

PEL Pharma Inc.
December 14, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank Facilities-Foreign Currency Term Loan	296.00* (USD 40 million)	CARE AA (CE); Stable (Double A (Credit Enhancement); Outlook: Stable) ²	Assigned

USD: INR exchange rate – 74

Details of instruments/facilities in Annexure-1

Unsupported Ratings	CARE A (Single A)	-
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Detailed Rationale& Key Rating Drivers of credit enhanced debt

The rating assigned to the bank facilities of PEL Pharma Inc. factors in 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's 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).

Detailed Rationale& Key Rating Drivers of PEL (Guarantor)

The credit profile of Piramal Enterprises Limited (PEL) derives strength from established track record of the promoter group in building and scaling up businesses, presence in diversified segments like real estate, healthcare, financial services and glass manufacturing as well as strong and experienced management team.

The credit profile positively factors in PEL's adequate financial flexibility being the holding company of the group, demonstrated fund raising/refinancing ability and monetizable investments in entities of Shriram group. The credit profile also factors in increase in scale of operations and accredited pharma manufacturing facilities with well-equipped R&D facilities across geographies.

The group has demonstrated resource raising ability as PEL (the flagship holding company of the group) has raised nearly Rs.14,500 crore of equity capital during FY20 (refers to period from April 01 to March 31) including fresh equity capital of Rs.5,400 crore, Rs.6,750 crore through sale of its healthcare and analytics business and Rs.2,300 crore by way of sale of investment in Shriram group entity. This provides cushion to the PEL's ability to absorb any external shocks in financial services business.

During FY21, PEL has transferred its Pharmaceuticals (Pharma) business to its newly formed subsidiary 'Piramal Pharma Limited' (PPL). PPL raised ~Rs.3,500 crore from Carlyle group by diluting its 20% shareholding. These funds have led to easing of the liquidity situation for PEL and enabled to reduce its leverage. CARE also takes note of PEL's plan to exit from its investment in the Shriram group during FY21 which will further deleverage its balance sheet.

Further, PEL on consolidated level has raised debt resources to the tune of ~Rs.13,500 crore during FY20 and ~Rs.12,000 crore during FY21 till November 30, 2020, largely from public sector banks and has been able to refinance the immediate term maturities in view of overall slowdown witnessed in the real estate segment. The risk aversion in the market continues towards the NBFC / HFC sector in general and wholesale lending focused nonbanking lenders in particular which have seen challenges in resource mobilization in recent times.

The aforementioned strengths are partially constrained by the PEL's moderately seasoned loan book and moderation in asset quality as well as significant sectoral exposure to the real estate sector (PEL has significant capital employed in financial services subsidiaries) in its financial services segment.

Further, the client concentration in the loan portfolio given the large ticket size of loans to real estate developers continues to remain high. The real estate sector, which was already facing challenges in terms of access to funding and slow sales leading to increase in inventory levels, has been further impacted on account of nation-wide lockdown due to COVID-19 in terms of slower construction due to migrant workers shifting as well as lower demand on the back of fall in economic activity. The sector is expected to see further consolidation over the medium term.

The group has been taking steps to reduce the proportion of wholesale book either by sell down of its exposure, refinance or other measures and has plans to reduce the level and proportion of real estate exposure in the near to medium term and

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

² CARE assigns the suffix (CE) to denote that the rating has been arrived at on the basis of an explicit external credit enhancement and not on the basis of the credit quality of the issuer alone. However, a detailed standalone credit assessment of the issuer is also being carried out as per SEBI circular No SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019.

bring in more granularity to the loan book by reducing the borrower concentration. CARE will continue to monitor the progress on the same and would take suitable action if required.

The credit profile also factors in moderation in profitability during FY20 as the company has made one time provisioning for expected credit loss and one time MAT credit reversal and accounting write-off of Deferred Tax Assets (DTA).

Continuous mobilization of resources and maintaining adequate liquidity in the current operating environment in the financial services businesses is a key rating monitorable for PEL.

Going ahead, PEL's ability to continue to mobilize resources, maintain adequate liquidity and maintain asset quality for PEL (financial services business) in the current operating environment are the key rating monitorables.

Detailed Rationale& Key Rating Drivers of PEL Pharma (Unsupported Rating)

The rating derives strength from well-established, experienced, and resourceful promoter group, presence in niche product segments, wide spread 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 standalone basis.

Key rating sensitivities

Positive factors:

- Improvement in PBILDT margins above 30% on a sustained basis for Restricted Group entities.

Negative factors

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

Detailed description of the key rating drivers (PEL Pharma-Unsupported Rating)

Well established promoter group

PEL Pharma Inc, incorporated on August 26, 2015 in the State of Delaware has to wholly owned subsidiaries namely Piramal Pharma Solutions Inc. and Ash Stevens LLC. PEL Pharma is a wholly owned subsidiary of Piramal Dutch Holdings NV, Netherlands which is a part of Piramal Group, spearheaded by Mr. Ajay Piramal (Chairman). The Group is a diversified Indian business house with interests in Financial Services businesses, Pharmaceuticals (CDMO, Critical Care, OTC).

Mr. Peter DeYoung (CEO) is responsible for steering strategy and driving profitable growth of PEL Pharma Inc. He has spearheaded several leadership mandates at the Piramal Group, including CEO, Piramal Critical Care and President, Life Sciences. Previously, Mr. DeYoung worked in various investing and consulting roles in healthcare in the USA, Europe and India.

Support extended by PEL

PEL (the ultimate holding company and rated CARE AA; Stable, CARE A1+) has extended an unconditional and irrevocable corporate guarantee for bank facilities availed by PEL Pharma. PEL on standalone basis has a strong financial risk profile and has adequate liquidity profile marked by healthy cash accruals. The company's cash and liquid investments stood at Rs.4,229 crore as on September 30, 2020. PEL has a strong presence in pharma sector, through PEL Pharma Ltd and its various subsidiaries, across the globe. Out of its total consolidated revenue, 42% is contributed by pharma segment in FY20.

PEL's global pharma business includes CDMO and complex hospital generics segment which accounted for 92% of total pharma revenue in FY20.

Diverse product mix

PEL Pharma Inc. owns Piramal Pharma Solutions Inc. and Ash Stevens LLC as its wholly owned subsidiaries. These two subsidiaries have 3 USFDA approved 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).

Accredited manufacturing facilities with wide spread geographical presence

The company has three manufacturing units based in US. All the plants are USFDA approved and have necessary regulatory approvals. The products manufactured by subsidiaries of PEL Pharma Inc. are sold across North America region.

Moderate financial risk profile

Ash Stevens LLC reported healthy EBITDA of 25% in FY19. However, Piramal Pharma Solutions Inc. (PPSI) reported PBILDT loss of Rs.76.70 crore. PPSI was set up in 2015 as a CDMO player for niche product profile. Owing to accumulated losses, the PEL Pharma's net worth was negative USD 2.62 million as on December 31, 2019. Presently, the company's debt profile consist of loans availed from group companies, which do not have fixed repayments and FCTL amounting USD 40 million from SBI which is guaranteed by PEL and other group companies.

SBI sanctioned USD 225 million to Piramal Dutch Holdings NV (USD 70 million), Piramal Critical Care Limited UK (USD 115 million), and PEL Pharma Inc (USD 40 million) in June, 2020. The said loan is availed by these companies for repayment of

intercompany debt. The said loan is backed by unconditional and irrevocable guarantee of Piramal Enterprises Limited, Piramal Healthcare UK Limited, Piramal Healthcare Canada Limited, Ash Stevens LLC, and Piramal Pharma Solutions Inc. The borrowing entities and guarantors (except PEL) mentioned in above paragraph form part of restricted group. As per the sanction terms, the present and future cash flows of these entities will be utilized for repayment of the SBI loan. The loan availed from SBI does not increase the group's overall debt level as these loans have ultimately been utilized to repay the external debt of the group.

Detailed description of the key rating drivers (PEL-Guarantor)

Key Rating Strengths

Strong and resourceful promoters along with experienced management team

PEL is the flagship company of Piramal group spearheaded by Mr. Ajay Piramal (Chairman). The Group is a diversified Indian business house with interests in Financial Services businesses and Pharma (CDMO, Critical Care, OTC). PEL is one of the major global pharma Contract Development and Manufacturing Organizations (CDMO) and has entire inhalation anaesthetic product portfolio. The Board is ably supported by experienced senior management team heading various verticals with adequate and relevant experience in their respective fields.

Accredited manufacturing facilities with well-equipped R&D facilities across geographies

The company has flexibility and scalability of operations, with investments in network of contract development and manufacturing facilities located in North America, Europe and Asia with US FDA and UK MHRA approvals for all the major sites including Grangemouth, Morpeth in Europe, Canada and Kentucky in US and Ahmedabad, Pithampur and Digwal in India. The company in total has 14 manufacturing plants located across India, North America, United Kingdom, etc. The company has cleared 36 US FDA inspections, 169 other regulatory inspections and 1,130 customer audits across all its facilities.

Adequate financial flexibility supported by investments in Shriram group, equity infusion, and comfortable gearing levels

PEL has been raising equity capital and has been providing growth capital to its subsidiaries including pharma and financial services. During FY20, PEL raised nearly Rs.14,500 crore of capital in the form of 10% stake sale in Shriram Transport of Rs.2,300 crore, Sale of its Healthcare and Analytics business to Clarivate Analytics for Rs.6,750 crore, Rights issue of Rs.3,650 crore including promoter investment of Rs.1,600 crore and further, Rs.1,750 crore by Preferential allotment to CDPQ. Furthermore, to add comfort to capital requirement, PEL has financial flexibility in terms of its holdings in Shriram Group. Majority of the issuance was utilised for the purpose of deleveraging.

Further, in H1FY21, PEL transferred its Pharma Business assets into Piramal Pharma Ltd (PPL), a wholly owned subsidiary of PEL and raised capital from The Carlyle Group for a 20% stake in PPL.

PEL (consolidated) has been raising capital and reducing the leverage over the last two years. Also, it has been focusing on increasing the tenure of loans. On a consolidated basis, PEL has raised significant amount of debt in H1FY21 to the tune of Rs.11,571 crore, of which around 79% of the debt raised has long term maturity (>3 years) and is largely from the public sector banks leading to a positive asset liability profile.

PEL (consolidated) reported net worth of Rs.31,475 crore as on September 30, 2020 with debt of Rs.42,749 crore leading to overall gearing of 1.36 times as compared to net worth of Rs.27,233 crore and total debt of Rs.56,040 crore with overall gearing of 2.06 times as on March 31, 2019.

Key Rating Weaknesses

Heightened regulatory and pricing risks

PEL (pharma division) has its presence in more than 100 countries across the world and has 14 manufacturing plants across India, North America, United Kingdom, etc. Considering the nature of the product usage and application and consequent impacts, PEL is 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 a serious consequence on the operations of the company.

Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, all manufacturing sites of Pharma Solutions continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies. Since start of FY12, the company has cleared 36 USFDA inspections, 169 other regulatory audits and 1,130 customer audits.

Moderation in profitability, largely on account of one time provisioning for expected credit loss

During FY20, the pharma segment reported revenue of Rs.5,419 crore as compared to Rs.4,786 crore in FY19, majorly driven by growth across all the segments. Further, pharma segment contributed 41.47% to the total operating income in FY20 as compared to 40.28% in FY19. The pharma segment reported EBITDA margins of 26.45% as compared to 21.00% in FY19, the

improvement in the margins was driven by synergies from acquisitions, growth from high margin businesses, strong distribution networks, higher capacity utilization and backward integration of raw materials.

During H1FY21, the pharma segment reported revenue of Rs.2,479 crore marginally lower than Rs.2,489 crore reported in H1FY20, contributing 44% to PEL's overall revenue, majorly on account of some near-term demand challenges in inhalation anesthesia as surgeries were suspended across many geographies due to concerns related to the pandemic. However, the business showed an improved performance over Q1FY21 in Q2FY21, backed by the business witnessing improved demand for products used in surgical procedures. The pharma business reported EBITDA margins of 16.09% as compared to 21.95% in H1FY20.

The financial services business reported revenue of Rs.7,649 crore as compared to Rs.7,063 crore in FY19, the increase in the revenues, majorly driven by increased yields in the loan portfolio partially offset by reduction in the AUM, contributing 58.53% of the total operating income as compared to 59.44% in FY19. The financial services business reported EBITDA of Rs.355 crore for FY20 as against Rs.2,450.74 crore for FY19. The major reason for subdued performance in financial services business is on account of extra ECL provision at Rs.1,903 crore during Q4FY20 on account of COVID-19. As a result of this increase in provisions, the total provisions have increased from Rs.947 crore (1.8% of total asset book) as on December 31, 2019, to Rs.2,963 crore (5.8% of total loan book) as on March 31, 2020.

Further, the revenues declined in H1FY21 (-5% on YoY basis) majorly on account of business getting impacted by the pandemic. Further, PEL reported marginal deterioration in the EBITDA margins to 33% as compared to 37% in H1FY20.

On an overall level, PEL reported net profit of Rs.21 crore as compared to Rs.1,464 crore in FY19, the deterioration in profitability was majorly on account of one-time DTA write-off and MAT credit reversal of Rs.1,758 Crores on adoption of the new income tax regime by the Company and some of its Indian subsidiaries, and the incremental conservative ECL provision in the Financial Services business of Rs.1,903 Crores (or Rs.1,411 Crores, net of taxes).

Intense competition from both MNCs and Indian companies in India and abroad for Pharmaceutical segment

PEL (pharma division) is present largely in the outsourced (Contract Development & Manufacturing Organisation (CDMO) its pharma solutions business (largest contributor to revenue). The company faces intense competition in the domestic as well as regulated markets that it operates in. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry.

Significant sectoral exposure primarily to real estate sector and moderation in asset quality

As on September 30, 2020, real estate loan exposure of PEL constitutes 78% of the AUM (Rs. 48,460 crore) as compared to 75% as on March 31, 2020 and 72% as on March 31, 2019. The increase in real estate concentration is largely on account of significant reduction in non-Real estate loan book over past 6 months and real estate exposures sell down deals traction took a hit on account of lockdown. On account of which, the overall AUM has reduced significantly to Rs.48,460 crore as compared to Rs.48,374 crore and Rs.54,760 as on March 31, 2019.

The continued stress in real estate may pose asset quality challenges going forward. In general, PEL's Real estate loans typically had principal moratorium of 6 months and above (depending on loan to loan basis). PEL (Consolidated) has established a strong developer network along with real estate research arm which has benefited the company to invest and exit the exposure at various stages which provides comfort.

The group has plans to reduce the proportion of wholesale lending portfolio while increasing the proportion of retail lending in the medium term. The group has plans to significantly reduce its wholesale lending portfolio by around 15-20% by end of FY21 (as compared to September 30, 2020), largely on account of reduction in real estate exposures via prepayment / sell-down / refinance of exposures.

On consolidated level financial services business, the company reported Gross NPAs of to 2.5% as on September 30, 2020, up from 0.9% as on September 30, 2019 with Net NPA of 1.6% and Provisioning coverage ratio at 237%. While company has adequate provisioning for NPAs as on date, asset quality will remain key monitorable going forward.

High client concentration in the lending portfolio

As on September 30, 2020, the loan book of PEL is largely wholesale in nature and has significant borrower concentration. PEL's top 10 group exposures constituted around 32% (March 31, 2020: 33% and March 31, 2019: 34%) of the wholesale AUM as on September 30, 2020 and 44% of tangible net worth as on September 30, 2020. CARE has noted that PEL plans to bring down the top exposures down in near term.

The company is expected to ramp up its housing finance business as well as consumer finance lending products (expected to be launched in H2FY21), which is expected to increase the granularity of the portfolio. The pace of diversification and de-risking of portfolio will remain key monitorable.

Liquidity (PEL-Guarantor): Adequate

As per the asset liability maturity (ALM) statement as on September 30, 2020, PEL has in the next 1 year on a consolidated basis debt repayments (Including Interest) of Rs.13,243 crore towards which the company has scheduled repayments to the extent of Rs.15,898 crore and cash and cash equivalents of Rs.4,229 crore.

PEL also has strong financial flexibility being holding company of the group, further it also has minority stake in Shriram Group as an additional buffer.

Liquidity PEL Pharma: Adequate

There are no repayments falling due in FY20 and FY21 for companies forming part of restricted group as SBI has given moratorium for 18 months. The repayments of the rated loan are starting from January, 2022. In FY22, restricted group companies have total repayment of Rs.290 crore which would be serviced from combined cash flows of companies forming part of restricted group. The combined cash flows of restricted group are sufficient for debt servicing and to meet the capex requirements.

Unsupported Rating: CARE has adopted a standalone approach. Further, 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.

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 has applied its criteria on rating of credit enhanced debt.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology – Pharmaceutical Sector](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Rating Credit Enhancement Debt](#)

About the Company-PEL

Piramal Enterprises Limited (PEL) is part of the Ajay Piramal group of companies with presence in Pharmaceuticals (CRAMS, Critical Care, Over the Counter (OTC) and financial services business (through wholly owned subsidiary). The company has presence in more than 100 countries and manufacturing bases in India, UK and North America.

In Pharma segment, the company operates through an end-to-end manufacturing capabilities across 13 global facilities and a large global distribution network to over 100 countries. PEL has differentiated itself in niche pharma products, critical care and provides an entire pool of integrated pharma services including in the areas of injectable, HPAPIs (High Potency Active Pharmaceutical Ingredients), ADCs (Antibody Drug Conjugates) etc. The company is also focusing on growing the Consumer Products segment in India.

In the financial services business, Piramal Capital & Housing Finance Limited (PCFHL), a wholly owned subsidiary of PEL, is registered as housing finance company with National Housing Bank (NHB) and is engaged in wholesale financing to real estate developers and corporate clients [Corporate finance group (CFG) and emerging corporate lending(ECL)], and retail housing loans to individual customers. CFG provides customised funding solutions to companies across sectors such as infrastructure, renewable energy, roads, industrials, auto components etc. while ECL focuses on lending towards Small and Medium Enterprises (SMEs). The company also has incorporated wholly owned subsidiary namely PHL Fininvest Private Limited, which is engaged in lending to real estate developers, corporate clients, and emerging corporates. The said entity was formed to adhere with guidelines stated by regulatory bodies for single entity exposure.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	11,883	13,068
PBILDT	7,043	7,248
PAT	1,464	21
Overall gearing (times)	2.06	1.38
Interest coverage (times)	1.72	1.36

A: Audited

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 Enterprises Limited ('PEL') (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 3 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 (Rs. crore) (Standalone)	FY18 (A)*	FY19 (A)*
Total operating income	4.91	8.41
PBILDT	2.77	7.62
PAT	-19.93	-18.12
Overall gearing (times)	31.55	NM
Interest coverage (times)	0.12	0.30

*Period ended December 31 A-Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June, 2025	296.00	CARE AA (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE A

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	296.00	CARE AA (CE); Stable	-	-	-	-
2.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE A	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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