

Ranbaxy Labs

Base Growth In Line; Margin Expansion Slower

Ranbaxy Labs' Q3CY12 performance was below our expectations. While revenue growth of 28% YoY to Rs 27 bn was in line with our estimate, base EBITDA margin at 11% (9% in Q3CY11 and 10% in Q2CY12) was lower than our estimate of 12%. Consequently, adj. PAT at Rs 3 bn (up 97% YoY; excl. forex gain of Rs 4.6 bn - MTM loss on derivatives and loans) was 11% below estimate.

Q3 highlights: US base business revenue was >USD 100 mn (in line) led by post exclusivity sales of Atorva (even with 98.5% price erosion). India growth at 13% was also in line. Emerging Markets (EMs) in Asia (up 6% YoY) and Africa (up 1% YoY) suffered due to currency depreciation. Africa revenue also suffered due to lower donation sales of ARV. Latam declined 10% YoY led by continued supply disruption (expected to normalize by end-CY12) and currency depreciation. Growth in Western Europe (16% YoY) was led by Atorva sales in markets like UK, Germany and Italy. Revenue from Eastern Europe/ CIS declined 8% in USD terms (grew in local currency). Romania was impacted by claw-back tax.

Outlook: We believe base business EBITDA margin will improve from 11% YTD (9% in CY11) in subsequent quarters led by improving country/product mix and shifting of production to Indian facility (Mohali) from high cost Ohm Labs facility.

Downgrade to HOLD on stock price appreciation

We believe post-exclusivity Atorva/ Caduet (and other FTFs) sales coupled with improvement in domestic growth would lead to 20% base earnings CAGR over CY11-13E. Launch of Absorica (CIP-Isotretinoin) would add to overall earnings. We maintain our estimates and SOTP-based target price of Rs 575 - (a) Rs 465 for base business (18x CY13E base EPS of Rs 26), (b) Rs 53 for Absorica, and (c) Rs 57 for settlements. Risks to our call - Delay in Consent Decree timelines, forex losses and significant price erosion in Caduet.

Financial summary

Y/E Dec	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2010	85,355	13,473	-	32	-	-	26.8	22.3	-	2.0
2011	99,578	14,067	-	33.3	4	-	32.6	19.5	-	-
2012E	120,180	16,630	29.6	39.4	18	13.9	44.7	27.3	12.3	2.5
2013E	112,520	12,826	36.6	30.4	(23)	18.1	25.3	21.9	12.7	2.5

Source: *Consensus broker estimates, Company, Axis Capital

CMP (Rs)	549
Target price (Rs)	575
Potential upside	5%

Stock data

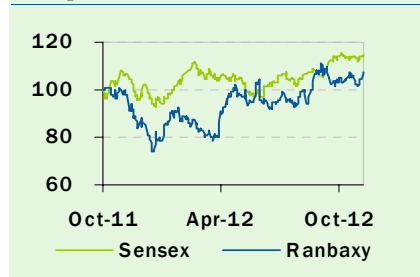
No. of shares (mn)	422
FV (Rs)	5/-
Market cap (Rs bn)	232
52 week high/low (Rs)	578/367
Avg. daily vol.* (shares)	990,900
BSE Code	500359
NSE Code	RANBAXY
Bloomberg code	RBXY IB
Reuters Code	RANB.BO

* BSE & NSE 6 monthly

Shareholding (%)

	Sep-12	QoQ Chg
Promoter	63.6	0.0
FIIs	10.6	0.9
MFs / UTI	2.5	0.0
Banks / FIs	8.1	(0.5)
Others	15.2	(0.4)

Price performance



Source: Bloomberg, Axis Capital

Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-12	Sep-11	% Chg	Jun-12	% Chg	CY12E	CY11	% Chg
Net Sales	26,910	20,955	28.4	32,285	(16.6)	120,180	99,578	20.7
EBITDA	3,495	1,741	100.7	5,113	(31.7)	20,378	16,189	25.9
Other income	661	1,020	(35.3)	697	(5.3)	5,000	4,718	6.0
PBIDT	4,155	2,761	50.5	5,811	(28.5)	25,378	20,908	21.4
Depreciation	816	788	3.6	783	4.3	4,018	3,940	2.0
Interest	(156)	153	-	483	(132.2)	500	768	(34.9)
PBT	3,495	1,820	92.0	4,545	(23.1)	20,860	16,199	28.8
Tax	542	256	111.6	683	(20.7)	4,130	1,969	109.7
Minority Interest	29	77	(62.2)	56	(48.2)	100	163	(38.7)
Adjusted PAT	2,924	1,488	96.6	3,806	(23.2)	16,630	14,067	18.2
Extra ordinary income/ (exp.)	4,617	(6,134)	-	(9,663)	-	-	(43,064)	-
Reported PAT	7,542	(4,646)	-	(5,857)	-	16,630	(28,997)	-
No. of shares (mn)	420	420	-	420	-	422	422	-
EBIDTA margins (%)	13.0	8.3	-	15.8	-	17.0	16.3	-
PBIDT margins (%)	15.4	13.2	-	18.0	-	21.1	21.0	-
EPS - annualized (Rs.)	27.8	14.2	96.6	36.2	(23.2)	39.4	33.3	18.2

Source: Company, Axis Capital

Gross Sales Breakup

(USD mn)	Quarter ended				
	Sep-12	Sep-11	% Chg	Jun-12	% Chg
India	106	114	(7.0)	103	3.3
CIS & Eastern Europe	58	63	(7.9)	52	12.4
Asia Pacific	24	26	(7.7)	27	(9.8)
Western Europe	44	38	15.8	50	(11.3)
Africa	37	44	(15.9)	46	(18.9)
Latin America	12	16	(25.0)	9	33.3
North America	167	103	62.6	272	(38.6)
A) Dosage forms	448	404	11.0	557	(19.6)
B) APIs	32	39	(17.3)	31	3.2
Gross sales	480	442	8.5	588	(18.4)

Source: Axis Capital, Company data

Other highlights

- **Consent decree:** Management highlighted audit of two plants is taking longer than initial estimates. Post audit (by end-CY12), Ranbaxy would have greater clarity on timeline and other costs of consent decree.
- **US base revenue crossed USD 100 mn mark** (USD 80-85 mn in Q2 and USD 70-80 mn in Q1) led by Atorva sales. Addition of products like Actos (post exclusivity) and Tricor (management indicated Q1CY13 launch) will raise this further.
- **Outstanding derivatives** as on 30 Sep '12 were at USD 1.3 bn down from USD 1.4 bn at Q2-end.

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