RESULTS REVIEW

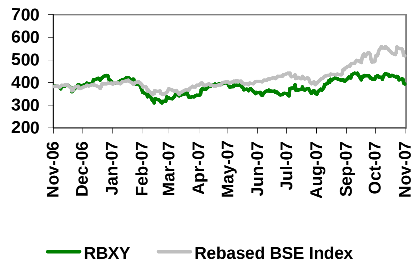
Share Data	
Market Cap	Rs. 146.6 bn
Price	Rs. 393.00
BSE Sensex	18,526.32
Reuters	RANB.BO
Bloomberg	RBXY IN
Avg. Volume (52 Week)	0.4 mn
52-Week High/Low	Rs. 490/305.5
Shares Outstanding	373 mn

Valuation Ratios

Year to 31 December	2007E	2008E
EPS (Rs.)	19.8	17.5
EPS Growth (%)	54.0%	(11.8)%
PER (x)	19.8x	22.5x
EV/ Sales (x)	2.8x	2.4x
EV/ EBITDA (x)	18.2x	15.7x

Shareholding Pattern (%)	
Promoters	35
FIIs	15
Institutions	24
Public & Others	27

Relative Performance



Ranbaxy Laboratories Ltd — Buy

Gathering steam

During the quarter ended September '07, Ranbaxy's top line grew marginally by 0.9% yoy to Rs. 16.4 bn driven by new product launches and increased sales of the existing products, partially offset by strong rupee appreciation. However, adj. EBITDA increased by 14.6% yoy to Rs. 2.8 bn on the back of an increase in other operating income. In addition, adj. net profit surged 35.3% yoy to Rs. 1.9 bn as a result of huge foreign exchange gains.

Though, the third quarter results were lower than our estimates, we remain positive on the Company's long term growth prospects due to its strong Para IV pipeline, benefits from the Zenotech acquisition, and value unlocking from the NDDR demerger. The opening up of the Japanese markets would also provide huge opportunities in the near future.

However, to factor in the strong rupee appreciation and lower than expected growth in the Indian and Romanian operations, we have downgraded our CY07E net sales estimate by 5%. We have also revised our CY07E net profit estimate by 19% to adjust for the forex gains.

At the current price, the stock trades at a forward PE of 19.8x revised CY07E earnings and 22.5x revised CY08E earnings. Based on the aforementioned factors, our outlook on the Company remains positive. Therefore, we maintain our Buy rating, with a revised target price of Rs. 465.

Result Highlights

During Q3'07, net sales in USD terms increased by 15% yoy to USD 406 mn led by a strong growth across both the emerging as well as developed markets.

Key Figures (Consolidated)

Quarterly Data	Q3'06	Q2'07	Q3'07	YoY%	QoQ%	9M'06	9M'07	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	16,271	16,110	16,414	0.9%	1.9%	43,241	48,059	11.1%
EBITDA	2,471	2,265	2,831	14.6%	25.0%	6,542	7,004	7.1%
Adjusted Net Profit	1,404	2,662	1,900	35.3%	(28.6)%	3,345	5,848	74.8%
Margins(%)								
EBITDA	15.4%	13.4%	16.0%			15.0%	13.9%	
NPM	8.7%	15.8%	10.7%			7.7%	11.6%	
Per Share Data (Rs.)								
Adjusted EPS	3.3	4.5	3.9	16.8%	(13.1)%	9.0	10.8	20.2%

** Net sales exclude other incomes*

Strong growth across all the regions led to the increase in net sales

This growth was a result of new product launches, strong performance by the existing products and the Company's foray into new markets. However, due to the strong rupee appreciation, net sales in rupee terms grew marginally by 0.9% yoy to Rs. 16.4 bn.

Adj. EBITDA increased 14.6% yoy to Rs. 2.8 bn and EBITDA margin improved 61 bps yoy to 16%. The increase in both the EBITDA and EBITDA margin was due to a higher other operating income (Rs. 1,316 mn in Q3'07 as compared to a loss of Rs. 184 mn in Q3'06), partially offset by an increase in total operating expenses.

Net profit surged on the back of huge forex gains

For the third quarter ended September '07, adj. net profit grew by 35.3% yoy to Rs. 1.9 bn and margin improved 199 bps yoy to 10.7%. The improvement in net profit was led by a huge foreign exchange gain (Rs. 487 mn) on the Company's FCCBs. However, this increase was partially offset by a rise in depreciation cost.

Segmental Analysis

Market share of the leading dermatology brand, Sotret, doubled to 48%

North America: During the quarter, sales increased 11% yoy to USD 109 mn backed by a 7% yoy growth in the US markets and more than 100% yoy growth in the Canadian markets. The increase in US sales was despite the fact that Ranbaxy had Simvastatin's exclusivity, which resulted in a high base in Q3'06. Further, a strong growth of 35% yoy in the Company's base business (excluding sales from FTF products) also fuelled the US sales. Ranbaxy's branded business also performed well, supported by a strong performance from Sotret, a leading brand in the dermatology segment. Branded business sale was further enhanced by the acquisition of dermatology products from Bristol Myers Squibb (BMS).

Europe: Sales grew by 8% yoy to USD 78 mn driven by a strong performance in the Company's key markets like UK, Germany & Poland coupled with healthy contribution from the recently entered markets of Spain & Italy. Sales in UK increased by 16% yoy driven by new product launches as well as growth in the existing products. Revenue from the German market grew by 53% yoy as a result of strong sales to AOK, Germany's largest health insurance company.

Delay in price approvals postponed the product launches in Romania

However, the Company's business in Romania remained flat during the quarter due to subdued market conditions and delay in product launches. The product launch was postponed from Q3'07 to Q4'07 as Ranbaxy did not receive price approvals for its new products.

Asia & CIS: The region continued to dominate and contributed around 37% to the Company's revenues. Sales increased by 12% yoy to USD 139 mn backed by a strong growth in most of the markets. Sales in India grew by 15% yoy primarily due to a 20% yoy growth in the chronic business segment. Moreover, the Company launched three novel formulations during the quarter which further added to the sales growth.

Domestic growth was held back by deceleration in the growth of acute segment

The domestic growth was, however, held back by a dip of around 5-7% in the growth of the acute therapy segment and a high base in Q3'06 as a result of the revenues from the Anti Retroviral (ARV) tender worth Rs. 200 mn.

Rest of the World (RoW): Sales in Africa grew by 23% yoy driven by growth in both the South African and Nigerian markets. Growth in South Africa can be attributed to the acquisition of Be-Tabs. Sales in Latin America grew by 34% yoy led by a strong growth in the Brazilian market.

Key Events

Approval for de-merger of NDDR operations

The Company's Board approved the demerger of its New Drug Discovery Research (NDDR) operations into a separate legal entity effective from January 1, 2008. Apart from listing the separate legal entity and divesting its 60% stake in it, Ranbaxy also plans to start a contract research organization (CRO) under it.

NDDR demerger would result in an annual saving of around Rs. 2.1-2.6 per share

The demerger will help the Company to save around USD 20-25 mn incurred on the NDDR division, resulting in an annual saving of around Rs. 2.1-2.6 per share.

Entered into an agreement with Sirtex, to promote and market the liver cancer drug

Foray into liver cancer market

In September 2007, the Company signed an exclusive in-licensing agreement with Sirtex Medical Pvt. Ltd. (Sirtex) to promote and market SIR-Spheres, a medicine used in the treatment of liver cancer, in India and other select countries. This would strengthen Ranbaxy's position in the oncology segment.

Received approval for a unit in SEZ

Ranbaxy received the government approval for setting up a unit in SEZ for the manufacture of new dosage forms. The project is expected to be complete by 2009. The Company is likely to gain from the tax and other benefits accruing from setting up its unit in the SEZ.

Expanding product portfolio

During the quarter, Ranbaxy received 9 final and 1 tentative approvals

During the quarter, Ranbaxy received 10 ANDA approvals, 9 final and 1 tentative approvals. It received final approval for various strengths and dosage forms of Hydrocodone Bitartrate and Acetaminophen tablets, Hydrochlorthiazide tablets, Metformin tablets, Amlodipine Besylate tablets, Carvedilol tablets and Clarithromycin for oral suspension. A tentative approval for Galantamine Hydrobromide tablets with 180 days shared marketing exclusivity was also obtained. The combined annual market sale for these drugs is expected to be more than USD 5 bn approximately.

With the introduction of Osonase aqueous nasal spray, the Company further strengthened its growing presence in the respiratory segment. Besides it also launched a urology drug Roliflo, an anti-infection drug Tevran, an antibiotic Zivator in India. Further, WHO included three additional ARVs of the Company in the pre-qualification list, taking the total to 15 ARVs. Also, in October, Ranbaxy received a tentative approval for Valsartan tablets, and on its launch, will stand to gain from the 180 days exclusivity for the product. The Company's expanding product portfolio is expected to help it sustain the growth momentum in the long run.

Out-of-court settlement of the Flomax case

Ranbaxy signed an agreement with Astellas/Boehringer to settle the Flomax (Tamsulosin capsules) case dispute. The Company will now enter the US markets with exclusivity rights in March 2010, eight weeks prior to the

Ranbaxy to enter the US markets with exclusivity for Flomax in 2010

expiration of the patent. The annual market sale of Flomax is around USD 1.2 bn and the Company is expected to add USD 200-250 mn during the exclusivity period.

Prospects

Consolidating stake in Zenotech

In October 2007, Ranbaxy signed a definitive agreement for increasing its equity stake in Zenotech Laboratories Limited (Zenotech) from 7% to 45% at a price of Rs. 160 per share. Zenotech is a fully integrated player with strong R&D and manufacturing capabilities in complex and highly specialized areas of biopharmaceuticals and specialty injectables including oncology. These areas have high entry barriers and limited competition and thus offer a higher scope for profitability. The alliance with Zenotech would significantly enhance Ranbaxy's presence in these high potential segments.

Ranbaxy acquired 45% stake in Zenotech, which has a strong product pipeline in the biopharmaceuticals and specialty injectables

Zenotech has received three Indian approvals for oncology biopharmaceuticals GCSF, GM-CSF and IL-2, and with seven more products in the pipeline, it has one of the strongest pipeline in the biologics segment globally. By leveraging its marketing and regulatory expertise, Ranbaxy plans to launch these products in the emerging markets in the near term and developed markets of Europe and US later.

Expansion in the healthcare sector

In line with its strategy to expand the healthcare business, the Company plans to invest USD 500-600 mn in Punjab for creating hospitals and medical institutes over the next few years. Further, the Company has already invested Rs. 2.7 bn in the proposed 80 acre SEZ in Mohali, Punjab, which is expected to produce 10 mn tablets. These initiatives will provide the required impetus to capture the opportunities in the fast growing healthcare sector.

Outlook

Balanced business mix between the developed and emerging markets

In spite of the Company reporting a weak quarter, we remain positive on the Company's long term growth backed by a fine business mix between the developed and emerging markets. The business mix provides Ranbaxy a strong base to face the intense competition in the developed markets. In addition, with the Company targeting the fast growing emerging markets, by expanding in the domestic healthcare sector and entering into a proposed JV with China for APIs used in drug manufacturing, sales growth is likely to get boost. Ranbaxy is also looking for setting up a wholly owned subsidiary in Japan, to cash on the opportunities available in this new emerging market.

The equity infusion in Zenotech and a strong Para IV pipeline, consisting of one FTF opportunity every year starting from CY08 and Valtrex and Lipitor exclusivities in CY09 and CY10, would enable the Company maintain the growth momentum in the long run, even in case of further rupee appreciation. Additionally, demerger of the NDDR division by early 2008 would unlock significant value for the shareholders.

Announcement of NDDR demerger and CY08 FTF opportunity is a key near term trigger

However, to factor in the strong rupee appreciation and lower than expected growth in the Indian and Romanian businesses, we have downgraded our CY07E revenue estimates by 5%. We have also revised our CY07E net profit estimates by 19% to adjust for the huge forex gains.

At the current price, the stock trades at a forward PE of 19.8x revised CY07E earnings and 22.5x revised CY08E earnings. We reiterate Buy, with a revised target price of Rs. 465.

Key risks to our rating include a strong rupee appreciation, adverse changes in the pricing and re-imbursement policy of Romania, and any significant delay in hiving off the NDDR division.

Key Figures (Consolidated)

Year to December	CY04	CY05	CY06	CY07E	CY08E	CAGR
(Figures in Rs. mn, except per share data)						
Net Sales	52,475	51,036	60,183	66,459	76,759	12.9%
EBITDA	9,268	2,348	8,730	10,090	11,672	15.6%
Adjusted Net Profit	7,106	1,943	5,088	7,834	6,914	16.6%
Margins(%)						
EBITDA	17.2%	4.5%	14.2%	14.5%	14.8%	
NPM	13.2%	3.7%	8.3%	11.3%	8.8%	
Per Share Data (Rs.)						
Adjusted EPS	19.0	5.2	12.9	19.8	17.5	16.6%
PER (x)	32.9x	69.6x	30.4x	19.8x	22.5x	

** Net sales exclude other incomes*

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