

COMMENT

Ranbaxy Laboratories (RANB.BO) Rs315.45

Gov't Tamiflu orders much ado about nothing; reiterate Conv Sell

News

The Indian government, which had a stockpile of 10mn Tamiflu capsules, has exhausted 75% of its stockpile and is looking to raise its stockpile by further 20mn capsules, according to media reports (Economic Times, Aug 11). Of these, Hetero Pharma is reported to be supplying half of the order (10mn units), while the remainder is being sourced from various suppliers. One of the suppliers cited is Ranbaxy, which according to a Sep 2 Bloomberg report has secured an order to supply 900,000 units to the government.

Analysis

Per an Aug 22 report in the Economic Times, the government's price for these orders is Rs270-Rs275 per 10 capsules, or Rs27 per Tamiflu capsule. We note that this equates to Rs24.3mn in terms of incremental revenue upside for Ranbaxy based on the reported order for 900,000 units. This translates to US\$0.5mn (0.03% of our 2009 sales est) for Ranbaxy, which we view as inconsequential.

However, in the unlikely event the government permits retail sales of a generic version of Tamiflu, we believe this may provide significant upside potential to Ranbaxy. Ranbaxy's superior distribution network and marketing strength in India could lead to greater market share and higher sales volumes, command a higher retail selling price, and generate improved margins. To date, there has been no concerted effort to allow retail sales of a generic version of Tamiflu, on concerns that the drug could either be hoarded or used indiscriminately, which could lead to the H1N1 virus developing resistance to the drug.

Implications

Ranbaxy has outperformed the broader market by 20% (up 23.4% vs. BSE Sensex's +3.5%) since Aug 10, when the government's order for 20mn units was announced. We believe Ranbaxy's share price movement has been driven in part by news flow surrounding the company's ability to supply Tamiflu to the government. Even if Ranbaxy secures these orders, the incremental upside won't justify the recent price movement, in our view. We reiterate Sell (on Conviction Sell list) on Ranbaxy and maintain our Director's Cut-based 12-m TP at Rs196.

Key upside risk: Resolution of the USFDA issue.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell List

Asia Pacific Conviction Sell List

Coverage View: Neutral

India:

Pharmaceuticals

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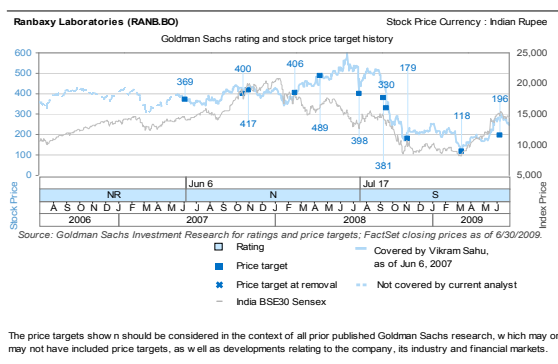
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Price target and rating history chart(s)



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