30th March, 2018

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

Further to inform you that India Ratings have revised the rating of the Company owing to current operating performance; genericisation of products, Brexit in UK and demonetisation in India; ongoing remediation cost incurred on resolution of regulatory issues and R&D expenses. The detailed Press Release of India Ratings, available on their website, 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 & Research
A Fitch Group Company

India Ratings Downgrades Wockhardt to 'IND A'/Negative; Off RWN

29
MAR 2018

By Ankit Bhembre

India Ratings and Research (Ind-Ra) has downgraded Wockhardt Limited's Long-Term Issuer Rating to 'IND A' from 'IND AA-' while resolving the Rating Watch Negative (RWN). 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 (increased from INR3,250	IND A/Negative	Downgraded
Non-fund-based limits	-	-	-	INR3,588.0 (reduced from INR5,713.0)	IND A1	Downgraded
Fund-based/ non-fund-based interchangeable limits	-	-	-	INR1,663 (reduced from INR4,662.5)	IND A/Negative/IND A1	Downgraded
Term loans	-	-	January 2022	USD380 (reduced from USD400)	IND A/Negative	Downgraded
Term loans	-	-	June-October 2022	INR2,725.0 (reduced from INR5,000)	IND A/Negative	Downgraded
Commercial paper/short-term debt programmes*			90-180 days	INR2,000	IND A1	Downgraded
Proposed working capital facilities	-	-	-	INR5,087.5	Provisional IND A/Negative/Provisional IND A1	Assigned

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

The downgrade reflects the significant deterioration in Wockhardt's FY17 and 9MFY18 operating profitability and credit metrics, leading to a breach of negative rating guidelines. The Negative Outlook reflects the uncertainty regarding a meaningful revival in operating profitability and cash flow generation, leading to the likelihood of continued weak credit metrics and refinancing risks in FY19. Also, there were regulatory actions on two more of Wockhardt's manufacturing facilities in FY17 while the resolution of regulatory issues on other facilities continues to face significant delays, despite remedial actions by the company.

KEY RATING DRIVERS

Weakened Operating Performance: In FY17, consolidated revenue declined 9.8% yoy to INR40.1 billion and 7.4% yoy to INR29.2 billion in 9MFY18. In FY17, the genericisation of products owing to increasing competition and delays in obtaining abbreviated new drug applications (ANDAs) approvals led to a 25% yoy decline in exports to the US markets. Also, a lower number of tenders led to a 10.4% decline in ROW sales. Furthermore, revenue growth was weak in Europe and India due to Brexit-driven weak pound and demonetisation, respectively.

The company's EBITDA margins fell to 0.7% in FY17 (FY16: 11.4%) and it incurred an EBITDA loss of INR254.9 million in 9MFY18, attributed to remediation cost related to the facilities under import alerts and warning letters, high R&D expense for ANDA filings and differentiated products, and high-cost US base. Wockhardt's net adjusted debt /operating EBITDA (net leverage) was negative for the trailing 12 months ending December 2017(FY17: 90.93x; FY16: 2.42x).

Refinancing Risk in FY19: At December-end 2017, Wockhardt had free cash balances of INR8.9 billion (FY17: INR17.8 billion) and INR4.1 billion (INR3.3 billion) in current investments. Servicing large upcoming term debt repayments (FY19: INR11.4 billion and FY20: INR7.4 billion) in the absence of a sharp turnaround in operating profitability will be challenging. Wockhardt's free cash flow turned negative in FY17 due to the weak operating profitability and capacity additions and is likely to remain so in FY18-FY19. The management is proposing to refinance the repayments through an international bond or a qualified institutional placement/ non-convertible debentures in India. Any delay in raising funds will further stress Wockhardt's liquidity to service debt obligations.

Significant Regulatory Overhang: Seven of Wockhardt's facilities were under regulatory restrictions by USFDA at end-December 2017. 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. 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 in Morton Grove Pharmaceuticals and/or the facility in Waluj would affect overall operations and delay recovery.

Management's Mitigation Strategy: Since FY14, Wockhardt has implemented a remediation plan for the the manufacturing facilities under the regulatory restriction. As per management, the facility in Waluj which is under import alert will be put up for inspection in the near term. 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 2HFY17-9MFY18. It would launch the balance 4QFY18 onwards. Wockhardt has 78 ANDAs (at end-September 2017) awaiting approval from USFDA which upon commercialisation may support modest growth in US revenues amid competition.

In 9MFY18, the management has taken several cost-saving initiatives at plant level while rationalising employee cost and R&D expenditure. This along with product launches led to the marginal improvement in operating profitability in 3QFY18 (EBITDA: INR454 million and margins of 4.5%) which is likely to continue for the near to medium term. The management expects remediation cost to gradually reduce over FY19. In the domestic market, the company continues to focus on new product launches in various therapies and is also increasing its presence in the ROW markets. Management's ability to reduce regulatory concerns, improve profitability and monetise new products will remain the key rating sensitivities.

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 clinical trials and one molecule benefits from abridged phase III trial. 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

ega

Positive: A Stable outlook would result from:
- timely refinancing of upcoming repayments and improvement in liquidity
- significant improvement in the profitability by scaling-up US revenues, due to commercialisation of ANDAs through third parties and/or resolution of regulatory issues
- net leverage reducing below 4.0x on a sustained basis

Negative: A negative rating action would result from:
- a further escalation in regulatory actions affecting revenues and/or profitability
- a lower-than-expected improvement in operating profitability or cash flow from operations
- 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	9MFY18	FY17	FY16
Revenue (INR million)	29,186.4	40,146	44,532
EBITDA (INR million)	-254.9	262	5,095
EBITDA margin (%)	-0.9	0.7	11.4
Gross interest coverage (x)	-0.1	0.1	5.8
Net financial leverage (x)	-14.3*	90.9	2.4
Total adjusted debt (INR million)	37,854	41,671	26,972
Cash & cash equivalents including liquid current investments (INR million)**	8,926	17,828	14,665

Source: Wockhardt, Ind-Ra
*Trailing 12 months ending December 2017
** 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	10 November 2017	8 December 2016	11 February 2016
Issuer rating	Long-term	-	IND A/Negative	IND AA-/RWN	IND AA-/Negative	IND AA/Stable
Fund-based limits	Long-term	INR4,000	IND A/Negative	IND AA-/RWN	IND AA-/Negative	IND AA/Stable
Non-fund-based limits	Short term	INR3,588.0	IND A1	IND A1+/RWN	IND A1+	IND A1+
Fund-based/ non-fund-based interchangeable limits	Long-term/short term	INR1,663.0	IND A/Negative/IND A1	IND AA-/RWN/IND A1+/RWN	IND AA-/Negative/IND A1+	IND AA/Stable/IND A1+
Term loans	Long-term	USD380	IND A/Negative	IND AA-/RWN	IND AA-/Negative	IND AA/Stable
Term loans	Long-term	INR2,725.0	IND A/Negative	IND AA-/RWN	IND AA-/Negative	IND AA/Stable
Commercial paper/short-term debt programme	Long-term	INR2,000	IND A1	IND A1+/RWN	IND A1+	IND A1+
Proposed working capital facilities	Long-term/short term	INR5,087.5	Provisional IND A/Negative/Provisional IND A1	-	-	-

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

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, structured finance 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.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

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

ega

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst
Ankit Bhembre

Senior Analyst
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40356197

Secondary Analyst
Karthikeyan Thangarajan

Associate Director
+91 44 43401712

Committee Chairperson
Salil Garg

Director
+91 1143567244

Media Relation
Namita Sharma

Manager – Corporate Communication
+91 22 40356121