

# Stock Update

## Savita Oil Technologies Ltd.

February 26, 2024





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Lubricants	Rs. 445.20	Buy in the Rs. 440-450 band & add more on dips to Rs. 397-405 band	Rs. 493	Rs. 524	2-3 quarters

HDFC Scrip Code	SAVOIL
BSE Code	524667
NSE Code	SOTL
Bloomberg	STEC IN
CMP Feb 23, 2024	445.2
Equity Capital (Rs Cr)	13.8
Face Value (Rs)	2.0
Equity Share O/S (Cr)	6.9
Market Cap (Rs Cr)	3076.4
Book Value (Rs)	220.6
Avg. 52 Wk Volumes	170,427
52 Week High	474.0
52 Week Low	232.0

Share holding Pattern % (Dec, 2023)	
Promoters	71.9
Institutions	8.8
Non Institutions	19.3
Total	100.0



\* Refer at the end for explanation on Risk Ratings

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### Our Take:

Savita Oil Technologies (SOTL), is a petroleum specialty company, with a diversified portfolio of products specialising in Transformer Oils, White Mineral Oils, Lubricating and Automotive Oils and Specialty Polymer products (petroleum jelly, waxes, emulsions). SOTL also has a Renewable Energy Division with a portfolio focused on Wind Energy with a capacity of 53 MW. The products manufactured have wide industrial applications in pharmaceuticals, cosmetics, plastic, power, industrial and automotive industries. SOTL operates four world-class manufacturing facilities across Navi Mumbai and Mahad in Maharashtra and Silvassa (Kharadpada and Silli), with combined refining capacities of 450,000-475,000 kilolitres per annum. With a sales volume more than 3,86,000 KL, SOTL is one of the largest manufacturers of Petroleum Specialty Oils and Lubricants in India. It is the market leader in Transformer Oil and White Oils.

SOTL is one of the major players in auto and industrial lubricants sector and has been in the business of manufacturing lubricants for over 60 years. It has tied up with Tata motors, M&M, Swaraj tractors for OEM supply. It has taken the initiative to sell Farm based bio-degradable oils even though these are slightly expensive. We expect that SOTL could report revenue growth of ~5% for FY25E and FY26E, respectively.

### Valuation & Recommendation:

SOTL has a balanced product portfolio with increasing proportion of its white oils and lubricating oils business. Sustained growth in performance of its key business segment of transformer oils along with longstanding client relationships, should support topline growth. We expect improvement in both volumes and realisations on account of recovery in auto industry, benefits accruing from stable global base oil prices and potential of increased market share due to consumer shift towards organised sector.

The company reported robust performance in Q3FY24. SOTL is investing in setting up manufacturing facilities for new products and capacity expansion. Its margins have improved post-acquisition of Savita Polymers in FY23, and they have improved even more post rise in volumes, realisations and better product mix. 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 and local peers and the company has been consistently paying dividend and offered buybacks to the shareholders in the recent past.

**Investors could buy in the Rs 440-450 band and add more on dips to Rs. 397-405 band (9.75x FY26E EPS). Base case fair value of the stock is Rs 493 (12x FY26E EPS) and the bull case fair value of the stock is Rs 524 (12.75x FY26E EPS) over the next 2-3 quarters. At the CMP of Rs 445.20 the stock trades at 10.8x FY26E EPS.**



## Financial Summary (Consolidated)

Particulars (Rs Cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	958	909	5.5	889	7.8	2,938	3,630	3,798	3,986	4,182
EBITDA	86	42	105.4	60	41.9	358	336	304	339	374
Depreciation	7	5	33.6	5	38.7	21	21	22	22	22
Other Income	23	11	105.5	14	72.3	31	23	68	64	59
Interest Cost	10	11	-10.2	9	4.7	19	35	37	34	35
Tax	25	8	201.0	13	98.4	88	77	77	85	92
APAT	67	29	134.7	47	43.4	260	226	236	262	284
Diluted EPS (Rs)	9.7	4.2	134.7	6.8	43.4	37.6	32.7	34.2	37.9	41.1
RoE-%						22.5	16.7	15.2	14.9	14.2
P/E (x)						11.8	13.6	13.0	11.8	10.8
EV/EBITDA (x)						8.4	9.0	9.9	8.8	7.8

(Source: Company, HDFC sec)

### Q3FY24 Result Update

- SOTL reported strong performance in Q3FY24 amid tight demand environment and higher raw material prices in the industry, its consolidated revenue grew by 5.5% YoY to Rs 958 crore in Q3FY24.
- SOTL'S EBITDA increased to Rs 85.5 crore in Q3FY24 vs. Rs 41.6 crore in Q3FY23. EBITDA margin was at 8.9% in Q3FY24 vs. 4.6% in Q3FY23.
- The company's net profit grew to Rs 67.3 crore vs. Rs 28.7 crore in Q3FY23 and net profit margin stood at 7% in Q3FY24 vs. 3.2% in Q3FY23. On QoQ basis, revenue/EBITDA/PAT grew by 7.8%/41.9%/43.4%.

### Key Updates

#### Collaboration with OEM, auto companies, and logistic companies could add market share going forward

SOTL is one of the major players in auto and industrial lubricants sector and has been in the business of manufacturing lubricants for over 60 years. The company has renewed its agreement with Mahindra Group's Swaraj Tractors to manufacture and supply company branded engine oils for the Swaraj tractor range. SOTL will also continue to supply Swaraj Genuine oils for their authorized service stations and Swaraj company branded oil with SAVSOL brand for the market. M&M has also joined hands with SOTL to meet the customers' need to use the recommended engine oils by OEMs. Both the companies have core strength in their respective fields.

SOTL is engaged with Tata Motors to manufacture and supply original oils for the Passenger Vehicles segment under the brand – 'Tata Motors Original Oils'. It will ensure easy availability of recommended engine oils for car buyers, for the long-term health and maintenance of their vehicles. Furthermore, with the association with SOTL, customers will receive a better quality of product which will in turn help them extract the best performance out of their engines. This partnership will also help Tata Motors deliver original products at the right price and will ensure



easy availability through the bazaar channel, essential to building and maintaining the trust that customers have for the Tata brand. These products will be supplied by the authorised parts distributors of Tata Motors for after-market or replacement market (bazaar trade in industry parlance). The new range of engine oils will complement the existing original parts business for the company's channel partners.

SOTL's partnership with OEMs (including Hero Motocorp) bring the commitment towards quality, technological advancement, and heightened customer engagement. We expect that it could create right value for stakeholders.

### **New synthetic ester plant could help to boost production and volume growth**

SOTL successfully commenced of new Synthetic Ester manufacturing plant at its facility in Mahad. With this commissioning of this plant, SOTL will be the first company in the world to manufacture and market all three classes viz. Mineral Oil-based, Natural Ester, as well as Synthetic Ester-based Transformer Fluids. The establishment of the Mahad facility is a strategic move, positioning SOTL to meet the growing demand for high-quality, energy-efficient lubricants and transformer fluids for the domestic and international markets.

This multipurpose plant is designed to manufacture Synthetic Esters for Transformer Fluid applications and will also have the capability to manufacture Synthetic Esters for high-performance Automotive and Industrial Lubricants. Synthetic esters are used in various industrial applications including compressors, hydraulics, and turbines due to their superior performance characteristics. They are also used in formulating high-performance engine oils, gear oils, and greases for both automotive and aviation applications.

The integration of this new facility is expected to increase the company's production capacity, enhance operational efficiency, and facilitate the diversification of its product portfolio.

### **SOTL's subsidiary Savita Greentec Ltd is planning to invest into plastic bottles recycling business**

SOTL's wholly owned subsidiary Savita Greentec Ltd signed an MoU with Gujarat State government in Aug 2023, ahead of the Vibrant Gujarat Global Summit-24. The company is planning to set up a Rs 270 crore plastic bottles recycling unit at the Saikha GIDC estate. This project is in the initial phase and Savita Greentec Ltd is expected to commence construction of Greenfield Projects in plastic recycling in the coming quarter.

The plastic bottles recycling market is moderately competitive and consists of several major players. In terms of market share, few of the major players currently dominate the market. These players with a prominent share of the market are focusing on expanding their customer base across foreign countries. These companies are leveraging strategic collaborative initiatives to increase their market share and increase their profitability. India Plastic Recycling Market achieved a total market volume of 5.47 million tons in 2023 and is poised for strong growth in the forecast period, with a projected a CAGR of 10.57% through 2029.



In Jan, 2024, SOTL has agreed to subscribe 12,50,00,000 Optionally Convertible Debentures (OCDs) having face value of Rs.10/- (Rupees Ten) each, at par, aggregating to Rs. 125 cr issued on private placement basis by Savita Greentec Ltd, Wholly-owned Subsidiary Company. The plant will take about 15-18 months to be set up and reach peak sales of Rs.500 cr in 2-3 years.

### **Efficiencies of scale in buying**

SOTL is the largest importer of base mineral oil in India and hence benefits out of volume buying. It also earns a small amount by selling small volumes of this in local markets to domestic users.

### **Sound financial profile**

- SOTL'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.
- SOTL's standalone revenue rose from Rs 1485 crore in FY17 to Rs 3509 crore in FY23 - 16% CAGR over the period. The company's reported EBITDA margins have been volatile, at a range of 8-15% and PAT margin at a range of 5-11% over the last six years. We expect that the company could report consolidated revenue ~5% CAGR over the FY23 to FY26E and EBITDA margin in the band of 8-9% over the FY23 to FY26E, respectively.
- Its working capital has remained positive and the capex has also remained stable over the years. However, the growth is slowing down for the sector due to market saturation, improved product quality requiring late replacement of lubes and electrification in India.
- The company has zero debt. The company has no further plans to raise any debt going forward. Capital structure is expected to remain comfortable and debt protection metrics could also be healthy going forward.
- The company has sufficient cash and cash equivalent for further investment to expand its business going forward. As on Sept 30, 2023, the company has cash and cash equivalent of Rs 348 crore. Cash per share for FY26E works out to a healthy ~21% of its CMP.
- The company has always been generous in declaring dividends and buy back offers; it announced buy back offer three times over the past five years. The company has a track record of consistent dividend payout to its shareholders over the periods. The board has recommended a final dividend of Rs 4/share and the dividend payout amounts to close to ~12% of the post-tax profit and the company has been maintaining dividend yield at ~1% in FY23.
- The inventory and receivable days were almost unchanged to 85 days and 75 days respectively on YoY basis as on March 31, 2023, and payable days decreased from 76 days to 70 days as on March 31, 2023. With a rise in profitability as well as better return ratios in the future, we expect RoE at a range of 14% to 15% in FY25E and 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 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.
- SOTL faces high competitive pressure in the domestic market, largely dominated by PSU oil marketing companies, apart from established private players in the industry. SOTL may face challenges to adapt to Electrical Vehicle launches, although it has already launched immersion cooling fluid.
- The company's operation could continue to depend on demand indicators from the auto/power sector.
- 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 80-85% of its base oil requirement through imports. Moreover, owing to limited exports, it lacks any natural hedge against forex fluctuations. Hence it remains exposed to sharp adverse fluctuations in forex rates.
- SOTL's subsidiary Savita Greentec is setting up a plastic bottle recycling plant. However, the recycling industry has seen lower demand and stiff competition with new and unorganized players. The new project may face delays in commissioning due to various factors and may take time to stabilize/reach break-even.

### Company Profile:

Savita Oil Technologies Ltd (SOTL) is one of the leading companies in manufacturing and selling of transformer oil, white oil and industrial and automotive lubricants. These products are essentially obtained through refining base oil and topped with additives. The company operates four world-class manufacturing facilities across Navi Mumbai and Mahad in Maharashtra and Silvassa (Kharadpada and Silli), with combined refining capacities of 450,000 -475,000 kilolitres per annum – 3.75 lac tonnes for Petroleum and 0.75-1.0 lakh tonnes for lubricants. The company also has wind power capacity of 53 MW; this power is sold to SEBs and other users, under long-term agreements. Savita Greentec Ltd, a wholly owned subsidiary of SOTL, was incorporated on Oct 03, 2022. SGL is planning to enter plastic recycling business, yet to commence its business operations.

The company has wide presence across the country and it has strong relationship with B2B customers in India and globally as well as for B2C consumers.

SOTL has two segments:

**Petroleum specialty** - Includes Transformer oil (sold mostly on tender basis), White/Mineral Oil (SOTL caters to 90% of Asian requirement of a MNC baby oil manufacturer), and Specialty formulation products.



**Lubricants** – Automotive (50:50 B2B and B2C) and industrial. In Automotive its brand Savsol has 20000 touchpoints and has a 3-4% market share. In industrial segment, SOTL sees a vast opportunity for shift from unorganized to organized and hence is increasing its network. It already has customers like Tata Hitachi.

Value wise, one third of sales come from Transformer oil, one third from Mineral/white oil and the balance one third from other products including 10% from cable filling compounds.

Margin wise, Transformer oil gives low to mid margin, White/Mineral oil mid level margins, and Auto lubricants/synthetic ester high margin. In White/Mineral oil, SOTL competes with Apar, Panama, and Gandhar.

### Business Overview

#### Product portfolio and presence



(Source: Company, HDFC sec)

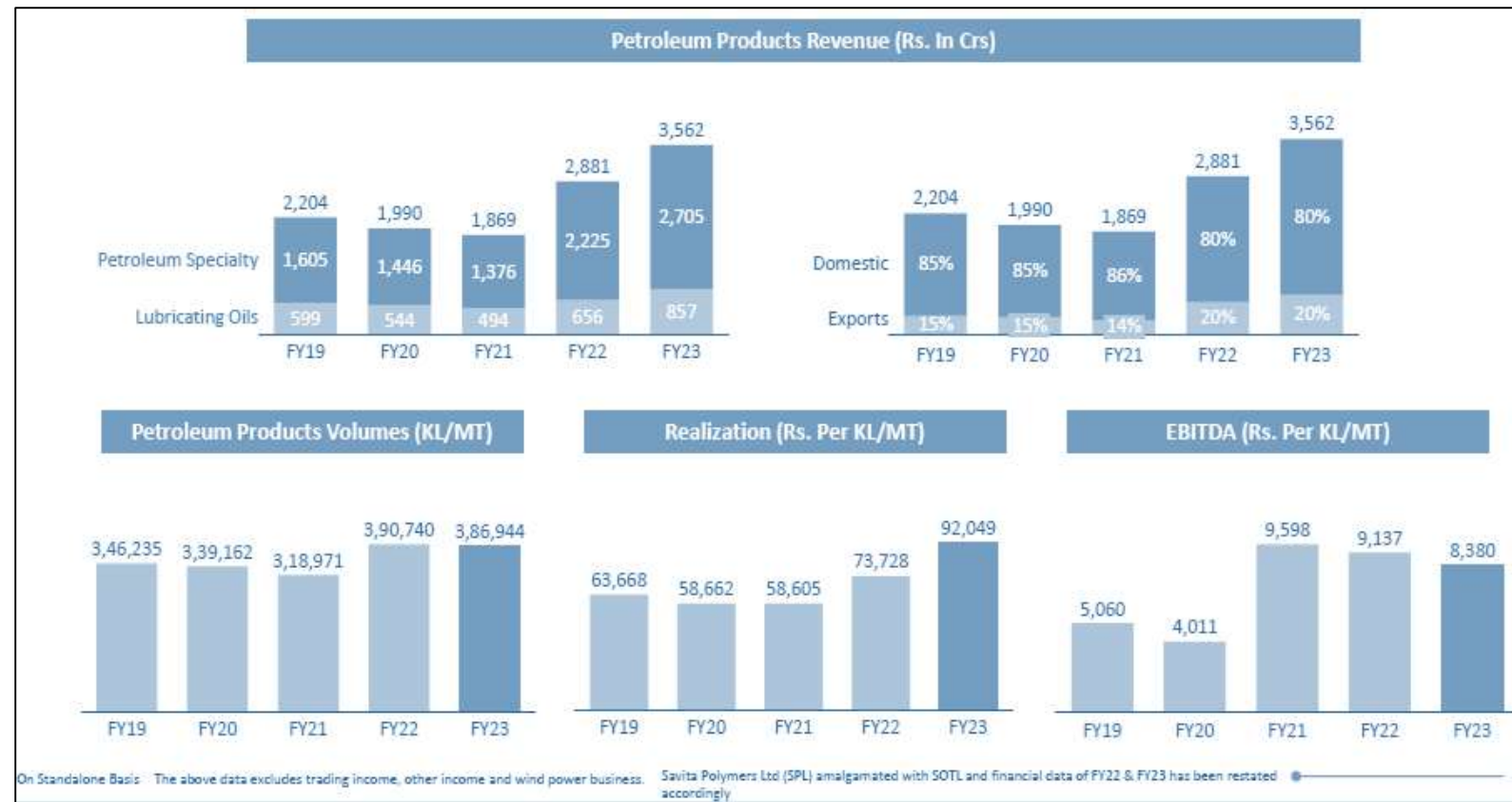


## Products, Brands and End Users

Category	Brands	End Users
Transformer Oils	Transol, bioTransol	Transformer Manufacturers, Electricity Boards, Power Plant Operators
White & Mineral Oils	TECHNOL, SAVONOL, SAVOGEL	Personal Care, Pharmaceutical, Plastics, Elastomers Rubber Compound
Formulated & Specialty Products	VITAGEL, SAVOFIL, SAVOFLOD	Optic Fibre Cables, Textile & Leather, Auto components, Polymers, Refrigeration Compressors, Construction
Automotive Oil	SAVSOL	B2C, (Two Wheelers, Four Wheelers, Commercial Vehicles, Farm Equipment)
Industrial Oil	SAVSOL	Industrial Machines & Equipment

(Source: Company, HDFC sec)

## Standalone Historical Financial Highlights (Petroleum Products)

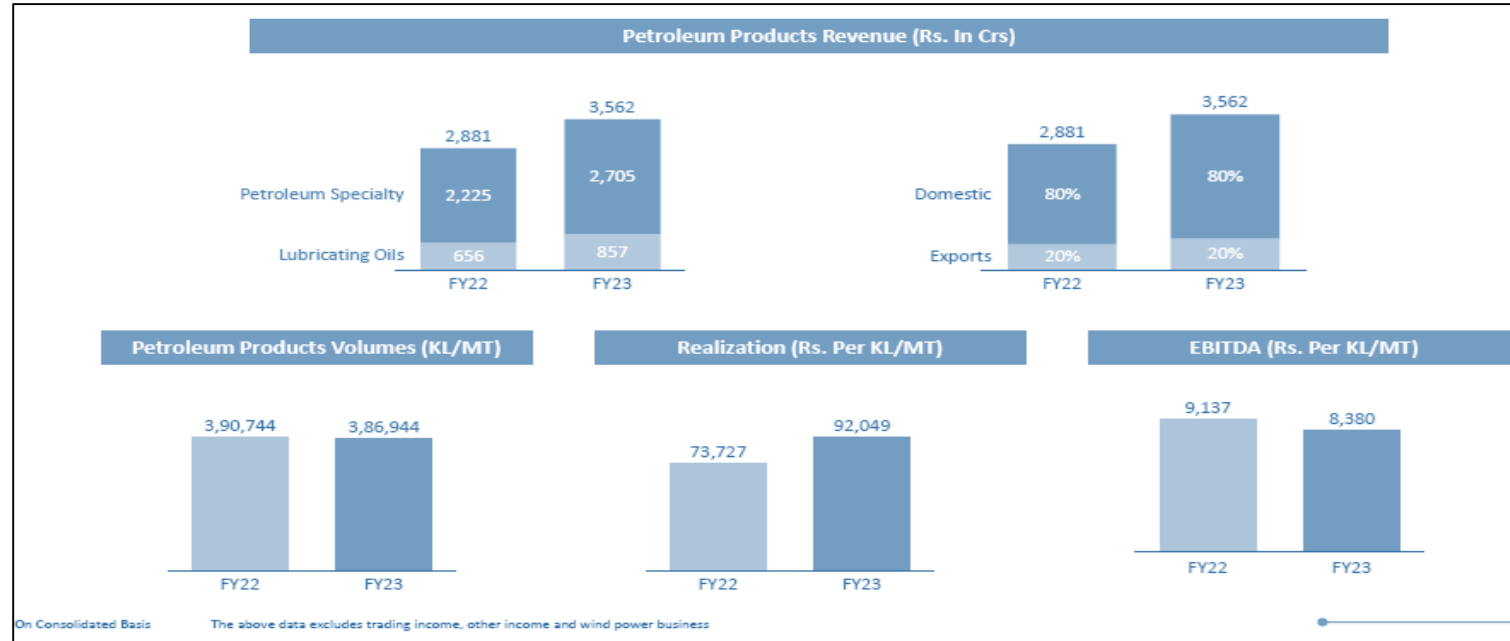


(Source: Company, HDFC sec)





## Consolidated Historical Financial Highlights (Petroleum Products)



(Source: Company, HDFC sec)

## Peer Comparison

Company	Mkt Cap-Cr	Sales			EBITDA			PAT			RoE-%			P/E-x		
		FY22	FY23	TTM	FY22	FY23	TTM	FY22	FY23	TTM	FY22	FY23	TTM	FY22	FY23	TTM
Savita Oil	3076	2938	3630	3723	358	336	263	260	226	206	22.5	16.7	13.9	11.8	13.6	14.9
Gulf Oil Lub	4862	2192	2999	3223	286	343	392	211	232	285	22.1	20.9	23.9	23.7	20.9	17.1
		<b>CY21</b>	<b>CY22</b>	<b>CY23</b>	<b>CY21</b>	<b>CY22</b>	<b>CY23</b>	<b>CY21</b>	<b>CY22</b>	<b>CY23</b>	<b>CY21</b>	<b>CY22</b>	<b>CY23</b>	<b>CY21</b>	<b>CY22</b>	<b>CY23</b>
Castrol India	20208	4,192	4,774	5,075	1,066	1,111	1,198	758	815	864	49.5	46.1	43.1	26.7	24.8	23.3

(Source: Company, HDFC sec)



## Financials (Consolidated)

### Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>2938</b>	<b>3630</b>	<b>3798</b>	<b>3986</b>	<b>4182</b>
Growth (%)	46.8	23.6	4.6	4.9	4.9
Operating Expenses	2580	3295	3494	3647	3808
<b>EBITDA</b>	<b>358</b>	<b>336</b>	<b>304</b>	<b>339</b>	<b>374</b>
<b>Growth (%)</b>	<b>15.0</b>	<b>-6.2</b>	<b>-9.5</b>	<b>11.5</b>	<b>10.5</b>
<b>EBITDA Margin (%)</b>	<b>12.2</b>	<b>9.3</b>	<b>8.0</b>	<b>8.5</b>	<b>9.0</b>
Depreciation	21	21	22	22	22
<b>EBIT</b>	<b>337</b>	<b>315</b>	<b>281</b>	<b>317</b>	<b>353</b>
Other Income	31	23	68	64	59
Interest expenses	19	35	37	34	35
<b>PBT</b>	<b>348</b>	<b>303</b>	<b>313</b>	<b>347</b>	<b>376</b>
Tax	88	77	77	85	92
<b>APAT</b>	<b>260</b>	<b>226</b>	<b>236</b>	<b>262</b>	<b>284</b>
Growth (%)	9.8	-13.3	4.7	10.8	8.4
EPS	37.6	32.7	34.2	37.9	41.1

### Balance Sheet

As at March	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCE OF FUNDS</b>					
Share Capital	14	14	14	14	14
Reserves	1244	1435	1637	1861	2103
<b>Shareholders' Funds</b>	<b>1258</b>	<b>1449</b>	<b>1651</b>	<b>1875</b>	<b>2117</b>
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	4	2	2	2	3
Long Term Provisions & Others	7	7	8	8	9
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Source of Funds</b>	<b>1269</b>	<b>1459</b>	<b>1661</b>	<b>1885</b>	<b>2128</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	184	180	182	194	208
CWIP	5	20	21	23	27
Other Non-Current Assets	89	109	104	93	84
<b>Total Non Current Assets</b>	<b>278</b>	<b>309</b>	<b>307</b>	<b>310</b>	<b>319</b>
Current Investments	385	222	322	397	478
Inventories	591	829	876	919	964
Trade Receivables	590	750	773	811	851
Cash & Equivalents	68	59	70	94	171
Other Current Assets	78	95	114	142	178
<b>Total Current Assets</b>	<b>1711</b>	<b>1955</b>	<b>2154</b>	<b>2364</b>	<b>2642</b>
Short-Term Borrowings	0	0	0	0	0
Trade Payables	633	733	721	703	737
Other Current Liab & Provisions	87	72	79	86	95
<b>Total Current Liabilities</b>	<b>720</b>	<b>805</b>	<b>800</b>	<b>789</b>	<b>832</b>
<b>Net Current Assets</b>	<b>991</b>	<b>1150</b>	<b>1354</b>	<b>1575</b>	<b>1810</b>
<b>Total Application of Funds</b>	<b>1269</b>	<b>1459</b>	<b>1661</b>	<b>1885</b>	<b>2128</b>

(Source: Company, HDFC sec)



## Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	348	303	313	347	376
Non-operating & EO items	-12	-9	-68	-64	-59
Interest Expenses	18	28	37	34	35
Depreciation	21	21	22	22	22
Working Capital Change	81	-330	-94	-121	-78
Tax Paid	-86	-77	-77	-85	-92
<b>OPERATING CASH FLOW ( a )</b>	<b>370</b>	<b>-65</b>	<b>133</b>	<b>133</b>	<b>204</b>
Capex	-15	-31	-20	-25	-30
Free Cash Flow	172	431	317	317	317
Investments	-286	152	-100	-76	-81
Non-operating income	1	3	69	64	59
<b>INVESTING CASH FLOW ( b )</b>	<b>-300</b>	<b>124</b>	<b>-51</b>	<b>-36</b>	<b>-51</b>
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-19	-33	-37	-34	-35
FCFE	18	373	262	262	262
Share Capital Issuance	0	0	0	0	0
Dividend	-21	-34	-35	-38	-41
Other	-35	0	0	0	0
<b>FINANCING CASH FLOW ( c )</b>	<b>-75</b>	<b>-68</b>	<b>-72</b>	<b>-72</b>	<b>-77</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-5</b>	<b>-9</b>	<b>11</b>	<b>25</b>	<b>76</b>

## Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
<b>Profitability Ratio (%)</b>					
EBITDA Margin	12.2	9.3	8.0	8.5	9.0
EBIT Margin	12.5	9.3	9.2	9.6	9.8
APAT Margin	8.9	6.2	6.2	6.6	6.8
RoE	22.5	16.7	15.2	14.9	14.2
RoCE	26.0	18.7	19.3	18.4	17.5
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	-1.3	-0.8	-1.3	-1.5	-1.7
Net D/E	-0.4	-0.2	-0.2	-0.3	-0.3
<b>PER SHARE DATA (Rs)</b>					
EPS	37.6	32.7	34.2	37.9	41.1
CEPS	40.8	35.6	37.4	41.0	44.2
Dividend	5.0	4.0	5.0	5.5	6.0
BV	182.0	209.7	238.9	271.3	306.4
<b>Turnover Ratios (days)</b>					
Debtor days	73	75	74	74	74
Inventory days	73	83	84	84	84
Creditors days	79	74	69	64	64
<b>VALUATION (x)</b>					
P/E	11.8	13.6	13.0	11.8	10.8
P/BV	2.4	2.1	1.9	1.6	1.5
EV/EBITDA	8.4	9.0	9.9	8.8	7.8
EV / Revenues	1.0	0.8	0.8	0.7	0.7
Dividend Yield (%)	1.1	0.9	1.1	1.2	1.3



## 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. These 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 cyclical nature 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.



## Disclosure:

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