PCBL Chemical HOLD

Margin pressure amid weak pricing environment

Summary

PCBL's Q2FY26 profitability was below our expectations. Carbon black sales declined 3% YoY, primarily due to an 11% YoY drop in realizations driven by weak demand amid global uncertainty. Domestic volumes increased by 10% YoY, while export volumes grew by 6% YoY. The Consolidated EBITDA margin contracted 450bps YoY to 12.3%, reflecting margin compression in both the carbon black and Aquapharm segments, largely due to pricing pressure on falling crude prices. EBITDA/t for carbon black segment fell 24% QoQ to Rs13,489 amid high input tariffs imposed by US. Consequently, we revise our FY26 EPS estimates downwards by 5% and maintain FY27 EPS estimates. We value the stock at a PER of 23x FY27E EPS, resulting in a revised target price of Rs387. We maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- **Healthy performance by Aquapharm:** Revenue grew by 9% YoY, led by a 6% YoY improvement in realizations and a 3% YoY increase in volumes driven by the homecare and water treatment portfolio. However, EBITDA margin contracted by 170bps YoY to 12.2%, owing to decreased contribution from the high margin Oil & Gas segment. Management has guided for a quarterly run-rate of Rs 75mn EBITDA by end of FY26.

- **Project Update:** PCBL's 90,000 MTPA carbon black capacity in Tamil Nadu (Phase 1) is expected to be commissioned in Q3FY26. The 1,000 MTPA superconductive grade line at Palej is expected to be commissioned in Oct'25 with commercial production starting in Nov'25. The 4,000 MTPA Acetylene Black facility is also expected to be commissioned in the next 18 months. The 20,000 MTPA specialty black line in Mundra is in advance stage and commissioning is expected to be preponed to March'26.

TP	Rs387
CMP	**Rs362**
Potential upside/downside	7%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(12.2)	(13.8)	(24.9)
Rel to Sensex	(13.8)	(16.4)	(28.3)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	11	17
Consensus	15	20
% difference	*(21.4)*	*(15.0)*

Key Stock Data

Bloomberg / Reuters	PCBL IN / PHIL.BO
Sector	Chemical & Fertilizers
Shares o/s (mn)	377
Market cap. (Rs mn)	136,792
3-m daily average value (Rs mn)	9.5
52-week high / low	Rs499 / 331
Sensex / Nifty	83,952 / 25,710

Shareholding Pattern (%)

Promoters	51.4
FII	6.1
DII	10.7
Public	31.8

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	57,741	64,198	84,043	87,784	95,455
Change (yoy, %)	*117.1*	*11.2*	*30.9*	*4.5*	*8.7*
EBITDA	7,212	10,373	13,368	12,904	16,036
Change (yoy, %)	*42.0*	*43.8*	*28.9*	*(3.5)*	*24.3*
EBITDA Margin(%)	*12.5*	*16.2*	*15.9*	*14.7*	*16.8*
Adj.PAT	4,422	4,911	4,352	4,031	6,335
EPS (Rs)	12	13	12	11	17
Change (yoy, %)	*40.8*	*11.1*	*(11.4)*	*(7.4)*	*57.2*
PE(x)	30.9	27.8	31.4	33.9	21.6
Dividend Yield (%)	1.5	1.5	1.5	1.5	1.5
EV/EBITDA (x)	20.1	17.4	14.0	14.5	11.6
RoE (%)	*16.2*	*16.2*	*12.5*	*10.4*	*14.7*
RoCE (%)	*15.0*	*12.4*	*10.6*	*9.3*	*11.9*

Source: IDBI Capita

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Exhibit 1: Quarterly Snapshot (Consolidated) (Rs mn)

Financial snapshot	Q2FY26	Q1FY26	*QoQ (%)*	Q2FY25	*YoY (%)*
Net sales	**21,636**	**21,141**	***2.3***	**21,632**	***0.0***
Expenditure	18,974	17,950	*5.7*	17,997	*5.4*
EBITDA	**2,662**	**3,191**	***(16.6)***	**3,635**	***(26.8)***
EBITDA margin (%)	*12.3*	*15.1*	*-279bps*	*16.8*	*-450bps*
Other income	121	58	*107.8*	57	*113.3*
Interest	1,072	1,124	*(4.6)*	1,189	*(9.9)*
Depreciation	928	924	*0.5*	864	*7.4*
PBT	**786**	**1,202**	***(34.5)***	**1,638**	***(52.0)***
Tax	166	261	*(36.4)*	404	*(58.9)*
PAT	**619**	**941**	***(34.2)***	**1,234**	***(49.8)***
Diluted EPS (Rs)	**1.6**	**2.5**	***(34.2)***	**3.3**	***(49.8)***

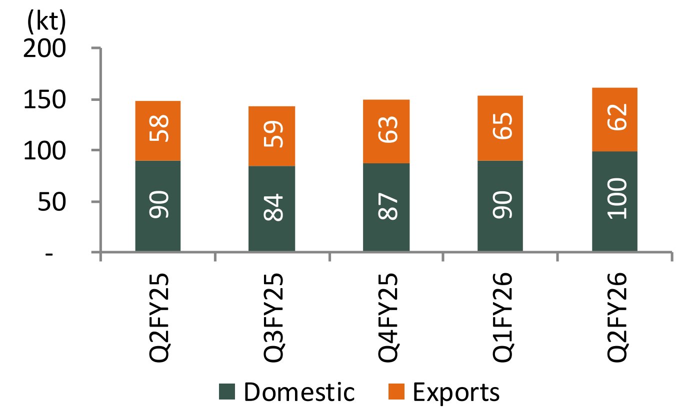
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates (Rs mn)

	Q2FY26E	Q2FY26A	*Variance (%)*
Net sales	**21,624**	**21,636**	***0.1***
EBTIDA	3,417	2,662	*(22.1)*
EBITDA margin (%)	*15.8*	*12.3*	*-350bps*
PAT	**1,036**	**619**	***(40.3)***
Diluted EPS (Rs)	2.7	1.6	*(40.3)*

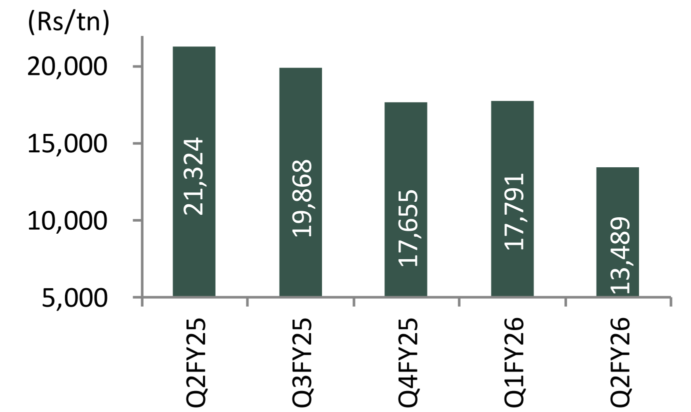
Source: Company; IDBI Capital Research

Exhibit 3: Carbon Black Volumes grew 8% YoY



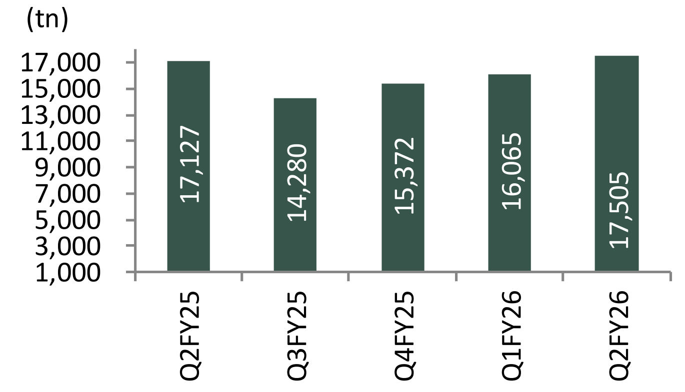
Source: Company, IDBI Capital Research

Exhibit 4: EBITDA/tonne decreased 24%YoY



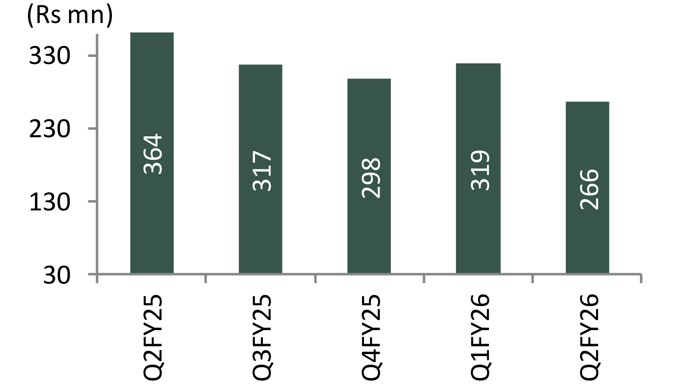
Source: Company, IDBI Capital Research

Exhibit 5: Specialty volumes increased by 3% YoY



Source: Company, IDBI Capital Research

Exhibit 6: EBITDA decreased by 11% YoY



Source: Company, IDBI Capital Research

Conference call Highlights

Business Updates

- Carbon Black Sales volume increased 5% QoQ, reaching 161,728 metric tons. Capacity utilization was maintained at over 99%.
- Power Segment achieved highest ever power generation at 223 million units, up 7% YoY and external sales volume at 138 million units, up 10% YoY.
- The working capital cycle improved by 12 days in H1 FY'26, releasing approximately Rs 240 million in cash. Gross debt has reduced by over Rs 300 million since March 2025.
- Specialty sales volume was 17,505 tonnes in Q2, growing 9% QoQ. The company is on track to achieve 70,000-73,000 tons based on current capacity. The long-term EBITDA per ton guidance remains Rs 24,000 to Rs 25,000.

Market Headwinds and Pricing Pressure

- Margins were impacted by persistent pricing pressure in a soft market, though management anticipates a steady recovery as the phase has largely bottomed out.
- High input tariffs imposed by the US constrained carbon black margins. Although the tariff is 50%, the effective rate is 20% because 60% of the input costs are derived from raw material sourced in the US, making that portion exempt. This resulted in a volume reduction of roughly 2,000 tons to the US during Q2.
- Pricing pressure was observed in the spot market due to the temporary deferment of purchases following the GST rate cut. Russian imports (8,000 to 10,000 tons per month) occurring at lower prices also pressure spot rates.
- Despite current softness, long-term carbon black demand dynamics remain strong, supported by significant investment plans by global tyre companies totalling approximately $4 billion.

Aquapharm Business

- Home Care grew robustly at 18% QoQ, and Water Solutions maintained strong momentum, growing 16% QoQ.
- The US Oil & Gas business saw volumes decline 14% due to oil prices ($62 to $62) staying below the ideal sweet spot ($75 to $80).
- The recent 100% tariffs imposed by the US on China created opportunities for Aquapharm's Phosphonate and Green chelates businesses as US customers diversify sourcing.
- Management expects visible EBITDA improvement starting Q3, projecting an exit EBITDA run rate of over Rs 75 million per quarter for the global business by the end of the financial year.
- Aquapharm commissioned a new PBTC plant, transitioning it to a manufactured product. They now offer a complete Green chelates portfolio (GLD, MGDA, IDS) for commercial sales. De-bottlenecking operations for acetyl chloride are complete

Strategic Expansion and Battery Chemicals

- PCBL is on track to achieve over 1 million tonnes of carbon black capacity in the next couple of years.
- A brownfield expansion of 90,000 tonnes rubber line in Tamil Nadu is under commissioning and expected to be operational this quarter. The Specialty Black Line (1,000 metric tonnes/pa for superconductive grades) in Palej, Gujarat, is being commissioned this month, with commercial production starting in November 2025.
- The process patent for nano-silicon for battery applications has been granted in the US.

Exhibit 7: Change in estimates

	FY26E			FY27E		
	Old	New	*(%) Chg*	Old	New	*(%) Chg*
Revenue (Rs bn)	86,724	87,784	*1.2*	95,294	95,455	*0.2*
EBITDA (Rs bn)	13,468	12,904	*-4.2*	16,009	16,036	*0.2*
EBITDA margin (%)	*15.5*	*14.7*	*-83*	*16.8*	*16.8*	*0*
Adj. Net profit (Rs bn)	4,248	4,031	*-5.1*	6,351	6,335	*-0.2*
Adj. EPS (Rs)	11.3	10.7	*-5.1*	16.8	16.8	*-0.2*

Source: Company; IDBI Capital Research

Financial Summary (Consolidated)

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	**44,464**	**57,741**	**64,198**	**84,043**	**87,784**	**95,455**
Change (yoy, %)	*67.2*	*29.9*	*11.2*	*30.9*	*4.5*	*8.7*
Operating expenses	(38,157)	(50,528)	(53,824)	(70,675)	(74,879)	(79,419)
EBITDA	**6,307**	**7,212**	**10,373**	**13,368**	**12,904**	**16,036**
Change (yoy, %)	*24.2*	*14.3*	*43.8*	*28.9*	*(3.5)*	*24.3*
Margin (%)	*14.2*	*12.5*	*16.2*	*15.9*	*14.7*	*16.8*
Depreciation	(1,209)	(1,367)	(2,173)	(3,457)	(3,815)	(4,066)
EBIT	**5,099**	**5,845**	**8,201**	**9,911**	**9,089**	**11,971**
Interest paid	(69)	(434)	(1,808)	(4,609)	(4,412)	(4,371)
Other income	286	406	370	474	490	521
Pre-tax profit	**5,316**	**5,817**	**6,763**	**5,771**	**5,168**	**8,122**
Tax	(1,052)	(1,395)	(1,852)	(1,424)	(1,137)	(1,787)
Effective tax rate (%)	*19.8*	*24.0*	*27.4*	*24.7*	*22.0*	*22.0*
Minority Interest	-	-	-	-	-	-
Net profit	**4,264**	**4,422**	**4,911**	**4,347**	**4,031**	**6,335**
Exceptional items	-	-	-	(5)	-	-
Adjusted net profit	**4,264**	**4,422**	**4,911**	**4,352**	**4,031**	**6,335**
Change (yoy, %)	*36*	*4*	*11*	*(11)*	*(7)*	*57*
EPS	11.3	11.7	13.0	11.5	10.7	16.8
Dividend per share	10.0	5.5	5.5	5.5	5.5	5.5
Dividend Payout (%)	*88.5*	*46.9*	*42.3*	*47.7*	*51.5*	*32.8*

Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	26,140	28,302	32,467	36,974	38,928	43,186
Share capital	378	378	378	378	378	378
Reserves & surplus	25,762	27,924	32,089	36,597	38,551	42,808
Total Debt	**6,840**	**9,430**	**48,197**	**53,800**	**53,800**	**52,800**
Other liabilities	3,676	3,344	10,576	4,692	4,692	4,692
Curr Liab & prov	**11,109**	**13,161**	**21,677**	**21,646**	**23,281**	**24,853**
Current liabilities	10,315	12,339	20,769	20,665	22,300	23,873
Provisions	793	823	908	981	981	981
Total liabilities	**21,625**	**25,935**	**80,450**	**80,137**	**81,772**	**82,345**
Total equity & liabilities	**47,847**	**54,328**	**1,12,954**	**1,17,229**	**1,20,819**	**1,25,650**
Net fixed assets	20,147	30,189	59,863	64,818	67,003	69,937
Investments	**4,993**	**4,016**	**7,090**	**9,099**	**10,842**	**10,842**
Other non-curr assets	-	-	11,614	6,068	6,068	6,068
Current assets	**22,708**	**20,124**	**34,388**	**37,245**	**36,906**	**38,803**
Inventories	6,039	5,714	9,993	12,682	13,431	14,632
Sundry Debtors	11,051	11,107	17,102	17,937	17,094	18,623
Cash and Bank	1,591	956	3,848	3,892	3,647	2,814
Other current assets	4,027	2,347	3,444	2,735	2,735	2,735
Total assets	**47,847**	**54,328**	**1,12,954**	**1,17,229**	**1,20,819**	**1,25,650**

Cash Flow Statement (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	5,316	5,817	6,763	5,771	5,168	8,122
Depreciation	1,209	1,367	2,173	3,457	3,815	4,066
Tax paid	(1,036)	(1,658)	(2,156)	(1,780)	-	-
Chg in working capital	(2,428)	909	3,396	(4,348)	1,729	(1,158)
Other operating activities	(157)	(1,395)	878	4,505	4,412	4,371
Cash flow from operations (a)	**2,904**	**5,041**	**11,054**	**7,605**	**13,986**	**13,613**
Capital expenditure	(3,062)	(8,957)	(5,329)	(7,644)	(6,000)	(7,000)
Chg in investments	(2,490)	3,322	(36,951)	547	(1,743)	-
Other investing activities	145	116	139	194	-	-
Cash flow from investing (b)	**(5,407)**	**(5,519)**	**(42,141)**	**(6,903)**	**(7,743)**	**(7,000)**
Equity raised/(repaid)	390	-	-	1,161	-	-
Debt raised/(repaid)	272	3,089	38,029	5,540	-	-
Dividend (incl. tax)	(1,887)	(2,076)	(2,076)	(2,076)	(4,412)	(4,371)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(118)	(1,319)	(2,146)	(5,225)	-	-
Cash flow from financing (c)	**(1,344)**	**(306)**	**33,808**	**(600)**	**(4,412)**	**(4,371)**
Net chg in cash (a+b+c)	**(3,847)**	**(784)**	**2,721**	**102**	**1,832**	**2,243**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	69	75	86	98	103	114
Adj EPS (Rs)	*11*	*12*	*13*	*12*	*11*	*17*
Adj EPS growth (%)	*35.8*	*3.7*	*11.1*	*-11.4*	*-7.4*	*57.2*
EBITDA margin (%)	*14.2*	*12.5*	*16.2*	*15.9*	*14.7*	*16.8*
Pre-tax margin (%)	*12.0*	*10.1*	*10.5*	*6.9*	*5.9*	*8.5*
Net Debt/Equity (x)	*0.2*	*0.3*	*1.4*	*1.3*	*1.3*	*1.2*
ROCE (%)	*15.4*	*15.0*	*12.4*	*10.6*	*9.3*	*11.9*
ROE (%)	*18.7*	*16.2*	*16.2*	*12.5*	*10.4*	*14.7*
DuPont Analysis						
Asset turnover (x)	1.0	1.1	0.8	0.7	0.7	0.8
Leverage factor (x)	1.9	1.9	2.8	3.3	3.1	2.9
Net margin (%)	*9.6*	*7.7*	*7.6*	*5.2*	*4.6*	*6.6*
Working Capital & Liquidity ratio						
Inventory days	50	36	57	55	56	56
Receivable days	91	70	97	78	71	71
Payable days	87	69	122	82	86	88

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	32.0	30.9	27.8	31.4	33.9	21.6
Price/Book value (x)	5.2	4.8	4.2	3.7	3.5	3.2
EV/Net sales (x)	3.2	2.5	2.8	2.2	2.1	2.0
EV/EBITDA (x)	22.5	20.1	17.4	14.0	14.5	11.6
Dividend Yield (%)	*2.8*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

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

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