# RANBAXY

8th November, 2008

UNDERPERFORMER — CMP: 218

| | |
|---|---|
| BSE Code | 500359 |
| NSE Code | RANBAXY |
| Bloomberg Code | RBXY IN |
| Reuters Code | RANB.BO |

## Key Data

| | |
|---|---|
| Sensex | 9964 |
| 52 week H/L (Rs.) | 614/164 |
| Oct month H/L (Rs.) | 306/164 |
| Market Cap (Rs cr) | 9095 |
| Avg. daily vol. (6mth) | 1351119 |
| Face Value | 5 |

Source: Capitaline

## Shareholding Pattern (%)

| | |
|---|---|
| Promoters | 34.74 |
| MFs / Banks/ FI's | 11.96 |
| FII's /NRI/ OCB's | 7.10 |
| Private Corporate Body | 29.41 |
| Public and Others | 16.79 |

*Source: Capitaline*

## One-Year Performance (Rel. to Sensex)

Source: Capitaline

## RESULT HIGHLIGHTS

- Ranbaxy's Q3CY08 was hit by unprecedented movements in the exchange rates resulting in a translation loss of $73 Million and a write-off of $59 Million in inventories as a result of the import ban by the USFDA on its two manufacturing facilities in India at Dewas and Paonta Sahib.
- Net Sales have grown 14.30% YoY from Rs. 1652 Crs to Rs. 1888 Crs.
- EBITDA margins for the quarter stood at 7.60% down from 17.10% a year ago mainly on account of increase in the SG&A expenses, though management has indicated that the increase was mainly fuelled by asset write-off in two of its facilities of around $9 Million.
- Ranbaxy reported a Consolidated Net Loss of Rs 394.50 Crs against a profit of Rs. 168.16 Crs. YoY in Q3CY08. Adjusted for Exceptional Items the Net Loss of the company stands at Rs. 162.55 Crs. against a profit of Rs. 141.36 Crs. a year ago.
- For the quarter Emerging Markets showed a growth of 20% accounting 56% of total sales, led by strong growth in Romania, CIS (Ukraine & Russia) & Latin American markets.
- Developed markets showed a growth of 9%, contributing 38% of total sales where as US Markets degrew by 7% on account of USFDA import ban.

## DAIICHI-SANKYO DEAL DONE

- Daiichi is currently holding 63.9% stake in Ranbaxy post open offer of 22%, preferential allotment of 11% and stake from promoters of 30.90%.
- This deal would result as per the company's management, to increase the networth to around Rs. 6385 Crs. from Rs. 2800 Crs. in December 2007 resulting in a book value per share of Rs. 160 from Rs. 75 in December 2007.
- Daiichi has infused Rs. 3585 Crs. of cash into Ranbaxy which has strengthen its balance sheet considerably, this would help it to bring down its debt currently at $1.2 Billion of which $440 Million are FCCB. The company is also planning to use this cash for both organic and inorganic growth.
- Ranbany has applied to the RBI for early redemption of the $440 Million FCCB's, and in case of RBI approving and the bond holders opting for the same would mean a total outflow of $500 Million from the company's books. It has also reduced its conversion price to Rs 556/share from the original Rs.716/share.

## USFDA IMPORT BAN

- During the quarter the US DOJ has withdrawn the motion that they had filed earlier.
- The company had received import ban for products from its facilities in Dewas and Batamandi, impact of which can be seen in the degrowth of the US market, which can be said to be significant considering the import ban came into effect only in September and thus post questions of how significantly it would impact Ranbaxy earnings in the coming quarters.
- Though Ranbaxy is confident of resolving the concerns of the USFDA, it remains mum on the time required for the same.
- It is also confident of getting back its lost business once the ban is lifted, but we are think that it would be very difficult for Ranbaxy to recapture its lost sales given the competitive scenario in the US.

## VALUATION & RECOMMENDATION

Ranbaxy's Q3CY08 results have been disappointing, the USFDA import ban on the 30 products from its two units at Paonta Sahib and Dewas has hugely impacted its performance and also cast a shadow over its future prospects considering the ban came into effect only from September. Also as there is no certainty when this issue would settle and whether Ranbaxy would be able to recapture the market it has lost puts a question over the future performance of Ranbaxy.

We are though positive on the Daiichi-Ranbaxy deal as it would significantly strengthen its balance sheet, as cash infused by Daiichi would help reduce its debts significantly and also give opportunities for organic and inorganic growth in the long run. At CMP of 218 the stock is trading at 2x its Trailing Sales. We are keeping "**Underperformer**" on the stock.

## FINANCIAL HIGHLIGHTS

| Standalone | Q3 CY08 | Q3 CY07 | YoY % | Q2 CY08 | QoQ % |
|---|---|---|---|---|---|
| Net Sales | 1,146.30 | 1,038.12 | 10% | 1,216.92 | -6% |
| Total Expenditure | 1,291.50 | 966.23 | 34% | 1,052.91 | 23% |
| Core EBITDA | (145.20) | 71.89 | -302% | 164.01 | -189% |
| *EBITDA Margins(%)* | *-12.67%* | *6.93%* | -283% | *13.48%* | -194% |
| Other Income | 1.80 | 150.56 | | 107.48 | |
| Depreciation | 30.26 | 32.52 | | 29.23 | |
| EBIT | (173.66) | 189.93 | -191% | 242.26 | -172% |
| Interest | 361.11 | (21.35) | | 223.08 | |
| Profit Before Tax | (534.77) | 211.28 | | 19.18 | |
| Tax | (181.84) | 43.12 | | (4.55) | |
| Net Profit | (352.93) | 168.16 | -310% | 23.73 | -1587% |
| Adjusted Net Profit | (108.79) | 150.40 | -172% | 23.73 | -558% |
| *ANPM (%)* | *-9.49%* | *14.49%* | | *1.95%* | |
| No of shares | 37.41 | 37.41 | | 37.41 | |
| EPS (Ann.) | - | 17.98 | | 2.54 | |



**RATING INTERPRETATION**
**Buy** Expected to appreciate more than 20% over a 12-month period
**Accumulate** Expected to appreciate up to 20% over a 12-month period
**Hold** Expected to remain in a narrow range
**Avoid** Expected to depreciate up to 10% over a 12-month period
**Exit** Expected to depreciate more than 10% over a 12-month period