Piramal Pharma Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term/Short term bank facilities (Fund based/ Non fund based facilities)	750.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)	Assigned
Non Convertible Debentures	750.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned

Detailed Rationale& Key Rating Drivers

The rating assigned to the non convertible debentures and bank facilities of PPL factors in strong business profile backed by diversified business segments, presence in various niche therapeutic segments and well spread geographical footprints. The rating also derives strength from experienced promoters and management team, long track record of company in pharmaceutical industry, steady growth in operational performance, accredited manufacturing facilities with well-equipped R&D facilities, well-established marketing network as well as healthy financial risk profile with comfortable liquidity position.

The aforementioned rating strengths are partially offset by lower return ratios owing to high value acquisitions in the past few years as well as relatively moderate capital structure. Moreover, competition in CDMO and OTC segment as well as foreign exchange fluctuation risk might impact operating profitability. The company also has significant presence in regulated markets (especially USA and UK), hence is exposed to regulatory risk that is inherent in pharmaceutical industry.

Key rating sensitivities

Positive factors

- Significant improvement in ROCE on sustained basis through sustained increase in operating profitability
- Improvement in overall gearing below 0.30 times on sustained basis through repayment of long term debt and efficient working capital management

Negative factors

- Decrease in PBILDT margins on sustained basis owing to decline in revenue from critical care segment or competition impacting the CDMO and OTC segments
- Deterioration in overall gearing on a sustained basis, resulting from larger than expected debt funded capex/acquisitions or from increase in working capital requirement

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters with established track record of operations

Piramal Enterprises Limited (PEL; rated CARE AA / CARE A1+ Under credit watch with developing implications) holds 80% of shareholding in PPL. PEL is the flagship company of Piramal group spearheaded by Mr. Ajay Piramal (Chairman). The Group, with more than three decades experience in pharma business, is a diversified Indian business house with interests in Financial Services businesses and Pharmaceuticals (CDMO, Critical Care, OTC).

Ms. Nandini Piramal (Chairman) along with Mr. Peter DeYoung (CEO) are responsible for steering strategy and driving profitable growth of PPL.

Diverse business segments with presence in various therapeutic segments

Over the years, PPL has built and scaled up its pharmaceutical business through acquisitions. The pharmaceutical product portfolio of the company can be categorized into Global Pharma and Domestic consumer business. Global Pharma constitutes Pharma Solutions (CDMO) and Complex hospital generics business. In CDMO segment, PPL provides integrated solutions and offers a comprehensive range of services across the drug lifecycle from drug discovery services and development to commercial manufacturing of drug substances and drug products. In Complex hospital generics business, PPL is the third largest producer of Inhaled Anesthetics and a global player in hospital generics and has wide presence across the USA, Europe and more than 100 countries across the globe. In OTC segment, PPL offers diverse range of products i.e. around 21 brands across categories such as Skin Care, Vitamins & Nutrition, Antacids, Analgesics, Gastro-intestinal and Baby-Care.

Established marketing network with wide geographical reach and diversified geographical profile

PPL has presence in regulated markets like USA, UK, and Japan as well as semi regulated markets such as Africa and Asia for the CDMO and Critical Care segments. The company has presence in more than 100 countries across the globe. For the OTC business, PPL has PAN India presence with tie ups with more than 4 lakhs+ distributors, 2 lakhs+ outlets and 1200+ sales force. In CDMO segment, the company caters to more than 500 customers. Majority of the commercial contracts in CDMO

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

segment are for long term (ranges between 3-5 years). For critical care segment, company has developed distribution partner network in more than 100 countries.

Accredited manufacturing facilities

PPL has 14 Manufacturing and Development units located across India (7 facilities in India), North America (4 facilities in USA and 1 in Canada), and Europe (2 facilities in UK). PPL undertakes manufacturing of critical care products inhouse. In case of consumer healthcare segment, the company follows asset light model for better utilization of resources. The manufacturing facilities possess necessary regulatory approvals from agencies across Globe. They are routinely audited to ensure compliance with Current Good Manufacturing Practices (cGMP). The average capacity utilization at consolidated level is around 60%. Till December 31, 2020 company has filed for 10 ANDA of which 6 are approved. The company has successfully cleared 36 USFDA inspections from FY12 including 4 in Q2FY21. The company has set up R&D facility catering to all three segments based at Rabale, Navi Mumbai.

Strong revenue growth with healthy profitability margins; however, return ratios are lower

The total operating income of the company increased by 13.23% to Rs.5419 crore in FY20 from Rs.4786 crore in FY19 owing to improvement in demand offtake from CDMO segment. PPL reported strong PBILDT margin of 26.44% in FY20 compared to 21.00% in FY19. Owing to beginning of COVID-19 outbreak across the globe in Q4FY20, the company witnessed lower demand offtake from critical care segment which has better profit margins compared to CDMO and consumer healthcare segments. Further, in 9MFY21 company recorded revenue from operations of Rs.3853 crore and PBILDT margin stood at 19%. Decrease in profitability during the period was mainly because of COVID-19 scenario across globe.

Over the past few years, the company has undertaken large sized acquisitions in critical care segment (e.g. brand portfolios from Mallinckrodt Pharma and Janssen Pharma), which has kept the ROCE at lower levels i.e. lower than 12% over past few years. This is mainly as scale up of operations of the acquired plants in under process. Over the next 4-5 years, ROCE is expected to improve after materialization of cash flow from said acquisitions.

Key Rating Weaknesses

Moderate capital structure

PPL's debt profile comprises of long term loans and working capital borrowings. The long term loans were availed to fund large sized acquisitions in critical care segment. The company's overall gearing stood around 0.74 times as on March 31, 2020 which improved to 0.53 times as on December 31, 2020 mainly as some portion of cash flows received from Carlyle Group has been used to repay term debt. The company plans to raise non convertible debentures amounting Rs.750 crore in Q1FY22 for acquiring 100% stake of Hemmo Pharmaceuticals Private Limited (HPPL) for consideration of Rs.775 crore. HPPL is engaged in manufacturing of peptide APIs. Despite increase in debt, the gearing levels are expected to improve owing to strong profitability.

Working capital intensive operations

PPL's operations are working capital intensive in nature. For CDMO business, the company offers credit period up to 55-60 days. The average credit period from its raw material suppliers ranges between 30-45 days. The average inventory holding (including raw materials and finished products) is around 75 days. The working capital gap is funded from fund based working capital limits and internal accruals.

Moderate risk of raw material price volatility and forex fluctuation risk

For CDMO segment, PPL procures key raw materials from client approved vendors wherein raw material price is charged as per the contract. Hence, price volatility risk is taken care to an extent. For critical care segment, PPL procures key raw materials from Convergence Chemicals Private Limited (PEL Group bought 100% stake in this company in H2FY21). About 35% of company's raw material requirements is sourced through imports across globe and direct imports from China accounts for less than 5%. Presently, India based pharmaceutical players are largely dependent on China for sourcing API and other formulations.

The company derived about 80% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY20, on consolidated basis PPL reported 80% of total revenues from exports which comes around Rs.4335 crore earnings in foreign currency. The company sources 35% of total raw material requirements through imports from across globe. Moreover, company's offshore pharma operations are in USD, Euro, and Pounds. The currencies in which these transactions are primarily denominated are US Dollars, Euro, Yen, and several other currencies. As a result, there is natural hedge for company to an extent. Additionally, company undertakes hedging through forward contracts and PCFC limits as a part of its hedging policy.

Regulatory Risk

PPL has its presence in multiple countries across the world and it has 14 production units. Considering the nature of the product usage and application, and consequent impacts, PPL 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. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, all manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies. The company has successfully cleared 36 USFDA inspections from FY12 including 4 in Q2FY21.

Intense competition from both MNCs and Indian companies in India and abroad

PPL faces intense competition and pricing pressure in the global as well as domestic markets. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

Liquidity: Strong

PPL's liquidity remains strong marked by strong cash accruals and healthy debt coverage indicators as on March 31, 2020. Average utilization of fund based working capital limits for past 12 months stood low at around 40%. The company's cash accruals are sufficient to meet repayment obligations over medium term. Moreover, company does not have any major debt funded capex plan over medium term. The capex would be majorly funded through internal accruals. Further, free cash and cash equivalents of around Rs.320 crore as on December 31, 2020 provides additional liquidity cushion.

Analytical approach: Consolidated. CARE has considered PPL's credit assessment on consolidated basis since PPL has considerable overseas operations and inter linkages with its subsidiaries. The list of major companies being consolidated with PPL are given below:

Names of Entities Consolidated	% Shareholding
Piramal Dutch Holdings NV (Netherlands)	100.00
Piramal Critical Care Limited UK	100.00
Piramal Healthcare Inc (90% through PDHNV)	10.00
Piramal Critical Care Italia, SPA (through PCCL)	100.00
Piramal Critical Care Inc.	100.00
Piramal Critical Care Deutschland GmbH (through PCCL)	100.00
Piramal Critical Care South Africa (Pty) Ltd	100.00
Piramal Critical Care Australia	100.00
Piramal Healthcare UK Limited	100.00
Piramal Healthcare Canada Limited	100.00
PEL Pharma Inc (90% through PDHNV)	10.00

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Rating Methodology – Pharmaceutical Sector
Rating Methodology – Consolidation
Rating Methodology – Factoring Linkages in Ratings
Financial ratios - Non- Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Piramal Pharma Limited (PPL) is part of the Ajay Piramal group of companies with presence in Pharmaceuticals {CDMO, Critical Care, and Over the Counter (OTC)}. The company has presence in more than 100 countries and has manufacturing plants in India, UK and North America. Around 70% of company's overall revenue comes from North America, Europe, and Japan. The entire pharma business was earlier operated under Piramal Enterprises Limited (PEL; rated CARE AA / CARE A1+ Under credit watch with developing implications) till February, 2020. However, in March 2020, Board of Directors of PEL approved transfer of entire pharmaceutical business to wholly owned subsidiary named 'Piramal Pharma Limited'. In October 2020, PEL Group sold 20% stake in PPL to US based CA Alchemy Investments, an affiliated entity of CAP V Mauritius Limited, an investment fund managed by affiliated entities of The Carlyle Group Inc (Carlyle).

The pharmaceutical product portfolio of the company can be categorized into contract development and manufacturing organisations (CDMO), complex hospital generics (Critical Care), and consumer healthcare (OTC). Over the years, PEL group has built and scaled up its pharmaceutical business through acquisitions.

PPL has 14 Manufacturing and Development units located across India (7 facilities in India), North America (4 facilities in USA and 1 in Canada), and Europe (2 facilities in UK). The manufacturing facilities possess necessary regulatory approvals from agencies across Globe.

Brief Financials (Rs. crore)	FY19 (Provisional)	FY20 (Provisional)
Total operating income	4786	5419
PBILDT	1005	1433
PAT	Not available	546
Overall gearing (times)	Not available	0.74
Interest coverage (times)	Not available	3.95

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	750.00	CARE AA; Stable / CARE A1+
Debentures-Non-Convertible Debentures	Not yet placed	Not yet placed	Not yet placed	750.00	CARE AA; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (16-Mar-21)	-	-	-
2.	Debentures-Non Convertible Debentures	LT	750.00	CARE AA; Stable	-	-	-	-
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	750.00	CARE AA; Stable / CARE A1+	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

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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