

# Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR128**
**TP: INR170 (+33%)**
**Buy**
**Pent up demand drives earnings in 1QCY21; COVID-19 likely to impact in 2Q**

Bloomberg	CSTR IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	126.5 / 1.7
52-Week Range (INR)	140 / 104
1, 6, 12 Rel. Per (%)	4/-3/-49
12M Avg Val (INR M)	190

**Financials & Valuations (INR b)**

Y/E December	2020	2021E	2021E
Sales	30.0	38.1	39.6
EBITDA	8.1	11.6	11.7
Adj. PAT	5.8	8.4	8.4
Adj. EPS (INR)	5.9	8.5	8.5
EPS Gr. (%)	-29.6	44.8	-0.2
BV/Sh.(INR)	14.3	16.0	17.7

**Ratios**

Net D:E	-0.9	-0.9	-0.9
RoE (%)	41.9	56.3	50.5
RoCE (%)	42.1	56.4	50.6
Payout (%)	93.3	80.0	80.0

**Valuations**

P/E (x)	21.7	15.0	15.0
P/BV (x)	9.0	8.0	7.2
EV/EBITDA (x)	14.0	9.7	9.5
Div. Yield (%)	4.3	5.3	5.3
FCF Yield (%)	6.7	6.3	6.3

**Shareholding pattern (%)**

As On	Mar-21	Dec-20	Mar-20
Promoter	51.0	51.0	51.0
DII	16.7	17.3	18.3
FII	11.6	12.0	11.8
Others	20.7	19.7	18.8

FII Includes depository receipts

- CSTR delivered a beat across all fronts, led by higher than estimated volumes of ~61m liters (up 62% YoY and 17% QoQ) – aided by pent up demand in Jan-Feb'21. Commercial and 2W segment performed well during 1QCY21, while demand from agriculture sector remains robust (led by higher Tractor sales). However, the management has guided that such volume growth won't be sustainable going forward.
- Realization stood in line with our estimate at INR186.7/liter due to price action taken by the company in Jan'21. It has further increased product prices in Apr'21 – in line with an increase in base oil prices.
- **Impact from the second COVID-19 wave:** The management said additional restrictions/lockdowns are resulting in a market slowdown in various parts of India, thus posing a challenge to its 2QCY21 volume outlook.
- Factoring in the above, we assume a sequential decline in volumes for 2QCY21E, while building in a sequential increase in realization.
- Long-term volumes guidance stands ~4% YoY. The management reiterated that it would continue to focus on its Personal Mobility business. Our CY22E estimate was already aligned with its guidance, and thus remain unchanged.
- We value the stock at 20x CY22E EPS to arrive at a TP of INR170/share.

**Beat on volumes led by pent up demand, realization in line**

- Net sales stood at INR11.4b (30% higher than our estimate, up 66% YoY) in 1QCY21. EBITDA came in at INR3.4b (+96% YoY), with EBITDA margin at 29.9% (v/s our expectation of 23.5%). PAT rose 95% YoY to INR2.4b, with the tax rate at 26.7%.
- The company generated net cash of INR2.7b during 1QCY21, resulting in a cash generation of 112.5% of PAT on robust working capital management and cost management initiatives.
- **Strategic development:** CSTR entered into a strategic collaboration with ki Mobility Solutions to supply lubricant products to its workshops in India and will also be available on goBumpr, their digital platform.

**Valuation and view**

- Capex guidance for CY21 stands at INR800-1,000m.
- The management said competition remains intense and the industry is likely to grow in lower single-digits. CSTR has always enjoyed brand equity in the market. It will be able to secure its profitability with better product mix, cost control, and launch of advanced products with better realization.
- Its products are now available in ~1,400 Jio-BP retail outlets (up from 1,350 in 4QCY20). Further expansion of Jio-BP retail outlets (to over 5,500 sites) in the next couple of years would help strengthen its network.

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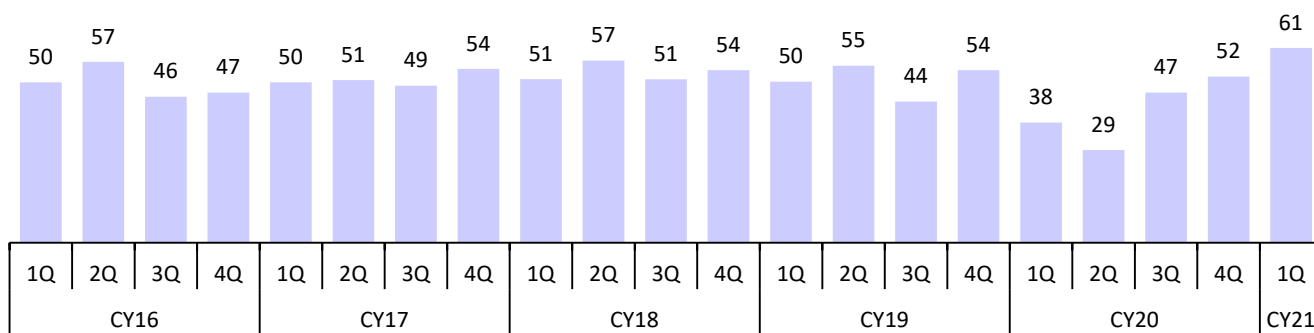
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- CSTRL has already launched EV fluids globally (China and Europe). In CY20, it signed agreements with MG Motors and Tata Motors for supply of EV fluids in India. The management expects it would be another 15-20 years before a scalable EV fleet is seen on Indian roads.
- The company is looking at various revenue streams in the future. The deal with 3M is a reflection of its diversification plans into new avenues.
- CSTRL is a perfect value play candidate, with return ratios over 50% and dividend payout policy of over 80% (translating to a dividend yield of ~5%).
- On a one-year forward P/E basis, the stock trades at a discount of ~47% to its long-term P/E average of 27.1x. **Maintain BUY.**

Quarterly performance

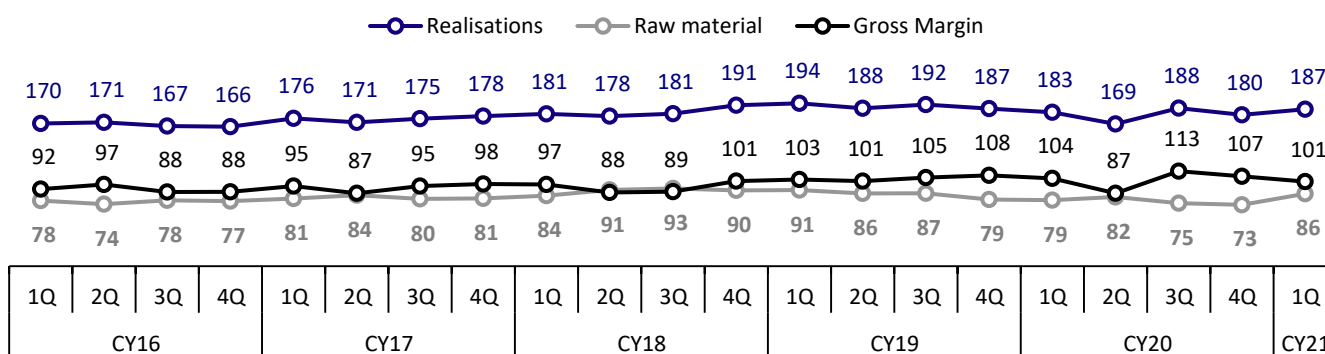
Y/E December	CY20				CY21				CY20	CY21	1Q Variance CY21E	(INR m)	Variance (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
Volume (m liters)	37.6	29.0	47.0	52.0	61.0	46.4	47.0	44.3	166	199	47.0	11	
Realization	183	169	188	180	187	193	193	195	181	192	186	-4	
Net Sales	6,880	4,906	8,831	9,352	11,387	8,955	9,071	8,707	29,969	38,121	8,761	30	
YoY Change (%)	-29.5	-52.8	4.0	-7.6	65.5	82.5	2.7	-6.9	-22.7	27.2	27.3		
EBITDA	1,730	953	2,882	2,576	3,401	2,700	3,096	2,441	8,141	11,638	2,061	65	
YoY Change (%)	-38.9	-66.5	17.9	-24.5	96.6	183.3	7.4	-5.2	-29.4	43.0	19.2		
Margin (%)	25.1	19.4	32.6	27.5	29.9	30.1	34.1	28.0	27.2	30.5	23.5		
Depreciation	222	206	215	223	215	231	241	285	866	973	249	-14	
Interest	11	14	9	8	6	7	5	4	42	21	6	9	
Other Income	198	152	117	153	143	156	120	218	620	637	190	-25	
PBT	1,695	885	2,775	2,498	3,323	2,618	2,970	2,371	7,853	11,281	1,997	66	
Rate (%)	26.1	26.1	26.3	24.9	26.7	25.2	25.2	23.1	25.8	25.2	25.2		
PAT	1,252	654	2,046	1,877	2,436	1,958	2,222	1,823	5,829	8,439	1,494	63	
YoY Change (%)	-32.3	-64.2	8.6	-30.8	94.6	199.4	8.6	-2.9	-29.6	44.8	19.3		

Exhibit 1: Volumes stood at 61m liters (up 62.2% YoY and 17.3% QoQ)



Source: Company, MOFSL

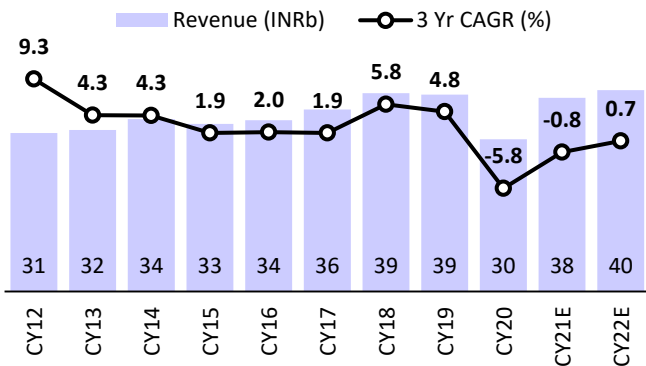
Exhibit 2: Realization declines to INR187/liter



Source: Company, MOFSL

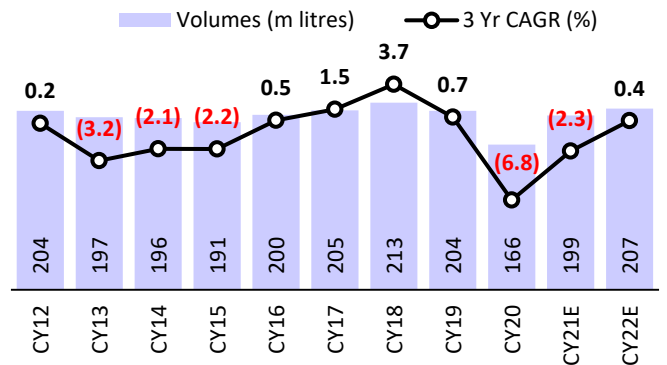
Story in charts

Exhibit 3: Expect revenue to normalize in CY22E...



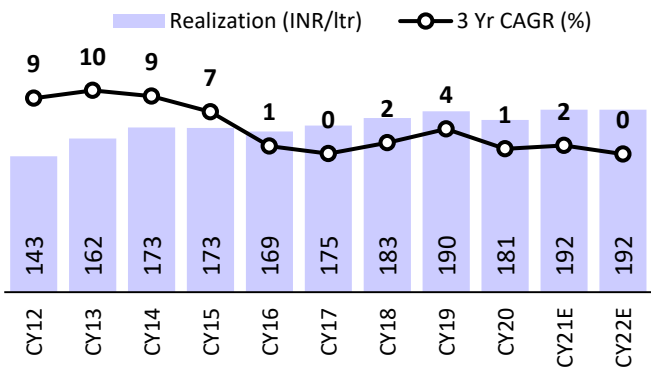
Source: Company, MOFSL

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



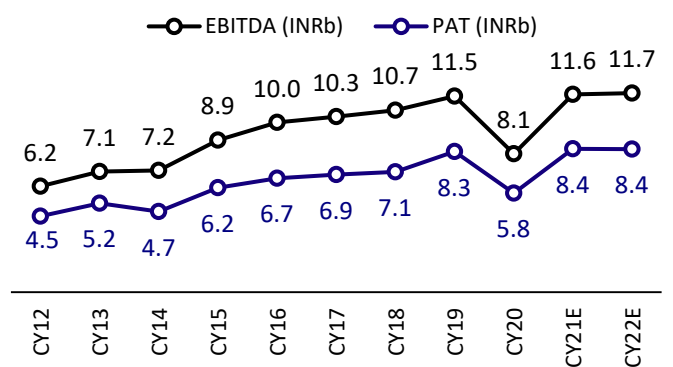
Source: Company, MOFSL

Exhibit 5: Realization is likely to remain stable...



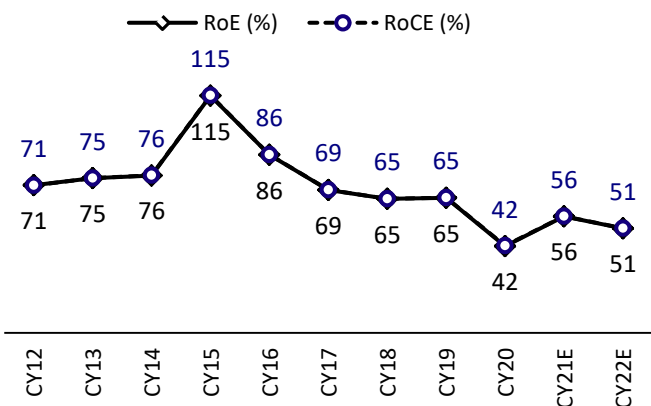
Source: Company, MOFSL

Exhibit 6: ...with flat EBITDA in CY22E



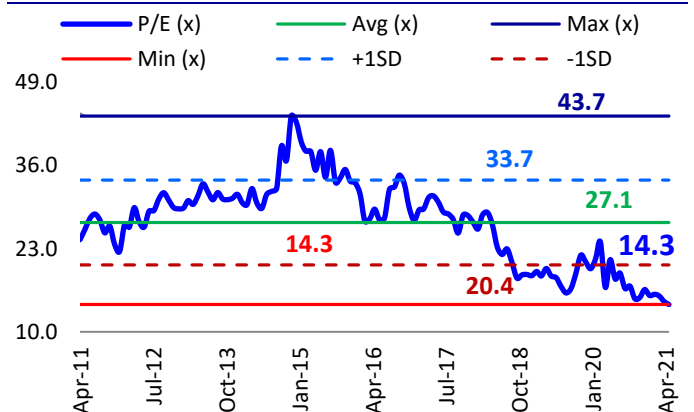
Source: Company, MOFSL

Exhibit 7: Expect return ratios to remain strong



Source: Company, MOFSL

Exhibit 8: CSTRL's trades at 14.3x on a one-year forward P/E basis



Source: Company, MOFSL

## Financials and valuations

Standalone Income Statement							(INR m)	
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	
<b>Net sales</b>	<b>33,703</b>	<b>35,843</b>	<b>39,046</b>	<b>38,768</b>	<b>29,969</b>	<b>38,121</b>	<b>39,645</b>	
Change (%)	2.2	6.3	8.9	-0.7	-22.7	27.2	4.0	
<b>Gross Margin</b>	<b>18,387</b>	<b>19,183</b>	<b>19,980</b>	<b>21,291</b>	<b>17,306</b>	<b>21,385</b>	<b>21,834</b>	
Margin (%)	54.6	53.5	51.2	54.9	57.7	56.1	55.1	
<b>EBITDA</b>	<b>9,993</b>	<b>10,330</b>	<b>10,708</b>	<b>11,530</b>	<b>8,141</b>	<b>11,638</b>	<b>11,717</b>	
Margin (%)	29.7	28.8	27.4	29.7	27.2	30.5	29.6	
Depreciation	450	455	556	697	866	973	1,104	
<b>EBIT</b>	<b>9,544</b>	<b>9,875</b>	<b>10,152</b>	<b>10,833</b>	<b>7,275</b>	<b>10,665</b>	<b>10,612</b>	
Interest Charges	15	12	11	12	42	21	11	
Other Income	874	837	843	648	620	637	657	
<b>PBT bef. EO Exp.</b>	<b>10,403</b>	<b>10,700</b>	<b>10,984</b>	<b>11,469</b>	<b>7,853</b>	<b>11,281</b>	<b>11,259</b>	
Income tax	3,699	3,782	3,901	3,195	2,024	2,843	2,837	
Tax Rate (%)	35.6	35.3	35.5	27.9	25.8	25.2	25.2	
<b>Reported PAT</b>	<b>6,704</b>	<b>6,918</b>	<b>7,083</b>	<b>8,274</b>	<b>5,829</b>	<b>8,439</b>	<b>8,422</b>	
Change (%)	9.0	3.2	2.4	16.8	-29.6	44.8	-0.2	
Margin (%)	19.9	19.3	18.1	21.3	19.5	22.1	21.2	

Standalone Balance Sheet							(INR m)	
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	
Equity Share Capital	2,473	4,946	4,946	4,946	4,946	4,946	4,946	
Total Reserves	7,343	5,256	6,711	8,724	9,197	10,885	12,569	
<b>Net Worth</b>	<b>9,816</b>	<b>10,202</b>	<b>11,657</b>	<b>13,670</b>	<b>14,143</b>	<b>15,830</b>	<b>17,515</b>	
<b>Capital Employed</b>	<b>9,816</b>	<b>10,202</b>	<b>11,657</b>	<b>13,670</b>	<b>14,143</b>	<b>15,830</b>	<b>17,515</b>	
Gross Block	4,004	4,404	5,440	6,267	6,885	7,885	8,885	
Less: Accum. Deprn.	2,585	3,040	3,596	4,293	5,159	6,131	7,236	
<b>Net Fixed Assets</b>	<b>1,419</b>	<b>1,364</b>	<b>1,844</b>	<b>1,974</b>	<b>1,726</b>	<b>1,753</b>	<b>1,649</b>	
Capital WIP	423	599	366	296	453	1,000	1,000	
<b>Curr. Assets, Loans and Adv.</b>	<b>16,369</b>	<b>17,255</b>	<b>18,325</b>	<b>19,433</b>	<b>21,134</b>	<b>24,442</b>	<b>26,785</b>	
Inventory	3,439	3,196	4,568	3,047	3,669	4,451	4,694	
Account Receivables	2,552	2,850	3,918	4,820	1,805	2,296	2,388	
Cash and Bank Balance	8,219	7,842	7,438	9,461	12,742	13,983	15,843	
Cash	1,116	2,155	2,637	672	1,947	4,529	6,537	
Bank Balance	7,103	5,688	4,802	8,788	8,788	8,788	8,788	
Loans and Advances	2,159	3,367	2,401	2,105	2,918	3,712	3,860	
<b>Curr. Liability and Prov.</b>	<b>9,067</b>	<b>9,568</b>	<b>9,411</b>	<b>8,618</b>	<b>9,792</b>	<b>11,987</b>	<b>12,542</b>	
Account Payables	4,966	6,066	5,840	4,718	5,456	6,619	6,981	
Other Current Liabilities	3,478	2,967	3,111	3,403	3,793	4,825	5,018	
Provisions	623	535	460	497	543	543	543	
<b>Net Current Assets</b>	<b>7,302</b>	<b>7,687</b>	<b>8,914</b>	<b>10,815</b>	<b>11,342</b>	<b>12,455</b>	<b>14,243</b>	
Deferred Tax assets	672	551	533	585	622	622	622	
<b>Appl. of Funds</b>	<b>9,816</b>	<b>10,201</b>	<b>11,657</b>	<b>13,670</b>	<b>14,143</b>	<b>15,830</b>	<b>17,515</b>	

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
<b>Basic (INR)</b>							
EPS	6.8	7.0	7.2	8.4	5.9	8.5	8.5
Cash EPS	7.2	7.5	7.7	9.1	6.8	9.5	9.6
BV/Share	9.9	10.3	11.8	13.8	14.3	16.0	17.7
DPS	5.5	4.7	5.0	5.5	5.5	6.8	6.8
Payout (%)	97.7	81.7	84.0	79.1	93.3	80.0	80.0
<b>Valuation (x)</b>							
P/E	18.9	18.3	17.9	15.3	21.7	15.0	15.0
Cash P/E	17.7	17.2	16.6	14.1	18.9	13.5	13.3
P/BV	12.9	12.4	10.9	9.3	9.0	8.0	7.2
EV/Sales	3.5	3.3	3.1	3.0	3.8	3.0	2.8
EV/EBITDA	11.8	11.5	11.1	10.2	14.0	9.7	9.5
Dividend Yield (%)	4.3	3.7	3.9	4.3	4.3	5.3	5.3
FCF per share	6.5	5.8	4.8	7.9	8.6	8.0	8.0
<b>Return Ratios (%)</b>							
RoE	86.1	69.1	64.8	65.3	41.9	56.3	50.5
RoCE	86.2	69.2	64.9	65.4	42.1	56.4	50.6
<b>Working Capital Ratios</b>							
Asset Turnover (x)	3.4	3.5	3.3	2.8	2.1	2.4	2.3
Inventory (Days)	37	33	43	29	45	43	43
Debtor (Days)	24	25	32	39	19	19	19
Creditor (Days)	54	62	55	44	66	63	64
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	-0.8	-0.8	-0.6	-0.7	-0.9	-0.9	-0.9

### Standalone Cash Flow Statement

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
OP/(Loss) before Tax	10,403	10,701	10,984	11,469	7,853	11,281	11,259
Depreciation	450	455	556	694	866	973	1,104
Interest and Finance Charges	15	12	11	12	42	21	11
Direct Taxes Paid	-3,795	-3,892	-3,997	-3,087	-2,396	-2,843	-2,837
(Inc.)/Dec. in WC	252	-654	-1,487	126	3,040	128	71
<b>CF from Operations</b>	<b>6,642</b>	<b>6,083</b>	<b>5,495</b>	<b>8,795</b>	<b>8,928</b>	<b>8,923</b>	<b>8,950</b>
(Inc.)/Dec. in FA	-227	-355	-780	-993	-417	-1,000	-1,000
<b>Free Cash Flow</b>	<b>6,414</b>	<b>5,728</b>	<b>4,715</b>	<b>7,802</b>	<b>8,511</b>	<b>7,923</b>	<b>7,950</b>
<b>CF from Investments</b>	<b>-330</b>	<b>1,514</b>	<b>661</b>	<b>-4,483</b>	<b>-2,010</b>	<b>431</b>	<b>-194</b>
Interest Paid	-17	-10	-10	-11	-12	-21	-11
Dividend Paid	-5,655	-6,548	-5,664	-6,266	-5,631	-6,751	-6,737
<b>CF from Fin. Activity</b>	<b>-5,680</b>	<b>-6,558</b>	<b>-5,674</b>	<b>-6,277</b>	<b>-5,643</b>	<b>-6,772</b>	<b>-6,748</b>
<b>Inc./Dec. in Cash</b>	<b>631</b>	<b>1,039</b>	<b>482</b>	<b>-1,965</b>	<b>1,275</b>	<b>2,582</b>	<b>2,008</b>
Opening Balance	485	1,116	2,155	2,637	672	1,947	4,529
<b>Closing Balance</b>	<b>1,116</b>	<b>2,154</b>	<b>2,637</b>	<b>672</b>	<b>1,947</b>	<b>4,529</b>	<b>6,537</b>

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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