

Castrol (India)

Estimate change



TP change



Rating change



Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	118.7 / 1.4
52-Week Range (INR)	143 / 99
1, 6, 12 Rel. Per (%)	0/4/-16
12M Avg Val (INR M)	129

Financials & Valuations (INR b)

Y/E Dec	CY21	CY22E	CY23E
Sales	41.9	48.1	48.0
EBITDA	10.7	11.3	12.2
PAT	7.6	8.2	9.0
EPS (INR)	7.7	8.3	9.0
EPS Gr. (%)	30.1	8.0	9.3
BV/Sh.(INR)	16.6	19.0	21.5

Ratios

Net D:E	-0.8	-0.8	-0.8
RoE (%)	49.6	46.5	44.7
RoCE (%)	49.7	46.6	44.8
Payout (%)	71.8	71.8	71.8

Valuations

P/E (x)	15.7	14.5	13.3
P/BV (x)	7.2	6.3	5.6
EV/EBITDA (x)	9.9	9.2	8.3
Div. Yield (%)	4.6	4.9	5.4
FCF Yield (%)	4.6	6.7	7.5

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	51.0	51.0	51.0
DII	16.1	16.3	16.5
FII	10.8	10.7	12.2
Others	22.1	22.1	20.3

FII Includes depository receipts

CMP: INR120

TP: INR140 (+17%)

Buy

Inflationary RM environment likely to continue going forward

- EBITDA and PAT missed our estimate, given the continued volatility in crude oil prices, amid rising input costs. Realizations improved by 11% YoY and 8% QoQ in 3QCY22.
- Volume in 3QCY22 was modest at 47m liters, with the Personal Mobility/CVs/ Industrial segment contributing 50%/30%/20% to overall volumes. CSTRL raised prices again in 3QCY22 after the previous price hikes in Mar'22 and Jun'22.
- The Indian Lubricants market is expected to grow at 4% in CY23, with the management expecting Cars to be the fastest growing segment, followed by CVs and Two-Wheelers. Industrial volumes are expected to see good traction as the economy recovers in CY23.
- **The management expects forex pressures and the inflationary environment to continue in the near term.** Its focus will be on protecting margin, while catering to its customers. In line with the same, amid sustained input cost pressure, we decrease our EBITDA/EPS estimate by 13% each for CY22 and by 13%/12% for CY23.
- CSTRL has always enjoyed its brand legacy. We believe it will be able to secure its profitability, with a better product mix, cost control, and launch of advanced products at a better realization. We reiterate our Buy rating.

Miss on EBITDA and PAT; revenue in line

- Revenue was in line at INR11.2b, up 4% YoY, but down 10% QoQ. EBITDA fell 2% YoY and 10% QoQ to INR2.6b (est. INR3.1b).
- **EBITDA margin was subdued at 22.9% (v/s 23%/24.5% in 2QCY22/3QCY21)** due to forex pressures and volatile crude oil prices, which led to rising costs of additives and base oil.
- PAT grew 1% YoY, but fell 9% QoQ, to INR1.9b (est. INR2.2b).
- **In 9MCY22**, revenue/EBTIDA grew 16%/8% YoY to INR36b/INR8.6b, with EBITDAM declining by 190bp YoY. PAT grew 9% YoY to INR6.2b.

Strategic developments in 3QCY22

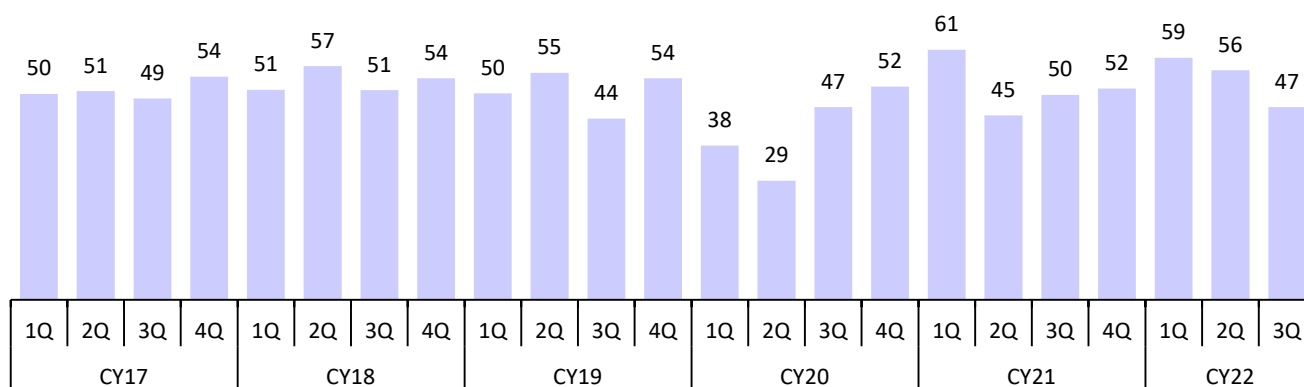
- CSTRL expanded its Castrol Auto Service/Castrol Express Oil Change network to 210/42 across India.
- It launched POWER1 ULTIMATE in a 100% recycled bottle, aimed at reducing virgin plastic consumption and decreasing plastic waste.
- It introduced a unique EV-readiness training program for mechanics.

Valuation and view

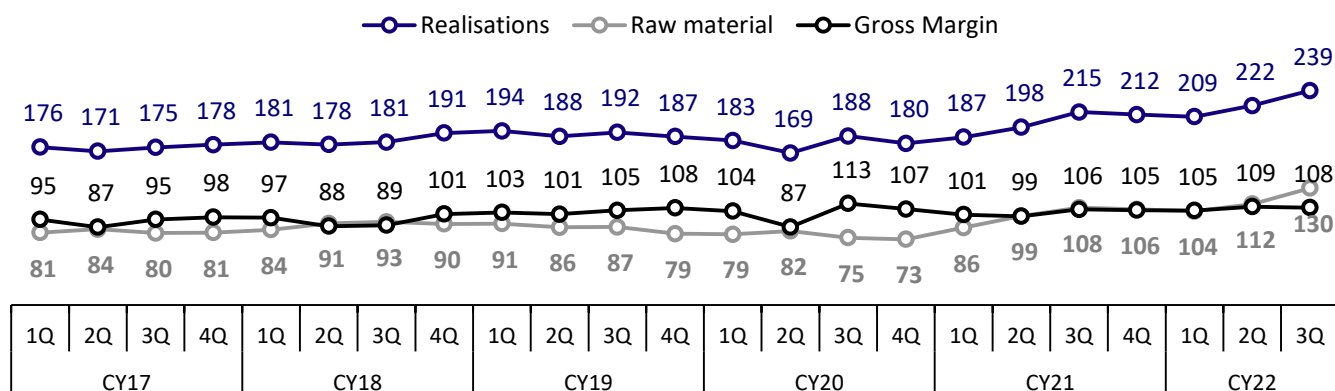
- Capex guidance for CY22/CY23 remains ~INR1b. It is venturing into new areas such as Castrol Auto Service. Its tie-ups with Jio-BP (which will require capex) will help it gain market share.
- CSTRL is the perfect candidate of a value play, with a return ratio of ~45% and dividend payout policy of over 70%, translating into a dividend yield of ~5%.
- On a one-year forward P/E basis, the stock trades at a discount of ~50% to its long-term P/E average of 25.2x. We value the stock at 16x CY23E EPS to arrive at our TP target price of INR140. **We maintain our Buy rating.**

Quarterly performance

Y/E December	CY21				CY22				CY21	CY22E	CY22E 3QE	(INR m) Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Volume (m liter)	61.0	45.0	50.0	51.5	59.0	56.0	47.0	49.7	207.5	211.7	55.0	-15
Realization	187	198	215	212	209	222	239	239	202	227	212	12
Net Sales	11,387	8,896	10,732	10,906	12,357	12,417	11,211	12,120	41,921	48,104	11,667	-4
Change (YoY %)	65.5	81.3	21.5	16.6	8.5	39.6	4.5	11.1	39.9	14.8	8.7	
EBITDA	3,401	1,975	2,625	2,659	3,172	2,861	2,571	2,721	10,660	11,326	3,101	-17
Change (YoY %)	96.6	107.2	-8.9	3.2	-6.7	44.9	-2.0	2.3	30.9	6.2	18.1	
Margin (%)	29.9	22.2	24.5	24.4	25.7	23.0	22.9	22.5	25.4	23.5	26.6	
Depreciation	215	199	204	209	202	196	208	232	827	838	213	
Interest	6	7	6	5	7	5	12	7	24	31	3	
Other Income	143	133	84	124	150	137	187	150	484	624	90	
PBT before EO expense	3,323	1,902	2,499	2,569	3,113	2,797	2,538	2,632	10,293	11,081	2,975	-15
PBT	3,323	1,902	2,499	2,569	3,113	2,797	2,538	2,632	10,293	11,081	2,975	-15
Tax	887	502	640	683	829	735	667	662	2,712	2,893	750	
Rate (%)	26.7	26.4	25.6	26.6	26.6	26.3	26.3	25.2	26.3	26.1	25.2	
PAT	2,436	1,400	1,859	1,886	2,284	2,063	1,872	1,970	7,581	8,188	2,225	-16
Change (YoY %)	94.6	114.1	-9.1	0.5	-6.2	47.3	0.7	4.4	30.1	8.0	19.7	
Operational details (INR/liter)												
Volume (m liter)	61.0	45.0	50.0	51.5	59.0	56.0	47.0	49.7	207.5	211.7	55.0	-15
Realization	186.7	197.7	214.6	211.8	209.4	221.7	238.5	239.4	202.0	227.3	212.1	12
Gross margin	100.5	98.8	106.5	105.4	105.1	109.5	108.4	108.9	102.8	109.0	110.5	-2
EBITDA	55.8	43.9	52.5	51.6	53.8	51.1	54.7	54.8	51.4	53.5	56.4	-3
PAT	39.9	31.1	37.2	36.6	38.7	36.8	39.8	39.7	36.5	38.7	40.5	-2

Exhibit 1: Volume fell 6% YoY and 16.1% QoQ to 47m liter

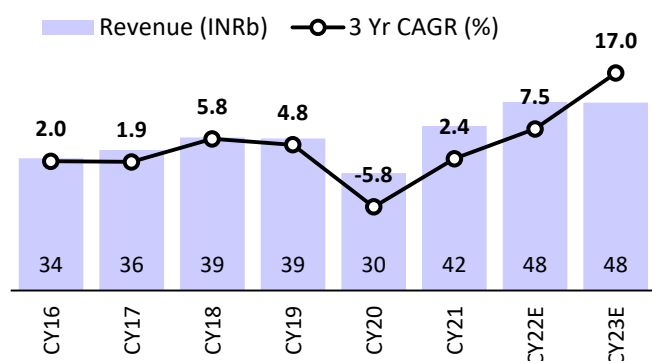
Source: Company, MOFSL

Exhibit 2: Realization grew 11.1% YoY and 7.6% QoQ to INR239/liter

Source: Company, MOFSL

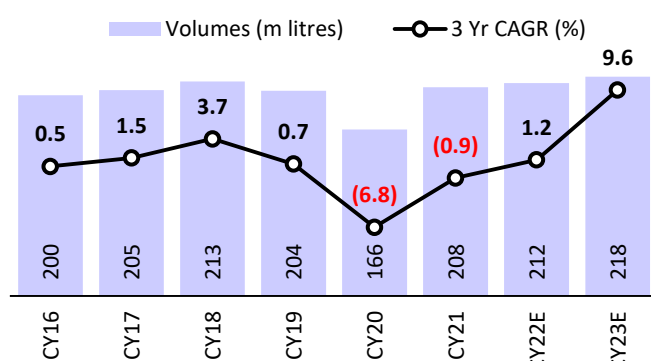
Story in charts

Exhibit 3: Expect revenue to cross INR45b in CY22...



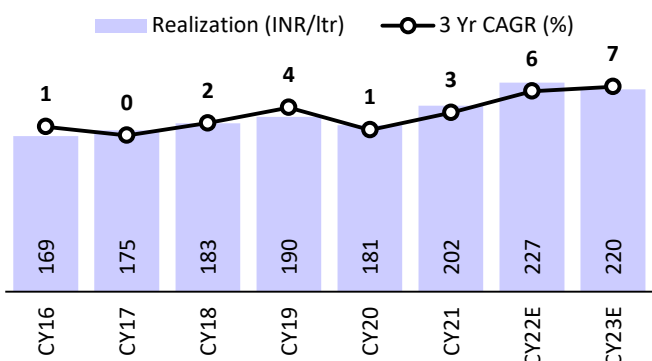
Source: Company, MOFSL

Exhibit 4: ...led by healthy volumes and price hikes



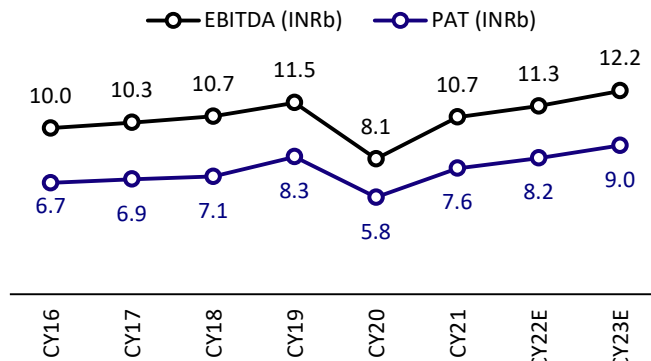
Source: Company, MOFSL

Exhibit 5: Expect realizations at INR227/liter in CY22...



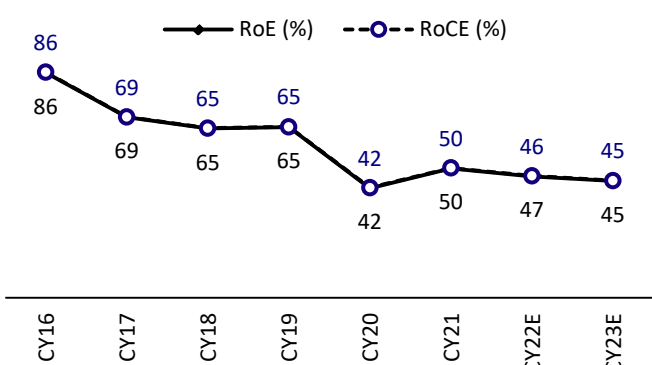
Source: Company, MOFSL

Exhibit 6: ...resulting in an improvement in EBITDA



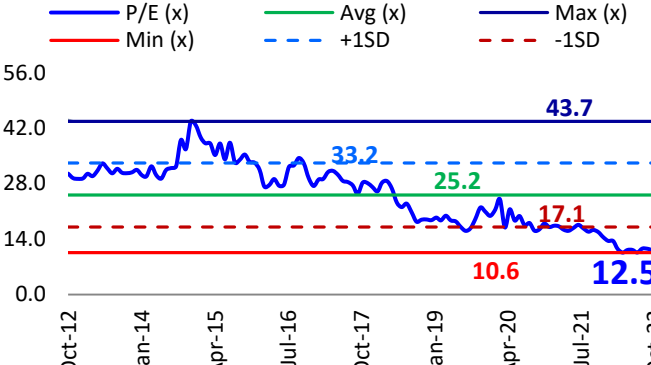
Source: Company, MOFSL

Exhibit 7: Expect return ratios to remain strong ahead



Source: Company, MOFSL

Exhibit 8: CSTRL trades at 12.5x 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	CY21	CY22E	CY23E
Net sales	33,703	35,843	39,046	38,768	29,969	41,921	48,104	47,954
Change (%)	2.2	6.3	8.9	-0.7	-22.7	39.9	14.8	-0.3
Gross Margin	18,387	19,183	19,980	21,291	17,306	21,332	23,064	24,573
Margin (%)	54.6	53.5	51.2	54.9	57.7	50.9	47.9	51.2
EBITDA	9,993	10,330	10,708	11,530	8,141	10,660	11,326	12,240
Margin (%)	29.7	28.8	27.4	29.7	27.2	25.4	23.5	25.5
Depreciation	450	455	556	697	866	827	838	940
EBIT	9,544	9,875	10,152	10,833	7,275	9,833	10,488	11,300
Interest Charges	15	12	11	12	42	24	31	31
Other Income	874	837	843	648	620	484	624	698
PBT bef. EO Exp.	10,403	10,700	10,984	11,469	7,853	10,293	11,081	11,967
Income tax	3,699	3,782	3,901	3,195	2,024	2,712	2,893	3,016
Tax Rate (%)	35.6	35.3	35.5	27.9	25.8	26.3	26.1	25.2
Reported PAT	6,704	6,918	7,083	8,274	5,829	7,581	8,188	8,951
Change (%)	9.0	3.2	2.4	16.8	-29.6	30.1	8.0	9.3
Margin (%)	19.9	19.3	18.1	21.3	19.5	18.1	17.0	18.7

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	13,822	16,350
Net Worth	9,816	10,202	11,657	13,670	14,143	16,456	18,768	21,296
Capital Employed	9,816	10,202	11,657	13,670	14,143	16,456	18,768	21,296
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	6,834	7,774
Net Fixed Assets	1,419	1,364	1,844	1,974	1,726	1,715	1,877	1,938
Capital WIP	423	599	366	296	453	500	1,000	1,000
Curr. Assets, Loans, and Adv.	16,369	17,255	18,325	19,433	21,134	24,111	27,426	29,668
Inventory	3,439	3,196	4,568	3,047	3,669	4,917	5,785	5,617
Account Receivables	2,552	2,850	3,918	4,820	1,805	3,117	3,577	3,566
Cash and Bank Balance	8,219	7,842	7,438	9,461	12,742	13,002	14,535	16,967
Cash	1,116	2,155	2,637	672	1,947	1,842	3,376	5,808
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	3,529	3,518
Curr. Liability and Prov.	9,067	9,568	9,411	8,618	9,792	10,584	12,249	12,024
Account Payables	4,966	6,066	5,840	4,718	5,456	6,206	7,301	7,090
Other Current Liabilities	3,478	2,967	3,111	3,403	3,793	3,862	4,432	4,418
Provisions	623	535	460	497	543	516	516	516
Net Current Assets	7,302	7,687	8,914	10,815	11,342	13,527	15,177	17,644
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	18,768	21,296

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	8.3	9.0
Cash EPS	7.2	7.5	7.7	9.1	6.8	8.5	9.1	10.0
BV/Share	9.9	10.3	11.8	13.8	14.3	16.6	19.0	21.5
DPS	5.5	4.7	5.0	5.5	5.5	5.5	5.9	6.5
Payout (%)	97.7	81.7	84.0	79.1	93.3	71.8	71.8	71.8
Valuation (x)								
P/E ratio	17.7	17.2	16.8	14.4	20.4	15.7	14.5	13.3
Cash P/E ratio	16.6	16.1	15.6	13.3	17.8	14.1	13.2	12.0
P/BV ratio	12.1	11.7	10.2	8.7	8.4	7.2	6.3	5.6
EV/Sales ratio	3.3	3.1	2.9	2.8	3.5	2.5	2.2	2.1
EV/EBITDA ratio	11.1	10.8	10.4	9.5	13.0	9.9	9.2	8.3
Dividend Yield (%)	4.6	3.9	4.2	4.6	4.6	4.6	4.9	5.4
FCF per share	6.5	5.8	4.8	7.9	8.6	5.5	8.0	9.0
Return Ratios (%)								
RoE	86.1	69.1	64.8	65.3	41.9	49.6	46.5	44.7
RoCE	86.2	69.2	64.9	65.4	42.1	49.7	46.6	44.8
Working Capital Ratios								
Asset Turnover (x)	3.4	3.5	3.3	2.8	2.1	2.5	2.6	2.3
Inventory (Days)	37	33	43	29	45	43	44	43
Debtor (Days)	24	25	32	39	19	24	24	24
Creditor (Days)	54	62	55	44	66	54	55	54
Leverage Ratio (x)								
Net Debt/Equity ratio	-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	11,081	11,967
Depreciation	450	455	556	694	866	827	838	940
Interest and Finance Charges	15	12	11	12	42	24	31	31
Direct Taxes Paid	-3,795	-3,892	-3,997	-3,087	-2,396	-2,798	-2,893	-3,016
(Inc.)/Dec. in WC	252	-654	-1,487	126	3,040	-1,826	-116	-36
CF from Operations	6,642	6,083	5,495	8,795	8,928	6,303	8,941	9,886
(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	7,941	8,886
CF from Investments	-330	1,514	661	-4,483	-2,010	-831	-1,500	-1,000
Interest Paid	-17	-10	-10	-11	-12	-12	-31	-31
Dividend Paid	-5,655	-6,548	-5,664	-6,266	-5,631	-5,425	-5,876	-6,423
CF from Fin. Activity	-5,680	-6,558	-5,674	-6,277	-5,643	-5,577	-5,907	-6,455
Inc./Dec. in Cash	631	1,039	482	-1,965	1,275	-105	1,534	2,432
Opening Balance	485	1,116	2,155	2,637	672	1,947	1,842	3,376
Closing Balance	1,116	2,154	2,637	672	1,947	1,842	3,376	5,808

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

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