Wockhardt Limited
January 07, 2019

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/proposed Non-Convertible Debenture issue of Wockhardt Limited (WL) takes cognizance of continued losses in FY2017-18 (refers to period from April 1, 2017 to March 31, 2018) and H1FY2018-19 and delay in raising adequate funds/ refinancing existing debt amidst upcoming debt repayments in Q4FY2018-19 & FY2019-20, thereby, weakening its overall financial profile and leading to pressure on liquidity. To address this, the company is in process to raise funds/refinance existing debt, timely and adequate action is critical to maintain/improve overall liquidity profile. Decline in operational cash-flows in last two fiscals i.e. FY2016-17 & FY2017-18 has resulted in decline in liquidity position of the company with weakening net debt position.

Nevertheless, the ratings continue to derive strength from the 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 aforementioned rating strengths, however, are partially tempered by deterioration in operational performance resulting into continued losses and consequent decrease in cash and cash equivalent; albeit company's plan to raise/maintain sufficient liquidity. The ratings also take into account significant delay in resolution of regulatory issues with the US Food and Drug Administration (USFDA) despite on-going remedial measures and continuous expense towards research and development (R&D) expenses impacting profitability. Besides, the ratings also take into account exposure to regulated markets especially the USA, which is witnessing increased competition resulting into pricing pressure coupled with heightened regulatory scrutiny and exposure to foreign exchange fluctuations.

Ability of the company to maintain sufficient liquidity for meeting debt obligations due in Q42018-19/FY2019-20 and ramp up of operations & achievement of adequate profitability as envisaged remains key rating sensitivity. Furthermore, resolution of pending USFDA regulatory issues remains key rating monitorable.

Outlook: Negative

The 'Negative' outlook reflects delay in raising adequate funds/refinancing existing debt consequent into maintaining sufficient liquidity for meeting debt obligations due in Q4FY2018-19/FY2019-20 and uncertainty w.r.t satisfactory increase in operating revenues as well as generation of adequate cash profits. Outlook may be revised to 'Stable' in case the company is able to successfully raise adequate funds/refinance existing debt and maintain sufficient liquidity for meeting debt obligations due in Q4FY2018-19/FY2019-20 and is able to effectively increase operating revenues as well as generate appropriate cash profits.

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

Detailed description of the key rating drivers

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 along with established brands 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, Anti-Diabetic etc. During FY2017-18, the company launched 12 new products in India (FY2016-17: launched 24 new products). During FY 2017-18, the company had filed 133 patents and won 75 patents (cumulative basis patent filed 3,037 and won 628). Further, during Q2FY19, WL has filed 47 patents taking the cumulative filings to 3,103 as on September 30, 2018 and also the company has been granted 29 patents during the quarter, taking the cumulative patents to 672 as on September 30, 2018. WL also has a strong pipeline of 71 ANDAs, as on September 30, 2018 awaiting approval, thus the product basket is well diversified across many therapeutic segments.

Established marketing network with global presence: Revenue from international operations was Rs.2,427 crore (approximately 62% of total revenue) in FY18 vis-à-vis Rs.2,488 crore (approximately 62% of total revenue) in FY17.

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 centres (one in India at Aurangabad, Maharashtra; one in USA, and one in UK). Till date, the company has received the Qualified Infectious Disease Product (QIDP) status for five products for its Anti-bacterial discovery programs. This reflects the company's long term strategy of a concerted R&D effort to enable it to transform itself from a generic player to that of an innovator.

Key Rating Weaknesses

Weakened and moderate overall financial profile

Overall financial profile continued to weaken marked by continued cash losses in H1FY19 and FY18 along with significant debt repayments in FY19/FY20. WL reported cash loss of Rs.542 crore in FY18 vis-à-vis cash loss of Rs.109 crore in FY17. The increase in loss was largely due to one-time settlement cash outflow of Rs.358 crore on account of supply contract with Cephalon Inc, (Cephalon) an affiliate of Teva Pharmaceuticals USA, Inc. (Teva). On a consolidated basis, overall gearing ratio deteriorated to 1.17 times as on March 31, 2018 from 1.12 times as on March 31, 2017 on account of reduced net worth due to losses. Furthermore, Interest coverage ratio continued to remain below unity for last two fiscals due to moderate PBILDT and increase in finance cost.

Deterioration in operational performance:

Revenue from international operations was Rs.2,427 crore (approximately 62% of total revenue) in FY18 vis-à-vis Rs.2488 crore (approximately 62% of total revenue) in FY17. Operating profitability continued to be adversely impacted on account of cost of ongoing remedial measures, volatility in various currencies like GBP, Euro, USD, etc., the ongoing R&D expenses (7% of consolidated revenues).

PBILDT margin continued to remain lower at 1.01% in FY18 as against 1.97% in FY17.WL reported total operating income of Rs.2147 crore in H1FY2018-19 vis-à-vis Rs.2005 crore in H1FY2017-18 (improved by approximately 7%) on the back of growth in US and India business. WL's PBILDT margin on a consolidated basis improved to 3.98% in H1FY2018-19 as against 2.63% in H1FY2017-18 led by rationalization and cost containment especially R&D expense. However, cost of on-going remedial measure continues to affect the performance. The same is evident from the continued cash losses in H1FY19. WL reported net loss of Rs.109 crore in H1FY19 as against net loss of Rs.413 crore in H1FY18.

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 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. 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) in2017 which has resulted in restriction on these facilities. Cumulatively by end of March 2018, 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.

Working capital intensive nature of operations
Over FY15-18, operating cycle of the company increased from 100 days to almost 150 days mainly on account of increase in receivables. The increase in collection period was due to higher credit period extended to its clients especially in emerging markets, Russia and CIS countries. Consequently, average fund-based working capital utilization also remained high at around 68% on an average (max at 70%) during the 12-month period ended September 2018.
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 intense 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 is 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.

Analytical approach:

For arriving at the ratings, CARE has considered the consolidated audited financial statements published in the annual report during FY18. 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.

Liquidity Analysis:
Liquidity position remains weakened as WL continued to make cash losses in H1FY19 and FY18 along with significant debt repayments in FY19/FY20 consequent into decrease in cash and cash equivalents and ensuing impact on debt servicing for FY19/FY20. In FY18 and H1FY19, long term debt has been repaid mainly out of existing cash equivalents. Also, debt service coverage ratio for FY19 is below unity and repayment obligations are expected to be met through a combination of internal accruals/fund raising/refinancing/equity infusion by promoters etc. Furthermore, fund based working capital limits utilization on an average for the last 12 month period ending September 2018 stood at 68% (max at 70%) signifying modest cushion. Hence the company is dependent on fund infusion by promoters/raising external debt to take care of its operational needs and debt obligations. On a consolidated basis, in Q3FY19 and Q4FY19, WL's aggregate total repayment is about Rs.780.85 crore. In Q3FY19, WL's repayment is about Rs.617 crore (including a Rs.271 crore of preference share) to be rapid by Dec 31, 2018 and in Q4 WL's scheduled repayment is about Rs.163.56 crore (including a Rs.96 crore of preference share) to be rapid by March 31, 2019, thus, by the end of FY19. Promoters have brought in Rs.250 crore (in December 2018) in WL in the form of preference shares which shall aid liquidity in the near term.

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
Rating Methodology- 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 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.

Consolidated Brief Financials-WL (Rs. crore)	FY2016-17 (A)	FY2017-18 (A)
Total operating income	4,081.82	4,037.28
PBILDT	80.53	40.60
PAT	-226.04	-666.85
Overall gearing (times)	1.12	1.17
Interest coverage (times)	0.36	0.16

A: Audited

Status of non-cooperation with previous CRA: *None*

Any other information: *Not Applicable*

Rating History for last three years: Please refer Annexure-2

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	471.30	CARE A3
Fund-based - LT-Cash Credit	-	-	-	187.50	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	62.50	CARE A3
Debentures-Non Convertible Debentures	-	--	--	250.00	CARE BBB-; Negative
Debentures-Non Convertible Debentures	-	--	--	250.00	CARE BBB-; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	712.50	CARE BBB-; Negative	1)CARE BBB-; Negative (19-Oct-18) 2)CARE A; Negative (15-May-18)	1)CARE A+; Stable (22-Feb-18) 2)CARE AA-; Negative (05-Jul-17)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Oct-16)	1)CARE AA (08-Feb-16) 2)CARE AA (20-Apr-15)
2.	Non-fund-based - ST-BG/LC	ST	471.30	CARE A3	1)CARE A3 (19-Oct-18) 2)CARE A1 (15-May-18)	1)CARE A1 (22-Feb-18) 2)CARE A1+ (05-Jul-17)	1)CARE A1+ (28-Dec-16) 2)CARE A1+ (25-Oct-16)	1)CARE A1+ (08-Feb-16) 2)CARE A1+ (20-Apr-15)

3.	Fund-based - LT-Cash Credit	LT	187.50	CARE BBB-; Negative	1)CARE BBB-; Negative (19-Oct-18) 2)CARE A; Negative (15-May-18)	1)CARE A+; Stable (22-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 A3	1)CARE A3 (19-Oct-18) 2)CARE A1 (15-May-18)	1)CARE A1 (22-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 BBB-; Negative	1)CARE BBB-; Negative (19-Oct-18) 2)CARE A; Negative (15-May-18)	1)CARE A+; Stable (22-Feb-18) 2)CARE AA-; Negative (05-Jul-17)	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Nov-16)	-
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE BBB-; Negative	1)CARE BBB-; Negative (19-Oct-18) 2)CARE A (15-May-18)	-	-	-

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