

► MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Pursuant to Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, a Management Discussion and Analysis Report covering business performance and outlook (within limits set by Company's competitive position) is given below:



A Castrol tanker waiting to be filled at Castrol India's Patalganga plant.

INDUSTRY STRUCTURE AND DEVELOPMENTS

Industry structure

India is the world's third largest lubricants¹ market, next only to US and China, and ahead of Japan, Russia and Brazil, with a total consumption of approximately 2.4 billion litres.²

The Company operates in all major categories such as automotive, industrial and marine & energy applications in the highly competitive and fragmented lubricants industry comprising national oil companies, several international majors, and a large number of local companies.

The Company is the leading international player in India and has established a well-entrenched position in the retail automotive lubricants - the predominant category in this industry.

Demand drivers

Lubricants play a major role in reducing friction generated by metal to metal contact. It also helps in reducing noise and heat generation of metal parts – such as engines in automotive industry and cutting or honing parts in industrial applications. Detergents and dispersants in a lubricant help cleaning, while anti-wear agents help protect the metal surface from wear and tear as well as corrosion.

Automotive vehicles require engine oils, transmission fluids, brake fluids, hydraulic oils and greases, while industrial and manufacturing applications require lubricants for metal working, rust preventives and coolants.

Demand for automotive lubricants is driven by the usage of vehicles in the country while the growth in the market in recent years has been due to the rapid expansion of vehicle population.

The Company operates in all major categories such as automotive, industrial and marine & energy applications

¹ including process oil

² Source: Kline Report

The overall lubricant demand continued to grow between 2 - 4% fueled by 5 - 6% growth in the personal mobility space, and with the industrial and commercial segment lubricant demand growth between 2 - 3%

Demand for industrial lubricants has been observed to have a strong correlation with the Index of Industrial Production (IIP), which is largely driven by economic activity. In case of marine & energy lubricants, the demand drivers are global and local ship movements, which facilitate large - scale movement of cargo and goods. The installed base of offshore rigs along the coastline of India and their uptime drives demand for energy lubricants.

Supply drivers

Lubricants are manufactured by blending base oils and additives, with base oil being the primary component. They are blended according to highly advanced formulations as per the specific purpose the lubricant serves, as well as in line with the OEM specifications and industry norms set out.

Majority of lubricants continue to use mineral-based base oil, despite a significant growth in demand for premium lubricants in the automotive and industrial sectors which use synthetic base oils.

With India being a net base oil deficit market as well as many additives not being manufactured locally, large - scale import of base oil and additives takes place, which exposes the lubricants business to fluctuations in foreign exchange rates.



India is the world's third largest lubricants market.

Major industry developments

Overall lubricants market

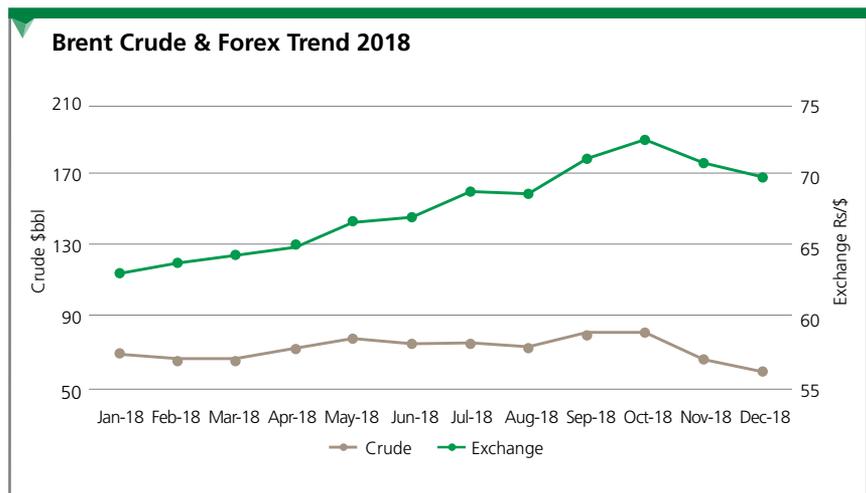
Overall vehicle sales in India grew by 13% in 2018³, compared to the previous year. Sustained focus on infrastructure development and on the manufacturing sector supported the growth in GDP (7 - 8%) in the year while industrial output measured by the IIP grew at an average of 4% during April - December 2018.⁴ The overall lubricant demand continued to grow between 2 - 4% fueled by 5 - 6% growth in the personal mobility space, and with the industrial and commercial segment lubricant demand growth between 2 - 3%.⁵

Impact of foreign exchange, crude oil and raw material prices

2018 witnessed tremendous volatility in both Brent Crude and foreign exchange. From the start of the year, the rupee continued to depreciate and lost almost 15% of its value from January to October, while Brent Crude rose by 23% during the same period and touched a four-year high in October.

These adverse market factors impacted raw material prices significantly across all major categories.

The below graph indicates the trend of crude prices and Rupee/USD for 2018



3 Source: CRISIL Research

4 Source: Open Government Data Platform India

5 Source: Kline Report

As a result of rising crude and foreign exchange for most part of 2018, feedstock prices for additives, chemicals and polymer increased significantly.

Indian base oil prices rose steadily during first half of 2018 due to rising input cost coupled with seasonal demand before subsiding in the second half. Base oil supplies improved significantly in 2018 owing to lesser refinery shutdown compared to 2017 which kept the prices in check.

Despite this highly uncertain and challenging business environment, the Company continued to generate value for its investors through strategic sourcing, leveraging term contracts, value improvement initiatives, extensive focus on service and quality as well as continuous monitoring of costs. The Company worked on a best value purchase model and value-based inventory management, keeping a close watch on cash costs and working capital.

OPPORTUNITIES AND THREATS

(i) Opportunities

- a. **Personal mobility:** With multiple opportunities in personal mobility driven by increase in first time users, growing number of women riders, as well as a continuing shift towards higher quality formulations and lighter viscosity grades, the Company is well placed to tap this potential.
- b. **Original Equipment Manufacturer (OEM) partnerships:** The Company works with leading OEMs in India and has built enduring partnerships

Continued focus on the strong and wide distribution as well as customer reach in different market segments will enable future growth for the Company

with them. It works closely with them on product development with new technologies as well as to address the environmental needs of lower emission and fuel efficiency.

- c. **Medium / light commercial vehicles (MLCV):** The MLCV segment is likely to continue growing due to the last-mile connectivity offered, enabling the Company to continue its focus on this category.
- d. **Improving technology in trucks:** With the advent of stricter emission norms resulting in newer technologies for trucks, the CI4+ segment is the fastest growing segment in the commercial vehicle category, in which the Company enjoys a strong position. The Company is also poised to take advantage of further enhanced technologies with BS VI compliant products.
- e. **Distribution:** Continued focus on the strong and wide distribution as well as customer reach the Company enjoys in different market segments will enable future growth.
- f. **Marine & energy sector:** The likelihood of the development of India's east coast may bring in more rigs to Indian waters with an

The Company works with leading OEMs in India and has built enduring partnerships with them

opportunity to increase volumes in energy lubricants. With the maritime sector getting a boost from the Government, higher demand for ships, barges and passenger vessels, and, therefore, for more marine lubricants is foreseen.

(ii) Threats

- a. **Economic uncertainty:** Based on the current and future market environment estimates, the base oil and forex trend is expected to continue to be volatile. Published GDP estimates signal possibilities of a marginal slow down in the growth rates.
- b. **Competitive activity:** Competition in the lubricants market is intense and competitive activity is likely to remain high in the foreseeable future. There is also a trend of OEMs introducing lubricants under their own brand name, further impacting the competitive landscape.



Castrol continues its focus on MLCV segment.



Purpose-led innovative marketing campaigns strengthened brand equity within communities.

PRODUCT-WISE PERFORMANCE

Automotive lubricants: The Company continued to deliver a strong performance in automotive lubricants achieving top line growth, driven by a strong performance across all spaces of personal mobility as well as commercial vehicles. The Company also had significant play in the mid-price segment in certain categories.

The Company continued to pioneer and drive the premiumization and synthetization of the category, in response to demands from OEMs for better performing and environment friendly products. The Company further strengthened its close association with its key strategic OEM customers.

Purpose-led innovative marketing campaigns like the Castrol CRB Truck Aasana and Castrol Activ clean-up campaign were used to engage with and strengthen brand equity within the community. The Company continued to engage and grow advocacy with its key influencers - mechanics in the automotive market through its unique Castrol Super Mechanic programme for car and bike mechanics.

The Company continued to focus on innovation and new product launches

across spaces with almost 80% growth in 2018 coming from new product introductions alone.

Industrial lubricants: Despite a tough external environment, the Company has been able to grow its aggregate industrial lubricants volumes in 2018, by growing faster than the category. This has been made possible through customer acquisition and new product introduction, supported by initiatives such as customer seminars and digital marketing.

Marine & energy lubricants: The Company focuses on providing

products and services that are best-in-class in marine & energy lubricants. It continued to offer value-added services along with best practices from its marine businesses across the globe, enabling enhanced customer confidence.

Quality: The Company has continued its attention on strengthening quality standards. It tracked its progress against global quality standards for manufacturing sites, third-party manufacturing locations and extended it to warehousing operations as well.

A new programme of Quality Observations and Conversations was implemented to strengthen the quality culture in the Company. The Company was recognized by OEMs for its quality performance during the year. The Company received the prestigious 'Ford Q1' certification from Ford, considered worldwide as a benchmark of exceptional quality performance and 'Overall Supplier of the Year' award from Maruti Suzuki India Limited for all round value delivery. The Company was also awarded with the IMC Ramkrishna Bajaj National Quality Award 2018 in the manufacturing category, considered to be one of India's most coveted awards in quality.



Castrol Super Mechanic programme winners at the finale event.

OUTLOOK

The outlook for 2019 has been examined closely by the Company through the broad dimensions of demand drivers and distribution channels.

Demand drivers

The key drivers of demand growth in each segment where the Company operates are explained below:

Automotive lubricants

Personal mobility: With increasing sales of two-wheelers, this category of engine oils will continue to see an upward trend. The rural segment is expected to be a key driver for the growth of two-wheeler sales in India. With its wide distribution reach, the Company is expected to capitalize on this opportunity.

Synthetic oils will continue to lead the growth for passenger cars and the Company is well placed to take advantage of the same with its well-rounded portfolio of synthetic products.

Commercial vehicles: The demand for lubricants in commercial vehicle segment is expected to grow due to continued growth in economic activity.

The Company has continued to drive simplification in systems and processes to bring more speed and transparency in back-end operations

Growth in construction and off-highway sectors due to investment in infrastructure and continued IIP growth is also likely to lead to lubricants demand growth in this category.

Industrial lubricants

The demand for Industrial lubricants saw a marginal slow down due to the dip in IIP seen in the last quarter of 2018. However, the industrial lubricants demand is likely to grow with economic reforms gaining momentum as India's long-term prospects for growth remain optimistic. As global OEMs continue their focus in India, growth prospects are likely to get bolstered further.

Marine & energy lubricants

Transport fuels (gasoline and diesel) and residential LPG are foreseen to be some of the drivers of oil demand growth.

Several measures to improve operational efficiency of ports and



Castrol India's world class customer care centre was inaugurated.

speedier shipping operations in the shipping belt have been initiated by the government. This augurs well for the marine & energy lubricants segment.

Channels of distribution

The Company's products are distributed through 350 distributors who service over one lakh customers and sub-distributors who reach out to additional outlets in rural markets.

It also leverages its distribution channels to reach a wider network of independent workshops. The Company also serves over 3,000 key institutional accounts directly, and in some cases through its distributors.

Over the last few years, the focus on priority channels has contributed to growth in the Company's business.

The Company has continued to drive simplification in systems and processes to bring in more speed and transparency in various back-end operations. It has also leveraged digitization to create a superior and premium experience for customers.

A world class customer care centre with an integrated customer complaints management system backed by a robust CRM was launched to effectively cater to the requirements and inquiries of customers and consumers.



Castrol India has a large distribution network in the retail market.

RISKS AND CONCERNS

Volatility in input costs and foreign exchange continues to remain a risk. The Company has appropriate mitigation plans in place to deal with such risks and protect margins. During 2018, appropriate pricing actions were taken in the market as required, keeping in mind input costs, competitive positioning and product brand strategy.

Ambiguity in GST regulations may continue to create a short-term adverse impact on the Company's operations. However, there are appropriate processes in place to address the same.

With India being a growth market, opportunities for employability and for commensurate roles are higher. The Company's strong capability offer which nurtures and develops its talent, makes its employees more relevant to the market, thereby increasing the risk of attrition for the Company.

Health, Safety, Security and Environment (HSSE) are critical focus areas for the Company. Road safety is an area of particular focus given that

its frontline team and transporters drive across the country on business.

Similarly, product quality and integrity continue to be another focus area for the Company. Its vision for Quality, 'right quality first time every time,' is a key enabler to help provide a premium customer experience.

The Company has a robust risk mitigation plan to minimize identified risks through continuous monitoring and mitigating actions.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company maintains an adequate and effective Internal Control System commensurate with its size and complexity. It believes that these systems provide, among other things, a reasonable assurance that transactions are executed with management authorization. It also ensures that they are recorded in all material respects to permit preparation of financial statements in conformity with established accounting principles, along with the assets of the Company being adequately safeguarded

against significant misuse or loss. An independent Internal Audit function is an important element of the Company's Internal Control System. This is supplemented through an extensive internal audit programme and periodic review by the management and the Audit Committee.

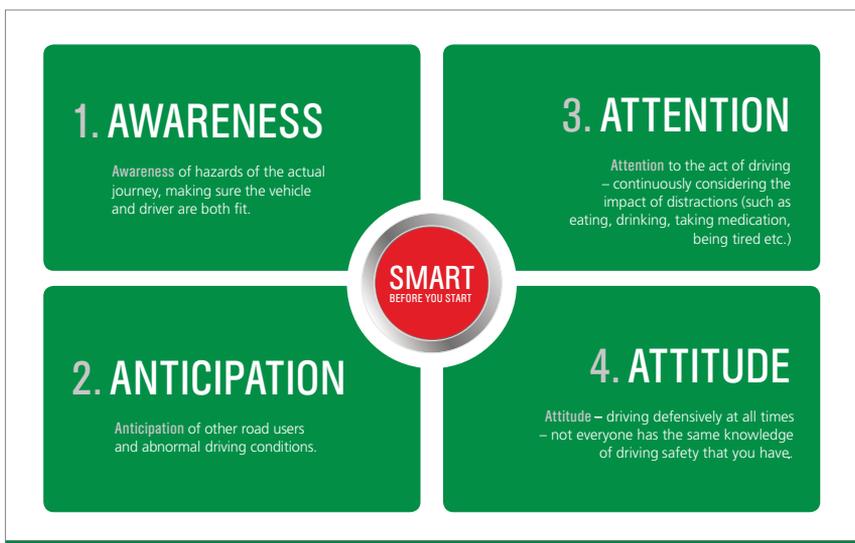
Road safety is an area of particular focus for the Company as its frontline team and transporters drive across the country on business

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The Company delivered a Gross Profit growth of 4% in 2018 over 2017, driven by higher volumes. Cost of sales increased during 2018 by 14% over the previous year, primarily due to rise in input costs and higher volumes. Operating and other expenses increased by Rs. 42 crores as compared to 2017 due to investment in safety, people, brands and business growth opportunities. Efficiency measures enabled us to hold cost increase below inflation. Profit After Tax (PAT) has increased by Rs. 16.5 crores and is at Rs. 708 crores, compared to 2017, mainly due to gross profit growth.

2018 marked another year of solid performance as the Company recorded consistent revenue and profit growth for the third consecutive year. The Company introduced new and differentiated products in its portfolio that have contributed significantly to volume growth during the year.

The Company was able to protect margins through appropriate pricing interventions and rigorous cost management despite an extremely volatile input cost environment.



The four A's of our driving safety programme for professional drivers called 'SMART' to help keep them safe on the roads.

With stabilization of the business environment post GST, the Company is confident that the actions it continues to take will deliver results.

In line with the Company's long term strategy, continuous investment in people, brands, distribution network, customer acquisition and advocacy efforts has helped it deliver on all strategic priorities enabling growth ahead of the market, especially in retail. This makes the Company confident of continuing to deliver strong business performance.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS

People are the Company's key assets and the focus in 2018 was to develop people's capabilities and enhance employee engagement, aimed towards driving performance excellence in changing times. The Company's people agenda focuses on building distinctive capabilities to help it deliver in short term and prepare for the future. Employee capability continues to form one of the most critical pillars of the Company's development architecture. The initiatives taken this year were to help employees focus on creating strong individual plans to help deliver organizational results. They reinforced the Company's vision to develop talent to take new responsibilities and showcased available platforms for employees to learn and grow. The Company launched a special learning series for line managers which focused on developing managerial capabilities

The Company has continued engagement with workmen and contractors at plants by senior leadership through various communication engagements



A special learning series on developing managerial capabilities was launched.

through a peer coaching and learning format. The Company is happy to inform that 48% positions were filled internally.

The Company has continued its efforts in building a diverse and inclusive workforce. Diversity remains a key prerogative for the Company and its hiring practices continue to ensure recruitment of diverse candidates without compromising on meritocracy. The overall number and managerial population of women employees was at 19% and 21% respectively in 2018.

Control and compliance in HR

In 2018, the Internal Control templates and key controls of the Human Resources and payroll processes were checked by the Internal Audit team to provide assertions to the management on design and operating effectiveness of these processes. The audit showed a continuous improvement in accomplishing a Satisfactory rating indicating that key internal controls and processes are operating efficiently and effectively. The Company continued to implement a real-time compliance monitoring tool for compliance

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reporting across units and ensured 100% reporting culture.

Employee relations at plants

The Company has cordial employee relations with internal and external stakeholders. There has been continued engagement with workmen and contractors at plants by senior leadership through various communication engagements. There has been no loss of man-days due to labour unrest or indiscipline which is indicative of the strength of the employee relations at the plants and effective management of the contractual labour. The total number of people employed in the Company as on 31 December 2018, including factory workmen, was 720.

Health, Safety, Security and Environment (HSSE)

The Company continues to accord the highest priority to health and safety of the workforce and the communities it operates in. The Company has been fully committed to comply with all applicable laws and regulations and maintains the highest standards of Occupational Health, Safety and Environment. The Company has a HSSE policy which applies uniformly to every member of the workforce, including contractors.

The Company has implemented best-in-class internal standards - Operating Management System (OMS) to ensure safe, systematic, reliable and environmental-friendly operations. The effectiveness of implementation and compliance of OMS is being checked through a systematic process called field inspection led by the Leadership Team.

All plants are certified to the Environment Management System (ISO 14001:2004), Occupational Health & Safety Management System (OHSAS 18001: 2007) and ISO 9001:2008 (Quality Management System Standard). The Company is periodically certified by internationally recognized and accredited bodies against these standard requirements.



The Company's Silvassa plant won the International Safety Award conferred by the British Safety Council



Loading operations in progress at Castrol India's Silvassa plant.

All manufacturing plants have been awarded externally for their exemplary HSSE performance and practices. The Silvassa plant won the Greentech Safety Award for the fourth consecutive time while the Paharpur plant also won it this year. The Patalganga plant was the winner of the Golden Peacock Occupational Health & Safety Award 2018 and emerged runners-up in the Manufacturing Category (Large) at the 13th CII (Western Region) Safety, Health and Environment Excellence and Innovation Award 2018. Silvassa plant won another prestigious Safety laurel - the International Safety Award conferred by the British Safety Council.

The Company is also undertaking environment management programmes and projects to minimize environment footprint, energy and water consumption as well as waste generation from manufacturing operations. This involves optimizing the manufacturing batch sizes, maximizing the use of natural lighting, use of LED and energy efficient lighting as well as regular water monitoring and audits.

Safety and environmental performance have been integral to the Company's business performance which is reviewed every month by the Leadership Team.

All plants are certified to the Environment Management System (ISO 14001:2004), Occupational Health & Safety Management System (OHSAS 18001: 2007) and ISO 9001:2008 (Quality Management System Standard)

The Company continues to focus on its goal of 'no accidents, no harm to people and no damage to the environment' with the primary objective that everyone goes home safely, every single day.

On behalf of the Board of Directors

Omer Dormen
 Managing Director
 DIN: 07282001

Rashmi Joshi
 Chief Financial Officer
 & Wholtime Director
 DIN: 06641898

Place: Mumbai
 Date: 8 April 2019