

Lubricants

Company Overview

Castrol India Ltd is one of the renowned automotive and industrial lubricant oil manufacturing company engaged in providing coke and petroleum products. The company's with its brands namely Castrol Edge, Castrol MAGNATEC and Castrol GTX for passenger cars; Castrol Power1 and Castrol Active for motorcycles and Castrol CRB, Castrol RX and Castrol VECTON caters 350 distributors through its distribution network who service over one-lakh customers and sub-distributors with their outreach in retail outlets of rural market. Currently ,company has 3 manufacturing units located at Patalganga, Paharpur and Silvassa.

Investment Rationale

Maintaining market share on the back of strong brand recall

Castrol India has spent 1.3bn on advertising in CY18. Companies have been increasing their margins on cost upfront as customers are willing to pay for premium brands which makes them confident about their products led by brands recall and demand visibility. Going ahead, company aims to invest approx INR 140 cr in their silvassa plant over next two years in order to scale up its installed capacity. This would ramp up more production of units combined with new offerings. Therefo, this would enable to increase its market share with an edge over its competitors.

New launches and product mix to drive volume growth

Company is adding new products in their current portfolio, led by revival in commercial space and the agricultural market with improved formulations and performance across categories. They are ready with BSVI range of products across categories which were launched in the market in June-July. These products are mainly synthetic products which are into premium category such as newly launched Castrol VECTON, such new launches and product mix in personal mobility segment will drive volume growth in coming quarters.

Valuation and Outlook

Castrol India is a well established player in lubricant oil segment by virtue of its recognized brand and diversified categories across automotive vehicles .Company's strong focus on expansion of distribution chain coupled with ability to increase touch points provides significant opportunity to grow sales and expand margins. Owing to ample opportunities and its consumer outreach helps in gaining visibility and higher thrust for future growth. On valuation front, we have valued the company based on 20x PE of CY20E and assign a Buy rating on the stock with target price of INR 171.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	145
Target Price (INR)	171
BSE code	500870
NSE Symbol	CASTROLIND
Bloomberg	CSTR IN
Reuters	CAST.BO

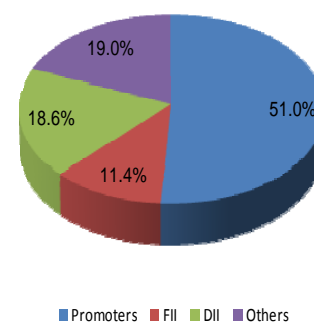
Key Data

Nifty	11,895
52WeekH/L(INR)	172/112
O/s Shares (Mn)	989.1
Market Cap (INR bn)	143
Face Value (INR)	5

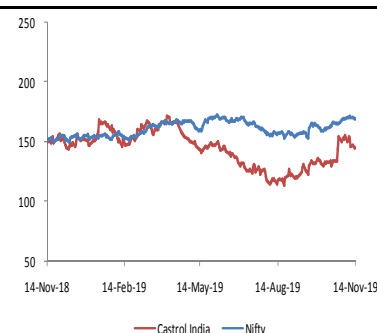
Average volume

3 months	18,57,490
6 months	15,33,560
1 year	15,47,010

Share Holding Pattern (%)



Relative Price Chart





Weekly Wealth

Key Financials					
YE March (Rs. mn)	CY16	CY17	CY18	CY19E	CY20E
Revenue	33,703	35,843	39,046	39,514	42,359
<i>Revenue Growth (Y-o-Y)</i>	2.2%	6.3%	8.9%	1.2%	7.2%
EBIDTA	9,994	10,331	10,708	11,103	12,157
<i>EBIDTA Growth (Y-o-Y)</i>	11.7%	3.4%	3.6%	3.7%	9.5%
Net Profit	6,704	6,918	7,084	7,547	8,345
<i>Net Profit Growth (Y-o-Y)</i>	9.0%	3.2%	2.4%	6.5%	10.6%
Diluted EPS	6.8	7.0	7.2	7.6	8.4
<i>Diluted EPS Growth (Y-o-Y)</i>	9.0%	3.2%	2.4%	6.5%	10.6%
Key Ratios					
EBIDTA (%)	29.7%	28.8%	27.4%	28.1%	28.7%
NPM (%)	19.9%	19.3%	18.1%	19.1%	19.7%
RoE (%)	68.3%	67.8%	60.8%	56.9%	53.2%
RoCE (%)	101.8%	101.3%	91.9%	83.7%	77.5%
Valuation Ratios					
P/E (x)	21.4x	20.7x	20.2x	19.0x	17.2x
EV/EBITDA	13.5x	13.1x	12.7x	12.2x	11.2x
P/BV (x)	14.6x	14.1x	12.3x	10.8x	9.1x
Market Cap. / Sales (x)	4.3x	4.0x	3.7x	3.6x	3.4x

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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