

Phillips Carbon Black Limited ^(Revised)

December 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	550.00 (reduced from 554.00)	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Reaffirmed with outlook revised from Stable
Long-term/Short-term Bank Facilities	1850.00	CARE AA-; Positive/A1+ (Double A Minus; Outlook: Positive/A One Plus)	Reaffirmed with outlook revised from Stable
Total	2,400.00 (Rupees Two thousand Four hundred crore only)		
Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
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 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, leadership position in the domestic carbon black industry, strong position in export market, strategic location of the plant, steady source of revenue from the power segment, increased competitiveness of Indian CB manufacturers over Chinese counterparts on account of raw material cost and continued imposition of anti-dumping duty, hedging of net forex exposure, improvement in demand from tyre industry leading to higher capacity utilization and realizations thereby improving the profitability in FY18 (refers to audited working results for the period April 01 – March 31) and H1FY19. The rating also factors in improvement in capital structure and debt protection metrics of the company.

The above strengths are partly offset by the risk of volatility in raw material prices and stringent pollution norms for the industry and cyclicity in the industry due to dependence on the fortune of tyre industry.

The ratings also take into account the risk associated with the implementation of green-field project being proposed by the company.

Ability of the company to increase the portfolio of specialty carbon black, leading to improvement in the operating margin, successful completion of the project within envisaged cost and timelines and maintenance of envisaged liquidity in the system would remain the key rating sensitivities.

CARE has withdrawn the rating assigned to the term loan of PCBL with immediate effect, as the company has repaid the term loan in full and there is no amount outstanding under the loan as on date.

Outlook: Positive

The outlook has been revised to 'Positive' in view of expected improvement in profitability and liquidity on the back of increase in sales volume and realization of carbon black and increase in share of value added grades of carbon black. The revision in outlook also takes into account company's increased emphasis in research & development (R&D) leading to introduction of finer grades of CB every year.

The outlook may be revised to 'Stable' if the company is not able to sustain the profitability level and margins or high reliance on debt to fund the proposed capex and completion of the project within envisaged cost and timelines.

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

Detailed description of the key rating drivers

Key Rating Strengths

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 Power Company Ltd, etc. The group has interests across diverse business segments such as power & natural resources, infrastructure, carbon black, retail, media and entertainment. The company is into manufacturing of CB over 5 decades and has gradually increased its capacity over the period.

Leadership position in the domestic market with strong export presence

PCBL is the leading producer of Carbon Black (CB) in the country and seventh largest in the world, The company has presence in 37 countries and is the largest exporter of carbon black from India. Export revenue contribution increased from Rs.431.56 crore in FY17 to Rs.548.75 crore in FY18.

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 is sold through bilateral contracts/energy exchange; thus providing a steady source of revenue. In FY18, the power segment contributed to 3.32% of PCBL's operating income (as against 4.41% in FY17).

Increased competitiveness of Indian CB manufacturers over Chinese counterparts on account of raw material cost and continued imposition of anti-dumping duty

The CB production in China is mainly based on carbon black oil (CBO - which is derived out of processing of waste obtained from coke oven batteries during steel production process), whereas domestic manufacturers produces mainly through CBFS. The CB imports from China has restricted to a great extent in the past two years due to increasing spread between CBFS and CBO on the back of closure of few plants in China on the back of environmental concerns and higher usage of CBO for other purposes and imposition of high anti-dumping duty in November 2015. This coupled with increasing demand from global automotive industry has improved the competitiveness of domestic CB manufacturers including PCBL.

Improvement in demand from tyre industry & increasing proportion of value added grades led to improvement in profitability in FY18 and H1FY19

Financial performance of PCBL was marked by improvement in the profitability and debt protection metrics of the company quarter on quarter (q-o-q) in FY17 and FY18. The improvement in the margins was on account of increase in volume sales (almost double) of SCB in FY18 vis-à-vis FY17 (which has a 4-5 times margin of CB) coupled with high CB production in FY18 vis-à-vis FY17 leading to higher absorption of fixed cost. The improvement in margins also takes into account improvement in sales realization of CB in domestic and export market, which was mainly on account of demand supply gap. The significant decline in interest costs (incl. hedging costs) in FY18 over FY17 due to efficient working capital management, refinancing of high cost debt along with repayment of term debt obligation had led to substantial improvement in PAT margin to 9.01% in FY18 (3.60% in FY17).

In H1FY19 (refers to the period April 01 to September 30), the operating income of the company increased by around 40% vis-à-vis H1FY18. The increase in the operating income was supported by increase in the sales realization due to movement of crude coupled with marginal increase in process of CB and higher volume sale of specialty carbon black in H1FY19 vis-à-vis H1FY18. The operating margin of the company improved in H1FY19 vis-à-vis H1FY18 on the back of shift in the product mix and addition for premium grades coupled with better operational efficiency.

Improvement in capital structure and debt protection metrics of the company

Overall gearing ratio improved from 0.78x as on March 31, 2017 to 0.72x as on March 31, 2018 on account of accretion of profit to reserves.

The interest coverage ratio of the company also improved and stood at 6.82x in FY18 vis-à-vis 3.76x in FY17 on the back of increase in operating profit coupled with decline in interest cost of the company. Total debt to GCA and Total debt to PBILDT also improved and stood at 3.60x & 2.41x respectively as on March 31, 2018 vis-à-vis 4.61x & 2.96x as on March 31, 2017. The improvement was on account of increase in operating profit and cash accruals

level of the company in FY18 vis-à-vis FY17 despite increase in the debt level as on March 31, 2018 vis-à-vis March 31, 2017.

The capital structure of the company continued to improve as on September 30, 2018. The interest coverage ratio of the company continued to remain satisfactory at 17.95x in H1FY19 vis-à-vis 5.80x in H1FY18.

Liquidity

The liquidity position of the company is highly comfortable with utilisation of the working capital limits at around 19% for the last 12 months ending September 2018. The company is also having cash and cash equivalent of around Rs.132 crore as on March 31, 2018 & Rs.186 crore as on Sep.30, 2018

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 79% of cost of sales in FY18. Since the products are derivative in nature, their prices are highly volatile as it is linked to volatile crude oil price dynamics. In case of tyre segment in the domestic market, the pricing of the carbon black is calculated on average previous quarter raw material price. However, around 75-80% of PCBL's sales are determined using a pricing formula, which takes into account changes in oil prices and the Rupee–Dollar (US\$) exchange rate on a periodic basis.

Foreign currency fluctuation risks

PCBL sourced 85% of its raw material requirement (CBFS, CBO, LDO, Tar oil) through imports and it exported around 21% of its gross sales (Rs.549 crore in FY18). From October 2014 onwards the company has started to completely hedge its net forex exposure reducing the volatility in forex fluctuations risks. PCBL has reported forex gain of Rs.10.02 crore in FY18 as against forex gain of Rs.18.68 crore in FY17.

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. The share of revenue from specialty black has increased from 4.25% in FY17 to 6.34% of total operating income in FY18. Both, in sales volume and value, the contribution from specialty carbon black has almost doubled in FY18 vis-à-vis FY17.

Though PCBL is diversifying itself towards non-tyre segment, the tyre segment continues to be the major contributor.

Future capex plan

PCBL has proposed to increase the capacity by 88,000 MTPA (including 32,000 MTPA of high margin speciality segment) at its existing plants at Palej and Mundhra, Gujarat. The total project cost is estimated to be Rs.430 crore. The project is expected to be completed in phases by FY20. The carbon black capacity expansion is currently under trial run at Mundra.

PCBL is also planning to undertake a green-field project for a capacity of 1,50,000 MTPA for estimated cost of Rs.600 crore. The location of the green-field expansion is yet to be decided. With expected sufficient cash accruals generated by the company going forward, the company has proposed project funding through internal accruals only.

Analytical approach: Standalone

Applicable criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

CARE's methodology for manufacturing companies

Criteria for Short Term Instruments

Policy on Withdrawal of 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 4,72,000 MTPA. Post de-bottlenecking, the capacity has increased to 515,000 MTPA from March 2018. 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1930.29	2549.87
PBILDT	296.40	407.24
PAT	69.52	229.79
Overall gearing (times)	0.78	0.72
Interest coverage (times)	3.76	6.82

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 AA-; Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	1498.30	CARE AA-; Positive / CARE A1+
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	351.70	CARE AA-; Positive / 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	50.00	CARE A1+	-	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)	1)CARE A1 (20-Aug-15)
2.	Fund-based - LT-Cash Credit	LT	550.00	CARE AA-; Positive	-	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)	1)CARE A (20-Aug-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1498.30	CARE AA-; Positive / CARE A1+	-	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)	1)CARE A / CARE A1 (20-Aug-15)
4.	Term Loan-Long Term	LT	-	-	-	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)	1)CARE A (20-Aug-15)

							3)CARE A (11-Jul-16)	
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	351.70	CARE AA- ; Positive / CARE A1+	-	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)	1)CARE A / CARE A1 (20-Aug- 15)
6.	Commercial Paper	ST	450.00	CARE A1+	-	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)	1)CARE A1 (20-Aug- 15)

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