

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	120
12 month price target (INR)	155
Market cap (INR bn/USD bn)	45/0.6
Free float/Foreign ownership (%)	47.0/0.0
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

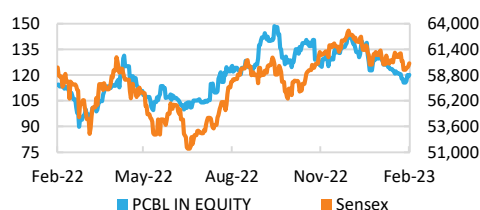
	Above	In line	Below
Profit		●	
Margins		●	
Revenue Growth			●
Overall	□	□	●

FINANCIALS

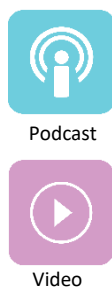
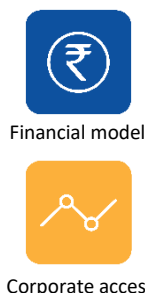
(INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	44,464	53,558	51,568	58,105
EBITDA	6,556	7,500	10,388	12,367
Adjusted profit	4,271	4,742	7,008	8,251
Diluted EPS (INR)	11.3	12.6	18.6	21.9
EPS growth (%)	24.9	11.0	47.8	17.7
RoAE (%)	18.8	17.0	21.7	21.7
P/E (x)	10.6	9.6	6.5	5.5
EV/EBITDA (x)	7.8	6.8	4.8	4.1
Dividend yield (%)	3.3	2.6	3.9	4.6

PRICE PERFORMANCE



Explore:



Higher inventory erodes volumes

PCBL's Q3FY23 EBITDA is flat YoY, whereas earnings slid by 10% YoY despite strong revenue growth of 27% YoY. EBITDA remained subdued because of a sharp contraction of ~520bp YoY in gross margin while increase in interest cost dragged down earnings by 10% YoY.

We expect new capacity and an improved product mix to drive profitability over the medium term. However, factoring in near-term weakness, we are cutting FY23E EPS by 9%. We are changing our valuation framework and rolling over the numbers to Q3FY25E to factor in mid-term growth. This yields an uptick in our TP to INR155 (from INR150) based on 5.5x EV/EBITDA. Our valuation is based on a 10% discount to the stock's five-year historical average.

Inventory rundown by customers weighs on volume growth

Despite weak volume growth, PCBL delivered top-line growth of 27% YoY to INR14.6bn on the back of ~45% YoY jump in realisation. Realisation is flat sequentially but up ~45% YoY, which aided top-line growth. Volume growth remained weak (down 11% QoQ) on account of liquidation of inventory on customers' end. COGS growth is higher than top line's, which led to a contraction in gross margin of ~520bps YoY to 22.2%. Though EBITDA remained flat YoY at INR1.7bn, PAT decreased by 10% YoY to INR1bn due to a sharp uptick in interest cost.

EBITDA/MT improves despite contraction in margins

Although volume growth remained weak on a sequential basis, management is confident of making up for it in Q4 on the back of strong demand and low diminished inventory levels at customers. New capacities in Tamil Nadu are likely to be commissioned shortly—one line commissioned recently and another is slated for commission by the end of Feb-23. Though EBITDA margins dropped owing to higher realisations, EBITDA/MT improved by 20% to INR17,357/MT. Management is confident of delivering volume-driven growth on the back of robust demand and new capacities.

Outlook and valuation: New capacity on the cards, retain 'BUY'

We expect capacity addition to drive growth. Maintain 'BUY' with a TP of INR155 (INR150 earlier) on a revised EV/EBITDA of 5.5x as we roll forward the valuation to Q3FY25E EBITDA.

Financials

Year to March	Q3FY23	Q3FY22	% Change	Q2FY23	% Change
Net Revenue	14,632	11,561	26.6	16,279	(10.1)
EBITDA	1,683	1,680	0.2	1,887	(10.8)
Adjusted Profit	1,002	1,115	(10.2)	1,162	(13.8)
Diluted EPS (INR)	0.0	0.0		0.0	

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Total operating income	44,464	53,558	51,568	58,105
Gross profit	13,126	14,486	18,045	20,753
Employee costs	1,587	1,651	1,717	1,785
Other expenses	4,983	5,335	5,940	6,600
EBITDA	6,556	7,500	10,388	12,367
Depreciation	1,209	1,354	1,613	1,896
Less: Interest expense	291	291	291	291
Add: Other income	267	72	276	398
Profit before tax	5,323	5,927	8,760	10,578
Prov for tax	1,052	1,185	1,752	2,327
Less: Other adj	0	0	0	0
Reported profit	4,271	4,742	7,008	8,251
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,271	4,742	7,008	8,251
Diluted shares o/s	378	378	378	378
Adjusted diluted EPS	11.3	12.6	18.6	21.9
DPS (INR)	4.0	3.1	4.6	5.5
Tax rate (%)	19.8	20.0	20.0	22.0

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
Realisation (INR/t)	90,855.0	1,00,664.8	86,785.7	87,721.5
EBITDA margin (%)	14.7	14.0	20.1	21.3
Net profit margin (%)	9.6	8.9	13.6	14.2
Revenue growth (% YoY)	67.2	20.5	(3.7)	12.7
EBITDA growth (% YoY)	26.4	14.4	38.5	19.0
Adj. profit growth (%)	36.8	11.0	47.8	17.7

Assumptions (%)

Year to March	FY22A	FY23E	FY24E	FY25E
GDP (YoY %)	9.5	7.0	6.5	6.5
Repo rate (%)	4.0	4.3	5.3	5.3
USD/INR (average)	74.5	76.0	75.0	75.0
Volumes (MT)	4,54,187.3	4,85,000.0	5,40,000.0	6,00,000.0
Crude Prices (USD)	70.8	91.2	75.0	70.0
Specialty Product	7.6	9.2	10.1	10.8
EBITDA/tonne	14,434.1	15,464.0	19,237.8	20,612.2
Realisation Premium	1.7	1.7	1.7	1.7

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted P/E (x)	10.6	9.6	6.5	5.5
Price/BV (x)	1.7	1.5	1.3	1.1
EV/EBITDA (x)	7.8	6.8	4.8	4.1
Dividend yield (%)	3.3	2.6	3.9	4.6

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Share capital	378	378	378	378
Reserves	25,672	29,228	34,484	40,672
Shareholders funds	26,049	29,605	34,861	41,050
Minority interest	0	0	0	0
Borrowings	7,030	7,030	7,030	7,030
Trade payables	9,110	10,735	10,154	11,278
Other liabs & prov	3,561	3,561	3,561	3,561
Total liabilities	47,554	52,735	57,410	64,722
Net block	18,132	19,992	26,598	28,927
Intangible assets	8	8	7	6
Capital WIP	1,294	7,794	2,794	3,794
Total fixed assets	19,433	27,793	29,399	32,726
Non current inv	7,875	2,875	4,875	7,875
Cash/cash equivalent	1,087	1,096	2,220	1,081
Sundry debtors	11,051	11,739	11,302	12,735
Loans & advances	5	5	5	5
Other assets	7,842	8,967	9,349	10,040
Total assets	47,554	52,735	57,410	64,722

Free Cash Flow (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Reported profit	4,271	4,742	7,008	8,251
Add: Depreciation	1,209	1,354	1,613	1,896
Interest (net of tax)	233	233	233	227
Others	(142)	58	58	64
Less: Changes in WC	(2,361)	(361)	(704)	(1,183)
Operating cash flow	3,211	6,025	8,208	9,255
Less: Capex	(1,700)	(9,541)	(3,041)	(5,041)
Free cash flow	1,511	(3,515)	5,167	4,214

Key Ratios

Year to March	FY22A	FY23E	FY24E	FY25E
RoE (%)	18.8	17.0	21.7	21.7
RoCE (%)	19.4	17.8	23.1	24.2
Inventory days	61	62	83	81
Receivable days	74	78	82	75
Payable days	87	93	114	105
Working cap (% sales)	20.2	17.1	18.8	18.4
Gross debt/equity (x)	0.3	0.2	0.2	0.2
Net debt/equity (x)	0.2	0.2	0.1	0.1
Interest coverage (x)	18.4	21.1	30.2	36.0

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	24.9	11.0	47.8	17.7
RoE (%)	18.8	17.0	21.7	21.7
EBITDA growth (%)	26.4	14.4	38.5	19.0
Payout ratio (%)	35.4	25.0	25.0	25.0

Exhibit 1: Quarterly snapshot (INR mn)

Year to March	Q3FY23	Q3FY22	% change	Q2FY23	% change
Revenues	14,632	11,561	26.6	16,279	(10.1)
Raw material	11,387	8,403	35.5	12,587	(9.5)
Staff costs	477	398	19.9	488	(2.1)
Other expenditure	1,084	1,080	0.4	1,317	(17.7)
Total expenditure	12,948	9,881	31.0	14,392	(10.0)
EBITDA	1,683	1,680	0.2	1,887	(10.8)
Depreciation	330	308	7.1	327	1.0
EBIT	1,353	1,372	(1.4)	1,560	(13.3)
Interest	150	69	116.2	110	36.6
Other income	78	90	(12.5)	34	133.7
Profit Before Tax	1,282	1,392	(7.9)	1,484	(13.6)
Less: Provision for Tax	280	277	1.0	322	(13.0)
Minority interest	0	1		0	
Add: Share of profit from associates	0	0		0	
Add: Exceptional items (net of tax)	0	0		0	
Reported Profit	1,002	1,114	(10.1)	1,162	(13.8)
No. of Diluted shares outstanding (mn)	378	189		378	
Adjusted Diluted EPS	2.7	3.0	(10.1)	3.1	(13.8)
As % of revenues					
COGS	77.8	72.7		77.3	
Gross profit	22.2	27.3		22.7	
Employee costs	3.3	3.4		3.0	
Other expenses	7.4	9.3		8.1	
Total operating expenses	88.5	85.5		88.4	
EBITDA	11.5	14.5		11.6	
Net profit	6.8	9.6		7.1	

Source: Company, Nuvama Research

Exhibit 2: Segmental breakdown (INR mn)

Segmental breakdown	Q3FY23	Q3FY22	% change	Q2FY23	% change
Revenues					
Carbon Black	14313	11283	26.8	15913	-10.1
Power	496	459	8.0	561	-11.5
Inter segment	177	181	-2.3	195	-9.3
Total	14632	11561	26.6	16279	-10.1
EBIT					
Carbon Black	1672	1455	14.9	1789	-6.6
Power	299	290	3.0	364	-17.8
Less Interest	150	69	116.2	110	36.6
Less Other Un-Allocable Expenditure Net Off Un-Allocable Income	539	284	90.0	560	-3.6
Total	1282	1392	-7.9	1484	-13.6

Source: Company, Nuvama Research

Q3FY23 earnings call: Key highlights

Key operational highlights

- Realization during the quarter were flat due to steep correction in crude
- Volumes were low due to significant liquidation of inventory at customer end due to declining prices
- EBITDA/MT during the quarter came at INR17,357 EBITDA/MT
- Commissioning of power plant resulted in significant debottlenecking in power capacity
- Q3 power generation was higher, witnessing an uptick in power tariff
- Specialty chemicals volume during the quarter - ~9000 MT due to inventory liquidation on customer end.
- Management indicated strong commentary from tyre customers and expect better volume growth in Q4FY23.
- First line of Tamil Nadu plant is ready, expect commissioning soon. Will be 40% of tamil nadu capacity.
- Another line in Tamil Nadu will be ready by end of Feb'23
- Expansion of spec line, brownfield 20,000MT by end of FY23
- The 7 MW power plant in Kochi has been commissioned during the quarter. The green power generation capacity has increased to 98 MW
- Work on 1st phase of brownfield expansion of speciality lines at Mundra is underway and is likely to be ready by March 2023

Volume growth

- CB sales volumes down 7% QoQ at 1,01,491MT
- Domestic volumes were down 7% QoQ while exports decline by 19%
- Specialty chemicals volumes were down 10% QoQ at 8,998MT

Realisation

- Carbon Black realisation were flat QOQ at INR1,41,023/MT, however were up 46% YoY
- Power realisations decline 11% sequentially at INR 3.7/unit, up 4.4% YoY

Power

- Power Generation stood at 144 MU during Q3FY23 with external sales volume of 87 MU

Company Description

PCBL, a part of RP-Sanjiv Goenka Group is the largest carbon-black producer in India by capacity. PCBL was set up in association with Phillips Petroleum a US-based company in 1960. PCBL commenced its commercial production in Dec-62 with 14ktpa plant in Durgapur, using oil furnace technology. PCBL had a technical collaboration with Columbian Chemical for about a decade. In FY97, Carbon and Chemicals India Ltd was amalgamated with the company. By FY04, PCBL had three plants at Durgapur, Palej and Kochi with a total capacity of 270ktpa.

Investment theme

In the Carbon-Black market, PCBL enjoys an indomitable 50% market share in India, 11%-globally and 17%-world ex-China. Furthermore, we see the global market share in the profitable Speciality-Carbon-Black market increasing to 5.9% by FY25E (FY22: 3.6%). Even in Rubber and Performance Chemicals grade, we expect the market share to rise by 30bp in both the categories. On the ESG front, the company outscores its global peers in areas such as GHG intensity (Scope 1) – 1.43tCO₂e/t vs. 2.28tCO₂e/t and water intensity- 6.2m³/t vs. 9.2m³/t. The company's long-term targets is demonstrative of its focussed pursuit towards a spirited advancement.

In a business that enjoys little margin volatility, owing to the cost pass-through mechanism, PCBL is strengthening its market leadership. Key growth drivers includes: i) volume ramp up in core rubber business as 147ktpa Tiruvallur plant ramps up; ii) margin aggrandizement via higher speciality product sales volume (up 10ktpa p.a. through to FY25E) – yielding ~2.6x margin compared to rubber products; and iii) harnessing state-of-the-art technology at the greenfield Chennai plant, resulting in better plant processes and yields. All in all, we see EBITDA margin surpassing 21% (FY22: 12%) and RoE improving to 22% (FY22: 18.8%) through FY25E.

Key Risks

PCBL operates in a very competitive environment with significant dependence on automotive and tyre industries. Automotive industry is particularly susceptible to supply chain disruptions such as semiconductor shortage and calamity such as covid-19, potentially impacting revenue and cash flows adversely.

While operations are largely cost pass-through, the inability to do so, in the absence of a firm binding contract might have an impact on profitability.

Besides, there is a need for constant innovation due to variations and changes required. The threat of substitution from silica precipitate, advanced materials and fused alloys remains.

PCBL is subject to significant environmental and regulatory risks. Globally, carbon-black is being investigated as potential carcinogenic and nano-scale material. Any development in this regard, could have a significant impact on company's sales volumes and cashflows.

Additional Data

Management

Chairman	Sanjiv Goenka
Vice-Chairman and MD	Kaushik Roy,
Non- Executive Non-Independent Director	Shashwat Goenka
Auditor	S. R. Batliboi & Co. LLP

Recent Company Research

Date	Title	Price	Reco
10-Aug-22	Black going green: The best is yet to co; <i>Initiating Coverage</i>	117.45	Buy

Holdings – Top 10*

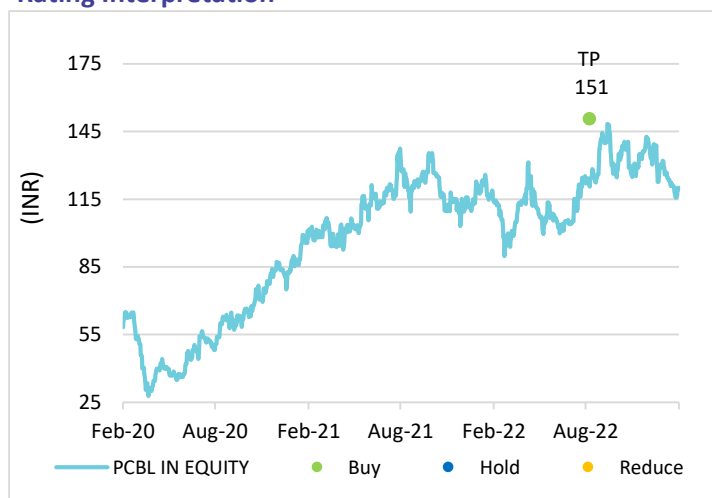
% Holding	% Holding

*Latest public data

Recent Sector Research

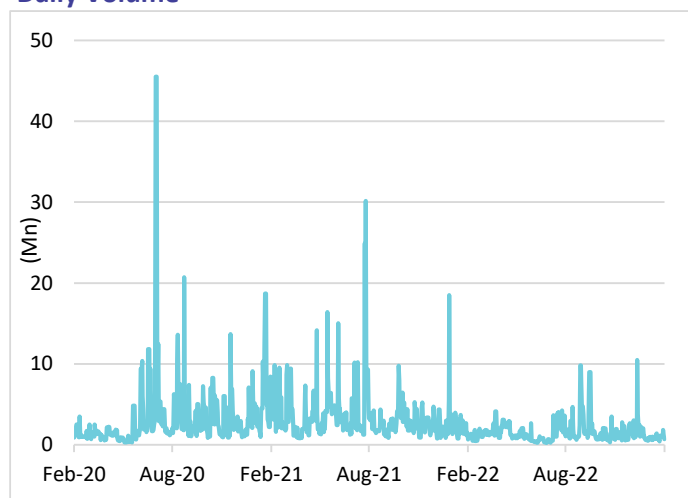
Date	Name of Co./Sector	Title
25-Apr-19	Chemical	Chemspec: Party for domestic manufacture; <i>Sector Update</i>

Rating Interpretation



Source: Bloomberg, Nuvama research

Daily Volume



Source: Bloomberg

Rating Distribution: Nuvama Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	62	19	260
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	31	1	260

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	<15% and >-5%
Reduce:	<-5%

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