

## Base oil costs trend key monitorable...

**About the stock:** Gulf Oil Lubricants is one of the leading private companies in the domestic lubricants business.

- The company reported volume growth at ~10% CAGR in FY17-22
- Total capacity of the company is 140 million litre

### Q2FY23 Results: Gulf Oil delivered weak results QoQ.

- Revenue was up 34.9% YoY to ₹ 719.5 crore on account of growth in volumes. Volume grew ~40% YoY to 46 million litre (core volume:32 million litre, AdBlue volume: 14 million litre)
- EBITDA was at ₹ 80.2 crore, up 3.9% YoY
- PAT was at ₹ 52.1 crore, down 11.2% YoY

**What should investors do?** In the near term, with a rise in crude oil prices, raw material costs are likely to be higher for the company, impacting margin. Potential disruptions like higher drain interval and EVs will be key monitorables for long-term volume growth.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value Gulf Oil Lubricants at ₹ 440/ share i.e. 6.6x FY24E EPS

### Key triggers for future price performance:

- Faster volume growth in retail segment
- Base oil costs trend to be the key monitorable in the near term. Also, higher realisation/ passing on raw material costs to customers will be important to maintain margins
- Introduction of EVs may impact long term growth prospects
- Consistent dividend payout/return to shareholders

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

- Gail is India's leading gas transmission company, which 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
- It operates a natural gas pipeline network of 14500 km as of end of FY22



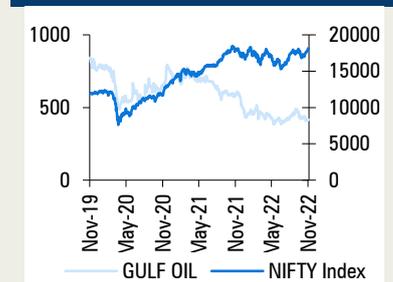
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,104.4
Total Debt (FY21) (₹ Crore)	211.4
Cash and Investments (FY21)	495.6
EV (₹ Crore)	1,820.2
52 week H/L	744/379
Equity capital (₹ Crore)	10.0
Face value (₹)	2.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	71.8	71.8	72.0	72.0	72.0
FII	9.2	6.2	5.0	3.7	3.6
DII	5.2	5.0	5.8	7.0	7.0
Others	13.8	17.0	17.2	17.3	17.4

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Lower than expected volume growth, (ii) Better than expected margins

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22E)	FY23E	FY24E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	1,705.8	1,643.5	1,652.2	2,191.6	14.1	3,209.0	3,744.0	30.7
EBITDA (₹ crore)	283.1	286.5	265.2	285.5	9.6	361.3	460.0	26.9
Net Profit (₹ crore)	177.8	202.5	200.1	211.1	11.8	250.8	337.2	26.4
EPS (₹)	35.7	40.4	39.8	41.9		49.7	66.9	
P/E (x)	11.8	10.4	10.6	10.0		8.4	6.3	
Price / Book (x)	3.6	2.8	2.4	2.0		1.9	1.6	
EV/EBITDA (x)	7.4	6.7	6.9	6.8		5.4	3.9	
RoCE (%)	30.0	22.3	21.4	17.4		22.2	25.6	
RoE (%)	30.3	26.6	23.0	20.2		22.4	24.7	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Volume grows ~26% QoQ

- Revenue was up 1.8% QoQ. We expect volume at 182.5 million litre in FY23E and 192 million litre in FY24E
- Realisation declined ₹ 34.5/litre QoQ during the quarter to ₹ 156.4/litre. COGS declined ₹ 15.8/litre QoQ to ₹ 98.8/litre leading to gross margin of ₹ 57.6/litre. Subsequently, EBITDA/litre declined by ₹ 5.6/litre QoQ to ₹ 17.4/litre
- We expect gross margins at ₹ 63.8/litre and ₹ 71.5/litre in FY23E and FY24, respectively. We estimate EBITDA/litre of ₹ 19.9/litre in FY23E and ₹ 24/litre in FY24E
- Gulf Oil's raw materials cost (base oil) is dependent on movement of crude oil prices and rupee against the US dollar. With a sharp rise in crude oil prices and depreciating rupee, we expect base oil prices to stay elevated in the near term

### Q2FY23 Earnings conference call highlights

- During Q2FY23, B2C share in overall mix was 57% while B2B contributed the rest. Battery segment revenue was ₹ 24 crore during the quarter
- Growth in B2C segment was flat due to lower demand from the agri side and impact of the monsoon season
- Annual capex will be in the range of ₹ 15-20 crore
- The company hiked retail prices in September end
- Exports contributed about 5% of total volumes. The management said advertising costs were 3-4% of revenue
- The management added that volume growth for the company will be 2-3x the industry growth in FY23. Also, the management said that EBITDA margin is expected in the range of 14-16%

## Peer comparison

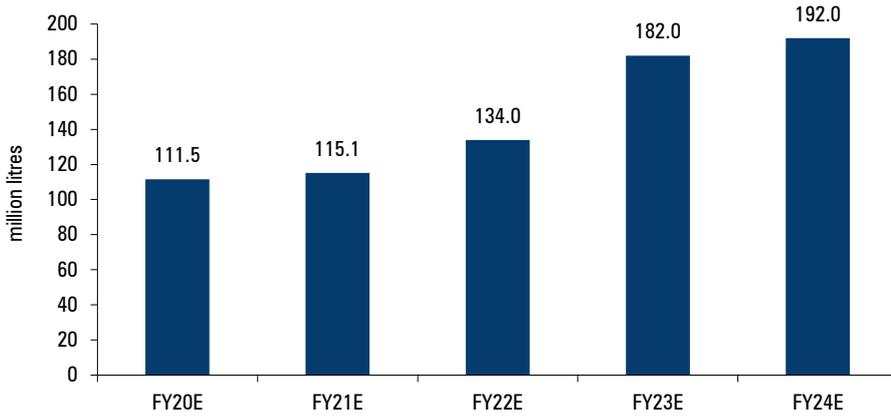
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Castrol India (CASIND)	120	130	Hold	11,869	7.7	8.1	8.0	15.7	14.8	14.9	9.9	9.4	9.3	59.6	57.9	54.0	46.1	45.2	42.5
Gulf Oil Lubricants (GULLUB)	420	440	Hold	2,104	41.9	49.7	66.9	10.0	8.4	6.3	6.8	5.4	3.9	17.4	22.2	25.6	20.2	22.4	24.7

Source: Company, ICICI Direct Research

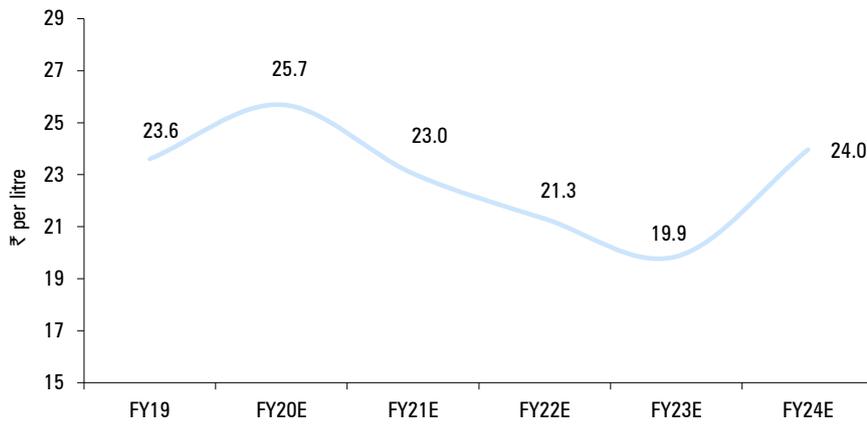
## Story in charts

Exhibit 2: Volume trajectory



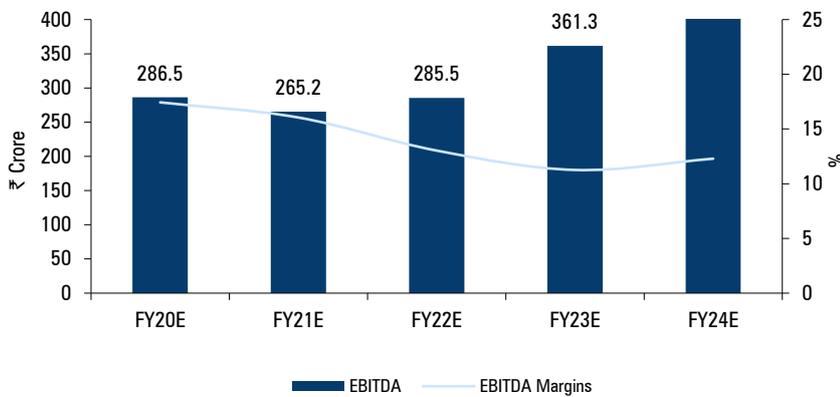
Source: Company, ICICI Direct Research

Exhibit 3: Margin trend



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>1652.2</b>	<b>2191.6</b>	<b>3209.0</b>	<b>3744.0</b>
Growth (%)	0.5	32.6	46.4	16.7
(Inc.)/(Dec.) in stock in trade	-27.7	-44.5	-41.4	0.0
Raw material Costs	828.6	1175.7	1822.5	2133.4
Purchase of Products	88.1	180.9	267.0	237.0
Employee Costs	116.5	116.8	140.0	164.7
Other Expenditure	381.6	477.3	659.6	748.8
Op. Expenditure	1387.0	1906.1	2847.6	3284.0
<b>EBITDA</b>	<b>265.2</b>	<b>285.5</b>	<b>361.3</b>	<b>460.0</b>
Growth (%)	-7.5	7.7	26.6	27.3
Depreciation	33.9	35.7	32.1	24.8
EBIT	231.3	249.8	329.3	435.3
Interest	14.6	9.6	32.1	22.6
Other Income	52.1	44.2	43.0	48.0
PBT	268.7	284.3	340.2	460.6
Growth (%)	1.6	5.8	19.7	35.4
Tax	68.7	73.3	89.4	123.5
<b>Reported PAT</b>	<b>200.1</b>	<b>211.1</b>	<b>250.8</b>	<b>337.2</b>
Growth (%)	-1.2	5.5	18.8	34.4
<b>EPS</b>	<b>39.8</b>	<b>41.9</b>	<b>49.7</b>	<b>66.9</b>

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	200.1	211.1	250.8	337.2
Add: Depreciation	33.9	35.7	32.1	24.8
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	232.8	246.1	282.9	362.0
Increase/(Decrease) in CL	56.6	-3.9	141.2	81.8
(Increase)/Decrease in CA	-62.4	-233.7	-243.8	-173.6
<b>CF from Operating Activi</b>	<b>227.0</b>	<b>8.5</b>	<b>180.3</b>	<b>270.2</b>
Purchase of Fixed Assets	10.1	59.0	28.2	15.0
(Inc)/Dec in Investments	-15.7	-15.6	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from Investing Activi</b>	<b>-25.8</b>	<b>-74.6</b>	<b>-28.2</b>	<b>-15.0</b>
Inc/(Dec) in Loan Funds	-164.5	178.2	-25.0	-25.0
Dividend Paid	105.4	29.5	88.5	94.4
Inc/(Dec) in Sh. Cap. & Res.	13.4	-8.5	-84.7	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activiti</b>	<b>-256.5</b>	<b>140.2</b>	<b>-198.2</b>	<b>-119.4</b>
Change in cash Eq.	-55.3	74.2	-46.2	135.8
Op. Cash and cash Eq.	550.9	495.6	569.7	523.6
<b>Cl. Cash and cash Eq.</b>	<b>495.6</b>	<b>569.7</b>	<b>523.6</b>	<b>659.4</b>

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>				
Equity Capital	10.1	10.1	10.1	10.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	859.3	1,032.4	1,110.0	1,352.8
Shareholder's Fund	869.4	1,042.5	1,120.1	1,362.9
Loan Funds	211.4	389.6	364.6	339.6
Deferred Tax Liability	13.2	12.4	12.4	12.4
Minority Interest	0.0	0.0	0.0	0.0
<b>Source of Funds</b>	<b>1093.9</b>	<b>1444.5</b>	<b>1497.1</b>	<b>1714.9</b>
<b>Application of Funds</b>				
Net Block	257.4	280.6	276.8	267.0
Capital WIP	3.7	3.1	10.0	10.0
Total Fixed Assets	261.1	283.7	286.8	277.0
Investments	20.3	35.9	35.9	35.9
Inventories	376.5	476.3	615.4	718.0
Debtor	189.0	295.9	395.6	461.6
Cash	495.6	569.7	523.6	659.4
Loan & Advance, Other CA	106.8	133.8	138.8	143.8
Total Current assets	1,167.9	1,475.7	1,673.4	1,982.8
Current Liabilities	346.7	343.1	483.5	564.2
Provisions	4.9	4.6	5.3	6.5
Total CL and Provisions	351.6	347.7	488.9	570.7
Net Working Capital	816.3	1128.0	1184.5	1412.1
Miscellaneous expense	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1093.9</b>	<b>1444.5</b>	<b>1497.1</b>	<b>1714.9</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Book Value	172.8	206.7	222.1	270.3
Cash per share	98.5	113.0	103.8	130.8
EPS	39.8	41.9	49.7	66.9
Cash EPS	46.5	48.9	56.1	71.8
DPS	16.0	5.0	15.0	16.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	16.1	13.0	11.3	12.3
PAT Margin (%)	12.1	9.6	7.8	9.0
Fixed Asset Turnover (x)	6.4	7.8	11.6	14.0
Inventory Turnover (Days)	83.2	79.3	70.0	70.0
Debtor (Days)	41.7	49.3	45.0	45.0
Current Liabilities (Days)	76.6	57.1	55.0	55.0
<b>Return Ratios (%)</b>				
RoE	23.0	20.2	22.4	24.7
RoCE	21.4	17.4	22.2	25.6
RoIC	39.5	29.0	34.3	41.7
<b>Valuation Ratios (x)</b>				
PE	10.6	10.0	8.4	6.3
Price to Book Value	2.4	2.0	1.9	1.6
EV/EBITDA	6.9	6.8	5.4	3.9
EV/Sales	1.1	0.9	0.6	0.5
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.2	0.4	0.3	0.2
Interest Coverage (x)	15.8	26.0	10.3	19.2
Debt to EBITDA (x)	0.8	1.4	1.0	0.7
Current Ratio	3.3	4.2	3.4	3.5
Quick ratio	2.3	2.9	2.2	2.2

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	309	330	Hold	65,800	42.0	-11.2	55.3	7.4	-27.6	5.6	6.2	29.1	4.7	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	88	95	Hold	57,861	23.3	9.9	8.8	3.8	8.9	9.9	3.2	7.1	7.8	18.8	10.3	8.6	18.6	11.1	9.4
Gujarat Gas (GUJGA)	500	480	Hold	34,420	18.9	23.4	20.9	26.4	21.4	23.9	16.4	13.5	14.6	27.0	28.2	21.8	23.1	23.2	17.9
HPCL (HINPET)	204	220	Hold	28,946	44.9	-39.6	47.8	4.5	-5.2	4.3	7.4	-17.4	6.4	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	68	75	Hold	96,024	17.1	3.4	14.0	4.0	19.9	4.8	2.2	4.9	2.3	12.9	2.9	10.1	18.4	3.8	14.8
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	845	820	Hold	8,347	60.4	58.9	84.8	14.0	14.3	10.0	8.6	8.6	6.0	19.8	17.7	23.1	16.6	15.0	19.0
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	37.1	13.9	3.9	3.3	5.4	2.8	2.0	4.5	14.8	20.9	5.5	17.0	17.3
Petronet LNG (PETLNG)	200	210	Hold	30,000	22.3	18.3	19.1	8.9	10.9	10.5	5.5	6.4	5.8	27.0	20.6	20.6	25.0	19.5	19.3
Reliance Industries (RELIND)	2,472	2,700	Hold	16,72,274	89.7	94.5	118.0	27.5	26.2	20.9	18.0	13.6	11.2	7.1	8.7	10.3	7.8	7.6	8.7

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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