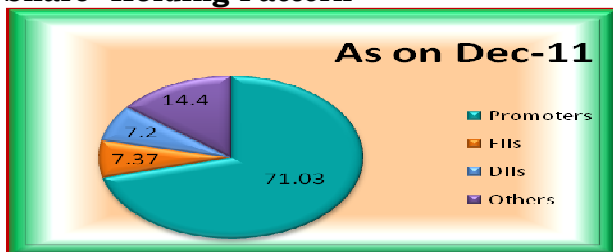


C.M.P: Rs. 538.00
Target Price: Rs. 608.00
Date: April 07th 2012

BUY

Stock Data:	
Sector:	Oil Marketing & Distribution
Face Value Rs.	10.00
52 wk. High/Low (Rs.)	588.35/385.05
Volume (2 wk. Avg.)	14101.00
BSE Code	500870
Market Cap (Rs in mn)	133047.40

Share Holding Pattern



1 Year Comparative Graph



Castrol India Ltd **BSE SENSEX**

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
- ◆ Net Sales and PAT of the company are expected to grow at a CAGR of 9% and 5% over 2010 to 2013E.
- ◆ Castrol India has grown to become the second largest lubricant company in India with a market share of around 22%.

Years	Net sales	EBITDA	PAT	EPS	P/E
CY 11	29932.00	7429.00	4810.00	19.45	27.66
CY 12E	32625.88	8031.35	5214.30	21.08	25.52
CY 13E	35562.21	8514.48	5505.26	22.26	24.17

Peer Group Comparison

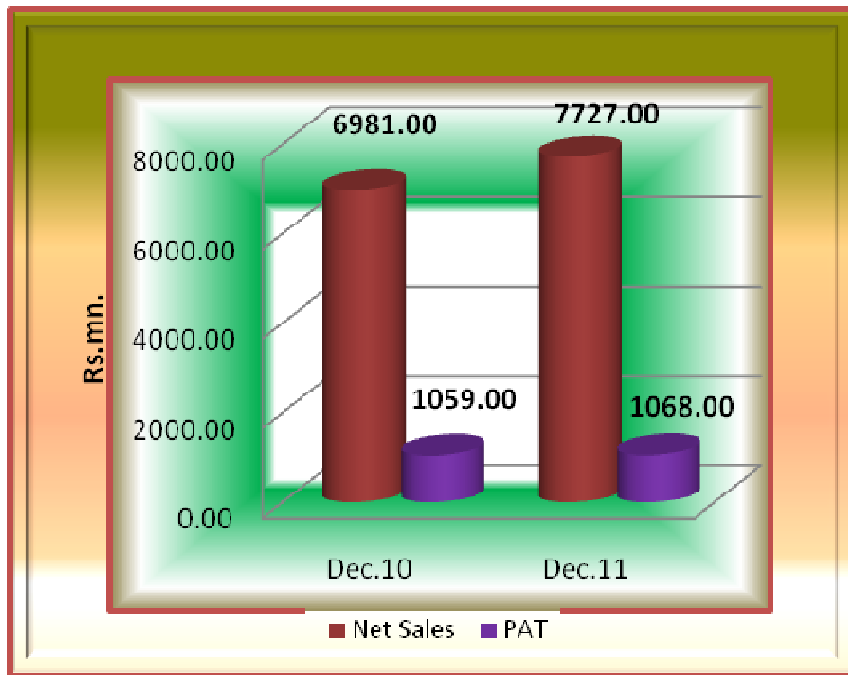
Name of the company	CMP(Rs.)	Market Cap. (Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Castrol India Ltd	538.00	133047.40	19.45	27.66	22.02	150.00
Gulf Oil Corp	77.60	7693.7	6.06	12.81	2.10	100.00
Panama Petrochem	190.25	1639.8	40.92	4.65	1.16	50.00
Indian Oil Corp	262.35	636973.3	-	-	1.15	95.00

Investment Highlights

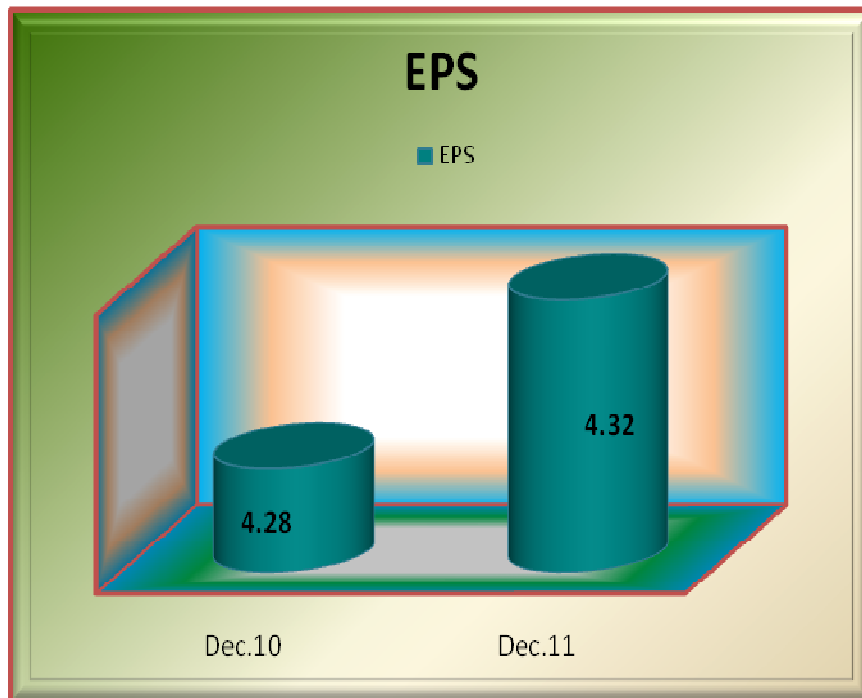
➤ Q4 CY11 Results Update

Castrol India Ltd has posted profit of Rs.1068.00 million for the quarter ended on Dec 31, 2011 as against Rs.1059.00 million in the same quarter last year, an increase of 1%. It has reported net sales of Rs.7727.00 million for the quarter ended on Dec 31, 2011 as against Rs.6981.00 million in the same quarter last year, a rise of 11%. During the quarter, it reported earnings of Rs 4.32 a share.

Quarterly Results - Standalone (Rs in mn)			
As At	Dec-11	Dec-10	%change
Net sales	7727.00	6981.00	11
PAT	1068.00	1059.00	1
Basic EPS	4.32	4.28	1

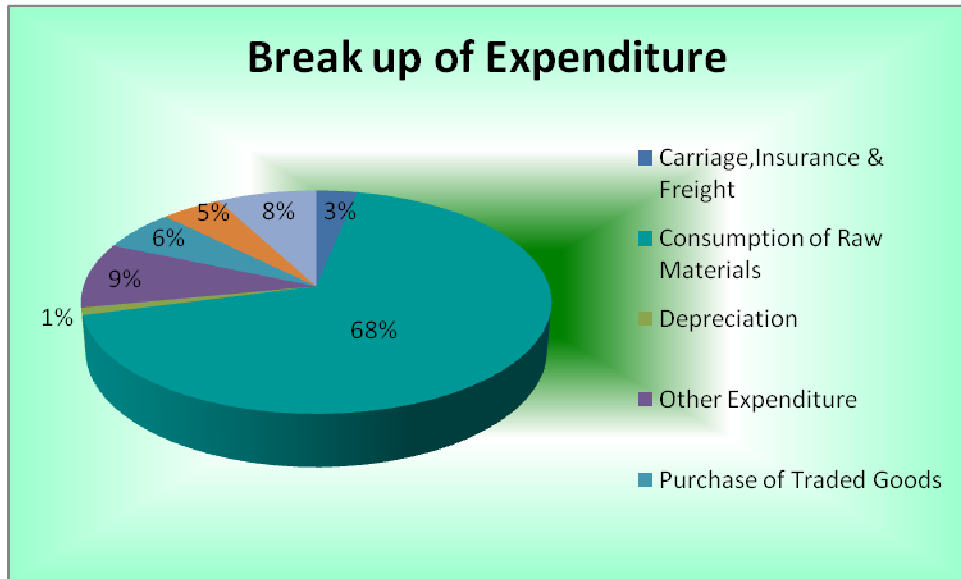


Basic EPS of the company stood at Rs.4.32

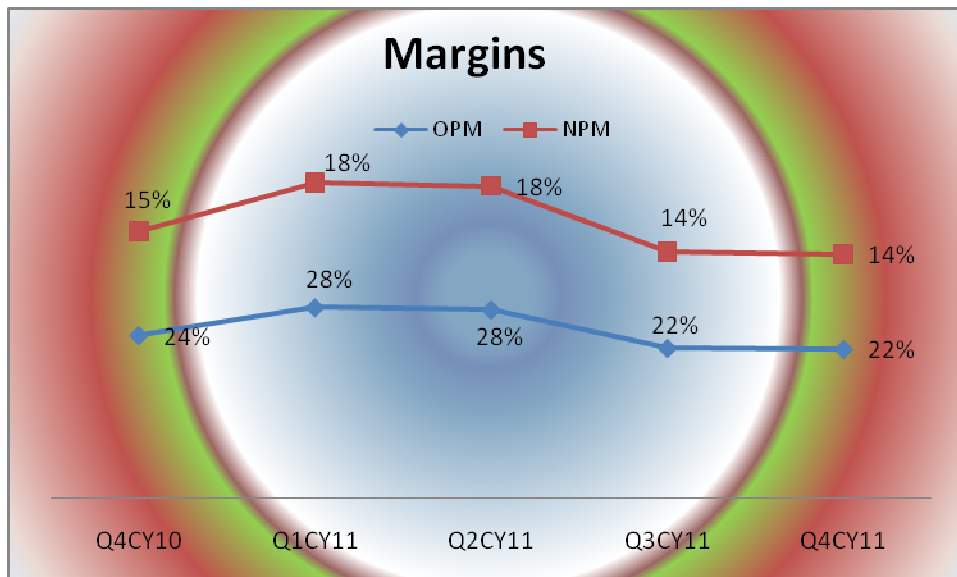


➤ Break up of Expenditure

Expenditure for the quarter stood at Rs.6164.00mn, which is around 14% higher than the corresponding period of the previous year. Consumption of Raw Materials cost of the company for the quarter accounts for 52% of the sales of the company and stood at Rs.4046.00mn from Rs.3545.00mn of the corresponding period of the previous year. Other Expenditure Cost decreased 28%YoY to Rs.565.00mn from Rs.784.00mn and accounts for 7% of the revenue of the company for the quarter.



OPM and NPM for the quarter stood at 22% and 14% respectively from 24% and 15% respectively of the same period of the last year.



◆ Board recommends Final Dividend

Castrol India Ltd has recommended a Final Dividend of Rs. 8.00 per share subject to the approval of the shareholders of the Company, for the year ended Dec. 31, 2011.

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

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.

Plant Locations

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



Financial Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in million)	CY10A	CY11A	CY12E	CY13E
Description	12m	12m	12m	12m
Net Sales	27429.00	29932.00	32625.88	35562.21
Other Income	313.00	731.00	657.90	690.80
Total Income	27742.00	30663.00	33283.78	36253.00
Expenditure	-20097.00	-23234.00	-25252.43	-27738.52
Operating Profit	7645.00	7429.00	8031.35	8514.48
Interest	-24.00	-19.00	-19.95	-20.95
Gross Profit	7621.00	7410.00	8011.40	8493.53
Depreciation	-243.00	-251.00	-263.55	-276.73
Profit before Tax	7378.00	7159.00	7747.85	8216.81
Tax	-2475.00	-2349.00	-2533.55	-2711.55
Profit after Tax	4903.00	4810.00	5214.30	5505.26
Equity Capital	2473.00	2473.00	2473.00	2473.00
Reserves	3062.00	3569.00	8783.30	14288.56
Face Value(Rs.)	10.00	10.00	10.00	10.00
Total No. of Shares	247.30	247.30	247.30	247.30
EPS	19.83	19.45	21.08	22.26

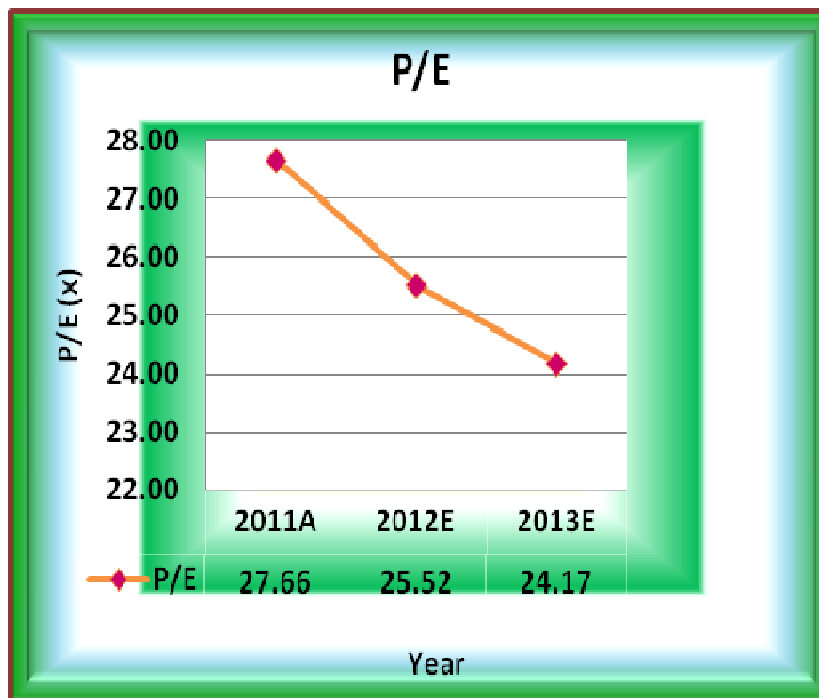
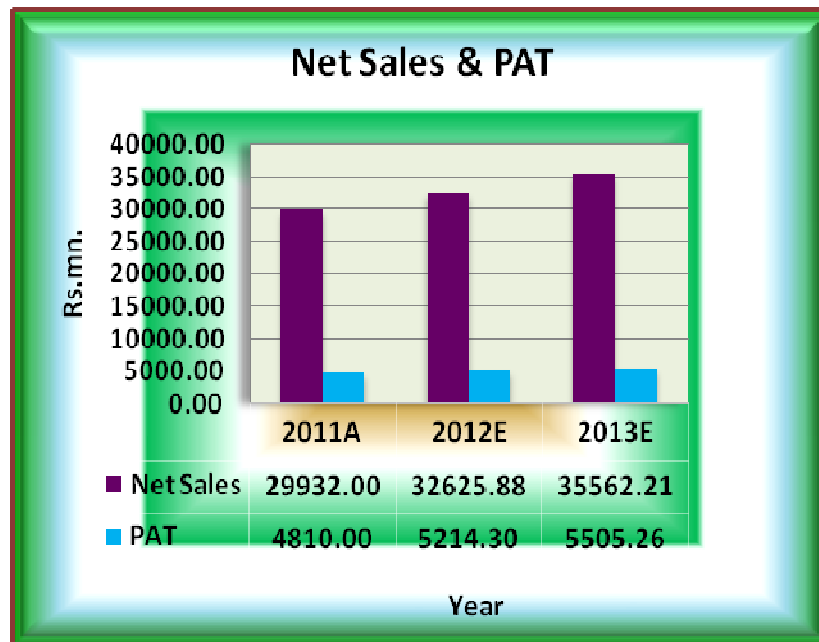
Quarterly Ended Profit & Loss Account (Standalone)

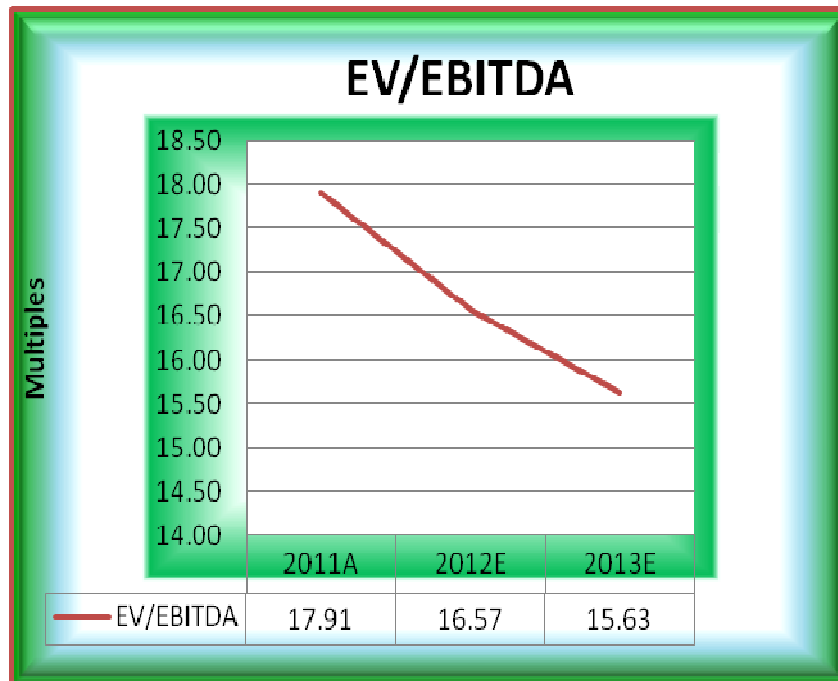
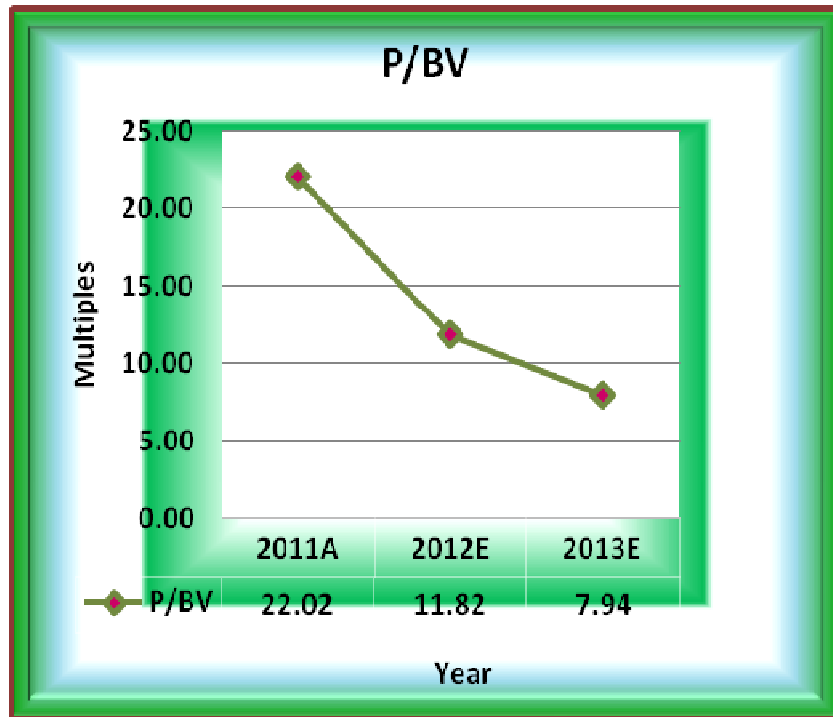
Value(Rs.in million)	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12
Description	3m(A)	3m(A)	3m(A)	3m(E)
Net Sales	7932.00	6741.00	7727.00	8267.89
Other Income	194.00	145.00	114.00	131.10
Total Income	8126.00	6886.00	7841.00	8398.99
Expenditure	-5944.00	-5413.00	-6164.00	-6407.61
Operating Profit	2182.00	1473.00	1677.00	1991.38
Interest	-2.00	-9.00	-4.00	-3.20
Gross Profit	2180.00	1464.00	1673.00	1988.18
Depreciation	-63.00	-62.00	-63.00	-66.15
Profit before Tax	2117.00	1402.00	1610.00	1922.03
Tax	-692.00	-451.00	-542.00	-634.27
Profit after Tax	1425.00	951.00	1068.00	1287.76
Equity Capital	2473.00	2473.00	2473.00	2473.00
Face Value(Rs.)	10.00	10.00	10.00	10.00
Total No. of Shares	247.30	247.30	247.30	247.30
EPS	5.76	3.85	4.32	5.21

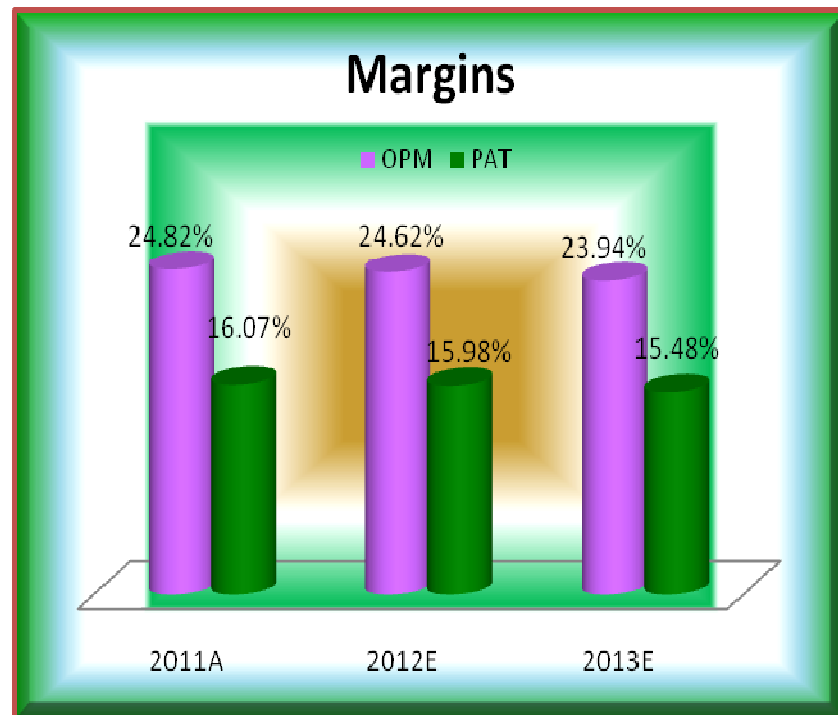
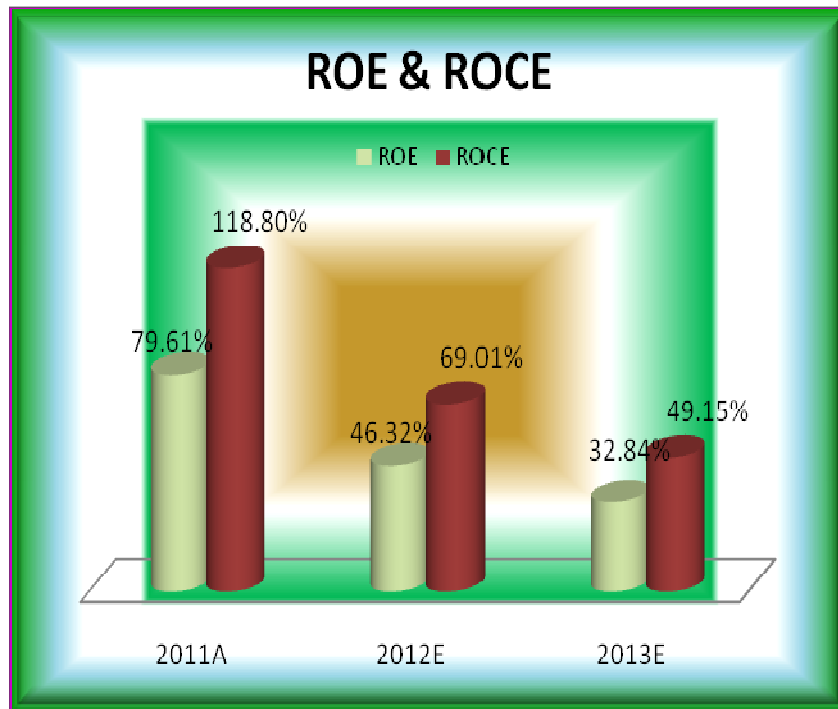
Key Ratios

Particulars	CY10	CY11	CY12E	CY13E
EPS (Rs.)	19.83	19.45	21.08	22.26
EBITDA Margin (%)	27.87%	24.82%	24.62%	23.94%
PAT Margin (%)	17.88%	16.07%	15.98%	15.48%
P/E Ratio (x)	23.28	27.66	25.52	24.17
ROE (%)	88.58%	79.61%	46.32%	32.84%
ROCE (%)	133.73%	118.80%	69.01%	49.15%
EV/EBITDA (x)	14.93	17.91	16.57	15.63
Book Value (Rs.)	22.38	24.43	45.52	67.78
P/BV	20.63	22.02	11.82	7.94

Charts:







Outlook and Conclusion

- ◆ At the current market price of Rs.538.00, the stock is trading at 25.52 x CY12E and 24.17 x CY13E respectively.
- ◆ Earning per share (EPS) of the company for the earnings for CY12E and CY13E is seen at Rs.21.08 and Rs.22.26 respectively.
- ◆ On the basis of EV/EBITDA, the stock trades at 16.57 x for CY12E and 15.63 x for CY13E.
- ◆ Net Sales and PAT of the company are expected to grow at a CAGR of 9% and 5% over 2010 to 2013E.
- ◆ Castrol India has grown to become the second largest lubricant company in India with a market share of around 22%.
- ◆ Price to Book Value of the stock is expected to be at 11.82 x and 7.94 x respectively for CY12E and CY13E.
- ◆ We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.**608.00** 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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