Tide Water Oil Co India Limited

August 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	22.00 (Reduced from 25.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/short-term bank facilities	60.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Short-term bank facilities	17.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**99.00 (₹ Ninety-nine crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Tide Water Oil Co India Limited (TWOCIL) continue to derive strength from the healthy financial risk profile of the company with negligible debt level and strong liquidity in the form of a significant amount of unencumbered cash and bank balances. The debt protection metrics and liquidity of the company are expected to remain strong with stable cash generation from the business and no major investment plans.

The ratings also factor in the long track record of TWOCIL in the lubricants industry with a relatively stable market share, whereby, it has a good presence in the automobile segment, which constitutes around 70% of its sales. The demand outlook remains stable for the industry, although the growth rate is expected to remain low. TWOCIL sells lubricants under the well-established and recognised brands of 'Veedol' and 'Eneos' and continues to have a strong distribution and marketing network with a pan-India presence. Furthermore, it has overseas presence through its various subsidiaries and step-down subsidiaries based out of the UK, UAE, and Germany. The ratings take note of the improvement in the performance of the overseas subsidiaries in FY22.

The ratings also factor in the increase in TWOCIL's consolidated total operating income (TOI) by 21% y-o-y during FY22 (refers to the period from April 1 to March 31), driven by the increase in sales realisation, although the sales volume remained impacted mainly due to disruptions caused by the COVID-19 pandemic during the year. The company had taken several price hikes during the year to pass on the increase in input cost, which is linked to the prices of crude oil. However, with a lag effect of about two to three months in passing on the increase in cost, the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin moderated in FY22 as compared to FY21. Furthermore, the margin in FY21 was higher than the historical average due to the benefit of the significantly lower raw material prices in that year.

The ratings, however, continue to remain constrained by TWOCIL's limited presence in the industrial lubricant segment, its exposure to the volatility in base oil prices due to its linkage with crude oil, and its presence in an intensely competitive industry with the presence of some larger public sector undertakings (PSU) and private sector companies, which restricts its ability to immediately pass on the increase in raw material cost.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Volume-driven growth in the scale of operations, marked by a consolidated TOI of above ₹1,800 crore and a significant improvement in the market share on a sustained basis, along with an increased presence in the industrial lubricant segment.
- Improvement in the profitability margins, marked by PBILDT and profit-after-tax (PAT) margins of above 20% and 12%, respectively, on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Inability to maintain market share, leading to substantial revenue and profitability degrowth.
- Deterioration in the liquidity position due to more-than-envisaged reduction in the liquidity balance.
- Any debt-funded capex or support towards subsidiaries, leading to a sharp deterioration of the overall gearing above 0.20x.

Detailed description of the key rating drivers

Key rating strengths

Seasoned player in the lubricants industry: TWOCIL, operating since 1921, is one of the established private sector players in the Indian lubricant industry. Its repertoire of automotive products includes engine oils for trucks, tractors, commercial vehicles, passenger cars and two and three wheelers. It also produces gear oils, transmission oils, coolants, synthetic lubricant oils and greases for automobiles. For industrial applications, it manufactures industrial oils, greases, and specialty products like metal working fluids, quenching oils, and heat transfer oils.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Well-recognised brand with stable market positioning in the automobile segment: The company manufactures and sells its products mainly under two brands – 'Veedol' and 'Eneos', with 'Veedol' contributing around 65% of its gross domestic sales and the balance being contributed by 'Eneos'.
The domestic rights for 'Veedol' are owned by TWOCIL, whereas the global rights are owned by Veedol International Ltd (100% subsidiary of TWOCIL). The rights for using the brand 'Eneos' in India is held by Eneos Tide Water Lubricants India Private Limited (ETW), which is a 50:50 joint venture (JV) between Japanese entity Eneos Corporation and TWOCIL. TWOCIL pays the franchise fee to ETW for using the brand 'Eneos'. Both the brands have established a wide market acceptance. TWOCIL has tie-ups for the supply of genuine oils with renowned original equipment manufacturers (OEMs) in the automotive segment. 'Eneos' is mainly sold through OEMs, while 'Veedol' is majorly sold in the aftersales segment.

Strong distribution and marketing network: With a pan-India distribution network, TWOCIL has the spread and penetration to provide its products throughout the country. The extensive distribution network consists of 50 distributors and over 650 direct dealers servicing over 50,000 retail outlets, fed by five plants and around 50 depots located strategically across the country. The company has been introducing products with better performance levels to meet the changing needs of the customers through its two in-house R&D centres.
The overseas operations are supported by its various subsidiaries and step-down subsidiaries based out of the UK, UAE, and Germany.

Healthy financial risk profile: TWOCIL's financial risk profile is strong, as indicated by its healthy business returns, a minimal debt status, and significant cash and bank balances that provide strong liquidity to the company. The interest expenses remained low, at ₹1.60 crore in FY22, which mainly pertained to interest bearing security deposits. Accordingly, the interest coverage remained highly satisfactory over the years. The capital structure and debt protection metrics remained comfortable as the company has very low debt. The company has, however, announced significant dividend pay-out in FY22 of ₹139.39 crore, which has restricted the build-up of its net worth. Despite this, the liquidity is expected to remain strong, with healthy cash generation and no major investment plans. Any major dividend pay-out going forward, that significantly impacts its liquidity and net worth, will remain a key rating monitorable.
TWOCIL's consolidated TOI improved to ₹1,546 crore in FY22 (FY21: ₹1,274 crore) owing to an increase in the per unit realisation of both, lubricant and greases, which was driven by a significant increase in the input cost (base oil), a derivative of crude oil. The sales volume of lubricants declined marginally during the year due to the impact of COVID-19 during Q1FY22 and Q4FY22.
The PBILDT margin witnessed moderation in FY22 due to the lag effect in passing on the increase in cost amid intense competition. Furthermore, the margin in FY21 was higher than the historical average due to the benefit of significantly lower raw material prices.
The performance of the subsidiaries on an overall basis improved in FY22. Going forward, the management has articulated that no major support will be required to be extended to such subsidiaries, as they are gradually becoming self-sufficient. On an overall basis, the company derives regular dividend income from Veedol UK Limited and ETW, which is on an increasing trend.

Stable demand prospects: India is an important market for the lubricant industry, with a world-wide ranking of third after the US and China. The per capita lubricant consumption in India is also quite low compared to other developed countries. So, there is potential for growth of the lubricants market in India.
The major factors driving the growth of the market are the presence of the large industrial manufacturing sector comprising of automotives, chemicals, pharmaceuticals, tyre and rubber, power generation and mining. The auto segment is the largest consumer of lubricant oils and demand prospects remain stable, although the growth rate is expected to be low as in the past.

Liquidity: Strong

The liquidity position of TWOCIL is strong, as evident from the healthy cash and liquid investments of ₹147 crore as on March 31, 2022, with very low utilisation of fund-based working capital limits and no long-term debt repayment obligations. The current ratio of the company was also comfortable, at 1.57x as on March 31, 2022. The company has no plans of any major capex in the near future. Consequently, its liquidity is envisaged to remain strong despite a healthy rate of dividend pay-out.

Key rating weaknesses

Susceptible to volatility in raw material prices, especially crude oil: The key raw material required by the company is base oil (constituting around 75% of its total raw material cost in FY22), which is obtained through fractional distillation of crude oil. Thus, the prices of base oil have high correlation with those of crude oil, which is inherently volatile in nature. Furthermore, in case of any sharp rise in the prices of base oil, it is difficult for the company to pass on the same immediately, due to the high competition, the price sensitive nature of end-user segments, and the company being a price taker in the industry. Accordingly, the profitability of the company is vulnerable to the movement in the prices of crude oil. The company procures base oil majorly from the domestic market as well as imports the same.

High competition from other players: The Indian lubricant market is extremely competitive and price sensitive, primarily dominated by PSUs, followed by leading private sector players. Branding and advertisement are a substantial expenditure in the lubricants industry, owing to the intense competition and the commoditised nature of the product. Accordingly, after material cost, selling and distribution cost (including franchise fee) forms the second largest cost for the company, hovering around 20-25% of the sales. The competition at the global level is also high due to the presence of larger lubricant manufacturers with strong brands.

Limited presence in the industrial oil segment: With the slower growth rate in the automotive segment and the increasing competition, players are expected to focus on industrial lubricants as a key area for future growth in the lubricant industry. Although private players are increasing their presence in the industrial segment, the penetration in this segment is expected to be slow on account of the well-entrenched position of the existing PSUs and the long gestation period associated with establishing a clientele in this segment. TWOCIL has its major presence in the automotive oil segment (around 70% of its revenue), with obvious entry barriers in the industrial lubricants segment due to the presence of major PSUs.

Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings has changed the analytical approach to consolidated due to the strong operational and financial linkages between the entities. TWOCIL has also extended guarantees towards the debt availed by few of its subsidiaries. Earlier, the analytical approach was standalone, along with factoring in the impact of support to its subsidiaries. The entities considered in TWOCIL's consolidation are shown in **Annexure 5**.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

TWOCIL is mainly engaged in the business of manufacturing and marketing of lubricants. Its products include automotive lubricants, industrial lubricants, and greases. It has a total installed capacity of 105,000 kilolitres per annum (KLPA) for lubricants, across five locations – West Bengal, Haryana, Maharashtra, Dadra and Nagar Haveli and Tamil Nadu, and 6,160 tonne per annum (TPA) of grease at its Tamil Nadu and West Bengal plants. The company also has overseas presence through its subsidiaries and step-down subsidiary based out of the UK, UAE, and Germany.

Consolidated Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
TOI	1,274.00	1,545.98	NA
PBILDT	179.72	157.53	NA
PAT	141.33	122.91	NA
Overall gearing (times)	0.05	0.05	NA
Interest coverage (times)	74.57	98.46	NA

A: Audited; Classified as per CARE Ratings Limited's standards.
NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date o.f Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC/PCFC/FBP/FBD/WCDL/OD/BG/SBLC		-	-	-	60.00	CARE AA; Stable/CARE A1+
Fund-based - LT-Working capital limits		-	-	-	22.00	CARE AA; Stable
Non-fund-based - ST-Letter of credit		-	-	-	17.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	60.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (03-Aug-21)	1)CARE AA; Stable / CARE A1+ (02-Sep-20)	1)CARE AA; Stable / CARE A1+ (08-Aug-19) 2)CARE AA; Stable / CARE A1+ (05-Aug-19)
2	Fund-based - LT-Working Capital Limits	LT	22.00	CARE AA; Stable	-	1)CARE AA; Stable (03-Aug-21)	1)CARE AA; Stable (02-Sep-20)	1)CARE AA; Stable (08-Aug-19)
3	Non-fund-based - ST-Letter of credit	ST	17.00	CARE A1+	-	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (02-Sep-20)	1)CARE A1+ (08-Aug-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Working capital limits	Simple
2.	LT/ST Fund-based/Non-fund-based-EPC/PCFC/FBP/FBD/WCDL/OD/BG/SBLC	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: The entities considered in TWOCIL's consolidation.

Sr. No.	Name of Company	Percentage of ownership as on March 31, 2022 (%)
1.	Veedol International Limited	100
2.	Veedol International DMCC, Dubai	100
3.	Veedol UK Limited	100
4.	Veedol Dustchland GmBH	100
5.	Granville Oil & Chemicals Ltd	100% (subsidiary of Veedol UK Ltd)
6.	Eneos Tide Water Lubricants India Private Limited	50 (JV)
7.	Veedol International Americas Inc.	100% (subsidiary of Veedol International Ltd)

*Operations discontinued since July 2020 and in process of winding up.

Annexure-6: Bank lender details for this company

To view the lender-wise details of bank facilities, please click here.

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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