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Healthy performance, unchanged growth aspirations

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 ~11% of sales volume from speciality carbon black.
- Recently acquired speciality chemical company i.e. Aquapharm Chemicals

Q2FY25 Result: PCBL reported a healthy performance in Q2FY25. Total operating income came in at ₹ ₹ 2,163 crore with carbon black sales volumes at 149 kt (up 14% YoY, down 3% QoQ). EBITDA for the quarter stood at ₹364 crore with margins at 16.8% (up 10 bps QoQ). Consequent PAT for Q2FY25 stood at ₹123 crore, flat YoY. Speciality carbon black sales volume stood at 17K tonne (~11.5% of sales vol.).

Investment Rationale:

- **Buoyed by export demand, aiming for 10 lakh carbon black capacity:** PCBL is India's largest and world's 7th largest carbon black manufacturer with installed capacity of ~7.7 lakh tonnes as on date. Sensing robust demand prospects especially in Export market, it is looking at adding 90 KT capacity via brownfield expansion at its new Tamil Nadu plant (30KT due for commissioning in Q3FY25) and scouting for a new greenfield plant. It is targeting double digit volume CAGR over next 5 years and is looking at substantial export play with near term capacity pegged at ~10 lakh tonne. We have modelled carbon black sales volume at PCBL to grow at a CAGR of 11% CAGR over FY24-27E to 7.3 lakh tonne in FY27E. Exports share in its total carbon black sales volume mix is on the rise from 27% in FY21 to 38% in FY24 and is further slated to increase to 45% by FY27E.
- **Increasing share of speciality grade, margin accretive, structural driver:** PCBL has, over the years, with indigenous R&D efforts has developed grades in specialty carbon black (SCB) domain, which is a high margin product (typically ~3-4x normal tyre grade carbon black). Speciality grade carbon black volumes grew 42% YoY to 57KT in FY24. On a high base, SCB volumes are expected to grow at a CAGR of 14% over FY24-27E to 85KT in FY27E. This is structurally positive for EBITDA/tonne profile at PCBL.
- **Healthy margin & RoCE profile, trades inexpensive vs. promised growth:** With carbon black volume growth on anvil amid thrust on exports, increasing share of high margin specialty grade carbon black, expansion in sight at its new acquired Aquapharm and ramp up niche battery chemical business, it expects to clock 5x PAT in 5 years i.e. (~₹ 2,500 crore in FY29E vs. ~₹ 500 in FY24). We have baked in ~24% earnings CAGR at PCBL over FY24-27E with scope of company beating our estimates.

Rating and Target Price

- With organic levers of growth amidst changing business profile in favour of more speciality chemical play, healthy margin & RoE profile (~15%+), robust cash flow generation, we retain **BUY** rating on PCBL. We value PCBL at **₹600** i.e. **24x P/E on FY27E**. We believe the current correction in stock price offers good entry point for long term wealth generation.



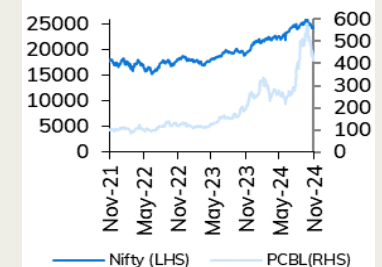
Particulars

Stock Data	₹ crore
Market Capitalization	15,666
Total Debt (FY24)	4,820
Cash & Cash Eqv (FY24)	422
Enterprise Value	20,064
52 week H/L (₹)	584 / 197
Equity Capital	37.8
Face Value	₹ 1

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	51.4	51.4	51.4	51.4
FII	7.1	6.7	5.3	5.0
DII	6.3	5.6	6.4	6.8
Other	35.2	36.3	36.9	36.8

Price Chart



Recent event & key risks

- PCBL reports steady Q2FY25. Carbon black vol up 14% YoY.
- Key Risk: (i) geo-political issues impacting demand and trade flow in the near future (ii) rise in competitive intensity limiting margin gains in base business

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Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY18-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	3,244	2,660	4,446	5,774	6,420	12.7%	8,735	10,054	11,227	20.3%
EBITDA	465	519	653	731	1,037	10.7%	1,486	1,812	2,083	25.9%
EBITDA Margins (%)	14.3	19.5	14.7	12.7	16.2		17.0	18.0	18.6	
Net Profit	283	312	426	442	491	4.8%	531	771	979	25.6%
EPS (₹)	8.2	9.1	11.3	11.7	13.0		13.5	19.6	24.9	23.9%
P/E	50.5	45.8	36.7	35.5	31.9		30.8	21.2	16.7	
RoNW (%)	16.8	16.2	16.3	15.6	15.1		13.2	17.1	19.0	
RoCE (%)	16.1	16.1	16.1	15.8	10.2		13.1	15.8	17.4	

Key Takeaways of Recent Quarter

Q2FY25 Results: Reports healthy performance in Q2FY25, Long term guidance unchanged

- On the consolidated basis, at PCBL, net sales for the quarter came in at ₹ 2,163 crore with carbon black sales volumes at 149 kt (up 14% YoY, down 3% QoQ) and realisation at ₹ 118/kg (up 5% QoQ).
- EBITDA for the quarter came in at ₹364 crore with corresponding margins at 16.8% (up 10 bps QoQ). Consequent PAT for Q2FY25 stood at ₹123 crore, flat YoY. Speciality grade carbon black sales for the quarter came in at 17K tonne (~11.5% of total sales volume, up 130 bps QoQ).
- Consolidated numbers also include performance of its recent acquisition i.e. Aquafarm and hence is not comparable YoY.
- EBITDA/tonne in the carbon black space for the quarter stood at ~₹ 21,000/tonne vs. ₹20,000 clocked Q1FY25. Sensing robust demand prospects and favourable supply side dynamics in export markets it is already executing a brownfield expansion at its Tamil Nadu plant amounting to 90 KT and is in active lookout for a new greenfield facility thereby targeting total carbon black capacity of ~10 lakh tonne by FY27E

Q2FY25 Earnings Conference Call Highlights:

- **Capacity:** PCBL is expected to commence specialty grade carbon black with a capacity of 20,000 tons and a normal grade carbon black facility of 30,000 tons of by Q3FY25. An additional 60,000 tons of carbon black capacity will bring the total expanded capacity to 8,80,000 tons, along with a green power capacity of 134 megawatts in FY26. PCBL aims to reach a capacity of 1 million tons FY27E-28E.
- **Aquapharm:** Revenue for the quarter stood at ₹362 crore with operational EBITDA reported at ₹50 crores. Capacity Utilization for Q2FY25 was above ~75% in and is expected to further improve by 82% to 83% in Q4FY25. It has already embarked upon 38,000 tons expansion, which is expected to be commissioned by March'25. Going forward, it will be focusing on polymer & green chelates for application in water treatments & detergents.
- **Capex:** PCBL remains firm on a capex of ₹2,500 in the carbon black domain over next 4-5 years. At Aquapharm, it plans to invest between ₹600 to ₹700 crores over the next 3 to 5 years in its US and Indian operations.
- **Guidance:** PCBL expects to deliver volume CAGR of 10-11% in the carbon black domain for the next 4 to 5 years. Moreover, it is also confident on maintaining EBITDA/ton ~₹ 21,000/tonne and expects to further improve with gradual decline in fright cost, improvement in yields, improved product mix as well as operating leverage benefits. Furthermore, it expects Aquapharm business to report 17-18% of topline growth from FY26E and targeting 25% EBITDA margins by FY29E (20% margins in FY26E).
- **JV with Kindia:** PCBL has executed a JV agreement with Kindia for incorporating Nanovace Technologies Ltd, which will be developing nano-silicon products utilized in anodes of Li-Ion batteries. Over 51% of stakes will be held by PCBL and balance 49% by Kindia. PCBL will infuse \$44 million in Nanovace in the next 2 years for the acquisition of IPs and scaling up manufacturing facility, currently set at 2,000 tons of capacity in PCBL's Palej plant (by FY27E). It expects to generate ₹2,000 crores of revenue from this facility by FY29E with EBITDA margins expected at ~50%.

Key Tables and Charts

Exhibit 1: Quarterly P&L Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Total Operating Income	2,163	1,487	45.5	2,144	0.9	Topline was broadly flattish on QoQ basis and is not comparable on YoY basis due to recent acquisition of Aquapharm
Raw Material Expenses	1,499	1,048	43.0	1,449	3.4	RM costs came in higher on QoQ basis
Employee Expenses	99	56	76.0	100	-1.6	
Other expenses	203	144	40.4	236	-14.2	Other expenses were well contained and stood at 9.4% of sales
EBITDA	363	238	52.6	358	1.5	
EBITDA Margin (%)	16.8	16.0	79 bps	16.7	9 bps	EBITDA margins were steady on QoQ basis and stood at 16.8% of sales
Other Income	6	3	110.8	11	-48.1	
Depreciation	86	48	79.1	85	2.3	
Interest	119	21	467.1	121	-1.8	Interest costs is still elevated due to debt funded acquisition which is expected to gradually taper down going forward
Total Tax	40	49	-17.1	46	-11.5	
PAT	123	123	0.4	118	4.5	PAT was broadly flattish on YoY basis
Key Metrics						
Carbon Black Sales Volume (tonne)	1,48,693	1,30,111	14.3	1,53,918	-3.4	Carbon black sales volume grew substantially 14% YoY to 1.49 Lakh ton
Carbon Black EBITDA/tonne (₹/t)	20,944.0	18,301.3	14.4	20,154.1	3.9	EBITDA/tonne improved 4% QoQ to ~₹ 20,944/tonne

Source: Company, ICICI Direct Research

Exhibit 2: Change in key estimates

(₹ Crore)	FY25E			FY26E			FY27E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	8,835	8,735	-1.1	10,174	10,054	-1.2	11,227	Marginally tweaked our topline estimates. We expect topline at PCBL to grow at a CAGR of 20.3% over FY24-27E
EBITDA	1,516	1,486	-2.0	1,839	1,812	-1.5	2,083	
EBITDA Margin (%)	17.2	17.0	-15 bps	18.1	18.0	-5 bps	18.6	Marginally tweaked margin estimates. We expect margins to gradually improve amidst rising share of speciality side of business
PAT	564	531	-5.9	804	771	-4.1	979	
EPS (₹)	14.3	13.5	-5.9	20.4	19.6	-4.1	24.9	Earnings at PCBL are seen growing robust at ~24% CAGR over FY24-27E

Source: ICICI Direct Research

Exhibit 3: Assumptions

Assumptions	Units	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Carbon Black Sales Volumes	tonne	4,03,423	4,06,790	3,89,260	4,54,187	4,45,184	5,31,849	6,00,188	6,75,149	7,30,348
Speciality Grade Carbon Black Sales Volumes	tonne	19,300	19,378	23,966	34,687	40,376	57,247	67,500	75,000	85,000
Carbon Black blended ASP's	₹/kg	85	78	67	96	129	113	116	117	119
Carbon Black Sales (₹ crore)	₹ crore	3,431	3,157	2,592	4,353	5,732	6,013	6,947	7,930	8,716
Carbon Black EBITDA/tonne	₹/tonne	15,437	11,429	13,322	14,435	16,543	19,322	21,000	21,500	22,000
Carbon Black EBITDA	₹ crore	623	465	519	656	736	1,028	1,260	1,452	1,607
Aquapharm Sales	₹ crore	-	-	-	-	-	239	1,500	1,800	2,160
Aquapharm EBITDA margins	%							15%	20%	22%
Aquapharm EBITDA	₹ crore							225	360	475

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and Loss statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	6,420	8,735	10,054	11,227
Other Operating Income	-	-	-	-
Total Operating Income	6,420	8,735	10,054	11,227
Growth (%)	11.2	36.1	15.1	11.7
Raw Material Expenses	4,466	5,992	6,787	7,522
Employee Expenses	250	398	445	494
Selling Expense	257	349	402	449
Other Operating Expense	409	510	608	679
Total Operating Expenditure	5,382	7,250	8,242	9,144
EBITDA	1,037	1,486	1,812	2,083
Growth (%)	41.9	43.2	22.0	14.9
Depreciation	217	343	379	413
Interest	181	453	418	382
Other Income	37	34	34	35
PBT	676	723	1,049	1,322
Total Tax	185	192	278	344
PAT	491	531	771	979
Growth (%)	11.1	8.2	45.3	26.9
EPS (₹)	13.0	13.5	19.6	24.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash Flow statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	491	531	771	979
Add: Depreciation	217	343	379	413
(Inc)/dec in Current Assets	-1,100	-186	-484	-430
Inc/(dec) in CL and Provisions	852	-106	302	269
Others	181	453	418	382
CF from operating activities	640	1,035	1,387	1,613
(Inc)/dec in Investments	-199	-168	185	5
(Inc)/dec in Fixed Assets	-1,117	-700	-700	-700
Others	-2,656	-10	-5	-5
CF from investing activities	-3,972	-878	-520	-700
Issue/(Buy back) of Equity	0	2	0	0
Inc/(dec) in loan funds	3,877	-100	-150	-150
Interest & Dividend paid	-388	-670	-693	-717
Inc/(dec) in Share Cap	0	0	0	0
Others	133	446	0	0
CF from financing activities	3,621	-322	-843	-867
Net Cash flow	289	-165	23	46
Opening Cash	96	385	220	243
Closing Cash	385	220	243	290

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	37.8	39.4	39.4	39.4
Reserve and Surplus	3,209	3,970	4,466	5,110
Total Shareholders funds	3,247	4,009	4,505	5,149
Total Debt	4,820	4,720	4,570	4,420
Deferred Tax Liability	871	871	871	871
Minority Interest / Others	190	190	190	190
Total Liabilities	9,128	9,790	10,136	10,630
Assets				
Gross Block	4,487	5,320	5,820	6,520
Less: Acc Depreciation	923	1,266	1,645	2,058
Net Block	3,565	4,054	4,176	4,462
Capital WIP	433	300	500	500
Total Fixed Assets	3,998	4,354	4,676	4,962
Investments & Goodwill	3,761	3,929	3,744	3,739
Inventory	999	1,197	1,377	1,538
Debtors	1,710	1,675	1,928	2,153
Loans and Advances	26	35	41	45
Other Current Assets	282	296	341	380
Cash	385	220	243	290
Total Current Assets	3,402	3,423	3,930	4,406
Current Liabilities	2,016	1,915	2,204	2,461
Provisions	91	86	99	111
Current Liabilities & Prov	2,107	2,001	2,303	2,572
Net Current Assets	1,295	1,422	1,627	1,835
Others Assets	75	85	90	95
Application of Funds	9,128	9,790	10,136	10,630

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	13.0	13.5	19.6	24.9
Cash EPS	18.8	22.2	29.2	35.4
BV	86.0	101.9	114.5	130.9
DPS	5.5	5.5	7.0	8.5
Cash Per Share (Incl Invst)	109.8	105.4	101.3	102.4
Operating Ratios (%)				
EBITDA Margin	16.2	17.0	18.0	18.6
PAT Margin	7.6	6.1	7.7	8.7
Inventory days	56.8	50.0	50.0	50.0
Debtor days	97.2	70.0	70.0	70.0
Creditor days	114.6	80.0	80.0	80.0
Net Working Capital days	39.4	40.0	40.0	40.0
Return Ratios (%)				
RoE	15.1	13.2	17.1	19.0
RoCE	10.2	13.1	15.8	17.4
RoIC	11.4	14.3	17.2	19.0
Valuation Ratios (x)				
P/E	31.9	30.8	21.2	16.7
EV / EBITDA	19.3	13.4	11.0	9.5
EV / Net Sales	3.1	2.3	2.0	1.8
Market Cap / Sales	2.4	1.8	1.6	1.4
Price to Book Value	4.8	4.1	3.6	3.2
Solvency Ratios				
Debt/EBITDA	4.6	3.2	2.5	2.1
Debt / Equity	1.5	1.2	1.0	0.9
Current Ratio	1.4	1.6	1.6	1.6
Quick Ratio	1.0	1.0	1.0	1.0

Source: Company, ICICI Direct Research

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