

Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	137.7 / 1.7
52-Week Range (INR)	163 / 107
1, 6, 12 Rel. Per (%)	3/10/4
12M Avg Val (INR M)	178

Financials & Valuations (INR b)

Y/E Dec	CY22	CY23E	CY24E
Sales	47.7	50.9	54.3
EBITDA	11.1	11.4	12.0
PAT	8.2	8.2	8.8
EPS (INR)	8.2	8.2	8.9
EPS Gr. (%)	7.5	0.0	8.2
BV/Sh.(INR)	19.1	20.8	22.7

Ratios

Net D:E	-0.6	-0.7	-0.7
RoE (%)	46.2	41.3	41.0
RoCE (%)	46.3	41.6	41.3
Payout (%)	78.9	78.9	78.9

Valuations

P/E (x)	16.9	16.9	15.6
P/BV (x)	7.3	6.7	6.1
EV/EBITDA (x)	11.3	10.9	10.2
Div. Yield (%)	4.7	4.7	5.0
FCF Yield (%)	5.8	5.9	6.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	51.0	51.0	51.0
DII	16.5	16.5	16.1
FII	11.0	11.4	10.8
Others	21.5	21.1	22.1

FII Includes depository receipts

CMP: INR139

TP: INR160 (+15%)

Buy

Confident on growth ahead, despite seasonal hit on volumes

- Castrol (CSTRL)'s revenue grew 6% YoY to INR11.8b, driven by 9% YoY growth in volumes, although realization declined 3% YoY. Volatility in crude oil, inflationary pressures, and global uncertainties still exist. EBITDAM declined 20bp YoY to 22.7%, led by additive prices being 15-20% higher than in 3QCY22. Base oil prices are expected to rise in the next three to six months.
- Volume stood at 51m, down sequentially due to seasonality, with the decline attributed to the weakened demand in Agriculture during the monsoon season. Management highlighted that volumes from the PV segment stood at 40%, CV at 35%, and industrial volumes at 15%. The management remains optimistic about sustaining growth in 4QCY23.
- CSTRL is actively working toward thermal solutions for EV batteries, with existing fluids designed for EVs already in its portfolio. Last year, BP (parent of CSTRL) announced a global investment of EUR50m in thermal management of batteries, underscoring the company's keen interest in this field.
- Further, management pointed out that there is low penetration of cars in India because of which lubricant demand would stay robust till late 2030s and early 2040s. The threat from EVs is real, but the penetration of the same would happen gradually over a period of time.
- 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 with a TP of INR160.**

Beat on EBITDA and PAT

- Revenue was in line with our estimate at INR11.8b (up 6% YoY).
- EBITDA stood at INR2.7b (our est. of INR2.5b, up 4% YoY)
- **EBITDAM stood at 22.7% (vs. 22.9% in 3QCY22)**
- PAT was at INR1.9b (our est. of INR1.8b, up 4% YoY)
- For 9MCY23**, revenue stood at INR38b (up 6% YoY), EBITDA at INR8.7b (up 1% YoY), and PAT at INR6.2b (up 1% YoY).
- EBITDAM was at 22.9% (down 100bp YoY). 9MCY23 EBITDA stood at 78% of our CY23 full-year estimate.

Other key highlights

- The newly launched auto care range is now available in over 18K outlets.
- Castrol Power1 partnered with Jio Cinema as Associate Streaming Partner of Bharat GP.
- The company has expanded its footprint to 1.2K multi-brand passenger car workshops, over 5.5K bike points, and 47 Castrol Express oil change outlets at Jio-bp sites.

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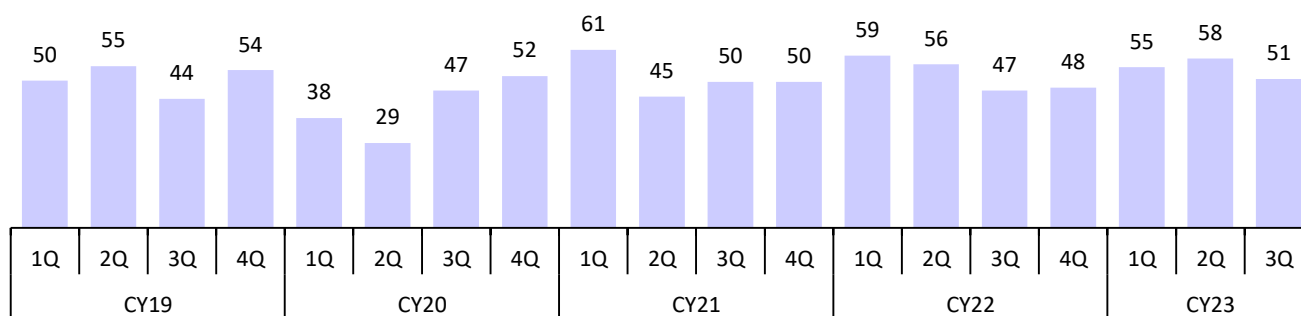
Valuation and view

- The company's various initiatives should help enhance its market position significantly. The new auto care segment is gaining traction for CSTR, and the management holds a positive outlook for this business segment. The company plans to expand the segment's product portfolio and is also exploring opportunities to widen its service networks.
- The company's primary focus will be on the Ki mobility partnership (along with expansion of existing portfolio) as this strategy is anticipated to be beneficial for the automotive market. CSTR has maintained a robust return ratio of ~46% and dividend payout policy of >75% that translates into a dividend yield of ~4.5%.
- The stock trades at 15.6x CY24E EPS of INR8.9 and 10.2x CY24E EV/EBITDA. We value the stock at 18x CY24E EPS to arrive at our TP of INR160. We reiterate our BUY rating on the stock.

Quarterly Performance

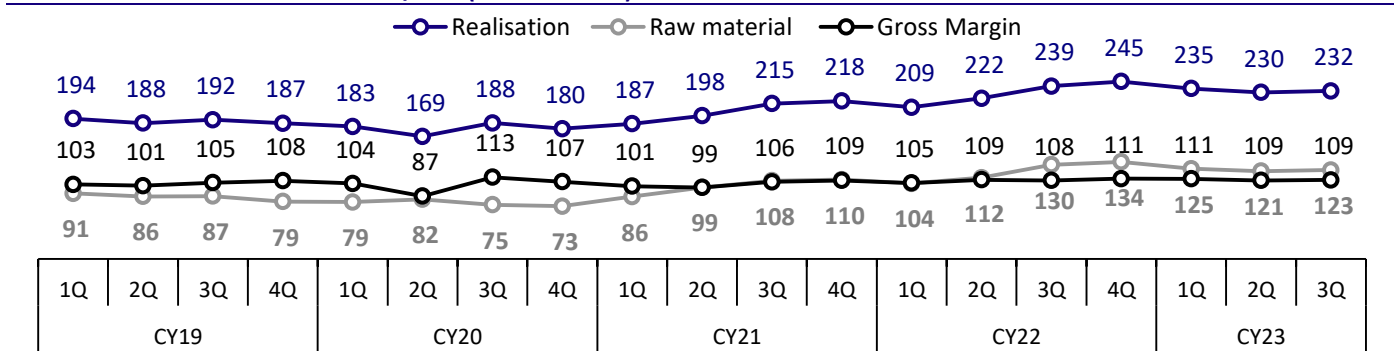
Y/E December	CY22				CY23				CY22	CY23E	CY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	58.0	51.0	54.4	210.0	218.4	51.7	-1%
Realization	209	222	239	245	235	230	232	235	227	233	231	1%
Net Sales	12,357	12,417	11,211	11,760	12,939	13,338	11,829	12,790	47,745	50,896	11,928	-1%
YoY Change (%)	8.5	39.6	4.5	7.8	4.7	7.4	5.5	8.8	13.9	6.6	6.4	
EBITDA	3,172	2,861	2,571	2,506	2,950	3,098	2,686	2,648	11,111	11,382	2,511	7%
YoY Change (%)	-6.7	44.9	-2.0	-5.7	-7.0	8.3	4.4	5.7	4.2	2.4	-2.4	
Margin (%)	25.7	23.0	22.9	21.3	22.8	23.2	22.7	20.7	23.3	22.4	21.1	0.1
Depreciation	202	196	208	208	227	218	229	234	814	909	231	
Interest	7	5	12	16	17	15	24	25	40	80	16	
Other Income	150	137	187	196	176	186	202	228	670	792	165	
PBT before EO expense	3,113	2,797	2,538	2,479	2,883	3,050	2,635	2,617	10,928	11,185	2,429	8%
PBT	3,113	2,797	2,538	2,479	2,883	3,050	2,635	2,617	10,928	11,185	2,429	8%
Tax	829	735	667	546	858	797	691	685	2,776	3,031	612	
Rate (%)	26.6	26.3	26.3	22.0	29.8	26.1	26.2	26.2	25.4	27.1	25.2	
PAT	2,284	2,063	1,872	1,933	2,025	2,253	1,944	1,932	8,152	8,154	1,817	7%
YoY Change (%)	-6.2	47.3	0.7	2.5	-11.3	9.2	3.9	-0.1	7.5	0.0	-2.9	
Operational Details (INR/lit)												
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	58.0	51.0	54.4	210.0	218.4	51.7	-1%
Realization	209.4	221.7	238.5	245.0	235.3	230.0	231.9	235.0	227.4	233.0	230.7	1%
Gross margin	105.1	109.5	108.4	110.9	110.7	108.5	109.2	104.8	108.3	108.3	106.1	3%
EBITDA	53.8	51.1	54.7	52.2	53.6	53.4	52.7	48.7	52.9	52.1	48.6	8%
PAT	38.7	36.8	39.8	40.3	36.8	38.8	38.1	35.5	38.8	37.3	35.1	8%

Exhibit 1: Volume stood at 51m liter (up 9% YoY)



Source: Company, MOFSL

Exhibit 2: Realization was at INR232/liter (down 3% YoY)



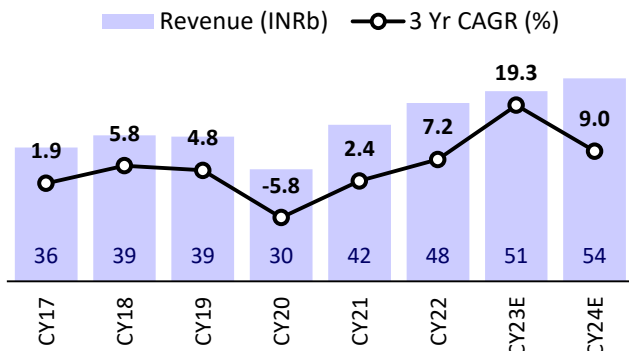
Source: Company, MOFSL

Management Concall Highlights

- Volume in 3QCY23 was at 51m
- Seasonality impact due to monsoons and Agri demand
- 40% volumes from PV, 35% from CV, and 15% would be industrial volumes
- Innovation in product and services helped sustained performance in the quarter
- There was volatility in crude oil, inflationary pressures and global uncertainties
- Management is optimistic that the growth would sustain in 4QCY23 as well
- Auto care range is gaining good traction for CSTRL
- Management is optimistic about the business due to the positive response received from both consumers and customers
- Would be adding more products in the portfolio
- Sales contribution is in lower single digit, but would grow in the future
- Continues to expand service networks
- Varied initiatives should help the company strengthen its market position
- Management is actively working towards thermal solutions for EV batteries with existing fluids designed for EVs already in its portfolio
- BP had announced a £50m investment globally toward thermal management of batteries
- Low penetration of cars in India and management expects the
- Indian lubricant market to be strong till late 2030s and 2040s
- Emergence of EV would be a gradual process
- Have three plants in India
- Manufactures all lubricants except for a minimal quantity of very high-quality lubricants, which are imported
- India is a base oil (most important RM for lubricant manufacturing) deficit country and that has to be imported
- Base Oil has been flattish on a sequential basis
- Management expects prices to up in the next 3-6 months
- Price of additives have gone up 15-20% YoY
- Synthetics growth is in the range of 10-12%
- Management is committed to the Ki Mobility partnership as this strategy would be beneficial for the after sales service in the automotive market

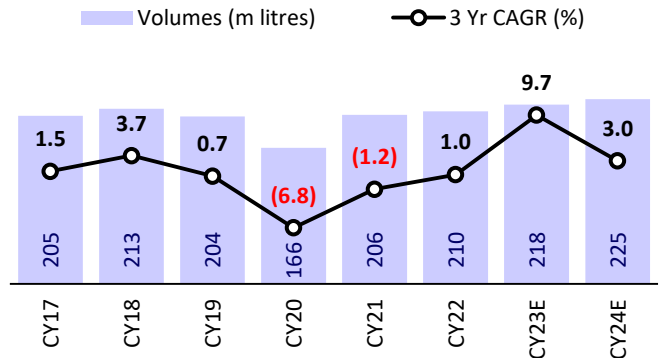
Story in charts

Exhibit 3: Revenue is expected to cross INR50b in CY23...



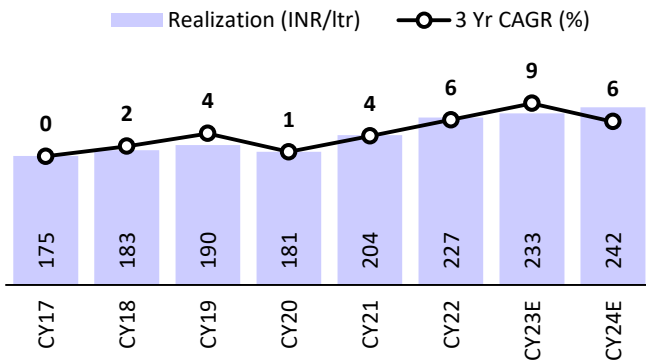
Source: Company, MOFSL

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



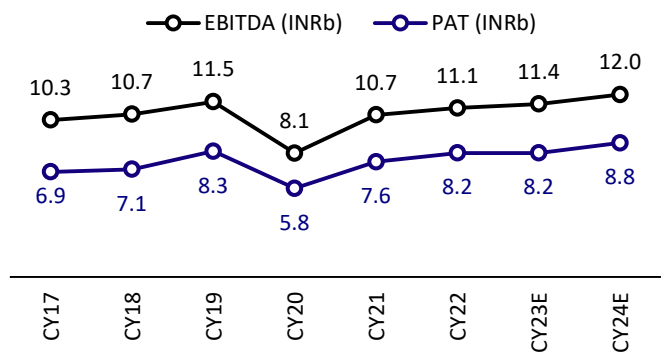
Source: Company, MOFSL

Exhibit 5: Realizations are likely to be at INR233/lit for CY23...



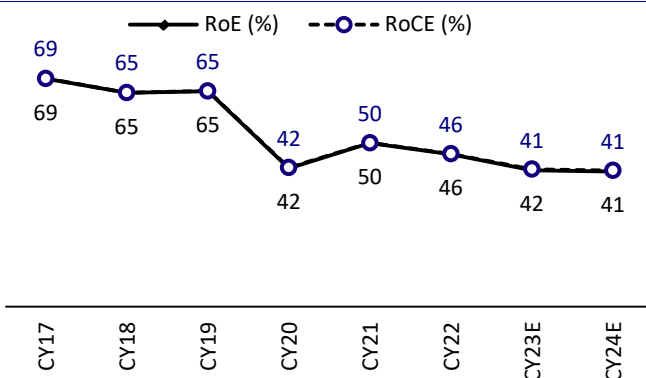
Source: Company, MOFSL

Exhibit 6: ...with EBITDA improving to INR11.4b



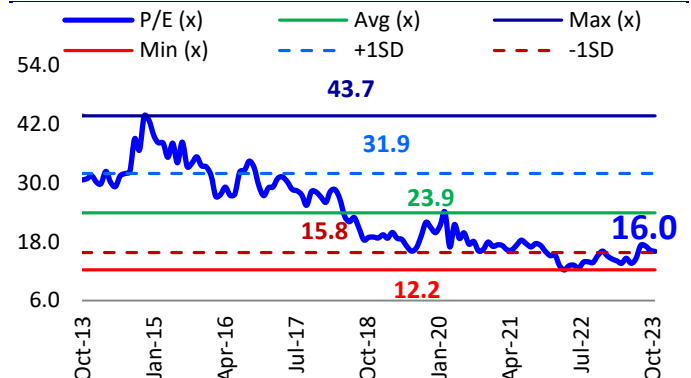
Source: Company, MOFSL

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	50,896	54,345
Change (%)	6.3	8.9	-0.7	-22.7	39.9	13.9	6.6	6.8
Gross Margin	19,183	19,980	21,291	17,306	21,332	22,746	23,659	25,894
Margin (%)	53.5	51.2	54.9	57.7	50.9	47.6	46.5	47.6
EBITDA	10,330	10,708	11,530	8,141	10,660	11,111	11,382	12,004
Margin (%)	28.8	27.4	29.7	27.2	25.4	23.3	22.4	22.1
Depreciation	455	556	697	866	827	814	909	927
EBIT	9,875	10,152	10,833	7,275	9,833	10,297	10,473	11,078
Interest Charges	12	11	12	42	24	40	80	84
Other Income	837	843	648	620	484	670	792	796
PBT bef. EO Exp.	10,700	10,984	11,469	7,853	10,293	10,928	11,185	11,790
Income tax	3,782	3,901	3,195	2,024	2,712	2,776	3,031	2,971
Tax Rate (%)	35.3	35.5	27.9	25.8	26.3	25.4	27.1	25.2
Reported PAT	6,918	7,083	8,274	5,829	7,581	8,152	8,154	8,819
Change (%)	3.2	2.4	16.8	-29.6	30.1	7.5	0.0	8.2
Margin (%)	19.3	18.1	21.3	19.5	18.1	17.1	16.0	16.2

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	15,638	17,501
Net Worth	10,202	11,657	13,670	14,143	16,456	18,861	20,583	22,447
Capital Employed	10,202	11,657	13,670	14,143	16,456	18,861	20,583	22,447
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	7,708	8,635
Net Fixed Assets	1,364	1,844	1,974	1,726	1,715	1,909	2,000	2,074
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	26,311	28,951
Inventory	3,196	4,568	3,047	3,669	4,917	5,344	5,764	6,177
Account Receivables	2,850	3,918	4,820	1,805	3,117	3,504	3,735	3,988
Cash and Bank Balance	7,842	7,438	9,461	12,742	13,002	12,177	13,384	15,127
Cash	2,155	2,637	672	1,947	1,842	5,545	6,753	8,495
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	3,427	3,659
Curr. Liability & Prov.	9,568	9,411	8,618	9,792	10,584	11,832	12,664	13,514
Account Payables	6,066	5,840	4,718	5,456	6,206	6,789	7,323	7,847
Other Current Liabilities	2,967	3,111	3,403	3,793	3,862	4,516	4,814	5,140
Provisions	535	460	497	543	516	527	527	527
Net Current Assets	7,687	8,914	10,815	11,342	13,527	12,408	13,647	15,437
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	20,583	22,447

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	8.9
Cash EPS	7.5	7.7	9.1	6.8	8.5	9.1	9.2	9.9
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	6.5	7.0
Payout (%)	81.7	84.0	79.1	93.3	71.8	78.9	78.9	78.9
Valuation (x)								
P/E	19.9	19.5	16.7	23.7	18.2	16.9	16.9	15.6
Cash P/E	18.7	18.1	15.4	20.6	16.4	15.4	15.2	14.2
P/BV	13.5	11.8	10.1	9.8	8.4	7.3	6.7	6.1
EV/Sales	3.6	3.3	3.3	4.2	3.0	2.6	2.4	2.3
EV/EBITDA	12.6	12.2	11.1	15.4	11.7	11.3	10.9	10.2
Dividend Yield (%)	3.4	3.6	3.9	3.9	3.9	4.7	4.7	5.0
FCF per share	5.8	4.8	7.9	8.6	5.5	8.2	8.2	8.9
Return Ratios (%)								
RoE	69.1	64.8	65.3	41.9	49.6	46.2	41.3	41.0
RoCE	69.2	64.9	65.4	42.1	49.7	46.3	41.6	41.3
Working Capital Ratios								
Asset Turnover (x)	3.5	3.3	2.8	2.1	2.5	2.5	2.5	2.4
Inventory (Days)	33	43	29	45	43	41	41	41
Debtor (Days)	25	32	39	19	24	23	23	23
Creditor (Days)	62	55	44	66	54	52	53	53
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	11,185	11,790
Depreciation	455	556	694	866	827	814	909	927
Interest & Finance Charges	12	11	12	42	24	40	80	84
Direct Taxes Paid	-3,892	-3,997	-3,087	-2,396	-2,798	-2,740	-3,031	-2,971
(Inc)/Dec in WC	-654	-1,487	126	3,040	-1,826	307	-32	-48
CF from Operations	6,083	5,495	8,795	8,928	6,303	9,159	9,110	9,782
(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	8,110	8,782
CF from Investments	1,514	661	-4,483	-2,010	-831	618	-1,392	-1,000
Interest Paid	-10	-10	-11	-12	-12	-11	-80	-84
Dividend Paid	-6,548	-5,664	-6,266	-5,631	-5,425	-5,935	-6,431	-6,956
CF from Fin. Activity	-6,558	-5,674	-6,277	-5,643	-5,577	-6,075	-6,511	-7,040
Inc/Dec of Cash	1,039	482	-1,965	1,275	-105	3,702	1,208	1,742
Opening Balance	1,116	2,155	2,637	672	1,947	1,842	5,545	6,753
Closing Balance	2,154	2,637	672	1,947	1,842	5,544	6,753	8,495

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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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