



SMART INVEST

Castrol India Limited
21st August 2024

Castrol India Limited (CASTROLIND)

Castrol India Ltd is principally engaged in the business of manufacturing & marketing of automotive and industrial lubricants and related services. The company manufactures and sells various kinds of oil lubricants and other fluids for cars, motorcycles, commercial vehicles, industrial use, energy sector, marine and IT cooling and data centre. The company is moving into auto care with premium range of products.

Q2 Result highlights

Castrol's revenue grew by 5% year-over-year (YoY) and 6% quarter-over-quarter (QoQ) to ₹14 billion. Sales volume increased by 5% both YoY and QoQ, supported by new product launches and increased branding and marketing efforts. The Personal Mobility segment accounted for 40-45% of revenue, while commercial vehicles (CVs) contributed 40%. EBITDA rose by 4% YoY to ₹3.2 billion. However, the EBITDA margin declined by 15 basis points (bps) YoY to 23.1% (an increase of 91 bps QoQ), mainly due to higher branding and marketing costs. Management reaffirmed its margin guidance of 22-25% and targets outpacing the industry's volume growth of 3-4%.

Castrol has expanded its service and maintenance network in India, now covering over 9,000 multi-brand passenger car workshops and 28,435 independent bike workshops. In Q2 2024, the company added more than 2,000 outlets in rural areas. Additionally, it has broadened its national presence, surpassing 135,000 outlets across the country.

Management Commentary

- Volumes Have Been Similar To Revenue Growth Of 4% In Q2 and they are trying To Balance The Topline Growth With The Bottomline Growth.
- Double-digit Growth Depends On Diversification. Company Want To Grow At Rates Better Than The Markets.
- Advertisement Expenses Have Gone Higher By 16% In H1CY24. Core Lubricants Business Will Grow At 4-5%. Company Invest 4-5% Of Revenues In Brand Expenses

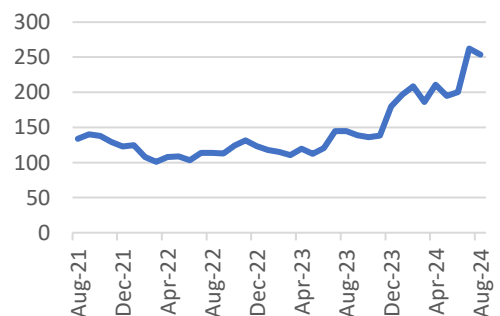
CMP	257
Upside %	29%
Target	331
High/Low	280/ 132
M Cap	24926 Cr

Shareholding%			
	Dec-23	Mar-24	Jun-24
Promoters	51	51	51
FIIIs	10.38	9.51	9.98
MFs	15.92	16.37	16.11
Banks	0	0	0
Others	22.7	23.11	22.9

CASTROLIND: Financial & Valuation (INR b)

Y/E March	2022	2023E	2024E
Sales	48	51	58
EBITDA	11.1	12.0	13.8
Adj. PAT	8.2	8.6	10.2
EPS (INR)	8.2	8.7	10.3
EPS Gr. (%)	7.5	6.0	17.6
BV/Sh (INR)	19.1	21.5	25.2
RoE (%)	46.2	43.1	44.0
RoCE (%)	49.8	47.2	47.6
Payout (%)	72.8	74.4	63.3
P/E (x)	30.7	29.0	24.6
P/BV (x)	13.3	11.8	10.0
EV/EBITDA (x)	46.6	43.3	37.3
Div. Yield (%)	-	-	-

Castrol India



Source - Company, Bajaj Broking

Management Call highlights

Castrol India Ltd achieved revenue growth driven by consistent volume increases, supported by significant investments in advertising, strategic branding, and product and service innovations. The company's success in balancing volume and margin growth has been a key factor. The Personal Mobility segment contributed 40-45% of revenue, commercial vehicles (CV) accounted for 40%, with the rest coming from other segments.

The company expects stable input costs for the remainder of the year, including base oil prices and forex rates. New launches, such as the Castrol Edge portfolio, now feature three variants, backed by a 360-degree advertisement campaign featuring Shahrukh Khan, with 80% of the budget allocated to digital channels and 20% to print.

New auto care products, including 5-6 offerings, are now available at over 45,000 outlets and on e-commerce platforms in India. The distribution network has expanded with the addition of more than 2,000 outlets in rural areas, 534 Castrol Auto Service centers, 28,500 bike points, 9,000 multi-brand car workshops, and a broad dealer network, extending the national footprint to over 135,000 outlets. The company sold 61 million liters this quarter, reflecting a 5% year-over-year growth.

Castrol employs a premium pricing strategy, with a significant portion of its products positioned in the premium segment. Despite holding a 20% market share in this category, the company has introduced products targeting the mass market, focusing on consumers not previously addressed by its premium offerings. The company aims to maintain EBITDA margins of 22-25% and achieve growth surpassing the industry rate of 3-4%, driven by both premium and mid-premium segments. The parent company is investing ₹500 crores in R&D for data center thermal management, anticipating rising demand for cooling lubricants as data centers grow. The parent company already has a pilot-stage cooling lubricant for data centers. In India, the business recently established a research center and three production plants capable of producing these lubricants.

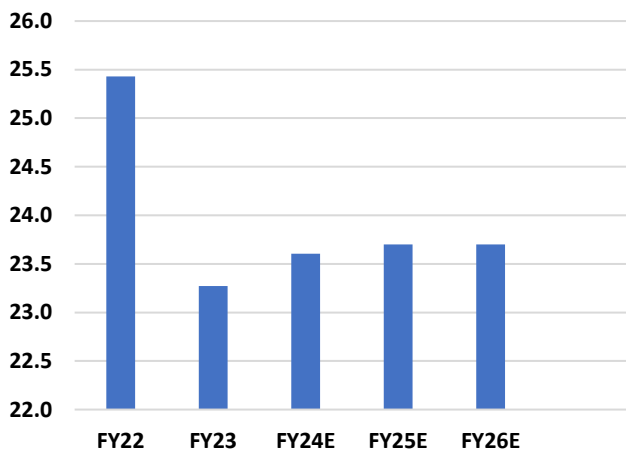
Outlook and valuation

Management remains optimistic about the Indian market, projecting strong demand for lubricants to continue until the late 2030s and early 2040s, primarily due to the low car penetration in the country. Although the rise of electric vehicles (EVs) poses a potential challenge, their adoption is expected to be gradual. Management reiterated its goal of achieving growth above the industry average of 4-5%, while targeting an EBITDA margin of 22-25% on a full-year basis. Castrol has consistently benefited from a strong brand legacy, and we are confident in its ability to sustain profitability through an optimized product mix, strict cost-control measures, and the introduction of advanced products that offer higher returns. Strong free cash flow generation, minimal capital requirements, high ROEs and strong payouts make Castrol an attractive franchise. The stock trades at 25x CY25E EPS of Rs 10.3. We value the stock at 30x CY25E EPS to arrive at our TP of Rs 331 with time horizon of 1 year.

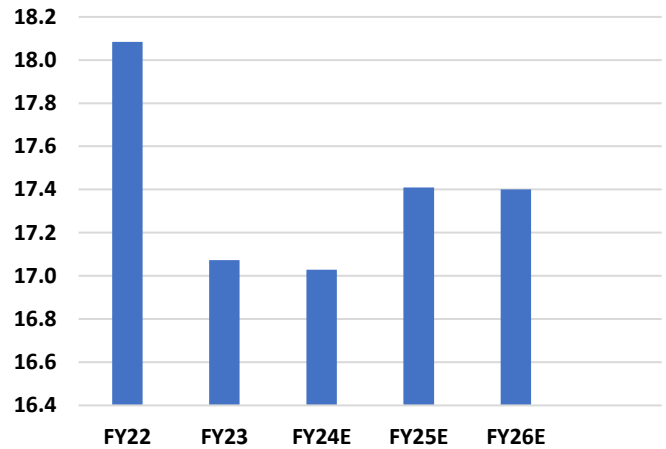
Key Financials

Y/E MARCH	CY21	CY22	CY23	CY24E	CY25E
Sales (Rs m)	41,921	47,745	50,746	58,358	67,112
EBITDA margin (%)	25.4	23.3	23.6	23.7	23.7
PAT (Rs m)	7,581	8,152	8,641	10,160	11,677
EPS (Rs)	7.7	8.2	8.7	10.3	11.8
EPS Growth (%)	0.0	7.5	6.0	17.6	14.9
BV/Share (Rs)	16.6	19.1	21.5	25.2	30.5
RoE (%)	0.0	46.2	43.1	44.0	42.4
RoCE (%)	0.0	49.8	47.2	47.6	47.3
P/E (x)	33.0	30.7	29.0	24.6	21.4
EV/EBITDA (x)	48.5	46.6	43.3	37.3	32.2
EV/Sales (x)	12.3	10.9	10.2	8.8	7.6

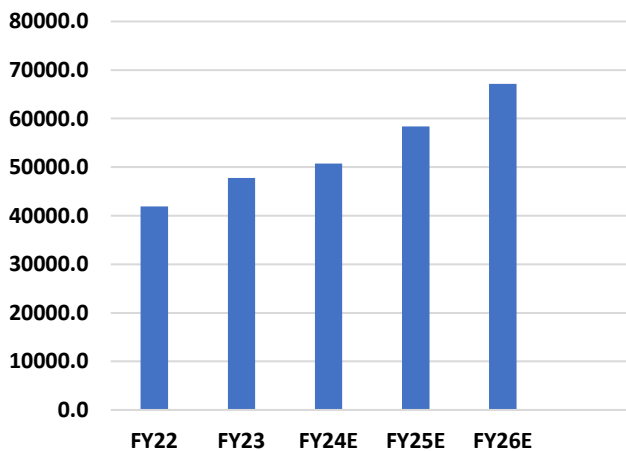
EBITDA Margins (%)



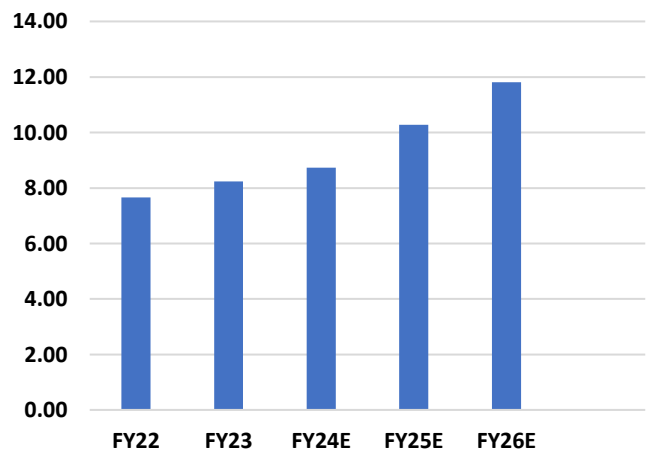
Net Profit Margins (%)



Sales (in Mn)



EPS



Source - Company, Bajaj Broking

Financials

Income Statement					
Y/E March (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Net Sales	41,921	47,745	50,746	58,358	67,112
Change (%)	-	13.9	6.3	15.0	15.0
EBITDA	10,660	11,111	11,979	13,831	15,905
Margin (%)	25.4	23.3	23.6	23.7	23.7
Depreciation	827	814	924	963	1,014
EBIT	9,833	10,297	11,055	12,868	14,891
Int. and Finance Charges	24	40	75	75	80
Other Income - Rec.	484	671	832	790	800
PBT bef. EO Exp.	10,293	10,928	11,811	13,583	15,611
EO Expense/(Income)	-	-	-	-	-
PBT after EO Exp.	10,293	10,928	11,811	13,583	15,611
Current Tax	2,800	2,745	3,255	3,423	3,934
Deferred Tax	(88)	31	(86)	-	-
Tax Rate (%)	26.3	25.4	26.8	25.2	25.2
Reported PAT	7,581	8,152	8,641	10,160	11,677
PAT Adj for EO items	7,581	8,152	8,641	10,160	11,677
Change (%)	-	7.5	6.0	17.6	14.9

Balance Sheet					
Y/E March (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
					(INR Million)
Equity Share Capital	4,946	4,946	4,946	4,946	4,946
Total Reserves	11,510	13,915	16,271	20,002	25,250
Net Worth	16,455	18,860	21,217	24,948	30,196
Deferred Liabilities	-	-	-	-	-
Total Loans	4,048	4,701	5,577	5,627	5,627
Capital Employed	20,503	23,562	26,793	30,574	35,822
Gross Block	7,701	8,709	9,633	11,133	12,633
Less: Accum. Deprn.	5,986	6,800	7,960	8,923	9,936
Net Fixed Assets	1,715	1,909	1,673	2,210	2,697
Capital WIP	500	608	1,084	1,500	1,500
Total Investments	2,143	5,174	7,311	7,311	7,311
Curr. Assets, Loans&Adv.	22,439	22,338	23,238	27,889	33,850
Inventory	4,917	5,344	5,329	6,076	6,803
Account Receivables	3,117	3,504	4,228	4,317	4,964
Cash and Bank Balance	13,002	12,177	11,998	14,920	19,506
Loans and Advances	1,404	1,313	1,683	2,577	2,576
Curr. Liability & Prov.	6,537	7,129	7,406	8,336	9,535
Account Payables	6,207	6,789	7,064	7,994	9,193
Provisions	331	340	342	342	342
Net Current Assets	15,902	15,210	15,832	19,553	24,315
Appl. of Funds	20,261	22,900	25,900	30,574	35,822

Source - Company, Bajaj Broking

Financials

Cashflow					(INR Million)
Y/E March (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
NP/ (Loss) bef Tax and EO	10,293	10,928	11,811	13,583	15,611
Depreciation	827	814	924	963	1,014
Interest & Finance Charges	24	40	75	75	80
Direct Taxes Paid	2,798	2,740	3,185	3,423	3,934
(Inc)/Dec in WC	(1,827)	307	(706)	95	(176)
CF from Operations	6,520	9,349	8,919	11,293	12,596
Others	(218)	(188)	(389)	(790)	(800)
CF from Operating incl EO	6,302	9,161	8,530	10,503	11,796
(inc)/dec in FA	(832)	(1,097)	(955)	(1,916)	(1,500)
Free Cash Flow	5,470	8,064	7,575	8,586	10,296
CF from Investments	(831)	617	(2,513)	(1,126)	(700)
(Inc)/Dec in Debt	-	-	(135)	50	-
Interest Paid	(25)	(35)	(74)	(75)	(80)
Dividend Paid	(5,425)	(5,935)	(6,429)	(6,429)	(6,429)
CF from Fin. Activity	(5,576)	(6,075)	(6,638)	(6,454)	(6,509)
Inc/Dec of Cash	(105)	3,703	(621)	2,922	4,586
Add: Beginning Balance	1,947	1,842	5,545	11,998	14,920
Closing Balance	1,842	5,545	4,924	14,920	19,506
Free Cash Flow	5,470	8,064	7,575	8,586	10,296

Ratios					
Y/E March (Rs mn)	CY21	CY22	CY23	CY24E	CY25E
Basic (INR)					
EPS	7.7	8.2	8.7	10.3	11.8
Growth (%)		7.5	6.0	17.6	14.9
Cash EPS	8.5	9.1	9.7	11.2	12.8
BV/Share	16.6	19.1	21.5	25.2	30.5
DPS	-	-	-	-	-
Payout (%)	71.6	72.8	74.4	63.3	55.1
Valuation (x)					
P/E	33.0	30.7	29.0	24.6	21.4
Cash P/E	29.8	27.9	26.2	22.5	19.7
P/BV	15.2	13.3	11.8	10.0	8.3
EV/Sales	12.3	10.9	10.2	8.8	7.6
EV/EBITDA	48.5	46.6	43.3	37.3	32.2
Dividend Yield (%)	-	-	-	-	-
Return Ratios (%)					
EBITDA Margins (%)	25.4	23.3	23.6	23.7	23.7
Net Profit Margins (%)	18.1	17.1	17.0	17.4	17.4
RoE		46.2	43.1	44.0	42.4
RoCE		49.8	47.2	47.6	47.3
RoIC		143.5	132.3	128.1	127.7
Operating Ratios					
Fixed Asset Turnover (x)	5.4	5.5	5.3	5.2	5.3
Inventory (Days)	42.8	40.9	38.3	38.0	37.0
Debtor (Days)	27.1	26.8	30.4	27.0	27.0
Creditor (Days)	54.0	51.9	50.8	50.0	50.0
Working Capital (Days)	25.3	23.2	27.6	29.0	26.2
Leverage Ratio (x)					
Current Ratio	3.4	3.1	3.1	3.3	3.6
Interest Cover Ratio	408.0	256.8	146.8	171.6	186.1
Debt/Equity	0.2	0.2	0.3	0.2	0.2

Source - Company, Bajaj Broking

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