

Turns ex-stock split today, positive stance retained...

About the stock: PCBL Ltd (erstwhile Phillips Carbon Black) is the leading manufacturer of carbon black, which is used as a reinforcing material in 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 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)

Event: Stock Split

- PCBL had fixed April 12, 2022 as the record date for stock split in the ratio of 1:2 i.e. one existing share of face value ₹ 2 gets sub-divided into two shares of FV ₹ 1 each. The ex-date for stock split is April 11, 2022
- On the ex-date i.e. starting today (April 11, 2022), the stock price will adjust for stock split ratio and is expected to trade at ₹ 120/share i.e. half the closing price on April 8, 2022 (₹ 240/share)

What should investors do? PCBL has been one of our early finds wherein it grew ~3x in the past five years (~₹ 40 in April 2017 to ~₹ 120 as of April 2022).

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

Target Price and Valuation: Keeping our estimates unchanged, we now value PCBL at stock split adjusted target price ₹ 160 i.e. 12x P/E on FY23E-24E average 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 FY23E EPS of ~₹ 12.3/share

Alternate Stock Idea: In midcap, small cap coverage, we also like VST Tillers.

- 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



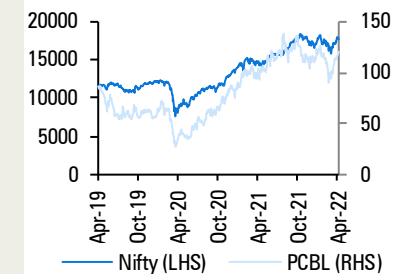
Particulars

Stock Data	₹ crore
Market Capitalization	4,529
Total Debt (FY21)	608
Cash and Cash Eqv (FY21)	220
Enterprise Value	4,916
52 week H/L (₹)	140 / 89
Equity Capital	37.7
Face Value	₹ 1

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

- Turns ex-stock split today in the ratio of 1:2 (existing one share gets sub-divided into two shares)
- 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 (₹)	11.3	8.2	9.1		12.0	12.3	14.3	16.1%
P/E	10.6	14.6	13.2		10.0	9.7	8.4	
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

Financial Summary

Exhibit 1: 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	
Total Operating Income	2659.5	4461.1	4421.6	4932.1	
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	
EBITDA	518.6	699.5	752.8	865.0	
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	
PBT	390.3	567.4	582.2	672.3	
Total Tax	78.1	113.6	116.4	134.5	
PAT	312.3	453.8	465.8	537.8	
Growth (%)	10.2	45.3	2.6	15.5	
EPS (₹)	9.1	12.0	12.3	14.3	

Source: Company, ICICI Direct Research

Exhibit 2: 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	
CF from operating activities	409.2	320.1	733.0	695.4	
(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	
CF from investing activities	-180.8	-505.0	-700.0	-200.0	
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	
CF from financing activities	-119.7	132.3	-24.9	-440.5	
Net Cash flow	108.7	-52.6	8.1	55.0	
Opening Cash	111.3	220.0	167.4	175.6	
Closing Cash	220.0	167.4	175.6	230.6	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
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	
Total Shareholders funds	1927.2	2592.5	2869.5	3199.8	
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	
Total Liabilities	2905.0	3520.3	3997.3	4127.6	
Assets					
Gross Block	2164.6	2631.4	3431.4	3631.4	
Less: Acc Depreciation	447.8	570.1	721.7	901.8	
Net Block	1716.8	2061.3	2709.7	2729.6	
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	
Cash	220.0	167.4	175.6	230.6	
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	
Application of Funds	2905.0	3520.3	3997.3	4127.6	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Per share data (₹)					
EPS	9.1	12.0	12.3	14.3	
Cash EPS	12.3	15.3	16.4	19.0	
BV	55.9	68.7	76.0	84.8	
DPS	3.5	5.0	5.0	5.5	
Cash Per Share (Incl Invst)	12.8	10.4	10.6	12.1	
Operating Ratios (%)					
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	
Return Ratios (%)					
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	
Valuation Ratios (x)					
P/E	13.2	10.0	9.7	8.4	
EV / EBITDA	9.5	7.0	6.8	5.6	
EV / Net Sales	1.8	1.1	1.2	1.0	
Market Cap / Sales	1.7	1.0	1.0	0.9	
Price to Book Value	2.1	1.7	1.6	1.4	
Solvency Ratios					
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	
Quick Ratio	1.1	1.3	1.2	1.2	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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