

26th September, 2023

PCBL Ltd. – BUY

CMP : Rs. 167
Target Price : Rs. 215
Upside : 28%+
Stop Loss : Rs. 145 (Closing basis)

Investment Thesis

- PCBL Ltd. (PCBL) is the largest player in the domestic Carbon Black (CB) market with a current production capacity of 7,49,000 MTPA, having a market share of about 41% in terms of capacity. Also, PCBL is the seventh largest manufacturer globally. This manufacturing capability is an indissoluble moat which will ensure long-term business advantages over competitors.
- CB is a versatile product that has various applications across industry segments such as tires (~75% of FY23 revenues), fibers, wires & cables, drip irrigation, engineering plastics, etc. This versatility creates avenues for consistent demand which provides revenue visibility in the long term. PCBL manufactures over 85 grades of rubber CB and specialty black. PCBL's focus remains on high-performance and high-margin products under both CB and specialty black.
- PCBL imports 70% – 80% of its raw material and exports 31% of its products. Further, PCBL has four facilities strategically placed near ports enabling easy access to raw materials, which consequently lowers the cost of logistics. Further, demand from export markets is expected to improve which would drive export volume further.
- PCBL has invested ~Rs.1,200 Crs in capacity expansion which will increase capacity by 1,47,000 MTPA for CB and 40,000 TPA for specialty CB. The first phase (63,000 MTPA) of the greenfield project in Chennai has been commissioned in Apr – 23 and the brownfield project in Mundra was announced in Jul – 23. PCBL expects to utilize 40% – 50% of the capacity of the Chennai plant in FY24.
- Management Guidance**
 - PCBL expects a Rs.1,000 increase in EBITDA/Ton on average every year for the next 4–5 years due to portfolio building and operating efficiency initiatives.
 - The current Capex program is coming to an end, but it may undertake some brownfield expansions in FY24 and FY25.

Financials

- Q1FY24 saw a muted topline performance despite volume growth of 12.5% YoY as prices had moderated. In FY23, topline growth was aided by an increase in the prices of its products. The topline has more than doubled from Rs. 2,558 Crs in FY18.

| Particulars | FY20 | FY21 | FY22 | FY23 | FY24E |
|----------------------|-------|-------|-------|-------|-------|
| Revenue (Rs in Crs) | 3,243 | 2,659 | 4,446 | 5,774 | 6,236 |
| EBITDA (Rs in Crs) | 493 | 536 | 682 | 772 | 998 |
| Adj. PAT (Rs in Crs) | 288 | 314 | 426 | 442 | 579 |
| Adj. EPS (Rs.) | 8.31 | 9.10 | 11.29 | 11.70 | 15.35 |
| PE Multiple (x) | 3.78 | 10.50 | 10.13 | 9.92 | 14.00 |
| RoE (%) | 17.17 | 17.28 | 18.74 | 16.24 | 16.99 |

Stock Data

| | |
|-----------------------|-----------|
| Market Cap (Rs. Crs) | 6,290 |
| Market Cap (\$ Mn) | 756 |
| Shares O/S (in Mn) | 378 |
| Avg. Volume (3 month) | 26,24,274 |
| 52-Week Range (Rs.) | 180 / 108 |

Shareholding Pattern

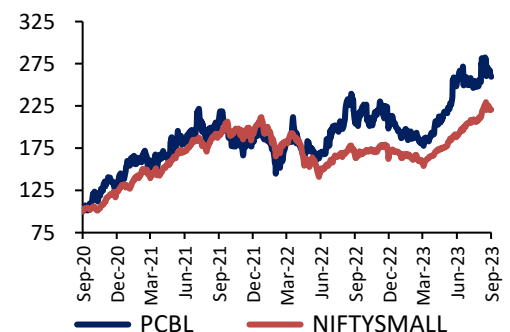
| | |
|-------------------------------|-------|
| Promoters | 51.41 |
| FIIs | 6.56 |
| Institutions | 10.29 |
| Others (incl. body corporate) | 31.74 |

Key Ratios

| | |
|---------------|-------|
| Div Yield (%) | 3.27 |
| TTM PE (x) | 14.8 |
| ROE (%) | 15.7 |
| TTM EPS (Rs.) | 11.25 |

Stock Performance

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|------|------|------|
| ABSOLUTE | 2.5 | 45.2 | 27.4 |
| RELATIVE | -2.7 | 3.0 | -7.3 |



- For Q1FY24, EBITDA/Ton was ~Rs. 17,000, but due to elevated raw material cost EBITDA margin for FY23 declined by 203 bps to 12.66%. However, there were signs of margin improvement in Q1FY24 that witnessed a jump of 226 bps to 15.64%.

Key Business Highlights

- PCBL is a part of RP – Sanjiv Goenka Group and has been a leader in the manufacturing and sale of Carbon Black (CB), which is mainly used in tires and other rubber products. The company also produces specialty CB which is used for pigmenting, UV stabilizing and conductive agents in a variety of common and specialty products, including plastics, printing & packaging, and coatings. PCBL is the largest carbon black manufacturer in India with a current production capacity of 7,49,000 MTPA and a strong global player.
- PCBL has registered a growth of ~30% in topline to reach Rs. 5,774 Crs in FY23, as there was an increase in the prices of its products. The topline has grown at a CAGR of 17.68% to more than double from Rs. 2,558 Crs in FY18, indicating consistent growth in the sector and company.
- PCBL has captive power plants aggregating to 98 MW at its manufacturing facilities, which use tail gas generated in the thermal decomposition process for making CB. The power produced over and above the captive requirement is sold. This positively impacts the EBITDA/Ton.
- The EBITDA margin has fluctuated between 13 – 19% over the past five years. However, EBITDA/Ton has been increasing to reach Rs. 16,400/ton in FY23 from Rs.11,000/Ton in FY20. There was also a positive contribution to the margins by the jump in revenue from the power segment of 53% on the back of elevated power tariffs. Specialty CB is a value-added product and yields a higher profit margin than regular CB products. The share of specialty black in sales volume is ~9% in FY23 and is expected to gradually increase.
- Additionally, PCBL has a higher EBITDA conversion than the industry. During FY23, it converted ~69% of EBITDA to Cash flow from Operations.

Valuation

After a mixed Q1FY24 result, PCBL is currently trading at Rs. 167, near its 52-week high of Rs. 180. This translates to a PE / EBITDA Multiple of 15x / 9.4x against a 5-year median of 10.4x / 7.4x, which is at a premium. When compared to Industry peers whose average PE / EBITDA Multiple is 19.1x / 12.9x, we can observe an undervaluation. PCBL is a market leader in India and one of the top players globally, having incurred substantial growth-driven Capex, a case for re-rating is valid.

Therefore, considering the above, we assign a **BUY** rating for **PCBL** with a **target price of Rs. 215**, translating to an **upside of 28%+**.

Risk & Concern

- Slowdown in automobile sector.
- Sharp rise in crude oil prices.
- Increased competition from China and Russia in the export markets.
- Lower realization in India due to excess supply.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. in Crs)

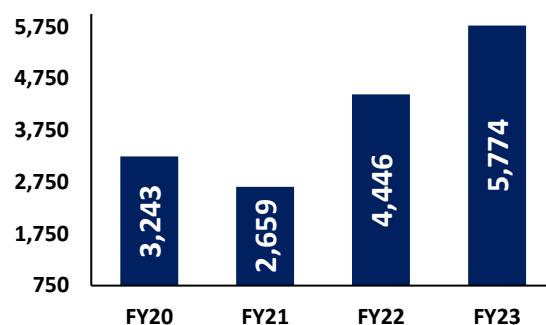


Figure 2: EBITDA & EBITDA Margins Trend

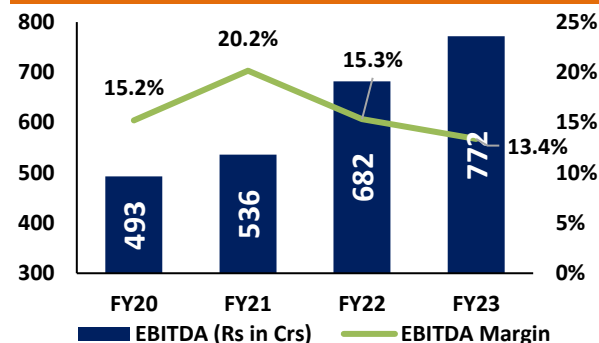


Figure 3: Production Volume (KMT) (FY23)

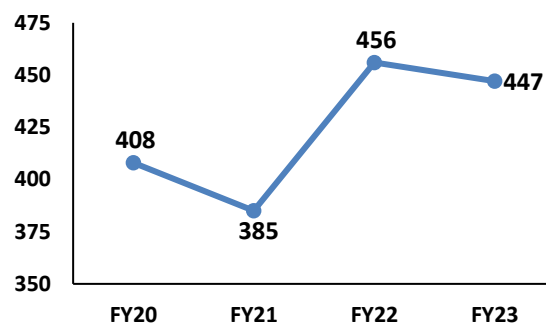
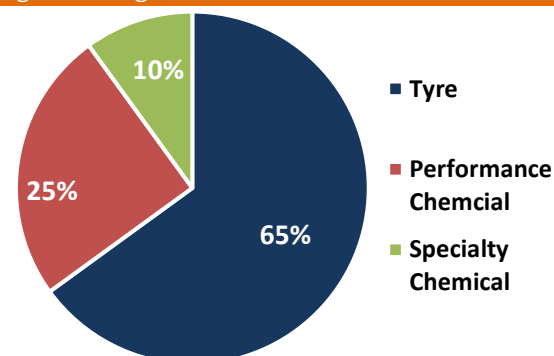


Figure 4: Segment-wise Revenue (FY23)



Name
Omkar Kamtekar

Designation
Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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