

# Gulf Oil Lubricants India Ltd

BUY

CMP Rs699

Target Rs1100

Upside 57%

## Result Highlights- Meets Expectations

- ✓ **Revenue:** Revenue for the 4QFY21 stood 44% YoY & 7.4% QoQ higher at Rs 5.2bn, thereby taking the FY21 revenue to Rs 16.5bn, flat YoY. The strong growth in revenue was driven by a robust revival in sales volume, even as realization at Rs 148/liter, stood mostly flat QoQ and just 3% higher YoY.
- ✓ **Sales volume:** Sales volume improved to 35mn liters (+40% YoY; +6% QoQ) in the 4QFY21, riding on strong sales momentum in 2HFY21. Realization of pent-up demand, after lock-down was lifted, contributed to stronger sales in 2HFY21 and helped shore up FY21 volume at 115mn litres (+4% YoY), contrary to wider expectation of decline in annual sales in FY21. In comparison the domestic lubricant industry experienced a 7.7% YoY decline in FY21. The growth in sales was led by double digit growth across segments.
- ✓ **Distribution Network:** Due to lockdown and limited opportunity for expansion the distribution network (FY21), stood mostly flat YoY at ~70000 touch points.
- ✓ **Operating Profits:** The Ebitda for the 4QFY21 stood 41% YoY higher at Rs 781mn, however QoQ lower by 6.3% on account of increase in raw material (Base Oil) cost. As increase in base oil prices due to supply disruption resulted in sequentially lower gross margin of Rs 64/liter (3Q: Rs 69.9/liter) leading to a QoQ weaker EBITDA margin of Rs 22.3/liter (3Q: Rs 25.2/liter). The FY21 EBITDA at Rs 2.6bn (Rs 23/liter), as result stood 7% lower YoY.
- ✓ **Dividend:** GOLI declared a final dividend of Rs 9sh, in addition to an interim dividend of Rs 7/sh, implying a total payout ratio of ~40% and a div. yield of 2.3%.

**View & Valuation:** We assume coverage for GOLI with a BUY rating at TP of Rs 1100/sh, implying a target P/E multiple of 20x FY23e, vs 12.6x, stock is currently trading at . Our recommendation is premised upon:

**Strong Revenue growth potential:** GOLI has consistently delivered on its commitment to grow at 2x-3x the industry growth. Over FY15-20, when domestic lubricant industry had a CAGR of ~3%, GOLI clocked in a CAGR of ~10%. The company maintains its outlook of stronger than industry in the coming quarters and we therefore estimates an earnings CAGR of 12% (FY20-25e) premised upon a volume CAGR of 9%.

**Strong Brand and growing distribution network:** Aided by strong promotion campaigns (IPL association with Chennai Super Kings & MS Dhoni as brand ambassador) GOLI's lubricant brands are rated among top three in the brand consideration score, which in turn in a promise of sales growth and margin expansion going ahead. With the distribution network consistently growing in size, the opportunity to monetize brand strength grows.

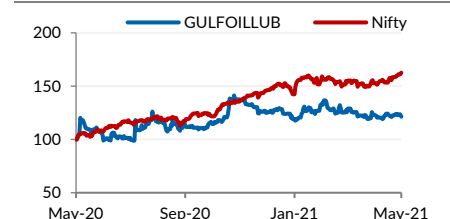
**Scope for margin expansion:** On backs of improved brand perception, better realization and logistical efficiency, GOLI has effected an expansion of almost 300-440bps in operating margins over past ~5 years. With continued focus on growth of personal mobility (2-wheeler & cars) oils and growing contribution from synthetic & semi-synthetic grades, the margins are set to improve further. To put things in perspective, even after expansion to Rs ~ 23-25/liter in FY21-20 (from Rs 19/liter in FY15) the Ebitda per unit is about just half of market leader.

**Risk-growing adoption of EVs:** While EVs are gaining popularity, but still form a relatively miniscule portion of more than 220mn (and growing) ICE vehicle parc in India, with average life span of 10-15 year, thereby ensuring a long term revenue visibility.

## Stock data (as on May 31, 2021)

Sensex:	15,583
52 Week h/l (Rs)	842 / 563
Market cap (Rs/USD mn)	35169 / 484
Outstanding Shares	50
6m Avg t/o (Rs mn):	20
Div yield (%):	2.3
Bloomberg code:	GOLI IN
NSE code:	GULFOILLUB

## Stock performance



	1M	3M	1Y
Absolute return	-1.2%	-4.2%	23.9%

## Shareholding pattern (As of Dec'20 end)

Promoter	72.0%
FII+DII	17.5%
Others	10.2%

## Financial Summary

Rs Bn	FY21	FY22e	FY23e
Net Revenue	16.5	19.3	21.8
YoY Growth	1%	17%	13%
EBIDTA	2.7	3.2	3.8
YoY Growth	-7%	20%	19%
PAT	2.0	2.3	2.8
YoY Growth	-1%	17%	19%
ROE	25%	25%	25%
EPS	39.8	46.7	55.3
P/E	17.6	15.0	12.6
BV	172.8	205.5	244.3
P/BV	4.0	3.4	2.9

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## Exhibit 1: Comparison with estimates

(Rs mn)	Actual	YES Estimate	%Variance	Consensus Estimate	% Variance
Revenue	5,174	4,712.0	10%	4,800	8%
EBITDA	781	678.7	15%	800	-2%
PBT	808	683.7	18%	800	1%
Adj net income	598	512.8	17%	600	0%
FDEPS (Rs)	12	10.4	15%	12	-2%

## Exhibit 2: Earnings snapshot

(Rs mn)	4QFY21	4QFY20	% Chg YoY	3QFY21	% Chg QoQ	FY21	FY20	% Chg YoY
Revenue	5,174	3,597	43.9	4,819	7.4	16,522	16,435	0.5
Expenditure	4,393	3,043	44.4	3,985	10.2	13,870	13,570	2.2
Operating profit	781	554	41.0	834	(6.3)	2,652	2,865	(7.4)
Other income	127	102	24.0	125	1.5	521	355	46.5
Interest	16	100	(83.9)	14	11.8	146	248	(41.0)
Depreciation	83	87	(4.7)	86	(3.6)	339	327	3.6
PBT	808	468	72.5	857	(5.8)	2,688	2,645	1.6
Tax	210	109	92.8	217	(3.2)	687	620	10.7
Reported PAT	598	359	66.3	640	(6.6)	2,001	2,025	(1.2)
EBITDA margin (%)	15.1%	15.4%	(0.3)	17.3%	(2.2)	16.1%	17.4%	(1.4)
FDEPS (Rs)	11.9	7.2	66.3	12.8	(6.6)	39.9	40.4	(1.2)

## Exhibit 3: Operating highlights

	4QFY21	4QFY20	% Chg YoY	3QFY21	% Chg QoQ	FY21	FY20	% Chg YoY
Sales Volume (mn litres)	35.0	25.0	40.0	33.1	5.7	115.1	110.5	4.2
Net Sales (INR/ltr)	147.8	143.9	2.8	145.6	1.6	143.5	148.7	(3.5)
RM Costs (INR/ltr)	84.2	72.3	16.5	75.7	11.2	77.2	75.1	2.9
Gross Margin (INR/ltr)	63.6	71.6	(11.1)	69.9	(8.9)	66.3	73.7	(10.0)
Operating Cost	33.0	37.8	(12.5)	35.3	(6.5)	33.1	37.4	(11.4)
EBITDA (INR/ltr)	22.3	22.2	0.7	25.2	(11.4)	23.0	25.9	(11.1)
PAT(INR/ltr)	17.1	14.4	18.8	19.3	(11.7)	17.4	18.3	(5.1)

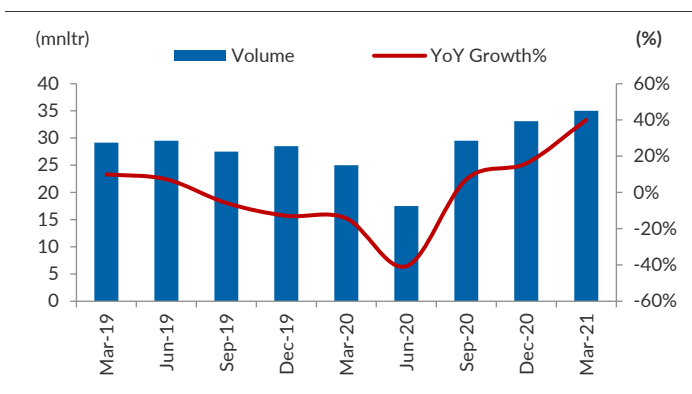
## EARNINGS-CALL HIGHLIGHTS

- ✓ The 2HFY21 and 4QFY21 in particular contributed handsomely to GOLI's annual sales volume, leading to a 4% YoY growth to 115mn liters, vs a 7.7% decline in industry wide sales.
- ✓ Double digit growth observed across product segments during the quarter.
- ✓ Operating profits margins in the 4QFY21, were impacted by unprecedented increase in Base oil prices. The company since has taken several price intervention across portfolio and a complete impact of the same shall be visible in 2QFY22 and onwards
- ✓ While the 1QFY22 YTD, is impacted by countrywide partial lock-downs but company expect sales to pick up sharply upon lifting of lockdown.
- ✓ GOLI continued to train focus on brand building with ad campaigns during IPL
- ✓ Addition of higher value BS-VI products in the portfolio has helped realizations, As BS-VI products can be used in both old and new vehicles, growing adoption would result in improvement in realization and margins,

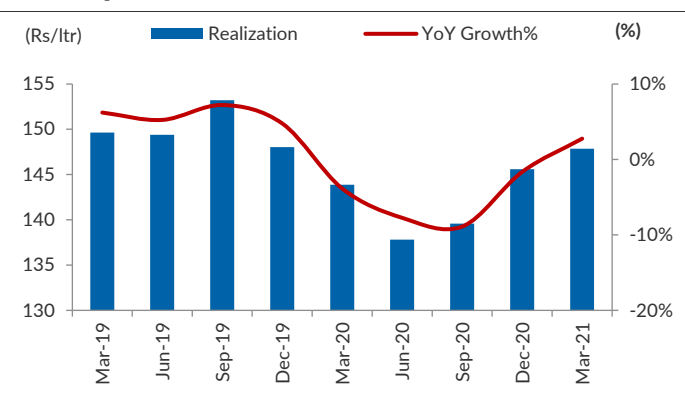
## CHARTS

**Exhibit 4: The sales volume during the quarter increased by 40% YoY to 35mn liters, taking the annual volume, 4% YoY higher at 115mn liters**

**Exhibit 5: The realization at Rs 148/liter, stood just a shade better vs 3Q. GOLI started taking price intervention since Dec to offset increase in Base Oil price over 4QFY21.**



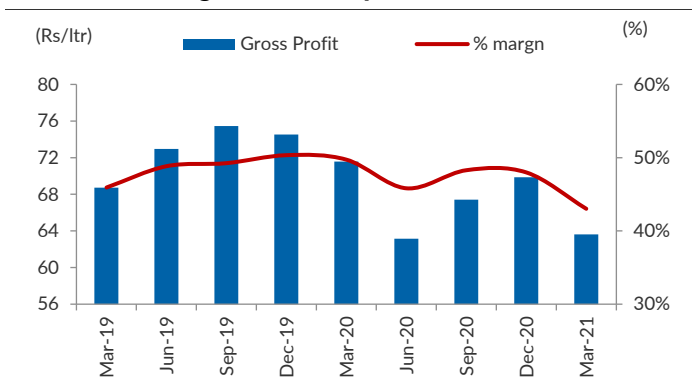
Source: Company, YES Sec - Research



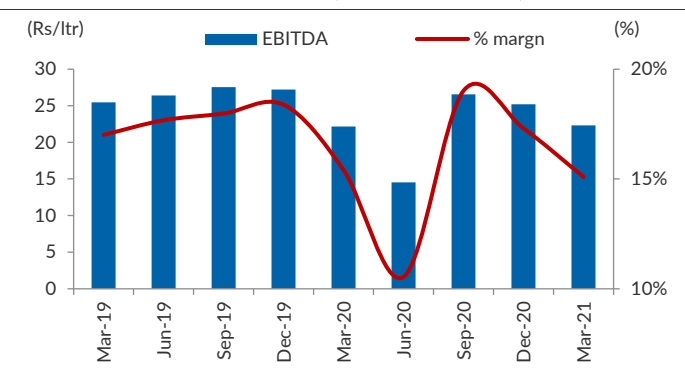
Source: Company, YES Sec - Research

**Exhibit 6: The gross margins stood QoQ lower at Rs 63.6/liter on higher Base Oil price**

**Exhibit 7: Weaker gross margins dragged down the per unit EBITDA to Rs 22/liter (3Q: Rs 25/liter)**



Source: Company, YES Sec - Research



Source: Company, YES Sec - Research

## VIEW & VALUATION

### Buy with a TP of Rs 1100/sh.

We assume coverage on GOLI with a BUY recommendation and target price of Rs 1100/sh. Our Mar'22 TP is based upon a P/E multiple of 20x FY23e, vs 12.6x stock is currently trading at. We premise our recommendation and target price on a) strong & consistent earnings growth potential of 12% CAGR (FY20-25e), in an otherwise inherently low growth industry b) growing brand strength and distribution reach and c) potential for margin expansion backed by improvement in product mix (BS-VI oil & synthetics).

### Exhibit 8: Valuation Table

P/E Valuation	
EPS- FY23	55.3
P/E Multiple	20
Value/Sh	1,107
Target Market Cap (INR mn)	55,011

### Exhibit 9: Key assumptions

	FY15	FY16	FY17	FY18	FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e
Rs/USD	61	65.5	67	64.5	70	70.9	74.2	75	75	75	75
Crude Oil -Brent	85.6	47.8	49.9	57.9	69.8	61.1	45.7	65	65	65	65
Lubricant Sales volume	69	76	84	94	119	111	115	123	138	154	173
Growth (%)	5%	10%	12%	12%	26%	-7%	4%	7%	12%	12%	12%
Lubricant Price (Rs/lit)	141	134	134	141	144	149	144	156	157	157	157
Base+ Additive Oil Price	81	71	68	72	76	70	55	79	79	79	79
EBITDA Margin	13.4%	15.7%	15.9%	17.7%	16.6%	17.4%	16.1%	16.5%	17.5%	18.0%	18.6%
EBITDA per Litre	18.9	21.1	21.4	25.0	23.8	25.9	23.0	25.9	27.6	28.4	29.3
Advertising Expense	556	672	728	873	991	1090	1096	1290	1457	1633	1834
(% of sales)	5.0%	5.7%	5.6%	6.3%	5.8%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Discount on Sales	625	759	986	925	1175	1150	1157	1352	1524	1706	1912
(% of sales)	6%	6%	8%	7%	7%	7%	7%	7%	7%	7%	7%

## FINANCIALS

### Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity capital	99	99	100	100	101	101	101	101	101
Reserves	3,442	4,575	5,768	7,513	8,593	10,237	12,186	14,481	17,236
Net worth	3,541	4,674	5,867	7,613	8,694	10,338	12,286	14,582	17,336
Debt	1,785	2,481	2,831	3,537	1,979	2,477	2,768	3,092	3,455
Deferred tax liab (net)	45	106	196	143	132	132	132	132	132
Capital Employed	5,371	7,261	8,895	11,293	10,805	12,946	15,186	17,806	20,923
Fixed assets	1,472	2,661	2,712	2,618	2,463	2,987	3,247	2,900	2,537
Investments	37	42	46	46	203	213	223	233	243
Net working capital	3,862	4,559	6,137	8,629	8,139	9,746	11,716	14,673	18,143
Inventories	1,499	2,368	3,388	3,283	3,765	4,157	4,659	5,218	5,845
Sundry debtors	1,096	1,346	1,507	1,870	1,890	2,117	2,386	2,670	2,994
Cash & Bank Balance	2,896	3,262	2,926	5,509	4,956	5,460	6,940	9,368	12,238
Other current assets	382	611	846	1,139	1,179	1,038	1,038	1,038	1,038
Sundry creditors	1,331	2,229	1,959	2,585	2,898	2,267	2,542	2,846	3,188
Other liabilities	680	799	571	587	752	759	766	775	784
Application of Funds	5,371	7,261	8,895	11,293	10,805	12,946	15,186	17,806	20,923

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	11,311	13,322	17,058	16,435	16,522	19,320	21,776	24,365	27,318
Total Expense	9,507	10,965	14,227	13,570	13,870	16,130	17,968	19,981	22,244
Operating Profit	1,804	2,357	2,831	2,865	2,652	3,190	3,808	4,384	5,074
Other Income	215	261	295	355	521	468	537	703	928
Depreciaton	73	104	224	327	339	362	440	498	513
EBIT	1,947	2,514	2,902	2,894	2,834	3,296	3,905	4,589	5,489
Interest	97	85	152	248	146	156	184	205	229
Extraordinary Item	-	-	-	-	-	-	-	-	-
PBT	1,849	2,429	2,751	2,645	2,687	3,140	3,722	4,384	5,260
Tax	638	843	973	620	687	791	938	1,105	1,326
PAT	1,211	1,586	1,778	2,025	2,001	2,349	2,784	3,279	3,935
Adj. PAT	1,211	1,586	1,778	2,025	2,001	2,349	2,784	3,279	3,935
Eps	24.1	31.5	35.3	40.3	39.8	46.7	55.3	65.2	78.2

## Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
PBT	1849.3	2428.5	2750.7	2645.5	2687.5	3139.8	3721.6	4384.2	5260.1
Depreciation & amortisation	72.5	104.3	223.6	327.0	338.7	361.7	440.0	497.5	512.5
Interest expense	97.4	85.3	151.6	248.3	146.3	156.0	183.6	205.1	229.2
(Inc)/Dec in working capital	28.3	(330.4)	(1913.6)	91.4	(63.7)	(1103.1)	(490.3)	(529.1)	(599.1)
Tax paid	(638.5)	(843.0)	(972.9)	(620.2)	(686.5)	(791.2)	(937.8)	(1104.8)	(1325.6)
Less: Interest/Dividend Income Received	(215.4)	(261.0)	(295.3)	(355.5)	(520.6)	(467.7)	(537.0)	(703.1)	(928.3)
Other operating Cash Flow	0.0	(19.0)	(16.0)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities	1193.6	1164.8	(71.9)	2336.6	1901.6	1295.5	2380.1	2749.9	3148.9
Capital expenditure	(455.8)	(1293.5)	(274.9)	(233.4)	(183.6)	(885.9)	(700.0)	(150.0)	(150.0)
Inc/(Dec) in investments	(5.8)	(4.3)	(4.5)	0.1	(156.8)	(10.0)	(10.0)	(10.0)	(10.0)
Add: Interest/Dividend Income Received	215.4	261.0	295.3	355.5	520.6	467.7	537.0	703.1	928.3
Cash flow from investing activities	(246.1)	(1036.9)	15.9	122.2	180.3	(428.3)	(173.0)	543.1	768.3
Inc/(Dec) in share capital	0.2	0.1	0.1	0.7	0.4	0.0	0.0	0.0	0.0
Inc/(Dec) in debt	(162.3)	695.8	350.4	706.1	(1557.7)	497.0	291.8	323.8	363.1
Dividend Paid	(501.2)	(619.1)	(678.1)	(834.7)	(804.8)	(704.6)	(835.1)	(983.8)	(1180.4)
Others	260.9	161.5	47.7	252.5	(273.2)	(156.0)	(183.6)	(205.1)	(229.2)
Cash flow from financing activities	(402.4)	238.2	(279.9)	124.6	(2635.3)	(363.5)	(726.9)	(865.1)	(1046.4)
Net cash flow	545.1	366.2	(335.9)	2583.5	(553.5)	503.7	1480.2	2427.8	2870.7

## Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Tax burden (x)	0.7	0.7	0.6	0.8	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2	0.17	0.18	0.19	0.20
Asset turnover (x)	1.5	1.3	1.5	1.1	1.1	1.2	1.2	1.1	1.1
Financial leverage (x)	2.3	2.2	2.1	1.9	1.8	1.6	1.5	1.5	1.5
RoE (%)	37.7	33.1	32.1	26.9	24.5	23.5	22.9	22.7	22.9

## Exhibit 15: Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>									
Revenue growth	12%	18%	28%	-4%	1%	17%	13%	12%	12%
Op profit growth	13%	31%	20%	1%	-7%	20%	19%	15%	16%
EBIT growth	14%	29%	15%	0%	-2%	16%	18%	18%	20%
Net profit growth	21%	31%	12%	14%	-1%	17%	19%	18%	20%
<b>Profitability ratios (%)</b>									
OPM	16%	18%	17%	17%	16%	17%	17%	18%	19%
EBIT margin	17%	19%	17%	18%	17%	17%	18%	19%	20%
Net profit margin	11%	12%	10%	12%	12%	12%	13%	13%	14%
RoCE	26%	26%	24%	22%	19%	21%	21%	21%	21%
RoE	40%	39%	34%	30%	25%	25%	25%	24%	25%
RoA	18%	18%	16%	16%	14%	16%	16%	17%	17%
<b>Per share ratios</b>									
EPS	24.1	31.5	35.3	40.3	39.8	46.7	55.3	65.2	78.2
Dividend per share	10.0	12.3	13.5	16.6	16.0	14.0	16.6	19.6	23.5
Cash EPS	25.5	33.6	39.8	46.8	46.5	53.9	64.1	75.1	88.4
Book value per share	70.4	92.9	116.6	151.4	172.8	205.5	244.3	289.9	344.7
<b>Valuation ratios</b>									
P/E	29.0	22.2	19.8	17.4	17.6	15.0	12.6	10.7	8.9
P/CEPS	27.4	20.8	17.6	14.9	15.0	13.0	10.9	9.3	7.9
P/B	9.9	7.5	6.0	4.6	4.0	3.4	2.9	2.4	2.0
EV/EBIDTA	258.5	214.5	276.5	375.4	337.7	277.2	244.9	221.2	195.5
<b>Payout (%)</b>									
Dividend payout	35%	33%	32%	35%	40%	30%	30%	30%	30%
Tax payout	35%	35%	35%	23%	26%	25%	25%	25%	25%
<b>Liquidity ratios</b>									
Debtor days	30.7	35.6	32.2	41.5	41.7	40.0	40.0	40.0	40.0
Inventory days	96.5	127.8	137.6	153.2	165.9	165.0	165.0	165.0	165.0
Creditor days	85.7	120.2	79.6	120.7	127.7	90.0	90.0	90.0	90.0

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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

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## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

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