

Rating matrix		
Rating	:	Hold
Target	:	₹ 165
Target Period	:	12 months
Potential Upside	:	-10%

What's changed?		
Target	Changed from ₹ 200 to ₹ 165	
EPS CY18E	Unchanged	
EPS CY19E	Changed from ₹ 8 to ₹ 7.8	
Rating	Unchanged	

Quarterly performance					
	Q1CY18	Q1CY17	YoY (%)	Q4CY17	QoQ (%)
Revenue	927.1	882.2	5.1	970.3	(4.5)
EBITDA	274.3	263.3	4.2	306.6	(10.5)
EBITDA (%)	29.6	29.8	-26 bps	31.6	-201 bps
PAT	181.8	179.0	1.6	196.7	(7.6)

Key financials				
₹ Crore	CY16	CY17	CY18E	CY19E
Revenues	3,370.4	3,584.3	3,890.8	4,051.2
EBITDA	1,004.9	1,033.0	1,098.7	1,168.2
Net Profit	674.9	691.7	727.8	771.1
EPS (₹)	6.8	7.0	7.4	7.8

Valuation summary				
	CY16	CY17	CY18E	CY19E
P/E	27.0	26.3	25.0	23.6
Target P/E	24.2	23.6	22.4	21.2
EV / EBITDA	17.3	17.0	16.0	15.1
P/BV	30.5	36.7	46.7	62.1
RoNW (%)	113.3	139.6	186.6	263.1
RoCE (%)	161.1	199.3	267.0	378.3

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	18,199.8
Total Debt (CY17) (₹ Crore)	-
Cash and Investments (CY17) (₹ Crore)	629.2
EV (₹ Crore)	17,570.6
52 week H/L	225/172
Equity capital (₹ Crore)	247.3
Face value (₹)	5.0

Price performance				
Return %	1M	3M	6M	12M
Castrol India	(5.1)	8.4	(6.1)	(10.5)
Tide Water Oil	(0.4)	(2.8)	2.5	2.8
Gulf Oil Lube.	(1.0)	2.5	12.8	18.1

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Castrol India (CASIND)

₹ 184

Volume concerns, margin outlook signal caution

- Castrol India reported its Q1CY18 numbers, which were largely in line with our estimates on the profitability front mainly on account of strong EBITDA margins. The revenues increased 5.2% YoY to ₹ 927.1 crore and came below our estimates of ₹ 958 crore. The miss on the revenue front was mainly on account of lower than expected volumes of 51.5 million litres (our estimates: 52 million litres) and lower net realisations at ₹ 180 per litre (our estimates: ₹ 184.4 per litre).
- However, EBITDA per litre came in at ₹ 53.3/litre above our estimates of ₹ 52.9/litre on account of lower employee costs
- Subsequently, PAT which increased 1.6% YoY to ₹ 181.8 crore came largely in line with our estimates

Higher crude oil prices and rupee depreciation - key headwinds for Castrol

Castrol's raw material costs include crude oil derivatives like base oil and additives. The recent upward trajectory in crude oil prices has led the escalation of base oil prices and Castrol's raw material costs. However, the company was able to maintain its gross margins at ₹ 96.6/ litre due to price hikes during the quarter. Although, price hikes will mitigate some risk of high raw material costs, the rupee depreciation and higher base oil might put pressure on margins in the coming quarters. Factoring the same, we expect the net realisations for CY18E and CY19E at ₹ 182.9 per litre and ₹ 184.9 per litre, respectively whereas the gross margins are expected at ₹ 96.1 per litre in CY18E and ₹ 99 per litre in CY19E. Castrol's EBITDA is expected at ₹ 51.8 per litre and ₹ 53.3 per litre in CY18E and CY19E respectively.

Volume growth remains a concern, going ahead

The volume growth during the quarter came in at 2.6% YoY (51.5 million litre) and stood below the company's usual average growth rate and our estimates of 3.5% YoY. The personal mobility segment grew at a single digit growth rate whereas commercial vehicle volumes remained flat YoY. Industrial volumes continued to remain a concern with volumes declining YoY on account of lower offtake from wind energy segment. The volume portfolio consists of personal mobility: 43%, commercial vehicle volumes: 43% and industrial volumes: 14%. Going forward, higher drain intervals due to improvement in technology and development of electric vehicle space poses a risk to Castrol's volume outlook. Hence, we expect Castrol's volume at 212.9 million litres in CY18E and 219.1 million litres in CY19E,

Recovery in CV & industrial volumes, EV threat- factors to watch out for

Although, Castrol was successful in signing OEM contract and strategic alliances with automotive giants like Ford, Piaggio, VW, Volvo, Renault and Nissan, its strategy to defend the potential disruptions like electric cars will be the key decider going ahead. Recovery in industrial and commercial vehicle segment volumes and focus on increasing the personal mobility segment in its portfolio will be key factors for directing company's growth ahead. We value Castrol India at 21x CY19E EPS of ₹ 7.8 to arrive at a target price of ₹ 165 with a HOLD rating.

Variance analysis

	Q1CY18	Q1CY18E	Q1CY17	YoY (%)	Q4CY17	QoQ (%)	Comments
Total Revenues	927.1	958.0	882.2	5.1	970.3	-4.5	Lower-than-estimated revenues on account of lower volumes and lower realisations
Raw materials costs	429.4	452.8	404.2	6.2	438.8	-2.1	
Employees Cost	46.9	53.3	49.8	-5.8	50.7	-7.5	
Other Expenses	176.5	177.2	164.9	7.0	174.2	1.3	
Total Expenditure	652.8	683.3	618.9	5.5	663.7	-1.6	
EBITDA	274.3	274.7	263.3	4.2	306.6	-10.5	EBITDA came in line with our estimates as lower volumes and realisation were offset by lower employee costs
EBITDA margins (%)	29.6	28.7	29.8	-26 bps	31.6	-201 bps	
Depreciation	14.3	11.3	12.3	16.3	10.3	38.8	
EBIT	260.0	263.3	251.0	3.6	296.3	-12.3	
Interest	0.7	0.3	0.3	133.3	0.6	16.7	
Other Income	22.8	20.0	18.5	23.2	16.4	39.0	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	282.1	283.0	269.2	4.8	312.1	-9.6	
Total Tax	100.3	99.1	90.2	11.2	115.4	-13.1	
PAT	181.8	184.0	179.0	1.6	196.7	-7.6	

Key Metrics

Exchange rate (₹/\$)	64.5	64.5	67.0	-3.7	65.1	-0.9
Volumes (mn litre)	51.5	52.0	50.2	2.6	54.4	-5.3
Net Realisation (₹/litre)	180.0	184.4	175.7	2.4	178.4	0.9
Gross Margins (₹/litre)	96.6	97.2	95.2	1.5	97.7	-1.1
EBITDA (₹/litre)	53.3	52.9	52.5	1.5	56.4	-5.5

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	CY18E			CY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,943.6	3,890.8	-1.3	4,107.7	4,051.2	-1.4	Assumption of lower volume growth rate led to revision in revenue estimates
EBITDA	1,114.5	1,098.7	-1.4	1,200.0	1,168.2	-2.6	Higher base oil prices and rupee depreciation led to the revision in EBITDA estimates
EBITDA Margin (%)	28.3	28.2	-0.1	29.2	28.8	-1.3	
PAT	744.2	727.8	-2.2	797.8	771.1	-3.3	
EPS (₹)	7.5	7.4	-2.2	8.1	7.8	-3.3	

Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier		Comments
	CY16	CY17	CY18E	CY19E	CY18E	CY19E	
Exchange rate (₹/\$)	67.3	65.1	65.6	66.0	64.5	64.5	Recent rupee depreciation led to change in assumptions
Volumes (mn litre)	199.4	204.6	212.9	219.1	213.6	220.0	
Net Realisation (₹/litre)	168.2	175.5	182.9	184.9	184.6	186.7	
Gross Margins (₹/litre)	92.0	94.0	96.1	99.0	97.7	101.3	Higher raw material costs (base oil) led to reduction in gross margin estimates
EBITDA (₹/litre)	50.2	50.7	51.8	53.3	52.2	54.5	EBITDA estimates revised on account of lower gross margins

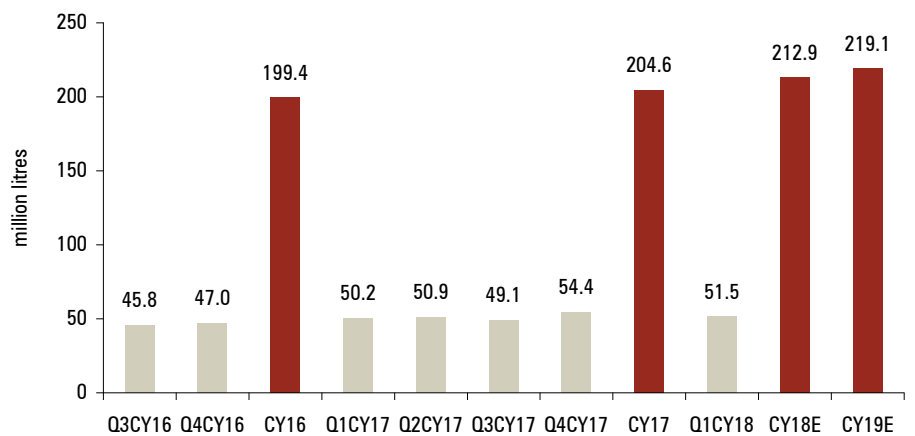
Source: Company, ICICI Direct Research,

Company Analysis

Volume growth remains a concern, going ahead

The volume growth during the quarter came in at 2.6% YoY (51.5 million litre) and stood below the company's usual average growth rate and our estimates of 3.5% YoY. The personal mobility segment grew at a single digit growth rate whereas commercial vehicle volumes remained flat YoY. Industrial volumes continued to remain a concern with volumes declining YoY on account of lower offtake from wind energy segment. The volume portfolio consists of personal mobility: 43%, commercial vehicle volumes: 43% and industrial volumes: 14%. Going forward, higher drain intervals due to improvement in technology and development of electric vehicle space poses a risk to Castrol's volume outlook. Hence, we expect Castrol's volume at 212.9 million litres in CY18E and 219.1 million litres in CY19E.

Exhibit 1: Volumes to remain steady, going forward

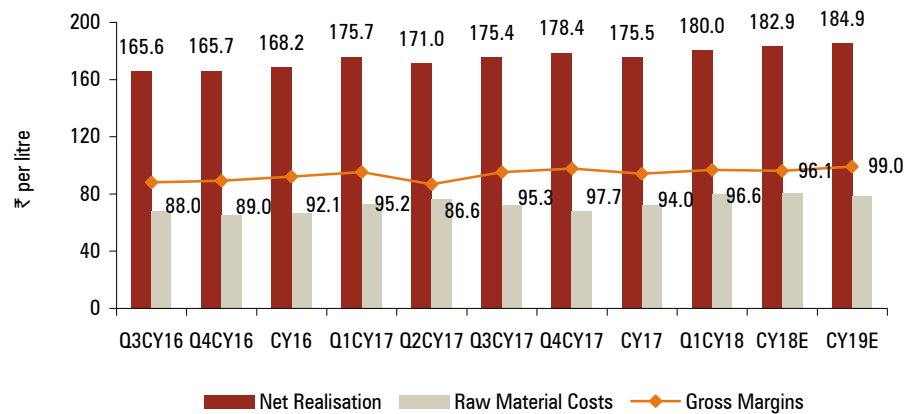


Source: Company, ICICI Direct Research

Higher crude oil prices and rupee depreciation- key headwinds for Castrol

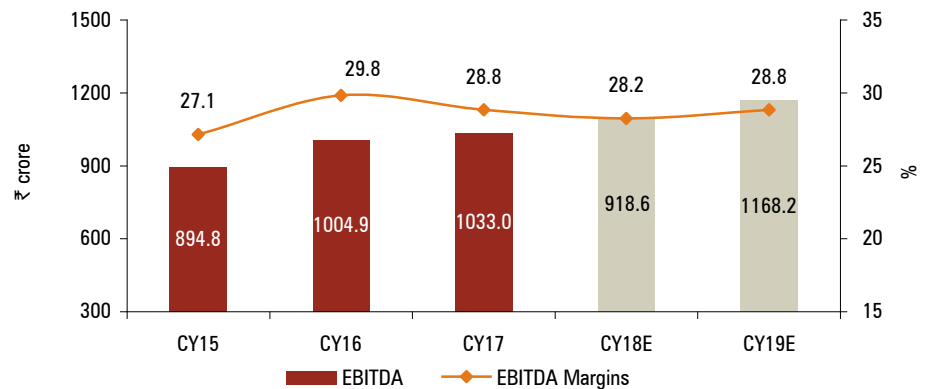
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Exhibit 2: Steady and Stable financial parameters going ahead



Factoring the same, we expect the net realisations for CY18E and CY19E at ₹ 182.9 per litre and ₹ 184.9 per litre, respectively whereas the gross margins are expected at ₹ 96.1 per litre in CY18E and ₹ 99 per litre in CY19E

Exhibit 3: EBITDA margins to increase, going ahead



Source: Company, ICICI Direct Research

Castrol's EBITDA is expected at ₹ 51.8 per litre and ₹ 53.3 per litre in CY18E and CY19E respectively.

Outlook & valuation

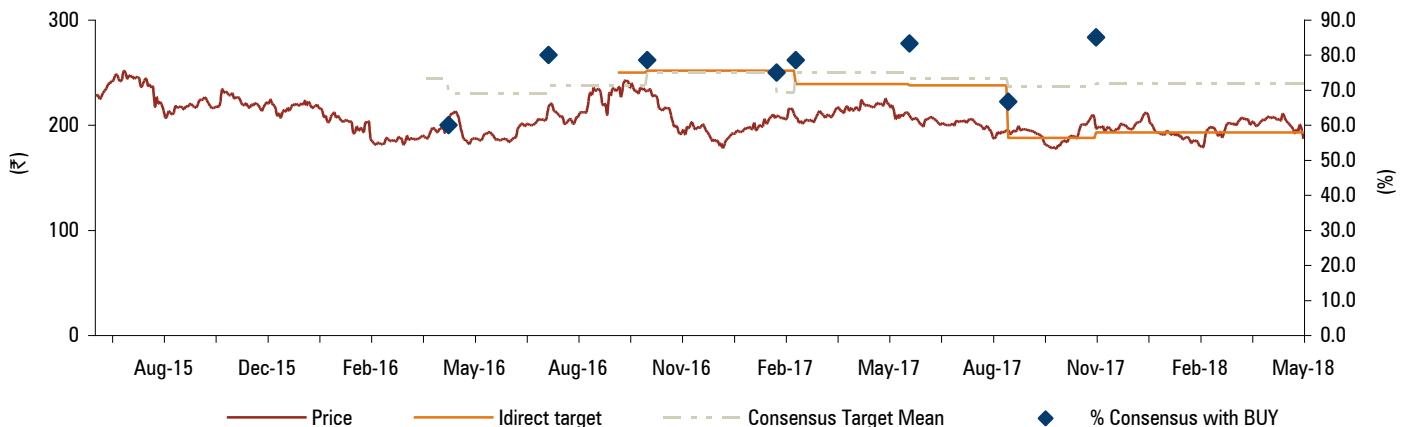
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Exhibit 4: Valuations

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY16	3370.4	2.2	6.8	9.7	26.5	17.0	113.3	161.1
CY17	3584.3	6.3	7.0	2.5	26.3	17.0	139.6	199.3
CY18E	3890.8	8.6	7.4	5.2	25.0	16.0	186.6	267.0
CY19E	4051.2	4.1	7.8	6.0	23.6	15.1	263.1	378.3

Source: Company, ICICI Direct Research

Recommended history vs Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Feb-10	Announces 1:1 bonus
Jul-10	Sells certain assets to Hasco Oil Company
Jul-12	Announces 1:1 bonus
Aug-13	Announces interim dividend of ₹ 3.50/share
Jul-14	Q2 net sales rise 6% to ₹ 910.3 crore with net profit dipping 19% to 124.4 crore
Jan-15	Crude oil prices fall below \$55/bbl
Sep-15	Closure of Castrol's Wadala facility
May-16	British Petroleum sells 11.5% of its stake in Castrol India
Sep-16	British Petroleum sells 8.5% of its stake in Castrol India
Nov-17	Castrol enters into new OEM tie-up with Piaggio and extends its existing contracts with Volkswagen and Volvo
Nov-17	Castrol's board approves bonus issue in the ratio of 1:1

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position	Change (m)
1	Castrol, Ltd.	31-Dec-17	25.5	252.2	-252.2
2	Life Insurance Corporation of India	31/Dec/17	4.4	43.4	-40.0
3	Reliance Nippon Life Asset Management Limited	31-Mar-18	1.5	15.1	0.4
4	UTI Asset Management Co. Ltd.	31/Mar/18	1.3	13.3	0.5
5	Aditya Birla Sun Life AMC Limited	31-Dec-17	1.0	10.3	-0.4
6	The Vanguard Group, Inc.	31/Mar/18	0.9	8.6	-0.1
7	Goldman Sachs Asset Management International	31-Mar-18	0.7	6.9	0.3
8	Macquarie Funds Management Hong Kong Ltd.	31/Mar/18	0.7	6.4	-1.2
9	GIC Private Limited	31-Dec-17	0.6	5.8	-4.6
10	DSP BlackRock Investment Managers Pvt. Ltd.	31/Mar/18	0.5	5.4	-0.3

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	51.0	51.0	51.0	51.0	51.0
FII	11.4	10.8	10.4	10.3	10.7
DII	18.7	19.7	20.2	16.8	17.9
Others	18.9	18.6	18.4	21.9	20.4

Recent Activity

Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
FIL Investment Management (Singapore) Ltd.	8.37	2.77	Castrol, Ltd.	-763.44	-252.23
L&T Investment Management Limited	3.54	1.13	Life Insurance Corporation of India	-121.03	-39.99
J.P. Morgan Asset Management (Hong Kong) Ltd.	3.11	0.99	Norges Bank Investment Management (NBIM)	-14.29	-4.72
UTI Asset Management Co. Ltd.	1.68	0.54	GIC Private Limited	-13.87	-4.58
Reliance Nippon Life Asset Management Limited	1.14	0.36	Jupiter Asset Management Ltd.	-9.30	-3.01

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement					₹ Crore				
(Year-end December)	CY16	CY17	CY18E	CY19E					
Revenue	3370.4	3584.3	3890.8	4051.2					
Growth (%)	2.2	6.3	8.6	4.1					
(Inc.)/(Dec.) in stock in trade	-15.0	-5.4	-30.9	0.0					
Raw material Costs	1320.3	1474.7	1712.6	1723.8					
Purchase of Products	226.3	196.7	166.4	157.7					
Employee Costs	172.6	195.6	201.4	215.5					
Other Expenditure	661.3	689.7	742.6	785.9					
Op. Expenditure	2,365.5	2,551.3	2,792.1	2,883.0					
EBITDA	1004.9	1033.0	1098.7	1168.2					
Growth (%)	12.3	2.8	6.4	6.3					
Depreciation	45.0	45.5	57.3	59.4					
EBIT	959.9	987.5	1041.4	1108.8					
Interest	1.5	1.2	1.6	1.2					
Other Income	87.3	83.7	88.8	88.0					
PBT	1045.7	1070.0	1128.6	1195.6					
Growth (%)	10.0	2.3	5.5	5.9					
Tax	370.8	378.3	400.8	424.4					
Reported PAT	674.9	691.7	727.8	771.1					
Growth (%)	9.7	2.5	5.2	6.0					
EPS	6.8	7.0	7.4	7.8					

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore				
(Year-end December)	CY16	CY17	CY18E	CY19E					
Profit after Tax	674.9	691.7	727.8	771.1					
Less: Dividend Paid	636.5	810.2	833.3	868.0					
Add: Depreciation	45.0	45.5	57.3	59.4					
Add: Others	0.0	0.0	0.0	0.0					
Cash Profit	66.2	-73.0	-48.2	-37.5					
Increase/(Decrease) in CL	205.5	-65.7	81.3	57.0					
(Increase)/Decrease in CA	-84.0	-59.0	-65.4	-39.0					
CF from Operating Activities	187.6	-197.7	-32.3	-19.4					
Purchase of Fixed Assets	44.0	13.3	23.0	23.0					
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0					
Others	3.0	3.0	3.0	4.0					
CF from Investing Activities	-44.0	-13.3	-23.0	-23.0					
Inc/(Dec) in Loan Funds	0.0	0.0	0.0	0.0					
Inc/(Dec) in Sh. Cap. & Res.	-18.3	18.2	0.0	0.0					
Others	0.0	0.0	0.0	1.0					
CF from financing activities	-18.3	18.2	0.0	0.0					
Change in cash Eq.	125.4	-192.7	-55.3	-42.4					
Op. Cash and cash Eq.	696.5	821.9	629.2	573.9					
Cl. Cash and cash Eq.	821.9	629.2	573.9	531.4					

Source: Company, ICICI Direct Research

Balance sheet					₹ Crore				
(Year-end December)	CY16	CY17	CY18E	CY19E					
Source of Funds									
Equity Capital	247.3	494.6	494.6	494.6					
Preference capital	0.0	0.0	0.0	0.0					
Reserves & Surplus	348.5	0.9	-104.6	-201.5					
Shareholder's Fund	595.8	495.5	390.0	293.1					
Loan Funds	0.0	0.0	0.0	0.0					
Deferred Tax Liability	-67.2	-67.2	-67.2	-67.2					
Minority Interest	0.0	0.0	0.0	0.0					
Source of Funds	528.6	428.3	322.8	226.0					
Application of Funds									
Gross Block	405.5	420.5	435.5	450.5					
Less: Acc. Depreciation	258.5	305.7	355.1	406.5					
Net Block	147.0	114.8	80.4	44.0					
Capital WIP	37.3	37.3	37.3	37.3					
Total Fixed Assets	184.2	152.0	117.7	81.3					
Investments	0.0	0.0	0.0	0.0					
Inventories	343.9	383.0	415.7	432.9					
Debtor	255.2	265.1	287.8	299.7					
Cash	821.9	629.2	573.9	531.4					
Loan & Advance, Other CA	214.9	224.9	234.9	244.9					
Total Current assets	1635.9	1502.2	1512.3	1508.9					
Current Liabilities	820.8	726.7	788.8	821.3					
Provisions	470.8	499.2	518.3	542.8					
Total CL and Provisions	1291.5	1225.8	1307.1	1364.2					
Net Working Capital	344.3	276.3	205.1	144.7					
Miscellaneous expense	0.0	0.0	0.0	0.0					
Application of Funds	528.6	428.3	322.8	226.0					

Source: Company, ICICI Direct Research

Key ratios					₹ Crore				
(Year-end December)	CY16	CY17	CY18E	CY19E					
Per share data (₹)									
Book Value	6.0	5.0	3.9	3.0					
Cash per share	8.3	6.4	5.8	5.4					
EPS	6.8	7.0	7.4	7.8					
Cash EPS	7.3	7.5	7.9	8.4					
DPS	5.5	7.0	7.2	7.5					
Profitability & Operating Ratios									
EBITDA Margin (%)	29.8	28.8	28.2	28.8					
PAT Margin (%)	20.0	19.3	18.7	19.0					
Fixed Asset Turnover (x)	18.3	23.6	33.1	49.8					
Inventory Turnover (Days)	37.2	39.0	39.0	39.0					
Debtor (Days)	27.6	27.0	27.0	27.0					
Current Liabilities (Days)	88.9	74.0	74.0	74.0					
Return Ratios (%)									
RoE	113.3	139.6	186.6	263.1					
RoCE	161.1	199.3	267.0	378.3					
RoIC	NA	NA	NA	NA					
Valuation Ratios (x)									
PE	27.0	26.3	25.0	23.6					
Price to Book Value	30.5	36.7	46.7	62.1					
EV/EBITDA	17.3	17.0	16.0	15.1					
EV/Sales	5.2	4.9	4.5	4.4					
Leverage & Solvency Ratios									
Debt to equity (x)	0.0	0.0	0.0	0.0					
Interest Coverage (x)	639.9	822.9	650.9	924.0					
Debt to EBITDA (x)	0.0	0.0	0.0	0.0					
Current Ratio	1.3	1.2	1.2	1.1					
Quick ratio	1.0	0.9	0.8	0.8					

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Bharat Petroleum (BHAPET)	380	450	Hold	41,216	40.9	38.5	44.5	9.3	9.9	8.5	9.0	8.2	7.0	16.9	16.9	19.2	27.1	25.2	28.9
Castrol India (CASIND)	184	165	Hold	18,200	6.8	7.0	7.4	27.0	26.3	25.0	17.3	17.0	16.0	161.1	199.3	267.0	113.3	139.6	186.6
GAIL (India) (GAIL)	329	383	Buy	74,190	15.5	22.3	22.8	21.2	14.8	14.4	12.1	9.3	9.4	11.7	14.9	14.0	9.2	12.3	11.8
Gujarat Gas (GUJGA)	846	1,000	Buy	2,351	16.2	23.1	36.2	52.2	36.6	23.4	18.6	15.1	11.5	12.3	15.8	21.1	13.6	22.4	20.9
Gujarat State Petronet (GSPL)	180	200	Buy	10,140	8.8	12.2	11.7	20.4	14.8	15.4	12.1	11.9	10.3	13.8	11.3	12.5	11.0	13.6	11.9
Gulf Oil Lubricants (GULO)	894	1,000	Hold	4,432	24.4	31.4	34.4	36.7	28.4	28.4	24.0	18.8	16.2	32.5	42.1	46.3	34.2	36.3	32.2
Hindustan Petroleum (HINPET)	294	365	Hold	44,851	13.6	13.2	12.5	7.2	7.4	7.8	6.2	6.8	6.7	19.3	16.1	15.4	30.5	27.8	24.9
Indraprastha Gas (INDGAS)	272	315	Hold	19,040	8.2	9.2	9.9	33.3	29.5	27.5	20.8	18.4	16.4	27.2	26.2	24.9	19.5	18.9	17.8
Mahanagar Gas Ltd (MAHGAS)	871	1,200	Buy	8,604	39.8	50.0	51.7	21.9	17.4	16.8	13.1	10.2	9.7	29.8	33.5	30.7	21.4	23.7	22.0
Mangalore Refinery (MRPL)	105	140	Buy	18,403	20.8	13.0	12.1	5.0	8.1	8.7	5.3	4.3	3.7	21.6	20.0	18.1	36.2	16.6	22.8
Petronet LNG (PETLNG)	206	310	Buy	32,850	6.1	13.8	15.5	19.3	15.9	14.1	NA	NA	NA	21.4	28.5	33.8	21.1	23.3	24.0

Source: Company, ICICI Direct Research

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