

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



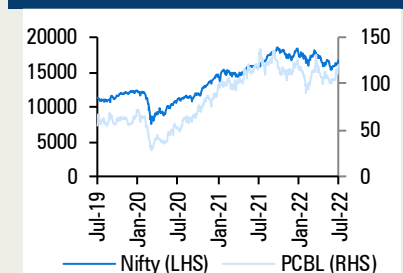
Particulars

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)

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	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
Key Metrics						
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

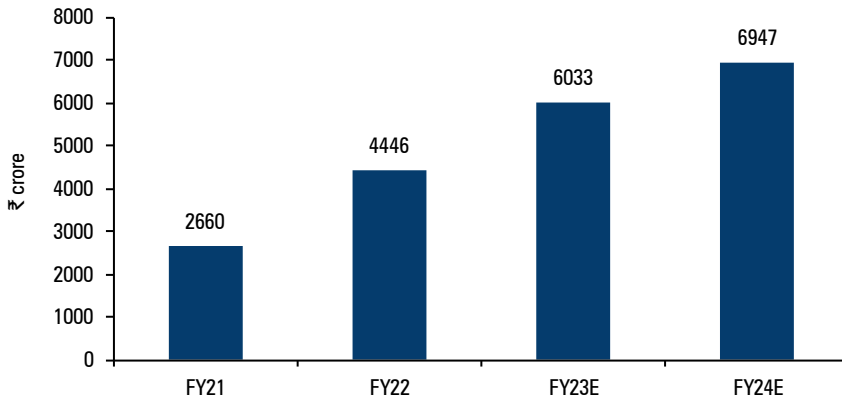
Exhibit 3: Assumptions

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
Total volumes	tonne	3,89,260	4,54,187	4,75,065	5,30,122	4,90,078	5,40,270	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
EBITDA/tonne	₹/tonne	13,322	14,435	15,444	16,052	14,714	15,407	

Source: ICICI Direct Research

Financial story in charts

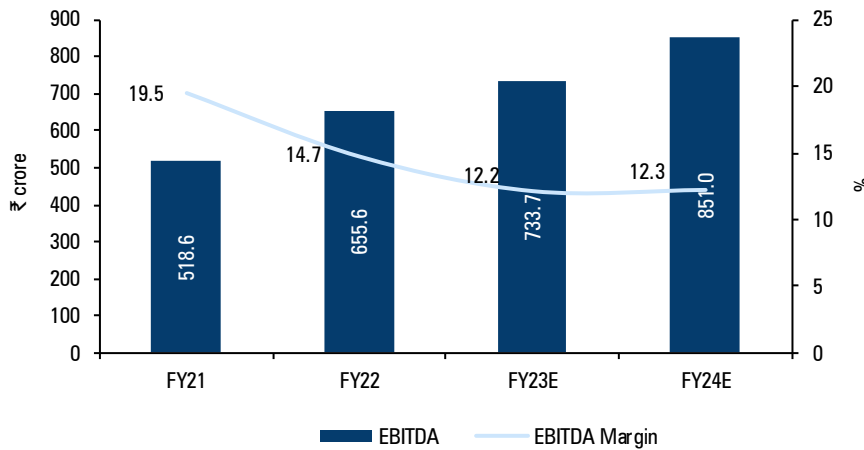
Exhibit 4: Topline trend



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

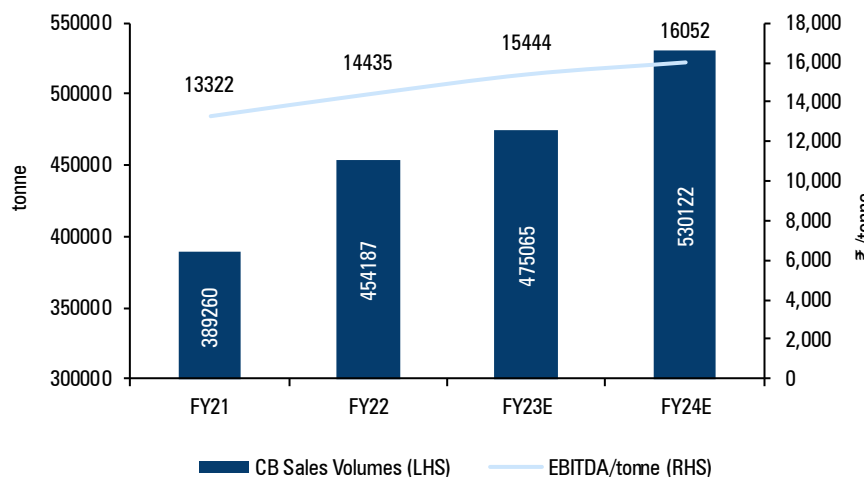
Exhibit 5: EBITDA and EBITDA margins trend



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

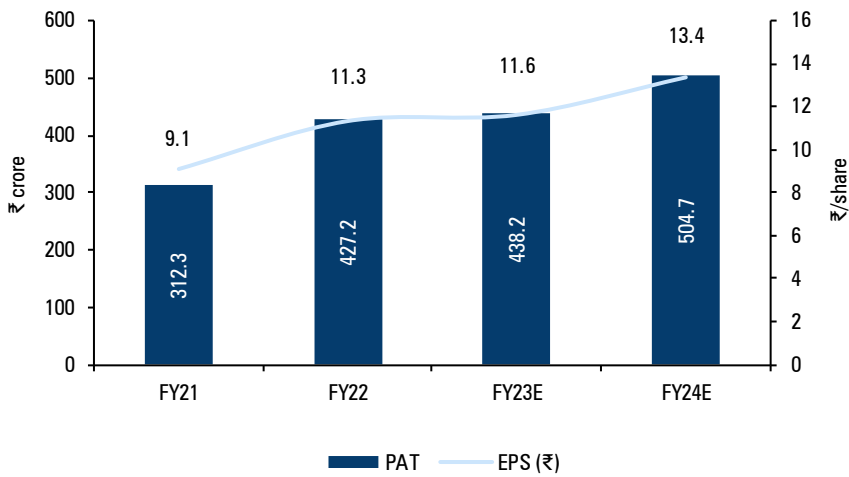
Exhibit 6: Carbon black sales volume, EBITDA/tonne trend



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

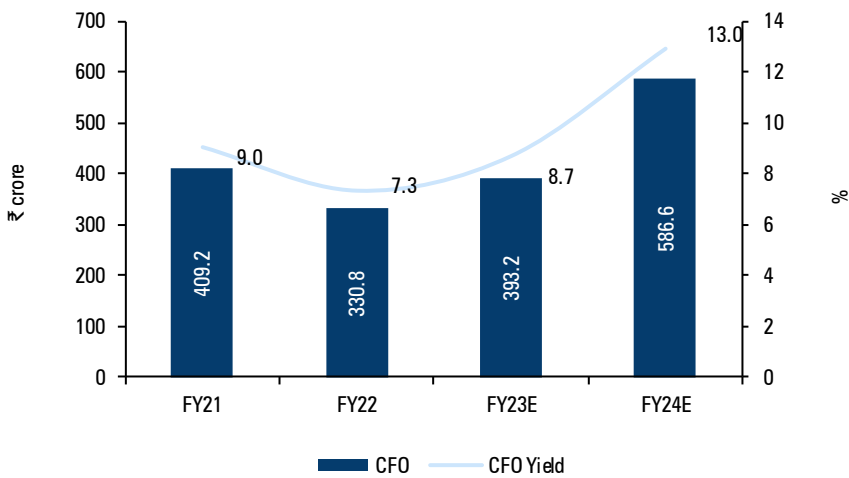
Exhibit 7: PAT and EPS trend



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

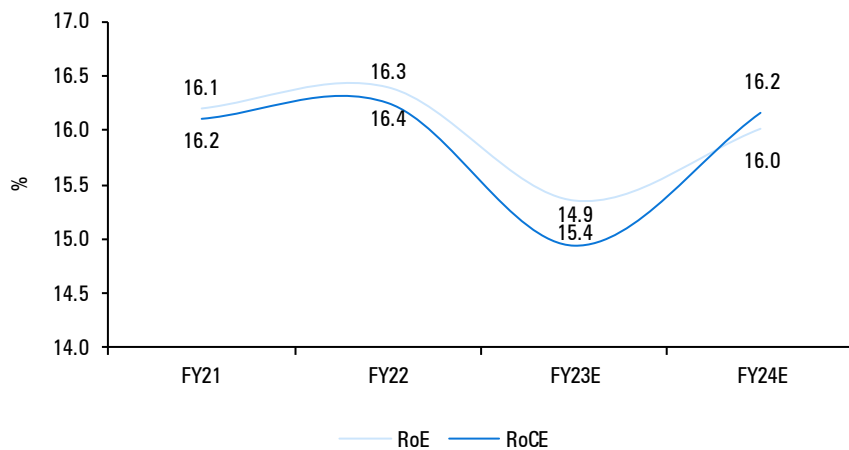
Exhibit 8: CFO and CFO yield trend



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
Total Operating Income	2659.5	4446.4	6033.3	6946.7
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
EBITDA	518.6	655.6	733.7	851.0
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
PBT	390.3	532.4	558.3	630.9
Total Tax	78.1	105.2	120.1	126.2
PAT	312.3	427.2	438.2	504.7
Growth (%)	10.2	36.8	2.6	15.2
EPS (₹)	9.1	11.3	11.6	13.4

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
CF from operating activities	409.2	330.8	393.2	586.6
(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	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
CF from financing activities	-119.7	297.7	69.6	-281.1
Net Cash flow	108.7	-111.3	-7.2	20.5
Opening Cash	111.3	220.0	108.7	101.5
Closing Cash	220.0	108.7	101.5	122.0

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	2,816.6	3,113.8
Total Shareholders funds	1927.2	2604.9	2854.4	3151.6
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
Total Liabilities	2905.0	3656.5	4206.0	4478.2
Assets				
Gross Block	2164.6	2476.6	3350.0	3750.0
Less: Acc Depreciation	447.8	568.7	728.9	915.3
Net Block	1716.8	1907.9	2621.1	2834.7
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
Cash	220.0	108.7	101.5	122.0
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
Application of Funds	2905.0	3656.5	4206.0	4478.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
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
Operating Ratios (%)				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
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
Solvency Ratios				
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
Quick Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

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

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDM and Shashank Kanodia, CFA, MBA (Capital Markets), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.