

Volumes recover to pre-Covid level...

Gulf Oil Lubricants' (GOL) operating revenue for Q3FY21 increased 14.2% YoY to ₹ 481.9 crore on account of robust growth in sales volume. Volumes were at 33 million litre, up ~16% YoY. EBITDA/litre was at ₹ 25.3/litre, down 7.1% YoY. EBITDA came in at ₹ 83.4 crore, up 7.5% YoY due to better topline. Subsequently, PAT increased 14.6% YoY to ₹ 64 crore.

Margins to remain steady in long term

Gulf Oil's raw materials cost (base oil prices) is highly dependent on the movement of crude oil prices. While the rupee has weakened, crude oil prices have fallen sharply compared to Q3CY20, which led to a drop in base oil costs YoY. However, realisation was down ₹ 2/litre to ₹ 146/litre. As a result, gross margins registered a fall of ₹ 4.4/litre YoY to ₹ 70.1/litre. Subsequently, EBITDA was down 7.1% YoY to ₹ 25.3/litre. GOL has hiked prices across segments on account of increase in crude oil prices over past few months. The competition has also increased prices which gives visibility on the margins. The management has maintained its guidance of volume growth with 16-18% EBITDA margin. EBITDA is expected at ₹ 24.7/litre and ₹ 25.8/litre in FY22E and FY23E, respectively.

Robust volume growth

The company reported strong volume growth of ~16% YoY beating the industry average. All segments (except PCMO) reached normalcy during the quarter. All key products under the B2C segment reported strong growth. Also, B2B and industrial segments supported sales growth. Personal mobility jumped 20% while factory fills reported 30-40% growth YoY. Diesel vehicles contributed highest at 37% to total volume while personal mobility share was 24% and industrial at 15%. We expect GOL's volume at 124.7 million litre in FY22E and 135.9 million litre in FY23E i.e. 6.8% CAGR in FY20-23E. However, higher drain intervals due to technical improvements and development of electric vehicles space pose a potential risk to volume growth in long run.

Valuation & Outlook

Gulf Oil's focus on personal mobility and OEMs will remain key growth driver. The management indicated that the company is planning to increase its share in PCMO and industrial segment. The company's battery business also turned positive during the quarter. Acquisition of minority stake in Indra Renewables, the company operating in EV space, also gives the company opportunity to explore the EV space in India. However, for lubricants segment, upcoming disruption like those of electric vehicles is a concern. We maintain **HOLD** rating on the stock. We roll over valuations to FY23E and value the company at 14x FY23E EPS to arrive at a target price of ₹ 725/share (vs. earlier TP: ₹ 810/share).

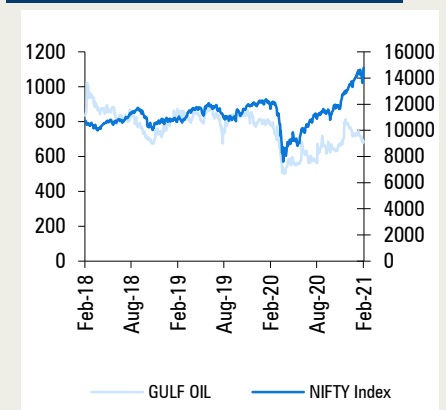
Particulars

Particular	Amount
Market Capitalization (₹Crore)	3,612.6
Total Debt (FY 20) (₹Crore)	375.9
Cash and Investments (FY 20)	550.9
EV (₹Crore)	3,437.6
52 week H/L	849/450
Equity capital (₹Crore)	10.0
Face value (₹)	2.0

Key risks to our call

- Slower than anticipated volume growth will affect earnings prospects
- Better than expected margins will lead to higher profitability

Price Performance



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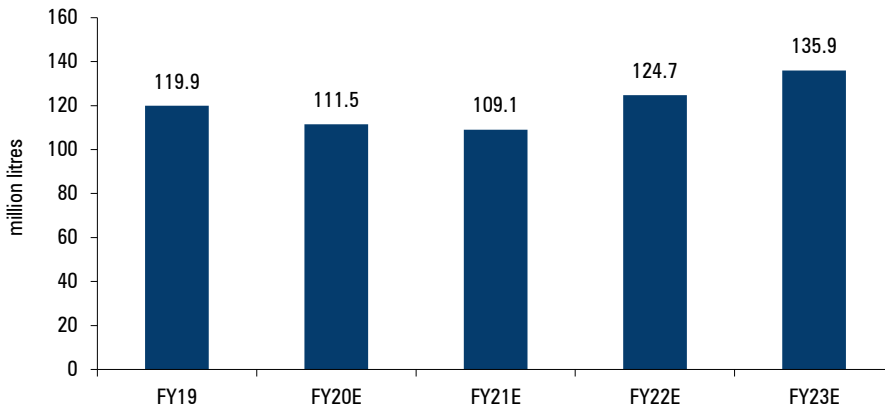
Key Financial Summary

(Year-end March)	FY19	FY20E	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenues (₹crore)	1,705.8	1,643.5	1,569.8	1,908.2	2,107.1	8.6
EBITDA (₹crore)	283.1	286.5	262.6	307.6	350.6	7.0
Net Profit (₹crore)	177.8	202.5	192.6	222.1	259.6	8.6
EPS (₹)	35.7	40.4	38.4	44.3	51.8	
P/E (x)	20.2	17.8	18.8	16.3	13.9	
Price / Book (x)	6.1	4.7	4.1	3.5	3.0	
EV/EBITDA (x)	12.7	12.0	12.2	10.1	8.4	
RoCE (%)	30.0	22.3	20.0	23.6	25.5	
RoE (%)	30.3	26.6	21.9	21.8	21.7	

Source: Company, ICICI Direct Research

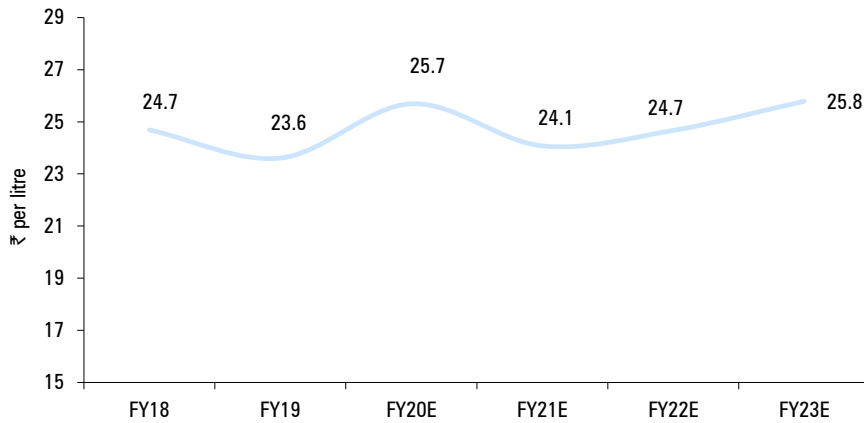
Story in charts

Exhibit 1: Volume trajectory



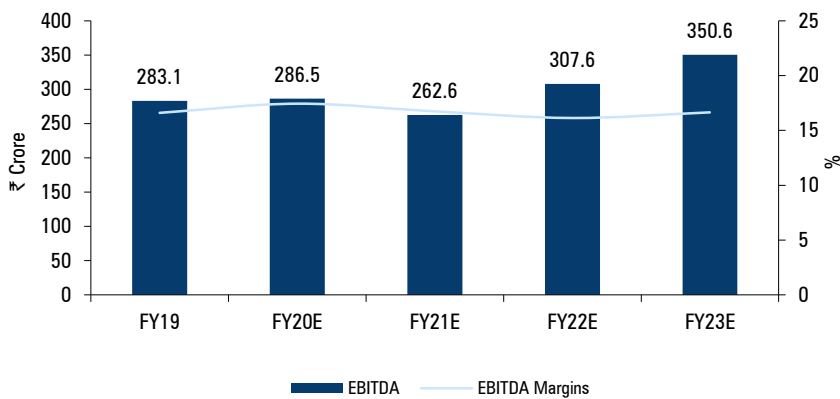
Source: Company, ICICI Direct Research

Exhibit 2: Margin trend



Source: Company, ICICI Direct Research

Exhibit 3: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue	1643.5	1569.8	1908.2	2107.1
Growth (%)	-3.7	-4.5	21.6	10.4
(Inc.)/(Dec.) in stock in tra	-15.0	6.0	0.0	0.0
Raw material Costs	782.0	744.0	959.2	1045.6
Purchase of Products	62.5	66.4	47.3	51.6
Employee Costs	114.0	120.4	136.0	153.7
Other Expenditure	413.5	370.3	458.0	505.7
Op. Expenditure	1357.0	1307.2	1600.6	1756.6
EBITDA	286.5	262.6	307.6	350.6
Growth (%)	1.2	-8.3	17.1	13.9
Depreciation	32.7	31.8	25.9	26.6
EBIT	253.8	230.8	281.8	323.9
Interest	24.8	20.4	20.3	11.3
Other Income	35.5	48.9	42.0	42.0
PBT	264.5	259.4	303.4	354.6
Growth (%)	-3.8	-2.0	17.0	16.9
Tax	62.0	66.8	81.3	95.0
Reported PAT	202.5	192.6	222.1	259.6
Growth (%)	13.9	-4.9	15.3	16.9
EPS	40.4	38.4	44.3	51.8

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	202.5	192.6	222.1	259.6
Add: Depreciation	32.7	31.8	25.9	26.6
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	229.9	224.4	248.0	286.2
Increase/(Decrease) in CI	42.1	-15.6	58.7	34.8
(Increase)/Decrease in C/	-35.8	136.0	-93.1	-56.8
CF from Operating Acti	236.1	344.9	213.6	264.2
Purchase of Fixed Assets	42.6	34.1	25.0	20.0
(Inc)/Dec in Investments	0.0	0.0	0.0	0.0
Others	4.0	4.0	4.0	4.0
CF from Investing Acti	-42.6	-34.1	-25.0	-20.0
Inc/(Dec) in Loan Funds	92.8	-100.0	-100.0	-100.0
Dividend Paid	42.3	76.2	82.1	82.1
Inc/(Dec) in Sh. Cap. & Re	14.3	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activ	64.8	-176.2	-182.1	-182.1
Change in cash Eq.	258.4	134.5	6.5	62.1
Op. Cash and cash Eq.	292.6	550.9	685.5	692.0
Cl. Cash and cash Eq.	550.9	685.5	692.0	754.1

Source: Company, ICICI Direct Research; *calculated

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	10.0	10.0	10.0	10.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	751.3	867.6	1,007.7	1,185.2
Shareholder's Fund	761.3	877.7	1,017.7	1,195.2
Loan Funds	375.9	275.9	175.9	75.9
Deferred Tax Liability	14.3	14.3	14.3	14.3
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1151.5	1167.9	1207.9	1285.4
Application of Funds				
Net Block	281.1	283.5	282.6	275.9
Capital WIP	0.7	8.0	13.0	13.0
Total Fixed Assets	281.8	291.5	295.6	288.9
Investments	4.6	4.6	4.6	4.6
Inventories	328.3	245.1	298.0	329.1
Debtor	187.0	163.4	198.7	219.4
Cash	550.9	685.5	692.0	754.1
Loan & Advance, Other C	94.6	65.3	70.3	75.3
Total Current assets	1,160.8	1,159.3	1,258.9	1,377.8
Current Liabilities	289.8	258.0	313.7	346.4
Provisions	5.3	21.4	24.5	26.6
Total CL and Provisions	295.1	279.5	338.2	372.9
Net Working Capital	865.7	879.8	920.7	1004.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1151.5	1167.9	1207.9	1285.4

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	151.9	175.2	203.1	238.5
Cash per share	110.0	136.8	138.1	150.5
EPS	40.4	38.4	44.3	51.8
Cash EPS	46.9	44.8	49.5	57.1
DPS	14.0	13.0	14.0	14.0
Profitability & Operating Ratios				
EBITDA Margin (%)	17.4	16.7	16.1	16.6
PAT Margin (%)	12.3	12.3	11.6	12.3
Fixed Asset Turnover (x)	5.8	5.5	6.8	7.6
Inventory Turnover (Days)	72.9	57.0	57.0	57.0
Debtor (Days)	41.5	38.0	38.0	38.0
Current Liabilities (Days)	64.4	60.0	60.0	60.0
Return Ratios (%)				
RoE	26.6	21.9	21.8	21.7
RoCE	22.3	20.0	23.6	25.5
RoIC	43.3	49.3	56.2	62.7
Valuation Ratios (x)				
PE	17.8	18.8	16.3	13.9
Price to Book Value	4.7	4.1	3.5	3.0
EV/EBITDA	12.0	12.2	10.1	8.4
EV/Sales	2.1	2.0	1.6	1.4
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.3	0.2	0.1
Interest Coverage (x)	10.2	11.3	13.9	28.6
Debt to EBITDA (x)	1.3	1.1	0.6	0.2
Current Ratio	3.9	4.1	3.7	3.7
Quick ratio	2.8	3.3	2.8	2.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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