May 15, 2024

Wockhardt Limited: [ICRA]BBB-(Stable)/[ICRA]A3; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based – Term Loan	75.00	[ICRA]BBB- (Stable); assigned
Long term/ Short term – Fund Based	512.80	[ICRA]BBB- (Stable)/ [ICRA]A3; assigned
Long term/ Short term – Non Fund Based	171.20	[ICRA]BBB- (Stable)/ [ICRA]A3; assigned
Long term/ Short term – Unallocated Limits	326.00	[ICRA]BBB- (Stable)/ [ICRA]A3; assigned
Total	**1,085.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings consider the extensive experience of Wockhardt Limited's (Wockhardt/the company) promoters in the pharmaceutical industry, regular need-based funding support received by the company from them, Wockhardt's established track record and healthy market position in domestic, the UK and Ireland pharmaceutical markets in addition to its improving market position in the emerging markets. ICRA also notes Wockhardt's diversified nature of operations, given its presence in the formulations, vaccines, biotechnology and API segments across multiple therapeutic areas and its strong manufacturing infrastructure with production facilities in multiple countries. ICRA has also factored in the significant improvement in Wockhardt's liquidity position after receiving Rs. 463-crore equity proceeds through a Qualified Institutional Placement (QIP) concluded in March 2024.

The ratings are, however, constrained by Wockhardt's weak financial profile, characterised by volatile revenue and operating margin, resulting in cash losses and weak debt metrics. Further, ICRA notes the significant investments made by the company towards ongoing development of its new chemical entity (NCE) molecules in the antibiotic space. Success of these molecules remains critical for improvement in profitability and cash flow generation of the company, going forward. Wockhardt's margins continue to remain vulnerable to raw material prices and foreign exchange rate fluctuations as export markets account for a major portion of the company's revenues. Additionally, the company remains exposed to regulatory risks, pricing controls and potential litigation risks like other industry players. ICRA will continue to monitor the impact of these risks, if any, on the credit profile of the company. ICRA also notes that the company has sizeable contingent liabilities and ongoing tax disputes with various tax departments. Any large payout towards demands from tax authorities, adversely impacting the liquidity position of the company, will be a key rating monitorable.

ICRA further notes that as on March 31, 2024, the promoters held a 51.58% equity stake in the company. Of the same, around 53.28% was pledged, a decline from the earlier level of 74.51% as on December 31, 2023. ICRA notes that the pledged shareholding reduced to 47.7% as on April 30, 2024. The company has a track record of growing and diversifying through acquisitions. Any significant debt-funded acquisition, impacting the company's credit metrics, remains an event risk and would be evaluated on a case-to-case basis. However, ICRA understands that the company does not have plan for any debt-funded acquisition in the near-term.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its geographically diversified revenue base and healthy growth in its formulations and biosimilar businesses in addition to its adequate liquidity position.

Key rating drivers and their description

Credit Strengths

Extensive experience of the promoters in the pharmaceutical industry; regular need-based fund infusion by the promoters – The company's promoters have an extensive experience in the pharmaceutical industry and have provided regular, need-based funding support to the company over the years. As on March 31, 2024, the company had ~Rs. 1,088 crore (~Rs. 788 crore as on March 31, 2023) loans outstanding from its promoters and interest on the same is being accrued at present.

Healthy market position in the formulation segment in the Indian and European markets; improving market position in the emerging markets – The company has an established track record and healthy market position in various regulated markets such as the UK, Ireland and the US in addition to the domestic market. Further, the company has been launching new products across geographies and is focused on improving its market position in the emerging markets. Overall, export markets contributed ~78% to the company's revenues in 9M FY2024. The company derived ~84% of its revenues from the branded generic/generic formulations segment and ~15% from the biosimilars segment in 9M FY2024 while the balance was derived from the NCE segment, in which the company sells Emrok and Emrok O in the domestic market. The company is currently focusing on launching its existing biosimilars in markets where it does not have presence and launching new biosimilars (such as insulin glargine) in existing and new markets to support its growth, going forward. ICRA also notes that the company has partnered with Serum Institute of India (Serum) to manufacture vaccines at the company's manufacturing facility in the UK and revenues from the same are expected to commence from FY2026.

Significant improvement in liquidity position post recent QIP – The company raised ~Rs. 463 crore (post transaction charges) equity proceeds through a QIP in March 2024, resulting in a significant improvement in the company's liquidity position with cash and liquid investments of ~Rs. 550 crore as on March, 31, 2024 against ~Rs. 54 crore as on September 30, 2023. Out of the funds raised, Rs. 110 crore is expected to be deployed towards repayment/pre-payment of existing debt, Rs. 210 crore towards funding of costs related to clinical trials and research and development (primarily towards its WCK 5222 NCE), and Rs. 115 crore towards funding of working capital requirements of the company. ICRA expects that the company will be able to meet its near-term debt repayment obligations, fund its incremental working capital requirements and incur the pending expenditure towards completing the phase-3 clinical trials of WCK 5222 through its existing cash balances and expected internal accruals.

Credit Challenges

Weak financial profile characterised by volatile revenue and operating margins trend resulting in cash losses and weak debt metrics – The company's revenues have remained largely flat over the last five years. While the company witnessed a healthy revenue growth of 19.7% in FY2022, supported largely by supply of vaccines to the UK Government, the same fell by 15.7% in FY2023, following a sharp decline in vaccine supplies. The company posted a moderate revenue growth of 6.3% in 9M FY2024 on the back of healthy performance in the UK and Ireland businesses, but sustainability of the same remains to be seen. The company's margin profile has also remained weak in the past few years, given the sizeable investments made towards development of the NCEs. While disruptions caused by Covid-19 and higher raw material costs resulted in operating losses for the company in FY2021, the operating profit margins improved to 9.5% in FY2022, largely supported by Covid-19 vaccine supplies. However, the margins fell in FY2023 owing to a decline in Covid-19 vaccine supplies and sizeable revenue fall witnessed by the company. While the operating profit margins improved to 8.1% in 9M FY2024, supported by writeback of bad debts, improvement in the margins remains critical, going forward. In addition to the volatility in the operating margins, the company's net margins have been adversely impacted by significant extraordinary losses in the last few years. The extraordinary losses reported by the company over the last few years include Rs. 183-crore provision made by the company in FY2022 towards payout to State of Texas in the US pertaining to a pricing dispute, Rs. 233-crore provision created by the company in FY2023 towards restructuring its business model in the US (where it had shut down its manufacturing facility in Illinois), and Rs. 50-crore provision and Rs. 11-crore provision created by the company in FY2023 and 9M FY2024 towards inventory procured and advance paid to a supplier, pertaining to a contract manufacturing agreement with Russian Direct

Investment Fund (RDIF) to manufacture Sputnik vaccine. Further, sizeable debt (as on September 30, 2023, the company's debt comprised working capital borrowings of ~Rs. 490 crore, promoter loans and term loans of ~Rs. 1,513 crore and lease liabilities of ~Rs. 271 crore, resulting in total debt of ~Rs. 2,274 crore) and high interest rates on the company's external loans have translated into large interest outgo, resulting in cash losses and weak debt metrics. While new product launches (such as insulin glargine, which entail higher margins) and entry into new markets for biosimilars are expected to support the company's revenue growth and margin improvement going forward, the same remain would be constantly monitored.

Success of NCE molecules remains critical for improvement in profitability and cash flow generation – Wockhardt's new drug discovery programme has focused on the anti-biotic segment. Six antibiotics, which have been developed in-house by the company, have received the Qualified Infectious Disease Product (QIDP) status (WCK 771, WCK 2349, WCK 4873, WCK 5222, WCK6777 and WCK 4282). While WCK 771 and WCK 2349 (brand names are Emrok and Emrok O, respectively) have been launched in the domestic market, WCK 5222 is currently undergoing phase-3 clinical trials for both the Indian and the global markets. Given the significant investments made by the company in developing its NCE portfolio, success of the same remains critical to ensure improvement in the company's profitability metrics and cash flows.

Profitability remains exposed to raw material price risk; vulnerable to regulatory and litigation risks – The company's margins remain exposed to volatility in raw material prices. Given that the company derives a significant amount of its revenues from regulated markets such as the UK and US, the company is also exposed to regulatory risks. ICRA further notes that the company has outstanding import alerts and warning letters for some its manufacturing facilities, and it relies on third party manufacturers to supply its products in the US at present. Given its presence in the branded formulations segment, the company remains exposed to pricing controls and any adverse regulatory development in the Indian market. The company is also exposed to potential litigations because of its presence in multiple regulated and semi-regulated markets. Any impact arising from regulatory changes or litigations will be evaluated on a case-to-case basis for their impact on the credit profile of the company.

Environment and Social Risks

Environmental considerations – Wockhardt does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations related to breach of waste and pollution norms, which can lead to an increase in operating costs or capital investments. To address this, the company is dedicated to minimising its environmental footprint by continuously improving its operations, reducing its energy consumption, and managing its waste and emissions responsibly.

Social considerations – The company faces high social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards akin to other industry players. Further, entities in the pharmaceutical industry are also exposed to risks emanating from Government intervention related to price caps/controls. The company is committed to promoting health and safety of its employees by providing a safe work environment, supporting a culture of wellness, and is investing in training and development. The company also supports local initiatives, engages in philanthropic activities, and partners with organisations that share its commitment to social responsibility.

Liquidity position: Adequate

The company's liquidity remains adequate with cash and liquid investments of ~Rs. 550 crore as on March 31, 2024. The improvement in liquidity as on March 31, 2024 was mainly on the back of receipt of ~Rs.463-crore (post transaction charges) equity proceeds from QIP at the end of March 2024. The company has a sanctioned working capital limit of Rs.512.8 crore and the average utilisation of the same between April 2023 and February 2024 stood high at 93.5%. ICRA notes that utilisation of the company's working capital limits reduced as on April 30, 2024, supported by the QIP proceeds which are earmarked towards meeting the company's working capital requirements. The company is expected to incur capex of ~Rs. 220 crore in FY2025 and ~Rs. 160 crore in FY2026. A part of the same is expected to be funded by the Rs. 210-crore QIP proceeds, which are earmarked towards funding the costs of clinical trials and R&D, which are being undertaken by the company for its NCEs.

The company has repayment obligation of Rs. 145.3 crore and Rs. 52.6 crore in FY2025 and FY2026, respectively and a part of the same is expected to be funded by the Rs. 110-crore QIP proceeds, which are earmarked for the same.

Rating sensitivities

Positive factors – The company's ratings can be upgraded if there is significant increase in its earnings and cash flows, resulting in a sizeable improvement in its liquidity position and debt coverage metrics on a sustained basis.

Negative factors – The company's ratings may be downgraded if there is a deterioration in the company's earnings, liquidity position and debt metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity

About the company

Wockhardt is a global pharmaceutical and biotechnology company, headquartered in India. It primarily operates in four segments namely formulations, vaccines, biotechnology and new drug discovery. It has manufacturing and research facilities in India, the US, the UK and a manufacturing facility in Ireland. Overall, the company has 11 manufacturing facilities across the world and has capabilities to produce injectables. Wockhardt's new drug discovery programme has focused on developing antibiotic drugs. The USFDA has granted QIDP status for six antibiotics discovered by Wockhardt. The company currently employs over 5,000 people (including ~315 scientists with 56 PhDs and 125-member drug discovery team) across the US, the UK, Ireland, Switzerland, France, Mexico, Russia etc.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	3,241.0	2,731.0	2,129.0
PAT	-279.0	-621.0	-295.0
OPBDIT/OI	9.5%	6.6%	8.1%
PAT/OI	-8.6%	-22.7%	-13.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.9	NA
Total debt/OPBDIT (times)	7.1	12.1	NA
Interest coverage (times)	1.0	0.6	NA

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
India Ratings	IND B+(ISSUER NOT COOPERATING) /Negative/IND A4(ISSUER NOT COOPERATING)	October 10, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 15, 2024	-	-	-
1	Term Loan	Long term	75.00	400.3	[ICRA]BBB-(Stable)	-	-	-
2	Fund Based	Long term/ Short term	512.80	NA	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-
3	Non Fund Based	Long term/ Short term	171.20	65.4	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-
4	Unallocated Limits	Long term/ Short term	326.00	NA	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based – Term Loan	Simple
Long term/ Short term – Fund Based	Simple
Long term/ Short term – Non Fund Based	Very Simple
Long term/ Short term – Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund Based – Term Loan	FY2024	13%	FY2026	75.00	[ICRA]BBB-(Stable)
NA	Long term/ Short term – Fund Based	FY2023/ FY2024	NA	NA	512.80	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Long term/ Short term – Non Fund Based	FY2023/ FY2024	NA	NA	171.20	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Long term/ Short term – Unallocated Limits	NA	NA	NA	326.00	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Wockhardt Infrastructure Development Limited	100.00%	Full Consolidation
Wockhardt Medicines Limited	100.00%	Full Consolidation
Wockhardt Biologics Limited	100.00%	Full Consolidation
Z&Z Services GmbH @	85.85%	Full Consolidation
Wockhardt Europe Limited	100.00%	Full Consolidation
Wockhardt Nigeria Limited	100.00%	Full Consolidation
Wockhardt UK Holdings Limited	100.00%	Full Consolidation
CP Pharmaceuticals Limited @	85.85%	Full Consolidation
CP Pharma (Schweiz) AG @	85.85%	Full Consolidation
Wallis Group Limited	100.00%	Full Consolidation
The Wallis Laboratory Limited	100.00%	Full Consolidation
Wockhardt Farmaceutica do Brazil Ltda	100.00%	Full Consolidation
Wallis Licensing Limited	100.00%	Full Consolidation
Wockhardt USA LLC @	85.85%	Full Consolidation
Wockhardt Bio AG	85.85%	Full Consolidation
Wockhardt UK Limited @	85.85%	Full Consolidation
Wockpharma Ireland Limited @	85.85%	Full Consolidation
Pinewood Laboratories Limited @	85.85%	Full Consolidation
Wockhardt Holding Corp @	85.85%	Full Consolidation
Morton Grove Pharmaceuticals Inc @	85.85%	Full Consolidation
MGP Inc @	85.85%	Full Consolidation
Wockhardt France (Holdings) S.A.S @	85.85%	Full Consolidation
Laboratoires Pharma 2000 S.A.S @	85.85%	Full Consolidation
Laboratoires Negma S.A.S @	85.85%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Niverpharma S.A.S @	85.85%	Full Consolidation
Negma Beneulex S.A @	85.85%	Full Consolidation
Phytex S.A.S @	85.85%	Full Consolidation
Wockhardt Farmaceutica SA DE CV	85.85%	Full Consolidation
Wockhardt Services SA DE CV @	85.85%	Full Consolidation
Pinewood Healthcare Limited @	85.85%	Full Consolidation
Wockhardt Bio (R) LLC @	85.85%	Full Consolidation
Wockhardt Bio Pty Ltd @	85.85%	Full Consolidation
Wockhardt Bio Ltd # @	0.00%	Full Consolidation

Source: Annual report FY2023

@Company holds 85.85% shareholding in Wockhardt Bio AG which in turn holds 100% shareholding in these subsidiaries.

#Wockhardt Biologics Ltd and Wockhardt Medicines Limited, incorporated in India, and Wockhardt Bio Limited, incorporated in New Zealand, are yet to commence operations

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Gaurav Kanade
+91 22 6114 3469
gaurav.kanade@icraindia.coms

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches