PCBL Limited
(erstwhile Phillips Carbon Black Limited)

July 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	550.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-Term/Short-Term Bank Facilities	1,850.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**2,400.00 (₹ Two Thousand Four Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of PCBL Limited (PCBL; erstwhile Phillips Carbon Black Limited) continue to draw comfort from the leadership position of PCBL in the domestic carbon black (CB) industry with satisfactory track record of operations, financial flexibility from being a part of the established RP-Sanjiv Goenka (RP-SG) Group, strategic location of the plants, strong presence in export market and steady source of revenue from the power segment.

The operating performance of PCBL witnessed improvement in FY22 (refers to the period April 1 to March 31) reflected by around 17% growth in the sales volume and improvement in PBILDT per ton. The total operating income (TOI) grew significantly by around 67% y-o-y driven by significant increase in sales realisation and the growth in the sales volume. The increase in sales realisation was on account of increase in price of its major raw material carbon black feedstock (CBFS) which is a derivative of crude oil and the pricing is linked to movement in crude oil prices. With a large proportion of CB sales being made to tyre companies (63% in FY22) where the pricing is formula driven and linked to movement in raw material prices, the company has been able to pass on the increase in input prices to a large extent. Furthermore, increase in the sales of specialty carbon black which is a value-added product and commands higher margin has contributed to increase in the spreads apart from the operating leverage on higher sales volume. The capital structure and debt coverage indicators of PCBL continue to remain comfortable and witnessed further improvement during FY22. The company raised equity of about ₹400 crore in FY22 through a qualified institutional placement (QIP).

The demand prospects for domestic CB manufacturers remain favourable with increasing demand from the tyre companies which are the major consumers of CB and lower imports from China and Russia. Furthermore, PCBL's significant presence in the export market provides geographical diversification to its revenue profile.

The ratings take into cognizance the ongoing capex plans of around ₹1,050 crore for brownfield and greenfield capacity expansion in PCBL. The greenfield capacity expansion for setting up 1,47,000 MTPA of CB capacity and 24 MW of captive power plant in Tamil Nadu is under implementation with an envisaged capital outlay of around ₹800 crore and is expected to be commissioned in Q4FY23. Furthermore, the company is expanding its specialty black capacity by 40,000 MT at its Mundra facility at a cost of around ₹250 crore in two phases of 20,000 MT each. The first phase is expected to be completed by FY23 end while the second phase expansion is planned to be completed by FY24. The capex is expected to be funded out of a mix of external borrowings, internal accruals and QIP proceeds. Despite the debt expected to be availed to fund the capex, the capital structure and debt coverage indicators of the company are expected to remain comfortable; albeit the company remains exposed to inherent pre and post implementation risks associated with such large-size projects.

PCBL continues to remain exposed to the risk of volatility in raw material and finished goods prices and exposure to foreign exchange fluctuation risk given the significant dependence on imported raw material. However, the raw material price fluctuation risk is mitigated to an extent due to the pricing formula linked to crude oil prices, though with a lag of about a quarter. Furthermore, the foreign exchange risk is mitigated by the natural hedge from exports and stringent hedging policy.

The ratings further remain tempered by the stringent pollution norms for the industry, cyclicality due to dependence on the fortunes of the tyre industry and threat of imports of CB.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained increase in the scale of operations, return indicators and business cash flows through higher share of speciality CB along with continued comfortable debt protection metrics.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing (>0.60x) and/or debt coverage indicators - total debt to gross cash accruals (TD/GCA) (>3x) and interest coverage (<10x) on a sustained basis.
- Any sharp deviation in envisaged sales volumes or contribution having a significant bearing on the company's performance.
- Any regulatory change having the potential to materially impact the company's performance.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Any sharp cost or time over run in the ongoing greenfield project having a bearing on the financial risk profile or liquidity of the company.

Detailed description of the key rating drivers

Key rating strengths

Part of strong promoter group: PCBL is a part of RP-SG Group of Kolkata which has interests across diverse business segments such as power and natural resources, infrastructure, retail and media and entertainment apart from CB. The other major companies of the group include CESC Limited (rated CARE AA; Stable/CARE A1+), Haldia Energy Limited (rated CARE AA-; Stable/CARE A1+), Saregama India Limited and Noida Power Company Ltd. Being part of a large established group provides significant financial flexibility to PCBL.

Leadership position in the domestic CB segment: PCBL commenced its operations from 1962 and has achieved leadership position in the domestic CB industry with its installed capacity gradually increasing from 14,000 MTPA to 603,000 MTPA. Furthermore, it has established a strong relationship with its customers.

Strong presence in the export market: PCBL is the largest exporter of CB from India having presence in more than 40 countries, though majority of exports are to south-east Asian countries. The presence in the export market reduces the offtake risk in the event of a slowdown in the domestic market. In terms of volume, share of exports was around 32% in FY22 as against 27% in FY21.

Improvement in operating performance in FY22: PCBL reported a y-o-y growth in its TOI by 67% during FY22 with increase in the sales volume by 17% driven by higher demand from both tyre and non-tyre segment and higher sales realisation largely driven by increase in the input prices. The export contribution in the overall sales increased to around 32% of the TOI in FY22 as compared with 27% in FY21.
The PBILDT per ton witnessed improvement with higher sales volume achieved and increase in the sales of specialty black which commands significant premium over the commodity grades of CB.
Going forward, with increase in the capacity of CB and speciality black, stable demand outlook and benefits derived from operational efficiencies, the operating profitability is expected to remain healthy.

Comfortable capital structure and debt protection metrics: The capital structure of the company continued to remain comfortable with its overall gearing improving from 0.43x as on March 31, 2021 to 0.38x as on March 31, 2022. While there was an increase in the working capital borrowings due to higher prices of raw material, the company raised around ₹400 crore through a QIP issue during the year which along with healthy accretion of profit to reserves led to improvement in the overall gearing.
The interest coverage ratio improved from 16.23x in FY21 to 24.12x in FY22. The TD/GCA also improved from 1.95x as on March 31, 2021 to 1.83x as on March 31, 2022 with higher cash accruals. Going forward, the capital structure is expected to remain comfortable given that a large part of proposed capex will be funded out of internal generations/equity and operating profitability is expected to remain healthy with increasing share of speciality black and operating efficiencies.

Steady source of revenue from the power segment: PCBL has captive power plants aggregating to 91 MW at its manufacturing facilities. The power produced over and above the captive requirement is sold and adds to the overall contribution per ton of CB produced. In FY22, while the power segment contributed to only around 2.09% of PCBL's operating income (as against 2.52% in FY21), its contribution to overall profit before interest and tax (PBIT) (before un-allocable expense) was significant at around 13.32% in FY22 (12.57% in FY21). PCBL does not have any Power Purchase Agreement (PPA) for off-take of power; however, it enters into medium-term agreements for the same. The power generated as well as power sold outside witnessed improvement in FY22 over FY21 on account of increase in the production of CB leading to higher generation of off-gas and thereby higher power.

Strategic location of the plant: PCBL's manufacturing units are situated in different parts of India, close to the ports (for import of CBFS and export of CB) and near major tyre manufacturing hubs. Its location facilitates PCBL in optimising transportation cost. Moreover, the greenfield project at Tamil Nadu would also add to the locational advantage as plants of major tyre companies are situated in southern India.

Favourable industry prospects: The demand for CB remains favourable with stable demand from the tyre segment, especially replacement market and due to capacity additions planned by the tyre companies. The demand for specialty black has also been witnessing an increase. The supply disruptions from China and Russia have benefitted the domestic manufacturers.

Liquidity: Strong
The liquidity position of the company continues to remain strong on back of strong internal accruals with respect to financial obligations along with strong free cash, bank and liquid investments of Rs.484 crore as on March 31, 2022. Liquidity is also supported by unutilised lines of working capital limit where average utilisation stood at 45% for sanctioned limits of ₹550 crore in the past 12 months ended March 31, 2022. The company also enjoys financial flexibility by virtue of it being part of RP-SG group. Its capex requirements are largely expected to be met out of internal generations and proceeds from QIP and there is sufficient headroom with overall gearing at 0.38x as on March 31, 2022 to raise debt, as required.

Key rating weaknesses

Profitability susceptible to volatility in raw material prices and foreign exchange fluctuations: CBFS is the key raw material for carbon black, accounting for around 83% of PCBL's cost of sales in FY22. CBFS is a derivative product of crude oil refining having strong correlation with crude oil prices and exhibits volatility. However, a significant portion of the sales of PCBL is to the tyre segment which operates as per pricing formulae, thereby reducing volatility in profits, if sales volumes are maintained. Although, favourable demand-supply dynamics in the CB industry is envisaged to benefit PCBL in the short-term, sustained high prices of crude oil leading to inflationary pressure could impact demand in the medium-term.

PCBL sourced 90% of its raw material requirement (CBFS) through imports whereas it exported around 32% of its gross sales. PCBL being a net importer is exposed to the risk of having foreign currency payables. However, exposure to the volatility in profits on account of foreign currency fluctuation is reduced to a certain extent as PCBL hedges most of its net forex exposure at all points of time as articulated by the company management. This includes its foreign currency term loans which are also completely hedged.

Dependence on the fortunes of the cyclical tyre industry: A major portion of PCBL's revenue is from sale of carbon black to tyre manufacturers, in line with the overall application of carbon black produced across the globe. Around 65% of the product is used for tyre manufacturing. This leads to PCBL's dependence on the fortunes of the tyre industry which in turn is dependent on the cyclical auto industry. Tyre industry caters to the original equipment manufacturers (OEMs) as well as to the replacement market. Around 60% of the total tyre industry sales is to the replacement market which provides support during cyclical auto sector downturns. Although degrowth in auto sales has the potential to impact the future replacement market, the sales of replacement market have supported the overall tyre sales of the company in FY22. Furthermore, PCBL has also been increasing its presence in the specialty black range catering to diversified industries - paints, inks, plastics, etc. It also operates an research and development (R&D) centre in Palej (Gujarat) and Belgium where one of the objectives is to grow its portfolio in the speciality black.

Inherent project risk associated with large-size ongoing projects: PCBL is implementing a greenfield project for setting up 1,47,000 MTPA CB capacity and 24MW of power plant in its wholly-owned subsidiary, PCBL (TN) Limited in Tamil Nadu. The total cost of project is estimated to be around ₹800 crore out of which about ₹300 crore has already been incurred till May 31, 2022 and the new capacities are expected to be commissioned from Q4FY23 onwards. The initial cost of this project was earlier estimated to be around ₹600 crore which has been revised upwards to ₹800 crore due to increase in metal prices and certain changes in the scope of the project. The company has availed term debt of ₹250 crore to fund this capex and the remainder is expected to be financed from internal accruals and from QIP proceeds.

The company has also envisaged other brownfield expansion/debottlenecking to the tune of ₹250 crore to be funded from internal accruals/debt. The project involves setting up of additional speciality black capacities in Mundra to the tune of 40,000 MTPA to be taken up in two phases of 20,000 MTPA each with the first phase of capex expected to be completed by March 2023 and second phase by March 2024.

The company remains exposed to the pre and post implementation risks associated with the projects. However, even after considering cash accruals committed for the project and debt, the solvency ratios and debt coverage indicators are expected to remain comfortable going forward.

Stringent pollution norms for the chemical industry: The Central Pollution Control Board (CPCB) regulates the general standards for emission or discharge of environmental pollutants of carbon chemical industry. Presently, PCBL is adhering to the pollution norms of CPCB, and all its plants are zero-discharge facility.

Threat of imports of carbon black: Anti-dumping duty (ADD) which had been imposed on import of CB (USD 397/MT from China and USD 36/MT from Russia) from November 2009 was removed in January 2021. As China accounts for a significant portion of the world's CB capacity and production, any Chinese demand supply imbalance has the potential to impact market share and fortunes of domestic players. However, China majorly produces CB through the carbon black oil (CBO)/ coal tar route, the prices of which are higher than that of CBFS prices. Furthermore, CB prices in China have surged due to plant shutdowns caused by the Chinese government's intensifying environmental protection campaign. This apart, the imports from Russia have also been impacted due to the ongoing geo-political situation in the region.

Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings has taken a consolidated approach of PCBL along with its subsidiaries due to strong operational and financial linkages between them.

The following subsidiaries are considered in PCBL's consolidation:

S. No.	Name of Company	% of ownership as on March 31, 2022
1	Phillips Carbon Black Cyprus Holdings Ltd (PCBLCHL)	100%
2	Phillips Carbon Black Vietnam Joint Stock Company	80%
3	PCBL (TN) Ltd	100%

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

PCBL, incorporated in 1960, is engaged in the manufacturing and sale of CB, which is mainly used in tyre and other rubber products. The company also produces specialty CB which are used as pigmenting, UV stabilizing and conductive agents in a variety of common and specialty products, including plastics, printing & packaging and coatings. PCBL is the largest producer of CB in the country and one of the largest players in the world, with an installed capacity of 603,000 MTPA of CB. It also has captive power plants (CPP) at all its locations (aggregate capacity of 91 MW). The company sells excess power generated after meeting its own requirement. Its plants are located at Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala). PCBL is managed under the stewardship of the Kolkata-based RP–SG group. The company is in the process of setting up capacities in Chennai under its wholly-owned subsidiary, PCBL (TN) Limited.

Brief Financials – Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	2669.76	4468.64
PBILDT	549.87	701.67
PAT	313.99	426.34
Overall gearing (times)	0.43	0.38
Interest coverage (times)	16.23	24.12

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	550.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	1275.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	575.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	**1)Withdrawn** (12-Apr-21)	1)CARE A1+ (23-Sep-20) 2)CARE A1+ (02-Jun-20)	1)CARE A1+ (18-Feb-20)
2	Fund-based - LT-Cash Credit	LT	550.00	CARE AA; Stable	-	1)CARE AA; Stable (22-Jun-21)	1)CARE AA-; Stable (23-Sep-20)	1)CARE AA-; Stable (18-Feb-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1275.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (22-Jun-21)	1)CARE AA-; Stable / CARE A1+ (23-Sep-20)	1)CARE AA-; Stable / CARE A1+ (18-Feb-20)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	575.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (22-Jun-21)	1)CARE AA-; Stable / CARE A1+ (23-Sep-20)	1)CARE AA-; Stable / CARE A1+ (18-Feb-20)
5	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (12-Apr-21)	1)CARE A1+ (23-Sep-20) 2)CARE A1+ (02-Jun-20)	1)CARE A1+ (18-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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