

Castrol India Ltd

BUY

December 16th, 2010

C.M.P:
Rs.466.10

Target Price:
Rs.550.00

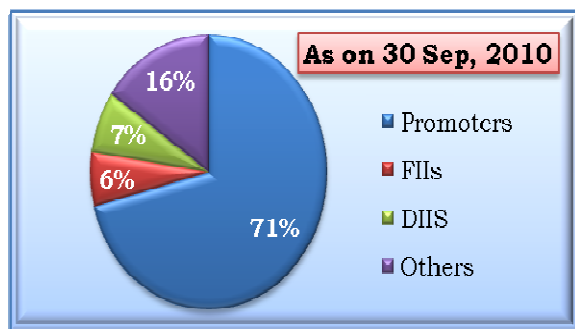
1 Year Comparative Graph



Stock Data

Sector	Oil Marketing & Distribution
Face Value (Rs.)	10.00
52 wk. High/Low (Rs.)	556.65/277.48
Volume (2 wk. Avg.)	20136.00
BSE Code	500870
Market Cap (Rs.mn.)	115266.53

Share Holding Pattern



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SYNOPSIS

- Castrol is the second largest player in the Indian lubricant industry and is the market leader in the retail automotive lubricant segment. It manufactures and markets a range of automotive and industrial lubricants.
- The company offers passenger car engine oils, premium 2-stroke and 4-stroke oils, and multi grade diesel engine oils under the Castrol and BP brand names.
- The Company sells its products through distributors to retail outlets.
- The board of directors of the company has decided to pay an interim dividend of Rs. 7 per equity share on 247280596 equity shares of Rs. 10 for the year ending December 31, 2010.

Financials

(Rs. in mn.)	CY09A	CY10E	CY11E
Net Sales	23280.00	27263.80	29990.18
EBIDTA	4118.00	7642.71	8426.73
PAT	3811.00	5030.69	5613.39
EPS	30.83	20.34	22.70
P/E	15.12	22.91	20.53

Table of Content

Content	Page No.
1. Peer Group Comparison	03
2. Investment Highlights	03
3. Company profile	06
4. Financials	07
5. Charts & Graph	09
6. Outlook and Conclusion	11
7. Industry Overview	12

Peer Group Comparison

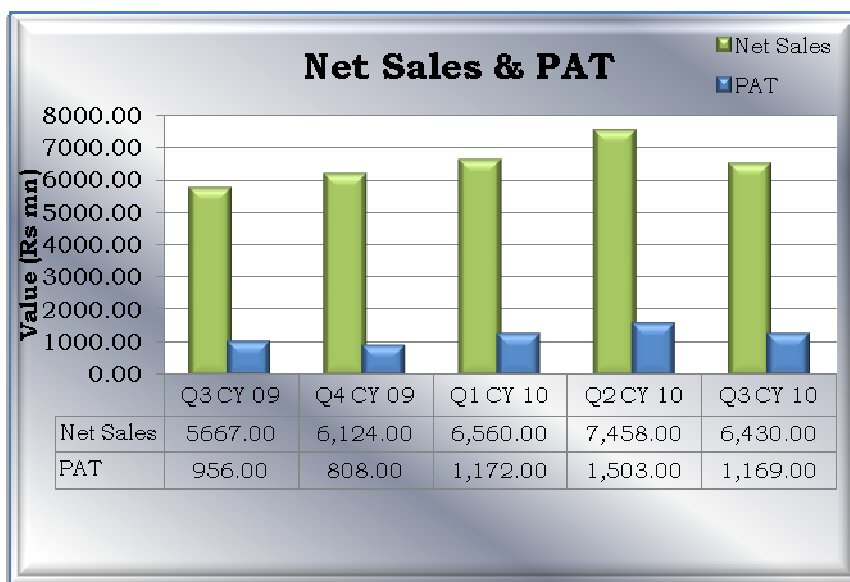
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Castrol India Ltd	466.10	115266.53	18.81	24.77	23.28	250.00
Indian Oil Corp	378.15	918130.20	33.60	11.25	1.82	130.00
Gulf Oil Corp	103.75	10286.30	3.37	30.79	2.91	90.00
Panama Petrochem	246.60	1440.20	53.42	4.62	1.43	50.00

*As on 16/12/2010

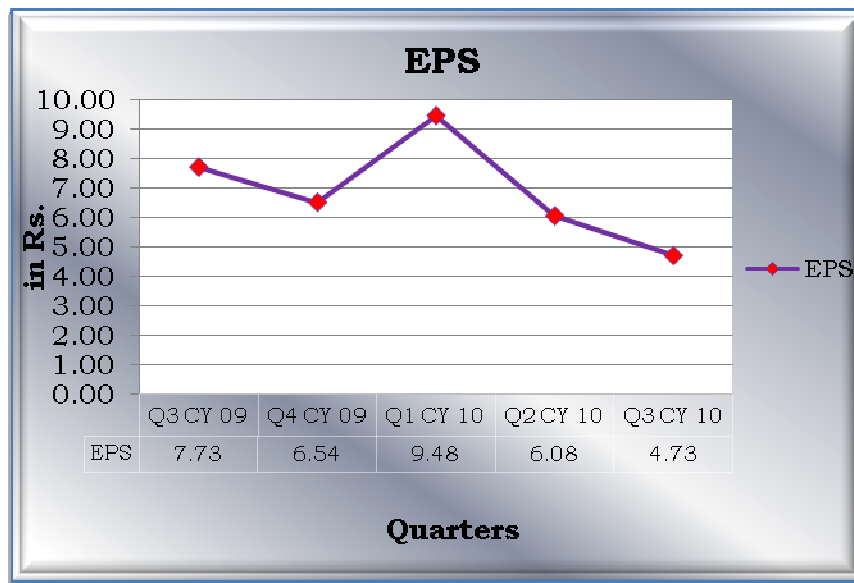
Investment Highlights

■ Results Updates (Q3 CY10) (Standalone)

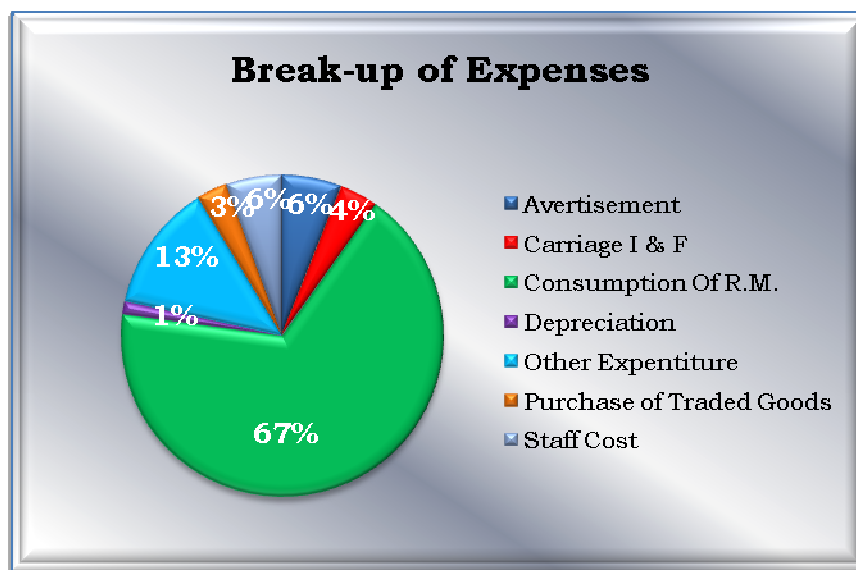
For the third quarter, the top line of the company increased 13%YoY and stood at Rs.6430.00mn against Rs.5667.00mn of the same period of the last year. The bottom line of the company for the quarter stood at Rs.1169.00mn from Rs.956.00mn of the corresponding period of the previous year i.e. a decrease of 22%YoY.



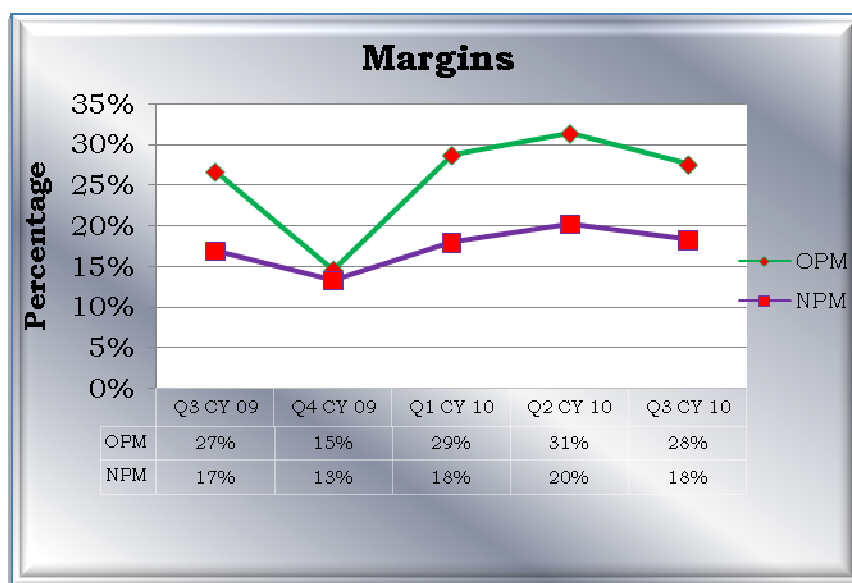
EPS of the company for the quarter stood at Rs.4.73 for equity share of Rs.10.00 each.



Expenditure for the quarter stood at Rs.4733.00mn, which is around 12% higher than the corresponding period of the previous year. Raw material cost of the company for the quarter accounts for 51% of the sales of the company and stood at Rs.3258.00mn from Rs.2638.00mn of the corresponding period of the previous year i.e., an increase of 24%YoY. Other Expenditure decreased 4%YoY to Rs.623.00mn from Rs.651.00mn and accounts for 10% of the revenue of the company for the quarter.



OPM and NPM for the quarter stood at 28% and 18% respectively from 27% and 17% respectively of the same period of the last year.



■ Declares interim dividend

The board of directors of the company has decided to pay an interim dividend of Rs 7 per equity share on 247280596 equity shares of Rs 10 for the year ending December 31, 2010.

Company Profile

Castrol India was incorporated in 1973. Castrol has an association with India, which goes way back in 1910 when C C Wakefield & Company made an entry in market with automotive lubricants. It was first overseas branch of C C Wakefield & Company and it started as a trading unit.

Today Castrol is the second largest player in the Indian lubricant industry and is the market leader in the retail automotive lubricant segment. It manufactures and markets a range of automotive and industrial lubricants.

It markets the products under the brand Castrol and BP. In India it holds second position in lubricant industry and enjoys 22% of market share.

It manufactures products such as passenger car engine oils, premium 2-stroke and 4-stroke oils and multi grade diesel engine oils. Castrol holds leadership position in most of the segments.

The company has 5 manufacturing plants across the country. It has a distribution network of 270 distributors, servicing over 70,000 retail outlets.

Plant Locations

The Company's plants are located at Patalganga, Paharpur, and Silvassa & Tondiarpet



Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	CY08	CY09	CY10E	CY11E
Description	12m	12m	12m	12m
Net Sales	22168.00	23280.00	27263.80	29990.18
Other Income	307.00	263.00	299.44	329.38
Total Income	22475.00	23543.00	27563.24	30319.56
Expenditure	-18059.00	-19425.00	-19920.53	-21892.83
Operating Profit	4416.00	4118.00	7642.71	8426.73
Interest	-37.00	-35.00	-23.30	-24.47
Gross Profit	4379.00	4083.00	7619.41	8402.27
Depreciation	-257.00	-272.00	-247.15	-266.92
Profit Before Tax	4122.00	3811.00	7372.26	8135.35
Tax	-1499.00	0.00	-2341.56	-2521.96
Net Profit	2623.00	3811.00	5030.69	5613.39
Equity Capital	1236.00	1236.00	2473.00	2473.00
Reserves	3519.00	3714.00	8744.69	14358.08
Face Value (Rs)	10.00	10.00	10.00	10.00
Total No. of Shares	123.60	123.60	247.30	247.30
EPS	21.22	30.83	20.34	22.70

Quarterly Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	31-Mar-10	30-Jun-10	30-Sep-10	31-Dec-10E
Description	3m	3m	3m	3m
Net Sales	6560.00	7458.00	6430.00	6815.80
Other income	81.00	73.00	72.00	73.44
Total Income	6641.00	7531.00	6502.00	6889.24
Expenditure	-4760.00	-5193.00	-4733.00	-5234.53
Operating Profit	1881.00	2338.00	1769.00	1654.71
Interest	-5.00	-6.00	-6.00	-6.30
Gross Profit	1876.00	2332.00	1763.00	1648.41
Depreciation	-58.00	-60.00	-63.00	-66.15
Profit Before Tax	1818.00	2272.00	1700.00	1582.26
Tax	-646.00	-769.00	-531.00	-395.56
Net Profit	1172.00	1503.00	1169.00	1186.69
Equity capital	1236.00	2473.00	2473.00	2473.00
Face Value (Rs)	10.00	10.00	10.00	10.00
Total No. of Shares	123.60	247.30	247.30	247.30
EPS	9.48	6.08	4.73	4.80

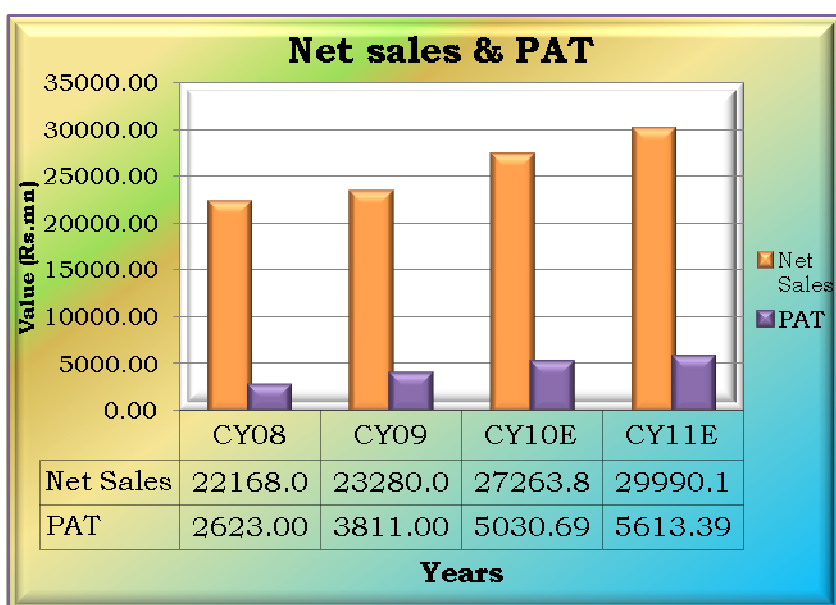
Key Ratio

Particulars	CY08 A	CY09 A	CY10 E	CY11 E
EBIDTA %	20%	18%	28%	28%
PAT %	12%	16%	18%	19%
P/E ratio (x)	21.96	15.12	22.91	20.53
ROE - %	55%	77%	45%	33%
ROCE - %	87%	78%	66%	48%
EV/EBIDITA (x)	8.32	16.96	16.89	17.10
Price/Book Value	7.73	11.64	10.28	6.85

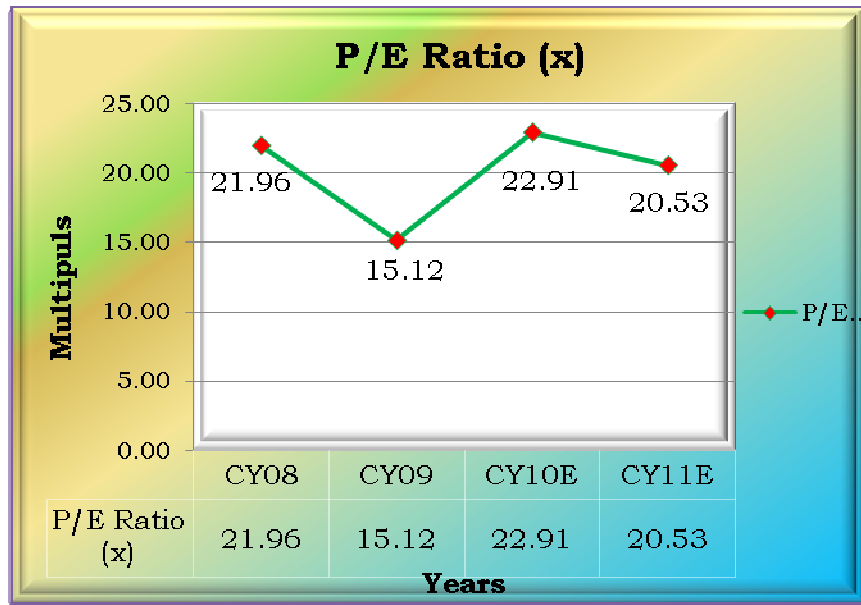
A-Actual E-Expected

Charts:

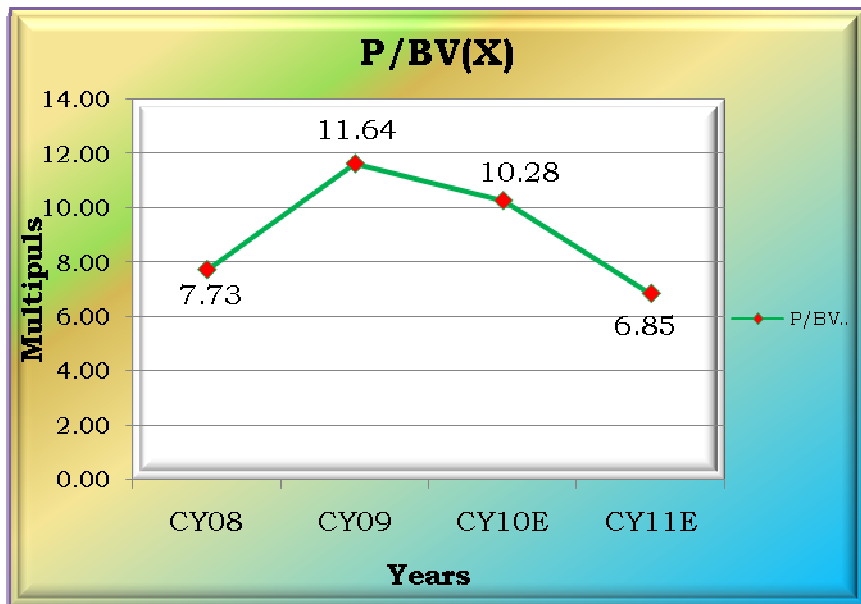
■ Net sales & PAT



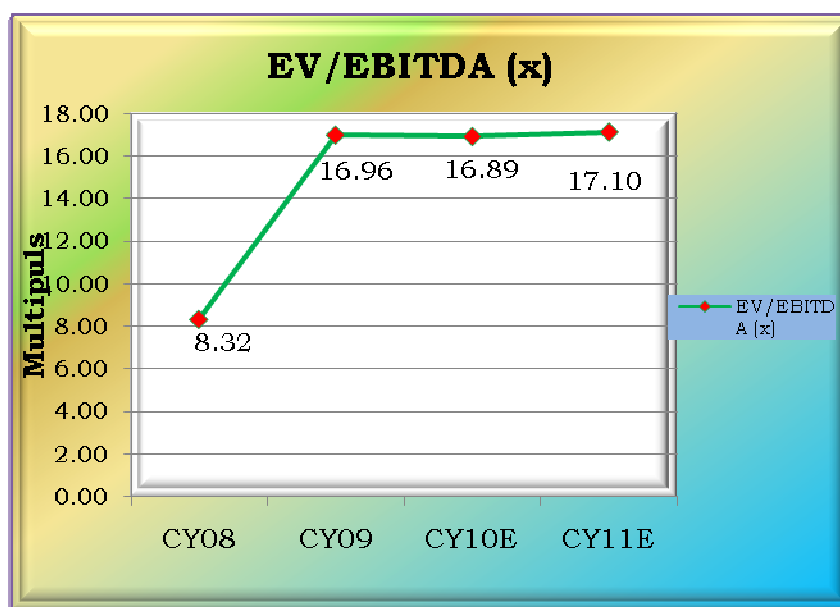
▣ P/E Ratio (x)



▣ P/BV (X)



■ EV/EBITDA(X)



Outlook and Conclusion

- At the market price of Rs.466.10, the stock is trading at 22.91 x and 20.53 x for CY10E and CY11E respectively.
- On the basis of EV/EBDITA, the stock trades at 16.89 x for CY10E and 17.10 x for CY11E.
- Price to book value of the company is expected to be at 10.28 x for CY10E and 6.85 x for CY11E respectively.
- EPS of the company is expected to be at Rs.20.34 and Rs.22.70 for the earnings of CY10E and CY11E respectively.
- The company's net sales and net profit are expected to grow at a CAGR of 11% and 29% over CY08 to CY11E.
- We recommend '**BUY**' in this particular scrip with a target price of Rs.**550.00** for Medium to Long term investment.

Industry Overview

The oil and gas industry has been instrumental in fuelling the rapid growth of the Indian economy. India has total reserves of 775 million metric tones (MT) of crude oil and 1074 billion cubic meters (BCM) of natural gas as on April 1, 2009, according to the Ministry of Petroleum.

Petroleum exports during 2008-09 were US\$ 26.2 billion according to the Ministry of Petroleum.

Under New Exploration Licensing Policy (NELP VIII), 1.62 sq km of area comprising 70 blocks was put up for bidding.

The Cabinet Committee on Economic Affairs (CCEA) has approved award of 33 out of 36 oil and gas blocks that were bid for in New Exploration Licensing Policy (NELP-VIII), for which bidding closed on October 12, 2009.

Production

By the end of the Eleventh Plan the refinery capacity is expected to reach 240.96 MMTPA.

- Crude oil production during 2009-10 was 33.68 MT, compared to 33.50 MT in 2008-09.
- Refinery production in terms of crude throughput was 160.03 MT in 2009-10.
- The production of natural gas went up to 47.57 billion cubic metres tonnes (BCM) in 2009-10 from 32.84 BCM in 2008-09.

Consumption

The sales/consumption of petroleum products during 2008-09 were 133.40 MT (including sales through private imports), an increase of 3.45 per cent over sales of 128.94 MT during 2007-08, according to the Ministry of Petroleum.

India's domestic demand for oil and gas is on the rise. As per the Ministry of Petroleum, demand for oil and gas is likely to increase from 186.54 million tonnes of oil equivalent (mmtoe) in 2009-10 to 233.58 mmtoe in 2011-12.

The refining capacity in the country increased to 177.97 million tonnes per annum (MTPA) as on April 1, 2009 as compared to 148.968 MTPA as on April 1, 2008.

Gas

India's natural gas demand is expected to nearly double to 320 million standard cubic meters per day by 2015, according to a report released by global consultancy firm McKinsey at the VI Asia Gas Partnership Summit.

According to the report, the current demand of 166 million standard cubic metres per day (mscmd)—made up of nearly 132 mscmd supplies from domestic fields and the rest from imported LNG-- is likely to rise to at least a minimum of 230 mscmd and a maximum of 320 mscmd by 2015.

In January 2010, Gas Authority of India Ltd (GAIL) said that gas availability in India is expected to grow at 23 per cent compounded annual growth rate (CAGR) to 312 mscmd by FY14, buoyed by trebling of domestic production to 254 mscmd and doubling of regasified liquefied natural gas imports to 58 mscmd.

To capture the opportunity presented by the impending gas surge in India, GAIL is investing significantly in its pipeline network. Over the next three years, it will invest US\$ 660.7 million –US\$ 770.8 million, expanding its transmission capacity from the current 150 mscmd to 300 mscmd.

State-owned Oil and Natural Gas Corp (ONGC) has added 83 million tonnes of oil and gas reserves in the 2009-10 fiscal, the highest in two decades.

The ultimate reserve accretion of ONGC including its joint ventures (with firms like Cairn India) in domestic fields in 2009-10 has been 87.37 million tonnes of oil and oil equivalent gas against the target of 76.28 million tonnes.

ONGC on a standalone basis added 82.98 million tonnes of oil and oil equivalent gas reserves.

Investments and Acquisitions

- Indian Oil Corp aims to expand the capacity of its Panipat plant by 25 per cent to 300,000 barrels per day (bpd) by October 2010 to meet growing fuel demand. The refinery expansion will cost US\$ 224.8 million.
- Mahanagar Gas Ltd (MGL) will invest over US\$ 3.37 billion in a span of 5-6-years to lay infrastructure for the supply of both Compressed Natural Gas (CNG) and Piped Natural Gas (PNG)
- The Ruias of Essar Group have injected US\$ 293 million in Essar Oil by subscribing to global depository shares (GDS) to part finance its US\$ 1.7-billion expansion plans. The proposed expansion plan includes scaling up of the Jamnagar refinery capacity by 25 per cent to 375,000 barrels.
- State-owned gas firm GAIL India will invest about US\$ 3.37 billion over the next 2-3 years in laying pipelines to connect consumption centres in North India to fuel sources.
- Energy major Reliance Industries gained an overseas foothold by agreeing to pay US\$ 1.7 billion to form a joint venture with U.S.-based Atlas Energy

- ❑ Gujarat State Petroleum Corporation (GSPC) has inked an agreement with government of Egypt for oil and gas exploration in the African nation where the Indian firm has been allotted blocks.
- ❑ Templeton Strategic Emerging Markets Fund (TSEMF) has invested US\$ 20.6 million investment in Shiv-Vani Oil & Gas Exploration Services.
- ❑ Indian state-run Oil & Natural Gas Corp will invest US\$ 7.11 billion for the first phase development of three marginal fields located in Mumbai offshore on the western coast.

Government Initiatives

The government has been taking many progressive measures to create a conducive policy and regulatory framework for attracting investments.

- ❑ FDI up to 100 per cent under the automatic route is permitted in exploration activities of oil and natural gas fields, infrastructure related to marketing of petroleum products, actual trading and marketing of petroleum products, petroleum product pipelines, natural gas and LNG pipelines, market study and formulation and petroleum refining in the private sector.
- ❑ FDI up to 49 per cent is permitted under the government route in petroleum refining by the public sector undertakings.
- ❑ Vision-2015 approved in 2009, for the oil sector which will focus on expanding the marketing network as well as quality of the products and services to customers covering four broad areas of LPG (liquefied petroleum gas), kerosene, auto fuels and compressed natural gas/piped natural gas.
- ❑ In 2009, the government announced a seven-year tax holiday for commercial production of gas in respect of contract to be signed under NELP VIII & Coal Bed Methane (CBM) IV with a view to give a boost to exploration and production.

India will complete building its first strategic crude oil storage by October 2011 in an effort to insulate itself from supply disruptions.

The country is building underground storages at Visakhapatnam in Andhra Pradesh and Mangalore and Padur in Karnataka to store about 5.33 million tonnes of crude oil. This is enough to meet nation's oil requirement of 13-14 days.

The storage at Visakhapatnam will have capacity to store 1.33 million tonnes of crude oil in underground rock caverns and will be completed by 2011, while the Mangalore facility will be able to store 1.55 million tonnes and would be completed by November 2012. 2.5-million tonnes storage at Padur, near Mangalore, would be completed by December 2012.

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