

Castrol (India)

BSE SENSEX
34,869

S&P CNX
10,305

CMP: INR126

TP: INR185 (+47%)

Buy

Strong product and distribution initiatives to aid growth

Castrol India's (CSTRL) CY19 annual report highlights the company's efforts to improve product mix, control costs and debottlenecking. Key insights highlighted below:

- A challenging environment with 14% decline in total vehicle sales resulted in CSTRL clocking 4% lower volume in CY19 as against industry growth of <1%.
- However, strong support in Passenger Cars and Motorcycle Oils (PCMO) segment resulted in 11% growth in gross margin per liter to INR104.4 in 2019.
- Since CY03, CSTRL has registered YoY PAT growth except for four (in CY04, CY11, CY12 and CY14) years. In CY19, CSTRL logged in PAT growth of 16.8% aided by improved product mix, robust cost control and debottlenecking. We maintain Buy on the stock with target price of INR185.

Strong product initiatives in 2019

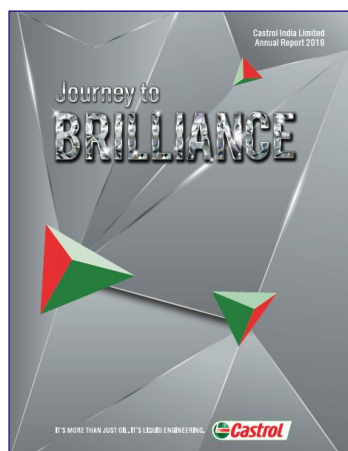
- CSTRL signed up with Honda Motorcycle & Scooters India Pvt Ltd to launch *Castrol Activ* exclusively for two wheelers (2Ws). The company also entered into an agreement with Renault India for supply of exclusive aftersales engine lubricants.
- It launched the *Castrol GTX ULTRACLEAN* with 50% superior sludge protection than peer products across 20 markets. New products like *Castrol Activ Essential*, *MAGNATEC SUV*, *RX Essential 15W-40 CVO* (Commercial Vehicle Oils), and *Radicoool Essentials* were launched.
- CSTRL is also investing in 50% capacity expansion at its Silvassa plant.
- **Beyond lubricants:** CSTRL has launched vehicle care co-branded products like bike/car shampoos, glass cleaners, cream waxes, and dashboard and tyre dressers.

Marketing and distribution initiatives

- The company's products are distributed through 350 distributors who service 1 lac customers and sub-distributors who reach out to additional outlets in semi-urban and rural markets. Additionally, it services 3,000 institutional accounts directly.
- The BP-RIL joint venture (JV) partnership in India for new fuels and mobility also offers CSTRL an opportunity to market its lubricants across the venture's retailing network, which is expected to be scaled up to 5,500 fueling stations over the next 5 years.
- Over 1lac truck owners, mechanics and retailers were educated on the company's latest technology and products.
- Royalty stood at 2.9% of net operating income in CY19 (no change in expense v/s CY18). Advertising and sales promotion expense stood at 7.1% of net operating income (v/s 6.5% in CY18).

Valuation and view

- CSTRL paid a dividend of INR5.5/share in CY19 (a payout of 78.9% of CY19 PAT).



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Stock Info

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	124.8 / 1.7
52-Week Range (INR)	162 / 90
1, 6, 12 Rel. Per (%)	0/13/3
12M Avg Val (INR M)	240
Free float (%)	49.0

Financials Snapshot (INR b)

Y/E Dec	2019	2020E	2021E
Sales	38.8	29.5	37.1
EBITDA	11.5	10.5	12.5
PAT	8.3	7.7	9.1
EPS (INR)	8.4	7.8	9.2
EPS Gr. (%)	16.8	-6.9	18.8
BV/Sh.(INR)	13.8	15.1	16.6

Ratios

Net D:E	-0.7	-0.8	-0.8
RoE (%)	65.3	53.9	58.4
RoCE (%)	65.4	53.9	58.4
Payout (%)	78.9	83.8	83.8

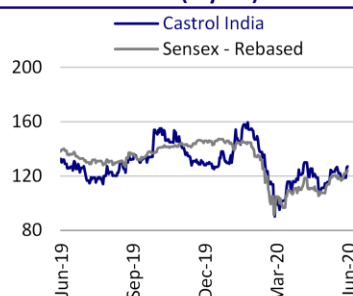
Valuations

P/E (x)	14.0	15.0	12.7
P/BV (x)	8.5	7.8	7.1
EV/EBITDA (x)	9.2	9.9	8.1
Div. Yield (%)	4.7	4.6	5.5
FCF Yield (%)	7.2	7.4	8.4

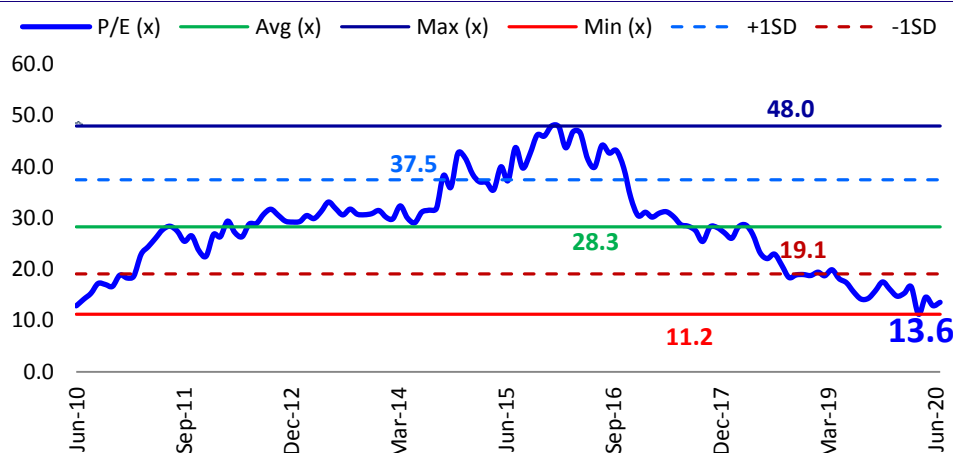
Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.0	51.0	51.0
DII	18.3	17.6	17.3
FII	11.8	12.2	11.2
Others	18.8	19.2	20.6

FII Includes depository receipts

Stock Performance (1-year)

- The company has already launched BS-VI lubricants and has entered into an agreement with MG Hector and Tata Motors for supply of EV fluids. Although competition remains intense and the industry is likely to grow in lower single-digits, we believe CSTR will be able to secure its profitability with better product mix, cost controls and launch of advanced products with better realization.
- The stock is trading at 13.6x CY21 EPS of INR9.2, 29% below 10-year average. We value the stock at 20x CY21. With a target price of INR185, we reiterate Buy on the stock.

Exhibit 1: 1-year forward P/E chart, currently trading at 13.6x

Source: Company, MOFSL

New products, initiatives and partnerships in CY19

- **Launches:** New products were launched by CSTR in different categories and price ranges. CSTR launched the *Castrol GTX ULTRACLEAN* with 50% superior sludge protection compared to tough industry standards (50% cleaner than the industry standard as measured in the Seq. VG Sludge test) across 20 markets. Also *Castrol Activ ESSENTIAL* was launched, extending the *Castrol Activ* range to new price segments. A new category of lubricants, *Castrol MAGNATEC SUV* was also launched, catering to the fast increasing SUV population.
- **Initiatives:** The Company launched the 'Transform Truckers Abhiyaan' – focusing on truckers' health – in association with a media house that ran across 13 states in India. A specially curated set of yoga postures – *Castrol CRB PLUS Khet Aasana* was introduced for the well-being of farmers across India, following the success of *Castrol CRB TURBOMAX Truck Aasana* for truckers.
- **Partnerships:** Some of the partnerships entered by the company in CY19 include (a) an exclusive agreement with Honda India, (b) a strategic agreement with Renault India, and (c) the launch of carbon neutral sustainability solutions with Pratham Motors.

New
Products in
CY19



NEW CASTROL MAGNATEC SUV
NON-STOP SUV PROTECTION
FROM EVERY START



Related party transactions

- CSTR entered into various related party transactions during the year for sale and purchase of material/traded goods, receiving and rendering services with fellow subsidiaries of the company.
- Largest related party transactions pertained to royalty. The company paid INR 1,123m to its parent company as royalty. Rest of the transactions are of much smaller magnitude with the second largest one being INR 745m for purchase of materials from fellow subsidiaries.
- The company also contributed INR143m to the Post-Employment Benefit Fund and disbursed funds amounting to INR358m in CY19.
- CSTR's remuneration to Executive Directors was up 14% YoY to INR106m in CY19 (v/s INR93m in CY18).
- Amount payable to related parties at end-CY19 was down 11.5% YoY to INR 1,260m. Amount receivable jumped 14.7% to INR99.4m (v/s INR86.7m in CY18).

Corporate Social Responsibility

- Two key partners of the company are truck drivers and mechanics, who play a significant role in keeping the wheels of this sector moving. Thus, the company takes extra care of these two partners.
- With the vision of positively impacting the lives of these two partners, CSTR India focusses on the following two flagship programs:
 - Program for holistic development of truck drivers - Castrol Sarathi Mitra.
 - Program for mechanics to strengthen skills in automotive and industrial sectors with focus on technology – Castrol Eklavya.

R&D Expenditure

- R&D expenditure stood at INR73m in CY19, of which INR30m was incurred on capital R&D and INR43m was for recurring R&D. In CY18, total R&D spends stood at INR97m.

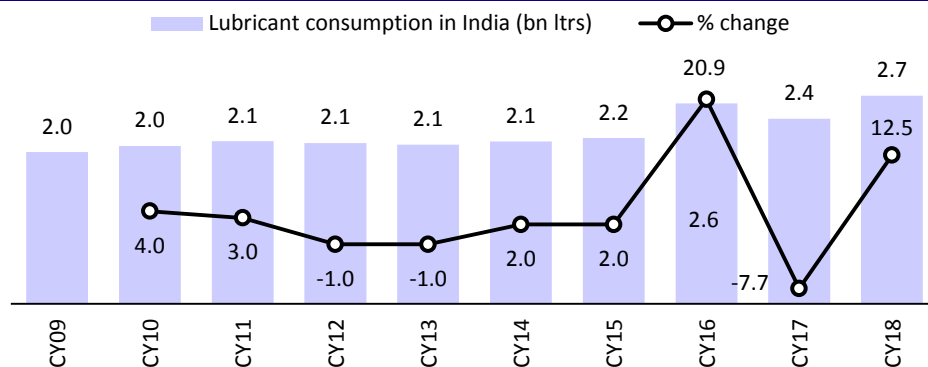
Exhibit 2: R&D expenditure declined 24.8% in CY19 to INR73m v/s INR97m in CY18

Particulars (INR m)	CY16	CY17	CY18	CY19
Capital	-	50	18	30
Recurring	105	199	79	43
Total	105	250	97	73
YoY change (%)	-33.4	137.6	-61.2	-24.8

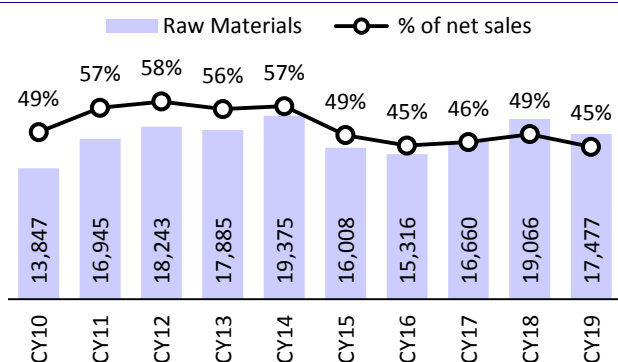
Source: Company, MOFSL

India lubricant market

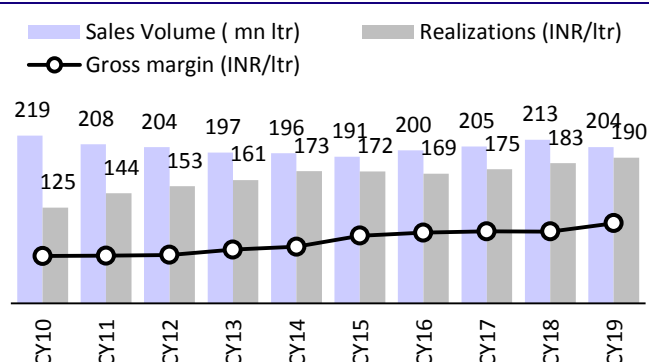
- India is the world's third largest lubricant market after the US and China.
- It consumed ~2.7b liters in CY18, an increase of 12.5% YoY v/s CY17.
- CSTR operates in a highly competitive market, which comprises of national oil players, several international players and a large number of local players.
- The company is focused on retail automotive lubricants and has significant presence in specialized industrial lubricants.

Exhibit 3: Lubricant consumption in India increased 12.5% to 2.7b liters in CY18

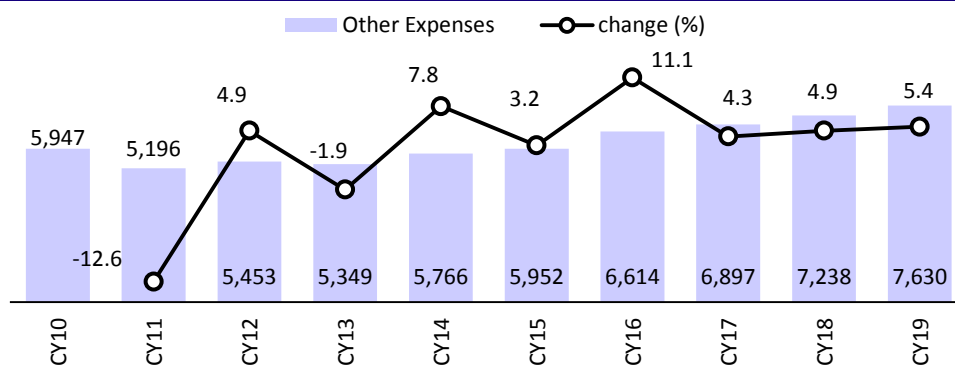
Source: Company, MOFSL

Exhibit 4: RM cost decline 8.3% YoY in CY19

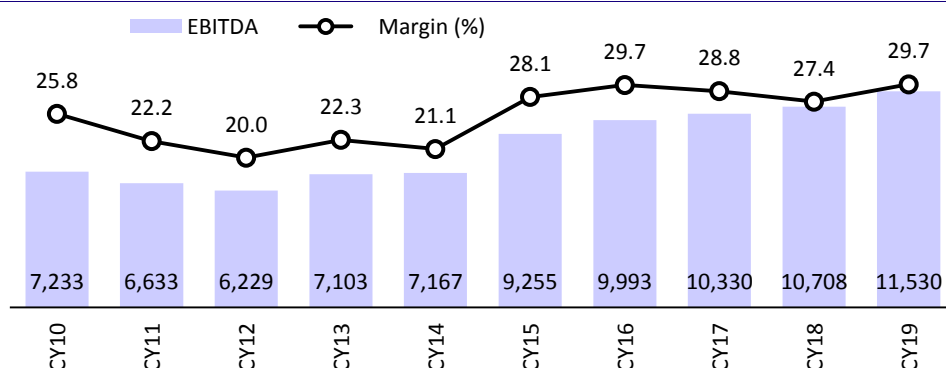
Source: Company, MOFSL

Exhibit 5: Sales volume (per liter realization); gross margin

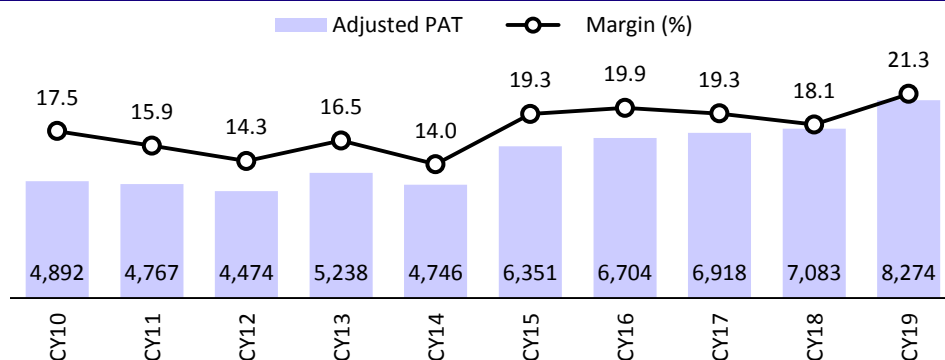
Source: Company, MOFSL

Exhibit 6: Other expenses increased by 50bp to INR7,630m in CY19

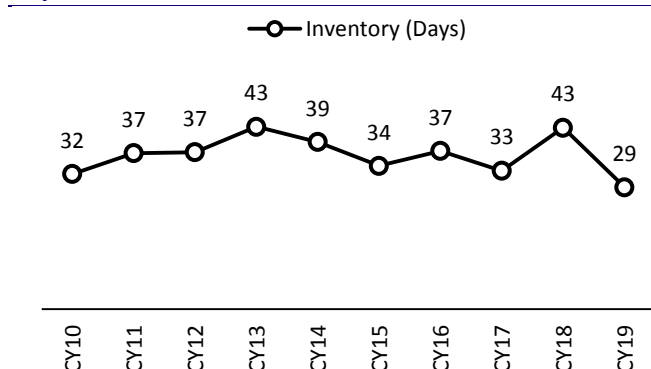
Source: Company, MOFSL

Exhibit 7: CSTRL's EBITDA stood at INR11.5b with margin of 29.7% in CY19

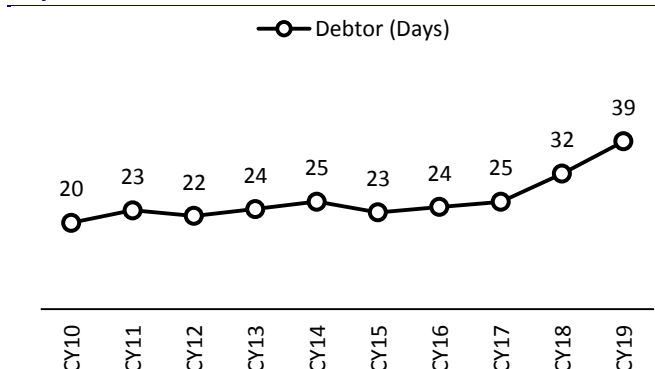
Source: Company, MOFSL

Exhibit 8: CSTR's Adj. PAT grew 16.8% YoY to INR8,274m in CY19

Source: Company, MOFSL

Exhibit 9: Inventory decreased from 43 days in CY18 to 29 days in CY19

Source: Company, MOFSL

Exhibit 10: Debtor days increased from 32 days in CY18 to 39 days CY19

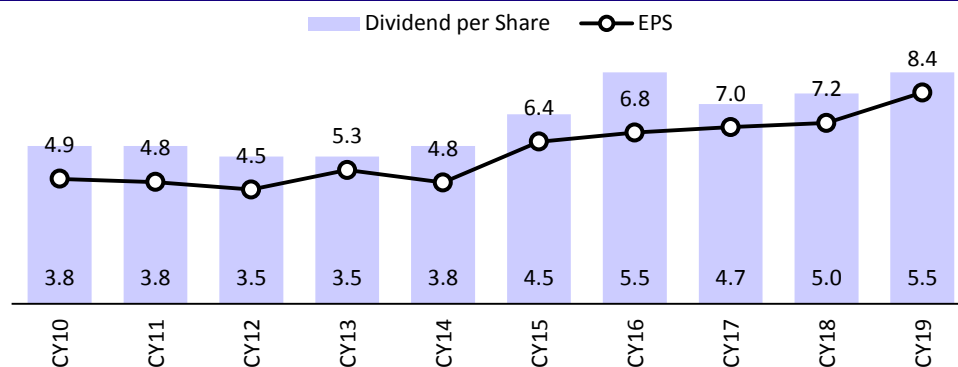
Source: Company, MOFSL

Exhibit 11: On year-end basis, WC days increased by 4 days to 24 days in CY19

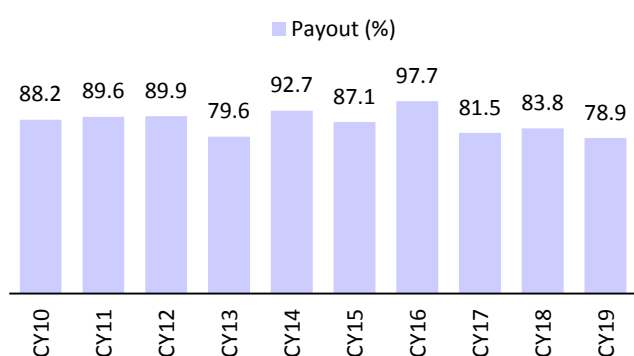
Cash conversion cycle (year-end basis)	CY10	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19
Days										
Inventory days	32	37	37	43	39	34	37	33	43	29
Debtor days	20	23	22	24	25	23	24	25	32	39
Creditor days	56	48	51	56	59	62	54	62	55	44
Cash conversion cycle	(4)	12	8	10	6	(6)	8	(4)	20	24

Source: Company, MOFSL

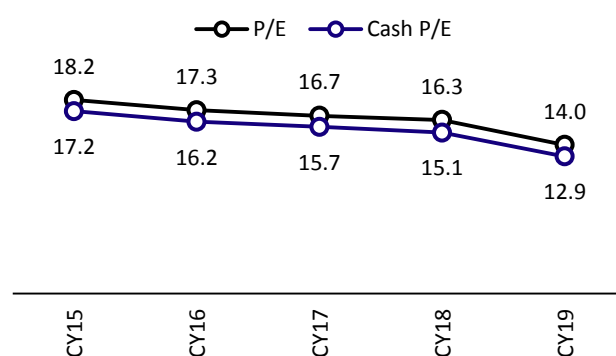
- CSTR paid a dividend of INR5.5 per share in CY19 as against INR5.0 per share in CY18. The payout stood at 78.9% (v/s 83.8% in CY18).
- EPS for CY19 came in at INR8.4, an increase of 16.8% v/s CY18; P/E multiple stood at 14x.
- The current dividend yield for the company is 4.7% with RoE at 65.3%.
- Working Capital ratios have improved significantly with asset turnover at 2.8x, whereas inventory days have come down to 29 days from 43 days.

Exhibit 12: DPS was INR5.5/share for CY19 while EPS was INR8.4 for the year

Source: Company, MOFSL

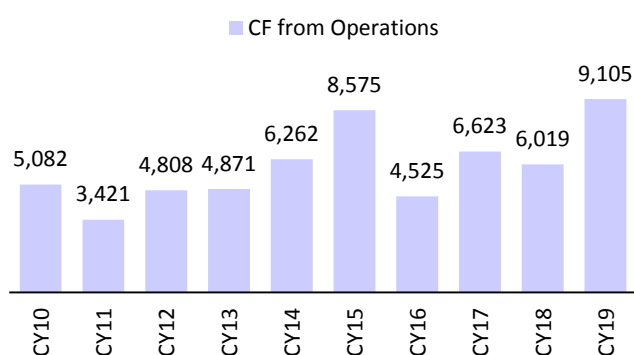
Exhibit 13: Payout ratio increased significantly in FY20

Source: Company, MOFSL

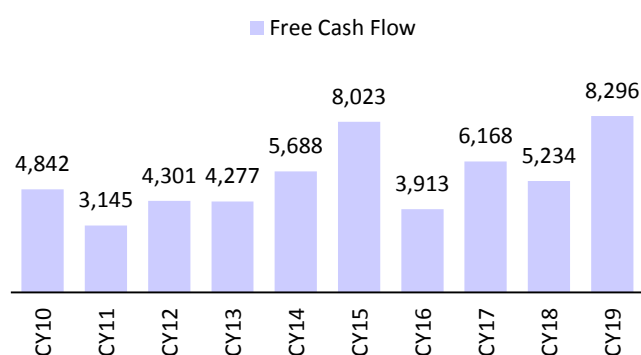
Exhibit 14: Stable return ratios for the company

Source: Company, MOFSL

- Cash Flow from Operations (CFO) increased 51% YoY to INR9,105m in CY19.
- Free Cash Flow (FCF) too saw significant increase of 58% YoY to INR8,296m in CY19.

Exhibit 15: CFO increased 51% in CY19 to INR9,105m

Source: Company, MOFSL

Exhibit 16: FCF increased 58% to INR8,296m in CY19

Source: Company, MOFSL

- CSR spends stood at INR227m (v/s INR204m in CY18) and were up to the extent (prescribed CSR for the year was INR217m) required under the provision, which is 2% of average net profit (INR10,831m) in the past three years.
- Foreign exchange earned was INR220m in FY20 (v/s INR277.2m in CY18), lower than the foreign exchange used of INR1,000m (v/s INR2312.8m in CY18).

- Percentage increase in the median remuneration of employees was 6.4% as compared to CY18. The company has 720 employees as at 31st Dec'19.
- Remuneration of CSTR's Managing Director, Mr. Omer Dormen (ceased to be MD on 31st Dec'19), grew 17.9% YoY in CY19. His total remuneration for the year was INR62m including perquisites worth INR42m and performance-based incentives of INR3m (for CY18, but paid in CY19).

Exhibit 17: Remuneration of Directors and Key Management Personnel

Name of Director/KMP	Designation	Remuneration of Director/KMP for FY 2019 (Rs. in Crores)	Percentage increase in Remuneration in the Financial Year 2019	Ratio of remuneration of each Director/KMP to median remuneration of employees
Mr. Omer Dormen (ceased to be the Managing Director of the Company effective close of business hours 31 December 2019)	Managing Director	6.28	17.90%	31.8
Ms. Rashmi Joshi	Chief Financial Officer & Whole time Director	2	10.10%	10.1
Mr. Jayanta Chatterjee	Whole time Director – Supply Chain	2.3	9.60%	11.5
Mr. S. M. Datta (ceased to be the Independent Director and Chairman of the Company effective close of business hours 1 October 2019)	Independent Director	-	-	-
Mr. Uday Khanna	Independent Director	-	-	-
Mr. R. Gopalakrishnan	Independent Director	-	-	-
Ms. Sangeeta Talwar	Independent Director	-	-	-
Mr. Rakesh Makhija (w.e.f. 1 October 2019)	Independent Director	-	-	-
Mr. Sashi Mukundan	Nominee Director	-	-	-
Mr. Peter Weidner (upto close of business hours 31 December 2019)	Nominee Director	-	-	-
Mr. Mark Josceline Sclater	Nominee Director	-	-	-
Mr. Ramchander Subramaniam Avanavadi (w.e.f. 29 April 2019)	Nominee Director	-	-	-
Ms. Chandana Dhar	Company Secretary	0.8	4.40%	4.2

Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR M)

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Income from Operations	39,186	37,914	38,745	41,205	44,887	44,568	33,871	42,678
Less: Excise Duty	5,263	4,934	5,042	5,362	5,841	5,800	4,408	5,554
Net sales	33,923	32,980	33,703	35,843	39,046	38,768	29,464	37,124
Change (%)	6.7	-2.8	2.2	6.3	8.9	-0.7	-24.0	26.0
Raw Materials	19,375	16,008	15,316	16,660	19,066	17,477	10,725	14,710
Gross Margin	14,548	16,972	18,387	19,183	19,980	21,291	18,739	22,414
Margin (%)	42.9	51.5	54.6	53.5	51.2	54.9	63.6	60.4
Employees Cost	1,616	1,766	1,780	1,956	2,034	2,131	2,339	2,433
Other Expenses	5,766	5,952	6,614	6,897	7,238	7,630	5,910	7,447
Total Expenditure	26,756	23,726	23,710	25,513	28,338	27,238	18,975	24,590
EBITDA	7,167	9,255	9,993	10,330	10,708	11,530	10,489	12,534
Margin (%)	21.1	28.1	29.7	28.8	27.4	29.7	35.6	33.8
Depreciation	361	390	450	455	556	697	800	878
EBIT	6,806	8,865	9,544	9,875	10,152	10,833	9,689	11,656
Interest Charges	24	8	15	12	11	12	10	8
Other Income	481	959	874	837	843	648	615	578
PBT bef. EO Exp.	7,263	9,816	10,403	10,700	10,984	11,469	10,294	12,226
EO Items	0	306	0	0	0	0	0	0
PBT after EO Exp.	7,263	9,510	10,403	10,700	10,984	11,469	10,294	12,226
Income tax	2,518	3,357	3,699	3,782	3,901	3,195	2,594	3,081
Tax Rate (%)	34.7	35.3	35.6	35.3	35.5	27.9	25.2	25.2
Reported PAT	4,746	6,153	6,704	6,918	7,083	8,274	7,700	9,145
Adjusted PAT	4,746	6,351	6,704	6,918	7,083	8,274	7,700	9,145
Change (%)	-9.4	33.8	5.6	3.2	2.4	16.8	-6.9	18.8
Margin (%)	14.0	19.3	19.9	19.3	18.1	21.3	26.1	24.6

Standalone - Balance Sheet

(INR M)

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Equity Share Capital	2,473	2,473	2,473	4,946	4,946	4,946	4,946	4,946
Total Reserves	2,495	3,283	7,343	5,256	6,711	8,724	9,974	11,460
Net Worth	4,968	5,756	9,816	10,202	11,657	13,670	14,920	16,405
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Total Loans	0	0	0	0	0	0	0	0
Capital Employed	4,968	5,756	9,816	10,202	11,657	13,670	14,920	16,405
Gross Block	3,762	3,915	4,004	4,404	5,440	6,267	7,067	7,567
Less: Accum. Deprn.	2,041	2,427	2,585	3,040	3,596	4,293	5,093	5,971
Net Fixed Assets	1,721	1,488	1,419	1,364	1,844	1,974	1,974	1,596
Capital WIP	157	364	423	599	366	296	800	500
Total Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	12,426	14,265	16,369	17,255	18,325	19,433	18,938	23,052
Inventory	3,655	3,046	3,439	3,196	4,568	3,047	2,391	3,099
Account Receivables	2,715	2,365	2,552	2,850	3,918	4,820	2,341	2,950
Cash and Bank Balance	4,315	6,965	8,219	7,842	7,438	9,461	11,554	13,663
Loans and Advances	1,742	1,889	2,159	3,367	2,401	2,105	2,652	3,341
Curr. Liability & Prov.	9,954	10,860	9,067	9,568	9,411	8,618	7,377	9,328
Account Payables	5,492	5,645	4,966	6,066	5,840	4,718	4,523	5,861
Other Current Liabilities	1,377	1,457	3,478	2,967	3,111	3,403	2,357	2,970
Provisions	3,084	3,758	623	535	460	497	497	497
Net Current Assets	2,472	3,404	7,302	7,687	8,914	10,815	11,561	13,724
Deferred Tax assets	618	499	672	551	533	585	585	585
Appl. of Funds	4,968	5,756	9,816	10,201	11,657	13,670	14,920	16,405

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Basic (INR)								
EPS	4.8	6.4	6.8	7.0	7.2	8.4	7.8	9.2
Cash EPS	5.2	6.8	7.2	7.5	7.7	9.1	8.6	10.1
BV/Share	5.0	5.8	9.9	10.3	11.8	13.8	15.1	16.6
DPS	3.8	4.5	5.5	4.7	5.0	5.5	5.4	6.5
Payout (%)	92.7	87.1	97.7	81.5	83.8	78.9	83.8	83.8
Valuation (x)								
P/E		18.2	17.3	16.7	16.3	14.0	15.0	12.7
Cash P/E		17.2	16.2	15.7	15.1	12.9	13.6	11.5
P/BV		20.1	11.8	11.3	9.9	8.5	7.8	7.1
EV/Sales		3.3	3.2	3.0	2.8	2.7	3.5	2.7
EV/EBITDA		11.8	10.8	10.4	10.1	9.2	9.9	8.1
Dividend Yield (%)	3.2	3.8	4.7	4.1	4.3	4.7	4.6	5.5
FCF per share	5.8	8.1	4.0	6.2	5.3	8.4	8.6	9.9
Return Ratios (%)								
RoE	76.0	118.4	86.1	69.1	64.8	65.3	53.9	58.4
RoCE	76.2	118.5	86.2	69.2	64.9	65.4	53.9	58.4
Working Capital Ratios								
Asset Turnover (x)	6.8	5.7	3.4	3.5	3.3	2.8	2.0	2.3
Inventory (Days)	39	34	37	33	43	29	30	30
Debtor (Days)	25	23	24	25	32	39	25	25
Creditor (Days)	59	62	54	62	55	44	56	58
Working Cap. Turnover (Days)	-20	-39	-10	-2	14	13	0	1
Growth (%)								
Sales								
EBITDA	0.9	29.1	8.0	3.4	3.7	7.7	-9.0	19.5
PAT								
Leverage Ratio (x)								
Net Debt/Equity	-0.9	-1.2	-0.8	-0.8	-0.6	-0.7	-0.8	-0.8

Standalone - Cash Flow Statement

(INR M)

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
OP/(Loss) before Tax	7,263	9,816	10,403	10,700	10,984	11,469	10,294	12,226
Depreciation	361	390	450	455	556	697	800	878
Interest & Finance Charges	24	8	15	12	11	12	10	8
Direct Taxes Paid	-2,518	-3,357	-3,699	-3,782	-3,901	-3,195	-2,594	-3,081
(Inc)/Dec in WC	1,131	1,718	-2,644	-762	-1,631	122	1,347	-54
CF from Operations	6,262	8,575	4,525	6,623	6,019	9,105	9,857	9,976
Others	-89	-187	-173	121	18	-52	0	0
CF from Operating incl EO	6,174	8,388	4,352	6,744	6,037	9,053	9,857	9,976
(Inc)/Dec in FA	-485	-365	-439	-576	-803	-757	-1,304	-200
Free Cash Flow	5,688	8,023	3,913	6,168	5,234	8,296	8,553	9,776
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
CF from Investments	-485	-365	-439	-576	-803	-757	-1,304	-200
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0	0
Interest Paid	-24	-8	-15	-12	-11	-12	-10	-8
Dividend Paid	-4,399	-5,357	-6,547	-5,637	-5,935	-6,528	-6,449	-7,660
Others	-2,893	-7	3,903	-895	307	267	0	0
CF from Fin. Activity	-7,316	-5,373	-2,659	-6,544	-5,639	-6,273	-6,459	-7,668
Inc/Dec of Cash	-1,628	2,651	1,254	-377	-405	2,023	2,093	2,109
Opening Balance	5,942	4,315	6,965	8,219	7,842	7,438	9,461	11,554
Closing Balance	4,315	6,965	8,219	7,842	7,437	9,461	11,554	13,663

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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