

Castrol (India)

Estimate change	↑
TP change	↔
Rating change	↔

CMP: INR107 **TP: INR146 (+37%)** **Buy**

Volume recovery strong, expect margin to rebound

Bloomberg	CSTR IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	105.7 / 1.4
52-Week Range (INR)	155 / 99
1, 6, 12 Rel. Per (%)	11/-17/-30
12M Avg Val (INR M)	166

Financials & Valuations (INR b)

Y/E Dec	CY21	CY22E	CY23E
Sales	41.9	51.6	50.4
EBITDA	10.7	12.4	13.2
PAT	7.6	9.0	9.6
EPS (INR)	7.7	9.1	9.7
EPS Gr. (%)	30.1	18.7	6.9
BV/Sh.(INR)	16.6	19.2	22.0

Ratios

Net D:E	-0.8	-0.8	-0.8
RoE (%)	49.6	50.8	47.2
RoCE (%)	49.7	50.9	47.3
Payout (%)	71.8	71.8	71.8

Valuations

P/E (x)	14.0	11.8	11.1
P/BV (x)	6.5	5.6	4.9
EV/EBITDA (x)	8.8	7.4	6.8
Div. Yield (%)	5.1	6.1	6.5
FCF Yield (%)	5.2	8.2	9.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	51.0	51.0	51.0
DII	16.0	16.4	16.7
FII	11.1	12.2	11.6
Others	21.9	20.5	20.7

FII Includes depository receipts

- Castrol (CSTRL)'s revenue missed our estimate while its EBITDA and PAT were above estimates. Realizations were flattish QoQ but grew 12% YoY in 1QCY22.
- Volumes were higher than the pre-pandemic levels, at 59m liters, with the Personal Mobility segment contributing 40-45% to overall volume sales and CVs contributing 40% while Industrial volumes formed the remaining in 1QCY22. CSTRL took price hikes of ~INR12-20/liter in its various segments and product categories. Its market share in the Bazaar segment was at ~20%.
- The management expects lubricant demand to sustain until at least 2035-2040 as there is a huge room for ownership penetration that would not be fulfilled entirely by EVs alone (at least in the 4W category). It is also working on a global range of EV fluids, 'Castrol On', with various OEM players.
- Though Base Oil price is likely to be high in the near term, we expect the price to decline in line with the correction in Brent price. Better volumes are expected to bring down CSTRL's operating costs with an improvement in margins to 24-26% for CY22-23E. Consequently, we raise our EBITDA and EPS estimates by 19% each for CY22 and 17% each for CY23.
- CSTRL has always enjoyed its brand legacy, and we believe it will be able to secure its profitability with better product mix, cost control measures and launch of advanced products with better realizations. **Reiterate BUY.**

Revenue below estimate, but beat on EBITDA and PAT

- Revenue was 10% lower than estimate at INR12.4b (+9% YoY, +13% QoQ).
- EBITDA stood at INR3.2b (-7% YoY, +19% QoQ) in 1QCY22. **EBITDA margin was at 25.7% (v/s 24.4% in 4QCY21 and 29.9% in 1QCY21).**
- PAT stood at INR2.3b in 1QCY22 (+13% est., -6% YoY, +21% QoQ).

Strategic developments during the quarter

- CSTRL expanded its Castrol Auto Service (CAS) network to 116 multi-brand passenger car workshops in 50+ cities across India.
- It expanded presence of Castrol Express Oil Change outlets in Jio-BP mobility stations across India, bringing the total count to 38. The outlets offer swift and reliable oil change services to two-wheeler consumers on the go.
- BYD India approved the use of Castrol fluid for its first all-electric MPV in India.

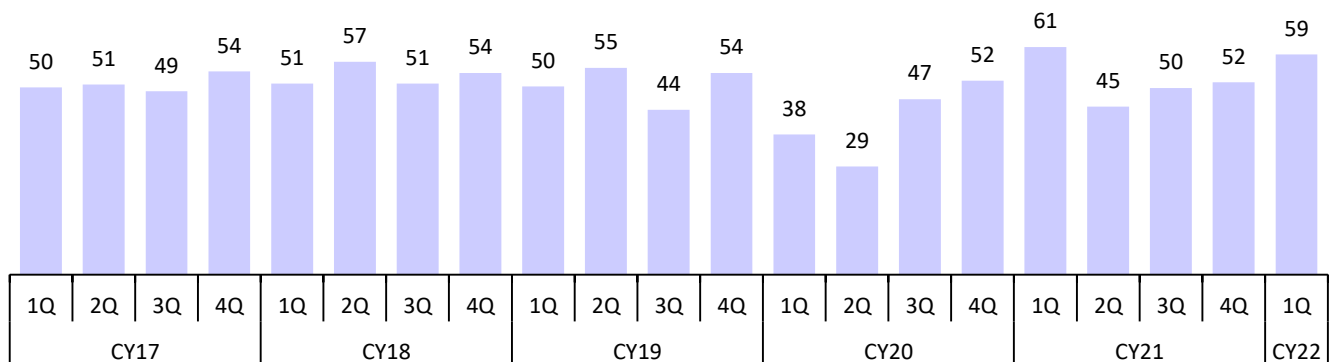
Valuation and view: A perfect value play; maintain BUY

- Capex guidance for CY22 was at ~INR1b and it would remain around similar levels in future as well. CSTRL is venturing into new areas such as CAS and the tie-ups with Jio-BP (which would require capex) will help the company gain market share. CSTRL is also looking to improve the yields through its cash on books of ~INR16b at present.
- CSTRL is the perfect candidate of a value play with a return ratio of 47-50% and dividend payout policy of >75% (translating into a dividend yield of ~5%).
- On a one-year forward P/E basis, the stock trades at a ~47% discount to its LT P/E average of 26.2x. We value the stock at 15x CY23E EPS to arrive at our TP of INR146. **Maintain BUY with 37% potential upside.**

Quarterly Performance

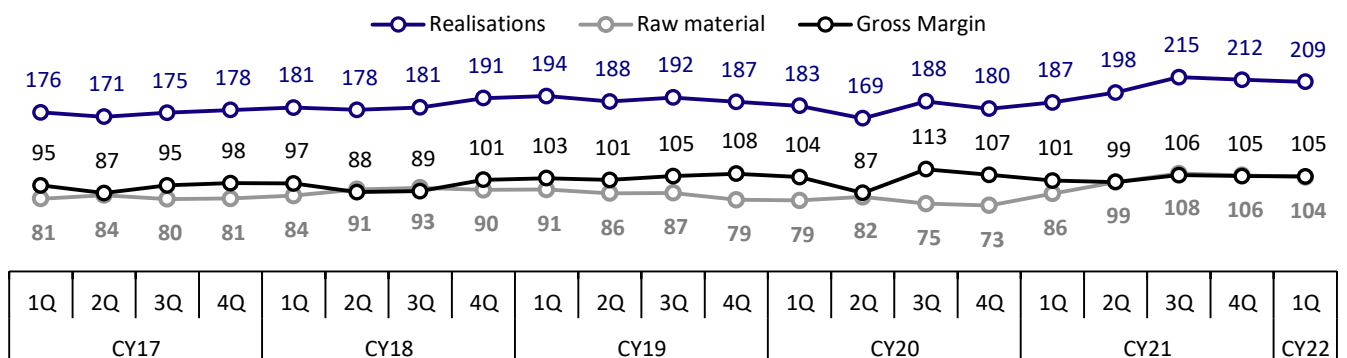
Y/E December	CY21				CY22				CY21	CY22E	CY22	(INR m) Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Volume (m litres)	61.0	45.0	50.0	51.5	59.0	49.5	52.5	50.7	208	212	56.1	5
Realization	187	198	215	212	209	244	244	279	202	244	244	-14
Net Sales	11,387	8,896	10,732	10,906	12,357	12,079	12,811	14,400	41,921	51,647	13,694	-10
YoY Change (%)	65.5	81.3	21.5	16.6	8.5	35.8	19.4	32.0	39.9	23.2	20.3	
EBITDA	3,401	1,975	2,625	2,659	3,172	2,850	3,060	3,273	10,660	12,356	2,765	15
YoY Change (%)	96.6	107.2	-8.9	3.2	-6.7	44.3	16.6	23.1	30.9	15.9	-18.7	
Margins (%)	29.9	22.2	24.5	24.4	25.7	23.6	23.9	22.7	25.4	23.9	20.2	
Depreciation	215	199	204	209	202	198	203	219	827	821	213	-5
Interest	6	7	6	5	7	4	3	10	24	24	3	104
Other Income	143	133	84	124	150	143	90	137	484	520	154	-2
PBT before EO expense	3,323	1,902	2,499	2,569	3,113	2,792	2,944	3,182	10,293	12,031	2,702	15
PBT	3,323	1,902	2,499	2,569	3,113	2,792	2,944	3,182	10,293	12,031	2,702	15
Tax	887	502	640	683	829	703	742	757	2,712	3,032	681	22
Rate (%)	26.7	26.4	25.6	26.6	26.6	25.2	25.2	23.8	26.3	25.2	25.2	
PAT	2,436	1,400	1,859	1,886	2,284	2,088	2,202	2,424	7,581	8,999	2,021	13
YoY Change (%)	94.6	114.1	-9.1	0.5	-6.2	49.1	18.5	28.5	30.1	18.7	-17.0	
Operational Details (INR/ltr)												
Volume (m litres)	61.0	45.0	50.0	51.5	59.0	49.5	52.5	50.7	207.5	211.7	56.1	5
Realization	186.7	197.7	214.6	211.8	209.4	244.0	244.0	278.6	202.0	244.0	244.0	-14
Gross margin	100.5	98.8	106.5	105.4	105.1	104.8	104.8	98.8	102.8	104.8	104.8	0
EBITDA	55.8	43.9	52.5	51.6	53.8	57.6	58.3	64.6	51.4	58.4	49.3	9
PAT	39.9	31.1	37.2	36.6	38.7	42.2	41.9	47.9	36.5	42.5	36.0	7

Exhibit 1: CSTRL's volume stood at 59m liters (-3% YoY and +15% QoQ)



Source: Company, MOFSL

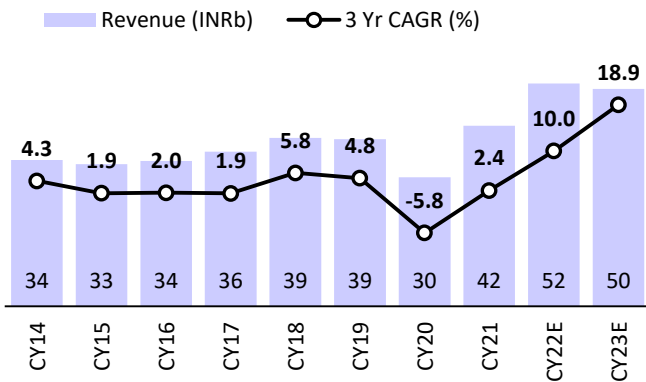
Exhibit 2: Realization was at INR209/liter (+12% YoY, -1% QoQ)



Source: Company, MOFSL

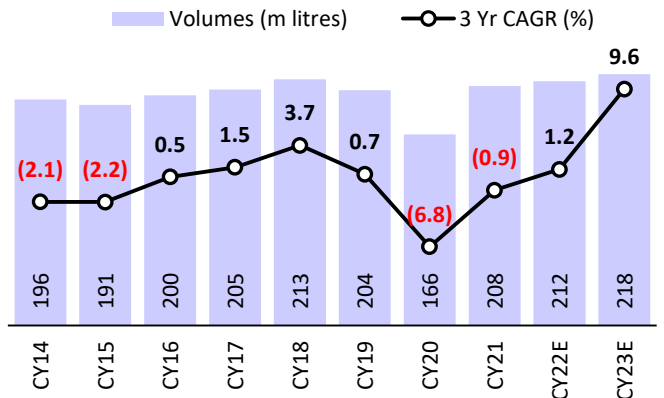
Story in charts

Exhibit 3: Revenue is expected to cross INR50b in CY22



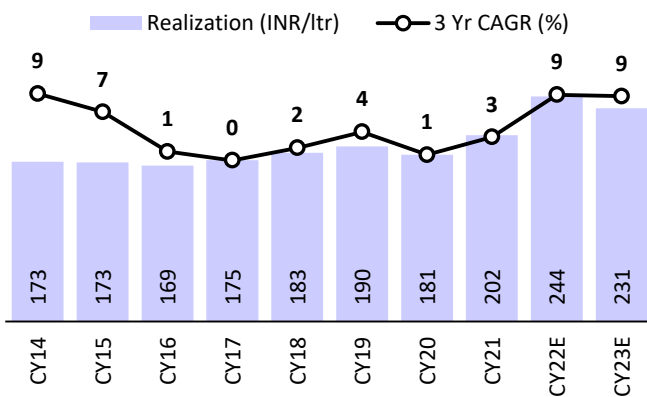
Source: Company, MOFSL

Exhibit 4: ...led by healthy volumes and pricing action taken



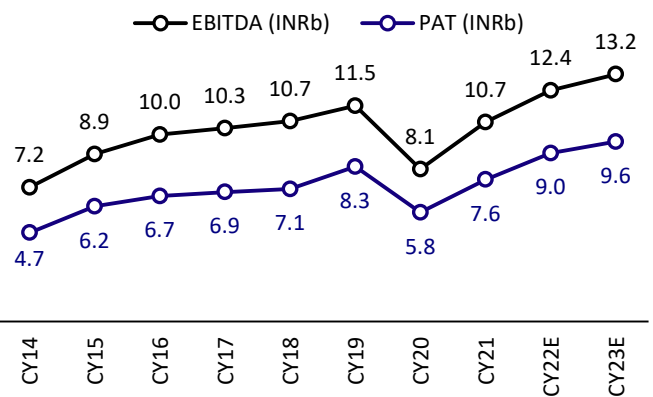
Source: Company, MOFSL

Exhibit 5: Realizations are likely to be at INR244/lit for CY22



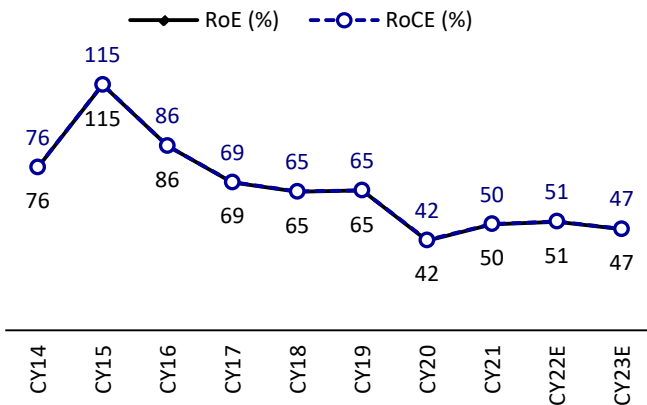
Source: Company, MOFSL

Exhibit 6: ...clocking an improvement in EBITDA



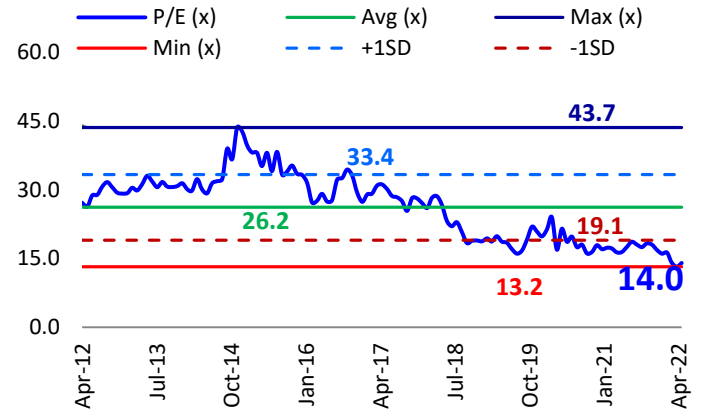
Source: Company, MOFSL

Exhibit 7: Return ratios are also expected to remain strong



Source: Company, MOFSL

Exhibit 8: Castrol trades at 15.4x on 1-year fwd. P/E basis



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Net sales	33,703	35,843	39,046	38,768	29,969	41,921	51,647	50,416
Change (%)	2.2	6.3	8.9	-0.7	-22.7	39.9	23.2	-2.4
Gross Margin	18,387	19,183	19,980	21,291	17,306	21,332	22,183	23,003
Margin (%)	54.6	53.5	51.2	54.9	57.7	50.9	43.0	45.6
EBITDA	9,993	10,330	10,708	11,530	8,141	10,660	12,356	13,215
Margin (%)	29.7	28.8	27.4	29.7	27.2	25.4	23.9	26.2
Depreciation	450	455	556	697	866	827	821	921
EBIT	9,544	9,875	10,152	10,833	7,275	9,833	11,534	12,294
Interest Charges	15	12	11	12	42	24	24	24
Other Income	874	837	843	648	620	484	520	586
PBT bef. EO Exp.	10,403	10,700	10,984	11,469	7,853	10,293	12,031	12,856
Income tax	3,699	3,782	3,901	3,195	2,024	2,712	3,032	3,240
Tax Rate (%)	35.6	35.3	35.5	27.9	25.8	26.3	25.2	25.2
Reported PAT	6,704	6,918	7,083	8,274	5,829	7,581	8,999	9,616
Change (%)	9.0	3.2	2.4	16.8	-29.6	30.1	18.7	6.9
Margin (%)	19.9	19.3	18.1	21.3	19.5	18.1	17.4	19.1

Standalone - Balance Sheet

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Equity Share Capital	2,473	4,946	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	7,343	5,256	6,711	8,724	9,197	11,510	14,051	16,767
Net Worth	9,816	10,202	11,657	13,670	14,143	16,456	18,997	21,712
Capital Employed	9,816	10,202	11,657	13,670	14,143	16,456	18,997	21,712
Gross Block	4,004	4,404	5,440	6,267	6,885	7,712	8,712	9,712
Less: Accum. Deprn.	2,585	3,040	3,596	4,293	5,159	5,997	6,818	7,739
Net Fixed Assets	1,419	1,364	1,844	1,974	1,726	1,715	1,894	1,973
Capital WIP	423	599	366	296	453	500	1,000	1,000
Curr. Assets, Loans&Adv.	16,369	17,255	18,325	19,433	21,134	24,111	28,463	30,572
Inventory	3,439	3,196	4,568	3,047	3,669	4,917	6,180	5,851
Account Receivables	2,552	2,850	3,918	4,820	1,805	3,117	3,840	3,749
Cash and Bank Balance	8,219	7,842	7,438	9,461	12,742	13,002	14,655	17,274
Cash	1,116	2,155	2,637	672	1,947	1,842	3,495	6,114
Bank Balance	7,103	5,688	4,802	8,788	10,795	11,160	11,160	11,160
Loans and Advances	2,159	3,367	2,401	2,105	2,918	3,075	3,788	3,698
Curr. Liability & Prov.	9,067	9,568	9,411	8,618	9,792	10,584	13,074	12,546
Account Payables	4,966	6,066	5,840	4,718	5,456	6,206	7,800	7,385
Other Current Liabilities	3,478	2,967	3,111	3,403	3,793	3,862	4,758	4,645
Provisions	623	535	460	497	543	516	516	516
Net Current Assets	7,302	7,687	8,914	10,815	11,342	13,527	15,389	18,026
Deferred Tax assets	672	551	533	585	622	714	714	714
Appl. of Funds	9,816	10,201	11,657	13,670	14,143	16,456	18,997	21,712

Financials and Valuations

Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Basic (INR)								
EPS	6.8	7.0	7.2	8.4	5.9	7.7	9.1	9.7
Cash EPS	7.2	7.5	7.7	9.1	6.8	8.5	9.9	10.7
BV/Share	9.9	10.3	11.8	13.8	14.3	16.6	19.2	22.0
DPS	5.5	4.7	5.0	5.5	5.5	5.5	6.5	7.0
Payout (%)	97.7	81.7	84.0	79.1	93.3	71.8	71.8	71.8
Valuation (x)								
P/E	15.9	15.4	15.0	12.9	18.3	14.0	11.8	11.1
Cash P/E	14.9	14.4	13.9	11.9	15.9	12.7	10.8	10.1
P/BV	10.8	10.4	9.1	7.8	7.5	6.5	5.6	4.9
EV/Sales	2.9	2.8	2.5	2.5	3.1	2.2	1.8	1.8
EV/EBITDA	9.8	9.5	9.2	8.4	11.5	8.8	7.4	6.8
Dividend Yield (%)	5.1	4.4	4.6	5.1	5.1	5.1	6.1	6.5
FCF per share	6.5	5.8	4.8	7.9	8.6	5.5	8.7	9.6
Return Ratios (%)								
RoE	86.1	69.1	64.8	65.3	41.9	49.6	50.8	47.2
RoCE	86.2	69.2	64.9	65.4	42.1	49.7	50.9	47.3
Working Capital Ratios								
Asset Turnover (x)	3.4	3.5	3.3	2.8	2.1	2.5	2.7	2.3
Inventory (Days)	37	33	43	29	45	43	44	42
Debtor (Days)	24	25	32	39	19	24	24	24
Creditor (Days)	54	62	55	44	66	54	55	53
Leverage Ratio (x)								
Net Debt/Equity	-0.8	-0.8	-0.6	-0.7	-0.9	-0.8	-0.8	-0.8

Standalone - Cash Flow Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
(INR m)								
OP/(Loss) before Tax	10,403	10,701	10,984	11,469	7,853	10,293	12,031	12,856
Depreciation	450	455	556	694	866	827	821	921
Interest & Finance Charges	15	12	11	12	42	24	24	24
Direct Taxes Paid	-3,795	-3,892	-3,997	-3,087	-2,396	-2,798	-3,032	-3,240
(Inc)/Dec in WC	252	-654	-1,487	126	3,040	-1,826	-209	-18
CF from Operations	6,642	6,083	5,495	8,795	8,928	6,303	9,635	10,544
(Inc)/Dec in FA	-227	-355	-780	-993	-417	-832	-1,000	-1,000
Free Cash Flow	6,414	5,728	4,715	7,802	8,511	5,471	8,635	9,544
CF from Investments	-330	1,514	661	-4,483	-2,010	-831	-1,500	-1,000
Interest Paid	-17	-10	-10	-11	-12	-12	-24	-24
Dividend Paid	-5,655	-6,548	-5,664	-6,266	-5,631	-5,425	-6,458	-6,901
CF from Fin. Activity	-5,680	-6,558	-5,674	-6,277	-5,643	-5,576	-6,482	-6,925
Inc/Dec of Cash	631	1,039	482	-1,965	1,275	-104	1,653	2,619
Opening Balance	485	1,116	2,155	2,637	672	1,947	1,842	3,495
Closing Balance	1,116	2,154	2,637	672	1,947	1,843	3,495	6,114

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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