

# Shubh Nivesh



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## Leader in carbon black space, eyeing big export 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 ~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:

- Export opportunity compels PCBL to expand further in carbon black space:** PCBL, in recent past, has commissioned its new carbon black plant in the state of Tamil Nadu with a nameplate capacity of ~1.5 lakh tonnes at a total capex outlay of ~₹ 800 crore. Initially the company expected to fully utilize this plant by FY26E end, however given the opportunity in the export markets especially North America and Europe, it now expects to hit peak utilisation levels by FY25E itself. Sensing further opportunity, it is now executing a brownfield expansion at the said facility amounting to 90KT (in FY25E) thereby targeting healthy double digit volume growth over the next few years. It is even discussing upon a new greenfield plant. We have modelled carbon black sales volume to grow at a CAGR of 10.6% CAGR over FY24-26E to 6.5 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 42% by FY26E. This is structurally positive for PCBL and shall ensure growth longevity going forward.
- 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 18.2% over FY24-26E to 80KT in FY26E. This is structurally positive for EBITDA/tonne profile at PCBL.
- Healthy & stable margins/RoCE profile, trades at inexpensive valuation:** With volume growth on the anvil amid thrust on exports, increasing share of high margin specialty grade carbon black sales and efficiencies & o/p leverage to be realised at Aquapharm, EBITDA margins are slated to improve at PCBL to ~16.7% levels in FY26E with EBITDA/tonne in carbon black space seen sustaining at ~₹ 20,000/tonne mark. Consequent RoE is also seen stable at ~15%. PCBL however trades inexpensive at ~16x PE and <9 EV/EBITDA on FY26E, offering healthy upside potential in our view.

### Rating and Target Price

- With levers for tangible volume led double digit growth, healthy margin and RoE profile, robust cash flow generation (CFO yield at ~9%), we assign **BUY** rating on PCBL. We value PCBL at **₹340 i.e. 20x P/E on FY26E**.

### Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY18-24P)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	3,244	2,660	4,446	5,774	6,420	12.7%	8,672	9,751	23.2%
EBITDA	465	519	653	731	1,037	10.7%	1,413	1,624	25.1%
EBITDA Margins (%)	14.3	19.5	14.7	12.7	16.2		16.3	16.7	
Net Profit	283	312	426	442	491	4.8%	529	671	16.9%
EPS (₹)	8.2	9.1	11.3	11.7	13.0		13.5	17.0	14.5%
P/E	32.3	29.4	23.6	22.7	20.5		19.8	15.6	
RoNW (%)	16.8	16.2	16.3	15.6	15.1		13.2	15.2	
RoCE (%)	16.1	16.1	16.1	15.8	10.2		12.6	14.3	

Source: Company, ICICI Direct Research



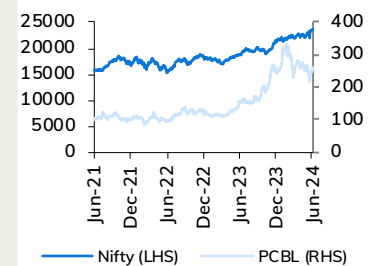
### Particulars

Stock Data	₹ crore
Market Capitalization	10,042
Total Debt (FY24P)	4,820
Cash & Cash Eqv (FY24P)	422
Enterprise Value	14,440
52 week H/L (₹)	344 / 151
Equity Capital	37.8
Face Value	₹ 1

### Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	51.4	51.4	51.4	51.4
FII	6.6	7.1	7.1	6.7
DII	9.1	7.8	6.3	5.6
Other	33.0	33.7	35.2	36.3

### Price Chart



### Recent event & key risks

- Carbon Black segment posted healthy performance in Q4FY24
- Key Risk: (i) Slower than anticipated carbon black sales volume growth (ii) pressure on margins amid volatile crude prices and freight rates

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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