Q4FY24 Result Update l Chemicals l 24 May 2024

PCBL (Phillips Carbon Black Ltd)

Robust volume growth, High capex intensity, Upgrade to BUY

PCBL reported a good show on numbers by maintaining its gross & operating spreads per kg near highest levels similar to last quarter. The good performance was backed by stronger volumes which helped maintain its operating metrics. Volumes have grown by 20% YoY & 5% QoQ because of additional volumes from Chennai (Normal carbon black) & Mundra (Speciality black) facility aiding volume momentum. We are expecting stronger pickup in volumes particularly to EU owing to ban on Russian CB supplies effective June 24 which will directly benefit Indian CB players. The company will continue to remain in capex mode for the next 2 years, planning to add further 90KT brownfield capacity in Chennai at capex of Rs3.5-4bn & also scouting opportunities for big greenfield expansion. However, we feel gross & EBITDA spreads per kg has likely peaked & we are modelling in nearly flattish spreads for next 2 years. Over the longer term, growth is expected to be strong led by robust volume growth and tapping exports market. We maintain our target multiple of 18x on March 26E EPS and arrive at a target price of Rs 327 per share.

Volumes momentum improved led by Chennai & Mundra, per unit spreads maintained on QoQ

- Revenue grew by ~9% YoY & flattish on QoQ in Q4FY24. Despite volume jump of 5% QoQ realizations declined by 4%. On YoY basis volume growth of 20% was offsetted by realizations decline of 9%.
- Blended gross spreads grew by ~11% YoY & flattish on QoQ to Rs 32.7 per kg. The company has maintained its highest ever gross spreads sequentially which itself is a positive.
- Supply tightness in CB space globally & EU ban on Russian CB will help PCBL in increasing its export volumes. The long term outlook is bullish as PCBL is a proxy play on volume recovery in the tyre sector which is set to grow at 6-8% from FY24-26E, the company will witness volume CAGR of ~15% from FY24-26E.
- The company Chennai plant is operating at utilization of ~34% of overall effective capacity of 1.25 lakh tonnes in FY24. In Q4FY24, the Chennai plant reported production volume of 19157 MT. Speciality black is maintaining its volume momentum & reported ~34% YoY & 7% QoQ uptick in volumes to ~15.5k tonnes in Q4FY24. We expect speciality volumes to grow CAGR of 25% & reach ~89.6k tonnes by FY26E.

Capex intensity to remain high for next 3 years

- The company has further announced brownfield expansion in Chennai plant with a capacity of 90KT divided into 2 phases (A) Phase 1 of 30KT to start by Q1FY26E (B) Phase 2 of 60KT to start by Q3FY26E. The capex for the same is Rs3.5-4bn. We expect phase 1 to reach 35-40% in FY26E & full utilization in FY27E & Phase 2 to reach full utilization in H1FY28E.
- Along with this, management has stated that company is looking for a big greenfield expansion in CB business (Tentative capex of Rs9-10bn) (Exact details not shared).
- Above slew of expansion indicates that the company will continue to remain in capex mode in CB business for the next 3-4 years.

Valuation

- Currently, the stock is trading at March 26E P/E of ~14.2x.
- We maintain our target multiple of 18x and thereby, arrive at target price of Rs 327 per share which offers upside of 26.4% from current valuation. Therefore, we upgrade to **BUY** rating from earlier ACCUMULATE rating on the stock. (Note: We have not consolidated Aquapharm numbers in our model estimates).

Y/E Mar (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Q4FY24E	Var (%)
Net sales	**14,935**	**13,738**	**8.7**	**14,853**	**0.6**	**17,441**	**-14.4**
Operating costs	12,271	11,899	**3.1**	12,308	-0.3		
EBITDA	**2,663**	**1,839**	**44.8**	**2,545**	**4.7**	**2,611**	**2.0**
EBITDA Margin (%)	***17.8***	***13.4***	***445 bps***	***17.1***	***70 bps***	***15.0***	***286 bps***
Depreciation	397	335	**18.7**	385	3.3		
Interest	691	186	**271.3**	224	208.8		
Other income	229	160	**42.7**	39	488.9		
PBT	**1,804**	**1,478**	**22.0**	**1,976**	**-8.7**		
Provision for tax	420	460	**-8.8**	531	-21.0		
Reported PAT	**1,384**	**1,018**	**35.9**	**1,445**	**-4.2**		
Non-Controlling interest	-	-	NA	-	NA		
Consolidated PAT	**1,384**	**1,018**	**35.9**	**1,445**	**-4.2**	**1,250**	**10.7**

Source: Company, SMIFS Research

Rating: BUY	Upside: 26.4%
Current Price: 259	Target Price: 327

|Earlier recommendation

Previous Rating:	ACCUMULATE
Previous Target Price:	314

Source: SMIFS Research

|Market data

Bloomberg:	PHCB: IN
52-week H/L (Rs):	343/132
Mcap (Rs bn/USD bn):	97.7/1.7
Shares outstanding (mn):	377.5
Free float:	46.0%
Daily vol. (3M Avg):	2.38mn
Face Value (Rs):	1

Source: Bloomberg, SMIFS Research

|Shareholding pattern (%)

	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	51.4	51.4	51.4	51.4
FIIs	6.7	7.1	7.1	6.6
DIIs	6.9	7.5	9.0	10.3
Public/others	35.0	34.0	32.5	31.7

Pro. Pledging

Pledging	0.0	0.0	0.0	0.0

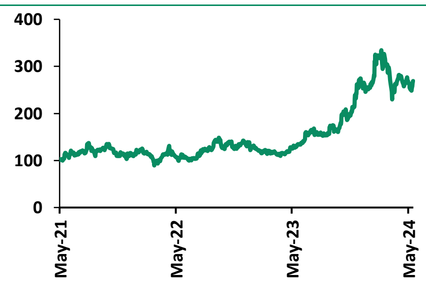
Source: BSE

|Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	2.7	3.4	25.2	51.4
NIFTY 500	4.1	5.8	38.2	66.4
PCBL	-3.1	-14.0	92.2	122.3

*as on 23rd May 2024; Source: AceEquity, SMIFS Research

| 3 Year Price Performance Chart



Source: NSE

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	44,464	*67.2*	6,530	*14.7*	4,260	*35.8*	*11.3*	*18.7*	*14.8*	9.7	6.5
FY23	58,739	*32.1*	7,364	*12.5*	4,441	*4.2*	*11.8*	*16.3*	*13.3*	10.4	7.3
FY24	56,743	*-3.4*	9,666	*17.0*	5,739	*29.2*	*15.2*	*19.0*	*15.8*	13.3	8.3
FY25E	69,036	*21.7*	10,877	*15.8*	5,992	*4.4*	*15.9*	*17.7*	*15.0*	16.3	9.2
FY26E	78,549	*13.8*	12,404	*15.8*	6,864	*15*	*18.2*	*18.2*	*15.9*	14.2	8.0

Source: Company, SMIFS Research Estimates

Analyst Call highlights

- **Demand outlook:** The company's major end user industries in the domestic market like tyres, plastics, printing inks, tones, paper etc are witnessing good demand. Completion of de-stocking in global market & lowering inflation is positive for demand pickup. Exports market is witnessing pickup particularly the US & Europe and the long term outlook is robust. We feel that tyre and other allied sectors demand is good backed by large capex by tyre companies which will ensure volume momentum in the coming years. The new commercialization of capacity by PCBL in both normal grade & speciality grade carbon black is ensuring better penetration in existing export markets.
- **Capex Intensity to remain high:** The company has planned for carbon black brownfield expansion of 90KT capacity on its surplus land availaible in Chennai. Also, in Mundra the company has excess land availaible. The brownfield expansion in Chennai plant is divided into 2 phases (A) Phase 1 of 30KT to start by Q1FY26E (B) Phase 2 of 60KT to start by Q3FY26E. The capex for the same is Rs3.5-4bn. Along with this, management has stated that company is looking for a big greenfield expansion in CB business (Tentative capex of Rs9-10bn) (Exact details not shared).
- **Europe share of exports to increase:** In the overall exports mix, Europe constitutes 10-15% of sales volume. With Europe banning Russia volumes by July 2024, European tyre customers are looking for alternate source of supplier and PCBL might look to supply additional volumes to Europe. However, management stated that despite EU ban, Russian CB supplies finds its way from Turkey to Europe again.
- **Speciality black phase 2 expansion on track:** The phase 2 speciality carbon black capacity of 20,000 tonnes is expected to be commissioned by H1FY25E. The company continues to witness good traction in demand for speciality black with new customer additions. The speciality black volumes grew by 34% YoY & 7% QoQ to 15,458 tonnes in Q4FY24.
- **Power business expansion timeline:** The 12MW power capacity has been commercialized. The green power generation capacity stands at 122 MW. In Q4FY24, power generation increased by 18% YoY to 181 MU with external sales volume of 106 MU, 10% increase YoY. The company's average realization from power sale stood at Rs 3.98/kWh in Q4FY24 vs Rs 3.99 /kWh in Q3FY24.
- The company's export mix is 75-80% in SE Asia, 15-16% in Europe, 3-4% in North America & remaining in RoW.
- **Aquapharm Update:** The phosphonates business is operating at 50% utilization levels & management expects to operate at peak utilization levels in coming years. The acquisition of Rs38.5bn enterprise was primarily through debt & management expects debt to remain current levels for the next 1-2 years. The capex in Aquapharm will largely be on export market particularly in US which is approx. Rs1.8bn wherein the company is expanding capacity further. Management has guided for Rs2-3bn EBITDA for FY25E in Aquapharm.

Valuation and Recommendations

Currently, the stock is trading at March 26E P/E of ~14.2x.

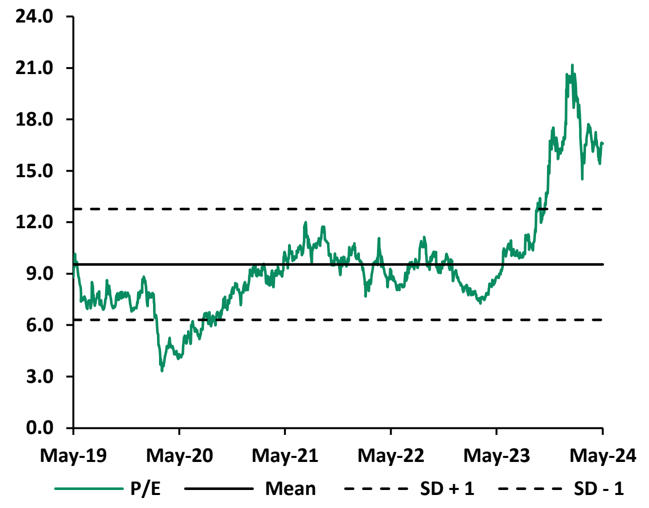
We maintain our target multiple of 18x and thereby, arrive at target price of Rs 327 per share which offers upside of 26.4% from current valuation.

Therefore, we upgrade to **BUY** rating from earlier ACCUMULATE rating on the stock.

(Note: We have not consolidated Aquapharm numbers in our model estimates).

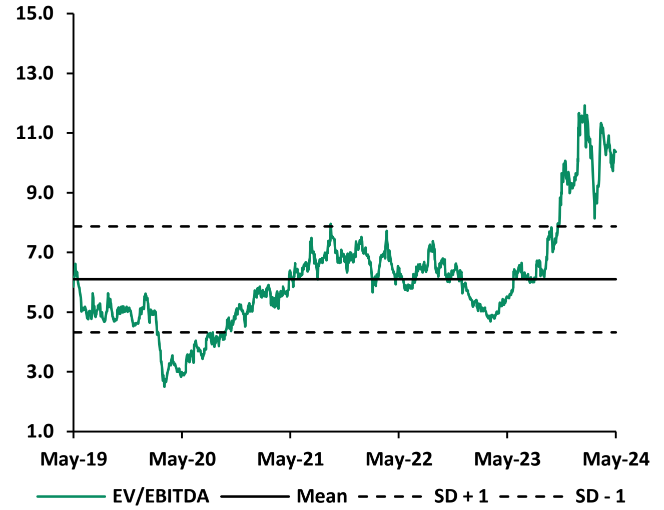
Risk to our call is unforeseen impact on the demand and sharp decline in spread.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 2: 1-year forward EV/EBITDA



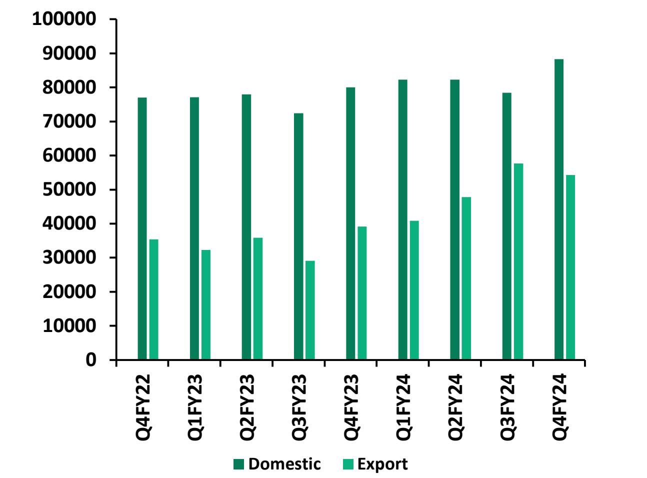
Source: AceEquity, SMIFS Research

Key Performance Indicators

Operational Metrics	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Effective CB capacity (in MT)*	**499469**	**539469**	**539469**	**539469**	**737000**	**757000**	**782800**
Normal Grade CB volumes (In MT)	**388683**	**360818**	**421484**	**404539**	**474603**	**548250**	**617136**
YoY Change (%)	-0.7	-7.2	16.8	-4.0	17.3	15.5	12.6
Speciality Grade CB volumes (In MT)	**19378**	**23967**	**35000**	**40376**	**57247**	**72800**	**89600**
YoY Change (%)	-1	24	46	15	42	27	23
Blended Gross spread per kg	25.8	27.3	28.8	32.1	32.5	32.6	32.6

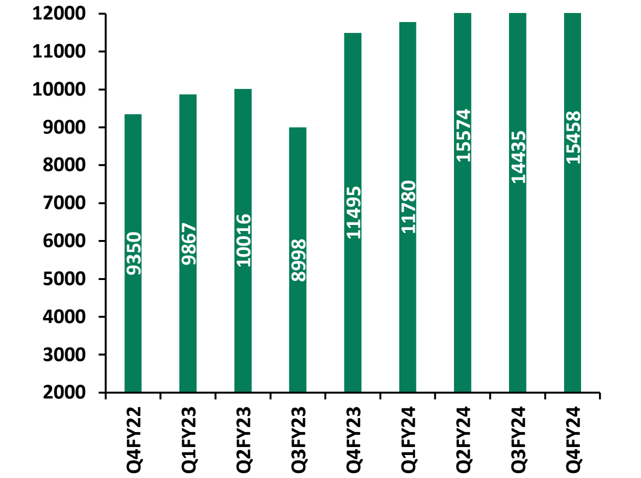
Source: Company, SMIFS Research Estimates, Note: * indicates Effective capacity includes normal CB plus speciality grade CB capacity

Fig 3: Quarterly Sales Volume *(in Tonnes)*



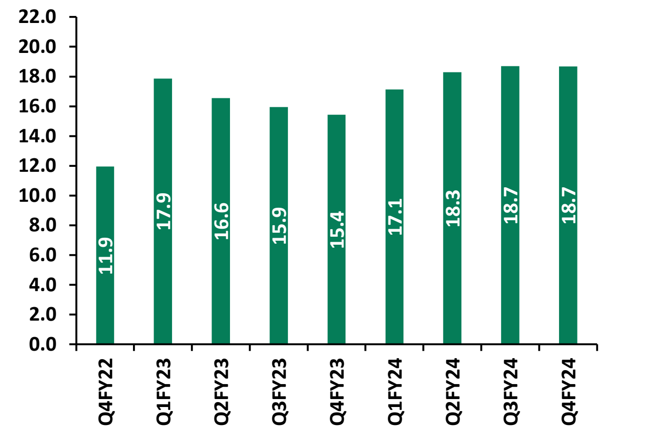
Source: Company, SMIFS Research

Fig 4: Speciality Carbon Black Sales Volumes *(in Tonnes)*



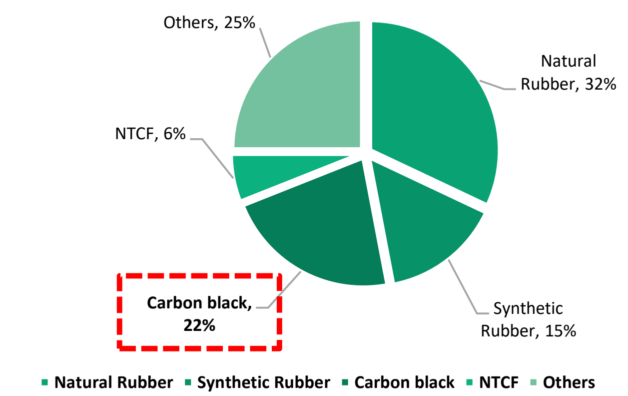
Source: Company, SMIFS Research

Fig 5: Blended EBITDA spread *(in Rs per kg)*



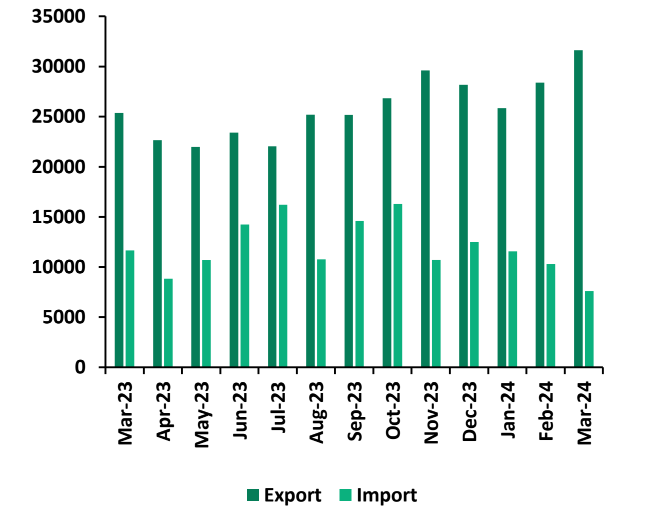
Source: Company, SMIFS Research

Fig 6: Volume Wise Split of tyre raw materials



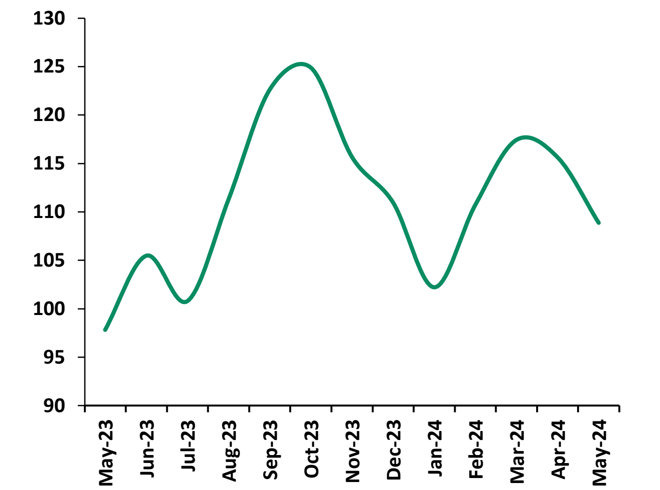
Source: Company, SMIFS Research

Fig 7: India's Carbon Black Import & Export Data *(InTonnes)*



Source: Industry, SMIFS Research

Fig 8: Carbon Black Price Trend *(In Rs per Kg)*



Source: Company, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 9: Quarterly Financials

Y/E March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Sales	**14,091**	**16,279**	**13,633**	**13,738**	**13,475**	**14,867**	**14,853**	**14,935**
Raw Materials	10,257	12,587	10,437	10,244	9,353	10,483	10,405	10,277
Employee Costs	472	488	478	467	524	560	553	490
Other Expenditure	1,408	1,318	1,085	1,189	1,490	1,443	1,349	1,504
EBITDA	**1,955**	**1,886**	**1,634**	**1,839**	**2,108**	**2,381**	**2,545**	**2,663**
Depreciation	375	327	330	335	412	482	385	397
Interest	89	110	150	186	193	210	224	691
Other Income	117	38	85	160	40	27	39	229
PBT	**1,608**	**1,487**	**1,239**	**1,478**	**1,543**	**1,716**	**1,976**	**1,804**
Tax	346	322	268	460	450	488	531	420
Tax rate (%)	21	22	22	31	29	28	27	23
Reported PAT	**1,263**	**1,165**	**971**	**1,018**	**1,094**	**1,228**	**1,445**	**1,384**
Minority Interest	-1	-1	-1	-	-2	-2	-	-
Adjusted PAT	**1,262**	**1,164**	**970**	**1,018**	**1,092**	**1,226**	**1,445**	**1,384**
YoY Growth (%)								
Revenue	140.4	152.5	17.9	12.7	-4.4	-8.7	8.9	8.7
EBITDA	19.5	0.8	-2.8	36.9	7.8	26.3	55.8	44.8
Adj PAT	20.9	-4.6	-12.9	15.5	-13.5	5.4	48.9	35.9
QoQ Growth (%)								
Revenue	15.6	15.5	-16.2	0.8	-1.9	10.3	-0.1	0.6
EBITDA	45.5	-3.5	-13.4	12.6	14.6	13.0	6.9	4.7
Adj. PAT	43.1	-7.8	-16.6	5.0	7.2	12.3	17.8	-4.2
Margin (%)								
Gross	27.2	22.7	23.4	25.4	30.6	29.5	29.9	31.2
EBITDA	13.9	11.6	12.0	13.4	15.6	16.0	17.1	17.8
Adj PAT	9.0	7.1	7.1	7.4	8.1	8.2	9.7	9.3
Employee cost as % of sales	3.3	3.0	3.5	3.4	3.9	3.8	3.7	3.3
Other expenses as % of sales	10.0	8.1	8.0	8.7	11.1	9.7	9.1	10.1
Operational Metrics								
Overall CB volumes	109377	113859	102441	119238	123086	130111	136108	142545
CB Realization per kg	125.6	139.8	130.0	112.0	106.4	110.9	106.1	102.0
Blended CB Gross spread Per kg	31.8	32.4	31.2	29.3	33.5	33.7	32.7	32.7
Blended EBITDA spread per kg	17.9	16.6	15.9	15.4	17.1	18.3	18.7	18.7

Source: Company, SMIFS Research

Fig 10: Change in Estimates

	New Estimates		Old Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	69,036	78,549	68624	76550	1%	3%
EBITDA	10,877	12,404	10538	11543	3%	7%
EBITDA Margin	15.8%	15.8%	15.4%	15.1%	40 bps	71 bps
PAT	5,992	6,864	5818	6578	3%	4%
EPS (Rs)	15.9	18.2	15.4	17.4	3%	4%

Source: Company, SMIFS Research Estimates

Note: We have inched up volume growth estimate for FY26E.

Financial Statements

Income Statement

YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	**44,464**	**58,739**	**56,743**	**69,036**	**78,549**
Raw Materials	31,338	44,474	39,453	48,771	55,498
% of sales	*70*	*76*	*70*	*71*	*71*
Personnel	1,589	1,903	2,050	2,536	2,787
% of sales	*4*	*3*	*4*	*4*	*4*
Other Expenses	5,008	4,998	5,575	6,852	7,860
% of sales	*11*	*9*	*10*	*10*	*10*
EBITDA	**6,530**	**7,364**	**9,666**	**10,877**	**12,404**
Other Income	286	384	310	522	378
Depreciation	1,209	1,366	1,505	2,107	2,328
EBIT	**5,607**	**6,382**	**8,470**	**9,292**	**10,454**
Finance cost	291	534	856	745	671
Core PBT	**5,030**	**5,464**	**7,304**	**8,024**	**9,405**
PBT	**5,316**	**5,848**	**7,614**	**8,546**	**9,783**
Tax-Total	1,052	1,407	1,875	2,551	2,916
Tax Rate (%) - Total	*20*	*24*	*25*	*30*	*30*
Reported PAT	**4,263**	**4,441**	**5,739**	**5,996**	**6,867**
Minority Interest	3	-	-	4	4
Adjusted PAT	**4,260**	**4,441**	**5,739**	**5,992**	**6,864**

Source: Company, SMIFS Research Estimates

Key Ratios

YE March	FY22	FY23	FY24	FY25E	FY26E
Growth Ratio (%)					
Revenue	*67.2*	*32.1*	*-3.4*	*21.7*	*13.8*
EBITDA	*26.0*	*12.8*	*31.2*	*12.5*	*14.0*
Adjusted PAT	*35.8*	*4.2*	*29.2*	*4.4*	*14.5*
Margin Ratios (%)					
Gross Profit	29.5	24.3	30.5	29.4	29.3
EBITDA	14.7	12.5	17.0	15.8	15.8
EBIT	12.6	10.9	14.9	13.5	13.3
Core PBT	11.3	9.3	12.9	11.6	12.0
Adjusted PAT	9.6	7.6	10.1	8.7	8.7
Return Ratios (%)					
ROE	18.7	16.3	19.0	17.7	18.2
ROCE	14.8	13.3	15.8	15.0	15.9
Turnover Ratios (days)					
Gross block turn ratio (x)	1.9	2.3	1.7	1.7	1.8
Adj OCF / Adj PAT (%)	72.9	99.1	196.7	100.0	107.1
Inventory	49.6	35.5	50.0	60.0	70.0
Debtors	90.7	69.0	70.0	75.0	80.0
Creditors	74.8	59.4	85.0	90.0	95.0
Cash conversion cycle	65.5	45.1	35.0	45.0	55.0
Solvency Ratio (x)					
Debt-equity	0.3	0.4	0.3	0.3	0.2
Net debt/equity	0.1	0.3	0.1	0.1	0.0
Gross debt/EBITDA	1.2	1.4	1.0	0.8	0.6
Current Ratio	1.4	1.1	1.2	1.3	1.3
Interest coverage ratio	19.3	11.9	9.9	12.5	15.6
Dividend					
DPS	10.0	5.5	5.5	6.5	7.0
Dividend yield (%)	8.7	4.5	2.7	2.5	2.7
Dividend Payout (%)	88.6	46.8	36.2	40.9	38.5
Per Share (Rs.)					
Basic EPS (reported)	11.8	11.8	14.1	15.9	18.2
Adj EPS	11.3	11.8	15.2	15.9	18.2
CEPS	14.5	15.4	19.2	21.5	24.3
BV	69.5	75.2	84.9	94.3	105.6
Valuation					
Adj P/E	9.7	10.4	13.3	16.3	14.2
P/BV	1.6	1.6	2.4	2.7	2.5
EV/EBITDA	6.5	7.3	8.3	9.2	8.0
EV/Sales	1.0	0.9	1.4	1.4	1.3
Adj Mcap / Core PBT	6.9	8.0	9.6	11.3	9.8
Adj Mcap / Adj OCF	15.2	10.4	8.0	15.8	14.3

Source: Company, SMIFS Research Estimates

Balance Sheet

YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Source of funds					
Share Capital	378	378	378	378	378
Reserves & Surplus	25,845	28,016	31,675	35,232	39,468
Shareholders' Funds	**26,222**	**28,393**	**32,052**	**35,610**	**39,846**
Total Loan Funds	**7,669**	**10,097**	**9,874**	**9,014**	**7,622**
Other Liabilities	2,848	2,677	2,595	3,152	3,584
Total Liabilities	**36,739**	**41,167**	**44,522**	**47,776**	**51,052**
Application of funds					
Gross Block	25,008	26,709	38,817	41,127	45,437
Net Block	19,341	19,676	29,520	29,458	31,183
Capital WIP	1,753	11,300	2,399	2,335	2,360
Quasi cash investments	1,573	1,313	1,494	1,501	1,501
Other Investments	**1,007**	**1,026**	**1,086**	**1,086**	**1,086**
Other Non-Current Assets	**1,466**	**890**	**720**	**784**	**838**
Inventories	6,039	5,714	7,773	11,348	15,064
Sundry Debtors	11,051	11,107	10,882	14,185	17,216
Cash and bank balances	1,591	956	5,031	5,871	4,458
Current investments	3,300	-	-	-	-
Other current assets	727	2,347	2,512	2,720	2,926
Total Current Assets	**22,708**	**20,124**	**26,199**	**34,125**	**39,665**
Sundry Creditors	**9,111**	**9,564**	**13,214**	**17,022**	**20,444**
Other current liabilities	1,997	3,597	3,681	4,490	5,136
Total Current Liabilities	**11,109**	**13,161**	**16,895**	**21,513**	**25,581**
Net Current Assets	**11,599**	**6,962**	**9,303**	**12,613**	**14,084**
Total Assets	**36,739**	**41,167**	**44,522**	**47,776**	**51,052**

Source: Company, SMIFS Research Estimates

Cash Flow

YE March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Operating profit before WC changes	**6,584**	**7,430**	**9,666**	**10,873**	**12,401**
Net changes in working capital	-2,644	-731	1,800	-1,838	-2,398
Tax Paid	-1,036	-1,658	-1,875	-2,551	-2,916
Cash flow from operating activities	**2,904**	**5,041**	**9,591**	**6,484**	**7,087**
Adj. OCF	**2,287**	**4,221**	**8,734**	**5,739**	**6,416**
Capital expenditure	-3,062	-8,957	-2,448	-1,980	-4,079
Adj FCF	-775	-4,736	6,286	3,759	2,337
Cash flow from investing activities	**-5,407**	**-5,519**	**-2,379**	**-1,465**	**-3,701**
Debt	770	2,590	-200	-1,000	-1,500
Dividend	-1,887	-2,076	-2,076	-2,454	-2,643
Interest and Lease	-617	-820	-856	-745	-671
Cash flow from financing activities	**2,167**	**-306**	**-3,136**	**-4,180**	**-4,799**
Net change in cash	**-336**	**-784**	**4,076**	**840**	**-1,413**

Source: Company, SMIFS Research Estimates

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