AUGUST 20, 2015

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES/COMMERCIAL PAPER ISSUE OF PHILLIPS CARBON BLACK LTD.

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long Term Bank Facilities	679.92 (reduced form 741.00)	CARE A (Single A)	Reaffirmed
Long/Short Term Bank Facilities	2,100.00	CARE A/CARE A1 (Single A/A One)	
Total Facilities	**2,779.92**		
Instruments			
Commercial Paper*	**250.00**	CARE A1 [A One]	Reaffirmed

**The aggregate of outstanding CP and other working capital borrowings shall be within the sanctioned fund-based working capital limits with banks*

Rating Rationale

The ratings continues to derive strength from the strong group support and satisfactory track record of Phillips Carbon Black Ltd. (PCBL), leadership position in the domestic carbon black industry, strategic location of the plant, steady source of revenue from the power segment and strong export presence. The rating also factors in improvement in profitability margins in FY15 (refers to the period between April 01 to March 31) & Q1FY16 supported by the moderation in crude oil prices, along with complete hedging of net forex exposure.

The ratings are constrained by the risk of volatility in raw material & finished goods prices, high overall gearing ratio, non-availability of quality raw material in the domestic market, stiff competition from imports, stringent pollution norms for the industry and cyclicality in the industry due to heavy dependence on the fortune of tyre industry.

Effective utilization of existing capacities, continuation of anti-dumping duty on carbon black and volatile foreign exchange movement or sharp rupee depreciation are the key rating sensitivities.

Background

PCBL, incorporated in 1960, is engaged in the manufacturing & sale of carbon black (CB), which is mainly used in tyre & other rubber products. It is the leading producer of CB in the country and eight largest in the world, with an installed capacity of 4,72,000 MTPA. Further, PCBL also has captive power plants (CPP) at all its locations (aggregate capacity of 76 MW). The company also produces and sells excess electric power generated from the low calorific value off gas which is generated in the process of manufacturing of CB. Sale of surplus power to grid provides a steady alternative revenue stream. PCBL is managed under the stewardship of Kolkata-based RP–Sanjiv Goenka group.

Currently, its plants are located at Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala) which facilitates in optimizing transportation cost.

In FY15, PCBL reported a PAT of Rs.12.64 crore (against a loss of Rs.86.60 crore in FY14) on total income of Rs.2,430.65 crore (Rs.2,188.52 crore in FY14). In Q1FY16, the company reported a PAT of Rs.2.36 crore on a total income of Rs.479.78 crore.

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[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer: CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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CIN - L67190MH1993PLC071691