

## Equities

6 January 2011 | 8 pages

# Ranbaxy (RANB.BO)

## Buy: Model Update; Incorporating *Aricept* Launch

- Company Update
- Estimate Change

- **Incorporating *Aricept*; TP Unchanged at Rs700** — We add generic *Aricept* to our CY10/11 estimates, following the recent launch with exclusivity. We expect it to add cUS\$210m & cRs11/sh sales & EPS during the excl period. TP is unchanged, as this was included in Ranbaxy's FTF pipeline value. We now value the core biz at Rs545/sh (Rs535 earlier) & FTF pipeline at Rs155/sh (Rs165 earlier).
- **Reasonable Start** — One month post launch, Ranbaxy has c24% share in generic *Aricept*, with the AG (Greenstone) taking 52%. We expect Ranbaxy's share to gradually increase and build in sales & net profit of cUS\$210m & cUS\$110m (cRs11/sh) from *Aricept* in our estimates – spread across CY10 & CY11. Our core biz EPS estimates remain largely unchanged.
- **A Rich FTF Pipeline** — Besides the *Aricept* launch, *Nexium* API supplies to Astra have started & formulations supplies would commence in mid-CY11. *Lipitor* & *Caduet* launches are scheduled in Nov '11, *Actos* in Aug '12, *Valcyte* in Mar '13 & *Nexium* (exclusivity) in May '14. It has other potential FTF oppys (product names not yet in public domain) – if successfully launched, these would not only boost cash flows but also provide Ranbaxy significant traction with trade in the US.
- **All Eyes on Lipitor** — We expect investor attention to now be focused primarily on Ranbaxy's ability to launch generic *Lipitor* (Nov '11) – linked to progress in resolving the US FDA issues at its plants – besides trends in core biz. Though Ranbaxy will retain exclusivity even if approval is delayed, an on-time launch is critical, as we expect the AG (Watson) to launch in Nov '11. We remain confident that Ranbaxy will be able to monetize the opportunity in some form.
- **Valuation** — We now value Ranbaxy's FTF pipeline at Rs155/sh (Rs165/sh earlier), as we take out the *Aricept* exclusivity valuation post launch. We now value the core biz at Rs545/sh (Rs535/sh earlier), based on 2.4x March '12E sales – higher, primarily due to cash generated from the *Aricept* launch.

<b>Buy/Medium Risk</b>	<b>1M</b>
Price (06 Jan 11)	Rs602.30
Target price	Rs700.00
Expected share price return	16.2%
Expected dividend yield	1.4%
<b>Expected total return</b>	<b>17.6%</b>
Market Cap	Rs253,593M US\$5,595M

### Price Performance (RIC: RANB.BO, BB: RBXY IN)



### Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	3,448	8.20	-30.8	73.4	5.9	9.7	0.0
2009A	-1,076	-2.56	-131.2	nm	5.8	-2.5	0.0
2010E	4,437	10.55	512.2	57.1	4.3	8.7	1.4
2011E	9,533	22.68	114.9	26.6	2.4	11.7	1.4
2012E	13,651	32.47	43.2	18.5	1.8	11.3	1.4

Source: Powered by dataCentral

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Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
<b>Valuation Ratios</b>					
P/E adjusted (x)	73.4	nm	57.1	26.6	18.5
EV/EBITDA adjusted (x)	46.5	65.4	31.6	19.5	12.8
P/BV (x)	5.9	5.8	4.3	2.4	1.8
Dividend yield (%)	0.0	0.0	1.4	1.4	1.4
<b>Per Share Data (Rs)</b>					
EPS adjusted	8.20	-2.56	10.55	22.68	32.47
EPS reported	-28.11	7.13	48.96	115.37	89.64
BVPS	102.20	103.31	140.20	247.07	328.21
DPS	0.00	0.00	8.50	8.50	8.50
<b>Profit &amp; Loss (RsM)</b>					
Net sales	68,469	75,970	96,170	148,613	137,786
Operating expenses	-68,303	-71,522	-76,460	-91,528	-95,889
<b>EBIT</b>	<b>166</b>	<b>4,448</b>	<b>19,710</b>	<b>57,085</b>	<b>41,897</b>
Net interest expense	-2,055	-710	-601	-238	220
Non-operating/exceptionals	-15,494	4,146	6,808	3,968	5,180
<b>Pre-tax profit</b>	<b>-17,383</b>	<b>7,883</b>	<b>25,917</b>	<b>60,815</b>	<b>47,297</b>
Tax	5,651	-4,777	-5,183	-12,163	-9,459
Extraord./Min.Int./Pref.div.	-84	-109	-150	-150	-150
<b>Reported net income</b>	<b>-11,816</b>	<b>2,997</b>	<b>20,583</b>	<b>48,502</b>	<b>37,688</b>
Adjusted earnings	3,448	-1,076	4,437	9,533	13,651
Adjusted EBITDA	5,980	4,133	8,246	11,648	15,206
<b>Growth Rates (%)</b>					
Sales	-1.9	11.0	26.6	54.5	-7.3
EBIT adjusted	-49.3	-58.7	240.7	68.8	41.5
EBITDA adjusted	-40.7	-30.9	99.5	41.2	30.6
EPS adjusted	-30.8	-131.2	512.2	114.9	43.2
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>-10,700</b>	<b>15,369</b>	<b>37,296</b>	<b>53,525</b>	<b>36,558</b>
Depreciation/amortization	2,452	2,676	3,284	3,273	3,355
Net working capital	-2,387	8,908	12,678	1,363	-4,415
<b>Investing cash flow</b>	<b>-5,555</b>	<b>-4,972</b>	<b>-40,183</b>	<b>-27,955</b>	<b>-25,974</b>
Capital expenditure	-5,749	-2,367	-4,800	-4,750	-4,750
Acquisitions/disposals	-745	24	-36,393	-22,200	-20,000
<b>Financing cash flow</b>	<b>26,885</b>	<b>-3,830</b>	<b>-4,175</b>	<b>-22,920</b>	<b>-8,354</b>
Borrowings	-4,698	-6,553	0	-19,109	-5,000
Dividends paid	-2,620	0	-3,574	-3,574	-3,574
<b>Change in cash</b>	<b>10,630</b>	<b>6,567</b>	<b>-7,061</b>	<b>2,650</b>	<b>2,230</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>120,140</b>	<b>116,629</b>	<b>141,493</b>	<b>169,825</b>	<b>198,234</b>
Cash & cash equivalent	23,956	12,416	521	504	601
Accounts receivable	13,310	18,399	17,118	19,253	21,855
Net fixed assets	49,607	51,136	52,652	54,129	55,524
<b>Total liabilities</b>	<b>76,502</b>	<b>72,662</b>	<b>81,866</b>	<b>65,120</b>	<b>59,266</b>
Accounts payable	11,160	14,396	15,184	17,079	19,387
Total Debt	42,849	36,295	36,295	17,187	12,187
<b>Shareholders' funds</b>	<b>43,637</b>	<b>43,967</b>	<b>59,627</b>	<b>104,705</b>	<b>138,969</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	8.7	5.4	8.6	7.8	11.0
ROE adjusted	9.7	-2.5	8.7	11.7	11.3
ROIC adjusted	13.5	-4.5	-0.3	-6.0	3.6
Net debt to equity	43.3	54.3	60.0	15.9	8.3
Total debt to capital	49.5	45.2	37.8	14.1	8.1

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## Update on key FTFs

Figure 1. Ranbaxy – Update / Status of Key FTF Opportunities

Product	Generic Name	Innovator	Sales (US\$ m)	Status	CIRA Comment
Imitrex	Sumatriptan	GSK	nm	Launched in Feb '10	Launched from New Jersey - delayed due to time taken to shift site - lost most of the upside in the process
Valtrex	Valacyclovir	GSK	nm	Launched in Nov '09 – c74% peak market share during exclusivity; Retained 35% market share post exclusivity	Launched from New Jersey on time despite having to change sites for both API & formulations – positive signal for other FTFs
Aricept	Donepezil Hydrochloride	Eisai	2,400	Launched in Nov 2010	Should lead to cRs11/sh upside (assuming 50% price erosion & 35% market share)
Flomax	Tamsulosin Hydrochloride	Astellas / Boehringer	nm	Was unable to get approval Monetized the opportunity by facilitating entry of another generic – received US\$50m	Indicates that P-IV launches are not a given despite the success with Valtrex & Imitrex Ability to monetize the opportunity despite a lack of approval indicates that there are other options available to the company to capitalize on its pipeline
Lipitor - USA	Atorvastatin	Pfizer	7,000	Settled with Pfizer - launch in Nov 2011	Possibly filed from Paonta (given absence of tentative approval till date), hence may require the AIP to be resolved before a launch is possible – there may be other options to monetize
Lipitor (Non US)	Atorvastatin	Pfizer	3,000	Settled with Pfizer - can launch 2-4 months prior to patent expiry across various markets	Ranbaxy has launched the generic versions in Canada and South Africa; Appears to be secure given that there are no regulatory issues in these markets
Caduet	Amlodipine Besylate / Atorvastatin Calcium	Pfizer	700	Settled with Pfizer - launch in Nov 2011	
Nexium	Esomeprazole Magnesium	AstraZeneca	6,200	Settled with Astra - launch in May 2014 The settlement also includes a supply agreement for Nexium API & formulations with Astra, until patent expiry	API supplies have begun in 4QCY10; Formulation supplies to begin in mid CY11 Exclusivity launch only in May 2014 – provides adequate time for resolution of FDA issues
Actos	Pioglitazone Hydrochloride	Takeda	3,800	Settled with Takeda - launch in Aug 2012; Takeda has also settled with other P-IV filers	Mylan, Watson & Ranbaxy are FTF and will share 180d exclusivity Could lead to cRs7/sh upside (assuming 60% price erosion & 25% market share)
Valcyte	Valganciclovir Hydrochloride	Roche	300	Settled with Roche and will launch the product in Mar'13 with a180d exclusivity. Ranbaxy has a tentative approval	Final approval may be contingent on the resolution of FDA issues at Dewas/Paonta; This could be longer than a 180 day exclusivity opportunity given that the patent protection extends till Sep 2015 and there is only a recent P-IV filing by another company

Source: Company Reports and CIRA Estimates

## Ranbaxy

### Valuation

We have a target price of Rs700 for Ranbaxy, comprising Rs545 for the base generics business and Rs155 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 12E 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 Low Risk rating as suggested by our quant-based rating system, which tracks 260-day historical share price volatility. While there are signs of recovery in the business, we believe risk is still on the higher side due to the uncertainty related to its issues with the US FDA / DoJ. 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



Chart current as of 1 January 2011

	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

	Date	Rating	Target Price	Closing Price
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

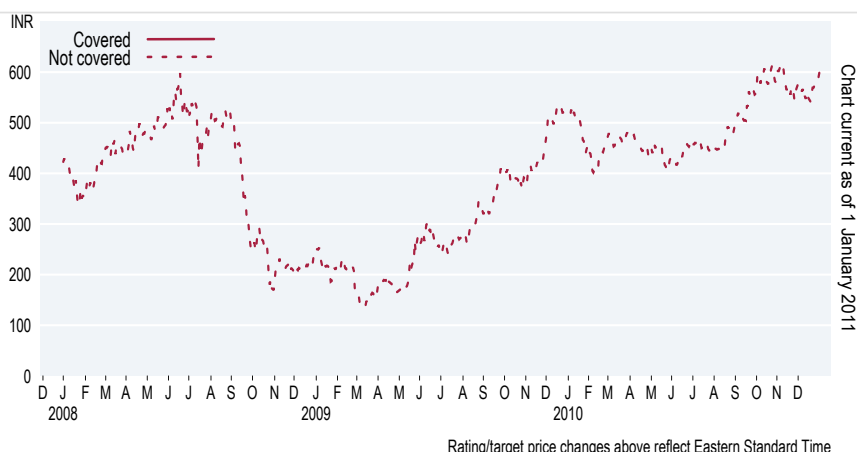
	Date	Rating	Target Price	Closing Price
9	1-Dec-09	*1M	*620.00	469.10
10	11-Nov-10	1M	*700.00	584.85

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**Ranbaxy (RANB.BO)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Prashant Nair, CFA



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12 Month Rating			Relative Rating		
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45%	44%	40%	0%	44%	0%

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