PEL Pharma Inc

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	195.09 (Reduced from 224.87)	CARE A+; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.
USD 23.39 million converted at an exchange rate of ₹83.405 per USD.

Rationale and key rating drivers

Reaffirmation of the rating assigned to the bank facility of PEL Pharma Inc. derives strength from the strong business profile of the parent company, Piramal Pharma Limited (PPL) backed by diversified business segments, the presence in various niche therapeutic segments, and well-spread geographical footprints. The rating also factors in the unconditional and irrevocable corporate guarantee (CG) extended by PPL. According to the sanction terms, the present and future cash flows of seven companies (list mentioned as restricted group below) will be utilised for repayment of foreign currency term loan (FCTL). The rating also derives strength from the experienced promoters and management team, long track record of PPL in the pharmaceutical industry, accredited manufacturing facilities with well-equipped research and development (R&D) facilities and a well-established marketing network and reduction in total debt of the parent company post successful completion of rights issue. That said, the aforementioned rating strengths are partially offset by the capital-intensive business and underutilisation of recent debt-funded expansion added in the past few years. PPL 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 PPL has a track record of zero official action indicated (OAI) from U.S. Food & Drug Association (USFDA) audits.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Combined cash flows of restricted group companies to become sufficient to meet debt payment obligations.
- Improving credit profile of the parent company.

Negative factors

- Weakening of linkages with the parent, or lack of adequate support or deteriorating credit profile of the parent.

Analytical approach: Combined

Combined approach for the restricted group while factoring linkages with the parent company, PPL. According to the sanction terms, the present and future cash flows of the following mentioned restricted group entities will be utilised for repayment of FCTL. The list of companies combined is presented in Annexure – 6.

List of companies combined (Restricted group)

S.No	Name of the company	% shareholding by the parent; PPL
1	Piramal Dutch Holdings NV (Overseas holding co)	100%
2	PEL Pharma Inc	100%
3	Piramal Critical Care Limited UK	100%
4	Piramal Healthcare UK Limited	100%
5	Piramal Healthcare (Canada) Limited	100%
6	Ash Stevens LLC	100%
7	Piramal Pharma Solutions Inc	100%

Outlook: Positive

The positive outlook on the ratings factor in improvement in the parent company's credit profile and CARE Ratings' expectations that the CDMO segment will continue its growth trajectory in the coming quarters, resulting in increased capacity utilisation, which provides visibility and stability over the sales increasing by 10-15% in the near term and improvement in PBILDT by 100-200 bps.

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

Detailed description of key rating drivers:

Key strengths

Strong parentage providing financial flexibility

The restricted group companies are subsidiaries/step-down subsidiaries of PPL, and PPL has extended unconditional and irrevocable corporate guarantee to the facility being rated. The promoters of Piramal Enterprises Ltd (PEL) are also the promoters of PPL. PEL is the flagship company of the Piramal group spearheaded by Ajay Piramal (Chairman). The group is a diversified Indian business house with interests in financial services businesses and pharmaceuticals (CDMO, Critical Care, OTC).
Nandini Piramal (Chairman; daughter of Ajay Piramal), and Peter DeYoung (CEO; son-in-law of Ajay Piramal) are responsible for steering strategy and driving profitable growth of PPL. Nandini Piramal is a part of the promoter group of the holding company, PEL. Peter DeYoung has spearheaded several leadership mandates at the Piramal group, including CEO and President. Previously, he has worked in various investing and consulting roles in healthcare in the USA, Europe, and India. PPL's board comprises eminent personalities with professional experience in pharma domain.

Diverse product mix of subsidiaries and accredited manufacturing facilities with wide-spread geographical presence

Restricted group companies are engaged in multiple products such as manufacturing hormone drugs (Morpeth), antibody drug conjugates (Grangemouth), active pharmaceutical ingredients (API) (Aurora & Riverview), and potent sterile injectables (Lexington). The company offers diverse products in both generic and critical care segments across globe.
The manufacturing facilities in the restricted group and their capabilities are as follows:

Country	Location	Capability	Company	Approving regulatory authorities
UK	Morpeth	API and Formulations	Piramal Healthcare UK Ltd	USFDA, MHRA, PMDA, HC
UK	Grangemouth	Antibody Drug Conjugate (ADC)	Piramal Healthcare UK Ltd	USFDA, MHRA, PMDA
Canada	Aurora	API Development and Manufacturing	Piramal Healthcare (Canada) Limited	USFDA, PMDA, HC
US	Lexington	Sterile Development and Manufacturing	Piramal Pharma Solutions Inc.	USFDA, PMDA
US	Riverview	High Potent API Development and Manufacturing	Ash Stevens LLC	USFDA, PMDA, HC

All the facilities in the restricted group have necessary regulatory approvals and the products manufactured by subsidiaries of Piramal Dutch Holdings NV Netherlands (PDHNV) are sold across globe. The manufacturing bases of PDHNV's subsidiaries are spread in various geographies which has strengthened the Piramal group's presence in the global pharma business.

Key weaknesses

Moderate financial risk profile of restricted group albeit strong support from parent company

The combined net worth of the restricted group companies stood at around ₹1,613 crore as on December 31, 2023, as against ₹1,838 crore as on December 31, 2022. However, the total operating income (TOI) of the restricted group improved from ₹2,102 crore in CY22 to ₹2,317 crore in CY23, while the PBILDT margins improved to 7.10% as against 1.55% in CY22. This improvement was driven by growth for high potent APIs manufactured by Ash Stevens LLC (Riverview, USA) and Antibody Drug Conjugates (ADC) manufactured by Piramal Healthcare UK Ltd (Grangemouth). However, due to decline in revenue posted by Piramal Pharma Solutions Inc (Lexington) & Piramal Critical Care Ltd UK in CY23 and high interest and depreciation cost, the restricted group is still making net losses. Despite that, with a greater number of molecules in the discovery and development phase getting commercialised, the revenue, profitability, and capacity utilisations of the restricted group companies is expected to improve going forward.
Presently, the debt profile of the restricted group consists of loans availed from related parties, group companies which do not have fixed repayments and FCTL amounting USD 225 million from State bank of India (SBI) (USD 131.57 million outstanding as on March 31, 2024), which is guaranteed by PPL and would be serviced from combined cash flows of restricted group. PPL being a corporate guarantee provider to the term loan is expected to support the debt repayment in case of shortfall from cashflows from the restricted group.

Regulatory risk

The restricted group has its presence in multiple countries across the world and it has five production units. Considering the nature of the product usage and application, and consequent impacts, the restricted group companies are 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 companies in the group are continuously taking adequate steps to address the regulatory risks. All the manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

Exposure to raw material price volatility
For the Piramal Restricted Group companies, majority of key raw materials are procured from India and China which exposes the company to raw material price volatility. However, the restricted group acquires raw material from client approved vendors for certain segment wherein raw material price is charged per the contract. Hence, price volatility risk is taken care to an extent. The impact of pricing of raw material have dented the operating margins of the group in recent past. The currencies in which the 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.

Liquidity: Adequate
The debt profile of the restricted group consists of loans availed from related parties (for which there are no scheduled repayment terms) and FCTL amounting ₹1,097 crore as on March 31, 2024 (USD 131.57 million outstanding out of total loan of USD 225 million) that was availed from SBI in June 2020 for repayment of intercompany debt. The said loan is backed by unconditional and irrevocable guarantee from PPL and the companies in the restricted group who are also jointly and severally liable. According to sanction terms, the present and future cash flows of the restricted group will be utilised for repayment of the SBI loan. The gross cash accruals (GCA) from the seven entities are expected be lower as compared to the term debt repayment obligation of around ₹346 crore in CY24. Per discussion with the management and on the basis of the corporate guarantee, CARE Ratings expects that the shortfall, if any, will be met by PPL. Also, debt service reserve account (DSRA) for the ensuing three months' principal and interest payment (USD 12.48 million around ₹104 crore) as on December 31, 2023, has been created and maintained.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Investment Holding Companies
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Rating Methodology - Consolidation and Combined Approach
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Holding company

Incorporated on August 26, 2015, in Delaware, PEL Pharma Inc is an international holding company. It owns Piramal Pharma Solutions Inc. and Ash Stevens LLC as its wholly owned subsidiaries.

Brief Financials (₹ crore)	December 31, 2022 (A)	December 31, 2023 (A)
Total operating income	2,101.54	2,317.23
PBILDT	32.56	164.41
PAT	-310.68	-288.07
Overall gearing (times)	2.16	2.62
Interest coverage (times)	0.17	0.47

A: Audited; Note: 'these are latest available financial results'
2022 conversion rate – ₹82.73 per USD
2023 conversion rate – ₹83.19 per USD

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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
Fund-based - LT-Term loan	-	-	-	30-06-2025	195.09	CARE A+; Positive

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	195.09	CARE A+; Positive	-	1)CARE A+; Stable (29-Dec-23)	1)CARE A+; Stable (13-Mar-23) 2)CARE AA (CE); Stable (14-Jul-22) 3)CARE AA (CE) (CW with Developing Implications) (04-Apr-22)	1)CARE AA (CE) (CW with Developing Implications) (18-Oct-21)
2	Unsupported rating-Unsupported rating (Long term)	LT	-	-	-	-	1)Withdrawn (13-Mar-23) 2)CARE A (14-Jul-22) 3)CARE A (04-Apr-22)	1)CARE A (18-Oct-21)

LT: Long term

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

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Piramal Dutch Holdings NV	Full	Part of restricted group
2	PEL Pharma Inc	Full	Part of restricted group
3	Piramal Critical Care Limited UK	Full	Part of restricted group
4	Piramal Healthcare UK Limited	Full	Part of restricted group
5	Piramal Healthcare (Canada) Limited	Full	Part of restricted group
6	Ash Stevens LLC	Full	Part of restricted group
7	Piramal Pharma Solutions Inc	Full	Part of restricted group

Note on complexity levels of 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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