

Margin stability key to earnings...

Castrol India's operating revenue for Q4CY20 declined 7.6% YoY to ₹ 935.2 crore. Volumes were at 52 million litre, down ~4% YoY. Gross margins dipped 1.2% YoY to ₹ 106.8/litre due to lower realisation. Subsequently, EBITDA/litre was at ₹ 49.5/litre, down 21.6% YoY. EBITDA came in at ₹ 257.6 crore, down 24.5% YoY. PAT was at ₹ 187.7 crore, down 30.8% YoY.

Lower realisation affect margins

Castrol's raw materials cost (base oil) are dependent on the movement of crude oil prices and rupee against US dollar. While rupee has weakened, crude oil prices have fallen sharply compared to Q4CY19, which led to drop in base oil costs YoY. Due to lower oil prices, we subsequently saw a decline in raw material costs. However, the company reduced its prices for CV segment leading to fall of ₹ 7.6/litre in realisation. As a result, gross margins posted a minor fall of ₹ 1.3/litre YoY to ₹ 106.8/litre. On account of increase in crude oil prices over past few months, the company has taken a price hike across segments in January. Hence, we expect gross margins to remain at healthy levels of ₹ 102.8/litre in CY21E and ₹ 107.9/litre in CY22E. EBITDA is expected at ₹ 52/litre and ₹ 55.6/litre in CY21E and CY22E, respectively.

Volume to improve, albeit on lower base

Castrol volumes in Q4CY20 dipped ~4% YoY to 52 million litre. On QoQ basis, volumes saw an uptick of 10.6%. While auto volumes are below pre-Covid level, industrial volume has grown YoY. Castrol witnessed strong volume growth on CV segment front on account of price cuts. In medium term, due to recovery in personal mobility volumes and increased CV lubricants sales, we expect volume growth over the next two years. Castrol's tie-up with an OMC retail network also provides volume growth opportunities. However, in the long run, higher drain intervals due to improvement in technology and development of electric vehicle space pose a risk to Castrol's volume outlook. We expect Castrol's volume at 210.6 million litre in CY21E and 216.9 million litre in CY22E.

Valuation & Outlook

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 will report strong volume growth YoY in CY21E mainly due to low base effect. The focus on maintaining balance between margins & volumes along with growth in the personal mobility segment (~45% of total volume) will be a key factor directing the company ahead. We maintain **HOLD** rating on the stock. We value Castrol India at 15x CY22E EPS of ₹ 8.6 to arrive at a target price of ₹ 130 (vs. previous TP: ₹ 115).



Particulars

Particular	Amount
Market Capitalization (₹Cr)	12,997.0
Total Debt (₹Cr)	-
Cash and Investments (₹Cr)	946.0
EV (₹Crore)	12,051.0
52 week H/L	162/90
Equity capital (₹Crore)	494.6
Face value (₹)	5.0

Key risks to our call

- Better than expected margins will lead to higher profitability
- Slower than expected pick up in volumes will affect earnings

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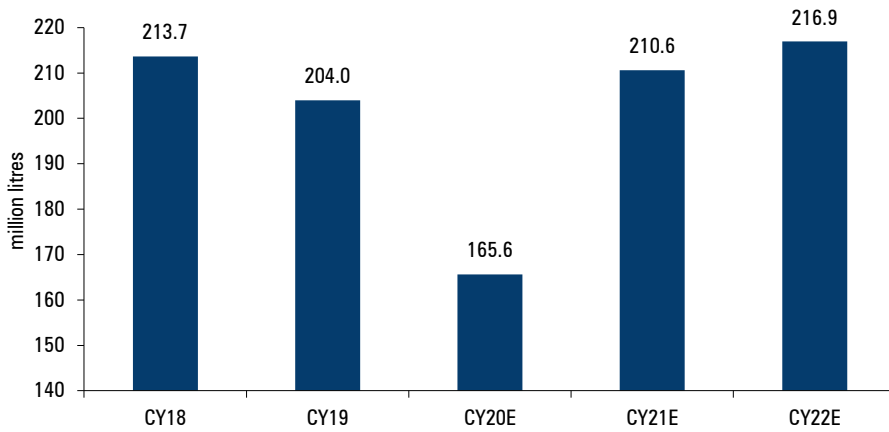
Key Financial Summary

(Year-end December)	CY18	CY19	CY20E	CY21E	CY22E	CAGR (CY19-22E)
Revenues (₹crore)	3,904.6	3,876.8	2,996.9	3,981.2	4,223.7	2.9
EBITDA (₹crore)	1,070.8	1,153.0	814.1	1,095.3	1,206.2	1.5
Net Profit (₹crore)	708.3	827.4	582.9	778.9	855.0	1.1
EPS (₹)	7.2	8.4	5.9	7.9	8.6	
P/E (x)	18.3	15.7	22.3	16.7	15.2	
Price / Book (x)	11.1	9.5	9.9	10.2	10.8	
EV/EBITDA (x)	11.4	10.5	14.5	10.9	10.0	
RoCE (%)	87.1	79.2	55.6	77.9	90.3	
RoE (%)	60.8	60.5	44.5	61.0	70.8	

Source: Company, ICICI Direct Research

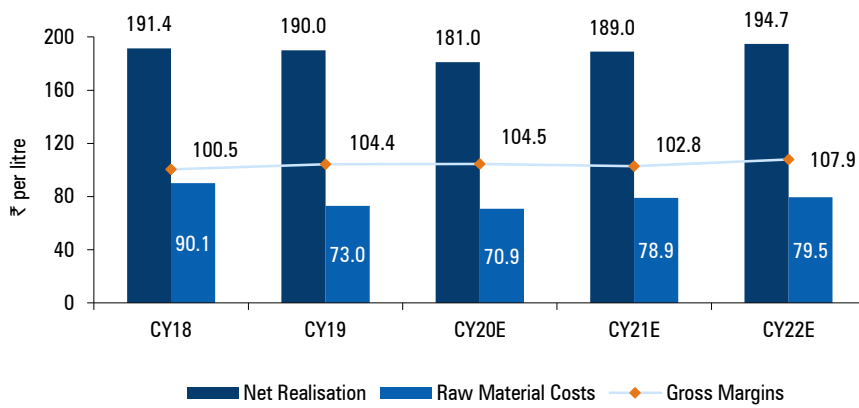
Story in charts

Exhibit 1: Volume trajectory



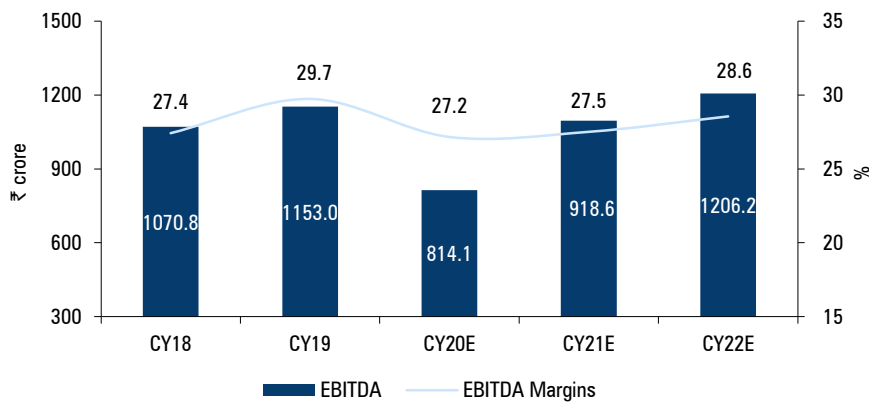
Source: Company, ICICI Direct Research

Exhibit 2: Steady and stable financial parameters



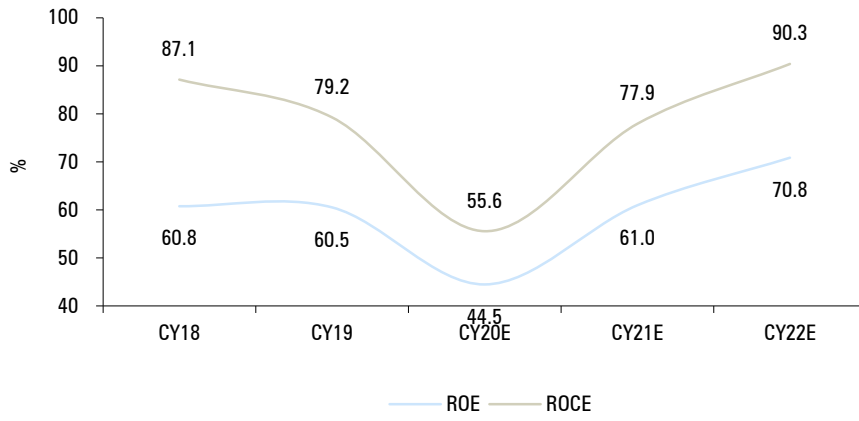
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margins trend



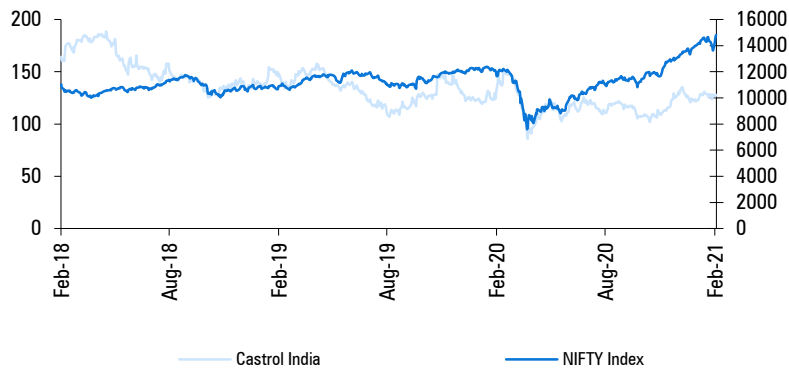
Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 5: Price performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement					₹ crore
(Year-end December)	CY19	CY20E	CY21E	CY22E	
Revenue	3876.8	2996.9	3981.2	4223.7	
Growth (%)	-0.7	-22.7	32.8	6.1	
(Inc.)/(Dec.) in stock in trade	75.7	-24.1	0.0	0.0	
Raw material Costs	1488.3	1173.9	1662.4	1723.4	
Purchase of Products	183.7	116.5	154.4	160.1	
Employee Costs	213.1	219.8	233.0	247.0	
Other Expenditure	763.0	696.7	836.0	887.0	
Op. Expenditure	2,723.8	2,182.8	2,885.8	3,017.4	
EBITDA	1153.0	814.1	1095.3	1206.2	
Growth (%)	7.7	-29.4	34.5	10.1	
Depreciation	69.7	86.6	99.9	115.6	
EBIT	1083.3	727.5	995.5	1090.6	
Interest	1.2	4.2	4.0	4.0	
Other Income	64.8	62.0	64.0	72.0	
PBT	1146.9	785.3	1055.5	1158.6	
Growth (%)	4.4	-31.5	34.4	9.8	
Tax	319.5	202.4	276.5	303.5	
Reported PAT	827.4	582.9	778.9	855.0	
Growth (%)	16.8	-29.6	33.6	9.8	
EPS	8.4	5.9	7.9	8.6	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
(Year-end December)	CY19	CY20E	CY21E	CY22E	
Profit after Tax	827.4	582.9	778.9	855.0	
Add: Depreciation	69.7	86.6	99.9	115.6	
Add: Others	0.0	0.0	0.0	0.0	
Cash Profit	255.4	33.0	68.7	44.9	
Increase/(Decrease) in CI	-79.3	117.9	-9.6	70.6	
(Increase)/Decrease in C/	91.2	226.6	-125.2	-50.5	
CF from Operating Acti	903.8	1014.1	744.0	990.7	
Purchase of Fixed Assets	75.6	124.1	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	
CF from Investing Acti	-75.6	-124.1	-100.0	-100.0	
Dividend Paid	636.5	636.5	810.1	925.8	
Inc/(Dec) in Loan Funds	0.0	0.0	0.0	0.0	
Inc/(Dec) in Sh. Cap. & Re	10.4	-4.3	0.0	0.0	
Others	0.0	0.0	0.0	0.0	
CF from financing activ	-626.1	-640.8	-810.1	-925.8	
Change in cash Eq.	202.1	249.1	-166.1	-35.1	
Op. Cash and cash Eq.	743.9	946.0	1,195.1	1,029.0	
Cl. Cash and cash Eq.	946.0	1,195.1	1,029.0	993.9	

Source: Company, ICICI Direct Research; *calculated

Exhibit 8: Balance sheet					₹ crore
(Year-end December)	CY19	CY20E	CY21E	CY22E	
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	872.4	814.5	783.3	712.5	
Shareholder's Fund	1,367.0	1,309.1	1,277.9	1,207.1	
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	
Source of Funds	1308.5	1250.6	1219.4	1148.6	
Application of Funds					
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	344.8	392.7	416.6	
Debtor	482.0	205.3	272.7	289.3	
Cash	946.0	1,195.1	1,029.0	993.9	
Loan & Advance, Other C	210.5	220.5	230.5	240.5	
Total Current assets	1943.3	1965.7	1924.9	1940.3	
Current Liabilities	713.0	853.9	807.1	856.3	
Provisions	148.9	125.8	163.0	184.4	
Total CL and Provisions	861.8	979.7	970.1	1040.7	
Net Working Capital	1081.4	986.0	954.7	899.6	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	1308.5	1250.6	1219.4	1148.6	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios					₹ crore
(Year-end December)	CY19	CY20E	CY21E	CY22E	
Per share data (₹)					
Book Value	13.8	13.2	12.9	12.2	
Cash per share	9.6	12.1	10.4	10.0	
EPS	8.4	5.9	7.9	8.6	
Cash EPS	9.1	6.8	8.9	9.8	
DPS	5.5	5.5	7.0	8.0	
Profitability & Operating Ratios					
EBITDA Margin (%)	29.7	27.2	27.5	28.6	
PAT Margin (%)	21.3	19.5	19.6	20.2	
Fixed Asset Turnover (x)	17.1	11.3	15.0	17.0	
Inventory Turnover (Days)	28.7	42.0	36.0	36.0	
Debtor (Days)	45.4	25.0	25.0	25.0	
Current Liabilities (Days)	67.1	104.0	74.0	74.0	
Return Ratios (%)					
RoE	60.5	44.5	61.0	70.8	
RoCE	79.2	55.6	77.9	90.3	
RoIC	NA	NA	NA	NA	
Valuation Ratios (x)					
PE	15.7	22.3	16.7	15.2	
Price to Book Value	9.5	9.9	10.2	10.8	
EV/EBITDA	10.5	14.5	10.9	10.0	
EV/Sales	3.1	3.9	3.0	2.8	
Leverage & Solvency Ratios					
Debt to equity (x)	0.0	0.0	0.0	0.0	
Interest Coverage (x)	902.8	173.2	248.9	272.6	
Debt to EBITDA (x)	0.0	0.0	0.0	0.0	
Current Ratio	2.3	2.0	2.0	1.9	
Quick ratio	1.9	1.7	1.6	1.5	

Source: Company, ICICI Direct Research

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