

RANBAXY LABORATORIES

INR 387

Steady performance

BUY



Ranbaxy Laboratories' (Ranbaxy's) Q4CY07 results were slightly above expectations, with Y-o-Y operating income growth of 7.1% and net profit growth of 2.5%. The net profit was boosted by other income of INR 87 mn and extraordinary gain of INR 153 mn, including forex gain of INR 91 mn, INR 235 mn gain from sale of land, and a one-time loss of INR 191 mn. EBITDA margin for the quarter, at 16.7%, was higher 100bps Y-o-Y.

Improved performance in North America, better than expected performance in the UK Germany, and France, plans of increasing sales strength and a stated intention of an acquisition in India, coupled with cost saving (resulting from the demerger of R&D unit), and higher margins (through better product mix) merited a relook at the forecasted numbers. For CY08, the company has guided towards high double-digit revenue growth, margin expansion at the EBITDA level, and a 20%+ PAT growth. We have therefore revised our numbers and increased our 2008 EPS by ~11.2%. Our new EPS for CY08 and CY09 are INR 22.4 and INR 25.7 respectively.

At CMP of 387, the stock is trading at 17.2x CY08E and 15.0x CY09E earnings. In addition, we have valued the Lipitor, Flomax, and Valtrex opportunities at INR 64. We maintain our 'BUY' recommendation on the stock.

* US market: Propped up by the branded sales

Ranbaxy's US sales stood at USD 386 mn for 2007, a 2% Y-o-Y growth. The base business grew at ~19% in CY07 and ~8% for the quarter (excluding sales of FTF products). The branded business, primarily the 13 products acquired from BMS and Sotret, contributed USD 56 mn to the revenues.

In 2007, Ranbaxy filed 28 ANDAs and received 18 ANDA approvals. In Q4FY07, USFDA gave final approvals for *Cetirizine HCl* tablets (5 and 10 mg) and *Clarithromycin* oral suspension. The company also secured tentative approval for *Valsartan* tablets (40, 80, 160, and 320 mg), in which, it enjoys the first-to-file status.

The company has filed 18 FTF Para IV which have a branded market size of ~USD 27 bn. We expect the company to announce its CY08 FTF opportunity in the fourth week of January 2008.

Financials

Year to December	Q4CY07	Q4CY06	Growth (%)	Q3CY07	% change	CY07	CY08E
Revenues (INR mn)	19,023	17,769	(6.6)	17,730	0.2	69,427	76,252
EBITDA (INR mn)	2,977	2,665	(10.5)	2,831	(5.9)	9,981	13,758
Net profit (INR mn)	1,878	1,833	(2.4)	2,074	(11.6)	7,848	8,952
EPS (INR)	4.7	4.9	4.6	5.2	(5.3)	19.7	22.4
P/E (x)						19.7	17.2
EV/EBITDA (x)						15.8	11.0

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Market Data

52-week range (INR) : 490 / 305
Share in issue (mn) : 373.0
M cap (INR bn/USD mn) : 137.3 / 3,670.2
Avg. Daily Vol. BSE/NSE ('000) : 1,479.8

Share Holding Pattern (%)

Promoters : 34.8
MFs, FIs & Banks : 23.5
FIs : 14.9
Others : 26.7

Going forward, we believe, growth in Ranbaxy's North American business is likely to be in the low double digit range.

Table 1: Revenues break-up (USD mn)

Particulars	Oct-December			Jan-December		
	2007	2006	Growth (%)	2007	2006	Growth (%)
Dosage forms						
India & Middle East	92	71	29.6	360	293	22.9
CIS (Russia & Ukraine Belt)	31	27	14.8	90	74	21.6
Rest of Asia Pacific	26	19	36.8	88	71	23.9
Asia Pacific total	149	117	27.4	538	438	22.8
Europe (including Romania)	106	78	35.9	363	258	40.7
Africa	37	31	19.4	126	89	41.6
Latin America	20	16	25.0	65	49	32.7
North America	113	114	(0.9)	415	392	5.9
Dosage forms- Total	425	356	19.4	1507	1226	22.9
APIs	27	26	3.8	101	115	(12.2)
Net sales	452	382	18.3	1608	1341	19.9

Source: Company, Edelweiss research

* **Europe: Improved performance in the key markets**

For the full year 2007, Europe registered sales of USD 363 mn, a growth of 24%. In Q407, sales grew 23% Y-o-Y, touching USD 106 mn.

The German sales for 2007 stood at USD 49 mn, a growth of 69%, boosted by the AOK tender (11 products). The UK sales grew on increased contribution from the respiratory product portfolio, to USD 47 mn (annual growth of 36%). The branded business in the UK grew 27%. France contributed USD 73 mn (annual growth of 5%). Although, uncertainty over the pricing and re-imbursement policy in Romania had a negative impact, more clarity on the issue is expected by February.

* **India and other markets: Better performance in India**

On the back of increased contribution from chronic therapy and a better product mix, the Indian formulations business recorded revenues of USD 301 mn (Y-o-Y growth of 22%). For the quarter, sales were at 76 mn (30% Y-o-Y).

Ranbaxy is planning to increase its India field force and has hinted at a possible acquisition in India. We believe Ranbaxy's formulations business has the potential to grow ~18% in CY08E and CY09E.

In CY07, the CIS markets grew 22%, with revenues of USD 90 mn. Revenues from Africa increased 22%, to USD 126 mn, and those from the Latin American markets were at USD 65 mn, a growth rate of 33%. We expect this momentum to continue, going forward.

* **Outlook and valuations: Significant triggers exist; maintain 'BUY'**

Better than expected performance in the three major European markets of UK, Germany, and France augur well for the company. The uncertainty of the reimbursement policy in Romania will however resulted in muted sales in CY08E. We expect a clear picture to emerge by February 2008. In North America, the branded sales business (including the BMS dermatology products) would add to the steady base business.

We are enthused about the management's guidance towards monetising of a Para IV opportunity for CY08 by the fourth week of January 2008. In addition, the de-merger of the R&D unit will also reduce costs for Ranbaxy, resulting in improved EBITDA margins.

At CMP 387, the stock is trading at 17.2x and 15.0x on CY08E and CY09E earnings respectively. We have used the sum-of-the-parts (SOTP) methodology to value the business with base business valued at INR 448 and the *Lipitor* and *Valtrex* opportunities at INR 64 per share. We believe at these levels there is limited downside to the stock price. Moreover, reduction in R&D costs (after the hive off and additional announcements of another Para IV opportunity for 2008) will provide significant triggers to the stock. We maintain our 'BUY' recommendation on it.

Financial snapshot						(INR mn)	
Year to December	Q4CY07	Q4CY06	Growth (%)	Q3CY07	Growth (%)	CY07	CY08E
Total operating income	19,023	17,769	7.1	17,730	7.3	69,427	76,252
Gross sales	17,951	17,077	5.1	16,520	8.7	66,353	76,252
Less: Excise duty	106	102	3.9	106	-	449	516
<i>Net sales</i>	17,845	16,975	5.1	16,414	8.7	65,904	73,320
Other operating income	1,178	794	48.4	1,316	(10.5)	3,523	2,933
Total expenses	16,046	15,104	6.2	14,899	7.7	59,446	62,495
Cost of goods sold	9,653	9,131	5.7	8,702	10.9	35,731	38,889
Raw material cost (including adj. to stock)	9,653	9,131	5.7	8,702	10.9	35,731	38,889
Gross profit	9,370	8,638	8.5	9,028	3.8	33,696	37,364
Other expenses	6,393	5,973	7.0	6,197	3.2	23,715	23,606
R&D	1,385	1,224	13.2	1,106	25.2	4,239	1,988
Selling, admin and general expenses	5,008	4,749	5.5	5,091	(1.6)	19,476	21,618
EBITDA	2,977	2,665	11.7	2,831	5.2	9,981	13,758
Other income	87	24	262.5	543	(84.0)	225	1,000
PBDIT	3,064	2,689	13.9	3,374	(9.2)	10,206	14,758
Depreciation	493	531	(7.2)	613	(19.6)	2,228	2,263
Interest	385	247	55.9	394	(2.3)	1,443	1,239
PBT	2,186	1,911	14.4	2,367	(7.6)	6,535	11,256
Extra ordinary items	(153)	(460)		(223)		(3,436)	-
Tax (including deferred tax)	461	512	(10.0)	516	(10.7)	2,070	2,251
PAT	1,878	1,859	1.0	2,074	(9.5)	7,901	9,005
Minority interest	-	26		-		53	53
Net profit	1,878	1,833	2.5	2,074	(9.5)	7,848	8,952
Equity capital (FV INR 5)	1,862	1,862		1,862		1,863	1,995
Dividend						2,729	2,729
Dividend per share (INR)						6	6
Number of shares (mn)	399	372		399		399	399
EPS (INR)	4.7	4.9	4.6	5.2		19.7	22.4
P/E (x)						19.7	17.2
EV/EBITDA (x)						15.8	11.0
M. cap/Revenues (x)						2.2	2.0
as % of net revenues							
Other expenses	35.6	35.0		37.5		35.7	31.0
Other income	0.5	0.1		3.3		0.3	1.3
Total expenses	89.4	88.4		90.2		89.6	82.0
Depreciation	2.7	3.1		3.7		3.4	3.0
Gross profit	52.2	50.6		54.6		50.8	49.0
EBITDA	16.7	15.7		17.2		15.1	18.8
Net profit	10.5	10.8		12.6		11.9	12.2
Tax rate	21.1	26.8		21.8		31.7	20.0

Company Description

Ranbaxy is the largest player in the domestic market with a market share of more than ~4.7%. Exports contribute about 79% to total revenues. The US generics market is the key market for the company which contributes about 29%. It has pursued inorganic growth opportunities in the past year when it acquired seven different companies. It has presence in several developed as well as developing markets.

Investment Theme

We believe that Ranbaxy will have steady growth in the coming quarters because: (1) increased contribution of the branded generic segment to total revenues; (2) steady ~15% growth in India; and (3) one-time positive upsides from Valtrex and Lipitor.

Key Risks

Positive developments in some of the Para IV opportunities that are not available in the public domain could provide some upside to the stock.

A significantly big acquisition could give short term spurt to the company.

Price cut in the domestic market on account of a new pharma policy.

Financial Statements

Income statement					(INR Mn)
Year to December	CY05	CY06	CY07	CY08E	CY09E
Income from operations	52,816	61,434	69,427	76,252	85,053
Gross sales	51,880	60,652	66,353	73,836	83,447
Less: Excise	861	482	449	516	594
Net sales	51,019	60,171	65,904	73,320	82,853
Other operating income	1,796	1,264	3,523	2,933	2,200
Total operating expenses	49,705	52,609	59,446	62,495	69,815
Materials cost	22,213	23,733	35,731	38,889	43,377
Employee cost	6,786	7,955	-	-	-
R&D cost	4,925	3,955	4,239	1,988	2,226
Other expenses	15,781	16,966	19,476	21,618	24,213
EBITDA	3,111	8,825	9,981	13,758	15,237
Depreciation and amortisation	1,445	1,843	2,228	2,263	2,298
Interest	671	1,036	1,443	1,239	1,034
Other income	616	564	225	1,000	1,000
Extraordinary items [exp./ (gain)]	(333)	-	(3,436)	-	-
Profit before tax	1,945	6,510	9,971	11,256	12,905
Provision for tax	(698)	1,357	2,070	2,251	2,581
PAT (inc. excep. & pre min. int.)	2,642	5,153	7,901	9,005	10,324
Minority interest & others	25	53	53	53	53
Pref. div., including tax thereon	-	-	-	-	-
PAT (inc. excep.) for eq. shareholders	2,617	5,100	7,848	8,952	10,271
Shares outstanding (mn)	372	373	399	399	399
Dividend per share (INR)	6.0	6.0	6.0	6.0	7.0
Dividend payout %	85.4	43.8	30.5	26.7	27.2

Common size metrics- as % of net revenues

Year to December	CY05	CY06	CY07	CY08E	CY09E
Material cost	42.1	38.6	51.5	51.0	51.0
Employee cost	12.8	12.9	-	-	-
Other expenses	29.9	27.6	28.1	28.4	28.5
Depreciation	2.7	3.0	3.2	3.0	2.7
Interest expenditure	1.3	1.7	2.1	1.6	1.2
EBIDTA margins	5.9	14.4	14.4	18.0	17.9
Net profit margins	5.0	8.3	11.3	11.7	12.1

Growth metrics (%)

Year to December	CY05	CY06	CY07	CY08E	CY09E
Revenues (%)	(2.8)	16.3	13.0	9.8	11.5
EBIDTA (%)	(68.3)	183.7	13.1	37.8	10.8
Net profit (%)	(62.5)	94.9	53.9	14.1	14.7
EPS (%)	(62.6)	94.8	43.7	14.1	14.7

Balance sheet					(INR Mn)
As on 31st December	CY05	CY06	CY07	CY08E	CY09E
Shareholders funds	24,467	46,819	51,938	58,161	65,248
Capital	1,862	2,002	2,002	2,002	2,002
Reserves & surplus	22,605	44,818	49,937	56,160	63,247
Borrowings	20,043	19,343	17,643	15,143	12,643
Secured loans	6,079	5,879	5,379	4,879	4,379
Unsecured loans	13,964	13,464	12,264	10,264	8,264
Deferred tax liability (net)	(49)	800	800	800	800
Minority interest	166	166	166	166	166
Other term liabilities	3	3	3	3	3
Sources of funds	44,629	67,131	70,550	74,272	78,860
Gross block	29,920	31,420	31,920	32,420	32,920
Depreciation	9,329	11,172	13,400	15,663	17,960
Net block	20,591	20,249	18,521	16,758	14,960
Capital work in progress	5,595	5,595	5,595	5,595	5,595
Investments	172	19,252	19,252	19,252	19,252
Inventories	13,624	14,557	21,915	23,852	26,605
Sundry debtors	11,404	13,264	14,990	16,464	18,364
Cash and bank balances	2,430	3,613	6,288	10,050	14,706
Loans and advances	4,571	4,571	4,571	4,571	4,571
Other current assets	1,250	1,250	1,250	1,250	1,250
Total current assets	33,279	37,255	49,015	56,187	65,496
Current liabilities	10,600	11,314	17,033	18,539	20,678
Provisions	4,408	3,906	4,799	4,980	5,765
Total current liabilities and provisions	15,008	15,220	21,833	23,519	26,443
Net current assets	18,271	22,035	27,182	32,668	39,053
Uses of funds	44,629	67,131	70,550	74,273	78,860
Book value per share (INR)	66	126	130	146	164

Cash flow statement					(INR Mn)
Year to December	CY05	CY06	CY07	CY08E	CY09E
Cash flow from operations	2,892	6,440	10,789	11,396	12,899
Cash for working capital	(951)	(2,079)	(3,365)	(1,905)	(2,513)
Net operating cash flow	1,940	4,360	7,424	9,491	10,385
Net purchase of fixed assets	(7,770)	(1,500)	(500)	(500)	(500)
Net purchase of investments	(540)	(18,231)	-	-	-
Net cash flow from investing	(8,310)	(19,731)	(500)	(500)	(500)
Proceeds from equity capital	(3,491)	17,254	(2,549)	(2,729)	(2,729)
Proceeds from LTB/STB	10,951	(700)	(1,700)	(2,500)	(2,500)
Net cash flow from financing	7,460	16,554	(4,249)	(5,229)	(5,229)
Free cash flow	(6,370)	(15,371)	6,924	8,991	9,885

Ratios

Year to December	CY05	CY06	CY07	CY08E	CY09E
ROE (%)	10.7	10.9	15.1	15.4	15.7
ROCE (%)	5.9	11.2	16.2	16.8	17.7
Inventory days	224	224	224	224	224
Debtors days	79	79	79	79	79
Fixed assets T/o (x)	1.8	2.0	2.2	2.4	2.6
Debt/equity	0.8	0.4	0.3	0.3	0.2

Valuation parameters

Year to December	CY05	CY06	CY07	CY08E	CY09E
EPS, post exceptionals (INR.)	7.0	13.7	19.7	22.4	25.7
<i>Y-o-Y growth (%)</i>	<i>(62.6)</i>	<i>94.8</i>	<i>43.7</i>	<i>14.1</i>	<i>14.7</i>
CEPS (INR)	10.9	18.6	25.3	28.1	31.5
P/E (x)	55.1	28.3	19.7	17.2	15.0
Price/BV(x)	5.9	3.1	3.0	2.7	2.4
EV/Sales (x)	3.1	2.5	2.3	2.0	1.7
EV/EBITDA (x)	52.3	17.3	15.8	11.0	9.5

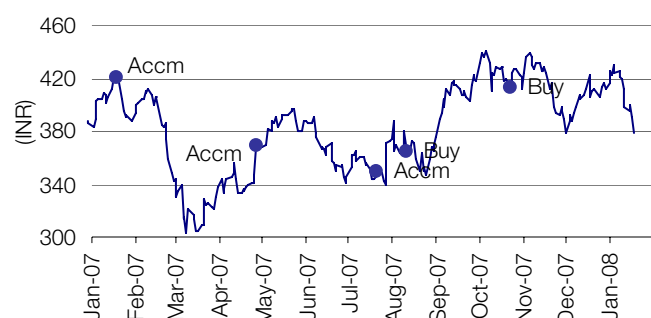
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Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals:

Aurobindo Pharma, Cadila Healthcare, Cipla, Dishman Pharmaceuticals and Chemicals, Dr.Reddy's Laboratories, Glaxosmithkline Pharmaceuticals, Glenmark, Ipca Laboratories, Jubilant Organosys, Lupin, Nicholas Piramal India, Ranbaxy Laboratories, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals and United Phosphorus.

Ranbaxy Laboratories



Recent Research

Date	Company	Title	Price (INR)	Recos
14-Jan-08	Pharma	Fact Sheet		
02-Jan-08	Sun Pharma	On an upswing, but Taro overhang Persists; Visit Note	1,199	Accum.
14-Dec-07	Pharma	Fact Sheet		
01-Nov-07	Jubilant Organosys	Value in store; Visit Note	306	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	108	44	16	3	188

* 12 stocks under review / 5 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	103	66	19

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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