BUY Gulf Oil Lubricants

Shifting gears through 'Unlock 2.0'; maintain BUY

Oil & Gas ▸ Analyst Meet Update ▸ **June 21, 2024**

TARGET PRICE (Rs): 1,350

Gulf Oil Lubricants (GOLI) hosted its FY24 analyst meet, reiterating core (ex-AdBlue) volume CAGR at 2-3x of industry growth (Kline estimates the Indian lubricant industry to clock 3% volume CAGR and 6% value CAGR over 2022-32). The management presented its 'Unlock 2.0' strategy, which focuses on profitable growth in market share, rise in share of premium products via PCMO, EV fluids, synthetics, etc., and thrust on digital infrastructure, brand investments, and EV charging solutions. GOLI's core EBITDA margin profile is expected at >14%, and core unit profitability is likely to be >Rs25/ltr going ahead. Double-digit growth in the B2B (industrial, infra, mining, fleet) segment is being driven by a dedicated sales team across sub-segments. We maintain BUY on GOLI and retain our 16.5x target P/E; Mar-25E TP stays at Rs1,350/sh.

Gulf Oil Lubricants: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	21,916	29,991	32,841	35,006	37,977
EBITDA	2,855	3,428	4,194	4,633	5,103
Adj. PAT	2,111	2,323	3,081	3,522	4,024
Adj. EPS (Rs)	41.9	47.4	62.7	71.6	81.8
EBITDA margin (%)	13.0	11.4	12.8	13.2	13.4
EBITDA growth (%)	7.7	20.1	22.3	10.5	10.1
Adj. EPS growth (%)	5.2	13.2	32.2	14.3	14.3
RoE (%)	22.1	20.9	24.9	25.8	26.5
RoIC (%)	26.4	27.2	35.1	40.3	42.1
P/E (x)	23.9	21.1	16.0	14.0	12.2
EV/EBITDA (x)	17.0	13.5	10.9	9.7	8.6
P/B (x)	4.8	4.2	3.8	3.4	3.1
FCFF yield (%)	(1.0)	5.4	7.2	5.8	6.1

Source: Company, Emkay Research

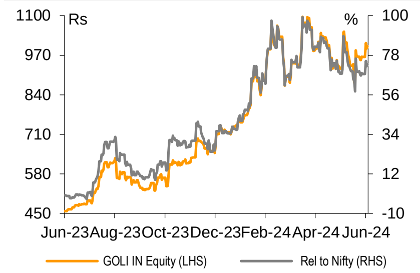
Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	35.0
CMP (20-Jun-24) (Rs)	1,000.1

Stock Data	Ticker
52-week High (Rs)	1,120
52-week Low (Rs)	449
Shares outstanding (mn)	49.2
Market-cap (Rs bn)	49
Market-cap (USD mn)	588
Net-debt, FY25E (Rs mn)	-4,459
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	178.6
ADTV-3M (USD mn)	2.1
Free float (%)	27.0
Nifty-50	23,567
INR/USD	83.6
Shareholding, Mar-24	
Promoters (%)	71.8
FPIs/MFs (%)	7.1/5.0

Price Performance

(%)	1M	3M	12M
Absolute	8.0	11.0	117.4
Rel. to Nifty	3.1	2.9	73.6

1-Year share price trend (Rs)



Healthy core business and industry outlook; AdBlue continues to scale up

The company targets garnering 10-12% market share vs 6-8% currently, whereas the management attributed the consistent growth of >2x of the industry's to segment-wise focus. The management highlighted focus on growth in the B2C segment through a deeper distribution network, branding activities, and digital initiatives, whereas the industrial segment is expected to clock 10% CAGR vs 4% for the overall industry led by GoI spending as well as adoption of the lubes management program for customers. The infra, mining and fleet segment is also likely to see superior growth trends, on the back of marketing efforts as well as product support. PCMO is a high-margin segment for GOLI. The company undertakes segmental margin management besides benefiting from operating leverage. Its products were priced >20% lower than competition's, but this gap has narrowed to 8-10% now. Deepening of OEM partnerships also remains a focus area. Drain intervals for CNG, LNG and hydrogen ICE are lower than those of traditional petrol-diesel engines, and energy transition would support lubricant growth for such alternate fuels. Annual maintenance capex is Rs250-300mn. GOLI commands ~25% market share in the AdBlue segment in India, on the back of supply-chain synergy, certifications and OEM tie-ups, with the AdBlue market expected to grow in high double-digits. GOLI has localized production for its lead acid battery business; it has 2-3% share in the replacement market and 40% synergy with the core retail distribution network.

Acquisition to fuel EV charging; adoption of EV fluids to also add up

GOLI has invested ~Rs1.5bn till date to acquire equity stake in three EV-related businesses, viz. ElectreeFi (charging management software provider), Indra Renewables (AC home charger manufacturer in UK, with GOLI having exclusive rights for the India business), and Tirex (DC fast-charger manufacturer in India). Tirex currently caters to 8-10% of the fast-charger market in India which the management expects will reach USD1-1.4bn by FY30, with Tirex planning to retain its Indian market share as well as explore the export potential. Tirex has also signed an MOU with the state government of Gujarat for setting up another manufacturing plant. Hinduja Group's philosophy is aligned towards acquisition of majority stake in all EV-related businesses. The management estimates EV fluid demand in India at 12-14mn ltr in 2028, whereas data center-related fluids are expected to log >20% CAGR for the next 3-4 years, to 12-14mn ltr.

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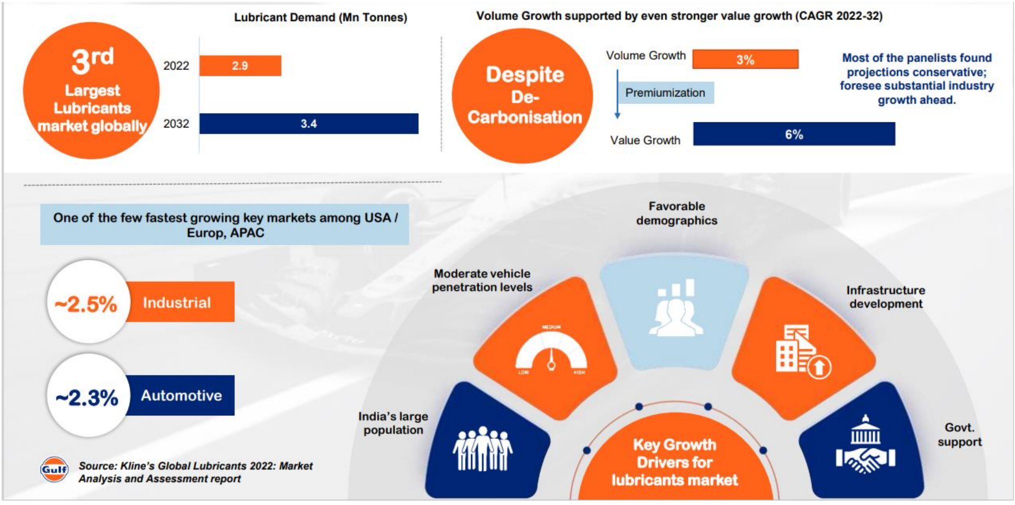
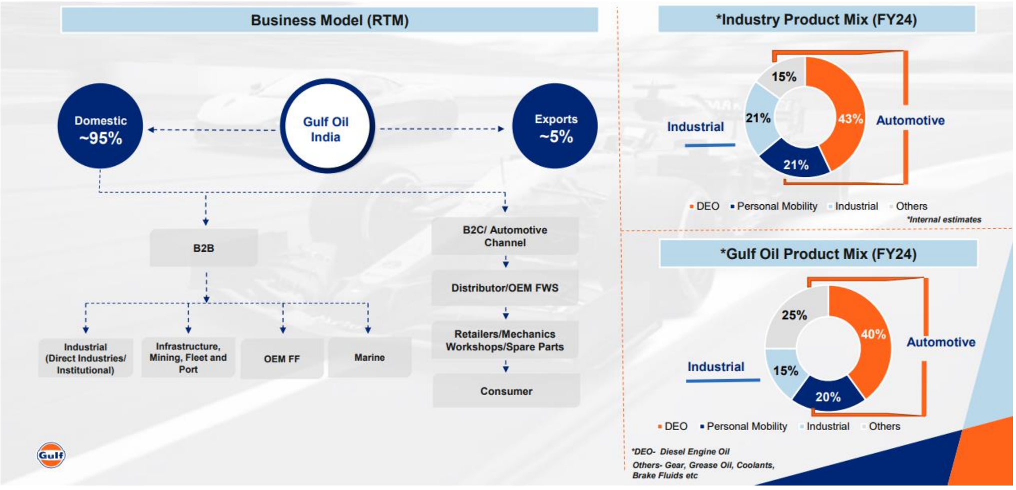
Exhibit 1: Growth opportunities in the lubricants industry



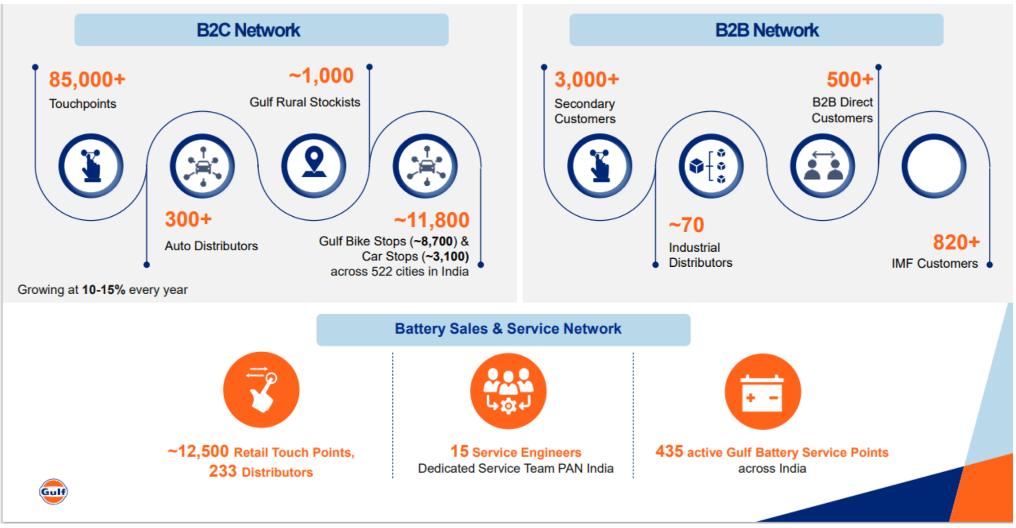
Source: Company, Kline

Exhibit 2: GOLI's business framework and product portfolio



Source: Company

Exhibit 3: GOLI's distribution network

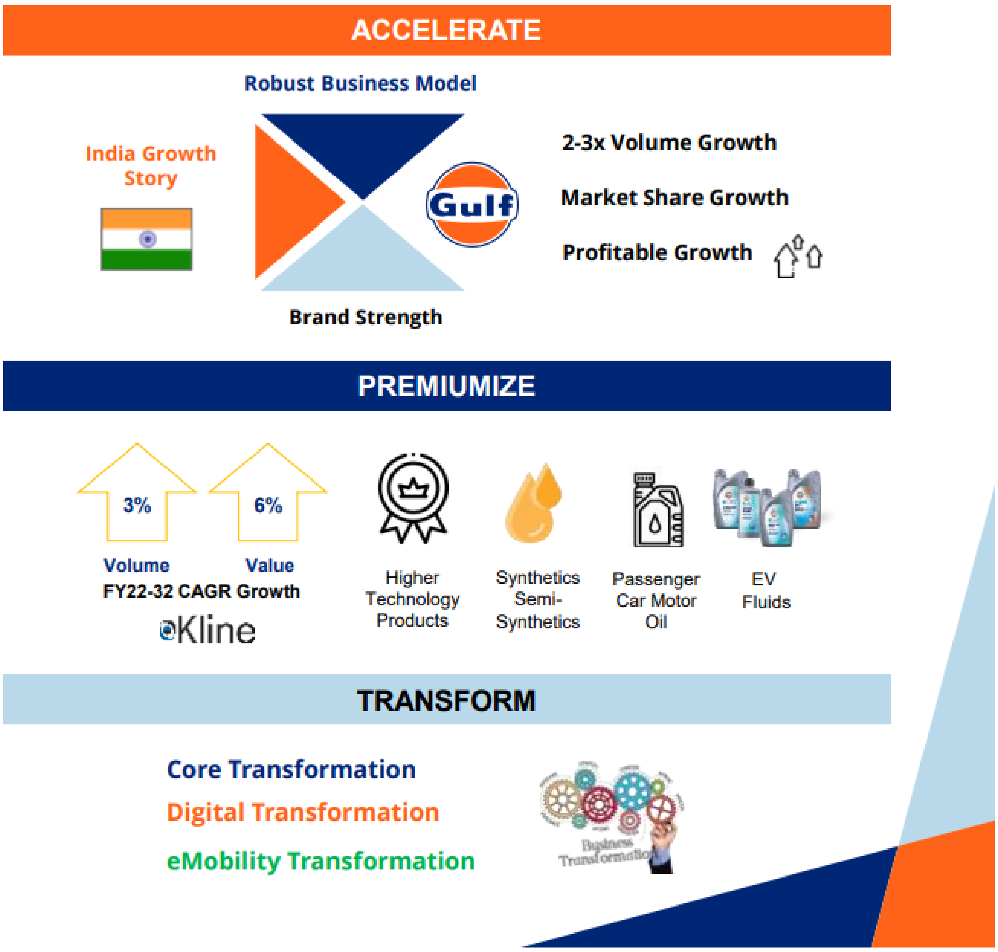


Source: Company

Exhibit 4: GOLI's OEM tie-ups across segments

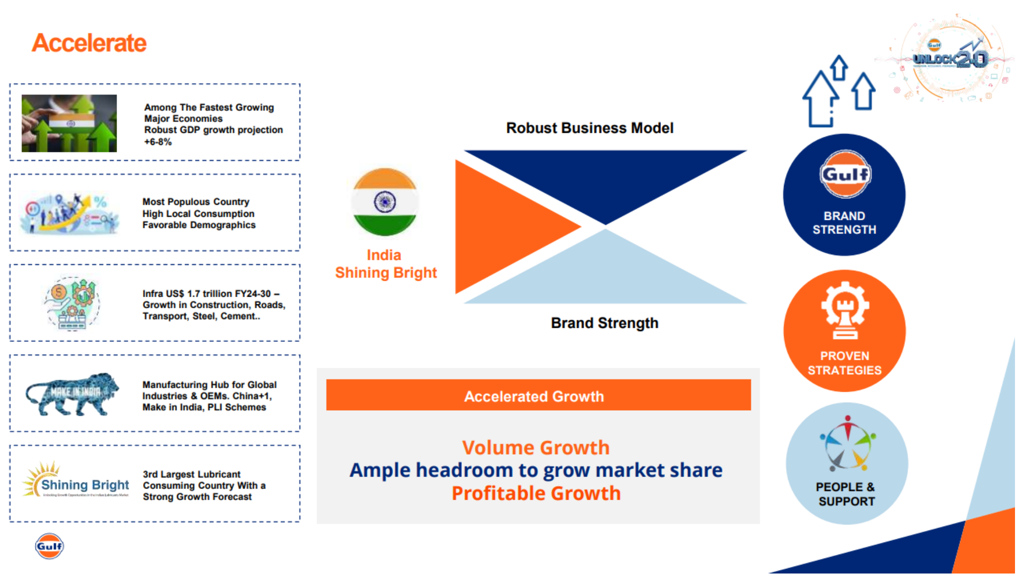
Source: Company

Exhibit 5: GOLI's Unlock 2.0 strategy



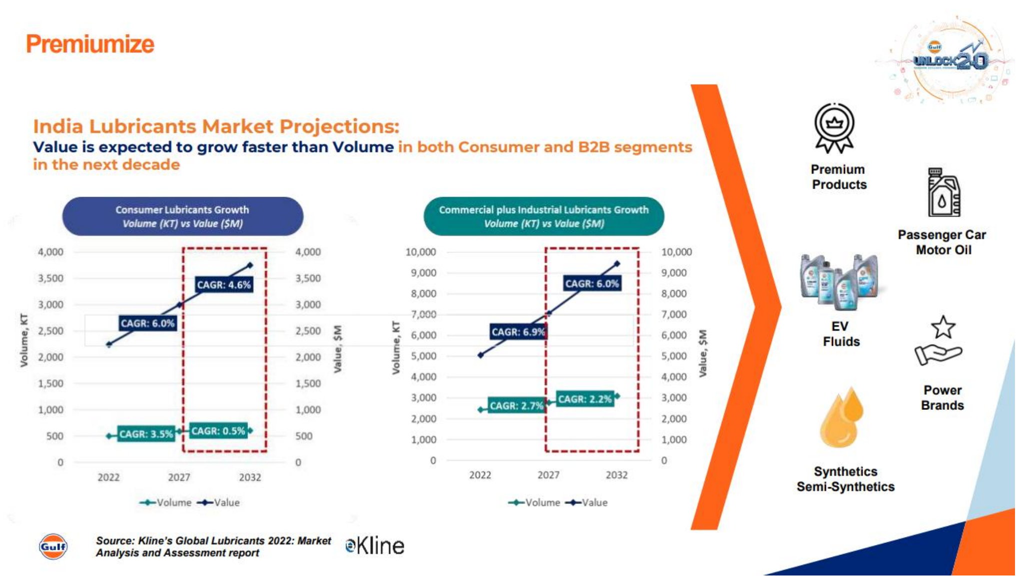
Source: Company

Exhibit 6: GOLI plans to accelerate growth in core business



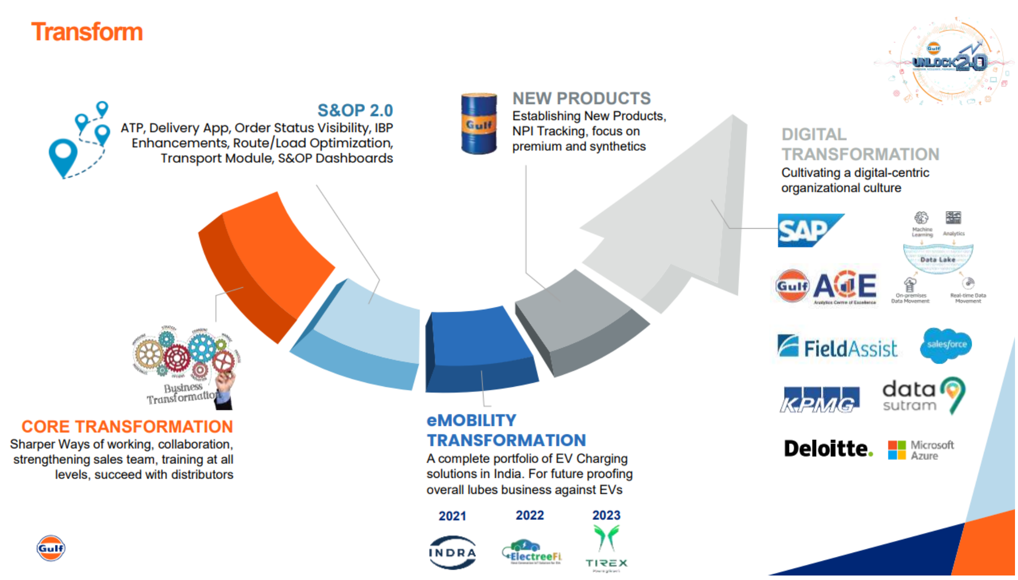
Source: Company

Exhibit 7: GOLI intends to improve the value proposition through premium products



Source: Company, Kline

Exhibit 8: GOLI targets transforming its business through numerous initiatives



Source: Company

Exhibit 9: Indian automobile population estimates and EV penetration by FY28

ICE+EV in Million Units	Vehicle Parc (FY28P)	Annual Sales (FY28P)	EV Penetration (FY28P)	ICE Parc (Lube Opportunity) (FY28P)	4 Yr- CAGR Vehicle Parc	4 Yr- CAGR Annual Sales
2W	354	25.9-26.1	18-20%	338	8%	11%
3W	12	1.2-1.4	60-65%	8	14%	9%
PV	66	5.2-5.4	10-15%	64	8%	8%
CV	18	1.3-1.5	2-3%	18	8%	10%
Total	450	33.4	18-20%	428	8%	10%

We estimate that ICE growth will continue even after 2030 and more than 90% of the Parc will continue to be ICE.

EV estimates are based on the expectation that EV sales will surge as various OEMs launch models and the segment continues to receive policy push (subsidies, 5% GST, FAME), Improvement in Charging infra, Reduction in per kwh battery cost.

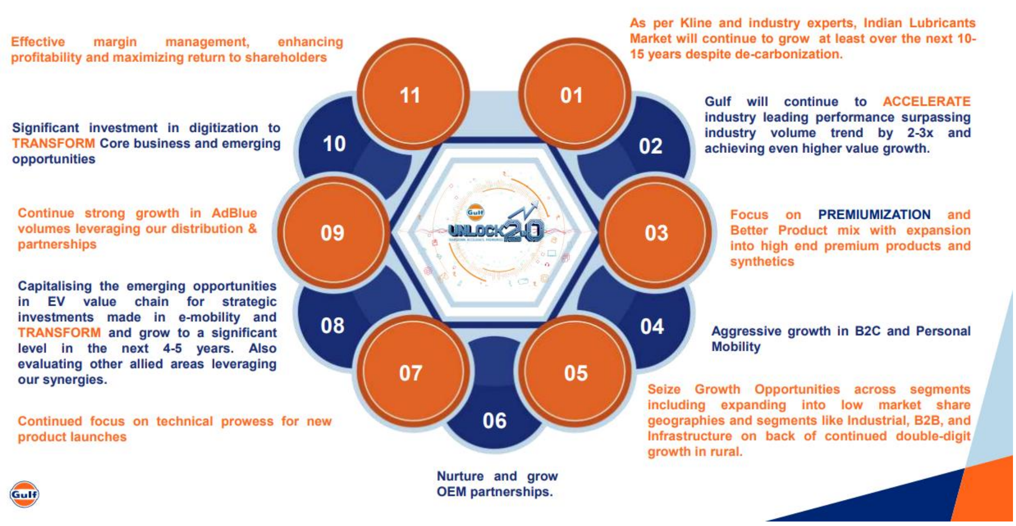
Source: Company

Exhibit 10: 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's share of net loss in GOLI's consol. accounts for FY24 stood at Rs1.8mn
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 Transmission	FY24	Manufacturers of DC fast chargers in India	51%	1030	Supplies fast chargers, from 30kW to 240kW, with >1,000 chargers already deployed in India; Rs650mn primary issue. Tirex recorded revenue of Rs170mn in Q4, with net profit of ~Rs15mn

Source: Company, Industry, Media Reports, Emkay Research

Exhibit 11: Summary of key growth drivers



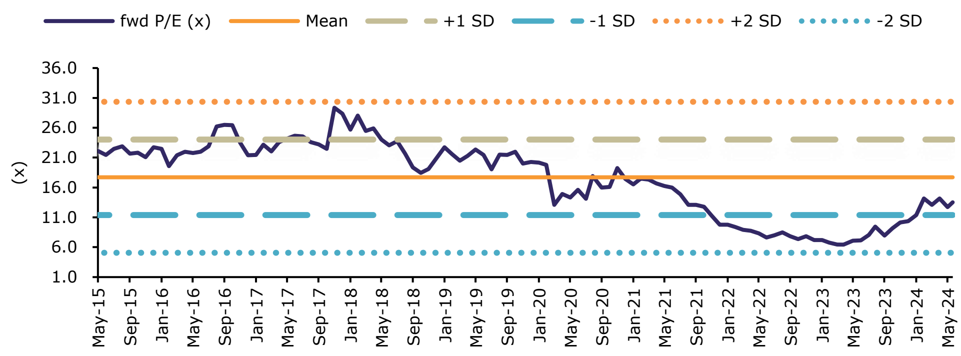
Source: Company

Exhibit 12: GOLI's P/E-based valuation (Mar-26E)

	FY23	FY24	FY25E	FY26E
Standalone EPS (Rs)	47.4	62.7	71.6	81.8
Target P/E (x)				16.5
TP (Rs/share)				**1,350**

Source: Company, Emkay Research

Exhibit 13: GOLI – One-year forward P/E



Source: Company, Bloomberg, Emkay Research

Gulf Oil Lubricants: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	**21,916**	**29,991**	**32,841**	**35,006**	**37,977**
Revenue growth (%)	32.6	36.8	9.5	6.6	8.5
EBITDA	**2,855**	**3,428**	**4,194**	**4,633**	**5,103**
EBITDA growth (%)	7.7	20.1	22.3	10.5	10.1
Depreciation & Amortization	357	396	468	453	478
EBIT	**2,498**	**3,032**	**3,726**	**4,180**	**4,625**
EBIT growth (%)	8.0	21.4	22.9	12.2	10.7
Other operating income	0	0	0	0	0
Other income	442	471	665	733	939
Financial expense	96	376	256	204	185
PBT	**2,843**	**3,127**	**4,135**	**4,709**	**5,380**
Extraordinary items	0	0	0	0	0
Taxes	733	804	1,054	1,187	1,356
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**2,111**	**2,323**	**3,081**	**3,522**	**4,024**
PAT growth (%)	5.5	10.1	32.6	14.3	14.3
Adjusted PAT	**2,111**	**2,323**	**3,081**	**3,522**	**4,024**
Diluted EPS (Rs)	**41.9**	**47.4**	**62.7**	**71.6**	**81.8**
Diluted EPS growth (%)	5.2	13.2	32.2	14.3	14.3
DPS (Rs)	**5.0**	**25.0**	**36.0**	**43.0**	**49.1**
Dividend payout (%)	**11.8**	**52.8**	**57.5**	**60.0**	**60.0**
EBITDA margin (%)	13.0	11.4	12.8	13.2	13.4
EBIT margin (%)	11.4	10.1	11.3	11.9	12.2
Effective tax rate (%)	25.8	25.7	25.5	25.2	25.2
NOPLAT (pre-IndAS)	**1,854**	**2,253**	**2,777**	**3,127**	**3,460**
Shares outstanding (mn)	50.4	49.0	49.2	49.2	49.2

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	101	98	98	98	98
Reserves & Surplus	10,326	11,686	12,849	14,258	15,868
Net worth	**10,427**	**11,784**	**12,948**	**14,357**	**15,966**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	124	190	160	129	98
Total debt	**3,896**	**3,733**	**3,578**	**3,228**	**2,928**
Total liabilities & equity	**14,447**	**15,707**	**16,685**	**17,713**	**18,992**
Net tangible fixed assets	2,394	2,356	2,086	2,080	2,149
Net intangible assets	31	31	31	31	31
Net ROU assets	306	388	388	388	388
Capital WIP	31	31	92	94	97
Goodwill	0	0	0	0	0
Investments [JV/Associates]	369	902	1,950	1,989	2,029
Cash & equivalents	**5,744**	**6,542**	**7,063**	**7,687**	**8,375**
Current assets (ex-cash)	9,435	10,466	11,436	12,190	13,225
Current Liab. & Prov.	3,863	5,008	6,360	6,745	7,301
NWC (ex-cash)	**5,572**	**5,458**	**5,077**	**5,445**	**5,924**
Total assets	**14,447**	**15,707**	**16,685**	**17,713**	**18,992**
Net debt	(1,848)	(2,810)	(3,485)	(4,459)	(5,447)
Capital employed	14,447	15,707	16,685	17,713	18,992
Invested capital	**8,303**	**8,233**	**7,581**	**7,943**	**8,491**
BVPS (Rs)	206.8	240.4	263.3	292.0	324.7
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(0.6)	(0.8)	(0.8)	(1.0)	(1.1)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
RoCE (%)	**23.2**	**23.2**	**27.1**	**28.6**	**30.3**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	2,843	3,127	4,135	4,709	5,380
Others (non-cash items)	58	393	132	(76)	(277)
Taxes paid	(762)	(934)	(1,022)	(1,218)	(1,387)
Change in NWC	(2,377)	148	237	(369)	(479)
Operating cash flow	**(237)**	**2,733**	**3,481**	**3,046**	**3,237**
Capital expenditure	(246)	(229)	(210)	(450)	(550)
Acquisition of business	0	0	0	0	0
Interest & dividend income	426	413	633	733	939
Investing cash flow	**(173)**	**304**	**(578)**	**244**	**349**
Equity raised/(repaid)	28	(1,052)	53	0	0
Debt raised/(repaid)	1,476	(376)	(160)	(349)	(299)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(73)	(345)	(264)	(204)	(185)
Dividend paid (incl tax)	(450)	(248)	(2,014)	(2,113)	(2,415)
Others	217	(218)	2	0	0
Financing cash flow	**1,198**	**(2,239)**	**(2,382)**	**(2,667)**	**(2,899)**
Net chg in Cash	788	798	521	624	688
OCF	(237)	2,733	3,481	3,046	3,237
Adj. OCF (w/o NWC chg.)	2,139	2,586	3,244	3,416	3,716
FCFF	(483)	2,504	3,272	2,596	2,687
FCFE	(153)	2,541	3,648	3,125	3,442
OCF/EBITDA (%)	(8.3)	79.7	83.0	65.8	63.4
FCFE/PAT (%)	(7.3)	109.4	118.4	88.7	85.5
FCFF/NOPLAT (%)	**(26.0)**	**111.2**	**117.8**	**83.0**	**77.7**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	23.9	21.1	16.0	14.0	12.2
P/CE(x)	20.4	18.0	13.9	12.4	10.9
P/B (x)	4.8	4.2	3.8	3.4	3.1
EV/Sales (x)	2.2	1.5	1.4	1.3	1.2
EV/EBITDA (x)	17.0	13.5	10.9	9.7	8.6
EV/EBIT(x)	19.5	15.2	12.3	10.7	9.5
EV/IC (x)	5.9	5.6	6.0	5.6	5.1
FCFF yield (%)	(1.0)	5.4	7.2	5.8	6.1
FCFE yield (%)	(0.3)	5.2	7.4	6.4	7.0
Dividend yield (%)	0.5	2.5	3.6	4.3	4.9
DuPont-RoE split					
Net profit margin (%)	9.6	7.7	9.4	10.1	10.6
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**	**24.9**	**25.8**	**26.5**
DuPont-RoIC					
NOPLAT margin (%)	8.5	7.5	8.5	8.9	9.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**26.4**	**27.2**	**35.1**	**40.3**	**42.1**
Operating metrics					
Core NWC days	92.8	66.4	56.4	56.8	56.9
Total NWC days	**92.8**	**66.4**	**56.4**	**56.8**	**56.9**
Fixed asset turnover	6.1	7.6	7.8	7.7	7.6
Opex-to-revenue (%)	27.1	26.3	28.2	27.7	27.5

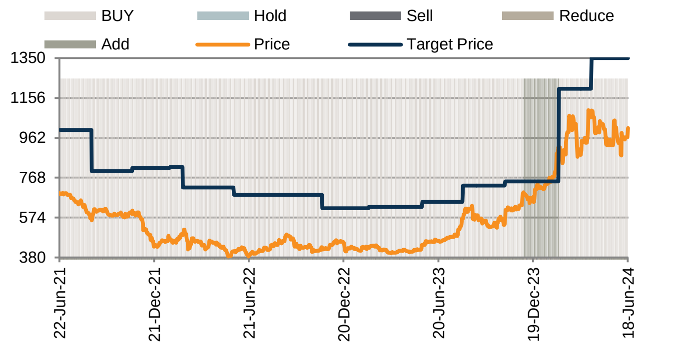
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
22-May-24	1,046	1,350	Buy	Sabri Hazarika
09-Apr-24	1,096	1,350	Buy	Sabri Hazarika
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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