April 10, 2023

PCBL Limited (erstwhile Phillips Carbon Black Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	323.9	228.9	[ICRA]AA(Stable); reaffirmed
Unallocated limits	76.1	171.1	[ICRA]AA(Stable); reaffirmed
Commercial paper	500.0	500.0	[ICRA]A1+; reaffirmed
Total	**900.0**	**900.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in PCBL Limited's (PCBL) position as a leading player in the domestic carbon black (CB) industry and its growing presence in the international market. The ratings also consider PCBL's comfortable capital structure and strong coverage indicators, with a gearing of 0.4 times as on September 30, 2022, and interest cover of 15.4 times in 9M FY2023. The ratings derive comfort from the company's status as a part of the RP-Sanjiv Goenka Group, which gives it considerable financial flexibility because of its established relationships with banks. The ratings also favourably factor in the company's increasing share of specialty black (SB) sales, focus on research and development to introduce new CB grades and implement process improvements, which would strengthen its operating profile going forward.

The company's performance remains linked to the overall demand of the auto tyre industry, which comprised ~63% of its sales volume in FY2022. The company is likely to increase its specialty black (SB) manufacturing capacity by 20,000 MT each in FY2024 and FY2025. A higher volume of SB sales, going forward, is expected to lend stability to its business profile and support the margins. In addition, the sale of surplus power generated from the company's captive power plants (CPP) provides some cushion against the cyclicality in the carbon black business.

The ratings, however, are constrained by the inherent cyclicality of the business and the exposure of the company's margins to the adverse movement in crude oil prices as the major raw material is a crude oil derivative. Volatility in crude oil prices may impact the company's margin as 20-25% of its sales volume are majorly in the spot market and not linked to a raw material driving pricing formula. However, ICRA notes that the company has been able to largely pass on such price hikes in the past, which provides some comfort. PCBL's profitability and cash flows are also exposed to foreign exchange rate fluctuation risks though the hedging policy mitigates these risks. ICRA believes that the incremental borrowings for the ongoing capex, alongside the existing debt availed as well as its impending repayments and borrowing costs, are likely to moderate the company's coverage metrics and return indictors to an extent in the near term. However, expected offtake from the additional incremental capex is likely to support the operating income (OI) and operating profitability along with the financial metrics in the medium term. PCBL's ability to successfully scale up operations would remain key for its credit metrics, going forward.

The outlook on PCBL's long-term rating is Stable, given the healthy long-term demand outlook for CB in both the domestic and export markets, which would keep the sales and cash flows strong and aid the funding of capex and debt repayments comfortably.

Key rating drivers and their description

Credit strengths

Leading player in domestic carbon black industry; long experience of promoters – PCBL is an established player in the domestic carbon black industry and has the highest market share in its business. It has a wide portfolio of soft, hard and specialty grades of carbon black and the company is in the process of increasing its product reach by developing new carbon black grades. Such initiatives are likely to help the company maintain its leadership position, going forward as well.

Comfortable financial risk profile – PCBL's financial risk profile remains comfortable, as indicated by its low gearing, strong debt coverage indicators (gearing of 0.4 times as on September 30, 2022, interest cover of 15.4 times in 9M FY2023) and healthy cash and liquid investments . Further, the expected strong cash accruals from the business are likely to keep PCBL's capital structure, coverage indicators and liquidity comfortable in medium term.

Better margins from higher sale of specialty and superior grade carbon black – 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. The EBITDA per MT in FY2022 was 14,495 per MT compared to Rs. 13,464 per MT in FY2021. Further, in 9M FY2023, a higher power segment revenue and a conducive demand-supply scenario improved the EBITDA/MT to Rs. 17,396 per MT.

Sale of surplus power provides cushion against cyclicality in carbon black industry - The captive power plants generate significant revenues from the sale of surplus power to the power grid, contributing to the company's bottomline. The company's power segment revenue was at Rs. 104 crore in 9M FY2023 and at Rs. 93 crore in FY2022 compared with Rs. 67 crore in FY2021 with the increase in power tariffs. Further, in 9M FY2023, the units generated improved to 444 million units (MU) and the units sold also improved to 269 MU with an average realisation of Rs. 3.89 per unit compared with 395 MUs generated in 9M FY2022 and 231 MUs sold at an average realisation of Rs. 2.87 per unit.

Financial flexibility from being a part of RP-SG Group – The company has access to bank finances at lower interest rates. In the past, PCBL got a significant portion of its term loan refinanced with an elongated repayment tenure because of the financial flexibility it had for being a part of the RP-SG Group.

Credit challenges

Commensurate returns from capex remains critical for credit profile – PCBL is undertaking a greenfield capex under its wholly-owned subsidiary PCBL (TN) Limited, entailing an expenditure of ~Rs. 950 crore for setting up 1,47,000 MTPA CB capacity and a 24-MW power plant in Chennai, Tamil Nadu. The previous estimate for the project was Rs. 800 crore which has been revised to ~ Rs. 950 crore. The same is being funded through a Rs. 250-crore term loan, qualified institutions placement (QIP) proceeds and internal accruals. The first phase (63,000 MTPA) of 147,000 MTPA is under final trial run and the remaining capacity is likely to commence operation from June 2023. Further, it's also undertaking brownfield expansion for specialty black (SB) manufacturing capacity by 20,000 MT each in two phases, entailing an expenditure of ~Rs. 320 crore. The first phase of 20,000 MTPA is likely to commence operations from April 2023.

ICRA believes that the incremental borrowings for the ongoing capex, alongside the existing debt availed as well as its impending repayments and borrowing cost, are likely to moderate the company's coverage metrics and return indictors to an extent in the near term. However, expected offtake from the additional incremental capex is likely to support the OI and operating profitability along with the financial metrics in the medium term. PCBL's ability to successfully scale up operations would remain key for its credit metrics, going forward.

Susceptible to Cyclicality in domestic automobile industry – A significant portion of the company's revenues is generated from the domestic automotive tyre industry. While almost two-thirds of the demand for tyre manufacturers come from the replacement market, carbon black producers like PCBL remains exposed to the cyclicality of the domestic automobile industry. PCBL is, however, making efforts to scale up the production of specialty black to further reduce the risk of cyclicality in the automobile industry.

Exposed to movement in crude oil prices – The major raw material is carbon black feedstock (CBFS), which is a crude oil derivative and mainly imported. As a result, PCBL is exposed to the adverse movements in crude oil prices. The company, however, has been able to largely pass on the changes in the prices of CBFS, given the pricing mechanism that the industry works on.

Exposed to foreign exchange fluctuation risk – The company imports a significant portion of its raw materials and thus is exposed to forex risks. However, the risk is mitigated to a considerable extent as exports accounted for ~30% of the company's revenues in FY2022. PCBL also has a hedging policy in place.

Environmental and social risks

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal, and transportation of chemical products. Additionally, some products can face restrictions/substitution over time because of their hazardous nature and availability of more environment-friendly products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While PCBL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency--high impact) weighs on its rating.

Chemical sector entities like PCBL are exposed to the risk of shift in consumer preferences over time to more environment-friendly products. Further, operating responsibly is an imperative and instances of non-compliance with the environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. PCBL hasn't experienced/reported any incidents suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

PCBL's liquidity position is likely to remain adequate on account of steady cash flows from operations and heathy cash and liquid investments of ~ Rs. 334 crore as on December 31, 2022, despite the debt-funded capex. It has long-term debt repayment of ~Rs. 94 crore in FY2024 and ~ Rs. 125 crore in FY2025, which the company is expected to comfortably meet from its operational cash flows. Also, PCBL has a headroom in terms of unutilised working capital facilities. ICRA also notes the high dividend payout in 9M FY2023. Any significant dividend payout in the future could impact its liquidity and net worth position.

Rating sensitivities

Positive factors – PCBL's long-term rating can be upgraded if there is a sustained improvement in the financial metrics and/or a meaningful improvement in sales volumes and mix towards value-added products as well as diversification of the customer base. An improvement in the core RoCE to 25% on a sustainable basis could also be a trigger for upgrade.

Negative factors – The company's ratings can be downgraded if a decline in sales volume results in a material decline in operating income or profitability on a sustained basis. A large debt-funded capex leading to a net debt/EBITDA of over 1.5x could also be a trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PCBL.

About the company

PCBL, incorporated in 1960, manufactures carbon black across four plants in Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala) with an aggregate capacity of 6,03,000 MTPA. The company is also undertaking a greenfield capex (147,000 MTPA) in Chennai, Tamil Nadu under its wholly-owned subsidiary PCBL (TN) Limited. The company also operates 98-MW co-generation power plants based on waste gas generated in the carbon black manufacturing process. PCBL is a part of the Kolkata-based RP-SG Group.

Key financial indicators (audited)

PCBL Consolidated	FY2021	FY2022	9M FY2023*
Operating income	2659.5	4446.4	4400.3
PAT	314.0	426.3	339.9
OPBDIT/OI	19.3%	14.2%	12.2%
PAT/OI	11.8%	9.6%	7.7%
Total outside liabilities/Tangible net worth (times)	0.9	0.8	-
Total debt/OPBDIT (times)	1.4	1.2	1.4
Interest coverage (times)	15.1	21.7	15.4

*Source: Company, ICRA Research ; *Provisional; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;; All ratios as per ICRA calculations; Total debt includes current and non-current lease Liability*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Apr 10, 2023	April 7, 2022	April 23, 2021	Mar 24, 2021	May 4, 2020
1	**Term loans**	Long term	228.9	228.9	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2	**Commercial paper**	Short term	500.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
3	**Unallocated limits**	Long term	171.0	--	[ICRA]AA (Stable)	[ICRA]AA (Stable) -	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Commercial paper	Very Simple
Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Nov 2020	NA	Nov 2026	67.0	[ICRA]AA(Stable)
NA	**Term loan 1**	Sep 2021	NA	Sep 2025	34.4	[ICRA]AA(Stable)
NA	**Term loan 2**	Feb 2021	NA	Feb 2027	127.5	[ICRA]AA(Stable)
Yet to be placed*	**Commercial paper**	NA	NA	7-365 days	500.0	[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	171.1	[ICRA]AA(Stable)

*Source: Company; * as on Dec 31, 2022*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	PCBL Ownership	Consolidation Approach
Phillips Carbon Black Cyprus Holdings Limited	100.0%	Full Consolidation
Phillips Carbon Black Vietnam Joint Stock Company	80.0%	Full Consolidation
PCBL (TN) Limited	100.0%	Full Consolidation

Source: PCBL annual report FY2022
Note: ICRA has taken a consolidated view of the parent (PCBL), its subsidiaries while assigning the ratings.

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Kushal Kumar B
+91 40 45474829
Kushal.kumar@icraindia.com

Sankalpa Mohapatra
+91 40 45474829
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches