

Savita Oil Technologies

Rs 730
Established player in transformer and white oil

Sensex: 46,961

Nifty: 13,761

FINANCIALS SUMMARY

| | NET SALES | OPM (%) | OP | OTHER INC. | PBIDT | INTEREST | PBDT | DEP. | PBT | TOTAL TAX | PAT | EPS (Rs)* |
|-----------|-----------|---------|--------|------------|--------|----------|--------|-------|--------|-----------|--------|-----------|
| 1903 (12) | 2262.52 | 8.70% | 196.79 | 18.4 | 215.19 | 28.95 | 186.24 | 23.53 | 162.71 | 48.44 | 114.27 | 81 |
| 2003(12) | 2046.17 | 7.60% | 155.35 | 11.61 | 166.96 | 19.99 | 146.97 | 22.22 | 124.75 | 29.11 | 95.64 | 68 |
| 2103(12P) | 1712.09 | 8.40% | 143.77 | 24.34 | 168.11 | 10.91 | 157.2 | 20.57 | 136.63 | 35.52 | 101.11 | 71.9 |
| 2203(12P) | 1968.91 | 9.00% | 177.2 | 25.56 | 202.76 | 10.36 | 192.4 | 20.98 | 171.41 | 44.57 | 126.85 | 90 |

*Annualized On Current Equity Of Rs 14.07 Crore of face value of Rs 10 each. EO: Extraordinary Items, PPI: Prior Period Item.

EPS Is Calculated After Excluding EO And Relevant Tax. (P): Projections. Figures In Rs Crore

Source: Capitaline Database

Savita Oil Technologies (SAVITA), established in 1961 by late N K Mehra, is a leading player in the transformer oil, white oil, industrial and automotive lubricants. These specialty petroleum products are essentially obtained through refining base oil, and topped with additives to derive the required characteristics.

The company has three manufacturing facilities - one at Turbhe, Navi Mumbai, Maharashtra and the other two in Silvassa - Union Territory of Dadra & Nagar Haveli at Kharadpada and Silli with an aggregate refining capacities of 450000 kilolitres per annum.

The company has an installed wind mill capacity of 54.15 MW spread across 18 sites in the states of Maharashtra, Tamil Nadu and Karnataka. Power generated by windmills are sold to SEBs and other users, under long-term agreements.

Diverse product basket that cater to various/diverse end user industries

Product basket of the company is diverse catering to various end user industries such as power generation and distribution, automotive, thermoplastic rubbers, FMCG, plastics, pharmaceutical, agriculture, refrigeration, polymers, among others. While the transformer oil accounts for about 34% of the company's revenue, white oils accounts for 35% and lubricants about 27%.

Transformer Oils are used as an insulating and cooling medium in distribution transformers, power transformers and instrumentation transformers and the company is one of the top two players in this segment. In case of White & Mineral Oils, the company offers a range of highly refined speciality mineral oil-based products used in technical, consumer as well as pharmaceutical applications. It also offer custom-formulated products for applications in industries like cosmetics, personal care, plastics, pharmaceutical, agriculture and food.

Its Industrial Oil business offers a range of products including hydraulic oils, industrial gear oils, refrigeration compressor oils, quenching oils, thermic and heat exchange oils, greases, metal working fluids. Its automotive Oils business product basket comprise motorcycles and scooter engine oils (4T and 2T), passenger car motor oils, tractors and farm oils, equipment oils, heavy-duty diesel engine oils, gear oils, power steering fluids, automatic transmission fluids, greases and coolants.

Furthermore, the company's wind power plants, that supply to SEBs and others generated a revenue of Rs 37 crore or 2% of the revenue in FY20.



STOCK DATA

| | | |
|------------------|---|-----------------|
| BSE Code | : | 524667 |
| BSE Group | : | B |
| NSE Code | : | SOTL |
| Bloomberg | : | STEC@IN |
| Reuters | : | SAOL.BO |
| Par Value | : | Rs 10 |
| 52-week High/Low | : | Rs 938 / Rs 497 |
| Sector | : | Petrochemicals |

SHAREHOLDING PATTERN*

| Category | % of equity |
|-------------------|-------------|
| Foreign | : 4.65 |
| Institutions | : 11.66 |
| Govt Holding | : 0.00 |
| Corporate Holding | : 1.97 |
| Promoters | : 71.75 |
| Public & Others | : 9.98 |

* as on 30/09/2020

Source: Capitaline Databases

Established player in the transformer and white oil market with established clientele

SAVITA caters to an established clientele, including Hindustan Unilever, Dabur, and ABB India in addition to various state electricity boards (SEBs).

With a market share of 35-40% in the transformer oil and white oil segments, the company has a strong market position but the company is relatively a smaller player in the auto lubricant industry, but that itself offers room for growth.

Though limited product differentiation results in intense competition in the base oil processing industry, the stringent technical approvals from customers, which takes considerable time and efforts gives established players with long client relationship such as SAVITA an edge. New entrants find it time consuming to obtain such approvals and that act as an effective entry barriers.

As about 70% of its revenue (accounted by transformer and white oil) makes the company largely a B2B player. But the company also markets its popular SAVSOL range of lubricants, greases and coolants to retail customers. SAVSOL, the company's own branded lubricating oil continues its positive growth trajectory and has significant head room for further market penetration.

Being a leading player the company is poised to capture increased opportunity for transformer oil

Transformer Fluids are fundamental to the safe and smooth running of transformers to support the nation's power grids and addition of power capacity in rural and urban areas. These robust fluids are designed to function as an insulating medium as well as to help dissipate heat and keep the transformers running at a safe temperature.

The global transformer oil market is projected to reach USD 3 billion by 2025 from an estimated market size of USD 2.2 billion in 2020, growing at a CAGR of 6.9% during the forecast period. The factors driving the growth for transformer oil are the upgradation of electric grids in developing countries along with the expansion of electric grids due to growing industrialization and urbanization in developing nations.

With the government's aim of achieving 24X7 Power for all within India, several initiatives that have been taken are likely to bear fruit in the coming years. The government's green initiatives to add 175 GW of Renewable Energy capacity in addition to already announced schemes like the Ujwal Discoms Assurance Yojana (UDAY) for operational and financial turnaround of state-owned Power Distribution Companies (DISCOMs) and 100 per cent village electrification under Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) are likely to boost power capacity addition and thus the use of Transformer Fluids.

The country has added about 7,714 ckms of transmission lines in H1 FY21, up 45% YoY. This includes 3,531 ckms of HVDC lines; 18,750 MVA of transformation capacity (down 33% YoY) and 1,500 MW of Inter-regional transformation capacity added in H1 FY21.

In addition, the announcement of an Rs 90,000 crore bailout package for DISCOMs on 13th March, 2020 is likely to provide relief and debottleneck the project pipeline across the value chain.

While the transformer oil accounts for about 34% of the company's revenue, white oils accounts for 35% and lubricants about 27%

Its Industrial Oil business offers a range of products including hydraulic oils, industrial gear oils, refrigeration compressor oils, quenching oils, thermic and heat exchange oils, greases, metal working fluids

In addition Indian Railways plans to complete 100% electrification of 6000 rkms each in FY 2021& FY2022 and 6500 rkms in FY23 and 5265 rkms in FY24. This is expected to drive demand for T&D equipment including transformers leading to strong demand for transformer oil.

Being the market leader for Transformer Fluids in India, SAVITA is well poised to capture the opportunity presented by the above schemes and Initiatives.

Increasing application scope in the numerous industries is expected to fuel the white oil market growth

White Mineral Oils are processed to be amongst the most chemically inert substances and find a diverse application in cosmetic and pharmaceutical industry along with processing of plastics, elastomers and compounding of rubbers amongst many others. Increasing application scope in the numerous industries including personal care, pharmaceutical and textile industry is expected to fuel the white oil market growth. White oil has become an essential ingredient in varied applications including cosmetics and personal care. Surging demand for sunscreens, body lotion, cleansers, emollient and makeup products with long durability moisturizing benefits will boost the white oil demand. Also, infant skin care products including lotions and emollients will propel the white oil market outlook.

Diverse end user segment helped restrict the fall in sales to 11%

Savita Oil Technologies net sales fell 11% to Rs 481.37 crore in Q2FY21 compared to corresponding previous period supported by good demand for white oil, auto and industrial demand. The operating margins increased 250 bps to 10.2% leading to 17% increase in operating profits to Rs 49.04 crore. Other income increased 272% to Rs 7.94 crore compared to Rs 2.13 crore. Interest cost was down 82% to Rs 1.21 crore. Depreciation fell 11% to Rs 4.95 crore. PBT was up 61% to Rs 50.81 crore. Tax expense was up 103% to Rs 13.19 crore compared to Rs 6.51 crore. PAT reported was up 50% to Rs 37.62 crore.

Segment wise, petroleum products revenue stood at Rs 471.73 crore, down by 10% YoY and accounted for 96% of sales. PBIT from the same was up by 65% to Rs 46.31 crore and accounted for 85% of total PBIT with PBIT margin at 9.8% as compared to 5.3% for Sep19 quarter. Sharp jump in margin of petroleum products was largely due to one time occurrence of execution of orders with lower priced inventory due to lockdown related supply disruption in Q1FY21. Sales from wind power stood at Rs 14.24 crore down by 25% YoY and accounted for 3% of sales. PBIT from the same decreased to Rs 8.13 crore compared to Rs 13.21 crore over a year ago.

The outbreak of novel coronavirus (covid-19), a global pandemic and consequent lockdown in the country has adversely impacted operations of the company in Q1FY21 but operation have returned back to normal in June 2020. Although, most of the operations have resumed, some constraints were still being encountered in Q2 with regard to availability of workforce and supply chain operations.

For half year ended Sep20, net sales fell 31% to Rs 744.34 crore. The company operating margins increased 10 bps to 8.4%. As a result operating profits fell 30% to Rs 62.48 crore. Other income rose 255% to Rs 16.35 crore. Interest cost was down 67% to Rs 3.64 crore. Depreciation fell 10% to Rs 9.79 crore. PBT was

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down 9% to Rs 65.39 crore. Effective tax rate was up 50 bps to 26.1%. PAT reported was down 10% to Rs 48.32 crore.

For the 6 months, sales from the petroleum products fell 30% to Rs 730.72 crore and accounted for 96% of sales. PBIT from the same was down by 16% to Rs 59.68 crore and accounted for 84% of total with PBIT margin at 8.2%. Sales from the wind power stood at Rs 22.06 crore and accounted for 3% of sales. PBIT from the same was down by 41% to Rs 11.12 crore and accounted for 16% of total with PBIT margin at 50.4%.

Outlook

Power Grid Corporation, the largest capital expenditure spender in T&D space in the country has incurred a capex of just Rs 2700 crore till July 2020 compared to a capex plan of Rs 10500 crore in FY21. Similarly the commercial realty construction too is expected to pick-up with monsoon over. This reflects the general delay in production and dispatch of transformers due to COVID pandemic, which will pick-up momentum in empirically strong second half auguring well for the transformer oil demand.

Direct supplies to Discoms, whose health remains a concern in the power sector, is less than 25% of transformer fluid/oil sales of the company. Investment in power sector especially the expansion and modernization of transmission and distribution network is key to the growth of the country and thus the medium to long-term outlook continue to be strong even though there are some impact in immediate term due to lingering impact of COVID pandemic and slow ordering activity in power sector as well as the company being selective in clients.

With the personal care segment making up a significant part of the White Mineral Oil/Liquid Paraffin customer base, a projected increase in user penetration from 11.1% in 2020 to 22.4% in 2024 is likely to yield significant growth with the industry likely to hit USD6 billion in 2024 from USD 4 billion in 2020 for the domestic Indian market. Moreover though discretionary segment of FMCG sector was impacted in initial period of current fiscal due to lockdown, that segment is recovering fast which augur well for white oils demand

Automobile industry in the country is on a gradual recovery with subdued FY20 culminating in COVID lockdown. Select segment of the industry such as passenger vehicle have already started showing year over year growth in the last two months with other segments also on the path of gradual recovery, which augur well for demand for auto lubes. The company being amongst the largest Base Oil importers in India, has an advantageous position competing for servicing OEMs as they diversify supplier base and this will aid the company to be successful in its focused strategy of adding OEM across segments and deepening relationship with existing OEMs. With easing of lockdown the manufacturing activity gradually started and the industrial demand is also seeing strong traction especially bearings and lubricants as per industry sources. Overall though transformer oils take a little more time to come back to normalcy the other products and user segments will drive growth of the company in immediate term.

Valuation

We expect the company to register an EPS of Rs 71.9 in FY21 and Rs 90 in FY22. At current market price of Rs 730, the scrip trades at 8 times its projected FY22 EPS

White Mineral Oils are processed to be amongst the most chemically inert substances and find a diverse application in cosmetic and pharmaceutical industry along with processing of plastics, elastomers and compounding of rubbers amongst many others

Direct supplies to Discoms, whose health remains a concern in the power sector, is less than 25% of transformer fluid/oil sales of the company

SAVITA OIL TECHNOLOGIES: RESULTS

| PARTICULARS | 2009 (3) | 1909 (3) | VAR. (%) | 2009 (06) | 1909 (06) | VAR. (%) | 2003 (12) | 1903 (12) | VAR. (%) |
|---------------|----------|----------|----------|-----------|-----------|----------|-----------|-----------|----------|
| Net Sales | 481.37 | 541.94 | -11 | 744.34 | 1078.42 | -31 | 2046.17 | 2262.52 | -10 |
| OPM(%) | 10.20% | 7.70% | | 8.40% | 8.30% | | 7.60% | 8.70% | |
| OP | 49.04 | 41.77 | 17 | 62.48 | 89 | -30 | 155.35 | 196.79 | -21 |
| Other Income | 7.94 | 2.13 | 272 | 16.35 | 4.6 | 255 | 11.61 | 18.4 | -37 |
| PBIDT | 56.98 | 43.9 | 30 | 78.83 | 93.6 | -16 | 166.96 | 215.19 | -22 |
| Interest | 1.21 | 6.84 | -82 | 3.64 | 10.91 | -67 | 19.99 | 28.95 | -31 |
| PBDT | 55.76 | 37.06 | 50 | 75.18 | 82.69 | -9 | 146.97 | 186.24 | -21 |
| Depreciation | 4.95 | 5.54 | -11 | 9.79 | 10.88 | -10 | 22.22 | 23.53 | -6 |
| PBT | 50.81 | 31.52 | 61 | 65.39 | 71.81 | -9 | 124.75 | 162.71 | -23 |
| EO | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| PBT after EO | 50.81 | 31.52 | 61 | 65.39 | 71.81 | -9 | 124.75 | 162.71 | -23 |
| Total Tax | 13.19 | 6.51 | 103 | 17.07 | 18.4 | -7 | 29.11 | 49.62 | -41 |
| PAT | 37.62 | 25.02 | 50 | 48.32 | 53.41 | -10 | 95.64 | 113.09 | -15 |
| PPI | 0 | 0 | | 0 | 0 | | 0 | -1.18 | |
| PAT after PPI | 37.62 | 25.02 | 50 | 48.32 | 53.41 | -10 | 95.64 | 114.27 | -16 |
| EPS* | # | # | | # | # | | 68 | 80.4 | |

* Annualized On Current Equity Of Rs 14.07 Crore of face value of Rs 10 each. #EPS not annualised due to seasonality of business, PPI: Prior Period Item
EO: Extraordinary Items, PL: Profit to Loss, LP: Loss to Profit. EPS Is Calculated After Excluding EO And Relevant Tax.
Figures In Rs Crore