



Farsight

MORNING FARSIGHT

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PHILLIPS CARBON BLACK CMP:RS 224 TRGT:RS 260 TIME HORIZON: 1 YEAR

Phillips Carbon Black, the largest exporter of carbon black from India, with an aggregate capacity of 515,000 MTPA, along with a green power capacity of 76MW, has posted phenomenal earnings for Q2FY19, defying all odds of rise in crude prices, weaker INR and Kerala Floods (1 facility in Kerala, of 4 facilities). For Q2FY19, PBT is at Rs. 154 cr against Rs. 137 cr QoQ and Rs. 71 cr YoY, a growth of 12% QoQ and 116% YoY. EPS is placed at Rs. 6.26 for Q2FY19 and Rs. 11.92 for H1FY19 and on an estimated EPS of Rs. 26 for FY19, stock is trading at PE of 8.6x. Further, the company is expanding its Mundra capacity by 56,00 tonnes by Q3FY19, as also increasing specialty carbon black capacity at Palej plant by 32,000 tonnes by Q2FY20 (in phases). In addition to above expansions, company is also about to start setting up a greenfield facility of 150,000 tons, at cost of Rs 600 cr in Southern India. Much of the success of the carbon black industry has hinged on the subtle balance between global demand and supply. Most global and Indian capacities are already operating at optimal levels. Carbon Black demand is expected to grow globally, but faster in India, as 46% of world investments in tyre over the next 3-4 years is planned in Asia. Supply on the other hand is likely to remain constrained as no new major capacities are coming up and China is facing shortage of raw material. This will keep the CB prices firm in the foreseeable future. The same coupled with 50% CAGR in Specialty Carbon Black volumes over the next 3 years (grown by 100% CAGR in last 3 years) where absolute EBITDA/ton is 3-4x Rubber Carbon Black, savings in opex costs on new Brownfield capacities, yield improvements and no further borrowings, will allow the bottomline to grow rapidly for Phillips Carbon Black. Leading tyre companies across the globe such as Bridgestone, Goodyear, Michelin, Continental, Loadstar, Yokohama, TVS, Nexen, CEAT, MRF, JK, Sumitomo, Apollo, Balkrishna Tyres and Kumho are key clients of Phillips Carbon. Management's strategy of increasing volumes in favour of high margin specialty products, coupled with upcoming capacity expansions, will see multiple re-rating for stock. Share ruling at Rs. 224 can move to Rs. 260 in 1 year. Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.