

Gulf Oil Lubricants

BUY

INDUSTRY	LUBRICANT
CMP (as on 22 May 2018)	Rs 918
Target Price	Rs 1,027
Nifty	10,537
Sensex	34,651
KEY STOCK DATA	
Bloomberg	GOLI IN
No. of Shares (mn)	50
MCap (Rs bn)/(US\$ mn)	46/672
6m avg traded value (Rs mn)	31
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,100 / 744
	3M 6M 12M
Absolute (%)	(6.6) (6.0) 16.4
Relative (%)	(9.1) (9.2) 3.0
SHAREHOLDING PATTERN (%)	
Promoters	72.88
FIs & Local MFs	5.66
FPIs	8.91
Public & Others	12.55
Source : BSE	

FY18 Achieved, Over to FY19

Gulf Oil Lubricants (Gulf Oil) reported strong results for 4QFY18, largely driven by volume/realisation growth 27.5/2.5% YoY. Revenue for the quarter stood at Rs 3.73bn, higher by 30.7% YoY. Gross margins improved by 126bps YoY to 45.9%. EBITDA grew strongly by 36.7% YoY to Rs 628mn, and EBITDAM stood at 16.8%, higher by 74bps YoY. APAT grew by 32.5% YoY at Rs 414mn.

For FY18, revenues were at Rs 13.32bn (+22.6% YoY), led by volume/realisation 14.0/7.5% YoY growth. EBITDA grew 32.6% YoY to Rs 2.35bn, EBITDAM at 17.7% (+133bps YoY). APAT grew 34.9% YoY to Rs 1.58bn.

Gulf continued its 15% YoY growth in Passenger Car Motor Oil (PCMO) & Motorcycle/Two Wheeler Oils (MCO). Diesel Engine oils (DEO) segment picked up strongly in 2HFY18 with close to 20% volume growth YoY. High growth was experienced in infrastructure as well as industrial distributor segment. Growth momentum continued in the overall OEM businesses

Financial Summary

Year to March (Rs mn)	4QFY18	4QFY17	% change	3QFY18	% change	FY17	FY18	FY19E	FY20E
Net Revenues	3,733.1	2,856.7	30.7	3,559.5	4.9	10,868	13,323	15,382	17,213
EBITDA	628.8	459.9	36.7	615.9	2.1	1,778	2,357	2,689	3,044
APAT	419.5	327.1	28.2	472.2	-11.2	1,176	1,586	1,803	2,042
EPS (Rs)	8.3	6.3	32.3	8.5	-2.7	23.7	31.9	36.3	41.1
P/E (x)						38.8	28.8	25.3	22.3
EV/EBITDA (x)						25.0	19.0	16.2	14.1
ROE (%)						39.0	38.6	35.1	33.6

Source: Company, HDFC sec Inst Research

& dealerships across various product categories including CV, two-wheeler and tractor.

Gulf Oil focuses on branding, distribution reach, and OEM tie-ups would help to outperform industry growth by more than 2.0x. We estimate 13.7/13.5% revenue/PAT CAGR over FY18-FY20E. Hence we upgrade to BUY rating with a TP of Rs 1,027 (25x FY20E EPS).

Highlights of the quarter

- **Core volume growth:** The share of high margin personal mobility continues to be ~24%, as compared to 21% in the last two to three years. The co's tie-ups with OEMs like Bajaj and Mahindra for 2Ws and tractors, along with higher distribution and branding, continue to drive growth higher.
- **Distribution expanding:** Distribution continues to be the focal point of growth. The Retail reach increased by 15% to 55K. Bike outlets increased from 6K to 9K, while car outlets to 900 from 200 over the last one year.

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- In rural areas, Gulf conducted extensive Oil change camps in Farm segment & in Franchise Work Shops across India. Gulf Unnati, the retailer loyalty program, continued to gain traction among top retail partners, which also supported volume growth in this quarter.
- **Near-term outlook:** 1) Gulf Oil focuses on the personal mobility segment, synthetic and premium grade products should further support growth. 2)

South India accounts ~30% of overall volumes, which is met through Silvassa plant. With the commissioning of Chennai plant, South India's demand will be met through this plant, would help to save logistics' costs. 3) As on FY18 net cash & equivalents at Rs 781mn, Gulf has indicated for inorganic growth, if any opportunity arises with the good valuations.

Revenue growth of 30.7% YoY was better than expectations; volume and prices grew by 27.5% and 2.5% YoY respectively

Gross margins improved by 126bps YoY, owing to a better product mix and price hikes taken in 4QFY18

Quarterly Financials

Year to March (Rs mn)	4QFY18	4QFY17	% change (YoY)	3QFY18	% change (QoQ)
Net Revenues	3,733	2,857	30.7	3,559	4.9
Cost of goods sold	2,020	1,582	27.7	1,841	9.7
Gross profit	1,713	1,275	34.4	1,719	(0.3)
Staff cost	220	183	20.1	215	2.1
Other expenditure	864	631	36.8	887	(2.6)
EBITDA	629	460	36.7	616	2.1
Depreciation	37	20	90.1	23	58.4
EBIT	592	440	34.3	592	(0.1)
Other income	71	60	17.8	72	(2.1)
Interest Cost	28	16	68.9	13	111.8
PBT	635	484	31.1	652	(2.6)
Provision for taxation	221	172	28.6	227	(2.4)
APAT	414	312	32.5	424.9	(2.7)
EPS (INR)	8.3	6.3	32.3	8.5	(2.7)

As % Of Net Revenues	4QFY18	4QFY17	bps change	3QFY18	bps change
COGS	54.1	55.4	(126)	51.7	240
Staff cost	5.9	6.4	(52)	6.1	(16)
Other expenditure	23.1	22.1	104	24.9	(178)
EBITDA	16.8	16.1	74	17.3	(46)
APAT	11.1	10.9	15	11.9	(86)
Tax rate	34.9	35.5	(68)	34.8	5

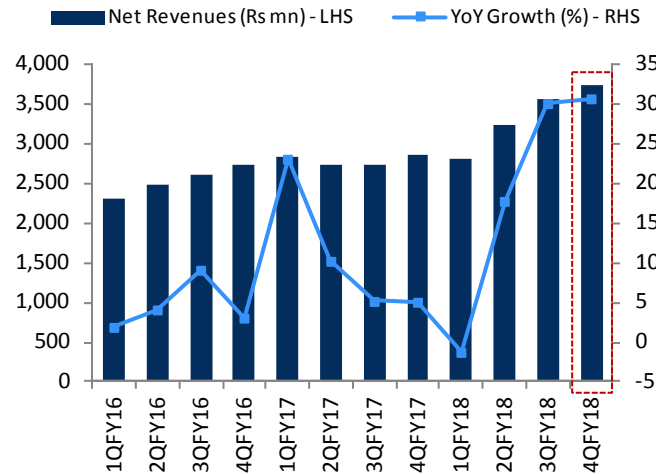
Source: Company, HDFC sec Inst Research

Share of B2C has remained at 63-65% since last 4 quarters, mainly driven by two-wheeler and passenger car segment

Passenger segment contributed 30% to the volume mix; management aims to double its market share in the PV space over the next 2-3 years (currently ~5%)

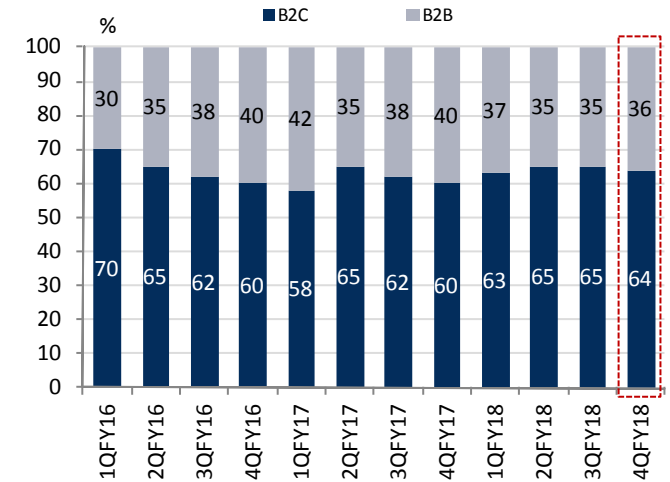
Gulf Oil was able to increase prices consistently over the last two quarters, largely supported by higher contribution from synthetic grade products

Strong Growth In The Personal Mobility Segment



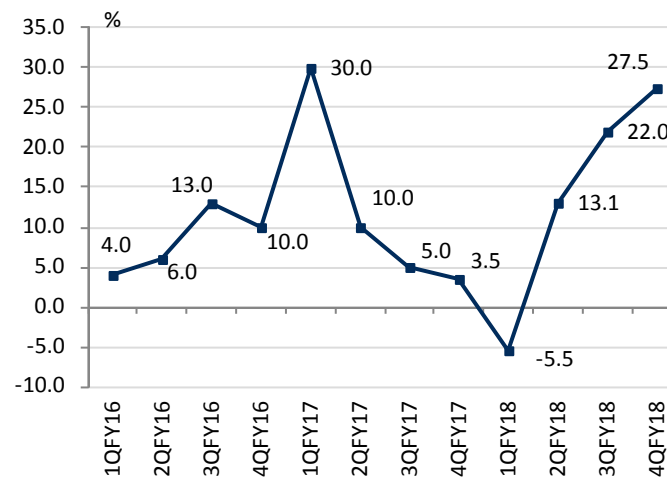
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OEM Tie-ups Leading To Higher B2C Sales



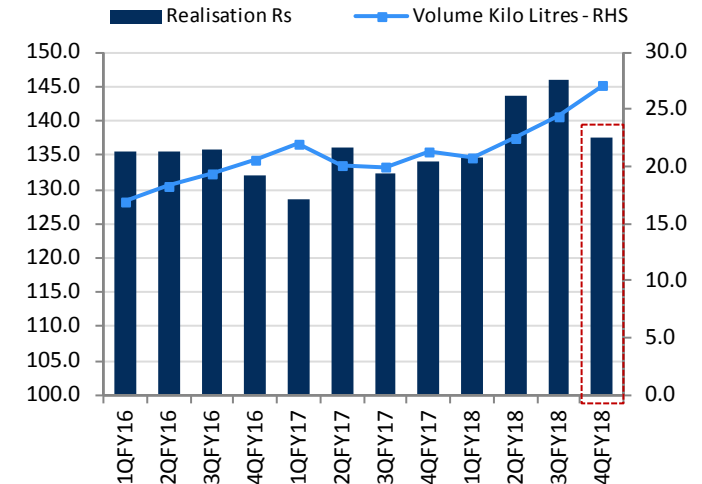
Source: Company, HDFC sec Inst Research

Quarterly Volume Growth Trend



Source: Company, HDFC sec Inst Research

Realisation Trend



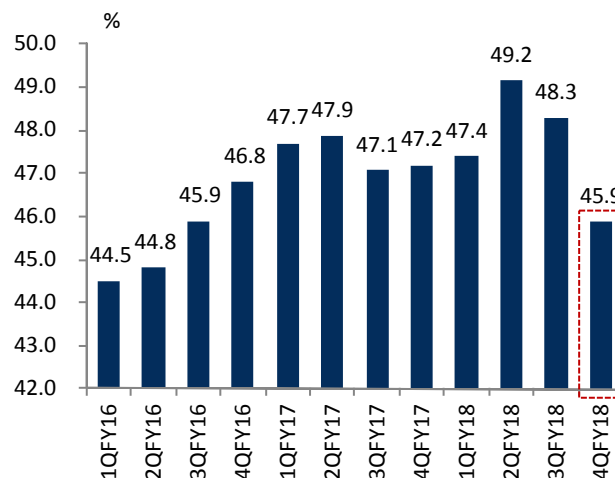
Source: Company, HDFC sec Inst Research

Price hike taken in 4QFY18 supported the margin; despite higher A&P spend in the quarter

Advertising and brand building spends were higher in 4QFY18

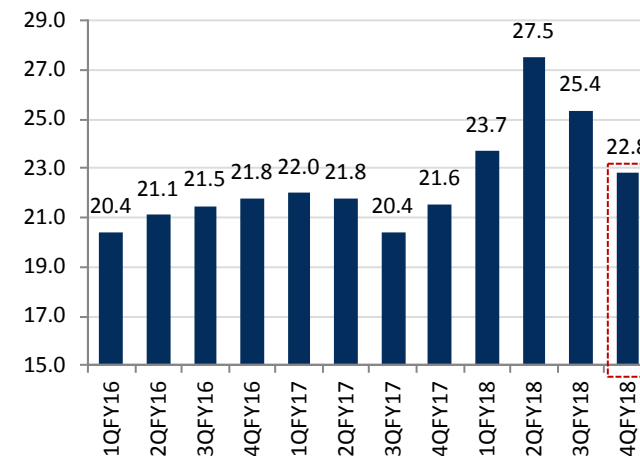
Pricing power, better mix, and operating leverage should aid in margin gains in the long run

Gross Margin up due to price hike



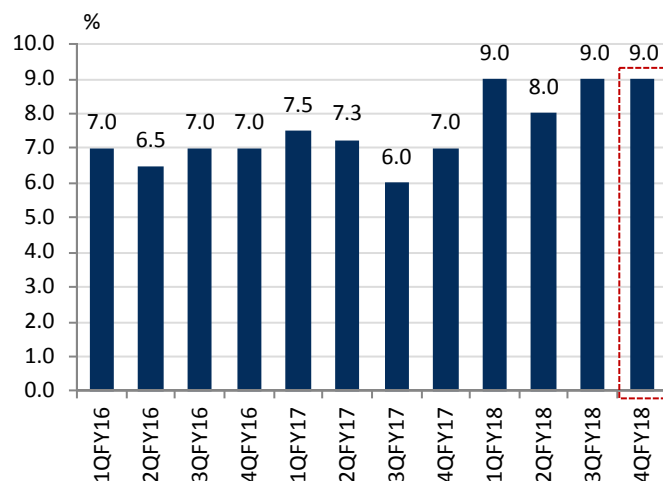
Source: Company, HDFC sec Inst Research

Trend In Unit Profitability:Ebitda Per Litre



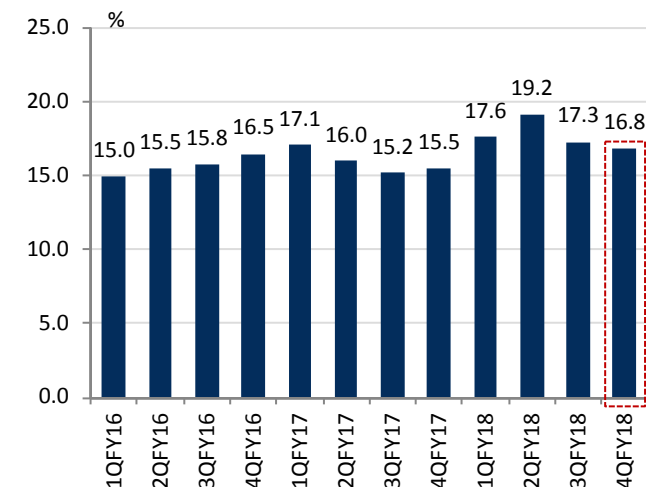
Source: Company, HDFC sec Inst Research

A&P/Net Revenues: Between 6-9%



Source: Company, HDFC sec Inst Research

EBITDA Margins Trend



Source: Company, HDFC sec Inst Research

The new plant in Chennai commissioned in Dec 2017, will contribute the volume growth in FY19/20E

The Chennai plant helps to reduce logistics costs, as South India accounts for ~30% of volumes

Key Assumptions

Particulars	FY16	FY17	FY18	FY19E	FY20E
Sales Volumes (mn litre)	75	83	95	105	114
Volume Growth (%)	-	10.9	14.0	11.0	8.6
As % of revenues					
Gross Margins	51.5	45.3	47.6	46.0	46.0
A&P	6.6	6.8	6.5	6.3	6.3
EBITDA	15.7	16.4	17.7	17.5	17.7

Source: Company, HDFC sec Inst Research

Change In Estimates

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	% Change	New	Old	% Change
Revenues	15,382	15,184	1.3	17,213	16,921	1.7
Volume	105	104	1.0	114	113	0.9
Gross Margin (%)	46.0	47.5	(1.5)	46.0	47.0	(1.0)
EBITDA	2,689	2,777	-3.2	3,044	3,101	(1.8)
EBITDA %	17.5	18.3	-0.8	17.7	18.3	(0.6)
Core PAT	1,803	1,834	-1.7	2,042	2,050	-0.4
EPS (Rs.)	36.3	36.7	(1.2)	41.1	41.0	0.1

Source: Company, HDFC Sec Inst Research

Peer Valuation

Company	Mcap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Gulf Oil	46	918	BUY	1,027	31.9	36.3	41.1	28.8	25.3	22.3	38.6	35.1	33.6
Castrol #	186	167	NA	NA	7.0	7.4	8.1	23.9	22.4	20.5	69.1	74.4	77.0

Source: Company, HDFC sec Inst Research, # Bloomberg estimates; For Castrol FY is CY17, CY18 and CY19 respectively

Income Statement: Standalone

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	10,114	10,868	13,323	15,382	17,213
Growth (%)	4.5	7.5	22.6	15.5	11.9
Material Expenses	4,906	5,943	6,977	8,306	9,295
Employee Expenses	574	708	826	892	963
A&P Expenses	672	739	866	969	1,084
Other Operating Expenses	2,370	1,700	2,297	2,526	2,827
EBIDTA	1,592	1,778	2,357	2,689	3,044
EBIDTA Margins (%)	15.7	16.4	17.7	17.5	17.7
EBIDTA Growth (%)	23.0	11.7	32.6	14.1	13.2
Depreciation	60	73	104	122	121
EBIT	1,531	1,706	2,253	2,566	2,923
Other Income	179	203	261	264	262
Interest	178	98	85	99	91
PBT	1,533	1,811	2,429	2,731	3,094
Tax	529	635	843	929	1,052
RPAT	1,003	1,176	1,586	1,803	2,042
RPAT Growth (%)	29.6	17.2	34.9	13.7	13.3
EO items (net of tax)	-	-	-	-	-
APAT	1,003	1,176	1,586	1,803	2,042
APAT Growth (%)	29.6	17.2	34.9	13.7	13.3
EPS	20.2	23.7	31.9	36.3	41.1
EPS Growth (%)	29.6	17.2	34.9	13.7	13.3

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	99	99	99	99	99
Reserves	2,386	3,442	4,575	5,510	6,447
Total Shareholders' Funds	2,485	3,541	4,674	5,609	6,546
Minority Interest	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Short Term Debt	1,947	1,785	2,481	2,281	2,081
Total Debt	1,947	1,785	2,481	2,281	2,081
Net Deferred Taxes	33	45	106	106	106
Long Term Provisions & Others	26	43	48	57	67
TOTAL SOURCES OF FUNDS	4,491	5,414	7,309	8,053	8,800
APPLICATION OF FUNDS					
Net Block	1,064	1,180	2,601	1,924	1,904
CWIP	19	292	60	100	100
Investments	31	37	42	42	42
LT Loans & Advances	85	128	95	110	123
Total Non-current Assets	1,200	1,637	2,797	2,175	2,168
Inventories	1,569	1,499	2,368	2,739	3,065
Trade Receivables	1,064	1,096	1,346	1,601	1,792
Cash & Equivalents	2,351	2,896	3,262	4,328	4,870
ST Loans & Advances	274	9	9	11	12
Other Current Assets	23	245	507	598	705
Total Current Assets	5,281	5,745	7,492	9,277	10,445
Creditors	1,310	1,331	2,229	2,529	2,830
Other Current Liabilities & Provisions	679	637	751	871	983
Total Current Liabilities	1,989	1,968	2,980	3,399	3,813
Net current Assets	3,291	3,777	4,512	5,878	6,632
TOTAL APPLICATION OF FUNDS	4,491	5,414	7,309	8,053	8,800

Source: Company, HDFC Sec Inst Research

Cash Flow Statement: Standalone

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,533	1,849	2,731	3,094	2,974
Non-operating & EO items	36.0	(25.8)	-	-	-
Interest Expenses	25.6	(86.4)	(85.3)	(99.2)	(91.2)
Depreciation	60.4	72.5	104.3	122.5	120.5
Working Capital Change	21	250	(517)	(273)	(208)
Tax Paid	(497)	(619)	(843)	(929)	(1,052)
OPERATING CASH FLOW (a)	1,178	1,440	1,391	1,915	1,743
Capex	(183)	(416)	(350)	(140)	(100)
Free Cash Flow	995	1,025	1,041	1,775	1,643
Investments	(5)	(0)	25	(15)	(13)
Non-operating income	156	210	-	-	-
INVESTING CASH FLOW (b)	(33)	(206)	(326)	(155)	(113)
Debt Issuance / (Repaid)	(227)	(71)	696	(200)	(200)
Interest Expenses	(176)	(93)	(85)	(99)	(91)
FCFE	945	1,047	1,822	1,675	1,534
Other Adjustment	188	(82)	(373)	474	(1)
Dividend	(385)	(444)	(927)	(867)	(1,105)
FINANCING CASH FLOW (c)	(599)	(689)	(689)	(692)	(1,398)
NET CASH FLOW (a+b+c)	546	545	376	1,068	232
Closing Cash & Equivalents	2,351	2,896	3,262	4,328	4,870

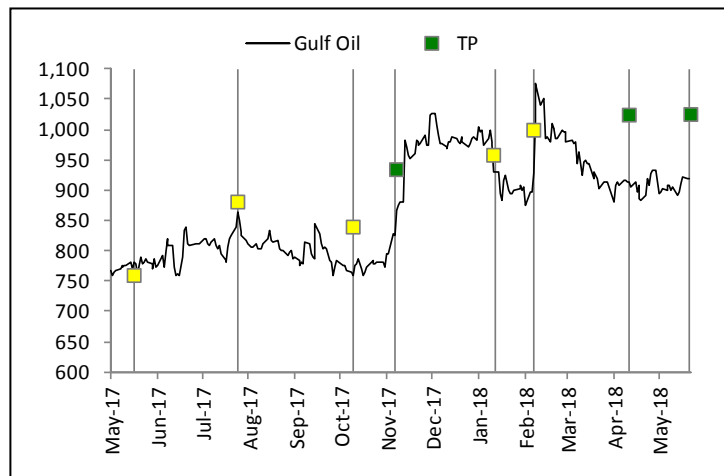
Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	51.5	45.3	47.6	46.0	46.0
EBITDA Margin	15.7	16.4	17.7	17.5	17.7
EBIT Margin	15.1	15.7	16.9	16.7	17.0
APAT Margin	9.9	10.8	11.9	11.7	11.9
RoE	46.1	39	38.6	35.1	33.6
RoIC	47.7	51	47.0	45.3	52.6
RoCE	26.1	25	25.8	24.3	24.9
EFFICIENCY					
Tax Rate (%)	34.5	35.1	34.7	34.0	34.0
Asset Turnover (x)	2.4	2.2	2.1	2.0	2.0
Inventory (days)	56.6	50.4	64.9	65.0	65.0
Debtors (days)	38.4	36.8	36.9	38.0	38.0
Loans & Advances(No of days)	10.7	8.5	14.1	14.4	15.2
Payables (days)	47.3	44.7	61.1	60.0	60.0
Current Liabilities (No of days)	24.5	21.4	20.6	20.7	20.8
Cash Conversion Cycle (days)	47.7	42.5	40.7	43.0	43.0
Debt/EBITDA (x)	1.2	1.0	1.1	0.8	0.7
Net D/E	(0.2)	(0.3)	(0.2)	(0.4)	(0.4)
Interest Coverage	8.6	17.4	26.4	25.9	32.0
PER SHARE DATA (Rs)					
EPS	20.2	23.7	31.9	36.3	41.1
CEPS	21.4	25.1	34.0	38.7	43.5
BV	50.0	71.3	94.0	112.9	131.7
DPS	7.0	3.5	15.5	14.5	18.5
VALUATION					
P/E (x)	45.5	38.8	28.8	25.3	22.3
P/BV (x)	18.4	12.9	9.8	8.1	7.0
EV/EBITDA (x)	28.4	25.0	19.0	16.2	14.1
EV/Revenues (x)	4.5	4.1	3.4	2.8	2.5
OCF/EV (%)	2.6	3.2	3.1	4.4	4.1
FCFE/Mkt Cap (%)	2.1	2.3	4.0	3.7	3.4
FCF/EV (%)	2.2	2.3	2.3	4.1	3.8
Dividend Yield (%)	0.8	0.4	1.7	1.6	2.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
18-May-17	775	NEU	760
26-Jul-17	864	NEU	880
10-Oct-17	765	NEU	840
7-Nov-17	820	BUY	936
12-Jan-18	977	NEU	958
7-Feb-18	925	NEU	999
11-Apr-18	917	BUY	1,026
22-May-18	918	BUY	1,027

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

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