

Stable performance, inexpensive valuation merit BUY

Phillips Carbon Black (PCBL) reported a steady performance in Q4FY21. Net sales for the quarter were at ₹ 867 crore, up 24% YoY. Carbon black sales volume came in at 113,022 tonne (up 14.4% YoY) with consequent realisation at ₹ 75/kg vs. ₹ 65/kg in Q3FY21. EBITDA in Q4FY21 was at ₹ 186 crore (EBITDA margins at 21.5%) with EBITDA/tonne at ~₹ 16,500/tonne (flat QoQ). PAT for the quarter was at ₹ 127.4 crore, up 2% QoQ. Carbon black sales volume for FY21 was at 3.9 lakh tonne vs. 4.1 lakh tonne in FY20. Net sales in FY21 were at ₹ 2660 crore (down 18% YoY), EBITDA at ₹ 519 crore (EBITDA margins: 19.5%, EBITDA/tonne: ₹ 13,322/tonne) and PAT at ₹ 312 crore (up 10% YoY). PCBL had already declared and paid dividend of ₹ 7/share for FY21, with dividend payout at ~40%.

Revival in auto space, volume led growth for tyre ancillaries

We believe the auto sector is well poised for growth, subject to intermittent Covid induced hiccups, with demand seen bouncing back sharply (double digit volume growth) across segments in FY22E. Given low penetration of 4-W domestically and infrastructure segment led demand creation in the CV space, we have seen structural legs to this demand recovery. Interestingly, CV segment is expected to bounce back sharply, having surpassed its usual two-year period of down cycle. This bodes well for auto ancillaries, especially tyre segment that also derives significant share of sales (~70%) from aftermarket channel. Moreover, tyre, as a category, is immune to electrification with carbon black being a critical raw material in tyre manufacturing and, hence, immune to EV risk. Carbon black forms ~26% of tyre by volume. Building in the positives, we build in 4.5 lakh tonne of carbon black sales volume for FY22E (up 16% YoY), 4.8 lakh tonne in FY23E (up 7% YoY), implying volume CAGR of 11.2% in FY21-23E. Prudently, we have not built in any volumes from new greenfield expansion (120 KT).

Healthy cash flow generation, b/s strength; structural positives

Cash flow generation has been healthy at PCBL with the company generating average CFO of ~₹ 350 crore in FY17-21. Going forward, we expect the company to generate an average annual CFO to the tune of ~₹ 500 crore in FY22E, FY23E thereby providing healthy CFO yield of ~14%. On the b/s front, PCBL currently has ~₹ 400 crore as net debt with net debt: equity at ~0.2x. With greenfield expansion under way, debt is expected to increase marginally but still within the comfortable range by virtue of its robust CFO generation with gross debt: equity seen at 0.3x by FY23E.

Valuation & Outlook

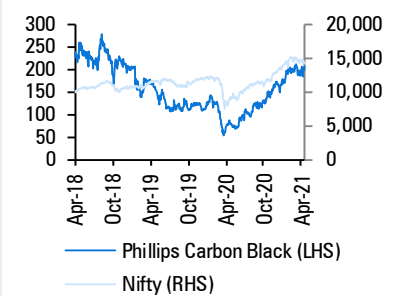
We maintain our positive stance on PCBL amid its capital efficient business model (RoE, RoCE > 16%), robust cash flow generation and overall positive demand scenario both domestically as well as globally. Building in ~16%, 20% sales, PAT CAGR, respectively, in FY21-23E we retain **BUY** on the stock valuing it at ₹ 260 i.e. 10x P/E on FY23E EPS of ₹ 26/share (earlier TP ₹ 210).



Particulars

Stock Data	₹ crore
Market Capitalization	3584
Total Debt (FY21P)	608
Cash and Cash Eqv (FY21P)	220
Enterprise Value	3971
52 week H/L (₹)	218 / 68
Equity Capital	34.5
Face Value	₹ 2

Price Performance



Key Highlights

- Q4FY21 performance was steady. Carbon black sales volume for the quarter was at 1.13 lakh tonne with EBITDA/tonne at ~₹ 16,500/tonne
- Prevailing demand scenario is robust with PCBL seen clocking EBITDA/tonne of ~₹ 15,000/tonne on sustainable basis in FY22E-23E

Key risk to our call

- Covid led hiccups in the near term and consequent loss of volumes & supply chain disruptions
- Slower than anticipated offtake in speciality carbon black space and consequent muted EBITDA/tonne

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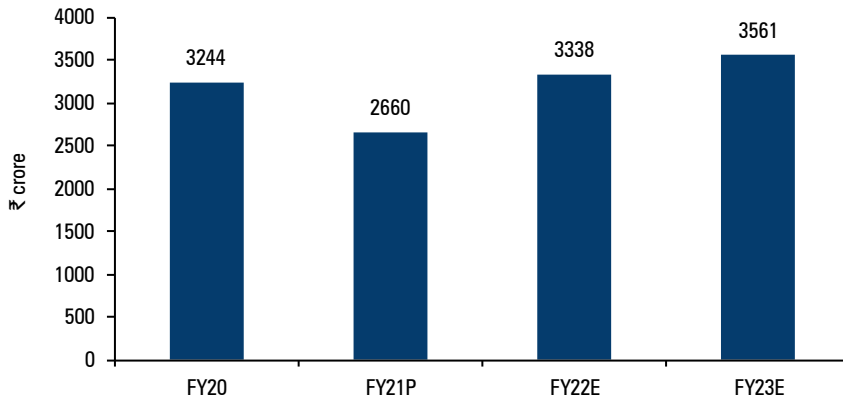
Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	3,528.6	3,243.5	2,659.5	3,338.1	3,560.6	15.7%
EBITDA	622.8	464.9	518.6	676.0	738.8	19.4%
EBITDA Margins (%)	17.6	14.3	19.5	20.3	20.8	
Net Profit	388.5	283.5	312.3	424.7	447.2	19.7%
EPS (₹)	22.5	16.5	18.1	24.7	26.0	
P/E	9.2	12.6	11.5	8.4	8.0	
RoNW (%)	23.6	16.8	16.2	19.3	18.0	
RoCE (%)	22.8	16.1	16.1	19.4	18.7	

Source: Company, ICICI Direct Research

Financial story in charts

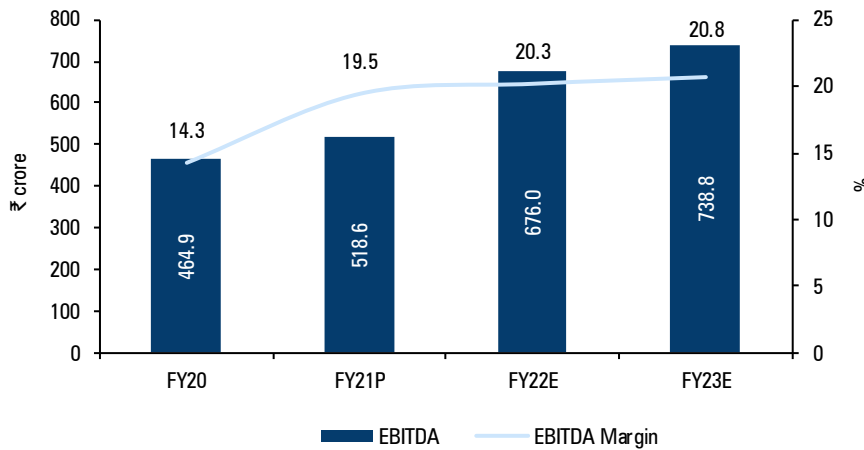
Exhibit 1: Topline trend



Revenues are seen growing at a CAGR of 15.7% in FY21-23E, building in ~11.2% carbon black sales volume growth in the aforesaid period and crude led increase in realisations

Source: Company, ICICI Direct Research

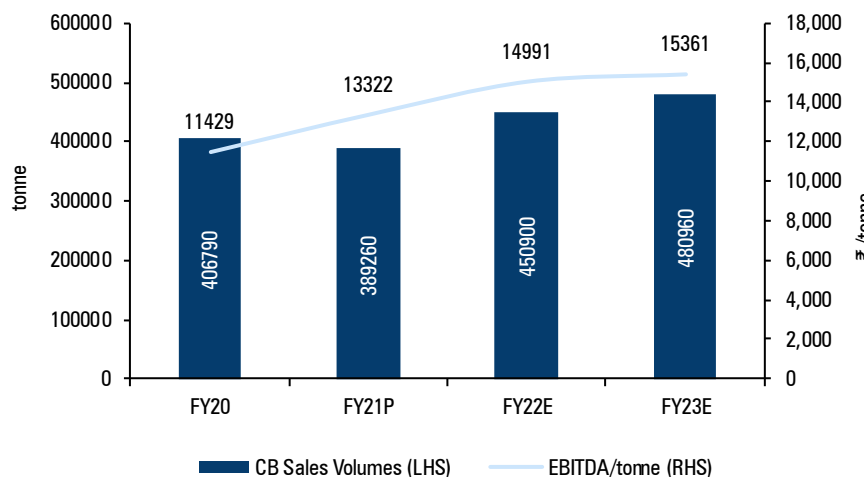
Exhibit 2: EBITDA and EBITDA margins trend



EBITDA is seen growing at a CAGR of 19.4% over FY21-23E. Margins are seen improving to 20.8% by FY23E, amid greater share of speciality grade carbon black and operating leverage benefits

Source: Company, ICICI Direct Research

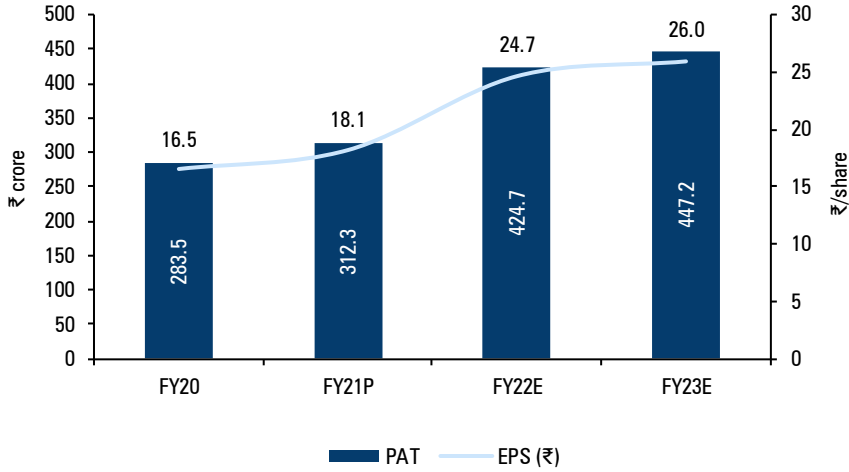
Exhibit 3: Carbon black sales volume, EBITDA/tonne trend



Sales volumes are expected to grow ~16% YoY to 4.5 lakh tonne in FY22E (3.9 lakh tonne in FY21E) and further grow ~7% to 4.8 lakh tonne in FY23E. EBITDA/tonne is seen improving to ~₹ 15,361 by FY23E vs. ~₹ 13,322 levels clocked in FY21

Source: Company, ICICI Direct Research

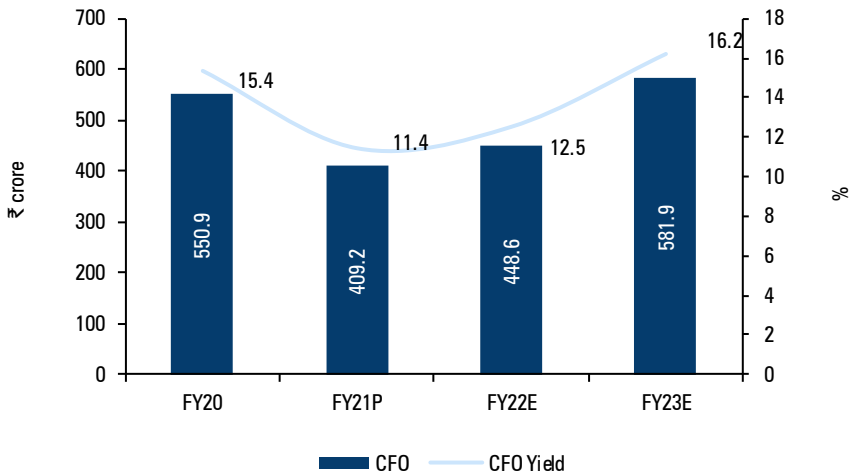
Exhibit 4: PAT and EPS trend



PAT is expected to grow at a CAGR of ~20% over FY21-23E to ₹ 447 crore by FY23E. PCBL is expected to clock an EPS of ₹ 24.7 in FY22E & ₹ 26.0 in FY23E

Source: Company, ICICI Direct Research

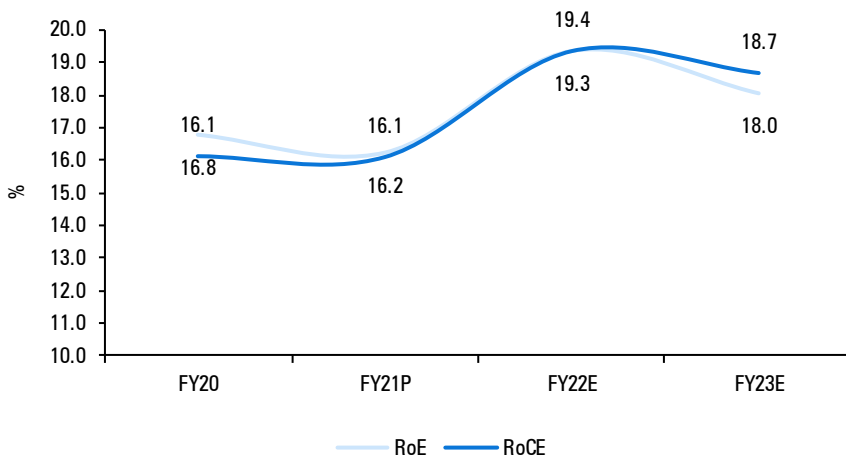
Exhibit 5: CFO and CFO yield trend



Robust cash flow generation is USP of PCBL with the company offering healthy cash flow yield of ~14%. It will help PCBL fund its greenfield capex largely from internal accruals. Net debt is seen remaining within comfortable levels, going forward

Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



PCBL has a capital efficient business model with RoE & RoCE healthy at ~15%+ levels and steadily inching towards the ~20% mark

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Net Sales	3243.5	2659.5	3338.1	3560.6	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	3243.5	2659.5	3338.1	3560.6	
Growth (%)	-8.1	-18.0	25.5	6.7	
Raw Material Expenses	2,189.5	1,610.4	2,036.2	2,163.1	
Employee Expenses	134.4	132.2	150.2	160.2	
Selling Expense	129.7	106.4	133.5	142.4	
Other Operating Expense	325.0	292.0	342.2	356.1	
Total Operating Expenditure	2,778.6	2,141.0	2,662.1	2,821.8	
EBITDA	464.9	518.6	676.0	738.8	
Growth (%)	-25.3	11.5	30.4	9.3	
Depreciation	92.4	110.1	123.3	135.5	
Interest	45.9	33.9	38.0	42.2	
Other Income	24.1	15.8	16.2	12.2	
PBT	350.8	390.3	530.9	573.4	
Total Tax	67.3	78.1	106.2	126.1	
PAT	283.5	312.3	424.7	447.2	
Growth (%)	-27.0	10.2	36.0	5.3	
EPS (₹)	16.5	18.1	24.7	26.0	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Profit after Tax	283.5	312.3	424.7	447.2	
Add: Depreciation	92.4	110.1	123.3	135.5	
(Inc)/dec in Current Assets	177.3	-228.7	20.4	-84.5	
Inc/(dec) in CL and Provisions	-48.1	181.6	-157.8	41.4	
Others	45.9	33.9	38.0	42.2	
CF from operating activities	550.9	409.2	448.6	581.9	
(Inc)/dec in Investments	207.1	-43.5	-5.0	0.0	
(Inc)/dec in Fixed Assets	-362.5	-148.2	-400.0	-450.0	
Others	101.6	11.0	0.0	0.0	
CF from investing activities	-53.9	-180.8	-405.0	-450.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-179.6	-9.0	50.0	90.0	
Interest & Dividend paid	-190.6	-154.5	-193.0	-205.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-95.1	43.9	0.0	0.0	
CF from financing activities	-465.3	-119.7	-143.0	-115.8	
Net Cash flow	31.7	108.7	-99.4	16.0	
Opening Cash	79.6	111.3	220.0	120.6	
Closing Cash	111.3	220.0	120.6	136.7	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Liabilities					
Equity Capital	34.5	34.5	34.5	34.5	
Reserve and Surplus	1,657.2	1,892.7	2,162.4	2,445.9	
Total Shareholders funds	1691.7	1927.2	2196.8	2480.4	
Total Debt	616.7	607.7	657.7	747.7	
Deferred Tax Liability	254.9	271.5	271.5	271.5	
Minority Interest / Others	104.3	98.6	98.6	98.6	
Total Liabilities	2667.5	2905.0	3224.6	3598.2	
Assets					
Gross Block	1977.6	2164.6	2531.4	2631.4	
Less: Acc Depreciation	337.7	447.8	571.1	706.6	
Net Block	1639.9	1716.8	1960.3	1924.8	
Capital WIP	305.6	266.8	300.0	650.0	
Total Fixed Assets	1,945.5	1,983.6	2,260.3	2,574.8	
Investments	176.7	220.3	225.3	225.3	
Inventory	326.2	444.8	457.3	487.8	
Debtors	588.2	707.5	640.2	682.9	
Loans and Advances	91.6	50.1	62.9	67.1	
Other Current Assets	52.7	85.0	106.6	113.7	
Cash	111.3	220.0	120.6	136.7	
Total Current Assets	1,170.0	1,507.4	1,387.6	1,488.1	
Current Liabilities	528.5	694.1	548.7	585.3	
Provisions	85.9	85.3	72.9	77.8	
Current Liabilities & Prov	614.4	779.4	621.6	663.1	
Net Current Assets	555.7	728.0	766.0	825.0	
Others Assets	-10.3	-26.8	-26.8	-26.8	
Application of Funds	2667.5	2905.0	3224.6	3598.2	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY20	FY21P	FY22E	FY23E	
Per share data (₹)					
EPS	16.5	18.1	24.7	26.0	
Cash EPS	21.8	24.5	31.8	33.8	
BV	98.2	111.9	127.5	144.0	
DPS	7.0	7.0	9.0	9.5	
Cash Per Share (Incl Invst)	16.7	25.6	20.1	21.0	
Operating Ratios (%)					
EBITDA Margin	14.3	19.5	20.3	20.8	
PAT Margin	8.7	11.7	12.7	12.6	
Inventory days	36.7	61.1	50.0	50.0	
Debtor days	66.2	97.1	70.0	70.0	
Creditor days	59.5	95.3	60.0	60.0	
Net Working Capital days	43.4	62.9	60.0	60.0	
Return Ratios (%)					
RoE	16.8	16.2	19.3	18.0	
RoCE	16.1	16.1	19.4	18.7	
RoIC	19.7	19.9	22.7	24.7	
Valuation Ratios (x)					
P/E	12.6	11.5	8.4	8.0	
EV / EBITDA	8.8	7.7	6.1	5.7	
EV / Net Sales	1.3	1.5	1.2	1.2	
Market Cap / Sales	1.1	1.3	1.1	1.0	
Price to Book Value	2.1	1.9	1.6	1.4	
Solvency Ratios					
Debt/EBITDA	1.3	1.2	1.0	1.0	
Debt / Equity	0.4	0.3	0.3	0.3	
Current Ratio	1.7	1.7	2.0	2.0	
Quick Ratio	1.2	1.1	1.3	1.3	

Source: Company, ICICI Direct Research

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