

Castrol India

BUY

Results in line; Market share improves

Summary

Castrol's Q2CY21 results were broadly in-line with our expectations. Net sales increased by 81% YoY to Rs8,896 mn mainly led by strong in volumes (+55% YoY to 45 mn ltrs) and higher realization (+12% YoY to Rs190/ltr). Interestingly, the company gained market share during the quarter and its gross profit/ltr witnessed only modest decline on a QoQ basis despite higher raw material prices which was commendable in our view. Overall, EBIDTA jumped 107% YoY to Rs1,975 mn as EBIDTA margin increased 278bps YoY to 22.2%.

We broadly maintain our CY21/CY22. We expect sales/EBTIDA/PAT to increase at a CAGR of 9%/24%/26%, respectively over CY20-22E. We now value the stock at a PER of 20x CY22E EPS (earlier 17x) to derive a target price of Rs177 (earlier Rs146). We upgrade the stock to a BUY from an ACCUMULATE rating earlier.

Key Highlights and Investment Rationale

- **Market share gains in a weak quarter:** During Q2CY21, Castrol's market share improved 2% across all segments. Despite weak demand amidst lockdown, Castrol maintained flattish realization at Rs190/ltr on a QoQ basis. Castrol has taken three price hikes since January; hence, despite base oil doubling in last one year; its Gross profit fell only 3.3% QoQ to Rs99/ltr. However, negative operating leverage affected its EBIDTA by 22% QoQ to Rs54/ltr.
- **Strategic initiatives:** Castrol has launched a new concept of Castrol Express Oil change outlets which offer quick oil change service for consumer's on-the-go. Castrol aims to increase Jio-BP outlets to 5000 in the coming 5 years.
- **Outlook:** The company foresees improvement in demand in H2CY21. Also, its aims to take pricing actions to offset rising prices of raw materials leveraging its strong brand. Strong free cash flow generation, minimal capital requirements, high ROEs and strong payouts make Castrol an attractive franchise. Lastly, valuation remains attractive (PER of 16x CY22E) in our view. Hence, we have a positive view on the stock.

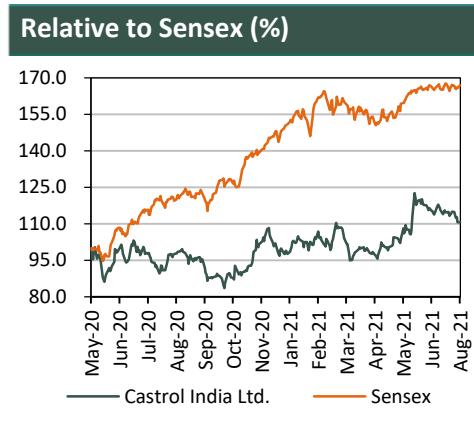
TP CMP	Rs177
Potential upside / downside	Rs140
+27%	

V/s Consensus		
EPS (Rs)	CY21E	CY22E
IDBI Capital	8.0	8.9
Consensus	8.2	9.0
% difference	(2.8)	(1.0)

Shareholding Pattern (%)	
Promoters	51.0
FII	12.0
DII	16.5
Public	20.5

Price Performance (%)			
	-1m	-3m	
Absolute	(2.2)	11.0	23.1
Rel to Sensex	(35.3)	(22.1)	(20.0)

Key Stock Data	
Bloomberg / Reuters	CSTRIL IN / CAST.BO
Sector	Lubricants
Shares o/s (mn)	989
Market cap. (Rs mn)	138,279
Market cap. (US\$ mn)	1,858
3-m daily avg Trd value (Rs mn)	214.9
52-week high / low	Rs155 / 104
Sensex / Nifty	53,823 / 16,131



Year	CY18	CY19	CY20	CY21E	CY22E
Revenue	39,046	38,768	29,969	40,531	41,994
EBITDA	10,708	11,530	8,141	10,933	11,769
EBITDA (%)	27.4	29.7	27.2	27.0	28.0
Adj. PAT	7,083	8,274	5,829	7,886	8,770
EPS (Rs)	7.2	8.4	5.9	8.0	8.9
EPS Growth (%)	2.4	16.8	(29.6)	35.3	11.2
PE (x)	20.1	17.2	24.4	18.0	16.2
Dividend Yield (%)	4.0	3.8	3.8	4.2	4.5
EV/EBITDA (x)	12.6	11.5	15.8	11.6	10.7
RoE (%)	64.8	65.3	41.9	52.2	50.8
RoCE (%)	92.9	85.5	52.3	66.9	63.5

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

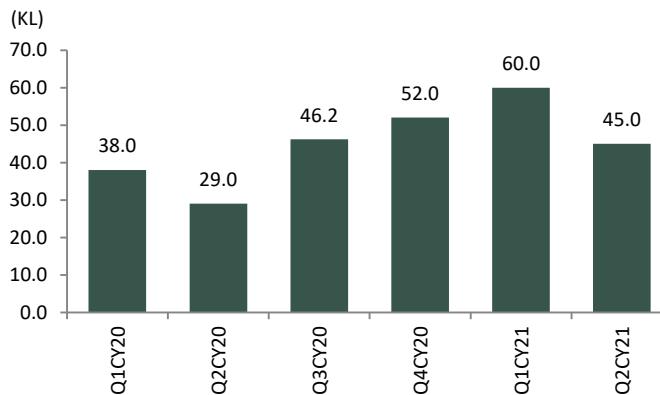
(Rs mn)	Q2CY21	Q1CY21	% QoQ	Q2CY20	%YoY
Total Revenues	8,896	11,380	(21.8)	4,906	81.3
Total expenditure	6,921	7,979	(13.3)	3,953	75.1
EBIDTA	1,975	3,401	(41.9)	953	107.2
<i>EBITDA margin</i>	22.2%	29.9%	-768bps	19.4%	278bps
Depreciation and amortization	199	215	(7.4)	206	(3.4)
Interest costs	7	6	16.7	14	(50.0)
Other income	133	143	(7.0)	152	(12.5)
PBT	1,902	3,323	(42.8)	885	114.9
Tax	502	887	(43.4)	231	117.3
Net profit	1,400	2,436	(42.5)	654	114.1
EPS (Rs)	1.4	2.5	(42.5)	0.7	114.1

Source: Company; IDBI Capital Research

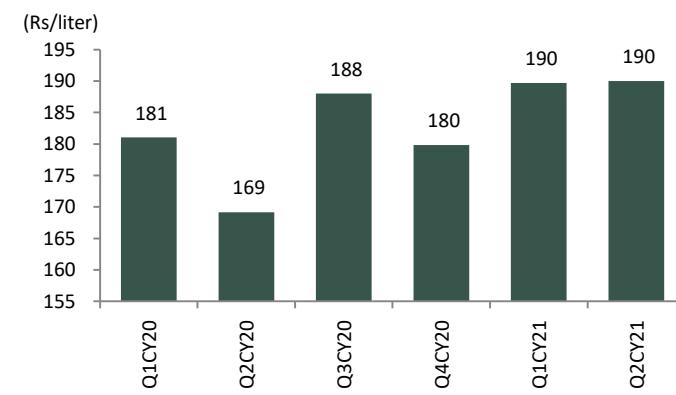
Exhibit 2: Actual vs. Estimates

(Rs mn)	Q2CY21E	Q2CY21A	Variance (%)
Total Revenues	8,550	8,896	4.0
EBITDA	1,987	1,975	(0.6)
<i>EBITDA margin</i>	23.2	22.2	-104bps
Net profit	1,429	1,400	(2.0)
EPS	1.4	1.4	(2.0)

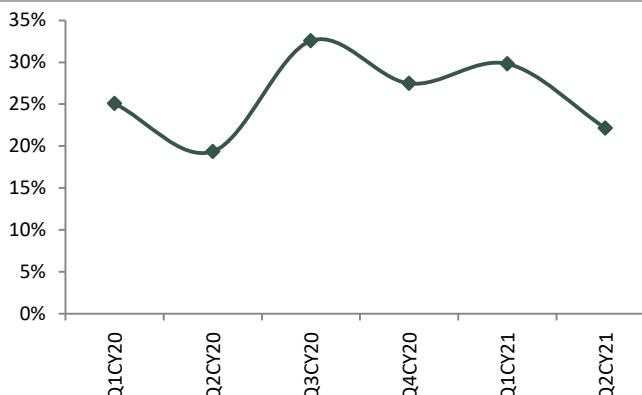
Source: Company; IDBI Capital Research

Exhibit 3: Volumes increased 57.9% YoY


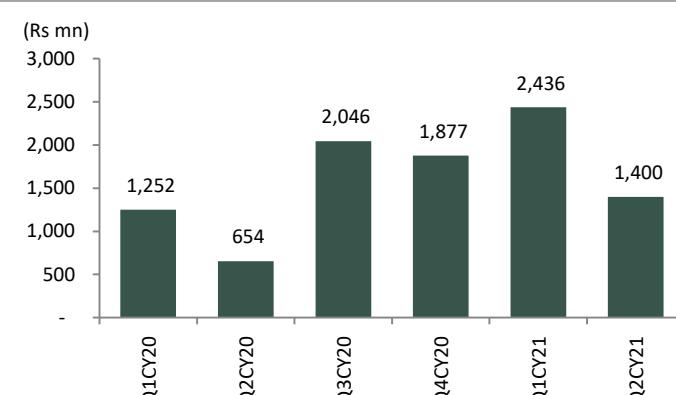
Source: Company; IDBI Capital Research

Exhibit 4: Realization flattish QoQ


Source: Company; IDBI Capital Research

Exhibit 5: EBIDTA margins fell QoQ on lower sales


Source: Company; IDBI Capital Research

Exhibit 6: PAT down 43% QoQ


Source: Company; IDBI Capital Research

Exhibit 7: Change in estimates

	CY21E			CY22E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	40,185	40,531	0.9	41,994	41,994	(0.0)
EBITDA (Rs mn)	10,288	10,933	6.3	11,475	11,769	2.6
EBITDA margin (%)	25.6	27.0	137bps	27.3	28.0	73bps
Net profit (Rs mn)	7,418	7,886	6.3	8,553	8,770	2.5
EPS (Rs)	7.5	8.0	6.3	8.6	8.9	3.1

Source: Company, IDBI Capital Research

Conference call takeaways

- During Q2CY21 company faced challenges in the form of localized lockdowns, muted demand, as well as a sharp rise in input costs.
- The company has taken three price hikes since January to offset raw material price increase. Base oil prices have doubled from Q1CY20; company imports 70% base oil.
- Company continue to invest in marketing and advertising spends
- Company has launched a new concept of Castrol Express Oil outlets which offer quick oil change service for consumer's on-the-go.
- Company is focus on increasing Jio-BP outlets with target of 5000 outlets in next 5 years
- Q2CY21 volume was 45 mn litres compared to Q1CY21 was 61 mn litres.
- Volume mix in Q2CY21 was 40% into personal mobility, 40% CVO and 20% in industrial segment.
- Operating margins are expected to be in range of 20-25% in coming quarters
- Castrol has launched path 360 programme to reduce waste/plastic, reduce carbon and to provide better products.
- Capex range Rs1-1.2 bn per year.
- Company improved market share by 2% in across all segments.
- Market share in bazaar segment is 22-23%.
- Plant capacity is 225 mn litre and third party partnership to extend the capacity

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Net sales	38,768	29,969	40,531	41,994
<i>Growth (%)</i>	(0.7)	(22.7)	35.2	3.6
Operating expenses	(27,238)	(21,828)	(29,598)	(30,225)
EBITDA	11,530	8,141	10,933	11,769
<i>Growth (%)</i>	7.7	-29.4	34.3	7.7
Depreciation	(697)	(866)	(818)	(808)
EBIT	10,833	7,275	10,115	10,961
Interest paid	(12)	(42)	(25)	(26)
Other income	648	620	550	789
Pre-tax profit	11,469	7,853	10,640	11,724
Tax	(3,195)	(2,024)	(2,754)	(2,954)
<i>Effective tax rate (%)</i>	27.9	25.8	25.9	25.2
Net profit	8,274	5,829	7,886	8,770
Adjusted net profit	8,274	5,829	7,886	8,770
<i>Growth (%)</i>	16.8	(29.6)	35.3	11.2
<i>Shares o/s (mn nos)</i>	989	989	989	989

Cash Flow Statement (Rs mn)

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Pre-tax profit	11,469	7,853	10,640	11,724
Depreciation	697	866	818	808
Tax paid	(2,662)	(2,024)	(2,754)	(2,954)
Chg in working capital	142	3,373	10	(1,046)
Other operating activities	-	-	-	-
Cash flow from operations (a)	9,646	10,068	8,715	8,531
Capital expenditure	(773)	(1,124)	(900)	(867)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,358)	(1,161)	(900)	(867)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(6,364)	(5,440)	(5,934)	(6,429)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(6,364)	(5,440)	(5,934)	(6,429)
Net chg in cash (a+b+c)	1,924	3,468	1,881	1,236

Balance Sheet					(Rs mn)
Year-end: Dec.	CY19	CY20	CY21E	CY22E	
Net fixed assets	2,270	2,528	2,610	2,669	
Investments	-	-	-	-	
Other non-curr assets	1,078	1,348	1,348	1,348	
Current assets	18,940	20,059	23,869	25,949	
Inventories	3,047	3,669	4,962	4,624	
Sundry Debtors	4,820	1,805	2,441	3,623	
Cash and Bank	9,461	12,742	14,623	15,859	
Marketable Securities	585	622	622	622	
Loans and advances	1,027	1,221	1,221	1,221	
Total assets	22,288	23,935	27,827	29,966	
Shareholders' funds	13,670	14,143	16,095	18,436	
Share capital	4,946	4,946	4,946	4,946	
Reserves & surplus	8,724	9,197	11,149	13,490	
Total Debt	-	-	-	-	
Secured loans	-	-	-	-	
Unsecured loans	-	-	-	-	
Other liabilities	-	-	-	-	
Curr Liab & prov	8,618	9,792	11,732	11,530	
Current liabilities	8,335	9,437	11,150	10,927	
Provisions	283	355	582	603	
Total liabilities	8,618	9,792	11,732	11,530	
Total equity & liabilities	22,288	23,935	27,827	29,966	
Book Value (Rs)	14	14	16	19	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Adj EPS (Rs)	8.4	5.9	8.0	8.9
Adj EPS growth (%)	16.8	(29.6)	35.3	11.2
EBITDA margin (%)	29.7	27.2	27.0	28.0
Pre-tax margin (%)	29.6	26.2	26.3	27.9
ROE (%)	65.3	41.9	52.2	50.8
ROCE (%)	85.5	52.3	66.9	63.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.8	1.3	1.6	1.5
Leverage factor (x)	1.7	1.7	1.7	1.7
Net margin (%)	21.3	19.5	19.5	20.9
Net Debt/Equity (x)	(0.7)	(0.9)	(0.9)	(0.9)
Working Capital & Liquidity ratio				
Inventory days	29	45	45	40
Receivable days	45	22	22	31
Payable days	63	91	91	81

Valuation

Year-end: Dec.	CY19	CY20	CY21E	CY22E
PER (x)	17.2	24.4	18.0	16.2
Price / Book value (x)	10.4	10.0	8.8	7.7
PCE (x)	15.8	21.2	16.3	14.8
EV / Net sales (x)	3.4	4.3	3.1	3.0
EV / EBITDA (x)	11.5	15.8	11.6	10.7
Dividend Yield (%)	3.8	3.8	4.2	4.5

Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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