

Base oil costs trend key monitorable...

About the stock: Castrol India, a subsidiary of BP, operates in the lubricants business and caters to automotive and industrial segments.

- Automotive segment volumes contribute 80-85% of total sales volume
- Castrol has high pricing power and commands premium for its products

Q2CY22 Results: Q2CY22 earnings were driven by higher volume as well as realisation YoY.

- Revenue was up 39.6% YoY to ₹ 1241.7 crore, driven by higher volume (on a lower base) as well as realisation
- Gross margins were up ~11% YoY to ₹ 109.5/litre, on account of higher realisation. EBITDA/litre was at ₹ 51.1/litre, up ~16% YoY leading to EBITDA of ₹ 2861.1 crore, up 44.9% YoY
- Subsequently, PAT increased 47.3% YoY to ₹ 206.3 crore

What should investors do? Higher base oil prices remain a concern in the near term. Potential disruptions like higher drain interval and EVs will be key monitorables for long-term volume growth.

- We retain **HOLD** rating on the stock

Target Price and Valuation: We value Castrol India at ₹ 125 i.e. ~15x CY23E EPS.

Key triggers for future price performance:

- Although Castrol is likely to report volume growth YoY in CY22E, lack of sustainable volume growth in future will limit overall growth
- While the company hiked prices in CY22, high base oil prices will affect margins. Hence, we see limited headroom for gross margin growth in near term
- Castrol's 2-W volume (25% of volume mix) is likely to be impacted by introduction of 2-W EVs

Alternate Stock Idea: Besides Castrol, in our oil & gas coverage we also like Gail.

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 180



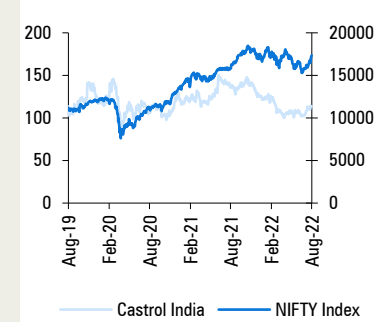
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	11,374.9
Total Debt (₹ Cr) (CY21)	5.7
Cash and Investments (₹ Cr)	1,300.2
EV (₹ Crore)	10,080.4
52 week H/L	150 / 99
Equity capital (₹ Crore)	494.6
Face value (₹)	5.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.0	51.0	51.0	51.0
FII	12.2	12.2	11.1	10.7
DII	16.5	16.4	16.0	16.3
Others	20.3	20.5	21.9	22.1

Price Chart



Recent event & key risks

- Volume grew ~24% YoY
- Key Risk:** (i) Higher than expected volume growth, (ii) Inability to pass on higher costs

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Key Financial Summary

(Year-end December)	CY18	CY19	CY20	CY21	5 year CAGR (CY16-21)	CY22E	CY22E	2 year CAGR (CY21-23E)
Revenues (₹ crore)	3,904.6	3,876.8	2,996.9	4,192.1	4.5	4,893.5	5,005.5	18.6
EBITDA (₹ crore)	1,070.8	1,153.0	814.1	1,066.0	1.2	1,091.5	1,143.8	12.0
Net Profit (₹ crore)	708.3	827.4	582.9	758.1	2.4	785.7	818.9	12.0
EPS (₹)	7.2	8.4	5.9	7.7		7.9	8.3	
P/E (x)	16.1	13.7	19.5	15.0		14.5	13.9	
Price / Book (x)	9.8	8.3	8.0	6.9		6.5	6.1	
EV/EBITDA (x)	9.9	9.0	12.4	9.5		9.2	8.6	
RoCE (%)	87.1	79.2	50.9	59.6		57.4	55.5	
RoE (%)	60.8	60.5	41.2	46.1		44.8	43.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2CY22 Results: Volume de-grew ~5% QoQ

- Revenue was flattish QoQ as sales volume declined ~5% QoQ. Going ahead, we expect Castrol's volume at 219 million litre in CY22E and 221.2 million litre in CY23E
- Realisation was up ~6% QoQ while gross margin was up ~4% QoQ. EBITDA/litre de-grew 5% QoQ
- We expect gross margins at ₹ 106.7/litre in CY22E and ₹ 108.6/litre in CY23E. EBITDA is expected at ₹ 49.8/litre and ₹ 51.7/litre in CY22E and CY23E, respectively
- Castrol's raw materials cost (base oil) is dependent on movement of crude oil prices and rupee against the US dollar. As crude oil prices are trading near US\$100/bbl currently, we expect base oil prices to stay elevated in the near term

Q2CY22 Earnings Conference Call highlights

- Total volumes for Q2CY22 were 56 million litre. Volume mix for the quarter is as follows: personal mobility: 50%, commercial vehicle: 35-40% while the rest belongs to the industrial segment
- The management said the company has a market share of 21-22% in the retail automotive segment
- The management said that the company will focus on service & maintenance and EV fluid development
- The management said that prices are likely to stay at higher levels in Q3CY22. However, prices are likely to come down in the latter part of Q4CY22
- Focus will be on both volume growth as well as realisation growth
- Other expenses increased QoQ as amid rise in variable costs, freight rate & insurance costs

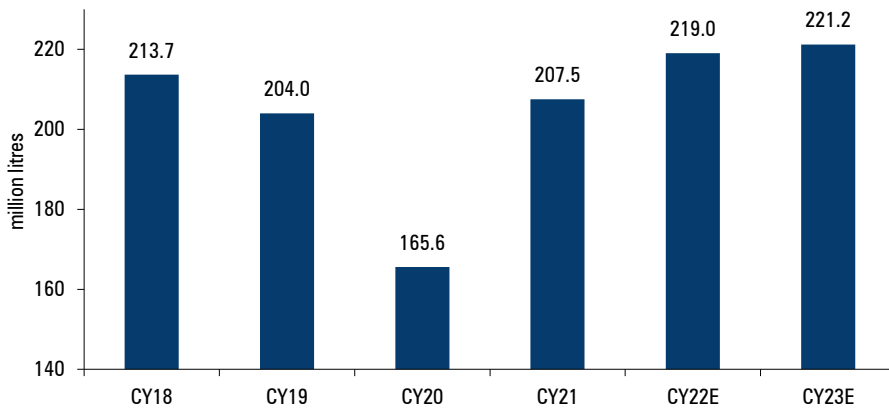
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Castrol India (CASIND)	115	125	Hold	11,375	7.7	7.9	8.3	15.0	14.5	13.9	9.5	9.2	8.6	59.6	57.4	55.5	46.1	44.8	43.6
Gulf Oil Lubricants (GULLUB)	412	440	Hold	2,064	41.9	43.1	54.7	9.8	9.6	7.5	6.6	6.3	4.6	17.4	18.8	21.9	20.2	20.0	21.8

Source: Company, ICICI Direct Research

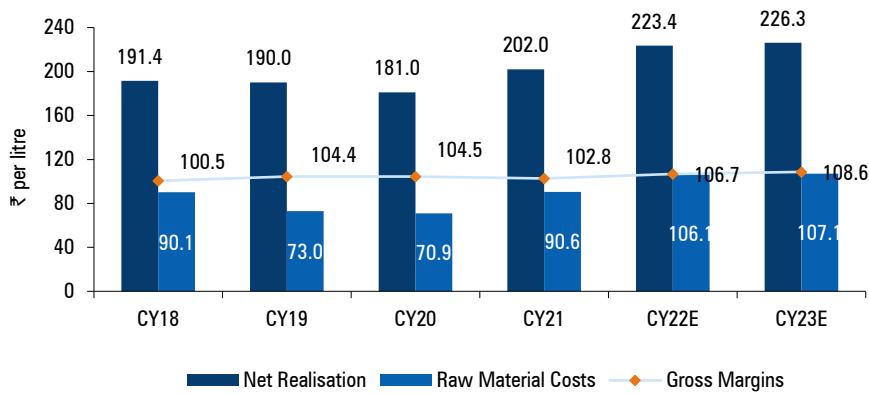
Story in charts

Exhibit 2: Volume trajectory



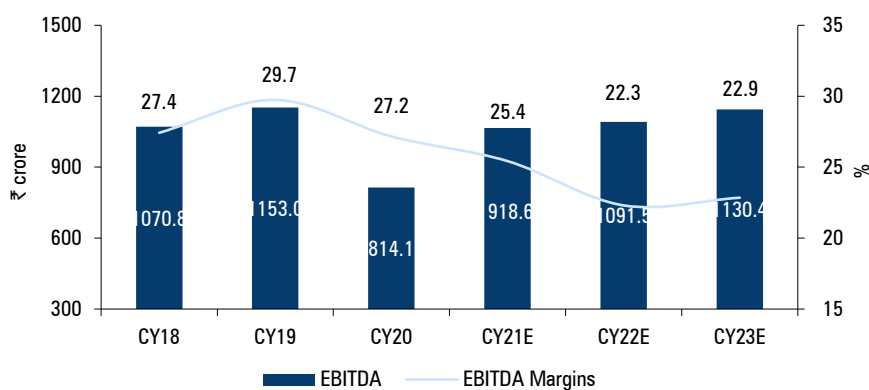
Source: Company, ICICI Direct Research

Exhibit 3: Financial parameters



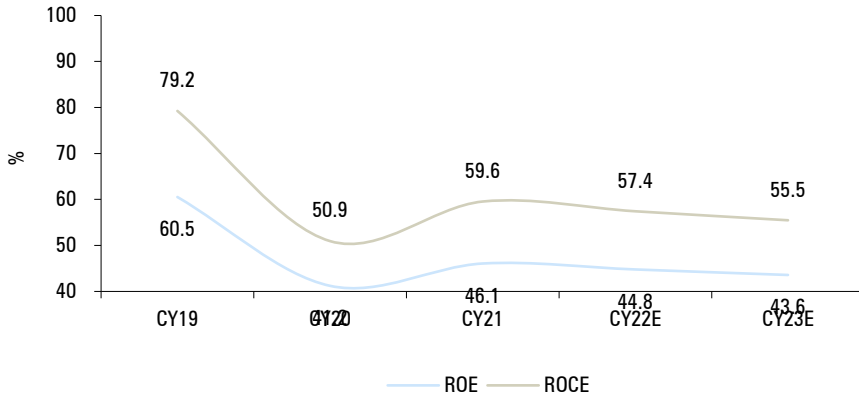
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 5: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E
Revenue	2996.9	4192.1	4893.5	5005.5
Growth (%)	-22.7	39.9	16.7	2.3
(Inc.)/(Dec.) in stock in trade	-24.1	-12.1	-26.3	0.0
Raw material Costs	1173.9	1879.1	2323.9	2368.2
Purchase of Products	116.5	191.9	258.0	234.2
Employee Costs	219.8	232.0	265.1	278.2
Other Expenditure	696.7	835.2	981.3	981.1
Op. Expenditure	2,182.8	3,126.1	3,802.0	3,861.7
EBITDA	814.1	1066.0	1091.5	1143.8
Growth (%)	-29.4	30.9	2.4	4.8
Depreciation	86.6	82.7	80.5	98.1
EBIT	727.5	983.3	1011.0	1045.6
Interest	4.2	2.4	3.0	4.0
Other Income	62.0	48.4	58.7	68.0
PBT	785.3	1029.3	1066.7	1109.6
Growth (%)	-31.5	31.1	3.6	4.0
Tax	202.4	271.2	281.0	290.7
Reported PAT	582.9	758.1	785.7	818.9
Growth (%)	-29.6	30.1	3.6	4.2
EPS	5.9	7.7	7.9	8.3

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E
Profit after Tax	582.9	758.1	785.7	818.9
Add: Depreciation	86.6	82.7	80.5	98.1
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	29.3	195.2	171.8	222.7
Increase/(Decrease) in CL	103.6	87.4	85.6	24.2
(Increase)/Decrease in CA	192.9	-276.9	-78.1	-29.9
CF from Operating Activities	962.3	642.1	873.6	911.3
Purchase of Fixed Assets	112.3	81.2	104.0	110.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-112.3	-81.2	-104.0	-110.0
Dividend Paid	636.5	636.5	694.4	694.4
Inc/(Dec) in Loan Funds	13.8	-8.1	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	100.9	109.7	17.8	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-521.8	-534.9	-676.5	-694.4
Change in cash Eq.	328.2	26.0	93.0	106.9
Op. Cash and cash Eq.	946.0	1,274.2	1,300.2	1,393.2
Cl. Cash and cash Eq.	1,274.2	1,300.2	1,393.2	1,500.1

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E
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	919.7	1,151.0	1,260.1	1,384.6
Shareholder's Fund	1,414.2	1,645.5	1,754.7	1,879.2
Loan Funds	13.8	5.7	5.7	5.7
Deferred Tax Liability	-62.2	-71.4	-71.4	-71.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1365.8	1579.8	1689.0	1813.5
Application of Funds				
Gross Block	408.4	418.4	503.4	588.4
Less: Acc. Depreciation	199.2	217.2	298.6	396.8
Net Block	209.2	201.2	204.7	191.6
Capital WIP	43.5	50.0	70.0	95.0
Total Fixed Assets	252.8	251.2	274.8	286.6
Investments	0.0	0.0	0.0	0.0
Inventories	366.9	491.7	536.3	548.5
Debtor	180.5	311.7	335.2	342.8
Cash	1,274.2	1,300.2	1,393.2	1,500.1
Loan & Advance, Other CA	257.0	277.9	287.9	297.9
Total Current assets	2078.5	2381.5	2552.6	2689.5
Current Liabilities	851.0	923.3	992.1	1014.8
Provisions	114.5	129.6	146.3	147.8
Total CL and Provisions	965.5	1052.8	1138.4	1162.6
Net Working Capital	1113.0	1328.6	1414.2	1526.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1365.8	1579.8	1689.0	1813.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end December)	CY20	CY21	CY22E	CY23E
Per share data (₹)				
Book Value	14.3	16.6	17.7	19.0
Cash per share	12.9	13.1	14.1	15.2
EPS	5.9	7.7	7.9	8.3
Cash EPS	6.8	8.5	8.8	9.3
DPS	5.5	5.5	6.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	27.2	25.4	22.3	22.9
PAT Margin (%)	19.5	18.1	16.1	16.4
Fixed Asset Turnover (x)	11.9	16.7	17.8	17.5
Inventory Turnover (Days)	44.7	42.8	40.0	40.0
Debtor (Days)	22.0	27.1	25.0	25.0
Current Liabilities (Days)	103.6	80.4	74.0	74.0
Return Ratios (%)				
RoE	41.2	46.1	44.8	43.6
RoCE	50.9	59.6	57.4	55.5
RoIC	NA	NA	NA	NA
Valuation Ratios (x)				
PE	19.5	15.0	14.5	13.9
Price to Book Value	8.0	6.9	6.5	6.1
EV/EBITDA	12.4	9.5	9.2	8.6
EV/Sales	3.4	2.4	2.0	2.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	173.2	409.7	338.1	261.4
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.3	2.2	2.3
Quick ratio	1.8	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	332	360	Hold	70,698	41.6	25.3	44.8	8.0	13.1	7.4	6.3	8.9	5.9	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	146	180	Buy	64,830	23.2	20.0	18.8	6.3	7.3	7.8	5.0	5.7	6.0	19.0	14.5	12.4	18.5	14.5	12.5
Gujarat Gas (GUJGA)	456	625	Buy	31,391	18.9	18.8	24.1	24.1	24.2	19.0	15.4	15.2	11.9	26.9	23.4	25.5	23.2	19.6	20.9
HPCL (HINPET)	231	255	Hold	32,778	44.9	8.0	42.8	5.1	29.0	5.4	7.8	16.4	7.1	7.3	0.8	7.3	16.5	3.0	15.0
Indian Oil Corp (INDOIL)	71	80	Hold	1,00,614	17.1	7.7	13.1	4.2	9.3	5.4	2.3	3.4	2.5	12.9	6.4	9.6	18.4	8.3	13.3
Indraprastha Gas (INDGAS)	366	440	Buy	25,620	18.8	20.6	23.0	19.4	17.7	15.9	12.9	11.1	9.7	22.3	22.0	21.1	19.0	18.1	17.5
Mahanagar Gas (MAHGAS)	779	820	Hold	7,695	60.4	71.3	78.1	12.9	10.9	10.0	7.9	6.7	5.9	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	217	210	Hold	32,550	22.3	17.6	21.2	9.7	12.3	10.2	6.0	6.9	5.7	27.0	20.3	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,572	2,700	Hold	17,39,958	89.7	104.1	123.7	28.7	24.7	20.8	18.6	13.8	11.5	7.1	9.2	10.4	7.8	8.3	9.1

Source: Bloomberg, ICICI Direct Research

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