Tide Water Oil Co India Limited
August 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	12.00 (Reduced from 22.00)	CARE AA; Stable	Reaffirmed
Long-term/short-term bank facilities	60.00	CARE AA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	7.00 (Reduced from 17.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 an established 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, the UAE, and Germany. The ratings take note of the continued improvement in the performance of the key overseas subsidiaries in FY23 (refers to the period from April 1 to March 31).

The ratings take note of the increase in TWOCIL's consolidated total operating income (TOI) by about 20% y-o-y during FY23, driven by an increase in the sales volume of lubricants and realisations 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 FY23 to 8.02% as compared to 10.19% in FY22, which was more or less in line with expectations.

The ratings 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 large public sector undertakings (PSU) and private sector companies, which restricts ability of TWOCIL to immediately pass on the increase in raw material cost.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Inability to maintain a market share leading to substantial revenue and profitability degrowth on a sustained basis.
- Deterioration in the liquidity position due to significant reduction in the liquidity balance.

- Any debt-funded capex or support towards subsidiaries, leading to sharp deterioration of the overall gearing above 0.20x.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has adopted a consolidated analytical approach for analysing TWOCIL due to the operational and financial linkages between the entities. TWOCIL has also extended guarantees towards the debt availed by few of its subsidiaries. The list of companies consolidated with TWOCIL as on March 31, 2023, is placed in **Annexure 6.**

Outlook: Stable

The 'stable' outlook reflects that TWOCIL is expected to sustain its healthy business risk profile given its established market position in the lubricants industry with a strong brand positioning. The financial risk profile is also expected to remain comfortable with strong liquidity and no major capex plan in the near future.

Detailed description of the key rating drivers:

Key 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 (CVs), 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.

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 62% of its gross domestic sales in FY23 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 Limited (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 to OEMs, while 'Veedol' is mainly sold in the after-sales 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 500 distributors and dealers servicing over 50,000 retail outlets and workshops, fed by five plants and around 50 depots strategically located 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 research and development (R&D) centres.

The overseas operations are supported by its various subsidiaries and step-down subsidiaries based out of the UK, the UAE, and Germany.

Healthy financial risk profile, likely to remain so: 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 ₹1.49 crore in FY23, 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 low debt.

The company has significant dividend pay-outs every year 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 ₹1,861 crore in FY23 (FY22: ₹1,546 crore) owing to an increase in the sales volume of lubricants and an increase in the per unit realisation of both, lubricants and greases. The PBILDT margin, however, continued to witness moderation in FY23 due to the inability to pass on the input price fluctuation amidst intense competition.
The performance of the subsidiaries on an overall basis improved in FY23. Going forward, the management has articulated that no major support will be required to be extended to the subsidiaries, as they are gradually becoming self-sufficient. On an overall basis, the company derives regular dividend income from Veedol UK Limited and ETW.

Liquidity: Strong

The liquidity position of TWOCIL is strong, as evident from the healthy cash and liquid investments of ₹169 crore as on March 31, 2023, with very low utilisation of the fund-based working capital limits and no long-term debt repayment obligations. The current ratio of the company was also comfortable, at 1.60x as on March 31, 2023. 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 weaknesses

Susceptible to volatility in raw material prices, especially crude oil: The key raw material required by the company is base oil, 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 mainly 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. The competition at the global level is also high due to the presence of large-size 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.

Environment, social, and governance (ESG) risks

TWOCIL remains exposed to the impact of tightening environmental compliances and safety norms given the nature of its business. The advent of electric vehicles (EVs) can impact the demand for lubricants in the long term. However, the penetration of EVs is slow which may not impact the operating performance of the company in the short to medium term. In the course of manufacturing, some waste oil, solvents and sludge are generated. These are safely disposed in line with the procedures prescribed by the local Pollution Control Boards, as disclosed by the company.

Total amount spent on corporate social responsibility (CSR)for FY23 stood at ₹2.85 crore which was in excess by Rs.0.08 crore from the amount required to be spent, considering set-off of Rs.0.13 crore for excess spend at the beginning of the year.

The board of directors comprises one executive director and nine non-executive directors, of whom five are independent.

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](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Petroleum Products	Lubricants

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 111,000 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 subsidiaries based out of the UK, the UAE, and Germany.

Brief Consolidated Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,545.98	1,860.75
PBILDT	157.55	149.15
PAT	122.91	114.49
Overall gearing (times)	0.05	0.04
Interest coverage (times)	98.47	100.10

A: Audited, Note: 'The above results are the latest financial results 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 instrument / facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	12.00	CARE AA; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	60.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	7.00	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 2023-2024	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
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+ (01-Aug-22)	1)CARE AA; Stable / CARE A1+ (03-Aug-21)	1)CARE AA; Stable / CARE A1+ (02-Sep-20)
2	Fund-based - LT-Working Capital Limits	LT	12.00	CARE AA; Stable	-	1)CARE AA; Stable (01-Aug-22)	1)CARE AA; Stable (03-Aug-21)	1)CARE AA; Stable (02-Sep-20)
3	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A1+	-	1)CARE A1+ (01-Aug-22)	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (02-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Annexure-6: List of companies being consolidated with TWOCIL (as on March 31, 2023)

Name of Companies	% of holding
Veedol International Limited	100
Veedol International DMCC, Dubai	100
Veedol UK Limited	100
Veedol Dustchland GmBH	100
Granville Oil & Chemicals Ltd	100% (subsidiary of Veedol UK Ltd)
Eneos Tide Water Lubricants India Pvt Ltd	50 (JV)
Veedol International Americas Inc.*	100% (subsidiary of Veedol International Ltd)

* *Operations discontinued since July 2020 and has been dissolved on June 06, 2022.*

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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