30 July 2012

Initiating Coverage | Sector: Consumer

Castrol India

Enduring and widening moat

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Castrol India: Enduring and widening moat

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Castrol India

BSE SENSEX	S&P CNX
16,839	5,100

Castrol

Bloomberg	CSTRL IN
Equity Shares (m)	247.3
52-Week Range (INR)	576/380
1,6,12 Rel.Per. (%)	5/16/7
M.Cap (INR b)	132.5
M.Cap (USD b)	2.4

Valuation summary (INR m)

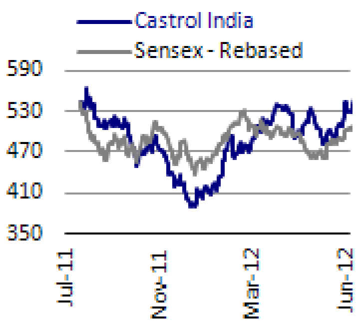
Y/E Dec	2012E	2013E	2014E
Net Sales	32.9	35.4	38.6
EBITDA	6.4	8.0	8.9
Adj NP	4.6	5.6	6.3
EPS (INR)	18.4	22.7	25.4
EPS Gr.(%)	-5	23	12
BV/Sh.(INR)	25.4	27.7	29.8
P/E(X)	29.1	23.6	21.1
P/BV (x)	21.1	19.4	18.0
EV/EBITDA (x)	19.8	15.8	14.0
EV/ Sales (x)	3.9	3.6	3.2
RoE (%)	83.8	74.0	85.6
RoCE (%)	109.4	99.1	116.7

Price as on 27 July 2012

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	71.0	71.0	71.0
Dom.Inst	7.1	7.0	6.9
Foreign	7.9	7.8	7.4
Others	13.9	14.1	14.7

Stock performance (1 year)



Investors are advised to refer through disclosures made at the end of the Research Report.

CMP: INR536 | TP: INR629 | Buy

Enduring and widening moat

A cash machine for shareholders; Buy for 17% upside

- **Castrol India, a 71% subsidiary of British Petroleum Group (BP), is a leading lubricants player in India, with ~19% market share in the auto lube bazzar segment.**
- **Castrol provides a vehicle to invest in a company with multiple and rare moats, huge free cash flows, high governance standards and reasonable valuations.**
- **Its key focus area is the premium personal mobility automobile segment, which is relatively insulated from economic cycles, unlike the freight and OE market.**
- **Over CY01-11, Castrol has posted revenue and net profit CAGR of 10% and 16% respectively, while it has generated shareholder returns of 22% (adjusted for dividends).**
- **Given its predictable and stable FCFs, low re-investment requirements and consistent payout ratio, we believe DCF is the best way to value the company.**
- **We initiate coverage with a Buy rating and a target price of INR629, 17% upside.**

Has created an enduring and widening moat

Despite intense competition in the lubricants industry in the last decade, Castrol has been able to successfully create and appropriate value through adept market segmentation. Its primary market is the premium personal mobility automobile segment, where it is able to leverage its trusted brand, product performance track record and unique service attributes. Unlike its competitors that have been making low to negligible investments in their brands, Castrol has consistently been investing 6-7% of its sales (INR2.2b in CY11) in brand-building. It enjoys tremendous pricing power, with most of its products commanding 20-25% premium.

To benefit from industry transition

During the last decade, the distribution channel for automotive lubricants (lubes) witnessed a major transition from the traditional 'public sector petrol pumps' to 'bazzar trade', which was positive for private sector players such as Castrol, Shell and Gulf Oil. The distribution channel is now undergoing another transition. With engine technology advancing and maintenance becoming more sophisticated, the workshop channel is gaining traction at the cost of other distribution formats. This is likely to lead to further polarization in the industry and benefit large lube marketers like Castrol that have strong/established relationships with original equipment manufacturers (OEMs).

Margin/unit to sustain, though volume growth to be muted

Over CY01-11, Castrol's sales volumes have de-grown, not only due to increasing drain interval, but also because it has deliberately vacated the price-sensitive volume-driven market. Castrol depends on technology innovation and path-breaking new product launches to drive growth and ability to organically generate growth through internal initiatives is the most sustainable source of growth. We model Castrol's net sales growth over CY12-21 at 9%. Concerns on account of increasing drain intervals are largely unfounded, as Castrol has historically maintained its margin/unit, which we believe it can sustain. We estimate 2.4% CAGR in Castrol's volumes over CY12-14. However, revenue would grow at a CAGR of 9%, driven by 6% CAGR in realizations. We expect EBIT margin to expand from 19.5% in CY11 to 22.2% in CY14 and estimate net profit CAGR at 17% over CY12-14.

A cash machine for shareholders; Buy

Over CY02-11, Castrol generated FCF of INR27b, with total reinvestment of negative INR3b. Castrol's cumulative net capex (capex - depreciation) over the period was a negative INR408m, while cumulative net working capital (net of cash) was a negative INR2.5b. It has paid out 87% of its FCF as dividend. Given its predictable and stable FCFs, low re-investment requirements and consistent payout ratio, we believe DCF is the best way to value the company. **We initiate coverage with a Buy rating and a DCF-based target price of INR629, 17% upside.**

Industry structure: A differentiated oligopoly market

Differentiated Oligopoly market
Top four players IOC/ HPCL/ BPCL and Castrol control >80% of the market

Nature of Demand
1. Endogenous demand - marketing matters
2. Earnings can be managed by shifting priorities appropriately

Nature of Firm Interaction
1. High interdependence amongst players
2. Maintaining distance amongst competitors critical - segmentation matters
3. Oligopolies can retain abnormal profits in the long run, because barriers to entry prevent sideline firms from entering market to capture excess profits.

Potential to Differentiate
1. Differentiation possible, firms can shape their own environment
2. Technology keeps evolving
3. Minimum efficiency scale needed

Given the industry structure, Castrol has got its strategy right

	Cost Advantage	Product Advantage
High Price Elasticity	Modest price cuts gain considerable share **Margin strategy: Maintain price parity**	Modest hikes lose considerable share **Margin strategy: Maintain price parity**
Low Price Elasticity	Big price cuts gain little share **Margin strategy: Maintain price parity**	Big price cuts gain little share **Margin strategy: Charge premium price**

Source: MOSL

Has created an enduring and widening moat

High pricing power; less dependent on volume growth

- **Despite intense competition in the lubricants industry in the last decade, Castrol has been able to successfully create and appropriate value through adept market segmentation.**
- **Castrol's primary market is premium personal mobility automobiles, where it is able to leverage its trusted brand, product track record and unique service attributes.**
- **Unlike its competitors that have been making low to negligible investments in their brands, Castrol has consistently been investing 6-7% of its sales (INR2.2b in CY11) in brand-building.**
- **Over CY01-11, Castrol's sales volumes have declined. However, its realizations have grown at a CAGR of over 10%, resulting in sales CAGR of 9%.**

Enjoys higher than industry average profitability...

Enjoys tremendous pricing power, with most of its products commanding 20-25% premium

Despite intense competition in the lubricants industry in the last decade, Castrol has been able to successfully create and appropriate value through adept market segmentation. Over CY06-10, Castrol has consciously vacated non-profitable price-sensitive segments such as railways, government agencies, etc, to concentrate on profitable segments. While this resulted in volume growth being negative over CY05-11, EBIT margin increased from ~14.5% in CY05 to 20.5% in CY11. The company enjoys tremendous pricing power, with most of its products commanding 20-25% premium. Castrol's primary market is the premium personal mobility segment, where it is able to leverage its trusted brand, product track record and unique service attributes.

...which should sustain, given multiple and rare moats

Has maintained an average net profit margin of 12% and an average RoE of 53%

Over CY01-11, Castrol has maintained an average net profit margin of 12% (lowest: 8.6%; highest: 17.5%) and an average RoE of 53% (lowest: 35%; highest: 94%). It generated free cash flow (FCF) of INR27b, with total net capex of a negative INR408m. Castrol has been able to sustain its above average returns by virtue of the multiple and rare moats it has created. The width of a moat indicates how long a firm's competitive advantage will last. Most moats a company enjoys turn out to be weak or transient, leading to the convergence of its profitability with competitors'. Few rare companies, however, are able to secure enduring and widening moats, enabling them to avoid this downward spiral. As such companies age, they also become stronger and more profitable. Castrol is one such company. Its sustained performance over the last decade highlights the strength of its inimitable model.

Castrol enjoys multiple and rare moats

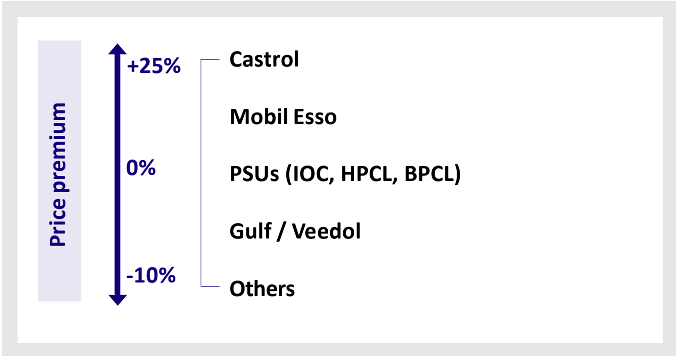
Order of importance	Moat	Attributes
High	**(1) Increasing returns advantages**	• Cumulative experience across a learning curve • Ability to invest in a series of actitivities to gain strategic fit and widen competitive moat
	(2) Technology and knowledge base	• Support from parent BP • Product performance track record and reputation • Quality pre/post sales service
	(3) Established brand/ Enduring relationships	• Allows Castrol to operate in the high willingness to pay/defendable and meaningful subset of the market • Charge 20-25% premium on its products • Leverage on its wide distribution network
Low	**(4) Ability to create uniqueness in drastically different ways**	• Introduce paradigm breaking new product concepts • Compelling advertisement messages

Source: MOSL

Castrol has got its strategy right

	Cost Advantage	Product Advantage
High Price Elasticity	Modest price cuts gain considerable share **Margin strategy: Maintain price parity**	Modest hikes lose considerable share **Margin strategy: Maintain price parity**
Low Price Elasticity	Big price cuts gain little share **Margin strategy: Maintain price parity**	Big price cuts gain little share **Margin strategy: Charge premium price**

Lube price premium



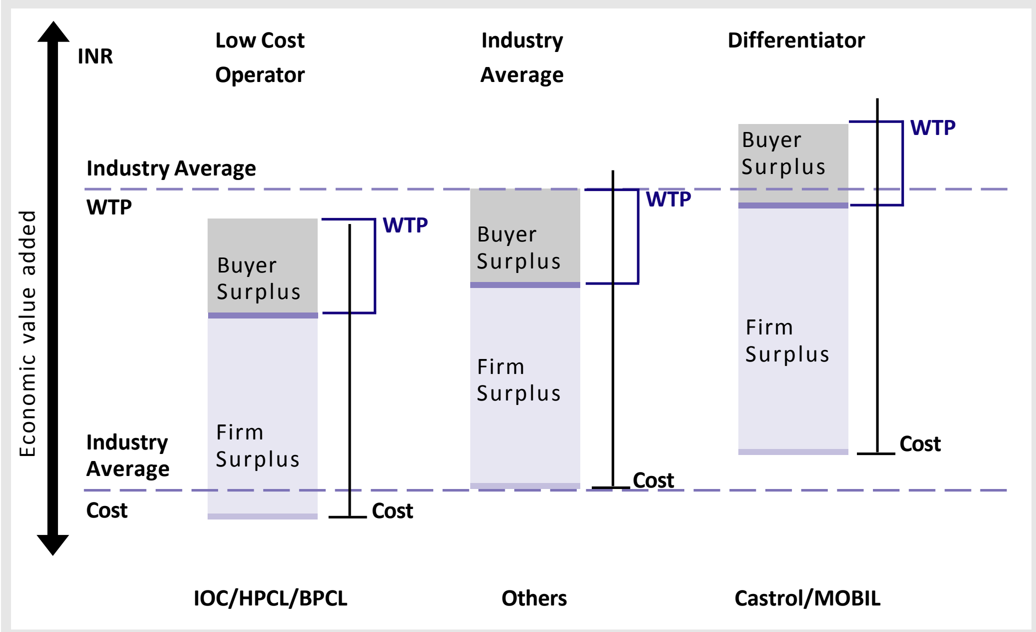
Source: MOSL

Expect pricing premium over industry to stabilize at 20-25%

Has managed to create and sustain a wide gap between buyers' willingness to pay (WTP) and its cost

The industry players can be broadly divided into three categories: (1) low cost public sector operators like IOC, BPCL and HPCL, with ~70% market share (lower cost due to integrated model), (2) differentiators like Castrol, Shell and Total, focused on increasing WTP, and (3) mid-sized/small players lacking competitive advantage - these players compete with low cost players for market share to sustain minimum economies of scale. Through its differentiation strategy, Castrol has managed to create and sustain a wide gap between buyers' willingness to pay (WTP) and its cost.

Player-wise positioning in the lubricants industry



*WTP - willingness to pay

Source: MOSL

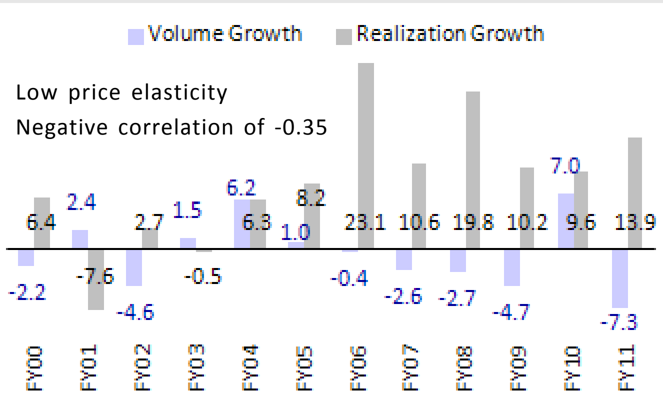
Historically, Castrol has enjoyed 20-25% price premium vis-a-vis its competitors. However, in CY11, Castrol's price premium compared to its key competitors had shot up to 35-40% in some segments, because the competitors did not immediately follow up on the sharp price increase (~14%) that Castrol took to offset raw material and exchange rate (INR/ USD) impact. This resulted in the trade stocking cheaper products, which led to loss of market share of ~200bp for the company, with the price-sensitive motorcycle segment being the worst impacted. With IOC taking a sharp 10-12% price increase in June 2012 and Castrol introducing a one-time INR20/pack discount for the motorcycle segment, the issue of unsustainable premiums has been resolved.

Consistently investing in brand-building to sustain pricing power

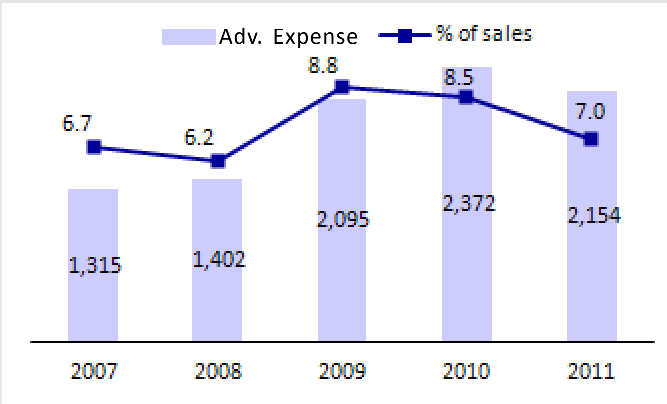
Has consistently been investing 6-7% of its sales in brand-building

Castrol's differentiation strategy provides it with tremendous pricing power and high profit margins. In CY11, its net profit margin was 15.6%, and over CY06-11, its average net profit margin was 13.4%. Over CY06-11, Castrol's realizations increased at a CAGR of 12.8%, while its raw material cost, which accounts for ~50% of its sales, increased at a CAGR of 7.9% (total cost grew at a CAGR of 8.9%). Castrol invests heavily in its brands to sustain its pricing power. Unlike its competitors that have been making low to negligible investments in their brands, Castrol has consistently been investing 6-7% of its sales (INR2.2b in CY11) in brand-building.

Sharp increase in prices results in low volume loss (%)



Castrol spends heavily on brand building



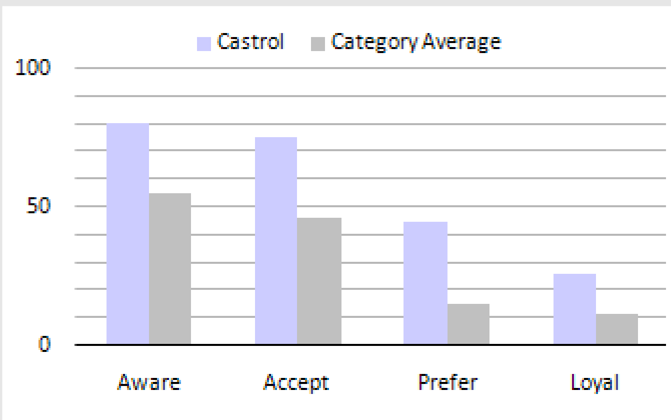
Source: Company/MOSL

Strategy to maintain competitive edge

Castrol maintains its competitive edge in the bazzar trade by: (1) leveraging its technological strength and product development capabilities by working closely with global OEMs, (2) working closely with mechanics, who play a key role in the final decision making, and (3) by expanding distribution reach in semi-urban and rural areas, where future growth is anticipated. Castrol has been coherent in the communication of its value proposition to the consumer. Its key advertisement plank has been 'Liquid Engineering'.

Castrol's three-pronged strategy

Globally, Castrol is one of the strongest lube brands



Source: BP Energy Outlook Presentation 2030

Castrol has been coherent in its communication

- Engine that runs smooth like butter
- Engine oil that runs like blood through the vehicle
- An indication of good engine oil is the sound that the bike makes
- Engine is the heart of the vehicle

Few paradigm breaking new product concepts by Castrol

- 24 Hour Protection (bikes)
- Intelligent Molecules (cars)
- 5 Times Better Protection (cars)
- Elite Team of Engineers (mother brand)
- Trizone Technology (bikes)
- CRB Turbo Synthetic - Airplane Technology (trucks)

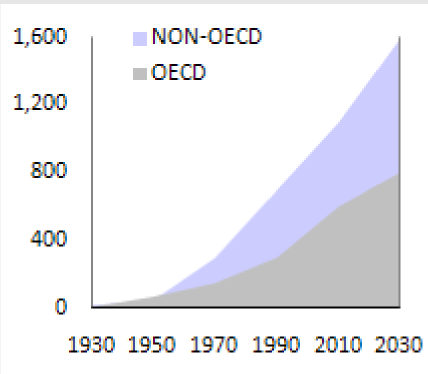
Source: MOSL

High technological support from parent, BP to continue

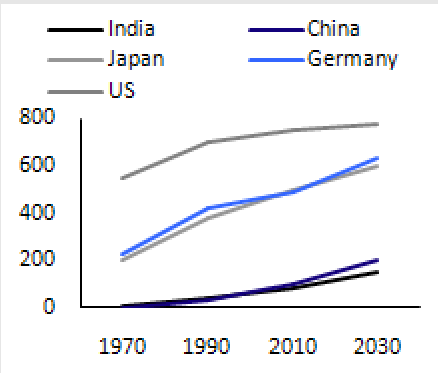
Non-OECD/BRIC countries are likely to be the fastest growing markets for lubricants over CY10-30. Growth is likely to be led primarily by India and China, where vehicle density per person is still very low. While vehicle per thousand people is expected to witness marginal to flat growth in developed countries, countries like India and China are expected to witness increasing vehicle density per person, which augurs well for lubricant demand. Castrol's parent, BP has identified India as one of the most promising markets. We expect Castrol to continue receiving high support from BP.

Non-OECD countries to witness fastest growth

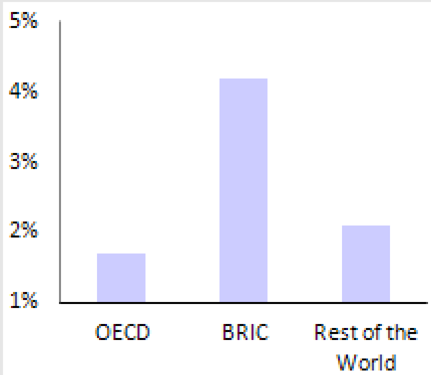
Total number of vehicles



Vehicles per thousand people

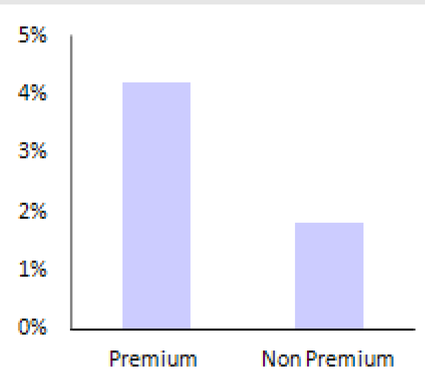


Growth in lubricant demand (2010-20)

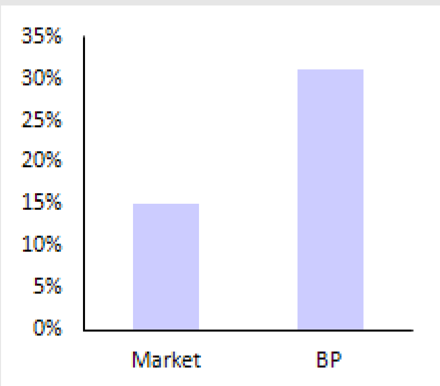


BP's key focus area is premium lubes

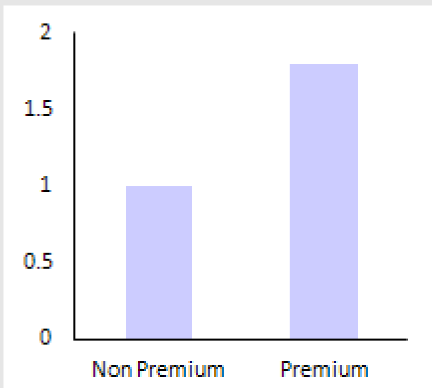
Growth in lubricants (2010-20)



Premium lubes as percentage of sales



Relative BP unit margins (x)



Source: BP Energy Outlook Presentation 2030; BP Downstream Presentation

Market size:
- INR230b in value terms
- 1.8mt in volume terms

The Indian lubricants industry - a background

- The size of the organized lubricants industry in India is ~INR230b in value terms and ~1.8mt in volume terms. Volumes have been growing at 3-5% per year, as the drainage period (longevity) has been continuously increasing. Till 1993, the lubricants industry was governed under APM (administered price mechanism), which ensured oil PSUs 12% RoE. Lubricants were auctioned to dealers and stockists. The business was liberalized in 1993, post which import of base oil was allowed. The customs duty on base oil was also cut from 85% in FY94 to 5% in FY08.
- Even after liberalization, access to 'retail petrol pumps' (distribution channel) remains restricted to the oil PSUs. Nonetheless, while in the late 1990s, PSU petrol pumps accounted for ~80% of auto lube sales, they now account for less than 20%. The bazzar trade accounts for over 80% of sales and is dominated by private players such as Castrol, Shell, Tide Water and Gulf Oil.

Liberalization effect:

Year	Share of PSU pumps
1990	~80% of auto lube sales
Now	~20% of auto lube sales

- The oil PSUs have been milking their monopoly strength through petrol pumps. They have been offering very low dealer discounts to their petrol pump dealers compared to the dealer margins that private players offer in the bazzar segment. However, the oil PSUs have now started making a more focused attempt to capture a larger share of the bazzar trade.

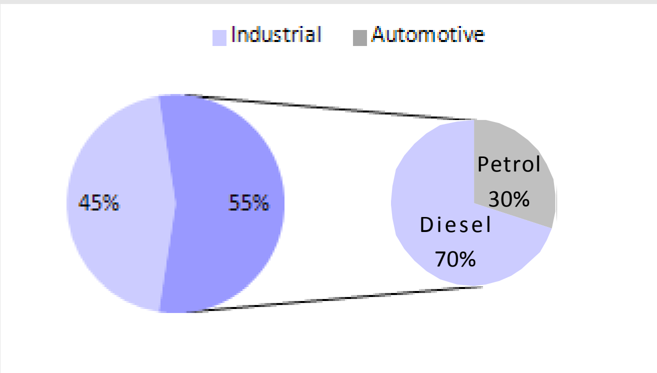
Oil PSUs and Castrol together control ~80% of the market

- The oil PSUs (IOC, HPCL and BPCL) along with Castrol control ~80% of the market, with 15 other players competing for the remaining pie. Competition in this industry is truly international, with almost all major global lube players such as Total, Shell, Caltex, Elf, Gulf Oil, etc already present in India for almost a decade. Economies of scale are a key advantage in this industry, which is slowly weeding out mid-sized players and increasing polarization.

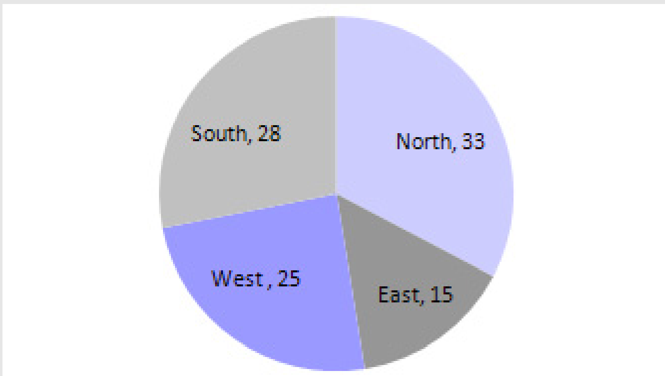
Castrol primarily present in automotive lubricants

- The industry can be broadly divided into Automotive (55% share) and Industrial & Marine (45% share) lubricants. Automotive lubricants can be further divided into the OEM and replacement markets. The replacement market can be divided into retail petrol pumps (~20%) and bazzar trade (~80%). Castrol is primarily present in automotive lubricants (~86% of revenue) and has an estimated market share of ~21%.

Lubricants industry break-up



Region-wise sales break-up of automotive lubes

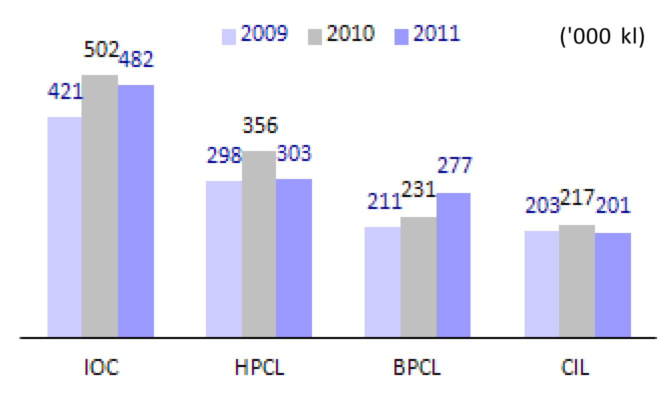


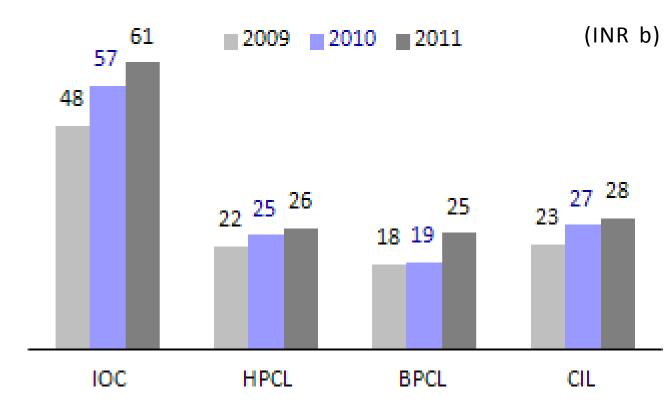
Broad break-up of automobile industry demand: diesel engines ~70% and petrol engines 30%. With the proportion of new generation two-wheelers increasing, the demand for 2T oils is reducing and the demand for 4T oils is increasing.

Source: Industry/MOSL

Key industry players

Top-4 lubes players volume-wise and value-wise

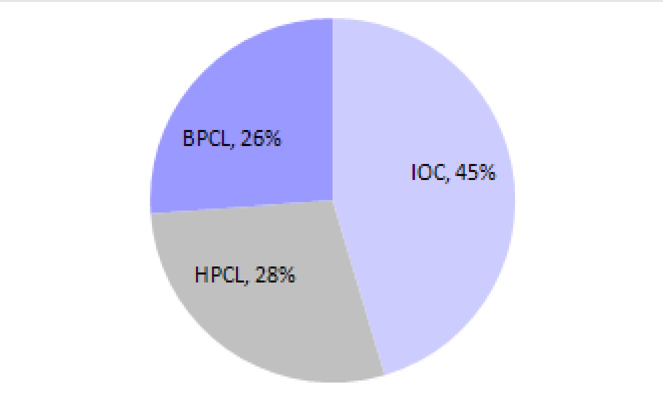




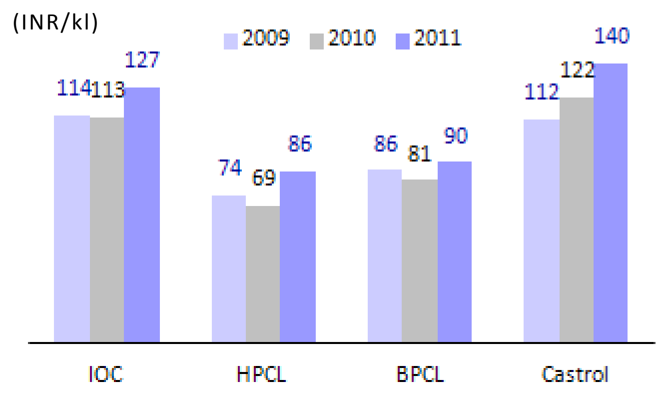
The top-4 lubes players in India are IOC, HPCL, BPCL and Castrol. With the exception of BPCL, they have witnessed erratic volume growth over FY09-11.

Reasonable pricing power allows companies to increase prices and maintain value growth.

Split of market share within PSU lube sales



Realizations for top-4 players



The three oil PSUs control ~70% of the market. Within them, market share is distributed as: IOC - 45%, HPCL - 28% and BPCL - 26% (FY11).

Monopoly control over the 'retail petrol pumps' distribution channel allows oil PSUs to enjoy very high margins on the lubes sold through this channel.

Castrol enjoys premium pricing. Realizations also vary amongst players, depending on the split between industrial and automotive lubricants.

Source: Annual Reports of IOC/ HPCL/ BPCL and Castrol

Industry structure: A differentiated oligopoly market

Differentiated Oligopoly market

Top four players IOC/ HPCL/ BPCL and Castrol control >80% of the market

Nature of Demand

1. Endogenous demand - marketing matters
2. Earnings can be managed by shifting priorities appropriately

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1. High interdependence amongst players
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3. Oligopolies can retain abnormal profits in the long run, because barriers to entry prevent sideline firms from entering market to capture excess profits.

Potential to Differentiate

1. Differentiation possible, firms can shape their own environment
2. Technology keeps evolving
3. Minimum efficiency scale needed

Analyzing industry attractiveness through industry competition matrix

Buyer Power - Low

1. Lubricant a small fraction of buyers' maintenance cost, but extremely critical for longevity of the vehicle
2. Buyers small and fragmented
3. Hence, despite intense competition in the segment, buyer power varies from moderately high to low across segments (high for a major auto OEM, low for an individual buyer, small fleet owner)

Entry Barriers - High

1. Ex post limit to competition
2. High minimum economies of scale needed to challenge established players; globally, industry dominated by few large players
3. Access to distribution
4. Brand identity
5. Access to complex and expensive technology

Rivalry amongst Players - Low

Intensity of rivalry is low, despite presence of numerous players and the fact that firms sell similar goods, which are substitutes and thus price sensitive. Key reasons are (1) fixed cost investment low (low exit barriers), (2) ex post limit to competition, (3) demand endogenous - allowing market segmentation and differentiation strategies to work

Substitutes - Low

1. No current perfect substitute
2. Technology developments, organic lubricants a threat

Bargaining Power of Suppliers - Moderate

1. Most global/ local players fully integrated
2. Many competitive suppliers; product is standardized

Source: MOSL

To benefit from industry transition

From 'shops' to 'workshops' - advantage Castrol

- **During the last decade, the distribution channel for automotive lubricants (lubes) witnessed a major transition from the traditional 'public sector petrol pumps' to 'bazzar trade', which was positive for private sector players such as Castrol, Shell and Gulf Oil.**
- **The distribution channel is now undergoing another transition. With engine technology advancing and maintenance becoming more sophisticated, the workshop channel is gaining traction at the cost of other distribution formats.**
- **This is likely to lead to further polarization in the industry and benefit large lube marketers like Castrol that have strong/established relationships with OEMs.**

Transition from 'shops' to 'workshops' positive for Castrol

The workshop channel is gaining traction at the cost of other distribution formats

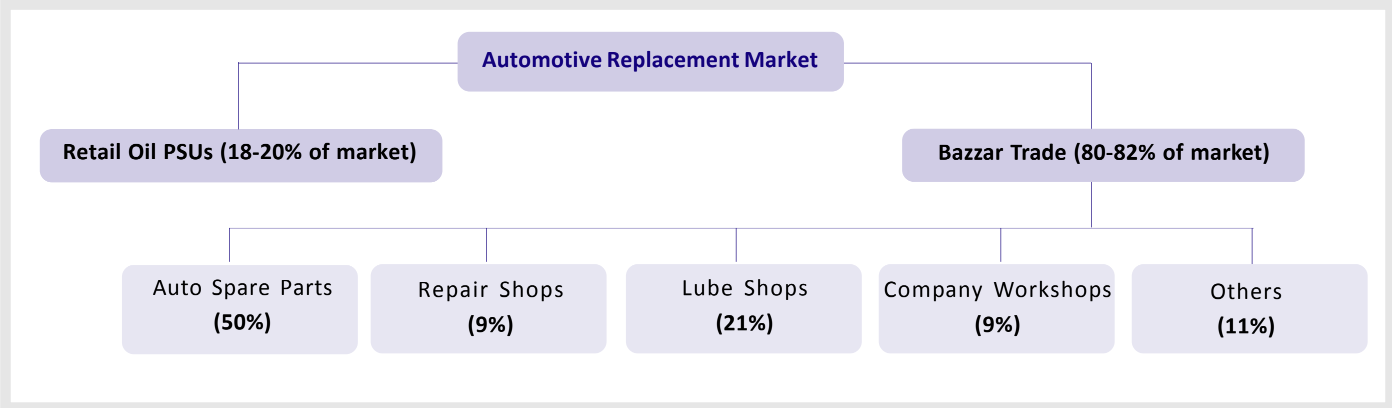
During the last decade, the distribution of automotive lubes witnessed a major transition from traditional 'public sector petrol pumps' to 'bazzar trade', which was positive for private players such as Castrol, Shell, Gulf Oil, etc. Another transition is currently underway - from 'shops' to 'workshops'. With engine technology advancing and maintenance becoming more sophisticated, the workshop channel (both company authorized and unorganized) is gaining traction at the cost of other distribution formats. As a result, we expect the following trends to emerge:

- Increase in the share of the organized market
- Higher polarization, with market share of the top-4 lubricant marketers (Oil PSUs and Castrol) increasing at the cost of mid-size and non-niche smaller players
- Technological innovation, value-addition, quality, and pre/post-sales service to become critical
- Focus on innovative/premium product offerings leading to richer product mix

Launched a professional range of products and service support for key OEM partners

These trends are positive for Castrol. It can further leverage its premium positioning and established relationships with key local and global OEMs (original equipment manufacturers). Anticipating these trends, in CY11, Castrol had launched a professional range of products and service support for its key OEM partners like Maruti Suzuki, Tata Motors, Ford, Volkswagen, Skoda, BMW, Audi and Jaguar Land Rover. This is likely to drive significant volume growth for its premium end of lubricants.

Distribution of automotive lubricants



Source: Industry/MOSL

Understanding the distribution channel - the lubes market is evolving

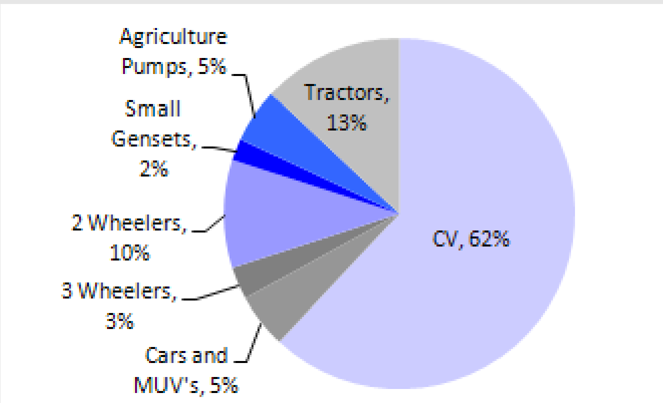
Distribution channels	Market Share (%)	Remarks
Spare Parts Shop for Autos	50	■ Main business auto spare parts, offer lubricants as side business ■ Do not stock many varieties
Standalone Lubricant Shops	21	■ Dedicated lube shops typically carry all leading brands ■ Do-it-yourself model but offer mechanic service for additional cost. Do-it-yourself model slowly declining
Repair Shops	9	■ Important channel for older vehicles
Company Authorized Workshops (CAW)	9	■ High focus on technology and maintaining efficiencies ■ Association with top brands brings credibility for the CAW ■ ROI on premium products higher for CAW ■ Prefer companies that offer pre and post sales service, along with innovative offerings
Others	11	■ Varied usage
Total	**100**	

Source: Industry/MOSL

OEM relationships key to winning in workshop format

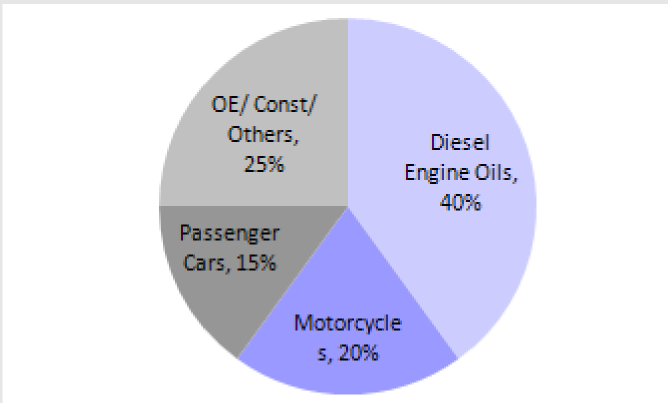
Though profit margins are low in the OEM market, strength in this market gives lubricant companies easier access to the after sales market. According to industry estimates, the dominant distribution channel for lubricants is the auto spare parts shop, accounting for ~50% share. However, it is the company authorized workshop, currently accounting for just 9% share, which is witnessing the strongest growth. This channel seeks association with strong brands to achieve creditability and values pre/ post sales service from lube companies. Also, the margins for these workshops are higher in the premium products/brands segment.

Automotive industry break-up



Almost 75% of the lube demand is derived from CVs and tractors, largely dominated by diesel engines.

Castrol's automobile lubricant break-up



2/ 3 wheelers account for another ~13% of the market, while 4 wheelers/ MUVs account for ~5% of the market

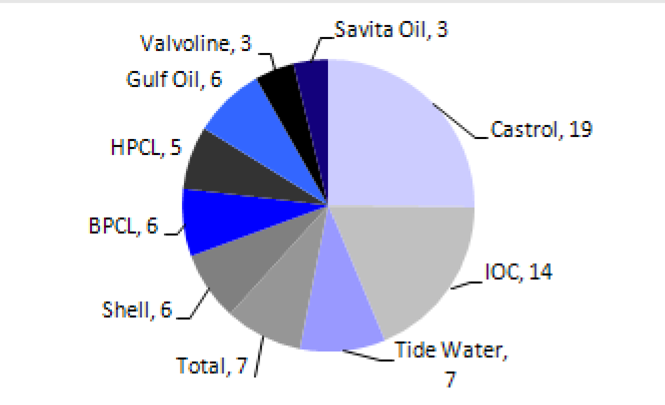
Source: Industry/MOSL

Castrol the market leader in bazzar segment

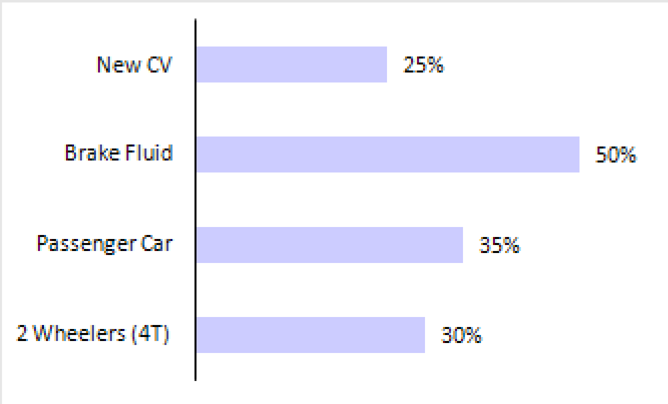
Dominates the automotive lubricants market, with 19% share of the bazzar segment

IOC is the market leader in the overall lubricants industry, with industry sources estimating its market share at ~40%. However, Castrol dominates the automotive lubricants market, with 19% share of the bazzar segment, followed by IOC, which has ~14% share of the bazzar segment according to industry estimates. Private players like Castrol, Shell, Gulf Oil, etc account for ~75% of the bazzar segment while the oil PSUs account for ~25%.

Player-wise industry estimates of market share in bazzar segment



Industry estimates of Castrol's market share across key categories in bazzar segment



Source: Industry/MOSL

Has been coherent in the communication of its value proposition to the consumer

Castrol maintains its competitive edge in the bazzar trade by: (1) leveraging its technological strength and product development capabilities by working closely with global OEMs, (2) working closely with mechanics, who play a key role in the final decision, and (3) by expanding distribution reach in semi-urban and rural areas, where future growth is anticipated. Castrol has been coherent in the communication of its value proposition to the consumer. Its key advertisement plank has been 'Liquid Engineering'.

Focused strategies for various segments

While lubricants constitute a small fraction of maintenance cost, they are critical for longevity and efficient functioning of vehicles. Hence, demand is endogenous and brand-pull significant. However, the consumer dynamics and distribution channels vary considerably across automotive segments. While the involvement of a car owner in lube purchase is very low, it is very high in case of a two-wheeler or CV owner. Similarly, the key distribution channel also varies considerably across segments. Consequently, lube companies need to have focused strategies for various segments.

Understanding the distribution channel - the lubes market is evolving

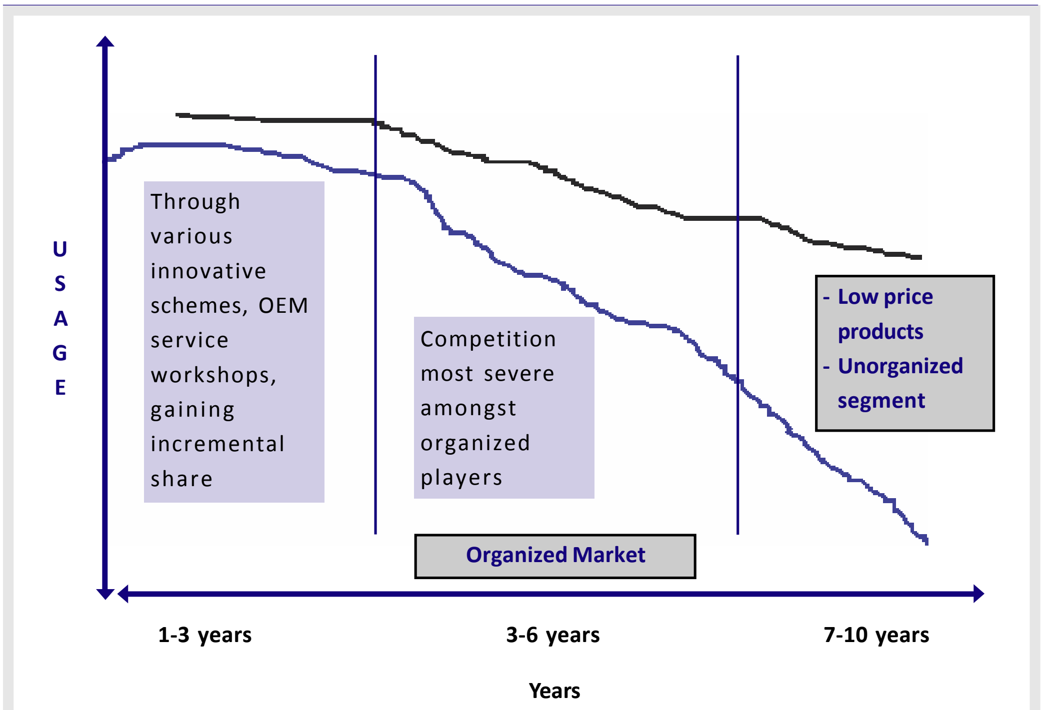
Vehicle	Main Distribution Channel	Remarks/ Characteristics
Trucks/ Tractors	■ Petrol Pumps ■ Company Salesman ■ Spare Parts Shops ■ Company Authorized Workshops ■ Retail Petrol Pumps	■ High emotional connect to the vehicle (bread earner) ■ Meticulous understanding of lubes and vehicle ■ Brand pull significant but economy biggest driver
Car Owners	■ Mechanics/ Workshops (Spare Parts Shops & Distributors) ■ Mechanics (Distributors)	■ Very low involvement with purchase decision ■ Lubes regarded as mechanics' domain and left for them to decide
2 wheelers (2 stroke/ 4 stroke)	■ Spare Parts Shop	■ Level of involvement high with regard to choosing lube oil ■ Lube experience real ■ Emotional connect high given first vehicle purchase, status symbol
Agriculture/ Others	■ Small Shops and Unconventional Outlets	■ Price key determining factor ■ Unorganized segment key player

Source: Industry/MOSL

Understanding the lube oil demand profile for a typical CV

The exhibit below depicts the typical lube oil demand profile for a CV. Players such as Castrol are able to capture a bigger share of the market within the first five years by leveraging on their OEM relationships and after sales service agreements. The age and nature of ownership of a CV determine what quality (and brand) of lube oil will be used. In India, a CV is typically owned by large fleet operators for the first 4-5 years, after which it moves into the hands of many fragmented users. The share of the unorganized market is higher for older vehicles.

Product life-cycle of a typical 16-tonne CV



Source: Industry/MOSL

Margin/unit to sustain

Though volume growth to be muted

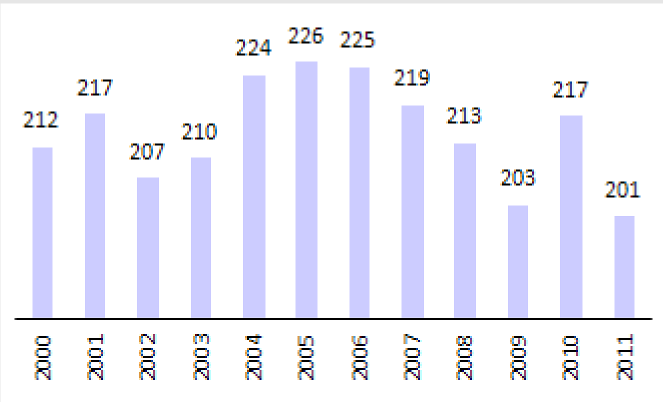
- **Over CY01-11, Castrol's sales volumes have de-grown, not only due to increasing drain interval, but also because it has deliberately vacated the price-sensitive volume-driven market.**
- **We estimate 2.4% CAGR in Castrol's volumes over CY12-14. However, revenue would grow at a CAGR of 9%, driven by 6% CAGR in realizations.**
- **We expect EBIT margin to expand from 19.5% in CY11 to 22.2% in CY13 and estimate net profit CAGR at 17% over CY12-14.**

Volumes have declined over CY01-11

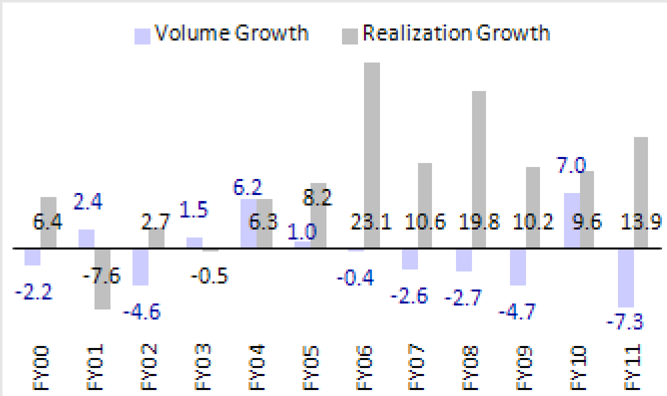
Though volumes declined, net profit margin expanded from 12% in CY02 to 15.6% in CY11

Over CY01-11, Castrol's sales volumes have de-grown at a compounded annual rate of 0.8%. However, revenue has grown at a CAGR of 9%, driven by realization CAGR of 10%. The negative volume growth is not only due to increasing drain interval (up from ~18,000km in FY04 to 30,000km for modern 16-tonne CV), but also because Castrol has deliberately vacated the price-sensitive volume-driven market. Castrol's net profit margin expanded from 12% in CY02 to 15.6% in CY11. The company has been focusing on improving its product mix through adept market segmentation and innovative products. How effectively Castrol is able to continuously improve its product mix by consistently expanding the premium end of the market and through paradigm-breaking new product concepts is a key factor to watch.

Volume growth over CY00-11 (%)



Revenue and realization growth over CY00-11 (%)



Source: Company/MOSL

Management growth outlook for key segments

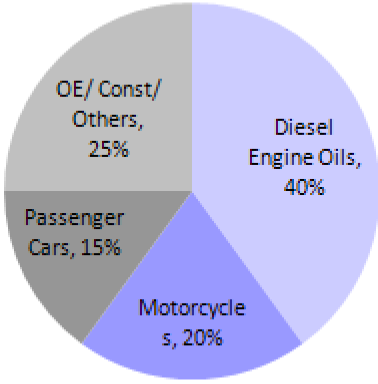
The management has guided for auto lube volume growth of 2-2.5% over the next 3-5 years. Castrol's auto lube sales break-up: diesel engine oils (mostly CVs) 40%, 2-wheelers 20%, passenger cars 15% and OEM/ Construction/ Brake oil, etc 25%. The management expects the 2-wheeler segment to double in volume terms in the next 3-4 years, while the other segments will likely post marginal growth rates. The management expects growth in the industrial segment to be marginally stronger than in the auto segment.

Management growth outlook

Castrol auto volume break-up	%	Company growth outlook over CY12-15
Diesel Engine Oils	40	Expects very low to marginal growth
2-Wheelers	20	Expects volumes to double in 3-4 years
Passenger Cars	15	Expects 1% odd growth
OE/ Const/ Others	25	Marginal growth
Total	**100**	**2-2.5% growth**

Source: Conference Call post 3QCY11 results

Automobiles: Segment-wise sales break-up



Source: Company/MOSL

Expect volumes to grow at a CAGR of 2.4% over CY12-14

We expect volume growth for lubricants industry to remain muted, given technological advancements and increasing drain intervals. We estimate 2.4% CAGR in Castrol's volumes over CY12-14.

Raw material cost assumptions

	2008	2009	2010	2011	2012E	2013E	2014E
Base Oil							
Volumes ('000 tons)	182,293	176,838	187,463	168,911	174,637	178,828	183,299
% Change	-6	-3	6	-10	3.4	2.4	2.5
Value (INR m)	**8,880**	**6,477**	**8,624**	**10,433**	**11,757**	**11,859**	**12,787**
% Change	28	-27	33	21	13	1	8
Per Unit (INR/kl)	48.7	36.6	46.0	61.8	67	66	70
% Change	36	-25	26	34	9.0	-1.5	5.2
% of lube sales	41	29	32	37	39	37	36
Additives/ Chemicals							
Volumes ('000 tons)	32,494	32,429	31,825	30,076	30,613	31,347	32,131
% Change	-3.6	-0.2	-1.9	-5.5	1.8	2.4	2.5
Value (INR m)	**3,153**	**3,363**	**3,554**	**3,959**	**4,392**	**4,430**	**4,777**
% Change	8	7	6	11	11	1	8
Per Unit (INR/kl)	97	104	112	132	143	141	149
% Change	12	7	8	18	9.0	-1.5	5.2
% of lube sales	15	15	13	14	15	14	14
Total Raw Material Cost (INR m)	**13,125**	**11,238**	**13,847**	**16,945**	**18,820**	**19,166**	**20,711**
Base Oil (%)	68	58	62	62	62	62	62
Additives (%)	24	30	26	23	23	23	23
Others (%)	8	12	12	15	14	15	15
% of sales	58	47	49	55	57	54	54

Source: Company/MOSL

High sensitivity to volume and realization assumptions

Castrol has high sensitivity to volume and realization assumptions. We have assumed volume/realization CAGR of 2.4%/ 6% over CY12-14, implying revenue growth of ~9%. Our volume and realization assumptions over CY12-21 are 2.6% and 7%, respectively. Over CY01-11, Castrol has reported volume and realization CAGR of -1% and 10%, respectively. Negative volume growth over CY01-11 was primarily due to Castrol vacating the price-driven volume market. BP estimates (BP Refining and Marketing Presentation) BRIC countries to be the largest lubricant market by 2020, given low vehicle penetration. Furthermore, within the lubricant industry, BP expects premium lubricants to grow at a faster rate compared to normal lubricants. Consequently, we believe our assumption of 2.6% volume growth for Castrol is conservative and has potential for upside surprise.

Sensitivity of net profit and DCF (value/share) to volume growth and realization growth

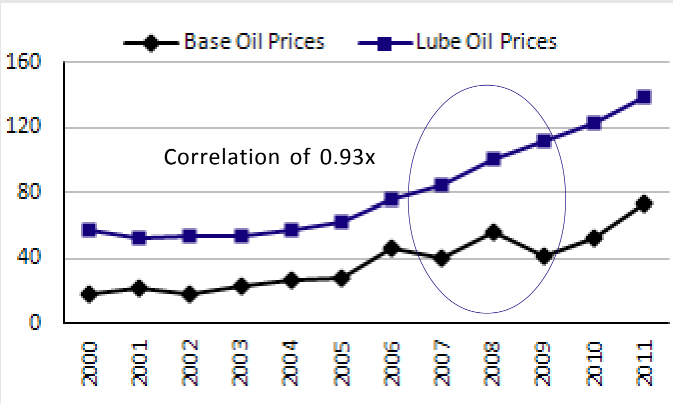
	Change (+/-)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR	DCF Value
Volumes													
Base (%)		2.1	2.4	2.5	2.7	2.7	2.7	2.7	2.6	2.6	2.5	2.6	
Optimistic (%)	+1	3.1	3.4	3.5	3.7	3.7	3.7	3.7	3.6	3.6	3.5	3.6	
Pessimistic (%)	-1	1.1	1.4	1.5	1.7	1.7	1.7	1.7	1.6	1.6	1.5	1.6	
PAT (INR b)													
Optimistic (INR b)	+1%	4.6	5.7	6.5	7.3	8.3	9.4	10.7	12.2	13.9	15.7	14.6%	**680**
% Change		0.8	1.7	2.6	3.6	4.7	5.9	7.2	8.4	9.8	11.2		8.1
Pessimistic (INR b)	-1%	4.5	5.5	6.1	6.8	7.5	8.4	9.3	10.3	11.5	12.7	12.1%	**582**
% Change		-0.8	-1.7	-2.6	-3.5	-4.6	-5.6	-6.8	-7.9	-9.1	-10.3		-7.5
Realization													
Base (%)		4.7	5.2	6.7	6.9	6.9	6.9	6.9	6.9	7.0	7.0	6.7	
Optimistic (%)	+1	5.7	6.2	7.7	7.9	7.9	7.9	7.9	7.9	8.0	8.0	7.7	
Pessimistic (%)	-1	3.7	4.2	5.7	5.9	5.9	5.9	5.9	5.9	6.0	6.0	5.7	
PAT (INR b)													
Optimistic (INR b)	+1%	4.7	5.9	6.8	7.9	9.1	10.4	12.0	13.9	15.9	18.3	16.3%	**699**
% Change		3.2	5.8	8.7	11.6	14.6	17.6	20.6	23.6	26.6	29.7		11.1
Pessimistic (INR b)	-1%	4.4	5.3	5.8	6.3	6.8	7.4	8.0	8.7	9.5	10.3	9.8%	**564**
% Change		-3.2	-5.7	-8.6	-11.3	-14.1	-16.8	-19.6	-22.2	-24.8	-27.5		-10.3
Both Volume and Realization													
Base (%)		6.8	6.7	8.3	8.8	8.7	8.7	8.7	8.7	8.7	8.7	9.48	
Optimistic (%)	+1	9.0	9.8	11.5	11.9	11.9	11.9	11.9	11.9	11.8	11.8	11.58	
Pessimistic (%)	-1	4.8	5.7	7.3	7.7	7.7	7.7	7.7	7.7	7.6	7.6	7.4	
PAT (INR b)													
Optimistic (INR b)	+1%	4.7	6.0	7.0	8.2	9.5	11.1	12.9	15.0	17.5	20.3	17.5%	**756**
% Change		4.0	7.6	11.6	15.7	20.1	24.5	29.2	33.9	38.7	43.7		20.2
Pessimistic ((INR b)	-1%	4.4	5.2	5.6	6.0	6.5	7.0	7.5	8.0	8.6	9.1	8.5%	**522**
% Change		-3.9	-7.3	-10.9	-14.4	-18.0	-21.6	-25.1	-28.6	-32.0	-35.4		-17.0
Raw Material													
Base (%)		9.0	-1.5	5.2	5.2	5.2	5.2	5.2	5.2	5.3	5.3	4.5	
Optimistic (%)	-1	8.0	-2.5	4.2	4.2	4.2	4.2	4.2	4.2	4.3	4.3	3.6	
Pessimistic (%)	+1	10.0	-0.5	6.2	6.2	6.2	6.2	6.2	6.2	6.3	6.3	5.5	
PAT (INR b)													
Pessimistic (INR b)	+1%	4.5	5.4	5.9	6.5	7.1	7.8	8.9	9.4	10.4	11.4		**608**
% Change		-2.4	-4.2	-6.2	-8.2	-10.2	-12.1	-14.0	-15.8	-17.5	-19.2		-3.3
Optimistic (INR b)	-1%	4.7	5.9	6.7	7.6	8.7	9.9	11.3	12.9	14.7	16.6		**650**
% Change		2.4	4.2	6.1	8.0	9.8	11.5	13.2	14.8	16.3	17.8		3.3

Source: MOSL

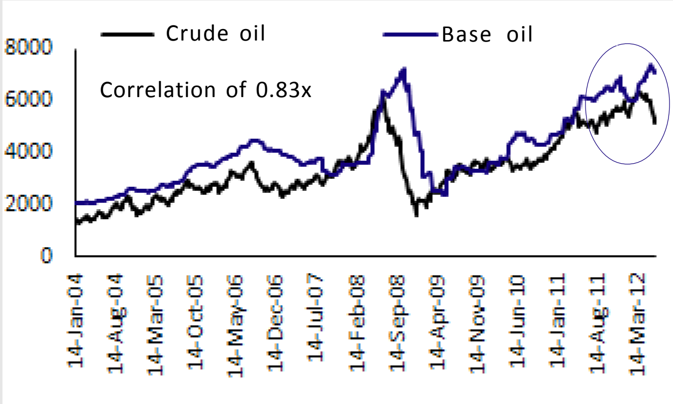
Decline in raw material prices could boost margins

Historically, base oil prices have closely followed crude oil prices, with correlation at 0.93x. In the last three months, crude oil prices have declined by 18% in USD terms, which bodes well for Castrol. The exhibit below depicts Castrol's spread between lube oil realizations and base oil prices.

Spread between Castrol's base oil and lube oil prices



Base oil prices follow crude prices with a lag (INR/bbl)



Source: Bloomberg/MOSL

CY09 and CY10 were very strong years for Castrol; it retained the price increase it had taken on the back of higher raw material prices even after the prices declined. Also, Castrol has already taken marginal price increases in CY12 to cover itself for the sharp rupee depreciation and increase in base oil prices. Even if base oil prices decline from current levels, Castrol might retain its enhanced product prices. We model ~11% increase in Castrol's blended base oil cost in CY12. Castrol imports ~40% of its raw material requirements.

Given high pricing power, price clycity is positive

Raw material cost accounts for 50-55% of Castrol's sales. Most of its raw materials are crude based and hence very volatile. Nonetheless, given Castrol's high pricing power, we have summarized the impact on Castrol based on various scenarios. While a secular upturn in prices is bearish and a secular downturn is bullish for Castrol. Contrary to popular belief, price cyclicity is positive for Castrol, given its high pricing power.

Scenario outlook for raw material

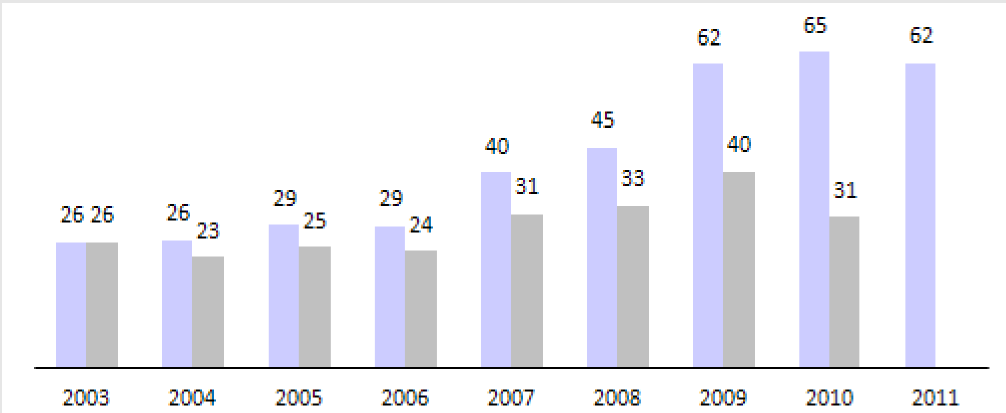
Scenario	Outlook	Comments
Secular Increase in Base oil prices	Bearish	Likely to impact demand, lead to down trading and increase use of alternate or substitutes (CY06)
Secular Fall in Base Oil Prices	Bullish	Most positive scenario as it would boost demand, while companies like Castrol can apportion some part of the decline and increase margins
Stagnant Base Oil Prices	Moderate Bearish	Bearish as ability to make major price changes limited
Cyclical Base Oil prices	Moderate Bullish	Positive as a company like Castrol due to its pricing power can pass on price increases, while apportioning part of savings when prices fall (CY09-10)

Source: MOSL

Has maintained net margin per unit, negating increasing drain intervals

Over the last decade, the lubricants industry has been witnessing significant technological advancement and increasing use of semi-synthetic products, which has steadily increased drain intervals (longevity). For instance, the average drain interval for a typical 16-tonne CV, which was ~8,000km in CY03, stood at ~18,000km in CY11, implying a CAGR of 10.7%. As a result, the lubricants industry has grown at just 3-4% during the last decade. Though Castrol has witnessed a volume decline during the period, it has managed to maintain its net margin per unit.

Castrol's net spread (margin/kl, INR)



Net margins spread

CY (Year)	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Lubricant Spread (Margin/ Kl)	**26**	**26**	**29**	**29**	**40**	**45**	**62**	**65**	**62**
Drain adjusted Spread/ Kl	26	23	25	24	31	33	40	31	
Drain interval	**8,000**	9,250	9,458	9,750	10,188	10,917	12,375	16,750	**18,000**
Adjusting for the drain Impact	1.00	1.16	1.18	1.22	1.27	1.36	1.55	2.09	2.25
CAGR Growth									**10.7%**

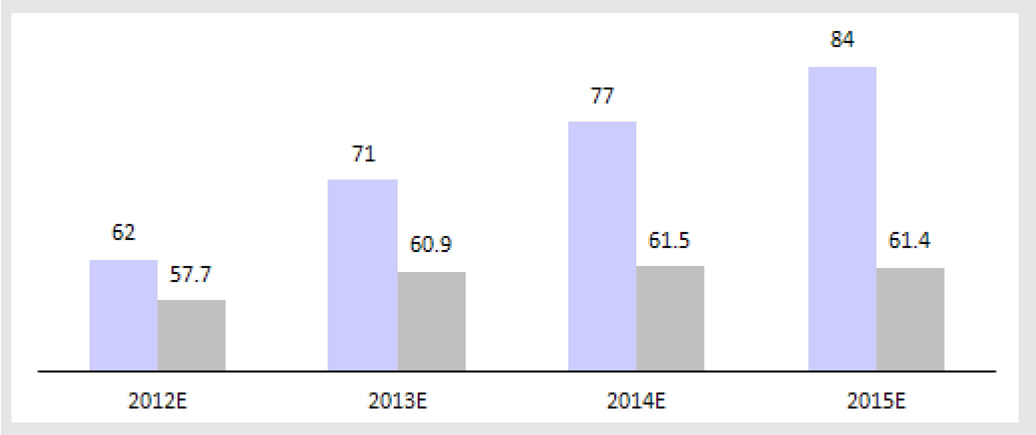
We have assumed a CAGR growth of ~8% for drain interval over CY12-15 and modeled Castrol to negate the impact of increasing drain intervals and maintain its Margin/ Unit over FY12-15.

Net margins spread

CY (Year)	2011	2012E	2013E	2014E	2015E
Net Lubricant Spread (Margin/ Kl)	**62**	**62**	**71**	**77**	**84**
Drain adjusted Spread/ Kl		57.7	60.9	61.5	61.4
Drain interval	**18,000**	19,440	20,995	22,675	**24,489**
Adjusting for the drain Impact	2.25	1.1	1.2	1.3	1.4
CAGR Growth (%)	**10.7**	**8.0**	**8.0**	**8.0**	**8.0**

Source: MOSL

Expect Castrol to maintain margin at ~INR60/kl over CY12-15



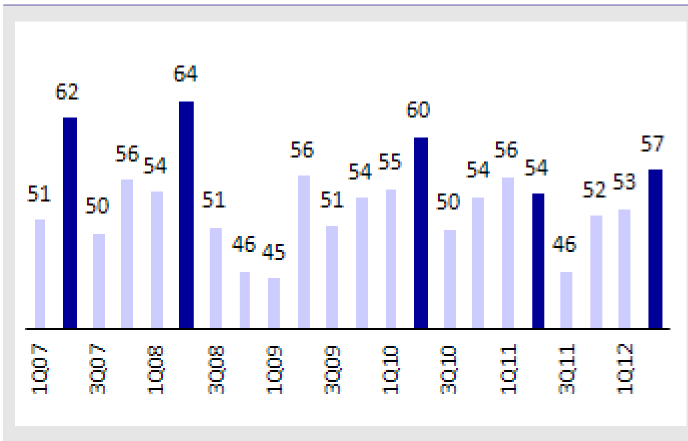
Source: MOSL

Volume decline (YoY) arrested in 2QCY12

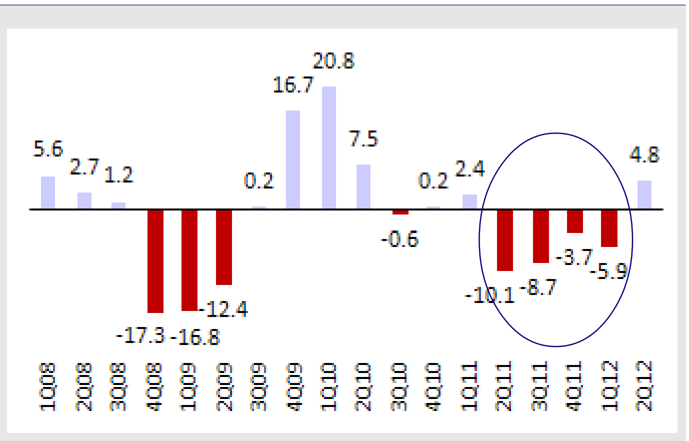
Registered 4.8% YoY volume growth in 2QCY12

Castrol registered four consecutive quarters of YoY volume decline, over 2QCY11-1QCY12. This was on the back of Castrol undertaking price increase of ~14% in CY11 to negate the impact of raw material price increases. Traditionally, Castrol has been the price decider in the domestic lubricant market, with competitors following its footsteps. However, in CY11, its key competitors did not follow up with price increases immediately, which resulted in Castrol's premium over its competitors increasing from the historical range of 20-25% to 35-40% for a period of about six months. This resulted in Castrol losing 2-3% market share, with the 2-wheeler segment getting most adversely impacted. This anomaly got corrected in June 2012, with market leader IOC taking a 10-12% price hike and Castrol launching a promotional discount scheme of INR20/pack for its 2-wheeler lubricants. As a result, Castrol's volume growth was arrested in 2QCY12, with the company registering a 4.8% volume growth.

Castrol's OoQ volumes are cyclical (MT)



Castrol's YoY change in volumes (%)



Source: Company/MOSL

Market to witness addition of 16m premium vehicles over FY13-15

The overall automobile lubricant market is likely to witness addition of ~76m vehicles, over FY13-15. Nevertheless, the premium personal mobility segment, which is Castrol's focus area is likely to grow at a faster pace. The premium mobility segment, comprising of cars (A3 and above) and 4-stroke 2-wheelers (>125cc), is expected to report a cumulative CAGR of 19% over FY11-15 and witness new additions of ~15.6m vehicles.

With increasing sales of premium vehicles, the overall market for premium products is set to expand meaningfully over the next 3-5 years. This should be a key positive for Castrol, as it is clearly focused on this particular segment and best placed to leverage this opportunity.

Auto industry growth outlook

'000 units	FY11	FY12	FY13E	FY14E	FY15E
CV	757	901	998	1,124	1,279
PC+UVs+MPVs	2,946	3,126	3,438	3,954	4,547
Three Wheelers	796	876	920	989	1,038
Two Wheelers	13,272	15,381	16,919	19,288	21,988
Total	**17,772**	**20,284**	**22,276**	**25,355**	**28,853**
Product Mix (%)					
CV	4	4	4	4	4
PC+UVs+MPVs	17	15	15	16	16
Three Wheelers	4	4	4	4	4
Two Wheelers	75	76	76	76	76
Total	**100**	**100**	**100**	**100**	**100**
Cumulative Market*					
Total CV	4,206	4,949	5,744	6,591	7,523
Old Generation	2,872	3,290	3,845	4,469	5,119
New Generation	1,334	1,658	1,899	2,123	2,404
PC+UVs+MPVs	15,653	18,057	20,716	23,641	26,960
Three Wheelers	4,599	5,259	5,904	6,557	7,221
Two Wheelers	77,963	88,993	100,852	114,519	129,933
Total	**102,421**	**117,258**	**133,217**	**151,307**	**171,637**
% growth		14	14	14	13
% of 2 Wheelers	76	76	76	76	76
Value added sales in personal mobility market					
Cars above A3 segment	462	545	600	690	793
2W >125cc	3,092	3,574	3,932	4,482	5,110
Total	**3,773**	**4,350**	**4,787**	**5,460**	**6,231**
% Change	36	15	10	14	14
Cumulative value added sales in personal mobility market#					
Cars above A3 segment	2,647	3,072	3,543	4,042	4,596
2W >125cc	13,920	17,494	21,139	25,139	29,729
Total	**17,815**	**21,757**	**25,934**	**30,685**	**35,683**
% Change		22	19	18	16

*We have considered life of vehicles as 10 years Source: SIAM/MOSL

We have considered passenger cars (A3 segment and above) and 2-wheelers (>125cc) as premium personal mobility market.

Typical usage of lube oil across vehicles

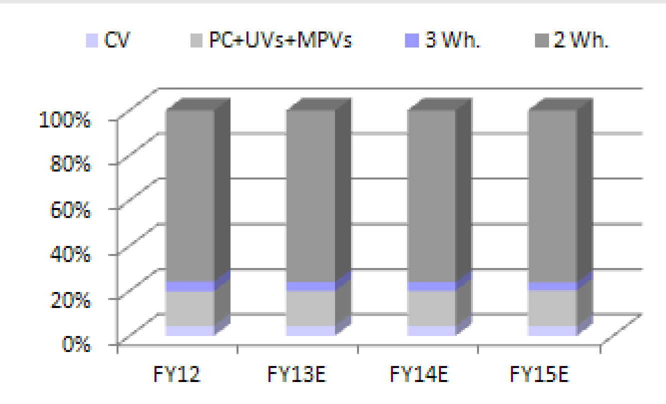
Lubricant usage is the highest in CVs (~93 liters per year for old generation CVs; ~48 liters per year for new generation CVs). Passenger cars require ~10 liters, while two-wheelers require just ~4 liters a year. In case of two-wheelers, the lube oil is typically changed ~5 times a year, given that the slump size of a motorcycle is only one liter. Also, a high proportion of two-wheeler owners change lube oil on their own. This could be the key reason for the high involvement of two-wheeler owners in the purchase of lube oil.

Lube usage across vehicles in urban and semi urban areas

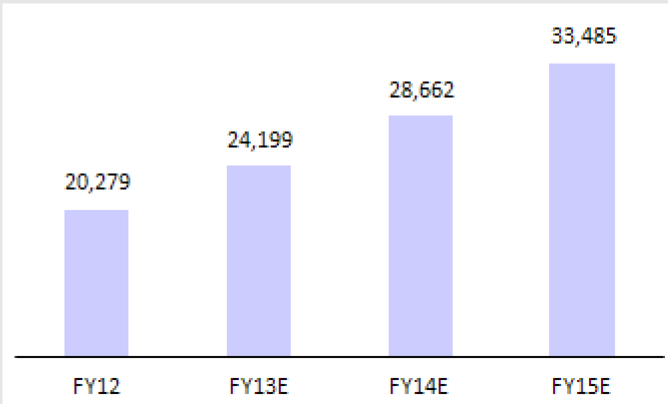
	Drain Intervals (Km)	Aprrox Slump Size (Ltrs.)	Average Annual Usage (Ltrs.)	Average Annual Usage Times (x)	Usage Per Year (Km)
Old Gen. CV	15,000	20	93	4.7	70,000
New Gen. CV	30,000	15	48	3.2	95,000
Cars	5,000	4	10	2.4	12,000
2 Wh. (4 St)	2,100	0.9	4	4.8	10,000

Source: Industy/MOSL

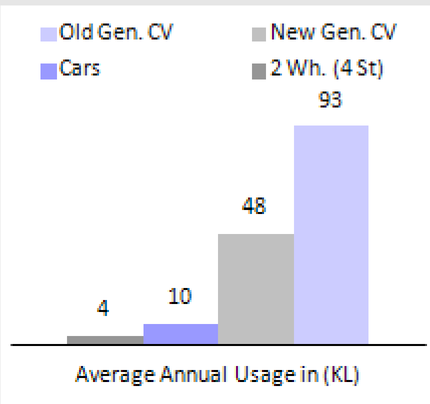
Product mix of vehicles



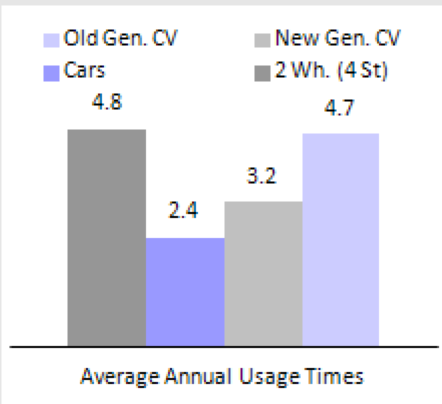
Total premium personal mobility vehicles ('000)



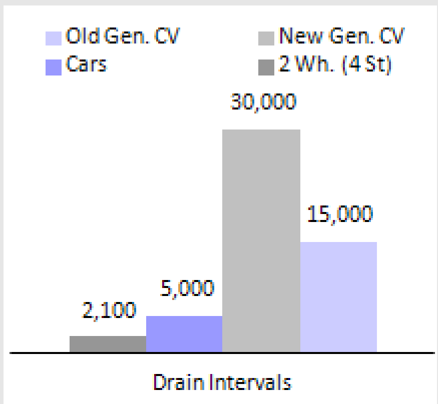
Average annual usage (KL)



Average annual usage times (x)



Drain intervals (KL)



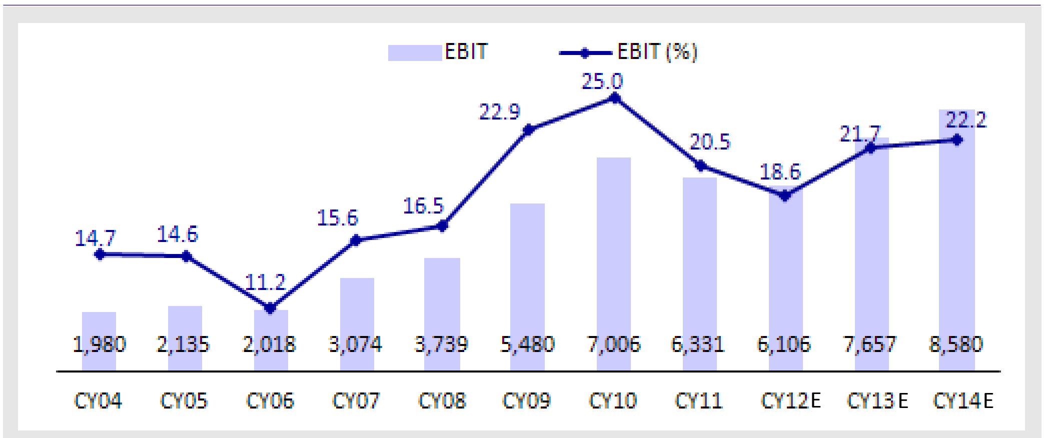
Source: Industry/MOSL

EBIT margins to improve from CY13

Expect EBIT margin to improve from 18.6% in CY12 to 22.2% in CY14

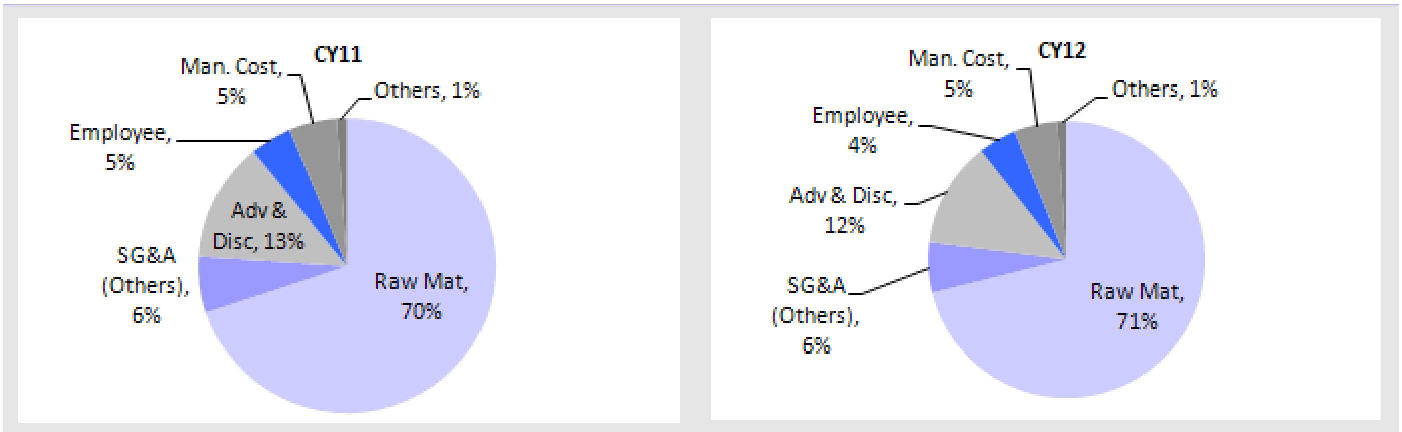
Castrol's EBIT margins have been under pressure in CY11 and 1HCY12, given pressure from raw material and INR/USD. In CY11, base oil prices were impacted by external issues such as trouble in the Middle East, fire outage at Formosa and national oil companies taking shutdown. With crude prices under pressure (down 18% from its CY12 peak), INR/USD expected to stabilize (our INR/ USD assumption for FY13 is 53.5) and some other external issues getting resolved, we expect base oil prices to be under pressure and model base oil prices at INR66/Kl (down 1.5%). This coupled with realization improvement (4.7%/ 5.2% for CY12/ CY13) would boost CY13 margins by 308bp. We have modelled a 4.5% CAGR for raw material cost and 6.7% CAGR for per unit realization over CY12-21. Realization improvement would be primarily driven by new innovative product launches, improved product mix given move towards more premium/ synthetic lubricants and technological advances. We have modeled Castrol's EBIT margin to improve from 18.6% in CY12 to 22.2% in CY14.

EBIT movement over CY04-14 (INR m)



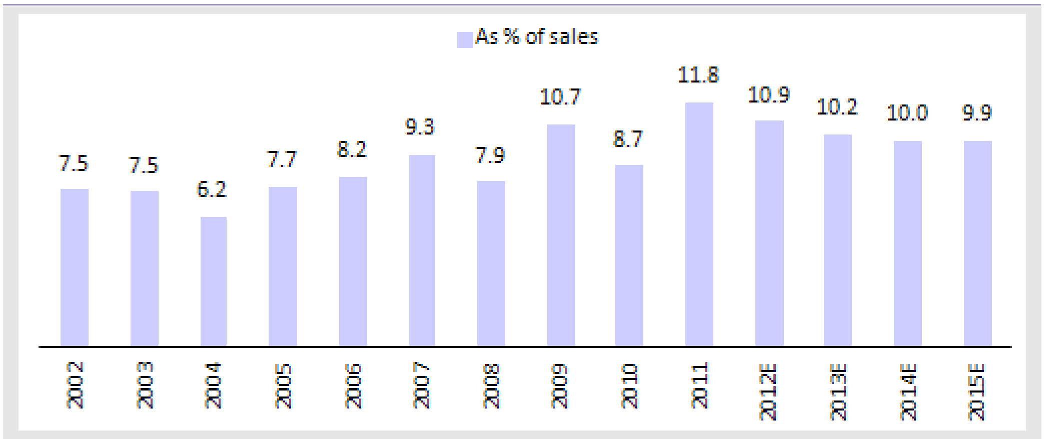
Source: Company/MOSL

Total cost break-up (%)



Source: Company/MOSL

Expect advertisement and discount cost to remain at ~10% of sales

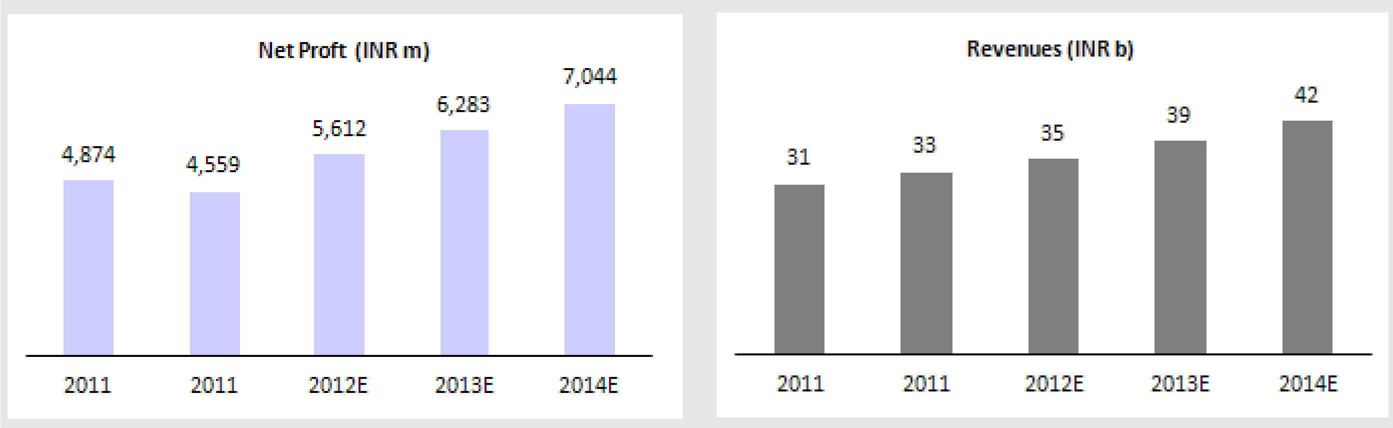


Source: Company/MOSL

Expect revenue CAGR of 9%, net profit CAGR of 17% over CY12-14

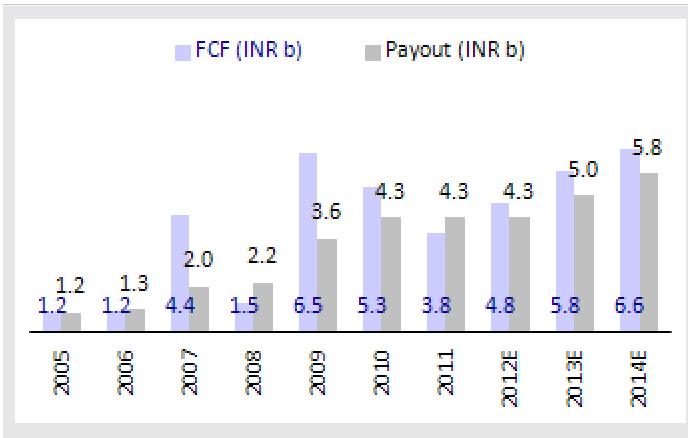
We expect Castrol to post revenue CAGR of 9% and net profit CAGR of 17% over CY12-14. Revenue growth would be driven by 2.4% volume growth and 5.9% realization growth. We expect EBIT margin to expand from 19.5% in CY11 to 22.2% in CY13 on the back of lower raw material cost (55% of sales in CY11 to 52.9% in CY13), in turn driven by declining base oil prices.

Revenue and net profit CAGR over CY11-14

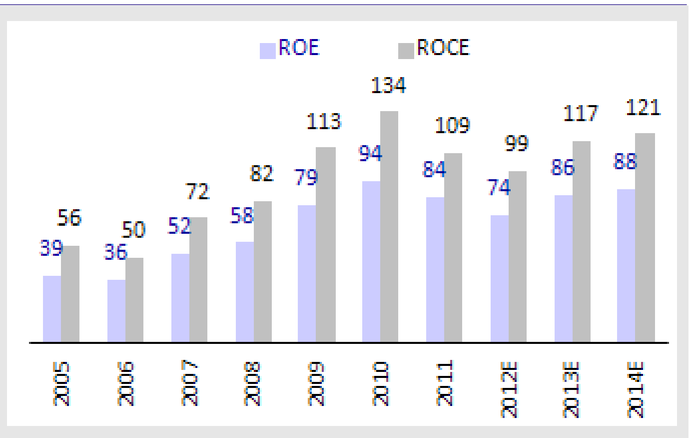


Source: Company/MOSL

Castrol's FCF and payout over CY05-14



Castrol's RoE and RoCE over CY05-14



Source: Company/MOSL

A cash machine for shareholders

FCF of INR27b over CY02-11; 87% paid out as dividend

- **Over CY02-11, Castrol generated FCF of INR26.8b, with total reinvestment of negative INR3b.**
- **Castrol's cumulative net capex (capex - depreciation) over the period was a negative INR408m, while cumulative net working capital (net of cash) was a negative INR2.5b.**
- **It has paid out 87% of its FCF as dividend.**

FCF of INR27b over CY02-11; 87% paid out as dividend

Castrol has been a cash machine for its investors. Over CY02-11, it has generated free cash flow (FCF) of INR27b, with total reinvestment of negative INR3b. Castrol's cumulative net capex (capex - depreciation) over the period was a negative INR408m, while cumulative net working capital (net cash) was a negative INR2.5b. Furthermore, it has paid out 87% of its FCF as dividend, allowing shareholders to redeploy the cash in other opportunities. Castrol has been able to achieve this performance by virtue of its inimitable business model and by commanding very favorable terms of trade.

Summary of FCF over CY02 to CY11 (INR m)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Revenues	11,751	12,075	13,477	14,645	18,025	19,660	22,624	23,906	28,020	30,821	195,003
% Change		3	12	9	23	9	15	6	17	10	
Net Profit	1,409	1,253	1,154	1,348	1,545	2,184	2,624	3,811	4,903	4,810	
% Change		-11	-8	17	15	41	20	45	29	-2	
EBIT	2,375	2,067	1,980	2,135	2,018	3,074	3,739	5,480	7,006	6,331	36,206
% of Sales	20.2	17.1	14.7	14.6	11.2	15.6	16.5	22.9	25.0	20.5	18.6
% Change		-13	-4	8	-5	52	22	47	28	-10	
EBIT(1-t)	**1,571**	**1,367**	**1,310**	**1,412**	**1,335**	**2,033**	**2,473**	**3,625**	**4,634**	**4,187**	**23,947**
Less: Total Re-investment	**-1,818**	**1,504**	**-354**	**341**	**381**	**-2,186**	**1,191**	**-2,613**	**-370**	**1,018**	**-2,905**
Depreciation	134	143	249	189	180	208	257	272	243	251	2,126
Capex	116	27	36	75	94	244	369	202	238	318	1,718
Net Capex (Capex- Dep.)	-18	-116	-212	-114	-86	36	112	-70	-6	67	-408
Change in WC	-1,800	1,620	-142	456	468	-2,222	1,079	-2,543	-364	952	-2,496
FCFF	**3,389**	**-137**	**1,664**	**1,071**	**953**	**4,219**	**1,282**	**6,238**	**5,003**	**3,169**	**26,852**
Dividend Payout (with Tax)	**2,238**	**1,151**	**1,155**	**1,163**	**1,269**	**2,044**	**2,170**	**3,616**	**4,325**	**4,311**	**23,441**
% of PAT	159	92	100	86	82	94	83	95	88	90	94
% of FCF	66	-842	69	109	133	48	169	58	86	136	87
Computed Variables											
Total Capital Invested	1,440	2,944	2,590	2,931	3,312	1,126	2,318	-295	-665	353	
Reinvestment		1,504	-354	341	381	-2,186	1,191	-2,613	-370	1,018	
ROIC		46	51	48	40	181	107	-	-	1,186	

Source: Company/MOSL

Expect FCF to remain robust over CY12-21, as well

We expect Castrol to repeat this performance over CY12-21, given that (a) industry structure has become more conducive for large marketers like Castrol, (b) opportunity size and growth is higher, and (3) its increasing returns advantage moat will allow it to emerge stronger and bigger.

Summary of FCF over CY12 to CY21 (INR m)

	Base Year	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Total
Revenues	32,865	35,353	38,579	42,256	46,280	50,691	55,524	60,819	66,613	72,929	78,799	547,842
Net Profit	4,853	4,559	5,612	6,283	7,044	7,901	8,877	9,966	11,201	12,624	14,128	88,196
EBIT	6,106	7,657	8,580	9,690	10,894	12,248	13,765	15,476	17,467	19,540	18,439	133,757
EBIT(1-t)	4,189	4,039	5,066	5,677	6,411	7,208	8,103	9,107	10,239	11,556	12,928	12,199
- Reinvestment	**1,018**	**-226**	**-199**	**-293**	**-243**	**-150**	**-319**	**-314**	**-242**	**-21**	**-412**	**-2,420**
Depreciation	251	301	331	362	394	430	468	511	559	610	668	4,634
Capex	318	300	350	370	390	435	460	525	585	625	700	4,740
Net Capex (Capex- Dep.)	67	-2	19	8	-4	5	-8	14	26	15	32	106
Change in WC	952	-224	-218	-301	-239	-156	-311	-328	-268	-36	-444	-2,526
FCFF	**3,170**	**4,266**	**5,265**	**5,970**	**6,654**	**7,358**	**8,422**	**9,421**	**10,481**	**11,578**	**13,339**	**9,780**
Capital Employed	6,042	5,816	5,617	5,324	5,081	4,930	4,611	4,297	4,056	4,034	3,622	
New Investments		-226	-199	-293	-243	-150	-319	-314	-242	-21	-412	
ROC		69%	90%	107%	126%	146%	176%	212%	252%	286%	357%	
Dividend Payout (with Tax)		**4,325**	**5,046**	**5,767**	**6,487**	**7,064**	**7,929**	**8,938**	**9,803**	**10,956**	**12,398**	
% of PAT		95	90	92	92	89	89	90	88	87	88	
% of FCF		101	96	97	98	96	94	95	94	95	93	

Source: MOSL

Key trigger for Castrol will be higher than expected volume growth, without compromising much on margins

Our assumptions for both volumes and realizations are conservative. We have assumed that (1) growth in lubes industry volumes would be low at 2.6%, given continuous technological advancement, (2) Castrol's relative market share will improve by just ~2%, and (3) the retail petrol pump distribution channel, which we believe will account for 12-20% of the market over the period, will remain out of reach for the private sector players. We believe the key trigger for Castrol will be higher than expected volume growth, without compromising much on margins. When accompanied by high growth, companies that enjoy high cash flows, low risks and require little capital command very high valuation multiples.

Buy with a DCF-based target price of INR629, 17% upside

Huge free cash flows; valuations reasonable

- **Castrol provides a vehicle to invest in a company with multiple and rare moats, huge free cash flow generation capability, high governance standards and reasonable valuations.**
- **We expect Castrol to post earnings CAGR of 17% and FCF CAGR of 18% over CY12-14.**
- **We initiate coverage with a Buy rating and a DCF-based target price of INR629, 17% upside.**

Expect Castrol to post earnings CAGR of 17% and FCF CAGR of 18% over CY12-14

We expect Castrol to post earnings CAGR of 17% and FCF CAGR of 18% over CY12-14. We have valued Castrol using (a) DCF methodology, and (b) intrinsic P/E and P/B multiple. Given that Castrol is a tremendous FCF generator, has stable cash flows, requires very low capex, and maintains a high payout ratio, we believe the most appropriate way to value Castrol is through DCF. We recommend Buy with a DCF-based target price of INR629. Our key assumptions are tabulated below.

Key assumptions

Valuation Inputs	(%)	Comments
Growth Period		
Risk free Rate (Rf)	8.1	RBI 10 year G-sec Bond Yield
Levered Raw Beta (B)	0.405	Bloomberg 1 year average Raw Regression Beta
Market Risk Premium (Rmp)	7.4	Implied India Risk Premium based on Sensex
Cost of Equity: Rf+B(Rmp)	11.0	
Stable Period		
Risk free Rate (Rf)	8.1	RBI 10 year G-sec Bond Yield
Levered Raw Beta (B)	0.38	Bloomberg 10 year average Raw Regression Beta
Market Risk Premium (Rmp)	7.4	Implied India Risk Premium based on Sensex
Cost of Equity: Rf+B(Rmp)	10.9	
India country Default Spread	2.0	Bases on S&P Bond Default spread of 2% based on India's BBB+ rating
Adjusted Risk free Rate (Rf)	6.05	Real Risk free rate in India
Terminal Growth rate (Tg)	**6.05**	**Real Risk free rate in India (Rf minus Country Default Risk)**

Source: MOSL

Valuation summary

Method	Target Price (INR)	Upside (%)
DCF CY13	629	17
Intrinsic PE and PB multiples CY13#	631	18

Source: MOSL

DCF valuation at INR629/share

We believe DCF is the best way to capture the intrinsic value of Castrol, given its stable cash flow, stable growth profile and low capex requirement. We have done a two-stage DCF valuation for Castrol. We have assumed revenue CAGR of 9% and net profit CAGR of 12% over CY12-21. Our terminal growth rate assumption is the real risk-free rate of return in India, which is calculated as the 10-year risk-free rate minus S&P default spread for India, which is currently at 2%. Using the DCF methodology, we arrive at a value of INR629/share.

DCF calculations (INR m)

Base	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Terminal Year
Revenue Growth (%)	10	6.6	7.6	9.1	9.5	9.5	9.53	9.53	9.54	9.53	9.48	8.1
Revenues	30,821	32,865	35,353	38,579	42,256	46,280	50,691	55,524	60,819	66,613	72,929	78,799
EBIT Margin (%)	20.5	18.6	21.7	22.2	22.9	23.5	24.2	24.8	25.4	26.2	26.8	23.4
EBIT	6,331	6,106	7,657	8,580	9,690	10,894	12,248	13,765	15,476	17,467	19,540	18,439
Taxes	2,142	2,066	2,591	2,904	3,279	3,687	4,145	4,658	5,237	5,911	6,612	6,240
EBIT(1-t)	4,189	4,039	5,066	5,677	6,411	7,208	8,103	9,107	10,239	11,556	12,928	12,199
+ Depreciation	251	301	331	362	394	430	468	511	559	610	668	688
- Capital Expenditures	318	300	350	370	390	435	460	525	585	625	700	756
- Chg WC	952	-224	-218	-301	-239	-156	-311	-328	-268	-36	-444	-236
FCFF	**3,170**	**4,266**	**5,265**	**5,970**	**6,654**	**7,358**	**8,422**	**9,421**	**10,481**	**11,578**	**13,339**	**12,368**
Terminal Value												**258,036**
Cost of Capital Calculations												
Tax Rate (%)	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8	33.8
Cost of Equity (%)	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**11.0**	**10.8**
Computed Variables												
Total Capital Invested	6,276	6,050	5,851	5,558	5,315	5,165	4,846	4,531	4,290	4,268	3,857	
Reinvestment Rate	0.24	-0.06	-0.04	-0.05	-0.04	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	
Return on Capital (%)		**97.3**	**126.6**	**146.6**	**174.3**	**205.0**	**237.2**	**284.1**	**341.5**	**407.2**	**457.8**	
Present Value Calculations												
Cumulative WACC		**1.00**	**1.11**	**1.23**	**1.37**	**1.52**	**1.69**	**1.87**	**2.08**	**2.31**	**2.56**	
Present Value of FCFF		**4,266**	**4,743**	**4,844**	**4,863**	**4,845**	**4,996**	**5,034**	**5,044**	**5,020**	**5,210**	
Present Value of Terminal Value												**100,774**

Source: MOSL

Valuation

PV of FCFF during high growth phase =	48,864
PV of Terminal Value =	100,774
Value of Operating Assets of the firm =	149,638
Value of Cash & Non-operating assets=	5,950
Value of Firm =	155,588
- Value of Outstanding Debt =	0
Value of Equity =	155,588
Value of Equity in Common Stock =	155,588
Value of Equity per share =	629
Upside (%)	**17.4%**

Source: MOSL

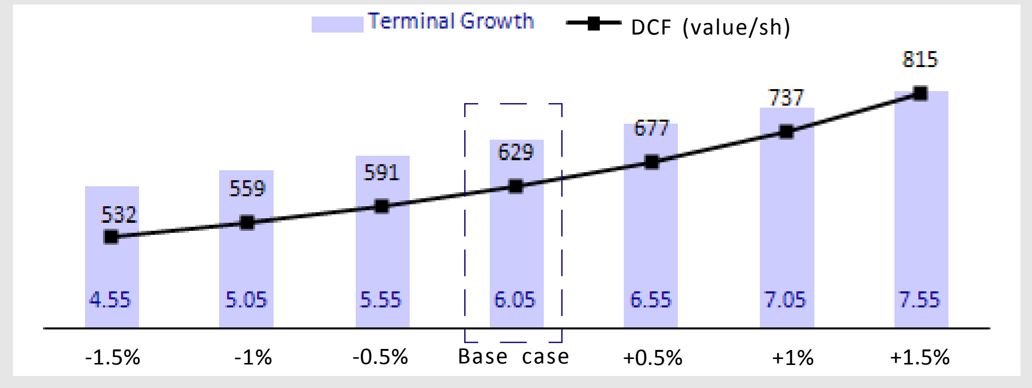
Sensitivity analysis

Terminal Growth and Cost of Equity (COE)

		COE (%)				
		9%	10%	11%	12%	13%
Terminal	5.05%	636	596	559	525	493
Growth	6.05%	719	672	629	590	553
	7.05%	846	789	737	689	645

Source: MOSL

Sensitivity of DCF (value/share) to terminal growth rate



Source: MOSL

Growth beta and terminal growth

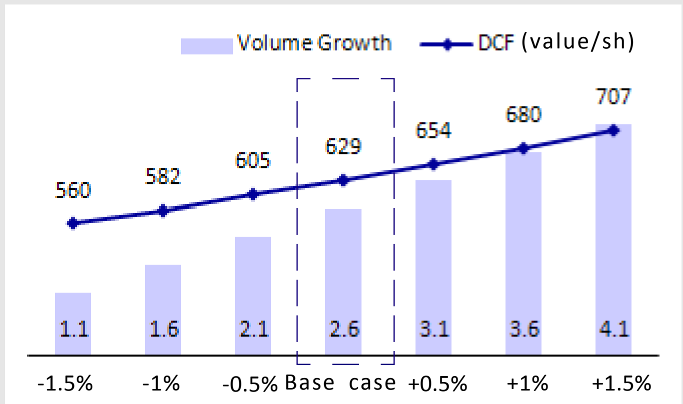
		Terminal Growth Rate (%)				
		4.05	5.05	6.05	7.05	8.05
	0.20	559	615	694	815	1023
Growth	0.30	533	586	661	775	970
Beta	0.40	509	559	629	737	921
	0.50	487	534	600	701	875
	0.60	466	510	572	668	831

Stable period beta and terminal growth

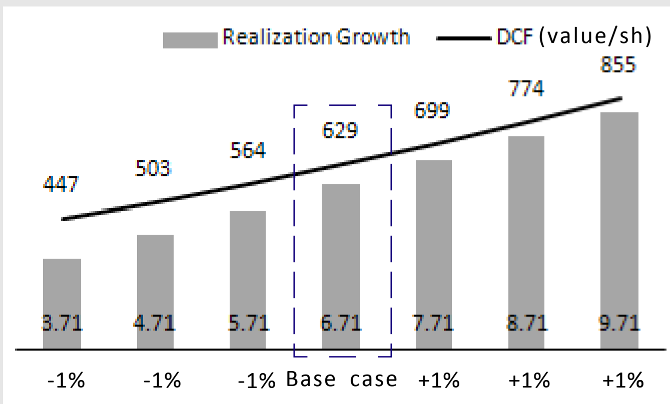
		Terminal Growth Rate (%)			
		4.05	5.05	6.05	7.05
	0.28	544	608	703	860
Stable Period	0.38	509	559	629	737
Beta	0.48	481	521	575	653
	0.58	458	491	534	593

Source: MOSL

Sensitivity of volume growth to DCF (value/share)



Sensitivity of realization growth to DCF (value/share)



Source: MOSL

Intrinsic P/E based valuation at INR631/share

Given its cash flow, growth and margin attributes, we have calculated the intrinsic P/E multiple for Castrol. Relative valuation comparisons fail to adjust the variance in cash flow (FCF), risk (beta), growth profile (reinvestment needs) and returns (RoE) in different stocks. Intrinsic multiple calculations, however, incorporate the various characteristics that determine the value of a firm.

Based on our intrinsic P/E calculation, Castrol should tarde at a P/E multiple of 27.8x v/s the current 23.6x CY13E EPS. The intrinsic P/E of 27.8x implies a value of INR631/ share (based on CY13 estimates). Our expected RoE for Castrol in the growth period is 63%, while our expected RoE in the stable/terminal period is 40%.

Intrinsic P/E calculation for Castrol

Intrinsic PE Multiple			
Current Inputs			
Current Earnings (INR m)	4,559		
Book value of equity (INR m)	6,276	**ROE =**	**73%**
Revenues (INR m)	33,672		
Growth Period			
Length of growth period (Years)	10		
Growth rate during period (g)	11.38%	**Expected ROE =**	**63%**
Payout ratio during period (%)	82		
Cost of Equity during period (%)	11.01		
Stable/ Terminal Growth Period			
Growth rate in steady state (%)	6.05		
Payout ratio in steady state (%)	85	**Expected ROE =**	**40%**
Cost of Equity in steady state (%)	10.84		
Price/Earnings Ratio	**27.8**		
Target Price (Based on CY13E EPS)	**631**		
Current Price	536		
% Upside	18		

Cost of Equity: Growth Period		**Cost of Equity: Stable Period**	
Rf	8.1%	Rf	8.1%
Rmp	7.4%	Rmp	7.4%
Beta	0.40	Beta	0.38
COE	**11.0%**	**COE**	**10.8%**

Footnote: The intrinsic P/E of a company can be stated as "Payout Ratio * (1 + Growth Rate) / (Cost of Equity - Growth Rate)". Here, the growth rate (G) can be further divided into growth during high growth period and growth during stable/terminal period. P/E for a stock is a derivative of the RoE a company makes in its current business (value in place), RoE it expects to make in its future investments (value for growth) and the RoE we expect the company to make in its stable/terminal period. The reinvestment in growth and stable period is calculated as (1- Payout Ratio).

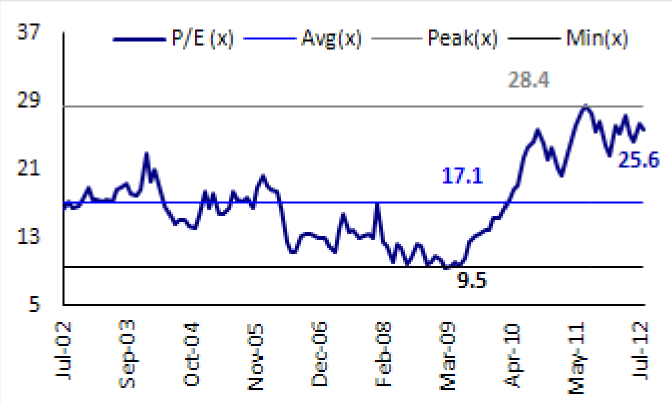
Comparative valuations

	CMP	M Cap (USD b)	EPS Gr. (%) FY13	EPS Gr. (%) FY14	P/E (x) FY13	P/E (x) FY14	P/BV (x) FY13	P/BV (x) FY14	EV/EBIDTA FY13	EV/EBIDTA FY14	RoE (%) FY13	RoE (%) FY14	RoCE (%) FY13	RoCE (%) FY14	Pay. Ratio FY12
Asian Paints	3,564	6.0	17.7	17.9	29.4	24.9	10.2	8.4	17.7	13.9	34.7	33.8	46.6	45.6	38.8
Colgate	1,166	2.8	11.9	13.2	31.2	27.6	30.7	25.5	22.5	19.3	108.1	101.0	108.5	101.3	78.0
HUL	476	17.9	25.2	15.3	31.9	27.7	22.7	17.6	25.1	21.6	71.2	63.7	93.3	83.8	63.0
ITC	251	35.5	16.4	17.8	27.0	22.9	8.7	7.4	17.5	14.7	32.3	32.2	45.4	45.7	52.7
Nestle India*	4,453	7.6	16.5	20.4	36.2	30.0	23.7	18.5	23.3	18.7	77.0	69.1	64.9	66.5	53.3
Castrol India*	**536**	**2.3**	**23.4**	**11.9**	**23.6**	**21.1**	**19.4**	**18.0**	**15.6**	**13.9**	**74.0**	**85.6**	**99.1**	**116.7**	**89.9**

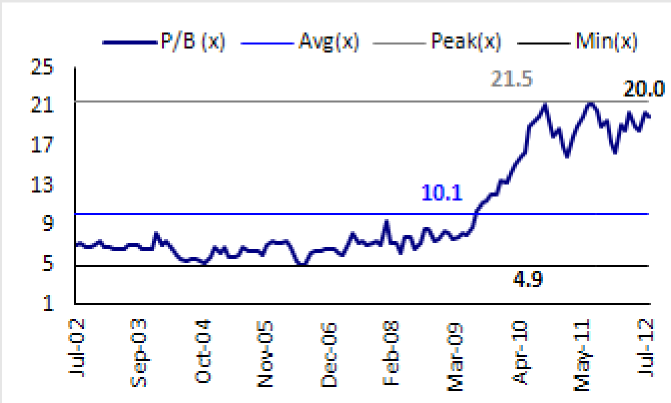
* CY year end

Source: Bloomberg/MOSL

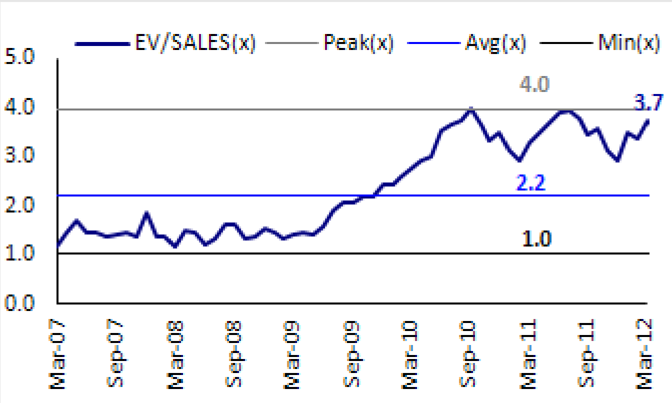
Castrol India: Historical P/E



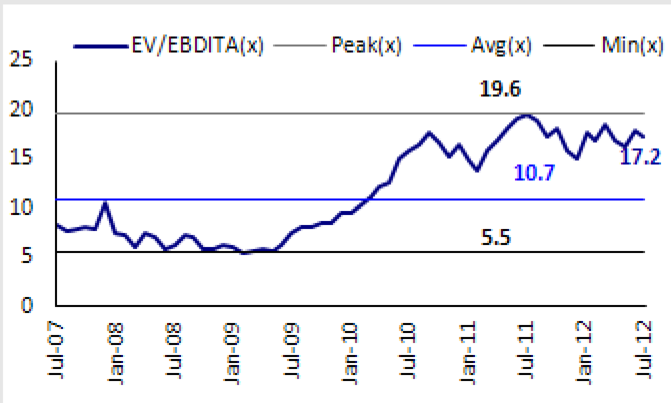
Castrol India: Historical P/B



Castrol India: Historical EV/ sales



Castrol India: Historical EV/EBITDA



Source: Bloomberg/MOSL

Key concerns

Longer oil drain intervals: Over the last decade, volume growth in the lubricants market has been low at 3-5%, despite strong growth in the automobile industry. This has primarily been due to advances in technology, resulting in steadily increasing drain intervals. Castrol enjoys superior pricing power and has been able to maintain its margin/unit; it does not need to depend on volume growth.

Volatile raw material prices: Most of Castrol's raw materials such as base oil and additives are crude oil derivatives. As such, raw material price volatility is a key risk. However, given low price sensitivity of lubricant demand and endogenous demand, Castrol has historically been able to successfully deal with this challenge.

Aggressive foray by oil PSUs into bazzar trade: The oil PSUs have begun attempting aggressive forays into the bazzar trade and have begun giving tough competition to private players. BPCL has enjoyed decent success with its 'MAK' brand. Increasing advertisement spends by the oil PSUs could result in margin pressure for private players like Castrol.

OEMs introducing own brands: Some OEMs have introduced their own brands. However, for these OEMs, lubricants are not a core business, and they do not have an addressable market beyond their immediate requirements. Due to these issues, their costs are relatively higher and they are also not able to achieve minimum efficiencies of scale.

Exchange rate volatility: Castrol imports ~40% of its raw material requirements, and raw materials account for ~50% of its sales. As such, it is exposed to exchange rate volatility. Nonetheless, Castrol has been able to pass on any adverse impact and maintain fairly stable margins.

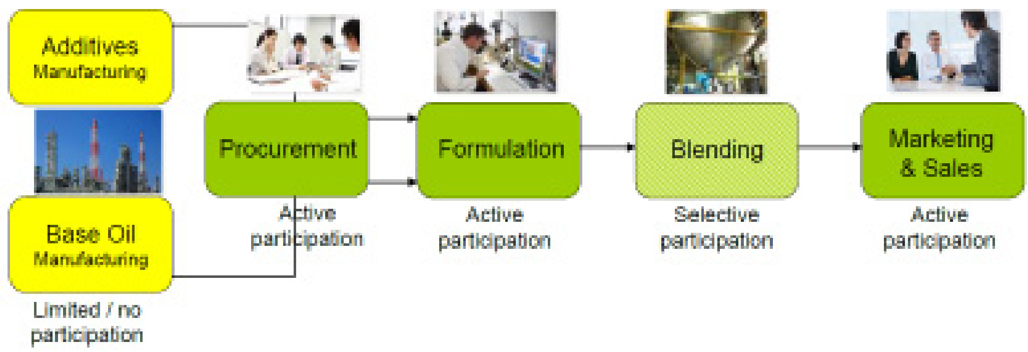
Background

Castrol India Limited, a 71% subsidiary of BP, is a leading lubricants player in India, with ~20% market share of the domestic automotive lubricants industry. It manufactures and markets a range of automotive and industrial lubricants. It markets its automotive lubricants under two brands - Castrol and BP. The company enjoys leadership in most of the segments it operates in, including tractor oils, car engine oils, two-wheeler 4-stroke oils, and multi-grade diesel engine oils.

Castrol has the largest manufacturing and marketing network amongst the lubricant companies in India. It has five plants across the country, including a state-of-the-art manufacturing facility at Silvassa. It has a distribution network of 270 distributors, servicing over 70,000 retail outlets.

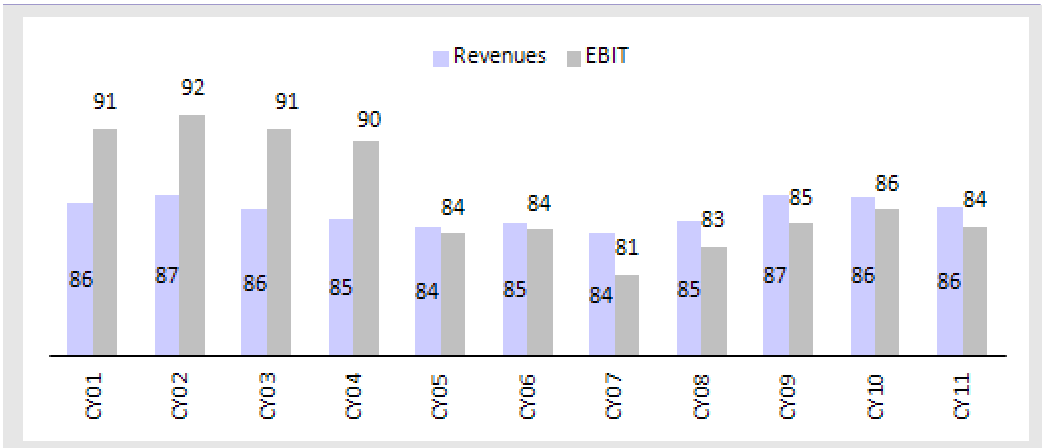
Though Castrol is present in both automotive lubricants and industrial lubricants, its strengths are in the automotive segment. In CY11, the product mix between the automotive and industrial & marine segments was ~86% and ~14%, respectively. EBIT contribution was also similar, with the automotive segment contributing ~84% and the industrial and marine segment contributing ~16%.

Castrol: Involvement across the value chain



Source: BP Downstream Presentation 2030

Castrol: Revenue and EBIT contribution from the automotive segment



Source: Company/MOSL

Key management personnel

Mr SM Datta, Chairman

Mr SM Datta graduated with Honors in Chemistry from the Presidency College, Kolkata and obtained a Post Graduate degree in Science & Technology from the University of Calcutta. He is a Chartered Engineer, Fellow of the Institution of Engineers, Fellow of the Indian Institute of Chemical Engineers, Member, Society of Chemical Industry (London) and Honorary Fellow of All India Management Association. He has been President of Associated Chambers of Commerce & Industry, President of the Council of EU Chamber of Commerce in India, President of the Bombay Chamber of Commerce & Industry, President of Indian Chemical Manufacturers Association, and Chairman of Bombay First.

Mr R Kirpalani, Chief Operating Officer, Director - Automotive

Mr Ravi Kirpalani is an Economics (Honors) graduate from St Stephens College, Delhi and an MBA from IIM, Kolkata. Mr Kirpalani has over 30 years of experience in Sales, Marketing and Strategy. He joined Castrol India in 1999 as General Manager, East and was promoted in 2002 to Vice President - Sales. In 2004, he was appointed as Customer Director for India, Middle East, Turkey and Africa. In 2005, he moved to the UK as Transformation Director and was a Member of the Global Strategy Team. He played a key role in the implementation of the group's global strategy. Mr Kirpalani returned to Castrol India in 2009 as Director - Automotive and Chief Operating Officer. Prior to Castrol, Mr Kirpalani worked for Reckitt Benckiser for 12 years and for a leading consumer products company in Muscat, Oman.

Mr Uday Khanna, Director

Mr Uday Khanna is a Chartered Accountant. Before joining Castrol, he was with the Lafarge Group. He joined the Lafarge Group in Paris on 1 June 2003 as Senior Vice President for Group Strategy, after a long experience of almost 30 years with Hindustan Lever/Unilever in a variety of financial, commercial and general management roles both nationally and internationally. From July 2005 to July 2011, Mr Khanna was the Managing Director and Chief Executive Officer of Lafarge India.

Mr Sujit Vaidya, Director - Finance, Whole-time Director

Mr Sujit Vaidya has been Director - Finance and Whole-time Director since November 2010. Mr Vaidya served as an Additional Director at Castrol India from 12 October 2010 to 16 November 2010. He is a qualified Chartered Accountant with a varied experience in financial control & accounting, business strategy & planning and financial analysis of over 20 years in MNCs (P&G, Citibank), accounting & consulting firms (BCG & KPMG) and a large oil company (BP/ Castrol).

Financials and Valuation

Income Statement (INR Million)

Y/E December	CY10	CY11	CY12E	CY13E	CY14E
Net Sales	**28,020**	**30,821**	**32,865**	**35,353**	**38,579**
Change (%)	17.2	10.0	6.6	7.6	9.1
Raw Material	13,847	16,945	18,820	19,166	20,711
Employee Cost	993	1,111	1,183	1,273	1,350
Other Manuf. Exp.	6,492	6,492	6,492	6,492	6,493
Selling Admin. & Other Exp.	4,446	4,650	4,831	5,179	5,671
Total Expenditure	**20,770**	**24,239**	**26,458**	**27,364**	**29,637**
EBITDA	**7,249**	**6,582**	**6,407**	**7,989**	**8,942**
Change (%)	26.0	-9.2	-2.7	24.7	11.9
% of Net Sales	25.9	21.4	19.5	22.6	23.2
Depreciation	243	251	301	331	362
EBIT	**7,006**	**6,331**	**6,106**	**7,657**	**8,580**
Interest & Finance Charges	24	19	19	20	20
Other Income	395	846	807	848	940
PBT	**7,377**	**7,158**	**6,893**	**8,485**	**9,500**
Tax	2,474	2,348	2,334	2,873	3,217
Effective Rate (%)	33.5	32.8	33.9	33.9	33.9
Reported PAT bef. MI	**4,903**	**4,810**	**4,559**	**5,612**	**6,283**
Change (%)	28.7	-1.9	-5.2	23.1	12.0
Adjusted PAT	**4,914**	**4,853**	**4,559**	**5,612**	**6,283**
Change (%)	27.6	-1.2	-6.1	23.1	12.0

Balance Sheet (INR Million)

Y/E December	CY10	CY11	CY12E	CY13E	CY14E
Equity Capital	2,473	2,473	2,473	2,473	2,473
Reserves	3,062	3,569	3,803	4,370	4,886
Net Worth	**5,535**	**6,042**	**6,276**	**6,843**	**7,359**
Capital Employed	**5,535**	**6,042**	**6,276**	**6,843**	**7,359**
Gross Fixed Assets	2,955	3,066	3,676	4,026	4,396
Less: Depreciation	1,752	1,941	2,242	2,573	2,935
Net Fixed Assets	**1,203**	**1,125**	**1,434**	**1,452**	**1,461**
Curr. Assets	**11,628**	**12,035**	**13,064**	**14,169**	**15,587**
Inventory	2,442	3,009	3,334	3,388	3,664
Sundry Debtors	1,784	2,190	2,333	2,510	2,739
Cash & Bank Balances	6,193	5,490	5,950	6,716	7,525
Loans & Advances	1,209	1,347	1,446	1,556	1,659
Current Liab. & Prov.	**7,833**	**7,991**	**8,784**	**9,341**	**10,251**
Sundry Creditors	4,949	5,140	5,834	5,750	6,213
Provisions	2,884	2,852	2,950	3,592	4,038
Net Current Assets	**3,795**	**4,044**	**4,280**	**4,828**	**5,336**
Deferred Tax Liability	371	562	562	562	562
Application of Funds	**5,535**	**6,042**	**6,276**	**6,843**	**7,359**

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E December	CY10	CY11	CY12E	CY13E	CY14E
Basic (INR)					
Adj. EPS	**19.9**	**19.6**	**18.4**	**22.7**	**25.4**
Adj Cash EPS	20.9	20.6	19.7	24.0	26.9
Book Value per Share	22.4	24.4	25.4	27.7	29.8
DPS	15.0	15.0	15.0	17.5	20.0
Payout (Incl. Div. Tax) %	88.2	88.4	94.9	89.9	91.8
Valuation (x)					
P/E	27.0	27.3	29.1	23.6	21.1
Cash P/E	25.7	26.0	27.3	22.3	19.9
EV/EBITDA	17.4	19.3	19.8	15.8	14.0
EV/Sales	4.5	4.1	3.9	3.6	3.2
Price to Book Value	23.9	21.9	21.1	19.4	18.0
Dividend Yield (%)	2.8	2.8	2.8	3.3	3.7
Profitability Ratios (%)					
RoE	79.4	93.7	83.8	74.0	85.6
RoCE	112.6	133.6	109.4	99.1	116.7
Turnover Ratios					
Debtors (Days)	24	23	26	26	26
Inventory (Days)	60	58	59	59	59
Creditors (Days)	129	109	110	108	108
Working Capital (Days)	-44	-28	-25	-23	-23
Asset Turnover (x)	5.1	5.1	5.2	5.2	5.2
Gross Fixed Asset Turnover (x)	9.5	10.1	8.9	8.8	8.8
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

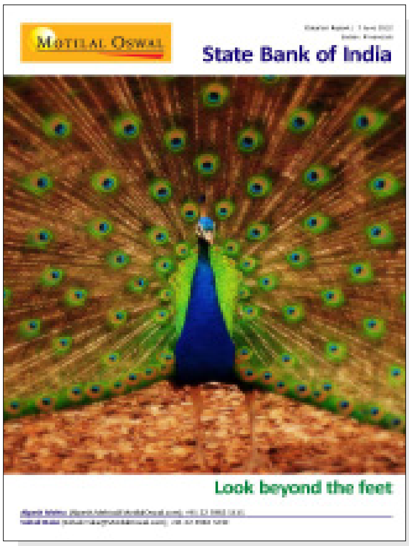
Cash Flow Statement

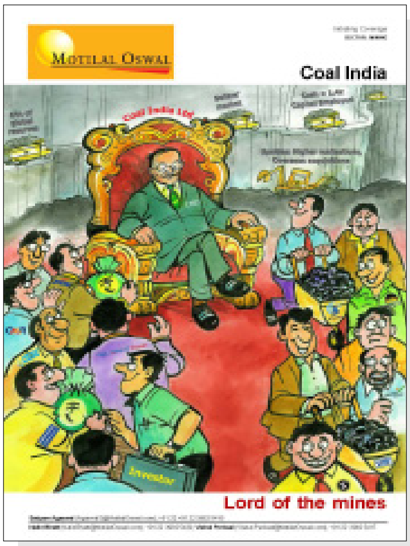
Y/E December	CY10	CY11	CY12E	CY13E	CY14E
PBT before E.O. Items	7,377	7,158	6,893	8,485	9,500
Add : Depreciation	243	251	301	331	362
Add: Interest	24	19	19	20	20
Less : Direct taxes paid	2,474	2,348	2,334	2,873	3,217
Inc/Dec in WC	364	(952)	224	218	301
CF from operations	5,535	4,129	5,104	6,181	6,966
CF from Oper. incl. EO Items	**5,535**	**4,129**	**5,104**	**6,181**	**6,966**
(Inc)/Dec in FA	(238)	(318)	(300)	(350)	(370)
(Pur)/Sale of Investments	5	0	0	0	0
CF from investments	**(232)**	**(318)**	**(300)**	**(350)**	**-370**
Inc/Dec in Networth	7	8	0	0	0
Inc/Dec in Debt	0	0	0	0	0
Less: Dividend Paid	4,325	4,311	4,325	5,046	5,767
CF from Fin. Activity	**(4,367)**	**(4,514)**	**(4,344)**	**(5,066)**	**(5,787)**
Inc/Dec of Cash	935	(703)	460	765	810
Add: Beginning Balance	5,258	6,193	5,490	5,950	6,716
Closing Balance	6,193	5,490	5,950	6,716	7,525

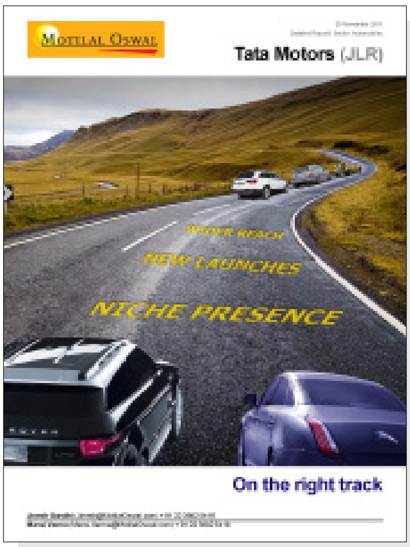
E: MOSL Estimates

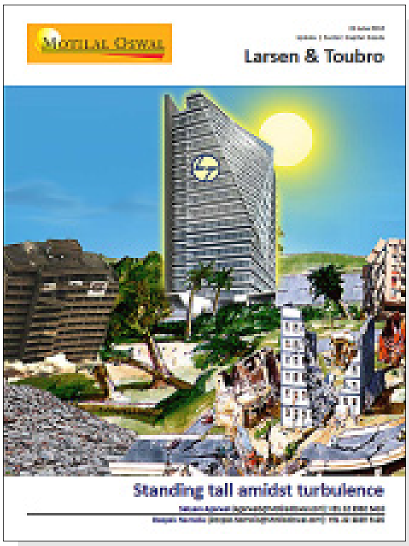
N O T E S

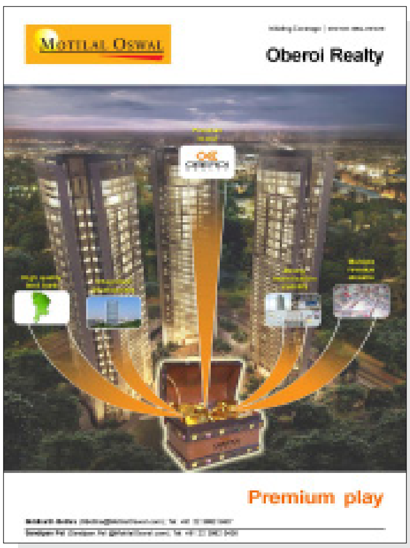
Motilal Oswal Company Gallery

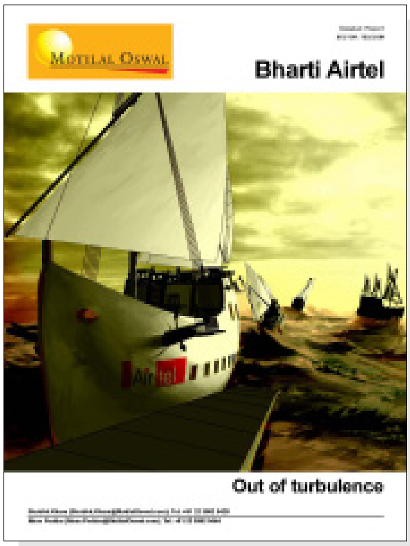












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1. Analyst ownership of the stock	Yes
2. Group/Directors ownership of the stock	No
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