

Castrol India Ltd.



DOLAT CAPITAL

CMP: Rs 380

Target Price: Rs 436

Lubricants / Accumulate

Castrol India Ltd. (CIL) has reported a strong set of operational numbers driven by ~2.5% sequential volume growth and ~4.5% realization growth on a sequential basis. CIL revenue grew by 7.1% (QoQ) to Rs 6.56 bn. The recent rise in the base oil prices (derivative of crude) would be negated to a large extent by increased realization and rupee appreciation. CIL's strategy "Profitable Volume Growth" is getting reflected in improved volumes with better realization. CIL has been focusing on brand awareness with thrust on the personal mobility segment. Any increase in proportion of personal mobility segment in the revenue mix would improve the profitability. Going forward, we feel that traction in freight movements, good auto sales numbers and improved product mix would keep CIL on a growth trajectory. We remain positive on the story and recommend an Accumulate with a price target of Rs 436 to trade at 20xCY11E earnings.

Q1CY10 Results

Particulars(Rs mn)	Q1CY09	Q1CY08	Chg.(%)	Q4CY08	Chg.(%)
Net Sales	6,560.0	6,124.0	7.1	5,087.0	29.0
Raw Material Cost	3,518.0	2,833.0	24.2	2,730.0	28.9
Stock Adjustment	(387.0)	85.0	-	(62.0)	524.2
Traded Goods	83.0	78.0	6.4	69.0	20.3
As a % of Sales	47.7	47.6	-	52.4	(9.0)
Employee Cost	216.0	250.0	(13.6)	276.0	(21.7)
Carriage & Insurance	220.0	175.0	25.7	164.0	34.1
Advertising	464.0	462.0	0.4	207.0	124.2
Other	636.0	962.0	(33.9)	552.0	15.2
Total Operating Cost	4,750.0	4,845.0	(2.0)	3,936.0	20.7
EBIDTA	1,810.0	1,279.0	41.5	1,151.0	57.3
OPM (in %)	27.6	20.9	-	22.6	21.9
Interest	5.0	14.0	(64.3)	9.0	(44.4)
Other Income	81.0	31.0	161.3	95.0	(14.7)
Depreciation	68.0	68.0	-	65.0	4.6
PBT	1,818.0	1,228.0	48.0	1,172.0	55.1
Tax	646.0	420.0	53.8	409.0	57.9
Net Profit	1,172.0	808.0	45.0	763.0	53.6
NPM (in %)	17.9	13.2	-	15.0	-
EPS	4.74	3.27	45.0	3.09	53.6

- The top line increased by 7.1% sequentially to Rs 6.56bn. This increase is driven by the volume growth and the price hike taken by the company in January. On a YoY basis, the revenue grew by 29%.
- Raw material as a % of sales was at 47.7% in Q1CY10 as compared to 47.6% in Q4CY09 and 52.4% in Q1CY09.
- The advertising expense was in line with expectations at Rs 464 mn. It has increased by 0.4% on a sequential basis and 124% on a YoY basis. We expect that this could increase further considering the brand build up exercise.
- The operating margins were at 27.6% up from 20.9% sequentially. CIL took a write-off for Bike Zone investments in Q4CY09, which impacted the operating margins.
- The net profit was up by 45% sequentially and 53.6% on a YoY basis to Rs 1172 mn.

Valuation

CIL focus on brand building, product quality and new product innovation would enable CIL to retain market share. The full impact of price hike taken in January would be visible in the coming quarters. At CMP of Rs 380, the stock is trading at 19.8x CY10E and 17.4x CY11E earnings. We remain positive on the story and recommend an Accumulate with a price target of Rs 436 to trade at 20xCY11E earnings.

Financials

Year	Net Sales	% Growth	EBIDTA	OPM %	PAT % Growth	NPM %	EPS (Rs.)	PER (x)	ROANW(%)	ROACE (%)	
CY08	22,057	16.8	3,998	18.1	2,625	20.2	11.9	21.2	35.8	58.0	96.0
CY09	23,182	5.1	5,754	24.8	3,811	45.2	16.4	30.8	24.7	78.5	128.1
CY10E	27,010	16.5	7,157	26.5	4,754	24.7	17.6	19.2*	19.8	82.3	131.2
CY11E	29,085	7.7	7,990	27.5	5,385	13.3	18.5	21.8*	17.4	75.6	116.8

Figure in Rs.mn

* EPS adjusted for 1:1 bonus

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The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

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