

Castrol India Ltd

ADD

CMP Rs128

Target Rs135

Upside 5.5%

Growth in volumes trumps estimates

CSTRL's 1QCY21 EBITDA and PAT at Rs 3.4bn (+97% YoY; +32% QoQ) and Rs 2.4bn (+95% YoY; +30% QoQ), respectively, stood ahead of estimates on a strong 62% YoY growth in volumes. While the base quarter (1QCY20) was severely impacted by nationwide lockdown, the growth momentum picked up in 2HCY20 and 1QCY21 was in effect a continuation of the same. As compared to 1HCY20 when growth slowed down (-37% YoY), sales picked up in 2HCY20 (+1% YoY) with realization of pent up demand, as lockdown eased. The strong growth in 1QCY21 also carries an element of pent-up demand which could be one-time in nature.

Key highlights: a) Sales volume at a strong 60-61 mn litres (+62% YoY; +17% QoQ); b) average realization improves to Rs 187/ltr (+4% QoQ) on account of price interventions in Jan'21 c) raw-material cost at Rs 86/ltr (+10% YoY; 18% QoQ) as global base oil prices increased d) EBITDA/unit sequentially higher at Rs 56/ltr, (4QCY20: INR 50/ltr). Initiate with an ADD rating and a target price of Rs 135/sh.

Strong growth in volumes

Riding on the momentum built in 2HCY20, CSTRL recorded highest quarterly sales in 1QCY21, clocking in a strong 62% YoY & 17% QoQ growth. Impact of lockdown in base quarter coupled with realization of pent up demand, as higher marketing and branding investments drove sales, led to higher growth. In addition the demand traction also improved from tractor, SUV and motorcycle segments, with same being catered by launch of new products viz i) GTX-SUV, ii) Power-1 and iii) Castrol Active cruise

Price revision aid earnings growth

In addition to strong growth in volumes, earnings were incrementally aided by price increase undertaken in selective products in Jan'21 to offset increase in raw-material costs. However the same was also offset by rationalization of price premium in the CV segment. In effect the realization improved by 4% QoQ to Rs 187/litre, leading to improvement in EBITDA margin to 30% (4Q: 27.5%) or Rs 56/liter (4Q: Rs 50/liter).

Raw material prices rise on supply chain challenges

Increase in global crude oil prices to ~US\$ 61/bbl (from US\$ 45.8/bbl in 4Q) along with disruption in supply of base oil, led to an increase in raw material (RM) prices during the quarter. The RM cost as a result increased to Rs 86/liter (+18% QoQ). In order to offset the same, CSTRL undertook another price revision in early April'21.

CSTRL entered in strategic partnership with Ki Mobility Solutions

CSTRL entered into a three year, strategic partnership with Ki Mobility Solutions, across latter's multibrand workshops in India and also their online platform 'goBumpr', for supply of lubricants. This is the third strategic partnership after 3M and Jio-BP. While pilot with 3M took a backstage due to covid lockdown, sales through Jio-BP channel is encouraging.

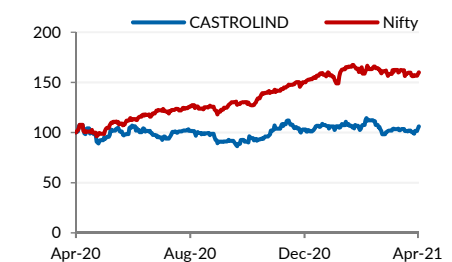
View & Valuation

CSTRL is a dominant lubricant player in the country, with almost 20-21% market share in the 'Bazaar' segment. CSTRL has strategic focus on the personal mobility segment, which continues to be earnings driver for the company with a 60-65% revenue contribution. Personal mobility segment is well aligned with branding and uptrading opportunities, where CSTRL strongly believe in higher adoption of higher value synthetic products going ahead (current: ~10% of sales). While CSTRL has a strong profitability and brand equity, but lubricants is inherently a competitive and low growth market. Initiate with an ADD rating and a target price of Rs 135/sh.

Stock data (as on Apr 27, 2021)

Nifty	14,653
52 Week h/l (Rs)	140 / 104
Market cap (Rs/USD mn)	126,707 / 1,697
Outstanding Shares (mn)	989
6m Avg t/o (Rs mn):	210
Div yield (%):	4.3
Bloomberg code:	CSTRL IN
NSE code:	CASTROLIND

Stock performance



	1M	3M	1Y
Absolute return	6.8%	6.1%	12.7%

Shareholding pattern (As of Sept'20 end)

Promoter	51.0%
FII+DII	29.8%
Others	19.2%

Financial Summary

(Rs mn)	Dec-20	Dec-21E	Dec-22E	Dec-23E
Revenues	29,969	38,993	40,905	42,913
yoy gr. (%)	(22.7%)	30.1%	4.9%	4.9%
EBITDA	8,141	10,937	11,505	12,101
OPM (%)	27.2%	28.0%	28.1%	28.2%
PAT	5,829	8,344	8,695	9,080
yoy gr. (%)	(29.9%)	43.1%	4.2%	4.4%
EPS (Rs)	5.9	8.4	8.8	9.2
P/E (x)	21.7	15.2	14.6	13.9
P/B (x)	9.0	8.4	7.8	7.3
EV/EBITDA (x)	14.0	10.4	9.7	9.1
Net D/E (x)	(0.9)	(0.9)	(0.9)	(1.0)
RoCE (%)	57	77	75	73
RoE (%)	42	57	56	54

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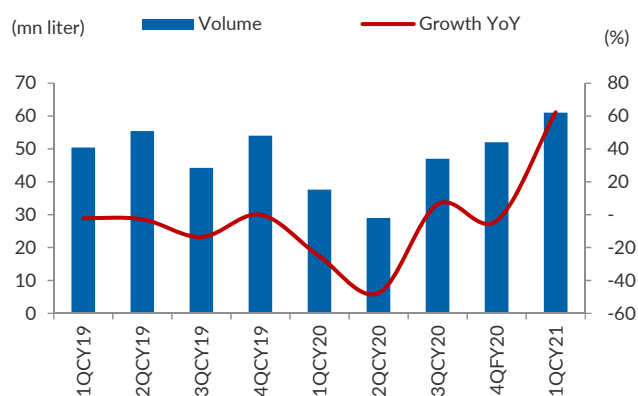
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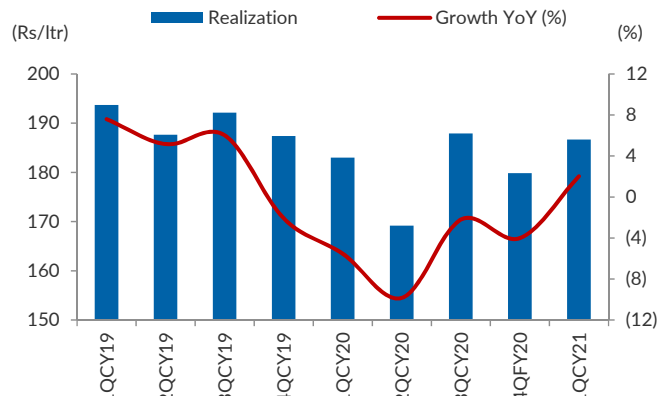
Story In Charts

Exhibit 1: Sales volume at 61mn litres registers a strong growth of 62% YoY



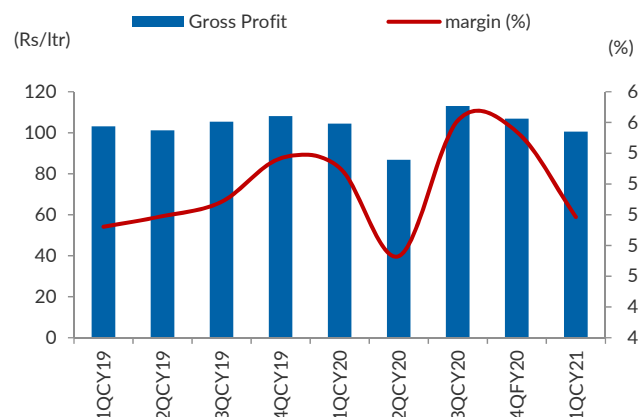
Source: Industry, YES Sec – Research

Exhibit 2: Realizations improve to Rs 187/litre on price increase taken in Jan'21



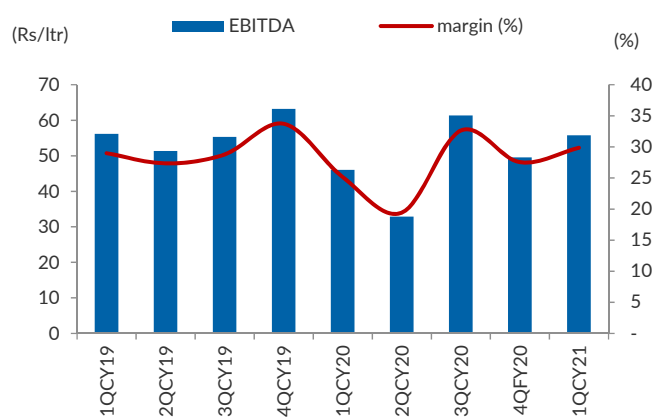
Source: Industry, YES Sec – Research

Exhibit 3: Gross margins contract sequentially to Rs 101/ltr (4Q: 107/ltr) as raw material cost increased to Rs 86/ltr (4Q: Rs 73/ltr)



Source: Company, YES Sec – Research

Exhibit 4: EBITDA nevertheless stood sequentially higher at Rs 56/ltr (4Q: Rs 50/ltr) on lower per unit operating costs at Rs 37/ltr



Source: Company, YES Sec – Research

RESULT HIGHLIGHTS

Exhibit 5: Comparison with estimates

(INR mn)	Actual	Consensus	% Variance
Revenue	11,387	9,337	22.0
EBITDA	3,401	2,599	30.9
Reported PAT	2,436	1,996	22.0
FDEPS (INR)	2.5	2.0	22.0

Source: Company, YES Sec – Research

Exhibit 6: Quarterly earnings snapshot

(INR mn)	1QCY21	1QCY20	% Chg YoY	4QCY20	% Chg QoQ	CY20	CY19	% Chg YoY
Revenue	11,387	6,880	65.5	9,352	21.8	29,969	38,768	(22.7)
Expenditure	7,986	5,150	55.1	6,776	17.9	21,828	27,238	(19.9)
Operating profit	3,401	1,730	96.6	2,576	32.0	8,141	11,530	(29.4)
Other income	143	198	(27.8)	153	(6.5)	620	648	(4.3)
Interest	6	11	(45.5)	8	(25.0)	42	12	250.0
Depreciation	215	222	(3.2)	223	(3.6)	866	697	24.2
PBT	3323	1695	96.0	2498	33.0	7853.0	11469.0	(31.5)
Tax	887	443	100.2	621	42.8	2,024	3,195	(36.7)
PAT	2,436	1,252	94.6	1,877	29.8	5,829	8,274	(29.6)
EBITDA margin (%)	29.9%	25.1%	18.8	27.5%	8.4	27%	30%	(8.7)
FDEPS (Rs)	2.5	1.3	94.6	1.9	29.8	5.9	8.4	(29.6)

Source: Company, YES Sec – Research

Exhibit 7: Operational Analysis

	1QCY21	1QCY20	% Chg YoY	4QCY20	% Chg QoQ	CY20	CY19	% Chg YoY
Revenue (INR/ltr)	187	183	2.0	180	3.8	180	190	(5.4)
Raw Material (INR/ltr)	86	79	9.6	73	17.9	77	86	(10.0)
EBITDA (INR/ltr)	56	46	21.2	50	12.5	47	56	(16.0)
PAT (INR/ltr)	40	33	19.9	36	10.6	34	41	(16.7)
Total Sales Volume	61	37.6	62.2	52	17.3	165.6	204	(18.8)
YoY Volume Growth (%)	62.2%	(25.4%)		(3.7%)		(24.3%)	(6.0%)	
EBITDA margin (%) (change in Bps)	29.9%	25.1%	472.2	27.5%	232.2	26%	30%	(352.5)

Source: Company, YES Sec – Research

VIEW & VALUATION

Initiate with an ADD rating and a TP of Rs 135/sh

We initiate coverage on CSTR with an ADD rating a TP of Rs 135/sh, as we find the stock fairly valued at CMP trading at 15x CY22e. While 1QCY21 has clocked in a strong growth in volumes, the sustainability of the same is key, which appears less likely, given the current industry dynamics. With 2nd wave of Covid unfolding, its impact on business and lubricant demand is uncertain in coming months. In the longer term higher adoption of EVs could potentially further slowdown an already low growth industry (annual growth ~2-3% p.a.).

We estimate an earnings CAGR of 24% over CY20-22e, premised on recovery in sales over CY21 and 22e. Lubricant sales declined by ~19% YoY in CY20 in the aftermath of Covid-19 pandemic. Our earnings estimate factor in a YoY growth of 20% in CY21, implying recovery of sales lost in CY20 followed by a rather normalized growth of 5% in CY22. Risk to our estimates exist, should 2nd wave of Covid disrupt the recovery in sales.

Exhibit 8: Valuation table

EPS- Dec 22	9.13
Multiple	15
Value/Sh	135
Market Cap (INR mn)	135,446

Exhibit 9: Key Assumptions

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E
INR/USD	64.15	67.10	65.10	68.37	70.40	75.00	75.00	75.00
Sales Volume								
Total Volume (Incl Traded)	191	199.49	205	214	204	166	199	209
Volume Growth	(2.6%)	4.4%	2.6%	4.4%	(4.5%)	(18.8%)	20.0%	5.0%
Net Sales (INR/Litre)	173	169	175	183	190	181	196	196
Raw Material (INR/litre)	72.7	66.2	72.1	82.3	76.7	76.6	82.7	83.0
EBITDA (INR/liter)	46.9	50.4	50.5	50.1	56.5	49.2	55.0	55.1

FINANCIALS

Exhibit 10: Balance sheet

Year ended	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E
Share Capital	4,946	4,946	4,946	4,946	4,946	4,946
Reserves & Surplus	5,256	6,711	8,724	9,197	10,082	11,318
Networth	10,202	11,657	13,670	14,143	15,028	16,264
Debt	-	-	-	-	-	-
Net deferred Tax liabilities	-	-	-	-	-	-
Capital Employed	10,202	11,657	13,670	14,143	15,028	16,264
Gross Fixed Assets	2,209	3,066	3,673	3,735	3,985	4,235
Accumulated Depreciation	(819)	(1,206)	(1,676)	(1,992)	(2,841)	(3,746)
Capital work in progress	573	350	273	453	703	953
Net Fixed Assets	1,963	2,210	2,270	2,528	1,847	1,443
Current Assets, Loans & Advances	17,807	18,858	20,017	21,408	23,687	25,919
Inventory	3,196	4,568	3,047	3,669	3,411	3,571
Debtors	2,850	3,918	4,820	1,805	3,739	3,922
Cash & Bank balance	7,842	7,438	9,461	12,742	13,201	14,944
Loans & advances and others	3,919	2,934	2,689	3,192	3,336	3,482
Current Liabilities & Provisions	9,568	9,411	8,618	9,793	10,506	11,098
Liabilities	9,033	8,951	8,121	9,249	9,762	10,154
Provisions	535	460	497	544	744	944
Net Current Assets	8,239	9,447	11,399	11,615	13,181	14,821
Miscellaneous expenses	-	-	-	-	-	-
Application of Funds	10,202	11,657	13,669	14,142	15,028	16,264

Exhibit 11: Income statement

Year ended	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E
Net Revenue	35,844	39,046	38,768	29,969	38,993	40,905
Op. Expenses	(25,512)	(28,338)	(27,238)	(21,828)	(28,056)	(29,400)
EBITDA	10,331	10,708	11,530	8,141	10,937	11,505
Depreciation	(455)	(556)	(697)	(866)	(849)	(904)
EBIT	9,876	10,152	10,833	7,275	10,088	10,601
Other income	837	843	648	620	1,167	1,126
Interest Exp.	(12)	(11)	(12)	(42)	(42)	(42)
Extra Ordinary Items -gain/(loss)	-	-	-	-	-	-
Reported PBT	10,701	10,984	11,469	7,854	11,214	11,685
Tax	(3,782)	(3,901)	(3,157)	(2,024)	(2,870)	(2,990)
Reported PAT	6,919	7,083	8,312	5,829	8,344	8,695
Minority Int./Profit (loss) From Associates	11	12	12	12	12	12
Net Profit	6,919	7,083	8,312	5,829	8,344	8,695
Adjusted PAT	6,919	7,083	8,312	5,829	8,344	8,695
Adjusted EPS (INR)	7.0	7.2	8.4	5.9	8.4	8.8

Exhibit 12: Cash flow statement

Year ended	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E
PBT	10,701	10,984	11,469	7,854	11,656	12,135
Depreciation & amortisation	455	556	697	866	386	411
Interest expense	12	11	12	42	42	42
(Inc)/Dec in working capital	(642)	(1,612)	71	3,065	(1,107)	102
Tax paid	(3,651)	(3,876)	(3,195)	(2,074)	(2,983)	(3,105)
Less: Interest/Dividend Income Received	(837)	(843)	(648)	(620)	(1,146)	(1,082)
Other operating Cash Flow	-	-	-	-	-	-
Cash flow from operating activities	6,038	5,220	8,406	9,132	6,848	8,503
Capital expenditure	(482)	(635)	(530)	(242)	(500)	(500)
Inc/(Dec) in investments	-	-	-	-	-	-
Add: Interest/Dividend Income Received	837	843	648	620	1,146	1,082
Cash flow from investing activities	356	208	118	378	646	582
Inc/(Dec) in share capital	(0)	0	0	0	-	-
Inc/(Dec) in debt	-	-	-	-	-	-
Dividend Paid	(5,452)	(5,737)	(6,311)	(6,311)	(7,459)	(7,459)
Others	(1,319)	(95)	(190)	81	(42)	(42)
Cash flow from financing activities	(6,771)	(5,832)	(6,501)	(6,229)	(7,500)	(7,500)
Net cash flow	(377)	(404)	2,023	3,281	(6)	1,585
Opening balance	8,219	7,842	7,438	9,461	12,742	12,735
Closing balance	7,842	7,438	9,461	12,742	12,736	14,320

Exhibit 13: Financial Ratios

Year ended	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E	Dec-23E
RoE (%)	69	65	66	42	59	56	54
RoCE (%)	107	101	91	57	79	75	72
Asset/T.O (x)	4	4	3	2	3	3	2
Net Debt/Equity (x)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
EBIT/Interest (x)	893	1,000	957	190	281	293	306

Exhibit 14: Valuation Ratios (x)

Year ended	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E	Dec-23E
P/E	18.3	17.9	15.2	21.7	14.6	14.0	13.4
P/BV	12.4	10.9	9.3	9.0	8.2	7.5	6.9
EV/EBITDA	11.496	11.129	10.160	13.986	10.411	9.760	9.160
EV/Sales	3.313	3.052	3.022	3.799	2.920	2.745	2.583
Dividend Yield (%)	3.7	3.9	4.3	4.3	5.1	5.1	5.5

Exhibit 15: Growth Indicators (%)

Year ended	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21E	Dec-22E	Dec-23E
Revenue (%)	6.35	8.93	(0.71)	(22.70)	30.11	4.90	4.91
EBITDA (%)	2.81	3.65	7.68	(29.39)	34.35	5.19	5.18
Adj PAT (%)	2.52	2.37	17.35	(29.87)	48.78	4.11	4.47
Adj EPS (%)	2.52	2.37	17.35	(29.87)	48.78	4.11	4.47

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