PCBL

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	391
12 month price target (INR)	397
52 Week High/Low	585/209
Market cap (INR bn/USD bn)	148/1.7
Free float (%)	47.0
Avg. daily value traded (INR mn)	1,049.3

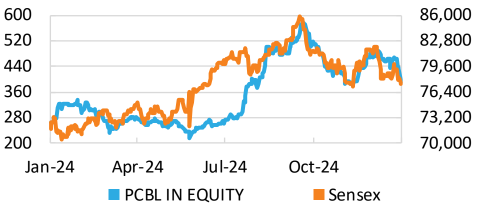
SHAREHOLDING PATTERN

	Mar-24	Jun-24	Sep-24
Promoter	51.41%	51.41%	51.41%
FII	6.68%	5.29%	4.99%
DII	5.61%	6.41%	6.80%
Pledge	%	%	%

FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	64,198	81,660	85,640	92,149
EBITDA	10,373	13,474	15,415	16,587
Adjusted profit	4,911	5,009	6,295	7,340
Diluted EPS (INR)	13.0	13.3	16.0	18.7
EPS growth (%)	11.1	2.0	20.6	16.6
RoAE (%)	16.2	14.3	15.1	15.0
P/E (x)	30.7	30.1	25.0	21.4
EV/EBITDA (x)	18.8	14.7	12.5	11.5
Dividend yield (%)	1.4	0.6	0.9	1.0

PRICE PERFORMANCE



Slower-than-expected growth

PCBL posted weak Q3FY25 results with revenue down 7.1% QoQ, primarily due to lower carbon black volumes and realisations. The Aquapharm business came under pressure owing to competition from China and tepid demand in US. EBITDA fell 12.7% QoQ as EBITDA/ton for carbon black fell 6.8% QoQ. PAT plunged 24.2% QoQ due to poor operating leverage and higher interest and depreciation expenses.

PCBL's long-term growth story backed by diversification of businesses holds merit, but elevated debt levels and a likely turnaround in Aquapharm are key monitorables. Given these factors, we revise rating to 'HOLD' (from 'BUY') and our TP to INR397. We move to valuing PCBL on consolidated estimates, at 12x Q3FY27 EV/EBITDA.

Profitability strained on all counts

PCBL overall posted weak numbers as revenue fell 7.1% QoQ to INR20.1bn, primarily due to a 6.0% drop in carbon black business, driven by a 3.5% volume decrease and 2.6% lower realisations, which management said was due to falling crude prices. While carbon black volumes inched down 3.5% QoQ, they grew 5.4% YoY while volumes in tyre/performance chemicals increased 3.9%/11.4%. EBITDA/ton for carbon black fell 6.8% QoQ to INR19,868/ton. PAT further plunged 36.7% YoY, mainly due to higher interest expenses and increased depreciation, resulting in a 100bp QoQ decline in PAT margins to 4.7%.

Strategic diversification augurs well for long term

PCBL's recent acquisition of Aquapharm enables the company to enter specialty chemicals and diversify its product offerings to serve a variety of industries. During Q3FY25, PCBL was allocated 116 acres of land in Andhra Pradesh to set up a new carbon black plant, which shall increase capacity by 400,000–450,000 tonnes in phases. The company is on track to achieve its ambition of creating a million-ton capacity. Diversification into specialty materials used in batteries and conductive polymers bodes well for PCBL's long-term growth runway.

Debt and near-term headwinds pose growth challenges

The long-term prospects of the company remain robust supported by its foray into specialty chemicals and JV with Kinaltek for Nano-Silicon additives. However, the company's expanding debt levels, slower-than-expected ramp up of new capacities and higher competition from China in Aquapharm may exert near-term stress on the performance and subsequently our estimates.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	20,100	16,568	21.3	21,632	(7.1)
EBITDA	3,173	2,790	13.8	3,635	(12.7)
Adjusted Profit	936	1,480	(36.7)	1,235	(24.2)
Diluted EPS (INR)	2.5	3.9	(36.7)	3.3	(24.2)

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	64,198	81,660	85,640	92,149
Gross profit	19,540	25,723	27,405	29,488
Employee costs	2,504	4,083	4,282	4,607
Other expenses	6,662	8,166	7,708	8,293
EBITDA	10,373	13,474	15,415	16,587
Depreciation	2,173	3,388	3,692	3,680
Less: Interest expense	1,808	3,897	3,843	3,673
Add: Other income	370	490	514	553
Profit before tax	6,763	6,679	8,394	9,786
Prov for tax	1,852	1,670	2,098	2,447
Less: Other adj	0	0	0	0
Reported profit	4,911	5,009	6,295	7,340
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,911	5,009	6,295	7,340
Diluted shares o/s	378	378	394	394
Adjusted diluted EPS	13.0	13.3	16.0	18.7
DPS (INR)	5.5	2.5	3.5	4.0
Tax rate (%)	27.4	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	378	378	394	394
Reserves	32,089	37,275	45,553	51,318
Shareholders funds	32,467	37,652	45,946	51,712
Minority interest	37	37	37	37
Borrowings	48,197	47,697	44,197	42,197
Trade payables	18,020	21,254	21,117	22,722
Other liabs & prov	12,523	12,523	12,661	12,805
Total liabilities	1,12,954	1,20,182	1,24,976	1,30,491
Net block	33,870	38,482	42,790	47,110
Intangible assets	33,321	33,321	33,321	33,321
Capital WIP	4,330	4,330	4,330	4,330
Total fixed assets	71,522	76,134	80,442	84,761
Non current inv	3,962	3,962	3,962	3,962
Cash/cash equivalent	3,848	369	2,739	2,789
Sundry debtors	17,102	22,373	21,117	21,459
Loans & advances	22	22	22	22
Other assets	13,062	14,255	13,627	14,430
Total assets	1,12,954	1,20,182	1,24,976	1,30,491

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Specialty black vol	57,247.0	66,247.0	73,247.0	81,947.0
Carbon black vol	5,31,305.0	6,00,849.0	6,50,617.2	7,28,601.6
Realisation/tonne	1,17,784.3	1,10,000.0	1,05,000.0	1,00,000.0
EBITDA margin (%)	16.2	16.5	18.0	18.0
Net profit margin (%)	7.6	6.1	7.4	8.0
Revenue growth (% YoY)	11.2	27.2	4.9	7.6
EBITDA growth (% YoY)	41.9	29.9	14.4	7.6
Adj. profit growth (%)	11.1	2.0	25.7	16.6

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	4,911	5,009	6,295	7,340
Add: Depreciation	2,173	3,388	3,692	3,680
Interest (net of tax)	1,808	3,897	3,843	3,673
Others	6,800	(691)	0	0
Less: Changes in WC	(2,572)	(3,230)	1,884	604
Operating cash flow	13,120	8,373	15,715	15,297
Less: Capex	(43,954)	(8,000)	(8,000)	(8,000)
Free cash flow	(30,834)	373	7,715	7,297

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	5.8	6.3	6.3	6.3
Repo rate (%)	5.5	5.0	5.0	5.0
USD/INR (average)	78.0	77.0	77.0	77.0
Volumes (MT)	19,107.3	15,320.5	17,529.0	19,556.5
Crude Prices (USD)	10.8	11.0	11.3	11.2

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	16.2	14.3	15.1	15.0
RoCE (%)	14.5	12.7	13.9	14.6
Inventory days	64	69	68	64
Receivable days	80	88	93	84
Payable days	113	128	133	128
Working cap (% sales)	13.0	14.2	11.3	9.9
Gross debt/equity (x)	1.5	1.3	1.0	0.8
Net debt/equity (x)	1.4	1.3	0.9	0.8
Interest coverage (x)	4.5	2.6	3.1	3.5

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	30.7	30.1	25.0	21.4
Price/BV (x)	4.6	4.0	3.4	3.0
EV/EBITDA (x)	18.8	14.7	12.5	11.5
Dividend yield (%)	1.4	0.6	0.9	1.0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	11.1	2.0	20.6	16.6
RoE (%)	16.2	14.3	15.1	15.0
EBITDA growth (%)	41.9	29.9	14.4	7.6
Payout ratio (%)	42.3	18.8	21.9	21.4

Exhibit 1: Quarterly financial snapshot

Year to March	Q3FY25	Q3FY24	% change	Q2FY25	% change	FY25E	FY26E	FY27E
Revenues	20,100	16,568	21.3	21,632	-7	81,660	85,640	92,149
Raw material	13,853	11,645	19.0	14,986	-8	55,937	58,235	62,662
Staff costs	1,049	610	72.1	985	7	4,083	4,282	4,607
Other expenditure	2,025	1,524	32.9	2,026	-0	8,166	7,708	8,293
Total expenditure	16,927	13,778	22.9	17,997	-6	68,186	70,225	75,562
EBITDA	3,173	2,790	13.8	3,635	-13	13,474	15,415	16,587
Depreciation	867	527	64.6	864	0	3,388	3,692	3,680
EBIT	2,307	2,263	1.9	2,771	-17	10,086	11,723	12,906
Interest	1,177	324	263.7	1,189	-1	3,897	3,843	3,673
Other income	111	72	54.7	57	96	490	514	553
Profit Before Tax	1,241	2,011	(38.3)	1,638	-24	6,679	8,394	9,786
Less: Provision for Tax	304	531	(42.7)	404	-25	1,670	2,098	2,447
Reported Profit	936	1,480	(36.7)	1,235	-24	5,009	6,295	7,340
No. of Diluted shares outstanding (mn)	378	378		378		378	394	394
Adjusted Diluted EPS	2.5	3.9	(36.7)	3.3	(24.2)	13.3	16.0	18.7
As % of revenues								
COGS	68.9	70.3	-136.6	69.3	-36.0	68.5	68.0	68.0
Gross profit	31.1	29.7	136.6	30.7	36.0	31.5	32.0	32.0
Employee costs	5.2	3.7	153.9	4.6	66.6	5.0	5.0	5.0
Other expenses	10.1	9.2	87.5	9.4	71.0	10.0	9.0	9.0
Total operating expenses	84.2	83.2	104.9	83.2	101.6	83.5	82.0	82.0
EBITDA	15.8	16.8	-104.9	16.8	-101.6	16.5	18.0	18.0
Net profit	4.7	8.9	-427.5	5.7	-104.9	6.1	7.4	8.0

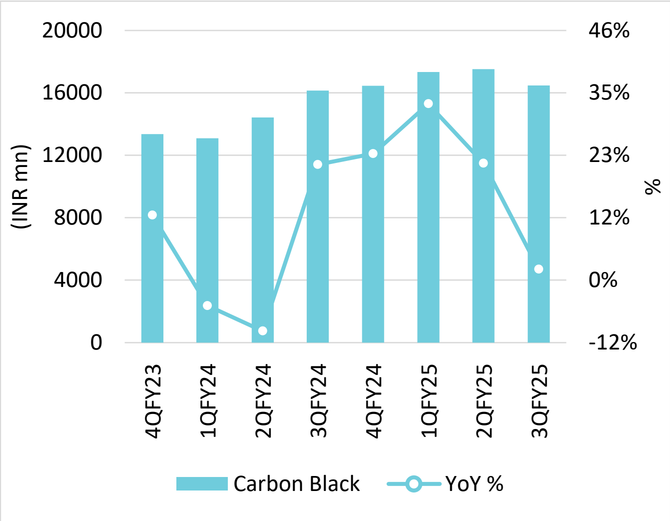
Source: Company, Nuvama Research

Exhibit 2: Segmental information

Segment wise break-up	Q3FY25	Q3FY24	% change	Q2FY25	% change
Revenues					
Carbon Black	16,475	16,150	2	17,530	-6.0
Power	329	418	-21	449	-26.7
Chemical	3,266	0		3,609	-9.5
Total	20,070	16,568	21	21,587	-7.0
EBIT					
Carbon Black	2,511	2,524	-1	2,720	-7.7
Power	376	415	-9	497	-24.2
Chemicals	108	0		196	-44.8
Other Un-Allocable Expenditure Net Off Un-Allocable Income	-688	-676		-641	
Total	2,307	2,263	2	2,771	-17

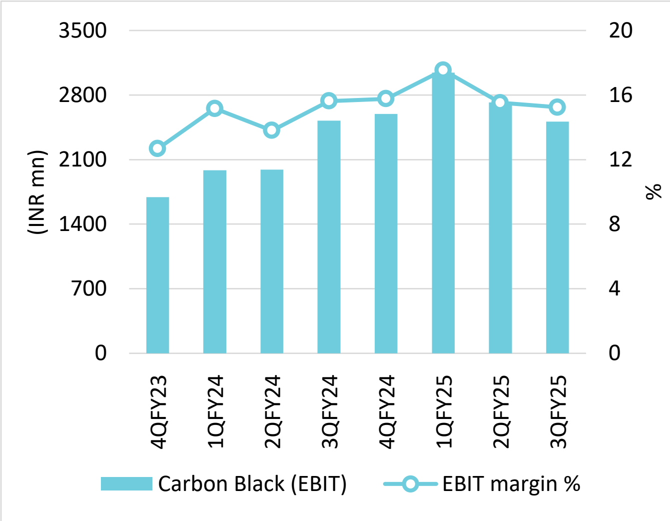
Source: Company, Nuvama Research

Exhibit 3: Carbon black revenue falls sequentially



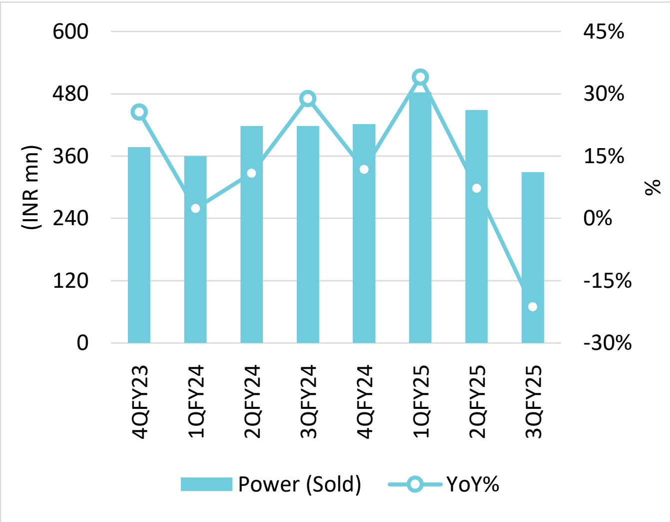
Source: Company, Nuvama Research

Exhibit 4: Carbon black EBIT decreases further



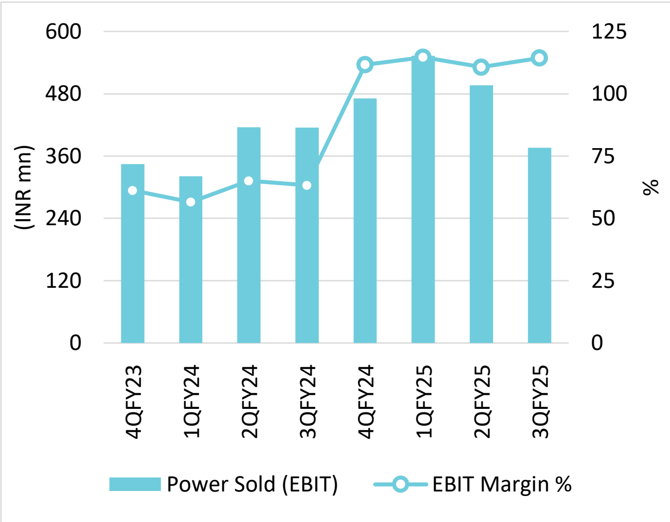
Source: Company, Nuvama Research

Exhibit 5: Power segment—sales



Source: Company, Nuvama Research

Exhibit 6: Power segment—EBIT



Source: Company, Nuvama Research

Q3FY25 conference call: Key takeaways

Financial update

- PCBL overall posted weak results as revenue declined 7% sequentially to INR20.1bn (in line with our estimates) mainly due to 6% decline in the carbon black business as volumes fell 4% while realisations were down 3%.
- Lower realisation was mainly due to a decline in crude prices as its principle raw material is a derivative of crude.
- **Volumes**: Carbon black volumes during the quarter inched down 4% sequentially while they increased 5% YoY, followed by an increase in volumes in tyre/performance chemicals by 4%/11%. However, specialty black volumes remained flat.
- Aquapharm also clocked a further 9.5% QoQ decline in top line to INR3.2bn mainly due to tepid demand and higher dumping from China.
- Gross profit margin was 31.1%, up 140bp YoY due to lower raw material prices.
- EBITDA increased 14% YoY amounting to INR3.2bn (includes Aquapharm numbers) but fell 13% QoQ with EBITDA margins at 15.8%, which declined YoY/QoQ by 100bp each.
- EBITDA/ton for carbon black fell 6.8% QoQ to INR19,868/ton. EBITDA from Aquapharm business increased marginally by 2% QoQ to INR510mn.
- EBIT margins for Aquapharm fell QoQ by 211bp to 3.3% while EBIT margins from the carbon black business further declined 30bp to 15.2%.
- PAT declined 36% YoY mainly due to lower margins/interest expense and depreciation increasing 270%/65%. Furthermore, PAT margins fell 427bp YoY to 4.7%.

Carbon black

- **Land allocation**: During the quarter, PCBL was allocated 116 acres of land in Andhra Pradesh for establishing a new carbon black plant.
- This will add 400,000–450,000 tonnes of carbon black capacity in a phased manner, with Phase 1 involving the installation of 150,000 tonnes at an estimated cost of INR9bn.
- **Specialty black:** The Mundra plant commissioned 20,000mtpa of capacity during the quarter, bringing the total installed capacity of specialty black to 112,000mtpa.
- **Carbon black spreads**: Carbon black spreads have reduced due to a drop in crude prices, which affected overall realisations.
- **Impact of Russian sanctions:** Domestic margins in carbon black have been hurt by the influx of Russian supplies into the Asian market due to sanctions on Russia.

Aquapharm

- During the quarter, Aquapharm reported revenue of INR3.2bn, with EBIT of INR108mn, resulting in a margin of 3.3%.
- Sales volume declined 6% sequentially to 23,000mt and capacity utilisation for the quarter was above 70%.
- Revenue and EBIT margin fell QoQ due to weak demand in the US oil & gas industry and strong competition from China.
- The decline in EBIT margin was mainly due to a change in the product mix and poor operating leverage.
- Aquapharm's current market share in the US oil & gas industry is below 1%, providing significant room for growth.
- Management remains focused on expanding its geographic presence beyond North America and reducing costs to improve operational efficiency.
- **Capacity expansion:** Aquapharm's 38,000mtpa capacity expansion in India is on track and likely to be completed by Mar-25.
- **Expansion in Jeddah:** Brownfield expansion shall meet local demand in the Middle East and African markets.
- **Outlook:** Management remains confident on achieving quarterly EBITDA run rate of INR800–900mn post Q4FY26, driven by new product launches, an expanding customer base, and a recovery in the specialty chemicals industry.

Other key highlights

- **JV with Kinaltek:** Work on the pilot plant is underway and PCBL has started placing order for equipment. Once the product stabilises, PCBL plans to add a 2,000-tonne factory, at an estimated cost of USD25–30mn.
- **Container and freight costs:** Container and freight costs have started softening and are unlikely to increase going ahead.

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, 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	1.71	Tata Asset mana	0.67
IDFC Mutual fun	1.58	Australlian sup	0.40
Dimensional Fun	1.16	BOI Investment	0.32
Mahindra Manuli	0.69	FIL ltd	0.31
Blackrock Inc	0.69	WisdomTree Inc	0.28

**Latest public data*

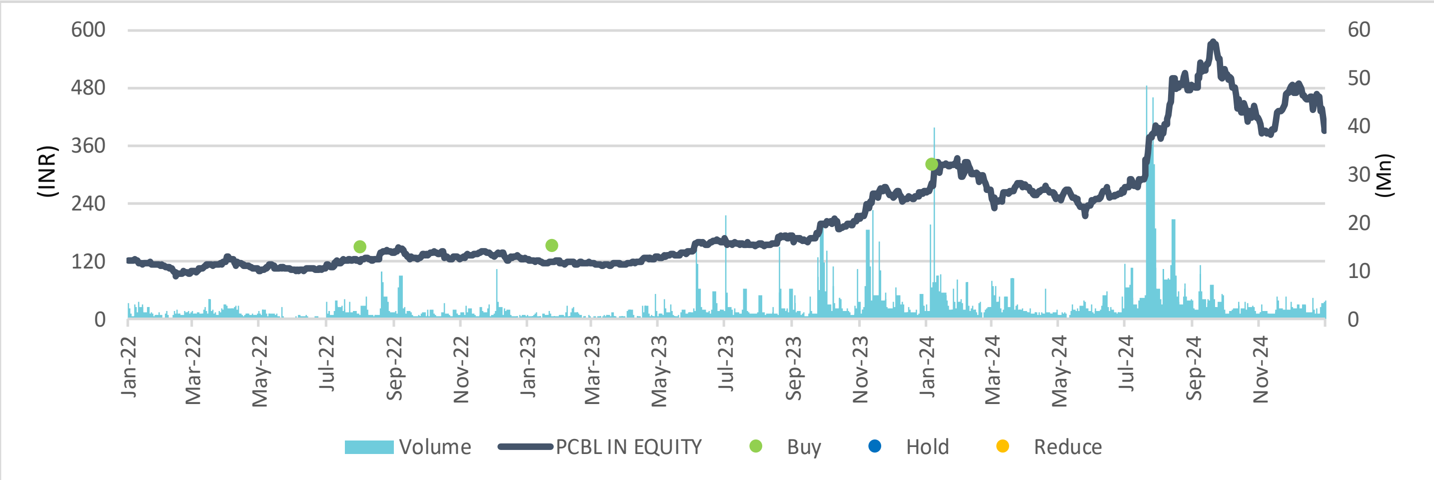
Recent Company Research

Date	Title	Price	Reco
30-Oct-24	PCBL (PCBL IN, INR 441, BUY) - EBITDA/mt; *Result Update*	433	Buy
12-Aug-24	Moving towards specialty chemicals; *Result Update*	387	Buy
23-May-24	EBITDA/mt scales new heights; *Result Update*	259	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
19-Feb-24	Chemical	Early signs of revival; *Sector Update*
25-Apr-19	Chemical	Chemspec: Party for domestic manufacture; *Sector Update*

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%	226
Hold	<15% and >-5%	63
Reduce	<-5%	26

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