

Pick of the week



Castrol India Ltd (CSTRL)

Recommendation

Buy

Time Period

12 Months

Current Price

₹130

Target Price

₹165

Potential Upside

26.9%

Investment Argument

- The management remained optimistic on recovery in volume growth given pickup in passenger and freight movement across the country and uptick in realizations following a blended 4% price hike in Jan'21 to pass on higher RM costs.
- In CY20, revenues declined by 23% yoy, EBITDA declined by 28% yoy and adjusted net profit declined by 28% yoy. Free cash flow increased from Rs.770 cr in CY19 to Rs.850 cr in CY20 due to efficient working capital and low capex.
- A rebound in volumes during CY21 will augur well for the stock notwithstanding increase in RM costs. Expect earnings to grow by 49.8% in CY21E and 8.1% in CY22E.
- Current price offers healthy Free Cash Flow/Dividend Yield. Our Fair value of Rs.165 is based on discounted cash flow method (DCF) implying 17x PE multiple on Dec'22E EPS.
- **Risk:** Key base oil prices have increased sharply in recent months. Castrol earnings are leveraged to exchange rate and raw material prices.