

# GULF OIL LUBRICANTS INDIA LTD

 23<sup>rd</sup> Jan 2019

Initiating Coverage (BUY)

CMP INR 851

Target Price INR 931

## Stock Details

Industry	Oil Marketing & Distribution
Bloomberg Code	GOLI:IN
BSE Code	538567
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	42,346.4
52wk. Low/High (Adjusted) (Rs.)	618.00/1095.00

## Shareholding Pattern Dec '18

Promoter (%)	72.74
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	27.26
No. of Share Outstanding (mn)	49.79

## Valuation Summary

	FY 17A	FY 18A	FY 19P	FY 20P
P/E (x)*	29.07	26.87	25.00	23.00
EV/EBITDA (x)	16.07	14.95	13.72	12.20
P/BV (x)	9.89	9.06	7.54	5.98

\*TTM for Current Year

 Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

## Key Financial

Rs. Mn	FY 17A	FY 18A	FY 19P	FY 20P
Net Sales	13,040	13,784	15,163	16,527
EBITDA	2019	2618	3,024	3,300
Net Profit	1,211	1,586	1,830	2,061
EPS (Rs.)*	24.2	31.7	36.7	40.5

\*Un adjusted

## Key Ratios

	FY 17A	FY 18A	FY 19P	FY 20P
EBITDA Margin (%)	17.5	18.6	19.6	19.6
EBIT Margin (%)	16.9	16.9	17.9	18.7
Net Pro. Margin (%)	10.5	11.3	11.8	12.0
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	40.2	38.6	34.1	29.2
RoCE (%)	39.2	37.5	33.1	28.5



We recommend 'BUY' on GULF OIL LUBRICANTS INDIA LTD for a target of INR 931 - valuing the company at P/E 23x of FY20E Earning.

## INVESTMENT RATIONALE:

- Fastest Growing Lubricant Player by consistently outperforming the industry growth rate YOY.
- The 'Gulf Oil' brand enjoys a position among the Top 3 lubricant brands with regards to brand awareness, purchase consideration and other parameters.
- Pioneered long-drain interval in India Launched future-ready products.
- Motivated workforce striving relentlessly to achieve organisational goals.
- Consistent investment in the brand has resulted in strong brand awareness of the Gulf brand in India.
- New R&D Centre – Gulf's biggest facility globally.
- Customer Experience Centre, the first of its kind in India.
- Differentiated products have helped to stay ahead of the curve and enhance market share across segments.
- Innovation has played a pivotal role in driving industry leading performance in the last few years.
- Significant potential to ramp up rural penetration of automobiles.

## VALUATIONS AND VIEW:

Gulf Oil Lubricants India Ltd is the fastest Growing Lubricant Player by consistently outperforming the industry growth rate YOY. The 'Gulf Oil' brand enjoys a position among the Top 3 lubricant brands with regards to brand awareness, purchase consideration and other parameters. We value the business at 23x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 931 per share.

## RISK & CONCERNS:

- **Foreign Currency Risk:** Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (primarily material costs are denominated in a foreign currency).
- **Interest rate risk:** The Company had borrowed funds at floating interest rates. The Company's interest rate risk arises from short term borrowings with variable rates.
- **Commodity Price Risk:** The Company's exposure to market risk with respect to commodity prices primarily arises from the fact that we are a purchaser of base oil. This is a commodity product whose prices can fluctuate sharply over short periods of time. The prices of base oil generally fluctuate in line with commodity cycles.
- **Credit Risk:** Credit risk is the risk of financial loss to the Company if a customer or counter-party fails to meet its contractual obligations thus leading to a financial loss. The Company is exposed to credit risk from its operating and financial activities.
- **Liquidity Risk:** The Company's principal sources of liquidity are cash and cash equivalents and the cash flow that is generated from operations. The company has net positive cash surplus after adjusting its short term bank borrowings.

## COMPANY BACKGROUND:

Gulf Oil Lubricants India Ltd (GOLIL), part of the Hinduja Group, is an established player in the Indian Lubricants Industry with significant presence across automotive and industrial lubricants segments. Gulf Oil International (GOI), parent of GOLIL, owns the Gulf brand globally (except USA, Spain & Portugal). Previously a part of Gulf Oil Corporation Limited, today, GOLIL, as part of the parent company GOI, enjoys a presence in over a 100 countries. It has a robust global product portfolio and have been pioneers of the 'Long Drain' products in India. Brand 'Gulf' enjoys a high recall in the minds of customers. Strong distribution network, state-of-the-art manufacturing facilities at Silvassa and Chennai, and long-standing partnerships with OEMs and other B2B customers are pivotal to growth. With operations primarily in the Automotive and Industrial segments, during the year, it undertook multiple initiatives as it continued to enhance and strengthen distribution network across both automotive and industrial segments. It continued to deepen relationship with existing OEM partners and also welcoming new partners to family.

## PRODUCTS:

- Automotive Lubricants
- Industrial Lubricants
- Batteries
- Marine

## INDUSTRY OVERVIEW:

India follows the US and China to be the third largest lubricant market globally. It is one of the fastest-growing lubricant markets in the world. The Indian lubricant market can be broadly classified under the three heads of automotive, industrial and process/white oils. Process oils constitute one-third of the total lube market. Automotive and industrial together form two-thirds of the market in terms of volume, followed by industrial oils such as transmission and hydraulic fluids, general industrial oils, gear oils, greases and so on. Automotive engine oils form the largest pie of the Indian lubricant market, excluding process oils. India's lubricant market constitutes over 20 organised players, including the MNCs, public sector oil marketing companies and other domestic companies. The market is dominated by the public sector oil marketing companies. In recent years, though, private players have started growing rapidly owing to their expanding reach and highly innovative products and services. This trend is likely to continue in the future as well. Encouraging prospects of the rural economy, focus on energy efficiency, higher brand consciousness and continuous advancement of engine technology are some macro enablers that will contribute to the growth of India's lubricant market in the future.

## PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Pidilite Inds.	1,149	61.2	58,356.4	0.52	231.6	(8.05)	1,757.4	14.88	16.33
Guj Fluorochem	166	20.3	10,311.4	0.37	462.0	584.88	1,479.5	69.00	5.24
Castrol India	166	23.6	16,384.8	4.23	150.4	(5.76)	926.9	7.60	15.34
Godrej Inds.	526	40.3	17,680.4	0.33	135.6	72.13	2,624.0	14.76	4.21
Phillips Carbon	184	8.2	3,165.0	1.31	108.6	91.87	945.9	53.80	2.31
Aarti Inds.	1,550	32.5	12,597.8	0.06	122.9	56.57	1,299.5	46.36	7.48
<b>Gulf Oil Lubric.</b>	<b>850.5</b>	<b>25.0</b>	<b>4,234.6</b>	<b>1.18</b>	<b>40.3</b>	<b>(0.32)</b>	<b>417.2</b>	<b>29.19</b>	<b>9.06</b>

\*TTM

## FINANCIAL OVERVIEW

### Q2 FY18 Performance Highlight

(in Million)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	YoY (%)	QoQ (%)
Revenue	3,229.48	3,559.48	3,733.11	3,903.60	4,172.14	29.19%	6.88%
Other Income	38.33	72.3	70.8	66.37	67.07		
Total Income	3,267.81	3,631.78	3,803.91	3,969.97	4,239.21	29.73%	6.78%
Expenditure	-2,626.18	-2,956.61	-3,131.89	-3,302.52	-3,563.05		
<i>As a % of Sales</i>	81.32%	83.06%	83.89%	84.60%	85.40%		
Interest	-15.84	-13.04	-27.61	-44.02	-105.01	562.94%	138.55%
PBDT	641.63	675.17	672.02	667.45	676.16		
<i>As a % of Sales</i>	19.87%	18.97%	18.00%	17.10%	16.21%		
Depreciation	-22.06	-23.46	-37.16	-49.48	-55.9		
PBT	619.57	651.71	634.86	617.97	620.26	0.11%	0.37%
<i>As a % of Sales</i>	19.18%	18.31%	17.01%	15.83%	14.87%		
Tax	-215.37	-226.85	-221.3	-216.65	-217.35	0.92%	0.32%
Net Profit	404.2	424.86	413.56	401.32	402.91	-0.32%	0.40%
<i>As a % of Sales</i>	12.52%	11.94%	11.08%	10.28%	9.66%		
Equity	99.4	99.4	99.4	99.4	99.58	0.18%	0.18%
EPS (Rs)	8.14	8.54	8.33	8.07	8.1	-0.49%	0.37%
CEPS (Rs)	8.58	--	9.07	9.07	9.21		
OPM %	19.87	18.97	18	17.1	16.21		
NPM %	12.52	11.94	11.08	10.28	9.66		

### Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
<b>Net Sales</b>	<b>9,675</b>	<b>10,114</b>	<b>11,311</b>	<b>13,784</b>	<b>15,163</b>	<b>16,527</b>	<b>18,180</b>
Other Operating Income	92	179	215	261	303	292	332
<b>Expenditure</b>	<b>8,381</b>	<b>8,522</b>	<b>9,507</b>	<b>11,427</b>	<b>12,442</b>	<b>13,520</b>	<b>15,027</b>
<b>EBITDA</b>	<b>1,386</b>	<b>1,771</b>	<b>2,019</b>	<b>2,618</b>	<b>3,024</b>	<b>3,300</b>	<b>3,485</b>
Depreciation	48	60	73	104	133	134	135
<b>EBIT</b>	<b>1,338</b>	<b>1,711</b>	<b>1,947</b>	<b>2,514</b>	<b>2,892</b>	<b>3,166</b>	<b>3,350</b>
Interest Expenses	178	178	97	85	112	112	129
<b>PBT</b>	<b>1,160</b>	<b>1,533</b>	<b>1,849</b>	<b>2,429</b>	<b>2,779</b>	<b>3,054</b>	<b>3,221</b>
Tax	386	529	638	843	950	1,037	1,091
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
<b>Net Income Before Adjustment</b>	<b>774</b>	<b>1,003</b>	<b>1,211</b>	<b>1,586</b>	<b>1,830</b>	<b>2,016</b>	<b>2,130</b>
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>774</b>	<b>1,003</b>	<b>1,211</b>	<b>1,586</b>	<b>1,830</b>	<b>2,016</b>	<b>2,130</b>

### Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
Equity share capita	99	99	99	99	99	99	99
Reserves & surplus	1,772	2,386	3,437	4,575	5,966	7,660	9,450
Misc Expenditure	-	-	-	-	-	-	-
<b>Net worth</b>	<b>1,871</b>	<b>2,485</b>	<b>3,537</b>	<b>4,674</b>	<b>6,065</b>	<b>7,760</b>	<b>9,550</b>
Minority Interest	-	-	-	-	-	-	-
<b>Loan Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>0</b>	<b>(2)</b>
Net deferred tax liability	26	33	45	124	124	124	124
Other Long-term Liabilities	6	5	16	24	27	29	32
Long-term Provisions	22	26	27	6	6	7	8
<b>Total Liabilities</b>	<b>1,924</b>	<b>2,550</b>	<b>3,625</b>	<b>4,831</b>	<b>6,226</b>	<b>7,922</b>	<b>9,714</b>
<b>Net block</b>	<b>976</b>	<b>1,088</b>	<b>1,472</b>	<b>2,661</b>	<b>2,558</b>	<b>2,453</b>	<b>2,348</b>
<b>Investment, Loan &amp; Adv.</b>	<b>102</b>	<b>117</b>	<b>160</b>	<b>136</b>	<b>217</b>	<b>246</b>	<b>289</b>
<b>Total Current Assets</b>	<b>4,567</b>	<b>5,280</b>	<b>5,681</b>	<b>7,492</b>	<b>8,861</b>	<b>11,147</b>	<b>13,554</b>
<b>Current Liabilities &amp; Provisions</b>	<b>3,721</b>	<b>3,937</b>	<b>3,689</b>	<b>5,460</b>	<b>5,410</b>	<b>5,926</b>	<b>6,478</b>
<b>Net Current Assets</b>	<b>846</b>	<b>1,344</b>	<b>1,992</b>	<b>2,031</b>	<b>3,450</b>	<b>5,221</b>	<b>7,075</b>
<b>Total Assets</b>	<b>1,924</b>	<b>2,550</b>	<b>3,625</b>	<b>4,831</b>	<b>6,226</b>	<b>7,922</b>	<b>9,714</b>

### Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 18A	FY 19E	FY 20P	FY 21P
<b>Operating Cash Flow</b>	<b>1,101</b>	<b>1,591</b>	<b>2,125</b>	<b>2,150</b>
<b>Cash Flow from Investments</b>	<b>(509)</b>	<b>(117)</b>	<b>(65)</b>	<b>(79)</b>
<b>Cash Flow from Financing</b>	<b>89</b>	<b>(424)</b>	<b>(187)</b>	<b>(172)</b>
<b>Net Changes in Cash</b>	<b>682</b>	<b>1,050</b>	<b>1,872</b>	<b>1,899</b>
Opening Cash	2,529	3,210	4,260	6,133
<b>Closing Cash Balance</b>	<b>3,210</b>	<b>4,260</b>	<b>6,133</b>	<b>8,031</b>

## Research Analyst Details

Wealth Discovery Securities Pvt. Ltd.

SEBI Registration No.: INH100004571

Research Analyst: Rahul Agarwal, rahul@wealthdiscovery.in

Research Associate: Dushmanta Panda, dushmanta@wealthdiscovery.co.in

Research Associate: Divya Sood, divya@wealthdiscovery.co.in

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## Head Office

**Wealth Discovery Securities Pvt. Ltd.**

1206, 12th Floor,  
Kailash Building K.G. Marg.  
Connaught Place  
New Delhi-110001

Telephone:  
91 +11-43444-666  
91 +11-43444-623

Email:  
[info@wealthdiscovery.in](mailto:info@wealthdiscovery.in)

Website:  
<http://www.wealthdiscovery.in>