

Tide Water Oil Co. (India) Limited

August 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facilities	57.50	54.50	[ICRA]AA (Stable); Reaffirmed
Non fund-based facilities	47.50	47.50	[ICRA] A1+; Reaffirmed
Total	105	102	

Rating action

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A) rating assigned to the Rs. 54.50-crore¹ (reduced from Rs 57.50 crore) fund-based bank facilities of Tide Water Oil Co. (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 consider 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 helped it 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 hikes to its customers. The ratings also consider 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.

Outlook: Stable

ICRA believes that TWO would generate healthy sales and consequent free cash flows due to its stable outlook in the domestic lubricants industry. The outlook may be revised to Positive if there is a significant improvement in the company's profitability or market share. The outlook may be revised to Negative if there is a reversal in operating profitability or a loss in market share.

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

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 more than 95 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 a large cash balance that provide strong liquidity to the company.

Strong technical expertise – The company has the technical expertise to manufacture the highest grade of lubricating oils available in India. ICRA notes that TWO's research and development activities 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 it in penetrating the domestic lubricant market.

Credit challenges

Marginal growth in sales volumes – TWO's domestic sales volumes have registered marginal growth over the years because of slow industry growth.

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 any 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 the 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, 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. In 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.

In FY2018, TWO registered a net profit of Rs. 96.9 crore on the back of net sales of Rs. 1,072.4 crore³. The company had registered a net profit of Rs. 102.9 crore in FY2017 on the back of net sales of Rs. 959.4 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	FY2018
Operating Income (Rs. crore)	933.7	961.5	1074.5
PAT (Rs. crore)	81.9	102.9	96.9
OPBDIT/ OI (%)	14.97%	13.76%	12.07%
RoCE (%)	23.41%	24.86%	23.11%
Total Debt/ TNW (times)	0.0	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	#DIV/0!	88.8	96.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				Aug 2018	Aug-17	Jul-16	Jul-15
1 Fund based facilities	Long Term	54.50	0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2 Non-fund-based facilities	Short Term	47.50	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

³ Net Sales = Sale of goods – Excise Duty

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	NA	NA	NA	54.50	[ICRA]AA (Stable)
NA	Non fund based facilities	NA	NA	NA	47.50	[ICRA]A1+

Source: Tide Water Oil Co. (India) Limited

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About ICRA Limited:

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