

Steady performance, base case valuations to prevail...

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)

Q2FY23 Results: PCBL reported a steady performance in Q2FY23.

- Net sales in Q2FY23 were at ₹ 1,628 crore, up 15.5% QoQ with carbon black sales volumes at 114 KT (up 4% QoQ) and realisation at ₹ 140/kg (up 11% QoQ). Speciality grade carbon black sales volumes were at 10,016 tonne
- EBITDA in Q2FY23 came in at ₹ 189 crore with corresponding margins at 11.6%. Consequent PAT for Q2FY23 was at ₹ 116 crore, down 7.7% QoQ
- EBITDA/tonne for the quarter was at ~₹ 16,570/tonne, down 7.3% QoQ, still second highest in its history. It was higher than our expectations, primarily driven by a decline in outward freight rates

What should investors do? PCBL was one of our early finds wherein it grew ~8x since our initiation over six years (~₹ 17.5 in July 2016 to ~₹ 140 as of October 2022).

- We retain **BUY** rating on the stock. PCBL stands to benefit from the current recovery in volumes in the domestic auto space, especially the CV domain with greater export play amid constrained exports from China

Target Price and Valuation: Tracking management commentary and, thus, revising our estimates, we now value PCBL at ₹ 170 i.e. 12.5x P/E on FY24E EPS

Key triggers for future price performance:

- Healthy growth on the anvil. We expect sales, PAT to grow at 26%, 9.5%, CAGR, respectively, in FY22-24E, building in 7.6% volume CAGR at same time. Sales growth looks optically higher on crude led rise in realisation
- 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 ~₹ 13.6/share



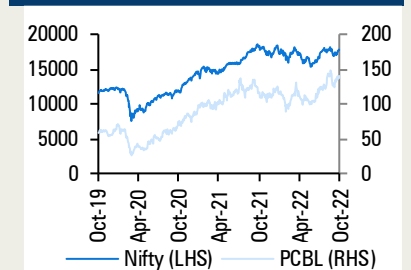
Particulars

Stock Data	₹ crore
Market Capitalization	5,095
Total Debt (FY22)	684
Cash and Cash Eqv (FY22)	409
Enterprise Value	5,370
52 week H/L (₹)	154 / 89
Equity Capital	37.7
Face Value	₹ 1

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	51.4	51.4	51.4	51.4
FII	9.1	9.5	10.2	10.9
DII	4.8	5.2	6.1	5.2
Others	34.8	33.9	32.3	32.5

Price Chart



Recent event & key risks

- Reports steady Q2FY23 results
- **Key Risk:** (i) Delay in recovery in sales volumes especially in key export markets (ii) Slower than expected volume ramp up from the new project (greenfield)

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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%	6,193.6	7,053.2	25.9%
EBITDA	464.9	518.6	655.6	20.4%	751.0	864.0	14.8%
EBITDA Margins (%)	14.3	19.5	14.7		12.1	12.3	
Net Profit	283.5	312.3	427.2	43.8%	460.1	512.2	9.5%
EPS (₹)	8.2	9.1	11.3		12.2	13.6	9.5%
P/E	16.4	14.9	11.9		11.1	9.9	
RoNW (%)	16.8	16.2	16.4		16.0	16.1	
RoCE (%)	16.1	16.1	16.3		15.3	16.0	

Source: Company, ICICI Direct Research

Key takeaways from conference call

- As per the management, the near term business environment looks a tad uncertain with long term growth drivers intact for the company
- Domestic tyre demand is robust amid recovery in OEM sales volumes. In the export markets, some demand concerns exist in the western European region (accounts for ~18% of global carbon black consumption) due to diversion of energy (gas) from industry to households (domestic)
- In the domestic market, including PCBL, incremental capacity addition is pegged at >5 lakh tonne, which is expected to make it a tad difficult for the company to push carbon black sales volume domestically in the near term
- Total sales volume in Q2FY23 was at 113,859 tonne, which includes 77,963 tonne as domestic sales and 35,986 tonne as export sales
- In terms of carbon black grades, out of 113,859 tonne of sales volume, 82,633 tonne was tyre grade; 21,210 tonne was performance carbon black & 10,016 tonne was speciality grade
- On the greenfield expansion front, progress on the new plant (Tamil Nadu, 150 KT) is as per plan with commissioning expected in December 2022
- On the brownfield expansion front, first phase of (~40,000 tonne speciality carbon black) is expected by March 2023
- PCBL's endeavour is to increase its EBITDA/tonne by ~₹ 1,000/tonne annually with FY22 as its base, through improvement in yields, greater share of speciality grade carbon black and better capacity utilization levels. Over the next four to five years it expects its EBITDA/tonne to improve by ~₹ 4,000-5,000/tonne to eventually head towards ~₹ 20,000/tonne vs. ~15,000-16,000/tonne currently
- Its export mix is at: 77-78% Asia; 15-16% Europe; 3-4% North America and rest others
- Exports constituted ~70% of speciality grade carbon black volumes
- PCBL intends to maintain its dividend payout at ~ 35-40%
- Export freight rates have corrected ~50% from the peaks but are still higher than pre-Covid levels
- Prevailing carbon black prices are at ~₹ 130/kg vs. ₹140/kg recorded in Q2FY23
- Over a broader time frame, on the realisations front, speciality grade carbon black sells at 20% premium to normal grade carbon black

Exhibit 1: Variance Analysis (Quarterly performance)

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	1,628	1,068	52.5	1,409	15.5	Topline for the quarter was up 15.5% QoQ at ₹ 1,628 crore driven by 4% QoQ growth in volumes & 11% rise in ASP's
Raw Material Expenses	1,259	717	75.5	1,026	22.7	RM costs look optically higher amid high crude prices with gross margin spreads coming in steady at ~₹29,200/tonne
Employee Expenses	49	41	17.9	47	3.5	
Other Expenses	132	122	7.9	141	-6.4	Other expenses were contained at ~8% of sales
EBITDA	188.7	186.8	1.0	195.6	-3.5	
EBITDA Margin (%)	11.6	17.5	-591 bps	13.9	-229 bps	EBITDA margins look optically suppressed amid high crude led ASP scenario with EBITDA/tonne at PCBL coming in at second best in its history
Other Income	3.4	3.3	1.2	11.2	-70.1	
Depreciation	32.7	30.4	7.4	37.4	-12.8	Depreciation was on expected lines
Interest	11	8	43.2	9	24.0	
PBT	148	152	-2.4	160	-7.5	
Total Tax	32	31	5.6	35	-6.8	Tax rate for the quarter stood at ~22%
Reported PAT	116.2	121.5	-4.4	125.9	-7.7	Earnings witness a QoQ decline amid exceptionally high profitability in Q1FY23 amid lucrative spot market
Key Metrics						
Domestic Sales Volume (tonne)	77,963	81,918	-4.8	77,097	1.1	Domestic volumes were steady at ~78 Kt in Q2FY23
Exports Sales Volume (tonne)	35,896	33,799	6.2	32,280	11.2	Export volumes were up 11% QoQ at ~36 Kt in Q2FY23
Total Sales Volume (tonne)	1,13,859	1,15,717	-1.6	1,09,377	4.1	Total volumes were up 4% QoQ at ~114 Kt
Exports share in total sales volumes (%)	32	29	232 bps	30	201 bps	
Speciality Carbon Black Sales volume (tonne)	10,016	8,219	21.9	9,867	1.5	Speciality grade carbon black sales were maintained at ~10k tonne mark quarterly
Speciality Carbon Black (% share)	8.8	7.1	169 bps	9.0	-22 bps	
Realisation (₹/tonne)	1,39,761	90,324	54.7	1,25,611	11.3	Realisation were up 11% QoQ at ₹ 140/kg
EBITDA/tonne (₹/tonne)	16,570	16,142	2.7	17,879	-7.3	EBITDA/tonne for the quarter stood at ~₹ 16,570/tonne

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,033	6,194	2.7	6,947	7,053	1.5	Revenue estimates remained broadly unchanged tracking decline in sales volume estimates and upward revision in realisations in H1FY23 tracking high crude prices
EBITDA	734	751	2.4	851	864	1.5	
EBITDA Margin (%)	12.2	12.1	-3 bps	12.3	12.3	0 bps	EBITDA margins estimates remained broadly unchanged for FY23E, 24E at ~12-12.5%
PAT	438	460	5.0	505	512	1.5	
EPS (₹)	11.6	12.2	5.0	13.4	13.6	1.5	Our earning estimates gets upgraded by single digit tracking upbeat EBITDA/tonne performance

Source: ICICI Direct Research

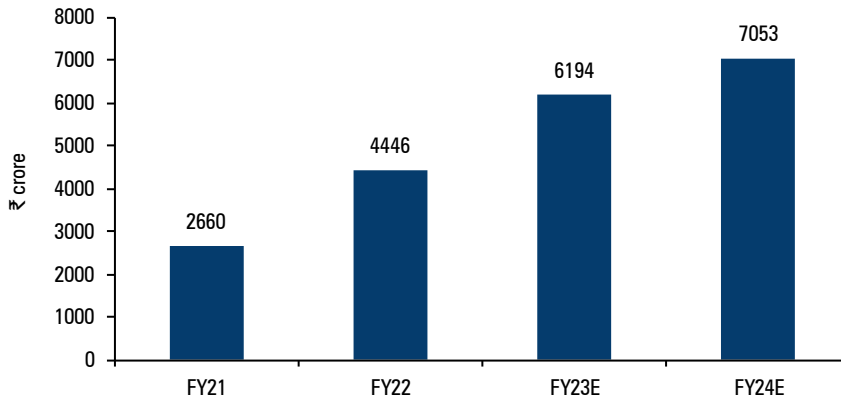
Exhibit 3: Assumptions

Particulars	Units	Current				Earlier		Comments
		FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Domestic Sales Volume	tonne	2,82,877	3,08,628	3,17,725	3,15,297	3,08,792	3,18,073	
Export Sales Volumes	tonne	1,06,383	1,45,559	1,42,746	2,10,198	1,66,273	2,12,049	Lowered our sales volume estimates tracking cautious management commentary on demand prospects particularly in the export markets.
Total volumes	tonne	3,89,260	4,54,187	4,60,472	5,25,495	4,75,065	5,30,122	
Speciality Grade Sales Volume	tonne	23,966	34,687	45,000	55,000	45,000	55,000	
Speciality share in volume mix	%	6.2	7.6	9.8	10.5	9.5	10.4	Upgraded our EBITDA/tonne estimates tracking robust performance in H1FY23
Carbon Black Realisations	₹/tonne	66,592	95,851	1,29,382	1,30,380	1,22,733	1,27,200	
EBITDA/tonne	₹/tonne	13,322	14,435	16,310	16,442	15,444	16,052	

Source: ICICI Direct Research

Financial story in charts

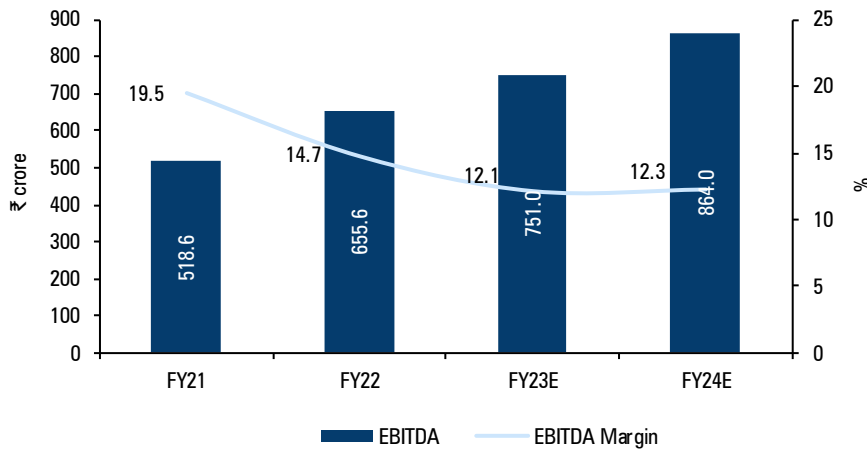
Exhibit 4: Topline trend



Revenues are seen growing at a CAGR of 25.9% in FY22-24E, building in 7.6% carbon black sales volume growth in the aforesaid period and crude led increase in realisations. We incorporate commissioning of new greenfield plant in H2FY23E

Source: Company, ICICI Direct Research

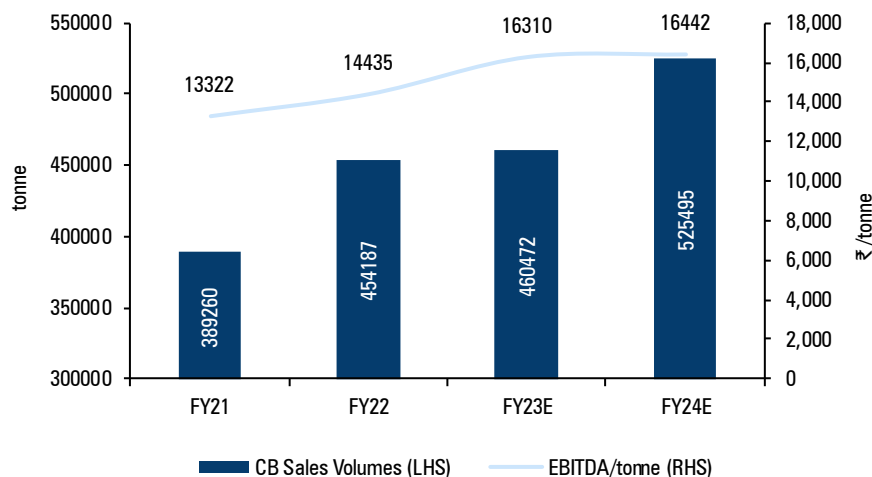
Exhibit 5: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 14.8% over FY22-24E. Margins are seen optically on the decline in FY22-23E due to sharp increase in realisations while the company maintained healthy profitability on an absolute basis with spreads (EBITDA/tonne) at ~₹ 15,000/tonne and above

Source: Company, ICICI Direct Research

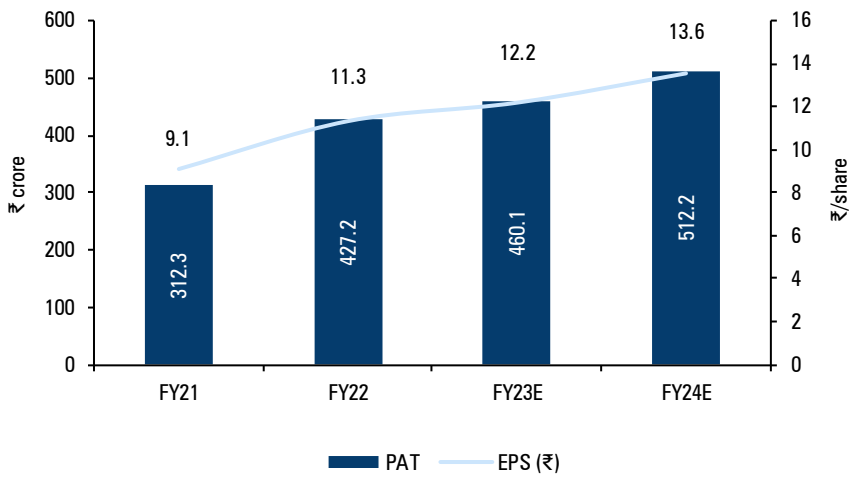
Exhibit 6: Carbon black sales volume, EBITDA/tonne trend



Sales volumes are expected to grow 1.4% YoY to 4.6 lakh tonne in FY23E (4.5 lakh tonne in FY22) and further grow ~14% to 5.25 lakh tonne in FY24E. EBITDA/tonne is seen improving to ~₹ 16,450 by FY24E vs. ₹ 14,435 levels clocked in FY22

Source: Company, ICICI Direct Research

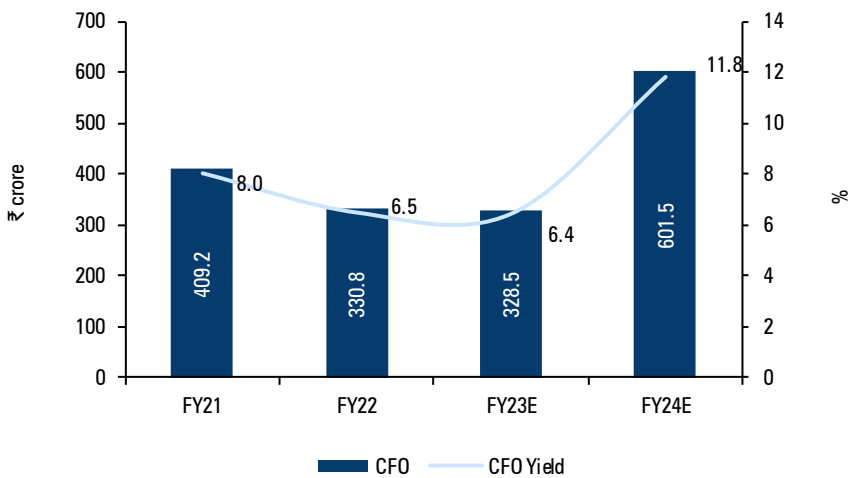
Exhibit 7: PAT and EPS trend



PAT is expected to grow at a CAGR of 9.5% over FY22-24E to ₹ 512 crore by FY24E. PCBL is expected to clock an EPS of ₹ 12.2 in FY23E & ₹ 13.6 in FY24E

Source: Company, ICICI Direct Research

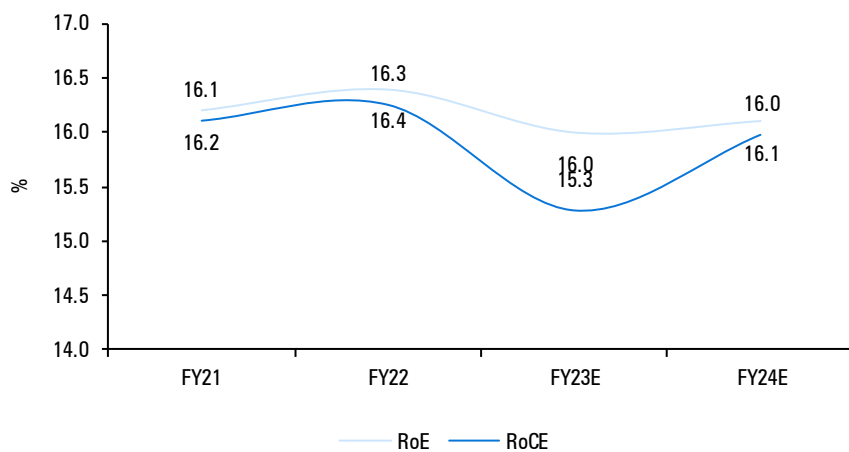
Exhibit 8: CFO and CFO yield trend



Robust cash flow generation is the USP of PCBL with the company offering healthy cash flow yield of ~8% over FY21-24E. Absolute dip in CFO generation in FY22-23E is on account of a 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, respectively

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	6193.6	7053.2
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2659.5	4446.4	6193.6	7053.2
Growth (%)	-18.0	67.2	39.3	13.9
Raw Material Expenses	1,610.4	3,133.8	4,651.9	5,289.9
Employee Expenses	132.2	158.7	202.6	229.2
Selling Expense	106.4	177.9	247.7	282.1
Other Operating Expense	292.0	320.4	340.4	387.9
Total Operating Expenditure	2,141.0	3,790.8	5,442.6	6,189.2
EBITDA	518.6	655.6	751.0	864.0
Growth (%)	11.5	26.4	14.6	15.0
Depreciation	110.1	120.9	145.7	186.4
Interest	33.9	29.1	44.2	53.6
Other Income	15.8	26.7	25.3	16.2
PBT	390.3	532.4	586.5	640.3
Total Tax	78.1	105.2	126.4	128.1
PAT	312.3	427.2	460.1	512.2
Growth (%)	10.2	36.8	7.7	11.3
EPS (₹)	9.1	11.3	12.2	13.6

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	460.1	512.2
Add: Depreciation	110.1	120.9	145.7	186.4
(Inc)/dec in Current Assets	-228.7	-539.0	-543.0	-328.8
Inc/(dec) in CL and Provisions	181.6	292.6	221.6	178.2
Others	33.9	29.1	44.2	53.6
CF from operating activities	409.2	330.8	328.5	601.5
(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
CF from investing activities	-180.8	-739.9	-470.0	-285.0
Issue/(Buy back) of Equity	0.0	3.3	0.0	0.0
Inc/(dec) in loan funds	-9.0	76.3	400.0	-25.0
Interest & Dividend paid	-154.5	-217.8	-232.9	-261.1
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	43.9	435.9	0.0	0.0
CF from financing activities	-119.7	297.7	167.1	-286.1
Net Cash flow	108.7	-111.3	25.7	30.3
Opening Cash	111.3	220.0	108.7	134.3
Closing Cash	220.0	108.7	134.3	164.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	34.5	37.7	37.7	37.7
Reserve and Surplus	1,892.7	2,567.2	2,838.5	3,143.2
Total Shareholders funds	1927.2	2604.9	2876.3	3180.9
Total Debt	607.7	684.0	1,084.0	1,059.0
Deferred Tax Liability	271.5	276.3	276.3	276.3
Minority Interest / Others	98.6	91.3	91.3	91.3
Total Liabilities	2905.0	3656.5	4327.9	4607.5
Assets				
Gross Block	2164.6	2476.6	3350.0	3750.0
Less: Acc Depreciation	447.8	568.7	714.3	900.7
Net Block	1716.8	1907.9	2635.7	2849.3
Capital WIP	266.8	323.4	200.0	100.0
Total Fixed Assets	1,983.6	2,231.3	2,835.7	2,949.3
Investments	220.3	589.0	309.0	294.0
Inventory	444.8	603.9	678.8	773.0
Debtors	707.5	1,105.1	1,527.2	1,739.1
Loans and Advances	50.1	48.7	67.9	77.3
Other Current Assets	85.0	68.6	95.6	108.8
Cash	220.0	108.7	134.3	164.7
Total Current Assets	1,507.4	1,935.0	2,503.7	2,862.9
Current Liabilities	694.1	982.8	1,187.8	1,352.7
Provisions	85.3	79.3	95.9	109.2
Current Liabilities & Prov	779.4	1,062.1	1,283.7	1,461.9
Net Current Assets	728.0	873.0	1,220.0	1,401.1
Others Assets	-26.8	-36.7	-36.7	-36.7
Application of Funds	2905.0	3656.5	4327.9	4607.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	9.1	11.3	12.2	13.6
Cash EPS	12.3	14.5	16.1	18.5
BV	55.9	69.0	76.2	84.3
DPS	3.5	5.0	5.0	5.5
Cash Per Share (Incl Invst)	12.8	18.5	11.7	12.2
Operating Ratios (%)				
EBITDA Margin	19.5	14.7	12.1	12.3
PAT Margin	11.7	9.6	7.4	7.3
Inventory days	61.1	49.6	40.0	40.0
Debtor days	97.1	90.7	90.0	90.0
Creditor days	95.3	80.7	70.0	70.0
Net Working Capital days	62.9	59.6	60.0	60.0
Return Ratios (%)				
RoE	16.2	16.4	16.0	16.1
RoCE	16.1	16.3	15.3	16.0
RoIC	19.9	20.9	16.8	17.1
Valuation Ratios (x)				
P/E	14.9	11.9	11.1	9.9
EV / EBITDA	10.6	8.2	8.0	6.9
EV / Net Sales	2.1	1.2	1.0	0.8
Market Cap / Sales	1.9	1.1	0.8	0.7
Price to Book Value	2.4	2.0	1.8	1.6
Solvency Ratios				
Debt/EBITDA	1.2	1.0	1.4	1.2
Debt / Equity	0.3	0.3	0.4	0.3
Current Ratio	1.7	1.7	1.8	1.8
Quick Ratio	1.1	1.2	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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