

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	CAST.BO
Bloomberg code	CSTRLIN
Market cap. (US\$ mn)	2,573
6M avg. daily turnover (US\$ mn)	1.8
Issued shares (mn)	247.3
Target price (Rs)	550

Performance (%) 1M 3M 12M

Absolute	(5)	15	15
Relative	6	24	22

Valuation ratios

Yr to 31 Dec	CY11E	CY12E
EPS (Rs)	22.0	25.0
+/- (%)	10.8	13.6
PER (x)	24.6	21.6
PBV (x)	21.1	18.3
Dividend/Yield (%)	3.0	3.3
EV/Sales (x)	4.1	3.6
EV/EBITDA (x)	15.6	13.7

Major shareholders (%)

Promoters	71
FII's	5
MF's	3
BFSI's	6
Public & Others	15

Financial highlights

(Rs mn)	2QCY10	2QCY11	YoY (%)	CY10	CY11E	YoY (%)	CY12E	YoY (%)
Net sales	7,458	7,932	6.4	27,348	31,353	14.6	35,168	12.2
EBITDA	2,265	1,988	(12.2)	7,251	8,155	12.5	9,277	13.8
EBITDA margin (%)	30.4	25.1	-	26.5	26.0	-	26.4	-
Other income	73	194	165.8	395	341	(13.8)	351	2.9
Interest	6	2	(66.7)	24	32	32.2	32	0.0
Depreciation	60	63	5.0	243	320	31.6	344	7.4
PBT	2,272	2,117	(6.8)	7,379	8,143	10.4	9,252	13.6
Tax	769	692	(10.0)	2,475	2,712	9.5	3,081	13.6
Adjusted PAT	1,503	1,425	(5.2)	4,903	5,432	10.8	6,171	13.6
Adjusted PAT margin (%)	20.2	18.0	-	17.9	17.3	-	17.5	-
Adjusted EPS (Rs)	6.1	5.76	(5.2)	19.8	22.0	10.8	25.0	13.6

Castrol India

Maintain Outperformer

Price: Rs 540

BSE Index: 17,059

11 August 2011

2QCY11 Result – In line performance

Castrol India (Castrol) results for the quarter was as per expectations both on revenue and earnings front. The 5% sequential revenue growth to Rs 7.9 bn was helped by improvement in realisations. The company managed to rein in other expenses and therefore, despite increased employee and advertisement expenses, was able to post slightly better than estimated operating margin of 25.1% compared with 24.2% in 1QCY11. The net earning was ~Rs 5.8 per share as against Rs 5.5 last quarter and ~Rs 6.1 in the corresponding quarter last year. The automotive segment revenue grew 3% sequentially to ~Rs 6.7 bn, with EBIT margin contraction of about 90 bps sequentially to ~24.4%. The non-auto segment reported strong revenue growth of 17% QoQ to Rs 1.2 bn although EBIT margin of the segment also declined 170 bps to 24.9%.

Outlook and valuation

As ~50% of volumes for Castrol come from the commercial vehicle diesel engine oil segment, we believe there might be some moderation in OE sales in the next couple of quarters. The volume growth expected in the next two years is ~3-4%. Although there are some constraints on base oil supplies, any further decline in crude prices will improve the operating performance, as the lube price increases taken so far may not be rolled back. Also, realisations are likely to continue to improve due to better product mix. Increased promotional activities and improving penetration in passenger car and two-wheeler lubes will also prove beneficial. At the current market price of Rs 540, the stock is trading at 24.6x CY11E earnings of Rs 22 and 21.6x CY12E earnings of Rs 25 per share. In light of the benefit due to drop in crude prices, we revise our target price slightly upward to Rs 550 at 22x CY12E earnings and maintain our Outperformer rating on the stock.

Income Statement

Yr end 31 Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Net sales	23,182	27,348	31,353	35,168
<i>Growth (%)</i>	<i>5.1</i>	<i>18.0</i>	<i>14.6</i>	<i>12.2</i>
Operating expenses	(17,428)	(20,097)	(23,198)	(25,891)
Operating profit	5,754	7,251	8,155	9,277
EBITDA	5,754	7,251	8,155	9,277
<i>Growth (%)</i>	<i>43.9</i>	<i>26.0</i>	<i>12.5</i>	<i>13.8</i>
Depreciation	(272)	(243)	(320)	(344)
Other income	361	395	341	351
EBIT	5,843	7,403	8,175	9,284
Interest paid	(35)	(24)	(32)	(32)
Pre-tax profit	5,808	7,379	8,143	9,252
(before non-recurring items)				
Pre-tax profit	5,808	7,379	8,143	9,252
(after non-recurring items)				
Tax (current + deferred)	(1,997)	(2,475)	(2,712)	(3,081)
Net profit (before Minority Interest, Pref. Dividend, etc.)	3,811	4,903	5,432	6,171
Reported PAT	3,811	4,903	5,432	6,171
Adjusted net profit	3,811	4,903	5,432	6,171
<i>Growth (%)</i>	<i>45.2</i>	<i>28.7</i>	<i>10.8</i>	<i>13.6</i>

Balance Sheet

Yr end 31 Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Cash and Marketable sec.	5,258	6,193	6,068	6,487
Other current assets	36	51	36	36
Investments	5	0	0	0
Net fixed assets	1,375	1,369	1,608	1,641
Other non-current assets	418	451	0	0
Total assets	11,833	13,307	13,897	15,487
Current liabilities	6,812	7,692	7,559	8,186
Other non-current liabilities	72	80	0	0
Total liabilities	6,883	7,772	7,559	8,186
Share capital	1,236	2,473	2,473	2,473
Reserves & surplus	3,714	3,062	3,865	4,828
Shareholders' funds	4,950	5,535	6,337	7,300
Total equity & liab.	11,833	13,307	13,897	15,487
Capital employed	5,022	5,615	6,337	7,300

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Pre-tax profit	5,808	7,379	8,143	9,252
Depreciation	235	60	320	344
Chg in working capital	2,541	361	(1,056)	(511)
Total tax paid	(2,077)	(2,500)	(2,340)	(3,081)
Cash flow from oper. (a)	6,508	5,299	5,067	6,004
Capital expenditure	(165)	(54)	(559)	(377)
Chg in investments	0	5	0	0
Cash flow from inv. (b)	(165)	(49)	(559)	(377)
Free cash flow (a+b)	6,343	5,250	4,508	5,627
Equity raised/(repaid)	0	1,236	0	0
Debt raised/(repaid)	(28)	0	0	0
Dividend (incl. tax)	(3,613)	(4,315)	(4,632)	(5,208)
Other financing activities	(0)	(1,237)	(0)	(0)
Cash flow from fin. (c)	(3,641)	(4,315)	(4,632)	(5,208)
Net chg in cash (a+b+c)	2,701	935	(124)	419

Key Ratios

Yr end 31 Dec (%)	CY09	CY10	CY11E	CY12E
EPS (Rs)	15.4	19.8	22.0	25.0
Growth	45.2	28.7	10.8	13.6
Book NAV/share (Rs)	20.0	22.4	25.6	29.5
Dividend/share (Rs)	12.5	15.0	16.0	18.0
Dividend Payout ratio	94.9	88.1	85.2	84.4
Tax rate	34.4	33.5	33.3	33.3
EBITDA margin	24.8	26.5	26.0	26.4
EBIT margin	25.2	27.1	26.1	26.4
RoCE	117.5	139.2	136.8	136.1
Net debt/Equity	(106.2)	(111.9)	(95.8)	(88.9)

Valuations

Yr end 31 Dec (x)	CY09	CY10	CY11E	CY12E
PER	35.0	27.2	24.6	21.6
PCE	32.7	25.9	23.2	20.5
Price/Book	27.0	24.1	21.1	18.3
Yield (%)	2.3	2.8	3.0	3.3
EV/Net sales	5.5	4.7	4.1	3.6
EV/EBITDA	22.3	17.6	15.6	13.7

Du Pont Analysis – ROE

Yr end 31 Dec (x)	CY09	CY10	CY11E	CY12E
Net margin (%)	16.4	17.9	17.3	17.5
Asset turnover	2.2	2.2	2.3	2.4
Leverage factor	2.2	2.4	2.3	2.2
Return on equity (%)	78.5	93.5	91.5	90.5

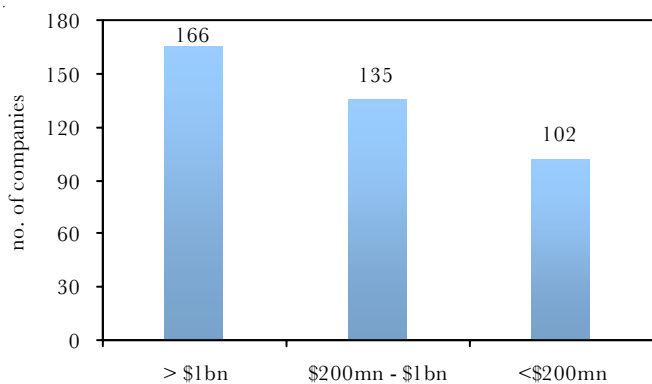
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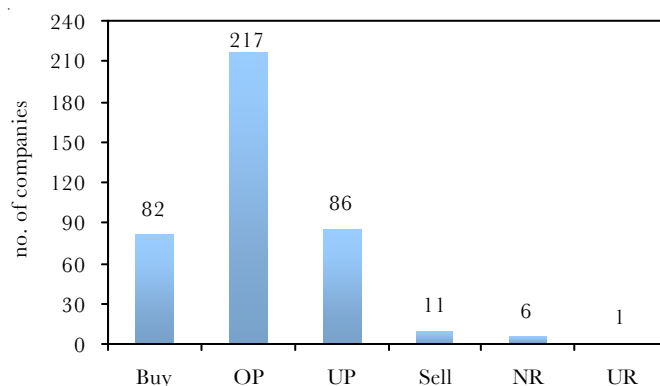
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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