

## Accumulate

### Strong volume growth across segments barring PCMO. Contraction in margins due to rising pressure of input costs

- GOLIL's results 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 Q3FY21 was 33 TKL, grew 15.8% YoY and by 11.9% QoQ against our estimate of 28TKL.
- OEM factory fill business which was a laggard from last many quarters have started showing growth of 35-40% YoY.
- Gross margins contracted by 237 bps YoY and by 32 bps sequentially due to rising pressure of input cost. However, B2C contribution in the mix have returned to normal levels of 65% as retail sales was good. Net realisations were down 1.4% YoY and up 4.6% QoQ to Rs 146/L. EBITDA margins contracted by 108 bps YoY and 172 bps QoQ. Management has guided to maintain margins at 16-18%.
- GOLIL 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 GOLIL. 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 822 based on 16x FY23E earnings.**

### Volume growth from all segments

GOLIL's volume growth in Q3FY21 was 15.8% YoY at 33 TKL. Factory fill segment of GOLIL which usually negative in Q1FY21 have picked up pace and have shown a growth of 35-40% YoY. 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. 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. Battery business has shown good growth in 9MFY21 and have contributed a positive bottomline.

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	4,819	4,219	14.2	4,117	17.0
Total Expense	3,985	3,443	15.7	3,334	19.5
EBITDA	834	775	7.5	783	6.4
Depreciation	86	81	6.8	85	1.5
EBIT	747	694	7.6	698	7.0
Other Income	125	85	46.1	140	(11.0)
Interest	14	44	(67.0)	48	(69.8)
EBT	857	736	16.5	790	8.5
Tax	217	177	22.6	199	9.1
RPAT	640	559	14.6	591	8.3
APAT	640	559	14.6	591	8.3
			(bps)		(bps)
Gross Margin (%)	48.0	50.4	(237)	48.3	(32)
EBITDA Margin (%)	17.3	18.4	(108)	19.0	(172)
NPM (%)	13.3	13.2	4	14.4	(108)
Tax Rate (%)	25.3	24.1	126	25.2	15
EBIT Margin (%)	15.5	16.5	(95)	17.0	(145)

CMP	Rs 714
Target / Upside	Rs 822 / 15%
NIFTY	14,924

### Scrip Details

Equity / FV	Rs 100mn / Rs 2
Market Cap	Rs 35bn
	USD 486mn
52-week High/Low	Rs 850/ 455
Avg. Volume (no)	34,494
Bloom Code	GOLI IN

Price Performance	1M	3M	12M
Absolute (%)	(3)	6	(11)
Rel to NIFTY (%)	(8)	(15)	(36)

### Shareholding Pattern

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

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	20.1	15.9	13.8
EV/EBITDA	13.0	10.0	8.4
ROE (%)	24.3	29.3	28.3
RoACE (%)	18.3	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	1,767	2,229	2,562
EPS (Rs.)	35.5	44.9	51.6

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

### 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 GOLIL will be highly dependent on distribution expansion which they are expanding. They have undertaken branding spends.

### Valuation

GOLIL'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 GOLIL to play the opportunity. The tie-up with OEMs, investment in the distribution chain, and product innovation will drive GOLIL'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 822 based on 16x FY23E earnings.

#### Exhibit 1: KPI's

Rs Mn	Q3FY21	Q3FY20	% Chg	Q2FY21	% Chg
Volume (in TKL)	33.0	28.5	15.8	29.5	11.9
Realization (Rs/L)	146.0	148.0	(1.4)	139.6	4.6
RM Cost (Rs/L)	76.0	73.5	3.4	72.2	5.3
Gross Spread (Rs/L)	70.1	74.5	(6.0)	67.4	3.9
EBITDA (Rs/L)	25.3	27.2	(7.1)	26.5	(4.9)

Source: Company, DART

#### Exhibit 2: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	4,819	3920	22.9	Improved demand conditions across segments
EBITDA	834	720	15.8	
EBITDA Margin (%)	17.3	18.4	(107)	Rising pressure from input cost
PAT	640	535	19.6	Low interest cost and high other income

Source: Company, DART

#### Exhibit 3: Change in estimates

Rs Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	17,691	17,691	0.0	19,460	19,460	0.0
EBITDA	3,157	3,157	0.0	3,638	3,638	0.0
EBITDA Margin (%)	17.8	17.8	0.0	18.7	18.7	0.0
PAT	2,227	2,190	1.7	2,559	2,522	1.5
EPS (Rs)	44.4	43.7	1.7	51.4	50.6	1.5

Source: Company, DART

## Key Highlights

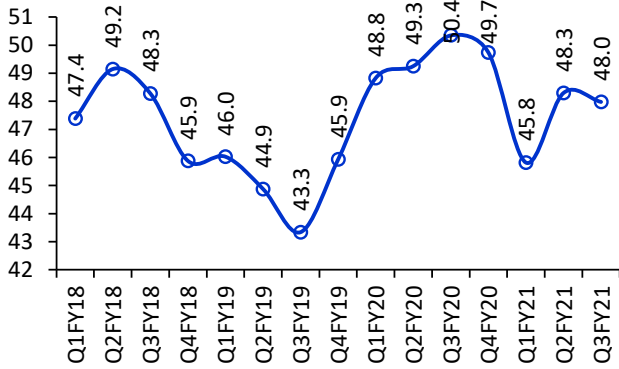
- Revenue increased by 14.2% on a YoY basis and by 17% on a QoQ basis to Rs. 4,819 mn.
- Raw Material cost increased by 19.7% on a YoY basis and by 17.8% QoQ to Rs. 2,507 mn.
- Employee cost was flat on a QoQ basis to Rs. 309 mn which was a growth of 7.6% on a YoY basis.
- Other expenditure increased by 10.2% on a YoY basis and by 30% on a QoQ basis to Rs. 1,169 mn.
- Gulf Oil Lubricants made an operating profit Rs 834 mn in Q3FY21 as compared to an operating profit of Rs. 775 mn in Q3FY20. This was a growth of 7.5% on a YoY basis
- Depreciation was flat sequentially to Rs. 86 mn.
- Other income increased by 46.1% on a YoY basis to Rs. 125 mn.
- Gulf Oil Lubricants made a net profit of Rs. 640 mn in Q3FY21 as compared to a net profit of Rs. 559 mn in Q3FY20.

## Concall KTA's

- On the back of significantly improved demand conditions across segments, both B2C and B2B and aided by improved OEM demands, GOLIL has delivered nearly 16% volume growth YoY during Q3FY21.
- While the industry has shown a de-growth of 10% to 12%, GOLI have grown 3x-4x of the industry.
- There was rising pressure from input costs side but continued cost initiatives and margin management strategies initiated help grow profits.
- Increase in RM cost led to a price increase in the Bazaar segment which was taken in mid Dec'20.
- Barring PCMO, for which major metro cities are key markets, all other segments in after-market saw a return to normalcy for the industry. Personal mobility has shown a growth of 20%.
- For the B2C segment, all key product categories recorded good growth, majorly so in MCO and CVO where they managed to bring in handsome double-digit growth.
- OEM factory fill volumes have shown a growth of 35-40% YoY.
- Even B2B related and industrial businesses saw strong growth and record sales in this quarter.
- With the significant pickup in economic activities and restoration of normalcy in most of the businesses, lubricants demand witnessed good comeback.
- Demand conditions are improving and so they are positive about double digit growth in next FY.
- Had an all-time high net cash of Rs. 3,500 mn in 9MFY21. Working capital management was the lowest to 85 gross days as collections improved.
- In Q3FY21: B2B:B2C is 35:65 (retail sales very good). Secondary sales were even better this quarter.

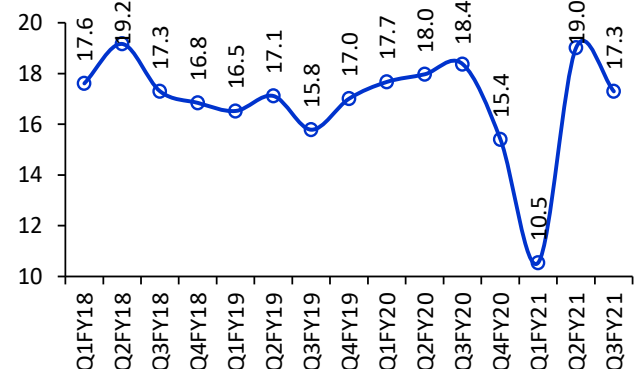
- Product mix for Q3FY21 was similar to Q2FY21. DEO is 37%, PM is 24%, Industrial is 15% and others is 24%.
- A&P spends for the quarter was 3-4%, which is usually 6% for GOLIL.
- Total capacity is 1,40,000 TKL and capacity expansion plans at both Chennai and Silvassa plan will be taken in the next 1-2 years as de-bottlenecking will be done.
- Overall capex will not be more than Rs. 100-150 Mn every year.
- Localising production for battery business talks are in advance stages. Will take another one year to get finalised. As it is not a very capital intensive project, overall capex will be in the range of Rs. 700-800 Mn.
- GOLIL has low market share in PCMO and industrial segment which are the strategic areas for future growth.
- While demand side situation is quite positive, there are rising pressures from supply and input costs sides and they are taking necessary steps well in advance of the market to continue the margin management strategies for the coming quarters.

**Exhibit 4: Gross Margin (%)**



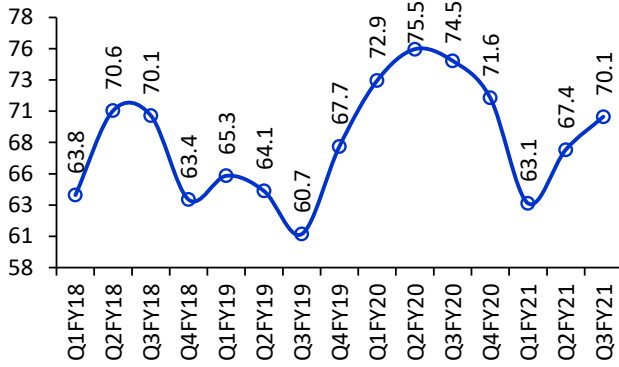
Source: Company, DART

**Exhibit 5: OPM (%)**



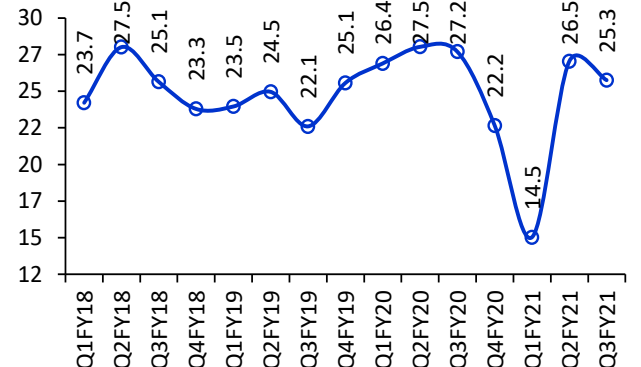
Source: Company, DART

**Exhibit 6: Gross Spread (Rs/L)**



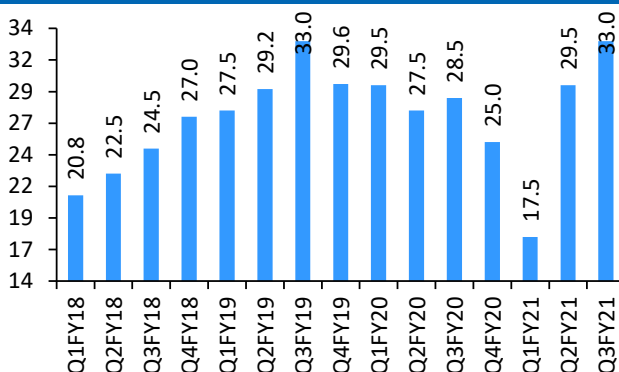
Source: Company, DART

**Exhibit 7: EBITDA (Rs/L)**



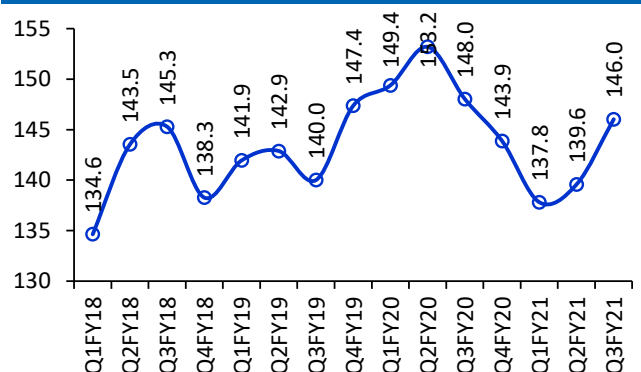
Source: Company, DART

**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
<b>Revenue</b>	<b>16,435</b>	<b>15,120</b>	<b>17,691</b>	<b>19,460</b>
<b>Total Expense</b>	<b>13,570</b>	<b>12,617</b>	<b>14,534</b>	<b>15,821</b>
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
<b>EBIDTA</b>	<b>2,865</b>	<b>2,503</b>	<b>3,157</b>	<b>3,638</b>
Depreciation	327	325	348	370
<b>EBIT</b>	<b>2,538</b>	<b>2,178</b>	<b>2,809</b>	<b>3,268</b>
Interest	248	267	281	295
Other Income	355	450	450	450
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>2,645</b>	<b>2,361</b>	<b>2,978</b>	<b>3,423</b>
Tax	620	594	749	861
RPAT	2,025	1,767	2,229	2,562
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>2,025</b>	<b>1,767</b>	<b>2,229</b>	<b>2,562</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	100	100	100	100
Minority Interest	0	0	0	0
Reserves & Surplus	7,513	6,851	8,140	9,767
<b>Net Worth</b>	<b>7,613</b>	<b>6,950</b>	<b>8,240</b>	<b>9,867</b>
Total Debt	3,537	3,820	4,011	4,212
Net Deferred Tax Liability	143	145	145	145
<b>Total Capital Employed</b>	<b>11,293</b>	<b>10,915</b>	<b>12,396</b>	<b>14,224</b>

**Applications of Funds**

Net Block	<b>2,805</b>	<b>2,679</b>	<b>2,532</b>	<b>2,386</b>
CWIP	7	8	10	10
Investments	46	46	46	46
<b>Current Assets, Loans &amp; Advances</b>	<b>11,608</b>	<b>12,448</b>	<b>14,338</b>	<b>16,427</b>
Inventories	3,283	2,900	3,393	3,732
Receivables	1,870	1,657	1,939	2,133
Cash and Bank Balances	5,509	6,851	7,807	9,177
Loans and Advances	451	496	546	600
Other Current Assets	495	545	654	785
<b>Less: Current Liabilities &amp; Provisions</b>	<b>3,172</b>	<b>4,266</b>	<b>4,529</b>	<b>4,646</b>
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	8,182	9,809	11,781
<b>Total Assets</b>	<b>11,293</b>	<b>10,915</b>	<b>12,396</b>	<b>14,224</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
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	11.7	12.6	13.2
<b>(B) As Percentage of Net Sales (%)</b>				
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
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.5	0.5	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	198	202	221
FA T/O	5.9	5.6	7.0	8.2
<b>(D) Measures of Investment</b>				
AEPS (Rs)	40.7	35.5	44.9	51.6
CEPS (Rs)	47.3	42.1	51.8	59.0
DPS (Rs)	14.1	15.0	16.1	16.0
Dividend Payout (%)	34.6	42.3	36.0	31.1
BVPS (Rs)	153.2	139.8	165.8	198.5
RoANW (%)	30.0	24.3	29.3	28.3
RoACE (%)	22.5	18.3	21.5	21.5
RoAIC (%)	43.2	44.2	64.9	67.8
<b>(E) Valuation Ratios</b>				
CMP (Rs)	714	714	714	714
P/E	17.5	20.1	15.9	13.8
Mcap (Rs Mn)	35,466	35,466	35,466	35,466
MCap/ Sales	2.2	2.3	2.0	1.8
EV	33,494	32,435	31,670	30,500
EV/Sales	2.0	2.1	1.8	1.6
EV/EBITDA	11.7	13.0	10.0	8.4
P/BV	4.7	5.1	4.3	3.6
Dividend Yield (%)	2.0	2.1	2.3	2.2
<b>(F) Growth Rate (%)</b>				
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)	(10.8)	26.2	14.9
APAT	13.9	(12.8)	26.2	14.9
EPS	13.9	(12.8)	26.2	14.9
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
CFO	2,368	3,953	2,186	2,624
CFI	174	(201)	(201)	(227)
CFF	49	(2,360)	(1,028)	(1,027)
FCFF	2,186	3,752	1,984	2,399
Opening Cash	2,867	5,458	6,851	7,807
Closing Cash	5,458	6,851	7,807	9,177

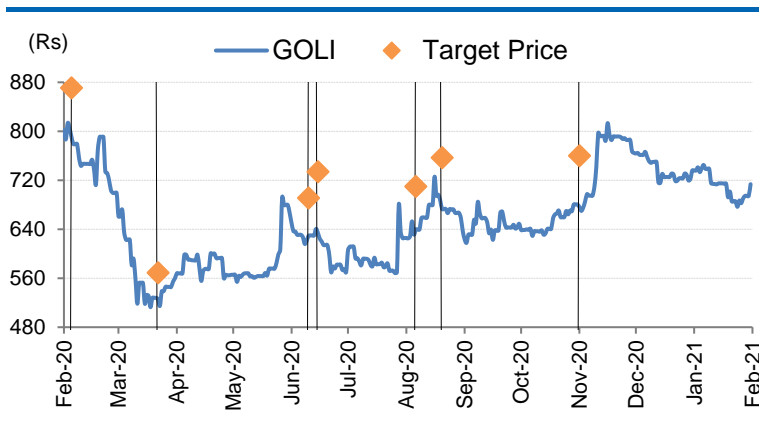
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Nov-20	Accumulate	760	676

\*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



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

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)

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