

Stock Idea

Wockhardt Limited

January 28, 2010

Bad times won't last!

Stock data

Market Cap	1800 Cr
Equity	54 Cr
Revenue	3630 Cr.
Year High	201
Year Low	68
Book Value	93

Shareholding Pattern

Promoters	74%
FII's, MF's & FI's	14%
Public	12%

Wockhardt is a global pharmaceutical and biotechnology company, with 5 research centres and 14 world-class manufacturing plants in India, Europe and USA. The plants are compliant to international regulatory standards such as the US FDA, MHRA etc. Wockhardt has end-to-end integrated capabilities for its products, starting with APIs, the dosage forms and marketing through its subsidiary in the US.

- Wockhardt is not out of woods yet. Company has just reported a loss of Rs.435 Cr. on Revenue of Rs.3630 Cr for the year 2009. It is surprising to see that Wockhardt made a loss of Rs.770 Cr. on forex hedging instruments during the year and the management is not providing clarity regarding any further potential loss on forex derivatives.
- Company is attempting to buy back \$110 Million FCCBs at a huge discount as part of the CDR package, while FCCB holders want a better deal and would be happy with a conversion at the current levels. The highly leveraged balance sheet carried a peak debt of Rs.4200 Cr, which is on a decline currently.
- The Enterprise Value is around Rs.5500 Cr for Wockhardt with EV/Sales ratio of 1.5, while other pharma majors enjoy an average 4 times EV/Sales. Its core pharma business is doing well, with the costly acquisitions in France (Negma) and US (Morton Grove) being well integrated with the company. Europe contributes over 50% of the revenue for Wockhardt.
- Wockhardt is really tempting for daring investors at a market cap of Rs.1800 Cr. Any comfort or clarity on the financial position of the company (expected in the near future) could make the stock price flare up to Rs.300. Khorakiwalas are reluctant to dilute their already high stake of 74% in Wockhardt to compromise with FCCB holders; perhaps they know the real worth of the company! After a series of bad news in 2008 & 2009, shareholders could expect positive triggers in 2010.