CRISIL Ratings

Rating Rationale

January 05, 2024 | Mumbai

PCBL Limited

'CRISIL AA/Stable' assigned to Bank Debt and NCD

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Rating Action

Total Bank Loan Facilities Rated	**Rs.400 Crore**
Long Term Rating	**CRISIL AA/Stable (Assigned)**

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Rs.600 Crore Non Convertible Debentures	**CRISIL AA/Stable (Assigned)**
Rs.550 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its â€˜**CRISIL AA/Stableâ€™Â** rating to the long-term bank facility and Rs 600 crore non-convertible debentures (NCDs) of PCBL Limited (PCBL) andÂ hasÂ reaffirmed its â€˜CRISIL A1+â€™ rating on the commercial paper programme.

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The ratings factor in the market leadership of PCBL in the domestic carbon black (CB) industry along with an increasing global footprint, healthy operating efficiency and strong financial risk profile. These strengths are partially offset by susceptibility of operating profitability to fluctuations in crude oil prices and foreign exchange (forex) rates, and exposure to competition from imports and risks related to cyclicality in the automobile industry. However, the forex risk is reduced as the company hedges most of its net forex exposure at all points of time. Furthermore, a significant portion of the sales are derived from the tyre segment which operates as per pricing formula linked with crude oil prices, thereby protecting operating profits, if the volumes are maintained.

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The companyâ€™s board has recently approved the acquisition of Aquapharm Chemicals Pvt Ltd (ACPL), for an aggregate consideration of Rs 3,800 crores representing 100% of the issued and paid-up share capital of ACPL. The proposed transaction is subject to various statutory approvals and is expected to be completed in 1-2 months.

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ACPL manufactures specialty water treatment chemicals, such as phosphonates, polymers, biocides, and pharmaceutical intermediaries. It has a strong market position in the phosphonates business, diversified product basket and clientele. The financial risk profile of ACPL is comfortable. The proposed transaction shall be majorly financed by debt, with the remaining funded using liquidity available in the company and internal accrual.

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While the business risk profile of PCBL is expected to be diversified with the proposed acquisition, seamless integration and realisation of synergies will remain key monitorable, going forward. The financial risk profile is expected to moderate due to debt funded acquisition and consequent increase in leverage. Generation of healthy accrual from the consolidated business and its utilisation for reduction in leverage over the near to medium term will be a key monitorable for the financial risk profile.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of PCBL and all its subsidiaries to the extent of its shareholding as they have significant business and financial linkages and common management.

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Market leadership position in the domestic CB industry and increasing global footprint**
  PCBL is the largest player in the domestic CB market, with market share of around 40% in terms of capacity and the seventh largest manufacturer of CB globally. The company has a production capacity of 770,000 tonne per annum (TPA) after the commissioning of its greenfield project. It is the largest exporter of CB in India and has operations in more than 50 countries. Exports contributed to 30% of the revenue in fiscal 2023, up from around 20% in fiscal 2017, due to expansion of its customer base across geographies.

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  PCBL manufactures over 85 grades of rubber CB and specialty black. Its focus remains on high-performance and high-margin products under both CB and specialty black. PCBL mainly caters to large tyre manufacturers and has established relationships with them. The company drew almost 62% of its revenue from the tyre segment in fiscal 2023. Large scale of operations, coupled with timely and high-quality service, supports the company in maintaining healthy relationships with key customers.

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  Healthy demand outlook for end-user segments, majorly the domestic tyre industry, will drive revenue growth over the medium term. This growth will also be supported by enhanced specialty black capacity commissioned this year and 20,000 TPA by June 30, 2024.

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- **Healthy and improving operating efficiency**
  PCBL benefits from the strategic location of its manufacturing facilities. Its four facilities are near ports

and have easy access to raw materials, lowering logistical costs. PCBL imports 70-80% of its raw material and exports 30-35% of its products. The company also has power plants at all its facilities, which use tail gas generated in the thermal decomposition process for making CB. The company sells 50-60% of the power generated.

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Although the operating margin has fluctuated between 13% and 19% in the past five years, operating EBITDA per tonne has been healthy and on an increasing trend to Rs 16,400 per tonne in fiscal 2023 from Rs 11,000 per tonne in fiscal 2020.

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Speciality CB is a value-added product and gives a higher profit margin than regular CB products. The share of specialty black in sales volume rose to around 9.0% in fiscal 2023 from 1.4% in fiscal 2016 and is expected to gradually increase in the coming fiscals. This increase should boost the operating margin.

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- **Strong financial risk profile despite expected moderation post acquisition**
  The financial risk profile has strengthened over time, supported largely by healthy cash generation. Consequently, gearing and debt to operating EBITDA ratio improved to 0.30 time and 1.3 times, respectively, as on March 31, 2023, from 0.67 time and 2.33 time, respectively, as on March 31, 2017. Debt protection metrics were healthy, with interest coverage and net cash accrual to adjusted debt ratios of 14.5 times and 0.4 time, respectively, for fiscal 2023. Post completion of this acquisition the debt protection metrics are expected to moderate over the medium term, though backed by healthy cash flows. Any increase in debt beyond the expected levels will remain a key monitorable.

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Weaknesses:

- **Susceptibility to volatility in crude oil prices and forex rates**
  CB feedstock (CBFS), derived from crude oil, is a major raw material for CB production. Any increase in crude oil prices may drive up CBFS prices, and thus increase the operating cost of players. However, the company has a pricing formula linked to crude oil prices for the tyre segment, which accounts for a significant proportion of sales, thereby protecting operating profits, if the volumes are maintained. The company imports 70-80% of raw material and is vulnerable to volatility in forex rates. This is largely mitigated by a natural hedge because of exports and a stringent hedging policy. Since fiscal 2016, the increasing share of specialty black in sales and improving yields and input-output ratio have helped reduce volatility in operating profitability.

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- **Exposure to risks related to removal of anti-dumping duty on CB**
  The Government of India on November 18, 2015, imposed anti-dumping duty on CB originating in or exported from China and Russia. The duty lapsed on January 5, 2021 and was not extended. However, this did not result in large scale dumping of CB by Chinese producers in India, as demand remained healthy. Moreover, cost of production increased sharply for Chinese players. The changing cost structure for Chinese players constrained supply in that country due to plant shutdowns, and the threat from China is likely to remain limited in the near term. Furthermore, the basic customs duty on CB imports increased to 7.5%, which will keep its imports into India in check. Nevertheless, any effect on the business of PCBL, if Chinese imports turn cheaper, will be closely monitored.

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- **High susceptibility to cyclicality in the automobile industry**
  Demand for domestic CB depends on growth of the tyre industry, as ~65% of overall CB produced in India is consumed by tyre manufacturers. PCBL generated around 60% of its revenue from the tyre industry in fiscal 2023. Hence, CB revenue can be impacted by sluggish demand from tyre manufacturers, owing to slowdown in demand from automobile original equipment manufacturers (OEMs), or shutdown of tyre dealerships or automobile service stations, as seen during the Covid-19 pandemic, which affected aftermarket sales for tyres. That said, 70% of the tyre demand is from the aftermarket, which is generally more resilient than OEM demand. With revival in automotive demand and opening of markets for aftermarket sales, CB demand has grown in fiscals 2022 and 2023 after subsequent decline in fiscals 2020 and 2021.

Liquidity: Strong

PCBL will likely maintain healthy liquidity with annual cash accrual of Rs 400-500 crore over the medium term. The fund-based bank limit of Rs 750 crore was utilised at 43% on average over the 11 months through March 2023. Post acquisition, the liquidity is expected to moderate due to its utilisation for funding part of the acquisition. Nevertheless, the company is expected to maintain sufficient liquidity. Healthy cash accrual will be sufficient to fund the repayment obligations and incremental working capital requirement

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Envirnoment, social and governance (ESG)Â profile

CRISIL Ratings believes that PCBLâ€™s ESG profile supports its already strong credit risk profile. The sector has a moderate environmental and social impact, primarily driven by high water consumption, waste intensive processes and direct impact on the health and well-being of its customers.

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Key ESG highlights:

- Company plans to minimise its environmental impact by reducing resource consumption, mitigating greenhouse gas emissions, conserving water, managing waste responsibly, and adopting sustainable practices throughout its operations. The company has set an ambitious target of reducing net CO2 emissions by 15% by 2030, with fiscal 2021 as the baseline year.
- Their plants are zero liquid discharge (ZLD) compliant and equipped with effluent treatment plant (ETP) facilities. The wastewater generated during the manufacturing processes is treated and reused, promoting water conservation.
- The lost time injuries frequency rate (LTIFR) is 0.7 and aims to achieve zero LTIFR by fiscal 2025. The company has addressed 100% of the customer grievances.
- The governance structure is characterized by effectiveness in board functioning and enhancing shareholder wealth, presence of investor grievance redressal mechanism and extensive disclosures.

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ESG is gaining importance among investors and lenders. PCBLâ€™s commitment to ESG principles will play a key role in enhancing stakeholder confidence, given shareholding by foreign portfolio investors and access to both domestic and foreign capital markets.

Outlook: Stable

PCBL will continue to benefit from its established market position in the domestic CB industry, increasing global footprints, healthy cash generation and adequate financial flexibility.

Rating Sensitivity factors
Upward factors:
- Higher than expected operating profits or pre-payment of debt resulting in improvement in debt/operating EBITDA below 1.5 times on sustained basis
- Material improvement in consolidated scale of operations and diversification through seamless integration of acquired business
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Downward factors:
- Considerable *weakening of operating performance due to intense competition and/or sluggish demand impacting operating profitability and cash accruals*
- Higher *than expected debt funded capex or acquisitions leading to debt to operating EBITDA ratio remaining above 3-3.25 times on a sustained basis*

About the Company
Incorporated in 1960, PCBL manufactures CB. It has four plantsâ€•one each in Durgapur, West Bengal; Mundra and Palej, Gujarat; and Kochi, Kerala; with aggregate capacity of 770,000 TPA. The company also operates 110-megawatt cogeneration power plants based on gas generated in the CB manufacturing process. PCBL is a part of the Kolkata-based RP-Sanjiv Goenka group.
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The company achieved revenue of Rs 2834 crore and operating margin of 15.8% in the first half of fiscal 2024.

Key Financial Indicators

As on / for the period ended March 31	Â	2023	2022
Operating income	Rs crore	5776	4451
Profit after tax (PAT)	Rs crore	442	427
PAT margin	%	7.7%	9.6
Adjusted debt/adjusted networth	Times	0.3	0.3
Adjusted interest coverage	Times	9.7	17.3

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Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7 to 365 Days	550	Simple	CRISIL A1+
NA	Non Convertible Debentures*	NA	NA	NA	600	Simple	CRISIL AA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	400	NA	CRISIL AA/Stable

**Yet to be placed*

Annexure â€“ List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Phillips Carbon Black Cyprus Holdings Ltd	Full consolidation	Subsidiary
Phillips Carbon Black Vietnam Joint Stock Company	To the extent of holding	Subsidiary
PCBL (TN) Ltd	Full consolidation	Subsidiary

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Annexure - Rating History for last 3 Years

Â	Current			2024 (History)		2023Â		2022Â		2021Â		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	400.0	CRISIL AA/Stable	Â	--	Â	--	Â	--	Â	--	--
Commercial Paper	ST	550.0	CRISIL A1+	Â	--	07-12-23	CRISIL A1+	29-06-22	CRISIL A1+	07-07-21	CRISIL A1+	--
Â	Â	Â	--	Â	--	26-06-23	CRISIL A1+	Â	--	Â	--	--
Non Convertible Debentures	LT	600.0	CRISIL AA/Stable	Â	--	Â	--	Â	--	Â	--	--
Structured Obligation	LT	Â	--	Â	--	Â	--	Â	--	Â	--	Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	**400**	**Not Applicable**	**CRISIL AA/Stable**

Criteria Details

Links to related criteria
Rating criteria for manufaturing and service sector companies
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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