

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	259
12 month price target (INR)	323
52 Week High/Low	344/132
Market cap (INR bn/USD bn)	98/1.2
Free float (%)	47.0
Avg. daily value traded (INR mn)	635.8

SHAREHOLDING PATTERN

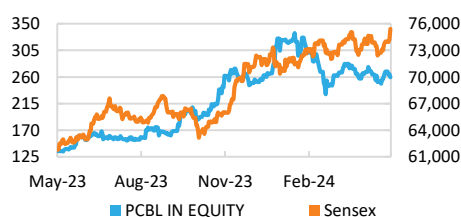
	Mar-23	Dec-22	Sep-22
Promoter	51.41%	51.41%	51.41%
FII	6.34%	8.58%	10.89%
DII	9.4%	8.39%	6.47%
Pledge	0%	0%	0%

FINANCIALS

(INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	58,739	56,743	58,105	64,120
EBITDA	7,364	9,666	12,036	13,469
Adjusted profit	4,441	5,333	6,403	7,085
Diluted EPS (INR)	11.8	14.1	17.0	18.8
EPS growth (%)	4.0	20.1	20.1	10.7
RoAE (%)	16.4	17.5	18.2	17.6
P/E (x)	11.2	9.3	7.8	7.0
EV/EBITDA (x)	7.7	8.0	7.3	6.4
Dividend yield (%)	3.0	3.0	3.2	3.6

PRICE PERFORMANCE



EBITDA/mt scales new heights

PCBL reported strong Q4FY24 results as revenue increased 40% YoY aided by strong growth across segments. During the quarter, the company achieved its highest ever production volumes of 0.14mn mt with highest-ever EBITDA/ton for carbon black at INR22,600/ton. Gross margin expansion drove EBITDA by 68% YoY while PAT increased marginally by 9% YoY due to higher interest and depreciation.

We believe continued margin expansion, commissioning of new capacities and latest acquisition (Aquafarm and JV with Kinaltek) shall drive growth. While we retain EV/EBITDA-based valuation on a standalone basis, we await further details on Aquafarm. Retain 'BUY' with an unchanged TP of INR323, based on 9x EV/EBITDA.

Strong volume growth drives EBITDA beat

PCBL's overall results exceeded our expectations, with revenue up 40% YoY and 16% QoQ to INR19.3bn. This growth was driven by a 23% increase in carbon black and a 25% increase in power, with the chemicals segment contributing INR2.3bn (two months). PCBL achieved its highest-ever carbon black production volumes, up 20% YoY to 142,545mt, with strong growth in specialty black and performance segments offsetting flat tyre volumes. Gross margin expanded 625bp YoY to 31.7% due to lower raw material prices. EBITDA surged 68% YoY to INR3bn, with margins expanding 265bp to 16%. PAT increased 9% YoY to INR1.1bn, but declined 25% sequentially due to higher depreciation and interest costs.

Capex to augur well for volume growth ahead

Management continues to drive growth through brownfield capex by adding 20ktpa in specialty black and 90ktpa in carbon black with further greenfield expansion of 100ktpa to reach a total capacity of 1mtpa. Furthermore, it is planning a capex of IN2.8bn in Aquafarm to increase capacity in the US plant and efficiencies in the India plant. This is likely to sustain the growth momentum in volume. However, margins are at peak levels in the current scenario; continuous focus on driving share of specialty shall keep overall margins healthy.

Leveraged balance sheet remains near-term concern

PCBL's latest acquisition of Aquafarm and the joint venture with Kinaltek help the company to diversify its products and enter the specialty chemicals segment. However, this has increased the debt for the company, which remains a concern in the near-term along with incremental capex that is also a concern.

Financials

Year to March	Q4FY24	Q4FY23	% Change	Q3FY24	% Change
Net Revenue	14,935	13,738	8.7	14,853	0.6
EBITDA	2,663	1,839	44.8	2,545	4.7
Adjusted Profit	1,384	1,018	35.9	1,445	(4.2)
Diluted EPS (INR)	0.0	0.0		0.0	

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Total operating income	58,739	56,743	58,105	64,120
Gross profit	14,265	17,290	20,767	22,946
Employee costs	1,903	2,050	2,131	2,217
Other expenses	4,998	5,575	6,600	7,260
EBITDA	7,364	9,666	12,036	13,469
Depreciation	1,366	1,505	1,896	2,087
Less: Interest expense	534	1,262	1,600	1,600
Add: Other income	384	310	355	340
Profit before tax	5,848	7,208	8,894	10,123
Prov for tax	1,407	1,875	2,492	3,038
Less: Other adj	0	0	0	0
Reported profit	4,441	5,333	6,403	7,085
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,441	5,333	6,403	7,085
Diluted shares o/s	378	378	378	378
Adjusted diluted EPS	11.8	14.1	17.0	18.8
DPS (INR)	4.0	4.0	4.2	4.7
Tax rate (%)	24.1	26.0	28.0	30.0

Important Ratios (%)

Year to March	FY23A	FY24A	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	17.0	20.7	21.0
Net profit margin (%)	7.6	9.4	11.0	11.0
Revenue growth (% YoY)	32.1	(3.4)	2.4	10.4
EBITDA growth (% YoY)	12.3	31.2	24.5	11.9
Adj. profit growth (%)	4.0	20.1	20.1	10.7

Assumptions (%)

Year to March	FY23A	FY24A	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
Spec. Product Percent.	9.2	10.1	10.8	11.4
EBITDA/tonne	15,184.1	17,899.3	20,059.7	20,408.3
Real. Premium (Spec. V/s Carbon Black)	1,75,351.4	1,47,272.7	1,48,860.8	1,48,860.8
Non-Spec. - realisation	1,00,699.1	86,785.7	87,721.5	87,721.5

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted P/E (x)	11.2	9.3	7.8	7.0
Price/BV (x)	1.8	1.5	1.3	1.2
EV/EBITDA (x)	7.7	8.0	7.3	6.4
Dividend yield (%)	3.0	3.0	3.2	3.6

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Share capital	378	378	378	378
Reserves	27,819	32,415	37,217	42,530
Shareholders funds	28,196	32,792	37,594	42,908
Minority interest	0	0	0	0
Borrowings	7,127	28,877	38,661	38,661
Trade payables	9,497	14,358	11,359	12,489
Other liabs & prov	3,427	3,801	3,801	3,801
Total liabilities	50,162	81,838	93,425	99,868
Net block	19,992	26,599	28,928	31,074
Intangible assets	7	20	9	9
Capital WIP	2,855	1,629	3,794	4,794
Total fixed assets	22,853	28,248	32,732	35,877
Non current inv	10,100	36,794	36,794	36,794
Cash/cash equivalent	421	1,690	461	1,753
Sundry debtors	11,078	12,875	12,735	14,054
Loans & advances	5	6	6	6
Other assets	6,838	8,198	11,420	12,108
Total assets	50,162	81,838	93,425	99,868

Free Cash Flow (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Reported profit	4,441	5,333	6,403	7,085
Add: Depreciation	1,366	1,505	1,896	2,087
Interest (net of tax)	406	934	1,152	1,120
Others	(595)	197	448	(587)
Less: Changes in WC	1,600	2,287	(6,060)	0
Operating cash flow	7,218	10,256	3,839	9,704
Less: Capex	(2,894)	(6,816)	(6,207)	(5,042)
Free cash flow	4,324	3,440	(2,368)	4,662

Key Ratios

Year to March	FY23A	FY24A	FY25E	FY26E
RoE (%)	16.4	17.5	18.2	17.6
RoCE (%)	18.7	17.5	15.2	14.9
Inventory days	45	49	71	82
Receivable days	69	77	80	76
Payable days	76	110	126	106
Working cap (% sales)	12.9	10.2	20.4	19.8
Gross debt/equity (x)	0.3	0.9	1.0	0.9
Net debt/equity (x)	0.2	0.8	1.0	0.9
Interest coverage (x)	11.2	6.5	6.3	7.1

Valuation Drivers

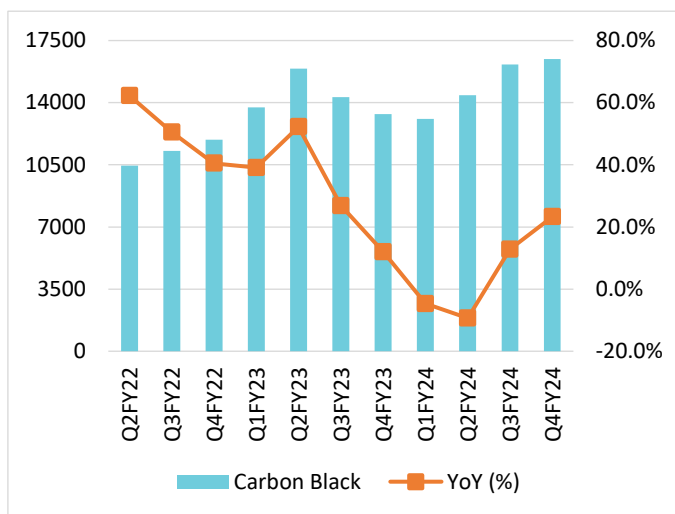
Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	4.0	20.1	20.1	10.7
RoE (%)	16.4	17.5	18.2	17.6
EBITDA growth (%)	12.3	31.2	24.5	11.9
Payout ratio (%)	34.0	28.3	25.0	25.0

Exhibit 1: Quarterly financial snapshot

Financial snapshot - (Consolidated)					(INR Mn)
Year to March	Q4FY24	Q4FY23	% change	Q3FY24	% change
Revenues	14,935	13,738	8.7	14,853	1
Raw material	10,277	10,244	0.3	10,405	-1
Staff costs	490	467	4.9	553	-11
Other expenditure	1,504	1,189	26.5	1,349	11
Total expenditure	12,271	11,899	3.1	12,308	-0
EBITDA	2,663	1,839	44.8	2,545	5
Depreciation	397	335	18.7	385	3
EBIT	2,266	1,504	50.6	2,161	5
Interest	691	186	271.3	224	209
Other income	229	160	42.7	39	489
Profit Before Tax	1,804	1,478	22.0	1,976	-9
Less: Provision for Tax	420	460	(8.8)	531	-21
Reported Profit	1,384	1,018	35.9	1,445	-4
No. of Diluted shares outstanding (mn)	378	378		378	
Adjusted Diluted EPS	3.7	2.7	35.9	3.8	(4.2)
As % of revenues					
COGS	68.8	74.6	-574.7	70.1	-124.1
Gross profit	31.2	25.4	574.7	29.9	124.1
Employee costs	3.3	3.4	-11.9	3.7	-44.6
Other expenses	10.1	8.7	142.0	9.1	98.8
Total operating expenses	82.2	86.6	-444.6	82.9	-69.9
EBITDA	17.8	13.4	444.6	17.1	69.9
Net profit	9.3	7.4	185.5	9.7	-45.8
Segment wise break-up					
	Q4FY24	Q4FY23	% change	Q3FY24	% change
Revenues					
Carbon Black	14533	13351	8.8	14447	1
Power	592	563	5.1	597	-1
Chemical	0	0	N/A	0	N/A
Inter segment	190	176	7.8	191	-1
Total	14853	13738	8.1	14853	0
EBIT					
Carbon Black	2465	1692	45.7	2416	2
Power	362	345	5.1	373	-3
Chemicals	0	0	N/A	0	N/A
Less Interest	691	186	271.3	224	209
Less Other Un-Allocable Expenditure Net Off Un-Allocable Income	332	372	-10.7	590	-44
Total	1976	1478	33.6	1976	0

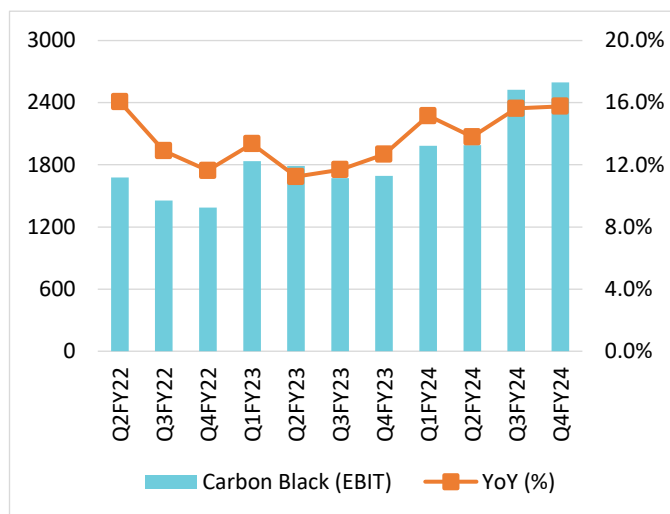
Source: Company, Nuvama Research

Exhibit 2: Carbon black growth continues



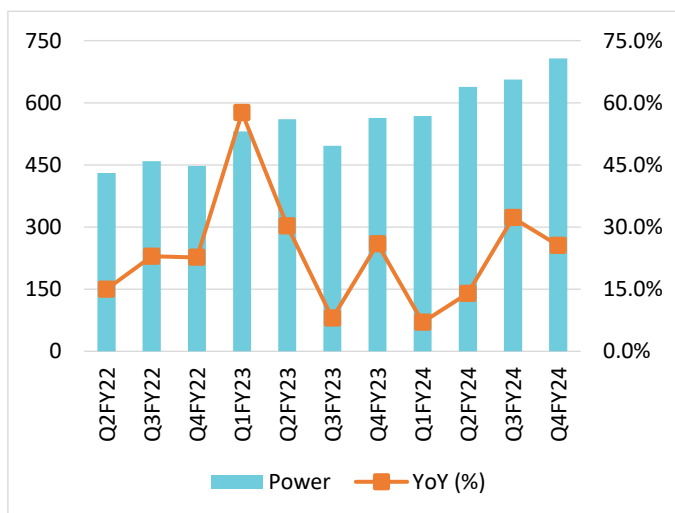
Source: Company, Nuvama Research

Exhibit 3: Contribution stabilises



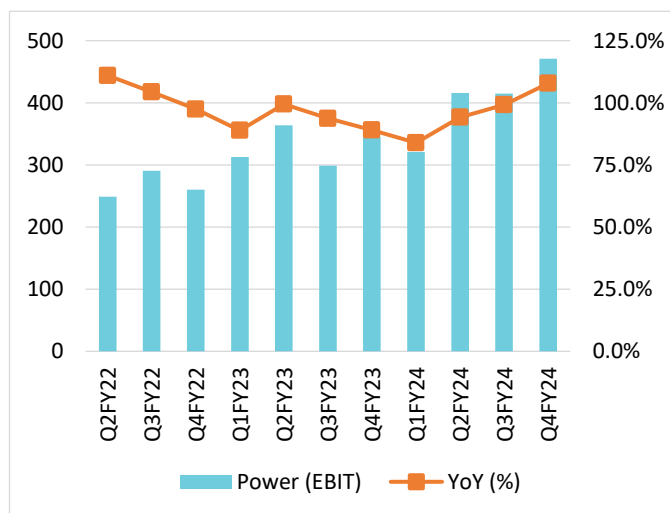
Source: Company, Nuvama Research

Exhibit 4: Power output flat YoY



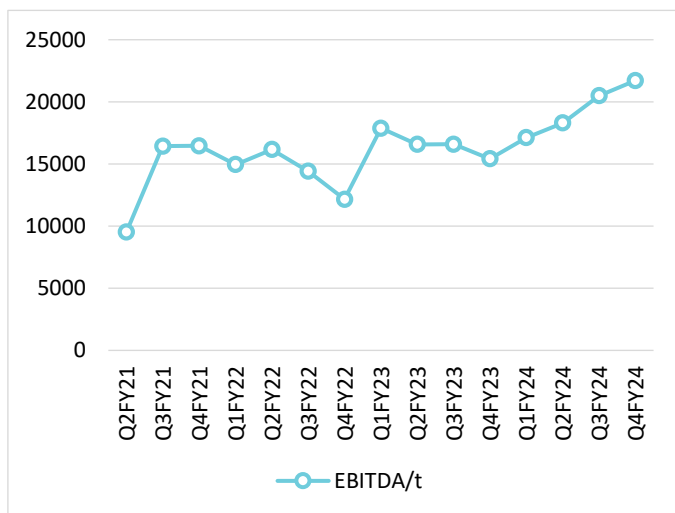
Source: Company, Nuvama Research

Exhibit 5: Contribution improves



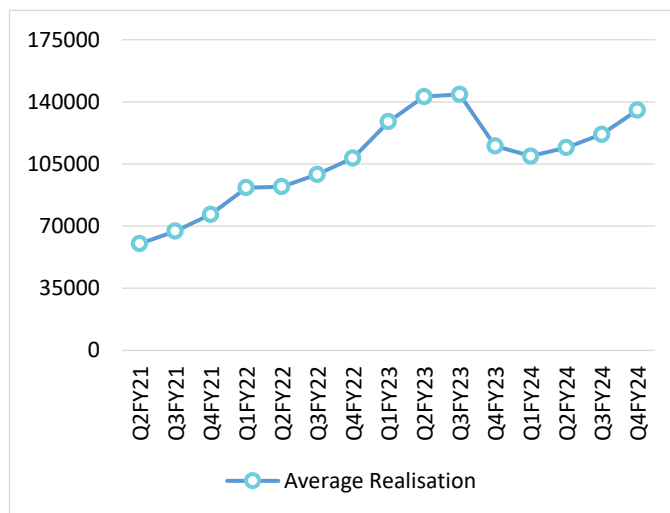
Source: Company, Nuvama Research

Exhibit 6: Highest-ever EBITDA/ton



Source: Company, Nuvama Research

Exhibit 7: Average realisations inches up further



Source: Company, Nuvama Research

Q4FY24 conference call highlights

Financial update

- PCBL's overall results came in marginally above our expectations as revenue increased 40% YoY and 16.5% sequentially to INR19.3bn.
- Higher revenue was account of an increase across carbon black/power by 23%/25% while contribution from the chemicals segment came in at INR2.3bn.
- During the quarter, the company posted its highest-ever carbon black production volumes of 142,545 tonnes, which increased YoY by 19.5% and sequentially by 5%.
- Higher growth was seen in the specialty black/performance segment, which grew 68%/35% YoY while tyre volumes remained flat at 79,598 tonnes.
- Gross margin expanded 625bp YoY to 31.7% due to lower raw material prices.
- EBITDA increased 68% YoY to INR3bn and 11% sequentially even as employee costs/other expenses increased 74%/85% due to higher topline growth and gross margin expansion.
- EBITDA margin expanded 265bp to 16% YoY while average EBITDA/ton increased 41% YoY to INR21,713/ton, which is also the highest-ever EBITDA/ton for the company.
- EBITDA/ton for carbon black during the quarter stood at INR22,600/ton.
- PAT for the quarter increased 9% YoY to INR1.1bn, but declined 25% sequentially due to higher depreciation and interest cost.

Other key highlights

- Power generated during the quarter increased 18% YoY to 181 units while units sold increased to 106 and net realisations remained flat at INR3.98/unit.
- Sales mix between domestic and international stood at 32% and 68%, respectively.
- **Capacity utilisation** - During Q4FY24, the Tamil Nadu plant reached capacity utilisation of 60%; management expects it to reach full capacity utilisation by end of FY25.
- During FY24, the company commissioned its greenfield carbon black plant in Chennai with 147ktpa capacity, which takes its total capacity to 770ktpa.
- Management mentioned that they plan to commission another 20,000ton capacity of specialty black in Gujarat, which would take its total capacity to 790ktpa
- They also mentioned that they plan to commission another 90ktpa brownfield plant in two phases with the first phase of 30ktpa, which should be done by the end of this year, and another phase of 60ktpa, which should be done by Q3FY26–Q4FY26.

- These additions shall take its total capacity to 880ktpa post which it is planning to do a greenfield capacity expansion of 100ktpa, which would take its total capacity to 1mn ton.
- Following Europe's ban on Russia for carbon black, volume increases are anticipated, although not significantly, as China is likely to supply via Turkey, resulting in a longer transit time.
- **Freight costs** – The Red Sea crisis has led export freight to remain elevated on routes to Europe. However, it has passed on the incremental cost to customers but with a lagged affect.
- **Aquafarm** - It is a leading specialty chemicals company with manufacturing units in India, the US and Saudi Arabia. It is also among the top three producers of phosphonates.
- Its major products include phosphonates, industrial water treatment, oil & gas chemicals and green chelates.
- Management said their plant in India is not fully utilised and they plan to increase its utilisation in FY25, with a planned capex of INR1bn.
- Its US plant is fully utilised. It expects to invest INR1.8bn in capex for this site in FY25.
- During FY24, profitability was hurt by higher-cost inventory being sold at lower prices and reduced operational efficiencies.
- In FY23, the company achieved peak revenue of INR20bn with 60% capacity utilisation and 20% margins.
- PCBL's new joint venture with Kinaltek Pty Ltd, Nanovace Technologies Ltd, intends to commence work on designing and establishing a pilot plant.

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	
HDFC AMC	1.70	ICICI Prudentia	0.51
Dimensional Fun	1.26	IDFC Mutual fun	0.48
Blackrock Inc	0.65	Australlian sup	0.40
Tata Asset mana	0.49	Wisdom Tree	0.27
Mahindra Manuli	0.53	American centur	0.17

*Latest public data

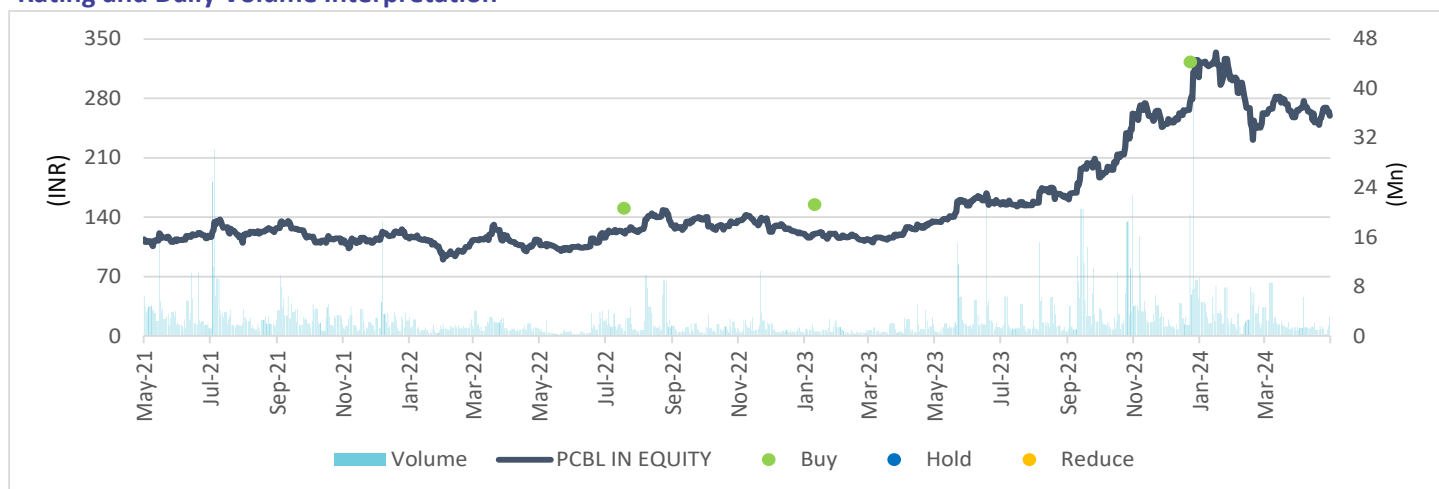
Recent Company Research

Date	Title	Price	Reco
15-Jan-24	Operating margin holds strong; <i>Result Update</i>	276	Buy
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

Recent Sector Research

Date	Name of Co./Sector	Title
19-Feb-24	Chemical	Early signs of revival; <i>Sector Update</i>
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%	212
Hold	<15% and >-5%	62
Reduce	<-5%	23

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