

Pick of the week



Castrol India Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 119

Target Price

₹ 165

Potential Upside

38.7%

Investment Argument

- Castrol's 1QCY20 performance was marred by a sharp decline in sales to distribution led by a nationwide lockdown during end-March. Castrol's volumes declined 25% yoy to 37.6 mn liters in 1QCY20.
- Castrol is focusing on undertaking cost control measures to support margins amid decline in volumes to mitigate negative operating leverage and streamline collections from the distribution channel to improve its working capital cycle.
- KIE expects volumes to recover in CY21; model margins to remain around 30% amid lower crude/base oil prices. Castrol earnings are leveraged to exchange rate and raw material prices.
- KIE expects EPS of Rs.6 in CY20, Rs.8.9 in CY21 and Rs.9.6 in CY22 factoring in a sharp 25% yoy reduction in volumes during CY20 impacted by Covid-19, modestly higher gross margins amid a decline in base oil prices partly offset by a weaker Rupee and other minor changes.
- KIE retains BUY rating on the stock with a revised fair value of Rs165 based on DCF - implied 18x P/E multiple on Jun'22 estimates amid attractive valuations and healthy FCF/dividend yield of 7%.