

Phillips Carbon Black Ltd

Q2FY12 first cut – Forex losses hurt

Fundamental Grade 4/5 (Superior fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Chemicals

Phillips Carbon Black Ltd's (PCBL's) Q2FY12 revenues were higher than CRISIL Research's expectations on account of higher realisation, while operating profitability was lower than expected due to its inability to fully pass on higher raw material costs. We may revisit our estimates post interaction with the management. Based on its dominant position in the domestic carbon black industry and the increasing presence of the highly profitable power segment in its business portfolio, we maintain the fundamental grade of **4/5**.

Q2FY12 result analysis

- Revenues grew by 36% y-o-y to Rs 5.6 bn largely driven by growth in the carbon black division; of this, only ~5% was contributed by volume growth. Power segment's revenues grew by ~23% y-o-y. The power business continued to contribute ~5% to total revenues.
- EBITDA margin contracted by ~300 bps (q-o-q) and ~90 bps (y-o-y) to 10% on account of its inability to fully pass on the hike in raw material costs (76.4% - Q2FY12, 75.3% - Q1FY12, 74.3% - Q2FY11), due to lower take-off in the domestic market and higher competition from Chinese imports.
- PAT and PAT margin deteriorated further on account of forex losses (Rs 100 mn). The company's reported PAT declined by 15% (y-o-y) and 50% (q-o-q) to Rs 208 mn. PAT margin was 3.7%, with EPS of Rs 6.3.

Key development: Update on expansion plans

- The 10-MW power plant in Cochin and 50,000-tonne carbon black plant in Mundra are fully operational.
- Expansion plan of 50,000 tonnes in Cochin and debottlenecking of 12,000 tonnes in Durgapur are on track. Both are expected to commence operations by end of FY12.

Valuations: Current market price has strong upside

We have used the discounted cash flow method to value PCBL and have arrived at a fair value of Rs 260 per share. Based on the current market price, our valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	11,648	12,352	16,944	20,867	20,973
EBITDA	-1	1,708	2,205	2,676	2,868
Adj Net income	-648	1,100	1,091	1,395	1,552
Adj EPS-Rs	(23.0)	38.9	32.9	42.0	46.7
EPS growth (%)	(164.9)	NM	(15.6)	27.9	11.2
PE (x)	-	3.7	4.6	3.0	2.7
P/BV (x)	-	1.3	1.0	0.7	0.6
EV/EBITDA (x)	NM	5.4	4.2	4.1	3.6
RoCE (%)	(3.4)	18.4	19.1	17.9	15.3
RoE (%)	(28.2)	40.6	25.8	24.3	22.5

NM: Not meaningful; CMP: Current market price

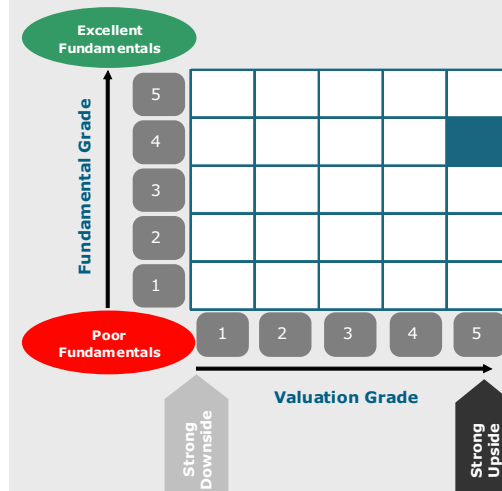
Source: Company, CRISIL Research estimate

November 14, 2011

Fair Value Rs 260

CMP Rs 128

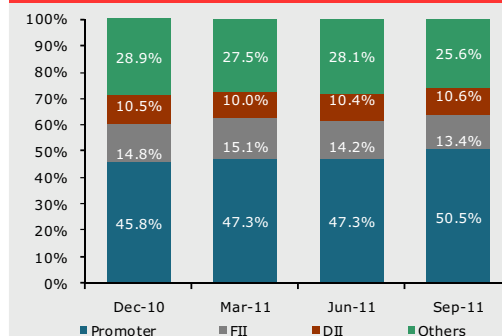
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5148/17119
NSE / BSE ticker	PHILIPCARB / PHILIPCA
Face value (Rs per share)	10
Shares outstanding (mn)	28
Market cap (Rs mn)/(US\$ mn)	3,615/72
Enterprise value (Rs mn)/(US\$ mn)	7,966/158
52-week range (Rs) (H/L)	200/113
Beta	0.8
Free float (%)	52.7%
Avg daily volumes (30-days)	23,734
Avg daily value (30-days) (Rs mn)	3.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
PCBL	-9%	-6.7%	-8%	-35%
NIFTY	0.3%	1%	-7%	-15%

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