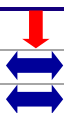


Castrol (India)

Estimate change

TP change

Rating change



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Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USDb)	138.2 / 1.9
52-Week Range (INR)	155 / 104
1, 6, 12 Rel. Per (%)	-5/1/-23
12M Avg Val (INR M)	217

Financials & Valuations (INR b)

Y/E December	2020	2021E	2022E
Sales	30.0	39.1	41.1
EBITDA	8.1	10.4	11.2
Adj. PAT	5.8	7.5	8.1
Adj. EPS (INR)	5.9	7.6	8.2
EPS Gr. (%)	-29.6	28.4	8.7
BV/Sh.(INR)	14.3	15.8	17.5

Ratios

Net D:E	-0.9	-0.9	-0.9
RoE (%)	41.9	50.3	49.5
RoCE (%)	42.1	50.4	49.6
Payout (%)	93.3	80.0	80.0

Valuations

P/E (x)	23.7	18.5	17.0
P/BV (x)	9.8	8.8	8.0
EV/EBITDA (x)	15.4	12.0	11.0
Div. Yield (%)	3.9	4.3	4.7
FCF Yield (%)	6.2	5.1	5.4

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	51.0	51.0	51.0
DII	16.5	16.7	18.7
FII	12.0	11.6	11.5
Others	20.5	20.7	18.9

FII Includes depository receipts

CMP: INR140

TP: INR170 (+22%)

Buy

Raw material price inflation to keep margins in check

- Castrol India (CSTRL) missed our estimates due to lower-than-estimated volumes of 45m liters (-8% est.; +55% YoY / -26% QoQ) – as the quarter was challenged by localized lockdowns and muted demand.
- The management guided that demand momentum has picked up since June'21 and is expected to continue (although a potential third wave may be a critical development).
- The company took pricing action twice in 2QCY21 (in Apr and June, along with a price hike in Jan'21 as well) to mitigate the surge in input cost. This resulted in realization of INR197.7/lit (in-line / +6% QoQ), with the EBITDA margin at 22%.
- That said, the management has guided for the EBITDA margin to be 25–26% going forward in light of an increase in base oil prices. Factoring in the same, we revise down our CY21E/CY22E EBITDA by 11%/5%.
- The company continues to invest in its brand to reinforce higher brand recall among customers (the Bazaar segment market share stands at 22–23% – it has gained 2% YoY; the next player's share stands at 7%).
- CSTRL has always enjoyed its brand equity heritage, and we believe it would be able to secure its profitability with a better product mix, cost control, and the launch of advanced products with better realization. We value the stock at 20x June'23E EPS to arrive at TP of INR170. Maintain Buy.

Lower-than-estimated volumes lead to miss

- Revenue was 6% below estimate at INR8.9b (+81% YoY / -22% QoQ), primarily weighed by a miss in volumes (due to the second COVID wave).
- EBITDA stood at INR2b (+107% YoY / -42% QoQ). CSTRL spent INR350–400m in advertising expenses (doubled YoY) in 2QCY21. The gross margin stood at INR98.8/lit (in-line / -2% QoQ).
- PAT stood at INR1.4b (+114% YoY / -43% QoQ).
- 1HCY21 revenue was up 72% YoY to INR20.3b, with EBITDA at INR5.4b (doubled YoY). Similarly, PAT doubled YoY to INR3.8b.

Strategic developments during the quarter

- It recently launched a new concept of Castrol Express Oil Change outlets (exclusively at Jio-BP outlets), which offer quick oil change services for consumers on the go (two stations are going live).
- CSTRL has further leveraged the digital platform to continually engage with the biker community (for its Castrol POWER1 ULTIMATE 2W engine oils).
- Its CSR programs were recognized with the 'Excellence in CSR' award by British Business Group Delhi (BBG).

Valuation and view – maintain Buy

- Capex guidance for CY21 stands at INR800m–INR1b and would remain around similar levels in future years as well.
- 3M partnership: The second stage of the pilot would be conducted in Sep'21 (launched services in six cities during the first pilot and would also target larger cities going ahead).

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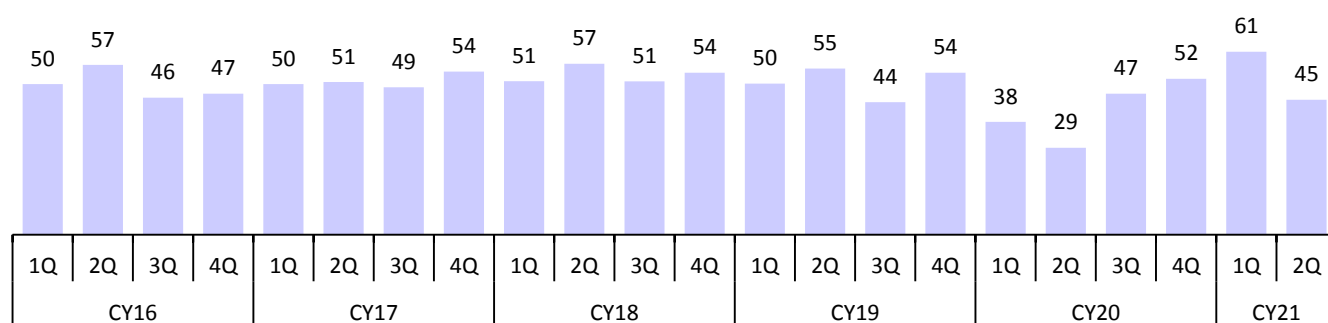
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- The company's products are available at 1,400+ Jio-BP retail outlets. The further expansion of Jio-BP retail outlets (to 5,500+ sites) over the next couple of years would help strengthen its network.
- CSTRL has signed agreements with MG Motors and Tata Motors for the supply of EV fluids in India. That said, the company expects it would be another 15–20 years before a scalable EV fleet is seen on Indian roads.
- CSTRL is the perfect candidate for a value play, with return ratios of 48–50% and a dividend payout policy of +80% (translating to dividend yield of ~5%). **The company declared interim dividend of INR2.5/share (same as last year).**
- On a one-year forward PE basis, the stock trades at a ~40% discount to its LT PE average of 26.8x. **Maintain Buy.**

Quarterly Performance

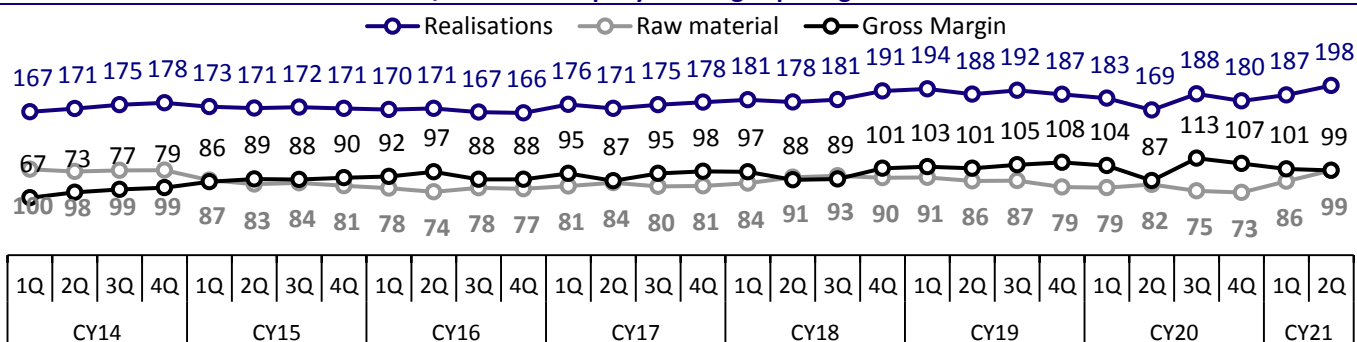
Y/E December	CY20				CY21				CY20	CY21E	CY21	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Volume (m litres)	37.6	29.0	47.0	52.0	61.0	45.0	47.0	49.0	166	202	48.8	-8%
Realization	183	169	188	180	187	198	198	193	181	194	193	2%
Net Sales	6,880	4,906	8,831	9,352	11,387	8,896	9,291	9,547	29,969	39,122	9,418	-6%
YoY Change (%)	-29.5	-52.8	4.0	-7.6	65.5	81.3	5.2	2.1	-22.7	30.5	92.0	
EBITDA	1,730	953	2,882	2,576	3,401	1,975	2,256	2,746	8,141	10,377	2,483	-20%
YoY Change (%)	-38.9	-66.5	17.9	-24.5	96.6	107.2	-21.7	6.6	-29.4	27.5	160.5	
Margins (%)	25.1	19.4	32.6	27.5	29.9	22.2	24.3	28.8	27.2	26.5	26.4	
Depreciation	222	206	215	223	215	199	220	252	866	886	231	-14%
Interest	11	14	9	8	6	7	6	6	42	25	7	0%
Other Income	198	152	117	153	143	133	146	215	620	637	156	-15%
PBT before EO expense	1,695	885	2,775	2,498	3,323	1,902	2,176	2,702	7,853	10,103	2,401	-21%
PBT	1,695	885	2,775	2,498	3,323	1,902	2,176	2,702	7,853	10,103	2,401	-21%
Tax	443	231	729	621	887	502	548	680	2,024	2,617	605	-17%
Rate (%)	26.1	26.1	26.3	24.9	26.7	26.4	25.2	25.2	25.8	25.9	25.2	
PAT	1,252	654	2,046	1,877	2,436	1,400	1,628	2,022	5,829	7,486	1,796	-22%
YoY Change (%)	-32.3	-64.2	8.6	-30.8	94.6	114.1	-20.4	7.7	-29.6	28.4	174.6	

Exhibit 1: Castrol volumes (m liters) at 45m liters (+81% YoY / -22% QoQ)



Source: Company, MOFSL

Exhibit 2: Realization increases to INR198/liter – as company takes agile pricing action



Source: Company, MOFSL



Concall highlights

Snapshot of 2QCY21

- Volumes in 2QCY21 stood at 45m liters (-8% est.; +55% YoY / -26% QoQ).
- The volume share for the quarter stood at 40% for Personal Mobility and 40–45% for Commercial Vehicles, whereas Industrials accounted for the remainder.
- The demand momentum has picked up since June and is expected to continue (although a potential third wave may be a critical development).
- The company took pricing action twice in 2QCY21 (in Apr and June, along with a price hike taken in Jan'21).
- Operating margin guidance: The management expects this to be 25–26% going forward.
- CSTRl continues to invest in its brand to reinforce higher brand recall among customers. It spent INR350–400m on advertising (double YoY) in 2QCY21.

ESG plan going forward

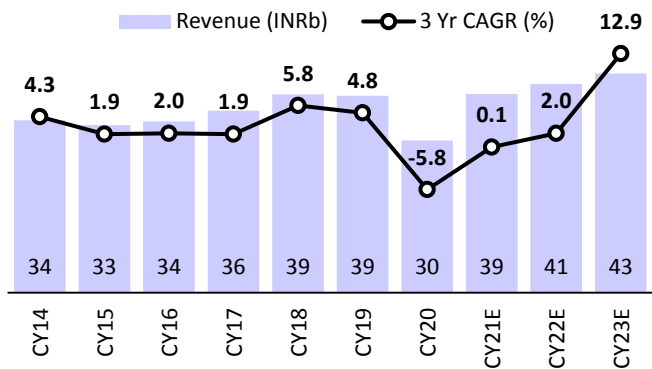
- Path 360 Program – Castrol aims to turn net carbon free by 2050 by implementing the following three steps:
 1. Reducing waste: It has reduced the use of plastic in small bottles by ~20%.
 2. Reducing carbon: It has installed solar panels at its plants and would conduct an energy audit this year to implement a further shift to renewable energy. It has also started blending lubricants at lower temperatures, which reduces the energy requirement and carbon footprint; it is focusing more on BS-VI products.
 3. Improving quality of life

Others

- LOBS price has almost doubled over 8–9 months; 70% of base oil is imported.
- CSTRl has market share of 22–23% in the Bazaar segment, with the next player at 7%.
- 3M partnership: The second stage of the pilot would be conducted in Sep'21 (launched services in six cities during the first pilot and would also target larger cities going ahead).
- Castrol Express Oil Change was recently launched at Jio-BP outlets only; two stations are going live for now. Jio-BP would expand its network to 5000 retail outlets over the next five years, which gives enough headroom for growth.

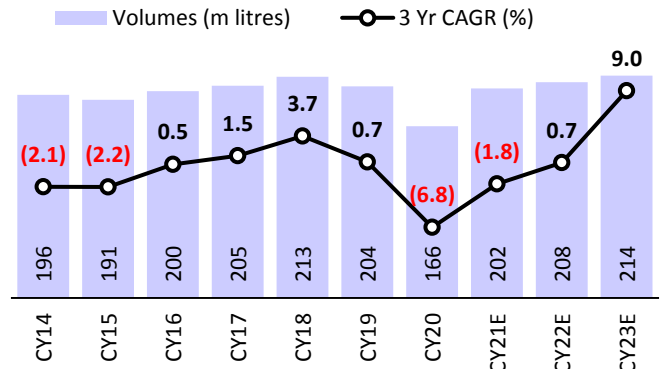
Story in charts

Exhibit 3: Castrol's revenue to normalize in CY22...



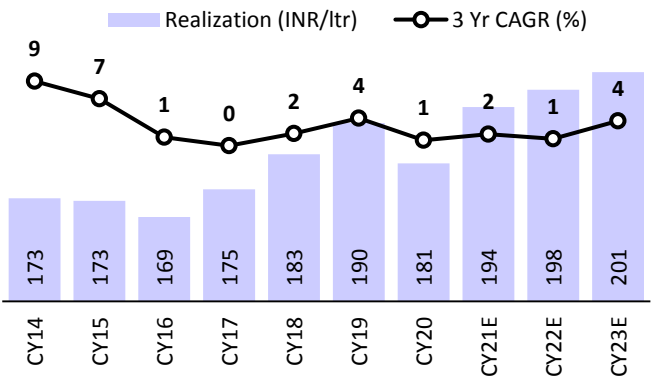
Source: Company, MOFSL

Exhibit 4: ...due to COVID impact on growth in CY20



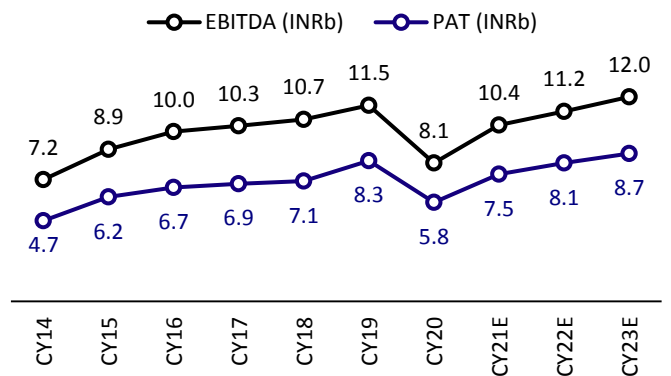
Source: Company, MOFSL

Exhibit 5: Realizations to grow gradually...



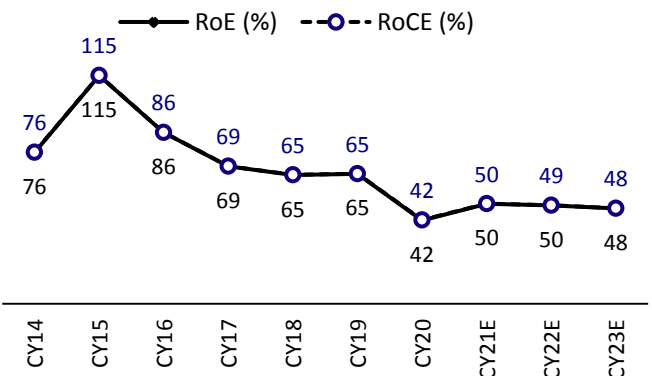
Source: Company, MOFSL

Exhibit 6: ...resulting in improvement in EBITDA



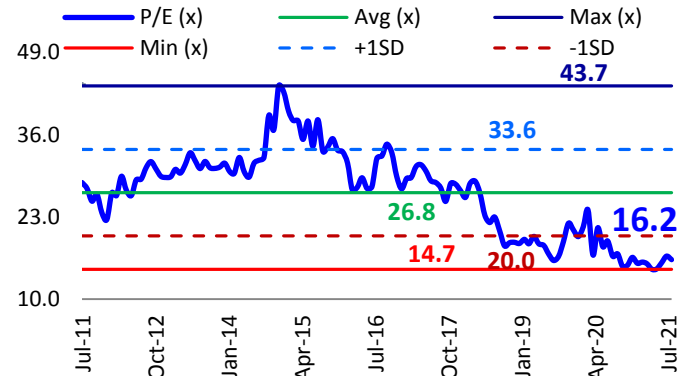
Source: Company, MOFSL

Exhibit 7: Return ratios to remain strong



Source: Company, MOFSL

Exhibit 8: Castrol trades at 16.2x on 1 year fwd. PE basis



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
Net sales	33,703	35,843	39,046	38,768	29,969	39,122	41,101	43,181
Change (%)	2.2	6.3	8.9	-0.7	-22.7	30.5	5.1	5.1
Gross Margin	18,387	19,183	19,980	21,291	17,306	20,321	21,582	22,914
Margin (%)	54.6	53.5	51.2	54.9	57.7	51.9	52.5	53.1
EBITDA	9,993	10,330	10,708	11,530	8,141	10,377	11,179	12,030
Margin (%)	29.7	28.8	27.4	29.7	27.2	26.5	27.2	27.9
Depreciation	450	455	556	697	866	886	922	1,032
EBIT	9,544	9,875	10,152	10,833	7,275	9,491	10,257	10,997
Interest Charges	15	12	11	12	42	25	25	25
Other Income	874	837	843	648	620	637	651	656
PBT bef. EO Exp.	10,403	10,700	10,984	11,469	7,853	10,103	10,883	11,628
Income tax	3,699	3,782	3,901	3,195	2,024	2,617	2,742	2,930
Tax Rate (%)	35.6	35.3	35.5	27.9	25.8	25.9	25.2	25.2
Reported PAT	6,704	6,918	7,083	8,274	5,829	7,486	8,140	8,698
Change (%)	9.0	3.2	2.4	16.8	-29.6	28.4	8.7	6.9
Margin (%)	19.9	19.3	18.1	21.3	19.5	19.1	19.8	20.1

Standalone - Balance Sheet

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
Equity Share Capital	2,473	4,946	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	7,343	5,256	6,711	8,724	9,197	10,694	12,322	14,062
Net Worth	9,816	10,202	11,657	13,670	14,143	15,640	17,268	19,008
Capital Employed	9,816	10,202	11,657	13,670	14,143	15,640	17,268	19,008
Gross Block	4,004	4,404	5,440	6,267	6,885	7,885	8,885	9,885
Less: Accum. Deprn.	2,585	3,040	3,596	4,293	5,159	6,045	6,967	8,000
Net Fixed Assets	1,419	1,364	1,844	1,974	1,726	1,840	1,917	1,885
Capital WIP	423	599	366	296	453	1,000	1,000	1,000
Curr. Assets, Loans&Adv.	16,369	17,255	18,325	19,433	21,134	24,857	26,953	29,295
Inventory	3,439	3,196	4,568	3,047	3,669	4,832	5,030	5,236
Account Receivables	2,552	2,850	3,918	4,820	1,805	2,356	2,475	2,601
Cash and Bank Balance	8,219	7,842	7,438	9,461	12,742	13,860	15,446	17,254
Cash	1,116	2,155	2,637	672	1,947	4,504	6,282	8,292
Bank Balance	7,103	5,688	4,802	8,788	8,788	8,788	8,788	8,788
Loans and Advances	2,159	3,367	2,401	2,105	2,918	3,809	4,002	4,204
Curr. Liability & Prov.	9,067	9,568	9,411	8,618	9,792	12,679	13,224	13,795
Account Payables	4,966	6,066	5,840	4,718	5,456	7,185	7,479	7,786
Other Current Liabilities	3,478	2,967	3,111	3,403	3,793	4,951	5,202	5,465
Provisions	623	535	460	497	543	543	543	543
Net Current Assets	7,302	7,687	8,914	10,815	11,342	12,178	13,728	15,500
Deferred Tax assets	672	551	533	585	622	622	622	622
Appl. of Funds	9,816	10,201	11,657	13,670	14,143	15,640	17,268	19,008

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
Basic (INR)								
EPS	6.8	7.0	7.2	8.4	5.9	7.6	8.2	8.8
Cash EPS	7.2	7.5	7.7	9.1	6.8	8.5	9.2	9.8
BV/Share	9.9	10.3	11.8	13.8	14.3	15.8	17.5	19.2
DPS	5.5	4.7	5.0	5.5	5.5	6.1	6.6	7.0
Payout (%)	97.7	81.7	84.0	79.1	93.3	80.0	80.0	80.0
Valuation (x)								
P/E	20.6	20.0	19.5	16.7	23.7	18.5	17.0	15.9
Cash P/E	19.3	18.7	18.1	15.4	20.6	16.5	15.2	14.2
P/BV	14.1	13.5	11.9	10.1	9.8	8.8	8.0	7.3
EV/Sales	3.9	3.6	3.3	3.3	4.2	3.2	3.0	2.8
EV/EBITDA	13.0	12.6	12.2	11.2	15.4	12.0	11.0	10.1
Dividend Yield (%)	3.9	3.4	3.6	3.9	3.9	4.3	4.7	5.0
FCF per share	6.5	5.8	4.8	7.9	8.6	7.1	7.6	8.2
Return Ratios (%)								
RoE	86.1	69.1	64.8	65.3	41.9	50.3	49.5	48.0
RoCE	86.2	69.2	64.9	65.4	42.1	50.4	49.6	48.1
Working Capital Ratios								
Asset Turnover (x)	3.4	3.5	3.3	2.8	2.1	2.5	2.4	2.3
Inventory (Days)	37	33	43	29	45	45	45	44
Debtor (Days)	24	25	32	39	19	19	19	19
Creditor (Days)	54	62	55	44	66	67	66	66
Leverage Ratio (x)								
Net Debt/Equity	-0.8	-0.8	-0.6	-0.7	-0.9	-0.9	-0.9	-0.9

Standalone - Cash Flow Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
(INR m)								
OP/(Loss) before Tax	10,403	10,701	10,984	11,469	7,853	10,103	10,883	11,628
Depreciation	450	455	556	694	866	886	922	1,032
Interest & Finance Charges	15	12	11	12	42	25	25	25
Direct Taxes Paid	-3,795	-3,892	-3,997	-3,087	-2,396	-2,617	-2,742	-2,930
(Inc)/Dec in WC	252	-654	-1,487	126	3,040	282	35	36
CF from Operations	6,642	6,083	5,495	8,795	8,928	8,043	8,471	9,135
(Inc)/Dec in FA	-227	-355	-780	-993	-417	-1,000	-1,000	-1,000
Free Cash Flow	6,414	5,728	4,715	7,802	8,511	7,043	7,471	8,135
CF from Investments	-330	1,514	661	-4,483	-2,010	528	-156	-141
Interest Paid	-17	-10	-10	-11	-12	-25	-25	-25
Dividend Paid	-5,655	-6,548	-5,664	-6,266	-5,631	-5,989	-6,512	-6,958
CF from Fin. Activity	-5,680	-6,558	-5,674	-6,277	-5,643	-6,014	-6,538	-6,984
Inc/Dec of Cash	631	1,039	482	-1,965	1,275	2,557	1,778	2,011
Opening Balance	485	1,116	2,155	2,637	672	1,947	4,504	6,282
Closing Balance	1,116	2,154	2,637	672	1,947	4,504	6,282	8,292

E: MOFSL Estimates

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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