



**impetus advisors**

research@impetusadvisors.com

02 Feb 2004

For Private Circulation Only  
Please read important  
disclosure on last page

## Phillips Carbon Black Ltd Result Update – QE Dec 03

We had recommended PCBL at Rs.44 in Sep-03. The stock has doubled since then and offers potential to double once again. The company has reported 58% YoY growth in net profit QE Dec-03. The company is now entering a phase wherein it will show sequential growth in quarterly profits aided largely by profit from power generation using off-gas.

**Fair Value Rs.171**

**Price Rs.88**

**+94%**

The stock currently **trades at 7.7 times** trailing four quarters' EPS (Rs.11.40). We expect its **earnings to grow at 50% this year (YE Sep-04) and 100% next year** driven largely by profit from power generation and commencement of carbon black supply to a global tyre major. We estimate DCF fair value at around Rs.171. The fair value has been revised upwards from our earlier estimate of around Rs.133 in Sep-03, as **uncertainty regarding supplies to the global tyre major has now become a certainty.**

In QE Dec-03, Domestic sales grew 21.3% YoY and exports grew 90% YoY driven by high tyre demand derived from high auto demand and growth in road transportation. However, realisations were lower in the quarter. Prices for carbon black are set at the beginning of the quarter based on price of feedstock in the previous quarter. Carbon black feed stock (DBFS) is a by-product of petro refineries. Its price, therefore, fluctuates with oil prices. As there is a lag of a quarter in passing on changes in CBFS prices to CB customers, this leads to earnings volatility in short term.

Due to high oil prices in the Oct-Dec 2003 quarter, **CBFS cost was high but CB realisations continued to be low. This impacted EBITDA margin** and EBITDA for the quarter fell 8.1% YoY. Realisations, EBITDA margin and EBITDA will be higher in Jan-Mar quarter, as CBFS prices are unlikely to rise from previous quarter level but CB realisations will be higher due to lag of a quarter in passing the CBFS cost increase. **We estimate EBITDA to rise 26% YoY in QE Mar-04 and PAT to rise 160% to Rs.70mn.** PAT for QE Dec-03 was Rs.35mn. This implies **100% sequential growth** in the current quarter.

On sequential basis (QE Dec-03 over QE Sep-03), domestic realisations dropped 2.3% and export realisations dropped 9.2%. Export volumes were up 16.2%. Domestic volume remained unchanged. Depreciation rose to Rs.35mn from Rs.27mn, as revaluation reserve was fully written off by QE Sep-03. Interest expense rose from Rs.33mn to Rs.40mn due to derivatives loss (interest and currency derivatives). Interest cost is expected to come down in Mar-04 quarter, as derivatives mature.

PCBL's expansion program at Palej (Vadodara) is expected to commence commercial production in QE Jun-04. The program includes 70,000 tonne per annum of Carbon Black and 12 MW of power from off-gas generated from carbon black production process. **This will once again lead to sequential profit growth.**

This will be followed by company's 20MW power project using off-gas at Durgapur (WB), which is likely to commence commercial production in QE Dec-04.

Please refer our report of 22 Sep 03 for detailed analysis.



**Financial Table: Phillips Carbon Black Ltd**

<b>Rs.mn</b>	<b>Dec-03</b>	<b>Dec-02</b>	<b>Change</b>	<b>Mar-04E</b>	<b>Mar-03</b>	<b>Change</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>%</b>	<b>3</b>	<b>3</b>	<b>%</b>
Domestic Sales (net of excise)	1,189	980	21.3%	1,249	1,053	18.6%
Export Sales	190	100	90.0%	200	105	90.5%
<b>Gross Sales</b>	<b>1,379</b>	<b>1,080</b>	<b>27.7%</b>	<b>1,449</b>	<b>1,158</b>	<b>25.1%</b>
Increase/(Decrease) in stock	13	2		(1)	1	
<b>Value of Production</b>	<b>1,392</b>	<b>1,083</b>	<b>28.6%</b>	<b>1,448</b>	<b>1,159</b>	<b>24.9%</b>
Total Expenditure	1,279	959	33.3%	1,291	1,038	24.5%
<b>EBIDTA</b>	<b>113</b>	<b>123</b>	<b>-8.1%</b>	<b>156</b>	<b>121</b>	<b>29.1%</b>
Depreciation	35	33	6.3%	35	33	6.3%
<b>EBIT</b>	<b>78</b>	<b>90</b>	<b>-13.4%</b>	<b>121</b>	<b>88</b>	<b>37.7%</b>
Other income	8	4	76.7%	6	3	87.5%
Interest	40	60	-33.2%	35	49	-28.0%
<b>PBT</b>	<b>46</b>	<b>35</b>	<b>31.8%</b>	<b>92</b>	<b>42</b>	<b>116.6%</b>
<b>Extra ordinary Exp/(Inc)</b>						
Tax	11	13	-14.2%	22	16	41.0%
<b>PAT</b>	<b>35</b>	<b>22</b>	<b>58.4%</b>	<b>70</b>	<b>27</b>	<b>160.4%</b>
<b>Adjusted PAT</b>	<b>35</b>	<b>22</b>	<b>58.4%</b>	<b>70</b>	<b>27</b>	<b>160.4%</b>
Equity Capital	178	178	0.0%	178	178	0.0%
<b>Annualised EPS (Rs)</b>	<b>7.82</b>	<b>4.94</b>	<b>58.4%</b>	<b>15.78</b>	<b>6.06</b>	<b>160.4%</b>
<b>EBITDA Margin (%)</b>	<b>8.2%</b>	<b>11.4%</b>	<b>-3.20%</b>	<b>10.8%</b>	<b>10.5%</b>	<b>0.3%</b>
<b>EBIT Margin (%)</b>	<b>5.6%</b>	<b>8.3%</b>	<b>-2.68%</b>	<b>8.4%</b>	<b>7.6%</b>	<b>0.8%</b>
Adj PAT Margin (%)	2.5%	2.0%		4.8%	2.3%	
Other Income/PBT (%)	16.7%	12.4%		6.5%	7.5%	
Tax/PBT (%)	23.9%	36.7%		23.9%	36.7%	
Export/Total sales %	13.8%	9.3%		13.8%	9.1%	
Material costs	775	541	43.4%	772	564	36.8%
% of VoP	55.7%	49.9%	5.7%	53.3%	48.7%	4.6%
Staff costs	52	47	10.0%	52	45	15.4%
% of VoP	3.7%	4.3%	-0.6%	3.6%	3.9%	-0.3%
Other costs	452	372	21.6%	468	429	9.1
% of VoP	32.5%	34.3%	-1.9%	32.3%	37.0%	-4.7%



## **Important Disclosure**

**This material has been prepared by Impetus Advisors, Mumbai, India ([www.impetusadvisors.com](http://www.impetusadvisors.com)).**

The views expressed herein correctly reflect Impetus Advisors' views. Owners, analysts, and/or employees of Impetus Advisors hold long position in the stock of Ester Industries Ltd.

This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to inform themselves of, and to observe such restrictions.

This material is for the personal information of the authorised recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Impetus Advisors is authorised to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Neither Impetus Advisors, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavour to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here.

No part of this material may be duplicated in any form and/or redistributed without Impetus Advisor's prior written consent.

### **Be the first to receive Impetus Advisors' multi-bagger research ideas**

**Impetus Advisors is an equity research boutique, which specialises in identifying multi-bagger stock ideas among Indian equities. It caters mainly to high networth individuals & entities. It also counts among its clients a few discerning institutional investors.**

**Please visit [www.impetusadvisors.com](http://www.impetusadvisors.com) for details. Write to [research@impetusadvisors.com](mailto:research@impetusadvisors.com) with your contact numbers to know how you can access our research-based multi-bagger investment ideas.**