IDBI capital

PCBL BUY

Solid performance led by robust volume growth

Summary

PCBL's Q1FY25 results were above our and street expectations. PCBL's carbon black sales volumes grew by 25% YoY to a record level of 153,918 tons in Q1FY25, driven by increased exports to Europe due to the ban on importing of Russian carbon black. Consolidated EBITDA margin improved 107bps YoY to 16.7%, driven by Carbon black segment. The recently commissioned facility in Chennai operated at 85% capacity utilization in Q1FY25 and is expected to reach full capacity by Q4FY25. Furthermore, PCBL expects volume growth of 11-12% over next 2 years in carbon black business. We revise our FY25/FY26 EPS estimate by -6%/+5%, respectively. We now value the stock at a PER of 22x FY26E EPS, given healthy growth outlook and derive a target price of Rs461 (earlier Rs299). We maintain our BUY rating on the stock.

Key Highlights and Investment Rationale

- **Healthy performance by Aquapharm:** Revenue grew by 49% QoQ to Rs3.6bn. Capacity utilization was at 75% in Q1FY25. Aquapharm's EBITDA margin came in at 15.4%. The management expects to achieve sales volume of 1,00,000 tons in FY25 and expects growth of 20-25% from FY26 onwards. Additionally, the management expects to reach EBITDA run rate of Rs800mn from Q4FY25.

- **Aggressive capacity expansion:** PCBL aims to expedite the addition of 20,000 MTPA capacity at Mundra by end of 2024. The first phase of Tamil Nadu facility with a capacity of 30,000 MTPA, is expected to be completed by Q3FY25 and second phase is scheduled for completion by H1FY26. Additionally, PCBL plans to increase Aquapharm's capacity by 38,000 MTPA over the next 6-8 months. Furthermore, the company aims to boost carbon black capacity by another 400,000 MTPA and Aquapharm capacity by an additional 100,000 MTPA over the next 4-5 years, with a total capex of Rs29bn to Rs30bn.

TP	Rs461
CMP	**Rs387**
Potential upside/downside	19%
Previous Rating	HOLD

Price Performance (%)	-1m	-3m	-12m
Absolute	40.9	53.4	145.4
Rel to Sensex	42.0	43.8	123.4

V/s Consensus		
EPS (Rs)	**FY25E**	**FY26E**
IDBI Capital	16	21
Consensus	14	18
% difference	*10.7*	*19.7*

Key Stock Data	
Bloomberg / Reuters	PCBL IN / PHIL.BO
Sector	Chemical & Fertilizers
Shares o/s (mn)	377
Market cap. (Rs mn)	146,248
3-m daily average value (Rs mn)	9.5
52-week high / low	Rs420 / 153
Sensex / Nifty	79,649 / 24,347

Shareholding Pattern (%)	
Promoters	51.4
FII	5.3
DII	6.3
Public	37.0

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	44,464	57,741	64,198	87,246	1,01,650
Change (yoy, %)	*67*	*30*	*11*	*36*	*17*
EBITDA	6,307	7,212	10,373	14,620	17,382
Change (yoy, %)	*24*	*14*	*44*	*41*	*19*
EBITDA Margin(%)	*14.2*	*12.5*	*16.2*	*16.8*	*17.1*
Adj.PAT	4,264	4,422	4,911	6,114	8,245
EPS (Rs)	11	12	13	16	21
Change (yoy, %)	*35.8*	*3.7*	*11.1*	*24.5*	*29.4*
PE(x)	34.3	33.0	29.7	23.9	18.5
Dividend Yield (%)	*1.3*	*1.4*	*1.4*	*1.4*	*1.4*
EV/EBITDA (x)	24.0	21.4	18.4	13.0	11.2
RoE (%)	*18.7*	*16.2*	*16.2*	*16.6*	*17.5*
RoCE (%)	*15.4*	*15.0*	*12.4*	*11.7*	*13.1*

Source: IDBI Capital Research

Ajit Sahu
ajit.sahu@idbicapital.com
+91-22-4069 1849

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

Financial snapshot	Q1FY25	Q4FY24	*QoQ (%)*	Q1FY24	*YoY (%)*
Net sales	**21,436**	**19,288**	***11.1***	**13,475**	***59.1***
Expenditure	17,853	16,193	*10.3*	11,368	*57.1*
EBITDA	**3,583**	**3,095**	***15.8***	**2,108**	***70.0***
EBITDA margin (%)	*16.7*	*16.0*	*67bps*	*15.6*	*107bps*
Other income	109	232	*(53.1)*	40	*173.4*
Interest	1,211	1,082	*11.9*	193	*529.1*
Depreciation	845	752	*12.3*	412	*105.1*
PBT	**1,636**	**1,493**	***9.5***	**1,543**	***6.0***
Tax	457	384	*18.9*	450	*1.5*
PAT	**1,180**	**1,113**	***6.1***	**1,092**	***8.1***
Diluted EPS (Rs)	**3.1**	**2.9**	***6.1***	**2.9**	***8.1***

Source: Company; IDBI Capital Research

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

	Q1FY25E	Q1FY25A	*Variance (%)*
Net sales	**18,499**	**21,436**	***15.9***
EBTIDA	2,978	3,583	*20.3*
EBITDA margin (%)	*16.1*	*16.7*	*61bps*
PAT	**1,027**	**1,180**	***14.9***
Diluted EPS (Rs)	2.7	3.1	*14.9*

Source: Company; IDBI Capital Research

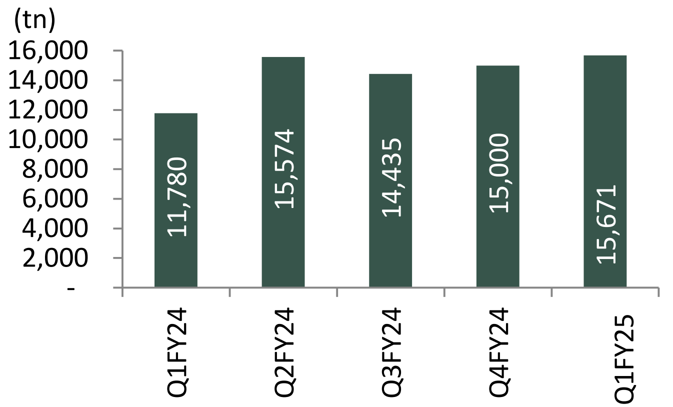
Exhibit 3: Volumes higher by 25% YoY

Source: Company, IDBI Capital Research

Exhibit 4: EBITDA/tonne increased 22%YoY

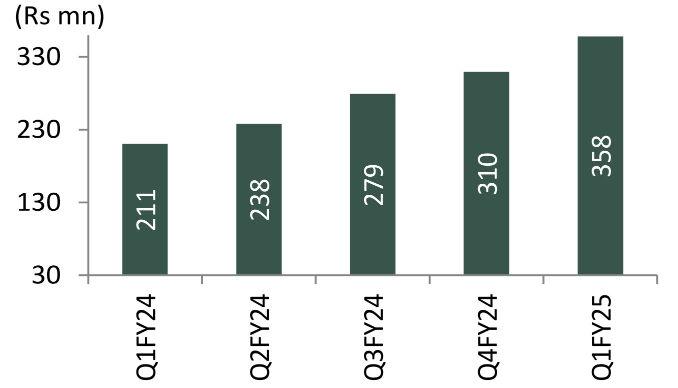
Source: Company, IDBI Capital Research

Exhibit 5: Specialty volumes increase by 33% YoY



Source: Company, IDBI Capital Research

Exhibit 6: EBITDA increased by 70% YoY



Source: Company, IDBI Capital Research

Conference call Highlights

Overview

- Revenue growth was driven by better realisations, increased sales volume and consolidation of Aquapharm business.
- JV plant is expected to come up in 1.5 to 2 years
- Battery chemicals capacity of 28mn tonnes with a capex of Rs. 450-500cr
- Overall Rs. 3,300cr capex to be incurred in next 5 years.
- Cash flow of Rs. 10,000cr is expected in next 5 years with this year around Rs. 1,000cr which will keep increasing in an incremental manner

Carbon Blacks

- EBITDA/tonne for CB segment stood at Rs. 20,861/tonne
- Chennai plant received approval from all major tyre manufacturers in India and clocked a capacity utilization of 85%. New capacity of 30,00 tonnes is expected in Q3 and another 90,000 tonne in a year
- CB volumes- 1)Domestic – 90,438mt 2)Exports – 63,480
- Segmental breakdown – 1)Tyres – 87,945 tonne, 2)Performance Chemicals – 50,302 tonne, 3)Specialty – 15,671 tonne
- The ban on selling Russian blacks in Europe has provided significant growth in the export volumes with 21% of total sold in Europe.
- New patent received for hybrid carbon black grade comprising grapheme to improve performance of rubber compounds
- Total CB capacity is 770,000 tonnes and 90,000 tonnes of rubber black capacity is under implementation.
- Post expansion total capacity will reach 880,000 tonne with 112,000 tonnes of specials capacity with a capex of Rs. 2,500cr

Aquapharm

- Aquapharm currently enjoys 24% market share (excluding China) in Phosphonate.
- Oil and gas chemicals and green chelates are the segments where company is focused to capture market share.
- Overall capacity utilisation stood at 75% with sales volume of 24,402 tonnes.
- Currently this segment is under soft cycle and is facing margins and competition pressure. The cycle is expected to be bottomed with visible greenshoots ahead.
- New capacity of 38,000 tonne will come up in 6-8 months with total capex of Rs. 215cr.
- This segment is expected to capture 33% of the global market share
- Volume guidance of 100,000-110,000 tonnes for FY25 and Volume growth guidance of 20-25% for FY26 & FY27
- Total capacity to be doubled in next 5 years in both India and USA with estimated capex of Rs. 400-500cr

Exhibit 7: Change in estimates

	FY25E			FY26E		
	Old	New	*(%) Chg*	Old	New	*(%) Chg*
Revenue (Rs bn)	90,304	87,246	*(3.4)*	1,00,618	1,01,650	*1.0*
EBITDA (Rs bn)	14,449	14,620	*1.2*	16,602	17,382	*4.7*
EBITDA margin (%)	*16.0*	*16.8*	*76bps*	*16.5*	*17.1*	*60bps*
Adj. Net profit (Rs bn)	6,509	6,114	*(6.1)*	7,847	8,245	*5.1*
Adj. EPS (Rs)	17.2	16.2	*(5.8)*	19.9	21.0	*5.3*

Source: Company; IDBI Capital Research

Financial Summary (Consolidated)

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	**26,595**	**44,464**	**57,741**	**64,198**	**87,246**	**1,01,650**
Change (yoy, %)	*(18)*	*67*	*30*	*11*	*36*	*17*
Operating expenses	(21,517)	(38,157)	(50,528)	(53,824)	(72,627)	(84,268)
EBITDA	**5,078**	**6,307**	**7,212**	**10,373**	**14,620**	**17,382**
Change (yoy, %)	*10*	*24*	*14*	*44*	*41*	*19*
Margin (%)	*19.1*	*14.2*	*12.5*	*16.2*	*16.8*	*17.1*
Depreciation	(1,101)	(1,209)	(1,367)	(2,173)	(3,430)	(3,464)
EBIT	**3,977**	**5,099**	**5,845**	**8,201**	**11,190**	**13,918**
Interest paid	(236)	(69)	(434)	(1,808)	(3,392)	(3,374)
Other income	180	286	406	370	435	479
Pre-tax profit	**3,920**	**5,316**	**5,817**	**6,763**	**8,233**	**11,023**
Tax	(781)	(1,052)	(1,395)	(1,852)	(2,119)	(2,778)
Effective tax rate (%)	*19.9*	*19.8*	*24.0*	*27.4*	*25.7*	*25.2*
Minority Interest	-	-	-	-	-	-
Net profit	**3,140**	**4,264**	**4,422**	**4,911**	**6,114**	**8,245**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**3,140**	**4,264**	**4,422**	**4,911**	**6,114**	**8,245**
Change (yoy, %)	*9*	*36*	*4*	*11*	*24*	*35*
EPS	8.3	11.3	11.7	13.0	16.2	21.0
Dividend per share	3.2	5.0	5.5	5.5	5.5	5.5
Dividend Payout (%)	*38.4*	*44.3*	*47*	*42*	*34*	*26*

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	19,355	26,140	28,302	32,467	40,990	47,078
Share capital	345	378	378	378	378	394
Reserves & surplus	19,010	25,762	27,924	32,089	40,613	46,685
Total Debt	**6,068**	**6,840**	**9,430**	**48,197**	**48,197**	**48,197**
Other liabilities	3,799	3,676	3,344	10,576	10,576	10,576
Curr Liab & prov	**7,964**	**11,109**	**13,161**	**21,677**	**25,471**	**27,641**
Current liabilities	7,120	10,315	12,339	20,769	24,563	26,733
Provisions	844	793	823	908	908	908
Total liabilities	**17,830**	**21,625**	**25,935**	**80,450**	**84,243**	**86,414**
Total equity & liabilities	**37,261**	**47,847**	**54,328**	**1,12,954**	**1,25,271**	**1,33,530**
Net fixed assets	18,978	20,147	30,189	59,863	60,993	61,829
Investments	**3,589**	**4,993**	**4,016**	**7,090**	**7,671**	**9,414**
Other non-curr assets	-	-	-	11,614	11,614	11,614
Current assets	**14,694**	**22,708**	**20,124**	**34,388**	**44,993**	**50,673**
Inventories	4,448	6,039	5,714	9,993	14,058	14,955
Sundry Debtors	7,085	11,051	11,107	17,102	23,753	26,806
Cash and Bank	2,644	1,591	956	3,848	3,739	5,468
Other current assets	517	4,027	2,347	3,444	3,444	3,444
Total assets	**37,261**	**47,847**	**54,328**	**1,12,954**	**1,25,271**	**1,33,530**

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	3,920	5,316	5,817	6,763	8,233	11,023
Depreciation	1,101	1,209	1,367	2,173	3,430	3,464
Tax paid	(615)	(1,004)	(1,597)	4,297	(2,119)	(2,778)
Chg in working capital	(1,406)	(2,411)	2,322	(1,760)	(6,921)	(1,780)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	**3,000**	**3,110**	**7,909**	**11,473**	**2,623**	**9,929**
Capital expenditure	(1,929)	(2,378)	(11,410)	(31,847)	(4,560)	(4,300)
Chg in investments	208	(1,404)	978	(3,074)	(581)	(1,743)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**(1,721)**	**(3,782)**	**(10,432)**	**(34,921)**	**(5,141)**	**(6,043)**
Equity raised/(repaid)	-	4,000	-	-	-	4,480
Debt raised/(repaid)	621	772	2,590	38,767	-	-
Dividend (incl. tax)	(1,206)	(1,887)	(2,076)	(2,076)	(2,076)	(2,164)
Chg in monorities	75	7	9	(54)	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**(510)**	**2,892**	**523**	**36,637**	**(2,076)**	**2,316**
Net chg in cash (a+b+c)	**770**	**2,220**	**(2,000)**	**13,189**	**(4,594)**	**6,202**

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	51	69	75	86	109	120
Adj EPS (Rs)	*8*	*11*	*12*	*13*	*16*	*21*
Adj EPS growth (%)	*9.2*	*35.8*	*3.7*	*11.1*	*24.5*	*29.4*
EBITDA margin (%)	*19.1*	*14.2*	*12.5*	*16.2*	*16.8*	*17.1*
Pre-tax margin (%)	*14.7*	*12.0*	*10.1*	*10.5*	*9.4*	*10.8*
Net Debt/Equity (x)	*0.2*	*0.2*	*0.3*	*1.4*	*1.1*	*0.9*
ROCE (%)	*14.4*	*15.4*	*15.0*	*12.4*	*11.7*	*13.1*
ROE (%)	*17.3*	*18.7*	*16.2*	*16.2*	*16.6*	*17.5*
DuPont Analysis						
Asset turnover (x)	0.8	1.0	1.1	0.8	0.7	0.8
Leverage factor (x)	1.9	1.9	1.9	2.8	3.2	2.8
Net margin (%)	*11.8*	*9.6*	*7.7*	*7.6*	*7.0*	*8.1*
Working Capital & Liquidity ratio						
Inventory days	61	50	36	57	59	54
Receivable days	97	91	70	97	99	96
Payable days	100	87	69	122	110	104

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	46.5	34.3	33.0	29.7	23.9	18.5
Price/Book value (x)	7.5	5.6	5.2	4.5	3.6	3.2
EV/Net sales (x)	5.6	3.4	2.7	3.0	2.2	1.9
EV/EBITDA (x)	29.4	24.0	21.4	18.4	13.0	11.2
Dividend Yield (%)	*0.8*	*1.3*	*1.4*	*1.4*	*1.4*	*1.4*

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.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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