

March 12, 2025

Armoured Vehicles Nigam Limited: [ICRA]AA+ (Stable)/ [ICRA]A1+; assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long Term- Fund Based Limits – Cash Credit	2,000.00	[ICRA]AA+ (Stable); assigned
Short Term- Non-Fund Based Limits- Bank Guarantee (Sublimit of cash credit)	(1,000.00)	[ICRA]A1+; assigned
Short Term- Non-Fund Based Limits- Letter of Credit (Sublimit of cash credit)	(1,000.00)	[ICRA]A1+; assigned
Total	2,000.00	

*Instrument details are provided in Annexure I

Rationale

The assigned ratings factor in Armoured Vehicles Nigam Limited's (AVNL) established position in the defence segment, and its strategic importance to the Government of India (GoI) in manufacturing and supplying battle tanks for Indian defence forces apart from supplying other armoured vehicles (like trawls, infantry combat vehicles, naval guns, chaff decoy launchers, security vehicles, etc). The ratings also consider the strong support it receives from the GoI on operations and funding needs for capital expenditure and is expected to continue to do so, going forward. AVNL's strong order book and high share of advance receipts provide a healthy revenue visibility over the medium term. The ratings also consider the company's strong financial profile, marked by nil debt, strong net worth and large cash reserves. Customer advances received towards scheduled execution at the start of every year supports the company's liquidity position.

The ratings, however, are constrained by the susceptibility of the company's revenues and earnings to order inflows and Defence budgets, execution of orders depends on timely availability of parts and components apart from mobilisation of skilled talent and resources. This apart, the company's margins are volatile owing to the fixed price nature of the contracts, which exposes it to the fluctuations in raw material costs despite the standard annual escalation clauses in its contracts. Moreover, timing difference between revenue booking, given the long manufacturing process, which spans over 1.5 years to 2 years, and a sharp movement in raw material prices, affects the profit margins. The ratings also consider the scope for improvement in internal controls and policies, as reflected in the auditor's report.

The Stable outlook on AVNL's long-term rating reflects ICRA's opinion that the company will continue to witness a healthy growth in its scale of operations and earnings on the back of its strong order book position, which would support the company in sustaining its healthy debt metrics.

Key rating drivers and their description

Credit strengths

Strategic importance as a sole supplier of armoured vehicles to Indian Defence Forces – AVNL is one of the seven newly established Defence Public Sector Undertakings. AVNL was formally incorporated as a wholly owned Government of India company under the Companies Act 2013 on August 14, 2021. The company commenced its operations on the designated date of October 1, 2021. AVNL emerged from the former Ordnance Factory Board, comprising five manufacturing units and three training institutes. With five manufacturing units and 3 training centers spread across four different states, it is a leading supplier of armoured vehicles to Indian defence forces. It supplies multiple vehicles such as battle tanks, infantry combat vehicles and logistics vehicles to Indian army, navy, and air forces, apart from other government departments. Given its

established position as a manufacturer and supplier of vehicles to defence forces, a strategically important sector for GoI, it holds high strategic importance.

Support from GoI – The Government of India (GoI) has consistently extended support to AVNL, as reflected in regular equity infusion over the past three years. The GoI has infused equity of Rs. 1,032 crore in the past three years to fund its capital expenditure. Going forward, AVNL is expected to incur annual capex of Rs. 130-150 crore, which is expected to be funded through equity infusion from the GoI. ICRA also notes the budgetary allocation towards the equity infusion in AVNL for FY2025 and FY2026.

Strong order book position, providing revenue visibility over the medium term – As on December 1, 2024, the company had an unexecuted order book of Rs. 32,412.53 crore, which translates into ~7 times of FY2024 revenues, to be executed over the next four years. Strong order book position provides revenue visibility over the next five years. However, ICRA notes that execution of orders depend on timely availability of parts and components apart from mobilisation of skilled talent and resources. Any material delay may make the company liable to liquidated damages (as witnessed in the past), impacting its profitability.

Strong financial profile – The company has a strong financial profile, characterised by nil debt level, comfortable leverage and coverage metrics and a strong liquidity position. The company does not have any long-term debt as capex is funded through equity infusion and working capital requirements are largely funded through advances from customers and internal accruals. The company has sanctioned working capital limits of Rs. 2,000 crore, which largely remain unutilised. This apart, the company maintains a healthy cash balance of Rs. 7,000-Rs. 7,500 crore, indicating a strong liquidity position.

Credit challenges

Revenues remain susceptible to Defence budgets, timely execution remains critical – Given its large dependence on the Defence segment, the company's order inflows and execution remain susceptible to budgetary allocation for Defence and the spending levels. Moreover, timely execution of orders remains critical and a key monitorable, given the inherent delays in obtaining approvals and extensive testing involved in the manufacturing process. Besides, delays in obtaining critical imported components impact the execution, as observed in the recent period owing to Russia-Ukraine war. Delays in execution also expose the company to liquidated damages, thus affecting its margins and cash flows.

Margins remain susceptible to input costs and vary significantly across various stages of execution – The company's margins are volatile, given the variation in margins across various phases of the manufacturing process, which could extend for 18-24 months. Hence, margins for a given period would depend on the order execution phase mix and are likely to vary over the years. Moreover, the company's orders are fixed priced in nature with annual price escalation by a pre-determined percentage. Given the large working capital cycle, any sharp fluctuation in raw material prices is not passed on to the customers, impacting the company's margins.

Auditor qualifications indicating scope for improvement in controls and policies – The statutory auditor has given qualified opinion in the audit report of FY2024 indicating scope of improvement in the internal financial controls and policies. However, the CAG audit does not mention any observations. The company's management has stated that it has been working towards strengthening its internal financial controls. The company has appointed an internal auditor and is in the process of implementing ERP system to strengthen its internal financial controls. The company's ability to improve its internal controls would be a key monitorable.

Liquidity position: Strong

AVNL's liquidity position is strong, supported by undrawn working capital limits of ~Rs. 2,000 crore, and cash and bank balances of Rs. 7,000-7,500 crore. The company does not have any long-term debt and hence, does not have any repayment obligation. It plans to incur capex of Rs. 130-150 crore per annum over the next three years, which will be funded through equity infusion by the Government.

Rating sensitivities

Positive factors – The company's ratings may be upgraded with a sustained growth in revenues and earnings, aided by healthy scale-up of operations, while maintaining comfortable margins.

Negative factors – Pressure on AVNL's ratings could arise if a decline in the order book results in lower revenues or profitability. Any stretch in the working capital cycle, impacting its debt profile, could also result in ratings downgrade. Any material weakening of linkages with the Government of India may also trigger ratings downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent: Government of India The assigned ratings factor in AVNL's strategic importance to the GoI, which ICRA expects the Government to extend financial support to the rated entity, should there be a need.
Consolidation/Standalone	Standalone financials of the company have been analysed to arrive at the rating

About the company

Armoured Vehicles Nigam Ltd. (AVNL), a wholly-owned Government of India company incorporated in August 2021, is one of the seven newly established Defence Public Sector Undertakings (DPSU) carved out of the erstwhile Ordnance Factory Board, with its headquarters in Avadi, Chennai. The company is involved in designing, manufacturing, and maintenance of armoured, security, and other logistics vehicles to Indian defence forces with installed capacity to manufacture 140 vehicles per annum. The company has five manufacturing units in Chennai (Tamil Nadu), Medak (Telangana), Jabalpur (Madhya Pradesh), and Ambarnath (Maharashtra), and three training institutes. Its product portfolio comprises battle tanks, trawls, infant combat vehicles, naval guns, chaff decoy launchers, security vehicles, among others.

Key financial indicators (audited)

AVNL Standalone	FY2023	FY2024	H1 FY2025*
Operating income	5,057.5	4,681.0	1,235.7
PAT	272.0	605.1	45.2
OPBDIT/OI	14.2%	1.1%	-7.3%
PAT/OI	5.4%	12.9%	3.7%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	-
Total debt/OPBDIT (times)	-	-	-
Interest coverage (times)	-	-	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 12, 2025	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	2000.00	[ICRA]AA+ (Stable)	-	-	-	-	-	-
Bank Guarantee	Short term	(1000.00)	[ICRA]A1+	-	-	-	-	-	-
Letter of Credit	Short term	(1000.00)	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term- Fund Based Limits – Cash Credit	Simple
Short Term- Non-Fund Based Limits- Bank Guarantee	Very Simple
Short Term- Non-Fund Based Limits- Letter of Credit	Very 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	Cash Credit	NA	NA	NA	2,000.00	[ICRA]AA+ (Stable)
NA	Bank Guarantee	NA	NA	NA	(1,000.00)	[ICRA]A1+
NA	Letter of Credit	NA	NA	NA	(1,000.00)	[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

NA

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