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Initiating Coverage

Phillips Carbon Black Ltd.

06-Aug-2021

RETAIL RESEARCH

Phillips Carbon Black Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Chemicals	Rs. 254.7	Buy in the 253-255 band and add on dips to Rs 223-225 band	Rs. 281	Rs. 303	2 quarters

HDFC Scrip Code	PHICAREQNR
BSE Code	506590
NSE Code	PHILIPCARB
Bloomberg	PHCB IN
CMP Aug 05, 2021	254.7
Equity Capital (Rs cr)	34.5
Face Value (Rs)	2
Equity Share O/S (cr)	17.2
Market Cap (Rs cr)	4389.4
Book Value (Rs)	112.3
Avg. 52 Wk Volumes	1835476
52 Week High	277.0
52 Week Low	98.9

Share holding Pattern % (June 2021)	
Promoters	53.6
Institutions	10.1
Non Institutions	36.4
Total	100.0

Retail Research Risk Rating:

	Blue*	

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
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Our Take:

Phillips Carbon Black (PCBL) is the leading manufacturer of carbon black, which is essentially used as a reinforcing material for manufacturing tyres. It derives ~6% of sales volume from speciality carbon black, which fetches high margins and finds application in paints, plastics among others. PCBL's business strength emanates from its leadership position in the domestic carbon black industry with market share of about 41% in terms of capacity, and its longstanding presence and established relationships with clients, which are well established tyre manufacturing companies. It is the seventh largest manufacturer of carbon black globally and widened geographical presence which have enabled healthy growth in exports. The company has progressively climbed the value chain, expanding its portfolio of high-performance value-added grades for rubber and specialty black applications.

Over the decades, the company has built scale, expanded global footprint and set up world-class R&D facilities to address diverse customer requirements. Leveraging an efficient supply chain and distribution network, PCBL has carved out its presence in 45+ countries. Penetration into new geographies, new specialty carbon black grades and moving up the value chain in rubber grades should bode well with company's long term growth plan. Expectation of robust volume growth in the tyre space amid cyclical recovery in the CV space as well as need for personal mobility driving sales in the 2-W & PV segment is a big positive for PCBL. With greenfield expansion under execution, long term growth prospects are robust amid limited competition. The growth will also be supported by enhanced specialty black capacity commissioned in FY21 which will solidify the company's market position and improve its margins.

Valuations & Recommendation:

Market leadership of PCBL in the domestic carbon black industry along with an increasing global footprint, healthy operating efficiency, financial flexibility (a part of the established RP-Sanjiv Goenka Group) and strong financial risk profile are the key drivers. After degrowth for two consecutive years due to moderation in carbon black realisations and slowdown in the automobile industry, PCBL is slated to report healthy revenue over the next couple of years; driven by healthy demand outlook for the end user segments, majorly the tyre industry and enhanced capacity of specialty black. Additional capacity through its greenfield project will support revenue growth over medium term. Higher share of specialty black grade, better input-output ratio and cost measures to improve operational efficiency will go a long way in maintaining sustainable higher margins. PCBL is on a strong footing led by buoyancy in tyre demand coupled with operating leverage benefits and strong balance sheet and healthy cash flow generation. **We think the base case fair value of the stock is Rs 281 (9.75x FY23E EPS) and the bull case fair value is Rs 303 (10.5x FY23E EPS) over the next two quarters. Investors can buy the stock in the 253-255 band (8.8x FY23E EPS) and add more on dips to Rs 223-225 band (7.75x FY23E EPS). At LTP of Rs 254.7, it quotes at 8.8x FY23E EPS**.

Financial Summary (Consolidated):

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	1003.9	359.5	179.2	866.7	15.8	3,528.6	3,243.5	2,659.5	3,988.6	4,399.6
EBITDA	163.6	38.5	325.2	186.0	-12.1	616.2	464.1	518.0	706.0	772.1
Depreciation	29.2	27.1	7.8	28.0	4.4	66.4	92.4	110.1	116.5	117.0
Other Income	6.6	2.9	129.6	14.0	-52.8	19.9	29.0	18.0	19.9	22.0
Interest Cost	7.6	11.4	-33.1	8.1	-5.8	36.8	45.9	33.9	36.3	39.1
Tax	26.1	0.4	6954.1	33.4	-21.8	150.3	67.3	78.1	131.8	140.4
PAT	107.3	2.5	4124.5	130.6	-17.9	382.7	287.5	314.0	441.3	497.7
Adjusted PAT	104.4	2.5	4092.4	127.7	-18.3	383.7	286.6	313.6	440.8	496.9
EPS (Rs)	6.1	0.1	4092.4	7.4	-18.3	22.2	16.7	18.2	25.6	28.8
RoE-%						25.3	17.1	17.3	21.3	21.0
P/E (x)						11.5	15.3	14.0	10.0	8.8
EV/EBITDA						8.1	10.5	9.2	6.8	6.1

(Source: Company, HDFC sec)

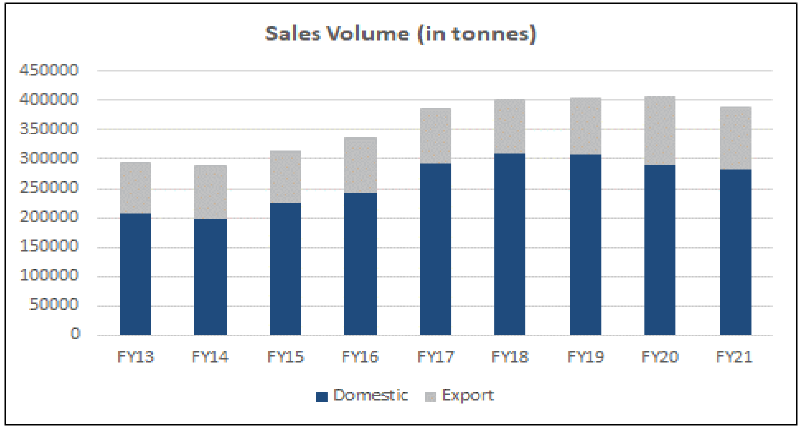
Q1FY22 Result Review:

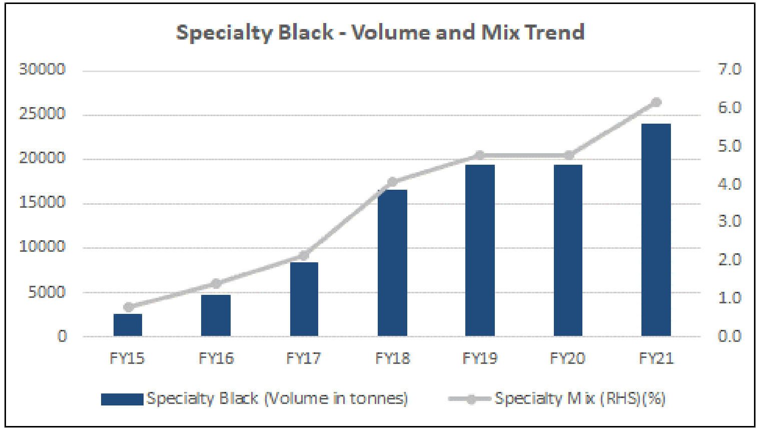
Phillips carbon black (PCBL) reported strong revenue of Rs 1003.8cr (up 179.2%/15.8%, YoY/QoQ) on account of higher carbon black volumes and better than expected realisations. The company reported a steady performance despite weak domestic demand (~11.4% lower QoQ) which was impacted due to regional lockdowns, as export volumes continued to be resilient during the quarter, up 19.2% QoQ. Total volume reported during the quarter was 109,424 MT (+113.2%/-3.2% YoY/QoQ). Sales volume of specialty carbon black stood at 7283 MT in Q1FY22. Carbon black realizations came in at Rs 90274/tonne, up 32.3%/20.2% YoY/QoQ, mainly on account of higher crude prices. EBIDTA came in at Rs 163.6cr, while the margins contracted ~515bps to 16.3% mainly due to adverse operating leverage. EBITDA/tonne was pulled down by ~9.1% QoQ to Rs 14980. The company reported PAT of Rs 104.4cr in Q1FY22. The company expects to benefit from the completion of a strong capex cycle undertaken by the domestic tyre industry and remains positive about the growth momentum in automobile demand. The management continues to remain focus on expanding its product portfolio of high-performance high-margin grades for both rubber and specialty black applications.

Triggers:

Leadership position in carbon black in India, with a strong global footprint:

PCBL is the largest player in the domestic carbon black market, with a market share of ~40% and the seventh largest player globally (~10% market share in Asia (ex-China)). It is the largest exporter of carbon black from India having presence in more than 40 countries; contributing 26% of its revenue in FY21, (vs 20% in FY17). In order to insulate from domestic slowdown, the company has increased its focus on export market and in next 5 years company aims to increase the export share in revenue to 40%. It has offices in Japan, Germany, Belgium, China, South Korea and Vietnam among others; its strong distribution network enables to address needs of large customer base worldwide. With production capacity of 603000 MT (a dedicated capacity for specialty black of 72,000 MT), it has plans to add 150,000 MT per annum by March 2023. PCBL manufactures over 60 grades of rubber carbon black & specialty black and remains focused on high-performance and high-margin products under both carbon black and specialty black. Its wide portfolio of carbon black grades and its planned expansion for developing new grades will help the company in maintaining its leadership position going forward.





(Source: Company, HDFC sec)

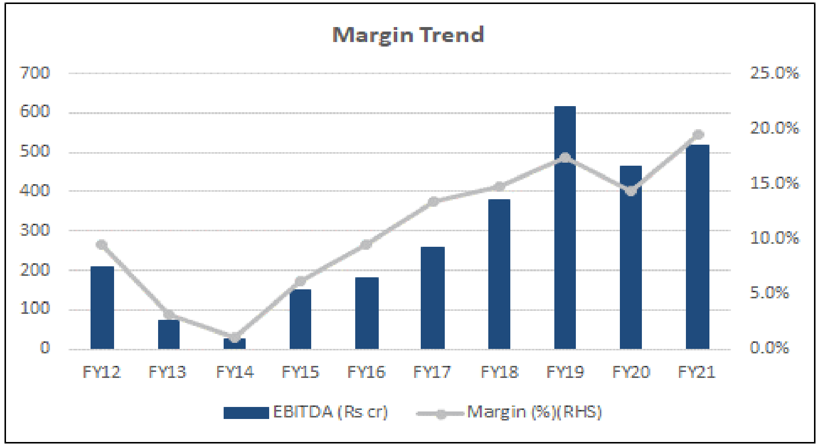
Capacity expansion to drive volume growth:

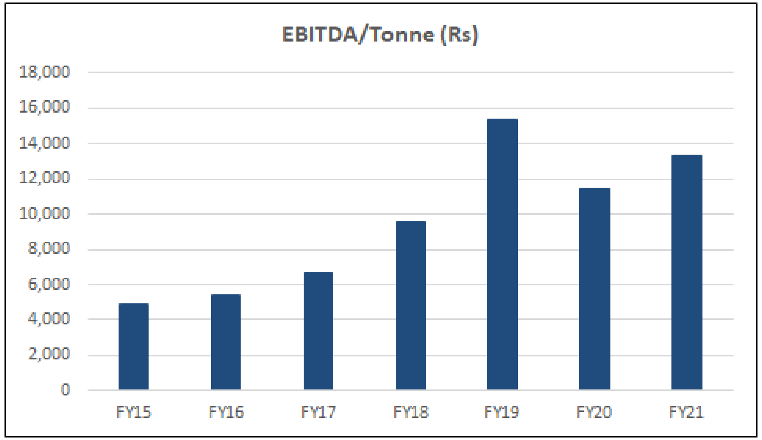
Around 73% of carbon black globally is used in tyres, 20% in other rubber products and remaining 7% used in specialty carbon black used in non-rubber applications such as automotive, plastics, inks dyes, pigments etc. The demand for carbon black is more dependent on tyre usage and that is dependent on movement of goods and people as well as general economic activity. With economy normalising and with second wave of covid behind us, replacement demand for tyre would support carbon black sales. Replacement market is main for Tyre industry - as the industry derives around 30% of its demand from the OEM market and rest 70% from the replacement market, which is steady state and recurrent in nature. The company expects to benefit from the completion of a strong capex cycle undertaken by the domestic tyre industry and remains positive about the growth momentum in automobile demand. In order to cater to the domestic demand, PCBL announced its plans for its greenfield project of 150,000 MT of carbon black and 25 MW of power in Tamil Nadu which is expected commissioned by March 2023. With higher utilisation levels currently, capacity expansion seems timely and would further strengthen PCBL's market position. Further, penetrating into new geographies, new specialty carbon black grades and moving up the value chain in rubber grades should bode well with company's long term growth plan.

Product mix change in favour of Specialty Carbon Black would improve margins:

PCBL's product mix has been changing in the last few years with a higher share of superior grade carbon blacks and specialty carbon blacks, which resulted in a steady improvement in the contribution margin. Specialty grade carbon blacks are basically value-added products that provide performance enhancing properties in a wide range of end use products including plastics, inks, pigments, adhesives, coatings, etc. Given their value enhancing properties, these specialty grades fetch higher EBITDA/tonne ~2.5-3x compared to normal rubber grade carbon black; improving overall margins. PCBL is focusing on moving up the value chain and producing more value-added products where the margins are comparatively higher and also to mitigate the competition from China & Russia. It continues to expand its product portfolio of high performance high-margin grades for both rubber and specialty black applications. PCBL have developed 40+ grades of specialty black, has 100+ customers and more than 50% of sales in this segment is from international market. With the enhanced demand for packaging material and engineered plastic goods, proportion of specialty black in overall sales volume increased to 6.2% in FY21 from 1.4% in FY16 and should improve further over the next two fiscals due to capacity addition of 32,000 tonnes during FY21. In long run, management aim to increase the share of specialty black in total volumes in order to further strengthen its margin.

Phillips Carbon Black Ltd.





(Source: Company, HDFC sec)

Diversified product portfolio with strong customer relationship:

PCBL offers a wide portfolio of carbon black grades to address the requirements of its global customers across tyres and niche applications. It has strategically aligned its product portfolio with the business needs of customers and works jointly with them for developing products and providing technical services. The rubber black portfolio caters to all renowned global tyres and industrial rubber goods customers, reinforcing the physical properties of their products. The company draws almost 70% of revenue from the tyre segment. PCBL portfolio addresses high margin non-rubber applications – mainly plastics. It possesses deep capabilities in the areas of engineering plastics, fibres, US Food and Drug Administration (FDA)-approved food contact grades, conductors and cables, among others. The company also intends to build its capabilities in ink, paint and coating applications. Large scale of operations, coupled with timely and high-quality service, supports the company in maintaining healthy relationships with key customers. More than 90% of revenues in FY21 was contributed by customers who are associated with the company for more than five years.

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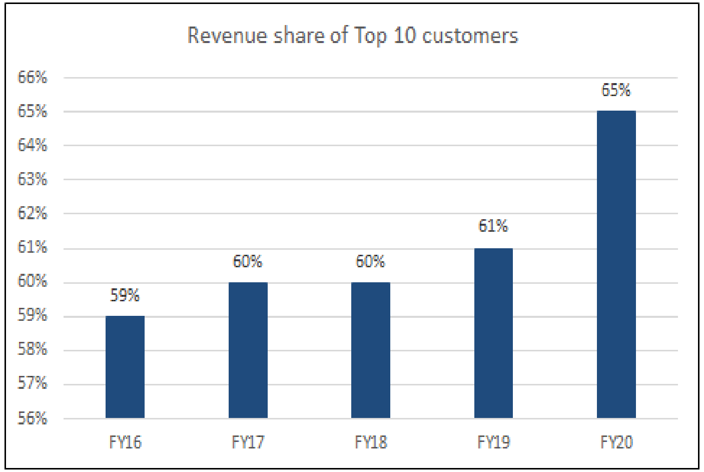


(Source: Company, HDFC sec)

Strategically located manufacturing facilities and R&D focus:

PCBL's units are situated in different parts of India, in proximity to the ports {for imports of Carbon Black feedstock (CBFS) and exports of carbon black} and near major tyre manufacturing plants. Plants' proximity to sea ports helps in keeping logistics costs down. Its Indian suppliers form 95% of the supply chain strength, accounting for 30% of the procurement cost whereas international suppliers account for 5% of the supply chain, and accounts for the remaining 70% of the procurement cost. Manufacturing facilities located in proximity to ports facilitates switching over to alternative feedstocks depending on the production requirements and significant reduction of freight costs and uncertainty.

PCBL has sustained a strong focus on Research and Development (R&D). It has a state-of-the-art R&D Centre (Sushila Goenka) at Palej and Innovation Centre in Belgium, Europe. The company works closely with customers to understand their demanding technical requirements, with the objective to develop different carbon black grades. This research commitment has empowered it to focus on the manufacturing of high-performance non-rubber carbon black and specialty carbon black grades. By leveraging R&D efficiency, the company has developed a seamless capability in the use of multiple feedstocks like Carbon Black Feed Stock (CBFS), Carbon Black Oil (CBO), Anthracene Oil (ATO) and Ethylene Bottom Oil (EBO) for the manufacture of carbon black. It has dedicated lines for the manufacturing of specialty carbon producing 40 grades. It is one of the few companies in the world to meet US FDA requirements for direct/indirect food contact applications. In last 2 years, PCBL has been investing in R&D centers in intent to improve the process and machine technology, yield Improvement, feedstock efficiency, customization of grades and new product development.

Steady source of revenue from the power segment:

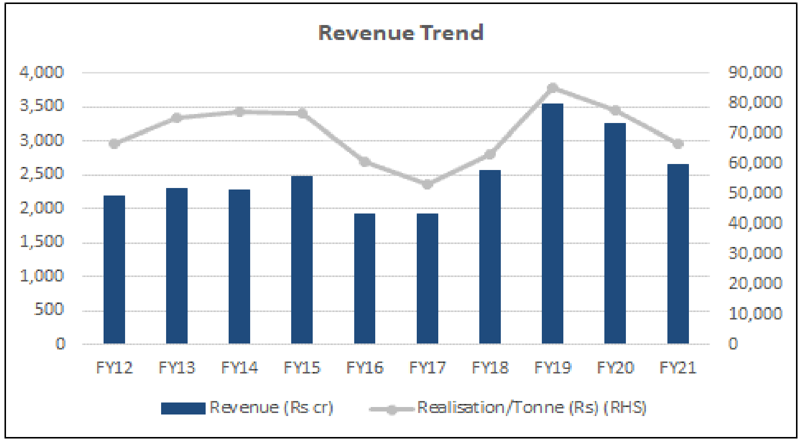
PCBL has captive power plants aggregating to 84 MW at its manufacturing facilities. Its current capacity is sufficient for captive consumption, 60% of the power is sold to third parties. PCBL does not have any Power Purchase Agreement for off-take of power; however, it enters into medium term agreements for the same. Also, a part of the power is sold to group company, CESC Limited. The power generation process recovers and utilises the thermal energy of the waste gas that is produced during the manufacturing of carbon black. This waste gas is then utilised to generate steam, which in turn is used to generate electrical energy. Although power accounts for less than 5% of its revenue, it provides some stability to the business contributing to the bottom line. Increasing efficiency and higher capacity utilisation would be driving growth of power segment. Power capacity which is expected to reach 98 MW by FY23, is likely to provide a cushion to the overall profitability.

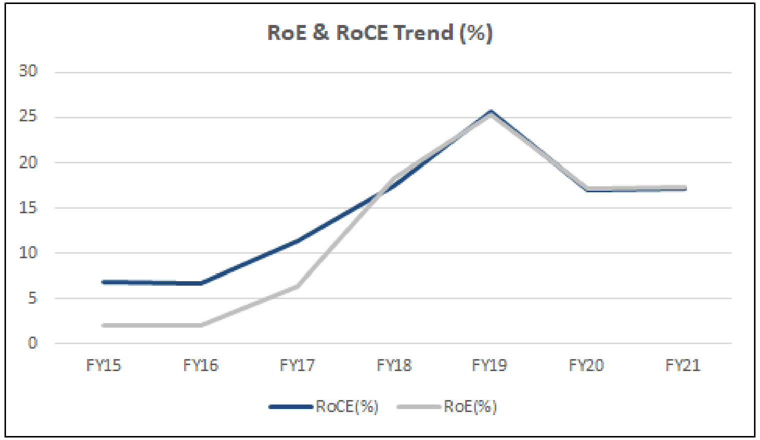
Healthy operating efficiency:

The company has steadily improved operating efficiency in the past five years. Higher share of high-margin specialties black grades, yield improvement and feedstock efficiency due to its R&D focus; have improved its EBITDA margins above 15%. Strong management focus on enhancing operating efficiency and R&D capability, and increasing the revenue share of value-added products have helped in reducing the volatility in operating profitability. PCBL benefits from the strategic location of its manufacturing facilities. The company's four facilities are near ports and customers resulting in easy access to raw materials (70-80% are imports) and lower logistic costs. PCBL produces power from tail gas and has seen consistent growth in power generation (~60% is sold to third parties). Moreover, the current spread between carbon black prices and carbon black feedstock remains comfortable. Considering the recovery in demand and calibrated capacity additions by the industry, the current spreads will sustain over the medium term supporting PCBL's operating profitability. PCBL follows a good price mechanism where any change in its costs can pass on to its end users, thus insulating its EBITDA margin from any kind of raw material price volatility.

Phillips Carbon Black Ltd.

Healthy return ratios supported by revenue growth and improvement in margins:
While revenue growth has been volatile over the past five years, it witnessed steady and sustained improvement in profitability backed by increasing proportion of specialty black, better input-output ratio and measures to improve efficiency. After degrowth for two consecutive years due to moderation in carbon black realisations in line with softer crude prices and slowdown in the automobile industry; PCBL is likely register healthy growth over FY21-23E, driven by healthy demand outlook for the end user segments, majorly the tyre industry and enhanced capacity of specialty black (32000 tonne per annum) commissioned in Feb 2021. We expect its topline growth of 28.6% CAGR over FY21-23E. Expected increase in scale of operations, higher proportion of specialty black (which has higher and more stable profitability per tonne) and strong cost control should help sustain operating margin of 16-18% over the medium term. We expect EBITDA/PAT to grow at a CAGR of 22.1%/25.9% over FY21-23E led by improvement in product mix and higher volumes. Also given that the operating cash flows are expected to remain healthy, a large part of the green field project (in Tamil Nadu) is proposed to be funded through internal generation over a period of next two years and accordingly, the capital structure and debt protection metrics are expected to remain comfortable. Company's increasing share of specialty black (SB) sales, growing presence in the international market, focus on research and development to introduce new CB grades and implement process improvements, would strengthen its operating profile and its RoE & RoCE going forward.

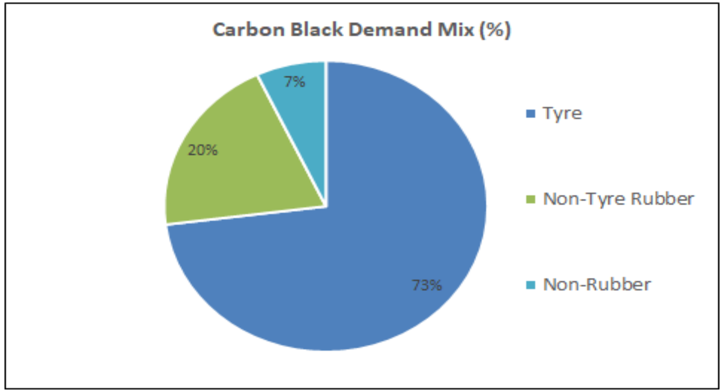


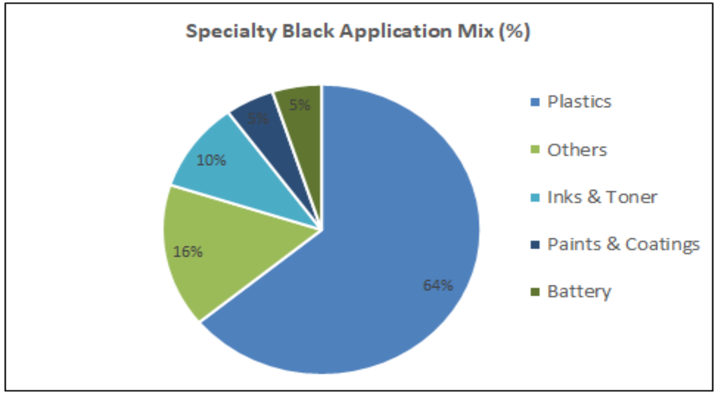


(Source: Company, HDFC sec)

Industry Insights & Triggers:

The Global Carbon Black industry is sustained by economic growth, which boosts growth in infrastructure, construction, automobile, consumer durable goods and so on. Carbon black consumption is predominantly driven by tyres and other rubber goods while its non-rubber application commands a relatively small share. Carbon black used in high-end non-rubber applications is commonly known as ‘Specialty blacks’, which impart specific characteristics such as high-quality pigmentation, UV protection, dispersion, viscosity control and electrical conductivity. It finds application in plastics, inks, paints and coatings and batteries used across industries such as automobile, electronics, textiles, construction, packaging etc. Plastics application is the major growth driver accounting for almost two-third of the volume share of the specialty black market. The specialty black segment is dominated by a few global players with access to technologies that enable production of technically sophisticated products for wider applications. The global carbon black industry is concentrated, with 10 players accounting for almost 60% of the global production capacity.





(Source: Company, HDFC sec)

The Indian Tyre industry is expected to recover from five years of weakness and is expected to be on a linear growth path (~10-12% CAGR over next three years), supported by timely capacity expansion across companies and higher capacity utilisation. Major tyre players, over the last three years, had embarked on capacity additions across segments. Indian tyre industry has added ~40% capacity over FY19-22E. Sustained recovery in demand from both replacement and OEM segment, coupled with increase in exports would drive volume growth. Carbon black demand outlook is largely dependent on tyre demand, as ~70% of carbon black is used by the tyre industry. While OEM demand is expected to see a cyclical recovery over the next 2-3 years, the replacement market is expected to propel tyre production. Notwithstanding the near-term demand hiccup due to second wave of covid, the medium-term outlook with respect to tyre production seems strong as large part of capacities are in ramp-up mode. With capacity utilization across segments at 63-72% and ramp-up of recently added capacities, the tyre industry is well prepared for expected growth. This is also expected to help in better capacity utilization of the carbon black capacities. Volume for carbon black producers is likely to grow at a double-digit rate over the next couple of years. Moreover, demand for specialty carbon black is gaining momentum with rising applications in plastic, inks and paints, and cables and fibres. Thus, we expect the overall demand environment for carbon black to remain strong, led by high demand from tyre as well as non-tyre applications.

A structural driver for higher carbon black demand led by revival in the domestic tyre industry is expected to drive strong double-digit volume growth for PCBL over FY21-FY23E. PCBL has stepped up by adding capacities and could gain from China + 1 strategy. Volume growth would provide operating leverage while rise in share of specialty carbon black (fetching a 2.5-3x higher margin versus traditional tyre industry) would mean margin expansion. PCBL is well placed to benefit from improving tyre demand even beyond FY2023E, as the company is undertaking Greenfield capacity expansion of 150,000 tonnes at its Palej plant in Gujarat.

Concerns:

- **Volatility in raw material (crude oil prices)** – Major raw material is carbon black feedstock (CBFS), which is a crude oil derivative and is mainly imported. Any adverse movements in crude oil prices would impact its operational profits for some period as these costs are largely pass on. A significant portion of the sales of PCBL is to the tyre segment which operates as per pricing formulae, thereby reducing volatility in profits. Any decline in coal tar price in Chinese markets poses risk to margins as the government has removed anti-dumping duty on the imports.

- **Removal of anti-dumping duty on carbon black imports from China and Russia:** Anti-dumping duty (ADD) which had been imposed on import of carbon black (USD 397-494/MT from China and USD 36.17/MT from Russia) from November 2009 was removed in January 2021. As China accounts for a significant portion of the world's carbon black capacity and production, any Chinese demand supply imbalance has the potential to impact market share and performance of domestic players like PCBL. But the cost of production has increased sharply for Chinese players, following higher coal tar (raw material for carbon black) price. As global demand continues to remain robust, we don't expect large scale dumping by Chinese producers in India. Furthermore, the basic customs duty on import for carbon black increased from 5% to 7.5% which will keep the import of carbon black into India in check. Also, Phillips Carbon Black has established long term relationship with its customers and adjusted their products based on their inputs. Removal of anti-dumping duty may impact minorly in price negotiations and margins.

- **Business growth susceptible to cyclicality in the domestic automobile industry:** Demand for domestic carbon black depends on growth of the tyre industry, as 73% of overall production in India is consumed by tyre manufacturers. PCBL, generates about 70% of its revenue from the tyre industry. Its topline can be impacted by sluggish demand from tyre manufacturers, owing to slowdown in demand from automobile original equipment manufacturers (OEMs), or shutdown of tyre dealerships or automobile service stations. However, in the tyre industry, replacement demand which forms ~70% of the demand continues to remain resilient limiting the impact of cyclicality of domestic automobile industry

- **Project risk of ongoing projects:** PCBL would be undertaking a greenfield capex entailing an expenditure of ~Rs 600 crore to be partly funded by debt and is subject to typical project execution risks.

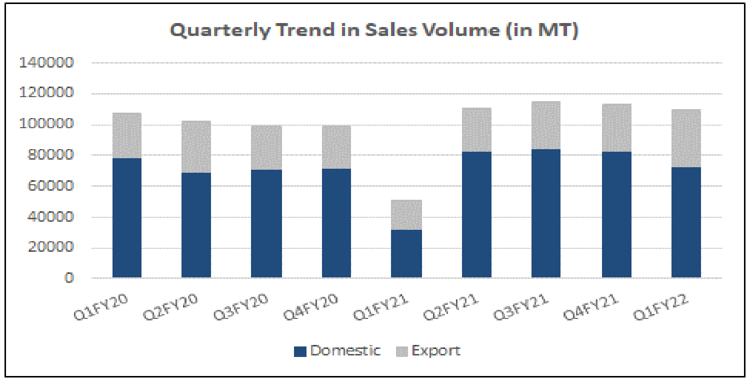
- **Exposure to foreign exchange fluctuation risk:** The company imports 70-80% of raw material and is vulnerable to volatility in forex rates. However, the risk is mitigated to a considerable extent as exports account for ~20% of the company’s revenue and it also follows a hedging policy.

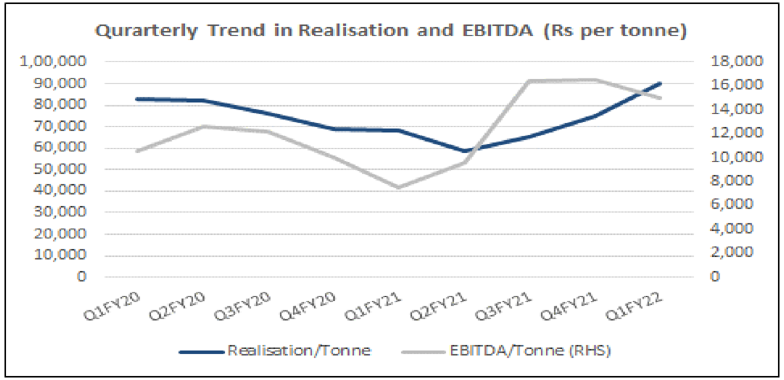
Company Profile:

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 in India and 7th largest in the world, having an aggregate installed capacity of 603,000 MT per annum (with a dedicated capacity for specialty black of 72,000 MT) and co-generation power capacity of 84 MW spread over four locations - Durgapur in West Bengal, Mundra and Palej in Gujarat and Kochi in Kerala. Carbon black is mainly used in tyre and other rubber products. The company also produces specialty carbon blacks which are used as pigmenting, UV stabilizing and conductive agents in a variety of common and specialty products, including plastics, printing & packaging and coatings. It sells excess power generated after meeting its own requirement. Over the decades, the company has built scale, expanded global footprint and set up world-class R&D facilities to address diverse customer requirements. Leveraging an efficient supply chain and distribution network, PCBL has carved out its presence in 45+ countries.

Phillips Carbon Black Ltd.

PCBL's wide portfolio of customized, high-performance products, certified by American Society for Testing and Materials (ASTM), address specific customer requirements. The company has progressively climbed the value chain, expanding its portfolio of high-performance value-added grades for rubber and specialty black applications. Its customers comprise some of the marquee domestic and global tyre companies. Besides, the company has established its mark as a key player in the specialty black segment the world over. The company has strengthened its competitiveness by growing its global presence, diversifying its product portfolio and consistently improving its operational performance.





(Source: Company, HDFC sec)

Peer Comparison (Consolidated):

	Mcap (Rs cr)	Sales			EBITDA Margin-%			PAT		
		FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Phillips Carbon Black	4389.4	3528.6	3243.5	2659.5	17.5	14.3	19.5	383.7	286.6	313.6
Himadri Speciality Chemicals	2052.9	2422.4	1805.8	1679.5	23.2	15.5	7.8	324.3	205.5	47.5

	RoE-%			RoCE-%			P/E		
	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Phillips Carbon Black	25.3	17.1	17.3	25.7	17.0	17.2	11.5	15.3	14.0
Himadri Speciality Chemicals	21.3	12.2	2.7	26.1	12.0	4.3	6.3	9.9	43.3

(Source: Company, HDFC sec)

Phillips Carbon Black Ltd.

Financials (Consolidated):

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**3528.6**	**3243.5**	**2659.5**	**3988.6**	**4399.6**
Growth (%)	**37.9**	**-8.1**	**-18.0**	**50.0**	**10.3**
Operating Expenses	2912.4	2779.5	2141.5	3282.6	3627.5
EBITDA	**616.2**	**464.1**	**518.0**	**706.0**	**772.1**
Growth (%)	**63.5**	**-24.7**	**11.6**	**36.3**	**9.4**
EBITDA Margin (%)	**17.5**	**14.3**	**19.5**	**17.7**	**17.6**
Depreciation	66.4	92.4	110.1	116.5	117.0
EBIT	**549.8**	**371.7**	**407.9**	**589.4**	**655.1**
Other Income	19.9	29.0	18.0	19.9	22.0
Interest expenses	36.8	45.9	33.9	36.3	39.1
PBT	**532.9**	**354.8**	**392.0**	**573.1**	**638.0**
Tax	150.3	67.3	78.1	131.8	140.4
RPAT	382.7	287.5	314.0	441.3	497.7
APAT	**383.7**	**286.6**	**313.6**	**440.8**	**496.9**
Growth (%)	**67.1**	**-25.3**	**9.5**	**40.5**	**12.7**
EPS	22.2	16.7	18.2	25.6	28.8

Balance Sheet

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	34.5	34.5	34.5	34.5	34.5
Reserves	1615.4	1664.7	1901.0	2169.4	2494.0
Shareholders' Funds	**1649.9**	**1699.1**	**1935.5**	**2203.9**	**2528.5**
Minority's Interest	5.9	7.3	7.5	8.0	8.8
Long Term Debt	273.6	319.3	403.4	443.4	498.4
Net Deferred Taxes	256.7	254.9	271.4	271.4	271.4
Long Term Prov & Others	1.3	2.0	0.9	1.1	1.2
Total Source of Funds	**2187.4**	**2282.6**	**2618.6**	**2927.8**	**3308.3**
APPLICATION OF FUNDS					
Net Block & Goodwill	1500.3	1639.9	1742.4	1750.9	1743.9
CWIP	175.0	305.6	266.8	456.8	631.8
Other Non-Current Assets	297.1	221.4	247.5	268.1	275.5
Total Non-Current Assets	**1972.5**	**2166.9**	**2256.7**	**2475.7**	**2651.1**
Current Investments	105.1	0.0	0.0	0.0	0.0
Inventories	460.3	326.2	444.8	546.4	578.6
Trade Receivables	652.7	588.2	707.5	764.9	867.9
Cash & Equivalents	115.5	152.1	264.4	302.7	400.7
Other Current Assets	81.1	77.3	52.6	87.4	96.4
Total Current Assets	**1414.7**	**1143.8**	**1469.4**	**1701.4**	**1943.6**
Short-Term Borrowings	452.0	329.7	256.9	266.9	226.9
Trade Payables	508.3	418.8	591.6	655.7	699.1
Other Current Liab & Prov	239.4	279.7	258.9	326.7	360.4
Total Current Liabilities	**1199.7**	**1028.1**	**1107.4**	**1249.3**	**1286.4**
Net Current Assets	214.9	115.7	362.0	452.1	657.2
Total Application of Funds	**2187.4**	**2282.6**	**2618.6**	**2927.8**	**3308.3**

Phillips Carbon Black Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	532.9	354.8	392.0	573.1	638.0
Non-operating & EO items	4.1	-12.0	20.8	-20.6	-7.4
Interest Expenses	35.4	42.4	33.9	36.3	39.1
Depreciation	66.4	92.4	110.1	116.5	117.0
Working Capital Change	-220.8	120.9	-62.4	-61.6	-66.9
Tax Paid	-128.1	-66.4	-78.1	-131.8	-140.4
OPERATING CASH FLOW (a)	**289.9**	**532.1**	**416.4**	**511.9**	**579.5**
Capex	-231.5	-230.7	-173.8	-315.0	-285.0
Free Cash Flow	58.3	301.4	242.6	196.9	294.5
Investments	-52.1	67.3	-41.2	0.0	0.0
Non-operating income	6.1	56.6	-18.3	0.0	0.0
INVESTING CASH FLOW (b)	**-277.5**	**-106.8**	**-233.3**	**-315.0**	**-285.0**
Debt Issuance / (Repaid)	73.1	-214.6	11.3	50.0	15.0
Interest Expenses	-46.8	-31.1	-33.9	-36.3	-39.1
FCFE	84.7	55.7	220.0	210.6	270.4
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-96.7	-145.4	-120.6	-172.3	-172.3
Others	0.0	1.8	8.1	0.0	0.0
FINANCING CASH FLOW (c)	**-70.4**	**-389.4**	**-135.1**	**-158.7**	**-196.4**
NET CASH FLOW (a+b+c)	**-58.0**	**35.9**	**48.0**	**38.3**	**98.1**

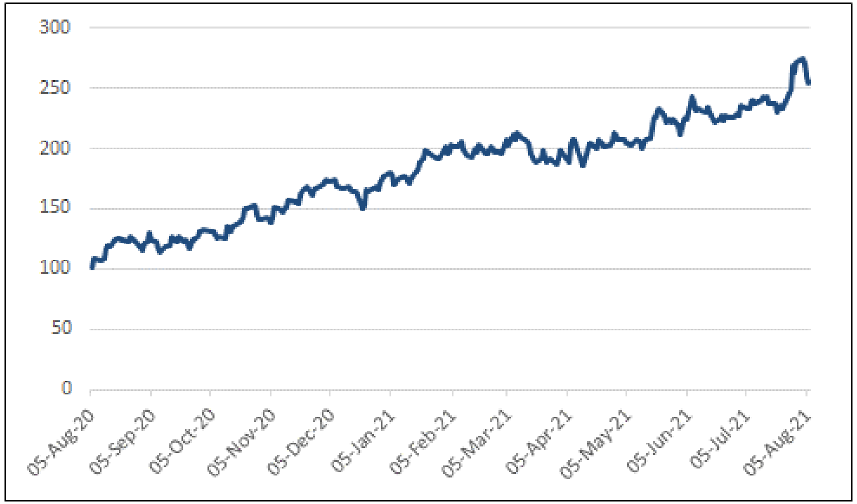
Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS (%)					
EBITDA Margin	17.5	14.3	19.5	17.7	17.6
EBIT Margin	16.1	12.4	16.0	15.3	15.4
APAT Margin	10.9	8.8	11.8	11.1	11.3
RoE	25.3	17.1	17.3	21.3	21.0
RoCE	25.7	17.0	17.2	22.1	22.0
SOLVENCY RATIOS					
Debt/EBITDA (x)	1.2	1.4	1.3	1.0	0.9
D/E (x)	0.4	0.4	0.3	0.3	0.3
PER SHARE DATA (Rs)					
EPS	22.2	16.7	18.2	25.6	28.8
CEPS	26.1	22.0	24.6	32.3	35.6
Dividend	3.5	7.0	7.0	10.0	10.0
BVPS	95.7	98.6	112.3	127.9	146.7
TURNOVER RATIOS					
Debtor days	60.8	69.8	88.9	67.4	67.7
Inventory days	39.8	44.3	52.9	45.4	46.7
Creditors days	47.1	52.2	69.3	57.1	56.2
VALUATION					
P/E (x)	11.5	15.3	14.0	10.0	8.8
P/BV (x)	2.7	2.6	2.3	2.0	1.7
EV/EBITDA (x)	8.1	10.5	9.2	6.8	6.1
EV/Revenues (x)	1.4	1.5	1.8	1.2	1.1
Dividend Yield (%)	1.4	2.7	2.7	3.9	3.9
Dividend Payout (%)	15.7	42.1	38.5	39.1	34.7

(Source: Company, HDFC sec)

Phillips Carbon Black Ltd.

One Year Price Chart



(Source: Company, HDFC sec)

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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