

Phillips Carbon Black Ltd.

Nifty	11,895
Sensex	40,357

Key Stock Data

CMP	₹125
Market Cap (₹mn)	21,542
52W High/Low	229/106

Shareholding pattern Sep 2019

Promoters	53.6%
FII	10.3%
DII	2.3%
Public & Others	33.8%

Key Result Highlights – Q2FY20

- **Phillips Carbon Black (PCBL) reported a de-growth of 2% YoY in top-line at ₹8630mn led by lower revenue in carbon black segment. Sales volume in both rubber carbon black and specialty carbon black segment improved 2-4% YoY however pricing pressure in specialty carbon black segment impacted topline.**
- **EBITDA in Q2FY20 stood at ₹1318mn down ~24% YoY with corresponding EBITDA margins at 15.3% (down 459 bps YoY) however margins were up 285 bps QoQ.**
- **Consequently, the company reported a PAT of ₹771mn in Q2FY20, down by ~29% YoY largely due to lower operating profitability. PAT margins stood at 8.93% vs. 12.35% in Q2FY19.**
- **Timely commissioning of facility at Palejin H2FY20 augurs well for PCBL. We believe this will provide a surge in volumes and improve overall profitability for the company.**

Earnings Highlights & Investment Rationale

(₹ mn)

Particulars	FY19	FY20E	FY21E
Net Sales	35,286	37,393	39,830
EBITDA	6,225	5,588	6,304
Net Profit	3,885	3,388	3,808
EPS (₹/ share)	22.5	19.7	22.1
RoNW (%)	23.6%	17.7%	17.2%
RoCE (%)	18.9%	15.1%	15.8%
P/E (x)	5.6	6.4	5.7

Source: Company Data, Way2Wealth Inst Equity

- **PCBL reported lower numbers due to challenging business environment –** Company recorded sluggish results with net sales coming in at ₹8630mn (down 2% YoY, down 5.3% QoQ) on the back of pricing pressure in specialty carbon black segment coupled with degrowth in domestic sales volumes. Domestic automotive sector has witnessed degrowth during H1FY20 largely on account of higher upfront costs to customers due to change in regulatory measures relating to insurance and the recent NBFC liquidity woes. Also, consumption slowdown in sectors such as paints, plastics etc worsened the situation in domestic market. Due to all these challenges, domestic sales volumes of the company decreased 11% YoY to 69,747 MT, however exports volumes grew by 54% YoY to 32,574 MT. However, company reported better EBITDA margins at 15.27% in Q2FY20 vs. 12.42% in Q1FY19 due to lower operating costs.
- **Timely capacity expansion in specialty carbon black grade set to improve earnings –** During H2FY20, company is focused to commission specialty carbon black capacity of 32,000 MTPA which we believe would not only improve sales volume but also improve operability as Specialty carbon black has 3-4x profitability (EBITDA/tonne) and 2x realisation as compared to rubber carbon black. We expect sales volume in specialty carbon black grade will increase to ~25,000 MT in FY20E & ~39,000 MT in FY21E from 19,300 MT in FY19. (Management targets to achieve 30,000 MT sales volume in specialty carbon black grade in FY20E). With indigenous research, competitive edge, PCBL has made a mark for itself not only in India but also globally. We believe, with expanded capacities commissioned PCBL is sweetly placed to capture demand arising from auto sector revival as well as market share gains.

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Valuation & Recommendation

With a relative weak 1HFY20 in both rubber carbon black and specialty carbon black business resulting from slowdown in automotive and consumption sector we have factored a lower topline growth of 6-7% and 15-16% EBITDA margins for FY20E & FY21E respectively. However, with timely capacity expansion in specialty carbon black segment, we expect volumes to improve thereby increasing overall profitability. With the full ramp up of specialty carbon black capacity arising from the new plant in FY21E coupled with automotive sector recovery and increased discretionary spending we are likely to see better growth in FY21E. We expect PCBL's topline to grow at 6.2% CAGR over FY19-FY21E (~₹35,286mn to ~₹39,830mn) however operating margins are expected to remain at 15-16.0%. **At CMP of ₹125 PCBL is trading at ~5.7x FY21P/E. We maintain our HOLD Rating for the stock.**

Quarterly Financials

(₹ mn)

Particulars	Q2FY20	Q2FY19	Y-o-Y(%)	Q1FY20	Q-o-Q(%)
Sales	8,630	8,803	-2.0%	9,115	-5.3%
Raw Material Expenses	5,804	5,518	5.2%	6,308	-8.0%
Employee Cost	366	347	5.5%	303	20.9%
Other operating expense	1,142	1,189	-4.0%	1,372	-16.8%
Total Expenditure	7,312	7,054	3.7%	7,983	-8.4%
EBITDA	1,318	1,749	-24.6%	1,132	16.4%
EBITDA Margin (%)	15.3%	19.9%	-459bps	12.4%	285bps
Depreciation	218	175	24.7%	212	2.9%
EBIT	1,100	1,574	-30.1%	920	19.6%
EBIT Margin (%)	12.7%	17.9%	-513bps	10.1%	265bps
Interest	60	77	74.6%	129	-2.0%
Other Income	49	32	54.1%	58	-15.2%
PBT	1,027	1,536	-33.1%	854	20.3%
Taxes	257	456	-43.7%	207	24.0%
PAT	771	1,080	-28.6%	647	19.2%
PAT Margins%	8.9%	12.3%	-334bps	7.1%	183bps
EPS	4.5	6.3	-28.6%	3.8	19.2%

Particulars	Q2FY20	Q2FY19	Y-o-Y(%)	Q1FY20	Q-o-Q(%)
Production Volumes (MT)	106,706	101,871	5%	103,678	3%
Capacity Utilisation	90%	93%	-3%	88%	2%
Total Sales Volume (MT)	102,321	99,854	2.3%	107,077	-4%
Domestic Sales volume (MT)	69,747	78,760	-11%	78,696	-11%
Exports Sales Volume(MT)	32,574	21,094	54%	28,381	15%

Financials

(₹ mn)

Income Statement (Standalone)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	19,269	25,579	35,286	37,393	39,830
YoY Growth		32.7%	37.9%	6.0%	6.5%
EBITDA	2,861	4,043	6,225	5,588	6,304
EBITDA Margin	14.8%	15.8%	17.6%	14.9%	15.8%
Depreciation	606	605	664	792	824
EBIT	2,255	3,438	5,561	4,796	5,480
EBIT Margin	11.7%	13.4%	15.8%	12.8%	14.0%
Interest	514	414	364	375	382
Other income	189	197	188	186	120
Foreign Exchange Gain or Loss	-274	-183	0	-97	-140
PBT	1,655	3,038	5,388	4,509	5,078
Tax	960	740	1,503	1,121	1,270
Tax Rate	58.0%	24.4%	27.9%	24.8%	25.0%
PAT	695	2,298	3,885	3,388	3,808
PAT Margin	3.6%	9.0%	11.0%	9.1%	9.6%
EPS (₹)	4.0	13.3	22.5	19.7	22.1

(₹ mn)

Balance Sheet (Standalone)	FY17	FY18	FY19	FY20E	FY21E
Share capital	345	345	345	345	345
Reserves & Surplus	10,915	13,379	16,136	18,792	21,778
Net worth	11,259	13,724	16,481	19,137	22,122
Long term debt	1,902	1,643	2,707	2,707	2,707
Short term debt	5,481	5,226	4,550	4,332	4,438
Total Debt	7,383	6,869	7,257	7,039	7,144
Current liabilities & Provisions	4,881	5,726	7,429	7,405	7,452
Others	2,096	2,280	2,580	2,580	2,580
Total Liabilities	25,619	28,594	33,746	36,161	39,299
Net Block	14,613	14,660	16,754	18,062	19,037
Non- current investments	2,140	3,374	2,787	2,787	2,787
Cash & Equivalent (incl Current Investment)	1,201	1,338	1,809	1,667	2,526
Inventories	2,435	3,099	4,603	5,159	5,392
Debtors	4,657	5,220	6,527	7,171	8,184
Other current assets	340	229	792	839	894
Short term loans & advances	10	5	18	19	20
Current assets	8,643	9,891	13,749	14,855	17,017
Others	224	669	457	457	457
Total Assets	25,619	28,594	33,746	36,161	39,299

(₹ mn)

Cash Flow Statement (Standalone)	FY17	FY18	FY19	FY20E	FY21E
EBT	1,655	3,038	5,388	4,509	5,078
Depreciation	606	605	664	792	824
Inc/Dec in working capital	1,662	-46	-1,680	-1,273	-1,256
Others	-455	-992	-1,472	-746	-888
CF from Operating activity	3,468	2,605	2900	3,282	3,759
Inc/Dec in Fixed assets & CWIP	-406	-1,233	-2,078	-2100	-1,800
Others	48	831	-708	0	0
CF from Investment activity	-359	-402	-2786	-2,100	-1,800
Inc/Dec in debt	-1,068	-154	1,428	-218	106
Dividends paid	-353	-252	-967	-732	-823
Others	-1,950	-693	-1,165	-375	-382
CF from Financing activity	-3,371	-1,099	-704	-1,325	-1,099
Inc/Dec in cash	-262	1,105	-589	-142	860
Opening balance	486	224	1,328	739	597
Closing balance	224	1,328	739	597	1,457

Ratios	FY17	FY18	FY19	FY20E	FY21E
Margins					
Gross Margin	35.8%	34.7%	34.9%	32.9%	34.1%
EBITDA margin	14.8%	15.8%	17.6%	14.9%	15.8%
EBIT Margins	11.7%	13.4%	15.8%	12.8%	13.8%
PAT Margin	3.6%	9.0%	11.0%	9.1%	9.6%

Profitability Ratios					
Return on Equity (ROE)	6.2%	16.7%	23.6%	17.7%	17.2%
Return on Assets (ROA)	2.7%	8.0%	11.5%	9.4%	9.7%
Return on Cap Employed (ROCE)	4.7%	14.9%	18.9%	15.1%	15.8%

Valuation Ratios (X)					
P/E	31.0	9.4	5.6	6.4	5.7
EV/EBITDA	10.8	7.3	4.9	5.5	4.7
EV/Sales	1.6	1.2	0.9	0.8	0.8
EV/EBIT	13.7	8.5	5.5	6.4	5.4

EBITDA/Ton	6,689	10,078	15,453	12,987	13,991
D/E	0.68	0.50	0.44	0.37	0.32

Turnover ratios					
Days sales of inventories o/s	71.9	67.7	73.2	75.0	75.0
Days Sales of AR o/s	88.2	74.5	67.5	70.0	75.0
Accounts payable	122.0	99.8	80.7	77.0	77.0

Per share					
EPS	4.03	13.33	22.54	19.66	22.10
DPS	6.00	2.40	3.50	3.54	3.98

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Disclosure of Interest Statement in Phillips Carbon Black Ltd. as on November 15, 2019

Name of the Security	Phillips Carbon Black Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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