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Castrol India Limited

CMP Rs. 380.0
REDUCE

Result Update
Q1CY10

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Strong start to CY10, Richly Valued!

Castrol India Ltd., (CIL) has reported a strong start to CY10. The results for the quarter ended Mar'10 are better than expected with a 29% Y-Y growth in topline to Rs. 6,540mn. (v/s Rs. 5,059mn.)and 54% Y-Y growth in bottomline to Rs. 1,172mn. (v/s Rs. 763mn.) The company continued its positive momentum of growth in volumes over and above the base effect (55mn. litres against 45mn. litres in Q1CY09). Recently, the company had declared a bonus of 1:1.

Q1CY10 Performance Review:

For the quarter ended Mar'10, Castrol India's net profit grew by 54% Y-Y (45% Q-Q) to Rs. 1,172mn. as against Rs. 763mn. for the quarter ended Mar'09. Lower raw material and personnel costs, premium product mix, and higher unit realization (Rs. 120/litre v/s Rs. 112.5/litre in Q1CY09) boosted the company's operating margins (OPM) by 477 bps to 27.5% Y-Y (23%), taking operating profits to Rs. 1,800mn. for Q1CY10 (Rs. 1,151mn.) 56% Y-Y growth.

In terms of costs as % of sales, material cost decreased sharply by 481 bps to 49% for the current quarter under review as against 54% for the corresponding quarter of last year. Staff cost decreased to 3.3% from 5.5%, while carriage, insurance & freight chargers remained flat at 3.4%. However, Advertisement cost increased by 300 bps to 7% from 4% and other expenses fell to 9.7% from 11%.

Segment Performance:

Automotive: segment's sales increased by 29% Y-Y to Rs. 5,664mn. for the quarter ended Mar'10 as compared to Rs. 4,381mn. for the corresponding quarter of last year, with its contribution to total sales at 86.6%. The segment's PBIT witnessed a rise of 53% Y-Y to Rs. 1,506mn. for Q1CY10 versus Rs. 982mn. for Q1CY09.

Non Automotive: segment witnessed a rise in revenues to Rs. 876mn. for Q1CY10 from Rs. 678mn. for Q1CY09 (29% Y-Y), with its contribution to total sales at 13.4%. The segment's PBIT increased by 67% Y-Y to Rs. 256mn. for the current quarter as compared to Rs. 153mn. for the quarter ended Mar'09.

Outlook & Valuations:

We have revised our CY10E estimates considering Castrol's high volume growth, lower material and personnel costs and its reported CY09 annual and Q1CY10 numbers. We also introduce our CY11E estimates. At CMP of Rs. 380/-, the scrip is trading at 21x CY10E & 19x CY11E EPS.

We maintain our REDUCE rating given the company's rich valuations and strong out performance rally over the past two quarters with a revised price target of Rs. 345/-.

Quarterly Financials

Earnings Statement	Q1CY10	Q4CY09		Q1CY09				
Particulars (Rs. Mn.)	**Mar 10**	**Dec 09**	**Q-Q(%)**	**Mar 09**	**Y-Y(%)**	**CY09**	**CY08**	**Y-Y(%)**
Gross Sales	7,507.0	7,059.0	6.3%	5,914.0	26.9%	26,852.0	25,317.0	6.1%
Less: Excise Duty	967.0	964.0	0.3%	855.0	13.1%	3,670.0	3,260.0	12.6%
Net Revenues	6,540.0	6,095.0	7.3%	5,059.0	29.3%	23,182.0	22,057.0	5.1%
Other Operating Income	20.0	29.0	-31.0%	28.0	-28.6%	98.0	111.0	-11.7%
Total Income	6,560.0	6,124.0	7.1%	5,087.0	29.0%	23,280.0	22,168.0	5.0%
Raw Material Cost	3,224.0	2,996.0	7.6%	2,737.0	17.8%	11,237.0	13,131.0	-14.4%
Gross Profit	3,336.0	3,128.0	6.6%	2,350.0	42.0%	12,043.0	9,037.0	33.3%
Staff Cost	216.0	250.0	-13.6%	276.0	-21.7%	1,122.0	973.0	15.3%
Advertisement Cost	464.0	462.0	0.4%	207.0	124.2%	1,495.0	977.0	53.0%
Carraige, Insurance & Freight	220.0	175.0	25.7%	164.0	34.1%	704.0	700.0	0.6%
Other Expenditure	636.0	962.0	-33.9%	552.0	15.2%	2,871.0	2,278.0	26.0%
Total Expenditure	1,536.0	1,849.0	-16.9%	1,199.0	28.1%	6,192.0	4,928.0	25.6%
Operating Profit	1,800.0	1,279.0	40.7%	1,151.0	56.4%	5,851.0	4,109.0	42.4%
Other Income	81.0	31.0	161.3%	95.0	-14.7%	263.0	307.0	-14.3%
EBITDA	1,881.0	1,310.0	43.6%	1,246.0	51.0%	6,114.0	4,416.0	38.5%
Depreciation	58.0	68.0	-14.7%	65.0	-10.8%	271.0	257.0	5.4%
EBIT	1,823.0	1,242.0	46.8%	1,181.0	54.4%	5,843.0	4,159.0	40.5%
Interest	5.0	14.0	-64.3%	9.0	-44.4%	35.0	37.0	-5.4%
PBT	1,818.0	1,228.0	48.0%	1,172.0	55.1%	5,808.0	4,122.0	40.9%
Tax	646.0	420.0	53.8%	409.0	57.9%	1,997.0	1,499.0	33.2%
PAT	1,172.0	808.0	45.0%	763.0	53.6%	3,811.0	2,623.0	45.3%
Equity Capital	1,236.4	1,236.4	-	1,236.4	-	1,236.4	1,236.4	-
EPS	9.5	6.5	45.0%	6.2	53.6%	30.8	21.2	45.3%

Ratio Analysis

Profitability

YE December	Mar 10	Dec 09	Q-Q(bps)	Mar 09	Y-Y(bps)	CY09	CY08	Y-Y(bps)
OPM (%)	27.5%	21.0%	653.9	22.8%	477.1	25.2%	18.6%	661.0
EBITDA (%)	28.8%	21.5%	726.8	24.6%	413.2	26.4%	20.0%	635.3
EBIT (%)	27.9%	20.4%	749.7	23.3%	453.0	25.2%	18.9%	634.9
PAT (%)	17.9%	13.3%	466.4	15.1%	283.8	16.4%	11.9%	454.8

Operational Parameters

YE December	Mar 10	Dec 09	Q-Q(bps)	Mar 09	Y-Y(bps)	CY09	CY08	Y-Y(bps)
Raw Material Cost	49.3%	49.2%	14.2	54.1%	(480.5)	48.5%	59.5%	(1,105.9)
Staff Cost	3.3%	4.1%	(79.9)	5.5%	(215.3)	4.8%	4.4%	42.9
Advertisement Cost	7.1%	7.6%	(48.5)	4.1%	300.3	6.4%	4.4%	202.0
Carraige, Insurance & Freight	3.4%	2.9%	49.3	3.2%	12.2	3.0%	3.2%	(13.7)
Other Expenditure	9.7%	15.8%	(605.9)	10.9%	(118.6)	12.4%	10.3%	205.7
Effective Tax Rate	35.5%	34.2%	133.2	34.9%	63.6	34.4%	36.4%	(198.2)

Segment Financials

Earnings Statement	Q1CY10	Q4CY09		Q1CY09				
Particulars (Rs. Mn.)	**Mar 10**	**Dec 09**	**Q-Q(%)**	**Mar 09**	**Y-Y(%)**	**CY09**	**CY08**	**Y-Y(%)**
Segment Revenues								
- Automotive	5,664.0	5,276.0	7.4%	4,381.0	29.3%	20,083.0	18,679.0	7.5%
- Non Automotive	876.0	819.0	7.0%	678.0	29.2%	3,099.0	3,378.0	-8.3%
Total Segment Revenues	6,540.0	6,095.0	7.3%	5,059.0	29.3%	23,182.0	22,057.0	5.1%
Segment Results								
- Automotive	1,506.0	975.0	54.5%	982.0	53.4%	4,780.0	3,258.0	46.7%
- Non Automotive	256.0	214.0	19.6%	153.0	67.3%	875.0	675.0	29.6%
Total Segment Results	1,762.0	1,189.0	48.2%	1,135.0	55.2%	5,655.0	3,933.0	43.8%
Unallocable Income	61.0	53.0	15.1%	46.0	32.6%	188.0	225.0	-16.4%
Interest	5.0	14.0	-64.3%	9.0	-44.4%	35.0	37.0	-5.4%
PBT	1,818.0	1,228.0	48.0%	1,172.0	55.1%	5,808.0	4,122.0	40.9%
Segment Capital Employed								
- Automotive	1,973.0	843.0	134.0%	2,955.0	-33.2%	1,973.0	2,388.0	-17.4%
- Non Automotive	893.0	695.0	28.5%	402.0	122.1%	893.0	1,076.0	-17.0%
Add: Unall Assets – Liab	3,256.0	3,412.0	-4.6%	2,162.0	50.6%	3,256.0	1,292.0	152.0%
Total Capital Employed	6,122.0	4,950.0	23.7%	5,519.0	10.9%	6,122.0	4,756.0	28.7%

Ratio Analysis								
Profitability	Mar 10	Dec 09	Q-Q(bps)	Mar 09	Y-Y(bps)	CY09	CY08	Y-Y(bps)
Automotive EBITDA %	26.6%	18.5%	810.9	22.4%	417.4	23.8%	17.4%	635.9
Non Automotive EBITDA %	29.2%	26.1%	309.4	22.6%	665.7	28.2%	20.0%	825.3
% of segment revenues								
Automotive	86.6%	86.6%	4.3	86.6%	0.7	86.6%	84.7%	194.7
Non Automotive	13.4%	13.4%	(4.3)	13.4%	(0.7)	13.4%	15.3%	(194.7)
% of segment results								
Automotive	85.5%	82.0%	346.9	86.5%	(104.9)	84.5%	82.8%	168.9
Non Automotive	14.5%	18.0%	(346.9)	13.5%	104.9	15.5%	17.2%	(168.9)
ROCE (%)								
Automotive	76.3%	115.7%	(3932.8)	33.2%	4309.9	242.3%	136.4%	10583.8
Non Automotive	28.7%	30.8%	(212.4)	38.1%	(939.2)	98.0%	62.7%	3525.2
Auto + Non Auto	28.8%	24.0%	476.1	20.6%	821.6	92.4%	82.7%	967.6

Financials

Earnings Statement

Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Net Revenues	22,057.0	23,181.9	25,345.3	28,158.9
- Growth (%)	16.8%	5.1%	9.3%	11.1%
Total Expenditure	18,059.8	17,428.3	18,679.4	20,584.2
Operating Profit	3,997.2	5,753.6	6,665.8	7,574.7
Other Income	418.1	360.7	396.8	436.4
EBITDA	4,415.3	6,114.3	7,062.6	8,011.2
- Growth (%)	21.2%	38.5%	15.5%	13.4%
Depreciation	256.8	271.8	281.8	291.5
EBIT	4,158.5	5,842.5	6,780.8	7,719.7
Interest	36.5	34.5	0.0	0.0
PBT	4,122.0	5,808.0	6,780.8	7,719.7
Tax	1,498.3	1,997.4	2,329.2	2,701.9
PAT	2,623.7	3,810.6	4,451.6	5,017.8
- Growth (%)	20.1%	45.2%	16.8%	12.7%

Ratio Analysis

Particulars	CY08	CY09	CY10E	CY11E
OPM (%)	18.1%	24.8%	26.3%	26.9%
EBITDA (%)	20.0%	26.4%	27.9%	28.4%
PBIT (%)	18.9%	25.2%	26.8%	27.4%
PAT (%)	11.9%	16.4%	17.6%	17.8%
Interest Cover (x)	113.9	169.3	n.a.	n.a.
EBITDA per share (Rs.)	35.7	49.5	28.6	32.4
EPS (Rs.)	21.2	30.8	18.0	20.3
P/E (x)	17.9	12.3	21.1	18.7
P/BV (x)	9.9	9.5	14.9	13.5
BVPS (Rs.)	38.5	40.0	25.5	28.2
Market Cap (Rs. Mn.)	46,933.9	46,933.9	93,867.7	93,867.7
M Cap/Sales (x)	2.1	2.0	3.7	3.3
EV (Rs. Mn.)	44,400.3	41,671.1	87,248.5	86,259.4
EV/EBITDA (x)	10.1	6.8	12.4	10.8
EV/Sales (x)	2.0	1.8	3.4	3.1
ROCE (%)	86.9%	118.0%	107.7%	110.6%
RONW (%)	55.2%	77.0%	70.7%	71.9%
Debt/Equity Ratio (x)	0.01	0.00	0.00	0.00
Inventory T/o Days	44.2	32.8	33.0	33.0
Debtors T/o Days	26.9	25.3	25.0	25.0
Advances T/o Days	14.8	16.5	17.0	17.0
Creditors T/o Days	50.3	68.0	66.0	66.0
Working Cap T/o Days	50.7	50.8	66.6	69.9
Fixed Assets T/o (Gross)	8.3	8.3	8.7	9.4
DPS (Rs.)	15.0	25.0	15.0	15.0
Dividend Payout (%)	70.7%	81.1%	83.3%	73.9%
Dividend Yield (%)	4.0%	6.6%	4.0%	4.0%

Balance Sheet

Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Equity Capital	1,236.4	1,236.4	2,472.8	2,472.8
Reserves	3,519.3	3,713.6	3,825.8	4,504.2
Shareholders Funds	4,755.7	4,950.0	6,298.6	6,977.0
Borrowed Funds	27.9	0.0	0.0	0.0
Deferred Tax Liability	(268.2)	(346.2)	(424.2)	(424.2)
Total Liabilities	4,515.4	4,603.8	5,874.4	6,552.8
Fixed Assets	1,444.5	1,374.6	1,242.8	1,156.7
Investments	5.2	5.2	5.2	5.2
Current Assets				
Inventory	2,673.0	2,086.3	2,291.5	2,545.9
Sundry Debtors	1,623.1	1,606.0	1,736.0	1,928.7
Loans & Advances	891.9	1,050.3	1,180.5	1,311.5
Cash & Bank Balance	2,556.3	5,257.6	6,614.0	7,603.1
Other Current Assets	11.1	35.5	35.5	35.5
Current Liabilities				
Sundry Creditors	3,038.9	4,317.2	4,583.0	5,091.7
Provisions	1,650.8	2,494.5	2,648.1	2,942.0
Net Current Assets	3,065.7	3,224.0	4,626.4	5,390.9
Total Assets	4,515.4	4,603.8	5,874.4	6,552.8

Cash Flow

Particulars (Rs. Mn.)	CY08	CY09	CY10E	CY11E
Opening Cash & Bank	3,179.1	2,556.3	5,257.6	6,614.0
Profit after Tax	2,623.7	3,810.6	4,451.6	5,017.8
Less: Investment Income	(418.1)	(360.7)	(396.8)	(436.4)
Interest Paid	36.5	34.5	0.0	0.0
Depreciation	256.8	271.8	281.8	291.5
Deferred Taxation	(86.0)	(78.0)	(78.0)	0.0
Others	(107.2)	(36.8)	0.0	(55.4)
Change in Working Cap	(1,079.4)	2,543.0	(46.0)	224.6
CF - Operating Activities	1,226.3	6,184.4	4,212.6	5,042.0
Change in Fixed Assets	(261.5)	(165.1)	(150.0)	(150.0)
Change in Investments	200.6	0.0	0.0	0.0
Change in Def. Tax Asset	0.0	0.0	0.0	0.0
Investment Income	418.1	360.7	396.8	436.4
CF - Investing Activities	357.2	195.6	246.8	286.4
Increase in Equity	(0.0)	0.0	1,236.4	0.0
Changes in Borrowings	0.0	(27.9)	0.0	0.0
Interest Paid	(36.5)	(34.5)	0.0	0.0
Dividend Paid	(2,169.8)	(3,616.3)	(4,339.4)	(4,339.4)
CF - Financing Activities	(2,206.3)	(3,678.7)	(3,103.0)	(4,339.4)
Net Change in Cash	(622.8)	2,701.3	1,356.4	989.1
Closing Cash & Bank Bal	2,556.3	5,257.6	6,614.0	7,603.1

Disclaimer

Disclosure of Interest Statement	Castrol
1. Analyst Ownership of the scrip	NO
2. PPFAS ownership of the scrip	YES
3. PMS ownership of the scrip	NO

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