

Volumes in line with estimates, Realizations down due to competitive pressure; Maintain Accumulate

CSTR's Q2CY19 volumes were in line with our estimates at 55.4 TKL. Revenue increased 2.2% YoY and by 6.5% QoQ, due to growth in the personal mobility segment, focus on channels, and new premium products. Gross spreads declined by 2% on a sequential basis. We expect spreads to remain stable/expand going forward, as CIL has already hiked prices in Q1CY19. CIL has been continuously working on protecting margins with sustainable growth. Management expects H2CY19 to boost volumes and they maintain their guidance between 2%-4%. Volume growth with spreads performance will be the key monitorable. Given significant under performance of the stock price for a prolonged period, CSTR's business performance in the next two quarters will be crucial for the long term stock outlook. Recommend Accumulate, with a target price of ₹ 143, to trade at 18x CY20 EPS.

Volume growth – key monitorable

CSTR reported a volume growth of 9.9% QoQ and de-growth of 2.8% YoY. The personal mobility segment grew ahead of the industry, whereas the commercial and industrial segment de-grew, which was in line with the industry. Given the revival in the commercial space and the agriculture market, and increase in new product launches and product mix in the personal mobility segment, CSTR is likely to outperform. Introduction of Castrol 3M vehicle care products in the market from Q3CY19 will further clock in volumes.

Expanding reach with brand thrust – key to profitability

CSTR has been expanding distribution aggressively to increase its touch points. They are making inroads in rural markets by adding new customers directly or indirectly. The company is also investing in brands and retail distribution. The brand strength of CSTR has created a strong product recall. The brand power also ensures premium pricing – key to profitability. We expect CSTR to maintain its investments in the distribution chain and advertising to get "profitable volume growth".

Q2CY19 Result (₹ Mn)

Particulars	Q2CY19	Q2CY18	YoY (%)	Q1CY19	QoQ (%)
Revenue	10,396	10,172	2.2	9,762	6.5
Total Expense	7,553	7,655	(1.3)	6,932	9.0
EBITDA	2,843	2,517	13.0	2,830	0.5
Depreciation	166	132	25.8	162	2.5
EBIT	2,677	2,385	12.2	2,668	0.3
Other Income	159	173	(8.1)	211	(24.6)
Interest	3	3	0.0	3	0.0
EBT	2,833	2,555	12.2	2,876	(1.5)
Tax	1,006	913	10.2	1,026	(1.9)
RPAT	1,827	1,642	11.3	1,850	(1.2)
APAT	1,827	1,642	11.3	1,850	(1.2)
			(bps)		(bps)
Gross Margin (%)	53.9	49.1	476	53.2	69
EBITDA Margin (%)	27.3	24.7	260	29.0	(164)
NPM (%)	17.6	16.1	143	19.0	(138)
Tax Rate (%)	35.5	35.7	(22)	35.7	(16)
EBIT Margin (%)	25.8	23.4	230	27.3	(158)

CMP	₹ 127
Target / Upside	₹ 143 / 13%
BSE Sensex	37,387
NSE Nifty	11,085

Scrip Details

Equity / FV	₹ 4,946mn / ₹ 5
Market Cap	₹ 126bn
	US\$ 2bn
52-week High/Low	₹ 176/₹ 121
Avg. Volume (no)	10,86,530
NSE Symbol	CASTROLIND
Bloomberg Code	CSTR IN

Shareholding Pattern Jun'19(%)

Promoters	51.0
MF/Banks/FIs	17.2
FII's	12.3
Public / Others	19.5

Valuation (x)

	CY18	CY19E	CY20E
P/E	17.7	17.1	16.0
EV/EBITDA	11.0	10.4	9.7
ROE (%)	64.8	63.4	71.1
RoACE (%)	105.9	102.5	115.3

Estimates (₹ mn)

	CY18	CY19E	CY20E
Revenue	39,046	39,771	41,988
EBITDA	10,708	11,136	12,051
PAT	7,084	7,332	7,869
EPS (₹)	7.2	7.4	8.0

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New product launches drive growth

CSTRL is adding new products, with improved formulations and performance across categories. They are ready with BSVI range of products across categories which were launched in the market in June-July. These products are mainly synthetic products which are premium category. They have introduced Castrol VECTON for CVO with an extended drain interval of 1,20,000 kms.

Exhibit 1: KPI's

	Q2CY19	Q1CY19	QoQ (%)	Q2CY18	YoY (%)	H1CY19	H1CY18	YoY (%)
Volumes (in '000 KL)	55.4	50.4	9.9	57.0	(2.8)	105.8	108.5	(2.5)
Realization (₹ / L)	187.7	193.7	(3.1)	178.5	5.2	190.5	179.2	6.3
Cost (₹ / L)	86.5	90.6	(4.5)	90.8	(4.7)	88.5	87.3	1.4
Spread (₹ / L)	101.2	103.1	(1.9)	87.7	15.3	102.1	91.9	11.0
EBIDTA (₹ / L)	51.3	56.2	(8.6)	44.2	16.2	53.6	48.5	10.6
PAT (₹ / L)	33.0	36.7	(10.2)	28.8	14.5	34.8	31.9	9.0

Source: Company, DART

Valuation

Volumes are expected to improve post H1CY19, driven by personal mobility. CSTRL will be able to maintain its market share, and we expect this to be driven by expanding distribution reach and an increase in product offerings. At CMP, CIL trades at 17.1x CY19E and 16x CY20E earnings.

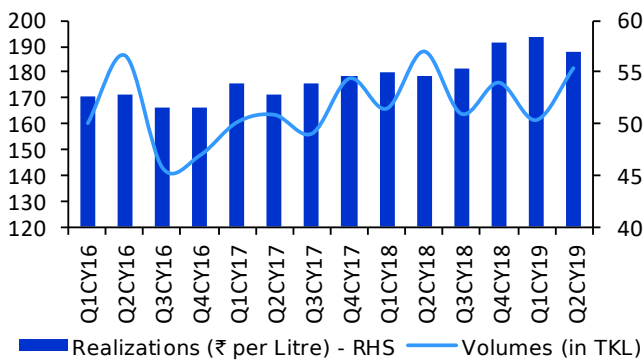
With the continued fading of valuations across the markets, we have lowered our earnings multiple to factor in the overall risk. At CMP, CSTRL is factoring most of the negatives. We maintain an Accumulate rating, with TP of ₹ 143, valuing at 18x CY20 earnings.

Q2CY19 Results

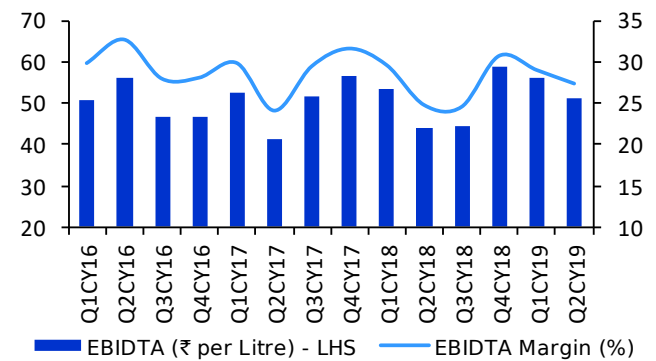
- The top line in Q2CY19 increased by 2.2% on a YoY basis to ₹ 10,396 mn, which was an increase of 6.5% on a QoQ basis.
- Volumes at 55.4 TKL which was an increase of 10% on a QoQ basis. Realisations at ₹ 187.7/L was a decrease of 3.1% QoQ
- Raw material as a % of sales was at 46.1% in Q2CY19 as compared to 46.8% in Q1CY19 and 50.9% in Q2CY18.
- EBIDTA has increased by 13% on a YoY to ₹ 2,843 mn.
- Operating margins were at 27.3% which decreased on a QoQ basis by 165 bps and increased by 260 bps on a YoY basis.
- Net profit has increased by 11.3% on a YoY basis and decreased by 1.2% on a sequential basis to ₹ 1,827 mn.

Conference Call Key Highlights

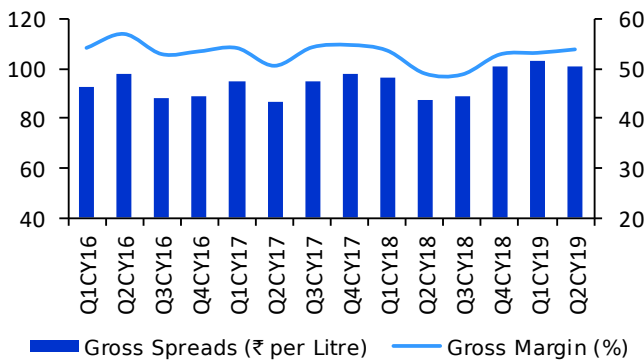
- Strong financial delivery due to continued growth in personal mobility segment and growing product mix.
- Through careful cost control initiatives, well managed working capital, new product launches, strategic sourcing, and holding on to product mix, the company has been able to protect margins QoQ.
- Strategic alliance between Groupe Renault and Castrol for lubricant space.
- Strategic collaboration with 3M in vehicle care market. First set of products will be launched in Q3CY19. They offer cleaning products for the cars. Market size of vehicle care products is \$20,000 mn and is expected to grow at 10% every year.
- Launched BS VI ready range of products across categories (Passenger vehicles, commercial and motorcycle). BS VI products were launched in June-July in the market. Products prices are the same. Quality is different with specific formulations of lower viscosity. They are mostly synthetic products which are premium products. These products can also be used in BSIV and BSIII engines.
- Drain intervals in BSVI products have increased to 1,20,000 kms in CVO.
- Personal mobility volume growth is high single digit which is ahead of the market. CIL has gained market share in this segment. Commercial/Industrial lubricant demand is low (negative).
- 45% of CIL's volumes are from Personal mobility. 1/3 is 4W and 2/3 is 2W
- Synthetic products constitute 7% volumes.
- Silvasa expansion is happening in a phased manner and inauguration will take place in April 2020.
- Crude prices have been stable in the last quarter. Additives prices have increased, forex has reacted adversely and base oil prices have shown positive contributions in the quarter.
- Last price hike taken was in March 2019.
- CIL is expecting strong stability post Q3CY19 in the economy.

Exhibit 2: Volumes and realisation


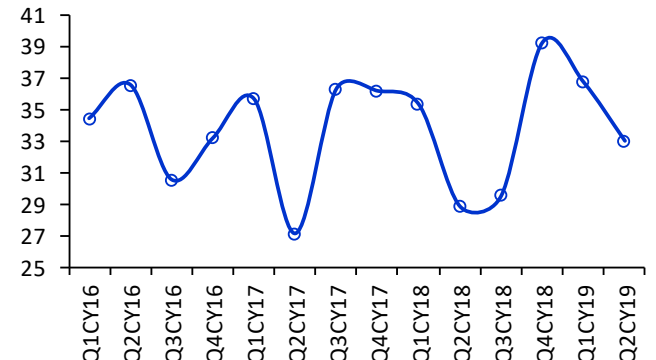
Source: Company, DART

Exhibit 3: EBITDA spread and EBITDA margin


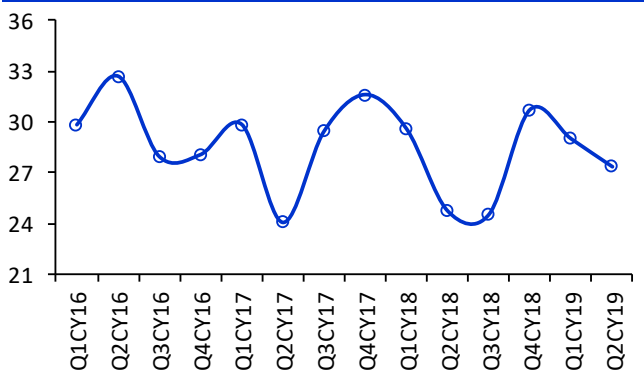
Source: Company, DART

Exhibit 4: Gross spread and gross margin


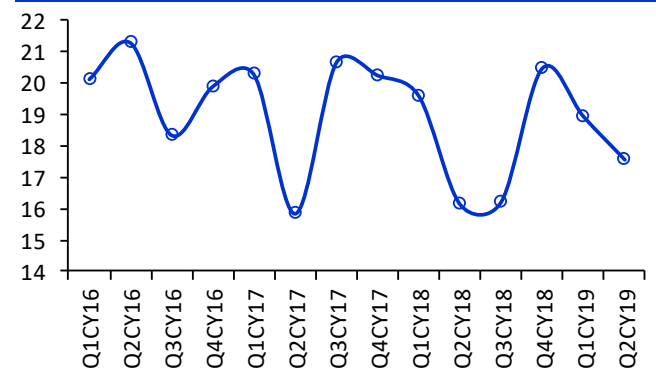
Source: Company, DART

Exhibit 5: PAT/L


Source: Company, DART

Exhibit 6: OPM %


Source: Company, DART

Exhibit 7: NPM %


Source: Company, DART

Profit and Loss Account

(₹ Mn)	CY17A	CY18A	CY19E	CY20E
Revenue	35,844	39,046	39,771	41,988
Total Expense	25,512	28,338	28,635	29,938
COGS	16,659	19,066	18,692	19,735
Employees Cost	1,956	2,034	2,068	2,225
Other expenses	6,897	7,238	7,875	7,978
EBIDTA	10,331	10,708	11,136	12,051
Depreciation	455	556	639	728
EBIT	9,876	10,152	10,497	11,323
Interest	12	11	16	16
Other Income	837	843	800	800
Exc. / E.O. items	0	0	0	0
EBT	10,701	10,984	11,281	12,107
Tax	3,783	3,901	3,948	4,237
RPAT	6,918	7,084	7,332	7,869
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,918	7,084	7,332	7,869

Balance Sheet

(₹ Mn)	CY17A	CY18A	CY19E	CY20E
Sources of Funds				
Equity Capital	4,946	4,946	4,946	4,946
Minority Interest	0	0	0	0
Reserves & Surplus	5,256	6,711	6,522	5,712
Net Worth	10,202	11,657	11,467	10,658
Total Debt	0	0	0	0
Net Deferred Tax Liability	(552)	(533)	(551)	(551)
Total Capital Employed	9,650	11,124	10,916	10,107

Applications of Funds

Net Block	1,390	1,860	2,471	2,993
CWIP	573	350	250	250
Investments	0	0	0	0
Current Assets, Loans & Advances	17,256	18,325	19,379	18,606
Inventories	3,196	4,568	4,141	4,371
Receivables	2,850	3,918	3,269	3,451
Cash and Bank Balances	7,842	7,439	9,752	8,734
Loans and Advances	2,400	1,259	1,133	1,019
Other Current Assets	968	1,142	1,084	1,030
Less: Current Liabilities & Provisions	9,568	9,411	11,184	11,742
Payables	6,066	5,840	7,170	7,569
Other Current Liabilities	3,502	3,571	4,014	4,173
Net Current Assets	7,688	8,913	8,195	6,864
Total Assets	9,650	11,124	10,916	10,107

E – Estimates

Important Ratios

Particulars	CY17A	CY18A	CY19E	CY20E
(A) Margins (%)				
Gross Profit Margin	53.5	51.2	53.0	53.0
EBIDTA Margin	28.8	27.4	28.0	28.7
EBIT Margin	27.6	26.0	26.4	27.0
Tax rate	35.3	35.5	35.0	35.0
Net Profit Margin	19.3	18.1	18.4	18.7
(B) As Percentage of Net Sales (%)				
COGS	46.5	48.8	47.0	47.0
Employee	5.5	5.2	5.2	5.3
Other	19.2	18.5	19.8	19.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	823.0	931.4	656.0	707.7
Inventory days	33	43	38	38
Debtors days	29	37	30	30
Average Cost of Debt				
Payable days	62	55	66	66
Working Capital days	78	83	75	60
FA T/O	25.8	21.0	16.1	14.0
(D) Measures of Investment				
AEPS (₹)	7.0	7.2	7.4	8.0
CEPS (₹)	7.5	7.7	8.1	8.7
DPS (₹)	7.0	5.0	6.5	7.5
Dividend Payout (%)	100.1	69.8	87.7	94.3
BVPS (₹)	10.3	11.8	11.6	10.8
RoANW (%)	69.1	64.8	63.4	71.1
RoACE (%)	114.0	105.9	102.5	115.3
RoAIC (%)	722.9	369.6	432.9	892.4
(E) Valuation Ratios				
CMP (₹)	127	127	127	127
P/E	18.2	17.7	17.1	16.0
Mcap (₹ Mn)	1,25,717	1,25,717	1,25,717	1,25,717
MCap/ Sales	3.5	3.2	3.2	3.0
EV	1,17,875	1,18,279	1,15,965	1,16,984
EV/Sales	3.3	3.0	2.9	2.8
EV/EBITDA	11.4	11.0	10.4	9.7
P/BV	12.3	10.8	11.0	11.8
Dividend Yield (%)	5.5	3.9	5.1	5.9
(F) Growth Rate (%)				
Revenue	6.4	8.9	1.9	5.6
EBITDA	3.4	3.6	4.0	8.2
EBIT	3.5	2.8	3.4	7.9
PBT	2.9	2.6	2.7	7.3
APAT	3.2	2.4	3.5	7.3
EPS	3.2	2.4	3.5	7.3

Cash Flow

(₹ Mn)	CY17A	CY18A	CY19E	CY20E
CFO	6,093	5,495	11,201	8,926
CFI	1,514	661	3,452	(1,250)
CFF	(6,567)	(5,674)	(7,538)	(8,695)
FCFF	5,738	4,715	10,051	7,676
Opening Cash	1,116	2,155	2,637	9,752
Closing Cash	2,155	2,637	9,752	8,734

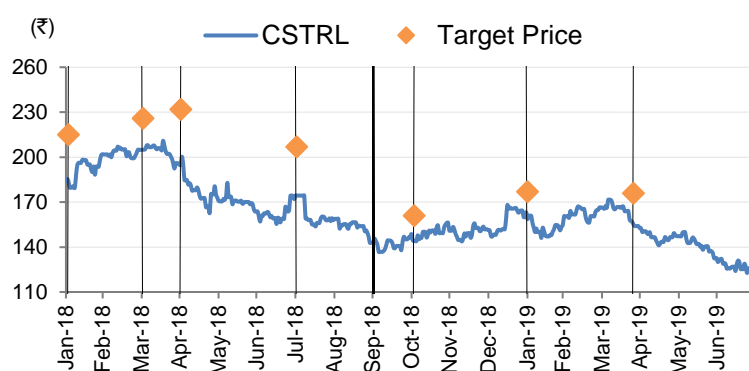
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Accumulate	215	184
Apr-18	Accumulate	226	205
May-18	Buy	232	195
Aug-18	Buy	207	174
Nov-18	Accumulate	161	144
Jan-19	Accumulate	177	159
Apr-19	Accumulate	176	155

*Price as on recommendation date

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