

Stable performance...

Gulf Oil Lubricants reported Q1FY20 results largely in line with our estimates although volume growth was marginally below estimates of 10% and were at 7.5% YoY (core volume growth of 10% in line with estimate). Revenues increased 12.9% to ₹ 440.7 crore, in line with our estimate of ₹ 449.3 crore. EBITDA per litre was at ₹ 26.3 per litre (Q1FY19: ₹ 23.5 per litre), above our estimate of ₹ 24.5 per litre on account of a better sales mix. Subsequently, EBITDA during the quarter increased 20.6% YoY to ₹ 77.9 crore, above our estimate of ₹ 74 crore. PAT increased 21.4% to ₹ 48.7 crore in line with our estimate of ₹ 48.5 crore.

Stable prices to help drive steady margins

Gulf Oil's raw material costs (base oil prices) are highly dependent on crude oil prices. In Q1FY20, gross margins were at ₹ 69.9/litre vs. our expectation of ₹ 67.1/litre, above our expectation on account of better sales mix in favour of cars and two wheelers. With stable average oil prices during the quarter, we expect Gulf Oil to maintain steady margins. Gulf's focus continues on its volume growth with EBITDA margin target in the 16-18% range. Factoring in stable sales prices and better sales mix, we expect EBITDA per litre at ₹ 25.7/litre and ₹ 25.2/litre in FY20E and FY21E, respectively.

Steady volume growth expectations, going ahead

Volume growth in Q1FY20 was at 7.5% YoY at 29.6 million litre, marginally below our estimate of 30.3 million litre on account of subdued growth in the automotive sector. Volumes during the quarter were driven by higher growth in industrial, four wheelers and two wheelers bazaar market. However, due to flattish to marginal growth in CV sales volume, the company reported relatively lower growth. On the marketing front, the company has 70000 distributors and plans to expand its distribution channels by 15% annually. In addition, with aggressive marketing and expected increase in market share, we believe GOL's volumes will increase from 119.9 million litre in FY19 to 135.1 million litre in FY21E. However, higher drain intervals due to improvement in technology (BS-VI) and development of electric vehicle space can be potential risks to the volume outlook in the long run.

Valuation & Outlook

GOL's focus on personal mobility, OEMs and improvement in product mix will remain its key driver as it commands a lower market share (>7%) giving ample headroom to cover. New OEM tie-ups through aggressive marketing are also expected to help GOL gain market share. However, upcoming disruptions like those of electric vehicles and the company's strategy to defend the same will be the key decider, going ahead. We value the company at 18x FY21E EPS of ₹ 45 to arrive at a target price of ₹ 810.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	3,747.7
Total Debt (FY18) (₹ Crore)	248.1
Cash and Investments (FY18) (₹ Crore)	326.1
EV (₹ Crore)	3,669.6
52 week H/L	940/618
Equity capital (₹ Crore)	9.9
Face value (₹)	2.0

Key Highlights

- Steady quarterly performance on account of sales volumes of 7.5% YoY and better sales mix
- Estimate core volume growth of ~9% over the next two years
- Estimate EBITDA per litre to be stable at ₹ 25-26 per litre
- Maintain HOLD on stock with target price of ₹ 810 /share

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	1,131.0	1,332.2	1,705.8	1,850.0	2,026.7	9.0
EBITDA (₹ crore)	180.3	235.6	283.1	318.4	341.0	9.8
Net Profit (₹ crore)	121.0	158.4	177.8	206.4	223.5	12.1
EPS (₹)	23.7	31.9	35.8	41.5	45.0	
P/E (x)	31.9	23.7	21.1	18.2	16.8	
Price / Book (x)	10.6	8.0	6.5	5.3	4.4	
EV/EBITDA (x)	20.2	15.6	12.9	11.1	10.0	
RoCE (%)	32.5	31.5	35.8	34.4	32.0	
RoE (%)	34.2	33.9	30.7	29.3	26.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Revenues	440.7	449.3	390.4	12.9	436.2	1.0	Lower-than-estimated revenues on account of slower-than-expected volume growth
Raw materials costs	225.5	246.4	210.7	7.0	235.9	-4.4	
Employees Cost	26.6	27.9	24.2	10.0	26.0	2.4	
Other Expenses	110.7	101.1	90.9	21.7	100.1	10.5	
Total Expenditure	362.8	375.3	325.8	11.3	362.0	0.2	
EBITDA	77.9	74.0	64.5	20.7	74.2	5.0	
EBITDA margins (%)	17.7	16.5	16.5	115 bps	17.0	66 bps	
Depreciation	8.0	5.6	4.9	60.9	5.9	35.8	
EBIT	69.9	68.4	59.6	17.4	68.3	2.3	
Interest	3.4	3.4	4.4	-22.8	2.6	32.8	
Other Income	8.4	9.5	6.6	26.7	8.8	-4.3	
Extra Ordinary Item	0.0	0.0	0.0	NA	0.0	NA	
PBT	74.9	74.6	61.8	21.2	74.6	0.5	
Total Tax	26.2	26.0	21.7	21.0	27.0	-2.9	
PAT	48.7	48.5	40.1	21.4	47.6	2.4	PAT growth was in line with estimates due to higher EBITDA margins per litre on better sales mix
Key Metrics							
Exchange rate (₹/\$)	69.6	69.6	67.1	3.7	70.5	-1.3	
Volumes growth (%)	7.5	10.0	31.1	NA	10.0	NA	Volumes growth was slower than expectations due to slowdown in auto sector (mainly CV sector)
EBITDA (₹/litre)	26.3	24.5	23.5	12.3	24.9	5.8	EBITDA was above our expectations due to better sales mix in favour of cars and two wheelers

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1871.3	1,850.0	-1.1	2060.9	2,026.7	-1.7	Marginal decline in volume growth led to change in estimates
EBITDA	312.2	318.4	2.0	341.8	341.0	-0.2	
EBITDA Margin (%)	16.7	17.2	52 bps	16.6	16.8	24 bps	
PAT	204.7	206.4	0.8	223.9	223.5	-0.2	
EPS (₹)	41.2	41.5	0.8	45.1	45.0	-0.2	

Source: Company, ICICI Direct Research

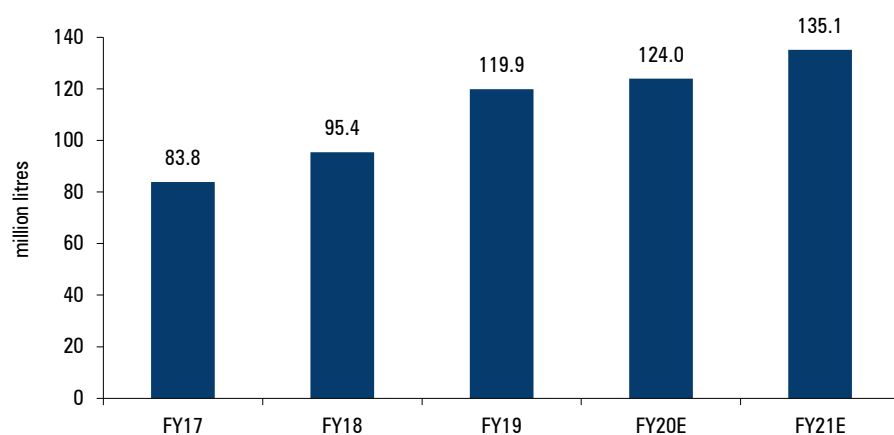
Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Exchange rate (₹/\$)	64.5	70.0	69.9	70.0	70.6	71.0	We expect core volumes to increase at 9% CAGR for next two years
Volumes growth (%)	13.8	25.6	3.4	9.0	4.7	10.0	
EBITDA (₹/litre)	24.7	23.6	25.7	25.2	24.9	24.8	

Source: Company, ICICI Direct Research

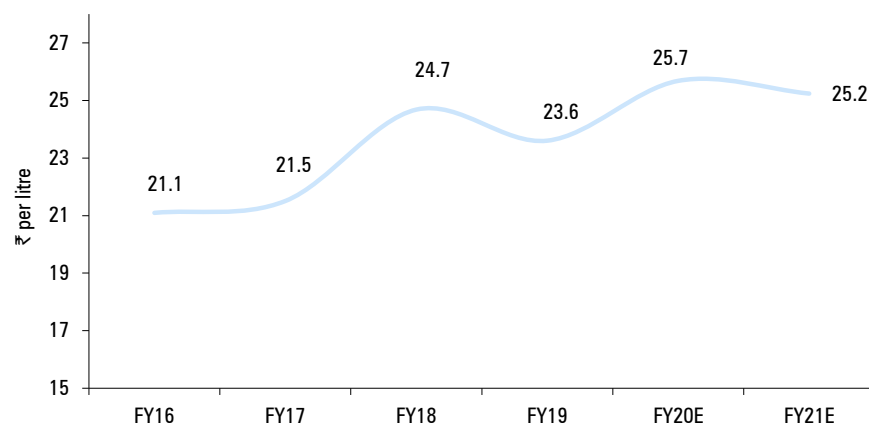
Story in charts

Exhibit 4: Volume trajectory



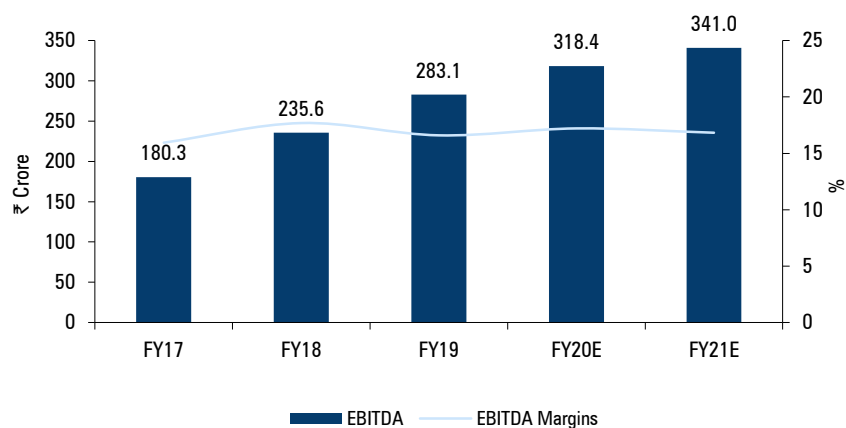
Source: Company, ICICI Direct Research

Exhibit 5: Margin trend

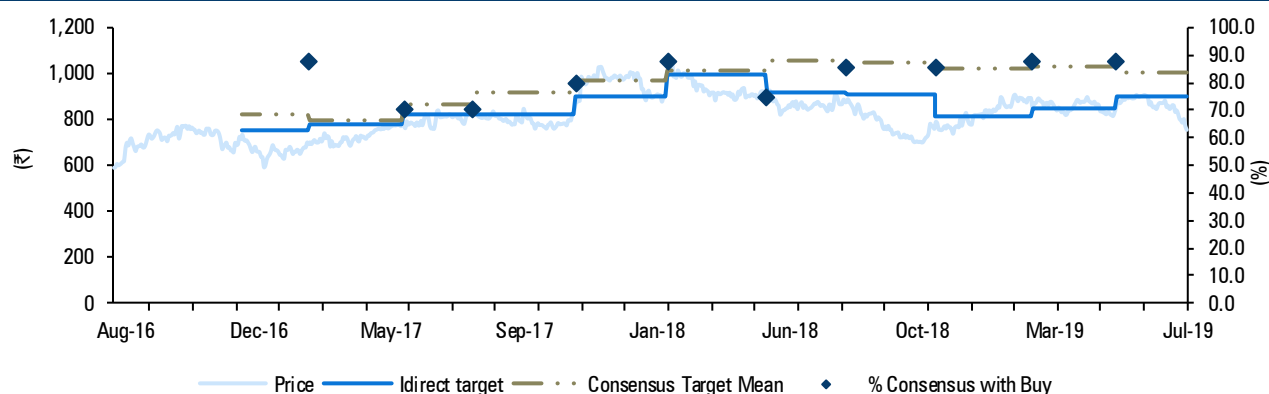


Source: Company, ICICI Direct Research

Exhibit 6: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Filing Date	% O/S	sition (m)	Change (m)
1	Hinduja Group Ltd.	31-Mar-19	72.7	36.2	0.0
2	Wasatch Advisors, Inc.	31-Mar-19	3.6	1.8	0.5
3	Franklin Templeton Asset Management (India) Pvt. L	31-Mar-19	3.0	1.5	0.0
4	Capital Research Global Investors	31-Mar-19	2.6	1.3	0.5
5	New India Assurance Company Ltd.	31-Mar-19	1.1	0.5	0.0
6	T. Rowe Price International (UK) Ltd.	28/Feb-19	1.0	0.5	0.1
7	Morgan Stanley Investment Management Inc. (US)	30-Jun-19	0.6	0.3	0.0
8	Axis Asset Management Company Limited	30/Jun-19	0.5	0.3	0.0
9	Dimensional Fund Advisors, L.P.	30-Jun-19	0.5	0.2	0.0
10	Invesco Asset Management (India) Private Limited	30/Jun-19	0.3	0.2	0.1

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

BUYS			SELLS		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Capital Research Global Investors	5.77	0.47	Aditya Birla Sun Life AMC Limited	-4.87	-0.39
Wasatch Advisors, Inc.	5.67	0.47	Morgan Stanley Investment Management Ltd. (UK)	-1.43	-0.12
T. Rowe Price International (UK) Ltd.	1.61	0.13	New India Assurance Company Ltd.	-0.56	-0.05
Invesco Asset Management (India) Private Limited	1.10	0.09	Chawla (Ravi)	-0.19	-0.02
Axis Asset Management Company Limited	0.50	0.04	Garg (Nilesh)	-0.13	-0.01

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	72.9	72.7	72.7	72.7	72.7
FII	9.1	8.0	7.9	9.3	10.8
DII	5.0	5.9	5.7	5.6	5.3
Others	13.1	13.4	13.6	12.4	11.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Revenue	1332.2	1705.8	1850.0	2026.7
Growth (%)	17.8	28.0	8.5	9.6
(Inc.)/(Dec.) in stock in trade	-10.8	-28.2	-25.9	0.0
Raw material Costs	676.5	898.9	953.4	1041.4
Purchase of Products	32.0	67.5	55.0	49.1
Employee Costs	82.6	101.7	114.2	129.1
Other Expenditure	316.3	382.7	434.8	466.1
Op. Expenditure	1096.5	1422.7	1531.6	1685.6
EBITDA	235.6	283.1	318.4	341.0
Growth (%)	30.7	20.1	12.5	7.1
Depreciation	10.4	22.4	24.7	22.3
EBIT	225.2	260.7	293.7	318.7
Interest	8.5	15.2	13.5	13.5
Other Income	26.1	29.5	36.9	38.0
PBT	242.7	275.1	317.1	343.3
Growth (%)	31.3	13.3	15.3	8.3
Tax	84.3	97.3	110.7	119.8
Reported PAT	158.4	177.8	206.4	223.5
Growth (%)	30.9	12.2	16.1	8.3
EPS	31.9	35.8	41.5	45.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	158.4	177.8	206.4	223.5
Add: Depreciation	10.4	22.4	24.7	22.3
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	175.1	200.2	231.1	245.8
Increase/(Decrease) in CL	108.2	2.2	27.9	30.4
(Increase)/Decrease in CA	-140.7	-75.4	-42.5	-51.0
CF from Operating Activities	142.6	127.0	216.4	225.2
Purchase of Fixed Assets	129.4	22.8	20.4	18.2
(Inc)/Dec in Investments	-1.0	0.0	0.0	0.0
Others	3.0	3.0	4.0	4.0
CF from Investing Activities	-130.4	-22.8	-20.4	-18.2
Inc/(Dec) in Loan Funds	69.6	-98.5	0.0	0.0
Dividend Paid	53.8	66.9	81.4	81.4
Inc/(Dec) in Sh. Cap. & Res.	8.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	24.3	-165.4	-81.4	-81.4
Change in cash Eq.	36.5	-61.2	114.6	125.6
Op. Cash and cash Eq.	289.6	326.1	264.9	379.6
Cl. Cash and cash Eq.	326.1	264.9	379.6	505.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Source of Funds				
Equity Capital	9.9	9.9	9.9	9.9
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	457.4	568.4	693.3	835.4
Shareholder's Fund	467.3	578.3	703.3	845.3
Loan Funds	248.1	149.6	149.6	149.6
Deferred Tax Liability	10.6	10.6	10.6	10.6
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	726.1	738.5	863.5	1005.5
Application of Funds				
Net Block	266.1	266.6	262.3	258.1
Capital WIP	6.0	9.0	7.0	5.0
Total Fixed Assets	272.1	275.6	269.3	263.1
Investments	4.2	4.2	4.2	4.2
Inventories	236.8	266.4	288.9	316.5
Debtor	134.6	177.6	192.6	211.0
Cash	326.1	264.9	379.6	505.2
Loan & Advance, Other CA	61.1	63.9	68.9	73.9
Total Current assets	758.6	772.8	930.0	1,106.6
Current Liabilities	287.3	280.4	304.1	333.2
Provisions	15.5	24.6	28.8	30.2
Total CL and Provisions	302.8	305.0	332.9	363.3
Net Working Capital	455.8	467.8	597.1	743.2
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	726.1	738.5	863.5	1005.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
Book Value	94.0	116.4	141.5	170.1
Cash per share	65.6	53.3	76.4	101.6
EPS	31.9	35.8	41.5	45.0
Cash EPS	34.0	40.3	46.5	49.5
DPS	10.5	11.5	14.0	14.0
Profitability & Operating Ratios				
EBITDA Margin (%)	17.7	16.6	17.2	16.8
PAT Margin (%)	11.9	10.4	11.2	11.0
Fixed Asset Turnover (x)	5.0	6.4	7.1	7.9
Inventory Turnover (Days)	64.9	57.0	57.0	57.0
Debtor (Days)	36.9	38.0	38.0	38.0
Current Liabilities (Days)	78.7	60.0	60.0	60.0
Return Ratios (%)				
RoE	33.9	30.7	29.3	26.4
RoCE	31.5	35.8	34.4	32.0
RoIC	57.8	56.3	62.1	65.1
Valuation Ratios (x)				
PE	23.7	21.1	18.2	16.8
Price to Book Value	8.0	6.5	5.3	4.4
EV/EBITDA	15.6	12.9	11.1	10.0
EV/Sales	2.8	2.1	1.9	1.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.3	0.2	0.2
Interest Coverage (x)	26.4	17.2	NA	NA
Debt to EBITDA (x)	1.1	0.5	0.5	0.4
Current Ratio	2.5	2.5	2.8	3.0
Quick ratio	1.7	1.7	1.9	2.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	336	375	Hold	72,886	40.3	36.3	32.0	8.3	9.3	10.5	7.7	7.8	8.1	15.7	13.0	11.6	23.2	19.3	16.0
Castrol India (CASIND)	127	120	Reduce	12,562	7.2	7.2	7.1	17.7	17.7	17.9	11.0	10.8	10.9	88.3	87.6	90.7	61.6	60.9	63.1
GAIL (India) (GAIL)	129	160	Hold	58,179	10.2	13.4	11.7	12.6	9.7	11.0	7.6	6.3	7.3	14.7	16.9	13.4	11.5	13.8	11.5
Gujarat Gas (GUJGA)	174	205	Buy	11,978	3.2	4.2	6.3	53.7	41.1	27.5	19.0	15.7	13.9	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	205	180	Hold	11,548	8.8	11.9	14.1	23.3	17.3	14.5	13.7	13.0	9.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	756	810	Hold	3,748	31.9	35.8	41.5	23.7	21.1	18.2	15.6	12.9	11.1	31.5	35.8	34.4	33.9	30.7	29.3
HPCL (HINPET)	258	300	Hold	39,359	13.9	13.2	9.8	6.2	6.5	8.8	5.6	5.2	6.9	17.5	16.6	10.2	26.5	22.1	15.5
Indian Oil Corp (INDOIL)	134	170	Hold	65,069	22.5	18.4	15.8	6.0	7.3	8.5	3.2	3.6	3.9	19.4	13.4	12.6	19.4	15.0	12.3
Indraprastha Gas (INDGAS)	300	350	Hold	21,000	9.6	11.2	12.5	31.3	26.7	24.0	18.4	16.5	14.5	26.5	25.6	24.0	19.1	19.2	18.3
Mahanagar Gas (MAHGAS)	786	1050	Buy	7,764	39.8	48.4	55.3	19.7	16.2	14.2	11.8	9.8	8.2	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL)	55	68	Hold	9,640	12.8	1.8	3.8	4.3	30.1	14.5	3.1	8.6	6.8	23.2	5.7	7.7	20.4	2.9	5.8
ONGC (ONGC)	139	180	Hold	178,383	15.9	16.9	26.3	8.7	8.2	5.3	4.7	5.0	3.7	8.7	7.9	11.5	9.7	9.4	13.0
Petronet LNG (PETLNG)	233	245	Hold	34,950	13.9	14.4	16.9	16.8	16.2	13.8	10.7	10.7	8.6	25.9	26.5	32.9	21.4	21.3	23.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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