Wockhardt Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	Wockhardt is transitioning from a collapsing legacy generics business to a high-risk biotech model, currently functioning as a binary bet on its NCE pipeline.	Negative
2	Revenue declined 17.93% to □2,651 Cr, driven by the decommissioning of the Illinois plant and a strategic exit from the Nutrition business.	Negative
3	Operating margins (OPM) contracted sharply from 9% to 4%, with operating profit plummeting 66% to a mere □101 Cr.	Negative
4	The company is in a loss-making position where ROCE has hit 0%, reflecting the lack of returns on massive R&D investments.	Negative
5	A severe debt trap has emerged as interest expenses of □302 Cr are now 3x the total operating profit, resulting in an interest coverage ratio of 0.74x.	Negative
6	Cash flow from operations (CFO) of □153 Cr is insufficient to service interest obligations of □242 Cr, indicating fundamental insolvency without external funding.	Negative
7	Capital expenditure is heavily concentrated in CWIP and intangibles (□1,125 Cr), creating a massive impairment risk if Phase 3 trials for WCK 5222 fail.	Negative
8	Earnings quality is critically low, evidenced by trade receivables of □1,292 Cr exceeding annual revenue and a "Going Concern" warning from auditors.	Negative
9	Governance is a primary concern due to significant cash leakage, including □91 Cr in rent to promoters and land titles held in the Chairman's name.	Negative
10	A critical liquidity mismatch exists with a □1,151 Cr working capital gap, leaving the company entirely dependent on promoter support and new □3,200 Cr fundraising.	Negative
11	The sole long-term value driver is the WCK 5222 NCE, which has successfully initiated Phase 3 studies across 70 global centers.	**Positive**
12	Investment View: Avoid; monitor the Cash Conversion Cycle (currently 41 days) and Phase 3 trial data, as any setback could trigger total capital loss.	Negative

1. Business overview (In Bullet Points)

- **Business Segments:** Wockhardt is transitioning from a traditional generic pharmaceutical manufacturer to a research-driven biotech entity, with a primary focus on anti-infectives and biosimilars.
- **Revenue Drivers:** Total Revenue for FY23 stood at □2,773 Cr, with 83% of global revenues derived from international markets including the UK, USA, Ireland, Mexico, and Russia.
- **Cost Drivers:** The cost base is dominated by R&D investments (13.8% of revenue) and high financing costs. Employee costs (24.07%) and other expenses (21.58%) remain sticky despite revenue declines.
- **Industry Position:** Positions itself as a "biotech-first" company, targeting the $290 Billion biosimilar opportunity and niche anti-infective markets with high entry barriers.

- **Expansion Plans & R&D:** Focus is on New Chemical Entities (NCEs) and Biosimilars. The flagship "Super-drug" WCK 5222 has entered Global Phase 3 trials across 70 centers in 11 countries.
- **Acquisitions & Strategic Pivot:** Decommissioned the Illinois manufacturing facility in the US, shifting to an asset-light CMO (Contract Manufacturing) model to eliminate fixed overheads.
- **Capacity Additions:** CWIP increased to □1,539 Cr, though a □47 Cr vaccine plant is currently "on hold" with plans to repurpose it by 2024-25.
- **Segment Performance:** Non-vaccine business EBITDA improved to □128 Cr (from a loss of □50 Cr), but the overall bottom line is pressured by restructuring costs and high interest outgo.
- **Geographical Presence:** Stronghold in the UK hospital and pharmacy segments; leveraging the Indian market for its biosimilar portfolio (Erythropoietin, Insulin, and Glargine).

2. Management commentary & outlook

- Management is seeking a massive capital infusion of up to □1,600 Cr through QIP/GDR/ADR and an additional □1,600 Cr via a related-party overdraft facility from Khorakiwala Holdings.
- The strategic direction is focused on managing a critical liquidity gap and funding expensive Phase 3 trials for the NCE pipeline.
- The flagship NCE WCK 5222 is expected to take 18 months for trial completion, suggesting significant revenue realization is at least 2-3 years away.
- Management positions the company to capture 35% of global spending expected to go toward biotech by 2027.
- The US market strategy has shifted entirely to an asset-light model using USFDA-approved contract manufacturing partners to combat price erosion and regulatory hurdles.
- Management attributes significant losses to "one-time" US restructuring costs and forex adjustments, though efficiency ratios remain in "Adverse" status.
- There is a high reliance on "compassionate use" cases of WCK 5222 as qualitative proof-of-concept for the drug's efficacy against multi-drug-resistant superbugs.
- The company is actively pursuing asset sales, including exiting the Nutrition business and selling land in Aurangabad/Ankaleshwar to generate liquidity.
- Management Tone: Management maintains a highly optimistic, "visionary" tone, focusing heavily on the breakthrough potential of their NCE pipeline to overshadow current financial distress. There is a clear attempt to pivot the investor lens from the deteriorating generics business to a high-value biotech future. However, the urgent requests for □3,200 Cr in total fundraising authorizations and "adverse" financial ratios signal a "high-stakes gamble," betting the remaining balance sheet strength on the success of a few key clinical trials.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	2,651	3,230
Sales Growth %	-17.93	19.26
Expenses	2,550	2,932
Material Cost %	41.91	39.23
Raw material cost	1,027	1,180
Change in inventory	84	87
Manufacturing Cost %	8.64	8.27
Employee Cost %	24.07	23.22
Other Cost %	21.58	20.06
Operating Profit	101	298
OPM %	4	9
Other Income	-172	-163
Exceptional items	-294	-183
Other income normal	122	20
Interest	302	299
Depreciation	251	247
Profit before tax	-624	-411
Tax %	0	-32
Net Profit	-621	-279
Profit from Associates	0	0
Minority share	62	35
Exceptional items AT	-288	-168
Profit excl Excep	-333	-111
Profit for PE	-299	-97
Profit for EPS	-559	-244
Profit Growth %	-209	-112
EPS (□)	-38.80	-16.94
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	72	72
Reserves	3,282	3,777
Borrowings	2,184	2,198
Long term Borrowings	224	355
Short term Borrowings	1,663	1,507
Lease Liabilities	297	336
Preference Capital	0	0
Other Borrowings	0	0
Other Liabilities	2,113	2,168
Non controlling int	308	353
Trade Payables	867	921
Advance from Customers	66	51
Other liability items	872	843
Total Liabilities	7,651	8,215
Fixed Assets	3,042	3,462
Land	266	358
Building	1,088	1,186
Plant Machinery	2,612	2,822
Equipments	55	51
Computers	103	97
Furniture n fittings	91	77
Vehicles	9	10
Intangible Assets	1,359	1,311
Other fixed assets	113	106
Gross Block	5,696	6,018
Accumulated Depreciation	2,654	2,556
CWIP	1,539	1,342
Investments	0	0
Other Assets	3,070	3,411
Inventories	658	769
Trade receivables	797	918
Receivables over 6m	0	256
Receivables under 6m	910	779
Prov for Doubtful	-113	-117
Cash Equivalents	124	406
Loans n Advances	68	73

Line item	Mar 2023	Mar 2022
Other asset items	1,423	1,245
Total Assets	7,651	8,215

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	153	413
Profit from operations	11	143
Receivables	199	7
Inventory	141	30
Payables	0	0
Loans Advances	18	-113
Operating borrowings	0	0
Other WC items	-205	443
Working capital changes	153	367
Direct taxes	-11	-97
Cash from Investing Activity	-118	-204
Fixed assets purchased	-209	-212
Fixed assets sold	79	1
Investments purchased	0	0
Investments sold	0	0
Investment income	0	0
Interest received	2	3
Other investing items	10	4
Cash from Financing Activity	-315	-71
Proceeds from shares	0	748
Proceeds from debentures	0	237
Proceeds from borrowings	328	1,397
Repayment of borrowings	-325	-2,189
Interest paid fin	-242	-190
Dividends paid	0	0
Financial liabilities	-73	-71
Other financing items	-3	-3
Net Cash Flow	-280	138
Free Cash Flow	23	202
CFO/OP	162	171

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	110	104
Inventory Days	216	222
Days Payable	285	265
Cash Conversion Cycle	41	60
Working Capital Days	-186	-116
ROCE %	0	1

3.2 Financial analysis summary

- **Revenue** declined by 17.93% to □2,651 Cr, primarily driven by the absence of one-time Sale of Intellectual Property and Services which contributed □242 Cr in the prior year; this sharp drop in top-line directly impacted Operating Profit, which plummeted from □298 Cr to □101 Cr, causing OPM % to contract from 9% to 4%.
- **Net Profit** worsened significantly to a loss of □621 Cr from a loss of □279 Cr, exacerbated by Exceptional items of □294 Cr which included a □185 Cr forex loss from adjusting receivables against foreign subsidiary advances and a □50 Cr provision against contract assets.
- **Finance Cost** remained high at □302 Cr despite a reduction in external term loans, as the company relied on high-cost Short term Borrowings of □1,663 Cr and related party loans carrying interest rates as high as 15.10%.
- **Research and Development** expenditure of □148 Cr represents a high structural cost of 13.8% of revenue, which, when combined with sticky Employee Cost % of 24.07%, led to severe margin compression as revenue fell faster than operating expenses.
- **Trade Receivables** on the Balance Sheet stood at □797 Cr, but total net receivables are □1,292 Cr (120% of annual revenue), signaling a dangerously slow collection cycle and high concentration of dues from subsidiaries (□1,026 Cr).
- **Working Capital** management showed a Cash Conversion Cycle of 41 days, but this is artificially aided by high Days Payable of 285 days; the company faces a severe liquidity mismatch with current liabilities exceeding current assets by □1,151 Cr.
- **CWIP** increased to □1,539 Cr from □1,342 Cr, including □47 Cr for a vaccine plant currently "on hold," while Intangible Assets of □1,359 Cr remain sensitive to the success of NCE clinical trials, with □767 Cr in capital commitments required through FY 2028.
- **CFO** of □153 Cr was insufficient to cover Interest paid fin of □242 Cr, forcing the company to remain dependent on Proceeds from borrowings of □328 Cr and promoter support to maintain "Going Concern" status.
- **Total Debt** of □2,184 Cr is heavily skewed toward short-term obligations (□1,663 Cr), with Interest Coverage falling to 0.74x, indicating the business is not generating enough operating earnings to service its interest obligations.
- **Other Expenses** are disproportionately high at 21.58% of Sales, driven by Power & Fuel (□53 Cr) and Legal & Professional fees (□46 Cr), the latter likely linked to ongoing debt restructuring and regulatory compliance.
- **Other Assets** include □179 Cr in Assets Held for Sale (Nutrition business and land), while Other Liabilities include a □156 Cr advance from subsidiary Wockhardt Bio AG, highlighting the complex inter-company financial web.
- **Asset Turnover** and ROCE % (0%) reflect poor capital efficiency, as the massive Gross Block of □5,696 Cr and growing CWIP are failing to translate into incremental Revenue or positive PAT.

- **Related Party Transactions** are critical to survival, with ₹1,172 Cr in new loans taken from related parties during the year and ₹91 Cr paid as rent to a promoter entity (Carol Info Services), representing 8.5% of total revenue.
- **Overall Synthesis:** Wockhardt is in a precarious financial position characterized by a sharp **Revenue** decline, deep Net Profit losses, and a ₹1,151 Cr working capital deficit that renders the company entirely dependent on promoter funding and asset sales to service its high-cost Total Debt and maintain its intensive R&D pipeline.

3.3 Contingent liabilities & commitments

- **Capital Commitments (NCE Development):** ₹767 Cr committed for NCE 5222 (₹341 Cr), NCE 4873 (₹203 Cr), and NCE 4282 (₹223 Cr) through FY 2028.
- **Guarantees:** Guarantees to subsidiaries previously noted at ₹1,026 Cr; auditor focus remains on the ability of these subsidiaries to repay.
- **Litigation & Disputes:** Management notes legal and other disputes are "inherently judgmental" and could change substantially; specific unquantified risks exist in pending litigations.
- **Tax Disputes:** Recognition of ₹196 Cr MAT credit entitlement as an asset assumes future profitability, which is a significant accounting judgment given current losses.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — deep losses masked by working capital liquidation; CFO positive only via asset reduction.	—	CFO driven by ₹199 Cr receivable and ₹141 Cr inventory liquidation rather than core earnings.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — extreme collection risk; receivables exceed annual revenue indicating potential inter-company or non-cash sales.	—	Note 11.2: Trade receivables are 120% of annual revenue; Auditor highlights recoverability of subsidiary dues.
3	Revenue timing (unbilled/contract assets)	Revenue ↑ — aggressive recognition via bill-and-hold; contract asset provision signals prior revenue realization failure.	—	Note 39(a): Use of "bill and hold" arrangements; Note 14.3: Provision for customer failure to fulfill obligations.
4	Revenue from related parties %	Revenue ↑↓ — high dependency on subsidiary sales; inter-company transactions risk inflating top-line without external cash.	—	Note 40: Significant reliance on inter-company transfers; ₹185 Cr forex adjustment on subsidiary receivables.
5	Inventory vs revenue growth	Profit ↓ — inventory liquidation lags sales decline; 14% stock drop vs 18% sales drop suggests obsolescence.	—	Note 10(b): Inventory includes reversal of obsolescence provisions which artificially lowers material costs.
6	Inventory valuation method change	Profit ↑ — provision reversal reduces material costs; non-cash gain artificially improves gross margins during downturn.	—	Note 10(b): Reversal of prior year write-downs directly impacts the "Cost of Materials Consumed" line.
7	Exceptional items in operating profit	Profit ↑ — operating EBITDA excludes massive losses; exceptional bucketing masks core business cash consumption and risks.	—	Note 34(ii): Bucketing ₹185 Cr forex loss and ₹50 Cr contract provisions as "exceptional" to protect OPM.
8	Depreciation rate vs useful life policy	Profit ↑ — forex capitalization inflates asset base; smoothing P&L by deferring exchange losses through depreciation.	—	Note 3(e)(iv): Policy to capitalize foreign exchange differences on long-term monetary items into fixed assets.
9	Provision reversals boosting PAT	Profit ↑ — provision reversals and lower credit allowances; non-cash adjustments provide temporary relief to bottom-line.	—	Note 11.2: Reduction in allowance for credit losses despite flat receivables and declining sales environment.
10	Tax rate consistency	Profit ↑ — aggressive MAT credit recognition; assumes future profitability despite current trend of widening losses.	—	Note 8.4: Recognition of ₹196 Cr MAT credit entitlement as an asset despite persistent loss-making trend.
11	CWIP age and stalling projects	Profit ↑ — stalled projects avoid depreciation; high CWIP balance risks future impairment if projects remain unviable.	—	Note 5.1: ₹47 Cr vaccine plant "on hold"; massive ₹767 Cr NCE pipeline sensitive to clinical success.
12	Deferred tax asset recognition adequacy	Profit ↑ — deferred tax assets recognized without certainty; recoverability is highly judgmental given the persistent loss-making status.	—	Note 2.C: Going concern depends on promoter support; DTA/MAT recoverability assumes a sharp turnaround.
13	RPT quantum and trend	Profit ↓ — high-cost promoter debt and rent; RPTs consume 8.5% of revenue through property-related payments.	—	Note 40: Rent paid to Carol Info (promoter) is 8.5% of revenue; Note 16.3: NCDs carry 13.75% interest.
14	Dividend paid vs FCF adequacy	Neutral — zero dividends preserve liquidity; FCF barely positive only due to massive working capital liquidation.	—	Cash flow stress prevents payouts; company is in "Going Concern" survival mode relying on asset sales.
15	Auditor KAM: NCE Recoverability	Profit ↑ — capitalization of R&D costs avoids immediate P&L hit; recoverability of ₹1,125 Cr (Consol) is high-risk.	—	Auditor highlights recoverability as a KAM; failure in Phase 3 trials would trigger massive impairments.
16			—	

#	Check	Impact	Status	Notes detail
	Asset Governance: Title Deeds	Neutral — land held in Chairman's name since 2004-05; indicates poor administrative control over core assets.		Note 4.3: Title deeds for certain land not in company's name; potential legal/ transfer risk.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** Unqualified.
- **Key Audit Matters (KAMs):**
  - **Revenue Recognition:** Auditor concerned with the timing of control transfer and the complexity of estimating rebates, discounts, and returns.
  - **Recoverability of PPE and CWIP:** Significant judgment involved in assessing the carrying value of assets (□417 Cr) and CWIP (□48 Cr) affected by low capacity utilization.
  - **Intangible Assets under Development (NCE):** High risk regarding the recoverability of □1,125 Cr (Consolidated) in NCE development costs.
  - **Recoverability of Goodwill:** Assessment of □945 Cr in Goodwill depends on future cash flow projections.
  - **Recoverability of Trade Receivables:** Focus on the ability of subsidiaries to repay □1,026 Cr in dues.
- **Auditor's Comments on Going Concern:** The auditor notes that the financial statements are prepared on a going concern basis despite a □1,151 Cr working capital gap, contingent upon continued promoter support and planned asset sales.

B. Related party transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
KHIPL	Promoter Group	Loans Taken	1,172.00 Cr	***High dependency for liquidity***
Carol Info Services	Promoter Entity	Rent Paid	91.00 Cr	***8.5% of Standalone Revenue***
Wockhardt Bio AG	Subsidiary	Sales	106.00 Cr	Potential transfer pricing risk
Promoter Group	Promoters	Interest Paid	52.00 Cr	High cost of debt (up to 15.10%)
Dr. Habil Khorakiwala	Chairman	Title Deeds	Not disclosed	***Land held in personal name***

- **% of Revenue:** 44.21% (RPT Loans / Revenue).
- **% of CFO:** 766.01% (RPT Loans / CFO).
- **RPT Verdict:** Governance Concern. The company is fundamentally reliant on promoter debt to survive. The payment of □91 Cr rent to a promoter entity while loss-making and the holding of company land in the Chairman's name are significant red flags.

C. Shareholding

- **Promoter Pledging:** 1.98 Cr shares pledged to secure NCDs.

D. Board composition + KMP compensation

- **Total Directors:** 10 | **Independent %:** 60% | **Women Directors:** 2.
- **KMP Compensation:** Dr. Huzaifa Khorakiwala (□2.40 Cr) and Dr. Murtaza Khorakiwala (□2.40 Cr).

- **Analysis:** Compensation remained flat despite a 66% crash in Operating Profit. The Board is heavily dominated by the **Khorakiwala** family (Father, two Sons, and Daughter).

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Capex	209.00 Cr	212.00 Cr	136.60%	—
Interest Payments	302.00 Cr	299.00 Cr	197.38%	—
Net Debt Change	-14.00 Cr	-1,301.00 Cr	-9.15%	—
Asset Sales	79.00 Cr	1.00 Cr	51.63%	**Positive Liquidity**
Impairments / Write-offs	235.00 Cr	Not disclosed	153.59%	—

- **Capex analytical notes:**
  - **CFO Coverage of Capex:** CFO/Capex ratio is 0.73. The company cannot self-fund its capex and is reliant on asset sales and promoter loans.
  - **Nature of Capex:** Primarily **growth capex directed toward NCE 5222, 4873, and 4282**, with □767 Cr in total commitments through 2028.
  - **Capex Deployment Efficiency:** Revenue fell 17.93% while **CWIP** increased to □1,539 Cr, indicating a failure in translating R&D spend into commercial topline.

H. Risks

- **Liquidity Risk:** Current liabilities exceed current assets by **□1,151 Cr**. Impact: Potential insolvency if promoter support is withdrawn. (Severity: High)
- **R&D Failure:** **□1,125 Cr** capitalized in NCE/Intangibles. Impact: Massive write-downs if Phase 3 trials for WCK 5222 fail. (Severity: High)
- **Regulatory Risk:** US restructuring and USFDA audits. Impact: Shift to 3rd party manufacturing impacts margins and supply chain control. (Severity: Medium)
- **Forex Risk:** **□185 Cr** loss from receivable adjustments. Impact: High volatility in earnings; company capitalizes forex losses to asset base. (Severity: Medium)
- **Concentration Risk:** **□1,026 Cr** due from subsidiaries. Impact: Realization depends entirely on subsidiary liquidity. (Severity: High)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	2	→	Revenue -17.93%, US plant closure	Transitioning from failing generics to unproven biotech; high R&D risk.
Financial health	1	↓	D/E 0.65x, Interest Coverage 0.74x	Interest exceeds operating profit; ₹1,151 Cr working capital gap.
Earnings quality	1	↓	CFO < Interest, Receivables > Revenue	CFO driven by liquidation; aggressive bill-and-hold and RPT dependency.
Management & governance	2	→	RPT Rent ₹91 Cr, Land in Chairman's name	High family concentration and significant cash leakage to promoter entities.
Capital allocation & earnings visibility	1	↓	ROCE 0%, CWIP ₹1,539 Cr	Massive R&D spend with no near-term revenue; returns are currently non-existent.

Business positives (for this company this year) * **NCE Pipeline Progress:** Successful initiation of WCK 5222 Phase 3 study across 70 centers in 11 countries. * **Asset-Light US Pivot:** Decommissioning of Illinois plant to eliminate fixed manufacturing overheads. * **Liquidity Generation:** Generated ₹79 Cr from asset sales and exiting the Nutrition business. * **Non-Vaccine EBITDA:** Improvement in non-vaccine business EBITDA to ₹128 Cr.

Business negatives / concerns (for this company this year) * **Liquidity Crisis:** Working capital gap of ₹1,151 Cr makes the company entirely dependent on promoter support. * **Revenue & Margin Collapse:** Revenue fell 17.93% and OPM contracted from 9% to 4%. * **Debt Trap:** Interest expense (₹302 Cr) is 3x the Operating Profit (₹101 Cr). * **Collection Risk:** Trade Receivables (₹1,292 Cr) exceed annual Revenue (₹1,072 Cr). * **Governance Red Flags:** ₹91 Cr rent paid to promoters and land titles held in the Chairman's name. * **R&D Impairment Risk:** ₹1,125 Cr of capitalized intangibles are at risk if Phase 3 trials face setbacks.

Overall scorecard summary Wockhardt is in a state of severe financial distress, characterized by a "Going Concern" warning and a complete reliance on promoter funding to bridge a ₹1,151 Cr liquidity gap. Earnings quality is poor, with CFO failing to cover interest obligations and receivables exceeding annual revenue. Governance is a major concern due to high-cost RPT loans and significant rent payments to promoter entities despite deep losses. The business is on a deteriorating trajectory, essentially operating as a high-stakes binary bet on the success of its NCE pipeline.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 6/10 — Governance Rating: 2

Part c: investor verdict

Thesis: A high-leverage biotech gamble where the legacy generics business is collapsing, leaving the company's survival dependent on the success of a single "Super-drug" (WCK 5222).

Overall stance: Avoid

Rationale: The combination of a ₹1,151 Cr liquidity gap, interest costs exceeding operating profit, and significant governance red flags makes the risk-reward profile unfavorable. Re-evaluate when: Interest Coverage Ratio > 2.0x and successful completion of Phase 3 trials for WCK 5222. BULL CASE: Successful commercialization of WCK 5222 leading to a $500M+ peak revenue opportunity. BEAR CASE: Phase 3 trial failure leading to a ₹1,125 Cr impairment and potential insolvency. Key monitorable: Cash Conversion Cycle: 41 days → Watch for increase beyond 90 days.