

Steady quarter, growth to accelerate going forward...

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 FY23)

Q4FY23 Results: PCBL reported a steady performance in Q4FY23.

- Net sales for the quarter came in at ₹ 1,374 crore with carbon black sales volumes at 119 KT (up 6% QoQ, 16.4% QoQ) and realisation at ₹ 112/kg (down 20% QoQ largely tracking decline in crude prices)
- EBITDA for the quarter came in at ₹ 184 crore with corresponding margins at 13.4%. EBITDA/tonne for the quarter was at ₹ 15,424/tonne
- Consequent PAT for Q4FY23 was at ₹ 102 crore, up 2% QoQ
- Management guided for ~500 KT+ carbon black sales volume in FY24E (up 12% YoY, 445 KT in FY23) amid a new greenfield plant & expects to further grow speciality volumes to ~50 KT in FY24E vs. ~40 KT clocked in FY23

What should investors do? PCBL's stock price post its initial enormous re-rating over 2016-18 (up ~6-7x) has been largely flat over the past five years i.e. 2018-23.

- We retain **BUY** rating amid healthy volume growth in the offing in the domestic tyre space and favourable demand supply situation in PCBL's key export markets amid its new capacities coming on stream and healthy b/s

Target Price and Valuation: Revising our estimates and rolling over our valuations to FY25E, we now value PCBL at ₹ 180 i.e. 12x P/E on FY25E EPS of ₹ 15/share

Key triggers for future price performance:

- Amid healthy demand prospects, we expect sales, PAT to grow at 7.8%, 13.0%, CAGR, respectively, in FY23-25E, building in 12.2% volume CAGR
- With greenfield expansion (~150 KT) commissioned and successful strides made in the speciality carbon black domain, long term growth prospects are robust amid favourable demand – supply situation in overseas markets
- Expected phase 2 commissioning of Greenfield project in near term with brownfield expansion of speciality grade carbon black lines (40 KT) in FY24E
- Trades at inexpensive valuation of < 10x P/E on FY25E EPS of ~₹ 15/share
- Healthy cash flow generation with CFO yield > 10% over FY22-25E



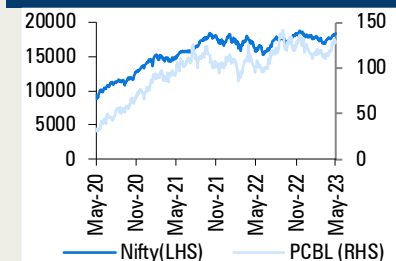
Particulars

Stock Data	₹ crore
Market Capitalization	4,908
Total Debt (FY23P)	943
Cash and Cash Eqv (FY23P)	95
Enterprise Value	5,755
52 week H/L (₹)	154 / 95
Equity Capital	37.8
Face Value	₹ 1

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	51.4	51.4	51.4	51.4
FII	10.2	10.9	8.6	6.3
DII	6.1	5.2	7.2	8.2
Other	32.4	32.5	32.9	34.1

Price Chart



Recent event & key risks

- Reports steady Q4FY23 results
- **Key Risk:** (i) Slower than anticipated ramp up at the new greenfield capacity in Chennai (ii) pressure on EBITDA/tonne amid incremental capacities in tyre grade CB domestically

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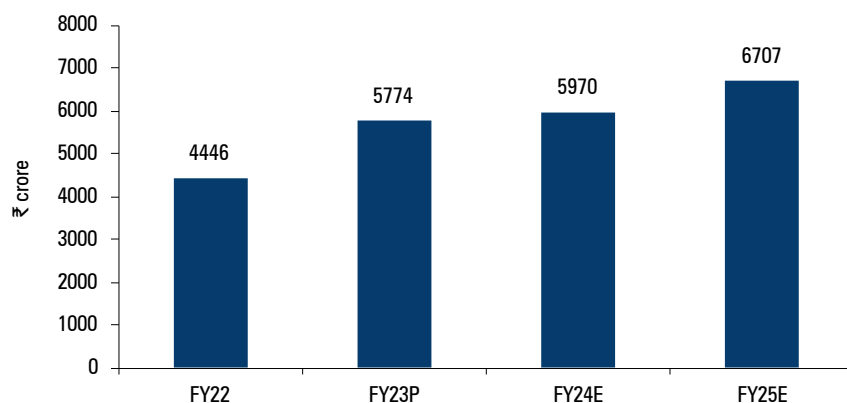
Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	3,243.5	2,659.5	4,446.4	5,774.1	17.8%	5,970.2	6,707.4	7.8%
EBITDA	464.9	518.6	652.9	731.2	13.6%	844.8	969.2	15.1%
EBITDA Margins (%)	14.3	19.5	14.7	12.7		14.2	14.5	
Net Profit	283.5	312.3	426.3	442.2	14.0%	454.0	565.1	13.0%
EPS (₹)	8.2	9.1	11.3	11.7		12.0	15.0	13.0%
P/E	15.8	14.3	11.5	11.1		10.8	8.7	
RoNW (%)	16.8	16.2	16.3	15.6		14.8	16.7	
RoCE (%)	16.1	16.1	16.1	15.8		16.5	18.5	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 1: Topline trend



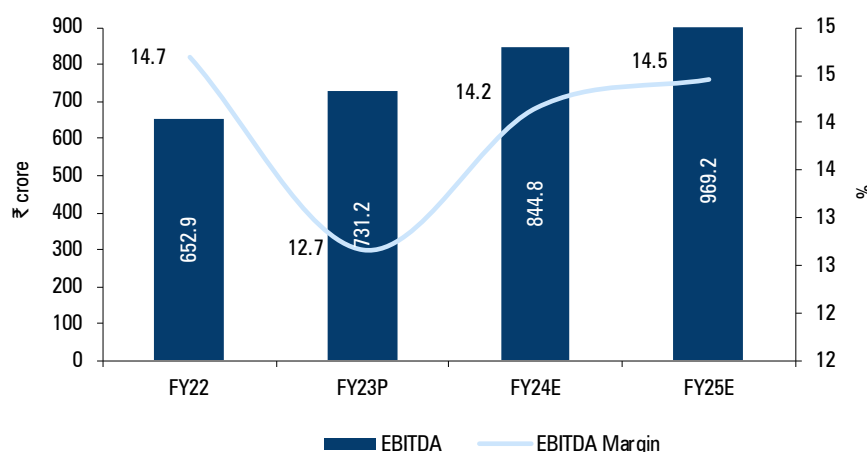
Source: Company, ICICI Direct Research

PCBL- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	25.3	31.4	40.4
Social	37.1	40.7	37.8
Governance	78.6	84.9	91.1
Overall ESG Score	47.1	52.4	56.5

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 7.8% in FY23-25E, building in 12.2% carbon black sales volume growth in the aforesaid period amid crude led decline increase in realisations. Management has guided for healthy 12-13% growth over the long term i.e., next five to six years

Exhibit 2: EBITDA and EBITDA margins trend

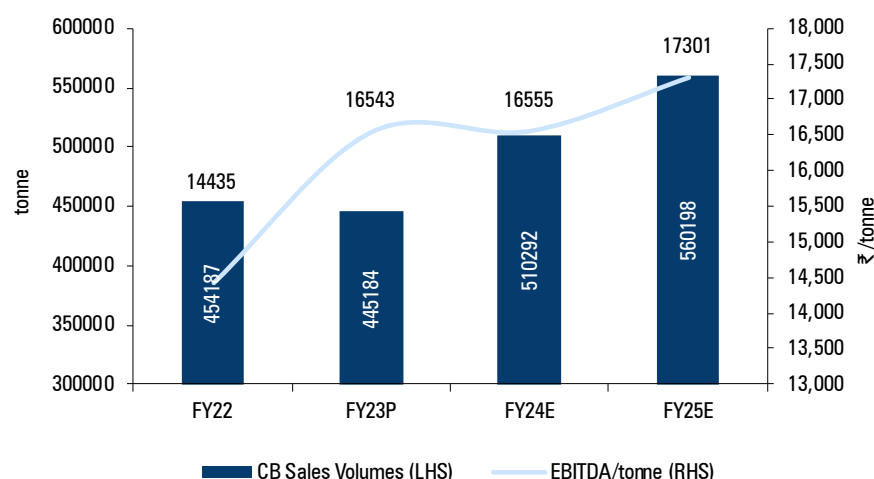


Source: Company, ICICI Direct Research

EBITDA is seen growing at a CAGR of 15.1% over FY23-25E. Margins are optimally expected to inch up amid crude led decline in realisations while EBITDA/tonne to remain steady at >₹ 16,500/tonne

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

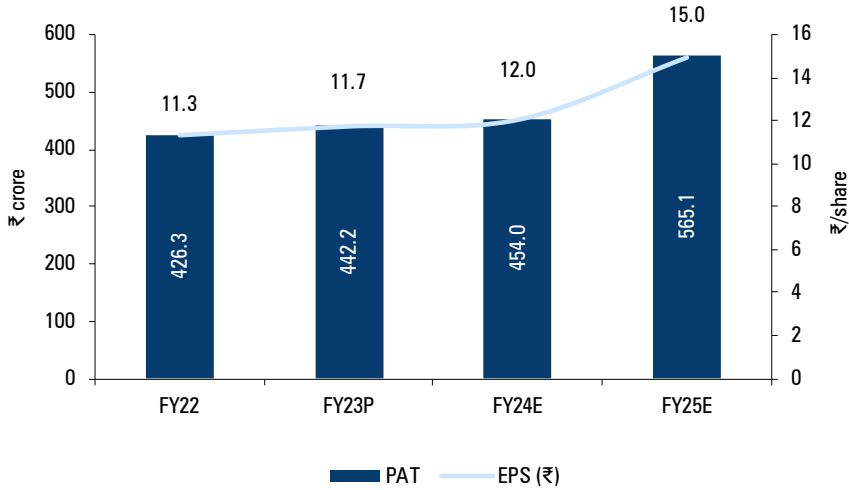


Source: Company, ICICI Direct Research

Sales volumes are expected to grow 14.6% YoY to 5.1 lakh tonne in FY24E and 10% YoY thereafter to 5.6 lakh tonne in FY25E vs. 4.45 lakh tonne in FY23

EBITDA/tonne is seen in the range of ₹ 16,500-17,300 over FY24-25E. The management guidance is for EBITDA/tonne to sustain on a full year basis for FY24E amid one-off gains in FY23P and thereafter resume its usual improvement journey (~₹ 1,000/tonne per annum)

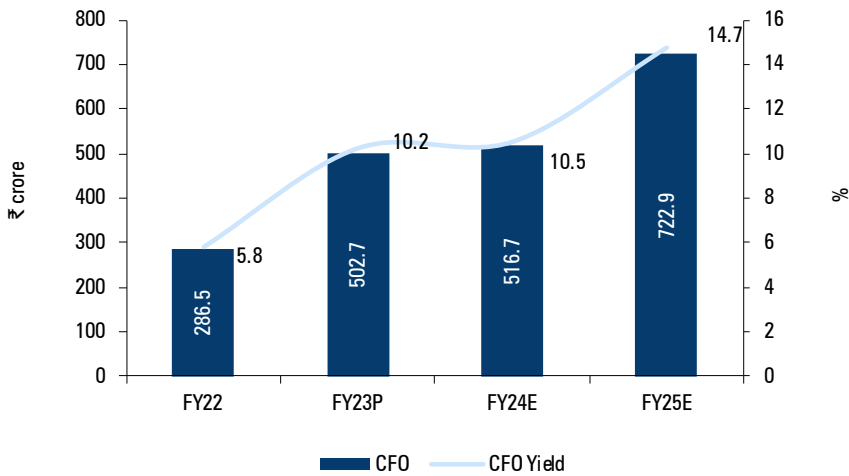
Exhibit 4: PAT and EPS trend



PAT is expected to grow at a CAGR of 13% over FY23-25E to ₹ 565 crore by FY25E. PCBL is expected to clock an EPS of ₹ 12 in FY24E & ₹ 15 in FY25E

Source: Company, ICICI Direct Research

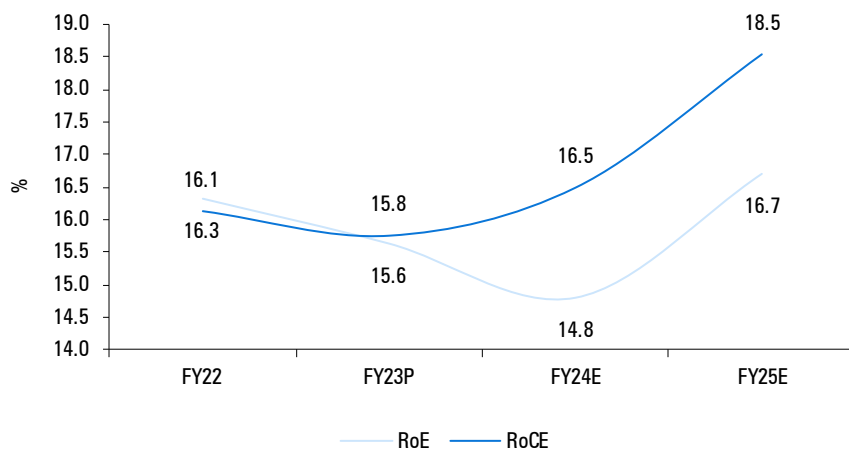
Exhibit 5: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~10% over FY22-25E. With robust cash flow generation, we expect the company to commence its debt reduction journey starting FY25E

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



PCBL has a capital efficient business model with RoE & RoCE healthy at ~15%+ levels. RoCEs are seen improving to ~18.5% levels by FY25E amid volume ramp up at its key greenfield plant. Management guidance is for 20% RoCE levels on sustainable basis

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Net Sales	4446.4	5774.1	5970.2	6707.4
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	4446.4	5774.1	5970.2	6707.4
Growth (%)	67.2	29.9	3.4	12.3
Raw Material Expenses	3,133.8	4,352.4	4,394.1	4,929.9
Employee Expenses	158.9	190.5	223.9	248.2
Selling Expense	180.4	235.1	238.8	268.3
Other Operating Expense	320.4	264.8	268.7	291.8
Total Operating Expenditure	3,793.5	5,042.8	5,125.4	5,738.2
EBITDA	652.9	731.2	844.8	969.2
Growth (%)	25.9	12.0	15.5	14.7
Depreciation	120.9	136.7	175.3	203.9
Interest	29.1	53.4	67.8	54.3
Other Income	28.6	40.6	20.1	22.9
PBT	531.5	581.7	621.9	733.9
Total Tax	105.2	139.5	167.9	168.8
PAT	426.3	442.2	454.0	565.1
Growth (%)	36.5	3.7	2.7	24.5
EPS (₹)	11.3	11.7	12.0	15.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	426.3	442.2	454.0	565.1
Add: Depreciation	120.9	136.7	175.3	203.9
(Inc)/dec in Current Assets	-494.3	-135.1	-207.0	-262.2
Inc/(dec) in CL and Provisions	204.5	5.5	26.7	161.8
Others	29.1	53.4	67.8	54.3
CF from operating activities	286.5	502.7	516.7	722.9
(Inc)/dec in Investments	-367.7	354.2	0.0	0.0
(Inc)/dec in Fixed Assets	-246.7	-925.1	-300.0	-150.0
Others	-40.9	25.3	10.0	10.0
CF from investing activities	-655.3	-545.7	-290.0	-140.0
Issue/(Buy back) of Equity	3.3	0.0	0.0	0.0
Inc/(dec) in loan funds	76.3	259.0	50.0	-250.0
Interest & Dividend paid	-217.9	-261.0	-284.8	-299.6
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	445.9	-18.6	0.0	0.0
CF from financing activities	307.7	-20.6	-234.8	-549.6
Net Cash flow	-61.1	-63.5	-8.1	33.3
Opening Cash	220.0	159.0	95.4	87.3
Closing Cash	159.0	95.4	87.3	120.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Liabilities				
Equity Capital	37.8	37.8	37.8	37.8
Reserve and Surplus	2,576.2	2,792.2	3,029.1	3,348.9
Total Shareholders funds	2614.0	2829.9	3066.9	3386.6
Total Debt	684.0	943.0	993.0	743.0
Deferred Tax Liability	276.3	256.1	256.1	256.1
Minority Interest / Others	99.6	87.4	87.4	87.4
Total Liabilities	3673.9	4116.5	4403.4	4473.1
Assets				
Gross Block	2502.8	2673.2	4003.2	4153.2
Less: Acc Depreciation	568.7	705.4	880.7	1,084.6
Net Block	1934.1	1967.7	3122.5	3068.6
Capital WIP	175.3	1,130.0	100.0	100.0
Total Fixed Assets	2,109.4	3,097.7	3,222.5	3,168.6
Investments	588.0	233.8	233.8	233.8
Inventory	603.9	571.4	736.1	826.9
Debtors	1,105.1	1,110.7	1,145.0	1,286.4
Loans and Advances	18.1	13.7	14.1	15.9
Other Current Assets	54.6	221.1	228.6	256.8
Cash	159.0	95.4	87.3	120.6
Total Current Assets	1,940.7	2,012.2	2,211.0	2,506.5
Current Liabilities	993.6	1,201.8	1,226.8	1,378.2
Provisions	79.3	82.3	84.0	94.4
Current Liabilities & Prov	1,073.0	1,284.1	1,310.8	1,472.6
Net Current Assets	867.7	728.1	900.2	1,033.9
Others Assets	108.9	56.9	46.9	36.9
Application of Funds	3673.9	4116.5	4403.4	4473.1

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	11.3	11.7	12.0	15.0
Cash EPS	14.5	15.3	16.7	20.4
BV	69.2	75.0	81.2	89.7
DPS	5.0	5.5	5.8	6.5
Cash Per Share (Incl Invst)	19.8	8.7	8.5	9.4
Operating Ratios (%)				
EBITDA Margin	14.7	12.7	14.2	14.5
PAT Margin	9.6	7.7	7.6	8.4
Inventory days	49.6	36.1	45.0	45.0
Debtor days	90.7	70.2	70.0	70.0
Creditor days	81.6	76.0	75.0	75.0
Net Working Capital days	58.7	30.4	40.0	40.0
Return Ratios (%)				
RoE	16.3	15.6	14.8	16.7
RoCE	16.1	15.8	16.5	18.5
RoIC	20.2	23.3	17.3	19.6
Valuation Ratios (x)				
P/E	11.5	11.1	10.8	8.7
EV / EBITDA	7.8	7.9	6.9	5.7
EV / Net Sales	1.1	1.0	1.0	0.8
Market Cap / Sales	1.1	0.8	0.8	0.7
Price to Book Value	1.9	1.7	1.6	1.4
Solvency Ratios				
Debt/EBITDA	1.0	1.3	1.2	0.8
Debt / Equity	0.3	0.3	0.3	0.2
Current Ratio	1.7	1.5	1.6	1.6
Quick Ratio	1.1	1.0	1.1	1.1

Source: Company, ICICI Direct Research

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