

BUY

Price	Rs192
Target Price	Rs259
Investment Period	12 months

Stock Info

Sector	Carbon Black
Market Cap (Rs cr)	484
Beta	0.9
52 WK High / Low	297 /127
Avg Daily Volume	53144
Face Value (Rs)	10
BSE Sensex	17,016
Nifty	5,090
BSE Code	506590
NSE Code	PHILPCARB
Reuters Code	PHIL.BO
Bloomberg Code	PHCB IN

Shareholding Pattern (%)

Promoters	50.2
MF/Banks/Indian FIs	30.9
FII/ NRIs/ OCBs	4.1
Indian Public/Others	14.8

Abs.	3m	1yr	3yr
Sensex (%)	(6)	22.7	176
PCBL (%)	(12.9)	25.9	171

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Performance Highlights

- Capacity constraint restricts Topline growth:** For 4QFY2008, Phillips Carbon Black (PCBL) recorded a 7.6% yoy growth in Topline to Rs274cr. The company's Topline growth was subdued due to capacity constraint. The growth came primarily owing to improved realisation during the quarter as production was up a mere 1%. For the full year FY2008 too, PCBL posted modest Topline growth of 3.5%, but the Power segment grew by an impressive 50% yoy to Rs15cr due to strong improvement in realisation.
- OPM improves to 14.5%:** PCBL recorded a 100bp yoy expansion in EBIDTA Margins to 14.5% during 4QFY2008. PCBL has registered an improvement in Margins over the last eight quarters from 4.5% to 14.5%. Improved operational efficiencies, better working capital management and lower finance costs helped mitigate the steep increase in raw material costs (carbon black feedstock average prices increased by 75%) during FY2008. Going ahead, we expect PCBL to further improve Margins to 18% and 20% in FY2009 and FY2010 respectively, partially aided by the price escalation clause in the new contracts and higher revenue contribution from the high-Margin Power segment (on account of 30mw Durgapur power plant commissioning). According to management, the company saved Rs140cr in FY2008 on account of operational efficiencies.
- Lower Interest costs and Depreciation boost Bottomline:** Depreciation expenses declined 2.4% yoy to Rs4.9cr during the quarter. Interest costs also fell 12% yoy to Rs6cr (Rs6.8cr) on account of strong cash flows. Accordingly, PCBL recorded one of the strongest quarterly performances registering 37% yoy increase in Bottomline to Rs19.1cr on the back of Margin improvement. In FY2008, the company registered an increase in PBT to Rs112.8cr from Rs44.6cr in FY2007. In FY2008, Margins also witnessed strong expansion to 13.0% (9.6%) owing to which PCBL recorded an excellent 280% yoy growth in Bottom-line to Rs89.3cr (Rs23.5cr).

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	999	1,033	1,169	1,313
% chg	37.1	3.5	13.1	12.3
Net Profit	23.5	89.3	107.7	134.1
% chg	(256.1)	279.7	20.6	24.4
OPM (%)	9.6	13.0	18.0	20.0
EPS (Rs)	9.4	35.4	40.3	47.5
P/E (x)	20.3	5.4	4.8	4.0
P/BV (x)	3.0	2.0	1.4	1.1
RoE (%)	14.6	37.4	30.3	27.1
RoCE (%)	16.6	22.6	19.3	19.5
EV/Sales (x)	0.7	0.6	0.8	0.7
EV/EBITDA (x)	6.9	4.9	4.5	3.6

Source: Company, Angel Research

Key Developments

FY2008 volume touch all-time high

In FY2008, PCBL recorded a modest 3.9% growth in Topline driven by overall volume growth of 1.2% and growth in realisation of 2.7%.

Exhibit 1: Operational Parameters

Particulars	Q4FY2008	Q4FY2007	% chg	FY2008	FY2007	% chg
Production (MT)	61,850	61,245	1.0	2,50,484	2,44,900	2.3
Sales Volume (MT)	61,548	63,266	(2.7)	2,49,476	2,46,508	1.2
Export Volume (MT)	16,759	22,832	(26.6)	64,556	68,878	(6.3)
Gross Sales (Rs cr)	307.3	284.0	8.2	1,164.8	1,123.3	3.7
Exports (Rs cr)	67.8	72.5	(6.6)	219.7	222.5	(1.3)

Source: Company, Angel Research

PCBL has recommended a dividend of 40% for FY2008. Last year, the company had declared a dividend of 20%.

Capex plans: PCBL has embarked on green-field and brownfield expansion projects in India and Vietnam. PCBL is setting a 90,000 tonnes per annum (tpa) capacity plant along with a 16mw power plant at Mundra, Gujarat at an investment of Rs220cr. Capacity of 50,000 tonnes along with a 14mw power plant will be added at Kochi at an investment of Rs140cr. Both these capacity will come up in the last quarter of FY2009.

These investment requirements would be met through debt and internal accruals. When both the projects are commissioned, PCBL's total carbon black manufacturing capacity in India will go up to 4,10,000tpa. The 30mw Durgapur power plant is scheduled to be commissioned during June 2008. Production of power from the co-generation power plants will increase from 18.5mw at present to 78.5mw by the last quarter of FY2008.

PCBL is also setting up a 55,000tpa capacity carbon black plant along with a 16mw power plant in Vietnam at an investment of US \$46mn. This plant is expected to be commissioned by the first half of FY2011.

Outlook and Valuation

We remain positive on the domestic carbon black industry's growth prospects as we expect it to grow at 8-9% over the next five years. Our positive stand stems from the fact that there would be huge demand from the Tyre Replacement Segment due to the huge vehicle population been added over the years, and also because of PCBL's market leadership position. Further, with the company's expansion plans being on track, we expect rapid growth to continue going ahead.

We expect PCBL to record a CAGR growth of 12.5% in Top-line over FY2008-10, while Bottomline would grow at a CAGR of 22.1% in the mentioned period. At the CMP, the stock is trading at attractive valuations of 4x FY2010E EPS and 3.6x FY2010E EV/EBITDA. We have upgraded our Target Price to Rs259 (Rs242) on introduction of FY2010E numbers and attractive valuations. **We maintain a Buy on the stock, with a potential upside of 35%.**

Exhibit 2: FY2008 Performance

Y/E March (Rs cr)	FY2008 4Q	FY2007 4Q	% chg (yoy)	FY2008	FY2007	% chg (yoy)
Net Revenues	274	255	7.6	1,033	999	3.5
Operating Expenditure	234	220	6.3	898.7	905	(2.0)
Operating Profit (EBITDA)	39.8	34.4	15.7	134.5	93	56.6
Other Income	0.87	0.6	47.5	17.9	6.1	193.1
Interest Expenses	6.0	6.8	(11.9)	19.5	32.6	(40.3)
Depreciation	4.9	5.0	(2.4)	20	20	(1.1)
PBT	29.8	23.2	28.5	113	45	153.2
Tax	10.7	9.3	15.5	23.5	21.0	11.7
PAT	19.1	13.9	37.2	89.3	23.5	279.5
Diluted EPS (Rs)	7.6	5.5	37.2	35.4	9.3	279.5
EBITDA Margin (%)	14.5	13.5	7.5	13.0	9.0	44.7
Net Profit Margin (%)	7.0	5.5		8.6	2.4	

Source: Company, Angel Research


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Ratings (Returns) Buy (> 15%) Accumulate (5 to 15%) Neutral (5 to -5%) Reduce (> -5%) Sell (> -15%)