

Accumulate

Volume growth due to positive sentiments and pent up demand

- Results were above estimates on revenue and profitability front.
- CSTR's Q3CY20 volumes were above our estimates at 47 TKL. Realization was at Rs 187.9/L. Revenue increased by 4% YoY and 80% QoQ owing to agri demand and partial revival of pent up demand. However, there was slow demand pick up in the industrial segment and volume recovery was mainly seen from CV and 2W space.
- Gross spreads improved by 7.2% on a YoY basis and by 30.2% on a sequential basis. CIL is taking pricing actions as and when required and will take necessary steps to keep cost in control. Cost per litre declined by 13.7% on a sequential basis and by 9.1% YoY. Gross margins expanded to 60.1% and was the highest ever as base oil prices were slightly lower, but these levels will not sustain due to tightness in market and input cost will increase.
- 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 couple of quarters will be crucial for the long term stock outlook. **Recommend Accumulate, with a target price of Rs 134, to trade at 15x CY22 EPS.**

Volume growth – key monitorable

CSTR reported a volume growth of 62.1% QoQ and 6.3% YoY. Personal mobility segment which is 45% of the mix for Castrol generated 90% of the revenues. Recovery was seen faster in 2W and CV segment as compared passenger vehicles. Agriculture segment has seen a good pick up and tractor demand was good. Industrial segment was slow and will take some time to pick up. Partial revival in demand, robust supply chain and distribution network and investments in brands have helped CSTR gain volumes faster with slow revival of economy. CSTR expects pent up demand to come in from the personal mobility segment but the demand will be slow for next few months. CSTR's market is primarily centred in Bazaar market and large part of growth is from after market segment. They have new product launches for the personal mobility segment in the thinner oil segment. Realizations are now stabilized.

Q3CY20 Result (Rs Mn)

Particulars	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)
Revenue	8,831	8,492	4.0	4,906	80.0
Total Expense	5,949	6,047	(1.6)	3,953	50.5
EBITDA	2,882	2,445	17.9	953	202.4
Depreciation	215	186	15.6	206	4.4
EBIT	2,667	2,259	18.1	747	257.0
Other Income	117	116	0.9	152	(23.0)
Interest	9	3	200.0	14	(35.7)
EBT	2,775	2,372	17.0	885	213.6
Tax	729	488	49.4	231	215.6
RPAT	2,046	1,884	8.6	654	212.8
APAT	2,046	1,884	8.6	654	212.8
			(bps)		(bps)
Gross Margin (%)	60.1	54.8	529	51.3	882
EBITDA Margin (%)	32.6	28.8	384	19.4	1321
NPM (%)	23.2	22.2	98	13.3	984
Tax Rate (%)	26.3	20.6	570	26.1	17
EBIT Margin (%)	30.2	26.6	360	15.2	1497

CMP	Rs 116
Target / Upside	Rs 134 / 15%
NIFTY	11,730

Scrip Details

Equity / FV	Rs 4,946mn / Rs 5
Market Cap	Rs 115bn
	USD 2bn
52-week High/Low	Rs 162/ 90
Avg. Volume (no)	1,193,060
Bloom Code	CSTR IN
Price Performance	1M 3M 12M
Absolute (%)	6 3 (25)
Rel to NIFTY (%)	1 (1) (27)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	51.0	51.0	51.0
MF/Banks/FIs	18.5	18.5	18.2
FIIIs	9.0	9.0	9.6
Public / Others	21.5	21.5	21.2

Valuation (x)

	CY20E	CY21E	CY22E
P/E	19.0	13.8	13.0
EV/EBITDA	12.7	9.4	8.6
ROE (%)	48.9	76.6	82.4
RoACE (%)	51.4	80.1	85.4

Estimates (Rs mn)

	CY20E	CY21E	CY22E
Revenue	29,266	38,046	40,732
EBITDA	8,341	11,223	12,219
PAT	6,035	8,295	8,829
EPS (Rs.)	6.1	8.4	8.9

AVP Research: Nidhi Doshi
Tel: +91 22 40969795
E-mail: nidhid@dolatcapital.com

Judicious cost and efficiency management programmes have helped maintain a current strong liquidity and financial position. Currently they have all time low overdue. Working capital management has been better than pre-covid times.

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.” They are looking for a strategic and sustained 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.

Two new variants were launched in the cars and two-wheeler category with Castrol GTX SUV and Castrol Activ CRUISE respectively in the thinner oils segment.

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	Q3CY20	Q2CY20	QoQ (%)	Q3CY19	YoY (%)	9MCY20	9MCY19	YoY (%)
Volumes (in '000 KL)	47.0	29.0	62.1	44.2	6.3	113.6	150.0	(24.3)
Realization (Rs / L)	187.9	169.2	11.1	192.1	(2.2)	181.5	191.0	(5.0)
Cost (Rs / L)	74.9	82.4	(9.1)	86.8	(13.7)	78.0	88.0	(11.3)
Spread (Rs / L)	113.0	86.8	30.2	105.4	7.2	103.5	103.0	0.4
EBIDTA (Rs / L)	61.3	32.9	86.6	55.3	10.9	49.0	54.1	(9.5)
PAT (Rs / L)	43.5	22.6	93.0	42.6	2.1	34.8	37.1	(6.2)

Source: Company, DART

Exhibit 2: Actual V/s DART Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	8,831	7,120	24.0	High Volumes and realisations.
EBITDA	2,882	2,130	35.3	
EBITDA margin %	32.6	29.9	271.9	Favourable Working capital
APAT	2,046	1,553	31.7	Higher sales at lower costs on favourable working capital.

Source: Company, DART

Exhibit 3: Change in estimate

Particulars (Rs mn)	CY21E			CY22E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	38,046	36,607	3.9	40,732	-	0.0
EBITDA	11,223	11,348	-1.1	12,219	-	0.0
EBITDA mgn (%)	29.5	31.0	-150.0	30.0	-	0.0
Adj PAT	8,295	8,029	3.3	8,829	-	0.0
EPS (Rs)	8.4	8.1	3.3	8.9	-	0.0

Source: Company, DART

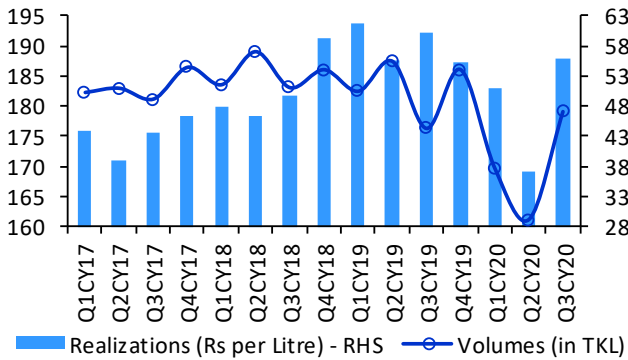
Key Highlights

- The top line in Q3CY20 increased by 4% on a YoY basis to Rs. 8,831 mn, which was an increase of 80% on a QoQ basis.
- Raw material as a % of sales was at 40% in Q3CY20 as compared to 49% in Q2CY20 and 45% in Q3CY20.
- EBIDTA has increased by 17.9% on a YoY to Rs. 2,882 mn.
- Operating margins were at 32.60% which was an increase on a QoQ basis by 1,321 bps and by 385 bps on a YoY basis.
- Net profit has increased by 8.6% on a YoY basis and by 212.8% on a sequential basis to Rs. 2,046 mn.

Conference Call Key Highlights

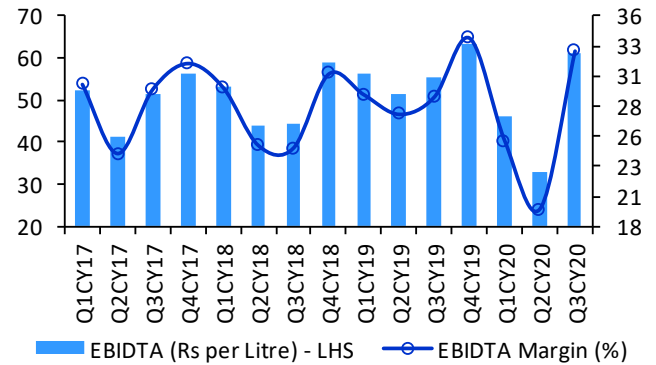
- Partial revival of pent up demand, a robust supply chain and distribution network, investment in brands along with judicious working capital management and growth across all spaces, contributed to delivering a good set of numbers.
- Robust working capital management generated Rs. 6,240 Mn net cash from operations in 9MCY20 which is more than 150% of PAT, along with judicious cost and efficiency management programmes have helped maintain a current strong liquidity and financial position. Currently they have all time low overdue. Working capital management has been better than pre-covid times.
- CSTR is looking for a strategic, sustained and profitable economic growth. They have made investments in distribution set up by way of digitisation.
- Q3CY20 volume was at 47TKL. High single digit volume growth. Volume recovery was seen from CV and 2W space. Personal Mobility volume recovery was slow. CV activities picked up as offroad, building construction activities started and agri demand was strong. Industrial volumes are picking up slowly. In the month of August there was a de-growth of 8% YoY, which was better than previous months.
- **Volume Mix for Q3CY20:** Automotive: Non-Automotive- 90:10
- Gross Margins was highest for last 10 quarters. Margins were better as input costs (base oil) were slightly lower, but there is a tightness developing in the market, so going forward input cost may increase. Will have strong margins, but will be difficult to keep it at current levels.
- They have doubled their A&P spends YoY. Total advertisement expenditure is Rs. 360 Mn in Q3FY20.
- Current Capacity utilisation is 80%
- They stopped selling 3M products due to the Pandemic, however it is a pilot project and will start soon once the economy revives.
- Capex – have spent Rs. 340 Mn in 9MCY20. In CY21 they plan to spend Rs. 800-1,000 Mn
- CSTR had taken price increase in Q1CY20. Q2CY20 there were schemes offered which took the realisation low. In Q3CY20, realisations have returned to normal levels.
- They expect that next 10 years will see flattish growth in CV segment, so their focus is now on personal mobility segment.

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



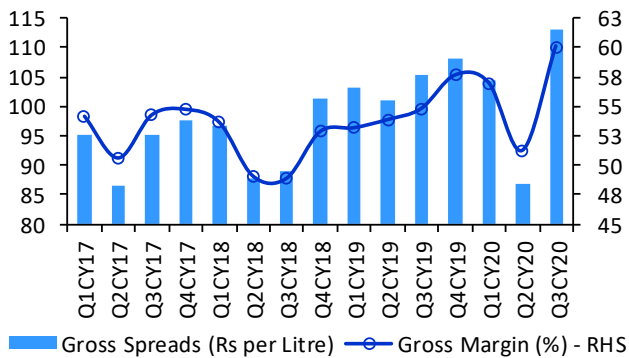
Source: Company, DART

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



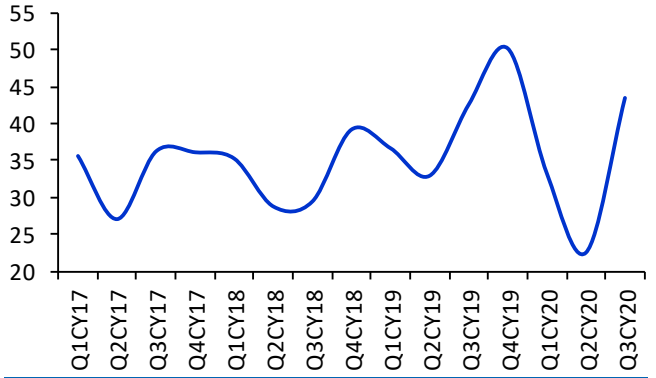
Source: Company, DART

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



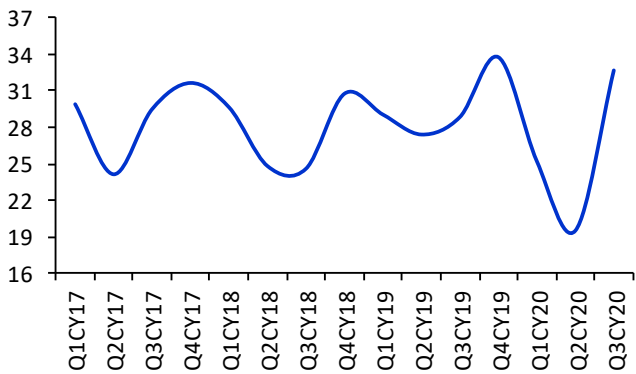
Source: Company, DART

Exhibit 7: PAT/L



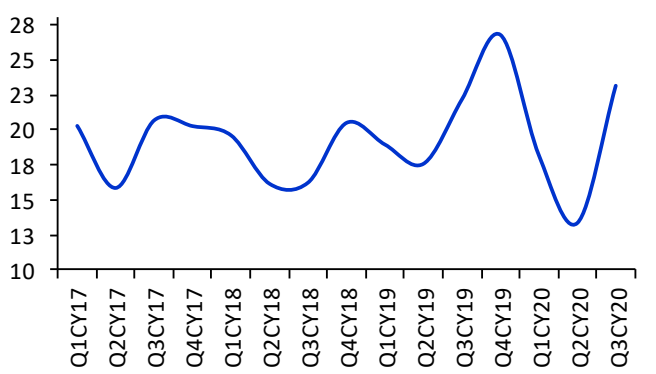
Source: Company, DART

Exhibit 8: OPM (%)



Source: Company, DART

Exhibit 9: NPM (%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
Revenue	38,768	29,266	38,046	40,732
Total Expense	27,238	20,925	26,822	28,512
COGS	17,477	13,170	17,121	18,126
Employees Cost	2,131	2,049	2,283	2,240
Other expenses	7,630	5,707	7,419	8,146
EBIDTA	11,531	8,341	11,223	12,219
Depreciation	697	841	1,021	1,201
EBIT	10,834	7,500	10,202	11,018
Interest	12	35	17	20
Other Income	648	600	900	800
Exc. / E.O. items	0	0	0	0
EBT	11,469	8,065	11,085	11,798
Tax	3,195	2,030	2,790	2,970
RPAT	8,274	6,035	8,295	8,829
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	8,274	6,035	8,295	8,829

Balance Sheet

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
Sources of Funds				
Equity Capital	4,946	4,946	4,946	4,946
Minority Interest	0	0	0	0
Reserves & Surplus	8,724	6,080	5,696	5,846
Net Worth	13,670	11,025	10,642	10,792
Total Debt	0	0	0	0
Net Deferred Tax Liability	(585)	(500)	(400)	(300)
Total Capital Employed	13,085	10,525	10,242	10,492

Applications of Funds

Net Block	1,997	2,156	2,135	1,933
CWIP	273	250	250	250
Investments	0	0	0	0
Current Assets, Loans & Advances	19,432	17,361	19,117	19,886
Inventories	3,047	2,566	3,336	3,571
Receivables	4,820	3,688	4,795	5,133
Cash and Bank Balances	9,460	9,180	9,575	10,144
Loans and Advances	1,447	1,302	912	638
Other Current Assets	658	625	500	400
Less: Current Liabilities & Provisions	8,618	9,242	11,260	11,578
Payables	4,718	5,051	6,801	7,201
Other Current Liabilities	3,900	4,190	4,458	4,377
<i>sub total</i>				
Net Current Assets	10,814	8,120	7,857	8,308
Total Assets	13,084	10,525	10,242	10,492

E – Estimates

Important Ratios

Particulars	CY19A	CY20E	CY21E	CY22E
(A) Margins (%)				
Gross Profit Margin	54.9	55.0	55.0	55.5
EBIDTA Margin	29.7	28.5	29.5	30.0
EBIT Margin	27.9	25.6	26.8	27.1
Tax rate	27.9	25.2	25.2	25.2
Net Profit Margin	21.3	20.6	21.8	21.7
(B) As Percentage of Net Sales (%)				
COGS	45.1	45.0	45.0	44.5
Employee	5.5	7.0	6.0	5.5
Other	19.7	19.5	19.5	20.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	902.8	214.3	600.1	550.9
Inventory days	29	32	32	32
Debtors days	45	46	46	46
Average Cost of Debt				
Payable days	44	63	65	65
Working Capital days	102	101	75	74
FA T/O	19.4	13.6	17.8	21.1
(D) Measures of Investment				
AEPS (Rs)	8.4	6.1	8.4	8.9
CEPS (Rs)	9.1	7.0	9.4	10.1
DPS (Rs)	5.5	7.5	7.5	7.5
Dividend Payout (%)	65.7	122.9	89.4	84.0
BVPS (Rs)	13.8	11.1	10.8	10.9
RoANW (%)	65.3	48.9	76.6	82.4
RoACE (%)	68.5	51.4	80.1	85.4
RoAIC (%)	296.4	301.8	1014.1	2172.0
(E) Valuation Ratios				
CMP (Rs)	116	116	116	116
P/E	13.9	19.0	13.8	13.0
Mcap (Rs Mn)	114,787	114,787	114,787	114,787
MCap/ Sales	3.0	3.9	3.0	2.8
EV	105,327	105,607	105,212	104,643
EV/Sales	2.7	3.6	2.8	2.6
EV/EBITDA	9.1	12.7	9.4	8.6
P/BV	8.4	10.4	10.8	10.6
Dividend Yield (%)	4.7	6.5	6.5	6.5
(F) Growth Rate (%)				
Revenue	(0.7)	(24.5)	30.0	7.1
EBITDA	7.7	(27.7)	34.6	8.9
EBIT	6.7	(30.8)	36.0	8.0
PBT	4.4	(29.7)	37.5	6.4
APAT	16.8	(27.1)	37.5	6.4
EPS	16.8	(27.1)	37.5	6.4

Cash Flow

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
CFO	8,795	9,425	9,991	10,170
CFI	(4,482)	7,897	(1,001)	(1,000)
CFF	(6,277)	(8,714)	(8,696)	(8,601)
FCFF	7,802	8,449	8,991	9,170
Opening Cash	2,636	672	9,180	9,575
Closing Cash	672	9,180	9,575	10,144

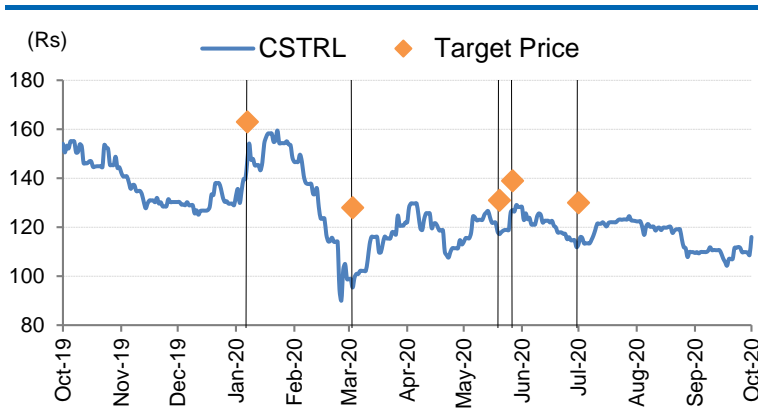
E – Estimates

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.)
Feb-20	Accumulate	163	147
Mar-20	Buy	128	95
Jun-20	Accumulate	131	117
Jun-20	Accumulate	139	127
Jul-20	Accumulate	130	113

**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	jubbins@dolatcapital.com	+9122 4096 9779
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

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

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
