Veedol Corporation Limited (erstwhile Tide Water Oil India Company Limited)

October 31, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE AA; Stable and Withdrawn
Long-term / Short-term bank facilities	-	-	Reaffirmed at CARE AA; Stable/ CARE A1+ and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A1+ and Withdrawn

Details of facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE AA; Stable/CARE A1+' assigned to the bank facilities of Veedol Corporation Limited (VCL) with immediate effect. The above action has been taken at the request of VCL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings.

The ratings continue to derive strength from the company's healthy financial risk profile with negligible debt level and strong liquidity in the form of significant amount of unencumbered cash and bank balances. The ratings also factor in VCL's long track record in the lubricants industry with a relatively stable market share, where it has an established presence in the automobile segment, which constitutes ~70% of its sales. VCL sells lubricants under well-established and recognised brands '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 subsidiaries and step-down subsidiaries based out of the UK, the UAE, and Germany.

The ratings continue to remain constrained by VCL's 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 with the presence of some large public sector undertakings (PSU) and private sector companies, which restricts VCL's ability to immediately pass on the increase in raw material cost.

Analytical approach: CARE Ratings has adopted a consolidated analytical approach for analysing VCL due to the operational and financial linkages between the entities. VCL has also extended guarantees towards the debt availed by few of its subsidiaries. The list of companies consolidated with VCL as on March 31, 2024, is placed in **Annexure 6.**

Outlook: Stable

The 'stable' outlook reflects that VCL 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 key rating drivers:

Key strengths

Seasoned player in the lubricants industry

VCL, 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 65% of its gross domestic sales and the balance being contributed by 'Eneos'.

Domestic rights for 'Veedol' are owned by VCL, whereas global rights are owned by Veedol International Limited (VCL's 100% subsidiary). Rights for using 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 VCL. VCL pays the franchise fee to ETW for using

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

brand 'Eneos'. Both the brands have established a wide market acceptance. VCL 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 after-sales segment.

Strong distribution and marketing network

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

Healthy financial risk profile, likely to remain so

VCL'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. Capital structure and debt protection metrics remained comfortable as the company has very low debt.
VCL's consolidated total operating income (TOI) improved to ₹1,931.19 crore in FY24 (FY23: ₹1,853.80 crore) owing to change in product mix and premiumization. Profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improved in FY24 due to various cost saving and austerity measures undertaken along with better product mix.

Liquidity Strong.

The liquidity position of TWOCIL is strong, as evident from the healthy cash and liquid investments of ₹212.10 crore as on March 31, 2024, with no 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

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 high competition, price sensitive nature of end-user segments, and the company being a price taker in the industry. Accordingly, the company's profitability is vulnerable to the movement in the prices of crude oil. The company procures base oil majorly from the domestic market and imports this.

High competition from other players

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 intense competition and commoditised nature of the product. Accordingly, after material cost, selling and distribution cost (including franchise fee) forms the second largest cost for the company. 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 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 considering well-entrenched position of existing PSUs and long gestation period associated with establishing a clientele in this segment. VCL has its major presence in the automotive oil segment (~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:

VCL remains exposed to the impact of tightening environmental compliances and safety norms given the nature of its business. Advent of electric vehicles (EVs) can impact the demand for lubricants in the long-term. However, penetration of EVs is slow which may not impact the company's operating performance 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 FY24 stood at ₹2.67 crore which was in excess by ₹0.33 crore from the amount required to be spent, considering set-off of ₹0.08 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

CARE's Policy on Withdrawal of Ratings
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 and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, gas & consumable fuels	Petroleum products	Lubricants

VCL is mainly engaged in the business of manufacturing and marketing lubricants. Its products include automotive lubricants, industrial lubricants, and greases. It has 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 Financials – Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,853.80	1,931.19	478.87
PBILDT	142.20	169.12	47.85
PAT	114.58	142.93	37.11
Overall gearing (times)	0.03	0.03	NA
Interest coverage (times)	95.44	94.48	70.37

A: Audited UA: Unaudited; NA: Not applicable; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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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 and Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	**-**	**-**	-	1)CARE AA; Stable / CARE A1+ (02-Aug-23)	1)CARE AA; Stable / CARE A1+ (01-Aug-22)	1)CARE AA; Stable / CARE A1+ (03-Aug-21)
2	Fund-based - LT-Working Capital Limits	LT	-	-	-	1)CARE AA; Stable (02-Aug-23)	1)CARE AA; Stable (01-Aug-22)	1)CARE AA; Stable (03-Aug-21)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A1+ (02-Aug-23)	1)CARE A1+ (01-Aug-22)	1)CARE A1+ (03-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 /	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 entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Veedol International Limited	Full	Subsidiary
2.	Veedol International DMCC, Dubai	Full	Subsidiary
3.	Veedol UK Limited	Full	Subsidiary
4.	Veedol Dustchland GmBH	Full	Subsidiary
5.	Granville Oil & Chemicals Ltd	Full	Subsidiary of Veedol UK Limited
6.	Eneos Tide Water Lubricants India Private Limited	Proportionate	Joint Venture

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