



Phillips Carbon Black Limited

Techno – Funda Report

16.11.2019

Company Background and Business Model:

Phillips Carbon Black Limited (PCBL) is part of the RP Sanjiv Goenka Group that has created a legacy of scaling successful business across various industries such as Power & Infrastructure (CESC), **Carbon Black (PCBL)**, Retail & FMCG (Spencers), Media & Entertainment (Saregama) and IT & Education (Firstsource). PCBL accounts for over 30% of India's carbon black demand making it the largest manufacturer domestically.



Investment Rationale & Positive triggers:

- **Revival in auto sales** – Improvement in auto sales tends to have positive correlation in tyre sales. This could push up demand for carbon black.
- **Rationalization of capacities in China** - China's stricter green norms has pushed players in this space to rationalise their capacity. China accounts for 30% of world capacities in carbon black space. Companies in India in speciality chemicals segment tends to benefit out of such move going forward.
- **Growth in export volume** - Company registered a growth of 35% YoY as at the end of Q2FY20. Company registered growth of 54% in its export volume from 21,094 MT to 32,574 MT on a QoQ basis.
- **Improvement in EBITDA margins** – Company has been showing growth in its EBITDA margins YoY. EBITDA margins improved to 16% in Q2 FY'20 as compared to 13% in Q1 FY'20.
- **Focus Specialty carbon black** - 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 almost 1.5-2x the realizations of the normal rubber grade carbon black.
- **Financials & Dividend** – Taking into consideration last five years, company is showing consistent growth in its sales and it is expected to continue going forward given the demand for its product. Consistent growth is also seen in operating margins front YoY. Company has been consistent in terms of dividend payout. Dividend yield works out to 2.80%.

Recommendation: BUY

Current Market Price (Rs)	125
Stop loss	95
Target	180
Potential return (%)	44

Key Data:

Sector	Chemical
52Week H/L (Rs)	237 / 105.80
Market Cap (Rs Cr)	2155.95
Face Value (Rs)	2
Dividend Yield (%)	2.80
Stock P/E	6.64
Industry P/E	6.71

Shareholding Pattern:

(in %)	Sep-19	Jun-19	Mar-19
Promoter	53.56	53.56	53.56
Public	46.44	46.44	46.44
Others	--	--	--
Total	100.00	100.00	100.00
Promoters Pledge Holding(Rs.Cr.)			---

Key Financials:

(in Cr.)	Sep-19	Jun-19	FY18-19
Revenue	862.99	911.52	3,528.56
Net Profit	77.05	64.66	388.53
EPS	4.47	3.75	22.54
Cash EPS	5.74	4.98	26.39
OPM %	14.43	11.69	17.15
NPM %	8.93	7.09	11.01



Technical: Stock has formed a good base around 105-110 levels and moving up. Key for the stock would be to surpass its medium to long term resistance of 130-135 levels to fuel further upside. Investors can invest keeping 95 level as stop loss and look for target of 170-180 in medium to long term.

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