

Phillips Carbon Black (PHICAR)

₹ 236

Stock split to aid liquidity; robust prospects...

Phillips Carbon Black (PCBL) has executed a stock split in the ratio of 1:5 i.e. existing one share of PCBL (priced at ₹ 1128 as of April 18, 2018) of face value ₹ 10/share is sub-divided into five equity shares (priced at ₹ 236 as of April 19, 2018 opening) of face value ₹ 2/share. The record date for the same is April 20, 2018 while the ex-date for the same is today i.e. April 19, 2018. Consequently, incorporating the stock split, we revise our target price to ₹ 340/share, offering a healthy upside 44% from the current level.

Volume led growth to drive earnings in FY18-20E

PCBL is currently conducting a de-bottlenecking exercise. This coupled with its brownfield expansion, will augment its capacity by ~80,000 tonne (411,000 tonne currently), with likely commissioning in FY18E-19E. This is expected to ensure that volume led growth sustains. We expect PCBL to report sales volume of ~440 KT in FY19E and ~ 460 KT in FY20E, implying a volume CAGR of 6% in FY18E-20E. This, coupled with increasing share of specialty grade carbon black & operational efficiencies on account of better sweating of assets, is expected to result in ~100 bps expansion in EBITDA margins. We expect PCBL to report EBITDA margins of 16.7% in FY20E vs. 15.7% in FY18E. Corresponding EBITDA/tonne is expected at ₹ 11325/tonne in FY20E vs. ₹ 10627/tonne in FY18E. Consequently, we expect PCBL to stage an impressive 17.5% PAT growth in FY18-20E, with a base revision in the current fiscal of FY18E. We expect PCBL to report PAT of ₹ 241 crore in FY18E vs. ₹ 73 crore in FY17. Going forward, PAT is expected at ₹ 291 crore in FY19E and ₹ 335 crore in FY20E.

Improving return ratios, financial matrix; deserves better valuation!

PCBL has promptly de-risked its business model from the fluctuations of commodity price viz. crude with the company incorporating full variable cost pass through in contracts with all its key customers. This protects the company from fluctuating profitability as witnessed in the past and provides a moat to its business profile. Therefore, profitability of PCBL is not determined by crude price volatility. It is more sustainable in nature thereby ensuring the robust profitability trend continues, going forward. On the balance sheet front, PCBL has reduced its debt in FY17 to the tune of ~₹ 350 crore with consequent debt: equity at 0.7x. On the back of robust profitability amid an increasing carbon black demand and operational efficiencies, PCBL has successfully achieved a quality driven business profile with core RoE & RoCE in excess of 25% in FY18E-20E and commands better valuation. Incorporating the stock split, we now value PCBL at ₹ 340 i.e. 17.5x P/E (1x PEG) on FY20E EPS of ₹ 19.4 with a **BUY** recommendation on the stock.

Rating matrix	
Rating	: Buy
Target	: ₹ 340
Target Period	: 12-18 months
Potential Upside	: 44%

What's changed?	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18E	FY19E	FY20E
Net Sales	1927.1	2723.5	2983.4	3127.1
EBITDA	260.2	428.8	487.3	522.0
Net Profit	72.8	241.5	290.7	334.9
EPS	4.2	14.0	16.9	19.4

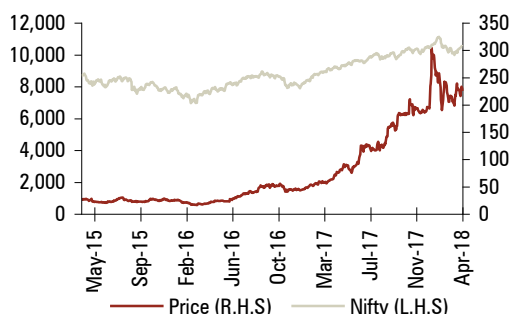
* EPS adjusted as per stock split

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	55.9	16.8	14.0	12.1
Target P/E	80.6	24.3	20.2	17.5
EV / EBITDA	17.8	10.7	9.3	8.1
P/BV	4.0	3.2	2.7	2.3
RoNW*	13.8	31.3	28.7	26.1
RoCE*	16.5	26.3	26.6	24.9
ROIC*	16.1	27.1	25.6	26.7

*Return ratios adjusted for revaluation reserve amounting to ~ ₹ 500 crore

Stock data	
Stock Data	₹ crore
Market Capitalization	4066
Total Debt (FY17)	677
Cash and Cash Equivalent (FY17)	115.6
Enterprise Value	4627.7
52 week H/L (₹)	319 / 75
Equity Capital	34.5
Face Value	₹ 2
MF Holding (%)	3.1
FII Holding (%)	11.0

Price Chart (Incorporates stock split)



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