Ranbaxy

Reuters: **RANB.BO** Bloomberg: **RBXY IN** Exchange: **BSE** Ticker: **RANB**

Unlike past, events are getting distinctly negative in last 6m

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When it rains, it pours (US FDA invokes little known AIP) – cut TP, Sell

The spate of positive newsflow (out of court settlements) from Jul'07, which culminated in the sellout to Daiichi in Jun'08 at a 31% premium, has now fully reversed: i) the US FDA ban of 30 drugs in Sept'08, ii) significant forex losses, and now iii) the FDA's invocation of the little heard of AIP. While the ban aggravates its high operating leverage and exposure to the now feared ROW markets, large forex hedges will be a drag due to the weak INR. All of this amidst a management transition following Daiichi's 64% stake. We cut estimates and TP; maintain Sell.

US FDA (FDA) invokes little heard of Application Integrity Policy (AIP)

Following warning letters in Jun'06 and Sept'08 and a ban on 30 generics (citing manufacturing deficiencies), the FDA halted review of drug applications from Ranbaxy's Paonta unit on evidence of falsified data and invoked the AIP. While warning letters and product bans are common, the FDA (according to its website) has issued an AIP to only ~18 companies (~4 chemical drug companies, including Ranbaxy), five of which are now out of business. This is against market expectations that Ranbaxy's FDA issues are getting sorted after Daiichi's 64% stake and appointment of Rudy Giuliani (former mayor of New York) as an advisor.

Little understanding of AIP to gauge the impact

Neither literature nor the industry could describe the AIP to us, nor help us gauge its impact. According to the FDA's website, ~26 months transpired for three companies for whom data is available to have an AIP vacated. While the full impact of the FDA ban is expected from the current quarter, Ranbaxy seems to be losing market share even for other products in the US. This could aggravate its high operating leverage and raise exposure to the now feared ROW markets (tight liquidity may result in some high debtors going bad).

Cut estimates and TP, maintain Sell; early resolution of FDA issues a risk

We cut estimates by <28% and TP by ~19% to INR 130 (20% to one-off drivers, which are valued at INR 86 on a DCF basis and 6x Dec'09e for base business at 40% discount to sector). Early resolution of FDA issues is a major risk. (See p.9.)

Forecasts and ratios

Year End Dec 31	2006A	2007A	**2008E**	2009E	2010E
Sales (INRm)	60,772.8	72,253.9	**69,573.7**	73,443.8	82,130.6
EBITDA (INRm)	8,390.9	12,189.3	**7,886.2**	5,649.8	7,270.6
Reported NPAT (INRm)	5,266.5	7,810.0	**3,535.6**	3,077.8	3,463.2
Reported EPS FD(INR)	13.17	19.53	**8.41**	7.32	8.24
DB EPS FD(INR)	13.17	19.53	**8.41**	7.32	8.24
OLD DB EPS FD(INR)	13.21	19.51	**8.23**	8.94	11.49
% Change	-0.3%	0.1%	**2.2%**	-18.1%	-28.3%
DB EPS growth (%)	63.8	48.3	**-56.9**	-12.9	12.5
PER (x)	30.9	19.7	**18.7**	21.5	19.1

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Forecast change

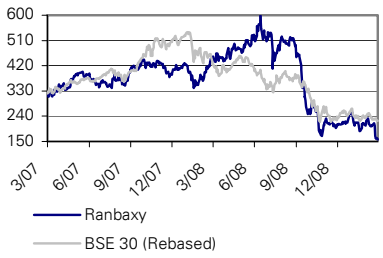
Sell

Price at 3 Mar 2009 (INR)	**157.45**
Price target - 12mth (INR)	**130.00**
52-week range (INR)	**598.20 - 157.45**
BSE 30	**8,607**

Key changes

Price target	160.00 to 130.00 ↓	**-18.8%**
Sales (FYE)	70,378 to 69,574 ↓	**-1.1%**
Op prof margin (FYE)	6.6 to 7.5 ↑	**14.0%**
Net profit (FYE)	3,459.4 to 3,535.6 ↑	**2.2%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-24.6*	*-22.5*	*-65.1*
BSE 30	*-5.9*	*-1.6*	*-48.4*

Stock data

Market cap (INRm)	**62,838**
Market cap (USDm)	**1,210**
Shares outstanding (m)	**420.4**
Major shareholders	**Daiichi (63.9%)**
Free float (%)	**66**
Avg daily value traded (USDm)	**9.5**

Key indicators (FY1)

ROE (%)	**8.8**
Net debt/equity (%)	**24.9**
Book value/share (INR)	**123.04**
Price/book (x)	**1.3**
Net interest cover (x)	**2.8**
Operating profit margin (%)	**7.5**

Deutsche Bank AG/Hong Kong

Deutsche Bank

Model updated:03 March 2009

Running the numbers

Asia

India

Pharmaceuticals/Biotechnology

Ranbaxy

Reuters: RANB.BO Bloomberg: RBXY IN

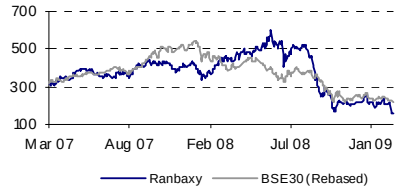
Sell

Price (3 Mar 09)	INR 157.45
Target price	INR 130.00
52-week Range	INR 157.45 - 598.20
Market Cap (m)	INRm 62,838 USDm 1,210

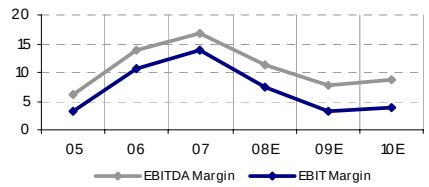
Company Profile

Ranbaxy Laboratories Limited manufactures and distributes a wide range of pharmaceutical products. The company makes multisource antibiotics, analgesics, anti-inflammatory drugs and anti-ulcerant/gastrointestinal drugs such as Roscillin (Ampicillin), Cifran (Ciprofloxacin) and Sporidex (Cephalexin). Ranbaxy's markets its products around the world.

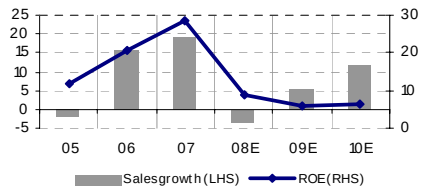
Price Performance



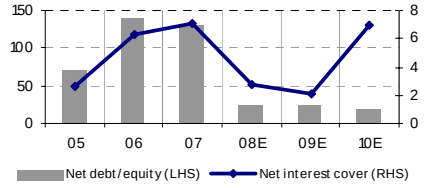
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (INR)	8.04	13.17	19.53	8.41	7.32	8.24
Reported EPS (INR)	8.04	13.17	19.53	8.41	7.32	8.24
DPS (INR)	8.51	8.91	8.50	3.75	4.50	5.00
BVPS (INR)	66.1	65.5	71.5	123.0	125.2	127.8
Weighted average shares (m)	373	400	400	420	420	420
Average market cap (INRm)	181,605	162,974	154,198	62,838	62,838	62,838
Enterprise value (INRm)	199,046	199,216	188,832	69,295	67,955	65,645
Valuation Metrics						
P/E (DB) (x)	60.6	30.9	19.7	18.7	21.5	19.1
P/E (Reported) (x)	60.6	30.9	19.7	18.7	21.5	19.1
P/BV (x)	5.48	5.98	5.96	1.28	1.26	1.23
FCF Yield (%)	nm	nm	2.7	nm	4.4	5.6
Dividend Yield (%)	1.7	2.2	2.2	2.4	2.9	3.2
EV/Sales (x)	3.8	3.3	2.6	1.0	0.9	0.8
EV/EBITDA (x)	62.8	23.7	15.5	8.8	12.0	9.0
EV/EBIT (x)	115.6	30.4	18.9	13.2	29.2	21.0
Income Statement (INRm)						
Sales revenue	**52,479**	**60,773**	**72,254**	**69,574**	**73,444**	**82,131**
Gross profit	**30,266**	**37,040**	**45,037**	**44,040**	**45,609**	**51,578**
EBITDA	**3,167**	**8,391**	**12,189**	**7,886**	**5,650**	**7,271**
Depreciation	1,445	1,843	2,183	2,656	3,320	4,150
Amortisation	0	0	0	0	0	0
EBIT	**1,723**	**6,548**	**10,006**	**5,230**	**2,330**	**3,121**
Net interest income(expense)	-671	-1,036	-1,412	-1,886	-1,132	-453
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	48	-30	16	-7,772	0	0
Other pre-tax income/(expense)	1,198	1,141	1,319	2,358	2,658	2,165
Profit before tax	**2,104**	**6,511**	**9,987**	**-14,751**	**3,856**	**4,833**
Income tax expense	-698	1,357	2,119	-5,605	778	1,370
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**2,995**	**5,267**	**7,810**	**3,536**	**3,078**	**3,463**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**2,995**	**5,267**	**7,810**	**3,536**	**3,078**	**3,463**
Cash Flow (INRm)						
Cash flow from operations	**4,066**	**925**	**9,435**	**-2,302**	**6,668**	**6,936**
Net Capex	-9,462	-18,190	-5,269	-2,926	-3,750	-3,250
Free cash flow	**-5,396**	**-17,265**	**4,166**	**-5,229**	**2,918**	**3,686**
Equity raised/(bought back)	184	-634	2	24,062	0	0
Dividends paid	-3,614	-4,063	-3,876	-1,797	-2,157	-2,396
Net inc/(dec) in borrowings	11,515	19,514	1,860	-15,496	-2,400	-2,400
Other investing/financing cash flows	12	-191	-2,041	-4,000	-1,000	0
Net cash flow	**2,701**	**-2,639**	**111**	**-2,459**	**-2,638**	**-1,110**
Change in working capital	*-878*	*-4,716*	*1,503*	*-1,418*	*1,049*	*843*
Balance Sheet (INRm)						
Cash and other liquid assets	2,430	2,952	4,379	13,060	11,000	9,910
Tangible fixed assets	26,187	42,533	45,619	45,889	46,319	45,419
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	172	362	2,403	6,403	7,403	8,403
Other assets	30,849	38,153	40,381	42,542	43,571	45,029
Total assets	**59,637**	**84,001**	**92,782**	**107,894**	**108,293**	**108,762**
Interest bearing debt	20,043	39,556	41,416	25,920	23,520	21,120
Other liabilities	14,959	18,251	22,762	30,250	32,128	33,930
Total liabilities	**35,001**	**57,808**	**64,178**	**56,170**	**55,648**	**55,050**
Shareholders' equity	24,636	26,193	28,604	51,724	52,645	53,712
Minorities	0	0	0	0	0	0
Total shareholders' equity	**24,636**	**26,193**	**28,604**	**51,724**	**52,645**	**53,712**
Net debt	*17,613*	*36,604*	*37,037*	*12,860*	*12,520*	*11,210*
Key Company Metrics						
Sales growth (%)	-2.2	15.8	18.9	-3.7	5.6	11.8
DB EPS growth (%)	-58.9	63.8	48.3	-56.9	-12.9	12.5
EBITDA Margin (%)	6.0	13.8	16.9	11.3	7.7	8.9
EBIT Margin (%)	3.3	10.8	13.8	7.5	3.2	3.8
Payout ratio (%)	105.9	67.7	43.5	44.6	61.5	60.7
ROE (%)	12.0	20.7	28.5	8.8	5.9	6.5
Capex/sales (%)	18.0	29.9	7.3	4.2	5.1	4.0
Capex/depreciation (x)	6.6	9.9	2.4	1.1	1.1	0.8
Net debt/equity (%)	71.5	139.7	129.5	24.9	23.8	20.9
Net interest cover (x)	2.6	6.3	7.1	2.8	2.1	6.9

Source: Company data, Deutsche Bank estimates

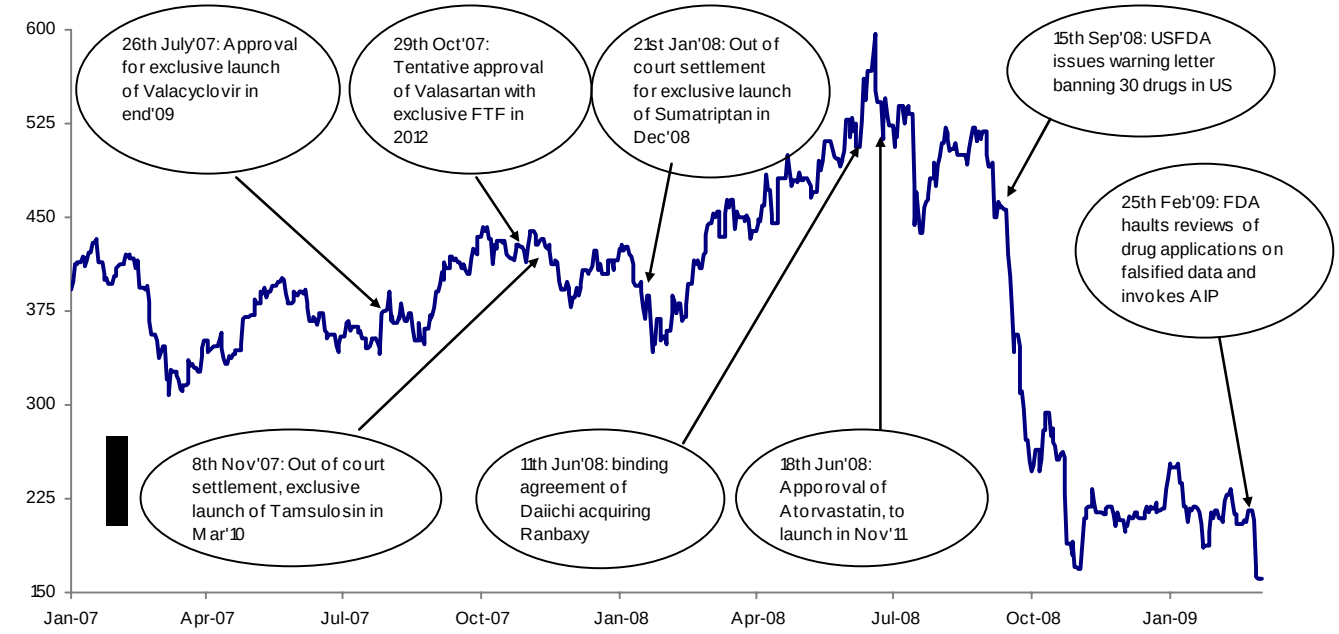
When it rains, it pours

Positive newsflow for one year from mid CY07…

Significant number of out-of-court settlements from Jul'07 drove the stock price…
Quite a few out-of-court settlements on its first-to-file (FTF) para IVs (patent challenges) resulting in limited periods of exclusivity for different time periods from end CY08 resulted in Ranbaxy's stock price moving from INR 350 in mid CY07 to ~INR 450+ in early CY08 (see Figure 1).

…that culminated with Daiichi proposing to acquire Ranbaxy in Jun'08
On 11 Jun'08, Daiichi proposed acquisition of Ranbaxy at INR 737/share (~31% premium to the then stock price) by buying the entire promoter holding of ~37%, making an open offer for buying 20% of the total outstanding shares from minority shareholders and the fresh issuance of shares and warrants. By mid Nov'08, Daiichi had picked up a ~64% stake in Ranbaxy.

Figure 1: Newsflows drive Ranbaxy's stock price since mid CY07



Source: Bloomberg, Deutsche Bank

…is followed by negative newsflow from Sept'08

FDA bans 30 of Ranbaxy's products from US markets in Sept'08

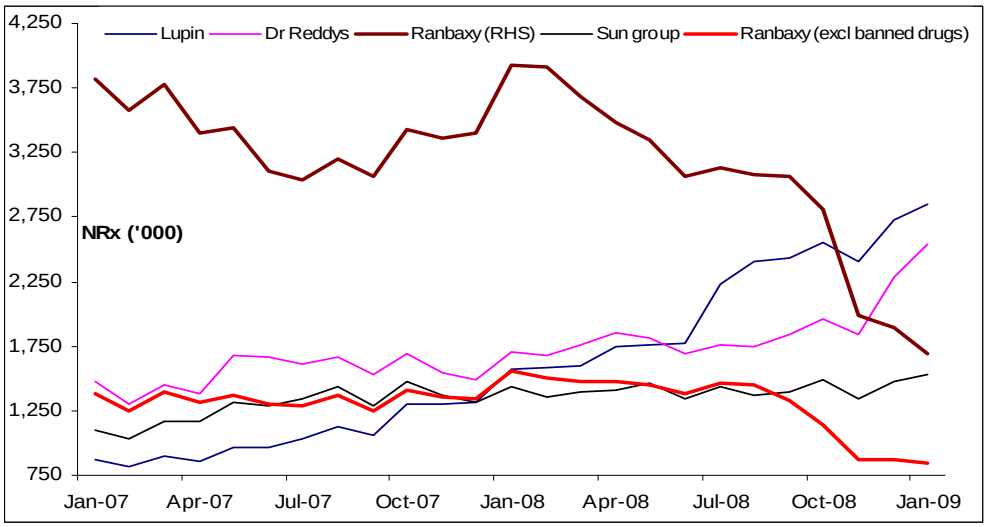
- Warning letter issued to Paonta facility Jun'06;
- Warning letter issued by FDA on 16 Sept'08 to Ranbaxy's Dewas facility and banned the import of 30 generics manufactured at these facilities.
- The warning also stated that until these plants come into compliance with US cGMP requirements the FDA will recommend that any Abbreviated New Drug Applications (ANDAs) that list these plants as the manufacturer of APIs or finished dosage not be granted approval.

Ranbaxy's loss in US prescriptions in US from Jan'08 exacerbated from current quarter

- We believe that the 30 banned products accounted for ~50% of its US revenues.

- Ranbaxy indicated in its Jan'09 conference call that the full impact of the FDA ban will be seen from the current quarter as omeprazole 40mg had limited competition until Jan'09.
- IMS data (see Figure 2) indicates that unlike peers, Ranbaxy has been losing prescriptions from Feb'08. Jan'09 prescriptions were down ~40% from Aug'08 levels and ~50% from the peak of Feb'08, to include continuing products. This indicates that Ranbaxy will further lose prescriptions (and hence revenues) as (a) the stocks in the channel prior to the implementation of the Sept'08 ban would slowly exhaust and (b) surprisingly, the company also continues to lose market share for continuing products.

Figure 2: Sharp drop in monthly NRXs (new prescriptions) in US from Feb'08



Source: IMS, Deutsche Bank

We expect higher exposure to now feared ROW markets as a result

Emerging markets (excluding India) accounted for 34% of CY08 revenues. Most of these markets have seen tightening liquidity in financial markets and currency weakening from the start of the 4Q (Oct'08). While some of these currencies (Brazil, Ukraine, etc.) seem to have stabilized against the INR, the impact of the steep fall in 4QCY08 would still linger.

- With debtors of ~125 days for exports to these markets, this liquidity crisis increases the risk of some of these debtors becoming NPAs.
- Most companies indicate significant destocking by wholesalers/ retailers. This is a threat even in India (which accounted for 20% of revenues).
- Weak commodity prices globally would impact the growth momentum of ROW markets and hence, could also impact the demand for generics in ROW markets.

Figure 3: 34% of Ranbaxy's revenues are from emerging markets (excluding India)

Revenues (USD m)	CY07	% of CY07	CY 08	% of CY08	Comments (currency change in current quarter)
North America (US & Canada)	415	26%	443	27%	FDA ban from mid Sep'08 will overshadow benefits of INR depreciation (6.5% YTD)
Europe (excluding Romania)	243	15%	221	13%	Flat to negative currency impact (INR gains 4% YTD)
India	301	19%	341	20%	De-stocking a concern
Other Emerging Markets	567	35%	559	34%	
- Romania	120	7%	107	6%	INR depreciation of 11.3% Ytd against gains 4.6% in the 4Q'08
- Russia	52	3%	68	4%	INR gains of 10% Ytd against 14.9% in the 4Q'08
- Brazil	39	2%	49	3%	INR depreciation of 0.9% Ytd against gains 17.4% in the 4Q'08
- S. Africa	39	2%	55	3%	INR gains of 3.5% Ytd against 10.9% in the 4Q'08
- Ukraine	38	2%	44	3%	INR depreciation of 1.4% Ytd against gains 52.2% in the 4Q'08
Total Sales (USD m)	1,607	100%	1,667	100%	
Total Sales (INR m)	66,353		72,507		

Source: Company, Deutsche Bank

Forex woes could worsen

- In order to reduce the currency risk, Ranbaxy (with 80% of revenues from exports) follows an aggressive large forex hedging position. Thus, while the current depreciating INR boosts operating profits, it suffers a treasury loss on its hedging positions. With US exports now expected to decline sharply and INR remaining weak, Ranbaxy may not even have the spurt in operating profits to protect against its hedging losses.
- MTM losses on foreign currency liabilities, despite being a non-cash charge, adds uncertainty to its near-term reported earnings.

Ranbaxy had total forex losses of ~INR 30bn (~USD 630m) in CY08, of which it wrote-off INR 11.8bn directly to its balance sheet. As shown in Figure 3, as the INR has depreciated by 6.5% in the current quarter (from 48.8 on 31 Dec'08 to 51.9 on 2 Mar'09), forex losses will continue in the quarter, as well.

Daiichi announces ~USD 3.9bn write-down of goodwill due to Ranbaxy acquisition…

On 5 Jan'09, Daiichi announced that it would take a one-time write-down of goodwill (non-cash loss of 354bn yen, i.e., ~USD 3.9bn) on its investment in Ranbaxy in 3Q08 (Oct-Dec'08) due to the >50% collapse in the Ranbaxy stock price to INR 206 from INR 450 (over the period of 12 Jan'09 from 14 Jun'08, the date of the deal announcement). However, Ranbaxy's current stock price is at a 78% discount to Daiichi's acquisition price of INR 737.

…what happens if Ranbaxy follows?

Ranbaxy (now a subsidiary of Daiichi) may also have to write-off the intangibles in its balance sheet at a much faster pace.

- As seen in Figure 4, nearly 45% of Ranbaxy's gross block consists of intangibles, which are amortised at <2% indicating asset life of over 50 years as compared to depreciation rates of 5%+ for tangible assets. While some intangible assets have a long life, we believe that 50 years is too long a timeframe for amortisation. Thus, we believe that net intangibles (INR 22.1bn as on 31 Dec'07, which is ~USD 465 m) may have to be written off much faster.
- In addition, Ranbaxy had intangibles of INR 1.5bn on its investments in Zenotech Labs and Shimal Research. Its investment portfolio was INR 2.4bn as of 31 Dec'07.

This faster write-down may significantly impact its shareholders funds and reported PAT, which were INR 28bn and INR 7.8bn for CY07, respectively.

Figure 4: Low historic rates of amortization on its large block of intangibles

Year to Dec (INR m)	2006	2007	Comment

Intangibles	Gross block	22,197	25,270	45% of total Gross Block for the company is intangibles
	Net block	19,366	22,136	
	Amortisation for the year	348	462	
	- % of Gross block	1.57%	1.83%	Amortisation rate of <2% indicates asset life of >50 years
Tangibles	Gross block	28,976	30,420	
	Net block	19,586	19,909	
	Depreciation for the year	1,495	1,722	
	- % of Gross block	5.16%	5.66%	
Equity	Shareholder's funds	25,850	28,022	
Net profit	Reported PAT	5,153	7,867	

Source: Company, Deutsche Bank

Further FDA action surprises market

Ranbaxy took steps to address FDA concerns

External consultant appointed to address FDA issues

In July'08, the US Department of Justice (DOJ) and FDA filed a motion in the Maryland Court seeking certain documents from Ranbaxy. Excerpts from this motion are below:

> Ranbaxy retained Parexel, a US contract services company, to review its operations and to recommend means to bring it to compliance. Parexel created various audits of Ranbaxy's manufacturing processes and business practices. The court filing by DOJ and FDA alleges systemic fraudulent conduct including submissions by Ranbaxy to FDA that contain false and fabricated information. During the continual dialogue with Ranbaxy, FDA kept asking for Parexel's complete audit report. While Ranbaxy referred to this audit data, it asserted attorney client privilege for sharing this entire report.

Ranbaxy denies the allegations in its press release and states that it has agreed to produce the documents sought by the motion.

In Sep'08, former New York City mayor Rudy Giuliani appointed as an advisor

In Sept'08, Ranbaxy announced that it had retained the services of former New York City mayor Rudy Giuliani and Giuliani Partners to advise and to review compliance issues related to its woes with the FDA.

By Nov'08, Daiichi acquired 64% stake in Ranbaxy

Daiichi's proposed acquisition of Ranbaxy in Jun'08 was completed by Nov'08 with the acquisition of a ~64% stake.

FDA maintains that it has no evidence that Ranbaxy drugs fail to meet specifications…

FDA's actions are proactive with no evidence against Ranbaxy

In its Feb'09 press release, FDA stated that:

- "The FDA is continuing to investigate this matter to ensure the safety and efficacy of marketed drugs associated with Ranbaxy's Paonta facility. To date, the FDA has no evidence that these drugs do not meet their quality specifications and has not identified any health risks associated with currently marketed Ranbaxy products."
- "In the meantime, the FDA recommends that patients not disrupt their drug therapy because this could jeopardize their health."

The press release further states that, "Ranbaxy will continue to co-operate with the USFDA. Further, no effort or action will be spared to timely protect key ANDAs from Paonta Sahib, which include some First to File applications."

…but, halts review of ANDAs from Paonta plant and invokes AIP

FDA halts review of ANDAs from Paonta due to evidence of falsified data and…

The FDA stated in its Feb'09 press release that the Paonta facility falsified data and test results in approved and pending drug applications. Thus, it halted review of ANDAs from this plant for:

- Approved drugs made at the Paonta facility for the US market (which seem to have been already banned as per FDA's letter dated 16 Sept'08);
- ANDAs pending approval at the FDA that are not yet marketed (also covered in warning letter dated 16 Sept'08); and
- Certain drugs manufactured in the US that relied on data from the Paonta facility (this seems to be a new addition).

…invokes Application Integrity Policy (AIP) against Ranbaxy

FDA stated the following in its Feb'09 press release:

- "Companies must provide truthful and accurate information in their ANDAs
- To address the falsified data, the FDA has invoked its Application Integrity Policy (AIP) against the Paonta facility. The AIP is invoked when a company's actions raise significant questions about the integrity of data in drug applications. This AIP covers applications that rely on data generated by the Paonta facility only.
- Under the AIP, the FDA has asked Ranbaxy to cooperate with the agency to resolve the questions of data integrity and reliability. This would include implementing a Corrective Action Operating Plan (CAOP) to provide assurance of the integrity and reliability of data from the Paonta facility. A CAOP includes, but is not limited to, conducting a third-party independent audit of applications associated with Paonta.
- When the AIP is implemented, the FDA stops all substantive scientific review of any new or pending drug approval applications that contain data generated by the Paonta facility.
- The FDA's investigations revealed a pattern of questionable data raising significant questions regarding the reliability of certain applications, and this warrants applying the Application Integrity Policy."

FDA's website indicates only ~18 companies issued AIPs and a ~26 month average to resolve issues

While warning letters and product bans by the FDA are quite common, the FDA's website (see Figures 5 and 6) indicate:

- It has issued AIPs to only ~18 companies, as of today;
- Of those, only Solvay and Ranbaxy seem to have significant scale and size of operations;
- Only four companies (including Ranbaxy and Solvay) seem to manufacture chemical drugs, with the remainder manufacturing biologics or devices;
- Five of the companies (like Sclavo) are out of business according to the FDA;
- The average time to resolve AIP issues appeared to be ~26m.

Figure 5: List of companies under AIP (Application Integrity Policy)

Department of US FDA	No.	Firm	Location	Central File No./FACTS No.
Center for Drug Evaluation & Research	1	Ranbaxy	Paonta, Himachal Pradesh, India	3002807978
	2	Biopharmaceutics Inc. *	Bellport, NY	2434267/2434267
	3	Solopak Pharma	1. Elk Grove Village, IL	1. 51450942 (Tonne Rd.)/1450942
			2. Franklin Park, IL	2. 51419209/1419209
	4	Superpharm Corp. *	Bayshore, NY	2434256/2434256
Center for Biologics Evaluation & Research	5	Sclavo, S.p.a.*	Siena, Italy	9610932/1000300459
Center for Devices & Radiological Health	6	Applied Biotech, Incorporated	San Diego, CA 92121-2901	2028231/436412
	7	Bionike, Inc.	South San Francisco, CA	No CFN/1000162526
	8	Bioplasty, Inc. *	Minneapolis, MN	B2125840/2125840
	9	Endotec, Inc.	South Orange, NJ	FEI: 3002400750
	10	Micro Detect, Inc.	Tustin, CA	FEI: 3001697474
	11	Sherman Pharma *	Abita Springs, LA	2310787/2310787
	12	Syntron	Carlsbad, CA	2025760/96782

*Source: US FDA, Deutsche Bank, Note: * To FDA's knowledge, the firm is out of business*

Figure 6: Revision history for companies issued AIP

No. #	Date of addition	Date of removal	Period (months)	Details
1	2/24/09			Ranbaxy, Paonta, India
13	4/5/2004	9/14/2007	41	PLUS Orthopedics, San Diego, CA,
14	3/3/2004	10/26/2005	19+	Updated CDRH – AGA Medical Corp on 3/3/2004
15	3/3/2004	9/13/2005	18	Diagnostic Products Corporation
6	3/23/2005			Applied Biotech, Inc
16		3/23/2005		Biochimica Opos SpA
17		4/10/2003		Gliatech Inc
18		4/10/2003		Solvay Pharmaceuticals Inc.
Average			26	

Source: US FDA, Deutsche Bank, Note # Common company wise numbering for Fig 5 & 6

Change in estimates, TP; risks

Cut in our estimates

We cut our sales estimates by ~5-8% for the next two years on account of:

- The continual loss of market share, even for products not banned in the US;
- Partly neutralized by a weak INR and launch of 100mg of generic Imitrex (USD 600m market) with limited competition for 180 days from Feb'09.

However, we have taken higher cuts (~18-28%) in EBITDA and PAT over the next two years due to its high operating leverage.

Figure 7: Change in financial estimates of Ranbaxy

(INR m) (Year to Dec)		2008e	2009e	2010e
Previous	Sales	70,378	77,508	88,938
	EBITDA	7,261	6,955	9,086
	Adjusted PAT	3,459	3,757	4,830
Current	Sales	69,574	73,444	82,131
	EBITDA	7,886	5,650	7,271
	Adjusted PAT	3,536	3,078	3,463
% change	Sales	-1.1%	-5.2%	-7.7%
	EBITDA	8.6%	-18.8%	-20.0%
	Adjusted PAT	2.2%	-18.1%	-28.3%

Source: Deutsche Bank

Cut TP and downgrade to a Sell

- We value the recurring business at INR 44/share (against INR 55 earlier) at 6x PE Dec'09e (40% discount to the sector multiple against earlier discount rate of 30% to Dec'08 PE sector multiple) considering the higher risk factors (post the current FDA action, weakening INR which is not as of now factored into financial projections, etc) and
- The one-time triggers at INR 86 (20% discount on the one-off drivers of 108/share) based on the assumptions (WACC of 15% based on risk free of 8.1% and Beta of 1.25 and risk premium of 5.4%, includes the value of generic Imitrex and assuming the exchange rate of USD/ INR of 48 against 47.5 earlier).
- On a SOTP, we cut our TP by ~19% from INR 160/share to INR 130/share. With 17% downside potential, we maintain a Sell.

Risks to our Sell rating

- Early resolution of US FDA issues
- Value accretive acquisitions (post the infusion of USD 736m as fresh equity by Daiichi)
- Robust growth in key markets
- Announcement of more out-of-court settlements on patent challenges

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Ranbaxy	RANB.BO	157.45 (INR) 3 Mar 09	6,14

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: Ranbaxy (RANB.BO)

(as of 3/03/2009)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	20/6/2007:	Upgrade to Hold, INR350.00	8.	17/9/2008:	Sell, Target Price Change INR385.00
2.	30/10/2007:	Hold, Target Price Change INR380.00	9.	23/9/2008:	Sell, Target Price Change INR275.00
3.	18/1/2008:	Hold, Target Price Change INR400.00	10.	1/10/2008:	Upgrade to Hold, Target Price Change INR225.00
4.	8/4/2008:	Downgrade to Sell, INR400.00	11.	1/11/2008:	Hold, Target Price Change INR205.00
5.	16/4/2008:	Sell, Target Price Change INR444.00	12.	12/1/2009:	Downgrade to Sell, Target Price Change INR173.00
6.	18/6/2008:	Sell, Target Price Change INR462.00	13.	22/1/2009:	Sell, Target Price Change INR160.00
7.	15/7/2008:	Sell, Target Price Change INR425.00			

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

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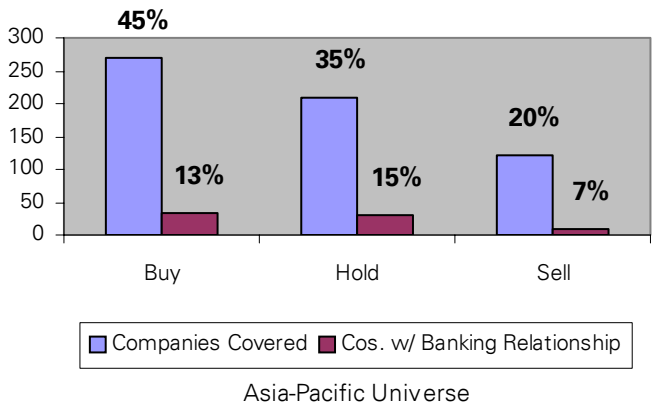
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

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