# Indian Additives Limited

April 04, 2022

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 15.00 | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Long-term/Short-term Bank Facilities | 4.00 | CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus) | Reaffirmed |
| Short-term Bank Facilities | 16.50 | CARE A1+ (A One Plus) | Reaffirmed |
| Total Facilities | 35.50 (Rs. Thirty-five crore and fifty lakh only) | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Indian Additives Limited (IAL) continue to factor in its strong parentage as well as strong technological and operational benefits derived from the Chevron group, the company's well-established position as one of the largest players in the domestic lubricating oil additives (LOA) market which is characterised by a high level of entry barriers with a limited number of players in the industry, its comfortable financial risk profile, and strong liquidity.

The ratings are, however, constrained by its exposure to volatility in input costs and foreign exchange rate movements, and the highly competitive nature of the industry.

**Rating Sensitivities**

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

- Significant growth in scale of operations with further diversification in product profile.
- Improvement in PBILDT margin to 15% on a sustained basis.

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

- Decline in the scale of operations, with total operating income (TOI) of less than Rs.700 crore on a sustained basis.
- Decline in profitability margins, marked by PBILDT margin of less than 8% on a sustained basis.
- Moderation in its capital structure, marked by overall gearing of more than 0.75x.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Strong parentage and demonstrated support from its promoters***

IAL is engaged in the manufacturing and sale of additives used in lubricating oils. IAL is a joint venture (JV) between Chevron Oronite Company LLC (COCL) and Chennai Petroleum Corporation Limited (CPCL, rated 'CARE AAA; Stable'). The JV agreement also includes a license agreement entered between IAL and COCL. COCL also arranges training programmes for the engineers of IAL at regular intervals, provides the technology and processes required for producing additives, as well as supplies the majority of its raw materials including from its Asian subsidiaries. In the past, COCL had extended indirect financial support by providing extended credit against its supplies to IAL.

Apart from operational and financial support, the parent companies also provide managerial support to IAL. The board of directors of IAL consists of three directors each from CPCL and COCL. Notably, the Managing Director of IAL, Mr N. Ravi, is a nominee of COCL.

***Industry characterised by high entry barriers on account of technology intensiveness and high costs***

The LOA business globally is dominated by four multinational companies, with only two players having a major share in the domestic markets (including IAL) due to the high entry barriers in the industry. The industry is characterised by technology-intensiveness, resulting in a limited number of players both, globally and in the domestic market as well. Access to technology and the large amount of funds required for product research and development and testing act as an entry barrier in the industry. Given the huge amount of costs involved, the players should also have a global network for supplying their products, which again acts as an entry barrier for new players.

***Comfortable financial risk profile***

The working capital requirements of IAL are mostly funded through internal accruals; credit from suppliers and fund-based working capital limits are only used marginally on certain occasions. The company has maintained a debt-free balance sheet for the last five years ended FY21 (FY refers to the period from April 1 to March 31), resulting in a robust financial risk profile, and is

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

also envisaged to remain debt-free in FY22 owing to the funding of the capex from internal accruals and sufficient liquidity on hand. Furthermore, IAL has a small customer base of 10-12 companies, which includes all major players in the Indian lubricants market, including domestic oil marketing companies (OMCs) and multi-national corporations (MNCs) having strong credit profiles.

***Improved scale of operations during 9MFY22; albeit pressure on profitability margins***

The capacity utilisation moderated during FY21, owing to lower production amid disturbances due to the COVID-19 pandemic coupled with an increase in installed capacities. Also, its sales volume dipped by around 12% on y-o-y basis in FY21, thereby leading to a dip in its TOI by 12% on y-o-y basis to Rs.707.11 crore. However, the PBILDT margin improved by almost 2% during FY21, owing to comparatively higher moderation in the value of its raw materials, which are crude oil-dependent.

During 9MFY22, its TOI increased by 21% on y-o-y basis, and hence, the company is expected to reach the pre-COVID level revenue by the end of FY22. However, the PBILDT margin reduced significantly during 9MFY22, owing to intermittent disturbances in production and an increase in administrative expenses on the back of the COVID-19 pandemic coupled with fixed overhead expenses and a gradual rise in the price of crude oil.

**Liquidity: Strong**

The liquidity of IAL stood strong, marked by cash accruals of Rs.67.44 crore during FY21 with no term debt obligations and nil debt outstanding on the balance sheet date for the last five years ended FY21. Furthermore, the company has no major capex plans over the medium term, and hence, has no plans to avail of any term debt. The company has sanctioned a cash credit limit of Rs.15 crore and the average working capital utilisation for the last 12-months ended January 2022 was low, at 10%. Accordingly, the company's almost unutilised bank lines are more than adequate to meet its incremental working capital needs over the next year. IAL's total cash and bank balance stood at Rs.49 crore as on March 19, 2022, which provides additional liquidity comfort.

**Key Rating Weaknesses**

***Exposure to commodity price risk and forex risk***

IAL's customer base includes all major players in the Indian lubricants market, including domestic OMCs and MNCs. IAL generates around 70%-75% of its sales from tender-based businesses. The contracts under tender-based business are fixed-price contracts with the volatility of the raw materials being borne by IAL; however, normally, the tenure of contracts is around 6-12 months only. IAL meets more than 50% of its raw materials requirement through imports, however, it does not have a practice of hedging its foreign currency exposure. Although in normal currency market conditions it may not have much impact on the profit margins, it is likely to impact the profit margins in a volatile market scenario.

***Stiff competition among existing players with better growth prospects in the emerging markets***

IAL is one of the largest players in the domestic LOA market, and the other major player is Lubrizol India Private Limited (a JV between the Indian Oil Corporation Ltd (IOCL) and Lubrizol Corp, USA). The other two global players account for a smaller share of the domestic market and they primarily rely on imported products. Although there are only four players in the industry, the additive manufacturing industry is highly price-competitive. Apart from the intense competition, the volatile nature of input materials has a significant impact on margins. Globally, the growth of this industry is expected to be moderate. Major growth is expected mainly from the APAC region as the motorisation rate has been increasing constantly in this region while the developed markets are stagnated.

**Analytical Approach:** Standalone, along-with factoring the linkages with its promoter companies.

**Applicable Criteria:**

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector entities
Rating Methodology: Notching by factoring Linkages in Ratings

**About the Company**

IAL is a Chennai-based company jointly promoted by CPCL and COCL since 1989. CPCL and COCL hold equal stake in the company. IAL is engaged in the manufacturing and sale of petroleum additive products, which are used in lubricating oils. IAL has a manufacturing facility at Manali, Chennai.

COCL is a subsidiary of the Chevron Corporation, one of the world's largest integrated energy companies with an operating income of US$162 billion for the year-ended December 31, 2021. CPCL, a subsidiary of IOCL, is engaged in petroleum refining operations at two of its facilities in Tamil Nadu, with an aggregate capacity of 11.5 million tonne per annum (MTPA).

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | 9MFY22 (Prov.) |
|---|---|---|---|
| TOI | 801.43 | 707.11 | 589.42 |
| PBILDT | 82.22 | 85.23 | 35.41 |
| PAT | 54.45 | 51.28 | 16.06 |
| Overall gearing (times) | 0.00 | 0.00 | NA |
| Interest coverage (times) | 190.82 | 357.07 | 107.30 |

*A: Audited; Prov: Provisional; NA: Not available; Financials classified as per CARE Ratings Limited standards.*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument/facility:** Not applicable

**Complexity level of various instruments rated for this company:** Annexure-3

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 15.00 | CARE AA; Stable |
| Non-fund-based - ST-Letter of credit | | - | - | - | 1.50 | CARE A1+ |
| Non-fund-based - LT/ ST-Bank Guarantee | | - | - | - | 4.00 | CARE AA; Stable / CARE A1+ |
| Fund-based - ST-Working Capital Limits | | - | - | - | 15.00 | CARE A1+ |

**Annexure-2: Rating History (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 | Fund-based - LT-Cash Credit | LT | 15.00 | CARE AA; Stable | - | 1)CARE AA; Stable (04-Mar-21) | 1)CARE AA; Stable (14-Feb-20) | 1)CARE AA; Stable (29-Jan-19) |
| 2 | Fund-based - LT-Term Loan | LT | - | - | - | - | 1)Withdrawn (14-Feb-20) | 1)CARE AA; Stable (29-Jan-19) |
| 3 | Non-fund-based - ST-Letter of credit | ST | 1.50 | CARE A1+ | - | 1)CARE A1+ (04-Mar-21) | 1)CARE A1+ (14-Feb-20) | 1)CARE A1+ (29-Jan-19) |
| 4 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 4.00 | CARE AA; Stable / CARE A1+ | - | 1)CARE AA; Stable / CARE A1+ (04-Mar-21) | 1)CARE AA; Stable / CARE A1+ (14-Feb-20) | 1)CARE AA; Stable / CARE A1+ (29-Jan-19) |
| 5 | Fund-based - ST-Working Capital Limits | ST | 15.00 | CARE A1+ | - | 1)CARE A1+ (04-Mar-21) | 1)CARE A1+ (14-Feb-20) | 1)CARE A1+ (29-Jan-19) |

** Long term/Short term*

**Annexure-3: Complexity level of various instruments rated for this company:**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - ST-Working Capital Limits | Simple |
| 3 | Non-fund-based - LT/ ST-Bank Guarantee | Simple |
| 4 | Non-fund-based - ST-Letter of credit | Simple |

**Annexure-4: 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 instrument:** CARE Ratings Limited 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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**About CARE Ratings Limited:**
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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