

## Armoured Vehicles Nigam Limited

December 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,000.00	CARE AA+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to bank facilities of Armoured Vehicles Nigam Limited (AVNL) continues to derive strength from its strategic importance to the Government of India (GoI) being the sole supplier of battle tanks to the army, established market position in the defence sector and healthy order book with revenue visibility till FY29. The rating is also underpinned by its large manufacturing capacities and high entry barrier in the industry limiting competition. Ratings also consider AVNL's comfortable capital structure marked by strong net worth, support extended by the government through infusion of funds towards capex requirements and minimal reliance on working capital borrowings as the company is receiving 60% orders executable in the fiscal year in the form of advance and remaining 40% on milestone basis. As the company's current employees are on deemed deputation from Ministry of Defence (MoD), pension and gratuity expenses are to be borne by the government.

However, rating strengths are partially offset by high dependence on the defence sector, which contributes to the bulk of its revenues and its working capital-intensive operations due to high inventory. Operating profit margins remain vulnerable to input cost fluctuations in its fixed price defence contracts despite this is mitigated to certain extent due to presence of price escalation clause. The rating is also constrained considering teething challenges faced by new defence public sector undertakings (DPSUs) on their conversion to a company; and qualified statutory auditor's opinion pointing to weak internal financial controls in some areas.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant and sustained improvement in the operating performance leading to consistent higher cash accrual.
- Gross current asset days sustaining under 200 days.

#### Negative factors

- Dilution in stake of GoI to below 51% in the company.
- Any change in stance of GoI support to AVNL reflecting in lower order inflows and revenues.
- Weakening of operating performance leading to significant decline in margin and constrained liquidity.

**Analytical approach:** Standalone and factoring its 100% ownership by the GoI for which it is a strategically important entity in the defence sector.

### Outlook: Stable

The stable outlook reflects the expectation that AVNL is likely to maintain its established position in the defence sector and will continue to remain strategically important to GoI.

### Detailed description of key rating drivers:

#### Key strengths

##### High strategic importance to GoI as a DPSU and a dominant supplier to Indian defence forces

AVNL is a DPSU, with the GOI holding a 100% equity stake. The company is of strategic importance to the GOI as it is the only supplier of battle tanks and a dominant supplier of vehicles to the Indian defence forces. The cabinet meeting held on June 16, 2021, approved to convert 41 production units of Ordnance Factory Board (OFB) into seven DPSUs. AVNL is one of such seven DPSUs. Accordingly, five production units of erstwhile OFB, pertaining to production of battles tanks and vehicles were transferred to AVNL on October 1, 2021. Government ownership leads to a sizeable inflow of orders on a scheduled basis, providing steady

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

earnings stream to the company. AVNL's main customer is Indian Armed Forces, while others include Navy, Airforce, and Special Forces of India.

**Established market position with large manufacturing abilities**

As the leading supplier of battle tanks and vehicles to the Indian Armed Forces, AVNL holds a strong market position in the expanding defence sector. The company operates five manufacturing facilities across four states, covering over 5,000 acres. These include an engine factory and a heavy vehicle factory in Tamil Nadu, a machine tools prototype factory in Maharashtra, an Ordnance Factory Medak in Telangana, and a vehicle factory in Jabalpur, Madhya Pradesh. AVNL primarily manufactures battle tanks in variants, with other products including bulletproof vehicles, mine-protected vehicles, military logistics vehicles, closed-range naval guns, and chaff decoy launchers. Battle tanks account for ~90% company's revenue, with specialised trucks contributing the remainder. CARE Ratings Limited (CARE Ratings) anticipates battle tanks will continue to be the primary revenue driver, and the company is expected to retain its dominant position in the market going forward.

**Robust order book providing adequate revenue visibility**

The company's unexecuted order book as on November 01, 2024, stood at ~₹34,150 crore. The order book stands at ~7x of the FY24 operating income, which provides healthy revenue visibility. The company has added orders worth ~₹12000 crore post corporatisation. To run these DPSU's, indents placed up to September 30, 2021 on erstwhile OFB have been converted into deemed contracts, and every year, 60% amount of these contracts for supply of respective products pertaining to that year's target is being paid by the Ministry of Defence Services to the DPSUs as advance per the terms and conditions stipulated in the deemed contract and these are interest free. The government's focus on rolling out reforms to increase India's defence product manufacturing capability and gradually reduce imports will support the order inflow in the medium-to-long term. It is expected, in the coming years, these new DPSU would explore and establish newer markets in the country and abroad and become self-sustainable. With the support from Ministry of External Affairs, the company can explore new markets overseas for products through their diplomatic channels. CARE Rating expects the company's order book to remain strong, supporting continued growth and stability.

**Significant support from the GoI**

AVNL being a DPSU and owned entirely by the GoI has significant support and involvement from the government. The company has robust order book of ~₹34,150 crore from MoD to be executed by FY29. Further, funding for the capex is being provided by the government. In FY24, government has infused ~₹305 crore in the form of equity, of which ₹290 crore is incurred towards capex. The company plans to incur capex of ~₹500 crore, in the next three years, which will be funded by the GoI. Upon corporatisation of the erstwhile OFB, OFB's employees have been transferred to the company on deemed deputation for an initial period of two years which is now extended till December 2025. The employees continue to be the GoI's employees and their pension and gratuity liability continue to be the obligation of central government.

**Professional management, functional and financial autonomy to improve profitability**

With professional management, functional and financial autonomy and more accountability, the restructuring is helping in making these OFBs more productive and profitable assets, enhance competitiveness and improving efficiency, and aid in exploring newer markets in the country and abroad. The newly created DPSUs have the potential to earn profit from their supplies to services, other government organisations, civil trade and exports through participation in competitive bidding.

**Focus on research and development**

AVNL being the original equipment manufacturer (OEM) of the current fleet of battle tanks and infantry combat vehicles, possesses rich experience in manufacturing armoured vehicles and its variants for over three decades. The company has substantial domain knowledge of armoured vehicles of classes. The company has produced large number of armoured vehicles over time and has also developed its variants. The company has also upgraded its products to improve the operational parameters and modernise them.

**Comfortable financial risk profile**

The company's capital structure is comfortable. As on March 31, 2024, there is no debt outstanding in its books. The company has sanctioned working capital limits of ₹2000 crore, however, the utilisation remained negligible. The company's operations have been well-supported by advances received from customers, which have been over sufficient to fund its day-to-day activities. Considering receiving advances from customers as on September 30, 2024, it has healthy cash and liquid investments of ~₹5600 crore. CARE Ratings expects capital structure underpinned by substantial cash reserves and liquid investments is expected to stay well-balanced with limited reliance on working capital.

**Key weaknesses****Muted overall performance in FY24**

The company's performance in FY24 remained muted. It registered de-growth in revenue by ~7% to ₹4682 crore against ₹5057 crore reported in FY23. Primary reason for this is the company's difficulty in obtaining required parts of the tanks from Russia considering war (Russia - Ukraine) which led to decline in supply of tanks impacting the company's performance. Considering reversal of a provision for liquidity damages of ₹389 crore, profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin has improved to 9.48% (if removed the impact of reversal of provision then it has PBILDT margin of ~1%) from 4.18% (if adjusted for provision of ₹389 crore then 11.86%) in FY23. The company's overall performance was also impacted due to surge in raw material cost which increased by ~15% in FY24 against FY23 while the sales have declined. However, the company has started receiving essential components from Russia, which is expected to enhance its production capacity and operational efficiency. As a result, CARE Ratings expects notable improvement in revenue performance in the upcoming periods, supporting its growth and ability to meet market demand.

**Customer concentration risk with high dependence on defence sector for orders**

The Ministry of Defence is AVNL's primary customer, and the company serves orders received from army, navy and air force. The Indian army is the major customer and accounted for 90% turnover in FY24. In case of changes in the procurement policy of the defence forces or a significant cutback in defence spending, the company's revenue and order book position can be adversely impacted. Due to high concentration of the government sector orders, revenue booking and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. It has significant exposure to Ministry of Defence under the GoI, which relies on budgetary means to clear its dues.

**Working capital intensive business**

The company operates in a working capital-intensive industry. The high working capital requirement primarily is due to high inventory cost. The inventory holding period as on March 31, 2024, stood at ~245 days. Although the company's product portfolio comprises of only few products, due to high cost involved in producing these products the inventory remains high. Before supply, finished goods are subject to successful inspection, which if delayed increases the inventory holding period with AVNL. AVNL receives 60% advance from army, navy and air force against its supplies and the balance, per the contract shall be received in three months. However, in FY24, considering delay in supply of tanks per the delivery schedule and amendments made in delivery schedule led to delay in receiving payments from the army which is expected to be released by the end of financial year.

**Qualified audit report**

In the audit report for FY24, AVNL's statutory auditor has given qualified opinion. However, the company's books are subject to Comptroller and Auditor General (CAG) audit which do not point to of the observations highlighted by the statutory auditor. Considering qualified opinions given by the statutory auditor, the company's management stated it has been working towards strengthening its internal financial controls. It has appointed an external agency as its internal auditor and has also issued tender for implementing Enterprise Resource Planning (ERP) to enhance internal financial control, the specifications of which are currently under review by National Informatics Centre (NIC). CARE Ratings will continue to monitor material adverse outcome arising from these observations, impacting the company's financials of the company.

**Liquidity: Strong**

The company's liquidity profile is healthy supported by cash and liquid investments of ~₹5600 crore as on September 30, 2024, against nil debt repayments as there are no term loans in the company's books. The company plans to undertake capex of ~₹500 crore over next three years for which funds will be made available by GoI. Hence, the company does not plan to avail term debt in the medium term. The average working capital utilisation for the 12-month ending in November 2024 remained less than 1% which further provides cushion to the company's liquidity.

**Assumptions/Covenants: Not applicable****Environment, social, and governance (ESG) risks: Not applicable****Applicable criteria**[Definition of Default](#)[Factoring Linkages Government Support](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Rating Watch](#)[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)
**About the company and industry**
**Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Aerospace and defense	Aerospace and defense

Headquartered in Avadi, Chennai, AVNL was incorporated as a new DPSU on August 14, 2021. It is an unlisted public company, wholly owned by the GoI, together with its five ordnance factories. AVNL is involved in the design, development, manufacture, trade, import, export, repair, maintenance, and service of all kinds of defence and non-defence systems and all related vehicles or equipment used by the armed forces. The company has five units with an Engine Factory and Heavy Vehicle Factory at Avadi in Chennai, Tamil Nadu; a Machine Tool Prototype at Ambarnath- Maharashtra; Ordnance Factory Medak-Telangana; and a vehicle factory in Jabalpur, Madhya Pradesh. The company is managed by Sanjay Dwivedi, AVNL's CMD, who has ~35 years of experience in the OFB organisation. The company's major products include battle tanks of variants, bullet proof vehicles, mine protected vehicles, military logistic vehicles, closed range naval gun, and chaff decoy launcher among others.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	5,057.44	4,682.31	1235.72
PBILDT	211.18	443.89	-90.47
PAT	270.17	605.07	-
Overall gearing (times)	0.00	0.00	-
Interest coverage (times)	1,928.61	174.94	NM

A: Audited UA: Unaudited; NM: Not meaningful; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	2000.00	CARE AA+; Stable

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	2000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (12-Sep-23)	1)CARE AA+; Stable (15-Jun-22)	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

**Annexure-5: Lender details**To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

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### About us:

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