

## Wockhardt Limited

September 02, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	527.75 (Reduced from 700.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	171.20 (Reduced from 307.80)	CARE A3 (A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>698.95</b> <b>(₹ Six Hundred Ninety-Eight Crore and Ninety-Five Lakhs Only)</b>		
Non Convertible Debentures	200.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures	50.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
<b>Total Long Term Instruments</b>	<b>250.00</b> <b>(₹ Two Hundred Fifty Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and non-convertible debentures (NCDs) of Wockhardt Limited (WL or the company) factor in improvement in revenue and profitability margins of the company in FY22. Furthermore, the ratings continue to derive strength from established track record of company in global pharmaceutical industry as well as experienced, resourceful promoters, strong and diversified product portfolio across multiple therapeutic segments with established marketing network and global presence as well as accredited manufacturing facilities with R&D focused approach. The ratings also factor in the company's ability to scale up and derive revenues from vaccine segment and antibiotic products that are commercialized in Indian market. Apart from above the company during March 2022 has raised funds through rights issue which to some extent has aided in improving the liquidity in the system. The ratings are tempered by average financial profile of the company. Moreover, imposition of USFDA alert and the company's exposure to regulated markets which is witnessing increased competition continues to impact company's operational efficiency. Going ahead, further scale up of operating performance and timely execution of contracts while improving profitability and resolution of USFDA issues remains crucial from the credit perspective. Further CARE Ratings also factors the liquidity comfort provided by WL's management stating that the repayments and interest obligations pertaining to unsecured loans availed by WL could be deferred if in case there arises the requirement of funds for the business operations or meeting its debt obligations.

The ratings also consider the recent restructuring of the company's US business including closure of the facility at Illinois, USA and engaging in contract manufacturing with several players in US for manufacturing the portfolio of drugs being sold in US.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- PBILDT margins above 15% on a sustained basis through scaling up of branded business and new chemical entities coupled with improved revenue share from high-margin critical care products and vaccines.
- Improvement in overall gearing on an ongoing basis through reduction in overall debt and decrease in working capital borrowing.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Decrease in PBILDT margins below 8% on a sustained basis due to limited expansion in high-margin products leading to pressure on debt coverage indicators.
- Increase in overall gearing above unity owing to increase in working capital borrowing or major debt-funded capex.
- Any additional liability that may arise out of the settlement entered into by Wockhardt USA LLC with State of Texas
- Increase in pledge of shares beyond 50% of fully paid up equity shares held by promoters

### Detailed description of the key rating drivers

#### Key rating strengths

#### Tie-up with various global partners for supply of vaccines and respiratory antibiotic

In FY22, CP Pharmaceuticals Limited, a subsidiary of WL and Serum Life Sciences UK Ltd. (Serum UK) have collaborated for delivering a global vaccine programme (~ 150 mn doses annually). A profit-sharing arrangement has been made between the two parties. It is a multi year multi vaccine arrangement with Serum UK for vaccine production on an on-going basis that is expected to provide recurring revenue to WL. WL will be manufacturing the vaccines at their facility in the UK and Serum UK will be marketing and distributing the same.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Furthermore, Wockhardt Bio AG, a subsidiary of WL and Jiangxi Jemincare Group Company Limited, China (Jemincare) have partnered for WL's novel patented antibiotic WCK 4873 in People's Republic of China, Hong Kong, Macau and Taiwan for the treatment of community-acquired bacterial pneumonia and other respiratory tract infections. WL will receive an upfront payment and will be eligible for regulatory-linked milestone payments. Further, WL would supply the product to Jemincare and will receive royalties on net sales. WL would transfer the manufacturing technology to Jemincare at mutually agreed time.

### **Diversified product portfolio spread across multiple therapeutic segments**

The product portfolio of the company is well diversified marked by its presence in key therapeutic segments including niche segments, viz., cardiology, dermatology, respiratory, ophthalmology and anti-diabetic, etc. Besides, the company also has a basket of well-established brands in majority of the key therapeutic segments. WL has built a strong IP base filing patents and developing products for ANDAs for the US markets. In FY22, the newly launched antibiotic in India, EMROK witnessed 127% growth in sales.

In FY22 the company has been granted 36 patents for NCEs. As on March 31, 2022, combined pool of company's patent has reached 3,228 (filed) and 803 (granted). WL also has 46 ANDAs, as on March 31, 2022, of which 41 are approved and 5 are pending approval, thus the product basket is well diversified across many therapeutic segments.

### **Accredited manufacturing facilities along with R&D-focused approach**

The company has 12 manufacturing plants (8 in India, and one each in USA, UK, Ireland and Dubai) which have the necessary international accreditations like UK-MHRA, WHO-GMP, etc. US manufacturing plant was closed in August 2022 as a part of the company's restructuring plan of its US business. Besides, the company has three research and development centres (one in India at Aurangabad, Maharashtra; one in USA, and one in UK). During FY22, the company's R&D expenses stood at 4.4% of revenue from operations during FY22 against 6.2% during FY21. WL has received for its six anti-infective drugs (namely, WCK 771, WCK 2349, WCK 4873, WCK 5222, WCK6777 and WCK 4282) QIDP status by USFDA during FY20. Qualified Infectious Diseases Programme (QIDP) ensures fast track approvals for drugs in the US. Out of the six, two have been approved by DCGI and are being marketed in India. The other four NCEs are in various stages of clinical trials and studies. In August 2022, WL in a press release announced the commencement of phase 3 global study of WCK 5222. The company in August 2022 in a press release informed about the restructuring of the company's US business including closure of the facility at Illinois, USA and engaging in contract manufacturing with several players in US for manufacturing the portfolio of drugs being sold in US. The impact of the same on company's revenue, if any, would be a key monitorable.

### **Established marketing network with global presence**

WL is a global pharmaceutical and bio-technology company engaged into developing, manufacturing and marketing of finished dosage and biopharmaceutical formulations, vaccines, active pharmaceutical ingredients (APIs) and NCEs. WL has a significant presence in USA, European Union and India. It also has market presence in Asian, African, South American, Middle Eastern countries as given below. Exports accounts for major portion of company's revenue; revenue from exports stood at Rs. 2,569 crore (approximately 79% of total revenue) in FY22 compared to Rs. 2,282 crore (approximately 83% of total revenue) in FY21. The domestic business saw growth of almost 40% during FY22 mainly in the diabetes segment and NCE portfolio. The company's US business witnessed a moderation of 23% as it continues to be under pressure because of aggressive channel consolidation and genericisation, which is impacting pricing. However, Europe and rest of the world business witnessed y-o-y growth. UK Business grew by 32% over FY21 and stood at Rs. 1,342 crore in FY22 (PY Rs. 1,013 crore) of which major growth has come from the COVID-19 Vaccine business.

### **Improvement in total operating income and operating profit margins in FY22; albeit continuation of loss from continuing operations**

The company reported almost 20% increase in revenue from operations from Rs. 3230 crore during FY22 as against Rs. 2708 crore in FY21. The growth was driven by higher sales of NCE portfolio in India and from sale of Covid-19 vaccines in UK. Further, the company has reported PBILDT of Rs. 309 crore during FY22 as against negative PBILDT in FY21. The improvement in PBILDT margin is mainly on account of high margin vaccine business, higher sales of NCE in India and high proportion sales from the India branded business. However, PAT of the company stood negative at Rs. -279 crore in FY22 as against Rs.1173.59 crore during FY21 (including consideration received of Rs.1470.32 crore from the divestment of domestic business to DRL). The company recorded an exceptional expense of Rs. 183 crore in FY22 towards the amount payable by Wockhardt USA LLC to State of Texas in regard to Civil Investigative Demand with respect to submission of price information and updates to Texas Medicaid programme in US. In Q1 FY23, the company witnessed a y-o-y and q-o-q moderation in operating income of 31% and 9% respectively.

Going forward, the topline is expected to improve in FY23 on account of expected increase in Indian branded business, vaccine business and growth in LMIC markets. Going ahead, ability of the company to improve scale of operations while improving operating profitability continues to remain key rating sensitivity.

### **Successful raising of funds through rights issue and NCD issue**

WL raised Rs. 748 crore in March 2022 from the open market through rights issue. Rs. 742.51 crore was the net proceeds from the rights issue after removing issue related expenses. Rs. 590 crore from net proceeds was utilised to repay unsecured loans from related parties and secured borrowings. The company utilised balance Rs. 152.51 crore towards general corporate purposes. WL also issued NCDs worth Rs. 250 crore in FY22 in four tranches through private placement. The NCDs carry coupon in the range of 11.00%-11.75% payable quarterly and are repayable in 36 months from the date of issuance with last tranche of repayment falling due in October 2024.

### **Key rating weaknesses**

#### **Moderate overall financial risk profile; albeit improvement observed in FY22**

On a consolidated basis, overall gearing ratio improved to 0.66x as on March 31, 2022 as against 0.94x as on March 31, 2021. Interest coverage ratio improved in FY22 as compared to last three fiscals however is just near unity. Company's TDGCA turned negative as company recorded loss of Rs. 279.00 crore in FY22. The Company availed unsecured loan facilities amounting to Rs. 1348 crore from related parties and repaid Rs. 1302 crore of loans to related parties. The company proposes to avail Rs. 676 crore of term loan during FY23 towards capex at the company's UK facility based on the requirements of Serum UK deal and for the expenses for clinical trials of the NCEs.

#### **Significant delay in resolution of regulatory issues**

During FY14, WL received import alert from USFDA for one of its major facilities, i.e., Walunj (Aurangabad), followed by regulatory scrutiny at other plants and from UKMHRA on compliance issues for Indian facilities (related to current good manufacturing practices regulations) like Chikalthana, Kadiya, etc. Due to various measures taken by the company, UKMHRA has approved its Chikalthana, Shendra and Kadiya plants. Furthermore, WL got its Chikalthana facility and Walunj inspected by USFDA and in July 2016, units L-1 Chikalthana and Walunj received establishment inspection report (EIR) with observations from USFDA. Furthermore, the USFDA has provided Shendra plant with nine observations and has issued import alert on its API unit at Ankleshwar in August 2016. Besides, it received warning letters for CP Pharmaceuticals (UK) and Morton Grove Pharmaceuticals (USA) in 2017 which has resulted in restriction on these facilities.

The company has received USFDA clearance for all the R&D centers in FY20. However, seven of WL's facilities were under USFDA restrictions by end of March 2020. There were no USFDA audit conducted during FY21 & FY22 on account of Covid-19 travel restrictions. As indicated by the management the company has incurred about Rs.394 crore during FY17 -FY20 towards remediation which has impacted operating profits in past. However, WL has not incurred any remediation cost from FY21 onwards. However, further delay in resolution of the same may limit company's revival of operations. As due to USFDA alert, WL currently manufactures drugs via outsourcing to third party manufactures which have USFDA-certified approved plants.

#### **Foreign exchange fluctuation risk**

On a consolidated basis, the company is predominantly an export-oriented company with around 79% of its overall revenues in FY22 earned in foreign currency mainly denominated in USD (US Dollar) GBP and Euro. Majority of the raw material requirement is sourced through local vendors across all regions resulting in lower dependency on imports. Although, company is exposed to foreign currency fluctuation risk. There is a partial natural hedge available owing to manufacturing undertaken outside India, foreign currency term debts and sales outside India.

#### **High dependence on regulated markets for Pharmaceutical segment**

WL has its presence in multiple countries across the world. Considering the nature of the product usage and application, and consequent impacts, WL 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.

#### **Intense competition from both MNCs and Indian companies in India and abroad**

WL faces intense competition and pricing pressure in the global as well as domestic markets. Globally, the generic players are facing price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

#### **Liquidity: Adequate**

The liquidity of the company remained adequate with Rs. 196 crore of available cash and liquid funds as on June 30, 2022. The company has total debt obligations of Rs. 278 crore in FY23 of which Rs. 143 crore is already repaid during Q1FY23. Thus the company has balance repayment of Rs. 135 crore to be met during 9MFY23. Further as per management the company is availing Rs. 150 crore of term debt as reimbursement for the capex incurred during FY22. As per the management, the company is proposing to incur capex of about Rs. 500 crore in FY23 towards clinical trials and manufacturing line set up at its UK plant for the Serum UK deal which is proposed to be entirely funded through term loans. With commercialization of antibiotics in different geographies and Covid-19 vaccines, the company is expecting to generate positive cash accruals during FY23. The working capital utilization remained high at around 89% for the past 12-months period ended June 2022. Considering the availability of cash and liquid fund and moderate liquidity cushion that is available in working capital limits it is expected that the company would be able to meet its debt obligations comfortably.

#### **Analytical approach**

Consolidated; WL has various subsidiaries, associates and joint ventures amongst others. Consolidated approach has been considered due to operational and financial linkages, fungible cash-flows, common management and support provided by WL to various subsidiaries/associates/etc. List of companies that are consolidated to arrive at the ratings is mentioned under Annexure-6.

## Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Pharmaceutical](#)

[Policy on Withdrawal of Ratings](#)

## About the company

Incorporated in 1960 and founded by Dr Habil F Khorakiwala, Wockhardt Limited is a global pharmaceutical and bio-technology company engaged into developing, manufacturing and marketing of finished dosage and biopharmaceutical formulations, vaccines and active pharmaceutical ingredients (APIs). It has capabilities to produce sterile (injectable), biopharmaceuticals, orals (tablets and liquids), topicals (creams and ointments) for both exports as well as domestic markets. WL has a significant presence in USA, European Union and India. It also has market presence in Asian, African, South American, Middle-Eastern countries.

Brief Financials (Consol.) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	2708.30	3230.00	595.00
PBILDT	-63.03	298.00	41.00
PAT	-296.73	-279.00	-75.00
Overall gearing (times)	0.94	0.67	NA
Interest coverage (times)	NM	1.00	0.56

A: Audited, UA: Unaudited, NM: Not Meaningful, NA: Not available

## Status of non-cooperation with previous CRA:

Not applicable

## Any other information:

Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

## Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	402.75	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	158.70	CARE A3
Fund-based - LT-Cash Credit	-	-	-	-	125.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	12.50	CARE A3
Debentures-Non Convertible Debentures	INE049B07048	April 28, 2021	11.75%	April 28, 2024	200.00	CARE BBB-; Stable
	INE049B07055	May 12, 2021	11.75%	May 12, 2024		
	INE049B07063	May 21, 2021	11.75%	May 21, 2024		
Debentures-Non Convertible Debentures	INE049B07071	August 27, 2021	11%	October 21, 2024	50.00	CARE BBB-; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	402.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Sep-21)	1)CARE BBB-; Stable (27-Aug-20)	1)CARE BB+ (CWP) (25-Feb-20) 2)CARE BB+; Stable (30-Sep-19)
2	Non-fund-based - ST-BG/LC	ST	158.70	CARE A3	-	1)CARE A3 (03-Sep-21)	1)CARE A3 (27-Aug-20)	1)CARE A4+ (CWP) (25-Feb-20) 2)CARE A4+ (30-Sep-19)
3	Fund-based - LT-Cash Credit	LT	125.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Sep-21)	1)CARE BBB-; Stable (27-Aug-20)	1)CARE BB+ (CWP) (25-Feb-20) 2)CARE BB+; Stable (30-Sep-19)
4	Non-fund-based - ST-BG/LC	ST	12.50	CARE A3	-	1)CARE A3 (03-Sep-21)	1)CARE A3 (27-Aug-20)	1)CARE A4+ (CWP) (25-Feb-20) 2)CARE A4+ (30-Sep-19)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Aug-20)	1)CARE BB+ (CWP) (25-Feb-20) 2)CARE BB+; Stable (30-Sep-19)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Aug-20)	1)CARE BB+ (CWP) (25-Feb-20) 2)CARE BB+; Stable (30-Sep-19)
7	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Sep-21) 2)CARE BBB-; Stable (05-Apr-21)	-	-
8	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Sep-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments - NA**



**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of subsidiaries as on March 31, 2022**

Subsidiaries		
Sr. No.	Name of the entity	%Holding
<b>Subsidiaries</b>		
1	Wockhardt Infrastructure Development Limited	100.00%
2	Wockhardt Medicines Limited	100.00%
3	Wockhardt Biologics Limited	100.00%
4	Wockhardt UK Holdings Limited	100.00%
5	Wockhardt Europe Limited	100.00%
6	Wockhardt Bio AG	85.85%
<b>Step-down subsidiaries</b>		
7	CP Pharmaceuticals Limited@	85.85%
8	Wallis Group Limited	100.00%
9	The Wallis Laboratory Limited	100.00%
10	Wallis Licensing Limited	100.00%
11	Z&Z Services GmbH@	85.85%
12	Pinewood Healthcare Limited@	85.85%
13	Wockhardt Farmaceutica Do Brasil Ltda	100.00%
14	Wockhardt Nigeria Limited	100.00%
15	Wockhardt USA LLC@	85.85%
16	Wockhardt UK Limited@	85.85%
17	CP Pharma (Schweiz) AG @	85.85%
18	Wockpharma Ireland Limited@	85.85%
19	Pinewood Laboratories Limited@	85.85%
20	Laboratoires Negma S.A.S.@	85.85%
21	Wockhardt France (Holdings) S.A.S.@	85.85%
22	Wockhardt Holding Corp.@	85.85%
23	Morton Grove Pharmaceuticals, Inc.@	85.85%
24	MGP Inc., U.S.A@	85.85%
25	Laboratoires Pharma 2000 S.A.S. @	85.85%
26	Niverpharma S.A.S@	85.85%
27	Negma Beneulex S.A. @	85.85%
28	Phytex S.A.S. @	85.85%
29	Wockhardt Farmaceutica SA DE CV. @	85.85%
30	Wockhardt Services SA DE CV.@	85.85%
31	Wockhardt Bio (R) @	85.85%
32	Wockhardt Bio Pty Ltd @	85.85%
33	Wockhardt Bio Ltd @	85.85%

@The Company holds 85.85% shareholding in Wockhardt Bio AG which in turn holds 100% shareholding in these subsidiaries.

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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