

Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR115 **TP: INR135 (+18%)** **Buy**

Outlook stable despite rising EV penetration

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$b)	113.5 / 1.4
52-Week Range (INR)	137 / 100
1, 6, 12 Rel. Per (%)	-4/-9/-2
12M Avg Val (INR M)	111

Financials & Valuations (INR b)

Y/E Dec	CY22	CY23E	CY23E
Sales	47.7	48.0	49.7
EBITDA	11.1	11.3	12.4
PAT	8.2	8.1	8.9
EPS (INR)	8.2	8.2	9.0
EPS Gr. (%)	7.5	-1.1	10.1
BV/Sh.(INR)	19.1	20.8	22.7

Ratios

Net D:E	-0.6	-0.7	-0.7
RoE (%)	46.2	40.9	41.3
RoCE (%)	46.3	41.2	41.5
Payout (%)	78.9	78.9	78.9

Valuations

P/E (x)	13.9	14.1	12.8
P/BV (x)	6.0	5.5	5.1
EV/EBITDA (x)	9.1	8.9	8.0
Div. Yield (%)	5.7	5.6	6.2
FCF Yield (%)	7.1	7.1	7.8

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	51.0	51.0	51.0
DII	16.6	16.6	16.0
FII	11.4	11.4	11.1
Others	21.0	21.0	21.9

FII Includes depository receipts

- CSTRL's EBITDA and PAT missed our estimates in 1QCY23, due to higher-than-estimated raw material costs and tax expenses. Realizations improved 12% YoY, but declined 4% QoQ in 1QCY23.
- Volumes increased 15% QoQ to 55m liters; however, it declined 7% YoY. The company gained market share in the car segment, while maintaining market share in the commercial and agricultural segment. However, it lost some market share in the two-wheeler segment.
- The management expects the core lubricant market to remain strong till 2040s. The car segment is expected to grow 20% over the next three to five years, due to low penetration of four-wheelers in India. The two-wheeler segment is also expected to grow in the near term; however, the adoption of EVs is expected to grow at a considerably faster pace in this segment.
- The company intends to grow at a slightly faster rate than market growth rate in the respective category of lubricants while also maintaining EBITDA margins in the 23-25% range.
- CSTRL has always enjoyed its brand legacy, and we believe it will be able to secure its profitability with a better product mix, cost control, and the launch of advanced products with better realization. **We reiterate our BUY rating on the stock.**

Miss led by higher RM costs and tax expenses

- Revenue was in line with our estimate at INR12.9b (up 5% YoY).
- EBITDA was 6% below our estimate at INR2.9b (est. INR3.1b, down 7% YoY) due to higher-than-estimated raw material costs.
- EBITDA margin came in at 22.8% (v/s 21.3% in 4QCY22).
- PAT was 11% below our estimate at INR2b (est. INR2.2b, down 11% YoY) due to higher-than-expected tax expenses.
- CSTRL invested INR4.9b in Ki Mobility Solutions Pvt. Ltd, with the first tranche of INR3.3b invested in Dec'22 and the second tranche of INR1.6b in Jan'23.

Strategic developments during the quarter

- Expanded its Castrol Auto Service (CAS) network to 300 and Castrol Bike points to over 5,000 across the country.
- On 28 Feb'23, Castrol unveiled its refreshed global brand identity, which aims to showcase its unique market positioning and its commitment to meeting evolving customer demands.
- Collaborated with JioCinema as an associate sponsor for the streaming of the 2023 TATA Indian Premier League.

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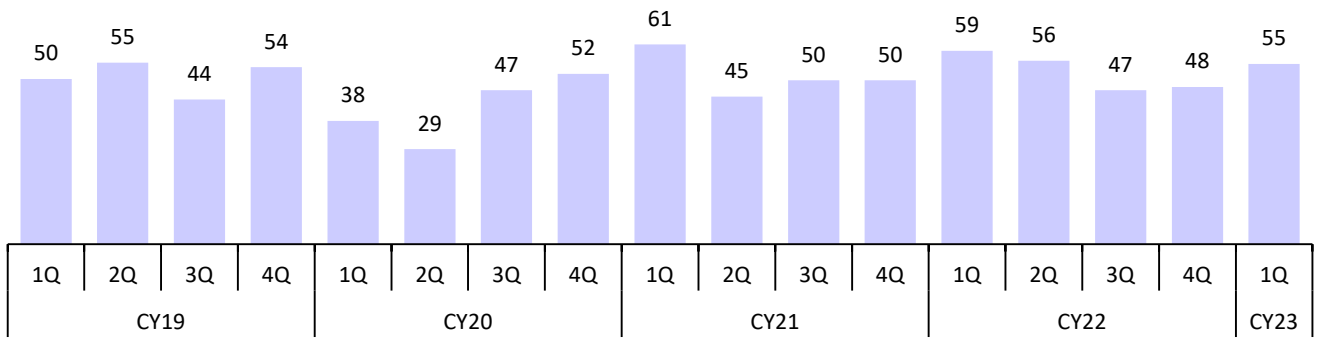
Valuation and view

- CY23 capex guidance stands at ~INR1b (for future years also). CSTR is expanding into new areas, such as Castrol Auto Services, and forming partnerships, like the one with Jio-BP (which may necessitate capex). These strategic moves are expected to help the company gain market share.
- CSTR is the perfect candidate for a value play with a return ratio of ~45% and dividend payout policy of >70% (translating into ~5-6% dividend yield).
- On a one-year forward P/E basis, the stock trades at a ~40% discount to its LT P/E average of 24.5x. We value the stock at 15x CY24E EPS to arrive at a TP of INR135. **We reiterate our BUY rating on the stock.**

Quarterly Performance

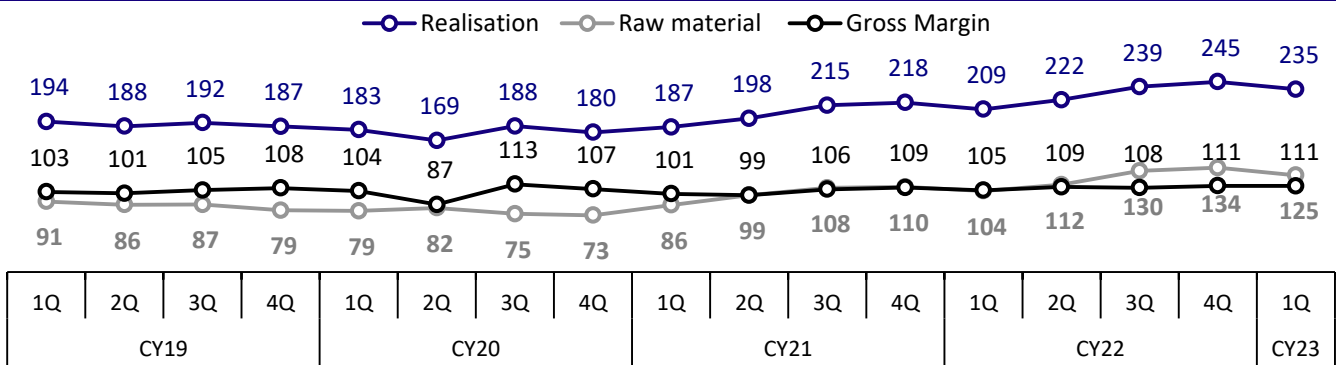
Y/E December	CY22				CY23				CY22	CY23E	CY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	55.4	53.1	52.8	210.0	216.3	55.5	-1%
Realization	209	222	239	245	235	229	222	202	227	222	235	0%
Net Sales	12,357	12,417	11,211	11,760	12,939	12,671	11,785	10,601	47,745	47,995	13,044	-1%
YoY Change (%)	8.5	39.6	4.5	7.8	4.7	2.0	5.1	-9.9	13.9	0.5	5.6	
EBITDA	3,172	2,861	2,571	2,506	2,950	2,834	2,761	2,751	11,111	11,296	3,133	-6%
YoY Change (%)	-6.7	44.9	-2.0	-5.7	-7.0	-0.9	7.4	9.7	4.2	1.7	-1.2	
Margin (%)	25.7	23.0	22.9	21.3	22.8	22.4	23.4	25.9	23.3	23.5	24.0	-1.2
Depreciation	202	196	208	208	227	231	231	234	814	922	227	
Interest	7	5	12	16	17	16	16	15	40	64	16	
Other Income	150	137	187	196	176	148	154	170	670	648	160	
PBT before EO expense	3,113	2,797	2,538	2,479	2,883	2,735	2,668	2,672	10,928	10,958	3,050	-5%
PBT	3,113	2,797	2,538	2,479	2,883	2,735	2,668	2,672	10,928	10,958	3,050	-5%
Tax	829	735	667	546	858	689	672	674	2,776	2,893	769	
Rate (%)	26.6	26.3	26.3	22.0	29.8	25.2	25.2	25.2	25.4	26.4	25.2	
PAT	2,284	2,063	1,872	1,933	2,025	2,046	1,996	1,999	8,152	8,065	2,281	-11%
YoY Change (%)	-6.2	47.3	0.7	2.5	-11.3	-0.8	6.6	3.4	7.5	-1.1	-0.1	
Operational Details (INR/lit)												
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	55.4	53.1	52.8	210.0	216.3	55.5	-1%
Realization	209.4	221.7	238.5	245.0	235.3	228.5	221.9	201.9	227.4	221.9	235.2	0%
Gross margin	105.1	109.5	108.4	110.9	110.7	109.8	109.9	110.1	108.3	109.9	116.5	-5%
EBITDA	53.8	51.1	54.7	52.2	53.6	51.1	52.0	52.1	52.9	52.2	56.5	-5%
PAT	38.7	36.8	39.8	40.3	36.8	36.9	37.6	37.9	38.8	37.3	41.1	-10%

Exhibit 1: Volume stood at 55m lit. (down 6.8% YoY and up 14.6% QoQ)



Source: Company, MOFSL

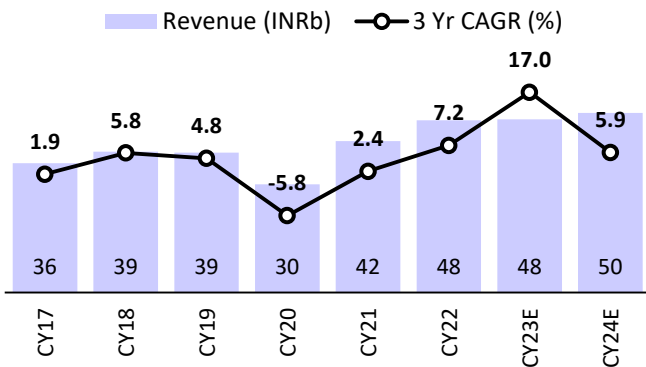
Exhibit 2: Realization was at INR235/liter (up 12.3% YoY, down 4% QoQ)



Source: Company, MOFSL

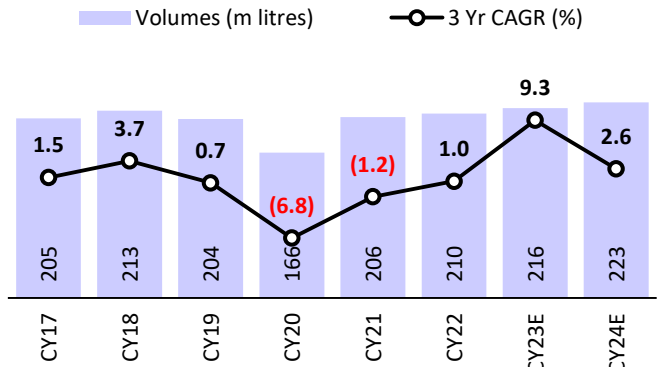
Story in charts

Exhibit 3: Revenue is expected to cross INR45b in CY23



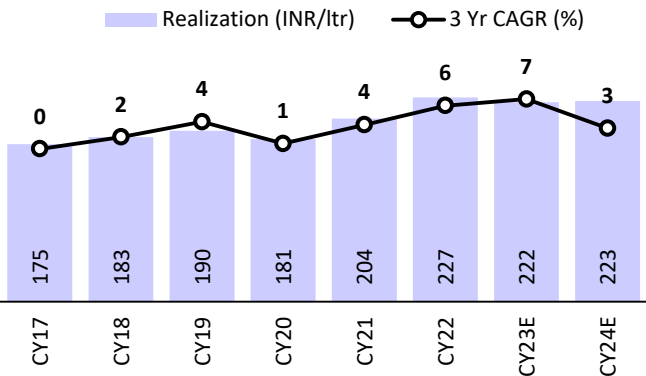
Source: Company, MOFSL

Exhibit 4: ...led by increase in volumes and pricing action



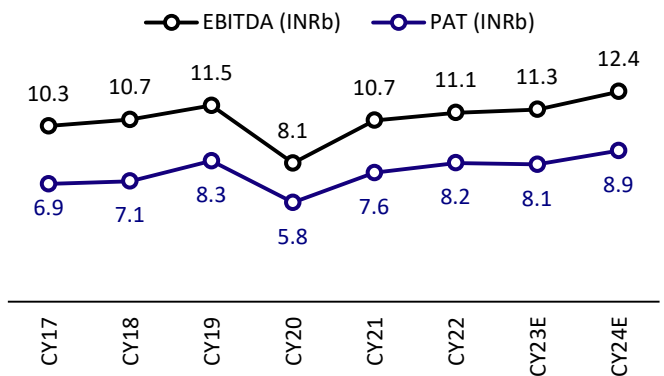
Source: Company, MOFSL

Exhibit 5: Realizations are likely to be at INR222/lit for CY23



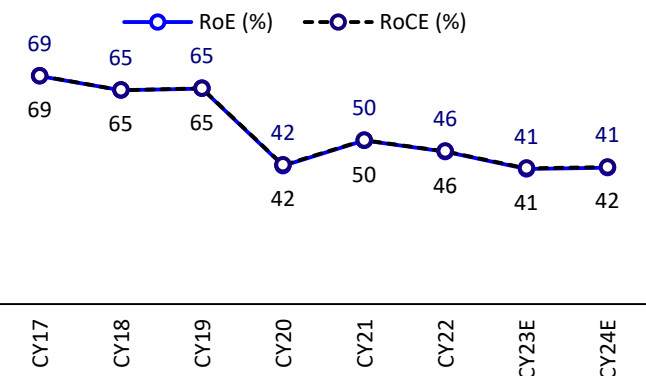
Source: Company, MOFSL

Exhibit 6: ...clocking an improvement in EBITDA



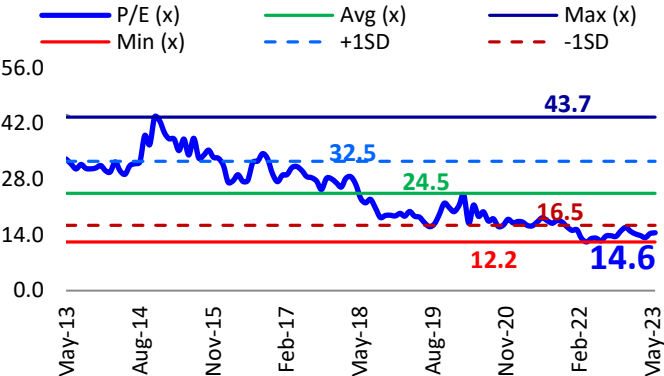
Source: Company, MOFSL

Exhibit 7: Return ratios are expected to decline



Source: Company, MOFSL

Exhibit 8: Castrol trades at 14.6x on 1-year fwd. P/E basis



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR m)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Net sales	35,843	39,046	38,768	29,969	41,921	47,745	47,995	49,742
Change (%)	6.3	8.9	-0.7	-22.7	39.9	13.9	0.5	3.6
Gross Margin	19,183	19,980	21,291	17,306	21,332	22,746	23,772	25,336
Margin (%)	53.5	51.2	54.9	57.7	50.9	47.6	49.5	50.9
EBITDA	10,330	10,708	11,530	8,141	10,660	11,111	11,296	12,351
Margin (%)	28.8	27.4	29.7	27.2	25.4	23.3	23.5	24.8
Depreciation	455	556	697	866	827	814	922	1,023
EBIT	9,875	10,152	10,833	7,275	9,833	10,297	10,373	11,329
Interest Charges	12	11	12	42	24	40	64	57
Other Income	837	843	648	620	484	670	648	603
PBT bef. EO Exp.	10,700	10,984	11,469	7,853	10,293	10,928	10,958	11,875
Income tax	3,782	3,901	3,195	2,024	2,712	2,776	2,893	2,992
Tax Rate (%)	35.3	35.5	27.9	25.8	26.3	25.4	26.4	25.2
Reported PAT	6,918	7,083	8,274	5,829	7,581	8,152	8,065	8,882
Change (%)	3.2	2.4	16.8	-29.6	30.1	7.5	-1.1	10.1
Margin (%)	19.3	18.1	21.3	19.5	18.1	17.1	16.8	17.9

Standalone - Balance Sheet

(INR m)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Equity Share Capital	4,946	4,946	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	5,256	6,711	8,724	9,197	11,510	13,915	15,619	17,496
Net Worth	10,202	11,657	13,670	14,143	16,456	18,861	20,565	22,441
Capital Employed	10,202	11,657	13,670	14,143	16,456	18,861	20,565	22,441
Gross Block	4,404	5,440	6,267	6,885	7,701	8,709	9,709	10,709
Less: Accum. Deprn.	3,040	3,596	4,293	5,159	5,986	6,800	7,722	8,744
Net Fixed Assets	1,364	1,844	1,974	1,726	1,715	1,909	1,987	1,964
Capital WIP	599	366	296	453	500	608	1,000	1,000
Curr. Assets, Loans&Adv.	17,255	18,325	19,433	21,134	24,111	24,240	25,510	27,702
Inventory	3,196	4,568	3,047	3,669	4,917	5,344	5,353	5,454
Account Receivables	2,850	3,918	4,820	1,805	3,117	3,504	3,522	3,651
Cash and Bank Balance	7,842	7,438	9,461	12,742	13,002	12,177	13,402	15,248
Cash	2,155	2,637	672	1,947	1,842	5,545	6,770	8,616
Bank Balance	5,688	4,802	8,788	10,795	11,160	6,632	6,632	6,632
Loans and Advances	3,367	2,401	2,105	2,918	3,075	3,215	3,232	3,349
Curr. Liability & Prov.	9,568	9,411	8,618	9,792	10,584	11,832	11,868	12,161
Account Payables	6,066	5,840	4,718	5,456	6,206	6,789	6,801	6,929
Other Current Liabilities	2,967	3,111	3,403	3,793	3,862	4,516	4,540	4,705
Provisions	535	460	497	543	516	527	527	527
Net Current Assets	7,687	8,914	10,815	11,342	13,527	12,408	13,642	15,541
Deferred Tax assets	551	533	585	622	714	686	686	686
Appl. of Funds	10,201	11,657	13,670	14,143	16,456	18,861	20,565	22,441

Financials and Valuations

Ratios

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Basic (INR)								
EPS	7.0	7.2	8.4	5.9	7.7	8.2	8.2	9.0
Cash EPS	7.5	7.7	9.1	6.8	8.5	9.1	9.1	10.0
BV/Share	10.3	11.8	13.8	14.3	16.6	19.1	20.8	22.7
DPS	4.7	5.0	5.5	5.5	5.5	6.5	6.4	7.1
Payout (%)	81.7	84.0	79.1	93.3	71.8	78.9	78.9	78.9
Valuation (x)								
P/E	16.4	16.0	13.7	19.5	15.0	13.9	14.1	12.8
Cash P/E	15.4	14.9	12.7	17.0	13.5	12.7	12.6	11.5
P/BV	11.1	9.7	8.3	8.0	6.9	6.0	5.5	5.1
EV/Sales	2.9	2.7	2.7	3.4	2.4	2.1	2.1	2.0
EV/EBITDA	10.2	9.9	9.0	12.4	9.4	9.1	8.9	8.0
Dividend Yield (%)	4.1	4.4	4.8	4.8	4.8	5.7	5.6	6.2
FCF per share	5.8	4.8	7.9	8.6	5.5	8.2	8.1	9.0
Return Ratios (%)								
RoE	69.1	64.8	65.3	41.9	49.6	46.2	40.9	41.3
RoCE	69.2	64.9	65.4	42.1	49.7	46.3	41.2	41.5
Working Capital Ratios								
Asset Turnover (x)	3.5	3.3	2.8	2.1	2.5	2.5	2.3	2.2
Inventory (Days)	33	43	29	45	43	41	41	40
Debtor (Days)	25	32	39	19	24	23	23	23
Creditor (Days)	62	55	44	66	54	52	52	51
Leverage Ratio (x)								
Net Debt/Equity	-0.8	-0.6	-0.7	-0.9	-0.8	-0.6	-0.7	-0.7

Standalone - Cash Flow Statement

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
(INR m)								
OP/(Loss) before Tax	10,701	10,984	11,469	7,853	10,293	10,928	10,958	11,875
Depreciation	455	556	694	866	827	814	922	1,023
Interest & Finance Charges	12	11	12	42	24	40	64	57
Direct Taxes Paid	-3,892	-3,997	-3,087	-2,396	-2,798	-2,740	-2,893	-2,992
(Inc)/Dec in WC	-654	-1,487	126	3,040	-1,826	307	-9	-53
CF from Operations	6,083	5,495	8,795	8,928	6,303	9,159	9,042	9,909
(Inc)/Dec in FA	-355	-780	-993	-417	-832	-1,097	-1,000	-1,000
Free Cash Flow	5,728	4,715	7,802	8,511	5,471	8,062	8,042	8,909
CF from Investments	1,514	661	-4,483	-2,010	-831	618	-1,392	-1,000
Interest Paid	-10	-10	-11	-12	-12	-11	-64	-57
Dividend Paid	-6,548	-5,664	-6,266	-5,631	-5,425	-5,935	-6,361	-7,006
CF from Fin. Activity	-6,558	-5,674	-6,277	-5,643	-5,577	-6,075	-6,425	-7,063
Inc/Dec of Cash	1,039	482	-1,965	1,275	-105	3,702	1,225	1,846
Opening Balance	1,116	2,155	2,637	672	1,947	1,842	5,545	6,770
Closing Balance	2,154	2,637	672	1,947	1,842	5,544	6,770	8,616

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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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