WOCKHARDT | LIFE WINS

29th March, 2019

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

Kindly take the above information on record.

Thanking you

for **Wockhardt Limited**

**Narendra Singh**
**Company Secretary**

Encl: As Above

Ranked # 1 in Healthcare
GREAT PLACE TO WORK Best Companies to Work for 2015 India

India Ratings & Research
A Fitch Group Company

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

**29**

MAR 2019

By Ankit Bhembre

India Ratings and Research (Ind-Ra) has downgraded Wockhardt Limited's Long-Term Issuer Rating to 'IND BBB-' 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 |
|---|---|---|---|---|---|---|
| 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 | USD380 | IND BBB-/Negative | Downgraded |
| Term loans | - | - | June-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

**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 significantly elevated refinancing risks for Wockhardt in FY20 due to its consolidated weak liquidity, owing to challenging market conditions for debt refinancing. In the absence of a meaningful recovery in operating performance, the company has witnessed continuous depletion in cash balances (9MFY19: INR2.7 billion; FY18: INR12.2 billion; FY17: INR17.8 billion) and liquid investments (nil; INR0.24 million; INR3.32 billion) for servicing debt obligations, indicating the likelihood of continued weak free cash flow in FY19 (FY18: INR1.08 billion; FY17: negative).

In 9MFY19, the company's promoters infused INR2.5 billion in the form of redeemable preference shares to refinance Wockhardt's outstanding preference debt. Although adverse market conditions and refinancing structure are likely to determine the timeline and cost of refinancing, the management is evaluating refinancing options for the large upcoming debt repayments (FY20: INR8.23 billion; FY21: INR8.23 billion) through an international bond or a qualified institutional placement/term loans and other capital infusion options in India. Furthermore, Wockhardt's debt/market capitalisation has increased sharply on account of a sharp correction in stock price over 9MFY19. 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 term loans may provide liquidity back-up till 1HFY20. The agency expects that shortfalls in debt servicing if any are likely to be met by the promoters through timely fund infusions. Hence, a sharp 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 9MFY19. This was despite 8.9% yoy growth in revenue to INR31.8 billion in 9MFY19 and a rise in gross margins and EBITDA margins to 56.5% (9MFY18: 54.3%) and 3.1% (9MFY18: negative 0.9%), respectively. While EBITDA losses have been arrested in 9MFY19, driven by the improvement in gross margins and a moderation in the remediation cost for the US focused facilities under import alerts and warning letters, R&D expenses for abbreviated new drug application (ANDA) filings and differentiated products remained elevated at 7.0% of the consolidated revenue (FY18: 7.2%). Despite the modest improvement in operating profitability, consolidated net adjusted debt/annualised operating EBITDA remained weak at 22.8x (FY18: negative 46.93x FY17: 90.86x) while annualised operating EBITDA/gross interest expense stood at 0.5x (0.13x; 5.77x).

**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 (9MFY19: INR12.13 billion; 9MFY18: INR11.47 billion; FY18: INR15.1 billion) and ROW markets (INR3.88 billion; INR2.83 billion; INR4.37 billion), which are EBITDA positive with mid- to high-teen EBITDA margin. Wockhardt continues to focus on new product launches in various therapies in the domestic markets and is increasing its presence in the ROW markets to strengthen profitability. Additionally, the recovery in the US business (9MFY19: INR6.11 billion; 9MFY18: INR4.85 billion; FY18: INR6.61 billion) attributed revenue generation from ANDAs commercialised from third-party sites while INR depreciation has also contributed to the improvement in gross margins and operating profitability. At end-December 2018, Wockhardt has commercialised 10 high-value ANDAs from third-party sites and have 70 ANDAs pending approval from the 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 FY18-9MFY19. It expects remediation cost and R&D spends to further moderate 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. 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 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 and cash flow till then.

**Significant Regulatory Overhang:** Seven of Wockhardt's facilities were under regulatory restrictions by the USFDA at end-December 2018. Among these, 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. However, Wockhardt's facilities continue to be compliant by other regulatory authorities. While there have been no adverse events in 9MFY19, an escalation to an import alert for them would affect overall operations and delay recovery.

**Standalone Performance:** Wockhardt reported revenue of INR24.7 billion in FY18 (FY17: INR22.9 billion) and EBITDA margins of 13.0% (5.8%).

## RATING SENSITIVITIES

**Positive:** Future developments that could collectively lead to a Stable Outlook 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 | 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<br>** excludes investments in publicly traded equity investments | | |

## RATING HISTORY

| Instrument Type | Current Rating/Outlook | | | Historical Rating/ |
|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Current | 12 October 2018 |
| Issuer rating | Long-term | - | IND BBB-/Negative | IND BBB/Negative |
| Fund-based limits | Long-term | INR4,000 | IND BBB-/Negative | IND BBB/Negative |
| Non-fund-based limits | Short term | INR3,588.0 | IND A3 | IND A3+ |
| Fund-based/ non-fund-based interchangeable limits | Long-term/short term | INR1,663.0 | IND BBB-/Negative/IND A3 | IND BBB/Negative/IND A3+ |
| Term loans | Long-term | USD380 | IND BBB-/Negative | IND BBB/Negative |
| Term loans | Long-term | INR4,750 | IND BBB-/Negative | IND BBB/Negative |
| Commercial paper/short-term debt programme | Long-term | INR2,000 | IND A3 | IND A3+ |
| Proposed working capital facilities | Long-term/short term | INR5,087.5 | Provisional IND BBB-/Negative/Provisional INDA3 | 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.

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

**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

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

## 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