

Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	CSTR IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	204.6 / 2.4
52-Week Range (INR)	284 / 132
1, 6, 12 Rel. Per (%)	-8/-11/23
12M Avg Val (INR M)	1556

Financials & Valuations (INR b)

Y/E Dec	CY24E	CY25E	CY26E
Sales	54.4	56.5	59.9
EBITDA	12.0	13.1	14.4
PAT	8.8	9.5	10.6
EPS (INR)	8.9	9.7	10.7
EPS Gr. (%)	2.0	8.3	10.6
BV/Sh.(INR)	22.7	24.1	25.6

Ratios

Net D:E	-0.5	-0.5	-0.6
RoE (%)	40.3	41.3	43.0
RoCE (%)	40.6	41.5	43.2
Payout (%)	85.8	85.8	85.8

Valuations

P/E (x)	23.1	21.3	19.3
P/BV (x)	9.1	8.6	8.1
EV/EBITDA (x)	15.9	14.6	13.2
Div. Yield (%)	3.7	4.0	4.4
FCF Yield (%)	4.1	4.4	4.9

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	51.0	51.0	51.0
DII	15.2	16.1	16.5
FII	10.0	10.0	11.0
Others	23.8	22.9	21.5

FII Includes depository receipts

CMP: INR207 **TP: INR275 (+33%)** **Buy**

Soft 3QCY24; volume outlook steady

- Castrol's (CSTR) revenue grew 9% YoY to INR13b in 3QCY24, driven by 8% YoY volume growth. EBITDA margin stood at 22.2%.
- Management highlighted that it remains focused on brand building, widening the distribution network, and launching new products, all of which we believe will contribute to volume growth and market share expansion.
- Management maintains a bullish outlook on India as a market and expects robust demand for lubricants to remain stable until late CY30s and early CY40s, largely attributed to the low penetration of cars in the country. While the threat from EVs is real, EV adoption is expected to be gradual.
- CSTR maintained its guidance of growing higher than the industry's average growth rate of 4-5% while aiming for 22-25% EBITDA margin for CY24. We estimate 22%/23%/24% EBITDA margin in CY24/CY25/CY26. Management guided INR1b annual capex, which is expected to rise to INR1.2-1.25b in a couple of years (INR600-650m capex incurred during 9mCY24).
- CSTR has always enjoyed a strong brand legacy, and we are confident in its ability to maintain profitability through an improved product mix, stringent cost-control measures, and the launch of advanced products that command better realization. **We reiterate our BUY rating with a TP of INR275.**

Miss on EBITDA due to lower-than-estimated margin

- CSTR's 3QCY24 revenue stood at ~INR12.9b (+9% YoY/-8% QoQ), in line with our est. of INR13b.
- However, EBITDA was 6% below our est. at INR2.9b (+7% YoY, -11% QoQ).
- EBITDA margin stood at 22% (vs. 23% in 2QCY24).
- On a QoQ basis, gross margin declined ~1% while employee expenses also rose 5%.
- PAT was 7% below our est. at INR2.1b (+7%YoY, -11%QoQ).
- Higher than estimated depreciation was offset by lower than estimated finance costs.
- **In 9MCY24**, CSTR's net sales/EBITDA/PAT grew 5%/3%/5% to INR40b/INR9b/INR6.6b. In 4QCY24, we expect net sales to increase 13% YoY, while EBITDA and PAT would decline 9% and 5% YoY, respectively.

Other key highlights

- The company introduced four new rust-prevention products: Castrol Rustilo DW 800, 806, 809, and 81.
- During 3Q, the company trained and empowered over 8,000 truck drivers and more than 4,000 mechanics.

Valuation and view

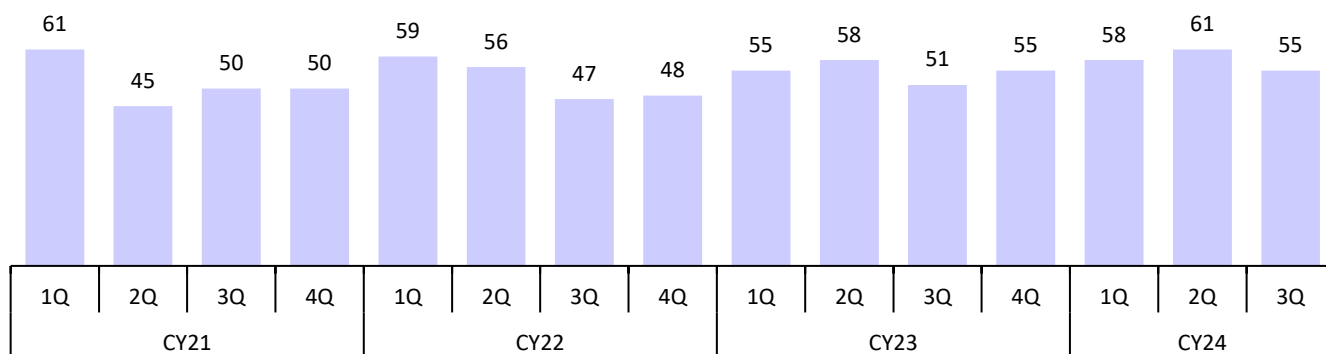
- Our EBITDA margin assumptions are already within the company's guided range of 22-25%.
- We also reduce our valuation multiple to 26x (average: 22.8x and mean + 1 S.D.: 30.6x) and arrive at our TP to INR275. **We reiterate our BUY rating.**

Quarterly performance

(INR m)

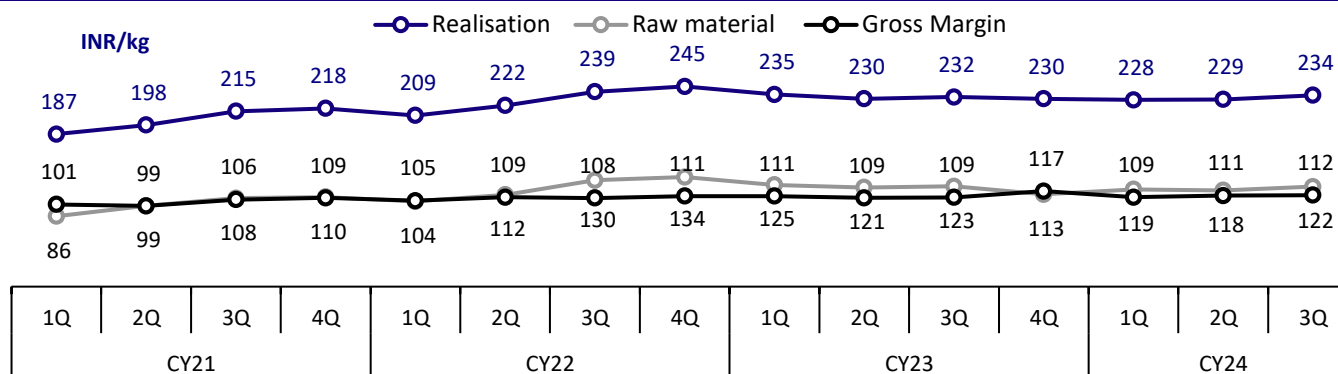
Y/E December	CY23				CY24				CY23	CY24E	CY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Volume (m litres)	55.0	58.0	51.0	55.0	58.0	61.0	55.0	63.0	219.0	237.0	56.1	-2%
Realization	235	230	232	230	228	229	234	226	232	229	231	1%
Net Sales	12,939	13,338	11,829	12,640	13,252	13,975	12,882	14,249	50,746	54,358	12,962	-1%
YoY Change (%)	4.7	7.4	5.5	7.5	2.4	4.8	8.9	12.7	6.3	7.1	9.6	
EBITDA	2,950	3,098	2,686	3,291	2,937	3,224	2,861	3,007	12,024	12,030	3,033	-6%
YoY Change (%)	-7.0	8.3	4.4	31.3	-0.4	4.1	6.5	-8.6	8.2	0.1	12.9	
Margin (%)	22.8	23.2	22.7	26.0	22.2	23.1	22.2	21.1	23.7	22.1	23.4	-0.1
Depreciation	227	218	229	250	237	261	245	261	924	963	238	
Interest	17	15	24	20	21	26	20	21	75	79	25	
Other Income	176	186	202	223	241	204	209	224	787	792	204	
PBT before EO expense	2,883	3,050	2,635	3,243	2,921	3,142	2,805	2,950	11,811	11,780	2,973	-6%
PBT	2,883	3,050	2,635	3,243	2,921	3,142	2,805	2,950	11,811	11,780	2,973	-6%
Tax	858	797	691	824	758	820	730	660	3,170	2,969	749	
Rate (%)	29.8	26.1	26.2	25.4	26.0	26.1	26.0	22.4	26.8	25.2	25.2	
PAT	2,025	2,253	1,944	2,419	2,162	2,322	2,074	2,290	8,641	8,812	2,224	-7%
YoY Change (%)	-11.3	9.2	3.9	25.2	6.8	3.1	6.7	-5.4	6.0	2.0	14.4	
Operational Details (INR/lit)												
Volume (m litres)	55.0	58.0	51.0	55.0	58.0	61.0	55.0	63.0	219.0	237.0	56.1	-2%
Realization	235.3	230.0	231.9	229.8	228.5	229.1	234.2	225.8	231.7	229.4	231.1	1%
Gross margin	110.7	108.5	109.2	116.9	109.4	111.3	111.9	103.1	111.3	108.9	110.5	1%
EBITDA	53.6	53.4	52.7	59.8	50.6	52.9	52.0	47.8	54.9	50.8	54.1	-4%
PAT	36.8	38.8	38.1	44.0	37.3	38.1	37.7	36.4	39.5	37.2	39.6	-5%

Exhibit 1: Volume stood at 61m liters (up 8% YoY)



Source: Company, MOFSL

Exhibit 2: Realization stood at INR234/liter



Source: Company, MOFSL



Key highlights from the management commentary

Financial performance:

- CSTR's 3QCY24 revenue/PBT increased 9%/6% YoY. 9MCY24 revenue/PBT rose 5%/3% YoY.

Innovation and product expansion:

- The company has introduced four new rust-preventive products—Castrol Rustilo DW 800, 806, 809, and 812 to address the evolving needs of its customers.
- The auto care product range has expanded, now reaching over 45,000 retail outlets and e-commerce platforms.
- The newly launched Castrol EDGE variants and Castrol CRB TURBOMAX+ CK4, engineered for compatibility with OEM engine platforms, have garnered strong positive feedback, further strengthening Castrol's position in the premium lubricants segment.
- In 3QCY24, the company empowered and trained over 8,000 truck drivers and more than 4,000 mechanics.

Distribution and reach:

- CSTR expanded its reach to 35,000 workshops and retail outlets across rural India.
- It has built a strong network comprising ~580 Castrol Auto Service outlets, 29,500 bike points, 9,400 multi-brand car workshops, and a wide array of dealers.
- The company now has a nationwide presence of more than 136 outlets.

Volume growth outlook:

- OEMs: 4-5% in CY24 and going forward. New vehicle sales in some of the new segments were muted. However, since CSTR's business is based on the after-sale market, its business is not impacted to a large extent.
- Volume growth in 3QCY24 stood at 8% YoY (retail business 8% (60% share), OEMs 8%, commercial vehicles: lower double-digit growth, private vehicles: single-digit growth)
- 3QCY24 volume stood at 55m lit. The business is cyclical and 3Q is historically seen to be a weak quarter.

Raw material costs:

- The company's raw material is base oil. Its price moves in a lag to crude oil prices. CSTR predicts near-term input costs to be largely in line with the cost experienced in the past nine months.
- Base oil share in inputs has reduced from 70% to 60%. CSTR does not hedge any inputs locally; it only hedges the foreign currency impact from these inputs.

EBITDA margin guidance:

- CSTR aims EBITDA margin to stay between 22% and 25%.

Supply chain:

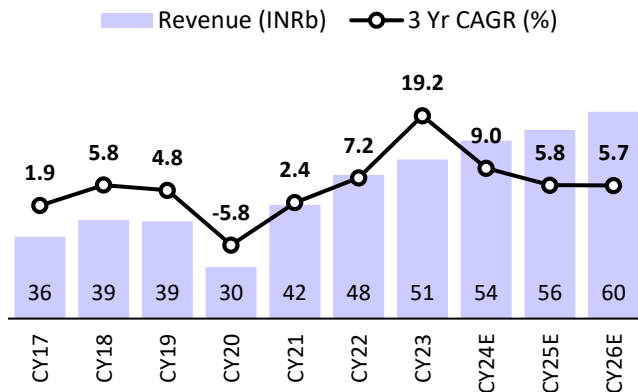
- With a well-established supply chain ecosystem and core products being available at 50k+ outlets, management believes that its supply chain is highly efficient and cost effective and would not be an issue in any business expansion.

Capex:

- CSTR incurred INR600-650m capex during 9mCY24. Usually, INR1b capex is incurred in a year, which is expected to rise to INR1.2-1.25b in a couple of years.
- With a large cash balance on the balance sheet, the company's focus remains on inorganic growth. Management has not planned any major capex on existing plants and facilities as of now.

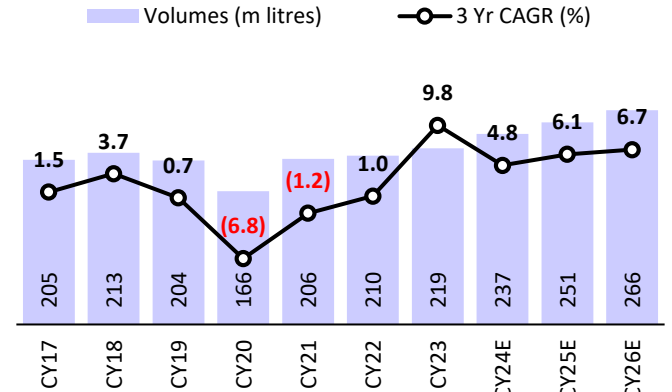
Story in charts

Exhibit 3: Revenue to clock 5.7% CAGR over CY23-26...



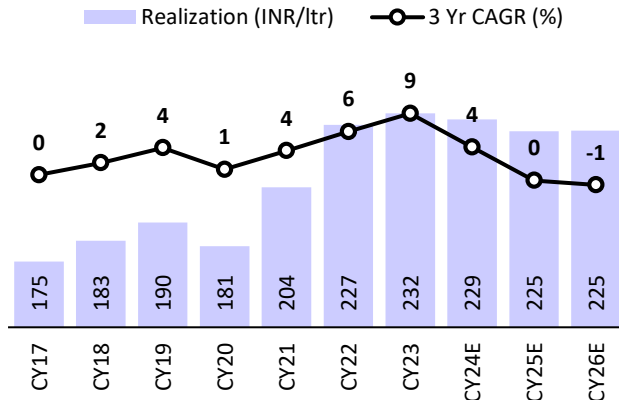
Source: Company, MOFSL

Exhibit 4: ...led by an increase in volumes



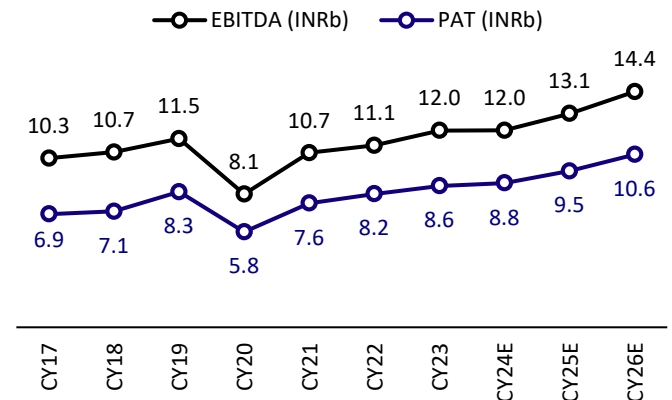
Source: Company, MOFSL

Exhibit 5: Realizations to be above INR225/lit in CY26...



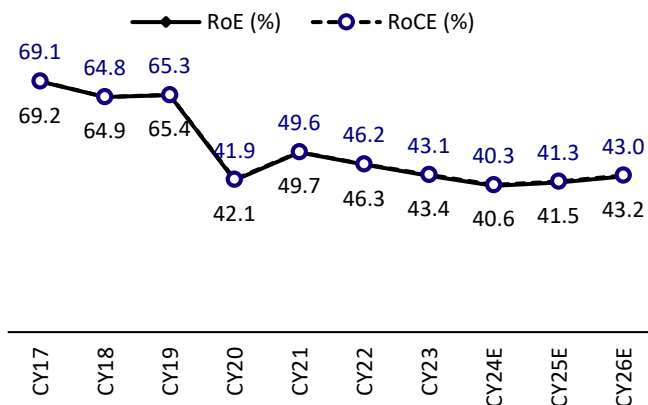
Source: Company, MOFSL

Exhibit 6: ...with EBITDA improving to INR14.4b



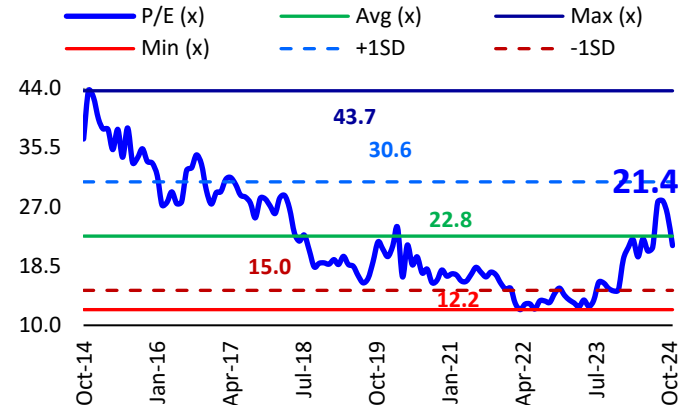
Source: Company, MOFSL

Exhibit 7: Return ratios expected to be above 40%



Source: Company, MOFSL

Exhibit 8: CSTRL's one-year forward P/E chart



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement					(INR m)
Y/E December	CY22	CY23	CY24E	CY25E	CY26E
Net sales	47,745	50,746	54,358	56,481	59,923
Change (%)	13.9	6.3	7.1	3.9	6.1
Gross Margin	22,746	24,382	25,816	26,763	28,918
Margin (%)	47.6	48.0	47.5	47.4	48.3
EBITDA	11,111	12,024	12,030	13,066	14,404
Margin (%)	23.3	23.7	22.1	23.1	24.0
Depreciation	814	924	963	1,014	1,050
EBIT	10,297	11,100	11,068	12,052	13,353
Interest Charges	40	75	79	83	87
Other Income	670	787	792	795	846
PBT bef. EO Exp.	10,928	11,811	11,780	12,764	14,112
Income tax	2,776	3,170	2,969	3,217	3,556
Tax Rate (%)	25.4	26.8	25.2	25.2	25.2
Reported PAT	8,152	8,641	8,812	9,547	10,556
Change (%)	7.5	6.0	2.0	8.3	10.6
Margin (%)	17.1	17.0	16.2	16.9	17.6

Standalone - Balance Sheet					(INR m)
Y/E December	CY22	CY23	CY24E	CY25E	CY26E
Equity Share Capital	4,946	4,946	4,946	4,946	4,946
Total Reserves	13,915	16,271	17,518	18,869	20,363
Net Worth	18,861	21,217	22,464	23,815	25,309
Capital Employed	18,861	21,217	22,464	23,815	25,309
Gross Block	8,709	9,633	11,133	12,633	14,133
Less: Accum. Deprn.	6,800	7,960	8,923	9,936	10,987
Net Fixed Assets	1,909	1,673	2,210	2,697	3,146
Capital WIP	608	1,084	1,500	1,500	1,500
Curr. Assets, Loans&Adv.	24,240	25,787	27,118	28,405	30,195
Inventory	5,344	5,329	5,825	5,975	6,265
Account Receivables	3,504	4,228	4,529	4,706	4,993
Cash and Bank Balance	12,177	11,998	12,231	13,014	13,941
Cash	5,545	4,932	5,165	5,948	6,875
Bank Balance	6,632	7,066	7,066	7,066	7,066
Loans and Advances	3,215	4,231	4,533	4,710	4,997
Curr. Liability & Prov.	11,832	12,982	14,020	14,442	15,188
Account Payables	6,789	7,064	7,722	7,920	8,304
Other Current Liabilities	4,516	5,342	5,722	5,946	6,308
Provisions	527	576	576	576	576
Net Current Assets	12,408	12,804	13,098	13,962	15,007
Deferred Tax assets	686	781	781	781	781
Appl. of Funds	18,861	21,217	22,464	23,815	25,309

Financials and Valuations

Ratios

Y/E December	CY22	CY23	CY24E	CY25E	CY26E
Basic (INR)					
EPS	8.2	8.7	8.9	9.7	10.7
Cash EPS	9.1	9.7	9.9	10.7	11.7
BV/Share	19.1	21.5	22.7	24.1	25.6
DPS	6.5	7.5	7.6	8.3	9.2
Payout (%)	78.9	85.8	85.8	85.8	85.8
Valuation (x)					
P/E	25.0	23.6	23.1	21.3	19.3
Cash P/E	22.7	21.3	20.8	19.3	17.6
P/BV	10.8	9.6	9.1	8.6	8.1
EV/Sales	4.0	3.8	3.5	3.4	3.2
EV/EBITDA	17.2	15.9	15.9	14.6	13.2
Dividend Yield (%)	3.2	3.6	3.7	4.0	4.4
FCF per share	8.2	7.7	8.4	9.2	10.2
Return Ratios (%)					
RoE	46.2	43.1	40.3	41.3	43.0
RoCE	46.3	43.4	40.6	41.5	43.2
Working Capital Ratios					
Asset Turnover (x)	2.5	2.4	2.4	2.4	2.4
Inventory (Days)	41	38	39	39	38
Debtor (Days)	23	26	26	26	26
Creditor (Days)	52	51	52	51	51
Leverage Ratio (x)					
Net Debt/Equity	-0.6	-0.6	-0.5	-0.5	-0.6

Standalone - Cash Flow Statement

Y/E December	CY22	CY23	CY24E	CY25E	CY26E
(INR m)					
OP/(Loss) before Tax	10,928	11,811	11,780	12,764	14,112
Depreciation	814	924	963	1,014	1,050
Interest & Finance Charges	40	75	79	83	87
Direct Taxes Paid	-2,740	-3,185	-2,969	-3,217	-3,556
(Inc)/Dec in WC	307	-706	-60	-82	-117
CF from Operations	9,159	8,530	9,793	10,562	11,576
(Inc)/Dec in FA	-1,097	-955	-1,500	-1,500	-1,500
Free Cash Flow	8,062	7,575	8,293	9,062	10,076
CF from Investments	618	-2,513	-1,916	-1,500	-1,500
Interest Paid	-11	-15	-79	-83	-87
Dividend Paid	-5,935	-6,429	-7,565	-8,196	-9,062
CF from Fin. Activity	-6,075	-6,638	-7,644	-8,279	-9,149
Inc/Dec of Cash	3,702	-621	233	783	927
Opening Balance	1,842	5,545	4,932	5,165	5,948
Closing Balance	5,544	4,924	5,165	5,948	6,875

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Explanation of Investment Rating	
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