

PHILLIPS CARBON

December 02, 2016

SECTOR CHEMICALS
RECOMMENDATION
Buy @ 220, Target 285



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PHILLIPS CARBON

7th Wonder of the Carbon Black World



Phillips Carbon - 7th Wonder of the Carbon Black World

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Phillips Carbon Raw Material and Finish Goods

Phillips Carbon today is India's largest and globally seventh largest carbon black producer.

Phillips Carbon Raw Material (Reported as per Annual Report)

Product Name	Value	% of RM cost to Total Cost
Carbon Black (Feed Stock)	1226.17	94.86
Others	66.40	5.13
Total	1292.57	

Phillips Carbon Finished Good (Reported as per Annual Report)

Product Name	Sales Value	% of Sales to Total Sales
Carbon Black	2639.31	97.34
Power	69.13	2.55
Scrap	2.95	0.11
Total	2711.39	

Carbon black (subtypes are acetylene black, channel black, furnace black, lamp black and thermal black) is a material produced by the incomplete combustion of **heavy petroleum products** such as FCC tar, coal tar, ethylene cracking tar, and a small amount from vegetable oil.

Carbon black uses

Carbon black is widely used as a model compound for diesel soot for diesel oxidation experiments. Carbon black is mainly used as reinforcing filler in tires and other rubber products. In plastics, paints, and inks carbon black is used as a color pigment.

Phillips Carbon provides a complete portfolio of products to meet the specific end requirements across globe in

1. Rubber
2. Plastics
3. Coatings
4. Inks and other niche industries.

The Company has been continuously reinventing itself in order to make the best in class products. Additionally, Phillips Carbon after sales service and strong technical support ensures a fiercely loyal base of tyre, non-tyre and non-rubber customers from around the world.

Phillips Carbon has etched its global footprints and has a market presence in more than 30 nations with decanting stations, warehouses located near customer locations.

Phillips Carbon Black Limited, a part of USD 2500 million RP-Sanjiv Goenka Group, has a business of USD 500 million.

Four strategically located state-of-the-art plants at

- Durgapur
- Palej
- Cochin
- Mundra



Investors Guidance from Company's Management

Global Carbon black industry continued to operate at capacity utilization of 75 – 80% in FY16 against demand supply imbalance.

The need for local servicing to the customer and price competitiveness are prompting major players to rationalize and restructure their capacity across geographies.

International Market is witnessing aggressive competitions from low cost carbon black manufacturers.

Phillips Carbon production during FY16 was 3,32,038 MT as compared to 311,823 MT in the previous year.

Capacity utilization is expected to improve further this year with higher volume expected from the market and the rise in consumption trend of automobile sector.

With the strategic location of its four plants, the company is well poised to service the demand from various customers in India and overseas. The close vicinity of seaports to a couple of plants facilitate logistics costs within India and abroad.

Demand for carbon black in India is expected to grow @ 6-7% during the next couple of years. With its wide product portfolio basket and manufacturing units located strategically near to the customer location, the company is well positioned to cater to increase in the demand.

Overseas demand for carbon black is expected to grow @4 - 4.5%. The Company has well established supply chain Phillips Carbon Black Limited 13 distribution network to ensure timely delivery, service to customers and widen its presence in the international market. This will continue to be a major thrust area for the Company in the coming years.

There were 806 permanent employees on the rolls of the Company as on 31st March, 2016.





Industry Outlook

Global economic recovery continues, but at an ever slowing and increasingly fragile pace. Major macroeconomic realignments are affecting prospects differentially across countries and regions. These include slowdown in China, a decline in oil price with sizable redistributive consequences across sectors and countries, slowdown in investment and trade activities, declining capital flows to emerging economies. These realignments together with noneconomic factors such as geopolitical tensions and political discord are generating uncertainty.

Amid this uncertain and differential growth, global automobile industry witnessed an estimated demand increase of almost 2% in FY16 which is less than FY15 estimated growth of 2.7%.

Recovering automobile sales in major markets of Europe such as Spain, Italy, UK, France and Germany contributed to a growth of 8 - 9% in FY16.

Increasing consumer spending, low gasoline prices and pent-up demand boosted automobile sales in US.

Emerging markets of Eastern Europe, South America and Africa whose income are dependent on commodity prices, saw a sharp decline in auto sales with demand decreasing by as much as 30 to 40% for a few countries.

Increased auto demand in Asia continued to be driven by China and South Asia at a slower pace of approx. 3.2%. As China is moving towards consumption driven economy model, the same is reflected in the increasing passenger car sales. Japan continues its degrowth in auto sales in a weak economy.

Global demand for passenger car tyre grew by estimated 2% with improved demand in Western Europe, North America, China and India. Global demand for truck tyre declined by estimated 2% with OEM segment demand decreasing by estimated 7%. Tyre demand in emerging markets continued to decline.

Indian Automobile Industry's domestic market recorded an increase in passenger vehicle sales by 7%, commercial vehicle by 11% and muted growth of 1 - 3% in two and three wheeler segments in FY16.

Low cost of ownership, improving demand from infrastructural activity and better than a normal monsoon should drive the FY17 growth across the segments

Auto exports grew by 1.9% on account of lower sales in two wheeler segment. Tyre Industry recorded lower production amid exports falling by 13-15% and increased imports by 12-14% in FY16.

FY17 growth across segments is expected to improve with improving rural demand and increased infrastructural activity. Global Carbon black industry continued to operate at capacity utilization of 75 - 80% in FY16 against demand supply imbalance. The need for local servicing to the customer and price competitiveness are prompting major players to rationalize and restructure their capacity across geographies. International Market is witnessing aggressive competitions from low cost carbon black manufacturers.



Share holding Pattern

Shareholding pattern summary

Category & Name of the Shareholders	No. of shareholder	No. of equity shares held	% Holding
Promoter & Promoter Group	4	18461557	53.56
Indian	4	18461557	53.56
Foreign	0	0	0
Public	31528	16004283	46.44
Institutions	55	2785448	8.08
Non Institution	31472	12750935	37
Central Government / State Government(s) / President of India	1	467900	1.36
Grand Total	31532	34465840	100

COMPANY PROFILE OF PHILLIPS CARBON, NSE, INDIA	
Date of Incorporation	31-Mar-1960
Date of Listing	06-Jan-1995
Management	
Name	Designation
Sanjiv Goenka	Chairman
C R Paul	Director
K S B Sanyal	Director
O P Malhotra	Director
Paras K Chowdhary	Director
Pradip Roy	Director
Shashwat Goenka	Director
Kusum Dadoo	Director
Kaushik Roy	Managing Director
Registered Office Address	
Duncan House, 31 Netaji Subhash Road, Post Box No 2229, 700001, Kolkata, West Bengal, India	
Website	http://www.pcblltd.com

Institutions

Category & Name of the Shareholders	No. of shareholder	Total no. shares held	% Holding
Institutions	55	2785448	8.08
Mutual Funds	2	50502	0.15
Financial Institutions/ Banks	31	141320	0.41
Foreign Portfolio Investors	22	2593626	7.52
Goldman Sachs (Singapore) Pte	1	473515	1.37
Elara Capital Plc	1	715961	2.08
Central Government / State Government(s) / President of India	1	467900	1.36
Central Government/ State Government(s)/ President of India	1	467900	1.36
Kerala Stae Industrial Development Corporation	1	467900	1.36
Grand Total	56	3253348	9.44



Company Financials

In Cr	Sep-16	Jun-16	Sep-15	% QoQ Growth Sep16-Jun16	% YoY Growth Sep16-Sep15
	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Net Sales/Income from operations	460.70	382.54	504.77	20.43%	-8.73%
Other Operating Income	0.21	0.42	0.42		
Total Income From Operations	460.91	382.96	505.19	20.35%	-8.77%
Increase/Decrease in Stocks	-1.98	21.27	-2.04		
Consumption of Raw Materials	295.48	261.82	363.75	12.86%	-18.77%
Employees Cost	27.57	19.47	22.86	41.60%	20.60%
Admin. And Selling Expenses	16.45	17.47	16.54		
Depreciation	15.26	15.10	14.99		
Other Expenses	65.29	9.92	58.37		
Total Expenditure	418.07	345.05	474.47	21.16%	-11.89%
Operating Profit	42.84	37.91	30.72	13.00%	39.45%
Other Income	4.35	3.52	2.67		
P/L Before Int., Excpt. Items & Tax	47.19	41.43	33.39	13.90%	41.33%
Interest	12.99	12.80	20.93	1.48%	-37.94%
P/L Before Tax	34.20	28.63	12.46	19.46%	174.48%
Tax	19.02	16.61	7.07		
PAT	15.18	12.02	5.39	26.29%	181.63%
Equity Share Capital	34.47	34.47	34.47		
EPS (Rs.) [Before Extraordinary items]	4.40	3.49	1.56	26.07%	182.05%

Key points in Quarterly Result

Three key strengths

- Continuous rising Profit after tax, the company has shown significant growth in YoY of about 182.5%.
- Company has shown growth in income from operation by 20.43% QoQ.
- Operating profit has shown growth in both QoQ and YoY results

Three Key Weaknesses

- The companies YoY growth declined marginally by 8.73% when compare to Sep quarter in 2015.
- Companies YoY growth has come down in comparison to QoQ growth.
- Total expenditure has increased in QoQ by 21.16%



Balance Sheet

In Crs	Mar-16 12 mths	Mar-15 12 mths	Mar-14 12 mths	Mar-13 12 mths
EQUITIES AND LIABILITIES				
SHAREHOLDERS FUNDS				
Equity Share Capital	34.47	34.47	34.47	34.47
Total Share Capital	34.47	34.47	34.47	34.47
Reserves and Surplus	488.30	475.81	468.04	554.64
Total Reserves and Surplus	488.30	475.81	468.04	554.64
Total Shareholders Funds	522.77	510.28	502.51	589.11
NON-CURRENT LIABILITIES				
Long Term Borrowings	204.93	327.44	400.10	196.43
Deferred Tax Liabilities [Net]	49.09	27.80	29.85	52.65
Other Long Term Liabilities	0.59	0.59	0.59	0.59
Long Term Provisions	4.22	3.65	3.61	3.03
Total Non-Current Liabilities	258.83	359.48	434.16	252.69
CURRENT LIABILITIES				
Short Term Borrowings	703.99	775.86	611.29	621.94
Trade Payables	281.15	146.94	446.76	714.92
Other Current Liabilities	141.69	157.96	124.04	114.05
Short Term Provisions	20.10	12.39	1.96	2.95
Total Current Liabilities	1,146.93	1,093.15	1,184.05	1,453.86
Total Capital And Liabilities	1,928.53	1,962.91	2,120.72	2,295.66
ASSETS				
NON-CURRENT ASSETS				
Tangible Assets	799.36	819.82	856.46	752.78
Intangible Assets	0.13	0.64	1.15	0.00
Capital Work-In-Progress	73.34	73.46	67.36	159.04
Fixed Assets	872.83	893.92	924.97	911.82
Non-Current Investments	72.37	72.37	72.37	72.37
Long Term Loans And Advances	24.35	29.33	36.39	47.32
Other Non-Current Assets	53.89	53.89	53.89	75.38
Total Non-Current Assets	1,023.45	1,049.52	1,087.62	1,106.89
CURRENT ASSETS				
Current Investments	98.00	0.00	0.00	0.00
Inventories	244.22	296.84	428.74	499.39
Trade Receivables	438.99	521.42	517.04	518.16
Cash And Cash Equivalents	50.61	11.50	8.90	66.72
Short Term Loans And Advances	65.68	67.77	65.72	96.48
Other Current Assets	7.59	15.87	12.70	8.02
Total Current Assets	905.08	913.39	1,033.10	1,188.77
Total Assets	1,928.53	1,962.91	2,120.72	2,295.66

Key strength in Balance sheet

- Company is lowering its Non Current liability, this shows that company is focusing on debt reduction.
- Company has increased Cash and Cash equivalent.



Key Ratios of Phillips Carbon

Per Share Ratios	16-Mar	15-Mar	14-Mar	Expalnation	Signals
Basic EPS (Rs.)	6.63	3.67	-25.12	Shown huge growth in Annual Trend	Huge Positive
Cash EPS (Rs.)	22.58	20.36	-9.53	Shown huge growth in Annual Trend	Huge Positive
Book Value	151.67	148.05	145.79	Consistent	Neutral
Dividend / Share(Rs.)	2.50	1.00	0.00	Dividend yields is very low only 1% (LTP-218)	Negative
Profitability Ratios					
PBDIT Margin (%)	9.65	6.74	2.02	Margins are improving but at slower pace	Neutral
Net Profit Margin (%)	1.20	0.51	-3.8		
Return on Capital Employed (%)	2.92	1.45	-9.24	17% or 18% is considered as better	Negative
Return on Assets (%)	1.18	0.64	-4.08		
Total Debt/Equity (X)	1.74	2.16	2.01	debt is slightly higher but at considerable level	Neutral
Liquidity Ratios					
Current Ratio (X)	0.79	0.84	0.87	Acceptable between 1.5% and 3% for healthy businesses	Negative
Quick Ratio (X)	0.58	0.56	0.51	commonly acceptable ratio is 1	Negative
Dividend Payout Ratio (CP) (%)	11.07	4.91	0.00		
Valuation Ratios					
EV/EBITDA (X)	6.49	9.26	26.00		
MarketCap/Net Operating Revenue (X)	0.17	0.18	0.09		
Price/BV (X)	0.63	0.89	0.39	Price to book value is very low	Negative
Price/Net Operating Revenue	0.17	0.18	0.09		
Earnings Yield	0.07	0.03	-0.44		



Investment rational

- Continuous rising Profit after tax, the company has shown significant growth in YoY of about 182.5%.
- Company has shown growth in income from operation by 20.43% QoQ.
- Operating profit has shown growth in both QoQ and YoY results
- Global Carbon black industry continued to operate at capacity utilization of 75 – 80% in FY16 against demand supply imbalance
- Company is lowering its Non Current liability i.e Long term liability, this shows that company is focusing on debt reduction.
- Company has increased Cash and Cash equivalent.
- The country's largest carbon black manufacturer - Phillips Carbon Black Limited.
- Currently, it has a production capacity of 4,72,000 MT per annum in India, and involves a dedicated capacity of Specialty Blacks of 40,000 MT per annum at Palej.
- Phillips Carbon provides a complete portfolio of products to meet the specific end requirements across Rubber, Plastics, Coatings, Inks and other niche industries globally.
- The gas, a by-product of carbon black production, is harnessed for generating electricity at the Company's Captive Power Plants (CPP), at Baroda, Durgapur, Mundra and Kochi. That is why Phillips Carbon is the first carbon black company in the world to receive carbon credits.

On 2nd December, 2016, Phillips Carbon share price is trading @ 222.20, P/E 18.48. We recommend BUY in Phillips Carbon Ltd @ 220 with the target of 285. It is a Multibagger Stock recommended by Dynamiclevels.



PHILLIPS CARBON

7th Wonder of the Carbon Black World



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