

Gulf Oil Lubricants India

Viewpoint

Sweet gain in short time; take home a part of it

CMP: Rs541

Key points

- During the first week of September 2014 (at CMP of Rs313), we had initiated our viewpoint on Gulf Oil Lubricants India, with a positive stance envisaging healthy earnings growth and re-rating post demerger. Further, we reviewed and retained our positive stance in our follow up on update (report dated on November 28, 2014) on the stock given the apparent weakness in global crude oil prices. Since our initial viewpoint (dated September 3, 2014), the stock has appreciated sharply by 73% and moved up by 18% after our follow up on the update.
- We believe the sharp fall in crude oil prices was one of the key near-term triggers to stem such appreciation in the stock price, but the current market price is largely pricing in the continued weakness in the crude oil prices. In the mean while, the crude oil prices have almost halved in the last six months to \$60 per barrel (brent crude oil), which is the lowest since global financial crisis in 2009 (it touched \$40 during the crisis).
- We believe positives like above industry average growth led by capacity and market expansion, margin improvement and re-rating triggers post demerger will remain supportive for the stock in the long run. However, a sharp run-up in the stock price in short time (up by 73% in 100 odd days) is largely priced in the near-term positives and the current valuation also hovers above 20x to our rough estimate of FY2016 earnings. Hence, we advise our investors to partially take home some quick profits and hold partially for long-term gains.

Valuations

Particulars	FY13	FY14	FY15E	FY16E
Sales (Rs cr)	842	881	960	1,058
Growth (%)	NA	4.7	9.0	10.2
Operating profit (Rs cr)	106	107	135	165
OPM (%)	12.6	12.2	14.1	15.6
PAT (Rs cr)	72	67	86	119
Adj. EPS (Rs)	14.5	13.5	17.4	24.0
Earnings growth (%)		-6.4	28.1	38.4
P/E (x)	37.4	39.9	31.2	22.5
RoE (%)	42.7	38.1	42.0	43.0

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