Ranbaxy Laboratories RANB.NS RBXY IN

HEALTH CARE & PHARMACEUTICALS

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Consent decree with FDA; US$500m provisioned

Quick Note

December 21, 2011

Rating Remains	**Reduce**
Target price Remains	INR 480
Closing price December 20, 2011	INR 395

Research analysts

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Ranbaxy signs consent decree with FDA; approval timeline unclear

Ranbaxy announced today that it has signed a consent decree with the USFDA regarding the ongoing cGMP issues. We note that the consent decree lays out a plan of action as agreed by the two parties to resolve the outstanding issues. However, the timeline regarding the resolution is still unclear. As per Ranbaxy management, it has taken corrective actions as suggested by a consultant and has been working closely with the FDA to resolve the issues. Thus, to that extent, its preparedness is high, in our view. However, past instances suggest that there can be material delay in resolution of manufacturing issues. Any delay could present a downside risk to our estimates. We are building in a resolution from CY12 in our estimates.

We are building in incremental base business revenues of US$220m for CY12 and CY13 accounting for substantial revival in sales

We are pencilling in US base business CAGR of 48% from CY11 to CY13. Ex Lipitor base business revenues, we are building in incremental US$220m revenues cumulatively in CY12 and CY13. These estimates account for a resolution in early CY12 and product approvals to follow imminently after the resolution. However, since the timeline following the consent decree is unclear, we believe there could be downside risk to these estimates.

Potential civil and criminal liabilities pegged at US$500m by Ranbaxy; this is at the higher end of our estimated range

Ranbaxy announced that it will be provisioning US$500m (INR 43/sh post tax), as potential civil and criminal liabilities that could arise from the DoJ investigation. This is an incremental negative as the penalty is on the higher end of our expected range of US$200m-500m. We currently account for US$350m or INR 30/sh post tax as potential liabilities.

We put our estimates under review

Although the uncertainty regarding the timeline of resolution of manufacturing with the FDA is a negative, today's announcement is a milestone. The consent decree creates a pathway for resolution for Ranbaxy and the provisioning diminishes uncertainty around the potential penalty. We put our estimates under review.

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Appendix A-1

Analyst Certification

We, Saion Mukherjee and Aditya Khemka, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Ranbaxy Laboratories	RBXY IN	INR 395	20-Dec-2011	Reduce	Not rated	4

Disclosures required in the European Union

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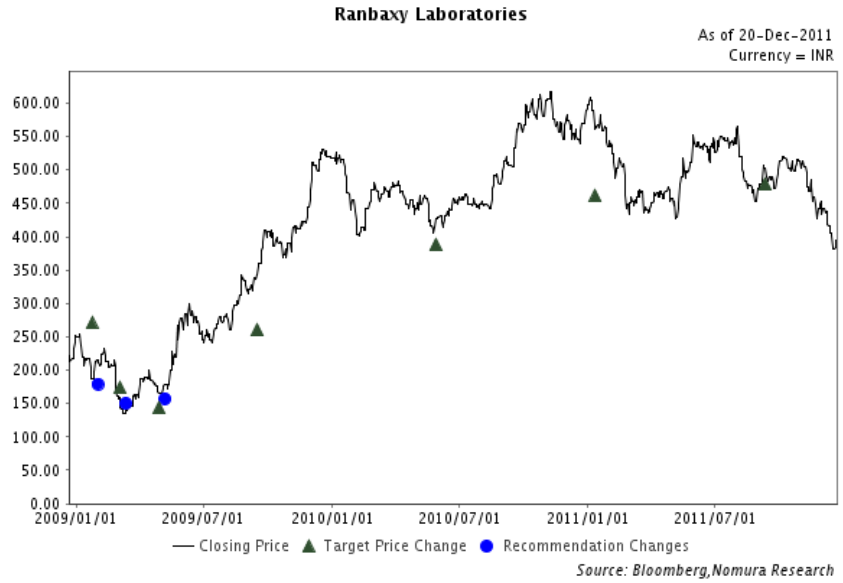
Previous Rating

Issuer name	Previous Rating	Date of change
Ranbaxy Laboratories	Neutral	29-Apr-2009

Ranbaxy Laboratories (RBXY IN) **INR 395 (20-Dec-2011)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
10-Sep-11		480.00	502.60
11-Jan-11		462.00	560.25
28-May-10		389.00	427.10
16-Sep-09		261.00	343.60
29-Apr-09	Reduce		166.00
29-Apr-09		144.00	166.00
04-Mar-09	Neutral		159.05
04-Mar-09		174.00	159.05
23-Jan-09	Buy		188.10
23-Jan-09		271.00	188.10

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We base our target price on SOTP: Base business at 20x one-year forward EPS at INR373/sh; one-offs at INR 137/sh (based on DCF using a discount rate of 12.5%); and build in penalties of INR 30/sh (post tax).

Risks that may impede the achievement of the target price Upside Risks: Stronger-than-expected growth in emerging markets, lower-than-estimated competition in Lipitor.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

STOCKS

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