

## Strong Margins Outlook – Upgrade to Buy

February 23, 2012

<b>Reco</b>	<b>Previous Reco</b>
Buy	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs440	Rs504

EPS change CY11/12E (%)	NA / 2
Target Price change (%)	-2
Nifty	5,483
Sensex	18,079

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	2	(5)	(5)
Rel. to Nifty	(12)	(12)	(16)	(5)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Pharmaceuticals
Bloomberg	RBXY@IN
Equity Capital (Rs mn)	2110
Face Value(Rs)	5
No of shares o/s (mn)	422
52 Week H/L	570/367
Market Cap (Rs bn/USD mn)	186/3,780
Daily Avg Volume (No of sh)	1190051
Daily Avg Turnover (US\$m)	10.4

### Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	63.7	63.8	63.8
FII/NRI	10.8	10.6	10.5
Institutions	11.5	11.7	11.9
Private Corp	3.2	2.9	2.5
Public	10.8	11.1	11.3

Source: Capitaline

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- Q4CY11 Results - Revenues at Rs38bn (up 78% YoY), EBITDA at Rs16bn (up 550%) and APAT was Rs15bn (up 10x)
- Base business was flat in USD terms and grew by 14% in Rupee terms. Lipitor contributed USD300mn in revenues. India business grew by 8%
- Base business margins expanded by 400bps YoY and 160bps QoQ to 10% mainly due to Rupee depreciation
- Going forward base business is expected to grow by 27% and margins are expected to expand by 400bps to 12% on back of strong growth in US and Rupee depreciation benefit
- With strengthening of base business, we upgrade stock to Buy from Accumulate with a target price of Rs504

### Revenue growth led by Lipitor sales in US

- Base business was flat in USD terms and grew by 14% in Rupee terms. India business grew by 8%
- Lipitor contributed USD300mn to US revenues otherwise base sales remained flat. Payment to Teva on Lipitor was ~USD150mn which was included in other expenses
- Lipitor has taken ~42% market share with price erosion of 65%. Management remained confident of retaining the higher share post exclusivity
- Base business margins expanded by 400bps YoY and 160bps QoQ to 10% mainly due to Rupee depreciation

### Going forward

- Base business is expected to grow by 27% in CY12 and 19% in CY13. Margins will expand by 400bps in CY12 and 200bps in CY13
- Strong Para IV pipeline which includes Lipitor, Actos and Diovan will contribute USD 560mn in revenues and EPS of Rs42 in CY12
- Company has entered into consent decree with USFDA. Resolution of Poanta Sahib and Dewas can lead to USD 100mn of revenues over period of 2-3 years, this not built in our estimates

### Valuation

We expect Ranbaxy to report 27% growth in base business revenue in CY12E and 19% in CY13E. Base EBITDA margins are expected to increase from 8.2% in CY11 to 12.5% in CY12E & 14.3% in CY13E. Base Earnings are expected to register 24% CAGR over CY11-13E to Rs11.6bn clocking an EPS of Rs28 in CY13E. We value the stock at Rs504 (20x CY12E base EPS of Rs22 and NPV of Rs64). Upgrade the stock to Buy from Accumulate.

### Financials

	Rs mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
CY10	85,355	14,136	16.6	9,543	22.7	163.1	35.0	19.4	14.0	3.3
CY11P	99,581	21,657	21.7	21,192	50.3	122.1	(43.5)	8.7	8.7	2.4
CY12E	128,985	34,610	26.8	27,188	64.6	28.3	30.6	6.8	4.7	1.8
CY13E	125,991	20,227	16.1	15,257	36.2	(43.9)	14.2	12.1	7.0	1.6

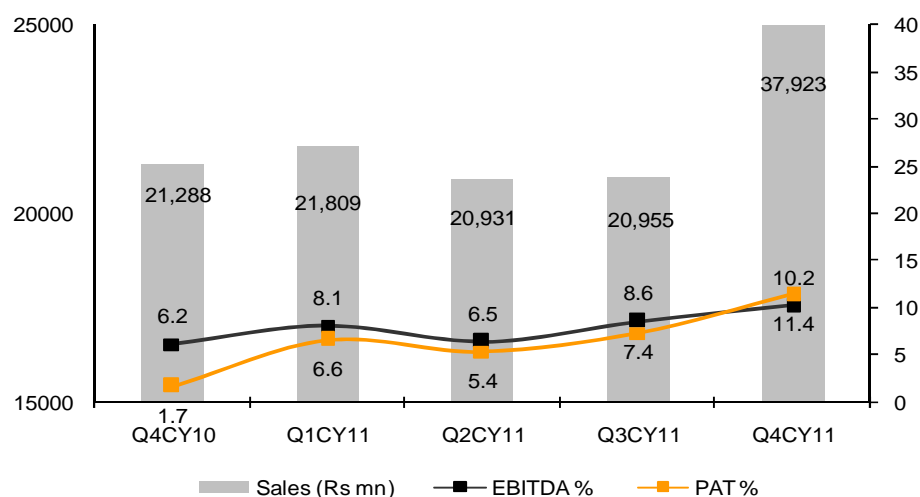
## Key Financials – Quarterly

Rs mn

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)
FTF sale	1650	3375	900	0	15440	-	-
Base Sale	19,215	18,434	19,645	20228	21941	14.2%	8.5%
Other Income	423	379	386	728	543	28.3%	-25.4%
<b>Total Revenue</b>	<b>21288</b>	<b>21,809</b>	<b>20,931</b>	<b>20955</b>	<b>37923</b>	<b>78.1%</b>	<b>81.0%</b>
<b>Expenditure</b>	<b>18,782</b>	<b>17,778</b>	<b>19,115</b>	<b>19214</b>	<b>21630</b>	<b>15.2%</b>	<b>12.6%</b>
as % of sales	88.2	81.5	91.3	91.7	57.0		
Consumption of RM	8,707	7,523	8,167	8446	10932	25.5%	29.4%
as % of sales	40.9	34.5	39.0	40.3	28.8		
Employee Cost	3,835	4,171	4,188	4080	4010	4.6%	-1.7%
as % of sales	18.0	19.1	20.0	19.5	10.6		
Other expenditure	6,442	6,084	6,760	6688	6688	3.8%	0.0%
as % of sales	30.3	27.9	32.3	31.9	17.6		
<b>Base EBITDA</b>	<b>1,185</b>	<b>1,500</b>	<b>1,268</b>	<b>1741</b>	<b>2243</b>	<b>89.2%</b>	<b>28.9%</b>
<b>Reported EBITDA</b>	<b>2,506</b>	<b>4,031</b>	<b>1,817</b>	<b>1741</b>	<b>16293</b>	<b>550.3%</b>	<b>835.9%</b>
Depreciation	1,030	736	735	788	1681	63.2%	113.5%
<b>EBIT</b>	<b>1,476</b>	<b>3,296</b>	<b>1,081</b>	<b>953</b>	<b>14612</b>	<b>890.2%</b>	<b>1432.8%</b>
Other Income	770	897	791	1020	1632	111.8%	59.9%
Interest	145	145	166	153	304	109.4%	98.6%
<b>PBT</b>	<b>2,101</b>	<b>3,842</b>	<b>1,706</b>	<b>1820</b>	<b>15940</b>	<b>658.7%</b>	<b>775.6%</b>
Total Tax	880	782	185	256	747	(0)	2
<b>Adjusted PAT</b>	<b>1,221</b>	<b>3,060</b>	<b>1,521</b>	<b>1564</b>	<b>15193</b>	<b>1144.0%</b>	<b>871.2%</b>
(Profit)/loss from JV's/Ass/MI	48	16	23	77	47	-1.1%	-38.5%
<b>APAT after MI</b>	<b>1311</b>	<b>3,249</b>	<b>1,498</b>	<b>1488</b>	<b>15146</b>	<b>1055.3%</b>	<b>918.0%</b>
<b>Extra ordinary items</b>	<b>-2285</b>	<b>-206</b>	<b>-934</b>	<b>-6134</b>	<b>-44973</b>	19	6
<b>Reported PAT</b>	<b>(975)</b>	<b>3044</b>	<b>2432</b>	<b>-4646</b>	<b>-29828</b>	<b>2959.8%</b>	<b>542.0%</b>
<b>Reported EPS</b>	<b>3.1</b>	<b>7.7</b>	<b>3.6</b>	<b>3.5</b>	<b>36.0</b>	<b>1055.3%</b>	<b>918.0%</b>

Margins (%)						bps	bps
Base EBITDA	6.2	8.1	6.5	8.6	10.2	405	162
Reported EBITDA	11.8	18.5	8.7	8.3	43.0	3119	3466
EBIT	6.9	15.1	5.2	4.5	38.5	3160	3398
EBT	9.9	17.6	8.2	8.7	42.0	3216	3334
PAT	6.2	14.9	7.2	7.1	39.9	3378	3284
Effective Tax rate	41.9	20.4	10.8	14.1	4.7	-3718	-938

## Quarterly trend



	Q4CY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	YoY %	QoQ %
<b>U.S.A</b>	<b>117</b>	<b>155</b>	<b>95</b>	<b>84</b>	<b>388</b>	<b>231.6%</b>	<b>361.9%</b>
FTF sales	37	80	20	0	304	-	-
Base Sales	80	75	75	84	84	5.0%	0.0%
Canada	<b>14</b>	<b>15</b>	<b>17</b>	<b>19</b>	<b>19</b>	<b>35.7%</b>	<b>0.0%</b>
<b>Europe, CIS, Africa, Romania</b>	<b>148</b>	<b>145</b>	<b>151</b>	<b>174</b>	<b>150</b>	<b>1.7%</b>	<b>-13.8%</b>
Europe	56	47	49	72	48	-14.3%	-33.3%
Romania	20	27	30	30	25	25.0%	-16.7%
Africa	41	45	51	40	49	19.5%	22.5%
CIS	30	26	21	32	28	-6.7%	-12.5%
Latin America	21	16	17	16	13	-38.1%	-18.8%
Asia inc. middle east	29	22	33	28	28	-3.4%	0.0%
India	82	83	92	94	77	-6.1%	-18.1%
OTC	12	13	17	19	18	50.0%	-5.3%
API	40	25	40	35	43	7.5%	22.9%
<b>Total Revenues (USD mn)</b>	<b>463</b>	<b>474</b>	<b>461</b>	<b>469</b>	<b>736</b>	<b>59.1%</b>	<b>56.9%</b>
<b>Total Revenues (Rs mn)</b>	<b>21288</b>	<b>21,809</b>	<b>20,931</b>	<b>20,955</b>	<b>37,923</b>	<b>78.1%</b>	<b>81.0%</b>
FTF Sales	1650	3,375	900	0	15,440	-	-
Base Sales	19215	18,434	19,645	20,228	21,941	14.2%	8.5%
Base EBITDA (Rs mn)	1185	1500	1268	1741	2243	89.2%	28.9%
Base EBITDA margins %	6.2	8.1	6.5	8.6	10.2		
Reported EBITDA (Rs mn)	2506	4031	1817	1741	16293	550.3%	835.9%
Base PAT (Rs mn)	321	1224	1059	1488	2500	679.5%	68.1%
Reported PAT (Rs mn)	-975	3044	2432	-4646	-29828	2960.7%	542.0%
Base EPS (Rs mn)	0.8	2.9	2.5	3.5	5.9	679.5%	68.1%
Reported EPS (Rs mn)	-2.3	7.2	5.8	-11.0	-70.8	2960.7%	542.0%

#### EBITDA increased 550% YoY to Rs16bn due to

- Improvement in base EBITDA margins by 400bps YoY and 160bps QoQ to 10%. This was largely on back of INR depreciation
- Higher sales from limited competition Lipitor in Q4CY11 to the tune of USD300mn. Contribution to EBITDA estimated at 85-90%
- Estimated payment of USD140-150mn to Teva for Lipitor which is included in other expenses

#### RPAT stood at –Rs4.65bn, however post adjustment for exceptional items APAT stood at Rs15bn (up 10x)

- Adjustments are related to Forex loss of Rs6bn
- DoJ settlement provision of USD500mn
- Payment of USD140-150mn to Teva for Lipitor

## US Business - Good Times Ahead

- US business is the key component of Ranbaxy's developed market strategy. We expect company's base business will witness strong growth 54% and 45% for CY12 and CY13 resp. This growth will be driven by various Para IV products Company holds exclusivity in these multimillion products and thus these products will ultimately become part of the base business.
  - **Lipitor:** Though Ranbaxy's launch was a day after AG launch, yet the company was able to take ~40% market share till date. Further generic Lipitor will take some share of other existing statin drugs, as Atorvastatin is considered as best cholesterol controlling agent in this class. The overall market can expand by \$100m, due to substitution impact.
  - **Actos (Branded Sales: \$3.1b Competition during exclusivity: 4)** – Ranbaxy shares 180-days with three other companies. Innovator has settled the litigation with FTFs and as per settlement FTFs will launch on 17 Aug 2012.
  - **Diovan (Branded Sales: \$2.5b Competition during exclusivity: 2)** - Ranbaxy was FTF & we expect company launch the generics in Sept 2012, post patent expiry.
  - **Provigil (Branded Sales: \$1b Competition during exclusivity: 4)** - Ranbaxy shares 180 days exclusivity with two other companies, the litigation was settled and as per the terms of settlement these companies can launch the generic version from April 2012.
  - **Valcyte (Branded Sales: \$300mn Competition during exclusivity: 2)** - RBXY is the FTF. The litigation was settled, with launch date undisclosed but not beyond Mar 2013.
  - **Nexium: (Branded Sales: \$2.8b Competition during exclusivity: 2)** - RBXY is FTF. Later innovator entered into the settlement as per which RBXY can launch generic version in May 2014. Also as part of settlement RBXY was given supply contract of API and Formulations, for an undisclosed amount. Company was already supplying API for the drug since 4QCY09 and formulation supply has begun in 4QCY11.
- **Cipher Deal:** In 2008, Ranbaxy entered into agreement with Cipher to market its drug (CIP ISOTRETINOIN). The agreement included an initial upfront milestone payment of US\$1 million as well as other pre- and post commercialization milestone payments of up to US\$23 million to Cipher. In addition, Ranbaxy will reimburse all costs associated with the remaining clinical studies required to obtain USFDA approval, up to a pre-determined cap. Other facts of the product are listed below:
  - CIP-ISOTRETINOIN is an innovative formulation of the active ingredient isotretinoin, which is used in the treatment of severe acne
  - The U.S. isotretinoin market is estimated to be more than US\$500 million in annual sales.
  - Currently there are only two generic companies in this market viz Teva and Mylan selling Isotretinoin
  - USFDA recently accepted amended NDA by Cipher (Cipher's NDA was earlier rejected by USFDA and was directed to do various trials). The FDA's goal date under the Prescription Drug User Fee Act (PDUFA) is May 29, 2012.
- With approval of Mohali plant, company will be able to file new products, which will further boost the base business and help in margins improvement. Company has already done 2-3 filings as on date and expects facility to contribute in CY12. We have not incorporated additional revenues in our projections from this facility

## Summary of Ranbaxy's Consent Decree

### As per the filing –

- The consent decree requires that Ranbaxy comply with detailed data integrity provisions before FDA resumes reviewing drug applications from the 1) Paonta Sahib, 2) Batamandi, and 3) Dewas facilities
- The consent decree will address outstanding current good manufacturing practice (CGMP) and data integrity issues at Ranbaxy's Paonta Sahib, Batamandi and Dewas, India facilities as well as CGMP issues at Ranbaxy Inc.'s wholly owned subsidiary Ohm Laboratories facility located in Gloversville, N.Y.
- Ranbaxy has agreed to relinquish any 180-day marketing exclusivity that it might have for three pending generic drug applications and any 180-day marketing exclusivity that it may have for several additional generic drug applications if it fails to meet certain decree requirements by specified dates

### Specifically, Ranbaxy must –

- Hire a third party expert to conduct a thorough internal review at the facilities and audit applications containing data from the affected facilities
- Implement procedures and controls sufficient to ensure data integrity and
- Withdraw any applications found to contain untrue statements of material fact that could affect approval of the application

### Consent Decree Protocols –

- The consent decree prevents Ranbaxy from manufacturing drugs for introduction to the U.S. market and for the President's Emergency Plan for AIDS Relief (PEPFAR) Program at the Paonta Sahib, Batamandi, Dewas, and Gloversville facilities until compliance with U.S. manufacturing quality standards is sought
- Once Ranbaxy has achieved compliance with the data integrity requirements, a third party expert must conduct audits of the facilities to confirm that compliance is being maintained. For this –
- The company must authorize an individual who would be responsible for all quality assurance and quality control activities to ensure that drugs are in compliance with the law and the decree
- In addition, Ranbaxy must establish an Office of Data Reliability to conduct pre-submission audits of all applications submitted from any of the affected facility
- The decree also permits FDA to order additional Ranbaxy facilities to be covered by the decree if the agency discovers through an inspection that the facility is not operating in compliance with the law and/or has serious data integrity issues

### Penalties from violation of the decree –

- Ranbaxy will have to pay \$15,000 / day for violation of the decree at the facilities and an additional sum of \$15,000 for each overall violation of the law and the decree
- If Ranbaxy distributes any drug from the facilities covered by the decree, it shall pay liquidated damages = 2x the retail value of such drug (not to exceed USD10mn in any one calendar year)
- If Ranbaxy submits an untrue statement in connection with any application they file with FDA, it shall pay up to USD3mn in liquidated damages for each such statement (not to exceed USD30 million in any one calendar year)

### Our Take

- This is one-step forward towards comprehensive resolution of all the USFDA issues which Ranbaxy is facing. We believe this is a positive step as there is now a clear and defined roadmap with timelines for re-approval of these facilities. Ranbaxy would have already covered most of the distance in terms of requirements laid out by the USFDA and it should therefore reduce the time to 1 – 1.5 years unlike other settlements where it takes 2 – 3 years.
- The three 180-day marketing exclusivities which Ranbaxy will relinquish are not the major ones, as per sources. Nexuim, Diovan and Actos which are the other 3 major opportunities are safe, so it will not impact our estimates for CY12 & CY13.

### Europe – Modest Growth Expected

- We expect CAGR of ~12% in Europe business revenue over CY11-13E
- The Europe market is increasingly showing a marked difference between the countries, like some of them have gone tender way like Germany. Similarly, regionally too, Western Europe and Eastern Europe have different business models. Due to these changes Ranbaxy too has been impacted
- In Terapia, company was facing liquidity issues due to change in regulation. However now Ranbaxy has partially resolved the issues. The company has been able to make Day 1 launches that have helped company to register growth
- Germany business is highly dependent on the tenders company is able to get. Thus this business is not a high margin lucrative.
- France business continued to improve; and company with Daiichi Sankyo is targeting to improve growth in Italy

### Other Geographies – Present in 45 Countries and generates revenues from 125 countries

- Ranbaxy continued to be ranked number 1 in its represented market in Russia and Ukraine
- Large, reputed player in CIS; growing rapidly. Among the emerging markets Ranbaxy is ranked No1 in Russia and No. 6 in Brazil and No. 5 in Africa
- Ranbaxy is present in 43/54 countries in Africa
- The company is present in 23/25 EU markets and is ranked No. 1 in Romania in both generic and OTC segment

## Ranbaxy Labs– Domestic Metrics

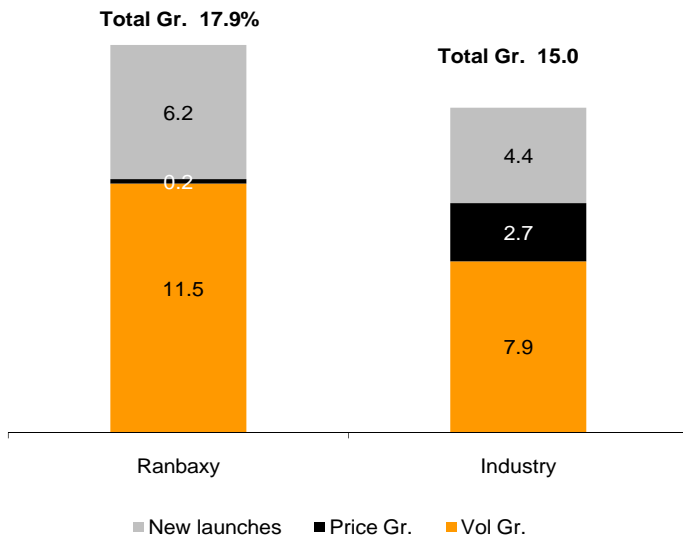
## Therapeutic growth

Therapies	% Contribution	MAT Dec'11	MAT Dec'10	YoY Gr. %
Anti-infectives	31.9%	888.8	796.0	11.7%
CVS	14.5%	404.6	355.0	14.0%
Pain Mgmt	10.5%	292.7	232.9	25.7%
Dermatology	9.0%	250.8	203.1	23.5%
Gastro	6.0%	166.6	155.4	7.2%
CNS	3.8%	106.0	101.8	4.1%
Respiratory	3.7%	102.85	83.14	23.7%
Anti-diabetic	3.0%	83.7	64.6	29.5%
Gynaecology	2.2%	61.1	42.8	42.8%
Others	15.4%	429.3	328.4	30.7%
<b>Acute</b>	<b>76.5%</b>	<b>2131.0</b>	<b>1796.0</b>	<b>18.7%</b>
<b>Chronic</b>	<b>23.5%</b>	<b>655.6</b>	<b>567.2</b>	<b>15.6%</b>
<b>Total Sales</b>	<b>100.0%</b>	<b>2786.6</b>	<b>2363.2</b>	<b>17.9%</b>

## Dec'11 MAT growth for Ranbaxy has been above industry average

- Acute segment which contributes 76% grew by 19%
- Chronic segment which contributes 24% grew by 16%

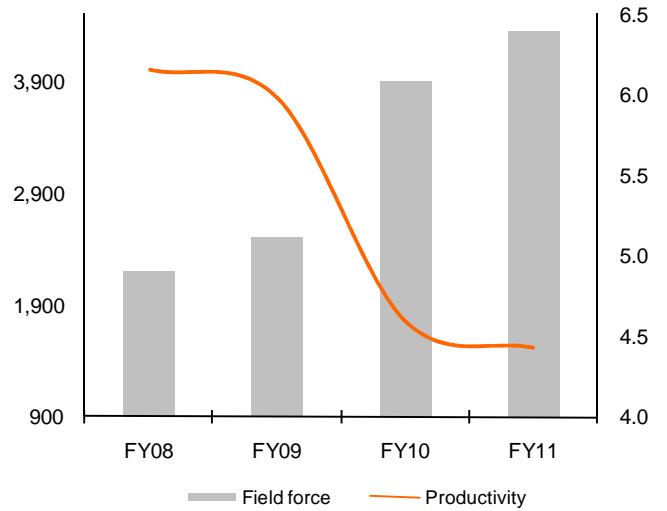
## Growth drivers - Volume/ Price/ New launches



- Ranbaxy's growth was above industry growth led by volume uptake and new product launches

Source: AIOCD, Emkay Research

## Field force productivity



- The company has hired ~1800 people during the last 2 years. Total MR strength is 4500
- MR productivity declined due to higher base of MRs and restructuring in the domestic business

## Top 10 brand performance

Rs Cr	Therapy	MAT Dec'11	MAT Dec'10	YoY Gr.
REVITAL	Vitamins	157.2	136.4	15.3%
STORVAS	CVS	141.2	135.5	4.2%
VOLINI	Pain	135.1	102.2	32.3%
MOX	Anti-Infective	113.0	126.2	-10.5%
CIFRAN	Anti-Infective	93.7	101.8	-8.0%
ROSUVAS	Anti-Infective	72.7	54.7	33.0%
ZANOCIN	Anti-Infective	67.5	62.3	8.4%
SPORIDEX	Anti-Infective	62.5	55.8	11.9%
CEPODEM	CVS	60.3	57.7	4.5%
CILANEM	Anti-Infective	54.3	44.0	23.6%
<b>Total</b>		<b>957.6</b>	<b>876.6</b>	<b>9.2%</b>

- Top 10 brands contribute 36% to the domestic formulation sales
- The company's anti-biotic products – Mox & Cifran reported de-growth in sales during MAT Dec'11 period due to increase in competition and pricing pressures



## Conference Call Highlights

### US

- US base contributed in the range of ~80mn for Q4 CY11 and company expects similar run rate for CY12
- Lipitor's current market share is ~42% and price erosion is ~60%-70%
- As part of settlement, company has shared Lipitor revenues till Dec 2011 (~\$150mn)
- Company started supply of Nexium formulations to AstraZeneca included in the US segment, this supply contract may continue even after Ranbaxy's launch in CY14
- Company has maintained market share of ~30% for Valacyclovir and Donepezil
- Company received approval for Mohali facility during the year, this facility is for oral solid dosages

### India

- Domestic formulations sales grew 8%. Muted growth was due to challenges in Acute segment which contributes 60% of its domestic portfolio
- Company is working towards consolidating its business in both Acute and Chronic segment

### Other Geographies

- Among the other geographies Romania and Poland witnessed strong growth during the quarter
- Romania registered revenues of ~\$25mn for the quarter
- CIS registered \$28mn for the quarter, of which ~70% was from Russia. The decline was due to delay in regulatory approvals and some tenders in last quarter
- APAC registered revenues of \$22mn for the quarter
- For CY12, company will be focusing on Eastern side of Europe and CIS segment (branded segment)
- In Italy company will promote Daiichi's products
- Company will have front ended presence through Daiichi in Mexico and some parts of LATAM.
- Company is already promoting Daiichi's products in Malaysia and will also initiate promoting in Singapore in CY12

### Financial Highlights

- Outstanding derivative position as on date is \$639mn, of this ~\$200mn expires every year. Company's derivative position will perish by CY 2015.
- Consumption of raw materials include inventory write of Rs620mn
- Depreciation includes impairment of plant of Rs800mn
- Other income includes forex gain of Rs950mn

### Update on Consent Decree

- Company will not make any infrastructure investments for the facilities under inspection, the only cost company will have to incur will be for the consultants
- The three 180-day marketing exclusivities which Ranbaxy will relinquish are not the major ones, thus loss of these exclusivities will not have any significant impact on the revenue
- Data Integrity officials will be appointed in the last week of Feb 2012



**EBITDA Margins–**

- EBITDA margins for the quarter improved on the back of improvement in the base business and revenues from Lipitor

**Guidance**

- USD 2.2 billion in revenue to be achieved in CY12
- Company has guided for Base EBITDA margins of ~20% for till CY2015
- Base EBITDA margins to improve every year over the previous year

**Valuation**

We remain positive as we believe even after Para IVs, company's base business to improve on back of low competition product portfolio post its exclusivity and ramp up in new approved facility. Further we have not factored in any upside or improvement in margins due to approval of new facility (Mohali) or resolution of Dewas and Poanta sahib facility

We expect Ranbaxy to report 27% growth in base business revenue in CY12E and 19% in CY13E. Base EBITDA margins are expected to increase from 8.2% in CY11 to 12.5% in CY12E & 14.3% in CY13E. Base Earnings are expected to register 24% CAGR over CY11-13E to Rs11.6bn clocking an EPS of Rs28 in CY13E. We value the stock at Rs504 (20x CY12E base EPS of Rs22 and NPV of Rs64). Upgrade the stock to Buy from Accumulate.

<b>Target Price Calculation</b>	
<b>EPS (CY 12E)</b>	<b>22</b>
Target P/E	20x
<b>Core business value</b>	<b>440</b>
<b>NPV of Para IVs</b>	<b>64</b>
<b>Target Price (Rs/ share)</b>	<b>504</b>

## Financial Snapshot

Particulars	CY11	CY12E	YoY %	CY13E	YoY %
US Base Business	318	490	54%	712	45%
Para Ivs	402	562	40%	115	-79%
India	412	464	12%	522	12%
Rest of Asia Pacific	108	113	5%	119	5%
Europe	297	333	12%	374	12%
Other Developed Markets	179	198	11%	220	11%
Other Undeveloped Markets	254	270	6%	295	9%
Total Formulations	1970	2431	23%	2357	-3%
API Sales	144	158	10%	174	10%
<b>Total Sales (USDmn)</b>	<b>2114</b>	<b>2589</b>	<b>22%</b>	<b>2531</b>	<b>-2%</b>
<b>Total Sales (Rs Mn)</b>	<b>99779</b>	<b>129474</b>	<b>30%</b>	<b>126574</b>	<b>-2%</b>
Other Operating Income	2036	1991	-2%	1991	0%
<b>Total Revenues</b>	<b>101815</b>	<b>131465</b>		<b>128564</b>	<b>-2.2%</b>
Base Sales	80057	101352	27%	120808	19%
<b>EBITDA</b>	<b>23692</b>	<b>36601</b>		<b>22217</b>	
Base	6562	12697	93%	17317	36%
Base EBITDA %	8.2%	12.5%	370bps	14.3%	180bps
Para Ivs	17130	23904	40%	4901	-79%
<b>PAT</b>	<b>21192</b>	<b>27188</b>		<b>15257</b>	
Base	7487	9260	24%	11582	25%
Para Ivs	13704	17928	31%	3676	-79%
<b>EPS</b>	<b>50.3</b>	<b>64.6</b>		<b>36.2</b>	
Base	17.8	22.0	24%	27.5	25%
FTF	32.5	42.6	31%	8.7	-79%
<b>PE @440</b>	<b>8.7</b>	<b>6.8</b>	<b>-22%</b>	<b>12.1</b>	<b>78%</b>
Base	21.1	17.1	-19%	13.7	-20%

## Key Para IV opportunities for Ranbaxy in US

Product	Generic Name	Sales CY12 (\$ Mn)	Sales CY13 (\$ Mn)	EPS CY 12	EPS CY13	Expected Launch Date	Branded Sales (\$ Mn)	Innovator	Exclusivity
Exelon (Capsule)	Rivastigmine Tartarate	3.1	0.0	0.2	0.0	CY12	250	Novartis	4+
Actos	Pioglitazone	80.7	16.1	5.8	1.2	1-Aug-12	3100	Takeda	4
Solodyn	Minocycline HCL	15.0	0.0	1.1	0.0	1-Nov-11	500	Medicis	6+
Clarinx 5mg	Desloratidine	1.1	0.0	0.1	0.0	FY13	150	Schering Plough	10+
Lipitor	Atorvastatin	246.7	0.0	19.8	0.0	1-Nov-11	5500	Pfizer	2
Caduet	Atorvastin & Amlodipine	27.3	0.0	2.2	0.0	1-Nov-11	375	Pfizer	2
Provigil	Modafinil	43.8	0.0	3.1	0.0	CY12	1000	Cephalon	2+
Diovon	Valsartan	145.8	72.9	10.4	5.8	CY12	2500	Novartis	2
Valcyte	Valganciclovir		26.3		1.7	CY13	300	Roche	2
<b>Total</b>		<b>563.6</b>	<b>115.3</b>	<b>42.6</b>	<b>8.7</b>		<b>13375.0</b>		

## Financials

## Income Statement

Y/E, Dec (Rs. mn)	CY10	CY11	CY12E	CY13E
<b>Net Sales</b>	<b>85,355</b>	<b>99,581</b>	<b>128,985</b>	<b>125,991</b>
Growth (%)	16.5	16.7	29.5	-2.3
<b>Expenditure</b>	<b>71,219</b>	<b>77,925</b>	<b>94,376</b>	<b>105,765</b>
Raw Materials	31,528	35,068	44,207	48,381
SGA	5,021	5,272	5,574	6,644
Employee Cost	15,060	16,449	20,270	24,162
Other Exp	19,610	21,136	24,324	26,578
<b>EBITDA</b>	<b>14,136</b>	<b>21,657</b>	<b>34,610</b>	<b>20,227</b>
Growth (%)	346.5	53.2	59.8	-41.6
<b>EBITDA margin (%)</b>	<b>16.6</b>	<b>21.7</b>	<b>26.8</b>	<b>16.1</b>
Depreciation	3,717	3,940	3,807	4,018
<b>EBIT</b>	<b>10,419</b>	<b>17,717</b>	<b>30,803</b>	<b>16,209</b>
<b>EBIT margin (%)</b>	<b>12.2</b>	<b>17.8</b>	<b>23.9</b>	<b>12.9</b>
Other Income	7,116	6,376	5,029	5,029
Interest expenses	614	768	765	585
<b>PBT</b>	<b>23,217</b>	<b>-26,862</b>	<b>35,067</b>	<b>20,653</b>
Tax	5,849	1,969	7,715	5,163
Effective tax rate (%)	25.2	-7.3	22.0	25.0
<b>Adjusted PAT</b>	<b>17,369</b>	<b>21,029</b>	<b>27,024</b>	<b>15,025</b>
(Profit)/loss from JV's/Ass/MI	-2,401	-163	-164	-232
<b>Adjusted PAT after MI</b>	<b>9,543</b>	<b>21,192</b>	<b>27,188</b>	<b>15,257</b>
Growth (%)	163.5	122.1	28.3	-43.9
<b>Net Margin (%)</b>	<b>11.2</b>	<b>21.3</b>	<b>21.1</b>	<b>12.1</b>
E/O items	6,365	-50,186	0	0
<b>Reported PAT</b>	<b>14,968</b>	<b>-28,994</b>	<b>27,188</b>	<b>15,257</b>
Growth (%)	404.7	-293.7	-193.8	-43.9

## Cash Flow

Y/E, Dec (Rs. mn)	CY10	CY11E	CY12E	CY13E
<b>PBT (Ex-Other income)</b>	<b>18,206</b>	<b>23,324</b>	<b>32,029</b>	<b>17,615</b>
Depreciation	3,717	3,940	3,807	4,018
Interest Provided	614	768	765	585
Other Non-Cash items	0	0	0	0
Chg in working cap	-6,332	-9,289	2,283	3,276
Tax paid	-5,849	-1,969	-7,715	-5,163
<b>Operating Cashflow</b>	<b>10,357</b>	<b>16,774</b>	<b>31,169</b>	<b>20,330</b>
Capital expenditure	-2,701	-5,372	-4,950	-4,950
<b>Free Cash Flow</b>	<b>7,656</b>	<b>11,402</b>	<b>26,219</b>	<b>15,380</b>
Other income	2,795	4,340	3,038	3,038
Investments	423	0	0	0
<b>Investing Cashflow</b>	<b>516</b>	<b>-1,032</b>	<b>-1,912</b>	<b>-1,912</b>
Equity Capital Raised	-1,691	0	0	0
Loans Taken / (Repaid)	7,053	-11,848	-6,000	-6,000
Interest Paid	-614	-768	-765	-585
Dividend paid (incl tax)	0	0	-1,589	-892
Income from investments	0	0	0	0
Others	2,416	-4,429	-1,705	4,137
<b>Financing Cashflow</b>	<b>7,164</b>	<b>-17,045</b>	<b>-10,059</b>	<b>-3,340</b>
<b>Net chg in cash</b>	<b>18,038</b>	<b>-1,303</b>	<b>19,198</b>	<b>15,079</b>
Opening cash position	12,416	30,454	29,151	48,349
<b>Closing cash position</b>	<b>30,454</b>	<b>29,151</b>	<b>48,349</b>	<b>63,428</b>

## Balance Sheet

Y/E, Dec (Rs. mn)	CY10	CY11E	CY12E	CY13E
Equity share capital	2,102	2,102	2,102	2,102
Reserves & surplus	53,944	74,641	100,239	114,605
<b>Net worth</b>	<b>56,046</b>	<b>76,742</b>	<b>102,341</b>	<b>116,707</b>
<b>Minority Interest</b>	<b>647</b>	<b>744</b>	<b>908</b>	<b>1,141</b>
Secured Loans	40,979	29,131	24,131	19,131
Unsecured Loans	2,369	2,369	1,369	369
<b>Loan Funds</b>	<b>43,348</b>	<b>31,500</b>	<b>25,500</b>	<b>19,500</b>
Net deferred tax liability	-227	-227	-227	-227
<b>Total Liabilities</b>	<b>99,814</b>	<b>108,760</b>	<b>128,522</b>	<b>137,120</b>
Gross Block	67,050	72,145	78,000	78,000
Less: Depreciation	21,571	22,853	25,860	29,065
<b>Net block</b>	<b>45,479</b>	<b>49,293</b>	<b>52,140</b>	<b>48,935</b>
Capital work in progress	3,818	3,154	3,154	3,154
<b>Investment</b>	<b>4,985</b>	<b>4,985</b>	<b>4,985</b>	<b>4,985</b>
<b>Current Assets</b>	<b>84,741</b>	<b>102,106</b>	<b>133,043</b>	<b>125,635</b>
Inventories	21,926	27,865	29,462	27,865
Sundry debtors	16,052	28,206	29,121	24,623
Cash & bank balance	30,454	29,151	48,349	63,428
Loans & advances	0	0	0	0
Other current assets	16,309	16,885	26,110	9,719
<b>Current liab &amp; Prov</b>	<b>41,399</b>	<b>50,778</b>	<b>64,799</b>	<b>45,588</b>
Current liabilities	31,865	45,587	58,317	45,587
Provisions	9,534	5,191	6,482	1
<b>Net current assets</b>	<b>43,342</b>	<b>51,328</b>	<b>68,244</b>	<b>80,047</b>
Misc. exp & Def. Assets	2,191	0	0	0
<b>Total Assets</b>	<b>99,814</b>	<b>108,760</b>	<b>128,522</b>	<b>137,120</b>

## Key Ratios

Y/E, Dec	CY10	CY11E	CY12E	CY13E
<b>Profitability (%)</b>				
EBITDA Margin	16.6	21.7	26.8	16.1
Net Margin	11.2	21.3	21.1	12.1
ROCE	16.8	19.0	27.7	13.7
ROE	35.0	-43.5	30.6	14.2
RoIC	18.6	26.9	43.0	23.6
<b>Per Share Data (Rs)</b>				
EPS	22.7	50.3	64.6	36.2
CEPS	16.4	178.9	73.6	45.8
BVPS	133.0	182.1	242.9	277.0
DPS	0.0	0.0	3.8	2.1
<b>Valuations (x)</b>				
PER	19.4	8.7	6.8	12.1
P/CEPS	16.4	178.9	73.6	45.8
P/BV	3.3	2.4	1.8	1.6
EV / Sales	2.3	1.9	1.3	1.1
EV / EBITDA	14.0	8.7	4.7	7.0
Dividend Yield (%)	0.0%	0.0%	0.9%	0.5%
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.2	0.0	-0.2	-0.4
Net Debt/EBIDTA	0.7	0.1	-0.6	-2.0

**Recommendation History: Ranbaxy Labs – RBXY IN**

Date	Reports	Reco	CMP	Target
07/12/2011	<a href="#">Ranbaxy Labs Event Update</a>	Accumulate	436	513
09/11/2011	<a href="#">Ranbaxy Labs Q3CY11 Result Update</a>	Hold	475	513
05/08/2011	<a href="#">Ranbaxy Labs Q2CY11 Result Update</a>	Reduce	534	424
11/05/2011	<a href="#">Ranbaxy Labs Q1CY11 Result Update</a>	Hold	478	412

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
22/02/2012	<a href="#">Torrent Pharma Q4FY12 Company Update</a>	Buy	565	682
14/02/2012	<a href="#">Aurobindo Pharma Q3FY12 Result Update</a>	Accumulate	118	139
13/02/2012	<a href="#">Sun Pharma Q3FY12 Result Update</a>	Accumulate	552	586
13/02/2012	<a href="#">Cipla Q3FY12 Result Update</a>	Sell	342	318

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