

PCBL

HOLD

Muted performance across segments

Summary

PCBL's Q3FY25 performance was below our expectations. Carbon black sales grew 2% YoY, driven by 5% YoY volume growth, but offset by 3% YoY drop in realizations due to weak crude prices. Domestic volumes rose by 8% YoY, while export volumes increased by 3% YoY. Consolidated EBITDA margin contracted 105bps YoY to 15.8%, impacted by weak margins across segments. The second phase of 20,000 MTPA specialty black capacity at Mundra Plant has been commissioned, increasing the total capacity to 790,000 MTPA. Consolidated EBITDA/t for carbon black declined 7% QoQ to Rs19,686 due to lower realizations and influx of Russian supplies in Asian markets. We roll over to FY27 EPS estimate and value the stock at a PER of 22x FY27E EPS, resulting in a revised target price of Rs409 (earlier Rs453). We maintain our HOLD rating.

Key Highlights and Investment Rationale

- Muted performance by Aquapharm:** Revenue fell by 10% QoQ, driven by a 7% QoQ drop in volumes and a 3% QoQ decrease in realizations due to a slowdown in the US market and increased dumping from China. However, EBITDA margin improved by 176bps QoQ to 15.6%, due to an adverse change in the product mix and negative operating leverage. Management targets an EBITDA run rate of Rs800-900mn per quarter from Q4FY26, driven by new capacity, product launches, and a recovery in the specialty chemicals sector.
- Aggressive capacity expansion:** PCBL has been allotted 116 acres in Andhra Pradesh for a greenfield carbon black project, adding 400,000–450,000 MTPA in phases. Phase 1 will install 150,000 MTPA at an estimated investment of Rs 9bn. Additionally, PCBL has revised its timeline, with 30,000 MTPA (Phase 1) to be commissioned by Q4FY25 (from Q3FY25) and 60,000 MTPA (Phase 2) by FY26 (from H1FY26) at its Tamil Nadu facility.

TP	Rs409
CMP	Rs391
Potential upside/downside	5%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(16.7)	(23.1)	47.1
Rel to Sensex	(11.9)	(18.2)	40.5

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	12	16	19
Consensus	15	20	25
% difference	(18.5)	(20.2)	(24.1)

Key Stock Data

Bloomberg / Reuters	PCBL IN / PHIL.BO
Sector	Chemical & Fertilizers
Shares o/s (mn)	377
Market cap. (Rs mn)	147,663
3-m daily average value (Rs mn)	9.5
52-week high / low	Rs585 / 209
Sensex / Nifty	77,379 / 23,432

Shareholding Pattern (%)

Promoters	51.4
FII	5.0
DII	6.7
Public	36.9

Financial snapshot

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	57,741	64,198	83,867	94,322	1,03,779
Change (yoy, %)	117	11	31	12	10
EBITDA	7,212	10,373	13,600	15,657	17,435
Change (yoy, %)	42	44	31	15	11
EBITDA Margin(%)	12.5	16.2	16.2	16.6	16.8
Adj.PAT	4,422	4,911	4,447	6,108	7,313
EPS (Rs)	12	13	12	16	19
Change (yoy, %)	40.8	11.1	(9.5)	31.8	24.8
PE(x)	33.4	30.1	33.2	25.2	20.2
Dividend Yield (%)	1.3	1.3	1.4	1.4	1.5
EV/EBITDA (x)	21.6	18.5	13.9	12.5	10.9
RoE (%)	16.2	16.2	12.4	14.1	16.6
RoCE (%)	15.0	12.4	10.9	12.1	13.7

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot (Consolidated)

(Rs mn)

Financial snapshot	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Net sales	20,100	21,632	(7.1)	16,568	21.3
Expenditure	16,927	17,997	(5.9)	13,778	22.9
EBITDA	3,173	3,635	(12.7)	2,789	13.8
<i>EBITDA margin (%)</i>	<i>15.8</i>	<i>16.8</i>	<i>-102bps</i>	<i>16.8</i>	<i>-105bps</i>
Other income	111	57	96.3	72	54.7
Interest	1,177	1,189	(1.0)	324	263.7
Depreciation	867	864	0.3	527	64.6
PBT	1,235	1,638	(24.6)	2,011	(38.6)
Tax	304	404	(24.7)	531	(42.7)
PAT	936	1,234	(24.2)	1,479	(36.7)
Diluted EPS (Rs)	2.5	3.3	(24.2)	3.9	(36.7)

Source: Company; IDBI Capital Research

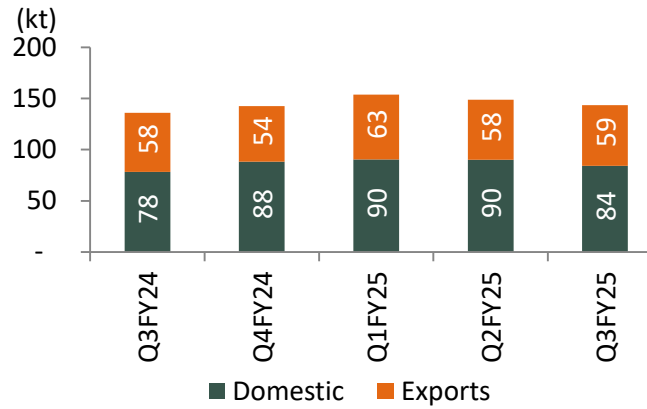
Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q3FY25E	Q3FY25A	Variance (%)
Net sales	21,243	20,100	(5.4)
EBTIDA	3,505	3,173	(9.5)
<i>EBITDA margin (%)</i>	<i>16.5</i>	<i>15.8</i>	<i>-71bps</i>
PAT	1,139	936	(17.8)
Diluted EPS (Rs)	3.0	2.5	(17.8)

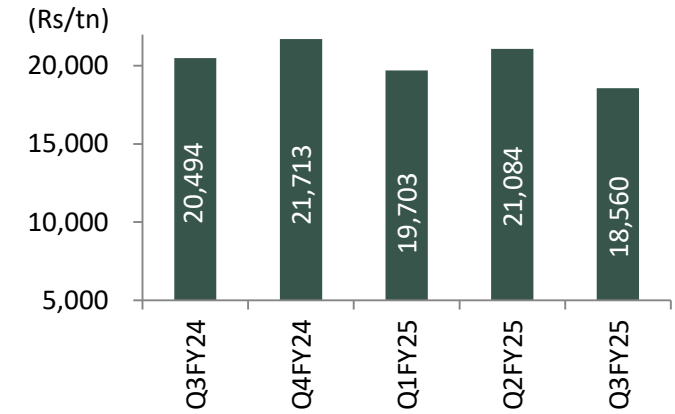
Source: Company; IDBI Capital Research

Exhibit 3: Volumes higher by 5% YoY



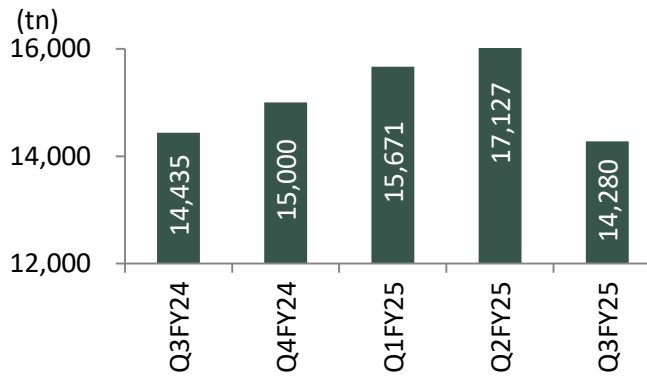
Source: Company, IDBI Capital Research

Exhibit 4: EBITDA/tonne decreased 9%YoY



Source: Company, IDBI Capital Research

Exhibit 5: Specialty volumes decreased by 1% YoY



Source: Company, IDBI Capital Research

Exhibit 6: EBITDA increased by 53% YoY



Source: Company, IDBI Capital Research

Conference call Highlights

Carbon Blacks and Specialty Blacks

- Andhra Pradesh government has allotted 116 acres of land, which will be used in the next Greenfield expansion of Carbon Black capacity.
- The second and final phase of the specialty chemical line has been commissioned in Mundra, Gujarat, with a capacity of 20,000 MTPA, taking the total capacity to 790,000 MTPA.
- Revenue growth was driven by higher volumes and the inclusion of the Aquapharm business.
- Overhaul of the power generation plant at Durgapur resulted in lower power generation; power generation capacity is expected to reach 134 MW by FY26.
- Carbon Black realizations dropped due to crude oil price movement and product mix. Carbon Blacks are sold on a formula-plus model, which includes variable cost and margins, resulting in price movements along with crude oil prices.
- A specialty grade chemicals line is in the planning phase, which will manufacture premium-grade chemicals to cater to engineering plastics and batteries; a detailed plan is expected in 3-4 weeks.
- There has been some inventory stocking in Europe due to Russian restrictions, resulting in high inventory levels with customers. However, the company was able to increase volumes as they acquired new customers in the European region. Management expects the inventory situation to normalize in the coming quarter.
- Impairment was reported in the P&L statement, created due to M&A accounting regulations as temporary deferred tax liability and non-core goodwill were created, which get knocked off post-acquisition, leaving no material impact.
- Carbon Black capacity of 160,000-170,000 KTPA is expected to come up by Q4FY26, as per the scheduled project timelines.
- Net borrowings increased by Rs.980mn in Q3 due to inventory accumulation.

- Debt/EBITDA is expected to be around 3.3-3.4, which will reach below 3 by next year. The company aims for debt reduction post the expansion phase.
- PAT growth will be visible from next year as interest expense is expected to decrease gradually. Acquisition borrowing, which was borrowed at a higher interest cost compared to the normal borrowings will get repaid starting chunk in January of this year, reduction in interest cost by Rs.50-60mn is expected.

Aquapharm Business

- Aquapharm revenue stood at Rs.3,280 mn with EBITDA of Rs.510 mn. Volumes during the quarter were 22,796 MT at a capacity utilization rate of 70%.
- Revenue dipped due to industry headwinds, including a slowdown in the US market and competition from China; however, the company is focusing on cost efficiency and market expansion to recover margins.
- Raw material prices have stabilized, which will positively impact margins. Volume recovery is expected as the industry bottom has been reached; meanwhile, the company is expanding distribution in new geographies.
- The business is expected to regain its previous EBITDA run-rate by Q4FY26. New premium grades and customer acquisitions will serve as catalysts for margin recovery.

Battery Chemical Business

- Nano silicon plant equipment has been ordered.
- The JV has been actively participating in global battery chemical fairs to promote the company. Kineltec JV has been booking orders in advance and will develop polymers once the Palej plant commences operations.
- Post-commissioning of the Palej plant's commercial production, it is expected to contribute a top-line of Rs.14,000mn by FY27, with full capacity utilization anticipated by FY29. A total capex of \$20-\$25 million is expected.

Exhibit 7: Change in estimates

	FY25E			FY26E			FY27E
	Old	New	(%) Chg	Old	New	(%) Chg	New
Revenue (Rs bn)	87,842	83,867	(4.5)	1,01,516	94,322	(7.1)	1,03,779
EBITDA (Rs bn)	14,774	13,600	(7.9)	17,359	15,657	(9.8)	17,435
<i>EBITDA margin (%)</i>	<i>16.8</i>	<i>16.2</i>	<i>-58bps</i>	<i>17.1</i>	<i>16.6</i>	<i>-50bps</i>	<i>16.8</i>
Adj. Net profit (Rs bn)	5,112	4,447	(13.0)	8,099	6,108	(24.6)	7,313
Adj. EPS (Rs)	13.5	11.8	(12.7)	20.6	15.5	(24.7)	19.4

Source: Company; IDBI Capital Research

Financial Summary (Consolidated)

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	44,464	57,741	64,198	83,867	94,322	1,03,779
<i>Change (yoy, %)</i>	67	30	11	31	12	10
Operating expenses	(38,157)	(50,528)	(53,824)	(70,268)	(78,665)	(86,344)
EBITDA	6,307	7,212	10,373	13,600	15,657	17,435
<i>Change (yoy, %)</i>	24	14	44	31	15	11
<i>Margin (%)</i>	14.2	12.5	16.2	16.2	16.6	16.8
Depreciation	(1,209)	(1,367)	(2,173)	(3,451)	(3,765)	(3,997)
EBIT	5,099	5,845	8,201	10,149	11,892	13,437
Interest paid	(69)	(434)	(1,808)	(4,555)	(4,134)	(4,087)
Other income	286	406	370	387	406	427
Pre-tax profit	5,316	5,817	6,763	5,981	8,165	9,777
Tax	(1,052)	(1,395)	(1,852)	(1,534)	(2,058)	(2,464)
<i>Effective tax rate (%)</i>	19.8	24.0	27.4	25.6	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	4,264	4,422	4,911	4,447	6,108	7,313
Exceptional items	-	-	-	-	-	-
Adjusted net profit	4,264	4,422	4,911	4,447	6,108	7,313
<i>Change (yoy, %)</i>	36	4	11	(9)	37	20
EPS	11.3	11.7	13.0	11.8	15.5	19.4
Dividend per share	3.2	5.0	5.5	5.5	5.5	5.7
<i>Dividend Payout (%)</i>	38.4	44.3	47	47	35	30

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	26,140	28,302	32,467	39,317	43,259	43,942
Share capital	378	378	378	378	394	394
Reserves & surplus	25,762	27,924	32,089	38,939	42,865	43,548
Total Debt	6,840	9,430	48,197	44,697	44,197	43,697
Other liabilities	3,676	3,344	10,576	10,576	10,576	10,576
Curr Liab & prov	11,109	13,161	21,677	22,315	24,625	26,719
Current liabilities	10,315	12,339	20,769	21,406	23,717	25,811
Provisions	793	823	908	908	908	908
Total liabilities	21,625	25,935	80,450	77,587	79,398	80,991
Total equity & liabilities	47,847	54,328	1,12,954	1,16,941	1,22,694	1,24,971
Net fixed assets	20,147	30,189	59,863	60,972	61,507	62,510
Investments	4,993	4,016	7,090	7,671	9,414	9,414
Other non-curr assets	-	-	11,614	11,614	11,614	11,614
Current assets	22,708	20,124	34,388	36,684	40,159	41,433
Inventories	6,039	5,714	9,993	10,495	10,484	10,090
Sundry Debtors	11,051	11,107	17,102	19,824	23,589	25,944
Cash and Bank	1,591	956	3,848	2,922	2,642	1,955
Other current assets	4,027	2,347	3,444	3,444	3,444	3,444
Total assets	47,847	54,328	1,12,954	1,16,941	1,22,694	1,24,971

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	5,316	5,817	6,763	5,981	8,165	9,777
Depreciation	1,209	1,367	2,173	3,451	3,765	3,997
Tax paid	(1,036)	(1,658)	(2,156)	-	-	-
Chg in working capital	(2,428)	909	3,396	(2,586)	(1,444)	133
Other operating activities	(157)	(1,395)	878	4,555	4,134	4,087
Cash flow from operations (a)	2,904	5,041	11,054	9,866	12,561	15,529
Capital expenditure	(3,062)	(8,957)	(5,329)	(4,560)	(4,300)	(5,000)
Chg in investments	(2,490)	3,322	(36,951)	(581)	(1,743)	-
Other investing activities	145	116	139	-	-	-
Cash flow from investing (b)	(5,407)	(5,519)	(42,141)	(5,141)	(6,043)	(5,000)
Equity raised/(repaid)	390	-	-	4,480	-	(4,464)
Debt raised/(repaid)	272	3,089	38,029	-	-	-
Dividend (incl. tax)	(1,887)	(2,076)	(2,076)	(6,631)	(6,298)	(6,251)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(118)	(1,319)	(2,146)	-	-	-
Cash flow from financing (c)	(1,344)	(306)	33,808	(2,151)	(6,298)	(10,715)
Net chg in cash (a+b+c)	(3,847)	(784)	2,721	2,574	220	(186)

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	69	75	86	104	110	116
Adj EPS (Rs)	11	12	13	12	16	19
Adj EPS growth (%)	35.8	3.7	11.1	-9.5	31.8	24.8
EBITDA margin (%)	14.2	12.5	16.2	16.2	16.6	16.8
Pre-tax margin (%)	12.0	10.1	10.5	7.1	8.7	9.4
Net Debt/Equity (x)	0.2	0.3	1.4	1.1	1.0	0.9
ROCE (%)	15.4	15.0	12.4	10.9	12.1	13.7
ROE (%)	18.7	16.2	16.2	12.4	14.1	16.6

DuPont Analysis

Asset turnover (x)	1.0	1.1	0.8	0.7	0.8	0.8
Leverage factor (x)	1.9	1.9	2.8	3.2	2.8	2.8
Net margin (%)	9.6	7.7	7.6	5.3	6.5	7.0

Working Capital & Liquidity ratio

Inventory days	50	36	57	46	41	35
Receivable days	91	70	97	86	91	91
Payable days	87	69	122	97	97	97

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	34.6	33.4	30.1	33.2	25.2	20.2
Price/Book value (x)	5.6	5.2	4.5	3.8	3.6	3.4
EV/Net sales (x)	3.4	2.7	3.0	2.3	2.1	1.8
EV/EBITDA (x)	24.2	21.6	18.5	13.9	12.5	10.9
Dividend Yield (%)	0.7	1.2	1.3	1.4	1.4	1.5

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

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

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SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

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