Piramal Pharma Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	750.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**750.00 (Rs. Seven hundred fifty crore only)**		
Non-Convertible Debentures	750.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**750.00 (Rs. Seven hundred fifty crore only)**		
Commercial Paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**500.00 (Rs. Five hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the commercial paper, non-convertible debentures, and bank facilities of Piramal Pharma Limited (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, steady growth in operational performance, accredited manufacturing facilities with well-equipped R&D facilities, a well-established marketing network, as well as a healthy financial risk profile with comfortable liquidity position.

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 also during FY22. Moreover, the competition in the contract development and manufacturing organisations (CDMO) and OTC segments as well as foreign exchange fluctuation risk may impact the operating profitability. 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.

The ratings also factor in the proposed demerger of PPL from Piramal Enterprises Limited (PEL) into a separate listed entity and note that the demerger is not expected to have any adverse impact on the credit risk profile of PPL. CARE Ratings Limited will continue to track the progress of this transaction and will update as and when further developments take place.

Rating Sensitivities

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

- Significant improvement in ROCE on a sustained basis through improvement in the capacity utilisation levels.
- Improvement in the overall gearing below 0.30x on a sustained basis through repayment of long-term debt and lower utilisation of the working capital limits.

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

- Increase in the overall gearing (total debt-equity ratio) above unity on a consistent basis owing to debt-funded capital expenditure or acquisition over the medium term.
- Any financial support to the parent group in the form of loans and advances over the medium term.
- Substantial decline in the PBDIT margins on a consistent basis.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters with an established track record of operations

PEL (rated CARE AA/CARE A1+ Under credit watch with developing implications) holds 80% of the shareholding in PPL. PEL is the flagship company of the Piramal group, spearheaded by its Chairman Mr Ajay Piramal Chairman. Ms Nandini Piramal, Chairman, along with Mr Peter DeYoung, CEO, are responsible for steering strategy and driving the profitable growth of PPL. The group, with more than three decades of experience in the pharmaceuticals business, is a diversified Indian business house with interests in financial services businesses and pharmaceuticals (CDMO, critical care, OTC). CARE Ratings Limited takes note of the disclosures made by PEL regarding the proposed demerger of PPL into a separate listed entity. PPL's subsidiaries – Convergence Chemicals Private Limited (CCPL) and Hemmo Pharmaceuticals Private Limited (HPPL) – will also get amalgamated into PPL. At present, PEL owns 80% in PPL, and the balance 20% is held by the Carlyle group. Post demerger, all the

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

pharmaceutical businesses will get vertically demerged from PEL and consolidated under PPL, with the promoters holding 35% stake, other shareholders holding 45%, and the investors, i.e., the Carlyle group holding 20%. CARE Ratings Limited understands that the transaction is subject to approvals from the National Company Law Tribunal (NCLT), stock exchanges, and other regulatory bodies, and may take about a year to be completed.
CARE Ratings Limited notes that the demerger is not expected to have any adverse impact on the perceived credit risk profile of PPL. CARE Ratings Limited will continue to track the progress of this transaction and will update as and when further developments take place.

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 global pharma and domestic consumer business. The global pharma constitutes pharma solutions (CDMO) and the critical care portfolio. In the CDMO segment, PPL is among the top three in India and the thirteenth-largest globally. 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 anesthetics 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, i.e., around 36 brands 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 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. 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 over 1,200 sales force. In the CDMO segment, the company caters to more than 550 customers, with more than 50 new customers added in FY21. Majority of the contracts in the CDMO segment are for the long term (ranges between three-to-five years). For the critical care segment, the company has developed a distribution partner network in more than 100 countries.

Accredited manufacturing facilities
PPL has 15 manufacturing and development units located across the world – eight facilities in India; four facilities in the US and one in Canada, North America; two facilities in the UK, Europe; and a sourcing office in Shanghai, China, as on December 31 2021. PPL undertakes the manufacturing of critical care products in-house. In the case of the consumer healthcare segment, the company follows an asset-light model for better utilisation of resources. The manufacturing facilities possess necessary regulatory approvals from agencies across the globe. They are routinely audited to ensure compliance with Current Good Manufacturing Practices (cGMP). The company has successfully cleared 36 USFDA audits, 254 total regulatory inspections, and 1,345 customer inspections since the start of FY12.

Strong revenue growth with healthy profitability margins
The total operating income (TOI) of the company increased by 6.59% to Rs.5,776 crore in FY21, from Rs.5,419 crore in FY20, owing to an improvement in the demand offtake from the CDMO segment and the OTC segment. PPL reported a PBILDT margin of 24.05% in FY21, as compared to 26.44% in FY20. In FY21, revenue from the critical care segment, which has better profit margins as compared to CDMO and the consumer healthcare segments, was impacted by the low demand due to the COVID-19 effect on surgeries globally, and other hospitalisations.
Over the past few years, the company has undertaken large-sized acquisitions in the critical care segment (for example, brand portfolios from Mallinckrodt Pharma and Janssen Pharma), which has kept the ROCE at lower levels, i.e., lower than 12% over the past few years. This is mainly considering the scale-up of operations of the acquired plants is under process. Over the next four-to-five years, ROCE is expected to improve after the materialisation of cash flow from the said acquisitions. Furthermore, during the current year, i.e. FY22, the company has acquired Hemmo Pharmaceuticals Limited for an initial consideration of Rs.775 crore, which was funded majorly through debt.

Key Rating Weaknesses
Moderate capital structure
PPL's debt profile comprises long-term loans and working capital borrowings. The long-term loans were availed to fund large-sized acquisitions in the critical care segment. The overall gearing of PPL remained almost stable, at 0.61x as on March 31, 2021, mainly due to strong net worth. Total debt to GCA was at 2.31x and PBILDT interest coverage at 9.46x in FY21. The company raised Rs. 700 crore loan for acquisition of Hemmo Pharmaceuticals Limited. Despite increased debt, the gearing levels are expected to remain stable, owing to strong profitability.

Working capital-intensive operations
PPL's operations are working capital-intensive in nature. For the CDMO business, the company offers a credit period of up to 55-60 days. The average credit period from its raw material suppliers ranges from 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 the CDMO segment, PPL procures key raw materials from client-approved vendors, wherein, raw material prices are charged as per the contract. Hence, the price volatility risk is, to an extent, taken care of. For the 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 the company's raw material requirements are sourced through imports across the globe, and direct imports from China account for less than 5%. At present, India-based pharmaceutical players are largely dependent on China for sourcing API and other formulations.

The company derived about 85% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY21, on a consolidated basis, PPL reported around Rs.4,900 crore in earnings in foreign currency. The company sources 35% of the total raw material requirements through imports from across the globe. Moreover, the company's offshore pharma operations are primarily in USD, Euro, CAD, 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 production units as on December 31, 2021. 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. The company has successfully cleared 36 USFDA inspections from FY12, including four 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
Piramal Pharma Limited's liquidity remained strong, marked by strong cash accruals and healthy debt coverage indicators, as on March 31, 2021. The average of the closing balance of the fund-based working capital limits for the past 12-months ended February 2022 stood at around 15%. The company's cash accruals are sufficient to meet repayment obligations over the medium term. Moreover, the company does not have any major debt-funded capex plan over the medium term. The capex will be majorly funded through internal accruals. Furthermore, the company maintains free cash and cash equivalents of around Rs.300-350 crore in its system as an additional liquidity cushion.

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

Names of Entities Consolidated	% Shareholding
Piramal Critical Care Limited	100.00
Piramal Healthcare Inc (Consolidated)	100.00
Piramal Critical Care Italia, SPA	100.00
Piramal Critical Care B.V.	100.00
Piramal Critical Care Deutschland GmbH	100.00
Piramal Critical Care South Africa	100.00
Piramal Critical Care Pty. Ltd. (Australia)	100.00
Piramal Healthcare UK Limited	100.00
Piramal Healthcare (Canada) Limited	100.00
PEL Pharma Inc (Consolidated)	100.00
Convergence Chemicals Private Limited (w.e.f. February 25, 2021)	100.00

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
Liquidity Analysis of Non-Financial Sector Entities
Factoring linkages – Parent Support

About the Company
Piramal Pharma Limited (PPL) is 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 76% of the company's overall revenue in FY21 came 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 dated October 11, 2021) 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, Piramal Pharma Limited. Furthermore, on October 7, 2021, the Board of PEL approved the demerger of PPL into a separate listed entity. PEL owns 80% in PPL and the balance 20% is held by the Carlyle group. Post the demerger, the entire pharmaceuticals business will get vertically demerged from PEL and consolidated under PPL, with the promoters holding 35% stake, other shareholders holding 45%, and the balance 20% being held by the Carlyle group.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)*	9MFY22 (UA)
TOI	NA	6,429.62	4,625.40
PBILDT	NA	1,546.11	774.25
PAT	NA	835.03	171.90
Overall gearing (times)	NA	0.52	NA
Interest coverage (times)	NA	9.46	NA

A: Audited, UA: Unaudited
* March 04, 2020 to March 31, 2021

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 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 (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	INE0DK507018	May 06, 2021	Variable. Kotak 6 Month MCLR + Spread of 30 bps. Be Reset Every 6 Months And Payable Annually	May 06, 2026	200.00	CARE AA; Stable
Debentures-Non-Convertible Debentures	-	-	Proposed	Proposed	550.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 – 364 days	500.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (16-Mar-21)	-	-
2	Debentures-Non-Convertible Debentures	LT	750.00	CARE AA; Stable	1)CARE AA; Stable (05-Apr-21)	-	-	-
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+	1)CARE AA; Stable / CARE A1+ (05-Apr-21)	-	-	-

**Long term/Short term*

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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

Sr. No	Name of 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

Annexure-5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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