

**Wockhardt Ltd.****₹737****Research-based Healthcare...!!!****Buy**

Feb 02, 2018

**Company Background**

Wockhardt is a global pharmaceutical & biotechnology organization, providing affordable, high-quality medicines for a healthier world, incorporated on July 8, 1999. Company is India's leading research-based global healthcare enterprise with relevance in the fields of Pharmaceuticals, Biotechnology and a chain of advanced Super Speciality Hospitals. It has 12 manufacturing locations and 5 locations where research and development activities are carried out. Company is headquartered in Mumbai, India. Wockhardt has full-fledged operations in the USA, UK, Ireland and France. It also has their marketing presence in emerging markets of Russia, Brazil, Vietnam, Myanmar, Sri Lanka, Kenya, Ghana, Nigeria and Tanzania. Company's output includes steriles, biopharmaceuticals, orals and topicals. It's three principal products/services include Spasmoproxyvon, Proxyvon and Methycobal. Company also launched three products in the Indian market, which include Biovac-B, Wepox and Wosulin. It also receives Qualified Infectious Disease Product designation for its new Drug WCK 4873 from U.S. FDA. US authority grants breakthrough drug discovery status to New Antibiotic of Wockhardt. Company has 40+ contract manufacturing clients. It has 31 subsidiaries, Wockhardt Bio AG, Switzerland is the biggest one out of all, in the sales turnover.

**Key Highlights**

- ➔ For FY 2016-17 company Net sales ₹ 22975.2 mn with 3.7% growth, other income rose by 303.8% to ₹ 2483.1mn, operating profit improved by 109.8% to ₹ 3931.6mn & net profit was improved to ₹ 1371.2mn on YoY basis.
- ➔ During the Q3 FY18, 3 new products launched in India, 1 product was launched in UK and company received 1 new approval of ANDA in USA.
- ➔ International Business contributes 61% and India contributes 39% of total revenue. India Business launched 4 new products in Q2 of FY 2018.
- ➔ Till now, Wockhardt had filed 2,178 applications for patents in India and other countries. In India, it got 75 patents so far; it has secured 327 outside India. Now Indian Government is planning to speed up the process of Patent applications.

**Key Financials**

| Year Ended 31 <sup>st</sup> | Mar 15   | Mar 16   | Mar 17   |
|-----------------------------|----------|----------|----------|
| Revenue (INR mn)            | 23,584.0 | 22,780.3 | 25,458.3 |
| Rev. growth (%)             | 10.71    | (3.41)   | 11.76    |
| EBITDA (INR mn)             | 3,447.5  | 4,725.4  | 1,874.2  |
| Net profit (INR mn)         | 3,318.2  | 83.4     | 1,371.2  |
| Shares outstanding (mn)     | 707.2    | 110.5    | 110.5    |
| EPS (INR)                   | 30.1     | 0.8      | 12.4     |
| EPS growth (%)              | 59.13    | (97.51)  | 1553.33  |
| P/E (x)                     | 61.88    | 1297.53  | 58.06    |
| RONW (%)                    | 31.76    | 0.74     | 11.49    |
| ROCE (%)                    | 16.80    | 2.90     | 7.52     |

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**Info Codes**

|           |              |
|-----------|--------------|
| Reuters   | : WCKH.BO    |
| Bloomberg | : WPL IN     |
| NSE       | : WOCKPHARMA |
| BSE       | : 532300     |

**Market Data**

|                      |            |
|----------------------|------------|
| 52 Wk Range (₹)      | : 531/1012 |
| Shares in Issue (mn) | : 110.50   |
| Market. Cap ( bn)    | : 81.46    |
| BSE 2 Wk Avg Vol     | : 331000   |

**Share Holding Pattern (%)**

|                     |         |
|---------------------|---------|
| Promoters Holding   | : 74.13 |
| Public & Others     | : 13.86 |
| Corporate Holding   | : 01.69 |
| Foreign Institution | : 05.81 |
| Institutions        | : 04.51 |

**Investment Theme**

Indian pharma industry is expected to expand at a CAGR of 12.89% over 2015-20 to reach \$ 55 bn, grew by 10.3% to reach the market size of ₹ 1,11,135 cr, for the year 2017. India is the second largest contributor of global biotech and pharmaceutical workforce. Company has 40+ contract manufacturing clients and has good expertise in low cost-base manufacturing together with its extensive expertise and capabilities in different technology platforms offering competitive, high quality, custom end-to-end manufacturing services. For 2016-17 total R&D 571 crore at 14% of total sales. Company filed 311 patents and won 80 patents. International Business contributes 61% and India contributes 39% of total revenue. India Business launched 4 new products in Q2 of FY 2018. Now Indian Government is planning to speed up the process of Patent applications.

**Creating healthier World...!!!**

## Financial Statements

## Income Statement

(₹ mn)

| Year end          | Mar 15   | Mar 16   | % Chg   | Mar 17   | % Chg   |
|-------------------|----------|----------|---------|----------|---------|
| Net Sales         | 18,865.5 | 22,165.3 | 17.5    | 22,975.2 | 3.7     |
| Other Income      | 4,651.1  | 615.0    | (86.8)  | 2,483.1  | 303.8   |
| Change in Stocks  | 572.7    | 135.7    | (76.3)  | 143.2    | 5.5     |
| Raw Material Con. | 8,541.5  | 9,192.0  | 7.6     | 9,638.8  | 4.9     |
| Employee Exp.     | 4,096.2  | 4,737.3  | 15.7    | 5,232.2  | 10.4    |
| Indirect Taxes    | 67.4     | 0.0      | (100.0) | 0.0      | 0.0     |
| Other Exp.        | 6,658.8  | 7,112.5  | 6.8     | 6,798.9  | (4.4)   |
| Operating Exp.    | 19,363.9 | 21,041.8 | 8.7     | 21,669.9 | 3.0     |
| Operating Profit  | 4,725.4  | 1,874.2  | (60.3)  | 3,931.6  | 109.8   |
| Total Interest    | 191.8    | 1,078.6  | 462.4   | 1,687.2  | 56.4    |
| Gross Profit      | 4,533.6  | 795.6    | (82.5)  | 2,244.4  | 182.1   |
| Net Dep.          | 1,029.3  | 990.8    | (3.7)   | 1,056.6  | 6.6     |
| Total Taxation    | 186.1    | (278.6)  | (249.7) | (183.4)  | (34.2)  |
| Net Profit/Loss   | 3,318.2  | 83.4     | (97.5)  | 1,371.2  | 1,544.1 |

## 4 Years Balance Sheet

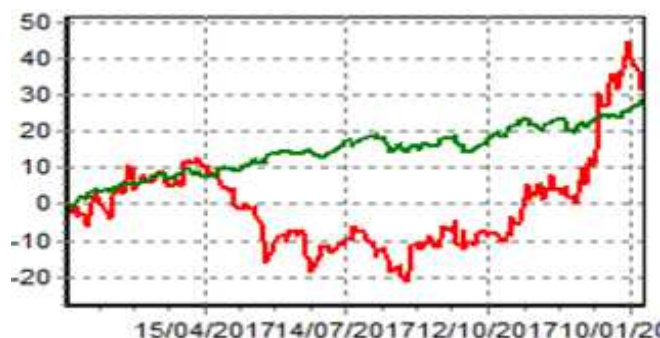
(₹ mn)

| Balance Sheet as on 31 <sup>st</sup> | Mar 14          | Mar 15          | Mar 16          | Mar 17          |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>SOURCES OF FUNDS</b>              | <b>20,757.6</b> | <b>22,432.3</b> | <b>38,422.8</b> | <b>38,024.8</b> |
| Equity Share capital                 | 3,534.3         | 3,535.9         | 552.5           | 552.7           |
| Equity Application Money             | 0.0             | 0.0             | 0.0             | 0.0             |
| Equity Share Warrants                | 0.0             | 0.0             | 0.0             | 0.0             |
| Reserves & Surplus                   | 8,821.3         | 10,165.0        | 11,127.1        | 11,640.5        |
| Secured Loans                        | 1,754.1         | 8,333.1         | 17,096.1        | 16,390.9        |
| Unsecured Loans                      | 6,647.9         | 398.3           | 9,647.1         | 9,440.7         |
| <b>USES OF FUNDS</b>                 | <b>20,757.6</b> | <b>22,432.3</b> | <b>38,422.8</b> | <b>38,024.8</b> |
| Gross Block                          | 16,195.7        | 17,091.1        | 22,058.4        | 23,708.5        |
| Less : Revaluation Reserves          | 0.0             | 0.0             | 0.0             | 0.0             |
| Less : Accumulated Depreciation      | 5,866.9         | 7,036.2         | 8,040.4         | 9,063.4         |
| Net Block                            | 10,328.8        | 10,054.9        | 14,018.0        | 14,645.1        |
| Capital Work in Progress             | 5,818.3         | 7,921.6         | 6,636.0         | 6,653.4         |
| Investments                          | 3,079.5         | 2,972.2         | 2,972.2         | 2,972.2         |
| Current Assets                       | 9,901.9         | 15,725.8        | 20,213.5        | 18,840.1        |
| Less : Current Liabilities           | 11,789.0        | 17,741.0        | 7,415.7         | 7,343.7         |
| Total Net Current Assets             | (1,887.1)       | (2,015.2)       | 12,797.8        | 11,496.4        |
| Misc. Expenses not writtenoff        | 3,418.1         | 3,498.8         | 1,998.8         | 2,257.7         |
| <b>NOTE</b>                          |                 |                 |                 |                 |
| Book Value of Unquoted Investments   | 3,079.5         | 2,972.2         | 2,972.2         | 2,972.2         |
| Market Value of Quoted Investments   | 0.0             | 0.0             | 0.0             | 0.0             |
| Contingent Liabilities               | 9,266.9         | 6,059.4         | 2,172.4         | 22,830.8        |
| Dividend (%)                         | 200.0           | 400.0           | 0.0             | 200.0           |

**Quarterly Income Sheets**

(₹ mn)

| Quarter Ended         | Mar 17  | June 17   | Sep 17  | Dec 17  |
|-----------------------|---------|-----------|---------|---------|
| Net Sales             | 5,405.4 | 4,399.0   | 5,889.3 | 5,351.2 |
| Cost Of Sales         | 4,986.4 | 5,143.6   | 5,340.6 | 5,173.4 |
| Operating Profit      | 419.0   | (744.6)   | 548.7   | 177.8   |
| Other Income          | 176.0   | 225.0     | 122.3   | 115.6   |
| Adjusted PBDIT        | 595.0   | (519.6)   | 671.0   | 293.4   |
| Financial Expenses    | 407.4   | 429.2     | 435.0   | 410.4   |
| Depreciation          | 253.1   | 265.4     | 257.3   | 267.3   |
| Other Write Offs      | (81.6)  | 30.4      | 16.8    | (7.5)   |
| Adjusted PBT          | 16.1    | (1,244.6) | (38.1)  | (376.8) |
| Tax Charges           | 75.2    | (228.8)   | (291.3) | (101.6) |
| Reported Profit       | (59.1)  | (1,015.8) | 253.2   | (275.2) |
| Extra Ordinary Items  | 0.0     | 0.0       | 0.0     | 0.0     |
| Other Non Cash Adjust | 0.0     | 0.0       | 0.0     | 0.0     |
| Adjusted Net Profit   | (59.1)  | (1,015.8) | 253.2   | (275.2) |

**52 Week Index Relative Percentage Appreciation**

**Wockhardt vs SENSEX**
**Risks Associated**

- ➔ Indian approvals are very slow to patents and trade marks, while in developed countries is much faster than India. In India it will take 6-8 years to get patent approvals, but in developed countries it is within 2-3 years.
- ➔ During the 2016-17 revenue was declined, due to continuous regulatory alters by USFDA for US market. Devaluation of GBP in UK market. De-monetisation, NLEM and FDC ban notifications in Indian market.
- ➔ Some of the products in the USA going off patent; and facing compliance issues with US FDA; have collectively impacted revenues for 2017, its one of the reason for revenue decline by 25%.
- ➔ Company's formulation units at Chikalthana and Waluj have been under the USFDA's import alert since 2013, while its bulk drug plant at Ankleshwar in Gujarat was also issued an import alert.
- ➔ The health ministry last year had banned 344 FDCs, estimated to affect around 6,000 brands, after an expert committee declared them unsafe for human health. The ban is include on Wockhardt also.

**Scope of Growth**

- ➔ US Business stands at 15% of the Global revenues and grew by 4% on quarter on quarter basis, mainly on account of New Products approval by US FDA.
- ➔ In August 2017 Wockhardt receives US FDA approval for Antibiotic Injection. The product is being manufactured at a contract manufacturing facility, based near Milan, Italy. This injection will launch soon in USA.
- ➔ India's cost of production is nearly 33% lower than the US that is why India is emerging as a leading destination for medical manufacturing.

**In a Nutshell**

Wockhardt is a global pharmaceutical and biotechnology organization, providing affordable, high-quality medicines for a healthier world. During the 2016-17 revenue was declined in India, USA and UK, because of some reasons. Continuous regulatory alters by USFDA for US market and also some of the products are impacted in US Business. Devaluation of GBP in UK market. De-monetisation, NLEM and FDC ban notifications in Indian market. Even in those issues also company focus to remain in R&D. Including Capex it was 14% of total sales. Other expenses were increased by 5% because of higher legal, interest cost on additional borrowings and remediation cost. Operating expenses on remedial measures continued to impact the profitability, company's focus on cost containments and rationalisation has started giving its intended positive impact thereby significantly reducing losses quarter on quarter. The Health Products Regulatory Authority of Ireland has granted certificate of good manufacturing practices compliance to Wockhardt's Aurangabad facility after an inspection. Four New Products were launched during the 2nd quarter. Company received 1 new approval in UK market in first half of FY18. In August, 2017 Wockhardt receives US FDA approval for Antibiotic Injection. Wockhardt is expected to launch this product in the United States, soon. The product is being manufactured at a contract manufacturing facility, based near Milan, Italy. During the Q3 FY18 International operations contributes 61% of total revenues, delined by 4% as compared to Q3 FY17 mainly on account of genericisation of some of the products in USA. India revenue rose by 10% in Q3 FY18 as compare to the same period last year.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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