Valvoline Cummins Private Limited

April 12, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based Limits/Short Term Non-Fund Based Limits*	18.00	18.00	[ICRA]AA+ (Stable); Reaffirmed
Short Term Non-Fund Based Limits	10.00	10.00	[ICRA]A1+; Reaffirmed
Total	**28.00**	**28.00**	

*The Long Term Fund based Limits are interchangeable with Short Term Non-Fund based Limits.

Rationale

The rating reaffirmation factors in the healthy growth in retail sales volumes of Valvoline Cummins Private Limited (VCPL) in the past couple of years on the back of proactive marketing initiatives, even as the industry reported marginal growth (~1-2% pa). The ratings also factor in healthy revenue growth and net profit with increasing volumes leading to a robust financial risk profile characterised by healthy profitability, robust return indicators and nil debt. The ratings continue to factor in VCPL's strong brand equity; technical support of the promoter Valvoline Inc. (rated Ba2 by Moody's); large captive business of promoting company Cummins India Limited (step down subsidiary of Cummins Inc, rated A2 by Moody's) and the stable outlook for lubricants sales in the long term because of expectation of healthy growth in the auto sector over the long term and large base of vehicles on the road. The ratings are, however, constrained by high competitive intensity in the industry and vulnerability of its profitability to the fluctuations in raw material (base oil) prices and forex rates. ICRA also notes large dividend payout by the company which leads to limited net cash accruals, albeit partly offset by no material capex and other growth plans.

Outlook: Stable

The stable outlook reflects the expectation of stable revenues owing to the large distribution network and marketing initiatives and healthy profitability which should enable the company to post healthy cash accruals.

Key rating drivers

Credit strengths

Strong brand name and technical support of promoter Valvoline Inc.: The Valvoline Cummins brand ranks amongst the well-known brands in the Indian lubricants market and VCPL pays a royalty to Valvoline Inc. and Cummins India Limited for the use of the Valvoline and Cummins brand names. Owing to the association with Valvoline Inc., the company has access to a large database of formulations and enjoys R&D support, which places it favourably to cater to a variety of applications in the lubricant sector in India.

Large captive business of promoting company Cummins Sales and Service: The company enjoys the large captive business of promoting company Cummins India. Additionally, tie up of Cummins with OEMs has further garnered business for the company.

Robust marketing and distribution network to cater to retail sales in the domestic market: The company has a robust pan-India marketing and distribution network to cater to the retail or bazaar segment. The total number of retailers of the company stands at about 60,000 which has been expanded from 50,000 earlier.

Demonstrated higher growth than the industry, due to proactive marketing strategies: The company undertakes various marketing initiatives which have enabled the company post healthy growth in volumes even as the industry grows at a sluggish pace. This has enabled the company to capture higher than industry growth which is growing at marginal rate of 1-2%. Also, the new product launched by the company in FY2018; urea-based suppressor (AUS-32), has also performed significantly well in FY2019. The company has sold about 15.9 million litres of AUS-32 in FY2019 as against 6.1 million litres in FY2018.

Comfortable financial risk profile, characterized by nil gearing and high ROCE: The company reported higher operating income of Rs. 1238.1 crore in FY2018 as against Rs. 1089.9 crore during FY2017. Operating margins also improved to 19.3% in FY2018 against 18.7% in FY2017. In line with higher operating margins, the net profitability of the company increased to 11.8% in FY2018 against 11.4% in FY2017. VCPL reported net profit of Rs. 145.9 crore in FY2018 as against Rs. 124.1 crore in FY2017. The company paid a dividend of Rs. 148.6 crore in FY2018 against Rs. 114.3 crore in FY2017. The large dividend payout was made as there were no alternate avenues for deployment of cash as the company has no large capex plans. The company reported a ROCE of 104.5% in FY2018 as against 89.1% in FY2017. The company was debt free as on March 31, 2018. As per unaudited and provisional results for H1 FY2019, the company clocked net sales of Rs. 636.0 crore and a net profit of Rs. 55.6 crore.

Credit challenges

Lubricant oil industry is characterized by the presence of few large players as well as number of unorganized players however technological and brand strengths of the company have enabled it to earn healthy margins: There are several players in the organized sector and the unorganized sector in the lubricating oil space, VCPL is a relatively small player in the lube oil market but technological and brand strengths of the company have enabled it to earn healthy margins.

Industry growth negatively impacted by technological developments, both on lubricants and engines front, leading to low industry growth in recent years however marketing initiatives and extensive distribution network have allowed the company healthy volume growth year on year even though it is a relatively smaller player in the industry: The lubricant industry's growth has been negatively impacted by technological developments leading to reduced frequency of lubricant change and reduction in sump sizes. However, VCPL's marketing initiatives and extensive distribution network have allowed the company healthy volume growth year on year even though it is a relatively smaller player in the industry.

Vulnerability of profitability to the fluctuations in prices of Base Oil, which is a petroleum derivative though the company has been able to pass on raw material price hikes to the consumer: VCL's major raw material Base Oil is a derivative of petroleum. This exposes the profitability to fluctuations in crude oil prices and forex rates. The product prices however cannot be revised immediately due to market forces and there is a time lag in all mark ups and markdowns.

Vulnerability of sales to slowdown in the auto sector; however outlook is positive in the long term due to healthy growth in the auto sector: The sales of VCPL remain vulnerable to any slowdown in the auto sector, however almost all the segments of the auto sector fared well in FY2019 and outlook is stable in the long term due to healthy growth expected in all segments.

Liquidity Position:

Liquidity position of the company is robust owing to Nil debt coupled with robust operating profitability, healthy cash generation, robust debt protection metrices and healthy cash and liquid investments. However, higher dividend payout will be a key monitorable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: NA
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company

Valvoline Cummins Private Limited (erstwhile Valvoline Cummins Limited) was incorporated in 1994 and promoted by Valvoline International Inc. in a joint venture with Cummins India Limited in which the partners hold 50% equity each. Valvoline Cummins Private Limited (VCPL) is engaged in the distribution and marketing of automotive lubricants, transmission fluids, gear oils, hydraulic lubricants, automotive chemicals, specialty products, greases, and cooling system products. Since its inception, the company had outsourced manufacturing to a toll blender in Mumbai. However, with the setting-up of its own manufacturing facility at Ambernath in Maharashtra of 100,000 kiloliters per annum capacity in 2013, the company has shifted its entire production to the latter. The company was converted from a limited company to a private limited company with effect from October 14, 2015.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1089.9	1238.1
PAT (Rs. crore)	124.1	145.9
OPBDIT/OI (%)	18.7%	19.3%
RoCE (%)	89.1%	104.5%
Total Debt/TNW (times)	0.0	0.00
Total Debt/OPBDIT (times)	0.0	0.00
Interest coverage (times)	699.6	531.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating April 2019	Date &Rating Jan 2018	Date & Rating in FY2017 Feb 2017	Date & Rating in FY2016 Jan 2016
1	Fund Based Limits	Long Term	18.00^	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-Fund Based Limits	Short Term	10.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^Fund based limits of Rs 18.00 crore are interchangeable with Non-Fund based Limits

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 click here

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund Based Limits/Non-Fund Based Limits	-	-	-	18.00	[ICRA]AA+ (Stable)
-	Non- Fund Based Limits	-	-	-	10.00	[ICRA]A1+

*The Long-Term Fund based Limits are interchangeable with Short Term Non-Fund based Limits

Source: Valvoline Cummins Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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