

Morgan Stanley India Company
Private Limited+

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Stock Rating
Equal-weight

Industry View
In-Line

Ranbaxy Laboratories FDA Axe Falls – Import Ban on Paonta and Dewas

Quick Comment - Stock view - We believe the FDA's action will materially hurt earnings, and could potentially de-rate the company. In particular, inclusion of Dewas, in addition to on-going issues at Paonta facility, is a disappointment. In our view, the market reaction (stock is down 7%) does not appear to be pricing in the full impact of the FDA action. We retain our Equal-weight rating on the stock.

What's new: FDA has issued Import alert for generic drugs manufactured at Ranb's Paonta and Dewas facilities, declined to approve new ANDAs from these facilities and issued warning letters for these two sites. At the heart of the problem are the deviations from the US Good Manufacturing Practice requirements as observed by the USFDA during its inspection in early 2008. Importantly, FDA has stated that there are no product defects and hence there will be no removal of products already in the market. Also, other facilities are not impacted by this FDA action.

Implication - US biz accounts (\$400 mln) for 25% of Ranb's overall revenues, and we estimate that at least half of this will get impacted by the FDA action. Plus, quite a few of the pending ANDAs will also get hurt. After this action, Ranb's only US-based facilities will be supplying for US biz (until large SEZ at Mohali is commissioned). Based on rough calculations, we expect 25-30% earnings impact for C09.

Way Forward – Ranbaxy will address FDA queries in ensuing months. Once satisfied, FDA will likely reverse its Action, we believe. All this could take time and given the market dynamics, we believe it will be difficult for Ranb to win back the lost sales. Sotret, pravastatin, clarithromycin, fenofibrate, cephalixin and cefuroxime are some of the products impacted.

Daiichi deal appears to be on track, as confirmed by our Japanese Pharma team.

Key Ratios and Statistics

Reuters: RANB.BO Bloomberg: RBXY IN
India Pharmaceuticals

Price target	Rs589.00
Upside to price target (%)	45
Shr price, close (Sep 16, 2008)	Rs405.90
52-Week Range	Rs613.70-299.90
Sh out, dil, curr (mn)	400
Mkt cap, curr (mn)	Rs162,398
EV, curr (mn)	Rs180,257
Avg daily trading volume (mn)	Rs329

Fiscal Year ending	12/07	12/08e	12/09e	12/10e
ModelWare EPS (Rs)	19.37	18.50	23.51	26.92
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)§	17.41	15.46	21.86	28.56
Revenue, net (Rs mn)	66,927	77,419	88,636	98,732
EBITDA (Rs mn)	9,149	12,768	15,850	17,574
ModelWare net inc (Rs mn)	7,745	7,401	9,408	10,772
P/E	22.0	21.9	17.3	15.1
P/BV	3.8	3.4	3.1	2.7
RNOA (%)	7.3	10.6	13.1	14.2
ROE (%)	17.1	16.3	19.6	20.4
EV/EBITDA	20.6	14.1	11.2	9.9
Div yld (%)	2.3	3.0	3.0	3.0
FCF yld ratio (%)	0.0	2.3	4.1	5.2
Leverage (EOP) (%)	38.2	35.5	27.1	16.8

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Company Description

Ranbaxy Laboratories is India's largest pharmaceutical company in terms of revenues and profits. Ranked second in the local market, RANB's therapeutic profile is fairly diversified.

RANB is also one of India's leading pharmaceutical companies in the US generic markets. The company has a wide NDDS and drug discovery platform with several products at various stages of development.

India Pharmaceuticals

Industry View: In-Line

MSCI Country: India

Asia Strategist's Recommended Weight: 3.7%

MSCI Asia/Pac All Country Ex Jp Weight: 7.5%



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of August 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of IBC	% of Rating Category
Overweight/Buy	892	41%	299	45%	34%
Equal-weight/Hold	936	43%	277	42%	30%
Underweight/Sell	367	17%	87	13%	24%
Total	2,195		663		

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Industry Coverage: India Pharmaceuticals

Company (Ticker)	Rating (as of)	Price (09/16/2008)
Sameer Baisiwala, CFA		
Aventis (India) (AVPH.BO)	O (07/06/2005)	Rs795
Biocon Ltd (BION.BO)	U (10/24/2005)	Rs181.35
Cipla Ltd. (CIPL.BO)	O (07/21/2008)	Rs218.95
Dr. Reddy's Lab (REDY.BO)	E (05/14/2007)	Rs537.45
GlaxoSmithKline Pharma (GLAX.BO)	O (06/05/2006)	Rs1,176.7
Lupin Ltd. (LUPN.BO)	O (10/03/2006)	Rs740.25
Ranbaxy Laboratories (RANB.BO)	E (06/19/2008)	Rs405.9
Sun Pharmaceutical Industries (SUN.BO)	O (09/27/2004)	Rs1,419.75
Wockhardt Limited (WCKH.BO)	E (05/02/2008)	Rs180.9

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