

PCBL (TN) Limited

December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	600.00	CARE AA- (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	800.00	CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the ratings assigned to the bank facilities of PCBL (TN) Limited (PCBLTN) on 'Rating watch with Developing Implications'.

The rating action follows the announcement of in-principle approval by the board of directors of parent entity, PCBL Limited (PCBL; rated 'CARE AA; / CARE A1+ Rating watch with developing implications') for the acquisition of 100% equity stake in Aquapharm Chemicals Private Limited (ACPL), a specialty chemical company, on November 28, 2023. The transaction valuation is ₹3,800 crore, exact funding pattern of which is yet to be finalised.

CARE Ratings will engage with the company's management to understand the exact contours of the acquisition such as ACPL's business risk profile and expected synergies from this acquisition, the exact source of funding for this transaction, future investment plans and will take a view on the ratings once the impact of the same on the credit risk profile of PCBL is clear.

The board of directors of PCBL had also accorded in-principle approval on November 29, 2023, for entering into a joint venture (JV) with Australia-based Kinaltek Pty Ltd (Kinaltek), with 51% stake in the JV company.

Both the above transactions are subject to the receipt of the required regulatory approvals. Any significant increase in the debt levels of PCBL (Consolidated) for funding these acquisitions, thereby impacting the capital structure and debt protection metrics of PCBL shall remain a key rating monitorable.

The ratings assigned to the bank facilities of PCBLTN primarily factor in its strong parentage, it being a wholly-owned subsidiary of PCBL along with strong managerial, operational and financial support that it derives from its parent. PCBLTN largely acts as an extended arm of PCBL. CARE Ratings already has a consolidated analytical approach for the credit risk assessment of PCBL.

The ratings draw comfort from PCBL's leadership position 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, geographically diversified sales with strong presence in the export market and steady source of revenue from the power segment. The capital structure and debt coverage indicators of PCBL also continue to remain comfortable on a consolidated basis. PCBL reported healthy capacity utilisation and improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT)/ton of CB sold in FY23 (refers to the period April 1 to March 31) with improvement in operating efficiency, higher sales of specialty CB and increase in revenue and profitability from the power segment. With a large proportion of CB sales being made to tyre companies (around 70% in FY23), 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, the increase in the sales of specialty CB, which is a value-added product and commands higher margin has contributed to the increase in the spread.

The ratings factor in the completion of the large-size greenfield capex for CB capacity of 147,000 MTPA and 12 out of the proposed 24-MW captive power plant being implemented by PCBL through PCBLTN in Tamil Nadu. While the first phase of the unit (63,000 MT) has been commissioned in April 2023, the second phase became operational in September 2023.

Furthermore, the first phase (20,000 MTPA) of the brownfield specialty CB capacity expansion at Mundra is operational from July 2023, with the second phase of similar capacity expected to be completed by Q1FY25.

The capex is being funded out of a mix of external borrowings, internal accruals and equity raised in FY22. Despite the debt planned to fund the capex, the capital structure and debt coverage indicators of PCBL are expected to remain comfortable; albeit the company remains exposed to inherent pre and post-implementation risks associated with its large-size projects.

PCBL continues to remain exposed to the risk of volatility in raw material and finished goods prices as well as to the foreign exchange fluctuation risk due to its 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 remain further tempered by cyclicity due to significant dependence on the fortunes of the tyre industry and threat of imports of CB.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

- Sustained increase in consolidated scale of operations of PCBL, return indicators and business cash flows through higher share of specialty CB along with continued comfortable debt protection metrics.
- Successful implementation and ramp-up of the capex projects, thereby generating healthy returns.

Negative factors

- Significant debt-laden acquisition leading to sharp deterioration in the consolidated overall gearing ratio ($>0.60x$) and/or debt coverage indicators of PCBL - total debt/gross cash accruals (TD/GCA) ($>3x$) and interest coverage (<10) on a sustained basis.
- Any sharp deviation in envisaged sales volumes or contribution having a significant bearing on PCBL's performance.
- Any regulatory change having the potential to materially impact the company's performance.
- Any sharp cost or time over-run in the projects or any other large debt-funded investment having a bearing on financial risk profile or liquidity profile of PCBL.
- Delay in extension of required financial support by PCBL.

Analytical approach:

CARE Ratings has adopted a standalone analytical approach for PCBLTN along with factoring in its strong managerial, operational and financial linkages with its parent, PCBL.

For assessing the credit risk profile of PCBL, CARE Ratings has taken a consolidated view of PCBL along with its subsidiaries due to strong operational and financial linkages between them. The list of companies being consolidated as on March 31, 2023 with PCBL is given in **Annexure-6**.

Detailed description of the key rating drivers:

Key strengths

Strong parentage of PCBL and financial support

PCBLTN derives significant benefit by virtue of being a wholly-owned subsidiary of PCBL, which has a long track record of operations in the CB industry.

PCBLTN has spent ₹1,138 crore on the greenfield project (including GST on equipment and working capital margin) being undertaken in Tamil Nadu up to June 30, 2023, financed out of a term loan of ₹250 crore (entirely drawn) and remaining out of funds infused by PCBL in the form of equity/preference share capital.

PCBL is a part of the RP-Sanjeev Goenka Group of Kolkata which has interests across diverse business segments, such as power, CB, retail, education, BPO, media & entertainment, tea and rubber plantations and sports. The other major companies of the group include CESC Limited (rated 'CARE AA; Negative/CARE A1+'), Haldia Energy Limited (rated 'CARE AA-; Negative/CARE A1+'), Saregama India Limited (rated 'CARE AA-; Stable/CARE A1+'), and Noida Power Company Ltd. Being part of a large established group provides significant financial flexibility to PCBL and PCBLTN.

Leadership position in the domestic CB segment

Commencing operations from 1962, PCBL has achieved leadership position in the domestic CB industry with its installed capacity gradually increasing from 14,000 MTPA to 686,000 MTPA. Furthermore, it has established a strong relationship with its customers.

Strong presence in export market

PCBL is the largest exporter of CB from India having presence in more than 45 countries, though majority of the 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, the share of exports was around 31% in FY23 as against 32% in FY22.

Strategic location of the plant

The manufacturing units of PCBL are situated in different parts of India, close to the ports (for import of raw material and export of CB) and near major tyre manufacturing hubs. Its location facilitates PCBL in optimising transportation cost. Moreover, the unit of PCBLTN at Tamil Nadu would also add to the locational advantage, as plants of major tyre companies are situated in southern India.

Healthy operating performance of PCBL, likely to remain so

PCBL booked improvement in the total operating income (TOI) in FY23 (30%) despite decline in the volume by 2% on account of growth in average realisations (32%). The growth in turnover was also driven by increase in the revenue from power segment by 53% on the back of increase in power tariff from ₹2.99/unit to ₹3.81/unit. PBILDT/Ton of CB witnessed improvement in

FY23 compared with FY22 on account of the increase in the sales of specialty CB, improved operating efficiency and higher profitability from power sales.

In H1FY24, TOI witnessed a decline by 6.67% y-o-y despite an increase in the sales volume, on account of decline in realisations. PBILDT/tonne witnessed an increase which led to improved PBILDT margin in H1FY24 compared with H1FY23. Going forward, with the increase in the capacity of CB and specialty black, stable demand outlook and benefits derived from operational efficiencies, CARE Ratings expects the operating profitability to remain healthy.

Comfortable capital structure and debt protection metrics

The overall gearing of PCBL witnessed moderation from 0.38x as on March 31, 2022 to 0.50x as on March 31, 2023; however, it continued to remain comfortable. The moderation was on account of the increase in the term debt for funding capex requirements as well as higher working capital borrowings as on March 31, 2023. The interest coverage ratio, though moderated, continued to remain comfortable at 13.88x in FY23 (24.12x in FY22). With increase in the total debt, TD/GCA witnessed deterioration from 1.83x as on March 31, 2022 to 2.55x as on March 31, 2023, though continuing to remain comfortable.

CARE Ratings will continue to monitor any significant increase in debt for funding the ongoing acquisitions, thereby impacting the capital structure and debt protection metrics.

Steady source of revenue from the power segment

PCBL has captive power plants aggregating to 98 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 FY23, while power segment contributed to only around 3.67% of PCBL's operating income (as against 2.09% in FY22), its contribution to overall profit before interest and taxes (PBIT) was significant at around 15.98% in FY23 (13.32% in FY22). PCBL does not have any power purchase agreement (PPA) for off-take of power; however, it enters into medium-term agreements for the same. Power generated as well as power sold outside witnessed an improvement in FY23 over FY22, mainly on account of increase in the production of CB which led to higher generation of off gas/tail gas leading to higher generation of power. Under PCBLTN also, the company is building power plant of 24 MW for captive consumption and sale of surplus power.

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: Adequate

PCBLTN has a debt repayment obligation of ₹47 crore in FY24, which is expected to be funded out of internal accruals and fund support from PCBL, to the extent required. The company has partially completed setting up of 63,000 MT CB capacity in April 2023 and almost the entire cost towards the remaining capacity has been incurred. The required equity is brought in as per requirements and the debt has been entirely drawn by June 30, 2023. The company has sanctioned fund-based working capital limits of ₹275 crore which were utilised to the extent of about ₹40 crore in April and May 2023. Additionally, it has sanctioned non-fund-based limits of ₹550 crore which is mainly used for raw material purchases. The company enjoys financial flexibility by virtue of it being part of the RP-SG group.

Key weaknesses

Inherent project risk associated with large-size ongoing projects

PCBL is undertaking expansion of CB capacity by 147,000 MT with new capacities built in its subsidiary PCBLTN. PCBL is also building power capacity of 24 MW for captive consumption and sale of surplus power out of which 12-MW capacity has been commissioned. Part of the capacity (63,000 MT) was commissioned in April 2023, while the remaining capacity was commissioned in September 2023. There has been cost overrun in the project from the earlier estimate of ₹800 crore due to increase in the scope and the project is expected to cost around ₹950 crore out of which ₹250 crore is funded through debt. In addition to the above greenfield project, PCBL is also increasing specialty black capacity by 40,000 MT, which will be done in two phases. 20,000 MT is completed by July 2023 and remaining is expected in June 2024 at a total cost of about ₹350 crore. The expansion is proposed to be funded out of internal generations. The company remains exposed to the pre and post-implementation risks associated with these projects. CARE Ratings notes that 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.

Profitability susceptible to volatility in raw material prices and foreign exchange fluctuations

Carbon Black Feedstock (CBFS) is the key raw material for CB, accounting for around 83% of PCBL's cost of sales in FY23. 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 30% of its gross sales in FY23. 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.

Dependence on the fortunes of the cyclical tyre industry

A major portion of PCBL's revenue is from sale of CB to tyre manufacturers, in line with the overall application of CB produced across the globe. More than 70% of CB 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 the replacement market. Around 60% of the total tyre industry sales are 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 replacement market sales support the overall tyre sales. Furthermore, PCBL has also been increasing its presence in the specialty black range which caters to diversified industries - paints, inks, plastics, etc. It operates research and development (R&D) centres in Palej (Gujarat) and Belgium where one of the objectives is to grow its portfolio in specialty black.

Threat of imports of CB

Anti-dumping duty (ADD), which had been imposed on the 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.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & petrochemicals	Carbon black

PCBLTN, incorporated in September 2020, belongs to the Kolkata-based RPSG group. The company is setting up a greenfield CB plant in Tamil Nadu with an installed capacity of 147,000 MTPA. The total project cost (excluding GST component and margin money for working capital requirement) is estimated at ₹950 crore which is being funded by debt of ₹250 crore and balance out of funds infused by the parent entity, PCBL, in the form of equity/preference share capital. The plant has partially commenced operations with 63,000 MTPA capacity being operational in April 2023 and balance 84,000 MTPA capacity was commissioned in September 2023.

Brief financials of PCBLTN

Not applicable, as it started operations in April 2023.

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 the various instruments rated: Annexure-4

Lender details: Annexure-5

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		-	-	-	350.00	CARE AA- (RWD)
Non-fund-based - ST-BG/LC		-	-	-	800.00	CARE A1+ (RWD)
Term loan-Long term		-	-	May 2027	250.00	CARE AA- (RWD)

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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	800.00	CARE A1+ (RWD)	1)CARE A1+ (18-Aug-23)	-	-	-
2	Fund-based - LT-Cash credit	LT	350.00	CARE AA- (RWD)	1)CARE AA-; Stable (18-Aug-23)	-	-	-
3	Term loan-Long term	LT	250.00	CARE AA- (RWD)	1)CARE AA-; Stable (18-Aug-23)	-	-	-

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of companies getting consolidated in PCBL (As on March 31, 2023):

Subsidiaries	Holding of PCBL	Country of origin
Phillips Carbon Black Cyprus Holdings Ltd (PCBLCHL)	100%	Cyprus
Phillips Carbon Black Vietnam Joint Stock Company	80%	Vietnam
PCBL (TN) Ltd	100%	India
PCBL Europe SRL (w.e.f April 14, 2023)	100%	Belgium

Note on the 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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