Wockhardt Limited

September 30, 2019

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Fund Based)	900.00	**CARE BB+; Stable [Double B Plus; Outlook: Stable]**	**Revised from CARE BBB-, Negative [Triple B Minus; Outlook: Negative]**
Short Term Bank Facilities (Non-Fund Based)	533.80	**CARE A4+ [A Four Plus]**	**Revised from CARE A3 (A three)**
Total	**1,433.80 (Rupees One thousand Four hundred Thirty Three crore and Eighty lakhs only)**		
Proposed Non-Convertible Debenture issue	500 **(Rs. Five Hundred crore only)**	**CARE BB+; Stable [Double B Plus; Outlook: Stable]**	**Revised from CARE BBB-, Negative [Triple B Minus; Outlook: Negative]**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities/proposed Non-Convertible Debenture issue of Wockhardt Limited (WL) factors in significant refinancing risk in Q3FY19 and FY20, notwithstanding promoters' commitment for infusion of funds till date to tide over temporary cash flow mismatches, weakened overall financial profile and stretched liquidity position as denoted by high utilization of working capital limits. The ratings continued to be tempered by weak operating performance resulting into continued losses (though the net loss has declined in FY19 and Q1FY20), substantial decrease in cash and cash equivalents as well as the company's exposure to regulated markets especially the USA, which is witnessing increased competition resulting into pricing pressure.

The rating constraints are, however offset by established track record and experience of the promoters in the global pharmaceutical industry, WL's strong and diversified product portfolio across multiple therapeutic segments with established marketing network and global presence and accredited manufacturing facilities with R&D focused approach; the company being only global company to receive QIDP status by USFDA for its five anti-infective drugs.

The ability of the company to maintain sufficient liquidity, ability to refinance the loans (due for maturity in Q3YF19) on a timely basis as well as ramp up of operations and achievement of adequate profitability as envisaged remains key rating sensitivities.

Outlook: Stable

The rating is revised from negative to stable as CARE expects operating performance to improve and net loss to reduce further in the upcoming quarters. It is also expected that the planned refinancing of debt will crystallize by October/November 2019 and the promoters will infuse additional funds, if need be. The promoters of the company have till date infused Rs 366 crore out of Rs. 500 crore approved. The ratings may further be downgraded oroutlook may be revised to negative if refinance does not crystallize or promoters do not infuse funds within above stated timelines.

Detailed description of the key rating drivers

Key Rating Weakness

Weakened liquidity position; timely refinance of loan coupled with infusion of funds remain critical

Liquidity position weakened as WL continued to make losses in Q1FY20 and FY19 along with significant debt repayments. This has resulted in decrease in cash and cash equivalents and deterioration in debt coverage indicators. As on June 30, 2019, WL had a total cash of Rs.187 crore against cash balance of Rs 397 crore as on March 31, 2019. [The promoters incrementally have infused funds in Q1FY20 to tide over temporary cash flow mismatches.] Fund based working capital limits utilization on an average for the last 12 month period ending June 2019 stood at 86% signifying modest cushion. The company has total repayments of Rs 408 crore in H2FY20. Hence, timely refinance of loan/ promoter fund infusion would be extremely critical and remain the key monitorable in the near term.

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

Weakened and moderate overall financial profile
Overall financial profile continued to weaken marked by continued losses in Q1FY20 and FY19 along with significant debt repayments. On a consolidated basis, overall gearing ratio marginally improved to 1.12x as on March 31, 2019 as against 1.17x as on March 31, 2018 mainly on account reduction in total debt of Rs. 373 crore. Furthermore, interest coverage ratio continued to remain below unity for last three fiscals due to moderate PBILDT and increase in finance cost.

Operational performance, though improving, continues to remain weak
The company reported muted growth in total operating income (3% on YoY basis) to Rs.4,177 crore in FY19 vis-à-vis FY18 mainly due to de-growth in India and Europe. However, operating profitability witness an improvement on account of reduction in ongoing remedial cost. The company's focus on cost containment and rationalization had a positive effect on profitability. Accordingly, gross cash accruals also reduced in FY19 to Rs. 144 crore vis-a vis Rs.542 crore (includes exceptional expense of Rs. 358 cr) in FY18. Despite de-growth in sales in Q1FY20, EBITDA showed material improvement on YoY basis to Rs. 48 crore (from Rs 12 crore in Q1FY19) on account of remedial cost reduction and overall cost rationalization. Further, owing to slew of product launches in India and international operations in H2FY20, CARE expects improvement in operating profitability from Q3FY20.

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 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. Further, WL got its Chikalthana and Waluj facilities inspected by USFDA and in July 2016, units L-1 Chikalthana and Waluj received establishment inspection report (EIR) with observations from USFDA. Further, the USFDA has provided Shendra plant with 9 observations and has updated 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. Cumulatively by end of March 2019, seven of WL's facilities were under USDFA restrictions. Any further delay in resolving the same may dampen the prospects of revival of operations and remain a key credit 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.

I***ncreasing 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 62% 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.

Key Rating Strengths
Experienced promoters
Over the years under the able 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.

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 FY19, the company launched 8 new products in India (FY18: launched 12 new products). In Q1FY20, WL launched 4 new products in India. During FY19, the company had filed 95 patents and won 66 patents. Further, during Q1FY20, WL has filed 11 patents and won 5 patents. On a cumulative

basis as on June 30, 2019, WL has filed 3143 patents and won 699 patents. WL also has a strong pipeline of 55 ANDAs, as on June 30, 2019 awaiting 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 (9 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 3 research and development centers (one in India at Aurangabad, Maharashtra; one in USA, and one in UK). For the past 2 years (FY18 & FY19), the company has spent around 7% of sales in Research and Development (R&D). WL is the only global company to receive for its 5 anti-infective drugs (namely WCK 771, WCK 2349, WCK 4873, WCK 5222 and WCK 4282) QIDP status by USFDA. QIDP (Qualified Infectious Diseases Programme) ensures fast track approvals for drugs in the US and which will help monetize the same from FY21 onwards. This reflects the company's long term strategy of a concerted R&D effort to enable it to become an innovator generic player.

Analytical approach: For arriving at the ratings, CARE has considered the consolidated audited financial statements published in the annual report during FY19. 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 3 below.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
CARE's methodology for manufacturing companies
Rating Methodology-Pharmaceutical Sector
Financial ratios - Non-Financial Sector

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 nine manufacturing plants in India and one each in USA, UK and Ireland.

Brief Financials (Rs. In Crores)	FY18 (A)	FY19(A)
Total operating income	4037.28	4176.98
PBILDT	40.60	128.19
PAT	-666.85	-216.66
Overall gearing (times)	1.17	1.12
Interest coverage (times)	0.16	0.48

A: Audited

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
Fund-based - LT-Cash Credit	-	-	-	712.50	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	471.30	CARE A4+
Fund-based - LT-Cash Credit	-	-	-	187.50	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	62.50	CARE A4+
Proposed Debentures-Non Convertible Debentures	-	--	-	500.00	CARE BB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	712.50	CARE BB+; Stable	-	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)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	471.30	CARE A4+	-	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)	1)CARE A1+ (28-Dec-16) 2)CARE A1+ (25-Oct-16)
3.	Fund-based - LT-Cash Credit	LT	187.50	CARE BB+; Stable	-	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)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Oct-16)
4.	Non-fund-based - ST-BG/LC	ST	62.50	CARE A4+	-	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)	1)CARE A1+ (28-Dec-16) 2)CARE A1+ (25-Oct-16)
5.	Debentures-Non Convertible Debentures	LT	250.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (07-Jan-19)	1)CARE A+; Stable (15-Feb-18)	1)CARE AA; Negative (28-Dec-16)

						2)CARE BBB-; Negative (19-Oct-18) 3)CARE A; Negative (15-May-18)	2)CARE AA-; Negative (05-Jul-17)	2)CARE AA (25-Nov-16)
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (07-Jan-19) 2)CARE BBB-; Negative (19-Oct-18) 3)CARE A (15-May-18)	-	-

Annexure – 3: List of entities in consolidated financials as on March 31, 2019

Subsidiaries		
Sr. No.	**Name of the entity**	**%Holding**
	Direct	
1	Wockhardt Infrastructure Development Limited	100%
2	Wockhardt UK Holdings Limited	100.00%
3	Wockhardt Europe Limited	100.00%
4	Wockhardt Bio AG	85.85%
5	Wockhardt Medicines Limited	100.00%
	Indirect	
5	CP Pharmaceuticals Limited@	85.85%
6	CP Pharma (Schweiz) AG @	85.85%
7	Wallis Group Limited	100%
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%

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

Annexure-4: 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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