

# Gulf Oil Lubricants

**BUY**

## Growth drivers intact

1QFY20 operating performance was healthy as EBITDA margins expanded ~120/70bp YoY/QoQ to 17.7% driven by an improved product mix. We expect Gulf Oil to deliver 3-4x the industry growth as the co expands into new segments and ramps up its distribution reach. We have a TP of Rs 1,050 based on 22x FY21 EPS.

### HIGHLIGHTS OF THE QUARTER

- Financials:** While vol growth moderated to 7.5%, it remains well ahead of the industry. Realisations at Rs 149/KL grew 5% YoY due to better product mix and price hike taken in Mar-19.
- Revenue/EBITDA/PAT grew by ~13/21/21% YoY. Gross margins at 48.8% expanded 280bps YoY due to higher growth in the PCMO segment and stable commodity prices. However, this was partially offset by increased other expenses (+22% YoY) due to higher ad spends (cricket world cup).
- PCMO drives growth:** Personal mobility segment (24% of the mix vs. 22% last quarter) continues to grow in double digit along with the infrastructure segment. (Gulf's market share in bazaar segment is ~7.5%). However, diesel engine oil segment grew in mid-single digit due to the downturn in the auto industry (lower factory fills). Gulf is expected to grow ahead of industry

### Consolidated Financial Summary

(Rs mn)	1QFY20	1QFY19	% YoY	4QFY19	% QoQ	FY17	FY18	FY19P	FY20E	FY21E
Net Sales	4,407	3,904	12.9	4,362	1.0	11,007	13,323	17,058	19,049	21,190
EBITDA	779	645	20.7	742	5.0	1,783	2,357	2,831	3,236	3,658
APAT	487	401	21.4	476	2.4	1,184	1,586	1,778	2,020	2,391
Diluted EPS (Rs)	9.8	8.1	21.4	9.6	2.4	23.9	31.9	35.7	40.6	48.0
P/E (x)						32.3	24.1	21.6	19.0	16.0
EV / EBITDA (x)						21.1	15.9	13.5	11.2	9.5
RoE (%)						39.3	38.6	33.7	31.3	30.8

Source: Company, HDFC sec Inst Research

as it continues to expand in the higher margin personal mobility segment.

- BSVI lubricants:** The co is ready with products that are compatible with BSIV/VI engines. These lubricants will be launched inline with the BSVI rollout.
- Battery business:** After a favorable response to its new initiative, the co is planning to setup a local assembly unit for producing batteries. In 1QFY20, revenues came in at ~Rs 150mn as volumes were up +20% YoY (FY19 revenue ~Rs 550mn).

### STANCE

We reiterate BUY as (1) After significantly outgrowing the industry leader Castrol (over FY16-19 Gulf's vols have risen 17% vs. 3% for the latter), we expect Gulf to grow ahead of the industry over FY20-21. Growth will be driven by increased capacity (new capacity of 150mn KL p.a. in 19), expanding distribution network (~70k retailers vs. 150k for Castrol) and improving product/customer mix (2) Gulf is diversifying its portfolio by entering the battery segment which will drive growth in the medium term (3) The co enjoys robust return ratios with ROEs in excess of 30%. (4) Faster than expected adoption of EVs will be a key risk to our thesis.

INDUSTRY	LUBRICANTS		
<b>CMP (as on 31 Jul 2019)</b>	<b>Rs 766</b>		
<b>Target Price</b>	<b>Rs 1,050</b>		
Nifty	11,118		
Sensex	37,481		
<b>KEY STOCK DATA</b>			
Bloomberg	GOLI IN		
No. of Shares (mn)	50		
MCap (Rs bn) / (\$ mn)	38/554		
6m avg traded value (Rs mn)	23		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 918/618</b>		
	3M	6M	12M
Absolute (%)	(11.0)	(15.5)	(13.8)
Relative (%)	(7.1)	(18.9)	(13.4)
<b>SHAREHOLDING PATTERN (%)</b>			
	Mar-19	Jun-19	
Promoters	72.7	72.7	
FIs & Local MFs	5.6	5.3	
FPIs	9.3	10.8	
Public & Others	12.4	11.2	
Pledged Shares*	-	-	
Source : BSE, * % of total			

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*Vols have come off from a double digit growth trajectory. However, the vols in this quarter at 7.5% remain significantly ahead of the industry*

*Other expenses witnessed a rise of 22% YoY owing to higher marketing spends. The co advertised in the recent cricket world cup*

*Gross margin at 48.8% was the highest in the last 6 quarters*

### Quarterly Operating Performance

Particulars	1QFY20	1QFY19	% YoY	4QFY19	% QoQ
Volumes (Mn KL)	29.6	27.5	7.5	29.8	(0.8)
Realization (Rs/KL)	149.1	141.9	5.0	146.3	1.9
Gross Profit (Rs/KL)	72.8	65.3	11.4	67.2	8.3

### Quarterly Financials

Rs Mn	1QFY20	1QFY19	% YoY	4QFY19	% QoQ
<b>Revenue</b>	<b>4,407</b>	<b>3,904</b>	<b>12.9</b>	<b>4,362</b>	<b>1.0</b>
Material Expenses	2,255	2,107	7.0	2,358	(4.4)
Staff cost	266	242	10.0	260	2.4
Other expenditure	1,107	909	21.7	1,001	10.5
Total Expenses	3,628	3,259	11.3	3,620	0.2
<b>EBITDA</b>	<b>779</b>	<b>645</b>	<b>20.7</b>	<b>742</b>	<b>5.0</b>
Depreciation	80	49	60.7	59	35.6
<b>EBIT</b>	<b>699</b>	<b>596</b>	<b>17.4</b>	<b>683</b>	<b>2.3</b>
Other income	84	66	26.7	88	(4.3)
Interest Cost	34	44	(22.9)	26	32.6
<b>PBT</b>	<b>749</b>	<b>618</b>	<b>21.3</b>	<b>746</b>	<b>0.5</b>
Tax	262	217	21.0	270	(2.9)
<b>RPAT</b>	<b>487</b>	<b>401</b>	<b>21.4</b>	<b>476</b>	<b>2.4</b>
<b>EPS</b>	<b>9.8</b>	<b>8.1</b>	<b>21.4</b>	<b>9.6</b>	<b>2.4</b>

% of Net Revenue	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Material Expenses	51.2	54.0	(280)	54.1	(290)
<b>Gross profit</b>	<b>48.8</b>	<b>46.0</b>	<b>280</b>	<b>45.9</b>	<b>290</b>
Staff cost	6.0	6.2	(16)	6.0	8
Other expenditure	25.1	23.3	182	23.0	216
Total Expenses	82.3	83.5	(115)	83.0	(66)
<b>EBITDA</b>	<b>17.7</b>	<b>16.5</b>	<b>115</b>	<b>17.0</b>	<b>66</b>
<b>RPAT</b>	<b>11.1</b>	<b>10.3</b>	<b>78</b>	<b>10.9</b>	<b>15</b>
Tax as % of PBT	35.0	35.1	(8)	36.2	(123)

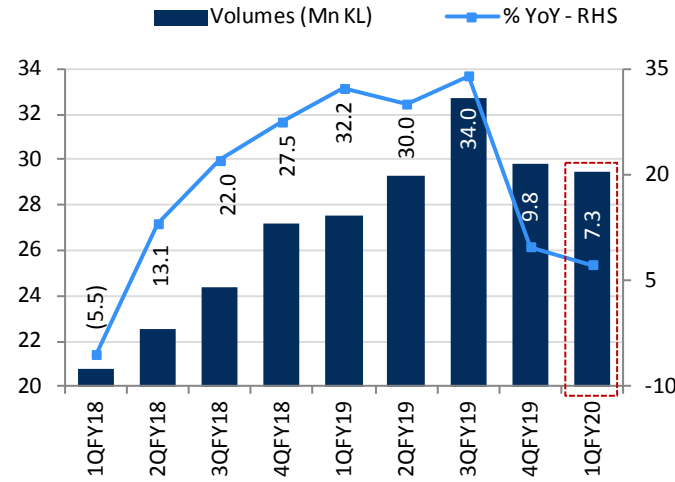
Source: Company, HDFC sec Inst Research

*Vol growth was primarily driven by PCMO and industrial segment. The DEO segment has been under pressure due to slowdown in the auto industry*

*Realisation growth of 5/2% YoY/QoQ was due to an improved product mix*

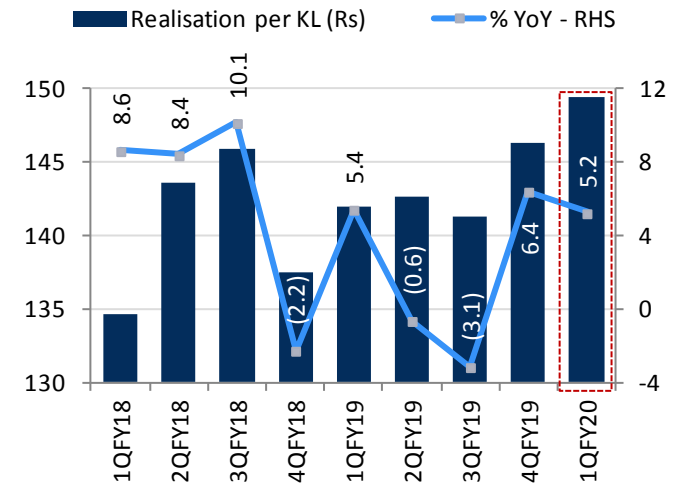
*Gulf volume growth is 3-4x the industry in the B2C segment*

**Vols: Moderated due to weak industry demand**



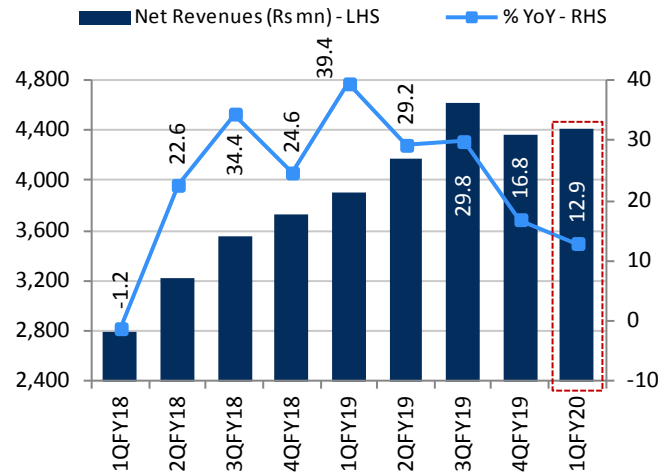
Source: Company, HDFC sec Inst Research

**Realisation: Driven by price hike and product mix**



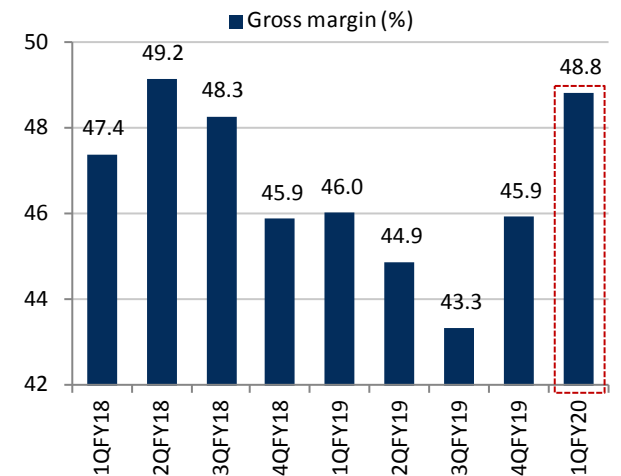
Source: Company, HDFC sec Inst Research

**Net Revenue**



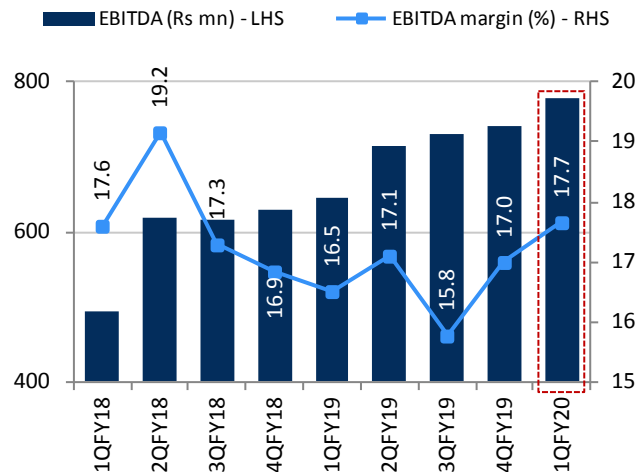
Source: Company, HDFC sec Inst Research

**GM: Benefitted from improved product mix**



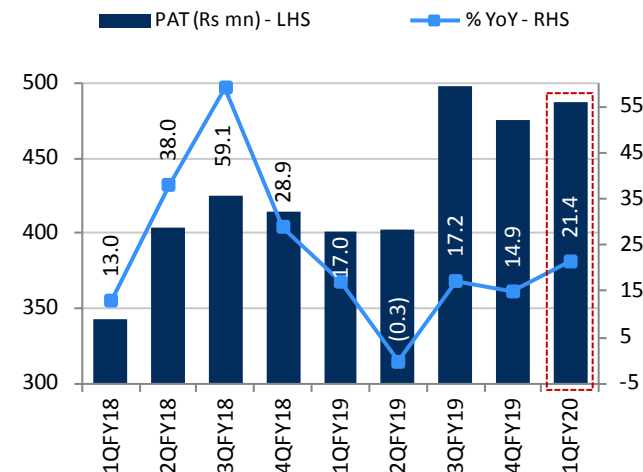
Source: Company, HDFC sec Inst Research

**EBITDA: Margins remain elevated**



Source: Company, HDFC sec Inst Research

**PAT: Healthy growth momentum sustains**



Source: Company, HDFC sec Inst Research

**Key Assumptions**

Particulars	FY17	FY18	FY19P	FY20E	FY21E
Volumes (Mn KL)	83.5	94.8	119.3	127.7	137.9
Revenue (Rs Mn)	11,007	13,323	17,058	19,049	21,190
Gross Profit (Rs Mn)	5,064	6,346	7,675	8,783	9,826
GP Margin (%)	46.0	47.6	45.0	46.1	46.4
EBITDA (Rs Mn)	1,783	2,357	2,831	3,236	3,658
EBITDA Margin (%)	16.2	17.7	16.6	17.0	17.3
Realisation (Rs/KL)	131.9	140.5	143.0	149.2	153.7
Gross Profit (Rs/KL)	60.7	66.9	64.4	68.8	71.3
EBITDA (Rs/KL)	21.4	24.9	23.7	25.3	26.5
<b>change YoY (%/bps)</b>					
Volumes (Mn KL)	10.9	13.6	25.8	7.1	8.0
Revenue (Rs Mn)	8.8	21.0	28.0	11.7	11.2
Gross Profit (Rs Mn)	10.0	25.3	20.9	14.4	11.9
GP Margin (bps)	48	163	(264)	111	26
EBITDA (Rs Mn)	12.0	32.2	20.1	14.3	13.0
EBITDA Margin (bps)	46	149	(110)	40	27
Realisation (Rs/KL)	(1.9)	6.5	1.8	4.3	3.0
Gross Profit (Rs/KL)	(0.8)	10.3	(3.9)	6.9	3.6
EBITDA (Rs/KL)	1.0	16.4	(4.6)	6.8	4.7

Source: Company, HDFC sec Inst Research

**The new plant in Chennai is fully operational since May-18 and will contribute to the vol growth in FY20/21E. Current utilization is ~60-65%. The plant will help to reduce freight costs, as South India accounts for ~30% of volumes**

*Gulf Oil is well placed to grow due to its low base, expanding distribution reach and changing product mix (PCMO now 24% of the mix vs 22% earlier)*

*Gulf has been gaining market share between 60-100bps p.a.*

### Operational performance summary of Gulf Oil and Castrol

	FY16	FY17	FY18	FY19P	CAGR FY16-19
<b>Volumes (Mn ltr)</b>					
Gulf	75.2	83.5	94.8	119.3	16.6%
Castrol	195.2	199.4	205.7	212.6	2.9%
<b>Revenue (Rs Mn)</b>					
Gulf	10,113	11,007	13,323	17,058	19.0%
Castrol	33,452	33,969	36,292	39,537	5.7%
<b>Realization (Rs Mn)</b>					
Gulf	134.4	131.9	140.5	143.0	2.1%
Castrol	171.4	170.4	176.4	186.0	2.8%
<b>Gross Profit (Rs Mn)</b>					
Gulf	4,604	5,064	6,346	7,675	18.6%
Castrol	17,640	18,530	19,380	20,198	4.6%
<b>Gross Profit (%)</b>					
Gulf	45.5	46.0	47.6	45.0	
Castrol	52.7	54.5	53.4	51.1	
<b>Gross Profit (Rs/ltr)</b>					
Gulf	61.2	60.7	66.9	64.4	
Castrol	90.4	92.9	94.2	95.0	
<b>EBITDA (Rs Mn)</b>					
Gulf	1,592	1,783	2,357	2,831	21.2%
Castrol	9,593	10,075	10,440	10,795	4.0%
<b>EBITDA Margin (%)</b>					
Gulf	15.7	16.2	17.7	16.6	
Castrol	28.7	29.7	28.8	27.3	
<b>EBITDA (Rs/ltr)</b>					
Gulf	21.2	21.4	24.9	23.7	
Castrol	49.1	50.5	50.8	50.8	
<b>APAT (Rs Mn)</b>					
Gulf	1,003	1,184	1,586	1,778	21.0%
Castrol	6,409	6,770	6,946	7,115	3.5%
<b>APAT (%)</b>					
Gulf	9.9	10.8	11.9	10.4	
Castrol	19.2	19.9	19.1	18.0	

Source: Company, HDFC sec Inst Research

**We marginally change our estimates to factor in the strong performance in 1QFY20 and stable commodity prices**

### Change In Estimates

	New		Old		Change %/bps	
	FY20	FY21	FY20	FY21	FY20	FY21
Volumes (Mn Kilo litre)	127.7	137.9	125.8	137.1	1	1
Realization (Rs)	149.2	153.7	148.1	152.5	1	1
Revenue (Rs Mn)	19,049	21,190	18,625	20,911	2	1
Gross Profit (Rs Mn)	8,783	9,826	8,467	9,562	4	3
EBITDA (Rs Mn)	3,236	3,658	3,082	3,574	5	2
PAT (Rs Mn)	2,020	2,391	1,964	2,382	3	0
EPS (Rs)	40.6	48.0	39.4	47.8	3	0
<b>Margins (%)</b>						
Gross Profit	46.1	46.4	45.5	45.7	61 bps	67 bps
EBITDA	17.0	17.3	16.5	17.1	49 bps	16 bps
PAT	10.6	11.3	10.5	11.4	10 bps	-12 bps

Source: Company, HDFC Sec Inst Research

### Peerset comparison

Company	Mcap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)		P/E (x)		RoE (%)	
					FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>Gulf Oil</b>	<b>38</b>	<b>766</b>	<b>BUY</b>	<b>1,050</b>	<b>40.6</b>	<b>48.0</b>	<b>19.0</b>	<b>16.0</b>	<b>31.3</b>	<b>30.8</b>
Castrol #	120	121	NR	NA	7.5	7.8	16.1	15.5	60.8	56.3

Source: Company, HDFC sec Inst Research, # For Castrol FY20/21 is CY19/20 respectively, \*NR= Not Rated

**Consolidated Income Statement**

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
<b>Net Sales</b>	<b>11,007</b>	<b>13,323</b>	<b>17,058</b>	<b>19,049</b>	<b>21,190</b>
<b>Growth (%)</b>	<b>9.1</b>	<b>21.1</b>	<b>28.0</b>	<b>11.7</b>	<b>11.2</b>
Material Expenses	5,943	6,976	9,383	10,266	11,364
Employee Expenses	703	826	1,017	1,114	1,203
Other Operating Expenses	2,578	3,163	3,827	4,433	4,965
<b>EBIDTA</b>	<b>1,783</b>	<b>2,357</b>	<b>2,831</b>	<b>3,236</b>	<b>3,658</b>
<b>EBIDTA (%)</b>	<b>16.2</b>	<b>17.7</b>	<b>16.6</b>	<b>17.0</b>	<b>17.3</b>
<b>EBIDTA Growth (%)</b>	<b>12.0</b>	<b>32.2</b>	<b>20.1</b>	<b>14.3</b>	<b>13.0</b>
Depreciation	72	104	224	328	355
EBIT	1,711	2,253	2,607	2,909	3,303
Other Income	215	261	295	320	330
Interest	105	85	152	157	10
PBT	1,822	2,429	2,751	3,072	3,623
Tax	637	843	973	1,052	1,232
<b>RPAT</b>	<b>1,184</b>	<b>1,586</b>	<b>1,778</b>	<b>2,020</b>	<b>2,391</b>
<b>APAT</b>	<b>1,184</b>	<b>1,586</b>	<b>1,778</b>	<b>2,020</b>	<b>2,391</b>
<b>PAT Growth (%)</b>	<b>18.1</b>	<b>33.9</b>	<b>12.1</b>	<b>13.6</b>	<b>18.4</b>
<b>AEPS</b>	<b>23.9</b>	<b>31.9</b>	<b>35.7</b>	<b>40.6</b>	<b>48.0</b>
<b>AEPS Growth (%)</b>	<b>18.1</b>	<b>33.9</b>	<b>11.9</b>	<b>13.6</b>	<b>18.4</b>

Source: Company, HDFC sec Inst Research

**Consolidated Balance Sheet**

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Sh Capital	99	99	100	100	100
Reserves	3,442	4,575	5,768	6,950	8,384
<b>Shareholders Fund</b>	<b>3,541</b>	<b>4,674</b>	<b>5,867</b>	<b>7,050</b>	<b>8,484</b>
Gross Debt (Short term)	2,094	2,481	2,831	2,406	2,045
Other Non Current Liabilities	72	155	243	285	342
<b>TOTAL LIABILITIES</b>	<b>5,707</b>	<b>7,309</b>	<b>8,942</b>	<b>9,741</b>	<b>10,871</b>
<b>APPLICATION OF FUNDS</b>					
PPE	1,180	2,601	2,705	2,527	2,323
CWIP	292	60	7	7	7
Other Non Current assets	165	136	373	280	359
<b>Non Current Assets</b>	<b>1,637</b>	<b>2,797</b>	<b>3,085</b>	<b>2,815</b>	<b>2,689</b>
Cash & cash equivalents	2,896	3,262	2,926	4,651	5,780
Inventories	1,499	2,368	3,388	2,986	3,467
Sundry Debtors	1,096	1,346	1,507	1,921	2,146
Other Current Assets	254	516	519	613	617
<b>Current Assets</b>	<b>5,745</b>	<b>7,492</b>	<b>8,339</b>	<b>10,171</b>	<b>12,011</b>
Trade Payables	1,331	2,229	1,959	2,714	3,171
Other Current Liabilities	344	751	523	531	657
<b>Current Liabilities</b>	<b>1,675</b>	<b>2,980</b>	<b>2,483</b>	<b>3,245</b>	<b>3,829</b>
<b>Net Current Assets</b>	<b>4,070</b>	<b>4,512</b>	<b>5,857</b>	<b>6,926</b>	<b>8,182</b>
<b>TOTAL ASSETS</b>	<b>5,707</b>	<b>7,309</b>	<b>8,942</b>	<b>9,741</b>	<b>10,871</b>

Source: Company, HDFC Sec Inst Research

**Consolidated Cash Flow Statement**

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	1,822	2,429	2,751	3,072	3,623
Non-operating & EO Items	(215)	(261)	(295)	(320)	(330)
Interest Expenses	105	85	152	157	10
Depreciation	72	104	224	328	355
Working Capital Change	(234)	(76)	(1,680)	655	(126)
Tax Paid	(637)	(843)	(973)	(1,052)	(1,232)
<b>OPERATING CASH FLOW ( a )</b>	<b>912</b>	<b>1,439</b>	<b>177</b>	<b>2,839</b>	<b>2,300</b>
Capex	(456)	(1,294)	(275)	(150)	(150)
<b>Free Cash Flow</b>	<b>457</b>	<b>145</b>	<b>(98)</b>	<b>2,689</b>	<b>2,150</b>
Investments	(35)	112	(148)	135	(22)
Non-operating Income	215	261	295	320	330
<b>INVESTING CASH FLOW ( b )</b>	<b>(276)</b>	<b>(921)</b>	<b>(127)</b>	<b>305</b>	<b>157</b>
Debt Issuance / (Repaid)	142	386	350	(425)	(361)
Interest Expenses	(105)	(85)	(152)	(157)	(10)
<b>FCFE</b>	<b>494</b>	<b>446</b>	<b>101</b>	<b>2,108</b>	<b>1,779</b>
Share Capital Issuance	380	175	104	-	-
Dividend	(509)	(628)	(688)	(838)	(957)
<b>FINANCING CASH FLOW ( c )</b>	<b>(91)</b>	<b>(152)</b>	<b>(386)</b>	<b>(1,419)</b>	<b>(1,328)</b>
NET CASH FLOW (a+b+c)	545	366	(336)	1,725	1,129
Closing Cash & Equivalents	2,896	3,262	2,926	4,651	5,780

Source: Company, HDFC sec Inst Research

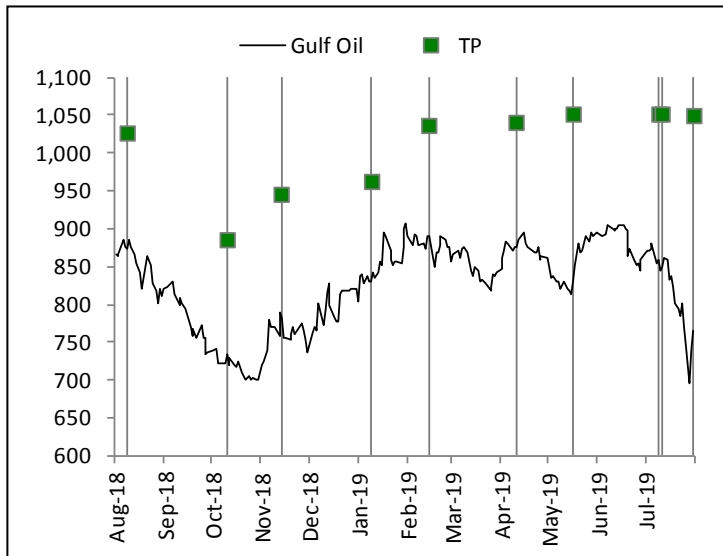
**Key Ratios**

	FY17	FY18	FY19P	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM	46.0	47.6	45.0	46.1	46.4
EBITDA Margin	16.2	17.7	16.6	17.0	17.3
EBIT Margin	15.5	16.9	15.3	15.3	15.6
APAT Margin	10.8	11.9	10.4	10.6	11.3
RoE	39.3	38.6	33.7	31.3	30.8
RoIC (Core ROCE)	44.9	42.9	33.5	34.4	42.8
RoCE	21.8	22.6	20.7	20.5	21.2
<b>EFFICIENCY</b>					
Tax Rate (%)	35.0	34.7	35.4	34.2	34.0
Asset Turnover (x)	9.3	5.1	6.3	7.5	9.1
Inventory (days)	50	65	72	57	60
Debtors (days)	36	37	32	37	37
Other Current Assets (No of days)	8	14	11	12	11
Payables (days)	44	61	42	52	55
Other CL & Provisions (No of days)	11	21	11	10	11
Cash Conversion Cycle (days)	39	34	63	44	41
Net Debt/EBITDA (x)	(0.4)	(0.3)	(0.0)	(0.7)	(1.0)
Net D/E	(0.2)	(0.2)	(0.0)	(0.3)	(0.4)
Interest Coverage	16.4	26.4	17.2	18.5	339.2
<b>PER SHARE DATA (Rs)</b>					
EPS	23.9	31.9	35.7	40.6	48.0
CEPS	25.3	34.0	40.2	47.1	55.1
BV	71.3	94.0	117.8	141.6	170.4
DPS	8.5	10.5	11.5	14.0	16.0
<b>VALUATION</b>					
P/E (x)	32.3	24.1	21.6	19.0	16.0
P/BV (x)	10.8	8.2	6.5	5.4	4.5
EV/EBITDA (x)	21.1	15.9	13.5	11.2	9.5
EV/Revenues (x)	3.4	2.8	2.2	1.9	1.6
OCF/EV (%)	2.4	3.8	0.5	7.9	6.6
FCFE/Mkt Cap (%)	1.3	1.2	0.3	5.5	4.6
FCF/EV (%)	1.2	0.4	(0.3)	7.5	6.2
Dividend Yield (%)	1.1	1.4	1.5	1.8	2.1

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
9-Aug-18	872	BUY	1,027
10-Oct-18	723	BUY	886
13-Nov-18	785	BUY	946
9-Jan-19	831	BUY	963
14-Feb-19	888	BUY	1,037
10-Apr-19	875	BUY	1,041
16-May-19	830	BUY	1,052
9-Jul-19	829	BUY	1,052
11-Jul-19	830	BUY	1,052
1-Aug-19	766	BUY	1,050

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

## INSTITUTIONAL RESEARCH

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