

October 09, 2017

Piramal Enterprises Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term Fund Based	300.0	[ICRA]AA/Stable/A1+ reaffirmed
Non-Convertible Debentures (NCD)	8,100.0 crore	[ICRA]AA/Stable reaffirmed
Fresh Non-Convertible Debenture	2,000.0	[ICRA]AA/Stable assigned
Term Loan/Corporate Loan	2,200 (Enhanced from 625.0 crore)	[ICRA]AA/Stable reaffirmed
Term Loan/Corporate Loan	3,700	[ICRA]AA/Stable Withdrawn
Commercial Paper /Short Term Debt	9,000.0	[ICRA]A1+ reaffirmed
Short Term Non-Fund Based	200.0	[ICRA]A1+ reaffirmed
Short Term Fund based	1,862.4 (Rs. 800.0 crore reclassified from Long term Fund based to Short term Fund based, enhanced by Rs. 1,062.4 crore)	[ICRA]A1+ reaffirmed
Total	23,662.4	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed long-term rating of [ICRA]AA (pronounced ICRA double A) to the enhanced Rs. 300.0 crore long term fund based limit, Rs. 8,100.0 crore non-convertible debenture programme and Rs. 2,200 crore term loans. ICRA has also assigned [ICRA]AA rating for Rs. 2,000.00 crore non-convertible debenture programme. ICRA has also reaffirmed [ICRA]A1+ (pronounced ICRA A one plus) to enhanced Rs. 300.0 crore short term fund based limits, Rs. 9,000.0 crore Commercial Paper Programme, Rs. 200.0 crore short term non-fund based limits and Rs. 2,162.4 crore short term fund based limits. Out of the above Rs. 300.0 crore fund based limits are interchangeable between long term and short term though total utilisation should not exceed Rs. 300.0 crore. ICRA has also withdrawn [ICRA]AA(Stable) to Rs. 3,700.0 crore to term loan/corporate loan as there is no amount outstanding against same.

Rationale

The ratings favourably factor in the extensive experience of the promoters in building up successful businesses, healthy growth prospects in the Global Pharma and OTC business with strong product profile, accredited manufacturing facilities and geographically diversified revenue base. The ratings also factor in the adequate liquidity profile supported by investments in listed Shriram group, unutilised bank lines and strong promoter group. The ratings are also supported by company plans to list the Healthcare Analytics business in the medium term to support value unlocking as well as de-leveraging.

Over the past two years, the company has made significant in-organic investments (more than Rs. 3,000 crore) for scaling up its Global Pharma and OTC business in addition to several acquisitions (exceeding Rs. 4,000 crore) made in the past for building up its Healthcare Analytics business. Further, the OTC business has been in scale up mode with investments made in establishing pan India distribution network leading to lower profitability. By virtue of these investments, the return indicators remain weak for these businesses with lower than expected operating cash flows. ICRA expects the Global Pharma and OTC

business to significantly improve its operating profitability going forward to reach desired level of profitability.

Further, strong growth of financial services led to significant scale up of group lending portfolio to Rs. 24,400 crore as on March-2017 (from Rs. 2,681 crore in March 2014) coupled with investments in Shriram Group totalling to Rs. 4,538 crore. The company has stated its intentions to de-merge the financial services business and residual business (Global Pharma, OTC and Healthcare Analytics) in the near term and to that effect transferred lending portfolio worth Rs. 12,738 crore and loans of Rs. 11,319 crore from Piramal Enterprises Limited to Piramal Finance Limited during FY2017. The above mentioned debt funded acquisitions and scale up of lending portfolio have consumed liquidity generated from sale of domestic formulations business to Abbott in 2010 (sold for approximately Rs. 17,140 crore) in addition to assuming net debt of Rs. 30,451 crore as on Mar-17 on consolidated basis. The performance of loan portfolio, given the high sectoral and client concentration, along with the company's ability to sustain the asset quality will remain a key monitorable. However, the presence of a strong and experienced management and robust risk management mechanisms partially alleviate the concerns. The company has firmed up plans to raise additional equity in the near term to fund future growth of financial services business which will support the capital structure.

ICRA takes note of the fact that debt funded acquisitions coupled with lower profitability for residual businesses have impacted the debt protection matrix of PEL (excluding financial services business). ICRA will continue to monitor the impact of Piramal's acquisitions on profitability & market share besides improvement in operating cash flows. Moreover PEL's ability to monetize some of its investments to improve liquidity profile of the residual businesses and improvement in debt protection metrics remain important in maintaining its credit profile.

Key rating drivers

Credit strengths

- **Strong track record of promoters in scaling up various businesses:** The promoters have long track record of successfully building and scaling up various businesses in areas such as Pharmaceuticals, Real Estate and Glass. PEL is in the process of scaling up its Financial services and OTC business post exit from Domestic Formulations business in 2010 and has made significant progress till date.
- **Strong position for the Global Pharma business:** PEL has product portfolio of niche differentiated branded generics products that are difficult to manufacture, sell and distribute; end to end accredited contract manufacturing capabilities both for APIs and Formulations and a large global distribution network reaching to over 100 countries. The revenues are geographically diversified with 70% of revenues coming from USA and Europe.
- **Healthy growth prospects for OTC business:** Strong portfolio created through organic as well as inorganic route with six brands among top 100 OTC brands of India. Entrenched Distribution network with presence in 4.2 lacs outlets in 2000 towns in India and field force of 2000 people.
- **Liquidity profile supported by investments in Shriram group, unutilised bank lines and strong promoter group:** The liquidity profile of PEL remains supported from listed investments in Shriram group, unutilised bank lines as well as strong promoter group with stated intention to infuse equity, if required. The company plans to raise equity in the near term (QIP route) to fund its financial services business future growth.

Credit weaknesses

- **Weak operating cash flows and return indicators for residual businesses:** The operating cash flows of PEL excluding Financial Services business remains weak on account of heavy organic investments in building up OTC business and scale up of Global Pharma business. The return indicators (RoCE) is impacted on account of various acquisitions primarily for Global Pharma and Healthcare Analytics business which are yet to generate desired level of returns.
- **Financial profile characterised by leveraged capital structure and weak debt protection matrix:** Over the past two years, the company has made significant in-organic investments (more than Rs. 3,000 crore) for scaling up its Global Pharma and OTC business in addition to several acquisitions (exceeding Rs. 4,000 crore) made in the past for building up its Healthcare Analytics business. Further, strong growth of financial services led to significant scale up of group lending portfolio to Rs. 24,400 crore as on March-2017 (from Rs. 2,681 crore in March 2014) coupled with investments in Shriram Group totalling to Rs. 4,538 crore. The above mentioned debt funded acquisitions and scale up of lending portfolio have consumed liquidity generated from sale of domestic formulations business to Abbott in 2010 (sold for approximately Rs. 17,140 crore) in addition to assuming net debt of Rs. 30,451 crore as on Mar-17 on consolidated basis. The company has stated its intentions to de-merge the financial services business and residual business (Global Pharma, OTC and Healthcare Analytics) in the near term and to that effect transferred lending portfolio worth Rs. 12,738 crore and loans of Rs. 11,319 crore from Piramal Enterprises Limited to Piramal Finance Limited during FY2017. However, the capital structure remains stretched with weak debt protection matrix for the residual business. PEL intend to list Healthcare Analytics business in US over the medium term along with improvement in profitability for residual business remains critical.
- **Ability to sustain asset quality for its financial services portfolio:** At a consolidated basis, the overall asset quality of the lending book remains comfortable, albeit on a largely unseasoned portfolio with high growth registered during FY2016 and FY2017. Given the high real estate concentration and the high inherent riskiness of real estate exposures, the portfolio has high vulnerability to any borrower or industry specific event which could result in a steep deterioration in asset quality indicators in case of any slippages. However, the company's prudent provisioning policy and the presence of adequate risk management and other internal controls and processes alleviates the risk to some extent. Going forward the company's ability to execute its business plans and grow profitability, raise funds at competitive rates and maintain healthy asset quality would remain the key sensitivities

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Piramal Enterprises Limited (PEL) is one of India's large diversified companies, with a presence in Pharmaceuticals (CRAMS, Critical Care, OTC), Healthcare Insights & Analytics and Financial Services. PEL's consolidated revenues were over Rs. 85 billion in FY2017, with 51% of revenues generated from outside India. In Pharma, through an end-to-end manufacturing capabilities across 13 global facilities and a large global distribution network to over 100 countries, PEL sells a portfolio of niche differentiated pharma products and provides an entire pool of pharma services (including in the areas of injectable, HPAPI etc.). The Company is also strengthening its presence in the Consumer Product segment in India. PEL's Healthcare Insights & Analytics business, Decision Resources Group, provides healthcare analytics, data & insight products and services to the world's leading pharma, biotech and medical technology companies. In Financial Services, PEL provides financing solutions primarily to real estate companies through its own funds as well as through private equity route. The total funds under management under all these businesses are ~US\$5 billion. Piramal Finance has received a license from the National Housing Bank (NHB) to operate a retail housing finance vertical. The Company also has strategic alliances with top global funds such as APG Asset Management, Bain Capital Credit, CPPIB Credit Investment Inc. and Ivanhoé Cambridge. PEL also has long term equity investments in Shriram Group, a leading financial conglomerate in India. PEL is listed on the BSE Limited and the National Stock Exchange of India Limited in India.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	6341.5	8503.7
PAT (Rs. crore)	710.5	1082.1
OPBDIT/ OI (%)	26.4%	41.1%
RoCE (%)	7.2%	9.1%
Total Debt/ TNW (times)	1.3	2.0
Total Debt/ OPBDIT (times)	9.7	8.7
Interest coverage (times)	1.7	1.7
NWC/ OI (%)	13.3%	9.9%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Rating Outstanding	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					September 2017	Feb 2017	Feb 2016	July 2014
1	Fund Based*	Long Term/Short Term	300.00	108.00	[ICRA]AA/Stable/A1+	[ICRA] AA/Stable)A1+	[ICRA] AA/Stable)A1+	[ICRA] AA/Stable)A1+
2	NCD	Long Term	10,100.00	5195.00	[ICRA]AA/Stable)	[ICRA] AA/Stable)	[ICRA] AA/Stable)	[ICRA] AA/Stable)
	Term Loans	Long Term	2,200.00	1925.00	[ICRA]AA/Stable	[ICRA] AA/Stable	[ICRA] AA/Stable	[ICRA] AA/Stable
	CP/STD	Short Term	9,000.00	4955.00	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
	Short Term Non-Fund Based	Short Term	200.00	33.00	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
	Short Term Fund based	Short Term	1,862.40	1,612.38	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund Based	-	-	300.0	[ICRA]AA(Stable)/A1+
	Long Term Loans				
	Term Loan	02-Feb-17	02-Mar-18	250.0	[ICRA]AA(Stable)
	Term Loan	05-Sept-		75.0	[ICRA]AA(Stable)
	Term Loan	29-Jan-16	31-Jan-20	200.0	[ICRA]AA(Stable)
	Term Loan	18-Jul-16	23-Mar-18	100.0	[ICRA]AA(Stable)
	Term Loan	05-Sept-		100.00	[ICRA]AA(Stable)
	Term Loan	29-Dec-16	28-Dec-18	150.00	[ICRA]AA(Stable)
	Term Loan	29-Dec-16	29-Jun-19	175.00	[ICRA]AA(Stable)
	Term Loan	16-Mar-17	16-Sep-19	100.00	[ICRA]AA(Stable)
	Term Loan	29-Mar-17	29-Mar-18	100.00	[ICRA]AA(Stable)
	Term Loan	11-June-17	12-Dec-17	200.00	[ICRA]AA(Stable)
	Term Loan	16-Aug-17	14-Nov-18	250.00	[ICRA]AA(Stable)
	Term Loan	31-Jul-17	31-Jul-18	500.00	[ICRA]AA(Stable)
	Commercial Paper	-	-	9,000	[ICRA]AA(Stable)
	Non-Fund Based	-	-	200.0	[ICRA]A1+
	Short Term Loans				
	Line of Credit/STL	20-Mar-17	19-Mar-18	500.00	ICRA]A1+
	Line of Credit/STL	17-Jan-	29-Oct-	300.00	ICRA]A1+
	Line of Credit/STL	29-Aug-	-	75.00	ICRA]A1+
	Line of Credit/STL	15-Mar-	-	100.00	ICRA]A1+
	Line of Credit/STL	30-Mar-	-	100.00	ICRA]A1+
	Line of Credit/STL	28-Oct-	-	100.00	ICRA]A1+
	Line of Credit/STL	05-Sept-	24-Jan-	75.00	ICRA]A1+
	Line of Credit/STL	20-May-	-	100.00	ICRA]A1+
	Line of Credit/STL	19-Sept-	18-Sept-	150.00	ICRA]A1+
	Line of Credit/STL	02-Aug-	02-Feb-	362.38	ICRA]A1+

Source: the company

ISIN No	Instrument	Date of	Coupon	Maturity	Amount Rated	Current Rating and
					(Rs. crore)	
INE140A08SB1	NCD	17-Mar-15	9.43%	16-Mar-18	100.00	[ICRA]AA(Stable)
INE140A08SC9	NCD	17-Mar-15	9.43%	16-Mar-18	50.00	[ICRA]AA(Stable)
INE140A08SG0	NCD	30-Apr-15	9.25%	30-Apr-18	100.00	[ICRA]AA(Stable)
INE140A08SI6	NCD	29-May-15	9.22%	25-May-18	100.00	[ICRA]AA(Stable)
INE140A08SJ4	NCD	29-May-15	9.22%	29-May-18	285.00	[ICRA]AA(Stable)
INE140A08SN6	NCD	30-Jun-15	9.27%	28-Feb-18	21.00	[ICRA]AA(Stable)
INE140A08SO4	NCD	30-Jun-15	9.27%	16-Jul-18	224.00	[ICRA]AA(Stable)
INE140A08SR7	NCD	24-Jul-15	9.40%	20-Jul-18	200.00	[ICRA]AA(Stable)
INE140A07096	NCD	13-Jan-16	9.25%	12-Jan-18	250.00	[ICRA]AA(Stable)
INE140A07104	NCD	13-Jan-16	9.25%	13-Feb-18	250.00	[ICRA]AA(Stable)
INE140A07112	NCD	01-Mar-16	9.40%	28-Feb-18	50.00	[ICRA]AA(Stable)
INE140A07120	NCD	01-Mar-16	9.40%	28-Feb-19	50.00	[ICRA]AA(Stable)
INE140A07153	NCD	23-Jun-16	9.38%	05-Jan-18	40.00	[ICRA]AA(Stable)
INE140A07161	NCD	23-Jun-16	9.57%	21-Jun-19	65.00	[ICRA]AA(Stable)
INE140A07179	NCD	14-Jul-16	9.75%	14-Jul-26	35.00	[ICRA]AA(Stable)
INE140A07187	NCD	18-Jul-16	9.45%	15-Jul-19	50.00	[ICRA]AA(Stable)
INE140A07195	NCD	18-Jul-16	9.45%	30-Jul-19	100.00	[ICRA]AA(Stable)
INE140A07203	NCD	19-Jul-16	9.57%	19-Jul-21	10.00	[ICRA]AA(Stable)
INE140A07211	NCD	19-Jul-16	9.75%	17-Jul-26	5.00	[ICRA]AA(Stable)
INE140A07229	NCD	20-Jul-16	9.45%	05-Jun-19	150.00	[ICRA]AA(Stable)
INE140A07237	NCD	20-Jul-16	9.45%	15-Jul-19	150.00	[ICRA]AA(Stable)
INE140A07252	NCD	29-Jul-16	9.38%	29-Jul-19	200.00	[ICRA]AA(Stable)
INE140A07260	NCD	29-Jul-16	9.38%	12-Aug-19	15.00	[ICRA]AA(Stable)
INE140A07294	NCD	18-Aug-16	9.25%	16-Aug-18	100.00	[ICRA]AA(Stable)
INE140A07302	NCD	18-Aug-16	9.264%	15-Apr-19	100.00	[ICRA]AA(Stable)
INE140A07310	NCD	25-Aug-16	9.267%	15-Apr-19	10.00	[ICRA]AA(Stable)
INE140A07328	NCD	26-Aug-16	9.267%	15-Apr-19	20.00	[ICRA]AA(Stable)
INE140A07336	NCD	29-Aug-16	8.95%	06-Jun-18	50.00	[ICRA]AA(Stable)
INE140A07344	NCD	15-Jun-17	8.15%	14-Jun-19	560.00	[ICRA]AA(Stable)
INE140A07351	NCD	20-Jun-17	8.13%	20-Jun-19	600.00	[ICRA]AA(Stable)
INE140A08SW7	NCD	23-Jun-17	8.20%	27-Jul-20	125.00	[ICRA]AA(Stable)
INE140A07369	NCD	27-Jun-17	8.13%	27-Jun-19	500.00	[ICRA]AA(Stable)
INE140A07377	NCD	11-Aug-17	7.90%	11-Aug-20	100.00	[ICRA]AA(Stable)
INE140A07385	NCD	14-Sep-17	7.90%	14-Sep-20	330.00	[ICRA]AA(Stable)
INE140A07393	NCD	15-Sep-17	7.60%	15-Mar-19	200.00	[ICRA]AA(Stable)

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