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Phillips Carbon Black - Buy

Phillips Carbon Black (PCBL), an RPG group company was incorporated in 1960; it is the pioneer of the carbon black industry in India and commands around 41% market share in the country. The company is not only the largest exporter of Carbon Black from India but also one of the largest in Asia in its field and is now the second fastest growing carbon black company in the world also is the first Carbon Black Company in the world to be awarded Carbon Credit under Kyoto Protocol of UNFCCC.

The company designs, manufactures and markets carbon black. The major market for Carbon Black is Tyre Industry. Carbon Black is also required by Non-Tyre rubber based application industry as well as the plastic industry.

Management

The management of the company is led by Sanjiv Goenka - Chairman, Ashok Goyal - Managing Director, while other directors of the company include B M Khaitan, C R Paul, Ram S Tarneja, K S B Sanyal, Paras K Chowdhary and O P Malhotra.

Business Overview

PCBL started production from December 1962 by the oil furnace technology; the most widely accepted manufacturing process of carbon black patented by its then collaborator and world carbon black leader, Phillips Petroleum company, USA. The collaboration ended in 1978.

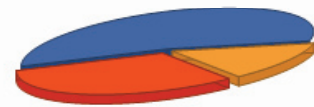
At present, PCBL manufactures some 3,60,000 tpa of carbon black and generates 60 MW of captive power.

In 1988 PCBL has entered into a technical agreement with Columbian Chemicals Company, USA, and acquired access to the modern state-of-the-art Carbon Black technology. This resulted in the company gaining flexibility, product range, production capacity and energy conservation.

PCBL has three manufacturing units located in Durgapur, Cochin (Southern India) and Baroda (Western India). The production capacity of the

Stock Data		31/08/09
Current Mkt Price (Rs)		141.70
52 Week High		163.00
52 Week Low		26.55
Mkt Cap (Rs. in Million)		3997.83
Return in last one Month (%)		30.30

Share Holding



53.88 Indian Promotor	13.62 Total Institutions
32.5 Total Non-Institutions	

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	11632.79	10331.82	12.59
Other Income	163.25	178.48	-8.53
Total Expenditure	12152.70	8986.62	35.23
Operating Profit	-356.67	1523.67	-123.41
Interest	419.97	194.47	115.95
Profits After Tax	-648.41	893.09	-172.60
Reserve & Surplus	0.02	0.02	-10.86
Reported EPS(Rs)	-24.12	35.37	-168.19
Core EBITDA Margin (%)	-2.77	13.08	-121.18



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three units put together is almost 47% of the total installed carbon black capacity in India; that of Durgapur unit alone accounts for 24%.

PCBL Durgapur Unit has now a production capacity of 1,35,000 MT per year with a proven capability to produce 24 grades of carbon black through successive stages of modernization and expansion. It is ISO-9001 certified, and is the only Carbon Black manufacturer in Asia to have achieved this distinction..

PCBL acquired Gujarat Carbon & Industries Limited (GCIL) Baroda in November 1996 and Carbon and Chemicals India Limited (CACIL) was merged with PCBL with effect from 1st April 1997 with the twin objectives of increasing volumes and proximity to certain key customers. A capacity expansion was undertaken in 2004 to take the plant capacity at Baroda to 90000 MT/Annum.

The company has also initiated power generation for captive consumption and sale to the power grid and has taken advantage of the newly introduced Electricity Act of 2003 to set-up a 12 MW co-generation power plant at its Baroda plant using the offgas. After meeting the internal demand for production of carbon black, the surplus power of around 7 MW – 7.5 MW is being sold to the GEB Grid from end March, 05.

Latest Result analysis

- The company reported a net sales decline of -2.61% to Rs 291.45 crore for the quarter ended on June 30 as against Rs 299.25 crore reported in the same period last year.
- The company's PAT during the period stood at Rs 20.48 crore as compared to Rs 22.90 crore down by 10.57%.
- Other income of the company reported a huge decline of 96.60% to Rs 36 lakh from Rs 10.60 crore in the same quarter last year.
- The total income of the company for quarter ended June 30, 2009 declined by 5.82% to Rs 291.80 crore as compared to 309.90 crore in the corresponding previous quarter.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	2914.50	2992.50	-2.61
Expenditure	2595.30	2717.90	-4.51
Other Income	3.60	106.00	-96.60
EBITDA	322.80	380.60	-15.19
Interest	69.50	62.60	11.02
Net Profit	204.80	229.00	-10.57
EBITDA Margin (%)	0.11	0.13	-12.92
NPM (%)	0.07	0.08	-8.17
EPS	7.25	9.07	-20.07

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	11632.79	10331.82	12.59
Total Income	11796.03	10510.29	12.23
Total Expenditure	12152.70	8986.62	35.23
Operating Profit	-356.67	1523.67	-123.41
Profits After Tax	-648.41	893.09	-172.60

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	282.53	252.53	11.88
Reserve & Surplus	1899.33	2130.74	-10.86
Total Liabilities	6437.42	5332.10	20.73
Investments	377.61	280.55	34.60
Current Liabilities	3970.02	2737.35	45.03
Net Current Assets	-37.76	1641.62	-102.30
Total Assests	6437.42	5332.10	20.73

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	-24.12	35.37
Core EBITDA Margin (%)	-2.77	13.08
EBIT Margin (%)	-4.30	11.35
ROA (%)	-10.07	16.75
ROE (%)	-29.82	37.61
ROCE (%)	-8.59	24.80
Price/Book (x)	0.43	1.66
Net Sales Growth (%)	12.59	3.46
EBIT Growth (%)	-141.82	71.40
PAT Growth (%)	-172.60	279.52
Total Debt/Mcap (%)	4.52	0.74



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- As far as the segmental Revenue is concerned, the revenue from Carbon Black was Rs 282 crore in Q1FY09 as against Rs 294.78 crore in Q1FY08 a fall of 4.3%. Whereas revenue from power business has doubled at Rs. 12.90 crore in Q1FY10 as against Rs. 6.67 crore in Q1FY09.
- Net profit margin of the company was reported to be 7.03, lower from 7.65 in the same quarter last year.

Latest developments

Phillips Carbon Black has recently commissioned a 30 MW plant at Durgapur, raising the total power generation capacity to 48 MW. The target is to generate over 80 MW of renewable energy by this fiscal and is planning to sell nearly 40 MW from its captive power plants located at the various Greenfield and Brownfield projects.

The company is looking to ramp up capacities to 4,10,000 tonnes per annum (tpa) of carbon black with captive power generating capacity to 86 MW by 2010-11 fiscal. The company now plans to commission its 90,000 tpa facility at Mundra in Gujarat coupled with a 16 MW co-gen power plant and another 30 MW captive power plant at Durgapur shortly.

The company has signed a Joint Venture Agreement with subsidiaries of Vietnam National Chemical Corporation for setting up carbon black facility of 1, 00,000 MT and Co-generation power plant of 16 MW in phases in Vietnam.

Recommendation Factors

PCBL has expedited the work at its carbon black production capacity at Mundra, having capacity of 90,000 million tonnes (MT), taking its total carbon black capacity to 360,000 MT by the end of this fiscal. The addition of new capacities will help the company to meet the improving demand environment.

Though, at present the power business of the company contributes less than 10% of its total

business but it is planning to generate over 90 MW by 2011 up from 18.5 MW last year. It has waste heat recovery (WHR) power project capacities at Baroda (12.5MW), Durgapur (30MW) and Mundra (16MW; scheduled to be commissioned by this fiscal) and it is being estimated that the power division of the company would contribute 30-35% to the total EBIDTA of the company by FY2011.

Recently (on 31st July, 2009) India has imposed anti-dumping duty on imports of carbon black, used in rubber applications, to guard the domestic industry from cheap shipments from China, Russia, Thailand and Australia. PCBL is among the key beneficiaries of the revival in the domestic tyre industry because of that. Apart from the strong demand from the passenger car segment and the replacement market, the reduced imports of truck bus radial (TBR) tyres from China have also boosted the demand for carbon black from the domestic tyre companies and the company is likely to remain one of the top beneficiary of the development as being one of the top carbon black producer in the market.

The scrip is attractively valued at 4.2x FY2011e earnings and is currently trading at Rs 142 and 4.3x FY2011e EV/EBIDTA. We recommend a BUY on the stock with a price target of Rs196.



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