

Castrol (India)

Estimate change 

TP change 

Rating change 



SAVE THE DATE

21st Aug - 25th Aug, 2023

Witness the unfolding of our grandeur event, as the curtain rises!

INDIA RISING | NATION ON THE MOVE

Bloomberg	CSTR.L IN
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$b)	142.7 / 1.7
52-Week Range (INR)	152 / 108
1, 6, 12 Rel. Per (%)	17/10/13
12M Avg Val (INR M)	136

Financials & Valuations (INR b)

Y/E Dec	CY22	CY23E	CY23E
Sales	47.7	47.2	50.5
EBITDA	11.1	11.7	12.7
PAT	8.2	8.4	9.3
EPS (INR)	8.2	8.5	9.4
EPS Gr. (%)	7.5	2.8	11.2
BV/Sh.(INR)	19.1	20.9	22.8

Ratios

Net D:E	-0.6	-0.7	-0.7
RoE (%)	46.2	42.4	43.1
RoCE (%)	46.3	42.7	43.3
Payout (%)	78.9	78.9	78.9

Valuations

P/E (x)	17.6	17.1	15.4
P/BV (x)	7.6	6.9	6.3
EV/EBITDA (x)	11.8	11.1	10.1
Div. Yield (%)	4.5	4.6	5.1
FCF Yield (%)	5.6	5.8	6.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	51.0	51.0	51.0
DII	16.5	16.6	16.3
FII	11.4	11.4	10.7
Others	21.1	21.0	22.1

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

CMP: INR144

TP: INR170 (+18%)

Buy

Near-term outlook stable despite rising EV penetration

- Castrol (CSTR.L)'s revenue grew 7% YoY to INR13.3b driven by 4% YoY growth in volumes and 4% YoY improvement in realizations. EBITDAM also improved marginally by 20bp YoY in 1QCY23.
- Volumes increased 4% YoY to 58m liters. Management highlighted that volumes were adversely impacted in 2HCY22 due to price hikes taken by the company to combat cost inflation. However, management expects volume recovery during 2HCY23 as inflation has moderated.
- Further, CSTR.L does not expect any margin compression as it has adequate pricing power due to its strong brand. The company also constantly works on new formulations to reduce costs. The EBITDAM guidance stands at 23-26%.
- Management expects the Indian lubricant market to grow until 2040 driven by the car segment, which is expected to grow 20% over the next three to five years, due to low penetration of four-wheelers in India. CSTR.L intends to grow at a faster rate than the overall lubricant market in each segment.
- CSTR.L 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 with a TP of INR170.**

In-line performance; margin expands slightly

- Revenue was in line with our estimate at INR13.3b (up 7% YoY) in 1QCY23.
- EBITDA was in line too at INR3.1b (our est. of INR3.2b; up 8% YoY).
- EBITDA margin stood at 23.2% (vs. 22.8% in 1QCY23).
- PAT was in line with our estimate at INR2.3b (up 9% YoY) in 1QCY23.
- The Board has recommended an interim dividend of INR3 during the quarter

Strategic developments during the quarter

- Expanded portfolio with Castrol Auto Care products: Chain Cleaner, Chain Lube, 3-in-1 Shiner, 1-Step Polishing Compound, and Anti-Rust Lubricant Spray
- Pursuant to an agreement with Mahindra Insurance Brokers Limited, Castrol Auto Service (CAS) workshops can now potentially offer automotive insurance products digitally alongside repair and maintenance services for their customers' vehicles.
- Launched Castrol CRB ESSENTIAL, an affordable commercial vehicle engine oil with five product variants catering to different specifications.
- Launched MAGNATEC SUV 5W30, a premium full-synthetic oil offering for SUVs. It has gained an overwhelmingly positive response, from many SUV customers.
- Achieved 100% renewable electricity at the Patalganga plant, reducing approximately 1,300 MT of carbon emissions annually.

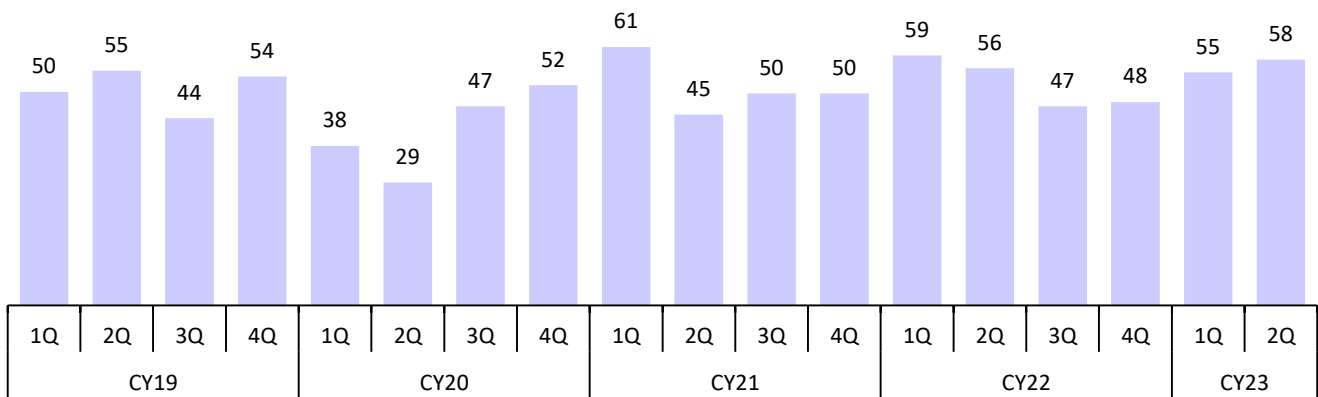
Valuation and view

- CY23 capex guidance stands at ~INR1b (for future years also) as per earlier guidance. 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 has maintained a robust return ratio of ~45% and dividend payout policy of >70% that translates into ~4-5% dividend yield.
- The stock trades at 17.1x CY23E EPS of INR8.5. We value the stock at 18x CY24E EPS to arrive at our TP of INR170. **We reiterate our BUY rating on the stock.**

Quarterly Performance**(INR m)**

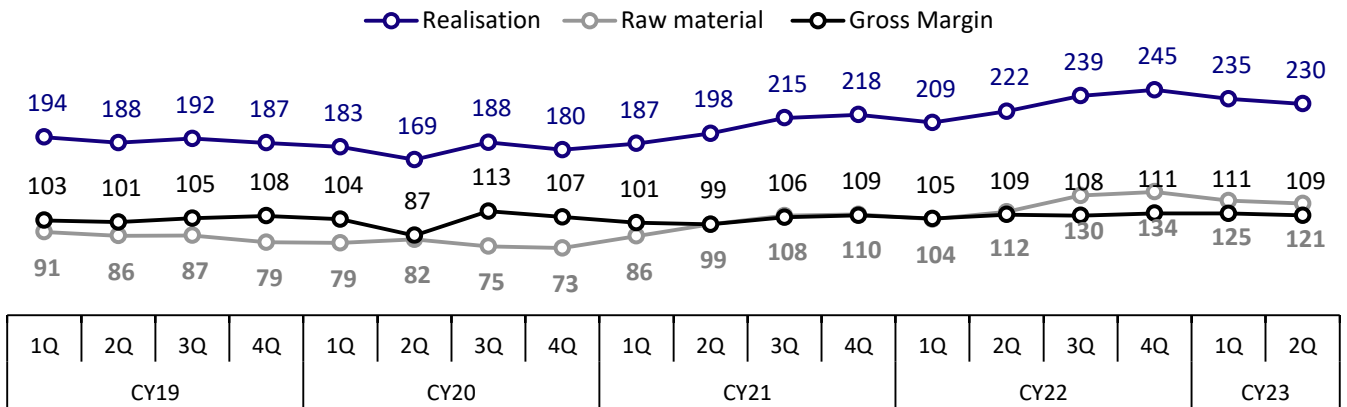
Y/E December	CY22				CY23				CY22	CY23E	CY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	58.0	51.7	53.7	210.0	218.4	57.7	1%
Realization	209	222	239	245	235	230	216	183	227	216	222	3%
Net Sales	12,357	12,417	11,211	11,760	12,939	13,338	11,163	9,717	47,745	47,157	12,829	4%
YoY Change (%)	8.5	39.6	4.5	7.8	4.7	7.4	-0.4	-17.4	13.9	-1.2	3.3	
EBITDA	3,172	2,861	2,571	2,506	2,950	3,098	2,782	2,845	11,111	11,675	3,175	-2%
YoY Change (%)	-6.7	44.9	-2.0	-5.7	-7.0	8.3	8.2	13.5	4.2	5.1	11.0	
Margin (%)	25.7	23.0	22.9	21.3	22.8	23.2	24.9	29.3	23.3	24.8	24.7	-0.1
Depreciation	202	196	208	208	227	218	231	246	814	922	231	
Interest	7	5	12	16	17	15	16	17	40	64	16	
Other Income	150	137	187	196	176	186	165	168	670	694	159	
PBT before EO expense	3,113	2,797	2,538	2,479	2,883	3,050	2,700	2,750	10,928	11,383	3,086	-1%
PBT	3,113	2,797	2,538	2,479	2,883	3,050	2,700	2,750	10,928	11,383	3,086	-1%
Tax	829	735	667	546	858	797	680	670	2,776	3,005	778	
Rate (%)	26.6	26.3	26.3	22.0	29.8	26.1	25.2	24.4	25.4	26.4	25.2	
PAT	2,284	2,063	1,872	1,933	2,025	2,253	2,020	2,080	8,152	8,378	2,309	-2%
YoY Change (%)	-6.2	47.3	0.7	2.5	-11.3	9.2	7.9	7.6	7.5	2.8	11.9	
Operational Details (INR/lit)												
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	58.0	51.7	53.7	210.0	218.4	57.7	1%
Realization	209.4	221.7	238.5	245.0	235.3	230.0	215.9	182.5	227.4	215.9	222.4	3%
Gross margin	105.1	109.5	108.4	110.9	110.7	108.5	110.9	110.8	108.3	109.8	112.0	-3%
EBITDA	53.8	51.1	54.7	52.2	53.6	53.4	53.8	53.0	52.9	53.5	55.0	-3%
PAT	38.7	36.8	39.8	40.3	36.8	38.8	39.1	38.7	38.8	38.4	40.0	-3%

Exhibit 1: Volume stood at 58m liter (up 3.6% YoY and 5.5% QoQ)



Source: Company, MOFSL

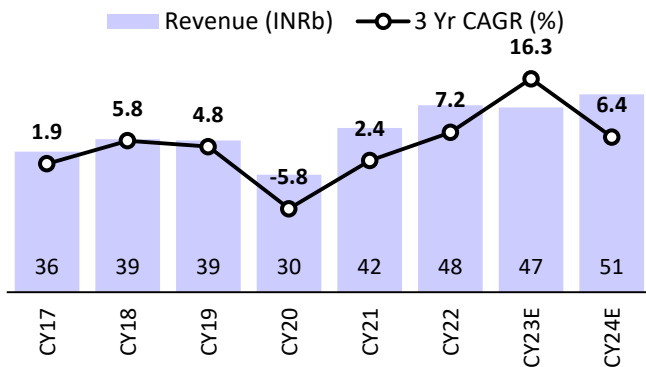
Exhibit 2: Realization was at INR230/liter (up 3.7% YoY, down 2.3% QoQ)



Source: Company, MOFSL

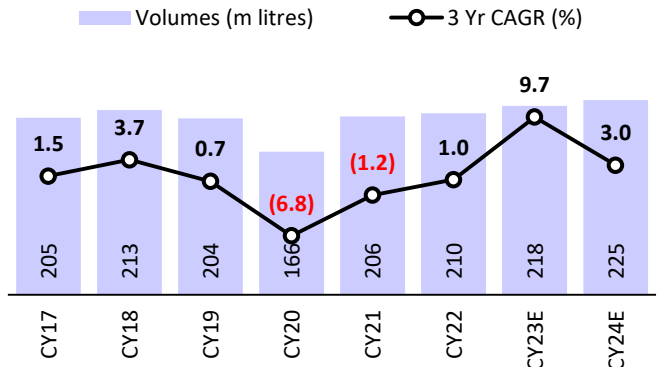
Story in charts

Exhibit 3: Revenue is expected to cross INR50b in CY24...



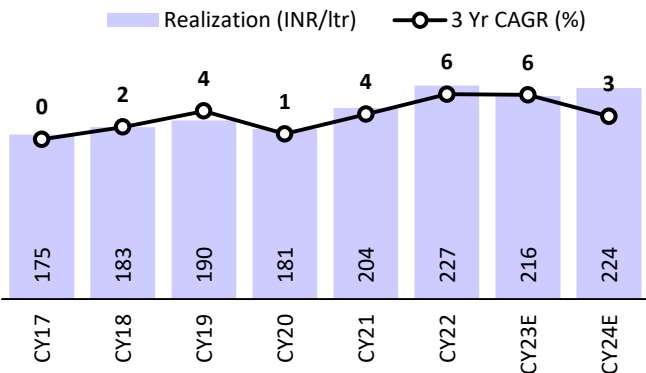
Source: Company, MOFSL

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



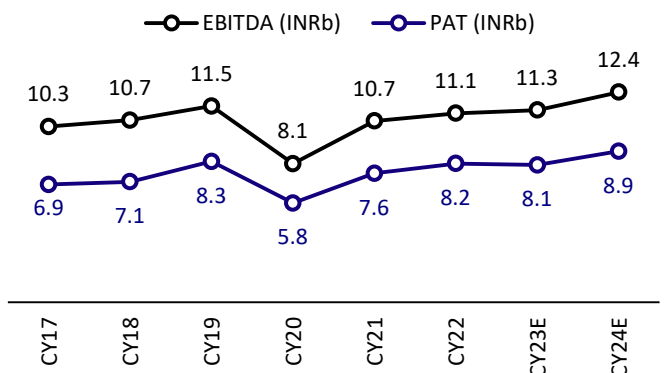
Source: Company, MOFSL

Exhibit 5: Realizations are likely to be at INR216/lit for CY23...



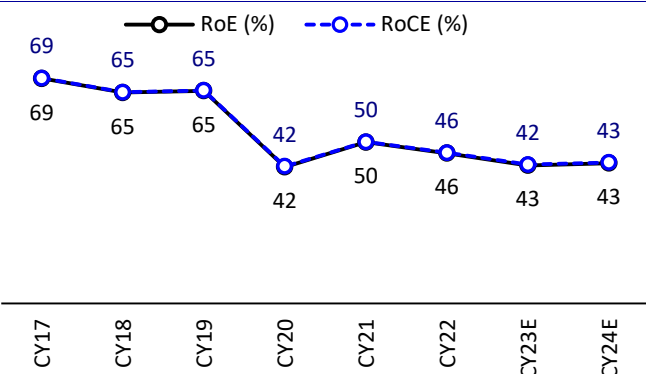
Source: Company, MOFSL

Exhibit 6: ...with EBITDA improving to INR11.3b



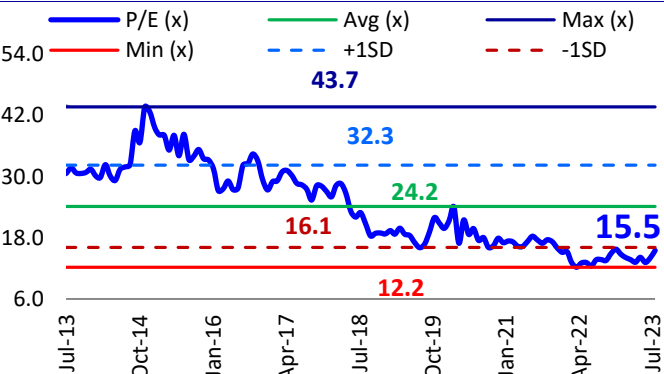
Source: Company, MOFSL

Exhibit 7: Return ratios are expected to decline



Source: Company, MOFSL

Exhibit 8: Castrol's 1-year forward P/E chart



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	47,157	50,501
Change (%)	6.3	8.9	-0.7	-22.7	39.9	13.9	-1.2	7.1
Gross Margin	19,183	19,980	21,291	17,306	21,332	22,746	23,983	25,837
Margin (%)	53.5	51.2	54.9	57.7	50.9	47.6	50.9	51.2
EBITDA	10,330	10,708	11,530	8,141	10,660	11,111	11,675	12,701
Margin (%)	28.8	27.4	29.7	27.2	25.4	23.3	24.8	25.1
Depreciation	455	556	697	866	827	814	922	941
EBIT	9,875	10,152	10,833	7,275	9,833	10,297	10,752	11,760
Interest Charges	12	11	12	42	24	40	64	57
Other Income	837	843	648	620	484	670	694	754
PBT bef. EO Exp.	10,700	10,984	11,469	7,853	10,293	10,928	11,383	12,456
Income tax	3,782	3,901	3,195	2,024	2,712	2,776	3,005	3,139
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	8,378	9,317
Change (%)	3.2	2.4	16.8	-29.6	30.1	7.5	2.8	11.2
Margin (%)	19.3	18.1	21.3	19.5	18.1	17.1	17.8	18.4

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	15,685	17,654
Net Worth	10,202	11,657	13,670	14,143	16,456	18,861	20,631	22,599
Capital Employed	10,202	11,657	13,670	14,143	16,456	18,861	20,631	22,599
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	8,663
Net Fixed Assets	1,364	1,844	1,974	1,726	1,715	1,909	1,987	2,046
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	25,271	27,926
Inventory	3,196	4,568	3,047	3,669	4,917	5,344	5,176	5,514
Account Receivables	2,850	3,918	4,820	1,805	3,117	3,504	3,461	3,706
Cash and Bank Balance	7,842	7,438	9,461	12,742	13,002	12,177	13,459	15,305
Cash	2,155	2,637	672	1,947	1,842	5,545	6,827	8,673
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	3,175	3,401
Curr. Liability & Prov.	9,568	9,411	8,618	9,792	10,584	11,832	11,563	12,309
Account Payables	6,066	5,840	4,718	5,456	6,206	6,789	6,576	7,005
Other Current Liabilities	2,967	3,111	3,403	3,793	3,862	4,516	4,460	4,777
Provisions	535	460	497	543	516	527	527	527
Net Current Assets	7,687	8,914	10,815	11,342	13,527	12,408	13,708	15,617
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	20,631	22,599

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	8.5	9.4
Cash EPS	7.5	7.7	9.1	6.8	8.5	9.1	9.4	10.4
BV/Share	10.3	11.8	13.8	14.3	16.6	19.1	20.9	22.8
DPS	4.7	5.0	5.5	5.5	5.5	6.5	6.7	7.4
Payout (%)	81.7	84.0	79.1	93.3	71.8	78.9	78.9	78.9
Valuation (x)								
P/E	20.7	20.2	17.3	24.6	18.9	17.6	17.1	15.4
Cash P/E	19.4	18.7	16.0	21.4	17.0	16.0	15.4	14.0
P/BV	14.0	12.3	10.5	10.1	8.7	7.6	6.9	6.3
EV/Sales	3.8	3.5	3.4	4.4	3.1	2.7	2.8	2.5
EV/EBITDA	13.1	12.7	11.6	16.0	12.2	11.8	11.1	10.1
Dividend Yield (%)	3.3	3.5	3.8	3.8	3.8	4.5	4.6	5.1
FCF per share	5.8	4.8	7.9	8.6	5.5	8.2	8.4	9.4
Return Ratios (%)								
RoE	69.1	64.8	65.3	41.9	49.6	46.2	42.4	43.1
RoCE	69.2	64.9	65.4	42.1	49.7	46.3	42.7	43.3
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	40	40
Debtor (Days)	25	32	39	19	24	23	23	23
Creditor (Days)	62	55	44	66	54	52	51	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	11,383	12,456
Depreciation	455	556	694	866	827	814	922	941
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	-3,005	-3,139
(Inc)/Dec in WC	-654	-1,487	126	3,040	-1,826	307	-18	-63
CF from Operations	6,083	5,495	8,795	8,928	6,303	9,159	9,346	10,253
(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	8,346	9,253
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	-6,608	-7,349
CF from Fin. Activity	-6,558	-5,674	-6,277	-5,643	-5,577	-6,075	-6,671	-7,406
Inc/Dec of Cash	1,039	482	-1,965	1,275	-105	3,702	1,282	1,846
Opening Balance	1,116	2,155	2,637	672	1,947	1,842	5,545	6,827
Closing Balance	2,154	2,637	672	1,947	1,842	5,544	6,827	8,673

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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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