

Castrol India Limited	CMP Rs. 440.0 HOLD	Result Update Q2CY09
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Stupendous Performance!

Castrol India Ltd., (CIL) has reported a stellar performance for the quarter ended Jun'09. Top line growth for CIL was almost flat at 2.6% to Rs. 6,375Mn in Q2CY09 as against Rs. 6,214Mn in Q2CY08. The overall results were above our expectations as operating margins for the quarter ended Jun'09 expanded handsomely to 31% from 20.8% in Jun'08, resulting, operating profits to jump significantly by 54% from Rs. 1,290Mn to Rs. 1,983Mn.

In the difficult economic environment, CIL has been able to defend its margins appropriately thereby delivering strong bottom line growth and improving cash flows. Although the company has seen a decline in volumes due to the economic slowdown, gross profits have increased on account of a rise in unit gross margins.

In terms of cost as % of sales, raw material cost decreased sharply by 1,184 bps to 44%, staff cost was up 10.5 bps to 4.6% from 4.5%. Advertisement cost and other expenditure also increased by 100 bps to 6.7% from 5.7% and 82 bps to 11% from 10.3% respectively. On the other hand carriage, insurance & freight expense declined by 39.5 bps to 2.8% from 3.2% in the corresponding quarter last year.

Other income decreased to Rs. 66Mn for Q2CY09 from Rs. 68Mn for Q2CY08. Interest expense and depreciation cost also reduced by 14% to Rs. 6Mn from Rs. 7Mn and from Rs. 68Mn to Rs. 67Mn respectively. On Y-Y basis tax expense was considerably higher by 52%, in absolute terms to Rs. 692Mn for Q2CY09 as against Rs. 454Mn for Q2CY08. In spite of higher tax expense, PAT for Castrol India was substantially higher at Rs. 1,284Mn for Jun'09 v/s Rs. 829Mn for Jun'08, a growth of 55%.

Segment Performance:

Automotive:

The segment's sales increased by 5% to Rs. 5,615Mn for quarter ended Jun'09 with its contribution to total sales at 88%. The segment's PBIT witnessed a rise of 60% to Rs. 1,707Mn for Q2CY09 as compared to Rs. 1,069Mn for Q2CY08. Capital employed for this segment decreased 28% to Rs. 1,571Mn.

Non Automotive:

The segment witnessed a fall in revenues but a rise in profits. Sales decreased 12% to Rs. 760Mn for the quarter ended Jun'09 with its contribution to total sales at 12%. Segment PBIT increased by 37% to Rs. 232Mn v/s Rs. 169Mn for the corresponding quarter last year. Capital employed for this segment also decreased by 12% to Rs. 871Mn.

Outlook:

With the economy and demand reviving as a whole, we expect the volumes to start flowing in again. Full impact of the correction in raw material cost was clearly visible in Q2CY09 and further on this would enable the operating margins to sustain in the range of 22-24%.

Castrol India Ltd. has strong brand power in the markets, going with its debt free status, high ROEs, distinctly superior delivery of products and improving cash flows. Considering these factors a higher PE multiple for the company vis-à-vis its peers is justified. At CMP of Rs. 440/-, the scrip is trading at 15.2x CY09E earnings of Rs. 28.9/- (EPS estimate has been increased in line with the first half reported performance). We maintain a HOLD on the stock.

Castrol : Quarterly Financials

Earnings Statement								
Particulars (Rs. Mn)	Jun 09	Mar 09	Q-Q(%)	Jun 08	Y-Y(%)	H1CY09	H1CY08	Y-Y(%)
Gross Sales	7,341.0	5,914.0	24.1%	7,078.0	3.7%	13,255.0	12,778.0	3.7%
Less: Excise Duty	966.0	855.0	13.0%	864.0	11.8%	1,821.0	1,635.0	11.4%
Net Revenues	6,375.0	5,059.0	26.0%	6,214.0	2.6%	11,434.0	11,143.0	2.6%
Other Operating Income	27.0	28.0	-3.6%	24.0	12.5%	55.0	48.0	14.6%
Total Income	6,402.0	5,087.0	25.9%	6,238.0	2.6%	11,489.0	11,191.0	2.7%
Raw Material Cost	2,810.0	2,737.0	2.7%	3,475.0	-19.1%	5,547.0	6,105.0	-9.1%
Gross Profit	3,592.0	2,350.0	52.9%	2,763.0	30.0%	5,942.0	5,086.0	16.8%
Staff Cost	296.0	276.0	7.2%	282.0	5.0%	572.0	501.0	14.2%
Advertisement Cost	426.0	207.0	105.8%	353.0	20.7%	633.0	552.0	14.7%
Carraige, Insurance & Freight	181.0	164.0	10.4%	201.0	-10.0%	345.0	384.0	-10.2%
Other Expenditure	706.0	552.0	27.9%	637.0	10.8%	1,258.0	1,201.0	4.7%
Total Expenditure	1,609.0	1,199.0	34.2%	1,473.0	9.2%	2,808.0	2,638.0	6.4%
Operating Profit	1,983.0	1,151.0	72.3%	1,290.0	53.7%	3,134.0	2,448.0	28.0%
Other Income	66.0	95.0	-30.5%	68.0	-2.9%	161.0	163.0	-1.2%
EBITDA	2,049.0	1,246.0	64.4%	1,358.0	50.9%	3,295.0	2,611.0	26.2%
Depreciation	67.0	65.0	3.1%	68.0	-1.5%	132.0	130.0	1.5%
EBIT	1,982.0	1,181.0	67.8%	1,290.0	53.6%	3,163.0	2,481.0	27.5%
Interest	6.0	9.0	-33.3%	7.0	-14.3%	15.0	20.0	-25.0%
PBT	1,976.0	1,172.0	68.6%	1,283.0	54.0%	3,148.0	2,461.0	27.9%
Tax	692.0	409.0	69.2%	454.0	52.4%	1,101.0	904.0	21.8%
PAT	1,284.0	763.0	68.3%	829.0	54.9%	2,047.0	1,557.0	31.5%
Equity Capital	1,236.4	1,236.4	-	1,236.4	-	1,236.4	1,236.4	-
EPS	10.4	6.2	68.3%	6.7	54.9%	16.6	12.6	31.5%
Ratio Analysis								
Profitability								
YE March	Jun 09	Mar 09	Q-Q(bps)	Jun 08	Y-Y(bps)	H1CY09	H1CY08	Y-Y(bps)
OPM (%)	31.1%	22.8%	835.4	20.8%	1,034.6	27.4%	22.0%	544.1
EBITDA (%)	32.1%	24.6%	751.2	21.9%	1,028.7	28.8%	23.4%	538.6
EBIT (%)	31.1%	23.3%	774.6	20.8%	1,033.1	27.7%	22.3%	539.8
PAT (%)	20.1%	15.1%	505.9	13.3%	680.0	17.9%	14.0%	393.0
Operational Parameters								
YE March	Jun 09	Mar 09	Q-Q(bps)	Jun 08	Y-Y(bps)	H1CY09	H1CY08	Y-Y(bps)
Raw Material Cost	44.1%	54.1%	(1,002.3)	55.9%	(1,184.4)	48.5%	54.8%	(627.5)
Staff Cost	4.6%	5.5%	(81.2)	4.5%	10.5	5.0%	4.5%	50.7
Advertisement Cost	6.7%	4.1%	259.1	5.7%	100.2	5.5%	5.0%	58.2
Carraige, Insurance & Freight	2.8%	3.2%	(40.3)	3.2%	(39.5)	3.0%	3.4%	(42.9)
Other Expenditure	11.1%	10.9%	16.3	10.3%	82.3	11.0%	10.8%	22.4
Effective Tax Rate	35.0%	34.9%	12.3	35.4%	(36.6)	35.0%	36.7%	(175.8)

Castrol : Segment Financials

Earnings Statement								
Particulars (Rs. Mn)	Jun 09	Mar 09	Q-Q(%)	Jun 08	Y-Y(%)	H1CY09	H1CY08	Y-Y(%)
Segment Revenues								
- Automotive	5,615.0	4,381.0	28.2%	5,350.0	5.0%	9,996.0	9,470.0	5.6%
- Non Automotive	760.0	678.0	12.1%	864.0	-12.0%	1,438.0	1,673.0	-14.0%
Total Segment Revenues	6,375.0	5,059.0	26.0%	6,214.0	2.6%	11,434.0	11,143.0	2.6%
Segment Results								
- Automotive	1,707.0	982.0	73.8%	1,069.0	59.7%	2,689.0	2,002.0	34.3%
- Non Automotive	232.0	153.0	51.6%	169.0	37.3%	385.0	356.0	8.1%
Total Segment Results	1,939.0	1,135.0	70.8%	1,238.0	56.6%	3,074.0	2,358.0	30.4%
Unallocable Income	43.0	46.0	-6.5%	51.0	-15.7%	89.0	123.0	-27.6%
Interest	6.0	9.0	-33.3%	7.0	-14.3%	15.0	20.0	-25.0%
PBT	1,976.0	1,172.0	68.6%	1,282.0	54.1%	3,148.0	2,461.0	27.9%
Segment Capital Employed								
- Automotive	1,571.0	2,955.0	-46.8%	2,170.0	-27.6%	1,571.0	2,170.0	-27.6%
- Non Automotive	871.0	402.0	116.7%	988.0	-11.8%	87.0	988.0	-91.2%
Add: Unall Assets – Liab	2,914.0	2,162.0	34.8%	1,833.0	59.0%	2,914.0	1,833.0	59.0%
Total Capital Employed	5,356.0	5,519.0	-3.0%	4,991.0	7.3%	4,572.0	4,991.0	-8.4%
Ratio Analysis								
Profitability	Jun 09	Mar 09	Q-Q(bps)	Jun 08	Y-Y(bps)	H1CY09	H1CY08	Y-Y(bps)
Automotive EBITDA %	30.4%	22.4%	798.6	20.0%	1041.9	26.9%	21.1%	576.0
Non Automotive EBITDA %	30.5%	22.6%	796.0	19.6%	1096.6	26.8%	21.3%	549.4
% of segment revenues								
Automotive	88.1%	86.6%	148.0	86.1%	198.3	87.4%	85.0%	243.7
Non Automotive	11.9%	13.4%	(148.0)	13.9%	(198.3)	12.6%	15.0%	(243.7)
% of segment results								
Automotive	88.0%	86.5%	151.5	86.3%	168.6	87.5%	84.9%	257.3
Non Automotive	12.0%	13.5%	(151.5)	13.7%	(168.6)	12.5%	15.1%	(257.3)
ROCE (%)								
Automotive	108.7%	33.2%	7542.5	49.3%	5939.4	171.2%	92.3%	7890.7
Non Automotive	26.6%	38.1%	(1142.4)	17.1%	953.1	442.5%	36.0%	40649.6
Auto + Non Auto	36.2%	20.6%	1563.7	24.8%	1139.8	67.2%	47.2%	1999.0

Castrol : Financials

Earnings Statement					Balance Sheet				
Particulars (Rs. Mn)	CY06	CY07	CY08	CY09E	Particulars (Rs. Mn)	CY06	CY07	CY08	CY09E
Net Revenues	17,524.1	18,882.5	22,057.0	22,905.5	Equity Capital	1,236.4	1,236.4	1,236.4	1,236.4
- Growth (%)	22.5%	7.8%	16.8%	3.8%	Reserves	2,940.2	3,065.4	3,519.3	4,779.9
Total Expenditure	15,324.3	15,586.9	18,059.0	17,454.0	Shareholders Funds	4,176.6	4,301.8	4,755.7	6,016.3
Operating Profit	2,199.8	3,295.6	3,998.0	5,451.5	Borrowed Funds	27.9	27.9	27.9	27.9
Other Income	343.8	348.4	418.1	432.0	Deferred Tax Liability	61.3	(182.2)	(268.2)	(268.2)
EBITDA	2,543.6	3,644.0	4,416.1	5,883.5	Total Liabilities	4,265.8	4,147.5	4,515.4	5,776.0
- Growth (%)	9.8%	43.3%	21.2%	33.2%	Fixed Assets	1,296.8	1,332.6	1,444.5	1,933.8
Depreciation	180.1	207.8	256.8	310.7	Investments	425.2	205.8	5.2	5.2
EBIT	2,363.5	3,436.2	4,159.3	5,572.9	Deferred Tax Asset	0.0	0.0	0.0	0.0
Interest	41.1	37.9	36.5	30.0	Current Assets				
PBT	2,322.4	3,398.3	4,122.8	5,542.9	Inventory	2,555.2	2,249.8	2,673.0	2,949.5
Tax	777.5	1,214.1	1,498.3	1,967.7	Sundry Debtors	1,889.9	1,479.5	1,623.1	1,882.6
PAT	1,544.9	2,184.2	2,624.5	3,575.1	Loans & Advances	825.1	798.2	891.9	1,129.6
- Growth (%)	5.2%	41.4%	20.2%	36.2%	Cash & Bank Balance	892.2	3,179.1	2,556.3	2,706.4
					Other Current Assets	0.4	18.6	11.1	11.1
					Current Liabilities				
					Sundry Creditors	2,703.6	3,418.3	3,038.9	3,137.7
					Provisions	915.4	1,697.8	1,650.8	1,704.5
					Net Current Assets	2,543.8	2,609.1	3,065.7	3,837.0
					Total Assets	4,265.8	4,147.5	4,515.4	5,776.0
Ratio Analysis					Cash Flow				
Particulars	CY06	CY07	CY08	CY09E	Particulars	CY06	CY07	CY08	CY09E
OPM (%)	12.6%	17.5%	18.1%	23.8%	Opening Cash & Bank	4,720.4	892.2	3,179.1	2,556.3
EBITDA (%)	14.5%	19.3%	20.0%	25.7%	Profit after Tax	1,544.9	2,184.2	2,624.5	3,575.1
PBIT (%)	13.5%	18.2%	18.9%	24.3%	Less: Investment Income	(343.8)	(348.4)	(418.1)	(432.0)
PAT (%)	8.8%	11.6%	11.9%	15.6%	Interest Paid	41.1	37.9	36.5	30.0
Interest Cover (x)	57.5	90.7	114.0	185.8	Depreciation	180.1	207.8	256.8	310.7
EBITDA per share (Rs.)	20.6	29.5	35.7	47.6	Deferred Taxation	(57.2)	(235.6)	(86.0)	0.0
EPS (Rs.)	12.5	17.7	21.2	28.9	Others	(4,445.1)	(127.8)	(107.2)	0.0
P/E (x)	35.2	24.9	20.7	15.2	Change in Working Cap	(467.8)	2,221.6	(1,079.4)	(621.2)
P/BV (x)	13.0	12.6	11.4	9.0	CF - Operating Activities	(3,547.8)	3,939.7	1,227.1	2,862.6
BVPS (Rs.)	33.8	34.8	38.5	48.7	Change in Fixed Assets	29.6	(123.7)	(261.5)	(800.0)
Market Cap (Rs. Mn.)	54,401.6	54,401.6	54,401.6	54,401.6	Change in Investments	656.2	219.4	200.6	0.0
M Cap/Sales (x)	3.1	2.9	2.5	2.4	Change in Def. Tax Asset	0.0	0.0	0.0	0.0
EV (Rs. Mn.)	53,112.1	51,044.6	51,868.0	51,717.9	Investment Income	343.8	348.4	418.1	432.0
EV/EBITDA (x)	20.9	14.0	11.7	8.8	CF - Investing Activities	1,029.6	444.1	357.2	(368.0)
EV/Sales (x)	3.0	2.7	2.4	2.3	Increase in Equity	(0.0)	(15.4)	(0.8)	(0.0)
ROCE (%)	56.2%	79.4%	86.9%	92.2%	Changes in Borrowings	0.0	0.0	0.0	0.0
RONW (%)	37.0%	50.8%	55.2%	59.4%	Interest Paid	(41.1)	(37.9)	(36.5)	(30.0)
Debt/Equity Ratio (x)	0.01	0.01	0.01	0.00	Dividend Paid	(1,268.9)	(2,043.6)	(2,169.8)	(2,314.5)
Inventory T/o Days	53.2	43.5	44.2	47.0	CF - Financing Activities	(1,310.0)	(2,096.9)	(2,207.1)	(2,344.5)
Debtors T/o Days	39.4	28.6	26.9	30.0	Net Change in Cash	(3,828.2)	2,286.9	(622.8)	150.1
Advances T/o Days	17.2	15.4	14.8	18.0	Closing Cash & Bank Bal	892.2	3,179.1	2,556.3	2,706.4
Creditors T/o Days	56.3	66.1	50.3	50.0					
Working Cap T/o Days	53.0	50.4	50.7	61.1					
Fixed Assets T/o (Gross)	7.1	7.6	8.3	6.6					
DPS (Rs.)	9.0	14.0	15.0	16.0					
Dividend Payout (%)	72.0%	79.3%	70.7%	55.3%					
Dividend Yield (%)	2.0%	3.2%	3.4%	3.6%					

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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