Wockhardt Limited

September 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	700.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	307.80	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**1,007.80 (Rs. One thousand seven crore and eighty lakh only)**		
Non-Convertible Debentures	50.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Non-Convertible Debentures	200.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**250.00 (Rs. Two hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and non-convertible debentures (NCDs) of Wockhardt Limited (Wockhardt) factors in considerable reduction in term debt on receipt of Rs.1,533 crore in FY21 (refers to the period April 1 to March 31) due to post closure of sale of select divisions of domestic formulations business to Dr. Reddy's Laboratories (DRL) which has led to improvement in liquidity position over medium term. Apart from this, Wockhardt's tie up with global players for manufacturing and supply of vaccines and respiratory drugs is expected to further boost the financial performance of the company going forward. Furthermore, the ratings continue to derive strength from established track record of company in global pharmaceutical industry as well as experienced and 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 are tempered by moderation in operating performance during FY21; albeit improved in Q1FY22. Moreover, imposition of USFDA alert and the company's exposure to regulated markets (especially USA) which is witnessing increased competition continues to impact company's operational efficiency. Going ahead, timely receipt of remaining Rs.300 crore from DRL, timely completing the refinancing of the debt, 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.

<u>Rating Sensitivities</u>

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 Generic API 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.
- Inordinate delay in refinancing of the debt.

Detailed description of the key rating drivers

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

The company in August 2021 has entered into an agreement with Enso Healthcare DMCC (Enso), a Dubai-based company and Human Vaccine LLC (wholly-owned subsidiary of Management Company of Russian Direct Investment Fund, the sovereign wealth fund of the Russian Federation (RDIF), for the manufacture and supply of the Sputnik V/Sputnik Light vaccine against Covid-19. Under this agreement, the company will manufacture and supply Enso up to 620 million doses of Sputnik V vaccine and the Sputnik Light vaccine by June 30, 2023 (120 million doses to be supplied in Q4FY22 and Q1FY23).

Furthermore, the company has entered into agreement in Q2FY21 with the UK Government to supply finish COVID-19 vaccines. The manufacturing was undertaken at CP Pharmaceuticals, a subsidiary of Wockhardt based in Wrexham, North Wales. This agreement was subsequently extended from 18 months to 24 months, i.e., until August 2022.

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 FY21, the company launched two new antibiotics, EMROK (IV) and EMROK O (Oral) for acute bacterial skin and skin structure infections including diabetic foot infections and concurrent bacteraemia.

In FY21, the company had filed 22 patents and granted 41 patents, and during Q1FY22, the company had filed 4 patents and granted 3 patents. As on June 30, 2021, combined pool of the company's patent has reached 3,191 (filed) and 766 (granted). WL also has a strong pipeline of 31 ANDAs, as on June 30, 2021, awaiting for approval, thus the product basket is well diversified across many therapeutic segments.

As per BTA with DRL, the company has transferred domestic business comprising of 62 products in multiple therapy areas such as respiratory, neurology, vitamins, minerals and supplements, dermatology, gastroenterology, pain and vaccines and line extensions related to said products. As per the management, the deal is in line with Wockhardt's strategic plan to shift from acute therapeutic areas to more chronic businesses such as anti-diabetes, central nervous system, and antibiotic portfolio of new chemical entities (NCEs).

Accredited manufacturing facilities along with R&D-focused approach

The company has 11 manufacturing plants (8 in India, and one each in USA, UK and Ireland) which have the necessary international accreditations like UK-MHRA, WHO-GMP, etc. Besides, the company has three research and development centres (one in India at Aurangabad, Maharashtra; one in USA, and one in UK). During FY21, the company's R&D expenses stood at 6.2% of revenue from operations during FY21 against 6.3% during FY20. 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.

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, active pharmaceutical ingredients (APIs) and vaccines. 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.2,282 crore (approximately 83% of total revenue) in FY21 compared with Rs.2,329 crore (approximately 73% of the total revenue) in FY20.

The domestic business saw de-growth during FY21 due to demand being low on account of covid-19 and divestment of domestic business to DRL which contributed around Rs.480 crore. The company's International Businesses (US, UK and EU) continues to be under pressure because of aggressive channel consolidation and genericisation, which is impacting pricing. Nonetheless, the revenue from UK subsidiary has increased considerably from Rs.285.86 crore during FY20 to Rs.423.51 crore exhibiting growth of about 48.15% on account of higher contribution of the revenue from vaccine manufacturing for UK government.

Moderation in total operating income and profitability margins

The company reported de-growth in revenue from operations of Rs.2743.53 crore during FY21 as against Rs.2896.02 crore in FY20, mainly on account of disruption of business activity during H1FY21 due to Covid-19 coupled with selling off part of business consisting of 62 products and line extensions to Dr Reddy's Laboratories which contributed around Rs.480 crore of topline during FY20.

Furthermore, the company has reported negative EBITDA of Rs.27.80 crore during FY21 on account of higher material costs. The raw material cost increased from 39% of total sales during FY20 to around 45% of total sales during FY21. The employee cost also increased from about 25% of total sales during FY20 to 28% during FY21. Similarly, other expenses increased from 14% of total sales during FY20 to 17% of the total sales during FY21. However, the PAT level of the company stood positive at Rs.1,173.59 crore during FY21 on account of consideration received of Rs.1,470.32 crore from the divestment of domestic business to DRL.

Going forward, the total operating income is expected to improve in FY22 on account of two new product launches in India mainly in anti-infective segment. Apart from this, the company will also be supplying vaccines to Enso Pharmaceuticals and

UK government. The company under various agreements would be selling respiratory drugs to Asian countries via the partnership with Jemincare. Going ahead, the ability of the company to improve scale of operations with timely execution of contracts while improving operating profitability continues to remain key rating sensitivity.

Moderate overall financial risk profile

Overall financial risk profile of WL had weakened over the years owing to cash losses in FY18 and FY19 along with significant debt repayments and generated minimal cash profit during FY20. However, owing to divestment of part of domestic business to DRL coupled with impact of covid-19 on the operations of the business, the operating profitability during FY21 declined significantly. However, the consideration received from DRL for the divestment has limited net-worth erosion to an extent. On a consolidated basis, overall gearing ratio marginally improved to 0.98x as on March 31, 2021, as against 1.09x as on March 31, 2020. However, interest coverage ratio continued to remain below unity for last three fiscals ending FY21 due to moderate PBILDT and high finance cost. Moreover, company's TDGCA stood high at 3.41 times in FY21 owing to high GCA on account of consideration received from DRL.

However, going ahead, the company does not have any significant debt-funded capex over medium term. The company in turns proposes to avail Rs.1,623 crore of term loan during FY22 which will used to refinance the foreign subsidiary loan to the extent of Rs.742 crore (Rs.285.61 crore for Pinewood Laboratories Limited and Rs.456.90 crore for Wockhardt Bio AG). Out of the remaining Rs.881 crore, the company plans to utilize about Rs.300 crore towards repayment of Indian loans during FY22-FY24 and balance Rs.581 crore will be utilized towards working capital requirement and maintenance capex. Apart from this, the company has also raised Rs.200 crore of NCDs during Q1FY22 and plans to raise another Rs.50 crore during Q2FY22 for working capital requirement at Indian manufacturing facility for upcoming vaccine manufacturing contracts.

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 Waluj inspected by USFDA and in July 2016, units L-1 Chikalthana and Waluj 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 USDFA restrictions by end of March 2020. There were no USFDA audit conducted during FY21 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 like Shilpa Medicare, Granules, etc. (which have USFDA-certified approved plants).

Foreign exchange fluctuation risk

On a consolidated basis, the company is predominantly an export-oriented company with around 83% of its overall revenues 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 the 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.

Industry risk
With unlocking of economy and announcement of various unlock guidelines, the patient footfalls are gaining traction in healthcare units as demand from non-Covid-19 patients is gathering pace. Also, hospitals and patients are adapting themselves to the Covid-19 environment and social distancing norms. Thus, the operations of healthcare industry has returned to normal levels only from Q3FY21 onwards which has augured well for the Indian pharma industry as it has resulted in higher prescription of medicines from hospitals, clinics, OPD centres, local clinics and doctors.
In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, anti-malarials and antibiotics given the spread of Covid-19. Moreover, the demand for Indian drugs in the international market will be supported by new product launches thereby aiding the Indian pharma exports. Thus, the demand for drugs is expected to remain steady to a large extent. However, the industry is likely to face delay in product launches and clinical trials given the current scenario. Besides, Covid-19 has also led to deferment of physical inspections by the USFDA which has delayed in commencement of the pharma units and also launch of products.
For the year FY21, the overall Indian pharma industry is expected to increase in the range of 9%-10% backed by an estimated domestic growth of about 7% and around 12%-13% rise in pharma exports.

Liquidity: Adequate
Operating cycle of the company remained stable at 150 days as on March 31, 2021, mainly on account of decline in the creditors' period to 96 days during FY21 from 114 days during FY20. The collection period improved from 159 days during FY20 to 144 days during FY21 and inventory period improved slightly from 104 days during FY20 to 102 days during FY21. The working capital utilization remained high at around 85.60% for the past 12-months period ended March 2021
WL on a consolidated basis has repayments of about Rs.777 crore repayments in FY22. The company's liquidity position has improved post closure of sales of Baddi Plant and divestment of 62 products in generic business to DRL in FY21. Moreover, on a consolidated level, WL had free cash and cash equivalents of Rs.237.69 crore as on March 31, 2021, providing additional liquidity cushion. Apart from above, the company has received Rs.1,553 crore from DRL as part of divestment of the above-mentioned 62 products and is expected to receive the remaining Rs.300 crore by September 2021. Furthermore, the company is also planning to refinance its existing debt which is expected to reduce the quantum of repayment per year. Thus, considering the aforementioned aspects, the company's liquidity position stands adequate over medium term.

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
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology - Consolidation
Financial ratios – Non-Financial Sector
Rating Methodology- Pharmaceutical Sector
Liquidity analysis of Non-financial sector entities

About the Company
Incorporated in 1960 and founded by Dr Habil F Khorakiwala, Wockhardt Limited (WL) is a global pharmaceutical and bio-technology company engaged into developing, manufacturing and marketing of finished dosage and biopharmaceutical formulations, active pharmaceutical ingredients (APIs) and vaccines. 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. WL has eight manufacturing plants in India and one each in USA, UK and Ireland which are USFDA approved.

Brief Financials (Consol.) (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2896.02	2743.53
PBILDT	149.79	-27.80
PAT	-43.39	688.60
Overall gearing (times)	1.09	0.71
Interest coverage (times)	0.54	-0.11

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	550.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	245.30	CARE A3
Fund-based - LT-Cash Credit	-	-	-	-	150.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	62.50	CARE A3
Debentures-Non Convertible Debentures	INE049B07048 INE049B07055 INE049B07063	April 28, 2021	11.75%	March 31, 2024	200.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	-	Proposed			50.00	CARE BBB-; Stable

Annexure-2: 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	550.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Aug-20)	1)CARE BB+ (CWP) (25-Feb-20) 2)CARE BB+; Stable (30-Sep-19)	1)CARE BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (19-Oct-18) 3)CARE A; Negative (15-May-18)
2.	Non-fund-based - ST-BG/LC	ST	245.30	CARE A3	-	1)CARE A3 (27-Aug-20)	1)CARE A4+ (CWP) (25-Feb-20) 2)CARE A4+ (30-Sep-19)	1)CARE A3 (07-Jan-19) 2)CARE A3 (19-Oct-18) 3)CARE A1 (15-May-18)
3.	Fund-based - LT-Cash	LT	150.00	CARE	-	1)CARE BBB-;	1)CARE BB+	1)CARE

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
	Credit			BBB-; Stable		Stable (27-Aug-20)	(CWP) (25-Feb-20) 2)CARE BB+; Stable (30-Sep-19)	BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (19-Oct-18) 3)CARE A; Negative (15-May-18)
4.	Non-fund-based - ST-BG/LC	ST	62.50	CARE A3	-	1)CARE A3 (27-Aug-20)	1)CARE A4+ (CWP) (25-Feb-20) 2)CARE A4+ (30-Sep-19)	1)CARE A3 (07-Jan-19) 2)CARE A3 (19-Oct-18) 3)CARE A1 (15-May-18)
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)	1)CARE BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (19-Oct-18) 3)CARE A; Negative (15-May-18)
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)	1)CARE BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (19-Oct-18) 3)CARE A (15-May-18)
7.	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB-; Stable	1)CARE BBB-; Stable (05-Apr-21)	-	-	-
8.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB-; Stable	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

Click here to view Bank Lender Details

Annexure 6: List of subsidiaries

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

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

Note on complexity levels of the rated instrument: *CARE Ratings 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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