

Event Update
 Sector: Pharmaceuticals
 BSE Sensex: 16,123

Ranbaxy Laboratories

 Downgrade **REDUCE**
 CMP **Rs435**
 TP **Rs412**

01 December 2011

Generic Lipitor approved, sell stock on rise

Ranbaxy has finally announced the launch of generic Lipitor (10, 20, 40 and 80mg tablets) from Ohm Labs which is a sentimental positive for the stock. However, due to the high price competition and profit sharing agreement with Teva, we estimate a price erosion of 40% and Ranbaxy to command a market share of 30% during the exclusivity period. As a result we now expect Lipitor to contribute USD486mn to the revenues and Rs25/share during the exclusivity period. Whilst, profit earned from generic Lipitor launch could be negated if penalty amount exceeds USD243mn. Further, there has been no update on the USFDA clearance of Poanta Sahib and Dewas facilities. Albeit, as per media reports (no confirmation from the company), Ranbaxy has been able to secure USFDA approval for its new facility-Mohali SEZ which is the only silver lining.

We downgrade our recurring sales and earnings for CY12E by 2% and 19% respectively factoring in the delayed approval of Dewas and Poanta Sahib facilities. We have also introduced CY13 estimates. We recommend 'Reduce' on the stock and value the core business at Rs329/share (22x one year forward recurring earnings) and the FTF pipeline at Rs83/share resulting in revised SOTP based target price of Rs412.

Intensive competition going ahead for Lipitor

Pfizer expects to maintain more than one-third of the market share during the 180-days exclusivity period on back of aggressive marketing strategy 'Co-pay card'. Under the strategy, the Lipitor co-pay card would result in maximum saving of USD50/month for the consumers. However, the above program would not cover prescription drugs under Medicaid, Medicare and any other state healthcare programs. Watson, the authorised generic player, has also indicated that it expects to clock earnings to the tune of USD60-66mn in Q4CY11. Even post exclusivity (from May 2012), 6-7 players including Teva are likely to enter the market, leading to steep price erosion (80-90%).

KEY FINANCIALS (Rs mn)

	CY09	CY10	CY11E	CY12E	CY13E
Recurring sales	70,582	70,784	80,980	90,874	106,243
YoY Gr. (%)	(4.9)	0.3	14.4	12.2	16.9
*Recurring EBITDA	4,905	6,417	7,785	12,349	17,222
OPM (%)	6.9	9.1	9.6	13.6	16.2
*Recurring Profit	6,592	1,724	5,570	6,333	9,108
YoY Gr. (%)	16.0	(73.8)	223.1	13.7	43.8

KEY RATIOS

Recurring EPS (Rs)	14.0	3.7	11.9	13.5	19.4
ROCE (%)	8.5	12.2	12.3	15.6	19.0
RoE (%)	15.9	3.5	10.7	12.2	15.3
PER (x)	25.1	96.0	29.7	26.1	18.2
EV/ Net Sales (x)	2.6	2.4	2.0	2.0	1.7
EV /EBDITA (x)	37.1	26.4	23.2	14.5	10.3

* Excluding FTF and forex gain/ (loss) on derivatives and loans

Sushant Dalmia, CFA

 sushant.dalmia@pinc.co.in
 +91-22-6618 6462

Poonam Sanghavi

 poonam.sanghavi@pinc.co.in
 +91-22-6618 6709

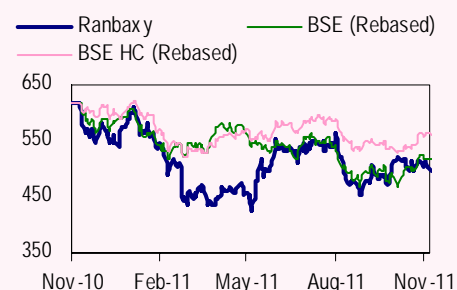
STOCK DATA

Market cap	Rs183bn
Book Value per share	Rs139
Shares O/S (F.V. Rs5)	470mn
Free Float	36.2 %
Avg. Trade Value (6 months)	Rs345mn
52 week High/Low	Rs611/414
Bloomberg Code	RBXY IN
Reuters Code	RANB.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(15.5)	(8)	(24.5)
Relative	(6.7)	(4.8)	(7.1)

RELATIVE PERFORMANCE



Event Update

Agreement with Teva, a negative surprise

Ranbaxy has announced an agreement with Teva under which they would share a portion of profits earned during the exclusivity period. Though the terms of the agreement are not disclosed, we expect that it could be a distribution agreement. We estimate Teva to share at least 15-20% (USD72-97mn) of the profits earned from generic Lipitor during the exclusivity period.

Lipitor could be a zero- sum- game in case penalty is higher than USD243mn

Post the intense competition and profit sharing agreement with Teva, we expect Ranbaxy to earn profit of USD243mn during the exclusivity period. Though currently we are not factoring any penalty pertaining to Dewas and Poanta Sahib facilities, any amount greater than USD243mn would wipe off the gains from generic Lipitor during the exclusivity period. The street is factoring penalty in the range of USD250-350mn.

Approval of Mohali SEZ could be a silver lining

As per media reports, USFDA has approved the new Mohali SEZ of Ranbaxy which is positive. Ranbaxy in its Q3CY11 concall had indicated that they expect the approval of the SEZ facility to come by Q1CY12. The company has made couple of ANDA filings from the facility and approvals for the same could be expected primarily in CY13E. Ranbaxy could now shift some of the products from Ohm Labs facility through site transfers to Mohali to ease capacity constraint. We expect approval for site transfers to take any where between 3-6 months. However, the improvement in EBITDA margins would take place by H2CY12.

OUTLOOK AND RECOMMENDATION

We downgrade our recurring sales and earnings for CY12 by 2% and 19% respectively factoring in delayed approval of Dewas and Poanta Sahib facilities. We have also introduced CY13 estimates. We recommend 'Reduce' on the stock and value the core business at Rs329/share (22x CY12E one year forward recurring earnings) and the FTF pipeline at Rs83/share resulting in a revised SOTP based target price of Rs412.

Exhibit 1 - Lipitor Contribution during the exclusivity period

Lipitor Sales in USDmn	5,400
Price Erosion	40%
Market Share	30%
Ranbaxy's sales (USDmn)	486
Net Profit Margin	50%
Net profit (USDmn)	243
EPS accretion (Rs)	25

Source: Company, PINC Research

Year Ended Dec (Figures in Rs mn)

Income Statement	CY09	CY10	CY11E	CY12E	CY13E
Recurring sales	70,582	70,784	80,980	90,874	106,243
<i>Growth (%)</i>	<i>(4.9)</i>	<i>0.3</i>	<i>14.4</i>	<i>12.2</i>	<i>16.9</i>
One time opportunities	5,390	18,825	12,907	44,488	16,715
Reported Sales	75,972	89,608	93,887	135,362	122,958
<i>Growth (%)</i>	<i>2.4</i>	<i>17.9</i>	<i>4.8</i>	<i>44.2</i>	<i>(9.2)</i>
*Recurring EBITDA	4,905	6,417	7,785	12,349	17,222
<i>Growth (%)</i>	<i>107.0</i>	<i>30.8</i>	<i>21.3</i>	<i>58.6</i>	<i>39.5</i>
Depreciation and Amortisation	2,676	5,533	3,105	3,761	4,046
Forex gain/(losses) on loans	1,493	1,407	(2,400)	2,100	1,200
Interest Paid	(2,225)	(4,585)	(3,093)	(340)	315
PBT (before E/o items)	5,947	6,877	5,373	11,028	14,061
Tax Provision	6,990	5,849	2,021	2,321	3,344
E/o income/(loss)	649	1,830	(3,000)	2,625	700
Reported Net Profit	2,967	14,969	6,845	43,118	28,666
* Recurring Net Profit	6,592	1,724	5,570	6,333	9,108
<i>Growth (%)</i>	<i>16.0</i>	<i>(73.8)</i>	<i>223.1</i>	<i>13.7</i>	<i>43.8</i>
Recurring EPS (Rs)	14.0	3.7	11.9	13.5	19.4
<i>Diluted EPS Growth (%)</i>	<i>16.0</i>	<i>(73.8)</i>	<i>223.1</i>	<i>13.7</i>	<i>43.8</i>

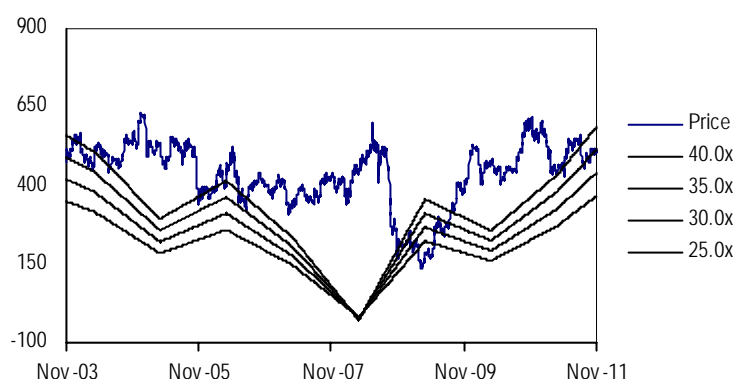
* Excluding FTF and forex gain/(loss) on derivatives & loans

Balance Sheet	CY09	CY10	CY11E	CY12E	CY13E
Equity Share Capital	2,102	2,105	2,105	2,105	2,105
Reserves & surplus	41,332	53,942	45,879	53,489	61,048
Shareholders' funds	43,434	56,047	47,984	55,594	63,153
Minorities interests	533	647	829	1,102	1,512
Total Debt	36,294	43,348	28,333	29,333	27,333
Capital Employed	80,261	100,042	77,146	86,030	91,999
Net fixed assets	51,136	49,297	52,310	54,616	56,638
Cash & Cash Eq.	12,413	32,644	6,372	9,392	8,140
Net Other current assets	6,558	12,886	13,250	16,806	22,006
Investments	5,407	4,988	4,988	4,988	4,988
Net Deferred tax Assets	4,746	227	227	227	227
Total Assets	80,261	100,042	77,147	86,030	91,999

Cash Flow Statement	CY09	CY10	CY11E	CY12E	CY13E
Pre-tax profit	10,098	23,217	2,373	13,653	14,761
Depreciation	2,676	5,533	3,105	3,761	4,046
Total Tax Paid	(2,426)	(6,189)	(2,021)	(2,321)	(3,344)
Chg in working capital	271	2,987	(364)	(3,556)	(5,200)
Other operating activities	(12,240)	(10,162)	(3,093)	(340)	315
Cash flow from oper (a)	(1,622)	15,386	0	11,196	10,579
Capital Expenditure	(5,221)	(4,983)	(6,118)	(6,068)	(6,068)
Chg in investments	3,771	(22,967)	-	-	-
Other investing activities	2,101	6,243	3,750	1,200	960
Cash flow from inv.(b)	652	(21,708)	(2,368)	(4,868)	(5,108)
Free cash flow (a+b)	(970)	(6,321)	(2,368)	6,329	5,471
Equity raised/(repaid)	13	267	-	-	-
Debt raised/(repaid)	(4,460)	8,248	(20,311)	1,000	(2,000)
Change in Minority Int	-	-	-	-	-
Dividend (incl. Tax)	(6)	(9)	(2,956)	(3,448)	(3,448)
Other financing activities	(770)	18,063	(657)	(860)	(1,275)
Cash flow from fin. (c)	(5,223)	26,569	(23,924)	(3,309)	(6,723)
Net chg in cash (a+b+c)	(6,193)	20,248	(26,291)	3,020	(1,253)

Key Ratios	CY09	CY10	CY11E	CY12E	CY13E
Recurring OPM (%)	6.9	9.1	9.6	13.6	16.2
Net Margin (%)	9.3	2.4	6.9	7.0	8.6
Div. Yield (%)	-	0.5	1.4	1.6	1.6
Net debt/Equity (x)	0.4	0.1	0.4	0.3	0.2
Net Working Capital (days)	35	71	61	69	77
ROCE (%)	8.5	12.2	12.3	15.6	19.0
RoE (%)	15.9	3.5	10.7	12.2	15.3
EV/Net Sales (x)	2.6	2.4	2.0	2.0	1.7
EV/EBITDA (x)	37.1	26.4	23.2	14.5	10.3
PER (x)	25.1	96.0	29.7	26.1	18.2
PCE (x)	32.4	9.1	55.9	12.4	12.2
Price/Book (x)	4.4	3.3	3.8	3.3	2.9

P/E Band



Key Assumptions	2009	2010	2011E	2012E	2013E
India Gr (%)	14.5	1.3	12.0	16.0	16.0
Europe, CIS and Africa Gr(%)	(6.2)	4.0	11.9	12.1	13.2
Asia Pac, LatAm	8	2.7	5	9	10
North America Gr(%)	(9.0)	(47.1)	73.0	12.7	34.0
API Sales Gr(%)	6.9	(15.0)	0.0	2.0	3.0
One time opportunities - Revenues (Rs mn)	5,390	18,825	12,907	44,488	16,715
One time opportunities - EBITDA (Rs mn)	2,443	12,646	6,322	20,729	6,241

T E A M

EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	sadanand.raje@pinc.co.in	91-22-6618 6366
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RESEARCH

Vineet Hetamasaria, CFA	Head of Research, Auto, Cement	vineet.hetamasaria@pinc.co.in	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	nikhil.deshpande@pinc.co.in	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	tasmai.merchant@pinc.co.in	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	vinod.nair@pinc.co.in	91-22-6618 6379
Ankit Babel	Capital Goods, Engineering	ankit.b@pinc.co.in	91-22-6618 6551
Hitul Gutka	Power	hitul.gutka@pinc.co.in	91-22-6618 6410
Subramaniam Yadav	Construction	subramaniam.yadav@pinc.co.in	91-22-6618 6371
Madhura Joshi	Power	madhura.joshi@pinc.co.in	91-22-6618 6395
Satish Mishra	Fertiliser, Natural Gas	satish.mishra@pinc.co.in	91-22-6618 6488
Urvashi Biyani	Fertiliser, Natural Gas	urvashi.biyani@pinc.co.in	91-22-6618 6334
Naveen Trivedi	FMCG	naveent@pinc.co.in	91-22-6618 6384
Rohit Kumar Anand	IT Services	rohit.anand@pinc.co.in	91-22-6618 6372
Namrata Sharma	Media	namrata.sharma@pinc.co.in	91-22-6618 6412
Sakshee Chhabra	Media	sakshee.chhabra@pinc.co.in	91-22-6618 6516
Bikash Bhalotia	Metals, Mining	bikash.bhalotia@pinc.co.in	91-22-6618 6387
Harleen Babber	Metals, Mining	harleen.babber@pinc.co.in	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	dipti.vijaywargi@pinc.co.in	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	sushant.dalmia@pinc.co.in	91-22-6618 6462
Poonam Sanghavi	Pharma	poonam.sanghavi@pinc.co.in	91-22-6618 6709
Suman Memani	Real Estate, Mid caps	suman.memani@pinc.co.in	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	abhishek.kumar@pinc.co.in	91-22-6618 6398
C Krishnamurthy	Technical Analyst	krishnamurthy.c@pinc.co.in	91-22-6618 6747

SALES

Rajeev Gupta	Equities	rajeev.gupta@pinc.co.in	91-22-6618 6486
Ankur Varman	Equities	ankur.varman@pinc.co.in	91-22-6618 6380
Himanshu Varia	Equities	himanshu.varia@pinc.co.in	91-22-6618 6342
Shailesh Kadam	Derivatives	shaileshk@pinc.co.in	91-22-6618 6349
Ganesh Gokhale	Derivatives	ganeshg@pinc.co.in	91-22-6618 6347

DEALING

Mehul Desai	Head - Sales Trading	mehul.desai@pinc.co.in	91-22-6618 6303
Amar Margaje		amar.margaje@pinc.co.in	91-22-6618 6327
Ashok Savla		ashok.savla@pinc.co.in	91-22-6618 6321
Sajjid Lala		sajjid.lala@pinc.co.in	91-22-6618 6337
Raju Bhavsar		rajub@pinc.co.in	91-22-6618 6322
Hasmukh D. Prajapati		hasmukhp@pinc.co.in	91-22-6618 6325

SINGAPORE DESK

Amul Shah		amul.shah@sg.pinc.co.in	65-6327 0626
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DIRECTORS

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-6618 6400
Hemang Gandhi		hemangg@pinc.co.in	91-22-6618 6400
Ketan Gandhi		ketang@pinc.co.in	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	rakeshb@pinc.co.in	91-22-6618 6400
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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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