Wockhardt Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture issue (Proposed)	200.00*	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Assigned
Total	**200.00 (Two Hundred CroreOnly)**		

Details of instruments/facilities in Annexure-1

** The company plans to raise funds in two tranches. In first tranche the company plans to raise Rs.150 crore. The NCD issue plan for balance Rs.50 crore is contingent upon company's funding requirement.*

Detailed Rationale & Key Rating Drivers

The rating assigned to proposed non-convertible debenture issue factors in improvement in company's liquidity position post closure of sale of select divisions of domestic formulations business to Dr. Reddy's Laboratories Limited (DRL). The company received Rs. Rs.1483 crore upfront and Rs.67 crore were deposited in Escrow account out of which Rs.54 crore have been credited to WL in Q1FY21 which has improved company's liquidity position over medium term. The rating continues to derive strength from established track record of company in global pharmaceutical industry as well as experienced and resourceful promoters. WL's rating also derive strength from 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 company being the only global company to receive QIDP status by USFDA for its six anti-infective drugs.

The above rating strengths are tempered by decline in operating performance over past few years; albeit improved in 9MFY21. Moreover, imposition of USFDA alert and company's exposure to regulated markets (especially USA) which is witnessing increased competition continues to impact company's operational efficiency.

Going ahead, further scale up of operating performance while maintaining profitability and resolution of USFDA issues on timely basis remain crucial from credit perspective.

Key Rating Sensitivities

Positive factors

- PBILDT margins above 10% on a sustained basis through scaling up of branded business and Generic API coupled with improved revenue share from high margin critical care products
- Improvement in debt coverage indicators through enhanced profitability levels
- Improvement in overall gearing on an ongoing basis through reduction in overall debt and decrease in working capital borrowing

Negative factors

- 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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Over the years under the guidance of Dr Habil. F. Khorakiwala (Chairman), first generation entrepreneur, WL has grown to become one of the established players in the pharmaceuticals and biotech business. The board is supported by qualified professionals heading various verticals with experience in their respective fields.

Furthermore, the promoters of the company are resourceful and have supported WL in maintaining its liquidity position.

Diversified product portfolio spread across multiple therapeutic segments

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The product portfolio of the company is well diversified marked by its presence in key therapeutic segments including niche segments viz Cardiology, Oncology, Respiratory, and Anti-Diabetic etc. Besides, the company also has a basket of well-established brands in majority of the key therapeutic segments. The company plans to increase its presence in Cardiology, Oncology, Respiratory, and CNS segments over medium term as these products have high margins.
In FY20, the company had filed 33 patents and granted 28 patents. As on March 31, 2020, the combined pool of company's patent has reached 3,165 (filed) and 722 (granted). Additionally, the company has 130 ANDA approved products in its product portfolio. WL also has a strong pipeline of 51 ANDAs as on March 31, 2020 awaiting for approval.

Accredited manufacturing facilities along with R&D focused approach
The Company has 10 manufacturing plants (7 in India, and one each in USA, UK and Ireland) that have the necessary international accreditations such as UK-MHRA, WHO-GMP, etc. Besides, the company has three research and development centers (one in India at Aurangabad, Maharashtra; one in USA, and one in UK). During FY20, the company's R&D expenses stood at Rs.208 crore (6.26% of revenue from operations during FY20) against Rs.291 crore in previous year. WL is the only global company to receive QIDP status by USFDA for its 6 anti-infective drugs (namely WCK 771, WCK 2349, WCK 4873, WCK 5222, WCK 6777 and WCK 4282). QIDP (Qualified Infectious Diseases Programme) ensures fast track approvals for drugs in the US. Moreover, as per WL's management, the company does not have any major remedial expenditure in FY21.
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 European Union, India and USA. It also has market presence in Asian, African, South American, Middle-Eastern countries as given below. International operations accounts for major portion of company's revenue; revenue from international operations stood at Rs.2,442 crore (approximately 73% of total revenue) in FY20 compared to Rs. 2,644 crore (approximately 64% of total revenue) in FY19.
Going ahead, company plans to increase its focus in UK and US segments wherein the gross margins are in range of 50-60%.
Operational performance, though improving, continues to remain a challenge
The Company reported revenue from operations of Rs.3,377 crore (including revenue from discontinued operations amounting Rs.481 crore) during FY20 as against Rs.4,177 crore in FY19. De-growth is mainly due to low sales in quality generic division and some therapeutic areas in India business. This is due to unavailability of sufficient working capital required to scale up generic business. Moreover, India business was also impacted due to lower sales recorded from branded business in Q1FY20 as API of one of the key products was classified under 'Narcotics Segment'. Additionally, post announcement of nationwide lockdown by Govt. of India on March 22, 2020, majority of pharmaceutical companies' facilities (including contract manufacturers) were shut from March 22, 2020 till April 04, 2020. Due to limited availability of working capital, WL focused more on high margin products in critical care segment instead of generic business.
Despite decline in revenue from operations, company's operating profitability has improved during FY20. The company's adjusted PBILDT stood at Rs.244.35 crore in FY20 (including profit from discontinued operations amounting Rs.145.36 crore) as against Rs.134 crore in previous year. This is mainly on account of several cost reduction measures implemented by company coupled with increased focus on high margin products. Moreover, decrease in quantum of remedial expenses in FY20 has also improved margins.
In 9MFY21, the company recorded operating income of Rs.2201.07 crore and PBILDT from continued operations stood at Rs.127.76 crore. The operating income is expected to improve over medium term as company is under talks with COVID-19 Vaccine originators for undertaking manufacturing of vaccine at its India facilities. For this company, the initial outlay required is Rs.150 crore (Rs.100 crore for modification of manufacturing process and Rs.50 crore for working capital requirement) which would be funded from NCD issue amounting Rs.150 crore.
Key Rating Weaknesses
Significant delay in resolution of regulatory issues
During FY14, WL received import alert from USFDA for its facilities at Waluj and Chikhalthana at Aurangabad, followed by regulatory scrutiny for other plants and from UKMHRA on compliance issues for Indian facilities (related to current good manufacturing practices regulations) such as Chikalthana, Kadiya, etc. Due to various measures taken by the company, UKMHRA has approved its Chikalthana, Shendra, Bhimpore, 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 9 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. As indicated by the management, WL expects no remediation cost to be incurred from FY21 onwards. However, delay in resolving the USFDA clearance remains key monitorable.
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.

Increasing pricing pressures and prevailing intense competition in the global generics market

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

Foreign exchange fluctuation risk

On consolidated basis, the company is predominantly an export oriented company (with around 73% of its overall revenues earned in foreign currency mainly denominated in USD (US Dollar), GBP and Euro. Thus, company is exposed to foreign currency fluctuation risk. However, there is a partial natural hedge available owing to manufacturing undertaken outside India, foreign currency term debts and sales outside India.

Liquidity analysis: Adequate

WL on a consolidated basis has pending repayments of Rs.292.52 crore repayments in FY22 which would be funded from accruals. The company's liquidity position has improved post closure of sales of Baddi Plant and divestment of 62 products in generic business to Dr. Reddy's Laboratories Limited in Q1FY21. The company availed moratorium for term loan repayments from March 2020 till August, 2020 (from Indian Lenders for loans availed in INR) as per RBI guidelines and the same was approved by lenders. Moreover, WL on consolidated level had free cash and cash equivalents of Rs.237.30 crore as on December 31, 2020 providing additional liquidity cushion. Hence, the company's liquidity position stands adequate over medium term.

Analytical approach: For arriving at the ratings, CARE has considered the consolidated audited financial statements published in the annual report during FY20. WL has various subsidiaries, associates and joint ventures amongst others. These companies are fully consolidated 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 are given in Annexure 4 below.

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Consolidation and Factoring Linkages in Ratings
Rating Methodology- Manufacturing Companies
Rating Methodology-Pharmaceutical Sector
Financial ratios-Non-Financial 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 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.

Brief Financials (Rs. In Crores)	FY19 (A)	FY20(A)*
Total operating income	4176.98	3377.02
PBILDT	128.19	244.35
PAT	-216.66	-43.39
Overall gearing (times)	1.12	1.09
Interest coverage (times)	0.48	0.87

A: Audited

*Total operating income, PBILDT, and PAT includes revenue (Rs.481 crore) and profits (Rs.94.56 crore) from discontinued operations pertaining to DRL deal.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2
Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	Yet to be placed			200.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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)	1)CARE A+; Stable (15-Feb-18) 2)CARE AA-; Negative (05-Jul-17)
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)	1)CARE A1 (15-Feb-18) 2)CARE A1+ (05-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	150.00	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)	1)CARE A+; Stable (15-Feb-18) 2)CARE AA-; Negative (05-Jul-17)
4.	Non-fund-based - ST-	ST	62.50	CARE	1)CARE A3	1)CARE	1)CARE A3	1)CARE A1

	BG/LC			A3	(27-Aug-20)	A4+ (CWP) (25-Feb-20) 2)CARE A4+ (30-Sep-19)	(07-Jan-19) 2)CARE A3 (19-Oct-18) 3)CARE A1 (15-May-18)	(15-Feb-18) 2)CARE A1+ (05-Jul-17)
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)	1)CARE A+; Stable (15-Feb-18) 2)CARE AA-; Negative (05-Jul-17)
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	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

Annexure – 4: List of entities in consolidated financials as on March 31, 2020

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%

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

@WL holds 85.85% shareholding in the Wockhardt Bio AG which in turn holds 100% shareholding in these subsidiaries

Annexure-5: Detailed explanation of covenants of the rated instrument / facilities - Not applicable

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

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