

Castrol (India)

Accumulate



Volume de-growth due to economic slowdown and lockdown witnessed in end of March

- Results were below our estimates on revenue front and profitability front.
- CSTR's Q1CY20 volumes were below our estimates at 37.6 TKL. Realization was at Rs 183/L. Revenue decreased 29.5% YoY and 32% sequentially due to sales lost in second half of March in the personal mobility segment and loss of sales from distributors end, as most of the schemes for distributors close in March end. Bazaar segment contributes 75-80% of the revenues.
- Gross spreads decreased by 3.4% on a sequential basis. We expect spreads to remain stable/expand going forward, as CIL has already taken price hike in Sep'19 and another pricing action in Dec'20. Cost per litre was flat on a sequential basis and declined by 13.3% YoY due to strategic sourcing of raw material.
- CIL has been continuously working on protecting margins with sustainable growth. Given the under performance of the stock price for a prolonged period, CSTR business performance in the next two quarters will be crucial for the long term stock outlook. Recommend Accumulate, with a target price of Rs 131, to trade at 15x CY21 EPS.

Volume growth – key monitorable

CSTR reported a volume de-growth of 30.4% QoQ and 25.4% YoY. Personal mobility segment which is 40% of the mix for Castrol had seen a slowdown due to sales lost in second half of March as nationwide lockdown was announced and also factories were shut and there was freight movement reduction which affected the overall volumes. Usually in the March end quarter the distribution channel close their schemes, sales of which was lost due to Pandemic. Agriculture segment has seen a good pick towards the end of April and May month but was much lower YoY. Usually, Q2CY20 is a high volume good quarter for CSTR due to the demand from agriculture segment, however some sales will be lost for the quarter as the economy has not fully opened up and parts of India are still under lockdown.

Q1CY20 Result (Rs Mn)

Particulars	Q1CY20	Q1CY19	YoY (%)	Q4CY19	QoQ (%)
Revenue	6,880	9,762	(29.5)	10,118	(32.0)
Total Expense	5,150	6,932	(25.7)	6,706	(23.2)
EBITDA	1,730	2,830	(38.9)	3,412	(49.3)
Depreciation	222	162	37.0	183	21.3
EBIT	1,508	2,668	(43.5)	3,229	(53.3)
Other Income	198	211	(6.2)	162	22.2
Interest	11	3	266.7	3	266.7
EBT	1,695	2,876	(41.1)	3,388	(50.0)
Tax	443	1,026	(56.8)	675	(34.4)
RPAT	1,252	1,850	(32.3)	2,713	(53.9)
APAT	1,252	1,850	(32.3)	2,713	(53.9)
			(bps)		(bps)
Gross Margin (%)	57.0	53.2	383	57.7	(62)
EBITDA Margin (%)	25.1	29.0	(384)	33.7	(858)
NPM (%)	18.2	19.0	(75)	26.8	(862)
Tax Rate (%)	26.1	35.7	(954)	19.9	621
EBIT Margin (%)	21.9	27.3	(541)	31.9	(999)

CMP	Rs 118
Target / Upside	Rs 131 / 11%
BSE Sensex	33,568
NSE Nifty	9,814

Scrip Details

Equity / FV	Rs 4,946mn / Rs 5
Market Cap	Rs 117bn
	USD 2bn
52-week High/Low	Rs 162/Rs 90
Avg. Volume (no)	1,325,160
NSE Symbol	CASTROLIND
Bloomberg Code	CSTR IN

Shareholding Pattern Mar'20(%)

Promoters	51.0
MF/Banks/FIs	18.5
FII	9.0
Public / Others	21.5

Valuation (x)

	CY19	CY20E	CY21E
P/E	14.1	15.0	13.6
EV/EBITDA	9.3	10.0	9.0
ROE (%)	65.3	61.5	78.3
RoACE (%)	68.5	64.2	81.4

Estimates (Rs mn)

	CY19	CY20E	CY21E
Revenue	38,768	35,143	38,893
EBITDA	11,530	10,684	11,979
PAT	8,274	7,779	8,620
EPS (Rs.)	8.4	7.9	8.7

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CSTRL expects pent up demand to come in from the personal mobility segment but the demand will be slow for next few months. However, the demand for lubes can also be deferred by customers.

They have new product launches and marketing programs in place for the year, which will be introduced looking at the economic situation. Management has not guided any volume growth due to the uncertain situations

Expanding reach with brand thrust – key to profitability

CSTRL 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 and will continue to do so. We expect CSTRL to maintain its investments in the distribution chain and advertising to get “profitable volume growth”

New product launches and moving into adjacencies to drive growth

CSTRL is adding new products, with improved formulations and performance across categories. They are ready with BSVI range of products across categories to be launched soon. They have entered into agreements for EV fluids with OEMs in India including MG Motors and Tata Motors, as well as to supply lubricants to various OEMs for their BS-VI compliant vehicles.

Exhibit 1: KPI's

Particulars	Q1CY20	Q4CY19	QoQ (%)	Q1CY19	YoY (%)
Volumes (in '000 KL)	37.6	54.0	(30.4)	50.4	(25.4)
Realization (Rs / L)	183.0	187.4	(2.3)	193.7	(5.5)
Cost (Rs / L)	78.6	79.3	(0.9)	90.6	(13.3)
Spread (Rs / L)	104.4	108.1	(3.4)	103.1	1.3
EBIDTA (Rs / L)	46.0	63.2	(27.2)	56.2	(18.1)
PAT (Rs / L)	33.3	50.2	(33.7)	36.7	(9.3)

Source: Company, DART

Exhibit 2: Actual V/s DART Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	6,880	9,984	(31.1)	slowdown in volumes due to 2H of March washed out
EBITDA	1,730	2,794	(38.1)	
EBITDA margin %	25.1	28.0	(283.9)	
APAT	1,252	2,000	(37.4)	

Source: Company, DART

Exhibit 3: Change in estimate

Particulars (Rs mn)	CY20E			CY21E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	35,143	39,351	(10.7)	38,893	40,142	(3.1)
EBITDA	10,684	11,294	(5.4)	11,979	11,441	4.7
EBITDA mgn (%)	30.4	28.7	169.9	30.8	28.5	229.9
Adj PAT	7,779	8,276	(6.0)	8,620	8,424	2.3
EPS (Rs)	7.9	8.4	(6.4)	8.7	8.5	2.5

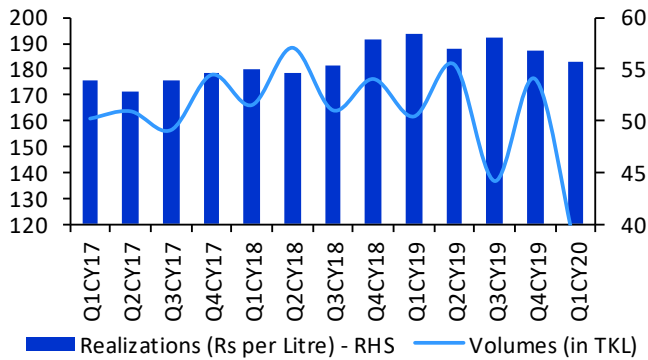
Source: Company, DART

Key Highlights

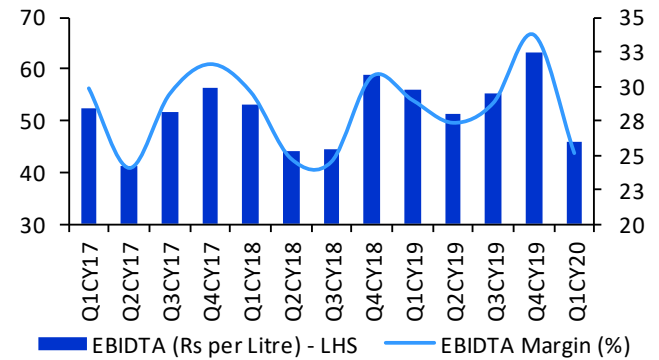
- The top line in Q1CY20 decreased by 29.5% on a YoY basis to Rs. 6,880 mn, which was a decline of 32% on a QoQ basis.
- Raw material as a % of sales was at 43% in Q1CY20 as compared to 42% in Q4CY19 and 47% in Q1CY19.
- EBIDTA has decreased by 38.9% on a YoY to Rs. 1,730 mn.
- Operating margins were at 25.1% which decline on a QoQ basis by 858 bps and by 385 bps on a YoY basis.
- Net profit has decreased by 32.3% on a YoY basis and by 53.9% on a sequential basis to Rs. 1,252 mn.

Concall Highlights

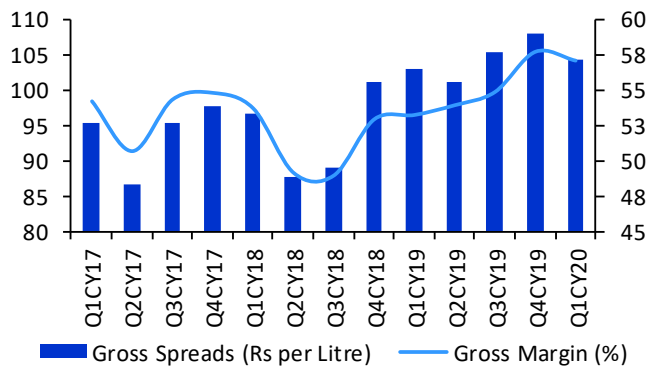
- Overall lubricant industry in the country has been hit by severe demand and supply disruptions.
- Castrol was able to meet demand of essential services.
- In such difficult situation times also there are working on numerous cost control actions, working capital management as well as efficiency programmes to drive margins and protect finances.
- Post partial lockdown demand was witnessed in 2W segment.
- Demand is expected to be lower in next few months.
- Lubricant industry may wither see a pent up demand in the coming months as vehicles are parked from a long time and people will prefer to service their vehicles or many may just defer servicing for a few months.
- There was a softness in Gross margins sequentially due to product mix and pricing action taken in month of December for CVO oils.
- Sales mix for Q1CY20 was 40% was personal mobility and rest was industrial and others. 75-80% is Bazaar segment for Castrol.
- Castrol has collected most of the March overdues and is expected to have normalised outstanding by June end.
- Personal Mobility segment has better margins as synthetic oils are a part of the portfolio.

Exhibit 4: Volumes (TKL) and realization (Rs/L)


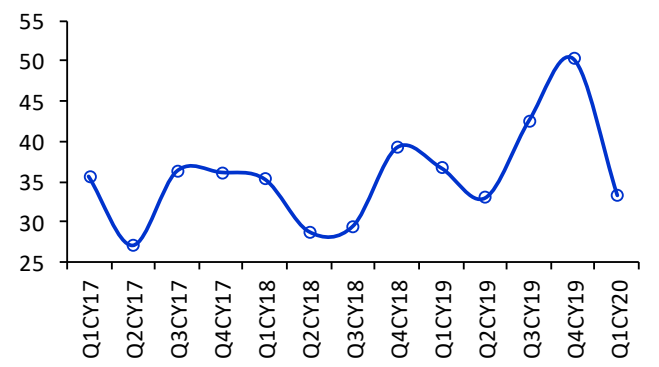
Source: Company, DART

Exhibit 5: EBIDTA spread(Rs/L)and EBIDTA margin(%)


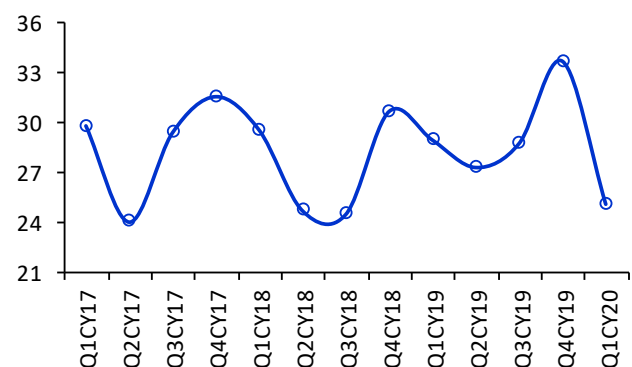
Source: Company, DART

Exhibit 6: Gross spread (Rs/L) and gross margin (%)


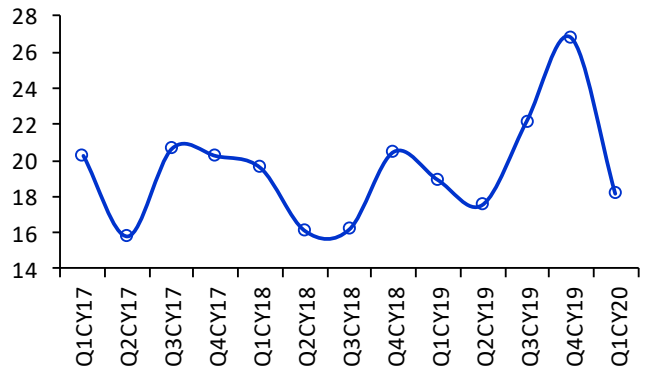
Source: Company, DART

Exhibit 7: PAT/L


Source: Company, DART

Exhibit 8: OPM (%)


Source: Company, DART

Exhibit 9: NPM (%)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	CY18	CY19	CY20E	CY21E
Revenue	39,046	38,768	35,143	38,893
Total Expense	28,338	27,238	24,460	26,914
COGS	19,066	17,477	15,639	17,113
Employees Cost	2,034	2,131	2,003	2,256
Other expenses	7,238	7,630	6,818	7,545
EBIDTA	10,708	11,530	10,684	11,979
Depreciation	556	697	972	1,242
EBIT	10,152	10,833	9,712	10,737
Interest	11	12	16	17
Other Income	843	648	700	800
Exc. / E.O. items	0	0	0	0
EBT	10,984	11,469	10,396	11,520
Tax	3,901	3,195	2,617	2,900
RPAT	7,084	8,274	7,779	8,620
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,084	8,274	7,779	8,620

Balance Sheet

(Rs Mn)	CY18	CY19	CY20E	CY21E
Sources of Funds				
Equity Capital	4,946	4,946	4,946	4,946
Minority Interest	0	0	0	0
Reserves & Surplus	6,711	8,724	6,667	5,452
Net Worth	11,657	13,670	11,613	10,397
Total Debt	0	0	0	0
Net Deferred Tax Liability	(533)	(585)	(400)	(400)
Total Capital Employed	11,124	13,085	11,213	9,997

Applications of Funds

Net Block	1,860	1,997	2,275	2,283
CWIP	350	273	250	250
Investments	0	0	0	0
Current Assets, Loans & Advances	18,325	19,433	19,120	18,642
Inventories	4,568	3,047	2,888	2,984
Receivables	3,918	4,820	4,525	5,008
Cash and Bank Balances	7,439	9,461	9,773	8,872
Loans and Advances	1,259	1,318	1,186	1,068
Other Current Assets	1,142	787	748	710
Less: Current Liabilities & Provisions	9,411	8,618	10,433	11,178
Payables	5,840	4,718	5,998	6,564
Other Current Liabilities	3,571	3,900	4,434	4,614
sub total				
Net Current Assets	8,913	10,815	8,688	7,464
Total Assets	11,124	13,085	11,213	9,997

E – Estimates

Important Ratios

Particulars	CY18	CY19	CY20E	CY21E
(A) Margins (%)				
Gross Profit Margin	51.2	54.9	55.5	56.0
EBIDTA Margin	27.4	29.7	30.4	30.8
EBIT Margin	26.0	27.9	27.6	27.6
Tax rate	35.5	27.9	25.2	25.2
Net Profit Margin	18.1	21.3	22.1	22.2
(B) As Percentage of Net Sales (%)				
COGS	48.8	45.1	44.5	44.0
Employee	5.2	5.5	5.7	5.8
Other	18.5	19.7	19.4	19.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	931.4	902.8	607.0	631.6
Inventory days	43	29	30	28
Debtors days	37	45	47	47
Average Cost of Debt				
Payable days	55	44	62	62
Working Capital days	83	102	90	70
FA T/O	21.0	19.4	15.4	17.0
(D) Measures of Investment				
AEPS (Rs)	7.2	8.4	7.9	8.7
CEPS (Rs)	7.7	9.1	8.8	10.0
DPS (Rs)	5.0	5.5	8.5	8.5
Dividend Payout (%)	69.8	65.8	108.1	97.5
BVPS (Rs)	11.8	13.8	11.7	10.5
RoANW (%)	64.8	65.3	61.5	78.3
RoACE (%)	68.3	68.5	64.2	81.4
RoAIC (%)	369.6	296.4	383.6	837.2
(E) Valuation Ratios				
CMP (Rs)	118	118	118	118
P/E	16.5	14.1	15.0	13.6
Mcap (Rs Mn)	117,013	117,013	117,013	117,013
MCap/ Sales	3.0	3.0	3.3	3.0
EV	109,574	107,552	107,240	108,141
EV/Sales	2.8	2.8	3.1	2.8
EV/EBITDA	10.2	9.3	10.0	9.0
P/BV	10.0	8.6	10.1	11.3
Dividend Yield (%)	4.2	4.6	7.2	7.2
(F) Growth Rate (%)				
Revenue	8.9	(0.7)	(9.4)	10.7
EBITDA	3.6	7.7	(7.3)	12.1
EBIT	2.8	6.7	(10.4)	10.6
PBT	2.6	4.4	(9.4)	10.8
APAT	2.4	16.8	(6.0)	10.8
EPS	2.4	16.8	(6.0)	10.8

Cash Flow

(Rs Mn)	CY18	CY19	CY20E	CY21E
CFO	5,495	8,795	11,306	10,204
CFI	661	(4,482)	7,647	(1,251)
CFF	(5,674)	(6,277)	(9,852)	(9,853)
FCFF	4,715	7,802	10,079	8,954
Opening Cash	2,155	2,636	672	9,773
Closing Cash	2,637	672	9,773	8,872

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 (Rs.)	Price (Rs.)
Jan-19	Accumulate	177	159
Apr-19	Accumulate	176	155
Jul-19	Accumulate	143	125
Oct-19	Accumulate	172	154
Feb-20	Accumulate	163	147
Mar-20	Buy	128	95

*Price as on recommendation date

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