



**PCBL Ltd.**

S H I N I N G   S T A R   S E R I E S

## Investment Thesis

- ⇒ Domestic leadership position in carbon black along with expanding global footprint is the perfect recipe for growth
- ⇒ Ongoing capacity expansion is a befitting moniker for being “at right place at right time”
- ⇒ Product portfolio enhancement in specialty chemical business is a well-rounded approach with several inherent advantages
- ⇒ Strong business and industry tailwinds to aid in healthy cashflow generation and superior return ratios

## Company Background

PCBL Ltd, an integral part of RP-Sanjiv Goenka Group, was incorporated in 1960 when the company commenced production of carbon black. Currently, the company has five manufacturing facilities that are strategically located near ports, domestic tyre manufacturing plants, and its raw material suppliers. Currently, the company has a production capacity of 666,000 MTPA (including the commissioning of the first phase of 63,000 MTPA, the Greenfield Project in Chennai through its wholly-owned subsidiary) and 98 MW of green power for captive consumption. Today, PCBL stands as India's largest manufacturer of carbon black and the seventh-largest global player, catering to a diverse customer base across 50+ countries. The company exports to multiple geographies such as South America, North America, Europe, the Middle East, Africa, and Asia. The company has a product profile of more than 85 grades of carbon black which includes 50+ grades in the specialty segment from its R&D investments. These grades of carbon black have multiple applications across product essentials such as tyres, engineering plastics, pipes, films, cables & fibres, ink painting & coatings, etc. They have a long-standing relationship with majority of tyre manufacturers, which ensures continuous business for the company. PCBL's key clients include MRF, Bridgestone, JK Tyres, CEAT, Apollo Tyres, Continental, and Sumitomo Rubber Industries.

## Business segment as on 31st March, 2023

PCBL			
Segment	Carbon black	Performance	Specialty chemical
% of sales	69%	24%	7%
Applications	Tyres	Extruded Profile, Industrial Hoses, Conveyors, etc. Injection Moulding, Insulation, Agri. Films, Pipes, etc.	Engineering Plastics, Food Contact Cables and Fibres Inks, Paints & Coatings Batteries, Conductive and Others

## Manufacturing units as on FY23

Plants	Carbon Black Production capacity mtpa
Durgapur	163,500
Kochi	92,500
Palej	142,250
Mundra	204,750
Chennai (through its wholly owned subsidiary PCBL (TN))	63,000
<b>Total</b>	<b>666,000</b>

Source: Company Reports, BP Equities Research

## Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

## Sector Outlook

Positive

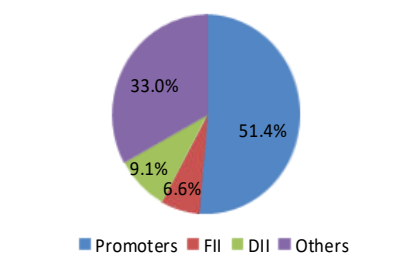
## Stock

CMP (Rs.)	158
Target Price (Rs.)	198
BSE code	506590
NSE Symbol	PCBL
Bloomberg	PCBL IN
Reuters	PHIL.BO
Key Data	
Nifty	19,680
52 Week H/L (Rs.)	178/109
O/s Shares (Mn)	377
Market Cap (Bn)	58.4
Face Value (Rs.)	1

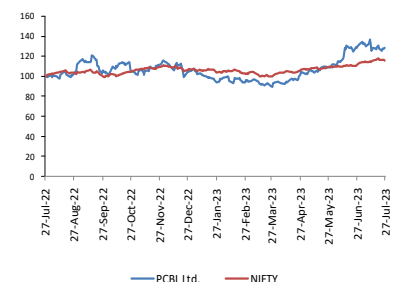
## Average volume

3 months	2,631,030
6 months	1,825,460
1 year	1,779,330

## Share Holding Pattern (%)



## Relative Price Chart

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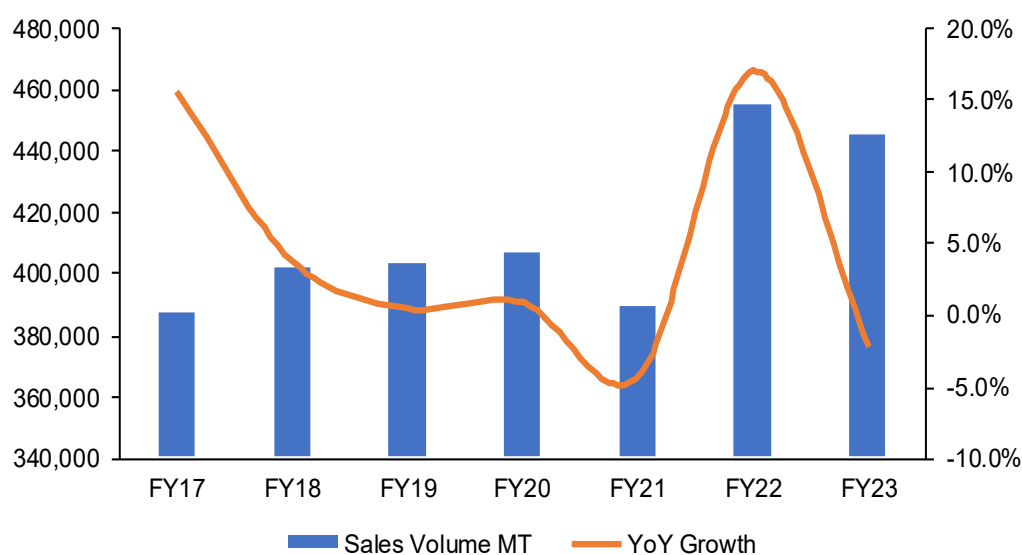
## PCBL Ltd.

## Investment Rationale

**Domestic leadership position in carbon black along with expanding global footprint is the perfect recipe for growth**

PCBL is an established player in the carbon black industry with a market share of more than 45% in the domestic market and the seventh largest player globally. It has a diversified portfolio of soft, hard, and specialty grades of carbon black and the company is in the process of increasing its product category by developing a new form of carbon black grade. Carbon black is commonly used as a reinforcement compound in the tyre industry due to its ability to enhance the mechanical and dynamic properties of tyres. Currently, the domestic tyre industry is growing at 10%, which is expected to achieve high teen growth over the long term and this would drive demand for carbon black in India. With PCBL deriving 70% of its sales volume from the tyre industry as of FY23 compared to 65% in FY21, it provides ample opportunities from the automobile industry. This will help the company to sustain its leadership position in the carbon black industry going ahead. The company is the largest exporter of carbon black in India, catering to more than 50+ countries. The export market contributed 29% of its total revenue in FY23 compared to 21% in FY18. The management expects the demand situation to remain favourable and is set to improve. We also resonate with this view as no new capacity addition is coming up globally due to the macro headwinds. With Europe banning Russia's carbon black by July 2024, European tyre companies are looking out for alternate sources of suppliers and PCBL will be one of the key contenders to supply additional volumes to Europe, thereby helping the company to expand its presence globally. Such opportunities are likely to help the company maintain its leadership position and expand its global footprint going forward.

***“PCBL is the largest carbon black manufacturer in India and a strong global player with a significant customer base in 50+ countries”***

**Sales volume grew at a healthy pace**

Source: Company Reports, BP Equities Research

## PCBL Ltd.

**Ongoing capacity expansion is a befitting moniker for being “at right place at right time”**

PCBL witnessed sales volume growth at a CAGR of 6.9% during FY2021-23 period due to an increase in vehicle production led by the easing of supply chain concerns and improved demand. Tyre manufacturers are also increasing their investment to cater to the increased demand and gain additional market share. As the demand outlook for tyres is expected to be favourable, PCBL has expanded its greenfield and brownfield projects to gear up for the next leg of growth to cater to the demand from domestic and global markets. The company has started a new plant in Chennai (Tamil Nadu) through its wholly-owned subsidiary PCBL (TN) Ltd. whose first phase of 63,000 MTPA capacity has been successfully commissioned. In the next leg, the plant will add 1,47,000 MTPA of carbon black capacity and 24 MW of green power. At its Mundra plant in Gujarat, the company is adding an additional capacity of 40,000 MTPA in its specialty chemical segment. This expansion is divided into two phases, of which the first phase of the specialty chemical line is almost ready and is under commissioning and phase-2 is expected to be commissioned during H1FY24. With this, the total manufacturing capacity would be 7,90,000 MTPA, while its green power would be 122 MW. This will help PCBL to cater to the growing demand of its existing clientele, explore new opportunities, and be ready for the expected demand from domestic and international markets.

**“Capacity expansion will help PCBL to cater growing demand and explore new opportunities”**

**Manufacturing plant capacity**

Plants	Carbon Black (MTPA)	Specialty Carbon (MTPA)	Green Power
Durgapur	163,500		30MW
Kochi	92,500		17MW
Palej	142,250		19MW
Mundra	204,750	40,000*	32MW
Chennai	147,000*		

Source: Company Reports, BP Equities Research

Note: (1) Chennai plant: Out of 1,47,000 MTPA, 63,000 MTPA successfully commissioned and rest will commence in FY24. (2) Mundra plant: Out of 40,000 MTPA, 20,000 MTPA is ready and under commissioning and remaining 20,000 MTPA will commence in H1FY24.

**Leading carbon black manufacturing companies in India, as on 31<sup>st</sup> March, 2023**

Company	Domestic Capacity (MTPA)
PCBL	666,000
Birla Carbon India	315,000
Himadri Specialty Chemicals	180,000
BKT (Balkrishna Tyres)	140,000
Epsilon Carbon	115,000
Continental Carbon India	85,000

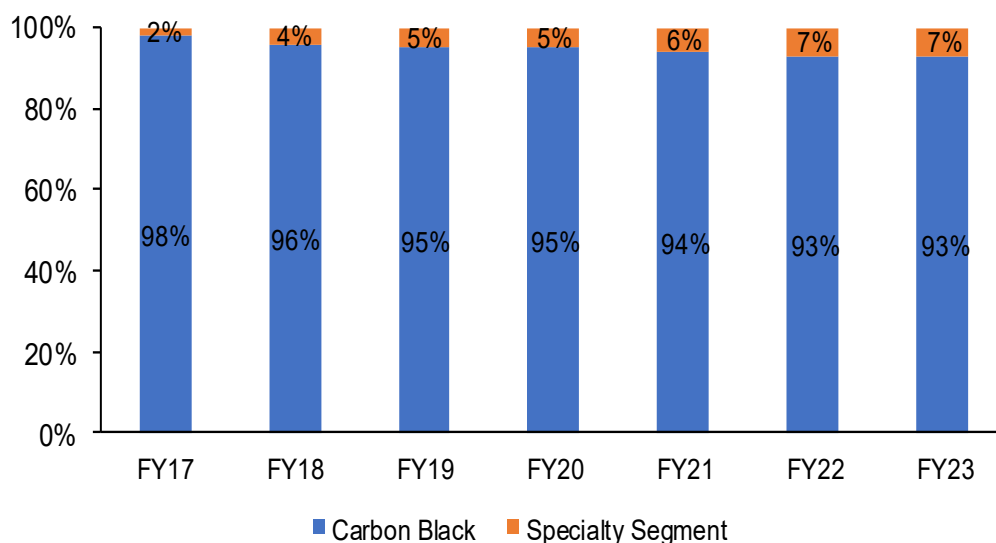
Source: Company Reports, BP Equities Research

## PCBL Ltd.

**Product portfolio enhancement in specialty chemical business is a well-rounded approach with several inherent advantages**

PCBL has a legacy of over six decades, starting as a carbon black manufacturer. The company is now in the process of growing its limits to emerge as a leading chemical manufacturer. PCBL has deployed dedicated production lines for specialty chemicals segment comprising more than 40 grades in FY23 and plans to add 9 to 10 grades every year with a focus on developing the highest value chain of specialty products. The specialty product caters to the growing requirement of customers globally across various segments such as rubber, engineering plastics, cables & fibres, inks & coatings, conductive, batteries, and so on. PCBL also expanded its brownfield expansion at the Mundra plant in Gujarat, with a specialty chemical capacity of 40,000 MTPA. The expansion is divided into two phases, the first phase of the 20,000 MTPA specialty line at Mundra is almost ready and is under commissioning. The Phase-2 of the project is expected to be commissioned during H1FY24. This expansion will aid demand for specialty black from various geographical regions, driven by a mix of new customer acquisitions. Moreover, the company can comfortably add new products in future as it has research and innovation centres in India and Belgium which have helped the company to expand its product portfolio as well as undertake process innovations to cater to the evolving needs of customers. We believe that the changing mix towards specialty chemical business, although steadily, would diversify the company's revenue streams and aid in strengthening relationships with existing clients through cross-selling opportunities

***“PCBL left a permanent mark as a key global player in the specialty black segment, cementing its position as one of the top leaders in the industry”***

**Increasing contribution of value added specialty segment**

Source: Company Reports, BP Equities Research

## PCBL Ltd.

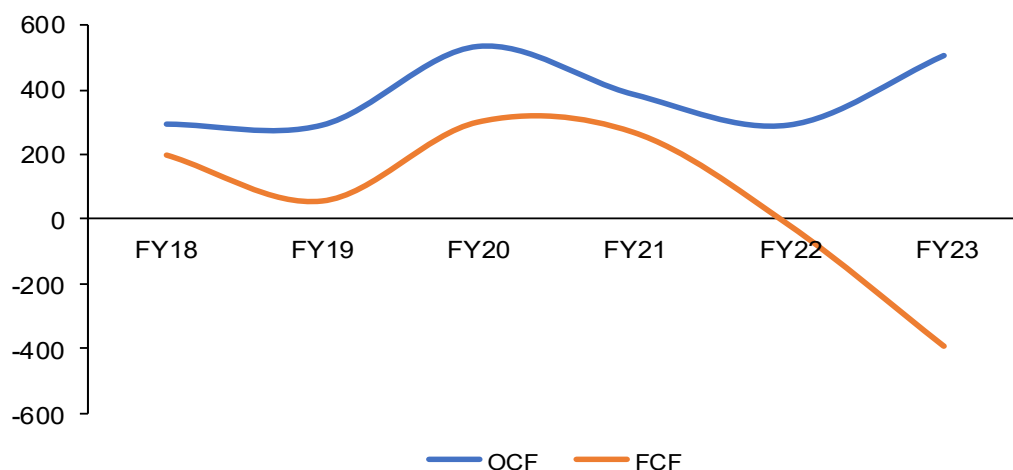
### Strong business and industry tailwinds to aid in healthy cashflow generation and superior return ratios

We expect a 15.0% revenue CAGR over FY23-25 due to significant growth across the global automobile industry due to easing supply chain concerns and improved demand. PCBL is one of the few Indian carbon black companies to clock ~18% revenue CAGR in the past five years. The management expects the carbon black and specialty chemical segment to grow faster than the industry as it sees multi-fold growth opportunities in both segments. The company also has strengthened its competitiveness by enhancing its global presence, diversifying its product portfolio, and consistently delivering robust performance. Further, on the financial front, the company is generating strong operating cash flows for the business. The cumulative OCF generated for FY2016-23 period stood at Rs. 25.6 billion, indicating that the company successfully converted profit into cash flow by generating higher OCF and is expected to remain robust in future. While the FCF generation has been positive over the last few years, there has been negative FCF for the last 1-2 years due to heavy capex which we expect to turn positive in the coming years. Going forward, we expect volume growth to kick in and drive the OCF and FCF of the company. On the ratio side, PCBL return ratios peaked in FY19 during the commodity price boom and then have been almost in a downward phase. Also, the company was in capex mode since FY19 which suppressed the return ratios. With capacity expansion in greenfield and brownfield projects to start reaping benefits from FY24, we expect return ratios to improve going ahead.

***“Volume growth to kick in and drive OCF and FCF of the company”***

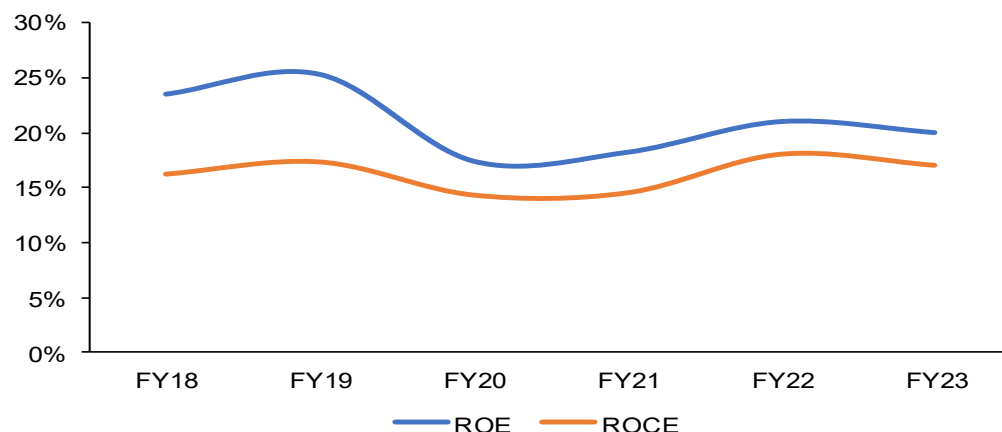
***“With capacity expansion to start reaping benefits, we expect return ratios to remain robust going ahead”***

#### Strong OCF ; FCF utilised for heavy Capex (Rs. Crs.)



Source: Company Reports, BP Equities Research

#### Return ratios have remain robust



Source: Company Reports, BP Equities Research



## PCBL Ltd.

## Q1FY24 Concall Highlights

1) In Q1FY24, PCBL reported a sales volume of 123,086 MT, representing a 13% YoY increase. The domestic volume stood at 82,274 MT, growing 7% YoY, while the export volume reached 40,812 MT, indicating a 26% YoY increase. (2) The tyre segment contributes to 65% of the total volume, followed by performance chemicals at 23% and specialty chemicals at 10%. (3) Management expects a ~50% utilization rate from its new Carbon Black plant in Tamil Nadu in FY2024 and has guided for overall Carbon Black sales volume to grow 10% YoY in FY2024. (4) Management has also maintained its guidance for EBITDA/tonne at around FY23 levels. The company is expected to maintain a high operating margin in FY23 due to improvements in operating efficiencies, product mix changes, and changes in the industry demand scenario. In the specialty chemical segment, margins should continue to remain strong, driven by changes in the global supply chain and strong demand. (5) The imposition of sanctions on Russia has benefited the carbon black industry in India. The company sees significant demand from the European market, and Southeast Asia is also a substantial market for the company. The majority of exports are directed towards the Middle East. (6) Growth in domestic tyre demand is supported by strong momentum from OEMs and improvement in replacement demand. Further, the outlook on global demand remains cautious due to high inflation in developed regions. (7) The company has guided for a tax rate of ~25% for FY24E. Once the Chennai plant is fully operational, it will be subject to a 17% tax rate.

**“PCBL reported its highest ever EBITDA amid global headwinds led by buoyant volume growth and better product mix ”**

## Peers Comparison

Companies	Revenue (Rs. crs.)		EBITDA Margin		PAT Margin	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
PCBL Ltd.	6,738	7,635	12.9%	13.6%	7.9%	9.0%
<b>Peers</b>						
India Glycols Ltd.	2,762	2,968	11.3%	11.6%	4.3%	5.0%
Himadri Speciality Chemical Ltd.	4,798	5,709	12.0%	15.3%	6.0%	7.0%

Source: BP Equities Research, Bloomberg estimate

Companies	Market Cap (Rs. crs.)	P/E (x)		EV/EBITDA (x)		ROE	
		FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
PCBL Ltd.	5,849	12.9	12.3	25.3	22.4	20.3	21.7
<b>Peers</b>							
India Glycols Ltd.	1,887	15.9	12.7	NA	NA	NA	NA
Himadri Speciality Chemical Ltd.	5,899	20.4	14.7	10.6	7.1	15.2	21.1

Source: BP Equities Research, Bloomberg estimate

## PCBL Ltd.

### Valuation & Outlook

PCBL Ltd. is the dominant player in the carbon black business in India. It is engaged in the business of manufacturing and selling tyre carbon black, performance chemical, and specialty carbon black. With more than six decades of presence, PCBL is India's largest manufacturer of carbon black and the seventh-largest global player. The company has a strong clientele including major tyre manufacturers and chemical customers in various spheres such as plastics, inks, paint and coatings spread across 50+ countries. Given the strong R&D focus, commissioning of new lines (greenfield & brownfield), improvement in manufacturing efficiencies and increased share of value-added products, the company is placed in a sweet spot to take advantage of the opportunities in the sector. Moreover, strong industry tailwinds and business opportunities from Europe & the US due to the imposition of sanctions on Russia is likely to provide further boost to the carbon black industry in India. We believe PCBL is a better place to capitalize on the opportunities due to its leadership position in carbon black industry in India. Given these factors, we expect PCBL's revenue and operating performance to gradually improve as we move ahead. Further, with its stable financial performance, capacity expansion, low leverage, healthy cash-flow generation and improving return ratios, we expect the company to perform well in future. **On the valuation front, we value the company based on 11x of FY25e earnings and arrive at a target price of Rs. 198 (25% upside from CMP) with a 12 months investment horizon.**

***“PCBL is confident about a structurally favourable industry scenario driven by the European ban on Russian supply”***

### Key Risks

- ⇒ The major raw material is carbon black feedstock, which is a crude oil derivative and is mainly imported. Any volatility in prices would impact the margin.
- ⇒ Demand for domestic carbon black depends on the growth of the tyre industry. The slowdown in Automobiles may directly impact PCBL's operational performance.
- ⇒ Dependency on the top 5 customers is more. Any customer left may impact the profitability of the business.



# PCBL Ltd.

## Key Financials (Consolidated)

YE March (Rs. crs.)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>3,529</b>	<b>3,244</b>	<b>2,660</b>	<b>4,446</b>	<b>5,774</b>	<b>6,738</b>	<b>7,567</b>
<i>Revenue Growth (Y-o-Y)</i>	37.9%	(8.1%)	(18.0%)	67.2%	29.9%	16.7%	12.3%
<b>EBIDTA</b>	<b>614</b>	<b>459</b>	<b>506</b>	<b>621</b>	<b>715</b>	<b>869</b>	<b>999</b>
<i>EBIDTA Growth (Y-o-Y)</i>	60.3%	(25.2%)	10.3%	22.7%	15.0%	21.6%	14.9%
<b>Net Profit</b>	<b>383</b>	<b>288</b>	<b>314</b>	<b>426</b>	<b>442</b>	<b>532</b>	<b>681</b>
<i>Net Profit Growth (Y-o-Y)</i>	66.4%	(24.9%)	9.2%	35.8%	3.7%	20.4%	27.9%
<b>Diluted EPS</b>	<b>11.1</b>	<b>8.3</b>	<b>9.1</b>	<b>11.3</b>	<b>11.7</b>	<b>14.1</b>	<b>18.0</b>
<i>Diluted EPS Growth (Y-o-Y)</i>	67.7%	(25.3%)	9.4%	24.0%	3.7%	20.5%	27.7%

## Key Ratios

<b>EBIDTA Margin (%)</b>	<b>17.4%</b>	<b>14.2%</b>	<b>19.0%</b>	<b>14.0%</b>	<b>12.4%</b>	<b>12.9%</b>	<b>13.3%</b>
<b>NPM (%)</b>	10.8%	8.9%	11.8%	9.6%	7.7%	7.9%	8.7%
<b>RoE (%)</b>	<b>25.3%</b>	<b>17.4%</b>	<b>18.2%</b>	<b>21.0%</b>	<b>20.0%</b>	<b>20.3%</b>	<b>21.7%</b>

## Valuation Ratios

<b>P/E (x)</b>	<b>13.9x</b>	<b>18.6x</b>	<b>17.0x</b>	<b>13.7x</b>	<b>13.2x</b>	<b>11.0x</b>	<b>8.6x</b>
<b>EV/EBITDA</b>	5.8x	3.5x	7.6x	7.3x	7.6x	8.4x	7.3x
<b>P/BV (x)</b>	<b>3.5x</b>	<b>3.4x</b>	<b>3.0x</b>	<b>2.2x</b>	<b>2.1x</b>	<b>2.0x</b>	<b>1.8x</b>
<b>Market Cap. / Sales (x)</b>	13.7x	14.9x	18.1x	10.8x	8.3x	7.1x	6.4x

Source: Company Reports, BP Equities Research

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**Analyst (s) holding in the Stock : Nil**
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