

November 26, 2012

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Rating	Accumulate
Price	Rs498
Target Price	Rs579
Implied Upside	16.3%
Sensex	18,537
Nifty	5,636

(Prices as on November 26, 2012)
Trading data

Market Cap. (Rs bn)	209.9
Shares o/s (m)	422.0
3M Avg. Daily value (Rs m)	599.1

Major shareholders

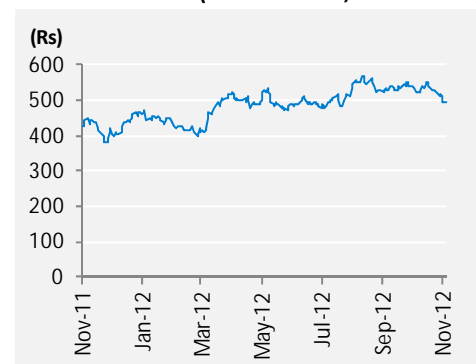
Promoters	63.64%
Foreign	10.57%
Domestic Inst.	10.63%
Public & Other	15.16%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.3)	(6.2)	12.8
Relative	(4.8)	(20.5)	(5.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2012	18.7	37.0	-49.3
2013	21.8	29.6	-26.2

Price Performance (RIC: RANB.BO, BB: RBXY IN)


Source: Bloomberg

- Launches Absorica (Isotretinoin) in the U.S:** Ranbaxy's launch of Absorica (Isotretinoin) in the US is a key event as we believe that the product will become the largest selling product for the company in the US latest by 2014 (excl. FTF products). The company has licensed this product from *Cipher*, a Canadian company. Absorica is indicated for the treatment of severe recalcitrant nodular acne in patients who are 12 years of age and older.

- Absorica is a beginning in the quest to regain loss of revenue in US due to USFDA issues:** Apart from FTF launches, Absorica is a major product launch since the company's US business was impacted by USFDA 'Import Alert' in 2008. Before the USFDA issues cropped up at Ranbaxy, Isotretinoin was the largest selling product for the company, with annual revenue of ~US\$100m in 2007. However, the company had to discontinue the product due to import alert on Dewas and Paonta Sahib facilities in 2008. Apart from being the largest selling product, it was one of the most profitable one for the company due to limited competition and branded nature of the product

- Even after four years, the opportunity remains attractive:** Despite Ranbaxy being out of this product market for the last four years, Isotretinoin remains a lucrative market with limited competition due to complexities involved in the development and manufacturing of the product. Currently, there are only three generic companies selling Isotretinoin in US viz. *Teva*, *Mylan* and *Douglas Pharma*, with Teva holding majority market share. The total market size of the product is ~US\$400m. Now with the entry of Ranbaxy, it becomes a four-player market.

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Key financials (Y/e December)

	2010	2011	2012E	2013E
Revenues (Rs m)	89,608	101,614	123,386	108,873
Growth (%)	18.0	13.4	21.4	(11.8)
EBITDA (Rs m)	18,652	16,189	21,220	15,039
PAT (Rs m)	3,008	5,955	7,911	9,215
EPS (Rs)	7.1	14.1	18.7	21.8
Growth (%)	(469.9)	97.5	32.8	16.5
Net DPS (Rs)	2.0	—	6.7	4.9

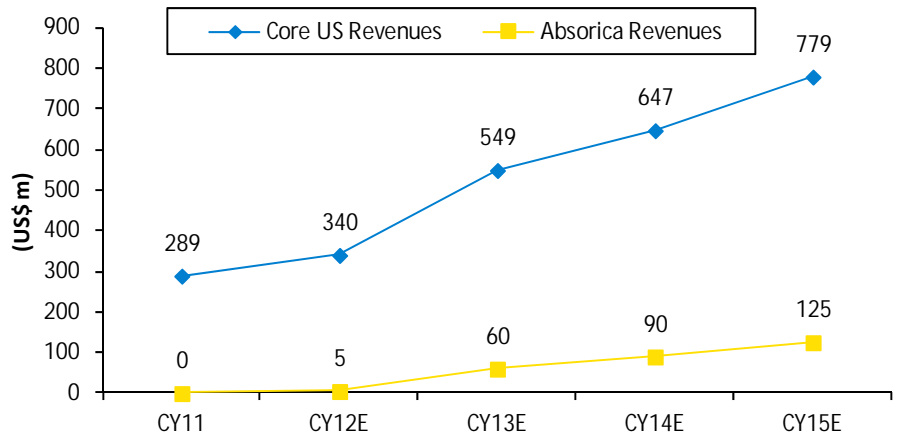
Profitability & Valuation

	2010	2011	2012E	2013E
EBITDA margin (%)	20.8	15.9	17.2	13.8
RoE (%)	6.0	12.4	16.9	16.1
RoCE (%)	3.0	10.6	11.5	11.0
EV / sales (x)	2.5	2.2	1.9	2.1
EV / EBITDA (x)	11.8	13.8	11.3	15.4
PE (x)	69.6	35.3	26.5	22.8
P / BV (x)	3.7	5.2	3.9	3.5
Net dividend yield (%)	0.4	—	1.3	1.0

Source: Company Data; PL Research

- Expect revenue of US\$125m from Absorica in CY15, margin improvement:** We expect Ranbaxy to get revenue of US\$60m, US\$90m and US\$125m from this product in CY13, CY14 and CY15, respectively. We are assuming a peak market share of 50% for Ranbaxy in CY15. Here we are assuming no significant change in the market size of Isotretinoin. We feel that garnering US\$125m revenue won't be a tough task, given limited competition, Ranbaxy's previous experience of marketing Isotretinoin and a superior product profile of Absorica compared to other Isotretinoin products on the market. Ranbaxy has sales-force of ~ 60 reps in dermatology segment in the US which currently promotes the derma brands acquired from BMS. Now with the launch of Absorica, the field force can be utilized to its potential, thereby, improving the margins of the base US business. As the product development partner, Ciper is entitled for US\$24m in milestone income from Ranbaxy, out of which, Ranbaxy has already paid ~US\$10m. Further, Ranbaxy will pay mid-teen royalty to Ciper based on revenue generated by the product. We expect EBITDA margins of ~25% for Ranbaxy on this product when it achieves peak sales.

Exhibit 1: Business scale-up in US



Source: Company Data, PL Research

- US will be a key growth driver for the company over next three years:** US will be a key growth driver for the company over next three years as the company has a strong product pipeline of FTF and niche products to be launched in US over next three years. We expect incremental contribution from Dewas and Paonta Sahib plants starting CY14. Further, shifting of products from US facilities to Mohali and incremental revenues in the US will ensure the benefit of operating leverage for the company. We expect margin improvement for Ranbaxy to primarily come from US business as the company has a very high fixed cost base in US. As indicated in the graph above, we expect the base business revenue from US business to more than double over the next three years. Further, we expect revenue of more than US\$1bn from FTF opportunities over CY13/14.

Exhibit 2: US Revenue Projections (US\$ m)

	Launch timelines	Brand Size	Exclusivity Revenues	Base Business		
				CY 2013	CY 2014	CY 2015
Existing base business				440	418	397
New launches						
Evoxac	Dec 12	65	7	5	5	4
Valcyte	Jan 13	350		105	131	30
Diovan	2013	2000	190	10	33	30
Actoplusmet	Jun 13	400		2	3	3
Product A	Apr 13	3000		32	29	26
Product B	Dec 13	200			4	3
Product C	2013	60			3	2
Product D	2013	1250			7	6
Product E	Jan 14	200			15	13
Nexium	May 14	3500	919		10	58
Avelox	Sep 14	250			1	4
Antara	Jan 15	55				1
product F	Mar 15	60				6
Abscorcia	2013			60	90	125
Paonta & Dewas					30	70
Total base revenue*				549	647	779

Source: Company Data, PL Research *Overall base revenue exclude revenue from Valcyte in 2013-14

- Valuation and View:** Resolution of USFDA issues remains a key for the company to improve its revenues in US and overall profitability. However, large hedges on the books and uncertainty related to monetization of FTF pipeline are likely to remain an overhang on the stock in the medium term. Though the company is showing improvement in core margins, the improvement should be sustainable to regain investor confidence. At the current price, the stock trades at 26.5x CY12 and 22.8x CY13 (adjusted for DCF value of FTF at Rs77/share). We maintain '**Accumulate**', with target price of Rs579.

Income Statement (Rs m)

Y/e December	2010	2011	2012E	2013E
Net Revenue	89,608	101,614	123,386	108,873
Raw Material Expenses	31,528	35,068	40,159	42,632
Gross Profit	58,080	66,546	83,227	66,241
Employee Cost	15,060	16,449	18,340	20,358
Other Expenses	24,368	33,908	43,667	30,844
EBITDA	18,652	16,189	21,220	15,039
Depr. & Amortization	5,533	3,940	3,432	3,702
Net Interest	(793)	6,109	3,207	1,596
Other Income	7,088	(33,005)	4,773	2,278
Profit before Tax	21,001	(26,865)	19,355	12,018
Total Tax	5,849	1,969	2,903	2,404
Profit after Tax	15,152	(28,834)	16,451	9,615
Ex-Od items / Min. Int.	12,144	(34,789)	8,540	400
Adj. PAT	3,008	5,955	7,911	9,215
Avg. Shares O/S (m)	421.0	422.0	422.0	422.0
EPS (Rs.)	7.1	14.1	18.7	21.8

Cash Flow Abstract (Rs m)

Y/e December	2010	2011	2012E	2013E
C/F from Operations	13,785	40,157	(12,264)	18,355
C/F from Investing	(3,271)	(1,869)	(9,589)	(6,000)
C/F from Financing	9,714	(40,252)	1,856	(4,400)
Inc. / Dec. in Cash	20,228	(1,963)	(19,997)	7,955
Opening Cash	12,416	32,644	30,681	10,684
Closing Cash	32,644	30,681	10,684	18,639
FCFF	(2,056)	25,424	(28,024)	10,359
FCFE	4,997	26,983	(33,024)	10,359

Key Financial Metrics

Y/e December	2010	2011	2012E	2013E
Growth				
Revenue (%)	18.0	13.4	21.4	(11.8)
EBITDA (%)	161.8	(13.2)	31.1	(29.1)
PAT (%)	(470.4)	98.0	32.8	16.5
EPS (%)	(469.9)	97.5	32.8	16.5
Profitability				
EBITDA Margin (%)	20.8	15.9	17.2	13.8
PAT Margin (%)	3.4	5.9	6.4	8.5
RoCE (%)	3.0	10.6	11.5	11.0
RoE (%)	6.0	12.4	16.9	16.1
Balance Sheet				
Net Debt : Equity	0.2	0.4	0.5	0.4
Net Wrkng Cap. (days)	(50)	(174)	(56)	(35)
Valuation				
PER (x)	69.6	35.3	26.5	22.8
P / B (x)	3.7	5.2	3.9	3.5
EV / EBITDA (x)	11.8	13.8	11.3	15.4
EV / Sales (x)	2.5	2.2	1.9	2.1
Earnings Quality				
Eff. Tax Rate	27.8	(7.3)	15.0	20.0
Other Inc / PBT	16.7	41.4	16.0	19.0
Eff. Depr. Rate (%)	8.3	5.4	4.3	4.3
FCFE / PAT	166.1	453.1	(417.4)	112.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e December	2010	2011	2012E	2013E
Shareholder's Funds	56,047	40,359	53,521	60,732
Total Debt	43,348	44,907	39,907	39,907
Other Liabilities	420	435	135	(265)
Total Liabilities	99,815	85,701	93,562	100,373
Net Fixed Assets	49,297	51,228	57,385	59,683
Goodwill	—	—	—	—
Investments	4,985	982	982	982
Net Current Assets	45,534	21,826	35,195	39,708
<i>Cash & Equivalents</i>	<i>32,644</i>	<i>30,681</i>	<i>10,684</i>	<i>18,639</i>
<i>Other Current Assets</i>	<i>54,287</i>	<i>73,901</i>	<i>75,271</i>	<i>66,323</i>
<i>Current Liabilities</i>	<i>41,398</i>	<i>82,757</i>	<i>50,760</i>	<i>45,254</i>
Other Assets	—	11,666	—	—
Total Assets	99,815	85,701	93,562	100,373

Quarterly Financials (Rs m)

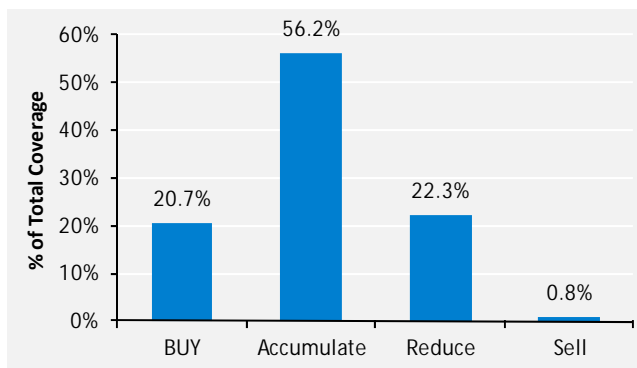
Y/e December	Q1CY12	Q2CY12	Q2CY13	Q3CY12
Net Revenue	37,868	32,285	32,285	26,910
EBITDA	9,552	5,113	5,113	3,495
<i>% of revenue</i>	<i>25.2</i>	<i>15.8</i>	<i>15.8</i>	<i>13.0</i>
Depr. & Amortization	799	783	783	816
Net Interest	377	483	483	399
Other Income	1,556	(2,972)	(2,972)	1,900
Profit before Tax	13,980	(5,119)	(5,119)	8,112
Total Tax	1,374	683	683	542
Profit after Tax	12,468	(5,857)	(5,857)	7,542
Adj. PAT	2,017	1,722	1,722	2,173

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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