

CMP: ₹ 135

Target: ₹ 180 (34%)

Target Period: 12 months

BUY

October 18, 2020

Healthy performance, well poised for growth...

Phillips Carbon Black (PCBL) reported healthy performance in Q2FY21. Net sales for the quarter were at ₹ 664 crore, down 23% YoY amid a decline in realisations (₹ 58/kg in Q2FY21 vs. ₹ 82/kg in Q2FY20) tracking softer crude prices and 8% growth in volumes (110,397 tonne in Q2FY21 vs. ₹ 102,321 tonne in Q2FY20). EBITDA in Q2FY21 was at ₹ 105 crore with EBITDA margins at 15.9% (EBITDA/tonne at ₹ 9,550/tonne). Operating margins came in better despite inventory loss at the raw material front tracking lower overhead costs. PAT in Q2FY21 was at ₹ 58 crore.

Tyre industry firmly placed, auto volumes recovery bodes well

Carbon black finds its key application in the tyre industry, which is seeing healthy demand prospects primarily tracking healthy share of after-market sales in overall sales pie (~70%) and recovery in auto volumes domestically. Post muted FY20 (volumes down ~15% YoY) and a near washout Q1FY21 due to Covid-19, wholesale auto volumes in Q2FY21 were on a positive growth trajectory with PV category leading the charge with volume growth of ~17% YoY for the quarter followed by 2-W segment with nearly flat volumes YoY while CV & 3-W still remained in the red tracking a gradual pick-up in economic activity. Domestic auto volumes for FY21E are expected to match the similar quantum in FY14 taking the industry almost seven years back on the volume front. We expect this to offer an opportunity of a smart recovery in auto sales volume domestically in FY21-23E given the underlying positive factors of demographic dividend, rising per capital income and under-penetrated market in most of the categories. It will benefit all auto ancillary players, including tyre sector as well as PCBL. Amid healthy demand prospects domestically as well as increasing traction gained by PCBL in export market we expect PCBL to clock sales volume of 4.26 lakh tonne in FY22E (up 15% YoY) vs. 3.72 lakh tonne in FY21E.

Greenfield expansion on the anvil, RoCE accretive proposition

Sensing the robust demand prospects in the domestic market and China de-risking sourcing strategy in the international markets, PCBL is embarking on a greenfield expansion with a new carbon black plant slated to be built in Tamil Nadu with a capex of ~₹ 600 crore and installed capacity of ~1.5 lakh tonne with likely commissioning by FY23 end. The said project is intended to have a payback of less than five years with targeted RoCE at ~20%. Given the robust cash flow generation at PCBL, we expect net debt to remain largely stable with new capex not straining its B/S, going forward.

Valuation & Outlook

PCBL has a capital efficient business model (RoE, RoCE > 15%) with limited leverage on B/S and is gradually moving up the value chain through increasing share of margin accretive speciality grade carbon black. Amidst better than expected Q2FY21, we have marginally upgraded our estimates. We retain our positive stance on PCBL and assign **BUY** rating to the stock, valuing it at ₹ 180/share i.e. 10x P/E on FY22E EPS of ₹ 18.0/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	2,383.8	2,786.2	-7.3%
EBITDA	386.0	622.8	464.9	399.1	533.0	7.1%
EBITDA Margins (%)	15.2	17.6	14.3	16.7	19.1	
Net Profit	229.8	388.5	283.5	209.7	310.7	4.7%
EPS (₹)	13.3	22.5	16.5	12.2	18.0	
P/E	10.1	6.0	8.2	11.1	7.5	
RoNW (%)	16.7	23.6	16.8	11.3	14.9	
RoCE (%)	15.6	22.8	16.1	12.3	15.9	

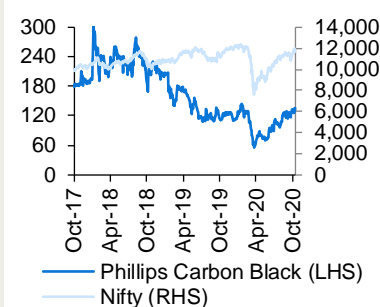
Source: Company, ICICI Direct Research



Particulars

Stock Data	₹ crore
Market Capitalization	2326
Total Debt (FY20)	617
Cash and Cash Eqv (FY20)	111
Enterprise Value	2831
52 week H/L (₹)	147 / 54
Equity Capital	34.5
Face Value	₹ 2

Price Chart



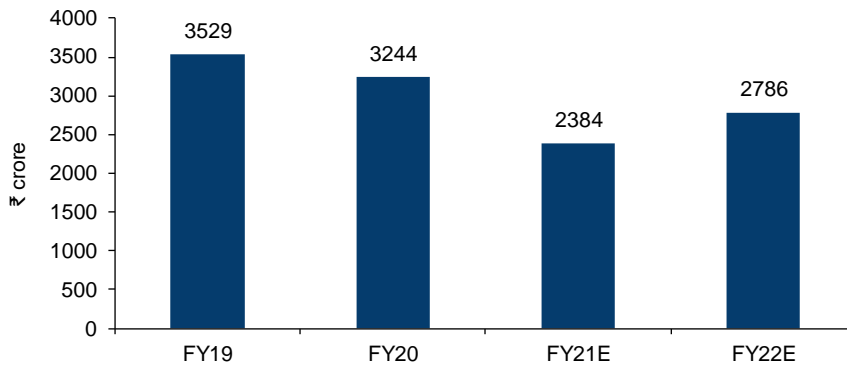
Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Financial story in charts

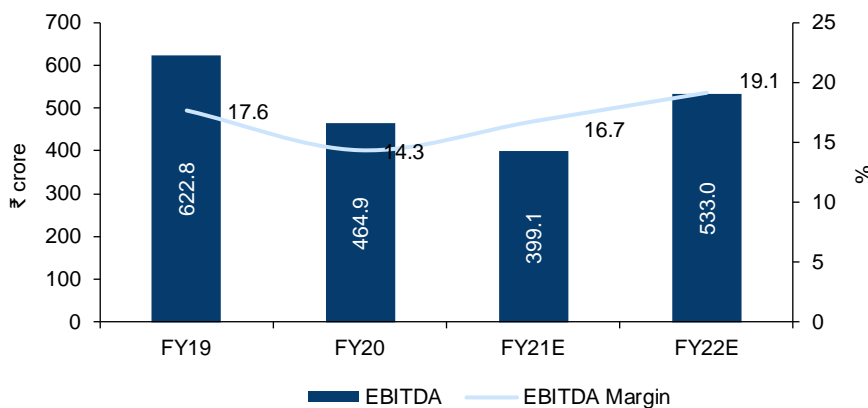
Exhibit 1: Topline trend



Revenues are seen declining at ~7% CAGR in FY20-22E largely driven by a drop in realisations due to decline in crude price. Volumes in the aforesaid period are expected to grow at a CAGR of 2.3% to 4.26 lakh tonne in FY22E vs. 4.07 lakh tonne in FY20 and 3.72 lakh tonne in FY21E

Source: Company, ICICI Direct Research

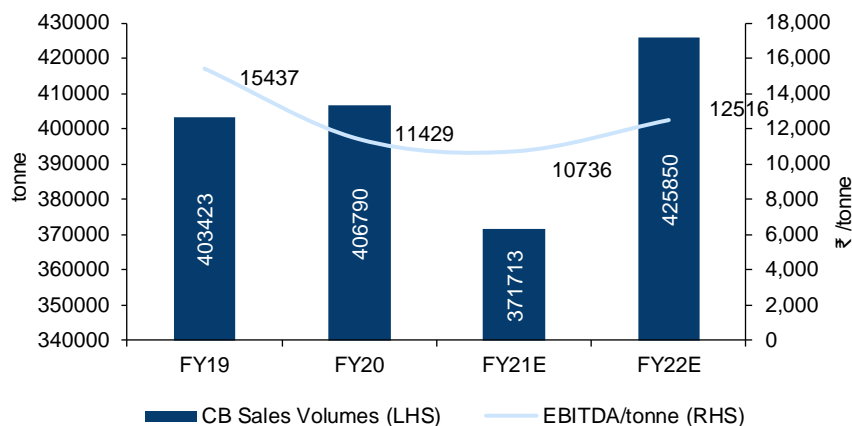
Exhibit 2: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 7.1% in 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

Source: Company, ICICI Direct Research

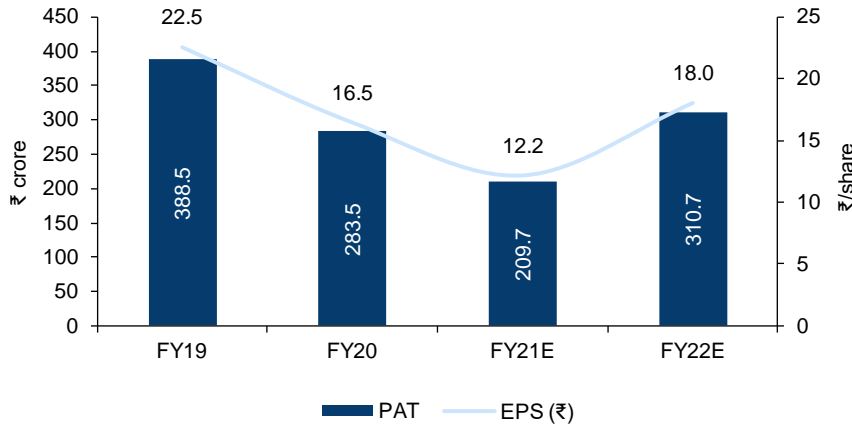
Exhibit 3: Carbon black sales volume and EBITDA/tonne trend



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) will support the upward trajectory of EBITDA/tonne, going forward

Source: Company, ICICI Direct Research

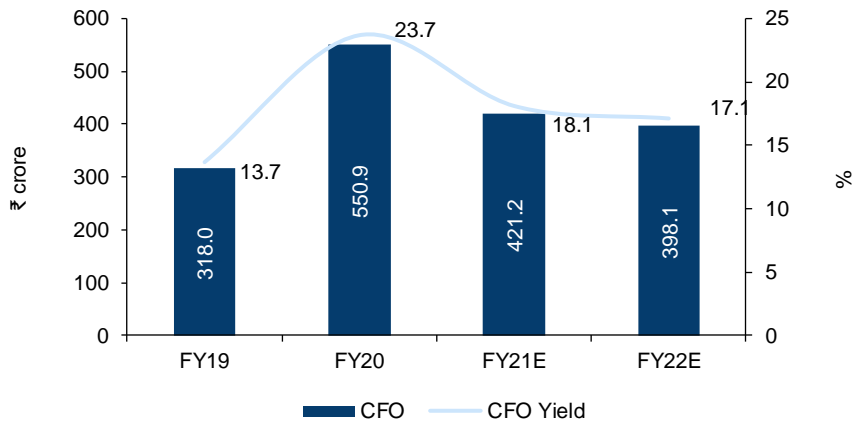
Exhibit 4: PAT and EPS trend



PAT is expected to grow at a CAGR of 4.7% in FY20-22E. We expect PCBL to clock an EPS of ₹ 18/share in FY22E

Source: Company, ICICI Direct Research

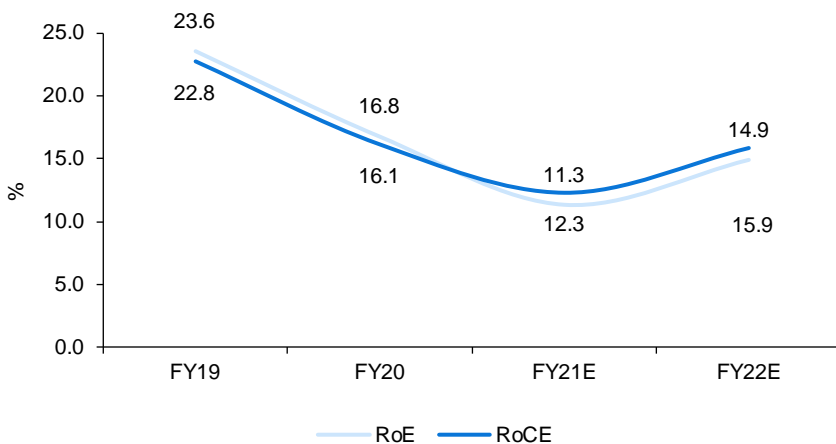
Exhibit 5: CFO and CFO yield trend



Robust cash flow generation is the USP of PCBL with the company offering healthy cash flow yield >13% on consistent basis over FY19-22E. It provides us good margin of safety to retain our positive stance on the company. Amid the new greenfield capex announcement, robust CFO generation will also limit the incremental leverage on B/S

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



Return ratios are seen muted in FY21E due to drop in sales and earnings due to Covid-19 led disruption. 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	2383.8	2786.2
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	3528.6	3243.5	2383.8	2786.2
Growth (%)	39.0	-8.1	-26.5	16.9
Raw Material Expenses	2,296.6	2,189.5	1,515.4	1,713.5
Employee Expenses	110.9	134.4	131.3	149.6
Selling Expense	141.1	129.7	95.4	111.4
Other Operating Expense	357.2	325.0	242.6	278.6
Total Operating Expenditure	2,905.8	2,778.6	1,984.8	2,253.2
EBITDA	622.8	464.9	399.1	533.0
Growth (%)	49.0	-25.3	-14.2	33.6
Depreciation	66.4	92.4	108.1	120.8
Interest	36.4	45.9	42.5	41.3
Other Income	18.8	24.1	14.0	17.5
PBT	538.8	350.8	262.4	388.3
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	150.3	67.3	52.7	77.7
PAT	388.5	283.5	209.7	310.7
Growth (%)	69.1	-27.0	-26.0	48.2
EPS (₹)	22.5	16.5	12.2	18.0

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	209.7	310.7
Add: Depreciation	66.4	92.4	108.1	120.8
(Inc)/dec in Current Assets	-319.0	177.3	169.0	-150.2
(Inc)/dec in CL and Provisions	145.7	-48.1	-108.1	75.5
Others	36.4	45.9	42.5	41.3
CF from operating activities	318.0	550.9	421.2	398.1
(Inc)/dec in Investments	-46.4	207.1	-100.0	45.0
(Inc)/dec in Fixed Assets	-275.8	-362.5	-120.0	-320.0
Others	18.3	101.6	0.0	0.0
CF from investing activities	-303.9	-53.9	-220.0	-275.0
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	-94.2	-118.9
(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	-194.2	-118.9
Net Cash flow	-59.4	31.7	7.0	4.3
Opening Cash	139.0	79.6	111.3	118.3
Closing Cash	79.6	111.3	118.3	122.6

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	1,815.2	2,048.4
Total Shareholders funds	1648.1	1691.7	1849.7	2082.8
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	2725.5	2958.7
Assets				
Gross Block	1746.5	1977.6	2347.6	2483.2
Less: Acc Depreciation	246.1	337.7	445.8	566.6
Net Block	1500.3	1639.9	1901.8	1916.6
Capital WIP	175.0	305.6	55.6	240.0
Total Fixed Assets	1,675.4	1,945.5	1,957.4	2,156.6
Investments	383.8	176.7	276.7	231.7
Inventory	460.3	326.2	293.9	343.5
Debtors	652.7	588.2	489.8	572.5
Loans and Advances	102.3	91.6	67.3	78.7
Other Current Assets	20.8	52.7	38.7	45.2
Cash	79.6	111.3	118.3	122.6
Total Current Assets	1,315.6	1,170.0	1,008.1	1,162.5
Current Liabilities	573.3	528.5	424.5	496.2
Provisions	84.5	85.9	81.7	85.6
Current Liabilities & Prov	657.8	614.4	506.3	581.8
Net Current Assets	657.8	555.7	501.8	580.7
Others Assets	-15.0	-10.3	-10.3	-10.3
Application of Funds	2701.9	2667.5	2725.5	2958.7

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	22.5	16.5	12.2	18.0
Cash EPS	26.4	21.8	18.4	25.0
BV	95.7	98.2	107.4	120.9
DPS	3.5	7.0	3.0	4.5
Cash Per Share (Incl Invst)	26.9	16.7	22.9	20.6
Operating Ratios (%)				
EBITDA Margin	17.6	14.3	16.7	19.1
PAT Margin	11.0	8.7	8.8	11.2
Inventory days	47.6	36.7	45.0	45.0
Debtor days	67.5	66.2	75.0	75.0
Creditor days	59.3	59.5	65.0	65.0
Net Working Capital days	55.8	43.4	55.0	55.0
Return Ratios (%)				
RoE	23.6	16.8	11.3	14.9
RoCE	22.8	16.1	12.3	15.9
RoIC	23.6	16.5	11.6	15.8
Valuation Ratios (x)				
P/E	6.0	8.2	11.1	7.5
EV / EBITDA	4.7	6.1	6.7	5.1
EV / Net Sales	0.8	0.9	1.1	1.0
Market Cap / Sales	0.7	0.7	1.0	0.8
Price to Book Value	1.4	1.4	1.3	1.1
Solvency Ratios				
Debt/EBITDA	1.3	1.3	1.3	1.0
Debt/E equity	0.5	0.4	0.3	0.2
Current Ratio	1.9	1.7	1.8	1.8
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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