

# Castrol (India)

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR200**

**TP: INR230 (+15%)**

**Buy**

## Lower-than-expected raw material costs drive beat

Bloomberg	CSTRL IN
Equity Shares (m)	989
M.Cap.(INRb)/(USD\$b)	196.2 / 2.4
52-Week Range (INR)	208 / 107
1, 6, 12 Rel. Per (%)	4/29/44
12M Avg Val (INR M)	456

### Financials & Valuations (INR b)

Y/E Dec	CY23E	CY24E	CY25E
Sales	50.7	53.2	55.1
EBITDA	12.0	12.3	14.0
PAT	8.6	9.1	10.3
EPS (INR)	8.7	9.2	10.4
EPS Gr. (%)	6.0	5.0	13.7
BV/Sh.(INR)	21.5	22.7	24.2

### Ratios

Net D:E	-0.6	-0.5	-0.5
RoE (%)	43.1	41.5	44.4
RoCE (%)	43.4	41.8	44.7
Payout (%)	85.8	85.8	85.8

### Valuations

P/E (x)	22.8	21.8	19.1
P/BV (x)	9.3	8.8	8.2
EV/EBITDA (x)	15.4	15.0	13.1
Div. Yield (%)	3.8	3.9	4.5
FCF Yield (%)	3.8	4.3	5.0

### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.0	51.0	51.0
DII	15.9	16.5	16.6
FII	10.4	11.0	11.4
Others	22.7	21.1	21.0

FII Includes depository receipts

- Castrol's (CSTRL) revenue grew 7% YoY to INR12.6b in 4QCY23, driven by 15% YoY growth in volumes, although realization declined 6% YoY. Base oil prices declined to USD1,000/mt in 4QCY23 from USD1,150-1,200/mt in 4QCY22. The company has partially passed on the benefits of lower input costs to end customers.
- CSTRL has ended its relationship with 3M and launched auto care products under its own brand name. This segment currently accounts for a small portion of CSTRL's revenue and the management estimates it will take another 4-5 years before it starts contributing meaningfully to revenue.
- The company is actively working on thermal solutions for EV batteries and its portfolio already has fluids that go into EVs. BP, parent of CSTRL, announced global investments of EUR50m in thermal management of batteries, underscoring the company's keen interest in this field.
- CSTRL believes that lubricant demand would stay robust till late 2030s and early 2040s due to low penetration of cars in India. Domestic lubricant demand generally grows by 4-5% annually and the company intends to grow faster than the market rate. The threat from EVs is real, however, their penetration would happen gradually.
- CSTRL has always enjoyed its brand legacy, and we believe it will be able to secure its profitability with a better product mix, cost control, and the launch of advanced products with better realization. **We reiterate our BUY rating on the stock with a TP of INR230.**

## Realization declines along with input costs

- 4QCY23 revenue was in line with our estimate at INR12.6b (+7% YoY).
- EBITDA was 11% higher than our est. at INR3.3b (+31% YoY) due to lower-than-expected RM costs.
- EBITDA margin stood at 26% (vs. 22.7% in 3QCY23).
- PAT was 12% above our est. at INR2.4b (+25% YoY).
- The board has recommended a final dividend of INR4.5 per share.
- The total dividend for CY23 stood at INR7.5 per share.
- For CY23, revenue stood at INR50.7b (+2% YoY), EBITDA at INR12b (+8% YoY) and PAT at INR8.6b (+6% YoY).
- EBITDAM came in at 23.7% (-15bp YoY)

## Other key highlights

- Castrol unveiled a revamped global brand identity, reinforcing its distinct positioning to meet evolving customer needs.
- Foraying into the auto care segment, CSTRL now offers a comprehensive product range in over 21,000 outlets and e-commerce platforms across India.

**Abhishek Nigam – Research Analyst** (Abhishek.nigam@MotilalOswal.com)

**Research Analyst: Aman Chowdhary** (Aman.Chowdhary@MotilalOswal.com) | **Rohit Thorat** (Rohit.Thorat@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Castrol CRB TURBOMAX's #Badhterahoaagey campaign and its on-ground extension, Castrol CRB TURBOMAX Pragati Ki Paathshaala, were launched to upskill truckers.
- Trained more than 1,000 independent car and bike mechanics, till date, on EV readiness to make them future ready

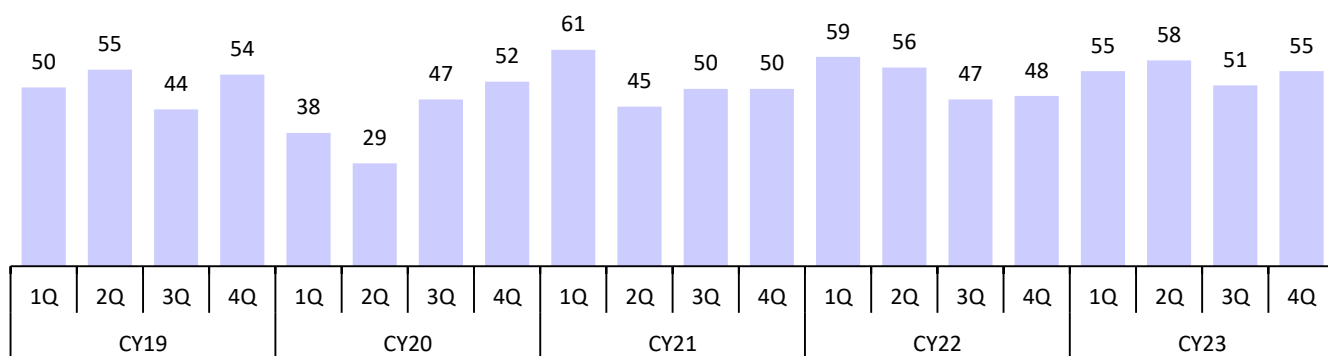
### Valuation and view

- Multiple initiatives are underway, which should help the company strengthen its market position. The new auto care segment is gaining traction for CSTR and the management is positive on the business segment. It plans to add more products in the portfolio in the segment. It is also looking to expand its service networks.
- The Ki mobility partnership, along with the expansion of its existing portfolio, would be the focus area for the company as it is seen as good for the automotive market.
- CSTR has maintained robust return ratios above 40% in CY23 and a dividend payout of above 85% that translates into ~3.8% dividend yield. The stock trades at 21.8x CY24E EPS of INR9.2 and 15x CY24E EV/EBITDA. We value the stock at 22x CY25E EPS to arrive at our TP of INR230. We reiterate our BUY rating on the stock.

### Quarterly Performance

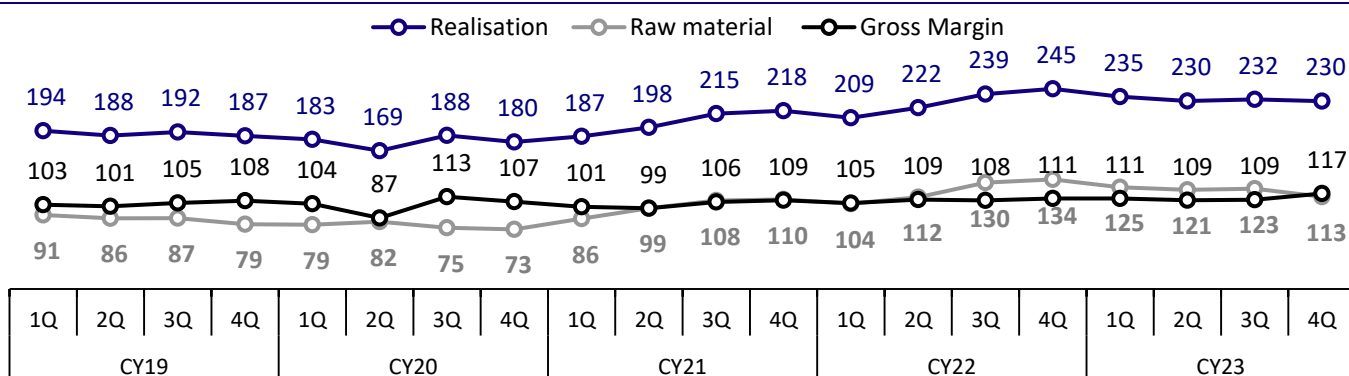
Y/E December	CY22				CY23				CY22	CY23	CY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	(%)	
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	58.0	51.0	55.0	210.0	219.0	54.4	1%
Realization	209	222	239	245	235	230	232	230	227	232	231	-1%
Net Sales	12,357	12,417	11,211	11,760	12,939	13,338	11,829	12,640	47,745	50,746	12,592	0%
YoY Change (%)	8.5	39.6	4.5	7.8	4.7	7.4	5.5	7.5	13.9	6.3	7.1	
EBITDA	3,172	2,861	2,571	2,506	2,950	3,098	2,686	3,291	11,111	12,024	2,965	11%
YoY Change (%)	-6.7	44.9	-2.0	-5.7	-7.0	8.3	4.4	31.3	4.2	8.2	18.3	
Margin (%)	25.7	23.0	22.9	21.3	22.8	23.2	22.7	26.0	23.3	23.7	23.5	0.1
Depreciation	202	196	208	208	227	218	229	250	814	924	234	
Interest	7	5	12	16	17	15	24	20	40	75	25	
Other Income	150	137	187	196	176	186	202	223	670	787	228	
PBT before EO expense	3,113	2,797	2,538	2,479	2,883	3,050	2,635	3,243	10,928	11,811	2,934	11%
PBT	3,113	2,797	2,538	2,479	2,883	3,050	2,635	3,243	10,928	11,811	2,934	11%
Tax	829	735	667	546	858	797	691	824	2,776	3,170	771	
Rate (%)	26.6	26.3	26.3	22.0	29.8	26.1	26.2	25.4	25.4	26.8	26.3	
PAT	2,284	2,063	1,872	1,933	2,025	2,253	1,944	2,419	8,152	8,641	2,163	12%
YoY Change (%)	-6.2	47.3	0.7	2.5	-11.3	9.2	3.9	25.2	7.5	6.0	11.9	
<b>Operational Details (INR/lit)</b>												
Volume (m litres)	59.0	56.0	47.0	48.0	55.0	58.0	51.0	55.0	210.0	219.0	54.4	1%
Realization	209.4	221.7	238.5	245.0	235.3	230.0	231.9	229.8	227.4	231.7	231.4	-1%
Gross margin	105.1	109.5	108.4	110.9	110.7	108.5	109.2	116.9	108.3	111.3	110.0	6%
EBITDA	53.8	51.1	54.7	52.2	53.6	53.4	52.7	59.8	52.9	54.9	54.5	10%
PAT	38.7	36.8	39.8	40.3	36.8	38.8	38.1	44.0	38.8	39.5	39.8	11%

**Exhibit 1: Volume stood at 55m liter (up 15% YoY)**



Source: Company, MOFSL

**Exhibit 2: Realization stood at INR230/liter (down 6% YoY)**



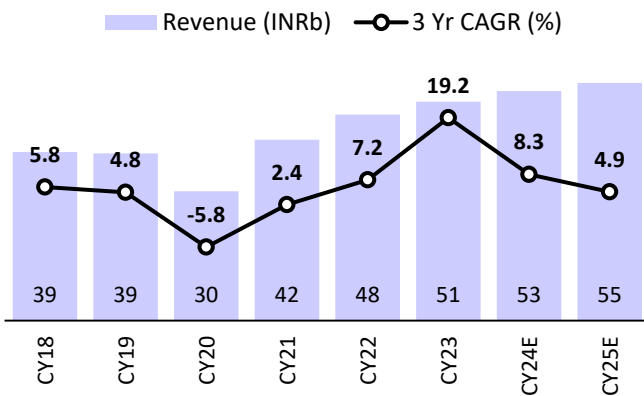
Source: Company, MOFSL

### Management Concall Highlights

- Volume stood at 55m liters, with the automotive segment contributing 85% and industrial segment contributing 15%.
- Advertisement expenses stood at 2-3% of sales.
- The company has passed on a reduction in input costs to end-customers.
- It keeps the selling prices in a specific band and will continue with the same pricing strategy going forward as well.
- The domestic lubricant market generally grows by 4-5% annually.
- The company intends to grow faster than the overall market.
- CSTR has launched auto care products under its own brand name and is no longer working with 3M.
- It expects a gestation period of 4-5 years before auto care products contribute meaningfully to revenue.
- Base oil prices stood at USD1000/mt in 4QCY23 vs. USD1150-1200/mt in 4QCY22.
- For CY23, base oil price was at USD1100/mt vs. USD1100-1150/mt in CY22.
- Capex is expected to increase by 50% in CY24.

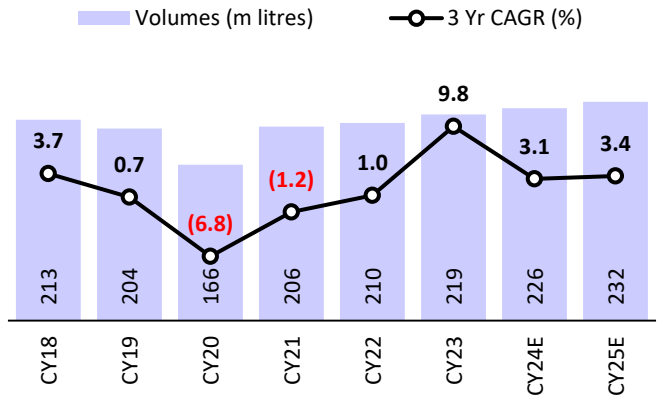
Story in charts

Exhibit 3: Revenue to clock 4% CAGR in CY23-25...



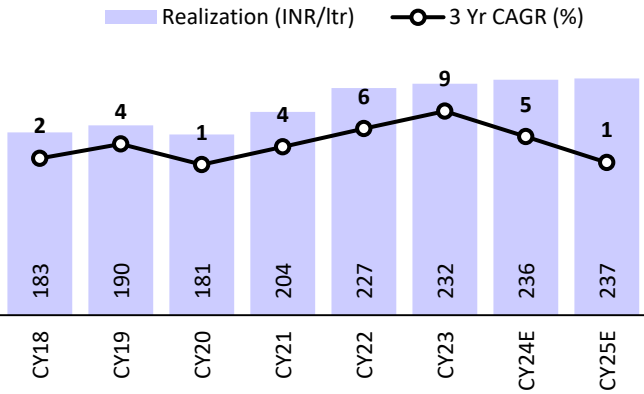
Source: Company, MOFSL

Exhibit 4: ...led by increase in volumes and pricing action



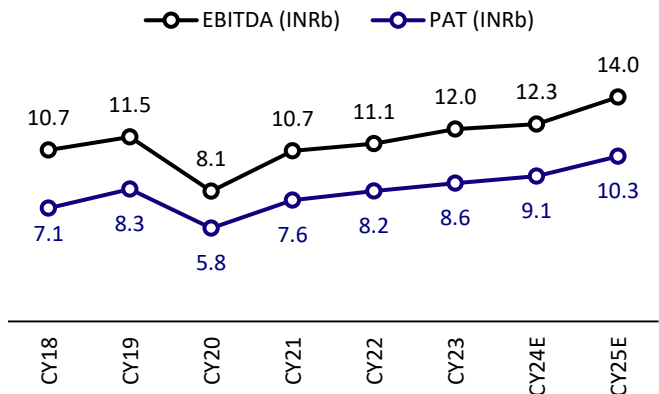
Source: Company, MOFSL

Exhibit 5: Realizations to be above INR235/lit in CY23-25...



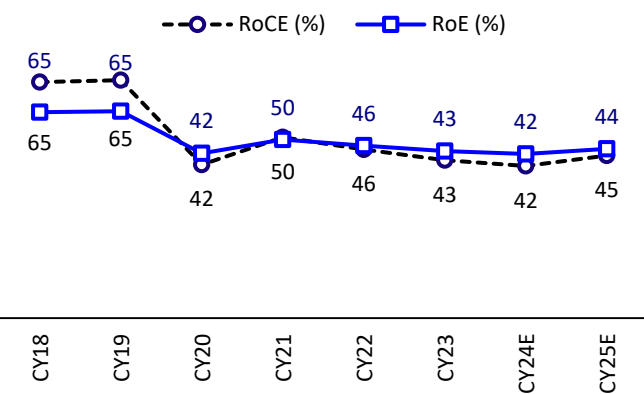
Source: Company, MOFSL

Exhibit 6: ...with EBITDA improving to INR14b



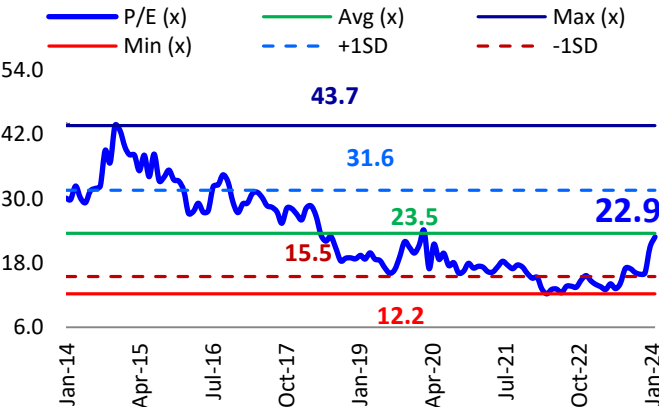
Source: Company, MOFSL

Exhibit 7: Return ratios expected to be above 40%



Source: Company, MOFSL

Exhibit 8: Castrol's 1-year forward P/E chart



Source: Company, MOFSL

## Financials and Valuations

### Standalone - Income Statement

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
<b>Net sales</b>	<b>39,046</b>	<b>38,768</b>	<b>29,969</b>	<b>41,921</b>	<b>47,745</b>	<b>50,746</b>	<b>53,185</b>	<b>55,078</b>
Change (%)	8.9	-0.7	-22.7	39.9	13.9	6.3	4.8	3.6
<b>Gross Margin</b>	<b>19,980</b>	<b>21,291</b>	<b>17,306</b>	<b>21,332</b>	<b>22,746</b>	<b>24,382</b>	<b>25,253</b>	<b>27,466</b>
Margin (%)	51.2	54.9	57.7	50.9	47.6	48.0	47.5	49.9
<b>EBITDA</b>	<b>10,708</b>	<b>11,530</b>	<b>8,141</b>	<b>10,660</b>	<b>11,111</b>	<b>12,024</b>	<b>12,336</b>	<b>14,028</b>
Margin (%)	27.4	29.7	27.2	25.4	23.3	23.7	23.2	25.5
Depreciation	556	697	866	827	814	924	963	1,014
<b>EBIT</b>	<b>10,152</b>	<b>10,833</b>	<b>7,275</b>	<b>9,833</b>	<b>10,297</b>	<b>11,100</b>	<b>11,373</b>	<b>13,014</b>
Interest Charges	11	12	42	24	40	75	79	79
Other Income	843	648	620	484	670	787	840	859
<b>PBT bef. EO Exp.</b>	<b>10,984</b>	<b>11,469</b>	<b>7,853</b>	<b>10,293</b>	<b>10,928</b>	<b>11,811</b>	<b>12,134</b>	<b>13,795</b>
Income tax	3,901	3,195	2,024	2,712	2,776	3,170	3,058	3,476
Tax Rate (%)	35.5	27.9	25.8	26.3	25.4	26.8	25.2	25.2
<b>Reported PAT</b>	<b>7,083</b>	<b>8,274</b>	<b>5,829</b>	<b>7,581</b>	<b>8,152</b>	<b>8,641</b>	<b>9,076</b>	<b>10,318</b>
Change (%)	2.4	16.8	-29.6	30.1	7.5	6.0	5.0	13.7
Margin (%)	18.1	21.3	19.5	18.1	17.1	17.0	17.1	18.7

### Standalone - Balance Sheet

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
Equity Share Capital	4,946	4,946	4,946	4,946	4,946	4,946	4,946	4,946
Total Reserves	6,711	8,724	9,197	11,510	13,915	16,271	17,556	19,016
<b>Net Worth</b>	<b>11,657</b>	<b>13,670</b>	<b>14,143</b>	<b>16,456</b>	<b>18,861</b>	<b>21,217</b>	<b>22,501</b>	<b>23,962</b>
<b>Capital Employed</b>	<b>11,657</b>	<b>13,670</b>	<b>14,143</b>	<b>16,456</b>	<b>18,861</b>	<b>21,217</b>	<b>22,501</b>	<b>23,962</b>
Gross Block	5,440	6,267	6,885	7,701	8,709	9,633	11,133	12,633
Less: Accum. Deprn.	3,596	4,293	5,159	5,986	6,800	7,960	8,923	9,936
<b>Net Fixed Assets</b>	<b>1,844</b>	<b>1,974</b>	<b>1,726</b>	<b>1,715</b>	<b>1,909</b>	<b>1,673</b>	<b>2,210</b>	<b>2,697</b>
Capital WIP	366	296	453	500	608	1,084	1,500	1,500
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>18,325</b>	<b>19,433</b>	<b>21,134</b>	<b>24,111</b>	<b>24,240</b>	<b>25,787</b>	<b>26,762</b>	<b>27,972</b>
Inventory	4,568	3,047	3,669	4,917	5,344	5,329	5,622	5,650
Account Receivables	3,918	4,820	1,805	3,117	3,504	4,228	4,431	4,589
Cash and Bank Balance	7,438	9,461	12,742	13,002	12,177	11,998	12,274	13,141
Cash	2,637	672	1,947	1,842	5,545	4,932	5,208	6,075
Bank Balance	4,802	8,788	10,795	11,160	6,632	7,066	7,066	7,066
Loans and Advances	2,401	2,105	2,918	3,075	3,215	4,231	4,435	4,593
<b>Curr. Liability &amp; Prov.</b>	<b>9,411</b>	<b>8,618</b>	<b>9,792</b>	<b>10,584</b>	<b>11,832</b>	<b>12,982</b>	<b>13,627</b>	<b>13,863</b>
Account Payables	5,840	4,718	5,456	6,206	6,789	7,064	7,452	7,489
Other Current Liabilities	3,111	3,403	3,793	3,862	4,516	5,342	5,599	5,798
Provisions	460	497	543	516	527	576	576	576
<b>Net Current Assets</b>	<b>8,914</b>	<b>10,815</b>	<b>11,342</b>	<b>13,527</b>	<b>12,408</b>	<b>12,804</b>	<b>13,135</b>	<b>14,109</b>
Deferred Tax assets	533	585	622	714	686	781	781	781
<b>Appl. of Funds</b>	<b>11,657</b>	<b>13,670</b>	<b>14,143</b>	<b>16,456</b>	<b>18,861</b>	<b>21,217</b>	<b>22,501</b>	<b>23,962</b>

## Financials and Valuations

### Ratios

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>7.2</b>	<b>8.4</b>	<b>5.9</b>	<b>7.7</b>	<b>8.2</b>	<b>8.7</b>	<b>9.2</b>	<b>10.4</b>
Cash EPS	7.7	9.1	6.8	8.5	9.1	9.7	10.1	11.5
BV/Share	11.8	13.8	14.3	16.6	19.1	21.5	22.7	24.2
DPS	5.0	5.5	5.5	5.5	6.5	7.5	7.9	9.0
Payout (%)	84.0	79.1	93.3	71.8	78.9	85.8	85.8	85.8
<b>Valuation (x)</b>								
P/E	27.9	23.9	33.9	26.0	24.2	22.8	21.8	19.1
Cash P/E	25.8	22.0	29.5	23.5	22.0	20.6	19.7	17.4
P/BV	16.9	14.4	14.0	12.0	10.5	9.3	8.8	8.2
EV/Sales	4.9	4.8	6.2	4.4	3.9	3.7	3.5	3.3
EV/EBITDA	17.7	16.3	22.7	17.3	16.7	15.4	15.0	13.1
Dividend Yield (%)	2.5	2.8	2.8	2.8	3.3	3.8	3.9	4.5
FCF per share	4.8	7.9	8.6	5.5	8.2	7.7	8.7	9.9
<b>Return Ratios (%)</b>								
RoE	64.8	65.3	41.9	49.6	46.2	43.1	41.5	44.4
RoCE	64.9	65.4	42.1	49.7	46.3	43.4	41.8	44.7
<b>Working Capital Ratios</b>								
Asset Turnover (x)	3.3	2.8	2.1	2.5	2.5	2.4	2.4	2.3
Inventory (Days)	43	29	45	43	41	38	39	37
Debtor (Days)	32	39	19	24	23	26	26	26
Creditor (Days)	55	44	66	54	52	51	51	50
<b>Leverage Ratio (x)</b>								
Net Debt/Equity	-0.6	-0.7	-0.9	-0.8	-0.6	-0.6	-0.5	-0.5

### Standalone - Cash Flow Statement

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E
<b>(INR m)</b>								
OP/(Loss) before Tax	10,984	11,469	7,853	10,293	10,928	11,811	12,134	13,795
Depreciation	556	694	866	827	814	924	963	1,014
Interest & Finance Charges	11	12	42	24	40	75	79	79
Direct Taxes Paid	-3,997	-3,087	-2,396	-2,798	-2,740	-3,185	-3,058	-3,476
(Inc)/Dec in WC	-1,487	126	3,040	-1,826	307	-706	-55	-107
<b>CF from Operations</b>	<b>5,495</b>	<b>8,795</b>	<b>8,928</b>	<b>6,303</b>	<b>9,159</b>	<b>8,530</b>	<b>10,063</b>	<b>11,304</b>
(Inc)/Dec in FA	-780	-993	-417	-832	-1,097	-955	-1,500	-1,500
<b>Free Cash Flow</b>	<b>4,715</b>	<b>7,802</b>	<b>8,511</b>	<b>5,471</b>	<b>8,062</b>	<b>7,575</b>	<b>8,563</b>	<b>9,804</b>
<b>CF from Investments</b>	<b>661</b>	<b>-4,483</b>	<b>-2,010</b>	<b>-831</b>	<b>618</b>	<b>-2,513</b>	<b>-1,916</b>	<b>-1,500</b>
Interest Paid	-10	-11	-12	-12	-11	-15	-79	-79
Dividend Paid	-5,664	-6,266	-5,631	-5,425	-5,935	-6,429	-7,792	-8,858
<b>CF from Fin. Activity</b>	<b>-5,674</b>	<b>-6,277</b>	<b>-5,643</b>	<b>-5,577</b>	<b>-6,075</b>	<b>-6,638</b>	<b>-7,871</b>	<b>-8,937</b>
<b>Inc/Dec of Cash</b>	<b>482</b>	<b>-1,965</b>	<b>1,275</b>	<b>-105</b>	<b>3,702</b>	<b>-621</b>	<b>276</b>	<b>867</b>
Opening Balance	2,155	2,637	672	1,947	1,842	5,545	4,932	5,208
<b>Closing Balance</b>	<b>2,637</b>	<b>672</b>	<b>1,947</b>	<b>1,842</b>	<b>5,544</b>	<b>4,924</b>	<b>5,208</b>	<b>6,075</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal,

Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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