



COMPANY NAME : **Gulf Oil Lubricants**

BSE Code : **538567**

Time Duration : **1 year**

CMP : **₹711.50 (as on 14 Sept., 2016)**

Target Price : **₹904**

The mid-bridge for the month of September is Gulf Oil Lubricants India. The company is part of the Hinduja Group and has been resilient in tiding over the sluggish demand over last two years. Also, in a difficult operating environment, company has been able to grow its volume across various segments by strengthening its distribution network. We expect due to better growth in automobile segment and company's focus on new launches, it will grow at 2.5x the pace of industry. Also, company enjoys ROE of 40x.

**Gulf oil lubricants, primarily manufactures lubricant oils for Automobiles and Industrial sectors.**

**Automotive segment:** Company derives 65% of revenue from this segment. Also within this it has high presence in the B2C - Bazaar segment. In the automotive industry, Diesel engine oil (DEO) accounts for 50-55% of the total volume of lubricants followed by Motor Cycle Oils (MCO) and Passenger Car Motor Oils (PCMO). Company has been forging ties with OEMs in the DEO segment to boost volumes. In tractor segment, it has forged ties with Mahindra Gujarat & Swaraj. Also it has won an institutional order in DEO category.

To ride on the growth in scooter segment, company has enhanced its portfolio in PCMO segment and has strengthened its distribution base. It has introduced products in high synthetic segment. The products launched in this segment are Ultrasynth and Formula G series. In the open market segment (bazaar segment) which comprises replacement sales and garages, company has enhanced its market share to 7.2%. Company also has witnessed double digit growth in motor cycle segment in FY16 and has strengthened its market share. It also has launched Gulf Pride Scooter Oil – for the fast growing scooter segment.

However, in spite of volume growth of double digit the revenue growth has been in single digit due to pricing pressure. We see that with better product mix towards value added products, the company will be able to improve its realisations.

**Industrial sector:** Company derives 35% of revenue from this segment. Company has been forging ties with direct industrial customers leading to spurt in B2B sales. Company is witnessing double digit growth in infrastructure, mining and fleet management.

**Capacity expansion to help boost volumes:** To cater to buoyant demand emanating from automobile sector, company has augmented its capacity to 90,000 KL from 75,000KL in its Silvassa plant. Also, it plans an additional capacity expansion of 40,000-50,000 KL at Ennore, Chennai. These will also reduce logistics costs as Chennai is a major Auto hub. The increased capacity will benefit the company from Q3FY16.

**Financials:** We see that company has been able to drive margin improvement, quarter over quarter due to better volumes and customer wins. From 13.3% of EBITDA margin in Q1FY15, the margin has increased to 16.8% in Q4FY16. Consequently, PAT margin also has improved from 8% to 11% during the same period. In FY16, company has registered a revenue growth of 4.5%, EBITDA growth of a whopping 22.5% and PAT growth of 32.1%.

**Valuations:** The company is currently trading at 2016 P/E of 35x due to its better than industry growth and higher margins as compared to industry. We see that company is in a growth phase and is gaining market share and hence we expect an upside of 27% from current levels.

Quarter (in Cr)	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Sales	226.1	239.0	238.6	263.8	230.4	248.8	260.2	271.9	283.6
Expenses	196.5	206.9	206.7	228.0	195.9	210.2	219.1	226.9	235.1
Operating Profit	29.6	32.1	31.9	35.8	34.5	38.6	41.1	45.0	48.5
Margin %	13.1	13.4	13.4	13.6	15.0	15.5	15.8	16.5	17.1
Other Income	2.1	1.9	2.9	2.3	3.8	3.9	4.4	5.9	4.4
Depreciation	1.3	1.2	1.0	1.4	1.5	1.5	1.5	1.6	1.7
Interest	3.9	4.3	6.3	3.3	5.7	4.9	3.8	3.4	3.9
Profit before tax	26.6	28.4	27.6	33.4	31.1	36.1	40.2	45.9	47.3
Tax	8.5	9.1	9.4	11.7	10.6	12.4	14.1	15.8	16.1
Net Profit	18.0	19.4	18.2	21.8	20.5	23.6	26.2	30.0	31.2

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