

Institutional Equities
 India Research

Ranbaxy

MANAGEMENT MEET NOTE

 Bloomberg: RBXY IN
 Reuters: RANB.BO

BUY

Leveraging Impending Opportunities

Ranbaxy Laboratories, is positive on impending opportunities like CIP-Isotretinoin, Atorvastatin and others. Derivatives as an overhang will decline 15 % by Apr'13, Ranbaxy will be able to leverage rest of the revenues at better realizations. We upgrade our rating on the stock to "BUY"..

CIP-Isotretinoin: This branded prescription product is likely to be launched in Q4CY12 and scale up will happen only in CY13. We believe the product had revenues of US\$60-70 mn before the product was withdrawn. We upgrade our revenues from the same to US\$15 mn (vs. US\$10 mn) in CY12E and to US\$75 mn (vs. US\$60 mn) in CY13E.

Atorvastatin: Despite 4 weeks of generic competition and price erosion of 96 % plus, Ranbaxy enjoys 44 % market share. Genericisation of Atorvastatin has resulted in a 10% reduction in volume of Simvastatin, which have benefited Atorvastatin. We factor US\$82 mn revenues from Atorvastatin for CY12.

Derivatives: Ranbaxy has outstanding calls to the tune of US\$1.5 bn sold at Rs 44, which will be exhumed to the tune of US\$40-50 mn per mth and will be entirely extinguished by CY16E. Assuming US\$100 mn net revenues Ranbaxy will be able to garner US\$60 mn at higher forex rates.

Outlook & Valuation

Ranbaxy is steadily increasing its US revenue traction based on the FTFs. Opportunities such as CIP-Isotretinoin in CY12-end, positive news flow on consent decree, and market traction in domestic formulations stand in good stead. Better realization on the bigger pie, as the derivatives contracts get exhumed, shift of Lipitor sales to Mohali facility by Apr'13 and approval for the Indian facility would all be EBIDTA accretive for Ranbaxy.

We revise our USD rates to Rs. 52 for CY12 (Rs 49.5) and to Rs. 50 for CY13 (Rs 48.5). We upgrade our earnings for CY12E by 1.6% to Rs. 25.4 and for CY13E by 14.2% to Rs 28.9 and our rating on the stock to "BUY" with a target price of Rs 609 per share. We value the core business of Ranbaxy at Rs 578 based on 20xCY13E and add an Option value of Rs. 31 for Actos, Valcyte, and Nexium.

Key financials

Y/E Dec (Rsmn)	CY09	CY10	CY11	CY12E	CY13E
Net sales	75,970	89,608	101,614	101,945	117,425
EBITDA	7,124	18,652	16,189	15,837	17,775
Reported PAT	2,965	14,968	-28,997	10,711	12,176
EPS (Rs)	7.1	35.5	-68.7	25.4	28.9
EBITDA margin (%)	9.4	20.8	15.9	15.5	15.1
PER (x)	67.5	13.4	-7.0	18.8	16.5
EV/EBITDA (x)	31.5	11.3	13.3	14.5	12.4

Source: Company, Karvy Institutional Research

Indian GAAP Consolidated

Recommendation

CMP:	Rs476
Target Price:	Rs609
Upside (%)	28%

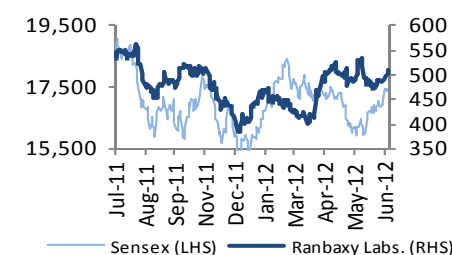
Stock Information

Market Cap. (Rs bn / US\$ mn)	201/3,598
52-week High/Low (Rs)	570/366
3m ADV (Rs mn /US\$ mn)	456/8.2
Beta	0.8
Sensex/ Nifty	16,877/5,118
Share outstanding (mn)	422

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(2.5)	(7.9)	(12.3)	17.6
Rel. to Sensex	(2)	(6.7)	(2.7)	7.7

Performance



Source: Bloomberg, Karvy Institutional Research

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Key Takeaways

CIP-Isotretinoin – Branded Prescription Product

Isotretinoin is a US\$400 mn product with two generic competitors since Ranbaxy exited due to Import alert. This product has difficulty in getting approval as the product may be detailed compared to competitors. A prescription product, would have lower price erosion and substitution. This is a differentiated product compared to the competitors. The Company has a derma portfolio and hence this should help in promoting the product. Ranbaxy is also working on a separate Generic Sotret which it will launch. The competition in this product is likely to be limited due to the strong entry barriers such as pharmaco-vigilance.

Generic Atorvastatin:

Part of the production is now coming out of Mohali facility, where Ranbaxy has the approval and has a crystalline version. The scale up is expected to occur in Apr'13, when Atorvastatin will be sourced from the Mohali plant, which will be margin accretive for the Company.

Domestic Market:

Formulations: Ranbaxy has already made the marketing investments and it is now payback time. Its domestic returns formulations business is all about growth of bigger products and also tailwind products, which would give higher leverage. Anti-infectives (35-40% of revenues), which was not doing well has now picked up. Ranbaxy's chronic segment has moved up from 20% to 25%, while it has managed to register double-digit growth and expected to sustain market level growth in the next two years. We have factored 13% growth for CY12E and CY13E, respectively which is in the lower-band of the market growth of 13-15%.

OTC: In OTC space, Ranbaxy has scaled up Revital (Rs. 2 bn) and Volini (Rs. 1 bn). The company is working on line extensions and distribution including Kirana shops. In Volini segment, it has launched "Volini Spray/Tablets", while in Revital range, it has also launched "Revital Elder" & "Revital Women". This sub-segmentation (line extensions) has enabled Ranbaxy to grow in excess of the market.

Other Opportunities:

- **Oral Contraceptives:** In this segment, Ranbaxy is partnering and working on the same.
- **Bio-similars:** On bio-similars, Ranbaxy has fortified management in Zenotech and the rewards of the same should start percolating going ahead from this unit in foreseeable future. Zenotech would remain an important vehicle in the Bio-similar space in the future.
- **Nexium:** API supplies and scale up has been lower in the initial period, but the revenues are on track and Nexium API and formulations should do US\$60-70 mn CY12E and CY13E and US\$30-35 mn for the two quarters of CY14E.
- **FTFs:** Actos should happen in CY12, and Ranbaxy is also confident of monetising Nexium. We understand that the citizen's petition case filed by Sandoz is pending but we believe this should not act as a deterrent for Ranbaxy to launch the product.
- The previous FTFs have enabled Ranbaxy to maintain over 30% market share in opportunities such as Valacyclovir, Donepezil and Atorvastatin.

Ranbaxy

- **CEPHS & PENEMS:** Ceph's & Penem's are reasonable opportunities for Ranbaxy post the resolution of the consent decree.
- **Derivatives:** Ranbaxy has MTM impact on US\$1.5 bn contracts and this will reduce by US\$40-50 mn per month or US\$120 mn per quarter

Cash Flow

On cash flow front, for example if Ranbaxy has US\$100 mn (net) revenues per month, out of which US\$40 mn is done at INR conversion rate of Rs. 44. The remaining US\$60 mn sales will be done at the current rates. As the derivatives don't have bullet system, the large opportunities such as Lipitor are captured at current rates. Now Ranbaxy has only plain vanilla forward contracts for CY12.

Consent Decree:

Ranbaxy has finalized both the consultants. The baseline audit are expected to be completed in CY12 and the consultants would be brought in to revalidate Ranbaxy's assumptions. Working with the US FDA is expected to progress post Q1CY13 as clarity would emerge on the product launches from the Company.

Uncertain Timeline on Actual Cash Outflow of AIP/DOJ Settlement:

The payment of US\$500 mn on account of AIP/DOJ settlement has been provided in CY11; however, the actual date of cash outflow is uncertain. We have assumed the outflow in the current year.

R&D Spend:

Ranbaxy currently spends 5% of revenues towards R&D, which is expected to rise up to 6-7% in the next 3-5 years.

Exhibit 1: Change in estimates

in Rs. mn	CY12E			CY13E			Comments
	New	Old	% chg	New	Old	% chg	
Total Revenues	101,945	102,039	(0.1)	117,425	111,463	5.3	Upgrade due to India and US revenues
Revenues (US\$ mn) (except stated)							
India (Rs mn)	18,535	18,371	0.9	20,945	20,576	1.8	Revenue growth increased from 12 % to 13 %
EU (Excl. Romania)	214	214	-	229	229	-	
Romania	110	110	-	127	127	-	
CIS	110	110	-	130	130	-	
Africa	184	204	(9.8)	227	252	(9.9)	Lower traction due to possible donation supplies
A-Pac + MiddleEast	125	125	-	144	144	-	
Latam	55	55	-	63	63	-	
Pioglitazone				23			Removal of Esomeprazole in both the years, addition of generic Pioglitazone for CY 13 and upgrade in Cip-Isotretinoin
CIP- Isotretinoin	15	10		75	60		
USA	441	545	(19.1)	602	574	4.9	
Canada	77	70	9.9	81	77	5.4	Addition of Rosuvastatin
API	165	125	32.0	185	131	41.0	Inclusion of Esomeprazole upside in API space
Global Healthcare	80	87	(8.0)	96	101	(4.1)	Growth rates lowered
(Rs mn)							
Net material consumption	37,098	37,388	(0.8)	42,895	41,794	2.6	
Manufacturing	5,232	5,252	(0.4)	5,892	5,621	4.8	Due to inclusion of additional revenue traction as mentioned above
Selling and General Administration	19,530	19,482	0.2	24,046	21,621	11.2	
R&D	5,441	5,462	(0.4)	6,128	5,846	4.8	
Staff cost	18,808	18,808	-	20,689	20,689	-	
EBITDA	15,837	15,647	1.2	17,775	15,892	11.9	
EBITDA margin (%)	15.5	15.3	1.3	15.1	14.3	6.2	
Net Profit	10,711	10,559	1.4	12,176	10,670	14.1	
EPS (Rs)	25.4	25.0	1.4	28.9	25.3	14.1	

Source: Company, Karvy Institutional Research

Exhibit 2: Profit and Loss Statement

Y/E Dec (Rsmn)	CY09	CY10	CY11	CY12E	CY13E
Net Revenues	75,970	89,608	101,614	101,945	117,425
% growth	2.4	18.0	13.4	0.3	15.2
Raw Material	32,080	31,528	35,068	37,098	42,895
Staff	14,175	15,060	16,449	18,808	20,689
Manufacturing Exps	3,731	4,458	5,298	5,232	5,892
SG&A	13,985	14,730	23,296	19,530	24,046
Research	4,875	5,180	5,314	5,441	6,128
Total Expenditure	68,846	70,955	85,425	86,109	99,649
EBITDA	7,124	18,652	16,189	15,837	17,775
EBITDA margin (%)	9.4	20.8	15.9	15.5	15.1
Other income	1,939	4,610	4,340	2,424	2,400
Interest	710	614	768	1,550	1,450
Depreciation	2,676	3,717	3,940	3,322	3,505
Forex loss(gain)	1,283				
Fair valn loss on derivatives/(gain)	(3,214)	(4,105)	11,243	0	0
Exchange loss/(gain) on loans	(1,493)	(1,407)	5,341	0	0
Impairment of goodwill		(1,815)			
Profit Before Tax	9,102	22,628	(763)	13,389	15,221
Tax	6,991	5,849	1,969	2,678	3,044
Effective tax rate (%)	76.8	25.8	(258.2)	20.0	20.0
Share in profit/(loss) of associates	(32.4)	(59.2)	(65.9)	-	-
Minority Interest	109.5	125.6	97.2	-	-
Provision of dimunition of value invt	-	2,216.2	-	-	-
Net Profit	1,969	14,379	(2,895)	10,711	12,176
Extraordinaries	996	589	(26,102)	0	0
Reported Net Profit	2,965	14,968	(28,997)	10,711	12,176

Source: Company, Karvy Institutional Research

Exhibit 3: Balance Sheet

Y/E Dec (Rsmn)	CY09	CY10	CY11	CY12E	CY13E
Equity	2,102	2,105	2,110	2,110	2,110
Sh Appl Money	2	66	7	7	7
Reserves	39,516	53,830	26,460	38,524	50,701
Net worth	41,620	56,002	28,577	40,641	52,818
Employee Stock Op	58	46	117	117	117
Equity Share Warrants	1,757	0	0	0	0
Minority Interests	533	647	810	810	810
Short-term Loans	10,536	15,730	35,411	27,909	22,909
Long-term Loans	25,759	27,618	9,497	15,000	15,000
Total Loans	36,296	43,348	44,907	42,909	37,909
Liabilities	80,263	100,043	74,411	84,477	91,654
Gross Block	62,786	67,050	73,266	78,007	82,293
Depreciation	17,880	21,571	24,680	28,002	31,507
Net Block	44,905	45,479	48,587	50,005	50,787
Capital WIP	6,231	3,818	2,641	3,900	4,115
Investments	5,407	4,985	982	982	982
Inventories	18,407	21,926	26,107	26,800	29,504
Debtors	18,399	16,052	30,065	24,859	26,819
Cash	12,416	32,644	30,681	14,470	17,853
Other Current assets	10,863	16,309	17,729	15,146	17,250
Total Current assets	60,086	86,932	104,582	81,275	91,426
Creditors	14,394	18,977	29,086	25,410	29,380
Other current liabilities	26,718	22,422	53,670	26,651	26,651
Total current liabilities	41,112	41,398	82,757	52,060	56,031
Net current assets	18,974	45,534	21,826	29,214	35,395
Deferred tax Liability	4,746	227	375	375	375
Total Assets	80,262	100,042	74,411	84,477	91,654

Source: Company, Karvy Institutional Research

Exhibit 4: Cash Flow

Y/E Dec (Rsmn)	CY09	CY10	CY11	CY12E	CY13E
EBIT	4,448	14,935	12,249	12,515	14,271
(Inc.)/Dec in working capital	-11,030	-6,332	21,745	-23,600	-2,797
Cash flow from operations	-6,582	8,603	33,994	-11,086	11,473
Other income	1,939	4,610	4,340	2,424	2,400
Depreciation & Amortisation	2,676	3,717	3,940	3,322	3,505
Interest paid (-)	-710	-614	-768	-1,550	-1,450
Tax paid (-)	-6,991	-5,849	-1,969	-2,678	-3,044
Dividends paid (-)	0	-982	0	0	0
Impairment of goodwill	0	1,815	0	0	0
Extraordinaries	996	589	-26,102	0	0
Forex Fluctuation	5,990	5,512	-16,584	0	0
Minority Interest	(109)	(126)	(97)	-	-
Share in associates	-32	-59	-66	0	0
Others	0	-2,216	0	0	0
Deferred tax asset	7,484	4,518	-148	0	0
Net cash from operations	4,660	19,520	-3,460	-9,568	12,884
Capital Expenditure (-)	-4,904	-4,263	-5,871	-6,000	-4,500
Free Cash Flow	-244	15,257	-9,331	-15,568	8,384
Inc./(dec.) in borrowings	-6,819	7,052	1,559	-1,998	-5,000
(Inc.)/Dec. in Investments	24	423	4,002	0	0
Changes in Equity capital	-2,507	-1,377	1,641	1,354	0
Changes in minority interest	-141	114	163	0	0
Cash from Financial Activities	-9,443	6,213	7,365	-644	-5,000
Others	-1852	-1242	3	0	0
Opening cash	23,956	12,416	32,644	30,681	14,470
Closing cash	12,416	32,644	30,681	14,470	17,853
Change in Cash	-11,540	20,228	-1,963	-16,212	3,384

Source: Company, Karvy Institutional Research

Exhibit 5: Ratios

	CY09	CY10	CY11	CY12E	CY13E
EV/EBDITA(x)	30.7	11.1	13.2	14.4	12.4
ROE (%)	4.8	29.5	N.A	31.0	26.1
ROCE(%)	11.7	25.8	N.A	18.8	18.9
PE(x)	67.5	13.4	N.A	18.8	16.5
P/S(x)	2.7	2.3	2.0	2.0	1.7
P/BV(x)	4.8	3.6	7.0	5.0	3.8

Source: Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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