

Base oil costs trend key monitorable...

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

- The company reported volume growth at ~10% CAGR in FY17-22
- Total capacity of the company is 140 million litre

Q4FY22 Results: Gulf Oil's profitability was driven by better gross margins YoY.

- Revenue was up 23.5% YoY to ₹ 638.9 crore on account of growth in volume as well as realisation. Volume grew ~7% YoY to 37.5 million litre
- EBITDA was at ₹ 89.1 crore, up 14.1% YoY
- PAT was at ₹ 63.4 crore, up 6% YoY

What should investors do? In the near term, with a 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 value Gulf Oil Lubricants at ₹ 440/ share i.e. 8x 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 Gail.

- Gail is India's leading gas transmission company, which is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value
- BUY with a target price of ₹ 180



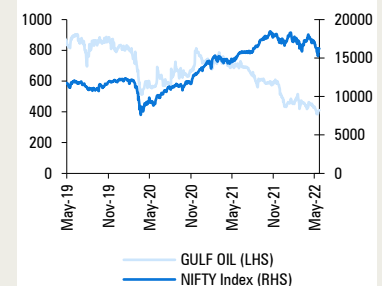
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,064.3
Total Debt (FY21) (₹ Crore)	211.4
Cash and Investments (FY21)	495.6
EV (₹ Crore)	1,780.1
52 week H/L	744/379
Equity capital (₹ Crore)	10.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	72.0	72.0	71.8	71.8	72.0
FII	11.3	10.1	9.2	6.2	5.0
DII	6.2	5.5	5.2	5.0	5.8
Others	10.5	12.4	13.8	17.0	17.2

Price Chart



Recent event & key risks

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

Research Analyst

Harshal Mehta
harshal.mehta@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	5 year CAGR (FY17-22E)	FY23E	FY23E	2 year CAGR (FY22E-24E)
Revenues (₹ crore)	1,705.8	1,643.5	1,652.2	2,191.6	14.1	2,811.3	2,920.1	15.4
EBITDA (₹ crore)	283.1	286.5	265.2	285.5	9.6	299.1	376.2	14.8
Net Profit (₹ crore)	177.8	202.5	200.1	211.1	11.8	217.2	275.8	14.3
EPS (₹)	35.7	40.4	39.8	41.9		43.1	54.7	
P/E (x)	11.5	10.2	10.4	9.8		9.6	7.5	
Price / Book (x)	3.5	2.7	2.4	2.0		1.9	1.6	
EV/EBITDA (x)	7.2	6.6	6.7	6.6		6.3	4.6	
RoCE (%)	30.0	22.3	21.4	17.4		18.8	21.9	
RoE (%)	30.3	26.6	23.0	20.2		20.0	21.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Volume grows ~7% YoY and ~4% QoQ

- Revenue was up 6.2% QoQ as volume increased ~4% QoQ. We expect volume at 148.9 million litre in FY23E and 157.8 million litre in FY24E
- Realisation improved ₹ 3.2/litre QoQ during the quarter. COGS increased ₹ 2.6/litre QoQ leading to gross margin growth of ₹ 0.6/litre. Subsequently, EBITDA/litre increased by ₹ 2.4/litre
- We expect gross margins at ₹ 67.3/litre and ₹ 72.9/litre in FY23E and FY24, respectively. We estimate EBITDA/litre of ₹ 20.1/litre in FY23E and ₹ 23.8/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. With a sharp rise in crude oil prices, we expect base oil prices to stay elevated in the near term

Q4FY22 Earnings conference call highlights

- The management said that the company gained market share by 50-100 bps in FY22 as Gulf Oil reported growth of 16% whereas overall market growth was flat to negative
- During Q4FY22, B2C share in overall mix was 55% while B2B contributed the rest. Volume breakup- personal mobility: 18-20%, diesel engine oil: 35-37%, industrial: 16-18% and others: 25-27%. Battery segment revenue was ₹ 18 crore during Q4FY22
- Annual capex will be in the range of ₹ 15-20 crore. The company is planning to increase auxiliary capacity like filling, etc
- The company has hiked retail prices by 3-4% in April
- On the cost & balance sheet front, stocking of raw materials across segments led to higher inventory. Additionally, forex exposure resulted in higher interest cost during the quarter. The management said advertising costs were 4% of revenue
- The management added that volume growth for the company will be higher than the industry growth in FY23. Also, the management said that EBITDA margin is expected in the range of 14-16%

Peer comparison

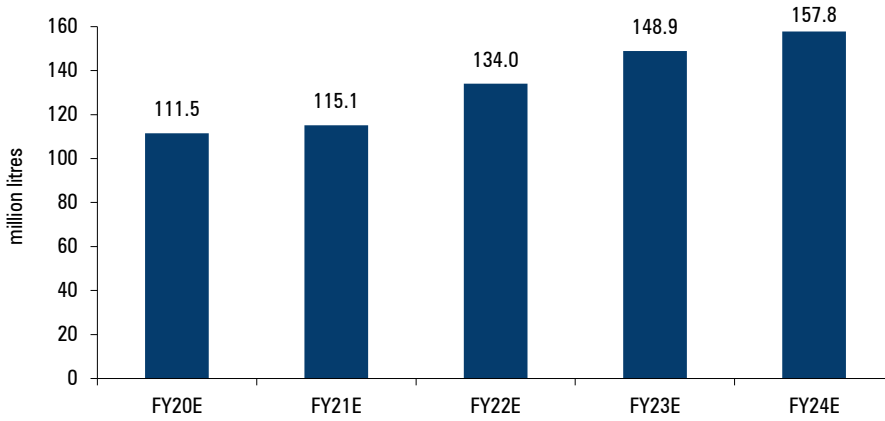
Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Castrol India (CASIND)	102	110	Hold	10,089	7.7	7.9	8.3	13.3	13.0	12.3	8.2	8.1	7.5	59.6	57.0	55.7	46.1	44.5	43.7
Gulf Oil Lubricants (GULLUB)	412	440	Hold	2,064	41.9	43.1	54.7	9.8	9.6	7.5	6.6	6.3	4.6	17.4	18.8	21.9	20.2	20.0	21.8

Source: Company, ICICI Direct Research

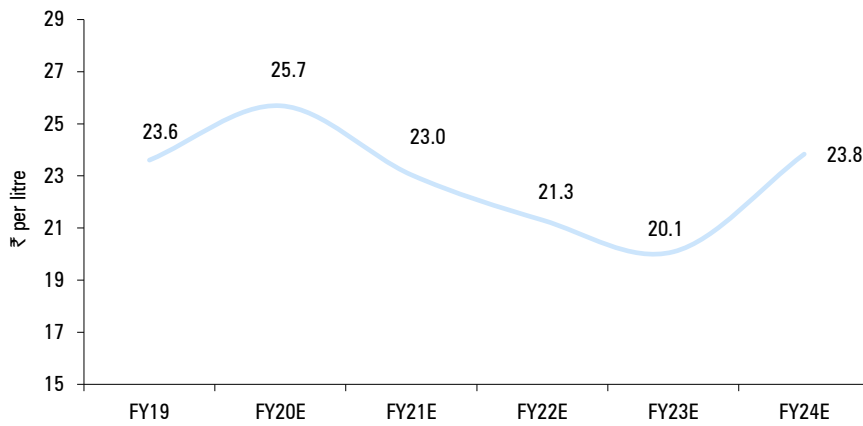
Story in charts

Exhibit 2: Volume trajectory



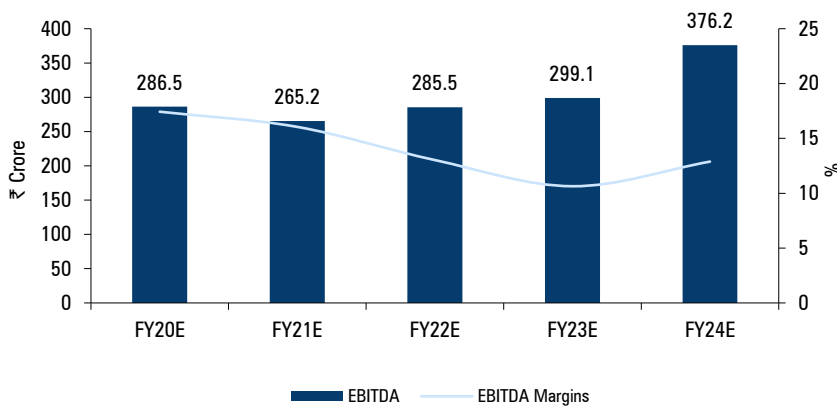
Source: Company, ICICI Direct Research

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	2191.6	2811.3	2920.1
Growth (%)	0.5	32.6	28.3	3.9
(Inc.)/(Dec.) in stock in trade	-27.7	-44.5	0.0	0.0
Raw material Costs	828.6	1175.7	1646.5	1610.8
Purchase of Products	88.1	180.9	162.8	159.3
Employee Costs	116.5	116.8	140.6	160.6
Other Expenditure	381.6	477.3	562.3	613.2
Op. Expenditure	1387.0	1906.1	2512.2	2543.9
EBITDA	265.2	285.5	299.1	376.2
Growth (%)	-7.5	7.7	4.8	25.8
Depreciation	33.9	35.7	25.7	24.8
EBIT	231.3	249.8	273.4	351.5
Interest	14.6	9.6	22.6	22.6
Other Income	52.1	44.2	46.0	48.0
PBT	268.7	284.3	296.7	376.8
Growth (%)	1.6	5.8	4.4	27.0
Tax	68.7	73.3	79.5	101.0
Reported PAT	200.1	211.1	217.2	275.8
Growth (%)	-1.2	5.5	2.9	27.0
EPS	39.8	41.9	43.1	54.7

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	200.1	211.1	217.2	275.8
Add: Depreciation	33.9	35.7	25.7	24.8
Add: Others	0.0	0.0	0.0	0.0
Cash Profit	232.8	246.1	242.9	300.6
Increase/(Decrease) in CL	56.6	-3.9	81.0	17.2
(Increase)/Decrease in CA	-62.4	-233.7	-118.5	-39.3
CF from Operating Activities	227.0	8.5	205.4	278.5
Purchase of Fixed Assets	10.1	59.0	21.9	15.0
(Inc)/Dec in Investments	-15.7	-15.6	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-25.8	-74.6	-21.9	-15.0
Inc/(Dec) in Loan Funds	-164.5	178.2	-25.0	-25.0
Dividend Paid	105.4	29.5	88.5	94.4
Inc/(Dec) in Sh. Cap. & Res.	13.4	-8.5	-84.7	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-256.5	140.2	-198.2	-119.4
Change in cash Eq.	-55.3	74.2	-14.7	144.1
Op. Cash and cash Eq.	550.9	495.6	569.7	555.0
Cl. Cash and cash Eq.	495.6	569.7	555.0	699.2

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	10.1	10.1
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	859.3	1,032.4	1,076.4	1,257.8
Shareholder's Fund	869.4	1,042.5	1,086.5	1,267.9
Loan Funds	211.4	389.6	364.6	339.6
Deferred Tax Liability	13.2	12.4	12.4	12.4
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	1093.9	1444.5	1463.5	1619.9
Application of Funds				
Net Block	257.4	280.6	276.8	267.0
Capital WIP	3.7	3.1	10.0	10.0
Total Fixed Assets	261.1	283.7	286.8	277.0
Investments	20.3	35.9	35.9	35.9
Inventories	376.5	476.3	539.2	560.0
Debtor	189.0	295.9	346.6	360.0
Cash	495.6	569.7	555.0	699.2
Loan & Advance, Other CA	106.8	133.8	138.8	143.8
Total Current assets	1,167.9	1,475.7	1,579.5	1,762.9
Current Liabilities	346.7	343.1	423.6	440.0
Provisions	4.9	4.6	5.0	5.9
Total CL and Provisions	351.6	347.7	428.7	445.9
Net Working Capital	816.3	1128.0	1150.9	1317.1
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	1093.9	1444.5	1463.5	1619.9

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	172.8	206.7	215.5	251.4
Cash per share	98.5	113.0	110.1	138.6
EPS	39.8	41.9	43.1	54.7
Cash EPS	46.5	48.9	48.2	59.6
DPS	16.0	5.0	15.0	16.0
Profitability & Operating Ratios				
EBITDA Margin (%)	16.1	13.0	10.6	12.9
PAT Margin (%)	12.1	9.6	7.7	9.4
Fixed Asset Turnover (x)	6.4	7.8	10.2	10.9
Inventory Turnover (Days)	83.2	79.3	70.0	70.0
Debtor (Days)	41.7	49.3	45.0	45.0
Current Liabilities (Days)	76.6	57.1	55.0	55.0
Return Ratios (%)				
RoE	23.0	20.2	20.0	21.8
RoCE	21.4	17.4	18.8	21.9
RoIC	39.5	29.0	30.5	38.7
Valuation Ratios (x)				
PE	10.4	9.8	9.6	7.5
Price to Book Value	2.4	2.0	1.9	1.6
EV/EBITDA	6.7	6.6	6.3	4.6
EV/Sales	1.1	0.9	0.7	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.4	0.3	0.3
Interest Coverage (x)	15.8	26.0	12.1	15.5
Debt to EBITDA (x)	0.8	1.4	1.2	0.9
Current Ratio	3.3	4.2	3.7	4.0
Quick ratio	2.3	2.9	2.4	2.7

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BPCL (BHAPET)	322	360	Hold	68,643	41.6	25.3	44.8	7.7	12.7	7.2	6.2	8.7	5.7	13.9	7.7	13.2	17.8	10.6	17.0
GAIL (India) (GAIL)	160	180	Buy	71,046	23.5	17.8	18.2	6.8	9.0	8.8	5.2	6.7	6.6	19.3	13.0	12.2	19.3	13.3	12.6
Gujarat Gas (GUJGA)	537	625	Buy	36,995	18.9	19.7	24.1	28.4	27.3	22.3	18.1	17.2	14.1	26.9	24.2	25.3	23.2	20.3	20.7
HPCL (HINPET)	230	255	Hold	32,607	44.9	10.5	42.8	5.1	21.8	5.4	7.8	15.0	7.1	7.3	1.3	7.3	16.5	4.0	14.8
Indian Oil Corp (INDOIL)	118	130	Hold	1,08,336	26.3	18.0	19.6	4.5	6.5	6.0	2.5	3.0	2.7	12.9	8.9	9.2	18.4	12.1	12.5
Indraprastha Gas (INDGAS)	349	395	Buy	24,430	18.7	15.2	18.2	18.7	22.9	19.2	12.5	14.5	12.0	22.9	16.4	17.7	19.2	14.2	15.1
Mahanagar Gas (MAHGAS)	745	820	Hold	7,359	60.4	71.3	78.1	12.3	10.4	9.5	7.6	6.3	5.6	20.1	21.4	21.1	16.9	17.9	17.5
Petronet LNG (PETLNG)	206	210	Hold	30,840	22.3	17.6	21.2	9.2	11.7	9.7	5.7	6.5	5.4	27.0	20.1	22.7	25.0	18.9	21.1
Reliance Industries (RELIND)	2,621	3,050	Buy	17,73,208	89.7	128.7	130.9	29.2	20.4	20.0	18.0	11.9	10.9	7.7	11.5	11.4	8.5	11.0	10.4

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Harshal Mehta, MTech (Biotech), Amogh Deshpande, PGDM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.