Company

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Ranbaxy (RANB.BO)

Equity ☑

Alert: Actos Settlement – Another Minor Positive

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Another Uncertain Opportunity Monetized – The settlement with Takeda on Actos is a minor positive, as Ranbaxy continues with its strategy of trying to monetize uncertain opportunities. It is however difficult to arrive at an estimate on possible upside, as this may end up being a multi-player market. On a conservative basis, assuming multiple players in the market, generic Actos could still add cUS$90m and cRs2.5/share to Ranbaxy's sales and net income.

- **Actos Patent Litigation Settled** — Ranbaxy and Takeda have settled their patent litigation on generic *Actos* (Pioglitazone HCl). As per the agreement, Ranbaxy can launch generic pioglitazone in the US market on Aug 12, 2012 (earlier under certain conditions). It will also be granted a non exclusive, royalty free license to Takeda's US patents covering *Actos*. *Actos* had FY09 sales of US$3bn in the US.

- **Litigation Background** — We believe that Mylan, Watson & Ranbaxy are FTF on *Actos*, although many other firms have also filed Para IVs. Only Mylan and Alphapharma appear to have challenged the base patent ('777) that expires in Jan 11 – both lost the case in Feb 06. Besides, Takeda appears to be engaged in litigation with Teva, Aurobindo, Torrent and Sandoz as well.

- **How Many Competitors Could There Be**? — Takeda has settled with Ranbaxy and Watson. The non-exclusive license seems to imply that Takeda could settle with more players (including the follow on Para IV filers). We believe it makes sense for Takeda to do so, as a win for any of them would trigger early genericisation. As such, it is possible that this may be a 6-7 player market – better than a fully genericised one, but not as exciting as a sole exclusivity or a 2-3 player market.

- **Can FDA Issues be a Hurdle?** — Ranbaxy was able to execute a site transfer and secure its upside in *Imitrex* (sumatriptan) and *Valtrex* (valacyclovir), but not in the case of *Flomax* (tamsulosin). Watson, Mylan, Teva and Alphapharma already have tentative approval, while Ranbaxy does not. It is therefore difficult to make a call on this, especially as we do not know where the original ANDA was filed from. On the positive side, August 2012 gives Ranbaxy a lot of time to get its house in order.

- **Potential Upside** — depends on how many players enter the market ultimately. On the most conservative basis, assuming a 7-player market (80% price erosion; 15% market share), it could add cUS$90m and cRs2.5/share to sales & earnings in CY12. This could be higher if there are fewer players in the market.

Ranbaxy (RANB.BO; Rs460.80; 1M)

See Appendix A-1 for Analyst Certification and important disclosures.

Ranbaxy

Company description

Ranbaxy is a leading Indian pharmaceutical company with a strong export business complementing its domestic business. It has a vision of becoming a leading generics pharmaceutical company in the global market and, in the long term, a research-led pharmaceutical company. The company already has a presence in several countries, and has developed a complex business model, perhaps the first of its kind in a developing country.

Investment strategy

We rate Ranbaxy Buy/Medium Risk with a target price of Rs620. The timely approval & launch of Valtrex (generic valacyclovir) in the US market with exclusivity and trends in the last two quarters indicate that the worst is behind for Ranbaxy. There has been tangible improvement in emerging markets, which were severe pressure at the beginning of the year and signs that Daiichi sees a key role for Ranbaxy in its future strategy. The impact of the US FDA action on its facilities (Dewas & Paonta Sahib) is also well understood and built into estimates and valuations. With the approval for Valtrex coming through on time, we also have more comfort on Ranbaxy's ability to successfully change sites and get approvals in time for its other FTF opportunities, reinforcing our positive stance on the stock.

Valuation

We have a target price of Rs620 for Ranbaxy, comprising Rs435 for the base generics business and Rs185 for the company's patent challenge pipeline. We use EV/Sales to value the core business as we believe Ranbaxy's current profitability is skewed downwards by the unabsorbed overheads at Paonta Sahib & Dewas as well as the high legal & consultancy charges being incurred towards resolving the FDA issues at these plants. We value the core generics business (excluding exclusivity upsides) at 2.4x Mar 11E recurring sales, which is at a 10% discount to the median of the band in which it has traded over the past 8-9 years. We believe this discount is warranted given the uncertainty in its business following issues with the US FDA. We value the company's patent challenge pipeline using a probability-adjusted NPV approach and applying a discount rate of 15%.

Risks

We rate Ranbaxy Medium Risk as opposed to the High Risk rating as suggested by our quant-based rating system, which tracks 260-day historical share price volatility. The recent high volatility in the stock was largely driven by the FDA actions on its facilities at Paonta Sahib & Dewas. We believe that the impact of the FDA action is now well understood and built into estimates and valuations, as such the risk is lower going forward. The key downside risks to our target price include: 1) Slower than expected resolution of the US FDA issues; 2) Setbacks on its already monetized patent challenge pipeline, in form of litigation wins by other generic companies or delay in approvals/launches; 3) Intensifying pricing pressure in the US and European markets.

Appendix A-1

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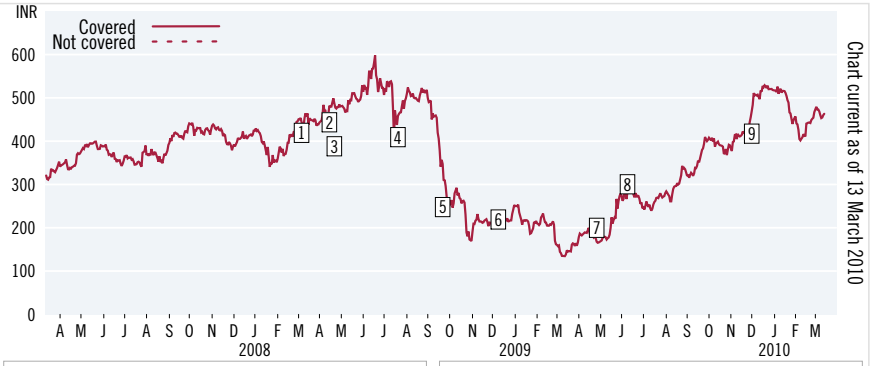
Ranbaxy (RANB.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Prashant Nair, CFA



	Date	Rating	Target Price	Closing Price
1	6-Mar-08	1M	*545.00	453.60
2	15-Apr-08	1M	*595.00	481.80
3	22-Apr-08	1M	*620.00	487.15
4	21-Jul-08	*1H	*604.00	458.20
5	21-Sep-08	*3H	*373.00	356.85
6	9-Dec-08	*2H	*241.00	213.05
7	26-Apr-09	*3H	*141.00	175.75
8	9-Jun-09	3H	*235.00	283.15
9	1-Dec-09	*1M	*620.00	469.10

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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