

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	198
12 month price target (INR)	209
52 Week High/Low	212/108
Market cap (INR bn/USD bn)	75/0.9
Free float (%)	47.0
Avg. daily value traded (INR mn)	588.0

SHAREHOLDING PATTERN

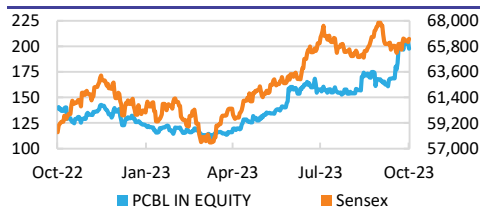
	Mar-23	Dec-22	Sep-22
Promoter	51.41%	51.41%	51.41%
FII	6.34%	8.58%	10.89%
DII	9.4%	8.39%	6.47%
Pledge	0%	0%	0%

FINANCIALS

(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	58,739	51,568	58,105	64,120
EBITDA	7,364	10,126	12,095	13,530
Adjusted profit	4,441	6,301	7,434	8,177
Diluted EPS (INR)	11.8	16.7	19.7	21.7
EPS growth (%)	4.0	41.9	18.0	10.0
RoAE (%)	16.4	20.6	20.8	19.7
P/E (x)	11.2	7.9	6.7	6.1
EV/EBITDA (x)	7.7	6.0	4.9	4.2
Dividend yield (%)	3.0	3.2	3.7	4.1

PRICE PERFORMANCE



Superior product mix drives margins

In Q2FY24, PCBL posted highest ever EBITDA/mt of ~18,300/mt led by improved product mix with rising share of speciality and chemicals. Overall sales volume increased 14%, but due to falling input prices, revenues fell 9%. EBITDA beat our estimate with 26% YoY growth while PAT grew 6% due to higher tax, above our estimate.

Increased focus on Europe, new patents and increasing demand from the OEM industry are likely to drive growth while improved product mix shall drive margins. As we see sustained improvement in EBITDA/mt led by product mix change, we raise target multiple to 6x EV/EBITDA (from 5.5x earlier), roll forward to Q3FY26, raise TP to INR209 (from INR189) and retain 'BUY'.

Change in product mix drives margins

PCBL's volume increased 14% YoY, but at the higher end of the product basket – chemical volume rose 65% and speciality chemicals increased 55%. In line with crude prices falling YoY, realisation was down 20% YoY, leading to sales falling 9% to INR14.9bn. Led by a change in product mix, PCBL improved its EBITDA/mt to INR18,300/mt, the highest ever posted by the company versus INR16,570/mt last year and INR17,124/mt in Q1FY24. Led by EBITDA margin/mt and volume growth, overall EBITDA increased by 26% to INR2.4bn, beating our estimate. However, with higher tax provisioning at 28% in the current quarter, PAT growth was muted at 6% to INR1.2bn, but was above our estimate.

Management confident about growth and margins

Amid uncertainty due to geopolitical issues, management is confident about growth in exports as well as domestic segment while a change in product mix shall sustain margins. Ramp up of Tamil Nadu plant in H1FY25 and further improvement in EBITDA/mt is likely to drive further growth. In the near term, upcoming festive season as well as healthy demand from the OEM and replacement segment are likely to sustain growth momentum. New patent products as well as products used in the battery segment shall drive growth in the speciality segment.

Weak exports and China dumping may pose risk

Though at present, higher cost of production of Chinese players is sustaining the momentum in exports, any sharp pricing pressure from Chinese supplies or weak export demand may pose near term risks. Continued improvement in speciality chemicals along with approvals for higher grade of battery uses offer upside potential and further improvement in margins.

Financials

Year to March	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
Net Revenue	14,867	16,279	(8.7)	13,475	10.3
EBITDA	2,381	1,887	26.2	2,108	13.0
Adjusted Profit	1,228	1,162	5.7	1,094	12.3
Diluted EPS (INR)	0.0	0.0		0.0	

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Total operating income	58,739	51,568	58,105	64,120
Gross profit	14,265	18,045	20,753	22,930
Employee costs	1,903	1,979	2,058	2,140
Other expenses	4,998	5,940	6,600	7,260
EBITDA	7,364	10,126	12,095	13,530
Depreciation	1,366	1,614	1,896	2,087
Less: Interest expense	534	540	498	416
Add: Other income	384	326	355	340
Profit before tax	5,848	8,298	10,055	11,368
Prov for tax	1,407	1,997	2,621	3,190
Less: Other adj	0	0	0	0
Reported profit	4,441	6,301	7,434	8,177
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,441	6,301	7,434	8,177
Diluted shares o/s	378	378	378	378
Adjusted diluted EPS	11.8	16.7	19.7	21.7
DPS (INR)	4.0	4.2	4.9	5.4
Tax rate (%)	24.1	24.1	26.1	28.1

Important Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
Specialty Chemicals	44,686.1	54,686.1	64,686.1	75,000.0
Performance chemical	1,38,848.2	1,48,848.2	1,58,848.2	1,68,848.2
Tyre	3,01,465.7	3,36,465.7	3,76,465.7	4,16,151.8
EBITDA margin (%)	12.5	19.6	20.8	21.1
Net profit margin (%)	7.6	12.2	12.8	12.8
Revenue growth (% YoY)	32.1	(12.2)	12.7	10.4
EBITDA growth (% YoY)	12.3	37.5	19.4	11.9
Adj. profit growth (%)	4.0	41.9	18.0	10.0

Assumptions (%)

Year to March	FY23A	FY24E	FY25E	FY26E
GDP (YoY %)	6.4	5.8	6.3	6.3
Repo rate (%)	6.0	5.5	5.0	5.0
USD/INR (average)	80.0	78.0	77.0	77.0
Volumes (MT)	4,85,000.0	5,40,000.0	6,00,000.0	6,60,000.0
Crude Prices (USD)	91.2	75.0	70.0	70.0
Specialty Product %	9.2	10.1	10.8	11.4
EBITDA/tonne	15,184.1	18,752.4	20,157.9	20,499.6
Realisation Premium	1,75,291.7	1,47,272.7	1,48,860.8	1,48,860.8
Non-Speciality	1,00,664.8	86,785.7	87,721.5	87,721.5

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted P/E (x)	11.2	7.9	6.7	6.1
Price/BV (x)	1.8	1.5	1.3	1.1
EV/EBITDA (x)	7.7	6.0	4.9	4.2
Dividend yield (%)	3.0	3.2	3.7	4.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Share capital	378	378	378	378
Reserves	27,819	32,545	38,120	44,253
Shareholders funds	28,196	32,922	38,498	44,631
Minority interest	0	0	0	0
Borrowings	7,127	13,042	12,042	10,042
Trade payables	9,497	10,218	11,345	12,474
Other liabs & prov	3,427	5,383	5,383	5,383
Total liabilities	50,162	63,479	69,181	74,444
Net block	19,992	26,599	28,928	31,074
Intangible assets	7	9	9	9
Capital WIP	2,855	2,794	3,794	4,794
Total fixed assets	22,853	29,402	32,732	35,877
Non current inv	13,100	13,100	13,100	13,100
Cash/cash equivalent	421	2,175	2,423	2,534
Sundry debtors	11,078	11,302	12,735	14,054
Loans & advances	5	5	5	5
Other assets	6,838	10,237	10,929	11,617
Total assets	50,162	63,479	69,181	74,444

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	4,441	6,301	7,434	8,177
Add: Depreciation	1,366	1,614	1,896	2,087
Interest (net of tax)	406	410	368	299
Others	(595)	130	130	(951)
Less: Changes in WC	1,600	(2,593)	(1,182)	0
Operating cash flow	7,218	5,862	8,646	9,612
Less: Capex	(2,894)	(7,981)	(5,042)	(5,042)
Free cash flow	4,324	(2,119)	3,605	4,571

Key Ratios

Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	16.4	20.6	20.8	19.7
RoCE (%)	18.7	21.7	21.9	22.4
Inventory days	45	70	82	82
Receivable days	69	79	75	76
Payable days	76	107	105	106
Working cap (% sales)	12.9	20.3	19.7	19.3
Gross debt/equity (x)	0.3	0.4	0.3	0.2
Net debt/equity (x)	0.2	0.3	0.2	0.2
Interest coverage (x)	11.2	15.8	20.5	27.5

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	4.0	41.9	18.0	10.0
RoE (%)	16.4	20.6	20.8	19.7
EBITDA growth (%)	12.3	37.5	19.4	11.9
Payout ratio (%)	34.0	25.0	25.0	25.0

Exhibit 1: Quarterly result summary

Year to March (Rs mn)	Q2FY24	Q2FY23	% change	Q1FY24	% change
Revenues	14,867	16,279	(8.7)	13,475	10.3
Raw material	10,483	12,587	(16.7)	9,353	12.1
Staff costs	560	488	14.8	524	6.8
Other expenditure	1,443	1,317	9.6	1,490	(3.1)
Total expenditure	12,486	14,392	(13.2)	11,368	9.8
EBITDA	2,381	1,887	26.2	2,108	13.0
Depreciation	482	327	47.6	412	17.1
EBIT	1,899	1,560	21.7	1,696	12.0
Interest	210	110	91.2	193	8.9
Other income	27	34	(20.0)	40	(32.7)
Profit Before Tax	1,716	1,484	15.6	1,543	11.2
Less: Provision for Tax	488	322	51.5	450	8.4
Minority interest	0	0		0	
Add: Share of profit from associates	0	0		0	
Add: Exceptional items (net of tax)	0	0		0	
Reported Profit	1,228	1,162	5.7	1,094	12.3
No. of Diluted shares outstanding (mn)	378	378		378	
Adjusted Diluted EPS	3.3	3.1	5.7	2.9	12.3
As % of revenues					
COGS	70.5	77.3	-681.1	69.4	1.6
Gross profit	29.5	22.7	681.1	30.6	-3.6
Employee costs	3.8	3.0	77.0	3.9	-3.2
Other expenses	9.7	8.1	161.5	11.1	-12.2
Total operating expenses	84.0	88.4	-442.6	84.4	-0.4
EBITDA	16.0	11.6	442.6	15.6	2.4
Net profit	8.3	7.1	112.4	8.1	1.8

Source: Company, Nuvama Research

Exhibit 2: Segment data

Segment wise break-up	Q2FY24	Q2FY23	% change	Q1FY24	% change
Revenues					
Carbon Black	14426	15913	-9.3	13093	10.2
Power	639	561	14.0	568	12.5
Inter segment	197	195	1.2	185	6.5
Total	14867	16279	-8.7	13475	10.3
EBIT					
Carbon Black	1991	1789	11.3	1985	0.3
Power	416	364	14.3	321	29.5
Less Interest	210	110	91.2	193	8.9
Less Other Un-Allocable Expenditure Net Off Un-Allocable Income	481	560	-14.0	570	-15.6
Total	1716	1484	15.7	1543	11.2

Source: Company, Nuvama Research

Q1FY24 conference call: Highlights

Financials

Chemicals/speciality segment posted volume growth of 64%/56% YoY

Management expects to reach optimum utilisation by H1FY25 at Tamil Nadu plant

- Consolidated sales volume for the company stood at 130,111 MT with average EBITDA/mt at INR18,427/ton. Higher volume growth (YoY) was seen in the chemicals/speciality segment with growth of 64%/56% YoY.
- Exports saw good growth in volume of 33.33% on a year on year basis. All geographies performed equally well with Asia Pacific the largest contributor.
- In the exports market, management is expecting 15-20% growth from Europe and some contribution from America in the coming years.
- Final phase of the Tamil Nadu plant was commissioned during the quarter with production volume of ~9,400 MT. It is likely to reach optimum utilisation by H1FY25.
- Average realisation from power sales improved and stood at INR4.06/kWh from INR3.79/kWh.

Capex

- Commercial production in the first phase of the Chennai (84,000 mt) plant has already started, taking overall capacity to 770,000 mtpa.
- With the current demand scenario and increasing applications for their products, management expects to continue with capex.
- Ramp up in Tamil Nadu's Chennai facility has been faster than expected. and it has already achieved 50% in this quarter
- Projected capital outlay for both phases in the Chennai facility would be around INR3.3-3.4bn out of which INR2.20bn has already been spent on the first phase.

Outlook

- Domestic tyre demand continues to be strong on the back of healthy performance from both OEM and replacement segments. The upcoming festive season is likely to provide further boost to the auto sales
- The company expects EBITDA margin/mt to hold on at current level of INR18,000/mt while gradually improving it to INR20,000/mt
- While ~35% of PCBL's volumes come from exports, the current scenario of Chinese dumping should not affect their business, as Chinese players in the last five-six years due to their cost structure have been unable to push their material.
- However, exports might suffer indirectly due to ongoing geopolitical issues.
- PCBL also secured two patents during the quarter, which were in relation to oxidised and surface modified grades. Oxidised grade has applications in ink and coating applications while the surface modified grade improves fuel efficiency and tyre life.
- The contribution from these patented products should be in the range of around 7,000 to 8,000 mt and PCBL plan to increase it to 10,000 mt.

- The company has recently developed a grade of product, which will be used in the latest technology of battery chemistry, which is the lithium ion battery, but of the lower end. While the research and development pipeline also has products, which can cater to the higher end of the lithium ion batteries.
- PCBL commissioned ~12 MW of power and is expecting further commissioning of 12 MW in the next three-four months.
- Out of the current 770,000 tonnes capacity, 92,000 tonnes is dedicated towards black while the rest is fungible. Another 20,000 tonnes of capacity is likely to be added in the black segment in the next one year.
- Maintenance capex would be around INR600-650mn every year.

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 14ktap 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 include: i) volume ramp up in core rubber business as 147ktpa Tiruvallur plant ramps up; ii) margin aggrandisement 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 the 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

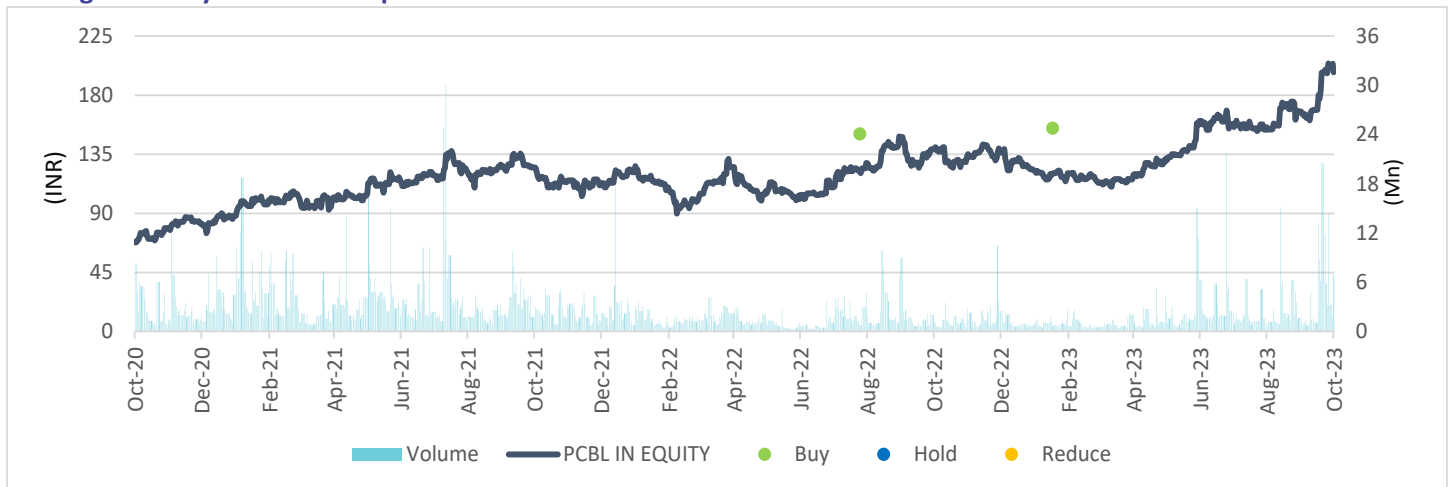
Recent Company Research

Date	Title	Price	Reco
12-Jul-23	Margins stable; demand buoyant; <i>Result Update</i>	132	Buy
18-May-23	Tracking expectations; <i>Result Update</i>	132	Buy
02-Feb-23	Higher inventory erodes volumes; <i>Result Update</i>	120	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



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	60
Reduce	<-5%	17

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