Initiating Coverage

Gulf Oil Lubricants India Ltd.

Aug 29, 2022

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Gulf Oil Lubricants India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Lubricants	Rs. 458	Buy in the Rs. 455-461 band & add more on dips to Rs. 402	Rs. 508	Rs. 562	2 quarters

HDFC Scrip Code	GULOIL
BSE Code	538567
NSE Code	GULFOILLUB
Bloomberg	GOLI IN
CMP Aug 26, 2022	458
Equity Capital (Rs Cr)	9.8
Face Value (Rs)	2.0
Equity Share O/S (Cr)	4.9
Market Cap (Rs Cr)	2244.2
Book Value (Rs)	212.8
Avg. 52 Wk Volumes	74,955
52 Week High	624.4
52 Week Low	379.0

Share holding Pattern % (June, 2022)	
Promoters	72.0
Institutions	10.7
Non Institutions	17.3
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Gulf Oil Lubricants India Ltd (GOLIL), part of the Hinduja Group, is an established player in the Indian Lubricants Industry. The Gulf Brand, owned by holding company, Gulf Oil International, has a global presence in more than 100 countries. In the recent years, the company has consistently outperformed the industry growth rate and emerged as one of the leading lubricant brands in country. GOLIL exports its products across 25+ countries.

GOLIL's consistent marketing campaign for brand awareness and extensively covering a wide reach of consumers, mechanics, and retailers, has strengthened the positioning across the segment over the past few years. GOLIL continues to strengthen distribution reach, relationships with existing OEMs and also welcomed several new OEMs and B2C and B2B customers across automotive, industrial and construction sectors. GOLIL partners closely with Top Global OEMs and B2B customers like Ashok Leyland, Mahindra, Swaraj Volvo Penta, MAN, Bharat Benz, Whitmore, Schwing Stetter and Bajaj. These significant partnerships have helped GOLIL to adopt and pioneer many go-to-market models in the automotive industry like co-brand oils, genuine oils and approved oils.

With strong volumes coming in, strong supply chain, distribution strength and continuous investments in branding activities, GOLIL expects to grow at 2-3x of the industry. Market share of GOLI has been inching up gradually. However, due to rising input cost pressure, margins may be impacted for a couple of quarters. However, we expect volumes to grow well with easing of restrictions. The volume growth will continue to outperform the industry from FY23E, as growth will come from new product launches, OEM tie ups and expansion of distribution channels. We expect that GOLIL could report revenue growth by 26.2% and 9.4% in FY23E and FY24E, respectively.

Valuation & Recommendation:

GOLIL is one of the fastest growing players in the domestic industry and has regularly posted higher-than-industry growth in its volume sales. The company has ability to maintain healthy profitability levels on the back of timely price revisions to partly mitigate the impact of base oil price movements as well as its improving market share in the domestic lubricants industry, driven by its strong marketing efforts, well-recognised "Gulf" brand and wide distribution network.

Considering the company's strong financial profile, led by healthy profitability levels and return indicators and a comfortable capital structure, we have a positive view on the stock. Its valuations are cheaper compared to its MNC peer and the stock also offers decent dividend yield. **Investors could buy in the Rs 455-461 band and add more on dips to Rs. 402 (7.5x FY24E EPS). Base case fair value of the stock is Rs 508 (9.5x FY24E EPS) and the bull case fair value of the stock is Rs 562 (10.5x FY24E EPS) over the next 2 quarters. At the CMP of Rs 458 the stock trades at 8.6x FY24E EPS.**

Financial Summary (Standalone)

Particulars (Rs Cr)	Q1FY23	Q1FY22	YoY-%	Q4FY22	QoQ-%	FY20	FY21	FY22	FY23E	FY24E
Total Operating Income	706	417	69.3	639	10.6	1,644	1,652	2,192	2,766	3,025
EBITDA	85	42	101.8	89	-4.6	287	265	286	332	372
Depreciation	9	8	14.3	9	0.1	33	34	36	37	38
Other Income	9	11	-14.4	12	-21.1	35	52	44	43	41
Interest Cost	11	4	160.5	5	99.2	25	15	10	25	23
Tax	19	10	84.5	23	-16.3	62	69	73	80	90
RPAT	55	30	82.2	63	-12.7	203	200	211	233	262
APAT	55	30	82.2	63	-12.7	203	200	211	233	262
Diluted EPS (Rs)	11.3	6.2	82.2	12.9	-12.7	41.3	40.8	43.1	47.6	53.5
RoE-%						30.0	24.5	22.1	20.8	20.3
P/E (x)						11.1	11.2	10.6	9.6	8.6
EV/EBITDA (x)						7.2	7.4	7.2	6.2	5.2

(Source: Company, HDFC sec)

Q1FY23 Result Update

- GOLIL reported strong performance in Q1FY23 with 69.3% YoY sales growth to Rs 706 crore, led by strong volume growth in the quarter. The sales volume in the quarter stood at a quarterly high of 48mn liters, grew by 75% YoY and 28% QoQ, boosted by 34% YoY growth in lubricant sales and ~500% YoY growth in Ad Blue sales. Ad Blue gives lower realization and lower margin than lube products.
- Its lubricant sales stood at 34mn liters, grew by 34% YoY and 2% QoQ, the sale of Ad Blue stood significantly higher at 14mn liters, compared to usual quarterly sales of 3-4mn liters. Even the sales of lubricants stood higher than seasonally strong Q4FY22.
- Despite higher base oil prices and several others costs, EBITDA was almost double than same quarter previous year to Rs 85 crore and EBITDA margin stood at 12% in Q1FY23 vs. 10.1% in Q1FY22; it however, slipped on QoQ basis by 190bps. Price increase of 3-4% in lubricants was taken at beginning as well as at the end of quarter and helped tide over increase in costs. Net profit was up by 82.2% YoY to Rs 55 crore in Q1FY23.

Recent Triggers

Expectation of more volume recovery due to demand resurrection in automotive and industrial lubricants

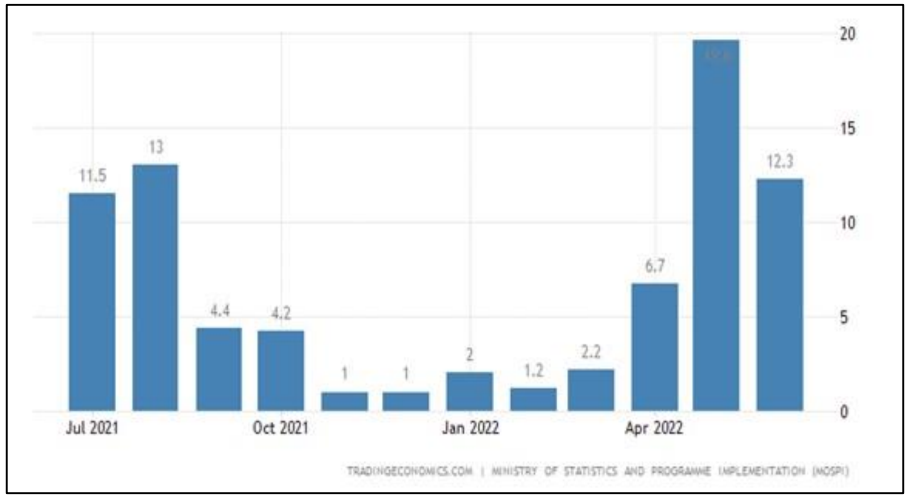
The two-wheeler and passenger car lubricants category are now seeing a demand resurrection as the recovery builds up. While the long-term outlook is positive, GOLIL could continue to drive growth in this segment backed by a wide distribution reach, strong brand building and leveraging the growth of synthetic oils. In commercial vehicles, despite short term challenges, this segment is expected to gradually pick up momentum. Growth in construction and off-highway sectors due to investment in infrastructure is also likely to lead to lubricants demand growth in this category. With the food & farming sector remaining resilient and growing, good lubricant demand growth is expected from the agricultural sector.

Besides, the Government of India has planned to spend US$ 1.4 trillion in the next 10 years in the infrastructure sector. Government's continued emphasis to drive India's Infrastructure sector will provide impetus to Commercial Vehicle Sector. Beyond the increased need for lubricants in a commercial vehicle, there will be an increase in demand for industrial lubricants too. The need for gear oil, transmission fluid, metalworking fluid, and grease will see an upsurge in demand.

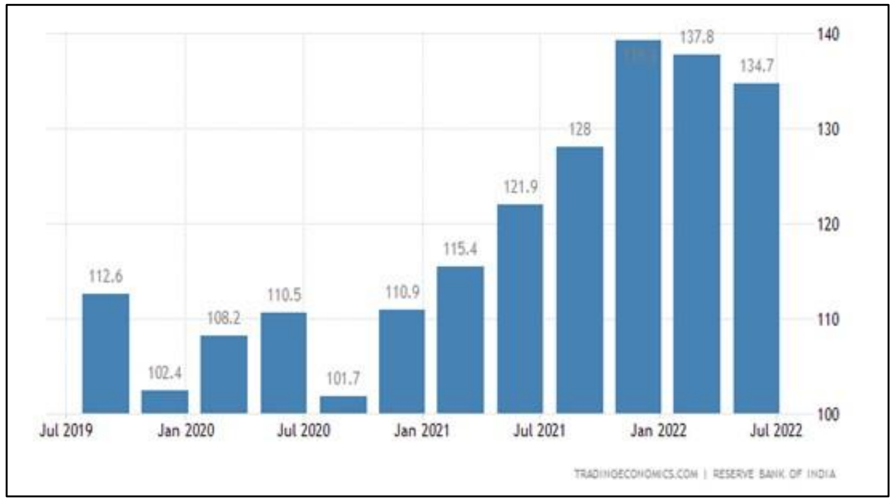
The industrial production has registered a consistent growth trend through 2021. The Business confidence index has also trended positively and as activities build further momentum, the demand for industrial lubricants is expected to grow with optimistic prospects for the long term.

Continuing with the government's vision of developing world-class infrastructure and additional push with the PM Gati Shakti plan focusing on roads, ports, railways, logistics, etc, the demand for high quality, synthetic industrial lubricants and oils will witness growth, GOLIL is strategically positioned to cater to the growing market consumption in the construction segment. In Feb 2022, GOLIL collaborated with SCHWING Stetter, pioneer of Concrete Construction equipment manufacturing in India to launch a range of genuine oils. This partnership brings to the market a range of products that include high technology & high-quality lubricants like Premium Hydraulic Oil, Engine Oil, Axle Oil, Gear Oil & High-end Synthetic Gear Oil for their Concrete Pump, Batching Plant, Concrete mixture & Self-loading mixer.

IIP numbers



Business Confidence Index



Early entry into EV segment to launch a Smart EV Charger in India to generate incremental revenue going forward.
To participate in the electric value chain, GOLIL acquired a minority interest in a UK-based Smart Charging company Indra Renewable (7.85% stake at a cost of ~Rs. 15 crore). Indra Renewable is a four-wheeler charging company and Gulf Oil tied-up with the OEMs, car stops outlets, and branded outlets. This is the very nascent stage of product demand in India, the company has also tested a few models by importing those and also working on both fronts. The company is looking for commercialising Indra chargers in the next few months in India. Besides, the company could either import the product or could engage with localization. Therefore, the company has entered into one part of the value chain and expect that the company will be able to play in this hardware charger segment as the EV markets take off in the future.

In Feb 2022, GOLIL has announced a strategic investment in a leading e-mobility solutions (SaaS) company Techperspect Software (better known as ElctreeFi) via investment in equity shares (26% stake). Under this partnership, Gulf Oil and ElectreeFi will work together to develop solutions and play a role in the fast-charging e-mobility space for 2 and 3-wheelers to begin with.

Through its recent investment in ElectreeFi, Gulf is also eyeing the integration of the company's SaaS offering into the Gulf Chargers in India. Adoption of Battery Swapping Technology by 2 and 3-wheeler OEMs is fast gaining momentum. ElectreeFi Battery Swapping Platform has already been successfully tested on a pilot project by a leading EV infrastructure provider set to launch a Pan-India network of Battery Swapping Stations. It is early to quantify in demand and supply terms, however, it could help to generate incremental revenue going forward.

Focusing on value added products and product innovations to enhance value along with lower emissions
Bharat stage (BS) emission standards refers the regulation to control the output of air pollutants from internal combustion engine and spark-ignition engine equipment, including motor vehicles. The central government has mandated that vehicle makers must manufacture, sell and register only BS-VI (BS6) vehicles from April 1, 2020.

After undertaking thorough testing of BS VI engine oils on different types of vehicles, the company launched products across several segments and grades. At Gulf Oil, the company has been one of the early movers in manufacturing and marketing AdBlue products in India and Gulf Oil, have been quietly validating the use of thinner engine oils for the last two years. Because of BSVI emissions norms, the company could launch further new lube products and value added products going forward and it could boost its revenue generation.

Long term Triggers

Established brand, experienced promoter group and wide distribution network

Gulf oil is part of the prominent conglomerate "Hinduja Group" and the group is engaged in diversified business. Its key promoter "Gulf Oil International" is one of the fastest growing company in the world and has presence across the 100+ countries. Gulf oil sells its lubricants under the "Gulf" brand, strengthened by wide distribution network and strong marketing.

The company has an extensive distribution network comprising of 320 Auto Distributors, 30 Industrial Distributors and over 50000 Retailers, backed by the logistics support of 33 depots, 5 regional offices and a corporate office in Mumbai. The company's products are promoted with two brand ambassadors Mahendra Singh Dhoni and Hardik Pandya.

Presently, GOLIL is being managed by Mr. Ravi S Chawla, Managing Director who has 25+ years of professional experience in sales and marketing across diverse sectors. He has extensive 15 years of experience in lubricants space.

Comprehensive product portfolio and segment wise focus driven by product innovation and brand recognition

Its product Portfolio covers Automotive, Industrial and Marine applications, with approvals from bodies like API, JASO, ACEA and leading global OEMs. Gulf Oil products are broadly bifurcated between automotive segment and the industrial segment, of which majority are to the automotive segment. Within the automotive segment, the company's sales are distributed between Diesel Engine Oils (which are used in trucks and tractor segment), Motorcycle Oils and Passenger Car Oils.

GOLIL derives almost 55% to 60% of revenue from automotive segment and remaining from industrial (B2B) segment. In the automotive segment, the main focus is towards the commercial vehicle segment with increasing portfolio of lubricants for two wheelers, tractors and passenger car segment, through launch of new products. Over the years the company has gained expertise in the manufacturing of long drain engine oils and has been continuously increasing the period required for replacement of the same.

Also, in order to strengthen presence in rural market, the company has launched the Gulf Rural Stockist (GRS) Programme which will be used to promote Gulf tractor and motorcycle engine oils. Further, the company is also focusing towards brand recall by increasing focus towards marketing campaigns strategically targeting the millennial youth.

About 41% of its sales come from Diesel Engine oils, 21% from other Automobiles,15% from Industrial and the balance from others. GOLIL has a ~9% share in Diesel Engine oils, 8% in Motorcycles and 4% in Cars.

Sound financial profile

- GOLIL's financial profile has been robust led by negligible debt, healthy cash generating ability and consistent dividend payment to shareholders over the past. Financial flexibility is strong, supported by robust liquidity.
- GOLIL's revenues from operations rose from Rs 965 crore in FY15 to Rs 2192 crore in FY22 - ~12.4% CAGR over the period. The company reported EBITDA margin at a range of 13-17.5% and PAT margin at a range of 10-12% over the last seven years.
- The working capital has remained positive and the capex has also remained stable over the years. However, the growth is slowing down for the company due to market saturation, improved product quality requiring late replacement of lubes and electrification of vehicles in India.
- The company's debt increased by Rs 179 crore to Rs 390 crore, debt to equity status stood at 0.3x in FY22 and the company has no further plans to raise any debt going forward. The company has sufficient cash and cash equivalent for further investment to expand its business going forward. As on March 31, 2022, the company has cash and cash equivalent of Rs 574 crore.
- The company has always been generous in declaring dividends, the company has a track record of consistent on dividend payout to its shareholders over the periods. In FY22, the company has also declared buy back offer to the shareholders. The board has recommended a final dividend of Rs 5/share, lower than that of FY21 due to the buyback earlier (14 lac shares @Rs.600 per share). The dividend payout amounts to close to ~40% of the post-tax profit (except in FY22) and the company has been maintaining dividend yield at 3% over the past.
- The inventory days has decreased from 83 days to 79 days, payable decreased from 66 days to 45 days, and the receivable days have increased to 49 days from 42 days as on March 31, 2022. With rise in profitability as well as better return ratios in the future, we expect RoE at a range of 20.5% to 21.5% in FY23E and FY24E, respectively.
- Cash per share for FY24E works out to a healthy 39% of its CMP.

Industry Overview

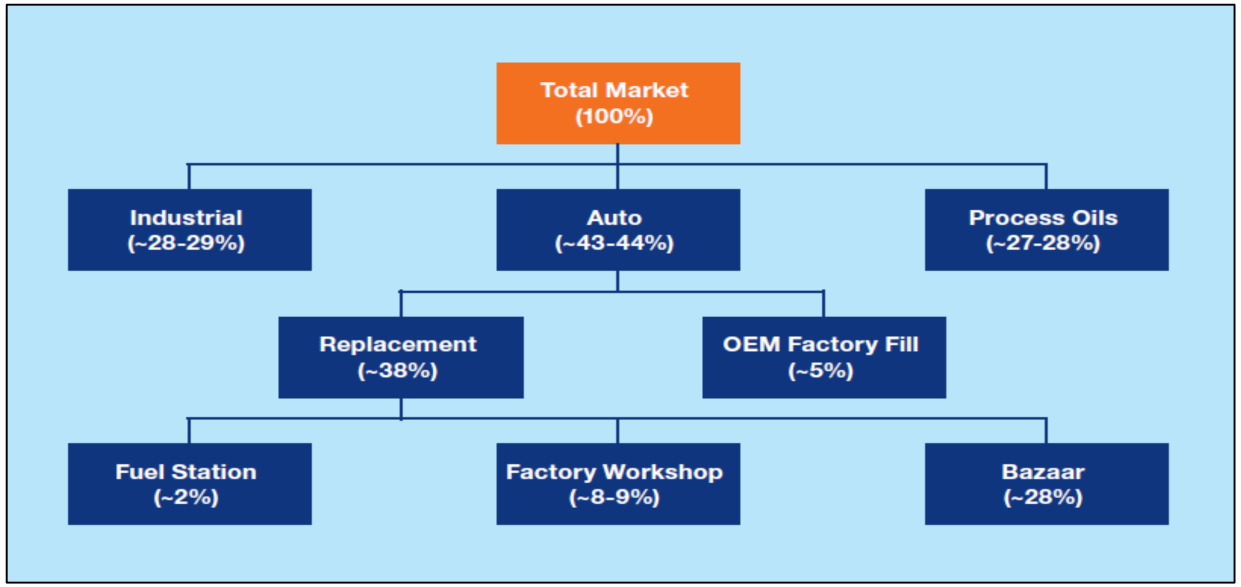
The Indian finished lubricants market is the third-largest and one of the fastest growing lubricant market in the world with the growing of demand of vehicles and their spare parts, it is expected to grow at a CAGR of 4.77% by 2027. The major factors contributing the growth are the increasing infrastructural and construction activities. The automotive lubricant segment constitutes a large contributor of Indian lubricant market. Automotive industry is expected to grow at a CAGR of 3.9% by 2027. Over the short-term lubricants manufacturing and marketing in India is stable with projected growth now reducing to 2-3% over the next 5 years. Although it is expected that the market will become more competitive, growth is still expected even with the arrival or electric vehicles.

Growth Drivers

- Personal mobility: With the growth of new segments such as SUVs, increasing usage of passenger vehicles in smaller towns and a high percentage of personal vehicle owners being first-time users,
- With adoption of BS-VI specifications, the need for advanced engine oils is expected to rise.

- Stricter emission norms resulting in newer technologies for trucks,
- Growing farm mechanization in the Indian agricultural sector,
- Original Equipment Manufacturer (OEM) alliances,
- Apart from mobility, new age energy storage solutions are also an emerging area.
- Digitally enabled service ecosystems are an emerging business opportunity.

India's Lubricant Industry



(Source: GOLIL AR-FY21)

What could go wrong?

- Stiff competition in the lubricants market, slowdown in volume growth due to lower demand/high refill intervals due to technology improvement and poor growth in auto industry and strict government's emission norms are key concerns.
- Supply disruptions on account of base oil and raw materials availability, logistics challenges and rupee depreciation are likely to adversely impact demand and supply.
- High competitive pressures in domestic market, largely dominated by PSU oil marketing companies, apart from established private players in the industry. GOLIL's realization per liter is below that of Castrol, suggesting higher brand pull of Castrol and higher passenger vehicles lube sales by Castrol compared to GOLIL.

- The company's operation could continue to depend on demand indicators from the Automobile sector. Over the last two to three years' demand in the automobile sector has been stagnant. Any further fall in demand in the industry could impact its volume growth going forward.
- Base oil is a crude oil based product and thus its prices are volatile in nature. Though directionally the base oil prices follow crude oil prices, timing wise and proportion wise, it may vary with that of crude oil trend. Hence, the profitability of the company is contingent upon its ability to pass on any fluctuations in input prices to its end-users.
- The company meets about 65-70% of its base oil requirement through imports. Moreover, owing to limited exports, it lacks any natural hedge against forex fluctuations. However, it follows a hedging policy as advised by forex consultants whereby it always keeps its exposures hedged by 80-85%.
- As per the Trademark License & Technical and Marketing service Agreement with Gulf Oil International (Mauritius) Inc. (promoter), the company is under obligation to pay royalty fee for the "Gulf" brand name. The royalty fee payable may change depending upon economic developments and as per business requirements. Any rise in royalty fee could impact its profitability going forward.
- Growing popularity of Electric Vehicles could dampen the demand for lubricants as EVs have very less moving parts and hence require minimal lubrication. The company remains exposed to the growing acceptance of electric vehicles around the world which could have some bearing on demand for lubricants. In India, though, broad-based adoption and penetration of electric vehicles is still quite some time away given the issues around infrastructure for maintaining/charging them, high-cost, limited government funding and slower regulatory push. India's passenger mobility segment is evolving with a growing electric vehicle (EV) market. Buses and Three wheelers have been early adopters of EVs; these have not been the focus areas for GOLIL in the past. Scooters (~30% of 2W sales) have also seen adoption of EVs; GOLIL is more present in motorcycles than in scooters and hence less impacted so far.
- GOLIL has invested excess cash into deposits with other Hinduja group companies, though at market interest rates. Any setback in the borrower companies could impact GOLIL's ability to recover the money and put theme to use for its own business.
- Higher sales of low value and low margin Ad Blue has impacted the blended margins of GOLIL, though the absolute profits have risen.

Company Profile:

Gulf Oil Lubricants India Ltd. (GOLIL), a Hinduja group company is an established lubricant company and is engaged in the business of manufacturing, marketing and trading of automotive and non-automotive lubricants. The company sells its products under the "Gulf" brand and with sales largely to the automotive sectors, industrial clients and supplies directly to OEMs and other B2B customers (Industries, Infrastructure, Mining & Fleet Customers, State Transport and Government Undertakings). GOLIL was formed by the demerger of the lubricants business of Gulf Oil Corporation Limited (GOCL) w.e.f. April 1, 2014. GOLIL is the only listed company among all subsidiaries of Gulf Oil Corporation, US.

The company's manufacturing facility is located at Silvassa with an installed capacity of 90,000 KLPA (kilo litres per annum) which was augmented from 75,000 KLPA in FY2016. The company also commissioned a greenfield project in Chennai with manufacturing capacity of 50,000 KLPA in December 2017. The company's manufacturing units is accredited with both ISO 9001:2008 and ISO 14001:2004 certification. This manufacturing facility employs process logic control systems and ensures that products manufactured meet the necessary levels of quality and consistency.

Out of its total sales 40-45% is B2B, while the rest is B2C. GOLIL is not present in process oils. Barely 5% of its sales comes from exports which represent sales to group companies for sales in neighbouring countries and sales of cobranded lubes (with OEMs) in their countries of destination.

Segment wise Volume-%

%	FY21	Q1FY23
Diesel Vehicles	37	41
Personal Mobility	24	21
Industrial	15	14-15
Others	24	23-24

Channel Network

Nos	FY21
Touchpoint	75000
Distributors	300
Depots	30
Infra Mining &Fleet Customers	750
Independent Work Shops	
Bike Stops	8000
Car Stops	2000
B2B Industrial Network	
Direct Industries	200
Industrial Distributors	5
Gulf Rural Stockists	1000

Key Operating Metrics

KL	FY18	FY19	FY20	FY21	FY22
Capacity	**140000**	**140000**	**140000**	**140000**	**140000**
Silvasa	90000	90000	90000	90000	90000
Chennai	50000	50000	50000	50000	50000
Sales Volume	**94000**	**119000**	**111000**	**115000**	**133928**
Capacity Utilisation-%	67.14	84.00	78.00	82.00	95.70
Sales/Ltr	**141.73**	**143.34**	**148.12**	**143.67**	**163.56**
Sales-Cr	**1332.26**	**1705.8**	**1644.15**	**1652.21**	**2191.64**

Hinduja Group

Gulf is a part of the Hinduja Group, one of the world's largest and most diverse business conglomerates. The Hinduja Group is a family business that has been in operation since 1914, and has businesses in diversified fields of Automotive, Information Technology, Media, Entertainment & Communications, Infrastructure Project, Development, Oil & Specialty Chemicals, Power, Real Estate and Healthcare, spanning across continents, with a workforce that is over 200,000 employees strong. Among the Hinduja group companies, Ashok Leyland, IndusInd Bank, Gulf Oil Lubricants, HGS, Nxt Digital, and GOCL Corp are listed in Indian Stock Exchange. The Hinduja Group acquired Gulf Oil International Ltd, US in 1984.

Business Overview

Product portfolio:

Automotive Lubricants: GOLIL has developed a wide range of engine oil, gear oils, greases and specialities for Bikes, Scooters, Cars, Light and Heavy Commercial Vehicles & Tractors.

Commercial Vehicles: Ashok Leyland (India's No.2 & Global No.3)

Tractor: Mahindra (Global No. 1) & Sonalika (India's largest exporter)

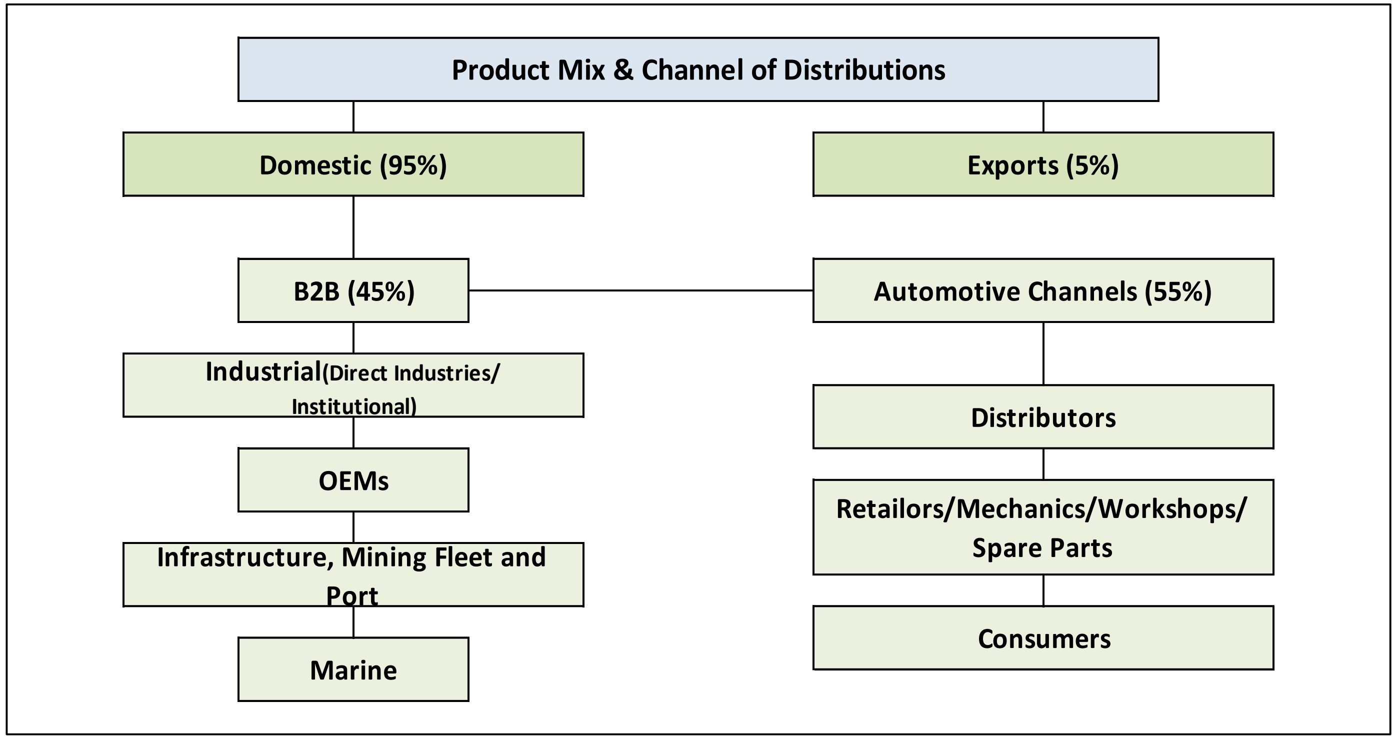
Motorcycle: Bajaj (India's No 2, Global No 3 & India's largest exporter)

Industrial Lubricants: GOLIL provides a range of industrial applications like Hydraulic Oils, Bearing and Circulating Oil, Industrial gear Oil, Metal Working fluids, Turbine Oil, Compressor Oil, Refrigeration Oil, Rust Preventives, Quenching Oil, Greases, Thermic Fluid and slideway Oils.

Batteries: GOLIL's journey with batteries began in 2013, with an aim to close the large gap between demand and supply for quality batteries in the two-wheeler segment. Since its launch, Gulf Pride batteries have won the trust of over 2 million customers. The Gulf Pride range of two-wheeler batteries is designed using advanced VRLA technology. It recorded sales of ~Rs.80 cr in FY22 and expects this to double over the next two years.

Marine: GOLIL is an established marine lubricant supplier to the global shipping industry. Since 2008, the company has been engaged in to providing the shipping industry with high quality marine lubricants, along with a large range of complementary technical services. In India, Gulf Oil has been supplying quality Marine Products through its Blend Plant at Silvassa and a number of depots spread across various ports in India.

Route to Market (RTM)



OEM Partners:

- ASHOK LEYLAND 2006-07
- VOLVO PENTA 2006-07
- Mahindra Rise. 2010-11
- BHARATBENZ 2012-13
- SWARAJ 2013-14
- TOSHIBA 2013-14
- SCHWING Stetter 2014-15
- WHITMORE A CSW Industrials Company 2014-15
- BAJAJ Distinctly Ahead 2016-17
- KOBELCO 2017-18
- FORCE MOTORS 2017-18
- TATA 2018-19

Peer Comparison

Company	Mkt Cap-Cr	Sales			EBITDA			PAT			RoE-%			P/E-x		
		FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Gulf Oil Lub	2244	1644	1652	2192	287	265	286	203	200	211	30.0	24.5	22.1	11.1	11.2	10.6
		CY19	CY20	CY21	CY19	CY20	CY21	CY19	CY20	CY21	CY19	CY20	CY21	CY19	CY20	CY21
Castrol India	11400	3,877	2,997	4,192	1,153	814	1,066	827	583	758	60.5	41.2	46.1	13.7	19.5	15.0

Financials (Standalone)

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**1644**	**1652**	**2192**	**2766**	**3025**
Growth (%)	-3.6	0.5	32.6	26.2	9.4
Operating Expenses	1357	1387	1906	2434	2653
EBITDA	**287**	**265**	**286**	**332**	**372**
Growth (%)	**1.5**	**-7.7**	**7.7**	**16.3**	**12.1**
EBITDA Margin (%)	**17.5**	**16.1**	**13.0**	**12.0**	**12.3**
Depreciation	33	34	36	37	38
EBIT	**254**	**231**	**250**	**295**	**334**
Other Income	35	52	44	43	41
Interest expenses	25	15	10	25	23
PBT	**265**	**269**	**284**	**313**	**352**
Tax	62	69	73	80	90
RPAT	**203**	**200**	**211**	**233**	**262**
APAT	**203**	**200**	**211**	**233**	**262**
Growth (%)	13.9	-1.2	5.5	10.5	12.4
EPS	41.3	40.8	43.1	47.6	53.5

Balance Sheet

As at March	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	10	10	10	10	10
Reserves	751	859	1033	1192	1373
Shareholders' Funds	**761**	**869**	**1043**	**1202**	**1383**
Long Term Debt	11	6	21	11	6
Net Deferred Taxes	14	13	12	13	14
Long Term Provisions & Others	5	6	6	6	6
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**792**	**894**	**1081**	**1232**	**1409**
APPLICATION OF FUNDS					
Net Block & Goodwill	280	254	273	282	280
CWIP	1	4	3	3	3
Other Non-Current Assets	38	59	69	69	70
Total Non Current Assets	**319**	**317**	**345**	**354**	**353**
Current Investments	0	0	0	0	0
Inventories	328	377	476	606	663
Trade Receivables	187	189	296	364	390
Cash & Equivalents	551	496	574	543	638
Other Current Assets	62	68	101	86	77
Total Current Assets	**1128**	**1129**	**1447**	**1599**	**1768**
Short-Term Borrowings	365	206	369	354	339
Trade Payables	259	290	271	303	315
Other Current Liab & Provisions	31	56	71	64	58
Total Current Liabilities	**655**	**552**	**711**	**721**	**712**
Net Current Assets	**473**	**577**	**736**	**877**	**1056**
Total Application of Funds	**792**	**894**	**1081**	**1232**	**1409**

(Source: Company, HDFC sec)

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	265	269	284	313	352
Non-operating & EO items	3	5	4	-43	-41
Interest Expenses	-8	-36	-34	25	23
Depreciation	33	34	36	37	38
Working Capital Change	28	-23	-238	-158	-69
Tax Paid	-84	-55	-76	-80	-90
OPERATING CASH FLOW (a)	**237**	**194**	**-24**	**95**	**214**
Capex	-18	-8	-25	-45	-35
Free Cash Flow	229	241	172	431	317
Investments	0	-14	-14	-4	-4
Non-operating income	34	52	21	47	44
INVESTING CASH FLOW (b)	**16**	**30**	**-17**	**-2**	**5**
Debt Issuance / (Repaid)	63	-152	158	-25	-20
Interest Expenses	-16	-18	-7	-25	-23
FCFE	79	120	18	373	262
Share Capital Issuance	11	7	4	0	0
Dividend	-42	-104	-45	-74	-81
Other	-10	-10	-12	0	0
FINANCING CASH FLOW (c)	**5**	**-277**	**98**	**-124**	**-124**
NET CASH FLOW (a+b+c)	**257**	**-54**	**57**	**-31**	**95**

Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratio (%)					
EBITDA Margin	17.5	16.1	13.0	12.0	12.3
EBIT Margin	15.5	14.0	11.4	10.7	11.0
APAT Margin	12.3	12.1	9.6	8.4	8.7
RoE	30.0	24.5	22.1	20.8	20.3
RoCE	39.1	40.4	33.5	28.0	27.5
Solvency Ratio (x)					
Net Debt/EBITDA	-0.6	-1.1	-0.6	-0.5	-0.8
Net D/E	-0.2	-0.3	-0.2	-0.1	-0.2
PER SHARE DATA (Rs)					
EPS	41.3	40.8	43.1	47.6	53.5
CEPS	48.0	47.7	50.4	55.1	61.2
Dividend	14.0	16.0	5.0	15.0	16.5
BV	155.3	177.4	212.8	245.3	282.2
Turnover Ratios (days)					
Debtor days	42	42	49	48	47
Inventory days	73	83	79	80	80
Creditors days	57	64	45	40	38
VALUATION (x)					
P/E	11.1	11.2	10.6	9.6	8.6
P/BV	2.9	2.6	2.2	1.9	1.6
EV/EBITDA	7.2	7.4	7.2	6.2	5.2
EV / Revenues	1.3	1.2	0.9	0.7	0.6
Dividend Yield (%)	3.1	3.5	1.1	3.3	3.6

One Year Price Chart

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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