

Castrol India LimitedCMP Rs. 654.0
REDUCEResult Update
Q4CY09

Anuj Anandwala | anuj@ppfas.com

Downgrade to REDUCE!

Castrol India Ltd., (CIL) has reported a good performance for the quarter ended Dec'09. The results beat our expectations both on topline and profitability estimates. Since our Q3CY09 recommendation of "HOLD", the stock has rallied 24%. We believe currently Castrol India is trading at rich valuations + its recent strong outperformance (24% in 3 months) v/s NIFTY 50 (-4% in 3 months). Hence, we have downgraded the scrip to REDUCE and recommend investors to book profits at current levels.

Q4 Performance Review:

For the quarter ended Dec'09, Castrol India's net profit grew by 72% Y-Y (-15.5% Q-Q) to Rs. 808Mn as against Rs. 470Mn for the quarter ended Dec'08. Its topline increased 14% Y-Y at Rs. 6,095Mn for the current quarter v/s Rs. 5,359Mn for the corresponding quarter of last year. Lower raw material costs, premium product mix, retention of unit realization and cost effective measures boosted the company's operating margins (OPM) by 710 bps Y-Y to 21% (14%), taking perating profits to Rs. 1,279Mn for Q4CY09 (Rs. 744Mn), 72% Y-Y jump.

In terms of cost as % of sales, raw material cost decreased sharply by 1,726 bps to 49% for Q4CY09 as against 66% for Q4CY08, staff cost was flat 4.1%. Advertisement cost and other expenditure increased by 366 bps to 7.6% from 4% and 593 bps to 16% from 10% respectively. On the other hand carriage, insurance & freight expense as a % of sales remained flat at 3%.

Segment Performance:**Automotive:**

The segment's sales increased by 15% Y-Y to Rs. 5,726Mn for quarter ended Dec'09 with its contribution to total sales at 86.6%. The segment's PBIT witnessed a rise of 70% Y-Y to Rs. 975Mn for Q4CY09 as compared to Rs. 573Mn for Q4CY08. Capital employed for this segment decreased 65% to Rs. 843Mn

Non Automotive:

The segment witnessed a flat rise in revenues at Rs. 819Mn (6% Y-Y), with its contribution to total sales at 13.4%. The segment's PBIT witnessed an increase of 67% Y-Y to Rs. 214Mn for the quarter ended Dec'09 as compared to Rs. 128Mn for the quarter ended Dec'08. Capital employed for this segment also decreased by 35% to Rs. 695Mn

Our Call:

Castrol India management expects to gain volumes in 2010 due to demand revival in the economy and improving operational efficiency. However, we expect inflation in input costs going forward and this could impact operating margins marginally, sustaining in the range of 25-27%.

At CMP of Rs. 654/-, Castrol India Ltd. is richly valued and is trading at 18x CY10E earnings of Rs. 36/- and 16x CY10E bookvalue of Rs. 41/- We hereby, downgrade the scrip to REDUCE with a price target of Rs. 578/-.

Quarterly Financials

Earnings Statement	Q4CY09		Q3CY09		Q4CY08			YE : Dec	
Particulars (Rs. Mn)	Dec 09	Sep 09	Q-Q(%)	Dec 08	Y-Y(%)	CY09	CY08	Y-Y(%)	
Gross Sales	7,059.0	6,538.0	8.0%	6,170.0	14.4%	26,852.0	25,317.0	6.1%	
Less: Excise Duty	964.0	885.0	8.9%	811.0	18.9%	3,670.0	3,260.0	12.6%	
Net Revenues	6,095.0	5,653.0	7.8%	5,359.0	13.7%	23,182.0	22,057.0	5.1%	
Other Operating Income	29.0	14.0	107.1%	37.0	-21.6%	98.0	111.0	-11.7%	
Total Income	6,124.0	5,667.0	8.1%	5,396.0	13.5%	23,280.0	22,168.0	5.0%	
Raw Material Cost	2,996.0	2,694.0	11.2%	3,559.0	-15.8%	11,237.0	13,131.0	-14.4%	
Gross Profit	3,128.0	2,973.0	5.2%	1,837.0	70.3%	12,043.0	9,037.0	33.3%	
Staff Cost	250.0	300.0	-16.7%	220.0	13.6%	1,122.0	973.0	15.3%	
Advertisement Cost	462.0	400.0	15.5%	210.0	120.0%	1,495.0	977.0	53.0%	
Carraige, Insurance & Freight	175.0	184.0	-4.9%	135.0	29.6%	704.0	700.0	0.6%	
Other Expenditure	962.0	651.0	47.8%	528.0	82.2%	2,871.0	2,278.0	26.0%	
Total Expenditure	1,849.0	1,535.0	20.5%	1,093.0	69.2%	6,192.0	4,928.0	25.6%	
Operating Profit	1,279.0	1,438.0	-11.1%	744.0	71.9%	5,851.0	4,109.0	42.4%	
Other Income	31.0	71.0	-56.3%	74.0	-58.1%	263.0	307.0	-14.3%	
EBITDA	1,310.0	1,509.0	-13.2%	818.0	60.1%	6,114.0	4,416.0	38.5%	
Depreciation	68.0	71.0	-4.2%	66.0	3.0%	271.0	257.0	5.4%	
EBIT	1,242.0	1,438.0	-13.6%	752.0	65.2%	5,843.0	4,159.0	40.5%	
Interest	14.0	6.0	133.3%	10.0	40.0%	35.0	37.0	-5.4%	
PBT	1,228.0	1,432.0	-14.2%	742.0	65.5%	5,808.0	4,122.0	40.9%	
Tax	420.0	476.0	-11.8%	272.0	54.4%	1,997.0	1,499.0	33.2%	
PAT	808.0	956.0	-15.5%	470.0	71.9%	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	6.5	7.7	-15.5%	3.8	71.9%	30.8	21.2	45.3%	
Ratio Analysis									
Profitability	Dec 09	Sep 09	Q-Q(bps)	Dec 08	Y-Y(bps)	CY09	CY08	Y-Y(bps)	
OPM (%)	21.0%	25.4%	(445.3)	13.9%	710.1	25.2%	18.6%	661.0	
EBITDA (%)	21.5%	26.7%	(520.1)	15.3%	622.9	26.4%	20.0%	635.3	
EBIT (%)	20.4%	25.4%	(506.0)	14.0%	634.5	25.2%	18.9%	634.9	
PAT (%)	13.3%	16.9%	(365.5)	8.8%	448.6	16.4%	11.9%	454.8	
Operational Parameters									
Operational Parameters	Dec 09	Sep 09	Q-Q(bps)	Dec 08	Y-Y(bps)	CY09	CY08	Y-Y(bps)	
Raw Material Cost	49.2%	47.7%	149.9	66.4%	(1,725.7)	48.5%	59.5%	(1,105.9)	
Staff Cost	4.1%	5.3%	(120.5)	4.1%	(0.4)	4.8%	4.4%	42.9	
Advertisement Cost	7.6%	7.1%	50.4	3.9%	366.1	6.4%	4.4%	202.0	
Carraige, Insurance & Freight	2.9%	3.3%	(38.4)	2.5%	35.2	3.0%	3.2%	(13.7)	
Other Expenditure	15.8%	11.5%	426.7	9.9%	593.1	12.4%	10.3%	205.7	
Effective Tax Rate	34.2%	33.2%	96.2	36.7%	(245.6)	34.4%	36.4%	(198.2)	

Segment Financials

Earnings Statement	Q4CY09		Q3CY09		Q4CY08			
Particulars (Rs. Mn)	Dec 09	Sep 09	Q-Q(%)	Dec 08	Y-Y(%)	CY09	CY08	Y-Y(%)
Segment Revenues								
- Automotive	5,276.0	4,811.0	9.7%	4,589.0	15.0%	20,083.0	18,679.0	7.5%
- Non Automotive	819.0	842.0	-2.7%	770.0	6.4%	3,099.0	3,378.0	-8.3%
Total Segment Revenues	6,095.0	5,653.0	7.8%	5,359.0	13.7%	23,182.0	22,057.0	5.1%
Segment Results								
- Automotive	975.0	1,116.0	-12.6%	573.0	70.2%	4,780.0	3,258.0	46.7%
- Non Automotive	214.0	276.0	-22.5%	128.0	67.2%	875.0	675.0	29.6%
Total Segment Results	1,189.0	1,392.0	-14.6%	701.0	69.6%	5,655.0	3,933.0	43.8%
Unallocable Income	53.0	46.0	15.2%	51.0	3.9%	188.0	225.0	-16.4%
Interest	14.0	6.0	133.3%	10.0	40.0%	35.0	37.0	-5.4%
PBT	1,228.0	1,432.0	-14.2%	742.0	65.5%	5,808.0	4,122.0	40.9%
Segment Capital Employed								
- Automotive	843.0	1,304.0	-35.4%	2,388.0	-64.7%	843.0	2,388.0	-64.7%
- Non Automotive	695.0	799.0	-13.0%	1,076.0	-35.4%	695.0	1,076.0	-35.4%
Add: Unall Assets – Liab	3,412.0	4,209.0	-18.9%	1,292.0	164.1%	3,412.0	1,292.0	164.1%
Total Capital Employed	4,950.0	6,312.0	-21.6%	4,756.0	4.1%	4,950.0	4,756.0	4.1%
Ratio Analysis								
Profitability	Dec 09	Sep 09	Q-Q(bps)	Dec 08	Y-Y(bps)	CY09	CY08	Y-Y(bps)
Automotive EBITDA %	18.5%	23.2%	(471.7)	12.5%	599.4	23.8%	17.4%	635.9
Non Automotive EBITDA %	26.1%	32.8%	(665.0)	16.6%	950.6	28.2%	20.0%	825.3
% of segment revenues								
Automotive	86.6%	85.1%	145.8	85.6%	93.1	86.6%	84.7%	194.7
Non Automotive	13.4%	14.9%	(145.8)	14.4%	(93.1)	13.4%	15.3%	(194.7)
% of segment results								
Automotive	82.0%	80.2%	182.9	81.7%	26.1	84.5%	82.8%	168.9
Non Automotive	18.0%	19.8%	(182.9)	18.3%	(26.1)	15.5%	17.2%	(168.9)
ROCE (%)								
Automotive	115.7%	85.6%	3007.6	24.0%	9166.3	567.0%	136.4%	43059.0
Non Automotive	30.8%	34.5%	(375.2)	11.9%	1889.5	125.9%	62.7%	6316.7
Auto + Non Auto	24.0%	22.1%	196.7	14.7%	928.1	114.2%	82.7%	3154.7

Financials

Earnings Statement				
Particulars (Rs. Mn)	CY07	CY08	CY09A	CY10E
Net Revenues	18,882.5	22,057.0	23,182.0	25,051.5
- Growth (%)	7.8%	16.8%	5.1%	8.1%
Total Expenditure	15,586.9	18,059.0	17,429.0	18,237.5
Operating Profit	3,295.6	3,998.0	5,753.0	6,814.0
Other Income	348.4	418.1	361.0	379.1
EBITDA	3,644.0	4,416.1	6,114.0	7,193.0
- Growth (%)	43.3%	21.2%	38.4%	17.6%
Depreciation	207.8	256.8	271.0	283.7
EBIT	3,436.2	4,159.3	5,843.0	6,909.4
Interest	37.9	36.5	35.0	39.9
PBT	3,398.3	4,122.8	5,808.0	6,869.5
Tax	1,214.1	1,498.3	1,997.0	2,404.3
PAT	2,184.2	2,624.5	3,811.0	4,465.2
- Growth (%)	41.4%	20.2%	45.2%	17.2%

Balance Sheet				
Particulars (Rs. Mn)	CY07	CY08	CY09E	CY10E
Equity Capital	1,236.4	1,236.4	1,236.4	1,236.4
Reserves	3,065.4	3,519.3	3,714.0	3,839.4
Shareholders Funds	4,301.8	4,755.7	4,950.4	5,075.8
Borrowed Funds	27.9	27.9	27.9	27.9
Deferred Tax Liability	(182.2)	(268.2)	(346.2)	(346.2)
Total Liabilities	4,147.5	4,515.4	4,632.1	4,757.5
Fixed Assets	1,332.6	1,444.5	1,373.5	1,289.8
Investments	205.8	5.2	5.2	5.2
Current Assets				
Inventory	2,249.8	2,673.0	2,985.1	3,225.8
Sundry Debtors	1,479.5	1,623.1	1,905.4	2,059.0
Loans & Advances	798.2	891.9	1,143.2	1,235.4
Cash & Bank Balance	3,179.1	2,556.3	2,109.3	2,227.0
Other Current Assets	18.6	11.1	11.1	11.1
Current Liabilities				
Sundry Creditors	3,418.3	3,038.9	3,175.6	3,431.7
Provisions	1,697.8	1,650.8	1,725.1	1,864.2
Net Current Assets	2,609.1	3,065.7	3,253.4	3,462.5
Total Assets	4,147.5	4,515.4	4,632.1	4,757.5

Ratio Analysis				
Particulars	CY07	CY08	CY09E	CY10E
OPM (%)	17.5%	18.1%	24.8%	27.2%
EBITDA (%)	19.3%	20.0%	26.4%	28.7%
PBIT (%)	18.2%	18.9%	25.2%	27.6%
PAT (%)	11.6%	11.9%	16.4%	17.8%
Interest Cover (x)	90.7	114.0	166.9	173.4
EBITDA per share (Rs.)	29.5	35.7	49.5	58.2
EPS (Rs.)	17.7	21.2	30.8	36.1
P/E (x)	37.0	30.8	21.2	18.1
P/BV (x)	18.8	17.0	16.3	15.9
BVPS (Rs.)	34.8	38.5	40.0	41.1
Market Cap (Rs. Mn.)	80,860.6	80,860.6	80,860.6	80,860.6
M Cap/Sales (x)	4.3	3.7	3.5	3.2
EV (Rs. Mn.)	77,503.6	78,327.0	78,773.9	78,656.2
EV/EBITDA (x)	21.3	17.7	12.9	10.9
EV/Sales (x)	4.1	3.6	3.4	3.1
ROCE (%)	79.4%	86.9%	117.4%	135.4%
RONW (%)	50.8%	55.2%	77.0%	88.0%
Debt/Equity Ratio (x)	0.01	0.01	0.01	0.01
Inventory T/o Days	43.5	44.2	47.0	47.0
Debtors T/o Days	28.6	26.9	30.0	30.0
Advances T/o Days	15.4	14.8	18.0	18.0
Creditors T/o Days	66.1	50.3	50.0	50.0
Working Cap T/o Days	50.4	50.7	51.2	50.4
Fixed Assets T/o (Gross)	7.6	8.3	7.9	7.9
DPS (Rs.)	14.0	15.0	25.0	30.0
Dividend Payout (%)	79.3%	70.7%	81.1%	83.1%
Dividend Yield (%)	2.1%	2.3%	3.8%	4.6%

Cash Flow				
Particulars	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	892.2	3,179.1	2,556.3	2,109.3
Profit after Tax	2,184.2	2,624.5	3,811.0	4,465.2
Less: Investment Income	(348.4)	(418.1)	(361.0)	(379.1)
Interest Paid	37.9	36.5	35.0	39.9
Depreciation	207.8	256.8	271.0	283.7
Deferred Taxation	(235.6)	(86.0)	(78.0)	0.0
Others	(127.8)	(107.2)	0.0	0.0
Change in Working Cap	2,221.6	(1,079.4)	(634.7)	(91.4)
CF - Operating Activities	3,939.7	1,227.1	3,043.3	4,318.3
Change in Fixed Assets	(123.7)	(261.5)	(200.0)	(200.0)
Change in Investments	219.4	200.6	0.0	0.0
Investment Income	348.4	418.1	361.0	379.1
CF - Investing Activities	444.1	357.2	161.0	179.1
Increase in Equity	(15.4)	(0.8)	(0.0)	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0
Interest Paid	(37.9)	(36.5)	(35.0)	(39.9)
Dividend Paid	(2,043.6)	(2,169.8)	(3,616.3)	(4,339.8)
CF - Financing Activities	(2,096.9)	(2,207.1)	(3,651.3)	(4,379.6)
Net Change in Cash	2,286.9	(622.8)	(447.0)	117.7
Closing Cash & Bank Bal	3,179.1	2,556.3	2,109.3	2,227.0

Disclaimer

Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Castrol

- NO
YES
NO

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Anuj Anandwala	Analyst - Investment Research	anuj@ppfas.com	91 22 2284 6555 Extn 320

Now access PPFAS Reports on Bloomberg

<PPFS> <Go>

Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

www.ppfas.com