PCBL Limited

January 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	800.00	CARE AA; Stable	Assigned
Long Term Bank Facilities	800.00	CARE AA; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long Term / Short Term Bank Facilities	3,900.00	CARE AA; Stable / CARE A1+	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	100.00	CARE A1+	Reaffirmed and removed from Rating Watch with Developing Implications
Non-Convertible Debentures	700.00	CARE AA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Ltd (CARE Ratings) had placed the ratings of PCBL Limited (PCBL; erstwhile Phillips Carbon Black Limited) on rating watch with developing implications in December 2023, following the announcement of the in-principle approval by the board of directors of PCBL for the acquisition of 100% equity stake in Aquapharm Chemicals Private Limited (ACPL), for a consideration of ₹3800 crore.

CARE Ratings has now removed the rating watch with developing implications and reaffirmed the ratings upon gaining fair amount of clarity from PCBL w.r.to contours of this acquisition including funding plan and business risk profile of ACPL.

The acquisition is planned to be majorly debt funded by PCBL, along-with its wholly owned subsidiaries PCBL (TN) Ltd (PCBLTN; rated CARE AA-; Stable/CARE A1+) and Advaya Chemicals Industries Ltd (ACIL). The consolidated capital structure and debt coverage indicators are expected to moderate in the medium term due to largely debt-funded acquisition. However, comfort is drawn from the improved financial performance of PCBL in 9MFY24, enhanced capacity of carbon black (CB) and speciality black with recent completion of large capex and benefits from the operational efficiencies which are likely to result in better than envisaged performance going forward.

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

The ratings assigned to the bank facilities/instruments of PCBL continue to draw comfort from its 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 ratings take cognizance of completion of the large-size greenfield capex for CB capacity of 147,000 MTPA and 12 MW out of the proposed 24 MW captive power plant being implemented in Tamil Nadu through subsidiary, PCBLTN. Furthermore, the first phase (20,000 MTPA) of the brownfield specialty CB capacity expansion in Mundra by PCBL has also become operational in July 2023 with the second phase of similar capacity expected to be completed by Q1FY25. The company remains exposed to inherent pre and post implementation risks associated with 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 remain further tempered by cyclicality 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

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

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

Negative factors

- Total debt/PBILDT (>3.25x) 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.
- Any sharp cost or time over-run in the proposed greenfield project having a bearing on the financial risk profile or liquidity profile of the company.

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 list of companies being consolidated is given in **Annexure-6**.

Outlook: Stable

The Stable outlook reflects that PCBL is likely to maintain its dominant market position which coupled with favourable demand scenario shall enable it to sustain its healthy business risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Leadership position in the domestic CB segment and proposed diversification in speciality chemicals business: 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 678,000 MTPA. Furthermore, it has established a strong relationship with its customers.

ACPL enjoys a strong market position in the business of manufacturing specialty water treatment solutions like phosphonates, chemicals used in oil and gas sector, and polymers catering to reputed global customers across diverse end-markets. The acquisition shall lead to diversification of the existing product portfolio of PCBL into high margin speciality chemicals business, with wider geographical reach. During FY23, ACPL reported TOI of Rs.2008.89 crore with PBILDT margin of 19.10%. Going forward, its PBILDT margin is expected to moderate to around 17% in the near term due to the industry slowdown.

The board of directors of PCBL had also accorded in-principle approval on November 29, 2023 for entering into a joint venture with Australia based Kinaltek Pty Ltd (Kinaltek), with 51% stake in the JV company. PCBL will infuse USD 16 mn in the JV Company with further infusion of upto USD 28 mn over a period of 2 years for setting up manufacturing facilities.

Strong presence in the 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.

Healthy operating performance: The company 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 per unit. PBILDT/Ton of CB witnessed improvement in FY23 compared with FY22 on account of the increase in sales of specialty CB, improved operating efficiency and higher profitability from power sale.

In 9MFY24, TOI witnessed a slight increase of 2% y-o-y despite a decline in realisations, on account of an increase in 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 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.

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 operating profitability to remain healthy.

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 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.

Strategic location of the plant: PCBL's manufacturing units 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 project at Tamil Nadu would also add to the locational advantage as plants of major tyre companies are situated in southern India.

Part of strong promoter group: PCBL is a part of the RP-Sanjeev Goenka Group of Kolkata which has interests across diverse business segments, such as power, carbon black, 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.

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 remains adequate on the back of strong internal accruals with respect to financial obligations along with free cash, bank and liquid investments of ₹127 crore as on September 30, 2023. The company has scheduled debt repayment obligation of ₹129 crore in FY24 (including repayment obligation of term loan drawn in April 2023) alongside planned pre-payment of ₹20.75 crore in FY24, against which it is expected to generate sufficient cash accruals. However, with the approved debt-funded acquisition of ACPL and JV with Kinaltek, the liquidity is expected to moderate in the near future. With a gearing of 0.50x as on March 31, 2023, PCBL has sufficient gearing headroom to raise additional debt for its capex and acquisition. The liquidity is also supported by unutilised lines of working capital limit where average utilisation stood at 26% for sanctioned fund-based limits of ₹750 crore during the last 12 months ended November 2023. Apart from the secured working capital limits of ₹3,000 crore, PCBL has access to unsecured limits of ₹1800 crore at standalone level from various lenders. However, it has a policy to restrict the utilisation to ₹3000 crore. The company also enjoys financial flexibility by virtue of it being part of the RP-SG group.

Key weaknesses

Capital structure and debt protection metrics likely to moderate: The Capital structure and debt protection metrics of the company, though remains comfortable currently, is expected to witness moderation in view of the debt funded acquisition. PCBL is expected to avail debt of Rs.2000 crore, PCBLTN is expected to avail debt of Rs.550 crore and ACIL is expected to avail debt of Rs.1000 crore to fund acquisition of ACPL. It is currently at an advanced stage to tie-up these debt at rate of interest of ~9.5% with a tenor of 5 years and having a ballooning repayment structure. Accordingly, its Total debt/PBILDT which stood comfortable at 1.93 times as on March 31, 2023 is expected to moderate to around 3 times by end-FY25 and would improve subsequently.

Profitability susceptible to volatility in raw material prices and foreign exchange fluctuations: Carbon Black Feedstock (CBFS) is the key raw material for carbon black, 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.

Inherent project risk associated with large-size ongoing projects: CB capacity of 147,000 MTPA and 12 MW out of the proposed 24 MW captive power plant implemented in Tamil Nadu through subsidiary, PCBL (TN) Ltd have been commissioned in phases. The first phase of the unit (63,000 MT) was commissioned in April 2023 and the second phase became operational in September 2023.
There was 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 (excluding GST component and margin money for working capital requirement) out of which ₹250 crore is funded through debt.
In addition, PCBL is increasing specialty black capacity by 40,000 MT, which will be done in two phases. 20,000 MT has been completed and is operational since July 2023, while the remaining will be completed in Q1FY25, at a total cost of about ₹350 crore. The expansion is proposed to be funded out of internal generations. The Company is also planning further expansion at the Tamil Nadu plant afterwards. The same shall be funded at a mix of debt and equity, which shall be finalised at a later stage. The company remains exposed to the pre and post-implementation risks associated with the projects.

Threat of imports of carbon black: 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.

Environmental, social and governance (ESG) risks

The chemical manufacturing industry is subject to high environmental and safety concerns and PCBL is exposed to the changes in regulatory requirements for managing the same and potential shift of demand towards greener substitutes. The company undertakes various steps to minimize waste, conserve resources and undertakes continuous improvement of processes to protect the environment. All its plants are zero-discharge facilities and have been operating smoothly.
It spent ₹8.50 crore for various Corporate Social Responsibility (CSR) projects and initiatives in FY23. 60% of the members of the board are independent directors.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Carbon Black

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 stabilising 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 678,000 MTPA of CB and 92,000 MTPA for speciality black. It also has captive power plants (CPP) at all its locations (aggregate capacity of 112 MW). The company sells excess power generated after meeting its own requirement. Its plants are located at Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat), Kochi (Kerala) and Chennai (Tamil Nadu). PCBL is managed under the stewardship of the Kolkata-based RP–SG group.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	4,468.22	5,790.42	4,490.99
PBILDT	677.77	741.24	727.83
PAT	427.14	442.19	380.16
Overall gearing (times)	0.30	0.50	NA
Interest coverage (times)	23.30	13.88	10.03

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

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
Debentures-Non Convertible Debentures		Not yet placed			700.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	800.00	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan		-	-	-	100.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	1190.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	2135.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	575.00	CARE AA; Stable / CARE A1+
Term Loan-Long Term		Not yet availed			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	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (12-Apr-21)	1)CARE A1+ (23-Sep-20) 2)CARE A1+

								(02-Jun-20)
2	Fund-based - LT-Cash Credit	LT	800.00	CARE AA; Stable	1)CARE AA (RWD) (07-Dec-23) 2)CARE AA; Stable (14-Sep-23) 3)CARE AA; Stable (07-Jul-23) 4)CARE AA; Stable (22-Jun-23)	1)CARE AA; Stable (05-Jul-22)	1)CARE AA; Stable (22-Jun-21)	1)CARE AA-; Stable (23-Sep-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	2135.00	CARE AA; Stable / CARE A1+	1)CARE AA / CARE A1+ (RWD) (07-Dec-23) 2)CARE AA; Stable / CARE A1+ (14-Sep-23) 3)CARE AA; Stable / CARE A1+ (07-Jul-23) 4)CARE AA; Stable / CARE A1+ (22-Jun-23)	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA; Stable / CARE A1+ (22-Jun-21)	1)CARE AA-; Stable / CARE A1+ (23-Sep-20)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	575.00	CARE AA; Stable / CARE A1+	1)CARE AA / CARE A1+ (RWD) (07-Dec-23) 2)CARE AA; Stable	1)CARE AA; Stable / CARE A1+ (05-Jul-22)	1)CARE AA; Stable / CARE A1+ (22-Jun-21)	1)CARE AA-; Stable / CARE A1+ (23-Sep-20)

					/ CARE A1+ (14-Sep-23) 3)CARE AA; Stable / CARE A1+ (07-Jul-23) 4)CARE AA; Stable / CARE A1+ (22-Jun-23)			
5	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (12-Apr-21)	1)CARE A1+ (23-Sep-20) 2)CARE A1+ (02-Jun-20)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	1190.00	CARE AA; Stable / CARE A1+	1)CARE AA / CARE A1+ (RWD) (07-Dec-23) 2)CARE AA; Stable / CARE A1+ (14-Sep-23) 3)CARE AA; Stable / CARE A1+ (07-Jul-23)	-	-	-
7	Fund-based - ST-Working Capital Demand loan	ST	100.00	CARE A1+	1)CARE A1+ (RWD) (07-Dec-23) 2)CARE A1+ (14-Sep-23)	-	-	-

8	Term Loan-Long Term	LT	800.00	CARE AA; Stable				
9	Debentures-Non Convertible Debentures	LT	700.00	CARE AA; Stable				

*Long term/Short term.

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	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - ST-Working Capital Demand loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	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 also formed a wholly owned subsidiary 'PCBL Europe SRL' in Belgium, Europe on April 14, 2023. It has 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 for any clarifications.

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About us:

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