

EV forays combined with a steady core; retain BUY

Oil & Gas ▶ Company Update ▶ April 9, 2024

TARGET PRICE (Rs): 1,350

We reiterate our positive stance on GOLI, led by steady core volume growth (7% core volume CAGR over FY24-26E, >2x of the industry growth), and a 13-14% EBITDA margin profile supported by input cost management, strategic pricing, and marketing efforts. GOLI has acquired stakes in EV-related businesses, including a 51% controlling stake in Tirex (a DC fast-charger manufacturer in India) for ~Rs1bn, potentially yielding ~Rs6bn in value (~Rs100/sh upside). GOLI's tie-ups with EV OEMs has resulted in traction for its EV fluids, however revenue contribution remains in low-single digit. We assign 16.5x target P/E multiple (~20% discount to Castrol's 1-yr fwd consensus P/E) vs. 15.0x earlier, and raise our Mar-25E TP by 13% to Rs1,350/sh. We affirm BUY rating on GOLI.

Gulf Oil Lubricants: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,916	29,991	32,859	35,398	38,415
EBITDA	2,855	3,428	4,211	4,644	5,201
Adj. PAT	2,111	2,323	3,100	3,552	4,010
Adj. EPS (Rs)	41.9	47.4	63.2	72.5	81.8
EBITDA margin (%)	13.0	11.4	12.8	13.1	13.5
EBITDA growth (%)	7.7	20.1	22.8	10.3	12.0
Adj. EPS growth (%)	5.2	13.2	33.5	14.6	12.9
RoE (%)	22.1	20.9	24.8	25.6	26.0
RoIC (%)	26.4	27.2	33.3	34.2	33.7
P/E (x)	25.3	22.4	16.8	14.6	13.0
EV/EBITDA (x)	18.1	14.3	11.5	10.3	9.1
P/B (x)	5.1	4.4	3.9	3.6	3.2
FCFF yield (%)	(0.9)	5.1	4.7	4.0	4.4

Source: Company, Emkay Research

Adopting the acquisition route into the EV ecosystem

GOLI has invested ~Rs1.5bn till date to acquire equity stake in three EV-related businesses viz. ElectreeFi (charging management software provider), Indra Renewables (home charger manufacturer in UK), and Tirex (DC fast-charger manufacturer in India). Tirex currently caters to 8-10% of the fast-charger market in India and the management expects this market to reach Rs100-120bn by FY30, with Tirex planning to retain its Indian market share and also explore the export potential. We estimate that GOLI's acquisition of controlling stake in Tirex could result in ~Rs100/sh upside (refer Exhibit 3) to our TP. In our assessment, investment in Indra Renewables could address the global home charger market for the Gulf Group, with benefits to GOLI (7.5% stake) being unquantifiable at present. GOLI also offers EV fluids to OEMs, however its contribution to GOLI's revenue remains in low-single digit.

Healthy core business outlook

GOLI has clocked a core volume CAGR of 7.1% between FY20-23 (vs. 2.6% for Castrol), besides scaling up AdBlue volumes from ~3mn ltrs in FY21 to 77.5mn ltrs in FY23. We expect GOLI to register ~6% core volume growth in FY24E, while AdBlue volumes could cross ~120mn ltrs, thereby implying ~20% of AdBlue market share. We have built-in 7% core volume CAGR over FY24-26E, considering Kline's estimate of 3-4% industry volume CAGR up to CY27, and the management's guidance of GOLI's volume CAGR at 2-3x that of industry growth. We expect GOLI's earnings CAGR at ~11% during FY20-24E to be mainly volume-driven, while Castrol's reported earnings CAGR stood at just 1% during CY19-23, due to muted volume growth and rise in opex, thus impacting margins. We foresee 14% earnings CAGR for GOLI during FY24-26E, because of volume growth and marginal improvement in EBITDA margin profile to ~13.5% (stable input cost, product mix improvement due to high margin and synthetics, and operating leverage), which also falls within management's guided range of 12-14%.

Key risks: Adverse base-oil prices/currency fluctuation, competition, and technological changes.

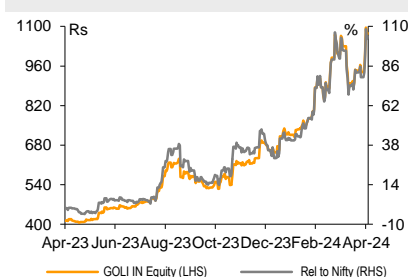
Target Price – 12M	Mar-25
Change in TP (%)	12.5
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	27.3
CMP (08-Apr-24) (Rs)	1,060.3

Stock Data	Ticker
52-week High (Rs)	1,120
52-week Low (Rs)	402
Shares outstanding (mn)	49.2
Market-cap (Rs bn)	52
Market-cap (USD mn)	626
Net-debt, FY24E (Rs mn)	-3,748
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	225.1
ADTV-3M (USD mn)	2.7
Free float (%)	27.0
Nifty-50	22,666
INR/USD	83.3
Shareholding, Mar-24	
Promoters (%)	71.8
FPIs/MFs (%)	7.1/5.0

Price Performance

(%)	1M	3M	12M
Absolute	2.9	49.2	156.9
Rel. to Nifty	2.1	41.9	99.5

1-Year share price trend (Rs)



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Exhibit 1: GOLI's assessment of EV penetration across categories

EV penetration – limited impact on demand for lubricants



Source: Company

Exhibit 2: GOLI's investments in the EV ecosystem till date

Company	Year	Business	Stake	Investment (Rs mn)	Remarks
ElectreeFi	FY23	SaaS provider of IOT-based solutions in the EV value chain via OEMs, battery companies, and charging networks	26%	145	ElectreeFi reported revenue of Rs50/25mn in FY23/6MFY24; while share of net loss in GOLI's consol. accounts for 9MFY24 stood at Rs2.6mn
Indra Renewables	FY23	Manufacturer of EV chargers for home and vehicle-to-grid applications in the UK	7.5%	300	Gulf Group holds controlling stake; GOLI has tested Indra chargers in Indian conditions
Tirex Transmisson	FY24	Manufacturers of DC fast chargers in India	51%	1030	Supplies fast chargers from 30kW to 240kW, with 700+ chargers already deployed in India; Rs650mn primary issue

Source: Company, Industry, Media Reports, Emkay Research

Exhibit 3: Potential value of Tirex and upside to our TP

Tirex (Rs mn)	FY23	FY24E	FY30E	Assumptions/Remarks
Revenue	130	400	2,421	35% CAGR over FY24-30E; Rs5bn mgmt. estimate by FY30
PAT			545	20-25% net-margin range
Target P/E (x)			40	
Tirex's 100% value			21,792	
PV of Tirex's value			11,651	11% discount rate
GOLI's stake			51%	
GOLI's value			5,942	
GOLI's investment			1,030	
Potential Upside			4,912	
Potential Upside in GOLI's TP (Rs/sh)			100	

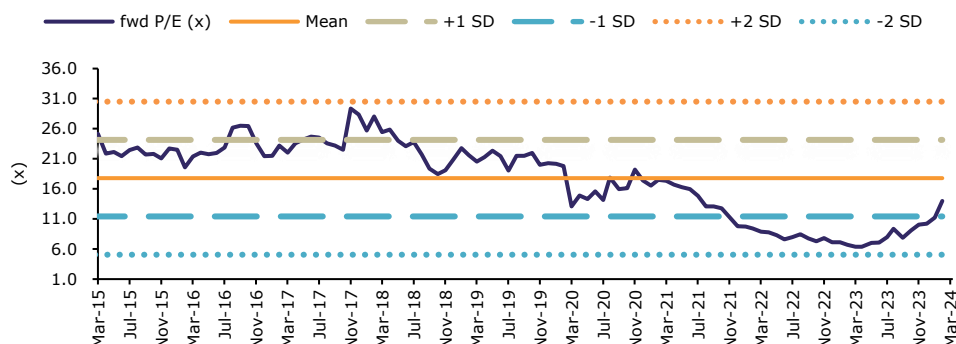
Source: Company, Industry, Media Reports, Emkay Research

Exhibit 4: GOLI's P/E-based valuation (Mar-26E)

Rs/share	FY23	FY24E	FY25E	FY26E
S/A EPS	47.4	63.2	72.5	81.8
Target P/E (x)				16.5
TP				1,350

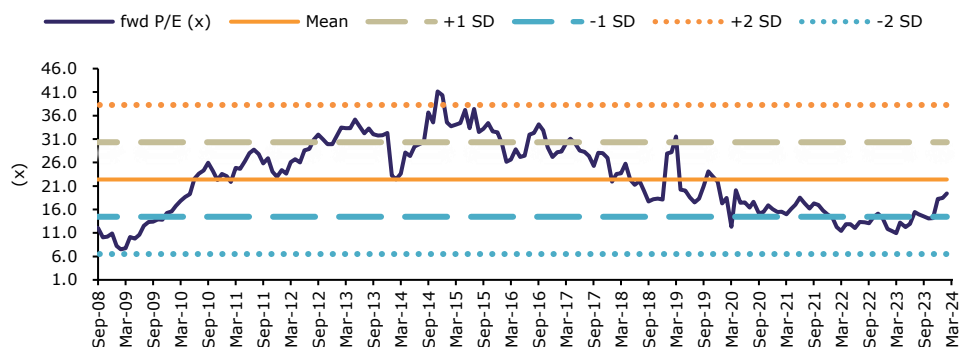
Source: Company, Emkay Research

Exhibit 5: 1-year forward P/E band of GOLI



Source: Company, Bloomberg, Emkay Research

Exhibit 6: 1-year forward P/E band of Castrol India



Source: Company, Bloomberg

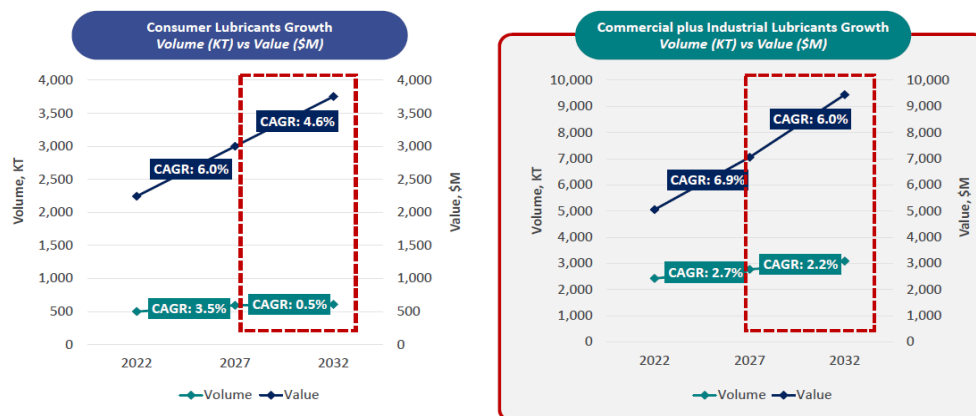
Exhibit 7: Comparative valuation

	CMP	MCAP	P/E (x)			EV/EBITDA (x)			RoE (%)			PAT Growth (%)	
	Rs	Rs bn	FY24E /CY23	FY25E /CY24E	FY26E /CY25E	FY24E /CY23	FY25E /CY24E	FY26E /CY25E	FY24E /CY23	FY25E /CY24E	FY26E /CY25E	FY25E /CY24E	FY26E /CY25E
Gulf Oil	1,100	54	17.4	15.2	13.4	11.2	9.6	8.0	23.5	24.3	24.7	14.6	12.9
Castrol India*	223	221	20.6	22.7	21.1	13.9	16.1	14.8	43.1	43.9	43.6	9.5	9.7
Indigo Paints	1,329	63	41.9	35.3	29.9	25.7	21.8	18.7	17.7	18.1	18.3	18.9	17.8
Kansai Nerolac	281	227	29.5	27.1	25.3	20.2	18.9	17.7	16.1	13.6	13.7	9.9	10.2
Pidilite	3,015	1,533	81.1	70.3	61.0	55.0	48.4	42.7	23.7	23.7	23.6	15.5	15.2

Source: Company, Bloomberg, Emkay Research; Note: * follows calendar year accounting

Exhibit 8: Lubricant industry likely to witness steady growth over the next decade

India Lubricants Market Projections: Value is expected to grow faster than Volume in both Consumer and B2B segments in the next decade



Source: Kline

Gulf Oil Lubricants: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,916	29,991	32,859	35,398	38,415
Revenue growth (%)	32.6	36.8	9.6	7.7	8.5
EBITDA	2,855	3,428	4,211	4,644	5,201
EBITDA growth (%)	7.7	20.1	22.8	10.3	12.0
Depreciation & Amortization	357	396	441	440	539
EBIT	2,498	3,032	3,770	4,204	4,662
EBIT growth (%)	8.0	21.4	24.3	11.5	10.9
Other operating income	0	0	0	0	0
Other income	442	471	643	735	869
Financial expense	96	376	258	190	169
PBT	2,843	3,127	4,156	4,749	5,361
Extraordinary items	0	0	0	0	0
Taxes	733	804	1,056	1,197	1,351
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	2,111	2,323	3,100	3,552	4,010
PAT growth (%)	5.5	10.1	33.5	14.6	12.9
Adjusted PAT	2,111	2,323	3,100	3,552	4,010
Diluted EPS (Rs)	41.9	47.4	63.2	72.5	81.8
Diluted EPS growth (%)	5.2	13.2	33.5	14.6	12.9
DPS (Rs)	5.0	25.0	34.8	43.5	49.1
Dividend payout (%)	11.8	52.8	55.0	60.0	60.0
EBITDA margin (%)	13.0	11.4	12.8	13.1	13.5
EBIT margin (%)	11.4	10.1	11.5	11.9	12.1
Effective tax rate (%)	25.8	25.7	25.4	25.2	25.2
NOPLAT (pre-IndAS)	1,854	2,253	2,813	3,144	3,487
Shares outstanding (mn)	50.4	49.0	49.0	49.0	49.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,843	3,127	4,156	4,749	5,361
Others (non-cash items)	58	393	56	(104)	(161)
Taxes paid	(762)	(934)	(1,071)	(1,213)	(1,367)
Change in NWC	(2,377)	148	(608)	(489)	(589)
Operating cash flow	(237)	2,733	2,532	2,943	3,244
Capital expenditure	(246)	(229)	(257)	(1,049)	(1,140)
Acquisition of business	0	0	0	0	0
Interest & dividend income	426	413	643	735	869
Investing cash flow	(173)	304	368	(332)	(290)
Equity raised/(repaid)	28	(1,052)	0	0	0
Debt raised/(repaid)	1,476	(376)	(99)	(349)	(299)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(73)	(345)	(258)	(190)	(169)
Dividend paid (incl tax)	(450)	(248)	(1,705)	(2,131)	(2,406)
Others	217	(218)	0	0	0
Financing cash flow	1,198	(2,239)	(2,062)	(2,671)	(2,875)
Net chg in Cash	788	798	838	(60)	80
OCF	(237)	2,733	2,532	2,943	3,244
Adj. OCF (w/o NWC chg.)	2,139	2,586	3,140	3,432	3,833
FCFF	(483)	2,504	2,275	1,894	2,105
FCFE	(153)	2,541	2,661	2,439	2,804
OCF/EBITDA (%)	(8.3)	79.7	60.1	63.4	62.4
FCFE/PAT (%)	(7.3)	109.4	85.8	68.7	69.9
FCFF/NOPLAT (%)	(26.0)	111.2	80.9	60.2	60.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	101	98	98	98	98
Reserves & Surplus	10,326	11,686	13,081	14,502	16,106
Net worth	10,427	11,784	13,180	14,600	16,204
Minority interests	0	0	0	0	0
Deferred tax liability (net)	124	190	174	158	142
Total debt	3,896	3,733	3,633	3,283	2,983
Total liabilities & equity	14,447	15,707	16,987	18,041	19,330
Net tangible fixed assets	2,394	2,438	2,253	2,861	3,462
Net intangible assets	31	31	31	31	31
Net ROU assets	306	306	306	306	306
Capital WIP	31	31	31	31	31
Goodwill	0	0	0	0	0
Investments [JV/Associates]	369	902	920	938	957
Cash & equivalents	5,744	6,542	7,381	7,321	7,401
Current assets (ex-cash)	9,435	10,466	11,467	12,353	13,406
Current Liab. & Prov.	3,863	5,008	5,402	5,800	6,265
NWC (ex-cash)	5,572	5,458	6,065	6,553	7,141
Total assets	14,447	15,707	16,987	18,041	19,330
Net debt	(1,848)	(2,810)	(3,748)	(4,038)	(4,418)
Capital employed	14,447	15,707	16,987	18,041	19,330
Invested capital	8,303	8,233	8,655	9,751	10,940
BVPS (Rs)	206.8	240.4	268.9	297.9	330.6
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(0.6)	(0.8)	(0.9)	(0.9)	(0.8)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
RoCE (%)	23.2	23.2	27.0	28.2	29.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	25.3	22.4	16.8	14.6	13.0
P/CE(x)	21.7	19.1	14.7	13.0	11.4
P/B (x)	5.1	4.4	3.9	3.6	3.2
EV/Sales (x)	2.4	1.6	1.5	1.4	1.2
EV/EBITDA (x)	18.1	14.3	11.5	10.3	9.1
EV/EBIT(x)	20.7	16.2	12.8	11.4	10.2
EV/IC (x)	6.2	6.0	5.6	4.9	4.3
FCFF yield (%)	(0.9)	5.1	4.7	4.0	4.4
FCFE yield (%)	(0.3)	4.9	5.1	4.7	5.4
Dividend yield (%)	0.5	2.4	3.3	4.1	4.6
DuPont-RoE split					
Net profit margin (%)	9.6	7.7	9.4	10.0	10.4
Total asset turnover (x)	1.7	2.0	2.0	2.0	2.1
Assets/Equity (x)	1.3	1.4	1.3	1.3	1.2
RoE (%)	22.1	20.9	24.8	25.6	26.0
DuPont-RoIC					
NOPLAT margin (%)	8.5	7.5	8.6	8.9	9.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	26.4	27.2	33.3	34.2	33.7
Operating metrics					
Core NWC days	92.8	66.4	67.4	67.6	67.9
Total NWC days	92.8	66.4	67.4	67.6	67.9
Fixed asset turnover	6.1	7.6	7.7	7.2	6.4
Opex-to-revenue (%)	27.1	26.3	28.6	27.6	27.2

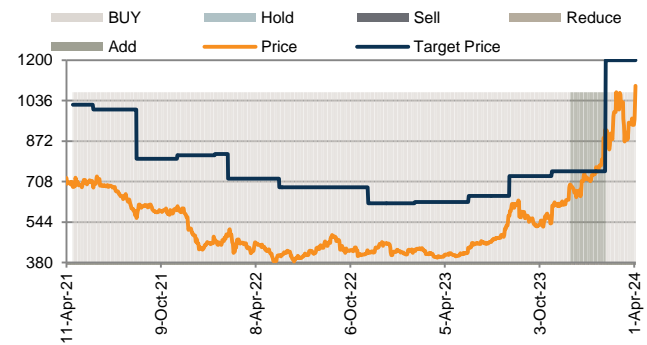
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
06-Feb-24	898	1,200	Buy	Sabri Hazarika
30-Nov-23	697	750	Add	Sabri Hazarika
26-Oct-23	573	750	Buy	Sabri Hazarika
09-Oct-23	526	730	Buy	Sabri Hazarika
06-Aug-23	570	730	Buy	Sabri Hazarika
27-Jul-23	492	650	Buy	Sabri Hazarika
20-May-23	440	650	Buy	Sabri Hazarika
21-Feb-23	436	625	Buy	Sabri Hazarika
06-Feb-23	431	625	Buy	Sabri Hazarika
09-Nov-22	419	620	Buy	Sabri Hazarika
23-May-22	411	685	Buy	Sabri Hazarika
14-Feb-22	488	720	Buy	Sabri Hazarika
20-Jan-22	471	820	Buy	Sabri Hazarika
23-Nov-21	579	815	Buy	Sabri Hazarika
09-Nov-21	609	815	Buy	Sabri Hazarika
23-Aug-21	560	800	Buy	Sabri Hazarika
26-Jul-21	649	1,000	Buy	Sabri Hazarika
23-Jun-21	692	1,000	Buy	Sabri Hazarika
01-Jun-21	684	1,000	Buy	Sabri Hazarika
29-May-21	711	1,020	Buy	Sabri Hazarika
23-Apr-21	686	1,020	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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