

March 15, 2024

Recent correction offers attractive risk-reward play

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 healthy margin profile, capital efficient business model (RoCE>15%)
- Recently acquired speciality chemical company i.e. Aquapharm Chemicals Pvt. Ltd in water treatment and industrial cleaning chemicals space

Investment Rationale

- **Volume led growth in base Carbon black business:** PCBL, in the recent past, has commissioned its new carbon black plant with a nameplate capacity of ~150 KT at a total capex outlay of ~₹ 800 crore. It expects to fully utilise its plant in about three years thereby targeting double digit volume growth. With domestic macro drivers in place & favourable export outlook, volume growth in this domain is seen at healthy 12.4% CAGR over FY23-26E to 6.35 lakh tonne in FY26E vs. 4.45 lakh tonne in FY23
- **Increasing share of speciality grade, margin accretive, structural driver:** PCBL has, over the years, with indigenous R&D efforts has developed grades in speciality carbon black domain, which is a high margin product (typically ~3-4x normal tyre grade carbon black). In this domain, PCBL is executing a brownfield expansion of ~40 KT at a capex outlay of ~₹ 300 crore with commissioning in FY24E. Speciality grade carbon black volumes are slated to grow at a CAGR of 23% over FY23-26E to 75 KT in FY26E vs. 40 KT in FY23. This is a structural driver improving EBITDA/tonne at PCBL's carbon black business. With tightness in international markets & increasing share of speciality grade, EBITDA/tonne at PCBL is expected to improve to ~₹ 20k/tonne in FY26E vs. ₹16.5k/tonne in FY23
- **Acquisition in Speciality chemical domain at fair price:** PCBL in the recent past has acquired speciality chemical company i.e. Aquapharm Chemicals Private Limited (ACPL), for an Enterprise Value of ₹ 3,800 crore. ACPL is a global speciality chemical company operating in the domain of Water treatment Chemicals and Oil & Gas Chemicals with application in water treatment, detergents, industrial cleaners, oil fields, etc. It clocked sales of ~₹2,045 crore as of FY23 did gross margins of 30%+, EBITDA of ~₹417 crore (EBITDA margins 21%) and PAT of ₹275 crore. PCBL has acquired this company at a valuation of ~1.9x P/S, ~9x EV/EBITDA and 14x PE on FY23 basis and appears to be fair to us. It should support growth at PCBL.

Rating and Target price

- We assign **BUY** rating on PCBL amid better-than-expected margin and return ratios profile, healthy volume growth in the offing, increasing share of speciality grade carbon black & healthy cash flow generation with CFO yield at ~10% over FY23-26E. **We value PCBL at ₹330 i.e. 15x P/E on FY26E**



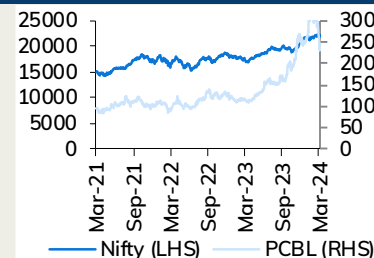
Particulars

Stock Data	₹ crore
Market Capitalization	9,249
Total Debt (FY23)	943
Cash & Cash Eqv (FY23)	95
Enterprise Value	10,096
52 week H/L (₹)	344 / 108
Equity Capital	37.8
Face Value	₹ 1

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	51.4	51.4	51.4	51.4
FII	6.3	6.6	7.1	7.1
DII	8.2	9.1	7.8	6.3
Other	34.1	33.0	33.7	35.2

Price Chart



Recent event & key risks

- Reports robust performance in Q3FY24. EBITDA/tonne for the quarter stood at ~₹20,500/tonne
- Key risk: (i) Slower than anticipated carbon black sales volume (ii) competitive intensity limiting margin improvement

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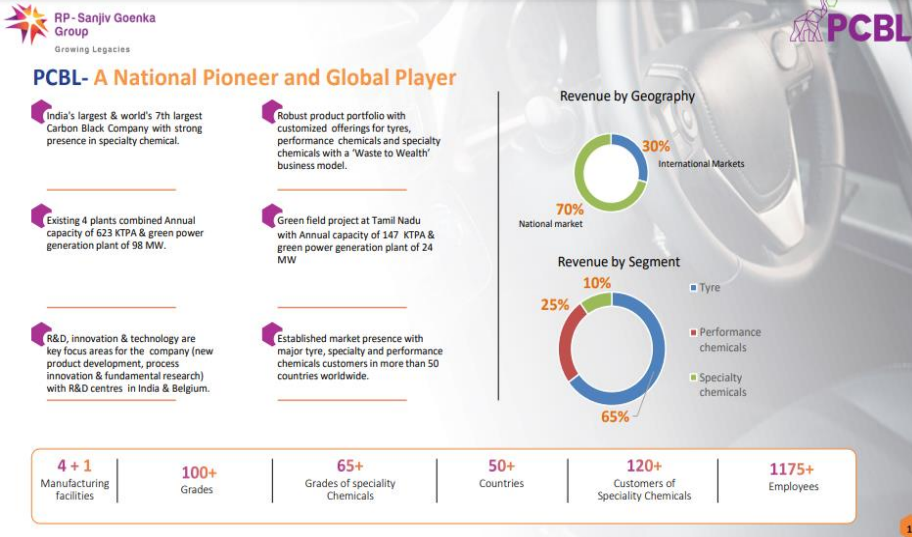
Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	3,243.5	2,659.5	4,446.4	5,774.1	19.6%	6,181.7	8,942.0	9,870.5	19.4%
EBITDA	464.9	518.6	652.9	731.2	33.2%	1,001.7	1,501.8	1,726.5	32.8%
EBITDA Margins (%)	14.3	19.5	14.7	12.7		16.2	16.8	17.5	
Net Profit	283.5	312.3	426.3	442.2	23.2%	521.1	655.4	827.0	22.9%
EPS (₹)	8.2	9.1	11.3	11.7		13.8	17.4	21.9	22.9%
P/E	29.8	27.0	21.7	20.9		17.7	14.1	11.2	
RoNW (%)	16.8	16.2	16.3	15.6		16.6	18.6	20.6	
RoCE (%)	16.1	16.1	16.1	15.8		10.2	14.9	17.0	

Source: Company, ICICI Direct Research

Key PPT Slides

Exhibit 1: PCBL- Company Snapshot



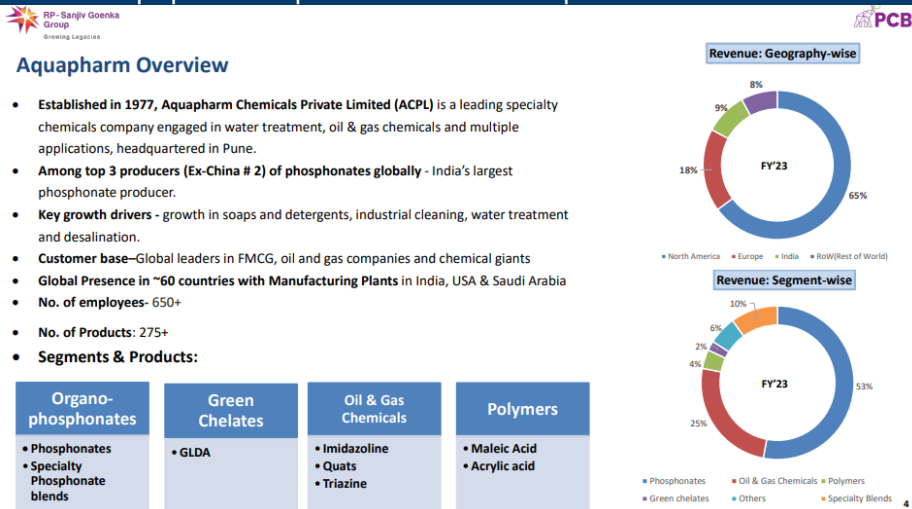
Source: Company, ICICI Direct Research

Exhibit 2: PCBL- Manufacturing presence



Source: Company, ICICI Direct Research

Exhibit 3: Aquapharm Snapshot – PCBL recent acquisition



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Net Sales	5,774.1	6,181.7	8,942.0	9,870.5	
Other Operating Income	-	-	-	-	
Total Operating Income	5,774.1	6,181.7	8,942.0	9,870.5	
Growth (%)	29.9	7.1	44.7	10.4	
Raw Material Expenses	4,352.4	4,297.8	6,259.4	6,860.0	
Employee Expenses	190.5	233.6	330.9	365.2	
Selling Expense	235.1	247.3	277.7	306.8	
Other Operating Expense	264.8	401.3	572.3	612.0	
Total Operating Expenditure	5,042.8	5,180.0	7,440.2	8,144.0	
EBITDA	731.2	1,001.7	1,501.8	1,726.5	
Growth (%)	12.0	37.0	49.9	15.0	
Depreciation	136.7	194.7	261.4	278.9	
Interest	53.4	105.0	405.3	394.7	
Other Income	40.6	16.7	16.0	21.0	
PBT	581.7	718.7	851.1	1074.0	
Total Tax	139.5	197.6	195.8	247.0	
PAT	442.2	521.1	655.4	827.0	
Growth (%)	3.7	17.8	25.8	26.2	
EPS (₹)	11.7	13.8	17.4	21.9	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	442.2	521.1	655.4	827.0	
Add: Depreciation	136.7	194.7	261.4	278.9	
(Inc)/dec in Current Assets	-135.1	-197.5	-944.1	-317.6	
Inc/(dec) in CL and Provisions	5.5	73.1	606.0	203.9	
Others	53.4	105.0	405.3	394.7	
CF from operating activities	502.7	696.4	984.0	1386.8	
(Inc)/dec in Investments	354.2	-50.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-925.1	-1,350.0	-350.0	-350.0	
Others	25.3	-2,780.0	20.0	20.0	
CF from investing activities	-545.7	-4180.0	-330.0	-330.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	259.0	3,800.0	50.0	-300.0	
Interest & Dividend paid	-261.0	-322.0	-669.5	-725.0	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-18.6	0.0	0.0	0.0	
CF from financing activities	-20.6	3478.0	-619.5	-1025.0	
Net Cash flow	-63.5	-5.7	34.5	31.8	
Opening Cash	159.0	95.4	89.7	124.2	
Closing Cash	95.4	89.7	124.2	156.1	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Liabilities					
Equity Capital	37.8	37.8	37.8	37.8	
Reserve and Surplus	2,792.2	3,096.2	3,487.3	3,984.0	
Total Shareholders funds	2,829.9	3,134.0	3,525.1	4,021.7	
Total Debt	943.0	4,743.0	4,793.0	4,493.0	
Deferred Tax Liability	256.1	266.1	276.1	286.1	
Minority Interest / Others	87.4	87.4	87.4	87.4	
Total Liabilities	4,116.5	8,230.5	8,681.6	8,888.2	
Assets					
Gross Block	2,673.2	5,053.2	5,403.2	5,753.2	
Less: Acc Depreciation	705.4	900.2	1,161.6	1,440.5	
Net Block	1,967.7	4,153.0	4,241.6	4,312.7	
Capital WIP	1,130.0	100.0	100.0	100.0	
Total Fixed Assets	3,097.7	4,253.0	4,341.6	4,412.7	
Investments & Goodwill	233.8	3,083.8	3,083.8	3,083.8	
Inventory	571.4	677.4	979.9	1,081.7	
Debtors	1,110.7	1,185.5	1,714.9	1,893.0	
Loans and Advances	13.7	14.6	21.1	23.3	
Other Current Assets	221.1	236.7	342.4	377.9	
Cash	95.4	89.7	124.2	156.1	
Total Current Assets	2,012.2	2,204.0	3,182.6	3,532.0	
Current Liabilities	1,201.8	1,270.2	1,837.4	2,028.2	
Provisions	82.3	87.0	125.8	138.9	
Current Liabilities & Prov	1,284.1	1,357.2	1,963.2	2,167.1	
Net Current Assets	728.1	846.8	1,219.4	1,364.9	
Others Assets	56.9	46.9	36.9	26.9	
Application of Funds	4,116.5	8,230.5	8,681.6	8,888.2	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
EPS	11.7	13.8	17.4	21.9
Cash EPS	15.3	19.0	24.3	29.3
BV	75.0	83.0	93.4	106.5
DPS	5.5	5.8	7.0	8.8
Cash Per Share (Incl Invst)	8.7	84.1	85.0	85.8
Operating Ratios (%)				
EBITDA Margin	12.7	16.2	16.8	17.5
PAT Margin	7.7	8.4	7.3	8.4
Inventory days	36.1	40.0	40.0	40.0
Debtor days	70.2	70.0	70.0	70.0
Creditor days	76.0	75.0	75.0	75.0
Net Working Capital days	30.4	35.0	35.0	35.0
Return Ratios (%)				
RoE	15.6	16.6	18.6	20.6
RoCE	15.8	10.2	14.9	17.0
RoIC	23.3	10.5	15.3	17.5
Valuation Ratios (x)				
P/E	20.9	17.7	14.1	11.2
EV / EBITDA	13.8	13.9	9.3	7.9
EV / Net Sales	1.7	2.2	1.6	1.4
Market Cap / Sales	1.6	1.5	1.0	0.9
Price to Book Value	3.3	3.0	2.6	2.3
Solvency Ratios				
Debt/EBITDA	1.3	4.7	3.2	2.6
Debt / Equity	0.3	1.5	1.4	1.1
Current Ratio	1.5	1.6	1.6	1.6
Quick Ratio	1.0	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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