January 12, 2024

PCBL Limited (erstwhile Phillips Carbon Black Limited): Ratings reaffirmed; removed from rating watch with developing implications; rated amount enhanced; fresh rating assigned for NCDs

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	228.9	144.5	[ICRA]AA(Stable); reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Unallocated limits	171.1	1,055.5	[ICRA]AA(Stable); reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned; rating assigned for enhanced amount
Commercial paper	500.0	500.0	[ICRA]A1+; reaffirmed and removed from Rating Watch with Developing Implications
NCD	-	700.0	[ICRA]AA(Stable); assigned
Total	**900.0**	**2,400.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA had earlier placed the ratings of PCBL Limited (PCBL - erstwhile Phillips Carbon Black Limited) on 'Rating Watch with Developing Implications' after it announced the execution of a share purchase agreement with Aquapharm Chemicals Private Limited (ACPL) and the shareholders of ACPL for the proposed acquisition of the ACPL, for an aggregate consideration of Rs. 3,800 crore, representing 100% of the issued and paid-up share capital (on a fully diluted basis) of ACPL.

ICRA has now removed the Rating Watch with Developing Implications, following greater clarity on the funding mix for the acquisition, the integration plans of ACPL with the company as well as the business profile of ACPL. The proposed acquisition is likely to be concluded in the next 1-2 months and shall be majorly funded through external debt. While arriving at the ratings, ICRA has considered the consolidated financials of PCBL Limited and ACPL. ICRA notes that the acquisition of ACPL is a step towards expanding and diversifying PCBL's specialty chemical portfolio and is intended to yield synergy benefits for the Group over the coming years, given ACPL's strong market position in its product segments. ACPL is an established player in specialty chemicals with a strong market position in phosphonates, a diversified product portfolio and a reputed client base that includes players such as Procter and Gamble, Henkel AG, Ecolab Inc. and Unilever PLC.

The consolidated financial risk profile is likely to moderate with the increase in leverage from the debt-funded acquisition of ACPL. However, expected increase in carbon black (CB) offtake from the completed greenfield capex (PCBL (TN) Limited), enhanced specialty black (SB) capacity, higher capacity utilisation and expansion of ACPL's product portfolio are likely to support the operating income (OI) and operating profitability in the medium term. The company has put in place integration plans for ACPL and the company's ability to efficiently manage the consolidated operations by profitably scaling up, leading to commensurate returns over the medium term, remains critical from a credit perspective. The company also intends to deleverage the balance sheet over the medium term, post the scale up in operations and expansion in ACPL's margins. Any significant delays in deleveraging by the company remains a key sensitivity from a credit perspective.

The reaffirmation of the ratings continues to factor in PCBL's position as a leading player in the domestic carbon black (CB) industry and its growing presence in the international market. The ratings also consider PCBL's comfortable capital structure with a gearing of 0.4 times as on September 30, 2023. The ratings derive comfort from the company's status as a part of the RP-Sanjiv Goenka Group, which gives it considerable financial flexibility because of its established relationships with banks.

The ratings also favourably factor in the company's increasing share of specialty black (SB) sales and its focus on research and development to introduce new CB grades and implement process improvements, which would strengthen its operating profile, going forward. In addition, the sale of surplus power generated from the company's captive power plants (CPP) provides some cushion against the cyclicality in the carbon black business.

The ratings, however, are constrained by the inherent cyclicality of the business and the exposure of the company's margins to the adverse movement in crude oil prices as the major raw material is a crude oil derivative. Volatility in crude oil prices may impact the company's margin as 20-25% of its sales volume are majorly in the spot market and not linked to a raw material driving pricing formula. However, ICRA notes that the company has been able to largely pass on such price hikes in the past, which provides some comfort. PCBL's profitability and cash flows are also exposed to foreign exchange rate fluctuation risks, though the hedging policy mitigates these risks.

The outlook on PCBL's long-term rating is Stable, given the healthy long-term demand outlook for CB in both the domestic and export markets and the diversification into speciality chemicals, which would keep the sales and cash flows healthy and aid the funding of capex and debt repayments comfortably.

Key rating drivers and their description

Credit strengths

Leading player in domestic carbon black industry; diversification into specialty chemicals – PCBL is an established player in the domestic carbon black industry with the highest market share. It has a wide portfolio of soft, hard and specialty grades of carbon black and the company is in the process of increasing its product reach by developing new carbon black grades. Such initiatives are likely to help the company maintain its leadership position, going forward.

The acquisition of ACPL is a step towards expanding and diversifying PCBL's specialty chemical portfolio and is intended to yield synergy benefits for the Group over the coming years, given ACPL's strong market position in its product segments. ACPL is an established player in specialty chemicals with a strong market position in phosphonates, a diversified product portfolio and a reputed client base that includes players like Procter and Gamble, Henkel AG, Ecolab Inc. and Unilever PLC.

Comfortable financial risk profile – PCBL's financial risk profile remains comfortable, as indicated by its comfortable gearing of 0.4 times as on September 30, 2023, and total debt to OPBDITA of 1.3 times in H1 FY2024. The consolidated financial risk profile is likely to moderate with the increase in leverage from the debt-funded acquisition of ACPL. However, an expected increase in carbon black (CB) offtake from the completed greenfield capex (PCBL (TN) Limited), enhanced specialty black capacity and higher capacity utilisation and expansion of ACPL's product portfolio are likely to support the operating income and operating profitability in the medium term.

Better margins from higher sale of specialty and superior grade carbon black – PCBL's product mix has been changing in the last few years with a higher share of superior grade carbon blacks and specialty carbon blacks, which resulted in a steady improvement in the contribution margin. The EBITDA per MT in FY2023 was 17,409 per MT compared to Rs. 14,976 per MT in FY2022.

Sale of surplus power provides cushion against cyclicality in carbon black industry - The captive power plants generate significant revenues from the sale of surplus power to the power grid, contributing to the company's bottomline. The company's power segment revenue was at Rs. 82 crore in H1 FY2024 and Rs. 142 crore in FY2023 compared to Rs. 93 crore in FY2022 with the increase in power tariffs as well as higher units generated.

Financial flexibility from being a part of RP-SG Group – The company has access to bank finances at lower interest rates. In the past, PCBL had got a significant portion of its term loan refinanced with an elongated repayment tenure because of the financial flexibility derived from being a part of the RP-SG Group.

Credit challenges

Commensurate returns from capex and acquisition remains critical for credit profile – PCBL has completed a greenfield capex under its wholly-owned subsidiary PCBL (TN) Limited, entailing an expenditure of ~Rs. 950 crore, for setting up a 1,47,000-MTPA CB capacity and a 24-MW power plant in Chennai, Tamil Nadu. Further, it completed the first phase of brownfield expansion of specialty black (SB) manufacturing capacity by 20,000 MT in July 2023. Also, the proposed ACPL acquisition is likely to be concluded in 1-2 months and shall be majorly funded through external debt.

The company has put in place integration plans for ACPL and the company's ability to efficiently manage the consolidated operations by profitably scaling up, leading to commensurate returns over the medium term remains critical from a credit perspective. The company also intends to deleverage the balance sheet over the medium term, post the scale-up in operations and expansion in the margins of ACPL. Any significant delays in deleveraging by the company remains a key sensitivity from a credit perspective.

Susceptible to cyclicality in domestic automobile industry – A significant portion of the company's revenues is generated from the domestic automotive tyre industry (65% sales volume in FY2023). While almost two-thirds of the demand for tyre manufacturers come from the replacement market, carbon black producers like PCBL remain exposed to the cyclicality of the domestic automobile industry. PCBL is, however, making efforts to scale up the production of specialty black to further reduce the risk of cyclicality in the automobile industry.

Exposed to movement in crude oil prices – The major raw material is carbon black feedstock (CBFS), which is a crude oil derivative and mainly imported. As a result, PCBL is exposed to the adverse movements in crude oil prices. The company, however, has been able to largely pass on the changes in the prices of CBFS, given the pricing mechanism that the industry works on.

Exposed to foreign exchange fluctuation risk – The company imports a significant portion of its raw materials and is thus exposed to forex risks. However, the risk is mitigated to a considerable extent as exports accounted for ~30% of the company's revenues in FY2023. PCBL also has a hedging policy in place.

Environmental and social risks

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal and transportation of chemical products. Additionally, some products can face restrictions/substitution over time because of their hazardous nature and the availability of more environment-friendly products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While PCBL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency--high impact) weighs on its rating.

Chemical sector entities are exposed to the risk of shift in consumer preferences over time to more environment-friendly products. Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. PCBL hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

PCBL's liquidity position is likely to remain adequate on account of steady cash flows from operations. Also, PCBL has a headroom in terms of unutilised working capital facilities with an average utilisation at 41% of the drawing power for the past 12 months ended October 2023. The ACPL acquisition is likely to moderate the liquidity as it will be funded through existing cash balance, internal accruals and majorly through debt. However, PCBL is likely to maintain adequate liquidity.

Rating sensitivities

Positive factors – PCBL's long-term rating can be upgraded if there is a sustained improvement in the financial metrics and/or a meaningful improvement in sales volumes and mix towards value-added products as well as diversification of the customer base. An improvement in the core RoCE to 25% on a sustainable basis could also be a trigger for upgrade.

Negative factors – The company's ratings can be downgraded if a decline in sales volume results in a material decline in operating income or profitability on a sustained basis. Any significant delay in correction in leverage metrics (total debt/OPBIDTA) could be a trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PCBL and ACPL

About the company

PCBL, incorporated in 1960, manufactures carbon black across four plants in Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala) with an aggregate capacity of 6,03,000 MTPA. The company also commissioned the greenfield capex (147,000 MTPA) in Chennai, Tamil Nadu, in September 2023 under its wholly-owned subsidiary, PCBL (TN) Limited. The company also operates 110-MW (as of October 2023) co-generation power plants based on waste gas generated in the carbon black manufacturing process. PCBL is a part of the Kolkata-based RP-SG Group.

ACPL manufactures specialty chemicals with key products like phosphonates, biodegradable chelating agents, polymers, biocides, oilfield chemicals, which have application in water treatment, detergents, industrial cleaners, oilfields, municipal water treatment, pulp and paper, water softening, surface cleaning, pharma, agrochem applications. ACPL has manufacturing facilities in India, United States and Saudi Arabia. The overseas plants are being operated through subsidiaries.

Key financial indicators (audited)

PCBL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	4446.4	5774.1	2834.2
PAT	426.3	442.2	232.2
OPBDIT/OI	14.2%	12.4%	15.8%
PAT/OI	9.6%	7.7%	8.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.9	0.9
Total debt/OPBDIT (times)	1.2	1.4	1.3
Interest coverage (times)	21.7	13.4	11.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Note: Amount in Rs. crore; All calculations are as per ICRA research; Source: Company data, ICRA Research; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)						Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jan 12, 2024	Dec 7, 2023	Apr 10, 2023	April 7, 2022	April 23, 2021	Mar 24, 2021	May 4, 2020
1	**Term loans**	Long term	144.5	144.5	**[ICRA]AA(Stable)**	**[ICRA]AA&**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**
2	**Commercial paper**	Short term	500.0	--	**[ICRA]A1+**	**[ICRA]A1+&**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	-	-
3	**NCD**	Long term	700.0	--	**[ICRA]AA(Stable)**	-	-	-	-	-	-
4	**Unallocated limits**	Long term	1055.5	--	**[ICRA]AA(Stable)**	**[ICRA]AA&**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)** -	-	-	-

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Commercial paper	Very Simple
NCD	Simple
Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Nov 2020	NA	Nov 2026	47.0	[ICRA]AA(Stable)
NA	**Term loan 2**	Feb 2021	NA	Feb 2027	97.5	[ICRA]AA(Stable)
Yet to be placed*	**Commercial paper**	NA	NA	7-365 days	500.0	[ICRA]A1+
NA	**NCD**				700.0	[ICRA]AA(Stable)
NA	**Unallocated limits**	NA	NA	NA	1055.5	[ICRA]AA(Stable)

*Source: Company; *As of October 2023; NCD proposed to be listed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Phillips Carbon Black Cyprus Holdings Limited	100.0%	Full Consolidation
Phillips Carbon Black Vietnam Joint Stock Company	80.0%	Full Consolidation
PCBL (TN) Limited	100.0%	Full Consolidation
PCBL Europe SRL	100.0%	Full Consolidation
Aquapharm Chemicals Private Limited*	To be acquired	Full Consolidation

*Source: Company data; ICRA Research; *Consolidated financials of ACPL*

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