

12th October, 2018

<p>BSE Limited Corporate Relations Department P J Towers, Dalal Street, Mumbai - 400 001</p> <p><u>Scrip Code: 532300</u></p>	<p>National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex, Bandra (E), Mumbai - 400 051</p> <p><u>NSE Symbol: WOCKPHARMA</u></p>
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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 A3+" from "IND A1" and for long-term loan facilities rating to "IND BBB/ outlook: Negative" from "IND A/ Outlook: Negative".

Further to inform you that India Ratings have revised the rating of the Company owing to on-going remediation costs being incurred, high R&D expenses, regulatory overhang etc. The detailed Press Release of India Ratings is also enclosed for reference.

Kindly take the above information on record.

Thanking you

for **Wockhardt Limited**



Narendra Singh
Company Secretary

Encl: As Above



India Ratings Downgrades Wockhardt to 'IND BBB'; Outlook Negative

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OCT 2018

By Ankil Rhembra

India Ratings and Research (Ind-Ra) has downgraded Wockhardt Limited's Long-Term Issuer Rating to 'IND BBB' from 'IND A'. 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
Fund-based limits	-	-	-	INR4,000	IND BBB/Negative	Downgraded
Non-fund-based limits	-	-	-	INR3,588.0	IND A3+	Downgraded
Fund-based/ non-fund-based interchangeable limits	-	-	-	INR1,663	IND BBB/Negative/IND A3+	Downgraded
Term loans	-	-	December 2021 - January 2022	USD 380	IND BBB/Negative	Downgraded
sTerm loans	-	-	June 2022-October 2022	INR4,750.0	IND BBB/Negative	Downgraded
Commercial paper/short-term debt programmes*	-	-	90-180 days	INR2,000	IND A3+	Downgraded
Proposed working capital facilities	-	-	-	INR5,087.5	Provisional IND BBB/Negative/Provisional IND A3+	Downgraded

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

KEY RATING DRIVERS

Weakened Credit Profile: The downgrade reflects the lower-than-expected improvement in Wockhardt's operational performance and further weakening of its credit profile in FY18-1QFY19. In FY18, Wockhardt reported muted revenue of INR39.4 billion (FY17: INR 40.1 billion) attributed to Goods and Services Tax-related transitional channel disturbances in India and challenging generic pricing environment in the US markets. The EBITDA losses of INR554 million in FY18 (FY17 EBITDA profit: INR262 million; FY16 EBITDA profit: INR5,095 million) were attributed to the on-going remediation costs being incurred by the company in relation to the US focused facilities under import alerts and warning letters, high R&D expenses for abbreviated new drug application (ANDA) filings and differentiated products, and high-cost US base. Net adjusted leverage (net adjusted debt/operating EBITDA) turned negative in FY18 (FY17: 90.86x; FY16: 2.42x) as well as negative interest coverage (0.13x; 5.77x). While Wockhardt's operating EBITDA improved in 1QFY19 to INR287.4 million (1QFY18: loss of INR793.4 million), the interest coverage continued to be below 1.0x.

High Refinancing Risk to Persist: The Negative Outlook reflects Wockhardt's continued delays in shoring-up liquidity and/or debt refinancing, owing to challenging market conditions, which have elevated refinancing risks for FY19-FY20. Weak free cash flow for two consecutive years (FY18: INR1.08 billion; FY17: negative) has significantly depleted cash balances (FY18: INR12.2 billion; FY17: INR17.8 billion) and liquid investments (INR0.24 million; FY17: INR3.32 billion). The management is evaluating refinancing options for the large upcoming debt repayments (FY19: INR11.4 billion; FY20: INR7.4 billion) through an international bond or a qualified institutional placement/ term loans in India. While the efforts are under advanced stages of discussion, adverse market conditions and refinancing structure are likely to determine the timeline and cost of refinancing. Also, sustained mitigation of refinancing risk critically depends on an operational turnaround in FY20.

Weakened Business Profile; India and ROW Businesses Offer Support: Ind-Ra believes Wockhardt's business risk profile is no longer commensurate with the 'IND A' rating level, given the steady decline in top line and continued weakness in EBITDA generation. However, Wockhardt's sizeable scale and modest competitive position in the domestic markets (FY18: INR15.1 billion; FY17: INR15.2 billion) and ROW markets (INR4.37 billion; INR3.69 billion), which are EBITDA positive with mid- to high-teen EBITDA margins, support its business risk profile. Wockhardt continues to focus on new product launches in various therapies in the domestic markets and is also increasing its presence in the ROW markets to strengthen profitability. 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.

Significant Regulatory Overhang: Seven of Wockhardt's facilities were under regulatory restrictions by USFDA at end-march 2018. One of its two flagship formulation facilities 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. An escalation to an import alert for them would affect overall operations and delay recovery.

Operational Turnaround FY20 onwards: Since FY14, Wockhardt has implemented a remediation plan for the manufacturing facilities under the regulatory restriction. The company has been shifting a few of the high value ANDAs to third-party manufacturers. It has received eight approvals from USFDA and launched two high-value products over 2HFY17-FY18. This has supported improvement in gross margins (1QFY19: 57.5%; 2HFY18: 54.9%; 1HFY18: 53.8%). The management expects to launch four more products in FY19. Wockhardt has 70 ANDAs (at end-March 2018) awaiting approval from USFDA, which upon commercialisation may support modest growth in its US revenues amid competition.

Wockhardt's management has taken several cost-saving initiatives at plant level while rationalising employee cost and R&D expenditure in FY18. However, the improvement in operating profitability has been marginal owing to high remediation cost (FY18: around INR1.5 billion) and high R&D expenses (FY18: INR2.8 billion). The management expects remediation cost to moderate in FY20 coupled with stable R&D spends at FY18 levels. The agency believes that at the current run rate, the operating profitability would remain in single digits for FY19-FY20.

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 USFDA. Of which, three are in various advanced stages of global clinical trials and two molecules are in advanced stages of clinical trials in India. The management expects to commercialise these products FY21 onwards. However, the high R&D costs will continue to stress the company's profitability till then.

RATING SENSITIVITIES

Positive: Future developments that could collectively lead to a Stable Outlook include:

- timely refinancing of the upcoming repayments and an improvement in 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 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

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	39,369.0	40,146.1
EBITDA (INR million)	-554.3	262.2
EBITDA margin (%)	-1.4	0.7
Gross interest coverage (x)	-0.24	0.13
Net financial leverage (x)	-46.93	90.86
Total adjusted debt (INR million)	38,197.8	41,670.5
Cash & cash equivalents including liquid current investments (INR million)**	12,183.6	17,846.1

Source: Wockhardt, Ind-Ra
 ** excludes investments in publicly traded equity investments

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch		
	Rating Type	Rated Limits (million)	Current	29 March 2018	8 December 2016	11 February 2016
Issuer rating	Long-term	-	IND BBB/Negative	IND A/Negative	IND AA-/Negative	IND AA/Stable
Fund-based limits	Long-term	INR4,000	IND BBB/Negative	IND A/Negative	IND AA-/Negative	IND AA/Stable
Non-fund-based limits	Short term	INR3,588.0	IND A3+	IND A1	IND A1+	IND A1+
Fund-based/ non-fund-based interchangeable limits	Long-term/short term	INR1,663.0	IND BBB/Negative/IND A3+	IND A/Negative/IND A1	IND AA-/Negative/IND A1+	IND AA/Stable/IND A1+
Term loans	Long-term	USD380	IND BBB/Negative	IND A/Negative	IND AA-/Negative	IND AA/Stable
Term loans	Long-term	INR4,750	IND BBB/Negative	IND A/Negative	IND AA-/Negative	IND AA/Stable
Commercial paper/short-term debt programme	Long-term	INR2,000	IND A3+	IND A1	IND A1+	IND A1+
Proposed working capital facilities	Long-term/short term	INR5,087.5	Provisional IND BBB/Negative/Provisional INDA3+	Provisional IND A/Negative/Provisional INDA1	-	-

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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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.

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Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

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