



NEUTRAL

Price	Rs88
Target Price	-
Investment Period	-

Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	967
Beta	0.5
52 WK High / Low	323/68
Avg. Daily Volume	76170
Face Value (Rs)	5
BSE Sensex	12,135
Nifty	3,654

BSE Code	532300
NSE Code	WOCKPHARMA
Reuters Code	WCKH.BO
Bloomberg Code	WPL@ IN

Shareholding Pattern (%)

Promoters	73.6
MF/Banks/Indian FIs	11.4
FII/ NRIs/ OCBs	2.7
Indian Public/others	12.3

Abs.	3m	1yr	3yr
Sensex (%)	31.9	(31.1)	(1.7)
Wockhardt (%)	(6.5)	(70.5)	(80.2)

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Performance Highlights

- Net Sales rises 10.7%:** For 1QCY2009, Wockhardt posted Net Sales of Rs869.4cr clocking a growth of 10.7% yoy on the back of strong growth in Exports and the Domestic Segment and exceeded our estimates. Wockhardt's US business grew 70% yoy to around Rs202cr and it received 7 ANDA approvals from the USFDA. The company's UK business grew 6% yoy, which was double the Industry growth rate. On the Domestic front, the Formulations business grew 15% yoy and the company improved its ranking from 17 in March 2008 to 15 in March 2009.
- Operating Margins contract by 249bp:** Wockhardt reported Operating Margin of 19.6%, down 249bp yoy and was lower than our estimate. OPM contracted due to the fall in Gross Margins by 904bp, which was however restricted, to some extent, by lower Employee costs and Other Expenses.
- Registers Net Loss of Rs20.2cr:** For 1QCY2009, Wockhardt reported Net Loss of Rs20.2cr as against a Net Profit of Rs50.9cr in 1QCY2008. This was on account of MTM losses on forex contracts to the tune of Rs31.6cr and premium payable of Rs14.4cr on FCCBs. During the quarter Interest costs also almost doubled to Rs113.1cr.

Key Financials

Y/E Dec (Rs cr)	CY2007	CY2008	CY2009E	CY2010E
Net Sales	2,653.2	3,592.6	3,791.9	4,116.8
% chg	53.4	35.4	5.5	8.6
Net Profit	385.7	(138.2)	(37.2)	131.2
% chg	58.5	-	-	-
EPS	35.0	-	-	12.0
EBITDA Margin (%)	25.3	22.5	18.0	19.5
P/E (x)	2.5	-	-	7.3
RoE (%)	32.7	-	-	12.8
RoCE (%)	18.6	18.0	14.0	15.9
P/BV (x)	0.8	1.0	1.0	0.9
EV/Sales (x)	1.3	1.3	1.2	1.1
EV/EBITDA (x)	5.2	5.7	6.9	5.7

Source: Company, Angel Research

Annual Results

Wockhardt also reported its 4QCY2008 and CY2008 numbers during the quarter. For 4QFY2009, Net Sales grew 25.0% to Rs951.9cr while Operating Margins collapsed by 430bp to 20.6% basically on account of contraction in Gross Margins. The company accounted for MTM losses on forex contracts amounting to Rs554.6cr and premium payable on outstanding FCCBs to the tune of Rs129.4cr. As a result, the company reported a Net Loss of Rs357.9cr for the quarter as against Net Profit of Rs106.7cr in 4QCY2008.

For CY2008, Net Sales increased a healthy 35.4% to Rs3,592.6cr driven by Exports and the Domestic Segment. The company's US business grew 14%, while Revenue from Europe increased by 30% yoy. In 2008, Wockhardt received 23 ANDA approvals from the USFDA. Further, its Domestic Formulation business grew a strong 20% during the year. Operating Margins contracted by 160bp on account of higher Employee costs and Other Expenses. For the full year, the company reported a Net Loss of Rs138.8cr on account of MTM losses on Forex contracts (Rs580.9cr) and premium payable on FCCBs (Rs129.5). The company also stated that it has not provided for Rs489.5cr on certain derivative contracts with banks as the same are under dispute.

Patent Settlement with Orion Corporation

Wockhardt announced that it has entered into a settlement and licence agreement with Orion Corporation pertaining to FTFs of the generic version of Innovator's *Comtan* and *Stalevo* product. Both products contain Entacapone, a COMT enzyme-inhibiting agent used for the treatment of Parkinson's disease. Under the terms of the agreement, Wockhardt would be able to launch the generic version of these products in September 2012 or prior to that with 180 days exclusivity. As per IMS Dec 2008, annual sales of *Comtan* and *Stalevo* products in the US were US \$87mn and US \$113mn, respectively.

Outlook and Valuation

For CY2010, we expect the company's Net Sales to grow 8.6% to Rs4,116.8cr with Operating Margins at 19.5%. We expect the company to report an EPS of Rs12 for CY2010. However, the company is faced with increasing debt burden (FCCB repayment at US \$141mn including the premium in October 2009) for which it has made a reference to the Corporate Debt Restructuring (CDR) cell. The company has also stated that it has not provided Rs489.5cr for losses on the derivative contract, which accounts for almost 50% of its Net Worth, which is lower than what has been speculated in media reports. The company's Net Deb/ Equity ratio stood at 3.4x in CY2008. We believe though the company is doing fine at the Operating level, the high debt levels and lack of clarity on the losses on the derivative front is a matter of concern. **Hence, we downgrade the stock to Neutral from Buy.**

Exhibit 1: 4QCY2008 Performance

Y/E Dec (Rs cr)	4QCY2008	4QCY2007	% chg	CY2008	CY2007	% chg
Net Sales	951.9	761.8	25.0	3592.6	2653.1	35.4
Other Income	13.1	7.4	76.4	35.6	11.0	223.5
Total Income	965	769	25.4	3628.1	2664.1	36.2
PBIDT	196	190	3.5	808	639	26.5
Operating Margin (%)	20.6	24.9		22.5	24.1	
Interest	9.4	52.9	(82.2)	271.3	97.4	178.5
Depreciation & Amortisation	36.9	23.6	56.1	113.1	78.5	44.0
PBT & Exceptional Items	163.2	120.8	35.1	460	474	-3.1
Less : Exceptional Items	684.1	0.0		710	0	
Profit before tax	(520.9)	120.8		(250.9)	474	
Provision for Taxation	(149.3)	15.5		(91.6)	91.7	
Share of Associates	13.7	3.32	312.3	20.5	3.3	520.6
Net Profit	(357.9)	108.6		(138.8)	385.7	
EPS (Rs)		9.8			35.3	

Source: Company, Angel Research

Exhibit 2: 1QCY2009 Performance

Y/E Dec (Rs cr)	1QCY2009	1QCY2008	% chg	CY2008	CY2007	% chg
Net Sales	869.4	785.7	10.7	3,592.6	2,653.1	35.4
Other Income	14.1	4.5	212.2	35.6	11.0	
Total Income	883.5	790.2	11.8	3,628.1	2,664.1	36.2
PBIDT	170.5	173.7	(1.8)	808.3	639.0	
Operating Margin (%)	19.6	22.1		2,249.9	2,408.5	
Interest	113.1	56.5	100.1	271.3	97.4	178.5
Depreciation & Amortisation	31.1	24.1	29.1	113.1	78.5	44.0
PBT & Exceptional Items	40.4	97.6	(58.6)	459.6	474.1	(3.1)
Less : Exceptional Items	46.1	27.9	65.1	710.5	0.0	
Profit before tax	(5.7)	69.7		(250.9)	474.1	
Provision for Taxation	14.2	20.5	(30.7)	(91.6)	91.7	
Share of Associates	(0.4)	1.7		20.5	3.3	520.6
Net Profit	(20.2)	50.9		(138.8)	385.7	
EPS (Rs)		4.7			35.3	

Source: Company, Angel Research


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Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	