January 31, 2025

AVI Oil India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based – Cash credit	5.00	5.00	[ICRA]A+ (Stable); reaffirmed
Short-term non-fund based - Others	20.00	20.00	[ICRA]A1; reaffirmed
Long term/short term limits – Fund based/non-fund based-Others	15.00	15.00	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation considers the steady operational and financial performance of AVI Oil India Private Limited (AOIPL), supported by its long track record in manufacturing industrial lubricants and its established relationship with customers. While the company's revenue had declined by 7% in FY2024, it did not impact the profitability. Moreover, the decline was owing to pre-buying by one of the customers in FY2023, which impacted the volumes in FY2024. In the current fiscal, the company is expected to report a 25-30% growth in turnover, which is likely to moderate to 5-8% afterwards. This growth will come on the back of growing volumes in new as well as existing segments as the impact of the earlier pre-buying gets negated. AOIPL's debt-free status, along with its strong liquidity position, translates into a strong credit profile for the company.

ICRA also factors in the technical and marketing benefits that accrue to AOIPL because of the leading position of its parent, France-based Nyco, in the military and aviation lubricants business. Moreover, a wide range of its products are certified by military equipment manufacturers and military and civil aviation authorities in India. The marketing support of its other sponsor, namely Indian Oil Corporation (rated [ICRA]AAA (Stable)/[ICRA]A1+), and the relatively low competitive intensity in the defence aviation lubricants business because of the large entry barriers also favour the ratings.

However, the ratings are constrained by customer concentration risk, with about three quarter of the sales to the Indian Air Force and Hindustan Aeronautics Limited. Further, there is segmental concentration in the aviation lubricants business, although the company is making efforts to diversify its revenue stream and customer base. Moreover, the profitability is vulnerable to the fluctuations in raw material prices and forex rates, and the volatility in order inflow from the key clients that affects sales.

The Stable outlook on the long-term rating reflects ICRA's expectation that AOIPL will continue to benefit from the strong demand outlook for its products in the defence sector and its longstanding relations with the customers that will help generate a steady revenue stream at healthy profitability, thereby ensuring a strong credit profile.

Key rating drivers and their description

Credit strengths

Technical and operational synergy from a strong parent, Nyco – France-based Nyco is a global manufacturer and marketer of synthetic esters and lubricants catering to the aviation, defence, industrial and automotive markets. Its products are approved by major European & American military manufacturers. AOIPL's manufacturing plant was established using the technical know-how of Nyco. The French parent also provides the know-how for the formulation of lubricants. Additionally, Nyco provides assistance in obtaining approvals from various OEMs and defence equipment manufacturers.

A wide range of products certified by OEMs and military and civil aviation authorities in India - AOIPL manufactures and/or markets about 150 different products for which it has the requisite approvals. For any product that is manufactured by the company, it has to take approvals from the aircraft designer, aircraft manufacturer and the Indian military and civil aviation authorities.

Marketing support of IOC - The company deals with the sensitive defence sector, including the Air Force, Navy and the Indian Army. Hence, occasionally, it depends on the status of its promoter, India Oil Corporation Limited (IOC), which is a public sector undertaking, for its marketing efforts.

Healthy financial risk profile with comfortable liquidity position - AOIPL's operating income remained steady at Rs. 85.3 crore in FY2024 compared with Rs. 91.2 crore a year ago on account of the low volumes sold to IAF in FY2024. The volumes sold to the other customers have increased, but one of the major customers did not procure enough volumes from AOIPL, causing the turnover to decline. This customer had made sizeable pre-buying in FY2023 to take the benefit of lower prices, as per the rate contract before its renewal in 2024. However, this did not have any major impact on the company's profitability as it remained at similar levels with OPM at 24% in FY2024 vis-à-vis 25.8% in FY2023. Moreover, the company remains debt-free with a strong liquidity position, which strengthens its overall credit profile.

Credit challenges

Concentrated customer base; introduction of new products for automotive sector seen to lower risk - The sales of the company are restricted to a few customers, including the Air Force, Navy, Army and Hindustan Aeronautics Limited (HAL). About 68% of the company's sales in FY2024 were to the Indian Air Force and HAL, exposing the company to customer concentration risk. However, company is focused on adding more customers and this concentration is expected to come down.

AOIPL's products cater to three major segments - aviation and military lubricants, industrial lubricants and ester base stocks. However, the company generates most of its revenue from the aviation and military lubricants business. The company has added a new ester product in FY2023 which is growing exponentially year-on-year. The company's dependence on the aviation segment is expected to reduce as it has begun catering to a different segment.

Growth depends on level of defence activity in the country - The business growth of the company depends on the size of the defence air fleet as well as the level of defence activity in the country. If the defence fleet is not expanded, as it happens for extended periods of time, the company's sales would slow down.

Exposure to adverse movement in raw material prices and foreign currency - Base oil remains the key raw material for the company. It is a crude oil derivative and thus its prices are volatile in nature. Hence, the profitability of the company remains vulnerable to the adverse movement in input prices as some of its contracts are fixed price in nature. Further, majority of the raw material requirement is met through imports, which exposes AOIPL's profitability to the adverse movements in foreign currency.

Liquidity position: Strong

The company's liquidity remains strong, supported by healthy internal accrual generation, free cash balances/liquid investments (~Rs. 55.41 crore as of June 2024) and undrawn bank lines. While the dividend is expected to be paid out, as per the dividend policy, it is not likely to weigh on the company's liquidity. Moreover, the capital structure remains strong and the company remains debt-free with no significant increase in debt levels in the medium term.

Rating sensitivities

Positive factors – AOIPL's ratings can be upgraded if there is a significant increase in the scale of operations and diversification in the customer base.

Negative factors– Pressure on AOIPL's ratings could arise if there is a significant deterioration in the operating income or profitability. Additionally, any large debt-funded capex, which would deteriorate the debt metrics or stretch the working capital cycle, would weaken the liquidity and exert pressure on the credit profile.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AOIPL was incorporated in 1993 as a joint venture of Nyco of France (50% stake), Indian Oil Corporation (25%) and Balmer Lawrie (25%). The company's manufacturing facility is at Piyala village in the Faridabad district of Haryana. The facility was established with technical know-how from Nyco, while the project engineering was carried out by Balmer Lawrie and the marketing infrastructure was provided by Indian Oil Corporation. The construction of the company's blending plant started in 1997 and the plant was commissioned in 1999. Subsequently, the company started the construction of the ester plant in 2004 which was commissioned in 2005. The product mix of the company constitutes lubricants, greases, hydraulic fluids, oils, protectives and esters, catering to the aviation, military and industrial sectors.

Key financial indicators (audited)

AVI Oil India Private Limited	FY2023	FY2024	Q1FY2025*
Operating income	91.3	85.3	20.3
PAT	16.1	14.4	3.7
OPBDIT/OI	25.8%	24.0%	27.4%
PAT/OI	17.7%	16.9%	18.1%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	0.1
Total debt/OPBDIT (times)	0.1	0.1	0.1
Interest coverage (times)	33.4	34.2	39.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current (FY2025)	Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	FY2022
Instrument	Type	Amount rated (Rs. crore)	Jan 31, 2025	Date	Rating	Date	Rating	Date	Rating
Short term-others-non fund based	Short term	20.00	[ICRA]A1	15-NOV-2023	[ICRA]A1	07-DEC-2022	[ICRA]A1	17-NOV-2021	[ICRA]A1
Long term / short term-others-fund based/non fund based	Long term/ Short term	15.00	[ICRA]A+ (Stable)/[ICRA]A1	15-NOV-2023	[ICRA]A+ (Stable)/[ICRA]A1	07-DEC-2022	[ICRA]A+ (Stable)/[ICRA]A1	17-NOV-2021	[ICRA]A+ (Stable)/[ICRA]A1
Long term-cash credit-fund based	Long term	5.00	[ICRA]A+ (Stable)	15-NOV-2023	[ICRA]A+ (Stable)	07-DEC-2022	[ICRA]A+ (Stable)	17-NOV-2021	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Cash credit	Simple
Short-term non-fund based - Others	Very Simple
Long term/Short term limits - Fund based/Non-fund based -Others	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Long term fund-based – Cash credit**	NA	NA	NA	5.0	[ICRA]A+ (Stable)
NA	**Short term non-fund based – Others**	NA	NA	NA	20.0	[ICRA]A1
NA	**Long term/short term limits – fund based/non-fund based – Others**	NA	NA	NA	15.0	[ICRA]A+ (Stable)/[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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ABOUT ICRA LIMITED

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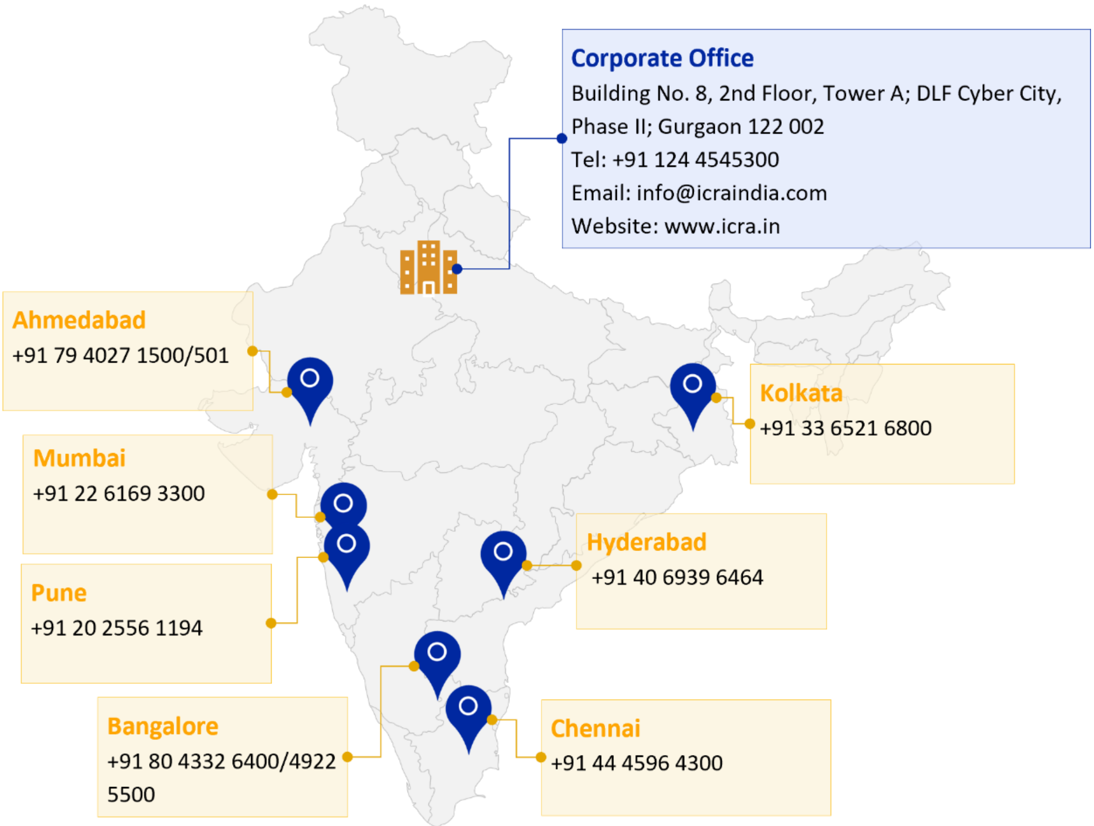

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