

PCBL

BUY

Margin beat led by rising sales of specialty black

### Summary

PCBL reported better than expected profitability for Q1FY23. Although Q1FY23 volumes remained flat on YoY basis at 109 kt (-2% QoQ); its gross profit/tonne stood at Rs35,053/tonne (+16% QoQ, +29% YoY) on rising sales of specialty black (+35% YoY and 6% QoQ to 10 kt). EBITDA/tonne jumped to Rs18,832 (+50% QoQ, +31% YoY). Overall EBITDA grew by 31% YoY to Rs2 bn. However, sharp rise in interest and depreciation costs muted net profit growth to 21% YoY at Rs1.2 bn. The company has added new clients for specialty black during the quarter. Broadly, we maintain our FY23-24 forecasts. We continue to have a BUY rating on the stock valuing it at a PER of 11x FY24E EPS to derive a target price of Rs149.

### Key Highlights and Investment Rationale

- Domestic volumes steady, exports weak:** Domestic sales volumes increased by 5% YoY to 77 kt led by recovery in auto sales and easing of supply chain issues. However, export volumes fell by 11% YoY to 32 kt due to on-going geopolitical issues.
- Project update:** The greenfield project of 150 ktpa in Tamil Nadu is progressing well with major equipment orders placed (commissioning by Q3FY23). PCBL has initiated work on the brownfield expansion of 40 kt of specialty lines at Mundra (completion estimated by Q4FY23).
- 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/PAT to grow at a CAGR of 11%/9% over FY22-24E. Valuations under 10x FY24 PER remains inexpensive.

TP **Rs149**CMP **Rs122**

Potential upside/downside +22%

Previous Rating BUY

### Price Performance (%)

	-1m	-3m	-12m
Absolute	21.1	2.1	5.7
Rel to Sensex	15.1	5.9	(0.9)

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	11.0	13.5
Consensus	11.9	15.0
% difference	(7.4)	(9.9)

### Key Stock Data

Bloomberg / Reuters	PHCB IN / PHIL.BO
Sector	Chemical & Fertilizers
Shares o/s (mn)	377
Market cap. (Rs mn)	46,013
3-m daily average value (Rs mn)	10.7
52-week high / low	Rs139 / 89
Sensex / Nifty	55,682 / 16,605

### Shareholding Pattern (%)

Promoters	51.4
FII	10.2
DII	6.0
Public	32.4

### Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	32,435	26,595	44,464	48,978	55,898
Change (yoy, %)	(8)	(18)	67	10	14
EBITDA	4,607	5,085	6,334	6,551	7,805
Change (yoy, %)	(26)	10	25	3	19
EBITDA Margin(%)	14.2	19.1	14.2	13.4	14.0
Adj.PAT	2,803	3,124	4,271	4,152	5,102
EPS (Rs)	7.4	8.3	11.3	11.0	13.5
Change (yoy, %)	(28)	11	37	(3)	23
PE(x)	16.4	14.7	10.8	11.1	9.0
Dividend Yield (%)	5.2	2.6	4.1	4.5	4.9
EV/EBITDA (x)	10.9	9.7	8.2	8.1	6.7
RoE (%)	16.8	17.3	18.8	15.3	17.3
RoCE (%)	14.1	14.6	15.7	13.7	15.8

Source: IDBI Capital Research

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)
<b>Net sales</b>	<b>14,091</b>	<b>12,188</b>	<b>15.6</b>	<b>10,039</b>	<b>40.4</b>
Expenditure	12,143	10,894	11.5	8,462	43.5
<b>EBITDA</b>	<b>2,060</b>	<b>1,411</b>	<b>46.0</b>	<b>1,576</b>	<b>30.7</b>
<i>EBITDA margin (%)</i>	<i>14.6</i>	<i>11.6</i>	<i>304bps</i>	<i>15.7</i>	<i>(108bps)</i>
Other income	112	117	(4.0)	33	236.9
Interest	89	69	28.4	76	16.3
Depreciation	374	305	22.8	292	28.3
<b>PBT</b>	<b>1,605</b>	<b>1,111</b>	<b>44.5</b>	<b>1,305</b>	<b>23.0</b>
Tax	346	208	66.0	261	32.2
<b>PAT</b>	<b>1,259</b>	<b>903</b>	<b>39.5</b>	<b>1,043</b>	<b>20.7</b>
<b>Diluted EPS (Rs)</b>	<b>3.3</b>	<b>2.4</b>	<b>39.5</b>	<b>2.8</b>	<b>20.7</b>

Source: Company; IDBI Capital Research

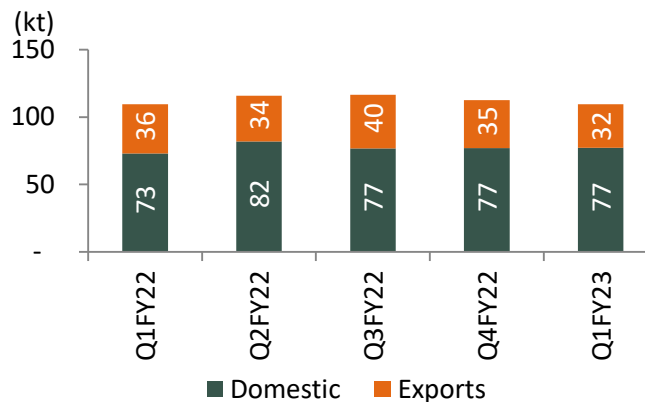
**Exhibit 2: Actual vs. Estimates**

(Rs mn)

	Q1FY23E	Q1FY23A	Variance (%)
<b>Net sales</b>	<b>13,155</b>	<b>14,091</b>	<b>7.1</b>
EBTIDA	1,798	2,060	14.6
<b>EBITDA margin (%)</b>	<b>13.7</b>	<b>14.6</b>	<b>95bps</b>
PAT	1,144	1,259	10.1
Diluted EPS (Rs)	3.0	3.3	10.1

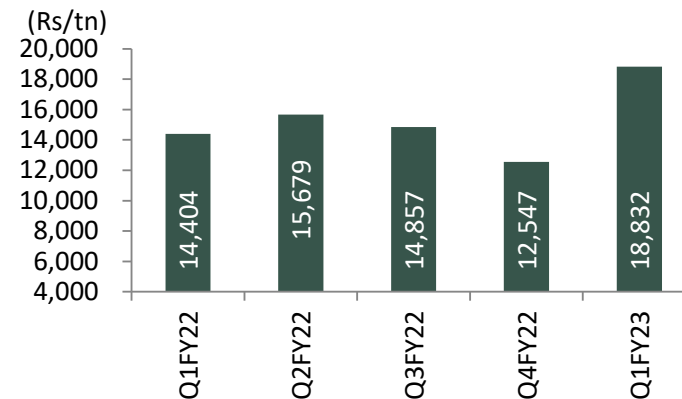
Source: Company; IDBI Capital Research

**Exhibit 3: Volumes fell by remained flat YoY**



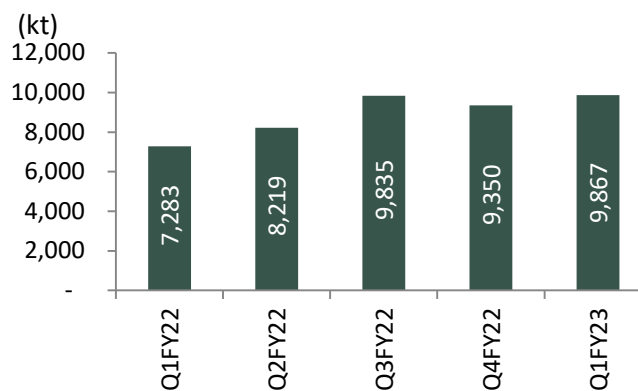
Source: Company, IDBI Capital Research

**Exhibit 4: EBITDA/tonne improved**



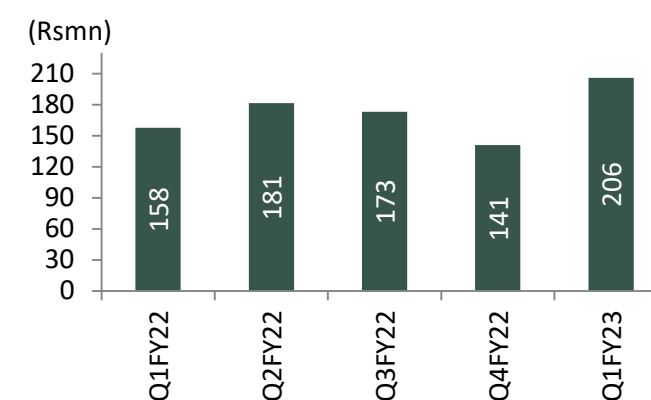
Source: Company, IDBI Capital Research

**Exhibit 5: Specialty volume up QoQ**



Source: Company, IDBI Capital Research

**Exhibit 6: EBITDA grew by 31% YoY**



Source: Company, IDBI Capital Research

**Conference call highlights**

- Russia Ukraine conflict provides higher export opportunities for companies such as PCBL.
- Demand cycle globally has started to get impacted due to weakening macros.
- Current portfolio mix has 64% contribution from tyres and rest of the mix is specialty and others.
- Greenfield Chennai plant is likely to commission by December 2022.
- For Mundra, phase 1 expansion is being expanded. This will take specialty black capacity from 72kt to 112 kt.
- Kochi power plant expansion will increase capacity to 98 MW.
- ESG also remains one of the focus areas for the company.
- EBITDA per tonne is a not only a function of Chinese exports, but also demand-supply.
- From the long term perspective, company remains optimistic towards growth trajectory but near term the company is little cautious.
- There is no change in volume guidance for FY23.
- Production at two Gujarat plants was slightly affected due to heavy rains recently.
- The company expects to expand margins steadily over the long term.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>35,286</b>	<b>32,435</b>	<b>26,595</b>	<b>44,464</b>	<b>48,978</b>	<b>55,898</b>
<i>Change (yoy, %)</i>	35	(8)	(18)	67	10	14
Operating expenses	(29,060)	(27,829)	(21,510)	(38,131)	(42,427)	(48,092)
<b>EBITDA</b>	<b>6,225</b>	<b>4,607</b>	<b>5,085</b>	<b>6,334</b>	<b>6,551</b>	<b>7,805</b>
<i>Change (yoy, %)</i>	54	(26)	10	25	3	19
<i>Margin (%)</i>	17.6	14.2	19.1	14.2	13.4	14.0
Depreciation	(664)	(924)	(1,101)	(1,209)	(1,269)	(1,333)
<b>EBIT</b>	<b>5,562</b>	<b>3,683</b>	<b>3,984</b>	<b>5,125</b>	<b>5,282</b>	<b>6,473</b>
Interest paid	(368)	(448)	(236)	(69)	(40)	6
Other income	194	241	158	267	294	323
<b>Pre-tax profit</b>	<b>5,388</b>	<b>3,476</b>	<b>3,905</b>	<b>5,323</b>	<b>5,536</b>	<b>6,802</b>
Tax	(1,503)	(674)	(781)	(1,052)	(1,384)	(1,701)
<i>Effective tax rate (%)</i>	28	19	20	20	25	25
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>3,885</b>	<b>2,803</b>	<b>3,124</b>	<b>4,271</b>	<b>4,152</b>	<b>5,102</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>3,885</b>	<b>2,803</b>	<b>3,124</b>	<b>4,271</b>	<b>4,152</b>	<b>5,102</b>
<i>Change (yoy, %)</i>	69	(28)	11	37	(3)	23
EPS	10.3	7.4	8.3	11.3	11.0	13.5
Dividend per share	3	6	3	5	6	6
<i>Dividend Payout %</i>	25	86	39	44	50	44

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>16,481</b>	<b>16,917</b>	<b>19,272</b>	<b>26,049</b>	<b>28,125</b>	<b>30,962</b>
Share capital	345	345	345	378	378	378
Reserves & surplus	16,136	16,572	18,927	25,672	27,748	30,585
<b>Total Debt</b>	<b>7,257</b>	<b>5,447</b>	<b>5,617</b>	<b>6,840</b>	<b>8,840</b>	<b>6,840</b>
Other liabilities	2,580	3,612	3,710	3,676	3,676	3,676
<b>Curr Liab &amp; prov</b>	<b>7,429</b>	<b>6,982</b>	<b>8,503</b>	<b>10,990</b>	<b>11,979</b>	<b>13,518</b>
Current liabilities	7,429	6,982	8,503	10,196	11,979	13,518
Provisions	-	-	-	793	-	-
<b>Total liabilities</b>	<b>17,266</b>	<b>16,040</b>	<b>17,830</b>	<b>21,506</b>	<b>24,496</b>	<b>24,035</b>
<b>Total equity &amp; liabilities</b>	<b>33,746</b>	<b>32,957</b>	<b>37,101</b>	<b>47,555</b>	<b>52,621</b>	<b>54,997</b>
<b>Net fixed assets</b>	<b>16,694</b>	<b>18,150</b>	<b>18,718</b>	<b>19,426</b>	<b>22,157</b>	<b>25,324</b>
Investments	3,303	3,797	3,891	6,296	6,296	6,296
Other non-curr assets	-	-	-	-	-	-
<b>Current assets</b>	<b>13,749</b>	<b>11,009</b>	<b>14,492</b>	<b>21,833</b>	<b>24,168</b>	<b>23,377</b>
Inventories	4,603	3,262	4,448	6,039	6,709	7,657
Sundry Debtors	6,527	5,882	7,075	11,051	11,688	11,808
Cash and Bank	758	1,107	2,190	1,087	2,115	256
Loans and advances	18	7	167	6	6	6
Other current assets	1,843	752	612	3,650	3,650	3,650
<b>Total assets</b>	<b>33,746</b>	<b>32,957</b>	<b>37,101</b>	<b>47,555</b>	<b>52,621</b>	<b>54,997</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	5,388	3,476	3,905	5,323	5,536	6,802
Depreciation	657	924	1,101	1,209	1,269	1,333
Tax paid	(1,208)	(692)	(615)	(1,004)	(1,384)	(1,701)
Chg in working capital	(1,117)	173	358	(2,919)	(317)	471
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>3,720</b>	<b>3,881</b>	<b>4,750</b>	<b>2,609</b>	<b>5,104</b>	<b>6,906</b>
Capital expenditure	(2,740)	(2,380)	(1,669)	(1,917)	(4,000)	(4,500)
Chg in investments	789	(494)	(94)	(2,405)	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,951)</b>	<b>(2,874)</b>	<b>(1,763)</b>	<b>(4,322)</b>	<b>(4,000)</b>	<b>(4,500)</b>
Equity raised/(repaid)	0	-	-	4,000	-	-
Debt raised/(repaid)	388	(1,810)	170	1,223	2,000	(2,000)
Dividend (incl. tax)	(967)	(2,412)	(1,206)	(1,887)	(2,076)	(2,265)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(580)</b>	<b>(4,222)</b>	<b>(1,036)</b>	<b>3,336</b>	<b>(76)</b>	<b>(4,265)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,189</b>	<b>(3,214)</b>	<b>1,951</b>	<b>1,623</b>	<b>1,028</b>	<b>(1,859)</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	44	45	51	69	75	82
Adj EPS (Rs)	10.3	7.4	8.3	11.3	11.0	13.5
Adj EPS growth (%)	69.1	(27.9)	11.5	36.7	(2.8)	22.9
EBITDA margin (%)	17.6	14.2	19.1	14.2	13.4	14.0
Pre-tax margin (%)	15.3	10.7	14.7	12.0	11.3	12.2
Net Debt/Equity (x)	0.4	0.3	0.2	0.2	0.2	0.2
ROCE (%)	22.6	14.1	14.6	15.7	13.7	15.8
ROE (%)	25.7	16.8	17.3	18.8	15.3	17.3
<b>DuPont Analysis</b>						
Asset turnover (x)	1.1	1.0	0.7	1.1	1.1	1.1
Leverage factor (x)	2.1	2.0	2.0	1.7	1.6	1.5
Net margin (%)	11.0	8.6	11.7	9.6	8.5	9.1
<b>Working Capital &amp; Liquidity ratio</b>						
Inventory days	48	37	61	50	50	50
Receivable days	68	66	97	91	87	77
Payable days	64	55	100	87	94	94

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	11.8	16.4	14.7	10.8	11.1	9.0
Price/Book value (x)	2.8	2.7	2.4	1.8	1.6	1.5
EV/Net sales (x)	1.5	1.6	1.9	1.2	1.1	0.9
EV/EBITDA (x)	8.4	10.9	9.7	8.2	8.1	6.7
Dividend Yield (%)	2.1	5.2	2.6	4.1	4.5	4.9

Source: Company; IDBI Capital Research



# Notes

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**Key to Ratings Stocks:**

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

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