

PCBL

HOLD

PCBL diversifies into other chemicals with a major acquisition

Summary

PCBL announced acquisition of Aquapharm Chemicals Private Limited (ACPL) for Rs38 bn (valuing at 9x FY23 EV/EBITDA, 3.8x P/BV). The acquisition of ACPL marks PCBL's foray into global specialty segments of water treatment chemicals and Oil & Gas chemicals –unrelated to existing carbon black business. The transaction will be financed through a mix of internal accruals and external funds. ACPL's FY23 sales were Rs20 bn, EBITDA of Rs4 bn and PAT of Rs3 bn. We will incorporate the impact of this acquisition after all regulatory formalities are complete. Meanwhile, we introduce FY26 forecasts in this report and now value the stock at PER of 12x FY26 EPS (earlier 12x FY25E) and derive a target price of Rs268 (earlier Rs233). Given the recent run up in share price, we downgrade the stock to a HOLD (BUY earlier).

Other Key Takeaways:

- **ACPL overview:** Incorporated in 1974, ACPL is Pune based leading specialty chemical company, manufacturing of water treatment chemicals (globally among top 3 companies) with key products like phosphonates, biodegradable chelating agents, polymers, and oil field chemicals. These products find application in water treatment, industrial cleaners, oil fields, pulp and agrochemical applications. ACPL has manufacturing facilities in India, United States and Saudi Arabia.
- **Outlook:** In the near term, there will be stress on PCBL's balance sheet. Nevertheless, it is noteworthy that ACPL acquisition is at 3.8x P/BV (specialty chemical companies trade in the range of 6-8x), which is attractive. However, PCBL management has no expertise in ACPL's business and integrating ACPL's team under PCBL will likely be challenging. We await further clarity on PCBL's strategy.

TP Rs268

CMP Rs254

Potential upside/downside 5%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	32.1	62.2	85.0
Rel to Sensex	28.4	60.4	79.1

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	16	19	22
Consensus	13	15	17
% difference	24.4	24.9	28.1

Key Stock Data

Bloomberg / Reuters	PCBL IN / PHIL.BO
Sector	Chemical & Fertilizers
Shares o/s (mn)	377
Market cap. (Rs mn)	95,989
3-m daily average value (Rs mn)	42.4
52-week high / low	Rs268 / 108
Sensex / Nifty	66,174 / 19,890

Shareholding Pattern (%)

Promoters	51.4
FII	7.1
DII	7.2
Public	34.3

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	44,464	58,739	59,522	62,572	71,732
Change (yoy, %)	67	32	1	5	15
EBITDA	6,334	7,263	9,867	11,265	12,703
Change (yoy, %)	25	15	36	14	13
EBITDA Margin(%)	14.2	12.4	16.6	18.0	17.7
Adj.PAT	4,271	4,444	5,979	7,343	8,422
EPS (Rs)	11	12	16	19	22
Change (yoy, %)	36.7	4.0	35	23	15
PE(x)	22.5	21.6	16	13	11
Dividend Yield (%)	2.0	2.2	2	3	3
EV/EBITDA (x)	16.1	14.1	10.3	8.7	7.4
RoE (%)	18.8	16.4	20	21	20
RoCE (%)	15.7	16	21	22	23

Source: IDBI Capital Research

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Exhibit 1: Key Financials of ACPL

(Rs mn)

	FY21	FY22	FY23
Net sales	9,430	16,540	20,450
<i>YoY growth</i>	NA	75%	24%
EBITDA	1,590	4,230	4,170
<i>EBITDA margin</i>	17%	26%	20%

Source: Company; IDBI Capital Research

ACPL Valuation: PCBL acquired ACPL at P/BV of 3.8x and EV/EBITDA of 9x FY23 EBITDA which is attractive considering other specialty chemical companies.

Exhibit 2: Peer valuation

	PER			P/BV			ROE		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
SRF	32.2	45.7	33.6	6.7	6.0	5.2	22.9	13.9	16.5
Navin Fluorine	48.6	49.1	39.1	8.3	7.3	6.3	17.2	14.8	16.0
Ami Organics	48.7	45.0	36.3	6.8	5.9	5.1	14.9	14.1	15.1
Neogen Chemicals	78.8	79.2	56.4	8.2	7.5	6.7	10.8	9.9	12.6
Clean Science	48.4	56.3	43.1	14.1	11.6	9.3	33.2	22.6	23.9
Average	51.3	55.1	41.7	8.8	7.7	6.5	19.8	15.1	16.8

Source: Bloomberg; IDBI Capital Research

Conference call highlights

- The transaction will be financed through mix of internal accruals and external funds. PCBL will use its cash in hand (Rs4.5 bn) and rest of the funds will be sourced through debt. The transaction is expected to be complete in next 3 months.
- PCBL expects the debt to be repaid by the end of H1FY27.
- ACPL has products like phosphonates, biodegradable chelating agents, polymers, and oil field chemicals. In the product mix, Phosphonates contributes 53%, Oil and gas 25% and others 22%.
- In terms of geography, USA contributes 65%, Europe 18% and India 17% to ACPL's revenues.
- The major customers for APCL are Procter and Gambler, Unilever, Reckitt Benckiser and Heineken.
- PCBL is consulting promoter group of ACPL to understand the business.
- There will be no change in the management of ACPL, the team will be operating for atleast 2 more years.
- The current management of ACPL has forecasted ~15% CAGR growth in sales over coming 3 years.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,595	44,464	58,739	59,522	62,572	71,732
<i>Change (yoy, %)</i>	<i>(18)</i>	<i>67</i>	<i>32</i>	<i>1</i>	<i>5</i>	<i>15</i>
Operating expenses	(21,510)	(38,131)	(51,476)	(49,654)	(51,307)	(59,028)
EBITDA	5,085	6,334	7,263	9,867	11,265	12,703
<i>Change (yoy, %)</i>	<i>10</i>	<i>25</i>	<i>15</i>	<i>36</i>	<i>14</i>	<i>13</i>
<i>Margin (%)</i>	<i>19.1</i>	<i>14.2</i>	<i>12.4</i>	<i>16.6</i>	<i>18.0</i>	<i>17.7</i>
Depreciation	(1,101)	(1,209)	(1,366)	(1,490)	(1,565)	(1,643)
EBIT	3,984	5,125	5,897	8,377	9,701	11,060
Interest paid	(236)	(69)	(434)	(620)	(246)	(200)
Other income	158	267	388	305	335	369
Pre-tax profit	3,905	5,323	5,851	8,062	9,790	11,229
Tax	(781)	(1,052)	(1,407)	(2,083)	(2,448)	(2,807)
<i>Effective tax rate (%)</i>	<i>20.0</i>	<i>19.8</i>	<i>24.1</i>	<i>25.8</i>	<i>25.0</i>	<i>25.0</i>
Minority Interest	-	-	-	-	-	-
Net profit	3,124	4,271	4,444	5,979	7,343	8,422
Exceptional items	-	-	-	-	-	-
Adjusted net profit	3,124	4,271	4,444	5,979	7,343	8,422
<i>Change (yoy, %)</i>	<i>11</i>	<i>37</i>	<i>4</i>	<i>35</i>	<i>23</i>	<i>15</i>
EPS	8.3	11.3	11.8	15.8	19.5	22.3
Dividend per share	3.2	5.0	5.5	6.0	7.0	8.0
<i>Dividend Payout (%)</i>	<i>38.6</i>	<i>44.2</i>	<i>47</i>	<i>38</i>	<i>36</i>	<i>36</i>

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	19,272	26,049	28,196	31,911	36,611	42,013
Share capital	345	378	378	378	378	378
Reserves & surplus	18,927	25,672	27,819	31,533	36,233	41,636
Total Debt	5,617	6,840	6,930	6,930	4,430	1,930
Other liabilities	3,710	3,676	3,350	3,953	3,953	3,953
Curr Liab & prov	8,503	10,989	11,686	15,427	16,106	18,143
Current liabilities	8,503	10,196	10,864	14,605	15,283	17,321
Provisions	-	793	822	822	822	822
Total liabilities	17,829	21,505	21,966	26,310	24,488	24,025
Total equity & liabilities	37,101	47,555	50,162	58,221	61,100	66,039
Net fixed assets	18,718	19,426	21,456	22,569	23,004	23,361
Investments	3,891	6,296	11,441	11,441	11,441	11,441
Other non-curr assets	-	-	-	-	-	-
Current assets	14,492	21,833	17,265	24,211	26,655	31,237
Inventories	4,448	6,039	4,858	8,154	8,572	9,826
Sundry Debtors	7,075	11,051	11,078	14,204	14,932	17,118
Cash and Bank	2,190	1,087	421	944	2,242	3,384
Other current assets	779	3,656	909	909	909	909
Total assets	37,101	47,555	50,162	58,221	61,100	66,039

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,905	5,323	5,851	8,062	9,790	11,229
Depreciation	1,101	1,209	1,366	1,490	1,565	1,643
Tax paid	(615)	(1,004)	(1,597)	(2,083)	(2,448)	(2,807)
Chg in working capital	(1,018)	(2,919)	1,852	(2,681)	(467)	(1,403)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	3,374	2,609	7,473	4,788	8,440	8,662
Capital expenditure	(1,669)	(1,917)	(3,397)	(2,603)	(2,000)	(2,000)
Chg in investments	(94)	(2,405)	(5,145)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(1,763)	(4,322)	(8,541)	(2,603)	(2,000)	(2,000)
Equity raised/(repaid)	-	4,000	-	-	-	-
Debt raised/(repaid)	170	1,223	90	-	(2,500)	(2,500)
Dividend (incl. tax)	(1,206)	(1,887)	(2,076)	(2,265)	(2,642)	(3,020)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(1,036)	3,336	(1,986)	(2,265)	(5,142)	(5,520)
Net chg in cash (a+b+c)	575	1,623	(3,054)	(80)	1,298	1,142

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	51	69	75	85	97	111
Adj EPS (Rs)	8	11	12	16	19	22
Adj EPS growth (%)	11.5	36.7	4.0	34.5	22.8	14.7
EBITDA margin (%)	19.1	14.2	12.4	16.6	18.0	17.7
Pre-tax margin (%)	14.7	12.0	10.0	13.5	15.6	15.7
Net Debt/Equity (x)	0.2	0.2	0.2	0.2	0.1	0.0
ROCE (%)	14.6	15.7	15.7	20.6	22.1	23.1
ROE (%)	17.3	18.8	16.4	19.9	21.4	20.0
DuPont Analysis						
Asset turnover (x)	0.8	1.1	1.2	1.1	1.0	1.1
Leverage factor (x)	1.9	1.9	1.8	1.8	1.7	1.6
Net margin (%)	11.7	9.6	7.6	10.0	11.7	11.7
Working Capital & Liquidity ratio						
Inventory days	61	50	30	50	50	50
Receivable days	97	91	69	87	87	87
Payable days	100	87	67	97	99	99

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	30.7	22.5	21.6	16.1	13.1	11.4
Price/Book value (x)	5.0	3.7	3.4	3.0	2.6	2.3
EV/Net sales (x)	3.7	2.3	1.7	1.7	1.6	1.3
EV/EBITDA (x)	19.6	16.1	14.1	10.3	8.7	7.4
Dividend Yield (%)	1.3	2.0	2.2	2.4	2.8	3.1

Source: Company; IDBI Capital Research

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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