

## Growth capex progressing well, PCBL in value zone...

**About the stock:** PCBL Ltd (name changed from Phillips Carbon Black) is the leading manufacturer of carbon black, which is used as a reinforcing material in tyres.

- PCBL also derives ~8% of sales volume from speciality carbon black, which fetches high margins and finds application in paints, plastics among others
- It has a healthy margin profile (15%+), a capital efficient business model (RoCE > 15%) with limited leverage on b/s (~0.3x debt: equity as of FY21)

**Q3FY22 Results:** PCBL reported a tad muted performance in Q3FY22.

- Net sales came in at ₹ 1156.1 crore with carbon black sales volume at ~117 KT, up 1% QoQ. Exports share of volume was at ~34% vs. usual <=30%
- EBITDA in Q3FY22 came in at ₹ 168.1 crore with EBITDA/tonne at ~₹ 14,420
- Consequent PAT in Q3FY22 was at ₹ 111.1 crore, down 9% QoQ

**What should investors do?** PCBL has been one of our early finds wherein it grew ~4x in the past five years (~₹ 55 in January 2017 to ~₹ 233 as of January 2022).

- We maintain our positive view and retain **BUY** rating on the stock

**Target Price and Valuation:** Introducing FY24E, we roll over our valuations and now value PCBL at unchanged target price ₹ 320 i.e. 12x P/E on FY23E-24E avg. EPS

### Key triggers for future price performance:

- Healthy double digit growth on anvil. We expect sales, PAT to grow at 23%, 16%, CAGR, respectively, in FY21-24E, building in 11.4% volume CAGR
- With greenfield expansion (~150 KT) under execution and successful strides made in the speciality carbon black domain, long term growth prospects are robust amid limited competition in overseas markets
- Trades at inexpensive valuation of <10x P/E on FY22E EPS of ~₹ 24/share

**Alternate Stock Idea:** In mid, small cap coverage, we also like VST Tillers & Tractors.

- It is a leader in domestic power tiller space and a key beneficiary of import restrictions in the category. Successful launches in higher hp tractor space
- Capital efficient, cash rich b/s. BUY with a target price of ₹ 3180



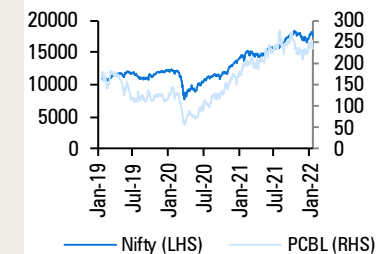
### Particulars

Stock Data	₹ crore
Market Capitalization	4397
Total Debt (FY21)	608
Cash and Cash Eqv (FY21)	220
Enterprise Value	4784
52 week H/L (₹)	279 / 175
Equity Capital	37.7
Face Value	₹ 2

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	53.6	53.6	55.7	51.4
FII	8.1	6.7	6.5	9.1
DII	1.6	2.1	2.1	4.8
Others	36.7	37.7	35.7	34.8

### Price Chart



### Recent event & key risks

- Reports tad muted Q3FY22 result
- Board to meet on February 9, 2022 to consider stock split
- **Key Risk:** (i) Muted demand resulting in lower volume growth (ii) slow margin profile recovery

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	3,528.6	3,243.5	2,659.5	7.0%	4,461.1	4,421.6	4,932.1	22.6%
EBITDA	622.8	464.9	518.6	25.7%	699.5	752.8	865.0	18.4%
EBITDA Margins (%)	17.6	14.3	19.5		15.7	17.0	17.5	
Net Profit	388.5	283.5	312.3	68.7%	453.8	465.8	537.8	19.7%
EPS (₹)	22.5	16.5	18.1		24.1	24.7	28.5	16.1%
P/E	10.3	14.2	12.9		9.7	9.4	8.2	
RoNW (%)	23.6	16.8	16.2		17.5	16.2	16.8	
RoCE (%)	22.8	16.1	16.1		18.3	16.6	18.2	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis (Quarterly performance)**

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	1,156	769	50.3	1,068	8.3	Sequential topline growth was primarily tracking increase in realisations (up 7% QoQ) amid nearly flat volumes
Raw Material Expenses	840	429	95.8	717	17.1	RM costs came in higher than anticipated at 72.7% of sales
Employee Expenses	40	34	16.2	41	-3.8	
Other Expenses	108	118	-8.3	122	-11.6	
EBITDA	168.1	188.4	-10.8	186.8	-10.0	EBITDA was down both QoQ & YoY basis amid high ocean freight and muted demand environment domestically especially in the non-tyre grade segment
EBITDA Margin (%)	14.5	24.5	-994 bps	17.5	-296 bps	
Other Income	8.4	1.8	366.7	3.3	153.8	Other income came in higher than its usual run-rate
Depreciation	30.8	27.8	10.8	30.4	1.3	
Interest	7	8	-12.9	8	-9.5	
PBT	139	154	-10.1	152	-8.7	PBT was down QoQ & YoY primarily tracking muted profitability with PCBL not able to pass on the price hike in non-tyre segment customers
Total Tax	28	29	-5.7	31	-9.1	
Reported PAT	111.1	125.0	-11.2	121.5	-8.6	PAT was down 9% QoQ at ₹ 111 crore
<b>Key Metrics</b>						
Domestic Sales Volume (tonne)	76,621	84,819	-9.7	81,918	-6.5	Domestic demand was soft both in tyre and non-tyre space with volumes down 6.5% on QoQ basis
Exports Sales Volume (tonne)	39,973	29,706	34.6	33,799	18.3	PCBL was able to push more export sales courtesy its directional intent to increase share of exports and de-risk its business model
Total Sales Volume (tonne)	1,16,594	1,14,525	1.8	1,15,717	0.8	Sales volumes were nearly flat on QoQ basis at 117 KT
Exports share in total sales volumes (%)	34	26	835 bps	29	508 bps	
Speciality Carbon Black Sales volume (tonne)	9,835	7,185	36.9	8,219	19.7	Speciality grade sales volume came in robust nearing 10 KT and was up high double digit both QoQ as well as YoY
Speciality Carbon Black (% share)	8.4	6.3	216 bps	7.1	133 bps	
Realisation (₹/tonne)	96,772	65,444	47.9	90,324	7.1	Realisations were up 7% QoQ at ₹ 97/kg primarily tracking rise in crude led raw material prices (CBFS)
EBITDA/tonne (₹/tonne)	14,418	16,446	-12.3	16,142	-10.7	EBITDA/tonne was down double digit amid limited propensity to pass on the price hikes to non-formula led customers in the domestic market

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	4,265	4,461	4.6	4,543	4,422	-2.7	5,032	4,932	-2.0	Marginally tweaked topline estimates incorporating change in realisations pertaining to change in crude prices. Broadly retained volume estimates
EBITDA	724	699	-3.3	797	753	-5.6	893	865	-3.1	
EBITDA Margin (%)	17.0	15.7	-129 bps	17.5	17.0	-52 bps	17.8	17.5	-21 bps	Lowered margin estimates tracking near term pressures amid weak demand environment domestically especially in non-tyre grade
PAT	464	454	-2.2	505	466	-7.8	553	538	-2.7	
EPS (₹)	24.6	24.1	-2.2	27	24.7	-7.8	29.3	28.5	-2.7	PAT estimates get downward revised by ~5% tracking downward revision in margin estimates

Source: ICICI Direct Research

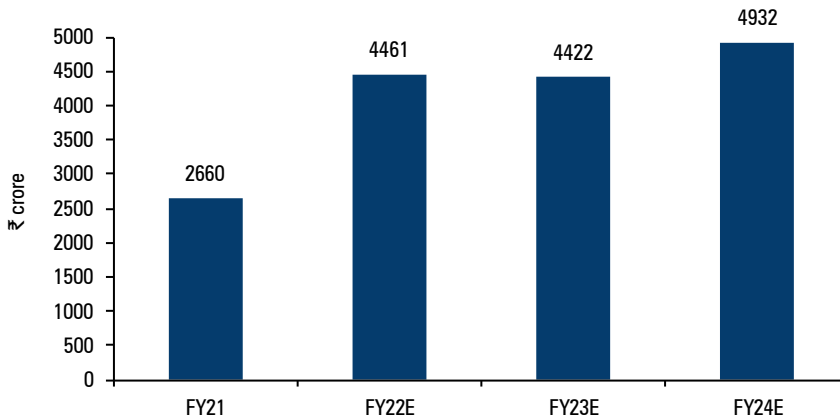
**Exhibit 3: Assumptions**

Particulars	Units	Current				Earlier				Comments
		FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
Domestic Sales Volume	tonne	2,82,877	3,12,812	3,18,551	3,24,162	3,22,644	3,43,686	3,67,384	Broadly maintained volume estimates, we expect total volumes at PCBL to grow at a CAGR of 11.4% CAGR over FY21-24E to 5.4 lakh tonne in FY24E. Share of speciality grade is seen increasing to ~10% by FY24E. Marginally lowered EBITDA/tonne estimates for FY22E-24E	
Export Sales Volumes	tonne	1,06,383	1,47,206	1,71,527	2,16,108	1,38,276	1,47,294	1,72,886		
<b>Total volumes</b>	<b>tonne</b>	<b>3,89,260</b>	<b>4,60,018</b>	<b>4,90,078</b>	<b>5,40,270</b>	<b>4,60,920</b>	<b>4,90,980</b>	<b>5,40,270</b>		
Speciality Grade Sales Volume	tonne	23,966	35,000	45,000	55,000	35,000	45,000	52,500		
Speciality share in volume mix	%	6.2	7.6	9.2	10.2	7.6	9.2	9.7		
Carbon Black Realisations	₹/tonne	66,592	93,456	86,543	87,450	90,132	90,132	90,730		
<b>EBITDA/tonne</b>	<b>₹/tonne</b>	<b>13,322</b>	<b>15,206</b>	<b>15,360</b>	<b>16,010</b>	<b>15,699</b>	<b>16,239</b>	<b>16,531</b>		

Source: ICICI Direct Research

## Financial story in charts

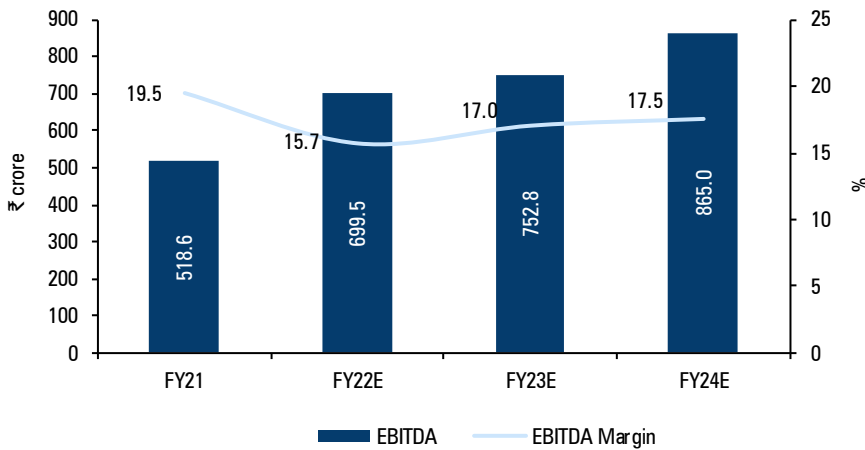
Exhibit 4: Topline trend



Revenues are seen growing at a CAGR of 22.6% in FY21-24E, building in ~11.4% carbon black sales volume growth in the aforesaid period and crude led increase in realisations. Introduced FY24E numbers. FY23E revenue dip is factoring in decline in crude prices and consequent decline in raw materials costs and carbon black prices, amid volume growth expectations of ~7% YoY. We have incorporated commissioning of new greenfield plant towards the end of FY23E.

Source: Company, ICICI Direct Research

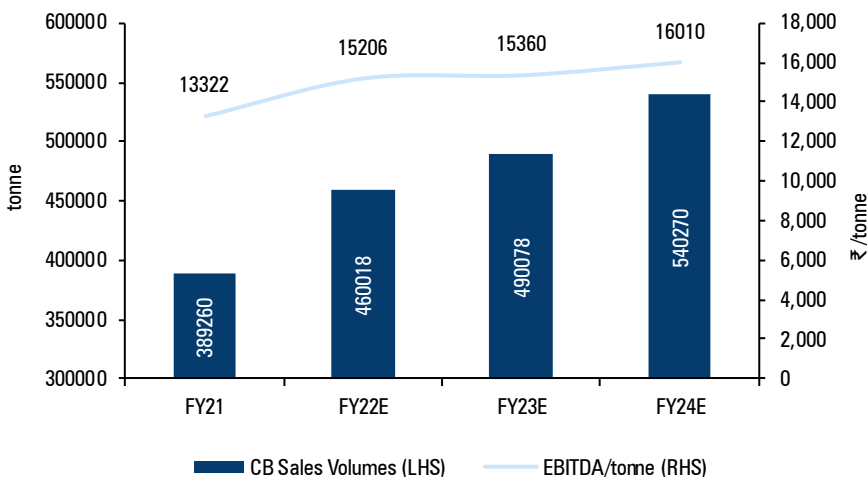
Exhibit 5: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 18.4% over FY21-24E. Margins are seen optically on the decline in FY22E due to sharp increase in realisations while company maintaining healthy profitability on absolute basis with spreads (EBITDA/tonne) at ~₹ 15,000/tonne and above

Source: Company, ICICI Direct Research

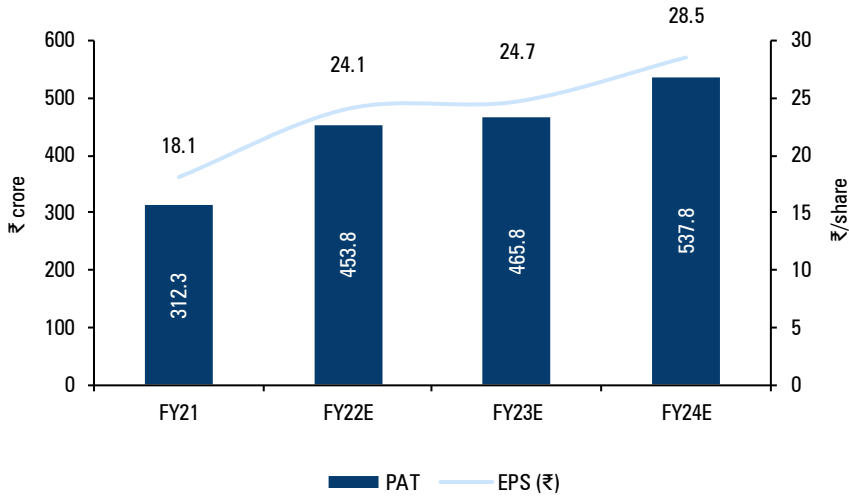
Exhibit 6: Carbon black sales volume, EBITDA/tonne trend



Sales volumes are expected to grow ~18.2% YoY to 4.6 lakh tonne in FY22E (3.9 lakh tonne in FY21) and further grow ~6.5% to 4.9 lakh tonne in FY23E. EBITDA/tonne is seen improving to ~₹ 16,000 by FY24E vs. ₹ 13,322 levels clocked in FY21. Lowered our EBITDA/tonne estimates primarily tracking management commentary of near term muted demand prospects domestically especially in the non-tyre space (contributes ~30% of sales volume)

Source: Company, ICICI Direct Research

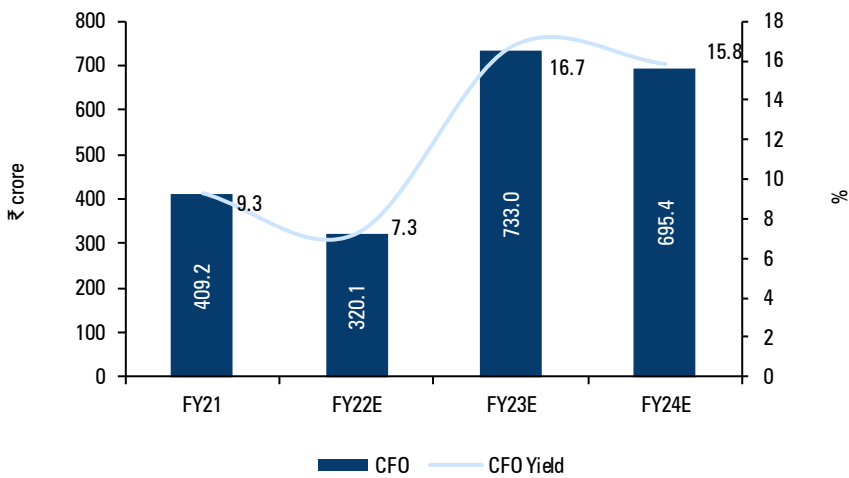
Exhibit 7: PAT and EPS trend



PAT is expected to grow at a CAGR of ~16% over FY21-24E to ₹ 538 crore by FY24E. PCBL is expected to clock an EPS of ₹ 24.7 in FY23E & ₹ 28.5 in FY24E

Source: Company, ICICI Direct Research

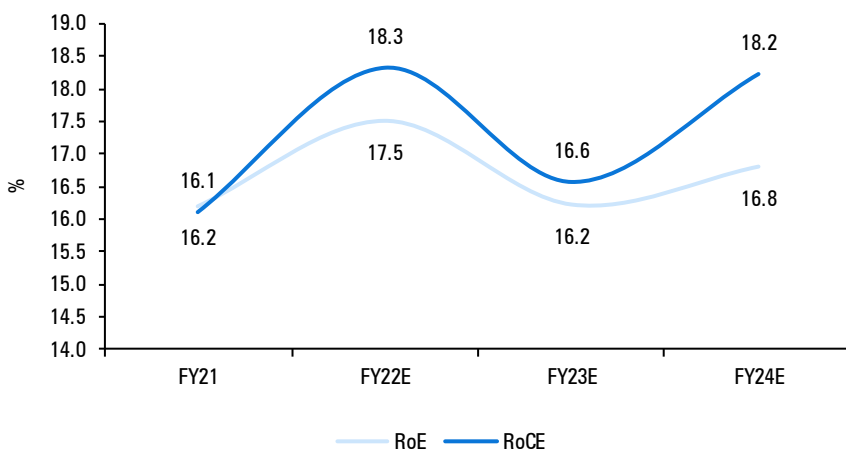
Exhibit 8: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of over 12% over FY21-24E. Absolute dip in CFO generation in FY22E is on account of sharp jump in crude price and consequent increased requirement of working capital for business despite improvement in net working capital cycle days

Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



PCBL has a capital efficient business model with RoE & RoCE healthy at ~15%+ levels and steadily inching towards the ~20% mark.

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	2659.5	4461.1	4421.6	4932.1
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>2659.5</b>	<b>4461.1</b>	<b>4421.6</b>	<b>4932.1</b>
Growth (%)	-18.0	67.7	-0.9	11.5
Raw Material Expenses	1,610.4	3,080.7	2,929.3	3,230.5
Employee Expenses	132.2	157.0	170.2	192.4
Selling Expense	106.4	178.4	176.9	197.3
Other Operating Expense	292.0	345.4	392.4	447.0
Total Operating Expenditure	2,141.0	3,761.6	3,668.8	4,067.2
<b>EBITDA</b>	<b>518.6</b>	<b>699.5</b>	<b>752.8</b>	<b>865.0</b>
Growth (%)	11.5	34.9	7.6	14.9
Depreciation	110.1	122.3	151.6	180.1
Interest	33.9	29.1	36.2	32.9
Other Income	15.8	19.4	17.2	20.3
<b>PBT</b>	<b>390.3</b>	<b>567.4</b>	<b>582.2</b>	<b>672.3</b>
Total Tax	78.1	113.6	116.4	134.5
<b>PAT</b>	<b>312.3</b>	<b>453.8</b>	<b>465.8</b>	<b>537.8</b>
Growth (%)	10.2	45.3	2.6	15.5
<b>EPS (₹)</b>	<b>18.1</b>	<b>24.1</b>	<b>24.7</b>	<b>28.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	312.3	453.8	465.8	537.8
Add: Depreciation	110.1	122.3	151.6	180.1
(Inc)/dec in Current Assets	-228.7	-405.8	156.1	-150.4
Inc/(dec) in CL and Provisions	181.6	120.6	-76.6	95.1
Others	33.9	29.1	36.2	32.9
<b>CF from operating activities</b>	<b>409.2</b>	<b>320.1</b>	<b>733.0</b>	<b>695.4</b>
(Inc)/dec in Investments	-43.5	-5.0	0.0	0.0
(Inc)/dec in Fixed Assets	-148.2	-500.0	-700.0	-200.0
Others	11.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-180.8</b>	<b>-505.0</b>	<b>-700.0</b>	<b>-200.0</b>
Issue/(Buy back) of Equity	0.0	3.3	0.0	0.0
Inc/(dec) in loan funds	-9.0	-50.0	200.0	-200.0
Interest & Dividend paid	-154.5	-217.8	-224.9	-240.5
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	43.9	396.9	0.0	0.0
<b>CF from financing activities</b>	<b>-119.7</b>	<b>132.3</b>	<b>-24.9</b>	<b>-440.5</b>
Net Cash flow	108.7	-52.6	8.1	55.0
Opening Cash	111.3	220.0	167.4	175.6
<b>Closing Cash</b>	<b>220.0</b>	<b>167.4</b>	<b>175.6</b>	<b>230.6</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	34.5	37.7	37.7	37.7
Reserve and Surplus	1,892.7	2,554.7	2,831.8	3,162.1
<b>Total Shareholders funds</b>	<b>1927.2</b>	<b>2592.5</b>	<b>2869.5</b>	<b>3199.8</b>
Total Debt	607.7	557.7	757.7	557.7
Deferred Tax Liability	271.5	271.5	271.5	271.5
Minority Interest / Others	98.6	98.6	98.6	98.6
<b>Total Liabilities</b>	<b>2905.0</b>	<b>3520.3</b>	<b>3997.3</b>	<b>4127.6</b>
<b>Assets</b>				
<b>Gross Block</b>	<b>2164.6</b>	<b>2631.4</b>	<b>3431.4</b>	<b>3631.4</b>
Less: Acc Depreciation	447.8	570.1	721.7	901.8
<b>Net Block</b>	<b>1716.8</b>	<b>2061.3</b>	<b>2709.7</b>	<b>2729.6</b>
Capital WIP	266.8	300.0	200.0	200.0
Total Fixed Assets	1,983.6	2,361.3	2,909.7	2,929.6
Investments	220.3	225.3	225.3	225.3
Inventory	444.8	550.0	508.8	540.5
Debtors	707.5	916.7	848.0	945.9
Loans and Advances	50.1	84.0	83.3	92.9
Other Current Assets	85.0	142.5	97.0	108.2
<b>Cash</b>	<b>220.0</b>	<b>167.4</b>	<b>175.6</b>	<b>230.6</b>
Total Current Assets	1,507.4	1,860.6	1,712.7	1,918.1
Current Liabilities	694.1	794.4	726.8	810.8
Provisions	85.3	105.6	96.6	107.7
Current Liabilities & Prov	779.4	900.0	823.4	918.5
Net Current Assets	728.0	960.6	889.2	999.6
Others Assets	-26.8	-26.8	-26.8	-26.8
<b>Application of Funds</b>	<b>2905.0</b>	<b>3520.3</b>	<b>3997.3</b>	<b>4127.6</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	18.1	24.1	24.7	28.5
Cash EPS	24.5	30.5	32.7	38.0
BV	111.9	137.4	152.1	169.6
DPS	7.0	10.0	10.0	11.0
Cash Per Share (Incl Invst)	25.6	20.8	21.2	24.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	19.5	15.7	17.0	17.5
PAT Margin	11.7	10.2	10.5	10.9
Inventory days	61.1	45.0	42.0	40.0
Debtor days	97.1	75.0	70.0	70.0
Creditor days	95.3	65.0	60.0	60.0
Net Working Capital days	62.9	55.0	52.0	50.0
<b>Return Ratios (%)</b>				
RoE	16.2	17.5	16.2	16.8
RoCE	16.1	18.3	16.6	18.2
RoIC	19.9	21.5	18.5	20.6
<b>Valuation Ratios (x)</b>				
P/E	12.9	9.7	9.4	8.2
EV / EBITDA	9.2	6.8	6.6	5.5
EV / Net Sales	1.8	1.1	1.1	1.0
Market Cap / Sales	1.7	1.0	1.0	0.9
Price to Book Value	2.1	1.7	1.5	1.4
<b>Solvency Ratios</b>				
Debt/EBITDA	1.2	0.8	1.0	0.6
Debt / Equity	0.3	0.2	0.3	0.2
Current Ratio	1.7	1.9	1.9	1.8
<b>Quick Ratio</b>	<b>1.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>

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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