Wockhardt Limited

September 04,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	512.75	CARE BB+; Negative	Revised from CARE BBB-; Negative
Short Term Bank Facilities	171.20	CARE A4+	Revised from CARE A3
Issuer rating Issuer Rating	0.00	CARE BB+; Negative	Revised from CARE BBB-; Negative
Non Convertible Debentures	175.00	CARE BB+; Negative	Revised from CARE BBB-; Negative
Non Convertible Debentures	50.00	CARE BB+; Negative	Revised from CARE BBB-; Negative

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings of Wockhardt Limited (WL) is on account of continued weak financial performance q-o-q, as out of 10 previous quarters company reported losses in eight of them. Further, the pledge of share continues to remain high at about 69% as on June 30, 2023, and there has been delay in de-pledging the same. There is also delay in inflow of funds from the monetisation of United States of America (U.S.A) based assets. The ratings also factor in moderation in revenue and operating profitability during FY23, weakening of overall credit risk profile of the company, significant one-time provisioning made on account of write-off of the inventory and shut down of the plant located at US, long pending regulatory overhang due to imposition of USFDA alert and the company's exposure to regulated markets (especially USA) which is witnessing increased competition and continues to impact company's operational efficiency. The ratings however derive strength from established track record of company in pharmaceutical industry as well as experienced and resourceful promoters, diversified product portfolio across multiple therapeutic segments with established marketing network and global presence along with accredited manufacturing facilities with R&D focused approach.

CARE Ratings Limited (CARE) will continue to monitor the developments with respect to pledge of share, monetisation of US based assets and Phase III clinical trials of its New Chemical Entities, while the funding of the same remains critical.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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.
- Commercialisation of the NCE program, adding to revenue and resulting in improvement in profitability.

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.
- Increase in the debt/PBILDT levels over 12.00x on a sustained basis owing to debt-funded capital expenditure or acquisition over the medium term or due to weakening of the credit risk profile.

Analytical approach: Consolidated

CARE has taken consolidated view of WL and its subsidiaries due to operational and financial linkages, fungible cash-flows, common management and support provided by WL to these subsidiaries. List of companies that are consolidated to arrive at the ratings is given as annexure -6.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Negative

The negative outlook reflects continued weak operational and financial performance and uncertainty associated with future performance. Further, the negative outlook also factors high pledging of promoter's shares. The outlook may be revised to 'Stable' if there is noticeable improvement in the total operating income along with profitability and liquidity along with considerable reduction in pledge of promoter's shares.

Detailed description of the key rating drivers:

Key weaknesses

Continued weak overall performance

The overall performance of the company continues to be weak. During Q1FY24, although company has reported revenue growth of about 8% from Rs 595 crore in Q1FY23 to Rs 644 crore however company continues to report net loss. The company has reported net loss of Rs. 136 crore during Q1FY24 as against the net loss of Rs. 75 crore during Q1FY23. Company has reported losses in 8 quarters out of ten previous quarters. Further, during FY23, the total operating income of the company moderated by 15.73% to Rs 2731 crore against Rs 3241 crore in FY22. The moderation in operating income during FY23, was primarily due to decline in revenue from covid vaccine to nil vis-à-vis ~Rs 550 crore in FY22. The covid vaccines were exported to European market. The revenue from other therapeutic products and geography did not improve during FY23 and remained at the similar levels as in FY22, resulting in net fall in overall revenue. With the fall in revenue, the operating margins of the company also moderated by 290 bps to 6.64% in FY23 vis-à-vis 9.53% in FY22 on account of overall increase in the input cost by about 159 bps and fall in the revenue of covid vaccines. The PAT of the company stood negative at Rs. 621 crore in FY23 as against Rs.279 crore during FY22. The increase in net loss is due to recognition of exceptional loss to the tune of Rs 294 crore on account of restructuring of US business. In order to save fixed cost, company has closed its US manufacturing plant and has outsourced its products to third party manufacturing sites. Management has also indicated earlier that by the monetisation of US based assets company was expected to receive $14 mn (about Rs 115 crore) by August 2023, however the same is delayed and is expected by September-October 2023.

Weakening of overall financial risk profile in FY23

On a consolidated basis, overall gearing as on March 31, 2023 has deteriorated to 0.80x against 0.67x as on March 31, 2022. The deterioration is mainly due to decline in Net worth by Rs 571 crore during FY23 due to reporting of loss to the tune of Rs 621 crore. The aforementioned includes loss of Rs 294 crore as exceptional loss. The company's total debt to GCA (TDGCA) stood at 9.72x in FY23. During FY23, company generated accruals to the extent of Rs ~225 crore after adjusting all non-cash expenses. Further, as on March 31, 2023, 65.46% of the promoters' shares were pledged which as on June 30, 2023, increased to 69.08%. Earlier management has indicated, with the repayment of debt the pledge is expected to come down by July 2023 to about 39%. However, the same has not taken place. CARE will continue to monitor the development with respect to pledge of shares.

Significant delay in resolution of regulatory issues

During FY14, WL received import alert from USFDA for one of its major facilities i.e. Waluj (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 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. There were no USFDA audit conducted during FY21 & FY22 on account of Covid-19 travel restrictions. As indicated by the management the company is understood to have incurred about Rs.394 crore during FY17-FY20 towards remediation which has impacted operating profits in past. The company has not incurred any remediation cost from FY21 onwards. However, further delay in resolving the same may limit the company's revival of operations. As due to USFDA alert, WL currently manufactures drugs via outsourcing to third party which are US FDA certified manufacturers.

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.

Foreign exchange fluctuation risk
On a consolidated basis, the company has significant revenue contribution from export market. Around 77% of its overall revenues in FY23 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.

Key strengths
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 FY23 the company has been granted 7 patents. As on March 31, 2023, combined pool of company's patent has reached 3,239 (filed) and 810 (granted). WL also has filed for 103 ANDAs, as on March 31, 2023, of which 66 are approved and 37 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 11 manufacturing plants (8 in India, and one each in UK, Ireland and Dubai) which have the necessary international accreditations like 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 FY23, the company's R&D expenses stood at 5.28% of revenue from operations during FY23 against 4.40% during FY22. WL is the only global company to receive 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) status by USFDA during FY20. QIDP ensures fast track approvals for drugs in the US. Out of the six, two have been approved by Drug Controller General of India (DCGI) and are being marketed in India with favourable results. The other 4 New Chemical Entities (NCEs) are in various stages of clinical trials and studies. In August 2022, WL in a statement announced the commencement of phase 3 global study of WCK 5222.

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 UK, USA, European Union and India. It also has market presence in Asian, African, South American, Middle Eastern countries as given below. Exports accounts for significant portion of company's revenue; revenue from overseas business stood at about Rs. 2084 crore (approximately 77% of the total revenue) in FY23 compared to Rs 2,569 crore (approximately 79% of total revenue) in FY22.

Launch of new products in regulated and emerging markets to improve revenue and profitability
During FY24, company plans to launch new products in the UK. These products have already received approval and the revenue is expected to flow from Q2FY24. Further, these products are expected to command healthy margins which will help WL improve its overall profitability. Furthermore, company has also won tenders in emerging markets for its products. These contracts are of long-term nature which provides improved revenue visibility for the company. The successful launch of new products and execution of long-term contracts would remain a key monitorable.

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. Company expects revenue inflow to start from FY25.

Liquidity: Adequate
The liquidity position of the company is adequate. During FY23, the company generated cash accruals of about Rs 225 crore. However, during Q1FY24, the cash accruals stood at about Rs 10 crore only. As indicated by the management the company has, as on June 30, 2023, free cash and bank balance to the tune of about Rs 125 crore. During FY24, the company has total repayment obligation of about Rs 243 crore (excluding lease liabilities) out of which about Rs 100 crore has already been paid by June 30, 2023. CARE expects that with the available free cash and liquid investments and the expected cash accruals in the range of Rs 150-Rs 200 crore during FY24, the company will be able to comfortably meet its debt obligations.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks
For the pharma industry the main factor of ESG affecting the sector is the social aspects like product safety and quality, human capital & development, access to healthcare. Governance remains a universal concept affecting all the sectors and geographies. Amongst the ESG factors, majority of the pharma companies seems to be focusing on product quality & safety and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements which are continuously evolving, any non-compliance with regulations or scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation and related expenses. It might also result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from regulators like USFDA.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 1960 and founded by Dr. Habil F Khorakiwala, 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 UK, European Union, US and India. It also has market presence in Asian, African, South American, Middle-Eastern countries. WL has eleven manufacturing locations and in three of these locations R&D activities are carried out. Eights units are in India and one each in UK, Ireland and Dubai.

Brief Financials Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	3241.00	2731.00	595.00
PBILDT	309.00	181.00	16.00
PAT	-279.00	-621.00	-136.00
Overall gearing (times)	0.67	0.80	NA
Interest coverage (times)	1.03	0.60	4.94

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available

Status of non-cooperation with previous CRA: Rating of the company migrated to 'IND BB+; Issuer not cooperating/IND A4+; Issuer not cooperating' from 'IND BB+; Stable/IND A4+' vide their press release dated June 06, 2023 on account of failure to obtain necessary information.

Any other information: Not applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE049B07048	28-Apr-2021	11.75%	April 28, 2024	175.00	CARE BB+; Negative
	INE049B07055	12-May- 2021		May 12, 2024		
	INE049B07063	21-May-2021		May 21, 2024		
Non Convertible Debentures	INE049B07071	27-Aug-2021	11.00%	Oct 21, 2024	50.00	CARE BB+; Negative
Fund-based - LT-Cash Credit		-	-	-	387.75	CARE BB+; Negative
Fund-based - LT-Cash Credit		-	-	-	125.00	CARE BB+; Negative
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE BB+; Negative
Non-fund-based - ST-BG/LC		-	-	-	12.50	CARE A4+
Non-fund-based - ST-BG/LC		-	-	-	158.70	CARE A4+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	387.75	CARE BB+; Negative	1)CARE BBB-; Negative (06-Jun-23)	1)CARE BBB-; Stable (02-Sep-22)	1)CARE BBB-; Stable (03-Sep-21)	1)CARE BBB-; Stable (27-Aug-20)
2	Non-fund-based - ST-BG/LC	ST	158.70	CARE A4+	1)CARE A3 (06-Jun-23)	1)CARE A3 (02-Sep-22)	1)CARE A3 (03-Sep-21)	1)CARE A3 (27-Aug-20)
3	Fund-based - LT-Cash Credit	LT	125.00	CARE BB+; Negative	1)CARE BBB-; Negative (06-Jun-23)	1)CARE BBB-; Stable (02-Sep-22)	1)CARE BBB-; Stable (03-Sep-21)	1)CARE BBB-; Stable (27-Aug-20)
4	Non-fund-based - ST-BG/LC	ST	12.50	CARE A4+	1)CARE A3 (06-Jun-23)	1)CARE A3 (02-Sep-22)	1)CARE A3 (03-Sep-21)	1)CARE A3 (27-Aug-20)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (27-Aug-20)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (27-Aug-20)
7	Debentures-Non Convertible Debentures	LT	175.00	CARE BB+; Negative	1)CARE BBB-; Negative (06-Jun-23)	1)CARE BBB-; Stable (02-Sep-22)	1)CARE BBB-; Stable (03-Sep-21) 2)CARE BBB-; Stable (05-Apr-21)	-
8	Debentures-Non Convertible Debentures	LT	50.00	CARE BB+; Negative	1)CARE BBB-; Negative (06-Jun-23)	1)CARE BBB-; Stable (02-Sep-22)	1)CARE BBB-; Stable (03-Sep-21)	-
9	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BB+; Negative	1)CARE BBB-; Negative (06-Jun-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of 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%

Note on the 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 for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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