

Tide Water Oil Co. (India) Limited

August 3, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	25.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long Term / Short Term (LT/ST) 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	102.00 (Rs. One Hundred Two Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 significant amount of unencumbered cash and bank balances. The debt protection metrics and liquidity 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 the company in the lubricants industry with relatively stable market share whereby it has good presence in the automobile segment which constitutes around 70% of its sales. The demand outlook remains stable for the industry, though 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 pan-India presence.

The ratings also take note of the significant improvement in the operating margin in FY21 (refers to the period April 1 to March 31) inspite of the decline in sales volume for the year. While sales and profit levels were impacted in Q1FY21 (refers to the period April 1 to June 30) due to the outbreak of Covid-19 pandemic and consequent lockdowns, the performance witnessed improvement in the ensuing quarters. The operating margins improved significantly in Q2FY21 and Q3FY21 with the benefit of lower raw material prices. However, with increasing trend in crude oil prices which drive the key raw material (base oil) prices for TWOCIL, the operating margins normalized in Q4FY21.

The ratings continue to remain constrained by its limited presence in the industrial lubricant segment, its exposure to volatility in base oil prices due to its linkage with crude oil and its presence in an intensely competitive industry which restricts its ability to immediately pass on the increase in raw material cost.

The ratings are further constrained due to its large investments and support provided to its overseas subsidiaries with an aim to leverage on the established brand 'Veedol' in the international markets whereby some of its subsidiaries are not generating adequate profitability.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Growth in scale of operations marked by total operating income (TOI) of above Rs.1,500 crore and significant improvement in market share on sustained basis along with increased presence in industrial lubricant segment.
- Improvement in profitability margins marked by PBILDT and PAT margins of above 20% and 12% respectively on 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 liquidity position due to reduction in cash balance more than as envisaged.
- Any debt funded capex or support towards subsidiaries leading to sharp deterioration of overall gearing above 0.20x.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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/three wheelers. It also produces gear oils, transmission oils, coolants 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.

Brand recognition and stable market positioning in the automobile segment

The company manufactures and sells its products mainly under two brands - 'Veedol' and 'Eneos' with 'Veedol' contributing to around 66% of gross sales and the balance being contributed by 'Eneos'. The company also has overseas presence through its various subsidiaries and step-down subsidiaries.

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 JX Nippon TWO Lubricants India Pvt. Ltd (JXT) which is a 50:50 joint venture between Japanese entity- Eneos Corporation and TWOCIL. TWOCIL pays franchisee fee to JXT for using the brand Eneos. Both the brands have established wide market acceptance. TWOCIL has tie-ups for 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.

Pan-India 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. The network is fed by 5 plants and around 50 depots located strategically across the country. The company has been introducing new performance level products to meet the changing needs of the customers through two in-house R&D centers.

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 Rs.1.74 crore in FY21 pertaining largely to interest bearing security deposits. Accordingly, 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 announced significant dividend pay-out in the current year. In spite of the same, the liquidity is expected to remain strong.

TWOCIL's total operating income declined from Rs.1,156 crore in FY20 to Rs.1,089 crore in FY21 with reduction in overall sales volume on account of reduced demand in Q1FY21 due to the outbreak of Covid 19 followed by nationwide lockdown. However, with lower prices of key raw material, i.e, base oil, the operating margin improved to 16.26% in FY21 as against 13.95% in FY20. The same is expected to normalize in the current year with increasing price trend of base oil.

Stable demand prospects

India is an important market for the lubricant industry world-wide ranking third after the United States of America 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 lubricating markets in India.

The major factors driving the growth of the market are presence of large industrial manufacturing sector comprising of automobiles, chemicals, pharmaceuticals, tyre and rubber, power generation and mining. Auto segment is the largest consumer of lubricant oils and demand prospects remain stable, though the growth rate is expected to be low as in the past.

Key Rating Weaknesses

Susceptible to volatility in raw material prices especially crude oil

The key raw material required by the company is base oil (around 65% of total raw material cost) which is obtained by fractional distillation of crude oil. Prices of base oil have high correlation with prices of crude oil which is volatile in nature. Further, in case of any sharp rise in prices of base oil, it is difficult for the company to pass on the same immediately, due to high competition, 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 movement in prices of crude oil. The company procures base oil majorly from domestic market and also imports the same.

High exposure to subsidiaries and JV

The company is present in international markets like UK, UAE, France and Germany through its various subsidiaries and step-down subsidiaries. Fund-based exposure of TWOCIL towards such companies remained high at Rs.215.13 crore (forming 31% of networth as on March 31, 2021) in the form of investments. TWOCIL has also provided corporate guarantees and letter of comfort on behalf of its foreign subsidiaries of Rs.31.22 crore as on March 31, 2021. Although, such exposure is high vis-à-vis company's networth, the scale of operations of such entities remained small as compared to TWOCIL. Few of its subsidiaries are also not generating adequate profitability. TWOCIL provides need-based support to these subsidiaries and infused 1 Mn Euro (about Rs.9 crore) in Veedol Deutschland GmbH, Germany in Q1FY22. The corporate guarantee given thereon is expected to be released in next couple of months according to the company management. Going forward, the management has articulated that no major support would 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 the JV which is on an increasing trend.

High competition from other players

Indian lubricant market is extremely competitive and price sensitive, primarily dominated by PSU companies followed by leading private players. Branding and advertisement are a substantial expenditure in the lubricants industry owing to intense competition and commoditized nature of the product. Accordingly, after material cost, selling and distribution cost (including franchisee fee) forms the second largest cost for the company, hovering around 20-25% of the sales.

Limited presence in the industrial oil segment

With the slower growth rate in the automotive segment and 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, penetration in this segment is expected to be slow on account of the well-entrenched position of the existing public sector undertakings and the long gestation periods associated with establishing 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 presence of major PSU's.

Liquidity: Strong

The liquidity position of TWOCIL is strong, as evident from healthy cash and liquid investments of Rs.177 crore as on March 31, 2021, nil utilisation of fund based working capital limits and no long-term debt repayment obligations. The current ratio of the company was also comfortable at 1.67x as on March 31, 2021. The company has no plans of any major capital expenditure in the near future, consequently its liquidity is envisaged to remain strong despite healthy rate of dividend payout.

Analytical approach: Standalone while factoring in support to its subsidiaries.

Considering the significant amount of investment in subsidiaries and support extended by TWOCIL, CARE has now also factored in the impact of the support in its analysis.

Applicable Criteria

[Criteria on Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating methodology - Consolidation](#)

[Liquidity Analysis- Non-Financial Sector](#)

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 kilo liters per annum (KLPA) for lubricants across 5 locations in West Bengal, Haryana, Maharashtra and Tamil Nadu and 6,160 MTPA of grease at its Tamil Nadu and West Bengal plants.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1156	1089
PBILDT	161	177
PAT	106	117
Overall gearing (times)	0.03	0.03

Interest coverage (times)	110.47	101.82
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A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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-Cash Credit	-	-	-	25.00	CARE AA; Stable
Non-fund-based - ST-Letter of credit	-	-	-	17.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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+ (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-Cash Credit	LT	25.00	CARE AA; Stable	-	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+ (02-Sep-20)	1)CARE A1+ (08-Aug-19)	-

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	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

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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