

PHILLIPS CARBON BLACK LTD.

Industry	Carbon Black
No. of Shares (Crore)	17.23
Face value (Rs)	2
Mkt. Cap (Rs. Crore)	3503.72
Price (06/04/2021)	203.35
Book Value (Rs)	111.30
P/BV	1.82
BSE Code	506590
NSE Code	PHILPCARB
Bloomberg	PHCB:IN
Reuters	PHIL.BO
Avg. Weekly Volume (NSE)	19,47,640
52 W H/L (Rs)	217.70/68.20
Shareholding Pattern	%
Promoters	53.56
Institutions	11.85
Non- Institutions	34.59
Total	100
(As on December 31, 2021)	
Recommendation	
BUY	

Company Background

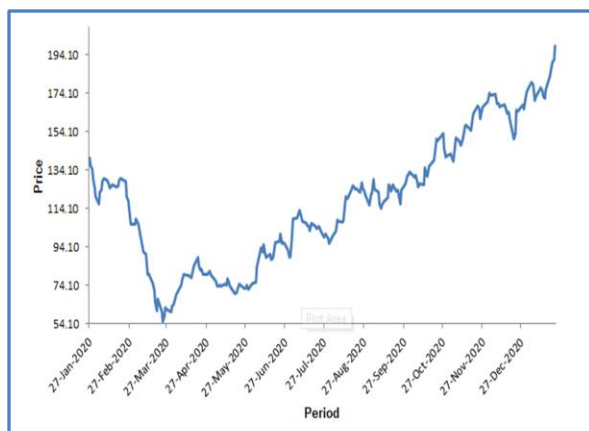
Phillips carbon Black Limited (PCBL) is a leading player for carbon black with customers across the globe. It is India's largest carbon black manufacturer, with four state-of-the-art plants at Durgapur, Palej, Kochi and Mundra. The company has a production capacity of 571,000 Metric Tonnes (MT) per annum with a dedicated capacity for specialty black of 40,000 MT. It also generates 76MW of green power from its cogeneration plants located across its manufacturing units. The company has presence in more than 40 countries to meet specific end-requirements across rubber, plastics, coatings, inks and other niche products. PCBL (TN), a wholly owned subsidiary of PCBL has been incorporated for implementing the greenfield project of 1,50,000 MT of carbon black and 25MW of captive power plants in Tamil Nadu and is expected to be commissioned by March'23.

Investment Rationale

- PCBL is the largest carbon black company in India by capacity and 7th largest globally, which commands leadership position in India, with a strong global footprint and presence across 40+ countries. Company has **10% market share** in carbon black in Asia (ex China) and is the largest Indian exporter of carbon black.
- The demand for carbon black is more dependent on tyre usage and that is dependent on movement of goods and people as well as general economic activity. With economic activity restoring post covid-19 outbreak, the replacement market has breached pre-COVID level much faster than anticipated. PCBL, being the market leader in carbon black segment, is going to get the benefit from the trend.
- PCBL is engrossing on moving up the value chain and producing more value-added products where the margins are comparatively higher and also to mitigate the competition from China & Russia.
- It continues to expand its product portfolio of high performance high-margin grades for both rubber and specialty black applications. With the enhanced demand for packaging material and engineered plastic goods, specialty black sales volume stood at 7,185 MT in Q3FY21, 35% growth viz. a viz. Q2FY21.
- Net Sales for Q3FY21 remained flat at 769.40 crores however PBIDTM expanded 839 basis points y-o-y as input cost declined significantly by 17.75%, YoY, to 410.78 crore for Q3FY21, aiding bottom-line expansion.
- In a recent notification, the Ministry of Finance has refused extension of antidumping duty on imports of carbon black (used for rubber application) into India largely from China & Russia. However, this would not impact the underlying business fundamentals for the domestic carbon black players, as of now, including industry leader PCBL as extension of antidumping duty just ensures incremental volume offtake for carbon black players and by no means effect better pricing or profitability.

Recommendation

Replacement demand for tyres of late has been witnessing and gaining a lot of traction. Besides, creeping demand from domestic market as well as exports elicited sharp recovery in Q3FY21. The company has recognized Specialty Carbon Black as the next growth driver thus expanding its capacity to meet the demand and also to sustain higher margins. At the CMP Rs.203.35 the scrip is trading at ~11.30 times its FY22E earnings. Hence, we recommend a buy on the stock with a target price of Rs.250 which implies a prospective and potential upside of ~22.94% with an investment horizon of 9-12 months.



Particulars (In Rs.Crs)	Q3FY21	Q3FY20	Var%	FY20	FY19	FY18	FY17
Net Sales	769.40	768.65	0.10	3243.54	3528.56	2557.94	1926.95
Operating Profit	190.68	125.97	51.37	493.06	636.10	405.59	276.76
Profit After Tax	125.55	70.20	78.85	287.50	382.67	229.60	68.69
PBIDTM%	24.78	16.39	51.22	15.20	18.03	15.53	12.99
PATM%	16.32	9.13	78.67	8.86	10.84	8.79	3.22
EPS (Rs.)	7.28	4.07	78.87	16.63	22.26	66.39*	20.10*

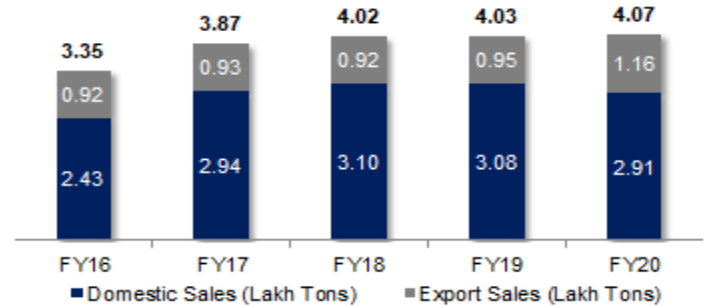
*FV- Rs.10; Stock split from Rs.10/- to Rs.2/-

Source: Company, Ace Equity, AUM

Leadership Position in Carbon Black in India, With a Strong Global Footprint

Largest carbon black company in India

Company	Capacity (KTPA)
Phillips Carbon Black	571
Birla Carbon (SKI Carbon)	314
Himadri Specialty Chemicals	180
Balkrishna Tyres (BKT)	140
Continental Carbon	85
Ralson Carbon	40



Strong Global Footprints | Presence in 40+ countries



7th Largest Carbon black company globally¹

10% market share in carbon black in Asia (ex China)¹

Presence across 40+ countries

Largest Indian exporter of carbon black

Strong Customer Relationship

Key customers include major tyre and non rubber companies - both Indian and Global



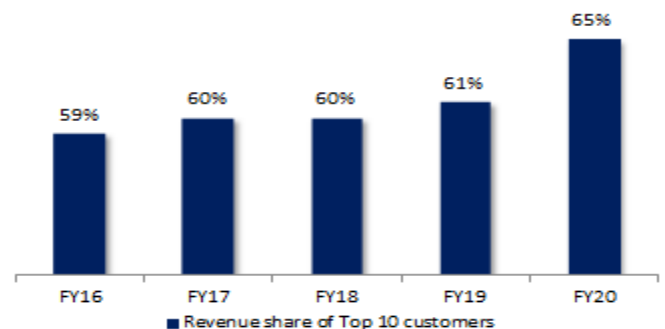
Long term relationships with key customers

Product portfolio strategically aligned with business needs of customers

Joint product development for customized requirements

Well diversified portfolio of tyre and non-tyre customers

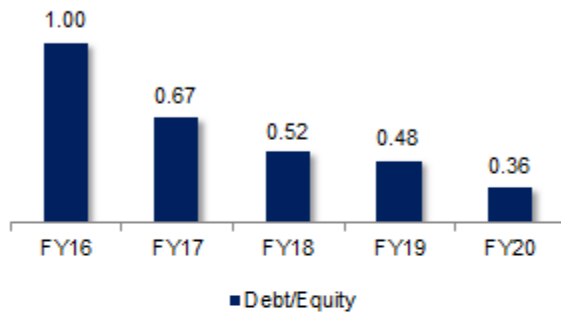
Consistently high revenue share from Top 10 customers



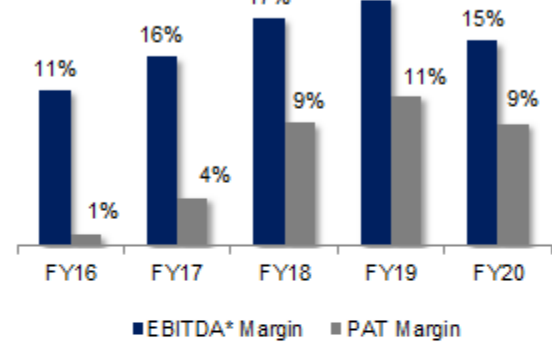
Source: Company, Ace Equity, AUM

Robust Financial Performance With A Strong Balance Sheet

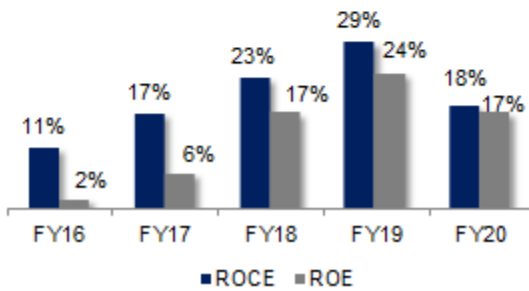
Reducing Leverage



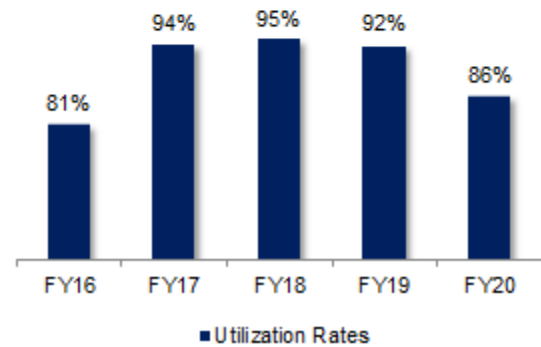
Margin Profile



Return Profile



Utilization Rate



Growth Strategies

1 Capacity Addition	<ul style="list-style-type: none"> • 32,000 MTPA of Specialty Carbon Black in Palej in FY21 • 150,000 MTPA Carbon Black project in South India by FY23 • 60% increase in power portfolio by FY23
2 Value Added Products	<ul style="list-style-type: none"> • Developing new specialty carbon black grades • Moving up the value chain in rubber grades • Customization of grades
3 Growing market share	<ul style="list-style-type: none"> • Penetrating new geographies and increasing customer base • Increasing portfolio of carbon black grades supported by strong R&D • Focus on quality, timely delivery of products and efficient after sale services

Source: Company, Ace Equity, AUM

Capacity Details:
Capacities in MTPA

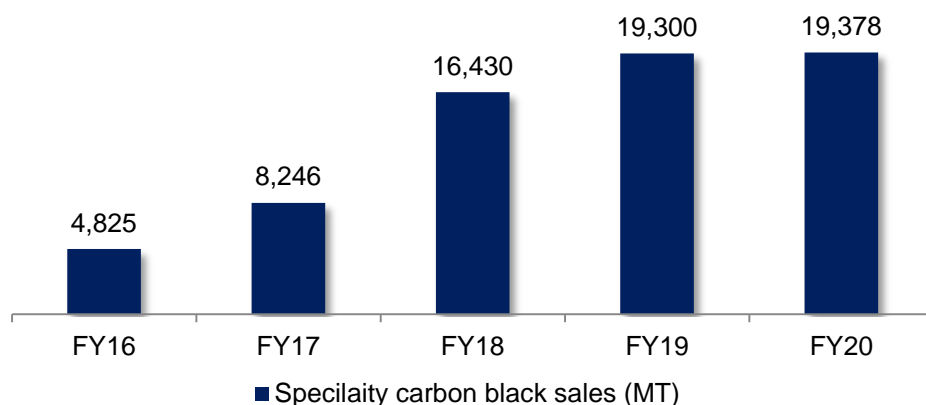
Financial Year	Installed capacity (on equivalent basis)	Effective capacity for carbon black (based on product mix)	Capacity actually produced	Capacity Utilization (%) (as a % of effective capacity)
2019-20	571,000	470,000	407,887	86%
2018-19	571,000	448,749	410,798	92%
2017-18	488,000	420,120	399,904	95%
2016-17	472,000	406,808	383,316	94%

Source: Company, Ace Equity, AUM

Capacity expansion:

PCBL has envisaged an ambitious expansion plan going ahead in the near as well as somewhat distant foreseeable future listed down:

- ✦ The Company has commissioned 2(two) specialty black lines at Palej in Gujarat for production of wide range of specialty black products totaling about 32,000 MTPA to cater and serve the growing needs of its customers.
- ✦ The greenfield expansion of about 150,000 MT for manufacture of various grades of carbon black and 25MW of co-generation power over 60 acres of land in Tamil Nadu is progressing strategically and is expected to be commissioned by FY23 end.
- ✦ Capacity expansion plans remain well on track and company expects incremental sales volumes of 100,000-110,000 MT over FY22-23E post which the 150,000 MT greenfield capacity will drive growth beyond FY24E.



Industry Overview:

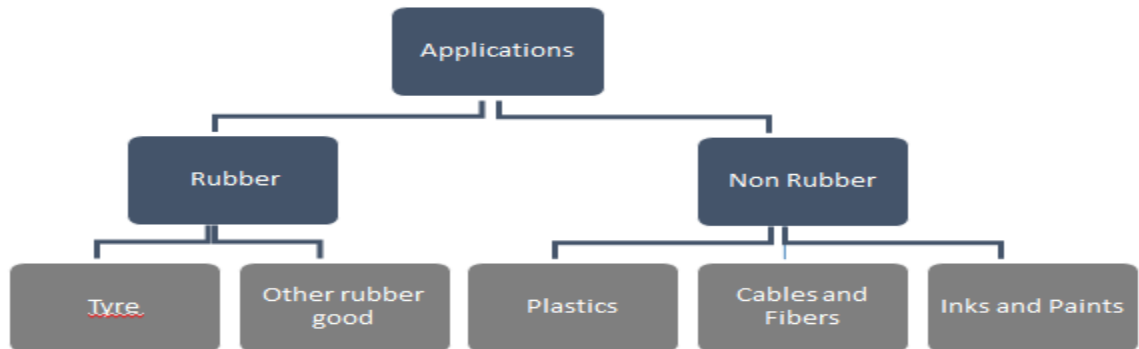
Carbon Black and its Applications

Carbon Black



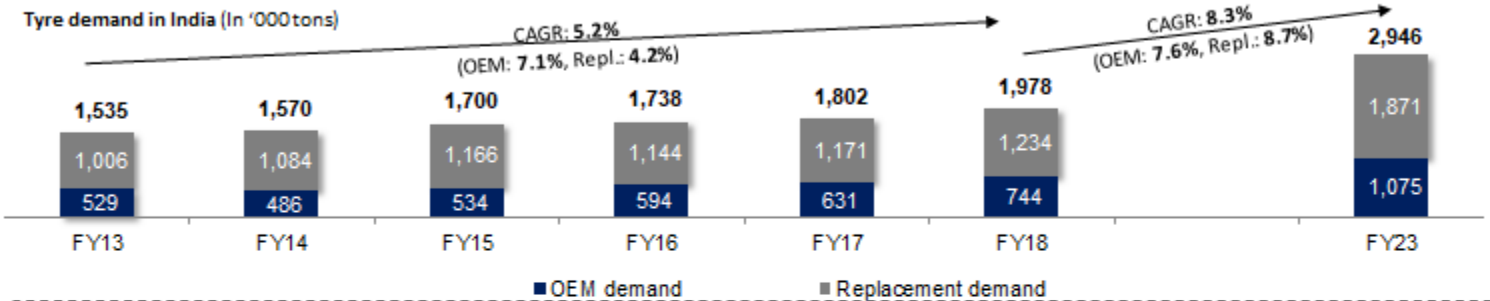
- Pure elemental carbon in the form of black powder
- Produced by thermal decomposition of gaseous or liquid hydrocarbons under controlled conditions
- Primary application - Reinforcement agent in tyres
- Its unique properties make it useful for pigmentation, UV stabilization and also as a conductive agent
- Performance is related to properties of specific surface area, particle size and structure, conductivity and colour

Carbon Black Applications

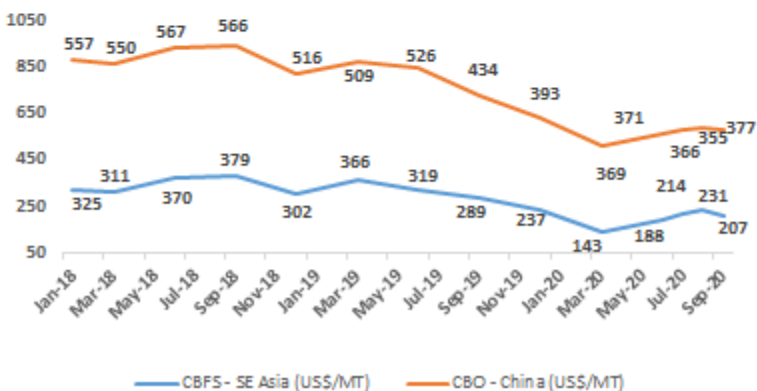


Carbon Black Demand Drivers

Tyre demand is expected to accelerate driven by increase in both OEM & Replacement demand and will provide impetus to carbon black demand



Widening spread between CBO and CBFS reduces China competitiveness



- Majority of Chinese manufacturers use the carbon black oil (CBO) route to manufacture carbon black
- Reduction in Chinese steel production has led to shortage of Coal Tar (used to derive CBO), thereby increasing CBO prices
- Newly imposed restriction on import of tyres from China (10% of tyre market) will boost the growth
- Changing trade relations in International market and shift of auto and tyre capacities near India likely to increase the demand for Carbon Black

Source: Company, Ace Equity, AUM

Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY21	Q3FY20	Var%	9MFY21	9MFY20	Var%
Net Sales	769.40	768.65	0.10	1,792.79	2,543.16	-29.51
Total Expenditure	581.15	648.49	-10.38	1,460.79	2,181.53	-33.04
PBIDT (Excl OI)	188.25	120.16	56.67	332.00	361.63	-8.19
Other Income	2.43	5.81	-58.18	6.82	19.79	-65.54
Operating Profit	190.68	125.97	51.37	338.82	381.42	-11.17
Interest	7.96	10.64	-25.19	25.80	32.42	-20.42
Exceptional Items	0.00	0.00	na	0.00	0.00	na
PBDT	182.72	115.33	58.43	313.02	349.00	-10.31
Depreciation	27.79	22.27	24.79	82.17	65.29	25.85
Tax	29.38	22.86	28.52	44.67	69.18	-35.43
Profit After Tax	125.55	70.20	78.85	186.18	214.53	-13.21
EPS (Rs.)	7.28	4.07	78.87	10.80	12.45	-13.25

Income Statement (Value in Rs. Crs)				
Particulars	FY17	FY18	FY19	FY20
Operating Income	1926.95	2557.94	3528.56	3243.54
Total Expenditure	1687.84	2185.12	2914.44	2784.40
Operating Profit (Excl OI)	239.11	372.82	614.12	459.14
Other Income	37.65	32.77	21.98	33.92
Operating Profit	276.76	405.59	636.10	493.06
Interest	51.45	41.44	36.78	45.90
PBDT	225.31	364.16	599.32	447.17
Depreciation	60.62	60.52	66.38	92.36
Exceptional Income/ Expense	0.00	0.00	0.00	0.00
Provision for Tax	96.00	74.03	150.27	67.30
Profit After Tax	68.69	229.60	382.67	287.50
EPS (Rs.)	20.10*	66.39*	22.26	16.63

*FV- Rs.10; Stock split from Rs.10/- to Rs.2/-

Source: Company, Ace Equity, AUM Research

Balance Sheet (Value in Rs. Crs)				
Particulars	FY17	FY18	FY19	FY20
EQUITY AND LIABILITIES				
Share Capital	34.47	34.47	34.47	34.47
Share Warrants & Outstandings	0.00	0.00	0.00	0.00
Total Reserves	1096.23	1343.11	1615.42	1664.65
Shareholder's Funds	1130.70	1377.58	1649.89	1699.12
Minority Interest	5.83	6.59	5.85	7.26
Secured Loans	190.16	164.25	273.63	215.01
Unsecured Loans	0.00	0.00	0.00	0.00
Deferred Tax Assets / Liabilities	204.67	227.27	256.72	254.87
Other Long Term Liabilities	0.00	0.00	0.00	104.31
Long Term Provisions	0.66	0.70	1.31	419.32*
Total Non-Current Liabilities	395.50	392.23	531.66	993.51
Trade Payables	416.17	401.88	508.29	418.77
Other Current Liabilities	67.05	80.60	150.82	192.22
Short Term Borrowings	548.14	522.64	452.02	329.67
Short Term Provisions	180.14	321.84	448.68	83.95
Total Current Liabilities	1,211.50	1,326.97	1,559.80	1,024.61
Total Liabilities	2,743.53	3,103.37	3,747.21	3,724.51
ASSETS				
Gross Block	1,505.83	1,575.04	1,741.98	1,973.05
Less: Accumulated Depreciation	122.74	180.32	246.15	337.61
Net Block	1,383.10	1,394.71	1,495.83	1,635.44
Capital Work in Progress	79.59	66.84	175.04	305.58
Intangible assets under development	0.00	0.00	0.00	0.00
Non Current Investments	200.27	320.23	261.51	159.56
Long Term Loans & Advances	21.91	59.48	32.91	477.38**
Other Non Current Assets	30.24	2.31	7.18	6.25
Total Non-Current Assets	1,715.11	1,843.59	1,972.47	2,584.22
Currents Investments	95.03	0.00	105.11	0.00
Inventories	243.52	309.9	460.29	326.19
Sundry Debtors	465.66	521.97	652.66	588.24
Cash and Bank	24.53	172.57	115.46	152.1
Other Current Assets	11.92	15.78	16.33	39.08
Short Term Loans and Advances	187.78	239.56	424.89	34.67
Total Current Assets	1,028.43	1,259.78	1,774.74	1,140.29
Net Current Assets (Including Current Investments)	-183.08	-67.19	214.94	115.68
Total Assets	2,743.53	3,103.37	3,747.21	3,724.51

* Long Term Provisions in FY20 has increased as a result of Long Term Provision for Tax amounting to Rs.417.33 crores.

** Similarly, the Substantial increase in Long Term Loans & Advances in FY20 is attributed to Provision made for Advance Tax worth Rs.425.70 crores.

Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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