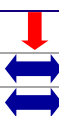


Castrol (India)

Estimate change

TP change

Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	CSTR IN
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$)	114.7 / 1.5
52-Week Range (INR)	162 / 90
1, 6, 12 Rel. Per (%)	-15/-7/-10
12M Avg Val (INR M)	244

Financials & Valuations (INR b)

Y/E December	2019	2020E	2021E
Sales	38.8	25.8	35.2
EBITDA	11.5	8.7	11.5
Adj. PAT	8.3	6.3	8.4
Adj. EPS (INR)	8.4	6.4	8.5
EPS Gr. (%)	16.8	-23.5	33.1
BV/Sh.(INR)	13.8	14.9	16.2

Ratios

Net D:E	-0.7	-0.8	-0.8
RoE (%)	65.3	44.6	54.7
RoCE (%)	65.4	44.9	55.0
Payout (%)	78.9	83.8	83.8

Valuations

P/E (x)	13.9	18.1	13.6
P/BV (x)	8.4	7.8	7.1
EV/EBITDA (x)	9.1	11.9	8.8
Div. Yield (%)	4.7	3.8	5.1
FCF Yield (%)	7.2	6.4	7.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.0	51.0	51.0
DII	18.7	18.3	17.2
FII	11.5	11.8	11.7
Others	18.9	18.8	20.1

FII Includes depository receipts

CMP: INR116

TP: INR170 (+47%)

Buy

Surprise on volumes, though recovery seems far off

- Castrol India's (CSTR) 2QCY20 volumes came in higher than estimated at 29m liter (v/s est. 19m liter and -48% YoY/-23% QoQ), while realization was lower at INR169/liter (v/s est. INR178/liter and -6% YoY). This resulted in net sales of INR4.9b (-53% YoY).
- Net realization was lower owing to a scheme announced in 2QCY20 to aid dealers/customers. The scheme ended in the quarter itself.
- According to CSTR, volume recovery momentum looks stable post Jun'20. However, the company has refrained from commenting on the outlook as various states have extended or imposed further lockdowns. A gradual pickup is being witnessed in demand for two-wheelers over other auto segments.
- CSTR has reiterated that it would continue focusing on the Personal Mobility segment along with better product mix, cost optimization initiatives and necessary pricing actions to maintain lucrative margins.
- Although competition remains intense and the industry is likely to grow in lower single digits, CSTR enjoys strong brand equity, which we believe would continue in the future. Also, the company has continuously increased its dividend since the last three years, which translates into dividend yield of ~4-5%. Maintain Buy.

Gross margin in line, EBITDA beat led by lower other expenditure

- Gross margin came in at INR2.5b (in-line), while EBITDA stood at INR953m (v/s est. INR338m), led by lower employee cost and other expenditure.
- CSTR has reduced some of its ad spends. Also, the company has guided that other expenditure would remain lower ~2QCY20 levels in coming quarters.
- Further, better product mix has aided the company in avoiding a steep decline in its gross margin/liter, which stood at INR86.8/liter (-14% YoY).
- PAT was down 64% YoY to INR654m, with tax rate of 26.1% in 2QCY20.
- For 1HCY20, total volumes were down 37% YoY to 67m liter while realizations were down 8% YoY to INR176/liter. EBITDA stood at INR2.7b (-53% YoY) with PBT of INR2.6b (-55% YoY). Owing to the lower tax rate of 26.1% (v/s 35.6% in 1HCY19), PAT stood at INR1.9b (-48% YoY).

Volumes – stable momentum, but difficult to predict outlook

- CSTR's three plants (Patalganga, Silvassa and Paharpur) were closed from 23rd Mar'20 due to the COVID-19 led lockdowns. Operations commenced in a phased manner from the second week of May'20.
- CSTR expects lower demand over the next couple of months as the economy revives. It believes pent-up demand may also lag as customers are expected to defer their servicing demand (due to lower purchasing power).
- Factoring in the same along with further imposition of the extended lockdowns in various states, we have revised down our volume estimate for CY20/CY21 to 143m/186m liter (from 153m/191m liter), resulting in EPS change of -9%/-3% to INR6.4/INR8.5.

Snapshot of strategic developments during the quarter

- CSTR has entered into a strategic alliance with Jio-BP fuel retail JV to exclusively sell its products at its 1,400 outlets (which should expand to 5,500 outlets over the next five years). CSTR has started supplying its products to a few Jio-BP fuel retail outlets.

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- The company conducted online classroom sessions for Castrol Super Mechanic Academy. It has also reached out to ~28,000 customers with its Industrial Restart Offer, designed to support customers.
- CSTRL added ~500 retail outlets during the quarter.
- The company has also launched a new TV Commercial for *CASTROL ACTIV*, which went on air recently.

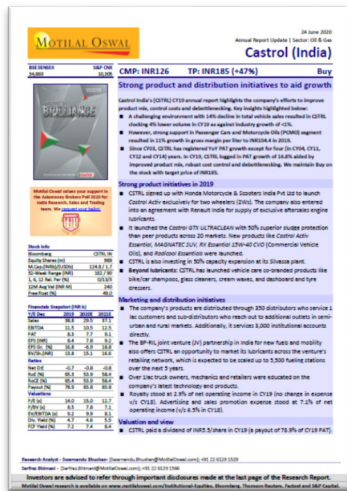
Valuation and view

- The company is working on new product launches. However, the launch would depend on normalization of the current environment. Nevertheless, margins are expected to improve with a better product mix (e.g. BSVI vehicles require thinner oil, and thus, margins should improve).
- In light of the possible onslaught by electric vehicles (EVs) and subdued growth in the current space due to the soft economic outlook, CSTRL is looking at different revenue streams for the future. The recent deal with 3M is a reflection of the company's diversification plans into new avenues. However, 2W segment accounts for 30% of CSTRL total volumes, which may be hugely impacted by EVs.
- We expect high dividend payouts to continue. CSTRL also plans to continue investing in distribution, brand, and advocacy to gain lost market share.
- CSTRL's cash for 1HCY20 is down only 15% YoY to INR3.0b (despite EBITDA/PAT being down 53%/48% YoY in 1HCY20), because of working capital release of INR1.0b primarily due to decline in receivables.
- The stock trades at 13.6x CY21E EPS of INR8.5 and EV/EBITDA of 8.8x. Also, on a one-year forward P/E basis, the stock trades at ~45% discount to its LT P/E average of 26.9x (around -1SD).
- We value the stock at 20x (in line with global peers) to arrive at a target price of INR170. Maintain **Buy**.

Quarterly Performance

Y/E December									(INR Million)		
	CY19				CY20				CY19	CY20E	CY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE
Volume (m litres)	50.4	55.4	44.2	54.0	37.6	29.0	35.4	40.8	204	143	19.4
Realization	194	188	192	187	183	169	183	187	190	181	178
Net Sales	9,762	10,396	8,492	10,118	6,880	4,906	6,454	7,541	38,768	25,781	3,457
YoY Change (%)	5.3	2.2	-8.4	-2.1	-29.5	-52.8	-24.0	-25.5	-0.7	-33.5	-66.8
EBITDA	2,830	2,843	2,445	3,412	1,730	953	2,472	3,540	11,530	8,695	338
YoY Change (%)	3.2	13.0	7.5	7.5	-38.9	-66.5	1.1	3.8	7.7	-24.6	-88.1
Margins (%)	29.0	27.3	28.8	33.7	25.1	19.4	38.3	47.0	29.7	33.7	9.8
Depreciation	162	166	186	183	222	206	213	159	697	800	191
Interest	3	3	3	3	11	14	13	13	12	50	3
Other Income	211	159	116	162	198	152	110	155	648	615	151
PBT	2,876	2,833	2,372	3,388	1,695	885	2,356	3,524	11,469	8,460	296
Rate (%)	35.7	35.5	20.6	19.9	26.1	26.1	25.2	24.5	27.9	25.2	25.2
PAT	1,850	1,827	1,884	2,713	1,252	654	1,762	2,660	8,274	6,328	221
YoY Change (%)	1.8	11.3	25.3	28.0	-32.3	-64.2	-6.5	-2.0	16.8	-23.5	-87.9
Operational Details (INR/ltr)											
Volume (m litres)	50.4	55.4	44.2	54.0	37.6	29.0	35.4	40.8	204.0	142.8	19.4
Realization	193.7	187.7	192.1	187.4	183.0	169.2	182.5	187.5	190.0	180.5	178.3
Gross margin	103.1	101.2	105.4	108.1	104.4	86.8	118.6	139.2	104.4	113.5	124.8
EBITDA	56.2	51.3	55.3	63.2	46.0	32.9	69.9	86.7	56.5	60.9	17.4
PAT	36.7	33.0	42.6	50.2	33.3	22.6	49.8	65.1	40.6	44.3	11.4

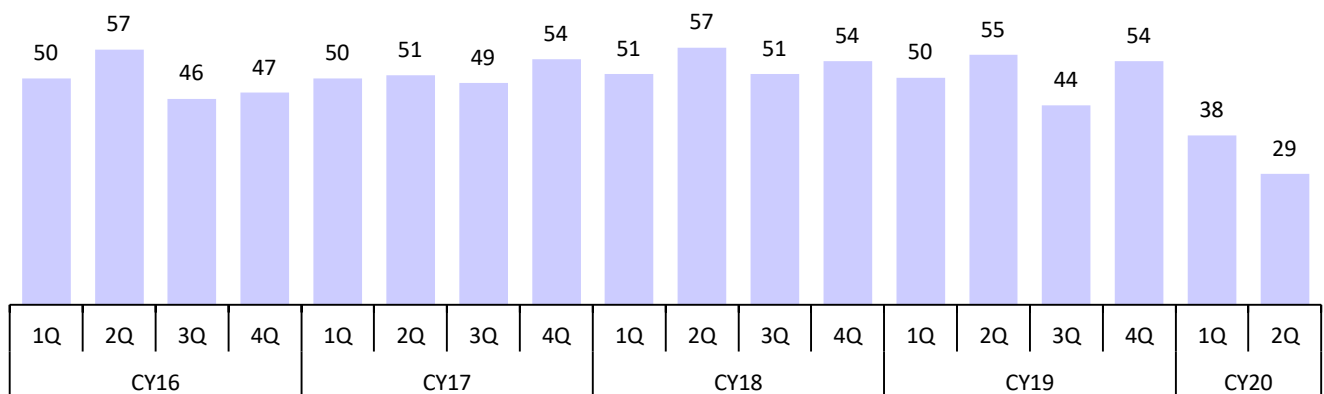
CSTRL CY19 Annual Report Analysis – Strong product and distribution initiatives to aid growth.



Focus on PCMO to drive growth; Better product mix to aid margins

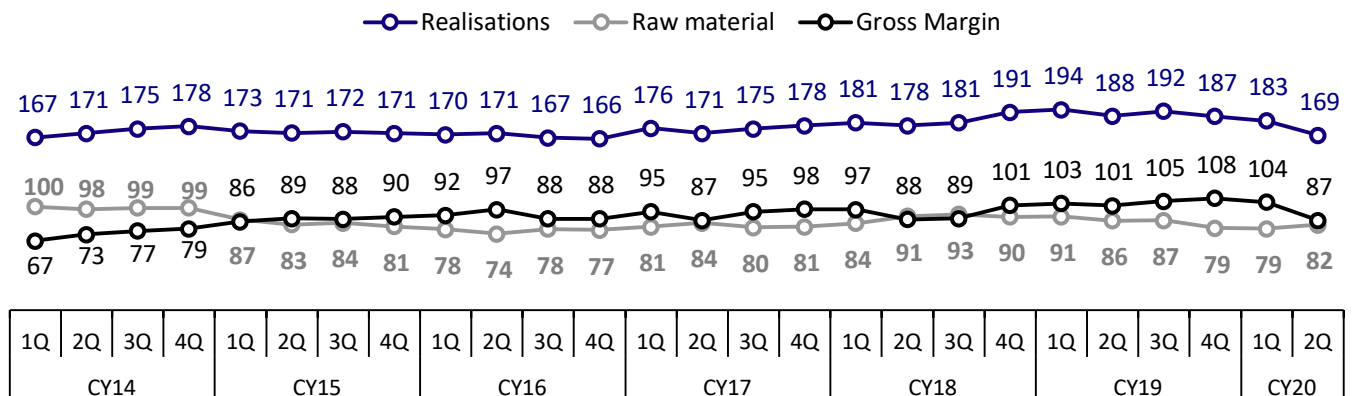
- **CSTRL has already launched BSVI range of products across categories**, which could also be used in BSIII/IV vehicles. This range includes *CASTROL VECTON Long Drain 15W40 CK4* commercial vehicle engine oil, which is certified carbon-neutral and powers trucks with an extended drain interval of up to 120k kms. Oil drain intervals are expected to rise in the commercial segment for BSVI engines. However, BSVI products would be at a premium for improved quality and would also be backward compatible (i.e. usable in even BSIV engines).
- **Personal Mobility remains strong**, constituting ~40% of the total sales mix (with Industrial and Commercial accounting for the rest). Also, India is a growth economy and revival in PCMO car sales would further lead to new/net sales volumes for the company. CSTRL has guided that it would continue to focus and invest in Personal Mobility (investments have resulted in 7% CAGR over the last decade). This is because PCMO is more profitable than B2B segments.
- **CSTRL launched EV fluids globally** (China and Europe). In 1QCY20, it signed agreements with MG Motors and Tata Motors for supply of EV fluids. However, CSTRL expects a timeframe of 15-20 years before a scalable EV fleet is seen on Indian roads.

Exhibit 1: Castrol's volume (m liter) stood at 29m liter (-48% YoY and -23% QoQ)



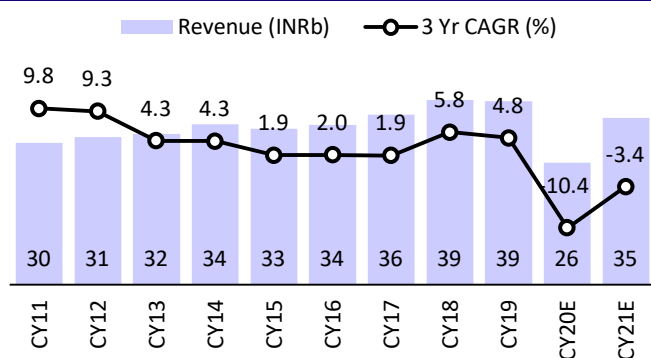
Source: Company, MOFSL

Exhibit 2: Realization declined to INR169/liter with only marginal decline in raw material cost at -5% YoY and QoQ

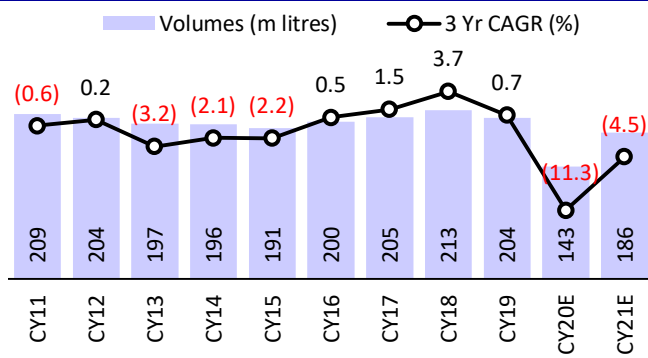


Source: Company, MOFSL

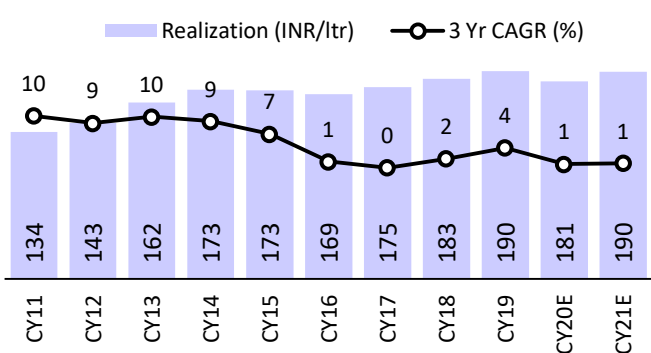
Story in charts

Exhibit 3: Castrol's revenue should decline marginally...


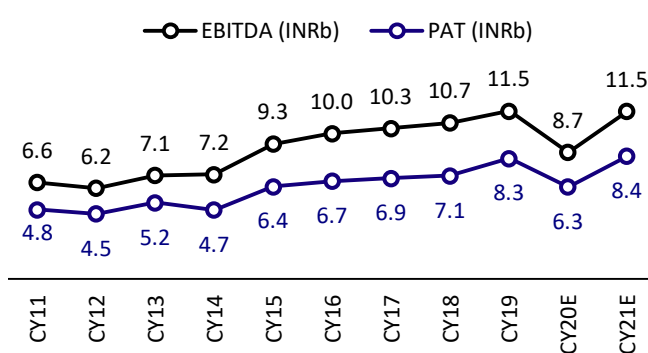
Source: Company, MOSL

Exhibit 4: ...led by impact of COVID-19 on growth in CY20


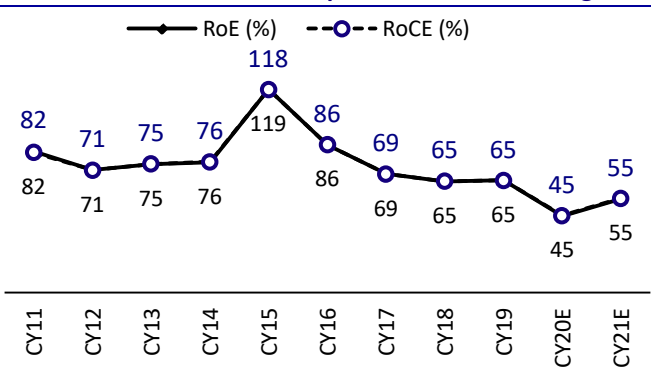
Source: Company, MOSL

Exhibit 5: Realizations are likely to remain stable...


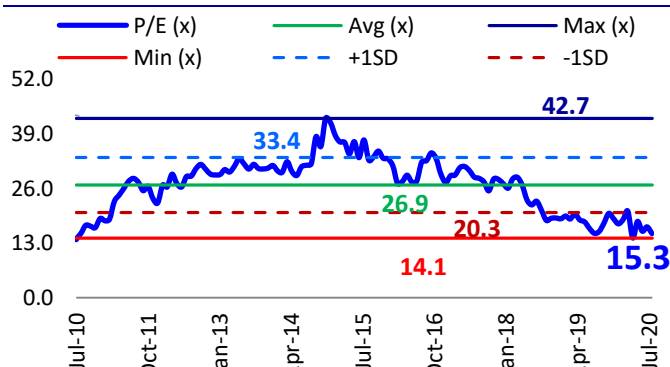
Source: Company, MOSL

Exhibit 6: ...with flat EBITDA in CY22E (over CY19)


Source: Company, MOSL

Exhibit 7: Return ratios are expected to remain strong


Source: Company, MOSL

Exhibit 8: Castrol trades around its -1SD at 15.3x


Source: Company, MOSL

Exhibit 9: CSTRL – key assumptions table

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Volumes (in m litres)	191	200	205	213	204	143	186
% Growth	-2.5	4.4	2.6	4.3	-4.4	-30%	30%
Realization (INR/ltr)	172.6	168.9	175.2	183.0	190.0	181	190
% Growth	-0.3	-2.1	3.7	4.5	3.8	-5%	5%
Brent Crude Price (USD/bbl)	52.3	44.0	54.5	71.0	61.2	40.4	50.0
Gross margin (INR/ltr)	89	78	103	101	109	113	113
EBITDA margin (INR/ltr)	48	50	50	50	57	61	62

Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement						(INR M)	
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Net sales	32,980	33,703	35,843	39,046	38,768	25,781	35,191
Change (%)	-2.8	2.2	6.3	8.9	-0.7	-33.5	36.5
Raw Materials	16,008	15,316	16,660	19,066	17,477	9,574	14,199
Gross Margin	16,972	18,387	19,183	19,980	21,291	16,206	20,991
Margin (%)	51.5	54.6	53.5	51.2	54.9	62.9	59.7
Total Expenditure	23,726	23,710	25,513	28,338	27,238	17,085	23,691
EBITDA	9,255	9,993	10,330	10,708	11,530	8,695	11,499
Margin (%)	28.1	29.7	28.8	27.4	29.7	33.7	32.7
Depreciation	390	450	455	556	697	800	878
EBIT	8,865	9,544	9,875	10,152	10,833	7,895	10,621
Interest Charges	8	15	12	11	12	50	50
Other Income	959	874	837	843	648	615	687
PBT bef. EO Exp.	9,816	10,403	10,700	10,984	11,469	8,460	11,258
EO Items	306	0	0	0	0	0	0
PBT after EO Exp.	9,510	10,403	10,700	10,984	11,469	8,460	11,258
Income tax	3,357	3,699	3,782	3,901	3,195	2,132	2,837
Tax Rate (%)	35.3	35.6	35.3	35.5	27.9	25.2	25.2
Reported PAT	6,153	6,704	6,918	7,083	8,274	6,328	8,421
Adjusted PAT	6,351	6,704	6,918	7,083	8,274	6,328	8,421
Change (%)	33.8	5.6	3.2	2.4	16.8	-23.5	33.1
Margin (%)	19.3	19.9	19.3	18.1	21.3	24.5	23.9

Standalone - Balance Sheet						(INR M)	
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Equity Share Capital	2,473	2,473	4,946	4,946	4,946	4,946	4,946
Total Reserves	3,283	7,343	5,256	6,711	8,724	9,752	11,119
Net Worth	5,756	9,816	10,202	11,657	13,670	14,697	16,065
Total Loans	0	0	0	0	0	0	0
Capital Employed	5,756	9,816	10,202	11,657	13,670	14,697	16,065
Gross Block	3,915	4,004	4,404	5,440	6,267	7,067	7,567
Less: Accum. Deprn.	2,427	2,585	3,040	3,596	4,293	5,093	5,971
Net Fixed Assets	1,488	1,419	1,364	1,844	1,974	1,974	1,596
Capital WIP	364	423	599	366	296	800	500
Curr. Assets, Loans&Adv.	14,265	16,369	17,255	18,325	19,433	17,970	22,343
Inventory	3,046	3,439	3,196	4,568	3,047	2,153	2,986
Account Receivables	2,365	2,552	2,850	3,918	4,820	2,048	2,796
Cash and Bank Balance	6,965	8,219	7,842	7,438	9,461	11,448	13,394
Loans and Advances	1,889	2,159	3,367	2,401	2,105	2,320	3,167
Curr. Liability & Prov.	10,860	9,067	9,568	9,411	8,618	6,632	8,959
Account Payables	5,645	4,966	6,066	5,840	4,718	4,072	5,647
Other Current Liabilities	1,457	3,478	2,967	3,111	3,403	2,062	2,815
Provisions	3,758	623	535	460	497	497	497
Net Current Assets	3,404	7,302	7,687	8,914	10,815	11,338	13,384
Deferred Tax assets	499	672	551	533	585	585	585
Appl. of Funds	5,756	9,816	10,201	11,657	13,670	14,697	16,065

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
Basic (INR)							
EPS	6.4	6.8	7.0	7.2	8.4	6.4	8.5
Cash EPS	6.8	7.2	7.5	7.7	9.1	7.2	9.4
BV/Share	5.8	9.9	10.3	11.8	13.8	14.9	16.2
DPS	4.5	5.5	4.7	5.0	5.5	4.5	5.9
Payout (%)	87.1	97.7	81.5	83.8	78.9	83.8	83.8
Valuation (x)							
P/E	18.1	17.1	16.6	16.2	13.9	18.1	13.6
Cash P/E	17.0	16.0	15.6	15.0	12.8	16.1	12.3
P/BV	19.9	11.7	11.2	9.8	8.4	7.8	7.1
EV/Sales	3.3	3.2	3.0	2.7	2.7	4.0	2.9
EV/EBITDA	11.6	10.7	10.3	10.0	9.1	11.9	8.8
Dividend Yield (%)	3.9	4.7	4.1	4.3	4.7	3.8	5.1
FCF per share	8.1	4.0	6.2	5.3	8.4	7.4	9.1
Return Ratios (%)							
RoE	118.4	86.1	69.1	64.8	65.3	44.6	54.7
RoCE	118.5	86.2	69.2	64.9	65.4	44.9	55.0
Working Capital Ratios							
Asset Turnover (x)	5.7	3.4	3.5	3.3	2.8	1.8	2.2
Inventory (Days)	34	37	33	43	29	30	31
Debtor (Days)	23	24	25	32	39	25	25
Creditor (Days)	62	54	62	55	44	58	59
Leverage Ratio (x)							
Net Debt/Equity	-1.2	-0.8	-0.8	-0.6	-0.7	-0.8	-0.8

Standalone - Cash Flow Statement

						(INR)	(INR)
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E
OP/(Loss) before Tax	9,816	10,403	10,700	10,984	11,469	8,460	11,258
Depreciation	390	450	455	556	697	800	878
Interest & Finance Charges	8	15	12	11	12	50	50
Direct Taxes Paid	-3,357	-3,699	-3,782	-3,901	-3,195	-2,132	-2,837
(Inc)/Dec in WC	1,718	-2,644	-762	-1,631	122	1,464	-100
CF from Operations	8,575	4,525	6,623	6,019	9,105	8,642	9,249
CF from Operating incl EO	8,388	4,352	6,744	6,037	9,053	8,642	9,249
(Inc)/Dec in FA	-365	-439	-576	-803	-757	-1,304	-200
Free Cash Flow	8,023	3,913	6,168	5,234	8,296	7,338	9,049
CF from Investments	-365	-439	-576	-803	-757	-1,304	-200
Interest Paid	-8	-15	-12	-11	-12	-50	-50
Dividend Paid	-5,357	-6,547	-5,637	-5,935	-6,528	-5,301	-7,054
CF from Fin. Activity	-5,373	-2,659	-6,544	-5,639	-6,273	-5,351	-7,104
Inc/Dec of Cash	2,651	1,254	-377	-405	2,023	1,988	1,946
Opening Balance	4,315	6,965	8,219	7,842	7,438	9,461	11,448
Closing Balance	6,965	8,219	7,842	7,437	9,461	11,449	13,394

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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