Bullishness reloaded, well poised for profitable growth

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 (around 0.3x debt: equity as of FY23)

Investment Rationale

1. **New greenfield plant commissioned:** PCBL, in the recent past, has commissioned its new carbon black plant with a nameplate capacity of ~150 KT at a total capex outlay of ~₹ 800 crore. The company expects to fully utilise its plant in about three years thereby targeting double digit volume growth over next few years. With domestic macro drivers in place & favourable export outlook, volume growth is seen at healthy 12.2% CAGR over FY23-25E to 5.6 lakh tonne in FY25 vs. 4.45 lakh tonne in FY23

2. **Speciality grade volume to outgrow base grade:** PCBL has, over the years, with indigenous R&D efforts developed grades in specialty carbon black domain, which is a high margin product (typically ~3-4x normal tyre grade carbon black). In this domain, PCBL is executing a brownfield expansion of ~40 KT at a capex outlay of ~₹ 300 crore with commissioning in FY24. Speciality grade carbon black volumes are slated to grow at a CAGR of 22% (higher than base grade) over FY23-25E to 60 KT in FY25 vs. 40 KT in FY23

3. **Margins and RoCE to expand, driving re-rating:** With volume growth on the anvil amid thrust on exports and increasing volume share of high margin speciality grade carbon black sales (from 9.1% in FY23 to 10.7% in FY25), EBITDA margins are slated to improve ~100 bps to 14.6% in FY25 with EBITDA/tonne seeing improving to ~₹ 17,500/tonne in FY25. Consequent RoCE is seen expanding from sub 16% in FY23 to closer to the 20% mark in FY25E, which we believe, should drive a re-rating of the stock

4. **Healthy cash flow generation with CFO yield >10% over FY23-25E and inexpensive valuation of <10x P/E on FY25E provide good margin of safety**

Rating and Target price

- We assign **BUY** rating on PCBL amid healthy volume growth in the offing, increasing share of speciality grade carbon black, consequent rise in margins and return ratios, inexpensive valuations and healthy b/s

- We value PCBL at a conservative **13x P/E on FY25E EPS of ₹ 15.4/share** with our consequent **target price as ₹ 200/share** (over the next 6 months)

**This is our high conviction Midcap Idea**

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**Key Financial Summary**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23P</th>
<th>5 year CAGR (FY18-23P)</th>
<th>FY24E</th>
<th>FY25E</th>
<th>2 year CAGR (FY23-25E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>3,243.5</td>
<td>2,659.5</td>
<td>4,446.4</td>
<td>5,774.1</td>
<td>17.8%</td>
<td>5,970.2</td>
<td>6,707.4</td>
<td>7.8%</td>
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<tr>
<td>EBITDA</td>
<td>464.9</td>
<td>518.6</td>
<td>652.9</td>
<td>731.2</td>
<td>13.6%</td>
<td>844.8</td>
<td>980.6</td>
<td>15.8%</td>
</tr>
<tr>
<td>EBITDA Margins (%)</td>
<td>14.3</td>
<td>19.5</td>
<td>14.7</td>
<td>12.7</td>
<td></td>
<td>14.2</td>
<td>14.6</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>283.5</td>
<td>312.3</td>
<td>426.3</td>
<td>442.2</td>
<td>14.0%</td>
<td>456.2</td>
<td>579.8</td>
<td>14.5%</td>
</tr>
<tr>
<td>EPS (₹)</td>
<td>8.2</td>
<td>9.1</td>
<td>11.3</td>
<td>11.7</td>
<td></td>
<td>12.1</td>
<td>15.4</td>
<td>14.5%</td>
</tr>
<tr>
<td>P/E</td>
<td>17.6</td>
<td>16.0</td>
<td>12.8</td>
<td>12.4</td>
<td></td>
<td>12.0</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>RoNW (%)</td>
<td>16.8</td>
<td>16.2</td>
<td>16.3</td>
<td>15.6</td>
<td></td>
<td>14.9</td>
<td>17.0</td>
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</tr>
<tr>
<td>RoCE (%)</td>
<td>16.1</td>
<td>16.1</td>
<td>16.1</td>
<td>15.8</td>
<td></td>
<td>16.5</td>
<td>18.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company, ICICI Direct Research
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Reduce: -15% to -5%;
Sell: <-15%

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