Phillips Carbon Black Limited

June 21, 2017

Ratings

Facility	Amount (Rs. Crore)	Ratings[1]	Rating action
Long-term bank facilities	618.00 (Reduced from 824.82)	**CARE A+;Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE A; Positive (Single A; Outlook: Positive)**
Long/Short-term bank facilities	1,850.00	**CARE A+;Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**	**Revised from CARE A; Positive (Single A; Outlook: Positive)/ Short-term facilities reaffirmed.**
Total	**2,468.00 (Rupees Two thousand four hundred and sixty eight only)**		
Commercial Paper (CP) issue*	**500.0 (Rupees Five hundred crore only)**	**'CARE A1+' (A One Plus)**	**Reaffirmed**

**The aggregate of CP and other working capital borrowings should be within the sanctioned working capital limits of the company.*

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the long-term bank facilities of Phillips Carbon Black Limited (PCBL) is on account of improvement in operating and financial performance during FY17 (refers to audited working results for the period April – March) on the back of higher capacity utilization, change in product mix and reduction in finance charges. The rating also factors in improvement in debt coverage indicators of the company backed by higher cash flow from operations.

The ratings continues to derive strength from strong group (RP Sanjiv Goenka) and satisfactory track record of operations, leadership position in the domestic carbon black industry, strategic location of the plant, steady source of revenue from the power segment, hedging of net forex exposure and increased competitiveness of domestic carbon black manufacturers on account of imposition of anti- dumping duty.

The ratings also factors in the risk of volatility in raw material prices, and foreign exchange fluctuations risk, moderate overall gearing ratio (albeit, improving), stringent pollution norms for the industry and cyclicality in the industry due to dependence on the fortune of tyre industry.

Ability of the company to operate the plant at high capacity utilization, Improve its profitability margin & capital structure, trend in crude oil prices and successful completion of the project within envisaged cost and timelines would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operating and financial-risk parameters during FY17

As per the audited working results of FY17, PCBL reported a revenue of Rs.1,942 crore vis-a vis Rs.1907 crore reported during FY16. PBILDT margins improved from 11.18% during FY16 to 15.59% during FY17 due to a) improved product mix as a result of increased sales of higher margin speciality black product b) increased contribution from sale of power and better absorption of fixed cost overhead due to increased scale of operations. The capacity utilization improved from 81% in FY16 to 93% in FY17. Higher PBILDT coupled with decline in interest cost led to improvement in interest coverage ratio from 2 times in Fy16 to 3.84 times in FY17. The decline in interest cost was due to repayment of debt, lower working capital borrowings and reduction in interest costs

The company's capital structure remained moderate at 1.46x as on March 31, 2017, however the same has been witnessing improvement during the last two years. During FY17, the company has refinanced significant part of its existing long term obligations for a longer tenure and higher cash flows has resulted in improvement in debt coverage indicators.

Group support & satisfactory track record

PCBL is a part of RP-Sanjiv Goenka Group of Kolkata. The other major companies of the group are CESC (rated CARE AA; Stable/CARE A1+), Haldia Energy Limited (CARE A+; Stable/CARE A1+) Saregama India (rated CARE A; Stable/A1), Noida

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

Power Company Ltd, etc. The group has interests across diverse business segments such as power & natural resources, infrastructure, carbon black, retail, media and entertainment.

Strategic location of the plant

CBFS and carbon black are bulk products and therefore, transportation is a major issue. PCBL has a strategic advantage vis-à-vis its competitors as its units are situated at different parts of India, close to the ports and major tyre manufacturing plants. Its location facilitates PCBL in optimizing transportation cost.

Steady source of revenue from the power segment

PCBL has captive power plants aggregating to 76 MW at all its manufacturing facilities. Power production over and above its captive requirements are sold to the respective state grids; thus providing a steady source of revenue. During FY17, power sales accounted for 6 to 7% of total sales both during FY16 & FY17.

Strong export presence

PCBL is the seventh largest CB producer in the world and the largest exporter of CB from India. Though PCBL's export realization is well below the domestic market prices, it continues to focus on the export market in anticipation of higher demand from US & Europe markets.

Increased competitiveness of Indian CB manufacturers due to structural improvement in global fundamentals

The competiveness of domestic CB manufacturers improved in the past two years due to a) narrowing of spread between CBFS and CBO on the back of sharp decline in crude oil prices and higher usage of CBO for other purposes and b) imposition of high anti-dumping duty in November 2015 has restricted the flow of carbon black from China to a large extent. This coupled with forced closure of few plants in China on the back of environmental concerns and increased demand from Chinese automotive industry has further improved the competiveness of domestic CB manufacturers.

Key Rating weakness

Profitability susceptible to volatility in raw material prices

CBFS and CBO are the key raw-material for CB, accounting for around 80% of cost of sales. Since the products are derivative in nature, their prices are highly volatile as it is linked to volatile crude oil price and steel industry dynamics. On the other hand, the carbon black price is linked to the volatility in the tyre industry. In case of tyre segment in the domestic market, the pricing of the carbon black is based on average of the previous quarter's raw material prices. The company maintains around 45 days of raw material inventory & 10 days of finished goods inventory. Accordingly, the profitability of the company may be impacted if there is a sharp fall in the raw material prices.

Foreign currency fluctuation risks

PCBL sources a major portion of its raw material requirement (CBFS, CBO, LDO, Tar oil) through imports and it exports around 20% to 25% of its gross sales; thus exposing the company to the risk of foreign exchange fluctuation. From October 2014 onwards the company has started to completely hedge its net forex exposure reducing the volatility in forex fluctuations risks to an extent.

Project implementation risk

PCBL has proposed to increase the capacity by 40,000 MTPA (including 10000 MTPA of high margin speciality segment) at its existing plants at Palej and Mundhra, Gujarat. The total project cost is estimated to be Rs.200 crore and the same is expected to be financed in the D/E ratio of 2.33:1. The project is expected to be completed by H1FY19 (Speciality Black expansion of Rs.60 crore is expected to be completed by Sep.2017).

Dependence on the fortunes of tyre industry, though reducing gradually

CB application for tyre manufacturing accounts for 70% of its total market size. Non-tyre applications of CB include ink, paints, conveyor belts, etc. Though PCBL is gradually reducing its dependence on the tyre industry & diversifying itself towards non-tyre segment, the tyre segment continues to be the major contributor.

Analytical approach: Standalone

Applicable criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Criteria for Short Term Instruments

About the company

PCBL, incorporated in 1960, is engaged in the manufacturing & sale of carbon black (CB), which is mainly used in tyre & other rubber products. The company also produces specialty carbon blacks which are used as pigmenting, UV stabilizing and conductive agents in a variety of common and specialty products, including Plastics, Printing & Packaging and Coatings. It is the largest producer of CB in the country and one of the largest players in the world, with an installed capacity of 4,72,000 MTPA (metric tonne per annum with effective capacity of 4,11,000 MTPA). It also has captive power plants (CPP) at all its locations (aggregate capacity of 76 MW). The company sells excess power generated from the low calorific value off gas which is generated in the process of manufacturing of CB. Currently, its plants are located at

Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala) which facilitates in optimizing transportation cost. PCBL is managed under the stewardship of Kolkata-based RP–Sanjiv Goenka group.
As per the audited working results of FY17, the company reported a revenue of 1,942.00 crore and a PAT of Rs.72.81 crore.

Status of non-cooperation with other CRA: Not applicable

Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	550.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1498.30	CARE A+; Stable / CARE A1+
Term Loan-Long Term	-	-	December 2020	68.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	351.70	CARE A+; Stable / CARE A1+
Commercial Paper	-	-	-	450.00	CARE A1+
Commercial Paper	-	-	-	50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (09-Dec-16) 2)CARE A1+ (07-Sep-16) 3)CARE A1+ (11-Jul-16)	1)CARE A1 (20-Aug-15)	1)CARE A1 (05-Jan-15)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
2.	Fund-based - LT-Cash Credit	LT	550.00	CARE A+; Stable	-	1)CARE A; Positive (09-Dec-16) 2)CARE A (07-Sep-16) 3)CARE A (11-Jul-16)	1)CARE A (20-Aug-15)	1)CARE A (05-Jan-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1498.30	CARE A+; Stable / CARE A1+	-	1)CARE A; Positive / CARE A1+ (09-Dec-16) 2)CARE A / CARE A1+ (07-Sep-16) 3)CARE A / CARE A1+ (11-Jul-16)	1)CARE A / CARE A1 (20-Aug-15)	1)CARE A / CARE A1 (05-Jan-15)
4.	Term Loan-Long Term	LT	68.00	CARE A+; Stable	-	1)CARE A; Positive (09-Dec-16) 2)CARE A (07-Sep-16) 3)CARE A (11-Jul-16)	1)CARE A (20-Aug-15)	1)CARE A (05-Jan-15)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	351.70	CARE A+; Stable / CARE A1+	-	1)CARE A; Positive / CARE A1+ (09-Dec-16) 2)CARE A / CARE A1+ (07-Sep-16) 3)CARE A / CARE A1+ (11-Jul-16)	1)CARE A / CARE A1 (20-Aug-15)	1)CARE A / CARE A1 (05-Jan-15)
6.	Commercial Paper	ST	450.00	CARE A1+	-	1)CARE A1+ (09-Dec-16) 2)CARE A1+ (07-Sep-16) 3)CARE A1+ (11-Jul-16)	1)CARE A1 (20-Aug-15)	1)CARE A1 (09-Mar-15)

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