

## Phillips Carbon Black Limited

March 28, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	400.00	400.00	[ICRA]AA-; Reaffirmed Outlook revised to Positive from Stable
<b>Total</b>	<b>400.00</b>	<b>400.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the rating outlook takes into account the significant improvement in the company's financial performance in 9M FY2019, which is likely to sustain going forward, given the favourable demand outlook for the carbon black industry in India on the back of large capacity addition plan of the tyre manufacturers. Moreover, the domestic carbon black market is currently in a deficit, which is indicated by the large volume of imports in the current financial year. Given Phillips Carbon Black Limited's (PCBL) cost competitiveness, vis-a-vis imports, and its increasing share of specialty black, the company is ideally positioned to cater to the domestic market with its expanded capacity scheduled to be commissioned shortly. The turnover improved by ~36% in 9M FY2019 to reach ~Rs. 2,607 crore, primarily because of firm realisations on the back of pass-on of increased input raw material costs and improved demand-supply dynamics in the global industry, which was further supported by increased demand from domestic tyre companies. This, along with the increase in PCBL's portfolio of value-added products, which contribute significantly higher proportion to the profits than to the topline, and continued focus on process improvement, resulted in higher operating profits in 9M FY2019, which stood at 19.6% compared to 16.3% in FY2018.

The rating continues to factor in the long experience of the promoters and the company's position as a leading player in the domestic carbon-black industry. The company's performance remains linked to the overall fortunes of the auto tyre industry as a significant portion of the company's sales volume is made to the same. The imposition of anti-dumping duty (ADD) on truck and bus radial (TBR) tyres from China, in addition to the existing ADD on import of carbon black, and capacity expansion plans of domestic tyre manufactures lead to a favourable demand outlook for domestic carbon black players, including PCBL. The company is in the process of increasing the scale of its specialty black segment, which is expected to reduce the risk of its overall business profile. ICRA also notes that execution of the company's greenfield project has been pushed back. Hence, the location of the project, the capital cost and project execution timeliness are not certain at present. Although the project would lead to execution risks, a major portion of the capital cost is likely to be funded through internal accruals, given the healthy cash generation expected going forward. In addition, the sale of surplus power generated from the company's captive power plants (CPP) provides some cushion against the cyclicity involved in the carbon black business. The rating also derives comfort from the company's status as a part of the RP-SG Group, which lends it considerable financial flexibility on account of established relationships with banks.

The rating, however, is constrained by the inherent cyclicity of the business and exposure of the company's margin to adverse movement in crude oil prices as the major raw material is a crude oil derivative. However, ICRA notes that the company has been able to largely pass on such increase in price in the past, which provides some comfort. PCBL's profitability and cash flows are also exposed to foreign exchange rate fluctuation risks, given the sizeable share of imported raw materials. Presence in the export market, coupled with the company's dedicated hedging policy mitigates the risks arising from adverse movement in forex rates considerably. ICRA also notes that a major portion of the

company's debt is towards funding of working capital requirements, which limits annual debt repayment obligations of the company. The company's capital structure and coverage indicators have shown an improvement over the last three years. Interest cover and NCA to Total Debt stood at 5.9 times and 1.7 times respectively in FY2018 and is expected to improve further to ~19 times and 1.0 time respectively for the full year FY2019. ICRA expects the coverage indicators to remain strong notwithstanding the capex plans of the company.

## Outlook: Positive

ICRA believes that PCBL's financial metrics will continue to improve, benefitting from the healthy demand outlook for carbon black in India and the increasing proportion of value-added products in its sales portfolio. The outlook may be revised to Stable if there is a significant slowdown in sales growth or reduction in contribution margin. Although unlikely at present, the outlook may be revised to Negative if there is a significant reversal in the business cycle, leading to lower growth and realisations on a sustained basis.

## Key rating drivers

### Credit strengths

**Leadership position in domestic carbon black industry; long experience of the promoters in the industry** – PCBL is an established player in the domestic carbon black industry. PCBL has a wide portfolio of soft, hard and specialty grades of carbon black.

**Higher sale of specialty carbon black and superior grades of carbon black command better margins** – PCBL's product mix is changing in the last few quarters with a higher share of superior grade carbon blacks and specialty carbon blacks. This resulted in a steady improvement in the contribution margin.

**Favourable demand outlook for the carbon black industry** - The demand outlook for the carbon black industry is favourable on the back of significant capacity additions planned by the domestic tyre manufacturers. Moreover, the anti-dumping duty on import of TBR tyres from China for five years till September 2022 also supports the domestic carbon black players to a certain extent.

**Sale of surplus power provides some cushion against the cyclicity in the carbon black industry** - The captive power plants generate significant revenues from sale of surplus power to the power grid, contributing to the company's bottom line.

**Status of the company as a part of the RP-SG Group provides financial flexibility** – The company has access to bank finances at lower interest rates and in the recent past got a significant portion of its term loan refinanced with an elongated repayment tenure, given the financial flexibility arising from its status of being a part of the RP-SG Group.

### Credit challenges

**Exposed to movement in crude oil prices** – The major raw material is carbon black feedstock (CBFS), which is a crude oil derivative and is mainly imported. As a result, PCBL is exposed to adverse movements in crude oil prices. The company, however, has been able to largely pass on the changes in 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, with exports accounting for ~20% of the company's revenue along with the hedging policy that the company follows, risks arising from adverse forex rates are mitigated to a considerable extent.

**Business growth susceptible to cyclical in the 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 is from the replacement market, carbon black producers like PCBL remain exposed to the cyclical in the domestic automobile industry. PCBL is, however, making efforts to scale up production of specialty black, to further reduce risk from the cyclical in the automobile industry.

**Exposed to competition from Chinese manufacturers** – Carbon black producers in the domestic market are exposed to dumping by Chinese manufacturers. However, higher cost of production by the Chinese manufacturers compared to PCBL as on date mitigates such risk to an extent. Anti-dumping duty on import of carbon black from China provides additional comfort.

### Liquidity position

PCBL had external term loans worth Rs. 338 crore as on February 28, 2019. The loans have an extended repayment schedule till FY2025. ICRA takes comfort from the company's cash and liquid investment balance, as well as healthy accrual from the business. The company's liquidity position receives additional support from its undrawn lines of credit.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

### About the company

Incorporated in 1960, PCBL manufactures carbon black across four plants located in Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala) with an aggregate capacity of 571,000 MTPA. The company also operates 76-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.

PCBL made a net profit of Rs. 229.8 crore on an operating income of Rs. 2,547.0 crore in FY2018. The company registered a profit after tax of Rs. 69.5 crore on an operating income of Rs. 1,927.0 crore in FY2017.

In 9M FY2019, PCBL registered a PAT of Rs. 314.1 crore on an operating income of Rs. 2,607.6 crore.

## Key Financial Indicators (Audited)

	FY2017	FY2018	9M FY2019 (Provisional)
Operating Income (Rs. crore)	1927.0	2547.0	2607.6
PAT (Rs. crore)	69.5	229.8	314.1
OPBDIT/ OI (%)	15.82%	16.27%	19.59%
RoCE (%)	12.57%	17.70%	
Total Debt/ TNW (times)	0.7	0.5	
Total Debt/ OPBDIT (times)	2.5	1.7	
Interest coverage (times)	3.1	5.9	19.5

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2018 Feb	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 May	Date & Rating in FY2016	
									Mar 2019
1 Term Loan	Long Term	400.00	338.00	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	NA	

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Mar-2017 to Apr-2018	7.55% to 8.75%	FY2023	400.00	[ICRA]AA- (Positive)

Source: PCBL

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