

BUY

Price	Rs482
Target Price	Rs603
Investment Period	18 months

Stock Info

Sector	Pharmaceutical
Market Cap (Rs cr)	17,983
Beta	0.60
52 Week High / Low	500/300
Avg Daily Volume	355461
Face Value (Rs)	5

BSE Sensex	16,154
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Nifty	4,880
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BSE Code	500359
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NSE Code	RANBAXY
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Reuters Code	RANB.BO
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Bloomberg Code	RBXY IN
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Shareholding Pattern (%)

Promoters	34.8
MF / Banks / Indian FIs	28.3
FII / NRIs / OCBs	17.2
Indian Public / Others	19.7

Abs.	3m	1yr	3yr
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Sensex (%)	(20.2)	17.9	162.4
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Ranbaxy (%)	23.6	42.4	2.7
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Sarabjit Kour Nangra

Tel: 022 - 4040 3800 Ext: 343

E-mail: sarabjit@angeltrade.com

Akshat Vyas

Tel: 022 - 4040 3800 Ext: 329

E-mail: akshat.vyas@angeltrade.com

Agreements with AstraZeneca

■ Ranbaxy Pharmaceuticals Inc., a wholly-owned subsidiary of Ranbaxy Laboratories, has entered into several agreements with AstraZeneca. Two of these pertain to its top-selling ulcer treatment drug, Nexium (active pharmaceutical ingredient (API) - *Esomeprazole Magnesium*) while the other agreements cover two other products viz., *Felodipine ER* capsules and *Omeprazole 40mg*. The company has indicated that these deals cumulatively provide it a revenue opportunity of US \$1-1.5bn, over 2009 - 2014.

■ *Nexium*, which treats stomach ulcers and heartburn, is one of the world's biggest-selling prescription medicines with global sales of US \$5.2bn in 2007 and is the sequel to another drug, *Prilosec*. In the US, the drug had sales of US \$3.8bn in 2007. The agreement settles the patent infringement litigation filed by AstraZeneca for Ranbaxy's ANDA on *Esomeprazole Magnesium*. However, AstraZeneca plans to continue its litigation against Teva Pharmaceutical and Dr Reddy's Laboratories who are also challenging the patent.

■ Under the agreement, Ranbaxy would be allowed to start exclusive sales of a generic version of the ulcer drug *Nexium* in May 2014 in the US. This means that Ranbaxy will be able to sell its copy without competition for 180 days and enjoy exclusivity on the product. During the six-month exclusivity period we expect the company to gross sales of \$480mn. On a very conservative basis we have built in an NPV of Rs11.8/share for the same.

■ In another pact signed by the two companies, with respect to *Nexium*, Ranbaxy will formulate a significant portion of AstraZeneca's US supply of *Nexium* from May 2010. We have conservatively factored in a 30% supply off-take by AstraZeneca. The agreement also includes provision for supply of raw material to AstraZeneca for producing *Esomeprazole Magnesium* from 2009.

■ In addition to this, Ranbaxy has also signed an Authorized Generics deal with AstraZeneca for *Felodipine ER* capsules and *Omeprazole 40mg* tablets, respectively. The two products together address a market opportunity of \$400mn in the US. Both the drugs are off-patent and face limited generic competition. We have factored in revenues of \$100mn accruing CY2009 onwards.

Key Financials (Consolidated)

Y/E December (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
Net Sales	6,013	6,590	7,413	9,163
% chg	17.9	9.6	12.5	23.6
Adj Net Profit	510.9	570.1	676.2	925.0
% chg	95.2	11.6	18.6	36.8
EPS	13.7	15.3	18.2	24.8
EBITDA Margin (%)	12.4	13.6	14.5	15.2
P/E (x)	35.1	31.5	26.5	19.4
P/CEPS (x)	23.9	16.4	18.3	14.2
RoE (%)	20.1	20.1	20.9	25.2
RoCE (%)	16.3	16.0	17.5	19.7
P/BV (x)	6.3	5.4	4.9	4.2
EV/Sales (x)	3.6	3.3	2.9	2.4
EV/EBITDA (x)	24.8	20.8	17.6	14.0

Source: Company, Angel Research; Note: Net Profit have been adjusted for translational gains

Outlook and Valuation

This out-court settlement with AstraZeneca marks the fifth such deal done by Ranbaxy to monetize its First-to-File (FTF) opportunities. Last year, the company had entered into four such deals addressing a market opportunity of US \$4bn. These deals have increased the overall visibility of the company's Para-IV pipeline, and hence mitigate the uncertainty with respect to the launch of these products. With this, the company has visibility of FTF product launches through 2008-2010. Based on the current deal, we have factored in upsides conservatively giving a NPV of Rs22.7/share wherein Rs11.8 is on back of the upsides accruing to the company during the exclusivity period, while Rs9.8/share is on the back of contract manufacturing and the rest for distribution of the Authorised Generic products. **We maintain a Buy on the stock, with a revised Target Price of Rs603 (18 months).**

Fund Management & Investment Advisory	(☎ 022 - 4040 3800 / 2835 9600)	
P. Phani Sekhar	Fund Manager - (PMS)	phani.sekhar@angeltrade.com
Research Team	(☎ 022 - 4040 3800 / 2835 9600)	
Hitesh Agrawal	Head - Research, Cement, Media	hitesh.agrawal@angeltrade.com
Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angeltrade.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angeltrade.com
Harit Shah	IT, Telecom	harit.shah@angeltrade.com
Rohit Nagraj	Oil & Gas	rohit.nagraj@angeltrade.com
Pawan Burde	Metals & Mining	pawan.burde@angeltrade.com
Vaibhav Agrawal	Banking	vaibhav.agrawal@angeltrade.com
Girish Solanki	Mid-cap	girish.solanki@angeltrade.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angeltrade.com
Anand Shah	FMCG	anand.shah@angeltrade.com
Sulabh Agrawal	Mid-cap	sulabh.agrawal@angeltrade.com
Puneet Bambha	PMS	puneet.bambha@angeltrade.com
Amit Bagaria	PMS	amit.bagaria@angeltrade.com
Akshat Vyas	Research Associate (Pharmaceutical)	akshat.vyas@angeltrade.com
Neha Idnany	Research Associate - (PMS)	neha.idnany@angeltrade.com
Sandeep Wagle	Chief Technical Analyst	sandeep@angeltrade.com
Ajit Joshi	AVP Technical Advisory Services	ajit.joshi@angeltrade.com
Milan Sanghvi	Sr. Technical Advisor	milan.sanghvi@angeltrade.com
Nitin Kunte	Technical Advisor	nitin.kunte@angeltrade.com
Brijesh Ail	Technical Analyst	brijesh@angeltrade.com
Vaishnavi Jagtap	Technical Analyst	vaishnavi.jagtap@angeltrade.com
Siddharth Bhamre	Fund Manager - Derivatives & Equities	siddharth.bhamre@angeltrade.com
Commodities Research Team		
Amar Singh	Research Head (Commodities)	amar.singh@angeltrade.com
Samson P	Sr. Technical Analyst	samsomp@angeltrade.com
Anuj Gupta	Sr. Technical Analyst	anuj.gupta@angeltrade.com
Girish Patki	Sr. Technical Analyst	girish.patki@angeltrade.com
Commodities Research Team (Fundamentals)		
Badruddin	Sr. Research Analyst (Agri)	badruddin@angeltrade.com
Mandar Pote	Research Analyst (Energy)	mandar.pote@angeltrade.com
Bharathi Shetty	Research Editor	bharathi.shetty@angeltrade.com
Bharat Patil	Production	bharat.patil@angeltrade.com

Research & Investment Advisory: Acme Plaza, 3rd Floor 'A' wing, M.V. Road, Opp Sangam Cinema, Andheri (E), Mumbai - 400 059

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Corporate & Marketing Office	: 612, Acme Plaza, M.V. Road, Opp Sangam Cinema, Andheri (E), Mumbai - 400 059	Tel : (022) 4000 3600 / 2835 9600
Wealth Management	: e-mail : wmselpdesk@angeltrade.com	Tel : (022) 4035 3100
Investment Advisory Helpdesk	: e-mail : advisory@angeltrade.com	Tel : (022) 4040 3800
Commodities	: e-mail : commodities@angeltrade.com	Tel : (022) 4035 8600
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