

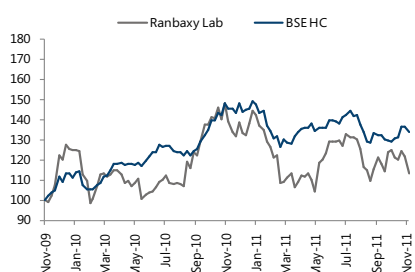
Result Update - Q3CY11

Accumulate

Reco	Downgrade
CMP	₹ 468
Target Price	₹ 525
Upside Potential	12%

Price Performance

52 wk Hi/Lo	612/414
All time Hi/Lo	660/70
6 mnth Average Vol	668411
Stock Beta	0.69



Valuation

	CY11	CY11P	CY12P
P/E (x)	20.8	19.1	10.0
P/BV (x)	3.5	3.3	2.5
RONW (%)	16.9	17.0	24.8
ROCE (%)	17.7	12.5	28.7

Peer Valuation (FY12P)

	DRL	Cipla
PE	22.3	22.0
P/BV	5.5	3.2

Equity Data

Market Cap. (₹ bln)	197
Face value (₹)	5
No of shares o/s (mln)	421

	Sep'10	Sep'11	Δ%
Promoters	63.86	63.75	-0.17
DFI's	12.09	11.64	-3.7
FII's	7.71	8.86	14.91
Public	14.95	14.01	-6.2

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November 14, 2011

Ranbaxy Laboratories

Optimism unwarranted

Ranbaxy's Q3CY11 results were below our expectations. Total income grew by 8.3% y-o-y at ₹ 20955mln led by strong growth in Europe, CIS, Romania & Africa region. EBIDTA grew by 25.5% y-o-y at ₹ 1741mln on account of improvement in other operating income backed by milestone payments & export benefits and EBITDA margins stood at 8.3%. The company reported loss of ₹ 4646mln at PAT level on account of huge forex loss. After adjusting forex loss, APAT stood at ₹ 1488mln.

Advanced markets- Base business has shown improvement

USA sales degrew by 2% y-o-y in dollar terms to USD 84mln due to presence of limited competition drug Valacyclovir in Q3CY10 post exclusivity. The base business continues to improve and maintains 30% market share. The management expects that it will maintain quarterly sales of close to USD 80-85mln in forthcoming quarters. We believe that recent product launches and the OTC business are the key drivers fueling the base business USA growth. Canada sales remained at same level at USD 19mln. Europe sales excluding Romania also signaled revival and grew by 24% y-o-y to USD 51mln. The company has launched letrozole tablets in UK, France and Romania & Esomeprazole tablets in UK. We believe pick up in base business and launch of Lipitor will be the key growth driver but however penalty imposed by USFDA may offset the gains.

Emerging markets showed a mixed performance

Emerging markets performance was mix during the quarter. Asia Pacific business posted muted growth of 4% y-o-y. Domestic business continues to disappoint and showed growth of 2% y-o-y in dollar terms due to stiff competition in anti-infective segment which contributes 30% to sales. Company has added close to 1500 employees last year, penetrating further into rural markets and giving a push to chronic therapy domestically. OTC business showed a robust growth of 36% y-o-y on account of growth from Volini and Revital brands. CIS region growth was 23% y-o-y. Latin America showed degrowth of 33% as one time tender supply to the government of Brazil reached completion last year. Africa showed robust growth of 26% y-o-y during the quarter as its South African facility has commenced operation wherein it has invested USD 30mln. The growth in Africa is set to continue on back of ARV tender supply.

Valuation

At CMP of ₹ 468 the stock is trading at 10xCY12P. We believe Lipitor launch will be watched closely in Nov'11. However, all upsides from other Para IV opportunities have already been discounted in the stock price. Any further delay in FDA resolution related to facilities will also remain a concern. Therefore, we recommend Accumulate rating & valued the stock on SOTP basis, valuing base business at ₹ 397 per share (at 20xCY12P) and Para IV pipeline to be worth ₹ 128/share to arrive at a Target Price of ₹ 525.

Summary Financials

₹ in Mln	CY09	CY10	CY11P	CY12P
Total Income	75970	89608	83233	106516
OPBDIT	7124	18652	11857	25921
Net Profit	-459	9455	10300	19651
EPS	-1.1	22.5	24.5	46.7
Networth	41675	55981	60589	79090
Debt	36295	43348	31272	11708
Fixed Assets	51136	49297	51369	54171
Net Current Assets	18974	45534	36206	32586

Exhibit 1: Quarterly Financials

(in ₹ Mln)	Q3CY11	Q3CY10	y-o-y %	Q2CY11	q-o-q %
Total Income	20955	19346	8.3	20931	0.1
EBIDTA	1741	1387	25.5	1817	-4.2
Depreciation	788	987	-20.0	735	7.2
Interest cost	153	110	39.0	166	-7.8
Other Income	1020	932	9.4	791	29.0
Tax	256	448	-42.0	185	38.0
PAT	-4646	3080	-	2432	-
APAT	1488	1049	42.0	1499	-0.7
AEPS	3.5	2.5	40.0	3.6	-2.8

US base business to improve significantly

Company is currently maintaining a quarterly run rate of USD 80-85mln as far as USA base business is concerned, which is expected to exceed USD 100mln in forthcoming quarters next fiscal. Company has significantly added capacity at Ohm lab which is proving beneficial for the company. Moreover the Para IV launches are maintaining meaningful market share even after the six month exclusivity which is further fueling USA base business. Talks with USFDA are headed towards positive direction and we are expecting an approval for Dewas and Paonta Sahib in CY12. We are expecting approval for the two banned facilities in Q1CY12. Apart from these the Mohali SEZ should also commence operation from start of CY12, which will also be a major trigger for the stock.

After the successful monetization of Valtrex, Tamsulosin and Aricept all the concerns related to its Para IV pipeline have been put to rest. We believe, US business remains a key focus on back of strong para IV pipeline with few of them expected to hit market in next quarter.

Exhibit 2: Key products of Ranbaxy

Product	Market size (USD mln)	Projected sales during exclusivity (USD mln)	Expected Launch
Lipitor	5300	636	Nov-2011
Caduet	430	43	Nov-2011
Actos	3470	208	Aug-2012
Valcyte	400	168 (annual sales)	Mar-2013
Diovan	2500	150	Sept-2012
Provigil	1133	34	April-2012
Oxycontin	3150	71	April-2013
Tricor	1300	59 (annual sales)	Oct-2012
Levaquin	1312	39	Jun-2011
Solodyn	340	20 (annual sales)	Nov-2011

Exhibit 3: Quarterly sales break up

	Q3CY11 (USD mln)	Q3CY10 (USD mln)	y-o-y %
USA	84	86	-2.0
India	94	92	2.0
Europe	51	41	24.0
Romania	21	19	11.0
CIS	32	26	23.0
Asia incl Middle East	28	27	4.0
Africa	44	35	26.0
LATAM	16	24	-33.0
Canada	19	19	0.0
OTC	19	14	36.0
API	35	23	52.0

European operations to sustain momentum

Company's European showed a y-o-y growth rate of 24% during the quarter and we believe that majority of the restructuring exercises are now paying rich dividend. Ranbaxy continues to be one of the few pharma companies in Europe which is making profits which is commendable considering the fact that conditions in Europe are quite tough to operate currently. Romania is now consistently showing good growth and Ranbaxy continues to remain the No. 1 generic company in Romania.

Domestic business to remain a concern

Domestic business showed a growth of 2% y-o-y which was impacted by industry-wide-slowdown in anti-infective space. Margins will remain under pressure unless domestic business grows above industry growth rate. OTC business is showing improvement consistently on back of Revital and Volini brands. The company has launched Volini Duo, first approved two in one pain killer, formulated to give dual relief pain to chronic back and joint pains. We believe that the growth should improve going forward aided by OTC products & project Viraat which will help to gain lost ground in domestic market. Ranbaxy is also focusing more on the fast growing chronic space.

Outlook

At CMP of ₹ 468 the stock is trading at 10xCY12. We believe Lipitor launch will be watched closely in Nov'11. However, all upsides from other Para IV opportunities have already been discounted in the stock price. Any further delay in FDA resolution related to facilities will also remain a concern. Therefore, we recommend Accumulate rating & valued the stock on SOTP basis, valuing base business at ₹ 397 per share (at 20xCY12P) and Para IV pipeline to be worth ₹ 128/share to arrive at a Target Price of ₹ 525.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	CY08	CY09	CY10	CY11P	CY12P
Total Inc	74214	75970	89608	83233	106516
Total Expenditure	68482	68846	70955	71376	80595
OPBDIT	5732	7124	18652	11857	25921
OPBDIT %	7.7	9.4	20.8	14.2	24.3
Interest	2055	710	614	625	234
OPBDT	3084	6414	18038	11231	25686
Depreciation	2232	2676	5533	3032	3439
OPBT	852	3738	12506	8200	22248
Other Income	2706	2935	5199	3387	4198
Extraordinary Items	-18558	3424	5512	-5406	0
PBT	-15000	10098	23217	6181	26445
Tax	-5650	6991	5849	1074	6550
PAT	-9513	2965	14968	4894	19651
APAT	9045	-459	9455	10300	19651
Sales Growth %	6.3	2.4	18.0	-7.1	28.0
Op. Profit Growth %	-37.3	-24.3	161.8	-36.4	118.6
APAT Growth %	16.8	-105.1	2160.2	8.9	90.8

Balance Sheet

Particulars (₹ in mln)	CY08	CY09	CY10	CY11P	CY12P
Sources of Funds					
Share Capital	2102	2102	2105	2105	2105
Reserves & Surplus	40861	41332	53942	58550	77051
Minority Interest	675	533	647	860	1104
Secured Loans	2109	2187	2369	2434	2055
Unsecured Loans	41005	34109	40979	28838	9653
Deferred Tax Liability	247	161	171	171	171
Total Liabilities	86998	80423	100213	92958	92139
Application of Funds					
Fixed Assets	49607	51136	49297	51369	54171
Investments	5432	5407	4985	4985	4985
Current Assets	66922	60086	86932	71356	70547
Current Liabilities	47438	41112	41398	35150	37961
Net Current Assets	19484	18974	45534	36206	32586
Misc. Expenses	12476	4906	398	398	398
Total Assets	86998	80423	100213	92958	92139

Cash Flow

Particulars (₹ in mln)	CY08	CY09	CY10	CY11P	CY12P
Internal Accruals	-12921	5783	22901	8138	23334
Inc. in Net Current Assets	-3949	11030	6332	2044	4046
CF from Operations	-8972	-5247	16569	6095	19288
Inc. in debt	1699	-6819	7053	-12076	-19564
Inc. in equity	237	0	3	0	0
Other Adj	32852	13	-4039	-286	-1150
CF from financing	34787	-6806	3018	-12362	-20713
Fixed asset formation	7385	2367	1852	5104	6240
Inc. in Investments	3028	-24	-423	0	0
CF from Investing	10413	2343	1429	5104	6240
Net Cash	15402	-14396	18158	-11372	-7666

Ratios

Valuation Ratio	CY08	CY09	CY10	CY11P	CY12P
P/E	21.8	-428.7	20.8	19.1	10.0
P/BV	4.8	4.7	3.5	3.3	2.5
EV/EBIDTA	37.7	31.0	11.1	17.5	7.5
EV/Sales	3.0	3.0	2.4	2.6	1.9
AEPS	21.5	-1.1	22.5	24.5	46.7
DPS	0	0	2.0	0.6	2.3
Book Value	98	99	133	144	188
ROE Adj	22.0	-1.1	16.9	17.0	24.8
ROCE Adj	4.1	8.3	17.7	12.5	28.7

Solvency Ratio (x)

Debt/Equity	1.0	0.9	0.8	0.5	0.1
Debt/EBIDTA	7.5	5.1	2.3	2.6	0.5

Turnover Ratio (x)

Asset Turnover	0.9	0.9	0.9	0.9	1.2
Fixed Asset Turnover	1.5	1.5	1.8	1.6	2.0
Current Ratio	1.4	1.5	2.1	2.0	1.9
Inventory (days)	105	98	113	99	106
Debtors (days)	65	88	65	63	59

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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