

SELL

Price	Rs145
Target Price	Rs72
Investment Period	12 months

Stock Info

Sector	Pharmaceutical
Market Cap (Rs cr)	1,573
Beta	0.6
52 WK High / Low	214/67
Avg. Daily Volume	118941
Face Value (Rs)	5
BSE Sensex	15,831
Nifty	4,681
BSE Code	532300
NSE Code	WOCKPHARMA
Reuters Code	WCKH.BO
Bloomberg Code	WPL@IN

Shareholding Pattern (%)

Promoters	73.6
MF/Banks/Indian FIs	11.5
FII/ NRIs/ OCBs	2.4
Indian Public/others	12.5

Abs.	3m	1yr	3yr
Sensex (%)	30.5	8.6	45.7
Wockhardt (%)	62.5	(24.6)	(59.0)

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Performance Highlights

■ **Net Sales increase marginally:** For 2QCY2009, Wockhardt reported Net Sales of Rs954.2cr (Rs910.3cr), which were up 5% yoy. As per ORG-IMS, Wockhardt's domestic formulation business grew by 9% during the quarter, and currently ranks 15th in the market. The company's Europe business grew by a mere 3% during the quarter, with sales from Pinewood and Negma flat yoy, and sales from the UK growing by a healthy 11%. Further, the US business of the company grew by a strong 24% during the quarter, and now contributes 19% of the Total Revenue. Wockhardt received 7 ANDA approvals till Q2CY2009, and has launched 64 products in the US.

For 1HCY2009, the Net Sales were up by 5% to Rs1,817.4cr (Rs1,731.5cr). During the quarter, the company has also entered into a definitive agreement to sell Esparma (its German business), Animal Healthcare and the Nutrition business, in order to raise funds for debt repayment by divesting the non-core businesses.

■ **Operating Margin contracts:** For 2QCY2009, the OPM of the company contracted by 561bp to 17.6% (23.2%). This was primarily on account of a fall in the Gross Margin by 1106bp to 54.3% (65.4%). However, Employee and R&D expenses de-grew by 10% and 36%, respectively. For 1HCY2009, the OPM was down by 470bp to 19.2% (23.9%).

■ **The Bottom-line plunges in the red:** Wockhardt reported a Net loss of Rs189.9cr (Profit of Rs105.8cr), on the back of Rs255.3cr MTM losses. We are negatively surprised by the quantum of the MTM losses, given the fact that the Rupee has appreciated by 5.6% during the quarter and, during the last 2 quarters, the company has cumulatively booked Rs500cr on the MTM front. For 1HCY2009, Wockhardt reported a Net loss to the tune of Rs200.1cr (Profit of Rs156.7cr).

Key Financials (Consolidated)

Y/E Dec (Rs cr)	CY2007	CY2008	CY2009E	CY2010E
Net Sales	2,653	3,593	3,792	4,117
% chg	53.4	35.4	5.5	8.6
Net Profit	385.8	(138.2)	(37.2)	131.2
% chg	59.9	-	-	-
EPS	35.0	-	-	12.0
EBITDA Margin (%)	25.3	22.5	18.0	19.5
P/E (x)	4.1	-	-	12.1
RoE (%)	32.7	(14.0)	(3.8)	12.8
RoCE (%)	16.4	15.5	11.4	13.3
P/BV (x)	1.2	1.6	1.6	1.4
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

Key Developments

During the quarter, Wockhardt has divested its non-core businesses, Esparma, Animal Healthcare and the Nutritional business, in order to raise funds for the repayment of its Debt. We believe that with these sales the company would have garnered funds to the tune of Rs800-850cr for partly repaying its Debt of Rs3,585cr (Net Debt / Equity of 3.5x as on CY2008), including FCCBs of US \$141mn, which are due in October 2009.

Outlook and Valuation

The Half-yearly results were disappointing on the bottom-line front on account of unexpected MTM losses on hedging instrument. However, For CY2010, we expect the company's Net Sales to grow 9% to Rs4,116.8cr with Operating Margins at 19.5%. 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 recommend a Sell on the stock and are discontinuing coverage on the stock.

Discontinue coverage

The company has been able to raise funds by selling its non-core business in its attempt to reduce its increasing debt burden. However, we believe that it still has a long way to go with its current debt levels being in the range Rs2,700-2,800cr (Net Debt/Equity of 3.4x). Further, the company during the quarter recorded MTM losses on hedging instrument of Rs255cr even though the Rupee appreciated by 5.6%. It may be noted that the company had cumulatively booked Rs500cr losses on the MTM front in the last two quarters. As on CY2008, Wockhardt also has Goodwill on acquisition to the tune of Rs1,827.1cr, or 1.8x its Net Worth. **Pending clarity on most of these issues and subdued 2QCY2009 performance, we discontinue coverage on the stock.**

Exhibit 1: 2QCY2009 Performance (Consolidated)

Y/E Dec (Rs cr)	2QCY2009	2QCY2008	% chg	1HCY2009	1HCY2008	% chg
Net Sales	954.2	910.3	4.8	1,817.4	1,731.5	5.0
Other Income	8.4	6.8	23.4	18.7	14.3	
Total Income	962.6	917.1	5.0	1,836.2	1,745.8	5.2
PBIDT	167.9	211.3	(20.5)	349.4	414.3	
OPM (%)	17.6	23.2		19.2	23.9	
Interest	60.3	73.1	(17.5)	196.6	161.9	21.4
Depreciation & Amortisation	30.2	25.2	19.9	61.3	49.3	24.4
PBT & Exceptional Items	85.8	119.8	(28.3)	110.3	217.4	(49.3)
Less : Exceptional Items	264.6	(19.0)		284.7	17.5	
Profit before tax	(178.8)	138.8		(174.5)	199.9	
Provision for Taxation	10.4	35.2	(70.3)	24.6	47.1	
Share of Associates	(0.6)	2.3		(1.0)	3.9	
Net Profit	(189.9)	105.8		(200.1)	156.7	
EPS (Rs)		9.7			14.4	

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%)