

PCBL Ltd. | BUY

Outlook is black, not bleak

During our discussions with investors, questions were raised regarding the sustainability of the company's carbon black spreads and its elevated debt levels. We highlight that the jump in PCBL's carbon black per kg EBITDA has been on account of both i) higher specialty volumes and ii) operating leverage. Hence, per kg EBITDA spreads have not peaked, contrary to the prevailing belief; more so when structural tailwinds are in place. We remain constructive on the name on account of i) continued increase in specialty sales providing lift to gross spreads, ii) strong ramp-up on account of continued supply-demand imbalance, iii) promising pricing cycle even in 2025, iv) benefits of operating leverage kicking in from utilisation of additional capacities, v) imminent European sanctions on carbon black imports from Russia starting Jul'24, and vi) integration of the Aquapharm business. We further highlight that the benefits of the Aquapharm integration will start kicking in from 1QFY25 given the company had liquidated high cost inventories in 4QFY24. With the strong ramp-up of both new carbon black capacities and Aquapharm, net debt to EBITDA is likely to come down to 2.2x by FY27E (vs. 4.2x in FY24). Also, Kinaltek JV, and a likely foray into carbon black for Li-ion batteries takes PCBL away from a commodity to a specialty play. We reiterate BUY with unchanged estimates and Sep'25 TP of INR 335/share (based on 18x Sep'26E EPS).

- **Jump in per kg EBITDA is sustainable:** We believe PCBL's jump in per kg EBITDA to USD 235/MT in FY24 is sustainable given the company has kept its operating costs in check at USD 190-197/tonne over the last 5 years (refer **Exhibit 1**). This is despite commercialising both new specialty black capacities as well as standard carbon black capacities. Further, its gross spreads have increased steadily largely on account of specialty mix going up from 4.8% in FY20 to 10.8% in FY24 (refer **Exhibit 2**). Going forward, this mix is expected to tilt further towards specialty. Besides, demand-supply imbalance and European sanctions should help sustain profitability in standard grade carbon black as well.
- **1QFY25TD spreads have further improved for various grades:** During 1QFY25TD, CBO-CBFS differential has decreased by 7% in 1QFY25TD (refer **Exhibit 4-5**). However, CBO prices are still very competitive. Basis our calculations, gross spreads of various grades over CBFS have further improved or been flat in 1QFY25TD (refer **Exhibit 6**).
- **Reiterate BUY with unchanged estimates and Sep'25 TP of INR 335/share:** PCBL completed acquisition of Aquapharm in Jan'24. Hence, it did not see the full benefits of that in 4QFY24. In fact, it will enter FY25 with low cost inventories. Besides, it will look to stability in operating costs while increasing rated utilisation. Hence, integration benefits will start kicking in 1QFY25 onwards. With the strong outlook for carbon black and meaningful contribution from Aquapharm, we expect PCBL to register 19%/17% EBITDA/EPS CAGR over FY24-27E. The stock is currently trading at 9.1x/7.8x FY26/27 EV/EBITDA even when ~30-35% of the company's FY26/27 EBITDA would be from specialty products. Hence, we reiterate BUY. Key risks: faster-than-expected carbon black volume ramp-up could act as a key upside risk.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	335
Upside/(Downside)	28.9%
Previous Price Target	335
Change	NA

Key Data – PCBL IN

Current Market Price	INR260
Market cap (bn)	INR98.2/US\$1.2
Free Float	47%
Shares in issue (mn)	377.0
Diluted share (mn)	377.0
3-mon avg daily val (mn)	INR538.4/US\$6.4
52-week range	344/151
Sensex/Nifty	77,479/23,567
INR/US\$	83.6

Price Performance

%	1M	6M	12M
Absolute	-3.3	5.8	64.5
Relative*	-7.7	-3.3	34.9

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	57,741	64,198	79,360	89,535	101,027
Sales Growth (%)	29.9	11.2	23.6	12.8	12.8
EBITDA	7,312	10,373	13,746	15,499	17,531
EBITDA Margin (%)	12.7	16.2	17.3	17.3	17.4
Adjusted Net Profit	4,422	4,911	4,854	6,218	7,914
Diluted EPS (INR)	11.7	13.0	12.9	16.5	21.0
Diluted EPS Growth (%)	3.7	11.1	-1.2	28.1	27.3
ROIC (%)	13.0	10.5	9.6	10.7	11.7
ROE (%)	16.2	16.2	13.9	15.4	16.7
P/E (x)	22.2	20.0	20.2	15.8	12.4
P/B (x)	3.5	3.0	2.6	2.3	1.9
EV/EBITDA (x)	14.7	13.7	10.4	9.1	7.8
Dividend Yield (%)	2.1	2.1	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 20/Jun/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. PCBL's operating leverage benefits are visible as opex/tonne has been largely steady over the last 4 years...

USD/MT	FY18	FY19	FY20	FY21	FY22	FY23	FY24
GP/tonne (USD/MT)	343	437	366	375	388	397	432
Opex/tonne (USD/MT)	197	218	205	190	195	193	197
EBITDA/tonne (USD/MT)	145	218	161	185	193	204	235

Source: Company, JM Financial

Exhibit 2. ...while its GP/tonne has increased largely on account of higher specialty sales

	FY20	FY21	FY22	FY23	FY24
Sales volume (MT)					
Standard	3,87,412	3,65,294	4,19,501	4,03,590	4,74,603
Specialty	19,378	23,966	34,686	40,376	57,247
Total sales	4,06,790	3,89,260	4,54,187	4,43,966	5,31,850
As a of total (%)					
Standard	95.2%	93.8%	92.4%	90.9%	89.2%
Specialty	4.8%	6.2%	7.6%	9.1%	10.8%

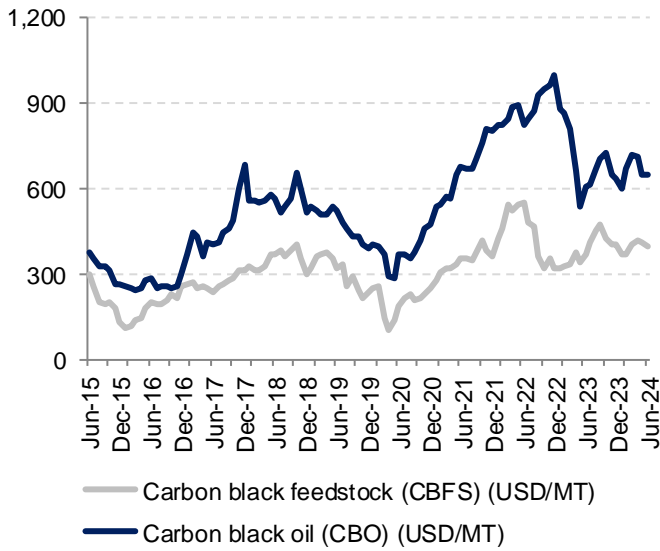
Source: Company, JM Financial

Exhibit 3. Orion highlights promising 2025 pricing cycle

Looking at our two business units and starting with Rubber, our customers are gaining confidence looking towards 2025. This, combined with the EU ban on Russian carbon black which begins in less than two months, shipping challenges from Asia to Europe, the seeming end of the US trucking recession, and the industry restructuring in our value chain, [all makes for a very promising 2025 pricing cycle](#). We see customers already gearing up for the negotiations, perhaps preferring to wrap things up before the market strengthens further. Some are essentially kicking off the negotiations now while others are in the framing stage, defining parameters for the 2025 negotiation.

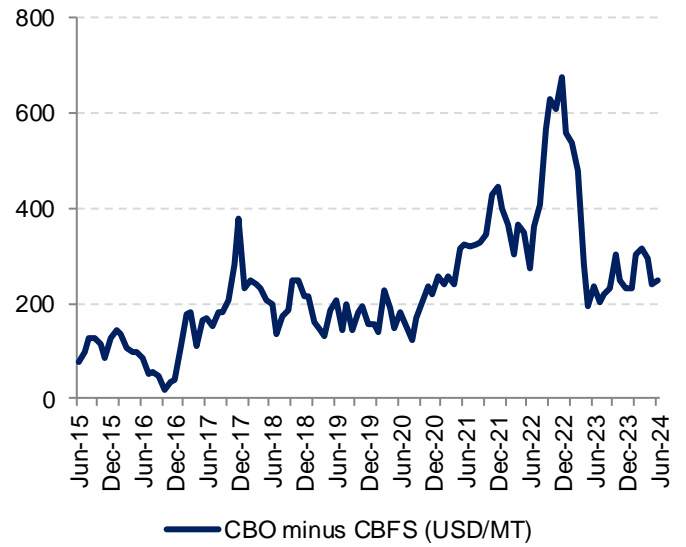
Source: Industry, JM Financial

Exhibit 4. CBFS prices are up 8% in 1QFY25TD (vs. 4QFY24)



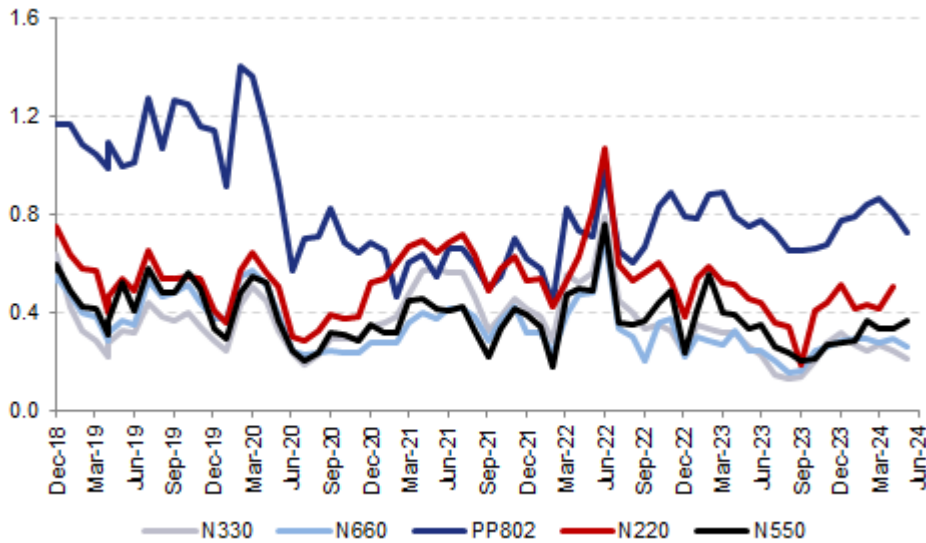
Source: Industry, JM Financial

Exhibit 5. CBO – CBFS differential has decreased by 7% in 1QFY25TD



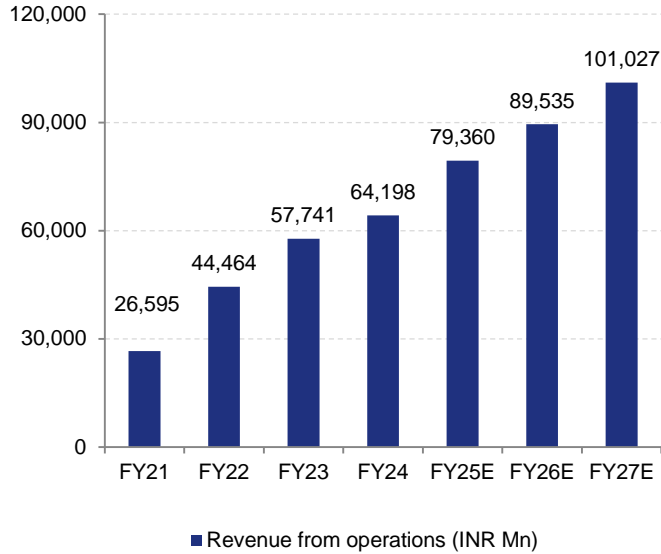
Source: Industry, JM Financial

Exhibit 6. Spreads (USD/kg) of various grades of carbon black have increased in 1QFY25TD



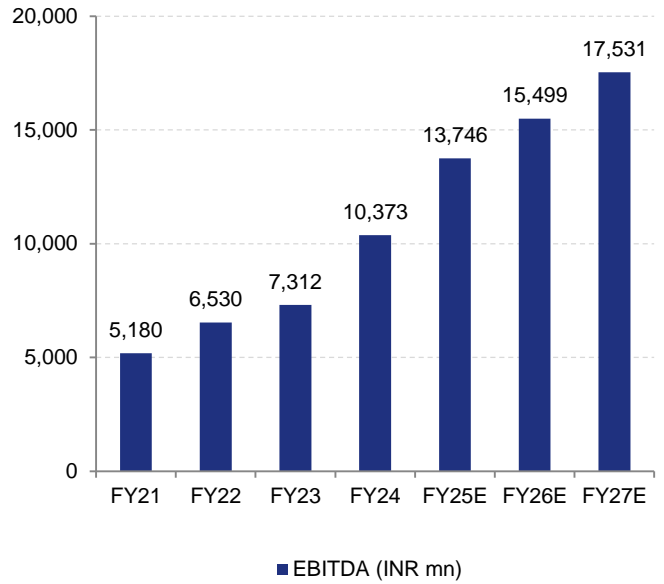
Source: Industry, JM Financial

Exhibit 7. PCBL's revenue is expected to show 16% CAGR over FY24-FY27E...



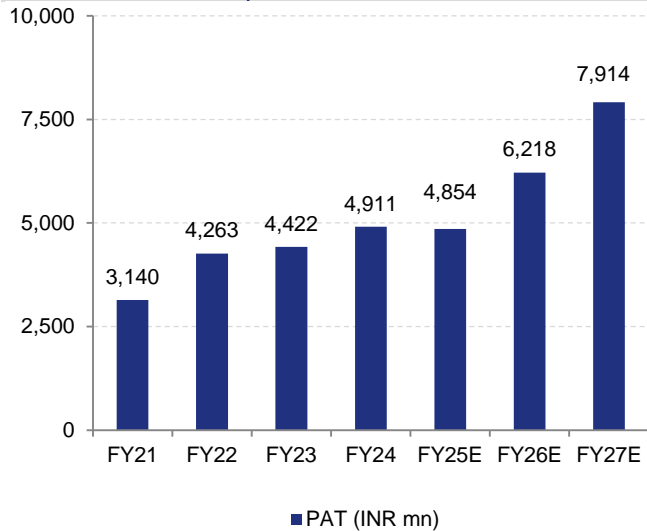
Source: Company, JM Financial

Exhibit 8. ...and EBITDA is expected to rise by 19% CAGR



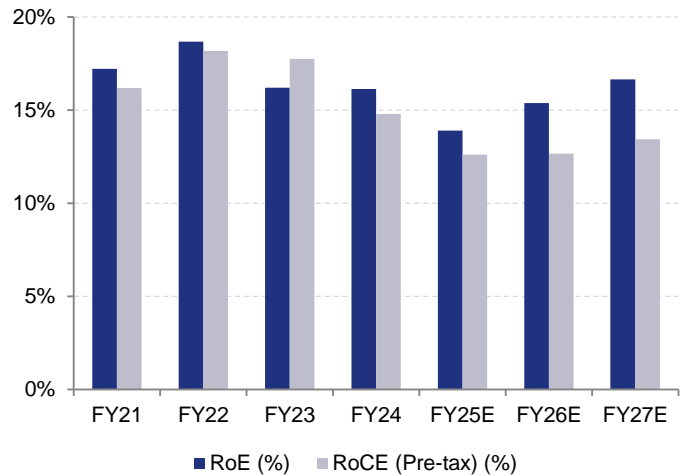
Source: Company, JM Financial

Exhibit 9. PAT CAGR expected to be ~17% over FY24-FY27E



Source: Company, JM Financial

Exhibit 10. RoCE (pre-tax) is expected to stabilise at 13% while RoE is expected to improve to 17% by FY27E



Source: Company, JM Financial

Valuation

Exhibit 11. Chemical companies peer valuation

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
SRF	BUY	2,499	2,795	55.4	43.7	33.4	26.6	6.5	5.7	5.0	4.3	30.2	24.6	19.7	16.2	12.3	13.9	15.9	17.2
UPL	BUY	569	650	NM	24.7	15.9	NM	1.6	1.5	1.4	NM	15.2	9.2	8.0	NM	-3.4	6.2	9.0	NM
PI Industries	HOLD	3,777	3,850	34.4	36.4	31.2	27.0	6.6	5.6	4.7	4.0	26.6	23.2	19.9	17.0	21.0	16.5	16.4	16.1
Deepak Nitrite	BUY	2,607	2,685	41.5	32.8	27.2	23.2	7.0	5.8	4.9	4.1	29.9	21.5	18.0	15.1	18.2	19.4	19.6	19.1
Clean Science	BUY	1,444	1,765	62.8	50.2	37.2	29.2	12.7	10.2	8.1	6.4	45.2	35.1	26.7	20.5	22.1	22.6	24.2	24.3
Navin Fluorine	BUY	3,764	4,105	81.6	56.9	40.7	32.2	7.8	7.1	6.2	5.4	48.8	35.3	26.2	21.6	10.0	13.0	16.2	18.0
Fine Organics	SELL	4,813	3,840	40.0	37.7	37.2	36.7	7.9	6.8	5.9	5.2	28.7	26.1	25.5	24.8	21.8	19.4	16.9	15.0
Galaxy Surfactants	HOLD	2,704	2,620	31.8	30.3	27.4	25.2	4.4	3.9	3.4	3.0	20.1	18.8	17.0	15.3	14.8	13.6	13.2	12.7
PCBL Ltd.	BUY	260	335	20.0	20.2	15.8	12.4	3.0	2.6	2.3	1.9	13.7	10.4	9.1	7.8	16.2	13.9	15.4	16.7
Aether Industries	BUY	867	1,005	119.8	69.4	45.5	34.7	5.6	5.2	4.6	4.1	78.7	43.1	29.2	21.6	5.8	7.7	10.8	12.5
Anupam Rasayan	HOLD	782	860	66.8	46.7	31.2	23.6	3.1	2.9	2.6	2.4	24.9	20.6	15.7	12.8	5.0	6.4	8.8	10.5
Archean Chemicals	BUY	696	715	26.9	16.0	12.7	10.9	5.0	3.9	3.0	2.4	17.8	10.4	7.7	6.0	20.4	27.6	26.8	24.5
Tatva Chintan Pharma Chem	HOLD	1,111	1,130	85.6	50.7	37.4	26.5	3.5	3.3	3.1	2.8	37.7	26.6	20.1	15.2	4.8	6.8	8.6	11.1

Source: Companies, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	57,741	64,198	79,360	89,535	101,027
Sales Growth	29.9%	11.2%	23.6%	12.8%	12.8%
Other Operating Income	0	0	0	0	0
Total Revenue	57,741	64,198	79,360	89,535	101,027
Cost of Goods Sold/Op. Exp	43,525	44,658	53,965	60,884	68,698
Personnel Cost	1,905	2,504	3,055	3,269	3,530
Other Expenses	4,999	6,662	8,594	9,884	11,267
EBITDA	7,312	10,373	13,746	15,499	17,531
EBITDA Margin	12.7%	16.2%	17.3%	17.3%	17.4%
EBITDA Growth	12.0%	41.9%	32.5%	12.8%	13.1%
Depn. & Amort.	1,367	2,173	3,319	3,711	3,999
EBIT	5,945	8,201	10,427	11,788	13,532
Other Income	406	370	73	49	57
Finance Cost	534	1,808	3,816	3,656	3,176
PBT before Excep. & Forex	5,817	6,763	6,684	8,182	10,413
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	5,817	6,763	6,684	8,182	10,413
Taxes	1,395	1,852	1,831	1,964	2,499
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	4,422	4,911	4,854	6,218	7,914
Adjusted Net Profit	4,422	4,911	4,854	6,218	7,914
Net Margin	7.7%	7.6%	6.1%	6.9%	7.8%
Diluted Share Cap. (mn)	377.0	377.0	377.0	377.0	377.0
Diluted EPS (INR)	11.7	13.0	12.9	16.5	21.0
Diluted EPS Growth	3.7%	11.1%	-1.2%	28.1%	27.3%
Total Dividend + Tax	2,074	2,074	0	0	0
Dividend Per Share (INR)	5.5	5.5	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	5,817	6,763	6,684	8,182	10,413
Depn. & Amort.	1,367	2,173	3,319	3,711	3,999
Net Interest Exp. / Inc. (-)	521	1,808	3,816	3,656	3,176
Inc (-) / Dec in WCap.	-731	2,919	-2,467	-1,527	-1,725
Others	-276	-453	0	0	0
Taxes Paid	-1,658	-2,156	-1,831	-1,964	-2,499
Operating Cash Flow	5,041	11,054	9,521	12,057	13,364
Capex	-8,959	-5,358	-6,000	-6,000	-6,000
Free Cash Flow	-3,918	5,697	3,521	6,057	7,364
Inc (-) / Dec in Investments	0	144	1	0	0
Others	3,440	-36,927	0	0	0
Investing Cash Flow	-5,519	-42,141	-5,999	-6,000	-6,000
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	2,590	37,803	-1,000	-3,000	-4,500
Others	-2,896	-3,995	-3,816	-3,656	-3,176
Financing Cash Flow	-306	33,808	-4,816	-6,656	-7,676
Inc / Dec (-) in Cash	-784	2,721	-1,293	-598	-312
Opening Cash Balance	1,186	402	3,123	1,830	1,232
Closing Cash Balance	402	3,123	1,830	1,232	920

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	28,302	32,467	37,321	43,539	51,453
Share Capital	378	378	378	378	378
Reserves & Surplus	27,924	32,089	36,943	43,162	51,076
Preference Share Capital	0	0	0	0	0
Minority Interest	91	37	37	37	37
Total Loans	9,430	48,197	47,197	44,197	39,697
Def. Tax Liab. / Assets (-)	2,561	8,710	8,710	8,710	8,710
Total - Equity & Liab.	40,384	89,411	93,265	96,483	99,897
Net Fixed Assets	30,241	59,908	62,589	64,878	66,880
Gross Fixed Assets	25,115	42,269	52,599	58,599	64,599
Intangible Assets	52	21,707	21,707	21,707	21,707
Less: Depn. & Amort.	6,226	8,399	11,717	15,428	19,427
Capital WIP	11,300	4,330	0	0	0
Investments	554	1,094	725	725	725
Current Assets	23,534	51,953	57,750	61,535	66,174
Inventories	5,714	9,993	13,045	14,718	16,607
Sundry Debtors	11,107	17,102	21,142	23,852	26,914
Cash & Bank Balances	402	3,123	1,830	1,232	920
Loans & Advances	5	6	5	5	5
Other Current Assets	6,306	21,728	21,728	21,728	21,728
Current Liab. & Prov.	13,945	23,543	27,799	30,656	33,881
Current Liabilities	10,309	19,730	23,986	26,842	30,068
Provisions & Others	3,636	3,814	3,814	3,814	3,814
Net Current Assets	9,589	28,409	29,950	30,879	32,292
Total - Assets	40,384	89,411	93,265	96,483	99,897

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	7.7%	7.6%	6.1%	6.9%	7.8%
Asset Turnover (x)	1.5	1.0	0.9	0.9	1.0
Leverage Factor (x)	1.4	2.2	2.7	2.4	2.1
RoE	16.2%	16.2%	13.9%	15.4%	16.7%

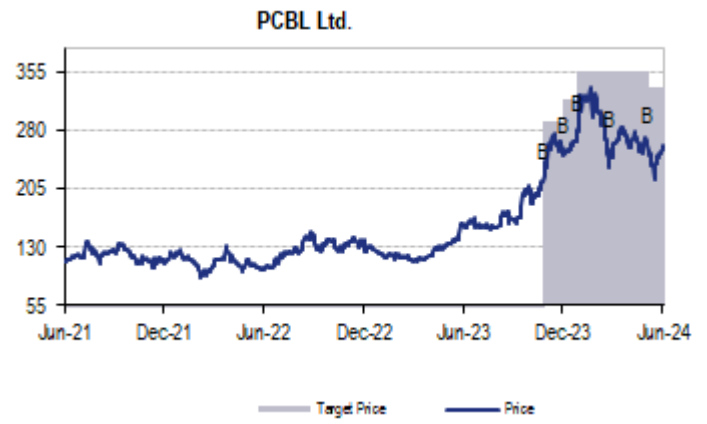
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	75.1	86.1	99.0	115.5	136.5
ROIC	13.0%	10.5%	9.6%	10.7%	11.7%
ROE	16.2%	16.2%	13.9%	15.4%	16.7%
Net Debt/Equity (x)	0.3	1.4	1.2	1.0	0.7
P/E (x)	22.2	20.0	20.2	15.8	12.4
P/B (x)	3.5	3.0	2.6	2.3	1.9
EV/EBITDA (x)	14.7	13.7	10.4	9.1	7.8
EV/Sales (x)	1.9	2.2	1.8	1.6	1.3
Debtor days	70	97	97	97	97
Inventory days	36	57	60	60	60
Creditor days	69	122	124	124	124

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
15-Nov-23	Buy	290	
21-Dec-23	Buy	320	10.2
15-Jan-24	Buy	355	11.0
14-Mar-24	Buy	355	0.0
23-May-24	Buy	335	-5.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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