

<b>Castrol India Limited</b>	CMP Rs. 529.0 HOLD	Result Update <b>Q3CY09</b>
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## Profitability Maintained, Moving ahead on High Operational Efficiency!

Castrol India Ltd., (CIL) has reported a stellar performance for the quarter ended Sep'09. The results beat our expectations both on topline and profitability estimates. Since our Q2CY09 recommendation of "HOLD", the stock has rallied 20%. Taking into consideration the 9 months reported performance and the future outlook; we have increased our EPS estimate for CY09 and also introduce our CY10E numbers.

For the quarter ended Sep'09, Castrol's net profit grew by a robust 60% to Rs. 956Mn despite a flat 2% growth in its topline at Rs. 5,653Mn for Sep'09 v/s Rs. 5,555Mn for Sep'08, thanks to sustained operating efficiency. Lower base oil prices, premium product mix, retention of unit realization and cost effective measures boosted the company's operating margins (OPM) by whopping 893bps resulting in robust 57% growth in its operating profit to Rs. 1,438Mn as compared to Rs. 917Mn for Q3CY08.

CIL's business has gained from lower base oil prices, although other key input materials continue to remain at high levels. All this has helped deliver strong bottom line and improving cash flows. Given the upturn in the economy and the resultant growth of the lubricant market in India over the next few years, Castrol will continue to focus and prioritize on its core lubricant product business.

In terms of cost as % of sales, raw material cost decreased sharply by 1,476bps to 48% for Q3CY09 as against 62% for Q3CY08, staff cost was up 77bps to 5.3% from 4.5%. Advertisement cost and other expenditure also increased by 321bps to 7% from 4% and 163bps to 11.5% from 10% respectively. On the other hand carriage, insurance & freight expense as a % of sales remained flat at 3.3%.

On Y-Y basis, the profit growth was maintained at PBT level at 56% to Rs. 1,432Mn for Sep'09 (Rs. 919Mn; Sep 08) thanks to interest and depreciation cost. The interest cost slipped by 14% to Rs. 6Mn (earlier Rs. 7Mn) while its depreciation cost only rose by 16% to Rs. 71Mn (earlier Rs. 61Mn). On account of 191bps decline in its effective tax rate, Castrol's net profit was lifted by robust 60% to Rs. 956Mn for the current quarter as against Rs. 596Mn for the corresponding quarter last year.

### Segment Performance:

#### Automotive:

The segment's sales increased by 4% to Rs. 4,811Mn for quarter ended Sep'09 with its contribution to total sales at 85%. The segment's PBIT witnessed a rise of 63% to Rs. 1,116Mn for Q3CY09 as compared to Rs. 683Mn for Q3CY08. Capital employed for this segment decreased 49% to Rs. 1,304Mn.

#### Non Automotive:

The segment witnessed a fall in revenues but rise in profits at PBIT level. Sales decreased 10% to Rs. 842Mn for the quarter ended Sep'09 with its contribution to total sales at 15%. The segment's PBIT increased by 44.5% to Rs. 276Mn for Q3CY09 v/s Rs. 191Mn for the corresponding quarter last year. Capital employed for this segment also decreased by 36% to Rs. 799Mn.

**Our Call:**

We expect Castrol India Ltd. to continue this growth momentum, supported by the improving economic conditions and with demand revival, we hope the company to gain on increasing volumes and better product mix.

However, as crude has moved up to USD 80/barrel from its lows of USD 40/barrel early this year, the raw material prices are hardening and going forward this is likely to impact margins marginally and further on sustain in the range of 24-26%.

At CMP of Rs. 529/-, the scrip is trading at 17.8x CY09E and 15.9x CY10E earnings of Rs. 29.7/- (earlier Rs. 28.9/-) and Rs. 33.4/- respectively. We maintain HOLD on the scrip with a target price of Rs. 600/- (13.5% upside).

**Quarterly Financials**

<b>Earnings Statement</b>								
<b>Particulars (Rs. Mn)</b>	<b>Sep 09</b>	<b>Jun 09</b>	<b>Q-Q(%)</b>	<b>Sep 08</b>	<b>Y-Y(%)</b>	<b>9MCY09</b>	<b>9MCY08</b>	<b>Y-Y(%)</b>
Gross Sales	6538.0	7341.0	-10.9%	6369.0	2.7%	19793.0	19147.0	3.4%
Less: Excise Duty	885.0	966.0	-8.4%	814.0	8.7%	2706.0	2449.0	10.5%
Net Revenues	5653.0	6375.0	-11.3%	5555.0	1.8%	17087.0	16698.0	2.3%
Other Operating Income	14.0	27.0	-48.1%	26.0	-46.2%	69.0	74.0	-6.8%
Total Income	5667.0	6402.0	-11.5%	5581.0	1.5%	17156.0	16772.0	2.3%
Raw Material Cost	2694.0	2810.0	-4.1%	3467.0	-22.3%	8241.0	9572.0	-13.9%
Gross Profit	2973.0	3592.0	-17.2%	2114.0	40.6%	8915.0	7200.0	23.8%
Staff Cost	300.0	296.0	1.4%	252.0	19.0%	872.0	753.0	15.8%
Advertisement Cost	400.0	426.0	-6.1%	215.0	86.0%	1033.0	767.0	34.7%
Carraige, Insurance & Freight	184.0	181.0	1.7%	181.0	1.7%	529.0	565.0	-6.4%
Other Expenditure	651.0	706.0	-7.8%	549.0	18.6%	1909.0	1750.0	9.1%
Total Expenditure	1535.0	1609.0	-4.6%	1197.0	28.2%	4343.0	3835.0	13.2%
Operating Profit	1438.0	1983.0	-27.5%	917.0	56.8%	4572.0	3365.0	35.9%
Other Income	71.0	66.0	7.6%	70.0	1.4%	232.0	233.0	-0.4%
EBITDA	1509.0	2049.0	-26.4%	987.0	52.9%	4804.0	3598.0	33.5%
Depreciation	71.0	67.0	6.0%	61.0	16.4%	203.0	191.0	6.3%
EBIT	1438.0	1982.0	-27.4%	926.0	55.3%	4601.0	3407.0	35.0%
Interest	6.0	6.0	0.0%	7.0	-14.3%	21.0	27.0	-22.2%
PBT	1432.0	1976.0	-27.5%	919.0	55.8%	4580.0	3380.0	35.5%
Tax	476.0	692.0	-31.2%	323.0	47.4%	1577.0	1227.0	28.5%
PAT	956.0	1284.0	-25.5%	596.0	60.4%	3003.0	2153.0	39.5%
Equity Capital	1236.4	1236.4	0.0%	1236.4	0.0%	1236.4	1236.4	0.0%
EPS	7.7	10.4	-25.5%	4.8	60.4%	24.3	17.4	39.5%
<b>Ratio Analysis</b>								
<b>Profitability</b>								
YE March	Sep 09	Jun 09	Q-Q(bps)	Sep 08	Y-Y(bps)	9MCY09	9MCY08	Y-Y(bps)
OPM (%)	25.4%	31.1%	(566.81)	16.5%	893.02	26.8%	20.2%	660.51
EBITDA (%)	26.7%	32.1%	(544.74)	17.8%	892.60	28.1%	21.5%	656.75
EBIT (%)	25.4%	31.1%	(565.24)	16.7%	876.82	26.9%	20.4%	652.33
PAT (%)	16.9%	20.1%	(322.98)	10.7%	618.23	17.6%	12.9%	468.10

## Segment Financials

Earnings Statement								
Particulars (Rs. Mn)	Sep 09	Jun 09	Q-Q(%)	Sep 08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
Segment Revenues								
- Automotive	4,811.0	5,615.0	-14.3%	4,620.0	4.1%	14,807.0	14,090.0	5.1%
- Non Automotive	842.0	760.0	10.8%	935.0	-9.9%	2,280.0	2,608.0	-12.6%
Total Segment Revenues	5,653.0	6,375.0	-11.3%	5,555.0	1.8%	17,087.0	16,698.0	2.3%
Segment Results								
- Automotive	1,116.0	1,707.0	-34.6%	683.0	63.4%	3,805.0	2,685.0	41.7%
- Non Automotive	276.0	232.0	19.0%	191.0	44.5%	661.0	547.0	20.8%
Total Segment Results	1,392.0	1,939.0	-28.2%	874.0	59.3%	4,466.0	3,232.0	38.2%
Unallocable Income	46.0	43.0	7.0%	52.0	-11.5%	135.0	174.0	-22.4%
Interest	6.0	6.0	0.0%	7.0	-14.3%	21.0	27.0	-22.2%
PBT	1,432.0	1,976.0	-27.5%	919.0	55.8%	4,580.0	3,380.0	35.5%
Segment Capital Employed								
- Automotive	1,304.0	1,571.0	-17.0%	2,543.0	-48.7%	1,304.0	2,170.0	-39.9%
- Non Automotive	799.0	871.0	-8.3%	1,244.0	-35.8%	799.0	988.0	-19.1%
Add: Unall Assets – Liab	4,209.0	2,914.0	44.4%	1,801.0	133.7%	4,209.0	1,833.0	129.6%
Total Capital Employed	6,312.0	5,356.0	17.8%	5,588.0	13.0%	6,312.0	4,991.0	26.5%
Ratio Analysis								
Profitability	Sep 09	Jun 09	Q-Q(bps)	Sep 08	Y-Y(bps)	9MCY09	9MCY08	Y-Y(bps)
Automotive EBITDA %	23.2%	30.4%	(720.4)	14.8%	841.3	25.7%	19.1%	664.1
Non Automotive EBITDA %	32.8%	30.5%	225.3	20.4%	1235.1	29.0%	21.0%	801.7
% of segment revenues								
Automotive	85.1%	88.1%	-297.3	83.2%	193.7	86.7%	84.4%	227.5
Non Automotive	14.9%	11.9%	297.3	16.8%	(193.7)	13.3%	15.6%	(227.5)
% of segment results								
Automotive	80.2%	88.0%	-786.3	78.1%	202.6	85.2%	83.1%	212.4
Non Automotive	19.8%	12.0%	786.3	21.9%	(202.6)	14.8%	16.9%	(212.4)
ROCE (%)								
Automotive	85.6%	108.7%	(2307.4)	26.9%	5872.5	291.8%	123.7%	16806.2
Non Automotive	34.5%	26.6%	790.7	15.4%	1918.9	82.7%	55.4%	2736.4
Auto + Non Auto	22.1%	36.2%	(1414.9)	15.6%	641.3	70.8%	64.8%	599.8



# 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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