

No Wrongful Motive in Wockhardt Case, says Sun Pharma

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In a surprise move, Mumbai-based drug maker Sun Pharmaceutical Industries has sought to address concerns raised by fellow pharma company Wockhardt that professional rivalry was behind its move to acquire foreign currency convertible bonds (FCCBs) in the company and scupper settlement proposals put forward to bondholders by Wockhardt.

The court is hearing a winding-up plea against Wockhardt brought by bondholders owning \$74mn worth of FCCBs. They are Singapore hedge fund QVT, Syndicate Bank and Sun Pharma. Wockhardt defaulted on these bonds in late 2009.

Sun Pharma's counsel Venkatesh Dhond told the court on Thursday that it's ownership of Wockhardt FCCBs was the result of conversion of credit linked notes, or CLNs, that Sun bought as an investment in 2005 – when Wockhardt had not yet been laid low by derivatives losses and mounting debt. These CLNs were converted into FCCBs in 2009, he said.

He sought to dispel the notion that Sun Pharma had acquired FCCBs after Wockhardt announced a corporate debt restructuring (CDR) process in 2009 knowing full well it was making losses.

In a CLN, the coupon or price of the note is linked to the performance of a reference asset. A CLN offers borrowers a hedge against credit risk, and gives investors a higher yield on the note for accepting exposure to a specified credit event.

Late last year, Sun Pharma opposed a compromise settlement that had been reached between QVT and Wockhardt before the court. Following this, in an affidavit served on all bondholders on January 19, proposing an alternative settlement, Wockhardt alleged that Sun Pharma was using "pressure tactics" on a competitor, said persons close to Sun Pharma who were familiar with the development. "But there is no wrongful motive since the CLNs were acquired in 2005," said one of these persons.

At Thursday's hearing, Sun Pharma's counsel belatedly sought to address this. However, the presiding judge Justice SC Dharmadhikari did not take his claims on record and ordered the company to file a written affidavit regarding the same instead. Lawyers for Sun Pharma did not make the affidavit available to the media. It owns roughly \$20mn worth of Wockhardt FCCBs.

"We are investigating this claim,

Industry