28th August, 2019

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

Dear Sirs,

We have to inform you that India Ratings and Research Private Limited ("India Ratings") has revised the Company's ratings for short-term Bank facilities/ Commercial Paper to "IND A4+" from "IND A3"; and for long-term loan facilities rating to "IND BB+/ Negative" from "IND BBB-/Negative".

Further to inform you that India Ratings have revised the rating of the Company owing to refinancing risks, R&D expenses, regulatory overhang etc. The detailed Press Release of India Ratings is also enclosed for reference.

Thanking you,

for Wockhardt Limited

Narendra Singh
Company Secretary

Encl: As above

India Ratings & Research
A Fitch Group Company

India Ratings Downgrades Wockhardt to 'IND BB+'; Outlook Negative

28

AUG 2019

By Ankit Bhembre

India Ratings and Research (Ind-Ra) has downgraded Wockhardt Limited's Long-Term Issuer Rating to 'IND BB+' from 'IND BBB-'. The Outlook is Negative. 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	-	-	March 2024	INR2,000	IND BB+/Negative	Assigned
Fund-based limits	-	-	-	INR4,000	IND BB+/Negative	Downgraded
Non-fund-based limits	-	-	-	INR3,588.0	IND A4+	Downgraded
Fund-based/ non-fund-based interchangeable limits	-	-	-	INR1,663	IND BB+/Negative/IND A4+	Downgraded
Term loans	-	-	December 2021 - January 2022	USD380	IND BB+/Negative	Downgraded
Term loans	-	-	June-October 2022	INR4,750.0	IND BB+/Negative	Downgraded
Commercial paper/short-term debt programmes*			90-180 days	INR2,000	IND A4+	Downgraded
Proposed working capital facilities	-	-	-	INR5,087.5	Provisional IND BB+/Negative/Provisional IND A4+	Downgraded

*The CP will be carved out of fund-based working capital limits.

Analytical Approach: The agency continues to take a consolidated view of Wockhardt and its 31 subsidiaries while arriving at the ratings, since the subsidiaries manufacture and sell pharmaceutical formulations.

KEY RATING DRIVERS

Significant Refinancing Risk in FY20: The downgrade and Negative Outlook reflect the significantly elevated refinancing risks for Wockhardt in 2HFY20 due to its weak liquidity position for servicing its upcoming debt maturities over the same period. In the absence of a meaningful recovery in operating performance, the company has witnessed continuous depletion in cash balances (1QFY20: INR1.86 billion; FY19: INR4.48 billion; FY18: INR12.44 billion) for servicing debt obligations. Furthermore, the agency expects weak free cash flow (FY19: negative INR1.30 billion; FY18: INR3.32 billion) generation in FY20.

In FY19, the company's promoters infused INR2.5 billion in the form of redeemable preference shares to refinance Wockhardt's outstanding preference debt. The management is evaluating refinancing options for the large upcoming debt repayments (2QFY20-4QFY20: INR4.9 billion; FY21: INR8.41 billion) through term loans and other capital infusion options in India and abroad. Also, additional financial support from the promoters through the issuance of redeemable preference shares of INR2.5 billion as per a board resolution dated December 2018 and proposed debt issuances may provide liquidity back-up till 2HFY20. Based on a discussion with the management, the agency expects the shortfalls in debt servicing, if any, to be met by the promoters through fund infusions. Hence, a meaningful operational turnaround in FY20 and/or continued promoter support is a key rating sensitive factor.

Weakened Credit Profile: The ratings reflect Wockhardt's consolidated weak operational performance and credit profile in FY19-1QFY20. In FY19, Wockhardt's revenue grew by 5.6% to INR41.58 billion (FY18: INR39.36 billion), led by increased exports to the US and semi-regulated markets. Its operating EBITDA and operating profitability recovered to INR1.34 billion in FY19 (FY18: loss of INR0.55 billion) and 3.2% (EBITDA loss). In 1QFY20, Wockhardt's operating EBITDA improved on a sequential quarter and yoy basis to INR0.55 billion (4QFY19: INR0.24 billion; 1QFY19: INR0.28 billion). The EBITDA losses were arrested during FY19-1QFY20 on the back of an improvement in gross profitability (1QFY20: 59.1%; FY19:56.4%; FY18: 54.3%) and a moderation in the remediation costs for the US-focused facilities under import alerts and warning letters. However, the R&D expenses for abbreviated new drug application (ANDA) filings innovative pipeline remained elevated as a percentage of the consolidated revenue (1QFY20: 7.0%; FY19: 7.0%; FY18: 7.3%).

Despite the modest improvement in operating profitability, the consolidated credit metrics remained weak because of high debt levels. The net adjusted debt/trailing twelve months (TTM) operating EBITDA stood at 18.1x in 1QFY20 (FY19: 22.0x; FY18: negative 46.93x), while TTM operating EBITDA/gross interest expense stood at 0.61x (FY19: 0.51x FY18: 0.13x). The agency expects Wockhardt's credit profile to remain weak in FY20.

Recovering US, India and ROW Businesses: Wockhardt's business risk profile is supported by its sizeable scale and modest competitive position in the domestic markets (FY19: INR15.14 billion; FY18: INR15.09 billion) and semi-regulated markets (INR5.39 billion; INR4.37 billion), which offer mid-to-high-teen EBITDA margins. Wockhardt continues to focus on new product launches in various therapies in the domestic markets and is increasing its presence in the semi-regulated markets to strengthen profitability. Additionally, the recovery in the US business (FY19: INR7.93 billion; FY18: INR6.61 billion), attributed to revenue generation from abbreviated new drug applications (ANDAs) commercialised from third-party sites and rupee depreciation, has also contributed to the improvement in gross margins and operating profitability. At end-June 2019, Wockhardt had commercialised 10 high-value ANDAs from third-party sites and had 55 ANDAs pending approval from the USFDA; upon commercialisation, these ANDAs may enable the company to report modest growth in its US revenues amid competition.

Over FY18-1QFY20, Wockhardt'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 in FY20. The agency believes that at the current run rate, the operating profitability would remain in single digits for FY20 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 Concerted R&D Initiatives FY21 Onwards: Wockhardt is developing a new class of patented breakthrough anti-infectives for combating multi-drug anti-microbial resistance and has received qualified infectious disease product approval for five unique drugs from the USFDA. Of these, three are in various advanced stages of global clinical trials and two molecules have completed phase 3 studies and have been filed for review with Indian regulatory authorities. The management expects to commercialise these products FY21 onwards. Till then, however, the high R&D costs will continue to exert stress on the company's profitability and cash flow.

Significant Regulatory Overhang: Seven of Wockhardt's facilities were under regulatory restrictions by the USFDA at end-June 2019. 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 80% to the sales to US markets. However, Wockhardt's facilities continue to be compliant as per other regulatory authorities. While there have been no adverse events in FY19-1QFY20, any escalation to an import alert would affect the company's overall operations and delay recovery.

Standalone Credit Profile: Wockhardt reported a revenue of INR21.49 billion in FY19 (FY18: INR24.77 billion) and operating EBITDA margins of 3.83% (13.26%). The company's net debt/operating EBITDA was 20.7x in FY19 (FY18: 5.2x) and operating EBITDA/interest expense was 0.5x (1.9x).

RATING SENSITIVITIES

Positive: Future developments that could collectively lead to the Outlook being revised to Stable include:
- timely refinancing of the upcoming repayments and an improvement in the liquidity
- a significant improvement in the profitability by scaling-up US revenues, due to commercialisation of ANDAs through third parties and/or resolution of the regulatory issues

Negative: Future developments that could, individually and collectively, lead to a rating downgrade include:
- a further escalation in the regulatory actions, affecting the revenues and/or profitability
- a lower-than-expected improvement in the operating profitability or cash flow from operations
- further delays in shoring-up liquidity and/or debt refinancing

COMPANY PROFILE

Incorporated in 1960, Wockhardt 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	FY19	FY18
Revenue (INR billion)	41.58	39.36
EBITDA (INR billion)	1.35	-0.55
EBITDA margin (%)	3.2	-1.4
Gross interest coverage (x)	0.52	-0.24
Net financial leverage (x)	22.21	-46.93
Total adjusted debt (INR billion)	34.45	38.19
Cash & cash equivalents, including liquid current investments (INR billion)	4.48	12.1
Source: Wockhardt, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Hist
	Rating Type	Rated Limits (million)	Current	29 March 2019
Issuer rating	Long-term	-	IND BB+/Negative	IND BBB-/Negative
Fund-based limits	Long-term	INR4,000	IND BB+/Negative	IND BBB-/Negative
Non-fund-based limits	Short term	INR3,588.0	IND A4+	IND A3
Fund-based/ non-fund-based interchangeable limits	Long-term/short term	INR1,663.0	IND BB+/Negative/IND A4+	IND BBB-/Negative/IND A3
Term loans	Long-term	USD380	IND BB+/Negative	IND BBB-/Negative
Term loans	Long-term	INR6,750	IND BB+/Negative	IND BBB-/Negative
Commercial paper/short-term debt programme	Short-term	INR2,000	IND A4+	IND A3
Proposed working capital facilities	Long-term/short term	INR5,087.5	Provisional IND BB+/Negative/Provisional INDA4+	Provisional IND BBB-/Negative/Provisional INDA3

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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