

RESULT UPDATE

VOTE NOW

ASIA MONEY
 BROKERS POLL 2023

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	163
12 month price target (INR)	189
52 Week High/Low	178/108
Market cap (INR bn/USD bn)	62/0.7
Free float (%)	47.0
Avg. daily value traded (INR bn)	363.4

SHAREHOLDING PATTERN

	Mar-23	Dec-22	Sep-22
Promoter	51.41%	51.41%	51.41%
FII	6.34%	8.58%	10.89%
DII	9.4%	8.39%	6.47%
Pledge	0%	0%	0%

FINANCIALS

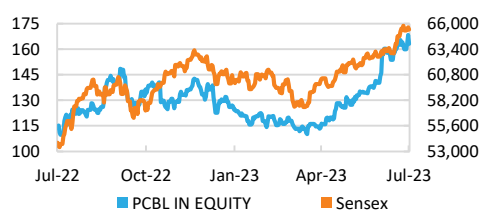
(INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	44,464	58,739	51,568	58,105
EBITDA	6,556	7,364	10,126	12,095
Adjusted profit	4,271	4,441	6,301	7,342
Diluted EPS (INR)	11.3	11.8	16.7	19.4
EPS growth (%)	24.9	4.0	41.9	16.5
RoAE (%)	18.8	16.4	20.6	20.6
P/E (x)	11.7	11.2	7.9	6.8
EV/EBITDA (x)	8.5	7.7	6.2	5.3
Dividend yield (%)	3.0	3.0	3.2	3.7

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY24E	FY25E	FY24E	FY25E
Revenue	51,568	58,105	-	-
EBITDA	10,126	12,095	-	-
Adjusted profit	6,301	7,342	-	-
Diluted EPS (INR)	16.7	19.4	-	-

PRICE PERFORMANCE



Margins stable; demand buoyant

PCBL reported it's highest ever EBITDA amid global headwinds led by buoyant volume growth (12% YoY), better product mix (speciality black volume growth of 19%). Overall, sales was down 4% YoY (due to fall in realisation). EBITDA increased by 8%, in line with estimates. With the Tamil Nadu plant commissioning driving depreciation, and higher tax, PAT declined 13% YoY, in line with our estimates.

Although management cautioned about weak demand from Europe amid fears of recession, it remained confident about buoyant demand environment in tyre and speciality and is confident of sustained capex. We retain 'BUY' with a TP of INR189 (from INR176) keeping EV/EBITDA at 5.5x unchanged as we roll forward to Q2FY26E.

Buoyant demand with favourable product mix drives EBITDA

PCBL reported in line results driven by carbon black volume growth of 12% YoY with higher growth in specialty (19%) and performance chemical (31%); tyre segment grew by 7%. As product mix improved driven by high share of specialty, overall EBITDA margin/mt remains healthy at 17,124/mt. Falling input prices drove average realisation 15% lower to INR106,370. Consequently, sales slipped 4% to INR13.5bn while EBITDA increased 8% to an all-time high of INR2.1bn. However, commissioning of the TN plant, increase in depreciation and interest cost, and higher tax rates of 29% versus 21.5%, overall PAT dipped 13% to INR1.1bn, in line with our estimates.

New plant commissioning to drive growth

We expect ramp up in production in Phase-1 of the TN plant in subsequent quarters with approvals from major customers. Phase-2 is expected to be commissioned during the Q2FY24. Further, the first phase, with 20,000MTPA of 40,000MTPA specialty chemical capacity at Mundra, Gujarat, has been commissioned in Jul-23. This will enable PCBL to meet the growing demands of its existing customers, enhance customer serviceability and also explore new opportunities. Growth in domestic tyre demand is supported by strong momentum from OEMs and improvement in replacement demand. That said, outlook on global demand remains cautious due to high inflation in developed regions.

Outlook and valuation: Geopolitical scenario favourable for India

PCBL is confident about a structurally favourable industry scenario for Indian players driven by the European ban on Russian supply. On the back of increased cost structure in China and growing demand for specialty, we expect EBITDA/mt to remain strong. Further, with favourable demand, management envisages further capex to drive long-term growth; near-term growth to be driven by higher utilisation.

Financials

Year to March	Q1FY24	Q1FY23	% Change	Q4FY23	% Change
Net Revenue	13,475	14,091	(4.4)	13,738	(1.9)
EBITDA	2,108	1,955	7.8	1,839	14.6
Adjusted Profit	1,094	1,259	(13.2)	1,018	7.4
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	58,739	51,568	58,105
Gross profit	13,126	14,265	18,045	20,753
Employee costs	1,587	1,903	1,979	2,058
Other expenses	4,983	4,998	5,940	6,600
EBITDA	6,556	7,364	10,126	12,095
Depreciation	1,209	1,366	1,614	1,896
Less: Interest expense	291	534	540	622
Add: Other income	267	384	326	355
Profit before tax	5,323	5,848	8,298	9,931
Prov for tax	1,052	1,407	1,997	2,588
Reported profit	4,271	4,441	6,301	7,342
Adjusted profit	4,271	4,441	6,301	7,342
Diluted shares o/s	378	378	378	378
Adjusted diluted EPS	11.3	11.8	16.7	19.4
DPS (INR)	4.0	4.0	4.2	4.9
Tax rate (%)	19.8	24.1	24.1	26.1

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
Specialty Chemicals	34,686.1	44,686.1	54,686.1	64,686.1
Performance chemical	1,23,848.2	1,38,848.2	1,48,848.2	1,58,848.2
Tyre	2,95,653.1	3,01,465.7	3,36,465.7	3,76,465.7
EBITDA margin (%)	14.7	12.5	19.6	20.8
Net profit margin (%)	9.6	7.6	12.2	12.6
Revenue growth (% YoY)	67.2	32.1	(12.2)	12.7
EBITDA growth (% YoY)	26.4	12.3	37.5	19.4
Adj. profit growth (%)	36.8	4.0	41.9	16.5

Assumptions (%)

Year to March	FY22A	FY23E	FY24E	FY25E
GDP (YoY %)	8.7	6.4	5.8	6.3
Repo rate (%)	4.0	6.0	5.5	5.0
USD/INR (average)	74.5	80.0	78.0	77.0
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 Percentage	7.6	9.2	10.1	10.8
EBITDA/tonne	14,434.1	15,184.1	18,752.4	20,157.9
Realisation Premium (Specialty V/s Carbon Black)	1,56,270.6	1,75,291.7	1,47,272.7	1,48,860.8
Non-Specialty realisation	-	90,855.0	1,00,664.8	86,785.7
				87,721.5

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted P/E (x)	11.7	11.2	7.9	6.8
Price/BV (x)	1.9	1.8	1.5	1.3
EV/EBITDA (x)	8.5	7.7	6.2	5.3
Dividend yield (%)	3.0	3.0	3.2	3.7

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	27,819	32,545	38,051
Shareholders funds	26,049	28,196	32,922	38,429
Minority interest	0	0	0	0
Borrowings	7,030	7,127	13,042	15,042
Trade payables	9,110	9,497	10,218	11,345
Other liabs & prov	3,561	3,427	5,383	5,383
Total liabilities	47,554	50,162	63,479	72,113
Net block	18,132	19,992	26,599	28,928
Intangible assets	8	7	9	9
Capital WIP	1,294	2,855	2,794	3,794
Total fixed assets	19,433	22,853	29,402	32,732
Non current inv	7,875	10,100	12,100	15,100
Cash/cash equivalent	1,087	421	175	354
Sundry debtors	11,051	11,078	11,302	12,735
Loans & advances	5	5	5	5
Other assets	7,842	6,838	10,237	10,929
Total assets	47,554	50,162	63,479	72,113

Free Cash Flow (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Reported profit	4,271	4,441	6,301	7,342
Add: Depreciation	1,209	1,366	1,614	1,896
Interest (net of tax)	233	406	410	460
Others	(142)	(595)	130	162
Less: Changes in WC	(2,361)	1,600	(2,593)	(1,182)
Operating cash flow	3,211	7,218	5,862	8,679
Less: Capex	(1,700)	(2,894)	(7,981)	(5,042)
Free cash flow	1,511	4,324	(2,119)	3,637

Key Ratios

Year to March	FY22A	FY23E	FY24E	FY25E
RoE (%)	18.8	16.4	20.6	20.6
RoCE (%)	19.4	18.7	21.7	21.2
Inventory days	61	45	70	82
Receivable days	74	69	79	75
Payable days	87	76	107	105
Working cap (% sales)	20.2	12.9	20.3	19.7
Gross debt/equity (x)	0.3	0.3	0.4	0.4
Net debt/equity (x)	0.2	0.2	0.4	0.4
Interest coverage (x)	18.4	11.2	15.8	16.4

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	24.9	4.0	41.9	16.5
RoE (%)	18.8	16.4	20.6	20.6
EBITDA growth (%)	26.4	12.3	37.5	19.4
Payout ratio (%)	35.4	34.0	25.0	25.0

Exhibit 1: Key results table

Year to March (INR mn)	Q1FY24	Q1FY23	% change	Q4FY23	% change
Revenues	13,475	14,091	(4.4)	13,738	(1.9)
Raw material	9,353	10,257	(8.8)	10,244	(8.7)
Staff costs	524	471	11.3	467	12.3
Other expenditure	1,490	1,408	5.8	1,189	25.4
Total expenditure	11,368	12,135	(6.3)	11,899	(4.5)
EBITDA	2,108	1,955	7.8	1,839	14.6
Depreciation	412	374	10.0	335	23.0
EBIT	1,696	1,581	7.3	1,504	12.7
Interest	193	89	117.5	186	3.4
Other income	40	112	(64.5)	160	(75.1)
Profit Before Tax	1,543	1,605	(3.8)	1,478	4.4
Less: Provision for Tax	450	346	30.2	460	(2.2)
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	1,094	1,258	(13.1)	1,018	7.4
No. of Diluted shares outstanding (mn)	378	378		378	
Adjusted Diluted EPS	2.9	3.3	(13.1)	2.7	7.4
As % of revenues					
COGS	69.4	72.8	-338.0	74.6	(6.9)
Gross profit	30.6	27.2	338.0	25.4	20.3
Employee costs	3.9	3.3	54.9	3.4	14.5
Other expenses	11.1	10.0	106.6	8.7	27.8
Total operating expenses	84.4	86.1	-176.5	86.6	(2.6)
EBITDA	15.6	13.9	176.5	13.4	16.8
Net profit	8.1	8.9	-81.5	7.4	9.5

Source: Company, Nuvama Research

Exhibit 2: Segmental financials

Segment wise break-up	Q1FY24	Q1FY23	% change	Q4FY23	% change
Revenues					
Carbon Black	13093	13739	-4.7	13351	-1.9
Power	568	531	7.0	563	0.8
Inter segment	185	179	3.5	176	5.1
Total	13475	14091	-4.4	13738	-1.9
EBIT					
Carbon Black	1985	1835	8.2	1692	17.3
Power	321	313	2.7	345	-6.8
Less Interest	193	89	117.5	186	3.4
Less Other Un-Allocable Expenditure Net Off Un-Allocable Income	570	454	25.5	372	53.4
Total	1543	1605	-3.8	1478	4.4

Source: Company, Nuvama Research

Q1FY24 conference call: Highlights

Financials

- In Q1FY24, the consolidated sales volume was 123,086MT. Sales volumes for tyre segment/performance chemical/specialty black amounted to 82,737MT/28,569 MT/11,780 MT.
- Q1FY24 sales mix between domestic/international was 82,274MT/40,812MT.
- Q1FY24 power generation increase 8% YoY to 156MU – external sales volume of 98MU marking an 11% YoY increase. Average realisation from power sales remains stable at INR3.79/kWh.
- Sudden jump in tax rate due to completion of 17 years of gestation period of tax benefits for power business.
- Consolidated EBITDA/MT reached INR17,447.
- Yields improving due to technological advancement provided by Chennai plant, leading to increased productivity.

Capex

- The first phase of the greenfield facility in TN was commissioned in mid-April. During the quarter, PCBL (TN) achieved production volume of 6,296MT and sales volume of 5,028MT. Utilisation rates of this plant stood at 40-45%.
- Production ramp-up from Phase-1 of the TN plant expected in subsequent quarters – approvals from major customers currently underway. Phase-2 anticipated to be commissioned in Q2FY24.
- New green power generation capacity of 24MW at TN site expected to become operational in Q2FY24.
- The first phase, consisting of 20,000MTPA of the 40,000MTPA specialty chemical capacity at the Mundra plant in Gujarat, was commissioned on July 10, 2023. This will enable PCBL to meet the growing demands of its existing customers, enhance customer serviceability, and explore new opportunities.
- Company's total specialty black capacity now stand at 92,000tonne.
- Announcement of another capex to be declared soon.

Outlook

- PCBL continues to experience increasing demand for specialty black, including new customer additions.
- Growth in domestic tyre demand is supported by strong momentum from the OEM segment and an improvement in replacement demand.
- The company remains cautious about the global demand outlook, considering the impact of high inflation in developed economies on consumption.
- PCBL is actively working on strengthening its supply chain, improving product mix, and implementing cost optimization initiatives.
- The long-term prospects of the specialty segment appear positive, and PCBL expects sustained growth momentum in business potential. The margins in the

specialty segment are expected to remain strong, driven by changes in the global supply chain, consumption patterns, and robust demand.

- The company has taken various initiatives to expand its presence in overseas markets and is focused on increasing the contribution of exports to total sales.
- Sanctions on Russia creating a massive impact on European markets benefitting the Indian companies
- From FY24, PCBL expects to add capacity of 80-100,000tonnes per year to sustain the increasing demand, capex shall amount to INR 50-60,000/ tonne

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 covid19, 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
Managing Director	Kaushik Roy
CFO	Raj Kumar Gupta
Auditor	S. R. Batliboi & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
ICICI Prudentia	2.82	Investment Trus	0.32
HDFC AMC	1.67	WisdomTree Inc	0.29
Dimensional Fun	1.19	Bank of India I	0.20
LIC Mututal Fun	0.42	Blackrock Inc	0.16
Aware super Pty	0.34		

*Latest public data

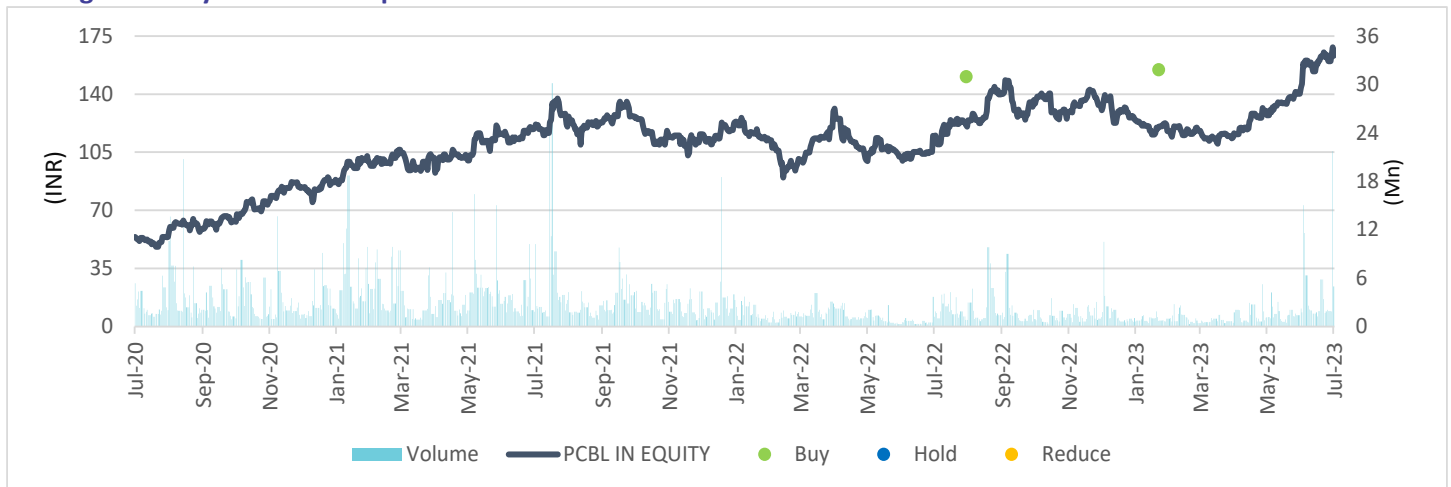
Recent Company Research

Date	Title	Price	Reco
18-May-23	Tracking expectations; <i>Result Update</i>	132	Buy
02-Feb-23	Higher inventory erodes volumes; <i>Result Update</i>	120	Buy
10-Aug-22	Black going green: The best is yet to co; <i>Initiating Coverage</i>	117	Buy

Recent Sector Research

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

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	192
Hold	<15% and >-5%	65
Reduce	<-5%	16

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