



Infomerics Valuation and Rating Pvt Ltd

Press Release

Phillips Carbon Black Limited.

March 24, 2017

Rating

Instrument	Amount	Rating	Rating Action
Term Loan	Rs 50 Crores (present outstanding)	IVR A+/Stable outlook (IVR Single A plus/(Stable outlook))	Assigned

Details of Instrument are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd. has assigned a rating of IVR A+/Stable outlook (pronounced Single A Plus/Stable outlook) to the outstanding Rs.50 Crores Term Loan of Phillips Carbon Black Ltd. (PCBL). Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

Detailed Rationale

The aforesaid rating derives comfort from the company's long presence in the Carbon Black market in India, its leadership position in the domestic carbon black market, group strength, satisfactory clientele both in domestic & overseas arena, captive power plants at all manufacturing locations providing operational efficiency, improving levels of profitability & cash accruals in recent years and comfortable debt protection parameters. The rating also factors in the variability in raw material price which is having strong correlation with international crude oil price, emission risk due to polluting nature of the products, associated risks with implementation of proposed projects (but success would augment its leadership position in the industry), dependence on the fortunes of tyre industry and threat of imported carbon black & tyres. Ability of the company to continue earning modest level of cash accruals, successful implementation of the proposed projects and continuous improvement in operational efficiency shall be the major rating drivers.

List of Key Rating Drivers

- Long presence in the Carbon Black market in India.
- Leadership position in the domestic carbon black market.
- Group strength.



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- Satisfactory clientele both in domestic & overseas arena.
- Captive power plants at all manufacturing locations providing operational efficiency.
- Improving levels of profitability & cash accruals in recent years.
- Comfortable debt protection parameters.
- Variability in raw material price having strong correlation with international crude oil price.
- Emission risk due to polluting nature of the products.
- Associated risks with implementation of proposed projects (but success would augment its leadership position in the industry).
- Dependence on the fortunes of tyre industry.
- Threat of imported carbon black & tyres.

Detailed Description of Key Rating Drivers

Rating Strengths

Long presence & leadership position in domestic Carbon Black market

The company is the oldest producer of Carbon Black in India, incorporated way back in 1960. It is engaged in manufacturing of carbon black with an aggregate installed capacity of 4.72 lacs metric tonne per annum, being the largest installed capacity in the domestic market. It manufactures more than 55 different grades of Carbon Black.

Group strength

PCBL is one of the major companies of the RP-Sanjeev Goenka group, one of the leading industrial houses of the country, with interest in power generation & distribution, coal, carbon black, retailing, entertainment and BPO business. Many of the companies of the group are demonstrating satisfactory financial performance.

Satisfactory clientele both in domestic & overseas arena

PCBL caters to a wide spectrum of clients including global leaders in the tyre industry such as Bridgestone Corporation, Goodyear Tyre & Rubber Company, Michelin Tyres, Kuhno Tyres, Continental Tyres and so on as well as leading Indian tyre manufacturers like MRF, Ceat, J. K. Tyres, Apollo Tyres, Birla Tyres, Bridgestone India and Goodyear India. The company has been consistently present in overseas market over the years.



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Captive power plants at all manufacturing locations providing operational efficiency

PCBL has captive power plants at all the carbon black manufacturing locations using a by-product, derived during the production of carbon black, to generate power. These power plants meet the entire captive requirement, besides selling the surplus power through grid, ensuring assured supply and cheaper power leading to operational efficiency. In addition, it insulates the company significantly from emission risk as the carbon black production is polluting in nature. Previously, PCBL was incinerating or flaring up the gases at a cost. With introduction of Electricity Act, 2003 permitting sale of excess power produced by the industry players, PCBL resorted to setting up captive power plants.

Improving levels of profitability & cash accruals in recent years

PCBL has improved its profitability and cash accruals in the last two years and the current years as well, driven by higher capacity utilisation leading to volume growth & better absorption of overheads, favourable moderation in crude oil price and better operating efficiency. These gained further momentum in the first nine months of the current year (9MFY17) due to production & sale of more of higher margin speciality grade carbon blacks, procurement of better yielding carbon black feedstock, higher power revenue and reduction in interest expenses on account of gradual repayment of long-term debt & swapping of high cost debt with low cost ones.

Comfortable debt protection parameters.

Long term debt-equity ratio has been comfortable and improved significantly as on March 31, 2016. With improvement in profitability alongwith reduction in long-term debt level, the long-term debt coverage indicators (as reflected by Long Term Debt/GCA and Long Term Debt /EBIDTA) improved significantly during the last three years.

Rating Weaknesses

Raw material price has strong correlation with international crude oil price

Carbon Black Feed Stock, the main raw material, is a downstream product of crude oil refining and its price has a fair degree of co-relation with international crude oil price. PCBL (alongwith other carbon black manufacturers) has however, largely kept itself insulated from the hike in crude price due to a pricing formula (increase in raw material price is passed on quarterly) having been agreed with All India Tyre Manufacturers Association, but with one-



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quarter time lag. Although there is an associated forex fluctuation risks as around 80% of the raw material is imported, the aforesaid pricing formula mitigates the same.

Associated risks with implementation of proposed projects, but success would augment its leadership position in the industry.

PCBL is in the process of setting up additional production capacity at two locations – 30,000 MT at Mundra and 12,000 MT at Palej for Hard line Carbon Black and Specialty Carbon Black respectively. The aggregate project cost of Rs.200 crores is proposed to be financed at a debt-equity ratio of 2.33:1. The project implementation is likely to commence soon. As compared the current level of business of the company, this is a significant expansion and hence, successful and timely commissioning of the same is likely to be crucial for the company. Further, it would help PCBL in augmenting its leadership position in the industry.

Dependence on the fortunes of tyre industry.

The demand for carbon black is a derived demand of the tyre industry and hence, its success is highly dependent on the fortunes of the tyre industry which is again directly linked to the success of automobile industry. However, the company has been gradually foraying into manufacturing speciality grade carbon black thereby diversifying into non-tyre and non-rubber products (to the extent of about 20%, as of now) to insulate itself from the aforesaid dependence.

Threat of imported carbon black & tyres.

The domestic tyre industry, the main driver for the carbon black industry, is witnessing a marginal growth due to the increase in import from China, especially in the replacement segment. While similar threat exists for carbon black, for the five years period upto November, 2020, the Central Government has imposed an anti-dumping duty on import of carbon black from China.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation



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About the company

PCBL, incorporated in 1960, belongs to the Kolkata-based RP-Sanjeev Goenka group. The company is the India's oldest carbon black (CB) producer with an aggregate installed capacity of 4,72,000 MTPA encompassing its four plants across the country. It is the largest CB producer in domestic market. PCBL has captive power plants at all of its manufacturing locations. Its clientele includes global leaders in the tyre industry (like Bridgestone Corporation and Goodyear Tyre & Rubber Company, Michelin), as well as leading domestic tyre manufacturers (like MRF, Ceat, J K Tyres, Apollo Tyres, Birla Tyres). PCBL holds ISO 9001:2000 accreditation for all its four plants.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Nil.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Instrument

Name of Instrument	Date of issuance/ Draw Down	Coupon Rate/ IRR	Maturity Date	Size of issuance/ loan (Rs Crores)	Rating Assigned/ Outlook
Term Loan	Feb'2014	10%	Dec.'2020	100.00	IVR A+/Stable outlook (Single A plus+ /Stable Outlook)