

## Strong performance...

Castrol India reported a healthy set of Q3CY20 numbers. Operating revenue for Q3CY20 increased 4% YoY to ₹ 883.1 crore. Volumes were at 47 million litre, up 6.3% YoY. Castrol witnessed an increase of 7.4% YoY in gross margins at ₹ 113/litre due to lower base oil prices. Subsequently, EBITDA/litre was at ₹ 61.3/litre, up 10.9% YoY. EBITDA came in at ₹ 288.2 crore, up 17.9% YoY. Consequently, PAT was at ₹ 204.6 crore, up 8.6% YoY.

## Sustained gross margins a positive

Castrol's raw materials cost (base oil) are dependent on the movement of crude oil prices and rupee against US dollar. While the rupee has weakened, crude oil prices have fallen sharply compared to Q3CY19, which led to a drop in base oil costs YoY. Due to lower oil prices, raw material costs fell 8.9% YoY. As a result, gross margins have increased and came in at ₹ 113/litre. The company has been able to maintain its margins in tougher times due to better pricing power. We estimate gross margins at ₹ 104.5/litre and EBITDA at ₹ 51.4/litre in CY20E. Going ahead, we expect crude oil prices in range of US\$40-50/bbl in the near to medium term. Accordingly, we expect gross margins at ₹ 104.7/litre in CY21E, ₹ 106.5/litre in CY22E. EBITDA is expected at ₹ 54.2/litre and ₹ 54.8/litre in CY21E and CY22E, respectively.

## Pent up demand leads to volume growth

Castrol's volumes in Q3CY20 increased 6.3% YoY to 47 million litre. Auto volumes witnessed growth across all segments. Volume growth was led by 2-W and CV categories with growth in PV being lower. The management indicated that, going forward, personal mobility segment (that constitutes 45% of volume) will continue to grow. We expect sales volumes to normalise from Q4CY20E onwards. However, in the long run, higher drain intervals due to improvement in technology and development of electric vehicle space poses a risk to Castrol's volume outlook. We expect Castrol's volume at 206 million litre in CY21E and 210.3 million litre in CY22E.

## Valuation & Outlook

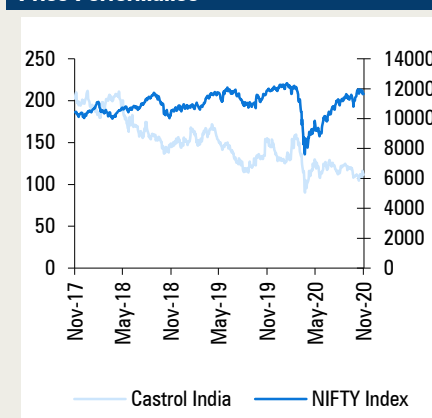
A sharp rebound in margins as well as volumes during the quarter is a positive. Although Castrol has been successful in signing agreements with many automobile and oil & gas players in the industry, its strategy to defend potential disruptions like higher drain interval, electric cars will be the key monitorable for long term volume growth, going ahead. In the near term, Castrol is expected to report strong volume growth YoY in CY21E mainly due to the low base effect. The focus on maintaining balance between margins & volumes along with growth in the personal mobility segment will be a key factor directing the company ahead. We maintain **HOLD** rating on the stock. We roll over valuations to CY22E and value Castrol India at 14x CY22E EPS of ₹ 8.3 to arrive at a target price of ₹ 115.



### Particulars

Particular	Amount
Market Capitalization (₹Cr)	11,078.1
Total Debt (₹Cr)	-
Cash and Investments (₹Cr)	946.0
EV (₹Crore)	10,132.1
52 week H/L	162/90
Equity capital (₹Crore)	494.6
Face value (₹)	5.0

### Price Performance



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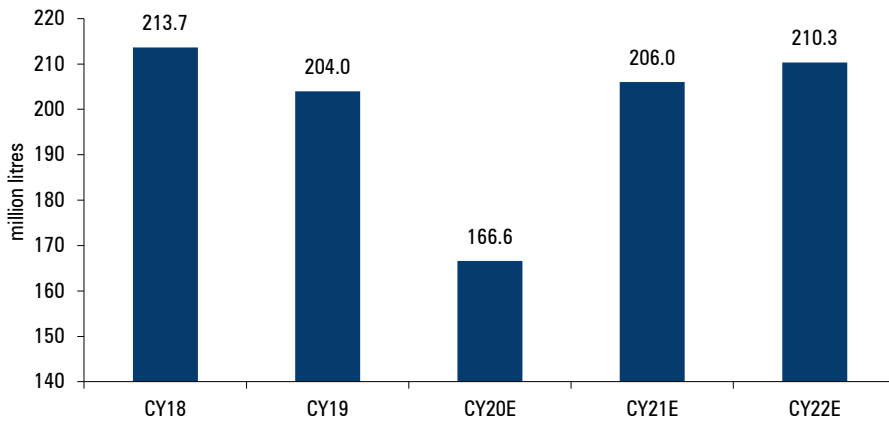
### Key Financial Summary

(Year-end December)	CY18	CY19	CY20E	CY21E	CY22E	CAGR (CY19-22E)
Revenues (₹crore)	3,904.6	3,876.8	3,063.8	3,976.2	4,137.9	3.3
EBITDA (₹crore)	1,070.8	1,153.0	856.8	1,116.6	1,152.2	(0.0)
Net Profit (₹crore)	708.3	827.4	614.6	796.7	817.3	(0.6)
EPS (₹)	7.2	8.4	6.2	8.1	8.3	
P/E (x)	15.6	13.4	18.0	13.9	13.6	
Price / Book (x)	9.5	8.1	8.6	9.6	10.6	
EV/EBITDA (x)	9.7	8.8	11.9	9.2	9.0	
RoCE (%)	87.1	79.2	60.2	88.1	99.2	
RoE (%)	60.8	60.5	47.9	69.0	78.2	

Source: Company, ICICI Direct Research

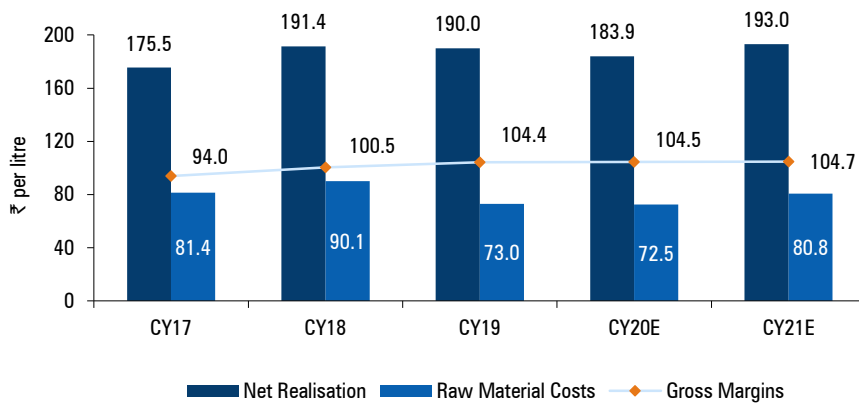
## Story in charts

Exhibit 1: Volume trajectory



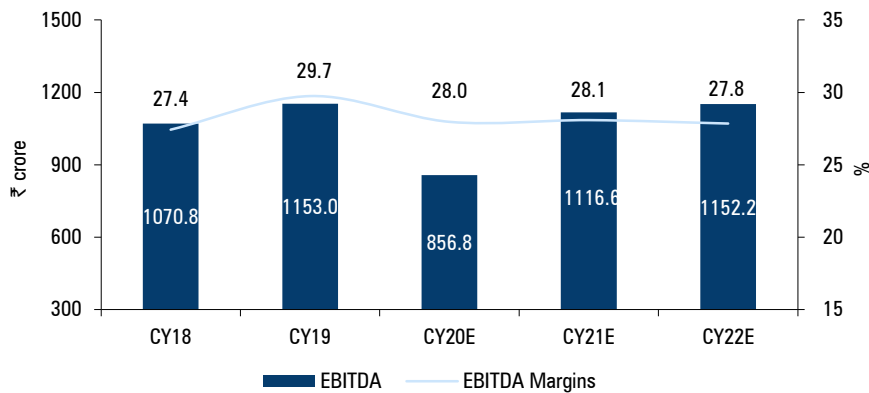
Source: Company, ICICI Direct Research

Exhibit 2: Steady and stable financial parameters



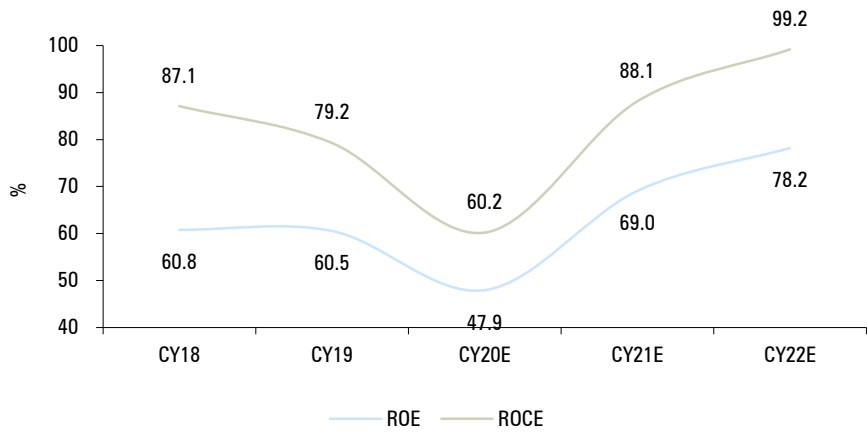
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margins trend



Source: Company, ICICI Direct Research

**Exhibit 4: Return ratios trend**



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end December)	CY19	CY20E	CY21E	CY22E
<b>Revenue</b>	<b>3876.8</b>	<b>3063.8</b>	<b>3976.2</b>	<b>4137.9</b>
Growth (%)	-0.7	-21.0	29.8	4.1
(Inc.)/(Dec.) in stock in trade	75.7	-0.1	0.0	0.0
Raw material Costs	1488.3	1207.2	1663.9	1736.6
Purchase of Products	183.7	115.5	154.6	161.3
Employee Costs	213.1	209.5	222.0	235.3
Other Expenditure	763.0	675.0	819.1	852.4
Op. Expenditure	2,723.8	2,207.1	2,859.5	2,985.7
<b>EBITDA</b>	<b>1153.0</b>	<b>856.8</b>	<b>1116.6</b>	<b>1152.2</b>
Growth (%)	7.7	-25.7	30.3	3.2
Depreciation	69.7	84.9	99.9	115.6
EBIT	1083.3	771.8	1016.7	1036.6
Interest	1.2	3.7	1.2	1.2
Other Income	64.8	64.7	64.0	72.0
PBT	1146.9	832.8	1079.5	1107.4
Growth (%)	4.4	-27.4	29.6	2.6
Tax	319.5	218.2	282.8	290.1
<b>Reported PAT</b>	<b>827.4</b>	<b>614.6</b>	<b>796.7</b>	<b>817.3</b>
Growth (%)	16.8	-25.7	29.6	2.6
<b>EPS</b>	<b>8.4</b>	<b>6.2</b>	<b>8.1</b>	<b>8.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end December)	CY19	CY20E	CY21E	CY22E
Profit after Tax	827.4	614.6	796.7	817.3
Add: Depreciation	69.7	84.9	99.9	115.6
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	255.4	5.2	-29.2	7.1
Increase/(Decrease) in CL	-79.3	-103.8	229.4	33.9
(Increase)/Decrease in CA	91.2	180.8	-187.5	-41.5
<b>CF from Operating Activities</b>	<b>903.8</b>	<b>776.5</b>	<b>938.5</b>	<b>925.3</b>
Purchase of Fixed Assets	75.6	122.5	100.0	100.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activities</b>	<b>-75.6</b>	<b>-122.5</b>	<b>-100.0</b>	<b>-100.0</b>
Dividend Paid	636.5	694.4	925.8	925.8
Inc/(Dec) in Loan Funds	0.0	0.0	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	10.4	-4.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-626.1</b>	<b>-698.7</b>	<b>-925.8</b>	<b>-925.8</b>
Change in cash Eq.	202.1	-44.6	-87.3	-100.5
Op. Cash and cash Eq.	743.9	946.0	901.4	814.1
<b>Cl. Cash and cash Eq.</b>	<b>946.0</b>	<b>901.4</b>	<b>814.1</b>	<b>713.6</b>

Source: Company, ICICI Direct Research; \*calculated

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end December)	CY19	CY20E	CY21E	CY22E
<b>Source of Funds</b>				
Equity Capital	494.6	494.6	494.6	494.6
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	872.4	788.4	659.2	550.7
Shareholder's Fund	1,367.0	1,282.9	1,153.8	1,045.2
Loan Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	-58.5	-58.5	-58.5	-58.5
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>1308.5</b>	<b>1224.4</b>	<b>1095.3</b>	<b>986.7</b>
<b>Application of Funds</b>				
Gross Block	367.3	487.3	567.3	647.3
Less: Acc. Depreciation	167.6	250.1	350.0	465.6
Net Block	199.7	237.2	217.3	181.7
Capital WIP	27.3	27.3	47.3	67.3
Total Fixed Assets	227.0	264.6	264.7	249.0
Investments	0.0	0.0	0.0	0.0
Inventories	304.7	327.4	424.8	442.1
Debtor	482.0	268.6	348.6	362.8
Cash	946.0	901.4	814.1	713.6
Loan & Advance, Other CA	210.5	220.5	230.5	240.5
Total Current assets	1943.3	1717.9	1818.1	1759.0
Current Liabilities	713.0	621.2	806.1	838.9
Provisions	148.9	136.9	181.3	182.4
Total CL and Provisions	861.8	758.0	987.4	1021.3
Net Working Capital	1081.4	959.9	830.6	737.7
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1308.5</b>	<b>1224.4</b>	<b>1095.3</b>	<b>986.7</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
	₹ crore			
(Year-end December)	CY19	CY20E	CY21E	CY22E
<b>Per share data (₹)</b>				
Book Value	13.8	13.0	11.7	10.6
Cash per share	9.6	9.1	8.2	7.2
EPS	8.4	6.2	8.1	8.3
Cash EPS	9.1	7.1	9.1	9.4
DPS	5.5	6.0	8.0	8.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	29.7	28.0	28.1	27.8
PAT Margin (%)	21.3	20.1	20.0	19.8
Fixed Asset Turnover (x)	17.1	11.6	15.0	16.6
Inventory Turnover (Days)	28.7	39.0	39.0	39.0
Debtor (Days)	45.4	32.0	32.0	32.0
Current Liabilities (Days)	67.1	74.0	74.0	74.0
<b>Return Ratios (%)</b>				
RoE	60.5	47.9	69.0	78.2
RoCE	79.2	60.2	88.1	99.2
RoIC	NA	NA	NA	NA
<b>Valuation Ratios (x)</b>				
PE	13.4	18.0	13.9	13.6
Price to Book Value	8.1	8.6	9.6	10.6
EV/EBITDA	8.8	11.9	9.2	9.0
EV/Sales	2.6	3.3	2.6	2.5
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	902.8	208.6	847.3	863.8
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.3	1.8	1.7
Quick ratio	1.9	1.8	1.4	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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