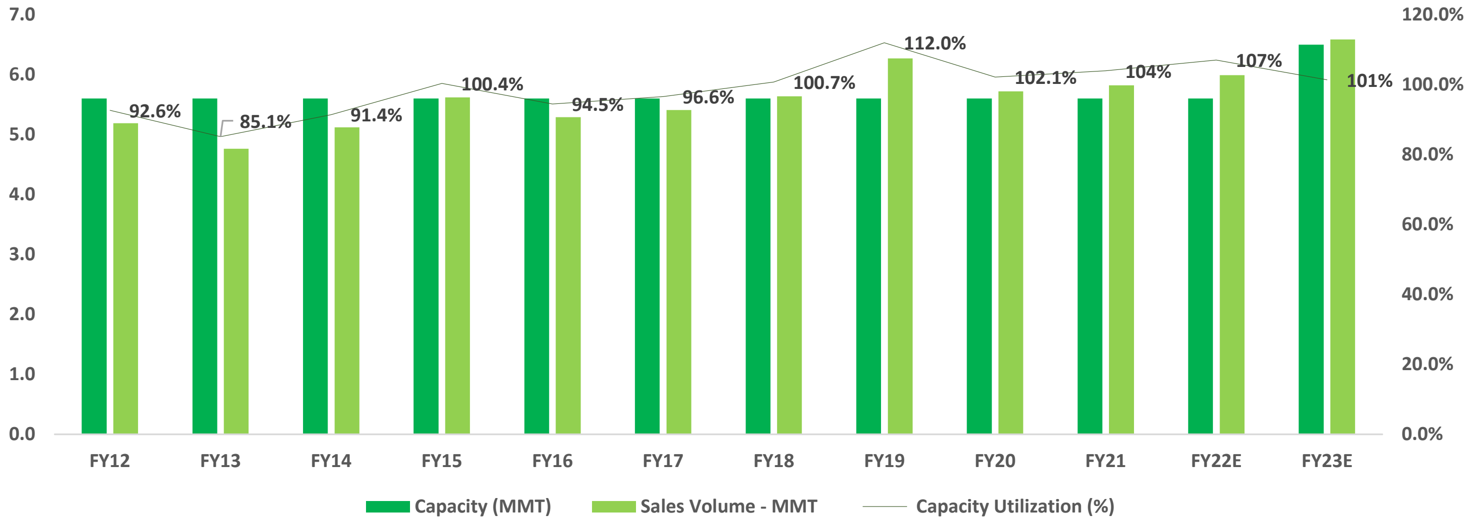
Satna cluster (~40 MMT capacity) is currently operating at ~80% utilisation.

The cement division has witnessed a steady improvement in utilisation and profitability since FY14, resulting from improved demand and industry consolidation in central India. We expect cement demand to gradually pick-up from here on post monsoons.

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 expected 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 has posted a volume CAGR of 3% over FY13-21. PJL's cement sales volumes increased by around 2% YoY in FY21. Moving forward, with the expanded capacity and superior plant utilisation, we expect the company to deliver a cement revenue CAGR of 10% over FY21 -FY23E driven by volume CAGR of 6% over the same period.

Exhibit 2: Capacity Details for PJL



Source: Company Data, SMIFS Research

Investment Rationale

Exhibit 3: Realisation trend

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Realisation (Rs/Tn)	3803.1	3916.4	4167.5	4337.4	4349.4	4423.2	4517.6	4442.9	4620.6	4759.2
-Price per bag	190.2	195.8	208.4	216.9	217.5	221.2	225.9	222.1	231.0	238.0
-Growth (%)	***-4%***	***3%***	***6%***	***4%***	***0%***	***2%***	***2%***	***-2%***	***4%***	***3%***

Source: Company Data, SMIFS Research

Favourable market mix-

FY21 sales mix is concentrated in Central India with Eastern UP (53%), Madhya Pradesh (25%), Bihar (22%) being the key contributors. ***The company produces Portland Pozzolana Cement (PPC) under three separate brand names - Champion, Champion Plus & DURATECH, and Ordinary Portland Cement (OPC).*** The share of premium products in total sales volume increased to 27.7% in FY21 vs 22.3% in FY20. Going forward, the company's core focus is to further augment its volume share of premium products and increase usage of renewable sources of energy. The trade and non-trade mix was 75:25 in FY21.

Exhibit 4: Premium Cement- Contribution to sales

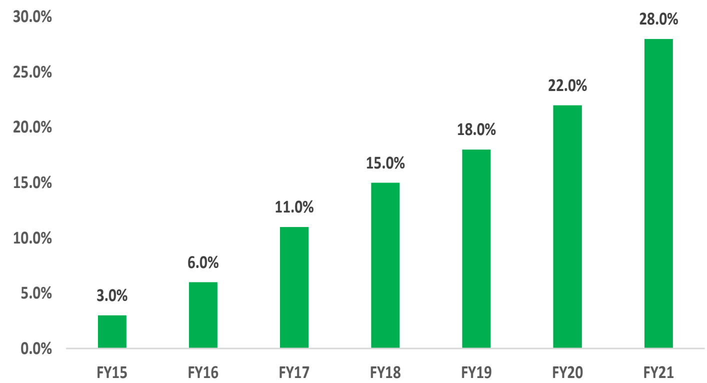
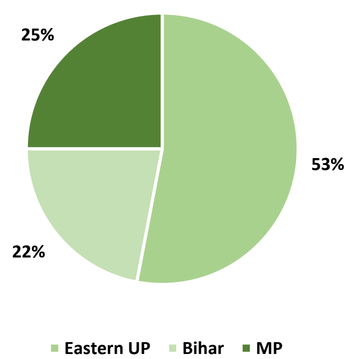


Exhibit 5: Regional sales mix (FY21)



Source: Company Data, SMIFS Research

WHRS capacity to rationalise energy cost-

Company commissioned 22.4 MW of WHRS during FY21 (Includes the 12.4 MW commissioned in March 2021). Also, 10 MW solar power was commissioned during FY21 (taking the total solar power installed at Satna to 22.5 MW). This will help Prism Cement to get ~35% of its power and fuel requirements through renewable sources, going forward. The benefits of WHRS and solar power would result in saving in power cost for the cement division (We expect, overall cost reduction from WHRS would be Rs 100-150/ Tn. Of this, Rs 60-70/Tn cost reduction is already achieved in Q4FY21, which is likely to have a positive impact on EBITDA/tn going forward as full impact will be visible from FY22 onwards.)

Cost optimization measures to improve margins-

Over the years, PJL has consistently implemented improvement strategies as part of manufacturing excellence focusing on areas such as energy efficiency improvements, fuel mix optimisation, and higher usage of alternative fuels and raw materials. In addition, the access to linkage coal helps bring in fuel cost savings. Furthermore, power costs are likely to decrease due to the recently commissioning of the WHRS and higher use of solar power.

Investment Rationale

Exhibit 6: EBITDA (Rs/tn)

	FY16	FY17	FY18	FY19	FY20	FY21
EBITDA incl operating income (Rs/tn)	372	567	619	834	889	962
Freight & forwarding – key metrics for cement division						
	FY16	FY17	FY18	FY19	FY20	FY21
Lead Distance (Km)	405	406	391	391	382	384
Mode Mix						
Railway (%)	63	63	60	50	43	39
Road (%)	37	37	40	50	57	61
Power & fuel – key metrics for cement division						
	FY16	FY17	FY18	FY19	FY20	FY21
Power consumption per ton of cement (kWh)	71	73	73	73	74	71
Fuel Mix						
Pet-Coke (%)	59	65	55	60	51	45
Coal (%)	41	35	45	39	47	55
AFR (%)	0	0	0	1	3	0

Source: Company Data, SMIFS Research

Volumes and margins in the cement division to improve going forward on account of a) robust volume growth in the core market of Central India b) the debottlenecking of cement capacity by 0.9 MMT by June'22 and expansion of grinding capacity by 1 MMT at Satna by Sep'23 c) continual rise in share of premium products (~28% in FY21) and d) addition of WHRS (22.4 MW) and solar power capacity (10 MW) would provide substantial and sustainable reduction in power & fuel costs.

HRJ division continues to be one of the leading players in tiles with a vast distribution network and premium brand image –

H&R Johnson is one of the leading ceramic / vitrified tiles manufacturers in the country with a capacity of ~60 million square meters per annum (msm) across 11 manufacturing plants (including those under subsidiaries and joint ventures) as on FY21 end.

The division has a nation-wide trade network of over 1,000 dealers, in addition to 19 large format experience centres. Company plans to expand its distribution reach, increase brand recall, increase premium product mix across its divisions. HRJ has been adding large-format experience centres, increasing its focus on print and digital media advertisements, architect and designer-engagement journals, along with running many social-media campaigns to increase its brand's reach.

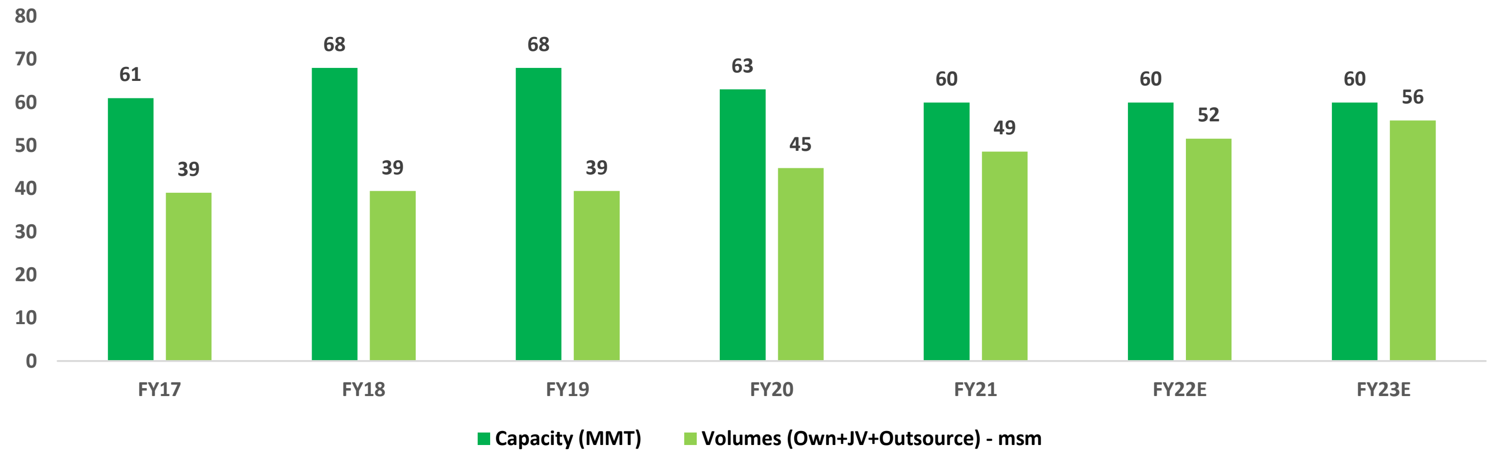
It has brands such as (1) Johnson (floor tiles and bathroom & kitchen products), (2) Marbonite (vitrified tiles), (3) Endura (industrial tiles), etc. PJL follows a JV/outsourcing model to (a) gain cost advantage in low-end products, and (b) focus on high-end vitrified/ industrial tiles and bathroom & kitchen accessories.

Investment Rationale

Company is aggressively targeting tier 2/3 cities and is looking to expand across regions. It is also looking to further expand its product portfolio. Company has dominant presence in South, East and Central; In West and North markets, Company stands at No. 3 position. Growth is flowing more from East and South market, while company is also focusing aggressively in North markets as well.

PJL announced a greenfield tile capacity expansion of 2.5 msm at Panhagarh, West Bengal for incremental capex of Rs 550 mn and another expansion of 6 msm at its JV entities for an estimated capex of Rs 700 mn, both likely to commission by Q4FY23. The tile production capacity will increase from 60 msm to 68 msm, post both these expansions.

Exhibit 7: HRJ Division



Source: Company Data, SMIFS Research

Bathware and sanitary business segments are niche business for the company. We expect, going forward the company will focus on new product launches, higher utilisation, distribution increase and cost reduction.

While in the past the division's operating performance was muted on account of lower capacity utilisation levels, the management continues to focus on its demand generation initiatives to drive volume growth and profitability. Segment prices have been stable; Morbi players are considering raising prices.

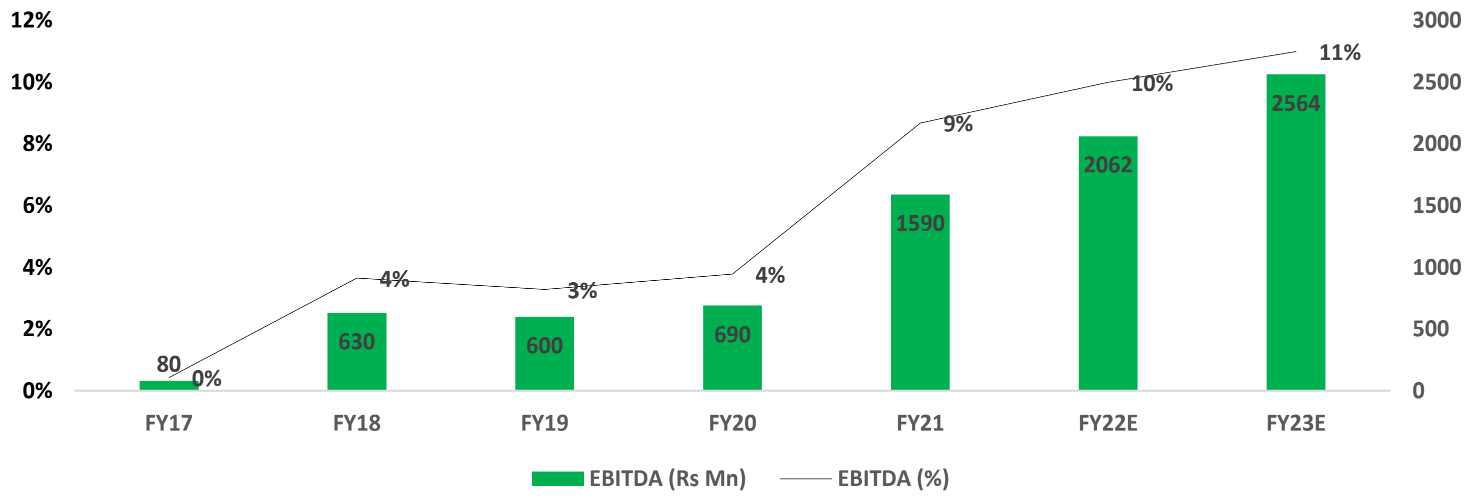
Mr. Sarat Chandak has been appointed as Executive Director & CEO (HRJ), with effect from March 3, 2019. His past experience includes Chief Executive Officer & Whole Time Director of RAK Ceramics India Private Limited, senior positions in Kajaria Ceramics Limited, Bell Granito Ceramica Limited and Everest Industries Limited. Mr. Chandak undertook several measures, such as (1) rationalization of HRJ's cost structure (2) continuous increase of GVT's proportion in the overall product mix (3) Strengthening of its distribution channel and improve the geographic reach of the company (4) working closely with influencers such as architects.

Segment margins have improved to 8.7% in FY21 on account of operating leverage, lower advertisement spends and other cost saving initiatives. ***The company has shown tremendous resilience in difficult times and we expect HRJ division to maintain double digit margins in ~10-11% range, going forward.***

Investment Rationale

We have assumed 7% volume CAGR over FY21-23E in HRJ business. The company follows the mix of own manufacturing and joint venture model for tiles manufacturing and in case of further demand to meet it outsources manufacturing. We expect the same trend to continue going forward.

Exhibit 8: HRJ – Consolidated EBITDA Performance



Source: Company Data, SMIFS Research

HRJ division of the company seems to have turned around with sharp volume recovery and more importantly an improvement in EBITDA margin to ~8.7% vs 3.8% (YoY) in FY21. Volume growth is expected to remain healthy considering a pick-up in real estate activity and easing competition in the domestic market as Morbi players are diverting their capacities for the export market. We expect margin improvement going forward with a combination of factors such as reduction in fixed overheads, price hikes, improving product mix and expansion of distribution network.

Sequential improvement visible in RMC division-

PJL is the second-largest player in the RMC sector. It has a pan-India presence with 96 plants at 44 locations. RMC segment has ventured into the aggregates business and operates large quarries and crushers. At present, this business has 6 quarries across the country.

The commercial concrete vertical is its core business, which addresses the needs of infrastructure development in metro, urban as well as the semi-urban areas in India. Going forward, it's target is to increase plant utilisation levels and cater the individual home builder segment. There is an increase in demand for premix formulation and its goal is to expand, innovate and capture that opportunity.

The RMC business was majorly hit by the pandemic as its impact in urban markets was severe. However, the division has shown sequential recovery in Q4FY21 with the reopening of the economy. We expect improvement in utilization (backed by low penetration of RMC in India; the management aims for a ~15-20% volume growth in the medium term) to boost asset turn and capital efficiency. We believe that a pick-up in infrastructure projects and revival of real estate would help the division achieve better utilisation, and thus expect better operating margins in the coming years. We model 8% volume and 13% revenue CAGR over FY21– 23E, amidst stable EBITDA margin of ~4%.

Investment Rationale

PJL to divest entire stake in Raheja QBE General Insurance Company Limited ('RQBE')

On July 6, 2020, Board of Directors of the Company had approved divestment of its 51% stake in Raheja QBE General Insurance Company Limited ('RQBE') to QORQL Private limited, a technology company with majority shareholding of Vijay Shekhar Sharma and remaining held by Paytm, subject to receipt of approval by the shareholders of the company and all other requisite approvals.

In FY2021, RQBE contributed ~5% to PJL's consolidated revenues with a PAT loss of ~Rs. 269.8 mn. Currently, the stake sale in RQBE is still pending owing to the delay in regulatory approvals.

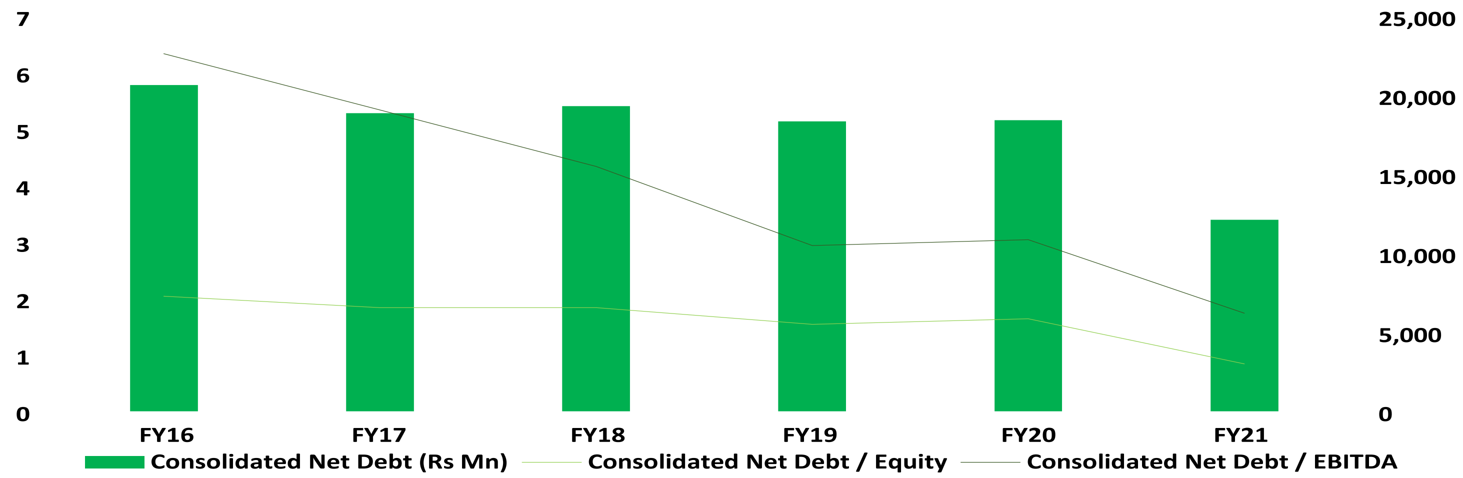
We believe, the divestment would further accelerate company's on-going efforts to de-leverage balance sheet and improve financial ratios.

Balance sheet deleveraging to be strong despite capex-

PJL is expanding its cement capacity by 1.9 MMT to 7.5 MMT, and tiles capacity by 8.5 msm to 68.5 msm. Management expect to fund FY22E capex of ~Rs 4,000-5,000 mn from primarily internal accruals. Debt reduction continues to be on track as net debt reduced by Rs 6,205 mn in FY21 to Rs 11,827 mn as of Mar'21.

We expect Net debt-to-EBITDA to improve from 1.9x in FY21 to 0.8x by FY23E, backed by better traction in cement & HRJ divisions. Further, Raheja QBE General Insurance (RQBE) JV stake sale is still awaiting regulatory approvals, which would further reduce net debt by Rs 3,000-3,500 mn plus any incremental capital invested by the company in JV.

Exhibit 9: Consolidated Net Debt Ex RQBE (Rs mn)



Source: Company Data, SMIFS Research

Exhibit 10: Capacity expansion update

Division	Capacity expansion	Location	Capex (Rs Mn)	Commencement date
Cement (MMT)	0.9	Satna,MP	1390	Jun'22
Cement (MMT)	1	Satna,MP	2500	Sep'23
HRJ (msm)	2.5	Panhagarh,WB	550	Jan'23
HRJ (msm)	6	JV entities	700	Mar'23

HRJ: Update on the Scheme of Arrangement and Amalgamation -

PJL received approval for a composite scheme of arrangement and amalgamation from the Hon'ble National Company Law Tribunal (NCLT), Hyderabad, vide the latter's order dated. 28th Apr'21. The Composite Scheme of arrangement and Amalgamation of Prism Johnson Ltd., H.&R. Johnson (India) TBK Ltd., Milano Bathroom Fittings Pvt. Ltd., Silica Ceramica Pvt. Ltd., TBK Rangoli Tile Bath Kitchen Pvt. Ltd., TBK Venkataramiah Tile Bath Kitchen Pvt. Ltd., TBK Samiyaz Tile Bath Kitchen Pvt. Ltd., and shareholders and creditors. All companies involved in the proposed restructuring, directly or through subsidiaries, are wholly-owned subsidiaries of PJL. Hence, no cash was involved and no shares issued. **The scheme will help simplify the group structure through a common management and optimal resource utilisation.**

Industry Overview

India is the second largest producer of cement in the world followed by China, with an annual installed capacity which is pegged at ~517 Million Metric Tonnes (MMT) accounting for ~8% of the global production of cement. The major share of cement production comes from South India, which contributes ~34% of the total production followed by North India which account for ~21%, East ~19%, West ~14% and Central ~12%.

The per capita consumption of cement in India is a mere ~225 kgs compared to a global average of ~575 kgs, indicating headroom for growth in the cement industry.

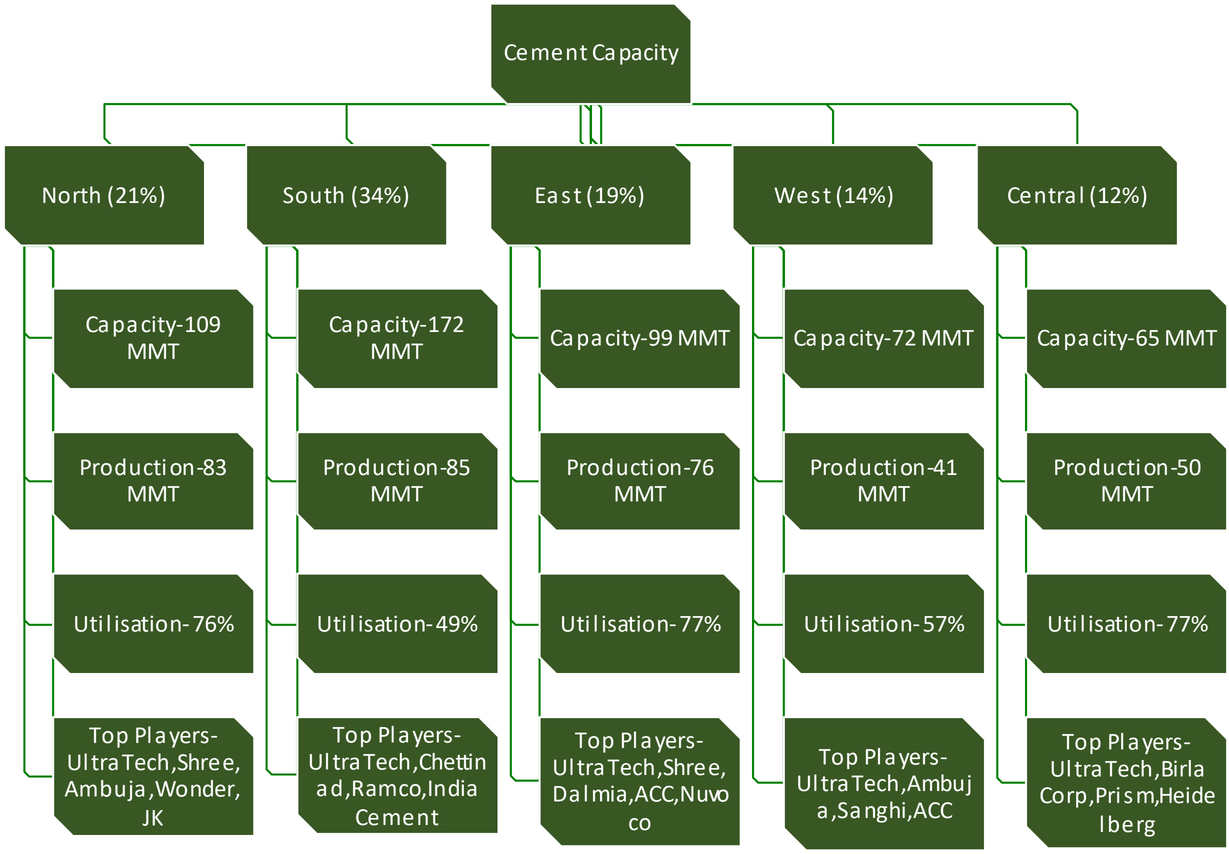
Long-term trends that are likely to drive the cement industry over the next few years are 1) significant boost to infrastructure spending 2) ongoing real-estate revival, aided by low interest rates and government incentives; and 3) continued government-focus on the affordable housing segment.

However, cement demand was impacted in Apr'21 on account of drastic reduction in construction activities led by 2nd wave of the pandemic and resultant lockdown restrictions imposed by several states. Despite some issues with regard to workforce availability, the government's infrastructure projects and other key infrastructure projects are supporting the non-trade demand.

We believe these disruptions are transitory, and the cement industry is well poised for a healthy growth in FY22, led by a low base of FY21, expected robust retail demand and improved execution of government-backed projects.

A more robust and sustainable improvement in profitability is likely to play out, supported by better price-discipline, ongoing cost-optimization and de-risking efforts, and more importantly restrained capacity additions. Thus, we expect cement industry to exhibit reduced cyclicality over time.

Exhibit 11: Regional Snapshot



Source: Company Data, SMIFS Research

Industry Overview

The sector offers an attractive long-term opportunity but its fortunes are linked with growth rate of the Indian economy.

In the last decade, cement demand growth and real GDP growth moved in tandem, suggesting multiplier of 1x-1.5x. While the multiplier for cement demand growth and real GFCF (Gross fixed capital formation) stood at 1.35x over the same period. Cement demand to real GDP multiple slipped to negative territories for the first time in FY20, primarily because of demand declined ~3% YOY with real GDP growth pegged at ~4%. In the past, cement demand to GDP multiplier rose into 1.3x in FY18 post a subdued demand scenario during FY14-17. In contrast, the cement industry was growing at a healthy multiple of 1.35x in FY07-13 owing to healthy capital investments. We expect cement growth multiplier to improve over the coming years.

Cement demand growth should see uplift from strength in rural demand and execution of rail and roadway projects. We project cement demand growth of ~11% in FY22. Demand should grow at ~6% CAGR in FY23. While the various factors like – a) Robust rural demand b) Revival of real estate, c) GOI "Housing for All" program, d) GOI "National Infrastructure pipeline" would bolster the cement demand. Rural demand should benefit from the tailwinds of healthy reservoir levels from past two monsoons and record Rabi crop sowing season, though offset to some extent by reduced budgetary support to rural India in FY22 (1% of GDP in FY22 vs 1.7% in FY21). Greater absorption of rural labor in labor-intensive road projects should also have a positive second-derivative impact on rural income. Industrial capex could stage a recovery from FY23 once industrial capacity utilization hits ~80%.

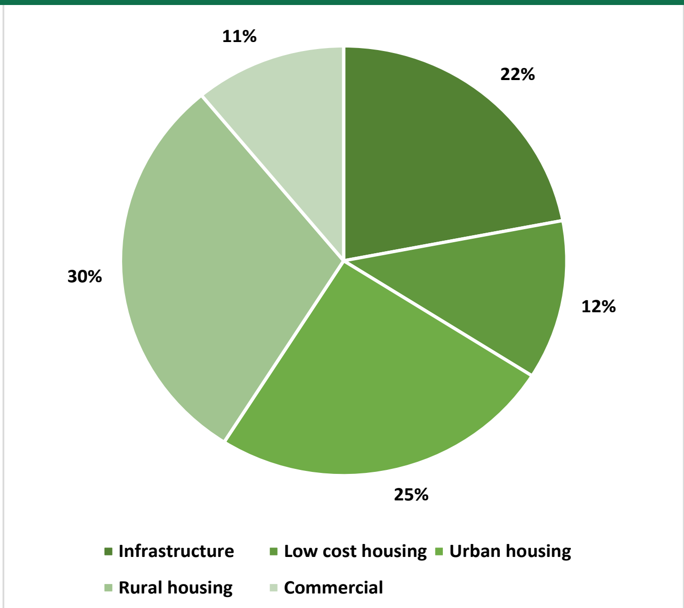
Exhibit 12: Demand/ supply model over FY10-23E

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR (%)		
										FY10-FY15	FY15-FY20	FY20-FY23
Installed capacity (MMT)	402	429	446	463	482	498	517	540	575	7	4.4	4.9
Effective capacity (MMT)	390	414	434	454	473	475	463	529	554	9.1	4	5.3
Demand (MMT)	266	283	289	314	352	343	340	378	408	5.5	5.2	6%
Surplus / (Deficit) (MMT)	124	131	145	139	121	133	124	151	146			
% surplus	32	32	33	31	26	28	27	29	26			
Capacity utilization (%)	**68**	**68**	**67**	**69**	**74**	**72**	**72**	**71**	**74**			
Capacity growth (%)	**4.7**	**6.1**	**4.8**	**4.6**	**4.1**	**0.6**	**-2.6**	**14.3**	**4.7**			
Demand growth (%)	**5.2**	**6.5**	**2.1**	**8.8**	**11.8**	**-2.5**	**-1**	**11.5**	**8**			

Source: Company Data, SMIFS Research

<u>Housing remains the key driver contributing over ~60% of the overall demand</u>, with conversion of 'kuchha' house to 'pucca', government initiatives and rapid urbanisation propelling demand. Infra demand is also seeing a pick-up in the recent years, driven by irrigation projects, increased execution of highway construction, metros and airports, among others. With the recent changes to corporate tax structure, commercial demand also should see a pick-up as more manufacturing facilities shift to India, albeit over the longer term. Supply-glut has also been another issue plaguing the industry in the past. ***However, this is becoming less of a concern as entry barriers have been rising on a structural basis, led by an increase in project timelines due to issues in procurement of land, limestone mines and securing environmental clearances.***

Exhibit 13: Drivers of cement demand



Source: Company Data, SMIFS Research

Industry Overview

Demand Drivers

Housing: PMAY-G

The government of India launched Pradhan Mantri Awas Yojana to ensure Housing for All by 2022. The scheme has two different parts, i.e., Grameen (Rural) and Urban. The Ministry of Housing and Urban Affairs estimated an affordable housing shortfall of approximately 10 million units, attracting government priority through corresponding policies.
Rural housing (including Tier II and III), which is a major contributor (35-40%) to cement consumption, will continue to sustain its strong momentum given robust growth in rural income on the back of good sowing of khariff crops and increase in the minimum support price (MSP).

Rural India clearly shrugged off the pandemic woes as Houses completed under the scheme stood higher YoY at 3.6mn in FY21 vs 2.5mn houses completed in FY20; with acceleration in completion seen in Q4FY21. This took the overall tally of completed houses to 13.6mn as of FY21; Total sanctioned houses have picked to 18.8mn by FY21 end. The sharp growth in rural segment was led by states of Bihar, West Bengal (likely benefitting from pre-election spend) and Odisha; this is also reflected in robust Construction demand growth reported in East markets by Cement Companies.

Under the rural scheme, pace of house completion accelerated in Q4FY21 to 1.1mn vs 760k-850k completion seen in each of last 3 quarters. Overall in FY21, there was no perceptible impact of Covid induced lockdowns, as Houses completed under the scheme moved to 13.6mn as of Mar-21 vs 10mn as of Mar-20; implying an incremental houses completion at 3.6mn in FY21 vs 2.5mn YoY.

In FY21, of the total 3.6mn completed houses, highest contribution was from the state of Bihar (25% of total) at ~0.9mn; this was followed by WB (0.78mn houses, 22%), Odisha (0.4mn, 12%) and Rajasthan (0.34mn, 10%).

In FY21, States seeing fastest pick up in terms of start of new construction are AP (0.45mn, 31% of total) - growing at fastest pace (sharp increase in March), UP (0.2mn, ~14%), Maharashtra (0.18mn, ~12%), MP (0.12mn, ~8%), Gujarat (0.11mn, ~8%).

Exhibit 14: Budgetary allocation remained flat for PMAY-G in FY22E

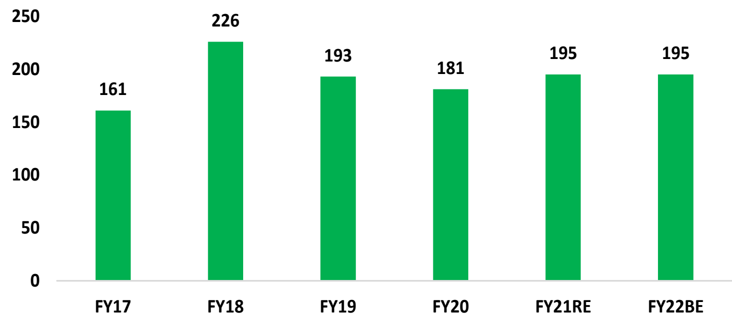


Exhibit 15: Budgetary allocation remained flat for PMAY-G in FY22E

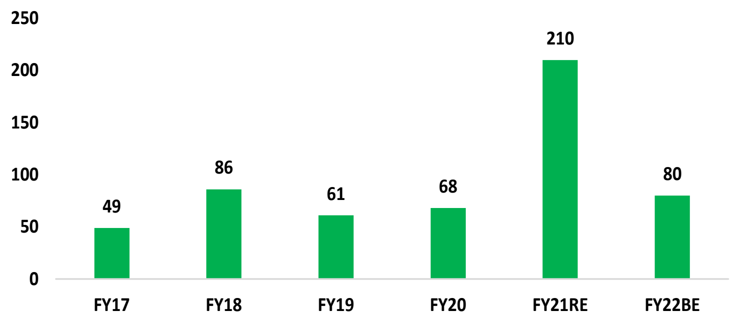


Exhibit 16: Sanctioned and yet to complete (16.4mn houses): East and central to drive demand under PMAY-G

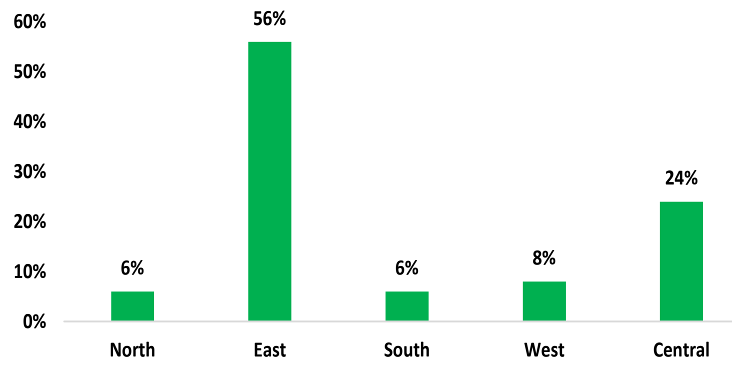
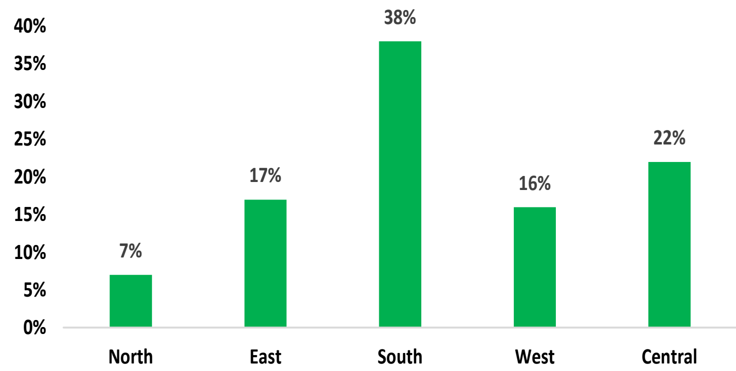


Exhibit 17: Sanctioned but yet to complete (5.7mn houses): South and central to drive demand under PMAY-U



Source: Company Data, SMIFS Research

Industry Overview

PMAY-U:

The scheme has four components (1) Slum rehabilitation of Slum Dwellers with participation of private developers using land as a resource (assistance upto Rs1 lakh), (2) credit linked subsidy for weaker sections (eligibility up to Rs 18 lakhs household income p.a.), (3) Affordable housing in partnership with public & private sectors (state government bodies, e.g., CIDCO/MHADA can initiate projects) and (4) subsidy for beneficiary-led individual house construction or enhancement.

In the urban segment, housing completion was stable YoY at 1.45mn in FY21, despite a sharp slowdown seen in Q1FY21, largely reflecting acceleration in Q4FY21. In urban segment, state of AP (during 4Q) saw a significant increase in number of houses, where construction of new houses started; state of UP is leading in terms of new houses approved. In FY22, the government's thrust on Housing for All is expected to continue. These schemes are expected to keep up pace during busy construction period which was marred last year due to pandemic, benefitting the overall demand growth for Cement Companies.

Houses approved under the PMAY Urban scheme marginally inched up to ~11.2mn as of Mar-21 versus ~10.9mn in Dec-20. The houses under construction picked up to 8mn in Mar-21 versus 7mn in Dec-20. The Completed Houses stood at ~4.8mn as of Mar-21 versus 4mn in Dec-20. In FY21, houses approved increased by 787K houses vs 2.5mn/3.9mn in FY20/FY19 respectively while houses under construction increased 1.6mn vs 2mn/2.6mn in previous 2 years. New houses completed in FY21 stood at 1.45mn which was broadly flat YoY (despite pandemic) vs 1.44mn/1.56mn in last 2 fiscal years.

In FY21, States leading in terms of construction of houses under PMAY Urban are UP (1.3mn, 16% of total), AP (1.2mn, ~16%), MP (0.75mn, ~10%), Maharashtra (0.7mn, ~9%), Gujarat (0.7mn, ~9%).

In FY21, top 5 contributors to progress in Houses approved are UP (29%), followed by WB (16%), Gujarat (16%), Maharashtra (11%). Few states like Tamil Nadu, Telangana and Kerala witnessed decline in houses approved.

In FY21, States seeing fastest pick up in terms of start of new construction are AP (0.45mn, 31% of total) - growing at fastest pace (sharp increase in March), UP (0.2mn, ~14%), Maharashtra (0.18mn, ~12%), MP (0.12mn, ~8%), Gujarat (0.11mn, ~8%).

Exhibit 18: 40 MMT of cement demand (assuming completion of 35% of targeted number of houses)

	PMAY-G	PMAY-U
Total no. of houses to targeted be constructed (in mn)	29.5	10
Houses already constructed	13.1	4.3
No. of (mn) houses yet to be constructed (govt.)	16.4	5.7
Target achieved (%) assumed	35%	35%
No. of houses to be constructed	5.7	2
Average size of house (sqft)	270	350
Cement required (kg/sqft)	18	18
Total cement demand (MMT)	**28**	**13**

Source: Company Data, SMIFS Research

Industry Overview

Infrastructure projects will continue to generate cement demand

The government has increased allocation for two key infrastructure sectors, roads and railways. Roads currently consume roughly 15mn tonnes of cement in India, which could increase by 20% if pace of execution picks up.

The Indian Government launched the National Infrastructure Pipeline in Sep'19, thereby laying five year plans for investments of Rs 111 tn in infrastructure creation (about 7,300 projects) by 2025. The NIP will be jointly funded by the central government (39%), state government (40%) and the private sector (21%). About 85% of NIP investment is targeted towards capital creation in energy (24%), urban and rural infra (25%), roads (18%), railways (12%), and irrigation (7%). Even if these projects are implemented to 70-80% levels of the projections, it offers strong demand opportunity for cement sector (both direct and indirect). As per latest status, NIP projects worth Rs 44 tn (40% of the total investment) are under implementation and another 33% are under conceptualisation stage.

The government's focus on roads and highways has been evident through fast-track approvals, speedy execution of road completion, budgetary allocation and various policy measures taken. The government is targeting to construct around 60,000km of highway at the rate of 40km/day in next five years (vs. 37kms/day achieved in FY21).

Exhibit 19: Budgetary allocation for MoRTH increased by 16% YoY in FY22E

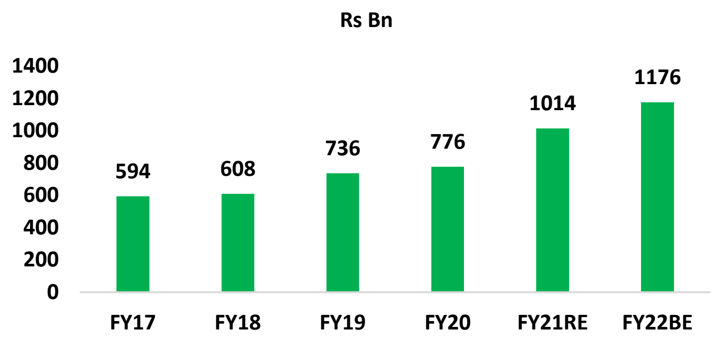
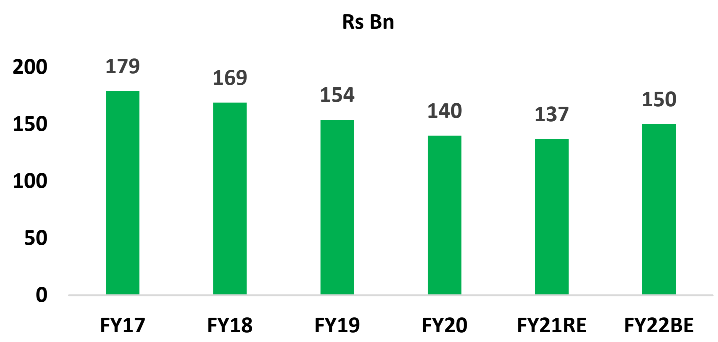


Exhibit 20: 9% YoY increase in budgetary allocation of PMGSY for FY22E



Source: Company Data, SMIFS Research

Real estate sector is picking up riding on low interest rate-

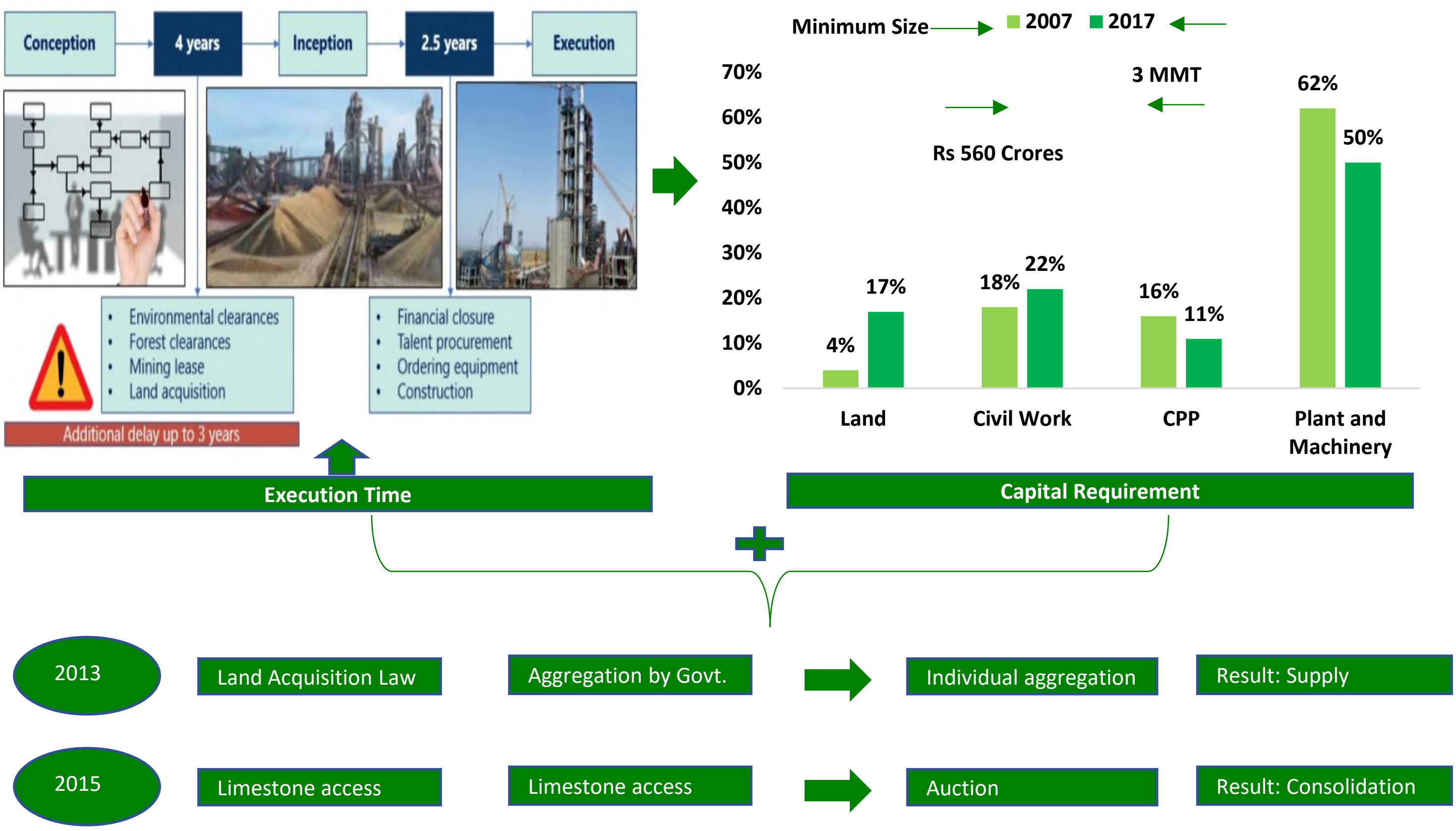
After remaining depressed for the past 4-5years, even real estate sector is seeing a recovery from FY21. Significant reduction in home loan interest rates amid stagnated property prices has boosted affordability and hence sales. Residential demand in the mid-segment is seeing better recovery. Industry veterans opine that if demand trend remains healthy, the real estate sector can take price hikes, thereby passing on the recent inflation in cement and steel prices. These again should firm up cement demand over next few years.

Rural demand triggers-

Good consecutive monsoons, increased MSPs and government's increased rural spending (social and infrastructure) are also yielding in better rural/agriculture-based income. This in turn is positive for cement industry. The benefits of these have been clearly visible in FY21 itself, as cement demand started to recover as soon as the lockdown restrictions were relaxed Q3FY21 onwards. Retail demand firmed up, thereby moderating the impact of slower recovery in non-trade sector (due to delays in labour availability at site). During Q4FY21, cement companies noted that while trade demand continues to grow (and drive overall sales), the non-trade segment is returning towards normalcy with improving labour and funds availability.

Industry Overview

Exhibit 21: Entry barriers are rising



Source: Company Data, SMIFS Research

From concept to commissioning, cement plant may take well over five years due to issues on securing limestone mines, buying land and getting clearances.

Cement being a capital intensive business, very few companies have been able to add capacities consistently without impacting the balance sheet. Different types of expansion, viz. brownfield or greenfield capex, organic or inorganic acquisition, clinkerisation or a split grinding unit impact the overall cost and implementation time for a cement plant from concept to commissioning. ***Moreover, various types of approvals like environmental clearance, mining plan approval, pollution control board approvals, etc can take much longer than anticipated which can delay the capex plan.***

Cement is one of the highest polluting industries with relatively higher SOx, COx and NOx pollutants. Additionally, the production process also leads to higher particulate matter pollution in the vicinity of the plant. Recently, the new pollution control norms have set limits on SOx and NOx gases and particulate matter which involve addition of pollution control equipment, further increasing the overall capex cost for the cement plant.

In the recent past, companies have incurred average project cost of $130-140/tonne for a Greenfield integrated project, while for a brownfield grinding project the average project cost was ~$50/-$70tonne

Industry Overview

Exhibit 22: Some of the cement deals

Company	Capacity (MMT)	Region	Remarks
Murli Industries	3	West	Despite setting-up a decade back, company could never ramp up its production; Later acquired by Dalmia Cement
ABG Cement	5	West	Group level debt resulted in a stake sale to Dubai based SIMEC group backed by KKR
JSW Cement	9	South and East	JSW group started its operations in 2009 and has done well in the markets of south; company built grinding units to be fed on imported clinker
Wonder Cement	9	North	Part of RK Marble group which is the largest Indian marble supplier; group got into cement business in 2012 and has been able to scale up well
Nirma Cement	13	North and East	After organic entry into Rajasthan, Nirma acquired Lafarge India which made it one of the top players in the region
Reliance Cement	6	Central	Group level debt resulted in sale to Birla Corp
Emami Cement	6	East	Group level debt has pushed to sell the business to Nirma

Source: Company Data, SMIFS Research

Industry consolidation levels have gone up in the past decade. This has been primarily led by UltraTech, which has been fairly active on the M&A and also continued with its organic capacity additions and supported by players like Shree Cement & Dalmia Bharat.

Smaller players also have limited balance sheet strength to expand their existing capacities. Overall capacity share of large and mid-sized firms is expected to increase to 85% in FY22E from 80% in FY17.

Interestingly, the top three groups (considering ACC-Ambuja as one under LafargeHolcim) have gained share despite the fact that ACC and Ambuja have actually lost market share. Regionally, south has the lowest utilisation rate along with lowest consolidation levels.

Exhibit 23: All regions have seen consolidation in the past

Region	Top 3 (%)	Remarks
South	30	Most fragmented market with higest surplus - UltraTech, Ramco, Chettinad and India cements are key players Key M&A in the past - Anjani Portland (1.2 MMT) acquired by Chettinad , Shree Jayajothi (3.2 MMT) by My Home, BMM (1 MMT) by Sagar Cements, JP Associates (5 MMT) by UltraTech Shree Cement, My Home, Chettinad, Penna, Zuari and JSW are either foraying or expanding in south
West	63	UltraTech alone has a ~45% market share post acquisition of JPA (4.8 MMT) and Century (4.8 MMT) west capacities Ambuja-ACC also has a significant presence in the west Shree Cement, JSW, Birla Corp, and Sanghi have planned aggressive west expansion in the medium term Dalmia's acquisition of Murli Industries (3 MMT) has completed
East	49	UltraTech, Dalmia, ACC and Nuvoco are the key players Dalmia has done multiple acquisitions in the region including the Kalyanpur (1.1 MMT), Adhunik (1.5 MMT) and Calcom (2 MMT), along with restructing of the OCL stake During the 2016 restructuring of LafargeHolcim, the 11 MMT capacity of Lafarge India was bought by Nirma which later became Nuvoco Vistas - Nuvoco recently agreed to acquire the 8mt capacity of Emami Cement UltraTech acquired 4.4 MMT of Century assets in the East recently
Central	61	Fairly consolidated market with UltraTech, Birla Corp, Prism and Heidelberg as the key players Key acquisitions in the region were JP Associates (11 MMT) by UltraTech, Reliance Cement (5.5 MMT) by Birla Corp and Century (4.2 MMT) by UltraTech
North	63	Shree, UltraTech, Ambuja, Wonder and JK Cement are the key players Key M&A include Binani (6.25 MMT) and JPA (4.8 MMT) by UltraTech; Shree Cement's acquisition of 1.5 MMT from JPA

Source: Industry, SMIFS Research

Industry Overview

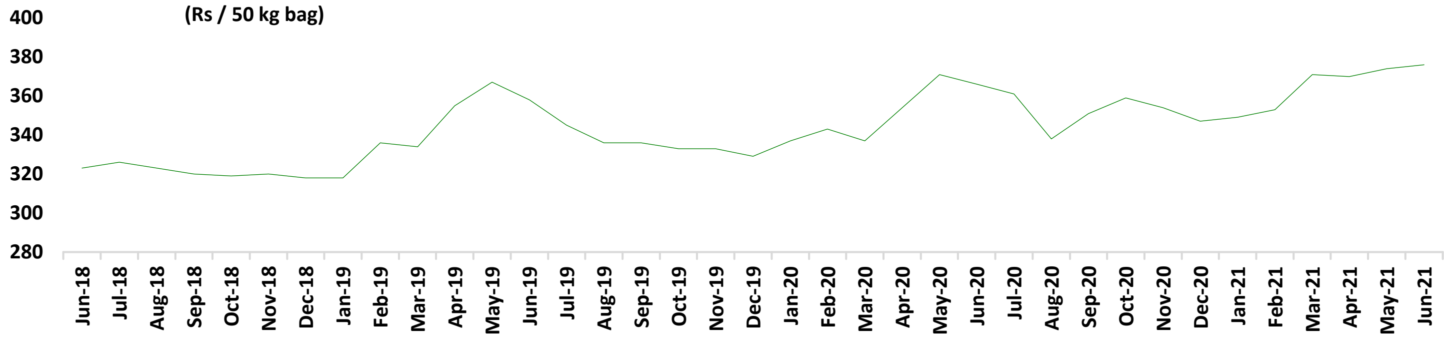
Pricing remains the key

Cement prices should largely move in line with WPI increase, barring episodes of pricing discipline/indiscipline. There are multiple variables that affect EBITDA of a cement company. These are volume, pricing and costs. While volume is a function of the ability of the company to push volume in the market profitably, costs are driven by efficiency and commodity prices. While the efficiency is driven by the company itself, it does not have control over commodity prices. So, despite having a lean cost structure, higher commodity prices may not be passed on to the consumers, leading to margin compression. ***Pricing has a larger delta on EBITDA than costs and barring a few regional instances over short term, cement pricing is largely driven by market conditions and hence not in control of the companies.***

Prices were up 6% QoQ in Q1FY22, which should largely mitigate the impact of various cost escalations, as also weaker demand/ offtake during Q1FY22. South and Maharashtra saw a price hike of Rs5-10/bag MoM, while prices fell by Rs3-5/bag MoM in other regions in May'21. Pan-India prices rose 2% YoY in East and West regions, but remained broadly flat in South and fell 2-3% YoY in North and Central regions. Companies have announced a price hike of Rs5-15/bag MoM across regions in Jun'21. Further, the non-trade prices remained firm across regions (barring Eastern region) and moved in tandem with the trade prices. There are certain pockets, where non-trade and trade price became almost equivalent.

However, the pricing trend is unlikely to see any moderation despite soft demand, as the price contraction is unlikely to result in any incremental volume. Non-trade demand is likely to remain a key demand driver in the near-term, which also depends upon availability of labourers.

Exhibit 24: Average India pricing trend



Source: Industry, SMIFS Research

Limestone availability remains a key

While India has abundant reserves of limestone, key limestone bearing belts called clusters generally houses the majority of cement plants in the country. There are seven such clusters in India viz. Chanderiya (Rajasthan), Satna (Madhya Pradesh), Chandrapur (Maharashtra), Bilaspur (Chhattisgarh), Gulbarga (Karnataka), Yerraguntala (Andhra Pradesh) and Nalagonda (Andhra Pradesh). Despite the abundance of the mineral, key limestone bearing lands/mines are already being taken up by the incumbent players. ***Sourcing of new mines and erecting a cement plant on greenfield basis has become increasingly difficult and time consuming.***

Before the MMDR Act 2015, limestone mines were allotted for 30 years with one renewal option for maximum period of another 20 years. But post introduction of MMDR Act, new auctioned limestone mines leases can now be granted for fifty years at one go. However, after expiry of the said period of fifty years, renewal will not be possible, and the mines are compulsorily required to be auctioned again.

We believe that the companies which have historically done well have had the vision to identify and develop new sites for cement plants and execute their capex plan well.

Industry Overview

Cost trends: High diesel prices to impact freight costs, pet coke prices too rising-

Historically, cement companies were able to pass on cost escalations to end-consumers and sustain/improve profitability although with a lag. Lower energy prices had been a tailwind for the Cement sector up to Q2FY21. However, this has now reversed as energy prices have risen substantially.

The price of petcoke price is up ~67% YoY to USD126/tn due to lower refinery runs and higher ocean freight. To mitigate the impact of higher petcoke prices, Cement producers have partially shifted to imported coal. However, even this is up ~54% YoY.

Diesel prices are up ~20% YTD led by higher crude prices and an increase in government duties. This has led to increase in freight cost for the industry. Logistics costs, though, have partly benefitted from lower railway freight charges.

The industry has already taken EBITDA-accretive price hikes of Rs15-20/bag since Mar'21. Sustained price recovery recently suggests that the sector may have reclaimed its pricing discipline and there seems to be an upward reset in industry pricing in the offing.

Exhibit 25: Pet-coke prices firming up

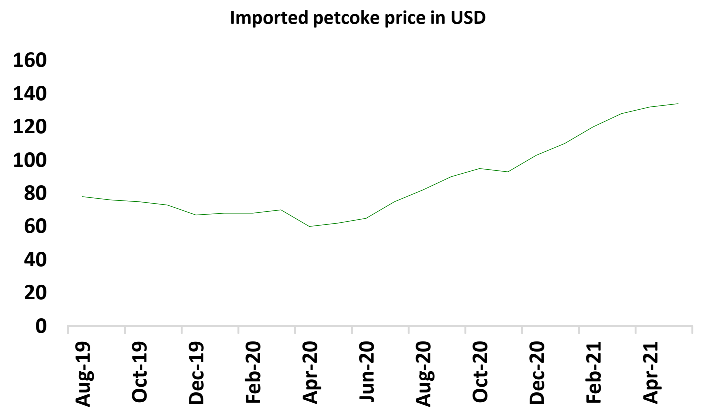
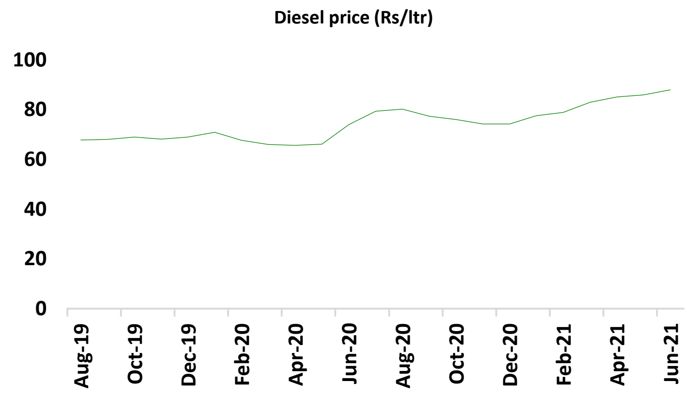


Exhibit 26: Diesel prices firmed up recently



Source: Industry, SMIFS Research

Increasing acceptability of blended cement to help the industry reduce costs and improve margins

Cement producers have been continuously shifting from manufacturing OPC to blended cement (PPC has highest share) in the last decade primarily due to latter's growing acceptability in the market and because it helps save limestone (a scarce natural resource). By blending fly ash or slag with OPC (which are available at marginal cost vs. Limestone), producers can lower power, fuel and raw material costs, thereby improving their operating margins. The BIS allows additions of up to 35% of fly ash in PPC and blast furnace slag up to 65% in PSC subject to meeting other quality requirements as prescribed. ***This substitution of clinker results in substantial cost savings for cement manufacturers as the consumption of clinker is 30%-40% lower than OPC. Additionally, the reduction in the cost of transportation of clinker (approximately 0.6 tonne per tonne of blended cement) from an integrated unit to a grinding unit further eases the cost of production.***

Companies have been increasing their efforts toward creating new brands and diversifying product mix in the industry and establishing/enhancing premium segment presence. Companies are currently following a 'push' strategy using various mediums with creative concepts to increase brand awareness among various types of end consumers. We believe that players with a high proportion of trade sales, strong brands, high advertising spends and pan-India presence are best-placed to benefit from premiumization of cement.

Industry Overview

Increasing acceptability of blended cement to help the industry reduce costs and improve margins…

Traditionally, OPC was mainly preferred because of faster setting time and better compressive strength over PPC/PSC and because it is approved by Central/state govt./local governing bodies. However, PPC has started gaining acceptance in Govt. projects and this would lead to improved utilization of the cement. Blended cements are normally suitable for high rainfall areas and coastal areas as they offer higher longevity of structures, offering highest resistance against sulphate and chloride attacks and environmental pollutants.

A recent trend in the industry is the emergence of composite cement (CC) which is produced by blending fly ash and blast furnace slag with OPC. It is manufactured by companies where both these commodities are easily available which currently is Eastern region. As per the BIS, the proportion of OPC in composite cement can be as low as 35%. However, composite cement is still not accepted in RCC by BIS which poses a challenge in selling it as an all-purpose cement, besides getting govt. approvals for composite products.

Sector's Balance sheet remains decent at an aggregate level

We expect the next few years to be characterized by moderate volume growth (6% CAGR over FY20-23E); however, a more robust and sustainable improvement in profitability is likely to play out, supported by better price-discipline, ongoing cost-optimization and de-risking efforts, and more importantly restrained capacity additions (5% CAGR in cement capacity). Thus, we expect cement companies to exhibit reduced cyclicality over time.

With improving outlook on growth and return ratios, multiples tend to overshoot long-term averages, and valuation premium tends to expand for stronger players. However, future stock performance will be largely driven by delivery of earnings/EBITDA growth and free cash flows.

Industry Overview-

India's tile industry-

The ceramics industry comprises tiles (vitrified & porcelain, floor and wall) and sanitaryware (washbasins, sinks, toilet bowls etc.) and services the real estate industry.

A recent trend in the industry is the emergence of composite cement (CC) which is produced by blending fly ash and blast furnace slag with OPC.

India is the world's second largest ceramic tiles and sanitaryware producer after China. Almost 80% of the tiles produced are consumed domestically and around 20% is exported. The major factors driving this growth in domestic consumption are increasing urbanisation, low per capita consumption, increasing disposable income and stable replacement demand.

India's tile industry has grown from Rs 95 bn in FY09 to Rs 270 bn in FY19, registering a CAGR of 11%. In the same period, volume has grown at a CAGR of 5% to touch 785 msm. This indicates that as the market continued to absorb higher volume, it also migrated to better quality or more expensive tiles.

Exhibit 27: Tile industry product break-up (volume)

	FY14		FY16		FY19	
	Volume (msm)	% Mix	Volume (msm)	% Mix	Volume (msm)	% Mix
Ceramic wall & floor tiles	415	61%	470	57%	430	55%
PVT	236	34%	310	38%	275	45%
GVT	30	4%	45	5%	80	10%
Total	**681**		**825**		**785**	

Tile Industry - product break-up (value)

	FY14		FY16		FY19	
	Value (Rs Bn)	% Mix	Value (Rs Bn)	% Mix	Value (Rs Bn)	% Mix
Ceramic wall & floor tiles	93	39%	105	44%	120	44%
PVT	77	32%	105	44%	110	41%
GVT	25	10%	30	12%	40	15%
Total	**195**		**240**		**270**	

Source: Industry, SMIFS Research

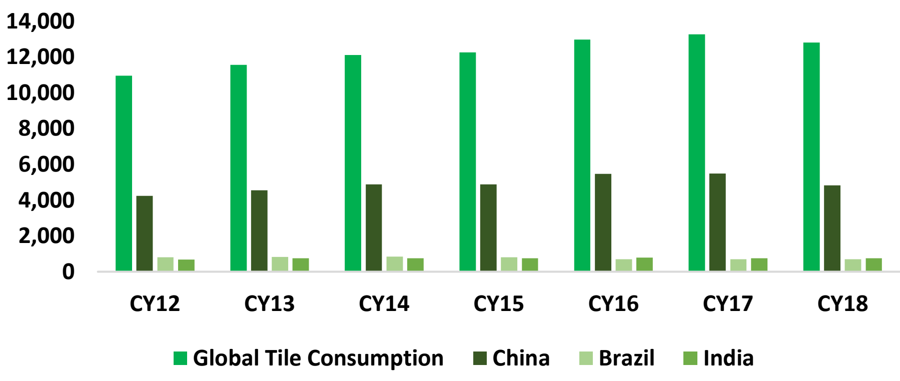
The branded players remained focused on entrenching their distribution network in smaller towns which are emerging as new age markets. They are likely to witness better times in a post Covid-19 environment. The level playing field (reduced price differential between branded and unbranded players after the implementation of GST, E-Way bill and ban of Coal gasifiers) along with sound Balance Sheets and stricter working capital discipline would enable them to recover faster.

In FY09, India's per capita ceramic tile consumption stood at 0.35sqm. vs. China's 1.88sqm. In FY19, while India's per capita tile consumption increased to 0.55sqm, China's consumption rose to 3.95sqm, indicating faster growth in China. The primary reason for faster growth in China was higher per capita disposable income, urbanisation and rising housing demand. ***We believe that India is at the cusp of such a growth trend as rising disposable income and urbanisation should change the consumer's perception about tiles from being an aspirational product to one of necessity.***

Industry Overview-

Despite growing at a faster pace globally, India lags considerably on per capita consumption basis. This implies growth opportunities still abound for India. Residential sector accounts for ~60% of total tiles demand while commercial constructions consume the rest. A slowdown in real estate sector during the past few years has moderated domestic demand. With sentiment recovering in the real estate markets, domestic tiles consumption should pick up.

Exhibit 28: Global tile consumption



Source: World Ceramic Review ,SMIFS Research

Organised Vs Unorganised-

The unorganised segment currently has ~50% and ~69% share in terms of sales value and volume, respectively. The remaining portion is shared by the organised players. The unorganised players are largely concentrated in Morbi, Gujarat. This single location accommodates more than 600 ceramic units employing over 3,50,000 people directly. These unorganised players have largely survived by focusing on low-priced products, tax evasion and their manufacturing expertise. Increased regulatory and tax compliance in the recent past has forced these unorganised units to tweak their business model. While some are now looking at export markets more rigorously, others are either associating themselves with a bigger/organised player or trying to establish their own brand.

Going forward, organized industry in India will benefit as the regulatory and enforcement processes become more rigorous and there is increased exposure to environmental emission standards. In addition, the NGT ban on Morbi players for the use of coal gasifiers, tightening GST standards and the recent challenges faced by China will help the industry’s branded players.

Exhibit 29: Tile market in sales value terms

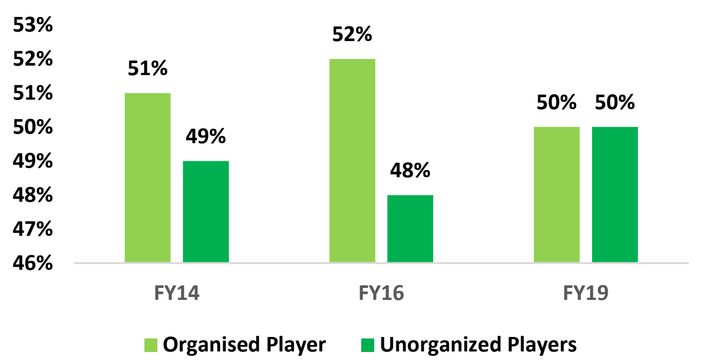
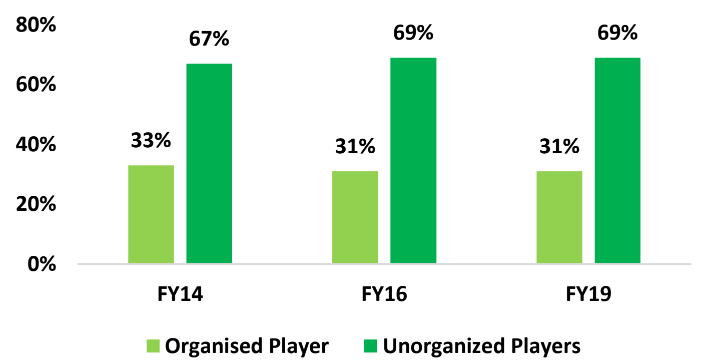


Exhibit 30: Tile market in sales volume terms



Source: Company ,SMIFS Research

Export Market-

Morbi district in Gujarat, which is the largest ceramics manufacturing cluster in India and accounts for ~65-70% of the country’s tile manufacturing capacity is witnessing significant increase in tile exports as a) various countries have imposed anti-dumping duty on Chinese tiles, b) there is anti-China sentiment owing to Covid-19 and c) traders have been increasing import share towards India to hedge purchases.

The exports of ceramic tiles increased by 31% from 1,078 million USD in FY 2019 to 1,414 million USD in FY2020 backed by dampened domestic demand, investment in technology and improving product quality.

Industry Overview-

Growth Drivers-

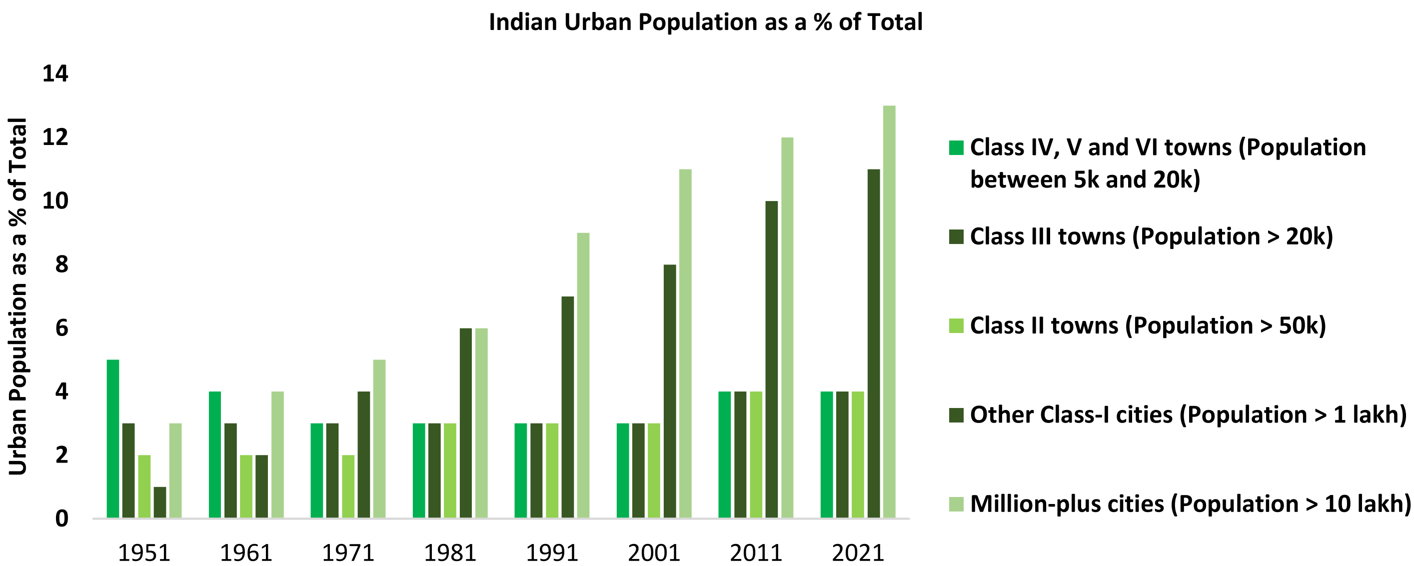
Rising urbanisation -

The growth in urbanization, coupled with increased spending on infrastructure by the Government of India fuels the demand for ceramic wall and floor tiles in residential and commercial buildings. According to the UN Department of Economic and Social Affairs (UN DESA), India is witnessing the absolute growth in urban population, owing to the growing income levels of the middle-class and stable democracy.

Moreover, nearly 10 million people are migrating to the urban area every year in India, which will result in forming of new 77 cities with more than 1 million population by 2030. Furthermore, rapid urbanization has affected the residential construction industry all over India. The urban population growth is concentrated in urbanized areas of India, which additionally makes ceramic tiles market crucial as these areas have high development rate for residential infrastructure.

~64% of India's population still resides in villages with a population of 5,000 or lower. Data from the 2011 Census and the Indian Institute for Human Settlement (chart below) suggests that in 1961 around 70mn people or 15% of the total population lived in Indian cities and towns, which rose to nearly 420mn (or 34%) in 2011. It is expected that 500mn people or 38% of the total population will live in cities and towns in 2021, which are major markets for tile manufacturers.

Exhibit 31: India's urban population as a percentage of total population



Source: Census 2011 & Indian Institute for Human Settlement ,SMIFS Research

Industry Overview-

Steady growth of the real estate sector-

Approval for the Real Estate Investment Trusts or REITs is already showing progress in attracting fresh investment in the sector. Developers have also started seizing this opportunity by selling large projects to PE funds and utilising the proceeds for reducing debt and strengthening the balance sheet.

Rising FDI into the sector is also introducing a higher level of accounting and operational transparency. Hiring of professional management teams, centralised procurement processes, organised manpower and effective management systems are a few examples of the ongoing positive changes in the sector. These changes are essential to meet high due diligence standards maintained by foreign investors

Terrible past experience has increased customers' preference for completed/ready-to-move-in projects rather than under-construction properties. This is also supported by GST-related tax savings in the case of completed properties. Interest rate subsidy under the Pradhan Mantri Awas Yojna has given the much-needed boost to demand, especially in the affordable housing segment.

Price correction in the past few years has increased affordability. We believe that realty prices will continue to erode as unsold inventory in the system remains high.

Rising importance of flooring -

Indian consumers in metro cities now no longer view tiles as a product for high-income individuals/families. The customers are inclined toward natural stones such as marble, granite, and others due to their advantageous features such as thermal inertia, and durability making it ideal for kitchens. Moreover, the wear and tear characteristic offer natural stone floor its charm and its appeal. Aspiration for better-looking homes, need for durable flooring and rising affordability (because of better household income) drive demand for tiles. We expect this trend to spread to smaller cities and towns where most of the houses still have mud/cement flooring.

GST + e-way bill-

Strong push towards an organised market Implementation of GST was expected to shift the odds in favour of organised players by eliminating the pricing advantage (because of tax evasion) enjoyed by the unorganised players. However, poor ground-level implementation, lax compliance regulation and increased tax differential led to the opposite effect with the unorganised players increasing their value and volume share .

However, the government has started tackling the problems and reduced the GST on tiles from the initial 28% to 18% in November 2017. This has lowered the tax arbitrage enjoyed by the unorganised players. Implementation of e-way bill is expected to reduce tax evasion significantly. The unorganised players have resorted to under-invoicing to escape the tax net. All in all, business for a tax-evading unit has become difficult and this should eventually trigger consolidation in the segment.

Current Demand Scenario-

⇒Retail demand was very strong till March 2021, however, it has started to show signs of weakness in April with rising covid-19 cases and the fear of lockdowns.

⇒Q1 is generally the slowest quarter since many dealers/distributors fill up inventory in March itself to achieve annual targets. This year was no exception with demand picking up; hence a lot of channel filling too place in March.

Industry Overview-

⇒ Some data from large private companies also suggest growth was solid at close to ~40-50% YoY during the Q4FY21 largely on the back of a more than a 100% surge in exports for certain companies. Domestic market too, on last year's low base, clocked growth of 30–40%.

⇒ Demand has now begun to slow given partial lockdowns in many states such as Rajasthan, Maharashtra, UP and Madhya Pradesh. Demand in southern states is holding up (largest market for building materials products).

⇒ On balance, order book has weakened from (1.5–2 months to less than a month now, i.e. ~40% reduction.)

⇒ Hence, after a strong comeback in FY21, the industry is likely to see a drop in domestic demand again in April and May; that said, the comeback is likely to be equally quick with the latter half likely to benefit strongly from release of pent-up demand.

⇒ Exports' demand continues to increase at a fast clip, with a monthly run rate of Rs 10–12bn.

⇒ For large private companies in Morbi, exports are up by more than 50% in FY21 with Q4FY21 recording even stronger growth off last year's low base. Furthermore, growth could have been 5–10% higher had there been no container availability issues during the quarter

⇒ Despite: i) the industry virtually losing out on first two months of exports, ii) travel bans, iii) container availability issues, and iv) higher freight rates, industry-wide exports for FY21 stood at more than Rs 12bn versus Rs 10bn in FY20.

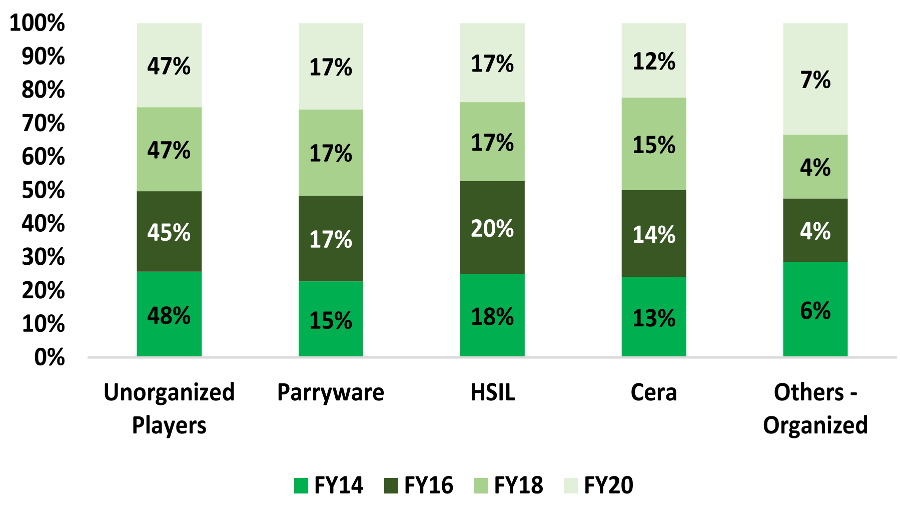
⇒ This better-than-expected performance is attributable to the improvement that began in June and sustained through the second half of the year, mitigating the losses of the first six months.

Sanitaryware industry

The Indian sanitary ware and faucets industry stands at Rs 143 bn and is growing at a CAGR of ~12-15%. With sustained public and private initiatives over the past few years, combined with enhanced living standards, India's level of sanitation has increased in multiples. Such initiatives have created an enormous demand for items used to construct public sanitation facilities, as well as domestic bathrooms, including bathroom fittings and sanitary ware.

Sanitaryware industry is skewed towards organized players with the Top-3 players i.e. CERA, HSIL and Parryware, who have been commanding >90% market share in the organized sanitaryware industry. Apart from product premiumization and strong branding and marketing, what differentiates the organized players from the unorganized ones, is their ability to deliver globally competitive products.

Exhibit 32: Market share of sanitaryware players



Source: Company SMIFS Research

Industry Overview-

The exports of ceramic sanitaryware grew by 5% on a YoY basis from 134 mn USD in FY19 to 141 mn USD in FY20 whereas the imports of sanitaryware fell by 5% from 104 million USD in FY19 to 99 million USD in FY20.

Demand momentum is expected to improve significantly in Tier-II and Tier-III cities, mainly due to increase in demand for low-ticket housing. Further, lower housing loan rate is also helping the demand for affordable housing and in turn aiding the demand for sanitaryware and faucetware products.

We note that there is ample of opportunity for building materials from affordable housing segment under PMAY. As per PMAY (Rural + Urban), ~12mn houses are to be constructed by FY22E. Further, 6.5mn of new houses are yet to be sanctioned.

In the absence of strong demand from urban real estate markets due to various reasons, affordable housing segment has been a major demand driver for last 4-5 years for the building material manufacturers. We believe government's strong commitment to complete the targeted number of houses augurs well for building materials segment i.e. sanitaryware, faucets and tiles.

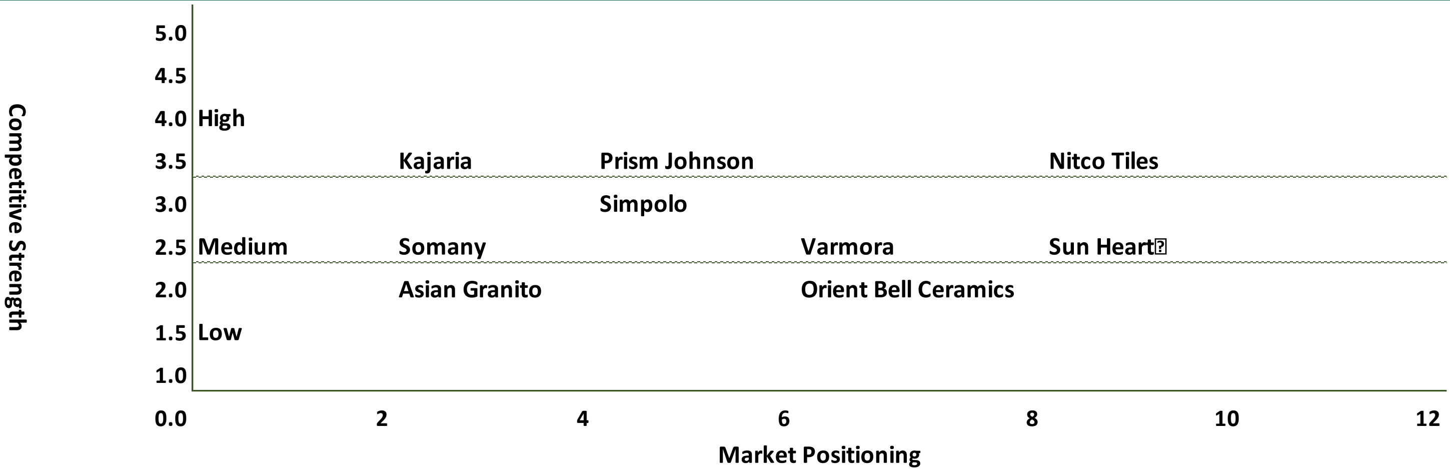
Faucet – Industry overview

The industry size is estimated at ~Rs90bn, which has been growing at a healthy rate of 8-10% over the last decade. About 53% of the industry is organized and has prominent players like Cera, HSIL, Parryware and Jaquar, etc. Unlike tiles and sanitaryware, replacement cycle for faucet is faster and drives the industry growth. In terms of demand, retail demand has the major share of 70%, which supports the growth of organized players

The higher growth rate is supported by replacement demand which is more than 2x the institutional market. This immunes the business from cyclical nature of the real estate sector and provides a largely consistent earnings profile with better pricing power. However, the unorganised segment controls 50% of the total market and has gained a small share because of high rural demand in recent years. Jaquar continues to rule the market with over 60% share in the organised segment followed by fierce competition between Parryware, HSIL, Cera, Kohler, Grohe, etc.

Led by consciousness about COVID-19, there has been a sharp increase in demand for premium touch-free faucetware products. However, cheap imported products including Chinese faucetware are dominating the market as of now.

Exhibit 33: India's urban population as a percentage of total population



Source: Company SMIFS Research

Company Overview-

Prism Johnson Limited (PJL) was incorporated in 1992. It has been engaged in the manufacturing and sales of cement since 1997. The company's cement division operates two units, both based in Satna, Madhya Pradesh, with a combined installed cement manufacturing capacity of 5.6 MMT. It caters to the major markets of Uttar Pradesh, Madhya Pradesh and Bihar. In FY2009, PJL amalgamated H&R Johnson (India) Limited and RMC Readymix (India) Private Limited with itself. Post amalgamation, PJL has been operating with three divisions, namely cement, HRJ and RMC.

Exhibit 34: Prism Johnson: An Integrated Building Materials Company

	Prism Cement	HRJ	Prism RMC
Capacity	• 5.6 MMT at Satna Cluster in Central I	• 60 mn m2 of own and JV capacity across 11 locations in India	• 10.5 mn m3
Products:	• Ordinary Portland Cement (OPC) • Portland Pozzalana Cement (PPC): Champion • Premium PPC Products: Champion Plus and Duratech	• Tiles: Ceramic, Vitrified and Industrial • Sanitary ware & Faucets • Engineering Marbles & Quartz • Construction Chemicals	• Ready-mixed Concrete • Aggregates • Manufactured Sand
Regional Mix	• Regional presence catering mainly to Eastern UP, Bihar and Madhya Pradesh	• Pan India presence, catering to the aspirational and affordable consumption segment and industrial segment	• Pan India presence, catering mainly to urban real estate and infrastructure

Source: Company SMIFS Research

Revenue Mix

PJL is an integrated building materials Company that operates the business in three main segments, that is, Cement, H&R Johnson India (Tiling and building material business) and Ready Mixed Concrete (RMC). PJL's cement business contributed ~46% of overall revenues, which is followed by HRJ contributing ~33% while ready-mixed concrete (RMC) and insurance contribute ~16/5% respectively in FY21.

Exhibit 35: Revenue mix (FY21)

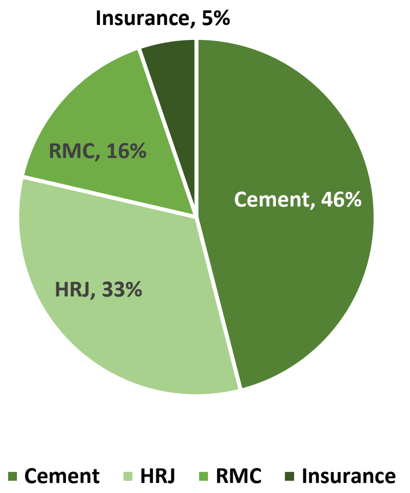
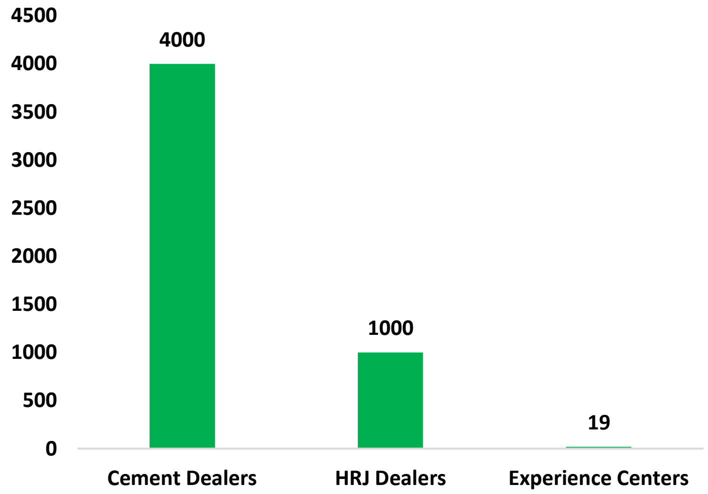


Exhibit 36: Dealers mix (FY21)



Source: Company SMIFS Research

Company Overview-

Exhibit 37: PJL's milestones since incorporation

Year	Key Event
1992	Company incorporated as Karan Cement Limited.
1993	JV executed between Mr. Rajan Raheja and Danish company F.L. Smidth for setting up 2 MMT cement plant.
1994	Name of the Company changed to Prism Cement Limited.
1995	Initial Public Offering.
1997	**Commenced production of first line of cement capacity of 2.0 MMT at Satna, Madhya Pradesh.**
2004	Set up bulk loading and truck loading system.
2005	Ranked 3rd best in leadership for adopting state-of-the-art technology and energy efficiency.
2009	Amalgamation of Prism Cement Limited, H. & R. Johnson (India) Limited and RMC Readymix (India) Private Limited.
2010	**Commenced second line of cement production capacity of 3.6 MMT.**
2011	Joint Venture agreement with Small Johnson Floor Tiles Private Limited.
2012	Received ISO 27001:2005 Certification (ISMS).
2013	Received nod from National Accreditation Board for Testing and Calibration Laboratories (NABL) for testing lab.
2015	Joint Venture agreement with Coral Gold Tiles Private Limited. **Launched Duratech - a premium cement brand.**
2016	Entered into a power supply agreement and acquired stake in BLA Power Private Limited **Launched Champion Plus - a premium cement brand**
2017	Prism RMC set up NABL accredited labs in Mumbai, Bengaluru, Gurugram and Chennai.
2018	**Name of the Company changed to Prism Johnson Limited.**
2019	**Commissioned 7.5 MW of solar power at Satna.** Launched new product range under the brand name Johnson International.
2020	**Commissioned 10.0 MW of WHRS and 5.0 MW of solar power at Satna Joint Venture agreement with Sanskar Ceramics Private Limited.**
2021	**Commissioned 12.4 MW of WHRS and 10 MW of solar plant at Satna.** Received NCLT approval for the Composite Scheme of Arrangement and Amalgamation among the Company and some of its wholly owned subsidiaries.

Source: Company SMIFS Research

Prism Cement-

Prism Cement manufactures Cement with the brand name 'Champion' and premium quality grade of cement under 'Champion Plus' and 'DURATECH' brand. It caters mainly to markets of Eastern UP, MP and Bihar, with an average lead distance of 384 kms in FY21 for cement from its plant at Satna, MP. Prism Cement has a wide distribution network of around 4,000 dealers serviced from ~160 stock points.

Exhibit 38: Cement Products

Duratech Cement		Duratech cement is an all-purpose cement. It can be used in all types of reinforced cement concrete (RCC), pre-cast works, including building terraces, beams, columns and foundations.
Champion Plus		Champion Plus cement makes the concrete stronger, denser and leak proof, reinforcing the foundation. It caters a large segment of clients, including home builders and infrastructure projects.
Champion Cement		Champion cement, with its finer pore structure and less permeability, offers durability, compactness and chemical attack resistance. These make it sustainable for a variety of applications, including housing, highways, wells, dams, masonry and plastering.

Source: Company SMIFS Research

Company Overview-

Exhibit 39: Prism Cement: Prominent Cement Player in Central India

- Prominent cement company in Central India with installed capacity of 5.6 mtpa at Satna, Madhya Pradesh.
- Stable demand-supply scenario in the Satna cluster, with demand from real estate and infrastructure sectors likely to pick-up in FY22.
- Superior Capital Employed at approx. US$ 37 / ton; Cement Division ROCE at 28.8% in FY21, amongst the best in the industry.
- Superior product mix; Duratech and Champion Plus constituted 27.7% of cement volumes in FY21.
- **Key Focus Areas:** Further increase in volume share of premium products, expand network reach and increase usage of renewable sources of energy.
- **Growth Plan:** Debottlenecking at Satna to increase cement capacity by 0.9 MMT to 6.5 MMT by June 2022; Additional grinding capacity at Satna to further increase cement capacity to 7.5 MMT by September 2023.

Source: Company SMIFS Research

H & R Johnson (India)

HRJ offers end-to-end solutions of Tiles, Sanitaryware, Bath Fittings and Engineered Marble & Quartz. All the products are sold under 4 strong brands, viz. Johnson, Johnson Marbonite, Johnson Porselano and Johnson Endura. In ceramic / vitrified tiles, HRJ along with its Joint Ventures and subsidiaries has a capacity of 60 msm spread across 11 manufacturing plants across the country which is one of the largest in India.

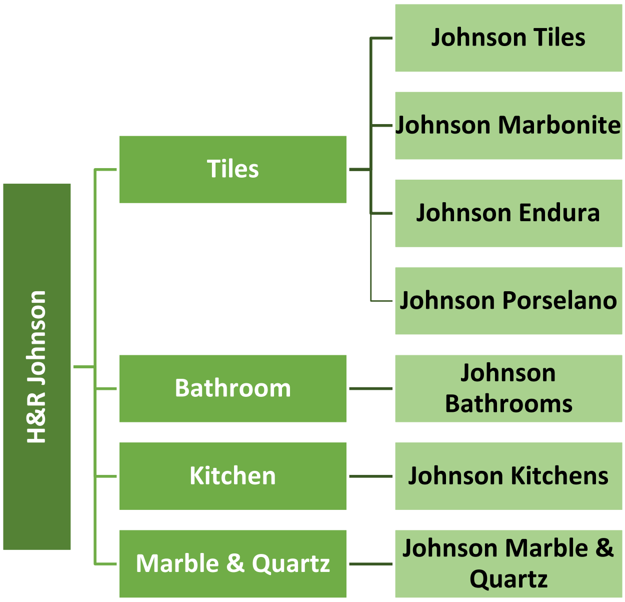
The company has a JV with Ardex, Germany (50% stake); Key products of Ardex Endura are tile fixing adhesives, added industrial flooring, and grouts. It has a pan-India presence with plants in Bengaluru, Baroda, Durgapur, Pune, Nellore, Bhiwadi and Allahabad. Key products of the bathroom segment are sanitaryware, faucets, and bath fittings.

Tiles are sold under four brands Johnson, Johnson Marbonite, Johnson Porselano, and Johnson Endura to bring in greater focus and better performance. This division aims to invest in marketing and distribution networks to increase the demand for its quality goods and to improve their rate of usage and efficiencies.

The company follows the mix of own manufacturing and joint venture model for tiles manufacturing and in case of further demand to meet it outsources manufacturing. It was indicated that the same model will be continued by the company.

Company Overview-

Exhibit 40: HRJ: Amongst the Leading Ceramics Companies in India



Source: Company SMIFS Research

RMC (India)-

RMC (India) is one of India's leading ready-mixed concrete manufacturers. ***RMC currently operates 96 ready-mixed concrete plants in 44 cities/towns across the country, with a total capacity of 10.5 mn m3.*** RMC has ventured into the Aggregates business and operates large quarries and crushers. At present, RMC has 6 quarries across the country. RMC has been at the forefront in setting high standards for plant and machinery, production, safety standards, quality systems and product services in the ready-mixed concrete industry.

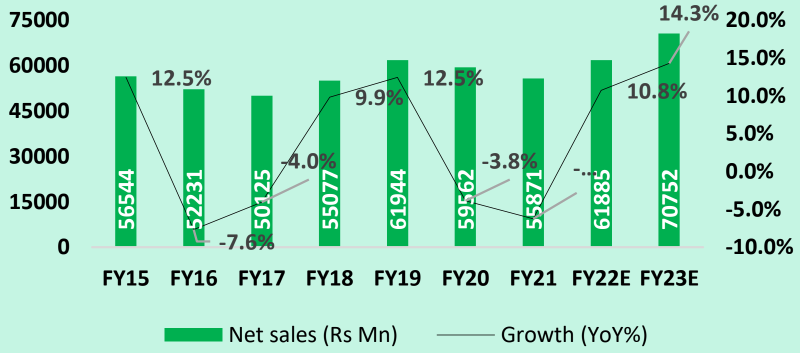
Insurance Business-

PJL 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.

On July 6, 2020, Board of Directors of the Company had approved divestment of its 51% stake in Raheja QBE General Insurance Company Limited ('RQBE') to QORQL Private limited, a technology company with majority shareholding of Vijay Shekhar Sharma and remaining held by Paytm, subject to receipt of approval by the shareholders of the company and all other requisite approvals.

Key Performance Indicators

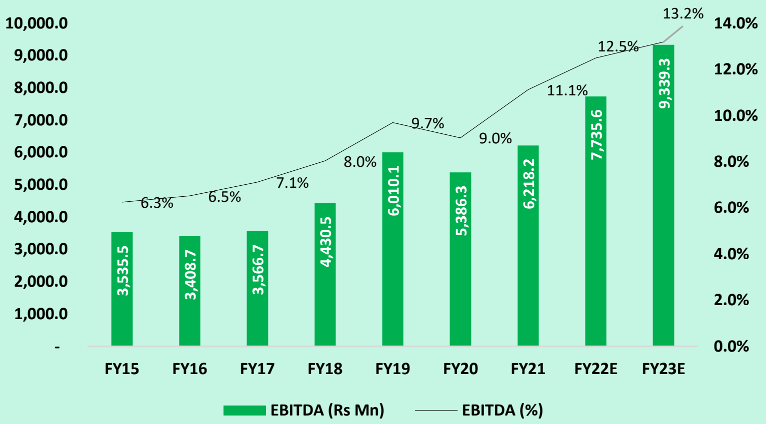
Exhibit 41: Revenue Growth (%)



Source: Company SMIFS Research

Net Revenue is likely to grow on the back of rising cement sales and better performance from HRJ/ RMC segment which would lead to 13% CAGR revenue growth over FY21-23E. We are expecting a strong revenue growth in near future on the back of strong market demand from all the segments going forward.

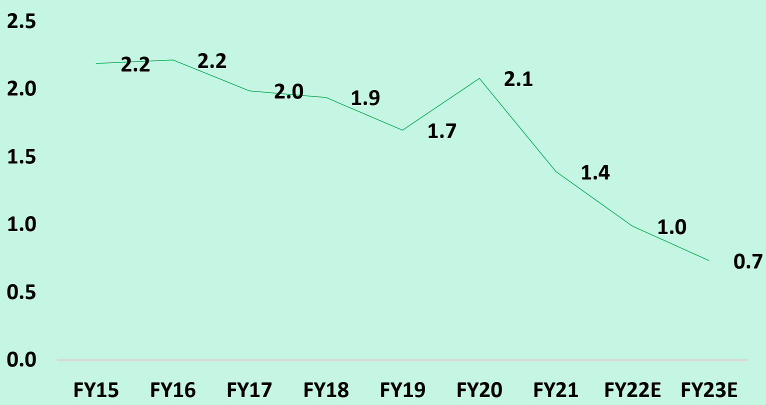
Exhibit 42: EBITDA Margin(%)



Source: Company SMIFS Research

We expect EBITDA margins to improve on the back of operating leverage, fixed cost reduction and better pricing in the three division of the company.

Exhibit 43: Debt-Equity Ratio



Source: Company SMIFS Research

Company reported an operating cash flow of Rs 12,806 mn in FY21 vs. Rs 6,668 mn in FY20, primarily led by profitability improvement and efficient working capital management. The continuous deleveraging of the balance sheet augurs well for the company as the current debt/ equity ratio stands at 1.4x from 2.2x in FY16 and we expect the same to be reduced to 0.7x by FY23E

Peer Comparison

Comparison for cement companies

	Market Cap (Rs Bn)	ROE (%)			Debt/Equity			EV/EBITDA (X)		
		FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
UltraTech	2054.5	10.0%	11.9%	13.2%	0.9	0.6	0.4	17.2	11.7	17.6
Shree Cement #	1024.8	9.9%	12.1%	15.2%	0.3	0.2	0.1	27.7	21.2	24.0
Ambuja *	740.7	6.8%	9.0%	11.4%	0.0	0.0	0.0	5.7	7.4	18.9
Dalmia Bharat#	408.0	2.9%	2.1%	9.7%	0.6	0.6	0.3	9.1	7.2	12.0
ACC *	390.6	12.4%	11.7%	11.8%	0.0	0.0	0.0	8.2	9.5	11.2
Ramco Cements	261.5	11.7%	12.7%	15.1%	0.4	0.6	0.5	17.6	12.7	16.3
JK Cement	248.7	11.3%	16.9%	19.1%	1.1	1.1	0.5	10.0	7.6	15.9
Birla Corp	101.0	7.2%	13.2%	10.9%	1.1	0.9	0.7	7.7	5.1	15.6
Prism Johnson #	70.4	10.8%	0.9%	14.8%	1.7	2.1	1.4	15.0	16.6	13.4

* CY ending , # SMIFS Coverage

Comparison for TBK (Tiles and bathroom & kitchen products) companies

	Market Cap (Rs Bn)	ROE (%)			Debt/Equity			EV/EBITDA (X)		
		FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Kajaria Ceramics	157.4	15.7%	15.5%	16.5%	0.1	0.1	0.1	19.8	13.4	31.9
Cera Sanitaryware	58.4	16%	15%	12%	0.1	0.1	0.1	19.1	17.0	31.5
Asian Granito	5.9	4.6%	8.5%	9.1%	0.8	0.7	0.4	11.6	6.4	6.9

Source: Company SMIFS Research

Key Risks

Delay in capacity expansion & slowdown in cement demand: PJL is currently expanding its cement capacity by 1-2 MMT . Any delay in capacity expansion may risk our earnings estimate. Furthermore, any demand slowdown may lead to non absorption of the expanded capacity.

Un-availability of key raw materials: The key raw material for cement is limestone and its availability are essential for upcoming cement capacities as well as production from existing plants. PJL has adequate limestone reserves and continuously making efforts to conserve limestone by optimizing its usage. Any expected increase in the cost of production and availability of limestone may further increase the production costs.

Increase in freight expenditure: Since freight cost accounts for ~18-20% of total operating cost (cement division), any adverse movement in diesel prices could negatively impact the profitability of the company.

Increase in power & fuel cost: Any increase in coal or pet coke price which is not passed on by the company may impact margins going forward.

Outlook & Valuation

We expect the next few years to be characterized by sustainable volume growth (6% CAGR over FY20-23E) and stable price increases; however, a more robust and sustainable improvement in profitability is likely to play out, supported by better price-discipline, ongoing cost-optimization and de-risking efforts, and more importantly restrained capacity additions.

While FY21 was impacted due to COVID19 and consequent volume loss, the outlook over FY21-23E continues to be robust. This is in light of notable revival in infra and housing projects led by the government's higher spending in Central and Northern India, the company's strategic capacity addition in these regions, and its focus on increasing premium and value-added products' share. These factors will ensure higher volume and revenue growth for the company going forward.

With perceptible presence in tiles segment and business interest in allied businesses like faucetware, tiles and wellness products segment, we expect PJL to see healthy traction in ensuing years. Additionally, balanced products portfolio at a varied price points, robust distribution network and rising brand awareness in Tier-II and Tier-III cities bode well for sustained earnings growth.

We expect the company to report Revenue/EBITDA/PAT CAGR of 13%/23%/45% over FY21-FY23E. Furthermore, PJL should also be able to generate strong FCF and reduce its net debt substantially to Rs 7,181 mn in FY23E from Rs 11,827 mn in FY21.

We expect the company to benefit from strong regional presence in cement, improving utilization, and cost efficiencies, apart from industry triggers like higher realizations. We prefer PJL due to its improving margins on the back of substantial ongoing cost reduction and future growth visibility on the back of expansion plans. However, in the short to medium term, demand recovery in core markets continues to be the key monitorable. Also, the divestment of the insurance business should help improve liquidity and profitability.

We have valued the stock on SOTP basis valuing cement, HRJ & RMC business at 9x/10x/5x FY23E EV/EBITDA, Raheja QBE general insurance at its proposed divestment value and recommend a "STRONG BUY" on the stock with a target price of Rs 172.

Exhibit 44: Sum-of-parts valuation (consolidated)

Segments	Methodology	FY23E EBITDA (Rs mn)	Multiple (x)	Value	Value (Rs / sh)
Cement	FY23e EV/EBITDA	6918	9	62258	124
RMC	FY23e EV/EBITDA	460	5	2300	5
HRJ	FY23e EV/EBITDA	2564	10	25636	51
Raheja QBE General Insurance	Proposed divestment value			3500	7
Less: Net debt				7180	14
Equity value				**86514**	**172**
No. of shares (Mn)	503				
CMP					140
Upside (%)					**23%**

Source: Company Data, SMIFS Research

Financials

Income Statement (Consolidated)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Net Revenues	**61944**	**59562**	**55871**	**61885**	**70752**
Expenses	55934	54176	49653	54149	61413
EBITDA	**6010**	**5386**	**6218**	**7736**	**9339**
Depreciation & Amortisation	2000	2506	2925	3370	4067
EBIT	**4010**	**2881**	**3293**	**4365**	**5272**
Other Income	266	287	382	371	425
Interest Cost	2196	2517	2104	1709	1506
Exceptioanl Items	113	103	48	0	0
PBT	**1968**	**548**	**1523**	**3028**	**4190**
Tax expense	916	740	162	763	1056
PAT	**1052**	**-192**	**1361**	**2265**	**3134**
Noncontrolling interests	112	293	351	340	470
Adj. PAT	**1164**	**100**	**1712**	**2605**	**3605**

Source: Company Data, SMIFS Research

Balance Sheet (Consolidated)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Share Capital	**5034**	**5034**	**5034**	**5034**	**5034**
Reserves & Surplus	6228	5756	7382	9378	12069
Non controlling interests	2659	2450	2824	2824	2824
Networth	**13921**	**13240**	**15239**	**17235**	**19926**
Long term Borrowings	**11752**	**15044**	**14298**	**13298**	**11798**
Other Non-Current Liabilities	5406	7451	7927	8745	9476
Short term Borrowings	**7344**	**7400**	**2976**	**940**	**752**
Other Current Liabilities	15869	17639	21210	22687	24577
Total Equity & Liabilities	**54291**	**60773**	**61651**	**62904**	**66529**
Net Tangibile Asset	**27500**	**30797**	**30789**	**31018**	**29985**
Non Current Investments	3227	3082	4973	4973	4973
Other Non Current Assets	4837	3978	4105	4490	5022
Inventories	7093	7417	5805	6622	7570
Trade Receivables	7222	7147	6255	7080	8271
Cash and Cash Equivalents	622	1370	3464	1995	3385
Other bank balances	116	2808	1984	1984	1984
Current Investments	1098	1498	1602	1857	2123
Other Current assets	2577	2676	2674	2887	3215
Total Assets	**54291**	**60773**	**61651**	**62904**	**66529**

Source: Company Data, SMIFS Research

Financials

Cash Flow Statement (Consolidated)					
Particulars (Rs Mn.)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
PBT	**2012**	**621**	**1565**	**3028**	**4190**
Depreciation & Amortisation	2000	2506	2925	3370	4067
Interest expense	2129	2503	2099	1709	1506
(Increase)/Decrease in CA & CL	534	1332	7176	55	-379
Others	385	176	-829	0	0
Taxes Paid	-522	-468	-131	-763	-1056
Cash Flow from Operating Activities	**6539**	**6669**	**12806**	**7398**	**8329**
Capital Expenditure	-2866	-3740	-2295	-3599	-3035
Others	-436	-2828	-355	86	204
Cash Flow Investing Activities	**-3301**	**-6568**	**-2650**	**-3513**	**-2831**
Dividend Payment	-303	-607	0	-609	-914
Others	-1928	-2278	-2923	-1709	-1506
Cash Flow from Financing Activities	**-3247**	**647**	**-8062**	**-5354**	**-4107**
Net Cash Flow	**-10**	**748**	**2093**	**-1469**	**1391**
Opening Cash	**632**	**622**	**1370**	**3464**	**1995**
Closing Balance	**622**	**1370**	**3464**	**1995**	**3385**

Source: Company Data, SMIFS Research

Key Ratios					
Particulars	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Margins					
EBITDA Margin	9.7%	9.0%	11.1%	12.5%	13.2%
PAT Margin	1.9%	0.2%	3.1%	4.2%	5.1%
Per Share Data					
BVPS	22.4	21.4	24.7	28.6	34.0
EPS	2.3	0.2	3.4	5.2	7.2
DPS	0.5	1.0	0.0	1.0	1.5
No. of Shares	503.4	503.4	503.4	503.4	503.4
Financial Ratios					
ROE	10.8%	0.9%	14.8%	19.4%	22.9%
ROCE	14.1%	10.0%	11.7%	16.2%	19.5%
Debt/Equity(x)	1.7	2.1	1.4	1.0	0.7
Interest Coverage (x)	1.8	1.1	1.6	2.6	3.5
Valuation Ratios(x)					
P/E	60.5	701.4	41.1	27.0	19.5
P/BV	6.3	6.5	5.7	4.9	4.1
EV/EBITDA	15.0	16.6	13.4	10.6	8.4

Source: Company Data, SMIFS Research

Analyst Certification:

We /I, Anik Das, MS-Finance, Research Analyst(s) of SMIFS Limited (in short "SMIFS / the Company"), authors and the names subscribed to this Research Report, hereby certify that all of the views expressed in this Research Report accurately reflect our views about the subject issuer(s) or securities and distributed as per SEBI (Research Analysts) Regulations 2014. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this Research Report. It is also confirmed that We/I, the above mentioned Research Analyst(s) of this Research Report have not received any compensation from the subject companies mentioned in the Research Report in the preceding twelve months and do not serve as an officer, director or employee of the subject companies mentioned in the Research Report.

Terms & Conditions and Other Disclosures:

SMIFS Limited is engaged in the business of Stock Broking, Depository Services, Portfolio Management and Distribution of Financial Products. SMIFS Limited is registered as Research Analyst Entity with Securities & Exchange Board of India (SEBI) with Registration Number – INH300001474.

SMIFS and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Research Analysts. SMIFS generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this Research Report have been prepared by SMIFS and are subject to change without any notice. The Research Report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of SMIFS Limited. While we would endeavor to update the information herein on a reasonable basis, SMIFS is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent SMIFS from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or policies of SMIFS, in circumstances where SMIFS might be acting in an advisory capacity to this company, or in certain other circumstances.

This Research Report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This Research Report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Securities as defined in clause (h) of section 2 of the Securities Contract Act, 1956, includes Financial Instruments, Currency and Commodity Derivatives. Though disseminated to all the customers simultaneously, not all customers may receive this Research Report at the same time. SMIFS will not treat recipients as customers by virtue of their receiving this Research Report. Nothing in this Research Report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this Research Report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. SMIFS accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this Research Report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. The information given in this report is as of date of this report and there can be no assurance that future results or events will be consistent with this information. The information provided in this report remains, unless otherwise stated, the copyright of SMIFS. All layout, design, original artwork, concepts and intellectual Properties remains the property and copyright of SMIFS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the SMIFS.

SMIFS shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, breakdown of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of SMIFS to present the data. In no event shall SMIFS be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the SMIFS through this report.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (a) Exchange Rates can be volatile and are subject to large fluctuations; (b) the value of currencies may be affected by numerous market factors, including world and notional economic, political and regulatory events, events in Equity & Debt Markets and changes in interest rates; and (c) Currencies may be subject to devaluation or government imposed Exchange Controls which could affect the value of the Currency. Investors in securities such as Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Since associates of SMIFS are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this Research Report.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may: (i) from time to may have long or short positions in, and buy or sell the Securities, mentioned herein or (ii) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the Financial Instruments of the Subject Company/ companies mentioned herein or act as an Advisor or Lender/Borrower to such Companies or have other potential/material Conflict of Interest with respect to any recommendation and related information and opinions at the time of the publication of the Research Report. Or at the time of Public Appearance. SMIFS does not have proprietary trades but mat at a future date, may opt for the same with prior intimation to Clients/ Investors and extant Authorities where it may have proprietary long/short position in the above Scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider Risk Appetite or Investment Objective of any particular Investor; Clients/ Readers/ Subscribers of this Research Report are requested to take independent professional advice before investing. The information provided herein should not be construed as invitation or solicitation to do business with SMIFS.

SMIFS or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the Research Report as of the last day of the month preceding the publication of the Research Report.

SMIFS encourages independence in Research Report preparation and strives to minimize conflict in preparation of Research Report. Accordingly, neither SMIFS and their Associates nor the Research Analysts and their relatives have any material conflict of interest at the time of publication of this Research Report or at the time of the Public Appearance, if any.

SMIFS or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

SMIFS or its associates might have received any compensation from the companies mentioned in the Research Report during the period preceding twelve months from the date of this Research Report for services in respect of managing or co-managing public offerings, corporate finance, investment banking, brokerage services or other advisory service in a merger or specific transaction from the subject company.

SMIFS or its associates might have received any compensation for products or services other than investment banking or brokerage services from the subject companies mentioned in the Research Report in the past twelve months.

SMIFS or its associates or its Research Analysts did not receive any compensation or other benefits whatsoever from the subject companies mentioned in the Research Report or third party in connection with preparation of the Research Report.

Compensation of Research Analysts is not based on any specific Investment Banking or Brokerage Service Transactions.

The Research Analysts might have served as an officer, director or employee of the subject company.

Neither the Research Analysts nor SMIFS have been engaged in market making activity for the companies mentioned in the Research Report.

SMIFS may have issued other Research Reports that are inconsistent with and reach different conclusion from the information presented in this Research Report.

A graph of daily closing prices of the securities/commodities is also available at www.nseindia.com and/or www.bseindia.com, www.mcxindia.com and/or www.icex.com.

SMIFS submit' s that no material disciplinary action has been taken on the Company by any Regulatory Authority impacting Equity Research Analysis activities in last 3 years.

This Research Report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SMIFS and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

For queries related to compliance of the report, please contact: -

Sudipto Datta, **Compliance Officer**

SMIFS Limited.

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5414 /91 33 6634 5414

Email Id.: **compliance@smifs.com** **|** Website: **www.smifs.com**