

Castrol India

HOLD

Performance in line with expectations

Summary

Castrol India's Q3CY24 revenue was broadly in-line with our estimates. Castrol's top-line increased by 9% YoY but de-grew by 8% QoQ to Rs12.8bn. Sales volume grew 8% YoY, driven by new product launches and investments in branding and marketing. Commercial vehicle segment grew in double digits, while the personal mobility segment grew only in mid-single digits. EBITDA increased by 7% YoY to Rs2.8bn. However, EBITDA margin contracted by 49bps YoY to 22.2% primarily due to increased employee costs and higher other overheads. The management has re-iterated margin guidance of 22-25% and aims to grow ahead of the industry volume growth of 3-4%. We adjust our CY24 & CY25 EPS estimates by -1%/-2%, respectively. We value the stock at a PER of 22x CY25 EPS to derive a target price of Rs221 and maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- **Realization flattish:** Castrol's realization remained flat YoY but increased 2.1% QoQ to Rs234/litre. EBITDA per litre decreased by 1.7% QoQ to Rs51.94 due to higher employee cost, which includes one-time restructuring cost.
- **Strong distribution network:** Castrol has expanded its service and maintenance network in India by increasing its presence over 9,400 multi brand passenger car workshops, 29,500 independent bike points, 35,000 workshops and retail outlets in rural India. Additionally, Castrol broadened its national footprint exceeding 136,000 outlets across the country.
- **Maintain HOLD:** Strong free cash flow generation, minimal capital requirements, high ROEs and strong payouts make Castrol an attractive franchise. However, rich valuations limit potential upside, so we await a better entry point in the stock.

TP Rs221

CMP Rs206

Potential upside/downside 7%

Previous Rating HOLD

Price Performance (%)

| | -1m | -3m | -12m |
|---------------|------|------|------|
| Absolute | 30.8 | 24.5 | 77.8 |
| Rel to Sensex | 27.4 | 14.7 | 54.2 |

V/s Consensus

| EPS (Rs) | CY24E | CY25E |
|--------------|--------|--------|
| IDBI Capital | 9 | 10 |
| Consensus | 10 | 12 |
| % difference | (10.9) | (13.9) |

Key Stock Data

| | |
|---------------------------------|--------------------|
| Bloomberg / Reuters | CSTRL IN / CAST.BO |
| Sector | Lubricants |
| Shares o/s (mn) | 989 |
| Market cap. (Rs mn) | 203,858 |
| 3-m daily avg Trd value (Rs mn) | 94.7 |
| 52-week high / low | Rs284 / 132 |
| Sensex / Nifty | 80,005 / 24,339 |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 51.0 |
| FII | 10.1 |
| DII | 15.1 |
| Public | 23.8 |

Financial snapshot

| Year | CY21 | CY22 | CY23 | CY24E | CY25E |
|--------------------|--------|--------|--------|--------|--------|
| Revenue | 41,920 | 47,745 | 50,746 | 53,681 | 57,232 |
| Change (yoy, %) | 40 | 14 | 6 | 6 | 7 |
| EBITDA | 10,659 | 11,111 | 12,024 | 12,226 | 13,678 |
| Change (yoy, %) | 31 | 4 | 8 | 2 | 12 |
| EBITDA Margin(%) | 25.4 | 23.3 | 23.7 | 22.8 | 23.9 |
| Adj. PAT | 7,582 | 8,152 | 8,641 | 8,822 | 9,917 |
| EPS (Rs) | 8 | 8 | 9 | 9 | 10 |
| Change (yoy, %) | 30.1 | 7.5 | 6.0 | 2.1 | 12.4 |
| PE(x) | 27.4 | 25.5 | 24.0 | 23.5 | 20.9 |
| Dividend Yield (%) | 2.9 | 3.3 | 3.6 | 4.3 | 4.8 |
| EV/EBITDA (x) | 18.2 | 17.3 | 15.9 | 15.4 | 13.8 |
| RoE (%) | 49.6 | 46.2 | 43.1 | 41.7 | 46.9 |
| RoCE (%) | 64.3 | 58.3 | 55.4 | 53.1 | 59.6 |

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot

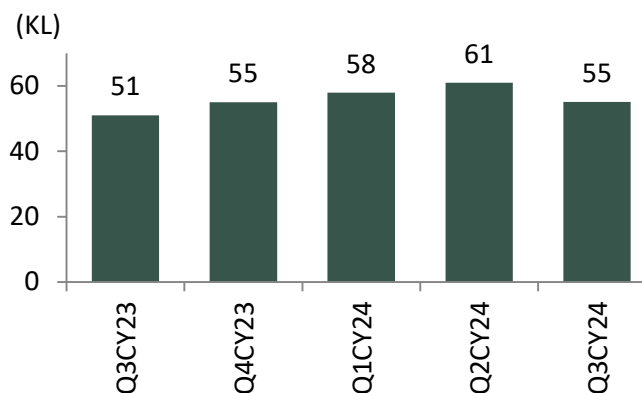
| (Rs mn) | Q3CY25 | Q2CY25 | % QoQ | Q3CY24 | % YoY |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Revenues | 55 | 61 | (9.7) | 51 | 8.0 |
| Total expenditure | 234 | 229 | 2.1 | 232 | 0.8 |
| EBIDTA | 12,882 | 13,975 | (7.8) | 11,829 | 8.9 |
| EBITDA margin (%) | 10,021 | 10,751 | (6.8) | 9,144 | 9.6 |
| Depreciation and amortization | 2,861 | 3,224 | (11.3) | 2,686 | 6.5 |
| Interest costs | 22.2% | 23.1% | -86bps | 22.7% | -49bps |
| Other income | 245 | 261 | (6.1) | 229 | 7.2 |
| PBT | 20 | 26 | (20.4) | 24 | (15.8) |
| Tax | 209 | 204 | 2.5 | 202 | 3.3 |
| Net profit | 2,805 | 3,142 | (10.7) | 2,635 | 6.4 |
| EPS (Rs) | 730 | 820 | (10.9) | 691 | 5.7 |

Source: Company; IDBI Capital Research

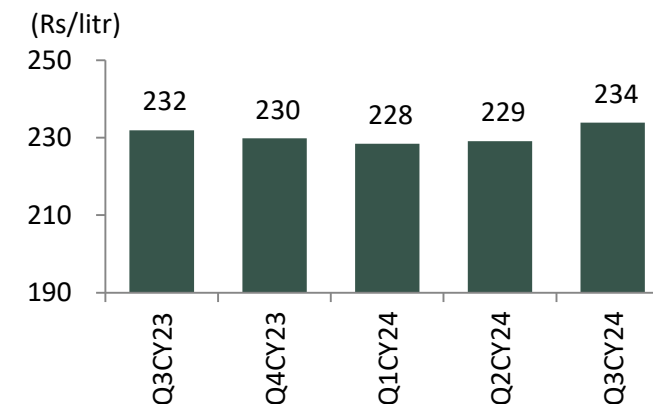
Exhibit 2: Actual vs. Estimates

| (Rs mn) | Q3CY24E | Q3CY24A | Variance (%) |
|--------------------------|---------------|---------------|---------------|
| Total Revenues | 12,483 | 12,882 | 3.2 |
| EBITDA | 2,884 | 2,861 | (0.8) |
| EBITDA margin (%) | 23.0% | 22.2% | -79bps |
| Net profit | 2,095 | 2,074 | (1.0) |
| EPS | 2.1 | 2.1 | (0.1) |

Source: Company; IDBI Capital Research

Exhibit 3: Volumes increased by 8% YoY

Source: Company; IDBI Capital Research

Exhibit 4: Realization remained flat QoQ

Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

| | CY24E | | | CY25E | | |
|--------------------------------|---------------|---------------|-----------|---------------|---------------|-----------|
| | Old | New | (%) Chg | Old | New | (%)Chg |
| Revenue (Rs bn) | 53,163 | 53,681 | 1 | 57,519 | 57,232 | -0 |
| EBITDA (Rs bn) | 12,208 | 12,226 | 0 | 13,747 | 13,678 | -0 |
| EBITDA margin (%) | 23.0 | 22.8 | -23 | 23.9 | 23.9 | -0 |
| Adj. Net profit (Rs bn) | 8,883 | 8,822 | -1 | 10,063 | 9,917 | -1 |
| Adj. EPS (Rs) | 9.0 | 8.9 | -0.9 | 10.2 | 10.0 | -1.7 |

Source: Company; IDBI Capital Research

Conference call takeaways

- Revenue was driven by 7.8% YoY increase in volumes.
- Company's distribution network has reached 35,000 workshops and retail outlets, 580 Castrol service outlets, 29,500 bike points and 9,400 multi-brand car workshops, taking total footprint to 136,000 outlets.
- New launches like Castrol rustilo, Castrol Edge and Castrol Turbomax+ CK4 have received a good response helping the company's position in premium portfolio.
- New board members – Mr Rakesh makhija as chairman and Ms Satyavati berera as Independent director and audit committee chairperson.
- Key raw material Base oil which makes up 50% of the RM prices remained flattish and is expected to stay in the same range for next couple of quarters.
- Volume growth in both retail and OEM segment has been around 8%. Under retail commercial vehicle segment grew double digits, on the other hand personal mobility grew only mid-single digit.
- Q3CY has been historically weak quarter due to slow down in agricultural cycles resulting in 10% QoQ de-growth in terms of volumes
- Capex of 100cr was announced for this year out of which 60-65cr has been incurred.
- Capex guidance for next couple of years will be in the range of 125-150cr.
- Employee cost was inflated due to yearly increments and bonuses with a one-time restructure costs.
- Castrol has been supplying EV fluids to 2 biggest EV producers in India and his strongly positioned for EV wave.
- Data centre cooling liquid segment is currently being explored by the parent company and is an area of interest for Castrol India, no further details were disclosed.

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | CY20 | CY21 | CY22 | CY23 | CY24E | CY25E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 29,969 | 41,920 | 47,745 | 50,746 | 53,681 | 57,232 |
| <i>Change (yoy, %)</i> | (23) | 40 | 14 | 6 | 6 | 7 |
| Operating expenses | (21,828) | (31,261) | (36,634) | (38,722) | (41,455) | (43,553) |
| EBITDA | 8,141 | 10,659 | 11,111 | 12,024 | 12,226 | 13,678 |
| <i>Change (yoy, %)</i> | (29) | 30.9 | 4 | 8 | 2 | 12 |
| <i>Margin (%)</i> | 27.2 | 25.4 | 23.3 | 23.7 | 22.8 | 23.9 |
| Depreciation | (866) | (827) | (814) | (924) | (989) | (1,067) |
| EBIT | 7,275 | 9,832 | 10,297 | 11,100 | 11,237 | 12,612 |
| Interest paid | (42) | (24) | (40) | (75) | (87) | (86) |
| Other income | 620 | 485 | 670 | 787 | 863 | 979 |
| Pre-tax profit | 7,854 | 10,293 | 10,928 | 11,811 | 12,013 | 13,505 |
| Tax | (2,024) | (2,711) | (2,776) | (3,170) | (3,191) | (3,587) |
| <i>Effective tax rate (%)</i> | 25.8 | 26.3 | 25.4 | 26.8 | 26.6 | 26.6 |
| Net profit | 5,829 | 7,582 | 8,152 | 8,641 | 8,822 | 9,917 |
| Exceptional items | - | - | - | - | - | - |
| Adjusted net profit | 5,829 | 7,582 | 8,152 | 8,641 | 8,822 | 9,917 |
| <i>Change (yoy, %)</i> | (30) | 30.1 | 8 | 6 | 2 | 12 |
| EPS | 5.9 | 7.7 | 8.2 | 8.7 | 8.9 | 10.0 |
| Dividend per share | 5.5 | 6.0 | 7.0 | 7.5 | 9.0 | 10.0 |
| <i>Dividend Payout (%)</i> | 93.3 | 78.3 | 84.9 | 85.8 | 101 | 100 |

Balance Sheet

(Rs mn)

| Year-end: March | CY20 | CY21 | CY22 | CY23 | CY24E | CY25E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Shareholders' funds | 14,143 | 16,456 | 18,861 | 21,217 | 21,137 | 21,164 |
| Share capital | 4,946 | 4,946 | 4,946 | 4,946 | 4,946 | 4,946 |
| Reserves & surplus | 9,197 | 11,510 | 13,915 | 16,271 | 16,191 | 16,218 |
| Total Debt | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | - |
| Curr Liab & prov | 10,147 | 10,584 | 11,829 | 12,982 | 15,687 | 16,167 |
| Current liabilities | 9,792 | 10,253 | 11,489 | 12,641 | 15,345 | 15,825 |
| Provisions | 355 | 331 | 340 | 342 | 342 | 342 |
| Total liabilities | 9,792 | 10,584 | 11,829 | 12,982 | 15,687 | 16,167 |
| Total equity & liabilities | 23,935 | 27,040 | 30,690 | 34,200 | 36,824 | 37,331 |
| Net fixed assets | 2,528 | 2,512 | 3,216 | 3,672 | 3,683 | 3,917 |
| Investments | - | - | - | - | - | - |
| Other non-curr assets | - | - | - | - | - | - |
| Current assets | 21,407 | 24,528 | 27,475 | 30,528 | 33,141 | 33,414 |
| Inventories | 3,669 | 4,917 | 5,344 | 5,329 | 6,218 | 6,535 |
| Sundry Debtors | 1,805 | 3,117 | 3,504 | 4,228 | 3,885 | 4,316 |
| Cash and Bank | 12,742 | 13,716 | 15,427 | 16,873 | 18,940 | 18,465 |
| Other Current Asset | 1,348 | 2,778 | 3,200 | 4,097 | 4,097 | 4,097 |
| Total assets | 23,935 | 27,040 | 30,690 | 34,200 | 36,824 | 37,331 |

Cash Flow Statement

(Rs mn)

| Year-end: March | CY20 | CY21 | CY22 | CY23 | CY24E | CY25E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 7,854 | 10,293 | 10,928 | 11,811 | 12,013 | 13,505 |
| Depreciation | 866 | 827 | 814 | 924 | 989 | 1,067 |
| Tax paid | (2,396) | (2,798) | (2,740) | (3,185) | (3,191) | (3,587) |
| Chg in working capital | 3,039 | (1,827) | 304 | (706) | 2,159 | (268) |
| Other operating activities | (435) | (194) | (150) | (313) | (776) | (893) |
| Cash flow from operations (a) | 8,928 | 6,302 | 9,156 | 8,530 | 11,193 | 9,823 |
| Capital expenditure | (417) | (832) | (1,097) | (916) | (1,000) | (1,300) |
| Chg in investments | (2,011) | (380) | 1,269 | (2,054) | - | - |
| Other investing activities | 418 | 382 | 448 | 456 | 863 | 979 |
| Cash flow from investing (b) | (2,009) | (831) | 620 | (2,513) | (137) | (321) |
| Equity raised/(repaid) | - | - | - | - | - | - |
| Debt raised/(repaid) | - | - | - | - | - | - |
| Dividend (incl. tax) | (5,440) | (5,425) | (5,935) | (6,429) | (8,902) | (9,891) |
| Chg in minorities | - | - | - | - | - | - |
| Other financing activities | (203) | (151) | (140) | (209) | (87) | (86) |
| Cash flow from financing (c) | (5,643) | (5,576) | (6,075) | (6,638) | (8,989) | (9,977) |
| Net chg in cash (a+b+c) | 1,275 | (104) | 3,701 | (621) | 2,067 | (475) |

Financial Ratios

| Year-end: March | CY20 | CY21 | CY22 | CY23 | CY24E | CY25E |
|---------------------|-------|------|------|------|-------|-------|
| Book Value (Rs) | 14.3 | 16.6 | 19 | 21 | 21 | 21 |
| Adj EPS (Rs) | 5.9 | 7.7 | 8.2 | 8.7 | 8.9 | 10.0 |
| Adj EPS growth (%) | -29.5 | 30.1 | 8 | 6 | 2 | 12 |
| EBITDA margin (%) | 27.2 | 25.4 | 23.3 | 23.7 | 22.8 | 23.9 |
| Pre-tax margin (%) | 26.2 | 24.6 | 22.9 | 23.3 | 22.4 | 23.6 |
| Net Debt/Equity (x) | -0.9 | -0.8 | -0.8 | -0.8 | -0.9 | -0.9 |
| ROCE (%) | 52.3 | 64.3 | 58 | 55 | 53 | 60 |
| ROE (%) | 41.9 | 49.6 | 46 | 43 | 42 | 47 |

DuPont Analysis

| | | | | | | |
|---------------------|------|------|------|------|------|------|
| Asset turnover (x) | 1.3 | 1.6 | 1.7 | 1.6 | 1.5 | 1.5 |
| Leverage factor (x) | 1.7 | 1.7 | 1.6 | 1.6 | 1.7 | 1.8 |
| Net margin (%) | 19.5 | 18.1 | 17.1 | 17.0 | 16.4 | 17.3 |

Working Capital & Liquidity ratio

| | | | | | | |
|-----------------|------|----|----|----|----|----|
| Inventory days | 44.7 | 43 | 41 | 38 | 42 | 42 |
| Receivable days | 22.0 | 27 | 27 | 30 | 26 | 28 |
| Payable days | 91 | 72 | 68 | 67 | 81 | 81 |

Valuations

| Year-end: March | CY20 | CY21 | CY22 | CY23 | CY24E | CY25E |
|----------------------|------|------|------|------|-------|-------|
| PER (x) | 35.6 | 27.4 | 25.5 | 24.0 | 23.5 | 20.9 |
| Price/Book value (x) | 14.7 | 12.6 | 11.0 | 9.8 | 9.8 | 9.8 |
| EV/Net sales (x) | 6.5 | 4.6 | 4.0 | 3.8 | 3.5 | 3.3 |
| EV/EBITDA (x) | 23.9 | 18.2 | 17.3 | 15.9 | 15.4 | 13.8 |
| Dividend Yield (%) | 2.6 | 2.9 | 3.3 | 3.6 | 4.3 | 4.8 |

Source: Company; IDBI Capital Research

| | | |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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