Phillips Carbon Black Ltd

February 18, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings1	Rating Action
Long term Bank Facilities	550.00	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed with outlook revised from Positive**
Long-term/Short-term Bank Facilities	1850.00	**CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	**Reaffirmed with outlook revised from Positive**
Total	**2400.00 (Rs. Two thousand four hundred crore only)**		
Commercial Paper Issue*	500.00 (Rupees Five Hundred crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

**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 outlook has been revised from positive to stable in view of moderation in the profit level and margins in H1FY20 (refers to period from April 1 to Sep 30) on the back of slow-down in the end user industry.

The ratings assigned to the bank facilities and instruments of Phillips Carbon Black Limited (PCBL) continues to derive strength from strong promoter group (RP Sanjiv Goenka Group) with satisfactory track record of operations with leadership position in the domestic carbon black industry, strategic location of the plant, steady source of revenue from the power segment, improvement in performance in FY19 (refers to period April 1 to March 31), albeit, performance in H1FY20 affected due to end user industry slowdown while the capital structure continued to be comfortable with improvement in gearing and debt protection metrics.

The ratings are tempered by the risk of volatility in raw material prices, stringent pollution norms for the industry, cyclicality in the industry due to dependence on the fortune of tyre industry and threat of imports of carbon black. The ratings also take into account the implementation risk associated with the expansion project being undertaken by the company.

Key Rating Sensitivities

Positive Factors

- Ability of the company to maintain PBILDT margin (>=18%) and PAT margin (>=10%) on a sustained basis.

Negative Factors

- Deterioration in overall gearing above 0.7x and debt coverage indicators- TD/GCA to 4 times and interest coverage below 4 times on sustained basis.
- Any regulatory change having the potential to materially impact the company's performance.
- Decline in free cash and bank balance below Rs.100 crore.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group, satisfactory track record of operations with leadership position in the domestic carbon black segment

PCBL is a part of RP-Sanjiv Goenka Group of Kolkata having interests across diverse business segments such as power & natural resources, infrastructure, carbon black, retail, and media & entertainment. The other major companies of the group include CESC (rated CARE AA; Stable/CARE A1+), Haldia Energy Limited (CARE AA-; Stable/CARE A1+) Saregama India Ltd (rated CARE A+; Stable/CARE A1+) and Noida Power Company Ltd.

PCBL commenced its operations from 1962 and has acquired a leadership position in the domestic carbon black industry with its installed capacity increasing from 14,000 mtpa to 571,000 mtpa. It is also the largest exporter of carbon black from India and has a presence in more than thirty countries.

Strategic location of the plant

PCBL has a locational advantage as its units are situated at different parts of India, close to the ports and near major tyre manufacturing plants. Its location facilitates PCBL in optimizing transportation cost, as the imported raw material for carbon black and carbon black itself are bulky products.

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

Steady source of revenue from the power segment
PCBL has captive power plants aggregating to 84 MW at its manufacturing facilities. Power produced over and above its captive requirements is sold by PCBL thus providing a steady source of revenue. In FY19, the power segment contributed to 2.76% of PCBL's operating income (as against 3.30% in FY18).

Improvement in performance in FY19 (refers to period April 1 to March 31), albeit, performance in H1FY20 affected due to end user industry slowdown
Financial performance of PCBL was marked by a significant y-o-y improvement in the profitability in FY19. Although the overall carbon black sales volumes remained flat, increase in realizations led to y-o-y growth in TOI by 38% to Rs.3533 crore in FY19 having correlation with crude oil prices that drives CBFS prices. Tight demand supply situation (up to 9MFY19) in the tyre segment helped the company benefit in the spot market (non-tyre segment). The y-o-y profits in H1FY20 have been impacted on account of slow-down in the auto sector and in the domestic tyre segment. In order to maintain volumes the company has however, increased international presence.

Improvement in capital structure and debt protection metrics of the company
Overall gearing continued to be comfortable and improved from 0.72x as on Mar'18 to 0.54x as on Mar'19. Despite increase in term loans in FY19 availed for capex, there was an improvement in gearing on account of lower working capital utilization and accretion of profits. Even with increasing working capital intensity on the back of higher raw material prices, the company was able to use operational cash flows to manage its working capital, thereby reducing working capital borrowings.
Total Debt to Gross Cash Accruals (TDGCA) also improved from 3.60x as on March 31, 2018 to 1.97x as on March 31, 2019.
The capital structure of the company continued to remain comfortable with overall gearing and TDGCA of 0.43x and 1.99x as on Sep'19.

Liquidity: Strong
Liquidity is marked by strong accruals against the scheduled term debt repayment obligations, even if projected capex is funded out of internal accruals. Further, liquidity is supported by cash and liquid investments of Rs.147 crore outstanding as on September 30, 2019 and moderate fund-based utilization of 60% for the last 12 months ended Nov'19.
PCBL has met its entire term debt obligations for FY20 through pre payments in the quarter. It has a term debt obligation of Rs.95 crore in FY21 and the expected cash accruals in the year are expected to be sufficient to meet the term debt obligations.

Key Rating weakness
Profitability susceptible to volatility in raw material prices, partially mitigated through the pricing formulae
CBFS is the key raw-material for CB, accounting for around 80% of cost of sales in FY19. 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 a pricing formulae, thereby reducing volatility in profits.

Dependence on the fortunes of tyre industry
A major portion of PCBL's revenue is from sale of carbon black 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. Although more than 60% of the overall tyre market is the replacement market, growth is affected due to slow down in the domestic auto segment. Further, PCBL has also been increasing its presence in the specialty black range catering to diversified industries- paints, inks, plastics, etc. It has also commissioned an R&D center in Palej where one of the objectives is to grow its portfolio in the specialty black segment.

Project Risk
PCBL had completed the capacity expansion in Mundra of 56,000 MT of Carbon Black and power plant of 8MW in Q4FY19 and Q2FY20 respectively. Its ongoing Speciality Black project at Palej of Rs.230 crore funded through a mix of debt and equity is in progress and expected to commission in June 2020.
PCBL also has a green-field project for a capacity of 1,50,000 MTPA for total cost of Rs.600 crore in Tamil Nadu, expected to be funded majorly out of internal accruals. However, considering the slow-down in the end user segment, the company has intentionally slowed down the project. Given the amount of expected investments and the slow-down in the end user industry there exists project execution, stabilization and marketing risks.

Stringent pollution norms for the major industry segments
The Central Pollution Control Board (CPCB) regulates the general standards for emission or discharge of environmental pollutants of carbon chemical industry. Presently, PCBL is adhering to the pollution norms of CPCB and all its plants are zero-discharge facility.

Threat of imports of carbon black
Anti-dumping duty (ADD) on import of CB has been levied from 2015 to Nov'2020 at around $397/MT from China and at differential rates from other countries. Imports of CB had increased in FY19 due to increase in demand from the tyre industry India which has reduced in the current year on the back of the recent domestic demand scenario. Continuation of ADD will be a rating moniterable.

Analytical approach: Standalone Approach

Applicable criteria:
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Rating Methodology- Manufacturing Companies]
[Consolidation and Factoring Linkages in Ratings]

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 5,71,000 MTPA of carbon black. It also has captive power plants (CPP) at all its locations (aggregate capacity of 84 MW). The company also sells excess electric power generated. Its plants are located at Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala). PCBL is managed under the stewardship of Kolkata-based RP–Sanjiv Goenka group.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2560.83	3533.31
PBILDT	385.50	645.42
PAT	229.79	388.53
Overall gearing (times)	0.72	0.54
Interest coverage (times)	9.30	17.55

Status of non-cooperation with other CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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 AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1498.30	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	351.70	CARE AA-; Stable / CARE A1+
Commercial Paper	-	-	7-364 days	450.00	CARE A1+
Commercial Paper	-	-	7-364 days	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	50.00	CARE A1+	-	1)CARE A1+ (26-Dec-18)	1)CARE A1+ (08-Feb-18) 2)CARE A1+ (21-Jun-17)	1)CARE A1+ (09-Dec-16) 2)CARE A1+ (07-Sep-16) 3)CARE A1+ (11-Jul-16)
2.	Fund-based - LT-Cash Credit	LT	550.00	CARE AA-; Stable	-	1)CARE AA-; Positive (26-Dec-18)	1)CARE AA-; Stable (08-Feb-18) 2)CARE A+; Stable (21-Jun-17)	1)CARE A; Positive (09-Dec-16) 2)CARE A (07-Sep-16) 3)CARE A (11-Jul-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1498.30	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (26-Dec-18)	1)CARE AA-; Stable / CARE A1+ (08-Feb-18) 2)CARE A+; Stable / CARE A1+ (21-Jun-17)	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)
4.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (26-Dec-18)	1)CARE AA-; Stable (08-Feb-18) 2)CARE A+; Stable (21-Jun-17)	1)CARE A; Positive (09-Dec-16) 2)CARE A (07-Sep-16) 3)CARE A (11-Jul-16)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	351.70	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (26-Dec-18)	1)CARE AA-; Stable / CARE A1+ (08-Feb-18) 2)CARE A+; Stable / CARE A1+ (21-Jun-17)	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)
6.	Commercial Paper	ST	450.00	CARE A1+	-	1)CARE A1+ (26-Dec-18)	1)CARE A1+ (08-Feb-18) 2)CARE A1+ (21-Jun-17)	1)CARE A1+ (09-Dec-16) 2)CARE A1+ (07-Sep-16) 3)CARE A1+ (11-Jul-16)

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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