

## Robust performance, healthy growth lies ahead...

**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)

### Q1FY23 Results: PCBL reported robust performance in Q1FY23

- Net sales in Q1FY23 stood at ₹1,409 crore, up 16% QoQ with carbon black sales volumes at 109kt (down 3% QoQ) and realisation at ₹126/kg (up 18% QoQ). Speciality grade carbon black sales volumes stood at 9,867 tonne
- EBITDA in Q1FY23 came in at ₹196 crore with margins at 13.9% (up 270 bps QoQ). Consequent PAT for Q1FY23 stood at ₹126 crore, up 39% QoQ.
- EBITDA/tonne for Q1FY23 stood at ~₹18,000 (vs. ~₹12,200 in Q4FY22), highest ever in PCBL's history, primarily driven by lucrative spot sales

**What should investors do?** PCBL has been one of our early finds wherein it grew ~2x in the past five years (~₹ 60 in July 2017 to ~₹ 120 as of July 2022).

- We maintain our positive view and retain **BUY** rating on the stock. PCBL with organic growth prospects, much healthier B/S and return ratios is a good proxy to play upon recovery in volumes in the tyre and broader auto space

**Target Price and Valuation:** Revising our estimates (volume, margins), we value PCBL at unchanged target price of ₹160 i.e. 12x P/E on FY24E EPS

### Key triggers for future price performance:

- Healthy growth on anvil. We expect sales, PAT to grow at 25%, 9%, CAGR, respectively, in FY22-24E, building in ~8% volume CAGR in the same time. Sales growth looks optically higher due crude led rise in realisations.
- 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 CY22E 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 ~₹ 13.4/share



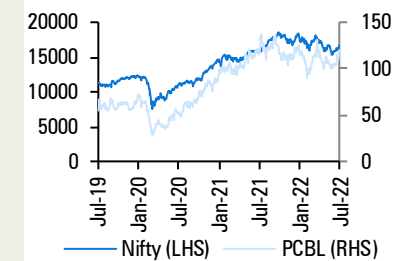
#### Particulars

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 (₹)	140 / 89
Equity Capital	37.7
Face Value	₹ 1

#### Shareholding pattern

	Sep-21	Dec-21	Dec-21	Mar-22
Promoter	53.6	55.7	51.4	51.4
FII	6.7	6.5	9.1	9.5
DII	2.1	2.1	4.8	5.2
Others	37.7	35.7	34.8	33.9

#### Price Chart



#### Recent event & key risks

- Reports robust Q1FY23 results.
- **Key Risk:** (i) Slower than anticipated carbon black sales volume growth over FY22-24E (ii) delay in commissioning of new projects (greenfield, brownfield)

#### Research Analyst

Chirag Shah  
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

#### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	3,243.5	2,659.5	4,446.4	18.2%	6,033.3	6,946.7	25.0%
EBITDA	464.9	518.6	655.6	20.4%	733.7	851.0	13.9%
EBITDA Margins (%)	14.3	19.5	14.7		12.2	12.3	
Net Profit	283.5	312.3	427.2	43.8%	438.2	504.7	8.7%
EPS (₹)	8.2	9.1	11.3		11.6	13.4	8.7%
P/E	14.6	13.2	10.6		10.3	9.0	
RoNW (%)	16.8	16.2	16.4		15.4	16.0	
RoCE (%)	16.1	16.1	16.3		14.9	16.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Quarterly performance)

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	1,409	1,004	40.4	1,219	15.6	Topline was up 15.6% QoQ primarily driven by crude led rise in realisations amidst marginally drop in volumes QoQ
Raw Material Expenses	1,026	672	52.6	904	13.4	Savings were realised in RM costs which as a % of sales came in at 72.8% of sales vs. 74.2% in Q4FY22
Employee Expenses	47	36	31.3	42	12.8	
Other Expenses	141	132	6.5	136	3.4	Other expenses came in tad lower at ~10% of sales, down 120 bps QoQ
EBITDA	195.6	163.9	19.3	136.8	42.9	
EBITDA Margin (%)	13.9	16.3	-245 bps	11.2	265 bps	EBITDA margins witnessed a sharp uptick and were up 265 bps QoQ at 13.9% of sales. EBITDA/tonne came in at an all time high of ~₹ 18,000/tonne
Other Income	11.2	3.3	236.9	11.7	-4.1	
Depreciation	37.4	29.2	28.3	30.5	22.8	
Interest	9	8	16.3	7	28.3	
PBT	160	130	23.0	111	44.4	PBT was up substantially on QoQ basis tracking robust operational performance (EBITDA margin expansion)
Total Tax	35	26	32.2	21	66.1	
Reported PAT	125.9	104.3	20.8	90.3	39.4	PAT was up 39% QoQ at ₹ 126 crore
<b>Key Metrics</b>						
Domestic Sales Volume (tonne)	77,097	73,074	5.5	77,015	0.1	Domestic volumes were largely flat QoQ at 77k tonne
Exports Sales Volume (tonne)	32,280	36,350	-11.2	35,437	-8.9	Export sales volumes declines 9% QoQ at 33k tonne
Total Sales Volume (tonne)	1,09,377	1,09,424	0.0	1,12,452	-2.7	Total sales volumes were down 3% QoQ at 109k tonne
Exports share in total sales volumes (%)	30	33	-371 bps	32	-200 bps	
Speciality Carbon Black Sales volume (tonne)	9,867	7,283	35.5	9,350	5.5	Speciality grade carbon black sales volume came in robust at 9.9k tonne, up 5.5% on QoQ basis
Speciality Carbon Black (% share)	9.0	6.7	237 bps	8.3	71 bps	
Realisation (₹/tonne)	1,25,611	90,274	39.1	1,06,012	18.5	Carbon Black realisations were up 19% QoQ at ₹ 126/kg primarily led by rise in crude prices
EBITDA/tonne (₹/tonne)	17,879	14,978	19.4	12,167	47.0	EBITDA/tonne was the best ever in the history of PCBL

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,807	6,033	25.5	5,362	6,947	29.6	Rise in topline estimates is primarily tracking crude price led substantial rise in carbon black realisations
EBITDA	721	734	1.7	832	851	2.2	
EBITDA Margin (%)	15.0	12.2	-284 bps	15.5	12.3	-328 bps	We have upgraded our EBITDA/tonne estimates tracking robust performance in Q1FY23 and steady demand prospects, however margin estimates look optically lower due to higher base (realisations)
PAT	455	438	-3.8	501	505	0.8	
EPS (₹)	11.8	11.6	-3.8	13.3	13.4	0.8	Broadly maintained PAT estimates. We expect earnings at PCBL to grow at a CAGR of ~9% over FY22-24E

Source: ICICI Direct Research

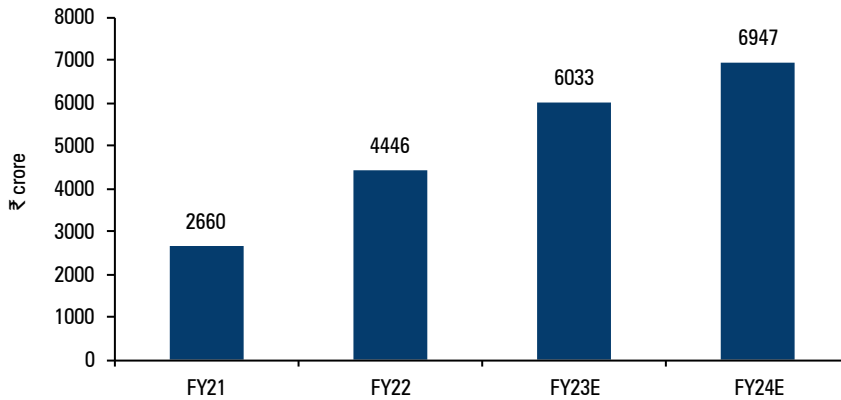
Exhibit 3: Assumptions

Particulars	Units	Current				Earlier		Comments
		FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Domestic Sales Volume	tonne	2,82,877	3,08,628	3,08,792	3,18,073	3,18,551	3,24,162	Marginally lowered our volume estimates
Export Sales Volumes	tonne	1,06,383	1,45,559	1,66,273	2,12,049	1,71,527	2,16,108	tracking cautious commentary on the demand front in the near term. While upgraded
<b>Total volumes</b>	<b>tonne</b>	<b>3,89,260</b>	<b>4,54,187</b>	<b>4,75,065</b>	<b>5,30,122</b>	<b>4,90,078</b>	<b>5,40,270</b>	EBITDA/tonne estimates tracking robust
Speciality Grade Sales Volume	tonne	23,966	34,687	45,000	55,000	45,000	55,000	performance in Q1FY23. We expect carbon
Speciality share in volume mix	%	6.2	7.6	9.5	10.4	9.2	10.2	black sales volume to grow at a CAGR of 8%
Carbon Black Realisations	₹/tonne	66,592	95,851	1,22,733	1,27,200	94,410	95,400	to 5.3 lakh tonne in FY24E
<b>EBITDA/tonne</b>	<b>₹/tonne</b>	<b>13,322</b>	<b>14,435</b>	<b>15,444</b>	<b>16,052</b>	<b>14,714</b>	<b>15,407</b>	

Source: ICICI Direct Research

## Financial story in charts

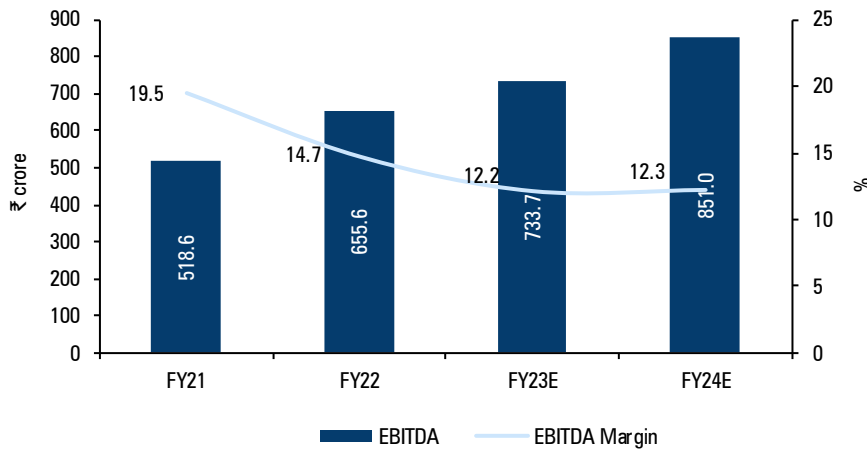
Exhibit 4: Topline trend



Revenues are seen growing at a CAGR of 25% in FY22-24E, building in ~8% carbon black sales volume growth in the aforesaid period and crude led increase in realisations. We have incorporated commissioning of new greenfield plant in H2FY23E.

Source: Company, ICICI Direct Research

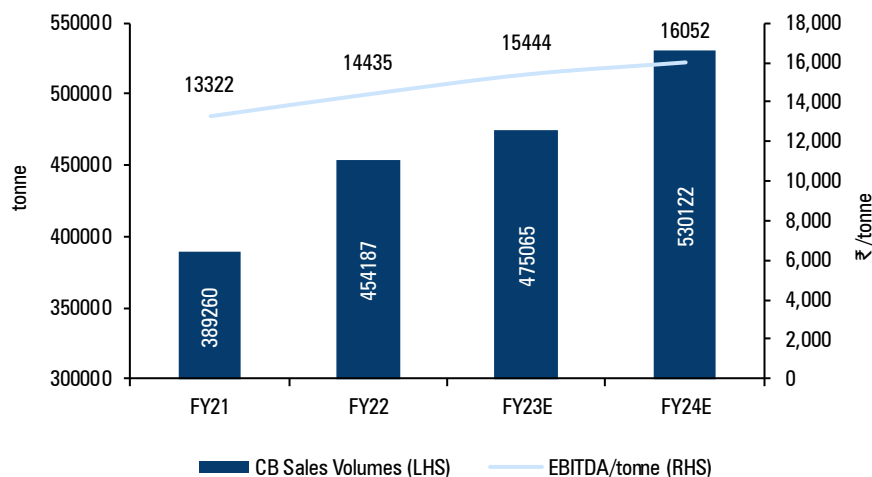
Exhibit 5: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 13.9% over FY22-24E. Margins are seen optically on the decline in FY22-23E due to sharp increase in realisations while company maintaining healthy profitability on absolute basis with spreads (EBITDA/tonne) at ~₹ 14,400/tonne and above

Source: Company, ICICI Direct Research

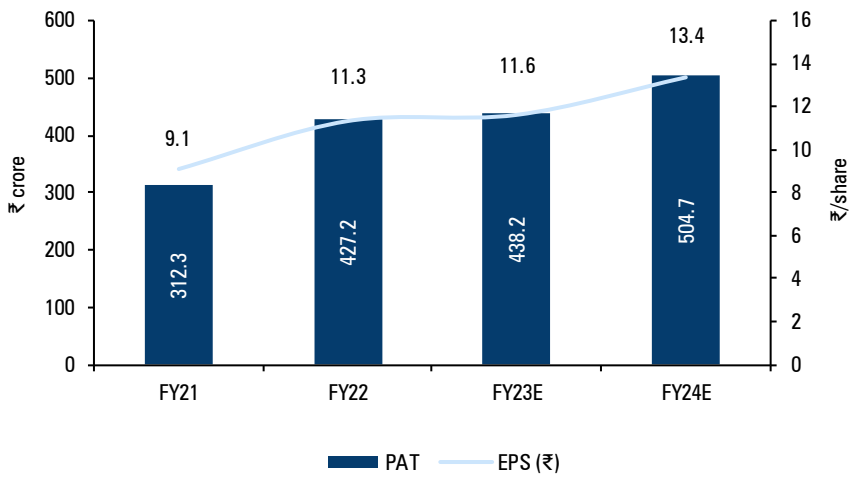
Exhibit 6: Carbon black sales volume, EBITDA/tonne trend



Sales volumes are expected to grow ~5% YoY to 4.8 lakh tonne in FY23E (4.5 lakh tonne in FY22) and further grow ~12% to 5.3 lakh tonne in FY24E. EBITDA/tonne is seen improving to ~₹ 16,000 by FY24E vs. ₹ 14,435 levels clocked in FY22.

Source: Company, ICICI Direct Research

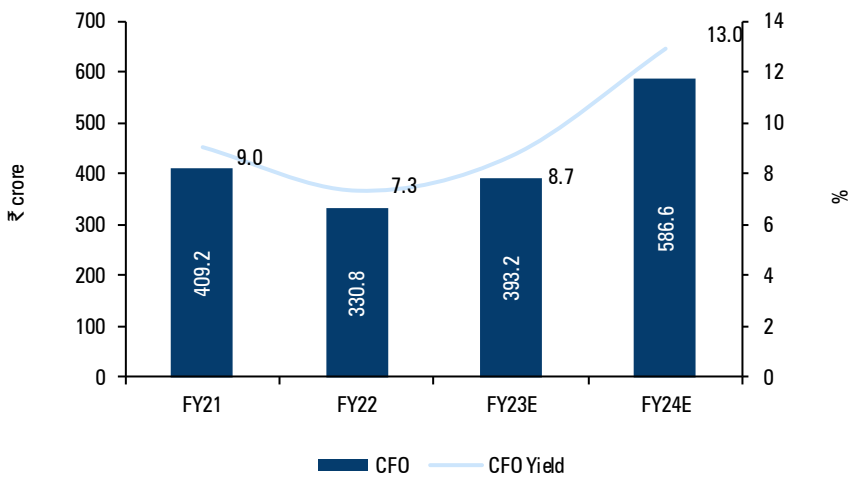
Exhibit 7: PAT and EPS trend



PAT is expected to grow at a CAGR of ~9% over FY22-24E to ₹ 505 crore by FY24E. PCBL is expected to clock an EPS of ₹ 11.6 in FY23E & ₹ 13.4 in FY24E

Source: Company, ICICI Direct Research

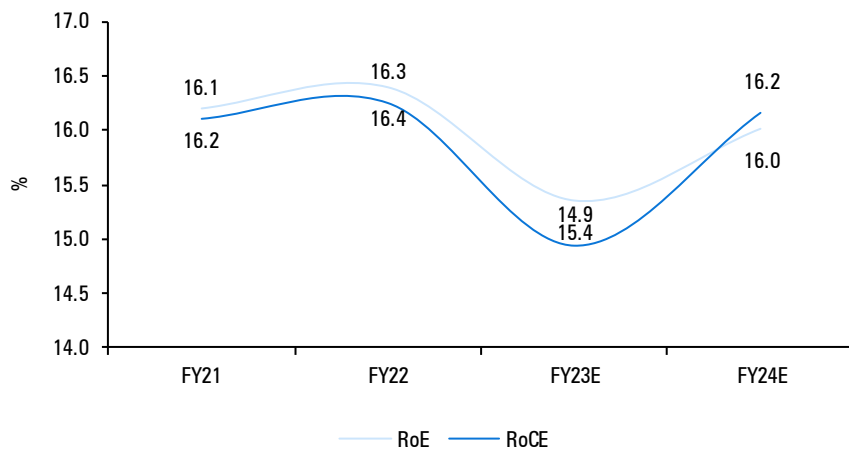
Exhibit 8: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~10% over FY21-24E. Absolute dip in CFO generation in FY22-23E is on account of sharp jump in crude price and consequent increased requirement of working capital for business operations

Source: Company, ICICI Direct Research

Exhibit 9: 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 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	2659.5	4446.4	6033.3	6946.7
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>2659.5</b>	<b>4446.4</b>	<b>6033.3</b>	<b>6946.7</b>
Growth (%)	-18.0	67.2	35.7	15.1
Raw Material Expenses	1,610.4	3,133.8	4,412.9	5,071.1
Employee Expenses	132.2	158.7	214.2	243.1
Selling Expense	106.4	177.9	241.3	277.9
Other Operating Expense	292.0	320.4	431.2	503.6
Total Operating Expenditure	2,141.0	3,790.8	5,299.6	6,095.7
<b>EBITDA</b>	<b>518.6</b>	<b>655.6</b>	<b>733.7</b>	<b>851.0</b>
Growth (%)	11.5	26.4	11.9	16.0
Depreciation	110.1	120.9	160.2	186.4
Interest	33.9	29.1	41.7	48.6
Other Income	15.8	26.7	26.5	14.9
<b>PBT</b>	<b>390.3</b>	<b>532.4</b>	<b>558.3</b>	<b>630.9</b>
Total Tax	78.1	105.2	120.1	126.2
<b>PAT</b>	<b>312.3</b>	<b>427.2</b>	<b>438.2</b>	<b>504.7</b>
Growth (%)	10.2	36.8	2.6	15.2
<b>EPS (₹)</b>	<b>9.1</b>	<b>11.3</b>	<b>11.6</b>	<b>13.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	312.3	427.2	438.2	504.7
Add: Depreciation	110.1	120.9	160.2	186.4
(Inc)/dec in Current Assets	-228.7	-539.0	-613.9	-369.5
Inc/(dec) in CL and Provisions	181.6	292.6	367.0	216.4
Others	33.9	29.1	41.7	48.6
<b>CF from operating activities</b>	<b>409.2</b>	<b>330.8</b>	<b>393.2</b>	<b>586.6</b>
(Inc)/dec in Investments	-43.5	-368.8	280.0	15.0
(Inc)/dec in Fixed Assets	-148.2	-368.7	-750.0	-300.0
Others	11.0	-2.5	0.0	0.0
<b>CF from investing activities</b>	<b>-180.8</b>	<b>-739.9</b>	<b>-470.0</b>	<b>-285.0</b>
Issue/(Buy back) of Equity	0.0	3.3	0.0	0.0
Inc/(dec) in loan funds	-9.0	76.3	300.0	-25.0
Interest & Dividend paid	-154.5	-217.8	-230.4	-256.1
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	43.9	435.9	0.0	0.0
<b>CF from financing activities</b>	<b>-119.7</b>	<b>297.7</b>	<b>69.6</b>	<b>-281.1</b>
Net Cash flow	108.7	-111.3	-7.2	20.5
Opening Cash	111.3	220.0	108.7	101.5
<b>Closing Cash</b>	<b>220.0</b>	<b>108.7</b>	<b>101.5</b>	<b>122.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	34.5	37.7	37.7	37.7
Reserve and Surplus	1,892.7	2,567.2	2,816.6	3,113.8
<b>Total Shareholders funds</b>	<b>1927.2</b>	<b>2604.9</b>	<b>2854.4</b>	<b>3151.6</b>
Total Debt	607.7	684.0	984.0	959.0
Deferred Tax Liability	271.5	276.3	276.3	276.3
Minority Interest / Others	98.6	91.3	91.3	91.3
<b>Total Liabilities</b>	<b>2905.0</b>	<b>3656.5</b>	<b>4206.0</b>	<b>4478.2</b>
<b>Assets</b>				
<b>Gross Block</b>	<b>2164.6</b>	<b>2476.6</b>	<b>3350.0</b>	<b>3750.0</b>
Less: Acc Depreciation	447.8	568.7	728.9	915.3
<b>Net Block</b>	<b>1716.8</b>	<b>1907.9</b>	<b>2621.1</b>	<b>2834.7</b>
Capital WIP	266.8	323.4	200.0	100.0
Total Fixed Assets	1,983.6	2,231.3	2,821.1	2,934.7
Investments	220.3	589.0	309.0	294.0
Inventory	444.8	603.9	793.4	913.5
Debtors	707.5	1,105.1	1,487.7	1,712.9
Loans and Advances	50.1	48.7	66.1	76.1
Other Current Assets	85.0	68.6	93.1	107.2
<b>Cash</b>	<b>220.0</b>	<b>108.7</b>	<b>101.5</b>	<b>122.0</b>
Total Current Assets	1,507.4	1,935.0	2,541.8	2,931.8
Current Liabilities	694.1	982.8	1,322.4	1,522.6
Provisions	85.3	79.3	106.7	122.9
Current Liabilities & Prov	779.4	1,062.1	1,429.1	1,645.5
Net Current Assets	728.0	873.0	1,112.7	1,286.3
Others Assets	-26.8	-36.7	-36.7	-36.7
<b>Application of Funds</b>	<b>2905.0</b>	<b>3656.5</b>	<b>4206.0</b>	<b>4478.2</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	9.1	11.3	11.6	13.4
Cash EPS	12.3	14.5	15.9	18.3
BV	55.9	69.0	75.6	83.5
DPS	3.5	5.0	5.0	5.5
Cash Per Share (Incl Invst)	12.8	18.5	10.9	11.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	19.5	14.7	12.2	12.3
PAT Margin	11.7	9.6	7.3	7.3
Inventory days	61.1	49.6	48.0	48.0
Debtor days	97.1	90.7	90.0	90.0
Creditor days	95.3	80.7	80.0	80.0
Net Working Capital days	62.9	59.6	58.0	58.0
<b>Return Ratios (%)</b>				
RoE	16.2	16.4	15.4	16.0
RoCE	16.1	16.3	14.9	16.2
RoIC	19.9	20.9	16.3	17.1
<b>Valuation Ratios (x)</b>				
P/E	13.2	10.6	10.3	9.0
EV / EBITDA	9.5	7.3	7.3	6.3
EV / Net Sales	1.8	1.1	0.9	0.8
Market Cap / Sales	1.7	1.0	0.8	0.7
Price to Book Value	2.1	1.7	1.6	1.4
<b>Solvency Ratios</b>				
Debt/EBITDA	1.2	1.0	1.3	1.1
Debt / Equity	0.3	0.3	0.3	0.3
Current Ratio	1.7	1.7	1.7	1.7
<b>Quick Ratio</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

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