Stock Review of Techno Funda Research Product – Classic- Buy					January 02, 2012
Classic Information Data	BSE Code	Grade	FV (Rs.)	CMP	52Weeks H/L
TIDE WATER OIL (INDIA) LTD.	590005	B	10	Rs.5,776	Rs. 9,080/5,670

STOCK DATA

Target Price	Rs.8,691
Reuters Code	TIDE.BO
Bloomberg Code	TWO IN
NSE Symbol	TIDEWATER
Mkt.Cap.	Rs.5,198 Mn
Shares Outstanding(*)	0.871 mn
Avg. Daily Volume (6m)	1,707 Shares

Price Performance (%)

1M	3M	6M
(10.7)	(10.0)	(17.1)

200 Days EMA Rs.6,711

* On fully diluted equity Shares

SHARE HOLDING (%)

Promoters	26.22
FII	-
FI / MF	14.32
Body Corporates	33.99
Public & Others	25.47

- **Veedol acquisition to catalyze top-line growth:** By acquiring the brand Veedol, the company has put an end to the 16 year old tussle and litigations with the industry leader, Castrol India. The brand which has got presence in 123 countries will not only provide opportunities to foray into overseas markets but also strengthen the brand equity of the company in the domestic markets. The management expects this acquisition to contribute an additional top-line of ₹ 1,000 mn - ₹ 2,000 mn over the next couple of years.

- **Growth in automobile sector to fuel growth going forward:** India has attained a prominent position in the international automobile markets, becoming the sixth largest automobile manufacturing country. Despite the economic uncertainties prevailing in global and domestic markets, India remained among the fastest growing automobile markets in the world till October this year. Most of the global leading brands have hit Indian markets to cash on the lucrative opportunities. According to Society of Indian Automobile Manufacturers (SIAM), the vehicle penetration in India is one of the lowest in the world.

- **High Cash generating business available at lucrative valuations:** Tide Water Oil (India) Ltd is a high cash generating business. On an equity base of less than a crore, the company has been generating a cash flow of over ₹ 600 mn - 700 mn. Moreover, the stable business with a decent growth visibility is available at valuations which are relatively cheaper to the competitors and its historical performance. Furthermore, the entry into new markets such as Middle East, Latin America and Europe after the Veedol acquisition is likely to drive valuations going forward. If the company decides to strike new business-lines of multi-brand automobile service centers or create partnerships to establish automobile training centers, it will be able to further improve its profit margins and fetch higher valuations.

Y/E Mar.	Gross Revenue (Rs.mn)	Sales Growth (%)	EBITDA Margin (%)	Net Margin (%)	AEPS (Rs.)	P/E (X)	P/B (x)	RoE (%)
FY08	5,048.3	20.0	7.6	4.9	241.16	24.1	4.0	16.6%
FY09	6,104.8	20.9	9.2	5.7	316.23	18.3	3.3	18.2%
FY10	7,515.8	23.1	15.9	10.2	663.34	8.7	2.5	28.4%
FY11	8,614.2	14.6	14.7	9.2	736.46	7.9	1.9	24.5%

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COMPANY PROFILE

Incorporated in 1922, Tide Water Oil Company (India) Ltd. (TWO) is a part of the Andrew Yule's group, which has diversified business interests in engineering, electrical, tea cultivation, power generation, digital communication systems and lubricants. The company has been engaged in the business of producing and distributing automotive and industrial lubricants in India since 1928. The company has recently acquired the Veedol brand from Castrol Ltd and Lubricants UK Ltd, a wholly-owned subsidiary of UK based BP Plc. Moreover, the company also forayed into generation and distribution of wind energy.

THE VEEDOL STORY

Earlier, the US based Tidewater Inc. originally held 22.0% stake in the company which was then sold to another US company, Getty Oil, a distributor of petroleum products via retail outlets throughout the country. When Getty Oil held stake in the company, the brand Veedol was hived-off in the countries except India and Scotland. Getty Oil subsequently sold its stake in Veedol International to BP Plc. in 1986 while the stake in TWO was sold to Chevron Texaco group, that held shares in TWO through its subsidiary Four Star Oil and Gas Company. Since then, the company continued to sell its products in India under the brand Veedol. Four Star Oil and Gas Company exited from the company a couple of years back. The Union Government also considered an exit from the company; however the decision was changed when the Andrew Yule Group turned profitable following the sale of two other companies - Phoenix Yule and DPSC Ltd. Over the past seventeen years, Castrol (A unit of BP Plc.) and TWO have been fighting over the rights of the brand Veedol in India. During October 2011, the company won the battle by acquiring Veedol International Ltd. Early last year, BP Plc. had decided to sell out its stake in Veedol and Duckham in order to concentrate on other brands such as Castrol and BP. TWO acquired the worldwide rights of this brand for an undisclosed amount since Duckham is still on the block for sale. Though the acquisition does not include any assets and liabilities of Veedol International, yet the intellectual property, the brand Veedol which has got a worldwide presence and strong recognition, is likely to provide a catalyst to the top-line growth and the market share. The company would have an access to over 300 sub-brands of Veedol in 123 countries. The management expects this acquisition to contribute an additional top-line of ₹ 1,000- ₹ 2,000 mn over the next couple of years. Moreover, the company has decided to create subsidiaries in Middle East and European markets to market Veedol lubricants. Furthermore, the company is also considering an entry into Latin American markets through joint ventures or franchisees. The brand Veedol has made its presence felt in the highly competitive Indian lubricants industry. Veedol competes with other brands like Mobil, Pennzoil, Castrol, Servo, MAK, Friction, Modifiers, Multi-G, Power Trac, XHD, Elf, Motorol, ESSO and Shell.

BUSINESS OVERVIEW

- The Company has a nation-wide presence and produces automotive and industrial oils & greases and supplies under the brand name Veedol. The Company's product gamut of automotive segment includes engine oils for trucks, tractors, commercial vehicles, passenger cars and two-three wheelers. TWO also produces gear oils, transmission oils, coolants and greases for automobiles. For industrial application, the Company manufactures industrial oils, greases and specialty products like metal working fluids, quenching oils and heat transfer oils. The Company has collaborations with various OEMs for manufacture of genuine oils in the automotive and industrial equipment segments.
- The Company also has technical alliance with the leading Japanese petroleum conglomerate, Nippon Oil & Energy Corp. (Formerly, Mitsubishi Oil Co. Ltd.). Through this collaboration, the Company manufactures and markets lubricants under the brand name *Eneos*. The Company recently forayed into the business of generating wind energy.
- The Company had an installed capacity of producing oils of 92.5 mn litres p.a. and 5.3 mn kilograms of greases p.a. at the end of FY11. The fresh business of wind-energy has installed capacity of 3MW. Apparently, the wind energy business has negligible contribution to the current top-line. Currently, the Company has five manufacturing facilities at Howrah, Oragadam, Turbhe, Silvassa and Faridabad and a well-diversified distribution network spread across the country adjoining all the major cities. Prior to the Veedol acquisition, the management was also considering setting up multi-brand automobile service centers or creating partnerships to establish automobile training centers. The acquisition or a parallel business-line was on cards for some time owing to high cash generating core business.
- Going forward, the management is targeting a top-line of ₹ 10,000 mn for FY12, of which the Company has managed to register revenues of ₹ 4,737 mn during H1 FY12 growing at the rate of over 15.0% on an annual basis. Furthermore, the management has also indicated that the Company may attain a top-line of ₹ 20,000 mn over the next three years.

PRODUCT PORTFOLIO				
VEEDOL				ENEOS
AUTOMOTIVE OILS	AUTOMOTIVE GREASE	INDUSTRIAL OILS	INDUSTRIAL GREASE	GENUINE OILS
Diesel Engine Oils	Lithium Base Greases	General Purpose Machinery Oils	Calcium Base Greases	Diesel Engine Oils
Premium Diesel Engine Oils	Sodium Base Greases	Spindle Oils	Lithium Base Greases	Petrol Engine Oils
PCMO & 2 Wheeler Oils	Calcium Base Greases	Turbine Oils	High Temperature Greases	
Dedicated Engine Oils		Hydraulic & Circulation Oils	Lithium Complex Greases	
Gear & Transmission Oils		Heavy Duty Hydraulic Oils	Cardium Compound Greases	
Agri Engine Oils		Super Clean Heavy Duty Hydraulic Oils	Graphite Greases	
Coolant		Steam Cylinder Oils		
Brake Fluid		Industrial Gear Oils		
Others		Cutting Oils		
		Non-Drip Oils		
		Mill Roll Oils		

INDUSTRY OVERVIEW

- According to Chemexcil, the global lubricant market was estimated to be of 45 mn MT at the beginning of FY10 and India, a prominent lubricant market ranked the seventh largest lubricant market in the world and sixth largest in the automotive lubricant market. According to industry reports, the overall lubricant market in India which was estimated at 1.86 mn MT in 2009 was projected to grow at 3.7% annually to reach 2.23 mn MT by 2014.
- There are about 1200 manufacturers of various grades of lubricants & allied products in the organized sector out of which about 1150 are in small & medium sector. The estimated total installed capacities of these units were about 2.2 mn MT in 2009. The lubricants can be classified into automotive, industrial, marine, aviation, greases and other specialties. The allied products are brake fluids, radiator coolants, electrical oils etc. Similarly, the lubricants industry in India can be categorized on the basis of product applications into automotive, industrial and marine.
- The Indian automotive lubricant industry is highly fragmented with over 40 big and small, private and public, national and international players. Leading industry players such as Castrol India, Hindustan Petroleum Corp. Ltd. (HPCL), Bharat Petroleum Corp. Ltd. (BPCL), Indian Oil Corp. Ltd. (IOL) dominates the automotive lubricants industry with roughly 70.0% market share altogether. The remaining 30.0% includes players such as Shell, Total, Gulf Oil, TWO (Veedol) and others. Nearly 80.0% of these automotive lubricants are consumed by commercial users including OEMs.
- The key demand driver for this segment is engine oil, which comprises over 70.0% market share in the automotive lubricants market. Increasing demand for two-wheelers and four wheelers in the country has accelerated the consumption of engine oils, gear oils, brake fuels and coolants in the industry. Rising number of associations between lubricants manufacturers and OEMs, implementation of new pollution norms, rising number of commercial passenger vehicles and light motor vehicles alongwith changing consumer mindsets also add fuel to the demand in this segment.

Automobile Production Trends	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Passenger Vehicles	1,209,876	1,309,300	1,545,223	1,777,583	1,838,593	2,357,411	2,987,296
(Growth on annual basis)		8.2%	18.0%	15.0%	3.4%	28.2%	26.7%
Commercial Vehicles	353,709	391,083	519,982	549,006	416,870	567,556	752,735
(Growth on annual basis)		10.6%	33.0%	5.6%	-24.1%	36.1%	32.6%
Three Wheelers	374,445	434,423	556,126	500,660	497,020	619,194	799,553
(Growth on annual basis)		16.0%	28.0%	-10.0%	-0.7%	24.6%	29.1%
Two Wheelers	6,529,829	7,608,697	8,466,666	8,026,681	8,419,792	10,512,903	13,376,451
(Growth on annual basis)		16.5%	11.3%	-5.2%	4.9%	24.9%	27.2%

Source: SIAM

- Going forward, the volume growth in the global lubricant market is likely to be moderate however the growth in terms of value is likely to be substantial on account of expensive and high performing lubes are replacing the lower priced lubricants. The demand is likely to be driven by emerging economies such as Asian, Latin American and African; China, India and Brazil in particular primarily due to ongoing rapid industrialization and rising affordability to own automobiles.
- Moreover, the Indian manufacturing industry is also positioned for a sustained period of high growth. Industrial production is also expected to grow at a healthy pace going forward. The growth will be driven by rise in both consumption and investment demand. The growth in industrial segment will further drive the demand for industrial lubricants.

COMPETITIVE SCENARIO

- Following the liberalization of the Indian economy, the competitive scenario of the Indian lubricant industry has gone through severe changes. De-canalization of base-oil imports and decontrol of prices, entry of foreign companies changed the dynamics of the Industry and enhanced the competition in the lubricants industry. Increased number of players has made the industry much price sensitive. Tiny players with less brand recognition are providing a sharp competitive edge to the industry leaders with lower prices. Since most of the players have been present for many years, the competitive space has not much changed over the last few years.

High capital intensive & high competition and threat of well established players makes it difficult to enter but demand visibility & less entry level regulation barriers brings in threats

Buyers are price sensitive rather than much quality ortiented. Intensified competition allows them to bargain despite relatively lower number of suppliers

All these factors makes Indian lubricants industry a highly competitive one where 3 major PSUs owns 50% market share, Castrol being the market leader and international players have tied up with the domestic players

Suppliers can bargain on their distribution network, brand image, pricing and technical innovations but historically price has played the crucial role

No product substitute available currently, however going forward the dominance of synthetic oils, bio-based fuel may prove a great threat

PEER COMPARISON

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Tide Water Oil (India) Ltd.						
Net Sales	2,567	3,594	4,331	4,810	5,647	6,959
Net Sales Growth	12.5%	40.0%	20.5%	11.1%	17.4%	23.2%
EBITDA	115	158	329	441	897	1,024
EBITDA Margin	4.5%	4.4%	7.6%	9.2%	15.9%	14.7%
PAT	75	90	210	276	578	642
PAT Margin	2.9%	2.5%	4.9%	5.7%	10.2%	9.2%
EPS	86	103	241	316	663	736
Castrol India						
Net Sales	18,025	19,660	22,624	23,906	28,020	N/A
Net Sales Growth	23.1%	9.1%	15.1%	5.7%	17.2%	N/A
EBITDA	2,542	3,643	4,414	6,113	7,644	N/A
EBITDA Margin	14.1%	18.5%	19.5%	25.6%	27.3%	N/A
PAT	1,428	2,185	2,633	3,873	4,919	N/A
PAT Margin	7.9%	11.1%	11.6%	16.2%	17.6%	N/A
EPS	5.8	8.8	10.6	15.7	19.9	N/A
Gulf Oil						
Net Sales	5,026	6,521	8,550	10,467	10,540	11,786
Net Sales Growth	7.7%	29.7%	31.1%	22.4%	0.7%	11.8%
EBITDA	386	537	860	690	510	1,148
EBITDA Margin	7.7%	8.2%	10.1%	6.6%	4.8%	9.7%
PAT	43	60	26	(73)	(307)	204
PAT Margin	0.9%	0.9%	0.3%	-0.7%	-2.9%	1.7%
EPS	0.4	0.3	(0.7)	(3.1)	2.1	2

HISTORICAL RELATIVE VALUATION**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Tide Water Oil						
Price Earning (P/E)	16.72	17.67	14.00	10.62	7.43	8.74
Price to Book Value (P/BV)	1.27	1.5	2.58	1.93	2.1	2.13
Price/Cash EPS (P/CEPS)	13.49	14.72	12.62	9.44	6.71	7.58
EV/EBIDTA	10.94	8.27	7.69	4.96	4.15	5.07
Market Cap/Sales	0.4	0.37	0.63	0.47	0.56	0.64
Castrol India						
Price Earning (P/E)	20.29	23.82	17.97	22.8	26.47	N/A
Price to Book Value (P/BV)	6.75	10.37	8.72	15.13	20.51	N/A
Price/Cash EPS (P/CEPS)	17.96	21.44	16.17	21.06	25.05	N/A
EV/EBIDTA	10.74	11.38	8.82	11.39	14.04	N/A
Market Cap/Sales	1.35	1.94	1.6	2.72	3.54	N/A
Gulf Oil Corp						
Price Earning (P/E)	66.66	60.12	31.81	7.47	14.41	15.62
Price to Book Value (P/BV)	9.66	8.05	3.43	0.88	2.39	2.17
Price/Cash EPS (P/CEPS)	50.2	40.77	18.8	4.76	10.31	11.88
EV/EBIDTA	33.61	22.69	12.87	5.99	8.1	8.55
Market Cap/Sales	2.81	1.9	0.89	0.2	0.58	0.8

Source: Capitaline

**The above multiples are based on historical valuations; sourced from Capitaline and are not based on the current market price.

PROFIT & LOSS

(Rs.mn)

Y/E Mar.	FY08	FY09	FY10	FY11
Gross Sales	**5,048.3**	**6,104.8**	**7,515.8**	**8,614.2**
Discounts & Rebates	-	534.1	878.8	680.3
Excise Duty	717.3	760.3	989.8	1,018.4
Other Operating Income	-	-	-	43.6
Net Revenue	**4,331.0**	**4,810.4**	**5,647.2**	**6,959.1**
Raw Material Exp.	2,800.0	3,314.1	3,334.6	4,221.4
Employee Exp.	222.1	209.7	245.0	310.6
Selling & Marketing	-	-	493.4	586.7
Other Expenditure	979.8	845.6	676.9	816.5
EBITDA	**329.1**	**441.0**	**897.3**	**1,023.9**
Depreciation	25.0	33.9	61.8	97.1
Other Income	40.9	65.3	65.9	26.4
Interest Expenses	13.6	14.6	8.1	8.6
PBT	**331.4**	**457.8**	**893.3**	**944.6**
Tax Expenditure	121.3	182.3	315.4	303.0
PAT	**210.1**	**275.5**	**577.9**	**641.6**

BALANCE SHEET

(Rs.mn)

Y/E Mar.	FY08	FY09	FY10	FY11
Share Capital	8.7	8.7	8.7	8.7
Reserves & Surplus	1,258.1	1,502.1	2,027.6	2,607.0
Net Worth	**1,266.8**	**1,510.8**	**2,036.3**	**2,615.7**
Secured Loan Funds	59.5	29.9	-	-
Deferred Tax	-	-	26.3	25.8
Total Liabilities	**1,326.3**	**1,540.7**	**2,062.6**	**2,641.5**
Net Block	259.7	336.2	773.3	719.6
Capital WIP	17.2	85.2	5.4	10.5
Investments	6.0	6.0	6.0	6.0
Deferred Tax	6.8	2.0	-	-
Inventories	947.9	744.1	1,301.3	1,683.8
Sundry Debtors	362.3	421.7	539.1	750.1
Cash & Bank	157.6	315.0	202.9	159.1
Loans & Advances	697.6	500.9	263.2	626.6
Total Current Assets	2,165.7	1,981.7	2,306.5	3,219.6
Curr Liab & Prov	**1,129.1**	**870.4**	**1,028.6**	**1,314.2**
Total Assets	**1,036.6**	**1,111.3**	**1,277.9**	**1,905.4**

Source: Company

Sushil Finance
ACTIONABLE KNOWLEDGE

Tide Water Oil (India) Ltd.

CASHFLOW STATEMENT

(Rs.mn)

Y/E Mar.	FY08	FY09	FY11	FY12
PAT	210.1	275.5	577.9	641.6
Depreciation	25.0	33.9	61.8	97.1
Change in Inventory	(272.5)	203.8	(557.2)	(382.5)
Change in Debtors	14.8	(59.4)	(117.4)	(211.0)
Change in Current Lia.	**208.2**	57.6	167.7	188.5
Change in Loans & Adv	(87.7)	197.7	237.7	(363.4)
Change in Provisions	**53.5**	(316.3)	(9.5)	(97.1)
Change in Capital WIP	**(7.8)**	(68.0)	79.8	(5.1)
Cashflow (Operations)	**143.6**	**324.1**	**440.8**	**62.3**
Capex	**(84.2)**	(110.4)	(498.9)	(43.4)
Change in Investments	-	-	-	-
Cashflow (Investing)	**(84.2)**	**(110.4)**	**(498.9)**	**(43.4)**
Change in Net Worth	133.6	(31.5)	(52.4)	(62.2)
Change in Def Tax (Net)	(6.3)	4.8	28.3	(0.5)
Change in Loan Funds	(23.0)	(29.6)	(29.9)	-
Cashflow (Financing)	**104.3**	**(56.3)**	**(54.0)**	**(62.7)**
Total Cashflow	**163.7**	**157.4**	**(112.1)**	**(43.8)**
Cash at start	187.2	157.6	315.0	202.9
Cash at end	**350.9**	**315.0**	**202.9**	**159.1**

Source: Company

FINANCIAL RATIOS

Y/E Mar.	FY08	FY09	FY10	FY11
Growth (%)				
Net Sales	20.5	11.1	17.4	23.2
PAT	134.2	31.1	109.8	11.0
EBITDA	108.5	34.0	103.5	14.1
Profitability (%)				
EBITDA Margin	7.6	9.2	15.9	14.7
PAT Margin	4.9	5.7	10.2	9.2
ROCE	22.9	26.4	41.0	35.4
ROE	16.6	18.2	28.4	24.5
Per Share Data (Rs.)				
EPS (Diluted)	241.2	316.2	663.3	736.5
CEPS	269.9	355.1	734.3	847.9
BVPS	1,454.1	1,734.2	2,337.4	3,002.4
Valuations (X)				
PE	24.1	18.3	8.7	7.9
P / BV	4.0	3.3	2.5	1.9
EV / EBITDA	15.4	11.5	5.6	4.9
P / S	1.0	0.8	0.7	0.6
Turnover Days				
Debtors days	26	25	26	32
Gearing Ratio				
Total Debt to Equity	0.05	0.02	-	-

OUTLOOK & VALUATIONS

Tide Water Oil (India) Ltd. (TWO) is a lubricant manufacturer and a nationwide distributor to both industrial and automotive sectors. Over the period, the Company has maintained stable growth in a highly competitive market which is led by Castrol India, BPCL, HPCL and Indian Oil. The recent acquisition of brand Veedol is likely to catalyze the top-line growth going forward. The acquisition would further help the Company to extend its presence in the new overseas market. The zero-leveraged balance sheet and high cash generating business will assist the Company to execute its strategy to foray into new business segments. The Management has indicated the possibility of setting up a new business line. We have positive outlook over the growth prospects of the company, which is available at much lower valuations than other competitors and provides a reasonable visibility in terms of growth. Currently, the Company trades at 7.5x of TTM EPS and 4.9x of its TTM EBITDA. On a conservative basis, we have arrived at a base case EPS of ₹ 1,086 with an EBITDA of ₹ 1,447 mn in FY13E. We recommend investors to BUY the stock at CMP of ₹ 5,776 for target price of ₹ 8,691 (8.0x FY13E EPS of ₹ 1,086).