

Gulf Oil Lubricants

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Management meet – Healthy volume outlook; cost pressures likely to ease

Gulf Oil Lube's (GOLI's) Management reiterated that the Indian lube industry would maintain growth till the middle of next decade. Despite rising EV penetration, a large portion of new-vehicle sales would continue to be ICEs, leading to expansion of the lube universe; the lube market should clock 3-4% CAGR in the foreseeable future, with GOLI's own target maintained at 2-3x of the industry (i.e. >10%). The post-Covid cost pressures that have gripped the industry (first base oil and now having affected additives too) should subside going ahead, with oil stabilizing and the supply scenario easing. GOLI took responsive retail price-hikes to maintain unit margins, though percentage margins seem optically lower. AdBlue's annual market size is 500million-litres currently and is expected to see 3x growth in 5 years, entailing strong volumes for GOLI, which is a premium player with 15% market share. Company is also gradually increasing its EV footprint via investments and products. GOLI's OCF would be deployed in core capex, EV foray and payout to shareholders (40% dividend payout, buyback, etc). We concur with Company outlook and reiterate BUY, with TP of Rs625.

Expect volume to log double-digit CAGR; cost pressure to subside: In terms of EV risks, the lube sector comprises 43% of diesel engine oils, wherein buses and certain LCVs can convert to EVs more quickly than bulk categories like M&HCVs and tractors. Industrial/non-engine oils (incl. greases & coolants) comprise 21%/15%, which does not entail any EV risk; 15% is 2W oils, 70% of which covers motorcycle oils (scooters would make a quicker EV shift due to availability of models, motorcycles have limited option) and 8% entails passenger-car oils (certain urban centers to see more conversions). Hence, the Indian lube story is unlikely to get derailed before the next decade at least. Vehicle sales are likely to accelerate ahead, with second-hand sales, kilometer-run, etc also expected to rev up. Additive prices, which had jumped 35-40%, are yet to come down, but GOLI's margin position is stable and cooling of cost pressure can lead to margin expansion. Mgmt has guided to 14-16% lube EBITDA.

Gearing up for EVs; AdBlue to witness rapid growth: GOLI has invested in the EV chain through technologies and solutions such as Indra Renewable and ElectreeFi Software, which it would offer to the Indian market. Company has launched EV fluids globally as well as in India in CY21, and enjoys OEM relationships with the likes of Piaggio, Altigreen, Switch, etc. AdBlue, a diesel exhaust fluid, has significant upside potential; while its EBITDA margin is in single-digit, it is a complementary product and earnings-accretive whose penetration would increase exponentially. GOLI has 30mn-ltr capacity, with core plants in Silvassa and Chennai and satellite units in 5-6 locations. GOLI is one of the top-3 players and likely to log 30% CAGR ahead. Battery would also expand. Its balance sheet would remain healthy, with reasonable capex requirement and gross WC likely to be range-bound at 100 days.

Financial Snapshot (Standalone)

| (Rs mn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------|--------|--------|--------|--------|--------|
| Revenue | 16,522 | 21,916 | 31,697 | 34,409 | 37,355 |
| EBITDA | 2,652 | 2,855 | 3,393 | 3,780 | 4,130 |
| EBITDA Margin (%) | 16.1 | 13.0 | 10.7 | 11.0 | 11.1 |
| APAT | 2,001 | 2,111 | 2,332 | 2,600 | 2,901 |
| EPS (Rs) | 39.8 | 41.9 | 47.6 | 53.1 | 59.2 |
| EPS (% chg) | (1.6) | 5.2 | 13.7 | 11.5 | 11.6 |
| ROE (%) | 24.5 | 22.1 | 22.1 | 23.1 | 23.1 |
| P/E (x) | 11.0 | 10.5 | 9.2 | 8.3 | 7.4 |
| EV/EBITDA (x) | 7.2 | 7.1 | 6.4 | 5.6 | 5.0 |
| P/BV (x) | 2.5 | 2.1 | 2.0 | 1.8 | 1.6 |

Source: Company, Emkay Research

| | |
|--|--------------------------------|
| CMP | Target Price |
| Rs 438 as of (February 20, 2023) | Rs 625 (■) 12 months |
| Rating | Upside |
| BUY (■) | 42.6 % |

Change in Estimates

| | |
|-------------------------|----|
| EPS Chg FY23E/FY24E (%) | -/ |
| Target Price change (%) | NA |
| Target Period (Months) | 12 |
| Previous Reco | |

Emkay vs Consensus

| | EPS Estimates | |
|-------------------------|---------------|-------|
| | FY23E | FY24E |
| Emkay | 47.6 | 53.1 |
| Consensus | 48.5 | 58.8 |
| Mean Consensus TP (12M) | Rs 643 | |

Stock Details

| | |
|-----------------------------|-----------|
| Bloomberg Code | GOLI IN |
| Face Value (Rs) | 2 |
| Shares outstanding (mn) | 49 |
| 52 Week H/L | 505 / 378 |
| M Cap (Rs bn/USD bn) | 21 / 0.26 |
| Daily Avg Volume (nos.) | 33,962 |
| Daily Avg Turnover (USD mn) | 0.2 |

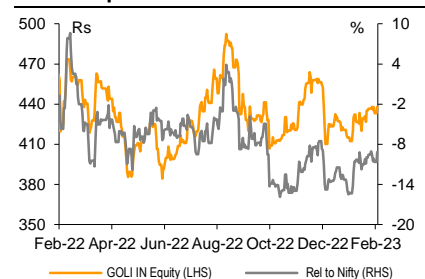
Shareholding Pattern Dec '22

| | |
|-------------------|-------|
| Promoters | 72.0% |
| FIIIs | 3.4% |
| DIIIs | 7.0% |
| Public and Others | 17.5% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------------|----|----|-----|------|
| Absolute | 6 | 4 | (5) | (11) |
| Rel. to Nifty | 7 | 7 | (5) | (14) |

Relative price trend



Source: Bloomberg

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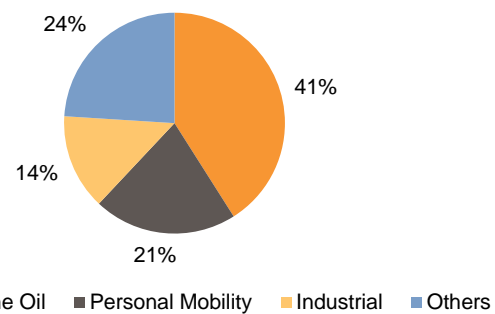
Key Charts & Tables

Exhibit 1: OEM tie-ups

| Type | OEMs |
|--------------|--|
| Automotive | Ashok Leyland, Mahindra, Swaraj, Bharat Benz, Bajaj, Force Motors, Piaggio, Tata Motors, Kia, S-OIL, Ford, Sonalika Intl |
| AdBlue | Ashok Leyland, Force Motors, Fiat, BMW, Mahindra |
| EV fluids | Switch, Piaggio, Altigreen, Spicer, Propel |
| Construction | Putzmeister, LiuGong, ACE, Robbins, MAIT, Bobcat, L&T |
| Industrial | Schwing Stetter, Shibaura Machine, Bonfiglioli, AAM, Windsor, Milacron, Dana, Automotive Axles |

Source: Company, Emkay Research

Exhibit 2: Product mix – FY22



Source: Company, Emkay Research

Exhibit 3: Distribution network

| Number of | Network |
|-----------|-----------------------------|
| 80k+ | Touchpoints |
| 300+ | Auto Distributors |
| 1k+ | Rural Stockists |
| 65+ | Industrial Distributors |
| 300+ | Direct Industry Accounts |
| 8k+ | Bike Stops |
| 2k+ | Car Stops |
| 500+ | B2B Customers |
| 24 | Depots Supporting Logistics |
| 320 | Battery Service Points |

Source: Company, Emkay Research

Exhibit 4: Plant capacities

| million-litre | Silvassa | Chennai | Total |
|---------------|------------|-----------|------------|
| Lubricants | 90 | 50 | 140 |
| AdBlue | 12 | 18 | 30 |
| Total | 102 | 68 | 170 |

Source: Company, Emkay Research

Valuation

Exhibit 5: DCF-based valuation (Mar-24E)

| DCF assumptions | | (Rs mn) | |
|---------------------------|--------------|--------------------------------|---------------|
| Risk Free Rate | 7.0% | NPV Of FCF (Mar '25-Mar '36) | 16,883 |
| Risk Premium | 5.3% | Terminal Value | 40,895 |
| Beta | 0.7 | PV of TV | 11,971 |
| Cost Of Equity | 10.8% | Total Value | 28,855 |
| Cost Of Debt | 9.0% | Less: Adj Net Debt (Y/E) | -1,763 |
| Post Tax Cost Of Debt | 6.8% | Equity Value | 30,618 |
| Average Debt:Equity Ratio | 0.0% | No. of Shares O/S (mn) | 49 |
| WACC | 10.8% | Target Price (Rs/share) | 625 |
| Terminal Growth Rate | 2.0% | | |

Source: Company, Emkay Research

Exhibit 6: Implied PER-based valuation (Mar-25E)

| Rs/share | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|----------------------------|------|------|------|-------|-------|-------------|
| GOLI's Adjusted EPS | 40.4 | 39.8 | 41.9 | 47.6 | 53.1 | 59.2 |
| Target multiple (x) | | | | | | 10.6 |
| Target Price | | | | | | 625 |

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

| Y/E Mar (Rs mn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 16,522 | 21,916 | 31,697 | 34,409 | 37,355 |
| Expenditure | 13,870 | 19,061 | 28,304 | 30,630 | 33,225 |
| EBITDA | 2,652 | 2,855 | 3,393 | 3,780 | 4,130 |
| Depreciation | 339 | 357 | 396 | 404 | 427 |
| EBIT | 2,313 | 2,498 | 2,997 | 3,376 | 3,703 |
| Other Income | 521 | 442 | 468 | 464 | 489 |
| Interest expenses | 146 | 96 | 348 | 364 | 314 |
| PBT | 2,687 | 2,843 | 3,117 | 3,476 | 3,878 |
| Tax | 687 | 733 | 786 | 876 | 977 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported Net Income | 2,001 | 2,111 | 2,332 | 2,600 | 2,901 |
| Adjusted PAT | 2,001 | 2,111 | 2,332 | 2,600 | 2,901 |

Balance Sheet

| Y/E Mar (Rs mn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 101 | 101 | 98 | 98 | 98 |
| Reserves & surplus | 8,593 | 10,326 | 10,532 | 11,832 | 13,138 |
| Net worth | 8,694 | 10,427 | 10,630 | 11,930 | 13,236 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Loan Funds | 2,114 | 3,896 | 4,096 | 3,996 | 3,846 |
| Net deferred tax liability | 132 | 124 | 111 | 98 | 85 |
| Total Liabilities | 10,939 | 14,447 | 14,837 | 16,024 | 17,166 |
| Net block | 2,536 | 2,731 | 2,609 | 2,505 | 2,763 |
| Investment | 214 | 369 | 377 | 384 | 392 |
| Current Assets | 11,668 | 14,793 | 16,961 | 18,667 | 20,015 |
| Cash & bank balance | 4,956 | 5,744 | 3,873 | 4,459 | 4,592 |
| Other Current Assets | 676 | 1,004 | 1,452 | 1,576 | 1,711 |
| Current liabilities & Provision | 3,516 | 3,477 | 5,141 | 5,564 | 6,035 |
| Net current assets | 8,152 | 11,316 | 11,820 | 13,103 | 13,980 |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 10,939 | 14,447 | 14,837 | 16,024 | 17,166 |

Cash Flow

| Y/E Mar (Rs mn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|---------------------------------------|----------------|--------------|----------------|----------------|----------------|
| PBT (Ex-Other income) (NI+Dep) | 2,167 | 2,402 | 2,649 | 3,012 | 3,389 |
| Other Non-Cash items | 65 | 46 | 0 | 0 | 0 |
| Chg in working cap | (69) | (2,384) | (2,388) | (710) | (758) |
| Operating Cashflow | 1,935 | (237) | 220 | 2,193 | 2,394 |
| Capital expenditure | (101) | (545) | (275) | (300) | (685) |
| Free Cash Flow | 1,834 | (783) | (55) | 1,893 | 1,709 |
| Investments | (157) | (155) | (7) | (8) | (8) |
| Other Investing Cash Flow | 33 | 86 | 0 | 0 | 0 |
| Investing Cashflow | 295 | (173) | 186 | 157 | (203) |
| Equity Capital Raised | 0 | 0 | (3) | 0 | 0 |
| Loans Taken / (Repaid) | (1,645) | 1,782 | 200 | (100) | (150) |
| Dividend paid (incl tax) | (1,043) | (450) | (1,049) | (1,300) | (1,596) |
| Other Financing Cash Flow | 51 | (38) | (1,076) | 1 | 1 |
| Financing Cashflow | (2,784) | 1,198 | (2,276) | (1,764) | (2,059) |
| Net chg in cash | (553) | 788 | (1,871) | 586 | 132 |
| Opening cash position | 5,509 | 4,956 | 5,744 | 3,873 | 4,459 |
| Closing cash position | 4,956 | 5,744 | 3,873 | 4,459 | 4,592 |

Source: Company, Emkay Research

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Key Ratios

| Profitability (%) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin | 16.1 | 13.0 | 10.7 | 11.0 | 11.1 |
| EBIT Margin | 14.0 | 11.4 | 9.5 | 9.8 | 9.9 |
| Effective Tax Rate | 25.5 | 25.8 | 25.2 | 25.2 | 25.2 |
| Net Margin | 12.1 | 9.6 | 7.4 | 7.6 | 7.8 |
| ROCE | 25.2 | 23.2 | 23.7 | 24.9 | 25.3 |
| ROE | 24.5 | 22.1 | 22.1 | 23.1 | 23.1 |
| RoIC | 29.5 | 26.4 | 23.8 | 23.3 | 23.8 |

| Per Share Data (Rs) | FY21 | FY22 | FY23E | FY24E | FY25E |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS | 39.8 | 41.9 | 47.6 | 53.1 | 59.2 |
| CEPS | 46.5 | 48.9 | 55.7 | 61.3 | 67.9 |
| BVPS | 172.8 | 206.8 | 216.9 | 243.4 | 270.1 |
| DPS | 16.0 | 5.0 | 21.4 | 26.5 | 32.6 |

| Valuations (x) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER | 11.0 | 10.5 | 9.2 | 8.3 | 7.4 |
| P/CEPS | 9.4 | 9.0 | 7.9 | 7.1 | 6.5 |
| P/BV | 2.5 | 2.1 | 2.0 | 1.8 | 1.6 |
| EV / Sales | 1.2 | 0.9 | 0.7 | 0.6 | 0.6 |
| EV / EBITDA | 7.2 | 7.1 | 6.4 | 5.6 | 5.0 |
| Dividend Yield (%) | 3.7 | 1.1 | 4.9 | 6.1 | 7.4 |

| Gearing Ratio (x) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity | (0.3) | (0.2) | 0.0 | 0.0 | (0.1) |
| Net Debt/EBIDTA | (1.1) | (0.6) | 0.1 | (0.1) | (0.2) |
| Working Cap Cycle (days) | 70.6 | 92.8 | 91.5 | 91.7 | 91.7 |

| Growth (%) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 0.5 | 32.6 | 44.6 | 8.6 | 8.6 |
| EBITDA | (7.7) | 7.7 | 18.9 | 11.4 | 9.3 |
| EBIT | (9.1) | 8.0 | 20.0 | 12.6 | 9.7 |
| PAT | (1.2) | 5.5 | 10.5 | 11.5 | 11.6 |

| Quarterly (Rs mn) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 6,018 | 6,389 | 7,065 | 7,195 | 7,811 |
| EBITDA | 770 | 891 | 850 | 802 | 900 |
| EBITDA Margin (%) | 12.8 | 13.9 | 12.0 | 11.2 | 11.5 |
| PAT | 586 | 634 | 553 | 521 | 627 |
| EPS (Rs) | 11.6 | 12.6 | 11.3 | 10.6 | 12.8 |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Mar-22 | Apr-22 | Jun-22 | Sep-22 | Dec-22 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 71.8 | 72.0 | 72.0 | 72.0 | 72.0 |
| FIs | 5.2 | 5.0 | 3.7 | 3.6 | 3.4 |
| DIs | 5.8 | 5.8 | 7.0 | 7.0 | 7.0 |
| Public and Others | 17.2 | 17.2 | 17.3 | 17.4 | 17.5 |

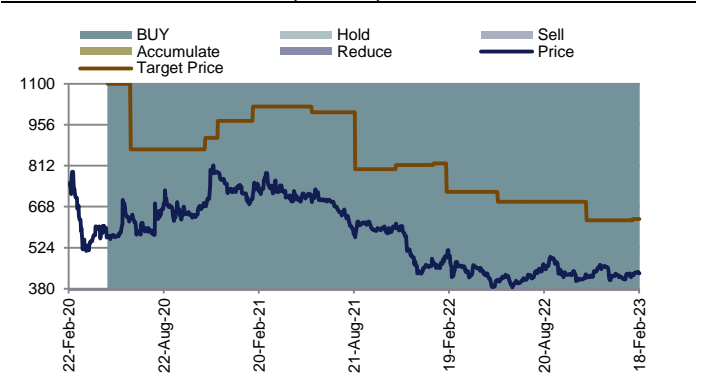
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

| Date | Closing Price | TP | Period | Rating | Analyst |
|-----------|---------------|-------|--------|--------|----------------|
| 6-Feb-23 | 431 | 625 | 12m | Buy | Sabri Hazarika |
| 9-Nov-22 | 419 | 620 | 12m | Buy | Sabri Hazarika |
| 23-May-22 | 411 | 685 | 12m | Buy | Sabri Hazarika |
| 14-Feb-22 | 488 | 720 | 12m | Buy | Sabri Hazarika |
| 20-Jan-22 | 471 | 820 | 12m | Buy | Sabri Hazarika |
| 23-Nov-21 | 579 | 815 | 12m | Buy | Sabri Hazarika |
| 9-Nov-21 | 609 | 815 | 12m | Buy | Sabri Hazarika |
| 23-Aug-21 | 560 | 800 | 12m | Buy | Sabri Hazarika |
| 26-Jul-21 | 649 | 1,000 | 12m | Buy | Sabri Hazarika |
| 23-Jun-21 | 692 | 1,000 | 12m | Buy | Sabri Hazarika |
| 1-Jun-21 | 684 | 1,000 | 12m | Buy | Sabri Hazarika |
| 29-May-21 | 711 | 1,020 | 12m | Buy | Sabri Hazarika |
| 23-Apr-21 | 686 | 1,020 | 12m | Buy | Sabri Hazarika |
| 23-Mar-21 | 760 | 1,020 | 12m | Buy | Sabri Hazarika |
| 8-Feb-21 | 714 | 1,020 | 12m | Buy | Sabri Hazarika |
| 3-Dec-20 | 789 | 970 | 12m | Buy | Sabri Hazarika |
| 9-Nov-20 | 676 | 910 | 12m | Buy | Sabri Hazarika |
| 28-Sep-20 | 668 | 870 | 12m | Buy | Sabri Hazarika |
| 13-Aug-20 | 631 | 870 | 12m | Buy | Sabri Hazarika |
| 19-Jun-20 | 630 | 870 | 12m | Buy | Sabri Hazarika |
| 6-May-20 | 565 | 1,100 | 12m | Buy | Sabri Hazarika |

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

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