WOCKHARDT | LiFE WiNS

19th October, 2018

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

Dear Sirs,

We have to inform you that CARE Ratings Limited (CARE Ratings) has revised the:

1. Company's Rating for Long-Term Bank Facilities (Fund Based) as "CARE BBB-; Negative [Triple B Minus; Outlook: Negative]" from "CARE A; Negative [Single A; Outlook: Negative]";

2. Company's Rating for Short Term Bank Facilities (Non-Fund Based) as "CARE A3 [A Three]" from "CARE A1 [A One]"; and

3. Rating for the proposed issue of NCDs for an amount of Rs. 500 crore of the Company as "CARE BBB-; Negative [Triple B Minus; Outlook: Negative]" from "CARE A; Negative [Single A; Outlook: Negative]".

Further to inform you that CARE Ratings has revised the ratings of the Company as above owing to delay in resolution of regulatory issues, continuous expense towards research & development expenses, on-going remediation costs being incurred etc. The detailed proposed Press Release of CARE Ratings, is also enclosed for reference.

Kindly take the above information on record.

For **Wockhardt Limited**

Narendra Singh
Company Secretary

Encl: as above

Wockhardt Limited

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]	Revised from CARE A; Negative [Single A; Outlook: Negative]
Short Term Bank Facilities (Non-Fund Based)	533.80	CARE A3 [A Three]	Revised from CARE A1 [A One]
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]	Revised from CARE A; Negative [Single A; 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) takes cognizance of continued losses in Q1FY2018-19, Q4FY2017-18 and FY2017-18 (refers to period from April 1, 2017 to March 31, 2018) and delay in raising funds/refinancing of existing debt amidst upcoming significant debt repayments in H2FY2018-19 & FY2019-20, thereby, weakening its overall financial profile and leading to significant 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 profile 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 maintain sufficient liquidity and also partly refinance the same. 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 FY2018-19/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

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

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The Negative outlook reflects delay in raising funds/refinancing existing debt and maintain sufficient liquidity for meeting debt obligations due in FY2018-19/FY2019-20 and uncertainty w.r.t sufficient 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 funds/refinance existing debt and maintain sufficient liquidity for meeting debt obligations due in FY2018-19/FY2019-20 and is able to effectively increase operating revenues as well as generate appropriate cash profits.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoters along with WL's long and established track record of operations: WL has an established track record of over five decades in the pharmaceutical business catering across various therapeutic segments along with presence across the globe. With this extensive network of manufacturing units and research centers located in different parts of various countries, the company has established its foothold in the global pharmaceutical arena. Over the years under the able guidance of Dr. Habil. F. Khorakiwala (Chairman), first generation entrepreneur, the company has grown to become one of the established players in the Pharmaceuticals and Biotech business.

Strong 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). WL also has a strong pipeline of 70 ANDAs, as on March 31, 2018 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. along with several country wise regulatory approvals. The wide infrastructure of the company is well served with large pool of Intellectual Property knowhow supported large team of in-house scientists. Besides, the company has 3 Research and Development centres (one in India at Aurangabad, Maharashtra; one in USA, and one in UK). WL's R&D focuses mainly on development of innovative formulations across various therapeutic segments. 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 Q1FY2018-19 and FY2017-18 along with significant debt repayments in FY2018-19/FY2019-20 consequent into decrease in cash and cash equivalents and ensuing impact on debt servicing for FY2018-19/FY2019-20. WL reported cash loss of Rs.542 crore in FY2017-18 vis-à-vis cash loss of Rs.109 crore in FY2016-17. This was largely due to one-time settlement expense of Rs.358 crore on account of supply contract with Cephalon Inc, (Cephalon) an affiliate of Teva Pharmaceuticals USA, Inc. (Teva). Hence liquidity profile declined marked by decrease in cash & cash equivalents and resultant higher net debt position. Cash & cash equivalents (incl. liquid investments) was Rs.1243 crore (as compared to total debt of Rs.3,748 crore) as on March 31, 2018 vis-à-vis Rs.2119 crore (total debt of Rs.4,160 crore) respectively as on March 31, 2017.

On back drop of large scheduled repayment of debt in near term, the company is in process to refinance the existing debt which needs to happen on time and remains critical from credit perspective. However if the refinancing does not happen in time then the liquidity position would further deteriorate.

Moreover in FY2018-19, company has a huge debt obligation (consolidated) of Rs.1,138 crore (including preference share redemption of Rs.365 crore) however current cash position may not be enough to service the same and hence to address this the company is in process and at an advanced stage to raise funds/refinance existing debt either through international bond issuance/private placement of debt/raising term loans in India, etc. However due to current market condition being un-favorable, timely and adequate action is critical to maintain/improve overall liquidity profile. *Thus*

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going forward ability of the company to maintain adequate liquidity for meeting the debt obligations due in FY2018-19 remains key rating sensitivity.

On a consolidated basis, overall gearing ratio deteriorated from 1.12 times as on March 31, 2017 to 1.17 times as on March 31, 2018 on account of reduced networth due to cash 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: The Company reported slight de-growth in total operating income of 1% to Rs.4037 crore in FY2017-18 vis-à-vis FY2016-17owing to reasons such as USA business which continues to be impacted due to channel consolidation consequent into pricing pressure and intense competitive market scenario. Besides, import alerts imposed by USFDA continued on plants catering to the US markets, weighed on operations. Besides, India business was impacted due to GST disruption and reclassification of taxes post GST translated into marginal revenue de-growth. Operating profitability continued to be adversely impacted on account of cost of ongoing remedial measures, volatility in various currencies like GBP, Euro, USD, etc., ongoing R&D expenses (7% of consolidated revenues), etc. Nevertheless company's focus on cost containment and rationalization had a positive effect on profitability.

WL reported total operating income of Rs.1015 crore in Q1FY2018-19 vis-à-vis Rs.928 crore in Q1FY2017-18 (improved by ~10%) on the back of growth in US and India business. WL's PBILDT margin on a consolidated basis improved to 1.18% in Q1FY2018-19 as against losses at PBILDT level reported by WL in Q4FY2017-18 & Q1FY2017-18 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 Q1FY2018-19. WL reported net loss of Rs.95 crore in this quarter as against net loss of Rs.463 crore in corresponding quarter last year and Rs.153 crore in Q4FY18.

Going ahead, ability to the company to improve operating profitability remains key rating sensitivity. However, WL' established position in the domestic markets aid its operational profile.

Significant delay in resolution of regulatory issues: During FY2013-14, the company has 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). Besides, it received warning letters for CP Pharmaceuticals (UK) and Morton Grove Pharmaceuticals (USA) in March 2017 which has resulted in restriction on these facilities. Cumulatively by end of March 2018, seven of WL's facilities were under USDFA restrictions. With approvals from UKMHRA in place, the company is continuously taking steps to resolve the pending regulatory issues and expects to address the concerns raised by USFDA at the earliest. Nevertheless, 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.

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: Consolidated

CARE has analysed WL's credit profile by considering its consolidated financial statements owing to financial and operational linkages between the parent and its subsidiaries.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

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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, founded by Dr. Habil F Khorakiwala is a large-sized Indian origin pharmaceutical multinational and bio-technology company engaged into developing, manufacturing and marketing of finished dosage and biopharmaceutical formulations, active pharmaceutical ingredients (APIs) and vaccines. Besides, the company 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. In addition, the company has market presence in Asian, African, South American, Middle-Eastern countries.

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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For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

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.

capital of the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant

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 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 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 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 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 A; Negative (15-May-18)	1)CARE A+; Stable (22-Feb-18) 2)CARE AA-; Negative	1)CARE AA; Negative (28-Dec-16) 2)CARE AA (25-Nov-16)	-

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						(05-Jul-17)		
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE BBB-; Negative	1) CARE A; Negative (15-May-18)	-	-	-

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