

25th February, 2020

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| BSE Limited Corporate Relations Department P J Towers, Dalal Street Mumbai - 400 001 <u>Scrip Code: 532300</u> | National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 <u>NSE Symbol: WOCKPHARMA</u> |
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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 to "IND A4+/RWE" from "IND A4+"; and for long-term loan facilities rating to "IND BB+/ RWE" from "IND BB+/ Negative". RWE (Rating Watch Evolving) indicates that ratings may be affirmed, downgraded or upgraded.

Further to inform you that India Ratings have revised the rating of the Company keeping in view decision to divest Domestic Branded Business, ease immediate liquidity requirement and improvement in operating profitability in 9 months of FY 2020. 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 Places Wockhardt on RWE

24

FEB 2020

By Vanyasree Paila

India Ratings and Research (Ind-Ra) has placed Wockhardt Limited's Long-Term Issuer Rating of 'IND BB+' on Rating Watch Evolving (RWE). The Outlook was Negative. The instrument-wise rating actions are as follows:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating/Rating Watch | Rating Action |
|---|------------------|-------------|------------------------------|-------------------------|---|---------------|
| Term loans | - | - | March 2024 | INR2,000 | IND BB+/RWE | Placed on RWE |
| Fund-based limits | - | - | - | INR4,000 | IND BB+/RWE | Placed on RWE |
| Non-fund-based limits | - | - | - | INR3,588.0 | IND A4+/RWE | Placed on RWE |
| Fund-based/ non-fund-based interchangeable limits | - | - | - | INR1,663 | IND BB+/RWE/IND A4+/RWE | Placed on RWE |
| Term loans | - | - | December 2021 - January 2022 | USD380 | IND BB+/RWE | Placed on RWE |
| Term loans | - | - | June-October 2022 | INR4,750.0 | IND BB+/RWE | Placed on RWE |
| Commercial paper/short-term debt programmes* | - | - | 90-180 days | INR2,000 | WD | Withdrawn |
| Proposed working capital facilities# | - | - | - | INR5,087.5 | Provisional IND BB+/RWE/Provisional IND A4+/RWE | Placed on RWE |

*The CP will be carved out of fund-based working capital limits. Ind-Ra has withdrawn the rating as Wockhardt did not proceed with the instrument as envisaged.

#The final rating will be assigned following the final issuance and the receipt of the final documentation, conforming to the information already received by Ind-Ra.

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

KEY RATING DRIVERS

Divestment of Domestic Branded Business: The RWE follows Wockhardt's divestment of a portion of its domestic branded business to Dr. Reddy's Laboratories Limited ('IND AA+/Stable') for INR18.50 billion. The divested business comprises 62 products in multiple therapy areas such as respiratory, neurology, vitamins, minerals and supplements, dermatology, gastroenterology, pain and vaccines along with the related sales and marketing teams, assets and liabilities, including a manufacturing facility at Baddi, Himachal Pradesh. The business being transferred had reported revenue of around INR3.77 billion (about 15% of the consolidated revenue) in 9MFY20. This transaction is likely to be completed by end-1QFY21 subject to the receipt of approvals from shareholders, lenders and others under the applicable statutes.

As per the management, the deal is in line with Wockhardt's strategic plan to shift from acute therapeutic areas to more chronic businesses such as anti-diabetes, central nervous system etc. and also focus on its antibiotic portfolio of new chemical entities (NCEs). The company has also indicated that the divestment will ensure the availability of adequate liquidity to stimulate growth in the chronic domestic branded business, international operations, investments in biosimilars for the US market and in the company's global clinical trials of anti-infectives (new chemical entities approved under the coveted QIDP program of the United States Food & Drug Administration) and research & development (R&D) activities.

Ease Immediate Liquidity Requirement: Wockhardt has a total debt repayment of INR8.4 billion in FY21, with around INR4.12 billion falling due over 1Q-2QFY21. As per the management, out of the total deal proceeds of INR18.5 billion (before taxes and expenses), INR4.12 billion is likely to be utilised for the repayment of term debt over 1Q-2QFY21. The remaining proceeds are likely to be utilised towards the following purposes: 1) working capital requirement to scale up the India business; 2) redemption of promoters' preference shares; 3) the balance amount to be used for conducting clinical trials molecules of Phase-II and III stages. Ind-Ra believes the proceeds would help the company to manage its debt repayment obligation over 1QFY21-2QFY21. However, the agency will continue to monitor timely debt repayments that would be due in the remaining part of FY21.

Strong Improvement in Operating Profitability in 9MFY20: Wockhardt's consolidated domestic revenue fell by 42% yoy to INR7.06 billion in 9MFY20, due to lower sales in the quality generics division and in some of the therapeutic areas. The India business accounted for 28% of the company's total revenue during the period. Revenue from the US and EU businesses fell by 11% yoy and 10% yoy, respectively, during 9MFY20. Wockhardt's emerging markets business grew 7% yoy in 9MFY20. The company reported consolidated revenue and PAT loss of INR25.3 billion (down 20% yoy) and INR1.17 billion, respectively, in 9MFY20. However, the consolidated EBITDA grew by 108% yoy to INR2.08 billion in 9MFY20, with EBITDA margin of 8.2%. The company's R&D expenditure amounted to INR1.65 billion (7% of the sales; 11% if capital expenditure of INR1.90 billion is included).

during 9MFY20. During 9MFY20, Wockhardt repaid various long-term debt obligations worth INR7.68 billion (FY19: INR7.50 billion) as per the schedule. In 3QFY20, for the first time since 2QFY17, the company reported PAT of INR96 million due to a marked improvement in operational performance and cost rationalisation.

RATING SENSITIVITIES

The RWE indicates that the ratings may be affirmed, downgraded or upgraded upon resolution. Ind-Ra will resolve the RWE within six months or upon evaluating the impact of the scheme of arrangement on the business and credit profile of Wockhardt, whichever is earlier.

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 million) | 41,583.8 | 39,369.0 |
| EBITDA (INR million) | 1349.5 | -554.3 |
| EBITDA margin (%) | 3.25 | -1.4 |
| Gross interest coverage (x) | 0.51 | -0.24 |
| Net financial leverage (x) | 22.21 | -46.93 |
| Total adjusted debt (INR million) | 34,453.6 | 38,197.8 |
| Cash & cash equivalents including liquid current investments (INR million) | 4,486.5 | 12,183.6 |
| Source: Wockhardt, Ind-Ra | | |

RATING HISTORY

| Instrument Type | Current Rating/Rating Watch | | | 28 August 2019 |
|---|-----------------------------|------------------------|--|---|
| | Rating Type | Rated Limits (million) | Current Rating | |
| Issuer rating | Long-term | - | IND BB+/RWE | IND BB+/Negative |
| Fund-based limits | Long-term | INR4,000 | IND BB+/RWE | IND BB+/Negative |
| Non-fund-based limits | Short term | INR3,588.0 | IND A4+/RWE | IND A4+ |
| Fund-based/ non-fund-based interchangeable limits | Long-term/short term | INR1,663.0 | IND BB+/RWE/IND A4+/RWE | IND BB+/Negative/IND A4+ |
| Term loans | Long-term | USD380 | IND BB+/RWE | IND BB+/Negative |
| Term loans | Long-term | INR6,750 | IND BB+/RWE | IND BB+/Negative |
| Commercial paper/short-term debt programme | Short-term | INR2,000 | WD | IND A4+ |
| Proposed working capital facilities | Long-term/short term | INR5,087.5 | Provisional IND BB+/RWE/Provisional INDA4+/RWE | Provisional IND BB+/Negative/Provisional INDA4+ |

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.

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Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

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