

## PCBL Chemical

HOLD

Soft Performance Amid Pricing Pressure, Expansion

## Summary

PCBL's Q1FY26 revenue and PAT came in below our expectations. Carbon black sales declined 4% YoY, primarily due to 4% YoY drop in realizations driven by weak crude oil prices. Domestic volumes decreased by 1% YoY, while export volumes grew by 2% YoY. Consolidated EBITDA margin contracted 162bps YoY to 15.1%, reflecting margin compression in both carbon black and Aquapharm segments, largely due to increased freight costs and pricing pressures. EBITDA/t for carbon black remained flat QoQ to Rs17,791 impacted by lower realizations amid weak demand and oversupply caused by an influx of Russian supplies in Asian markets. Consequently, we revise our FY26/FY27 estimates downwards by 27%/11%, respectively. We value the stock at a PER of 23x FY27E EPS, resulting in a revised target price of Rs387. We maintain our HOLD rating on the stock.

## Key Highlights and Investment Rationale

- Healthy performance by Aquapharm:** Revenue grew by 7% YoY, driven by a 9% YoY increase in volumes, though partially offset by 2% YoY decline in realisations due to adverse product mix and pricing pressure. Consequently, EBITDA margin contracted by 232bps YoY to 13.1%, on account of increased freight costs amid tariff uncertainty. Management reduced its EBITDA guidance to Rs3bn from Rs3.9bn and expects EBITDA to improve from Q2FY26, supported by increased capacity utilization, operating leverage, improved conversion efficiency.
- Aggressive capacity expansion:** PCBL is adding 90,000 MTPA carbon black capacity in Tamil Nadu (Phase 1 under trial and Phase 2 by FY26). It is acquiring land in Andhra Pradesh for an export focused greenfield plant, expected to be operational in 3 years. A 20,000 MTPA specialty black line in Mundra is expected to be ready in 3–4 quarters, while a 1,000 MTPA superconductive grade line at Palej is expected in FY26.

TP **Rs387**CMP **Rs406**

Potential upside/downside -5%

Previous Rating HOLD

## Price Performance (%)

|               | -1m | -3m   | -12m |
|---------------|-----|-------|------|
| Absolute      | 4.8 | (0.8) | 47.0 |
| Rel to Sensex | 3.8 | (4.1) | 44.1 |

## V/s Consensus

| EPS (Rs)     | FY26E  | FY27E  |
|--------------|--------|--------|
| IDBI Capital | 11     | 17     |
| Consensus    | 15     | 20     |
| % difference | (26.3) | (16.1) |

## Financial snapshot

| Year               | FY23   | FY24   | FY25   | FY26E  | FY27E  |
|--------------------|--------|--------|--------|--------|--------|
| Revenue            | 57,741 | 64,198 | 84,043 | 86,724 | 95,294 |
| Change (yoy, %)    | 117.1  | 11.2   | 30.9   | 3.2    | 9.9    |
| EBITDA             | 7,212  | 10,373 | 13,368 | 13,468 | 16,009 |
| Change (yoy, %)    | 42.0   | 43.8   | 28.9   | 0.8    | 18.9   |
| EBITDA Margin(%)   | 12.5   | 16.2   | 15.9   | 15.5   | 16.8   |
| Adj.PAT            | 4,422  | 4,911  | 4,352  | 4,248  | 6,351  |
| EPS (Rs)           | 12     | 13     | 12     | 11     | 17     |
| Change (yoy, %)    | 40.8   | 11.1   | (11.4) | (2.4)  | 49.5   |
| PE(x)              | 34.5   | 31.1   | 35.1   | 35.9   | 24.0   |
| Dividend Yield (%) | 1.4    | 1.4    | 1.4    | 1.4    | 1.4    |
| EV/EBITDA (x)      | 22.3   | 19.0   | 15.2   | 15.0   | 12.6   |
| RoE (%)            | 16.2   | 16.2   | 12.5   | 10.9   | 14.6   |
| RoCE (%)           | 15.0   | 12.4   | 10.6   | 9.9    | 11.8   |

Source: IDBI Capita

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## Key Stock Data

Bloomberg / Reuters PCBL IN / PHIL.BO

Sector Chemical &amp; Fertilizers

Shares o/s (mn) 377

Market cap. (Rs mn) 153,401

3-m daily average value (Rs mn) 9.5

52-week high / low Rs585 / 274

Sensex / Nifty 82,727 / 25,220

## Shareholding Pattern (%)

|           |      |
|-----------|------|
| Promoters | 51.4 |
| FII       | 5.5  |
| DII       | 9.8  |
| Public    | 33.3 |

(Rs mn)

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

(Rs mn)

| Financial snapshot       | Q1FY26        | Q4FY25        | QoQ (%)      | Q1FY25        | YoY (%)        |
|--------------------------|---------------|---------------|--------------|---------------|----------------|
| <b>Net sales</b>         | <b>21,141</b> | <b>20,875</b> | <b>1.3</b>   | <b>21,436</b> | <b>(1.4)</b>   |
| Expenditure              | 17,950        | 17,898        | 0.3          | 17,853        | 0.5            |
| <b>EBITDA</b>            | <b>3,191</b>  | <b>2,977</b>  | <b>7.2</b>   | <b>3,583</b>  | <b>(10.9)</b>  |
| <i>EBITDA margin (%)</i> | <i>15.1</i>   | <i>14.3</i>   | <i>83bps</i> | <i>16.7</i>   | <i>-162bps</i> |
| Other income             | 58            | 198           | (70.7)       | 109           | (46.7)         |
| Interest                 | 1,124         | 1,032         | 8.9          | 1,211         | (7.2)          |
| Depreciation             | 924           | 881           | 4.8          | 845           | 9.3            |
| <b>PBT</b>               | <b>1,202</b>  | <b>1,261</b>  | <b>(4.7)</b> | <b>1,636</b>  | <b>(26.5)</b>  |
| Tax                      | 261           | 259           | 0.4          | 457           | (42.9)         |
| <b>PAT</b>               | <b>941</b>    | <b>1,002</b>  | <b>(6.1)</b> | <b>1,180</b>  | <b>(20.3)</b>  |
| <b>Diluted EPS (Rs)</b>  | <b>2.5</b>    | <b>2.7</b>    | <b>(6.1)</b> | <b>3.1</b>    | <b>(20.3)</b>  |

Source: Company; IDBI Capital Research

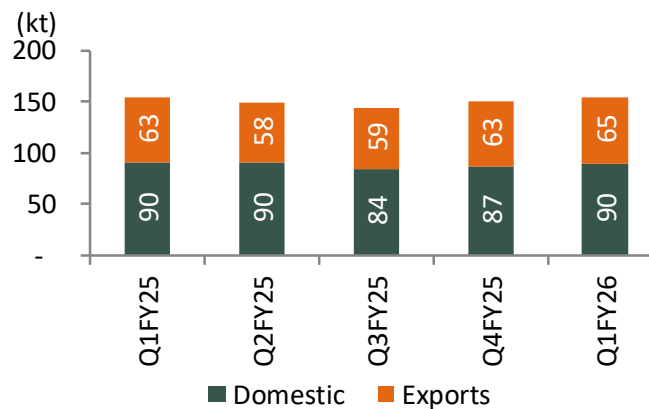
**Exhibit 2: Actual vs. Estimates**

(Rs mn)

|                          | Q1FY26E       | Q1FY26A       | Variance (%)  |
|--------------------------|---------------|---------------|---------------|
| <b>Net sales</b>         | <b>21,607</b> | <b>21,141</b> | <b>(2.2)</b>  |
| EBTIDA                   | 3,025         | 3,191         | 5.5           |
| <i>EBITDA margin (%)</i> | <i>14.0</i>   | <i>15.1</i>   | <i>109bps</i> |
| <b>PAT</b>               | <b>1,050</b>  | <b>941</b>    | <b>(10.4)</b> |
| Diluted EPS (Rs)         | 2.8           | 2.5           | (10.4)        |

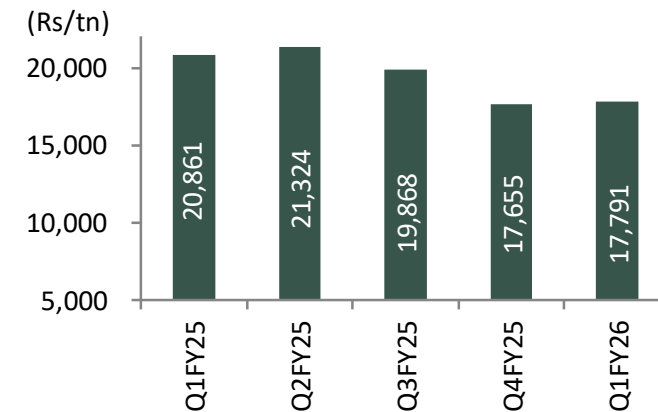
Source: Company; IDBI Capital Research

**Exhibit 3: Carbon Black Volumes remained flat YoY**



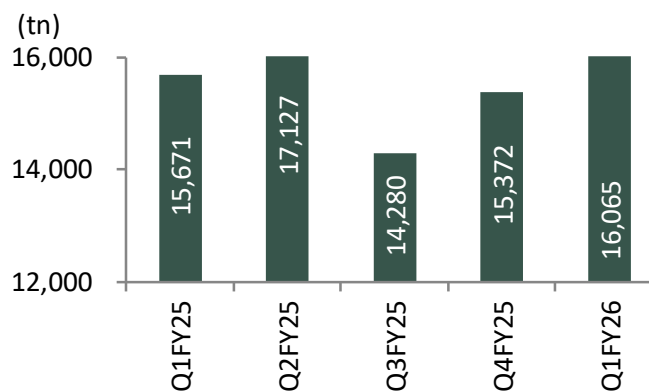
Source: Company, IDBI Capital Research

**Exhibit 4: EBITDA/tonne decreased 15%YoY**



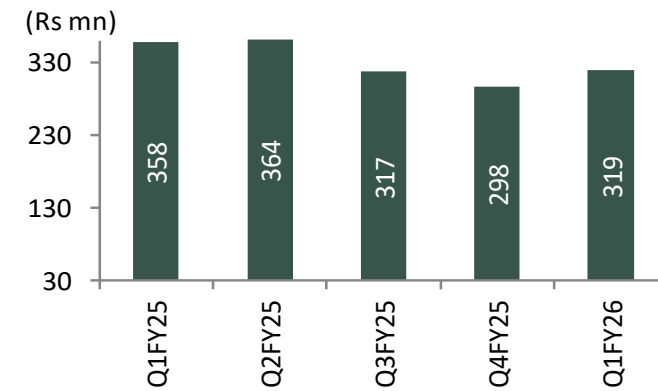
Source: Company, IDBI Capital Research

**Exhibit 5: Specialty volumes increased by 3% YoY**



Source: Company, IDBI Capital Research

**Exhibit 6: EBITDA decreased by 11% YoY**



Source: Company, IDBI Capital Research

## Conference call Highlights

### Margin Performance & Strategy

- Specialty carbon black achieves 25-30% higher realization compared to regular grades, while the performance segment gets approximately 17% higher realization.
- Margins have been similar between domestic and international markets, with pressure mainly in the spot market due to oversupply and macroeconomic conditions.
- Aquapharm's margins were impacted by product mix changes, pricing pressure, and increased freight costs due to Red Sea disruption.
- The company aims to improve margins through operating leverage, conversion efficiency improvements, and moving up the value chain.
- The gap between feedstock costs for PCBL and Chinese competitors has recently decreased to around \$130.

### Market & Competition Dynamics

- In specialty carbon black, PCBL's contribution has grown from less than 1% in 2015 to over 10% currently.
- Competition from Russian imports continues at around 2,000 tons per month into India, mainly through small traders.
- Plants in the US and Europe are becoming less competitive compared to India and China due to their cost structure and age.
- In India, carbon black supply significantly exceeds demand (1.8 million tons vs 1.1-1.2 million tons), though imports are relatively low at 9-10 thousand tons per month.

### Product Development & Innovation

- The company is developing a Nano Wave facility for advanced battery solutions, with the pilot plant expected to be ready by the end of calendar year 2025.
- PCBL received a US patent for developing nanomaterials for energy storage technology.

- They completed technology transfer for Acetylene Black expansion and started engineering work for India's first Acetylene Black capacity.
- A new specialty black line with 20,000 metric ton capacity is planned in Mundra over the next 3-4 quarters.
- Development of 1,000 metric ton specialty black capacity for superconductive grade is underway at Palej, expected completion by FY26 end.

#### **Supply Chain Impacts**

- The global tire industry is shifting manufacturing to cost-efficient hubs like India to optimize costs and enhance supply chain resilience.
- Red Sea disruptions are contributing to global uncertainties and significantly increased freight costs in Q1, impacting Aquapharm's performance.
- PCBL has established an integrated manufacturing and distribution network globally.

#### **Financial Guidance & Capital Allocation**

- For Aquapharm, management maintained their FY26 EBITDA guidance of Rs 3 bn.
- They expect to spend approximately Rs6 bn annually across all businesses for capital investments.
- PCBL has an internal target of 17-18% minimum return on invested capital.
- Total capital expenditure during Q1 FY26 was Rs1.12 bn, with Rs 150-160 million specifically for Aquapharm.
- Annual capital allocation plans include Rs1-1.25 bn per year for Aquapharm, Rs 2-2.5 billion total for Nanovace, and the remainder for Carbon Black.
- A new specialty carbon black line will require capital expenditure of Rs 850-900 mn.

**Exhibit 7: Change in estimates**

|                          | FY26E  |        |         | FY27E    |        |         |
|--------------------------|--------|--------|---------|----------|--------|---------|
|                          | Old    | New    | (%) Chg | Old      | New    | (%) Chg |
| Revenue (Rs bn)          | 95,351 | 86,724 | (9.0)   | 1,08,514 | 95,294 | (12.2)  |
| EBITDA (Rs bn)           | 15,828 | 13,468 | (14.9)  | 18,013   | 16,009 | (11.1)  |
| <i>EBITDA margin (%)</i> | 16.6   | 15.5   | -107bps | 16.6     | 16.8   | 20bps   |
| Adj. Net profit (Rs bn)  | 5,827  | 4,248  | (27.1)  | 7,124    | 6,351  | (10.9)  |
| Adj. EPS (Rs)            | 15.4   | 11.3   | (26.9)  | 18.9     | 16.8   | (11.0)  |

Source: Company; IDBI Capital Research

## Financial Summary (Consolidated)

### Profit & Loss Account

(Rs mn)

| Year-end: March               | FY22          | FY23          | FY24          | FY25          | FY26E         | FY27E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>              | <b>44,464</b> | <b>57,741</b> | <b>64,198</b> | <b>84,043</b> | <b>86,724</b> | <b>95,294</b> |
| <i>Change (yoy, %)</i>        | 67.2          | 29.9          | 11.2          | 30.9          | 3.2           | 9.9           |
| Operating expenses            | (38,157)      | (50,528)      | (53,824)      | (70,675)      | (73,256)      | (79,284)      |
| <b>EBITDA</b>                 | <b>6,307</b>  | <b>7,212</b>  | <b>10,373</b> | <b>13,368</b> | <b>13,468</b> | <b>16,009</b> |
| <i>Change (yoy, %)</i>        | 24.2          | 14.3          | 43.8          | 28.9          | 0.8           | 18.9          |
| <i>Margin (%)</i>             | 14.2          | 12.5          | 16.2          | 15.9          | 15.5          | 16.8          |
| Depreciation                  | (1,209)       | (1,367)       | (2,173)       | (3,457)       | (3,815)       | (4,066)       |
| <b>EBIT</b>                   | <b>5,099</b>  | <b>5,845</b>  | <b>8,201</b>  | <b>9,911</b>  | <b>9,653</b>  | <b>11,944</b> |
| Interest paid                 | (69)          | (434)         | (1,808)       | (4,609)       | (4,627)       | (4,371)       |
| Other income                  | 286           | 406           | 370           | 474           | 420           | 569           |
| <b>Pre-tax profit</b>         | <b>5,316</b>  | <b>5,817</b>  | <b>6,763</b>  | <b>5,771</b>  | <b>5,447</b>  | <b>8,142</b>  |
| Tax                           | (1,052)       | (1,395)       | (1,852)       | (1,424)       | (1,198)       | (1,791)       |
| <i>Effective tax rate (%)</i> | 19.8          | 24.0          | 27.4          | 24.7          | 22.0          | 22.0          |
| Minority Interest             | -             | -             | -             | -             | -             | -             |
| <b>Net profit</b>             | <b>4,264</b>  | <b>4,422</b>  | <b>4,911</b>  | <b>4,347</b>  | <b>4,248</b>  | <b>6,351</b>  |
| Exceptional items             | -             | -             | -             | (5)           | -             | -             |
| <b>Adjusted net profit</b>    | <b>4,264</b>  | <b>4,422</b>  | <b>4,911</b>  | <b>4,352</b>  | <b>4,248</b>  | <b>6,351</b>  |
| <i>Change (yoy, %)</i>        | 35.8          | 3.7           | 11.1          | (11.4)        | (2.4)         | 49.5          |
| EPS                           | 11.3          | 11.7          | 13.0          | 11.5          | 11.3          | 16.8          |
| Dividend per share            | 10.0          | 5.5           | 5.5           | 5.5           | 5.5           | 5.5           |
| <i>Dividend Payout (%)</i>    | 88.5          | 46.9          | 42            | 48            | 49            | 33            |

**Balance Sheet**

(Rs mn)

| Year-end: March                       | FY22          | FY23          | FY24            | FY25            | FY26E           | FY27E           |
|---------------------------------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
| <b>Shareholders' funds</b>            | 26,140        | 28,302        | 32,467          | 36,974          | 39,146          | 43,419          |
| Share capital                         | 378           | 378           | 378             | 378             | 378             | 378             |
| Reserves & surplus                    | 25,762        | 27,924        | 32,089          | 36,597          | 38,768          | 43,042          |
| <b>Total Debt</b>                     | <b>6,840</b>  | <b>9,430</b>  | <b>48,197</b>   | <b>53,800</b>   | <b>53,800</b>   | <b>52,800</b>   |
| Other liabilities                     | 3,676         | 3,344         | 10,576          | 4,692           | 4,692           | 4,692           |
| <b>Curr Liab &amp; prov</b>           | <b>11,109</b> | <b>13,161</b> | <b>21,677</b>   | <b>21,646</b>   | <b>23,022</b>   | <b>24,771</b>   |
| Current liabilities                   | 10,315        | 12,339        | 20,769          | 20,665          | 22,042          | 23,791          |
| Provisions                            | 793           | 823           | 908             | 981             | 981             | 981             |
| <b>Total liabilities</b>              | <b>21,625</b> | <b>25,935</b> | <b>80,450</b>   | <b>80,137</b>   | <b>81,514</b>   | <b>82,263</b>   |
| <b>Total equity &amp; liabilities</b> | <b>47,847</b> | <b>54,328</b> | <b>1,12,954</b> | <b>1,17,229</b> | <b>1,20,778</b> | <b>1,25,801</b> |
| <b>Net fixed assets</b>               | <b>20,147</b> | <b>30,189</b> | <b>59,863</b>   | <b>64,818</b>   | <b>67,003</b>   | <b>69,937</b>   |
| Investments                           | 4,993         | 4,016         | 7,090           | 9,099           | 10,842          | 10,842          |
| Other non-curr assets                 | -             | -             | 11,614          | 6,068           | 6,068           | 6,068           |
| <b>Current assets</b>                 | <b>22,708</b> | <b>20,124</b> | <b>34,388</b>   | <b>37,245</b>   | <b>36,866</b>   | <b>38,955</b>   |
| Inventories                           | 6,039         | 5,714         | 9,993           | 12,682          | 13,233          | 14,570          |
| Sundry Debtors                        | 11,051        | 11,107        | 17,102          | 17,937          | 16,843          | 18,543          |
| Cash and Bank                         | 1,591         | 956           | 3,848           | 3,892           | 4,055           | 3,107           |
| Other current assets                  | 4,027         | 2,347         | 3,444           | 2,735           | 2,735           | 2,735           |
| <b>Total assets</b>                   | <b>47,847</b> | <b>54,328</b> | <b>1,12,954</b> | <b>1,17,229</b> | <b>1,20,778</b> | <b>1,25,801</b> |

**Cash Flow Statement**

(Rs mn)

| Year-end: March                      | FY22           | FY23           | FY24            | FY25           | FY26E          | FY27E          |
|--------------------------------------|----------------|----------------|-----------------|----------------|----------------|----------------|
| Pre-tax profit                       | 5,316          | 5,817          | 6,763           | 5,771          | 5,447          | 8,142          |
| Depreciation                         | 1,209          | 1,367          | 2,173           | 3,457          | 3,815          | 4,066          |
| Tax paid                             | (1,036)        | (1,658)        | (2,156)         | (1,780)        | -              | -              |
| Chg in working capital               | (2,428)        | 909            | 3,396           | (4,348)        | 1,919          | (1,288)        |
| Other operating activities           | (157)          | (1,395)        | 878             | 4,505          | 4,627          | 4,371          |
| <b>Cash flow from operations (a)</b> | <b>2,904</b>   | <b>5,041</b>   | <b>11,054</b>   | <b>7,605</b>   | <b>14,609</b>  | <b>13,499</b>  |
| Capital expenditure                  | (3,062)        | (8,957)        | (5,329)         | (7,644)        | (6,000)        | (7,000)        |
| Chg in investments                   | (2,490)        | 3,322          | (36,951)        | 547            | (1,743)        | -              |
| Other investing activities           | 145            | 116            | 139             | 194            | -              | -              |
| <b>Cash flow from investing (b)</b>  | <b>(5,407)</b> | <b>(5,519)</b> | <b>(42,141)</b> | <b>(6,903)</b> | <b>(7,743)</b> | <b>(7,000)</b> |
| Equity raised/(repaid)               | 390            | -              | -               | 1,161          | -              | -              |
| Debt raised/(repaid)                 | 272            | 3,089          | 38,029          | 5,540          | -              | -              |
| Dividend (incl. tax)                 | (1,887)        | (2,076)        | (2,076)         | (2,076)        | (4,627)        | (4,371)        |
| Chg in minorities                    | -              | -              | -               | -              | -              | -              |
| Other financing activities           | (118)          | (1,319)        | (2,146)         | (5,225)        | -              | -              |
| <b>Cash flow from financing (c)</b>  | <b>(1,344)</b> | <b>(306)</b>   | <b>33,808</b>   | <b>(600)</b>   | <b>(4,627)</b> | <b>(4,371)</b> |
| <b>Net chg in cash (a+b+c)</b>       | <b>(3,847)</b> | <b>(784)</b>   | <b>2,721</b>    | <b>102</b>     | <b>2,240</b>   | <b>2,129</b>   |

### Financial Ratios

| Year-end: March                              | FY22 | FY23 | FY24 | FY25  | FY26E | FY27E |
|--|------|------|------|-------|-------|-------|
| Book Value (Rs)                              | 69   | 75   | 86   | 98    | 104   | 115   |
| Adj EPS (Rs)                                 | 11   | 12   | 13   | 12    | 11    | 17    |
| Adj EPS growth (%)                           | 35.8 | 3.7  | 11.1 | -11.4 | -2.4  | 49.5  |
| EBITDA margin (%)                            | 14.2 | 12.5 | 16.2 | 15.9  | 15.5  | 16.8  |
| Pre-tax margin (%)                           | 12.0 | 10.1 | 10.5 | 6.9   | 6.3   | 8.5   |
| Net Debt/Equity (x)                          | 0.2  | 0.3  | 1.4  | 1.3   | 1.3   | 1.1   |
| ROCE (%)                                     | 15.4 | 15.0 | 12.4 | 10.6  | 9.9   | 11.8  |
| ROE (%)                                      | 18.7 | 16.2 | 16.2 | 12.5  | 10.9  | 14.6  |
| <b>DuPont Analysis</b>                       |      |      |      |       |       |       |
| Asset turnover (x)                           | 1.0  | 1.1  | 0.8  | 0.7   | 0.7   | 0.8   |
| Leverage factor (x)                          | 1.9  | 1.9  | 2.8  | 3.3   | 3.1   | 2.9   |
| Net margin (%)                               | 9.6  | 7.7  | 7.6  | 5.2   | 4.9   | 6.7   |
| <b>Working Capital &amp; Liquidity ratio</b> |      |      |      |       |       |       |
| Inventory days                               | 50   | 36   | 57   | 55    | 56    | 56    |
| Receivable days                              | 91   | 70   | 97   | 78    | 71    | 71    |
| Payable days                                 | 87   | 69   | 122  | 82    | 86    | 88    |

### Valuations

| Year-end: March      | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|----------------------|------|------|------|------|-------|-------|
| PER (x)              | 35.8 | 34.5 | 31.1 | 35.1 | 35.9  | 24.0  |
| Price/Book value (x) | 5.8  | 5.4  | 4.7  | 4.1  | 3.9   | 3.5   |
| EV/Net sales (x)     | 3.6  | 2.8  | 3.1  | 2.4  | 2.3   | 2.1   |
| EV/EBITDA (x)        | 25.0 | 22.3 | 19.0 | 15.2 | 15.0  | 12.6  |
| Dividend Yield (%)   | 2.5  | 1.4  | 1.4  | 1.4  | 1.4   | 1.4   |

Source: Company; IDBI Capital Research

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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