

Piramal Enterprises Limited

April 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures	3,000 (Rs. Three Thousand Crore)	CARE AA; Stable (Double A; Outlook: Stable)	Assigned

Details of instruments/facilities in Annexure-2
Detailed Rationale & Key Rating Drivers

The rating assigned to the debt instrument of Piramal Enterprises Limited (PEL), derives strength from established track record of the promoter group in building and scaling up businesses, strong and experienced management team and experience in the pharmaceutical industry. The rating positively factors in PEL's adequate financial flexibility being the holding company of the group, demonstrated fund raising/refinancing ability, monetizable investments in entities of Shriram group. The rating also factors in diversified revenue profile, increase in scale of operations and accredited manufacturing facilities with well-equipped R&D facilities across geographies.

The aforementioned rating strengths are partially constrained by the group's moderately seasoned loan book as well as significant sectoral exposure to the real estate sector (PEL has significant capital employed in subsidiaries engaged in financial services business). The client concentration in the loan portfolio, given the large ticket size of loans to developers continues, to pose risk. Further, the company has higher short term borrowing, which requires frequent refinancing. However, the company is taking steps to increase the proportion of long term borrowings. PEL's track record of fund raising and refinancing, successful completion of equity raise worth of Rs.5,400 crore in H2FY20, as well as its investments provide comfort in this regard. The company also successfully completed sale of its Healthcare Insights & Analytics segment for ~Rs.6,750 crore in the quarter ended March 31, 2020 which would help the company to improve on liquidity profile especially in the financial services business and reduce its debt levels. PEL further plans to sell minority stake in its pharmaceuticals business to further deleverage the company in near term.

Since September 2018, the operating environment for non-banking financiers including housing finance companies (HFCs) has been challenging in terms of accessing funds especially for those with a wholesale lending book. About 70% of company's loan book in FY19 comprised of wholesale real estate book. However, PEL has been able to raise funds, albeit at a higher cost. Additionally, ratings also reflect moderate financial risk profile and weak return ratios during FY19, owing to investments done in non-financial services business in past couple of years which are yet to yield adequate returns. This has resulted into buildup of sizeable debt on account of non-financial services business. Furthermore, the ratings are constrained by dependence on regulated market along with intense competition from both MNCs and Indian companies in pharmaceutical segment

Going ahead, PEL's ability to arrange long term funding, liquidity, maintaining asset quality (financial services business) and overall profitability of non-financial businesses would remain key rating sensitivities.

Rating sensitivities:
Positive factors:

- Substantial reduction in exposure to real estate segment in overall loan book and single group exposure of consolidated tangible net worth on a sustained basis.
- Total Debt to EBITDA in pharma segment below 2 times on a sustained basis.
- Gross NPA below 0.5%

Negative factors:

- Increase in asset liability mismatch with failure to raise long term funding.
- Further deterioration in asset quality (Gross NPA) from current levels.
- Decline in PBIT margins in pharma segment below 15% on a sustained basis.
- Delay in completion of minority stake sale in pharma business and monetization of Shriram group as envisaged during FY21.

Piramal Enterprises derives more than 50% of its revenues and profit from Financial services business carried out by its NBFC and HFC subsidiaries. The spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

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

CARE Ratings will continue to assess on the impact on the key business and financial parameters of NBFCs/HFCs sector and shall take appropriate rating actions if needed.

Detailed description of the key rating drivers

Key Rating Strengths

Strong and resourceful promoters along with experienced management team

Piramal Enterprises Limited (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, Pharmaceuticals (CDMO, Critical Care, OTC), and Healthcare Insights & Analytics segment which was sold off in Q4FY20 for a consideration of US \$950 Million (~Rs.6,750 crore). 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.

Steady revenue in pharma business and financial services business on back of launch of new products with improved capacity utilization and increase in overall loan book respectively

Revenue from pharma business i.e. Pharma and Healthcare Insights and Analytics have grown to Rs.6,152 crore in FY19 as against Rs.5,658 crore in FY18 at the back of addition of new products, strong order book and delivery across all key segments of the business. Pharmaceutical business contributed 47% and 44% to the total operating income in FY19 and H1FY20 respectively. Similarly, it contributed 23% and 27% to the PBIT in FY19 and H1FY20 respectively.

Income from the financial services increased in FY19 (+42% YoY basis) and H1FY20 (+21% on YoY basis) on account of growth in loan book from Rs.42,168 crore as on March 31, 2018 to Rs.56,624 crore as on March 31, 2019. The company has demonstrated its ability to generate liquidity by selling down /refinancing /securitizing the real estate wholesale loans. As on December 31, 2019, loan book has declined to Rs.51,429 crore, which is expected to further decline in near term. PBIT from the financial services segment has grown over the years and stands at Rs.2,451 crore in FY19 vis-à-vis Rs.1,993 crore in FY18 on account of strong growth in loan book.

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 approval 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 13 manufacturing plants located across India, North America, United Kingdom, etc. The company has cleared 35 US FDA inspections, 148 other regulatory inspections and 1,030 customer audits across all its facilities.

Adequate financial flexibility supported by investments in Shriram group, equity infusion, and dependence on refinancing

In June 2019, PEL sold 10% stake in Shriram Transport Finance Company (STFC) and realised around Rs.2,200 crore. Additionally, PEL has raised cumulatively Rs.5,400 crore, Rs.1,750 crore by way of preferential share allotment on December 19, 2019 from Canadian pension fund, Caisse de dépôt et placement du Québec (CDPQ) and balance of Rs.3,650 crore in the form of equity rights issue in February 2020. Furthermore, PEL has financial flexibility in terms of its holdings in Shriram Group valued at Rs.5,500 Cr, which it intends to liquidate during FY21. The company also plans to sell minority stake in Pharma business during FY21.

The company has raised ~Rs.16,500 crore of long term capital during H2FY20 which includes equity, debt (more than 3 yrs) and asset selldown / refinance of wholesale loans and sale of healthcare and analytics business. On a consolidated basis, PEL has significant amount of debt repayments in FY21 wherein some amount of refinancing will be required as operational cash-flows and existing liquidity avenues may not be adequate. However, PEL has demonstrated fund raising ability (w.r.t. refinancing of debt and infusion of equity) in a timely manner in the past and is expected to do so in coming years.

Key Rating Weaknesses

Heightened regulatory and pricing risks

PEL (pharma division) has its presence in more than 100 countries across the world and has 13 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 2011, the company has cleared 35 USFDA inspections, 148 other regulatory audits and 1,030 customer audits.

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, 2019, real estate loan exposure of PEL constitutes 68% of the overall loan book (Rs.53,055 crore). Of this real estate loan book, exposure to Mumbai real estate comprises of 42% of real estate loans. Any significant liquidity crunch in the industry may result in decline in the sales across geographies ultimately affecting the asset quality of the underlying book. However, the group has established a strong developer network along with real estate research arm which has benefited the group to finance and exit the exposure at various stages which provides comfort. Of the real estate loan book, around 66% of the loan book is towards mid/late stage projects while the balance 34% of projects remain in early stages of development.

On consolidated level financial services business, the company reported Gross NPAs of to 1.8% as on December 31, 2019, up from 0.9% as on September 30, 2019 with provision coverage ratio at 100%. While company has adequate provisioning for NPA's as on date, asset quality will remain key monitorable going forward.

High client concentration in the lending portfolio

Given the chunkiness of the portfolio which is highly wholesale in nature, the ticket size of the exposure will also be high leading to high client concentration. The top 10 group exposures constitute 29% of the total loan portfolio at consolidated level and are towards real estate. On a consolidated basis, the top 10 exposures constitute 58% of the tangible net-worth as on March 31, 2019.

Liquidity: Adequate

PEL on a consolidated basis has high repayments in FY21. The company has been successful in raising equity of Rs.5,400 crore during H2FY10 and has done and plans to do refinancing of its debt. In addition, the company raised capital of Rs.6,500 crore by selling Healthcare and analytics business as well as its investments in Shriram Group provide comfort to the liquidity profile of the company. PEL also has strong financial flexibility being holding company of the group and on an average utilizes 84% of its working capital bank facilities providing cushion for any emergency. Furthermore, PEL on a consolidated level had free cash and cash equivalents of around Rs.2,974 crore as on March 31, 2020 (provisional) vis a vis Rs.811 crore as on March 31, 2019. Also, the liquidity is supported by unutilized sanctioned bank lines of Rs.4,518 crore as on March 31, 2020.

Analytical approach: Consolidated

CARE has assessed credit risk profile of PEL by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries. Details of consolidated entities is mentioned in annexure.

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](#)

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

About the Company

Piramal Enterprises Limited (PEL) is part of the Ajay Piramal group of companies with presence in Pharmaceuticals (CRAMS, Critical Care, Over the Counter (OTC), Healthcare Insights & Analytics segment which was divested in H2FY20 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, 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 this, PEL provides healthcare analytics, data and insight products and services to the world's leading pharma, biotech and medical technology companies. This enables customers to make informed business decisions and minimise commercial challenges.

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)	FY18 (A)	FY19 (A)
Total operating income	11,106	13,717
PBILDT	5,874	7,921
PAT	1,551	1,470
Overall gearing (times)	1.67	2.06
Interest coverage (times)	1.97	1.80

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: List of consolidated entities:

- Piramal Asset Management Private Limited
- Piramal Securities Limited
- Piramal Capital & Housing Finance Limited
- PHL Fininvest Private Limited
- Piramal Fund Management Private Limited
- Piramal Systems & Technologies Private Limited
- Piramal Investment & Advisory Services Private Limited
- Piramal International
- Piramal Holding (Suisse) SA.
- Piramal Pharma Inc.
- Piramal Healthcare Inc.
- Piramal Critical Care Limited
- Piramal Healthcare UK Limited
- Piramal Healthcare Pension Trustees Limited
- Piramal Healthcare (Canada) Limited
- Piramal Critical Care Italia, SPA
- Piramal Critical Care Inc.
- Indiareit Investment Management Company
- Piramal Technologies SA
- Piramal Dutch Holdings N.V.
- Piramal Critical Care Deutschland GmbH
- Decision Resources Inc.
- Piramal Asset Management Private Limited
- Decision Resources International Inc.
- Decision Resources Group UK Limited
- DR/ Decision Resources LLC
- DRG UK Holdco Limited
- Millennium Research Group Inc.
- Millennium Research Group
- Decision Resources Group Asia Limited
- Convergence Chemicals Private Limited
- Allergan India Private Limited
- PEL Finhold Private Limited
- Piramal Pharma Solutions Inc.
- DRG Holdco Inc.
- Piramal IPP Holdings LLC

- India Resurgence ARC Private Limited
- India Resurgence Asset Management Business Private Limited
- PEL-DRG Dutch Holdco B.V.
- Piramal Dutch IM Holdco B.V.
- Piramal Consumer Products Private Limited
- DRG Analytics & Insights Private Limited
- Piramal Critical Care South Africa (Pty) Ltd
- DRG Singapore Pte. Ltd.
- Ash Stevens LLC
- PEL Pharma Inc.
- Bluebird Aero Systems Private Limited
- Searchlight Health Private Limited
- Shriekha Business Consultancy Private Limited
- Zebra Management Services Private Limited
- Shriram Capital Limited
- Sharp Insight Limited
- Piramal Critical Care B.V.
- Piramal Pharma Solutions (Dutch) B.V.
- Piramal Critical Care Pty. Ltd.
- Decision Resources Japan K.K
- Piramal Capital International Limited
- Asset Resurgence Mauritius Manager

Annexure-2: 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
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	3,000	CARE AA; Stable

Annexure-3: 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	-	-	-	-	-	-	-
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA; Stable	1) CARE AA; Stable (30-Dec-19) 2) CARE AA; Stable (06-May-19)	1) CARE AA; Stable (14-Sep-18)	1) CARE AA; Stable (29-Nov-17)	1) CARE AA (27-Sep-16) 2) CARE AA (21-Jul-16)
3.	Commercial Paper	ST	9000.00	CARE A1+	1) CARE AA; Stable (30-Dec-19) 2) CARE A1+ (06-May-19)	1) CARE A1+ (14-Sep-18)	1) CARE A1+ (29-Nov-17) 2) CARE A1+ (29-Sep-17)	-
4.	Fund-based - LT-	LT	3200.00	CARE	1) CARE AA;	1) CARE AA;	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
	Term Loan			AA; Stable	Stable (30-Dec-19) 2)CARE AA; Stable (06-May-19)	Stable (14-Sep-18)		
5.	Inter Corporate Deposit	ST	250.00	CARE A1+	1) CARE A1+ (30-Dec-19) 2)CARE A1+ (06-May-19)	1)CARE A1+ (14-Sep-18)	-	-
6.	Commercial Paper	ST	3000.00	CARE A1+	1) CARE A1+ (30-Dec-19) 2)CARE A1+ (06-May-19)	1)CARE A1+ (14-Sep-18)	-	-
7.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	1)CARE A1+ (30-Dec-19) 2)CARE A1+ (06-May-19)	1)CARE A1+ (14-Sep-18)	-	-
8.	Fund-based - ST-Working Capital Limits	ST	2800.00	CARE A1+	1) CARE A1+ (30-Dec-19) 2)CARE A1+ (06-May-19)	1)CARE A1+ (14-Sep-18)	-	-
9.	Debentures-Non Convertible Debentures	ST	500.00	CARE A1+	1) CARE A1+ (30-Dec-19)	1)CARE A1+ (07-Mar-19)	-	-
10.	Debentures-Non Convertible Debentures	LT	1,000	CARE AA; Stable	1) CARE AA (30-Mar-20)	-	-	-
11.	Debentures-Non Convertible Debentures	LT	3,000	CARE AA; Stable	-	-	-	-

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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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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