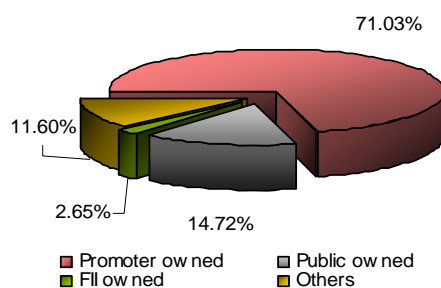


Company report**Castrol India Ltd.**5th August'08**BUY****CMP** Rs 308**Target Price** Rs 419

BSE Code	500870
NSE Code	Castrol
Market Cap (Rs Mn)	38081.12
52 Week High/Low	215/374
Industry	Lubricants
Face Value	Rs 10
Shares O/S	123,640,298

EPS	21.57
CEPS	23.51
Book Value	47.38
P/E	14.28
P/B	6.50

Stock Returns	1 M	6M	12 M
Returns %	25.32	10.67	21.07
Volatility %	4.49	7.44	7.21

Shareholding Pattern**Company Snapshot**

Castrol India Ltd has announced results for the Quarter ended June 30, 2008. The company being one of the leaders in the automotive and non automotive lubricants space has witnessed constant growth across all the business segments.

Q2CY08 Performance Highlights

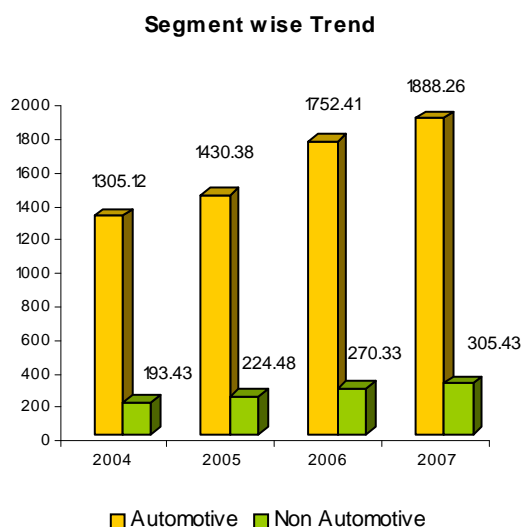
Particulars	Rs Million				
	Q2CY07	Q3CY07	Q4CY07	Q1CY08	Q2CY08
Sales	5400.50	4311.10	4749.90	4929.00	6214.00
EBITDA	1005.80	830.00	819.10	1134.00	1265.00
PAT	659.30	542.20	567.60	728.00	828.00
EBITDA %	18.62	19.25	17.24	23.01	20.36
PAT %	12.21	12.58	11.95	14.77	13.32
EPS	5.33	4.39	4.59	5.89	6.70
CEPS	5.73	4.80	5.07	6.39	7.25

- The company has posted excellent financial figures for the quarter ended June 2008. The net sales for the company gone up by 15.06 per cent to Rs 6214.00 million for the Q2CY08 as against the net sales of Rs 5400.50 million for the Q2FC07. EBITDA for the company stood at Rs 1265.00 million for the Q2CY08 in comparison to the operating profit of Rs 1005.80 million for Q2FC07 with the growth rate of 25.77%. EBITDA margins for the company stood at 20.36 per cent for the Q2CY08 as against the operating profit margin of 18.62 per cent for Q2CY07.
- The net profit for the company rose to Rs 828.00 million for the Q2CY08 in comparison to net profit of Rs 659.30 million for the Q2CY07 with the growth rate of 25.59 per cent. Earning per Share for the company stood at Rs 6.70 for the quarter ended in June 08 versus Rs 5.33 for the quarter ended June 07. The cash EPS of the company stood at Rs 7.25 for the quarter ended in June 08 versus the cash EPS of Rs 5.73 for the quarter ended in June 07. The EPS on TTM (Trailing twelve months) stood at Rs 21.57 for the company. The company is expected to post strong results for the quarter ended September 2008 and for the full financial year ended CY08.

Business Details

Castrol India Limited is the subsidiary of Castrol Ltd., UK based British Petroleum Group Company. From a minor oil company, with a share of about 6% in 1991, Castrol India has grown to become the second largest lubricant company in India with a market share of around 22%. Castrol India manufactures and markets a range of automotive and industrial lubricants. It markets its automotive lubricants under two brands - **Castrol** and **BP**.

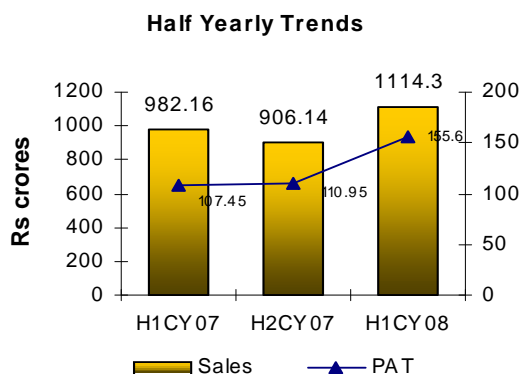
The automotive segment constitutes 85 % of total revenues while the remaining is contributed by non - automotive division under which the company sells industrial lubricants. The company is a market leader in the retail automotive lubricant segment. It is also the third largest company in Indian lube oils and lubricants industry. It has four manufacturing plants across India at Paharpur (West Bengal), Patalganga (Maharashtra), Silvassa (Dadra & Nagar Haveli) and Tondiarpet (Tamil Nadu) with a total installed capacity of 146.7 million litres of lubricating oils and industrial greases. The company sells its products mainly through the retail network called Bazaar trade. It has a wide distribution network of 270 distributors and over 70,000 retail outlets.



Industry Outlook

The lubricant sector in India is broadly divided into 3 major markets sectors: Automotive, Industrial and Marine & Energy applications. The year 2007 has been positive in terms of demand and profit outlook due to strong growth in the economy. The industry is led by four major players, (IOC, BPCL, HPCL and Castrol India Ltd) who contribute to over 70 % to the market, the rest 30% is shared by several players including global majors, leading to an extremely competitive market scenario. The automotive lubricant market is estimated to have grown in volumes by over 3% on the back of a strong economic performance. This has been led primarily by the increased motorcycle and car stock, growth in agri-driven lubes consumption and a booming construction sector. The growth outlook for year 2008 look strong with over 1 million cars and Utility Vehicles and about 6 million 4-Stroke 2-wheelers are projected to be sold in 2008. The Building and Construction segment feeding the infrastructure sector is expected to grow at a fast pace during 2008 on the back of a similar growth in 2007. Thus, lube consumption is projected to grow strongly in cars, 4-stroke bikes and the Building and Construction equipment segments. Therefore, we are positive on the sector in medium to long – term with Castrol India Limited being the best pick.

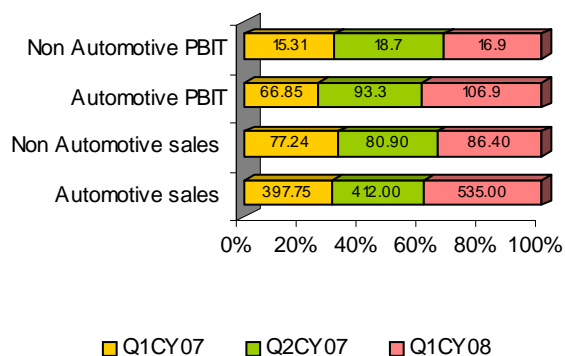
Investment Rationale



The company has recorded stellar performance in the half year ended June 30, 2008. The revenues have surged to Rs 1114.30 crores in H1CY08 from Rs 982.16 crores clocked in H1CY07 showing a growth of 13.45 %. At the same time the net profit has surged phenomenally by 44.81 % to Rs 155.60 crores versus Rs 107.45 crores clocked in the corresponding period in the previous year. Apart from this there has been an expansion of 302 basis points in the net profit margins from 10.94 per cent in H1CY07 to 13.96 % in H1CY08. The company has been able to achieve expansions despite the soaring costs of inputs and increasing level of competition in the industry, which is its true strength.

The company enjoys a huge brand loyalty which has enabled it to sustain the high inflationary regime, rising input costs and soaring crude prices effectively. The company has been able to achieve good numbers as a result of higher volumes and improved price realizations. Castrol Bike zone which started in 2006 has been progressing smoothly. The Bike Zone network is spread across 96 sites and 18 cities. The company in order to provide additional focus is structuring Castrol Bike Zone organization as a separate vertical. The business plans of the company for 2008 focuses on rapidly scaling up network and on developing marketing offers to increase footfalls in the outlets which will provide boost to the volumes.

Segment wise quarterly Trends (Rs Cr)



Company's overall performance in automotive segment saw a strong growth in top line value. At over 15% growth, Castrol grew faster than the estimated market growth rate in value terms. The Castrol brand also gained market share in the 4-stroke retail market with its flagship brand Castrol Activ 4T and in the new generation Commercial Vehicle oils market with its two winning brands – Castrol RX Supermax (joint brand with TATA Motors) and Castrol CRB Turb.

The company has reported more than 12% rise in its non- automotive segment as it has developed differentiated offers to provide complete solutions for the lubricating requirements of its customers in the core segments viz. Auto, Metals and Machinery manufacturing. These measures have helped to focus its efforts and resources on high growth, high margin sectors and have given a commendable revenue growth over the previous year in our core business.

Annual Financial Matrix

Rs. Million

Particulars	CY04	CY05	CY06	CY07
Net sales	13051.20	14303.80	17524.10	18882.60
Growth%	--	9.60	22.51	7.75
Expenditure	10969.00	12187.00	15324.30	15586.90
EBITDA	2082.20	2116.80	2199.80	3295.70
Growth%	--	1.66	3.92	49.82
EBITDA margin	15.95	14.80	12.55	17.45
Other income	220.90	200.70	343.80	348.40
Depreciation	141.70	189.30	180.10	207.80
EBIT	2161.40	2128.20	2363.50	3436.30
Interest	28.70	30.10	41.10	37.90
PBT	2132.70	2098.10	2322.40	3398.40
Tax	678.30	638.20	777.50	1214.10
Adjusted PAT	1454.40	1459.90	1544.90	2184.30
Growth %	--	0.38	5.82	41.39
Net Profit margin	11.14	10.21	8.82	11.57
Extra ordinary items	(179.80)	8.20	--	--
Reported PAT	1274.60	1468.10	1544.90	2184.30
Equity Capital	1236.40	1236.40	1236.40	1236.40
Reserves	2364.30	3900.60	2940.20	3065.40
Net Worth	3600.70	5137.00	4176.60	4301.80
EPS	11.76	11.81	12.50	17.67
CEPS	12.91	13.34	13.95	19.35
Sales/ Equity	10.56	11.57	14.17	15.27
RONW	35.40	28.58	36.99	50.78

Past Price movement of the stock



Valuation

Castrol India Ltd, the largest private sector lubricant company has reported a stellar performance in Q2CY08. The company has continuously created wealth for its shareholders. Castrol, with a healthy record of bonuses and dividend has recently announced an interim dividend of 60 per cent since the company rides on the benefit of high cash flows and low capex expenditures due to non capital intensive nature of the industry. The company is all set to benefit from higher volumes and improved price realizations but escalations in the cost of goods may erode the margins but retreat in crude prices have created newer opportunities. The company has focused shift from overall volume to target volumes and hi-tech lubricants to minimize the impact of raw material volatility and is expected to benefit in future from the same.

Presently, the stock is trading at Rs 308 which is at 14.28 times to its earnings and 6.50 times to its book value of Rs 47.38. Since the stock seems to offer extremely good investment opportunity, we maintain a **'BUY'** signal on the stock with a target price of **Rs 419** in medium to long term investment horizon expecting an appreciation of about 36 % from the current level of **Rs 308**.

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GROUP COMPANIES

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HEM MULTI COMMODITIES PRIVATE LIMITED

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HEM FINANCIAL SERVICES LIMITED

SEBI REGISTERED CATEGORY I MERCHANT BANKER

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