

Key data 22 February 2008

Sector	Pharma
Market Cap	Rs39.5bn / US\$0.9bn
52 Wk H/L (Rs)	450.05/295.05
Avg. daily vol. (6 month)	129,823

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

Sensex	17,735
Nifty	5,192

Shareholding pattern (%)

	30-Sep-07	31-Dec-07
FII's	4.2	4.4
MFs and institutions	10.8	10.4
Promoters	73.6	73.6
Others	11.4	11.5

Absolute returns (%)

	1mth	3mth	12mth
Wockhardt Ltd	(0.1)	(11.8)	6.3
Sensex	0.7	(4.7)	25.0
BSE Pharma	0.9	(2.1)	(1.4)

Vikas Sonawale
 vikas.sonawale@religare.in
 +91 22 6655 0112

Wockhardt

Hold
Current Price: Rs349
Target price: Rs478
Results were above our estimates/consensus
Figure 1: Actual Vs Religare Estimates

Rs mn	Q4CY07A	Q4CY07E	Difference (%)	Consensus
Net sales	7,620	7,046	8.1	7,421
EBITDA	1,731	1,496	15.7	1,570
EBITDA margins (%)	22.7	21.2	148bps	21.1
Adj PAT	919	804	14.3	842
Adj PAT margins (%)	12.1	11.4	65bps	11.4

Source: Religare Institutional Equity Research, Bloomberg

Financial highlights

- The numbers are not comparable, as Q4CY07 numbers include sales from two of the company's acquisitions - Morton Grove (acquired in the US in October 2007) and Negma Labs (acquired in France in May 2007).
- **Net sales** for Q4CY07 **increased by 44.8% Y-o-Y**, mainly driven by a contribution from the acquired entities in the US and France. Excluding these two acquired entities, the underlying base business reported a growth of 15% Y-o-Y.
- **EBITDA increased by 63.8% Y-o-Y**. EBITDA margins expanded by 260 bps Y-o-Y to 22.7%. The margin expansion was driven by Negma Labs, which has higher margins compared to the base business.
- **Interest (net) increased by 3.3 times Y-o-Y** on the back of higher loans, while **depreciation increased by 11% Y-o-Y**.
- **Adj. PAT increased by 18.9% Y-o-Y**. Adj. PAT margin contracted by 262 bps to 12.1%. Adj. PAT increase was lower than the EBITDA increase on account of higher interest and tax expenses in Q4CY07 compared to a tax write back in Q4CY06.

Figure 2: Quarterly Performance

Y/E, 31st Dec	CY06				CY07				CY07	CY08E
	Q1CY06	Q2CY06	Q3CY06	Q4CY06	Q1CY07	Q2CY07	Q3CY07	Q4CY07		
Net Sales	3,510	4,127	4,377	5,264	5,228	6,303	7,381	7,620	26,532	33,747
<i>Change %</i>	13.4	9.4	21.8	43.9	48.9	52.7	68.6	44.8	53.5	27.2
EBITDA	689	897	801	1,057	979	1,352	1,639	1,731	5,701	7,423
<i>EBITDA margin (%)</i>	19.6	21.7	18.3	20.1	18.7	21.5	22.2	22.7	21.5	22.0
<i>Change (%)</i>	15.2	(6.8)	(8.5)	24.2	42.1	50.7	104.6	63.8	66.1	30.2
Depreciation	137	140	141	212	181	172	196	236	785	1,081
Other Income	33	18	61	78	22	25	26	37	110	116
Interest exp/(inc)	(77)	(6)	(5)	115	129	85	268	492	974	1,252
PBT	662	781	726	808	691	1,120	1,201	1,040	4,052	5,206
<i>PBT margin (%)</i>	18.9	18.9	16.6	15.3	13.2	17.8	16.3	13.6	15.3	15.4
<i>PBT growth (%)</i>	25.4	(7.2)	(2.6)	(2.8)	4.4	43.4	65.4	28.7	36.2	28.5
Extraordinary exp/(Inc)	604	-	-	-	-	-	-	-	-	-
Tax	95	147	122	35	172	232	254	121	779	1,093
<i>Effective tax rate (%)</i>	14.4	18.8	16.8	4.4	24.9	20.7	21.1	11.6	19.2	21.0
PAT reported	(37)	634	604	773	519	888	947	919	3,273	4,113
Adjusted PAT *	567	634	604	773	519	888	947	919	3,273	4,113
<i>Adj PAT margin (%)</i>	16.2	15.4	13.8	14.7	9.9	14.1	12.8	12.1	12.3	12.2
<i>Change (%)</i>	36.0	(18.2)	(7.1)	5.8	(8.5)	40.1	56.8	18.9	27.8	25.7
Equity Capital (Rs mn)	547	547	547	547	547	547	547	547	547	547
Adj EPS (Rs)	5.2	5.8	5.5	7.1	4.7	8.1	8.7	8.4	29.9	37.6

Source: Religare Institutional Equity Research, Adj. PAT is after adjusting for EOI's

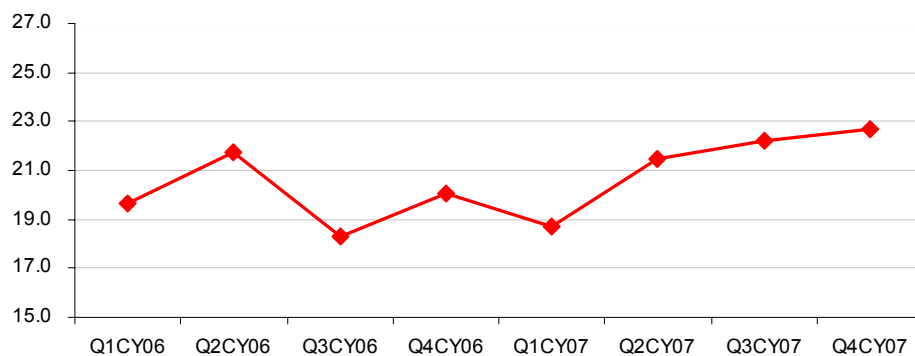
Other business highlights

- The company plans to demerge its NCE R&D business
- Wockhardt has filed an INDA (Investigational New Drug Application) for insulin in the US market.

Figure 3: Revenue break-up

	Q1CY06	Q2CY06	Q3CY06	Q4CY06	Q1CY07	Q2CY07	Q3CY07	Q4CY07
Revenue, Rs mn								
Formulations								
US	273	278	349	193	394	419	406	1,136
Europe	1,266	1,593	1,450	2,888	2,455	3,475	4,276	3,692
RoW	228	190	199	197	196	127	194	686
India	1,320	1,670	1,928	1,577	1,732	1,944	2,077	1,727
Sub-total : Formulations	3,087	3,731	3,926	4,855	4,777	5,965	6,953	7,241
Sub-total : APIs	423	394	450	410	451	335	429	377
TOTAL	3,510	4,125	4,376	5,265	5,228	6,300	7,382	7,618
Revenue, Common Size, %								
Formulations								
US	8	7	8	4	8	7	5	15
Europe	36	39	33	55	47	55	58	48
RoW	6	5	5	4	4	2	3	9
India	38	40	44	30	33	31	28	23
Sub-total : Formulations	88	90	90	92	91	95	94	95
Sub-total : APIs	12	10	10	8	9	5	6	5
TOTAL	100	100	100	100	100	100	100	100
Revenue, Growth, %								
Formulations								
US	8	(6)	21	16	44	51	16	489
Europe	(2)	18	13	81	94	118	195	28
RoW	(16)	(8)	43	(21)	(14)	(33)	(3)	248
India	58	9	36	21	31	16	8	10
Sub-total : Formulations	17	10	26	47	55	60	77	49
Sub-total : APIs	(6)	2	(5)	18	7	(15)	(5)	(8)
TOTAL	13	9	22	44	49	53	69	45

Source: Company

Figure 4: EBITDA margin (%)


Source: Company, Source: Religare Institutional Research

Figure 5: Table for earnings revision

(Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade)		
	CY07E	CY08E	CY09E	CY07E	CY08E	CY09E	CY07E	CY08E	CY09E
Net Sales	25,956	33,903	38,682	26,532	33,747	38,521	2.2	(0.5)	(0.4)
EBITDA	5,464	7,459	8,467	5,701	7,423	8,436	4.3	(0.5)	(0.4)
EBITDA margin (%)	21.1	22.0	21.9	21.5	22.0	21.9	44bps	(1bps)	1bps
PBT	4,003	5,231	5,989	4,052	5,206	5,973	1.2	(0.5)	(0.3)
Adj PAT	3,220	4,133	4,731	3,273	4,113	4,718	1.6	(0.5)	(0.3)
Adj PAT margin (%)	12.4	12.2	12.2	12.3	12.2	12.2	(7bps)	0bps	2bps
Adj EPS (Rs)	27.0	34.6	39.6	27.4	34.4	39.5	1.5	(0.5)	(0.3)

Source: Religare Institutional Equity Research

Future outlook

- CY07 revenues were driven by acquisitions. From next year, the organic growth will be reflected.
- The significant contribution from biosimilars to the regulated markets is at least two years away.

Valuations and Recommendation

The stock is trading at a PER of 10.1x CY08E earnings. These valuations factor in concerns of R&D capitalization, charge backs and other operational issues of the past. Therefore, we see a limited downside risk.

From here on, the margins will improve as the acquisitions get digested and some of the manufacturing from the UK is transferred to India. The demerger of its NCE R&D will be the next big trigger. However, the possibility of an equity dilution to fund further acquisitions remains a key risk. We maintain our **Hold** rating.

Figure 6: Valuation summary

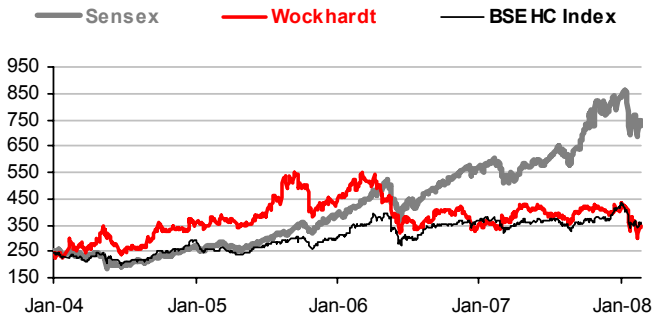
Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs mn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q4CY07 (Rs mn)	YoY (%)	Q4CY07 (Rs mn)	YoY (%)	Q4CY07 (Rs mn)	YoY (%)	Q4CY07 (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Aurobindo*	305	Accumulate	550	16,390	5,696	7.8	788	0.4	443	(26.3)	8.3	(26.4)	39.0	7.8	43.0	7.1
Biocon	418	Hold	660	41,800	2,370	(4.0)	590	(24.4)	530	(5.4)	4.9	(12.3)	21.9	19.1	23.9	17.5
Cipla	188	Reduce	209	146,131	11,045	25.4	2,793	27.4	2,277	23.5	2.9	22.3	7.6	24.7	9.1	20.7
Dr Reddy's	540	Hold	746	90,716	12,320	(20.2)	1,381	(44.0)	1,509	(19.7)	9.0	(19.7)	36.3	14.9	42.5	12.7
Glenmark	503	Accumulate	588	122,790	4,994	62.2	1,789	74.4	1,180	67.4	4.9	67.4	23.6	21.3	26.5	19.0
GSK #	946	Hold	1,159	80,129	3,592	14.3	1,149	41.2	930	36.5	11.0	36.5	48.4	19.5	52.6	18.0
NPIL	284	Hold	367	59,360	7,323	12.8	1,441	47.9	972	56.7	4.7	58.3	16.7	17.0	19.1	14.9
Sun	1,124	Accumulate	1,307	223,870	7,902	50.1	3,547	104.6	3,184	60.1	16.0	52.8	48.8	23.0	55.6	20.2
Wockhardt	349	Hold	478	38,194	7,620	44.8	1,731	63.8	919	18.9	8.4	18.9	27.4	12.7	34.4	10.1
Sector				819,380	62,862	13.8	15,208	28.6	11,944	23.7			18.4		15.9	

Source: Religare Institutional Equity Research, Bloomberg, *Q4CY07-consolidated, Q3FY07-standalone, # results awaited

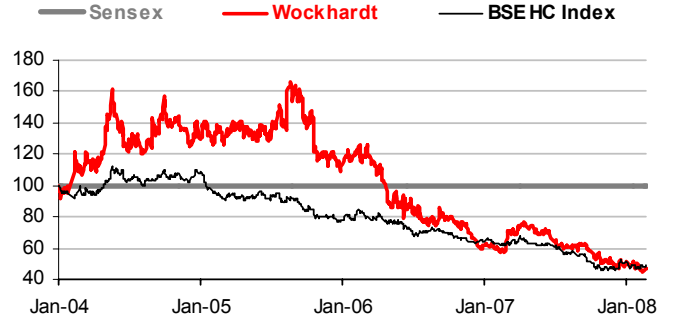
Stock performance

Wockhardt

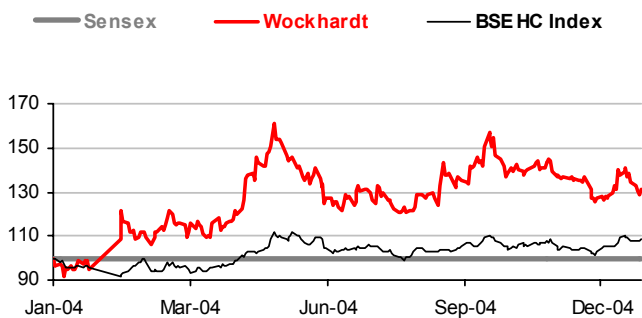
Absolute Perf. From Jan 04



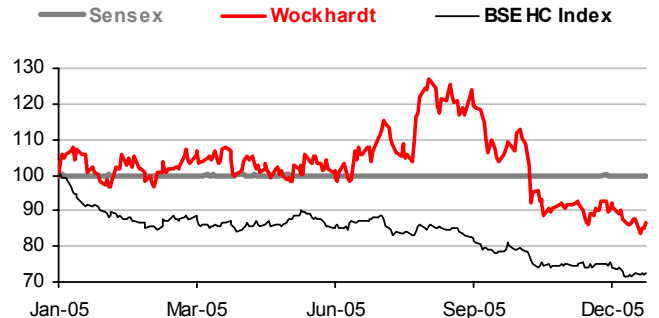
Relative Perf. From Jan 04



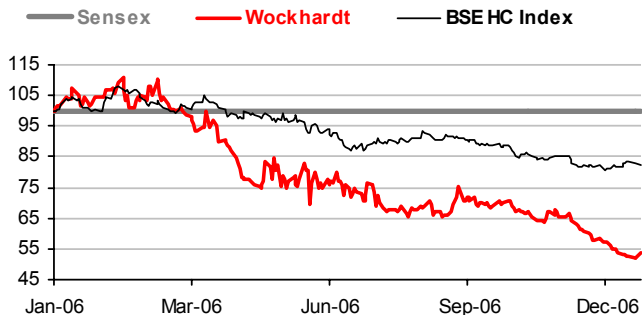
Relative Perf. From Jan 04 to Dec 04



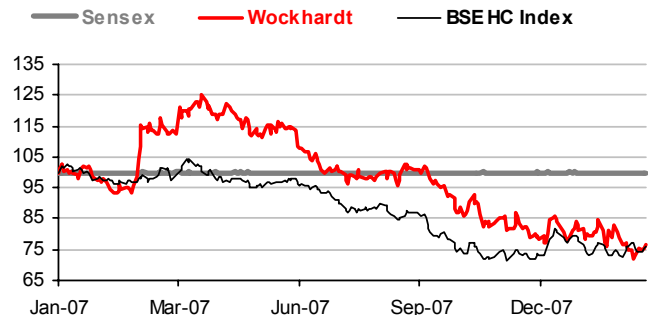
Relative Perf. From Jan 05 to Dec 05



Relative Perf. From Jan 06 to Dec 06



Relative Perf. From Jan 07

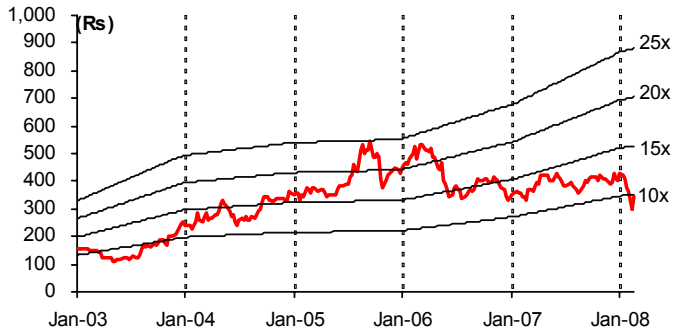


Source: Bloomberg, Religare Institutional Equity Research

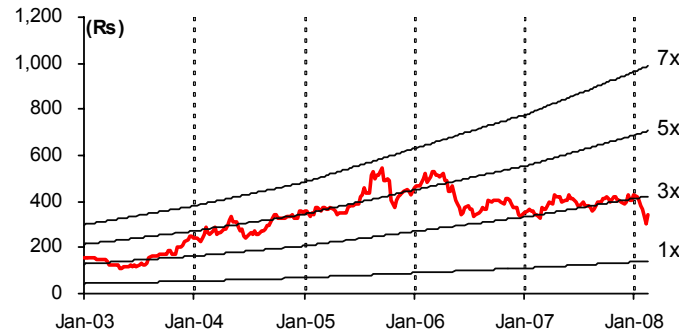
12 month forward rolling band charts

Wockhardt

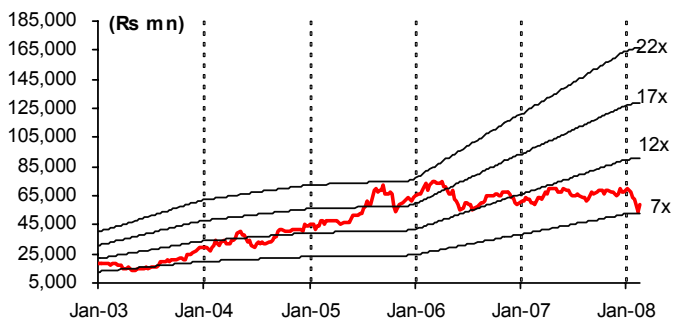
P/E Band



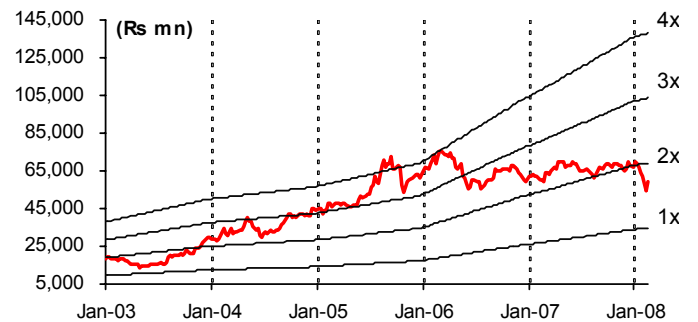
P/BV Band



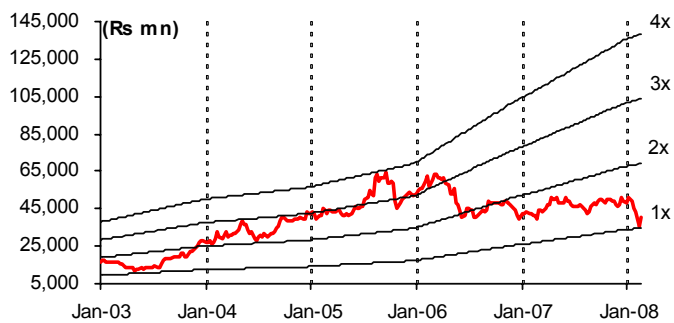
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Source: Bloomberg, Religare Institutional Equity Research

Financials

Income statement

(Rs mn)

Y/E, 31st Dec	CY05	CY06	CY07	CY08E	CY09E
Net sales	14,130	17,290	26,532	33,747	38,521
EBITDA	3,286	3,433	5,701	7,423	8,436
EBITDA margin (%)	23	20	21	22	22
Depreciation	426	621	785	1,081	1,265
EBIT	2,860	2,812	4,916	6,342	7,172
Other income	180	190	110	116	121
Interest Exp/(Inc)	95	26	974	1,252	1,320
PBT (operating)	2,945	2,976	4,052	5,206	5,973
PBT margin (%)	21	17	15	15	16
Extra ord (inc)/exp	-	604	-	-	-
Taxes	374	415	779	1,093	1,254
Minority interest	-	-	-	-	-
PAT(Reported)	2,571	1,957	3,273	4,113	4,718
Less: Extra ordinary income / Others	-	604	-	-	-
Adj PAT	2,571	2,561	3,273	4,113	4,718
Adj PAT margin (%)	18.2	14.8	12.3	12.2	12.2

Quarterly-Financials

(Rsmn)

Y/E, 31st Dec	Q4CY06	Q1CY07	Q2CY07	Q3CY07	Q4CY07
Net sales	5,264	5,228	6,303	7,381	7,620
Changes (%)	43.9	48.9	52.7	68.6	44.8
EBITDA	1,057	979	1,352	1,639	1,731
Changes (%)	24.2	42.1	50.7	104.6	63.8
Margin (%)	20.1	18.7	21.5	22.2	22.7
PAT	773	519	888	947	919
PAT adj	773	519	888	947	919
Changes (%)	5.8	(8.5)	40.1	56.8	18.9
Margin (%)	14.7	9.9	14.1	12.8	12.1
EPS adj (Rs)	7.1	4.7	8.1	8.7	8.4
EPS dil (Rs)	6.5	4.3	7.4	7.9	7.9

Ratios

Y/E, 31st Dec	CY05	CY06	CY07	CY08E	CY09E
Growth					
Net sales (%)	12.9	22.4	53.5	27.2	14.1
EBITDA (%)	16.9	4.5	66.1	30.2	13.7
PAT adjusted (%)	14.4	(0.4)	27.8	25.7	14.7
EPS adjusted (%)	14.1	(0.5)	27.8	25.7	14.7
EPS diluted (%)	9.3	(0.6)	27.7	25.7	14.7
EPS Consl and dilu.(%)	9.3	(0.6)	27.7	25.7	14.7

Valuations

P/E (x)	16.2	16.3	12.7	10.1	8.8
P/BV (x)	5.1	3.9	3.2	2.5	2.1
EV/EBITDA (x)	10.7	12.6	9.3	7.0	6.0
EV/Sales (x)	2.5	2.5	2.0	1.5	1.3

Profitability

EBITDA margin (%)	23.3	19.9	21.5	22.0	21.9
Adj PAT margin (%)	18.2	14.8	12.3	12.2	12.2
RoE (%)	21.4	18.0	19.6	21.0	20.5
RoCE (%)	18.8	12.6	15.6	17.9	18.3
RoIC (%)	26.2	15.0	14.3	14.3	15.3

B/S ratios

Inventory days	70.9	90.8	88.0	88.0	88.0
Creditor days	72.6	97.4	91.0	91.0	91.0
Debtor days	43.6	59.1	60.0	60.0	60.0
Working Capital days	99.9	129.1	119.0	119.0	119.0
Net debt/equity	(0.2)	0.3	0.8	0.7	0.5

* ROIC is calculated on post tax basis.

Balance sheet

(Rs mn)

Y/E, 31st Dec	CY05	CY06	CY07E	CY08E	CY09E
Liabilities					
Equity share capital	547	547	547	547	547
Total Res. & Surplus	7,615	10,116	12,661	15,859	19,529
Total Shareholders' fund	8,161	10,663	13,208	16,407	20,076
Convertible Debt	4,888	4,801	4,801	4,801	4,801
Others Debt	4,177	14,902	15,902	16,902	16,902
Total Loans	9,065	19,703	20,703	21,703	21,703
Deferred tax liability (net)	618	921	967	1,015	1,066
Total liabilities	17,844	31,287	34,878	39,125	42,845

Assets

Net fixed assets & others	5,478	13,982	23,926	24,345	25,081
Capital WIP & others	2,403	3,086	3,086	3,086	3,086
Total non-current assets	7,881	17,068	27,012	27,431	28,167
Total investments - non current	3	3	3	3	3
Current assets					
Inventories	2,747	4,300	6,397	8,136	9,287
Sundry debtors	2,810	4,616	6,615	8,414	9,604
Cash & cash equivalents	7,139	9,732	1,030	3,000	4,755
Cash	2,142	2,920	309	900	1,426
Liquid investments	4,998	6,812	721	2,100	3,328
Other current assets	910	1,424	2,181	2,774	3,166
Total current assets	13,605	20,071	16,223	22,323	26,812
Total current liabilities	2,561	4,975	6,906	8,783	10,026
Total provisions	1,084	880	1,454	1,849	2,111
Net current assets	9,960	14,216	7,863	11,690	14,675
Misc. expenditure	-	-	-	-	-
Total assets	17,844	31,287	34,878	39,125	42,845

Cash flow

Y/E, 31st Dec	CY05	CY06	CY07E	CY08E	CY09E
Cash from operations					
PBT	2,945	2,976	4,052	5,206	5,973
Tax paid	(374)	(415)	(779)	(1,093)	(1,254)
Dep & amortization	426	621	785	1,081	1,265
Working capital changes	(1,115)	(1,663)	(2,349)	(1,858)	(1,230)
Others	-	-	-	-	-
Net cash from operations	1,882	1,519	1,709	3,335	4,753
Cash from investments					
Capital expenditure	(1,538)	(10,831)	(10,728)	(1,500)	(2,000)
Sale/purchase of inv & others	(0)	0	0	0	0
Net cash from investments	(1,538)	(10,831)	(10,728)	(1,500)	(2,000)
Cash from financing					
Issue of shares & share pre.	-	-	-	-	-
Dividend paid	(686)	(624)	(728)	(914)	(1,049)
Debt change	151	10,638	1,000	1,000	0
Others	(24)	1,817	46	48	51
Net cash from financing	(559)	11,831	318	134	(998)
Net change in cash	(215)	2,519	(8,700)	1,969	1,755

Per share data

Y/E, 31st March	CY05	CY06	CY07	CY08E	CY09E
EPS adjusted	23.5	23.4	29.9	37.6	43.1
EPS diluted - wtd	21.6	21.4	27.4	34.4	39.5
EPS Consl and diluted	21.6	21.4	27.4	34.4	39.5
CEPS	25.1	26.6	34.0	43.5	50.1
Book value	68.5	89.3	110.6	137.3	168.0
Dividend	5.6	5.0	5.7	7.1	8.2
O/s shs.-actual (mn)	109.3	109.4	109.4	109.4	109.4
O/s shs.-diluted (mn)	119.3	119.5	119.5	119.5	119.5
O/s shs wtd / diluted (mn)	119.2	119.4	119.5	119.5	119.5

Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

Religare Securities Ltd. Taj Building, 210, D.N. Road, Mumbai - 400001

For inquiries contact:

Email: institutionalsales@religare.in

Phone: 6655 0000

DISCLAIMER: Religare Securities Limited (Religare) has two independent equity research groups: Institutional Equities (Institutional Equity Research) and Priority Client Group (Religare Research). Religare Institutional Equity Research is aimed to service the institutional clients of Religare Securities Limited including the Portfolio Management Services of Religare whereas Religare Research is published with a view to service all segments of clients including Retail, HNIs and Institutional clients and PMS.

This document has been prepared by Religare Securities Limited – Institutional Equities. Affiliates of Religare- Institutional Equities may have issued other reports that are contrary with and reach different conclusion from the information presented in this report. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating and target price of the Priority Client Group of Religare Securities Limited.

We are not soliciting any action based upon this material. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Religare-Institutional Business. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Religare-Institutional will not treat recipients as customers by virtue of their receiving this report. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable. It should be noted that the information contained herein is from publicly available data or other sources believed to be reliable. Neither Religare, nor any person connected with it, accepts any liability arising from the use of this document.

This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The investment discussed or views expressed may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Religare, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Religare and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Religare and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Religare and its affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall Religare, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Copy right in this document vests exclusively with Religare. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from Religare. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst's holding in the stocks mentioned in the report: **NIL**