

Strong volume growth across segments. Expansion in margins due to favorable input costs

- GOLI's revenue were above our estimates on revenue and profitability front. Increase in demand from 2W and CV segment contributed to strong volume growth. Also, B2B and industrial segment saw strong growth. PCMO segment is picking up slowly.
- Volume in Q2FY21 was 29.5 TKL grew 7% YoY and by 68.6% QoQ against our estimate of 24TKL.
- Factory fill business which was a laggard from last many quarters have started showing growth and have contributed around 5% to the mix.
- Gross margins contracted by 96 bps YoY and expanded 248 bps sequentially due to reduced traction from B2C to 61% (normal 63-64%). All the trade schemes announced in the previous quarter are called back. Net realisations were down 9% YoY and up 1.3% QoQ to Rs 139.6/L. EBITDA margins expanded 105 bps YoY due to favourable input costs and other costs prudence. Management has guided to maintain margins at 16-18%.
- GOLI expects to grow at 2-3x of the industry, however, they expect the industry to have a double digit de-growth in FY21. However, with strong volumes coming in, strong supply chain, distribution strength and continuous investments in branding activities they expect a positive H2FY21 for GOLI. The volume growth will continue to outperform the industry from FY22, where growth will come from new product launches, OEM tie ups and expansion of distribution channels. Maintain Accumulate, with a TP of Rs 760 based on 15x FY23E earnings.

Volume growth from all segments

GOLI's volume growth in Q2FY21 was 7.3% YoY at 29.5 TKL. Factory fill segment of GOLI which usually contributed to 9-10% of revenue mix was down from last many quarter. In Q1FY21 it was negative. However, in Q2FY21 the factory fill business has revived and is at 5% of the mix. Positive growth was seen from 2W and CV segment. PCMO segment is slightly lower than usual as the demand from Metro cities have not revived fully. MCO in urban and rural have picked up well. B2B related and industrial businesses saw strong growth and record sales in this quarter. GOLI has tied up with Piaggio in Jan, 2020. They expect 3-4% sales in FY21 will come from tie up with OEM. However, this will take a little longer than expected. Currently they have 14 OEM's in fold. They have taken new initiatives of tie up with OEM, industries and aggregators. As compared to Retail market, OEM margins are low. However, these tie ups help increase distribution with OEM brand.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	4,117	4,213	(2.3)	2,412	70.7
Total Expense	3,334	3,456	(3.5)	2,158	54.5
EBITDA	783	757	3.4	254	208.1
Depreciation	85	79	7.5	84	1.5
EBIT	698	678	3.0	170	309.9
Other Income	140	84	66.7	129	8.2
Interest	48	70	(32.1)	68	(29.8)
EBT	790	692	14.3	232	241.2
Tax	199	72	177.1	60	232.3
RPAT	591	620	(4.6)	172	244.3
APAT	591	620	(4.6)	172	244.3
			(bps)		(bps)
Gross Margin (%)	48.3	49.3	(96)	45.8	248
EBITDA Margin (%)	19.0	18.0	105	10.5	848
NPM (%)	14.4	14.7	(35)	7.1	724
Tax Rate (%)	25.2	10.4	1481	25.9	(67)
EBIT Margin (%)	17.0	16.1	86	7.1	989

CMP	Rs 676
Target / Upside	Rs 760 / 12%
NIFTY	12,461

Scrip Details

Equity / FV	Rs 100mn / Rs 2
Market Cap	Rs 34bn
	USD 454mn
52-week High/Low	Rs 883/ 455
Avg. Volume (no)	30,370
Bloom Code	GOLI IN

Price Performance	1M	3M	12M
Absolute (%)	6	8	(21)
Rel to NIFTY (%)	1	(4)	(27)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	72.7	72.7	72.2
MF/Banks/FIs	5.3	5.3	6.3
FIIIs	11.1	11.1	11.3
Public / Others	10.9	10.9	10.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	20.3	15.3	13.3
EV/EBITDA	12.3	9.5	7.9
ROE (%)	22.9	29.4	28.4
RoACE (%)	17.4	21.5	21.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	15,120	17,691	19,460
EBITDA	2,503	3,157	3,638
PAT	1,654	2,192	2,525
EPS (Rs.)	33.3	44.1	50.8

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Strong distribution ensuring growth

Total retail touchpoints were 75,000 plus. Rural distribution continues to gain traction. It plans to grow distribution channel by 15% every year. We believe that this distribution growth is achievable as GOLIL is only 45% penetrated as of now. Market share in Bazaar segment is 7.5-8% for GOLIL. Their overall market share is 5-6%, where they have headroom to grow. Volume growth of GOLI will be highly dependent on distribution expansion which they are expanding. They have undertaken branding spends.

Valuation

GOLI's business model is right on all key drivers, which has resulted in consistent market share gain in the past and the trend is likely to continue. Distribution expansion and brand thrust will enable GOLI to play the opportunity. The tie-up with OEMs, investment in the distribution chain, and product innovation will drive GOLI's performance. However, due to slowdown in auto industry and less movement of vehicles till the metro cities do not open up fully, we maintain Accumulate, with a TP of Rs 760 based on 15x FY23E earnings.

Exhibit 1: KPI's

Rs Mn	Q2FY21	Q2FY20	% Chg	Q1FY21	% Chg
Volume (in TKL)	29.5	27.5	7.3	17.5	68.6
Realization (Rs/L)	139.6	153.2	(8.9)	137.8	1.3
RM Cost (Rs/L)	72.2	77.7	(7.2)	74.7	(3.4)
Gross Spread (Rs/L)	67.4	75.5	(10.7)	63.1	6.8
EBITDA (Rs/L)	26.5	27.5	(3.6)	14.5	82.8

Source: Company, DART

Exhibit 2: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	4,117	3,504	17.5	Strong volumes
EBITDA	783	644	21.6	Favourable input cost and other costs prudence
EBITDA Margin (%)	19.0	18.4	64	
PAT	591	482	22.7	Low interest cost and high other income

Source: Company, DART

Exhibit 3: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	15,120	14,463	4.5	17,691	16,799	5.3
EBITDA	2,503	2,484	0.8	3,157	3,093	2.1
EBITDA Margin (%)	16.6	17.2	(61.6)	17.8	18.4	(56.7)
PAT	1,653	1,639	0.9	2,190	2,142	2.2
EPS (Rs)	33.2	32.9	0.9	43.7	42.7	2.2

Source: Company, DART

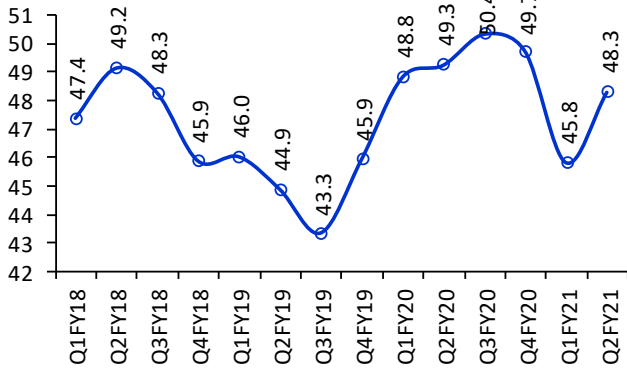
Key Highlights:

- Revenue decreased by 2.3% on a YoY basis and increased by 70.7% on a QoQ basis to Rs. 4,117 mn.
- Raw Material cost was flat on a YoY basis and increased by 62.9% QoQ to Rs. 2,129 mn.
- There was a growth in employee cost of 17.3% on a QoQ basis to Rs. 306 mn.
- Other expenditure decreased by 12% on a YoY basis to Rs. 900 mn.
- Gulf Oil Lubricants made an operating profit Rs 783 mn in Q2FY21 as compared to an operating profit of Rs. 757 mn in Q2FY20. This was a growth of 3.4% on a YoY basis
- Depreciation was flat sequentially to Rs. 85 mn.
- Other income increased by 66.7% on a YoY basis to Rs. 140 mn.
- Gulf Oil Lubricants made a net profit of Rs. 591 mn in Q2FY21 as compared to a net profit of Rs. 620 mn in Q2FY20.

Concall KTA's

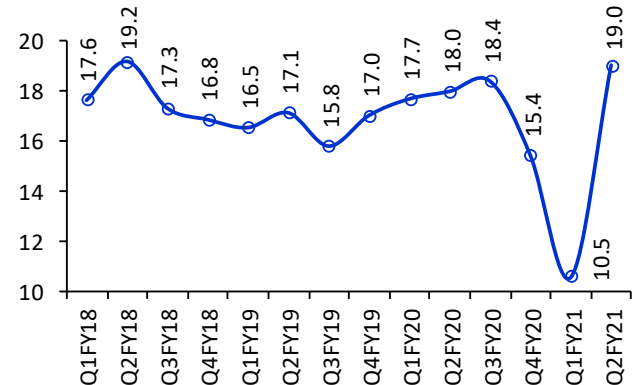
- GOLI's overall market share is 5-6%, so they have enough headroom to grow. They are strong in MCO and CV segment. 90-95% of their sales is in replacement market.
- Industry also saw some demand conditions picking up month on month, with most markets and customer segments returning to near normalcy and some pent up demand. However, they expect an industry de-growth of double digit for FY21.
- GOLI's robust supply chain and distribution strengths combined with strong demand sensing strategies resulted in record level volumes in key sub segments.
- Revenue mix for Q2FY21- DEO: 36-37%, Personal Mobility: 24%, Industrial: 15% and other 25%.
- B2B:B2C is 39:61 as against 37:63 (YoY)
- In Q2FY21 capacity utilisation was 75% (including both plants).
- A&P spend is usually 5-7% of the revenue. However due to Pandemic, this was reduced in last quarter. In Q2FY21, A&P spends were 3% of revenue as they spent on IPL promotion for CSK team.
- They continue their investments in brands.
- In July-Aug, raw material costs were lower as there was surplus base oil available. Prices starting moving upwards in August as demand for lubes picked up.
- 2W battery business has shown a growth of 25% YoY in Q2FY21. They have increased their market share in this business.
- GOLI is a net debt free company with net cash as on Sep'20 at Rs. 300 cr. As on March'20 cash balance was Rs. 200 cr.

Exhibit 4: Gross Margin (%)



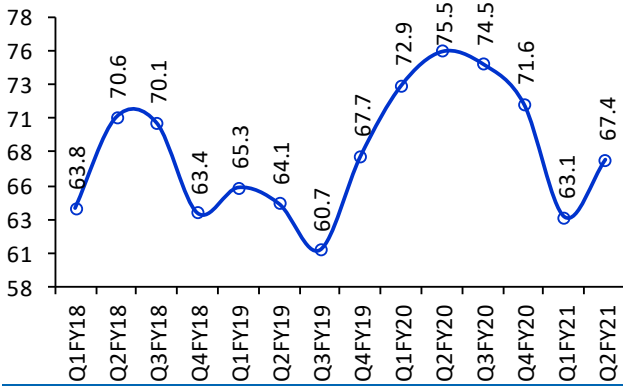
Source: Company, DART

Exhibit 5: OPM (%)



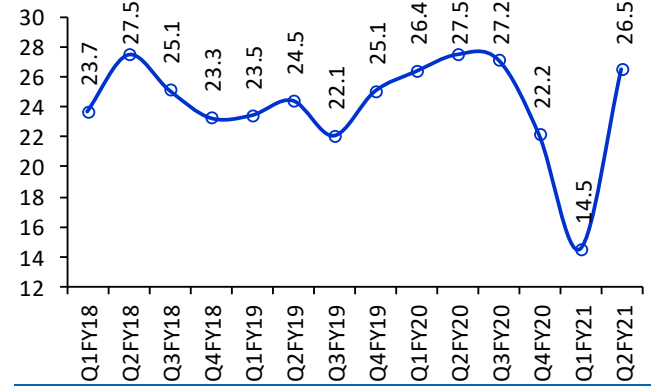
Source: Company, DART

Exhibit 6: Gross Spread (Rs/L)



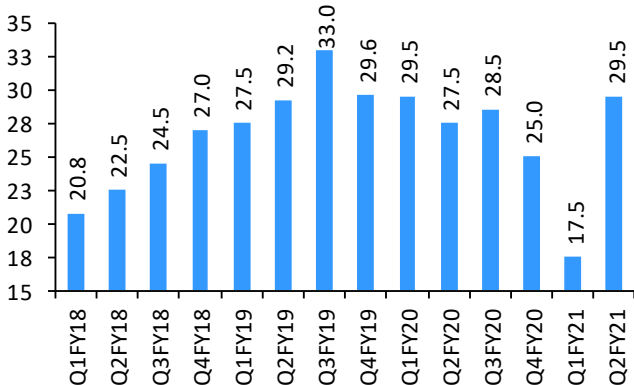
Source: Company, DART

Exhibit 7: EBITDA (Rs/L)



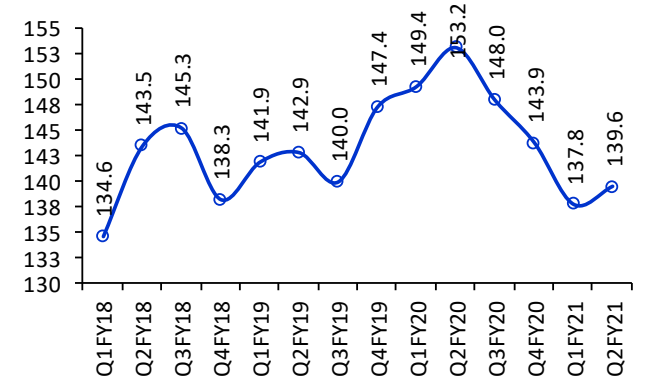
Source: Company, DART

Exhibit 8: Volume (TKL)



Source: Company, DART

Exhibit 9: Realization (Rs/L)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	16,435	15,120	17,691	19,460
Total Expense	13,570	12,617	14,534	15,821
COGS	8,295	8,165	9,376	10,119
Employees Cost	1,140	1,277	1,443	1,616
Other expenses	4,135	3,175	3,715	4,087
EBIDTA	2,865	2,503	3,157	3,638
Depreciation	327	325	348	370
EBIT	2,538	2,178	2,809	3,268
Interest	248	267	281	295
Other Income	355	300	400	400
Exc. / E.O. items	0	0	0	0
EBT	2,645	2,211	2,928	3,373
Tax	620	556	737	848
RPAT	2,025	1,654	2,192	2,525
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,025	1,654	2,192	2,525

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	100	100	100	100
Minority Interest	0	0	0	0
Reserves & Surplus	7,513	6,738	7,990	9,580
Net Worth	7,613	6,838	8,091	9,680
Total Debt	3,537	3,820	4,011	4,212
Net Deferred Tax Liability	143	145	145	145
Total Capital Employed	11,293	10,803	12,247	14,036

Applications of Funds

Net Block	2,805	2,679	2,532	2,386
CWIP	7	8	10	10
Investments	46	46	46	46
Current Assets, Loans & Advances	11,608	12,336	14,188	16,240
Inventories	3,283	2,900	3,393	3,732
Receivables	1,870	1,657	1,939	2,133
Cash and Bank Balances	5,509	6,738	7,657	8,990
Loans and Advances	451	496	546	600
Other Current Assets	495	545	654	785
Less: Current Liabilities & Provisions	3,172	4,266	4,529	4,646
Payables	2,585	2,842	3,041	3,163
Other Current Liabilities	587	1,424	1,488	1,482
<i>sub total</i>				
Net Current Assets	8,436	8,070	9,659	11,594
Total Assets	11,293	10,803	12,247	14,036

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	49.5	46.0	47.0	48.0
EBIDTA Margin	17.4	16.6	17.8	18.7
EBIT Margin	15.4	14.4	15.9	16.8
Tax rate	23.4	25.2	25.2	25.1
Net Profit Margin	12.3	10.9	12.4	13.0
(B) As Percentage of Net Sales (%)				
COGS	50.5	54.0	53.0	52.0
Employee	6.9	8.4	8.2	8.3
Other	25.2	21.0	21.0	21.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.6	0.5	0.4
Interest Coverage	10.2	8.1	10.0	11.1
Inventory days	73	70	70	70
Debtors days	42	40	40	40
Average Cost of Debt	7.8	7.3	7.2	7.2
Payable days	57	69	63	59
Working Capital days	187	195	199	217
FA T/O	5.9	5.6	7.0	8.2
(D) Measures of Investment				
AEPS (Rs)	40.7	33.3	44.1	50.8
CEPS (Rs)	47.3	39.8	51.1	58.3
DPS (Rs)	14.1	15.0	16.1	16.0
Dividend Payout (%)	34.6	45.1	36.6	31.6
BVPS (Rs)	153.2	137.6	162.8	194.8
RoANW (%)	30.0	22.9	29.4	28.4
RoACE (%)	22.5	17.4	21.5	21.5
RoAIC (%)	43.2	44.2	64.9	67.8
(E) Valuation Ratios				
CMP (Rs)	676	676	676	676
P/E	16.6	20.3	15.3	13.3
Mcap (Rs Mn)	33,607	33,607	33,607	33,607
MCap/ Sales	2.0	2.2	1.9	1.7
EV	31,635	30,689	29,961	28,828
EV/Sales	1.9	2.0	1.7	1.5
EV/EBITDA	11.0	12.3	9.5	7.9
P/BV	4.4	4.9	4.2	3.5
Dividend Yield (%)	2.1	2.2	2.4	2.4
(F) Growth Rate (%)				
Revenue	(3.7)	(8.0)	17.0	10.0
EBITDA	1.2	(12.6)	26.1	15.3
EBIT	(2.6)	(14.2)	29.0	16.3
PBT	(3.8)	(16.4)	32.5	15.2
APAT	13.9	(18.3)	32.5	15.2
EPS	13.9	(18.3)	32.5	15.2
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,368	3,841	2,148	2,587
CFI	174	(201)	(201)	(227)
CFF	49	(2,360)	(1,028)	(1,027)
FCFF	2,186	3,640	1,946	2,362
Opening Cash	2,867	5,458	6,738	7,657
Closing Cash	5,458	6,738	7,657	8,990

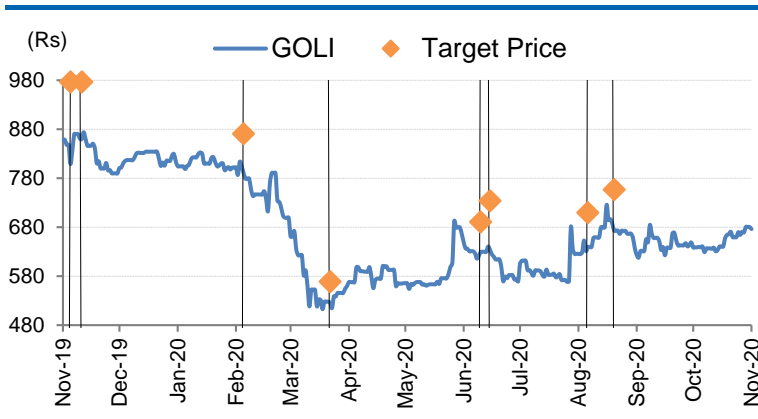
E – Estimates

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.)
Nov-19	Buy	977	809
Nov-19	Accumulate	977	860
Feb-20	Accumulate	871	791
Mar-20	Reduce	569	526
Jun-20	Accumulate	691	629
Jun-20	Accumulate	734	634
Aug-20	Accumulate	710	640
Aug-20	Accumulate	757	673

*Price as on recommendation date

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