

SEPTEMBER 07, 2016

CARE REAFFIRMS THE RATING ASSIGNED TO COMMERCIAL PAPER ISSUE OF PHILLIPS CARBON BLACK LTD.

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Commercial Paper*	500 (enhanced from Rs.250 crore) (Five hundred crore only)	CARE A1+ (A One Plus)	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 aforesaid rating 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, strong export presence and complete hedging of net forex exposure. The rating takes into account the improvement in the liquidity position of the company supported by the moderation in crude oil prices alongwith improvement in capacity utilisation on the back of re-instatement of anti-dumping duty on carbon black in November-2015.

The ratings also factors in the risk of volatility in raw material & finished goods prices, moderate overall gearing ratio (however, improving), non-availability of quality raw material in the domestic market, stringent pollution norms for the industry and cyclicity in the industry due to heavy dependence on the fortune of tyre industry.

Improvement in profitability & capital structure, future trend of crude oil prices and any debt laden capex 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 seventh 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 FY16, PCBL reported a PAT of Rs.22.86 crore (Rs.12.64 crore in FY15) on total income of Rs.1,912.67 crore (Rs.2,484.53 crore in FY15). As per the Q1FY17 results, the company reported a PAT of Rs.12.02 crore on a total operating income of Rs.478.22 crore as against a PAT of Rs.2.99 crore on a total operating income of Rs.533.53 crore in Q1FY16.

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

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

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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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