

Castrol (India)

BSE SENSEX
72,790

S&P CNX
22,122

CMP: INR199

TP: INR230 (+16%)

Buy



Stock Info

Bloomberg	CSTR.L IN
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$b)	196.3 / 2.4
52-Week Range (INR)	214 / 107
1, 6, 12 Rel. Per (%)	10/22/41
12M Avg Val (INR M)	565
Free float (%)	49.0

Financials Snapshot (INR b)

Y/E Dec	CY23	CY24E	CY25E
Sales	50.7	53.2	55.1
EBITDA	12.0	12.3	14.0
PAT	8.6	9.1	10.3
EPS (INR)	8.7	9.2	10.4
EPS Gr. (%)	6.0	5.0	13.7
BV/Sh.(INR)	21.5	22.7	24.2

Ratios

Net D:E	-0.6	-0.5	-0.5
RoE (%)	43.1	41.5	44.4
RoCE (%)	43.4	41.8	44.7
Payout (%)	85.8	85.8	85.8

Valuations

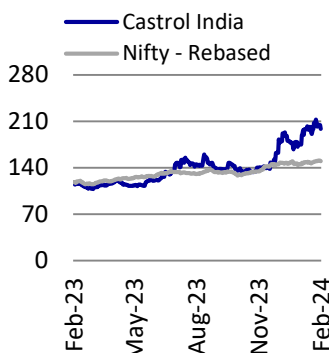
P/E (x)	22.7	21.7	19.1
P/BV (x)	9.3	8.7	8.2
EV/EBITDA (x)	15.4	14.9	13.1
Div. Yield (%)	3.8	4.0	4.5
FCF Yield (%)	3.9	4.4	5.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.0	51.0	51.0
DII	15.9	16.5	16.6
FII	10.4	11.0	11.4
Others	22.7	21.1	21.0

FII Includes depository receipts

Stock Performance (1-year)



Diversification to help achieve growth targets

Castrol India (CSTR.L), a subsidiary of Castrol Ltd. UK (part of BP Group), is the 2nd largest manufacturer of automotive and industrial lubricants in India. It has a strong distribution network of over 105,000 retail outlets serviced through 420 distributors across India. We attended the company's analyst day and following are the key highlights:

Focusing on digital initiatives

- CSTR.L has taken various digital initiatives, such as CSTR.L Smart, CSTR.L Fastscan and CSTR.L Fastlane.
- CSTR.L Smart is designed for all sales representatives operating in the field. It provides insights into who is selling what and which SKUs are involved. It encompasses over 300 distributors, serves 22-30k dealers, and extends its reach to more than 50k workshops. The primary objective of this initiative is to establish seamless connectivity among all stakeholders in the sales network.
- CSTR.L Fastscan streamlines the process of disbursing incentive schemes by directly linking them to the bank accounts of mechanics. CSTR.L Fastlane, on the other hand, serves as a platform for indirect customers to conveniently place orders.

CSTR.L has rebranded itself for a refreshed identity

- In the past 8-9 months, CSTR.L has revitalized its brand, characterized by a refreshed outlook aiming for "Onward, Upward, and Forward." This overhaul includes a new identity for the brand, marking a significant step toward its evolution.
- "Onward" represents CSTR.L's focus on mobility, encompassing all products and customer service initiatives for the PV and CV businesses, as well as workshops. Despite the market's average growth rate of 4-6%, the company expects to grow by at least the market growth rate.
- "Upward" entails CSTR.L's endeavor to enhance its industrial performance, focusing on expanding its presence in industrial markets. The total industrial market is valued at USD1.5b, half of which comprises process oils, recognized as a commodity. CSTR.L aims to provide a more comprehensive end-to-end solution in this segment.
- "Forward" signifies CSTR.L's strategic move toward exploring new categories and developing products beyond the realm of lubricants.

CSTR.L aims to expand beyond lubricants

- In rural areas, CSTR.L has introduced "CSTR.L Express," a service aimed at expanding its presence in areas where neither CSTR.L nor its competitors have ventured before, by establishing kiosks. Additionally, through an exclusive contract, CSTR.L provides oil change services at Jio-BP stations, enhancing its accessibility and market reach.

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- In CY23, CSTR L invested 7% in Ki Mobility, a subsidiary of the TVS group, which encompasses multi-brand cars, bikes, trucks, and workshops, totaling 2k facilities. Ki Mobility is actively pursuing various initiatives to capture market share, with collaborative branding efforts. Notably, in the aftermarket segment, there is a lack of organized players, presenting opportunities for growth and development.
- CSTR L Auto Services boasts over 450 workshops and has partnered with Mahindra Insurance to provide insurance services. Additionally, CSTR L offers an auto care premium range, focusing on products placed outside vehicles. After previously considering an MoU with 3M, CSTR L has ultimately opted to pursue this endeavor independently. However, the auto services segment currently represents a minor portion of the company's portfolio.

Management recognizes threat of EVs and taking steps in that direction

- Regarding the EV revolution, the management acknowledges the threat from EVs and has accordingly launched CSTR L ON that helps improve performance of EVs. It is presently accessible in most marketplaces.
- Furthermore, CSTR L supplies EV fluids to Tata and MG for their EVs. The company has globally invested INR5b in thermal management, focusing on battery and data management, with the proof-of-concept already established internationally.

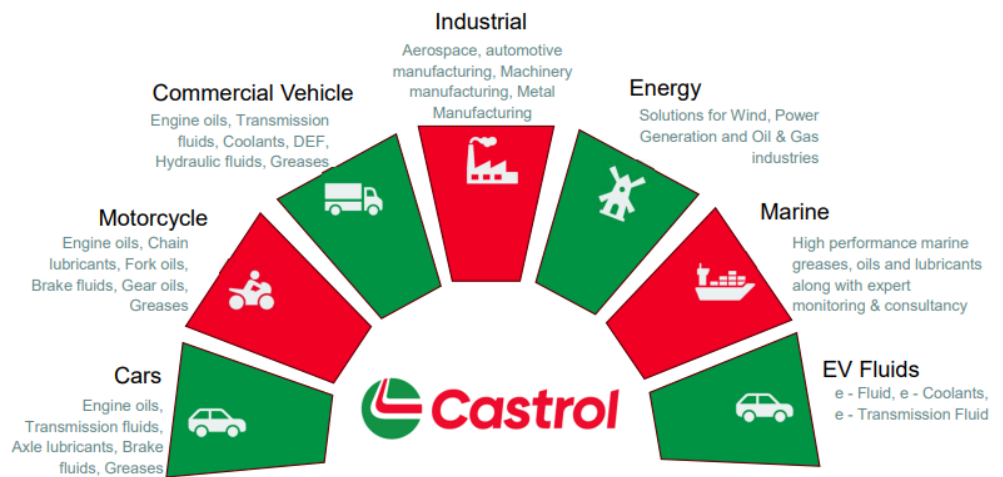
Other highlights

- Volume breakdown: Cars and motorcycles account for 40% of the volumes in PVs. CVs account for up to 30% of the business, with a significant contribution of agricultural equipment, particularly tractors, which fall under the CV portfolio. Industrial activities make up 15% of the volume, with EV fluids currently representing a small portion. Energy and marine sectors collectively make up 5% of the volume, with the remaining 10% allocated to other categories.
- Market share: Cars at 39%, bikes at 27%, and CVs at 21%. The brand power for the company is 51%, while the remaining 49% is distributed among other players in the market. In terms of revenue, the growth during CY21-CY23 was led by volumes. The management guides for sustainable EBITDAM of 22-26%.
- CSTR L anticipates higher growth in the car segment than in two-wheelers. However, the penetration rate in India still remains low at 20-25 cars per 1,000 people. Furthermore, while the contribution of motorcycles to volumes is expected to decrease, the contribution from CVs and industrial segments is anticipated to rise.
- About 60% of the base oil utilized by the company is imported. The pass-through of cost increases is easily achievable in the cars, motorcycles, and CVs segments. Leveraging its global presence and parental support, the company efficiently manages raw material sourcing through long-term contracts. Additionally, there are no mandates prohibiting the procurement of locally sourced materials.
- In terms of future plans, the company has asserted that capex is not a limitation, both domestically and globally. It plans to allocate INR1b in capex initially, with a subsequent annual increase of INR500-600m. CSTR L plans to focus primarily on organic capex and may consider inorganic expansions thereafter.

Valuation and View

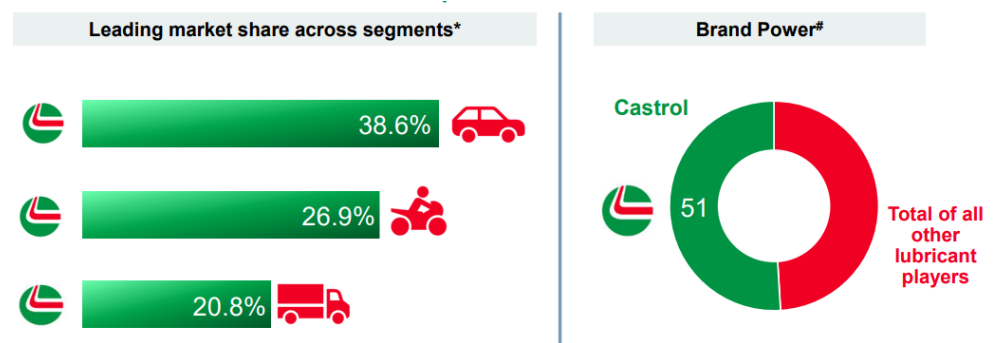
- CSTRL has taken several initiatives to strengthen its market position. Its new auto care segment is gaining traction and the company plans to add more products to its auto care portfolio. CSTRL also plans to expand its service network.
- The company is focusing on its Ki Mobility partnership and is expanding its existing portfolio to strengthen its auto care offerings.
- CSTRL maintained robust return ratios above 40% in CY23 and a dividend payout of ~86% (~3.8% dividend yield). The stock trades at 21.7x CY24E EPS of INR9.2 and 14.9x CY24E EV/EBITDA. We value the stock at 22x CY25E EPS to arrive at our TP of INR230. We reiterate our BUY rating on the stock.

Exhibit 1: Wide range of applications; strong product portfolio



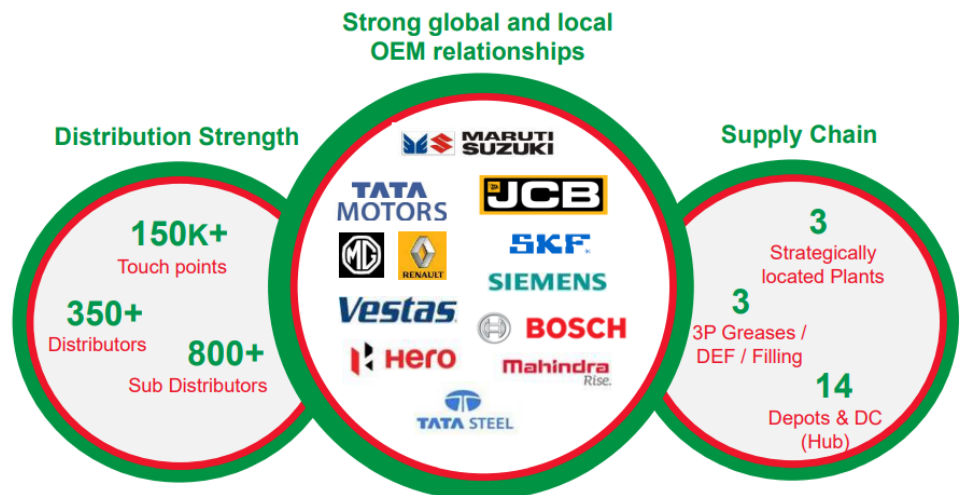
Source: Company, MOFSL

Exhibit 2: Market share and brand power snapshot



Source: Company, MOFSL

Exhibit 3: Strong relationships globally and locally



Source: Company, MOFSL

Exhibit 4: Fighting the EV revolution by entering into the category

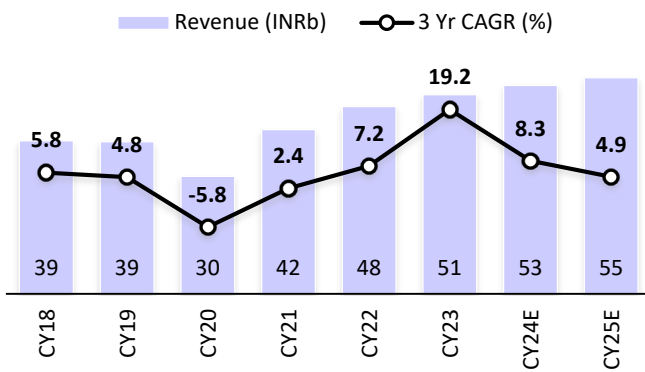
Collaboration between Castrol ON and Jaguar TCS Racing to take lessons from the racetrack and apply them to the road

GO FURTHER
CHARGE FASTER
LAST LONGER

Source: Company, MOFSL

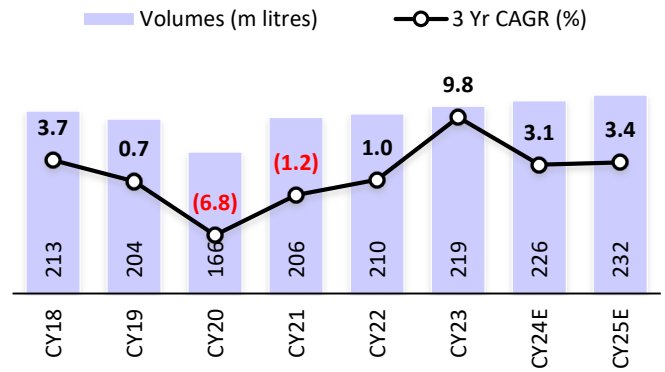
Story in charts

Exhibit 5: Revenue to clock 4% CAGR in CY23-25E...



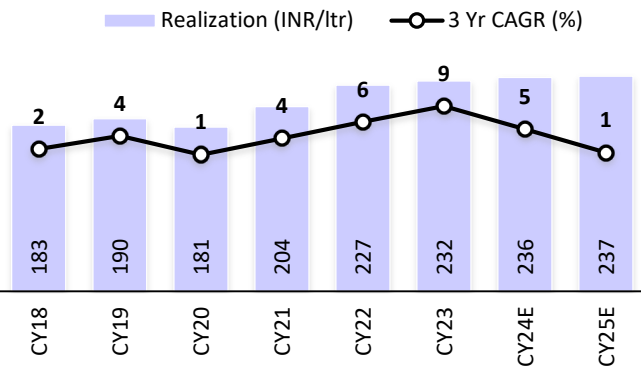
Source: Company, MOFSL

Exhibit 6: ...led by increase in volumes and pricing action



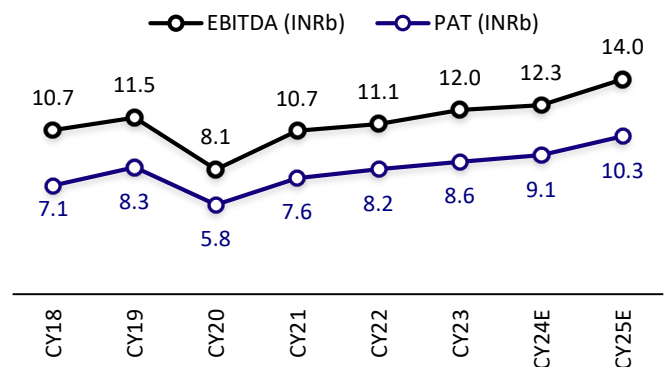
Source: Company, MOFSL

Exhibit 7: Realizations to be above INR230/lit in CY23-25E...



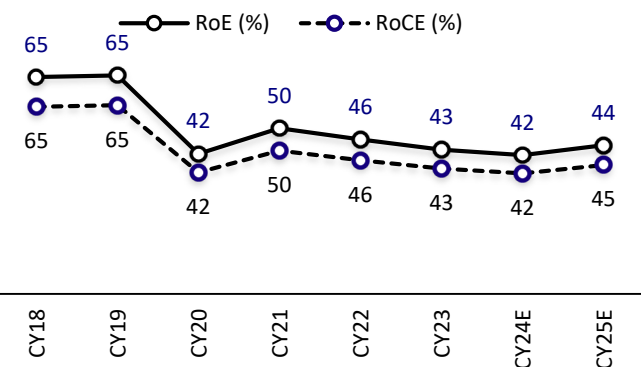
Source: Company, MOFSL

Exhibit 8: ...with EBITDA improving to INR14b



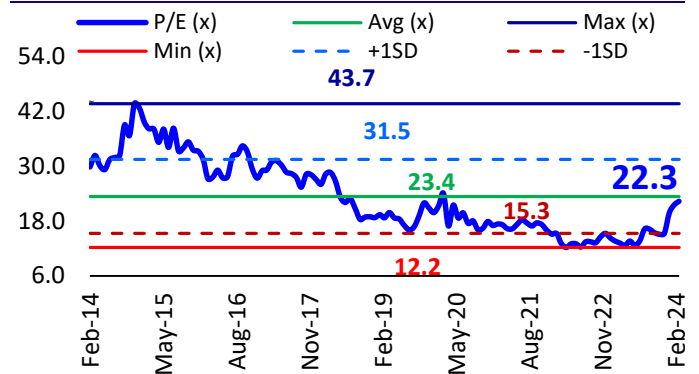
Source: Company, MOFSL

Exhibit 9: Return ratios expected to be above 40%



Source: Company, MOFSL

Exhibit 10: CSTRL's 1-year forward P/E chart



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement								(INR m)
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Net sales	39,046	38,768	29,969	41,921	47,745	50,746	53,185	55,078
Change (%)	8.9	-0.7	-22.7	39.9	13.9	6.3	4.8	3.6
Gross Margin	19,980	21,291	17,306	21,332	22,746	24,382	25,253	27,466
Margin (%)	51.2	54.9	57.7	50.9	47.6	48.0	47.5	49.9
EBITDA	10,708	11,530	8,141	10,660	11,111	12,024	12,336	14,028
Margin (%)	27.4	29.7	27.2	25.4	23.3	23.7	23.2	25.5
Depreciation	556	697	866	827	814	924	963	1,014
EBIT	10,152	10,833	7,275	9,833	10,297	11,100	11,373	13,014
Interest Charges	11	12	42	24	40	75	79	79
Other Income	843	648	620	484	670	787	840	859
PBT bef. EO Exp.	10,984	11,469	7,853	10,293	10,928	11,811	12,134	13,795
Income tax	3,901	3,195	2,024	2,712	2,776	3,170	3,058	3,476
Tax Rate (%)	35.5	27.9	25.8	26.3	25.4	26.8	25.2	25.2
Reported PAT	7,083	8,274	5,829	7,581	8,152	8,641	9,076	10,318
Change (%)	2.4	16.8	-29.6	30.1	7.5	6.0	5.0	13.7
Margin (%)	18.1	21.3	19.5	18.1	17.1	17.0	17.1	18.7

Standalone - Balance Sheet								(INR m)
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Equity Share Capital	4,946	4,946	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	6,711	8,724	9,197	11,510	13,915	16,271	17,556	19,016
Net Worth	11,657	13,670	14,143	16,456	18,861	21,217	22,501	23,962
Capital Employed	11,657	13,670	14,143	16,456	18,861	21,217	22,501	23,962
Gross Block	5,440	6,267	6,885	7,701	8,709	9,633	11,133	12,633
Less: Accum. Deprn.	3,596	4,293	5,159	5,986	6,800	7,960	8,923	9,936
Net Fixed Assets	1,844	1,974	1,726	1,715	1,909	1,673	2,210	2,697
Capital WIP	366	296	453	500	608	1,084	1,500	1,500
Curr. Assets, Loans&Adv.	18,325	19,433	21,134	24,111	24,240	25,787	26,762	27,972
Inventory	4,568	3,047	3,669	4,917	5,344	5,329	5,622	5,650
Account Receivables	3,918	4,820	1,805	3,117	3,504	4,228	4,431	4,589
Cash and Bank Balance	7,438	9,461	12,742	13,002	12,177	11,998	12,274	13,141
Cash	2,637	672	1,947	1,842	5,545	4,932	5,208	6,075
Bank Balance	4,802	8,788	10,795	11,160	6,632	7,066	7,066	7,066
Loans and Advances	2,401	2,105	2,918	3,075	3,215	4,231	4,435	4,593
Curr. Liability & Prov.	9,411	8,618	9,792	10,584	11,832	12,982	13,627	13,863
Account Payables	5,840	4,718	5,456	6,206	6,789	7,064	7,452	7,489
Other Current Liabilities	3,111	3,403	3,793	3,862	4,516	5,342	5,599	5,798
Provisions	460	497	543	516	527	576	576	576
Net Current Assets	8,914	10,815	11,342	13,527	12,408	12,804	13,135	14,109
Deferred Tax assets	533	585	622	714	686	781	781	781
Appl. of Funds	11,657	13,670	14,143	16,456	18,861	21,217	22,501	23,962

Financials and Valuations

Ratios								
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Basic (INR)								
EPS	7.2	8.4	5.9	7.7	8.2	8.7	9.2	10.4
Cash EPS	7.7	9.1	6.8	8.5	9.1	9.7	10.1	11.5
BV/Share	11.8	13.8	14.3	16.6	19.1	21.5	22.7	24.2
DPS	5.0	5.5	5.5	5.5	6.5	7.5	7.9	9.0
Payout (%)	84.0	79.1	93.3	71.8	78.9	85.8	85.8	85.8
Valuation (x)								
P/E	27.8	23.8	33.7	25.9	24.1	22.7	21.7	19.1
Cash P/E	25.7	21.9	29.4	23.4	21.9	20.6	19.6	17.3
P/BV	16.9	14.4	13.9	11.9	10.4	9.3	8.7	8.2
EV/Sales	4.8	4.8	6.1	4.4	3.9	3.6	3.5	3.3
EV/EBITDA	17.7	16.2	22.6	17.2	16.6	15.4	14.9	13.1
Dividend Yield (%)	2.5	2.8	2.8	2.8	3.3	3.8	4.0	4.5
FCF per share	4.8	7.9	8.6	5.5	8.2	7.7	8.7	9.9
Return Ratios (%)								
RoE	64.8	65.3	41.9	49.6	46.2	43.1	41.5	44.4
RoCE	64.9	65.4	42.1	49.7	46.3	43.4	41.8	44.7
Working Capital Ratios								
Asset Turnover (x)	3.3	2.8	2.1	2.5	2.5	2.4	2.4	2.3
Inventory (Days)	43	29	45	43	41	38	39	37
Debtor (Days)	32	39	19	24	23	26	26	26
Creditor (Days)	55	44	66	54	52	51	51	50
Leverage Ratio (x)								
Net Debt/Equity	-0.6	-0.7	-0.9	-0.8	-0.6	-0.6	-0.5	-0.5

Standalone - Cash Flow Statement								(INR m)
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
OP/(Loss) before Tax	10,984	11,469	7,853	10,293	10,928	11,811	12,134	13,795
Depreciation	556	694	866	827	814	924	963	1,014
Interest & Finance Charges	11	12	42	24	40	75	79	79
Direct Taxes Paid	-3,997	-3,087	-2,396	-2,798	-2,740	-3,185	-3,058	-3,476
(Inc)/Dec in WC	-1,487	126	3,040	-1,826	307	-706	-55	-107
CF from Operations	5,495	8,795	8,928	6,303	9,159	8,530	10,063	11,304
(Inc)/Dec in FA	-780	-993	-417	-832	-1,097	-955	-1,500	-1,500
Free Cash Flow	4,715	7,802	8,511	5,471	8,062	7,575	8,563	9,804
CF from Investments	661	-4,483	-2,010	-831	618	-2,513	-1,916	-1,500
Interest Paid	-10	-11	-12	-12	-11	-15	-79	-79
Dividend Paid	-5,664	-6,266	-5,631	-5,425	-5,935	-6,429	-7,792	-8,858
CF from Fin. Activity	-5,674	-6,277	-5,643	-5,577	-6,075	-6,638	-7,871	-8,937
Inc/Dec of Cash	482	-1,965	1,275	-105	3,702	-621	276	867
Opening Balance	2,155	2,637	672	1,947	1,842	5,545	4,932	5,208
Closing Balance	2,637	672	1,947	1,842	5,544	4,924	5,208	6,075

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NOTES

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
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