

## PCBL (TN) Limited

January 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	1,150.00 (Enhanced from 600.00)	CARE AA-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short-term bank facilities	800.00	CARE A1+	Reaffirmed and removed from Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Ltd (CARE Ratings) had placed the ratings of PCBL (TN) Limited (PCBLTN) on rating watch with developing implications in December 2023, following an announcement of in-principle approval for the acquisition of 100% equity stake in Aquapharm Chemicals Private Limited (ACPL), for a consideration of ₹3800 crore by the board of directors of PCBL Limited (PCBL; rated CARE AA; Stable/ CARE A1+), parent company of PCBLTN.

CARE Ratings has removed rating watch with developing implications and reaffirmed ratings on gaining clarity from PCBL about the acquisition including funding plan and business risk profile of ACPL.

The acquisition is planned to be majorly debt funded by PCBL with its wholly owned subsidiaries PCBLTN and Advaya Chemicals Industries Ltd (ACIL). Consolidated capital structure and debt coverage indicators are expected to moderate in the medium term, due to the largely debt-funded acquisition. However, comfort is drawn from PCBL's improved financial performance in 9MFY24, enhanced capacity of carbon black (CB), speciality black with recent completion of large capex, and benefits of operational efficiencies going forward.

ACPL enjoys a strong market position in manufacturing speciality water treatment solutions such as phosphonates, chemicals used in oil and gas sector, and polymers catering to reputed global customers across diverse end-markets. The acquisition shall lead to diversifying PCBL's existing product portfolio into high margin speciality chemicals business, with wider geographical reach. The valuation for this acquisition appears attractive in comparison to other speciality chemical companies.

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

Ratings also 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 plants, geographically diversified sales with strong presence in the export market, and steady source of revenue from the power segment. PCBL's capital structure and debt coverage indicators 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 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), the company has been able to pass on the increase in input prices to a large extent. Tyre companies follow formula-driven pricing that depends heavily on raw material prices. Increasing sales of specialty CB, a value-added product, commands higher margin has contributed to profitability in the segment.

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

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

The funded capex is a mix of external borrowings, internal accruals and equity raised in FY22. Despite the debt planned to fund

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

the capex, capital structure and debt coverage indicators of PCBL are expected to remain comfortable; while the company remains exposed to inherent pre- and post-implementation risks associated with its large-size projects.

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

The ratings remain further tempered by cyclical nature of the industry with significant dependence the tyre industry and threat of CB imports.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Increasing scale of operations at PCBL, return indicators and business cash flows through higher share of specialty CB along with comfortable debt protection metrics on a sustained basis.
- Successfully implementing and ramping-up capex projects, generating healthy returns.

### Negative factors

- Deteriorating Total debt/PBILDT (>3.25x) of PCBL beyond FY24 on a sustained basis.
- Sharply deviating sales volumes or contribution having a significant bearing on PCBL's performance.
- Regulatory change having the potential to materially impact company's performance.
- Sharp cost or time over-run in the projects or any other large debt-funded investment having a bearing on financial risk or liquidity profile.
- Delay in receiving financial support from PCBL.

### Analytical approach:

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

For assessing PCBL's credit risk profile, CARE Ratings has considered a consolidated view of PCBL with its subsidiaries due to strong operational and financial linkages between them. **Annexure-6** provides the consolidated list of companies.

### Outlook: Stable

A 'Stable' outlook reflects that PCBLTN is expected to continue receiving managerial and financial support from PCBL. PCBL is expected to sustain a healthy business risk profile, given its established market position in the CB industry.

## Detailed description of the key rating drivers:

### Key strengths

#### Strong parentage of PCBL and financial support

PCBLTN derives significant benefit as a wholly owned subsidiary of PCBL, having a long operations track record in the CB industry.

PCBLTN has spent ₹1,138 crore on the greenfield project (including GST on equipment and working capital margin) in Tamil Nadu till September 30, 2023, financed by a ₹250 crore term loan (entirely drawn) and the balance from funds infused by PCBL as equity/preference share capital.

PCBL is part of the RP-Sanjeev Goenka Group of Kolkata, with interests across diverse business segments, such as power, CB, retail, education, BPO, media and entertainment, tea and rubber plantations, and sports. Other major companies in 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 678,000 MTPA and speciality black capacity of 92,000 MTPA. 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 and majority exports are to south-east Asian countries. Being in the export market reduces offtake risk in 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**

PCBL's manufacturing units are situated across India, close to ports (for raw material import and CB export) and near major tyre manufacturing hubs. Its location facilitates PCBL in optimising transportation cost. The unit of PCBLTN at Tamil Nadu adds to locational advantage, as plants of major tyre companies are situated in south India.

**Healthy operating performance of PCBL, which is expected to sustain**

PCBL booked improvement in total operating income (TOI) in FY23 (30%) despite decline in volume by 2% due to growth in average realisations (32%). Turnover growth was also driven by increasing revenue from power segment by 53% on the back of increasing power tariff from ₹2.99/unit to ₹3.81/unit. PBILDT/Ton of CB improved in FY23 compared to FY22 due to increasing sales of specialty CB, improved operating efficiency, and higher profitability from power sales.

In 9MFY24, TOI witnessed a slight increase of 2% y-o-y despite a decline in realisations, due to increasing sales volume by around 19%, supported by reduced input prices.

With a large proportion of CB sales being made to tyre companies (around 70% in FY23), where pricing is formula driven and linked to raw material prices, the company has been able to pass on the increasing input prices to a large extent. Increasing sales of specialty CB, which is a value-added product and commands higher margin has contributed to increase in the spread.

Going forward, with increasing capacity of CB and specialty black, stable demand outlook and operational efficiencies, CARE Ratings expects operating profitability to remain healthy.

**Steady source of revenue from the power segment**

PCBL has captive power plants aggregating 98 MW at its manufacturing facilities. Power produced beyond the captive requirement is sold and adds to the overall contribution per ton of CB produced. While power segment contributed to only around 3.67% of PCBL's operating income in FY23 (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 power purchase agreement (PPA) for power off-take, and enters into medium-term agreements. Power generated and sold outside witnessed an improvement in FY23 over FY22, mainly on account of increasing CB production, which led to higher generation of off gas/tail gas leading to higher power generation. Under PCBLTN, 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 tyre companies. Demand for specialty black has also been witnessing an increase. The supply disruptions from China and Russia have benefitted domestic manufacturers.

**Liquidity: Adequate**

PCBLTN has a debt repayment obligation of ₹47 crore in FY24, which is expected to be funded from internal accruals and fund support from PCBL. The company has completed setting up 1,47,000 MT CB capacity (63,000 MT in April 2023 and 84,000 MT in September 2023) and the entire cost towards the remaining capacity has been incurred. The required equity is brought in as required and the debt has been entirely drawn by June 30, 2023. However, with approved debt-funded acquisition of ACPL and JV with Kinaltek of parent company PCBL, liquidity is expected to moderate in the near future. The company has sanctioned fund-based working capital limits of ₹275 crore were utilised to about ₹40 crore in April and May 2023. It has sanctioned non-fund-based limits of ₹550 crore for raw material purchases. The company enjoys financial flexibility being part of the RP-SG group.

**Key weaknesses****Capital structure and debt protection metrics likely to moderate**

Capital structure and debt protection metrics of the company, though remains comfortable, is expected to witness moderation following the debt funded acquisition. PCBL is expected to avail debt of ₹2000 crore, PCBLTN is expected to avail debt of ₹550 crore and ACIL is expected to avail debt of ₹1000 crore to fund acquisition of ACPL. It is currently at an advanced stage to tie-up

debt at rate of interest of ~9.5% with a tenor of 5 years and having a ballooning repayment structure. Its Total debt/PBILDT of PCBL (Consol.) stood comfortable at 1.93x as on March 31, 2023 is expected to moderate to around 3x by end-FY25 and would improve subsequently.

### **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 building power capacity of 24 MW for captive consumption and sale of surplus power of which 12-MW capacity has been commissioned. Part of the capacity (63,000 MT) was commissioned in April 2023, the balance in September 2023. There has been cost overrun in the project from ₹800 crore due to increase in scope. The project is expected to cost around ₹950 crore of which ₹250 crore is funded through debt. PCBL is also increasing specialty black capacity by 40,000 MT, which will be carried out in two phases. In July 2023, 20,000 MT was completed, while the remaining will be completed in Q1FY25, at a total cost of about ₹350 crore. The expansion is proposed to be funded from internal generations. The company is planning further expansion at the Tamil Nadu plant afterwards, funded by a mix of debt and equity, to be finalised at later. The company remains exposed to pre- and post-implementation risks associated with these projects.

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

Carbon Black Feedstock (CBFS) is 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 PCBL sales is to the tyre segment, which operates on pricing formulae, reducing profit volatility, if sales volumes are maintained. Although favourable demand-supply dynamics in the CB industry is expected 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 profit volatility due to 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 tyre industry, which depends on the cyclical auto industry. Tyre industry caters to 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. Decline in auto sales has the potential to impact future replacement market. PCBL has been increasing its presence in the specialty black range catering to diversified industries such as paints, inks, and plastics, among others. 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) imposed on CB import (US\$ 397/MT from China and US\$ 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, Chinese demand-supply imbalance impacts market share and fortunes of domestic players. However, China majorly produces CB through the carbon black oil (CBO)/ coal tar route, prices of which are higher than CBFS prices. CB prices in China have surged due to plant shutdowns caused by the Chinese government's intensifying environmental protection campaign. 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](#)

## 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, is part of 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. Total project cost (excluding GST component and margin money for working capital requirement) is estimated at ₹950 crore, funded by debt worth ₹250 crore and balance out of funds infused by the parent entity, PCBL, in the form of equity/preference share capital. The plant partially commenced operations with 63,000 MTPA capacity being operational in April 2023 and balance 84,000 MTPA capacity was commissioned in September 2023. PCBLTN is expected to avail term debt of ₹₹550 crore (towards reimbursement of above-said capex), which would be lent to ACIL to acquire ACPL in FY24.

### Brief financials of PCBLTN

Not applicable, as it commenced 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 to 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-; Stable
Non-fund-based - ST-BG/LC		-	-	-	800.00	CARE A1+
Term Loan-Long Term		-	-	May 2027	800.00	CARE AA-; Stable

**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+	1)CARE A1+ (RWD) (07-Dec-23) 2)CARE A1+ (18-Aug-23)	-	-	-
2	Fund-based - LT-Cash Credit	LT	350.00	CARE AA-; Stable	1)CARE AA- (RWD) (07-Dec-23) 2)CARE AA-; Stable (18-Aug-23)	-	-	-
3	Term Loan-Long Term	LT	800.00	CARE AA-; Stable	1)CARE AA- (RWD) (07-Dec-23) 2)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:**

Subsidiaries*	Holding of PCBL	Country of origin
Phillips Carbon Black Cyprus Holdings Ltd	100%	Cyprus
Phillips Carbon Black Vietnam Joint Stock Company	80%	Vietnam
PCBL (TN) Ltd	100%	India
PCBL Europe SRL*	100%	Belgium
Advaya Chemicals Ltd.*	100%	India
Advaya Chemicals Industries Ltd.*	100%	India

\* The company has formed a wholly owned subsidiary 'PCBL Europe SRL' in Belgium, Europe on April 14, 2023. It has further formed 2 wholly owned subsidiaries namely Advaya Chemicals Ltd and Advaya Chemicals Industries Ltd in December 2023 and January 2024 respectively.

**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](mailto:care@careedge.in) for any clarifications.

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**About us:**

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