

Healthy B/S to help navigate muted demand prospects

Phillips Carbon Black (PCBL) reported a steady Q3FY20 performance. Total carbon black (CB) sales volume came in at 98,500 tonne, down 3.4% YoY. In terms of volume mix, domestic CB sales volume was at 71,000 tonne (down 9.2% YoY) while export sales volume came in at 27,500 tonne (up 16.1% YoY). Consequent net sales in Q3FY20 were at ₹ 769 crore. EBITDA in Q3FY20 was at ₹ 120 crore with attendant EBITDA margins at 15.6%. Ensuing PAT in Q3FY20 was at ₹ 70 crore. CB realisations for the quarter were at ₹ 76/kg while EBITDA/tonne was at ₹ 12,203 /tonne. PCBL also declared an interim dividend of ₹ 7/share including special dividend of ₹ 3.5.

Amid domestic auto slowdown, focus now tilted to exports

Carbon black is an essential ingredient for manufacturing tyres and forms ~26% of tyre by weight. Tyre, per se, is a consumable product with healthy replacement demand thereby ensuring organic growth prospects. The domestic auto industry, however, is traversing one of the severe downturns in history with cumulative auto volume down YTD FY20 at ~13% YoY. Slow economic activity is also proving detrimental for replacement demand, which coupled with incremental capacities in the system, is denting the overall domestic demand for carbon black players like PCBL. In the present times of domestic demand turmoil, PCBL with its concentrated efforts in the export markets as well as some sort of decline in CB manufacturing from China is increasing its export play and is confident of pushing extra volumes in the export market. Going forward, we build in 3.0% volume CAGR over FY19-22E to 4.4 lakh tonne in FY22E, largely driven by 16.3% volume CAGR in the export market (1.5 lakh tonne in FY22E).

Increasing share of speciality grade, structurally positive!

Specialty grade CB is a margin accretive product and difficult to crack amid global dominance by a few players. PCBL, through its years of R&D and capability building process, has made a mark in this field and clocked ~20,000 tonne (~5% of total CB sales volume) from this division in FY19. Going forward, with incremental capacities in place, the company is well poised to outperform its base business growth with speciality grade CB sales volume growing at a CAGR of 26% in FY19-22E to 40,000 tonne in FY22E (~9% of total volume). This will augment its EBITDA margins to 15.6% in FY22E post re-basing in FY20E at 14.9% (70 bps expansion over FY20-22E)

Valuation & Outlook

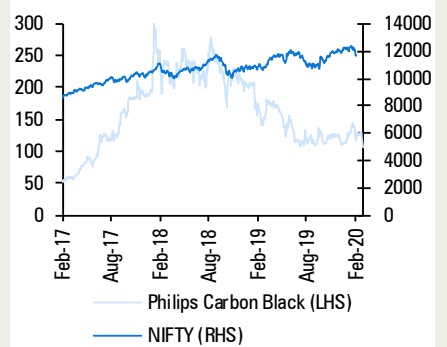
PCBL is a leading CB player domestically with healthy B/S (FY20E debt: equity at 0.4x) and capital efficient business model (FY20E RoE, RoCE at ~16%). We value PCBL at ₹ 140 i.e. 5.5x EV/EBITDA on FY21E numbers with a **BUY** rating on the stock. We drive great comfort from healthy CFO generation at PCBL with the present CFO yield >20%.



Particulars

| Stock Data | ₹ crore |
|---------------------------------|-----------|
| Market Capitalization | 1895 |
| Total Debt (FY19) | 796 |
| Cash and Cash Equivalent (FY19) | 185 |
| Enterprise Value | 2507 |
| 52 week H/L (₹) | 185 / 105 |
| Equity Capital | 34.5 |
| Face Value | ₹ 2 |

Price Chart



Research Analyst

Chirag Shah
chirag.shah@icicisecurities.com

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

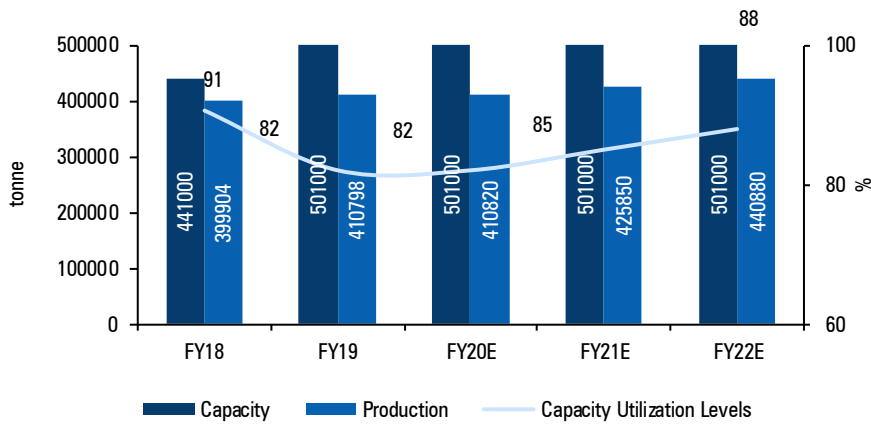
Key Financial Summary

| Key Financials | FY18 | FY19 | FY20E | FY21E | FY22E | CAGR (FY20E-22E) |
|--------------------|---------|---------|---------|---------|---------|------------------|
| Net Sales | 2,546.9 | 3,528.6 | 3,269.5 | 3,488.7 | 3,644.5 | 5.6% |
| EBITDA | 386.0 | 622.8 | 485.9 | 522.4 | 568.1 | 8.1% |
| EBITDA Margins (%) | 15.2 | 17.6 | 14.9 | 15.0 | 15.6 | |
| Net Profit | 229.8 | 388.5 | 279.4 | 289.9 | 326.1 | 8.0% |
| EPS (₹) | 13.3 | 22.5 | 16.2 | 16.8 | 18.9 | |
| P/E | 8.2 | 4.9 | 6.8 | 6.5 | 5.8 | |
| RoNW (%) | 16.7 | 23.6 | 15.7 | 14.6 | 15.0 | |
| RoCE (%) | 15.6 | 22.8 | 16.1 | 16.7 | 18.0 | |

Source: ICICI Direct Research, Company

Financial story in charts

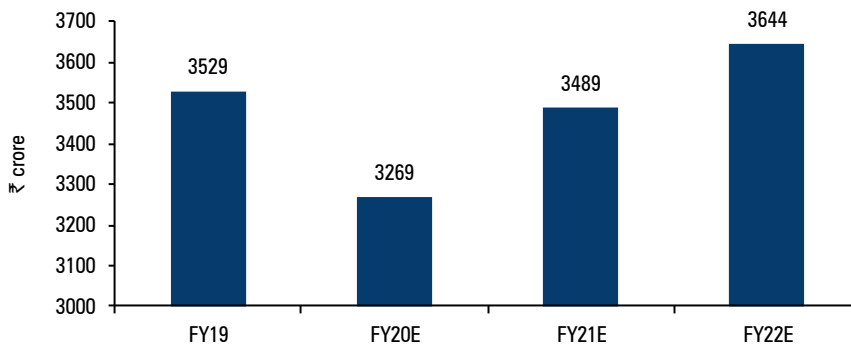
Exhibit 1: Effective capacity, production and utilisation levels



We build in 3.0% volume CAGR over FY19-22E to 4.4 lakh tonne in FY22E, largely driven by 16.3% volume CAGR in the export market (1.5 lakh tonne in FY22E)

Source: Company, ICICI Direct Research

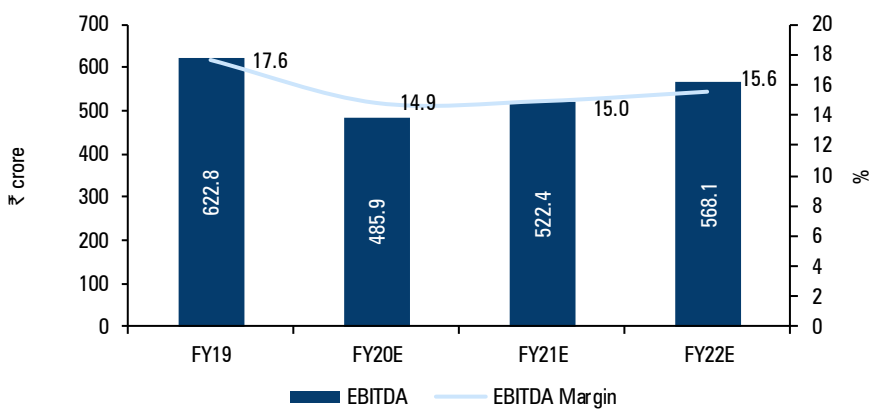
Exhibit 2: Topline trend



We expect sales to grow at a CAGR of 5.6% over FY20-22E to ₹ 3644 crore in FY22E

Source: Company, ICICI Direct Research

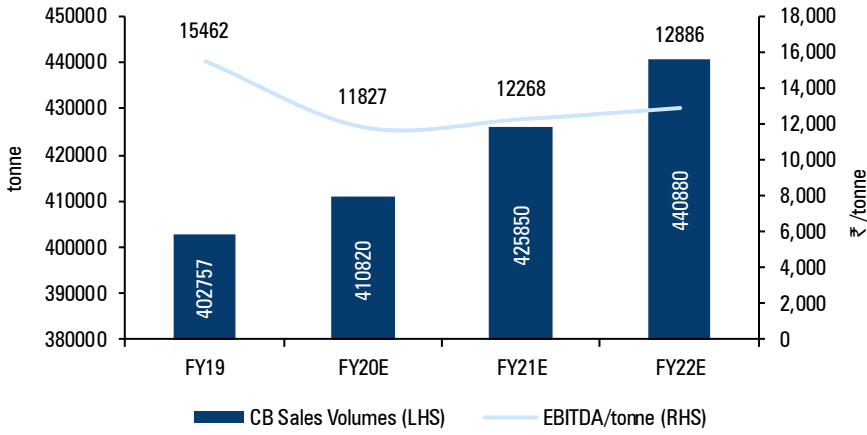
Exhibit 3: EBITDA and EBITDA margin trend



Given the de-basing of margins in FY20E at 14.9%, we expect EBITDA margins to perk up to 15.6% in FY22E

Source: Company, ICICI Direct Research

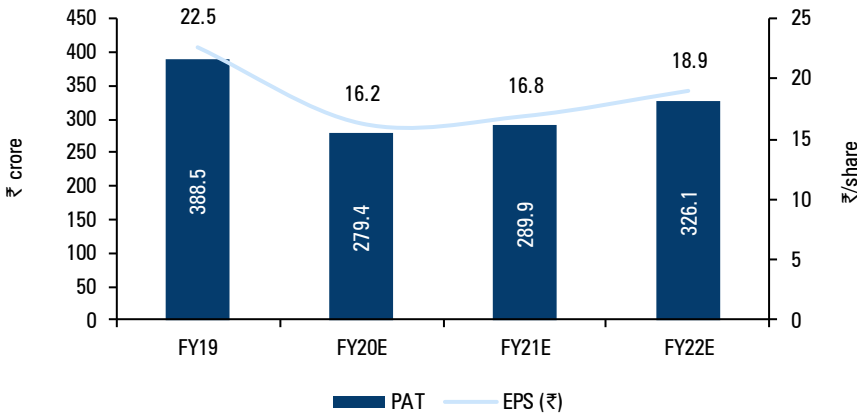
Exhibit 4: Sales volume and EBITDA/tonne trend



EBITDA/tonne expected to improve to ₹ 12,268/tonne in FY21E & ₹ 12,886/tonne in FY22E vs. ₹ 11,827/tonne in FY20E

Source: Company, ICICI Direct Research

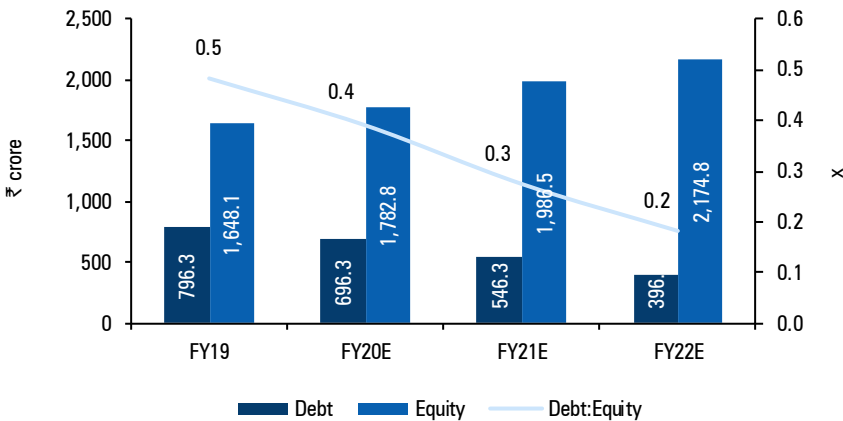
Exhibit 5: PAT & EPS trend



Earnings CAGR is expected at 8.0% over FY20-22E

Source: Company, ICICI Direct Research

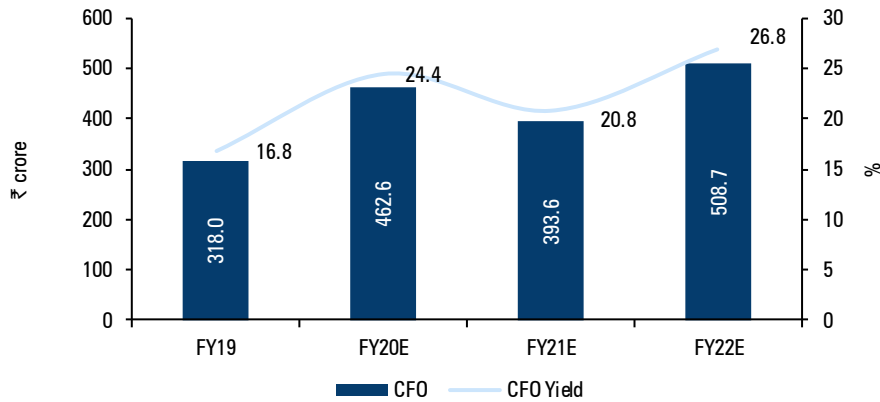
Exhibit 6: Debt leverage profile



Leverage is controlled with FY19 debt: equity at 0.5x, which is further expected to draw down to 0.2x in FY22E

Source: Company, ICICI Direct Research

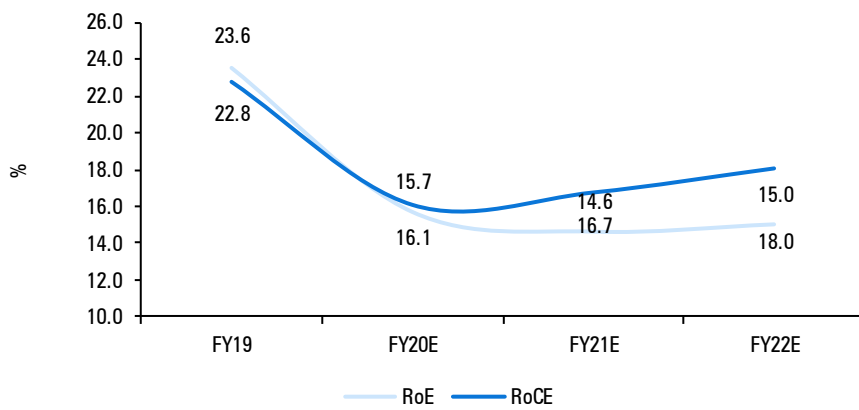
Exhibit 7: Healthy CFO generation



CFO generation is robust with average CFO generation of ~₹ 400 crore in FY19-22E vs. the current MCap of ~₹ 1,900 crore offering a healthy CFO yield of >20%

Source: Company, ICICI Direct Research

Exhibit 8: Return ratio trend



Return ratio profile is healthy with RoCE comfortably placed at ~15-16% level over FY20-22E

Source: Company, ICICI Direct Research

Exhibit 9: Key valuation metrics

| | Sales (₹ cr) | Growth (%) | EPS (₹) | Growth (%) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| FY19 | 3528.6 | 39.0 | 22.5 | 69.1 | 4.9 | 4.0 | 23.6 | 22.8 |
| FY20E | 3269.5 | -7.3 | 16.2 | -28.1 | 6.8 | 5.2 | 15.7 | 16.1 |
| FY21E | 3488.7 | 6.7 | 16.8 | 3.8 | 6.5 | 4.5 | 14.6 | 16.7 |
| FY22E | 3644.5 | 4.5 | 18.9 | 12.5 | 5.8 | 3.7 | 15.0 | 18.0 |

Source: Bloomberg, ICICI Direct Research

Financial Summary

| Exhibit 10: Profit and loss statement | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Net Sales | 3528.6 | 3269.5 | 3488.7 | 3644.5 |
| Other Operating Income | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Operating Income | 3528.6 | 3269.5 | 3488.7 | 3644.5 |
| Growth (%) | 32.0 | -7.3 | 6.7 | 4.5 |
| Raw Material Expenses | 2,296.6 | 2,215.0 | 2,354.9 | 2,441.8 |
| Employee Expenses | 110.9 | 122.6 | 136.9 | 142.6 |
| Selling Expense | 141.1 | 130.8 | 139.5 | 145.8 |
| Other Operating Expense | 357.2 | 315.3 | 334.9 | 346.2 |
| Total Operating Expenditure | 2,905.8 | 2,783.6 | 2,966.3 | 3,076.4 |
| EBITDA | 622.8 | 485.9 | 522.4 | 568.1 |
| Growth (%) | 49.0 | -22.0 | 7.5 | 8.7 |
| Depreciation | 66.4 | 88.0 | 98.8 | 104.4 |
| Interest | 36.4 | 46.6 | 40.4 | 30.6 |
| Other Income | 18.8 | 20.3 | 13.9 | 19.8 |
| PBT | 538.8 | 371.6 | 397.1 | 452.9 |
| Exceptional Item | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 150.3 | 92.2 | 107.2 | 126.8 |
| PAT | 388.5 | 279.4 | 289.9 | 326.1 |
| Growth (%) | 231.0 | -28.1 | 3.8 | 12.5 |
| EPS (₹) | 22.5 | 16.2 | 16.8 | 18.9 |

Source: Company, ICICI Direct Research

| Exhibit 11: Cash flow statement | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Profit after Tax | 388.5 | 279.4 | 289.9 | 326.1 |
| Add: Depreciation | 66.4 | 88.0 | 98.8 | 104.4 |
| (Inc)/dec in Current Assets | -319.0 | 88.2 | -77.0 | 18.2 |
| Inc/(dec) in CL and Provisions | 145.7 | -39.7 | 41.4 | 29.4 |
| Others | 36.4 | 46.6 | 40.4 | 30.6 |
| CF from operating activities | 318.0 | 462.6 | 393.6 | 508.7 |
| (Inc)/dec in Investments | -46.4 | 95.1 | -10.0 | -90.0 |
| (Inc)/dec in Fixed Assets | -275.8 | -275.0 | -100.0 | -100.0 |
| Others | 18.3 | 0.0 | 0.0 | 0.0 |
| CF from investing activities | -303.9 | -179.9 | -110.0 | -190.0 |
| Issue/(Buy back) of Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | 75.6 | -100.0 | -150.0 | -150.0 |
| Interest & Dividend paid | -108.8 | -191.4 | -126.5 | -168.5 |
| Inc/(dec) in Share Cap | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | -40.4 | 0.0 | 0.0 | 0.0 |
| CF from financing activities | -73.5 | -291.4 | -276.5 | -318.5 |
| Net Cash flow | -59.4 | -8.7 | 7.1 | 0.2 |
| Opening Cash | 139.0 | 79.6 | 70.8 | 77.9 |
| Closing Cash | 79.6 | 70.8 | 77.9 | 78.2 |

Source: Company, ICICI Direct Research

| Exhibit 12: Balance Sheet | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Liabilities | | | | |
| Equity Capital | 34.5 | 34.5 | 34.5 | 34.5 |
| Reserve and Surplus | 1,613.6 | 1,748.3 | 1,952.1 | 2,140.3 |
| Total Shareholders funds | 1648.1 | 1782.8 | 1986.5 | 2174.8 |
| Total Debt | 796.3 | 696.3 | 546.3 | 396.3 |
| Deferred Tax Liability | 257.6 | 257.6 | 257.6 | 257.6 |
| Minority Interest / Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 2701.9 | 2736.6 | 2790.4 | 2828.6 |
| Assets | | | | |
| Gross Block | 1746.5 | 2121.5 | 2271.5 | 2366.5 |
| Less: Acc Depreciation | 246.1 | 334.1 | 433.0 | 537.3 |
| Net Block | 1500.3 | 1787.3 | 1838.5 | 1829.2 |
| Capital WIP | 175.0 | 75.0 | 25.0 | 30.0 |
| Total Fixed Assets | 1,675.4 | 1,862.4 | 1,863.5 | 1,859.2 |
| Investments | 383.8 | 288.7 | 298.7 | 388.7 |
| Inventory | 460.3 | 403.1 | 430.1 | 449.3 |
| Debtors | 652.7 | 627.0 | 669.1 | 698.9 |
| Loans and Advances | 102.3 | 98.1 | 104.7 | 36.4 |
| Other Current Assets | 20.8 | 19.6 | 20.9 | 21.9 |
| Cash | 79.6 | 70.8 | 77.9 | 78.2 |
| Total Current Assets | 1,315.6 | 1,218.7 | 1,302.7 | 1,284.7 |
| Current Liabilities | 573.3 | 537.4 | 573.5 | 599.1 |
| Provisions | 84.5 | 80.6 | 86.0 | 89.9 |
| Current Liabilities & Prov | 657.8 | 618.1 | 659.5 | 689.0 |
| Net Current Assets | 657.8 | 600.6 | 643.2 | 595.8 |
| Others Assets | -15.0 | -15.0 | -15.0 | -15.0 |
| Application of Funds | 2701.9 | 2736.6 | 2790.4 | 2828.6 |

Source: Company, ICICI Direct Research

| Exhibit 13: Key ratios | | | | |
|-----------------------------|------------|------------|------------|------------|
| (Year-end March) | FY19 | FY20E | FY21E | FY22E |
| Per share data (₹) | | | | |
| EPS | 22.5 | 16.2 | 16.8 | 18.9 |
| Cash EPS | 26.4 | 21.3 | 22.6 | 25.0 |
| BV | 95.7 | 103.5 | 115.3 | 126.2 |
| DPS | 3.5 | 7.0 | 5.0 | 8.0 |
| Cash Per Share (Incl Invst) | 26.9 | 20.9 | 21.9 | 27.1 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 17.6 | 14.9 | 15.0 | 15.6 |
| PAT Margin | 11.0 | 8.5 | 8.3 | 8.9 |
| Inventory days | 47.6 | 45.0 | 45.0 | 45.0 |
| Debtor days | 67.5 | 70.0 | 70.0 | 70.0 |
| Creditor days | 59.3 | 60.0 | 60.0 | 60.0 |
| Return Ratios (%) | | | | |
| RoE | 23.6 | 15.7 | 14.6 | 15.0 |
| RoCE | 22.8 | 16.1 | 16.7 | 18.0 |
| RoIC | 23.6 | 15.3 | 15.7 | 17.5 |
| Valuation Ratios (x) | | | | |
| P/E | 4.9 | 6.8 | 6.5 | 5.8 |
| EV / EBITDA | 4.0 | 5.2 | 4.5 | 3.7 |
| EV / Net Sales | 0.7 | 0.8 | 0.7 | 0.6 |
| Market Cap / Sales | 0.5 | 0.6 | 0.5 | 0.5 |
| Price to Book Value | 1.2 | 1.1 | 1.0 | 0.9 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 1.3 | 1.4 | 1.0 | 0.7 |
| Debt / Equity | 0.5 | 0.4 | 0.3 | 0.2 |
| Current Ratio | 1.9 | 1.9 | 1.9 | 1.8 |
| Quick Ratio | 1.2 | 1.2 | 1.2 | 1.1 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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