PCBL BUY

Volumes growth modest; margins firm

TP	Rs152
CMP	Rs131
Potential upside/downside	16%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	12.7	11.6	25.3
Rel to Sensex	9.5	9.8	7.3

Key Stock Data

Bloomberg / Reuters	PCBL IN / PHIL.BO
Sector	Chemical & Fertilizers
Shares o/s (mn)	377
Market cap. (Rs mn)	49,278
3-m daily average value (Rs mn)	9.9
52-week high / low	Rs154 / 95
Sensex / Nifty	62,346 / 18,399

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	14.1	17.9
Consensus	14.8	17.4
% difference	*(4.4)*	*3.1*

Shareholding Pattern (%)

Promoters	51.4
FII	6.3
DII	7.4
Public	34.9

Summary

PCBL's Q4FY23 sales were below our estimate. The volumes grew 6% YoY to 120 kt (+18% QoQ). Importantly, its gross profit/tonne increased 18% QoQ to Rs29,234/tonne amidst increase in volumes. EBITDA/tonne jumped 133% YoY to Rs16,725 due to enhancements in operating efficiencies and better product mix. Overall EBITDA increased by 42% YoY to Rs2 bn (+16% QoQ) led by higher volumes and improvement in profitability. The company foresees improvement in domestic demand on the back of improvement in auto sales, easing of supply chain issues and improving economic activities in coming quarters. Broadly, we maintain our FY24-25 forecasts. We continue to value the stock at a PER of 8.5x FY25E EPS and derive a target price of Rs152 (earlier Rs153).

Key Highlights and Investment Rationale

- **Export volumes rise:** During the quarter, domestic sales volumes were higher by 4% YoY to 80 kt while export volumes increased by 11% YoY to 39 kt due to overall strong demand in the overseas markets.
- **Project update:** Chennai plant is expected to have an incremental capacity consumption of 50,000 MT to 60,000 MT in FY24. Second phase of the Chennai plant is complete to the extent of 50% and will be fully commissioned in the coming 3 months. The first phase of the Mundra plant is in the final stage, and is ready to be commissioned in coming two months and its second phase will be commissioned by the end of FY24.
- **Outlook:** PCBL continues to focus on improving its operating efficiencies and enriching its product mix. Going ahead, we expect its margins to improve from current level led by rising share of specialty volumes. We expect company's EBITDA to grow at a CAGR of 18% over FY23-25E.

Financial snapshot (Rs mn)

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	26,595	44,464	58,739	55,036	63,976
Change (yoy, %)	*(18)*	*67*	*32*	*-6*	*16*
EBITDA	5,085	6,334	7,263	8,257	10,106
Change (yoy, %)	*10*	*25*	*15*	*14*	*22*
EBITDA Margin(%)	*19.1*	*14.2*	*12.4*	*15.0*	*15.8*
Adj.PAT	3,124	4,271	4,444	5,314	6,757
EPS (Rs)	8.3	11.3	11.8	14.1	17.9
Change (yoy, %)	*11*	*37*	*4*	*20*	*27*
PE(x)	14.0	10.2	9.8	8.2	6.5
Dividend Yield (%)	2.8	4.3	4.8	5.2	6.1
EV/EBITDA (x)	9.3	7.8	6.9	6.0	4.7
RoE (%)	17.3	18.8	16.4	17.9	20.3
RoCE (%)	14.6	15.7	15.7	16.9	20.0

Source: IDBI Capital Research

Exhibit 1: Quarterly Snapshot **(Rs mn)**

Financial snapshot	Q4FY23	Q3FY23	*QoQ (%)*	Q4FY22	*YoY (%)*
Net sales	**13,738**	**14,632**	***(6.1)***	**12,188**	***12.7***
Expenditure	11,899	12,990	*(8.4)*	10,894	*9.2*
EBITDA	**1,999**	**1,720**	***16.3***	**1,411**	***41.7***
EBITDA margin (%)	*14.6*	*11.8*	*280bps*	*11.6*	*298bps*
Other income	160	78	*104.5*	117	*37.0*
Interest	186	150	*24.2*	69	*170.1*
Depreciation	335	330	*1.5*	305	*9.8*
PBT	**1,478**	**1,282**	***15.3***	**1,111**	***33.1***
Tax	460	280	*64.2*	208	*121.0*
PAT	**1,018**	**1,002**	***1.7***	**903**	***12.8***
Diluted EPS (Rs)	**2.7**	**2.7**	***1.7***	**2.4**	***12.8***

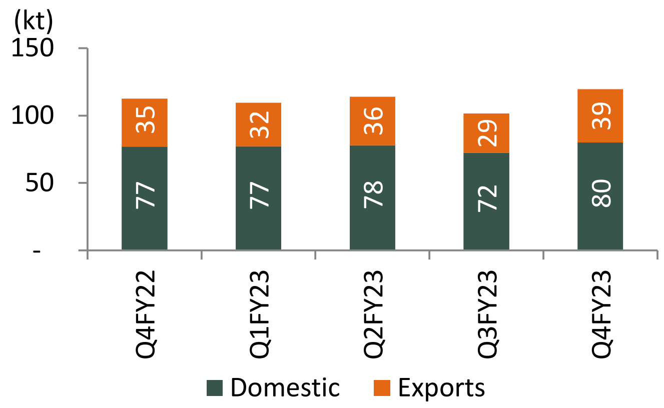
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates **(Rs mn)**

	Q4FY23E	Q4FY23A	*Variance (%)*
Net sales	**14,648**	**13,738**	***(6.2)***
EBTIDA	1,840	1,999	*8.7*
EBITDA margin (%)	***12.6***	***14.6***	***199bps***
PAT	1,115	1,018	*(8.7)*
Diluted EPS (Rs)	3.0	2.7	*(8.7)*

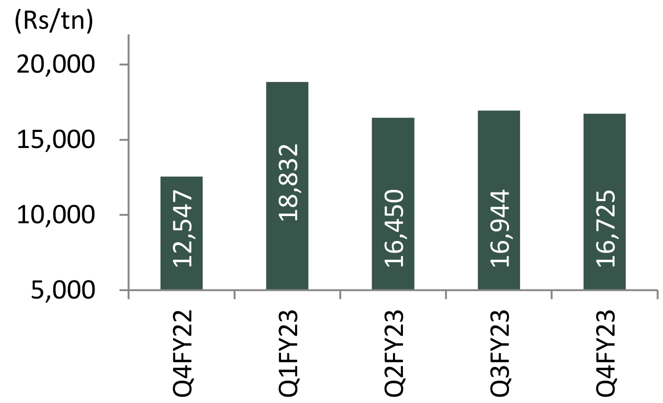
Source: Company; IDBI Capital Research

Exhibit 3: Volumes higher by 6% YoY



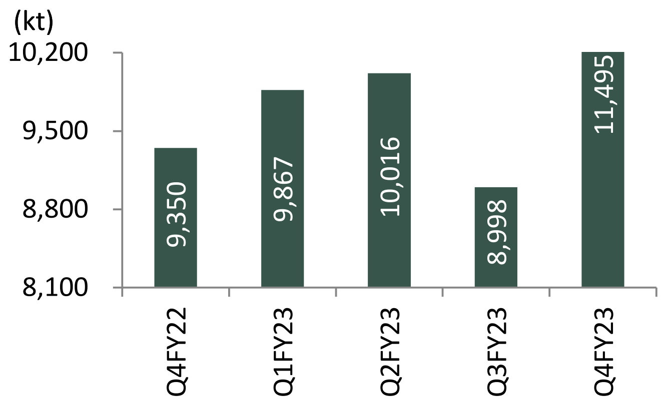
Source: Company, IDBI Capital Research

Exhibit 4: EBITDA/tonne flattish QoQ



Source: Company, IDBI Capital Research

Exhibit 5: Specialty volumes improve



Source: Company, IDBI Capital Research

Exhibit 6: EBITDA increased by 42%

Source: Company, IDBI Capital Research

Conference call highlights

- In Q4 FY23, the company reported a sales volume of 119,238 MT, up by 18% QoQ and 6% YoY. The domestic volume stood at 80,045 MT, growing by 11% QoQ and 4% YoY, while the export volume reached 39,493 MT, representing a 36% QoQ increase and an 11% YoY increase.
- Segment-wise volumes were as follows: tyres at 79,617 MT, performance chemicals at 28,126 MT, and specialty chemicals at 11,495 MT in Q4 FY23.
- Revenue increased by 12.7% YoY to Rs13,738 mn in Q4 FY23, while EBITDA/t remained flat at 16,757 in the same period.
- Power generation increased from 149 mn units in Q4 FY22 to 153 mn units in Q4 FY23.
- With the rising demand for power in the country and consequently increased power tariffs, the average realization for PCB stood at Rs3.93/kilo wt in Q4FY23, up from Rs3.40 /kilo wt in Q4FY22.
- The company mentioned that despite an increase in crude prices, EBITDA/t improved due to enhancements in operating efficiencies, changes in product mix, and a strong performance from the power segment.
- In FY23, the Indian tyre industry volume grew by 10% YoY, and the company expects tyre demand to continue increasing, which will help improve carbon industry's capacity utilization.
- The Greenfield Project in Tamil Nadu has been commissioned, and the Brownfield expansion of specialty black in Mundra is nearly ready and undergoing commissioning.
- The company plans to utilize 40%-50% of the Chennai plant's capacity for this financial year.
- The Specialty Carbon Black - Mundra line is expected to become operational, and the company anticipates the growth momentum to continue. Additionally, there will be a capacity increase of 10,000 tonnes for the full year, representing a 25% growth.
- The company plans to increase capex by Rs1.5 billion in brownfield expansion and Rs1 billion in Chennai, totalling approximately Rs2.5 bn in capex for FY24.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	**32,435**	**26,595**	**44,464**	**58,739**	**55,036**	**63,976**
Change (yoy, %)	*(8)*	*(18)*	*67*	*32*	*(6)*	*16*
Operating expenses	(27,829)	(21,510)	(38,131)	(51,476)	(46,780)	(53,869)
EBITDA	**4,607**	**5,085**	**6,334**	**7,263**	**8,257**	**10,106**
Change (yoy, %)	*(26)*	*10*	*25*	*15*	*14*	*22*
Margin (%)	*14.2*	*19.1*	*14.2*	*12.4*	*15.0*	*15.8*
Depreciation	(924)	(1,101)	(1,209)	(1,366)	(1,435)	(1,506)
EBIT	**3,683**	**3,984**	**5,125**	**5,897**	**6,822**	**8,600**
Interest paid	(448)	(236)	(69)	(434)	(164)	(60)
Other income	241	158	267	388	427	470
Pre-tax profit	**3,476**	**3,905**	**5,323**	**5,851**	**7,085**	**9,009**
Tax	(674)	(781)	(1,052)	(1,407)	(1,771)	(2,252)
Effective tax rate (%)	*19*	*20*	*20*	*24*	*25*	*25*
Minority Interest	-	-	-	-	-	-
Net profit	**2,803**	**3,124**	**4,271**	**4,444**	**5,314**	**6,757**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**2,803**	**3,124**	**4,271**	**4,444**	**5,314**	**6,757**
Change (yoy, %)	*(28)*	*11*	*37*	*4*	*20*	*27*
EPS	7.4	8.3	11.3	11.8	14.1	17.9
Dividend per share	6	3	5	6	6	7
Dividend Payout %	*86*	*39*	*44*	*47*	*43*	*39*

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	**16,917**	**19,272**	**26,049**	**28,196**	**31,246**	**35,360**
Share capital	345	345	378	378	378	378
Reserves & surplus	16,572	18,927	25,672	27,819	30,868	34,983
Total Debt	**5,447**	**5,617**	**6,840**	**6,930**	**6,930**	**4,430**
Other liabilities	3,612	3,710	3,676	3,350	3,953	3,953
Curr Liab & prov	**6,982**	**8,503**	**10,990**	**11,686**	**14,430**	**16,418**
Current liabilities	6,982	8,503	10,196	10,864	13,607	15,596
Provisions	-	-	793	822	822	822
Total liabilities	**16,040**	**17,830**	**21,506**	**21,966**	**25,312**	**24,800**
Total equity & liabilities	**32,957**	**37,101**	**47,555**	**50,162**	**56,558**	**60,161**
Net fixed assets	**18,150**	**18,718**	**19,426**	**21,456**	**22,625**	**23,118**
Investments	3,797	3,891	6,296	11,441	11,441	11,441
Other non-curr assets	-	-	-	-	-	-
Current assets	**11,009**	**14,492**	**21,833**	**17,265**	**22,493**	**25,602**
Inventories	3,262	4,448	6,039	4,858	7,539	8,764
Sundry Debtors	5,882	7,075	11,051	11,078	13,134	15,267
Cash and Bank	1,107	2,190	1,087	421	911	662
Loans and advances	7	167	6	5	5	5
Other current assets	752	612	3,650	904	904	904
Total assets	**32,957**	**37,101**	**47,555**	**50,162**	**56,558**	**60,161**

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	3,476	3,905	5,323	5,851	7,085	9,009
Depreciation	924	1,101	1,209	1,366	1,435	1,506
Tax paid	(692)	(615)	(1,004)	(1,597)	(1,771)	(2,252)
Chg in working capital	173	358	(2,919)	1,852	(1,994)	(1,370)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	**3,881**	**4,750**	**2,609**	**7,473**	**4,755**	**6,894**
Capital expenditure	(2,380)	(1,669)	(1,917)	(3,397)	(2,603)	(2,000)
Chg in investments	(494)	(94)	(2,405)	(5,145)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(2,874)**	**(1,763)**	**(4,322)**	**(8,541)**	**(2,603)**	**(2,000)**
Equity raised/(repaid)	-	-	4,000	-	-	-
Debt raised/(repaid)	(1,810)	170	1,223	90	-	(2,500)
Dividend (incl. tax)	(2,412)	(1,206)	(1,887)	(2,076)	(2,265)	(2,642)
Chg in monorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**(4,222)**	**(1,036)**	**3,336**	**(1,986)**	**(2,265)**	**(5,142)**
Net chg in cash (a+b+c)	**(3,214)**	**1,951**	**1,623**	**(3,055)**	**(113)**	**(248)**

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	45	51	69	75	83	94
Adj EPS (Rs)	*7.4*	*8.3*	*11.3*	*11.8*	*14.1*	*17.9*
Adj EPS growth (%)	*-28*	*11*	*37*	*4*	*20*	*27*
EBITDA margin (%)	*14.2*	*19.1*	*14.2*	*12.4*	*15.0*	*15.8*
Pre-tax margin (%)	*10.7*	*14.7*	*12.0*	*10.0*	*12.9*	*14.1*
Net Debt/Equity (x)	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*
ROCE (%)	*14.1*	*14.6*	*15.7*	*15.7*	*16.9*	*20.0*
ROE (%)	*16.8*	*17.3*	*18.8*	*16.4*	*17.9*	*20.3*
DuPont Analysis						
Asset turnover (x)	1.0	0.7	1.1	1.1	1.1	1.1
Leverage factor (x)	2.0	2.0	1.7	1.6	1.5	1.5
Net margin (%)	*8.6*	*11.7*	*9.6*	*7.6*	*9.7*	*10.6*
Working Capital & Liquidity ratio						
Inventory days	37	61	50	30	50	50
Receivable days	66	97	91	69	87	87
Payable days	55	100	87	67	96	96

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	15.6	14.0	10.2	9.8	8.2	6.5
Price/Book value (x)	2.6	2.3	1.7	1.5	1.4	1.2
EV/Net sales (x)	1.5	1.8	1.1	0.9	0.9	0.7
EV/EBITDA (x)	10.4	9.3	7.8	6.9	6.0	4.7
Dividend Yield (%)	*5.5*	*2.8*	*4.3*	*4.8*	*5.2*	*6.1*

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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