

# Castrol India

**BUY**
**Q2FY17 marred by lower sales, higher raw material costs**

## Summary

- **Castrol reported disappointing Q2CY17 results with net sales and EBITDA margin below our and street expectations. Net sales was 12.5% below our estimate at Rs8,704 mn (-10.3% YoY, -1.3% QoQ).**
- **EBITDA margin slipped to 24.1% (-861bps YoY, -578bps QoQ) mainly due to higher base oil prices and lower sales. Net profit was also 36.6% below estimate at Rs1,379 mn (-33.3% YoY, -23.0% QoQ).**
- **Although we lower our estimates for CY17 on weak Q2CY17 results, we maintain our BUY rating on the stock with a target price of Rs474 (earlier Rs509).**

## Key Highlights and Investment Rationale

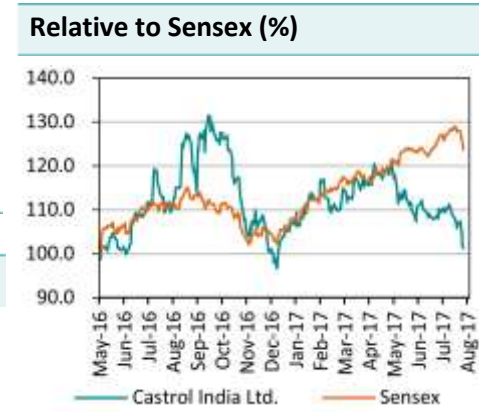
- **Volumes growth lower than expected**  
Volumes fell 9.8% YoY to 50.9mn litre (below our estimate of 56.5 mn litre) on the back of GST de-stocking and lingering effects of demonetisation on CV volumes. Even realization declined 0.5% YoY (and 2.7% QoQ) to Rs171/litre. As per the management, H1CY17 performance was affected by 1) after-effects of demonetization which has affected commercial vehicle oil volumes, 2) transition to GST era and 3) unexpected rise in raw material prices.
- **Estimates lowered on weak Q2CY17 results**  
We have lowered our CY17 sales/EBITDA/PAT by 4.0%/11.2%/10.9% to account for weak Q2CY17 sales and operating results. Broadly we maintain our CY18 estimates.
- **Outlook and Valuation**  
Despite weak Q2CY17 results, we remain positive on Castrol's improving volume growth trajectory. Castrol is likely to be a key beneficiary of lower tax incidence on the lubricant industry due to GST. Strong cash flow generation combined with minimal capital requirements will lead to RoEs sustaining above 100%. **We value Castrol at 32.0x its CY18E earnings and arrive at a TP of Rs474. Maintain BUY.**

<b>TP</b>	<b>Rs474</b>	
<b>CMP</b>	<b>Rs391</b>	
Potential upside / downside	+21%	
Previous Rating	BUY	
<b>V/s Consensus</b>		
<b>EPS (Rs)</b>	<b>FY18E</b>	<b>FY19E</b>
IDBI Capital	12.3	14.8
Consensus	14.2	15.3
% difference	(13.1)	(3.2)

<b>Shareholding Pattern (%)</b>		
Promoters	51.0	
FII	10.8	
DII	19.5	
Public	18.7	

<b>Price Performance (%)</b>			
	<b>-1m</b>	<b>-3m</b>	<b>-12m</b>
Absolute	(5.1)	(5.8)	(6.8)
Rel to Sensex	(3.7)	(9.7)	(19.6)

<b>Key Stock Data</b>	
Bloomberg / Reuters	CSTRL IN / CAST.BO
Sector	Lubricants
Shares o/s (mn)	495
Market cap. (Rs mn)	193,225
Market cap. (US\$ mn)	3,004
3-m daily average value (Rs mn)	408
52-week high / low	Rs495 / 354
Sensex / Nifty	31,596 / 9,857



## Financial snapshot

Year	CY2014	CY2015	CY2016	CY2017E	CY2018E
Revenue	33,808	32,853	33,703	34,977	37,640
EBITDA	7,167	8,948	10,048	9,011	10,942
EBITDA (%)	21.2	27.2	29.8	25.8	29.1
Adj. PAT	4,745	6,152	6,748	6,084	7,328
EPS (Rs)	9.6	12.4	13.6	12.3	14.8
EPS Growth (%)	(3.8)	29.7	9.7	(9.8)	20.4
PE (x)	41.7	32.2	29.3	32.5	27.0
Dividend Yield (%)	1.9	2.2	2.7	3.0	3.2
EV/EBITDA (x)	27.0	21.3	18.9	21.1	17.4
RoE (%)	76.0	114.7	115.2	110.1	146.5
RoCE (%)	109.1	159.6	163.9	154.3	208.6

Source: Company; IDBI Capital Research

**Table 1: Quarterly Snapshot**

(Rs mn)

	Q2CY17	Q1CY17	% QoQ	Q2CY16	% YoY
Volumes (KL)	50.9	50.2	1.4	56.5	(9.9)
Realization/Litre	171	176	(2.7)	172	(0.5)
<b>Total Revenues</b>	<b>8,704</b>	<b>8,822</b>	<b>(1.3)</b>	<b>9,708</b>	<b>(10.3)</b>
Total expenditure	6,609	6,189	6.8	6,535	1.1
<b>EBIDTA</b>	<b>2,095</b>	<b>2,633</b>	<b>(20.4)</b>	<b>3,173</b>	<b>(34.0)</b>
<i>EBITDA margin (%)</i>	<i>24.1</i>	<i>29.8</i>	<i>(578bps)</i>	<i>32.7</i>	<i>(861bps)</i>
Dep. and amortisation	118	123	(4.1)	149	(20.8)
Interest costs	1	3	(66.7)	7	(85.7)
Other income	155	185	(16.2)	173	(10.4)
<b>PBT</b>	<b>2,131</b>	<b>2,692</b>	<b>(20.8)</b>	<b>3,190</b>	<b>(33.2)</b>
Tax	752	902	(16.6)	1,121	(32.9)
<b>Net Profit</b>	<b>1,379</b>	<b>1,790</b>	<b>(23.0)</b>	<b>2,069</b>	<b>(33.3)</b>
Adj. EPS (Rs)	2.8	3.6	(23.0)	4.2	(33.3)

Source: Company; IDBI Capital Research

**Table 2: Actual vs. Estimates**

(Rs mn)

	Q2CY17E	Q2CY17	Variance (%)
Volumes (Mn Litre)	56.5	50.9	(9.9)
Realization/Litre	176.0	171.0	(2.8)
Total Revenues	9,944	8,704	(12.5)
Ebitda	3,182	2,095	(34.2)
EBITDA margin	32.0	24.1	(793bps)
Net Profit	2,173	1,379	(36.6)
EPS	4.4	2.8	(36.6)

Source: Company; IDBI Capital Research

**Table 3: Change in estimates**

	CY17E			CY18E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	36,448	34,977	(4.0)	38,824	37,640	(3.1)
EBITDA (Rs mn)	10,152	9,011	(11.2)	11,059	10,942	(1.1)
EBITDA margin (%)	27.9	25.8	(209bps)	28.5	29.1	59bps
Net profit (Rs mn)	6,825	6,084	(10.9)	7,403	7,328	(1.0)
EPS (Rs)	13.8	12.3	(10.9)	15.0	14.8	(1.0)

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: Dec.	CY15	CY16	CY17E	FY18E
<b>Net sales</b>	<b>32,853</b>	<b>33,703</b>	<b>34,977</b>	<b>37,640</b>
<i>Growth (%)</i>	<i>(2.8)</i>	<i>2.6</i>	<i>3.8</i>	<i>7.6</i>
Operating expenses	(24,032)	(23,655)	(25,966)	(26,697)
<b>EBITDA</b>	<b>8,948</b>	<b>10,048</b>	<b>9,011</b>	<b>10,942</b>
<i>Growth (%)</i>	<i>24.9</i>	<i>12.3</i>	<i>(10.3)</i>	<i>21.4</i>
Depreciation	(390)	(450)	(483)	(509)
<b>EBIT</b>	<b>8,558</b>	<b>9,598</b>	<b>8,528</b>	<b>10,434</b>
Interest paid	(8)	(15)	(16)	(16)
Other income	959	873	848	856
<b>Pre-tax profit</b>	<b>9,509</b>	<b>10,456</b>	<b>9,360</b>	<b>11,273</b>
Tax	(3,357)	(3,708)	(3,276)	(3,946)
<i>Effective tax rate (%)</i>	<i>35.3</i>	<i>35.5</i>	<i>35.0</i>	<i>35.0</i>
<b>Net profit</b>	<b>6,152</b>	<b>6,748</b>	<b>6,084</b>	<b>7,328</b>
<b>Adjusted net profit</b>	<b>6,152</b>	<b>6,748</b>	<b>6,084</b>	<b>7,328</b>
<i>Growth (%)</i>	<i>29.7</i>	<i>9.7</i>	<i>(9.8)</i>	<i>20.4</i>
<i>Shares o/s (mn nos)</i>	<i>495</i>	<i>495</i>	<i>495</i>	<i>495</i>

### Cash Flow Statement

(Rs mn)

Year-end: Dec.	CY15	CY16	CY17E	CY18E
Pre-tax profit	9,509	10,456	9,360	11,273
Depreciation	386	450	483	509
Tax paid	(3,238)	(3,881)	(3,276)	(3,946)
Chg in working capital	1,718	1,216	578	60
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>8,375</b>	<b>8,241</b>	<b>7,145</b>	<b>7,896</b>
Capital expenditure	(360)	(441)	(490)	(381)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(360)</b>	<b>(441)</b>	<b>(490)</b>	<b>(381)</b>
Equity raised/(repaid)	0	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(5,208)	(6,365)	(6,944)	(7,522)
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(5,207)</b>	<b>(6,365)</b>	<b>(6,944)</b>	<b>(7,522)</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,808</b>	<b>1,435</b>	<b>(289)</b>	<b>(7)</b>

**Balance Sheet**

(Rs mn)

Year-end: Dec.	CY15	CY16	CY17E	CY18E
Net fixed assets	1,852	1,843	1,850	1,722
Investments	-	-	-	-
Other non-curr assets	499	672	672	672
<b>Current assets</b>	<b>14,265</b>	<b>16,358</b>	<b>16,271</b>	<b>16,861</b>
Inventories	3,046	3,439	3,498	3,764
Sundry Debtors	2,365	2,552	2,648	2,850
Cash and Bank	6,965	8,219	7,930	7,923
Marketable Securities	-	-	-	-
Loans and advances	1,889	2,148	2,194	2,324
<b>Total assets</b>	<b>16,616</b>	<b>18,873</b>	<b>18,793</b>	<b>19,255</b>
<b>Shareholders' funds</b>	<b>5,756</b>	<b>5,958</b>	<b>5,098</b>	<b>4,904</b>
Share capital	2,473	2,473	2,473	2,473
Reserves & surplus	3,283	3,485	2,625	2,431
<b>Total Debt</b>	-	-	-	-
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	-	-	-	-
<b>Curr Liab &amp; prov</b>	<b>10,860</b>	<b>12,915</b>	<b>13,694</b>	<b>14,352</b>
Current liabilities	7,128	8,207	8,808	9,094
Provisions	3,732	4,708	4,886	5,258
<b>Total liabilities</b>	<b>10,860</b>	<b>12,915</b>	<b>13,694</b>	<b>14,352</b>
<b>Total equity &amp; liabilities</b>	<b>16,616</b>	<b>18,873</b>	<b>18,793</b>	<b>19,255</b>
<b>Book Value (Rs)</b>	<b>12</b>	<b>12</b>	<b>10</b>	<b>10</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: Dec.	CY15	CY16	CY17E	CY18E
Adj EPS (Rs)	12.4	13.6	12.3	14.8
Adj EPS growth (%)	29.7	9.7	(9.8)	20.4
EBITDA margin (%)	27.2	29.8	25.8	29.1
Pre-tax margin (%)	28.9	31.0	26.8	30.0
ROE (%)	114.7	115.2	110.1	146.5
ROCE (%)	159.6	163.9	154.3	208.6
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	2.1	1.9	1.9	2.0
Leverage factor (x)	2.9	3.0	3.4	3.8
Net margin (%)	18.7	20.0	17.4	19.5
Net Debt/Equity (x)	(1.2)	(1.4)	(1.6)	(1.6)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	34	37	37	37
Receivable days	26	28	28	28
Payable days	106	100	98	98

**Valuation**

Year-end: March	CY15	CY16	CY17E	CY18E
PER (x)	32.2	29.3	32.5	27.0
Price / Book value (x)	34.4	33.2	38.8	40.4
PCE (x)	30.3	27.5	30.1	25.3
EV / Net sales (x)	5.8	5.6	5.4	5.0
EV / EBITDA (x)	21.3	18.9	21.1	17.4
Dividend Yield (%)	2.2	2.7	3.0	3.2
EV/EBIT (x)	28.4	22.3	19.8	22.3
EBIT/EV Yield (%)	3.5%	4.5%	5.1%	4.5%



# Notes

Dealing

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