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Gulf Oil Lubricants India

Rs 799

Well-lubed

BSE Sensex: 35,673 Nifty-50: 10,694

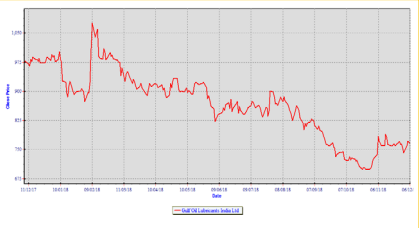
FINANCIALS: STANDALONE

	SALES	OPM (%)	OP	OTHER INC	PBIDT	INTEREST	PBDT	DEP.	PBT	TOTAL TAX	PAT	EPS (Rs)
1603 (12)	1011.35	15.7	159.16	17.93	177.09	17.79	159.3	6.04	153.26	52.95	100.31	20.1
1703 (12)	1086.79	16.4	177.8	20.35	198.15	9.82	188.33	7.25	181.08	63.52	117.56	23.6
1803 (12)	1332.26	17.7	235.72	26.1	261.82	8.53	253.29	10.43	242.86	84.3	158.56	31.8
1903 (12P)	1682.68	17.2	289.06	29.37	318.44	22.9	295.53	21.54	273.99	92.96	181.04	36.4
2003 (12P)	1918.26	17.8	341.45	32.31	373.76	26.34	347.42	24.77	322.65	109.7	212.95	42.8

*Annualised on equity of Rs 9.9581 crore: Face value of Rs 2 each. Figures in crore. (P): Projections. Source: Capitaline Databases

Gulf Oil Lubricants India Ltd (GOLIL), part of the Hinduja Group, is an established player in the Indian Lubricants Industry. 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.

With operations in the Automotive and Industrial segments, and a leading presence in the open market through a stellar distributor network, it also supplies directly to OEMs and other B2B customers (Industries, Infrastructure, Mining & Fleet Customers, State Transport and Government Undertakings).



Sound growth track record

It is the Fastest Growing Lubricant Player by consistently outperforming the industry growth rate YOY. With 11% CAGR volume growth in the last 8 years, GOLIL has recorded 3x-4x times growth of the lube industry.

In FY 2018 it reported a volume growth of 14%, which was much higher than the growth rate of the industry that stood between 2-3%.

Decent September 2018 results despite challenging conditions

For the quarter ended September 2018 sales grew 29% to Rs 417.21 crore. OPM fell 210 basis points from 19.2% to 17.1% taking OP up 15% to Rs 71.41 crore. Other income jumped 75% to Rs 6.71 crore and interest cost went up 563%to Rs 10.50 crore. After providing for depreciation (up 153% to Rs 5.59 crore), PBT stagnated at Rs 62.03 crore. After providing for tax (Rs 21.74 crore against Rs 21.54 crore), PAT too stagnated at Rs 40.29 crore.

For the six months sales grew 34% to Rs 807.57 crore. OPM fell 160 basis points from 18.4% to 16.8% taking OP up 22% to Rs 135.92 crore. PBT grew 8% to Rs 123.82 crore. PAT too grew 8% to Rs 80.42 crore.

Profit was impacted mainly due to forex losses

Profit was impacted mainly due to forex losses (largely Mark To Market on unhedged foreign currency exposures) in view of very steep Rupee depreciation during the quarter and higher provision for depreciation for its recently commissioned Chennai plant.

The newly commissioned Chennai plant has secured the IGBC (Indian Green Building

STOCK DATA

BSE Code	:	538567
BSE Group	:	B
NSE Code	:	GULFOILLUB
Bloomberg	:	GOLI IN
Reuters	:	N/A
Par Value	:	Rs 2
52-week High/Low	:	Rs 1099 / Rs 618
Sector	:	Chemicals

SHAREHOLDING PATTERN*

Category		% of equity
Foreign	:	8.39
Institutions	:	5.91
Govt Holding	:	0.3
Corporate Holding	:	1.63
Promoters	:	72.74
Public & Others	:	11.03
Total	:	100

* as on 30/9/2018
Source: Capitaline Databases

Council) Gold rating - certifying the deployment of green concepts like deployment of solar panels and use of 100% natural light to save electricity; sewage treatment plant and rainwater harvesting for water conservation etc - designed to reduce environmental impacts in a measurable way at this facility.

The plant was launched with an aim to grow and expand its market shares by beating internal production targets. It has a target to use plant's capacity to meet growth plans for the next 3-4 years. In addition, it provides fleet savings in the South, an additional input for the company.

Chennai plant is operating at around 50% currently and Silvassa at 85-80%. The company can increase capacity of the Chennai plant from 50,000MTPA to 75,000MTPA through debottlenecking, if needed.

Volumes saw robust growth on the back of growth across all business segments and product categories

The company continued its growth momentum during Q2 recording a very robust volume growth of 22% in its core business (overall Q2 volume growth was around 30% including non-regular institutional sales during the quarter).
There has been growth across all business segments and product categories with DEO, PCMO & MCO all delivering double-digit volume growth. This augurs well as the Q2 growth follows a strong volume growth achieved in the previous quarter by the company.

"The robust volume growth of 22% achieved during the quarter in our core business reflects well on company's continued excellent performance beating industry growth by more than 4 times. Achieving such a volume growth and delivering an EBIDTA growth in upwards of 15% in a very uncertain economic environment where rising crude prices and steep Rupee depreciation impacted the market sentiments, assures us that our various initiatives around distribution, brand building, etc are showing positive impacts. New OEM tie-ups and other B2B customer acquisitions have also helped us grow volumes across all our focus segments and grow our market share and consolidated our position as the fastest growing lubricants company in the country in the last many years" said Ravi Chawla, Managing Director, Gulf Oil Lubricants India Limited.

For FY 2019 the company expects industry growth at 4-5% and the company is expected to grow at 3-4x of industry. Thus management hopes to have close to 22% volume growth FY 2019.

Continued its investments in its brands across categories

Gulf Oil continued its investments in its brands across categories. Gulf Pride 4TPlus, its leading MCO brand was re-launched and the new pack with refreshed look and feel hit retail shelves across the country.

The re-launch generated a lot of buzz and garnered positive feedback from trade partners and customers alike. Launch events were held where MS Dhoni, its brand ambassador, revealed the new pack to trade partners in Mumbai, Chennai and Jaipur.

A new TV campaign, which features MS Dhoni and communicates the brand proposition of Instant Pick-up was also aired across TV channels nationally.

A new Endurance series of Greases was launched under the brand name of Gulf Crown with completely new look and the Customer Value Proposition (CVP) of longer life.

Gulf Oil Lubricants will see performance improvement aided by strong volume growth on the back of commissioning of new plant coupled with benefits of fall in crude price and recovery in Indian rupee against the US collar

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Gulf Master Mechanic, a Mechanic loyalty program, was rolled out across 20 towns in the country and again was received with excitement and positive reviews from mechanics who are key influencers in the purchase decision-making process in the lubricant industry.

Gulf Pride batteries were relaunched to tap the growing two-wheeler population

Gulf Pride batteries were relaunched last month and the company is investing in it. It was launched under the brand expansion strategy and is being sold at outlets. The growing two-wheeler population in India combined with the large gap between demand and supply for quality batteries is what led the company launch the Gulf Pride batteries. These premium quality batteries combine superior cranking power to provide the riders with the power to insta-start their day.

Sound retail and rural strategy led to sound retail growth

The Unnati Program–designed for its top 15-20% Retail customers and growing distribution /market shares continued to drive strong double-digit momentum leading the company's retail growth.

Gulf's initiatives into Rural also continue to give strong returns with growths in ranges upwards of 50%.

Has tied up with Tata Motors to launch a range of co-branded lubricants for its passenger vehicles segment

In a recent development, Tata Motors and Gulf Oil signed an agreement to launch a range of co-branded lubricants for its passenger vehicles segment in the bazaar segment.

The products launched under this range would cover the entire gamut of requirements of Tata Motors Passenger vehicles business, which would include engine oil, gear oil, coolant and brake oil.

Additionally, the product range would offer best technology for Tata Motors' consumers and will be continuously upgraded from time to time depending on the requirements. The agreement, will moreover leverage Gulf Oil's extensive distribution network to make it easily available to customers.

Growing exports

Contribution of exports increased from 2-3% to 5-6% during September 2018. Export was strong in the quarter led by exports to Middle East, Indonesia, Bangladesh and other neighbouring countries and to markets in which OEM partners operate.

Fall in Crude price and recovery in rupee against the US dollar will have positive impact

The impact of fall in crude price from $85/barrel to $ 60/barrel will have positive impact and will be visible after a gap of 2-3 months as oil-based raw material prices come down gradually.

Correction in dollar vs rupee will too have a positive impact as raw materials are mainly imported. The management hopes that the margins, which stood around 17% in the second quarter, will see positive movement going forward.

Outlook

The company is confident of delivering higher volume growth than the market in the mobility segment and further enhance its market share, going forward.

For Industrial segment, going forward, the company aspires to constantly develop

Profit was impacted mainly due to forex losses (largely Mark To Market on unhedged foreign currency exposures) in view of very steep Rupee depreciation during the quarter and higher provision for depreciation for its recently commissioned Chennai plant

There has been growth across all business segments and product categories with DEO, PCMO & MCO all delivering double-digit volume growth. This augurs well as the Q2 growth follows a strong volume growth achieved in the previous quarter by the company

innovative products and gradually ramp up the share of high-value products in overall revenues. It has formed a new category of products under the head 'specialty products', which includes Whitmore special greases. GOLIL is also working on developing special greases (for the core sector), metal working fluids and synthetic oils. These products will play a crucial role in enabling the Company to stay ahead of the curve.

The strategic priorities of the industrial business include: Bolstering the dealer network and the customer base lending higher stability and growth to the volumes.

For the Infrastructure, Mining & Fleet business, the priority will be to continue to strengthen the relationship with existing customers and also add new customers to the business. Looking ahead, the Infrastructure, Mining & Fleet business will explore opportunities to scale up its revenues and also cater to construction sites of customers overseas. The company is closely monitoring new government initiatives and is well prepared to leverage emerging opportunities.

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Valuation

In FY 2019 and FY 2020 we expect the company to register EPS of 36.4 and Rs 42.8 respectively. The scrip trades at Rs 799. P/E on FY 2020 projected EPS works out to 18.7.

GULF OIL LUBRICANTS INDIA: RESULTS

	1809 (3)	1709 (3)	VAR. (%)	1809 (6)	1709 (6)	VAR. (%)	1803 (12)	1703 (12)	VAR. (%)
Sales	417.21	322.95	29	807.57	603.00	34	1332.26	1086.79	23
OPM (%)	17.1	19.2		16.8	18.4		17.7	16.4	
OP	71.41	61.91	15	135.92	111.24	22	235.72	177.80	33
Other inc.	6.71	3.83	75	13.34	11.79	13	26.10	20.35	28
PBIDT	78.12	65.75	19	149.26	123.02	21	261.82	198.15	32
Interest	10.50	1.58	563	14.90	4.46	234	8.53	9.82	-13
PBDT	67.62	64.16	5	134.36	118.56	13	253.29	188.33	34
Dep.	5.59	2.21	153	10.54	4.37	141	10.43	7.25	44
PBT	62.03	61.96	0	123.82	114.19	8	242.86	181.08	34
Tax	21.74	21.54	1	43.40	39.48	10	84.30	63.52	33
PAT	40.29	40.42	0	80.42	74.71	8	158.56	117.56	35
EPS (Rs) *	#	#		#	#		31.8	23.6	

*Annualised on equity of Rs 9.9581 crore: Face value of Rs 2 each. Figures in crore. *Source: Capitaline Databases*