17 August 2007 | 5 pages

Ranbaxy (RANB.BO)

Buy: Another Positive on Lipitor; Another Catalyst

- Pfizer's reissue bid rejected — The US PTO has preliminarily rejected Pfizer's application to reissue the '990 patent on Lipitor that Ranbaxy had invalidated. While the rejection is "non-final" - i.e. Pfizer can try to get it changed, it improves the probability of early exclusivity (March 2010) for Ranbaxy.

- Exclusivity likely in 2010 — In its patent litigation with Pfizer over Lipitor, Ranbaxy had invalidated the '990 patent (expiring in Jun '11) but lost out on the '893 patent (expiring in Mar '10) - thus allowing it to launch with exclusivity on 25 Mar 2010 (after the '893 patent expired). Had Pfizer been able to get the '990 patent reissued, Ranbaxy's exclusivity would have been postponed by 15 months. The US PTO's decision reduces the probability of such a delay.

- Potential upside — Lipitor is a drug with US sales of US$7.8bn. Besides the one-time upside from the 180-day exclusivity (we estimate Rs40-45/share), its exclusive presence in such a key product would provide Ranbaxy significant leverage with the trade, thus benefiting its overall US generics franchise. The c.US$400m cash flow would also come in handy in case Ranbaxy's US$440m FCCB does not get converted and has to be redeemed.

- Another catalyst — Ranbaxy's fundamentals have been improving, as reflected in: a) rising share of high margin emerging market sales; b) tie-ups to enhance pipeline in niches like biogenerics, oncology & peptides; c) robust growth in base US business. But the stock has lacked catalysts, leading to it being out of favour on the bourses. However, with the recent settlement of the Valtrex litigation, the improved probability of an early generic Lipitor launch and more patent settlements likely, we retain our Buy (1M) rating.

Buy/Medium Risk	1M
Price (16 Aug 07)	Rs360.85
Target price	Rs505.00
Expected share price return	39.9%
Expected dividend yield	1.4%
Expected total return	**41.3%**
Market Cap	Rs134,581M
	US$3,269M

Statistical Abstract

Year to 31 Dec	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	2,617	7.03	-62.6	51.4	5.5	10.6	1.7
2006A	5,103	12.76	81.7	28.3	5.6	20.3	2.4
2007E	8,125	20.32	59.2	17.8	4.8	28.9	2.4
2008E	8,489	21.23	4.5	17.0	4.1	26.0	2.5
2009E	10,917	27.30	28.6	13.2	3.5	28.5	2.8

Source: Powered by dataCentral

Prashant Nair, CFA[1]
+91-22-6631-9855
prashant.nair@citi.com

Chirag Dagli[1]
+91-22-6631-9874
chirag.dagli@citi.com

Akshay Rai[1]
akshay.rai@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Ranbaxy

Company description

Ranbaxy is a leading domestic pharmaceutical company with a strong export business complementing the domestic business. It has a vision of becoming a leading generics pharmaceutical company in the global market and, in the long term, a research-led pharmaceutical company. The company already has a presence in several countries, and has developed a complex business model, perhaps the first of its kind from a developing country. Over the past few years, Ranbaxy has grown rapidly and established itself firmly as a leading generics company globally. While the core pharmaceutical business is growing, the company has also invested in R&D. The company also has a strong chemicals and animal healthcare business in India.

Investment thesis

We rate Ranbaxy Buy (1M) with a target price of Rs505/share. We believe the stock price now factors in most negatives - viz. difficult global market dynamics, manufacturing related issues with the FDA, slowdown in product approvals, and loss of the Pravastatin 80mg opportunity. Moreover, we believe that these negatives and the declining stock price mask the positive steps that Ranbaxy has been taking since the beginning of CY06 to effect a turnaround in its fortunes. Benefits of its restructuring initiatives were visible in 1QCY06 operating profit margins, the EU foray has gained momentum with a series of acquisitions and revenues should scale up faster once the manufacturing issues are resolved. In the interim, we expect strong earnings momentum driven by exclusivity launch of Simvastatin 80mg to provide support to stock valuations and restrict downside.

Valuation

We prefer to value Ranbaxy using EV/Sales methodology to reflect a much fairer value of Ranbaxy's business today. We believe that Ranbaxy's current cost structure and profitability are not normalized. Its cost structure is highly fixed-cost oriented and is a legacy of the heady days of very high profitability in global generics. We believe this is being corrected now, and the benefits of the aggressive cost reduction initiatives have started coming through in the financials in CY06. With its presence across multiple geographies and wide basket of products, we believe the business is not fairly valued at 2.5x sales - this is primarily on account of profitability being under par. A large part of the costs are discretionary and related to pipeline building measures for future growth, which do not contribute to revenues in the near term. Our fair value multiple of 3x Sept 07 EV/Sales is at a discount to its peers such as Cipla and Sun and towards the lower end of the company's EV/Sales range of 2-4.6x over the past five years. Because the company is still emerging from a period of poor sales growth and sub-optimal profitability, we will wait for growth to return before considering applying a higher multiple. At 3x Sept 07 EV/Sales, our target price is Rs505.

Risks

We rate Ranbaxy Medium Risk based on our quantitative risk-rating system. The key upside risks to our target price include: (1) New ANDA approvals above the expected three to four per quarter; (2) Upside from simvastatin 80mg being higher than we expected (3) News on the NCE development program; and (5) Any new paragraph IV challenges. The key downside risks that could impede the stock from reaching our target price: (1) Intensifying pricing pressure in the US and European markets; (2) The company paying high multiples to acquire more businesses in Europe and USA; and (3) Inability to resolve the manufacturing issues with the US FDA by the end of the current fiscal.

Appendix A-1

Analyst Certification

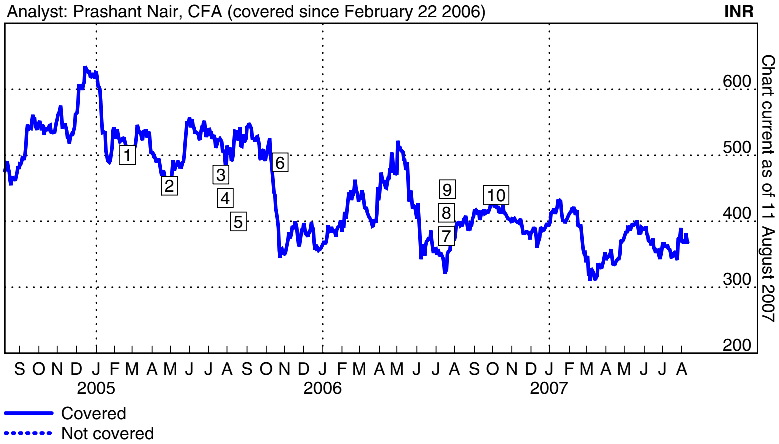
We, Prashant Nair, CFA and Chirag Dagli, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Ranbaxy (RANB.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Prashant Nair, CFA (covered since February 22 2006)



#	Date	Rating	Target Price	Closing Price
1:	22 Feb 05	3M	*467.50	506.55
2:	29 Apr 05	3M	*422.50	456.42
3:	21 Jul 05	3M	*407.50	522.97
4:	28 Jul 05	3M	407.50	NA
5:	18 Aug 05	3M	*385.00	522.05
6:	25 Oct 05	3M	*363.00	344.40
7:	19 Jul 06	*1M	*402.00	325.90
8:	19 Jul 06	1M	402.00	325.90
9:	20 Jul 06	1M	402.00	349.90
10:	6 Oct 06	1M	*505.00	422.35

*Indicates change.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Ranbaxy.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Ranbaxy in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Ranbaxy.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Ranbaxy.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Ranbaxy.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citigroup Investment Research product ("the Product"), please contact Citigroup Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citigroup Investment Research Ratings Distribution ***Data current as of 19 July 2007***	**Buy**	**Hold**	**Sell**
Citigroup Investment Research Global Fundamental Coverage (3320)	47%	39%	14%
% of companies in each rating category that are investment banking clients	71%	70%	70%
India -- Asia Pacific (144)	64%	11%	25%
% of companies in each rating category that are investment banking clients	89%	94%	83%

Guide to Fundamental Research Investment Ratings:

Citigroup Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citigroup Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management.

Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citigroup Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citigroup Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citigroup Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 16 August 2007 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Ranbaxy. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citigroup Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citigroup Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. If the Product was prepared by