

Resilient performance, bullishness reloaded...

Phillips Carbon Black (PCBL) reported a steady performance in a Covid impacted Q1FY21. Net sales for the quarter were at ₹ 360 crore, down 61% YoY. Carbon black sales volume for the quarter came in at ~51,300 tonne, down 52% YoY with blended realisation at ₹ 68/kg vs. ₹ 83/kg in base quarter. PCBL reported positive EBITDA and PAT prints despite a steep decline in sales volume and value. EBITDA in Q1FY21 was at ₹ 39 crore with EBITDA margins at 10.7% (EBITDA/tonne at ~₹ 7,500/tonne). PAT in Q1FY21 came in at ₹ 2.3 crore. The company guided for near normalcy in operations courtesy aftermarket sales in its key user industry tyres.

Conducive demand scenario, ADD extension to aid volumes

Carbon black by virtue of being a key raw material for manufacturing tyres (~25% by weight) is seeing robust demand prospects on healthy aftermarket demand in the tyre space. Aftermarket comprises ~70% of total tyre demand domestically and, hence, is largely insulated from muted OEM sales particularly in the CV segment. Moreover, PCBL has made successful inroads into the international market with exports comprising ~30% of annual sales volume, primarily tracking quality product profile, consistency in supply chain dynamics. With Q1FY21 volumes down nearly 52% YoY, we expect PCBL to clock sales volume of 3.5 lakh tonne in FY21E, down 14% YoY. With CV cycle bottoming out domestically and increasing traction gained in export market, we expect a strong rebound with PCBL expected to clock sales volume of 4.2 lakh tonne in FY22E, up 20% YoY. Moreover, with the view of safeguarding domestic Industry, there is an anti-dumping duty (ADD) on import of carbon black from China, which is due for revision in November 2020. With domestic industry having surplus capacity and imports constituting ~15-20% of domestic demand, there is a high possibility of stringent restriction on import as recently seen in the tyre space. This should further lend support to volume offtake for PCBL.

B/S strengthens, robust cash flow generation

PCBL has a healthy B/S with debt gearing at 0.4x (debt: equity) as of FY20. Debt is on a constantly decline since FY15 wherein it held ~₹ 1,200 crore of gross debt. It is largely driven by sound business practices, which include formula based pricing with its key clients with RM costs a complete pass through and hedged position on net forex exposure. On the cash flow front, it generated >₹ 500 crore as CFO in FY20 (CFO yield >25%) with equally robust prospects, going forward. Low debt gearing and robust CFO generation tremendously increase our margin of safety on the stock.

Valuation & Outlook

PCBL has successfully transformed itself into a quality franchise with stable business model, sound capital efficiency (RoE, RoCE > 15%) and increasing focus on margin accretive value added products (speciality grade carbon black). We retain our positive stance and maintain **BUY** rating on the stock, valuing it at ₹ 175/share i.e. 10x P/E on FY22E EPS of ₹ 17.5/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,546.9	3,528.6	3,243.5	2,254.1	2,748.5	-7.9%
EBITDA	386.0	622.8	464.9	351.0	522.2	6.0%
EBITDA Margins (%)	15.2	17.6	14.3	15.6	19.0	
Net Profit	229.8	388.5	283.5	173.0	301.1	3.1%
EPS (₹)	13.3	22.5	16.5	10.0	17.5	
P/E	9.4	5.5	7.6	12.4	7.2	
RoNW (%)	16.7	23.6	16.8	9.5	14.8	
RoCE (%)	15.6	22.8	16.1	10.4	15.8	

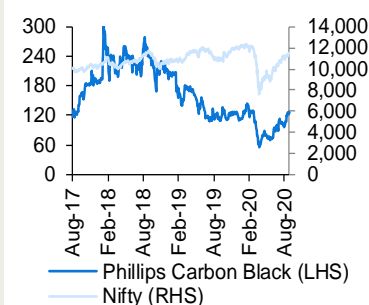
Source: Company, ICICI Direct Research



Particulars

Stock Data	₹ crore
Market Capitalization	2154
Total Debt (FY20)	617
Cash and Cash Eqv (FY20)	111
Enterprise Value	2659
52 week H/L (₹)	147 / 54
Equity Capital	34.5
Face Value	₹ 2

Price Chart



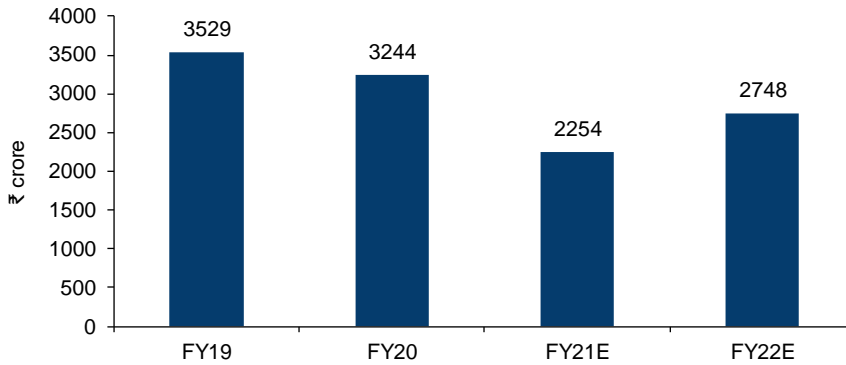
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Financial story in charts

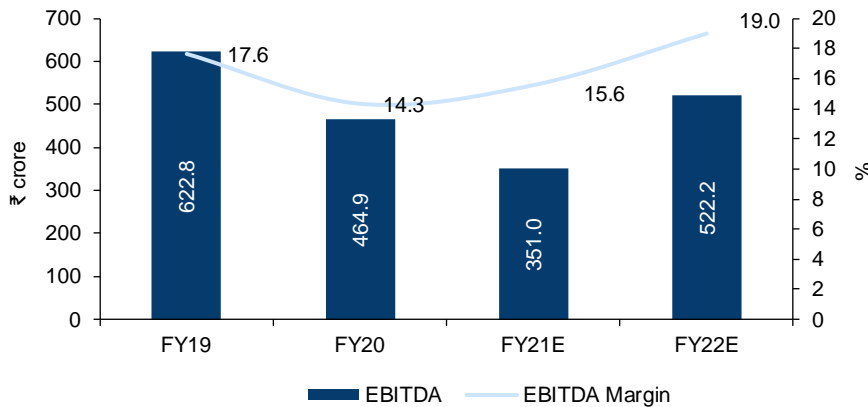
Exhibit 1: Topline trend



Revenues are seen declining at a CAGR of ~8% over FY20-22E largely driven by drop in realisations due to decline in crude price. Volumes in the aforesaid period are expected to grow at a CAGR of 1.6% to 4.2 lakh tonne in FY22E vs. 4.06 lakh tonne in FY20 and 3.5 lakh tonne in FY21E

Source: Company, ICICI Direct Research

Exhibit 2: EBITDA and EBITDA margins trend

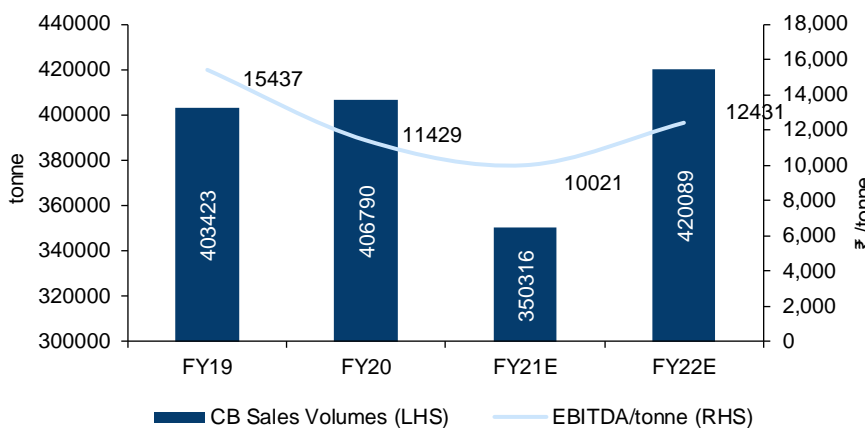


EBITDA is seen growing at a CAGR of 6% over FY20-22E. Margins are expected to inch up tracking nearly fixed spread or EBITDA/tonne being realised by the company amid a decline in realisations and increasing share of speciality grade carbon black

PCBL is expected to report a minor blip in margin profile in Q2FY21 courtesy inventory adjustment due to sharp decline in crude price during Q1FY21. However, the same is expected to improve in Q3FY20 given the company has purchased low cost inventory

Source: Company, ICICI Direct Research

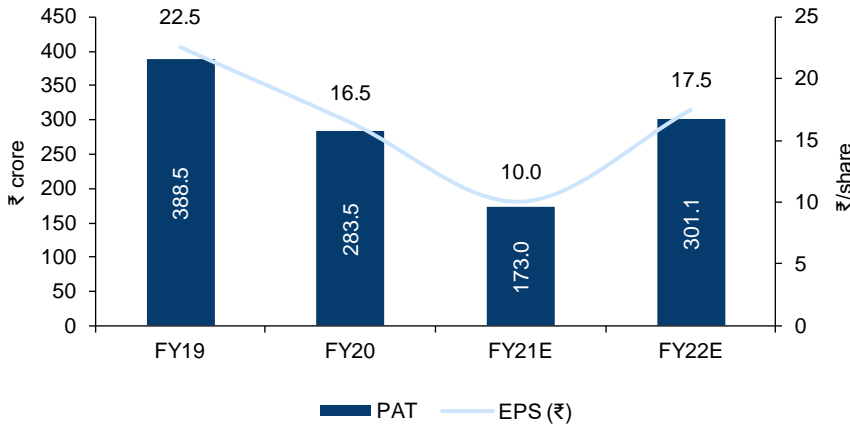
Exhibit 3: Carbon black sales volume and EBITDA/tonne trend



Going forward, EBITDA/tonne is expected to be steady in the range of ₹ 10,000-12,500/tonne over FY21-22E. Increasing share of speciality grade carbon black (~5% in FY20 to >8% in FY22E) is expected to support the upward trajectory of EBITDA/tonne going forward

Source: Company, ICICI Direct Research

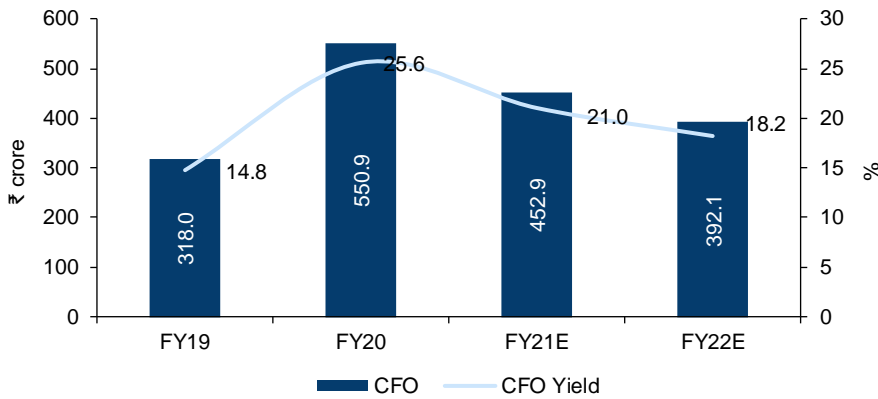
Exhibit 4: PAT and EPS trend



PAT is expected to grow at a CAGR of 3% over FY20-22E. We expect PCBL to clock an EPS of ₹17.5/share in FY22E

Source: Company, ICICI Direct Research

Exhibit 5: CFO and CFO yield trend

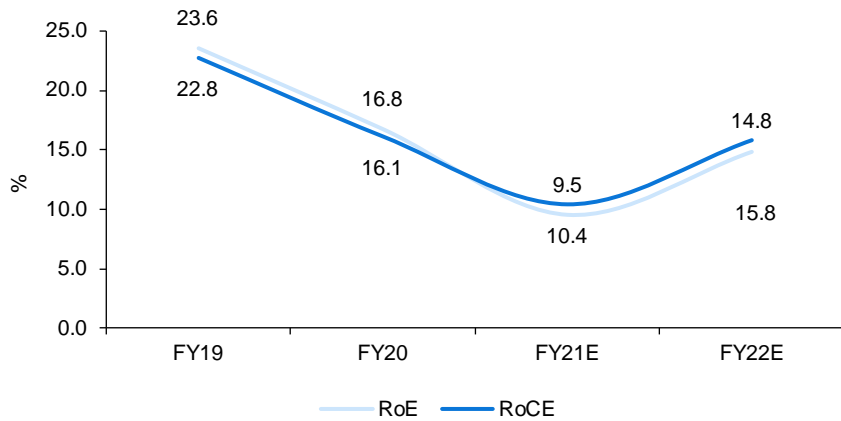


Robust cash flow generation is the USP of PCBL with the company offering healthy cash flow yield > 15% on consistent basis over FY19-22E. It provides much support to our investment thesis.

With peak capacity utilisation levels likely to be hit by FY21E end, we expect the company to announce impending greenfield plant capex and build in requisite capex spend in our FY22E assumptions

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



Return ratios seen muted in FY21E due to drop in sales and earnings due to Covid-19. They are expected to recover to its more sustainable range of ~15% in FY22E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	3528.6	3243.5	2254.1	2748.5
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	3528.6	3243.5	2254.1	2748.5
Growth (%)	39.0	-8.1	-30.5	21.9
Raw Material Expenses	2,296.6	2,189.5	1,429.3	1,662.8
Employee Expenses	110.9	134.4	137.8	151.2
Selling Expense	141.1	129.7	90.2	109.9
Other Operating Expense	357.2	325.0	245.7	302.3
Total Operating Expenditure	2,905.8	2,778.6	1,903.0	2,226.3
EBITDA	622.8	464.9	351.0	522.2
Growth (%)	49.0	-25.3	-24.5	48.8
Depreciation	66.4	92.4	108.1	119.4
Interest	36.4	45.9	45.3	41.3
Other Income	18.8	24.1	18.5	20.0
PBT	538.8	350.8	216.1	381.5
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	150.3	67.3	43.1	80.4
PAT	388.5	283.5	173.0	301.1
Growth (%)	69.1	-27.0	-39.0	74.0
EPS (₹)	22.5	16.5	10.0	17.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	388.5	283.5	173.0	301.1
Add: Depreciation	66.4	92.4	108.1	119.4
(Inc)/dec in Current Assets	-319.0	177.3	310.0	-164.2
Inc/(dec) in CL and Provisions	145.7	-48.1	-183.6	94.5
Others	36.4	45.9	45.3	41.3
CF from operating activities	318.0	550.9	452.9	392.1
(Inc)/dec in Investments	-46.4	207.1	-125.0	25.0
(Inc)/dec in Fixed Assets	-275.8	-362.5	-120.0	-275.0
Others	18.3	101.6	0.0	0.0
CF from investing activities	-303.9	-53.9	-245.0	-250.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	75.6	-179.6	-100.0	0.0
Interest & Dividend paid	-108.8	-190.6	-97.0	-127.5
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-40.4	-95.1	0.0	0.0
CF from financing activities	-73.5	-465.3	-197.0	-127.5
Net Cash flow	-59.4	31.7	10.9	14.6
Opening Cash	139.0	79.6	111.3	122.2
Closing Cash	79.6	111.3	122.2	136.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	34.5	34.5	34.5	34.5
Reserve and Surplus	1,613.6	1,657.2	1,778.5	1,993.5
Total Shareholders funds	1648.1	1691.7	1813.0	2027.9
Total Debt	796.3	616.7	516.7	516.7
Deferred Tax Liability	257.6	254.9	254.9	254.9
Minority Interest / Others	0.0	104.3	104.3	104.3
Total Liabilities	2701.9	2667.5	2688.9	2903.8
Assets				
Gross Block	1746.5	1977.6	2347.6	2428.2
Less: Acc Depreciation	246.1	337.7	445.8	565.2
Net Block	1500.3	1639.9	1901.8	1863.0
Capital WIP	175.0	305.6	55.6	250.0
Total Fixed Assets	1,675.4	1,945.5	1,957.4	2,113.0
Investments	383.8	176.7	301.7	276.7
Inventory	460.3	326.2	247.0	301.2
Debtors	652.7	588.2	401.4	489.5
Loans and Advances	102.3	91.6	63.7	77.6
Other Current Assets	20.8	52.7	36.6	44.6
Cash	79.6	111.3	122.2	136.8
Total Current Assets	1,315.6	1,170.0	870.9	1,049.7
Current Liabilities	573.3	528.5	370.5	451.8
Provisions	84.5	85.9	60.2	73.4
Current Liabilities & Prov	657.8	614.4	430.8	525.2
Net Current Assets	657.8	555.7	440.1	524.5
Others Assets	-15.0	-10.3	-10.3	-10.3
Application of Funds	2701.9	2667.5	2688.9	2903.8

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	22.5	16.5	10.0	17.5
Cash EPS	26.4	21.8	16.3	24.4
BV	95.7	98.2	105.2	117.7
DPS	3.5	7.0	3.0	5.0
Cash Per Share (Incl Invst)	26.9	16.7	24.6	24.0
Operating Ratios (%)				
EBITDA Margin	17.6	14.3	15.6	19.0
PAT Margin	11.0	8.7	7.7	11.0
Inventory days	47.6	36.7	40.0	40.0
Debtor days	67.5	66.2	65.0	65.0
Creditor days	59.3	59.5	60.0	60.0
Return Ratios (%)				
RoE	23.6	16.8	9.5	14.8
RoCE	22.8	16.1	10.4	15.8
RoIC	23.6	16.5	9.9	15.9
Valuation Ratios (x)				
P/E	5.5	7.6	12.4	7.2
EV / EBITDA	4.4	5.7	7.0	4.9
EV / Net Sales	0.8	0.8	1.1	0.9
Market Cap / Sales	0.6	0.7	1.0	0.8
Price to Book Value	1.3	1.3	1.2	1.1
Solvency Ratios				
Debt/EBITDA	1.3	1.3	1.5	1.0
Debt/Equity	0.5	0.4	0.3	0.3
Current Ratio	1.9	1.7	1.7	1.7
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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