

# Castrol India

 BSE SENSEX  
 37,522

 S&P CNX  
 11,346

**CMP: INR168**
**TP: INR218 (+30%)**
**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We request your ballot.



	CSTRL IN
Bloomberg	
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$b)	165.7 / 2.4
52-Week Range (INR)	214 / 155
1, 6, 12 Rel. Per (%)	-4/-13/-31
Avg Val, INRm	409
Free float (%)	49.0

### Financials & Valuations (INR b)

Dec	2017	2018E	2019E
Net Sales	35.8	36.8	37.6
EBITDA	10.3	9.1	8.6
PAT	6.9	6.1	6.2
EPS (INR)	7.0	6.2	6.2
Gr. (%)	2.9	-11.4	0.7
BV/Sh (INR)	10.3	10.9	11.6
RoE (%)	69.1	58.3	55.5
RoCE (%)	69.2	58.4	55.6
P/E (x)	23.9	27.0	26.8
P/BV (x)	16.2	15.3	14.5

Estimate change



TP change



Rating change



### In-line EBITDA; strong volume growth led by pickup in CV volume

- CSTRL's 2QCY18 revenue grew 17% YoY (and 10% QoQ) to INR10.2b, beating our estimate of INR9.4b, led by (a) higher volumes at 57m liters (+12% YoY, +11% QoQ; our estimate: 53m liters), and (b) better realizations at INR178/liter (+4% YoY, -1% QoQ; our estimate: INR177/liter). Sequential decline in realization despite price hikes can be attributed to shift in product mix.
- Reported EBITDA of INR2.5b (+20% YoY, -8% QoQ) was in line with our estimate despite beat on revenues, led by higher than expected raw material cost of INR90.8/liter (+8% YoY, +8% QoQ; our estimate: INR88.5/liter). EBITDA margin was 24.7% in 2QCY18 (24.1% in 2QCY17; 29.6% in 1QCY18).
- PAT grew 19% YoY (-10% QoQ) to INR1.6b against our estimate of INR1.7b, impacted by (a) lower other income of INR173m (our estimate: INR224m; +12% YoY, -24% QoQ), and (b) higher tax rate of 36%.
- **Volumes up 12% YoY to 57m liters:** CSTRL's total volumes grew 12% YoY, led by double-digit volume growth in the PCMO segment (~41% volume share) and CVO segment (~46% volume share). CVO segment volume grew higher than PCMO segment; the growth was on account of pickup in economic activity.

### Valuation and view

- CSTRL's >80% payout policy, RoE/RoCE of >50% and FCF to PAT conversion at >80% reflect its superior balance sheet and high-quality cash flows, which warrant higher valuation multiples, in our view.
- The stock is trading at 26.8x CY19E EPS of INR6.2. Our fair value stands at INR218 (35x CY19E EPS), implying 30% upside. Maintain **Buy**.

### Quarterly Performance

Y/E December	CY17				CY18				CY17	CY18E	CY18	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Volume (m litres)	50.2	50.9	49.1	54.4	51.2	57.0	50.5	50.0	205	209	53.0	8%
Realization	176	171	175	178	181	178	176	170	175	176	177	1%
Net Sales	8,822	8,704	8,614	9,703	9,271	10,172	8,888	8,485	35,843	36,816	9,381	8%
YoY Change (%)	3.5	-10.1	13.1	24.5	5.1	16.9	3.2	-12.6	6.7	2.7	7.8	
Total Expenditure	6,189	6,609	6,078	6,637	6,528	7,655	6,672	6,831	25,513	27,686	6,861	12%
EBITDA	2,633	2,095	2,536	3,066	2,743	2,517	2,216	1,654	10,330	9,130	2,520	0%
YoY Change (%)	4.7	-33.4	19.1	41.7	4.2	20.1	-12.6	-46.1	3.8	-11.6	20.3	
Margins (%)	29.8	24.1	29.4	31.6	29.6	24.7	24.9	19.5	28.8	24.8	26.9	
Depreciation	123	118	111	103	143	132	135	138	455	548	128	3%
Interest	3	1	2	6	7	3	4	1	12	15	4	-25%
Other Income	185	155	333	164	228	173	210	252	837	863	224	-23%
PBT	2,692	2,131	2,756	3,121	2,821	2,555	2,287	1,766	10,700	9,429	2,612	-2%
Tax	902	752	974	1,154	1,003	913	800	548	3,782	3,300	914	0%
Rate (%)	34	35	35	37	36	36	35	31	35	35	35	
PAT	1,790	1,379	1,782	1,967	1,818	1,642	1,487	1,219	6,918	6,129	1,698	-3%
YoY Change (%)	3.8	-33.3	27.5	26.3	1.6	19.1	-16.6	-38.1	2.5	-11.4	23.1	
Margins (%)	20.3	15.8	20.7	20.3	19.6	16.1	16.7	14.4	19.3	16.6	18.1	

E: MOSL Estimates

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

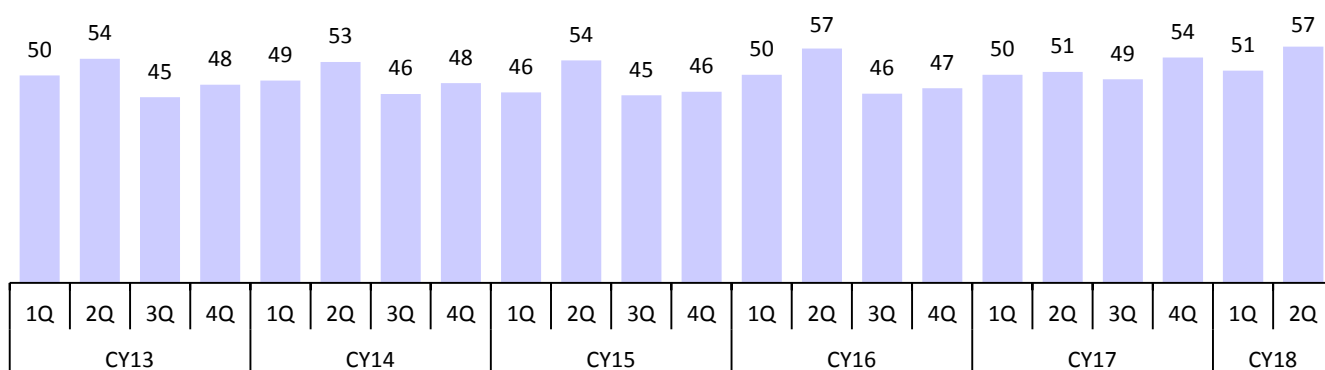
Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&amp;P Capital.

**Exhibit 1: Operational performance: Volumes were up +12% YoY; realization was up +4.4% YoY**

	CY15				CY16				CY17				CY18			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
Volume (m litres)	46	54	45	46	50	57	46	47	50	51	49	54	51	57	12.0	11.3
<b>Data in per litres:</b>																
Realisations	173	171	172	171	170	171	167	166	176	171	175	178	181	178	4.4	(1.4)
Raw material	87	83	84	81	78	74	78	77	81	84	80	81	84	91	7.6	8.2
Gross Margin	86	89	88	90	92	97	88	88	95	87	95	98	97	88	1.2	(9.8)
EBITDA Margin	41	51	47	45	50	56	47	46	52	41	52	56	54	44	7.3	(17.6)

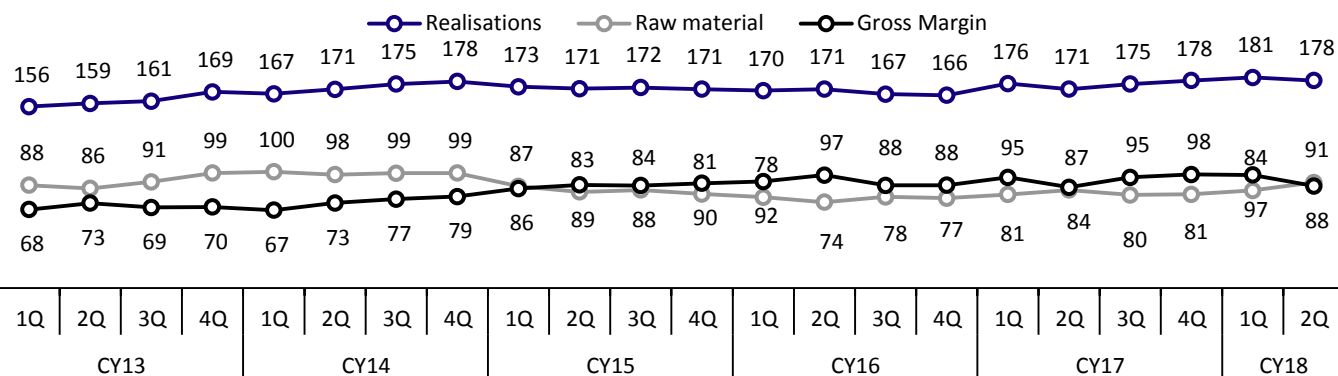
Source: Company, MOSL

**Exhibit 2: Castrol's volumes (m ltr) were up +12% YoY in 2QCY18**



Source: Company, MOSL

**Exhibit 3: Realizations stood at INR178/liter (+4.4% YoY, -1.4% QoQ); raw material cost spiked to INR91/liter (+8% YoY/QoQ)**



Source: Company, MOSL



### Concall highlights

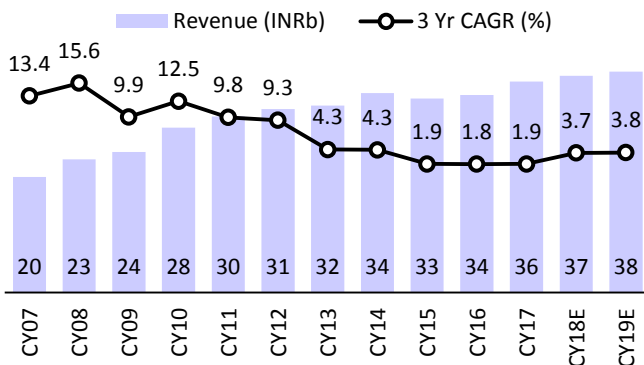
- CSTR's 2QCY18 total volumes were up 12% YoY, led by double-digit volume growth in PCMO segment (~41% volume share) and CVO segment (~46% volume share). CVO segment volume grew higher than PCMO segment, the growth was on account of pick-up in economic activity. Industrial segment (~13% volume) grew at healthy rate during the quarter.
- Castrol has grown its volume ahead of the industry at ~7% YoY in 1HCY18. Industry volume grew at ~6% YoY over the same period.
- The company has re-launched 50% of the products with better technology contributed to volume growth. As per management, ~80% of the volume growth has come from the new products launched during the last nine months.
- Management took some price hikes to pass on the increase in raw material cost; raw material cost was up 8% YoY/QoQ. Despite the sharp rise in input costs during the quarter, company was able to grow their volumes along with price hikes. Company has taken ~3% price hike in July.
- Management has guided to grow ahead of the market; market is expected to grow at ~4-5%. With continued volatility in crude oil price and steep depreciation of the Indian rupee, the company expects a challenging second half, but will be taking appropriate actions to support the volume growth momentum.

### Valuation and view

- CSTR's >80% payout policy, RoE/RoCE of >50% and FCF to PAT conversion at >80% reflect its superior balance sheet and high-quality cash flows, which warrant higher valuation multiples, in our view.
- The stock is trading at 26.8x CY19E EPS of INR6.2. Our fair value stands at INR218 (35x CY19E EPS), implying 30% upside. Maintain **Buy**.

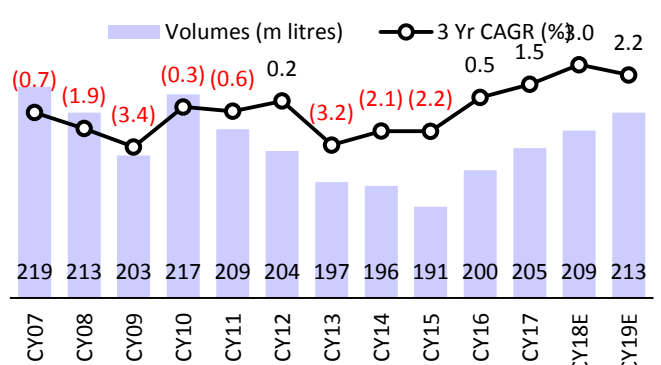
Story in charts

Exhibit 4: Castrol's revenue expected to grow...



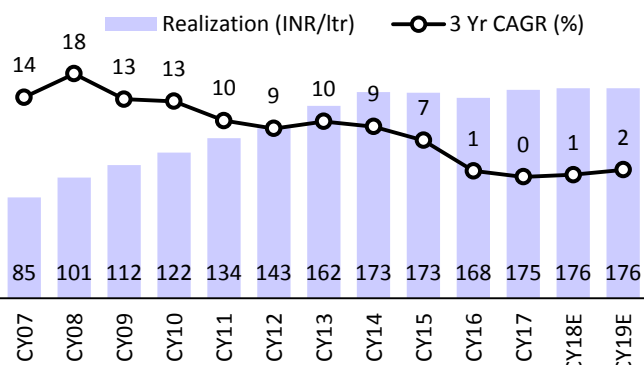
Source: Company, MOSL

Exhibit 5: ...led by marginal rise in lubricant sales volume...



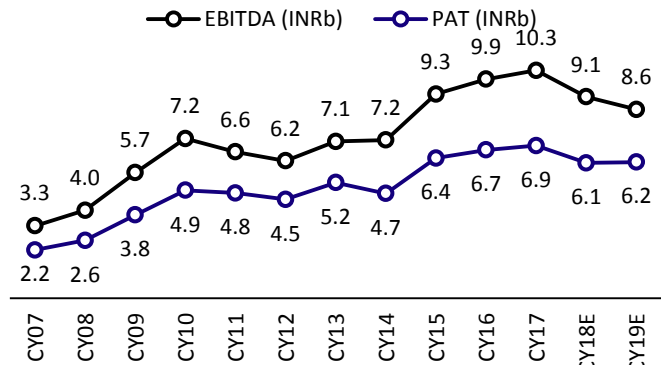
Source: Company, MOSL

Exhibit 6: ...and supported by increase in realizations



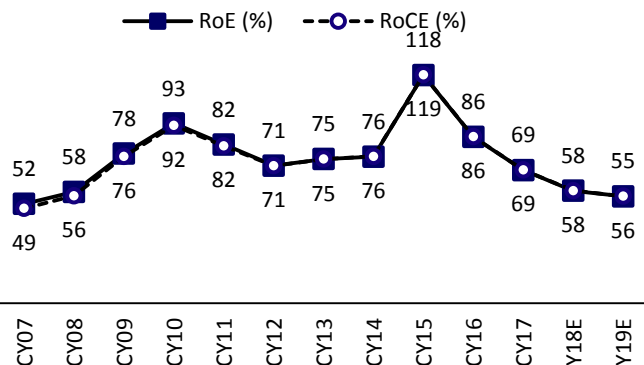
Source: Company, MOSL

Exhibit 7: Castrol's PAT grew at 10% CAGR in the last 14 years



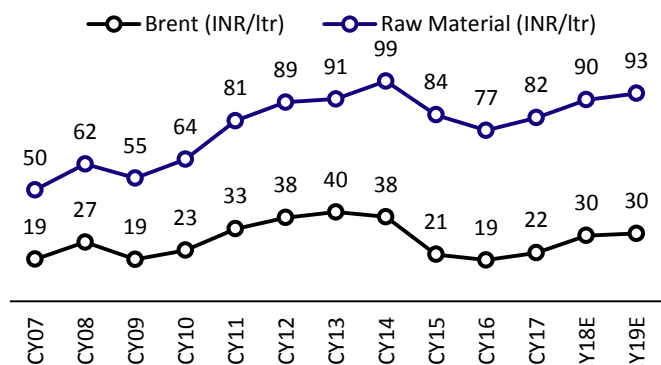
Source: Company, MOSL

Exhibit 8: Return ratios are expected to remain strong



Source: Company, MOSL

Exhibit 9: Castrol's raw material (base oil) shows strong correlation to crude oil prices as expected



Source: Company, MOSL

## Financials and Valuations

### Standalone - Income Statement

(INR m)

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E
<b>Net sales</b>	<b>31,209</b>	<b>31,796</b>	<b>33,923</b>	<b>32,980</b>	<b>33,580</b>	<b>35,843</b>	<b>36,816</b>	<b>37,552</b>
Change (%)	4.3	1.9	6.7	-2.8	1.8	6.7	2.7	2.0
Raw Materials	18,243	17,885	19,375	16,008	15,316	16,660	18,888	19,879
<b>Gross Margin</b>	<b>12,966</b>	<b>13,912</b>	<b>14,548</b>	<b>16,972</b>	<b>18,264</b>	<b>19,183</b>	<b>17,928</b>	<b>17,674</b>
Margin (%)	41.5	43.8	42.9	51.5	54.4	53.5	48.7	47.1
Employees Cost	1,284	1,460	1,616	1,766	1,726	1,956	2,098	2,286
Other Expenses	5,453	5,349	5,766	5,952	6,613	6,897	6,700	6,834
<b>Total Expenditure</b>	<b>24,979</b>	<b>24,693</b>	<b>26,756</b>	<b>23,726</b>	<b>23,655</b>	<b>25,513</b>	<b>27,686</b>	<b>29,000</b>
<b>EBITDA</b>	<b>6,229</b>	<b>7,103</b>	<b>7,167</b>	<b>9,255</b>	<b>9,925</b>	<b>10,330</b>	<b>9,130</b>	<b>8,553</b>
Margin (%)	20.0	22.3	21.1	28.1	29.6	28.8	24.8	22.8
Depreciation	266	305	361	390	450	455	548	610
<b>EBIT</b>	<b>5,963</b>	<b>6,798</b>	<b>6,806</b>	<b>8,865</b>	<b>9,475</b>	<b>9,875</b>	<b>8,582</b>	<b>7,943</b>
Interest Charges	21	17	24	8	15	12	15	15
Other Income	722	1,064	481	959	969	837	863	1,567
<b>PBT bef. EO Exp.</b>	<b>6,663</b>	<b>7,846</b>	<b>7,263</b>	<b>9,816</b>	<b>10,429</b>	<b>10,700</b>	<b>9,429</b>	<b>9,495</b>
EO Items	0	228	0	306	0	0	0	0
<b>PBT after EO Exp.</b>	<b>6,663</b>	<b>7,618</b>	<b>7,263</b>	<b>9,510</b>	<b>10,429</b>	<b>10,700</b>	<b>9,429</b>	<b>9,495</b>
Income tax	2,189	2,532	2,518	3,357	3,708	3,782	3,300	3,323
Tax Rate (%)	32.9	33.2	34.7	35.3	35.6	35.3	35.0	35.0
<b>Reported PAT</b>	<b>4,474</b>	<b>5,086</b>	<b>4,746</b>	<b>6,153</b>	<b>6,721</b>	<b>6,918</b>	<b>6,129</b>	<b>6,172</b>
<b>Adjusted PAT</b>	<b>4,474</b>	<b>5,238</b>	<b>4,746</b>	<b>6,351</b>	<b>6,721</b>	<b>6,918</b>	<b>6,129</b>	<b>6,172</b>
Change (%)	-6.2	17.1	-9.4	33.8	5.8	2.9	-11.4	0.7
Margin (%)	14.3	16.5	14.0	19.3	20.0	19.3	16.6	16.4

### Standalone - Balance Sheet

(INR m)

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E
Equity Share Capital	4,946	4,946	2,473	2,473	2,473	4,946	4,946	4,946
Total Reserves	1,547	2,569	2,495	3,283	7,343	5,256	5,869	6,486
<b>Net Worth</b>	<b>6,492</b>	<b>7,514</b>	<b>4,968</b>	<b>5,756</b>	<b>9,816</b>	<b>10,202</b>	<b>10,815</b>	<b>11,432</b>
Deferred Tax Liabilities	5	13	0	0	0	0	0	0
Total Loans	0	0	0	0	0	0	0	0
<b>Capital Employed</b>	<b>6,497</b>	<b>7,528</b>	<b>4,968</b>	<b>5,756</b>	<b>9,816</b>	<b>10,202</b>	<b>10,815</b>	<b>11,432</b>
Gross Block	3,287	3,366	3,762	3,915	4,004	4,404	5,124	5,484
Less: Accum. Deprn.	2,026	1,931	2,041	2,427	2,585	3,040	3,588	4,198
<b>Net Fixed Assets</b>	<b>1,261</b>	<b>1,435</b>	<b>1,721</b>	<b>1,488</b>	<b>1,419</b>	<b>1,364</b>	<b>1,537</b>	<b>1,287</b>
Capital WIP	310	319	157	364	423	599	615	628
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>12,574</b>	<b>13,867</b>	<b>12,426</b>	<b>14,265</b>	<b>16,369</b>	<b>17,255</b>	<b>24,232</b>	<b>25,622</b>
Inventory	3,158	3,740	3,655	3,046	3,439	3,196	3,468	3,633
Account Receivables	2,166	2,372	2,715	2,365	2,552	2,850	2,927	2,986
Cash and Bank Balance	5,746	5,942	4,315	6,965	8,219	7,842	14,378	15,476
Loans and Advances	1,504	1,813	1,742	1,889	2,159	3,367	3,458	3,528
<b>Curr. Liability &amp; Prov.</b>	<b>8,303</b>	<b>8,636</b>	<b>9,954</b>	<b>10,860</b>	<b>9,067</b>	<b>9,568</b>	<b>16,121</b>	<b>16,656</b>
Account Payables	4,366	4,888	5,492	5,645	4,966	6,066	6,583	6,895
Other Current Liabilities	1,269	1,158	1,377	1,457	3,478	2,967	3,048	3,108
Provisions	2,668	2,590	3,084	3,758	623	535	6,491	6,653
<b>Net Current Assets</b>	<b>4,271</b>	<b>5,231</b>	<b>2,472</b>	<b>3,404</b>	<b>7,302</b>	<b>7,687</b>	<b>8,112</b>	<b>8,966</b>
Deferred Tax assets	656	543	618	499	672	551	551	551
<b>Appl. of Funds</b>	<b>6,497</b>	<b>7,528</b>	<b>4,968</b>	<b>5,756</b>	<b>9,816</b>	<b>10,202</b>	<b>10,815</b>	<b>11,432</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>4.5</b>	<b>5.3</b>	<b>4.8</b>	<b>6.4</b>	<b>6.8</b>	<b>7.0</b>	<b>6.2</b>	<b>6.2</b>
Cash EPS	4.8	5.6	5.2	6.8	7.3	7.5	6.8	6.9
BV/Share	6.6	7.6	5.0	5.8	9.9	10.3	10.9	11.6
DPS	3.5	3.5	3.8	4.5	5.5	4.7	4.6	4.7
Payout (%)	89.9	79.6	92.7	87.1	97.4	81.5	90.0	90.0
<b>Valuation (x)</b>								
P/E				26.1	24.6	23.9	27.0	26.8
Cash P/E				24.6	23.1	22.5	24.8	24.4
P/BV				28.8	16.9	16.2	15.3	14.5
EV/Sales				4.8	4.7	4.4	4.1	4.0
EV/EBITDA				17.1	15.9	15.3	16.6	17.6
Dividend Yield (%)	2.1	2.1	2.2	2.7	3.3	2.8	2.8	2.8
<b>Return Ratios (%)</b>								
RoE	71.4	74.8	76.0	118.4	86.3	69.1	58.3	55.5
RoIC	1,072.1	531.3	504.4	-1,065.7	-3,059.3	435.2	-461.3	-116.7
RoCE	71.3	74.9	76.2	118.5	86.4	69.2	58.4	55.6
<b>Working Capital Ratios</b>								
Asset Turnover (x)	4.8	4.2	6.8	5.7	3.4	3.5	3.4	3.3
Inventory (Days)	37	43	39	34	37	33	34	35
Debtor (Days)	22	24	25	23	24	25	25	25
Creditor (Days)	51	56	59	62	54	62	65	67
<b>Leverage Ratio (x)</b>								
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Standalone - Cash Flow Statement

(INR m)

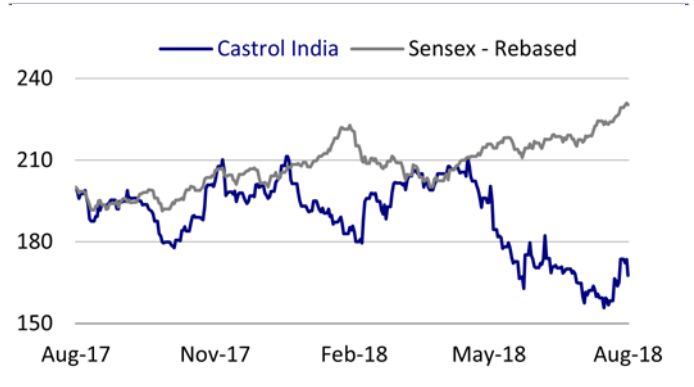
Y/E December	CY12	CY13	CY14	CY15	CY16	CY17	CY18E	CY19E
OP/(Loss) before Tax	6,663	7,618	7,263	9,510	10,429	10,700	9,429	9,495
Depreciation	266	305	361	390	450	455	548	610
Interest & Finance Charges	-392	-469	-297	-425	-954	-825	-848	-1,552
Direct Taxes Paid	-2,165	-2,548	-2,470	-3,277	-3,708	-3,782	-3,300	-3,323
(Inc)/Dec in WC	223	-698	580	1,128	-2,644	-762	6,112	243
<b>CF from Operations</b>	<b>4,596</b>	<b>4,207</b>	<b>5,438</b>	<b>7,326</b>	<b>3,574</b>	<b>5,786</b>	<b>11,941</b>	<b>5,472</b>
Others	76	-243	38	74	0	0	0	0
<b>CF from Operating incl EO</b>	<b>4,672</b>	<b>3,965</b>	<b>5,476</b>	<b>7,400</b>	<b>3,574</b>	<b>5,786</b>	<b>11,941</b>	<b>5,472</b>
(Inc)/Dec in FA	-437	-261	-504	-370	-148	-576	-736	-372
<b>Free Cash Flow</b>	<b>4,235</b>	<b>3,704</b>	<b>4,972</b>	<b>7,031</b>	<b>3,426</b>	<b>5,210</b>	<b>11,205</b>	<b>5,100</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	353	559	366	392	969	837	863	1,567
<b>CF from Investments</b>	<b>-84</b>	<b>299</b>	<b>-137</b>	<b>23</b>	<b>821</b>	<b>261</b>	<b>126</b>	<b>1,195</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0	0
Interest Paid	-21	-16	-23	-10	-15	-12	-15	-15
Dividend Paid	-3,709	-3,462	-3,462	-3,956	-6,547	-5,637	-5,516	-5,554
Others	-602	-588	-3,482	-805	3,421	-775	0	0
<b>CF from Fin. Activity</b>	<b>-4,332</b>	<b>-4,067</b>	<b>-6,966</b>	<b>-4,772</b>	<b>-3,141</b>	<b>-6,423</b>	<b>-5,531</b>	<b>-5,569</b>
<b>Inc/Dec of Cash</b>	<b>256</b>	<b>196</b>	<b>-1,628</b>	<b>2,651</b>	<b>1,254</b>	<b>-376</b>	<b>6,536</b>	<b>1,098</b>
Opening Balance	5,490	5,746	5,942	4,315	6,965	8,219	7,842	14,378
<b>Closing Balance</b>	<b>5,746</b>	<b>5,942</b>	<b>4,315</b>	<b>6,965</b>	<b>8,219</b>	<b>7,842</b>	<b>14,378</b>	<b>15,476</b>

## Corporate profile

### Company description

Castrol India (CSTRL), a 51% subsidiary of BP, is a leading lubricants player in India, with ~22% market share of the domestic automotive lubricants industry. It manufactures and markets a range of automotive and industrial lubricants. It markets its automotive lubricants under two brands - Castrol and BP. The company enjoys leadership in most of the segments it operates in, including tractor oils, car engine oils, two-wheeler 4-stroke oils, and multi-grade diesel engine oils.

### Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	51.0	51.0	51.0
DII	18.6	17.9	19.7
FII	9.2	10.7	10.8
Others	21.3	20.4	18.6

Note: FII Includes depository receipts Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	10.3
Reliance Capital Trustee Co Ltd.A/C Reliance Large Cap Fund	1.6
Uti-Mid Cap Fund	1.3
Aditya Birla Sun Life Trustee Private Limited A/C Aditya Birla Sun Life Equity Fund	1.2
J P Morgan Funds	1.0

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
S M Datta	Chairman
Omer Dormen	Managing Director
Rashmi Joshi	Director (Finance)
Chandana Dhar	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
R Gopalakrishnan	Uday Khanna
Peter Wiedner	Sashi Mukundan
Shiva McMahan	Jayanta Chatterjee
Sangeeta Talwar	

\*Independent

### Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
Kishore Bhatia & Associates	Cost Auditor
S N Ananthasubramanian & Co	Secretarial Audit

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
CY18	6.2	7.5	-16.8
CY19	6.2	7.9	-21.9

Source: Bloomberg

Explanation of Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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Castrol India

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