

Rating matrix	
Rating	: Buy
Target	: ₹ 1030
Target Period	: 12-18 months
Potential Upside	: 31%

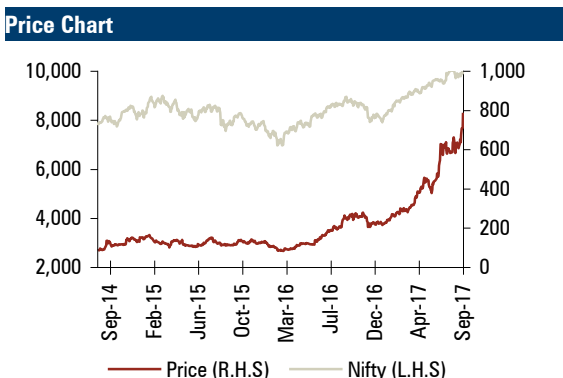
What's changed?	
Target	Changed from ₹ 825 to ₹ 1030
EPS FY18E	Unchanged ₹ 63.4
EPS FY19E	Unchanged ₹ 68.8
Rating	Unchanged

Key financials				
₹ crore	FY16	FY17	FY18E	FY19E
Net Sales	1894.7	1927.1	2342.7	2550.4
EBITDA	165.0	260.2	378.3	408.0
Net Profit	22.7	72.8	218.4	237.1
EPS	6.6	21.1	63.4	68.8

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	118.2	37.2	12.4	11.4
Target P/E	155.1	48.8	16.3	15.0
EV / EBITDA	21.7	12.6	8.6	7.9
P/BV	5.2	2.6	2.2	1.9
RoNW*	4.4	13.8	29.2	25.3
RoCE*	7.1	16.5	23.0	22.6
ROIC*	8.4	16.1	23.4	21.2

* Return ratios adjusted for revaluation reserve amounting to ~₹500 crore in FY17-19E

Stock data	
Stock Data	₹ crore
Market Capitalization	2705
Total Debt (FY17)	677
Cash and Cash Equivalent (FY17)	115.6
Enterprise Value	3266.5
52 week H/L (₹)	790 / 202
Equity Capital	34.5
Face Value	₹ 10
MF Holding (%)	1.4
FII Holding (%)	11.6



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Phillips Carbon Black (PHICAR)

₹ 785

Robust profitability; deserves better valuation

- Phillips Carbon Black (PCBL) is the largest manufacturer of carbon black (CB) domestically with market share in excess of 30%. CB is used as a reinforcement material in manufacturing tyres thereby catapulting PCBL as a proxy to play on domestic automobile sector
- PCBL is witnessing robust demand of its product profile and is running at peak capacity utilisation levels (in excess of 90%)
- It has successfully turned around its operations through operational efficiencies (high utilisation levels), controlled raw material costs and savings accrued through captive power plants
- The exit rate of EBITDA margins is encouraging with EBITDA margins in Q1FY18 at 15.8% vs. 13.5% in FY17. Consequently, EBITDA/tonne in Q1FY18 was at ₹ 9439/tonne. This is the highest ever EBITDA/tonne reported by the company
- We believe such a strong performance trend will continue with PCBL expected to report EBITDA/tonne of ₹ 9283/tonne in FY18E and ₹ 9456/tonne in FY19E vs. ₹ 6731/tonne in FY17
- Robust product demand is also evident from the performance of PCBL's competitors both domestically as well globally. Their commentary is also positive thereby ensuring sustenance of improved profitability, going forward
- Hence, we expect PCBL to report EPS of ₹ 63.4 in FY18E and ₹ 68.8 in FY19E vs. ₹ 21.1 in FY17. We believe such robust profitability commands a higher multiple and henceforth upgrade our valuation multiple to value PCBL at 15.0x P/E on FY19E EPS vs. 12x P/E earlier

Volume led growth to sustain; increasing share of speciality grade CB

PCBL has an installed effective carbon black manufacturing capacity of 411 KT. It operated at 93% capacity utilisation levels with consequent production at 383 KT. Sensing the capacity constraint, the company has planned a phased wise de-bottlenecking and brownfield expansion to augment its capacity by ~80,000 tonne (~20% addition) by FY19E at a capex outgo of ~₹ 300 crore. It includes speciality carbon black line of ~12 KT while the rest will be tyre grade carbon black. It is likely to result in 5.7% CAGR carbon black volume growth at PCBL in FY17-19E. Moreover, the share of speciality grade carbon black is steadily on the rise with sales volume expected at ~12 KT for FY18E & ~20KT in FY19E vs. ~8 KT in FY17. Contribution (EBITDA/tonne) in speciality grade carbon black is to the tune of 4-5x the tyre grade carbon black. Hence, this is expected to lead to improved profitability, going forward.

Steady run up in the past; still more room to create wealth, retain BUY

PCBL has been one of the good wealth creators for investors with stock price nearly multiplying ~4.3x since our **initiating report** in July 2016. However, we believe there is more leg room in stock price appreciation given continued outperformance delivered by the company and inexpensive valuations in the current market scenario. PCBL is generating healthy cash flows with consequent reduction in debt. In FY17, PCBL generated ~₹ 358 crore as cash flow from operations and retired debt to the tune of ~₹ 350 crore. At the CMP, PCBL is trading at 11.4x P/E & 7.9x EV/EBITDA on FY19E numbers. Therefore, given the strong earnings growth trajectory coupled with healthy 20%+ return ratios we upgrade our valuation multiples. We, consequently, increase our target price. Hence, we retain our **BUY** rating on the stock. We now value PCBL at ₹ 1030 i.e. 15.0x P/E on FY19E of ₹ 68.8.

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Net Sales	1892.7	1924.8	2342.7	2550.4	
Other Operating Income	2.1	2.2	0.0	0.0	
Total Operating Income	1894.7	1927.1	2342.7	2550.4	
Growth (%)	-23.3	1.7	21.6	8.9	
Raw Material Expenses	1,344.6	1,236.6	1,531.7	1,670.5	
Employee Expenses	73.4	81.7	86.5	94.9	
Selling Expense	68.7	77.2	93.7	101.6	
Other Operating Expense	243.2	271.4	252.5	275.4	
Total Operating Expenditure	1,729.8	1,666.9	1,964.4	2,142.4	
EBITDA	165.0	260.2	378.3	408.0	
Growth (%)	8.3	57.7	45.4	7.9	
Depreciation	55.0	60.7	61.6	68.5	
Interest	70.9	51.4	45.6	41.8	
Other Income	18.0	20.2	13.2	10.7	
PBT	57.0	168.3	284.2	308.4	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	34.3	95.5	65.9	71.4	
PAT	22.7	72.8	218.4	237.1	
Growth (%)	80.3	220.1	200.1	8.6	
EPS (₹)	6.6	21.1	63.4	68.8	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Liabilities					
Equity Capital	34.5	34.5	34.5	34.5	
Reserve and Surplus	488.3	994.0	1,213.2	1,400.7	
Total Shareholders funds	522.7	1,028.5	1,247.7	1,435.1	
Total Debt	1,021.4	677.0	627.0	567.0	
Deferred Tax Liability	49.1	205.2	205.2	205.2	
Minority Interest / Others	0.6	0.0	0.0	0.0	
Total Liabilities	1,593.8	1,910.7	2,079.9	2,207.3	
Assets					
Gross Block	1,323.8	1,974.1	2,027.9	2,287.9	
Less: Acc Depreciation	524.4	586.6	648.2	716.8	
Net Block	799.4	1,387.5	1,379.7	1,571.1	
Capital WIP	73.4	73.8	150.0	70.0	
Total Fixed Assets	872.8	1,461.3	1,529.7	1,641.1	
Investments	170.4	155.8	105.8	60.8	
Inventory	244.2	243.5	288.8	314.4	
Debtors	439.0	465.7	564.8	593.9	
Loans and Advances	90.0	22.9	46.9	51.0	
Other Current Assets	7.6	34.0	46.9	51.0	
Cash	50.6	20.6	44.6	53.5	
Total Current Assets	831.4	786.7	991.9	1,063.9	
Current Liabilities	310.4	463.8	513.5	524.1	
Provisions	24.3	10.6	15.4	15.7	
Current Liabilities & Prov	334.7	474.4	528.9	539.8	
Net Current Assets	496.8	312.2	463.1	524.1	
Others Assets	53.9	-18.6	-18.6	-18.6	
Application of Funds	1,593.8	1,910.7	2,079.9	2,207.3	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	22.7	72.8	218.4	237.1	
Add: Depreciation	55.0	60.7	61.6	68.5	
(Inc)/dec in Current Assets	150.4	14.8	-181.3	-63.0	
Inc/(dec) in CL and Provisions	130.1	158.4	54.4	10.9	
Others	70.9	51.4	45.6	41.8	
CF from operating activities	429.1	357.9	198.8	295.3	
(Inc)/dec in Investments	-98.0	14.5	50.0	45.0	
(Inc)/dec in Fixed Assets	-33.9	-49.2	-130.0	-180.0	
Others	21.3	109.4	0.0	0.0	
CF from investing activities	-110.6	74.8	-80.0	-135.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-198.3	-344.4	-50.0	-60.0	
Interest & Dividend paid	-81.3	-76.2	-87.0	-91.4	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	0.0	-42.2	42.2	0.0	
CF from financing activities	-279.6	-462.8	-94.8	-151.4	
Net Cash flow	39.0	-30.1	24.0	8.9	
Opening Cash	11.5	50.6	20.6	44.6	
Closing Cash	50.6	20.6	44.6	53.5	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY16	FY17	FY18E	FY19E	
Per share data (₹)					
EPS	6.6	21.1	63.4	68.8	
Cash EPS	22.5	38.7	81.3	88.7	
BV	151.7	298.5	362.1	416.5	
DPS	2.5	6.0	10.0	12.0	
Cash Per Share (Incl Invst)	64.1	51.2	43.7	33.2	
Operating Ratios (%)					
EBITDA Margin	8.7	13.5	16.1	16.0	
PAT Margin	1.2	3.8	9.3	9.3	
Inventory days	47.1	46.2	45.0	45.0	
Debtor days	84.7	88.3	88.0	85.0	
Creditor days	59.9	87.9	80.0	75.0	
Return Ratios (%)					
RoE*	4.4	13.8	29.2	25.3	
RoCE*	7.1	16.5	23.0	22.6	
RoIC*	8.4	16.1	23.4	21.2	
Valuation Ratios (x)					
P/E	118.2	37.2	12.4	11.4	
EV / EBITDA	21.7	12.6	8.6	7.9	
EV / Net Sales	1.9	1.7	1.4	1.3	
Market Cap / Sales	1.4	1.4	1.2	1.1	
Price to Book Value	5.2	2.6	2.2	1.9	
Solvency Ratios					
Debt/EBITDA	6.2	2.6	1.7	1.4	
Debt / Equity	2.0	0.7	0.5	0.4	
Current Ratio	2.3	1.6	1.8	1.9	
Quick Ratio	1.6	1.1	1.2	1.3	

Source: Company, ICICIdirect.com Research

* Return ratios adjusted for revaluation reserve amounting to ~₹500 crore in FY17-19E

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