

# Castrol India

BSE SENSEX

37,397

S&amp;P CNX

11,085

**CMP: INR124**
**TP: INR153 (+23%)**
**Buy**

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Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	123 / 1.8
52-Week Range (INR)	177 / 121
1, 6, 12 Rel. Per (%)	-1/-25/-27
12M Avg Val (INR M)	226
Free float (%)	49.0

## Financials & Valuations(INR b)

Y/E Dec	2018	2019E	2020E
Sales	39.0	41.6	42.4
EBITDA	10.7	11.5	11.5
PAT	7.1	7.5	7.6
EPS (INR)	7.2	7.6	7.7
EPS Gr. (%)	2.4	6.4	0.7
BV/Sh.(INR)	11.8	13.0	14.3
RoE (%)	64.8	61.4	56.2
RoCE (%)	64.9	61.5	56.3
<b>Valuations</b>			
P/E (x)	17.4	16.4	16.2
P/BV (x)	10.6	9.6	8.7
EV/EBITDA (x)	10.8	9.8	9.8
Div. Yield (%)	4.0	4.3	4.3

Estimate change



TP change



Rating change



## Volumes suffer; preparing for the uncertain times ahead

Net sales increased 2% YoY to INR10.4b (~7% miss) in 2QCY19. EBITDA was up 13% YoY at INR2.8b, while PAT grew 11% YoY (-1% QoQ) to INR1.8b (12% miss). Total expenditure of INR7.5b was flat YoY but increased 9% QoQ due to spending toward customer acquisition and distribution expansion.

- **Volumes dragged by CV/industrial segments:** Total volumes declined 3% YoY to 55.4m liters (1QCY19: 50.4m). Personal mobility continues to be the key driver, while the commercial vehicle and industrial segments exhibited a downtrend. PCMO accounted for ~45% of overall volumes, of which 2Ws contributed two thirds. 2Ws were also better in terms of the contribution to profits.
- **Realization stood at INR187.7/liter** in the quarter (v/s INR178.5 in 2QCY18 and INR193.7 in 1QCY19), supported by a better product mix and expansion of the customer base.
- **Gross margin was in line with our estimate** at INR101.1/lit, up from INR87.7 in 2QCY18 but lower than INR103.1 in 1QCY19.
- **Strategic developments:**
  - Groupe Renault has signed CSTRL as its supplier for global service fill engine oil lubricants, starting 1<sup>st</sup> Jan'20.
  - The company has signed a strategic deal with 3M in the vehicle care market. The size of this market stands at USD200m and is projected to grow at 10% YoY. Castrol 3M will launch products in 3QCY19 and aims to garner ~20-25% of the market share.
  - CSTRL has launched BS-VI ready range of products across categories, which can also be used in BS-III/IV vehicles. This range includes Castrol VECTON Long Drain 15W40 CK4 commercial vehicle engine oil, which is certified carbon-neutral and powers trucks with an extended drain interval up to 1,20,000 kilometers. Synthetic products constitute ~7% of total volume but growing at double digits.
- **In light of the possible onslaught by electric vehicles**, the company is looking at different revenue streams for the future. The recent deal with 3M is reflection of the company's diversification into new avenues.
- The Government of India's plan to ban ICE for 3Ws by 2023 and 2Ws by 2025 ([news](#)) is serious, and the NITI Aayog has asked top manufacturers to draw an EV plan for the same in the next two weeks ([news](#)).

## Valuation and view :

- The INR1.4b capacity expansion (from 100m liters to 140m liters) project at Silvassa would commence operations by Apr'20.
- The stock trades at 16.4x CY19E EPS of INR7.6.
- To factor in intensifying competition and threat to long-term growth, we revise down our CY20 target price multiple in line with global peers to 20.0x (from 25.0x) at EPS of INR7.7. With a revised TP of INR153 (from INR192), we maintain our **Buy** rating on the stock (~23% upside).

Swarnendu Bhushan- Research Analyst (Swarnendu.Bhushan@MotilalOswal.com); +91 22 6129 1529

Sarfranz Bhimani - Research Analyst (Sarfranz.Bhimani@MotilalOswal.com); +91 22 6129 1566

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Quarterly Performance

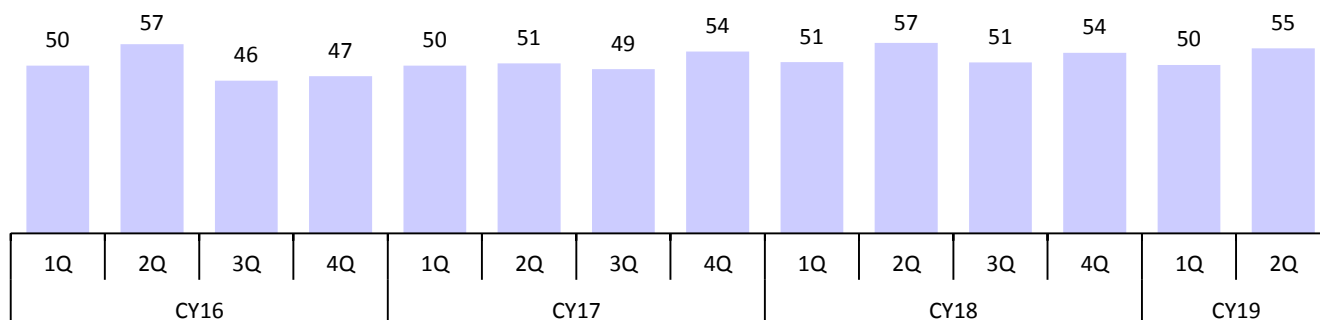
(INR Million)

Y/E December	CY18				CY19				CY18	CY19E	CY19	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	
Volume (m litres)	51.2	57.0	51.2	54.0	50.4	55.4	52.2	57.5	213	215	57.6	-4%
Realization	181	178	181	191	194	188	194	197	183	193	195	-4%
Net Sales	9,271	10,172	9,269	10,334	9,762	10,396	10,116	11,331	39,046	41,605	11,198	-7%
YoY Change (%)	5.1	16.9	7.6	6.5	5.3	2.2	9.1	9.7	8.9	6.6	10.1	
Total Expenditure	6,528	7,655	6,995	7,160	6,932	7,553	7,359	8,229	28,338	30,073	8,020	-6%
EBITDA	2,743	2,517	2,274	3,174	2,830	2,843	2,757	3,102	10,708	11,533	3,178	-11%
YoY Change (%)	4.2	20.1	-10.3	3.5	3.2	13.0	21.3	-2.3	3.7	7.7	26.3	
Margins (%)	29.6	24.7	24.5	30.7	29.0	27.3	27.3	27.4	27.4	27.7	28.4	
Depreciation	143	132	135	146	162	166	153	149	556	631	165	1%
Interest	7	3	-2	3	3	3	4	5	11	15	4	-20%
Other Income	228	173	186	256	211	159	156	181	843	707	174	-9%
PBT	2,821	2,555	2,327	3,281	2,876	2,833	2,756	3,128	10,984	11,594	3,184	-11%
Tax	1,003	913	823	1,162	1,026	1,006	965	1,095	3,901	4,058	1,114	-10%
Rate (%)	36	36	35	35	36	36	35	35	36	35	35	
PAT	1,818	1,642	1,504	2,119	1,850	1,827	1,792	2,033	7,083	7,536	2,069	-12%
YoY Change (%)	1.6	19.1	-15.6	7.7	1.8	11.3	19.1	-4.0	2.4	6.4	26.0	
Margins (%)	19.6	16.1	16.2	20.5	19.0	17.6	17.7	17.9	18.1	18.1	18.5	

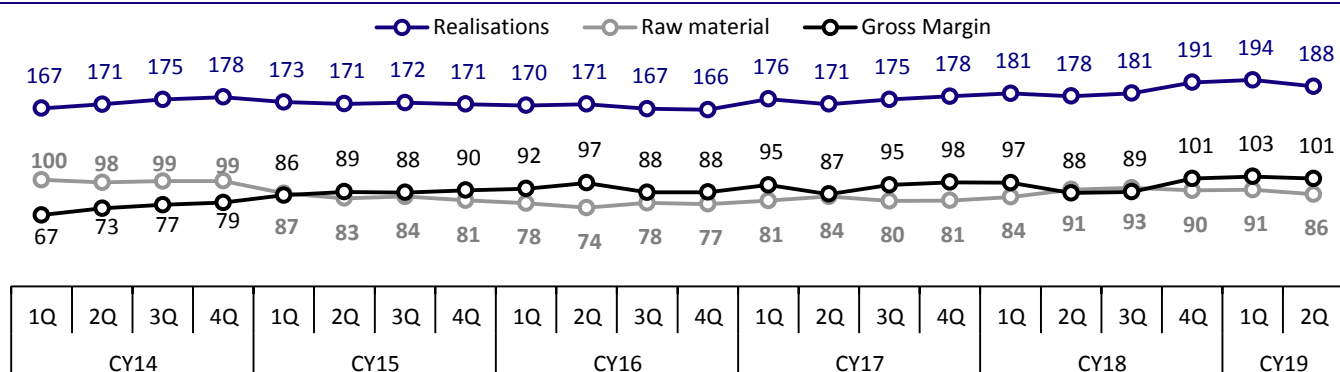
E: MOFSL Estimates

## Valuation and view

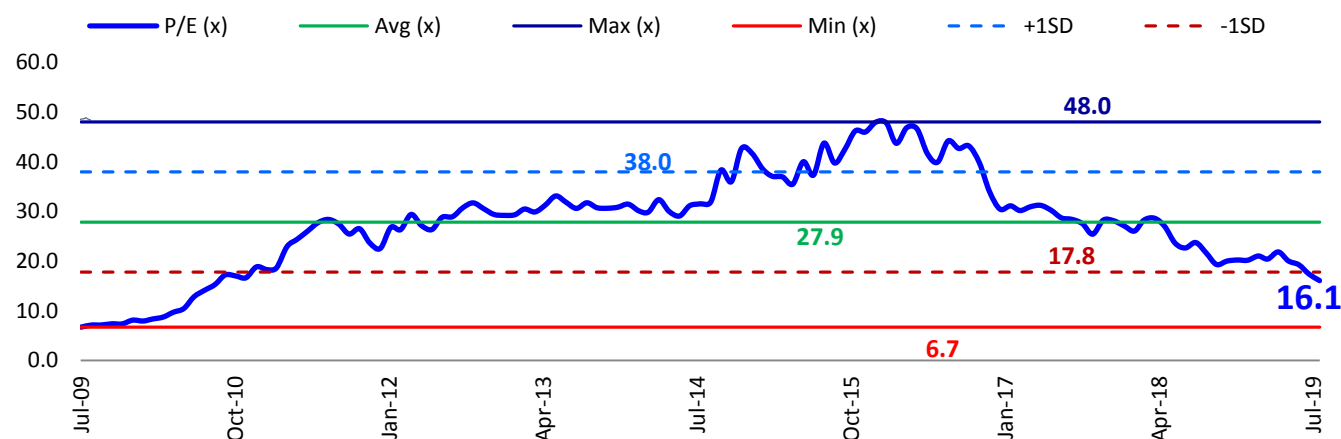
- The ride ahead for players is likely to remain tough owing to intensifying competition and challenges in oiling the growth wheel over the longer term.
- Due to the oligopoly nature of the market (Lubrizol, Infineum, Oronite, Afton), additives prices keep going up. With more launches, the premium of synthetic lube is likely to reduce.
- Nevertheless, the onslaught on EVs at least in 3Ws and 2Ws is expected to arrive much sooner than anticipated. CSTR does ~30% of total volumes in the 2Ws segment, which can hugely be impacted by EVs.
- However, the company is working on developing transmission fluids, coolants and greases for EVs. It is already looking into diversifying its business avenues and plans to focus on maintaining its own market share.
- To factor in intensifying competition and the threat to long-term growth, we revise our CY20 target price multiple in line with global peers to 20x (from 25x) at EPS of INR7.7.
- With a revised TP of INR153 (from INR192), we maintain our Buy rating on the stock, implying ~23% upside.

**Exhibit 1: Castrol's volume (m liter) were down 2.8% YoY in 2QCY19**

Source: Company, MOFSL

**Exhibit 2: Realizations at INR188/liter (+5% YoY, -3% QoQ) despite lower raw material cost (-5% YoY/QoQ)**

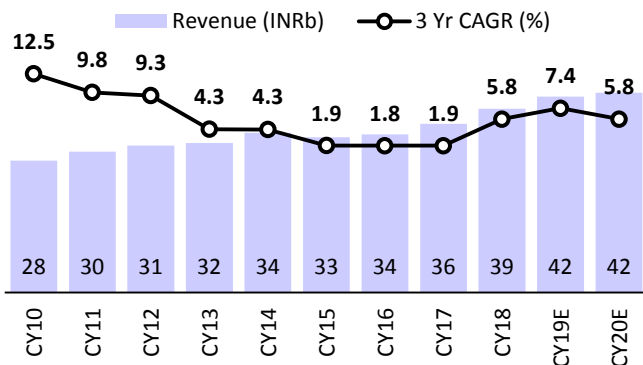
Source: Company, MOFSL

**Exhibit 3: Castrol's trades below its -1SD at 16.1x**

Source: Company, MOFSL

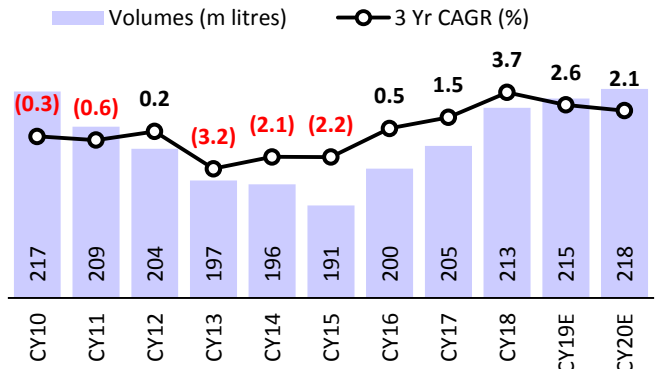
## Story in charts

**Exhibit 4: Castrol's revenue is expected to be flat...**



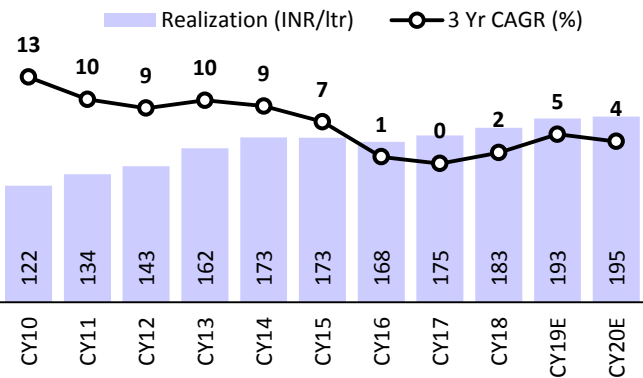
Source: Company, MOFSL

**Exhibit 5: ...led by slowing sales volume growth...**



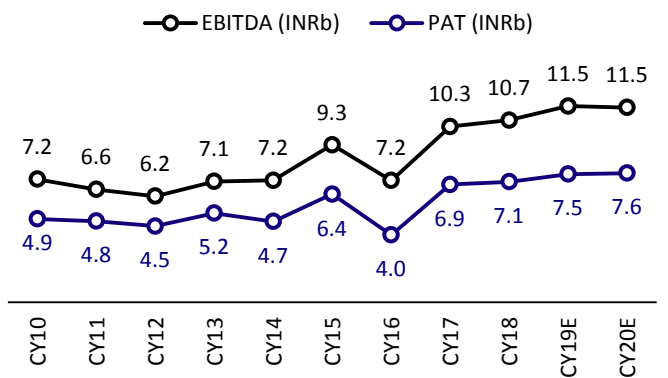
Source: Company, MOFSL

**Exhibit 6: ...and stable realizations**



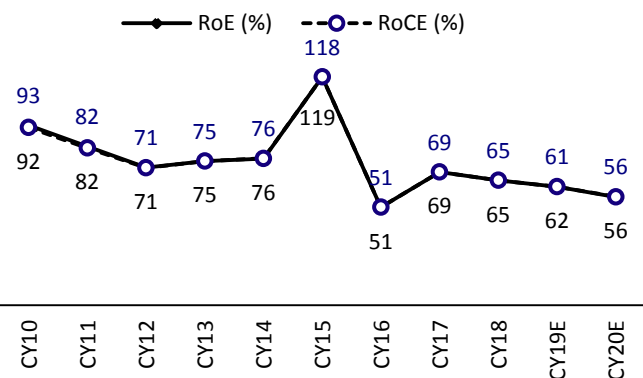
Source: Company, MOFSL

**Exhibit 7: PAT/ EBITDA growth to be ~4% over the next two years**



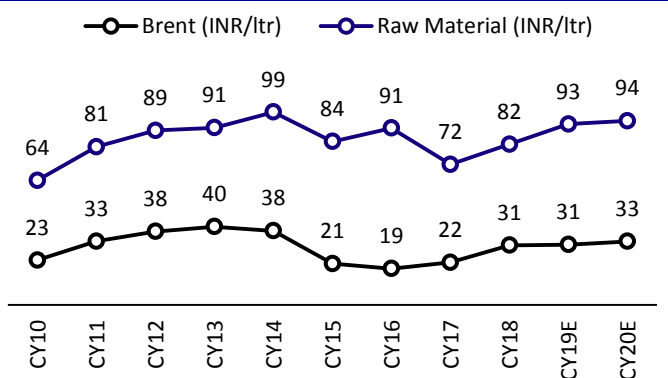
Source: Company, MOFSL

**Exhibit 8: Return ratios expected to remain strong**



Source: Company, MOFSL

**Exhibit 9: Raw material (base oil) shows strong correlation to crude oil prices as expected**



Source: Company, MOFSL

## Financials and Valuations

### Standalone - Income Statement

(INR Million)

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Income from Operations	39,186	37,914	38,636	41,240	44,925	47,870	48,832
Less: Excise Duty	5,263	4,934	5,056	5,397	5,879	6,265	6,391
<b>Net sales</b>	<b>33,923</b>	<b>32,980</b>	<b>33,580</b>	<b>35,843</b>	<b>39,046</b>	<b>41,605</b>	<b>42,442</b>
Change (%)	6.7	-2.8	1.8	6.7	8.9	6.6	2.0
Raw Materials	19,375	16,008	18,081	16,660	19,066	19,985	20,541
<b>Gross Margin</b>	<b>14,548</b>	<b>16,972</b>	<b>15,499</b>	<b>19,183</b>	<b>19,980</b>	<b>21,620</b>	<b>21,901</b>
Margin (%)	42.9	51.5	46.2	53.5	51.2	52.0	51.6
Employees Cost	1,616	1,766	1,726	1,956	2,034	2,286	2,492
Other Expenses	5,766	5,952	6,613	6,897	7,238	7,801	7,958
<b>Total Expenditure</b>	<b>26,756</b>	<b>23,726</b>	<b>26,420</b>	<b>25,513</b>	<b>28,338</b>	<b>30,073</b>	<b>30,991</b>
<b>EBITDA</b>	<b>7,167</b>	<b>9,255</b>	<b>7,160</b>	<b>10,330</b>	<b>10,708</b>	<b>11,533</b>	<b>11,451</b>
Margin (%)	21.1	28.1	21.3	28.8	27.4	27.7	27.0
Depreciation	361	390	450	455	556	631	707
<b>EBIT</b>	<b>6,806</b>	<b>8,865</b>	<b>6,710</b>	<b>9,875</b>	<b>10,152</b>	<b>10,902</b>	<b>10,744</b>
Interest Charges	24	8	15	12	11	15	15
Other Income	481	959	969	837	843	707	948
<b>PBT bef. EO Exp.</b>	<b>7,263</b>	<b>9,816</b>	<b>7,664</b>	<b>10,700</b>	<b>10,984</b>	<b>11,594</b>	<b>11,677</b>
EO Items	0	306	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>7,263</b>	<b>9,510</b>	<b>7,664</b>	<b>10,700</b>	<b>10,984</b>	<b>11,594</b>	<b>11,677</b>
Income tax	2,518	3,357	3,708	3,782	3,901	4,058	4,087
Tax Rate (%)	34.7	35.3	48.4	35.3	35.5	35.0	35.0
<b>Reported PAT</b>	<b>4,746</b>	<b>6,153</b>	<b>3,956</b>	<b>6,918</b>	<b>7,083</b>	<b>7,536</b>	<b>7,590</b>
<b>Adjusted PAT</b>	<b>4,746</b>	<b>6,351</b>	<b>3,956</b>	<b>6,918</b>	<b>7,083</b>	<b>7,536</b>	<b>7,590</b>
Change (%)	-9.4	33.8	-37.7	74.9	2.4	6.4	0.7
Margin (%)	14.0	19.3	11.8	19.3	18.1	18.1	17.9

### Standalone - Balance Sheet

(INR Million)

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Equity Share Capital	2,473	2,473	2,473	4,946	4,946	4,946	4,946
Total Reserves	2,495	3,283	7,343	5,256	6,711	7,935	9,167
<b>Net Worth</b>	<b>4,968</b>	<b>5,756</b>	<b>9,816</b>	<b>10,202</b>	<b>11,657</b>	<b>12,880</b>	<b>14,113</b>
Deferred Tax Liabilities	0	0	0	0	0	0	0
Total Loans	0	0	0	0	0	0	0
<b>Capital Employed</b>	<b>4,968</b>	<b>5,756</b>	<b>9,816</b>	<b>10,202</b>	<b>11,657</b>	<b>12,880</b>	<b>14,113</b>
Gross Block	3,762	3,915	4,004	4,404	5,440	6,025	6,825
Less: Accum. Deprn.	2,041	2,427	2,585	3,040	3,596	4,226	4,933
<b>Net Fixed Assets</b>	<b>1,721</b>	<b>1,488</b>	<b>1,419</b>	<b>1,364</b>	<b>1,844</b>	<b>1,798</b>	<b>1,892</b>
Capital WIP	157	364	423	599	366	585	800
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>12,426</b>	<b>14,265</b>	<b>16,369</b>	<b>17,255</b>	<b>18,325</b>	<b>20,920</b>	<b>22,130</b>
Inventory	3,655	3,046	3,439	3,196	4,568	3,790	3,906
Account Receivables	2,715	2,365	2,552	2,850	3,918	3,306	3,372
Cash and Bank Balance	4,315	6,965	8,219	7,842	7,438	10,080	11,033
Loans and Advances	1,742	1,889	2,159	3,367	2,401	3,744	3,820
<b>Curr. Liability &amp; Prov.</b>	<b>9,954</b>	<b>10,860</b>	<b>9,067</b>	<b>9,568</b>	<b>9,411</b>	<b>10,956</b>	<b>11,242</b>
Account Payables	5,492	5,645	4,966	6,066	5,840	7,168	7,387
Other Current Liabilities	1,377	1,457	3,478	2,967	3,111	3,328	3,395
Provisions	3,084	3,758	623	535	460	460	460
<b>Net Current Assets</b>	<b>2,472</b>	<b>3,404</b>	<b>7,302</b>	<b>7,687</b>	<b>8,914</b>	<b>9,964</b>	<b>10,888</b>
Deferred Tax assets	618	499	672	551	533	533	533
<b>Appl. of Funds</b>	<b>4,968</b>	<b>5,756</b>	<b>9,816</b>	<b>10,201</b>	<b>11,657</b>	<b>12,880</b>	<b>14,113</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>4.8</b>	<b>6.4</b>	<b>4.0</b>	<b>7.0</b>	<b>7.2</b>	<b>7.6</b>	<b>7.7</b>
Cash EPS	5.2	6.8	4.5	7.5	7.7	8.3	8.4
BV/Share	5.0	5.8	9.9	10.3	11.8	13.0	14.3
DPS	3.8	4.5	5.5	4.7	5.0	5.3	5.4
Payout (%)	92.7	87.1	165.5	81.5	83.8	83.8	83.8
<b>Valuation (x)</b>							
P/E		19.4	31.2	17.8	17.4	16.4	16.2
Cash P/E		18.3	28.0	16.7	16.1	15.1	14.9
P/BV		21.4	12.6	12.1	10.6	9.6	8.7
EV/Sales		3.5	3.4	3.2	3.0	2.7	2.6
EV/EBITDA		12.6	16.1	11.2	10.8	9.8	9.8
Dividend Yield (%)	3.0	3.6	4.4	3.8	4.0	4.3	4.3
<b>Return Ratios (%)</b>							
RoE	76.0	118.4	50.8	69.1	64.8	61.4	56.2
RoIC	504.4	-1,065.7	-1,735.1	435.2	233.3	233.6	310.7
RoCE	76.2	118.5	50.9	69.2	64.9	61.5	56.3
<b>Working Capital Ratios</b>							
Asset Turnover (x)	6.8	5.7	3.4	3.5	3.3	3.2	3.0
Inventory (Days)	39	34	37	33	43	33	34
Debtor (Days)	25	23	24	25	32	25	25
Creditor (Days)	59	62	54	62	55	63	64
<b>Leverage Ratio (x)</b>							
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Standalone - Cash Flow Statement

Y/E December	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
<b>(INR Million)</b>							
OP/(Loss) before Tax	7,263	9,816	7,664	10,700	10,984	11,594	11,677
Depreciation	361	390	450	455	556	631	707
Interest & Finance Charges	24	8	15	12	11	15	15
Direct Taxes Paid	-2,518	-3,357	-3,708	-3,782	-3,901	-4,058	-4,087
(Inc)/Dec in WC	1,131	1,718	-2,644	-762	-1,631	1,592	28
<b>CF from Operations</b>	<b>6,262</b>	<b>8,575</b>	<b>1,777</b>	<b>6,623</b>	<b>6,019</b>	<b>9,774</b>	<b>8,340</b>
Others	-89	-187	-173	121	18	0	0
<b>CF from Operating incl EO</b>	<b>6,174</b>	<b>8,388</b>	<b>1,604</b>	<b>6,744</b>	<b>6,037</b>	<b>9,774</b>	<b>8,340</b>
(Inc)/Dec in FA	-485	-365	-440	-576	-803	-804	-1,015
<b>Free Cash Flow</b>	<b>5,688</b>	<b>8,023</b>	<b>1,165</b>	<b>6,168</b>	<b>5,234</b>	<b>8,970</b>	<b>7,325</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
<b>CF from Investments</b>	<b>-485</b>	<b>-365</b>	<b>-440</b>	<b>-576</b>	<b>-803</b>	<b>-804</b>	<b>-1,015</b>
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Interest Paid	-24	-8	-15	-12	-11	-15	-15
Dividend Paid	-4,399	-5,357	-6,547	-5,637	-5,935	-6,312	-6,357
Others	-2,893	-7	6,651	-895	307	0	0
<b>CF from Fin. Activity</b>	<b>-7,316</b>	<b>-5,373</b>	<b>89</b>	<b>-6,544</b>	<b>-5,639</b>	<b>-6,327</b>	<b>-6,372</b>
<b>Inc/Dec of Cash</b>	<b>-1,628</b>	<b>2,651</b>	<b>1,254</b>	<b>-377</b>	<b>-405</b>	<b>2,643</b>	<b>953</b>
Opening Balance	5,942	4,315	6,965	8,219	7,842	7,438	10,080
<b>Closing Balance</b>	<b>4,315</b>	<b>6,965</b>	<b>8,219</b>	<b>7,842</b>	<b>7,437</b>	<b>10,081</b>	<b>11,033</b>

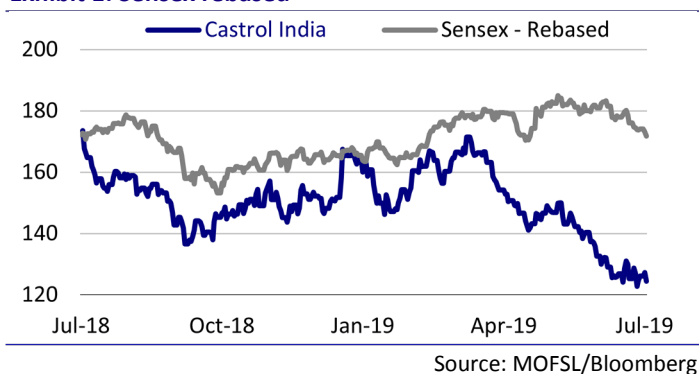
E: MOFSL Estimates

## Corporate profile

### Company description

Castrol India (CSTRL), a 51% subsidiary of BP, is a leading lubricants player in India, with ~22% market share of the domestic automotive lubricants industry. It manufactures and markets a range of automotive and industrial lubricants. It markets its automotive lubricants under two brands - Castrol and BP. The company enjoys leadership in most of the segments it operates in, including tractor oils, car engine oils, two-wheeler 4-stroke oils, and multi-grade diesel engine oils.

### Exhibit 1: Sensex rebased



### Exhibit 2: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	51.0	51.0	51.0
DII	17.2	17.3	18.6
FII	11.7	11.2	9.2
Others	20.1	20.6	21.3

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
S M Datta	S M Datta
Omer Dorman	Omer Dorman
Rashmi Joshi	Whole-time Director
Chandana Dhar	Company Secretary
Jayanta Chatterjee	WTD & Director (Supply Chain)

Source: Capitaline

### Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
Kishore Bhatia & Associates	Cost Auditor
S N Ananthasubramanian & Co	Secretarial Audit

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	10.3
Aditya Birla Sun Life Trustee Private Limited A/C Aditya Birla Sun Life Equity Fund	1.5
Murray International Trust Plc	1.4
Uti-Mid Cap Fund	1.4
J P Morgan Funds	1.0

Source: Capitaline

### Exhibit 5: Directors

Name	Name
R Gopalakrishnan	Peter Wiedner
Uday Khanna	Ramchander Subramaniam
Shiva McMahan	Sashi Mukundan

\*Independent

### Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
CY20	7.6	7.7	-0.7
CY21	7.7	7.9	-2.7

Source: Bloomberg

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
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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