

August 03, 2017

## Avantor Performance Materials India Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund based facilities	15.00	[ICRA]BB+ (Negative); Downgraded from [ICRA]BBB-(Stable)
Non-fund based facilities	20.00	[ICRA]A4+; Downgraded from [ICRA]A3
<b>Total</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has revised the long-term ratings to the Rs. 15.00 crore<sup>1</sup> fund based facilities of Avantor Performance Materials India Limited (APMIL) from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BB+ (pronounced ICRA double B plus) †. The outlook on the long-term rating has been revised to “Negative” from “Stable”. ICRA has also revised the rating assigned to the Rs. 20.0 crore non-fund based facilities of the company from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A4+ (pronounced ICRA A four plus).

### Rationale

The rating action takes into account the deterioration in the financial performance of the company following certain exceptional items entailing large cash outflow for the company in 2016-17. As the company derives operational and financial support from its parent- Avantor Inc. (rated B2, on review for a possible downgrade by Moody’s Investors Services), the weakening credit metrics of the parent company with significant increase in leverage may also constrain support to Indian operations.

The ratings continue to take into account the company’s diversified customer base across various industries such as pharmaceutical, biotechnology, electronics, chemical and institutions as well as its long-standing relationships with its major customers. The operational synergy with the parent, evident from its wide product portfolio in the domestic market, has supported the revenue growth of APMIL. Additionally, the expected commencement of supplies of select products for which capacities are being set up in India augur well for the company.

APMIL’s debt profile is characterised by long-term borrowings and fully compulsorily convertible bonds (FCCBs) being entirely held by its parent, thus limiting its dependence on the banking system for working capital facilities. The company’s funding requirements in the past few years have also been largely met by extended credit period from its parent. The ratings also take into cognisance equity infusion from the parent company in FY2017 to support its cash flow requirements as APMIL is currently in the process of creating new capacity. Additionally, APMIL’s presence in commodity business in Lab division exposes the profitability to the vagaries of demand-supply scenario in the industry, even as its moderate position in the laboratory chemicals industry in India as well as diagnostics markets limits its ability to pass on price fluctuations to customers. The company also continues to have significant dependence on imports, thus exposing it to foreign exchange fluctuation risk, which has impacted its profitability in the past

Going forward, the ability of the company to fully utilise the new facility at the Panoli plant shall remain the key rating sensitivity. Moreover, the ability of the company to scale up its revenues in a profitable

<sup>1</sup> 100 Lakh = 1 Crore = 10 million

manner, thereby reducing its dependence on the parent for meeting its funding requirements, shall be monitored by ICRA.

### Key rating drivers

#### Credit strengths

- **Operational and financial support from parent company Avantor Inc.-** APMIL is one of the group companies of the U.S. based Avantor Inc. and has strong operational and financial linkages with the parent company. The parent supports it with long term borrowings and fully compulsorily convertible bonds, providing the necessary financial flexibility to the Company. The parent company has infused equity infused to support the expansion plans in India.
- **Diversified customer base across various industries such as pharmaceutical, biotechnology, electronics, chemical and institutions-** The company has reputed companies as its clients across industries and has long term relations with them. Also, the expansion of product portfolio after acquisition by Avantor Performance Materials Holdings S.A. has given growth opportunities

#### Credit weaknesses

- **Extended credit period from parent company for maintaining liquidity-** The parent company supports the liquidity position of APMIL through extended credit periods, long term borrowings and FCCBs.
- **Significant dependence on imports exposes the company to foreign exchange risk-** The Company is highly vulnerable to foreign exchange rate fluctuation due to significant dependence on imports with no hedging mechanism in place.
- **Vulnerable to fluctuations in raw material prices due to fixed price contracts; limited ability pass on hike in procurement cost to its customers-** In cases of depreciation of the INR vis-à-vis USD, the management negotiates with clients for a higher price. However, it has been able to attain limited success in the past. Such instances have resulted in volatility in profitability metrics in the past five years.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Chemical Industry](#)

#### About the company:

Avantor Performance Materials India Limited (APMIL) is engaged in the manufacturing of laboratory chemicals and reagents, filtration and chromatography products, as well as the supply of diagnostic kits and equipment. The company offers a wide range of products that find application in biotechnology, pharmaceutical, electronics, chemicals, institutional, and environmental sectors, among various others.

The company started its operations in 1991 as Ranbaxy Bio Chemicals Limited. It was re-named to Ranbaxy Fine Chemicals Limited in February 1996. In December 2005, the company was divested by Ranbaxy Laboratories Limited to ICICI Venture Funds Management Company Limited (ICICI Ventures). Subsequent to the acquisition, it was again re-named as RFCL Limited in November 2006. In November 2010, Avantor Performance Materials Holdings S.A. entered into a definitive agreement to acquire the company from ICICI Ventures, and following the acquisition, the name of the company was finally changed to its present one - APMIL.

**Key Financial Indicators**

	FY2016 (Audited)	FY2017 (Unaudited)
Operating Income (Rs. crore)	383.9	416.9
PAT (Rs. crore)	23.0	-35.1
OPBDIT/ OI (%)	10.4	-4.8
RoCE (%)	21.3	-16.1
Total Debt/ TNW (times)	1.1	1.1
Total Debt/ OPBDIT (times)	2.3	-4.7
Interest coverage (times)	4.1	-2.1
NWC/ OI (%)	16.6	8.9

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

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

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					Aug 2017	December 2016	March 2016	November 2014	
1	Fund based facilities	Long Term	15.00	15.00	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	
2	Non-fund based facilities	Short Term	20.00	20.00	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A4+	

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument details**

<b>Name of the bank</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
ICICI Bank	Cash Credit	-	-	-	15.00	[ICRA]BB+ (Negative)
ICICI Bank	Letter of Credit/ Bank Guarantee*	-	-	-	20.00	[ICRA]A4+

Source: The company; \* Interchangeable limit

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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