

## ADD ruled out, fundamental demand drivers stay intact

In a recent notification, the Ministry of Finance has denied extension of anti-dumping duty (ADD) on imports of carbon black (used for rubber application) into India largely from China & Russia. It is amid the Commerce Ministry proposing an extension of ADD. This comes as a negative surprise to us but does not change any business dynamics for the domestic carbon black players, as of now, including industry leader Phillips Carbon Black (PCBL). As highlighted in our recent report (dated December 28, 2020), extension of ADD just ensures better volume offtake for carbon black players and by no means implies better pricing or profitability. We remain confident of better sales volume prospects and profitability at PCBL, reiterating our positive stance on the company.

## Domestic demand-supply favourable, bottoming of CV space to provide further fillip to carbon black demand!

As per industry estimates, as of FY20, domestic effective capacity of carbon black is pegged at ~11 lakh tonne with domestic consumption pegged at ~9.5 lakh tonne, thereby implying industry operating at ~85%+ utilisation levels. On the import-export front, carbon black exports in FY20 were at ~1.4 lakh tonne, with imports at ~1.9 lakh tonne, implying net imports of ~0.5 lakh tonne. Going forward, carbon black demand is expected to grow to ~11.5-12 lakh tonne by FY23E, implying incremental demand of ~2-2.5 lakh tonne. With ~1 lakh tonne of surplus capacity being put up by PCBL's competition, there is still a gap of ~1 lakh tonne that is up for grabs either for domestic players or to be met by imports. Hence, there is room for growth and removal of anti-dumping duty will not materially impact domestic carbon black players. Also, improvement in freight movement along with steady pace of road construction, pick-up in mining activity amid government focus on infrastructure and continued e-commerce demand has helped M&HCV truck and LCV segments to record a substantial upturn in performance post September 2020. This bodes well for the domestic tyre industry. Hence, it is also positive for carbon black players, including PCBL.

## Valuation & Outlook

PCBL has successfully turned around its business from a peak debt of ₹ 1,230 crore in FY15 to ₹ 617 crore as of FY20. EBITDA margins have also improved from 6.2% in FY15 to 14.3% in FY20. Hence, its business model is much more mature and is on a strong footing vs. earlier. Carbon black pricing scenario in the interim period is dependent on a lot of factors viz. crude price, Chinese consumption as well as demand prospects both domestic as well as global, and is difficult to ascertain. However, with fundamental demand levers at play, we remain positive on PCBL and maintain our **BUY** rating with an unchanged target price of ₹ 210 valuing it at 10x P/E on FY23E EPS. Sensing the robust demand, PCBL is in the midst of setting up a greenfield plant of 150 KT capacity (capex of ~₹ 600 crore) and is awaiting regulatory approval for the same. Healthy return ratios matrix (RoCE > 15%) and robust cash flow from operations (CFO yield > 15%) provide good margin of safety.

### Key Financial Summary

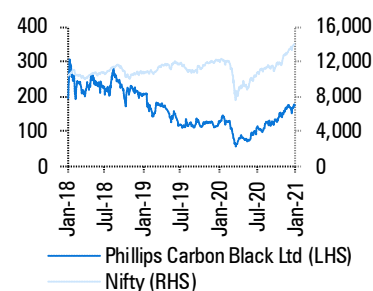
Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	3,528.6	3,243.5	2,481.1	2,973.4	3,204.8	13.7%
EBITDA	622.8	464.9	410.0	561.2	627.3	23.7%
EBITDA Margins (%)	17.6	14.3	16.5	18.9	19.6	
Net Profit	388.5	283.5	213.9	320.9	362.3	30.2%
EPS (₹)	22.5	16.5	12.4	18.6	21.0	
P/E	7.6	10.5	13.9	9.2	8.2	
RoNW (%)	23.6	16.8	11.5	15.3	15.3	
RoCE (%)	22.8	16.1	12.5	16.6	16.7	

### Phillips Carbon Black Limited

#### Particulars

Stock Data	₹ crore
Market Capitalization	2964
Total Debt (FY20)	617
Cash and Cash Eqv (FY20)	111
Enterprise Value	3469
52 week H/L (₹)	178 / 54
Equity Capital	34.5
Face Value	₹ 2

#### Price Performance



#### Key negative risk to our call

- Delay in CV cycle revival & muted CB demand
- Pressure on carbon black pricing & consequent margins due to surplus capacity domestically

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## Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	3243.5	2481.1	2973.4	3204.8	
Other Operating Income	0.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>3243.5</b>	<b>2481.1</b>	<b>2973.4</b>	<b>3204.8</b>	
Growth (%)	-8.1	-23.5	19.8	7.8	
Raw Material Expenses	2,189.5	1,583.3	1,843.5	1,971.0	
Employee Expenses	134.4	136.2	152.4	164.2	
Selling Expense	129.7	99.2	118.9	128.2	
Other Operating Expense	325.0	252.4	297.3	314.1	
Total Operating Expenditure	2,778.6	2,071.1	2,412.1	2,577.5	
<b>EBITDA</b>	<b>464.9</b>	<b>410.0</b>	<b>561.2</b>	<b>627.3</b>	
Growth (%)	-25.3	-11.8	36.9	11.8	
Depreciation	92.4	113.5	126.0	136.3	
Interest	45.9	42.5	38.8	40.6	
Other Income	24.1	13.7	15.0	14.1	
<b>PBT</b>	<b>350.8</b>	<b>267.7</b>	<b>411.4</b>	<b>464.5</b>	
Total Tax	67.3	53.8	90.5	102.2	
<b>PAT</b>	<b>283.5</b>	<b>213.9</b>	<b>320.9</b>	<b>362.3</b>	
Growth (%)	-27.0	-24.5	50.0	12.9	
<b>EPS (₹)</b>	<b>16.5</b>	<b>12.4</b>	<b>18.6</b>	<b>21.0</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	283.5	213.9	320.9	362.3	
Add: Depreciation	92.4	113.5	126.0	136.3	
(Inc)/dec in Current Assets	177.3	132.7	-183.7	-86.4	
Inc/(dec) in CL and Provisions	-48.1	-87.4	94.0	36.9	
Others	45.9	42.5	38.8	40.6	
<b>CF from operating activities</b>	<b>550.9</b>	<b>415.1</b>	<b>395.9</b>	<b>489.8</b>	
(Inc)/dec in Investments	207.1	-100.0	25.0	-5.0	
(Inc)/dec in Fixed Assets	-362.5	-120.0	-300.0	-400.0	
Others	101.6	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-53.9</b>	<b>-220.0</b>	<b>-275.0</b>	<b>-405.0</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-179.6	-100.0	0.0	50.0	
Interest & Dividend paid	-190.6	-94.2	-116.3	-126.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-95.1	0.0	0.0	0.0	
<b>CF from financing activities</b>	<b>-465.3</b>	<b>-194.2</b>	<b>-116.3</b>	<b>-76.8</b>	
Net Cash flow	31.7	0.9	4.6	8.0	
Opening Cash	79.6	111.3	112.3	116.9	
<b>Closing Cash</b>	<b>111.3</b>	<b>112.3</b>	<b>116.9</b>	<b>124.8</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	34.5	34.5	34.5	34.5	
Reserve and Surplus	1,657.2	1,819.4	2,062.8	2,338.9	
<b>Total Shareholders funds</b>	<b>1691.7</b>	<b>1853.9</b>	<b>2097.2</b>	<b>2373.4</b>	
Total Debt	616.7	516.7	516.7	566.7	
Deferred Tax Liability	254.9	254.9	254.9	254.9	
Minority Interest / Others	104.3	104.3	104.3	104.3	
<b>Total Liabilities</b>	<b>2667.5</b>	<b>2729.7</b>	<b>2973.1</b>	<b>3299.3</b>	
<b>Assets</b>					
<b>Gross Block</b>	<b>1977.6</b>	<b>2347.6</b>	<b>2453.2</b>	<b>2503.2</b>	
Less: Acc Depreciation	337.7	451.2	577.2	713.5	
<b>Net Block</b>	<b>1639.9</b>	<b>1896.4</b>	<b>1875.9</b>	<b>1789.6</b>	
Capital WIP	305.6	55.6	250.0	600.0	
Total Fixed Assets	1,945.5	1,952.0	2,125.9	2,389.6	
Investments	176.7	276.7	251.7	256.7	
Inventory	326.2	305.9	366.6	395.1	
Debtors	588.2	509.8	611.0	658.5	
Loans and Advances	91.6	70.1	84.0	90.5	
Other Current Assets	52.7	40.3	48.3	52.0	
<b>Cash</b>	<b>111.3</b>	<b>112.3</b>	<b>116.9</b>	<b>124.8</b>	
Total Current Assets	1,170.0	1,038.3	1,226.7	1,321.0	
Current Liabilities	528.5	441.8	529.5	570.7	
Provisions	85.9	85.1	91.4	87.1	
Current Liabilities & Prov	614.4	526.9	620.9	657.8	
Net Current Assets	555.7	511.4	605.8	663.2	
Others Assets	-10.3	-10.3	-10.3	-10.3	
<b>Application of Funds</b>	<b>2667.5</b>	<b>2729.7</b>	<b>2973.1</b>	<b>3299.3</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	16.5	12.4	18.6	21.0	
Cash EPS	21.8	19.0	25.9	28.9	
BV	98.2	107.6	121.7	137.7	
DPS	7.0	3.0	4.5	5.0	
Cash Per Share (Incl Invst)	16.7	22.6	21.4	22.1	
<b>Operating Ratios (%)</b>					
EBITDA Margin	14.3	16.5	18.9	19.6	
PAT Margin	8.7	8.6	10.8	11.3	
Inventory days	36.7	45.0	45.0	45.0	
Debtor days	66.2	75.0	75.0	75.0	
Creditor days	59.5	65.0	65.0	65.0	
Net Working Capital days	43.4	55.0	55.0	55.0	
<b>Return Ratios (%)</b>					
RoE	16.8	11.5	15.3	15.3	
RoCE	16.1	12.5	16.6	16.7	
RoIC	16.5	11.8	16.8	19.1	
<b>Valuation Ratios (x)</b>					
P/E	10.5	13.9	9.2	8.2	
EV / EBITDA	7.5	8.1	6.0	5.4	
EV / Net Sales	1.1	1.3	1.1	1.1	
Market Cap / Sales	0.9	1.2	1.0	0.9	
Price to Book Value	1.8	1.6	1.4	1.2	
<b>Solvency Ratios</b>					
Debt/EBITDA	1.3	1.3	0.9	0.9	
Debt / Equity	0.4	0.3	0.2	0.2	
Current Ratio	1.7	1.8	1.8	1.8	
<b>Quick Ratio</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	

Source: Company, ICICI Direct Research

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