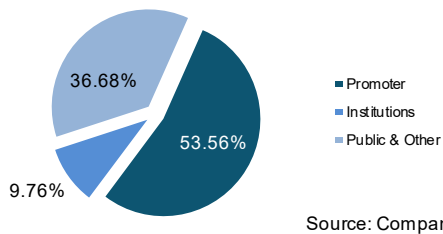


### Key Share Data

Face Value (INR)	2.0
Equity Capital (INR Mn)	344.7
Market Cap (INR Mn)	35,329.0
52 Week High/Low (INR)	218/68
6 months Avg. Daily Volume (NSE)	16,45,648
BSE Code	506590
NSE Code	PHILPCARB
Reuters Code	PHIL:NS
Bloomberg Code	PHCB: IN

### Shareholding Pattern (as on March 2021)



### Key Financials (Rs Million)

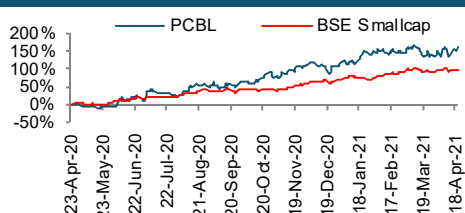
Particulars	FY20	FY21	FY22E	FY23E
Net Sales	32,435.4	26,595.2	36,995.9	40,786.2
Growth (%)	-8.1%	-18.0%	39.1%	10.2%
EBITDA	4,639.0	5,083.3	6,976.6	7,795.5
PAT	2,835.7	3,122.7	4,402.6	4,991.6
Growth (%)	-25.9%	10.1%	41.0%	13.4%
EPS (INR)	16.5	18.1	25.5	29.0
BVPS (INR)	98.2	111.8	128.9	149.3

### Key Financials Ratios

Particulars	FY20	FY21	FY22E	FY23E
P/E (x)	12.5	11.3	8.0	7.1
P/BVPS (x)	2.1	1.8	1.6	1.4
Mcap/Sales (x)	1.1	1.3	1.0	0.9
EV/EBITDA (x)	9.1	8.2	5.9	5.3
ROCE (%)	17.2%	15.9%	21.3%	21.4%
ROE (%)	14.1%	14.2%	19.2%	19.0%
EBITDA Mar (%)	14.3%	19.1%	18.9%	19.1%
PAT Mar (%)	8.7%	11.7%	11.9%	12.2%
Debt - Equity (x)	0.3	0.3	0.2	0.2

Source: Company, SKP Research

### 1 Yr price performance PCBL; vis-à-vis BSE Small Cap



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### Company Background & Product Highlights

Phillips Carbon Black Limited (PCBL), incorporated in 1960 in collaboration with Phillips Petroleum Company, is a part of RP-Sanjiv Goenka Group. It is the largest manufacturer of carbon black (CB) in India (~10% market share in Asia-ex China) and seventh largest in the world, having an aggregate installed capacity of 6,03,000 MTPA and co-generation power capacity of 76 MW spread over four locations viz. Durgapur (W.B.), Palej and Mundra (Gujarat), and Kochi (Kerala). CB is used as a reinforcement material providing tensile strength to tyres and other industrial rubber goods and forms 23% by volume of tyre weight and 10% by value of tyre cost.

### Investment Rationale

#### Buoyancy in tyre demand resulted in better CB volumes

► During Q4FY21, PCBL net sales increased by 23.8% y-o-y to Rs 8,667.3 mn, on account of higher CB volumes and higher realization led by higher crude prices. The Company witnessed encouraging demand pickup during the quarter reflected by ~14.4% y-o-y growth in sales volume. Domestic sales volume was at 82,518 MT, witnessing a robust growth of ~15.2% y-o-y. Export sales volume also increased by ~12.3% y-o-y to 30,504 MT. During the quarter, CB realizations increased by ~9.1% y-o-y and 14.7% q-o-q to Rs 75,801/tonne mainly on account of higher crude prices. With enhanced demand for packaging material and engineered plastic goods, sales volume of specialty grade CB (SCB) stood at 7,619 MT in Q4FY21 against 7,185 MT in Q3FY21. For FY21, SCB sales volume stood at 23,969 MT. During the quarter, PCBL continues to expand its product portfolio of high-performance high-margin grades for both rubber and specialty black applications.

► Management highlighted that domestic tyre sector did relatively better due to buoyancy in automobile demand and CB industry in general and PCBL in particular is expected to benefit from the completion of a strong capex cycle undertaken by the domestic tyre industry. Further, with expected strong revival in commercial vehicle demand, resulting in higher tonnage growth for tyre players, CB demand looks promising. We believe PCBL will clock CB sales volume of 4,50,000 MT and 4,95,000 MT during FY22E and FY23E against 389,261 reported in FY21. Realisation is also likely to remain firm on account of higher crude prices. **However, our estimates are contingent upon future uncertainties of COVID-19 disruptions, which might impact our forecasts.**

#### Timely capex for capacity addition to propel growth and lend visibility

► PCBL recently undertook a de-bottlenecking exercise wherein it converted its 30,000 MTPA of CB capacity into SCB capacity, resulting in reduction of its overall capacity by 14,000 MTPA. This has strengthened its higher margin SCB portfolio (EBITDA/tonne for specialty black is 3-5x of rubber black). Further, the Company enhanced its SCB capacity by 32,000 MTPA at an investment of Rs 2.3 bn by commissioning its 2<sup>nd</sup> SCB line 20,000 MTPA at Palej during the quarter. The 1<sup>st</sup> SCB line of 12,000 MTPA was commissioned in Q3FY21. The Company has planned to increase its power capacity by 22 MW which will commission in FY22.

► PCBL(TN) Ltd, a wholly owned subsidiary of PCBL has been incorporated for implementing the greenfield project of 1,50,000 MTPA of CB and 25 MW of CPP over 60 acres of land in Tamil Nadu at a total investment of ~Rs 6 bn. The Company is also evaluating to add one SCB line of 20,000 MTPA, which if added, will increase the total capital outlay by ~Rs 1 bn, spread over three years. The plant is expected to be commissioned by 2023, benefits of which will start reaping from FY24E onwards.

#### Margins to remain stable at ~19%

► During Q4FY21, PCBL reported higher EBITDA/tonne to Rs 15,924/tonne vs. Rs 9,932/tonne reported in Q4FY20 owing to higher CB volumes and lower RM prices. EBITDA margins improved by 675 bps y-o-y to 20.8%. Going forward, brownfield nature of expansion will kick in; operating leverage benefits coupled with increasing share of SCB are expected to lead to EBITDA/tonne of ~Rs 15,750/tonne by FY23E.

#### Deleveraging balance sheet and focus on rewarding shareholders

► PCBL accumulated substantial debt with peak debt at Rs 12.2 bn in FY15 due to declining profitability and an elongated working capital cycle. In FY21, debt stands at ~Rs 5.5 bn. Going forward, with strong operational performance and consequent cash flow generation, we expect leverage (debt-equity) to further improve to 0.2x by FY23E. **The Company aims to become debt free in next few years.**

#### Valuation

► PCBL is on a strong footing led by buoyancy in tyre demand coupled with operating leverage benefits and strong cash flow generation. We have valued the stock on the basis of P/E - method of relative valuation - of 10x of FY23E earnings of Rs 29/share and recommend a "BUY" with a target price of Rs 290 (upside of 41%) in 18 months.

**Q4FY21 Result Update**

**Exhibit: Q4FY21 Standalone Result Review**

Particulars	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
<b>Total Income</b>	<b>8,667.3</b>	<b>7,003.8</b>	<b>23.8%</b>	<b>7,694.0</b>	<b>12.7%</b>	<b>26,595.20</b>	<b>32,435.4</b>	<b>-18.0%</b>
<b>Expenditure</b>	<b>6,867.5</b>	<b>6,022.5</b>	<b>14.0%</b>	<b>5,838.3</b>	<b>17.6%</b>	<b>21,511.90</b>	<b>27,796.4</b>	<b>-22.6%</b>
Material Consumed	5,256.0	4,678.9	12.3%	4,107.8	28.0%	15,837.00	21,857.2	-27.5%
<i>(as a % of Total Income)</i>	<b>60.6%</b>	<b>66.8%</b>	<b>(616)Bps</b>	<b>53.4%</b>	<b>725 Bps</b>	<b>0.60</b>	<b>67.39%</b>	<b>(784)Bps</b>
Employees Cost	346.5	335.7	3.2%	342.1	1.3%	1,321.70	1,343.8	-1.6%
<i>(as a % of Total Income)</i>	<b>4.0%</b>	<b>4.8%</b>	<b>(80)Bps</b>	<b>4.4%</b>	<b>(45)Bps</b>	<b>0.05</b>	<b>4.1%</b>	<b>83 Bps</b>
Changes in Inventories & WIP	(129.1)	(67.0)	92.7%	183.1	-170.5%	252.30	37.9	565.7%
<i>(as a % of Total Income)</i>	<b>-1.5%</b>	<b>-1.0%</b>	<b>(53)Bps</b>	<b>2.4%</b>	<b>(387)Bps</b>	<b>0.01</b>	<b>0.1%</b>	<b>83 Bps</b>
Other Expenses	1,394.1	1,074.9	29.7%	1,205.3	15.7%	4,100.90	4,557.5	-10.0%
<i>(as a % of Total Income)</i>	<b>16.1%</b>	<b>15.3%</b>	<b>74 Bps</b>	<b>15.7%</b>	<b>42 Bps</b>	<b>15.42%</b>	<b>14.1%</b>	<b>137 Bps</b>
<b>EBITDA</b>	<b>1,799.8</b>	<b>981.3</b>	<b>83.4%</b>	<b>1,855.7</b>	<b>-3.0%</b>	<b>5,083.30</b>	<b>4,639.0</b>	<b>9.6%</b>
<i>EBITDA Margin (%)</i>	<b>20.8%</b>	<b>14.0%</b>	<b>675 Bps</b>	<b>24.1%</b>	<b>(335)Bps</b>	<b>0.19</b>	<b>14.3%</b>	<b>481 Bps</b>
Depreciation	279.5	253.0	10.5%	277.9	0.6%	1,101.20	923.6	19.2%
<b>EBIT</b>	<b>1,520.3</b>	<b>728.3</b>	<b>108.7%</b>	<b>1,577.8</b>	<b>-3.6%</b>	<b>3,982.10</b>	<b>3,715.4</b>	<b>7.2%</b>
Other Income	105.9	82.8	27.9%	17.9	491.6%	157.90	241.3	-34.6%
Interest Expense	80.8	120.4	-32.9%	79.6	1.5%	338.80	459.0	-26.2%
Hedging Cost & Foreign Exchange	(62.6)	(12.1)		(28.0)		(102.40)	(10.7)	
<b>Profit Before Tax</b>	<b>1,608.0</b>	<b>702.8</b>	<b>128.8%</b>	<b>1,544.1</b>	<b>4.1%</b>	<b>3,903.60</b>	<b>3,508.4</b>	<b>11.3%</b>
Income Tax	334.2	(18.8)	-1877.7%	293.8	13.8%	780.90	673.5	15.9%
<b>Effective Tax Rate (%)</b>	<b>20.8%</b>	<b>-2.7%</b>		<b>19.0%</b>		<b>0.20</b>	<b>19.2%</b>	
<b>Profit After Tax (PAT)</b>	<b>1,273.8</b>	<b>721.6</b>	<b>76.5%</b>	<b>1,250.3</b>	<b>1.9%</b>	<b>3,122.70</b>	<b>2,834.9</b>	<b>10.2%</b>
<i>PAT Margins (%)</i>	<b>14.70%</b>	<b>10.30%</b>	<b>439 Bps</b>	<b>16.25%</b>	<b>(155)Bps</b>	<b>0.12</b>	<b>8.74%</b>	<b>300 Bps</b>
Diluted EPS	7.4	4.2	76.4%	7.3	1.9%	18.12	16.5	10.2%

Source: Company Data, SKP Research

## Segmental Result & Operational Matrix

### Exhibit: Segment Performance

Particulars	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
<b>Segment Revenue</b>								
Carbon Black	8,485.8	6,801.0	24.8%	7,494.9	13.2%	25,922.7	31,570.6	-17.9%
Power	364.5	364.3	0.1%	373.6	-2.4%	1,307.0	1,517.8	-13.9%
<b>Total Net Sales</b>	<b>8,850.3</b>	<b>7,165.3</b>	<b>23.5%</b>	<b>7,868.5</b>	<b>12.5%</b>	<b>27,229.7</b>	<b>33,088.4</b>	<b>-17.7%</b>
Less: Inter Segment Revenue	183.0	161.5	13.3%	174.5	4.9%	634.5	653.0	-2.8%
Gross Sales	8,667.3	7,003.8	23.8%	7,694.0	12.7%	26,595.2	32,435.4	-18.0%
<b>Segment EBIT</b>								
Carbon Black	2,006.6	1,030.6	94.7%	1,747.1	14.9%	4,946.0	4,678.2	5.7%
Power	216.7	233.3	-7.1%	156.4	38.6%	710.9	990.5	-28.2%
Total EBIT	2,223.3	1,263.9	75.9%	1,903.5	16.8%	5,656.9	5,668.7	-0.2%
<b>Segment Margin (%)</b>								
Carbon Black	23.6%	15.2%	849 Bps	23.3%	34 Bps	19.1%	14.8%	426 Bps
Power	59.5%	64.0%	(459)Bps	41.9%	1,759 Bps	54.4%	65.3%	(1,087)Bps

Particulars	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
<b>Operational Matrix- Carbon Black</b>								
Domestic (MT)	82,518	71,626	15.2%	84,819	-2.7%	2,82,877	2,91,073	-2.8%
Export (MT)	30,504	27,173	12.3%	29,706	2.7%	1,06,384	1,15,717	-8.1%
Sales Volume (MT)	1,13,022	98,799	14.4%	1,14,525	-1.3%	3,89,261	4,06,790	-4.3%
Net Realisation (Rs./Tonne)	75,081	68,837	9.1%	65,443	14.7%	66,595	77,609	-14.2%

Source: Company Data, SKP Research

## **Risks & Concerns**

### **Risk of adverse raw material price movement**

- ▶ CBFS, which is the key raw material for PCBL, is directly linked to international crude oil prices and is mainly imported from USA. Currently, international oil prices are subject to frequent volatility while the prices of finished CB are revised every quarter. Therefore, any unfavorable movement in CBFS prices and inability to completely pass it on to end consumers will have an adverse impact on the PCBL's margins. Any decline in coal tar price in Chinese markets poses risk to margins as well.

### **Delay in revival of global carbon black demand**

- ▶ Improvement in profitability is highly dependent on revival in demand for CB. In case of sluggish demand, Chinese manufacturers are expected to push their products in international markets to keep their plants running. This may deteriorate profitability of Indian manufacturers.

### **Fortunes linked with cyclical tyre industry**

- ▶ PCBL's fortunes are highly dependent on the tyre industry, which is vulnerable to the cyclicity of the automobile sector. ~70% CB finds application in the manufacture of tyres for the automobile sector. Although diversification into power has helped the Company improving its profitability, plant load factor of power plants is directly linked with operating rates of CB as power is produced using waste heat generated during the manufacturing process.

### **Capacity addition from Epsilon Carbon and Balkrishna Industries remains an overhang**

- ▶ Epsilon Carbon, a new entrant into CB industry has planned to set up an integrated 3,00,000 MTPA capacity in two phases at Bellary, Karnataka with an investment of Rs 9 bn. Further Balkrishna Industries is enhancing its CB capacity from 1,15,000 MTPA to 2,00,000 MTPA which is expected to get commissioned by H1FY23. Thus, capacity addition by a new entrant and existing player poses a risk of under-utilization of existing domestic CB capacities.

<b>Exhibit: Income Statement</b>					<b>Exhibit: Balance Sheet</b>				
<i>Figures in Rs Million</i>					<i>Figures in Rs Million</i>				
Particulars	FY20	FY21	FY22E	FY23E	Particulars	FY20	FY21	FY22E	FY23E
<b>Total Income</b>	<b>32,435.4</b>	<b>26,595.2</b>	<b>36,995.9</b>	<b>40,786.2</b>	Share Capital	344.7	344.7	344.7	344.7
<i>Growth (%)</i>	<b>-8.1%</b>	<b>-18.0%</b>	<b>39.1%</b>	<b>10.2%</b>	Reserve & Surplus	16,572.1	18,927.0	21,864.7	25,391.4
<b>Expenditure</b>	<b>27,796.4</b>	<b>21,511.9</b>	<b>30,019.3</b>	<b>32,990.7</b>	<b>Shareholders Funds</b>	<b>16,916.8</b>	<b>19,271.7</b>	<b>22,209.4</b>	<b>25,736.1</b>
Material Cost	21,857.2	15,837.0	23,584.9	26,001.2	<b>Total Debt</b>	<b>5,446.8</b>	<b>5,616.6</b>	<b>4,702.9</b>	<b>4,205.9</b>
Change in inventories	38.1	252.3	-	-	Deferred Tax	2,548.7	2,714.7	2,714.7	2,714.7
Employee Cost	1,343.8	1,321.7	1,442.8	1,549.9	Liabilities & Prov	8,009.5	9,497.8	8,089.6	8,604.1
Admin & Other Exp.	4,557.3	4,100.9	4,990.7	5,438.8	<b>Total Liabilities</b>	<b>32,921.8</b>	<b>37,100.8</b>	<b>37,716.6</b>	<b>41,260.8</b>
<b>EBITDA</b>	<b>4,639.0</b>	<b>5,083.3</b>	<b>6,976.6</b>	<b>7,795.5</b>	<b>Net Block inc. Capital WIP</b>	<b>19455.0</b>	<b>19835.0</b>	<b>20215.3</b>	<b>23436.5</b>
Depreciation	923.6	1,101.2	1,252.1	1,278.8	Investments	1,767.3	2,202.8	2,256.8	2,243.2
<b>EBIT</b>	<b>3,715.4</b>	<b>3,982.1</b>	<b>5,724.5</b>	<b>6,516.7</b>	<b>Non-Current Assets</b>	<b>11,699.5</b>	<b>15,063.0</b>	<b>15,244.6</b>	<b>15,581.1</b>
Other Income	241.3	157.9	150.0	150.0	Inventories	3,261.9	4,448.4	5,282.0	5,445.3
Interest Expense	459.0	338.8	301.6	267.3	Sundry Debtors	5,882.4	7,075.3	6,912.2	7,167.4
<b>Profit Before Tax (PBT)</b>	<b>3,509.2</b>	<b>3,903.6</b>	<b>5,572.9</b>	<b>6,399.4</b>	Cash & Bank Balance	1,106.5	2,189.6	1,570.5	1,438.9
Income Tax	673.5	780.9	1,170.3	1,407.9	Other Current Assets	1,239.1	840.2	924.9	958.5
<b>Profit After Tax (PAT)</b>	<b>2,835.7</b>	<b>3,122.7</b>	<b>4,402.6</b>	<b>4,991.6</b>	Loans & Advances	209.6	509.5	554.9	571.0
Diluted EPS	16.5	18.1	25.5	29.0	<b>Total Assets</b>	<b>32,921.8</b>	<b>37,100.8</b>	<b>37,716.6</b>	<b>41,260.8</b>
<i>Growth (%)</i>	<b>-25.9%</b>	<b>10.1%</b>	<b>41.0%</b>	<b>13.4%</b>					

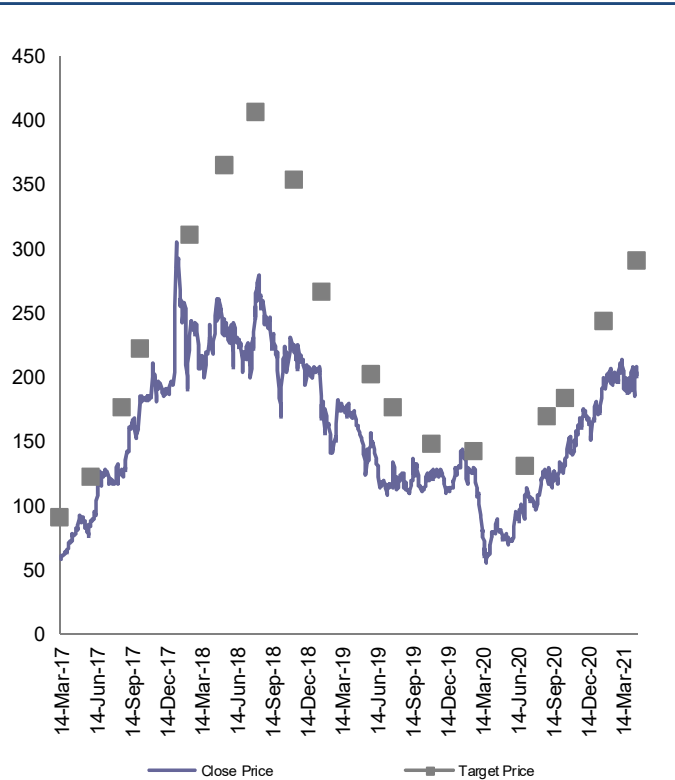
<b>Exhibit: Cash Flow Statement</b>					<b>Exhibit: Ratio Analysis</b>				
<i>Figures in Rs Million</i>					<i>Figures in Rs Million</i>				
Particulars	FY20	FY21	FY22E	FY23E	Particulars	FY20	FY21	FY22E	FY23E
<b>Profit Before Tax (PBT)</b>	<b>3,508.4</b>	<b>3,903.6</b>	<b>5,572.9</b>	<b>6,399.4</b>	<b>Earning Ratios (%)</b>				
Depreciation	923.6	1,101.2	1,252.1	1,278.8	EBITDA Margin (%)	14.3%	19.1%	18.9%	19.1%
Finance Costs	459.0	338.8	301.6	267.3	PAT Margins (%)	8.7%	11.7%	11.9%	12.2%
Chg. in Working Capital	1,200.8	(655.7)	(2,208.9)	46.3	ROCE (%)	17.2%	15.9%	21.3%	21.4%
Direct Taxes Paid	(656.2)	(660.0)	(1,170.3)	(1,407.9)	ROE (%)	14.1%	14.2%	19.2%	19.0%
Other Charges	(105.9)	(198.7)	-	-	<b>Per Share Data (INR)</b>				
<b>Operating Cash Flows</b>	<b>5,329.7</b>	<b>3,829.2</b>	<b>3,747.4</b>	<b>6,584.0</b>	Diluted EPS	16.5	18.1	25.5	29.0
Capital Expenditure	(2,307.1)	(1,154.9)	(1,632.4)	(4,500.0)	Cash EPS (CEPS)	11.1	11.7	18.3	21.5
Investments	672.7	(981.1)	(54.0)	13.5	BVPS	98.2	111.8	128.9	149.3
Others	530.5	16.6	-	-	<b>Valuation Ratios (x)</b>				
<b>Investing Cash Flows</b>	<b>(1,103.9)</b>	<b>(2,119.4)</b>	<b>(1,686.4)</b>	<b>(4,486.5)</b>	P/E	12.5	11.3	8.0	7.1
Changes in Equity		-	-	-	Price/BVPS	2.1	1.8	1.6	1.4
Inc / (Dec) in Debt	(1,918.7)	(230.0)	(913.7)	(497.0)	EV/Sales	1.3	1.6	1.1	1.0
Dividend Paid (inc tax)	(1,446.4)	(1,206.4)	(1,464.9)	(1,464.9)	EV/EBITDA	9.1	8.2	5.9	5.3
Others	(512.5)	(359.0)	(301.6)	(267.3)	Market Cap/Sales(x)	1.1	1.3	1.0	0.9
<b>Financing Cash Flows</b>	<b>(3,877.6)</b>	<b>(1,795.4)</b>	<b>(2,680.1)</b>	<b>(2,229.1)</b>	<b>Balance Sheet Ratios</b>				
<b>Net Cashflow</b>	<b>348.2</b>	<b>(85.6)</b>	<b>(619.1)</b>	<b>(131.7)</b>	Debt - Equity	0.3	0.3	0.2	0.2
Opening Cash Balance	758.3	1,106.5	2,189.6	1,570.5	Current Ratio	2.6	2.4	2.8	2.7
<b>Closing Cash Balance</b>	<b>1,106.5</b>	<b>2,189.6</b>	<b>1,570.5</b>	<b>1,438.9</b>	Current Ratio	2.6	2.4	2.8	2.7

Source: Company, SKP Research

**Exhibit: Recommendation - History Table and Chart**

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
14-Mar-17	BUY	56	90	60%	18
01-Jun-17	BUY	87	121	39%	18
22-Aug-17	BUY	121	175	44%	18
06-Oct-17	BUY	182	221	22%	12
12-Feb-18	BUY	221	309	40%	18
14-May-18	BUY	233	364	56%	18
02-Aug-18	BUY	246	405	64%	18
12-Nov-18	BUY	219	352	60%	15
24-Jan-19	BUY	160	266	67%	18
31-May-19	BUY	157	201	29%	15
26-Jul-19	BUY	115	175	52%	18
05-Nov-19	BUY	125	147	18%	15
21-Feb-20	BUY	130	141	8%	18
03-Jul-20	BUY	100	130	30%	15
28-Aug-20	BUY	125	169	35%	15
19-Oct-20	BUY	136	182	34%	12
25-Jan-21	BUY	190	243	28%	18
22-Apr-21	BUY	205	290	34%	18

Source: SKP Research



Source: BSE, SKP Research



## Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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