

August 13, 2024

Accelerating growth, aiming for 5x profit in 5 years...

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, which fetches high margins & finds application in paints, plastics, etc.
- Recently acquired speciality chemical company i.e. Aquapharm Chemicals Pvt. Ltd in water treatment and industrial cleaning chemicals space

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 amidst loosening ground of China & Russia (which in the past commanded lion share of global trade), it is looking at aggressive capacity additions with 90 KT brownfield expansion already underway and company scouting for sites for a new greenfield plant. 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 and medium-term capacity addition ambition at ~4 lakh tonnes. 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 FY26E. 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. This is structurally positive for PCBL and ensures growth longevity.
- 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 16% over FY24-27E to 90KT in FY27E. This is structurally positive for EBITDA/tonne profile at PCBL.
- Healthy margin & RoCE profile, trades inexpensive vs. promised growth:** With sustained carbon black volume growth on anvil amid thrust on exports, increasing share of high margin specialty grade carbon black, turnaround and expansion in sight at its new acquired Aquapharm as well as ramp up niche battery chemical business, company expects to clock 5x PAT in 5 years i.e. (~₹ 2,500 crore in FY29E vs. ~₹ 500 clocked in FY24). We have baked in ~25% earnings CAGR at PCBL over FY24-27E with scope of company beating our estimates. With long run-way of growth in sight it trades inexpensive at <20x PE and <10 EV/EBITDA on FY26E.

Rating and Target Price

- With multiple levers for growth across business segments, healthy margin & RoE profile (~15%+), robust cash flow generation, we assign **BUY** rating on PCBL. We value PCBL at **₹500** i.e. **22x P/E on FY26-27E avg. EPS**

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	11,376	20.8%
EBITDA	465	519	653	731	1,037	10.7%	1,516	1,839	2,076	25.7%
EBITDA Margins (%)	14.3	19.5	14.7	12.7	16.2		17.2	18.1	18.3	
Net Profit	283	312	426	442	491	4.8%	564	805	988	26.0%
EPS (₹)	8.2	9.1	11.3	11.7	13.0		14.3	20.4	25.1	24.2%
P/E	46.8	42.5	34.1	32.9	29.6		26.9	18.8	15.3	
RoNW (%)	16.8	16.2	16.3	15.6	15.1		14.0	17.8	19.1	
RoCE (%)	16.1	16.1	16.1	15.8	10.2		13.7	16.5	18.2	

Source: Company, ICICI Direct Research



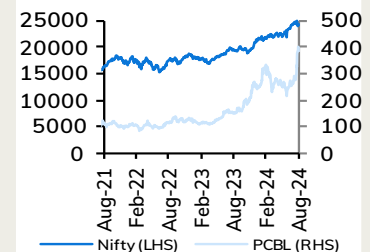
Particulars

Stock Data	₹ crore
Market Capitalization	14,534
Total Debt (FY24)	4,820
Cash & Cash Eqv (FY24)	422
Enterprise Value	18,932
52 week H/L (₹)	420 / 153
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

- PCBL reports healthy Q1FY25. Carbon black vol up 25% YoY.
- Key Risk: (i) lower than built in carbon black sales volume growth over FY24-27E (ii) lower than expected gains in margin profile & overall PAT

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Key Takeaways of Recent Quarter

Q1FY25 Results:

- On the consolidated basis, at PCBL, net sales for the quarter came in at ₹ 2,144 crore with carbon black sales volumes at 154 kt (up 8% QoQ, 25% YoY) and realisation at ₹ 113/kg (down 2% QoQ).
- EBITDA for the quarter came in at ₹358 crore (highest ever) with corresponding margins at 16.7%. Consequent PAT for Q1FY25 stood at ₹118 crore, up 8% YoY.
- Speciality grade carbon black sales for the quarter came in at 15.7K tonne (~10.2% of total sales volume). Consolidated numbers also include full quarter performance of its recent acquisition i.e. Aquafarm and hence is not comparable QoQ & YoY.
- EBITDA/tonne in the carbon black space for the quarter stood at ~₹ 20,000/tonne vs. ₹21,000 clocked Q4FY24. The company realised sales volume of ~28Kt from its new greenfield plant at Tamil Nadu for Q1FY25.

Q1FY25 Earnings Conference Call Highlights:

- Capacity: PCBL is undergoing capacity expansion of 20,000 tons for speciality grade carbon black and 90,000 tons for normal grade carbon black. Thus, the total expanded capacity is estimated to be 8,80,000 tons, which also includes 1,12,000 tons of speciality grade capacity. Over the long term it aims to add ~4 lakh tons of carbon black capacity. It also aims doubling the aqua pharma capacity (from 1,30,000 tonne) going forward.
- Aquapharm: Revenue for the quarter stood at ₹359 crore with operational EBITDA reported at ₹55 crores. Capacity Utilization stood at ~75% in Q1FY25 and is expected to further improve in Q3FY25 and Q4FY25. With 24% global (Ex-China) market share in phosphonate, PCBL plans to further increase its share by adding capacities and value-added products in the segment. It has already embarked upon 38,000 tons expansion which is expected to be commissioned in the next six to eight months. It plans for additional 100,000 tons in the next four to five years. It aims to increase the present run-rate of EBITDA of ~₹ 50 crore to ₹80 -90 crore by Q4FY25
- Capex: PCBL is estimated to spend about ₹2,500 crore of capex in carbon black domain over next 4-5 years. At Aquapharm it has already spent about ₹165 crore of capex for 38,000 tons of expansion and will spend another ₹50 crore in FY25. Also, the additional ₹400 to ₹500 crore of capex will be spend on further 100,000 tons of capacity expansion. On battery chemical front, PCBL expects to spend about ₹450 - 500 crores of capex. In total, over the next 4-5 years it aims to cumulatively spends ~₹ 3,300 crore as capex (i.e. ~₹ 600 crore per annum).
- Guidance: PCBL expects to deliver volume CAGR of 11-12% in the carbon black domain for the next 4 to 5 years. It also expects to further improve its current EBITDA/tonne in carbon black domain of ~₹ 20,000/tonne by ₹4,000-5,000 per ton in the same period by improving the product mix, benefits accruing from o/p leverage and yield improvements. It expects Aquapharm business to report 20-25% of volume growth from FY26E. It also expects to cumulatively generate ~₹10,000 crore of cashflows (CFO) spread over the next five years period.
- Others: PCBL's share of Export volumes to Europe has increase to 21% in Q1FY25 from the 14% reported in FY23. Net Borrowing as on 30th June'24 stood at ~₹4,400 crore.

Key Tables and Charts

Exhibit 1: Quarterly P&L Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Total Operating Income	2,144	1,348	59.1	1,929	11.1	Topline came in robust tracking 25% volume growth in carbon black space as well as numbers from new acquisition
Raw Material Expenses	1,449	935	54.9	1,318	10.0	
Employee Expenses	100	52	90.9	81	23.5	Employee costs came in tad higher
Other expenses	236	149	58.5	221	7.1	
EBITDA	358	211	70.0	310	15.7	
EBITDA Margin (%)	16.7	15.6	107 bps	16.0	67 bps	EBITDA margin improved 70 bps QoQ to 16.7% in Q1FY25
Other Income	11	4	173.4	23	-53.1	
Depreciation	85	41	105.2	75	12.4	
Interest	121	19	529.1	108	11.9	Interest costs are higher on account of debt taken on B/S to fund new acquisition (~₹ 3,800 crore for Aquapharm)
Total Tax	46	45	1.5	38	18.9	
PAT	118	109	7.9	111	6.3	Earnings grew high single digit
Key Metrics						
Carbon Black Sales Volume (tonne)	1,53,918	1,23,086	25.0	1,42,544	8.0	Carbon black sales volume grew substantially 25% YoY to 1.54 Lakh ton
Carbon Black EBITDA/tonne (₹/t)	20,154.1	17,121.4	17.7	21,032.4	-4.2	EBITDA/tonne moderated marginally 4% QoQ to ~₹ 20,154/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	8,672	8,835	1.9	9,751	10,174	4.3	11,376	Marginally tweaked our topline estimates. We expect topline at PCBL to grow at a CAGR of 20.8% over FY24-27E
EBITDA	1,413	1,516	7.3	1,624	1,839	13.2	2,076	
EBITDA Margin (%)	16.3	17.2	86 bps	16.7	18.1	142 bps	18.3	Upgraded margin estimates tracking upbeat management commentary on demand as well as industry tailwinds
PAT	529	564	6.5	671	805	19.9	988	
EPS (₹)	13.5	14.3	6.5	17.0	20.4	19.9	25.1	Earnings at PCBL are seen growing robust at ~25% CAGR over FY24-27E

Source: ICICI Direct Research

Exhibit 3: Assumptions

	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	7,30,723
Speciality Grade Carbon Black Sales Vol (tonnes)	19,300	19,378	23,966	34,687	40,376	57,247	67,500	80,000	90,000
Carbon Black EBITDA/tonne (₹/tonne)	15,437	11,429	13,322	14,435	16,543	19,322	20,500	21,000	21,500
Aquapharm Sales (₹ crore)	-	-	-	-	-	239	1,600	1,920	2,304

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and Loss statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Net Sales	6,420	8,835	10,174	11,376	
Other Operating Income	-	-	-	-	
Total Operating Income	6,420	8,835	10,174	11,376	
Growth (%)	11.2	37.6	15.2	11.8	
Raw Material Expenses	4,466	5,966	6,817	7,593	
Employee Expenses	250	401	450	501	
Selling Expense	257	353	407	455	
Other Operating Expense	409	599	661	751	
Total Operating Expenditure	5,382	7,319	8,335	9,300	
EBITDA	1,037	1,516	1,839	2,076	
Growth (%)	41.9	46.1	21.3	12.9	
Depreciation	217	336	376	404	
Interest	181	446	400	354	
Other Income	37	40	38	35	
PBT	676	773	1,102	1,353	
Total Tax	185	210	297	365	
PAT	491	564	805	988	
Growth (%)	11.1	14.8	42.8	22.8	
EPS (₹)	13.0	14.3	20.4	25.1	

Source: Company, ICICI Direct Research

Exhibit 5: Cash Flow statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Profit after Tax	491	564	805	988	
Add: Depreciation	217	336	376	404	
(Inc)/dec in Current Assets	-1,100	-223	-491	-440	
Inc/(dec) in CL and Provisions	852	-84	307	275	
Others	181	446	400	354	
CF from operating activities	640	1,040	1,396	1,581	
(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	31	-128	
Opening Cash	96	385	262	293	
Closing Cash	385	262	293	166	

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	4,492	5,126	
Total Shareholders funds	3,247	4,022	4,532	5,165	
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	9,913	10,246	
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	2,182	
Loans and Advances	26	36	41	46	
Other Current Assets	282	299	345	385	
Cash	385	262	293	166	
Total Current Assets	3,402	3,502	4,024	4,337	
Current Liabilities	2,016	1,937	2,230	2,493	
Provisions	91	87	100	112	
Current Liabilities & Prov	2,107	2,024	2,330	2,606	
Net Current Assets	1,295	1,478	1,693	1,731	
Others Assets	75	85	90	95	
Application of Funds	9,128	9,653	9,913	10,246	

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	25.1
Cash EPS	18.8	22.9	30.0	35.4
BV	86.0	102.2	115.2	131.3
DPS	5.5	6.0	7.5	9.0
Cash Per Share (Incl Invst)	109.8	106.5	102.6	99.2
Operating Ratios (%)				
EBITDA Margin	16.2	17.2	18.1	18.3
PAT Margin	7.6	6.4	7.9	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	14.0	17.8	19.1
RoCE	10.2	13.7	16.5	18.2
RoIC	11.4	15.1	17.6	19.1
Valuation Ratios (x)				
P/E	29.6	26.9	18.8	15.3
EV / EBITDA	18.3	12.3	10.1	8.9
EV / Net Sales	2.9	2.1	1.8	1.6
Market Cap / Sales	2.3	1.6	1.4	1.3
Price to Book Value	4.5	3.8	3.3	2.9
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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