

Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR129 **TP: INR170 (+30%)** **Buy**

Volumes recover to normal levels; dividend payout remains strong

Bloomberg	CSTR IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	127.5 / 1.7
52-Week Range (INR)	162 / 90
1, 6, 12 Rel. Per (%)	1/-22/-38
12M Avg Val (INR M)	201

- Castrol India (CSTR) missed our estimates, weighed by lower-than-expected sales volumes and realization. Volumes stood at ~52m liters (-4% YoY; +11% QoQ), with realization at ~INR180/lit (-4% YoY/QoQ). This was attributable to corrective price action in commercial vehicles segment – in line with the competition.
- The board recommended final dividend of INR3/share (resulting in full-year dividend of INR5.5/share, similar to CY19 levels); this translated to a dividend payout of ~93% (dividend yield at 4.2%) in CY20.
- CSTR reiterated that it would continue to focus on the Personal Mobility segment on the back of a) a better product mix, b) cost optimization initiatives, and c) necessary pricing actions to maintain lucrative margins.
- The company has announced a price hike (~4% on average) in Jan'21 due to cost pressures on account of an increase in base oil prices.
- We value the stock at 20x CY22E EPS to arrive at Target Price of INR170.

Financials & Valuations (INR b)

Y/E December	2020	2021E	2021E
Sales	30.0	37.0	39.7
EBITDA	8.1	11.5	11.6
Adj. PAT	5.8	8.4	8.4
Adj. EPS (INR)	5.9	8.5	8.5
EPS Gr. (%)	-29.6	44.4	-0.3
BV/Sh.(INR)	14.3	16.0	17.7

Ratios

Net D:E	-0.9	-0.9	-0.9
RoE (%)	41.9	56.2	50.3
RoCE (%)	42.1	56.3	50.4
Payout (%)	93.3	80.0	80.0

Valuations

P/E (x)	22.1	15.3	15.3
P/BV (x)	9.1	8.1	7.3
EV/EBITDA (x)	14.2	9.9	9.8
Div. Yield (%)	4.2	5.2	5.2
FCF Yield (%)	6.6	6.1	6.1

Miss due to lower-than-est. volumes and realization

- Net sales stood at INR9.4b (est.-9%; -8% YoY), driven by lower volumes and realization. The EBITDA miss of 21% to INR2.6b (-25% YoY) was attributable to higher advertisement expenses during the quarter.
- Advertisement expenses increased to INR650m in 4QCY20 (v/s INR110m in 4QCY19) on account of a strong promotion drive held during the quarter. However, the company has guided ad spend to be in line with past averages going forward.
- In the quarter, PAT stood at INR1.9b (-31% YoY) and tax rate at 24.9%.
- For CY20, EBITDA/PAT was down 29–30% YoY to INR8.1b/INR5.8b.

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.0	51.0	51.0
DII	17.3	18.3	17.6
FII	12.0	11.5	12.2
Others	19.7	19.2	19.2

FII Includes depository receipts

Strategic developments

- CSTR launched Castrol POWER1 ULTIMATE – a premium range of two-wheeler lubricants in 4QCY20. The company also launched two new variants in the Thinner Oils segment – Castrol GTX SUV (for Cars) and Castrol Activ CRUISE (for 2W) – in CY20.
- CSTR launched EV fluids globally (China and Europe), and in CY20, signed agreements with MG Motors and Tata Motors for the supply of EV fluids.
- CSTR products are now available in more than 1,350 Jio-BP retail outlets. Furthermore, expansion in the number of Jio-BP retail outlets (expected to 5,000+ sites) over the next couple of years would also prove beneficial for CSTR, aiding the company in strengthening its network.

Valuation and view

- The company's Cash Flow from Operations stood at ~INR8.9b for CY20. Furthermore, working capital improved due to the better management of debtors.
- Capex guidance for CY21 stands at INR800–1000m. Although, ~INR420m capex was incurred in CY20 due to COVID-led disruption in 1HCY20.
- Competition remains intense, and the industry is likely to grow in the lower single digits; CSTR has always enjoyed its brand equity heritage and we believe it would continue to do so.
- The stock trades at 15.3x CY22 EPS of INR8.5 and EV/EBITDA of 9.8x. On a one-year forward PE basis, the stock trades at a ~40% discount to its LT PE average of 27.1x. **Maintain Buy.**

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Quarterly Performance

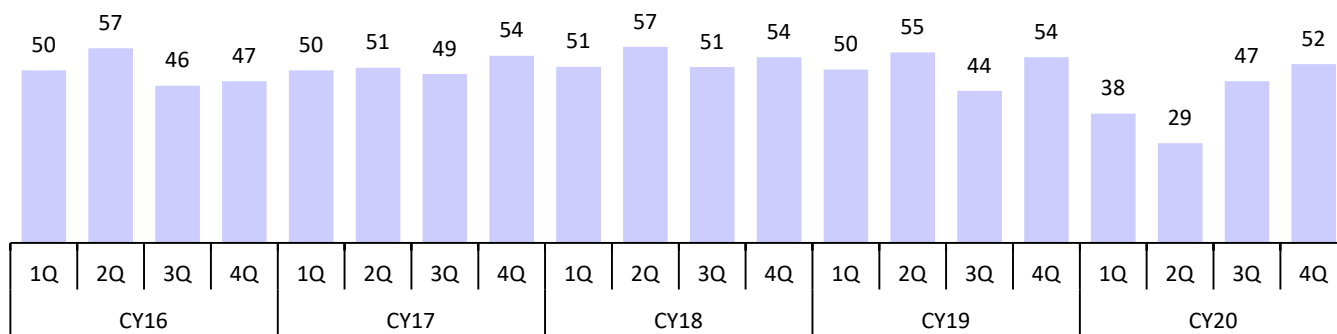
(INR Million)

Y/E December	CY19				CY20				CY19	CY20E	CY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Volume (m litres)	50.4	55.4	44.2	54.0	37.6	29.0	47.0	52.0	204	166	55.7	-7%
Realization	194	188	192	187	183	169	188	180	190	181	190	-5%
Net Sales	9,762	10,396	8,492	10,118	6,880	4,906	8,831	9,352	38,768	29,969	10,273	-9%
YoY Change (%)	5.3	2.2	-8.4	-2.1	-29.5	-52.8	4.0	-7.6	-0.7	-22.7	1.5	
EBITDA	2,830	2,843	2,445	3,412	1,730	953	2,882	2,576	11,530	8,141	3,280	-21%
YoY Change (%)	3.2	13.0	7.5	7.5	-38.9	-66.5	17.9	-24.5	7.7	-29.4	-3.9	
Margins (%)	29.0	27.3	28.8	33.7	25.1	19.4	32.6	27.5	29.7	27.2	31.9	
Depreciation	162	166	186	183	222	206	215	223	697	866	224	0%
Interest	3	3	3	3	11	14	9	8	12	42	6	33%
Other Income	211	159	116	162	198	152	117	153	648	620	148	3%
PBT	2,876	2,833	2,372	3,388	1,695	885	2,775	2,498	11,469	7,853	3,198	-22%
Rate (%)	35.7	35.5	20.6	19.9	26.1	26.1	26.3	24.9	27.9	25.8	25.1	
PAT	1,850	1,827	1,884	2,713	1,252	654	2,046	1,877	8,274	5,829	2,394	-22%
YoY Change (%)	1.8	11.3	25.3	28.0	-32.3	-64.2	8.6	-30.8	16.8	-29.6	-11.7	

Other concall highlights

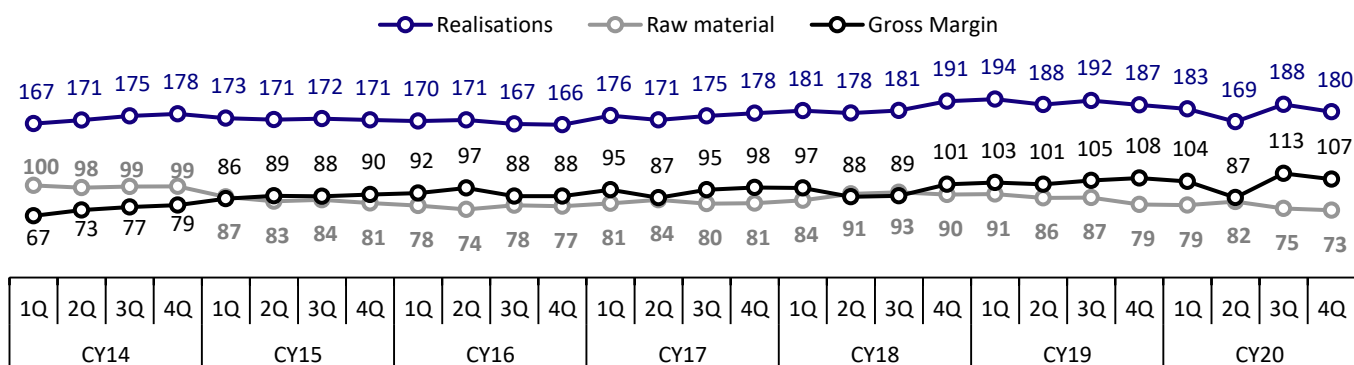
- Personal Mobility remains strong, constituting ~40% of the total sales mix (with Industrial and Commercial accounting for the rest).
- India is a growth economy, and revival in PCMO car sales would further lead to new/net sales volumes for the company. CSTRL has guided that it would continue to focus and invest in Personal Mobility (investments have risen at a 7% CAGR in the last decade).
- CSTRL has already launched EV products. The company expects it would be another 15–20 years before a scalable EV fleet is seen on Indian roads.

Exhibit 1: Castrol’s volumes (m liters) stood at 52m lit. (-3.7% YoY and +10.2% QoQ)



Source: Company, MOFSL

Exhibit 2: Realization declined to INR180/liter



Source: Company, MOFSL

Story in charts

Exhibit 3: Castrol's revenue is expected to normalize in CY23...

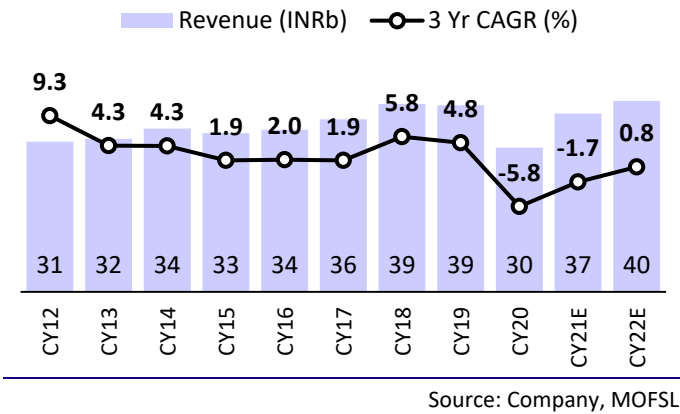


Exhibit 4: ...led by the COVID-19 impact on growth in CY20

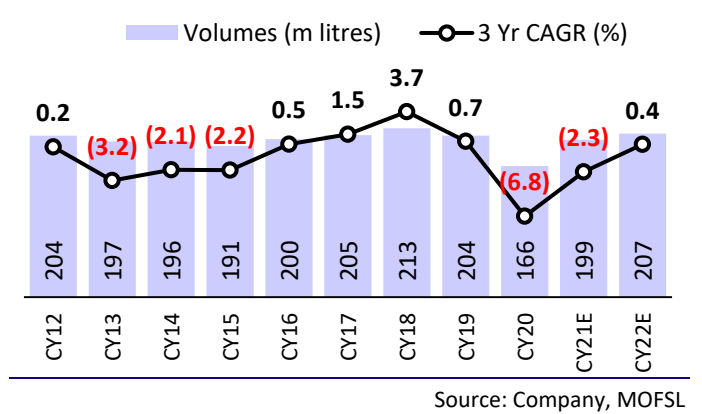


Exhibit 5: Realizations are likely to remain stable in CY22

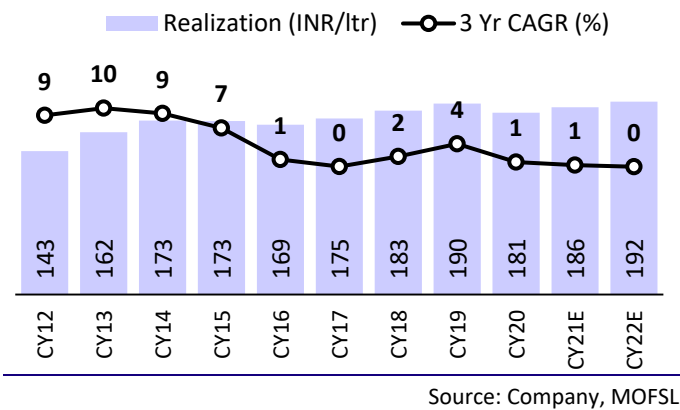


Exhibit 6: ...with flat EBITDA in CY22 (over CY19)

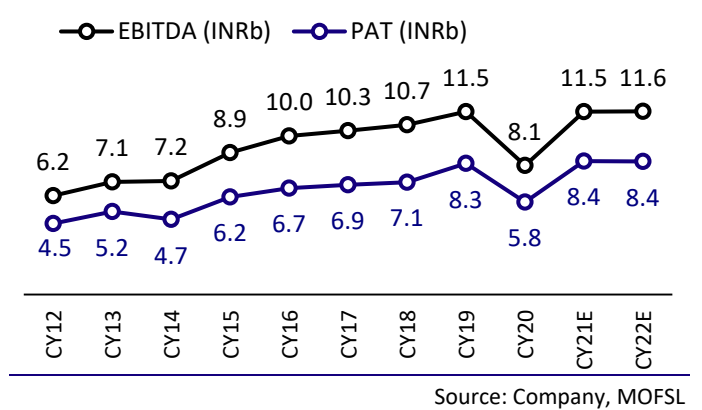


Exhibit 7: Return ratios are expected to remain strong

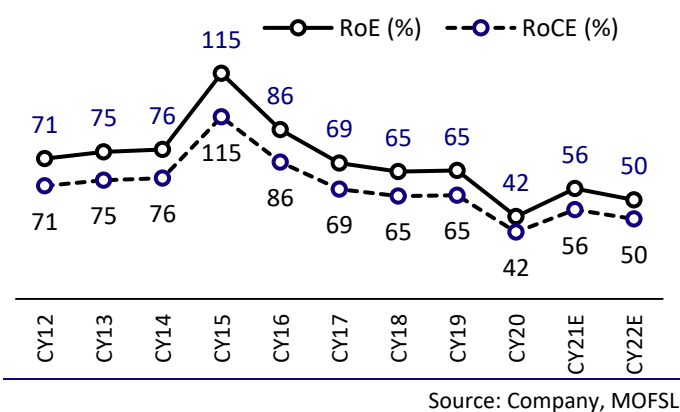
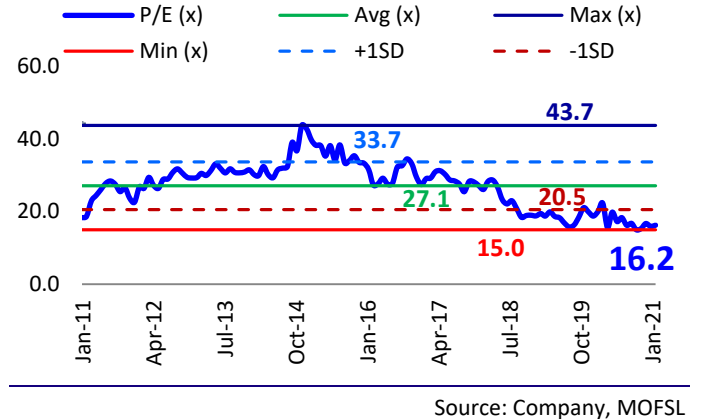


Exhibit 8: Castrol trades at 16.2x on a 1-year fwd. PE basis



Financials and Valuations

Standalone - Income Statement

(INR M)

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Net sales	32,980	33,703	35,843	39,046	38,768	29,969	37,042	39,679
Change (%)	-2.8	2.2	6.3	8.9	-0.7	-22.7	23.6	7.1
Gross Margin	16,972	18,387	19,183	19,980	21,291	17,306	21,055	21,662
Margin (%)	51.5	54.6	53.5	51.2	54.9	57.7	56.8	54.6
EBITDA	8,948	9,993	10,330	10,708	11,530	8,141	11,534	11,552
Margin (%)	27.1	29.7	28.8	27.4	29.7	27.2	31.1	29.1
Depreciation	390	450	455	556	697	866	973	1,104
EBIT	8,559	9,544	9,875	10,152	10,833	7,275	10,561	10,448
Interest Charges	8	15	12	11	12	42	21	11
Other Income	959	874	837	843	648	620	712	778
PBT bef. EO Exp.	9,509	10,403	10,700	10,984	11,469	7,853	11,252	11,216
Income tax	3,357	3,699	3,782	3,901	3,195	2,024	2,836	2,826
Tax Rate (%)	35.3	35.6	35.3	35.5	27.9	25.8	25.2	25.2
Reported PAT	6,152	6,704	6,918	7,083	8,274	5,829	8,417	8,389
Change (%)	29.6	9.0	3.2	2.4	16.8	-29.6	44.4	-0.3
Margin (%)	18.7	19.9	19.3	18.1	21.3	19.5	22.7	21.1

Standalone - Balance Sheet

(INR M)

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Equity Share Capital	2,473	2,473	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	3,283	7,343	5,256	6,711	8,724	9,197	10,880	12,558
Net Worth	5,756	9,816	10,202	11,657	13,670	14,143	15,826	17,504
Capital Employed	5,756	9,816	10,202	11,657	13,670	14,143	15,826	17,504
Gross Block	3,915	4,004	4,404	5,440	6,267	6,885	7,885	8,885
Less: Accum. Deprn.	2,427	2,585	3,040	3,596	4,293	5,159	6,131	7,236
Net Fixed Assets	1,488	1,419	1,364	1,844	1,974	1,726	1,753	1,649
Capital WIP	364	423	599	366	296	453	1,000	1,000
Curr. Assets, Loans&Adv.	14,265	16,369	17,255	18,325	19,433	21,134	24,057	26,828
Inventory	3,046	3,439	3,196	4,568	3,047	3,669	4,288	4,728
Account Receivables	2,365	2,552	2,850	3,918	4,820	1,805	2,231	2,390
Cash and Bank Balance	6,965	8,219	7,842	7,438	9,461	12,742	13,932	15,847
Cash	485	1,116	2,155	2,637	672	1,947	4,373	6,545
Bank Balance	6,480	7,103	5,688	4,802	8,788	8,788	8,788	8,788
Loans and Advances	1,889	2,159	3,367	2,401	2,105	2,918	3,607	3,863
Curr. Liability & Prov.	10,860	9,067	9,568	9,411	8,618	9,792	11,607	12,595
Account Payables	5,645	4,966	6,066	5,840	4,718	5,456	6,376	7,030
Other Current Liabilities	1,457	3,478	2,967	3,111	3,403	3,793	4,688	5,022
Provisions	3,758	623	535	460	497	543	543	543
Net Current Assets	3,404	7,302	7,687	8,914	10,815	11,342	12,450	14,233
Deferred Tax assets	499	672	551	533	585	622	622	622
Appl. of Funds	5,756	9,816	10,201	11,657	13,670	14,143	15,826	17,504

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Basic (INR)								
EPS	6.2	6.8	7.0	7.2	8.4	5.9	8.5	8.5
Cash EPS	6.6	7.2	7.5	7.7	9.1	6.8	9.5	9.6
BV/Share	5.8	9.9	10.3	11.8	13.8	14.3	16.0	17.7
DPS	4.5	5.5	4.7	5.0	5.5	5.5	6.8	6.8
Payout (%)	87.1	97.7	81.7	84.0	79.1	93.3	80.0	80.0
Valuation (x)								
P/E	20.9	19.2	18.6	18.2	15.5	22.1	15.3	15.3
Cash P/E	19.7	18.0	17.4	16.8	14.3	19.2	13.7	13.5
P/BV	22.3	13.1	12.6	11.0	9.4	9.1	8.1	7.3
EV/Sales	3.7	3.6	3.4	3.1	3.1	3.9	3.1	2.8
EV/EBITDA	13.6	12.0	11.7	11.3	10.3	14.2	9.9	9.8
Dividend Yield (%)	3.5	4.2	3.7	3.8	4.2	4.2	5.2	5.2
FCF per share	7.1	6.5	5.8	4.8	7.9	8.6	7.9	7.9
Return Ratios (%)								
RoE	114.7	86.1	69.1	64.8	65.3	41.9	56.2	50.3
RoCE	114.8	86.2	69.2	64.9	65.4	42.1	56.3	50.4
Working Capital Ratios								
Asset Turnover (x)	5.7	3.4	3.5	3.3	2.8	2.1	2.3	2.3
Inventory (Days)	34	37	33	43	29	45	42	43
Debtor (Days)	23	24	25	32	39	19	19	19
Creditor (Days)	62	54	62	55	44	66	63	65
Leverage Ratio (x)								
Net Debt/Equity	-1.2	-0.8	-0.8	-0.6	-0.7	-0.9	-0.9	-0.9

Standalone - Cash Flow Statement

(INR M)

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
OP/(Loss) before Tax	9,510	10,403	10,701	10,984	11,469	7,853	11,252	11,216
Depreciation	390	450	455	556	694	866	973	1,104
Interest & Finance Charges	8	15	12	11	12	42	21	11
Direct Taxes Paid	-3,277	-3,795	-3,892	-3,997	-3,087	-2,396	-2,836	-2,826
(Inc)/Dec in WC	1,124	252	-654	-1,487	126	3,040	82	133
CF from Operations	7,400	6,642	6,083	5,495	8,795	8,928	8,780	8,859
(Inc)/Dec in FA	-370	-227	-355	-780	-993	-417	-1,000	-1,000
Free Cash Flow	7,030	6,414	5,728	4,715	7,802	8,511	7,780	7,859
CF from Investments	23	-330	1,514	661	-4,483	-2,010	400	35
Interest Paid	-10	-17	-10	-10	-11	-12	-21	-11
Dividend Paid	-4,762	-5,655	-6,548	-5,664	-6,266	-5,631	-6,733	-6,712
CF from Fin. Activity	-4,772	-5,680	-6,558	-5,674	-6,277	-5,643	-6,754	-6,722
Inc/Dec of Cash	2,650	631	1,039	482	-1,965	1,275	2,426	2,171
Opening Balance	4,315	485	1,116	2,155	2,637	672	1,947	4,373
Closing Balance	6,965	1,116	2,154	2,637	672	1,947	4,373	6,545

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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