Healthy volume growth on the anvil starting FY24E ...

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 ~9% 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, capital efficient business model (RoCE>15%) with limited leverage on b/s (~0.3x debt: equity as of FY22)

Q3FY23 Results: PCBL reported a steady performance in Q3FY23.

- Net sales for the quarter came in at ₹ 1,463 crore, down 10% QoQ with carbon black (CB) sales volumes at 101.5 KT (down 11% QoQ)
- The management informed about customers deferring volume offtake to Q4FY23 in anticipation of CB price decline due to correction in crude prices
- EBITDA in Q3FY23 was at ₹ 168 crore with margins at 11.5%. EBITDA/tonne for the quarter was at ₹ 16,587/tonne and was the real positive surprise
- Consequent PAT for Q3FY23 was at ₹ 100 crore, down 14% QoQ
- The company also announced an interim dividend of ₹ 5.5/share

What should investors do? PCBL’s stock price is nearly flat over the past five years, but has still generated wealth since our initiation in July 2016 (~₹ 17.5 levels).

- We retain BUY rating on the stock amid organic growth on anvil amid new capacity coming on stream, rising share of speciality grade carbon black and it gaining more traction in export markets amid lower supply from China

Target Price & Valuation: Incorporating FY25E and rolling over valuations, we now value PCBL at unchanged target price of ₹ 170 i.e. 12x P/E on FY24-25E average EPS

Key triggers for future price performance:

- Amid healthy demand prospects, we expect sales, PAT to grow at 16.4%, 10.1%, CAGR, respectively, in FY22-25E, building in 6.5% 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
- Expected commissioning of Greenfield project in near term with brownfield expansion of speciality grade carbon black lines (~40,000 tonne) by FY24E
- Trades at inexpensive valuation of <10x P/E on FY24E EPS of ~₹ 12.8/share
- Healthy cash flow generation with CFO yield >10% over FY22-25E
Financial story in charts

Exhibit 1: Topline trend

![Topline trend chart]

Source: Company, ICICI Direct Research

Exhibit 2: EBITDA and EBITDA margins trend

![EBITDA and EBITDA margins trend chart]

Source: Company, ICICI Direct Research

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

![Carbon black sales volume, EBITDA/tonne trend chart]

Source: Company, ICICI Direct Research

PCBL- ESG Disclosure Score*

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*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Revenues are seen growing at a CAGR of 16.4% in FY22-25E, building in 6.5% carbon black sales volume growth in the aforesaid period and crude led increase in realisations. We incorporate commissioning of new greenfield plant in FY23E

EBITDA is seen growing at a CAGR of 12.5% over FY22-25E. Margins are seen optically on the decline in FY23E due to a sharp increase in realisations while the company maintained healthy profitability on absolute basis with spreads (EBITDA/tonne) at ~¥ 15,000/tonne and above

Operating leverage gains and increasing share of specialty grade carbon black are seen as drivers for margin expansion in FY24-25E

Sales volumes are expected to de-grow 3% YoY to 4.4 lakh tonne in FY23E (4.5 lakh tonne in FY22) and grow ~13.5% YoY to 5 lakh tonne in FY24E and 10% YoY thereafter to 5.5 lakh tonne in FY25E

EBITDA/tonne is seen in the range of ₹ 16000-17000 over FY23-25E vs. ₹ 14,435 levels clocked in FY22
**Exhibit 4: PAT and EPS trend**

PAT is expected to grow at a CAGR of 10.1% over FY22-25E to ₹573 crore by FY25E. PCBL is expected to clock an EPS of ₹12.8 in FY24E & ₹15.2 in FY25E.

**Exhibit 5: CFO and CFO yield trend**

Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~11% over FY22-25E.

**Exhibit 6: Return ratios trend**

PCBL has a capital efficient business model with RoE & RoCE healthy at ~15%+ levels.
### Financial Summary

**Exhibit 10: Key ratios**

<table>
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<tr>
<th>(Year-end March)</th>
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<td>Cash EPS</td>
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<td>Net Cash flow</td>
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<tr>
<td>Opening Cash</td>
<td>220.0</td>
<td>108.7</td>
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<tr>
<td>Closing Cash</td>
<td>108.7</td>
<td>138.9</td>
<td>150.0</td>
<td>170.3</td>
</tr>
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</table>

Source: Company, ICICI Direct Research
ICICI Direct Research

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Hold: -5% to 15%;
Reduce: -15% to -5%;
Sell: <-15%

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