

August 28, 2024

Enduring growth engine for the group...

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

Analyst Meet key Takeaways

- We attended the recently held analyst day of RP- Sanjiv Goenka (RPSG) Group and come impressed by the group focus on **exponential growth** approach going forward vs. incremental growth approach in the past.
- PCBL is the oldest company of the group and is well poised to act as its primarily growth engine wherein Sales/EBITDA/PAT is expected to be 3x/4x/5x respectively over FY24-29E period. RoE improvement in the similar timeframe is seen from 15% in FY24 to 25% in FY29E**
- Combined capacity of carbon black and Aquapharm put altogether is seen increasing from ~9 lakh tonnes per annum as on date to ~1.5 million tonnes per annum over next 5 years. Capacities at Aquapharm are seen doubling.
- Combined Capex over next 5 years is seen at ~₹ 3,500 crore

Investment Rationale

- Aiming for healthy double digit volume growth amid export thrust:** PCBL is India's largest and world's 7th largest carbon black manufacturer. Sensing robust demand prospects especially in Export market amidst loosening ground of China & Russia, it is targeting a volume CAGR of 11-12% 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. Exports share in its 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 domain, which is a high margin product (typically ~3-4x normal tyre grade). 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.

Rating and Target Price

- We have **positive view on PCBL** and **assign BUY rating** on the stock amid (i) profitable organic growth underway at its base carbon black business (ii) turnaround in sight at Aquapharm (iii) big opportunity in sight in Nano Silica (EV battery chemical space). We expect Sales/PAT at PCBL to grow at a CAGR of 21%/25% over FY24-27E. We value PCBL at **₹600 i.e. 26x P/E on FY26-27E avg. EPS. Having captured much of the up move of the stock ([link1](#), [link2](#)) and steep price appreciation over the past 1 month, we expect future gains to be steadier and back ended in nature.**

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%	8,835	10,174	11,371	20.8%
EBITDA	465	519	653	731	1,037	10.7%	1,516	1,839	2,115	26.5%
EBITDA Margins (%)	14.3	19.5	14.7	12.7	16.2		17.2	18.1	18.6	
Net Profit	283	312	426	442	491	4.8%	564	804	1,017	27.2%
EPS (₹)	8.2	9.1	11.3	11.7	13.0		14.3	20.4	25.8	25.4%
P/E	60.8	55.2	44.3	42.7	38.4		34.9	24.5	19.3	
RoNW (%)	16.8	16.2	16.3	15.6	15.1		14.0	17.7	19.6	
RoCE (%)	16.1	16.1	16.1	15.8	10.2		13.7	16.5	18.6	

Source: Company, ICICI Direct Research



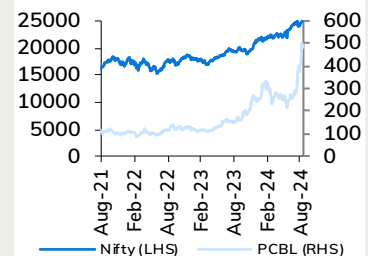
Particulars

Stock Data	₹ crore
Market Capitalization	18,875
Total Debt (FY24)	4,820
Cash & Cash Eqv (FY24)	422
Enterprise Value	23,273
52 week H/L (₹)	510 / 158
Equity Capital	37.8
Face Value	₹ 1

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	51.4	51.4	51.4	51.4
FII	7.1	7.1	6.7	5.3
DII	7.8	6.3	5.6	6.4
Other	33.7	35.2	36.3	36.9

Price Chart



Recent event & key risks

- Conducts Group Analyst Day.
- Our forward estimates broadly unchanged. Positivity retained.
- Key Risk: (i) delay in brownfield and greenfield expansions (ii) pressure on margins amidst increased competitive intensity

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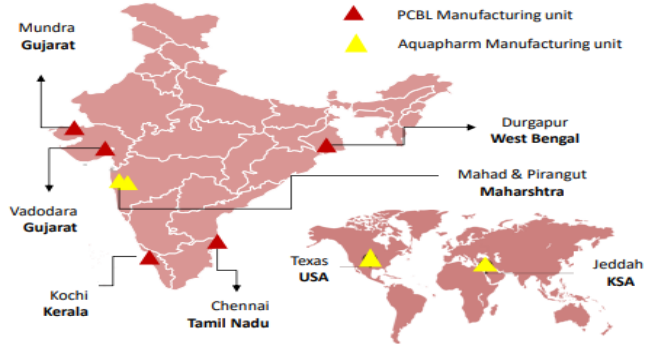
Key Charts from the presentation

Exhibit 1: PCBL – Company Overview



PCBL- A Global Player

- India's largest & world's 7th largest rubber black & value-added chemicals company
- Robust product portfolio with customized offerings for tyres, performance chemicals and specialty chemicals
- Production capacity of 770 KTPA & green power capacity of 122 MW
- Acquisition of Aquapharm chemicals with production capacity of 130 KTPA
- Post expansion, rubber black & specialty capacity to increase to 880 KTPA & green power to 134 MW
- Strategic partnership with Kinaltek Pty for battery application
- 2 R&D centers in India and 1 Innovation center in Belgium
- Market presence in 60+ countries



9 Manufacturing facilities (PCBL+ Aquapharm)	300+ Grades (Tyre, Performance, Specialty, water treatment)	140+ Grades of specialty Chemicals	60+ Countries	300+ Customers of Specialty Chemicals across all applications	1925 Employees (PCBL+Aquapharm)
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Source: Company, ICICI Direct Research

Exhibit 2: Product Portfolio



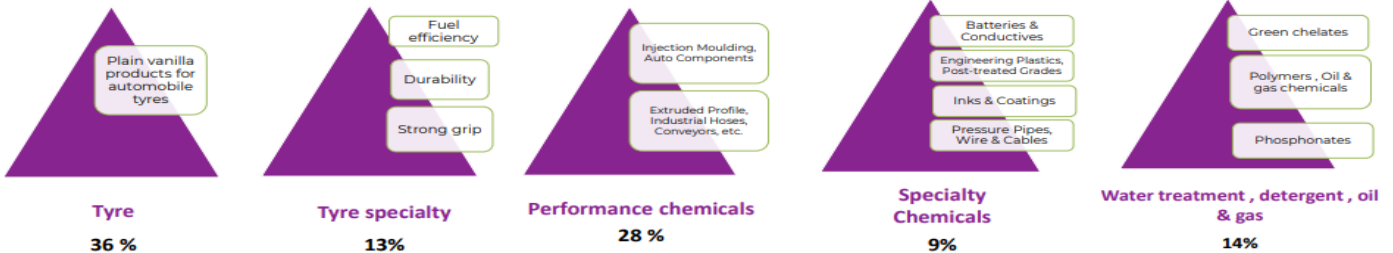
3 Well-diversified Product Portfolio



Organic expansion of product portfolios

Acquisition of new chemistries

Technology acquisition & partnerships



Rubber Black

Value added chemicals

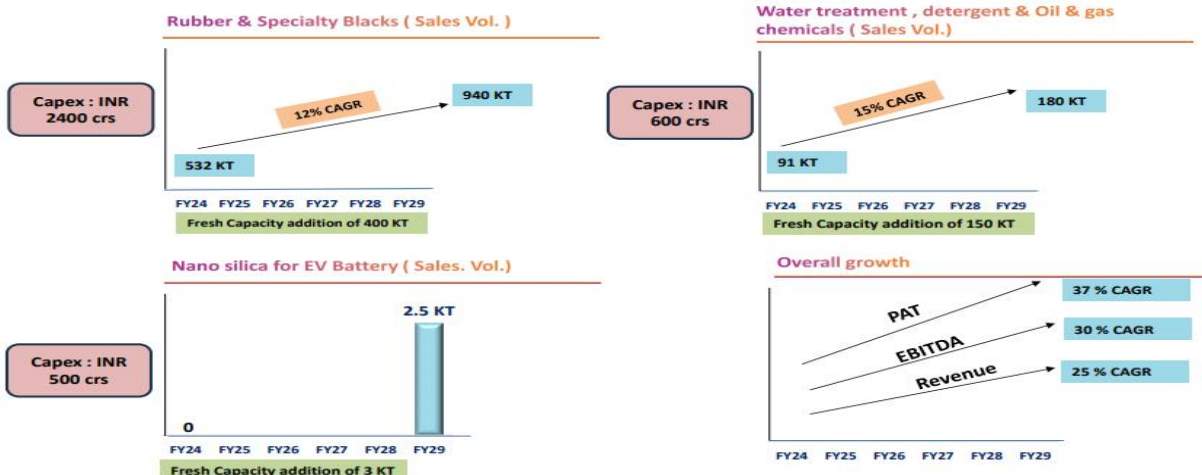
Value-added chemical's share has increased from 25% in 2018 to 64% in 2024

Source: Company, ICICI Direct Research

Exhibit 3: Growth Aspirations



Accelerated Growth



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and Loss statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	6,420	8,835	10,174	11,371
Other Operating Income	-	-	-	-
Total Operating Income	6,420	8,835	10,174	11,371
Growth (%)	11.2	37.6	15.2	11.8
Raw Material Expenses	4,466	5,966	6,817	7,590
Employee Expenses	250	401	450	500
Selling Expense	257	353	407	455
Other Operating Expense	409	599	661	711
Total Operating Expenditure	5,382	7,319	8,335	9,256
EBITDA	1,037	1,516	1,839	2,115
Growth (%)	41.9	46.1	21.3	15.0
Depreciation	217	336	376	404
Interest	181	446	400	354
Other Income	37	40	38	37
PBT	676	773	1,102	1,394
Total Tax	185	210	297	376
PAT	491	564	804	1,017
Growth (%)	11.1	14.8	42.6	26.5
EPS (₹)	13.0	14.3	20.4	25.8

Source: Company, ICICI Direct Research

Exhibit 5: Cash Flow statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	491	564	804	1,017
Add: Depreciation	217	336	376	404
(Inc)/dec in Current Assets	-1,100	-223	-491	-439
Inc/dec in CL and Provisions	852	-84	307	274
Others	181	446	400	354
CF from operating activities	640	1,040	1,395	1,611
(Inc)/dec in Investments	-199	-168	185	5
(Inc)/dec in Fixed Assets	-1,117	-500	-600	-700
Others	-2,656	-10	-5	-5
CF from investing activities	-3,972	-678	-420	-700
Issue/(Buy back) of Equity	0	2	0	0
Inc/dec in loan funds	3,877	-250	-250	-300
Interest & Dividend paid	-388	-682	-695	-709
Inc/dec in Share Cap	0	0	0	0
Others	133	446	0	0
CF from financing activities	3,621	-484	-945	-1,009
Net Cash flow	289	-123	30	-98
Opening Cash	96	385	262	292
Closing Cash	385	262	292	194

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	3,983	4,491	5,154
Total Shareholders funds	3,247	4,022	4,531	5,194
Total Debt	4,820	4,570	4,320	4,020
Deferred Tax Liability	871	871	871	871
Minority Interest / Others	190	190	190	190
Total Liabilities	9,128	9,653	9,912	10,275
Assets				
Gross Block	4,487	5,120	5,770	6,470
Less: Acc Depreciation	923	1,259	1,635	2,039
Net Block	3,565	3,861	4,136	4,432
Capital WIP	433	300	250	250
Total Fixed Assets	3,998	4,161	4,386	4,682
Investments & Goodwill	3,761	3,929	3,744	3,739
Inventory	999	1,210	1,394	1,558
Debtors	1,710	1,694	1,951	2,181
Loans and Advances	26	36	41	46
Other Current Assets	282	299	345	385
Cash	385	262	292	194
Total Current Assets	3,402	3,502	4,023	4,364
Current Liabilities	2,016	1,937	2,230	2,492
Provisions	91	87	100	112
Current Liabilities & Prov	2,107	2,024	2,330	2,605
Net Current Assets	1,295	1,478	1,693	1,759
Others Assets	75	85	90	95
Application of Funds	9,128	9,653	9,912	10,275

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	13.0	14.3	20.4	25.8
Cash EPS	18.8	22.9	30.0	36.1
BV	86.0	102.2	115.1	132.0
DPS	5.5	6.0	7.5	9.0
Cash Per Share (Incl Invst)	109.8	106.5	102.6	100.0
Operating Ratios (%)				
EBITDA Margin	16.2	17.2	18.1	18.6
PAT Margin	7.6	6.4	7.9	8.9
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	14.0	17.7	19.6
RoCE	10.2	13.7	16.5	18.6
RoC	11.4	15.1	17.6	19.5
Valuation Ratios (x)				
P/E	38.4	34.9	24.5	19.3
EV / EBITDA	22.4	15.2	12.4	10.7
EV / Net Sales	3.6	2.6	2.2	2.0
Market Cap / Sales	2.9	2.1	1.9	1.7
Price to Book Value	5.8	4.9	4.3	3.8
Solvency Ratios				
Debt/EBITDA	4.6	3.0	2.3	1.9
Debt / Equity	1.5	1.1	1.0	0.8
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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