April 07, 2022

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	400.0	323.9	[ICRA]AA(Stable);reaffirmed
Long Term Unallocated	-	76.1	[ICRA]AA(Stable); reaffirmed
Commercial Paper	500.0	500.0	[ICRA]A1+;reaffirmed
Total	**900.0**	**900.0**	

**Instrument details are provided in Annexure-1*

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 rating also considers PCBL's comfortable capital structure and strong coverage indicators, with a net gearing of 0.2 times as on September 30, 2021 and interest cover of 22.2 times in 6M FY2022. The financial metrics are expected to remain strong for full year FY2022 as well despite the adverse impact of rising input costs and higher freight charges. While assigning the rating ICRA has taken cognizance of PCBL's greenfield capacity expansion plan to increase CB manufacturing capacity by ~1,50,000 MTPA at an estimated cost of ~Rs. 800 crore and brownfield capacity expansion plan to increase specialty CB manufacturing capacity by ~40,000 MTPA at an estimated cost of ~ Rs. 300 crore.

PCBL's capital structure and coverage indicators are likely to remain comfortable, despite the higher dividend payout in FY2022, due to the expected strong cash accruals from the business and the Rs. 400-crore equity infusion in October 2021. The ratings also 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 comprise ~70% of its sales volumes. In 9M FY2022, tyre demand in the domestic market has been sluggish both from auto OEMs as well as the replacement market. However, exports supported the growth in sales volumes. Further, the company has increased its specialty black (SB) manufacturing capacity in Q4 FY2021 and is likely to increase its capacity by 20,000 MT each in FY2023 and FY2024. A higher volume of SB sales, going forward, is expected to lend stability to its business profile. 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. Rising 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 raw material pricing driven formula. However, ICRA notes that the company has been able to largely pass on such price hikes in the past, which provides some comfort. Also, given the increasing share of exports in the sales volume, a sharp increase in freight cost may moderate the operating profitability in the near term. PCBL's profitability and cash flows are also exposed to foreign exchange rate fluctuation risks though the hedging policy mitigates these risks.

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 PCBL's 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 credit metrics are strong, as indicated by its low gearing, strong debt coverage indicators (net gearing of 0.2 times as on September 30, 2021, interest cover of 22.2 times in 6M FY2022) and healthy cash and liquid investment balance. Further, the expected strong cash accruals from the business and the Rs. 400-crore equity infusion in October 2021 are likely to keep PCBL's capital structure, coverage indicators and liquidity comfortable despite the higher dividend payout in FY2022 and the adverse impact of rising input cost and higher freight charges.

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.

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.

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

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 remain exposed to the cyclicality of the domestic automobile industry. PCBL is, however, making efforts to scale up production of specialty black to further reduce the risk of cyclicality in the automobile industry.

Large greenfield capex to be undertaken – PCBL would be undertaking a greenfield capex entailing an expenditure of ~Rs 800 crore and a brownfield expansion in two phases entailing an expenditure of ~Rs 300 crore. While the expansion would be exposed to typical project execution risks, the same is unlikely to face any funding challenges, given the ample liquidity in the company.

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 the adverse movements in crude oil prices. The company, however, has been able to largely pass on the change 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, the risk is mitigated to a considerable extent as exports account for ~25% of the company's revenues in FY2021. PCBL also has a hedging policy in place.

Liquidity position: Strong

PCBL's liquidity position is strong on account of its heathy cash balance and liquid investments of over Rs. 942 crore as of January 2022 and a steady cash flow from operations. It has long-term debt repayment liabilities of ~Rs. 89 crore in FY2023 and ~ Rs. 70 crore in FY2024, which the company is expected to comfortably meet from its operational cash flows. ICRA also notes that PCBL has a headroom in terms of unutilised working capital facilities.

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 a revision.

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 a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the rated entity.

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 also operates 84-MW cogeneration 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

PCBL Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	3243.5	2659.5	3227.6
PAT (Rs. crore)	287.5	314.0	338.1
OPBDIT/OI (%)	14.3%	19.3%	15.6%
PAT/OI (%)	8.9%	11.8%	10.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	-
Total Debt/OPBDIT (times)	1.6	1.4	-
Interest Coverage (times)	10.1	15.1	22.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Source: Company, ICRA Research; 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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Apr 7, 2022	April 23, 2021	Mar 24, 2021	May 4, 2020	-
1	Term Loan	Long Term	323.9	323.9	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-
2	Commercial paper	Short Term	500.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-
3	Unallocated Limits	Long Term	76.1	-	[ICRA]AA (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Commercial paper	Very Simple
Unallocated	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Nov 2020	NA	Nov 2026	83.0	[ICRA]AA(Stable)
NA	Term Loan	Apr 2018	NA	Apr 2023	44.0	[ICRA]AA(Stable)
NA	Term Loan 1	Sep 2021	NA	Sep 2025	46.9	[ICRA]AA(Stable)
NA	Term Loan 2	Feb 2021	NA	Feb 2027	150.0	[ICRA]AA(Stable)
Yet to be placed	Commercial Paper	NA	NA	7-365 days	500.0	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	76.1	[ICRA]AA(Stable)

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Phillips Carbon Black Cyprus Holdings Limited	100.0%	Full Consolidation
Phillips Carbon Black Vietnam Joint Stock Company	80.00%	Full Consolidation
PCBL (TN) Limited	100.0%	Full Consolidation

Source: *PCBL annual report 2021;*

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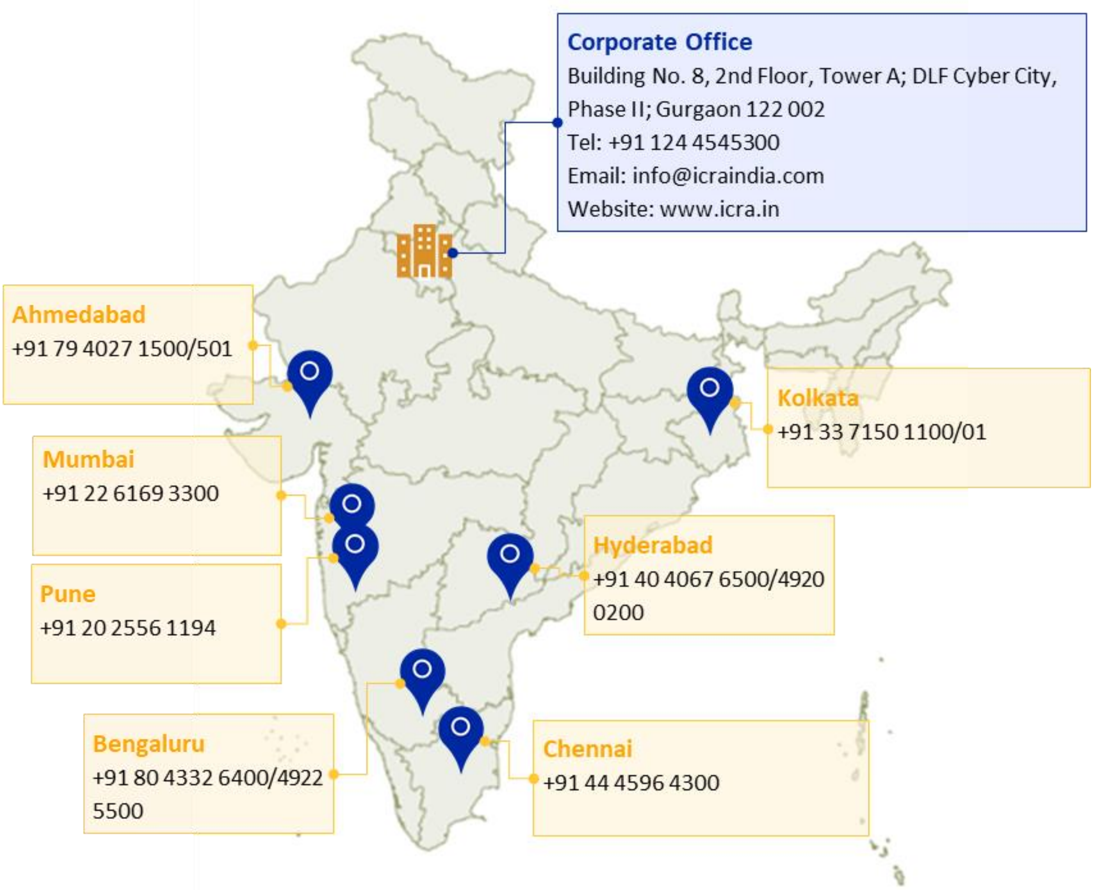

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