

High raw material costs impact earnings...

About the stock: Gulf Oil Lubricants is one of the leading private companies in the domestic lubricants business.

- The company reported volume growth at ~9% CAGR in FY16-21
- Total capacity of the company is 140 million litre

Q3FY22 Results: Gulf Oil's results were impacted by increase in base oil costs.

- Revenue was up 24.9% YoY to ₹ 601.8 crore on account of growth in volume as well as realisation. Volume grew ~9% YoY to 36 million litre
- EBITDA was at ₹ 77 crore, down 7.6% YoY
- PAT was at ₹ 58.6 crore, down 8.4% YoY

What should investors do? In the near term, with rise in crude oil prices, raw material costs are likely to be higher for the company, impacting margin. Potential disruptions like higher drain interval and EVs will be key monitorables for long-term volume growth.

- We maintain our HOLD rating on the stock

Target Price and Valuation: We roll over valuations to FY24E and value Gulf Oil Lubricants at ₹ 565/ share i.e. 10x FY24E EPS

Key triggers for future price performance:

- Faster volume growth in retail segment
- Base oil costs trend to be the key monitorable in near term. Also, higher realisation/ passing on raw material costs to customers will be important to maintain margins
- Introduction of EVs may impact long term growth prospects
- Consistent dividend payout/return to shareholders

Alternate Stock Idea: Besides Gulf Oil, in our oil & gas coverage we also like IGL.

- Indraprastha Gas (IGL) is one of India's leading CGD companies, which primarily operates in NCT of Delhi and will benefit from stricter environmental regulations in Delhi. Continued capex, newer areas and CNG conversion of vehicles will support further volume growth
- BUY with a target price of ₹ 475



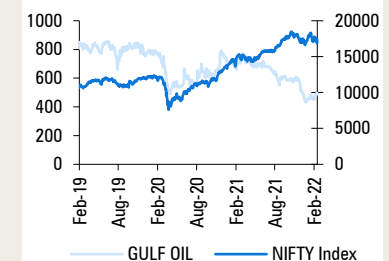
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,480.2
Total Debt (FY21) (₹ Crore)	211.4
Cash and Investments (FY21)	495.6
EV (₹ Crore)	2,196.0
52 week H/L	804/428
Equity capital (₹ Crore)	10.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	72.0	72.0	72.0	71.8	71.8
FI	11.5	11.3	10.1	9.2	6.2
DII	6.1	6.2	5.5	5.2	5.0
Others	10.5	10.5	12.4	13.8	17.0

Price Chart



Recent event & key risks

- The company announced buyback of shares
- Key Risk:** (i) Faster than expected volume growth, (ii) Lower than expected margins

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY23E	3 year CAGR (FY21-24E)
Revenues (₹ crore)	1,705.8	1,643.5	1,652.2	10.3	2,179.9	2,730.9	3,025.0	22.3
EBITDA (₹ crore)	283.1	286.5	265.2	10.7	272.4	316.3	371.4	11.9
Net Profit (₹ crore)	177.8	202.5	200.1	14.8	202.5	233.9	276.1	11.3
EPS (₹)	35.7	40.4	39.8		40.3	47.8	56.5	
P/E (x)	13.9	12.2	12.4		12.3	10.3	8.8	
Price / Book (x)	4.2	3.3	2.9		2.5	2.3	2.0	
EV/EBITDA (x)	8.7	8.0	8.3		7.4	6.1	4.8	
RoCE (%)	30.0	22.3	21.4		20.7	24.3	25.4	
RoE (%)	30.3	26.6	23.0		20.5	22.2	22.3	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Volume growth ~9% YoY

- Revenue was up 12.8% QoQ as volume increased 9% QoQ. We expect volume at 149.4 million litre in FY23E and 158.3 million litre in FY24E
- Realisation improved ₹ 5.5/litre QoQ during the quarter. However, COGS increased ₹ 6.2/litre QoQ leading to gross margin decline of ₹ 0.7/litre. Subsequently, EBITDA/litre declined by ₹ 2/litre
- We expect gross margins at ₹ 69.6/litre and ₹ 75.6/litre in FY23E and FY24, respectively. We estimate EBITDA/litre of ₹ 21.2/litre in FY23E and ₹ 23.5/litre in FY24E
- Gulf Oil's raw materials cost (base oil) is dependent on movement of crude oil prices and rupee against the US dollar. While base oil prices were steady during the quarter, with a sharp rise in crude oil prices in Q4FY22E, we expect base oil prices to stay elevated in the near term

Q3FY22 Earnings conference call highlights

- The management said that the company gained market share as Gulf Oil reported growth of 9% whereas overall market growth was flat to negative (0-5%)
- During Q3FY22, B2C share in overall mix was 55% while B2B contributed the rest. Volume breakup- personal mobility: 20%, diesel engine oil: 34%, industrial: 18% and others: 28%
- The management said that out of total volume in lubricants market, the company has 8-9% share in diesel engine oil and motorcycle, 4% share in industrial and 5% share in other segment
- Capex for the next three to four years will be in the range of ₹ 15-20 crore

Peer comparison

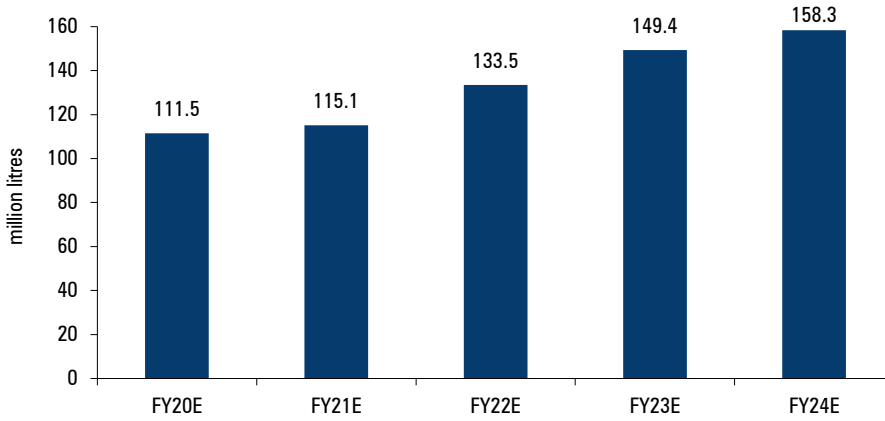
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Castrol India (CASIND)	120	120	Hold	11,869	5.9	7.7	7.8	20.4	15.7	15.4	13.0	9.9	9.9	50.9	59.6	65.2	41.2	46.1	51.1
Gulf Oil Lubricants (GULLUB)	495	565	Hold	2,480	39.8	40.3	47.8	12.4	12.3	10.3	8.3	7.4	6.1	21.4	20.7	24.3	23.0	20.5	22.2

Source: Company, ICICI Direct Research

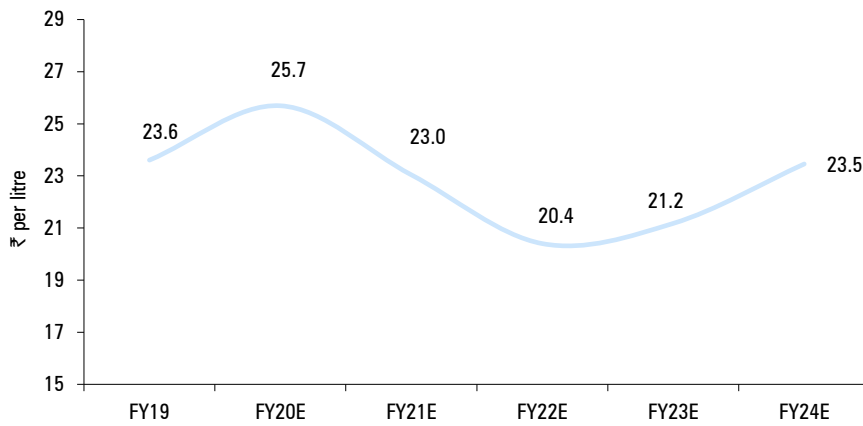
Story in charts

Exhibit 2: Volume trajectory



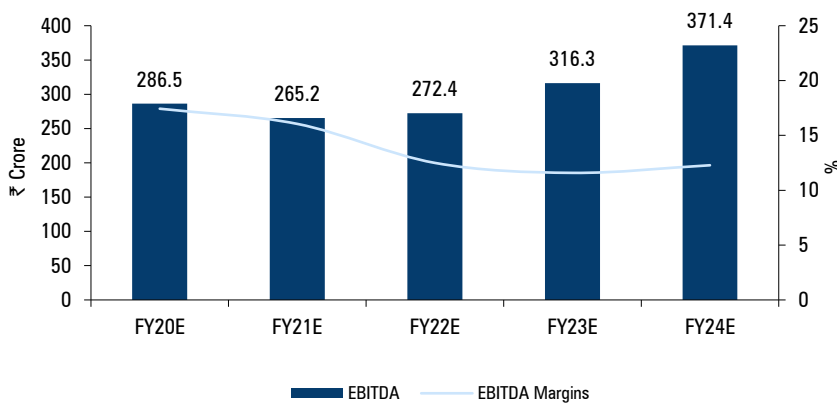
Source: Company, ICICI Direct Research

Exhibit 3: Margin trend



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA & EBITDA margins trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue	1652.2	2179.9	2730.9	3025.0
Growth (%)	0.5	31.9	25.3	10.8
(Inc.)/(Dec.) in stock in trade	-27.7	-35.9	0.0	0.0
Raw material Costs	828.6	1222.3	1572.5	1699.8
Purchase of Products	88.1	110.4	118.4	127.9
Employee Costs	116.5	122.7	150.2	160.3
Other Expenditure	381.6	488.1	573.5	665.5
Op. Expenditure	1387.0	1907.5	2414.5	2653.6
EBITDA	265.2	272.4	316.3	371.4
Growth (%)	-7.5	2.7	16.2	17.4
Depreciation	33.9	33.6	28.0	28.8
EBIT	231.3	238.7	288.4	342.6
Interest	14.6	8.5	13.4	13.4
Other Income	52.1	43.0	44.5	48.0
PBT	268.7	273.1	319.5	377.2
Growth (%)	1.6	1.6	17.0	18.1
Tax	68.7	70.6	85.6	101.1
Reported PAT	200.1	202.5	233.9	276.1
Growth (%)	-1.2	1.2	15.5	18.1
EPS	39.8	40.3	47.8	56.5

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	200.1	202.5	233.9	276.1
Add: Depreciation	33.9	33.6	28.0	28.8
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	232.8	236.2	261.8	304.9
Increase/(Decrease) in CL	56.6	29.7	93.3	51.5
(Increase)/Decrease in CA	-62.4	32.8	-148.4	-81.6
CF from Operating Activities	227.0	298.6	206.8	274.9
Purchase of Fixed Assets	10.1	30.7	17.0	21.0
(Inc)/Dec in Investments	-15.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-25.8	-30.7	-17.0	-21.0
Inc/(Dec) in Loan Funds	-164.5	-50.0	-25.0	-25.0
Dividend Paid	105.4	82.4	85.8	91.5
Inc/(Dec) in Sh. Cap. & Res.	13.4	0.0	-85.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-256.5	-132.4	-195.8	-116.5
Change in cash Eq.	-55.3	135.5	-6.1	137.4
Op. Cash and cash Eq.	550.9	495.6	631.1	625.1
Cl. Cash and cash Eq.	495.6	631.1	625.1	762.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
Equity Capital	10.1	10.1	9.8	9.8
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	859.3	979.5	1,042.8	1,227.4
Shareholder's Fund	869.4	989.5	1,052.6	1,237.2
Loan Funds	211.4	161.4	136.4	111.4
Deferred Tax Liability	13.2	13.2	13.2	13.2
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1093.9	1164.1	1202.1	1361.7
Application of Funds				
Net Block	257.4	254.4	243.4	235.6
Capital WIP	3.7	13.0	13.0	15.0
Total Fixed Assets	261.1	267.4	256.4	250.6
Investments	20.3	20.3	20.3	20.3
Inventories	376.5	340.4	426.5	472.4
Debtor	189.0	226.9	284.3	314.9
Cash	495.6	631.1	625.1	762.4
Loan & Advance, Other CA	106.8	72.2	77.2	82.2
Total Current assets	1,167.9	1,270.7	1,413.0	1,632.0
Current Liabilities	346.7	358.3	448.9	497.3
Provisions	4.9	23.0	25.7	28.9
Total CL and Provisions	351.6	381.3	474.6	526.2
Net Working Capital	816.3	889.4	938.4	1105.8
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1093.9	1164.1	1202.1	1361.7

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	172.8	196.7	215.3	253.0
Cash per share	98.5	125.4	127.8	155.9
EPS	39.8	40.3	47.8	56.5
Cash EPS	46.5	46.9	53.6	62.4
DPS	16.0	14.0	15.0	16.0
Profitability & Operating Ratios				
EBITDA Margin (%)	16.1	12.5	11.6	12.3
PAT Margin (%)	12.1	9.3	8.6	9.1
Fixed Asset Turnover (x)	6.4	8.6	11.2	12.8
Inventory Turnover (Days)	83.2	57.0	57.0	57.0
Debtor (Days)	41.7	38.0	38.0	38.0
Current Liabilities (Days)	76.6	60.0	60.0	60.0
Return Ratios (%)				
RoE	23.0	20.5	22.2	22.3
RoCE	21.4	20.7	24.3	25.4
RoIC	39.5	45.9	51.1	58.5
Valuation Ratios (x)				
PE	12.4	12.3	10.3	8.8
Price to Book Value	2.9	2.5	2.3	2.0
EV/EBITDA	8.3	7.4	6.1	4.8
EV/Sales	1.3	0.9	0.7	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.2	0.1	0.1
Interest Coverage (x)	15.8	28.0	21.5	25.6
Debt to EBITDA (x)	0.8	0.6	0.4	0.3
Current Ratio	3.3	3.3	3.0	3.1
Quick ratio	2.3	2.4	2.1	2.2

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct coverage universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BPCL (BHAPET)	376	450	Buy	78,693	91.0	43.4	39.8	4.1	8.7	9.4	6.2	6.5	6.4	14.8	14.7	13.2	34.9	19.0	16.1
GAIL (India) (GAIL)	147	180	Buy	65,074	11.0	22.4	17.8	13.3	6.5	8.2	10.8	5.1	6.2	8.7	18.5	13.1	10.5	18.5	13.4
Gujarat Gas (GUJGA)	647	700	Hold	44,539	18.5	16.4	23.3	34.9	39.5	27.7	21.7	24.1	17.5	31.7	24.8	30.4	28.5	21.3	25.0
HPCL (HINPET)	285	320	Hold	40,439	70.6	46.4	44.2	4.0	6.1	6.4	5.3	6.9	6.2	15.6	9.6	9.2	29.5	16.7	14.5
Indian Oil Corp (INDOIL)	125	150	Buy	1,14,763	23.8	25.4	19.2	5.3	4.9	6.5	3.0	2.7	3.1	13.3	13.9	10.6	19.8	18.3	12.9
Indraprastha Gas (INDGAS)	390	475	Buy	27,300	14.4	19.8	20.4	27.1	19.7	19.1	17.7	13.3	12.4	20.0	24.1	21.5	17.1	20.1	17.9
Mahanagar Gas (MAHGAS)	793	885	Hold	7,833	62.7	65.4	89.6	12.6	12.1	8.8	7.9	7.6	5.3	23.1	21.7	26.2	19.2	18.1	21.3
ONGC (ONGC)	164	185	Hold	2,10,659	8.9	32.3	32.5	18.4	5.1	5.0	6.9	3.8	2.9	4.5	14.5	18.0	5.5	17.4	15.8
Petronet LNG (PETLNG)	223	220	Hold	33,450	19.7	21.3	19.7	11.3	10.5	11.3	6.9	6.1	6.4	26.0	26.5	22.7	25.3	25.1	21.7
Reliance Industries (RELIND)	2,478	2,950	Buy	16,75,691	76.2	90.2	106.3	32.5	27.5	23.3	23.2	16.7	12.6	5.5	7.7	9.7	7.7	8.6	9.5

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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