Tide Water Oil Co. (India) Limited

August 08, 2019

Ratings

Facilities	Amount (Rs. crores)	Ratings[1]	Rating action
Long-term Bank facilities	25.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**
Short-term Bank facilities	17.00	**CARE A1+ (A One Plus)**	**Assigned**
Long Term/Short-term Bank Facilities	60.00 (enhanced from 45.00)	**CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Total	**102.00 (Rupees One Hundred and two crores 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) continues to derive strength from long track record of the company in the lubricants industry, wide distribution network, established brands, presence of manufacturing facilities across India and comfortable financial risk profile supported by negligible debt, strong liquidity and satisfactory debt protection metrics. The ratings are however constrained by volatility of raw material prices due to linkage with crude oil, intense competition from private as well as PSU players and high exposure in overseas subsidiaries and affiliates albeit to make inroads in international market. Going forward, the ability of the company to maintain its profitability, liquidity and market position amidst intense competition would be key rating sensitivities. Further, any significant debt-laden capex or increase in exposure to subsidiaries & affiliates would be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Seasoned player in the lubricants industry since 1921

TWOCIL is one of the large private players in the Indian lubricant industry having establishment since 1921. It manufactures and markets Veedol & Eneos brand of lubricants. 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 application it manufactures industrial oils, greases, and specialty products like metal working fluids, quenching oils, and heat transfer oils.

Brand recognition (Veedol and Eneos) and healthy market positioning in the automotive lubricants segment

The company manufactures and sells its products mainly in two brands- Veedol and Eneos. The domestic rights for brand "Veedol" are owned by TWOCIL whereas the global rights for the brand "Veedol" is 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). As per franchise agreement between TWOCIL & JXT, TWOCIL pays franchisee fee to JXT for the use of technology, trademarks, trade name, intellectual property rights & strategic services. TWOCIL derives around 63% of its revenue from the "Veedol" brand which majorly drives its top line while the rest comes from "Eneos". The company also has tie-ups with various OEM's like Royal Enfield, Kobelco, Hero Motorcorp etc in the automotive and industrial segment.

Presence of manufacturing facilities across India

The company has its manufacturing plants across India situated at Silvassa & Turbhe (West), Faridabad (North), Howrah (East) & Oragadam (South) which helps it manage demand and customers better. It enjoys competitive pricing due to optimized freight costs and can reach out to markets all over India thereby increasing its position and growth.

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 over 55 depots located strategically across the country. Further, TWOCIL have been making inroads in international market through its overseas subsidiaries.

Healthy financial risk profile providing financial flexibility

TWOCIL's financial risk profile is strong, as indicated by its healthy business returns, a negligible debt status and large free cash and bank balances that provide strong liquidity to the company. Total operating income grew at a CAGR of 11.3%

during FY17 to FY19 backed by increase in sales volume and realizations of both Veedol and Eneos brand of products. The PBILDT margin of the company has declined from 13.65% in FY18 to 12.88% in FY19 due to volatile nature of raw material prices dependent on crude oil, but still is in a comfortable range. However, the interest expenses remained very low and largely pertain to Interest bearing security deposits. Accordingly interest coverage remained highly satisfactory over the years. The capital structure and debt protection metrics are highly comfortable as the company has very low debt as on last three account closing dates. Going forward, maintaining the profitability would be a key rating monitorable.

Liquidity: Strong

The liquidity position of the company remained comfortable, as evident from healthy cash & liquid investments of Rs. 153.33 crores as on Mar 31, 2019, zero utilization of its fund as well as non-fund based working capital limits of Rs. 102 crores and no long term debt repayment obligations in view of zero debt status of the company. The current ratio of the company was comfortable at 3.21x as on Mar'19. The company does not have any debt except for interest bearing security deposits taken from dealers. As per plan submitted by the company, it does not expect to take any long term debt in the near future as it has sufficient internal funds. The company's free cash & liquid balances declined from Rs.170.37 crores as on Mar'18 to Rs. 153.33 crores as on Mar'19 mainly due to high dividend payout by TWOCIL in fiscal year 2019. However going forward, maintaining the existing free cash & bank balances be a key rating monitorable.

Key Rating Weaknesses

Susceptible to volatility in raw material prices especially Crude oil & forex movements

The key raw material required by the company is base oil (~80 to 90% of total raw material cost) which is a derivative of crude oil. Accordingly prices of base oil have high correlation with prices of crude oil which is very 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, due to high competition and price sensitive nature of end user segments.

High competition from other players

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

High exposure to subsidiaries and JV's

The company is present in international markets like UK, UAE and Germany through its various subsidiaries and step down subsidiaries. Due to various international subsidiaries, TWOCIL enjoys a global reach of its product to major nations in the world. Although, such exposure is high vis-à-vis company's net worth, the scale of operations of such entities remained very small as compared to TWOCIL; the company has been making inroads in overseas markets through these subsidiaries.

Prospects

India is an important market for the lubricant industry world-wide ranking third after the United States and China. The per capita lubricant consumption in India is also quite low compared to other developed countries, so there is potential in India for growth of lubricating markets. With an overall growth in Indian economy, the growth in lubricant industry is expected to remain healthy.

Analytical approach: Standalone Approach

Applicable Criteria

[Criteria on assigning Outlook & Credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

About the Company

Tide Water Oil Co. (India) Limited (TWOCIL) is a public limited company, incorporated in India is mainly engaged in the business of manufacturing and marketing of lubricants. Its products include automotive lubricants & industrial lubricants. Its automotive lubricants include diesel engine oils, two wheeler oils, passenger car motor oils, gear and transmission oils, and greases. It has a total installed capacity of 105,000 kilo liters per annum (KLPA) for lubricants across 5 locations in India and a capacity of 6,160 MTPA for Greases at its Tamil Nadu and West Bengal plants. It sells its products in the brand name of "Veedol" and" as per franchise agreement entered into between TWOCIL & JXT, TWOCIL has rights for manufacturing products under brand name "Eneos".

Brief Financials (Rs. crores)	FY18 (Audited)	FY19 (Abridged)
Total operating income	1,114.14	1,221.13
PBILDT	152.05	157.34
PAT	96.93	96.72
Overall gearing (times)	0.03	0.03
Interest Coverage (times)	113.47	118.30

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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+ (05-Aug-19)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	25.00	CARE AA; Stable	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	17.00	CARE A1+	-	-	-	-

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

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