

**Phillips Carbon Black Ltd**

February 14, 2020

**Ratings**

Particulars	Rating <sup>1</sup>	Rating Action
Corporate Governance Rating	<b>CARE CGR 2+ (CGR Two Plus)</b>	Assigned

**Detailed Rationale, Key Rating Drivers**

The corporate governance rating assigned to Phillips Carbon Black Ltd (PCBL) takes into account the professional management team with the role of the Chairman (Promoter) and the Managing Director (MD) separate, qualified and experienced board of directors, transparent and identifiable ownership structure, adequate engagement with investors with required disclosures to shareholders, well defined organization structure with adequate Management Information System (MIS) in place. Furthermore, the rating also derives comfort from adequate communications and disclosures to shareholders. However, there exists scope of improvement in areas such as the constitution of the board considering the long tenure of association and age of some of the independent directors, conducting external training programs for the directors, majority shareholding with promoters, number of board meetings in a year being limited to the statutory requirement and sole dependence on internal employees for the internal audit function.

**Detailed description of key rating drivers**
**Key rating strengths**
**Professional management of the company with role of Chairman and MD are separate, and a qualified and experienced board of directors**

PCBL's Board of Directors consists of nine directors as on December 31, 2019, comprising one executive, i.e., MD and eight non-executive directors. Out of the eight directors, three belong to the promoter's family and the remaining five directors are non-executive independent directors. The chairman and the managing director are two individuals and they are not related to each other. The independent directors come from diverse backgrounds- experience of the carbon black, the end user industry, banking and legal background. The board comprises well-qualified, eminent and experienced directors. All committees of the board except for the risk management committee continue to be led by the independent directors.

**Transparent and identifiable ownership structure**

PCBL's shareholding structure is transparent, with major shareholders being clearly identifiable with the promoters' family and companies floated by them holding 53.56% stake as on Dec 31, 2019. Institutional shareholders hold 12.60% stake in the company and balance is held by other public investors.

**Adequate engagement with investors with required communication and disclosures to shareholders**

The company has a separate section on the website for investors which provides details of its corporate profile, Board of Directors, financials (Annual as well as Quarterly), investor presentations, product range and has sufficient information for shareholders or prospective investor. The company accords due importance to the grievances of shareholders. During FY19, 27 investor complaints were received all of which were resolved till March 31, 2019. Further, during 9MFY20, five complaints were received and all were disposed during the respective quarters. It also attends several national and international analysts and investors meets. In FY19, it also prepared a sustainability review report for its investors voluntarily.

**Well defined organization structure and MIS**

PCBL has a clear organization structure with well-defined roles and responsibilities. The top management consists of experienced and qualified professionals with experience of more than two decades. PCBL's board has adopted a succession planning for the Board and the Senior Management.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### **Key Rating Weaknesses**

#### **Constitution of the board**

Although the board is composed of eminent members, there is scope of improvement considering the long tenure of association and age of some of the independent directors. In addition, there are no external training programs organized for the directors.

#### **Number of board meetings**

The number of meetings of the board of directors in a year in PCBL is usually limited to the statutory requirement. There is scope of improvement here by increasing the engagement with independent directors either by meetings or by way of more frequent formal updates to them.

#### **Majority shareholding with promoters**

The promoters and the companies floated by them, collectively hold 53.56% stake in the company as on December 31, 2019. However, professional management of the company and composition of the board provide comfort.

#### **Sole dependence on internal employees for internal audit**

PCBL has an in house team that handles the internal audit function. While an internal team has better control over the business and processes of the company, an external internal audit usually has greater independence and may provide fresh perspective on the processes. There is scope for improvement here by the company opting for concurrent audits at certain intervals.

**Analytical approach:** Not Applicable

**Applicable Criteria:** Not Applicable

### **About the Company**

Philips Carbon Black Limited (PCBL), incorporated in 1960, is engaged in the manufacturing & sale of carbon black, which is used in tyre & other rubber products. It is a leading domestic player with an installed capacity of 571,000 MTPA of carbon black. PCBL, a listed company, is managed under the stewardship of Kolkata-based RP–Sanjiv Goenka group.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
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

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's Corporate Governance Rating (CGR) is an opinion on the relative standing of an entity with regard to adoption of corporate governance practices. It provides information to stakeholders as to the level of corporate governance practice of an entity. CARE's CGR rating is not a certificate on statutory compliance and is not a recommendation to buy or sell securities issued by the entity.

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