

BUY

Price	Rs192
Target Price	Rs300
Investment Period	15- months

Stock Info

Sector	Pharmaceuticals
Market Cap (Rs cr)	2,097
Beta	0.71
52 WK High / Low	448/170
Avg Daily Volume	39558
Face Value (Rs)	5
BSE Sensex	14,287
Nifty	4,314

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

Shareholding Pattern (%)

Promoters	73.6
MF/Banks/Indian FIs	14.4
FII/ NRIs/ OCBs	2.9
Indian Public	11.1

Abs.	3m	1yr	3yr
Sensex (%)	(17.4)	(6.4)	87.1
Wockhardt (%)	(35.5)	(49.8)	(56.5)

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Performance Highlights

- Net Sales rise 48.4%:** For 2QCY2008, Wockhardt posted Sales of Rs935cr, registering a yoy growth of 48.4%. Growth continued to be driven by the International business, which grew 65%. The India business, on the other hand, posted a growth of 14%. With this, for 1HCY2008, the company posted Net Sales of Rs1,720.7cr registering a yoy growth of 49.2%.
- Operating Margins remain Flat:** During the quarter, the Gross Margins improved by 233bp to 65.7%. However, the same was not reflected in the Operating Margins, which remained flat at 24.7%. All the key expenditure was higher than the overall Sales growth, impacting OPMs. Staff cost and Other Expenditure rose 52% and 58%, respectively. R&D expenditure, which was at 2.3%, grew by 56% during the period.

 For 1HCY2008 too, Margins remained flat at 23.5%. Gross Margins expanded by 424bp to 66.5%. A substantial rise in the key expenditure during the period restricted overall improvement in the Operating front. Staff costs and Other Expenditure rose 69% and 67%, respectively. R&D expenditure rise during the period was however subdued, rising yoy by 20%, contributing 2.1% of overall Sales vis-à-vis 2.6% of the sales during the last corresponding period..
- Net Profits decline 6.3%:** While the company posted robust Sales growth during the period, the same was not reflected on the Net Profit front, which during the quarter plunged 6.3%. The key reason for the same was the substantial rise in Interest Expenditure, which increased to Rs88cr (Rs8.5cr). For 1HCY2008, the company posted Profits of Rs157.2cr, a decline of 6.8%.

Key Financials (Consolidated)

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
Net Sales	1,729.1	2,653.2	3,186.4	3,669.0
% chg	22.4	53.4	20.1	15.1
Net Profit	241.3	382.5	358.3	442.0
% chg	(6.1)	58.5	(6.3)	23.4
EPS (Rs)	22.1	35.0	32.7	40.4
EBITDA Margin (%)	23.1	25.3	25.6	25.6
P/E (x)	8.7	5.5	5.9	4.7
ROE (%)	25.6	32.7	26.0	27.0
ROCE (%)	17.2	18.6	19.1	20.7
P/BV (x)	2.0	1.6	1.4	1.2
EV/Sales (x)	1.8	1.7	0.6	0.4
EV/EBITDA (x)	7.5	6.9	2.5	1.6

Source: Company, Angel Research

Regulated Markets drive growth

Regulated Markets, lead by US and Europe continue to drive the growth of the company. Regulated markets, which contribute 69% of overall Sales, registered a yoy growth of 66%. Organic and In-organic initiatives taken in the US and European markets aided the company's growth during the period. Europe, which is the company's largest overseas business, contributed 49.5% of overall Sales and registered a yoy growth of 49.4%. Within Europe, UK emerged as the key market, which witnessed a healthy performance from the CMO business. Pinewood operations, during the quarter, declined due to strengthening of the Euro. Management expects the second half to deliver growth. The German business clocked a healthy double-digit growth in 2QCY2008 following the launch of a new product.

On the US front, the company posted a yoy growth of 128.2% to Rs181.9cr. A significant part of the growth was driven by the Morton Grove acquisition. During 1HCY2008, the company received 12 new ANDA approvals and is awaiting approvals for 42. Wockhardt markets 61 products in the US market, including 36 from the Morton Grove portfolio. Going ahead, Wockhardt expects healthy growth in the US market to continue.

Domestic Market – Outperformed the Industry

The Indian Markets posted a growth of 14% during 2QCY2008 and 13% for 1HCY2008, outperforming the Industry growth. During the quarter, the company improved its market share 2.14% (1.81%) and now has 2 brands in the Top-100 and 9 in the Top-300. During the quarter, the company did an in-licensing agreement covering four products with Sinclair UK. Going ahead, the company expects Power brands and In-licensing to drive growth in the Domestic Formulation market.

Valuation and Outlook

At the CMP, the stock is trading at 5.9x CY2008E and 4.7x CY2009E EPS, which is at a significant discount to its peers. A substantial part of the discount is on account of the high competitive pressures in the Generic space and dependence of the company on its M&A strategy to scale up its Generic business. A part of the discount is also due to the Accounting Policies followed by the company (deferment of R&D expenditure). Further, there is a concern on the company's exposure to the currency derivatives. On the Earnings front, we have pruned our Net Profit estimates by 22% for CY2008E and 17% for CY2009E, respectively. Overall, owing to the concerns, we have downgraded our Target Price. However, after the decline, we believe that a further downslide should be restricted. **We maintain a Buy on the stock, with a revised Target Price of Rs300 (Rs480), over a 15-month period.**

Exhibit 1: 2QCY2008 Performance

Y/E Dec (Rs cr)	2QCY2008	2QCY2007	% chg	1HCY2008	1HCY2007	% chg
Net Sales	935.0	630.1	48.4	1,720.7	1,153.0	49.2
Other Income	2.2	2.5		6.7	4.7	
Total Income	937	633	48.2	1,727.4	1,157.7	49.2
PBIDT	231	152		405	268	
Operating Margin (%)	24.7	24.1		23.5	23.2	
Interest	88.0	8.5		144.5	21.4	
Depreciation & Amortisation	25.3	17.2		49.4	35.3	
PBT & Exceptional Items	120	129		217	216	
Add : Exceptional Items	0	0		0	0	
Profit before Tax	122	129	(5.4)	204	216	(5.7)
Provision for Taxation	26.1	26.6		46.6	47.4	
Net Profit	95.8	102.2	(6.3)	157.1	168.6	(6.8)
EPS (Rs)	8.8	9.4		14.4	15.5	

Source: Company, Angel Research


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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)