August 03, 2017

Tide Water Oil Company (India) Limited

Summary of Rated instruments

Instrument*	Rated Amount (in Rs crore)	Rating Action
Fund-based Limits	57.50	[ICRA]AA (Stable) reaffirmed
Non-fund Based Limits	47.50	[ICRA]A1+ reaffirmed
Total	**105.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A) rating assigned to the Rs. 57.50-crore[1] fund-based bank facilities of Tide Water Oil Company (India) Limited (TWO)[2]. The outlook on the rating is Stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 47.50-crore short-term non-fund based bank facilities of TWO.

Rationale

The ratings take into account TWO's strong financial profile characterised by its debt-free status and a healthy cash balance as on date, which provides it with a comfortable liquidity position. The ratings continue to factor in the company's long presence in the business of lubricating-oil manufacturing in India and the technical expertise that the company has developed over the years in producing up to the highest grade of lubricants available in India. The ratings also draw comfort from the wide marketing and distribution network of the company that has helped TWO penetrate the lubricant market across the country. However, the long-term rating is tempered by the susceptibility of TWO's operating margins to volatile base oil prices, which is a crude derivative, and its status as a price taker due to the presence of larger players in the market. However, ICRA notes that price increases in the past by market leaders have enabled the company to pass on such increases. The ratings also take into account the marginal growth in sales volume of lubricating oils for the company, although ICRA notes that the trend is in line with that of the industry. To increase its sales volume, the company has ventured into the international lubricant market, but the move is yet to contribute significantly to the company's revenues and profits.

Key rating drivers

Credit Strengths

- **Long established track record in the business of lubricating oils in India –** TWO has an established position in the domestic lubricant-manufacturing business as it has been in the segment for the last 80 years. The company's "Veedol" brand of lubricants enjoys a modest market share of ~4% in the Indian market.
- **Strong financial risk profile –**TWO's financial profile is strong as indicated by its healthy business returns, a debt-free status and large cash balance that provide strong liquidity to the company.
- **Strong technical expertise –** The company has the technical expertise in manufacturing the highest grade of lubricating oils available in India. ICRA notes that TWO's research and development experience has helped it develop technical capabilities over the years.
- **Wide marketing and distribution network** – TWO has a wide dealer and distributor network across the country that has helped the company in penetrating the domestic lubricant market.

[1] *100 lakh = 1 crore = 10 million*
[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Credit Weaknesses

- **Marginal growth in sales volumes –** TWO's domestic sales volumes have registered marginal growth over the years as a result of slow industry growth as well as challenges related to the entry into the highly competitive overseas market. Future growth would depend on the company's ability to penetrate into overseas market
- **Exposure to variability in volatile raw material prices –** TWO's operating margins are exposed to volatile base oil prices, its major raw material, which is a crude derivative**.** However, the domestic lubricant industry has demonstrated its ability to pass on increase in costs through timely price revision, which mitigates margin risks
- **Susceptibility to slowdown in the auto sector and technological upgradation –** TWO's overall demand is susceptible to any slowdown in the domestic automobile market. Moreover, technical upgradation in lubricants as well as automobile engines are additional risks to lubricant demand

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
Tide Water Oil Co. (India) Limited (TWO), incorporated in 1921 is a part of the Andrew Yule Group, with Andrew Yule and Company Limited owning 26% of TWO's equity capital. TWO produces lubricating oils and greases from its manufacturing plants in Faridabad in the North, Silvassa and Turbhe in the West, Howrah in the East and Oragadam in the South. The company services the requirements of its customers through its wide marketing-and-distribution network comprising about 100 distributors, 300 dealers and 20,000 sub-dealers. TWO markets its products under the brand name of "Veedol" in the Indian lubricating market. During FY2012, TWO acquired 100% equity shares of Veedol International Limited, which owned the global rights of the brand "Veedol". Post this acquisition, TWO ventured into the international lubricants market through a number of subsidiaries in the European and Middle Eastern markets.

TWO had made a standalone net profit of Rs. 102.93 crore on an operating income of Rs. 961.50 crore in FY2017 against a net profit of Rs. 83.18 crore on an operating income of Rs. 934.99 crore in FY2016.
On a consolidated basis, the company had registered a profit after tax of Rs. 108.65 crore on the back of an operating income of Rs. 1,129.78 crore in FY2017 against a profit after tax of Rs. 78.64 crore on an operating income of Rs. 973.64 crore in FY2016.

Key Financial Indicators (Standalone)

	FY2016	FY2017
Operating Income (Rs. crore)	935.0	961.5
PAT (Rs. crore)	83.2	102.9
OPBDIT/ OI (%)	15.1%	13.6%
RoCE (%)	23.6%	24.3%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest coverage (times)	-	-
NWC/ OI (%)	14.0%	17.5%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				Aug 2017	July 2016	July 2015	July 2014
1	Long term fund based facilities	Long Term	57.50	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)
2	Short term non fund based facilities	Short Term	47.50	[ICRA] A1+ (Stable)	[ICRA] A1+ (Stable)	[ICRA] A1+ (Stable)	[ICRA] A1+ (Stable)

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Long term fund based facilities	-	-	-	57.50	[ICRA]AA (Stable)
Short term non-fund based facilities	-	-	-	47.50	[ICRA]A1+

Source: Tide Water Oil Company (India) Limited

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
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