

Castrol India Ltd.

Castrol India Limited (CIL) is the second largest player in the Indian lubricant industry and is the market leader in the retail automotive lubricant segment.

The lubricant industry in India is broadly divided into three major market sectors: Automotive, Industrial and Marine & Energy applications. Top four players (Castrol India, IOC, BPCL & HPCL) contribute approximately 70% of the market share.

Net sales of the company grew at a CAGR of 13% in the last seven years ended Dec'2011 (company's financial year) and net profit grew by 22% during the same period. Operating profit (EBITDA) margin increased to around 25% in 2011 from 16% in 2005. Similarly net profit margin increased to 16.13% in 2011 from 10.3% in 2005.

Investment Rationale

Following are some of the key factors, which make this scrip worth for Investment Consideration:

Strong domestic Growth- With an expected GDP growth of around 7-8% during CY2012-CY2015 and favorable growth in manufacturing & infrastructure sector, the basic consumption drivers for lubricants remain intact and are all set to make the industry grow.

Demand for automotive services- With the rapid pace of urbanization in the country, the consumer is increasingly becoming a cash-rich and time-poor. This has enhanced rapid growth of vehicle sales both in rural & urban areas. Notable thing is that Commercial Vehicles, Two wheelers, three wheelers, Multi-Utility Vehicles and Car sales grew by 14%, 12%, 12.75%, 10.5% and 19% respectively during FY06 to FY11.

Changes in engine technology- India is emerging as an important export hub for automobile manufacturers, rapidly upgrading technology to meet stringent European norms.

This is driving the lubricant market to low viscosity, synthetic lubricants. Castrol with its proven technology and marketing leadership is well poised to meet the requirements of high performance, technologically superior products and services.

Rural markets and the luxury car segment are expected to play a significant role as the Indian automobile industry seeks to double its total sales over the current decade.

Growth in personal mobility- Growing personal disposable incomes and aggressive marketing by automobile manufacturers continue to drive demand for passenger cars and two wheelers. Castrol has strong presence in these segments and growth in the personal mobility segment would have a positive impact on its performance. The company expects volumes to be led by the personal mobility segment (cars, motorcycles) and expects that 8-10% volume growth for lubes based on a 15% growth in vehicle sale volumes in the medium term.

Financials (Rs Cr)	FY11	FY12E	FY13E	FY14E
Net Sales	2981.7	3240	3586	3870
Growth	9.03%	8.7%	10.7%	7.9%
EBITDA	742.9	830	945	1,024
EBITDA Margin	24.92%	25.62%	26.35%	26.46%
Net Profit	481	532	608	672
PAT Margin	16.13%	16.42%	16.95%	17.36%
EPS (Rs)	19.45	21.51	24.59	27.18

17 February, 2012

Recommendation **Accumulate**

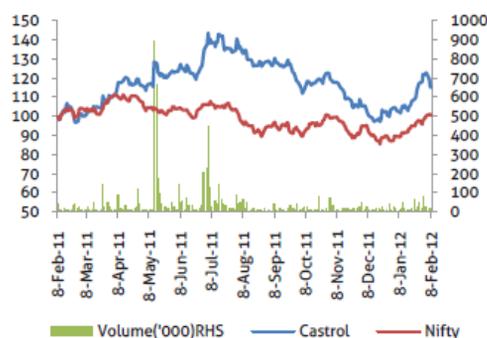
Closing price (Rs) **Rs. 472/-**

Company Information

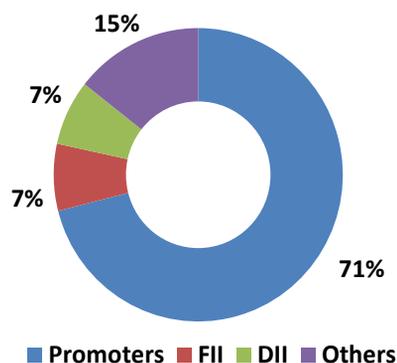
BSE Code	500870
NSE Code	CASTROL
Bloomberg Code	CSTR.L IN
Market Cap (Rs. Cr)	11,424
Outstanding shares(Cr)	24.728
52-wk High/Low	Rs. 588/Rs. 380
1year Avg. volume (NSE)	88305
Face value (Rs)	10.00
Book Value (Rs)	24.43

Relative performance chart (one year)

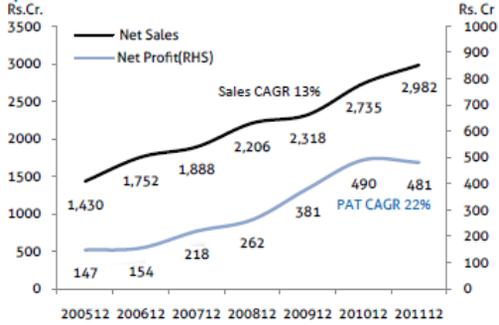
NIFTY v/s Castrol



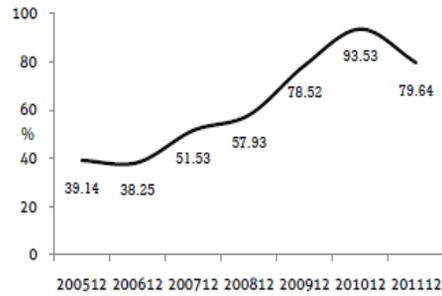
Share Holding – as on 31st December'11



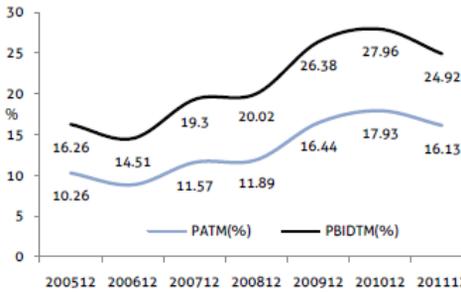
Top line & Bottom line Performance



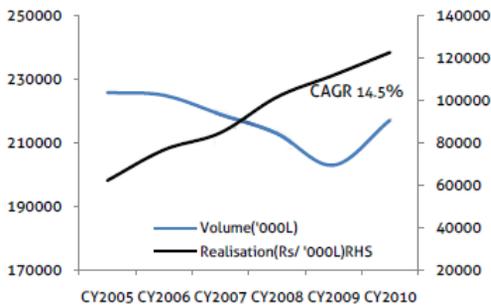
RoNW(%)



Sales and Profit Margins(%)

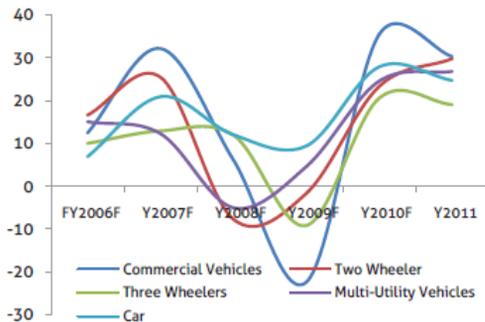


Lubricants-Oils/Greases Volume & Price trend



Source: Capitalline

Sales Growth(%)



Low Cap-ex and high dividend payout- Capex will continue to be low around Rs30 Cr. over the next two years which will support high free cash flow generation and dividend payout. The Company has a very good track record of paying healthy dividend payouts of 140-250 percent during past four years.

Pricing power continues to be strong- The Company has very strong pricing power due to its product quality and brand image. During 2005 to 2010, Castrol India increased its Lubricants-Oils/Greases prices by 14.5 percent (CAGR).

Branding- Castrol continues to invest intensively in its brand and expects to maintain advertising and sales promotion spending at 5-6% of revenues. However, there is a shift towards more 'below-the-line' activities involving decision influencers – to strengthen brand franchise in that segment.

Concern- Base oil price trend: With the high crude oil prices cost of base oils, additives and packaging material, margins are expected to be under pressure in the coming years and potentially impact demand as the lubricant industry passes a portion of the increased costs to customers. The Company's earnings are very much sensitive to the base oil price. CIL's earnings have 7% sensitivity to a 5% change in base oil price. So adverse movement of base oil price will increase its cost of production. Since higher oil prices beyond a point dampens car sales & inversely affect the lubricant industry.

Longer oil drain intervals will significantly impact volume growth in the market, especially in the commercial vehicle segment.

Demand for lubricants may soften given the challenging global economic situation while the significantly weakening rupee against the dollar, may add further pressure on input costs.

Outlook & Valuation- Long term growth potential of the company based on strong brands and enduring relationships with all key stakeholders is high. The stock has outperformed benchmark indices over the last 12 months. Current valuation with a strong pricing power and brand name. At CMP of on the expected earnings of Rs. 24.6 & Rs. 27.2 in FY13E & FY14E respectively. This valuation is in-line with Indian FMCG companies. We recommend an ACCUMULATE for long term investment point of view.

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