Tide Water Oil Co. (India) Limited
September 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**25.00**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term 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 Facilities	**102.00 (Rs. One Hundred Two Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to Tide Water Oil Co. (India) Limited (TWOCIL) continues to derive strength from long track record of the company in the lubricants industry, well established and recognised brands, strong distribution and marketing network, and healthy financial risk profile coupled with strong liquidity and comfortable debt protection metrics.
The ratings are however constrained by sluggish growth in revenue and decline in sales volume of lubricants, high volatility of base oil prices due to its linkage with crude oil, high exposure in overseas subsidiaries and affiliates, intense competition from other players and limited presence in industrial oil segment.

Rating Sensitivities

Positive Factors
- Growth in scale of operations as marked by total operating income of above Rs.1,500 crore on sustained basis and retention of market share on sustained basis.
- Improvement in profitability margins as marked by PBILDT and PAT margins of above 20% and 12% respectively on sustained basis.

Negative Factors
- Deterioration in liquidity due to reduction in cash balance more than as envisioned.
- Any debt funded capex leading to sharp deterioration of overall gearing above 0.20x.

Detailed description of the key rating drivers

Key Rating Strengths

Seasoned player in the lubricants industry since 1921

TWOCIL is one of the leading 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. TWOCIL also has tie-ups, for supply of genuine oils, with a number of renowned OEMs in the automotive and industrial equipment segment. 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 stable market positioning in the automobile segment

The company manufactures and sells its products mainly in two brands- Veedol and Eneos, with Veedol contributing majority of the gross sales and the balance is contributed by 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 agreement between TWOCIL & JXT, TWOCIL pays franchisee fee to JXT for the use of technology, trademarks, trade name, intellectual property rights & strategic services. Both Eneos and Veedol are established brands and has wide market acceptance. The company also has tie-ups with various OEM's like Royal Enfield, Kobelco, Hero Motorcorp etc in the automotive and industrial segment.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 is focused to meet the changing needs of the customers through two in-house R&D centers which are duly recognized by Department of Scientific and Industrial Research (DSIR), Govt of India

Healthy financial risk profile marked by comfortable liquidity and minimal debt status
TWOCIL's financial risk profile is strong, as indicated by its healthy business returns, a minimal debt status and large cash & bank balances that provide strong liquidity to the company. The interest expenses remained low at Rs 1.46 cr in FY20 pertaining to Interest bearing securities deposits. Accordingly, interest coverage remained highly satisfactory over the years. The capital structure and debt protection metrics is comfortable as the company has very low debt.
The prices of key raw material, i.e. base oil have been highly volatile and declined significantly from FY19, leading to better operating margins in FY20. Accordingly, PBILDT margin increased by 107 basis points from FY19 to FY20. Further, dividend payout ratio of the company is on a higher side and stands at ~72.5% in FY20 with a PAT of Rs 105.73 cr.

Key Rating Weaknesses

Sluggish Growth in Revenue and decline in volume
The company's scale of operation has grown by a CAGR of merely 1% during the last three fiscals (FY18 to FY20).TWOCIL has reported Total Operating Income (TOI) of Rs 1,155.92 cr in FY20 vis-à-vis Rs 1,221.13 cr in FY19. Decline in revenue is mainly attributable to reduction in demand resulting in lower sales volumes, which has declined by 3% in FY20 as compared to FY19. Further, the company has reported a TOI of Rs 169.36 cr and PAT of Rs 14.80 cr in Q1FY21 (unaudited).

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. Accordingly the profitability of the company is vulnerable to movement in prices of crude oil.

High exposure to subsidiaries and JV's
The company is present in international markets like UK, UAE and Canada 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. Accordingly, fund based exposure of TWOCIL towards such companies remained high at Rs. 215.13 crores (forming 32% of networth) as on Mar'20 in the form of investments in subsidiaries & affiliates. TWOCIL has also given corporate guarantees on behalf of its foreign subsidiaries to the tune of Rs 34.91 crores. Although, such exposure is high vis-à-vis company's net worth, however, the scale of operations of such entities remained very small as compared to TWOCIL. It reported a consolidated TOI of Rs 1,347.79 cr (standalone TOI Rs 1,155.92 cr) and PAT of Rs 122.06 cr in FY20 (Standalone PAT Rs 105.73 cr)

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 ~20-25% 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. Similar to above, TWOCIL has its major presence in the automotive oil segment with entry barriers in the Industrial lubricants segment due to presence of major PSU's.

Industry Update

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.

However, the lubricant market has temporarily contracted due to Covid 19 and the dip in crude prices has fallen short to cover for inventory losses and other costs. In the long run, the market is expected to return to its normal growth rates, as the fundamental demand drivers are still in place.

Liquidity: Strong

The liquidity position of the company remained comfortable, as evident from healthy cash & liquid investments of Rs. 195.58 crores as on Mar 31, 2020, zero utilization of its fund based working capital limits 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 3.53x as on Mar'20 vis-a vis 3.21x as on Mar'19. As per management, the company has no plans for any major capex in the near future and does not wish to take on any long term debt as it has sufficient internal funds Additionally, the company has not opted for any moratorium of its bank facilities in line with RBI guidelines concerning the impact of Covid 19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook 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 "Eneos". The rights for using the brand "Eneos" in India is held by JXT.As per agreement between TWOCIL & JXT, TWOCIL pays franchisee fee to JXT for the use of technology, trademarks, trade name, intellectual property rights & strategic services.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1221.13	1155.92
PBILDT	157.34	161.28
PAT	96.72	105.73
Overall gearing (times)	0.03	0.03
Interest coverage (times)	118.30	110.47

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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+ (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 (08-Aug-19)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	17.00	CARE A1+	-	1)CARE A1+ (08-Aug-19)	-	-

Annexure 3: 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.

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