

Castrol India Limited	CMP Rs. 335.0 HOLD	Result Update Q1CY09
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Maintains Profitability despite Economic Slowdown!

Castrol India Ltd., (CIL) has reported good set of numbers considering the acutely adverse economic environment impacting the automotive and industrial segment over the last 3-4months. With the slow down affecting almost all sectors the results achieved by the company were pretty satisfying. Despite the volume pressure, CIL reported a marginal 3% increase in top line and 5% in bottom line for Q1CY09 compared to corresponding previous year. The growth in top line can be attributed to product price hikes taken in CY08.

In spite of significantly reduced volumes, the company has maintained profits and improved cash flows. The decline in volumes was on account of reduced commercial transportation and manufacturing activity, key drivers for the lubricant consumption.

For the quarter ended Mar'09, operating margins for CIL have fallen by 74 bps to 22.8% from 23.5% Mar'08. It resulted in 1% decline in operating profits to Rs. 1,510Mn from Rs. 1,518Mn. In terms of cost as % of sales, raw material cost increased by 75 bps to 54%, staff cost was up by 101 bps to 5.5% from 4.4%, advertisement cost remained stable at 4%. On the other hand carriage, insurance & freight expense declined by 47 bps to 3.2% and other expenditure also fell 53 bps to 10.9% from 11.4% in the corresponding quarter last year.

Other income remained flat at Rs. 95Mn for Q1CY09. The interest expense reduced by 31% to Rs. 9Mn from Rs. 13Mn, whereas depreciation cost increased by 5% to Rs. 65Mn. On Y-Y basis tax expense was lower by 9% in absolute terms to Rs. 409Mn for Q1CY09 as against Rs. 450Mn for Q1CY08 and the tax rate was also down to 34.9% v/s 38.2%. This drop in taxation has resulted in a 5% rise in net profit which was at Rs. 763Mn compared to Rs. 728Mn.

Segment Performance

Automotive:

The segment's sales increased by 6% to Rs. 4,381Mn for quarter ended Mar'09 with its contribution to total sales at 87%. The segment's PBIT witnessed a rise of 5% to Rs. 982Mn which formed 86.5% of the total PBIT. The capital employed for this segment increased 28% to Rs. 2,955Mn.

Non Automotive:

The segment witnessed a fall in revenues as well as profits. Sales decreased 16% to Rs. 678Mn for quarter ended Mar'09 with its contribution to total sales at 13%. The segment's PBIT declined by 18% to Rs. 153Mn which formed 13.5% of the total PBIT. Capital employed for this segment decreased by 60% to Rs. 402Mn.

Outlook

Castrol India Ltd. has taken a price cut of Rs. 10-12/- per litre, thereby reducing the lubricant prices by 6-7% across the product portfolio. This was on account of a substantial price fall in base oil prices (~50%). The full impact of the correction in raw material cost will be visible from Q2CY09 and would enable the margins to expand.

Adding to the above factors, CIL has a strong brand value in the markets, going with distinctly superior delivery of products and excellent customer relations. At CMP of Rs. 335/-, the scrip is trading at 14.2x CY09E earnings of Rs. 23.7/-. We recommend HOLD on the stock with a target price of Rs. 379/- (16x CY09E earnings).

Castrol : Quarterly Financials

Earnings Statement								
Particulars (Rs. Mn)	Q109	Q408	Q-Q(%)	Q108	Y-Y(%)	CY08	CY07	Y-Y(%)
Gross Sales	5,914.0	6,170.0	-4.1%	5,700.0	3.8%	25,317.0	22,165.3	14.2%
Less: Excise Duty	855.0	811.0	5.4%	771.0	10.9%	3,260.0	3,282.3	-0.7%
Net Revenues	5,059.0	5,359.0	-5.6%	4,929.0	2.6%	22,057.0	18,883.0	16.8%
Other Operating Income	28.0	37.0	-24.3%	24.0	16.7%	111.0	86.0	29.1%
Total Income	5,087.0	5,396.0	-5.7%	4,953.0	2.7%	22,168.0	18,969.0	16.9%
Raw Material Cost	2,737.0	3,559.0	-23.1%	2,630.0	4.1%	13,131.0	10,977.3	19.6%
Gross Profit	2,350.0	1,837.0	27.9%	2,323.0	1.2%	9,037.0	7,991.7	13.1%
Staff Cost	276.0	220.0	25.5%	219.0	26.0%	973.0	909.1	7.0%
Advertisement Cost	207.0	210.0	-1.4%	199.0	4.0%	977.0	913.2	7.0%
Carriage, Insurance & Freight	164.0	135.0	21.5%	183.0	-10.4%	700.0	633.7	10.5%
Other Expenditure	552.0	528.0	4.5%	564.0	-2.1%	2,278.0	2,153.6	5.8%
Total Expenditure	1,199.0	1,093.0	9.7%	1,165.0	2.9%	4,928.0	4,609.6	6.9%
Operating Profit	1,151.0	744.0	54.7%	1,158.0	-0.6%	4,109.0	3,382.1	21.5%
Other Income	95.0	74.0	28.4%	95.0	0.0%	307.0	262.0	17.2%
EBITDA	1,246.0	818.0	52.3%	1,253.0	-0.6%	4,416.0	3,644.1	21.2%
Depreciation	65.0	66.0	-1.5%	62.0	4.8%	257.0	208.0	23.6%
EBIT	1,181.0	752.0	57.0%	1,191.0	-0.8%	4,159.0	3,436.1	21.0%
Interest	9.0	10.0	-10.0%	13.0	-30.8%	37.0	38.0	-2.6%
PBT	1,172.0	742.0	58.0%	1,178.0	-0.5%	4,122.0	3,398.1	21.3%
Tax	409.0	272.0	50.4%	450.0	-9.1%	1,499.0	1,214.4	23.4%
PAT	763.0	470.0	62.3%	728.0	4.8%	2,623.0	2,183.7	20.1%
Equity Capital	1,236.4	1,236.4	-	1,236.4	-	1,236.4	1,236.4	-
EPS	6.2	3.8	62.3%	5.9	4.8%	21.2	17.7	20.1%
Ratio Analysis								
Profitability								
YE December	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	CY08	CY07	Y-Y(bps)
OPM (%)	22.8%	13.9%	886.8	23.5%	(74.2)	18.6%	17.9%	71.8
EBITDA (%)	24.6%	15.3%	936.5	25.4%	(79.2)	20.0%	19.3%	72.3
EBIT (%)	23.3%	14.0%	931.2	24.2%	(81.9)	18.9%	18.2%	65.9
PAT (%)	15.1%	8.8%	631.2	14.8%	31.2	11.9%	11.6%	32.8
Operational Parameters								
YE December	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	CY08	CY07	Y-Y(bps)
Raw Material Cost	54.1%	66.4%	(1,231.0)	53.4%	74.4	59.5%	58.1%	139.9
Staff Cost	5.5%	4.1%	135.0	4.4%	101.3	4.4%	4.8%	(40.3)
Advertisement Cost	4.1%	3.9%	17.3	4.0%	5.4	4.4%	4.8%	(40.7)
Carriage, Insurance & Freight	3.2%	2.5%	72.3	3.7%	(47.1)	3.2%	3.4%	(18.2)
Other Expenditure	10.9%	9.9%	105.9	11.4%	(53.1)	10.3%	11.4%	(107.7)
Effective Tax Rate	34.9%	36.7%	(176.0)	38.2%	(330.3)	36.4%	35.7%	62.8

Castrol : Segment Financials

Earnings Statement								
Particulars (Rs. Mn)	Q109	Q408	Q-Q(%)	Q108	Y-Y(%)	CY08	CY07	Y-Y(%)
Segment Revenues								
- Automotive	4,381.0	4,589.0	-4.5%	4,120.0	6.3%	18,679.0	15,828.6	18.0%
- Non Automotive	678.0	770.0	-11.9%	809.0	-16.2%	3,378.0	3,054.4	10.6%
Total Segment Revenues	5,059.0	5,359.0	-5.6%	4,929.0	2.6%	22,057.0	18,883.0	16.8%
Segment Results								
- Automotive	982.0	573.0	71.4%	933.0	5.3%	3,258.0	2,643.4	23.3%
- Non Automotive	153.0	128.0	19.5%	187.0	-18.2%	675.0	631.4	6.9%
Total Segment Results	1,135.0	701.0	61.9%	1,120.0	1.3%	3,933.0	3,274.8	20.1%
Unallocable Income	46.0	51.0	-9.8%	71.0	-35.2%	225.0	161.9	39.0%
Interest	9.0	10.0	-10.0%	13.0	-30.8%	37.0	38.3	-3.4%
PBT	1,172.0	742.0	58.0%	1,178.0	-0.5%	4,121.0	3,398.4	21.3%
Segment Capital Employed								
- Automotive	2,955.0	2,388.0	23.7%	2,304.0	28.3%	2,388.0	1,416.8	68.5%
- Non Automotive	402.0	1,076.0	-62.6%	1,010.0	-60.2%	1,076.0	863.0	24.7%
Add: Unall Assets – Liab	2,162.0	1,292.0	67.3%	1,716.0	26.0%	1,292.0	2,022.0	-36.1%
Total Capital Employed	5,519.0	4,756.0	16.0%	5,030.0	9.7%	4,756.0	4,301.8	10.6%
Ratio Analysis								
Profitability	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	CY08	CY07	Y-Y(bps)
Automotive EBITDA %	22.4%	12.5%	992.9	22.6%	(23.1)	17.4%	16.7%	74.2
Non Automotive EBITDA %	22.6%	16.6%	594.3	23.1%	(54.9)	20.0%	20.7%	(69.0)
% of segment revenues								
Automotive	86.6%	85.6%	96.6	83.6%	301.1	84.7%	83.8%	86.1
Non Automotive	13.4%	14.4%	(96.6)	16.4%	(301.1)	15.3%	16.2%	(86.1)
% of segment results								
Automotive	86.5%	81.7%	477.9	83.3%	321.6	82.8%	80.7%	211.8
Non Automotive	13.5%	18.3%	(477.9)	16.7%	(321.6)	17.2%	19.3%	(211.8)
ROCE (%)								
Automotive	33.2%	24.0%	923.7	40.5%	(726.3)	136.4%	186.6%	(5014.3)
Non Automotive	38.1%	11.9%	2616.4	18.5%	1954.5	62.7%	73.2%	(1043.1)
Auto + Non Auto	20.6%	14.7%	582.6	22.3%	(170.1)	82.7%	76.1%	656.9

Castrol : Financials

Earnings Statement				
Particulars (Rs. Mn)	CY06	CY07	CY08A	CY09E
Net Revenues	17,524.1	18,883.0	22,057.0	23,702.3
- Growth (%)	22.5%	7.8%	16.8%	7.5%
Total Expenditure	15,324.3	15,587.1	18,059.0	19,341.1
Operating Profit	2,199.8	3,295.9	3,998.0	4,361.2
Other Income	343.8	348.0	418.0	459.8
EBITDA	2,543.6	3,643.9	4,416.0	4,821.0
- Growth (%)	9.8%	43.3%	21.2%	9.2%
Depreciation	180.1	208.0	257.0	273.6
EBIT	2,363.5	3,435.9	4,159.0	4,547.4
Interest	41.1	38.0	37.0	45.0
PBT	2,322.4	3,397.9	4,122.0	4,502.4
Tax	777.5	1,214.4	1,499.0	1,575.8
PAT	1,544.9	2,183.5	2,623.0	2,926.6
- Growth (%)	5.2%	41.3%	20.1%	11.6%
Ratio Analysis				
Particulars	CY06	CY07	CY08E	CY09E
OPM (%)	12.6%	17.5%	18.1%	18.4%
EBITDA (%)	14.5%	19.3%	20.0%	20.3%
PBIT (%)	13.5%	18.2%	18.9%	19.2%
PAT (%)	8.8%	11.6%	11.9%	12.3%
Interest Cover (x)	57.5	90.4	112.4	101.1
EBITDA per share (Rs.)	20.6	29.5	35.7	39.0
EPS (Rs.)	12.5	17.7	21.2	23.7
P/E (x)	26.8	19.0	15.8	14.2
P/BV (x)	9.9	9.6	8.7	7.8
BVPS (Rs.)	33.8	34.8	38.3	43.1
M Cap (Rs. Mn.)	41,419.4	41,419.4	41,419.4	41,419.4
M Cap/Sales (x)	2.4	2.2	1.9	1.7
EV (Rs. Mn.)	40,129.9	38,062.4	37,776.7	37,604.3
EV/EBITDA (x)	15.8	10.4	8.6	7.8
EV/Sales (x)	2.3	2.0	1.7	1.6
ROCE (%)	56.2%	79.4%	87.3%	84.9%
RONW (%)	37.0%	50.8%	55.4%	54.9%
Debt/Equity Ratio (x)	0.01	0.01	0.01	0.01
Inventory T/o Days	53.2	43.5	44.0	47.0
Debtors T/o Days	39.4	28.6	33.0	35.0
Advances T/o Days	17.2	15.4	15.8	16.6
Creditors T/o Days	56.3	66.1	66.9	67.0
Working Cap T/o Days	53.0	50.4	52.7	57.7
Fixed Assets T/o (Gross)	7.1	7.6	8.0	7.8
DPS (Rs.)	9.0	14.0	15.0	16.0
Dividend Payout (%)	72.0%	79.3%	70.7%	67.6%
Dividend Yield (%)	2.7%	4.2%	4.5%	4.8%
Balance Sheet				
Particulars (Rs. Mn)	CY06	CY07	CY08E	CY09E
Equity Capital	1,236.4	1,236.4	1,236.4	1,236.4
Reserves	2,940.2	3,065.4	3,500.0	4,092.2
Shareholders Funds	4,176.6	4,301.8	4,736.4	5,328.6
Borrowed Funds	27.9	27.9	27.9	27.9
Deferred Tax Liability	61.3	0.0	0.0	0.0
Total Liabilities	4,265.8	4,329.7	4,764.3	5,356.5
Fixed Assets	1,296.8	1,332.6	1,376.1	1,402.5
Investments	425.2	205.8	205.8	205.8
Deferred Tax Asset	0.0	182.2	0.0	0.0
Current Assets				
Inventory	2,555.2	2,249.8	2,658.9	3,052.1
Sundry Debtors	1,889.9	1,479.5	1,994.2	2,272.8
Loans & Advances	825.1	798.2	954.8	1,078.0
Cash & Bank Balance	892.2	3,179.1	3,464.8	3,637.2
Other Current Assets	0.4	18.6	20.0	20.0
Current Liabilities				
Sundry Creditors	2,703.6	3,418.3	4,042.8	4,350.8
Provisions	915.4	1,697.8	1,867.6	1,961.0
Net Current Assets	2,543.8	2,609.1	3,182.4	3,748.2
Total Assets	4,265.8	4,329.7	4,764.3	5,356.5
Cash Flow				
Particulars (Rs. Mn)	CY06	CY07	CY08E	CY09E
Opening Cash & Bank	4,720.4	892.2	3,179.1	3,464.8
Profit after Tax	1,544.9	2,183.5	2,623.0	2,926.6
Less: Investment Income	(343.8)	(348.0)	(418.0)	(459.8)
Interest Paid	41.1	38.0	37.0	45.0
Depreciation	180.1	208.0	257.0	273.6
Deferred Taxation	(57.2)	(235.6)	0.0	0.0
Others	(4,445.1)	54.2	0.0	0.0
Change in Working Cap	(467.8)	2,221.6	(287.6)	(393.5)
CF - Operating Activities	(3,547.8)	4,121.7	2,211.4	2,391.9
Change in Fixed Assets	29.6	(123.7)	(300.5)	(300.0)
Change in Investments	656.2	219.4	0.0	0.0
Change in Def. Tax Asset	0.0	(182.2)	182.2	0.0
Investment Income	343.8	348.0	418.0	459.8
CF - Investing Activities	1,029.6	261.5	299.7	159.8
Increase in Equity	(0.0)	(14.7)	(0.0)	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0
Interest Paid	(41.1)	(38.0)	(37.0)	(45.0)
Dividend Paid	(1,268.9)	(2,043.6)	(2,188.4)	(2,334.3)
CF - Financing Activities	(1,310.0)	(2,096.3)	(2,225.4)	(2,379.3)
Net Change in Cash	(3,828.2)	2,286.9	285.7	172.4
Closing Cash & Bank Bal	892.2	3,179.1	3,464.8	3,637.2

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

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