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Initiating Coverage
June 26, 2014

Prism Cement Ltd.

Ramp-up in Utilization in all segments to drive growth

Current	Previous
CMP : Rs.74	
Rating : BUY	Rating : BUY
Target : Rs.117	Target : Rs.85

STOCK INFO	
BSE	500338
NSE	PRISMCEM
Bloomberg	PRSC IN
Reuters	PRIS.BO
Sector	Cement & Cement Products
Face Value (Rs)	10
Equity Capital (Rs mn)	5,034
Mkt Cap (Rs mn)	37,274
52w H/L (Rs)	82/ 23
3m Avg Daily Vol. in mn (BSE+NSE)	1,259,175

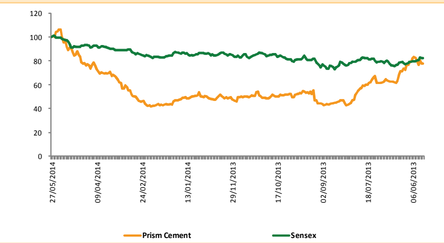
SHAREHOLDING PATTERN	%
(as on 31st Mar. 2014)	
Promoters	74.9
FIIs	2.8
DIIs	3.7
Public & Others	18.7

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
PRISM CEMENT	36	94	117
SENSEX	2	13	33

Source: Capitaline; IndiaNivesh Research

PRISM CEMENT V/S SENSEX



Source: Capitaline; IndiaNivesh Research

Since our Idea note dated May 5, 2014 (at then CMP of Rs 50), Prism Cements stock has delivered 48% absolute return. Demand revival leading to higher capacity utilization levels in FY15-16E (across all business segments) when coupled with cost saving initiatives/ operational efficiencies across all business segments, would translate to ~Rs 1.8 bn of cost savings. Accordingly, we expect EBITDA margins to improve from ~2.7% (in FY14) to ~9.7% (in FY16E). Using sum-of-the-parts based valuation methodology we arrived at revised PT of Rs 117. Given the 58% upside we maintain BUY on the stock.

Investment Rationale

Cement- cost savings to push-up margins: With no new plant coming up (except R-Infra's Maihar plant) in Central India, PCL's cement plant would gain the most from demand revival. With new silo blending plant functioning, captive coal mining started and other cost saving initiatives, we expect cement division to report ~Rs 1,370 mn of cost savings in FY15E. Already we had glimpse (smaller extent) of these initiatives in Q4 numbers. We expect Cement business EBITDA margins to improve from 3.5% in FY14 to 13.1% in FY16E.

TBK- Worst is behind, expect sharp profitability growth: PCL enjoys strong market positioning with the TBK (Tiles, Bath Fittings and Kitchen) business. With all power issues resolved, we expect ramp-up in operations. This when coupled with savings on the cost front (as 43% of capacity has switched from high cost power to low cost power), we expect sharp improvement in the segment profitability.

RMC- Utilization levels to catch-up: Economic slow-down took a big toll on RMC business of PCL. With market revival on cards and RMC plants running at ~46% utilization, there exists ample scope for catch-up in business without pursuing any further capex. With ramp-up in business, we expect sharp turn-around in the RMC business margins from here-on. Also, favorable policy announcement for RMC segment would be aiding growth prospects.

Valuation

If we look at last 7 years trading history of PCL, then PCL stock has traded in a wide band of 1.7x-27.3x on forward EV/EBITDA basis. In the past financial performance of the company has been affected due to cyclical nature of cement business, power issues at TBK segment. At CMP of Rs 74, PCL is trading at FY15E and FY16E, EV/EBITDA multiple of 13.3x and 7.0x, respectively. **Using SoTP based valuation methodology**, we arrived at **PT of Rs 117/share**. Given the **58% upside, we recommend BUY on the stock**. At our PT of Rs 117, PCL stock would be trading at FY15E and FY16E, EV/EBITDA multiple of 19.2x and 10.6x, respectively.

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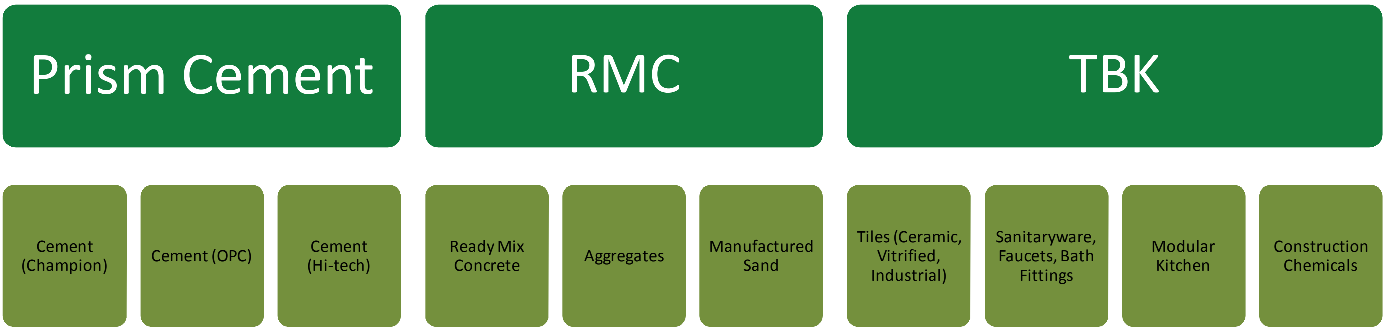
Consolidated Financials

YE March (Rs mn.)	Net Sales	EBITDA	PAT Adj.	Equity Cap.	EPS (Rs)	RoE (%)	EV/EBITDA (x)
FY13A	48,230.1	2,572.7	(624.7)	5,033.6	(1.24)	-5.3%	21.1x
FY14A	49,932.0	1,327.3	(862.0)	5,033.6	(1.71)	-7.8%	43.8x
FY15E	56,273.6	3,784.3	525.0	5,033.6	1.04	4.8%	13.3x
FY16E	65,645.7	6,372.5	1,989.5	5,033.6	3.95	16.4%	7.0x

Source: IndiaNivesh Research

Company Snapshot

Integrated Building Materials Company



Source: Company; IndiaNivesh Research

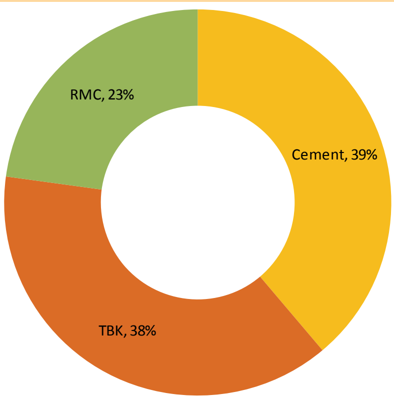
Promoted by Rajan Raheja Group, PCL from being a cement player in last few years, has evolved as of one of the large Building Material players with a diversified business model. It is one of the only listed companies in India, which does business across, (1) Cement, (2) Tiles, Bathroom & Kitchen (TBK) and (3) ReadyMix Concrete (RMC) business.

PCL has ~5.6 mtpa of nameplate capacity (with capability to produce ~7 mtpa) at Satna, Madhya Pradesh. Cement business majorly caters to retail segment, with ~73% of FY14 sales coming in from UP & MP. Cement business a/c for 39% & 51% of FY14 consol. revenues & EBITDA, respectively

PCL acquired H&R Johnson to diversify from being a cement player to a Tiles manufacturer. With over 54 mn sq. m. of installed capacity, PCL is a market leader (on installed capacity basis) in the domestic wall, floor and vitrified ceramic tiles business. In addition to 4 own manufacturing plants, the company has 5 JV plants spread across the country. TBK business a/c's for 38% & 26% of FY14 consol. revenues & EBITDA, respectively. In last few years, the company has further diversified to being a Bathroom Fittings & Kitchen player. We are of view that their strategy to diversify this segment was considering the rising disposable income, strong demand trends and increased awareness about lifestyle trends.

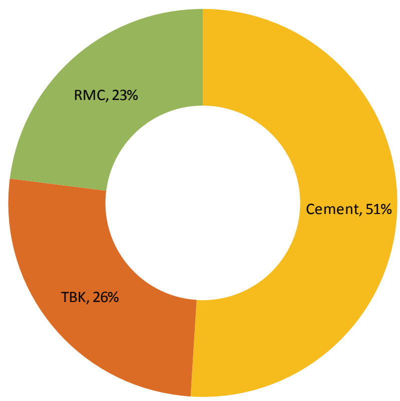
PCL generated 23% and 23% of the consol. Revenues and EBITDA from the RMC business. Currently, PCL has the second largest installed RMC capacity with ~7 mn m^3 per annum with 90 batching plants spread across 37 cities/ towns. In addition to RMC revenues, this segment also gets revenues from Aggregates, given that the company has 7 quarries. This segment serves Builders & Contractors who are involved in construction of urban housing & Retail/ Commercial buildings.

FY14 Revenues- Segment-wise split (%)



Source: Company; IndiaNivesh Research

FY14 EBITDA- Segment-wise split (%)



Source: Company; IndiaNivesh Research

Segment Financials

Y E March (Rs mn)	2013A	2014A	2015E	2016E
Cement Segment Revenues	**18,822**	**19,472**	**21,469**	**24,092**
Volume (mn tn)	4.8	5.1	5.4	5.7
Realization (Rs/ tn)	3,954	3,822	3,992	4,226
Cement Segment EBITDA	**1,615**	**677**	**2,104**	**3,157**
Margins (%)	*8.6%*	*3.5%*	*9.8%*	*13.1%*
RMC Segment Revenues	**11,275**	**11,431**	**12,974**	**15,450**
Volume (mn m3)	3.2	3.3	3.6	4.0
Realization (Rs/ m3)	3,519	3,464	3,618	3,865
RMC Segment EBITDA	**489**	**305**	**496**	**896**
Margins (%)	*4.3%*	*2.7%*	*3.8%*	*5.8%*
TBK Segment Revenues	**17,815**	**19,157**	**21,982**	**26,280**
Sale Volume (mn m2)	39.6	40.9	45.4	50.8
Realization (Rs/ sq.ft.)	36	37	39	42
TBK Segment EBITDA	**468**	**345**	**1,185**	**2,319**
Margins (%)	*2.6%*	*1.8%*	*5.4%*	*8.9%*
Consol. Revenues	**48,230**	**49,932**	**56,274**	**65,646**
EBITDA	**2,573**	**1,327**	**3,784**	**6,373**
EBITDA Margins (%)	*5.3%*	*2.7%*	*6.7%*	*9.7%*

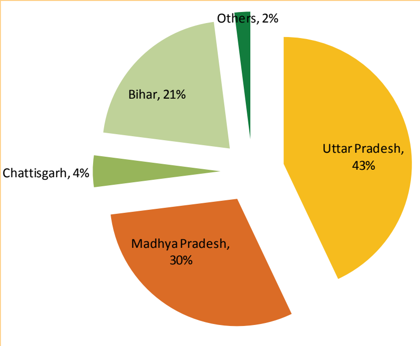
Source: IndiaNivesh Research

Understanding the Business Model

Cement business: Set to turn-around

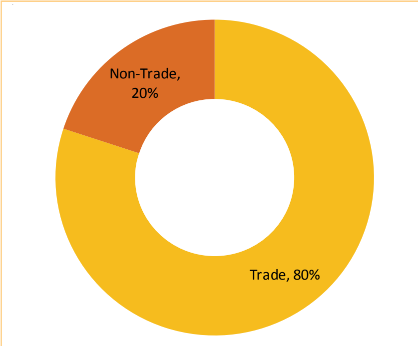
Prism Cements is a central India based cement player with 2 plants and nameplate capacity of ~5.6 mn tn p.a. These 2 plants (Plant I capacity- 2.0 mn tn and Plant II capacity- 3.6 mn tn) are based at Satna, Madhya Pradesh. PCL currently sells a major 95% of total volumes of Portland Pozzolana Cement (PPC) cement. Trade channel accounts for a major 80% of their total sale volumes, which is on the back of their 3,700 strong dealers network well spread across UP, MP, Bihar and Chattisgarh.

Cement Sales Split- State-wise (%)



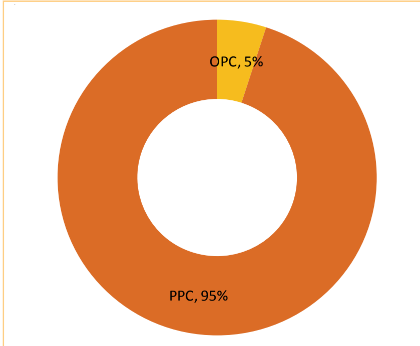
Source: Company; IndiaNivesh Research

Cement Sales Channel Mix (%)



Source: Company; IndiaNivesh Research

Cement Product Mix (%)



Source: Company; IndiaNivesh Research

Prism derived ~43% of FY14 sale volumes from Uttar Pradesh (within UP, from Eastern UP).

If we look at the quality of Infrastructure in East & Central India, both these regions lack in comparison to peers- North, South & Western India. Renewed push towards Infra spending when coupled with huge pipeline of projects comforts us of increase in demand from non-trade segment. Also, higher government social spending and revival in economy should lead to higher purchasing power for households, which in-turn should translate to higher cement demand from trade segment. On a whole, we are comforted that both, cement demand and realizations would catch-up from here-on.

Problems at clinker plant, weak demand and realization, restricted y/y top-line growth of Cement business in FY14 to just 3.5%. In FY14 PCL's cement plant reported capacity utilization of ~86%.

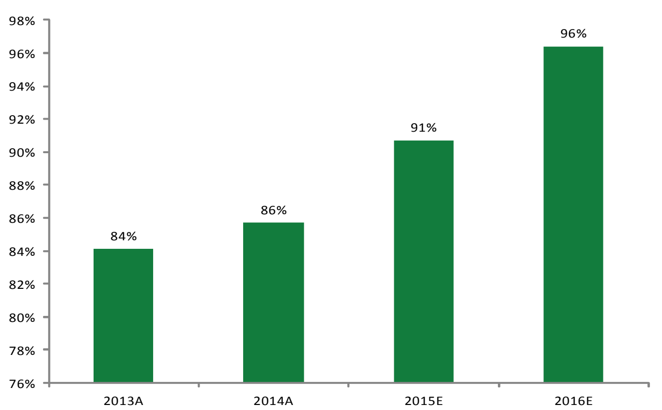
Y E March (Rs mn)	2013A	2014A	2015E	2016E
Installed Capacity (mn tn)				
-Cement	5.6	5.6	5.6	5.6
-Clinker	4.8	4.8	4.8	4.8
Volume (mn tn)				
-Cement	4.7	4.8	5.1	5.4
Capacity Utilization (%)	*84%*	*86%*	*91%*	*96%*
Realization (Rs/ tn)	3,954	3,822	3,992	4,226
Total Sales	**18,822**	**19,472**	**21,469**	**24,092**
Y/Y growth (%)		*3.5%*	*10.3%*	*12.2%*
EBITDA	1,615	677	2,104	3,157
EBITDA/ tn	343	141	414	585

Source: Company; IndiaNivesh Research

In a sweet-spot: With new silo blending unit functioning, despite nameplate capacity of ~5.6 mtpa, management highlighted that cement production in peak time could be increased to ~7.0 mtpa. Barring R-Infra's Maihar plant, no other cement plant is coming-up in Central India, hence, in scenario of any demand revival, PCL would emerge as biggest beneficiary. On the back of huge pipeline of projects, we expect sales to report 11.2% CAGR during FY14-16E to Rs 24,092 mn. Our FY16E volume assumption of ~5.4 mtpa reflects ~96.4% capacity utilization.

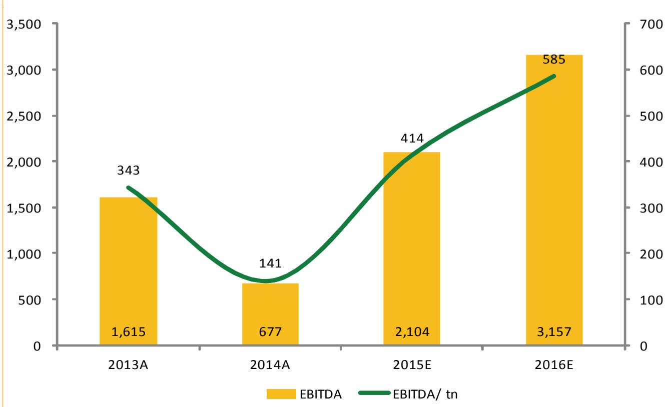
EBITDA/tn of the cement plant has sharply deteriorated during FY10-14 (from Rs 1,226/ tn in FY10 to Rs 141/ tn in FY14). Deterioration in y/y EBITDA/ tn is owing to (1) higher power and fuel, and (2) higher freight expenses.

Cement Segment- Capacity Utilization (%)



Source: Company; IndiaNivesh Research

EBITDA (Rs mn) & EBITDA/tn



Source: Company; IndiaNivesh Research

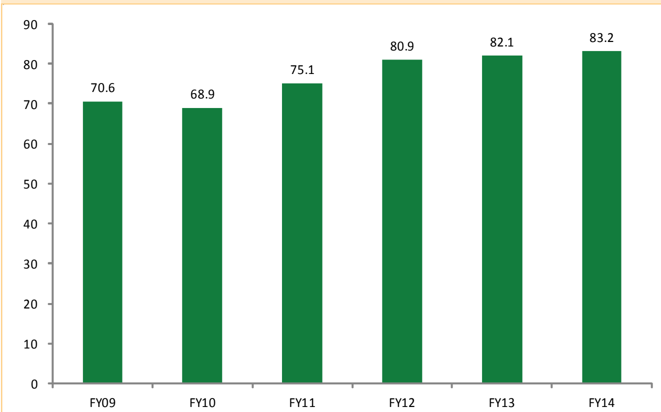
Silo breakage led to higher P&F expenses: On Mar-12, Prism reported break-down of Fly Ash blending Silo unit at their clinker plant. Even though temporary stop-gap arrangements were made to run the plant, overall performance was impacted due to lower capacity utilization and higher power and fuel costs. This could be seen from increase in electricity consumption, which increased from 75.1 kwh/tn of cement in FY11 to ~83.2 kwh/tn of cement in FY14 (given that new blending silo was operational from Sep-13). In Q4FY14, power consumption declined to <70 kwh/ tn, which is very impressive. New Blending Silo in our view could lead to cost savings of ~Rs 428 mn in FY15E itself.

Savings from New Blending Silo

Particulars	Pre	Post
Electricity (kmh/tn of Cement)	83.2	70.0
Power Cost (Rs/kwh)	6.0	6.0
Costs on (Rs/tn of Cement)	499.2	420.0
Savings (Rs/tn) of Cement		79
FY15E Cement Sales (mn tn)		5.4
Total Savings (Rs mn)		**428**

Source: Company; IndiaNivesh Research

Electricity (Kwh/ tn of Cement)



Source: Company; IndiaNivesh Research

Captive coal mining to save costs: Prism started coal mining at Chindwara, MP from Mar-14 onwards. Prior to commencement of the captive coal plant, Prism procured ~100% of total coal requirements from open market, where the landed coal cost stood at ~Rs 5,500/ tn (with Gross Calorific value of ~5,000). Post commissioning of their captive coal plant, landed cost would decline to ~Rs 3,900/ tn (with better Gross Calorific value of 5,500-6,000).

Coal Block Details

Particulars	Details
PCL Ownership	100%
Coal Block	Sial Ghogri
Coal Mine Location	Chindwara, MP
Coal Mine Type	Underground
GR est. reserves	15 mn tn
Mining Commenced from	Mar-14
Approx. Invest. done to-date	~Rs 500 mn
Annual Output	0.3 mn tn/annum

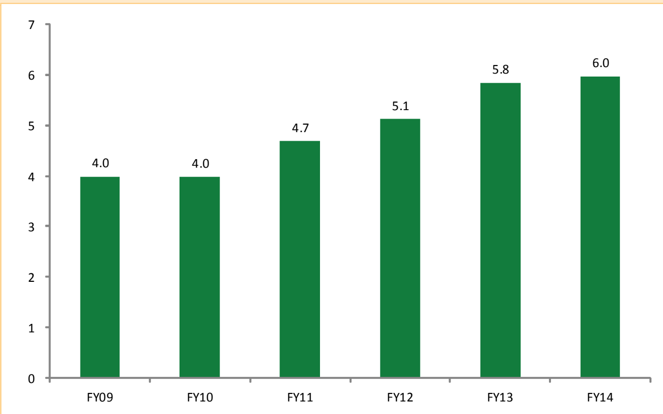
Source: Company; IndiaNivesh Research

Savings on switching to Captive Coal mining

Particulars	Pre-Switching	Post-Switching
Open Market landed Cost (Rs/tn)	5,500	5,500
Captive Mining landed Cost (Rs/tn)	3,900	3,900
Pet Coke (Rs/tn)	4,500	4,300
Fuel Mix (%)		
Open Market	*100%*	*0%*
Captive Mining	*0%*	*50%*
Pet Coke	*0%*	*50%*
Average Coal-PetCoke Cost (Rs/tn)	5,500	4,100
Coal (% of Clinker; in FY14)	17.3	17.3
Clinker: Cement Ratio (x)	0.72x	0.72x
Savings (Rs/tn) of Cement	685	511
Net Savings (Rs/tn)		174
FY15E Cement Sales (mn tn)		5.4
Total Savings (Rs mn)		**942**

Source: Company; IndiaNivesh Research

Electricity- Cost/ unit



Source: Company; IndiaNivesh Research

In our view, switching from open market coal procurement to captive coal mines would lead to cost savings of ~Rs 942 mn in FY15E. Also, usage of higher Gross Calorific value of coal would lead to cost savings on operational front.

Well positioned on power procurement: PCL follows a conscious strategy to procure power from Madhya Pradesh State Electricity Board (MPSEB) instead of setting-up their own captive plant, as it finds the cost dynamics to be favorable. In our view, the cost per unit would be ~Rs 6/unit in FY14.

With likely increase in Industrial activity, expectations are getting built for further increase in merchant tariff rates (as outlook for tariff is getting better). Considering stable-to-better power outlook in the state and the long-term agreement signed, concerns over sharp increase in power prices are allayed up to certain extent.

Kurnool Cement Plant details

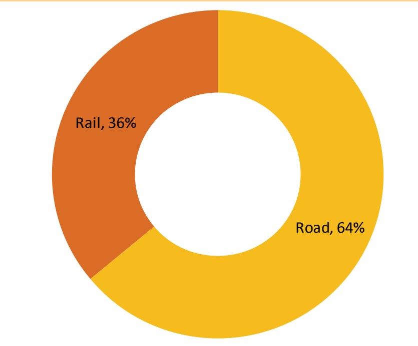
Particulars	
Cement Capacity (mtpa)	4.8
Status	Land Acquired
Limestone (near plant)	Currently developed
Land Acquired (in acres)	-3,000
Investments Made (Rs mn)	~1,000
Total Project Cost (Rs mn)	~15,000

Source: Company; IndiaNivesh Research

Works at South plant going slow- Management has taken a cautious decision to go slow on greenfield expansion in southern India, given the current unfavorable demand-supply scenario in those markets. Prism has bought land and got all the requisite clearances for setting-up the plant at Kurnool. To-date, Prism has already spent ~Rs 1 bn of the required ~Rs 15 bn.

Management cited that they would wait for turn-around in favorable demand-supply scenario and improvement in the power availability situation before they take any further call on this project. We sense recently formed states, Andhra and Telangana would lead to uptick in the cement demand from here-on. Improvement in South-based plant utilization would lead to initiation of any further action on setting-up this new plant. Also the current higher D/E levels (at 1.7x) deter the company to aggressively pursue this capex. With D/E likely to decline to 1.1x by FY16E, would comfort the management to announce any further update on the capex front.

Cement Transportation Mix (%)



Source: Company; IndiaNivesh Research

Better Road: Rail Mix to restrict increase in freight costs: PCL follows a diligent model of pursuing sales in Eastern UP, Central MP, Eastern Bihar and Chattisgarh, with average lead distance of ~407 kms. PCL enjoys better road: rail mix of 64:36, which is slightly better to the peers, who have rail mix of ~30%. The road: rail mix advantage is mainly owing to its plant location and positions it in a better place (vs. peers) after taking in to consideration the recent rail freight tariff hike.

Tiles, Bathroom & Kitchen (TBK) business: Poised for strong growth & turn-around

TBK Segment Business Model

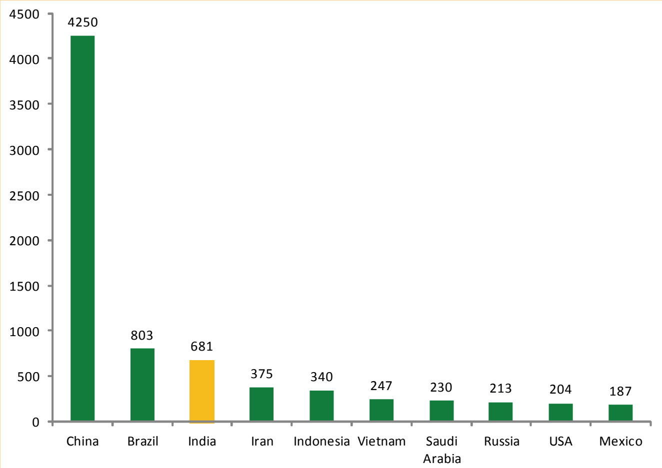
Tiles	Construction Chemical	Bathrooms	Modular Kitchen
• Operates under HR& Johnson brand • Operates 9 plant (4 own and 5 through JV route), well spread across the country • Has installed capacity of ~54 mn sq.m	• 50% stake in Ardex Endura JV (German Co.) • Pioneer in Tile Adhesives • Added Industrial Flooring & Water-Proofing • Plants in Bengaluru, Vadodara (pan-India presence)	• In to Sanitaryware, Taps, Bath Fittings, Wellness Products • 2 Manufacturing plants at Baddi (HP) and Samba (J&K) • Potential to Scale-up as the plants are running at lower Utilization levels	• Sunrise Industry; High growth potential • Offers complete product range including Installation • Tied with Nobilia for sourcing the products

Source: Company; IndiaNivesh Research

TBK Industry- Poised for strong growth: One of the motto of new Government is "Housing for All" and on same lines we expect favorable announcements to be made towards Housing/ Real Estate sector in next few months. In its Jan-14 report, Cushman & Wakefield reported that India has shortage of ~62.45 mn housing units. Also, despite being Top-4 Tile producers, India lags its international peers on per capita Tile consumption at 0.54 sqm (vs. 3.07 sqm for China and 4.0 sqm for Brazil). Untapped demand potential and lower penetration of Tiles business strengthens our view that Tiles industry in India is poised for strong growth from here-on. With increased urbanisation and shift in customer preferences, we are of view that Prism's entry in to Bath & Kitchen sub-segment also augurs well for their long-term growth prospects.

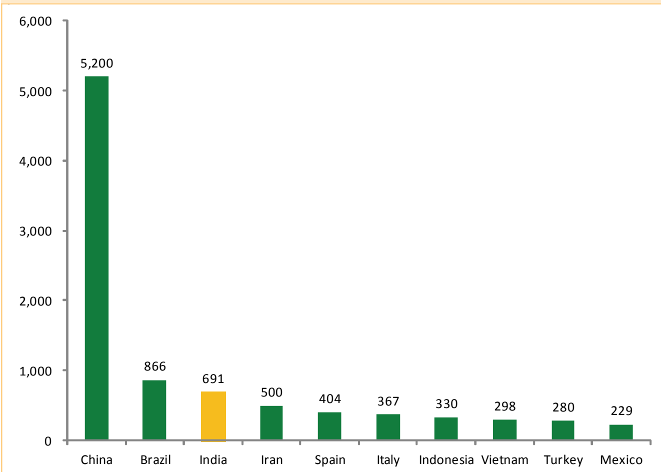
Largest player in highly fragmented market: Prism is India's largest Tile producer (on capacity basis) with nameplate capacity of ~54 mn sq m. As per industry experts/ reports, unorganized tiles market a/c ~49% of domestic tiles market. Such higher share of unorganized tiles market is owing to (1) fragmented nature of tiles industry, & (2) majority of housing demand emanating from Economically Weaker (EW) & LIG (Lower Income Group) section. Despite such higher share of unorganized market, emerging trends such as (1) increased consolidation within Tiles industry (inc. of M&As and JV route), (2) likely uptick in consumption of Urban Real Estate segment (owing to increase urbanization, economic revival, higher consumer purchasing power), and (3) shift in usage from traditional flooring materials (such as Marble, Wood, etc.) to Tiles, augurs well for growth prospects of organized Tiles industry.

World Ceramic Tile Consumption (in mn sq.m. as of CY12)



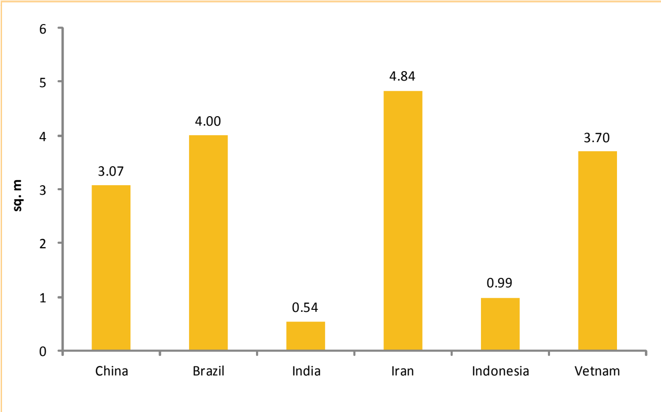
Source: World Ceramic Review; IndiaNivesh Research

Top Tile Manufacturuing Countries (in mn sq.m. as of CY12)



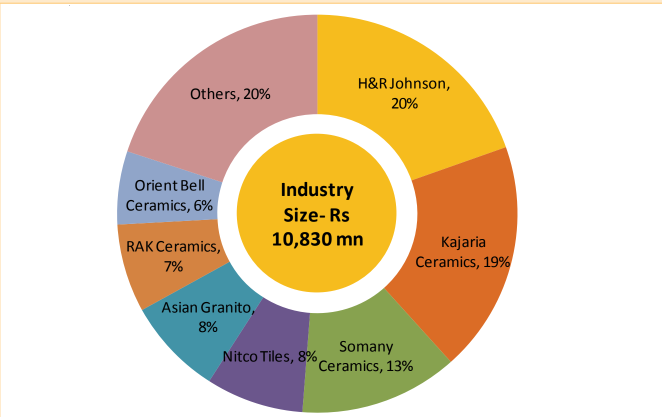
Source: World Ceramic Review; IndiaNivesh Research

Per Capita Consumption of Tiles



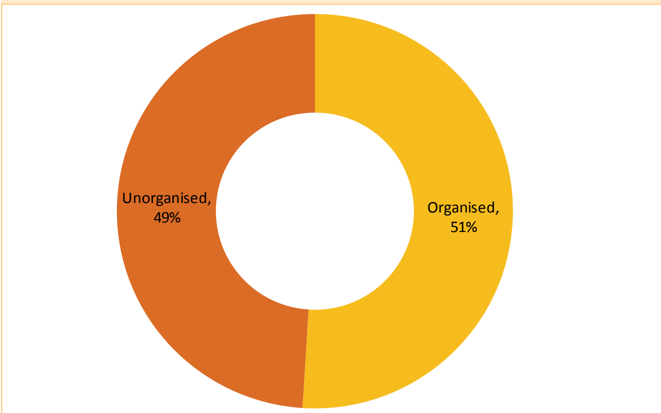
Source: World Ceramic Review; IndiaNivesh Research

Tiles Sector Market Share (%)



Source: Company; Bloomberg; Industry Report; IndiaNivesh Research

Tiles Sector Industry Structure (%)

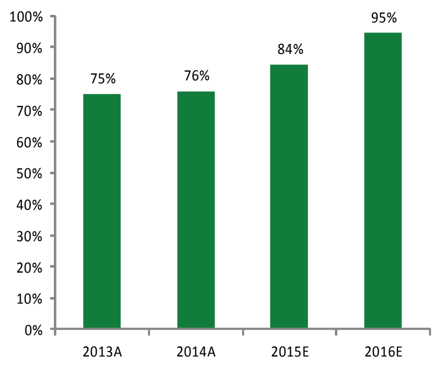


Source: Company; IndiaNivesh Research

What happened in last 2 years at TBK business?

Prism Cements, operates Tiles business under HR & Johnson brand name. Despite having largest plant capacity, company's performance was affected due to (1) power crisis in South, led to dependency on high cost power at 3 of their plants (2 at A.P & 1 at Karnataka- a/c for 43% of installed capacity), (2) capacity additions by local players at Morbi (due to cheaper natural gas availability), & (3) Chinese players dumping tiles aggressively in domestic markets. All these factors led to lower capacity utilizations (at ~76%), and decline in profitability as well as decline in market share.

TBK Segment- Capacity Utilization (%)



Source: Company; IndiaNivesh Research

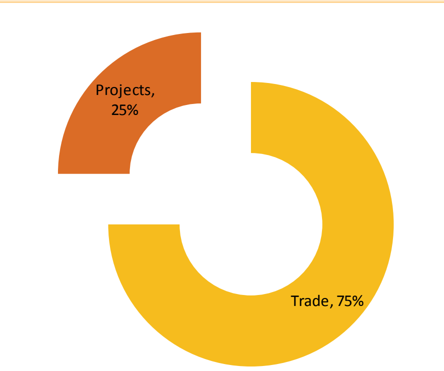
TBK Segment- Plant details

	Installed Capacity (mn m2/p.a.)	% to total	Products Manufactured
Own Plants			
Dewas, MP	3	6%	Vitrified, Glazed Ceramic Tiles, Industrial Tiles
Pen, Maharashtra	6	11%	Glazed Wall, Floor Tiles
Kunigal, Karnataka	4	7%	Wall & Floor Vitrified Tiles
Karaikal, Puducherry	2	3%	Wall Tiles
Durgapur, West Bengal	0	0%	
Total	**15**	**28%**	
JV based plants			
Morbi, Gujarat	10	19%	Glazed Vitrified Tiles
Morbi, Gujarat	4	8%	Wall Tiles
Morbi, Gujarat	5	9%	Ceramic Glazed Floor Tiles
Tadepalligudam, Andhra	10	18%	Vitrified/ Glazed Tiles
Vijaywada, Andhra	10	18%	Glazed Floor Tiles
Total	**39**	**72%**	
TBK Tiles Total	**54**		

Source: Company; IndiaNivesh Research

Taking in to consideration (1) their pan-India based distribution network, (2) resolution of power linkage issues, (3) higher ad spends in markets where company lost market share, and (4) shift in focus towards higher premium products comforts us that Prism is well positioned to regain its lost market share.

TBK Segment- Sales Mix



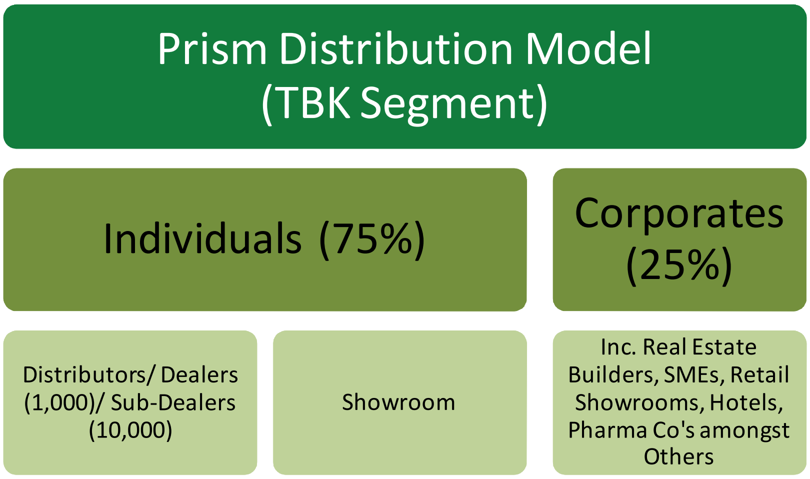
Source: Company; IndiaNivesh Research

Wider geographical presence: Prism Cement has a pan-India based plant location through own and JV route. ~28% of installed capacity of ~54 mn sq. m is own and the remaining 72% is held through the JV format. These plants are located at Madhya Pradesh, Maharashtra, Karnataka, Puducherry, Gujarat, Andhra Pradesh and Himachal Pradesh. The wide spread of these manufacturing plants across North, South, Central and West India, comforts us about their quick ability to serve clients and save on logistic costs.

In-line with their plant location, Prism over the years has focused on spreading their distribution network across the country. Currently, through H&R Johnson brand, the company conducts its business across ~55 modern retail stores (under "House of Johnson"), and through 1,000 dealers and 10,000 sub-dealers.

Power linkage issues now resolved: With power crisis seen across Andhra (2 plants, a/c'ing for ~36% of total capacity), for last few quarters, the company was exploring new alternatives to get uninterrupted power supplies at lower rates. In H2FY14, Prism tasted success after winning 2 micro gas wells from ONGC (to commence operations in next few months) and also got linkage after setting up 2 Coal gasifiers (now stabilized). Also, at Kunigal (Karnataka, ~7% of installed capacity), the company has got Regasified Liquid Natural Gas (RLNG) pipeline connection from GAIL (from their Dabhol-Bengaluru pipeline). With better pricing (from ~Rs 60 cu. m to ~Rs 25-30 cu. m) seen across these 3 plants (combined a/c for ~43% of installed capacity), we expect Prism to save ~Rs 497 mn (on current capacity utilization).

Distribution Model

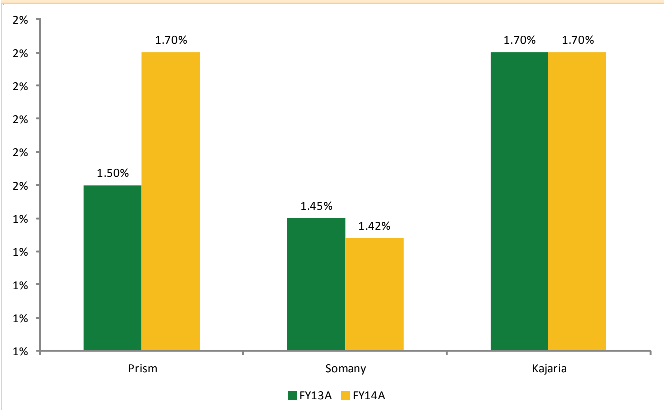


Source: Company; IndiaNivesh Research

Shift in Strategy towards high margin products: Indian Tiles market is seeing trend of consumers shifting their preferences towards premium quality Tiles. As a result, we expect Indian Tiles market (organized sector) to see higher incremental sales of Ceramic Glazed tiles, followed by Polished Vitrified Tiles. Currently, Prism has an even 50% mix of sales coming from Ceramics and Polished Vitrified Tiles. Given their wider presence, when coupled with economic revival and uptick in purchasing power, could lead to higher sales of premium products. As a result for any increase in capacity utilization levels, shift in mix towards premium products would push-up the margins.

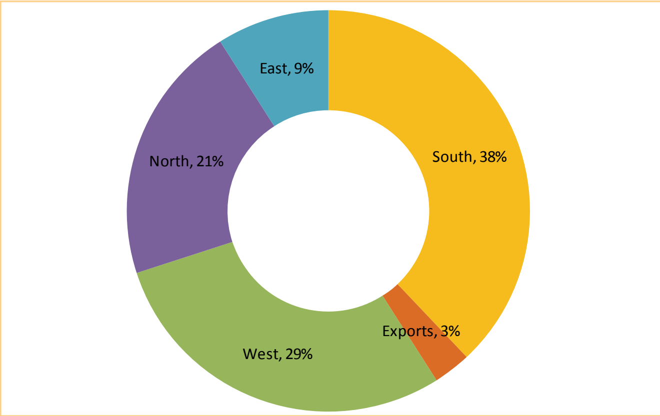
Based on our channel checks, purchase price of glazed vitrified tiles is 1.4-1.6x to Ceramic glazed tiles. We expect this premium segment (i.e. Glazed Vitrified tiles) to report strong 25%+ CAGR during FY14-16E. Realizing the huge opportunity and premium fetched, Prism in FY13 completed its expansion at Dewas plant (from 1.3 mn sq. m to 3.4 mn sq m). This strategy to focus its shift towards high priced products is in right direction and would contribute to margin expansion.

Ad Spends as % of sales (peer comparison)



Source: Company; IndiaNivesh Research

TBK Sales Split- Region-wise (%)



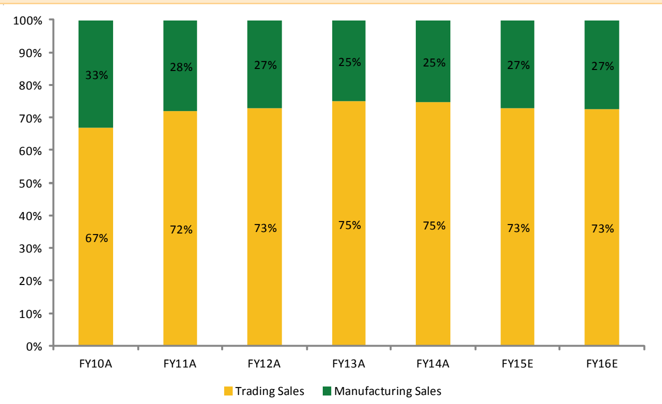
Source: Company; IndiaNivesh Research

Focus on AP markets to regain lost market share: Since inception HRJ has been a South & West India focused player, with both these regions a/c'ing for over 65% of total TBK Tiles sales. Plants in South India (both, own and JV) a/c for ~46% of the total installed capacity. On the back-drop of power related issues at AP & Karnataka based plants Prism reduced its operating capacity at these plants. This when coupled with lower ad spends led to decline in market share in South & West India (primarily AP markets). With resolution of power supply issues, we expect the company to aggressively pursue South & West based markets (have potential for higher growth of high margin premium products in comparison to pan-India level) and regain its lost market share. As a result, we expect ad spends to increase from ~1-2% of segment sales to ~3% in FY15E and then decline to ~2% levels by FY16E.

Exposure to Outsourcing, a better strategy: Over last few years, PCL has been pursuing the strategy to manufacture premium tiles (vitrified and industrial tiles) at its own plants and outsource manufacture of low-to-medium end ceramic tiles to its JV partners (as they tend to have leaner cost structures).

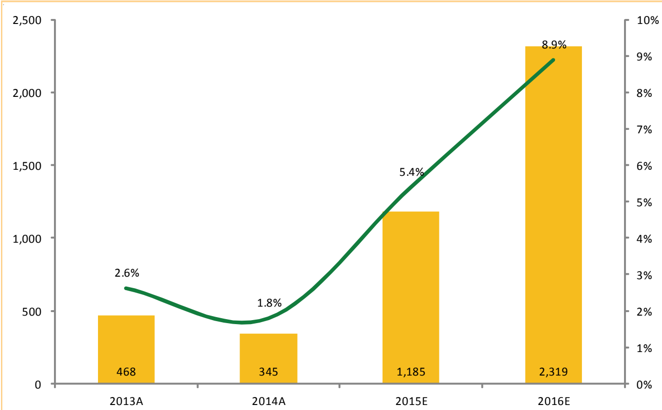
Currently, these JV plants (and outsourcing) contribute ~75% of total TBK sales. However, with Kunigal plant and other 2 JV plants at Andhra likely to see higher capacity utilizations, we expect slight decline in contribution from own manufacturing sales (to segment total). We expect TBK division to almost maintain its optimal mix of trading and manufacturing revenues going forward, as the low-to-mid segment of tiles industry faces intense competition from unorganized sector (from those based at Morbi industrial belt in Gujarat) given their access to low cost machinery, lower overheads, proximity to raw materials and availability of cheaper LNG. This strategy to focus on higher end of value chain, has helped PCL report higher realisations for its products as competition in higher-end segment is less intense (vs. at low-to-medium end tiles). Uptick in utilization coupled with their strong distribution network and marketing under brand name Johnson should help this division report strong sales, from here-on.

Outsourcing Sales as % of Tiles Segment Sales



Source: Company; IndiaNivesh Research

TBK Segment EBITDA (Rs mn) & EBITDA margins (%)



Source: Company; IndiaNivesh Research

Scaling of Tiles business to aid margin expansion: During FY10-14, Tiles business EBITDA margins declined from 10+% to 1.8%. Lower fuel availability in South led to higher cost of production and made HRJ's products lesser competitive. Power issues restricted volume growth, which ultimately were drag on operating leverage (led to decline in EBITDA margins to 1.8% in FY14; lowest to-date).

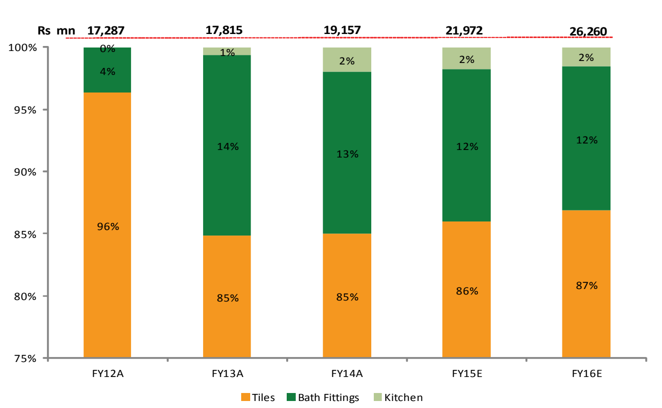
With power supply issues being resolved now and demand trends moving northwards, we expect capacity ramp-up across all plants, going forward. Some benefits of power issues being resolved were already seen in Q4FY14 results. We now expect the company to report higher capacity utilization levels of ~95% levels by FY16E from the current ~76% levels. With utilization levels likely to improve in next 2 years, we expect EBITDA margins from this segment to improve by 710 bps on account of lower fuel costs and improvement in the operating leverage.

Bath & Modular Kitchen- new growth engines: Realizing the huge market opportunity, PCL diversified in to Bath & Kitchen market in FY11-12. These are the new growth engines being identified by the company within the TBK business. PCL has tied-up a sourcing agreement with Nobilia, a German player for the Modular Kitchen market. Whereas, for the Bath sub-segment, the company has set-up manufacturing plants at Baddi (at HP) and at Samba (at J&K). In our view, these 2 sub-segment offer huge growth prospects, despite the large share of unorganized market players.

Management estimates the Bath Fittings market to be ~Rs 75 bn and Modular Kitchen Market to be a multi-billion Rs industry (as this industry is at nascent stages). Of this Rs 75 bn market, Unorganized segment accounts for a major 50% of the total market, followed by Faucets and Sanitary ware which accounts 30% & 15% of the total industry size, respectively. Again within Faucets, a major 45% is from the organized market. Major 75% of the Kitchen sub-segment is from the organized market. Increased lifestyle awareness and changing mind-set of urban customers, should be the 2 key growth drivers for these 2 sub-segments.

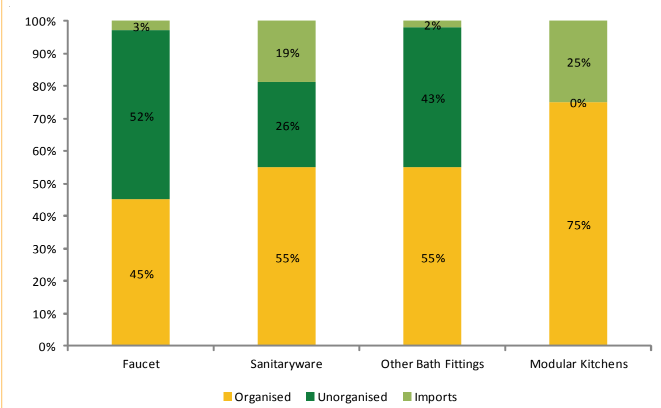
We are of view that existing pan-India based dealer network and their strong brand image has led PCL to venture in to the Bath & Kitchen markets. Currently, these 2 sub-segments combined a/c for 15% of total segment sales. We expect these 2 sub-segments to report 10-20% y/y growth for next few years, and PCL's growth would be almost at par with industry growth. On a whole, we expect this segment to be the growth engines for the TBK segment.

TBK Sub-segment Revenue-split (%)



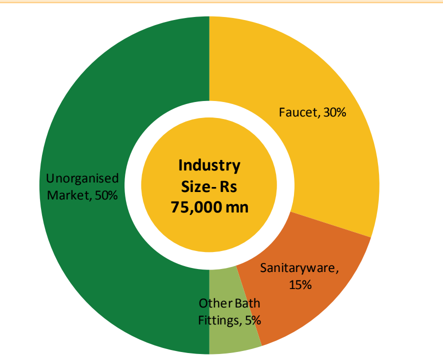
Source: Company; IndiaNivesh Research

Bath & Kitchen Sector Market Structure (%)



Source: Company; Industry Reports; IndiaNivesh Research

Bath Fittings- Industry Size



Source: Company; Industry Reports; IndiaNivesh Research

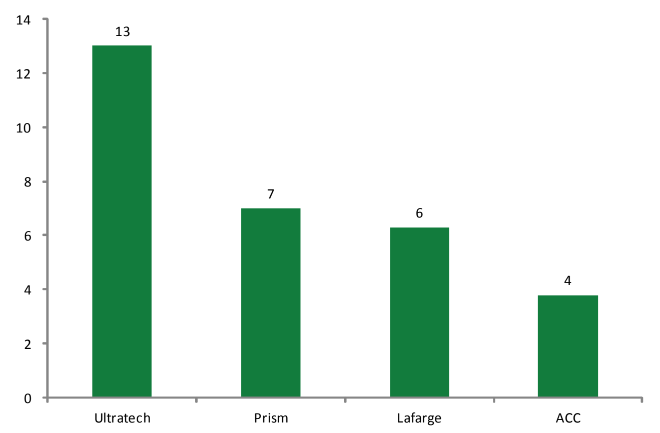
Y E March (Rs mn)	2013A	2014A	2015E	2016E
TBK Segment Revenues	**17,815**	**19,157**	**21,982**	**26,280**
Sale Volume (mn m^2)	39.6	40.9	45.4	50.8
Realization (Rs/ sq.ft.)	36	37	39	42
Capacity Utilization (%)	75%	76%	84%	95%
TBK Segment EBITDA	**468**	**345**	**1,185**	**2,319**
Margins (%)	*2.6%*	*1.8%*	*5.4%*	*8.9%*

Source: IndiaNivesh Research

RMC business- revival waiting round the corner

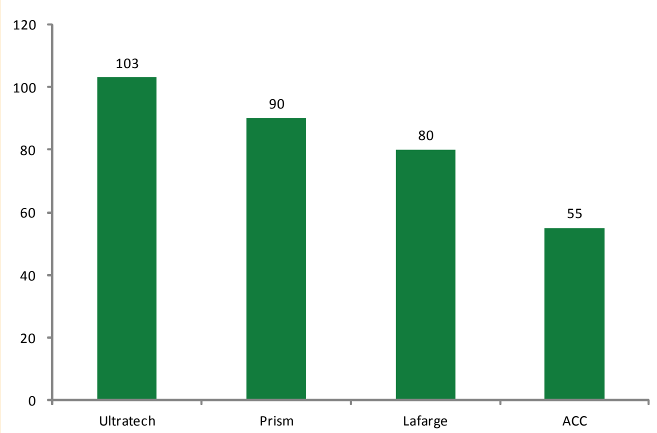
PCL's Readymix Concrete (RMC) division is the second largest Readymix Concrete manufacturer in India with installed capacity of ~7 mn m^3.

Installed Capacity (mn m^3)



Source: Company; IndiaNivesh Research

No. of Concrete RMC Plants (approx.)

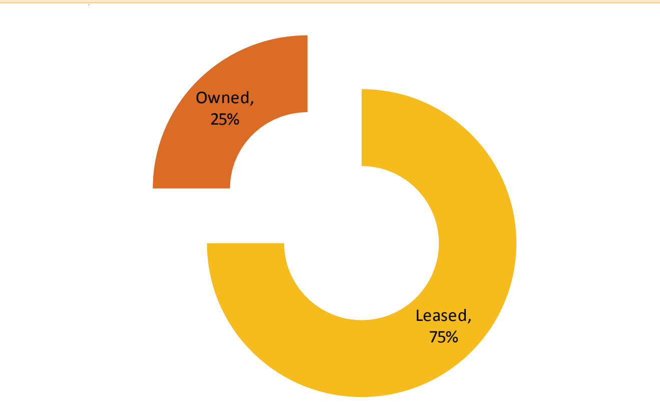


Source: Company; IndiaNivesh Research

This division manufactures Readymix concrete of various grades used for residential construction and other types of Infrastructure projects. Currently, Prism has ~90 manufacturing units spread across 37 cities/ towns in India.

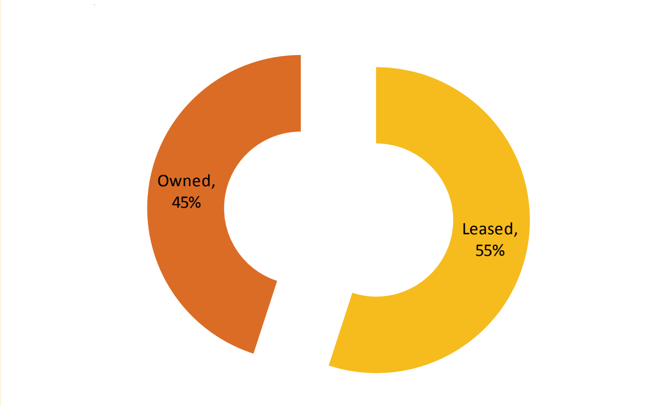
In our view, this division follows mixed operating model, where the ratio for land used between leased and owned stands at ~75:25 ratio. Further, the mix of leased and owned truck mixers stands at ~55:45.

RMC business- Land Mix (%)



Source: Company; IndiaNivesh Research

RMC business- Mix of Truck Mixers (%)



Source: Company; IndiaNivesh Research

RMC division of the company is also in to aggregate business, thereby ensuring uninterrupted aggregates supply for RMC manufacturing. Prism has ~7 quarries located in Western & Southern India, inclusive of Mumbai, Mangalore, Bangalore, Hyderabad and Orissa.

Taking in to consideration Prism's RMC plant location across 37 cities, we are of view that RMC segment would generate a major 70% of the segment revenues from South-West India.

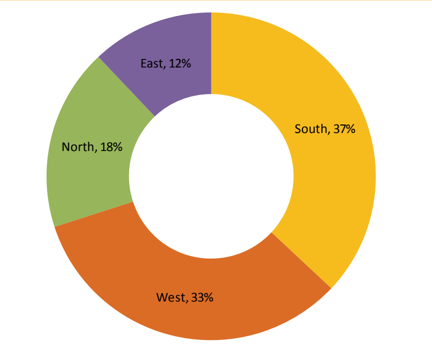
Shift in Usage trends augurs well for RMC segment growth: RMC market in India is evolving in the last few years, as Indian contractors are now switching from earlier usage of Site Mixed Concrete (SMC) to Ready Mix Concrete (RMC). Despite RMC costs being higher, switching from SMC to RMC could reduce project costs by ~5-10%, due to avoidance of confusion at construction sites and quicker project execution.

In developed nations RMC accounts ~70% of cement consumption, whereas this ratio in India currently stands at <10%. Currently, RMC sector is more of an urban phenomenon and grappled with issues such as (1) levy of state level taxes (vs. SMC), (2) either lack of land availability or higher capital costs towards land procurement, (3) higher transportation costs and (4) other infrastructure bottlenecks. With uptick in Infra spending, we expect long term trends to turn favorable for RMC business.

Initiatives such as (1) implementation of uniform sales tax across the country, (2) abolishment of Excise Duty on RMC across some of the states, (3) implementation of stricter pollution norms (as RMC lowers emission), and (4) implementation of mandatory certification from Quality Council of India (QCI) would lead to higher usage of RMC consumption.

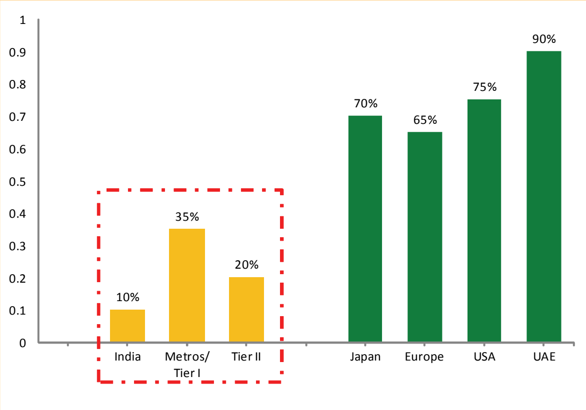
Economic slowdown led to slow-down in Infra projects execution, muted Commercial & Residential Real Estate spending. As a result, RMC sector on a whole was impacted, with PCL being no exception to it.

RMC Sales Split- Region-wise (%)



Source: Company; IndiaNivesh Research

RMC (as % of cement consumption)



Source: Company; IndiaNivesh Research

	Sales Tax
Mumbai, Maharashtra	15.8%
Delhi, NCR	10.0%
Bengaluru, Karnataka	12.0%

Source: Company; IndiaNivesh Research

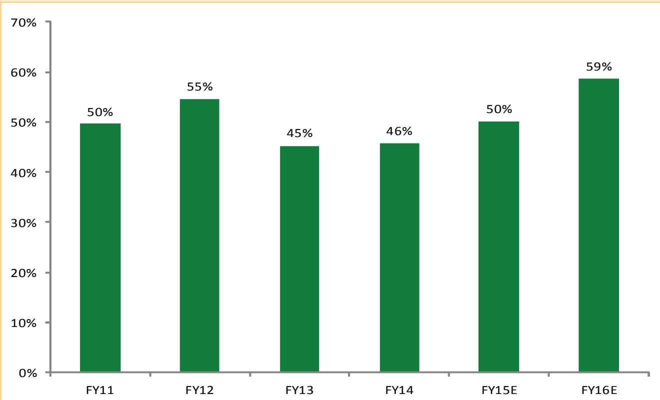
Capex put-on hold for the time being: Given that RMC division of PCL has been operating at ~46% levels, management has prudently decided to put on hold any further capex. We sense that any revival in demand trends from here-on would lead to increase in capacity utilization level, thereby leading to improvement in the RoE from this segment. We expect PCL to report 10.1% volume CAGR during FY14-16E, which reflects FY16E capacity utilization of ~59%.

RMC- Segment Revenues & EBITDA

Y E March (Rs mn)	2013A	2014A	2015E	2016E
RMC Segment Revenues	**11,275**	**11,431**	**12,540**	**14,468**
Volume (mn m^3)	3.2	3.3	3.6	4.0
Realization (Rs/ m^3)	3,519	3,464	3,618	3,865
Capacity Utilization (%)	45%	46%	50%	59%
RMC Segment EBITDA	**489**	**305**	**496**	**896**
Margins (%)	*4.3%*	*2.7%*	*3.8%*	*5.8%*

Source: Company; IndiaNivesh Research

RMC Segment- Capacity Utilization (%)



Source: Company; IndiaNivesh Research

Expect improvement in operating metrics: PCL's RMC division EBITDA margins have tumbled from its earlier peak of ~6% to 2.7% in FY14, reflecting impact of the slowdown. Revenue levels has been flat at ~Rs 11.3 bn in the last two years, as they intentionally avoided riskier projects which could have turned in to bad receivables. Raw Materials & Transportation costs a/c for over 80% of the total operating costs across this segment. Considering these 2 point (1) plants take 2-3 year time to break-even, and (2) most of the plants are ageing over 2 years, we expect return on capital employed across this business to sharply increase from any revival in RMC business. Current 2.7% EBITDA margins indicate ~15% RoCE and an asset turn-over of 4-5x. With capacity utilization levels likely to increase to ~59% by FY16E, we expect the EBITDA margins to increase to 5.8%. This when coupled with higher asset turnover ratio of the business, the RoCE could increase to ~25% levels by FY16E.

Signs of turnaround in their Insurance business

PCL currently holds 74% stake in Raheja QBE General Insurance Company Ltd, a Joint Venture with Australia based QBE Insurance Group (holds 26% stake). QBE Insurance Group is one of the Australia's largest international General Insurance and Re-insurance group operating across more than 4 dozen countries. Raheja QBE General Insurance was licensed in December, 2008 as 21st General Insurance Company in India. General Insurance business focuses on speciality products like liability insurance, marine liability, trade Credit, etc. To-date Prism has invested ~Rs 1.5 bn in the business. Despite having smaller scale of operations, the company reported Gross Written Premium (GWP) of Rs 320 mn and PBT of Rs 60 mn in FY14.

Raheja QBE

- 74% stake in Raheja QBE General Insurance
- Has JV with QBE Group in Australia
- Focus on Speciality products (such as Liability Insurance, Marine Liability, Trade Credit)
- To-date Prism has invested Rs 1.5 bn
- FY14 Financials: Gross Written Premium- Rs 320 mn; PBT- Rs 60 mn

Source: Company; IndiaNivesh Research

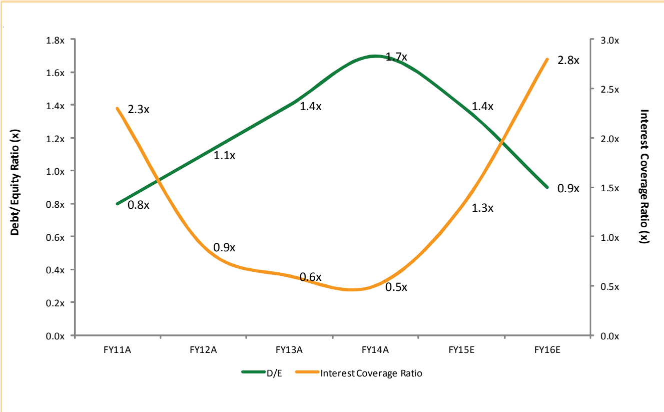
Financial Indicators in Positive Direction

PCL to report strong growth in profitability: On the back of higher capacity utilization at the TBK and RMC business, we expect PCL to report strong 14.7% top-line CAGR during FY14-16E. Our top-line growth expectations also factor in increase in cement demand as well as realization. In addition to top-line growth, cost saving initiatives (such as using new silo blending unit, switching to captive coal mining, switching to lost cost power for Tile plants) when coupled with other operational efficiency initiatives, should help the company report 119.1% EBITDA CAGR during FY14-16E. Given that the operating profit was not enough to service interest expenses, PCL reported loss in FY14. With improvement in FY15-16E EBITDA levels, we expect PCL to report turn-around in FY15 and report sharp profitability growth in FY16E (to Rs 1,989.5 mn).

D/E levels to improve: Considering revival in all the 3 core business segments, benefits of cost saving initiatives to be seen (during FY15-16E), we expect the company to generate ~Rs 15.1 bn of Cash flow from Operations (CFO) during FY15-16E. With no major capex lined-up during FY15-16E (except some capex spending to be done towards the Greenfield cement plant in FY16E), we are of view that the company would use the cash generated from operations towards debt repayment. As a result, we expect the company to report decline in consol debt from ~Rs 18 bn in FY14 to ~Rs 12 bn in FY16E. In other words, we expect the D/E ratio to improve from 1.7x in FY14 to 0.9x in FY16E.

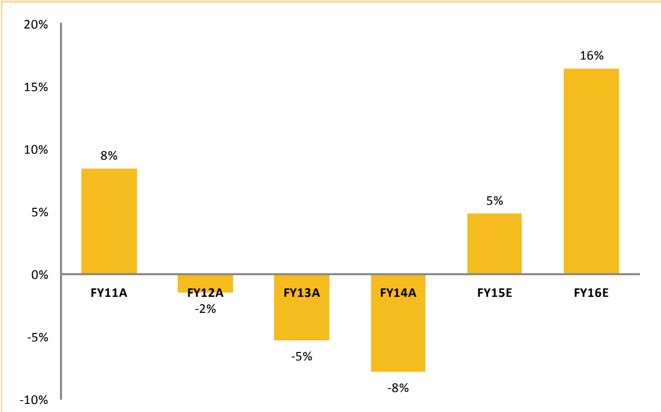
RoE to improve from here-on: PCL reported negative Return on Equity (RoE) of 7.8% in FY14, as it was reported losses in FY14. With PCL expected to turn-around in FY15 and report sharp increase in profitability in FY16E, we expect the RoEs also to improve to 4.8% in FY15E and 16.4% in FY16E, respectively.

Debt/ Equity (x) & Interest Coverage Ratio (x)



Source: Company; IndiaNivesh Research

RoE (%)



Source: Company; IndiaNivesh Research

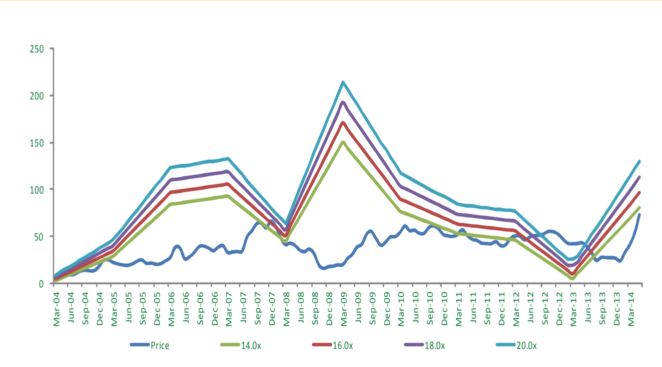
Risks to Our estimates

- Sharp increase in Power and Fuel expenses (for both, Cement as well as TBK business) could act as big negative to our estimates.
- Any sharp increase in Natural Gas costs from here-on could act as a big risk to our margin expansion assumption.
- Sharp increase in Raw Material prices would act as a big negative to our assumptions.

Valuation

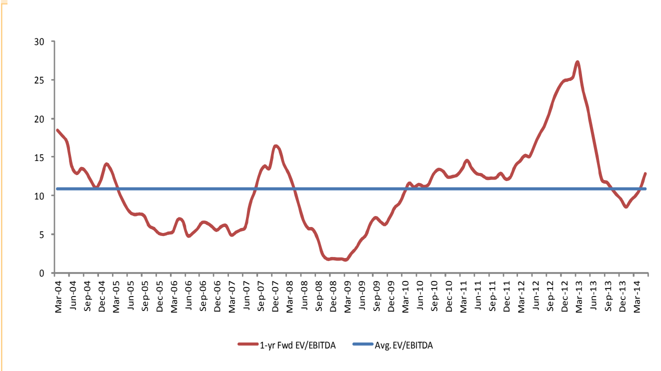
If we look at last 7 years trading history of PCL, then PCL stock has traded in a wide band of 1.7x-27.3x on forward EV/EBITDA basis, given that the financial performance of the company has been affected due to cyclical nature of cement business, power issues at TBK segment. At CMP of Rs 74, PCL is trading at FY15E and FY16E, EV/EBITDA multiple of 13.3x and 7.0x, respectively. The current trading band indicates that stock is currently trading below its long-term average (for 7-years it is at 11.9x) multiple.

EV/ EBITDA Band (x)



Source: Company; IndiaNivesh Research

1-yr forward EV/ EBITDA Band (x)



Source: Company; IndiaNivesh Research

Given that PCL operates across 3 key business verticals (and Insurance through its JV partner), we have valued the entire company using the Sum-of-the-Parts (SoTP) based valuation methodology to arrive at fair value of the business.

For the Cements business, we have compared the company with JK Lakshmi, JK Cements and Heidelberg Cement. On the back of capex being pursued, we expect all these 3 companies to report sharp 20.9% and 84.3% top-line and bottom-line CAGR during FY14-16E, respectively. In line with profitability growth, we expect RoEs of these companies to improve to 13.6% (average) by FY16E. Considering that Prism is not pursuing any capex and lower RoEs from cement business (vs. peers), we have assigned 9.5x forward EV/EBITDA multiple to arrive at business value of Rs 60/share.

PCL's TBK division is market leader in Tiles business with strong product line-up, premium brand portfolio, geographically well spread manufacturing facilities and huge distribution network. This division was impacted by slow-down and cheaper power availability issues. With these issues being addressed, we expect TBK segment to report strong growth going forward. We have compared TBK business of the company with Kajaria and Somany Ceramics. These companies are expected to continue their capex, report strong growth in their profitability as well as RoEs (to 24.0% by FY16E). Given the strong market positioning being enjoyed, we have assigned this business EV/EBITDA multiple of 10.0x to arrive at business value of Rs 46/share.

With no peer for comparison purposes for the RMC segment, given the strong growth prospects, expected ROCE of ~25% (by FY16E) and asset turnover ratio of 4-5.0x, we have assigned EV/EBITDA multiple of 9.0x to arrive at business value of Rs 16/share.

We expect future value accretion from PCL's investments in Raheja QBE General Insurance Company Limited and accordingly have valued business by assigning 2.0x to their Book value to arrive at business value of Rs 5/share.

Based on the above assumptions and <u>using SoTP based valuation methodology</u>, we arrived at **<u>PT of Rs 117/share</u>**. Given the **<u>58% upside, we recommend BUY on the</u>**

stock. At our PT of Rs 117, PCL stock would be trading at FY15E and FY16E, EV/EBITDA multiple of 19.2x and 10.6x, respectively.

Note: We had recommended BUY on PCL for the first time on May 5, 2014 in our Stock Idea note (at then CMP of Rs 50). Since then, Prism Cements stock has delivered 48% absolute return.

Peer Group Comp.

	CMP	M-Cap	Revenue gr. FY14-16E	Adj. PAT gr. FY14-16E	Adj. EPS FY15E	Adj. EPS FY16E	Adj. RoE FY15E	Adj. RoE FY16E	Adj. EV/EBITDA FY15E	Adj. EV/EBITDA FY16E
Prism Cem.	74	37,274	13.8%	NA	1.1	4.0	4.8%	16.4%	13.3x	7.0x
Cement Segment										
JK Lakshmi	212	24,975	22.3%	57.2%	12.4	19.7	10.5%	14.6%	8.8x	6.0x
Heidelberg Cem.	62	13,937	15.4%	124.9%	3.5	5.4	8.3%	14.5%	11.3x	8.3x
JK Cements	390	27,275	24.8%	70.7%	17.1	32.3	6.9%	11.8%	9.0x	6.2x
Average			20.9%	84.3%			8.5%	13.6%	9.7x	6.8x
TBK Segment										
Kajaria Ceramics	520	39,319	21.6%	28.7%	17.7	25.9	22.6%	25.8%	13.5x	10.0x
Somany Ceramics	248	9,634	27.9%	51.9%	11.6	16.6	18.7%	22.2%	9.8x	7.6x
Average			24.8%	40.3%			20.7%	24.0%	11.7x	8.8x

Source: Company; IndiaNivesh Research

(On FY16E numbers)	Val. method.	Multiple	NAV
Tiles, Bath & Kitchen	EV/EBITDA	10.0x	23,190
Cement	EV/EBITDA	9.5x	29,992
ReadyMix Concrete	EV/EBITDA	9.0x	8,065
Insurance Business (74% stake)	Book Value	2.0x	2,700
Debt- FY16E			11,990
Cash & Investments- FY16E			6,967
Net Debt- FY16E			5,023
Business Value			**58,923**
No. of Shares o/s			503
Target Price			**117**
Current Market Price			74
Upaide/ Downside (%)			*58%*

Source: IndiaNivesh Research

Consolidated Financials

Income statement

Y E March (Rs mn)	2013A	2014A	2015E	2016E
Net Revenues	**48,230.1**	**49,932.0**	**56,273.6**	**65,645.7**
Growth %		*3.5%*	*12.7%*	*16.7%*
Raw Material Exp. & Purch. of traded Goods	19,238.8	19,732.2	20,404.7	23,088.3
Employee Expenses	3,089.8	3,491.1	3,859.6	4,564.7
Other Expenses	23,328.8	25,381.4	28,225.0	31,620.1
Total Operating Expenses	45,657.4	48,604.7	52,489.3	59,273.2
EBITDA	**2,572.7**	**1,327.3**	**3,784.3**	**6,372.5**
Growth %		*-48.4%*	*185.1%*	*68.4%*
EBITDA Margin %	*5.3%*	*2.7%*	*6.7%*	*9.7%*
Depreciation & Amortisation	1,798.9	2,003.6	2,174.7	2,260.1
Other Income	642.6	2,038.6	1,160.0	696.0
EBIT	**1,416.4**	**1,362.3**	**2,769.7**	**4,808.4**
EBIT Margin %	*2.9%*	*2.7%*	*4.9%*	*7.3%*
Interest	2,280.3	2,746.2	2,055.0	1,729.1
Exceptional items	16.6	93.7	0.0	0.0
PBT	**(847.3)**	**(1,290.2)**	**714.6**	**3,079.2**
Tax	(242.1)	(440.3)	178.7	1,077.7
Effective tax rate %	*28.6%*	*34.1%*	*25.0%*	*35.0%*
Adj. for Minority Interest	(19.5)	(12.1)	(11.0)	(12.0)
Profit after Tax	**(624.7)**	**(862.0)**	**525.0**	**1,989.5**
Growth%		*38.0%*	*-160.9%*	*279.0%*
PAT margin %	*-1.3%*	*-1.7%*	*0.9%*	*3.0%*

Source: IndiaNivesh Research

Cash Flow

Y E March (Rs mn)	2013A	2014P	2015E	2016E
Profit before tax & exceptional items	(847.3)	(849.9)	536.0	2,001.5
Depreciation & Amortisation	1,798.9	2,003.6	2,174.7	2,260.1
Other adj. prior to WC changes	1,842.7	2,431.8	1,767.0	1,420.1
Changes in Working Capital	(441.9)	(601.9)	2,467.7	3,853.9
Tax and Exceptional Items	(160.8)	(85.0)	(178.7)	(1,077.7)
Cash flow from Operations	**2,191.6**	**2,898.6**	**6,766.7**	**8,458.0**
Capital Expenditure	(3,427.2)	(2,982.2)	(993.6)	(1,199.0)
Free Cash Flow	**(1,235.6)**	**(83.6)**	**5,773.1**	**7,259.0**
Inc/Dec. in Investments & Oth. Adj.	471.7	1,470.3	1,171.1	209.0
Cash flow from Investments	**(2,955.5)**	**(1,511.9)**	**177.5**	**(990.0)**
Additions/ Repayment to Borrowings	2,995.6	1,933.8	(2,116.3)	(3,980.0)
Interest Paid	(2,352.6)	(2,746.2)	(2,055.0)	(1,729.1)
Cash flow from Financing	**643.0**	**(812.4)**	**(4,171.3)**	**(5,709.1)**
Net change in Cash	**(120.9)**	**574.3**	**2,772.9**	**1,758.9**
Cash at the beginning of year	**653.7**	**532.8**	**1,107.1**	**3,880.0**
Cash at the end of the year	**532.8**	**1,107.1**	**3,880.0**	**5,638.9**

Source: IndiaNivesh Research

Balance sheet

Y E March (Rs mn)	2013A	2014A	2015E	2016E
Share Capital	5,033.6	5,033.6	5,033.6	5,033.6
Reserves & Surplus	6,453.3	5,554.6	6,116.3	8,105.8
Net Worth	**11,486.9**	**10,588.2**	**11,149.9**	**13,139.4**
Deferred-tax Liabilities	1,025.6	562.8	562.8	562.8
Long-term Liabilities & Prov.	1,507.7	1,682.0	1,710.0	1,872.5
Minority Interest	533.0	545.2	534.2	522.2
Total Borrowings	16,152.5	18,086.3	15,970.0	11,990.0
Trade Payables	14,840.8	14,616.9	16,882.1	20,605.4
Short-term Provisions	184.6	257.6	297.0	346.5
Current Liabilities	**15,025.4**	**14,874.5**	**17,179.1**	**20,951.9**
Total Equity & Liabilities	**45,731.1**	**46,339.0**	**47,106.0**	**49,038.8**
Gross Block	35,752.5	39,098.7	40,124.7	41,348.7
Accumalated Depreciation	12,818.4	14,822.0	16,996.7	19,256.8
Net Block (inc. of WIP)	**23,940.5**	**24,919.0**	**23,738.0**	**22,676.9**
Investments	3,462.8	2,258.5	1,375.4	1,475.4
Long term loans & advances	1,902.5	1,526.0	1,685.0	1,910.0
Goodwill	452.0	454.4	454.4	454.4
Other Non-Current Assets	158.3	781.8	855.0	910.0
Deferred Tax Assets	96.7	112.1	112.1	112.1
Inventories	5,869.5	5,744.2	5,940.0	6,199.9
Trade Receivables	4,763.2	5,399.2	5,002.1	5,105.8
Cash & Bank Balance	989.0	1,107.1	3,880.0	5,638.9
Short-term Loans & advances	3,310.0	2,212.1	2,188.4	2,550.0
Other Current Assets	786.6	1,824.8	1,875.8	2,005.8
Current Assets	**15,718.3**	**16,287.2**	**18,886.1**	**21,500.0**
Total Assets	**45,731.1**	**46,339.0**	**47,106.0**	**49,038.8**

Source: IndiaNivesh Research

Key ratios

Y E March	2013A	2014A	2015E	2016E
EPS (Rs)	(1.2)	(1.7)	1.0	4.0
BVPS (Rs)	23	21	22	26
ROCE (%)	5.1%	4.8%	10.2%	19.1%
ROE (%)	-5.3%	-7.8%	4.8%	16.4%
Asset Turnover Ratio (x)	1.6x	1.6x	1.9x	2.3x
Inventory days	44	41	38	34
Sundry Debtors days	36	39	32	28
Trade Payables days	111	105	108	113
PER (x)	-59.7x	-43.2x	71.0x	18.7x
P/BV (x)	3.2x	3.5x	3.3x	2.8x
EV/EBITDA (x)	21.1x	43.8x	13.3x	7.0x
Interest Gearing Ratio (x)	0.6x	0.5x	1.3x	2.8x
Debt/Equity (x)	1.4x	1.7x	1.4x	0.9x
Net Debt/EBITDA (x)	5.9x	12.8x	3.2x	1.0x

Source: IndiaNivesh Research

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