Pick of the Week

Castrol India Ltd.

Feb 10, 2025

Castrol India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Lubricants	Rs 209.8	Buy in Rs 207-213 band and add on dips in Rs 190-194 band	Rs 230	Rs 247	2-3 quarters

HDFC Scrip Code	CASINDEQNR
BSE Code	500870
NSE Code	CASTROLIND
Bloomberg	CSTRL IN
CMP Feb 07, 2025	209.80
Equity Capital (Rs Cr)	494.5
Face Value (Rs)	5
Equity Share O/S (Cr)	98.9
Market Cap (Rs Cr)	20,753.4
Book Value (Rs)	23.0
Avg. 52 Wk Volumes	1104306
52 Week High	284.4
52 Week Low	162.8

Share holding Pattern % (Dec, 2024)	
Promoters	51.0
Institutions	24.0
Non Institutions	25.0
Total	100

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Our Take:

Castrol India is an automotive and industrial lubricant manufacturing company, supported by a strong distribution network reaching over 1 lakh retail outlets, 350 distributors, and holds 600 Castrol Auto Service Centers (CAS). The company owns and operates 3 manufacturing plants in India, located in Patalganga (Maharashtra), Paharpur (West Bengal) and Silvassa (Union Territory). The company produces various kinds of oil lubricants and other fluids for cars, motorcycles, commercial vehicles and others. The company owns around 20% market share in the overall Indian lubricants market. In 2W, 4Ws and CVs, Castrol has ~27%, ~38% and ~20% market share respectively.

Given the rapid pace of industrialization and good growth in automobile sales, we expect a growth prospects for lubricants market and business growth of Castrol over the medium term to long term. Castrol has high pricing power and commands premium for its products. Castrol is also expecting the volume growth above the market rates of 4-5% over the next 2-3 years.

Governments worldwide are reducing EV subsidies as new environmental impact assessments reveal that battery production and coal-powered charging may offset some of EVs' environmental benefits. In response, policymakers are shifting toward technology-neutral approaches that support various solutions including improved conventional engines, hybrids, and alternative fuels. Major markets like Germany, the US, and China have scaled back EV incentives while prioritizing infrastructure development, causing automakers to revise production plans and pricing strategies.

Castrol India is pivoting from its traditional automotive lubricants business to address the growing demand for advanced cooling solutions in data centers, driven by AI and machine learning's heat management challenges. With India's data center capacity expected to double by 2026 and backed by major tech investments, Castrol is leveraging its fluid technology expertise to develop innovative thermal management solutions, positioning itself for growth in this emerging sector.

Castrol remains focused on brand building, widening its distribution network, and launching new products, it will contribute to volume growth and market share expansion. An improved product mix, strict cost-control measures, and the launch of advanced products that command better realization, could help to increase profitability going forward.

Valuation & Recommendation:

The exponential growth in AI and machine learning has intensified the need for advanced cooling solutions in data centers, as more powerful processors generate unprecedented levels of heat. Castrol India is strategically pivoting from its conventional focus to address this emerging opportunity, leveraging its extensive expertise in fluid technology to develop innovative thermal management solutions for data centers.

While pursuing this new direction, Castrol maintains its strong market position with flagship brands like MAGNATEC and VECTON, which serve millions of consumers across India. The company continues to operate successfully in high-performance lubricants and metalworking fluids, serving diverse industries including automotive manufacturing, mining, machinery, and wind energy. Additionally, Castrol is capitalizing on emerging trends such as the surge in SUV and CNG-powered vehicles, the growing demand for premium thin viscometric lubricants, and the expansion of e-commerce and service-based businesses. Despite recent slow growth, the company remains committed to long-term investment in India, demonstrating confidence in both its traditional markets and new technological ventures.

Investors can buy in the Rs 207-213 band and add on dips in the Rs 190-194 band (17.5x CY26E EPS). We believe the base case fair value of the stock is Rs 230 (21x CY26E EPS) and the bull case fair value of the stock is Rs 247 (22.5x CY26E EPS) over the next 2-3 quarters. At the LTP of Rs 209.80, the stock is trading at 19.1x CY26E EPS.

Financial Summary:

Particulars (Rs cr)	Q4CY24	Q4CY23	YoY-%	Q3CY24	QoQ-%	CY22	CY23	CY24	CY25E	CY26E
Total Operating Income	1354	1264	7.1	1288	5.1	4774	5075	5365	5649	6006
EBITDA	376	329	14.2	286	31.4	1111	1198	1278	1361	1496
Depreciation	25	25	1.6	25	3.7	81	92	100	104	114
Other Income	23	22	4.0	21	10.9	67	83	89	85	90
Interest Cost	3	2	34.0	2	32.0	4	8	9	7	6
Tax	100	82	20.8	73	36.3	278	317	330	347	381
APAT	271	242	12.2	207	30.8	815	864	927	988	1085
Diluted EPS (Rs)	2.7	2.4	12.2	2.1	30.8	8.2	8.7	9.4	10.0	11.0
RoE-%						46.2	43.1	42.1	42.0	43.0
P/E (x)						25.5	24.0	22.4	21.0	19.1
EV/EBITDA						17.6	16.3	15.1	14.2	12.9

(Source: Company, HDFC sec)

Q4CY24 Result Update

- Castrol revenue grew by 7.1% YoY to Rs 1354 crore led by healthy volume growth. Volume increased by 7.3% YoY to 59 mn ltrs in Q4CY24.
- For CY24, revenues reached Rs 5,364.9 crores, representing a 5.7% growth on YoY basis. Volume grew 6.8% YoY to 234 mn ltrs in CY24.
- EBITDA was up 14.2% YoY to Rs 376 crore, and EBITDA margin increased by 180bps YoY to 27.8% in Q4CY24.
- Net Profit grew 12.2% YoY to Rs 271.4 crore and PAT margin stood at 20% in Q4CY24 vs. 19.1% in Q4CY23.

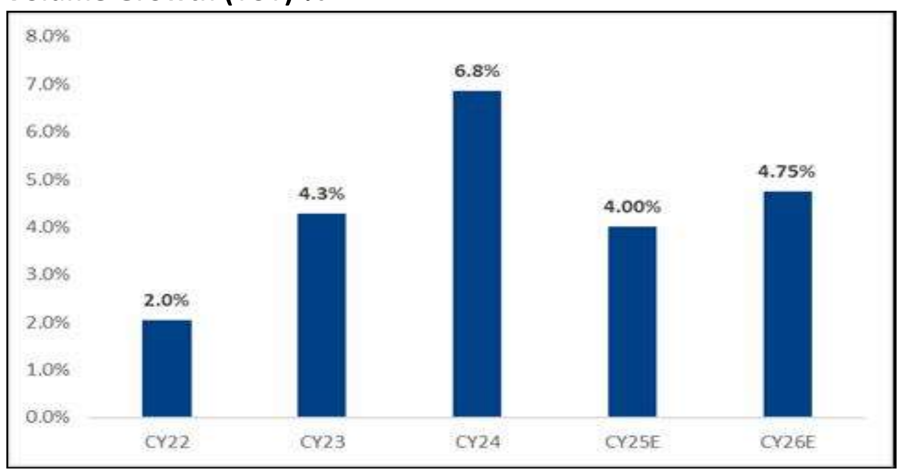
Key Updates

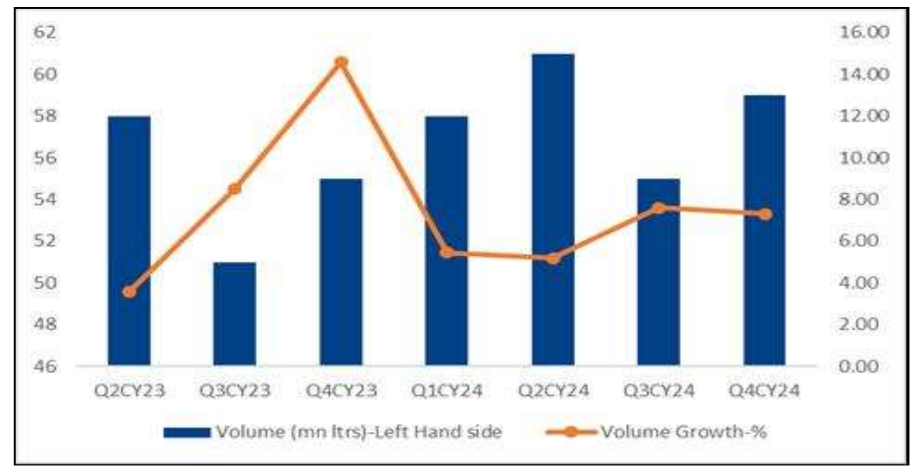
Expectation of more volume recovery

Castrol reported robust volume growth in Q4CY24 and volume grew over the seven consecutive quarters, grew 7.3% on YoY basis to 59 mn ltrs in vs. 55 mn ltrs in Q4CY23. Volume growth in CY24 was at 234 mn ltrs, grew 6.8% YoY. The company's recent introduction of mass-market products and rural focus may help mitigate the effect of electrification. The company is focused on volume growth while maintaining margins and emphasis on premiumization of products. Current market share in the retail automotive market is around 20% plus, with a strategy to maintain premium pricing while introducing products in lower segments.

The company launched three new variants of Castrol EDGE for SUVs, hybrids, and European vehicles through a 360-degree marketing campaign featuring Shah Rukh Khan and expanded the Auto Care range with the launch of Shiner Sponge for bike and car care segments, now available in over 45,000 outlets and online platforms. The company introduced Castrol CRB TURBOMAX+ CK4, a top-tier truck lubricant tested on key Indian OEM vehicles for 100,000 kilometers in current year. Besides, the company introduced four new rust-prevention products: Castrol Rustilo, DW 800, 806, 809, and 81 and expanded Auto care range with two new products. The company's strategy by introducing new products or variants and launching an effective marketing campaign could boost its volume growth going forward. The company is focused on brand building, widening the distribution network, and launching new products, it will contribute volume growth and market share expansion. We expect Castrol's lubricants volume to increase by 4% and 4.8% in CY25E and CY26E, respectively.

Volume Growth (YoY)-%





(Source: Company, HDFC sec)

Increase in capacity utilization, network expansion, strong relationship with clientele and new product launches

- Castrol is focused on optimizing its manufacturing facilities, located in Silvassa with an installed capacity of 95 mn ltrs, Patalganga with an installed capacity of 125 mn ltrs, and Paharpur with an installed capacity of 62 mn ltrs.
- Castrol's alliance with the Jio-BP retail network provides long-term volume growth opportunities and scope for market share gain while focusing on diversifying the revenue stream (auto services) to strengthen its business efficiency effectively. Moreover, parent BP's focus on EV batteries could provide Castrol India an edge (in the supply of EV fluids) in India's transition towards EVs.
- The company reached over 36,000 workshops and retail outlets in rural Indiaas this market will remain a key focus area due to growing car ownership and more than 50% sales of 2Ws in rural markets.
- National presence expanded to over 143,000 outlets, including 600 Castrol Auto Service Centers (CAS).
- Castrol has exhilarated from the launch and placement of the auto care product range in 21,000 outlets and e-commerce platforms, the triumph of MAGNATEC SUV 5W-30, and the redefinition of commercial vehicle oils with Castrol CRB ESSENTIAL.
- The company has been focused on consistent & effective brand-building campaigns across categories and its effective Advertisements resulting in the mass appeal of brands across all segments and geographies.
- The company is focused on high-quality product delivery to automotive and industrial sectors and planning to expand footprint in rural India with innovative services and products.
- Castrol's ongoing investments in R&D for data center solutions and liquid cooling technologies and collaboration with global teams for technology development, is focused on commercial viability and customer engagement. The company is optimistic about the transition to electric vehicles (EVs) and new product applications in coolants and transmission fluids.
- Castrol India has been engaging with OMC and auto manufacturers to sell and develop its products over the periods. The company has entered into strategic partnerships with Ford India, Honda two-wheelers, Jawa Motorcycles, Renault India and Honda Motorcycle & Scooter India Pvt. Ltd. The alliance for supply of exclusive after sales engine oil lubricants are an extension of a global strategic partnership between these auto manufacturers and Castrol.
- Electric vehicles (EVs) sales on the passenger vehicles are growing at a good clip but the volumes are still very small. Castrol launched EVs fluid and started to supply to two of the biggest original equipment manufacturers (OEMs) in the car segment. Its business scale up will take another 5-6 years before it becomes of any material scale.

(Source: Company, HDFC sec)

Castrol EDGE launches new product line to generate incremental revenue going forward

Castrol India launched an intriguing new product line under the Castrol EDGE brand in June 2024. The passenger car market now has three new varieties of this premium and advanced engine oil specifically formulated to meet the changing needs of car buyers. The revolutionary Castrol EDGE is designed to outperform strict industry standards by at least 30%. EDGE SUV for high performance and premium SUVs, EDGE Euro Car for top European OEMs including Audi, BMW, Mercedes, Jaguar, Land Rover, Volkswagen, Skoda, and Porsche, and EDGE Hybrid specifically designed for hybrid engines are among the products being introduced.

Investment in Data Centre business, seeing big opportunity

Globally, Castrol has called out data centre thermal management. Castrol has set up a research and development (R&D) centre at its global headquarters in the UK, where Castrol BP is investing about 15 million pounds. Recognizing the need for advanced cooling solutions in rapidly expanding data centres, Castrol India is leveraging its expertise in fluid technology to innovate in this new domain. and expects data centres could become huge consumers of energy in the future to operate at much higher speeds and capacities.

India has emerged as a global epicenter for data center investments, fuelled by increasing digital adoption and favourable government policies. With the rise of AI and machine learning, data centres are being equipped with more powerful components like GPUs, which generate significantly more heat.

The rollout of 5G networks is expected to significantly boost data consumption, with Indian users increasingly engaging in online OTT content, gaming, shopping, smart home automation, and online security cameras. This surge in data usage demands advanced data centre infrastructure. The capacity of tier 3 data centres is projected to grow from 888.5 MW in 2022 to 3,365.0 MW by 2029, while tier 4 data centres are expected to expand from 211.9 MW in 2022 to 1,380.2 MW by 2029. This rapid growth is attracting a diverse range of players, including established industry giants and newcomers. Seizing this opportunity, Castrol India has also ventured into this burgeoning market.

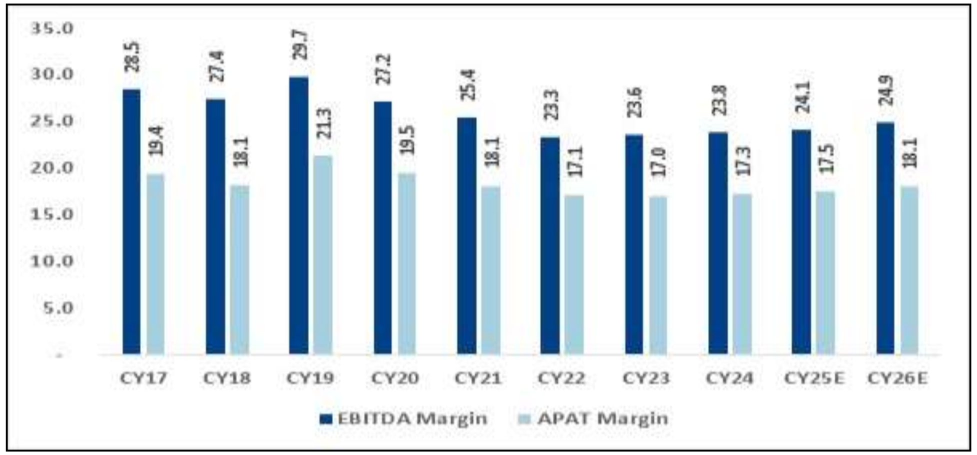
Castrol's strategic expansion is to explore and enhance thermal management technologies that can improve efficiency and reduce environmental impacts. The company is working with some of the data centres now in terms of bringing that technology to commercial use and investing Rs 500 crores in R&D for thermal management fluids relevant to data centers globally.

Lower crude oil price to expand its margins going forward

Castrol EBITDA margin ramped up by 180bps YoY to 27.8% in Q4CY24, supported by strong revenue growth and cost rationalization efforts in the quarter. EBITDA margin for FY24 maintained at 22-25%, amid fluctuating input costs and strategic pricing interventions. Castrol's margin outlook has improved as price of key raw materials (base oil and additives – crude derivatives) have declined in line with the fall in the crude oil prices. Castrol's management expects EBITDA margins to sustain this range in FY25 between 22-25% as rising personal vehicle penetration and higher sales of premium products could offset margin impact from adverse product mix.

With the falling trend in crude oil prices, raw material costs (base oil prices) are not expected to remain soft, aiding the improvement in If the Brent crude price sustains in the range of USD 70-75/bbl, base oil prices could fall further, increasing Castrol's gross margins. We expect EBITDA margin at 24%/24.9% for CY25E/CY26E, respectively.

Margins



Strong fundamentals supported by healthy liquidity, zero debt and high dividend payout

- Castrol's financial profile has been robust led by debt free balance sheet, healthy cash generating ability and consistent dividend payment to shareholders over the past. Financial flexibility is strong, supported by robust liquidity.
- Castrol's revenues rose from Rs 3381 crore (CY14) to Rs 5365 crore (CY24) - ~5% CAGR over the period and CY20 was an exceptional year, due to Covid pandemic and revenue stood at Rs 2,997 crore. We expect revenue growth at 4%/4.8% for CY25E/26E, respectively. The company reported EBITDA margin at a range of 23-30% and PAT margin at a range of 17-21% over the last six years.
- Castrol's working capital has remained positive and the capex has also remained stable over the years. However, the growth is slowing down due to market saturation, improved product quality requiring late replacement of lubes and electrification of vehicles in India.
- The company has almost negligible debt to equity status and the company has no further plan 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 Dec 31, 2024, the company has cash and cash equivalent of ~Rs 1400 crore and free cash flow to Enterprise value stood at ~5% in CY24 vs ~4% in CY23.
- Castrol is also expected to invest in niche business, like Data Centre to strengthen its revenue generating capability. These will be largely funded from its cash surplus and healthy accruals.
- The company Proposed final dividend of 9.5 per equity share, totaling Rs 13 per share for the year, which includes a special dividend of Rs 4.5 to celebrate 125 years of global Castrol, yield stood at 6.2%.
- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future. Rise in net profit margin could help to increase its return ratios, we expect RoE at 42-43% for FY25E to FY26E, respectively.

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. Besides, Significant INR depreciation could impact the growth of Company as the raw material is priced based on import parity in local Rupees.
- There is normal trend of some OEMs introducing lubricants under their own brand name, further impacting the competitive landscape. The country's largest passenger carmaker Maruti Suzuki India (MSIL) launched Ecstar, Suzuki's global brand of lubricants, coolant and car care products in the country.
- Crude oil prices are now on the up. Base oil prices will depend not only on crude, but will also depend on the capacity of the market and supply and demand situation. Increase in input costs could impact its margins.
- Growing popularity of Electric Vehicles could dampen the demand for lubricants as EVs have very less moving parts and hence require minimal lubrication. However, the company has launched Castrol EV fluids.

Financials

Income Statement

(Rs Cr)	CY22	CY23	CY24	CY25E	CY26E
Net Revenues	**4774**	**5075**	**5365**	**5649**	**6006**
Growth (%)	13.9	6.3	5.7	5.3	6.3
Operating Expenses	3663	3877	4087	4288	4511
EBITDA	**1111**	**1198**	**1278**	**1361**	**1496**
Growth (%)	4.2	7.8	6.7	6.5	9.9
EBITDA Margin (%)	**23.3**	**23.6**	**23.8**	**24.1**	**24.9**
Depreciation	81	92	100	104	114
EBIT	**1030**	**1105**	**1178**	**1258**	**1382**
Other Income	67	83	89	85	90
Interest expenses	4	8	9	7	6
PBT	**1093**	**1181**	**1258**	**1336**	**1466**
Tax	278	317	330	347	381
RPAT	**815**	**864**	**927**	**988**	**1085**
Growth (%)	**7.5**	**6.0**	**7.3**	**6.6**	**9.8**
EPS	8.2	8.7	9.4	10.0	11.0

Balance Sheet

As at Dec	CY22	CY23	CY24	CY25E	CY26E
SOURCE OF FUNDS					
Share Capital	495	495	495	495	495
Reserves	1391	1627	1784	1931	2126
Shareholders' Funds	**1886**	**2122**	**2278**	**2426**	**2621**
Long Term Debt	41	59	62	52	42
Net Deferred Taxes	-69	-78	-85	-81	-77
Long Term Provisions & Others	23	23	25	26	27
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**1881**	**2126**	**2280**	**2423**	**2613**
APPLICATION OF FUNDS					
Net Block	261	259	319	349	350
CWIP	61	108	60	66	76
Other Non-Current Assets	445	651	609	639	661
Total Non Current Assets	**767**	**1018**	**987**	**1054**	**1086**
Inventories	534	533	524	542	576
Trade Receivables	350	423	438	433	461
Cash & Equivalents	1218	1200	1399	1429	1531
Other Current Assets	131	168	202	172	146
Total Current Assets	**2234**	**2324**	**2563**	**2576**	**2713**
Short-Term Borrowings	9	18	20	17	14
Trade Payables	679	706	704	696	741
Other Current Liab & Provisions	432	491	547	494	432
Total Current Liabilities	**1119**	**1215**	**1270**	**1207**	**1186**
Net Current Assets	1115	1108	1293	1369	1527
Total Application of Funds	**1881**	**2126**	**2280**	**2423**	**2613**

(Source: Company, HDFC sec)

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Cash Flow Statement

(Rs Cr)	CY22	CY23	CY24	CY25E	CY26E
Reported PBT	1,093	1,181	1,258	1,336	1,466
Non-operating & EO items	26	11	23	-85	-90
Interest Expenses	-41	-42	-59	-58	-61
Depreciation	81	92	100	104	114
Working Capital Change	30	-71	37	-20	-18
Tax Paid	-274	-319	-314	-347	-381
OPERATING CASH FLOW (a)	**916**	**853**	**1,044**	**929**	**1,030**
Capex	-110	-92	-93	-135	-120
Free Cash Flow	806	761	951	794	910
Investments	-325	-163	-240	0	-3
Non-operating income	497	3	66	85	90
INVESTING CASH FLOW (b)	**62**	**-251**	**-267**	**-51**	**-33**
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	41	42	59	58	61
FCFE	847	804	1,010	852	971
Share Capital Issuance	0	0	0	0	0
Dividend	-636	-687	-852	-906	-957
FINANCING CASH FLOW (c)	**-595**	**-644**	**-793**	**-848**	**-896**
NET CASH FLOW (a+b+c)	**383**	**-43**	**-16**	**30**	**101**

Key Ratios

Particulars	CY22	CY23	CY24	CY25E	CY26E
Profitability Ratio (%)					
EBITDA Margin	23.3	23.6	23.8	24.1	24.9
EBIT Margin	21.6	21.8	22.0	22.3	23.0
APAT Margin	17.1	17.0	17.3	17.5	18.1
RoE	46.2	43.1	42.1	42.0	43.0
RoCE	53.9	49.9	49.2	48.6	48.8
Solvency Ratio (x)					
Net Debt/EBITDA	-1.1	-0.9	-1.0	-1.0	-1.0
Net D/E	-0.6	-0.5	-0.6	-0.6	-0.6
PER SHARE DATA(Rs)					
EPS	8.2	8.7	9.4	10.0	11.0
CEPS	9.1	9.7	10.4	11.0	12.1
BV	19.1	21.4	23.0	24.5	26.5
Dividend	6.5	7.5	13.0	8.5	9.0
Turnover Ratios (days)					
Debtor days	26.8	30.4	29.8	28.0	28.0
Inventory days	40.9	38.3	35.7	35.0	35.0
Creditors days	51.9	50.8	47.9	45.0	45.0
VALUATION (x)					
P/E	25.5	24.0	22.4	21.0	19.1
P/BV	11.0	9.8	9.1	8.6	7.9
EV/EBITDA	17.6	16.3	15.1	14.2	12.9
EV / Revenues	4.1	3.9	3.6	3.4	3.2
Dividend Yield (%)	3.1	3.6	6.2	4.1	4.3

HDFC securities
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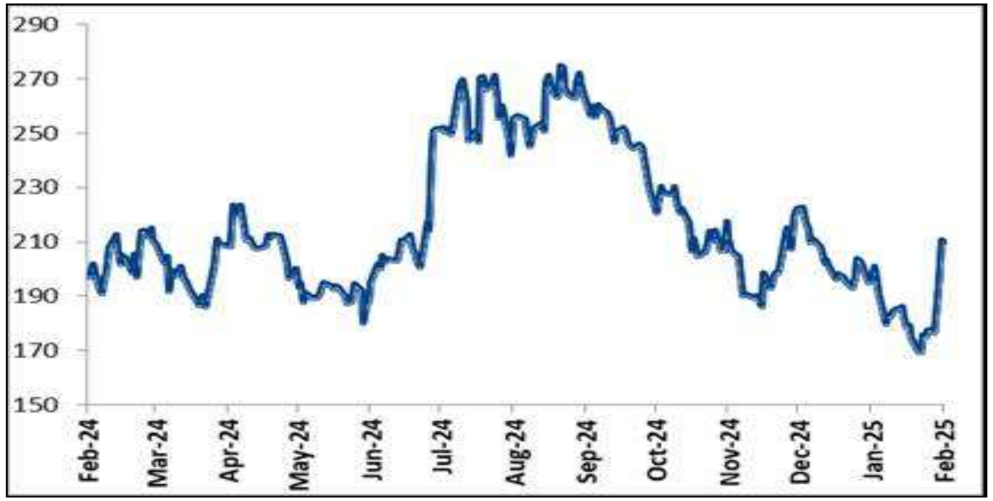
One Year Price chart



HDFC Sec Prime Research Rating description

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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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