

AVI Oil India Private Limited

Instrument	Amount (In Rs Crore)	Rating Action
Long Term Fund Based Limits	7.00 (reduced from Rs 8.00 crore)	[ICRA]A (Stable) reaffirmed
Short Term Fund Based Limits	2.00	[ICRA]A1 reaffirmed
Short Term Non-Fund Based Limits	20.00 (enhanced from Rs 13.00 crore)	[ICRA]A1 reaffirmed
Long Term/Short Term Limits-Unallocated	6.00	[ICRA]A (Stable)/[ICRA]A1 assigned
Non-Fund Based Limits-Unallocated	Nil (reduced from Rs 2.00 crore earlier)	-

The ratings of [ICRA]A (pronounced ICRA A) and [ICRA]A1 (pronounced ICRA A one) have been reaffirmed for the Rs. 35.00 crore (enhanced from Rs 25.00 crore) bank limits of AVI Oil India Private Limited (IGL)¹. The outlook on the long term rating is Stable.

The ratings reaffirmation reflects the technical and marketing benefits that accrue to AVI Oil India Private Limited as a result of the leading position of its main parent (namely, Nyco SA, France) in the military and aviation lubricants business; a wide range of products that are certified by the military equipment manufacturers as well as the military and civil aviation authorities in India; the marketing support of its other sponsors, namely, Indian Oil Corporation (rated [ICRA]AAA (Stable)/[ICRA]A1+ by ICRA) and Balmer Lawrie (rated [ICRA]AA (Stable)/[ICRA]A1+ by ICRA); relatively low competitive intensity in the aviation lubricants business arising from the large entry barriers for competitors and the healthy financial risk profile of the company. The ratings are, however, constrained by customer concentration risk, with about three quarters of sales to Air Force alone; segmental concentration on the aviation lubricants business, albeit the company has been striving to diversify its revenue streams; vulnerability of profitability to raw material price & forex fluctuations, as fixed rate contracts with its major customers allow limited annual price escalation; seasonality associated with its sales, with the latter being low in the first quarter of the year; low capacity utilisation of its ester manufacturing plant, which is likely to persist in the medium term, as the company has created capacity in consideration of future growth.

The sales of the company are to a few customers including the Air Force, Navy, Army and Hindustan Aeronautics Limited (HAL). About 76% of the sales of the company were to the Air Force alone and about 85% of the sales of the company were to Air Force and HAL combined in FY2016. This exposes the company to customer concentration risk. The company has a three-year rate contract with the Air Force and a five-year rate contract with HAL. In June 2016, the company had renegotiated its rate contracts with Indian Air Force wherein product prices though fixed for a two year period had been increased by 20-40% with rate negotiations provided for, at the end of the second year for the third year of supply. Accordingly the profitability of company has improved as almost three quarters of the sales of the company were to IAF alone in FY2016. Nevertheless, the rate contract with IAF is a fixed price contract with no raw material price escalation clause. As per the rate contract with HAL, the annual price escalation allowed is on the basis of increase in the WPI (Whole sale Price Index). As the price escalation allowed is limited and as there are no raw material price escalation clauses, the company's profitability remains vulnerable to raw material price movements.

The company imported about 65% of its raw material requirement in FY2016. Against this, its export earnings are negligible. The company's profitability thus remains exposed to foreign exchange fluctuations. The company also does not hedge its payables using derivatives. The company's two large customers are IAF and HAL. As there are no forex fluctuations pass through clauses in the contracts with its large customers, the company's profitability remains vulnerable to forex movements. Accordingly the ability of the company to maintain its profitability margins given that it does not have raw material and forex fluctuations pass through clauses in the rate contracts with its customers would remain a key rating sensitivity.

¹ For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



AOIPL reported net sales of Rs 58.3 crore in FY2016 as against Rs 38.4 crore in FY2015. The profitability was however higher with operating margins of 25.7% in FY2016 as compared to 13.7% in FY2015 pursuant to renegotiation of the rate contract with IAF. In line with the trend in operating profitability the net margins of the company were higher and increased from 3.0% in FY2015 to 13.5% in FY2016. The absolute amount of net profit was Rs 7.9 crore in FY2016 as against Rs 1.2 crore in FY2015. However there was large dividend payout of Rs 3.3 crore. Because of the improvement in profitability the ROCE increased to 30.1% in FY2016 as against 5.6% in FY2015. As per provisional and unaudited results for Q1 FY2017, the company's net sales were Rs 12.9 crore and the profit before tax was Rs 3.5 crore. The gearing of the company was nil as on March 31, 2016 as against 0.1 times as on March 31, 2015. The debt coverage indicators remained healthy with OPBDIT/Interest and finance charges of 15.8 times in FY2016 as against 8.8 times in FY2015. The working capital intensity (NWC/OI) of the company declined from 59.6% in FY2015 to 45.4% in FY2016.

Company Profile

AVI Oil was incorporated in 1993 and is a joint venture between Nyco SA, France, Indian Oil Corporation and Balmer Lawrie, with their respective stakes being 50%, 25% and 25%. AVI Oil was established with the primary objective to indigenise the production of aviation lubricants used by the defence services which has remained the focus of the company. Located in the district of Faridabad in the state of Haryana, its manufacturing facility was established with the technical know-how from Nyco France. The product mix of the company constitutes lubricants, greases, hydraulic fluids, oils, protectives and esters catering to the aviation, military and industrial sectors.

Recent Results

In FY2016 AVI Oil reported a Profit after Tax (PAT) of Rs. 7.9 crore on an Operating Income (OI) of Rs. 58.4 crore compared to a PAT of Rs. 1.2 crore on an OI of Rs. 38.5 crore in FY2015. As per provisional and unaudited results for Q1 FY2017, the company's posted a profit before tax of Rs 3.5 crore on an operating income of Rs 12.9 crore.

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