# Piramal Pharma Limited

March 13, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 550.00 | CARE AA-; Stable | Assigned |
| Long-term / Short-term bank facilities | 900.00 (Enhanced from 750.00) | CARE AA-; Stable / CARE A1+ | Revised from CARE AA; Stable / CARE A1+ |
| Non-convertible debentures | 750.00 | CARE AA-; Stable | Revised from CARE AA; Stable |
| Commercial paper | 200.00 (Reduced from 500.00) | CARE A1+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The revision in the ratings assigned to the commercial paper (CP), non-convertible debentures (NCDs), and bank facilities of Piramal Pharma Limited (PPL) is on account of the deterioration in its operating profitability and overall gearing impacting its debt coverage indicators. The profitability was severely impacted in 9MFY23 (refers to the period April 1 to December 31) on the back of industry wide weak demand scenario, lower scale of operations at its overseas manufacturing units, higher operating expenses, including raw material costs, energy prices, wage inflation and marketing costs, and conservative provision made related to delayed payment by one Contract Development & Manufacturing Organisation (CDMO) customer.

The ratings of PPL continue to derive strength from the strong business profile backed by diversified business segments, the presence in various niche therapeutic segments, and well-spread geographical footprints. The ratings also derive strength from the experienced promoters and management team, the long track record of the company in the pharmaceutical industry, accredited manufacturing facilities with well-equipped R&D facilities and a well-established marketing network.

That said, the aforementioned rating strengths are partially offset by the relatively moderate capital structure owing to the high-value debt-funded acquisitions in the past few years and increased debt levels as on December 31, 2022. Moreover, the tight biotech funding environment impacting the CDMO business which contributes around 60% revenue to the company on a consolidated basis might impact the operating profitability of the company in the short term. The company also has a significant presence in regulated markets, especially the US and the UK, and hence is exposed to the regulatory risk that is inherent in the pharmaceutical industry. However, CARE Ratings Limited (CARE Ratings) notes that the company has a track record of zero Official action indicated (OAI) from U.S. Food & Drug Association (USFDA) audits.

The ratings also factor in the proposed equity raising of ₹1,054 crore by the company through right issue. CARE Ratings will continue to track the progress of this transaction and will update as and when the further developments take place.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Improvement in the return on capital employed (ROCE) over 10% on a sustained basis through improvement in the capacity utilisation levels.
- Improvement in debt/PBILDT levels below 3.00x on a sustained basis through prepayment/repayment of long-term debt and lower utilisation of the working capital limits.

**Negative factors**

- Increase in the debt/PBILDT levels over 9.00x on a sustained basis owing to debt-funded capital expenditure or acquisition over the medium term or due to weakening of the credit risk profile.
- Inability to raise the funds through right issue to the tune of ₹1,050 crore through rights issue in FY24 as envisaged.

## **Analytical approach**: Consolidated

CARE Ratings has adopted the consolidated approach for PPL's credit assessment since PPL has considerable overseas operations and operational and financial linkages with its subsidiaries. The list of major companies being consolidated with PPL are given as Annexure-6.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

**Outlook:** Stable

Stable outlook reflects that despite weak demand scenario coupled with inflationary pressure on cost side for the major segment in the near term, the entity is likely to sustain its stable business risk profile due to its strong customer base and established integrated and diversified nature of operations. It also reflects the expected improvement in liquidity with the upcoming funds infusion to the tune of ₹1,054 crore.

## Key strengths

**Extensive experience of promoters with an established track record of operations**

Ajay Piramal and Family holds 34.79% of the shareholding in PPL as on December 31, 2022. Prior to the demerger of PPL from PEL, PEL used to hold 80% shareholding in the company and the remaining 20% was held by CA Alchemy Investments, an affiliated entity of CAP V Mauritius Limited, an investment fund managed and advised by affiliated entities of The Carlyle Group Inc. Currently, CA Alchemy Investments continue to hold 20% stake in the company. PEL is the flagship company of the Piramal group, spearheaded by its Chairman, Ajay Piramal. The group, with more than three decades of experience in the pharmaceuticals business, is a diversified Indian business house with interests in the financial services businesses and pharmaceuticals (CDMO, critical care, OTC).

Nandini Piramal, Chairman - PPL, along with Peter DeYoung, CEO - PPL, are responsible for steering strategy and driving the growth of PPL. Nandini Piramal is a part of the promoter group of the holding company, i.e., PEL. Peter DeYoung has spearheaded several leadership mandates at the Piramal Group, including CEO and President. PPL's board comprises personalities with professional experience in the pharma domain. The board of Directors comprises 10 members headed by Chairperson, Nandini Piramal.

**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 categorised into contract development and manufacturing organisations (CDMO), complex hospital generics (critical care), and consumer healthcare (OTC). In the CDMO segment, PPL provides integrated solutions and offers a comprehensive range of services across the drug life-cycle – from drug discovery services and development to commercial manufacturing of drug substances and drug products. In the critical care segment, PPL is the fourth-largest producer of inhaled anaesthetics and a global player in hospital generics, and has a wide presence across the US, Europe, and more than 100 countries across the globe. In the OTC segment, PPL offers a diverse range of products, across categories, such as skincare, vitamins and nutrition, antacids, analgesics, gastro-intestinal, and baby care.

**Established marketing network with wide geographical reach and diversified geographical profile**

PPL has a presence in the regulated markets like the US and the UK, as well as semi-regulated markets such as Japan, Africa, and Asia, for the CDMO and critical care segments. In CDMO segment, the company has a diversified customer base with 71% of revenue from Big Pharma, Emerging Biopharma, etc., and 75% of revenue from the regulated markets, with top 10 customers accounting for 39% of the company's FY22 CDMO revenue. Majority of the contracts in the CDMO segment are for the long term (ranges between three and five years). For the critical care segment, the company has developed a distribution partner network in more than 100 countries. The company has a presence in more than 100 countries across the globe. For the OTC business, PPL has a PAN-India presence with tie-ups with more than four lakh distributors, over two lakh outlets, and 12,000+ organised retail stores. The company has maintained its thrust on marketing its brands on a larger scale with celebrity endorsements and making them available on both online and offline modes. The company witnessed a strong performance in power brands (viz. Saridon, Supradyn, Lacto Calamine, Little's, Tetmosol, i-Pill and Polycrol), which contributed 57% to the FY22 (April 01, 2021 to March 31, 2022) revenues. The revenue from power brands grew 37% y-o-y to ₹424 crore in FY22. However, profitability margins in OTC segment is presently minimal.

**Accredited manufacturing facilities**

PPL has 15 manufacturing and development facilities located across India, US, UK, Canada, including a sourcing office in Shanghai. These facilities have requisite approvals from global pharma regulatory agencies, including USFDA (Food and Drug Administration), UK MHRA (Medicines and Healthcare products Regulatory Agency), Japan PMDA (Pharmaceuticals and Medical Devices Agency), ANVISA (Brazilian Health Regulatory Agency), and Health Canada to supply products to respective markets. PPL undertakes manufacturing of CDMO and critical care segment in-house. For consumer healthcare segment, the company follows asset light model for better utilisation of resources. The company has successfully cleared 36 USFDA audits, 269 total regulatory inspections and 1377 customer inspections till March 31, 2022, since the start of FY12. The company has set up R&D facility catering to all three segments based at Rabale, Navi Mumbai. The company had a successful US FDA inspection at Riverview facility in the US at the Sellersville and Lexington facilities, where the USFDA inspection concluded in the month of January 2023, the company received form 483 with the VAI classification. The company continues to maintain its track record of zero OAI status across their sites in the last 12 years.

## Key weaknesses

**Moderate revenue growth and subdued profitability margins**

The TOI grew from ₹6,376 crore in FY21 (from March 04, 2020 to March 31, 2021) to ₹6,576 crore in FY22. The growth was driven by momentum in OTC and critical care segment. In critical care segment, demand normalisation was witnessed in FY22 with patients going ahead with elective surgeries, which was impacted in FY21 owing to COVID-19. Critical care business which witnessed a dip in the revenue in FY21, witnessed an improvement in the revenue in FY22, which can be partly contributed to pent-up the demand. In OTC segment, the company is witnessing a strong performance in power brands, which contributed 57% to the FY22's OTC revenues. The growth was partially offset by slower CDMO growth, which was impacted by multiple challenges on the demand side, viz., execution issues attributable to higher-than-anticipated attrition rates, tight biotech funding environment impacting CDMO segment, softening of generic API and vitamin portfolio, etc. The company reported a revenue of ₹5,119 crore in 9MFY23 as compared with ₹4,625 crore in 9MFY22, a 11% increase. The growth in critical care is moderate in 9MFY23 as compared with 9MFY22, as the FY22 revenues were all time high due to the pent-up demand. Also, the injectable anaesthesia and pain management segment were impacted by scale up challenges at new CMOs.

The PBILDT margin moderated from 23.41% in FY21 to 14.70% in FY22 primarily due to increase in the raw material cost, increase in the sales and promotion expenses and increased R&D expenses. The margins in CDMO business were impacted by execution and supply chain-related challenges in the terms of logistics, input material availability/costs and manpower shortages in FY22. 9MFY23 PBILDT margins further moderated to 5.63% as compared to PBILDT margin of 12.46% in 9MFY22 owing to higher raw material costs, energy prices, wage inflation and sales promotion expenses in customer products business. The company also recorded forex loss and one-time provision of around ₹30 crore for one of CDMO clients in US for delayed payments against receivables.

**Capital intensive business**

Owing to increased debt levels in the company despite the low scale of operations, the capital intensity of the overall business profile of PPL has increased. The capital intensity (TOI divided by sum of net worth and total debt) of the overall business profile of PPL has decreased to 0.61x in FY22 from 0.74x in FY21. It is likely to increase further in FY23 with further increase in debt levels. With competitive market environment, and various factors impacting the CDMO segment, the ability of the company to generate adequate revenues would be a key monitorable. The company plans to complete its ongoing capex at various sites by H1FY24 and would further strategise its capex plans after assessing the then prevailing market conditions.

**Moderation in capital structure and liquidity profile**

The overall gearing of PPL moderated to 0.62x as on March 31, 2022 (0.52x as on March 31, 2021) mainly due to higher increase in debt as compared with the increase in the net worth of the company. The total debt to gross cash accruals (GCA) was at 4.69x and PBILDT interest coverage at 4.88x in FY22 as compared with 2.31x and 9.13x, respectively, in FY21. Owing to increased debt and moderation in net worth in 9MFY23, the debt coverage metrices are expected to moderate in FY23. However, the upcoming funds infusion of ₹1,050 crore through right issue is expected to improve the capital structure of the company, with substantial part of the funds raised expected to be used for the prepayment of debt to bring down the leverage levels of the company.

**Risk of raw material price volatility and forex fluctuation risk**

For CDMO segment, PPL procures key raw materials from the 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 majorly produces key raw materials which were earlier procured from its wholly owned subsidiary i.e., Convergence Chemicals Private Limited (now merged with PPL). However, for other products and services, the raw materials have to be imported either globally or domestically and is subject to the movements in pricing. The impact of pricing of raw material could be felt in FY22 and 9MFY23 numbers, which among others, contributed to the moderation of operating margins of the company. The company derived about 78% of its overall revenues in FY22 from exports, thus it is exposed to the foreign currency fluctuation risk. The 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 a natural hedge for the company to an extent. Additionally, the 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 15 manufacturing & development facilities as on December 31, 2022. 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 a strict regulatory environment. Thus, infringement in any of the laws, and any significant adverse changes in the import/export policy or environmental/regulatory policies in the area of the operations of the company, can have an impact on the company's operations. Nevertheless, it is continuously taking adequate steps to address the regulatory risks. Furthermore, all manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

## **Liquidity:** Adequate

PPL's liquidity is adequate despite moderation in the cash accruals and increased working capital utilisation in the last 12 months. Average of closing balance of fund-based working capital limits for past 12 months ended February 2023 stood at around 77%. The company on a consolidated level has already repaid ₹533 crore in 9MFY23 and has remaining debt repayment obligations of ₹117 crore in Q4FY23. With a cash and liquid balances of ₹433 crore and around ₹350 crore of unutilised working capital limits as on December 31, 2022, the company is expected to comfortably repay its debt obligations in FY23. Furthermore, the upcoming funds infusion of ₹1,054 crore through right issue is expected to improve the liquidity of the company.

## Environment, social, and governance risks

For the pharma industry, the main factors of environment, social, and governance (ESG) affecting the sector are the social aspects like product safety and quality, business ethics, patient centricity, accessibility and affordability to healthcare, etc. The pharma sector has an impact on the environment owing to greenhouse gases emissions, generation of hazardous chemicals, consumption of water. PPL has consistently focused on mitigating its environmental and social risks while ensuring to meet the required governance standards. CARE Ratings expects PPL's commitment to ESG will support its credit profile. Highlights of the impact of company's key ESG initiatives are as follows:

Environment:

- Around 82k Trees planted during across facilities
- 11% Hazardous waste co-processed in FY22
- Around 137KLs of treated wastewater recycled during FY22
- Around 145K GJ of energy from bio-briquettes in FY22

Social:

- 2.2 million people impacted by COVID-19 awareness and vaccination campaigns
- 113 million lives touched over the years
- 15% of the workforce represented by women

Governance

- 269 regulatory inspections since FY12 with zero OAI
- Around 150 annual customer audits
- Risk management committee headed by ED of the company

## Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Healthcare | Healthcare | Pharmaceuticals & Biotechnology | Pharmaceuticals |

Piramal Pharma Limited (PPL) is a part of the Piramal group of companies. The pharmaceutical product portfolio of the company can be categorised into contract development and manufacturing organisations (CDMO), complex hospital generics (critical care), and consumer healthcare (OTC). The company has a presence in more than 100 countries and has manufacturing plants in India, the UK, and North America. Around 75% of the company's overall revenue in FY22 came from regulated markets. The entire pharma business was earlier operated under Piramal Enterprises Limited (PEL; rated 'CARE AA/CARE A1+') until February 2020. However, in March 2020, the Board of Directors of PEL approved the transfer of the entire pharmaceutical business to its wholly-owned subsidiary, PPL. Furthermore, on October 7, 2021, the Board of PEL approved the demerger of PPL into a separate listed entity, and PPL was subsequently listed on both BSE and NSE on October 19, 2022. PEL owns 34.79% in PPL and 20% is held by the Carlyle group.

| Brief Financials* (₹ crore) | March 31, 2021** (A) | March 31, 2022 (A) | 9MFY23 (UA) |
|---|---|---|---|
| Total operating income | 6,376.17 | 6,575.96 | 4,917.97 |
| PBILDT | 1,492.66 | 966.52 | 276.97 |
| PAT | 835.03 | 375.96 | -236.57 |
| Overall gearing (times) | 0.52 | 0.62 | NA |
| Interest coverage (times) | 9.13 | 4.88 | 1.15 |

*Consolidated, **From March 04, 2020 to March 31, 2021, A: Audited, UA: Un-audited, NA: Not available

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

**Any other information:**
Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Commercial Paper-Commercial Paper (Standalone) | - | - | - | 7–364 days | 200.00 | CARE A1+ |
| Fund-based - LT-Term Loan | - | - | - | 30-06-2027 | 550.00 | CARE AA-; Stable |
| LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | - | - | - | - | 900.00 | CARE AA-; Stable / CARE A1+ |
| NCD | INE0DK507018 | 06-05-2021 | Kotak 6M MCLR + Spread of 30 bps. Reset every 6 months | 06-05-2026 | 200.00 | CARE AA-; Stable |
| NCD | INE0DK507026 | 09-09-2022 | Kotak 3M MCLR + Spread of 28 bps. Reset every 3 months | 09-09-2027 | 100.00 | CARE AA-; Stable |
| NCD | INE0DK507034 | 03-10-2022 | 7.90% | 03-10-2025 | 100.00 | CARE AA-; Stable |
| NCD | - | - | - | - | 350.00 | CARE AA-; Stable |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Commercial Paper-Commercial Paper (Standalone) | ST | 200.00 | CARE A1+ | - | 1)CARE A1+ (29-Mar-22) | 1)CARE A1+ (30-Mar-21)<br><br>2)CARE A1+ (16-Mar-21) | - |
| 2 | Debentures-Non Convertible Debentures | LT | 750.00 | CARE AA-; Stable | - | 1)CARE AA; Stable (29-Mar-22)<br><br>2)CARE AA; Stable (05-Apr-21) | - | - |
| 3 | LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | LT/ST* | 900.00 | CARE AA-; Stable / CARE A1+ | - | 1)CARE AA; Stable / CARE A1+ (29-Mar-22)<br><br>2)CARE AA; Stable / CARE A1+ (05-Apr-21) | - | - |
| 4 | Fund-based - LT-Term Loan | LT | 550.00 | CARE AA-; Stable | | | | |

*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities –** Not applicable

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Commercial Paper-Commercial Paper (Standalone) | Simple |
| 2 | Debentures-Non Convertible Debentures | Simple |
| 3 | Fund-based - LT-Term Loan | Simple |
| 4 | LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | Simple |

## Annexure-5: Lender details

| |
|---|
| To view the lender wise details of bank facilities please click here |

## Annexure-6: List of subsidiaries considered for consolidation

| Name of companies/ Entities | % of holding |
|---|---|
| Piramal Critical Care Italia, SPA | 100.00 |
| Piramal Critical Care Deutschland GmbH | 100.00 |
| Piramal Critical Care Limited | 100.00 |
| Piramal Healthcare (Canada) Limited | 100.00 |
| Piramal Critical Care B.V. | 100.00 |
| Piramal Pharma Solutions B.V. | 100.00 |
| Piramal Critical Care Pty. Ltd. (Australia) | 100.00 |
| Piramal Healthcare UK Limited | 100.00 |
| Piramal Healthcare Pension Trustees Limited | 100.00 |
| Piramal Critical Care South Africa (Pty) Ltd | 100.00 |
| Piramal Dutch Holdings NV | 100.00 |
| Piramal Healthcare Inc | 100.00 |
| Piramal Critical Care Inc | 100.00 |
| PEL Pharma Inc | 100.00 |
| PEL Pharma Solutions Inc | 100.00 |
| PEL Pharma Inc | 100.00 |
| Ash Stevens LLC | 100.00 |
| PEL Healthcare LLC | 100.00 |
| Convergence Chemicals Private Limited | 100.00 |
| Hemmo Pharmaceuticals Private Limited | 100.00 |
| Piramal Pharma Japan GK | 100.00 |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

| Media Contact | Analytical Contacts |
|---|---|
| Name: Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754-3596<br>E-mail: mradul.mishra@careedge.in | Name: Padmanabh Bhagavath<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754-3407<br>E-mail: PS.Bhagavath@careedge.in |
| **Relationship Contact**<br><br>Name: Saikat Roy<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: +91-22-67543404<br>E-mail: saikat.roy@careedge.in | Name: Pulkit Agarwal<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754-3505<br>E-mail: Pulkit.Agarwal@careedge.in<br><br>Name: Naveen Kumar Dhondy<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: +91-40-4010-2030<br>E-mail: Dnaveen.Kumar@careedge.in |

**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



**For the detailed Rationale Report and subscription information, please visit www.careedge.in**