Equity Research

May 2, 2021

BSE Sensex: 48782

ICICI Securities Limited is the author and distributor of this report

Initiating coverage

Oil & Gas and Petrochemicals

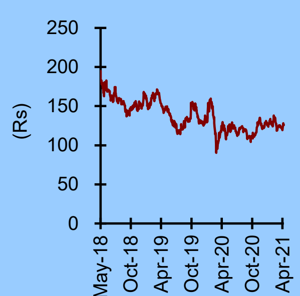
Target price Rs131

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	51.0	51.0	51.0
Institutional investors	29.8	29.3	28.3
MFs & other	4.1	3.1	2.2
FIs/ Banks	0.8	0.8	0.3
Insurance	13.3	13.4	14.1
FIIs	11.6	12.0	11.7
Others	19.2	19.7	20.7

Source: www.nseindia.com

Price chart



Research Analysts:

Vidyadhar Ginde
vidyadhar.ginde@icicisecurities.com
+91 22 6637 7274

Aksh Vashishth
aksh.vashishth@icicisecurities.com
+91 22 6637 7386

Castrol India

HOLD

Stronger growth through ROs key to outlook

Rs126

We initiate coverage on Castrol India (Castrol) with a HOLD rating and target price of Rs131. Castrol focusses on profitable growth in the low volume growth lube market. This has meant higher EBITDA margin, RoE and RoCE, but lower volume and profit growth than that of peers like Gulf Oil. We estimate a strong 22% YoY rebound in volumes and 40% YoY in EPS on a low base in CY21E. Since Q4CY20, Castrol lubes are being marketed through the retail outlets (ROs) of parent BP Plc and Reliance Industries' JV (Jio-BP). This RO network is set to expand ~4x to 5,500 over five years. This may mean stronger volume and earnings growth ahead and drive rerating of the stock.

- **Focus on profitable growth meant no/low volume growth, but high margins and RoCEs:** Castrol focusses on profitable growth in the low-volume growth and highly competitive ~30-player lube market in India. Lube usage is declining as engines become more efficient leading to rise in drain period of vehicles. Castrol's focus on profitability has meant its 5-year average EBITDA margin is 28.6% *vs* 16.8% for peer Gulf Oil, and RoE and RoCE are 80%-112% *vs* 38-33% for the same competitor. However, it has meant Castrol's 5-year volume and EPS CAGR in CY14-CY19 is 1%-12% *vs* 11-24% for Gulf Oil.
- **Strong rebound in volumes and EPS in CY21E**: Castrol's volumes plunged 19% YoY, EBITDA margin fell 2.6pct points YoY, and EPS declined 30% YoY in CY20 as covid-induced lockdowns and restrictions hit volumes. However, there was a smart recovery in H2CY20 with volumes up 2% YoY and EPS down 15% YoY *vs* 38-48% YoY fall in volumes and EPS in H1. Castrol's Q1CY21 EPS was up 95% YoY driven by 61% YoY and 16% QoQ surge in volumes fuelled by pent-up demand and strong EBITDA margin of 29.9%. We estimate Castrol's CY21E volumes to be up 22% YoY and EPS up 40% YoY despite hit from second wave.
- **Marketing through Jio-BP ROs may mean stronger volume and EPS growth**: Castrol lubes were marketed only in the bazaar segment of the automotive lube market, which accounts for 85% of its volumes. However, from Q4CY20, they are also being marketed through ROs of Jio-BP. This JV plans to expand its petrol station network ~4x over the next five years to 5,500 from the current ~1,400. Castrol's volume growth may be 8.75% YoY in CY22E-CY23E *vs* the 5% assumed in base case, and CY09-CY19 and CY14-CY19 CAGR of 0-1%, if its lubes sales throughput in Jio-BP's ROs is similar to that of OMCs. This may mean CY22E as well as CY23E EPS growth is stronger at 12% YoY *vs* 6-8% YoY in the base case.
- **Valuation at 15x CY22E EPS**: Our target price of Rs131/share (4% upside) is based on 15x CY22E EPS of Rs8.8/share. In a stronger volume growth scenario, the fair value at 15x CY22E EPS would be higher at Rs138 (10% upside).

Market Cap	Rs124bn/US$1.7bn
Reuters/Bloomberg	CAST.BO/CSTRL IN
Shares Outstanding (mn)	989.1
52-week Range (Rs)	138/104
Free Float (%)	49.0
FII (%)	11.7
Daily Volume (US$/'000)	3,119
Absolute Return 3m (%)	0.6
Absolute Return 12m (%)	4.0
Sensex Return 3m (%)	5.6
Sensex Return 12m (%)	46.3

Year to Dec	2020	2021E	2022E	2023E
Revenue (Rs mn)	29,969	40,146	42,153	44,260
Net Income (Rs mn)	5,829	8,168	8,658	9,359
EPS (Rs)	5.9	8.3	8.8	9.5
% Chg YoY	-30%	40%	6%	8%
P/E (x)	21.4	15.2	14.4	13.3
CEPS (Rs)	6.8	9.2	9.8	10.6
EV/E (x)	13.7	9.6	8.6	7.7
Dividend Yield (%)	4.4%	4.4%	4.4%	4.4%
RoCE (%)	52.1%	66.0%	60.3%	53.8%
RoE (%)	41.9%	52.7%	46.9%	42.4%

TABLE OF CONTENTS

Initiate coverage with HOLD rating

We initiate coverage on Castrol India (Castrol) with a **HOLD** rating and target price of Rs131 (4% upside). Castrol is a subsidiary of global oil major BP Plc and one of the leading and arguably the most profitable player in the Indian automotive lube market.

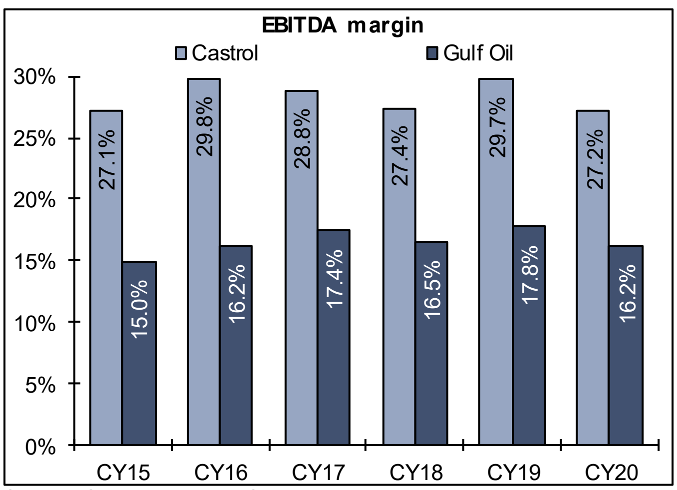
High margins and RoE, but low growth given focus on profitability

Castrol focused on profitable growth; high margin/RoE but low growth

The lube market is a low volume growth market as usage of the product is declining in tandem with engines becoming more efficient leading to rise in drain period of vehicles. The lube market in India is also highly competitive with presence of ~30 players. Castrol focusses on profitable growth and not just growth for the sake of growth. This has meant its:

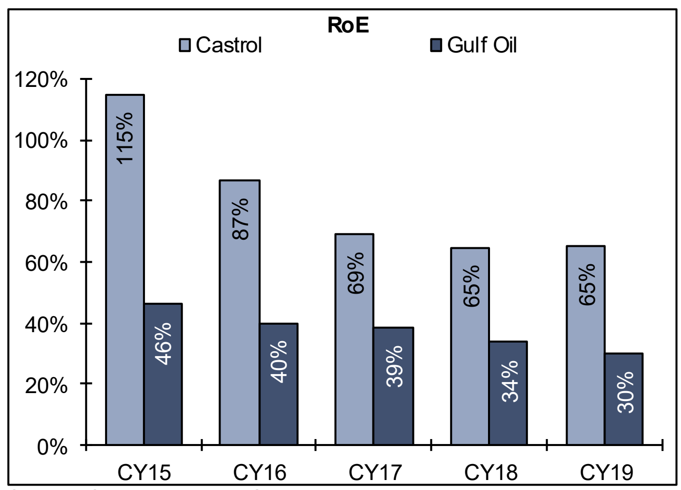
- Five-year average EBITDA margin is 28.6% *vs* 16.8% for peer Gulf Oil. Castrol's EBITDA margin is consistently higher than that of Gulf Oil. While its EBITDA margin was in a range of 27.1-29.8%, that of Gulf Oil was 15.0-17.8% in CY15-CY19. Castrol's EBITDA margin was 27.2% *vs* 16.2% for Gulf Oil in CY20, when volumes were hit by covid.

Chart 1: Castrol's EBITDA margin consistently higher than that of peer Gulf Oil



Source: Company data, I-Sec research

Chart 2: Castrol's 5-year average RoE at 80% *vs* Gulf Oil's 38%

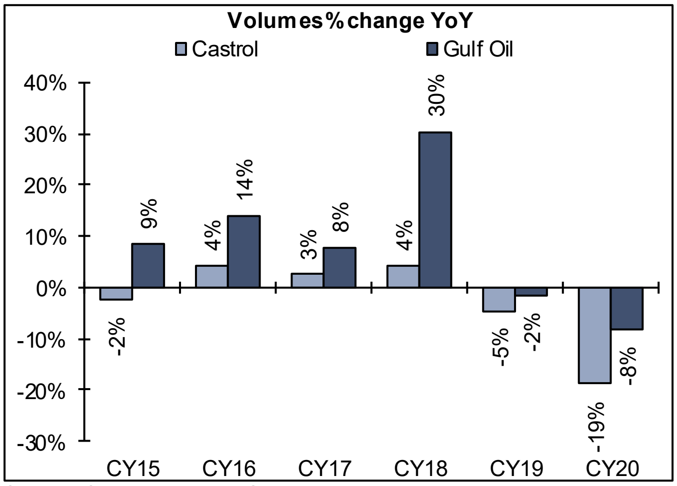


Source: Company data, I-Sec research

- Five-year average RoCE is 112% for Castrol vs 33% for Gulf Oil. Castrol's RoCE was in a range of 86-160% vs 25-36% for Gulf Oil in CY15-CY19. Castrol's RoCE was 52% vs 20% for Gulf Oil in CY20.
- Five-year average RoE is 80% for Castrol vs 38% for Gulf Oil. Castrol's RoE was in a range of 65-115% vs 30-46% for Gulf Oil in CY15-CY19. Castrol's RoE was 42% vs 24% for Gulf Oil in CY20.
- Castrol's five-year volume CAGR up to CY19 was 1% vs 11% for Gulf Oil. Castrol's volume growth range was -2% to 4% YoY vs -2% to 30% for Gulf Oil in CY15-CY19. Castrol's volume was down 19% YoY vs 8% YoY fall for Gulf Oil in CY20.

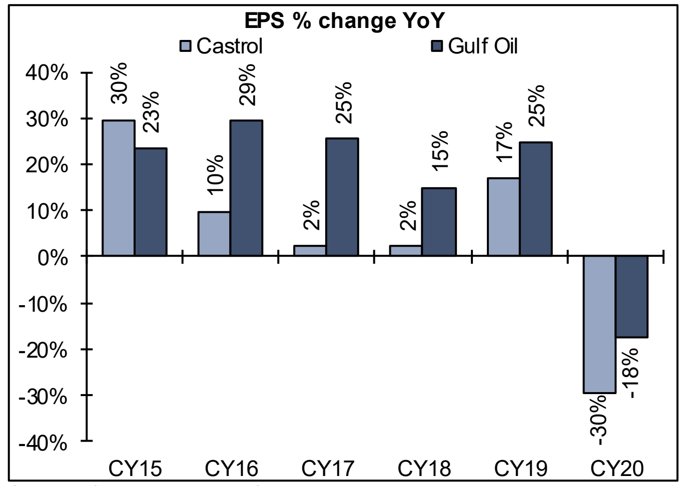
- Five-year EPS CAGR is 12% vs 24% for Gulf Oil. Castrol's EPS growth range was 2-30% YoY vs 15-29% for Gulf Oil in CY15-CY19. Castrol's EPS was down 30% YoY vs 18% YoY fall for Gulf Oil in CY20.

Chart 3: Castrol volume CAGR 1% *vs* 10% for Gulf Oil in CY15-CY19; down 19% *vs* 8% in CY20



Source: Company data, I-Sec research

Chart 4: Castrol EPS CAGR 12% *vs* 21% for Gulf Oil in CY15-CY19; down 30% *vs* 16% in CY20



Source: Company data, I-Sec research

Will marketing through ROs lead to stronger growth is crucial

Volume rise of 22% YoY on low base to drive 40% EPS rise in CY21E

Castrol's volumes plunged 19% YoY, EBITDA margin was down 2.6pct points YoY and EPS down 30% YoY in CY20 as lockdowns and restrictions due to covid hit volumes. However, there was a smart recovery in H2CY20 with volumes up 2% YoY and EPS down 15% YoY vs 38-48% YoY fall in volumes and EPS in H1. We estimate Castrol's CY21E EPS to be up 40% YoY (up 95% YoY in Q1CY21) on a low base, despite hit from second wave, driven by:

- **22% YoY rise in volumes.** Its Q1CY21 volumes were up 61% YoY and 16% QoQ fueled by pent-up demand. We are estimating volume growth in rest of CY21E at 11% YoY given the higher base and likely impact of second wave in rest of CY21E.
- **Rise in EBITDA margin by 0.9pct points to 28% from 27.2% in CY20.** Castrol's Q1CY21 EBITDA margin was at 29.9%. We are estimating EBITDA margin in rest of CY21E at 27.3%. Management had indicated that prices of raw material LOBS (lube oil base stocks) have firmed up due to supply disruptions (closure or low operating rates of refineries) and logistics challenges.

CY22-CY23E EPS up 6-8% YoY; volumes up 5% & margin 1.4pct points

We expect Castrol to post EPS growth of 6% in CY22E and 8% YoY in CY23E. Our key assumptions are:

- Volume growth of 5% YoY in CY22E as well as 23E.
- EBITDA margin to expand by 1pct point to 29% in CY22E and further by 0.4pct point to 29.5% in CY23E.

CY20-CY23E EPS CAGR of 17% in CY20-CY23E

We estimate EPS CAGR of 17% in CY20-CY23E driven by:

- Volume CAGR of 10%.
- EBITDA margin rising by 2.3pct points from 27.2% in CY20 to 29.5% in CY23E.

Marketing through Jio-BP ROs may mean stronger volume growth

Castrol lubes were marketed only in the bazaar segment of the automotive lube market, which accounts for 85% of its volumes. However, from Q4CY20 they are also being marketed through ROs of Jio-BP. This JV plans to expand its petrol station network 4x over the next five years to 5,500 from the current ~1,400. Castrol's volume growth may be 8.75% YoY in CY22-CY23E *vs* the 5% assumed in base case, and CY09-CY19 and CY14-CY19 CAGR of 0-1%, if its lube sales throughput in Jio-BP ROs is similar to that of OMCs.

5-10% upside to FV and EPS if sale through ROs boosts volumes

Volume growth of 8.75% YoY in CY22E-CY23E is due to marketing lubes through Jio-BP ROs *vs* 5% YoY growth assumed in the base case and assuming EBITDA margin of 29.5-30% *vs* 29-29.5% in the base case would mean upside of:

- 5% to CY22E EPS
- 10% to CY23E EPS
- 5% to FV to Rs138/share (10% upside vs market price)

CY22E-CY23E EPS up 12% YoY *vs* 6-8% in base case if growth higher

In this higher volume growth and margin scenario:

- CY22E EPS growth would be 12% YoY vs 6% YoY in the base case
- CY23E EPS growth would be 12% YoY vs 8% YoY in the base case

Value Castrol at 15x CY22E EPS; target price at Rs131

Our target price of Castrol is Rs131/share (4% upside) based on 15x CY22E EPS of Rs8.8/share. In a scenario where volume growth is stronger due to marketing through Jio-BP ROs and margin is higher, the fair value would be higher at Rs138 (10% upside) at 15x CY22E EPS. Stronger volume growth may also lead to rerating, hence higher fair value.

Risks

The following are the main risks to our investment thesis:

- **Marketing through Jio-BP ROs boosts volume growth; may also lead to rerating:** As discussed, marketing through Jio-BP ROs may boost CY22E volume to 8.75% YoY and also improve margin. In this scenario, FV works out to Rs138/share (10% upside) even if no rerating is assumed. Rerating could mean FV is even higher than Rs138.
- **Derating as EV volumes surge in India in the medium term:** If electric vehicle (EV) volumes surge in India in the medium term, lube sales may be impacted though EVs also use e-fluids, transmission coolants and greases. This may lead to derating of Castrol.

High margin and RoCE, but no/low volume growth

Castrol focused on profitable growth; high margin/RoE but low growth

Castrol is focused on profitable growth and not just growth for the sake of growth in a low volume growth and highly competitive lube market in India. This has meant its EBITDA margin, RoE and RoCE are higher than that of peers while its volume and earnings growth is lower.

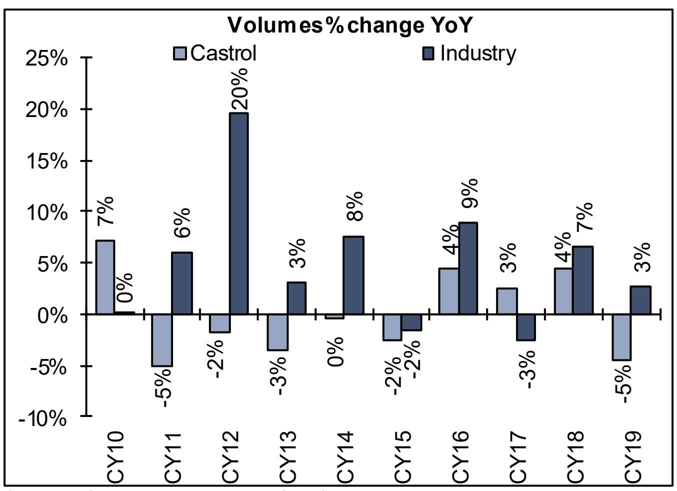
Focus on profitability meant no volume growth in past 10 years

No volume growth for Castrol during CY09-CY19 *vs* 4.9% for industry

Indian lubricant market, although third-largest in the world, is highly fragmented with over 30 players, thus making it highly competitive. Moreover, rise in drain period of automobiles with increasing efficiency has meant that the industry volume CAGR was just 2.7% during CY14-CY19 *vs* 7.1% during CY09-CY14. In such a scenario, Castrol's focus on profitable growth has meant that its volumes have largely remained flat over the past 5-10 years and it has underperformed industry and peers. Castrol's volume CAGR was:

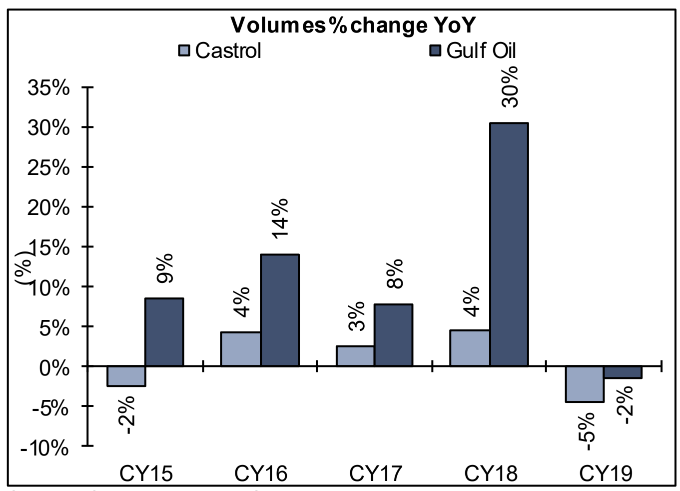
- Minus 0.9% during CY09-CY14 vs 7.1% for industry
- Just 0.8% during CY14-CY19 vs 2.7% for industry and 11.4% for Gulf Oil
- 0% during the 10-year period of CY09-CY19 vs 4.9% for industry

Chart 5: Castrol's volume CAGR 0% over CY09-CY19 *vs* 4.9% for industry



Source: Company data, PPAC, I-Sec research

Chart 6: Castrol's volume CAGR 0.8% over CY14-CY19 *vs* 11.4% for Gulf Oil



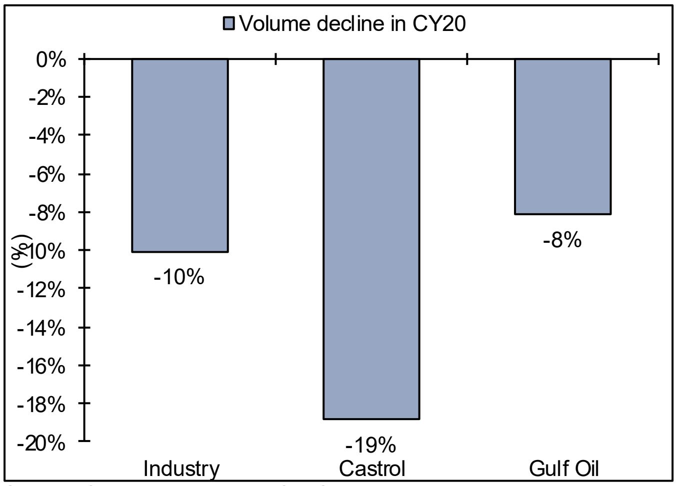
Source: Company data, I-Sec research

Volume decline steeper in CY20 than industry and peers

Industry lube volumes plunged in CY20 as covid-induced lockdowns led to slowdown of the economy. Volume decline was very sharp in H1CY20, but volumes were up YoY in H2CY20. Castrol underperformed the industry and peers in CY20 as follows:

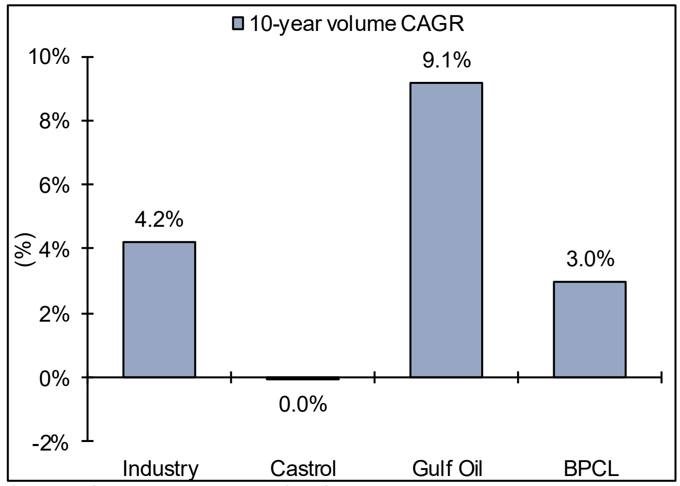
- Castrol's lube sales volumes were down 19% YoY with fall in H1CY20 being 38% YoY and volumes in H2 being up 2% YoY.
- Industry sales volumes were down 10% YoY with fall in H1CY20 being 22% YoY and volumes in H2 being up 2% YoY.
- Sales volumes of peer Gulf Oil were down 8% YoY with fall in H1CY20 being 27% YoY and volumes in H2 being up 12% YoY.

Chart 7: Castrol's volume decline in CY20 steeper at 19% YoY *vs* industry and peer Gulf Oil



Source: Company data, PPAC, I-Sec research

Chart 8: Castrol has underperformed industry and peers on volume growth in the past 10 years



Source: Company data, PPAC, I-Sec research

Castrol underperformed Gulf Oil on EPS growth in five of last six years

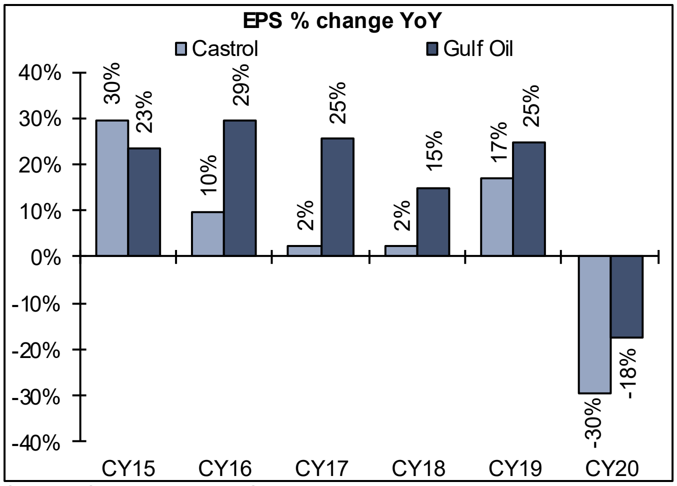
Castrol's EPS CAGR in CY14-CY19 was 12% *vs* 24% for Gulf Oil. Even in CY20, Castrol's EPS was down 30% YoY while that of Gulf Oil was down 18% YoY. In five of the past six years, Castrol has underperformed Gulf Oil on EPS growth. In CY15, Castrol's EPS was up 30% YoY while that of Gulf Oil was up 23% YoY.

Castrol's margin and return ratios far better than peer Gulf Oil

5-year average EBITDA margin at 28.6% *vs* 16.8% for Gulf Oil

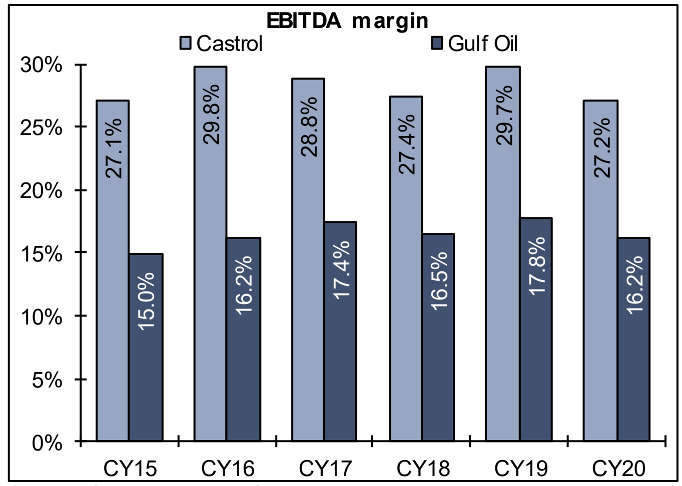
Castrol's focus on profitable growth has meant that its 5-year average EBITDA margin during CY16-CY20 at 28.6% is far superior to that of peer Gulf Oil at 16.8%. In every year, Castrol's EBITDA margin is higher with its premium to that of Gulf Oil being 10.9-13.6pct points in CY16-CY20.

Chart 9: Castrol underperformed Gulf Oil on YoY EPS growth in five of past six years



Source: Company data, I-Sec research

Chart 10: Castrol's EBITDA margin consistently higher than that of peer Gulf Oil



Source: Company data, I-Sec research

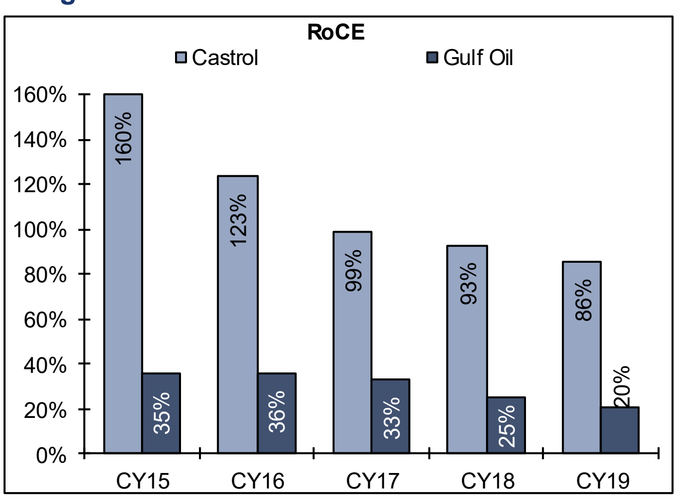
5-year average return ratios far higher than that of peer

Castrol boasts of substantially high return ratios compared to that of peer Gulf Oil owing to its focus on high-realisation and high-margin segments. Its 5-year average (CY15-CY19):

- RoCE at 112% vs 33% for Gulf Oil
- RoE at 80% vs 38% for Gulf Oil

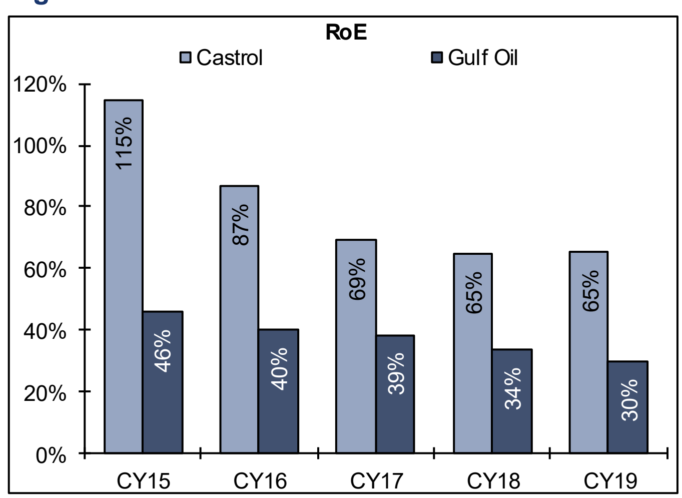
Castrol's RoCE was 52% in CY20 *vs* 20% for Gulf Oil, and RoE was 42% *vs* 24% for Gulf Oil.

Chart 11: Castrol's 5-year average RoCE at 112% is higher than 33% for Gulf Oil



Source: Company data, I-Sec research

Chart 12: Castrol's 5-year average RoE at 80% is higher than 38% for Gulf Oil



Source: Company data, I-Sec research

Indian lube market trends

Incumbents lost market share to entrants after liberalisation

OMCs dominated lube market in India until liberalisation in 1990s

Indian lube market was highly regulated with restrictions such as on lube oil base stock (LOBS) imports. Most international lube players had exited India. Castrol was the only international player who did not exit. However, its growth was curbed by various restrictions. OMCs therefore dominated the lube market in India until its liberalisation in the early 1990s.

Castrol gained most from lube market liberalisation

Castrol gained the most from liberalisation of the Indian lube market, which meant removal of restrictions that had earlier curbed its growth. Castrol's volume growth was far higher than industry for a few years after liberalisation. Castrol grabbed market share from OMCs in that phase. The very high volume growth phase for Castrol was followed by moderation of the same, but still remaining higher than industry growth.

OMCs turned aggressive in lubes after deregulation from April 1998

Phased deregulation of the oil sector started in April 1998 when restrictions on OMCs on appointment of dealers in the bazaar trade were removed. This hurt Castrol, which had dominated the bazaar trade in automotive lubricants.

New entrants have grabbed market share from incumbents

Liberalisation of the lube industry in India also led to entry of several new players into the Indian market, including various international players. Over the past few years, the new entrants have grabbed market share from incumbent OMCs and Castrol.

Indian market highly fragmented; Castrol dominant in automotive

Indian lube market size at ~2.8bn litre; automotive segment ~1bn litre

India is the world's third-largest lubricant market after the US and China with an annual consumption of ~2.8bn litres. The industry is highly fragmented with over 30 players and is broadly catergorised into three segments:

- Automotive segment accounting for ~1bn litres driven by vehicle population and performance of manufacturing and agricultural sectors.
- Industrial segment accounting for ~1.5bn litres driven by economic activity and industrial production.
- Marine & energy applications accounting for ~0.3bn litres driven by global and local ship movements.

Around 40% of LOBS imported by India

India is a net deficit market for LOBS (lube oil base stocks) leading to large-scale import of LOBS and additives. OMCs have over 1.2mmt of LOBS capacity while roughly 2.0mmt of LOBS is required to produce 2.5mmt (~2.8bn litres) of lubes. Thus, around 40% of LOBS requirement is imported. LOBS and additives imports by Castrol and Gulf Oil were as follows:

- Castrol imported 39%-35% of LOBS and additives consumed by value in CY15-CY16
- Gulf Oil imported 57%-52% of LOBS and additives consumed by value in FY16-FY17

Castrol dominant in automotive segment with ~20% market share

Castrol has presence in all major segments of lubricants, but is predominant in and focused on the automotive segment. Its market share by volume in the automotive segment has increased from 18.1% in Jan'20 to 20.5% in Dec'20 and is currently at ~20%.

Chart 13: Castrol's market share up from 18.1% in Jan'20 to 20.5% in Dec'20; at ~20% now

Source: Company data

Automotive segment accounts for ~85% of Castrol's volumes

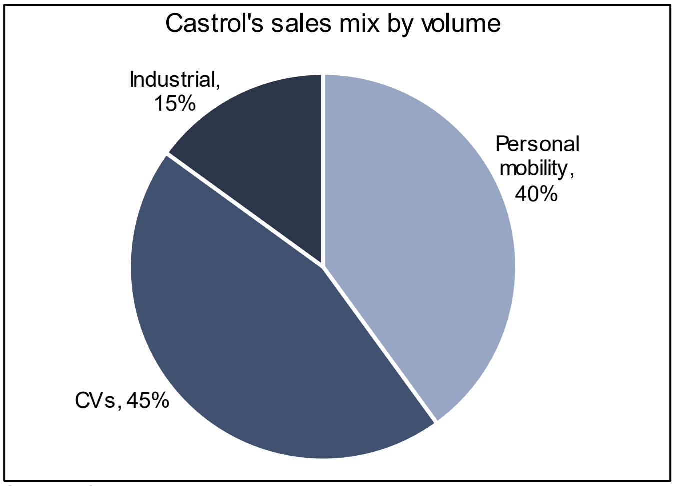
Castrol's sales mix by volume is as follows:

- ~85% of volumes contributed by automotive segment (40-45% by personal mobility {2W & passenger cars} and ~40-45% by CVs).
- ~15% of volumes contributed by industrial segment.

Personal mobility accounts for 60-65% of revenues

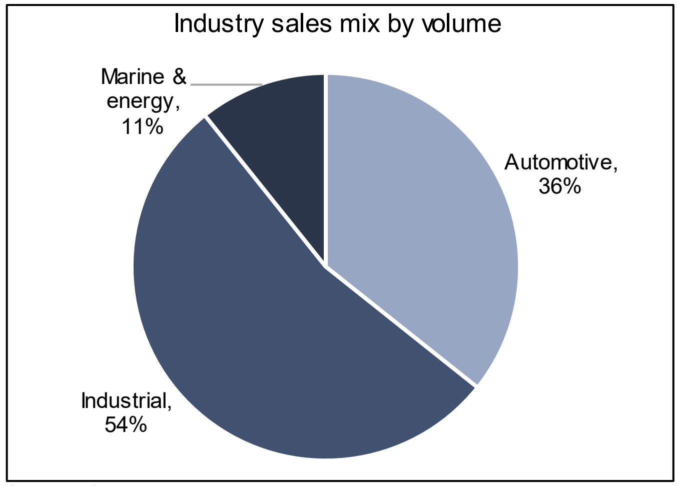
Personal mobility is a high-margin segment. Castrol's sales mix by value therefore is skewed towards personal mobility (2W & passenger cars), which accounts for 60-65% of its revenues though 40-45% of its volumes.

Chart 14: Personal mobility accounts for 40% of sales by volume for Castrol



Source: Company data

Chart 15: Automotive segment accounts for 36% of overall lube market



Source: Company data

Braced for the impending boost of electric vehicles (EVs) in India

Castrol considers the industrial shift towards EVs as a growth opportunity rather than a challenge. It benefits from the R&D of seven global centres in the US, UK, Germany, China and Japan as it has access to parent BP Plc’s R&D centres. As a result, Castrol has developed e-fluids, transmission coolants and greases for EVs while the space continues to evolve. In India, it already has supply agreements for e-fluids with two of the leading EV OEMs.

Strong rebound in CY21E; ROs may be key to growth

Castrol's CY20-CY23E EPS CAGR 17%; volume CAGR 10%

CY20 EPS down 30% YoY on plunge in volumes; recovery in H2

Castrol's CY20 EPS was down 30% YoY due to fall in:

- Volumes by 19% YoY to 166mn litres
- EBITDA margin contraction by 2.6pct points to 27.2%

However, Castrol's volumes and earnings fared better in H2CY20 with:

- Volumes up 2% YoY vs fall of 38% YoY in H1
- EPS down just 15% YoY vs 48% YoY in H1CY20.

Q1CY21 EPS up 95% YoY / 30% QoQ on low base

Castrol's Q1CY21 EPS was up 95% YoY and 30% QoQ due to rise in:

- Volumes by 61% YoY and 16% QoQ to 61mn litres
- EBITDA margin expansion by 4.7pct points YoY to 29.9%

Strength in volumes and margins not sustainable

The strength in volumes seen in Q1 is not sustainable through the rest of CY21 given:

- Q1CY21 volumes were boosted by pent-up demand
- Widespread second wave of covid in India leading to lockdowns in many states may impact demand.

Strength in margins also may not be sustainable as price of raw materials, especially LOBS (lube oil base stocks), have strengthened due to supply disruptions (closure or low operating rates of refineries).

CY21E EPS up 40% YoY driven by 22% YoY rise in volumes

We estimate Castrol's CY21E EPS to be up 40% YoY driven by:

- Rise in volumes by 22% YoY to 202mn litres (1% below CY19 levels). We are estimating volume growth in rest of CY21E at 11% YoY.
- EBITDA margin expansion by 0.9pct points to 28%.

CY22E EPS up 6% YoY on rise in volumes and margins

We estimate Castrol's CY22E EPS to be up 6% YoY driven by:

- Rise in volumes by 5% YoY to 212mn litres.
- EBITDA margin expansion by 1pct points to 29%.

Table 1: Castrol's EPS declined by 30% YoY in CY20, but to rebound by 40% YoY in CY21E; up 6-8% YoY in CY22E-CY23E

	CY20	CY21E	CY22E	CY23E
Volume (mn l)	**166**	**202**	**212**	**223**
YoY change %	-19%	22%	5%	5%
Realisation (Rs/l)	**181**	**199**	**199**	**199**
YoY change %	-5%	10%	0%	0%
Gross margin (Rs/l)	**112**	**109**	**111**	**114**
YoY change %	-2%	-2%	2%	2%
EBITDA (Rs/l)	**49**	**56**	**58**	**59**
EBITDA margin (%)	27.2%	28.0%	29.0%	29.5%
EPS	**5.9**	**8.3**	**8.8**	**9.5**
YoY change %	-30%	40%	6%	8%

Source: Company data, I-Sec research

CY23E EPS up 8% YoY on rise in volumes and margins

We estimate Castrol's CY23E EPS to be up 8% YoY driven by:

- Rise in volumes by 5% YoY to 223mn litres.
- EBITDA margin expansion by 0.4pct points to 29.5%.

Upside to CY22-CY23E EPS from higher volumes from Jio-BP stations

We are assuming volume growth of 5% YoY in CY22E-CY23E as we expect selling of lubes through Jio-BP ROs to boost volume growth. However, volume growth would be higher at 8.75% YoY if volumes through Jio-BP ROs are similar to that of OMCs through their ROs. OMCs own 69,333 ROs across India as at FY20 with total lube sales of ~1.6bn litres, which implies a sales throughput of 0.02m litres per RO. This JV plans to expand its RO network ~4x over the next five years to 5,500 from the current ~1,400. 8.75% YoY volume growth in CY22E-CY23E *vs* 5% YoY in the base case would mean:

- Rise in CY22E EPS by 12% YoY *vs* 6% YoY rise in base case assuming EBITDA margin of 29.5% *vs* 29% in base case.

Table 2: Higher volumes from Jio-BP retail outlets may boost Castrol's CY22E-CY23E EPS by 5-10%

	CY21E	CY22E	CY23E
Volume (mn l)	**202**	**220**	**239**
YoY change %	22%	9%	9%
Realisation (Rs/l)	**199**	**199**	**199**
YoY change %	10%	0%	0%
EBITDA (Rs/l)	**56**	**59**	**60**
EBITDA margin (%)	28.0%	29.5%	30.0%
EPS	**8.3**	**9.2**	**10.4**
YoY change %	40%	12%	12%
Upside to base case EPS	**0%**	**5%**	**10%**

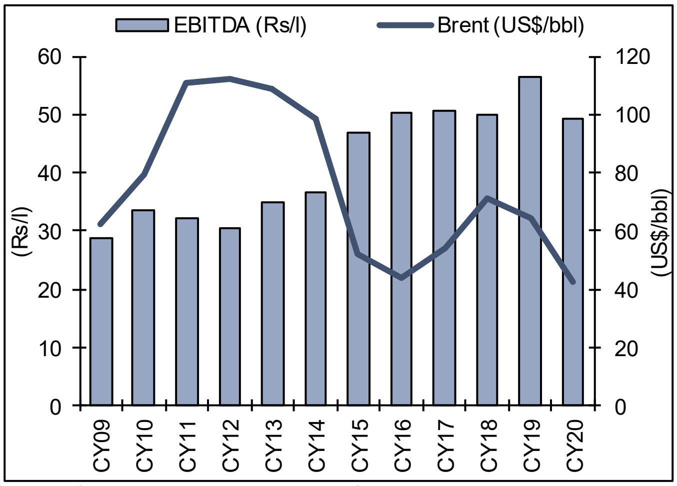
Source: Company data, I-Sec research

- Rise in CY23E EPS by 12% YoY vs 8% YoY rise in base case assuming EBITDA margin of 30% vs 29.5% in base case.
- CY20-CY23E EPS CAGR of 21% vs 17% in base case.
- Fair value at Rs138/share vs Rs131/share in base case.

Castrol's EBITDA inversely related to Brent

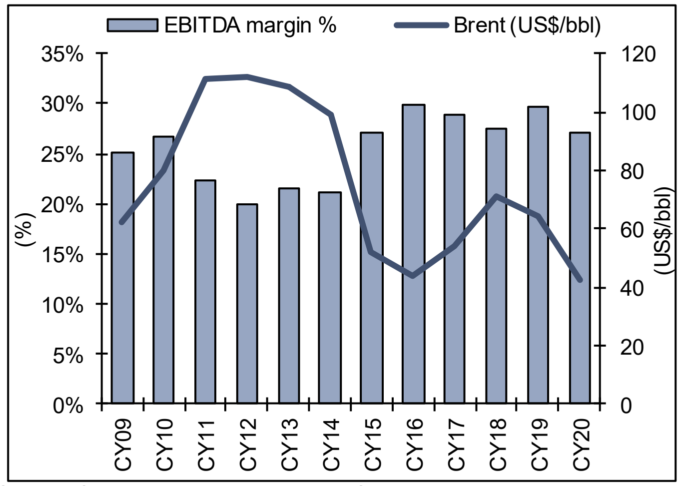
Majority of Castrol's raw materials, viz. LOBS and additives, are crude derivatives which means that its raw material costs are directly related to Brent, but EBITDA inversely related to the same, most likely with a lag depending on inventory levels. Castrol's EBITDA peaked at Rs57/l in CY19, up 13% YoY, when Brent was down 10% YoY. Its EBITDA margin too expanded by 2.3pct points YoY during the year. Castrol witnessed its biggest rise in EBITDA in CY15 when it was up 28% YoY to Rs47/l as oil prices had plunged 47% YoY during the year.

Chart 16: EBITDA/l up 13% YoY in CY19 as oil prices plunged 10% YoY



Source: Company data, Bloomberg, I-Sec research

Chart 17: EBITDA margin expanded by 2.3pct points YoY in CY19 as oil prices fell 10% YoY



Source: Company data, Bloomberg, I-Sec research

CY09-CY14 EPS CAGR 4% hit by volume fall at CAGR of minus 1%

Castrol's EPS CAGR was 4% during CY09-CY14 hit by volume fall at a CAGR of minus 1%. Volumes peaked at 219mn litres in CY10, but witnessed a secular fall since then to 196mn litres in CY14.

Table 3: Castrol's EPS CAGR at 12% over CY14-CY19 despite volume & realisation CAGR of just 1-2% driven by gross margin CAGR of 7%

	CY14	CY15	CY16	CY17	CY18	CY19
Volume (mn l)	**196**	**191**	**199**	**205**	**214**	**204**
YoY change %	0%	-2%	4%	3%	4%	-5%
Realisation (Rs/l)	**173**	**173**	**169**	**175**	**183**	**190**
YoY change %	7%	0%	-2%	4%	4%	4%
Gross margin (Rs/l)	**82**	**99**	**104**	**103**	**104**	**113**
YoY change %	6%	20%	4%	0%	0%	10%
EBITDA (Rs/l)	**37**	**47**	**50**	**50**	**50**	**57**
EBITDA margin (%)	21.1%	27.1%	29.8%	28.8%	27.4%	29.7%
EPS	**4.8**	**6.2**	**6.8**	**7.0**	**7.2**	**8.4**
YoY change %	-2%	30%	10%	2%	2%	17%

Source: Company data, I-Sec research

CY14-CY19 EPS CAGR 12% driven by EBITDA margin rise

Castrol's EPS CAGR was 12% in CY14-CY19, despite volume CAGR of just 1%, driven primarily by rise in EBITDA margin from 21.1% in CY14 to 29.7% in CY19. Volumes were up 3-4% YoY in CY16-CY18, but down 2% YoY in CY15 and 5% YoY in CY19.

Financial summary

Table 4: Profit and loss Statement

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
Operating Income (Sales)	**29,969**	**40,146**	**42,153**	**44,260**
Operating Expenses	**21,828**	**28,893**	**29,926**	**31,225**
EBITDA	**8,141**	**11,253**	**12,226**	**13,036**
% margins	27.2%	28.0%	29.0%	29.5%
Depreciation & Amortisation	866	930	999	1,099
Gross Interest	42	40	32	21
Other Income	620	633	664	698
Recurring PBT	**7,854**	**10,915**	**11,860**	**12,613**
Less: Taxes	2,024	2,747	3,202	3,254
Net Income (Reported)	**5,829**	**8,168**	**8,658**	**9,359**
Recurring Net Income	**5,829**	**8,168**	**8,658**	**9,359**

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
Assets				
Total Current Assets	20,785	26,116	30,051	34,753
of which cash & cash eqv.	12,742	16,177	19,743	24,059
Total Current Liabilities & Provisions	9,655	12,227	12,845	13,430
Net Current Assets	**11,130**	**13,889**	**17,205**	**21,323**
Investments	-	-	-	-
Net Fixed Assets	**2,092**	**2,230**	**2,164**	**1,972**
Capital Work-in-Progress	435	267	233	227
Total Assets	**13,658**	**16,386**	**19,603**	**23,522**
Liabilities				
Borrowings	**138**	**138**	**138**	**138**
Equity Share Capital	4,946	4,946	4,946	4,946
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	9,197	11,925	15,142	19,061
Net Worth	**14,142**	**16,870**	**20,088**	**24,006**
Total Liabilities	**13,658**	**16,386**	**19,603**	**23,522**

Source: Company data, I-Sec research

Table 14: Quarterly trend

(Rs mn, year ending December 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	4,906	8,831	9,352	11,387
% growth (YoY)	-53%	4%	-8%	66%
EBITDA	953	2,882	2,576	3,401
Margin (%)	19.4%	32.6%	27.5%	29.9%
Other income	152	117	153	143
Net profit	654	2,046	1,877	2,436

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
Operating Cashflow before working capital changes	6,658	9,098	9,657	10,458
Working Capital Changes	2,966	677	250	198
Capital Commitments	-1,123	-900	-900	-900
Free Cashflow	**8,501**	**8,875**	**9,007**	**9,756**
Cashflow from Investing Activities	-1,123	-900	-900	-900
Issue of Share Capital (inc. Buyback impact)	-	-	-	-
Inc (Dec) in Borrowings	138	-	-	-
Dividend paid	-5,440	-5,440	-5,440	-5,440
Chg. in Cash & Bank balances	**3,282**	**3,435**	**3,567**	**4,316**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending December 31)

	CY20	CY21E	CY22E	CY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	5.9	8.3	8.8	9.5
Diluted Recurring EPS	9.7	9.9	10.0	10.8
Recurring Cash EPS	6.8	9.2	9.8	10.6
Dividend per share (DPS)	5.5	5.5	5.5	5.5
Book Value per share (BV)	14.3	17.1	20.3	24.3
Growth Ratios (%)				
Operating Income	-23%	34%	5%	5%
EBITDA	-29%	38%	9%	7%
Recurring Net Income	-30%	40%	6%	8%
Basic Recurring EPS	-30%	40%	6%	8%
Diluted Recurring EPS	6%	2%	1%	8%
Valuation Ratios (x)				
P/E	21.4	15.2	14.4	13.3
P/CEPS	18.6	13.7	12.9	11.9
P/BV	8.8	7.4	6.2	5.2
EV / EBITDA	13.7	9.6	8.6	7.7
EV / Operating Income	3.7	2.7	2.5	2.3
EV / Operating FCF	13.2	12.2	11.6	10.3
Operating Ratios				
Other Income / PBT (%)	7.9%	5.8%	5.6%	5.5%
Effective Tax Rate (%)	25.8%	25.2%	27.0%	25.8%
D/E Ratio (%)	1.0%	0.8%	0.7%	0.6%
Return/Profitability Ratios (%)				
Recurring Net Income Margins	19.5%	20.3%	20.5%	21.1%
RoCE	52.1%	66.0%	60.3%	53.8%
RoNW	41.9%	52.7%	46.9%	42.4%
Dividend Payout Ratio	93.3%	66.6%	62.8%	58.1%
Dividend Yield	4.4%	4.4%	4.4%	4.4%
EBITDA Margins	27.2%	28.0%	29.0%	29.5%

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION
I/We, *Vidyadhar Ginde, (A.C.A. GRAD.CWA); Aksh Vashishth, MBA;* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:
ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.