October 22, 2024 (Revised)

Piramal Pharma Limited: [ICRA]A1+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme- Proposed	100.0	[ICRA]A1+; assigned
Total	**100.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Piramal Pharma Limited (PPL) considers its strong and diversified business profile, its well-established position as a leading global CDMO[1] player as well as the market leadership enjoyed by it globally in inhalation anaesthesia within the complex hospital generics (CHG) segment. The rating further derives strength from PPL's strong financial flexibility for being a part of the Piramal Group along with its experienced management. Its liquidity position is also adequate with liquid balance of Rs. 501.5 crore with sufficient liquidity buffer in its fund-based limits worth Rs. 461 crore as on May 31, 2024. The rating also favourably factors in PPL's stellar regulatory compliance track record and its geographically (within India and abroad) diversified manufacturing footprint in the CDMO space, which enables it to expand and maintain its customer base. Within the CHG segment, PPL has been increasingly focussing on limited competition specialty products, which would further help diversify the product basket as well as increase its profit margins over the medium term.

Despite the challenging macro environment leading to biotech funding constraints, PPL reported a YoY growth of ~15% in revenues to Rs. 8,171.2 crore in FY2024, largely driven by growth in CDMO and Indian Consumer Healthcare (ICH) segments. Moreover, its operating profit margin (OPM) also improved, though remained moderate at 14.7% in FY2024, led by cost optimisation measures undertaken during the year, partly impacted by the pricing pressure witnessed in the CHG Segment. PPL is expected to witness a 10-12% YoY revenue growth in FY2025 with an expansion in OPBDITA, led by increased order inflows, high share of integrated orders and increasing share of differentiated offerings in the CDMO segment as well as steady performance in the CHG and the ICH segments.

ICRA notes the moderate, albeit improving, financial profile of PPL due to high debt levels and mid-teen profit margins. PPL undertook rights issue of Rs. 1,050 crore in Q2 FY2024, which was mostly utilised to reduce debt of the company. Nonetheless, debt levels remain elevated, which coupled with modest profit margins, resulted in moderate debt metrics, with net debt to OPBDITA of 3.5 times as on March 31, 2024, vis-a-vis 8 times as on March 31, 2023. The company plans to gradually reduce the same to ~1 times by FY2030, led by increasing revenues and profitability, largely driven by the CDMO segment.

PPL's CHG segment has a high product concentration with inhalation anaesthesia contributing 67% to the segment revenues between FY2022 and FY2024. However, its leading market position globally for this product alleviates the risk to some extent. As a significant portion of PPL's revenues is derived from the overseas markets, its revenues and margins remain susceptible to volatility in foreign exchange rates. However, the hedging mechanisms adopted by the company mitigate the risk to a large extent. Like other industry players, PPL's operations remain exposed to regulatory risks pertaining to scrutiny by regulatory agencies, though its robust track record of zero official action indicated (OAI) report provides comfort. Large inorganic investments by the company remain an event risk, and the impact of such investments on its business and credit profile would be monitored on a case-to-case basis.

[1] Contract Development and Manufacturing Organisation

Key rating drivers and their description

Credit strengths

Diversified and strong business profile – PPL has a diversified business profile with presence in three different segments comprising CDMO, CHG and ICH segments, which are involved in selling over-the-counter healthcare and wellness products. PPL is a leading global player in the CDMO segment and offers end-to-end integrated CDMO services across the spectrum of the drug life cycle, including discovery, development, and commercial manufacturing of drug substances and drug products. Besides, in the CHG segment, PPL's product range comprises over 35 hospital-focused products in the areas of inhalation anaesthesia, injectable anaesthesia and pain management, intrathecal therapy, and other generic and specialty products. The company enjoys market leadership position globally in inhalation anaesthesia, with a strong market share in the US for many of its products. These are sold in over 100 countries, reaching more than 6,000 hospitals, surgical centres, and veterinary clinics. In the ICH segment, it has a varied portfolio of 150 products and SKUs across various categories such as analgesics, skin care, vitamin/mineral supplement, digestives, among others, having presence across 29 states in India. PPL also benefits from its experienced management, with different functional heads for each of the business segments. PPL's continued investments in innovation and operational excellence have enabled it to differentiate and sustain market leadership despite competition from multinational corporations and domestic peers.

Diversified geographical presence with global distribution network – PPL has a global network of development and manufacturing facilities located in North America, UK/Europe and India. Moreover, for CDMO and CHG segments, PPL has presence in both regulated markets (i.e. the US, the UK and Japan) and other markets, including Africa, India among others. This helps it in expanding and maintaining its customer base. Around 70% of the total consolidated revenues was garnered from the regulated markets, i.e., North America, Europe and Japan in FY2024. Moreover, India accounted for 20% of revenues in FY2024. In case of the CDMO segment, it has an established customer base catering to Big Pharma, Emerging Biopharma and generics, which accounted for 38%, 26% and 29%, respectively of CDMO's revenue in FY2024. The CHG segment has direct sales presence in the US, the UK, Germany, France and Italy. Additionally, strategic partnerships with distributors and local collaborators enable global product distribution. Around 51% of CHG's revenue was recorded from the US, followed by Europe at 16% and Japan at 4% in FY2024.

Strong financial flexibility for being a part of the Piramal Group of Companies – As it is a part of the Piramal Group, the company drives strong financial flexibility with established brand name of Piramal. Ms. Nandini Piramal and Mr. Peter D'Young from the promoter family are on the board of PPL.

Strong compliance and regulatory track record with respect to inspections – PPL has successfully maintained its track record of zero OAI from the USFDA since 2011, highlighting its strong commitment towards quality and compliance. To maintain a sustainable and consistent quality system throughout these facilities, the company has several internal policies to ensure site quality health, quality of raw materials and key starting materials.

Credit challenges

Moderate, albeit improving financial profile – PPL's revenues have increased at a compounded annual growth rate of 9% between FY2021 and FY2024. Its revenue growth and operating profit margins in FY2022 and FY2023 were impacted by challenging macroenvironment, marked by high interest rates, geopolitical tensions leading to supply chain disturbances, slowdown in biotech funding and slower consumer demand in rural India. PPL's revenues rose 15% on a YoY basis to Rs. 8,171.2 crore in FY2024, largely driven by growth in the CDMO and the ICH segments. Moreover, its OPM also improved, but remained moderate at 14.7% in FY2024, led by cost optimisation measures undertaken during the year, partly impacted by the pricing pressures witnessed in the CHG segment. PPL is expected to witness a 10-12% YoY revenue growth in FY2025 with an expansion in OPBDITA, led by increased order inflows in the CDMO segment, high share of integrated orders and increasing share of differentiated offerings as well as steady performance in the CHG and ICH segments. The financial profile of PPL stood moderate, albeit improving, due to high debt levels and mid-teen profit margins. The debt levels have remained elevated due to the debt-funded capacity expansion, mainly for differentiated offering, undertaken in FY2022 and FY2023 to support future growth. ICRA notes that these capacities remained underutilised during FY2022-FY2024 and became operational from the end of FY2024. Going forward, this will benefit PPL by way of enhanced operational efficiency and economies of scale.

PPL undertook rights issue of Rs. 1,050 crore in Q2 FY2024, which were mostly utilised to reduce debt of the Group. Notwithstanding this, its net debt to OPBDITA remained moderate at 3.5 times as on March 31, 2024, though the company gradually plans to reduce the same to ~1 times by FY2030, led by increasing revenues and profitability, largely driven by the CDMO segment.

High product concentration in the CHG segment, though its leading market position for this particular product alleviates this risk to some extent – The CHG segment generated 67% of revenues from the inhalation anaesthesia segment in FY2024, followed by the intrathecal at 15% and the injectable anesthesia and pain management at 10%. Around 80% of revenues in the inhalation anaesthesia segment is accounted for by Sevoflurane, PPL's key product in the inhalation anaesthesia segment. Some comfort can be drawn from the market leadership position of PPL in this product, with a market share of 40% in the US for FY2024. ICRA also notes that the company is taking steps to mitigate this risk with launch of new products by launching Sevoflurane in other geographies as well as investing in expansion of existing domestic capacities to support backward integration in production as well as leverage the cost advantage from domestic manufacturing.

Exposed to regulatory risks and vulnerability to unfavourable forex movement, however, absence of regulatory issues and hedging mechanisms mitigate the risks to an extent – Like other industry players, the company is bound by strict regulations for clinical trials for regulated markets. Although any deviation in the same could result in reputational risks and other penalties for the company, absence of regulatory issues provides comfort to a large extent. Moreover, with ~80% of its revenues coming from the overseas markets in FY2024, the company's revenues and margins are susceptible to risks arising from adverse forex movements. However, the hedging mechanisms adopted by the company mitigate the risk to a large extent.

Environmental and Social Risks

Environmental: Pharma companies do not face any major physical climate risk. However, they are exposed to tightening environmental regulations in regard to breach of the waste and pollution norms which can lead to an increase in operating costs and new capacity installment costs. This can also require capital investments to upgrade effluent treatment infrastructure to reduce carbon footprint and waste generation. Piramal Pharma, through its various initiatives focusses on managing environmental aspects such as energy, climate, air quality, water, waste, and biodiversity.

Social: PPL, like other pharmaceutical companies, face high industry-wide social risks related to litigation exposure, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry.

Liquidity position: Adequate

The liquidity position of PPL is adequate, supported by free cash and bank balance of Rs. 356.8 crore and Rs. 144.7 crore of investments in mutual funds such as overnight and hybrid funds as on March 31, 2024. Besides, its sanctioned fund-based limits of Rs. 1,050 crore with average utilisation of around 42% over the last 12 months provide additional liquidity buffer of around Rs. 461 crore as on May 31, 2024. Going forward, the cash flows are expected to improve, driven by the strong pipeline in the CDMO segment and its growing presence in the CHG and the ICH segments. Free cash flows along with healthy cash and bank balance and liquid investments are expected to be more than sufficient to meet the estimated annual capex requirement of Rs. 700-800 crore towards maintenance and capacity expansion, along with debt repayment of Rs. 870 crore and Rs. 1,097 crore in FY2025 and FY2026, respectively.

Rating sensitivities

Positive factors – NA

Negative factors – Pressure on PPL's rating could arise in case of a deterioration in its earnings or weakening in its debt metrics and liquidity position on a sustained basis. Any adverse regulatory development, impacting PPL's product launches and thus its revenues and profitability, would also be monitored.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Pharmaceuticals](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of PPL. As on June 30, 2024, the company had 21 subsidiaries and two associates, which are all enlisted in Annexure-2.

About the company

Piramal Pharma Limited (PPL) was incorporated in 2020 to streamline the Group's structure and consolidate all pharmaceutical operations under one company. It is one of the leading global pharmaceutical companies. The company's pharmaceutical product portfolio can be categorised into three segments, namely, 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.

Key financial indicators (audited)

PPL Consolidated	FY2023	FY2024
Operating income	7,081.6	8,171.2
PAT	-240.8	-41.7
OPBDIT/OI	8.9%	14.7%
PAT/OI	-3.4%	-0.5%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	9.0	3.9
Interest coverage (times)	1.8	2.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Oct 22, 2024	-	-	-
1	**Commercial Paper Programme-Proposed**	Short term	100.0	**[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short -term – Commercial Paper Programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme-Proposed	NA	NA	NA	100.0	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	PPL Ownership	Consolidation Approach
List of Subsidaries		
Piramal Dutch Holdings N.V	100.00%	Full Consolidation
Piramal Critical Care Italia, S.P.A	100.00%	Full Consolidation
Piramal Critical Care Deutschland GmbH	100.00%	Full Consolidation
Piramal Critical Care B.V.	100.00%	Full Consolidation
Piramal Healthcare (Canada) Limited	100.00%	Full Consolidation
Piramal Critical Care Limited	100.00%	Full Consolidation
Piramal Critical Care South Africa (Pty) Ltd	100.00%	Full Consolidation
Piramal Critical Care Pty. Ltd	100.00%	Full Consolidation
Piramal Healthcare UK Limited	100.00%	Full Consolidation
Piramal Healthcare Pension Trustees Limited	100.00%	Full Consolidation
Piramal Healthcare Inc.	100.00%	Full Consolidation
Piramal Critical Care Inc.	100.00%	Full Consolidation
Piramal Pharma Inc.	100.00%	Full Consolidation
PEL Pharma Inc.	100.00%	Full Consolidation
Piramal Pharma Solutions Inc.	100.00%	Full Consolidation
Ash Stevens LLC	100.00%	Full Consolidation
Piramal Pharma Solutions (Dutch) B.V.	100.00%	Full Consolidation
PEL Healthcare LLC	100.00%	Full Consolidation
Piramal Pharma II Private Limited	100.00%	Full Consolidation
Piramal Critical Care Single Member PC	100.00%	Full Consolidation
Piramal Pharma Limited Employee Welfare Trust	100.00%	Full Consolidation
List of associates		
Abbvie Therapeutics India Private Limited	49.00%	Equity Method
Yapan Bio Private Limited	33.33%	Equity Method

Source: PPL quarterly results Q1 FY2025

Corrigendum

Rationale dated October 22,2024 has been corrected with change in the analyst contacts.

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