

## Wockhardt may turn to distress funds for relief

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Mumbai: Beleaguered drug maker Wockhardt Ltd is trying to bring in a clutch of new investors to buy foreign currency convertible bonds (FCCBs) worth \$110 million (Rs550 crore today) that it had sold in 2004 and that may have to be redeemed in October, according to a company official and an investment banker. Some of these new investors specialize in buying distressed financial assets.

India's sixth largest drug maker by sales is in financial trouble and may not be able to repay FCCB investors on the due date later this year. The new deal will likely entail the distress funds buying the convertible bonds at a steep discount from current bondholders. The firm may then lower the conversion price and could also push back the date of maturity, after discussions with the new bondholders.

Wockhardt FCCBs with a face value of \$100 were bought and sold at \$39.53 in Hong Kong on 10 April, sharply down from \$92.28 on 1 April, according to *Bloomberg* data.

The company is currently in no position to meet its \$142.5 million obligation to FCCB investors, which includes a redemption premium. The firm has already approached its bankers to restructure its debt.

An investor in FCCBs can convert these bonds into equity of the issuing company if the price of the company's shares quoted on stock exchanges hit a certain level, called conversion price. For the Wockhardt FCCBs, the conversion price is Rs486 per share. The company's shares closed at Rs84.85 apiece on Monday on the Bombay Stock Exchange. If the share price does not rise to Rs486 by October, the FCCBs will not be converted into equity shares and the company will have to redeem them.

"Wockhardt, along with its lenders, are trying to bring in new investors that can buy the FCCBs from the existing bondholders at a discount. To make it attractive to new investors, Wockhardt could reset the conversion price to a lower level and extend the redemption date," said the investment banker, who did not want to be identified.

An email query sent to Wockhardt on Monday did not elicit any response.

According to the head of a newly set-up distress fund based in Hong Kong, who also did not want to be named, a number of funds, especially distress funds, are sensing business opportunity in the issuing companies' inability to pay FCCB holders when the instrument matures.

The distress funds that operate in India include **Spinnaker Capital Group**, Asia Debt Management Hong Kong Ltd, more popularly called **ADM Capital**, **Clearwater Capital Partners Llc.** and **WL Ross and Co Llc.**

If these funds are not in distress themselves because of earlier investments gone sour, they can look at actively pursuing this FCCB opportunity, said the head of the distress fund.

The new model of FCCB restructuring offers benefit to new investors, existing bondholders as well as the companies. "One benefit for the new investor is that the effective coupon on the bond

increases,” said Deepesh Garg, director of Ozone Capital Advisors Pvt. Ltd, a Mumbai-based investment bank.

For instance, the initial holder may have bought the instrument at Rs500 a unit at a 5% yield. Being a quasi-equity instrument, the rest of the return was to come from converting the bonds into equity, and playing for an upside in the equity market.

If the new investor buys the bond at a 50% discount, he can treat this as pure debt, and the effective yield goes up by 100% as the issuing company continues to pay the same interest rate and the deal is between the existing investors and the new set of investors. The new investors take a call based on their perception of the issuing company’s ability to meet the liability at a future date.

There can be tripartite arrangements too among the issuer, the existing investors and the new investors.

In such cases, at the insistence of the bondholders, the issuing firm sets the conversion price lower, or extends the redemption date, said Garg.

In Wockhardt’s case, a new investor may step in and buy the bonds at a discount. For the existing FCCB holder, it makes sense to sell the bonds at a discount because FCCBs are treated as unsecured debt. This means that they will not get back any money if the company goes bankrupt. It also gives time to Wockhardt to redeem the bonds.

“A new investor buying the FCCB will of course depend on his assessment of the outcome of the restructuring, and an assumption that the borrower will not default,” said the head of the distress fund, quoted before.

A *Hindu Business Line* report on Monday said that over the last five years, companies had raised as much as \$20 billion through FCCBs. “Going by the buy-backs intimated to the stock exchanges so far, the quantum of FCCBs bought back stands at just \$522 million,” said the report.