Piramal Pharma Limited

December 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	600.00 (Enhanced from 550.00)	CARE AA-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	950.00 (Enhanced from 900.00)	CARE AA-; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	430.00	CARE A1+	Assigned
Issuer rating	0.00	CARE AA-; Stable	Reaffirmed
Non-Convertible Debentures	300.00	CARE AA-; Stable	Reaffirmed
Commercial Paper	200.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the commercial paper (CP), non-convertible debentures (NCDs), and bank facilities of Piramal Pharma Limited (PPL) is on account of continued 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 research and development (R&D) facilities and a well-established marketing network. The ratings also positively factor the gradual improvement in sales and profit before interest, lease rentals, depreciation and taxation (PBILDT) margins in H1FY24 along with reduction in debt levels after successful rights issue. The company has successfully raised ₹1,050 crore through rights issue in Q2FY24 and has paired its debt to the extent of ₹859 crore.

That said, the aforementioned rating strengths are partially offset by the capital-intensive business and underutilisation of capacities, high value debt-funded expansion in the past few years. The company also has a significant presence in regulated markets, especially USA and UK, and hence, is exposed to the regulatory and foreign exchange risks 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 ability of the company to successfully turn around the business and achieve the cash accruals envisaged remains a key monitorable in the near term. CARE Ratings also observes that the successful completion of the rights issue, existence of resourceful promoters, being part of the Piramal group and established track record provides PPL significant refinancing opportunities.

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 4.00x on a sustained basis.
- Further weakening of the financial performance of the company owing to delayed uptick in demand for contract development and manufacturing organisations (CDMO) business with PBILDT margins below 10%.

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 is given as Annexure-6.

Outlook: Stable

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

Stable outlook reflects that the entity will continue to derive strength from the existence of experienced promoters and diverse business segments with established marketing network.

Detailed description of the key rating drivers:

Key strengths

Extensive experience of promoters with an established track record of operations

Ajay Piramal and family holds 35.02% of the shareholding in PPL as on September 30, 2023. Prior to the demerger of PPL from Piramal Enterprises Limited (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 holds 18.04% 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.

Accredited manufacturing facilities

PPL has 17 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 42 USFDA audits, 321 total regulatory inspections and 1668 customer inspections till September 30, 2023, since the start of FY12. The company has set up R&D facility catering to all three segments based at Rabale, Navi Mumbai.

Five facilities (Digwal, Pithampur, Riverview, Sellersville and Lexington) contributing to about 50% of the CDMO revenues have successfully closed US FDA inspections since November 2022. During FY23, four of the facilities underwent US FDA inspections, with two of them receiving zero observation. For the remaining two facilitates with voluntary action indicated (VAI), the company had received Establishment Inspection Report (EIR) and the inspections were closed satisfactorily. Both observations relate to system improvement, and none are related to data integrity. Other regulatory inspections, viz., Health Canada, MHRA, EMEA, and SABS were also successfully completed at PPL sites without any critical observations.

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 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 USA 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 around 70% of revenue from Big Pharma, Emerging Biopharma, etc., and 69% of revenue from the regulated markets, with top 10 customers accounting for 39% of the company's FY23 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. For the OTC business, PPL has a PAN-India presence with tie-ups with more than four lakh distributors, over 1.8 lakh outlets, and 10,000+ 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 42% to the FY23 revenues. The revenue from power brands grew 37% y-o-y to in FY23. However, profitability margins in the OTC segment is presently minimal. With increase in sales, CARE Ratings expects the profitability margins to improve going forward.

Improvement in operating performance in H1FY24, albeit losses in FY23

The revenue from operation grew by 14% Y-o-Y in H1FY24, respectively, driven by broad base performance across all the three businesses. The company's CDMO business has returned to mid-teen revenue growth on the back of continued order inflows, which have higher quotient of innovation-related work with good proportion of commercial manufacturing orders for on-patent molecules. The PBILDT grew by 57% Y-o-Y in H1FY24, driven by healthy revenue growth, favourable revenue mix, normalising raw material costs and cost optimisation measures.

The FY23 margins were pressurised owing to lower revenue growth, wage inflation, high inflationary pressure (higher utility cost, raw materials prices) and addition of fixed cost at sites that were undergoing capacity expansion. The overall reduction in revenue growth was attributed to lower R&D spends by international pharma companies as they were reprioritising their pipeline. CARE Ratings expects this to improve in the future resulting in double digit revenue growth combined with revival of PBILDT margins.

Improvement in capital structure and liquidity profile, post rights issue
The total debt to equity ratio of PPL improved to 0.58x as on September 30, 2023 (0.83x as on March 31, 2023), mainly due to reduction in short-term debt post rights issue. The company had made rights issue amounting to ₹1,050 crore in Q2FY24 and with the proceeds, repaid short-term debt amounting to ₹739 crore and term loans amounting to ₹120 crore. The total debt to gross cash accruals (TD/GCA) peaked at 13x in FY23 and is expected to come down to 5.00x in FY24 with improvement in cash accruals and simultaneous reduction in debt. The PBILDT interest coverage ratio for FY23 moderated to 2.15x from 4.88x in FY22 mainly owing to more than 100% increase in interest expense. CARE Ratings notes that the PBILDT margins are expected to increase by 100-200 bps in FY24 from 12% in FY23, and further expects this to improve the interest coverage indices.

Key weaknesses

Capital intensive business combined with underutilisation of capacities
Over the last 2-3 years, the company has been cautiously stepping up its capital expansion plans. The company had recently commenced operations in four of its facilities which were debt funded. Since these are accredited facilities established in developed markets, the fixed costs are significant. This combined with lower sales has impacted the margins in the recent years.
The capital intensity of the overall business profile of PPL has been at a lower range of 0.60x for the past two years (income from operations divided by sum of net worth and total debt) from 0.98x in FY21. This is expected to improve slightly to 0.67x in FY24. The company has certain facilities which are underutilised (formulations) and certain facilities which run at 100% capacity (API). To cater to the increased demand, PPL has been investing in these segments and expanding further while trying to maximize utilization in other segments. Also, the company has been making considerable investments in additional capacity (like in Riverview, Grangemouth, Canada, etc), while the revenues will slowly ramp-up in the coming years. Hence, while the denominator (net worth and debt) includes the full impact of the recent capex, the numerator, the total operating income (TOI) only includes part of the revenues.

Underutilisation of recent debt-funded capex
The utilisations are expected to improve in FY26, resulting in meaningful margin expansion. With competitive market environment, CARE Ratings will continue to monitor the ability of the company to generate adequate revenues.

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 witnessed in FY22 and FY23 numbers, which among others, contributed to the moderation of operating margins of the company. The company derived about 80% of its overall revenues in FY23 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 for 45-55% of the net exposure through forward contracts and PCFC limits as a part of its hedging policy. The company also has a forex risk management committee which comprises the senior management, treasury team and an external advisor.

Regulatory risk
PPL has its presence in multiple countries across the world and it has 17 manufacturing and development facilities as on March 31, 2023. 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 on the back of significant reduction in debt, which was done by utilising the cash inflows arising from rights issue (₹1,050 crore) to the extent of ₹859 crore. Also, the revival in CDMO business from Q4FY23 combined with cost optimisation efforts is expected to increase GCA to ₹750-800 crore in FY24. The company's near-term capital expenditure plans include an outflow of around ₹650-750 crore in FY24, with ₹330 crore to be spent in H2FY24. The average of closing balance of fund-based working capital limits for past 12 months ended October 2023 stood at around 66% on a standalone PPL level. The existence of cash and liquid balances of around ₹400-500 crore and around ₹900 crore of unutilised working capital limits as on September 30, 2023, provide comfort. The debt obligations for H2FY24 is ₹290 to ₹300 crore of principal repayment, and in FY25,

it is around ₹550-600 crore. In addition to this, the interest outflows of ₹300-400 crore per annum in the coming years. The ability of the company to turnaround the business and achieve the envisaged profitability will be a key monitorable.
PPL's healthy business profile (driven by resourceful promoters and past track record) provides access to refinancing and to an extent limits the refinance risk.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks

Amongst the ESG factors, significant factors for pharma companies include product quality and safety in social and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements which are continuously evolving, any non-compliance with regulations or scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation and related expenses. In order to avoid any potential negative impact arising from such lapses, pharma companies are increasingly focusing on product safety and quality by increasing internal audits and quality checks, digital quality system initiatives, taking adequate insurance cover for clinical and product liability, setting up dedicated teams to constantly collaborate with the regulatory authorities and keep a close watch on latest legal changes, etc.

Mitigation efforts taken:

Environment: Piramal Pharma's Environment, Health, and Safety (EHS) initiatives are aimed at creating long-term sustainability and value for the company, its shareholders, and other stakeholders. The company prioritises preserving the natural environment by reducing its carbon footprint, conserving water, handling waste responsibly and conserving biodiversity, thereby maintaining the ecosystem, which is integral to its business responsibility and values. PPL has targeted to reduce the greenhouse gas emissions by 42% by FY30 compared with FY22, which is in accordance with the 1.5-degree trajectory suggested by SBTI.
Employee safety & training: The company's lost time injury rate (LTIR) for the year was 0.10, which is better than the target of LTIR < 0.2 per 200,000 person days worked. PPL recognises the significance of functional skill-building in individual and organisational success. To address this, it runs more than nine functional academies, each dedicated to enhancing capabilities in areas such as IT, HR, finance, shared services, quality, R&D, operations, supply chain, and sales.
Product quality: The company has a best-in-class track record for quality and compliance. The details regarding accredited manufacturing facilities are given under relevant heads.
Governance: The governance framework of PPL goes beyond ensuring adherence to a set of regulations and internal processes. The company has an experienced and diversified Board. The company has implemented an independent and dedicated enterprise risk management (ERM) system to identify, manage, and mitigate business risks. PPL has also adopted and published Global Human Rights Policy, Anti-Corruption & Anti-Bribery Policy, Code of Conduct & Ethics.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

PPL is a part of the Piramal group of companies. The pharmaceutical product portfolio of the company can be categorised into 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 69% of the company's overall revenue in FY23 came from regulated markets. The entire pharma business was earlier operated under 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. The promoters hold 35.02% in PPL and 18.04% is held by the Carlyle group.

Brief Financials Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	6,575.96	7,192.32	3,748
PBILDT	863.49	863.49	485
PAT	375.96	-186.46	-94
Overall gearing (times)	0.62	0.83	NA
Interest coverage (times)	4.88	2.51	2.13

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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		-	-	31-03-2029	600.00	CARE AA-; Stable
Fund-based - ST-Line of Credit		-	-	-	430.00	CARE A1+
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AA-; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	950.00	CARE AA-; Stable / CARE A1+
NCD	INE0DK507018	06-May-2021	9.50%	06-May-2026	200.00	CARE AA-; Stable
NCD	INE0DK507026	09-Sep-2022	9.13%	09-Sep-2027	100.00	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 2023-2024	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
1	Commercial Paper-Commercial Paper (Standalone)	ST	200.00	CARE A1+	-	1)CARE A1+ (13-Mar-23)	1)CARE A1+ (29-Mar-22)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (16-Mar-21)
2	Debentures-Non Convertible Debentures	LT	300.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Mar-23)	1)CARE AA; Stable (29-Mar-22) 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*	950.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (13-Mar-23)	1)CARE AA; Stable / CARE A1+ (29-Mar-22) 2)CARE AA; Stable / CARE A1+ (05-Apr-21)	-
4	Fund-based - LT-Term Loan	LT	600.00	CARE AA-; Stable	-	1)CARE AA-; Stable (13-Mar-23)	-	-
5	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Apr-23)	-	-	-
6	Fund-based - ST-Line of Credit	ST	430.00	CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of 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	Fund-based - ST-Line of Credit	Simple
5	Issuer Rating-Issuer Ratings	Simple
6	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

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 II Private Limited [1]	100.00
Piramal Pharma Japan GK	100.00
Piramal Critical Care Single Member P.C [2]	100.00

1. Piramal Pharma II Private Limited – Incorporated on June 08, 2022

2. Piramal Critical Care Single Member P.C. was incorporated in Greece on February 28, 2023. The subsidiary did not have any operations during the year, and hence, did not report profit/loss during FY23.

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.

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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.

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