

Healthy volume growth on the anvil starting FY24E ...

About the stock: PCBL Ltd (erstwhile Phillips Carbon Black) is the leading manufacturer of carbon black, which is used as a reinforcing material in tyres.

- PCBL also derives ~9% of sales volume from speciality carbon black, which fetches high margins and finds application in paints, plastics among others
- It has a healthy margin profile, capital efficient business model (RoCE > 15%) with limited leverage on b/s (~0.3x debt: equity as of FY22)

Q3FY23 Results: PCBL reported a steady performance in Q3FY23.

- Net sales for the quarter came in at ₹ 1,463 crore, down 10% QoQ with carbon black (CB) sales volumes at 101.5 KT (down 11% QoQ)
- The management informed about customers deferring volume offtake to Q4FY23 in anticipation of CB price decline due to correction in crude prices
- EBITDA in Q3FY23 was at ₹ 168 crore with margins at 11.5%. EBITDA/tonne for the quarter was at ₹ 16,587/tonne and was the real positive surprise
- Consequent PAT for Q3FY23 was at ₹ 100 crore, down 14% QoQ
- The company also announced an interim dividend of ₹ 5.5/share

What should investors do? PCBL's stock price is nearly flat over the past five years, but has still generated wealth since our initiation in July 2016 (~₹ 17.5 levels).

- We retain **BUY** rating on the stock amid organic growth on anvil amid new capacity coming on stream, rising share of speciality grade carbon black and it gaining more traction in export markets amid lower supply from China

Target Price & Valuation: Incorporating FY25E and rolling over valuations, we now value PCBL at unchanged target price of ₹ 170 i.e. 12x P/E on FY24-25E average EPS

Key triggers for future price performance:

- Amid healthy demand prospects, we expect sales, PAT to grow at 16.4%, 10.1%, CAGR, respectively, in FY22-25E, building in 6.5% volume CAGR
- With greenfield expansion (~150 KT) under execution and successful strides made in the speciality carbon black domain, long term growth prospects are robust amid limited competition in overseas markets
- Expected commissioning of Greenfield project in near term with brownfield expansion of speciality grade carbon black lines (~40,000 tonne) by FY24E
- Trades at inexpensive valuation of <10x P/E on FY24E EPS of ~₹ 12.8/share
- Healthy cash flow generation with CFO yield >10% over FY22-25E



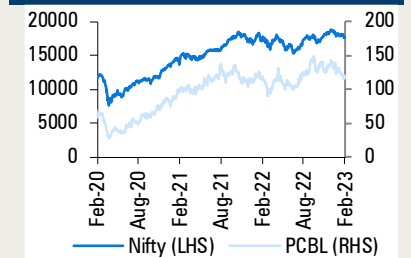
Particulars

Stock Data	₹ crore
Market Capitalization	4,529
Total Debt (FY22)	684
Cash and Cash Eqv (FY22)	409
Enterprise Value	4,804
52 week H/L (₹)	154 / 89
Equity Capital	37.7
Face Value	₹ 1

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	51.4	51.4	51.4	51.4
FII	9.5	10.2	10.9	8.6
DII	5.2	6.1	5.2	7.2
Other	34.0	32.4	32.5	32.9

Price Chart



Recent event & key risks

- Reports steady Q3FY23 results.
- **Key Risk:** (i) Slower than anticipated sales volume growth over FY22-25E (ii) incremental peer capacities putting pressure on pricing & consequent margins

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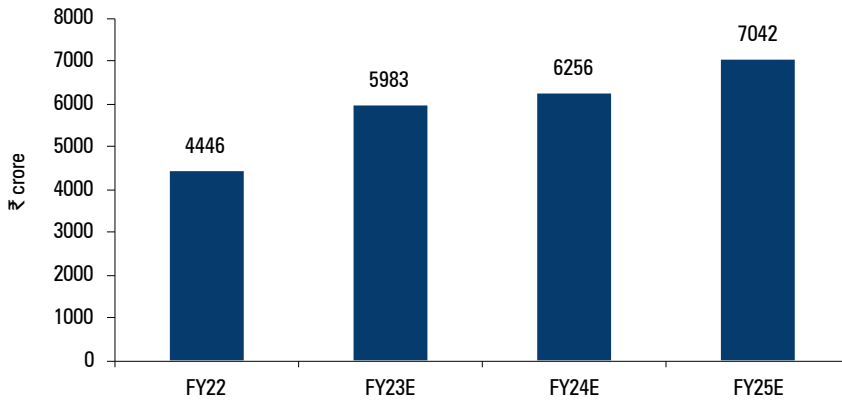
Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	3,243.5	2,659.5	4,446.4	18.2%	5,982.8	6,256.1	7,042.2	16.4%
EBITDA	464.9	518.6	655.6	20.4%	737.9	828.9	936.6	12.5%
EBITDA Margins (%)	14.3	19.5	14.7		12.3	13.3	13.3	
Net Profit	283.5	312.3	427.2	43.8%	446.5	484.1	572.6	10.1%
EPS (₹)	8.2	9.1	11.3		11.8	12.8	15.2	10.1%
P/E	14.6	13.2	10.6		10.1	9.4	7.9	
RoNW (%)	16.8	16.2	16.4		15.7	15.6	16.7	
RoCE (%)	16.1	16.1	16.3		15.1	15.7	17.8	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 1: Topline trend



Source: Company, ICICI Direct Research

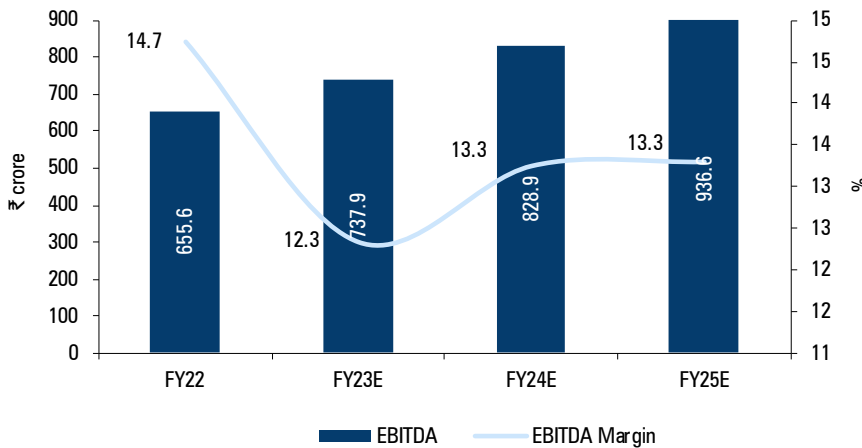
PCBL- ESG Disclosure Score*

Score	FY19	FY20	FY21
Environmental	28.7	25.3	44.9
Social	38.5	37.1	40.7
Governance	78.6	78.6	91.1
Overall ESG Score	48.7	47.1	59.0

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Revenues are seen growing at a CAGR of 16.4% in FY22-25E, building in 6.5% carbon black sales volume growth in the aforesaid period and crude led increase in realisations. We incorporate commissioning of new greenfield plant in FY23E

Exhibit 2: EBITDA and EBITDA margins trend

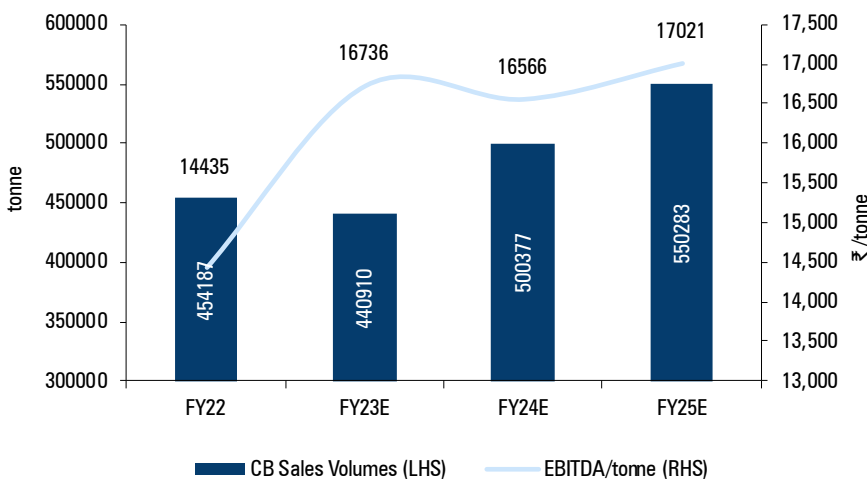


Source: Company, ICICI Direct Research

EBITDA is seen growing at a CAGR of 12.5% over FY22-25E. Margins are seen optically on the decline in FY23E due to a sharp increase in realisations while the company maintained healthy profitability on absolute basis with spreads (EBITDA/tonne) at ~₹ 15,000/tonne and above

Operating leverage gains and increasing share of speciality grade carbon black are seen as drivers for margin expansion in FY24-25E

Exhibit 3: Carbon black sales volume, EBITDA/tonne trend

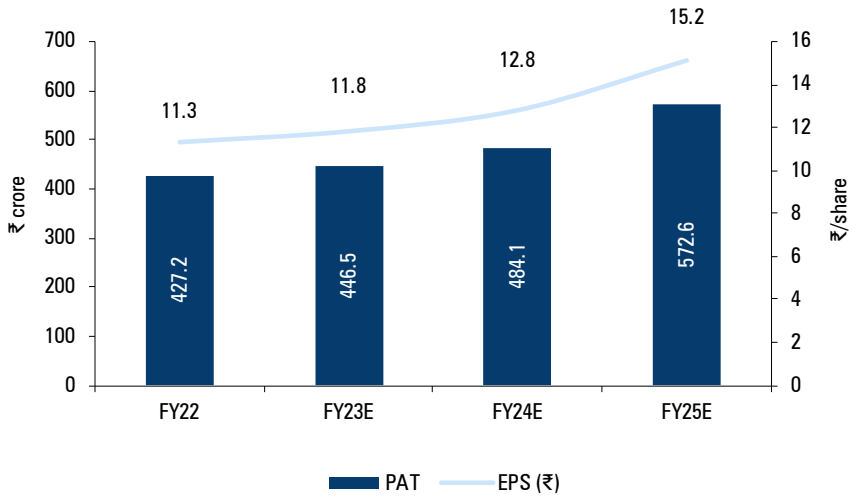


Source: Company, ICICI Direct Research

Sales volumes are expected to de-grow 3% YoY to 4.4 lakh tonne in FY23E (4.5 lakh tonne in FY22) and grow ~13.5% YoY to 5 lakh tonne in FY24E and 10% YoY thereafter to 5.5 lakh tonne in FY25E

EBITDA/tonne is seen in the range of ₹ 16000-17000 over FY23-25E vs. ₹ 14,435 levels clocked in FY22

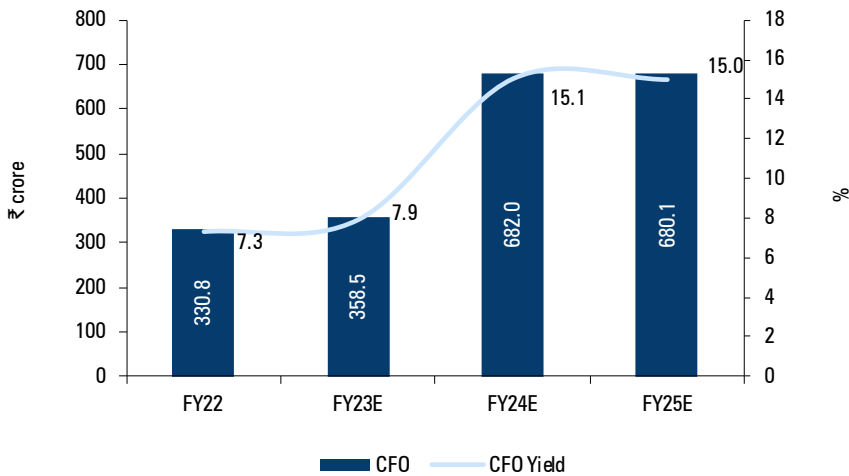
Exhibit 4: PAT and EPS trend



PAT is expected to grow at a CAGR of 10.1% over FY22-25E to ₹ 573 crore by FY25E. PCBL is expected to clock an EPS of ₹ 12.8 in FY24E & ₹ 15.2 in FY25E

Source: Company, ICICI Direct Research

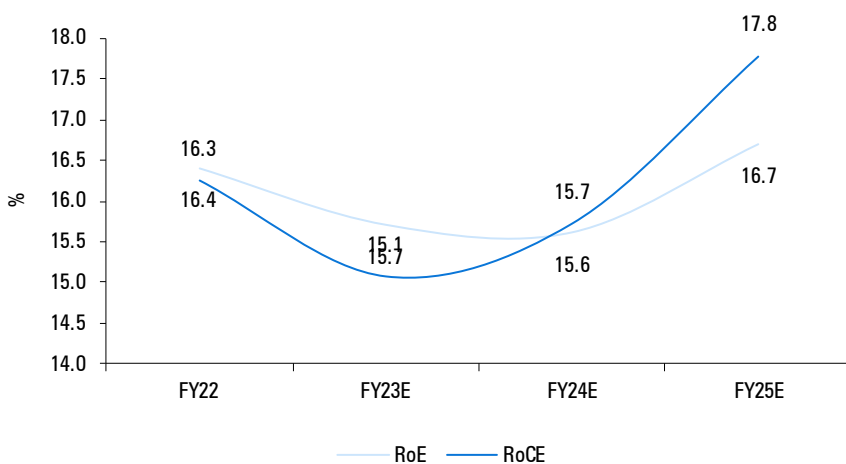
Exhibit 5: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~11% over FY22-25E

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



PCBL has a capital efficient business model with RoE & RoCE healthy at ~15%+ levels

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Net Sales	4446.4	5982.8	6256.1	7042.2	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	4446.4	5982.8	6256.1	7042.2	
Growth (%)	67.2	34.6	4.6	12.6	
Raw Material Expenses	3,133.8	4,542.5	4,651.4	5,239.4	
Employee Expenses	158.7	191.8	212.7	232.4	
Selling Expense	177.9	239.3	250.2	281.7	
Other Operating Expense	320.4	271.3	312.8	352.1	
Total Operating Expenditure	3,790.8	5,244.9	5,427.1	6,105.6	
EBITDA	655.6	737.9	828.9	936.6	
Growth (%)	26.4	12.6	12.3	13.0	
Depreciation	120.9	145.7	186.4	200.8	
Interest	29.1	50.8	59.5	44.4	
Other Income	26.7	28.4	22.0	24.4	
PBT	532.4	569.8	605.1	715.7	
Total Tax	105.2	123.3	121.0	143.1	
PAT	427.2	446.5	484.1	572.6	
Growth (%)	36.8	4.5	8.4	18.3	
EPS (₹)	11.3	11.8	12.8	15.2	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	427.2	446.5	484.1	572.6	
Add: Depreciation	120.9	145.7	186.4	200.8	
(Inc)/dec in Current Assets	-539.0	-462.4	-104.5	-300.7	
Inc/(dec) in CL and Provisions	292.6	177.9	56.6	162.9	
Others	29.1	50.8	59.5	44.4	
CF from operating activities	330.8	358.5	682.0	680.1	
(Inc)/dec in Investments	-368.8	280.0	15.0	5.0	
(Inc)/dec in Fixed Assets	-368.7	-750.0	-300.0	-100.0	
Others	-2.5	0.0	0.0	0.0	
CF from investing activities	-739.9	-470.0	-285.0	-95.0	
Issue/(Buy back) of Equity	3.3	0.0	0.0	0.0	
Inc/(dec) in loan funds	76.3	400.0	-100.0	-275.0	
Interest & Dividend paid	-217.8	-258.4	-285.9	-289.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	435.9	0.0	0.0	0.0	
CF from financing activities	297.7	141.6	-385.9	-564.8	
Net Cash flow	-111.3	30.2	11.1	20.3	
Opening Cash	220.0	108.7	138.9	150.0	
Closing Cash	108.7	138.9	150.0	170.3	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Liabilities					
Equity Capital	37.7	37.7	37.7	37.7	
Reserve and Surplus	2,567.2	2,806.1	3,063.7	3,391.0	
Total Shareholders funds	2604.9	2843.8	3101.4	3428.7	
Total Debt	684.0	1,084.0	984.0	709.0	
Deferred Tax Liability	276.3	276.3	276.3	276.3	
Minority Interest / Others	91.3	91.3	91.3	91.3	
Total Liabilities	3656.5	4295.4	4453.1	4505.3	
Assets					
Gross Block	2476.6	3350.0	3750.0	3900.0	
Less: Acc Depreciation	568.7	714.3	900.7	1,101.5	
Net Block	1907.9	2635.7	2849.3	2798.5	
Capital WIP	323.4	200.0	100.0	50.0	
Total Fixed Assets	2,231.3	2,835.7	2,949.3	2,848.5	
Investments	589.0	309.0	294.0	289.0	
Inventory	603.9	655.6	685.6	771.7	
Debtors	1,105.1	1,475.2	1,542.6	1,736.4	
Loans and Advances	48.7	65.6	68.6	77.2	
Other Current Assets	68.6	92.3	96.5	108.6	
Cash	108.7	138.9	150.0	170.3	
Total Current Assets	1,935.0	2,427.6	2,543.2	2,864.3	
Current Liabilities	982.8	1,147.4	1,199.8	1,350.6	
Provisions	79.3	92.6	96.9	109.0	
Current Liabilities & Prov	1,062.1	1,240.0	1,296.6	1,459.6	
Net Current Assets	873.0	1,187.6	1,246.6	1,404.7	
Others Assets	-36.7	-36.7	-36.7	-36.7	
Application of Funds	3656.5	4295.4	4453.1	4505.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Per share data (₹)					
EPS	11.3	11.8	12.8	15.2	
Cash EPS	14.5	15.7	17.8	20.5	
BV	69.0	75.4	82.2	90.9	
DPS	5.0	5.5	6.0	6.5	
Cash Per Share (Incl Invst)	18.5	11.9	11.8	12.2	
Operating Ratios (%)					
EBITDA Margin	14.7	12.3	13.3	13.3	
PAT Margin	9.6	7.5	7.7	8.1	
Inventory days	49.6	40.0	40.0	40.0	
Debtor days	90.7	90.0	90.0	90.0	
Creditor days	80.7	70.0	70.0	70.0	
Net Working Capital days	59.6	60.0	60.0	60.0	
Return Ratios (%)					
RoE	16.4	15.7	15.6	16.7	
RoCE	16.3	15.1	15.7	17.8	
RoIC	20.9	16.6	16.8	18.8	
Valuation Ratios (x)					
P/E	10.6	10.1	9.4	7.9	
EV / EBITDA	7.3	7.4	6.5	5.4	
EV / Net Sales	1.1	0.9	0.9	0.7	
Market Cap / Sales	1.0	0.8	0.7	0.6	
Price to Book Value	1.7	1.6	1.5	1.3	
Solvency Ratios					
Debt/EBITDA	1.0	1.5	1.2	0.8	
Debt / Equity	0.3	0.4	0.3	0.2	
Current Ratio	1.7	1.8	1.8	1.8	
Quick Ratio	1.2	1.3	1.3	1.3	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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