

RESULT UPDATE

LARGE CAP

Share Data

| | |
|----------------------------------|---------|
| Reuters code | CAST.BO |
| Bloomberg code | CSTRLIN |
| Market cap. (US\$ mn) | 2,573 |
| 6M avg. daily turnover (US\$ mn) | 0.1 |
| Issued shares (mn) | 247.3 |
| Target price (Rs) | 550 |

Performance (%) 1M 3M 12M

| | | | |
|----------|----|---|----|
| Absolute | 13 | 5 | 15 |
| Relative | 2 | 1 | 17 |

Valuation ratios

| Yr to 31 Dec | CY12E | CY13E |
|--------------------|-------|-------|
| EPS (Rs) | 23.0 | 26.2 |
| +/- (%) | 18.4 | 13.7 |
| PER (x) | 20.8 | 18.3 |
| PBV (x) | 18.2 | 14.7 |
| Dividend/Yield (%) | 3.6 | 1.9 |
| EV/Sales (x) | 3.3 | 3.0 |
| EV/EBITDA (x) | 13.4 | 11.5 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 71 |
| FII's | 5 |
| MF's | 3 |
| BFSI's | 6 |
| Public & Others | 15 |

Financial highlights

| (Rs mn) | 4QCY10 | 4QCY11 | YoY (%) | YoY (%) | CY10 | CY11 | YoY (%) | CY12E | YoY (%) | CY13E | YoY (%) |
|-------------------------|--------|--------|---------|---------|--------|--------|---------|--------|---------|--------|---------|
| Net Sales | 6,981 | 7,727 | 10.7 | 8.6 | 27,348 | 29,932 | 9.4 | 33,686 | 12.5 | 37,248 | 10.6 |
| EBITDA | 1,570 | 1,563 | (0.4) | (10.9) | 7,251 | 6,698 | (7.6) | 8,413 | 25.6 | 9,606 | 14.2 |
| EBITDA Margin (%) | 22.5 | 20.2 | — | — | 26.5 | 22.4 | — | 25.0 | — | 25.8 | — |
| Other Income | 87 | 114 | 31.0 | 173.0 | 395 | 731 | 85.1 | 502 | (31.3) | 502 | 0.0 |
| Interest | 7 | 4 | (42.9) | (11.8) | 24 | 19 | (21.5) | 32 | 68.4 | 32 | 0.0 |
| Depreciation | 62 | 63 | 1.6 | 3.9 | 243 | 251 | 3.2 | 344 | 37.0 | 363 | 5.5 |
| PBT | 1,588 | 1,610 | 1.4 | (4.2) | 7,379 | 7,159 | (3.0) | 8,539 | 19.3 | 9,713 | 13.7 |
| Tax | 529 | 542 | 2.5 | (6.4) | 2,475 | 2,349 | (5.1) | 2,844 | 21.1 | 3,234 | 13.7 |
| Adjusted PAT | 1,059 | 1,068 | 0.8 | (2.7) | 4,903 | 4,810 | (1.9) | 5,696 | 18.4 | 6,479 | 13.7 |
| Adjusted PAT Margin (%) | 15.2 | 13.8 | — | — | 17.9 | 16.1 | — | 16.9 | — | 17.4 | — |
| Adjusted EPS (Rs) | 4.3 | 4.3 | 0.8 | (2.7) | 19.8 | 19.5 | (1.9) | 23.0 | 18.4 | 26.2 | 13.7 |

Castrol India

Maintain Outperformer

Price: Rs 479

BSE Index: 17,849

14 February 2012

4QCY11 Result – Margins impacted due to currency and base oil prices

Castrol India (Castrol) revenue for the quarter were marginally below expectation with YoY revenue growth of 10.7% to Rs 7.7 bn. The volumes for the quarter improved by 12.6% on sequential basis (drop of 5.2% YoY). Blended realisation for the quarter has gone up by 1.8% on sequential basis. Increase in input costs (810 bps YoY) due to increase in base oil prices and currency impact, was partially offset by improvement in employee cost, advertisement expenses and other expense, as percentage of sales. EBITDA margin for the quarter has dropped to 20.2% from 22.5% in 4QCY10 and 19.7% in 3QCY11. Overall, NPM of the company fell by 140 bps YoY to 13.8% and the company reported flat profit of Rs 1,068 mn as against Rs 1,059 mn during 4QCY10.

Outlook and valuation

Down the line, with emphasis on two-wheeler business and pick up in industrial segment, we expect the volumes to improve though expected to remain subdued for first half of CY12. Also, softening in base oil prices coupled with rupee appreciation would lead to margin improvement, down the line. Currently, commercial vehicle diesel engine oil accounts for 50% of the company's volume sales. Better product mix is also expected to help improve realisations further. We have realigned our estimates for CY12 and incorporated the estimates for CY13. At the current market price of Rs 479, the stock is trading at 20.8x CY12E revised earnings of Rs 23.0 and 18.3x CY13E earnings of Rs 26.2 per share. We are rolling over our valuation to CY13 and maintain Outperformer rating on the stock with maintaining the target price of Rs 550 at 21x CY13E earnings.

Income Statement

| Yr end 31 Dec (Rs mn) | CY10 | CY11 | CY12E | CY13E |
|--|---------------|---------------|---------------|---------------|
| Net sales | 27,348 | 29,932 | 33,686 | 37,248 |
| <i>Growth (%)</i> | <i>18.0</i> | <i>9.4</i> | <i>12.5</i> | <i>10.6</i> |
| Operating expenses | (20,097) | (23,234) | (25,273) | (27,643) |
| Operating profit | 7,251 | 6,698 | 8,413 | 9,606 |
| EBITDA | 7,251 | 6,698 | 8,413 | 9,606 |
| <i>Growth (%)</i> | <i>26.0</i> | <i>(7.6)</i> | <i>25.6</i> | <i>14.2</i> |
| Depreciation | (243) | (251) | (344) | (363) |
| Other income | 395 | 731 | 502 | 502 |
| EBIT | 7,403 | 7,178 | 8,571 | 9,745 |
| Interest paid | (24) | (19) | (32) | (32) |
| Pre-tax profit | 7,379 | 7,159 | 8,539 | 9,713 |
| (before non-recurring items) | | | | |
| Pre-tax profit | 7,379 | 7,159 | 8,539 | 9,713 |
| (after non-recurring items) | | | | |
| Tax (current + deferred) | (2,475) | (2,349) | (2,844) | (3,234) |
| Net profit (before Minority Interest, Pref. Dividend etc.) | 4,903 | 4,810 | 5,696 | 6,479 |
| Reported PAT | 4,903 | 4,810 | 5,696 | 6,479 |
| Adjusted net profit | 4,903 | 4,810 | 5,696 | 6,479 |
| <i>Growth (%)</i> | <i>28.7</i> | <i>(1.9)</i> | <i>18.4</i> | <i>13.7</i> |

Balance Sheet

| Yr end 31 Dec (Rs mn) | CY10 | CY11P | CY12E | CY13E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & Marketable securities | 6,193 | 5,424 | 5,676 | 7,503 |
| Other current assets | 5,294 | 5,940 | 7,050 | 7,485 |
| Net fixed assets | 1,369 | 1,677 | 1,710 | 1,595 |
| Other non-current assets | 451 | — | — | — |
| Total assets | 13,307 | 13,041 | 14,436 | 16,584 |
| Current liabilities | 7,692 | 7,326 | 7,943 | 8,529 |
| Other non-current liabilities | 80 | — | — | — |
| Total liabilities | 7,772 | 7,326 | 7,943 | 8,529 |
| Share capital | 2,473 | 2,473 | 2,473 | 2,473 |
| Reserves & surplus | 3,062 | 3,243 | 4,020 | 5,582 |
| Shareholders' funds | 5,535 | 5,716 | 6,493 | 8,054 |
| Total equity & liabilities | 13,307 | 13,041 | 14,436 | 16,584 |
| Capital employed | 5,615 | 5,716 | 6,493 | 8,054 |

Cash Flow Statement

| Yr end 31 Dec (Rs mn) | CY10 | CY11P | CY12E | CY13E |
|---------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 7,379 | 7,159 | 8,539 | 9,713 |
| Depreciation | 60 | 251 | 344 | 367 |
| Chg in working capital | 361 | (1,009) | (493) | 150 |
| Total tax paid | (2,500) | (1,978) | (2,844) | (3,234) |
| Cash flow from oper. (a) | 5,299 | 4,423 | 5,547 | 6,996 |
| Capital expenditure | (54) | (559) | (377) | (252) |
| Chg in investments | 5 | — | — | — |
| Cash flow from inv. (b) | (49) | (559) | (377) | (252) |
| Free cash flow (a+b) | 5,250 | 3,864 | 5,170 | 6,744 |
| Equity raised/(repaid) | 1,236 | — | — | — |
| Dividend (incl. tax) | (4,315) | (4,632) | (4,918) | (2,939) |
| Other financing activities | (1,237) | (0) | (0) | (1,977) |
| Cash flow from fin. (c) | (4,315) | (4,632) | (4,918) | (4,916) |
| Net chg in cash (a+b+c) | 935 | (768) | 252 | 1,827 |

Key Ratios

| Yr end 31 Dec (%) | CY10 | CY11P | CY12E | CY13E |
|-----------------------|---------|--------|--------|--------|
| EPS (Rs) | 19.8 | 19.5 | 23.0 | 26.2 |
| Growth | 28.7 | (1.9) | 18.4 | 13.7 |
| Book NAV/share (Rs) | 22.4 | 23.1 | 26.3 | 32.6 |
| Dividend/share (Rs) | 15.0 | 16.0 | 17.0 | 9.0 |
| Dividend Payout ratio | 88.1 | 96.2 | 86.4 | 45.4 |
| Tax rate | 33.5 | 32.8 | 33.3 | 33.3 |
| EBITDA margin | 26.5 | 22.4 | 25.0 | 25.8 |
| EBIT margin | 27.1 | 24.0 | 25.4 | 26.2 |
| RoCE | 139.2 | 126.7 | 140.4 | 134.0 |
| Net debt/Equity | (111.9) | (94.9) | (87.4) | (93.2) |

Valuations

| Yr end 31 Dec (x) | CY10 | CY11P | CY12E | CY13E |
|-------------------|------|-------|-------|-------|
| PER | 24.1 | 24.6 | 20.8 | 18.3 |
| PCE | 23.0 | 23.4 | 19.6 | 17.3 |
| Price/Book | 21.4 | 20.7 | 18.2 | 14.7 |
| Yield (%) | 3.1 | 3.3 | 3.6 | 1.9 |
| EV/Net sales | 4.1 | 3.8 | 3.3 | 3.0 |
| EV/EBITDA | 15.5 | 16.9 | 13.4 | 11.5 |

Du Pont Analysis – ROE

| Yr end 31 Dec (x) | CY10 | CY11P | CY12E | CY13E |
|----------------------|------|-------|-------|-------|
| Net margin (%) | 17.9 | 16.1 | 16.9 | 17.4 |
| Asset turnover | 2.2 | 2.3 | 2.5 | 2.4 |
| Leverage factor | 2.4 | 2.3 | 2.3 | 2.1 |
| Return on equity (%) | 93.5 | 85.5 | 93.3 | 89.1 |

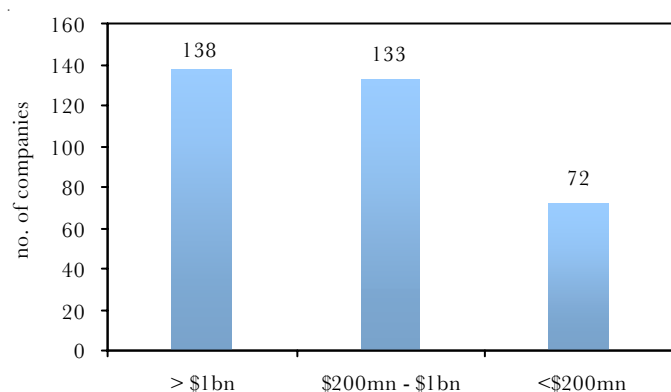
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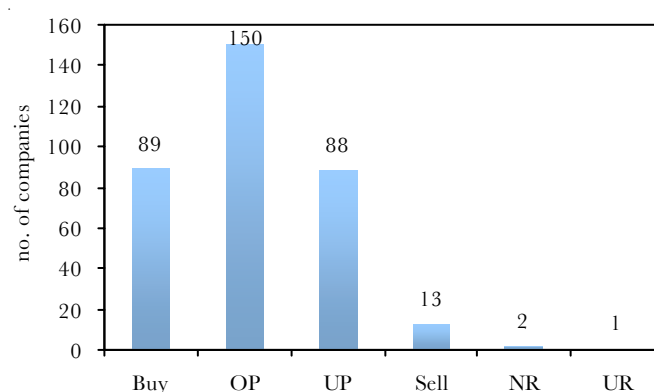
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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