

Phillips Carbon Black (PHICAR)

CMP: ₹ 250

Target: ₹ 330 (32%)

Target Period: 12 months

BUY

July 27, 2021

Steady show, inexpensive valuations, value play...

About the stock: Phillips Carbon Black (PCBL) is the leading manufacturer of carbon black, which is essentially used as a reinforcing material for manufacturing tyres.

- PCBL also derives ~6% of sales volume from speciality carbon black, which fetches high margins and finds application in paints, plastics among others
- It realises healthy margin profile (15%+), has a capital efficient business model (RoCE > 15%) with limited leverage on b/s (~0.3x debt: equity)

Q1FY22 Results: PCBL reported a healthy operational performance in Q1FY22.

- Net sales for Q1FY22 were at ₹ 1004 crore with carbon black sales volume at 109 KT, down 3% QoQ and consequent EBITDA/tonne at ~₹ 15,000
- Consequent PAT in Q1FY22 was at ₹ 104 crore, down 18% QoQ

What should investors do? PCBL has been one of our early finds wherein it has grown 6x in the past five years (~₹ 40 in July 2016 to present ~₹ 240 as of July 2021).

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

Target Price and Valuation: We value PCBL at ₹ 330 i.e. 12x P/E on FY23E EPS

Key triggers for future price performance:

- Expectation of robust volume growth in the tyre space amid cyclical recovery in the CV space as well as need for personal mobility driving sales in the 2-W & PV segment. This will ensure volume growth at tyre ancillaries
- Healthy double digit growth on anvil. We expect sales, PAT to grow at 26%, 23%, CAGR, respectively, in FY21-23E, building in 11.2% volume CAGR
- With greenfield expansion (120 KT) under execution, long term growth prospects are robust amid limited competition in overseas markets
- Trades at inexpensive valuation of < 10x PE on FY23E EPS of ₹ 27.5/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 ₹ 2470



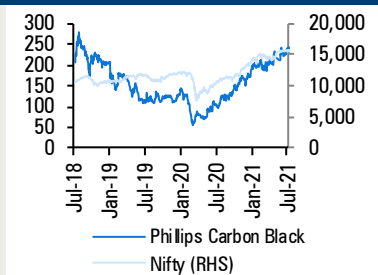
Particulars

Stock Data	₹ crore
Market Capitalization	4308
Total Debt (FY21)	608
Cash and Cash Eqv (FY21)	220
Enterprise Value	4695
52 week H/L (₹)	258 / 95
Equity Capital	34.5
Face Value	₹ 2

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	53.6	53.6	53.6	53.6
FII	10.1	9.0	8.1	6.7
DII	1.4	1.5	1.6	2.1
Others	35.0	36.0	36.7	37.7

Price Chart



Recent event & key risks

- PCBL reports healthy performance in Q1FY22
- **Key Risk:** (i) Delayed recovery in domestic auto space (ii) disproportionate rise in RM costs

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

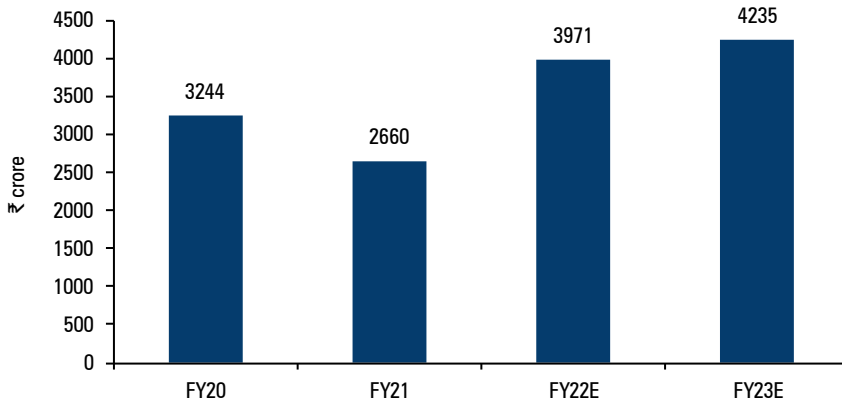
Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	3,528.6	3,243.5	2,659.5	7.0%	3,970.6	4,235.3	26.2%
EBITDA	622.8	464.9	518.6	25.7%	697.9	762.4	21.2%
EBITDA Margins (%)	17.6	14.3	19.5		17.6	18.0	
Net Profit	388.5	283.5	312.3	68.7%	442.3	473.5	23.1%
EPS (₹)	22.5	16.5	18.1		25.7	27.5	
P/E	11.1	15.2	13.8		9.7	9.1	
RoNW (%)	23.6	16.8	16.2		20.1	19.1	
RoCE (%)	22.8	16.1	16.1		19.2	18.6	

Source: Company, ICICI Direct Research

Financial story in charts

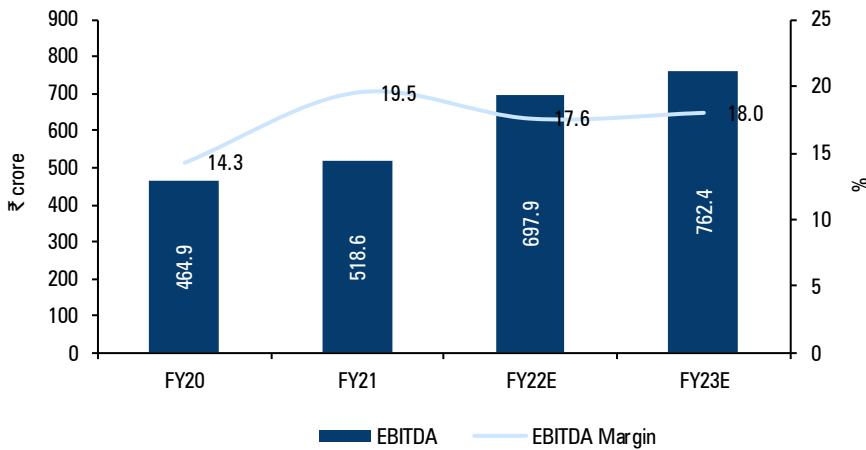
Exhibit 1: Topline trend



Revenues are seen growing at a CAGR of 26.2% in FY21-23E, building in ~11.2% carbon black sales volume growth in the aforesaid period and crude led increase in realisations

Source: Company, ICICI Direct Research

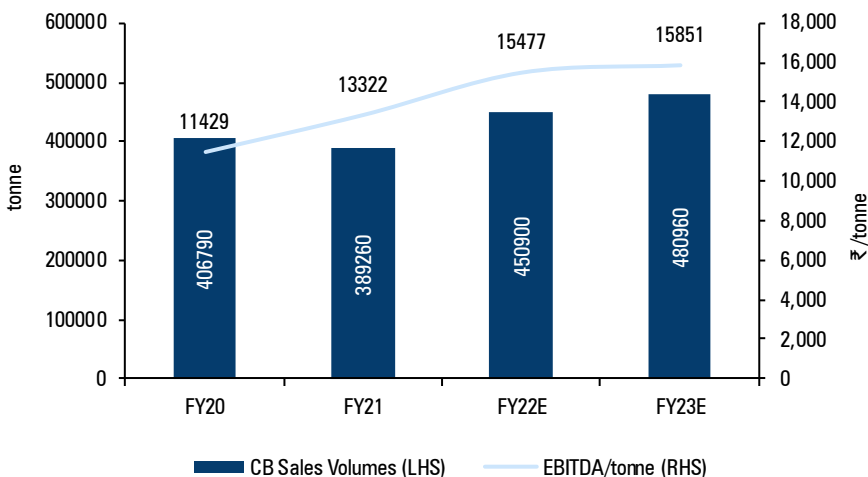
Exhibit 2: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 21% over FY21-23E. Margins are seen optically on a decline in FY22E due to sharp increase in realisations while company maintaining its spreads at ~₹ 15,000/tonne

Source: Company, ICICI Direct Research

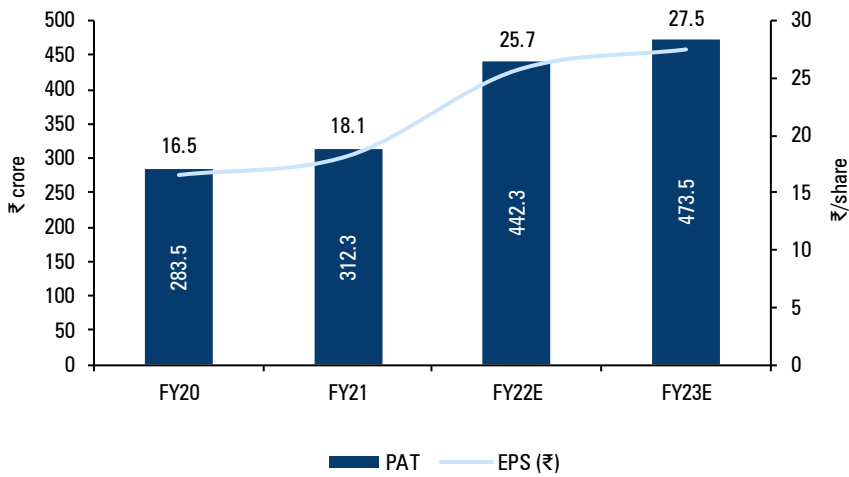
Exhibit 3: Carbon black sales volume, EBITDA/tonne trend



Sales volumes are expected to grow ~16% YoY to 4.5 lakh tonne in FY22E (3.9 lakh tonne in FY21) and further grow ~7% to 4.8 lakh tonne in FY23E. EBITDA/tonne is seen improving to ~₹ 16,000 by FY23E vs. ~₹ 13,322 levels clocked in FY21

Source: Company, ICICI Direct Research

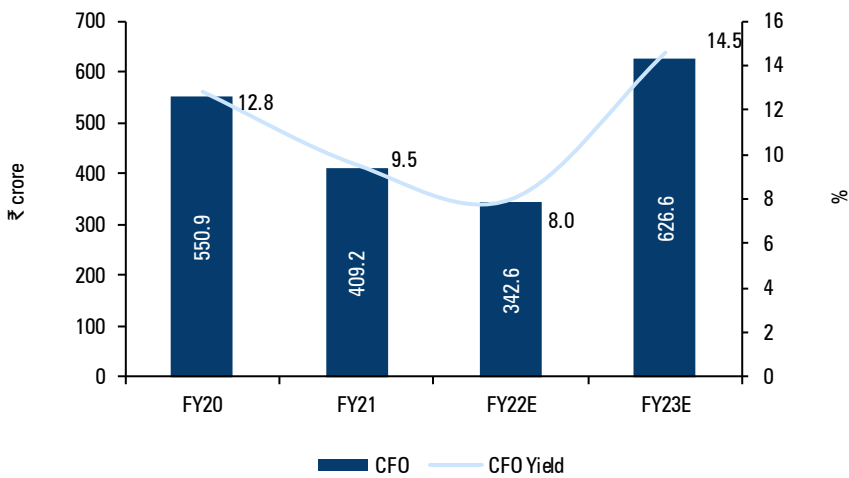
Exhibit 4: PAT and EPS trend



PAT is expected to grow at a CAGR of ~23% over FY21-23E to ₹ 474 crore by FY23E. PCBL is expected to clock an EPS of ₹ 25.7 in FY22E & ₹ 27.5 in FY23E

Source: Company, ICICI Direct Research

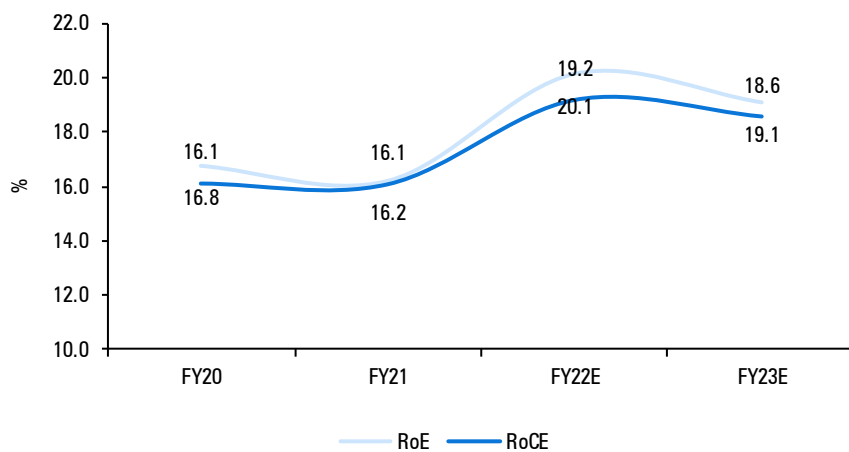
Exhibit 5: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~14% as of FY23E with FY21 CFO yield at ~10%

Source: Company, ICICI Direct Research

Exhibit 6: 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 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Net Sales	3243.5	2659.5	3970.6	4235.3	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	3243.5	2659.5	3970.6	4235.3	
Growth (%)	-8.1	-18.0	49.3	6.7	
Raw Material Expenses	2,189.5	1,610.4	2,600.4	2,731.8	
Employee Expenses	134.4	132.2	139.7	148.2	
Selling Expense	129.7	106.4	158.8	169.4	
Other Operating Expense	325.0	292.0	373.8	423.5	
Total Operating Expenditure	2,778.6	2,141.0	3,272.8	3,473.0	
EBITDA	464.9	518.6	697.9	762.4	
Growth (%)	-25.3	11.5	34.6	9.2	
Depreciation	92.4	110.1	121.0	134.2	
Interest	45.9	33.9	38.9	46.9	
Other Income	24.1	15.8	15.0	10.6	
PBT	350.8	390.3	552.9	591.9	
Total Tax	67.3	78.1	110.7	118.4	
PAT	283.5	312.3	442.3	473.5	
Growth (%)	-27.0	10.2	41.6	7.1	
EPS (₹)	16.5	18.1	25.7	27.5	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	283.5	312.3	442.3	473.5	
Add: Depreciation	92.4	110.1	121.0	134.2	
(Inc)/dec in Current Assets	177.3	-228.7	-219.6	-77.3	
Inc/(dec) in CL and Provisions	-48.1	181.6	-40.0	49.3	
Others	45.9	33.9	38.9	46.9	
CF from operating activities	550.9	409.2	342.6	626.6	
(Inc)/dec in Investments	207.1	-43.5	-5.0	0.0	
(Inc)/dec in Fixed Assets	-362.5	-148.2	-450.0	-450.0	
Others	101.6	11.0	0.0	0.0	
CF from investing activities	-53.9	-180.8	-455.0	-450.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-179.6	-9.0	200.0	90.0	
Interest & Dividend paid	-190.6	-154.5	-211.2	-236.4	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-95.1	43.9	0.0	0.0	
CF from financing activities	-465.3	-119.7	-11.2	-146.4	
Net Cash flow	31.7	108.7	-123.6	30.2	
Opening Cash	79.6	111.3	220.0	96.4	
Closing Cash	111.3	220.0	96.4	126.6	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	34.5	34.5	34.5	34.5	
Reserve and Surplus	1,657.2	1,892.7	2,162.7	2,446.7	
Total Shareholders funds	1691.7	1927.2	2197.2	2481.1	
Total Debt	616.7	607.7	807.7	897.7	
Deferred Tax Liability	254.9	271.5	271.5	271.5	
Minority Interest / Others	104.3	98.6	98.6	98.6	
Total Liabilities	2667.5	2905.0	3374.9	3748.9	
Assets					
Gross Block	1977.6	2164.6	2581.4	2681.4	
Less: Acc Depreciation	337.7	447.8	568.8	703.0	
Net Block	1639.9	1716.8	2012.5	1978.3	
Capital WIP	305.6	266.8	300.0	650.0	
Total Fixed Assets	1,945.5	1,983.6	2,312.5	2,628.3	
Investments	176.7	220.3	225.3	225.3	
Inventory	326.2	444.8	543.9	557.0	
Debtors	588.2	707.5	761.5	812.3	
Loans and Advances	91.6	50.1	74.8	79.8	
Other Current Assets	52.7	85.0	126.8	135.3	
Cash	111.3	220.0	96.4	126.6	
Total Current Assets	1,170.0	1,507.4	1,603.5	1,710.9	
Current Liabilities	528.5	694.1	652.7	696.2	
Provisions	85.9	85.3	86.7	92.5	
Current Liabilities & Prov	614.4	779.4	739.4	788.7	
Net Current Assets	555.7	728.0	864.0	922.2	
Others Assets	-10.3	-26.8	-26.8	-26.8	
Application of Funds	2667.5	2905.0	3374.9	3748.9	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		FY20	FY21	FY22E	FY23E
Per share data (₹)					
EPS		16.5	18.1	25.7	27.5
Cash EPS		21.8	24.5	32.7	35.3
BV		98.2	111.9	127.5	144.0
DPS		7.0	7.0	10.0	11.0
Cash Per Share (Incl Invst)		16.7	25.6	18.7	20.4
Operating Ratios (%)					
EBITDA Margin		14.3	19.5	17.6	18.0
PAT Margin		8.7	11.7	11.1	11.2
Inventory days		36.7	61.1	50.0	48.0
Debtor days		66.2	97.1	70.0	70.0
Creditor days		59.5	95.3	60.0	60.0
Net Working Capital days		43.4	62.9	60.0	58.0
Return Ratios (%)					
RoE		16.8	16.2	20.1	19.1
RoCE		16.1	16.1	19.2	18.6
RoIC		19.7	19.9	22.1	24.1
Valuation Ratios (x)					
P/E		15.2	13.8	9.7	9.1
EV / EBITDA		10.4	9.1	7.2	6.7
EV / Net Sales		1.5	1.8	1.3	1.2
Market Cap / Sales		1.3	1.6	1.1	1.0
Price to Book Value		2.5	2.2	2.0	1.7
Solvency Ratios					
Debt/EBITDA		1.3	1.2	1.2	1.2
Debt / Equity		0.4	0.3	0.4	0.4
Current Ratio		1.7	1.7	2.0	2.0
Quick Ratio		1.2	1.1	1.3	1.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

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, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Chirag Shah PGDM and Shashank Kanodia, CFA, MBA (Capital Markets), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.