

Castrol India Ltd:- BUY

Sector:- Lubricants

Key Data

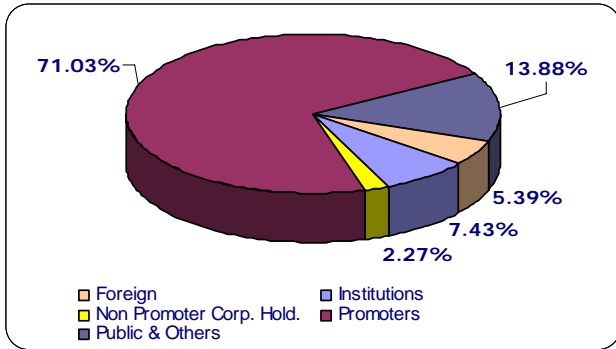
Latest Equity (Cr)	247.28
CMP (Rs.) As on 03.05.10	365.35
52 Week High/Low (Rs.)	392/162
Market Capitalization(Cr)	9098.67
Book Value	20.02
EPS	17.07
Div Yield(%)	3.43
PE Ratio	21.32
Face Value	10.00

Castrol- Driving India Forward

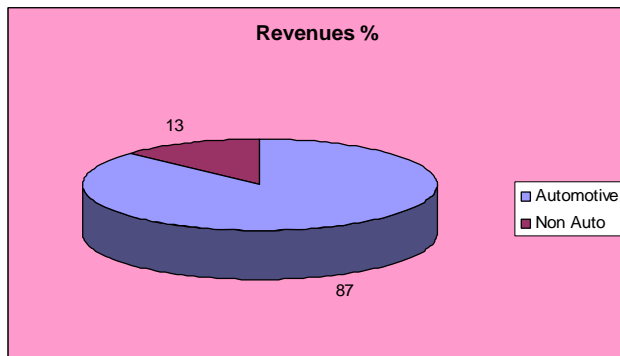
The leading manufacturers of motor lubricants in the country with a market share of about 22%. It majority stake is held by Castrol UK. The company manufacturers and markets a wide range of automotive and industrial lubricants under its two brands:- Castrol and BP servicing Motorcycles, Commercial Vehicles and passenger car segments.

Results for Q1 2010

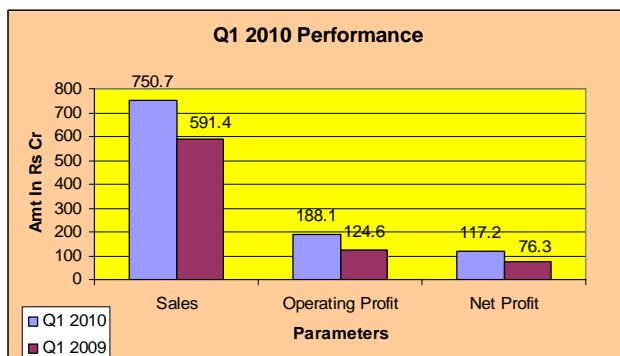
The Company has posted strong numbers for the Q1 March 2010 quarter by reporting a 27% and 53% rise in top line and bottom line figures respectively. Higher realizations were on the back of an increase in prices of their products from Rs 112/ltr to Rs 120/ltr in the month of Jan 2010 along with better product mix. The increase in sales volume is a clear indicator of the ever increasing auto sales in the country. While the company sold 45.2 million litres in the 1st Quarter of CY 2009, it reported a sale of 54.6 million litres in this quarter. Apart from an increase in the prices of their products, the improvement in operating margins were against the backdrop of a reduction in head count where employee expenses declined by about 21.7%(YoY) on account of the workforce being downsized by about 10%.



Source: Capitaline



Source: Company



Source: Capitaline

Rationale for Investment

Increase in auto sales

With the monthly data of auto sales, both in terms of two wheelers, passenger cars and commercial vehicles showing a steady rise, the company expects to benefit significantly as it holds a market share of 22% in this segment along with a fruitful business relationship with the major auto makers of the likes of Maruti, Tata Motors, Mahindra & Mahindra and JCB for supply of quality engine oils. On the international front with BMW, Jaguar, Volvo, Land Rover and Komatsu are its partners. With the introduction of Tata Nano and the foray of the 4 wheeler industry in the rural segment, the company is expected to benefit to a large extent.

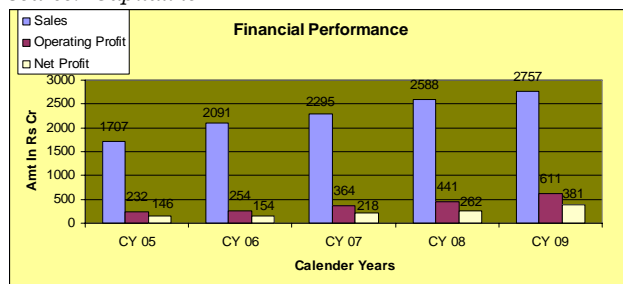
Pick up in industrial activity to increase volumes in the non auto segment

13% of the top line is generated from the non automotive sales to manufacturing industries. With the steady rise in the IIP figures and the expected growth of the infrastructure sector, the sales volumes are expected to show a significant increase. The fresh commissioning of various plants of a majority of the manufacturing entities shall prove to be beneficial in the long run.

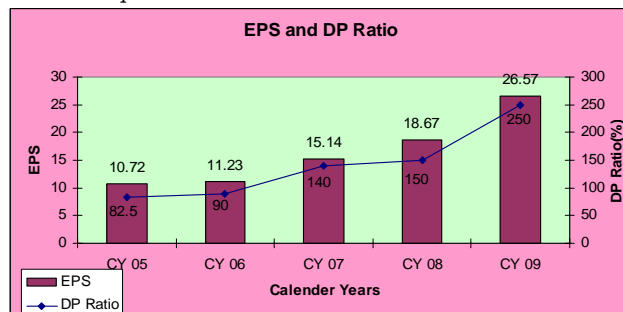
Balance Sheet Figures(Rs In Cr)		
Rs.Cr	CY08	CY09
Equity (Paid up)	123.64	123.64
Reserves	351.93	371.36
Shareholders Funds	475.57	495.00
Debt	2.79	0.00
Total Liabilities	478.36	495.00
Net Block of Assets	119.48	111.33
Capital WIP	24.97	26.13
Investments	0.52	0.52
Net Current Assets	306.57	322.40
Others	26.82	34.62
Total Assets	478.36	495.00

Profit & Loss A/c Figures(Rs In Cr)		
Particulars	CY08	CY09
Net Sales	2262.37	2396.18
Total Income	2317.36	2403.71
Total Expenditure	1875.95	1792.44
Operating Profit	441.41	611.27
Interest	3.65	3.45
Depreciation	25.68	27.18
Tax	149.71	199.58
Reported Net Profit	262.37	381.06
EPS	18.67	26.57

Source:- Capitaline



Source:- Capitaline



Source:- Capitaline

Enhanced customer satisfaction in the form of Pit Shops

Pit Shops were an initiative started by the company to service those customers who want to service their vehicles on all counts in a short span of time without compromising on quality. This has already received an overwhelming response from the end users of these services.

Superior technology with respect to production of eco friendly products

Nowadays, the government has laid down stringent norms and regulations with respect to emission levels of vehicles. Bharat Stage IV is already in the process of being implemented in the large cities. With the company having technical tie ups with foreign entities, it places itself at a superior position in comparison to its peers, both in the private as well as PSU segment.

Stable operating margins

Due to its conscious efforts to improve the product mix and rationalize costs at the same time, the operating margins have remained at a steady level of an average of 25%, taking the last 4 quarters.

Pricing power at a premium

Though it faces a stiff competition with respect to its PSU counterparts, yet it has been able to cash in the opportunity on the pricing front with the premium pricing ability as well as bringing in new and innovative products from time to time. Due to this ability the consumers have accepted their products at a higher price range also due to its superior brand quality.

Debt free company and a lower capital expenditure

As per the data provided in the Annual Report, the company has zero debt in its Balance Sheet. In addition to that the company does not have any major capex plans in the near future by virtue of which it has been able to keep its working capital requirements at steady levels for the last 2-3 years

Reward to investors

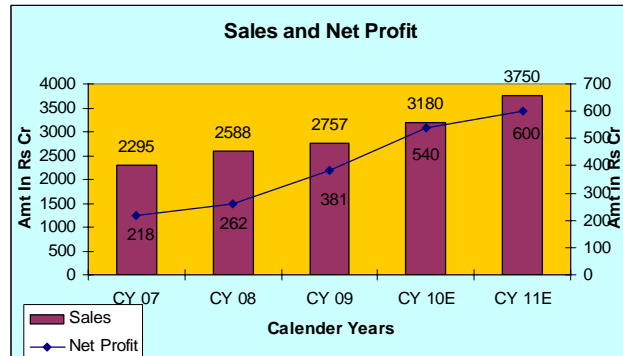
The company has paid handsome dividends of more than 100% for the last 3 years, the last one being 250%(Face Value Rs 10). The company gave a 1:1 bonus to its existing shareholders in April 2010.

Earnings Estimates(Rs In Cr)

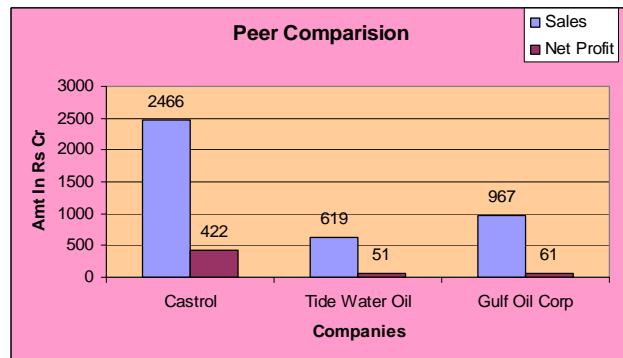
	CY 2009	CY 2010E	CY 2011E
Sales Turnover	2757.60	3050	3400
Operating Profit	611.27	671	750
Net Profit	381.06	490	550
EPS**	26.57	19.81	22.40

**The company allotted 1:1 bonus shares in April 2010

Source: Capitaline, GSL Research.



Source: Capitaline, GSL Research.



Source: Capitaline

** The figures for the above data are available on TTM basis as per the last declared results of the above companies. Tide water and Gulf Oil results for Q4 09-10 are awaited. Here we have taken only the private players and not the PSU's.

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Earnings Estimates and Valuation

We expect the company to report a top line growth of about 10% and 12% for CY 2010E and CY 2011E respectively. Due to the ability of the company to introduce variety of products at a premium price, we expect the operating margins to be maintained in between 22%-25%. Since the company is debt free and has got no major capex plans for the time being the net profit margins are expected to remain steady at about 16%.

At the current market price, the stock is trading at a PE multiple of 18.52x CY 2010E and 16.38x CY 2011E earnings and a P/BV multiple of 16.58x CY 2010E and 13.62x CY 2011E earnings going forward. We would assign a price target of **Rs 450** to be achieved in a period of 12-15 months and hence recommend a **BUY** on the scrip.

Concerns and Risks

With the rise in the international oil prices, the cost of base oils which is an important manufacturing ingredient, is likely to rise putting pressure on margins. The industry is very competitive with many international players eyeing India as a potential market. In addition to that local players specially the ones in the PSU segment tend to focus more on volumes rather than value which may put the company's margins and market share in a tight spot.