

Volume de-growth due to economic slowdown and lockdown.

- Results were in line with our estimates on revenue front and below estimates on profitability front.
- CSTRL's Q2CY20 volumes were in line with our estimates at 29 TKL. Realization was at Rs 169.2/L. Revenue decreased 52.8% YoY and 28.7% sequentially due to lockdown. However, there was slow demand pick up from May and momentum was stable from June.
- Gross spreads decreased by 16.9% on a sequential basis. We expect spreads to expand going forward, as CIL will keep taking pricing actions as and when required and will take necessary steps to keep cost in control. Cost per litre improved 4.8% on a sequential basis and declined by 4.8% 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, CSTRL business performance in the next couple of quarters will be crucial for the long term stock outlook. Recommend Accumulate, with a target price of Rs 130, to trade at 16x CY21 EPS.

Volume growth – key monitorable

CSTRL reported a volume de-growth of 23% QoQ and 48% YoY. Personal mobility segment which is 45% of the mix for Castrol had seen a slowdown due to sales lost as nationwide lockdown was announced and also factories were shut and there was freight movement reduction which affected the overall volumes. However, momentum in June had stabilized. Recovery was seen faster in 2W as compared to CV and passenger vehicles. Agriculture segment has seen a good pick up towards the end of April and May month but was much lower YoY. Usually, Q2CY20 is a high volume good quarter for CSTRL due to the demand from agriculture segment, however some sales were lost for the quarter as the economy has not fully opened up and parts of India are still under lockdown. 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 for the personal mobility segment and marketing programs in place for next year, which will be introduced looking at the economic situation. Management has not guided any volume growth due to the uncertain situations.

Q2CY20 Result (Rs Mn)

Particulars	Q2CY20	Q2CY19	YoY (%)	Q1CY20	QoQ (%)
Revenue	4,906	10,396	(52.8)	6,880	(28.7)
Total Expense	3,953	7,553	(47.7)	5,150	(23.2)
EBITDA	953	2,843	(66.5)	1,730	(44.9)
Depreciation	206	166	24.1	222	(7.2)
EBIT	747	2,677	(72.1)	1,508	(50.5)
Other Income	152	159	(4.4)	198	(23.2)
Interest	14	3	366.7	11	27.3
EBT	885	2,833	(68.8)	1,695	(47.8)
Tax	231	1,006	(77.0)	443	(47.9)
RPAT	654	1,827	(64.2)	1,252	(47.8)
APAT	654	1,827	(64.2)	1,252	(47.8)
			(bps)		(bps)
Gross Margin (%)	51.3	53.9	(260)	57.0	(574)
EBITDA Margin (%)	19.4	27.3	(792)	25.1	(572)
NPM (%)	13.3	17.6	(424)	18.2	(487)
Tax Rate (%)	26.1	35.5	(941)	26.1	(3)
EBIT Margin (%)	15.2	25.8	(1052)	21.9	(669)

CMP	Rs 113
Target / Upside	Rs 130 / 15%
BSE Sensex	38,469
NSE Nifty	11,301

Scrip Details

Equity / FV	Rs 4,946mn / Rs 5
Market Cap	Rs 112bn
	USD 1bn
52-week High/Low	Rs 162/Rs 90
Avg. Volume (no)	1,305,750
NSE Symbol	CASTROLIND
Bloomberg Code	CSTRL IN

Shareholding Pattern June'20(%)

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

Valuation (x)

	CY19A	CY20E	CY21E
P/E	13.5	18.4	13.9
EV/EBITDA	8.9	12.1	9.1
ROE (%)	65.3	49.1	74.8
RoACE (%)	68.5	51.4	77.8

Estimates (Rs mn)

	CY19A	CY20E	CY21E
Revenue	38,768	32,627	36,607
EBITDA	11,531	8,483	11,348
PAT	8,274	6,074	8,029
EPS (Rs.)	8.4	6.1	8.1

AVP Research: Nidhi Doshi

Tel: +91 22 40969795

E-mail: nidhid@dolatcapital.com

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. They have opened up 500 retail outlets virtually in Q2CY20. 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.

They have signed a strategic alliance with the Jio-bp fuel retail network which will enable CSTRL lubricants enhanced reach and visibility at 1,400 Jio-bp retail sites across the country, which are planned to expand to 5,500 sites in the next five years. CSTRL lubricants will be the sole supplier of lubricants at these sites. This is a new growth engine for CSTRL as they did not have their presence in this area.

Exhibit 1: KPI's

Particulars	Q2CY20	Q1CY20	QoQ (%)	Q2CY19	YoY (%)	H1CY20	H1CY19	YoY (%)
Volumes (in '000 KL)	29.0	37.6	(22.9)	55.4	(47.7)	66.6	105.8	(37.1)
Realization (Rs / L)	169.2	183.0	(7.5)	187.7	(9.8)	177.0	190.5	(7.1)
Cost (Rs / L)	82.4	78.6	4.8	86.5	(4.8)	80.2	88.5	(9.3)
Spread (Rs / L)	86.8	104.4	(16.9)	101.2	(14.2)	96.7	102.1	(5.2)
EBIDTA (Rs / L)	32.9	46.0	(28.6)	51.3	(36.0)	40.3	53.6	(24.9)
PAT (Rs / L)	22.6	33.3	(32.3)	33.0	(31.6)	28.6	34.8	(17.7)

Source: Company, DART

Exhibit 2: Actual V/s DART Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	4,906	5,068	(3.2)	
EBITDA	953	1,366	(30.2)	Lower realisation and higher raw material cost
EBITDA margin %	19.4	27.0	(752.8)	
APAT	654	973	(32.8)	

Source: Company, DART

Exhibit 3: Change in estimate

Particulars (Rs mn)	CY20E			CY21E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	32,627	34,981	(6.7)	36,607	38,713	(5.4)
EBITDA	8,483	10,634	(20.2)	11,348	11,924	(4.8)
EBITDA mgn (%)	26.0	30.4	(440.0)	31.0	30.8	20.0
Adj PAT	6,074	7,773	(21.9)	8,029	8,610	(6.7)
EPS (Rs)	6.1	7.9	(21.9)	8.1	8.7	(6.7)

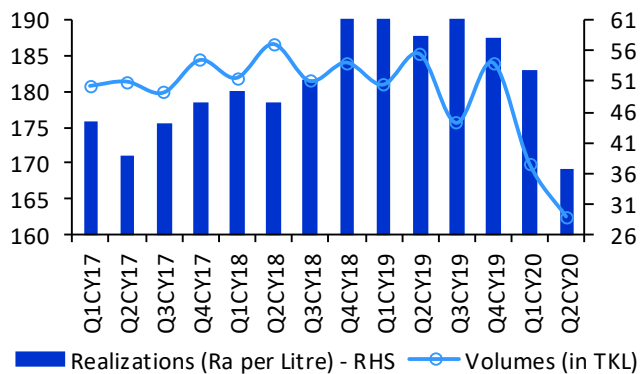
Source: Company, DART

Key Highlights

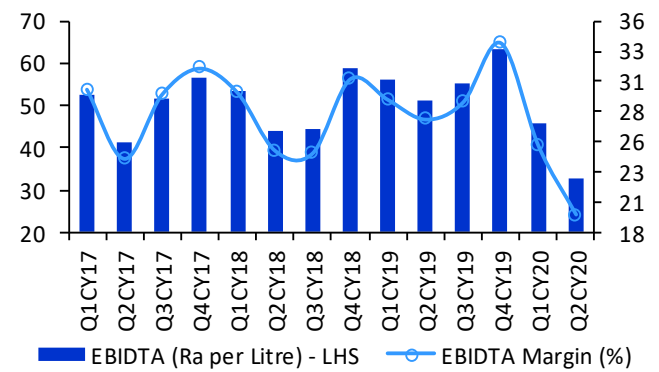
- The top line in Q2CY20 decreased by 52.8% on a YoY basis to Rs. 4,906 mn, which was a decline of 28.7% on a QoQ basis.
- Raw material as a % of sales was at 49% in Q2CY20 as compared to 43% in Q1CY20 and 46% in Q2CY19.
- EBIDTA has decreased by 66.5% on a YoY to Rs. 953 mn.
- Operating margins were at 19.4% which decline on a QoQ basis by 572 bps and by 792 bps on a YoY basis.
- Net profit has decreased by 64.2% on a YoY basis and by 47.8% on a sequential basis to Rs. 654 mn.

Conference Call Key Highlights

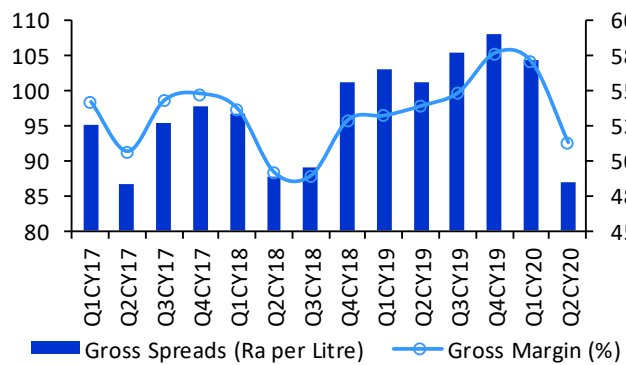
- The continued slowdown in economy, uncertainty around BSVI vehicles, liquidity crunch due to the ongoing Pandemic resulted in a decline in lubricants consumption.
- There was a cash burn of Rs. 90 cr in Q2CY20
- In H1CY20 Automotive contributed 90% and rest was non-automotive.
- Advertisement spend was very low for the quarter as there was no demand for the products.
- The capex Spend at Silvassa has slowed down due to the lockdown. Going ahead, capex spend will be more on personal mobility segment.
- Personal mobility was better towards June. Some demand was there from CV due to agri season.
- Revenue Mix: 45% is personal mobility and balance is industrial and commercial. Contribution from OEM's is 10% of volumes.
- Stable demand is seen from July. Demand has started picking up from May'20. Demand pick up is seen more in 2W segment. May and June are harvest seasons. Recovery is faster in 2W as compared to CV and passenger cars.

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


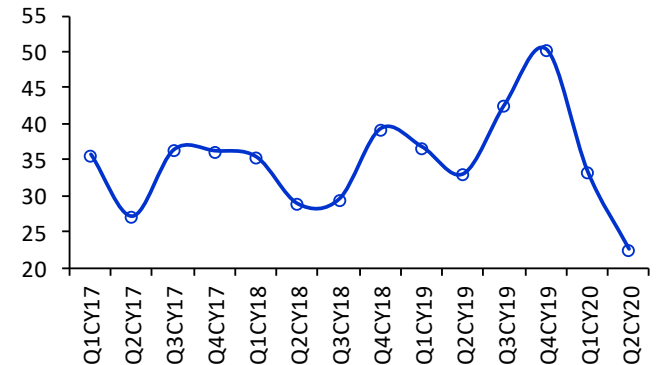
Source: Company, DART

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


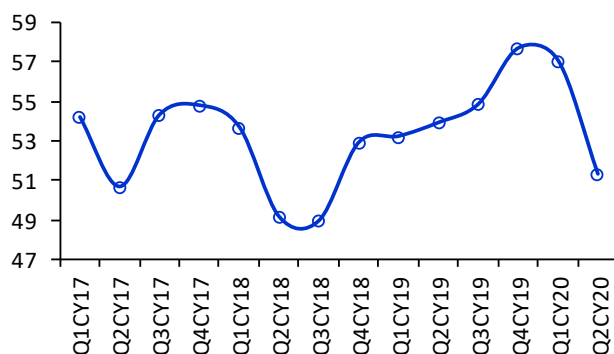
Source: Company, DART

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


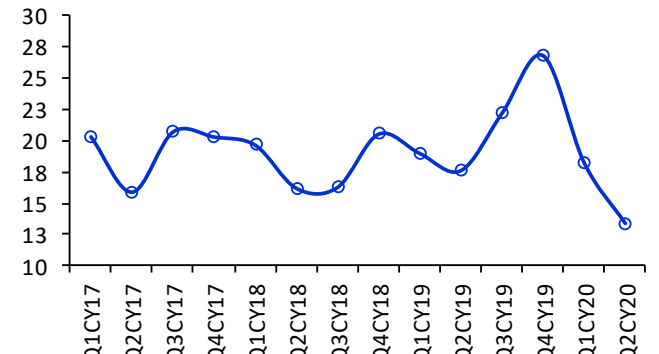
Source: Company, DART

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)	CY18A	CY19A	CY20E	CY21E
Revenue	39,046	38,768	32,627	36,607
Total Expense	28,338	27,238	24,144	25,259
COGS	19,066	17,477	15,008	16,107
Employees Cost	2,034	2,131	1,958	1,830
Other expenses	7,238	7,630	7,178	7,321
EBIDTA	10,708	11,531	8,483	11,348
Depreciation	556	697	931	1,201
EBIT	10,152	10,834	7,552	10,147
Interest	11	12	35	17
Other Income	843	648	600	600
Exc. / E.O. items	0	0	0	0
EBT	10,984	11,469	8,117	10,730
Tax	3,901	3,195	2,043	2,701
RPAT	7,084	8,274	6,074	8,029
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,084	8,274	6,074	8,029

Balance Sheet

(Rs Mn)	CY18A	CY19A	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	6,119	5,469
Net Worth	11,657	13,670	11,065	10,415
Total Debt	0	0	0	0
Net Deferred Tax Liability	(533)	(585)	(400)	(400)
Total Capital Employed	11,124	13,085	10,665	10,015

Applications of Funds

Net Block	1,860	1,997	2,316	2,365
CWIP	350	273	250	250
Investments	0	0	0	0
Current Assets, Loans & Advances	18,325	19,432	18,107	18,001
Inventories	4,568	3,047	2,682	2,808
Receivables	3,918	4,820	4,112	4,614
Cash and Bank Balances	7,439	9,460	9,386	8,813
Loans and Advances	1,259	1,447	1,302	1,172
Other Current Assets	1,142	658	625	593
Less: Current Liabilities & Provisions	9,411	8,618	10,008	10,600
Payables	5,840	4,718	5,757	6,178
Other Current Liabilities	3,571	3,900	4,251	4,422
sub total				
Net Current Assets	8,913	10,814	8,099	7,400
Total Assets	11,124	13,085	10,665	10,015

E – Estimates

Important Ratios

Particulars	CY18A	CY19A	CY20E	CY21E
(A) Margins (%)				
Gross Profit Margin	51.2	54.9	54.0	56.0
EBIDTA Margin	27.4	29.7	26.0	31.0
EBIT Margin	26.0	27.9	23.1	27.7
Tax rate	35.5	27.9	25.2	25.2
Net Profit Margin	18.1	21.3	18.6	21.9
(B) As Percentage of Net Sales (%)				
COGS	48.8	45.1	46.0	44.0
Employee	5.2	5.5	6.0	5.0
Other	18.5	19.7	22.0	20.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	931.4	902.8	215.8	596.9
Inventory days	43	29	30	28
Debtors days	37	45	46	46
Average Cost of Debt				
Payable days	55	44	64	62
Working Capital days	83	102	91	74
FA T/O	21.0	19.4	14.1	15.5
(D) Measures of Investment				
AEPS (Rs)	7.2	8.4	6.1	8.1
CEPS (Rs)	7.7	9.1	7.1	9.3
DPS (Rs)	5.0	5.5	7.5	7.5
Dividend Payout (%)	69.8	65.7	122.1	92.4
BVPS (Rs)	11.8	13.8	11.2	10.5
RoANW (%)	64.8	65.3	49.1	74.8
RoACE (%)	68.3	68.5	51.4	77.8
RoAIC (%)	369.6	296.4	308.1	818.2
(E) Valuation Ratios				
CMP (Rs)	113	113	113	113
P/E	15.8	13.5	18.4	13.9
Mcap (Rs Mn)	111,721	111,721	111,721	111,721
MCap/ Sales	2.9	2.9	3.4	3.1
EV	104,283	102,261	102,335	102,908
EV/Sales	2.7	2.6	3.1	2.8
EV/EBITDA	9.7	8.9	12.1	9.1
P/BV	9.6	8.2	10.1	10.7
Dividend Yield (%)	4.4	4.9	6.6	6.6
(F) Growth Rate (%)				
Revenue	8.9	(0.7)	(15.8)	12.2
EBITDA	3.6	7.7	(26.4)	33.8
EBIT	2.8	6.7	(30.3)	34.4
PBT	2.6	4.4	(29.2)	32.2
APAT	2.4	16.8	(26.6)	32.2
EPS	2.4	16.8	(26.6)	32.2

Cash Flow

(Rs Mn)	CY18A	CY19A	CY20E	CY21E
CFO	5,495	8,795	9,781	9,374
CFI	661	(4,482)	7,647	(1,251)
CFF	(5,674)	(6,277)	(8,714)	(8,696)
FCFF	4,715	7,802	8,555	8,124
Opening Cash	2,155	2,636	672	9,386
Closing Cash	2,637	672	9,386	8,813

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.)
Jul-19	Accumulate	143	125
Oct-19	Accumulate	172	154
Feb-20	Accumulate	163	147
Mar-20	Buy	128	95
Jun-20	Accumulate	131	117
Jun-20	Accumulate	139	127

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	yomika@dolatcapital.com	+9122 4096 979
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
