

Piramal Enterprises Limited

September 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	3,075.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Short-term Bank Facilities	2,925.00	CARE A1+ (A One Plus)	Assigned
Total Facilities	6,000.00 (Rs. Six thousand crore only)		
Inter Corporate Deposits	250.00	CARE A1+ (A One Plus)	Assigned
Commercial Paper	12,000.00 (enhanced from Rs.9,000 crore)	CARE A1+ (A One Plus)	Reaffirmed
Non-Convertible Debentures	100.00 [^]	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed

[^]Rs.65 crore placed as on June 30, 2018

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the instruments and bank facilities of Piramal Enterprises Limited (PEL) continues to derive strength from established track record of the promoter group in building and scaling up businesses, strong and experienced management team and experience in the healthcare industry. The ratings positively factors in strong financial flexibility being the holding company of the group, demonstrated fund raising/refinancing ability, monetizable investments in listed Shriram group and unutilized bank lines. The ratings also factors in diversified revenue profile, infusion of equity capital in FY18, increase in scale of operations, accredited manufacturing facilities with well-equipped R&D facilities across geographies and adequate profitability margins driven by financial services business.

The company has stated intentions to transfer lending portfolio of Rs.9,150 crore (as on March 31, 2018) relating to financial services business in the standalone books of PEL to its financial services subsidiary/s by end of FY19. Further, it has intentions to de-merge the financial services business and non-financial service business (Global Pharma, OTC and Healthcare Analytics) in the medium term.

The aforementioned rating strengths are however partially constrained by moderate financial risk profile and weak return ratios owing to investments done in non-financial services business in past couple of years which are yet to yield adequate returns. This has resulted into buildup of sizable debt on account of non-financial services business. Nevertheless going forward revenue and profitability is likely to improve from these levels. Further the ratings are constrained by dependence on regulated market along with intense competition from both MNCs and Indian companies in pharmaceutical segment. Additionally, ratings also reflect group's moderately seasoned loan book, significant sectoral exposure primarily to the real estate sector and client concentration in the loan portfolio given the large ticket size of loans to developers.

Going ahead, PEL's ability to maintain asset quality and client and sector concentration of lending portfolio, and liquidity and profitability of the non-financial businesses would remain key rating sensitivities. Further, any large debt funded acquisition will be a credit monitorable.

Detailed description of the key rating drivers
Key Rating Strengths

Established track record of the promoter group in building and scaling up businesses: Piramal Enterprises Limited (PEL) is the holding and the flagship company of Piramal group which is spearheaded by Mr. Ajay Piramal (Chairman) having presence in diversified businesses such as financial services businesses, pharmaceuticals (CDMO, critical care, OTC) and healthcare insights. The company has successful track record of –nearly three decades in the healthcare business. Post selling its domestic formulation business to Abbott for \$3.8 bn in 2010 and later selling its equity stake in Vodafone, the group has rebuilt its pharmaceutical business and entered into financial services segment which it has reasonable scaled up in space of 4-5 years. The board is ably supported by qualified and professional senior management team heading various verticals with adequate and relevant experience in their respective fields.

Diversified revenue and profitability profile driven by strong growth in financial services business: Income from the financial services increased in FY18 on account of growth in loan book from Rs.24,975 crore in FY17 to Rs.42,168 crore in

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

FY18. Scale of operations and profitability margin from the financial services segment has grown enormously over the years and stands at Rs.4,982 crore in FY18 vis-à-vis Rs.3,352 crore in FY17 on account of very strong growth in loan book. Pharma revenue has grown to Rs.4,322 crore in FY18 as against 3,893 crore in FY17 at the back of addition of new products, strong order book and delivery across all key segments of the business. Financial services business and pharmaceutical business contribute 67% and 27% respectively to the PBILDT margins.

The pharmaceutical product portfolio of the company can be categorized into global pharma and domestic consumer business. Global pharma constitutes pharma solutions and critical care portfolios.

Pharma Solutions:

The product portfolio of the company is well diversified marked by its presence in entire value chain of the drug lifecycle - from drug discovery and development to commercial manufacturing and further to off-patent supplies of Active Pharmaceutical Ingredients (APIs) and formulations. PEL has strong manufacturing and service delivering capabilities both for APIs and formulation including niche areas in High Potency API, Antibody Drug Conjugates, Inhalation Anesthesia and cytotoxic injectables.

Critical care:

In critical care space, PEL is among the top global players in Inhalation Anaesthesia products and continues to increase market share and enter additional markets with existing. PEL is only Pharma Company to have all four generations of inhalation anaesthesia products under its basket (Desflurane launch expected in FY18). PEL's portfolio includes Inhalation Anesthetics such as Halothane, Isoflurane and Sevoflurane, as well as critical care products like Propofol and Plasma Volume Expanders like Polygeline.

Consumer products:

The Company's Consumer Products business is primarily an India-centric over-the-counter (OTC) business with a strong brand portfolio. The company is the fifth largest player in India in the OTC segment and has includes major brands such as Saridon (now banned), i-pill and Lacto Calamine and also has a JV with Allergan, a leader in the Ophthalmology. Saridon has recently banned by Health Ministry of India on September 13, 2018 with immediate effect, however as per management, this should not materially impact the performance of the company as they are ready with alternate arrangements if the ban continues. OTC business contributes Rs.537 crore to pharmaceutical revenue of Rs.4,322 crore at consolidated level (12.42%).

Product portfolio comprises of about 18 brands spanning across categories such as skin care, pain management, oral care, respiratory and lifestyle problems. The OTC business works mainly on outsourcing model.

Increase in scale of operations of financial services with gradual diversification in the loan portfolio: The group carried out its lending business in PEL till 2016, however post the business gaining traction and business restructuring in 2017, a sizeable portion of the financial services business were transferred from PEL to its wholly owned subsidiary with some portion still remaining with PEL. The loan portfolio of the group has witnessed a CAGR of 94% from FY14-FY18 with total loan book outstanding at Rs.42,168 crore as on March 31, 2018. Out of this, Rs.9,150 crore loan book is on the books of PEL and balance is in its financial services subsidiary. There is also a strong pipeline of loans approved but yet to be disbursed which amounts to around Rs.22,400 crore which will further help in loan book expansion. As a strategic decision, the group has been gradually diversifying its loan book. The company introduced lease rent discounting (LRD) in FY17 and is increasingly looking at construction finance (~62% of the total real estate portfolio) as against mezzanine financing for early stage projects. The company has also stepped up its focus on its Corporate Finance Group (CFG). The company has also forayed into lending to small and emerging corporates under the Emerging Corporate Lending (ECL) and also is focused on scaling up its housing finance portfolio.

Strong financial flexibility

PEL derives strong financial flexibility being holding company of the group with substantial value of its financial service business and fund raising/refinancing ability. Furthermore, liquidity comfort is derived from monetizable investments in various entities of Shriram group, unutilized bank lines, cash & cash equivalents as well as strong promoter group with promoter's continued support and commitment to the business. The company on an average, utilizes 53% (of its working capital bank facilities providing cushion for any emergency. Furthermore, PEL on a consolidated level had cash and cash equivalents of around Rs.2,397 crore as on March 31, 2018 vis-à-vis (Rs.1,490 crore as on March 31, 2017). In October 2017, company raised equity Rs.4,996 crore via QIP route to fund its financial services business future growth. Also, PEL raised Rs.1,978 crore through rights issue, substantial portion of which would be utilized towards growth of financial services business.

Infusion of equity capital through CCDs and rights Issue by PEL: PEL raised equity capital of Rs.4,996 crore through qualified institutional placement (QIP) route in form of compulsory convertible debentures (CCDs) and has raised additional capital of Rs.1,971 crore through rights issue in March, 2018. This capital raising program is utilized to expand its loan book which will strengthen the capitalization levels of the group's financial services business. Out of the total capital raising of ~Rs.7,000 crore, around Rs.5,000 crore is infused into the financial services business and balance Rs.2,000 crore is for pharmaceutical business.

Accredited manufacturing facilities with well-equipped R&D facilities across geographies: The company has flexibility and scalability of operations, with investments in network of contract development and manufacturing facilities located in North America, Europe and Asia with US FDA and UK MHRA approval for all the major sites including Grangemouth, Morpeth in Europe, Canada and Kentucky in US and Ahmedabad, Pithampur and Digwal in India. The company in total has 12 manufacturing plants located across India, North America, United Kingdom, etc. The company has cleared 31 US FDA inspections, 102 other regulatory inspections and 826 customer audits across all its facilities.

Key Rating Weaknesses

Moderate financial risk profile: Overall gearing improved to 1.67x as on March 31, 2018 compared to 2.04x as at March 31, 2017 largely due to infusion of equity through CCD's and rights issues combined to the tune of ~Rs.7,000 crore. This is despite, total debt increasing to Rs.44,161 crore as on March 31, 2018 vis-à-vis Rs.30,450 crore as on March 31, 2017. The company's borrowing profile is characterized by higher dependence on short-term borrowings which improved to ~33% of total borrowing as at March 31, 2018 (40% as on March 31, 2017). Also part of the short term borrowings has gone into funding equity investments and loans and advances to subsidiaries which has been utilized towards inorganic investments and operational needs of subsidiaries.

On consolidated basis, PEL has significant amount of repayments coming up in FY19 and FY20 wherein refinancing would be required as operational cash-flows and existing liquidity avenues may not be adequate. However, PEL has demonstrated fund raising ability in a timely manner and is expected to do so.

Out of the total debt, around Rs.33,500 is for financial services business and remaining Rs.10,600 crore is for pharmaceutical businesses. Consequently Debt/PBILDT and RoCE for non-financial service business continues to remain muted due to heavy investments done in last couple of years in organic and inorganic growth wherein performance especially in terms of profitability is yet to reach the desired expected levels.

Moderately seasoned loan book: The Piramal group has largely built its loan portfolio since FY16 due to which the seasoning of the loan book is moderate and the performance of the asset quality over multiple cycles is yet to be seen. However, the group has shown strong capability of successful exits/prepayments with nearly 38% of the cumulative disbursements in their real estate portfolio getting repaid over the last 4 years.

Significant sectoral exposure primarily to real estate sector:

PCHFL's loan portfolio has high exposure to the real estate. Though, the exposure has seen gradual diversification, exposure towards the real estate segment which constituted 75% of the overall loan book as on March 31, 2018 vis-à-vis 85% as on March 31, 2017. Any downturn in the industry may result in decline in the sales across geographies ultimately affecting the asset quality of the company. However, the group has established a strong developer network along with real estate research arm which has benefited the group to invest and exit the exposure at various stages which provides comfort.

Client concentration risk in the loan portfolio:

The loan book of PCHFL is largely wholesale in nature and has significant borrower concentration. PCHFL's top 10 group exposures, on a consolidated basis constituted around 22% of the total loan book and 121% of the tangible net-worth as on March 31, 2018. However, the concentration has seen reduction as compared to top 10 group exposures constituting 29% of the total loan book and 171% of tangible net-worth as on March 31, 2017 (under PFL). Post amalgamation the company is expected to ramp up its housing finance business which is expected to reduce the client concentration going forward. Further, the growth in the ECL segment is also expected to increase the portfolio granularity going ahead.

High dependence on regulated markets for pharmaceutical segment: PEL has its presence in more than 100 countries across the world and is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have an impact on the operations of the company. However, all manufacturing sites of pharma solutions continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

Intense competition from both MNCs and Indian companies in India and abroad for pharmaceutical segment and foreign exchange risk: PEL is present largely in the CDMO segment in its pharmaceuticals business. The company faces intense competition in the domestic as well as regulated markets that it operates in. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key challenges in the pharmaceutical industry. PEL derives around 70% of its overall non-financial services revenues from sales outside India (mainly North America and Europe) thus the company is exposed to foreign currency fluctuation. However, there is a partial natural hedge available owing to manufacturing undertaken outside India, foreign currency term debts and sales outside India.

Analytical approach: Consolidated

CARE has assessed credit risk profile of PEL by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

[Rating Methodology-Pharmaceutical Sector](#)

[Financial ratios-Non-Financial Sector](#)

[Rating Methodology-Factoring Linkages in Ratings](#)

About the Company

Piramal Enterprises Limited (PEL) is the holding and the flagship company of the Ajay Piramal led Piramal group of companies with diversified presence in Pharmaceuticals which include (Contract Development & Manufacturing Organisation (CDMO), Critical Care, Over the Counter (OTC), etc., Healthcare Insights & Analytics and Financial Services segment. The pharmaceutical business has presence across 100 countries with manufacturing bases in India, UK and North America. In the pharmaceutical space, PEL offer services across the entire drug lifecycle-from development and commercial manufacturing (CDMO) to off-patent supplies of Active Pharmaceutical Ingredients (APIs) and formulations. The Company also has presence in the critical care segment with a portfolio of inhalation and injectible anesthetics. The Company's information management business, Decision Resources Group is a well-known provider of information based services to the healthcare industry. In the financial services business, PEL manages wholesale lending portfolio which primarily comprises of construction finance, real estate developer funding, etc. and Corporate Financial group/Emerging Corporate Lending and also has a real estate focused PE fund-Indiareit.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8838.95	11106.12
PBILDT	3996.35	5873.97
PAT	1252.04	5120.28
Overall gearing (times)	2.04	1.67
Interest coverage (times)	1.97	1.97

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	3075.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	250.00	CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	2675.00	CARE A1+
Debentures-Non Convertible Debentures	-	9.57	July 19, 2021	10.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	9.75	July 17, 2026	5.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	9.38	August 12, 2019	15.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	9.75	July 14, 2026	35.00	CARE AA; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	35.00	CARE AA; Stable
Commercial Paper	-	-	-	9000.00	CARE A1+
Inter Corporate Deposit	-	-	-	250.00	CARE A1+
Commercial Paper	-	-	-	3000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (29-Nov-17)	1)CARE AA (27-Sep-16) 2)CARE AA (21-Jul-16)	-
3.	Commercial Paper	ST	9000.00	CARE A1+	-	1)CARE A1+ (29-Nov-17) 2)CARE A1+ (29-Sep-17)	-	-
4.	Fund-based - LT-Term Loan	LT	3075.00	CARE AA; Stable	-	-	-	-
5.	Inter Corporate Deposit	ST	250.00	CARE A1+	-	-	-	-
6.	Commercial Paper	ST	3000.00	CARE A1+	-	-	-	-
7.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	-	-	-	-
8.	Fund-based - ST-Working Capital Limits	ST	2675.00	CARE A1+	-	-	-	-

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