

RESULT UPDATE

Ranbaxy Laboratories Downgrade to Underperformer

Price: Rs 186

BSE Index: 8,814

22 January 2009

Share Data

Reuters code	RANB.BO		
Bloomberg code	RBXY IN		
Market cap. (US\$ mn)	1,595		
6M avg. daily turnover (US\$ mn)	24.2		
Issued shares (mn)	420		
Target price (Rs)	140		
Performance (%)	1M	3M	12M
Absolute	(16)	(28)	(45)
Relative	(5)	(17)	4

Valuation Ratios

Yr to 31 Dec	CY08P	CY09E
EPS (Rs.)	19.1	11.7
+/- (%)	48.3	(38.8)
PER (x)	9.8	16.0
PBV (x)	1.2	0.9
Dividend/Yield (%)	4.6	4.6
EV/Sales (x)	1.6	1.4
EV/EBITDA (x)	18.7	11.7

Major shareholders (%)

Promoters	35
FII's	7
MF's	1
Custodians (ADR / GDR)	1
BFSP's	11
Public & Others	45

Financial highlights

(Rs mn)	4QCY07	4QCY08	YoY (%)	CY07	CY08P	YoY (%)	CY09E	YoY (%)
Net Sales	17,845	19,049	6.7	66,480	72,218	8.6	80,963	12.1
Operating Profit (excl. other op. inc.)	2,599	(2,018)	(177.6)	8,137	3,914	(51.9)	8,238	110.5
As a % of Sales	14.6	(10.6)	-	12.2	5.4	-	10.2	-
OPM (incl. other op. income) (%)	16.7	(5.7)	-	14.2	8.5	-	12.2	-
Other operating income	378	933	146.8	1,330	2,254	69.5	1,619	(28.2)
Other Income	87	546	527.6	775	778	0.4	700	(10.0)
Interest	385	442	14.8	1,412	1,886	33.6	1,429	(24.2)
Depreciation+Amortisation	493	720	46.0	2,183	2,656	21.7	2,923	10.1
PBT (from operations)	2,186	(1,701)	(177.8)	6,647	2,404	(63.8)	6,205	158.1
Forex gain/(Loss)	109	(1,920)	-	3,071	(7,766)	-	-	-
Extraordinary Income -forex	44	(7,843)	-	267	(9,389)	-	-	-
Tax (incl. deferred tax) + Minority Int.	461	(4,666)	(1,112.1)	2,119	(5,605)	(364.5)	1,303	(123.2)
Reported PAT	1,878	(6,798)	(462.0)	7,866	(9,146)	(216.3)	4,902	(153.6)
PAT Margin (%)	10.5	(35.7)	-	11.8	(12.7)	-	6.1	-

4QCY08 Result – Disappointing

Ranbaxy reported its biggest loss in its history at Rs 6.8 bn for 4QCY08, primarily on account of forex losses on its forward contracts and MTM provision on loans. Full year losses stood at Rs 9.2 bn on revenues of Rs 72.5 bn. In what can be termed as the most challenging time for Ranbaxy, it is still struggling to resolve the FDA related manufacturing issues which is affecting key product approvals for the US market. Having missed out on Imitrex opportunity and with no clear time-frame on the FDA resolution, investors would focus on other key pending approvals like Valtrex (scheduled launch by 4QCY09, market size of US\$ 1.3 bn) besides the loss in US revenues from products affected by the import alert (ban).

The decline in European revenues also means that Ranbaxy's top two territories which account for nearly 46% of CY08 revenues are facing major growth issues thereby creating earnings visibility issues for CY09 (even the management has refrained from giving any guidance due to unpredictable environment they are in today). With Daiichi coming in as the largest stakeholder at 63%, a lot would depend on how it tries to integrate and leverage Ranbaxy's operations. Key monitorables are a) Early resolution of FDA issues pertaining to Paonta Sahib and Dewas facility b) Value from key FTF settlements like Lipitor, Valtrex, Flomax, Provigil, Nexium and others c) Pending US\$ 440 mn FCCB (Net debt stands at US\$ 500 mn even after Daiichi brought in US\$ 736 mn through preferential equity and warrants). At the current market price of Rs 186, Ranbaxy trades at 16x CY09E earnings of Rs 12/share (our estimates take into account Valtrex launch in the US). Owing to the lack of long-term visibility and continuing growth concerns, the current valuations appears to be rich, thus we are downgrading our rating to Underperformer.

Revenue mix

(US\$ mn)	4QCY07	4QCY08	YoY (%)	CY07	CY08P	YoY (%)	CY09E	YoY (%)
Dosage Forms								
India and Middle East	81	68	(16.0)	323	325	0.6	347	6.8
CIS	31	30	(3.2)	90	111	23.3	128	15.3
Rest of Asia Pacific	26	24	(7.7)	88	98	11.4	110	12.2
Europe	106	73	(31.1)	363	328	(9.6)	310	(5.5)
Africa	37	35	(5.4)	126	129	2.4	134	3.9
Latin America	20	14	(30.0)	64	73	14.1	80	9.6
US	104	89	(14.4)	386	389	0.8	290	(25.4)
Canada	9	14	55.6	29	54	86.2	60	11.1
Global consumer	11	12	9.1	37	44	18.9	50	13.6
Total Dosage Forms	425	359	(15.5)	1,506	1,551	3.0	1,509	(2.7)
API	27	28	3.7	101	116	14.9	133	14.6
Total Sales	452	387	(14.4)	1,607	1,667	3.7	1,642	(1.5)

Quarter highlights

(US\$ mn)	4QCY07	4QCY08	YoY (%)	
Dosage Forms				
India & Middle east	81	68	(16.0)	In INR domestic market grew by 9% to Rs 3.7 bn. Slower growth owing to lesser institutional sales for the quarter. Contribution of Chronic therapy portfolio stands at 25%. Penems portfolio (Cilanem, Faronem, Zivator) captured 19.4% share in the segment. During the year, the company in-licensed and received approval for innovative and differentiated products such as Inersan, Bonista and Gliadel Wafer.
CIS	31	30	(3.2)	CIS (Russia and Ukraine) business decline on account of strong devaluation of Ruble. Also the company has opted to taper down its aggressive growth plan in view to maintain healthy debtors' position.
Rest of Asia Pacific	26	24	(7.7)	–
Europe	106	73	(31.1)	The company witnessed revenue decline across the markets, Romania, UK, France, and Germany due to continuing competitive and pricing pressures.
Africa	37	35	(5.4)	–
Latin America	20	14	(30.0)	–
North America	113	103	(8.8)	While US revenues declined by 14% due to USFDA action, Canada revenues increased by 57 to US\$ 14 mn though on lower base. The company launched first authorised generic Omeprazole 40 mg cap in the US, and enjoys 43% market share, which supported its revenues for the quarter.
Global consumer	11	12	9.1	Market share of Revital increased to 86% and Volini to 31%.
Total Dosage Forms	425	359	(15.5)	
API	27	28	3.7	–
Global Sales	452	387	(14.4)	

(Rs mn)	4QCY07	4QCY08	YoY (%)	
Gross Sales	17,951	19,096	6.4	
Less: Excise Duty	106	47	(55.7)	
Excise Duty/Sales (%)	0.6	0.2	–	
Net Sales	17,845	19,049	6.7	While in US\$ terms revenues declined by 14%, Rupee depreciation helped.
Less: Cost of Sales	9,653	10,178	5.4	
Cost of Sales/Net Sales (%)	54.1	53.4	–	
Gross Profit	8,192	8,871	8.3	
Gross Margins (%)	45.9	46.6	–	
Less: SG&A exp	5,008	6,013	20.1	
SG&A/Net Sales (%)	28.1	31.6	–	
R&D Expenses	1,385	1,264	(8.7)	
R&D Exp/Net Sales (%)	7.8	6.6	–	
Forex loss (gain)	(800.0)	3,612.0	–	Realised forex losses
Total Expenditure	15,246	21,067	38.2	
Net Operating Profit	2,599	(2,018)	(177.6)	Operating loss due to lower US off take, decline in most major markets and forex losses.
OPM (%)	14.6	(10.6)	256.0	
Operating Profit (incl. Other Operating income)	2,977	(1,085)	(136.4)	
OPM (%) incl. Oth. Oper. Inc. (%)	16.7	(5.7)	–	
Add: Other Operating Income	378	933	146.8	
Add: Treasury & Oth. Income	87	546	527.6	
Less: Interest paid	385	442	14.8	Interest burden is expected to ease off going forward with the repayment happening from cash infusion from Daiichi Sankyo.
Less: Depreciation	493	720	46.0	
PBT (before extraordinary)	2,186	(1,701)	(177.8)	
Add: Extraordinary income	44	(7,843)	–	Non cash forex losses, higher than expected, calculation based on AS30
Add/(Less): Forex gain/(Loss)	109	(1,920)	–	Translational losses, non cash
PBT (after extraordinary)	2,339	(11,464)	(590.1)	
Less: Tax	461	(4,666)	(1,112.1)	Deferred tax benefit from adoption of AS30 and R&D expenditure
Tax levels (%)	19.7	–	–	
PAT	1,878	(6,798)	(462.0)	
PAT margin (%)	10.5	(35.7)	–	

Utilisation of funds received from Daiichi

Particulars	(Rs mn)
Received from Daiichi	35,849
Repayment of borrowing	(24,876)
Strategic investment	(1,249)
Fixed deposits	(9,724)

Income Statement

Yr end 31 Dec (Rs mn)	CY06	CY07	CY08P	CY09E
Net sales	59,904	66,196	72,218	80,963
Growth (%)	18.1	10.5	9.1	12.1
Operating expenses	(52,342)	(60,391)	(68,304)	(72,725)
Operating profit	7,562	5,804	3,914	8,238
Other operating income	1,132	3,343	2,254	1,619
EBITDA	8,694	9,147	6,168	9,857
Growth (%)	181.0	5.2	(32.6)	59.8
Depreciation	(1,843)	(2,183)	(2,656)	(2,923)
Other income	696	1,362	778	700
EBIT	7,547	8,326	4,290	7,634
Interest paid	(1,036)	(1,412)	(1,886)	(1,429)
Pre-tax profit (before non-recurring)	6,510	6,914	2,404	6,205
Non-recurring items	0	3,071	(17,155)	0
Pre-tax profit (after non-recurring)	6,510	9,985	(14,751)	6,205
Tax (current + deferred)	(1,357)	(2,119)	5,605	(1,303)
Net profit (before Minority Interest, Pref. Dividend etc.)	5,154	7,866	(9,146)	4,902
Minority interests	(50)	0	0	0
Reported PAT	5,103	7,866	(9,146)	4,902
Adjusted net profit	5,103	4,795	8,009	4,902
Growth (%)	123.4	(6.0)	67.0	(38.8)

Balance Sheet

Yr end 31 Dec (Rs mn)	CY06	CY07	CY08P	CY09E
Cash and Marketable securities	2,951	4,379	45,407	39,960
Other current assets	38,474	40,381	42,117	47,131
Investments	362	2,403	2,403	2,403
Net fixed assets	42,534	45,619	47,152	47,729
Total assets	84,322	92,782	137,078	137,223
Current liabilities	17,918	21,327	26,760	26,042
Total debt	39,556	41,416	41,416	17,862
Other non-current liabilities	655	1,434	1,434	1,434
Total liabilities	58,129	64,178	69,611	45,338
Share capital	1,863	1,865	2,390	2,390
Reserves & surplus	23,995	26,169	64,507	88,924
Shareholders' funds	25,859	28,034	66,897	91,314
Minorities interests	334	571	571	571
Total equity & liabilities	84,322	92,782	137,078	137,223
Capital employed	66,404	71,455	110,318	111,181

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY06	CY07	CY08P	CY09E
Pre-tax profit	6,510	9,985	(14,751)	6,205
Depreciation	1,494	1,722	2,656	2,923
Change in working capital	(5,593)	(467)	2,212	(5,732)
Total tax paid	223	561	5,605	(1,303)
Other operating activities	533	(1,394)	0	0
Cash flow from oper. (a)	3,167	10,407	(4,278)	2,093
Capital expenditure	(19,239)	(4,509)	(4,000)	(3,500)
Change in investments	(191)	(2,041)	0	0
Others	1,397	(297)	(189)	0
Cash flow from inv. (b)	(18,032)	(6,847)	(4,189)	(3,500)
Free cash flow (a+b)	(14,865)	3,560	(8,467)	(1,407)
Equity raised/(repaid)	(634)	(587)	52,115	23,620
Debt raised/(repaid)	19,514	1,860	0	(23,554)
Dividend (incl. tax)	(3,611)	(3,642)	(2,620)	(4,106)
Cash flow from fin. (c)	15,386	(2,133)	49,495	(4,039)
Net change in cash (a+b+c)	521	1,427	41,028	(5,446)

Key Ratios

Yr end 31 Dec (%)	CY06	CY07	CY08P	CY09E
Adjusted EPS (Rs)	13.7	12.9	19.1	11.7
Growth	122.7	(6.0)	48.3	(38.8)
Book NAV/share (Rs)	70.2	76.7	160.6	218.8
Dividend/share (Rs)	8.5	8.5	8.5	8.5
Dividend payout ratio	70.8	77.4	51.3	83.8
Tax	20.8	21.2	38.0	21.0
EBITDA margin	14.2	13.2	8.3	11.9
EBIT margin	12.4	12.0	5.8	9.2
RoCE	13.6	12.1	4.7	6.9
Net debt/Equity	139.8	129.5	(5.9)	(24.0)

Valuations

Yr end 31 Dec (x)	CY06	CY07	CY08P	CY09E
PER	13.6	14.5	9.8	16.0
PCE	10.0	10.0	7.3	10.0
Price/Book	2.7	2.4	1.2	0.9
Yield (%)	4.6	4.6	4.6	4.6
EV/Net sales	1.9	1.7	1.6	1.4
EV/EBITDA	13.3	12.6	18.7	11.7

Du Pont Analysis – ROE

Yr end 31 Dec (x)	CY06	CY07	CY08P	CY09E
Net margin (%)	8.5	7.2	11.1	6.1
Asset turnover	0.8	0.7	0.6	0.6
Leverage factor	2.8	3.2	2.4	1.7
Return on equity (%)	20.1	17.5	16.7	6.2

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