

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	276
12 month price target (INR)	323
52 Week High/Low	288/108
Market cap (INR bn/USD bn)	104/1.3
Free float (%)	47.0
Avg. daily value traded (INR mn)	1,041.0

SHAREHOLDING PATTERN

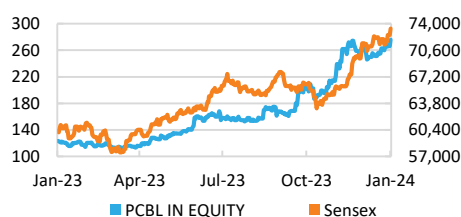
	Mar-23	Dec-22	Sep-22
Promoter	51.41%	51.41%	51.41%
FII	6.34%	8.58%	10.89%
DII	9.4%	8.39%	6.47%
Pledge	0%	0%	0%

FINANCIALS

(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	58,739	51,568	58,105	64,120
EBITDA	7,364	10,139	12,109	13,546
Adjusted profit	4,441	6,311	7,445	8,189
Diluted EPS (INR)	11.8	16.7	19.7	21.7
EPS growth (%)	4.0	42.1	18.0	10.0
RoAE (%)	16.4	20.7	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



Operating margin holds strong

PCBL posted strong Q3FY24 results with improvement across segments. Sales/EBITDA/PAT beat estimates, rising 13%/66%/48% YoY. EBITDA margin at INR20,494/mt marks a sustained uptick—both YoY and QoQ—mainly due to a better product mix. We expect the latest acquisitions to drive growth and help diversify product offerings.

Commissioning of new capacities and acquisitions diversifying PCBL's product basket helped it sustain margin expansion and improve the product mix. Accordingly, we believe PCBL shall continue to re-rate. We are, hence, calibrating the target valuation to 9x (from 8x) EV/EBITDA. This coupled with a rollover to Q4FY26E lifts the TP to INR323 (from INR279); retain 'BUY'.

Revenue increases along with better margins

Q3 revenue increased by 13% YoY to INR16.5bn aided by a higher contribution from both segments: carbon black and power. Gross margin shot up by 750bp YoY to 29.7%, primarily led by a product mix change and drop in realisation YoY. Realisation peaked last year and had started falling from Q1FY24. Average realisation declined to INR121,724/mt, down 16% YoY; however realisation bottomed out in Q2FY24 and was up 7% QoQ. EBITDA surged 66% YoY to INR2.7bn while EBITDA margin reached its highest in nine quarters to 16.8%. Resulting PAT jumped 48% YoY to INR1.5bn, above estimate.

Sustained product mix change driving profitability

PCBL has consistently turned in product mix improvement with the share of performance chemicals increasing from 21% in Q3FY23 to 27% in Q3FY24 and that of speciality from 9% to 11% over the same period. A improved product mix lifted margin/mt from ~INR16,500 in Q3FY23 to INR20,500 in Q3FY24. Given a sustained improvement in the product mix, we reckon margins shall improve further; however, we have modelled for EBITDA margin/mt of INR20,500 for FY26E. This may lead to upside to our estimates.

Acquisitions to aid future growth

During Q3FY24, PCBL made two new acquisitions—taking over Aquafarm Chemicals and forming a joint venture with Kinaltek. These acquisitions are set to be financed through a mix of internal accruals and an NCD worth INR7bn at an interest rate of 8.75% with the repayment over next five years. Management is confident of the deals being earnings-accretive and repaying the debt over the next 30 months from the internal cash flows.

Financials

Year to March	Q3FY24	Q3FY23	% Change	Q2FY24	% Change
Net Revenue	16,568	14,632	13.2	14,867	11.4
EBITDA	2,789	1,683	65.7	2,381	17.1
Adjusted Profit	1,480	1,002	47.7	1,228	20.5
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	18,058	20,767	22,946
Employee costs	1,903	1,979	2,058	2,140
Other expenses	4,998	5,940	6,600	7,260
EBITDA	7,364	10,139	12,109	13,546
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	8,312	10,069	11,384
Prov for tax	1,407	2,000	2,625	3,195
Less: Other adj	0	0	0	0
Reported profit	4,441	6,311	7,445	8,189
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,441	6,311	7,445	8,189
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	19.7	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	37.7	19.4	11.9
Adj. profit growth (%)	4.0	42.1	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	18,776.8	20,182.3	20,524.1
Realisation Premium	1,75,351.4	1,47,272.7	1,48,860.8	1,48,860.8
Non-Specialty - realisation	1,00,699.1	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	32,552	38,136	44,278
Shareholders funds	28,196	32,930	38,513	44,655
Minority interest	0	0	0	0
Borrowings	7,127	13,042	12,042	10,042
Trade payables	9,497	10,215	11,341	12,470
Other liabs & prov	3,427	5,383	5,383	5,383
Total liabilities	50,162	63,484	69,193	74,464
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	2,182	2,438	2,557
Sundry debtors	11,078	11,302	12,735	14,054
Loans & advances	5	5	5	5
Other assets	6,838	10,235	10,926	11,614
Total assets	50,162	63,484	69,193	74,464

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	4,441	6,311	7,445	8,189
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	(2,594)	(1,183)	0
Operating cash flow	7,218	5,871	8,657	9,624
Less: Capex	(2,894)	(7,981)	(5,042)	(5,042)
Free cash flow	4,324	(2,110)	3,615	4,582

Key Ratios

Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	16.4	20.7	20.8	19.7
RoCE (%)	18.7	21.8	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	27.6

Valuation Drivers

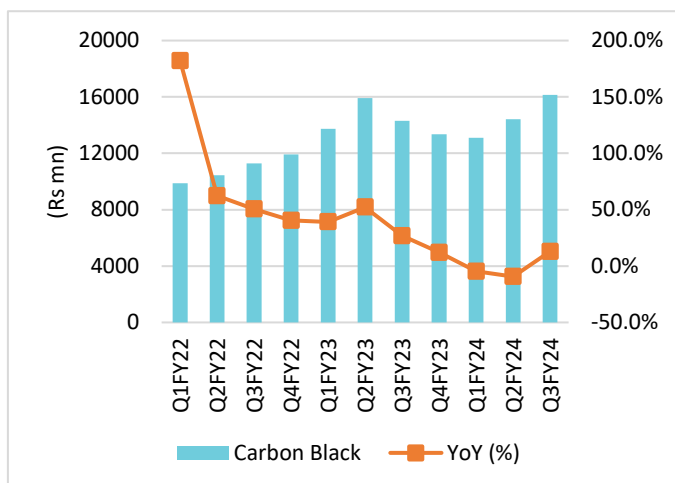
Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	4.0	42.1	18.0	10.0
RoE (%)	16.4	20.7	20.8	19.7
EBITDA growth (%)	12.3	37.7	19.4	11.9
Payout ratio (%)	34.0	25.0	25.0	25.0

Exhibit 1: Quarterly financial snapshot – Q3FY24

Year to March	Q3FY24	Q3FY23	% change	Q2FY24	% change
Revenues	16,568	14,632	13.2	14,867	11.4
Raw material	11,645	11,387	2.3	10,483	11.1
Staff costs	610	477	27.7	560	8.9
Other expenditure	1,524	1,084	40.6	1,443	5.6
Total expenditure	13,778	12,948	6.4	12,486	10.4
EBITDA	2,789	1,683	65.7	2,381	17.1
Depreciation	527	330	59.5	482	9.1
EBIT	2,263	1,353	67.2	1,899	19.2
Interest	324	150	116.1	210	54.4
Other income	72	78	(8.4)	27	167.5
Profit Before Tax	2,011	1,282	56.9	1,716	17.2
Less: Provision for Tax	531	280	89.6	488	8.9
Reported Profit	1,480	1,002	47.7	1,228	20.5
No. of Diluted shares outstanding (mn)	378	378		378	
Adjusted Diluted EPS	3.9	2.7	47.7	3.3	20.5
As % of revenues					
COGS	70.3	77.8	-753.9	70.5	-0.3
Gross profit	29.7	22.2	753.9	29.5	0.8
Employee costs	3.7	3.3	41.8	3.8	-2.3
Other expenses	9.2	7.4	178.9	9.7	-5.2
Total operating expenses	83.2	88.5	-533.2	84.0	-1.0
EBITDA	16.8	11.5	533.2	16.0	5.1
Net profit	8.9	6.8	208.6	8.3	8.1
Segment wise break-up	Q3FY24	Q3FY23	% change	Q2FY24	% change
Revenues					
Carbon Black	16150	14313	12.8	14426	12.0
Power	656	496	32.3	639	2.7
Inter segment	238	177	34.5	197	20.6
Total	16568	14632	13.2	14867	11.4
EBIT					
Carbon Black	2524	1672	51.0	1991	26.8
Power	415	299	38.7	416	-0.2
Less Interest	324	150	116.1	210	54.4
Less Other Un-Allocable Expenditure Net Off Un-Allocable Income	604	539	12.0	481	25.6
Total	2011	1282	56.9	1716	17.2

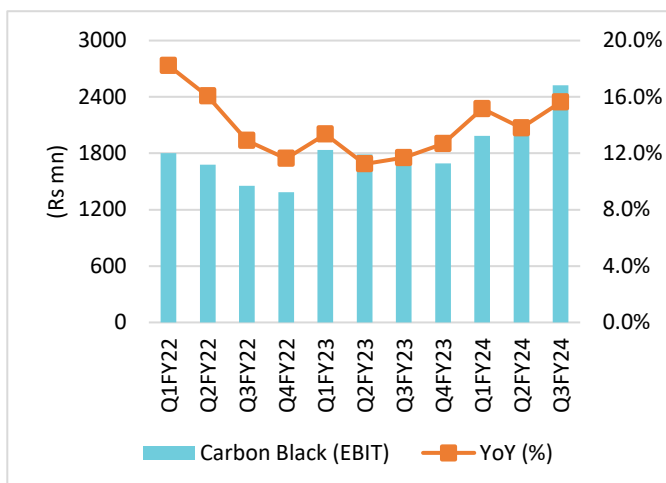
Source: Company, Nuvama Research

Exhibit 2: Carbon black segment sees revival...



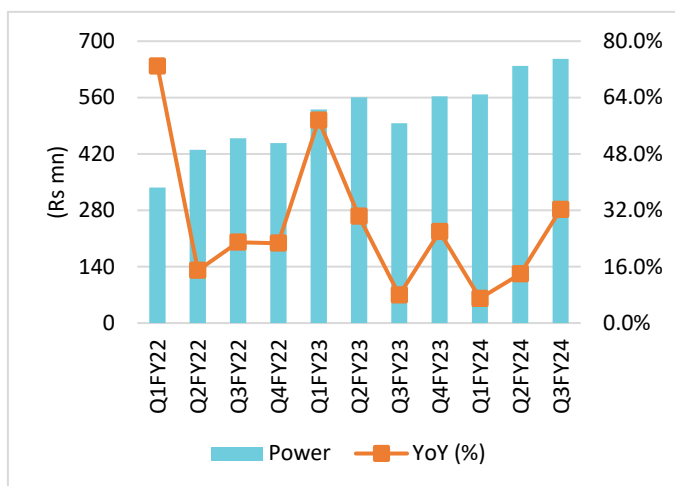
Source: Company, Nuvama Research

Exhibit 3: ... with better margin profile



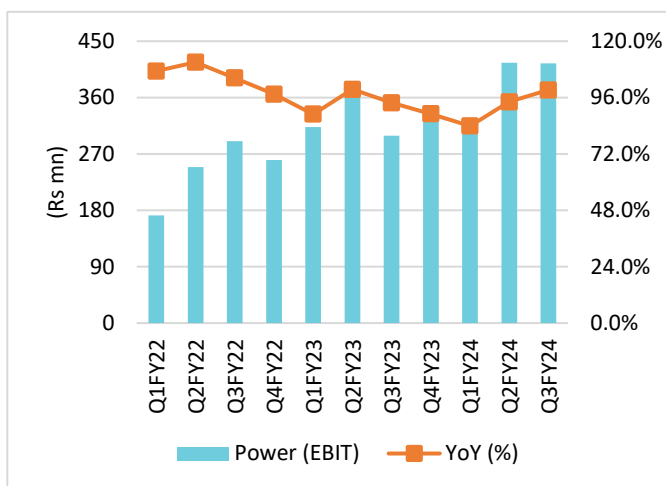
Source: Company, Nuvama Research

Exhibit 4: Power segment continues to grow...



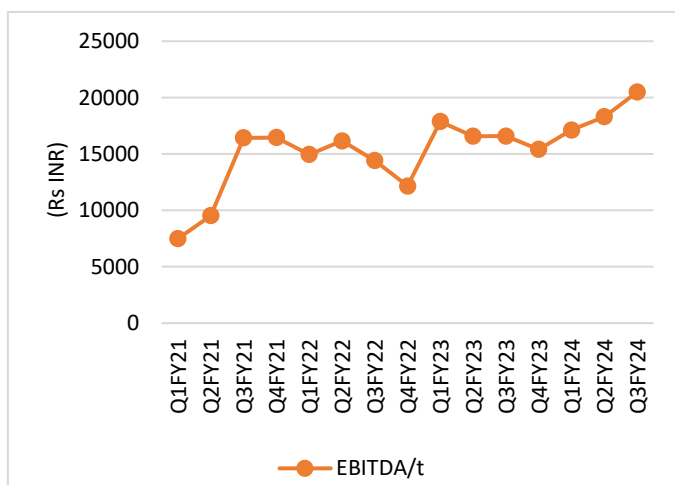
Source: Company, Nuvama Research

Exhibit 5: ... along with improvement in margins



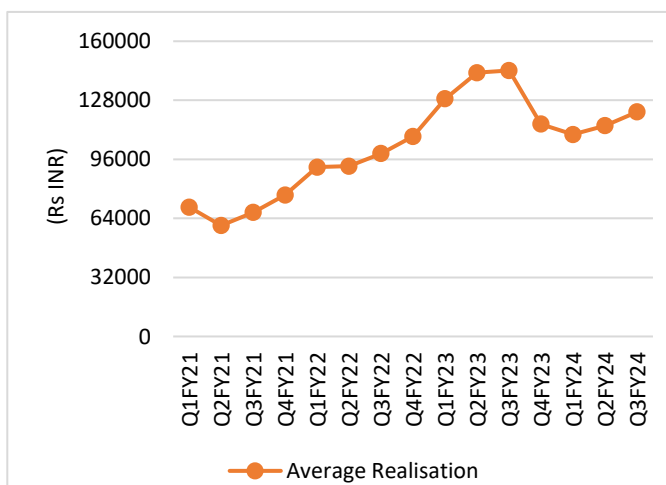
Source: Company, Nuvama Research

Exhibit 6: EBITDA/ton increases



Source: Company, Nuvama Research

Exhibit 7: Average realisation has bottomed



Source: Company, Nuvama Research

Result key highlights

- In Q3FY24, consolidated sales volume increased by 34% YoY to 136,108 metric tons aided by a 98% YoY increase in export volume YoY to 57,681 metric ton and an 8% increase in domestic volume YoY to 78,427 metric tons.
- Sales volume across segments should see robust growth with performance chemicals and specialty black leading with a 79% YoY and 60% YoY to 37,236 tons and 14,435 tons, respectively.
- Tyre segment volume saw a growth of 18% YoY to 84,437 tonnes which is also the highest and is supported by strong momentum from OEM segment and improvement in replacement demand.
- The Tamil nadu plant has achieved a capacity utilisation of 50% and has started recording positively at the bottom line. Further, ramp up is anticipated in the upcoming quarter. They have also started receiving approvals from customers.
- The construction of the 2nd phase, which entails a capacity increase from 40,000MTPA to 60,000MTPA for specialty chemicals at the Mundra plant in Gujarat is currently in progress.
- This expansion will help PCBL to fulfil the escalating demand of its current customers and improve new opportunities.
- Power generation increased by 17% YoY to 169 MU during Q3FY24 with external sales volume of 103 MU, a 9% increase YoY. PCBL's average realization from power sale was stable at Rs.4.06/kWh .
- Consolidated EBITDA/MT reported for the quarter was at INR21,021.
- PCBL has also declared an interim dividend of INR5.5/share.

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 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, carbonblack 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	
HDFC AMC	1.69	IDFC Mutual fun	0.42
Dimensional Fun	1.24	Mahindra Manuli	0.34
ICICI Prudentia	0.80	Bank of India I	0.31
Tata Asset mana	0.49	Wisdom Tree	0.24
Blackrock Inc	0.47		

*Latest public data

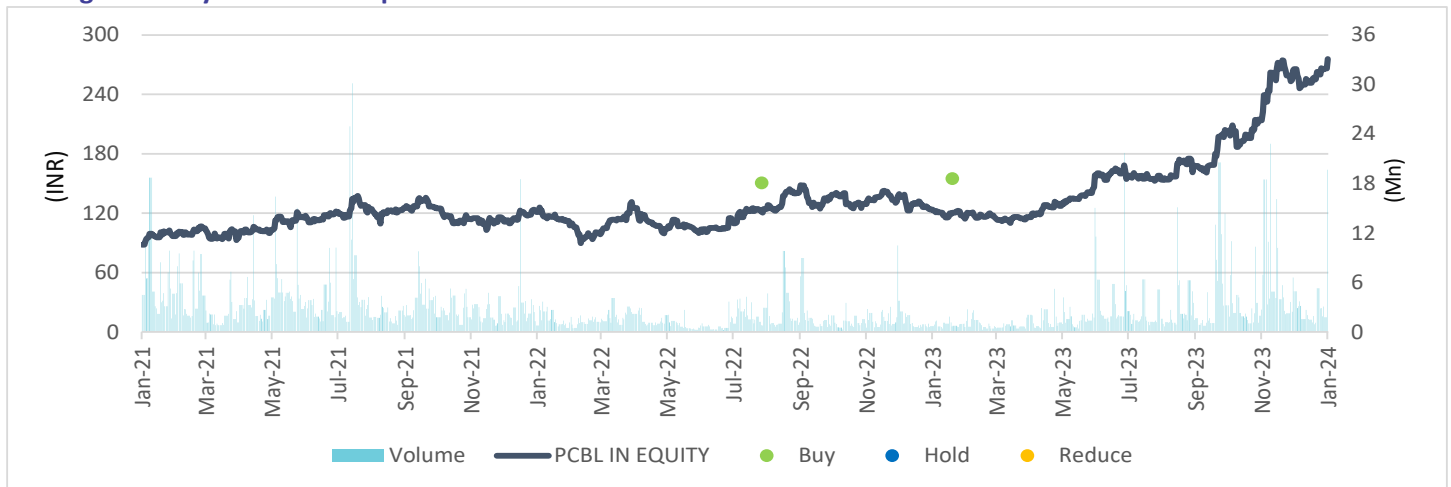
Recent Company Research

Date	Title	Price	Reco
28-Nov-23	Adding whitener to its carbon black; <i>Company Update</i>	254	Buy
17-Oct-23	Superior product mix drives margins; <i>Result Update</i>	198	Buy
12-Jul-23	Margins stable; demand buoyant; <i>Result Update</i>	163	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%	207
Hold	<15% and >-5%	59
Reduce	<-5%	22

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