

Gross margin trend to be key monitorable...

About the stock: Castrol India, a subsidiary of BP, operates in the lubricants business and caters to automotive and industrial segments.

- Automotive segment volumes contribute 80-85% of total sales volume
- Castrol has high pricing power and commands premium for its products

Q1CY22 Results: Q1CY22 earnings were driven by higher realisation YoY.

- Revenue was up 8.5% YoY to ₹ 1235.7 crore, driven by higher realisation
- Gross margins were up ~4.5% YoY to ₹ 105.1/litre, on account of higher realisation. EBITDA/litre was at ₹ 53.8/litre, down ~3.6% YoY as the company reported higher employee and other expenses
- EBITDA was at ₹ 317.2 crore, down 6.7% YoY. Subsequently, PAT declined 6.2% YoY to ₹ 228.4 crore

What should investors do? Higher base oil prices remain a concern in the near term. Potential disruptions like higher drain interval and EVs will be key monitorables for long-term volume growth.

- We retain **HOLD** rating on the stock

Target Price and Valuation: We value Castrol India at ₹ 110 i.e. ~13x CY23E EPS.

Key triggers for future price performance:

- Although Castrol is likely report volume growth YoY in CY22E, lack of sustainable volume growth in future will limit overall growth
- While the company hiked prices in CY22, high base oil prices will affect margins. Hence, we see limited headroom for gross margin growth in near term
- Castrol's 2-W volume (25% of volume mix) are likely to be impacted by introduction of 2-W EVs

Alternate Stock Idea: Besides Castrol, in our oil & gas coverage we also like Gail.

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 180



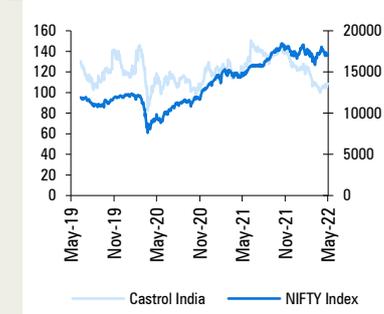
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	10,089.0
Total Debt (₹ Cr) (CY21)	5.7
Cash and Investments (₹ Cr)	1,300.2
EV (₹ Crore)	8,794.5
52 week H/L	155/99
Equity capital (₹ Crore)	494.6
Face value (₹)	5.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	51.0	51.0	51.0	51.0	51.0
FII	11.6	12.0	12.2	12.2	11.1
DII	16.7	16.5	16.5	16.4	16.0
Others	20.7	20.5	20.3	20.5	21.9

Price Chart



Recent event & key risks

- Volume de-grew ~3% YoY
- Key Risk:** (i) Higher than expected volume growth, (ii) Inability to pass on higher costs

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Key Financial Summary

(Year-end December)	CY18	CY19	CY20	5 year CAGR (CY15-20)	CY21E	CY22E	CY22E	3 year CAGR (CY20-23E)
Revenues (₹ crore)	3,904.6	3,876.8	2,996.9	(1.9)	4,192.1	4,927.1	4,956.8	18.3
EBITDA (₹ crore)	1,070.8	1,153.0	814.1	(1.9)	1,066.0	1,079.4	1,141.7	11.9
Net Profit (₹ crore)	708.3	827.4	582.9	(1.1)	758.1	777.0	817.4	11.9
EPS (₹)	7.2	8.4	5.9		7.7	7.9	8.3	
P/E (x)	14.2	12.2	17.3		13.3	13.0	12.3	
Price / Book (x)	8.7	7.4	7.1		6.1	5.8	5.4	
EV/EBITDA (x)	8.7	7.9	10.8		8.2	8.1	7.5	
RoCE (%)	87.1	79.2	50.9		59.6	57.0	55.7	
RoE (%)	60.8	60.5	41.2		46.1	44.5	43.7	

Key takeaways of recent quarter & conference call highlights

Q1CY22 Results: Volume growth ~15% QoQ

- Revenue was up 13.3% QoQ as sales volume increased ~15% QoQ. Going ahead, we expect Castrol's volume at 217 million litre in CY22E and 219.2 million litre in CY23E
- Realisation was marginally down ~1% QoQ while gross margin was flattish QoQ. EBITDA/litre increased ~4% QoQ
- We expect gross margins at ₹ 105.8/litre in CY22E and ₹ 108.9/litre in CY23E. EBITDA is expected at ₹ 49.7/litre and ₹ 52.1/litre in CY22E and CY23E, respectively
- Castrol's raw materials cost (base oil) is dependent on movement of crude oil prices and rupee against the US dollar. As crude oil prices are trading at above US\$100/bbl currently, we expect base oil prices to stay elevated in the near term

Q1CY22 Earnings Conference Call highlights

- Volume mix for Q1CY22 is as following: personal mobility: 43-45%, CVO: 40% while the rest belongs to the industrial segment. The management also added that the company has more than 20% market share in the retail automotive segment
- The management was of the view that EVs will first expand into 2-W segment
- The management said the company has hiked prices by ₹ 12-20 across product categories
- The company is focusing on the service & maintenance segment. It is also the exclusive supplier of lubricants at Jio-BP fuel stations
- The management said base oil prices are currently at higher levels. The company expects EBITDA margins in the range of 24-27% in the near term

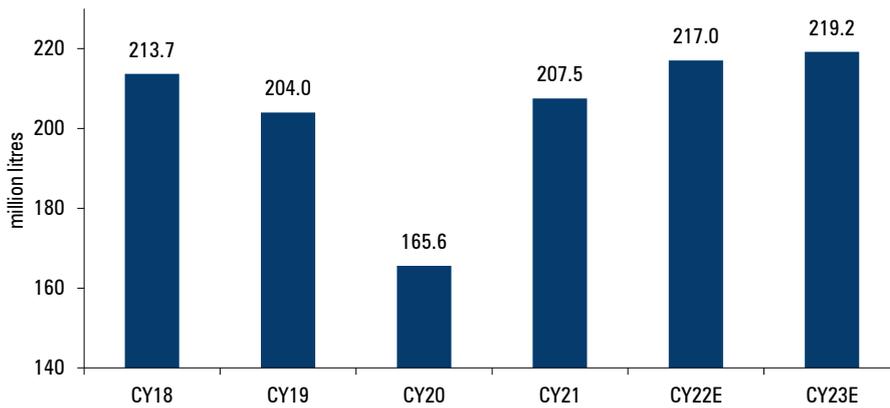
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Castrol India (CASIND)	102	110	Hold	10,089	7.7	7.9	8.3	13.3	13.0	12.3	8.2	8.1	7.5	59.6	57.0	55.7	46.1	44.5	43.7
Gulf Oil Lubricants (GULLUB)	416	565	Hold	2,084	40.3	47.8	56.5	10.3	8.7	7.4	6.0	4.9	3.7	20.7	24.3	25.4	20.5	22.2	22.3

Source: Company, ICICI Direct Research

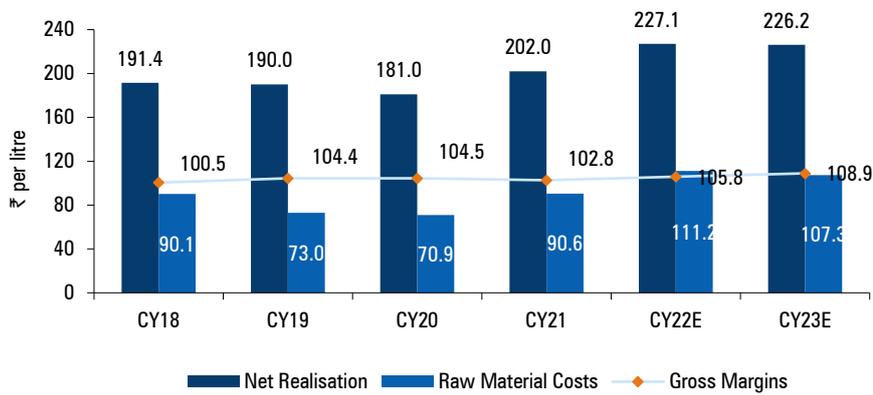
Story in charts

Exhibit 2: Volume trajectory



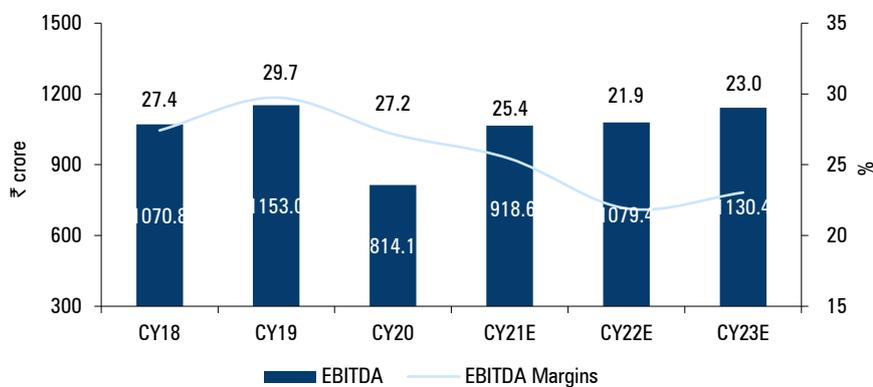
Source: Company, ICICI Direct Research

Exhibit 3: Financial parameters



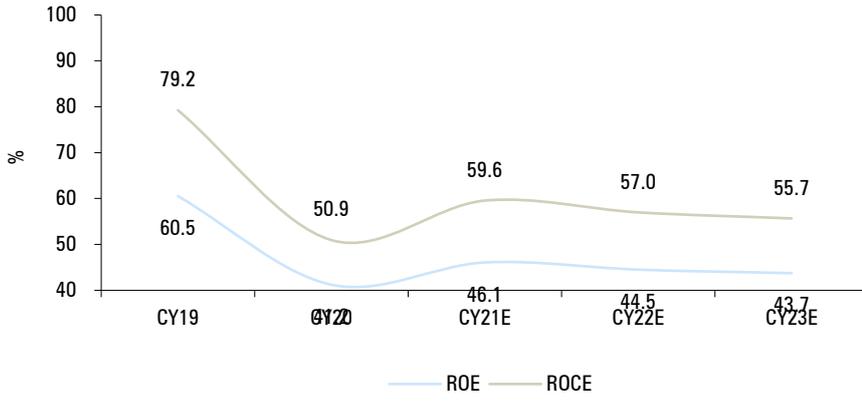
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 5: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Revenue	2996.9	4192.1	4927.1	4956.8
Growth (%)	-22.7	39.9	17.5	0.6
(Inc.)/(Dec.) in stock in trade	-24.1	-12.1	-18.9	0.0
Raw material Costs	1173.9	1879.1	2413.9	2351.1
Purchase of Products	116.5	191.9	235.5	218.4
Employee Costs	219.8	232.0	261.2	274.1
Other Expenditure	696.7	835.2	956.0	971.5
Op. Expenditure	2,182.8	3,126.1	3,847.7	3,815.1
EBITDA	814.1	1066.0	1079.4	1141.7
Growth (%)	-29.4	30.9	1.3	5.8
Depreciation	86.6	82.7	81.3	98.1
EBIT	727.5	983.3	998.1	1043.6
Interest	4.2	2.4	3.4	4.0
Other Income	62.0	48.4	60.0	68.0
PBT	785.3	1029.3	1054.7	1107.6
Growth (%)	-31.5	31.1	2.5	5.0
Tax	202.4	271.2	277.7	290.2
Reported PAT	582.9	758.1	777.0	817.4
Growth (%)	-29.6	30.1	2.5	5.2
EPS	5.9	7.7	7.9	8.3

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Profit after Tax	582.9	758.1	777.0	817.4
Add: Depreciation	86.6	82.7	81.3	98.1
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	29.3	195.2	164.0	221.2
Increase/(Decrease) in CL	103.6	87.4	91.9	7.9
(Increase)/Decrease in CA	192.9	-276.9	-84.1	-15.3
CF from Operating Activities	962.3	642.1	866.1	908.2
Purchase of Fixed Assets	112.3	81.2	104.8	110.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-112.3	-81.2	-104.8	-110.0
Dividend Paid	636.5	636.5	694.4	694.4
Inc/(Dec) in Loan Funds	13.8	-8.1	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	100.9	109.7	17.8	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-521.8	-534.9	-676.5	-694.4
Change in cash Eq.	328.2	26.0	84.7	103.8
Op. Cash and cash Eq.	946.0	1,274.2	1,300.2	1,384.9
Cl. Cash and cash Eq.	1,274.2	1,300.2	1,384.9	1,488.7

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end December)	CY20	CY21E	CY22E	CY23E
Source of Funds				
Equity Capital	494.6	494.6	494.6	494.6
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	919.7	1,151.0	1,251.5	1,374.5
Shareholder's Fund	1,414.2	1,645.5	1,746.0	1,869.1
Loan Funds	13.8	5.7	5.7	5.7
Deferred Tax Liability	-62.2	-71.4	-71.4	-71.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1365.8	1579.8	1680.3	1803.4
Application of Funds				
Gross Block	408.4	418.4	503.4	588.4
Less: Acc. Depreciation	199.2	217.2	298.6	396.8
Net Block	209.2	201.2	204.7	191.6
Capital WIP	43.5	50.0	70.0	95.0
Total Fixed Assets	252.8	251.2	274.8	286.6
Investments	0.0	0.0	0.0	0.0
Inventories	366.9	491.7	540.0	543.2
Debtor	180.5	311.7	337.5	339.5
Cash	1,274.2	1,300.2	1,384.9	1,488.7
Loan & Advance, Other CA	257.0	277.9	287.9	297.9
Total Current assets	2078.5	2381.5	2550.3	2669.4
Current Liabilities	851.0	923.3	998.9	1004.9
Provisions	114.5	129.6	145.8	147.7
Total CL and Provisions	965.5	1052.8	1144.7	1152.6
Net Working Capital	1113.0	1328.6	1405.6	1516.8
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1365.8	1579.8	1680.3	1803.4

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end December)	CY20	CY21E	CY22E	CY23E
Per share data (₹)				
Book Value	14.3	16.6	17.7	18.9
Cash per share	12.9	13.1	14.0	15.1
EPS	5.9	7.7	7.9	8.3
Cash EPS	6.8	8.5	8.7	9.3
DPS	5.5	5.5	6.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	27.2	25.4	21.9	23.0
PAT Margin (%)	19.5	18.1	15.8	16.5
Fixed Asset Turnover (x)	11.9	16.7	17.9	17.3
Inventory Turnover (Days)	44.7	42.8	40.0	40.0
Debtor (Days)	22.0	27.1	25.0	25.0
Current Liabilities (Days)	103.6	80.4	74.0	74.0
Return Ratios (%)				
RoE	41.2	46.1	44.5	43.7
RoCE	50.9	59.6	57.0	55.7
RoIC	NA	NA	NA	NA
Valuation Ratios (x)				
PE	17.4	13.3	13.0	12.4
Price to Book Value	7.2	6.1	5.8	5.4
EV/EBITDA	10.9	8.3	8.1	7.6
EV/Sales	3.0	2.1	1.8	1.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	173.2	409.7	293.6	260.9
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.3	2.2	2.3
Quick ratio	1.8	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	357	450	Buy	74,717	47.8	39.8	44.2	7.5	9.0	8.1	5.7	6.0	5.4	15.8	13.1	13.7	20.6	15.8	16.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	268	320	Hold	38,027	40.6	44.2	45.4	6.6	6.1	5.9	7.5	6.0	5.6	8.1	9.3	9.0	14.9	14.8	13.9
Indian Oil Corp (INDOIL)	126	150	Buy	1,15,681	28.6	19.2	21.9	4.4	6.6	5.8	2.5	3.1	2.8	15.5	10.5	11.1	20.1	12.7	13.3
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	748	850	Hold	7,390	60.4	69.7	83.3	12.4	10.7	9.0	7.6	6.5	5.4	20.1	21.0	22.5	16.9	17.5	18.5
Petronet LNG (PETLNG)	215	220	Hold	32,250	21.3	19.7	22.1	10.1	10.9	9.7	5.8	6.2	5.5	26.5	22.7	23.9	25.1	21.7	22.3
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

Source: Bloomberg, ICICI Direct Research

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