1st October, 2020

BSE Limited Corporate Relations Department P J Towers, Dalal Street Mumbai - 400 001 **Scrip Code: 532300**	National Stock Exchange of India Limited Listing Department Exchange Plaza Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 **NSE Symbol – WOCKPHARMA**

Dear Sir/ Madam,

We have to inform you that India Ratings and Research Private Limited ('India Ratings') has revised the Company's ratings for:

1. Long-Term Loan Facilities (Fund Based) upgraded from "IND BB+/ RWE(Rating Watch Evolving);" to **"IND BBB-/Stable"**; and

2. Short-Term Loan Facilities (Non-Fund Based) upgraded from "IND A4+/RWE(Rating Watch Evolving)"; to **"IND A3"**

Further to inform you that India Ratings has revised the Company's ratings on account of improvement in company's liquidity position post partial divestment of India Business, easing of repayment pressures during FY 2021, improvement in operating profitability in continued operations in FY 2020 and tie-up with UK Government for vaccine manufacturing. The detailed proposed Press Release of India Ratings is also enclosed for reference.

Thanking you,

For **Wockhardt Limited**

Gajanand

Gajanand Sahu
Company Secretary

Encl: As above

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India Ratings Upgrades Wockhardt to 'IND BBB-'; Outlook Stable; Off RWE

30
SEP 2020

By Nishith Sanghvi

India Ratings and Research (Ind-Ra) has upgraded Wockhardt Limited's (WL) Long-Term Issuer Rating to 'IND BBB-' from 'IND BB+' while resolving the Rating Watch Evolving (RWE). The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	June 2022 - March 2024	INR4,350 (reduced from INR6,750)	IND BBB-/Stable	Upgraded; Off RWE
Fund-based limits	-	-	-	INR3,790 (reduced from INR4,000)	IND BBB-/Stable	Upgraded; Off RWE
Non-fund-based limits	-	-	-	INR3,078 (reduced from INR3,588)	IND A3	Upgraded; Off RWE
Fund-based/ non-fund-based interchangeable limits	-	-	-	INR2162.5 (increased from INR1,663)	IND BBB-/Stable/IND A3	Upgraded; Off RWE
Term loans	-	-	December 2021 - January 2022	USD165 (reduced from USD380)	IND BBB-/Stable	Upgraded; Off RWE
Proposed working capital facilities#*	-	-	-	INR1,047.5 (reduced from INR5,087.5)	IND BBB-/Stable/IND A3	Assigned and Upgraded; Off RWE

#The provisional rating of the proposed bank facilities has been converted to final rating according to Ind-Ra's updated policy. This is because the agency notes that debt seniority and general terms and conditions of working capital facilities tend to be uniform across banks, and are not a rating driver.
*assigned final rating IND BB+/RWE/IND A4+/RWE before been upgraded

Analytical Approach: The agency continues to take a consolidated view of WL and its 32 subsidiaries while arriving at the ratings.

The resolution of the RWE reflects the completion of the partial divestment of WL's India formulations business, for which, the proceeds have been realised by the company. The upgrade reflects the i) improvement in WL's liquidity position post the part sale of its India business ii) the easing of repayment pressures during FY21 iii) continued strong promoter support as reflected in the funds infused during the difficult period of FY17 and FY18 and iv) visibility on the refinancing available for FY22 though still not tied-up.

The added liquidity will help WL to pay off the debt due in FY21, extinguish preference shares and promoter loans, and invest in working capital. The ratings remain constrained due to a change in WL's business mix post the partial divestment of the higher-margin India business, which will restrict the scale of profitability improvement. Ind-Ra will continue to monitor the status on the operational improvement and WL's efforts to refinance the higher level of debt on its books.

KEY RATING DRIVERS

Sale Proceeds Inject Liquidity in the Business: The upgrade factors in the completion of the sale of a portion of WL's domestic branded business to Dr. Reddy's Laboratories Limited ('IND AA+'/Stable) for INR18.50 billion against which the company had received INR15.37 billion at end-September 2020. An amount of INR3 billion is linked to the sold business achieving certain milestones, which the management expects to realise in full in FY21. However, Ind-Ra has not factored the same in its projections as it is subject to conditions being achieved. Additionally, of the INR15.50 billion, an amount of INR670 million was deposited in an escrow account that was to be released subject to adjustments for, inter alia, net working capital, employee liabilities and certain other contractual and statutory liabilities. WL has already received INR540 million from the same and the balance will be realised in FY21. The company has indicated the divestment will ensure the availability of adequate liquidity to stimulate growth in the chronic domestic branded business, international operations and investments in global clinical trials of anti-infectives.

Refinancing Risk in FY22 to be offset by Committed Lines and Strong Promoters: WL has repayment liabilities of INR7.93 billion and INR7.92 billion over FY21 and FY22, respectively. Of these, INR1.94 billion and INR2.9 billion is due at the standalone level while the INR5.99 billion and INR5.01 billion is at Wockhardt BioAG (a subsidiary of WL based in Switzerland). According to WL, FY21 repayment obligations will be met through the cash realisations from the partial divestment of the domestic business. Given that there will be a repayment to the promoters, the liquidity cushion post FY21 will decline. Hence, Ind-Ra believes for FY22, challenges on refinancing will remain as internal cash generation will be utilised for the payment of interest and capex, leaving little room for the repayment obligations. Ind-Ra believes there are multiple options available to WL i) refinancing limits available through tie-up being sought by the company, ii) strategic divestment, if possible, on some of the new chemical entities and iii) promoter infusing funds back, if required, to support the business. The refinancing is likely to be taken at the subsidiary level and the management expects the US dollar denominated debt to be relatively cheaper compared to the Indian debt. Promoters have, in the past, infused INR3.3 billion through preference shares and INR2.36 billion through unsecured loans, part of which is proposed to be repaid during FY21 from the divestment proceeds.

Improvement in Operating Profitability in FY20 in Continuing Operations: WL's continuing operations revenue in India declined 56% yoy to INR4.02 billion in FY20 (impacted on its pain portfolio product led by price control). The India business accounted for 14% of the company's total revenue during FY20 (FY19: 26%). Revenue from the US (26% of revenue) and EU (41%) businesses fell 8% yoy and 11% yoy, respectively, during FY20. WL's emerging markets (19%) business reported flat growth of 1% yoy in FY20. The company reported consolidated PAT loss of INR1.37 billion in FY20 (FY19 loss: INR3.1 billion). However, the consolidated EBITDA grew to INR1.00 billion in FY20, with EBITDA margin of 3.6%. During FY20, WL repaid various long-term debt obligations worth INR8.13 billion (FY19: INR8.17 billion) based on the schedule. The improvement in margins was mainly due to the cost rationalisation undertaken by the company by way of 1) lower staff costs 2) lower research and development (R&D) expenses towards the filing of generic products. Over FY19-FY20, WL's management undertook several cost-saving initiatives at the plant level and also rationalised employee cost and R&D expenditure. The company expects remediation costs and R&D spends to moderate further over FY21-FY23. Ind-Ra expects an improvement in WL's financial performance FY22 onwards as the company would recover from the impact of COVID-19 that will impact its financial improvement in FY21. Ind-Ra expects EBITDA margins for FY21 to be 3% while that for FY22 to be 10% due to WL's cost savings initiatives and vaccine supply agreement with the UK government. The agency believes at the current run rate, the operating profitability will remain constrained for FY21/FY22 as the company does not have the flexibility to drastically reduce/defer R&D spends. The management's ability to reduce regulatory concerns in regulated geographies, improve profitability and monetise new products will remain the key sensitivities for a recovery in the business risk profile.

Monetisation of R&D Initiatives & Tie-up with UK Government for Vaccine Manufacturing: WL is developing a new class of patented breakthrough anti-infectives for combating multi-drug anti-microbial resistance and has received qualified infectious disease product (QIDP) approval for six unique drugs from the US Food and Drug Administration (USFDA). Of these, three are in various advanced stages of global clinical trials and two molecules have completed phase 3 studies and been approved in India. The management expects to commercialise other molecules by FYE23. Till then, however, the high R&D costs will continue to exert stress on the company's profitability and cash flow. The same has been reported under capex as the costs get capitalised. The R&D expenses towards the filing of generic products are expensed through profit & loss statement. WL has signed a COVID-19 vaccine manufacturing contract with the UK government that is likely to give its financials a significant upside over FY21-FY23.

Significant Regulatory Overhang: Seven of WL's facilities were under regulatory restrictions by the USFDA at end-August 2020. Among these, two flagship formulation facilities – one in Waluj and one in Chikalthana (both in Aurangabad) - continue to be under import alerts since 2013. The other facility in Waluj received a warning letter in 2013. Also, the facilities under the subsidiaries CP Pharmaceuticals (UK) and Morton Grove Pharmaceuticals, Inc (US) were issued warning letters in FY17. Morton Grove Pharmaceuticals and the facilities in Waluj contribute around 70% to the sales to US markets. Any escalation to an import alert will affect the company's overall operations and delay recovery. Ind-Ra has not factored in the resolution of USFDA issues while projecting the financials.

Liquidity Indicator - Adequate: WL's average utilisation of fund-based working capital limits for the 12 months ended July 2020 was 89%. WL's cash on books at end-June 2020 stood at INR16.33 billion while bank debt on books was at INR26.72 billion with additional preference shares of INR 3.5 billion and unsecured promoter loans of INR1.68 billion. For March 2020, the cash on books was INR2.19 billion, with debt on books was similar to June 2020 levels. The inventory days (FY20: 89, FY19: 85) and debtor days (161, 133) are likely to moderate FY22 onwards as the company optimises on its supply chain. The annual capex requirement stands at INR1.6 billion over FY21-FY23 with primary spending towards the development of QIDP molecules and maintenance capex. Ind-Ra believes even with partial refinancing arrangement, WL's liquidity ratio will be at 1.2x on a cumulative basis over FY21-FY24. The company had availed the Reserve Bank of India-prescribed moratorium on its long-term and short-term debt facility March-August 2020.

Weakened Credit Profile: The ratings reflect the consolidated weak operational performance and credit profile over FY19-FY20. In FY20, WL's revenue fell 19.6% yoy to INR28.2 billion while operating EBITDA and operating profitability improved to INR1.0 billion (FY19: INR0.2 billion) and 3.6% (0.6%). 1QFY21, WL's operating EBITDA declined on a sequential quarter and yoy basis to loss of INR634 million (4QFY20: INR60 million). Despite the modest improvement in the operating profitability, the consolidated FY20 net adjusted debt/annualised operating EBITDA remained weak at 29.85x (FY19: 149.4x; FY18: negative 46.93x) while annualised operating EBITDA/gross interest expense stood at 0.33x (0.06x, negative 0.22x).

RATING SENSITIVITIES

Positive: Asustained increase in the operating profitability led by diversified revenue growth along with an improvement in the core liquidity above 1.25x could lead to a rating upgrade.

Negative: The lack of visibility on refinancing, further deterioration in the liquidity position, a slower ramp-up in operations and the net leverage sustaining above 5x will be negative for the rating.

COMPANY PROFILE

Founded in 1960, WL has operations in India, the US, the UK, Ireland, and France. Apart from finished dosage formulations, the company produces injectables, biopharmaceuticals, orals (tablets and liquids) and topicals (creams and ointments).

FINANCIAL SUMMARY

Particulars	FY20	FY19
Revenue (INR million)	28,193	35,084
EBITDA (INR million)	1,002	199
EBITDA margin (%)	3.55	0.57
Gross interest coverage (x)	0.33	0.06
Net financial leverage (x)	29.85	149.40
Total adjusted debt (INR million)	32,098.00	33,704.00
Cash & cash equivalents including liquid current investments (INR million)	2,193.00	3,973.00
Source: WL, Ind-Ra Figures pertain to continuing operations		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch				
	Rating Type	Rated Limits (million)	Current Rating	24 February 2020	28 August 2019	29 March 2019	12 October 2018	29 M
Issuer rating	Long-term	-	IND BBB-/Stable	IND BB+/RWE	IND BB+/Negative	IND BBB-/Negative	IND BBB/Negative	IND
Fund-based limits	Long-term	INR3790	IND BBB-/Stable	IND BB+/RWE	IND BB+/Negative	IND BBB-/Negative	IND BBB/Negative	IND
Non-fund-based limits	Short term	INR3,078	IND A3	IND A4+/RWE	IND A4+	IND A3	IND A3+	I
Fund-based/ non-fund-based interchangeable limits	Long-term/short term	INR2162.5	IND BBB-/Stable/IND A3	IND BB+/RWE/IND A4+/RWE	IND BB+/Negative/IND A4+	IND BBB-/Negative/IND A3	IND BBB/Negative/IND A3+	IND A/I
Term loans	Long-term	USD165	IND BBB-/Stable	IND BB+/RWE	IND BB+/Negative	IND BBB-/Negative	IND BBB/Negative	IND
Term loans	Long-term	INR4,350	IND BBB-/Stable	IND BB+/RWE	IND BB+/Negative	IND BBB-/Negative	IND BBB/Negative	IND
Proposed working capital facilities	Long-term	INR1,047.5	IND BBB-/Stable/IND A3	Provisional IND BB+/RWE/Provisional INDA4+/RWE	Provisional IND BB+/Negative/Provisional INDA4+	Provisional IND BBB-/Negative/Provisional INDA3	Provisional IND BBB/Negative/Provisional INDA3+	Provi A/Negati I

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

Analyst Names

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