

**Ranbaxy Laboratories Limited ----- Maintain NEUTRAL**

**Slowing product launches in the US; cutting estimates and target price**

EPS: ▼ TP: ▼

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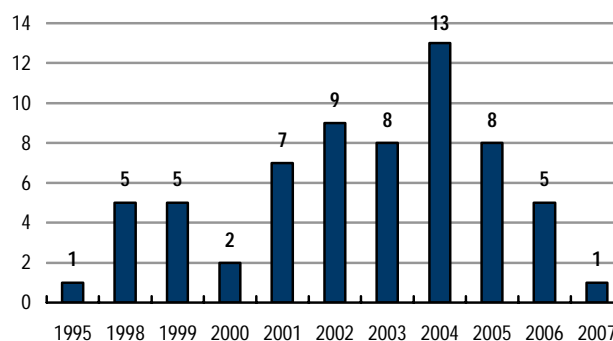
- On April 27, we expect Ranbaxy to report 1Q07E EPS of Rs3.31 on revenues of Rs15bn. We include forex gains of Rs150mn.
- Ranbaxy's new product launches have slowed significantly since 2004—the slowdown was evident even before the warning letter for the Paonta Sahib facility. In 2006 it launched 5 products, the fewest in 6 years. There has been one launch so far in 2007.
- Given continuing price declines and attacks on market share by "second wave" companies, we have reduced our revenue estimates for the U.S. business by 7-5% in FY07E/FY08E. Our USDINR assumption is also changed from 44 to 42.
- Consensus believes overall margins will improve as branded formulations markets (India/Romania/Africa) grow faster than average. We agree, but note that an increasing propensity for low-margin high-volume deals (e.g., ARVs, Germany) and negative operating leverage in the U.S. will stifle the improvement.
- We cut our EPS estimates 18% each for FY07E & 08E. Our sum of the parts derived T/P is accordingly reduced from Rs440 to Rs380. (We have rolled over the base to FY08E.)

**Reducing estimates on the US business**

We have further reduced our revenue expectations from the U.S. business by 7% in FY07E and 5% in FY08E. The overall impact is greater, as we have reduced our USDINR assumption from 44 to 42.

New product launches in the U.S. peaked in 2004, and have been coming down ever since. In an environment of sharp price declines, and continuous attacks on market share from the "second wave" generics companies, this has imperiled growth in the U.S. business. We note that the decline had started even before the warning letter came for the facility in Paonta Sahib, though the event made things much worse (Fig 2).

**Figure 2: Ranbaxy's product launches in the US have been declining**



Source: IMS, Credit Suisse estimates; 2007 data only till 30-Mar-07

**Changing revenue mix will help margins, but not profits**

As the branded formulations businesses (mainly India and the CIS/Romania) continue to grow faster than generics in mature markets like U.S./Western Europe, margins will improve steadily—this is already factored into consensus estimates.

However, we believe the margin improvement will be hurt by the negative operating leverage from the U.S. operations (the company will need to reduce fixed costs in the U.S. over and above the legal expenses on Lipitor), and the company's willingness to enter high-volume, low-margin businesses.

For example, Ranbaxy filed DMFs in late-06 on ARV drugs, indicating a willingness to seek vertical integration on this low-margin, high-volume market. Its recent deal with AOK should also improve volumes in Germany (also an acknowledgement of the failure of the Basics acquisition).

**Switching valuation to FY08E estimates; TP Rs380**

Our EPS estimates come down by 18% each for FY07E & FY08E. Our target price (using sum of the parts valuation) comes down from Rs440 to Rs380. The reduction (13%) is lower than the earnings reductions because we have rolled over our earnings base from FY07E to FY08E. As Ranbaxy's stock tracks 12-month forward EPS estimates, 9 months from now, it would be tracking FY08E EPS. We maintain NEUTRAL.

Bbg/RIC	RBXY IN / RANB.BO	Price (20 Apr 07, Rs)	343.20		
Rating (prev. rating)	N (N)	TP (Rs) (prev. TP)	380 (440)		
Shares outstanding (mn)	372.44	Est. pot. % chg. to TP	11		
Daily trad vol-6m avg (mn)		52-wk range (Rs)	522.00 - 309.50		
Daily trad val-6m avg (US\$ mn)		Mkt cap (Rs/US\$ bn)	127.8/ 2.9		
Free float (%)		Performance	1M 3M 12M		
Major shareholders	Promoters: 34%	Absolute	8.3 (17.2) (27.5)		
		Relative	1.0 (13.8) (35.9)		
Year	12/04A	12/05A	12/06E	12/07E	12/08E
Revenues (Rs mn)	54,030	52,269	60,216	64,367	70,396
EBITDA (Rs mn)	9,523	2,564	9,193	10,119	11,685
Net profit (Rs mn)	7,383.0	2,309.3	5,204.7	6,249.5	7,400.1
EPS (Rs)	19.9	6.2	14.0	15.7	18.6
- Change from prev. EPS (%)	n.a.	n.a.	0	-18	-18
- Consensus EPS (Rs)	n.a.	n.a.	13.8	17.6	21.3
EPS growth (%)	1.5	(68.8)	125.2	12.3	18.4
P/E (x)	17.3	55.3	24.6	21.9	18.5
Dividend yield (%)	2.5	2.5	1.8	2.1	2.4
EV/EBITDA (x)	14.4	57.8	17.7	15.9	13.6
P/B (x)	5.1	5.2	4.7	4.1	3.6
ROE (%)	29.2	9.4	19.0	20.1	20.9
Net debt/equity (%)	29	72	119	99	81

Note 1: Ord/ADR=1. Note 2: Ranbaxy is the leading Indian Pharmaceutical Company.. Note 3: Ranbaxy is a leading Indian Pharmaceutical company, with a significant % of revenues coming from generics.

Ranbaxy reports earnings on Friday, April 27. We expect the company to report 1Q07 EPS of Rs3.31, on revenues of Rs15bn.

**Figure 1: 1Q07 estimates**

Rs Mn	1Q07E	4Q06A	Q/Q	1Q06A	Y/Y
Revenue	14,997	16,975	-12%	12,631	19%
EBITDA	2,115	2,665	-21%	1,538	38%
EBITDA Margin	14%	16%	-2%	12%	2%
EBIT	1,492	2,134	-30%	1,111	NA
Non-Operating	103	237	NA	-257	NA
Net Income	1,234	1,833	-33%	715	73%
EPS (Rs)	3.31	4.92	-33%	1.92	73%

Source: Company data, Credit Suisse estimates.

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**Companies Mentioned** (Price as of 20 Apr 07)

Ranbaxy Laboratories Limited (RANB.BO, Rs343.20, NEUTRAL, TP Rs380.00)

**Disclosure Appendix**

**Important Global Disclosures**

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See the Companies Mentioned section for full company names.

**3-Year Price, Target Price and Rating Change History Chart for RANB.BO**



RANB.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/Assumption
11-Sep-06				X
12-Sep-06	405.15	440	NEUTRAL	

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**Price Target:** (12 months) for (RANB.BO)

**Method:** Our Target price for Ranbaxy is Rs380 (21x FY09E EPS of Rs21). The stock has historically traded within a narrow band of 20-24x 12 month forward EPS (ex-ante), and closely tracks consensus estimates. Therefore, 9-12 months from now, the stock should trade on FY09E multiple. We do not expect consensus earnings to go up by much, and set the target price in the middle of the trading range, i.e. 21x.

**Risks:** Risk to our Rs380 target price for Ranbaxy are: 1) we are ascribing zero value to the NCE pipeline – if the company were to out-license in early stages, there could be upside to earnings, and 2) there are several Paragraph IV challenges under litigation – any success on those could provide a positive surprise; downside risks: 1) Paonta Sahib approval could be delayed beyond mid-07, which would delay new product launches in the US, 2) integration risk on Terapia and 3) continuing price declines in the US generics market could hurt margin recovery.

*See the Companies Mentioned section for full company names.*

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