

Piramal Enterprises Limited

	In Rs. Crore	March 2016
Term loans / Corporate Loan	450.00 (enhancement from Rs. 1,725.00 crore to Rs. 2,175.00 crore)	[ICRA]AA (Stable) assigned

The Rating Committee of ICRA has assigned a long-term rating of [ICRA]AA (pronounced as ICRA double A) to term loans of Rs. 250.00 crore (enhancement from Rs. 1,725.00 crore to Rs. 1,975.00 crore) and corporate loan of Rs. 200.00 crore. The outlook on the long-term rating is Stable.

ICRA has a long-term rating outstanding of [ICRA]AA (pronounced as ICRA double A) for the Rs. 1,725.00 crore term loan, Rs. 1,100.00 crore long term fund based limits and Rs. 5,500.00 crore Non convertible debenture programme of Piramal Enterprises Limited. The long term rating carries stable outlook. ICRA also has a short-term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 8,000.00 crore Commercial Paper programme, Rs. 300.00 crore short term fund based limit and Rs. 200.00 crore short term non-fund based limits. The Rs. 300.00 crore short term fund based limits are interchangeable with long term fund based limits though the total utilisation should not exceed Rs. 300.00 crore.

The rating takes into account PEL's strong and experienced management team with track record of successfully scaling up businesses and generating adequate returns. PEL's business profile continues to evolve with ramp up in businesses in the Pharma sector (CRAMS, Critical Care and OTC), financial services (lending and PE business) and Information Management space by virtue of its acquisition of Decision Resource Group, US (May 2012) and Healthcare Business Insight (May-15). ICRA notes that PEL's Pharma business profitability remains suppressed after sale of domestic formulations business. The closure of NCE R&D business (Q2FY15) will lead to reduction in funding requirements, though successful scale up of Imaging R&D portfolio remains to be seen.

The company has more than doubled the lending book to Rs. 11,070 crore as on December 31, 2015 compared to Rs. 4,766 crore as on March 31, 2015 and has plans to further expand it aggressively over the medium term. Real estate sector remains a key focus area for the group contributing to over 80% of the total advances. Within real estate, the company's focus has been on residential projects with operations focused in the top five cities namely Mumbai, Bangalore, Chennai, Delhi-NCR and Pune. The company's asset quality is comfortable with reported Gross NPA of ~1% as on Dec-15, though it is to be noted that book is largely unseasoned with high growth during 9MFY16. However, with increase in scale of operations, the company has further strengthened its internal controls and processes. The company follows a multi level evaluation process and has employed reputable independent third party agencies for financial, technical cum valuation, legal and commercial due diligence. The Company has also put in place a robust in-house asset management group for post disbursement regular monitoring of portfolio. The Real Estate Private Equity business (Piramal Fund Management Private Limited - PFMPPL, subsidiary of PEL) is among one of India's largest real estate third party fund management business and is currently managing Rs. 8,638 crore as on December 31, 2015 across eight funds, three third party mandates and one managed account. PFMPPL has also entered into an alliance with CPPIB Credit Investments Inc for providing rupee debt financing to urban residential projects. PEL also has a strategic partnership with APG for investing in special situation opportunities in infrastructure sector.

In order to build its presence in financial services business, PEL has also acquired strategic stake in various companies of Shriram Group (Shriram Transport Finance Company in May-13, Shriram Capital in April-14, Shriram City Union Finance Limited in April-14) and has invested close to ~Rs. 4,538 crore (including cost of acquisition) so far. ICRA notes that the ability of the financial services business to chart its independent fund raising plans as it scales up its business over the medium term would remain a key rating sensitivity for PEL.

The company's gross debt levels which moderated to Rs. 7,306 crore on Mar-15 (net of liquid investments Rs. 5,571 crore) on account of liquidation of financial investment in Vodafone India Limited (Q1FY15, Rs. 8900 crore inflows) have increased to Rs. 14,011 crore as on Dec-15 on account of aggressive scale up of the wholesale lending book.

In view of PEL's relatively weak operating cash flows, its ability to maintain adequate liquidity would remain critical to its credit profile. While PEL's business profile evolves, ICRA would continue to monitor PEL's in-organic & financial investments and the performance and quality of its financial services portfolio for its impact on its financial profile. ICRA's rating derives comfort from PEL managements' track record in building strong businesses, its commitment to maintaining its credit profile, adequate liquidity for the foreseeable future and its strong net worth.

Company Profile

PEL is part of the Ajay Piramal group of companies. The Group is a diversified Indian business house with interests in healthcare, glass manufacturing and financial services. A significant part of PEL's growth, especially in its early years has been contributed through in-organic growth.

In 1988, the group acquired Nicholas Laboratories (NL), which was a Sara Lee group company (NL was incorporated in 1947 to manufacture pharmaceutical formulations by the Nicholas Kiwi group). Following its acquisition, the group changed NL's name to Nicholas Piramal India Limited. Subsequently, the company continued to grow by acquisitions – a pattern that has been historically followed by the group – acquiring Roche Products India in 1993, Sumitra Pharma in 1994, Boehringer Mannheim in 1997, R&D division of Hoechst in 1998, Rhone Poulenc India in 2000-01, the pharma division of ICI in 2002, and Sarabhai Piramal (remaining 50% stake) in 2003-04. In recent years, the company has also undertaken acquisitions in the critical care and OTC segments in order to strengthen their product profile and geographic presence.

In May 2010, PEL announced the sale of its domestic formulation business which manufactures, markets and sells branded pharmaceuticals in India, Nepal and Sri Lanka to Abbott for a total consideration of US\$ 3.8 billion. PEL also sold its majority stake (97.5%) in Piramal Diagnostic Services Private Limited (PDPSL) to Super Religare Limited for a total consideration of Rs. 600 crore.

The company has forayed into the financial services industry (NBFC, PE business and acquisition of various stake in Shriram Group) and Healthcare Information Analytics (Acquisition of Decision Resource Group). Presently, PEL's presence in healthcare is restricted to CRAMS, Critical care, OTC and Imaging R&D portfolio.

Recent Results

On a consolidated basis, PEL reported Operating Income of Rs. 5,122.61 crore, OPBDITA of Rs. 890.01 crore and Profit after Tax of Rs. 2,690.39 crore in FY15. During 9mFY16, PEL reported operating Income of Rs. 4,876.38 crore, OPBDITA of Rs. 1,404.62 crore and Profit after Tax of Rs. 643.34 crore.

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