

Castrol (India)

Estimate change

TP change

Rating change



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Bloomberg	CSTR IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	113.9 / 1.4
52-Week Range (INR)	150 / 99
1, 6, 12 Rel. Per (%)	1/-4/-26
12M Avg Val (INR M)	121

Financials & Valuations (INR b)

Y/E Dec	CY21	CY22E	CY23E
Sales	41.9	48.4	47.5
EBITDA	10.7	13.0	14.0
PAT	7.6	9.5	10.2
EPS (INR)	7.7	9.6	10.3
EPS Gr. (%)	30.1	24.7	8.1
BV/Sh.(INR)	16.6	19.3	22.3

Ratios

Net D:E	-0.8	-0.8	-0.8
RoE (%)	49.6	53.1	49.7
RoCE (%)	49.7	53.2	49.8
Payout (%)	71.8	71.8	71.8

Valuations

P/E (x)	15.3	12.2	11.3
P/BV (x)	7.0	6.1	5.3
EV/EBITDA (x)	9.6	7.8	7.0
Div. Yield (%)	4.7	5.9	6.3
FCF Yield (%)	4.7	7.9	8.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.0	51.0	51.0
DII	16.3	16.0	16.5
FII	10.7	11.1	12.0
Others	22.1	21.9	20.5

FII Includes depository receipts

CMP: INR117
TP: INR134 (+16%)
Buy

Raw material price inflation to keep margin under check

- CSTR's EBITDA and PAT missed our estimate, given the volatile market environment, amid rising input costs and modest demand. Realizations improved by 12% YoY and 6% QoQ, led by higher crude prices in 2QCY22.
- Volume remains modest at 56m liters in 2QCY22, with Personal Mobility/CV volumes contributing 50%/35-40% to overall volumes in 2QCY22 and Industrial volumes constituting the balance. CSTR has taken another price hike in 2QCY22. It had raised prices in Mar'22 in various segments and product categories. Its market share in the Bazaar segment stood at 21-22%.
- The management expects demand for lubricants to sustain at least till CY35-40 as there is huge room for ownership penetration, which won't be totally fulfilled by EVs (at least in the four-wheeler category).
- Prices of Base Oil are expected to remain high in the near term, but we expect the same to decline in line with the correction in Brent crude oil prices. Better volumes are expected to pare down operating costs, with a 26-29% improvement in margin for CY22-23. Given rising input cost pressures, we lower our CY22/CY23 EBITDA estimate by 34%/31%.
- CSTR has always enjoyed its brand legacy. It will be able to secure its profitability with a better product mix, cost control, and launch of advanced products with better realization. We reiterate our Buy rating.

Miss on both EBITDA and PAT

- Revenue grew 40% YoY to INR12.4b (flat QoQ), 15% lower than our estimate.
- EBITDA rose 45% YoY, but fell 10% QoQ to INR2.8b, 24% below our estimate.
- **EBITDA margin stood at 23% (v/s 25.7%/22.2% in 1QCY22/2QCY21).**
- PAT grew 47% YoY, but fell 10% QoQ to INR2b (26% lower than our estimate).
- It declared an interim dividend of INR3 per equity share.

Strategic developments in 1QFY23

- CSTR has strengthened its product portfolio with the launch of CRB Plus CI4 for Agri vehicles and GTX Diesel CI4+ variants, which will help offer it better protection and performance
- It launched Castrol POWER1 3-in-1, with synthetic technology, which provides excellent acceleration, excellent protection, and smooth riding.
- It has expanded the presence of Castrol Express Oil Change outlets at Jio-bp mobility stations across India, bringing its total count to 39.

Valuation and view: Maintain Buy

- Capex guidance for CY22/CY23 stands ~INR1b each. CSTR is venturing into newer areas such as Castrol Auto Services and has tied-up with Jio-BP, which will require a capex and will help it gain market share.
- At present, 39 Express Oil Change outlets are operational at Jio-BP sites across India, offering a swift and reliable oil change to two-wheeler consumers on the go. It has also expanded its Castrol Auto Services network to 163 centers in over 90 cities across India.

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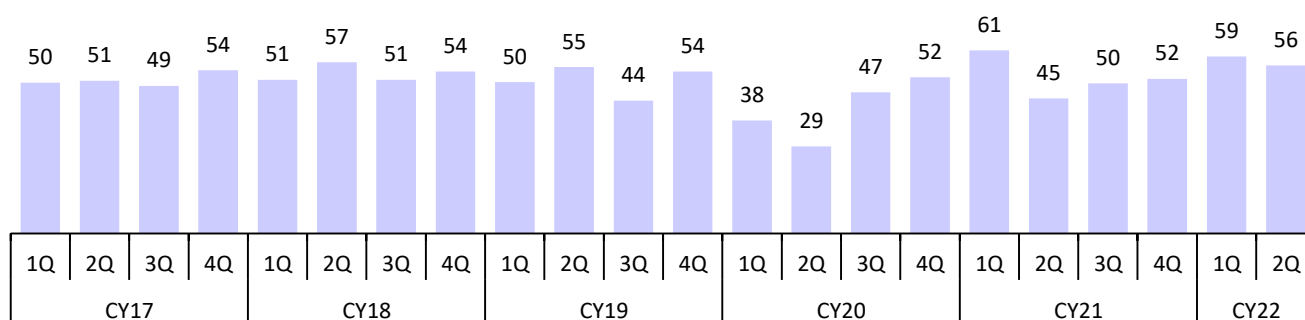
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- CSTRL is the perfect value play candidate with a return ratio of ~50% and dividend payout policy of over 75% (translating into a dividend yield of ~5%).
- On a one-year forward P/E basis, the stock trades at a discount of ~71% to its long-term P/E average of 25.2x. We value the stock at 13x CY23 EPS to arrive at our TP of INR134. **We maintain our Buy rating with a potential upside of 15%.**

Quarterly Performance

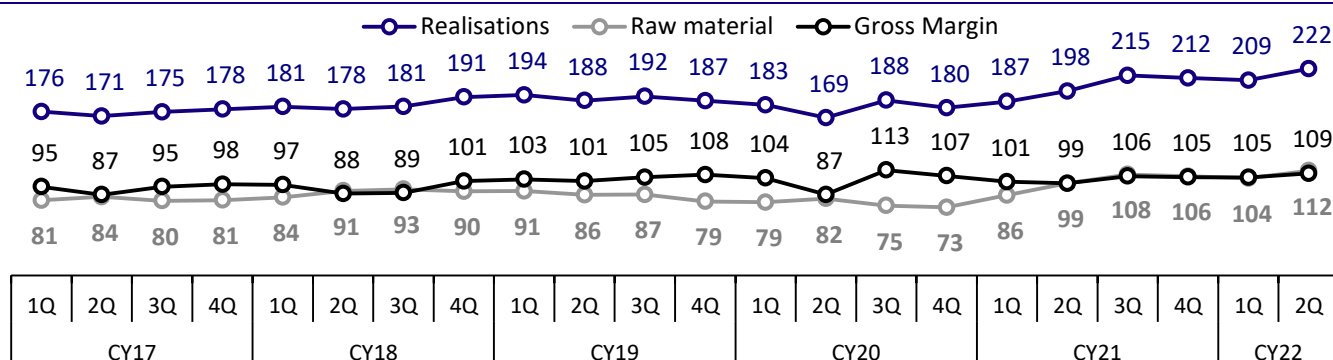
Y/E December	CY21				CY22E				(INR m)		Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	CY21	CY22E	
Volume (m litres)	61.0	45.0	50.0	51.5	59.0	56.0	56.0	57.3	208	228	-8
Realization	187	198	215	212	209	222	212	205	202	212	-8
Net Sales	11,387	8,896	10,732	10,906	12,357	12,417	11,879	11,765	41,921	48,419	-15
YoY Change (%)	65.5	81.3	21.5	16.6	8.5	39.6	10.7	7.9	39.9	15.5	63.9
EBITDA	3,401	1,975	2,625	2,659	3,172	2,861	3,168	3,758	10,660	12,959	-24
YoY Change (%)	96.6	107.2	-8.9	3.2	-6.7	44.9	20.7	41.3	30.9	21.6	90.5
Margins (%)	29.9	22.2	24.5	24.4	25.7	23.0	26.7	31.9	25.4	26.8	25.8
Depreciation	215	199	204	209	202	196	203	221	827	821	198
Interest	6	7	6	5	7	5	3	9	24	24	4
Other Income	143	133	84	124	150	137	90	143	484	520	143
PBT before EO expense	3,323	1,902	2,499	2,569	3,113	2,797	3,052	3,672	10,293	12,634	3,703
PBT	3,323	1,902	2,499	2,569	3,113	2,797	3,052	3,672	10,293	12,634	3,703
Tax	887	502	640	683	829	735	769	851	2,712	3,184	933
Rate (%)	26.7	26.4	25.6	26.6	26.6	26.3	25.2	23.2	26.3	25.2	25.2
PAT	2,436	1,400	1,859	1,886	2,284	2,063	2,283	2,821	7,581	9,450	2,770
YoY Change (%)	94.6	114.1	-9.1	0.5	-6.2	47.3	22.8	49.6	30.1	24.7	97.9
Operational Details (INR/ltr)											
Volume (m litres)	61.0	45.0	50.0	51.5	59.0	56.0	56.0	57.3	207.5	228.3	60.8
Realization	186.7	197.7	214.6	211.8	209.4	221.7	212.1	205.2	202.0	212.1	240.0
Gross margin	100.5	98.8	106.5	105.4	105.1	109.5	110.5	116.9	102.8	110.5	120.0
EBITDA	55.8	43.9	52.5	51.6	53.8	51.1	56.6	65.6	51.4	56.8	61.9
PAT	39.9	31.1	37.2	36.6	38.7	36.8	40.8	49.3	36.5	41.4	45.6

Exhibit 1: Castrol's volume stood at 56m lit. (+24.4% YoY and -5% QoQ)



Source: Company, MOFSL

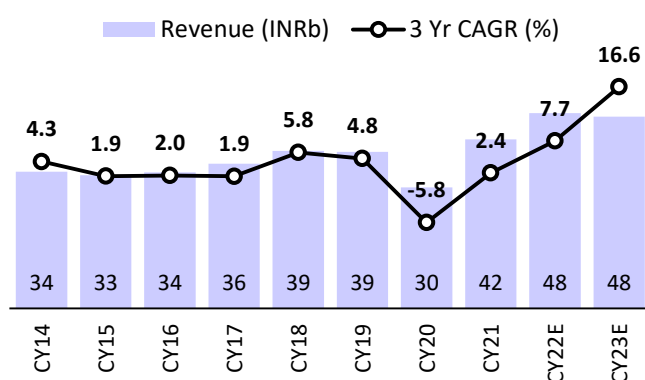
Exhibit 2: Realization was at INR222/liter (+12.2% YoY, +5.9% QoQ)



Source: Company, MOFSL

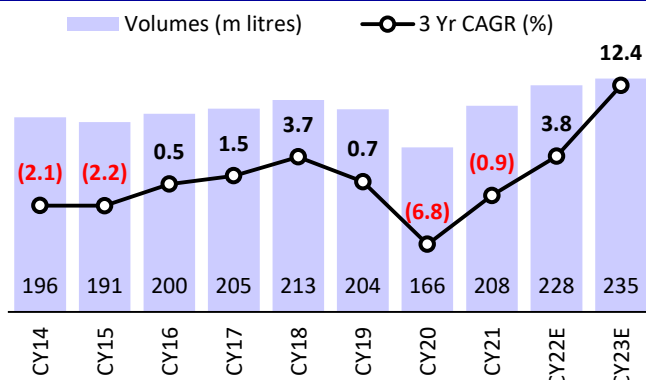
Story in charts

Exhibit 3: Revenue is expected to cross INR45b in CY22



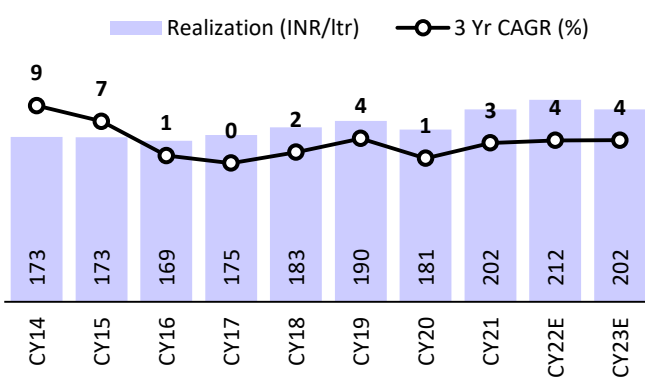
Source: Company, MOFSL

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



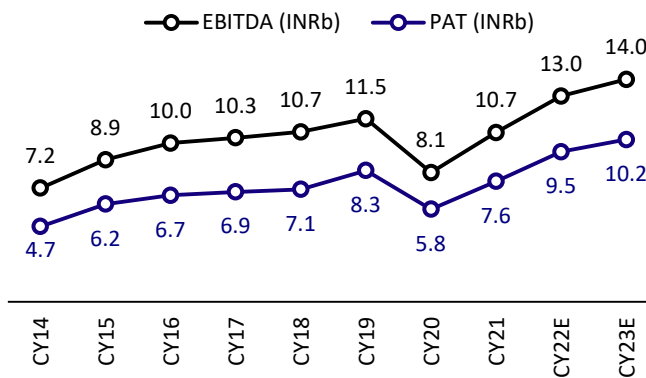
Source: Company, MOFSL

Exhibit 5: Realizations are likely to be at INR212/lit for CY22



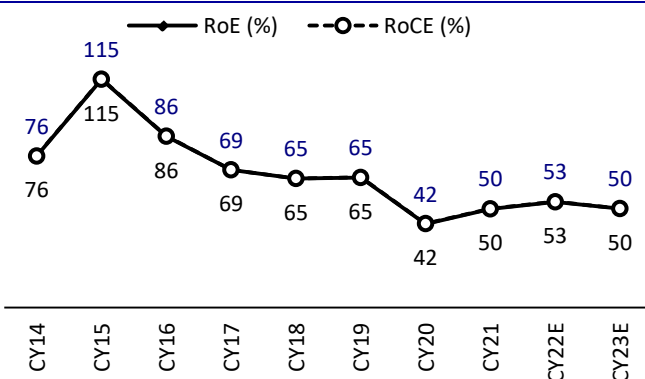
Source: Company, MOFSL

Exhibit 6: ...clocking an improvement in EBITDA



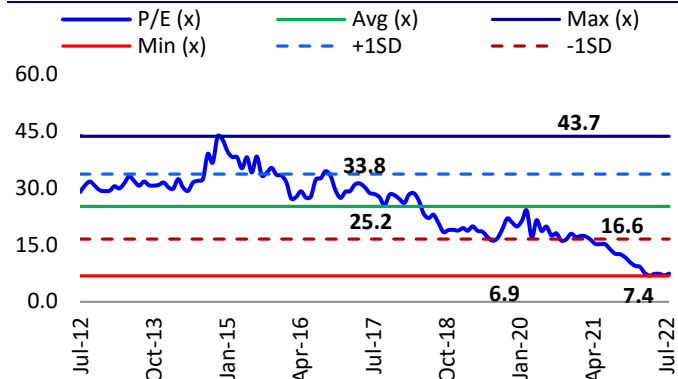
Source: Company, MOFSL

Exhibit 7: Return ratios are also expected to remain strong



Source: Company, MOFSL

Exhibit 8: Castrol trades at 7.4x 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	48,419	47,521
Change (%)	2.2	6.3	8.9	-0.7	-22.7	39.9	15.5	-1.9
Gross Margin	18,387	19,183	19,980	21,291	17,306	21,332	25,231	26,234
Margin (%)	54.6	53.5	51.2	54.9	57.7	50.9	52.1	55.2
EBITDA	9,993	10,330	10,708	11,530	8,141	10,660	12,959	14,009
Margin (%)	29.7	28.8	27.4	29.7	27.2	25.4	26.8	29.5
Depreciation	450	455	556	697	866	827	821	921
EBIT	9,544	9,875	10,152	10,833	7,275	9,833	12,138	13,088
Interest Charges	15	12	11	12	42	24	24	24
Other Income	874	837	843	648	620	484	520	592
PBT bef. EO Exp.	10,403	10,700	10,984	11,469	7,853	10,293	12,634	13,656
Income tax	3,699	3,782	3,901	3,195	2,024	2,712	3,184	3,441
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	9,450	10,215
Change (%)	9.0	3.2	2.4	16.8	-29.6	30.1	24.7	8.1
Margin (%)	19.9	19.3	18.1	21.3	19.5	18.1	19.5	21.5

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	14,179	17,063
Net Worth	9,816	10,202	11,657	13,670	14,143	16,456	19,124	22,009
Capital Employed	9,816	10,202	11,657	13,670	14,143	16,456	19,124	22,009
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	27,533	29,869
Inventory	3,439	3,196	4,568	3,047	3,669	4,917	5,577	5,271
Account Receivables	2,552	2,850	3,918	4,820	1,805	3,117	3,600	3,533
Cash and Bank Balance	8,219	7,842	7,438	9,461	12,742	13,002	14,803	17,579
Cash	1,116	2,155	2,637	672	1,947	1,842	3,644	6,419
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	3,552	3,486
Curr. Liability & Prov.	9,067	9,568	9,411	8,618	9,792	10,584	12,016	11,547
Account Payables	4,966	6,066	5,840	4,718	5,456	6,206	7,039	6,653
Other Current Liabilities	3,478	2,967	3,111	3,403	3,793	3,862	4,461	4,378
Provisions	623	535	460	497	543	516	516	516
Net Current Assets	7,302	7,687	8,914	10,815	11,342	13,527	15,517	18,322
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	19,124	22,009

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	9.6	10.3
Cash EPS	7.2	7.5	7.7	9.1	6.8	8.5	10.4	11.3
BV/Share	9.9	10.3	11.8	13.8	14.3	16.6	19.3	22.3
DPS	5.5	4.7	5.0	5.5	5.5	5.5	6.9	7.4
Payout (%)	97.7	81.7	84.0	79.1	93.3	71.8	71.8	71.8
Valuation (x)								
P/E	17.3	16.7	16.3	14.0	19.9	15.3	12.2	11.3
Cash P/E	16.2	15.7	15.1	12.9	17.3	13.8	11.3	10.4
P/BV	11.8	11.3	9.9	8.5	8.2	7.0	6.1	5.3
EV/Sales	3.2	3.0	2.8	2.7	3.4	2.5	2.1	2.1
EV/EBITDA	10.8	10.4	10.1	9.2	12.7	9.6	7.8	7.0
Dividend Yield (%)	4.7	4.1	4.3	4.7	4.7	4.7	5.9	6.3
FCF per share	6.5	5.8	4.8	7.9	8.6	5.5	9.2	10.2
Return Ratios (%)								
RoE	86.1	69.1	64.8	65.3	41.9	49.6	53.1	49.7
RoCE	86.2	69.2	64.9	65.4	42.1	49.7	53.2	49.8
Working Capital Ratios								
Asset Turnover (x)	3.4	3.5	3.3	2.8	2.1	2.5	2.5	2.2
Inventory (Days)	37	33	43	29	45	43	42	40
Debtor (Days)	24	25	32	39	19	24	24	24
Creditor (Days)	54	62	55	44	66	54	53	51
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

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
OP/(Loss) before Tax	10,403	10,701	10,984	11,469	7,853	10,293	12,634	13,656
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	-3,184	-3,441
(Inc)/Dec in WC	252	-654	-1,487	126	3,040	-1,826	-188	-30
CF from Operations	6,642	6,083	5,495	8,795	8,928	6,303	10,108	11,129
(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	9,108	10,129
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	-6,782	-7,330
CF from Fin. Activity	-5,680	-6,558	-5,674	-6,277	-5,643	-5,576	-6,806	-7,354
Inc/Dec of Cash	631	1,039	482	-1,965	1,275	-104	1,802	2,775
Opening Balance	485	1,116	2,155	2,637	672	1,947	1,842	3,644
Closing Balance	1,116	2,154	2,637	672	1,947	1,843	3,644	6,419

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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