

PEL Pharma Inc

July 14, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	296.00	CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Bank Facilities	296.00 (₹ Two hundred ninety-six crore only)		

Details of instruments/facilities in Annexure-1.

@backed by credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Piramal Enterprises Limited (Long-term rating of 'CARE AA; Stable')

*USD 40 million converted at an exchange rate of ₹74 per USD

Unsupported rating	CARE A (Single A) [Reaffirmed]
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Note: Unsupported rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers for the credit enhanced debt: The rating assigned to the bank facilities of PEL Pharma Inc. factors in the credit enhancement in the form of unconditional and irrevocable corporate guarantee (CG) extended by Piramal Enterprises Limited (PEL) along with Piramal Healthcare UK Limited, Piramal Healthcare Canada Limited, Ash Stevens LLC, and Piramal Pharma Solutions Inc. The above rating is based on the CARE Rating Limited's (CARE Ratings') view on CG provider's credit profile and business/ financial linkages of PEL Pharma with PEL. The CG primarily states that PEL has extended unconditional and irrevocable guarantee to the entire tenure and amount of FCTL availed by PEL Pharma from State Bank of India (SBI). The above rating has been removed from credit watch with developing implications and assigned a stable outlook, consequent to PEL's ratings being removed from credit watch with developing implications and assignment of stable outlook.

Detailed rationale and key rating drivers of PEL

CARE Ratings has taken a consolidated view of financial services business (PEL FS) of the Piramal Group, which includes 'Piramal Enterprise Limited (PEL)' and its two 100% owned subsidiaries, 'PHL Fininvest Private Limited (PFPL)' and Piramal Capital and Housing Ltd. (PCHFL; erstwhile Dewan Housing Finance Ltd [DHFL]).

Earlier CARE Ratings had placed the ratings on 'credit watch with developing implications' on account of PCHFL being declared as the successful resolution applicant in relation to the Corporate Insolvency Resolution Process of DHFL under the Insolvency & Bankruptcy Code, 2016, and the subsequent announcement of the Scheme of Arrangement to demerge the pharmaceuticals business of PEL and merge PFPL into PEL subject to approval from majority of the shareholders, creditors of the companies, Securities and Exchange Board of India (SEBI), stock exchanges, National Company Law Tribunal (NCLT) and other regulatory authorities as applicable.

PCHFL acquired DHFL and got reverse merged into DHFL on September 30, 2021, and was subsequently renamed 'Piramal Capital and Housing Finance Limited', which continues to remain a wholly-owned subsidiary of PEL.

As per the scheme of arrangement being undertaken within the Piramal group, the pharmaceutical (pharma) business would demerge from PEL and consolidate it under Piramal Pharma Ltd (PPL), and PPL would be separately listed in stock exchanges. Furthermore, PEL is envisaged to become a non-banking financial company (NBFC) with PFPL getting merged with it.

The restructuring of the business is expected to be completed by Q3FY23, subject to the shareholders, creditors and regulatory approvals, post which the financial services would be conducted through PEL, which will become an NBFC, whereas PCHFL would continue to be its wholly-owned housing finance company (HFC). PEL is expected to retain all the non-pharma-related assets, including the shareholding in the Shriram group.

The financial services contributed around 52% (P.Y.: 55%), while the pharma segment contributed around 48% of the consolidated revenue of PEL for FY22 (refers to the period April 1 to March 31) (FY21: 45%). Although the demerger of the pharma business would impact the total revenue of PEL going ahead; the revenue and the business risk profile of PEL FS would not change on account of the demerger.

PEL FS business is sufficiently capitalised as the majority of equity (₹30,104 crore out of ₹35,489 crore as on March 31, 2022) of PEL consolidated will remain in PEL after demerger (Out of ₹30,104 crore equity expected to continue in PEL post demerger, ₹10,760 crore still remains unallocated and is available for future allocation in the financial services business). The demerger is

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

not expected to have a material impact on the credit profile of PEL FS as it is sufficiently capitalised and has diversified loan book post DHFL takeover.

Based on the above factors, CARE Ratings has reaffirmed the ratings assigned to the debt instruments and bank loan facilities of PEL and removed the credit watch on the long-term ratings, and has assigned a stable outlook.

The ratings continue to factor in the long track record of the promoter group in the financial services business, financial flexibility of promoter group and moderate leverage of PEL FS business supported by strong capitalisation levels. The rating also takes note of the group's plan to bring in more granularity to the loan book by focusing on the retail segment and the significant increase in retail proportion due to the acquisition of DHFL, wherein the share of retail in the total loan book increased from 11% of assets under management (AUM) as on March 31, 2021 to 33% of AUM as on March 31, 2022.

The rating strengths are partially constrained by PEL FS's moderation in asset quality as well as significant exposure to and concentration in the real estate loan portfolio, which although the group has been taking measures to reduce, remains sizeable, and the ability of PEL FS to raise funds from diverse sources at competitive rates remains a key rating monitorable.

Rating sensitivities of PEL

Positive factors – Factors that could lead to positive rating action/upgrade:

- Substantial reduction in the exposure to the real estate segment in overall loan book and single group exposure of consolidated tangible net worth on a sustained basis.
- Significant improvement in the asset quality.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in the proportion of real estate loan book of PEL FS on a sustained basis.
- Mismatch in asset liability maturities and challenges in raising long-term funding.
- Deterioration in asset quality with net non-performing asset (net NPA)/ net worth (excluding pharma) of over 10% at PEL level.
- Increase in the overall gearing beyond 3.5x for PEL level (excluding pharma).

Key rating drivers of PEL Pharma

The rating derives strength from well-established, experienced, and resourceful promoter group, presence in niche product segments, widespread geographical presence, and moderate financial risk profile. These rating strengths are, however, tempered by competitive nature of business and relatively small scale of operations on a standalone basis.

Rating sensitivities of PEL Pharma

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the total operating income (TOI) beyond ₹500 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 40% on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any new borrowing in the Restricted Group entities resulting in deterioration of debt coverage indicators.
- Decline in strategic importance of pharma business for the PEL Group.

Detailed description of the key rating drivers of PEL

Key rating strengths

Strong and resourceful promoters along with experienced management team: PEL is the flagship company of the Piramal group headed by the Chairman, Ajay Piramal. The group has presence in diversified businesses like financial services, pharma (CDMO, Critical Care, OTC) and real estate development and consulting (through a separate company). The Board of Directors has eminent persons from the industry providing their experience and governance to the group. The Board is supported by experienced senior management team heading various verticals with adequate and relevant experience in their respective fields.

The group has experience of lending in the real estate industry for over a decade and forayed into mortgage lending around five years back.

The focus of the group has now shifted towards building the retail portfolio in the financial services segment and the group has appointed Jairam Sridharan as the Managing Director (MD of PCHFL) to head and scale up its retail finance business in the medium term. Jairam Sridharan has over two decades of retail domain experience and specialises in setting up and scaling new businesses. The group is in the process of building team, systems and process to undertake retail book expansion. Furthermore, the acquisition of DHFL has helped the group to diversify its retail book and will help launch various retail products.

Demonstrated financial flexibility through fund raising leading to comfortable capitalisation and gearing levels:

PEL has demonstrated strong fund-raising capability in the recent past and has raised equity capital and has been providing growth capital to its subsidiaries including pharma and financial services business. During FY20 and FY21, PEL raised nearly ₹18,173 crore of capital by way of sale of 10% stake in Shriram Transport Finance Company Ltd (₹2,300 crore in June 2019), Rights issue (₹3,650 crore including promoter investment of ₹1,600 crore in January 2020), preferential allotment to Caisse de dépôt et placement du Québec (CDPQ) (₹1,750 crore in December 2019), sale of its DRG business (₹6,750 crore in February 2020) and stake dilution by 20% in PPL to the Carlyle group (₹3,523 crore in October 2020). These funds were used to deleverage the balance sheet and provide capital for its financial services business. Furthermore, to add comfort to the capital

requirement in PEL FS, PEL has financial flexibility in terms of its holdings in the Shriram group (20% in Shriram Capital and 10% in Shriram City Union Finance).

Of the total consolidated equity of ₹35,489 crore as on March 31, 2022, equity of ₹5,385 crore pertains to the pharma division, which is expected to be transferred due to demerger and ₹30,104 crore (PEL FS: ₹17,006 crore + Alternatives: ₹1,381 crore + Life Insurance: ₹1,381 crore and Unallocated: ₹10,760 crore) will remain in the PEL post the demerger. PEL had an overall gearing of 1.64x (considering total equity excluding marked towards pharma) and 2.9x for PEL FS as on March 31, 2022. Any material deviation of the equity towards non-FS business, thereby increasing the leverage of the FS business would be a key rating sensitivity.

PEL FS had capital adequacy ratio (CAR) of 21.00% (P.Y.: 36.00%). PCHFL (standalone) reported CAR of 22.01% (P.Y.: 32.30%) with Tier I CAR of 21.11% (P.Y.: 32.03%) as on March 31, 2022, while PFPL (standalone) reported CAR of 50.42% (P.Y.: 39.10%) with Tier I CAR of 49.17% (P.Y.: 38.80%) as on March 31, 2022.

Moderation in profitability with higher provisioning: PEL FS's net interest income (NII) was lower by 13% at ₹2,406 crore during FY22 on account of interest reversals on some assets that were moved from Stage-1 to Stage-2 and due to negative carry for maintaining excess liquidity on the balance sheet. Fee income increased as off-balance sheet securitised assets (₹18,747 crore as on March 31, 2022) acquired with DHFL generated fee income around 1.6%. Furthermore, operating expenses increased substantially during FY22 as PEL FS took over DHFL increasing the employee count and expenses for reopening branches causing the Pre-Provision Operating Profit (PPOP) to be lower by 25% in FY22 at ₹1,694 crore as compared with the previous year. The provisions were high during FY22, mainly on account of some large assets being classified as Stage-2 in Q4FY22 requiring incremental provisioning. As a result, PAT was lower by 55% at ₹743 crore for FY22 as compared with ₹1,668 crore for the previous year. Return on total assets (ROTA) was 1.3% for FY22 (FY21: 3.3%).

Key rating weaknesses

Concentration risk in PEL FS: The lending portfolio of PEL FS has predominantly been wholesale with high concentration on the real estate segment. The group is focused on growing the retail book, and the acquisition of DHFL has helped reduce the wholesale proportion from 89% of AUM as on March 31, 2021 to 67% as on March 31, 2022, although the same continues to be remain high and is expected to reduce in the medium term, as the company scales up its retail business. Although the real estate exposure has also come down from 78% of the AUM as on March 31, 2021 to 45% of the AUM as on March 31, 2022, the sector risk still persists.

While the management is trying to reduce the wholesale exposure especially in real estate and client concentrations on an absolute basis, the progress has been slower than expected. The wholesale loan book is gradually reducing. Majority of retail portfolio comprises housing loans acquired from DHFL and a small portion of its own book. PEL FS division has started to diversify its retail book by launching new products, such as unsecured loans, small and medium enterprises (SME) credit, used vehicle financing, personal loans, etc., and have made partnerships with fintech firms to get business. The retail division is gaining traction from Q2FY22 with the acquisition of DHFL portfolio helped by improvement in retail disbursements. Top 10 group exposures constituted around 19% of AUM as on March 31, 2022 (March 31, 2021: 28%).

Moderate asset quality: The Gross NPA ratio of PEL FS reduced from 4.1% as on March 31, 2021 to 3.4% of overall AUM as on March 31, 2022, on account of addition of DHFL assets from September 30, 2021 onwards. DHFL's Stage-3 and Stage-2 assets as on merger date (amounting to face value of ₹9,488 crore), has been classified as Purchased or Originated Credit Impaired (POCI) at a fair value of ₹3,465 in PEL FS's book as on March 31, 2022, and these accounts will not get reclassified as Stage-1 / 2 / 3 assets in their lifecycle. PEL FS continues to keep sufficient provisions at 5.7% of AUM as on March 31, 2022, to insulate itself from any further asset quality shocks. Stage-2 assets constitute 6.25% of AUM, while Restructured assets and Emergency Credit Line Guarantee Scheme (ECLGS) loans constitute around 3% and 1.6% of AUM, respectively, as on March 31, 2022. PEL FS has extended the date of commencement of commercial operations (DCCO) in respect of loans to commercial real estate projects of around 7% of the AUM as on March 31, 2022. While PEL FS has adequate provisioning, asset quality will remain key monitorable going forward.

Ability to raise funds at competitive rates: Majority of borrowings of PEL FS are in the form of NCD instruments as on March 31, 2022, and the largest category of lenders are banks. The weighted average maturity profile of borrowings at PEL FS level is 3.7 years as on March 31, 2022. PEL FS has in the past refinanced its debt and lowered its average borrowing cost. PEL FS also continues to hold high quantum of liquidity of ₹8,825 crore as on March 31, 2022, which is around 18% of the total debt of PEL FS and scheduled collections from the loan portfolio and prepayments of housing portfolio acquired from DHFL provides additional comfort. The ability of PEL FS to raise long-term funds at competitive rates from varied sources to fund its incremental loan book as well as repay its debt is a key rating sensitivity.

Liquidity of PEL: Adequate

According to the Structural Liquidity Statement as on March 31, 2022, there were no negative cumulative mismatches as per the asset-liability management (ALM) of PEL FS in time buckets up to six months. PEL FS had cash and cash equivalents including unutilised bank lines of around ₹8,825 crore as on March 31, 2022 (March 31, 2021: ₹9,180 crore) as against repayments due of ₹10,207 crore over FY23. PEL also has access to the capital market and raise funds through CP. Furthermore, it also has minority stake in the Shriram group companies, which acts as an additional buffer.

PFPL had a cash and bank equivalents including unutilised bank lines of around ₹432 crore as on March 31, 2022, as against repayments due of ₹1,440 crore during FY23. However, PFPL can borrow from PEL and PCHFL in the form of inter-corporate deposits (ICDs) to repay the external debt.

PCHFL had a cash and bank equivalents including unutilised bank lines of around ₹6,830 crore as on March 31, 2022, as against repayments due of ₹6,671 crore during FY23.

Analytical approach

For Unsupported Rating of PEL Pharma Inc: CARE Ratings has adopted a standalone approach. Furthermore, financial and operational linkages in the form of loans given by holding company and support in form of technical knowhow have been taken into consideration along with factoring linkages with Piramal Pharma Limited.

Credit Enhanced Rating: The rating is based on credit enhancement in the form of unconditional and irrevocable CG extended by PEL. For credit enhanced ratings, CARE Ratings has applied its criteria on rating of credit enhanced debt. CARE Ratings has taken a consolidated view of the credit profiles of PEL (excluding pharma business) and its subsidiaries – PCHFL and PFPL considering the ongoing restructuring of business within the Piramal group.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Manufacturing Companies
Pharmaceutical

About the company – PEL

Piramal Enterprises Limited (PEL) is the flagship holding company (listed) of the Ajay Piramal group of companies with presence in Pharmaceuticals (CRAMS, Critical Care, Over the Counter (OTC) through Piramal Pharma Limited (PPL) and financial services business (PEL FS), largely through wholly-owned subsidiaries, PCHFL and PFPL.

Piramal pharma offers a portfolio of differentiated products and services through end-to-end manufacturing capabilities across 15 global facilities and a global distribution network in over 100 countries. It includes Pharma Solutions, an integrated contract development and manufacturing (CDMO) business; Critical Care, a complex hospital generics business and the Consumer Healthcare business, selling over-the-counter products in India. As per the restructuring being undertaken within the Piramal Group, the pharmaceutical division would demerge from PEL and consolidate under Piramal Pharma Ltd (PPL) and PPL would be separately listed in the stock exchanges. The Carlyle group, which now holds 20% of PPL, with 80% being held by PEL, will continue to hold 20% of PPL, the shareholders of PEL will get the shares of PPL, and PEL will no longer be a shareholder of PPL. PEL FS in real estate provides housing finance and other financing solutions across the entire capital stack ranging from early stage private equity, structured debt, senior secured debt, construction finance and flexi lease rental discounting. The wholesale segment (other than real estate) has Corporate Finance Group (CFG) providing customised funding solutions to companies across sectors such as infrastructure, renewable energy, roads, industrials, auto components, etc., while and Emerging Corporate Lending (ECL) focuses on lending towards SMEs. PEL FS has planned to diversify its retail book by including innovative tech-driven unsecured loans, SME credit, used vehicle financing, personal loans, etc. PEL FS also has several tie-ups with leading international partners like Bain Capital (for stressed asset), APG (mezzanine investment in Infra), Ivanhoe Cambridge (Residential real estate platform), CDPQ (Senior Debt in non-Real Estate, non-Infra sectors), CPPIB (InvIT platform of Renewables), etc.

Brief Financials of PEL (Consol) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	12,809	13,993	NA
PBILDT	7,828	7,170	NA
PAT	1,413	1,999	NA
Overall gearing (times)	1.19	1.49	NA
Interest coverage (times)	1.86	1.60	NA

A: Audited, NA: Not Available

About the company - PEL Pharma

PEL Pharma Inc (PEL Pharma), incorporated on August 26, 2015, in the State of Delaware, is an international holding company and a wholly-owned subsidiary of Piramal Dutch Holdings N.V. (owning 90% of the common stock) and Piramal Pharma Limited ('PPL') (owning 10% of the common stock). PEL Pharma owns Piramal Pharma Solutions Inc. and Ash Stevens LLC as its wholly-owned subsidiaries. PEL Pharma (through its subsidiaries) has three manufacturing facilities in USA. Ash Stevens LLC offers diverse products in large pharma generics and biotech segment across North America. Piramal Pharma Solutions Inc. is a global CDMO player with niche product profile. It also has presence in nutrition solutions (vitamins + premixes).

Brief Financials (₹ crore)	December 31, 2020 (A)	December 31, 2021 (A)	H1CY22
Total operating income	9.96	10.26	NA
PBILDT	6.13	7.08	NA
PAT	-24.51	-0.31	NA
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	0.20	0.24	NA

A: Audited, NM: Not Meaningful, NA: Not Applicable, CY: Refers to January 1 to December 31

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	June 2025	296.00	CARE AA (CE); Stable
Unsupported rating-Unsupported rating (Long term)	-	-	-	-	0.00	CARE A

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	Fund-based - LT-Term loan	LT	296.00	CARE AA (CE); Stable	1)CARE AA (CE) (CWD) (04-Apr-22)	1)CARE AA (CE) (CWD) (18-Oct-21)	1)CARE AA (CE) (CWD) (18-Feb-21) 2)CARE AA (CE); Stable (14-Dec-20)	-
2	Unsupported rating-Unsupported rating (Long term)	LT	0.00	CARE A	1)CARE A (04-Apr-22)	1)CARE A (18-Oct-21)	1)CARE A (18-Feb-21) 2)CARE A (14-Dec-20)	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Annexure 6: Entities considered for consolidation as on March 31, 2022

Sr. no.	Subsidiary	Extent of Consolidation (%)	Rationale for consolidation
1	PHL Fininvest Private Limited	100	Wholly-owned subsidiary
2	Piramal Capital & Housing Finance Limited	100	Wholly-owned subsidiary

Note on 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.

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About us:

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Disclaimer:

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