BUY

Gulf Oil Lubricants

Data center cooling liquids; a longer-term opportunity

Emkay
Your success is our success

Oil & Gas ▸ Company Update ▸ **July 14, 2024**

TARGET PRICE (Rs): 1,500

We retain our constructive outlook on GOLI, driven by steady core volume growth (7% core volume CAGR over FY24-26E, >2x of the industry growth), and a stable 13-14% EBITDA margin profile supported by focus on premiumization. The new initiatives like EV charging solutions, EV fluids, and data center (DC) cooling liquids are expected to gradually add to the growth. Mgmt. estimates the DC cooling liquid market in India to stand at 12-14mn-ltr by CY26-end (given ~1,7GW of DC capacity; 100% transition to cooling liquids from ACs). Though cooling liquids contributing meaningfully to GOLI's volumes by CY26 seems unlikely, availability of technical know-how and eventual portfolio addition improve the terminal period outlook. We raise target P/E to 17.5x (vs. 16.5x earlier); besides roll-over to Sep-25E. Reiterate BUY with revised TP of Rs1,500/sh.

Gulf Oil Lubricants: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	29,991	32,841	35,815	39,543	43,523
EBITDA	3,428	4,194	4,676	5,176	5,754
Adj. PAT	2,323	3,081	3,529	3,960	4,471
Adj. EPS (Rs)	47.4	62.7	71.8	80.5	90.9
EBITDA margin (%)	11.4	12.8	13.1	13.1	13.2
EBITDA growth (%)	20.1	22.3	11.5	10.7	11.2
Adj. EPS growth (%)	13.2	32.2	14.5	12.2	12.9
RoE (%)	20.9	24.9	25.8	26.1	26.6
RoIC (%)	27.2	35.1	39.8	41.9	44.2
P/E (x)	25.5	19.3	16.9	15.0	13.3
EV/EBITDA (x)	16.5	13.4	11.8	10.5	9.2
P/B (x)	5.0	4.6	4.1	3.7	3.4
FCFF yield (%)	4.4	5.8	4.6	4.9	5.9

Source: Company, Emkay Research

DC cooling liquids – Nascent business at present; longer-term opportunity

The industry expects DC capacity in India to grow to 1.7-2.0GW by CY26 from ~1.0GW now. Average (rack) density is expected to increase to ~50kw/rack, from ~35kw/rack now, thus resulting in higher heat generation and need for liquid cooling solutions (mineral as well as synthetic). The mgmt. estimates 12-14mn-ltr of cooling liquid demand to cater to ~1.7GW of DC capacity, but conversion from traditional cooling solutions to liquid ones is expected to be gradual, at 3-4% initially and increasing ~25% in the following few years, as existing DCs would require capex for turning compatible with liquid cooling solutions. Our rough estimates *(refer to Exhibit 2)* imply ~0.5% volume contribution of DC cooling liquids by CY30E to GOLI's current core volume, while assuming ~15% market share for the company in such liquids and ~25% DC capacity converting to liquid cooling solutions. These liquids could lead to overall energy savings; however, selection of liquid cooling system, related expenditure, drain interval, and reliability would need to be evaluated.

Healthy core business outlook; new initiatives in germination mode

Industry consultant Kline estimates the Indian lubricants industry volume CAGR at 3-4% up to CY27, whereas it expects value CAGR of 5-6% on the back of premiumization across product verticals. GOLI maintains core volume CAGR of 2-3x of the industry growth, with an intent to grow its market share to 10-12% vs. 6-8% currently. the company pegs its AdBlue market share at ~25%, led by supply-chain synergy, certifications and OEM tie-ups. It has rapidly scaled up AdBlue volumes to 128mn-ltr in FY24 from ~16mn-ltr in FY22, with market estimated to grow in high double-digits over the next few years. We expect GOLI to clock earnings CAGR of ~13% over FY24-27E, mainly led by ~11% volume CAGR. GOLI has invested ~Rs1.5bn till date, for acquiring equity stake in ElectreeFi (charging management software provider), Indra Renewables (home charger manufacturer in the UK), and Tirex (DC fast-charger manufacturer in India). Tirex currently caters to 8-10% of the fast-charger market in India; it also offers EV fluids to OEMs with a low single-digit revenue contribution currently, as EV fluid demand in India could touch 12-14mn-ltr by CY28.

Key risks: Adverse base-oil prices/currency fluctuation, competition, & tech. changes.

Target Price – 12M	Sep-25
Change in TP (%)	**11.1**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	23.9
CMP (12-Jul-24) (Rs)	1,210.5

Stock Data	Ticker
52-week High (Rs)	1,349
52-week Low (Rs)	462
Shares outstanding (mn)	49.2
Market-cap (Rs bn)	60
Market-cap (USD mn)	713
Net-debt, FY25E (Rs mn)	-4,439
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	325.5
ADTV-3M (USD mn)	3.9
Free float (%)	27.0
Nifty-50	24,502
INR/USD	83.5
Shareholding, Jun-24	
Promoters (%)	71.8
FPIs/MFs (%)	5.7/5.9

Price Performance

(%)	1M	3M	12M
Absolute	26.9	14.0	153.2
Rel. to Nifty	20.8	4.8	100.3

1-Year share price trend (Rs)

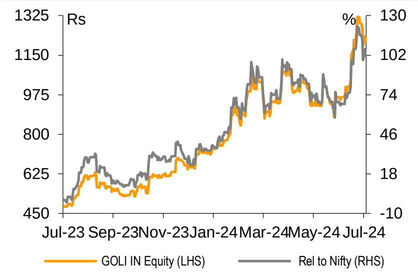

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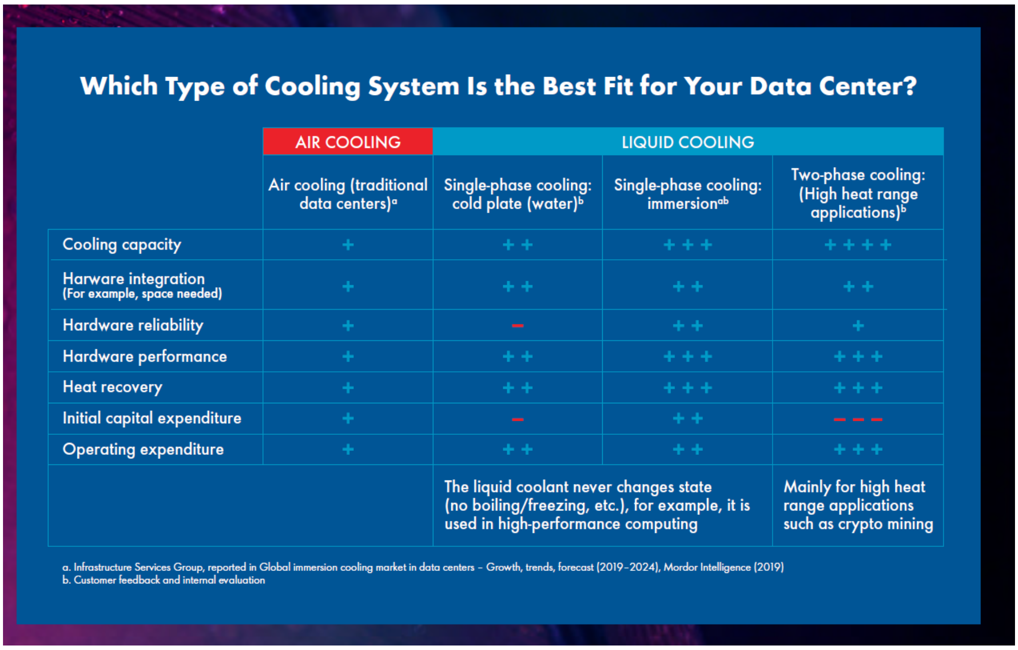
Exhibit 1: DC cooling systems – A comparison



Which Type of Cooling System Is the Best Fit for Your Data Center?

	AIR COOLING	LIQUID COOLING		
	Air cooling (traditional data centers)[a]	Single-phase cooling: cold plate (water)[b]	Single-phase cooling: immersion[ab]	Two-phase cooling: (High heat range applications)[b]
Cooling capacity	+	+ +	+ + +	+ + + +
Harware integration (For example, space needed)	+	+ +	+ +	+ +
Hardware reliability	+	–	+ +	+
Hardware performance	+	+ +	+ + +	+ + +
Heat recovery	+	+ +	+ + +	+ + +
Initial capital expenditure	+	–	+ +	– – –
Operating expenditure	+	+ +	+ +	+ + +
		The liquid coolant never changes state (no boiling/freezing, etc.), for example, it is used in high-performance computing		Mainly for high heat range applications such as crypto mining

a. Infrastructure Services Group, reported in Global immersion cooling market in data centers – Growth, trends, forecast (2019–2024), Mordor Intelligence (2019)
b. Customer feedback and internal evaluation

Source: Shell

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

Data centers (DCs)	Dec-20	May-24	Dec-24	Dec-26	Dec-30
Capacity – India (MW)	250	950	1,318	1,800	3,000
Cooling Liquid Potential - 100% transition (mn-ltr)	2	8	11	14	24
Penetration of Cooling Liquids				10%	25%
Estimated Demand (mn-ltr)				1.4	6.0
GOLI's sample market share				15%	15%
GOLI's volume potential (mn-ltr)				0.2	0.9
GOLI's current annualized core volume (mn-ltr)				140	140
Contribution of DC liquids				0.2%	0.6%

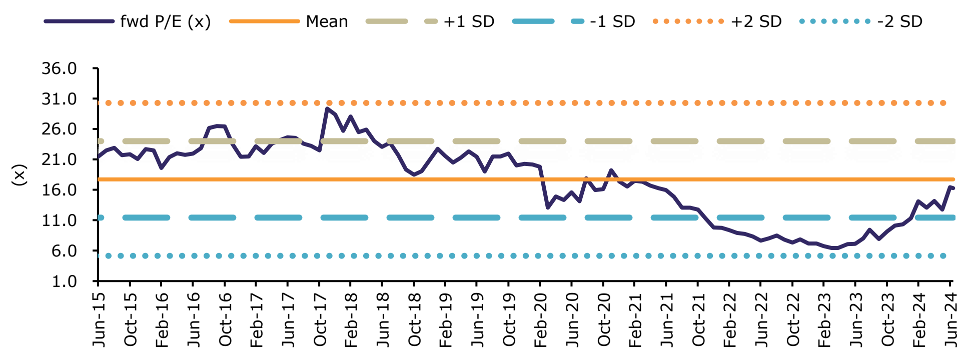
Source: Company, Industry, Media Reports, Emkay Research

Exhibit 3: GOLI's P/E-based valuation (Sep-26E)

(Rs)	FY23	FY24	FY25E	FY26E	FY27E
SA EPS	47.4	62.7	71.8	80.5	90.9
Target P/E (x)					17.5
TP/share					**1,500**

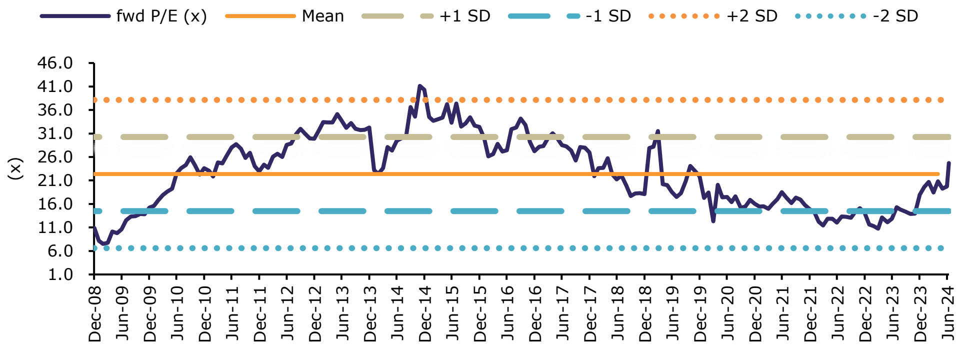
Source: Company, Emkay Research

Exhibit 4: GOLI's one-year forward P/E band



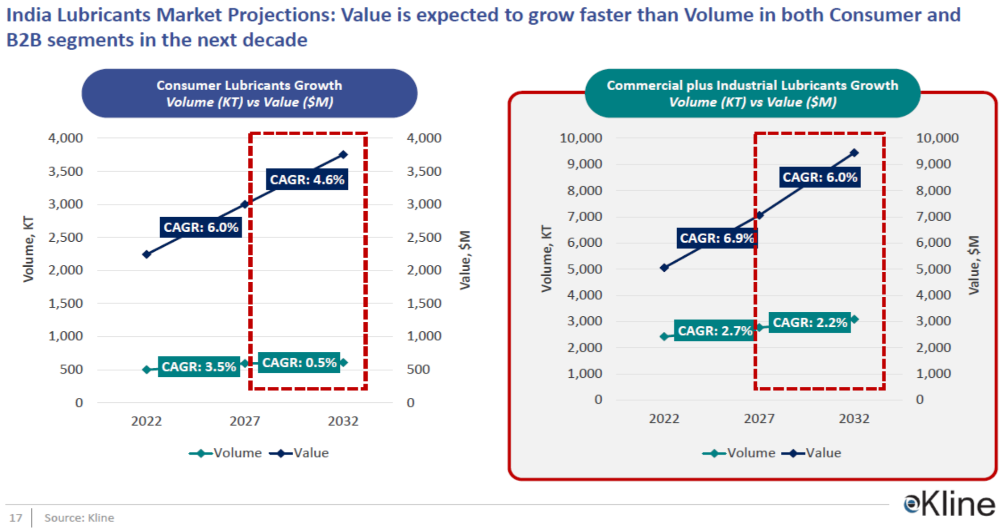
Source: Company, Bloomberg, Emkay Research

Exhibit 5: Castrol India's one-year forward P/E band



Source: Company, Bloomberg

Exhibit 6: Lubricant industry likely to witness steady growth over the next decade



Source: Kline

Gulf Oil Lubricants: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**29,991**	**32,841**	**35,815**	**39,543**	**43,523**
Revenue growth (%)	36.8	9.5	9.1	10.4	10.1
EBITDA	**3,428**	**4,194**	**4,676**	**5,176**	**5,754**
EBITDA growth (%)	20.1	22.3	11.5	10.7	11.2
Depreciation & Amortization	396	468	544	553	553
EBIT	**3,032**	**3,726**	**4,132**	**4,622**	**5,201**
EBIT growth (%)	21.4	22.9	10.9	11.9	12.5
Other operating income	0	0	0	0	0
Other income	471	665	807	870	954
Financial expense	376	256	221	198	177
PBT	**3,127**	**4,135**	**4,718**	**5,294**	**5,978**
Extraordinary items	0	0	0	0	0
Taxes	804	1,054	1,189	1,334	1,506
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**2,323**	**3,081**	**3,529**	**3,960**	**4,471**
PAT growth (%)	10.1	32.6	14.5	12.2	12.9
Adjusted PAT	**2,323**	**3,081**	**3,529**	**3,960**	**4,471**
Diluted EPS (Rs)	**47.4**	**62.7**	**71.8**	**80.5**	**90.9**
Diluted EPS growth (%)	13.2	32.2	14.5	12.2	12.9
DPS (Rs)	**25.0**	**36.0**	**43.1**	**48.3**	**54.6**
Dividend payout (%)	**52.8**	**57.5**	**60.0**	**60.0**	**60.0**
EBITDA margin (%)	11.4	12.8	13.1	13.1	13.2
EBIT margin (%)	10.1	11.3	11.5	11.7	12.0
Effective tax rate (%)	25.7	25.5	25.2	25.2	25.2
NOPLAT (pre-IndAS)	**2,253**	**2,777**	**3,091**	**3,457**	**3,890**
Shares outstanding (mn)	49.0	49.2	49.2	49.2	49.2

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	98	98	98	98	98
Reserves & Surplus	11,686	12,849	14,261	15,845	17,633
Net worth	**11,784**	**12,948**	**14,359**	**15,943**	**17,732**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	190	160	129	98	66
Total debt	**3,733**	**3,578**	**3,228**	**2,878**	**2,578**
Total liabilities & equity	**15,707**	**16,685**	**17,716**	**18,919**	**20,376**
Net tangible fixed assets	2,356	2,086	1,989	1,983	1,877
Net intangible assets	31	31	31	31	31
Net ROU assets	388	388	388	388	388
Capital WIP	31	92	94	97	100
Goodwill	0	0	0	0	0
Investments [JV/Associates]	902	1,950	1,989	2,029	2,069
Cash & equivalents	**6,542**	**7,063**	**7,666**	**8,250**	**9,138**
Current assets (ex-cash)	10,466	11,436	12,472	13,770	15,156
Current Liab. & Prov.	5,008	6,360	6,913	7,629	8,384
NWC (ex-cash)	**5,458**	**5,077**	**5,559**	**6,141**	**6,773**
Total assets	**15,707**	**16,685**	**17,716**	**18,919**	**20,376**
Net debt	(2,810)	(3,485)	(4,439)	(5,372)	(6,560)
Capital employed	15,707	16,685	17,716	18,919	20,376
Invested capital	**8,233**	**7,581**	**7,966**	**8,542**	**9,068**
BVPS (Rs)	240.4	263.3	292.0	324.3	360.6
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.8)	(0.8)	(0.9)	(1.0)	(1.1)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
RoCE (%)	**23.2**	**27.1**	**28.7**	**30.0**	**31.3**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	3,127	4,135	4,718	5,294	5,978
Others (non-cash items)	393	132	(42)	(118)	(224)
Taxes paid	(934)	(1,022)	(1,220)	(1,365)	(1,538)
Change in NWC	148	237	(483)	(583)	(632)
Operating cash flow	**2,733**	**3,481**	**2,973**	**3,227**	**3,584**
Capital expenditure	(229)	(210)	(450)	(550)	(450)
Acquisition of business	0	0	0	0	0
Interest & dividend income	413	633	807	870	954
Investing cash flow	**304**	**(578)**	**318**	**280**	**463**
Equity raised/(repaid)	(1,052)	53	0	0	0
Debt raised/(repaid)	(376)	(160)	(349)	(349)	(299)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(345)	(264)	(221)	(198)	(177)
Dividend paid (incl tax)	(248)	(2,014)	(2,117)	(2,376)	(2,683)
Others	(218)	2	0	0	0
Financing cash flow	**(2,239)**	**(2,382)**	**(2,688)**	**(2,924)**	**(3,159)**
Net chg in Cash	798	521	603	584	888
OCF	2,733	3,481	2,973	3,227	3,584
Adj. OCF (w/o NWC chg.)	2,586	3,244	3,456	3,810	4,216
FCFF	2,504	3,272	2,523	2,677	3,134
FCFE	2,541	3,648	3,109	3,349	3,910
OCF/EBITDA (%)	79.7	83.0	63.6	62.4	62.3
FCFE/PAT (%)	109.4	118.4	88.1	84.6	87.5
FCFF/NOPLAT (%)	**111.2**	**117.8**	**81.6**	**77.4**	**80.5**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	25.5	19.3	16.9	15.0	13.3
P/CE(x)	21.8	16.8	14.6	13.2	11.8
P/B (x)	5.0	4.6	4.1	3.7	3.4
EV/Sales (x)	1.9	1.7	1.5	1.4	1.2
EV/EBITDA (x)	16.5	13.4	11.8	10.5	9.2
EV/EBIT(x)	18.6	15.0	13.3	11.7	10.2
EV/IC (x)	6.9	7.4	6.9	6.3	5.8
FCFF yield (%)	4.4	5.8	4.6	4.9	5.9
FCFE yield (%)	4.3	6.1	5.2	5.6	6.6
Dividend yield (%)	2.1	3.0	3.6	4.0	4.5
DuPont-RoE split					
Net profit margin (%)	7.7	9.4	9.9	10.0	10.3
Total asset turnover (x)	2.0	2.0	2.1	2.2	2.2
Assets/Equity (x)	1.4	1.3	1.3	1.2	1.2
RoE (%)	**20.9**	**24.9**	**25.8**	**26.1**	**26.6**
DuPont-RoIC					
NOPLAT margin (%)	7.5	8.5	8.6	8.7	8.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**27.2**	**35.1**	**39.8**	**41.9**	**44.2**
Operating metrics					
Core NWC days	66.4	56.4	56.7	56.7	56.8
Total NWC days	**66.4**	**56.4**	**56.7**	**56.7**	**56.8**
Fixed asset turnover	7.6	7.8	7.9	7.9	7.9
Opex-to-revenue (%)	26.3	28.2	27.1	27.3	27.5

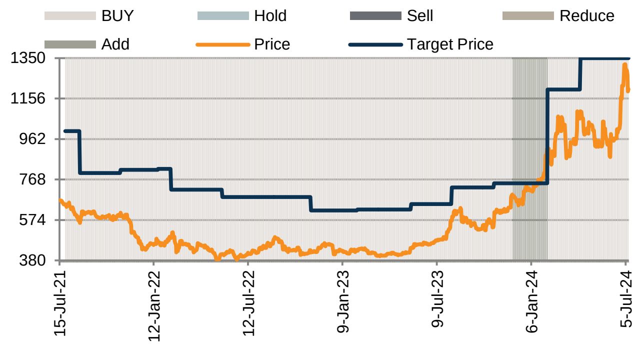
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
21-Jun-24	1,013	1,350	Buy	Harsh Maru
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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