

Base oil prices trend to be key monitorable...

About the stock: Castrol India, a subsidiary of BP, operates in the lubricants business and caters to automotive and industrial segments.

- Automotive segment volumes contribute 80-85% of total sales volume
- Castrol has high pricing power and commands premium for its products

Q4CY21 Results: Q4CY21 earnings were impacted by higher base oil costs.

- Revenue was up 16.6% YoY to ₹ 1090.6 crore, driven by higher realisation
- Gross margins declined ~1% YoY to ₹ 105.4/litre, on account of higher base oil costs. EBITDA/litre was at ₹ 51.6/litre, up ~4% YoY
- EBITDA was at ₹ 265.9 crore, up by 3.2% YoY. PAT was at ₹ 188.6 crore, flat on a YoY basis

What should investors do? Higher base oil prices remain a concern in the near term. Potential disruptions like higher drain interval, EVs will be key monitorables for long-term volume growth.

- Post correction in stock price, we upgrade our rating from REDUCE to HOLD on the stock

Target Price and Valuation: We roll over valuation to CY23E and value Castrol India at ₹ 120 i.e. 15x CY23E EPS.

Key triggers for future price performance:

- Although Castrol will report volume growth YoY in CY22E, lack of sustainable volume growth in future will limit overall growth
- While the company hiked retail prices in CY21, high base oil prices will affect margins. With margins already at higher levels, we see limited headroom for gross margin growth from here on
- Castrol's 2-W volume (26% of volume mix) are likely to be impacted by an introduction of 2-W EVs

Alternate Stock Idea: Besides Castrol, in our oil & gas coverage we also like IGL.

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in NCT of Delhi and will benefit from stricter environmental regulations in Delhi. Continued capex, newer areas and CNG conversion of vehicles will support further volume growth
- BUY with a target price of ₹ 475



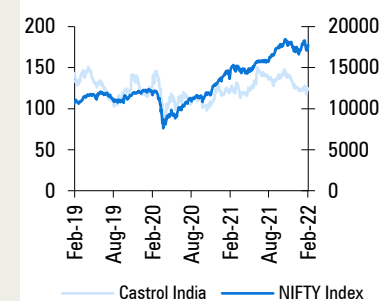
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	11,869.4
Total Debt (₹ Cr)	13.8
Cash and Investments (₹ Cr)	1,274.2
EV (₹ Crore)	10,609.1
52 week H/L	155/112
Equity capital (₹ Crore)	494.6
Face value (₹)	5.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	51.0	51.0	51.0	51.0	51.0
FII	12.0	11.6	12.0	12.2	12.2
DII	17.3	16.7	16.5	16.5	16.4
Others	19.7	20.7	20.5	20.3	20.5

Price Chart



Recent event & key risks

- Volume de-grew ~1% YoY
- Key Risk:** (i) Slower than expected volume growth, (ii) Ability to pass on higher costs

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Key Financial Summary

(Year-end December)	CY18	CY19	CY20	5 year CAGR (CY15-20)	CY21E	CY22E	CY22E	3 year CAGR (CY20-23E)
Revenues (₹ crore)	3,904.6	3,876.8	2,996.9	(1.9)	4,192.1	4,786.5	4,962.5	18.3
EBITDA (₹ crore)	1,070.8	1,153.0	814.1	(1.9)	1,066.0	1,084.0	1,113.7	11.0
Net Profit (₹ crore)	708.3	827.4	582.9	(1.1)	758.1	773.1	788.7	10.6
EPS (₹)	7.2	8.4	5.9		7.7	7.8	8.0	
P/E (x)	16.8	14.3	20.4		15.7	15.4	15.1	
Price / Book (x)	10.2	8.7	8.4		7.2	7.8	7.4	
EV/EBITDA (x)	10.4	9.5	13.0		9.9	9.9	9.5	
RoCE (%)	87.1	79.2	50.9		59.6	65.2	62.2	
RoE (%)	60.8	60.5	41.2		46.1	51.1	49.0	

Key takeaways of recent quarter & conference call highlights

Q4CY21 Results: Volume growth 3% QoQ

- Revenue was up 1.6% QoQ as sales volume increased 3% QoQ. Going ahead, we expect Castrol's volume at 216.5 million litre in CY22E and 220.8 million litre in CY23E
- Realisation was marginally down ~1% QoQ. Consequently, EBITDA/litre declined ~1.7% QoQ
- We expect gross margins at ₹ 105.4/litre in CY22E and ₹ 106.3/litre in CY23E. EBITDA is expected at ₹ 50.1/litre and ₹ 50.4/litre in CY22E and CY23E, respectively
- Castrol's raw materials cost (base oil) is dependent on movement of crude oil prices and rupee against the US dollar. While base oil prices were steady during the quarter, with a sharp rise in crude oil prices in Q1CY22E, we expect base oil prices to stay elevated in the near term

Q4CY21 Earnings Conference Call highlights

- Volume mix for Q4CY21 is as following: personal mobility: 40-45%, industrial: 10% while rest belongs to the CVO segment. The 2-W market witnessed weakness during the quarter
- The management felt that EVs will first expand into 2-W and 3-W segments
- The management said the company has grown market share in volumes by 100 bps in CY21
- The company is planning to expand in the quick lubes segment. Also, it will increase its presence at Jio-BP stations
- Castrol expects low to mid-single digit lubricants market growth in the near future

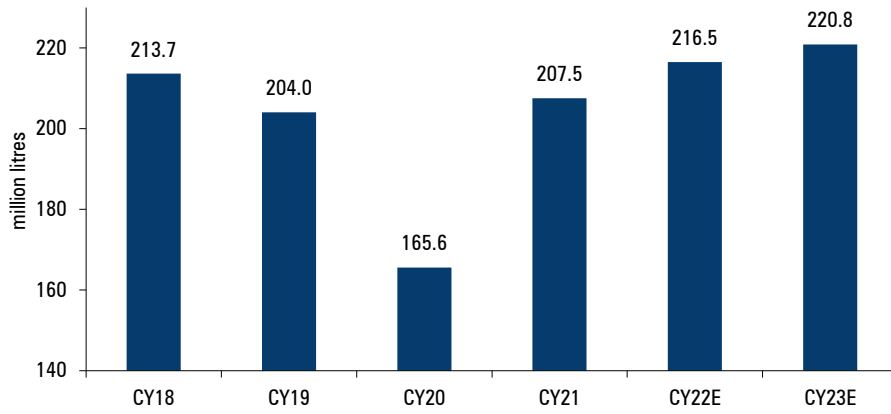
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Castrol India (CASIND)	120	120	Hold	11,869	5.9	7.7	7.8	20.4	15.7	15.4	13.0	9.9	9.9	50.9	59.6	65.2	41.2	46.1	51.1
Gulf Oil Lubricants (GULLUB)	494	725	Hold	2,475	38.4	44.3	51.8	12.9	11.1	9.5	7.9	6.4	5.1	20.0	23.6	25.5	21.9	21.8	21.7

Source: Company, ICICI Direct Research

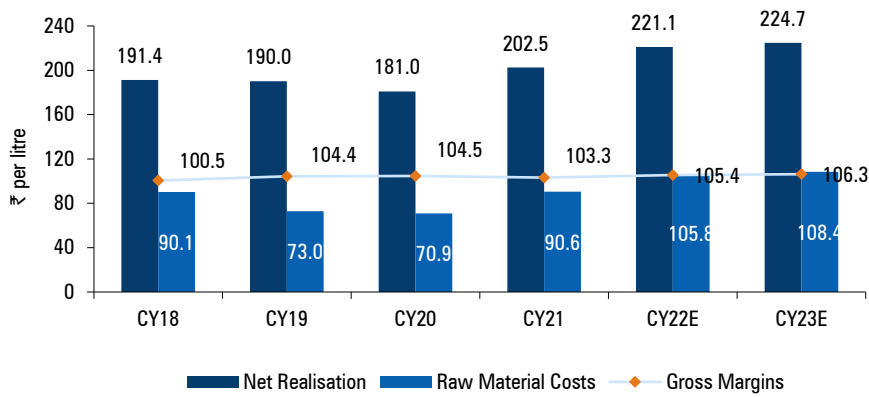
Story in charts

Exhibit 2: Volume trajectory



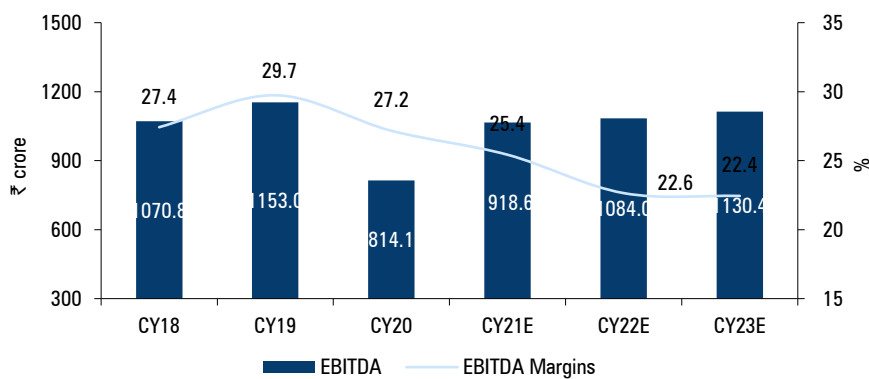
Source: Company, ICICI Direct Research

Exhibit 3: Financial parameters



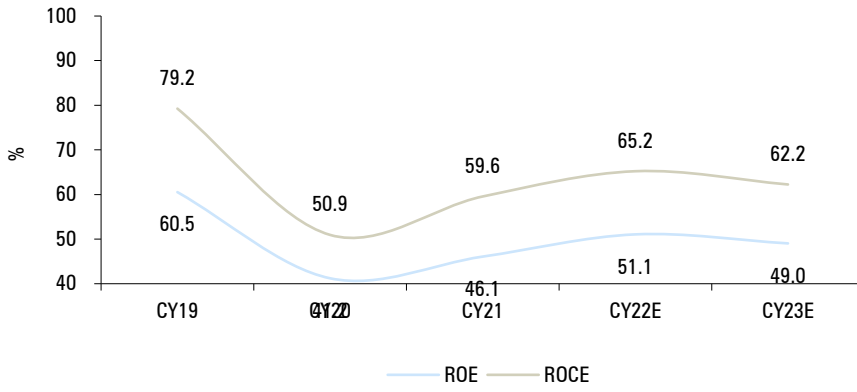
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 5: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E
Revenue	2996.9	4192.1	4786.5	4962.5
Growth (%)	-22.7	39.9	14.2	3.7
(Inc.)/(Dec.) in stock in trade	-24.1	-12.1	0.0	0.0
Raw material Costs	1173.9	1879.1	2291.3	2393.2
Purchase of Products	116.5	191.9	212.8	222.3
Employee Costs	219.8	232.0	245.9	260.7
Other Expenditure	696.7	835.2	952.5	972.7
Op. Expenditure	2,182.8	3,126.1	3,702.6	3,848.8
EBITDA	814.1	1066.0	1084.0	1113.7
Growth (%)	-29.4	30.9	1.7	2.7
Depreciation	86.6	82.7	92.8	109.1
EBIT	727.5	983.3	991.1	1004.6
Interest	4.2	2.4	3.6	4.0
Other Income	62.0	48.4	60.0	68.0
PBT	785.3	1029.3	1047.5	1068.6
Growth (%)	-31.5	31.1	1.8	2.0
Tax	202.4	271.2	274.5	280.0
Reported PAT	582.9	758.1	773.1	788.7
Growth (%)	-29.6	30.1	2.0	2.0
EPS	5.9	7.7	7.8	8.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E
Profit after Tax	582.9	758.1	773.1	788.7
Add: Depreciation	86.6	82.7	92.8	109.1
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	29.3	204.3	171.6	203.4
Increase/(Decrease) in CL	103.6	89.5	60.8	36.5
(Increase)/Decrease in CA	192.9	-276.0	-32.8	-40.4
CF from Operating Activities	962.3	654.3	893.9	893.8
Purchase of Fixed Assets	112.3	92.1	100.0	110.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-112.3	-92.1	-100.0	-110.0
Dividend Paid	636.5	636.5	694.4	694.4
Inc/(Dec) in Loan Funds	13.8	-8.1	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	100.9	109.5	-210.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-521.8	-535.1	-904.4	-694.4
Change in cash Eq.	328.2	27.1	-110.4	89.5
Op. Cash and cash Eq.	946.0	1,274.2	1,301.3	1,190.9
Cl. Cash and cash Eq.	1,274.2	1,301.3	1,190.9	1,280.4

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E
Source of Funds				
Equity Capital	494.6	494.6	494.6	494.6
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	919.7	1,150.8	1,019.5	1,113.8
Shareholder's Fund	1,414.2	1,645.3	1,514.1	1,608.4
Loan Funds	13.8	5.7	5.7	5.7
Deferred Tax Liability	-62.2	-62.2	-62.2	-62.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1365.8	1588.8	1457.5	1551.8
Application of Funds				
Gross Block	408.4	488.4	568.4	653.4
Less: Acc. Depreciation	199.2	276.3	369.2	478.2
Net Block	209.2	212.1	199.3	175.2
Capital WIP	43.5	50.0	70.0	95.0
Total Fixed Assets	252.8	262.1	269.3	270.2
Investments	0.0	0.0	0.0	0.0
Inventories	366.9	491.7	498.3	516.6
Debtor	180.5	311.7	327.8	339.9
Cash	1,274.2	1,301.3	1,190.9	1,280.4
Loan & Advance, Other CA	257.0	277.0	287.0	297.0
Total Current assets	2078.5	2381.7	2304.0	2433.9
Current Liabilities	851.0	918.8	970.4	1006.1
Provisions	114.5	136.2	145.3	146.2
Total CL and Provisions	965.5	1055.0	1115.7	1152.3
Net Working Capital	1113.0	1326.7	1188.3	1281.6
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1365.8	1588.8	1457.5	1551.8

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end December)	CY20	CY21	CY22E	CY23E
Per share data (₹)				
Book Value	14.3	16.6	15.3	16.3
Cash per share	12.9	13.2	12.0	12.9
EPS	5.9	7.7	7.8	8.0
Cash EPS	6.8	8.5	8.8	9.1
DPS	5.5	5.5	6.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	27.2	25.4	22.6	22.4
PAT Margin (%)	19.5	18.1	16.2	15.9
Fixed Asset Turnover (x)	11.9	16.0	17.8	18.4
Inventory Turnover (Days)	44.7	36.0	38.0	38.0
Debtor (Days)	22.0	25.0	25.0	25.0
Current Liabilities (Days)	103.6	80.0	74.0	74.0
Return Ratios (%)				
RoE	41.2	46.1	51.1	49.0
RoCE	50.9	59.6	65.2	62.2
RoIC	NA	NA	NA	NA
Valuation Ratios (x)				
PE	20.4	15.7	15.4	15.1
Price to Book Value	8.4	7.2	7.8	7.4
EV/EBITDA	13.0	9.9	9.9	9.5
EV/Sales	3.5	2.5	2.2	2.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	173.2	409.7	275.3	251.2
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.3	2.1	2.1
Quick ratio	1.8	1.8	1.6	1.7

Source: Company, ICICI Direct Research

Exhibit 10: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BPCL (BHAPET)	376	450	Buy	78,693	91.0	43.4	39.8	4.1	8.7	9.4	6.2	6.5	6.4	14.8	14.7	13.2	34.9	19.0	16.1
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	647	700	Hold	44,539	18.5	16.4	23.3	34.9	39.5	27.7	21.7	24.1	17.5	31.7	24.8	30.4	28.5	21.3	25.0
HPCL (HINPET)	285	320	Hold	40,439	70.6	46.4	44.2	4.0	6.1	6.4	5.3	6.9	6.2	15.6	9.6	9.2	29.5	16.7	14.5
Indian Oil Corp (INDOIL)	125	150	Buy	1,14,763	23.8	25.4	19.2	5.3	4.9	6.5	3.0	2.7	3.1	13.3	13.9	10.6	19.8	18.3	12.9
Indraprastha Gas (INDGAS)	390	475	Buy	27,300	14.4	19.8	20.4	27.1	19.7	19.1	17.7	13.3	12.4	20.0	24.1	21.5	17.1	20.1	17.9
Mahanagar Gas (MAHGAS)	793	885	Hold	7,833	62.7	65.4	89.6	12.6	12.1	8.8	7.9	7.6	5.3	23.1	21.7	26.2	19.2	18.1	21.3
ONGC (ONGC)	170	180	Hold	2,18,167	8.9	30.0	26.6	19.0	5.7	6.4	7.2	4.2	3.3	4.5	12.8	14.4	5.5	16.1	12.8
Petronet LNG (PETLNG)	223	220	Hold	33,450	19.7	21.3	19.7	11.3	10.5	11.3	6.9	6.1	6.4	26.0	26.5	22.7	25.3	25.1	21.7
Reliance Industries (RELIND)	2,478	2,950	Buy	16,75,691	76.2	90.2	106.3	32.5	27.5	23.3	23.2	16.7	12.6	5.5	7.7	9.7	7.7	8.6	9.5

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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