

Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR202

TP: INR240 (+19%)

Buy

Higher -than-expected raw material costs lead to miss

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$b)	199.9 / 2.4
52-Week Range (INR)	230 / 112
1, 6, 12 Rel. Per (%)	-5/31/41
12M Avg Val (INR M)	753

Financials & Valuations (INR b)

Y/E Dec	CY23	CY24E	CY25E
Sales	50.7	53.4	55.9
EBITDA	12.0	13.0	14.2
PAT	8.6	9.5	10.4
EPS (INR)	8.7	9.6	10.5
EPS Gr. (%)	6.0	10.0	9.3
BV/Sh.(INR)	21.5	22.8	24.3
Ratios			
Net D:E	-0.6	-0.5	-0.5
RoE (%)	43.1	43.4	44.6
RoCE (%)	43.4	43.7	44.9
Payout (%)	85.8	85.8	85.8
Valuations			
P/E (x)	23.1	21.0	19.2
P/BV (x)	9.4	8.9	8.3
EV/EBITDA (x)	15.6	14.5	13.2
Div. Yield (%)	3.7	4.1	4.5
FCF Yield (%)	3.8	4.5	4.9

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	51.0	51.0	51.0
DII	16.4	15.9	16.6
FII	9.5	10.4	11.4
Others	23.1	22.7	21.0

FII Includes depository receipts

- Castrol's (CSTRL) revenue grew 2% YoY to INR13.3b in 1QCY24, driven by 5% YoY growth in volumes; however, EBITDA margin declined to 22.2%, mainly due to higher raw material cost and other expenses during the quarter. The company has not taken any significant price hikes in 1QCY24. Unfavorable sales mix also negatively impacted margin during the quarter.
- Management highlighted that it remains focused on its commitment to brand building, widening its distribution network, and launching new products, all of which we believe will contribute positively to volume and market share expansion.
- Management maintains a bullish outlook on India as a market, foreseeing robust demand for lubricants persisting until the late CY30s and early CY40s, largely attributed to the low penetration of cars in the country. While the threat from EVs is real, its adoption is expected to occur gradually.
- Despite a weaker-than-expected start to CY24, we increase our volume growth to 4% each for CY24/25 vs. 3% each previously. Management maintained its guidance of growing at higher than industry average growth rate of 4-5%, while simultaneously aiming for 22-25% EBITDA margin on a full-year basis. We are building in 24/25% EBITDA margin in CY24/25.
- CSTRL has always enjoyed 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 on the stock with a TP of INR240.**

Realization declines along with input costs

- Revenue stood at INR13.3b (in line with our est., +2% YoY)
- EBITDA stood at INR2.9b (our est. at INR3.3b, flat YoY) due to higher-than-expected RM cost and other expenses
- EBITDA margin stood at 22.2% (vs. 22.8% in 1QCY23)
- PAT stood at INR2.2b (our est. of INR2.4b, +7% YoY)

Other key highlights

- Empowered 12k truckers in 31 cities nationwide.
- Castrol POWER1's 'India's Ultimate MotoStar' garnered over 10,000 registrations nationally, especially from tier II and III cities.
- CSTRL has expanded its footprint to over 9k multi-brand passenger car workshops and nearly 28k independent bike workshops.

Valuation and view

- CSTRL has maintained robust return ratios above 40% in CY23 and we are building in a similar return profile in CY24-25. The stock trades at 19x CY25E EPS of INR10.5. We value the stock at 23x CY25E EPS to arrive at our TP of INR240. **We reiterate our BUY rating on the stock.**

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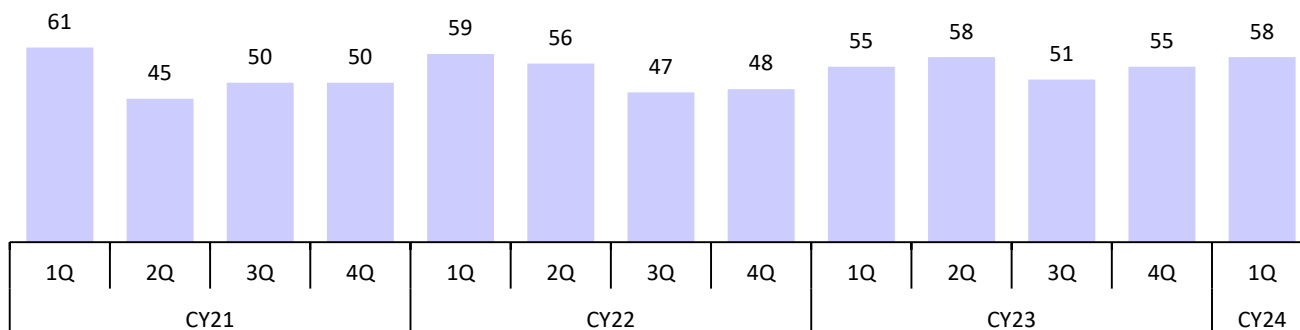
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Quarterly Performance

(INR m)

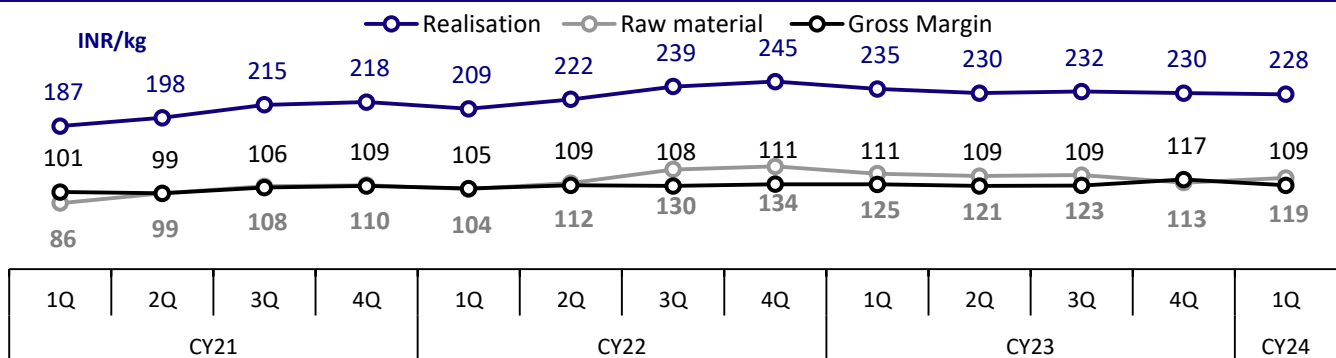
Y/E December	CY23				CY24				CY23	CY24E	CY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Volume (m litres)	55.0	58.0	51.0	55.0	58.0	59.5	53.6	56.8	219.0	227.8	57.8	0%
Realization	235	230	232	230	228	232	234	243	232	234	230	-1%
Net Sales	12,939	13,338	11,829	12,640	13,252	13,800	12,556	13,795	50,746	53,403	13,276	0%
YoY Change (%)	4.7	7.4	5.5	7.5	2.4	3.5	6.1	9.1	6.3	5.2	2.6	
EBITDA	2,950	3,098	2,686	3,291	2,937	3,373	3,000	3,643	12,024	12,954	3,250	-10%
YoY Change (%)	-7.0	8.3	4.4	31.3	-0.4	8.9	11.7	10.7	8.2	7.7	10.2	
Margin (%)	22.8	23.2	22.7	26.0	22.2	24.4	23.9	26.4	23.7	24.3	24.5	-0.1
Depreciation	227	218	229	250	237	236	248	242	924	963	224	
Interest	17	15	24	20	21	8	14	36	75	79	9	
Other Income	176	186	202	223	241	187	204	160	787	792	188	
PBT before EO expense	2,883	3,050	2,635	3,243	2,921	3,316	2,942	3,526	11,811	12,704	3,205	-9%
PBT	2,883	3,050	2,635	3,243	2,921	3,316	2,942	3,526	11,811	12,704	3,205	-9%
Tax	858	797	691	824	758	836	741	866	3,170	3,201	808	
Rate (%)	29.8	26.1	26.2	25.4	26.0	25.2	25.2	24.6	26.8	25.2	25.2	
PAT	2,025	2,253	1,944	2,419	2,162	2,480	2,201	2,659	8,641	9,503	2,398	-10%
YoY Change (%)	-11.3	9.2	3.9	25.2	6.8	10.1	13.2	9.9	6.0	10.0	18.4	
Operational Details (INR/lit)												
Volume (m litres)	55.0	58.0	51.0	55.0	58.0	59.5	53.6	56.8	219.0	227.8	57.8	0%
Realization	235.3	230.0	231.9	229.8	228.5	232.1	234.5	242.8	231.7	234.5	229.9	-1%
Gross margin	110.7	108.5	109.2	116.9	109.4	112.6	113.8	119.2	111.3	113.8	112.1	-2%
EBITDA	53.6	53.4	52.7	59.8	50.6	56.7	56.0	64.2	54.9	56.9	56.3	-10%
PAT	36.8	38.8	38.1	44.0	37.3	41.7	41.1	46.9	39.5	41.7	41.5	-10%

Exhibit 1: Volume stood at 58m liter (up 5% YoY)



Source: Company, MOFSL

Exhibit 2: Realization stood at INR228/liter (down 3% YoY)



Source: Company, MOFSL

Management Concall Highlights

Volume growth healthy at 6% YoY

- During the quarter, the company's volumes stood at 58m lit, up 5% YoY.
- This compares with 4-5% YoY volume growth for the market.

Strategic focus for FY25

- Management remains focused on growing volumes higher than industry growth rate.
- Management guided of 22-25% operating margins on a full-year basis.

Higher COGS leads to margin compression in 1Q

- Higher COGS and higher other expenses led to EBITDA margin compression in 1QCY24. However, there was no significant movement in base oil costs between the 4Q and the 1Q and the increase in COGS was driven by other raw materials.
- In 1QCY24, the company has abstained from implementing any significant price hikes.
- Higher other expenses also led to margin miss and were attributable mainly to higher travel and advertising expenses

Sales mix had an unfavorable margin impact

- Also, the mix of volume growth was unfavorable as lower margin industrial products grew at a higher rate vs automotive products during the quarter.

Other expenses up 10% YoY

- The increase in other expenses was driven by travel expense being higher as CSTRL is expanding the distribution network in rural areas. Also, product volumes have increased, leading to higher 'other expenses'.
- Overall, advertising expenses in 1QCY24 were 2.5% of turnover and are expected to be 3% of sales in the next quarter.
- Typically, the normalized range for advertising expenses falls between 2% and 3.5%.
- Moving forward, the company anticipates advertising expenses to remain within or slightly exceed this range.

Competition remains intense; committed to brand building

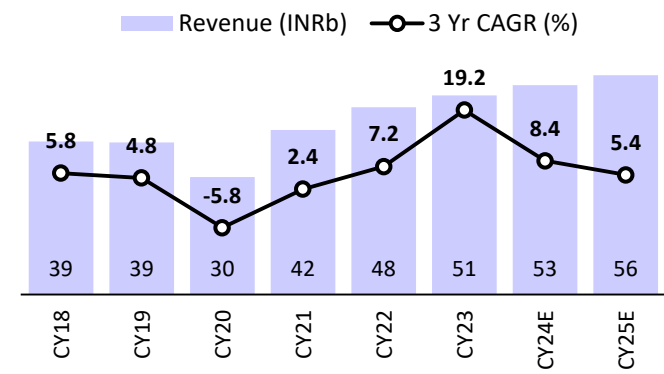
- While competition remains intense and India remains a multi-player market, management believe India is one of the few major automotive markets in the world that will continue to witness growth in the core lubricants business for the next 10-15 years.
- To counter competition, the company remains committed to brand building and achieving the largest scale in terms of distribution.

Utilization

- Overall capacity utilization stood at 80% across the company's three plants.

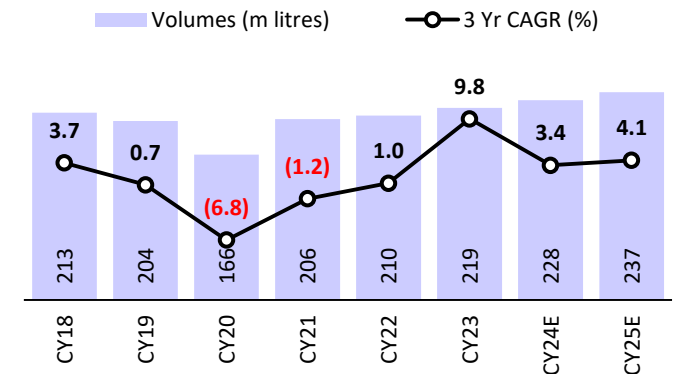
Story in charts

Exhibit 3: Revenue to clock 5% CAGR in CY23-25...



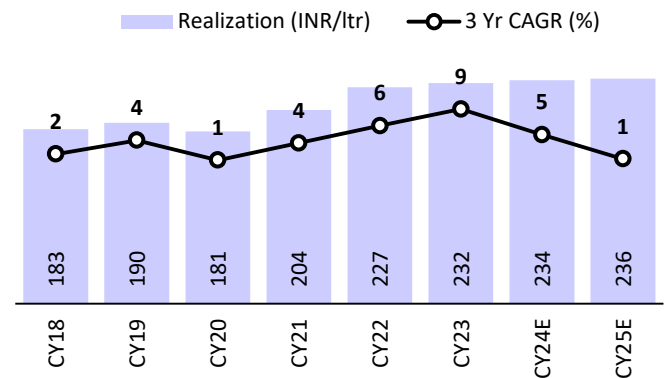
Source: Company, MOFSL

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



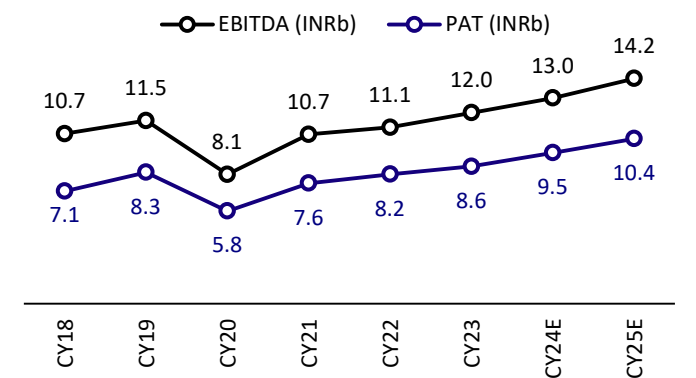
Source: Company, MOFSL

Exhibit 5: Realizations to be above INR235/lit in CY25...



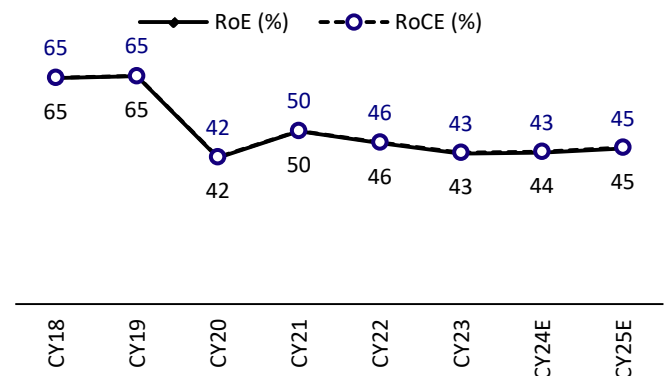
Source: Company, MOFSL

Exhibit 6: ...with EBITDA improving to INR14b



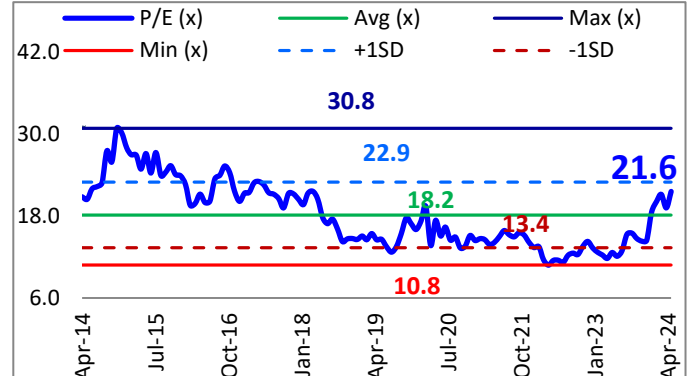
Source: Company, MOFSL

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	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Net sales	39,046	38,768	29,969	41,921	47,745	50,746	53,403	55,943
Change (%)	8.9	-0.7	-22.7	39.9	13.9	6.3	5.2	4.8
Gross Margin	19,980	21,291	17,306	21,332	22,746	24,382	25,911	27,784
Margin (%)	51.2	54.9	57.7	50.9	47.6	48.0	48.5	49.7
EBITDA	10,708	11,530	8,141	10,660	11,111	12,024	12,954	14,186
Margin (%)	27.4	29.7	27.2	25.4	23.3	23.7	24.3	25.4
Depreciation	556	697	866	827	814	924	963	1,014
EBIT	10,152	10,833	7,275	9,833	10,297	11,100	11,991	13,173
Interest Charges	11	12	42	24	40	75	79	83
Other Income	843	648	620	484	670	787	792	800
PBT bef. EO Exp.	10,984	11,469	7,853	10,293	10,928	11,811	12,704	13,889
Income tax	3,901	3,195	2,024	2,712	2,776	3,170	3,201	3,500
Tax Rate (%)	35.5	27.9	25.8	26.3	25.4	26.8	25.2	25.2
Reported PAT	7,083	8,274	5,829	7,581	8,152	8,641	9,503	10,389
Change (%)	2.4	16.8	-29.6	30.1	7.5	6.0	10.0	9.3
Margin (%)	18.1	21.3	19.5	18.1	17.1	17.0	17.8	18.6

Standalone - Balance Sheet

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Equity Share Capital	4,946	4,946	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	6,711	8,724	9,197	11,510	13,915	16,271	17,616	19,086
Net Worth	11,657	13,670	14,143	16,456	18,861	21,217	22,562	24,032
Capital Employed	11,657	13,670	14,143	16,456	18,861	21,217	22,562	24,032
Gross Block	5,440	6,267	6,885	7,701	8,709	9,633	11,133	12,633
Less: Accum. Deprn.	3,596	4,293	5,159	5,986	6,800	7,960	8,923	9,936
Net Fixed Assets	1,844	1,974	1,726	1,715	1,909	1,673	2,210	2,697
Capital WIP	366	296	453	500	608	1,084	1,500	1,500
Curr. Assets, Loans&Adv.	18,325	19,433	21,134	24,111	24,240	25,787	26,772	28,263
Inventory	4,568	3,047	3,669	4,917	5,344	5,329	5,567	5,747
Account Receivables	3,918	4,820	1,805	3,117	3,504	4,228	4,450	4,661
Cash and Bank Balance	7,438	9,461	12,742	13,002	12,177	11,998	12,303	13,190
Cash	2,637	672	1,947	1,842	5,545	4,932	5,237	6,124
Bank Balance	4,802	8,788	10,795	11,160	6,632	7,066	7,066	7,066
Loans and Advances	2,401	2,105	2,918	3,075	3,215	4,231	4,453	4,665
Curr. Liability & Prov.	9,411	8,618	9,792	10,584	11,832	12,982	13,577	14,083
Account Payables	5,840	4,718	5,456	6,206	6,789	7,064	7,379	7,618
Other Current Liabilities	3,111	3,403	3,793	3,862	4,516	5,342	5,622	5,889
Provisions	460	497	543	516	527	576	576	576
Net Current Assets	8,914	10,815	11,342	13,527	12,408	12,804	13,195	14,179
Deferred Tax assets	533	585	622	714	686	781	781	781
Appl. of Funds	11,657	13,670	14,143	16,456	18,861	21,217	22,562	24,032

Financials and Valuations

Ratios

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Basic (INR)								
EPS	7.2	8.4	5.9	7.7	8.2	8.7	9.6	10.5
Cash EPS	7.7	9.1	6.8	8.5	9.1	9.7	10.6	11.5
BV/Share	11.8	13.8	14.3	16.6	19.1	21.5	22.8	24.3
DPS	5.0	5.5	5.5	5.5	6.5	7.5	8.2	9.0
Payout (%)	84.0	79.1	93.3	71.8	78.9	85.8	85.8	85.8
Valuation (x)								
P/E	28.2	24.1	34.3	26.4	24.5	23.1	21.0	19.2
Cash P/E	26.2	22.3	29.8	23.8	22.3	20.9	19.1	17.5
P/BV	17.1	14.6	14.1	12.1	10.6	9.4	8.9	8.3
EV/Sales	4.9	4.9	6.2	4.5	3.9	3.7	3.5	3.3
EV/EBITDA	18.0	16.5	23.0	17.5	16.9	15.6	14.5	13.2
Dividend Yield (%)	2.5	2.7	2.7	2.7	3.2	3.7	4.1	4.5
FCF per share	4.8	7.9	8.6	5.5	8.2	7.7	9.1	10.0
Return Ratios (%)								
RoE	64.8	65.3	41.9	49.6	46.2	43.1	43.4	44.6
RoCE	64.9	65.4	42.1	49.7	46.3	43.4	43.7	44.9
Working Capital Ratios								
Asset Turnover (x)	3.3	2.8	2.1	2.5	2.5	2.4	2.4	2.3
Inventory (Days)	43	29	45	43	41	38	38	37
Debtor (Days)	32	39	19	24	23	26	26	26
Creditor (Days)	55	44	66	54	52	51	50	50
Leverage Ratio (x)								
Net Debt/Equity	-0.6	-0.7	-0.9	-0.8	-0.6	-0.6	-0.5	-0.5

Standalone - Cash Flow Statement

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
(INR m)								
OP/(Loss) before Tax	10,984	11,469	7,853	10,293	10,928	11,811	12,704	13,889
Depreciation	556	694	866	827	814	924	963	1,014
Interest & Finance Charges	11	12	42	24	40	75	79	83
Direct Taxes Paid	-3,997	-3,087	-2,396	-2,798	-2,740	-3,185	-3,201	-3,500
(Inc)/Dec in WC	-1,487	126	3,040	-1,826	307	-706	-86	-97
CF from Operations	5,495	8,795	8,928	6,303	9,159	8,530	10,459	11,388
(Inc)/Dec in FA	-780	-993	-417	-832	-1,097	-955	-1,500	-1,500
Free Cash Flow	4,715	7,802	8,511	5,471	8,062	7,575	8,959	9,888
CF from Investments	661	-4,483	-2,010	-831	618	-2,513	-1,916	-1,500
Interest Paid	-10	-11	-12	-12	-11	-15	-79	-83
Dividend Paid	-5,664	-6,266	-5,631	-5,425	-5,935	-6,429	-8,158	-8,919
CF from Fin. Activity	-5,674	-6,277	-5,643	-5,577	-6,075	-6,638	-8,237	-9,002
Inc/Dec of Cash	482	-1,965	1,275	-105	3,702	-621	305	886
Opening Balance	2,155	2,637	672	1,947	1,842	5,545	4,932	5,237
Closing Balance	2,637	672	1,947	1,842	5,544	4,924	5,237	6,124

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